



ANNUAL REPORT 2016



ធនាគារឯកទេស អ៊ីអេស (ខេមបូឌា) ភីអិលស៊ី
AEON SPECIALIZED BANK (CAMBODIA) PLC.



CONTENTS

FY2016 FINANCIAL HIGHLIGHTS	4
MESSAGE FROM MANAGEMENT	5
BOARD OF DIRECTORS	6
ORGANIZATION CHART	8
CORPORATE HISTORY	9
BUSINESS HIGHLIGHT 2016	10
INTERNAL CONTROL	12
CORPORATE SOCIAL RESPONSIBILITY	13
INDEPENDENT AUDITOR'S REPORT	14
FINANCIAL REPORT	16

AEON FINANCIAL SERVICE GROUP NETWORK

"Support Customers Lifestyle and enable each individual to maximize future opportunities through effective use of Credit"



OUR BACKGROUND

The company was incorporated as a private limited company in Cambodia on 5th October, 2011 under Registration No. Co. 2380 E/2011 issued by the Ministry of Commerce. On 7th October, 2011 the Company obtained its license as a micro-finance institution from National Bank of Cambodia on 21st November, 2011. As a microfinance institution, the company was the first to offer unsecured Installment Service such as home appliance, motor bikes, mobile phones, personal loan and agriculture machinery.

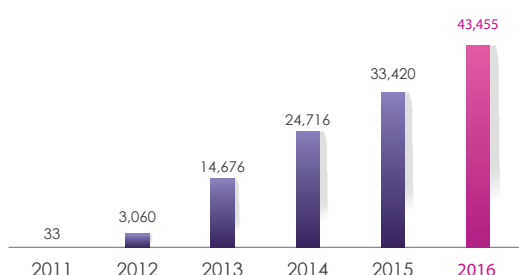
On 26th October, 2015, the Company obtained a specialized bank's license from the National Bank of Cambodia. On 1st February 2016,

the Bank obtained the approval from the Ministry of Commerce on the changes in the Bank's name from AEON Microfinance (Cambodia) Co., Ltd to AEON Specialized Bank (Cambodia) Plc. and shareholding structure to 80% owned by AEON Thana Sinsap (Thailand) Public Company Limited and 20% owned by AEON Financial Service Co., Ltd. Since then the Company has transformed into a specialized bank and started issuing Credit Card as our business expansion.

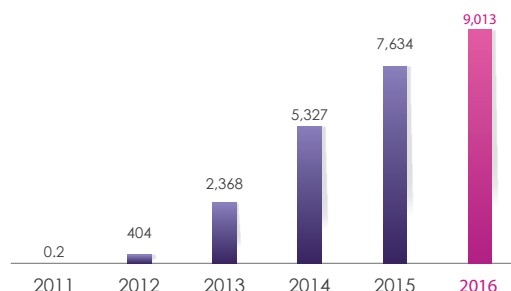
AEON Thana Sinsap (Thailand) Plc., a listed company in Thailand, owns 80% shares of the company while another 20% is owned by AEON Financial Service Co. Ltd., a listed company in Japan.

KEY FINANCIAL DATA

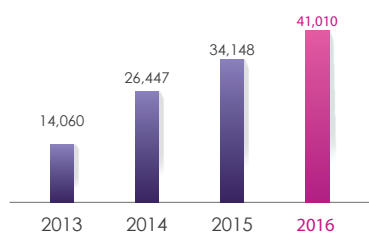
Total Sales (unit: '000 USD)



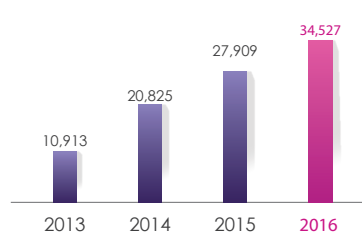
Total Revenue (unit: '000 USD)



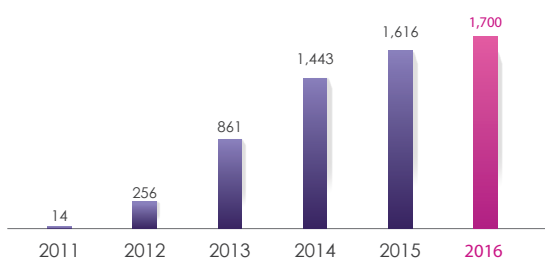
Total Assets (unit: '000 USD)



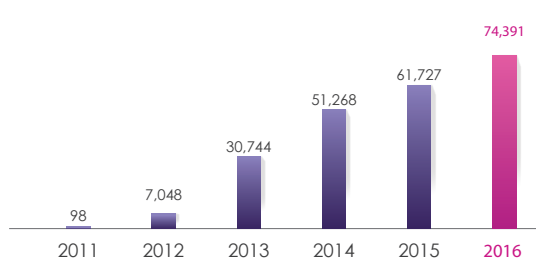
Accounts Recievable (unit: '000 USD)



Number of Partner Shops (unit: partner shop)



Number of Applications (unit: customer)





Mr. Daisuke Maeda

Vice-Chairman of the Board and
Managing Director

MESSAGE FROM MANAGEMENT

By transformation into a specialized bank, we will continuously provide innovative retail financial services to Cambodian customers to meet the demand of

“FASTER, SIMPLER and MORE CONVENIENT”

We, AEON Specialized Bank (Cambodia) Plc., are standing on basic principle that “Pursuing peace, respecting humanity, and contributing to local communities, always with customer’s point of view as its core” as AEON Group company. Our management philosophy is to “Support customer’s lifestyle and enable each individual to maximize future opportunity through effective use of credit”. We would like to keep on providing various retail financial services and serve to Cambodian community.

We are a member of retail started total financial group called “AEON Financial Service”, which provides financial service in Japan and 11 Asian countries. In December 2011,

we have established microfinance business mainly for home appliance installment in Cambodia and since then our business has been expanding steadily by customers support.

Since April 2016, we have started to issue the Cambodia’s first unsecured Credit Card of AEON Gold Card at AEON Mall Phnom Penh and followed by Violet Card in July by using our Installment Service know-how and number of Card holders become 7,700 people in the period from April to December 2016 and receiving positive feedback from customers which lead us the 3rd place in the nationwide. Cambodia is developing rapidly and the payment scenes are also increasing. We were known as

a pioneer of installment service, but since issuing credit card we would provide more convenient financial service to Cambodian people as a whole.

For 2017, we would like to introduce more convenient service with new technology to meet the demand of Cambodian’s trend of modern life.

In closing, we would like to thank Cambodia people for your continuous support and encouragement. From now on through our business activities, the Company would like to contribute more for the development of Cambodian society as well as enriching people’s life.

BOARD OF DIRECTORS



Mr. Asanuma Kiyoyasu

POSITION:

Chairman of the Board

BORN (year): 1960

EDUCATION: Bachelor Degree of Art in Psychology, Chukyo University, Japan



Mr. Daisuke Maeda

POSITION:

Vice-chairman of the Board
Directors and Managing Director

BORN (year): 1976

EDUCATION: Bachelor of Mass Communication, Kansai University, Japan



Mr. Keiichi Nambu

POSITION:

Executive Director

BORN (year): 1972

EDUCATION: Bachelor's Degree in Economics Department, Takasaki City University, Japan

2013 - Present:

Chairman of the Board
AEON Specialized Bank
(Cambodia) Plc.

2013 - Present:

Director,
AEON (Thailand) Co., Ltd.

2013 - 2014:

Chairman of the Board,
AEON Leasing
Service (Lao) Co., Ltd.

2012 - 2015:

Chairman of the Board,
AEON Microfinance (Myanmar)
Co., Ltd.

2012 - Present:

Chairman of the AEON Thailand
Foundation

2011 - 2014:

Chairman of the Board,
ACS Servicing
(Thailand) Co., Ltd.

2011 - 2014:

Chairman of the Board
AEON Insurance Service
(Thailand) Co., Ltd.

2011 - 2014:

Chairman of the Board,
ACS Capital Corporation Ltd.

2011 - Present:

Vice Chairman of the Board
and Managing Director,
AEON Thana Sinsap (Thailand)
Plc.

1999 - 2011:

Director
AEON Financial
Service Co., Ltd.

2011 - Present:

Vice-chairman of the Board and
Managing Director,
AEON Specialized Bank
(Cambodia) Plc.

2009 - Present:

Chief Representative,
ACS Corporation Limited
(Representative office in
Cambodia)

2008 - 2009:

Senior Vice President Head of
Marketing & Sale,
AEON Thana Sinsap (Thailand)
Plc.

2016 - Present

Executive Director,
AEON Specialized Bank
(Cambodia) Plc.

2012 - 2016

Resident Officer
AEON Credit Service India
Private Limited

2011 - 2012

Resident Officer,
AEON Credit Service Co.,Ltd
Representative Office India

2008 - 2011

Officer of Overseas Division
AEON Credit Service Co.,Ltd



Mr. Om Seng Bora

POSITION:

Independent Director

BORN (year): 1977

EDUCATION: Master Degree in Business Administration from Preston University, United States



Mrs. Khieu Mealy

POSITION:

Independent Director, AEON Specialized Bank (Cambodia) Plc.

BORN (year): 1964

EDUCATION: Candidate of Master of Private Business Law with Royal University of Law and Economics, Cambodia in collaboration with the University of Bruxelles (ULB) and University of Paris, Bachelor of Law at National Institute of Management and Royal University of Law and Economic

2015 - Present:

Founder & Chairman of Quality Career Institute of Cambodia

2015 - Present:

Founder & Chairman of CEO Master Club

2015 - Present:

Founder & Director of Thonori

2015 - Present:

Founder & Director of Real Estate Master Club

2014 - Present:

Founder & Chairman of CEG Plc.

2014 - Present:

Independent Board of Director of Rural Development Bank

2013 - Present:

Independent Board of Director, Phnom Penh Water Supply Authority

2013 - Present:

Co-founder & Former Board of Director of Cambodia Investors Club

2013 - Present:

Board of Director of Start-up Business Network

2012 - Present:

Member of Cambodia Chamber of Commerce

2011 - Present:

Independent Director, AEON Specialized Bank (Cambodia) Plc.

2017 - Present

Member of APAA and APAA-Cambodia Group

2016 - Present

Council Member of ASEAN IPA

2014 - Present

Independent Director, AEON Specialized Bank (Cambodia) PLC.

2014 - Present

Board member of Nokor Tep Women Cancer Hospital

2013 - Present

Founding Member of the National Commercial Arbitration Center

2012 - 2015

Chairperson of Song Saa Foundation, a NGO involving with coastal conservative area

2010 - Present

Partner of SokSiphana & associates, a member of ZICOLAW

2009 - Present

Intensive courses on financial market and IPO with FIC

2009 - Present

Authorized Trade Mark Agent

2009 - Present

Founding Member of Intellectual Property Association of Cambodia

2004 - Present

Member of Bar Association of the Kingdom of Cambodia

ADVISORY



H.E. Sok Siphana

POSITION Advisory

BORN (year) 1960

EDUCATION: Juris Doctor (J.D.), Widener University School of Law, Delaware, (USA), Doctor of Philosophy (Ph.D.), Bond University School of Law, Queensland (Australia); Currently pursuing another Ph.D. degree at the University of Paris 2, Pantheon-Assas on Comparative Laws.

2009 - Present:

Advisor of the Royal Government of Cambodia (with rank of Minister), attached concurrently to the Ministry of Foreign Affairs and International Cooperation, the Supreme National Economic Council, and the Council for the Development of Cambodia

2009 - Present:

Managing Partner, SokSiphana & associates, a member of ZICOLaw.

2011 - Present:

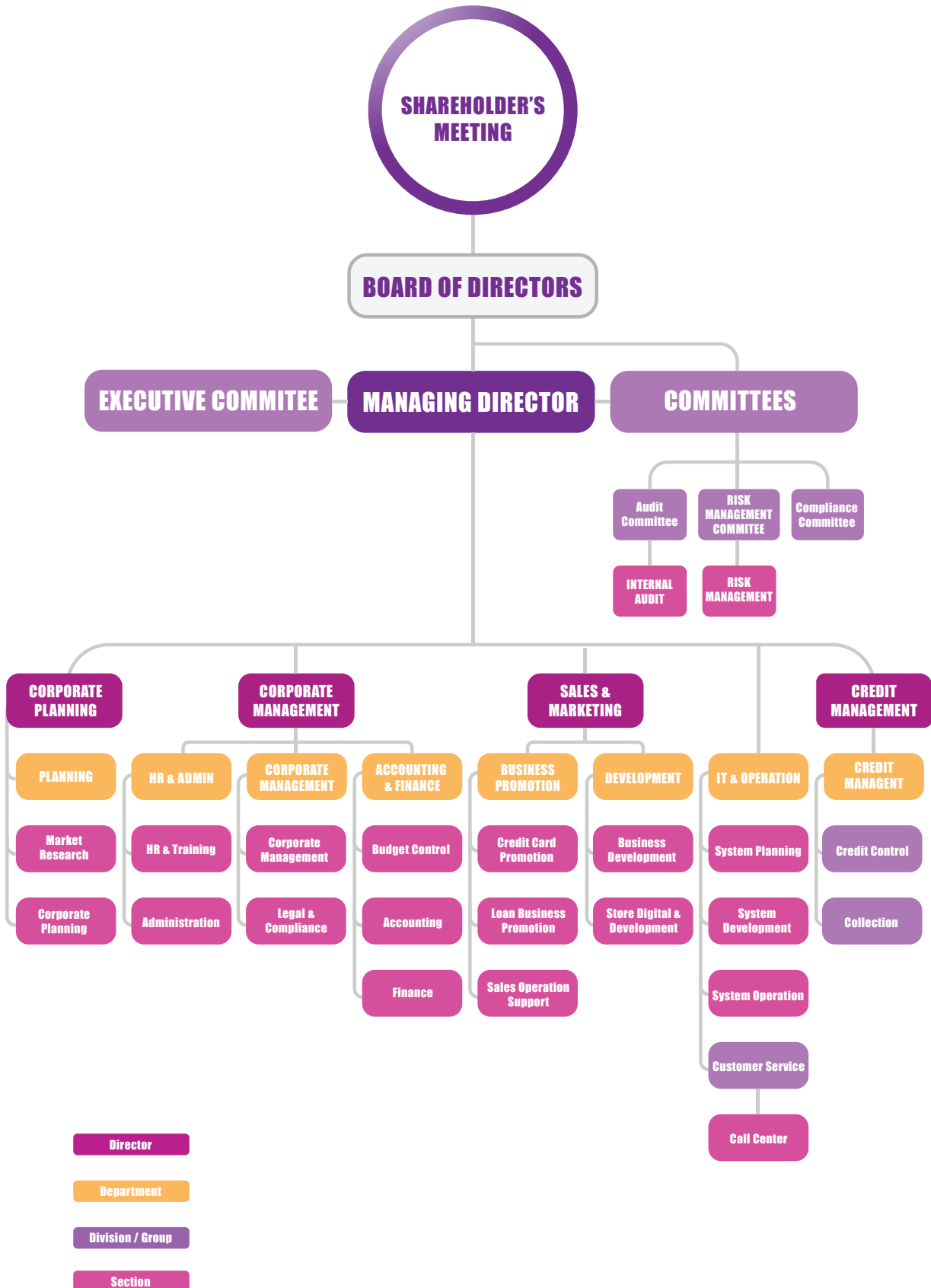
Chairman of the Board of Cambodia Development Resource Institute (CDRI), Cambodia's oldest and prominent independent research institute.

2009 - Present:

Occasional Lecturer of Laws and Policies at the Royal University of Law and Economics (RULE); Royal School of Administration (Ecole Royal d'Administration (ERA); Finance Institute of Cambodia (FIC).

2014 - Present:

Advisory, AEON Specialized Bank (Cambodia) Plc.



CORPORATE HISTORY



2011

- Establish AEON Microfinance (Cambodia) Co., Ltd. **Oct**
- Obtain the Microfinance Institution License **Nov**
- Launch installment service **Dec**



2012

- Jan** Launch Mobile phone installment service
- Jul** Launch Motorcycle installment service



2013

- Positive turnaround in monthly basis Launch Agriculture Machine installment service **Apr**
- Siem Reap branch opening **May**
- Launching Member Card **Jun**
- Chamkamom branch opening **Sep**
- Dec**



2014

- Mar** Launch Personal Loan service
- May** Battambang branch opening
- May** Phnom Penh Head Office relocation
- Jun** AEON Mall branch opening
- Jun** Start the Point card service provider business for AEON Phnom Penh
- Sep** Start Agriculture installment seasonal payment
- Oct** Kampong Cham branch opening



2015

- Launch Insurance installment with Forte **Mar**
- Banteay Meanchey Satellite office opening **May**
- Takeo Satellite Office Opening **Jul**
- Obtain the Specialized Bank License **Oct**
- Launch Tablet application **Nov**

2016

- Feb** Transformed to Specialized Bank
- April** Renovation of AEON Mall Branch
- April** Launch Credit Card Business





[A]. Alliance Partner



[B]. AEON Thanks Day



[C]. Happy Plus Point



[D]. AEON Lounge



BUSINESS HIGHLIGHT 2016

Credit Card Business - Start Issuing AEON CARD

The unchanging corporate mission of the AEON Specialized Bank (Cambodia) Plc. (The company) is to provide benefits to our customers through quality financial services by paying attention to our customer's needs and earns customer trust by raising standard of corporate behavior in the financial service industry in the Kingdom of Cambodia.

In order to support customers in terms of financial service diversification, the company has started issuing 2 types of Credit Card which are "AEON GOLD CARD" and "AEON VIOLET CARD" (AEON CARD) by co-branded with VISA worldwide from April 2016. AEON CARD is not required customer to make security deposit and also accept the customers whose monthly income is USD300 or more to

apply "AEON VIOLET CARD" to provide AEON CARD to more wide range of customer who haven't had opportunity to hold Credit Card so far.

Since started card issuing, the company has been enhancing to raise AEON CARD awareness by doing Credit Card acquisition and campaigns at AEON MALL Phnom Penh. As a result of those activities, the company has issued total 7,700 cards by end of December 2016.

In order to provide financial service with more convenience and satisfaction to customers and our partner stores, the company aims to develop more benefit of Credit Card continuously.





In order to make AEON CARD more valuable and convenient Credit Card for customers, the company has provided several benefits for our AEON CARD Holders below benefits:

Major benefit of AEON CARD>

"AEON Thanks Day"	Offers 5% discount for all items on every 20th and 30th of the month for shopping at AEON Phnom Penh Store	"Alliance Partner"	Provided special discount for AEON CARD holders at partner shops
"Happy Plus Point"	Provides 1 Happy Point per each USD5 card purchasing spending and it's able to exchange the accumulated points to gift voucher of AEON Cambodia	"AEON LOUNG"	Offers free relaxation space located in AEON MALL Phnom Penh which is offering free soft drink and snacks for AEON GOLD CARD holders

The company has setting up Card application booth to welcome customers and explain further benefits and details. And also the company is going to develop more benefits to make AEON CARD to be the everyday use Credit Card in their daily life.

Enhancing Customer service



To provide excellent customer service is always first priority for the company and service improvement also always the most high priority challenges for us.

Through 2016, since we have launched Credit Card Business, we have started implementing branch renewal with new branch concept to improve on customer convenience, comfort and operation efficiency by using advanced technology such as digital signage and touch screen devices by corporation with headquarter in Japan to utilize the know-how of them.

Besides activities above, the company has conducted external training for our staff to improve customer service to be No.1 excellent customer service provider in the financial service industry.

INTERNAL CONTROL

Company's Compliance

We understand that acting within the financial sector, Compliance plays a very important role for the success of such an institution. At AEON Specialized Bank, our staff's internal compliance is regularly monitored and. We focus a lot on "Personal Data Protection", "Code of Conduct", and other compliance issues where deemed necessary for the international standards of a bank. Besides this, our Legal and Compliance Team also pay a lot of attention to "Corporate Compliance" with the regulations of Kingdom of Cambodia to ensure that we fully comply with the law and also by outsourcing to ensure more efficiency. To achieve this we have created a "monthly legal update" in which we regularly monitor the update of all laws and regulations and prepare ourselves for all changes required by law. On the monitoring basis of the law enforcement/movements, such updates are regularly observed. To make it fit to current operations and business upgrading, we are

revising existing internal policies. We also created the "Corporate Calendar" which records all necessary items to be reported to relevant authorities, and we use this calendar to monitor the full enforcement of our compliance system. Training and workshops were also developed to keep our staff up to date on the current situation in this country, with "Annual Compliance Training" provided to all staff on an annual basis, to update them on any changes and [to give them the opportunity to] participate in strengthening the Compliance System.

We have enhanced more on Anti Money Laundering Program by setting up the AML framework, effective customer due diligence, customer screening and rescreening reporting mechanism and proper training on AML to our staff.

RISK MANAGEMENT

The company considers risk management as an important element of the business and embeds strong risk culture in its day-to-day business operations. Understanding the importance of risk management to sustainable growth, the Risk Management team is involved in all stages of the risk management process to provide an independent view and input including overseeing, planning and conducting its own risk management. The company has been conducted monthly regional risk management meeting among Japan, Thailand, Myanmar

and Laos which are Aeon group companies in Mekong region to monitor Credit Risk, Market Risk, Liquidity Risk and Operational Risk. The Risk Management Committee is chaired by independent director. This committee meets every month for comprehensive studies, discussions and information sharing with overseas group companies, including headquarters in Japan and Thailand in order to improve and challenge the risk management practices and ensure that the company operates with a sound, effective and efficient risk management system.



CORPORATE SOCIAL RESPONSIBILITY



As a responsible corporate doing business, the company recognizes the significance of our mission to serve as a leader in part of the economy, as well as our social responsibilities. The company offers scholarships to university students, tree planting and well digging with AEON group companies.

In 2016 we focused on supporting a clean green environment with regular and ongoing initiatives since 2015. We conduct the Clean City activity every quarter in the Phnom Penh area and all the provincial branches with over 300 staff and volunteers participated in cooperation with the Ministry of Tourism. As for new activity in 2016, we have started

recycling products such as plastic bottles, cans, papers and cardboards etc. at head office in Phnom Penh for the purpose of educating internal staff about environmental friendliness and to contribute to the society. Through these activities we would like to search for a better way to make a contribution to Cambodian society and to enhance dependability. Corporate responsibility is not common in Cambodia yet or only the part of people are aware of the significances, therefore our approach to corporate responsibility focuses on the opportunities where we can conduct continuously and regularly.



REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDERS AEON SPECIALIZED BANK (CAMBODIA) PLC.

Opinion

We have audited the financial statements of AEON Specialized Bank (Cambodia) Plc. ("the Bank") (formerly known as AEON Microfinance (Cambodia) Co., Ltd.), which comprise the balance sheet as at 31 December 2016, the income statement, the statement of changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out on pages 18 to 35.

In our opinion, the accompany financial statements present fairly, in all material respects, the financial position of the Bank 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 the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements.

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditors' report is the annual report, which is expected to be made available to us after that date.

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

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

For KPMG Cambodia Ltd



Nge Huy
Partner
Phnom Penh, Kingdom of Cambodia
6 March 2017

BALANCE SHEET

AS AT 31 DECEMBER 2016

		2016		2015	
	Note	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
ASSETS					
Cash on hand		185,874	750,373	153,789	622,846
Balances with the					
National Bank of Cambodia	5	522,343	2,108,699	501,825	2,032,391
Balances with other banks	6	1,484,889	5,994,497	835,880	3,385,314
Loans and advances - net	7	33,357,226	134,663,120	27,161,223	110,002,953
Other assets	8	1,778,964	7,181,678	1,448,521	5,866,509
Property and equipment	9	1,191,127	4,808,580	1,337,460	5,416,713
Intangible assets	10	2,289,594	9,243,091	2,650,537	10,734,675
Deferred tax assets, net	12(a)	200,776	810,533	59,253	239,975
TOTAL ASSETS		41,010,793	165,560,571	34,148,488	138,301,376
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities					
Accounts payable and					
accrued expenses	11	992,029	4,004,821	716,929	2,903,562
Current income tax liability	12(b)	139,195	561,930	280,305	1,135,235
Due to related parties	21	115,836	467,630	204,278	827,326
Borrowings	13	28,690,000	115,821,530	21,890,000	88,654,500
Total liabilities		29,937,060	120,855,911	23,091,512	93,520,623
Shareholders' equity					
Share capital	14	10,000,000	40,370,000	10,000,000	40,500,000
Retained earnings		1,073,733	4,334,660	1,056,976	4,280,753
Total shareholders' equity		11,073,733	44,704,660	11,056,976	44,780,753
LIABILITIES AND SHAREHOLDERS' EQUITY		41,010,793	165,560,571	34,148,488	138,301,376

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

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016		2015	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Interest income	15	8,490,942	34,277,933	7,280,973	29,487,941
Interest expense	13	(455,710)	(1,839,701)	(359,815)	(1,457,251)
Net interest income		8,035,232	32,438,232	6,921,158	28,030,690
Fees, commissions and other income	16	527,837	2,130,878	352,486	1,427,568
Operating profit		8,563,069	34,569,110	7,273,644	29,458,258
Allowance for losses on loans to customers	7	(1,271,981)	(5,134,987)	(804,186)	(3,256,953)
Other operating expenses	17	(7,195,954)	(29,050,066)	(5,051,905)	(20,460,215)
Profit before income tax		95,134	384,057	1,417,553	5,741,090
Income tax expense	12(c)	(78,377)	(316,408)	(360,677)	(1,460,742)
Net profit for the year		16,757	67,649	1,056,876	4,280,348

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

	Share capital US\$	Retained earnings US\$	Total US\$
At 1 January 2016	10,000,000	1,056,976	11,056,976
Net profit for the year	-	16,757	16,757
At 31 December 2016 (KHR'000 equivalents) (Note 4)	<u>10,000,000</u>	<u>1,073,733</u>	<u>11,073,733</u>
At 31 December 2016	<u>40,370,000</u>	<u>4,334,660</u>	<u>44,704,660</u>
At 1 January 2015	4,000,000	859,700	4,859,700
Share issued during the year	6,000,000	-	6,000,000
Dividends distributions		(859,600)	(859,600)
Net profit for the year		<u>1,056,876</u>	<u>1,056,876</u>
At 31 December 2015 (KHR'000 equivalents) (Note 4)	<u>10,000,000</u>	<u>1,056,976</u>	<u>11,056,976</u>
At 31 December 2015	<u>40,500,000</u>	<u>4,280,753</u>	<u>44,780,753</u>

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

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

		2016		2015	
	Note	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Cash flows from operating activities					
Net cash used in operating activities	18	(5,289,092)	(21,352,063)	(5,457,415)	(22,102,531)
Cash flows from investing activities					
Acquisition of property and equipment	9	(526,648)	(2,126,078)	(194,709)	(788,571)
Acquisition of intangible assets	10	(282,648)	(1,141,050)	(524,036)	(2,122,346)
Net cash used in investing activities		(809,296)	(3,267,128)	(718,745)	(2,910,917)
Cash flows from financing activities					
Proceeds from borrowings	13	73,310,000	295,952,470	86,810,000	351,580,500
Repayment of borrowings	13	(66,510,000)	(268,500,870)	(85,650,000)	(346,882,500)
Dividend paid		-	-	(859,600)	(3,481,380)
Share capital contribution		-	-	6,000,000	24,300,000
Net cash generated from financing activities		6,800,000	27,451,600	6,300,400	25,516,620
Net increase in cash and cash equivalents		701,612	2,832,409	124,240	503,172
Cash and cash equivalents at beginning of the year		991,494	4,015,551	867,254	3,534,060
Currency translation difference		-	(12,891)	-	(21,681)
Cash and cash equivalents at end of the year	19	1,693,106	6,835,069	991,494	4,015,551

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

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

1. Reporting entity

AEON Specialized Bank (Cambodia) Plc. ("the Bank") is a licensed specialized bank incorporated and registered in the Kingdom of Cambodia.

The Bank was incorporated as a private limited liability company in Cambodia on 5 October 2011 under Registration No. Co.2380 E/2011 issued by the Ministry of Commerce. On 7 October 2011, the Bank obtained its license as a micro-finance institution from the National Bank of Cambodia ("NBC") dated 21 November 2011. The Bank was initially wholly-owned by AEON Thana Sinsap (Thailand) Public Company Limited, a company registered in Thailand. The ultimate parent company is AEON Co., Ltd., a company registered in Japan.

On 26 October 2015, the Bank obtained a specialized banking license from the NBC to operate as a specialized bank with the permanent validity. On 24 December 2015, the Bank sent a letter to the NBC to delay the adoption of the guidelines of the NBC relating to the preparation and presentation of financial statements as at 31 December 2015 as the specialized bank. The request has been approved by the NBC on 17 February 2016.

On 1 February 2016, the Bank obtained the approval from the Ministry of Commerce on the changes in the Bank's name from AEON Microfinance (Cambodia) Co., Ltd to AEON Specialized Bank (Cambodia) Plc. and shareholding structure to 80% owned by AEON Thana Sinsap (Thailand) Public Company Limited and 20% owned by AEON Financial Service Co., Ltd.

The principal activities of the Bank are as follows:

- Credit card service
- Lending services in the form of hire-purchase (instalment) and loan;
- Borrowing of funds and mobilising savings as appropriate subject to compliance with NBC's regulations; and
- Other business-related services subject to the approval by the NBC.

The head office of the Bank is located at Building No. 721, Monivong Blvd, Sangkat Boeung Keng Kang III, Khan Chamkarmon, Phnom Penh, Kingdom of Cambodia.

As at 31 December 2016, the Bank had 437 employees (2015: 434 employees).

2. Basis of preparation

(a) Statement of compliance

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

The financial statements of the Bank were authorised for issue by the Board of Directors on 06 March 2017.

(b) Basis of measurement

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

(c) Functional and presentation currency

The national currency of Cambodia is the Khmer Riel ("KHR"). However, the Bank transacts its business and maintains its accounting records primarily in United States Dollars ("US\$"), management has determined the US\$ to be the Bank's functional and presentation currency as it reflects the economic substance of the underlying events and circumstances of the Bank.

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.

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

(d) Use of estimates and judgements

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

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

Key accounting estimates and judgements applied in the preparation of financial statements include estimates of recoverable amount for loans and advances which have a separate accounting policy stated in Note 3(f).

3. Significant accounting policies

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

(a) Financial instruments

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

(b) 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.

(c) Deposits and placements with banks

Deposits and placements with banks are stated at cost.

(d) Statutory deposits

Statutory deposits included in balances with the NBC are maintained in compliance with the Cambodian Law on Banking and Financial Institutions and are determined by the defined percentage of the minimum share capital.

(e) Loans and advances

Loans and advances are stated in the balance sheet at the amount of principal outstanding less any amounts written off and specific allowance.

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

(f) Allowance for bad and doubtful loans

Prior to 1 January 2016, 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	Rate of allowances
Short-term loans (less than one year):		
Sub-standard	30 – 59 days	10%
Doubtful	60 – 89 days	30%
Loss	Over 90 days	100%
Long-term loans (more than one year):		
Sub-standard	30 – 179 days	10%
Doubtful	180 – 359 days	30%
Loss	Over 360 days	100%

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

After obtaining a specialized banking license, from 1 January 2016 the Bank revised the estimate of allowance for bad and doubtful loans to comply with the NBC guidelines for specialized bank as follows:

Classification	Number of days past due	Allowance rate
Normal/standard	<30 days	1%
Special mention	≥ 30 days – 89 days	3%
Substandard	≥ 90 days – 179 days	20%
Doubtful	≥ 180 days – 359 days	50%
Loss	360 days or more	100%

This change in estimate has been applied prospectively and resulted in an increase in allowance for bad and doubtful loans for the year by US\$8,988.

In addition, the Bank makes a general allowance by providing fully for the excess of the portfolio at risk (past due loans for 90 days or more) over the mandatory specific level of provisioning as required by the NBC above. Management believes that this more reasonably reflect the allowance necessary to absorb risks relating to nature of the operation of the Bank.

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

The allowance will be calculated as a percentage of the loan amount outstanding at the time the loan is classified, excluding accrued interest. The allowance shall be recorded in the Bank's accounts and charged to the income statement for the month during which the corresponding loan has been classified below standard.

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

(g) Other assets

Other assets are carried at cost.

(h) 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 on a straight-line basis over the estimated useful lives of the individual assets as follows:

• Leasehold improvements	3 – 10 years
• Furniture and fixtures	3 – 5 years
• Office equipment	2 – 3 years
• IT equipment and computers	3 – 5 years
- (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 Bank. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- (iv) Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the assets and are recognised in the income statement on the date of retirement or disposal.
- (v) Fully depreciated items of property and equipment are retained in the financial statements until disposed of or written off.

Intangible assets

Intangible assets consist of computer software licenses and related costs and are stated at cost less accumulated amortisation and accumulated impairment losses; if any. Acquired computer software is capitalised on the basis of the cost incurred to acquire the specific software and bring it into use. Intangible assets are amortised on a straight line method over five years.

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

(j) 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 3(f).

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

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

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.

(k) Borrowings

Borrowings are stated at cost.

(l) Provisions

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

(m) Income and expense recognition

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

Loan administrative fee income is recognised as income when the loan is disbursed to customers.

Expenses are recognised on an accrual basis.

(n) Operating leases

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease commitments are not recognised as liabilities until the obligation to pay becomes due.

(o) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised as a component of shareholders' equity, in which case it is also disclosed as a component of shareholders' equity.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

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

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.

(p) Related parties

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

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

4. Translation of United States Dollars into Khmer Riel

The financial statements are stated in United States Dollars. The translations of United States Dollars amounts into Khmer Riel are included solely for the compliance with the guidelines issued by the NBC regarding the preparation and presentation of financial statements and have been made using the prescribed official exchange rate of US\$1 to KHR4,037 (2015: US\$1 to KHR4,050) published by the NBC on 31 December 2016. These convenience translations should not be construed as representations that the United States Dollars amounts have been, could have been, or could in the future be, converted into Khmer Riel at this or any other rate of exchange.

5. Balances with the National Bank of Cambodia

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Current account	22,343	90,199	1,825	7,391
Capital guarantee	500,000	2,018,500	500,000	2,025,000
	<u>522,343</u>	<u>2,108,699</u>	<u>501,825</u>	<u>2,032,391</u>

Under Prakas No. B7-00-05 on the Licensing of Specialized Banks dated 11 January 2000, the Specialized bank is required to maintain a capital guarantee deposit equivalent to 5% of registered capital with the National Bank of Cambodia. This deposit is not available for use in the Bank's day-to-day operations but is refundable when the Bank voluntarily ceases to operate the business in Cambodia.

The capital guarantee deposit earns interest ranging from 0.2% to 0.22% per annum.

6. Balances with other banks

This pertains to current accounts maintained in US\$ with local banks which do not earn interest.

7. Loans and advances - net

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loans to customers	34,359,843	138,710,686	27,789,949	112,549,293
Staff loans	167,868	677,683	119,287	483,112
Gross loans	<u>34,527,711</u>	<u>139,388,369</u>	<u>27,909,236</u>	<u>113,032,405</u>
Allowance for losses on loans to customers				
At 1 January	748,013	3,019,728	416,670	1,687,513
Allowance during the year	1,271,981	5,134,987	804,186	3,256,953
Written off	<u>(849,509)</u>	<u>(3,429,466)</u>	<u>(472,843)</u>	<u>(1,915,014)</u>
At 31 December	<u>1,170,485</u>	<u>4,725,249</u>	<u>748,013</u>	<u>3,029,452</u>
Loans to customers, net	<u>33,357,226</u>	<u>134,663,120</u>	<u>27,161,223</u>	<u>110,002,953</u>

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

Loans to customers are analysed as follows:

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
By performance:				
Standard loans				
Unsecured	32,902,287	132,826,533	26,964,882	109,207,772
Special Mention				
Unsecured	610,883	2,466,135	-	-
Sub-standard loans				
Unsecured	408,709	1,649,958	587,786	2,380,533
Doubtful loans				
Unsecured	605,832	2,445,743	354,181	1,434,433
Loss loans				
Unsecured	-	-	2,387	9,667
	<u>34,527,711</u>	<u>139,388,369</u>	<u>27,909,236</u>	<u>113,032,405</u>
	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(b) By maturity:				
Within 1 month	2,989,486	12,068,555	275,470	1,115,653
1 to 3 months	2,601,760	10,503,305	3,012,465	12,200,483
3 to 12 months	10,391,076	41,948,774	7,426,339	30,076,673
More than 12 months	18,545,389	74,867,735	17,194,962	69,639,596
	<u>34,527,711</u>	<u>139,388,369</u>	<u>27,909,236</u>	<u>113,032,405</u>
(c) By economic sector:				
Agriculture	4,619,899	18,650,532	5,576,786	22,585,983
Staff loans	167,868	677,683	119,287	483,112
Others (individual)	29,739,944	120,060,154	22,213,163	89,963,310
	<u>34,527,711</u>	<u>139,388,369</u>	<u>27,909,236</u>	<u>113,032,405</u>
(d) By currency:				
US Dollars	<u>34,527,711</u>	<u>139,388,369</u>	<u>27,909,236</u>	<u>113,032,405</u>
(e) By residency status:				
Residents	<u>34,527,711</u>	<u>139,388,369</u>	<u>27,909,236</u>	<u>113,032,405</u>
(f) By interest rate (per annum):				
Individual loans		<u>7.08% - 43.92%</u>		<u>10.02% - 44.4%</u>

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

8. Other assets

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Interest receivable	776,350	3,134,125	671,501	2,719,579
Deposits	198,871	802,842	58,189	235,665
Rental deposits	169,980	686,209	135,480	548,694
Prepayments	95,625	386,038	108,203	438,222
Others	538,138	2,172,464	475,148	1,924,349
	<u>1,778,964</u>	<u>7,181,678</u>	<u>1,448,521</u>	<u>5,866,509</u>

9. Property and equipment

2016	Leasehold improvements US\$	Furniture and fixtures US\$	Office equipment US\$ (Note 4)	IT equipment and computers US\$	Total US\$	KHR'000
Cost						
At 1 January 2016	934,515	112,476	104,396	921,801	2,073,188	8,396,411
Additions	241,914	74,905	95,555	114,274	526,648	2,126,078
Written off	(3,150)	(563)	(17,502)	(2,481)	(23,696)	(95,661)
Currency translation difference	-	-	-	-	-	(26,951)
At 31 December 2016	<u>1,173,279</u>	<u>186,818</u>	<u>182,449</u>	<u>1,033,594</u>	<u>2,576,140</u>	<u>10,399,877</u>
Less: Accumulated depreciation						
At 1 January 2016	395,696	36,457	63,272	240,303	735,728	2,979,698
Depreciation for the year	290,942	38,413	45,272	297,719	672,346	2,714,261
Written off	(3,135)	(539)	(17,173)	(2,214)	(23,061)	(93,097)
Currency translation difference	-	-	-	-	-	(9,565)
At 31 December 2016	<u>683,503</u>	<u>74,331</u>	<u>91,371</u>	<u>535,808</u>	<u>1,385,013</u>	<u>5,591,297</u>
Carrying amounts						
At 31 December 2016	<u>489,776</u>	<u>112,487</u>	<u>91,078</u>	<u>497,786</u>	<u>1,191,127</u>	<u>4,808,580</u>
2015	Leasehold improvements US\$	Furniture and fixtures US\$	Office equipment US\$ (Note 4)	IT equipment and computers US\$	Total US\$	KHR'000
Cost						
At 1 January 2015	910,930	83,032	87,897	796,620	1,878,479	7,654,802
Additions	23,585	29,444	16,499	125,181	194,709	788,571
Currency translation difference	-	-	-	-	-	(46,962)
At 31 December 2015	<u>934,515</u>	<u>112,476</u>	<u>104,396</u>	<u>921,801</u>	<u>2,073,188</u>	<u>8,396,411</u>
Less: Accumulated depreciation						
At 1 January 2015	159,236	16,130	34,392	123,784	333,542	1,359,184
Depreciation for the year	236,460	20,327	28,880	116,519	402,186	1,628,853
Currency translation difference	-	-	-	-	-	(8,339)
At 31 December 2015	<u>395,696</u>	<u>36,457</u>	<u>63,272</u>	<u>240,303</u>	<u>735,728</u>	<u>2,979,698</u>
Carrying amounts						
At 31 December 2015	<u>538,819</u>	<u>76,019</u>	<u>41,124</u>	<u>681,498</u>	<u>1,337,460</u>	<u>5,416,713</u>

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

10. Intangible assets

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Cost				
At 1 January	2,983,565	12,083,438	2,459,529	10,022,581
Additions	282,648	1,141,050	524,036	2,122,346
Currency translation difference	-	(38,786)	-	(61,489)
At 31 December	<u>3,266,213</u>	<u>13,185,702</u>	<u>2,983,565</u>	<u>12,083,438</u>
Less: Accumulated amortisation				
At 1 January	333,028	1,348,763	142,785	581,849
Amortisation for the year	643,591	2,598,177	190,243	770,484
Currency translation difference	-	(4,329)	-	(3,570)
At 31 December	<u>976,619</u>	<u>3,942,611</u>	<u>333,028</u>	<u>1,348,763</u>
Carrying amounts				
At 31 December	<u>2,289,594</u>	<u>9,243,091</u>	<u>2,650,537</u>	<u>10,734,675</u>

11. Accounts payable and accrued expenses

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Payable to dealers and suppliers	523,111	2,111,799	439,453	1,779,785
Accrued expenses	178,826	721,921	120,766	489,102
Advance payments from customers	96,040	387,713	66,758	270,370
Tax liabilities	71,545	288,827	46,649	188,928
Interest in suspense	11,010	44,447	15,630	63,301
Others	111,497	450,114	27,673	112,076
	<u>992,029</u>	<u>4,004,821</u>	<u>716,929</u>	<u>2,903,562</u>

Tax liabilities include salary tax and other withholding taxes payable.

12. Income tax

(a) Deferred tax assets, net

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

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Deferred tax assets	200,776	810,533	129,845	525,873
Deferred tax liabilities	-	-	(70,592)	(285,898)
	<u>200,776</u>	<u>810,533</u>	<u>59,253</u>	<u>239,975</u>

The movement of net deferred tax assets is as follows:

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At 1 January	59,253	239,975	53,215	216,851
Credited to income statement	141,523	571,328	6,038	24,453
Currency translation difference	-	(770)	-	(1,329)
At 31 December	<u>200,776</u>	<u>810,533</u>	<u>59,253</u>	<u>239,975</u>

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

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

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Depreciation and amortisation expenses	27,269	110,085	(70,592)	(285,898)
Allowance for loan losses	157,165	634,475	116,119	470,282
Unearned income	15,114	61,015	13,352	54,076
Unrealised exchange loss	1,228	4,958	374	1,515
	<u>200,776</u>	<u>810,533</u>	<u>59,253</u>	<u>239,975</u>

(b) Current income tax liability

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At 1 January	280,305	1,135,235	176,353	718,638
Current income tax expense	219,900	887,736	366,715	1,485,195
Tax credit carried forward	7,449	30,072	-	-
Income tax paid	(368,459)	(1,487,468)	(262,763)	(1,064,190)
Currency translation difference	-	(3,645)	-	(4,408)
At 31 December	<u>139,195</u>	<u>561,930</u>	<u>280,305</u>	<u>1,135,235</u>

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

(c) Income tax expense

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Current income tax	219,900	887,736	366,715	1,485,195
Deferred tax expense	(141,523)	(571,328)	(6,038)	(24,453)
	<u>78,377</u>	<u>316,408</u>	<u>360,677</u>	<u>1,460,742</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:

	2016			2015		
	US\$	KHR'000 (Note 4)	%	US\$	KHR'000 (Note 4)	%
Profit before income tax	<u>95,134</u>	<u>384,057</u>		<u>1,417,553</u>	<u>5,741,090</u>	
Income tax using statutory rate	19,027	76,812	20.0%	283,511	1,148,220	20.0%
Non-deductible expenses	38,126	153,915	40.1%	31,444	127,348	2.2%
Prior year under provision	15,782	63,712	16.6%	17,008	68,882	1.2%
Others	5,442	21,969	5.7%	28,714	116,292	2.0%
Income tax expense	<u>78,377</u>	<u>316,408</u>	<u>82.4%</u>	<u>360,677</u>	<u>1,460,742</u>	<u>25.4%</u>

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

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

13. Borrowings

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At 1 January	21,890,000	88,654,500	20,730,000	84,474,750
Additions during the year	73,310,000	295,952,470	86,810,000	351,580,500
Repaid during the year	(66,510,000)	(268,500,870)	(85,650,000)	(346,882,500)
Currency translation difference	-	(284,570)	-	(518,250)
At 31 December	<u>28,690,000</u>	<u>115,821,530</u>	<u>21,890,000</u>	<u>88,654,500</u>

These represent borrowings in US\$ from overseas banks which bear interest at rates ranging from 0.72% to 2.20% (2015: 1.03% to 2.16%) per annum.

Interest expense during the year amounted to US\$455,710 equivalent KHR1,839,701 thousand (2015: US\$359,815 equivalent to KHR1,457,251 thousand).

Borrowings are further analysed as follows:

(a)	By currency	2016		2015	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
	US Dollars	<u>28,690,000</u>	<u>115,821,530</u>	<u>21,890,000</u>	<u>88,654,500</u>
(b)	By maturity	2016		2015	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
	1 to 3 months	4,300,000	17,359,100	14,890,000	60,304,500
	4 to 12 months	21,390,000	86,351,430	7,000,000	28,350,000
	Over 1 year	3,000,000	12,111,000	-	-
		<u>28,690,000</u>	<u>115,821,530</u>	<u>21,890,000</u>	<u>88,654,500</u>

14. Share capital

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
10,000,000 shares of US\$1 each:				
Registered, issued and fully paid		<u>10,000,000</u>	<u>10,000,000</u>	<u>40,500,000</u>

According to Prakas B7-016-117 issued by the NBC on 22 March 2016 on the "Minimum registered capital of banking and financial institutions", the specialized bank locally incorporated shall have a minimum registered capital of at least KHR60 billion (equivalent to US\$15 million). The Bank is required to increase its minimum registered capital by half of the difference between their current registered capital and new minimum registered capital at the latest by end of March 2017, and in full at the latest by 22 March 2018.

On 23 December 2016, the Board of Directors approved on the additional capital injection amounting to US\$2,500,000 which was paid in cash in February 2017. On 16 March 2017, the Bank obtained approval from the National Bank of Cambodia on this increase in capital. The Amendment of Memorandum and Articles of Association is in process of getting approval from the Ministry of Commerce as at the reporting date.

After the above revision, the new structure of the share capital will be as follows:

	% of Ownership	Number of shares at US\$1 each	Amount US\$
AEON Thana Sinsap (Thailand) Public Company Limited	80	10,000,000	10,000,000
AEON Financial Service Co., Ltd.	<u>20</u>	<u>2,500,000</u>	<u>2,500,000</u>
	<u>100</u>	<u>12,500,000</u>	<u>12,500,000</u>

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

15. Interest income

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loans to customers	8,458,635	34,147,509	7,255,546	29,384,961
Staff loan	31,248	126,148	25,059	101,489
Capital guarantee	1,059	4,276	368	1,491
	<u>8,490,942</u>	<u>34,277,933</u>	<u>7,280,973</u>	<u>29,487,941</u>

16. Fees, commissions and other income

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Fee and other income	533,972	2,155,645	353,336	1,431,011
Loss on foreign exchange	(6,135)	(24,767)	(850)	(3,443)
	<u>527,837</u>	<u>2,130,878</u>	<u>352,486</u>	<u>1,427,568</u>

17. Other operating expenses

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Personnel	2,857,842	11,537,108	2,212,265	8,959,673
Depreciation and amortisation	1,315,937	5,312,438	592,429	2,399,337
Promotion and advertising	545,448	2,201,974	422,827	1,712,449
Repairs and maintenance	419,186	1,692,254	186,299	754,511
Office rental	385,506	1,556,288	359,995	1,457,980
Communication	236,266	953,806	194,838	789,094
Travel	233,488	942,591	227,166	920,022
Taxes and licenses	211,288	852,970	120,052	486,211
Vehicle rental and running costs	206,728	834,561	190,891	773,109
Stationeries and printing	184,962	746,692	171,583	694,911
Professional fees	141,097	569,609	66,305	268,535
Utilities	111,371	449,605	91,628	371,094
Insurance	82,698	333,852	66,985	271,289
Loss on property and equipment written off	635	2,563	-	-
CC and ATM operating expense	53,704	216,803	-	-
Others	209,798	846,952	148,642	602,000
	<u>7,195,954</u>	<u>29,050,066</u>	<u>5,051,905</u>	<u>20,460,215</u>

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

18. Net cash used in operating activities

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Profit before income tax	95,134	384,057	1,417,553	5,741,090
Adjustments for:				
Depreciation and amortisation	1,315,937	5,312,438	592,429	2,399,337
Allowance for doubtful loans	1,271,981	5,134,987	804,186	3,256,953
Loss on property and equipment written off	635	2,563	-	-
Cash generated from operations	<u>2,683,687</u>	<u>10,834,045</u>	<u>2,814,168</u>	<u>11,397,380</u>
Changes in:				
Balances with the National Bank of Cambodia	-	-	(300,000)	(1,215,000)
Loans and advances	(7,467,984)	(30,148,251)	(7,557,039)	(30,606,008)
Other assets	(322,994)	(1,303,928)	(391,236)	(1,584,506)
Accounts payable and accrued expenses	275,100	1,110,579	126,678	513,046
Due to related parties	(88,442)	(357,040)	112,777	456,747
Income tax paid	<u>(4,920,633)</u>	<u>(19,864,595)</u>	<u>(5,194,652)</u>	<u>(21,038,341)</u>
	<u>(368,459)</u>	<u>(1,487,468)</u>	<u>(262,763)</u>	<u>(1,064,190)</u>
Net cash used in operating activities	<u>(5,289,092)</u>	<u>(21,352,063)</u>	<u>(5,457,415)</u>	<u>(22,102,531)</u>

19. Cash and cash equivalents

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

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Cash on hand	185,874	750,373	153,789	622,846
Current account with NBC	22,343	90,199	1,825	7,391
Balances with other banks	1,484,889	5,994,497	835,880	3,385,314
	<u>1,693,106</u>	<u>6,835,069</u>	<u>991,494</u>	<u>4,015,551</u>

20. Commitments and contingencies

(a) Lease commitments

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

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Within one year	387,904	1,565,968	364,806	1,477,463
From two to three years	479,776	1,936,856	600,541	2,432,192
	<u>867,680</u>	<u>3,502,824</u>	<u>965,347</u>	<u>3,909,655</u>

(b) Lending commitments

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Unused portion of loans	<u>7,252,815</u>	<u>29,279,614</u>	<u>151,358</u>	<u>613,000</u>

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

(c) Taxation contingencies

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

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

21. Related party balances and transactions

(a) Related party balances

Amounts due to related parties:

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
AEON Credit Service Co., Ltd	115,836	467,630	204,278	827,326

Amounts due to related parties are unsecured, interest free and repayable on demand.

(b) Directors and key management personnel compensation

Compensation including other benefits of directors and key management personnel for the year amounted to US\$554,536 or KHR2,238,662 thousand (2015:US\$552,930 or KHR2,239,367 thousand).

22. Financial risk management

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

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

The Bank intends to comply with the NBC's regulations for financial risk management purposes. The Bank however recognises that international best practices on risk management are yet to be fully implemented. The Board of Directors has established a Risk Management Section to formulate broad parameters of acceptable risk for the Bank and monitor the activities against these parameters.

The Bank holds the following financial assets and liabilities:

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Financial assets				
Cash on hand	185,874	750,373	153,789	622,846
Balances with the NBC (current account)	22,343	90,199	1,825	7,391
Balances with other banks	1,484,889	5,994,497	835,880	3,385,314
Loans to customers	33,357,226	134,663,120	27,161,223	110,002,953
Other assets *	1,314,488	5,306,589	1,131,016	4,580,615
Total financial assets	36,364,820	146,804,778	29,283,733	118,599,119
Financial liabilities				
Accounts payable and accrued expenses *	813,434	3,283,833	587,889	2,380,950
Due to related parties	115,836	467,630	204,278	827,326
Borrowings	28,690,000	115,821,530	21,890,000	88,654,500
Total financial liabilities	29,619,270	119,572,993	22,682,167	91,862,776

* Amounts excluded non-financial assets/liabilities.

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

(a) Credit risk

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

(i) Credit risk measurement

The Bank assesses the probability of default of individual counterparties in accordance with its credit policy, procedures and practices. Risk Management Section is responsible for determining the risk rating policies.

(ii) Risk limit control and mitigation policies

The Bank operates and provides loans to individuals within the Kingdom of Cambodia. The Bank manages, limits and controls the concentration of credit risk whenever it is identified. Large exposure is defined by the NBC as overall credit exposure to any single beneficiary which exceeds 10% of the Bank's net worth.

The Bank is required, under the conditions of NBC Prakas No. B7-06-226, to maintain at all times a maximum ratio of 20% between the Bank's overall credit exposure to any single beneficiary and the Branch's net worth. The aggregation of large credit exposure must not exceed 300% of the Bank's net worth.

(iii) Impairment and allowance policies

The Bank is required to follow the mandatory credit classification and allowance in accordance with NBC's Prakas No B7-09-074 dated 25 February 2009 on loan classification and allowance. Refer to Note 3(f) for details.

(iv) Exposure to credit risk

	2016		2015	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loans to customers				
Neither past due nor impaired	32,323,344	130,489,340	26,506,076	107,349,608
Past due but not impaired	578,943	2,337,193	458,806	1,858,164
Individually impaired	1,625,424	6,561,836	944,354	3,824,633
	<u>34,527,711</u>	<u>139,388,369</u>	<u>27,909,236</u>	<u>113,032,405</u>

Neither past due nor impaired

Loans to customers which are 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, unless other information is available to indicate otherwise.

Impaired loans to customers

In compliance with NBC Guidelines, an allowance for doubtful loans to customers is made for loans to customers with payment overdue more than 30 days. A minimum level of specific allowance for impairment is made depending on the classification concerned, unless other information is available to substantiate the repayment capacity of the counterparty. Refer to separate accounting policy stated in Note 3(f).

(a) Operational risk

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

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

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

(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.

In the absence of derivatives market, the Bank does not use derivative financial instruments such as foreign exchange contract and interest rate swaps to hedge its risk exposure.

The Bank has maintained a minimum foreign currency exposure ratio in accordance with guidelines issued by the National Bank of Cambodia.

(i) Foreign currency exchange risk

The Bank operates in the Kingdom of Cambodia and transacts in many currencies, and is exposed to various currency risks, primarily with respect to KHR. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the Bank's functional currency.

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

(ii) Interest rate risk

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

The following table indicates the effective interest rates at the reporting date and the periods in which the financial instruments re-price or mature, whichever is earlier.

31 December 2016	Up to 1 month US\$	>1-3 months US\$	>3- 12 months US\$	>1-5 years US\$	Over 5 years US\$	Non-interest sensitive US\$	Total US\$
Assets							
Cash on hand	-	-	-	-	-	185,874	185,874
Balances with the NBC (current account)	-	-	-	-	-	22,343	22,343
Deposits and placements with banks	-	-	-	-	-	1,484,889	1,484,889
Loans and advances to customers							
- Performing	2,989,486	2,601,760	10,391,076	17,530,848	-	-	33,513,170
- Non performing	-	-	-	-	-	1,014,541	1,014,541
- Allowance	-	-	-	-	-	(1,170,485)	(1,170,485)
Other assets	-	-	-	-	-	1,314,488	1,314,488
	<u>2,989,486</u>	<u>2,601,760</u>	<u>10,391,076</u>	<u>17,530,848</u>	<u>-</u>	<u>2,851,650</u>	<u>36,364,820</u>
Liabilities							
Due to related parties						115,836	115,836
Borrowings	-	4,300,000	21,390,000	3,000,000	-	-	28,690,000
Accounts payable and accrued expenses	-	-	-	-	-	813,434	813,434
	<u>-</u>	<u>4,300,000</u>	<u>21,390,000</u>	<u>3,000,000</u>	<u>-</u>	<u>929,270</u>	<u>29,619,270</u>
Maturity gap	<u>2,989,486</u>	<u>(1,698,240)</u>	<u>(10,998,924)</u>	<u>14,530,848</u>	<u>-</u>	<u>1,922,380</u>	<u>6,745,550</u>

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

31 December 2015	Up to 1 month US\$	>1-3 months US\$	>3- 12 months US\$	1 – 5 years US\$	Over 5 years US\$	Non-interest sensitive US\$	Total US\$
Assets							
Cash on hand	-	-	-	-	-	153,789	153,789
Balances with the NBC (current account)	-	-	-	-	-	1,825	1,825
Deposits and placements with banks						835,880	835,880
Loans and advances to customers							
- Performing	77,539	2,890,564	7,141,702	16,855,077	-	-	26,964,882
- Non performing	-	-	-	-	-	944,354	944,354
- Allowance	-	-	-	-	-	(748,013)	(748,013)
Other assets	-	-	-	-	-	1,146,649	1,146,649
	<u>77,539</u>	<u>2,890,564</u>	<u>7,141,702</u>	<u>16,855,077</u>	<u>-</u>	<u>2,334,484</u>	<u>29,299,366</u>
Liabilities							
Due to related parties	-	-	-	-	-	204,278	204,278
Borrowings	5,490,000	9,400,000	7,000,000	-	-	-	21,890,000
Accounts payable and accrued expenses	-	-	-	-	-	603,522	603,522
	<u>5,490,000</u>	<u>9,400,000</u>	<u>7,000,000</u>	<u>-</u>	<u>-</u>	<u>807,800</u>	<u>22,697,800</u>
Maturity gap	<u>(5,412,461)</u>	<u>(6,509,436)</u>	<u>141,702</u>	<u>16,855,077</u>	<u>-</u>	<u>1,526,684</u>	<u>6,601,566</u>

Fair value sensitivity analysis for fixed rate instruments

The Bank does not account for any fixed rate liabilities at fair value through profit or loss, and the Bank 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 Bank 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 Bank into relevant maturity groupings based on the remaining periods to repayment.

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

	Up to 1 month US\$	2 – 3 months US\$	4 – 12 months US\$	1 – 5 years US\$	Over 5 years US\$	No fixed terms US\$	Total US\$
31 December 2016							
Liabilities							
Amount due to related parties	-	-	-	-	-	115,836	115,836
Borrowings	-	4,311,037	21,535,104	3,034,732	-	-	28,880,873
Accounts payable and accrued expenses	813,434	-	-	-	-	-	813,434
	<u>813,434</u>	<u>4,311,037</u>	<u>21,535,104</u>	<u>3,034,732</u>	<u>-</u>	<u>115,836</u>	<u>29,810,143</u>
31 December 2015							
Liabilities							
Amount due to related parties	-	-	-	-	-	204,278	204,278
Borrowings	5,490,000	9,400,000	7,000,000	-	-	-	21,890,000
Accounts payable and accrued expenses	603,522	-	-	-	-	-	603,522
	<u>6,093,522</u>	<u>9,400,000</u>	<u>7,000,000</u>	<u>-</u>	<u>-</u>	<u>204,278</u>	<u>22,697,800</u>

(e) Capital management

(i) Regulatory capital

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

The Bank'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 Bank 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 Bank 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.

23. Fair values of financial assets and liabilities

The Bank 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 Bank's financial assets and liabilities, the fair values, therefore, have not been presented.



AEON SPECIALIZED BANK (CAMBODIA) PLC.