



Annual Report

2017

**Evolving Our Business
For The Future**

SOUTHERN CAPITAL SPECIALIZED BANK PLC.

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Chairman's Message

2016 & 2017 Review

To be a profitable bank, it all boils down to the ability to successfully manage the numeric elements. However, the human element is different and should not be underestimated. If people trust you, they will do business with you. Though this may sound simple but it's doesn't come easy. The trust in doing business with us is earned over time by building sustained relationships. Since we started our business in July 2016, we have earned the trust of our customers by taking pride in knowing them and giving them the personal attention. This is the way we do banking in putting their needs first and helping them to achieve their financial goals.

We continually seek ways to strive for business excellence. In the business world, it is very easy to get comfortable with just being good. Being good at what we do means all is well, things are moving the way they are supposed to, and everything is under control. That is not good enough and we need to be proactive rather than reactive. We have to focus on constantly pushing ourselves and our business to be in a constant state of growth by evolving and improving ahead of our competitors.

To ensure sustainability, we continue to guide our business with a set of principles and values that we believe in. As such, we focus in dealing with human element by attracting, training and retaining high quality employees. We recognize the importance of developing a talented workforce that embraces a strong financial and business acumen. Therefore, we believe empowering, engaging and supporting our employees is a key factor to our success.

Financial Performance

Amid the increasingly tight market competition, as at 31 December 2017, we succeeded in posting an after tax net profit of US\$208,861. Net interest income in 2017 sees a growth of 275.54% to US\$736,954 and this growth was contributed by the efficient management as well as the surge in our loan disbursement and loan utilization rate as compared to the previous year.

The year 2017 saw our total assets grow to US\$12.74 million, driven primarily by a strong growth 33.13% in our loan portfolio to US\$7.68 million as well as the increase of share capital to US\$12.5 million.

Prospects for 2018

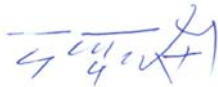
The underlying economic fundamentals in Cambodia remain strong in 2018. Loan demand and business opportunities are expected to remain buoyant. Even though competition is getting more intensify with more banks operating now in Cambodia, we are confident that with our continuing efforts and improvement, we will be able to meet these challenges to sustain and achieve our growth targets. We are optimistic that we will be able to deliver even better results in the coming financial year while we will continue to be sensitive to changes in the market conditions and outlook with appropriate risks management mind set.

Acknowledgment

On behalf of the Board of Directors, I would like to express our sincere appreciation to everyone who has contributed to the performance of the bank. Such achievement can only be made possible with the continuing patronage and support of our customers, the dedicated hard work of our staff, our shareholders and also the officials at the National Bank of Cambodia for their continued guidance and strong support.

We will continue to approach both challenges and opportunities with the same fundamental principle in every situation and in every part of our business and will seek to build sustainable value for our customers, our people and the communities in which we serve. I am confident that together with our great team of dedicated employees, we are capable to achieving much more in 2018 and the years ahead.

Thank you for your loyalty and support.

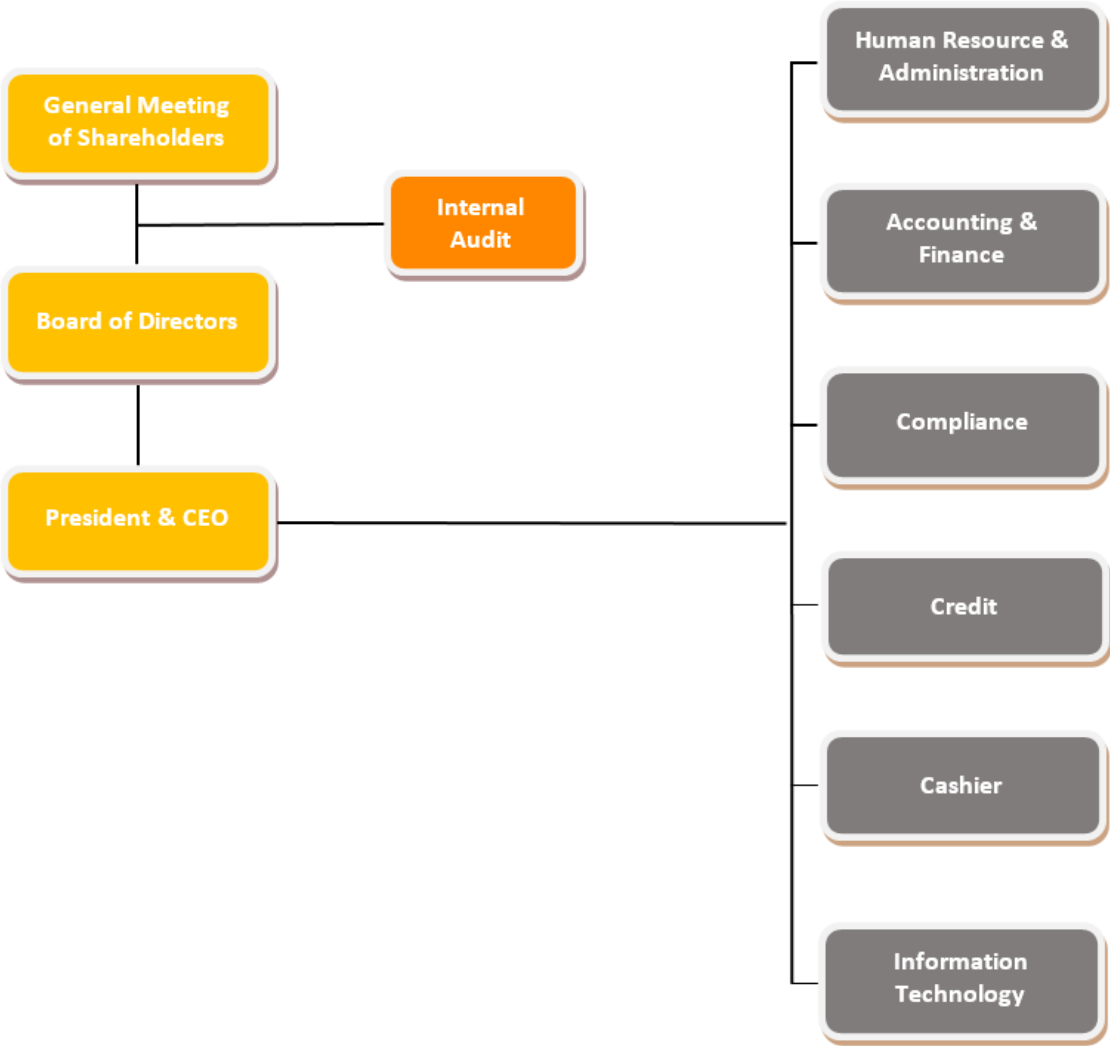


Kun Kay Hong
Chairman
30 April 2018

Corporate Information

Shareholders	Kun Swee Tiong Andy Kun Swee Yi Diaz Kun Kay Hong
Registration No	00011446
Registered office	Office No. 294, Mao Tse Toung Blvd (245)., Sangkat Tomniubteuk, Khan Chamkarmorn, Phnom Penh, Cambodia
Head Office	Southern Capital Specialized Bank Plc, Phnom Penh, Cambodia
Principle Bankers	National Bank of Cambodia RHB Indochina Bank Hatha Kaksekar Limited LOLC (Cambodia) Plc. Sathapana Bank Plc.
Auditors	HRDP & Associates Co., Ltd.

Organization Chart



Report of the Management

The Management have pleasure in submitting their report together with the audited financial statements of Southern Capital Specialized Bank Plc. (“the Bank”) for the period from 26 April to 31 December 2016 and for the year ended 31 December 2017.

Principal activity

The Bank is principally engaged in credit operation which disburse loans to customers.

Financial results

The financial results of the Bank for the period from 26 April 2016 to 31 December 2016 and for the year ended 31 December 2017. were as follows:

	Year ended 31 December 2017		Period from 26 April 2016 to 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Net profit for the year	208,861	843,172	(44,322)	(178,928)

Dividends

No dividend was declared or paid and the Management do not recommend any dividend to be paid for the year under audit.

Share capital

The Bank initially injected capital for US\$10,000,000 in 2016 and further increase the share capital to US\$12,500,000 in 2017. On 23 March 2018, the Bank injected additional capital of US\$2,500,000.

Reserves and provisions

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

Bad and doubtful loans and advances

Before the financial statements of the Bank were prepared, the Management took reasonable steps to ascertain that actions had been taken in relation to the writing off of bad loans and advances and the making of allowances for doubtful loans and advances, and satisfied themselves that all known bad loans and advances had been written off and adequate allowance had been made for bad and doubtful loans and advances.

At the date of this report, the Management is not aware of any circumstances, which would render the amount written off for bad loans and advances, or the amount of allowance for doubtful loans and advances in the financial statements of the Bank, inadequate to any substantial extent.

Current assets

Before the financial statements of the Bank were prepared, the Management took reasonable steps to ensure that any current assets, other than debts, which were unlikely to be realised in the ordinary course of business at their value as shown in the accounting records of the Bank have been written down to an amount which they might be expected to realise.

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

Valuation methods

At the date of this report, the Management is not aware of any circumstances which have arisen which render adherence to the existing method of valuation of assets and liabilities in the financial statements of the Bank misleading or inappropriate.

Contingent and other liabilities

At the date of this report, there does not exist:

- (a) any charge on the assets of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person, or
- (b) any contingent liability in respect of the Bank that has arisen since the end of the financial year other than in the ordinary courses of banking business.

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

Change of circumstances

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

Items of unusual nature

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

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

Management

The Management who served since the date of the last report are:

Mr. Kun Swee Tiong Andy, President & CEO

Mr. Kun Swee Yi Diaz, Executive Vice President

Ms. Chin Mao, Vice President

Management's responsibility in respect of the financial statements

The Management is responsible for ascertaining that the financial statements present fairly, in all material respects, the financial position as at 31 December 2016 and as at 31 December 2017, and its financial performance and its cash flows for the period from 26 April 2016 to 31 December 2016 and for the year ended 31 December 2017. In preparing these financial statements, the Management is required to:

- (i) adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- (ii) comply with 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 that these 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 the going concern basis unless it is inappropriate to assume that the Bank will continue operations in the foreseeable future; and
- (v) control and direct effectively the Bank in all material decisions affecting the operations and performance and ascertain that such have been properly reflected in the financial statements.

The Management confirm that they have complied with the above requirements in preparing the financial statements.

Approval of the financial statements

I, on behalf of the Management of Southern Capital Specialized Bank Plc., hereby approve the accompanying financial statements as set out on pages 8 to 41 present fairly, in all material respects, the financial position as at 31 December 2016 and as at 31 December 2017, and its financial performance and its cash flows for the period from 26 April 2016 to 31 December 2016 and for the year ended 31 December 2017, in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia.

Signed on behalf of the Southern Capital Specialized Bank Plc.



Mr. Kun Swee Tiong Andy
President & CEO

Phnom Penh, Kingdom of Cambodia

30 March 2018

REPORT OF THE INDEPENDENT AUDITORS

To the Head Office

Southern Capital Specialized Bank Plc

Opinion

We have audited the financial statements of Southern Capital Specialized Bank Plc. (“the Bank”), which comprise the balance sheet as at 31 December 2016 and 31 December 2017, the income statement, statement of changes in equity and statement of cash flows for the period from 26 April to 31 December 2016 and for the year ended 31 December 2017, and notes, comprising significant accounting policies and other explanatory information as set out on pages 8 to 41.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2016 and 31 December 2017, and its financial performance and its cash flows for the period from 26 April to 31 December 2016 and for the year ended 31 December 2017 in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia.

Basis for Opinion

We conducted our audit in accordance with Cambodian International Standards on Auditing (“CISA”). 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 report of the management on page 1 to 4, and 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and 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, 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 CISA 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 CISA, 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 and on behalf of **HRDP and Associates**



Peou Dara
Partner

Phnom Penh, Kingdom of Cambodia
Date: 30 March 2018

SOUTHERN CAPITAL SPECIALIZED BANK PLC.

Balance sheet

As at 31 December 2016 and 31 December 2017

	Note	31 December 2017		31 December 2016	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
ASSETS					
Cash on hand	5	2,807	11,332	654	2,640
Deposits and placements with banks	6	4,215,314	17,017,223	3,452,889	13,939,313
Loans and advances to customers	7	7,681,977	31,012,141	5,770,150	23,294,095
Other assets	8	118,252	477,383	99,275	400,773
Statutory deposits	9	625,000	2,523,125	500,000	2,018,500
Property and equipment	10	105,747	426,900	138,677	559,839
TOTAL ASSETS		12,749,097	51,468,104	9,961,645	40,215,160
LIABILITIES AND EQUITY					
LIABILITIES					
Other liabilities	11	34,945	141,073	4,163	16,806
Current income tax liability	12	49,613	200,287	1,804	7,282
TOTAL LIABILITIES		84,558	341,360	5,967	24,088
EQUITY					
Share Capital	13	12,500,000	50,462,500	10,000,000	40,370,000
Retained Earnings		164,539	664,244	(44,322)	(178,928)
TOTAL EQUITY		12,664,539	51,126,744	9,955,678	40,191,072
TOTAL LIABILITIES AND EQUITY		12,749,097	51,468,104	9,961,645	40,215,160

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

SOUTHERN CAPITAL SPECIALIZED BANK PLC.

Income statement

**For the period from 26 April to 31 December 2016 and
for the year ended 31 December 2017**

		Year ended 31 December 2017		Period from 26 April 2016 to 31 December 2016	
	Note	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Interest income	14	736,954	2,975,083	196,234	792,198
Other income	15	10,727	43,305	25,455	102,762
General and administrative expenses	16	(411,073)	(1,659,501)	(204,206)	(824,381)
Operating income		336,608	1,358,887	17,483	70,579
Allowance for bad and doubtful loans and advances	7	(70,825)	(285,921)	(58,284)	(235,293)
Profit/(loss) before income tax		265,783	1,072,966	(40,801)	(164,714)
Income tax expense	12	(56,922)	(229,794)	(3,521)	(14,214)
Net profit/(loss) for the year		208,861	843,172	(44,322)	(178,928)

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

SOUTHERN CAPITAL SPECIALIZED BANK PLC.

**Statement of changes in equity
For the period from 26 April to 31 December 2016 and
for the year ended 31 December 2017**

	Share Capital US\$	Retained Earnings US\$	Total US\$
Balance as at 24 April 2016 (Incorporation date)	10,000,000	-	10,000,000
Net loss for the period	-	(44,322)	(44,322)
	10,000,000	(44,322)	9,955,678
Balance as at 31 December 2016 Balance as at 31 December 2016 (KHR'000 equivalents – Note 4)	40,370,000	(178,928)	40,191,072
Balance as at 1 January 2017	10,000,000	(44,322)	9,955,678
Capital Injection during the year	2,500,000	-	2,500,000
Net profit for the year	-	208,861	208,861
	12,500,000	164,539	12,664,539
Balance as at 31 December 2017 Balance as at 31 December 2017 (KHR'000 equivalents – Note 4)	50,462,500	664,244	51,126,744

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

SOUTHERN CAPITAL SPECIALIZED BANK PLC.

Statement of cash flows

**For the period from 26 April to 31 December 2016 and
for the year ended 31 December 2017**

	Note	Year ended 31 December 2017		Period from 26 April 2016 to 31 December 2016	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Cash flows from operating activities					
Net cash used in operating activities	17	(1,733,582)	(6,998,470)	(6,362,805)	(25,686,644)
Cash flows from investing activities					
Acquisition of property and equipment		(1,840)	(7,428)	(183,652)	(741,403)
Net cash used in investing activities		(1,840)	(7,428)	(183,652)	(741,403)
Cash flows from financing activities					
Capital injection		2,500,000	10,092,500	10,000,000	40,370,000
Net cash generated from financing activities		2,500,000	10,092,500	10,000,000	40,370,000
Net increase in cash and cash equivalents		764,578	3,086,602	3,453,543	13,941,953
Cash and cash equivalents at beginning of year		3,453,543	13,941,953	-	-
Cash and cash equivalents at end of year	18	4,218,121	17,028,555	3,453,543	13,941,953

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

SOUTHERN CAPITAL SPECIALIZED BANK PLC.

Notes to the financial statements

**For the period from 26 April to 31 December 2016 and
for the year ended 31 December 2017**

1. Background and principal activities

Southern Capital Specialized bank Plc. (“the Bank”) was incorporated in the kingdom of Cambodia on 26 April 2016 under Registration No. 00011446.

The Bank obtained a license to carry out as specialized bank on 28 July 2016 from the National Bank of Cambodia.

The Bank is principally engaged in general banking business and the provision of related financial services.

The Bank had 14 employees as at 31 December 2017 (31 December 2016: 13 employees).

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with Cambodian Accounting Standards 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 Management on 30 March 2018.

(b) Basis of measurement

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

(c) Functional and presentation currency

The national currency of Cambodia is the Khmer Riel (“KHR”). However as the Bank transacts and maintains its accounting records primarily in United States Dollars (“US\$”), the Management have 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 foreign currencies are translated into US\$ at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in currencies other than US\$ at the balance sheet date are translated into US\$ at the rates of exchange ruling at that date. Exchange differences arising on translation are recognised in the income statement.

SOUTHERN CAPITAL SPECIALIZED BANK PLC.

Notes to the financial statements

**For the period from 26 April 2016 to 31 December 2016 and
for the year ended 31 December 2017**

2. Basis of preparation

(d) Use of estimates and judgements

The preparation of financial statements requires the Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, 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 year in which the estimates are revised and in any future periods affected.

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

3. Significant accounting policies

The following significant accounting policies have been adopted by the Bank in the preparation of these financial statements.

(a) Financial instruments

The Bank's financial assets and liabilities include cash and cash equivalents, originated loans and receivables, other receivables, customers' deposits, borrowings, subordinated debt and other 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 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.

SOUTHERN CAPITAL SPECIALIZED BANK PLC.

Notes to the financial statements

For the period from 26 April 2016 to 31 December 2016 and for the year ended 31 December 2017

3. Significant accounting policies

(d) Loans and advances

All loans and advances to customers are stated in the balance sheet at the amount of principal, less any amounts written off, and allowance for bad and doubtful loans and advances.

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

(e) Allowance for bad and doubtful loans and advances

In compliance with NBC Guidelines, all loans and advances are classified according to the repayment capacity of the counterparty. This repayment capacity is assessed through past payment experience, financial condition of the borrower, business prospective and cash flow projections, borrowers' ability and willingness to repay, financial environment, and quality of documentation.

In addition to the above qualitative information, number of days past due is taken into account as follows:

Classification	Number of days past due	Provision
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	≥360days	100%

Credit Risk Grading and Provision on Impairment that the Bank not yet adopted

Accordingly to Prakas No. B7-017-344 dated 1 December 2017 on Credit Risk Grading and Provision on Impairment and the Circular No. B7-018-001 dated 16 February 2018 to facilitate the adoption and implementation of this Prakas the allowance for loan losses has been revised as follows:

Classification	Number of days past due	Allowance
Short-term loans (less than or equal one year):		
Normal/standard	<15 days	1%
Special mention	15 days – 30 days	3%
Substandard	31 days – 60 days	20%
Doubtful	61 days – 90 days	50%
Loss	≥ 91 days	100%

SOUTHERN CAPITAL SPECIALIZED BANK PLC.

Notes to the financial statements

For the period from 26 April 2016 to 31 December 2016 and for the year ended 31 December 2017

3. Significant accounting policies

(e) Allowance for bad and doubtful loans and advances

Long-term loans (more than one year):

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	100%

The Bank decided to adopt prospectively all requirements of Prakas No. B7-017-344 including the calculation of provision on impairment in its financial statements in the financial year 2018.

The management is evaluating the likely impact on the financial statements as the result from the adoption of this new credit risk grading and provision on impairment policy.

The minimum percentage of allowance for doubtful loans and advances are to be maintained according to the assigned classifications. Where reliable information suggests that losses are likely to be more than these minimum requirements, larger allowance is made.

In determining the above allowance, any collateral value other than cash deposits which has been pledged is disregarded.

Recoveries on loans previously written off and reversals of previous allowances are disclosed separately together with the net movement in the allowance for bad and doubtful loans and advances in the income statement.

An uncollectible loan or portion of a loan classified as bad is written off after taking into consideration the realisable value of the collateral, if any, when in the judgement of the management there is no prospect of recovery.

(f) Other assets

Other assets are carried at cost.

(g) Statutory deposits

Statutory deposits are maintained with the NBC in compliance with the Cambodian Law on Banking and Financial Institutions and are determined by defined percentages of minimum share capital and customers' deposits as required by NBC.

Statutory deposits are started at cost.

SOUTHERN CAPITAL SPECIALIZED BANK PLC.

Notes to the financial statements

For the period from 26 April 2016 to 31 December 2016 and
for the year ended 31 December 2017

3. Significant accounting policies

(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, they are accounted for as separate items of property and equipment.

(ii) Depreciation of property and equipment is charged to the income statement on a declining basis over the estimated useful lives of the individual assets at the following rates:

Furniture and fixtures	25%
Computer equipment	50%
Equipment and others	20%
Motor vehicle	25%

Leasehold improvements are charged to the income statement on a straight-line basis at an annual rate of 5%.

(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 year in which it is incurred.

(iv) Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the 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 property and equipment are retained in the financial statements until disposed of or written off.

(l) Impairment of assets

(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 and advances which has a separate accounting policy stated in Notes 3(d) and 3(e).

SOUTHERN CAPITAL SPECIALIZED BANK PLC.

Notes to the financial statements

For the period from 26 April 2016 to 31 December 2016 and for the year ended 31 December 2017

3. Significant accounting policies

(I) Impairment of assets (continued)

(i) *Financial assets (continued)*

An impairment loss in respect of a financial asset is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

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 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.

(j) **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.

SOUTHERN CAPITAL SPECIALIZED BANK PLC.

Notes to the financial statements

**For the period from 26 April 2016 to 31 December 2016 and
for the year ended 31 December 2017**

3. Significant accounting policies

(k) Income recognition

Interest income is recognised on a daily accruals basis. Interest income on overdrafts, term loans and other loans is recognised by reference to rest periods on a daily basis. Interest on non-performing loans is recorded as interest in suspense rather than income until it is realised on a cash basis.

Income from the various activities of the Bank is accrued using the following basis:

- Loan arrangement fees and commissions on services and facilities are recognised as income over the period of the loans;
- Commitment fees and guarantee fees on services and facilities extended to customers are recognised on the occurrence of such transactions; and
- Service charges and processing fees are recognised when the service is provided.

(l) 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.

(m) 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 directly to equity, in which case it is recognised in equity.

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

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

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

SOUTHERN CAPITAL SPECIALIZED BANK PLC.

Notes to the financial statements

**For the period from 26 April 2016 to 31 December 2016 and
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3. Significant accounting policies

(n) Related parties

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

Under the Cambodia 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 published by the NBC on 31 December 2016 and 31 December 2017. 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.

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Notes to the financial statements

**For the period from 26 April 2016 to 31 December 2016 and
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5. Cash on hand

	31 December 2017		31 December 2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
US Dollars	2,807	11,332	654	2,640

6. Deposits and placements with banks

	31 December 2017		31 December 2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
National Bank of Cambodia	9,054	36,550	7,715	31,145
RHB Indochina Bank	1,180,974	4,767,590	644,174	2,600,530
Hatha Kaksekar Limited	2,821,562	11,390,648	2,000,000	8,074,000
LOLC (Cambodia) Plc	201,505	813,476	-	-
Sathapana Bank Plc.	2,219	8,959	801,000	3,233,638
	4,215,314	17,017,223	3,452,889	13,939,313

The deposits and placements with banks are analyzed as follows:

	31 December 2017		31 December 2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(a) By maturity:				
Within 1 month	1,192,929	4,815,854	652,889	2,635,713
2 to 3 months	1,701,500	6,868,956	500,000	2,018,500
3 to 12 months	1,320,885	5,332,413	2,300,000	9,285,100
	4,215,314	17,017,223	3,452,889	13,939,313
(b) By currency:				
US Dollars	4,215,314	17,017,223	3,452,889	13,939,313

SOUTHERN CAPITAL SPECIALIZED BANK PLC.

Notes to the financial statements

**For the period from 26 April 2016 to 31 December 2016 and
for the year ended 31 December 2017**

6. Deposits and placements with banks (continued)

	31 December 2017	31 December 2016
(c) By interest rate (per annum):		
Deposits and placements with banks	0.50% - 6.25%	0.50% - 6.25%

7. Loans and advances to customers

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
		(Note 4)		(Note 4)
Short term loans	1,227,234	4,954,344	1,405,097	5,672,377
Long term loans	6,583,852	26,579,011	4,423,337	17,857,011
Total loans – gross	7,811,086	31,533,355	5,828,434	23,529,388
Allowance for bad and doubtful loans and advances	(129,109)	(521,214)	(58,284)	(235,293)
	<u>7,681,977</u>	<u>31,012,141</u>	<u>5,770,150</u>	<u>23,294,095</u>

The movement in the allowance for bad and doubtful loans and advances is as follows:

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
		(Note 4)		(Note 4)
At 1 January	58,284	235,293	-	-
Allowance for bad and doubtful loans and advances	70,825	285,921	58,284	235,293
At 31 December	<u>129,109</u>	<u>521,214</u>	<u>58,284</u>	<u>235,293</u>

SOUTHERN CAPITAL SPECIALIZED BANK PLC.

Notes to the financial statements

**For the period from 26 April 2016 to 31 December 2016 and
for the year ended 31 December 2017**

7. Loans and advances to customers (continued)

Further analysis of loans and advances are as follows:

	31 December 2017		31 December 2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(a) By maturity:				
1 to 3 month	109,000	440,033	548,216	2,213,148
4 to 6 months	104,012	419,897	-	-
7 to 12 months	1,238,234	4,998,751	1,055,097	4,259,427
1 to 5 years	2,702,691	10,910,763	843,935	3,406,965
Over 5 years	3,657,149	14,763,911	3,381,186	13,649,848
	<u>7,811,086</u>	<u>31,533,355</u>	<u>5,828,434</u>	<u>23,529,388</u>

	31 December 2017		31 December 2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(b) By performance:				
Normal/standard loans				
Secured	7,440,953	30,039,128	5,808,508	23,448,946
Unsecured	30,133	121,647	19,926	80,442
Special mention				
Secured	80,000	322,960	-	-
Sub Standard				
Secured	260,000	1,049,620	-	-
Doubtful				
Secured	-	-	-	-
Loss				
Secured	-	-	-	-
	<u>7,811,086</u>	<u>31,533,355</u>	<u>5,828,434</u>	<u>23,529,388</u>

(c) By currency:				
US Dollars	<u>7,811,086</u>	<u>31,533,355</u>	<u>5,828,434</u>	<u>23,529,388</u>

SOUTHERN CAPITAL SPECIALIZED BANK PLC.

Notes to the financial statements

**For the period from 26 April 2016 to 31 December 2016 and
for the year ended 31 December 2017**

7. Loans and advances to customers (continued)

Further analysis of loans and advances are as follows (continued):

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
	(Note 4)		(Note 4)	
(d) By residency status:				
Residents	7,811,086	31,533,355	5,828,434	23,529,388

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
	(Note 4)		(Note 4)	
(e) By industry:				
Retail trade	2,822,517	11,394,501	2,322,703	9,376,752
Construction	1,651,587	6,667,457	1,365,891	5,514,102
Hotel and restaurants	1,364,655	5,509,112	243,852	984,431
Manufacturing and printing	594,124	2,398,479	250,000	1,009,250
Personal	560,047	2,260,910	93,165	376,107
Whole sale	300,000	1,211,100	1,020,000	4,117,740
Real estate activities	195,069	787,494	438,053	1,768,420
Others	323,087	1,304,302	94,770	382,586
	7,811,086	31,533,355	5,828,434	23,529,388

(f) By relationship:				
External customers	7,553,467	30,493,347	5,574,582	22,504,587
Staff loans	257,619	1,040,008	253,852	1,024,801
	7,811,086	31,533,355	5,828,434	23,529,388

(g) By interest rate (per annum):

	31 December 2017	31 December 2016
Short term loans	6.00% - 12.00%	6.00% - 12.00%
Long term loans	6.00% - 12.00%	6.00% - 12.00%

SOUTHERN CAPITAL SPECIALIZED BANK PLC.

Notes to the financial statements

For the period from 26 April 2016 to 31 December 2016 and
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8. Other assets

	31 December 2017		31 December 2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Interest receivable	93,997	379,466	88,770	358,365
Advances and Prepayments	17,600	71,051	3,850	15,542
Rental Deposit	6,655	26,866	6,655	26,866
	118,252	477,383	99,275	400,773

9. Statutory deposits

	31 December 2017		31 December 2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Statutory deposits on Minimum capital:	625,000	2,523,125	500,000	2,018,500

Under NBC Prakas No B7-01-136 dated 15 October 2001, the Bank required to maintain a statutory deposit of 5% of registered capital with the NBC. 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.

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Notes to the financial statements

For the period from 26 April 2016 to 31 December 2016 and
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10. Property and equipment

31 December 2017	Leasehold improvements US\$	Furniture and fixtures US\$	Computer equipment US\$	Equipment and others US\$	Motor Vehicle US\$	Total US\$	KHR'000
Cost							
At 1 January 2017	17,497	2,802	920	10,633	151,800	183,652	741,403
Additions	-	-	1,840	-	-	1,840	7,428
At 31 December 2017	17,497	2,802	2,760	10,633	151,800	185,492	748,831
Less: Accumulated depreciation							
At 1 January 2017	3,499	701	460	2,365	37,950	44,975	181,564
Charge for the year	2,800	525	1,150	1,832	28,463	34,770	140,367
At 31 December 2017	6,299	1,226	1,610	4,197	66,413	79,745	321,931
Carrying amounts							
At 31 December 2017	11,198	1,576	1,150	6,436	85,387	105,747	426,900

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Notes to the financial statements

For the period from 26 April 2016 to 31 December 2016 and for the year ended 31 December 2017

10. Property and equipment (continued)

31 December 2016	Leasehold improvements US\$	Furniture and fixtures US\$	Computer equipment US\$	Equipment and others US\$	Motor Vehicle US\$	Total US\$	KHR'000
Cost							
At 24 April 2016 (Incorporation date)	-	-	-	-	-	-	-
Additions	17,497	2,802	920	10,633	151,800	183,652	741,403
At 31 December 2016	17,497	2,802	920	10,633	151,800	183,652	741,403
Less: Accumulated depreciation							
At 24 April 2016 (Incorporation date)	-	-	-	-	-	-	-
Charge for the year	3,499	701	460	2,365	37,950	44,975	181,564
At 31 December 2016	3,499	701	460	2,365	37,950	44,975	181,564
Carrying amounts							
At 31 December 2016	13,998	2,101	460	8,268	113,850	138,677	559,839

SOUTHERN CAPITAL SPECIALIZED BANK PLC.

Notes to the financial statements

For the period from 26 April 2016 to 31 December 2016 and
for the year ended 31 December 2017

11. Other liabilities

	31 December 2017		31 December 2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Account payables	5,225	21,093	200	807
Accrual tax payables	7,372	29,761	3,963	15,999
Interest in suspense	10,225	41,278	-	-
Suspense draw down account	12,123	48,941	-	-
	<u>34,945</u>	<u>141,073</u>	<u>4,163</u>	<u>16,806</u>

12. Income tax

(a) Current income tax liability

	31 December 2017		31 December 2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At 1 January	1,804	7,282	-	-
Income tax expense	56,922	229,794	3,521	14,214
Income tax paid	<u>(9,113)</u>	<u>(36,789)</u>	<u>(1,717)</u>	<u>(6,932)</u>
At 31 December	<u>49,613</u>	<u>200,287</u>	<u>1,804</u>	<u>7,282</u>

(b) Income tax expense

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

The reconciliation of current income tax computed at the statutory rate of 20% to the income tax expense shown in the income statement is as follows:

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**For the period from 26 April 2016 to 31 December 2016 and
for the year ended 31 December 2017**

12. Income tax (continued)

(b) Income tax expense (continued)

	Year ended 31 December 2017		Period from 26 April 2016 to 31 December 2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Profit/(loss) before income tax	265,783	1,072,966	(40,801)	(164,714)
Income tax using statutory rate at 20%	53,157	214,595	(8,160)	(32,942)
Non-deductible expenses	18,825	75,997	58,284	235,294
Effect of temporary differences	(15,060)	(60,798)	(46,603)	(188,138)
Income tax expense	56,922	229,794	3,521	14,214

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

13. Share capital

	Number	31 December 2017		31 December 2016	
		US\$	KHR'000	US\$	KHR'000
Ordinary shares of US\$1 each					
Authorized	12,500,000	12,500,000	50,462,500	10,000,000	40,370,000
Issued and fully paid:					
At 1 January	10,000,000	10,000,000	40,370,000	-	-
Issued pursuant to:					
- share issue	2,500,000	2,500,000	10,092,500	10,000,000	40,370,000
At 31 December	12,500,000	12,500,000	50,462,500	10,000,000	40,370,000

On 23 March 2018, the Bank injected additional capital of US\$2,500,000.

SOUTHERN CAPITAL SPECIALIZED BANK PLC.

Notes to the financial statements

**For the period from 26 April 2016 to 31 December 2016 and
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14. Interest income

	Year ended 31 December 2017		Period from 26 April 2016 to 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
		(Note 4)		(Note 4)
Loans and advances to customers	150,156	606,180	87,002	351,227
Deposits and placements with banks	586,798	2,368,903	109,232	440,971
	<u>736,954</u>	<u>2,975,083</u>	<u>196,234</u>	<u>792,198</u>

15. Other income

	Year ended 31 December 2017		Period from 26 April 2016 to 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
		(Note 4)		(Note 4)
Fees and Commissions	9,350	37,746	25,455	102,762
Others	1,377	5,559	-	-
	<u>10,727</u>	<u>43,305</u>	<u>25,455</u>	<u>102,762</u>

SOUTHERN CAPITAL SPECIALIZED BANK PLC.

Notes to the financial statements

For the period from 26 April 2016 to 31 December 2016 and
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16. General and administrative expenses

	Year ended 31 December 2017		Period from 26 April 2016 to 31 December 2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Salaries and Wages	287,050	1,158,819	116,294	469,479
License and Membership fees	38,930	157,160	12,440	50,220
Depreciation of Property and Equipment	34,770	140,367	44,975	181,564
Rental Expenses	15,972	64,479	9,317	37,613
Professional Fee Expenses	6,050	24,424	-	-
Transportation	5,120	20,669	2,414	9,745
Utilities	4,728	19,085	1,598	6,452
Communication Expense	4,213	17,009	4,472	18,053
Other Personnel Costs	2,912	11,756	1,094	4,416
Security and Insurance Expenses	2,874	11,601	1,259	5,083
Other tax expenses	1,289	5,205	1,610	6,500
Office Supplies	697	2,812	3,235	13,060
Representation and Entertainment	407	1,645	4,016	16,213
Repair and Maintenance	127	514	-	-
Miscellaneous Expenses	5,934	23,956	1,482	5,983
	<u>411,073</u>	<u>1,659,501</u>	<u>204,206</u>	<u>824,381</u>

SOUTHERN CAPITAL SPECIALIZED BANK PLC.

Notes to the financial statements

**For the period from 26 April 2016 to 31 December 2016 and
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17. Net cash used in operating activities

	Year ended 31 December 2017		Period from 26 April 2016 to 31 December 2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Profit before income tax	265,783	1,072,966	(40,801)	(164,714)
Adjustments for:				
Depreciation	34,770	140,367	44,975	181,564
Allowance for bad and doubtful loans and advances	70,825	285,921	58,284	235,293
	<u>371,378</u>	<u>1,499,254</u>	<u>62,458</u>	<u>252,143</u>
Change in:				
Loans and advances to customers	(1,982,652)	(8,003,966)	(5,828,434)	(23,529,388)
Other assets	(18,977)	(76,610)	(99,275)	(400,773)
Other liabilities	30,782	124,266	4,163	16,806
	<u>(1,982,652)</u>	<u>(8,003,966)</u>	<u>(5,828,434)</u>	<u>(23,529,388)</u>
Cash used in operation	(1,599,469)	(6,457,056)	(5,861,088)	(23,661,212)
Placement of statutory deposit	(125,000)	(504,625)	(500,000)	(2,018,500)
Income tax paid	(9,113)	(36,789)	(1,717)	(6,932)
	<u>(1,733,582)</u>	<u>(6,998,470)</u>	<u>(6,362,805)</u>	<u>(25,686,644)</u>
Net cash used in operating activities	<u>(1,733,582)</u>	<u>(6,998,470)</u>	<u>(6,362,805)</u>	<u>(25,686,644)</u>

18. Cash and cash equivalents

	31 December 2017		31 December 2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Cash on hand	2,807	11,332	654	2,640
Deposits and placements with banks	4,215,314	17,017,223	3,452,889	13,939,313
	<u>4,218,121</u>	<u>17,028,555</u>	<u>3,453,543</u>	<u>13,941,953</u>

SOUTHERN CAPITAL SPECIALIZED BANK PLC.

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For the period from 26 April 2016 to 31 December 2016 and
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19. Related party balances and transactions

(a) Balances with related parties

	31 December 2017		31 December 2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loans disbursed to staff	257,619	1,040,008	253,852	1,024,801

(b) Transactions with related parties

	Year ended 31 December 2017		Period from 26 April 2016 to 31 December 2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Key management compensation (including salaries and benefits)	182,000	734,734	75,000	302,775

20. Commitments and contingencies

(a) Operation

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated from these transactions which consist of

	31 December 2017		31 December 2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Unutilized portion of overdrafts	8,863	35,780	54,000	217,998

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Notes to the financial statements

For the period from 26 April 2016 to 31 December 2016 and for the year ended 31 December 2017

20. Commitments and contingencies (continued)

(b) Lease commitments

The Bank has operating lease commitments in respect of office and buildings as follows:

	31 December 2017		31 December 2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Within 1 year	6,655	26,866	15,972	64,479
Between 1 to 3 years	-	-	6,655	26,866
	6,655	26,866	22,627	91,345

(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 create risks of additional taxes through reassessment, fines, penalties and interest charges, which are substantially more significant in Cambodia than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of current tax legislation.

21. Financial risk management

(a) Introduction and overview

The Bank has exposure to the following risks from financial instruments:

- operational risk
- credit risk
- market risk
- liquidity risk.

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

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Notes to the financial statements

**For the period from 26 April 2016 to 31 December 2016 and
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21. Financial risk management (continued)

(b) Operational risk

Operational risk is the risk of direct or indirect loss arising from inadequate or failed internal processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The operational risk losses 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 of the Bank.

The Bank's operational risk management entails the establishment of clear organisational structures, roles and control policies. Various internal control policies and measures have been implemented including the establishment of signing authorities, defining system parameters controls, streamlining procedures and documentation and compliance with regulatory and other legal requirements.

(c) Credit risk

Credit risk is the financial loss to the Bank if a borrower or counterparty fails to meet its contractual obligations, and arises principally from the loans and advances.

(i). *Management of credit risk*

The lending activities are guided by the Bank'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 Bank's own internal grading system, and procedures implemented to ensure compliance with NBC Guidelines.

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For the period from 26 April 2016 to 31 December 2016 and
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21. Financial risk management (continued)

(c) Credit risk (continued)

(ii). Exposure to credit risk

	31 December 2017		31 December 2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Neither past due nor impaired	7,471,086	30,160,774	5,828,434	23,529,388
Post due but not impaired	80,000	322,960	-	-
Individually impaired	260,000	1,049,620	-	-
Allowance for bad and doubtful loans and advances	(129,109)	(521,215)	(58,284)	(235,294)
	<u>7,681,977</u>	<u>31,012,139</u>	<u>5,770,150</u>	<u>23,294,094</u>

Impaired loans and advances

Individually impaired loans and advances are loans and advances for which the Bank determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loans and advances. In compliance with NBC Guidelines, an allowance for doubtful loans and advances is made for loans and advances with payment overdue more than 89 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 Notes 3(d) and 3(e).

The credit exposure arising from off-balance sheet activities, i.e. commitments and contingencies, is disclosed in Note 20.

Past due but not impaired loans and advances

Past due but not impaired loans and advances are those for which contractual interest or principal payments are past due more than 30 days but less than 90 days, unless other information is available to indicate otherwise. In compliance with NBC Guidelines such loans are classified as special mention with a specific allowance of 3%.

SOUTHERN CAPITAL SPECIALIZED BANK PLC.

Notes to the financial statements

For the period from 26 April 2016 to 31 December 2016 and for the year ended 31 December 2017

21. Financial risk management (continued)

(c) Credit risk (continued)

(ii). Exposure to credit risk (continued)

Loans with renegotiated terms/restructured loans

Loans with renegotiated terms are loans that have been rescheduled or refinanced in accordance with an agreement setting forth a new repayment schedule on a periodic basis occasioned by weaknesses in the borrower's financial condition and/or inability to repay the loan as originally agreed. Loans to be restructured are analysed on the basis of the business prospects and repayment capacity of the borrower according to new cash flow projections supported by updated business perspectives and overall market conditions being based on realistic and prudent assumptions.

Once the loan is restructured it remains in the same category independent of satisfactory performance after restructuring. The classification is not improved unless there are no arrears in repayment of principal and interest within 3 instalment periods and within a period of not less than 3 months.

Write-off policy

In compliance with NBC Guidelines, the Bank shall remove a loan/advance or a portion of a loan from its balance sheet when the Bank loses control of the contractual rights over the loan or when all or part of a loan is deemed uncollectible; or there is no realistic prospect of recovery.

Collateral

The Bank holds collateral against loans and advances in the form of mortgage interests over property and/or guarantees. The value of collateral is based on the valuation performed internally by the Bank.

There were no non-financial assets obtained by the Bank during the year by taking possession of collateral held as security against loans and advances.

Concentration of credit risk

The analysis of concentrations of credit risk from loans and advances at the balance sheet date are shown in Note 7 to the financial statements.

Loan to customers neither past due nor impaired

Loans to customers neither past due nor impaired are good quality loans to customers for which no experience of default. These loans are supported by collaterals and management views that likelihood of default is relatively low

SOUTHERN CAPITAL SPECIALIZED BANK PLC.

Notes to the financial statements

**For the period from 26 April 2016 to 31 December 2016 and
for the year ended 31 December 2017**

21. Financial risk management (continued)

(d) Market risk (continued)

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

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

(i). Foreign currency exchange risk

Foreign currency exchange risk refers to the adverse exchange rate movements on foreign currency exchange positions taken from time to time. The Bank maintains a policy of not exposing itself to large foreign exchange positions. Any foreign currency exchange open positions are monitored against the operating requirements, predetermined position limits and cut-loss limits.

As of 31 December 2016 and 31 December 2017, 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. Interest rate risk is managed through close monitoring of returns on investment, market pricing, cost of funds and through interest rate sensitivity gap analysis. The potential reduction in net interest income from an unfavourable interest rate movement is monitored against the risk tolerance limits set.

SOUTHERN CAPITAL SPECIALIZED BANK PLC.

Notes to the financial statements

For the period from 26 April 2016 to 31 December 2016 and for the year ended 31 December 2017

21. Financial risk management (continued)

(d) Market risk (continued)

(ii). Interest rate risk (continued)

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

31 December 2017	Up to 1 month US\$	> 1 – 3 months US\$	> 4 – 6 months US\$	> 7 – 12 months US\$	> 1 – 5 years US\$	> 5 years US\$	Non-interest sensitive US\$	Total US\$	Weighted average interest %
Financial assets									
Cash on hand	-	-	-	-	-	-	2,807	2,807	-
Deposits and placements with banks	1,192,929	1,701,500	1,320,885	-	-	-	-	4,215,314	0.50% - 6.25%
Loans and advances to customers:									
- Performing	100,000	9,000	104,012	1,238,234	2,362,691	3,657,149	-	7,471,086	6.00% - 12.00%
- Non Performing	-	-	-	-	340,000	-	-	340,000	6.00% - 12.00%
Statutory deposits	-	-	-	-	-	-	625,000	625,000	-
Other assets	-	-	-	-	-	-	118,252	118,252	-
Total financial assets	1,292,929	1,710,500	1,424,897	1,238,234	2,702,691	3,657,149	746,059	12,772,459	
Financial liabilities									
Other liabilities	-	-	-	-	-	-	34,945	34,945	-
Total financial liabilities	-	-	-	-	-	-	34,945	34,945	
Interest sensitivity gap	1,292,929	1,710,500	1,424,897	1,238,234	2,702,691	3,657,149	711,114	12,734,514	
KHR'000 (Note 4)	5,219,554	6,905,289	5,752,311	4,998,751	10,910,762	14,763,910	2,870,767	51,421,344	

SOUTHERN CAPITAL SPECIALIZED BANK PLC.

Notes to the financial statements

For the period from 26 April 2016 to 31 December 2016 and for the year ended 31 December 2017

21. Financial risk management (continued)

(d) Market risk (continued)

(ii). Interest rate risk (continued)

31 December 2016	Up to 1 month US\$	> 1 – 3 months US\$	> 4 – 6 months US\$	> 7 – 12 months US\$	> 1 – 5 years US\$	> 5 years US\$	Non-interest sensitive US\$	Total US\$	Weighted average interest %
Financial assets									
Cash on hand	-	-	-	-	-	-	654	654	-
Deposits and placements with banks	652,889	500,000	2,300,000	-	-	-	-	3,452,889	0.50% - 6.25%
Loans and advances to customers:									
- Performing	298,216	250,000	-	1,055,097	843,935	3,381,186	-	5,828,434	6.00% - 12.00%
Statutory deposits	-	-	-	-	-	-	500,000	500,000	-
Other assets	-	-	-	-	-	-	99,275	99,275	-
Total financial assets	951,105	750,000	2,300,000	1,055,097	843,935	3,381,186	599,929	9,881,252	
Financial liabilities									
Other liabilities	-	-	-	-	-	-	4,162	4,162	-
Total financial liabilities	-	-	-	-	-	-	4,162	4,162	
Interest sensitivity gap	951,105	750,000	2,300,000	1,055,097	843,935	3,381,186	595,767	9,877,090	
<i>KHR'000 (Note 4)</i>	<i>3,839,611</i>	<i>3,027,750</i>	<i>9,285,100</i>	<i>4,259,427</i>	<i>3,406,965</i>	<i>13,649,848</i>	<i>2,405,111</i>	<i>39,873,812</i>	

Notes to the financial statements

For the period from 26 April 2016 to 31 December 2016 and for the year ended 31 December 2017

21. Financial risk management (continued)

(d) Market risk (continued)

(ii). Interest rate risk (continued)

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 year end. Therefore, a change in interest rates at the reporting date would not affect income statement.

Cash flow sensitivity analysis for variable-rate instruments

The Bank does not have significant variable-rate instruments. Therefore, no cash flow sensitivity analysis for variable-rate instruments was presented.

(e) 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 liabilities of the Bank into relevant maturity groupings based on the remaining periods to repayment.

(f) 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 shareholder's 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.

Notes to the financial statements

For the period from 26 April 2016 to 31 December 2016 and
for the year ended 31 December 2017

21. Financial risk management (continued)

(f) Capital management (continued)

(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.

22. Fair values of financial assets and liabilities

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arms-length basis. As verifiable market prices are not available, market prices are not available for a significant proportion of the Bank's financial assets and liabilities. Fair values, therefore, we not presented.

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