southerncapital

Annual Report 2019

CONTENTS

CHAIRMAN'S MESSAGE

2019 Review

The Cambodian economy was on track to achieve strong growth in 2019 despite a slower than anticipated rise in agricultural production and the economy continues to expand at a robust pace in traditional sectors such as garments, tourism, trade and construction. The growth rate is the highest amongst the fast-growing ASEAN nations.

The garment industry remained strong in 2019 though it is expected to experience downfalls in 2020 due to slowing external demand and EU withdrawal of the country's "Everything but Arms" trade privileges. Foreign Direct Investment contributed to the brisk Cambodian economy reaching 24% of GDP, primarily supported by influx of investment from China as China has positioned Cambodia as a key to its Belt and Road initiative. Tourism also performed well with a strong growth of 11% year on year in the first seven months of 2019.

The banking sector had also enjoyed strong growth in 2019 in both loans and deposits. Outstanding loans rose by 26% year on year to USD28.8 billion while customers' deposits increased by 25% to USD30.5 billion. The growth was driven mainly by the rising loan demands in trade, real estate and construction and manufacturing. The banking sector continues to be very competitive with 44 commercial banks, 15 specialised banks, 7 microfinance-deposit taking institutions, 74 microfinance institutions, 254 rural credit operators, 15 leasing companies and 16 payment service providers in 2019. Overall the banking sector is healthy and compete on a level playing field under the guidance of NBC in actively contributing to the financial inclusion and improvement of livelihoods and the reduction of poverty for the Cambodian people.

Financial Performance

During the year 2019, the bank registered a net profit after tax of US$64,873. It reported a net interest income of US$954,396 and non-interest income of US$30,628.

Total assets stood at US$15.04 million and customer loans and advances grew slightly to $9.15 million. This primarily reflected the small expansion in the bank's loan portfolio during the year and the gradual re-pricing of the loan portfolio given the overall tightening in the local credit market.

2020 Outlook

Prior to the outbreak of coronavirus, the Cambodian economy was expected to grow in 2020 at around 7% as in the preceding years with the garment sector remains an important driver of the economy and the potential growth in tourism and agriculture sectors. However, in the context of the COVID-19 evolves and the rise of the pandemic, it poses unprecedented economic challenges to Cambodia. Economies across the world are already experiencing a significant contraction in economic activity that will likely to last through at least the first half of the year.

Stringent measures were imposed by different governments around the world to contain the spread of the virus. Cities are locked down and people are told to stay at home and avoid crowds. And as countries closed down their borders, international travel has been drastically curtailed. Airlines are grounded and hotels are largely empty. Consumer spending has cut down drastically because people are either too fearful or unable to go out and spend. As a consequence, many businesses that entail in close contact with the public are now in jeopardy. Revenues are drying up faster than businesses can cut costs and many will go bankrupt if the virus situation worsens. Such underlying conditions will be a dangerous outcome if mass business closures leading to rising unemployment.

In the wake of the COVID-19 pandemic, the World Bank had revised Cambodia outlook for 2020 to a growth of just 2.5% from its earlier prediction of slightly below 7%. Many industries in Cambodia are being severely impacted by the ongoing pandemic, from construction and real estate sector, tourism, hospitality, to garment and footwear industries.

The COVID-19 outbreak is still developing globally with far reaching implications, causing widespread concern and economic distress for both consumers and businesses. The severity of the impact of the pandemic on Cambodia economy, however, will mostly depend on its duration and how fast the world can recover from this pandemic.

In response to the economic consequences of COVID-19, we will take measures for the easing of the financial strain of individuals and businesses especially supporting survival of SMEs while anticipating we might face income risk and grapple with deteriorating credit conditions. At the same time, to mitigate unwanted risk, we will focus on reviving our services in focusing on maintaining our reserves at healthy levels and enhancing the quality of service and modifying our loan products as per the need of the times. It will also be crucial for us to implement measures such as bank limits in terms of exposure to construction and real estate sectors and tighten loan to value ratios in order to cushion the potential impacts of the real estate market correction.

Acknowledgment

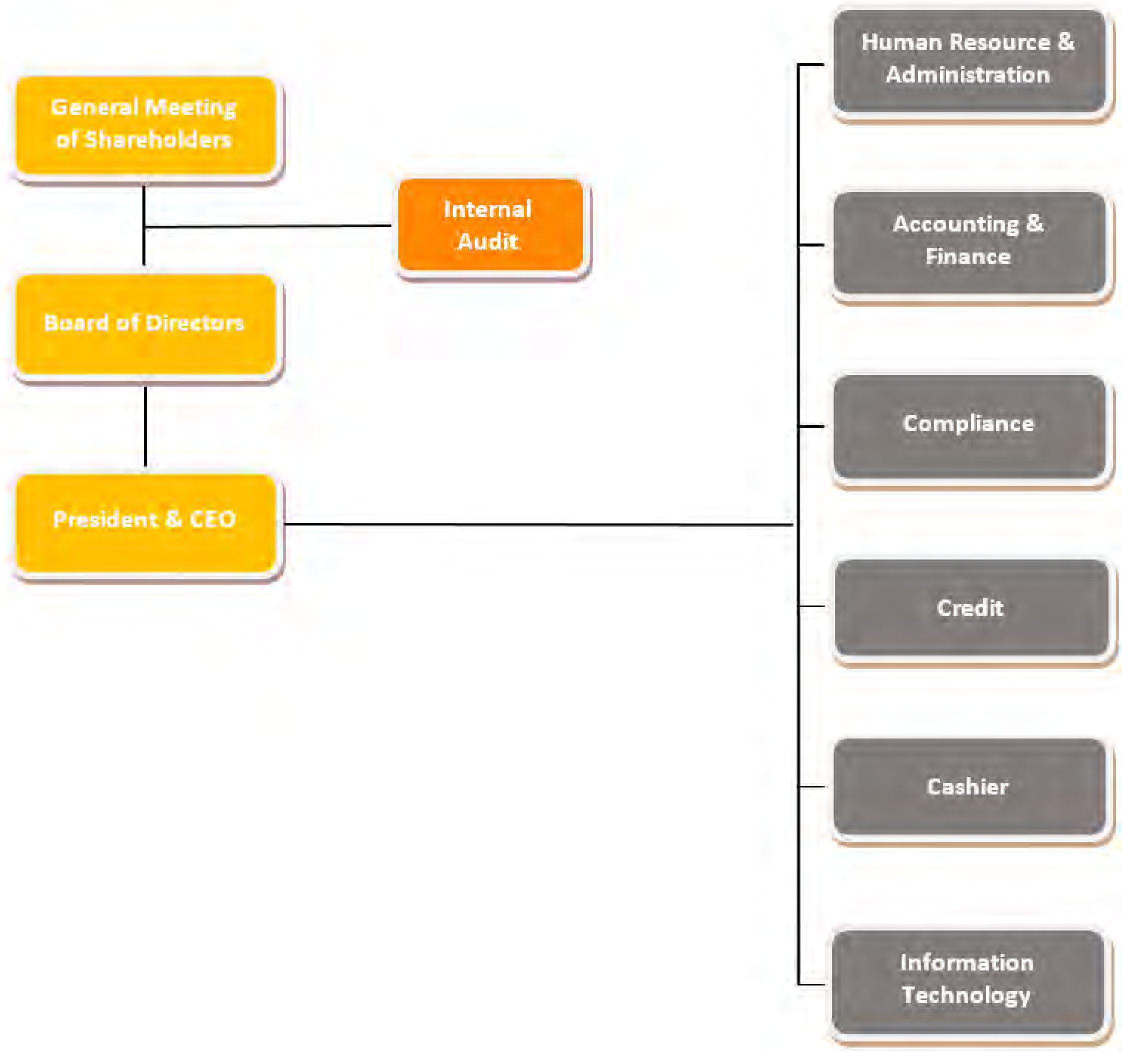
In conclusion, I wish to thank all the staff for their dedicated efforts and unsurpassed services bestow onto our customers. I would also like to express my gratitude to thank our customers, partners and shareholders for their continuous support as we continue on our journey to transform our bank into one of the more respected and admired financial institutions in Cambodia.

Kun Kay Hong
Chairman
30 April 2020

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	Crowe (KH) Co., Ltd.

Organization Chart



SOUTHERN CAPITAL SPECIALIZED BANK PLC.

(Incorporated in Cambodia)
Registration No: 00011446

DIRECTORS' REPORT

The directors hereby submit the report and the audited financial statements of the Bank for the financial year ended 31 December 2019.

DIRECTORS

The names of directors of the Bank who served during the financial year and up to the date of this report are as follows: -

Kun Swee Tiong Andy
Kun Swee Yi Diaz
Kun Kay Hong

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for the financial statements of the Bank to be properly drawn up so as to give a true and fair view of the financial position of the Bank as at 31 December 2019 and of its financial performance and cash flows for the financial year ended 31 December 2019. In the preparation of these financial statements, the directors are required to:

(i) adopt appropriate accounting policies in compliance with Cambodian International Financial Reporting Standards ("CIFRSs") which are supported by reasonable and appropriate judgments and estimates and then apply them consistently;

(ii) comply with the disclosure requirements CIFRSs, 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 a going concern basis unless it is inappropriate to assume that the Bank will continue its operations in the foreseeable future; and

(v) control and direct effectively the Bank in all material decisions affecting its operations and performance and ascertain that such decisions and/or instructions have been properly reflected in the financial statements.

The directors confirm that the Bank has complied with the above requirements in preparing the financial statements of the Bank.

SOUTHERN CAPITAL SPECIALIZED BANK PLC.
(Incorporated in Cambodia)
Registration No: 00011446

DIRECTORS' REPORT

PREPARATION OF THE FINANCIAL STATEMENTS

In the preparation of the financial statements, the directors have taken account of the following matters:-

(i) all material transfers to or from reserves or provisions during the financial year are disclosed in the financial statements;

(ii) adequate allowance for impairment losses on receivables and other current and non-current assets, if required, has been made;

(iii) known bad debts had been written off, if any;

(iv) existing methods of valuation of assets or liabilities is not misleading or inappropriate;

(v) there are no known circumstances that would render any amount stated in the financial statements to be misleading;

(vi) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect substantially the results of the operations of the Bank for the financial year in which this report is made;

(vii) the results of the operations of the Bank during the financial year were not, in the opinion of the directors, substantially affected by any item, transaction or event of a material and unusual nature;

(viii) 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 directors, will or may substantially affect the ability of the Bank to meet its obligations when they fall due.

APPROVAL OF THE FINANCIAL STATEMENTS

The directors hereby approve the accompanying financial statements which give a true and fair view of the financial position of the Bank as at 31 December 2019, its financial performance and cash flows for the financial year then ended in accordance with CIFRSs.

SOUTHERN CAPITAL SPECIALIZED BANK PLC.
KINGDOM OF CAMBODIA

Kun Swee Tiong Andy
President & CEO

Crowe (KH) Co., Ltd
(FKA Crowe Horwath (KH) Ltd)

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#148, Mao Tse Toung Blvd
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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
SOUTHERN CAPITAL SPECIALIZED BANK PLC.
(Incorporated in Cambodia)
Registration No: 00011446

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Southern Capital Specialized Bank Plc. ("the Bank") which comprise the statement of financial position as at 31 December 2019 of the Bank, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended 31 December 2019, and a summary of significant accounting policies and other explanatory notes, as set out on pages 7 to 67.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2019, and of its financial performance and its cash flow for the financial year then ended in accordance with Cambodian International Financial Reporting Standards ("CIFRSs").

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

Independence and Other Ethical Responsibilities

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.

Information Other than the Financial Statements and Auditors' Report Thereon

The directors of the Bank are responsible for the other information. The other information comprises the Directors' Report, but does not include the financial statements of the Bank and our auditors' report thereon.

Our opinion on the financial statements of the Bank does not cover the Directors' Report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Bank, our responsibility is to read the Directors' Report and, in doing so, consider whether the Directors' Report is materially inconsistent with the financial statements of the Bank 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 the Directors' Report, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITORS' REPORT TO THE DIRECTORS OF
SOUTHERN CAPITAL SPECIALIZED BANK PLC. (CONT'D)
(Incorporated in Cambodia)
(Registration No: 00011446)

Responsibilities of Directors for the Financial Statements

The directors of the Bank are responsible for the preparation of financial statements that give a true and fair view in accordance with CIFRSs. The directors are also responsible for such internal controls as the directors determine are 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 of the Bank, the directors are 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 the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Bank 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 a part of an audit in accordance with CISA, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:-

- identify and assess the risks of material misstatement of the financial statements of the Bank, 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 the directors.

INDEPENDENT AUDITORS' REPORT TO THE DIRECTORS OF SOUTHERN CAPITAL SPECIALIZED BANK PLC. (CONT'D)
(Incorporated in Cambodia)
(Registration No: 00011446)

Auditors' Responsibilities for the Audit of the Financial Statements (Cont'd)

- conclude on the appropriateness of the directors' 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 of the Bank 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 of the Bank, including the disclosures, and whether the financial statements of the Bank represent the underlying transactions and events in a manner that achieves fair presentation.

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

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements denominated in the functional currency of United States Dollar ("USD"). The translation of the financial statements from USD into Khmer Riel ("KHR") using the closing and average rates as at 31 December 2019 and for the year then ended, respectively, is presented for the purpose of additional analysis and it does not form an integral part of the audited financial statements. The translation has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express any opinion on it.

As stated in Note 3 to the financial statements, Southern Capital Specialized Bank Plc. adopted Cambodian International Financial Reporting Standards on 1 January 2019 with a transition date of 1 January 2018. These standards were applied retrospectively by directors to the comparative information in these financial statements, including the statement of financial position of the Bank as at 31 December 2018 and 1 January 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows of the Bank for the financial year ended 31 December 2019 and related disclosures.

INDEPENDENT AUDITORS' REPORT TO THE DIRECTORS OF SOUTHERN CAPITAL SPECIALIZED BANK PLC. (CONT'D)

(Incorporated in Cambodia)
(Registration No: 00011446)

We were not engaged to report on the comparative information and it is unaudited. Our responsibilities as part of our audit of the financial statements of the Bank for the financial year ended 31 December 2019, in these circumstances, included obtaining sufficient appropriate audit evidence that the opening balances as at 1 January 2019 do not contain misstatements that materially affect the financial position as at 31 December 2019 and the financial performance and cash flows for the financial year then ended.

Crowe (KH) Co., Ltd

CROWE (KH) CO. LTD.
KINGDOM OF CAMBODIA

Onn Kien Hoe

Director

SOUTHERN CAPITAL SPECIALIZED BANK PLC.
(Incorporated in Cambodia)
Registration No: 00011446

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2019

	Note	31.12.2019 USD	31.12.2018 USD	1.1.2018 USD	31.12.2019 KHR'000	31.12.2018 KHR'000	1.1.2018 KHR'000
ASSETS							
Cash on hand	5	7,752	6,479	2,807	31,589	26,033	11,332
Deposits and placements with banks and other financial institutions	6	4,758,991	4,976,382	4,215,314	19,392,888	19,995,103	17,017,223
Loans and advances	7	9,152,321	9,140,874	7,369,086	37,295,708	36,728,032	29,749,000
Other assets	8	176,674	138,809	107,967	719,947	557,735	435,863
Statutory deposits with National Bank of Cambodia	9	750,000	750,000	625,000	3,056,250	3,013,500	2,523,125
Right-of-use assets	10	21,930	37,410	52,890	89,365	150,313	213,517
Property and equipment	11	92,417	81,210	105,747	376,599	326,302	426,901
Deferred tax assets	21(a)	86,335	115,424	77,520	351,815	463,774	312,948
TOTAL ASSETS		15,046,420	15,246,588	12,556,331	61,314,161	61,260,792	50,689,909
LIABILITIES							
Other liabilities	12	38,335	289,663	34,945	156,215	1,163,866	141,073
Lease liabilities	23(a)	15,348	29,520	42,605	62,543	118,611	171,996
Income tax payable	21(b)	12,163	11,704	49,612	49,564	47,027	200,284
TOTAL LIABILITIES		65,846	330,887	127,162	268,322	1,329,504	513,353
EQUITY							
Share capital	13	15,000,000	15,000,000	12,500,000	60,000,000	60,000,000	50,000,000
Accumulated losses	14	(19,426)	(84,299)	(70,831)	(77,553)	(340,423)	(285,945)
Translation reserve		-	-	-	1,123,392	271,711	462,501
TOTAL EQUITY		14,980,574	14,915,701	12,429,169	61,045,839	59,931,288	50,176,556
TOTAL LIABILITIES AND EQUITY		15,046,420	15,246,588	12,556,331	61,314,161	61,260,792	50,689,909

SOUTHERN CAPITAL SPECIALIZED BANK PLC.
(Incorporated in Cambodia)
Registration No: 00011446

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Note	2019 USD	2018 USD	2019 KHR'000	2018 KHR'000
INTEREST INCOME	15	954,396	922,636	3,867,213	3,732,063
NON-INTEREST INCOME		30,628	14,125	124,105	57,136
NET INCOME		985,024	936,761	3,991,318	3,789,199
PERSONNEL COSTS	16	(416,914)	(352,335)	(1,689,336)	(1,425,196)
DEPRECIATION AND AMORTISATION	17	(46,160)	(42,896)	(187,040)	(173,514)
ADMINISTRATION AND GENERAL EXPENSES	18	(216,340)	(123,948)	(876,610)	(501,370)
OPERATING PROFIT BEFORE IMPAIRMENT LOSSES		305,610	417,582	1,238,332	1,689,119
EXPECTED CREDIT LOSSES ON LOANS AND ADVANCES	19	(201,706)	(398,016)	(817,313)	(1,618,962)
OTHER EXPECTED CREDIT LOSSES	20	2,222	(50,124)	9,004	(193,764)
PROFIT/(LOSS) BEFORE TAX		106,126	(30,558)	430,023	(123,607)
INCOME TAX EXPENSE	21(c)	(41,253)	17,090	(167,153)	69,129
PROFIT/(LOSS) AFTER TAX		64,873	(13,468)	262,870	(54,478)
OTHER COMPREHENSIVE INCOME		-	-	-	-
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE FINANCIAL YEAR		64,873	(13,468)	262,870	(54,478)

SOUTHERN CAPITAL SPECIALIZED BANK PLC.
(Incorporated in Cambodia)
Registration No: 00011446

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Note	**Share Capital** USD	**Accumulated Losses** USD	**Total** USD
Balance at 1.1.2018		12,500,000	(70,831)	12,429,169
Total comprehensive expense for the financial year		-	(13,468)	(13,468)
Additional share capital	13	2,500,000	-	2,500,000
Transfer to regulatory reserve		-	-	-
Balance at 31.12.2018/1.1.2019		15,000,000	(84,299)	14,915,701
Total comprehensive income for the financial year		-	64,873	64,873
Balance at 31.12.2019		15,000,000	(19,426)	14,980,574

	Note	**Share Capital** KHR'000	**Accumulated Losses** KHR'000	**Translation reserve** KHR'000	**Total** KHR'000
Balance at 1.1.2018		50,000,000	(285,945)	462,501	50,176,556
Total comprehensive expense for the financial year		-	(54,478)	-	(54,478)
Additional share capital	13	10,000,000	-	-	10,000,000
Translation difference		-	-	(190,790)	(190,790)
Balance at 31.12.2018/1.1.2019		60,000,000	(340,423)	271,711	59,931,288
Total comprehensive income for the financial year		-	262,870	-	262,870
Translation difference		-	-	851,681	851,681
Balance at 31.12.2019		60,000,000	(77,553)	1,123,392	61,045,839

SOUTHERN CAPITAL SPECIALIZED BANK PLC.
(Incorporated in Cambodia)
Registration No: 00011446

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

	Note	2019 USD	2018 USD	2019 KHR'000	2018 KHR'000
CASH FLOWS FOR OPERATING ACTIVITIES					
Profit/(Loss) before tax		106,126	(30,558)	430,023	(123,607)
Adjustments for:-					
Depreciation of property and equipment	11	30,680	27,416	122,277	110,898
Depreciation of right-of-use assets	10	15,480	15,480	64,763	62,616
Allowance for expected credit losses:					
- loans and advances		201,706	398,016	817,313	1,618,962
- deposits and placements with banks and other financial institutions		(2,222)	50,124	(9,064)	193,764
Interest expense on lease liabilities	23(a)	1,800	2,887	7,293	11,678
Operating profit before working capital changes		353,570	463,365	1,432,605	1,874,311
Working capital changes:					
- loans and advances		(213,153)	(2,169,804)	(868,598)	(8,718,272)
- other assets		(37,865)	(30,842)	(154,300)	(123,923)
- statutory deposits with National Bank of Cambodia		-	(125,000)	-	(502,250)
- other liabilities		(251,328)	254,718	(1,024,162)	1,023,457
CASH FLOWS FOR OPERATION		(148,776)	(1,607,563)	(614,455)	(6,446,677)
Income tax paid		(11,705)	(58,722)	(47,429)	(237,530)
NET CASH FOR OPERATING ACTIVITIES		(160,481)	(1,666,285)	(661,884)	(6,684,207)

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019 (CONT'D)

	Note	2019 USD	2018 USD	2019 KHR'000	2018 KHR'000
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property and equipment		(46,950)	(2,879)	(191,322)	(11,568)
Proceeds from disposal of property and equipment		5,063	-	20,628	-
Withdrawal of fixed deposits with tenure more than 3 months		1,050,000	1,672,385	4,254,600	6,764,797
NET CASH FROM INVESTING ACTIVITIES		1,008,113	1,669,506	4,083,906	6,753,229
CASH FLOWS FROM/(FOR) FINANCING ACTIVITIES					
Proceeds from issuance of ordinary shares		-	2,500,000	-	10,045,000
Repayment of lease liabilities	23(a)	(15,972)	(15,972)	(64,718)	(64,254)
NET CASH (FOR)/FROM FINANCING ACTIVITIES		(15,972)	2,484,028	(64,718)	9,980,746
NET INCREASE IN CASH AND CASH EQUIVALENTS		831,660	2,487,249	3,357,304	10,049,768
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR		3,682,985	1,195,736	14,798,230	4,804,467
EFFECT OF CURRENCY TRANSLATION		-	-	241,644	(56,005)
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR	23(b)	4,514,645	3,682,985	18,397,178	14,798,230

1. GENERAL INFORMATION

Southern Capital Specialized Bank Plc. ("the Bank") was incorporated in Cambodia on 26 April 2016 under Registration No. 00011446. On 28 July 2016, the National Bank of Cambodia ("NBC") issued a license to conduct commercial banking business for an indefinite period.

Registered office:	Office No.294, Moa Tse Toung Blvd (245), Sangkat Tomnoubteuk, Khan Chamkarmorn, Phnom Penh.
Principle place of business:	Office No.294, Moa Tse Toung Blvd (245), Sangkat Tomnoubteuk, Khan Chamkarmorn, Phnom Penh.

The financial statements were authorised for issue by the director on 26 March 2020.

2. PRINCIPAL ACTIVITIES

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

There have been no significant changes in the nature of these activities during the financial year.

3. BASIS OF PREPARATION

The financial statements of the Bank are prepared under the historical cost convention and modified to include other bases of valuation as disclosed in other sections under significant accounting policies, and in compliance with Cambodian International Financial Reporting Standards ("CIFRSs").

These are the Bank's first set of financial statements prepared in accordance with CIFRSs.

In the previous financial year, the financial statements of the Bank were prepared in accordance with Cambodian Accounting Standards ("CAS").

The transition to CIFRSs is accounted for in accordance with CIFRS 1 'First-time Adoption of Cambodian International Financial Reporting Standards', with 1 January 2018 as the date of transition. An opening statement of financial position as at the date of transition has been prepared based on the accounting policies as described in Note 4 to the financial statements. Such accounting policies have also been applied to other financial information covered under this set of financial statements, including the comparative information presented. The financial impacts on the transition from CAS to CIFRSs are disclosed in Note 26 to the financial statement.

3. BASIS OF PREPARATION (CONT'D)

(a) New Accounting Standards for Application in Future Periods

The Bank has not applied in advance the following accounting standards and/or interpretation(s) (including the consequential amendments, if any) that have been issued by the National Accounting Council ("NAC") but are not yet effective for the current financial year:-

CIFRSs and/or IC Interpretations (Including The Consequential Amendments)	Effective Date
CIFRS 17 Insurance Contracts	1 January 2021
Amendments to CIFRS 3: Definition of a Business	1 January 2020
Amendments to CIFRS 9, CIAS 39 and CIFRS 7: Interest Rate Benchmark Reform	1 January 2020
Amendments to CIFRS 10 and CIAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred
Amendments to CIAS 1 and CIAS 8: Definition of Material	1 January 2020
Amendments to References to the Conceptual Framework in CIFRS Standards	1 January 2020

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Key Sources of Estimation Uncertainty

Management believes that there are no key assumptions made concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year other than as disclosed below:-

(a) Impairment of Loan and Advances

The loss allowances for loan to customer are based on assumptions about risk of default and expected loss rates. The Bank uses judgement in making these assumptions and selecting appropriate inputs to the impairment calculation, based on the past payment trends, existing market conditions as well as forward-looking estimates at the end of each reporting period.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.1 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D)

(b) Income Tax

There are certain transactions and computations for which the ultimate tax determination may be different from the initial estimate. The Bank recognises tax liabilities based on its understanding of the prevailing tax laws and estimates of whether such taxes will be due in the ordinary course of business. Where the final outcome of these matters is different from the amounts that were initially recognised, such difference will impact the income tax expense and deferred tax balances in the period in which such determination is made.

The principal accounting policies adopted in the preparation of the financial statements are set out below. These accounting policies have been consistently applied by the Bank during the year.

Critical Judgements Made in Applying Accounting Policies

Management believes that there are no instances of application of critical judgement in applying the Bank's accounting policies which will have a significant effect on the amounts recognised in the financial statements

4.2 FUNCTIONAL AND FOREIGN CURRENCIES

(a) Functional and Presentation Currency

The financial statements of the Bank are presented in the currency of the primary economic environment in which the Bank operates, which is the functional currency.

The financial statements are presented in US dollar ("USD"), which is the Bank's functional and presentation currency.

For the sole regulatory purpose of complying with the National Bank of Cambodia's Prakas No. B7-07-164 dated 13 December 2007, a translation to Khmer Riel ("KHR") is provided for the statement of financial position, the statement of profit or loss and other comprehensive income, the statement of changes in equity, the statement of cash flows and the notes to the financial statements as of and for the year ended 31 December 2019 using the official rates of exchange published by the National Bank of Cambodia as at the reporting dates. Such translation amounts are unaudited and should not be construed as representations that the USD amounts represent, or have been or could be, converted into Khmer Riel at that or any other rate. Amounts in these financial statements expressed in Khmer Riel are translations of US Dollars amounts at rates set by the National Bank of Cambodia.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.2 FUNCTIONAL AND FOREIGN CURRENCIES (CONT'D)

(a) Functional and Presentation Currency (Cont'd)

The financial statements are presented in KHR based on the following applicable exchange rates per USD1:

	2019	2018
Opening rate	4,018	4,037
Closing rate	4,075	4,018
Average rate for the year	4,052	4,045

Amounts in the financial statements have been rounded off to the nearest dollar and nearest thousand for USD and KHR amounts, respectively.

(b) Foreign Currencies Transactions and Balances

Transactions in currencies other than the Bank's functional currency (foreign currencies) are recorded in the functional currency using the exchange rates prevailing at the date of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at the end of each reporting period. Non-monetary items carried at the fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in the terms of historical cost in a foreign currency are not translated.

4.3 PROPERTY AND EQUIPMENT

All items of property and equipment are initially measured at cost. Cost includes expenditures that are directly attributable to the acquisition of the asset and other cost directly attributable to bringing the asset to working condition for its intended use. Freehold land is stated at cost less impairment losses, if any and is not depreciated.

Subsequent to initial recognition, property and equipment is stated at cost less accumulated depreciation and any impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of parts that are replaced is derecognised. The costs of day-to-day servicing of equipment are recognised in profit or loss as incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.3 PROPERTY AND EQUIPMENT (CONT'D)

Depreciation of property and equipment are charged to profit or loss and is calculated under the straight-line method and declining balance method to write off the depreciable amount of the assets over their estimated useful lives. Depreciation of an asset does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. The principal annual rates used for this purpose are:-

Leasehold improvement	20%
Furniture and fixtures	25%
Computer and equipment	50%
Equipment and others	20%
Motor vehicles	25%

The residual values, useful lives and depreciation method are reviewed at the end of each reporting period to ensure that the amounts, method and periods of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the terms of property and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when the cost is incurred and it is probable that the future economic benefits associated with the asset will flow to the Bank and the cost of the asset can be measured reliably. The carrying amount of parts that are replaced is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred. Cost also comprises the initial estimate of dismantling and removing the asset and restoring the site on which it is located for which the Bank is obligated to incur when the asset is acquired, if applicable.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.4 INTANGIBLE ASSETS

Intangible assets represent the initial costs incurred in obtaining computer software, and it is classified in property and equipment.

Following initial recognition, intangible assets are stated at cost less accumulated amortisation and any accumulated impairment losses.

Intangible assets are assessed to have finite useful lives and are amortised over the license period using declining balance method. The intangible assets are also assessed for impairment whenever there is an indication that they may be impaired. The amortisation period and method are reviewed at least at the end of each reporting period.

Intangible assets are amortised as below:

Software	50%

4.5 FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised in the statements of financial position when the Bank has become a party to the contractual provisions of the instruments.

Financial instruments are classified as financial assets, financial liabilities or equity instruments in accordance with the substance of the contractual arrangement and their definitions in CIAS 32. Interest, dividends, gains and losses relating to a financial instrument classified as a liability are reported as an expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

Financial instruments are offset when the Bank has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

A financial instrument is recognised initially at its fair value (other than trade receivables without significant financing component which are measured at transaction price as defined in CIFRS 15 – Revenue from Contracts with Customers at inception). Transaction costs that are directly attributable to the acquisition or issue of the financial instrument (other than a financial instrument at fair value through profit or loss) are added to/deducted from the fair value on initial recognition, as appropriate. Transaction costs on the financial instrument at fair value through profit or loss are recognised immediately in profit or loss.

Financial instruments recognised in the statements of financial position are disclosed in the individual policy statement associated with each item.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.5 FINANCIAL INSTRUMENTS (CONT'D)

(a) Financial assets

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value through profit or loss, or other comprehensive income, depending on the classification of the financial assets.

Debt instrument

(i) Amortised cost

The financial asset is held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. Interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset. When the asset has subsequently become credit-impaired, the interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts), excluding expected credit losses, through the expected life of the financial asset or a shorter period (where appropriate).

(ii) Fair Value through Other Comprehensive Income

The financial asset is held for both collecting contractual cash flows and selling the financial asset, where the asset's cash flows represent solely payments of principal and interest. Movements in the carrying amount are taken through other comprehensive income and accumulated in the fair value reserve, except for the recognition of impairment, interest income and foreign exchange difference which are recognised directly in profit or loss. Interest income is calculated using the effective interest rate method.

(iii) Fair Value through Profit or Loss

All other financial assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss.

The Bank reclassifies debt instruments when and only when its business model for managing those assets change.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.5 FINANCIAL INSTRUMENTS (CONT'D)

(a) Financial assets (Cont'd)

Equity Investment

All equity investments are subsequent measured at fair value with gains and losses recognised in profit or loss except where the Bank has elected to present the subsequent changes in fair value in other comprehensive income and accumulated in the fair value reserve at initial recognition.

The designation at fair value through other comprehensive income is not permitted if the equity investment is either held for trading or is designated to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise.

Dividend income from this category of financial assets is recognised in profit or loss when the Bank's right to receive payment is established unless the dividends clearly represent a recovery of part of the cost of the equity investments.

(b) Financial liabilities

(i) Financial Liabilities at Fair Value through Profit or Loss

Fair value through profit or loss category comprises financial liabilities that are either held for trading or are designated to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise. The changes in fair value of these financial liabilities are recognised in profit or loss.

(ii) Other Financial Liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts), through the expected life of the financial liability or a shorter period (where appropriate).

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.5 FINANCIAL INSTRUMENTS (CONT'D)

(c) Equity Instruments

Equity instruments classified as equity are measured initially at cost and are not remeasured subsequently.

Ordinary shares are classified as equity and recorded at the proceeds received, net of directly attributable transaction costs.

Dividends on ordinary shares are recognised as liabilities when approved for appropriation.

(d) Derecognition

A financial asset or part of it is derecognised when, and only when, the contractual rights to the cash flows from the financial asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset measured at amortised cost, the difference between the carrying amount of the asset and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of a debt instrument classified as fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified from equity to profit or loss. In contrast, there is no subsequent reclassification of the fair value reserve to profit or loss following the derecognition of an equity investment.

A financial liability or a part of it is derecognised when, and only when, the obligation specified in the contract is discharged or cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount of the financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

4.6 CASH AND CASH EQUIVALENTS

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

4.7 STATUTORY DEPOSITS WITH NATIONAL BANK OF CAMBODIA

Statutory deposits represent mandatory reserve deposits and cash maintained with the National Bank of Cambodia in compliance with the Law on Banking and Financial Institutions ("LBFI") and are not available to finance the Bank's day to day operations and hence are not considered as part of cash and cash equivalents for the purpose of cash flow statement.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.8 IMPAIRMENT

(a) Impairment of Financial Assets

The Bank recognises a loss allowance for xpected credit losses ("ECL") on investments in debt instruments that are measured at amortised cost and at fair value through other comprehensive income.

The expected credit loss is estimated as the difference between all contractual cash flows that are due to the Bank in accordance with the contract and all the cash flows that the Bank expects to receive, discounted at the original effective interest rate.

12-month expected credit loss are the portion of lifetime expected credit loss that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which 12-month expected credit loss are recognised are referred to as 'Stage 1 financial instruments'. Financial instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit-impaired.

Lifetime expected credit loss are the expected credit loss that result from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure. Financial instruments for which lifetime expected credit loss are recognised but that are not credit-impaired are referred to as 'Stage 2 financial instruments'. Financial instruments allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired.

Financial instruments for which lifetime expected credit loss are recognised and that are credit-impaired are referred to as 'Stage 3 financial instruments'.

The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The Bank recognises lifetime expected credit losses when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Bank measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

The Bank recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at fair value through other comprehensive income, for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.8 IMPAIRMENT (CONT'D)

(a) Impairment of Financial Assets (Cont'd)

Regulatory Provision for Loans and Advances

On 1 December 2017, the National Bank of Cambodia ("NBC") issued Prakas No. B7-017-344 on Credit Risk Grading and Impairment Provisioning which effectively repealed Prakas No. B7-09-074 on Asset Classification and Provisioning effective from the date of its issue. The Prakas requires banks and financial institutions to classify their loan portfolio into five classes. The NBC subsequently issued Circular No. B7-018-001 dated 16 February 2018 to clarify the mandatory level of general and specific allowance to be provided based on the loans and advances classification as follows:-

Classification	Number of days past due	Regulatory Provision
Short term loans (less than or equal one year):-		
Normal/Standard	0 to 14 days	1%
Special mention	15 days to 30 days	3%
Substandard	31 days to 60 days	20%
Doubtful	61 days to 90 days	50%
Loss	From 91 days	100%
Long term loans (more than one year):-		
Normal/Standard	0 to 29 days	1%
Special mention	30 days to 89 days	3%
Substandard	90 days to 179 days	20%
Doubtful	180 days to 359 days	50%
Loss	From 360 days	100%

The regulatory provision applies to all on and off-balance sheet facilities of banks and financial institutions. Loans and advances classified as substandard, doubtful or loss are considered as non-performing loans.

The Prakas also requires the comparison of the regulatory provision with the impairment provision determined based on CIFRS. In case the regulatory provision calculated in accordance with Prakas is lower than expected credit loss determined based on CIFRS, the Bank shall recognise the expected credit loss calculated in accordance with CIFRS. In the case the regulatory provision is higher than expected credit loss, the Bank shall recognise the expected credit loss in accordance with CIFRS and transfer the difference from retained earnings into regulatory reserve. The Bank has presented the regulatory reserve in the statement of changes in equity.

An uncollectible loan or portion of a loan classified as bad is written off after taking into consideration the realizable value of the collateral, if any when in the judgment of the management, there is no prospect of recovery. Recoveries on loans previously written off are disclosed as other income in the statement of profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.8 IMPAIRMENT (CONT'D)

(b) Impairment of Non-financial Assets

The carrying values of assets, other than those to which CIAS 36 - Impairment of Assets does not apply, are reviewed at the end of each reporting period for impairment when an annual impairment assessment is compulsory or there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. When the carrying amount of an asset exceeds its recoverable amount, the asset is written down to its recoverable amount and an impairment loss shall be recognised. The recoverable amount of an asset is the higher of the asset's fair value less costs to sell and its value-in-use, which is measured by reference to discounted future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank determines the recoverable amount of the cash-generating unit to which the asset belongs.

An impairment loss is recognised in profit or loss immediately.

When there is a change in the estimates used to determine the recoverable amount, a subsequent increase in the recoverable amount of an asset is treated as a reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in profit or loss immediately.

4.9 PROVISIONS

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount can be made. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the provision is the present value of the estimated expenditure required to settle the obligation. The discount rate shall be a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as interest expense in profit or loss.

4.10 EMPLOYEE BENEFITS

Wages, salaries, bonuses and social security contributions are recognised as an expense in the year in which the associated services are rendered by employees. Short term accumulating compensated absences such as paid annual leave are recognised when services are rendered by employees that increase their entitlement to future compensated absences. Short term non-accumulating compensated absences such as sick leave are recognised when the absences occur.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.11 INCOME TAXES

(a) Current Tax

Current tax assets and liabilities are expected amount of income tax recoverable or payable to the taxation authorities.

Current taxes are measured using tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period and are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss (either in other comprehensive income or directly in equity).

(b) Deferred Tax (Cont'd)

Deferred tax is recognised using the liability method for temporary differences other than those that arise from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. The carrying amounts of deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that the related tax benefits will be realised.

Current and deferred tax items are recognised in correlation to the underlying transactions either in profit or loss, other comprehensive income or directly in equity. Deferred tax arising from a business combination is adjusted against goodwill or negative goodwill.

Current tax assets and liabilities or deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same taxable entity (or on different tax entities but they intend to settle current tax assets and liabilities on a net basis) and the same taxation authority.

4.12 BORROWING COSTS

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.13 LEASES

The Bank assesses whether a contract is or contains a lease, at inception of the contract. The Bank recognises a right-of-use asset and corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for low-value assets and short-term leases with 12 months or less. For these leases, the Bank recognises the lease payments as an operating expense on a straight-line method over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use assets and the associated lease liabilities are presented as a separate line item in the statement of financial position.

The right-of-use asset is initially measured at cost. Cost includes the initial amount of the corresponding lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any incentives received.

The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses, and adjustment for any remeasurement of the lease liability. The depreciation starts from the commencement date of the lease. If the lease transfers ownership of the underlying asset to the Bank or the cost of the right-of-use asset reflects that the Bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Otherwise, the Bank depreciates the right-of-use asset to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of the right-of-use assets are determined on the same basis as those plant and equipment.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Bank uses its incremental borrowing rate.

The lease liability is subsequently measured at amortised cost using the effective interest method. It is remeasured when there is a change in the future lease payments (other than lease modification that is not accounted for as a separate lease) with the corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recognised in profit or loss if the carrying amount has been reduced to zero.

4.14 OTHER CREDIT RELATED COMMITMENTS

In the normal course of business, the Bank enter into other credit related commitments including loan commitments, letters of credit and guarantees. The accounting policy and regulatory provision followed the National Bank of Cambodia's Prakas No. B7-017-344 and Circular No. B7-018-001 Sor Ror Chor Nor in Note 4.8(a) above.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.15 FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using a valuation technique. The measurement assumes that the transaction takes place either in the principal market or in the absence of a principal market, in the most advantageous market. For non-financial asset, the fair value measurement takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial reporting purposes, the fair value measurements are analysed into level 1 to level 3 as follows:-

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liability that the entity can access at the measurement date;

Level 2: Inputs are inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3: Inputs are unobservable inputs for the asset or liability.

The transfer of fair value between levels is determined as of the date of the event or change in circumstances that caused the transfer.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

4.16 REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue from contracts with customers is measured based on the consideration specified in a contract with a customer in exchange for transferring services to a customer net of sales and service tax, returns, rebates and discounts. The Bank recognises revenue when (or as) it transfers control over a service to customer. Depending on the substance of the contract, revenue is recognised when the performance obligation is satisfied, which may be at a point in time or over time.

(a) Interest Income

Interest income is recognised on an accrual basis, based on the effective interest method. Interest income on performing loans and advances, and deposits and placements with banks are recognised on a daily accrual basis. Interest on non-performing loans is recorded as interest in suspense rather than income until it is realised on cash basis.

For information on when customer's loan accounts are classified as non-performing, see Note 4.8(a).

The policy on the suspension of interest is in conformity with the National Bank of Cambodia's guidelines on the suspension of interest on non-performing loans and provision for loan losses.

(b) Fee and commission income

Loan arrangement fee and commissions are recognised in the statement of income when all the conditions precedent are fulfilled.

Service charges, processing fees and other operating income are recognised when the right to receive payment is established.

5. CASH ON HAND

	31.12.2019 USD	**31.12.2018** USD	**1.1.2018** USD	**31.12.2019** KHR'000	**31.12.2018** KHR'000	**1.1.2018** KHR'000
Khmer Riels	-	-	-	-	-	-
US Dollars	7,752	6,479	2,807	31,589	26,033	11,332
	7,752	6,479	2,807	31,589	26,033	11,332

6. DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	31.12.2019 USD	**31.12.2018** USD	**1.1.2018** USD	**31.12.2019** KHR'000	**31.12.2018** KHR'000	**1.1.2018** KHR'000
In Cambodia:-						
Saving deposits	4,506,893	3,676,506	1,192,929	18,365,589	14,772,197	4,815,855
Term deposits	300,000	1,350,000	3,022,385	1,222,500	5,424,300	12,201,368
	4,806,893	5,026,506	4,215,314	19,588,089	20,196,497	17,017,223
Less: Expected credit losses	(47,902)	(50,124)	-	(195,201)	(201,394)	-
	4,758,991	4,976,382	4,215,314	19,392,888	19,995,103	17,017,223

Movements in the expected credit losses are as follows:-

	12-month expected credit losses (Stage 1) USD	**Total** USD	**12-month expected credit losses (Stage 1)** KHR'000	**Total** KHR'000
In Cambodia:-				
At 1 January 2018	-	-	-	-
Net remeasurement of allowances	(50,124)	(50,124)	(193,764)	(193,764)
Translation difference	-	-	(7,630)	(7,630)
At 31 December 2018/1 January 2019	(50,124)	(50,124)	(201,394)	(201,394)
Net remeasurement of allowances	2,222	2,222	9,004	9,004
Translation difference	-	-	(2,811)	(2,811)
At 31 December 2019	(47,902)	(47,902)	(195,201)	(195,201)

The savings and term deposits are with financial institutions.

6. DEPOSITS AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS (CONT'D)

The above amounts are analysed as follows:-

	31.12.2019 USD	**31.12.2018** USD	**1.1.2018** USD	**31.12.2019** KHR'000	**31.12.2018** KHR'000	**1.1.2018** KHR'000
a) By maturity:-						
Within 1 month	4,506,893	3,676,506	1,192,929	18,365,589	14,772,197	4,815,855
6 to 12 months	300,000	1,350,000	3,022,385	1,222,500	5,424,300	12,201,368
	4,806,893	5,026,506	4,215,314	19,588,089	20,196,497	17,017,223
b) By currency:-						
Khmer Riels	30,986	3,356	-	126,264	13,481	-
US Dollars	4,775,907	5,023,150	4,215,314	19,461,825	20,183,016	17,017,223
	4,806,893	5,026,506	4,215,314	19,588,089	20,196,497	17,017,223
c) By interest rate (per annum):-						
Saving accounts	0.5% - 1%	0.5% - 1%	0.5% - 1%	0.5% - 1%	0.5% - 1%	0.5% - 1%
Term deposits	5.5%	6.25%	6.25%	5.5%	6.25%	6.25%

7. LOANS AND ADVANCES

	31.12.2019 USD	**31.12.2018** USD	**1.1.2018** USD	**31.12.2019** KHR'000	**31.12.2018** KHR'000	**1.1.2018** KHR'000
Short term	1,461,803	1,230,998	1,227,234	5,956,848	4,946,150	4,954,344
Long term	8,947,335	8,829,944	6,583,852	36,460,390	35,478,714	26,579,011
Gross loans and advances at amortised cost	10,409,138	10,060,942	7,811,086	42,417,238	40,424,864	31,533,355
Less: Expected credit losses	(1,041,722)	(840,016)	(442,000)	(4,224,166)	(3,406,853)	(1,787,891)
Translation differences	-	-	-	(20,840)	31,670	3,536
Net loans and advances at amortised cost	9,367,416	9,220,926	7,369,086	38,172,232	37,049,681	29,749,000
Unearned interest revenue	(215,095)	(80,052)	-	(876,524)	(321,649)	-
	9,152,321	9,140,874	7,369,086	37,295,708	36,728,032	29,749,000

7. LOANS AND ADVANCES (CONT'D)

Movements in the expected credit losses are as follows:-

	12-month expected credit losses (Stage 1) USD	**Lifetime expected credit losses - not credit impaired (Stage 2)** USD	**Lifetime expected credit losses - credit impaired (Stage 3)** USD	**Total** USD
At 1 January 2018	187,829	-	254,171	442,000
Changes in expected credit losses due to transferred within stages:-				
Transferred to Stage 3	(15,958)	-	15,958	-
Net remeasurement of allowances	(74,822)	-	318,852	244,030
New financial assets originated or purchased	153,974	12	-	153,986
At 31 December 2018/1 January 2019	251,023	12	588,981	840,016
Changes in expected credit losses due to transferred within stages:-				
Transferred to Stage 3	(270)	-	270	-
Net remeasurement of allowances	(86,317)	(12)	46,353	(39,976)
New financial assets originated or purchased	203,540	-	38,142	241,682
At 31 December 2019	367,976	-	673,746	1,041,722

The loans and advances are analysed as follows:-

	31.12.2019 USD	**31.12.2018** USD	**1.1.2018** USD	**31.12.2019** KHR'000	**31.12.2018** KHR'000	**1.1.2018** KHR'000
a) By maturity:-						
1 to 3 months	496,255	379,760	109,000	2,022,239	1,525,874	440,033
4 to 6 months	666,920	502,292	104,012	2,717,699	2,018,209	419,896
7 to 12 months	298,628	606,648	1,238,234	1,216,909	2,437,512	4,998,751
1 to 5 years	6,472,048	4,978,699	2,702,691	26,373,596	20,004,413	10,910,764
Over 5 years	2,475,287	3,593,543	3,657,149	10,086,795	14,438,856	14,763,911
	10,409,138	10,060,942	7,811,086	42,417,238	40,424,864	31,533,355
b) By industry:-						
Retail trade	2,297,771	4,081,387	2,822,517	9,363,419	16,399,021	11,394,501
Construction	2,882,785	2,704,281	1,651,587	11,747,349	10,865,800	6,667,457
Hotel and restaurants	776,713	567,778	1,364,655	3,165,104	2,281,330	5,509,112
Manufacturing and printing	2,353,035	955,721	594,124	9,588,619	3,840,086	2,398,479
Personal	694,897	695,688	560,047	2,831,704	2,795,274	2,260,910
Whole sale	210,503	331,283	300,000	857,798	1,331,093	1,211,100
Real estate activities	660,992	216,902	195,069	2,693,543	871,511	787,494
Others	532,442	507,902	323,087	2,169,702	2,040,749	1,304,302
	10,409,138	10,060,942	7,811,086	42,417,238	40,424,864	31,533,355
c) By currency:-						
Khmer Riels	612,175	64,851	-	2,494,613	260,571	-
US Dollars	9,796,963	9,996,091	7,811,086	39,922,625	40,164,293	31,533,355
	10,409,138	10,060,942	7,811,086	42,417,238	40,424,864	31,533,355

7. LOANS AND ADVANCES (CONT'D)

The loans and advances are analysed as follows (Cont'd):-

	31.12.2019 USD	31.12.2018 USD	1.1.2018 USD	31.12.2019 KHR'000	31.12.2018 KHR'000	1.1.2018 KHR'000
d) By residency status:-						
Residents	10,114,591	10,060,942	7,811,086	41,216,958	40,424,864	31,533,355
Non-residents	294,547	-	-	1,200,280		
	10,409,138	10,060,942	7,811,086	42,417,238	40,424,864	31,533,355
e) By relationship:-						
External customers	10,098,216	9,757,717	7,553,467	41,150,230	39,206,507	30,493,346
Staff loans	310,922	303,225	257,619	1,267,008	1,218,357	1,040,009
	10,409,138	10,060,942	7,811,086	42,417,238	40,424,864	31,533,355
f) By performance and security:-						
Standard loans						
Secured	9,071,435	9,325,240	7,440,953	36,966,098	37,468,814	30,039,127
Unsecured	343,936	19,131	30,133	1,401,539	76,868	121,648
Special mention						
Secured	185,898	135	80,000	757,534	542	322,960
Substandard						
Secured	-	83,178	260,000	-	334,209	1,049,620
Doubtful						
Secured	335,208	633,258	-	1,365,973	2,544,431	-
Loss						
Secured	472,661	-	-	1,926,094	-	-
	10,409,138	10,060,942	7,811,086	42,417,238	40,424,864	31,533,355
g) By exposure:-						
Non-large	10,409,138	10,060,942	7,811,086	42,417,238	40,424,864	31,533,355

	31.12.2019	31.12.2018	1.1.2018
h) By interest rate (per annum):-			
Term loans	8.00% - 11.00%	8.00% - 11.00%	8.00% - 11.00%
Consumer loans:-			
Loan to third party	8.00% - 11.00%	8.00% - 11.00%	8.00% - 11.00%
Staff loans	6.00%	6.00%	6.00%

8. OTHER ASSETS

	31.12.2019 USD	31.12.2018 USD	1.1.2018 USD	31.12.2019 KHR'000	31.12.2018 KHR'000	1.1.2018 KHR'000
Interest receivable from deposits and placements with financial institutions	15,144	39,558	52,298	61,712	158,944	211,127
Interest receivable from loans and advances	124,488	78,072	41,699	507,289	313,694	168,339
Prepayments and deposits	37,042	21,179	13,970	150,946	85,097	56,397
	176,674	138,809	107,967	719,947	557,735	435,863

9. STATUTORY DEPOSITS WITH NATIONAL BANK OF CAMBODIA

	31.12.2019 USD	31.12.2018 USD	1.1.2018 USD	31.12.2019 KHR'000	31.12.2018 KHR'000	1.1.2018 KHR'000
Capital guarantee deposit	750,000	750,000	650,000	3,056,250	3,013,500	2,523,125

Capital guarantee deposit

Under NBC Prakas No. B7-01-136 dated 15 October 2001, banks are required to maintain a capital guarantee of 5.0% 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.

10. RIGHT-OF-USE ASSETS

	Building USD	**Total** USD	**Building** KHR'000	**Total** KHR'000
2019				
Cost				
At 1.1.2019	52,890	52,890	213,517	213,517
Translation difference	-	-	-	-
At 31.12.2019	52,890	52,890	213,517	213,517
Accumulated depreciation				
At 1.1.2019	15,480	15,480	63,204	63,204
Additions	15,480	15,480	64,763	64,763
Translation difference	-	-	(3,815)	(3,815)
At 31.12.2019	30,960	30,960	124,152	124,152
Net carrying amount				
At 31.12.2019	21,930	21,930	89,365	89,365
2018				
Cost				
At 1.1.2018	52,890	52,890	213,517	213,517
Additions	-	-	-	-
Translation difference	-	-	-	-
At 31.12.2018	52,890	52,890	213,517	213,517
Accumulated depreciation				
At 1.1.2018	-	-	-	-
Additions	15,480	15,480	62,616	62,616
Translation difference	-	-	588	588
At 31.12.2018	15,480	15,480	63,204	63,204
Net carrying amount				
At 31.12.2018	37,410	37,410	150,313	150,313
At 1.1.2018	52,890	52,890	213,517	213,517

11. PROPERTY AND EQUIPMENT

	Leasehold Improvement USD	**Furniture and Fixtures** USD	**Computer Equipment** USD	**Equipment and Others** USD	**Motor Vehicles** USD	**Computer Software** USD	**Total** USD
2019							
Cost							
At 1.1.2019	17,497	2,802	5,639	10,633	151,800	-	188,371
Additions	-	-	-	-	16,700	30,250	46,950
Disposal	-	-	-	-	(12,000)	-	(12,000)
At 31.12.2019	17,497	2,802	5,639	10,633	156,500	30,250	223,321
Accumulated depreciation							
At 1.1.2019	8,539	1,620	3,624	5,618	87,760	-	107,161
Additions	1,791	296	1,008	1,103	18,919	7,563	30,680
Disposal	-	-	-	-	(6,937)	-	(6,937)
At 31.12.2019	10,330	1,916	4,632	6,721	99,742	7,563	130,904
Net carrying amount							
At 31.12.2019	7,167	886	1,007	3,912	56,758	22,687	92,417
2018							
Cost							
At 1.1.2018	17,497	2,802	2,760	10,633	151,800	-	185,492
Additions	-	-	2,879	-	-	-	2,879
Disposal	-	-	-	-	-	-	-
At 31.12.2018	17,497	2,802	5,639	10,633	151,800	-	188,371
Accumulated depreciation							
At 1.1.2018	6,299	1,226	1,610	4,197	66,413	-	79,745
Additions	2,240	394	2,014	1,421	21,347	-	27,416
Disposal	-	-	-	-	-	-	-
At 31.12.2018	8,539	1,620	3,624	5,618	87,760	-	107,161
Net carrying amount							
At 31.12.2018	8,958	1,182	2,015	5,015	64,040	-	81,210
At 1.1.2018	11,198	1,576	1,150	6,436	85,387	-	105,747

11. PROPERTY AND EQUIPMENT (CONT'D)

	Leasehold Improvement KHR'000	Furniture and Fixtures KHR'000	Computer Equipment KHR'000	Equipment and Others KHR'000	Motor Vehicles KHR'000	Computer Software KHR'000	Total KHR'000
2019							
Cost							
At 1.1.2019	70,303	11,258	22,658	42,723	609,932	-	756,874
Additions	-	-	-	-	68,053	123,269	191,322
Disposal	-	-	-	-	(48,900)	-	(48,900)
Translation difference	997	160	321	606	8,653	-	10,737
At 31.12.2019	71,300	11,418	22,979	43,329	637,738	123,269	910,033
Accumulated depreciation							
At 1.1.2019	34,310	6,509	14,561	22,573	352,619	-	430,572
Additions	7,257	1,199	4,084	4,469	74,623	30,645	122,277
Disposal	-	-	-	-	(28,272)	-	(28,272)
Translation difference	528	100	230	346	7,479	174	8,857
At 31.12.2019	42,095	7,808	18,875	27,388	406,449	30,819	533,434
Net carrying amount							
At 31.12.2019	29,205	3,610	4,104	15,941	231,289	92,450	376,599
2018							
Cost							
At 1.1.2018	70,493	11,288	11,120	42,838	611,576	-	747,315
Additions	-	-	11,568	-	-	-	11,568
Disposal	-	-	-	-	-	-	-
Translation difference	(190)	(30)	(30)	(115)	(1,644)	-	(2,009)
At 31.12.2018	70,303	11,258	22,658	42,723	609,932	-	756,874
Accumulated depreciation							
At 1.1.2018	25,309	4,926	6,469	16,863	266,847	-	320,414
Additions	9,061	1,594	8,147	5,748	86,348	-	110,898
Disposal	-	-	-	-	-	-	-
Translation difference	(60)	(11)	(55)	(38)	(576)	-	(740)
At 31.12.2018	34,310	6,509	14,561	22,573	352,619	-	430,572
Net carrying amount							
At 31.12.2018	35,993	4,749	8,097	20,150	257,313	-	326,302
At 1.1.2018	45,184	6,362	4,651	25,975	344,729	-	426,901

12. OTHER LIABILITIES

	31.12.2019 USD	**31.12.2018** USD	**1.1.2018** USD	**31.12.2019** KHR'000	**31.12.2018** KHR'000	**1.1.2018** KHR'000
Accrual expenses	25,162	235,966	12,124	102,535	948,115	48,945
Accrual interest payable	-	42,379	10,225	-	170,279	41,278
Others	13,173	11,318	12,596	53,680	45,472	50,850
	38,335	289,663	34,945	156,215	1,163,866	141,073

13. SHARE CAPITAL

	31.12.2019 USD	**31.12.2018** USD	**1.1.2018** USD	**31.12.2019** KHR'000	**31.12.2018** KHR'000	**1.1.2018** KHR'000
Issued and Fully Paid-Up						
Shares of $1 each:- 15,000,000 Shares	15,000,000	15,000,000	12,500,000	60,000,000	60,000,000	50,000,000

On 23 March 2018, the Board of Directors approved to increase share capital from USD12,500,000 to USD15,000,000.

14. RETAINED PROFITS

The retained profits are wholly distributable by way of dividends. With effect from 1 January 2012, the distribution of dividends to foreign shareholder is subject to withholding tax at the rate of 14%.

15. INTEREST INCOME

Interest income was made from the following sources:-

	2019 USD	**2018** USD	**2019** KHR'000	**2018** KHR'000
Loans and advances	868,307	792,371	3,518,372	3,205,141
Deposits and placements with banks and other financial institutions	86,089	130,265	348,841	526,922
	954,396	922,636	3,867,213	3,732,063

16. PERSONNEL COSTS

	2019 USD	2018 USD	2019 KHR'000	2018 KHR'000
Salaries, allowances and bonus	414,594	350,135	1,679,935	1,416,296
Others	2,320	2,200	9,401	8,900
	416,914	352,335	1,689,336	1,425,196

17. DEPRECIATION AND AMORTISATION

	2019 USD	2018 USD	2019 KHR'000	2018 KHR'000
Depreciation of property and equipment	30,680	27,416	122,277	110,898
Depreciation on rights of use asset	15,480	15,480	64,763	62,616
	46,160	42,896	187,040	173,514

18. ADMINISTRATION AND GENERAL EXPENSES

	2019 USD	2018 USD	2019 KHR'000	2018 KHR'000
Legal and professional fees	10,450	4,730	42,343	19,133
License and membership fees	17,422	23,354	70,594	94,467
Others	188,468	95,864	763,673	387,770
	216,340	123,948	876,610	501,370

19. EXPECTED CREDIT LOSSES ON LOANS AND ADVANCES

	2019 USD	2018 USD	2019 KHR'000	2018 KHR'000
Expected credit losses on loans and advances at amortised cost	201,706	398,016	817,313	1,618,962

20. OTHER EXPECTED CREDIT LOSSES

	2019 USD	**2018** USD	**2019** KHR'000	**2018** KHR'000
Expected credit losses made on:-				
Deposits and placements with banks and other financial institutions	(2,222)	50,124	(9,004)	193,764

21. INCOME TAX

a) Deferred tax

Deferred tax assets attributable from:-

2019	**At 1.1.2019** USD	**Recognised in Profit or Loss** USD	**At 31.12.2019** USD
Expected credit losses	178,028	20,759	198,787
Allowance for substandard, doubtful and loss of loans and advances*	(62,604)	(49,848)	(112,452)
	115,424	(29,089)	86,335

2018	**At 1.1.2018** USD	**Recognised in Profit or Loss** USD	**At 31.12.2018** USD
Expected credit losses	88,400	89,628	178,028
Allowance for substandard, doubtful and loss of loans and advances*	(10,880)	(51,724)	(62,604)
	77,520	37,904	115,424

* - This represents deferred tax liabilities arising from the allowance for substandard, doubtful and loss of loans and advances which is deductible for computation of corporate income tax expense under the Prakas no.1535 MEF issued by the Ministry of Economy and Finance ("MEF") on 23 December 2016.

21. INCOME TAX (CONT'D)

a) Deferred tax (Cont'd)

Deferred tax assets attributable from (Cont'd):-

2019	At 1.1.2019 KHR'000	Recognised in Profit or Loss KHR'000	At 31.12.2019 KHR'000
Expected credit losses	715,317	10,147	725,464
Allowance for substandard, doubtful and loss of loans and advances*	(251,543)	(122,106)	(373,649)
	463,774	(111,959)	351,815

2018	At 1.1.2018 KHR'000	Recognised in Profit or Loss KHR'000	At 31.12.2018 KHR'000
Expected credit losses	355,192	360,125	715,317
Allowance for substandard, doubtful and loss of loans and advances*	(43,716)	(209,299)	(251,543)
	312,948	150,826	463,774

* - This represents deferred tax liabilities arising from the allowance for substandard, doubtful and loss of loans and advances which is deductible for computation of corporate income tax expense under the Prakas no.1535 MEF issued by the Ministry of Economy and Finance ("MEF") on 23 December 2016.

b) Income tax payable

	2019 USD	2018 USD	2019 KHR'000	2018 KHR'000
At 1 January	11,704	49,612	47,027	200,284
Current income tax expense	12,164	20,814	49,284	84,193
Income tax paid during the year	(11,705)	(58,722)	(47,429)	(237,530)
Translation difference	-	-	682	80
At 31 December	12,163	11,704	49,564	47,027

21. INCOME TAX (CONT'D)

c) Income tax expense

	2019 USD	**2018** USD	**2019** KHR'000	**2018** KHR'000
Current tax:				
- for the financial year	12,164	20,814	49,284	84,193
Deferred tax liability (Note 21(a)):				
- for the current financial year	29,089	(37,904)	117,869	(153,322)
	41,253	(17,090)	167,153	(69,129)

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 revenue, whichever is higher.

A reconciliation of income tax expense applicable to the profit before tax at the corporate tax rate to income tax expense at the effective tax of the Bank is as follows:-

	2019 USD	**2018** USD	**2019** KHR'000	**2018** KHR'000
Profit/(Loss) before tax	106,126	(30,558)	430,023	(123,607)
Tax at the corporate tax rate of 20%	21,225	(6,112)	86,004	(24,721)
Non-deductible expenses	1,549	-	6,277	-
Others	18,479	(10,978)	74,872	(44,408)
	41,253	(17,090)	167,153	(69,129)

22. TAX CONTINGENCIES

The taxation system in Cambodia is relatively new and is characterised by numerous taxes and frequently changing legislation, which is often unclear and subject to interpretation. Often different interpretation exists among numerous taxation authorities and jurisdictions. 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.

These facts may create tax risks in Cambodia, substantially more compared to other countries. Management believes that tax liabilities have been adequately provided based on its interpretation of tax legislations. However, the relevant authorities may have differing interpretations and effects could be significant since the interpretation of the Bank.

23. CASH FLOW INFORMATION

(a) The reconciliation of lease liabilities is as follows:-

	2019 USD	**2018** USD	**2019** KHR'000	**2018** KHR'000
At 1 January	29,520	42,605	118,611	171,996
Changes in Financing Cash Flows				
Repayment of principal	(14,172)	(13,085)	(57,425)	(52,576)
Repayment of interest	(1,800)	(2,887)	(7,293)	(11,678)
Repayment of lease liabilities	(15,972)	(15,972)	(64,718)	(64,254)
Non-cash Changes				
Interest expense recognised in profit or loss	1,800	2,887	7,293	11,678
Translation difference	-	-	1,357	(809)
At 31 December	15,348	29,520	62,543	118,611

23. CASH FLOW INFORMATION (CONT'D)

(b) The cash and cash equivalents comprise the following:-

	2019 USD	**2018** USD	**2019** KHR'000	**2018** KHR'000
Cash on hand	7,752	6,479	31,589	26,033
Deposits and placements with banks and other financial institutions	4,806,893	5,026,506	19,588,089	20,196,497
	4,814,645	5,032,985	19,619,678	20,222,530
Less: Deposits with tenure of more than 3 months	300,000	1,350,000	1,222,500	5,424,300
	4,514,645	3,682,985	18,397,178	14,798,230

24. RELATED PARTY DISCLOSURES

a) Identities of Related Parties

Parties are considered to be related to the Bank if the Bank has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Bank and the party are subject to common control.

In addition to the information detailed elsewhere in the financial statements, the Bank has related party relationships with its directors, key management personnel and entities within the same group of companies.

b) Significant Related Party Transactions

Other than those disclosed elsewhere in the financial statements, the Bank carried out the following significant transactions with the related parties during the financial year:-

	2019 USD	**2018** USD	**2019** KHR'000	**2018** KHR'000
Key management personnel compensation:-				
Short term employee benefits	292,400	234,000	1,184,805	940,212
Management fee	120,000	60,000	486,240	242,700

25. FINANCIAL INSTRUMENTS

The main risks arising from the Bank's financial instruments in the normal course of business are operational risk, credit risk, market risk and liquidity risk.

The Bank does not use derivative financial instruments such as foreign exchange contract and interest rate swaps to manage its risk exposures.

These risks are limited by the Bank's financial management policies and practices described below.

25.1 FINANCIAL RISK MANAGEMENT POLICIES

The Bank's policies in respect of the major areas of treasury activity are as follows:-

(a) 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 behavior.

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 senior 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.

(b) Credit risk

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

The primary exposure to credit risk arises through its loans to customers. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the statement of financial position. 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 loans portfolio is strong and healthy and credit risks are well diversified. The credit policy documents the lending policy, collateral policy and credit approval processes and procedures implemented to ensure compliance with NBC Guidelines.

The Bank holds collateral against loans to customers in the form of mortgage interests over property and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as doubtful.

25. FINANCIAL INSTRUMENTS (CONT'D)

25.1 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

(b) Credit risk (Cont'd)

(i) Credit risk measurement (Cont'd)

The measurement of expected credit loss allowance under the CIFRS 9's three-stage approach is to recognise lifetime expected credit loss allowance for financial instrument for which there has been a significant increase in credit risk since initial origination or is credit-impaired as at the reporting date. The financial instrument which has not undergone any significant deterioration in credit risk shall be recognised with 12-month expected credit loss allowance.

Under the three-stage approach, the financial instrument is allocated into three stages based on the relative movement in the credit risk.

- Stage 1 includes financial instruments that neither have a significant increase in credit risk since initial recognition nor credit-impaired as at reporting date. For these assets, 12-month expected credit loss allowance are recognised.

- Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition but do not have objective evidence of impairment. For these assets, lifetime expected credit loss allowance are recognised.

- Stage 3 includes financial instruments that have objective evidence of impairment at the reporting date. For these assets, lifetime expected credit loss allowance are recognised.

- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their expected credit loss allowance is always measured on a lifetime basis (Stage 3).

25. FINANCIAL INSTRUMENTS (CONT'D)

25.1 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

(b) Credit risk (Cont'd)

(i) Credit risk measurement (Cont'd)

The key judgements and assumptions adopted by the Bank in addressing the requirements of the standard on the measurement of allowances are:-

(1) Significant increase in credit risk ("SICR")

The assessment of SICR shall be a multifactor and holistic analysis and based on a mixture of quantitative and/or qualitative information. To determine whether the risk of default of a loan has increased significantly since initial recognition, the current risk of default at the reporting date is compared with the risk of default at initial recognition.

(2) Definition of credit impaired

Loans and advances

The Bank classified a loan and advances as impaired when it meets one or more of the following criteria:-

- The principal or interest or both of the loan is past due for more than 3 months for short term loans and 1 year for long term loans;
- The loan is forced impaired due to various reasons, such as bankruptcy;
- The loan is classified as "Loss" as per NBC's requirement.

25. FINANCIAL INSTRUMENTS (CONT'D)

25.1 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

(b) Credit risk (Cont'd)

(i) Credit risk measurement (Cont'd)

The key judgements and assumptions adopted by the Bank in addressing the requirements of the standard on the measurement of allowances are (Cont'd):-

(3) Definition of default

Loans and advances

The Bank defines a financial instrument as in default when it meets one or more of the following criteria:-

- Credit-impaired;
- Write-off/charged-off accounts.

(4) Measuring ECL – inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. The 12-month or Lifetime ECL reflects multiple forward-looking scenarios and is weighted based on the probability of occurrence for each scenario. The ECL can be assessed and measured either on collective or individual basis.

For collective assessment, the ECL is determined by projecting the Probability of Default ("PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD") for each future month and for each individual exposure or collective segment. The three components are multiplied together to calculate an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

For individual assessment, the ECL allowance is determined by comparing the outstanding exposure with the present value of cash flow which is expected to be received from the borrower.

Probability of Default

The PD represents the likelihood of a borrower will be unable to meet its financial obligation either over the next 12 months (12-month PD) or over the remaining lifetime (Lifetime PD) of the obligation.

25. FINANCIAL INSTRUMENTS (CONT'D)

25.1 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

(c) Credit risk (Cont'd)

(i) Credit risk measurement (Cont'd)

The key judgements and assumptions adopted by the Bank in addressing the requirements of the standard on the measurement of allowances are (Cont'd):-

(4) Measuring ECL – inputs, assumptions and estimation techniques (Cont'd)

<u>Probability of Default (Cont'd)</u>

The PD is derived based on the modelling approach of which statistical analysis and expert judgement was performed to identify the risk parameters which correlate with the historical observed default. The model relies on the risk parameters and its correlation with the historical observed default to predict the 12-month PD. The Lifetime PD is developed using forecasted MEV with the application of survival probabilities up to maturity of the loan facility.

<u>Exposure at Default</u>

EAD is the total amount that the Bank is exposed to at the time the borrower defaults.

The 12-month and lifetime EADs are determined based on the expected payment profile. For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12-month or remaining maturity.

<u>Loss Given Default</u>

LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default.

25. FINANCIAL INSTRUMENTS (CONT'D)

25.1 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

(b) Credit risk (Cont'd)

(i) Credit risk measurement (Cont'd)

The key judgements and assumptions adopted by the Bank in addressing the requirements of the standard on the measurement of allowances are (Cont'd):-

(4) Measuring ECL – inputs, assumptions and estimation techniques (Cont'd)

Loss Given Default (Cont'd)

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies, including contracted debt sales and price.

The assumptions underlying the ECL calculation are monitored and reviewed periodically. There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

(5) Forward-looking information incorporated into the ECL models

The estimation of ECL incorporates forward-looking information. The Bank has performed statistical analysis based on historical experience and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. The relationship of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of PD and LGD. These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgement has also been applied in this process.

25. FINANCIAL INSTRUMENTS (CONT'D)

25.1 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

(b) Credit risk (Cont'd)

(i) Credit risk measurement (Cont'd)

The key judgements and assumptions adopted by the Bank in addressing the requirements of the standard on the measurement of allowances are (Cont'd):-

(5) Forward-looking information incorporated into the ECL models (Cont'd)

As with any economic forecasts, the projections and likelihoods of occurrence are subject to some degree of inherent uncertainty and therefore the actual outcomes may be different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and are appropriately representative of the range of possible scenarios. The scenario weightage, number of scenarios and their attributes are reassessed periodically.

(6) Grouping of exposure for ECL measured on collective basis

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Bank has considered benchmarking internal/external supplementary data to use for modelling purposes.

The appropriateness of groupings is monitored and reviewed on a periodic basis.

(ii) Risk limit control and mitigation policies

The Bank operates and provides loans and advances to individuals or enterprises within the Kingdom of Cambodia. The Bank manages limits and controls concentration of credit risk whenever they are identified.

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security in the form of collateral for loans to customers, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types secured for loans to customers are:-

- Mortgages over residential properties (land, building and other properties);
- Charges over business assets such as land and buildings; and
- Cash in the form of margin deposits.

25. FINANCIAL INSTRUMENTS (CONT'D)

25.1 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

(b) Credit risk (Cont'd)

(iii) Impairment and provisioning policies

The Bank is required to follow the mandatory credit classification and provisioning in accordance with Prakas B7-017-344 and B7-018-001 dated 1 December 2017 and 16 February 2018 respectively on loan classification and provisioning. The impairment policy is set out in Note 4.8(a).

At each reporting date, the Bank assesses whether any of financial assets at amortised cost are credit impaired.

Loans and advances

The Bank applies the 3-stage general approach to measuring expected credit losses for loans and advances.

The calculation of expected loss rates are based on the estimation techniques mentioned in Note 25.1(b)(i).

Generally, the Bank considers loans and advances to related parties have low credit risks. The Bank assumes that there is a significant increase in credit risk when a related parties' financial position deteriorates significantly. As the Bank is able to determine the timing of payments of the related parties' loans and advances when they are payable, the Bank considers the loans and advances to be in default when the subsidiaries are not able to pay when demanded. The Bank considers a related party's loan or advance to be credit impaired when the subsidiary is unlikely to repay its loan or advance in full or the subsidiary is continuously loss making or the subsidiary is having a deficit in its total equity.

The Bank determines the probability of default for these loans and advances individually using internal and external information available.

25. FINANCIAL INSTRUMENTS (CONT'D)

25.1 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

(b) Credit risk (Cont'd)

(iii) Impairment and provisioning policies (Cont'd)

Loans and advances (Cont'd)

The information about the exposure to credit risk and the loss allowances calculated under CIFRS 9 for loans and advances are summarised below:-

	Gross Amount	12-month expected credit losses (Stage 1)	Lifetime expected credit losses - not credit impaired (Stage 2)	Lifetime expected credit losses - credit impaired (Stage 3)	Carrying amount
	USD	USD	USD	USD	USD
31.12.2019					
1 – 30 days past due	9,735,392	(367,976)	-	-	9,367,416
30 – 90 days past due	-	-	-	-	-
more than 90 days	673,746	-	-	(673,746)	-
	10,409,138	(367,976)	-	(673,746)	9,367,416
31.12.2018					
1 – 30 days past due	9,471,826	(251,023)	-	-	9,220,803
30 – 90 days past due	135	-	(12)	-	123
more than 90 days	588,981	-	-	(588,981)	-
	10,060,942	(251,023)	(12)	(588,981)	9,220,926

25. FINANCIAL INSTRUMENTS (CONT'D)

25.1 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

(b) Credit risk (Cont'd)

(iii) Impairment and provisioning policies (Cont'd)

Loans and advances (Cont'd)

The information about the exposure to credit risk and the loss allowances calculated under CIFRS 9 for loans and advances are summarised below (Cont'd):-

	Gross Amount USD	**12-month expected credit losses (Stage 1)** USD	**Lifetime expected credit losses - not credit impaired (Stage 2)** USD	**Lifetime expected credit losses - credit impaired (Stage 3)** USD	**Carrying amount** USD
<u>1.1.2018</u>					
1 – 30 days past due	7,551,086	(187,829)	-	-	7,363,257
30 – 90 days past due	-	-	-	-	-
more than 90 days	260,000	-	-	(254,171)	5,829
	7,811,086	(187,829)	-	(254,171)	7,369,086

25. FINANCIAL INSTRUMENTS (CONT'D)

25.1 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

(b) Credit risk (Cont'd)

(iii) Impairment and provisioning policies (Cont'd)

Loans and advances (Cont'd)

The information about the exposure to credit risk and the loss allowances calculated under CIFRS 9 for loans and advances are summarised below (Cont'd):-

	Gross Amount KHR'000	12-month expected credit losses (Stage 1) KHR'000	Lifetime expected credit losses - not credit impaired (Stage 2) KHR'000	Lifetime expected credit losses - credit impaired (Stage 3) KHR'000	Carrying amount KHR'000
31.12.2019					
1 – 30 days past due	39,664,369	(1,492,137)	-	-	38,172,232
30 – 90 days past due	-	-	-	-	-
more than 90 days	2,732,029	-	-	(2,732,029)	-
	42,396,398	(1,492,137)	-	(2,732,029)	38,172,232
31.12.2018					
1 – 30 days past due	38,067,262	(1,018,074)	-	-	37,049,188
30 – 90 days past due	542	-	(49)	-	493
more than 90 days	2,388,730	-	-	(2,388,730)	-
	40,456,534	(1,018,074)	(49)	(2,388,730)	37,049,681
31.12.2018					
1 – 30 days past due	30,487,271	(759,769)	-	-	29,727,502
30 – 90 days past due	-	-	-	-	-
more than 90 days	1,049,620	-	-	(1,028,122)	21,498
	31,536,891	(759,769)	-	(1,028,122)	29,749,000

25. FINANCIAL INSTRUMENTS (CONT'D)

25.1 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

(b) Credit risk (Cont'd)

(iii) Impairment and provisioning policies (Cont'd)

The movement is the loss allowances in respect of loans and advances are disclosed in Note 7.

Other assets

Other assets are also subject to the impairment requirements of CIFRS 9, the identified impairment loss was immaterial and hence, it is not provided for.

Fixed Deposits with Licensed Banks, Cash and Bank Balances

The Bank considers these banks and financial institutions have low credit risks. Therefore, the Bank is of the view that the loss allowance is immaterial and hence, it is not provided for.

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

The credit exposure arising from on and off balance sheet activities are as follows:-

	31.12.2019 USD	**31.12.2018** USD	**1.1.2018** USD	**31.12.2019** KHR'000	**31.12.2018** KHR'000	**1.1.2018** KHR'000
Credit risks exposures relating to on-balance sheet assets:-						
Bank balances – gross	4,806,893	5,026,506	4,215,314	19,588,089	20,196,497	17,017,223
Loans and advances – gross	10,194,043	9,980,890	7,811,086	41,540,714	40,103,215	31,533,355
Other assets	139,632	117,630	93,997	569,001	472,638	379,466
	15,140,568	15,125,026	12,120,397	61,697,804	60,772,350	48,930,044
Credit risks exposures relating to off-balance sheet items:-						
Unused portion of credit facilities	-	-	-	-	-	-
Total maximum credit risk exposure	15,140,568	15,125,026	12,120,397	61,697,804	60,772,350	48,930,044

25. FINANCIAL INSTRUMENTS (CONT'D)

25.1 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

(b) Credit risk (Cont'd)

(v) Exposure to credit risk

At the end of the reporting period, the maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statement of financial position of the Bank after deducting any allowance for impairment losses (where applicable).

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 analyzed 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 installment 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. Estimates of fair value are based on the value of collateral assessed on an annual basis. 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. The repossessed properties have to be sold within one year as the required by the NBC Guidelines and are classified in the statement of financial position as foreclosed property.

Concentration of credit risk

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

25. FINANCIAL INSTRUMENTS (CONT'D)

25.1 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

(a) Market Risk

Market risk is the risk of loss arising from adverse movement in the level of market prices or rates, the two key components being foreign currency exchange risk and interest rate risk. Market risk arising from the trading activities is controlled by marking to market the trading positions against their predetermined market risk limits.

(i) Foreign currency 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.

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

The Bank's exposure to foreign currency exchange rate risk at 31 December 2019 and at 31 December 2018 is disclosed in the respective notes to the financial statements.

Any reasonably possible change in the foreign currency exchange rates at the end of the reporting period against the functional currencies of the Bank does not have a material impact on the profit/loss after taxation and other comprehensive income of the Bank and hence, no sensitivity analysis is 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 unfavorable interest rate movement is monitored against the risk tolerance limits set.

The Bank's exposure to interest rate risk based on the carrying amounts of the financial instruments at the end of the reporting period is disclosed in respective notes to the financial statements.

25. FINANCIAL INSTRUMENTS (CONT'D)

25.1 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

(c) Market Risk (Cont'd)

(ii) Interest rate risk (Cont'd)

Fair value sensitivity analysis for fixed rate instruments

The Bank does not account for any fixed rate financial assets and 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.

Sensitivity analysis for floating rate instruments

The Bank does not have significant floating rate instruments. Any reasonably possible change in the interest rates of floating rate instruments at the end of the reporting period does not have a material impact on the profit after taxation and other comprehensive income of the Bank and hence, no sensitivity analysis is presented.

(iii) Equity price risk

The Bank does not have any quoted investments and hence is not exposed to equity price risk.

(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.

25. FINANCIAL INSTRUMENTS (CONT'D)

25.1 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

(d) Liquidity Risk (Cont'd)

Maturity Analysis

The following table sets out the maturity profile of the financial liabilities at the end of the reporting period based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the rates at the end of the reporting period):-

	Weighted Average Effective Interest Rate %	Carrying Amount USD	Contractual undiscounted cash flow USD	Within 1 Year USD	1 - 5 Years USD	Over 5 Years USD
31.12.2019						
Non-derivative Financial Liabilities						
Other liabilities		38,335	38,335	38,335	-	-
Lease liabilities	8%	15,348	15,972	15,972	-	-
		53,683	54,307	54,307	-	-
31.12.2018						
Non-derivative Financial Liabilities						
Other liabilities		289,663	289,663	289,663	-	-
Lease liabilities	8%	29,520	31,944	15,972	15,972	-
		319,183	321,607	305,635	15,972	-
1.1.2018						
Non-derivative Financial Liabilities						
Other liabilities		34,945	34,945	34,945	-	-
Lease liabilities	8%	42,605	47,916	15,972	31,944	-
		77,550	82,861	50,917	31,944	-

25. FINANCIAL INSTRUMENTS (CONT'D)

25.1 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

(d) Liquidity Risk (Cont'd)

Maturity Analysis (Cont'd)

The following table sets out the maturity profile of the financial liabilities at the end of the reporting period based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the rates at the end of the reporting period) (Cont'd):-

	Weighted Average Effective Interest Rate %	**Carrying Amount** KHR'000	**Contractual undiscounted cash flow** KHR'000	**Within 1 Year** KHR'000	**1 - 5 Years** KHR'000	**Over 5 Years** KHR'000
31.12.2019						
Non-derivative Financial Liabilities						
Other liabilities		156,215	156,215	156,215	-	-
Lease liabilities	8%	62,543	65,086	65,086	-	-
		218,758	221,301	221,301	-	-
31.12.2018						
Non-derivative Financial Liabilities						
Other liabilities		1,163,866	1,163,866	1,163,866	-	-
Lease liabilities	8%	118,611	128,350	64,175	64,175	-
		1,282,477	1,292,216	1,228,041	64,175	-
1.1.2018						
Non-derivative Financial Liabilities						
Other liabilities		141,073	141,073	141,073	-	-
Lease liabilities	8%	171,996	193,437	64,175	129,262	-
		313,069	334,510	205,248	129,262	-

25. FINANCIAL INSTRUMENTS (CONT'D)

25.2 CAPITAL RISK MANAGEMENT

(a) Regulatory Capital

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:-

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

The NBC requires all the Banks to (i) fulfill the minimum capital requirements, and (ii) comply with solvency, liquidity and other requirements.

(b) 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.

There was no change in the Bank's approach to capital management during the financial year.

25. FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

25.3 CLASSIFICATION OF FINANCIAL INSTRUMENTS

	31.12.2019 USD	**31.12.2018** USD	**1.1.2018** USD	**31.12.2019** KHR'000	**31.12.2018** KHR'000	**1.1.2018** KHR'000
Financial assets						
Amortised Cost						
Cash on hand	7,752	6,479	2,807	31,589	26,033	11,332
Deposits and placements with banks and other financial institutions	4,758,991	4,976,382	4,215,314	19,392,888	19,995,103	17,017,223
Loans and advances	9,367,416	9,220,926	7,369,086	38,172,232	37,049,681	29,749,000
Other assets	139,632	117,630	93,997	569,001	472,638	379,466
Statutory deposits with National Bank of Cambodia	750,000	750,000	625,000	3,056,250	3,013,500	2,523,125
	15,023,791	15,071,417	12,306,204	61,221,960	60,556,955	49,680,146
Financial liabilities						
Amortised Cost						
Other liabilities	38,335	289,663	34,945	156,215	1,163,866	141,073
	38,335	289,663	34,945	156,215	1,163,866	141,073

25.4 GAINS OR LOSSES ARISING FROM FINANCIAL INSTRUMENTS

	2019 USD	**2018** USD	**2019** KHR'000	**2018** KHR'000
Financial assets				
Amortised Cost				
Net gain recognised in profit or loss	754,912	474,496	3,058,904	1,919,337

25.5 FAIR VALUE INFORMATION

The fair values of the financial assets and financial liabilities of the Bank which are maturing within the next 12 months approximated their carrying amounts due to the relatively short-term maturity of the financial instruments or repayable on demand terms.

26. TRANSITION TO THE CIFRS FRAMEWORK

As stated in Note 3 to the financial statements, these are the first financial statements of the Bank prepared in accordance with CIFRSs. The accounting policies in Note 4 to the financial statements have been applied to all financial information covered under this set of financial statements.

In preparing the opening CIFRS statements of financial position at 1 January 2018 (date of transition), the Bank has adjusted amounts reported previously in financial statements prepared in accordance with CAS. The financial impacts on the transition are as below:-

RECONCILIATION OF FINANCIAL POSITION

		< ---- 31.12.2018 ---- >				< ---- 1.1.2018 ---- >			
	Note	**CAS** USD	**Reclassification** USD	**Transition Effects** USD	**CIFRSs** USD	**CAS** USD	**Reclassification** USD	**Transition Effects** USD	**CIFRSs** USD
ASSETS									
Cash on hand		6,479	-	-	6,479	2,807	-	-	2,807
Deposits and placements with banks and other financial institutions		4,976,382	-	-	4,976,382	4,215,314	-	-	4,215,314
Loans and advances	(a)	9,574,803	-	(433,929)	9,140,874	7,681,977	-	(312,891)	7,369,086
Other assets	(a)	149,094	-	(10,285)	138,809	118,252	-	(10,285)	107,967
Statutory deposits with National Bank of Cambodia		750,000	-	-	750,000	625,000	-	-	625,000
Right-of-use assets	(b)	-	-	37,410	37,410	-	-	52,890	52,890
Property and Equipment		81,210	-	-	81,210	105,747	-	-	105,747
Deferred tax assets	(a)	-	-	115,424	115,424	-	-	77,520	77,520
		15,537,968	-	(291,380)	15,246,588	12,749,097	-	(192,766)	12,556,331

26. TRANSITION TO THE CIFRS FRAMEWORK (CONT'D)

RECONCILIATION OF FINANCIAL POSITION (CONT'D)

		< ---- 31.12.2018 ---- >				< ---- 1.1.2018 ---- >			
	Note	CAS USD	Reclassification USD	Transition Effects USD	CIFRSs USD	CAS USD	Reclassification USD	Transition Effects USD	CIFRSs USD
LIABILITIES									
Other liabilities		289,663	-	-	289,663	34,945	-	-	34,945
Lease liabilities	(b)	-	-	29,520	29,520	-	-	42,605	42,605
Income tax payable		11,704	-	-	11,704	49,612	-	-	49,612
TOTAL LIABILITIES		301,367	-	29,520	330,887	84,557	-	42,605	127,162
EQUITY									
Share capital		15,000,000	-	-	15,000,000	12,500,000	-	-	12,500,000
Retained profits/(Accumulated losses)	(c)	236,601	-	(320,900)	(84,299)	164,540	-	(235,371)	(70,831)
TOTAL EQUITY		15,236,601	-	(320,900)	14,915,701	12,664,540	-	(235,371)	12,429,169
TOTAL LIABILITIES AND EQUITY		15,537,968	-	(291,380)	15,246,588	12,749,097	-	(192,766)	12,556,331

26. TRANSITION TO THE CIFRS FRAMEWORK (CONT'D)

RECONCILIATION OF FINANCIAL POSITION (CONT'D)

		< 31.12.2018			>	< 1.1.2018			>
	Note	**CAS** KHR'000	**Reclassifi-cation** KHR'000	**Transition Effects** KHR'000	**CIFRSs** KHR'000	**CAS** KHR'000	**Reclassifi-cation** KHR'000	**Transition Effects** KHR'000	**CIFRSs** KHR'000
ASSETS									
Cash on hand		26,033	-	-	26,033	11,332	-	-	11,332
Deposits and placements with banks and other financial institutions		19,995,103	-	-	19,995,103	17,017,223	-	-	17,017,223
Loans and advances	(a)	38,471,557	-	(1,743,525)	36,728,032	31,012,141	-	(1,263,141)	29,749,000
Other assets	(a)	599,059	-	(41,324)	557,735	477,392	-	(41,529)	435,863
Statutory deposits with National Bank of Cambodia		3,013,500	-	-	3,013,500	2,523,125	-	-	2,523,125
Right-of-use assets	(b)	-	-	150,313	150,313	-	-	213,517	213,517
Property and Equipment		326,302	-	-	326,302	426,901	-	-	426,901
Deferred tax assets	(a)	-	-	463,774	463,774	-	-	312,948	312,948
		62,431,554	-	(1,170,762)	61,260,792	51,468,114	-	(778,205)	50,689,909

26. TRANSITION TO THE CIFRS FRAMEWORK (CONT'D)

RECONCILIATION OF FINANCIAL POSITION (CONT'D)

		31.12.2018				1.1.2018			
	Note	CAS KHR'000	Reclassification KHR'000	Transition Effects KHR'000	CIFRSs KHR'000	CAS KHR'000	Reclassification KHR'000	Transition Effects KHR'000	CIFRSs KHR'000
LIABILITIES									
Other liabilities		1,163,866	-	-	1,163,866	141,073	-	-	141,073
Lease liabilities	(b)	-	-	118,611	118,611	-	-	171,996	171,996
Income tax payable		47,027	-	-	47,027	200,284	-	-	200,284
TOTAL LIABILITIES		1,210,893	-	118,611	1,329,504	341,357	-	171,996	513,353
EQUITY									
Share capital		60,000,000	-	-	60,000,000	50,000,000	-	-	50,000,000
Retained profits/(Accumulated losses)	(c)	1,220,661	-	(1,561,084)	(340,423)	1,126,757	-	(1,412,702)	(285,945)
Translation reserve		-	-	271,711	271,711	-	-	462,501	462,501
TOTAL EQUITY		61,220,661	-	(1,289,373)	59,931,288	51,126,757	-	(950,201)	50,176,556
TOTAL LIABILITIES AND EQUITY		62,431,554	-	(1,170,762)	61,260,792	51,468,114	-	(778,205)	50,689,909

26. TRANSITION TO THE CIFRS FRAMEWORK (CONT'D)

RECONCILIATION OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	CAS USD	2018 Transition Effects USD	CIFRSs USD	CAS KHR'000	2018 Transition Effects KHR'000	CIFRSs KHR'000
INTEREST INCOME	(d)	922,636	-	922,636	3,732,063	-	3,732,063
NON-INTEREST INCOME		14,125	-	14,125	57,136	-	57,136
NET INCOME		936,761	-	936,761	3,789,199		3,789,199
PERSONNEL COSTS		(352,335)	-	(352,335)	(1,425,196)	-	(1,425,196)
DEPRECIATION AND AMORTISATION	(b)	(27,416)	(15,480)	(42,896)	(110,898)	(62,616)	(173,514)
ADMINISTRATION AND GENERAL EXPENSES		(187,157)	63,209	(123,948)	(757,050)	255,680	(501,370)
OPERATING PROFIT BEFORE IMPAIRMENT LOSSES		369,853	47,729	417,582	1,496,055	193,064	1,689,119
ALLOWANCES FOR LOAN AND ADVANCES	(a)	(276,978)	276,978	-	(1,120,376)	1,120,376	-
EXPECTED CREDIT LOSSES ON LOANS AND ADVANCES	(a)	-	(398,016)	(398,016)	-	(1,618,962)	(1,618,962)
OTHER EXPECTED CREDIT LOSSES	(a)	-	(50,124)	(50,124)	-	(193,764)	(193,764)
PROFIT/(LOSS) BEFORE TAX		92,875	(123,433)	(30,558)	375,679	(499,286)	(123,607)
INCOME TAX EXPENSES		(20,814)	37,904	17,090	(84,193)	153,322	69,129
PROFIT/(LOSS) AFTER TAX		72,061	(85,529)	(13,468)	291,486	(345,964)	(54,478)
OTHER COMPREHENSIVE INCOME		-	-	-	-	-	-
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE FINANCIAL YEAR		72,061	(85,529)	(13,468)	291,486	(345,964)	(54,478)

26. TRANSITION TO THE CIFRS FRAMEWORK (CONT'D)

RECONCILIATION OF CASH FLOWS

There are no material differences between the statements of cash flows presented under CAS and CIFRSs.

NOTES TO RECONCILIATIONS

(a) Classification and Measurement of Financial Assets and Financial Liabilities

Upon transition to CIFRSs, the Bank adopted CIFRS 9 'Financial Instruments' ("CIFRS 9"), requiring the Bank to review the classification and measurement of its financial instruments at the date of transition. The new accounting policy on financial instruments has been applied retrospectively.

The Bank changed its impairment loss methodology from the 'incurred loss' approach to the 'expected credit loss' approach upon the adoption of CIFRS 9. Under this new approach, the Bank accounted for the expected credit losses of its financial assets measured at amortised cost to reflect their changes in credit risk since initial recognition. The Bank used a general approach to measure the loss allowance of its loans and advances and bank balances.

The Bank is also required to compute the impairment loss based on the Prakas issued by the NBC. The difference between the impairment under ECL and NBC's requirements is taken to a Regulatory Reserve as a movement in equity, in the event that the impairment loss under NBC is higher than the ECL.

In addition, the Bank represented its net impairment losses on financial assets as a separate line item on the statement of profit or loss and other comprehensive income pursuant to the requirements of CIAS 1 'Presentation of Financial Statements'.

(b) Right-of-use Assets

Upon transition to CIFRSs, for leases that were classified as operating leases under CAS, the Bank measured the lease liabilities at the present value of the remaining lease payments at the date of transition to CIFRSs, discounted using the Bank's weighted average incremental borrowing rate at that date. The right-of-use assets were measured at their carrying amount as if CIFRS 16 had been applied since the ommencement date, discounted using the Bank's incremental borrowing rate at the date of transition to CIFRSs.

(c) Retained Profits

The Bank has recognised all transition adjustments in retained profits at the date of transition.

(d) Interest Income Recognition

The Bank has reassessed its revenue recognition accounting policies according to the requirements of CIFRS 15.

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