

**INTEAN POALROATH RONGROEURNG LTD**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2015**

# INTEAN POALROATH RONGROEURNG LTD

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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\* The Appendix does not form part of the audited financial statements.



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**INTEAN POALROATH RONGROEURNG LTD**

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## **DIRECTORS' REPORT**

The Board of Directors ("the Directors") is pleased to present its report and the audited financial statements of Intean Poalroath Rongroeurng Ltd ("IPR" or "the Company") for the year ended 31 December 2015.

## **PRINCIPAL ACTIVITY**

The Company is principally engaged in the provision of micro-finance services to rural population of Cambodia. Those services comprise granting credit for poor and low income households and small enterprises operating in the Kingdom of Cambodia.

## **FINANCIAL PERFORMANCE**

The financial performance of the Company for the year ended 31 December 2015 is set out in the income statement on page 7 of the financial statements.

## **SHARE CAPITAL**

During the year, there were no changes in the registered and paid-up capital of the Company.

## **BAD AND DOUBTFUL LOANS**

Before the Company's financial statements were drawn up, the Directors took reasonable steps to ascertain that appropriate action had been taken in relation to the writing off of bad loans or making provision for bad and doubtful loans. The Directors have satisfied itself that all known bad loans have been written off and that adequate provisions have been made for bad and doubtful loans.

At the date of this report and based on the best of knowledge, the Directors are not aware of any circumstances which would render the amount of the provision for bad and doubtful loans in the financial statements of the Company inadequate to any material extent.

## **ASSETS**

Before the Company's financial statements were drawn up, the Directors took reasonable steps to ensure that any assets, which were unlikely to be realised in the ordinary course of business at their value as shown in the accounting records of the Company, had been written down to an amount which they might be expected to realise.

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

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## **VALUATION METHODS**

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

## **CONTINGENT AND OTHER LIABILITIES**

At the date of this report, there is:

- i) no charge on the assets of the Company which has arisen since the end of the year which secures the liabilities of any other person; and
- ii) no 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 after the end of the year which, in the opinion of the Directors, will or may have a material effect on the ability of the Company to meet its obligations as and when they become due.

## **CHANGE OF CIRCUMSTANCES**

At the date of this report, the 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 in any material respect.

## **ITEMS OF AN UNUSUAL NATURE**

The Company's financial performance for the year ended 31 December 2015 was not, in the opinion of the Directors, materially affected by any items, transactions or events of a material and unusual nature.

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

## **SIGNIFICANT EVENTS**

No significant events occurred after the balance sheet date requiring disclosure or adjustment other than those already disclosed in the accompanying notes to the financial statements.

## **THE BOARD OF DIRECTORS**

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

- |                    |                      |
|--------------------|----------------------|
| • Oknha Phou Puy   | Chairman             |
| • Mr. Mak Sarun    | Director             |
| • Mr. Min Kimsan   | Director             |
| • Mr. Hsu Ming Yee | Independent director |
| • Mr. Chan Sophal  | Independent director |
| • Mr. Mao Savin    | Independent director |

## DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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

- i) adopt appropriate accounting policies which are supported by reasonable and prudent judgements and estimates and then apply them consistently;
- ii) comply with the disclosure requirements of Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia or, if there have been any departures in the interest of true and fair presentation, ensure they have been appropriately disclosed, explained and quantified in the financial statements;
- iii) maintain adequate accounting records and an effective system of internal controls;
- iv) 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
- v) set overall policies for the Company, ratify all decisions and actions by the Directors that have a material effect on the operations and performance of the Company, and ensure they have been properly reflected in the financial statements.

The Directors confirm that the Company has complied with these requirements in preparing the financial statements.

## APPROVAL OF THE FINANCIAL STATEMENTS

The accompanying financial statements, which present fairly, in all material respects, the financial position of the Company as at 31 December 2015, and its financial performance and its cash flows for the year ended in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia, were approved by the Board of Directors.

On behalf of the Board of Directors,


Oknha Phou Puy  
Chairman

Phnom Penh, Kingdom of Cambodia  
Date: 05 APR 2016



## **Independent auditor's report**

To the Shareholders of Intean Poalroath Rongroeurng Ltd

We have audited the accompanying financial statements of Intean Poalroath Rongroeurng Ltd ("the Company") which comprise the balance sheet as at 31 December 2015 and the income statement, the statements of changes in shareholders' equity and cash flows for the year ended 31 December 2015, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Cambodian Accounting Standards and guidelines of 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.

### *Auditor's Responsibility*

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

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

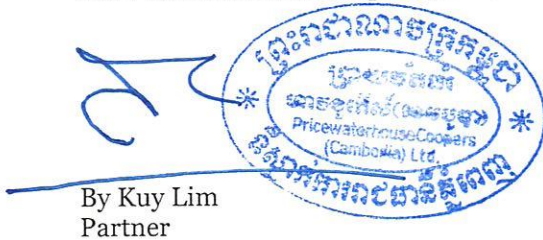
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion



*Opinion*

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia.

For PricewaterhouseCoopers (Cambodia) Ltd.

A handwritten signature in blue ink is written over a blue circular stamp. The stamp contains the text 'PricewaterhouseCoopers (Cambodia) Ltd.' in both Khmer and English, surrounded by a decorative border.

By Kuy Lim  
Partner

Phnom Penh, Kingdom of Cambodia  
Date: 5 April 2016

**INTEAN POALROATH RONGROEURNG LTD**

**BALANCE SHEET  
AS AT 31 DECEMBER 2015**

	Notes	2015		2014	
		US\$	Riel '000	US\$	Riel '000
<b>ASSETS</b>					
Cash on hand	4	94,852	384,151	87,848	357,981
Balances with the Central Bank	5	155,383	629,301	155,256	632,668
Deposits with banks	6	2,242,786	9,083,283	987,623	4,024,564
Loans to customers	7	9,220,281	37,342,138	7,475,390	30,462,214
Other assets	8	513,271	2,078,750	473,605	1,929,940
Property and equipment	9	78,491	317,889	69,524	283,310
Intangible assets	10	40,170	162,689	56,622	230,735
Profit tax credit	20 (a)	63,835	258,532	58,348	237,768
Deferred tax assets	20 (b)	89,015	360,511	70,024	285,348
<b>Total assets</b>		<b>12,498,084</b>	<b>50,617,244</b>	<b>9,434,240</b>	<b>38,444,528</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>LIABILITIES</b>					
Borrowings	11	4,611,961	18,678,442	2,248,333	9,161,957
Other liabilities	12	291,286	1,179,713	249,308	1,015,930
Provision for severance pay	13	137,527	556,984	119,283	486,078
Current income tax liabilities	20 (c)	168,326	681,720	194,835	793,953
<b>Total liabilities</b>		<b>5,209,100</b>	<b>21,096,859</b>	<b>2,811,759</b>	<b>11,457,918</b>
<b>SHAREHOLDERS' EQUITY</b>					
Share capital	14	3,088,645	12,509,012	3,088,645	12,586,228
Retained earnings		4,200,339	17,011,373	3,533,836	14,400,382
<b>Total shareholders' equity</b>		<b>7,288,984</b>	<b>29,520,385</b>	<b>6,622,481</b>	<b>26,986,610</b>
<b>Total liabilities and shareholders' equity</b>		<b>12,498,084</b>	<b>50,617,244</b>	<b>9,434,240</b>	<b>38,444,528</b>

The accompanying notes on pages 10 to 42 form an integral part of these financial statements.



**INTEAN POALROATH RONGROEURNG LTD**

**INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Notes	2015		2014	
		US\$	Riel '000	US\$	Riel '000
Interest income	15	2,334,287	9,453,862	2,126,366	8,664,941
Interest expense	16	(313,566)	(1,269,942)	(169,026)	(688,781)
<b>Net interest income</b>		2,020,721	8,183,920	1,957,340	7,976,160
Other operating income	17	43,839	177,548	34,122	139,047
<b>Operating income</b>		2,064,560	8,361,468	1,991,462	8,115,207
Personnel expenses	18	(554,046)	(2,243,886)	(459,222)	(1,871,330)
Depreciation and amortisation charges		(55,465)	(224,633)	(50,569)	(206,069)
General and administrative expenses	19	(492,277)	(1,993,722)	(377,305)	(1,537,518)
Provision for bad and doubtful loans	7	(91,145)	(369,137)	(22,385)	(91,219)
<b>Operating profit before income tax</b>		871,627	3,530,090	1,081,981	4,409,071
Income tax expense	20 (d)	(205,124)	(830,752)	(183,343)	(747,131)
<b>Profit for the year</b>		666,503	2,699,338	898,638	3,661,940

The accompanying notes on pages 10 to 42 form an integral part of these financial statements.

**INTEAN POALROATH RONGROEURNG LTD**

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2015**

	<u>Notes</u>	<u>Share capital US\$</u>	<u>Retained earnings US\$</u>	<u>Total US\$</u>
Balance as at 1 January 2014		3,088,645	2,635,198	5,723,843
Profit for the year		-	898,638	898,638
<b>Balance as at 31 December 2014</b>		<u>3,088,645</u>	<u>3,533,836</u>	<u>6,622,481</u>
<i>In KHR' 000 equivalent</i>		<u>12,586,228</u>	<u>14,400,382</u>	<u>26,986,610</u>
Balance as at 1 January 2015		3,088,645	3,533,836	6,622,481
Profit for the year		-	666,503	666,503
<b>Balance as at 31 December 2015</b>		<u>3,088,645</u>	<u>4,200,339</u>	<u>7,288,984</u>
<i>In KHR' 000 equivalent</i>		<u>12,509,012</u>	<u>17,011,373</u>	<u>29,520,385</u>

The accompanying notes on pages 10 to 42 form an integral part of these financial statements.

**INTEAN POALROATH RONGROEURNG LTD**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Notes	2015		2014	
		US\$	Riel '000	US\$	Riel '000
Net cash used in operating activities	21	(1,053,088)	(4,265,007)	(32,441)	(124,170)
<b>Cash flows from investing activities</b>					
Purchases of property and equipment	9	(41,496)	(168,059)	(34,818)	(141,883)
Purchases of intangible assets	10	(6,750)	(27,338)	-	-
Net cash used in investing activities		(48,246)	(195,397)	(34,818)	(141,883)
<b>Cash flows from financing activities</b>					
Proceeds from borrowings		3,170,294	12,839,691	1,000,000	4,075,000
Repayments of borrowings		(806,666)	(3,266,997)	(591,836)	(2,411,736)
Net cash generated from financing activities		2,363,628	9,572,694	408,164	1,663,264
<b>Net increase in cash and cash equivalents</b>		1,262,294	5,112,290	340,905	1,397,211
Cash and cash equivalents at beginning of the year		1,063,795	4,334,965	722,890	2,887,945
Currency translation differences		-	(26,595)	-	49,809
<b>Cash and cash equivalents at end of the year</b>	22	<u>2,326,089</u>	<u>9,420,660</u>	<u>1,063,795</u>	<u>4,334,965</u>

The accompanying notes on pages 10 to 42 form an integral part of these financial statements.

## **INTEAN POALROATH RONGROEURNG**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015**

#### **1. BACKGROUND INFORMATION**

Intean Poalroath Rongroeurng Ltd. (“IPR” or “the Company”), formerly known as a credit unit of the Federation of the Cambodian Rice Millers Association, is engaged in the provision of micro financing activities in five branches located in Phnom Penh, Takeo, Battambang and Phnom Proek (Battambang), Banteay Meanchey and Pursat.

The Company was incorporated with the Ministry of Commerce on 19 July 2005. The Company obtained its licence from the National Bank of Cambodia (“the Central Bank”) to operate as a micro finance institution on 18 August 2005. The Company obtained a permanent micro finance licence from the Central Bank on 24 June 2008.

The principal activity of the Company is to provide credit services to improve the living standard in terms of rural development through its head office in Phnom Penh and its branches in 4 provinces of Takeo, Pursat, Battambang and Banteay Meanchey.

The Company's head office is located at No. 779A, St. Kampuchea Krom (128), Sangkat Teuk Laak I, Khan Toul Kork, Phnom Penh, Kingdom of Cambodia.

The financial statements were approved for issue by the Board of Directors on 05 April 2016.

#### **2. SUMMARY OF 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 year presented, unless otherwise stated.

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

The financial statements of the Company, which are expressed in United States Dollars (“US\$”), are prepared under the historical cost convention and drawn up in accordance with Cambodian Accounting Standards (CAS) and the guidelines issued by the Central Bank. In applying CAS, the Company also applies CFRS 7: *Financial Instruments: Disclosures*.

The accounting principles applied may differ from generally accepted accounting principles adopted in other countries and jurisdictions. The accompanying financial statements are therefore not intended to present the financial position, financial performance and cash flows in accordance with jurisdictions other than the Kingdom of Cambodia. Consequently, these financial statements are only addressed to those who are informed about Cambodian accounting principles, procedures and practices.

The preparation of financial statements in accordance with the guidelines issued by the National Bank of Cambodia CAS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

## INTEAN POALROATH RONGROEURNG

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.2 Financial reporting framework

On 28 August 2009, the National Accounting Council of the Ministry of Economy and Finance announced the adoption of Cambodian International Financial Reporting Standards (CIFRS) which are based on all standards published by International Accounting Standard Board (IASB) including other interpretation and amendment that may occur in any circumstances to each standard by adding "Cambodian". Public accountable entities shall prepare their financial statements in accordance with CIFRS for accounting period beginning on or after 1 January 2012.

The National Accounting Council of the Ministry of Economy and Finance through Circular No. 086 MoEF.NAC dated 30 July 2012 approves banking and financial institutions to delay adoption of CIFRS until the periods beginning on or after 1 January 2019.

##### 2.3 Basis of aggregation

The financial statements include the financial statements of the head office and its branches within the Kingdom of Cambodia. On aggregation of balances, all significant inter-branch balances and transactions are eliminated in full.

##### 2.4 Foreign currency translation

###### *(i) Functional and presentation currency*

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The management has determined the US\$ to be the Company's functional currency owing to the significant influence of the US\$ on its operations. The financial statements are presented in US\$, which is the Company's functional and presentation currency.

###### *(ii) Transactions and balances*

Transactions in currencies other than US\$, the functional and presentation currency, are translated into US\$ at the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary and liabilities denominated in currencies other than US\$, are recognised in the income statement.

###### *(iii) Presentation in Khmer Riel*

In compliance with the Law on Corporate Accounting, Corporate Accounting Audit and the Accounting Profession dated 8 July 2002 and Prakas No. 643 MEF PRK dated 26 July 2007 of the Ministry of Economy and Finance, a translation of the financial statements from US\$ to Khmer Riel is required.

Translations of US\$ into Khmer Riel are included solely for compliance with the guidelines regulated by the Central Bank regarding the preparation and presentation of financial statements and have been made using the prescribed official exchange rate of US\$ 1 to Riel 4,050 (2014: US\$ 1 to Riel 4,075) published by the Central Bank.

# INTEAN POALROATH RONGROEURNG

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.4 Foreign currency translation (continued)

*(iii) Presentation in Khmer Riel (continued)*

The financial statements expressed in Khmer Riel do not form part of the audited financial statements and these convenience translation 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.

#### 2.5 Cash and cash equivalents

Cash and cash equivalents includes cash on hand, unrestricted balances with the Central Bank, and balances with banks, and other short-term highly liquid investments with original maturities of three months or less where the Company has full ability to withdraw for general purpose whenever needed.

#### 2.6 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 provisions for bad and doubtful loans.

The adequacy of the provision for bad and doubtful loans is evaluated monthly by management. The provision for doubtful loans charged to expense is based on the management's judgment of the amount necessary to maintain the provision balance at a level adequate to absorb losses.

#### 2.7 Provision for bad and doubtful loans

The adequacy of the provision for bad and doubtful loans is evaluated monthly by management.

The Company follows the mandatory credit classification and provisioning as required by Prakas B7-02-186 dated 13 September 2002. The Prakas requires microfinance institutions to classify their loan portfolio into the following four classes based on number of days past due of principal and/or interest repayment and ensure that the minimum mandatory level of specific provisioning is provided depending on loan classification, regardless of the assets (except cash) pledged as collateral, as follows:

<b>Classification</b>	<b>Number of days past due</b>	<b>Provision</b>
<i>Short term loan (less than one year):</i>		
Substandard	31 - 60 days	10%
Doubtful	61 - 90 days	30%
Loss	Over 90 days	100%
<i>Long term loan (more than one year):</i>		
Substandard	31 - 180 days	10%
Doubtful	181 - 360 days	30%
Loss	Over 360 days	100%

## INTEAN POALROATH RONGROEURNG

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.7 Provision for bad and doubtful loans (continued)

In addition to the specific provisions above, an additional general provision is made at the rate of 1% (2014: 1%) of outstanding standard loans as at 31 December 2015 which is based on the Company's experience and industry prospects. Management believes that this more reasonably reflect the provision necessary to absorb risks relating to problems in the macroeconomic environment, natural disasters, and widespread deterioration in rural household income, which would render customers incapable of reimbursing their outstanding loans.

Loans are written off when there is no realistic prospect of recovery. Recoveries of loans previously written or provided for decrease the amount of the provision for bad and doubtful loans in the income statement.

##### 2.8 Provision for severance pay

The Company provides its employees with benefits under severance pay which is calculated on a pro-rata basis at the rate of one month salary for every year worked.

Upon resignation or retirement, an employee who has worked for the Company for three years or more is entitled to a lump sum payment of the amount accrued for the individual employee.

The provident funds are maintained at current accounts under the name of the Company and the withdrawal can only be made upon resignation or retirement.

##### 2.9 Property and equipment

Items of property and equipment are recorded at cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by management.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

Depreciation of property and equipment is charged to the income statement based on the straight-line method. The estimated useful lives range as follows:

	<b>Years</b>
Building	20
Leasehold improvement	4
Computer and office equipment	4
Furniture and fixture	4
Motor vehicle	5

## **INTEAN POALROATH RONGROEURNG**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015**

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **2.9 Property and equipment (continued)**

The assets' residual values and useful lives are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

##### **2.10 Intangible assets**

Intangible assets, which comprise acquired computer software licenses and related costs, are stated at cost less accumulated amortisation and impairment loss. Acquired computer software licenses are capitalised on the basis of the cost incurred to acquire the specific software and bring it to use. These costs are amortised at 25% per annum using straight-line method.

Costs associated with maintaining computer software are recognised as an expense when incurred.

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

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identified cash flows (cash-generating units).

Any impairment loss is charged to income statement in the year in which it arises. Reversal of impairment loss is recognised in the income statement to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, had no impairment loss been recognised.

##### **2.12 Borrowings**

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



## **INTEAN POALROATH RONGROEURNG**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015**

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **2.13 Provisions**

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

##### **2.14 Income tax**

The current income tax, recognised in the income statement, is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the Kingdom of Cambodia where the Company operates and generates taxable income.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates expected to be applied to temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity.

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

##### **2.15 Interest income and expense recognition**

Interest income earned on loans is recognised on an accrual basis taking into consideration the principal amount of loans outstanding. When a loan becomes non-performing, the recording of interest as income is suspended until it is realised on a cash basis.

Interest expenses on borrowings are recognised on an accrual basis.

##### **2.16 Fee and commission income**

Fee and commission income is recognised on an accruals basis when the service has been provided. Fee and commission income comprise income received from money transfers, and others. Loan processing fees are recognised as income when loan is disbursed.

##### **2.17 Operating leases**

Operating leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

## **INTEAN POALROATH RONGROEURNG**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015**

#### **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 within the next financial year are discussed below.

##### **a) Provision 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 Central Bank. The Central Bank requires micro-finance institutions to classify their loan portfolios into four classes, and a minimum mandatory level of provision is made depending on the classification concerned. For the purpose of loan classification, the Company is required to take into account the borrower's historical payment experience and financial condition.

In addition to the required provision, an additional provision for loan losses is made at the rate of 1% (2014: 1%) of all outstanding loans, which is based on the Company's experience and industry prospects.

##### **b) Taxes**

Taxes are calculated on the basis of current interpretation of the tax regulations. However, these regulations are subject to periodic variation and the ultimate determination of tax expense will be made following inspection by the tax authorities.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

**INTEAN POALROATH RONGROEURNG****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015****4. CASH ON HAND**

	2015		2014	
	US\$	Riel '000	US\$	Riel '000
Head office (Phnom Penh)	2,426	9,825	2,281	9,295
Provincial branches				
Takeo	31,968	129,470	18,854	76,830
Pursat	20,346	82,403	8,343	33,998
Phnom Proek	17,144	69,433	27,362	111,500
Battambang	16,359	66,254	21,428	87,319
Banteay Meanchey	6,609	26,766	9,580	39,039
	<u>94,852</u>	<u>384,151</u>	<u>87,848</u>	<u>357,981</u>

The above amounts are analysed by currency as follows:

	2015		2014	
	US\$	Riel '000	US\$	Riel '000
US Dollars	54,223	219,603	45,938	187,197
Khmer Riel	33,854	137,109	24,019	97,878
Thai Baht	6,775	27,439	17,891	72,906
	<u>94,852</u>	<u>384,151</u>	<u>87,848</u>	<u>357,981</u>

**5. BALANCES WITH THE CENTRAL BANK**

	2015		2014	
	US\$	Riel '000	US\$	Riel '000
Current account	951	3,851	824	3,358
Statutory capital deposit	154,432	625,450	154,432	629,310
	<u>155,383</u>	<u>629,301</u>	<u>155,256</u>	<u>632,668</u>

**(i) Statutory capital deposit**

In compliance with Prakas B7-06-209 dated 13 September 2006 on the Licensed Microfinance Institutions, the Company is required to maintain a statutory capital deposit with the Central Bank of 5% of paid-up capital. This deposit is refundable should the Company voluntarily liquidate.

**(ii) Interest rates**

The statutory capital deposit in US\$ earns interest at 0.11% per annum (2014: 0.11%). The interest payment is settled semi-annually.

**INTEAN POALROATH RONGROEURNG**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**6. DEPOSITS WITH BANKS**

	<b>2015</b>		<b>2014</b>	
	<b>US\$</b>	<b>Riel '000</b>	<b>US\$</b>	<b>Riel '000</b>
Head office (Phnom Penh)	1,656,511	6,708,870	511,137	2,082,883
Provincial branches				
Phnom Proek	119,912	485,644	210,986	859,768
Battambang	159,716	646,850	101,965	415,507
Takeo	226,090	915,665	89,763	365,784
Banteay Meanchey	24,168	97,880	50,572	206,081
Pursat	56,389	228,374	23,200	94,541
	<u>2,242,786</u>	<u>9,083,283</u>	<u>987,623</u>	<u>4,024,564</u>

Deposits with banks are analysed as follows:

**(a) By maturity:**

	<b>2015</b>		<b>2014</b>	
	<b>US\$</b>	<b>Riel '000</b>	<b>US\$</b>	<b>Riel '000</b>
No later than 1 month	1,630,286	6,602,658	975,123	3,973,626
Later than 1 month and no later than 12 months	600,000	2,430,000	-	-
Later than 12 months	12,500	50,625	12,500	50,938
	<u>2,242,786</u>	<u>9,083,283</u>	<u>987,623</u>	<u>4,024,564</u>

**(b) By currency:**

	<b>2015</b>		<b>2014</b>	
	<b>US\$</b>	<b>Riel '000</b>	<b>US\$</b>	<b>Riel '000</b>
US Dollars	2,164,907	8,767,873	670,498	2,732,279
Thai Baht	47,705	193,205	188,710	768,994
Khmer Riel	30,174	122,205	128,415	523,291
	<u>2,242,786</u>	<u>9,083,283</u>	<u>987,623</u>	<u>4,024,564</u>

**INTEAN POALROATH RONGROEURNG**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**6. DEPOSITS WITH BANKS (continued)**

**(c) By type:**

	<b>2015</b>		<b>2014</b>	
	<b>US\$</b>	<b>Riel '000</b>	<b>US\$</b>	<b>Riel '000</b>
<i>Local banks:</i>				
Current accounts	1,044,011	4,228,245	498,637	2,031,946
Savings accounts	586,275	2,374,413	476,486	1,941,680
Term deposits	612,500	2,480,625	12,500	50,938
	<u>2,242,786</u>	<u>9,083,283</u>	<u>987,623</u>	<u>4,024,564</u>

Annual interest rates on the balances with other banks are summarised as follows:

	<b>2015</b>	<b>2014</b>
Current accounts	0%	0%
Savings accounts	0.05% - 0.25%	0.05% - 0.25%
Term deposits	2.50% - 4.50%	4.50%

**7. LOANS TO CUSTOMERS**

	<b>2015</b>		<b>2014</b>	
	<b>US\$</b>	<b>Riel '000</b>	<b>US\$</b>	<b>Riel '000</b>
Individual loans	9,389,014	38,025,507	7,583,128	30,901,247
	<u>9,389,014</u>	<u>38,025,507</u>	<u>7,583,128</u>	<u>30,901,247</u>
Provision for bad and doubtful loans				
Specific	(76,007)	(307,828)	(32,328)	(131,737)
General	(92,726)	(375,541)	(75,410)	(307,296)
	<u>(168,733)</u>	<u>(683,369)</u>	<u>(107,738)</u>	<u>(439,033)</u>
	<u>9,220,281</u>	<u>37,342,138</u>	<u>7,475,390</u>	<u>30,462,214</u>

The movements in provision for bad and doubtful loans to customers were as follows:

	<b>2015</b>		<b>2014</b>	
	<b>US\$</b>	<b>Riel '000</b>	<b>US\$</b>	<b>Riel '000</b>
At the beginning of year	107,738	439,033	127,881	510,885
Provision during the year	91,145	369,137	22,385	91,219
Written off during the year	(27,261)	(110,407)	(42,528)	(173,302)
Exchange difference	(2,889)	(14,394)	-	10,231
At the end of year	<u>168,733</u>	<u>683,369</u>	<u>107,738</u>	<u>439,033</u>

**INTEAN POALROATH RONGROEURNG**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**7. LOANS TO CUSTOMERS (continued)**

Loans to customers are analysed as follows:

**(a) By maturity:**

	2015		2014	
	US\$	Riel '000	US\$	Riel '000
No later than 1 month	480,866	1,947,508	659,595	2,687,850
Later than 1 month and no later than 3 months	2,640,243	10,692,984	2,105,401	8,579,509
Later than 3 months and no later than 12 months	2,672,905	10,825,265	3,143,377	12,809,261
Later than 12 months	3,595,000	14,559,750	1,674,755	6,824,627
	<u>9,389,014</u>	<u>38,025,507</u>	<u>7,583,128</u>	<u>30,901,247</u>

**(b) By currency:**

	2015		2014	
	US\$	Riel '000	US\$	Riel '000
US Dollars	6,825,732	27,644,215	3,590,234	14,630,204
Thai Baht	1,580,612	6,401,479	1,999,578	8,148,280
Khmer Riel	982,670	3,979,813	1,993,316	8,122,763
	<u>9,389,014</u>	<u>38,025,507</u>	<u>7,583,128</u>	<u>30,901,247</u>

**(c) By economic sector:**

	2015		2014	
	US\$	Riel '000	US\$	Riel '000
Agriculture	8,817,284	35,710,000	7,490,591	30,524,158
Service	396,741	1,606,801	-	-
Small business	-	-	92,537	377,089
Others	174,989	708,706	-	-
	<u>9,389,014</u>	<u>38,025,507</u>	<u>7,583,128</u>	<u>30,901,247</u>

**(d) By residents:**

	2015		2014	
	US\$	Riel '000	US\$	Riel '000
Residents	<u>9,389,014</u>	<u>38,025,507</u>	<u>7,583,128</u>	<u>30,901,247</u>

**INTEAN POALROATH RONGROEURNG**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**7. LOANS TO CUSTOMERS (continued)**

**(e) By relationship:**

	<b>2015</b>		<b>2014</b>	
	<b>US\$</b>	<b>Riel '000</b>	<b>US\$</b>	<b>Riel '000</b>
External customers	<u>9,389,014</u>	<u>38,025,507</u>	<u>7,583,128</u>	<u>30,901,247</u>

**(f) By performance:**

	<b>2015</b>		<b>2014</b>	
	<b>US\$</b>	<b>Riel '000</b>	<b>US\$</b>	<b>Riel '000</b>
<i>Secured loans</i>				
Standard loans	9,262,164	37,511,764	7,541,124	30,730,080
Sub-standard loans	41,355	167,488	7,455	30,379
Doubtful loans	18,480	74,844	4,238	17,270
Loss loans	<u>67,015</u>	<u>271,411</u>	<u>30,311</u>	<u>123,518</u>
	<u>9,389,014</u>	<u>38,025,507</u>	<u>7,583,128</u>	<u>30,901,247</u>

**(g) By location:**

	<b>2015</b>		<b>2014</b>	
	<b>US\$</b>	<b>Riel '000</b>	<b>US\$</b>	<b>Riel '000</b>
Phnom Proek	3,471,764	14,060,644	2,656,861	10,826,709
Pursat	2,271,657	9,200,211	1,383,366	5,637,216
Takeo	1,815,082	7,351,082	2,289,913	9,331,395
Battambang	1,345,472	5,449,162	908,192	3,700,883
Banteay Meanchey	<u>485,039</u>	<u>1,964,408</u>	<u>344,796</u>	<u>1,405,044</u>
	<u>9,389,014</u>	<u>38,025,507</u>	<u>7,583,128</u>	<u>30,901,247</u>

**(h) By interest rate (per annum):**

	<b>2015</b>	<b>2014</b>
External customers	20.4% - 36%	20.4% - 36%

**INTEAN POALROATH RONGROEURNG**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**8. OTHER ASSETS**

	2015		2014	
	US\$	Riel '000	US\$	Riel '000
Accrued interest receivable	337,843	1,368,264	322,971	1,316,107
Prepayments	29,381	118,993	25,508	103,945
Other receivables	146,047	591,493	125,126	509,888
	<u>513,271</u>	<u>2,078,750</u>	<u>473,605</u>	<u>1,929,940</u>

**9. PROPERTY AND EQUIPMENT**

	Buildings US\$	Leasehold improvements US\$	Computer and office equipment US\$	Furniture and fixtures US\$	Motor vehicles US\$	Work in progress US\$	Total US\$
<b>Cost</b>							
At 1 January 2015	22,485	-	53,041	34,517	9,125	5,410	124,578
Additions	-	-	22,225	18,661	-	610	41,496
Transfers	-	6,020	-	-	-	(6,020)	-
Written-off	-	-	(1,649)	-	-	-	(1,649)
At 31 December 2015	<u>22,485</u>	<u>6,020</u>	<u>73,617</u>	<u>53,178</u>	<u>9,125</u>	<u>-</u>	<u>164,425</u>
<b>Accumulated depreciation</b>							
At 1 January 2015	(7,495)	-	(30,113)	(14,556)	(2,890)	-	(55,054)
Depreciation charge	(4,497)	(1,505)	(14,306)	(10,130)	(1,825)	-	(32,263)
Written-off	-	-	1,383	-	-	-	1,383
At 31 December 2015	<u>(11,992)</u>	<u>(1,505)</u>	<u>(43,036)</u>	<u>(24,686)</u>	<u>(4,715)</u>	<u>-</u>	<u>(85,934)</u>
<b>Net book value</b>	<u>10,493</u>	<u>4,515</u>	<u>30,581</u>	<u>28,492</u>	<u>4,410</u>	<u>-</u>	<u>78,491</u>
<i>In KHR' 000 equivalent</i>	<u>42,497</u>	<u>18,286</u>	<u>123,853</u>	<u>115,393</u>	<u>17,861</u>	<u>-</u>	<u>317,890</u>
<b>Cost</b>							
At 1 January 2014	22,485	-	49,225	22,812	64,625	-	159,147
Additions	-	-	12,123	17,285	-	5,410	34,818
Write-off	-	-	(8,307)	(5,580)	(55,500)	-	(69,387)
At 31 December 2014	<u>22,485</u>	<u>-</u>	<u>53,041</u>	<u>34,517</u>	<u>9,125</u>	<u>5,410</u>	<u>124,578</u>
<b>Accumulated depreciation</b>							
At 1 January 2014	(4,684)	-	(25,832)	(13,455)	(51,781)	-	(95,752)
Depreciation charge	(2,811)	-	(12,588)	(6,644)	(6,609)	-	(28,652)
Written-off	-	-	8,307	5,543	55,500	-	69,350
At 31 December 2014	<u>(7,495)</u>	<u>-</u>	<u>(30,113)</u>	<u>(14,556)</u>	<u>(2,890)</u>	<u>-</u>	<u>(55,054)</u>
<b>Net book value</b>	<u>14,990</u>	<u>-</u>	<u>22,928</u>	<u>19,961</u>	<u>6,235</u>	<u>5,410</u>	<u>69,524</u>
<i>In KHR' 000 equivalent</i>	<u>61,084</u>	<u>-</u>	<u>93,432</u>	<u>81,341</u>	<u>25,408</u>	<u>22,045</u>	<u>283,310</u>



**INTEAN POALROATH RONGROEURNG**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**10. INTANGIBLE ASSETS**

	<b>Computer software US\$</b>	<b>Total US\$</b>
<b>Cost</b>		
At 1 January 2015	87,672	87,672
Additions	6,750	6,750
At 31 December 2015	<u>94,422</u>	<u>94,422</u>
<b>Accumulated depreciation</b>		
At 1 January 2015	(31,050)	(31,050)
Amortisation charge	(23,202)	(23,202)
At 31 December 2015	<u>(54,252)</u>	<u>(54,252)</u>
<b>Net book value</b>	<u>40,170</u>	<u>40,170</u>
<i>In KHR' 000 equivalent</i>	<u>162,689</u>	<u>162,689</u>
<b>Cost</b>		
At 1 January 2014	87,672	87,672
At 31 December 2014	<u>87,672</u>	<u>87,672</u>
<b>Accumulated amortisation</b>		
At 1 January 2014	(9,132)	(9,132)
Amortisation charge	(21,918)	(21,918)
At 31 December 2014	<u>(31,050)</u>	<u>(31,050)</u>
<b>Net book value</b>	<u>56,622</u>	<u>56,622</u>
<i>In KHR' 000 equivalent</i>	<u>230,735</u>	<u>230,735</u>

**INTEAN POALROATH RONGROEURNG**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**11. BORROWINGS**

	<b>2015</b>		<b>2014</b>	
	<b>US\$</b>	<b>Riel '000</b>	<b>US\$</b>	<b>Riel '000</b>
Triple Jump	1,500,850	6,078,443	-	-
Hivos-Triodos Fonds	1,500,000	6,075,000	500,000	2,037,500
Luxembourg Microfinance Development Fund	944,444	3,824,998	1,000,000	4,075,000
Mr. Hsu Ming-Yee (note 23)	500,000	2,025,000	275,000	1,120,625
Phillip Bank	166,667	675,001	333,333	1,358,332
MB	-	-	140,000	570,500
	<u>4,611,961</u>	<u>18,678,442</u>	<u>2,248,333</u>	<u>9,161,957</u>

The above borrowings are analysed as follows:

**(a) By maturity:**

	<b>2015</b>		<b>2014</b>	
	<b>US\$</b>	<b>Riel '000</b>	<b>US\$</b>	<b>Riel '000</b>
No later than 1 year	1,166,667	4,725,001	775,000	3,158,125
Later than 1 year and no later than 5 years	3,445,294	13,953,441	1,473,333	6,003,832
	<u>4,611,961</u>	<u>18,678,442</u>	<u>2,248,333</u>	<u>9,161,957</u>

**(b) By currency:**

	<b>2015</b>		<b>2014</b>	
	<b>US\$</b>	<b>Riel '000</b>	<b>US\$</b>	<b>Riel '000</b>
US Dollars	4,167,517	16,878,444	2,248,333	9,161,957
Thai Baht	444,444	1,799,998	-	-
	<u>4,611,961</u>	<u>18,678,442</u>	<u>2,248,333</u>	<u>9,161,957</u>

**(c) By interest rate (per annum):**

	<b>2015</b>	<b>2014</b>
US Dollars	9.30% to 10.59%	8% to 10%
Thai Baht	13.37%	-

**INTEAN POALROATH RONGROEURNG**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**12. OTHER LIABILITIES**

	2015		2014	
	US\$	Riel '000	US\$	Riel '000
Deferred interest income	162,875	659,644	165,013	672,428
Accrued interest payable	78,639	318,488	34,951	142,425
Other tax payables	19,444	78,748	4,372	17,816
Other payables	30,328	122,833	44,972	183,261
	<u>291,286</u>	<u>1,179,713</u>	<u>249,308</u>	<u>1,015,930</u>

**13. PROVISION FOR SEVERANCE PAY**

	2015		2014	
	US\$	Riel '000	US\$	Riel '000
At the beginning of year	119,283	486,078	111,026	443,549
Charge during the year	30,239	122,468	25,012	101,924
Payments made during the year	(11,995)	(48,580)	(16,755)	(68,277)
Translation difference	-	(2,982)	-	8,882
At the end of year	<u>137,527</u>	<u>556,984</u>	<u>119,283</u>	<u>486,078</u>

**14. SHARE CAPITAL**

	2015		2014	
	US\$	Riel '000	US\$	Riel '000
Registered, issued and fully paid 25,955 shares of US\$119 each				
Oknha Phou Puy	3,088,645	12,509,012	2,049,180	8,350,409
IPR (HK) Limited	-	-	1,039,465	4,235,819
	<u>3,088,645</u>	<u>12,509,012</u>	<u>3,088,645</u>	<u>12,586,228</u>

Ownership and number of shares are presented as below:

	2015		2014	
	% of ownership	Number of shares	% of ownership	Number of shares
Shareholders				
Oknha Phou Puy	100%	25,955	66.35%	17,220
IPR (HK) Limited	-	-	33.65%	8,735
	<u>100%</u>	<u>25,955</u>	<u>100%</u>	<u>25,955</u>

**INTEAN POALROATH RONGROEURNG**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**15. INTEREST INCOME**

	<b>2015</b>		<b>2014</b>	
	<b>US\$</b>	<b>Riel '000</b>	<b>US\$</b>	<b>Riel '000</b>
Interest income from:				
Loans to customers	2,333,327	9,449,974	2,125,670	8,662,105
Deposits with banks	960	3,888	696	2,836
	<u>2,334,287</u>	<u>9,453,862</u>	<u>2,126,366</u>	<u>8,664,941</u>

**16. INTEREST EXPENSE**

	<b>2015</b>		<b>2014</b>	
	<b>US\$</b>	<b>Riel '000</b>	<b>US\$</b>	<b>Riel '000</b>
Interest expense on:				
Borrowings	313,566	1,269,942	169,026	688,781
	<u>313,566</u>	<u>1,269,942</u>	<u>169,026</u>	<u>688,781</u>

**17. OTHER OPERATING INCOME**

	<b>2015</b>		<b>2014</b>	
	<b>US\$</b>	<b>Riel '000</b>	<b>US\$</b>	<b>Riel '000</b>
Recovery of loans written off	15,490	62,735	9,902	40,351
Other income	28,349	114,813	24,220	98,696
	<u>43,839</u>	<u>177,548</u>	<u>34,122</u>	<u>139,047</u>

**18. PERSONNEL EXPENSES**

	<b>2015</b>		<b>2014</b>	
	<b>US\$</b>	<b>Riel '000</b>	<b>US\$</b>	<b>Riel '000</b>
Salaries and wages	498,595	2,019,310	423,279	1,724,862
Severance pay	30,239	122,468	25,012	101,924
Training expenses	7,447	30,160	2,555	10,412
Other employee benefits	17,765	71,948	8,376	34,132
	<u>554,046</u>	<u>2,243,886</u>	<u>459,222</u>	<u>1,871,330</u>

**INTEAN POALROATH RONGROEURNG**

**NOTES TO THE FINANCIAL STATEMENTS  
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**19. GENERAL AND ADMINISTRATION EXPENSES**

	2015		2014	
	US\$	Riel '000	US\$	Riel '000
Rental expenses	84,130	340,727	70,534	287,426
Foreign exchange losses	78,469	317,799	57,670	235,005
Professional fee	51,781	209,713	34,073	138,847
Fuel and vehicle operating expenses	47,316	191,630	42,768	174,280
Director fees	44,365	179,678	42,029	171,268
Fees and commission on borrowing	32,490	131,585	8,314	33,880
Printing and stationery expenses	20,016	81,065	18,790	76,569
Travel and transportation expenses	18,246	73,896	13,308	54,230
Utility expenses	17,258	69,895	13,495	54,992
Communication expenses	17,204	69,676	13,555	55,237
Bank charges	8,096	32,789	4,303	17,535
Low value assets	7,990	32,360	5,333	21,732
Insurance expenses	4,652	18,841	2,881	11,740
Entertainment expenses	3,588	14,531	2,633	10,729
Subscription fees	3,100	12,555	3,000	12,225
Repairs and maintenance expenses	2,602	10,538	1,368	5,575
Rebate expenses	2,376	9,623	14,625	59,597
Marketing and advertisement expenses	1,622	6,568	4,470	18,215
Other expenses	46,976	190,253	24,156	98,436
	<u>492,277</u>	<u>1,993,722</u>	<u>377,305</u>	<u>1,537,518</u>

**20. TAXATION**

**(a) Profit tax credit**

Profit tax credit represents the overpayment of income tax expense. The amount will be utilised against future tax payable upon approval from the General Department of Taxation. The management believes that they are able to recovery it.

**(b) Deferred tax assets, net**

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

	2015		2014	
	US\$	Riel '000	US\$	Riel '000
Deferred tax assets	92,438	374,374	76,910	313,408
Deferred tax liabilities	(3,423)	(13,863)	(6,886)	(28,060)
	<u>89,015</u>	<u>360,511</u>	<u>70,024</u>	<u>285,348</u>

**INTEAN POALROATH RONGROEURNG**

**NOTES TO THE FINANCIAL STATEMENTS  
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**20. TAXATION** (continued)

**(b) Deferred tax assets, net** (continued)

The movement in deferred tax assets is as follow:

	<b>2015</b>		<b>2014</b>	
	<b>US\$</b>	<b>Riel '000</b>	<b>US\$</b>	<b>Riel '000</b>
Balance at beginning of year	76,910	313,408	42,011	167,834
Credited from/(charged to) income statement	15,528	62,888	34,899	142,213
Translation difference	-	(1,922)	-	3,361
Balance at end of year	<u>92,438</u>	<u>374,374</u>	<u>76,910</u>	<u>313,408</u>

The movement in deferred tax liabilities is as follow:

	<b>2015</b>		<b>2014</b>	
	<b>US\$</b>	<b>Riel '000</b>	<b>US\$</b>	<b>Riel '000</b>
Balance at beginning of year	(6,886)	(28,060)	(6,586)	(26,311)
Credited from/(charged to) income statement	3,463	14,025	(300)	(1,223)
Translation difference	-	172	-	(526)
Balance at end of year	<u>(3,423)</u>	<u>(13,863)</u>	<u>(6,886)</u>	<u>(28,060)</u>

The movement in net deferred tax assets is as follow:

	<b>2015</b>		<b>2014</b>	
	<b>US\$</b>	<b>Riel '000</b>	<b>US\$</b>	<b>Riel '000</b>
Balance at beginning of year	70,024	285,348	35,425	141,523
Credited from/(charged to) income statement	18,991	76,914	34,599	140,983
Translation difference	-	(1,751)	-	2,842
Balance at end of year	<u>89,015</u>	<u>360,511</u>	<u>70,024</u>	<u>285,348</u>

**INTEAN POALROATH RONGROEURNG**

**NOTES TO THE FINANCIAL STATEMENTS  
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**20. TAXATION (continued)**

**(b) Deferred tax assets, net (continued)**

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

	2015		2014	
	US\$	Riel '000	US\$	Riel '000
Severance pay and bonus	30,792	124,708	28,825	117,462
Deferred interest income	27,407	110,998	33,003	134,487
General provision	18,545	75,107	15,082	61,459
Unrealised exchange gain/(loss)	15,694	63,561	-	-
Depreciation and amortisation	(3,423)	(13,863)	(6,886)	(28,060)
	<u>89,015</u>	<u>360,511</u>	<u>70,024</u>	<u>285,348</u>

**(c) Current income tax liabilities**

	2015		2014	
	US\$	Riel '000	US\$	Riel '000
Balance at beginning of year	194,835	793,953	193,965	774,890
Income tax expense (Note 20 (d))	192,799	780,836	217,942	888,114
Income tax paid (Note 21)	(250,624)	(1,015,027)	(217,072)	(876,540)
Under provision in respect of prior year	31,316	126,830	-	-
Translation difference	-	(4,872)	-	7,489
Balance at end of year	<u>168,326</u>	<u>681,720</u>	<u>194,835</u>	<u>793,953</u>

**(d) Income tax expense**

	2015		2014	
	US\$	Riel '000	US\$	Riel '000
<b>Current tax:</b>				
Current tax on profit for the year	192,799	780,836	217,942	888,114
Under provision in respect of prior year	31,316	126,830	-	-
	<u>224,115</u>	<u>907,666</u>	<u>217,942</u>	<u>888,114</u>
<b>Deferred tax:</b>				
Movement of deferred tax during the year	(18,991)	(76,914)	(34,599)	(140,983)
	<u>205,124</u>	<u>830,752</u>	<u>183,343</u>	<u>747,131</u>

**INTEAN POALROATH RONGROEURNG**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**20. TAXATION (continued)**

Reconciliation between income tax expense and accounting profit:

	2015		2014	
	US\$	Riel '000	US\$	Riel '000
Profit before income tax	871,627	3,530,090	1,081,981	4,409,071
Tax calculated at a rate of 20%	174,325	706,016	216,396	881,814
Expenses not deductible for tax purposes	1,029	4,167	789	3,223
Under/(over) provision in respect of prior year	29,770	120,569	(33,842)	(137,906)
	<u>205,124</u>	<u>830,752</u>	<u>183,343</u>	<u>747,131</u>

**21. CASH USED IN OPERATIONS ACTIVITIES**

	2015		2014	
	US\$	Riel '000	US\$	Riel '000
Profit before income tax	871,627	3,530,090	1,081,981	4,409,071
<i>Adjustments for:</i>				
Depreciation	32,263	130,665	28,652	116,757
Amortisation	23,202	93,968	21,918	89,316
Loss on assets written off	266	1,077	37	151
Provision for bad and doubtful loans	91,145	369,137	22,385	91,219
Provision for severance pay	30,239	122,468	25,012	101,924
Operating profit before changes in operating assets and liabilities	1,048,742	4,247,405	1,179,985	4,808,438
Changes in operating assets and liabilities				
Loans to customers	(1,836,036)	(7,435,946)	(984,171)	(4,010,497)
Other assets	(45,153)	(182,870)	(2,815)	(11,471)
Other liabilities	41,978	170,011	8,387	34,177
	<u>(790,469)</u>	<u>(3,201,400)</u>	<u>201,386</u>	<u>820,647</u>
Income tax paid	(250,624)	(1,015,027)	(217,072)	(876,540)
Severance paid	(11,995)	(48,580)	(16,755)	(68,277)
Net cash used in operating activities	<u>(1,053,088)</u>	<u>(4,265,007)</u>	<u>(32,441)</u>	<u>(124,170)</u>



**INTEAN POALROATH RONGROEURNG****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015****22. CASH AND CASH EQUIVALENTS**

	<b>2015</b>		<b>2014</b>	
	<b>US\$</b>	<b>Riel '000</b>	<b>US\$</b>	<b>Riel '000</b>
Cash on hand	94,852	384,151	87,848	357,981
Balances with central bank - current account	951	3,851	824	3,358
Balances with banks matured not later than 3 months	2,230,286	9,032,658	975,123	3,973,626
	<u>2,326,089</u>	<u>9,420,660</u>	<u>1,063,795</u>	<u>4,334,965</u>

**23. RELATED PARTY TRANSACTIONS****a) Balance with related parties**

	<b>2015</b>		<b>2014</b>	
	<b>US\$</b>	<b>Riel '000</b>	<b>US\$</b>	<b>Riel '000</b>
Amount due to Mr. Hsu Ming-Yee:				
At 1 January	275,000	1,120,625	275,000	1,098,625
Additions	225,000	911,250	-	-
Translation difference	-	(6,875)	-	22,000
At 31 December	<u>500,000</u>	<u>2,025,000</u>	<u>275,000</u>	<u>1,120,625</u>

This represents the borrowing from Mr. Hsu Ming-Yee and his relatives with interest rate from 10.47% - 10.59% per annum.

**b) Key management compensation**

Key management refer to those who make critical decisions in relation to the strategic direction of the Company (including their close family members).

As at 31 December 2015, the amount of US\$ 44,365 (2014: US\$42,029) is paid to Board of Directors as remuneration for their roles of the Company.

The other key managements of the Company receive no remuneration for their roles in this capacity. They are, however, remunerated as employees of the Company. The total salary and other benefits paid to the other key managements during the year 2015 amounted to US\$ 158,101 (2014: US\$143,173).

## **INTEAN POALROATH RONGROEURNG**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015**

#### **24. COMMITMENTS AND CONTINGENCIES**

##### **Operating lease commitments**

The Company leases various offices under cancellable operating lease agreements. The Company is required to give a three-month notice for the termination of these agreements. The lease expenses are charged to office rentals in the income statement during the year.

#### **25. EVENT AFTER REPORTING DATE**

On 22 March 2016, the National Bank of Cambodia issued a Prakas No. B7-016-117 on “new minimum registered capital requirement for banks and financial institutions”. It requires that micro finance institutions must have a minimum registered capital of at least Riel 6,000,000,000 (equivalent to US\$1,500,000). The micro finance institutions are required to fulfil the requirement within two years from date of the Prakas.

A dividend of US\$1,300,000 was proposed and approved during the Board of Directors’ meeting on 11 January 2016. The payments of US\$1,000,000 and US\$300,000 were made on 15 and 24 February 2016 respectively.

The Company entered into a borrowing agreement with Stichting Oxfam Novib duly represented by Triple Jump B.V. for a total facility of EUR475,000 equivalent to THB18 million. The loan was fully withdrawn on 26 February 2016. The loan is due for repayment 36 months from the date of the disbursement. The loan bears interest at 12% per annum.

## INTEAN POALROATH RONGROEURNG

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

#### 26. FINANCIAL RISK MANAGEMENT

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

The Company does not use derivative financial instruments such as foreign exchange contract and interest rate swap to manage its risk exposure.

The financial assets and liabilities held by the Company are as follows:

	2015		2014	
	US\$	Riel '000	US\$	Riel '000
<b>Financial assets</b>				
Cash on hand	94,852	384,151	87,848	357,981
Balances with the Central Bank (*)	951	3,852	824	3,358
Balances with banks	2,242,786	9,083,283	987,623	4,024,564
Loans to customers	9,220,281	37,342,138	7,475,390	30,462,214
Other assets	363,625	1,472,681	322,971	1,316,107
<b>Total financial assets</b>	<b>11,922,495</b>	<b>48,286,105</b>	<b>8,874,656</b>	<b>36,164,224</b>
<b>Financial liabilities</b>				
Borrowings	4,611,961	18,678,442	2,248,333	9,161,957
Other liabilities	108,967	441,316	79,923	325,686
<b>Total financial liabilities</b>	<b>4,720,928</b>	<b>19,119,758</b>	<b>2,328,256</b>	<b>9,487,643</b>
<b>Net financial assets</b>	<b>7,201,567</b>	<b>29,166,347</b>	<b>6,546,400</b>	<b>26,676,581</b>

(\*) It excludes statutory capital deposit.

##### 26.1 Credit risk

The Company takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss to the Company by failing to discharge an obligation. Credit risk is the most important risk for the Company's business. Credit exposures arise principally in lending activities that lead to loans to customers. Credit risks are managed and studied by the credit assessment team before loans are disbursed to customers.

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 loan portfolio is strong and healthy and credit risks are well diversified. The credit policy documents the lending policy, collateral policy, and credit approval processes and procedures implemented to ensure compliance with the Central Bank's guidelines.

##### (a) Credit risk measurement

The Company is exposed to credit risk primarily with respect to loans. Such risks are monitored on a revolving basis and subject to annual follow-up visits. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Loans are also provided to those borrowers that are deemed profitable.

## INTEAN POALROATH RONGROEURNG

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

#### 26. FINANCIAL RISK MANAGEMENT (continued)

##### 26.1 Credit risk (continued)

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

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 loan portfolio is strong and healthy and credit risks are well diversified. The credit policy documents the lending policy, collateral policy and credit approval processes, including the Company's own internal grading system, and procedures implemented to ensure compliance with the guidelines of the National Bank of Cambodia.

###### (c) 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. The National Bank of Cambodia requires microfinance institutions to classify their loan portfolio into four classes and ensure that the minimum mandatory level of specific provision is made depending on the classification concerned and regardless of the assets (except for cash) pledged as collateral, as follows:

#### Percentage of provision

Standard	1%
Substandard	10%
Doubtful	30%
Loss	100%

###### (d) Maximum exposure to credit risk before collateral held or other credit enhancements

Management believes that the Company's maximum exposure to credit risk is limited to the carrying amount of loans less provisions for bad and doubtful loans.

	2015		2014	
	US\$	Riel '000	US\$	Riel '000
<i>Credit exposure relating to on-balance sheet assets:</i>				
Deposits with banks	2,242,786	9,083,283	987,623	4,024,564
Loans to customers	9,220,281	37,342,138	7,475,390	30,462,214
Other assets	363,625	1,472,681	322,971	1,316,107
	<u>11,826,692</u>	<u>47,898,102</u>	<u>8,785,984</u>	<u>35,802,885</u>

The above table represents a worst case scenario of credit risk exposure to the Company at 31 December 2015 and 31 December 2014, without taking account of any collateral held or other credit enhancement attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts.

**INTEAN POALROATH RONGROEURNG**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**26. FINANCIAL RISK MANAGEMENT** (continued)

**26.1 Credit risk** (continued)

(d) Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

As shown above, 78% of total maximum exposure is derived from loans to customers (2014: 85%).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Company resulting from its loans to customers on the following basis:

- 98% of the loans to customers are considered to be neither past due nor impaired (2014: 99%); and
- The Company has introduced a strict selection process for granting loans to customers.

(e) Loans to customers

	2015		2014	
	US\$	Riel '000	US\$	Riel '000
Loans to customers neither past due nor impaired	9,194,837	37,239,090	7,506,069	30,587,231
Loans to customers past due but not impaired	66,710	270,176	35,055	142,849
Loans to customers individually impaired	127,467	516,241	42,004	171,167
Gross amount	9,389,014	38,025,507	7,583,128	30,901,247
Less:				
Specific provision for loan loss	(76,007)	(307,828)	(32,328)	(131,737)
General provision for loan loss	(92,726)	(375,541)	(75,410)	(307,296)
Net loans to customers	9,220,281	37,342,138	7,475,390	30,462,214

Specific provision is provided in accordance with its accounting policies and the Central Bank's requirements. Loan ageing analysis is the basis for the loan provisioning.

For the purpose of loan provisioning, the expected recovery from collateral (except cash) is not taken into consideration in accordance with the Central Bank's requirements. The total specific provision for bad and doubtful loans is US\$76,007 (2014: US\$32,328), which represents the mandatory provision required by the Central Bank for loan losses.

## INTEAN POALROATH RONGROEURNG

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

#### 26. FINANCIAL RISK MANAGEMENT (continued)

##### 26.1 Credit risk (continued)

(e) Loans to customers (continued)

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

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

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

Loans to customers less than 30 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount loans to customers that were past due but not impaired were as follows:

	2015		2014	
	US\$	Riel '000	US\$	Riel '000
Past due up to 30 days	92,726	375,541	75,410	307,296

(iii) *Loans to customers individually impaired*

The classification and provisioning for bad and doubtful debts, loans to customers of 30 days or more past due are considered impaired and the minimum level of specific provision for impairment is made depending on the classification concerned, unless other information is available to indicate the contrary.

	2015		2014	
	US\$	Riel '000	US\$	Riel '000
Past due 30-59 days	1,737	7,035	7,455	30,379
Past due 60-89 days	1,140	4,617	4,238	17,270
Past due 90 days and more	73,130	296,176	20,635	84,089
	76,007	307,828	32,328	131,738
Total outstanding loans	9,389,014	38,025,507	7,583,128	30,901,247

Most of the customers' collaterals are in the form of land or house title receipts (which are not official land title deeds), as the Company generally issues loans to low-income households. The Company only perform a revaluation of collateral internally. Under the Central Bank's regulations, the value of collateral is not taken into account when determining the impairment of loans to customers.

(iv) *Loans to customers renegotiated*

Restructuring activities include extended payment arrangements, modification and deferral of payments. Following restructuring, the loan is still kept in its current classification unless there is strong evidence of improvement in the customer's financial condition.

There were no renegotiated loans to customers at 31 December 2015 (2014: nil).

## INTEAN POALROATH RONGROEURNG

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

#### 26. FINANCIAL RISK MANAGEMENT (continued)

##### 26.1 Credit risk (continued)

###### (f) Repossessed collateral

The Company did not obtain any assets by taking possession of collateral held as security during the year ended 31 December 2015 (2014: nil).

###### (g) Concentration of financial assets with credit risk exposure

###### (i) Geographical sector

There is no risk regarding the geographical sector as all loans provided and all other assets are located in Cambodia only.

###### (ii) Industry sector

The following table breaks down the Company's main credit exposure at their carrying amounts, as categorised by the industry sectors of the counterparties.

	Agriculture US\$	Services US\$	Financial institutions US\$	Trade and commerce US\$	Other categories US\$	Total US\$	Total Riel '000
<b>As at 31 December 2015</b>							
Deposits with banks	-	-	2,242,786	-	-	2,242,786	9,083,283
Loans to customers	8,661,327	385,556	-	-	173,398	9,220,281	37,342,138
Other assets	350,923	5,847	-	-	6,855	363,625	1,472,681
<b>Total assets</b>	<b>9,012,250</b>	<b>391,403</b>	<b>2,242,786</b>	<b>-</b>	<b>180,253</b>	<b>11,826,692</b>	<b>47,898,102</b>
<b>As at 31 December 2014</b>							
Deposits with banks	-	-	987,623	-	-	987,623	4,024,564
Loans to customers	7,383,778	-	-	91,612	-	7,475,390	30,462,214
Other assets	-	-	-	-	322,971	322,971	1,316,107
<b>Total assets</b>	<b>7,383,778</b>	<b>-</b>	<b>987,623</b>	<b>91,612</b>	<b>322,971</b>	<b>8,785,984</b>	<b>35,802,885</b>

##### 26.2 Market risk

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

The Company does not use derivative financial instruments such as foreign exchange contract and interest rate swaps to hedge its risk exposure.

**INTEAN POALROATH RONGROEURNG**

**NOTES TO THE FINANCIAL STATEMENTS  
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**26. FINANCIAL RISK MANAGEMENT** (continued)

**26.2 Market risk** (continued)

(i) Foreign exchange risk

The Company operates in Cambodia and transacts in US\$, Khmer Riel, and Thai Baht and is exposed to currency risks, primarily with respect to Khmer Riel and Thai Baht.

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

Management monitors its foreign exchange risk against functional currency. However, the Company does not hedge its foreign exchange risk exposure arising from future commercial transactions and recognised assets and liabilities by using forward contracts.

The table below summarises the Company's exposure to foreign currency exchange rate risk at 31 December 2015 and 31 December 2014. Included in the table are the Company's financial instruments at carrying amount by currency in US\$ equivalent.

	(US\$ equivalent)			Total US\$
	US\$	THB	KHR	
<b>31 December 2015</b>				
<b>Assets</b>				
Cash on hand	54,223	6,775	33,854	94,852
Balances with the Central Bank (*)	951	-	-	951
Deposits with banks	2,164,907	47,705	30,174	2,242,786
Loans to customers	6,718,073	1,562,253	939,955	9,220,281
Other assets	211,420	114,899	37,306	363,625
<b>Total financial assets</b>	<b>9,149,574</b>	<b>1,731,632</b>	<b>1,041,289</b>	<b>11,922,495</b>
<b>Liabilities</b>				
Borrowings	4,167,517	444,444	-	4,611,961
Accruals and other liabilities	91,217	17,321	429	108,967
<b>Total financial liabilities</b>	<b>4,258,734</b>	<b>461,765</b>	<b>429</b>	<b>4,720,928</b>
<b>Net asset position</b>	<b>4,890,840</b>	<b>1,269,867</b>	<b>1,040,860</b>	<b>7,201,567</b>
KHR'000 equivalent	<u>19,807,902</u>	<u>5,142,961</u>	<u>4,215,484</u>	<u>29,166,347</u>
<b>31 December 2014</b>				
Total financial assets	4,695,215	2,367,162	2,199,574	9,261,951
Total financial liabilities	2,493,269	-	-	2,493,269
<b>Net asset position</b>	<b>2,201,946</b>	<b>2,367,162</b>	<b>2,199,574</b>	<b>6,768,682</b>
KHR'000 equivalent	<u>8,972,930</u>	<u>9,646,185</u>	<u>8,963,264</u>	<u>27,582,379</u>

(\*) It excludes statutory capital deposit



**INTEAN POALROATH RONGROEURNG**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**26. FINANCIAL RISK MANAGEMENT** (continued)

**26.2 Market risk** (continued)

(ii) Price risk

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

(iii) Interest rate risk

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

The table below summarises the Company's exposure to interest rate risks. It includes the Company's financial instruments at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

The interest rate risk exposure of financial assets and financial liabilities are as follows:

	Less than 1 month US\$	From 1 month to 3 months US\$	From 3 months to 1 year US\$	From 1 year to 5 years US\$	Non Interest Bearing US\$	Total US\$
<b>As at 31 December 2015</b>						
<b>Assets</b>						
Cash on hand	-	-	-	-	94,852	94,852
Balances with the Central Bank (*)	-	-	-	-	951	951
Deposits with banks	586,275	600,000	12,500	-	1,044,011	2,242,786
Loans to customers	11,689	1,882,660	3,197,920	4,128,012	-	9,220,281
Other assets	-	-	-	-	363,625	363,625
<b>Total financial assets</b>	<b>597,964</b>	<b>2,482,660</b>	<b>3,210,420</b>	<b>4,128,012</b>	<b>1,503,439</b>	<b>11,922,495</b>
<b>Liabilities</b>						
Borrowings	-	-	666,667	3,945,294	-	4,611,961
Other liabilities	-	-	-	-	108,967	108,967
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>666,667</b>	<b>3,945,294</b>	<b>108,967</b>	<b>4,720,928</b>
<b>Total interest re-pricing gap</b>	<b>597,964</b>	<b>2,482,660</b>	<b>2,543,753</b>	<b>182,718</b>	<b>1,394,472</b>	<b>7,201,567</b>
<b>KHR'000 equivalent</b>	<b>2,421,754</b>	<b>10,054,773</b>	<b>10,302,200</b>	<b>740,008</b>	<b>5,647,612</b>	<b>29,166,347</b>
<b>As at 31 December 2014</b>						
<b>Total financial assets</b>	1,634,718	2,105,401	3,155,877	1,632,752	733,203	9,261,951
<b>Total financial liabilities</b>	-	500,000	275,000	1,473,333	244,936	2,493,269
<b>Total interest re-pricing gap</b>	<b>1,634,718</b>	<b>1,605,401</b>	<b>2,880,877</b>	<b>159,419</b>	<b>488,267</b>	<b>6,768,682</b>
<b>KHR'000 equivalent</b>	<b>6,661,476</b>	<b>6,542,009</b>	<b>11,739,574</b>	<b>649,632</b>	<b>1,989,688</b>	<b>27,582,379</b>

(\*) It excludes statutory capital deposit

# INTEAN POALROATH RONGROEURNG

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

### 26. FINANCIAL RISK MANAGEMENT (continued)

#### 26.3 Liquidity risk

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

##### (a) Liquidity risk management process

The management monitors balance sheet liquidity and manages the concentration and profile of debt maturities. Monitoring and reporting takes the form of the reviewing of the daily cash position and projections for the next day, week and month, as these are key periods for liquidity management. The management monitors the amount of cash collected and the projection of its disbursement.

##### (b) Funding approach

The Company's main sources of liquidity arise from the shareholder's paid-up capital and borrowings. The sources of liquidity are reviewed regularly through management's review of the maturity of term borrowings.

##### (c) Non-derivative cash flows

The table on the following page presents the cash flows payable of the Company under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Company manages the inherent liquidity risk based on expected undiscounted cash flows.

	Less than 1 month US\$	1 to 3 months US\$	3 to 12 months US\$	1 to 5 years US\$	Over 5 years US\$	Total US\$
<b>As at 31 December 2015</b>						
<b>Financial assets</b>						
Cash on hand	94,852	-	-	-	-	94,852
Balances with the Central Bank (*)	951	-	-	-	-	951
Deposits with banks	1,630,286	602,213	-	13,063	-	2,245,562
Loans to customers	681,096	2,914,161	3,277,148	3,950,679	-	10,823,084
Other assets	363,625	-	-	-	-	363,625
Total financial assets by remaining contractual maturities	<u>2,770,810</u>	<u>3,516,374</u>	<u>3,277,148</u>	<u>3,963,742</u>	<u>-</u>	<u>13,528,074</u>
<b>Financial liabilities</b>						
Borrowings	-	-	708,107	4,768,935	-	5,477,042
Other liabilities	78,639	-	-	-	30,328	108,967
Total financial liabilities by remaining contractual maturities	<u>78,639</u>	<u>-</u>	<u>708,107</u>	<u>4,768,935</u>	<u>30,328</u>	<u>5,586,009</u>
Net liquidity surplus/(gap)	<u>2,692,171</u>	<u>3,516,374</u>	<u>2,569,041</u>	<u>(805,193)</u>	<u>(30,328)</u>	<u>7,942,065</u>
KHR'000 equivalent	<u>10,903,293</u>	<u>14,241,315</u>	<u>10,404,616</u>	<u>(3,261,032)</u>	<u>(122,828)</u>	<u>32,165,364</u>

(\*) It excludes statutory capital deposit

**INTEAN POALROATH RONGROEURNG**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**26. FINANCIAL RISK MANAGEMENT** (continued)

**26.3 Liquidity risk** (continued)

(c) Non-derivative cash flows (continued)

	Less than 1 month US\$	1 to 3 months US\$	3 to 12 months US\$	1 to 5 years US\$	Over 5 years US\$	Total US\$
<b>As at 31 December 2014</b>						
<b>Financial assets</b>						
Cash on hand	-	-	-	-	87,848	87,848
Balances with the Central Bank (*)	-	-	-	-	155,256	155,256
Deposits with banks	975,123	-	12,500	-	-	987,623
Loans to customers	659,595	2,105,401	3,143,377	1,632,752	42,003	7,583,128
Other assets	-	-	-	-	448,096	448,096
Total financial assets by remaining contractual maturities	<u>1,634,718</u>	<u>2,105,401</u>	<u>3,155,877</u>	<u>1,632,752</u>	<u>733,203</u>	<u>9,261,951</u>
<b>Financial liabilities</b>						
Borrowings	-	500,000	275,000	1,473,333	-	2,248,333
Other liabilities	-	-	-	-	244,936	244,936
Total financial liabilities by remaining contractual maturities	<u>-</u>	<u>500,000</u>	<u>275,000</u>	<u>1,473,333</u>	<u>244,936</u>	<u>2,493,269</u>
Net liquidity surplus/(gap)	<u>1,634,718</u>	<u>1,605,401</u>	<u>2,880,877</u>	<u>159,419</u>	<u>488,267</u>	<u>6,768,682</u>
KHR'000 equivalent	<u>6,661,476</u>	<u>6,542,009</u>	<u>11,739,574</u>	<u>649,632</u>	<u>1,989,688</u>	<u>27,582,379</u>

(\*) It excludes statutory capital deposit

**26.4 Fair value of financial assets and liabilities**

(a) Financial instruments measured at fair value

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

(b) Financial instruments not measured at fair value

As at the balance sheet date, the fair values of financial instruments of the Company approximate their carrying amounts.

The estimated fair values are based on the following methodologies and assumptions.

*i. Balances with the Central Bank*

Balances with the Central Banks include non-interest bearing current accounts and term deposits. The fair value of balances with central banks approximates the carrying amount.

*ii. Deposits with banks*

Deposits with banks include non-interest bearing current accounts, savings deposits and short-term deposits. The fair value of balances with banks approximates the carrying amount.

## INTEAN POALROATH RONGROEURNG

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

#### 26. FINANCIAL RISK MANAGEMENT (continued)

##### 26.4 Fair value of financial assets and liabilities (continued)

(b) Financial instruments not measured at fair value (continued)

*iii. Loans to customers*

Loans to customers are net of provision for doubtful and bad loans and their carrying value approximates fair value. The provision for doubtful and bad loans is made under the requirements of the Central Bank's Prakas.

*iv. Borrowings*

The fair value of fixed interest-bearing borrowings is not quoted in an active market. Their value approximates the carrying amount.

*v. Other assets and liabilities*

The carrying amounts of other assets and liabilities are assumed to approximate their fair values as these are not materially sensitive to the shift in market interest.

##### 26.5 Capital risk management

The Company's objectives when managing capital, which is a broader concept than the 'equity' on the face of the balance sheet, are:

- To comply with the capital requirement set by the Central Bank;
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide a return for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of the business.

The Central Bank requires all commercial banks and financial institutions to: i) adhere to the minimum capital requirement; ii) maintain net worth at least equal to the minimum capital amount; and iii) comply with solvency and liquidity ratios.

The table below summarises the composition of regulatory capital:

	2015		2014	
	US\$	Riel '000	US\$	Riel '000
<b>Tier 1 Capital</b>				
Share capital	3,088,645	12,509,012	3,088,645	12,586,228
Retained earnings	4,200,339	17,011,373	3,533,836	14,400,382
Less: Loans to related parties	-	-	-	-
Less: Intangible assets	(40,170)	(162,689)	(56,622)	(230,735)
	<u>7,248,814</u>	<u>29,357,696</u>	<u>6,565,859</u>	<u>26,755,875</u>
<b>Tier 2 Complementary capital</b>				
Add: General provision for loan losses	92,726	375,541	75,410	307,296
Less: Equity participation in banking or institutions	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total regulatory capital	<u>7,341,540</u>	<u>29,733,237</u>	<u>6,641,269</u>	<u>27,063,171</u>

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**APPENDIX: NOTES ON COMPLIANCE WITH THE CENTRAL BANK'S PRAKAS**

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**COMPLIANCE WITH THE CENTRAL BANK PRAKAS  
FOR THE YEAR ENDED 31 DECEMBER 2015****1. CAPITAL ADEQUACY RATIO (SOLVENCY RATIO), Prakas No. B7-07-133**

A licensed micro-finance institution shall at all times maintain a capital adequacy ratio of more than 15%. As at 31 December 2015, the capital adequacy ratio of the Company was 60.14% (2014: 72.26%).

The capital adequacy ratio calculation is detailed in Schedule 1.

**2. LIQUIDITY RATIO, Prakas No. B7-07-163**

A licensed microfinance institution shall at all times maintain a liquidity ratio of at least 50%. As at 31 December 2015, the liquidity ratio of the Company is over 100%.

The liquidity ratio calculation is detailed in Schedule 2.

**3. NET OPEN POSITION IN FOREIGN CURRENCY, Prakas No B7-07-134**

A licensed microfinance institution shall at all times maintain a net open position in foreign currencies in either any foreign currency or an overall net open position in all foreign currencies, whether long or short, which shall not exceed 20% of the Company's net worth.

As at 31 December 2015, the net open position in Khmer riel was long 14.62% and Thai baht was long 17.04%.

The calculation is detailed in Schedule 3.

**4. LOAN CLASSIFICATION, PROVISIONING, AND DELINQUENCY RATIO,  
Prakas No. B702-186**

Licensed micro-finance institutions shall classify their loan portfolios into the following four classes, depending on the financial situation of the borrower and the timeliness of principal and interest payments.

Loan term of one year or less

- Standard: good financial condition and punctual payment of principal and interest.
- Sub-standard: some payments of principal and/or interest are overdue by 30 days or more.
- Doubtful: some payments of principal and/or interest are overdue by 60 days or more.
- Loss: some payments of principal and/or interest are overdue by 90 days or more.

Loan term of more than one year

- Standard: good financial condition and punctual payment of principal and interest.
- Sub-standard: some payments of principal and/or interest are overdue by 30 days or more.
- Doubtful: some payments of principal and/or interest are overdue by 180 days or more.
- Loss: some payments of principal and/or interest are overdue by 360 days or more.

**COMPLIANCE WITH THE CENTRAL BANK PRAKAS  
FOR THE YEAR ENDED 31 DECEMBER 2015**

**4. LOAN CLASSIFICATION, PROVISIONING, AND DELINQUENCY RATIO,  
Prakas No. B702-186 (continued)**

Mandatory provisions on the loans classified as follows:

- Sub-standard : 10% regardless of the collateral value except cash.
- Doubtful : 30% regardless of the collateral value except cash.
- Loss : 100%.

As at 31 December 2015, the mandatory provision provided by the Company was US\$76,007 calculated in compliance with the Central Bank's Prakas.

Loan classification, provision and delinquency ratio calculation are detailed in Schedule 4.

## SCHEDULE 1

## NET WORTH AND SOLVENCY RATIO AS AT 31 DECEMBER 2015

## NET WORTH RATIO

	<u>US\$</u>
<b><i>I- Sub-total A : Items to be added</i></b>	
– Capital or endowment	3,088,645
– Reserve, other than revaluation reserves	-
– Premium related to capital (share premiums)	-
– Provision for general banking risks, with the prior agreement of the NBC	-
– Retained earnings	3,533,836
– Audited net profit for the latest financial year	666,503
– Other items approved by the National Bank of Cambodia	-
	<u>7,288,984</u>
<b><i>II- Sub-total B : Items to be deducted</i></b>	
– For shareholders, directors, managers and their next of kind	
• Unpaid portion of capital	-
• Advances, loans, security and the agreement of the persons concerned as defined above	-
– Holding of own shares at their book value	-
– Accumulated losses	-
– Intangible assets	40,170
– Losses determined on dates other than the end of the annual accounting period (including provisions to be made for doubtful debt and securities)	(92,726)
	<u>(52,556)</u>
<b><i>III- Total C : BASE NET WORTH = A – B</i></b>	<u>7,341,540</u>
<b><i>IV- Sub-total D : Items to be added</i></b>	
– Revaluation reserves, with the prior agreement of the NBC	-
– Subordinated debt, with the prior agreement of the NBC, up to 100% of base net worth	-
– Other items, with the prior agreement of the NBC, could be included in the calculation of net worth and shall not be more than base net worth	-
	<u>-</u>
<b><i>V- Sub-total E : Items to be deducted</i></b>	
– Equity participation in banking and financial institutions	-
– Other items	-
	<u>-</u>
<b><i>VI- Total F: TOTAL NET WORTH = C + D – E</i></b>	<u>7,341,540</u>



**SCHEDULE 1**  
**NET WORTH AND SOLVENCY RATIO AS AT 31 DECEMBER 2015**

**SOLVENCY RATIO**US\$**I- Numerator (A)**

Net worth	<u>7,341,540</u>
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**II- Denominator (B)**

Assets (\*)

	<b>Assets</b>	<b>Weighting</b>	
- Cash	94,852	0%	-
- Gold	-	0%	-
- Claims on the NBC	155,383	0%	-
- Assets collateralized by deposits	-	0%	-
- Claims on sovereigns rated AAA to AA-	-	0%	-
- Claims on sovereigns rated A+ to A-	-	20%	-
- Claims on banks rated AAA to AA-	-	20%	-
- Claims on sovereigns rated BBB to BBB-	-	50%	-
- Claims on banks rated A+ to A-	-	50%	-
- All other assets	<u>12,207,679</u>	100%	<u>12,207,679</u>
	<u>12,457,914</u>		<u>12,207,679</u>

**III- Solvency ratio (A/B)**60.14%

(\*) The denominator of the ratio shall comprise the aggregate of the assets (net amount after deduction of provision and depreciation) and off-balance sheet items, weighted to their degree of risk. It excludes the items which are deducted in calculating the net worth according to the provisions of the Prakas on the calculation of microfinance institutions' net worth.

**SCHEDULE 2**  
**LIQUIDITY RATIO AS AT 31 DECEMBER 2015**

	<u>US\$</u>
<b>I- Numerator: LIQUID ASSETS (A)</b>	
Cash on hand	94,852
Balances with the Central Bank	951
Balances with banks	<u>2,242,786</u>
	<u>2,338,589</u>
<i>Less:</i>	
- Amounts owed to NBC	-
- Amounts owed to other banks	<u>-</u>
	<u>-</u>
Net liquidity	<u>2,338,589</u>
<i>Plus:</i>	
- Portion of loans maturing in less than one month	<u>403,241</u>
<b>LIQUID ASSETS</b>	<u>2,741,830</u>
<b>II- Denominator: ADJUSTED AMOUNT OF DEPOSITS (B)</b>	
	%
Voluntary savings	25% <u>-</u>
<b>III- LIQUIDITY RATIO (A/B)</b>	<u>100%</u>

**SCHEDULE 3**  
**NET OPEN POSITION AS AT 31 DECEMBER 2015**

Currency	On Balance Sheet		Net open position US\$	NOP/ Net worth %	Limit %
	Assets US\$	Liabilities and capital US\$			
US\$	9,674,241	11,992,697	(2,318,456)	(31.58%)	20%
THB	1,730,529	482,672	1,247,857	17.04%	20%
KHR	1,093,314	22,715	1,070,599	14.62%	20%
Total	<u>12,498,084</u>	<u>12,498,084</u>	<u>-</u>		
Net worth			<u>7,341,540</u>		

**SCHEDULE 4**  
**LOAN CLASSIFICATION, PROVISIONING, AND DELINQUENCY RATIO**  
**AS AT 31 DECEMBER 2015**

	<b>Amount US\$</b>	<b>Rate %</b>	<b>Specific Provision US\$</b>
<b>Loan classification</b>			
<b>1-Loans of one year or less</b>			
1-1 Standard	5,899,234	0%	-
1-2 Substandard Past Due ≥ 30 days	4,633	10%	463
1-3 Doubtful Past Due ≥ 60 days	3,216	30%	965
1-4 Loss Past Due ≥ 90 days	53,403	100%	53,403
Sub-Total 1	<u>5,960,486</u>		<u>54,831</u>
<b>2-Loans of more than one year</b>			
2-1 Standard	3,367,874	0%	-
2-2 Substandard Past Due ≥ 30 days	31,993	10%	3,199
2-3 Doubtful Past Due ≥ 180 days	15,263	30%	4,579
2-4 Loss Past Due ≥ 360 days	13,398	100%	13,398
Sub-Total 2	<u>3,428,528</u>		<u>21,176</u>
<b>Grand total 1+2</b>	<u>9,389,014</u>		<u>76,007</u>
<b>All loan past due &gt; 30 days (A)</b>			121,906
<b>Loan outstanding (B)</b>			<u>9,389,014</u>
<b>Delinquency ratio (A/B)</b>			<u>1.30%</u>