



ធនាគារ ចិន (ហុងកុង) សាខា ផ្សារលេច  
 中國銀行(香港) 金邊分行  
 BANK OF CHINA (HONG KONG) PHNOM PENH BRANCH

Annual Report 2017

A Century  
 of Heritage  
 A New Era  
 of Excellence



中銀大廈  
 Bank of China Tower



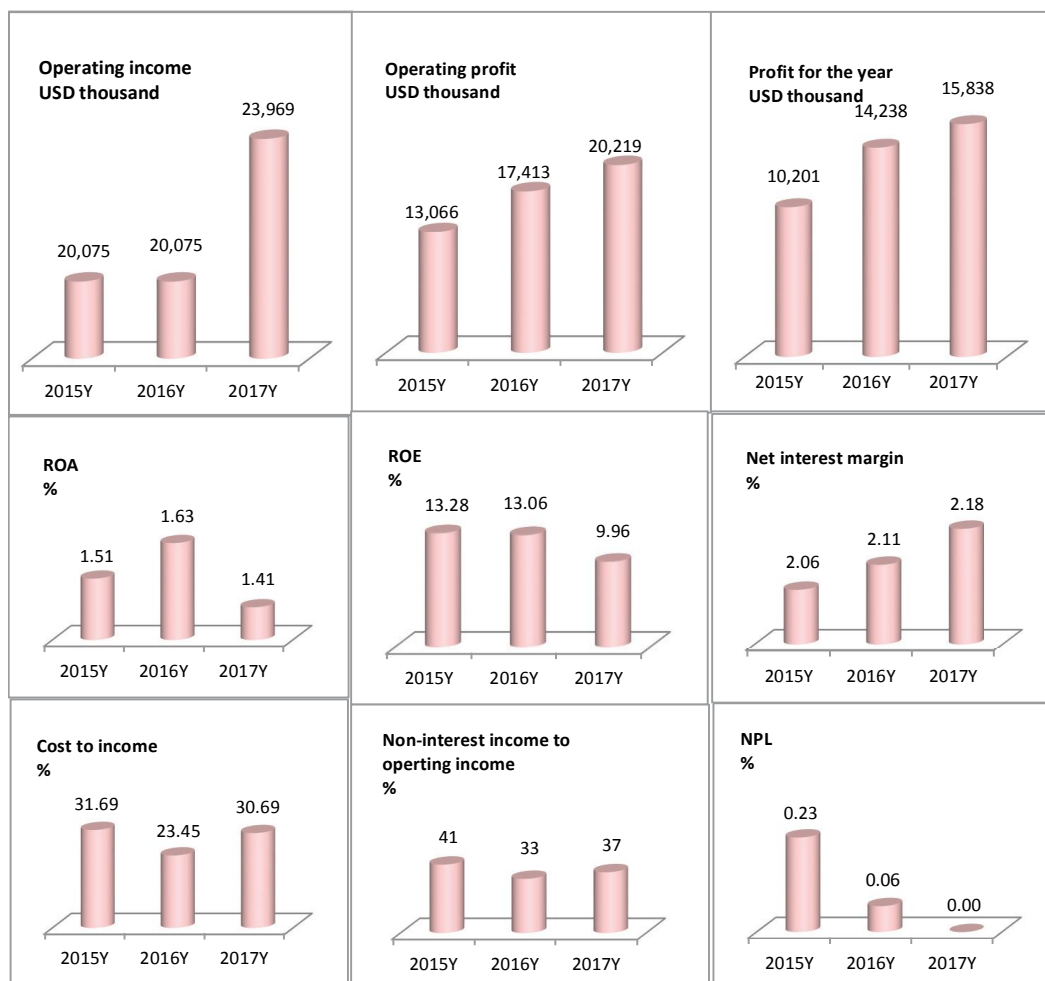
**BOC Hong Kong (Holdings) Limited** (“the Company”) was established by combining the businesses of the member banks in Hong Kong belonged to the Bank of China Group after their restructuring. The Company was incorporated in Hong Kong on 12 September 2001 to hold the entire equity interest of Bank of China (Hong Kong) Limited (“BOCHK”), its principal operating subsidiary. Bank of China Limited (“BOC”) holds approximately 66.06% of the equity interest in the Company through BOC Hong Kong (BVI) Limited, an indirect wholly-owned subsidiary of BOC. The Company began trading on the main board of the Stock Exchange of Hong Kong on 25 July 2002 and is one of the largest listed companies and commercial banking groups in Hong Kong, with stock code “2388” and ADR OTC Symbol: “BHKLY”.

BOCHK has strong market positions in all major businesses. We have the most extensive local branch network and diverse service platforms in Hong Kong, including approximately 200 branches, more than 250 automated banking centres, efficient e-channels of over 1,000 self-service machines, as well as Internet and Mobile Banking services. We offer a comprehensive range of financial, investment and wealth management services to personal, corporate and institutional customers. To implement the overseas development strategy of BOC Group, we strive to drive our regional development by expanding our business in the Southeast Asian region. Our branches and subsidiaries have been extended to Southeast Asian countries such as Malaysia, Thailand, Indonesia, Cambodia, Brunei, Vietnam and the Philippines, with the provision of professional and high-quality financial services to local customers. We will also expedite our development into a top-class, full-service and internationalised regional bank.

BOCHK is one of the three note-issuing banks and the sole clearing bank for Renminbi (“RMB”) business in Hong Kong. With our strong RMB franchise, we are the first choice for customers in this business. Through the deep collaboration with our parent bank, BOC, we provide a full range of high-quality cross-border services to multinationals, cross-border customers, mainland enterprises going global, central banks and super-sovereign organisations.

As a major commercial banking group and an internationalized regional financial group with roots firmly planted in Hong Kong for 100 years, we are committed to fulfilling our corporate social responsibility to promote sustainable development and deliver greater value to our customers, shareholders, employees and the community.

# Financial Highlights



## Notes

- Non-interest income** = net fee and commission income + net trading gains/(losses) + net gains/losses on investment securities + other operating income
- Operating income** = net interest income + non-interest income
- Return on average total assets** = profit for the year ÷ average total assets.  
**average total assets** = (total assets at the beginning of the year + total assets at the year-end) ÷ 2
- Return on average equity** = profit attributable to equity holders of the bank ÷ weighted average capital and reserves attributable to equity holders of the bank
- net interest margin** = net interest income ÷ average balance of interest-earning assets.  
 average balance is average daily balance derived from the bank's management accounts (unaudited).
- Non-interest income to operating income** = non-interest income ÷ operating income
- Provision Coverage** = impairment on loans ÷ balance of NPL.  
**average balance of loans** = (balance of loans at the beginning of the year + balance of loans at the year-end) ÷ 2

## Corporate information

Bank **Bank of China (Hong Kong) Limited Phnom Penh Branch**

Registration No 00014630

Registered office Canadia Tower, 1<sup>st</sup> & 2<sup>nd</sup> Floor,  
315 Ang Doung St. (Corner of Monivong Blvd.)  
Phnom Penh, Kingdom of Cambodia

Head office Bank of China (Hong Kong) Limited, Hong Kong SAR

### Management Team in Cambodia

Mr. Chen Chang Jiang	Chief Executive Officer
Mr. Wong Hong Song	Assistant Chief Executive Officer
Mr. Liu Zheng	Assistant Chief Executive Officer
Mr. Wang Junwei	Head of Accounting and Finance Department
Mr. Cui Hongbo	Head of Treasury Department
Mr. Ouyang Chang	Head of Internal Control & IT Department
Mr. Huang Huan Hao	Head of Risk Management Department
Mr. Huang Limao	Head of Corporate Banking Department
Mr. Wang Wenzhe	Head of Personal Banking Department
Mr. Liu Xiao Feng	Head of Operation Department
Ms. Zhang Yuan	Head of Banking Department
Ms. Liu Wenjing	Head of General Management Department
Mr. Liu Dao Zhi	Assistant Chief Executive Officer (retirement 20 June 2017)
Mr. Huang Wei	Head of Accounting and Finance Department (retirement 31 July 2017)
Ms. Yu Lei	Head of Personal Banking Department (retirement 30 April 2017)

Auditors Ernst & Young (Cambodia) Ltd





### **Message from The Country Manager**

2017 年是极不平凡的一年，全球经济持续复苏，柬埔寨依然保持着较快的增长速度，金边分行认真落实集团战略，紧紧抓住“一带一路”倡议、中国企业“走出去”及人民币国家化等重大战略机遇，充分发挥联动协同效应，深耕柬埔寨本地市场。同时，顺利实现区域整合战略，分行于 2017 年 11 月 6 日成功并入中银香港，开启国际化和区域化发展新征程。

2017 was an extraordinary year, and witnessed the continued recovery of the global economy, Cambodian still kept a fast development speed of the economy. The Branch fulfilled the strategy of the Group, we capitalized on the important national initiatives of Belt and Road, the “Going Global” strategy of mainland enterprises from China and RMB internationalization, through which we realized collaborative synergies and deepen local market penetration. At the same time, the Branch has successfully reached the regional restructure target and been transferred to Bank of China (Hong Kong) Limited as the new parent company at 6<sup>th</sup> Nov, 2017, we have started a new journey of international and regional development strategy.

根据柬埔寨会计准则，2017 年末本行资产总额 1,211 百万美元，增长 17.17%，其中，贷款累计新增 50.16 百万美元，增长 13.13%；负债总额 1,009 百万美元，增长 9.98%，其中客户存款新增 160.98 百万美元，增长 24.13%；所有者权益合计 202 百万美元，增长 73.89%（新增额主要来自于 2017 年底中银香港注资 70 百万美元）。全年实现净利润 15.84 百万美元，比上年增长 11.24%。平均总资产回报率（ROA）1.41%，比上年下降 0.22 个百分点。贷款质量优异，不良发生率 0.00%。风险资产偿付比率 34.51%，符合监管要求。

At the end of 2017, according to Cambodia Accounting Standards, the Bank's total assets stood at USD1,211 million, up 17.17% from the previous year, and Loans saw an increase of USD50.16 million, up 13.13% from the previous year. The total liabilities amounted to USD1,009 million, increased 9.98% compared with the previous year, with customer's deposits increasing by USD160.98 million, up 24.13% from the previous year. The equity attributable to shareholders of the Bank was USD202 million, up 73.89% from the previous year (the increase mainly due to USD70 million capital injection from BOCHK). During the year, the Bank achieved a profit for the year of USD15.84 million, a year-on-year increase of 11.24%. The return on average total assets stood at 1.41%, a year-on-year decrease of 0.22 percentage points. The non-performing loan ratio was 0.00%. The solvency ratio was 34.51% which was in line with regulatory requirements.

2017 年我行主要经营亮点:

In 2017, the key performances of the Bank were the following:

第一，非利息净收入增长较快。全年实现非利息净收入 10.85 百万美元，比上年增长 38.51%。

First, non-interest income achieved rapid growth. The Bank realized a non-interest income of USD10.85 million, a year-on-year increase of 38.51%.

第二，资产质量持续向好，不良率仅为 0.00%，保持较低水平。其他市场风险指标控制在限额内。

Second, the main risks were effectively controlled. The Bank's NPL was 0.00%, remaining at a relatively low level compared with the average level of whole Banking industry. Other various market risk limit indicators were under control.

第三，投入产出效率实现预期。成本收入比控制在 27.98%，控制在分行目标限额以内。

Third, the Bank's input/output efficiency reached the target level. The cost to income ratio was 27.98%, which was under the limitation of the budget

2017 年，我们深入推进业务整合、管理整合和文化整合，落实区域化风险管理体系建设要求，加强风险合规管控，尤其是反洗钱，确保在当地市场处于领先地位；我们积极推进人民币国际化，扩大人民币现钞服务范围，全年累计押运人民币现钞 23 百万人民币，成为柬埔寨人民币现钞服务主渠道；我们坚持科技创新，积极拓展电子渠道，实现柬埔寨第一笔银联在线支付业务；认真履行社会责任，积极参与当地慈善事业，被柬埔寨税务总局授予金牌纳税人。

In 2017, the Branch sought to deepen consolidation with regard to business, management and corporate culture, and fulfill the requirement about regional risk management to strengthen our management, compliance and internal control, especially about AML, to make sure that we are at the leading position in the banking industry of Cambodian; we proactively promote RMB internationalization, especially expanded the channel of RMB cash service, exported RMB23 million cash to Hong Kong and become the main channel of RMB cash service in Cambodia; we earnestly drove Fintech innovation and expand the electronic channels, and complete the first Unionpay Online Payment transaction in Cambodian; we highly fulfilled our social

responsibility, such as devoting ourselves to charitable cause, and rewarded as Golden Certificate from GDT.

展望 2018 年，全球经济有望持续复苏，柬埔寨经济亦可保持快速发展势头，我们将紧紧围绕集团“建设新时代全球一流银行”的战略目标，坚持理念先行、问题导向、科技引领、创新驱动，加快推进“建设一流的全功能国际化区域银行”。

Looking into 2018, we expect that the global economic recovery to continue, Cambodian's economy will maintain its positive growth momentum. The Branch will closely follow BOC Group's strategy goal of "Build a World-class Bank in the New Era", we will upload our beliefs, strive to tackle problems, drive our growth through technology and innovation to forge ahead to participate the process of "build a "Top-class, Full-service and Internationalized Regional Bank".

最后，借此机会，我谨代表分行管理层，衷心感谢全行员工的辛勤工作，衷心感谢柬埔寨中央银行、广大客户及各界朋友的大力支持，我们将以实际行动支持客户发展，提供更好的服务回报社会各界的信任和支持。

Last but not least, I would like to take this opportunity on behalf of the management of branch to express heartfelt gratitude to the Bank's employees for your hard work, to all directors and supervisors for your guidance, and to the Bank's customers and friends for your support. We would remain deeply committed to the development of our customers and provide better services to the public for your trust and support.



Mr. Chen Chang Jiang  
Chief Executive Officer



Phnom Penh, Kingdom of Cambodia

08 June 2018

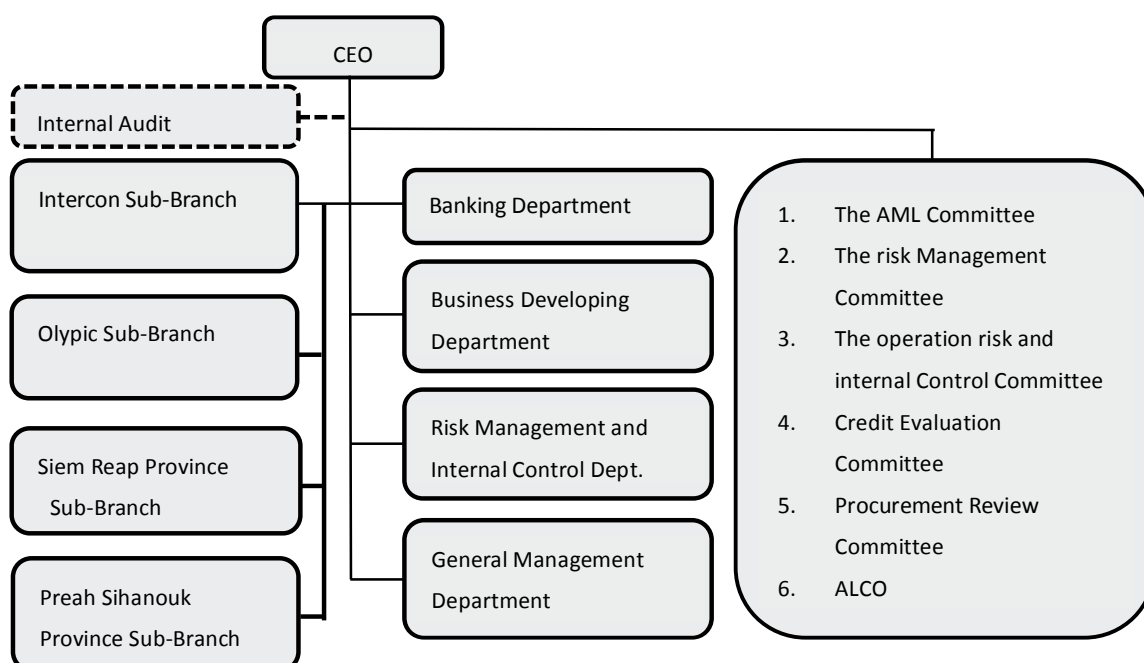




## The Risk Management Committee

The Risk Management Committee is established to assist [the Board] in its role and responsibilities over risk management of the Bank relating to credit risk, country risk, market risk, reputational risk; defining overall risk management framework, coordinating and monitoring the implementation of risk control strategy relating to business strategy; monitoring the growth of risk concentration and evaluating every risk dimension in Branch's portfolio composition; studying new product proposal and valuing the bank competence to do activity of the new product; monitoring capital adequacy in order to cove risk exposure as stated on the regulation of NBC; evaluating the effectiveness of existing risk control system.

The Risk Management Committee will hold quarterly in 2018, discussing and approving above issues at every meeting. [Optional]: Internal purpose only.



## The Operation Risk and Internal Control Committee

The Operation Risk and Internal Control Committee is established to assist [the top management level] in its role and responsibilities over risk management and compliance of the Bank relating to operational risk, reputational risk and business continuity; defining above-mentioned risk management framework, coordinating and monitoring the implementation of risk control strategy relating to business strategy; monitoring the growth of risk concentration and evaluating every risk dimension in Branch's portfolio composition; studying new product proposal and valuing the bank competence to do activity of the new product; monitoring capital adequacy in order to cove risk exposure as stated on the regulation of NBC; evaluating the effectiveness of existing risk control system.

## **Credit Appraisal Committee**

The Committee has the function of managing the individual loans within the portfolio. In particular, the Committee has the job of recommending and monitoring individual credits, recommending reserves and collection strategies.

## **The Anti-Money Laundry Committee**

The committee is responsible to make, review and assess the policy and procedure for Anti-Money Laundry, update the Anti-Money Laundry System, authorize the corresponding person to investigate some suspicious transactions, discuss the training plan for Anti-Money Laundry, approve the Black List and Exemption List.

## **Procurement Review Committee**

Responsible for monitoring and verifying executing Branch's procurement and ensuring that Branch's procurement procedures have been applied. Ensure consistent and correct application of procurement practices.

Making decision to prequalify applicants for contracts estimated at \$10,000 or more; approval on an evaluation report on technical proposals in case of two-stage or two envelope bidding procedures, if the estimated contract value is \$10,000 or more; making a decision to award or rebid a contract valued at \$10,000 or more; making decision to cancel bidding for a contract valued at \$10,000 or more.

## **Asset and Liability Management Committee**

The Asset and Liability Management Committee was established and separated as the special committee from the routine management meeting. Members of the Committee are the head of the departments and sub-branches. The Committee may invite the person who is not member of the Committee to attend the Committee meetings if necessary. The Committee was held at quarterly basis and there were two meeting in 2017 to analysis the market trends and decide our strategy accordingly.

## **Internal Audit**

Internal Audit: Audit Department (Phnom Penh), as the local audit team of BOCHK Group Audit (“Group Audit”) stationed in Phnom Penh Branch, is under the line management, supervision and guidance of Group Audit and reports directly to Group Audit. The duties of Audit Department (Phnom Penh) includes: performing risk-based audit and special reviews to appraise the appropriateness of and adherence to the Group’s internal policies, standards and procedures and compliance with external laws and regulations; making recommendations to improve control/procedures; monitoring and reporting progress in implementing agreed recommendations to the Management and Group Audit; examining bad-debt written-off; and conducting investigation on significant suspected fraudulent activities as requested by the Management and Group Audit.

**Bank of China (Hong Kong) Limited -  
Phnom Penh Branch**  
(formerly Bank of China Limited - Phnom Penh Branch)

Report of the Executive Management  
and  
Audited financial statements in accordance with  
Cambodian Accounting Standards and  
Regulations and Guidelines of the National Bank of Cambodia

as at 31 December 2017 and for the year then ended



Bank of China (Hong Kong) Limited - Phnom Penh Branch  
(formerly Bank of China Limited - Phnom Penh Branch)

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## REPORT OF THE EXECUTIVE MANAGEMENT

The Executive Management of Bank of China (Hong Kong) Limited - Phnom Penh Branch ("the Branch") presents its report and the Branch's financial statements as at 31 December 2017 and for the year then ended.

### THE BRANCH

The Branch was incorporated in Cambodia on 12 July 2010 under the registration number Co. 0034Br/2010 and was granted a banking license from the National Bank of Cambodia ("NBC") on 11 November 2010 for an indefinite period. The Branch commenced its operations on 8 December 2010.

In 2017, the Branch was completely acquired by Bank of China (Hong Kong) Limited from Bank of China Limited. Subsequently, the Branch changed its name from Bank of China Limited - Phnom Penh Branch to Bank of China (Hong Kong) Limited - Phnom Penh Branch in accordance with new Registration No. 00014630 from the Ministry of Commerce. On 7 September 2017, the Branch obtained an updated banking license from the NBC to carry out banking operations for an indefinite period.

Its head office, Bank of China (Hong Kong) Limited ("BOCHK"), a bank incorporated and registered in Hong Kong, is listed on the Hong Kong Stock Exchange. BOCHK's core business is commercial banking, including corporate banking, personal banking and financial market services, providing a comprehensive range of financial services to customers across Hong Kong as well as in five countries and regions.

The principal activities of the Branch are the operation of core banking business and the provision of related financial services in Cambodia.

The Branch's registered office address is at Canadia Tower, 1st and 2nd Floor, 315 Ang Doung St. (Corner of Monivong Blvd.), Phnom Penh, Cambodia.

There is no significant change in the principal activities of the Branch during the year.

### FINANCIAL RESULTS

The financial results of the Branch for the year then ended were as follows:

	2017 US\$	2016 US\$
Profit before tax	20,218,710	17,413,072
Income tax expense	(4,380,893)	(3,175,142)
<b>Net profit for the year</b>	<b>15,837,817</b>	<b>14,237,930</b>
<b>KHR'000 equivalent</b>	<b>63,937,266</b>	<b>57,478,525</b>

### BRANCH CAPITAL

The total branch capital of the Branch as at 31 December 2017 is US\$150,000,000 (KHR605.55 billion) (2016: US\$80,000,000 or KHR322.96 billion).

On 29 December 2017, the NBC approved the US\$70 million increase in the Branch's registered capital. On 29 December 2017, the Branch paid the additional capital guarantee resulting from the capital increase.

# Bank of China (Hong Kong) Limited - Phnom Penh Branch (formerly Bank of China Limited - Phnom Penh Branch)

REPORT OF THE EXECUTIVE MANAGEMENT (continued)

## **RESERVES AND PROVISIONS**

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

## **BAD AND DOUBTFUL LOANS AND ADVANCES**

Before the financial statements of the Branch were drawn up, the Executive Management took reasonable steps to ascertain that actions had been taken in relation to writing off of bad loans and advances and the provision of allowance for loan losses, and satisfied themselves that all known bad loans and advances had been written off and adequate allowance had been made for bad and doubtful loans and advances.

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

## **CURRENT ASSETS**

Before the financial statements of the Branch were drawn up, the Executive Management took reasonable steps to ensure that any current assets, other than debts, which were unlikely to be realized in the ordinary course of business at their value as shown in the accounting records of the Branch had been written down to an amount which they might be expected to realize.

At the date of this report, the Executive Management is not aware of any circumstances, which would render the values attributed to the current assets in the financial statements of the Branch misleading or inappropriate in any material respect.

## **VALUATION METHODS**

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

## **CONTINGENT AND OTHER LIABILITIES**

At the date of this report, there is:

- No charge on the assets of the Branch which has arisen since the end of the period which secures the liabilities of any other person; and
- No contingent liability in respect of the Branch that has arisen since the end of the period other than in the ordinary course of business.

No contingent or other liability of the Branch has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the period which, in the opinion of the Executive Management, will or may have a material effect on the ability of the Branch to meet its obligations as and when they become due.

## **EVENTS AFTER THE BALANCE SHEET DATE**

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

# Bank of China (Hong Kong) Limited - Phnom Penh Branch (formerly Bank of China Limited - Phnom Penh Branch)

## REPORT OF THE EXECUTIVE MANAGEMENT (continued)

### THE EXECUTIVE MANAGEMENT

The members of the Executive Management during the period and at the date of this report are:

Mr. Chen Chang Jiang	Chief Executive Officer
Mr. Wong Hong Song	Assistant Chief Executive Officer
Mr. Liu Zheng	Assistant Chief Executive Officer
Mr. Wang Junwei	Head of Accounting and Finance Department
Mr. Cui Hongbo	Head of Treasury Department
Mr. Ouyang Chang	Head of Internal Control & IT Department
Mr. Huang Huan Hao	Head of Risk Management Department
Mr. Huang Limao	Head of Corporate Banking Department
Mr. Wang Wenzhe	Head of Personal Banking Department
Mr. Liu Xiao Feng	Head of Operation Department
Ms. Zhang Yuan	Head of Banking Department
Ms. Liu Wenjing	Head of General Management Department
Mr. Liu Dao Zhi	Assistant Chief Executive Officer (retirement 20 June 2017)
Mr. Huang Wei	Head of Accounting and Finance Department (retirement 31 July 2017)
Ms. Yu Lei	Head of Personal Banking Department (retirement 30 April 2017)

### AUDITOR

Ernst & Young (Cambodia) Ltd. is the auditor of the Branch.

### EXECUTIVE MANAGEMENT'S BENEFITS

During and at the end of the period, no arrangement existed, to which the Branch was a party, whose object was to enable the Executive Management of the Branch to acquire benefits by means of the acquisition of shares in or debentures of the Branch or any other corporate body.

### STATEMENT OF EXECUTIVE MANAGEMENT'S RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Executive Management is responsible for ensuring that the financial statements give a true and fair view of the financial position of the Branch as at 31 December 2017, and its financial performance and cash flows for the year then ended. In preparing these financial statements, the Executive Management is required to:

- Adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- Comply with regulations and guidelines issued by the NBC and Cambodian Accounting Standards or, if there has been any departure in the interests of fair presentation, ensure this has been appropriately disclosed, explained and quantified in the financial statements;
- Maintain adequate accounting records and an effective system of internal controls;
- Prepare the financial statements on a going concern basis unless it is inappropriate to assume that the Branch will continue operations in the foreseeable future; and
- Set overall policies for the Branch, ratify all decisions and actions by the management that have a material effect on the operations and performance of the Branch, and ensure they have been properly reflected in the financial statements.

The Executive Management is responsible for ensuring that proper accounting records are kept which disclose, with reasonable accuracy at any time, the financial position of the Branch and to ensure that the accounting records comply with the registered accounting system. It is also responsible for safeguarding the assets of the Branch and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The head office confirms that the Branch has complied with these requirements in preparing the financial statements.




Bank of China (Hong Kong) Limited - Phnom Penh Branch  
(formerly Bank of China Limited - Phnom Penh Branch)

REPORT OF THE EXECUTIVE MANAGEMENT (continued)

**APPROVAL OF THE FINANCIAL STATEMENTS**

We hereby approve the accompanying financial statements which give a true and fair view of the financial position of the Branch as at 31 December 2017, and its financial performance and cash flows for the year ended in accordance with Cambodian Accounting Standards and relevant regulations and guidelines issued by the National Bank of Cambodia.

On behalf of the Board of Directors



Mr. Chen Chang Jiang  
Chief Executive Officer



Phnom Penh, Kingdom of Cambodia

29 March 2018

Reference: 60100080/19797158

## INDEPENDENT AUDITOR'S REPORT

**To: The Head Office of Bank of China (Hong Kong) Limited - Phnom Penh Branch (formerly Bank of China Limited - Phnom Penh Branch)**

### *Opinion*

We have audited the accompanying financial statements of Bank of China (Hong Kong) Limited - Phnom Penh Branch ("the Branch"), which comprise the balance sheet as at 31 December 2017 and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Branch as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with Cambodian Accounting Standards and relevant regulations and guidelines issued by the National Bank of Cambodia.

### *Basis for Opinion*

We conducted our audit in accordance with Cambodian International Standards on Auditing ("CISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Branch in accordance with the sub-decree on the Code of Ethics for Professional Accountants and Auditors promulgated by the Royal Government of Cambodia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the other information. The other information comprises the Report of the Executive Management, but does not include the financial statements and our auditor's report thereon.

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

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

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

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

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

The head office is responsible for overseeing the Branch's financial reporting process.



### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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

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



Maria Cristina M. Calimbas  
Partner

**Ernst & Young (Cambodia) Ltd.**  
Certified Public Accountants  
Registered Auditors

Phnom Penh, Kingdom of Cambodia

29 March 2018

Bank of China (Hong Kong) Limited - Phnom Penh Branch  
(formerly Bank of China Limited - Phnom Penh Branch)

BALANCE SHEET  
as at 31 December 2017

	Notes	2017		2016	
		US\$	KHR'000 equivalent (Note 2.1.5)	US\$	KHR'000 equivalent (Note 2.1.5)
<b>ASSETS</b>					
Cash and other cheque items	3	32,267,234	130,262,824	29,767,687	120,172,152
Balances with the National Bank of Cambodia	4	335,166,737	1,353,068,117	257,022,509	1,037,599,869
Balances with other banks	5	409,237,107	1,652,090,201	362,891,381	1,464,992,505
Loans and advances	6	427,026,276	1,723,905,076	377,262,301	1,523,007,909
Property and equipment	7	2,873,229	11,599,225	2,228,160	8,995,082
Deferred tax assets - net	11	1,172,978	4,735,312	952,707	3,846,078
Other assets	8	3,540,208	14,291,820	3,702,168	14,945,652
<b>TOTAL ASSETS</b>		<b>1,211,283,769</b>	<b>4,889,952,575</b>	<b>1,033,826,913</b>	<b>4,173,559,247</b>
<b>LIABILITIES AND EQUITY</b>					
<b>Liabilities</b>					
Deposits from other banks	9	7,286,837	29,416,961	17,230,057	69,557,740
Deposits from customers	10	828,061,708	3,342,885,115	667,079,089	2,692,998,282
Provision for income tax	11	4,236,696	17,103,542	3,436,486	13,873,094
Interbank borrowings	12	153,500,000	619,679,500	203,500,000	821,529,500
Subordinated debt	13	8,000,000	32,296,000	10,000,000	40,370,000
Other liabilities	14	8,185,974	33,046,778	16,406,544	66,233,218
<b>Total liabilities</b>		<b>1,009,271,215</b>	<b>4,074,427,896</b>	<b>917,652,176</b>	<b>3,704,561,834</b>
<b>Equity</b>					
Branch capital	15	150,000,000	605,550,000	80,000,000	322,960,000
Retained earnings		52,012,554	209,974,679	36,174,737	146,037,413
<b>Total equity</b>		<b>202,012,554</b>	<b>815,524,679</b>	<b>116,174,737</b>	<b>468,997,413</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1,211,283,769</b>	<b>4,889,952,575</b>	<b>1,033,826,913</b>	<b>4,173,559,247</b>

The attached notes 1 to 27 form part of these financial statements



Bank of China (Hong Kong) Limited - Phnom Penh Branch  
(formerly Bank of China Limited - Phnom Penh Branch)

INCOME STATEMENT  
for the year ended 31 December 2017

	Notes	2017		2016	
		US\$	KHR'000 equivalent (Note 2.1.5)	US\$	KHR'000 equivalent (Note 2.1.5)
Interest income	16	26,079,002	105,280,931	22,761,483	91,888,107
Interest expense	17	(7,350,583)	(29,674,304)	(6,624,770)	(26,744,196)
<b>Net interest income</b>		<b>18,728,419</b>	<b>75,606,627</b>	<b>16,136,713</b>	<b>65,143,911</b>
Net fee and commission income	18	9,680,176	39,078,871	6,889,758	27,813,953
Foreign exchange income	19	1,168,171	4,715,906	942,189	3,803,617
<b>Net operating income</b>		<b>29,576,766</b>	<b>119,401,404</b>	<b>23,968,660</b>	<b>96,761,481</b>
Personnel expenses	20	(4,682,902)	(18,904,875)	(3,129,754)	(12,634,817)
Depreciation	7	(625,990)	(2,527,122)	(546,355)	(2,205,635)
General and administration expenses	21	(3,787,036)	(15,288,265)	(2,681,253)	(10,824,218)
Provision for loan losses	6	(262,128)	(1,058,211)	(198,226)	(800,238)
<b>Profit before tax</b>		<b>20,218,710</b>	<b>81,622,931</b>	<b>17,413,072</b>	<b>70,296,573</b>
Income tax expense	11	(4,380,893)	(17,685,665)	(3,175,142)	(12,818,048)
<b>Net profit for the year</b>		<b>15,837,817</b>	<b>63,937,266</b>	<b>14,237,930</b>	<b>57,478,525</b>

The attached notes 1 to 27 form part of these financial statements

Bank of China (Hong Kong) Limited - Phnom Penh Branch  
(formerly Bank of China Limited - Phnom Penh Branch)

STATEMENT OF CHANGES IN EQUITY  
for the year ended 31 December 2017

	<i>Branch capital</i> <i>(Note 15)</i> <i>US\$</i>	<i>Retained</i> <i>earnings</i> <i>US\$</i>	<i>Total</i> <i>US\$</i>
Balance as at 1 January 2017	80,000,000	36,174,737	116,174,737
Additional capital contribution	70,000,000	-	70,000,000
Net profit for the year	-	15,837,817	15,837,817
<b>Balance as at 31 December 2017</b>	<b>150,000,000</b>	<b>52,012,554</b>	<b>202,012,554</b>
<b>KHR'000 equivalent (Note 2.1.5)</b>	<b>605,550,000</b>	<b>209,974,679</b>	<b>815,524,679</b>
Balance as at 1 January 2016	80,000,000	21,936,807	101,936,807
Net profit for the year	-	14,237,930	14,237,930
<b>Balance as at 31 December 2016</b>	<b>80,000,000</b>	<b>36,174,737</b>	<b>116,174,737</b>
<b>KHR'000 equivalent (Note 2.1.5)</b>	<b>322,960,000</b>	<b>146,037,413</b>	<b>468,997,413</b>

*The attached notes 1 to 27 form part of these financial statements*

Bank of China (Hong Kong) Limited - Phnom Penh Branch  
(formerly Bank of China Limited - Phnom Penh Branch)

STATEMENT OF CASH FLOWS  
for the year ended 31 December 2017

	Notes	2017		2016	
		US\$	KHR'000 equivalent (Note 2.1.5)	US\$	KHR'000 equivalent (Note 2.1.5)
<b>Net cash generated from (used in) operating activities</b>	22	<b>196,071,157</b>	<b>791,539,261</b>	<b>(3,476,334)</b>	<b>(14,033,961)</b>
<b>INVESTING ACTIVITY</b>					
Acquisition of property and equipment		(1,271,059)	(5,131,265)	(1,432,553)	(5,783,216)
<b>FINANCING ACTIVITIES</b>					
Proceeds from interbank borrowings		522,000,000	2,107,314,000	315,000,000	1,271,655,000
Repayment of interbank borrowings		(572,000,000)	(2,309,164,000)	(135,000,000)	(544,995,000)
Repayment of subordinated debt		(2,000,000)	(8,074,000)	-	-
Proceeds from additional capital contribution		70,000,000	282,590,000	-	-
<b>Net cash from financing activities</b>		<b>18,000,000</b>	<b>72,666,000</b>	<b>180,000,000</b>	<b>726,660,000</b>
<b>Increase in cash and cash equivalents</b>		<b>212,800,098</b>	<b>859,073,996</b>	<b>175,091,113</b>	<b>706,842,823</b>
Cash and cash equivalents at beginning of year		450,935,127	1,820,425,107	275,844,014	1,117,168,257
Foreign currency difference		-	-	-	(3,585,973)
<b>Cash and cash equivalents at end of year</b>	3	<b>663,735,225</b>	<b>2,679,499,103</b>	<b>450,935,127</b>	<b>1,820,425,107</b>

The attached notes 1 to 27 form part of these financial statements

# Bank of China (Hong Kong) Limited - Phnom Penh Branch (formerly Bank of China Limited - Phnom Penh Branch)

NOTES TO THE FINANCIAL STATEMENTS  
as at 31 December 2017 and for the year then ended

## 1. CORPORATE INFORMATION

### *Establishment and operations*

Bank of China (Hong Kong) Limited - Phnom Penh Branch (“the Branch”) was incorporated in Cambodia on 12 July 2010 under the registration number Co. 0034Br/2010 and was granted a banking license from the National Bank of Cambodia (“NBC”) on 11 November 2010 for an indefinite period. The Branch commenced its operations on 8 December 2011.

In 2017, the Branch was completely acquired by Bank of China (Hong Kong) Limited from Bank of China Limited. Subsequently, the Branch changed its name from Bank of China Limited - Phnom Penh Branch to Bank of China (Hong Kong) Limited - Phnom Penh Branch in accordance with new Registration No. 00014630 from the Ministry of Commerce. On 7 September 2017, the Branch obtained an updated banking license from the NBC to carry out banking operations for an indefinite period.

Its head office, Bank of China (Hong Kong) Limited (“BOC”), a bank incorporated and registered in Hong Kong, is listed on the Hong Kong Stock Exchange. BOC’s core business is commercial banking, including corporate banking, personal banking and financial market services, providing a comprehensive range of financial services to customers across Hong Kong as well as in five countries and regions.

The principal activities of the Branch are the operation of core banking business and the provision of related financial services in Cambodia.

There is no significant change in the principal activities of the Branch during the year.

### *Branch capital*

The total branch capital of the Branch as at 31 December 2017 is US\$150,000,000 or KHR605.55 billion (2016: US\$80,000,000 or KHR322.96 billion).

### *Executive management*

The members of the Executive Management during the year and at the date of this report are:

Mr. Chen Chang Jiang	Chief Executive Officer
Mr. Wong Hong Song	Assistant Chief Executive Officer
Mr. Liu Zheng	Assistant Chief Executive Officer
Mr. Wang Junwei	Head of Accounting and Finance Department
Mr. Cui Hongbo	Head of Treasury Department
Mr. Ouyang Chang	Head of Internal Control & IT Department
Mr. Huang Huan Hao	Head of Risk Management Department
Mr. Huang Limao	Head of Corporate Banking Department
Mr. Wang Wenzhe	Head of Personal Banking Department
Mr. Liu Xiao Feng	Head of Operation Department
Ms. Zhang Yuan	Head of Banking Department
Ms. Liu Wenjing	Head of General Management Department
Mr. Liu Dao Zhi	Assistant Chief Executive Officer (retired on 20 June 2017)
Mr. Huang Wei	Head of Accounting and Finance Department (retired on 31 July 2017)
Ms. Yu Lei	Head of Personal Banking Department (retired on 30 April 2017)

# Bank of China (Hong Kong) Limited - Phnom Penh Branch (formerly Bank of China Limited - Phnom Penh Branch)

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 and for the year then ended

## 1. CORPORATE INFORMATION (continued)

### ***Location***

The Branch's registered office address is at Canadia Tower, 1st and 2nd Floor, 315 Ang Doung St. (Corner of Monivong Blvd.), Phnom Penh, Cambodia. As at 31 December 2016, the Branch has two (4) sub-branches located in Phnom Penh, Siem Reap, and Preah Sihanouk province.

### ***Employees***

As at 31 December 2017, the Branch has a total of 145 employees (2016: 123 employees).

### ***Approval of the financial statements***

The financial statements were authorized for issue by the Executive Management on behalf of the Board of Directors on 29 March 2018.

## 2. ACCOUNTING POLICIES

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

#### 2.1.1 ***Statement of compliance***

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

The accompanying financial statements, including their utilization, are not designed for those who are not informed about the Kingdom of Cambodia's accounting principles, procedures and practices and furthermore are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Kingdom of Cambodia.

The accounting policies set out below have been consistently applied by the Branch.

#### 2.1.2 ***Basis of measurement***

The financial statements have been prepared based on the historical cost convention.

#### 2.1.3 ***Fiscal year***

The Branch's fiscal year starts on 1 January and ends on 31 December.

#### 2.1.4 ***Functional and presentation currency***

The national currency of Cambodia is the Khmer Riel ("KHR"). However, the Branch transacts and maintains its accounting records primarily in United States dollar ("US\$"). Management has determined the US\$ to be the Branch's measurement and presentation currency as it reflects the economic substance of the underlying events and circumstances of the Branch. This is in accordance with Prakas No. B7-07-164 dated 13 December 2007.

Transactions in foreign currencies ("FC") are translated into US\$ at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in currencies other than US\$ at the balance sheet date are translated into US\$ at the rates of exchange ruling at that date. Exchange differences arising on translation are recognized in the income statement.



# Bank of China (Hong Kong) Limited - Phnom Penh Branch (formerly Bank of China Limited - Phnom Penh Branch)

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 and for the year then ended

## 2. ACCOUNTING POLICIES (continued)

### 2.1 *Basis of preparation* (continued)

#### 2.1.5 *Translation of US\$ into KHR*

The translation of the US\$ amounts into KHR is presented in the financial statements to comply with the Law on Accounting and Auditing dated 11 April 2016 and the relevant Prakas of NBC, using the closing exchange rate of KHR4,037: US\$1 ruling at the reporting date (2016: KHR4,037: US\$1), as announced by NBC. Such translation should not be construed as a representation that the US\$ amounts represent, or have been or could be converted into KHR at that or any other rate.

#### 2.1.6 *Standards not yet adopted*

On 24 March 2016, the National Accounting Council of Cambodia (“NAC”) announced that the implementation of Cambodian International Financial Reporting Standards (“CIFRSs”) is deferred until the end of 2018. During the transition period, banks and financial institutions, including insurance companies, shall prepare progress report regarding the implementation of CIFRSs and report annually to the NAC and other regulators. The adoption of CIFRSs may have a significant impact on the financial statements of the Branch.

### 2.2 *Significant accounting judgments and estimates*

In applying accounting policies, management has used its judgment and made estimates in determining the amounts recognized in the financial statements, as follows:

#### 2.2.1 *Operating lease*

The Branch has entered into lease on premises used for its operations. The Branch has determined, based on the evaluation of the terms and conditions of the lease agreements (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term and lease term is not for the major part of the asset’s economic life), the lessor retains all the significant risks and rewards of ownership of these properties.

#### 2.2.2 *Functional currency*

CAS 21 requires management to use its judgment to determine the entity’s functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the Branch considers the following:

- a) The currency that mainly influences prices for financial instruments and services (this will often be the currency in which prices for its financial instruments and services are denominated and settled);
- b) The currency in which funds from financing activities are generated; and
- c) The currency in which receipts from operating activities are usually retained.

#### 2.2.3 *Allowance for loan losses*

When preparing the financial statements, the quality of loans and advances is reviewed and assessed to determine their classification and level of allowance for loan losses, as more fully disclosed in Note 2.3.5.

# Bank of China (Hong Kong) Limited - Phnom Penh Branch (formerly Bank of China Limited - Phnom Penh Branch)

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 and for the year then ended

## **2. ACCOUNTING POLICIES** (continued)

### **2.2 Significant accounting judgments and estimates** (continued)

#### *2.2.4 Recognition of deferred tax assets*

Deferred tax assets are recognized for all unused tax losses and temporary differences to the extent that it is probable that future taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable income together with future tax planning strategies.

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

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The Branch assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Branch considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

### **2.3 Summary of significant accounting policies**

#### *2.3.1 Change in accounting policies*

The accounting policies and methods of calculation applied by the Branch are consistently applied during the year.

#### *2.3.2 Segment information*

The Branch operates within one business segment, commercial banking, and within one geographical segment, the Kingdom of Cambodia.

#### *2.3.3 Cash and cash equivalents*

For cash flow statement purposes, cash and cash equivalents consist of cash and bank balances, demand deposits and short-term highly liquid investments with original maturities of three months or less when purchased, and that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

# Bank of China (Hong Kong) Limited - Phnom Penh Branch (formerly Bank of China Limited - Phnom Penh Branch)

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 and for the year then ended

## 2. ACCOUNTING POLICIES (continued)

### 2.3 Summary of significant accounting policies (continued)

#### 2.3.4 Loans and advances

All loans and advances to customers are stated in the balance sheet at the amount of principal less any amounts written off, and allowance for loan losses. Short-term loans are those with a repayment date within one year from the date the loan was advanced. Long-term loans are those with a final repayment date of more than one year from the date the loan was advanced.

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

Loans and advances classified as substandard, doubtful or loss are considered as non-performing loans.

#### 2.3.5 Allowance for loan losses

Allowance for loan losses is made with regard to specific risks and relates to those loans and advances that have been individually reviewed and specifically identified as special mention, sub-standard, doubtful or loss. In addition, a general allowance is also maintained for loans classified as normal. The allowance is based on a percentage of total outstanding loans and advances as mandated by the existing Prakas.

Banks and financial institutions are required to calculate the allowance based on regulatory provision by classifying their loan portfolio into five classes mainly considering the number of days past due of principal and/or interest repayment. On 1 December 2017, the NBC issued Prakas No. B7-017-344 on Credit Risk Grading and Impairment Provisioning ("new Prakas") which effectively replaces NBC Prakas No. B7-09-074 on Asset Classification and Provisioning ("old Prakas") effective from the date of the new Prakas. However, on 16 February 2018, the NBC issued Circular No. B7-018-001 regarding the implementation of the new Prakas which clarified, amongst others, that in case of any difficulty in complying with the new Prakas, banks and financial institutions can continue to calculate their regulatory provision based on the old Prakas. However, this exception is allowed only for financial statements prepared as at 31 December 2017 and for the year then ended.

The Bank opted to maintain its regulatory provision based on the old Prakas which requires the allowance to be provided as follows:

<i>Classification</i>	<i>Number of days past due</i>	<i>Allowance rate</i>
<i>General allowance</i>		
Normal	Less than 30 days	1%
<i>Specific allowance</i>		
Special mention	30 to 89 days	3%
Substandard	90 to 179 days	20%
Doubtful	180 to 359 days	50%
Loss	360 days or more	100%

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.

# Bank of China (Hong Kong) Limited - Phnom Penh Branch (formerly Bank of China Limited - Phnom Penh Branch)

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 and for the year then ended

## 2. ACCOUNTING POLICIES (continued)

### 2.3 Summary of significant accounting policies (continued)

#### 2.3.5 Allowance for loan losses (continued)

Further, the new Prakas requires the comparison of the regulatory provision with the impairment provision determined based on CIFRS when adopted. During the transition period before the implementation of CIFRS, the Bank will follow the mandatory credit classification and regulatory provision in the new Prakas, as follows:

<i>Classification</i>	<i>Number of days past due</i>	<i>Allowance rate</i>
<b>Short-term loans (term of up to one year)</b>		
<i>General allowance</i>		
Normal	0 to 14 days	1%
<i>Specific allowance</i>		
Special mention	15 to 30 days	3%
Substandard	31 to 60 days	20%
Doubtful	61 to 90 days	50%
Loss	91 days or more	100%
<b>Long term loans (term of more than one year)</b>		
<i>General allowance</i>		
Normal	0 to 29 days	1%
<i>Specific allowance</i>		
Special mention	30 to 89 days	3%
Substandard	90 to 179 days	20%
Doubtful	180 to 359 days	50%
Loss	360 days or more	100%

The Branch will incorporate the above determination of regulatory provision as required by the new Prakas commencing 1 January 2018.

# Bank of China (Hong Kong) Limited - Phnom Penh Branch (formerly Bank of China Limited - Phnom Penh Branch)

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 and for the year then ended

## 2. ACCOUNTING POLICIES (continued)

### 2.3 Summary of significant accounting policies (continued)

#### 2.3.6 Other credit-related commitments

In the normal course of business, the Branch enters into other credit-related commitments including loan commitments, letters of credit and guarantees. The accounting policy and provision methodology are similar to originated loans as disclosed above. Allowance is raised against other credit related commitments when losses are considered probable.

#### 2.3.7 Other assets

Other receivables included in other assets are carried at anticipated realizable values. An estimate is made for doubtful debts based on a review of all outstanding amounts as at the balance sheet date.

#### 2.3.8 Property and equipment

- (i) Items of property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Where an item of property comprises major components having different useful lives, they are accounted for as separate items of property and equipment.
- (ii) Depreciation of property and equipment is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets at the following rates:

Leasehold improvements	20%
Furniture and equipment	20%
Computer equipment	33%
Motor vehicles	17%

Construction in progress is not depreciated.

- (iii) The Branch estimates the useful lives of its property and equipment. This estimate is reviewed periodically to ensure that the period of depreciation are consistent with the expected pattern of economic benefits from the items of property and equipment.
- (iv) Subsequent expenditure relating to an item of property and equipment that has already been recognized is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Branch. All other subsequent expenditure is recognized as an expense in the year in which it is incurred.
- (v) Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the assets and are recognized in the income statement on the date of retirement or disposal.
- (vi) Fully depreciated property and equipment are retained in the financial statements until disposed of or written off.
- (vii) The carrying amounts of property and equipment are reviewed for impairment when 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. An impairment loss is charged to the income statement immediately.



# Bank of China (Hong Kong) Limited - Phnom Penh Branch (formerly Bank of China Limited - Phnom Penh Branch)

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 and for the year then ended

## 2. ACCOUNTING POLICIES (continued)

### 2.3 Summary of significant accounting policies (continued)

#### 2.3.8 Property and equipment (continued)

(viii) Reversal of impairment losses recognized in prior years is recorded where there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The reversal is recognized to the extent of the carrying amount of the asset that would have been determined (net of amortization and depreciation) had no impairment loss been recognized. The reversal is recognized in the income statement immediately.

#### 2.3.9 Deposits from customers and other banks

Deposits from customers and other banks are stated at placement value.

#### 2.3.10 Interbank borrowings

Interbank borrowings are stated at the amount of the principal outstanding.

#### 2.3.11 Subordinated debt

Subordinated debt represents a long-term debt that is subordinated to all other liabilities of the Branch. While treated as part of the Branch's liabilities, this is included in the Branch's net worth computation under the NBC guidelines.

#### 2.3.12 Other liabilities

Other liabilities are stated at cost.

#### 2.3.13 Provisions for liabilities

Provisions for liabilities are recognized when the Branch has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditure expected to be required to settle the obligation.

#### 2.3.14 Income tax

##### (i) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amounts expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted at the balance sheet date.

##### (ii) Deferred income tax

Deferred income tax is provided using the balance sheet liability method on temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amount for financial reporting purposes.

# Bank of China (Hong Kong) Limited - Phnom Penh Branch (formerly Bank of China Limited - Phnom Penh Branch)

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2017 and for the year then ended

## 2. ACCOUNTING POLICIES (continued)

### 2.3 Summary of significant accounting policies (continued)

#### 2.3.14 Income tax (continued)

##### (ii) Deferred income tax (continued)

Deferred income tax liabilities are recognized for all taxable temporary differences, except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which these differences can be utilized, except where the deferred income tax arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. Unrecognized deferred income tax assets are re-assessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred income tax assets to be recovered.

#### 2.3.15 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the balance sheet.

#### 2.3.16 Recognition of income and expense

##### (i) Interest income

Interest income is recognized on an accrual basis.

Interest income on overdraft, term loans and other loans is recognized on a daily accrual basis. Where a loan becomes non-performing, the recognition of interest is suspended until it is realized on a cash basis. Loans are deemed to be non-performing where repayments are in arrears for 90 days or more.

##### (ii) Fee and commission income

Income from the various activities of the Branch is accrued as follows:

- 1) Loan arrangement fees and commissions on services and facilities extended to customers are recognised as income over the period in which the services and facilities are extended. Unamortised loan fees are presented as a reduction to loans and advances to customers;
- 2) Commitment fees and guarantee fees on services and facilities extended to customers are recognised as income over the period in which the services and facilities are extended. Unamortised fees are presented as a reduction to commitment and guarantee fees to customers; and

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NOTES TO THE FINANCIAL STATEMENTS (continued)  
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## 2. ACCOUNTING POLICIES (continued)

### 2.3 Summary of significant accounting policies (continued)

#### 2.3.16 Recognition of income and expense (continued)

##### (ii) Fee and commission income (continued)

3) Service charges and processing fees are recognized when the service is provided.

##### (iii) Interest expense

Interest expense on deposits of customers, settlement accounts of other banks, interbank borrowings and subordinated debt are recognized on an accrual basis.

##### (iv) Fee and commission expense

Fee and commission expense is recognized as incurred.

#### 2.3.17 Operating leases

Payments made under operating leases are recognized in the income statement on a straight-line basis over the term of the lease.

#### 2.3.18 Related parties (continued)

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

Related parties, as defined in Articles 49 and 50 of the Cambodian Law on Banking and Financial Institutions, include the following:

- (i) Any person holding directly or indirectly at least ten percent (10%) of the capital or voting rights;
- (ii) Any company of which the Branch directly or indirectly holds at least 10% of the capital or voting rights;
- (iii) Any individual who participates in the administration, direction, management or internal control; and
- (iv) The external auditors.

#### 2.3.19 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not reported in the financial statements since they are not the assets of the Branch.

#### 2.3.20 Rounding of amounts

Except as indicated otherwise, amounts in the financial statements have been rounded off to the nearest dollar and nearest thousands ("KHR'000") for US\$ and KHR amounts, respectively.

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**3. CASH AND OTHER CHEQUE ITEMS**

	2017		2016	
	US\$	KHR'000 equivalent (Note 2.1.5)	US\$	KHR'000 equivalent (Note 2.1.5)
Cash on hand and in vault	17,445,263	70,426,527	15,096,750	60,945,579
Cash in ATM	442,510	1,786,413	604,610	2,440,811
Unpresented cheques	14,379,461	58,049,884	14,066,327	56,785,762
	<b>32,267,234</b>	<b>130,262,824</b>	<b>29,767,687</b>	<b>120,172,152</b>

For purposes of preparing the statement of cash flows, cash and cash equivalents comprise the following:

	2017		2016	
	US\$	KHR'000 equivalent (Note 2.1.5)	US\$	KHR'000 equivalent (Note 2.1.5)
Cash and other cheque items	32,267,234	130,262,824	29,767,687	120,172,152
Balances with the NBC (Note 4)				
Current accounts	214,980,884	867,877,828	152,184,052	614,367,018
Negotiable certificate of deposits ("NCDs")	7,250,000	29,268,250	7,600,000	30,681,200
Balances with other banks (Note 5)				
Current deposits	88,008,983	355,292,264	44,159,783	178,273,044
Term deposits	321,228,124	1,296,797,937	217,223,605	876,931,693
<b>Total cash and cash equivalents</b>	<b>663,735,225</b>	<b>2,679,499,103</b>	<b>450,935,127</b>	<b>1,820,425,107</b>

NCDs and term deposits are unrestricted and have original maturities of three months or less.

**4. BALANCES WITH THE NATIONAL BANK OF CAMBODIA**

	2017		2016	
	US\$	KHR'000 equivalent (Note 2.1.5)	US\$	KHR'000 equivalent (Note 2.1.5)
Current accounts	214,980,884	867,877,828	152,184,052	614,367,018
NCDs	7,250,000	29,268,250	7,600,000	30,681,200
Statutory deposits				
Reserve requirement	97,935,853	395,367,039	89,238,457	360,255,651
Capital guarantee	15,000,000	60,555,000	8,000,000	32,296,000
	<b>335,166,737</b>	<b>1,353,068,117</b>	<b>257,022,509</b>	<b>1,037,599,869</b>

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## 4. BALANCES WITH THE NATIONAL BANK OF CAMBODIA (continued)

### NCDs

NCDs have a term of three months and bear interest at 0.98% per annum (2016: 0.63%).

### Reserve requirement

Under NBC Prakas No. B7-012-140 dated 13 September 2012, banks are required to maintain certain cash reserves with the NBC in the form of compulsory deposits, computed at 8.00% and 12.50% of customer deposits in KHR and in foreign currency, respectively.

### Capital guarantee

Under NBC Prakas No. B7-01-136 dated 15 October 2001, banks are required to maintain a statutory deposit of 10% of registered capital with NBC. This deposit is not available for use in the Branch's day-to-day operations but is refundable when the Branch voluntarily ceases to operate the business in Cambodia.

The Branch has an overdraft line with the NBC secured by the NCD. As at 31 December 2017, the overdraft line is unutilised.

Annual interest rates on balances with the NBC are summarized as follows:

	<u>2017</u>	<u>2016</u>
Current accounts	Nil	Nil
Reserve deposits	0.38% - 0.78%	0.10% - 0.12%
Capital guarantee deposits	0.32% - 0.36%	0.08%
Negotiable certificate of deposit	0.74% - 0.98%	0.63%

## 5. BALANCES WITH OTHER BANKS

	<u>2017</u>		<u>2016</u>	
	<i>US\$</i>	<i>KHR'000 equivalent (Note 2.1.5)</i>	<i>US\$</i>	<i>KHR'000 equivalent (Note 2.1.5)</i>
Local banks				
Current deposits	770,535	3,110,649	31,053,408	125,362,608
Term deposits	90,000,000	363,330,000	87,297,577	352,420,318
Overseas banks				
Current deposits	87,238,448	352,181,615	13,106,375	52,910,436
Term deposits	231,228,124	933,467,937	231,434,021	934,299,143
	<b><u>409,237,107</u></b>	<b><u>1,652,090,201</u></b>	<b><u>362,891,381</u></b>	<b><u>1,464,992,505</u></b>

Current deposits with local banks do not earn interest while those maintained with overseas banks earn interest at rates ranging from 0.11% to 0.15% per annum (2016: 0.40% to 1.10% per annum).

Term deposits earn interest at rates ranging from 0.40% to 1.85% per annum (2016: 0.40% to 1.35% per annum) for local banks and from 2.02% to 3.85% for overseas banks (2016: 1.24% to 3.70%).

Balances with overseas banks are maintained with related parties.



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**6. LOANS AND ADVANCES**

	2017		2016	
	US\$	KHR'000 equivalent (Note 2.1.5)	US\$	KHR'000 equivalent (Note 2.1.5)
Long term loans	331,478,224	1,338,177,590	325,493,029	1,314,015,358
Short term loans	49,709,899	200,678,863	14,031,787	56,646,324
Overdraft	49,212,380	198,670,378	38,574,474	155,725,152
Trade financing	1,620,948	6,543,767	3,771,787	15,226,704
Credit cards	142,278	574,376	134,441	542,738
<b>Gross loans and advances</b>	<b>432,163,729</b>	<b>1,744,644,974</b>	<b>382,005,518</b>	<b>1,542,156,276</b>
<i>Allowance for loan losses</i>				
Specific	(366)	(1,477)	(242,119)	(977,434)
General	(4,321,515)	(17,445,957)	(3,817,634)	(15,411,789)
	<b>(4,321,881)</b>	<b>(17,447,434)</b>	<b>(4,059,753)</b>	<b>(16,389,223)</b>
Unamortized loan processing fees	<b>(815,572)</b>	<b>(3,292,464)</b>	<b>(683,464)</b>	<b>(2,759,144)</b>
<b>Loans and advances - net</b>	<b>427,026,276</b>	<b>1,723,905,076</b>	<b>377,262,301</b>	<b>1,523,007,909</b>

Movements in the allowance for loan losses during the year are as follows:

	2017		2016	
	US\$	KHR'000 equivalent (Note 2.1.5)	US\$	KHR'000 equivalent (Note 2.1.5)
<b>Specific allowance</b>				
Balance at beginning of year	242,119	977,434	555,641	2,250,346
Reversal of provision during the year	(241,753)	(975,957)	(313,522)	(1,265,689)
Foreign exchange difference	-	-	-	(7,223)
Balance at end of year	<b>366</b>	<b>1,477</b>	<b>242,119</b>	<b>977,434</b>
<b>General allowance</b>				
Balance at beginning of year	3,817,634	15,411,789	3,305,886	13,388,838
Provision during the year	503,881	2,034,168	511,748	2,065,927
Foreign exchange difference	-	-	-	(42,976)
Balance at end of year	<b>4,321,515</b>	<b>17,445,957</b>	<b>3,817,634</b>	<b>15,411,789</b>
<b>Total allowance at end of year</b>	<b>4,321,881</b>	<b>17,447,434</b>	<b>4,059,753</b>	<b>16,389,223</b>

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6. **LOANS AND ADVANCES** (continued)

Further analyses of loans and advances follow:

(a) Industry sector

	2017		2016	
	US\$	KHR'000 equivalent (Note 2.1.5)	US\$	KHR'000 equivalent (Note 2.1.5)
Manufacturing	118,283,236	477,509,424	125,723,443	507,545,540
Wholesale/retail	45,160,677	182,313,653	104,870,040	423,360,350
Services	14,773,305	59,639,832	6,674,659	26,945,600
Financial services	666,668	2,691,339	8,409,765	33,950,220
Others	253,279,843	1,022,490,726	136,327,611	550,354,566
	<b>432,163,729</b>	<b>1,744,644,974</b>	<b>382,005,518</b>	<b>1,542,156,276</b>

(b) Classification/performance of loans and advances

	2017		2016	
	US\$	KHR'000 equivalent (Note 2.1.5)	US\$	KHR'000 equivalent (Note 2.1.5)
<i>Normal loans</i>				
Secured	428,928,426	1,731,584,056	315,014,674	1,271,714,239
Unsecured	3,223,114	13,011,711	66,748,725	269,464,603
<i>Substandard loans</i>				
Secured	9,516	38,416	-	-
Unsecured	2,673	10,791	-	-
<i>Loss loans</i>				
Secured	-	-	242,119	977,434
	<b>432,163,729</b>	<b>1,744,644,974</b>	<b>382,005,518</b>	<b>1,542,156,276</b>

(c) Currency, residency, relationship and exposure

	2017		2016	
	US\$	KHR'000 equivalent (Note 2.1.5)	US\$	KHR'000 equivalent (Note 2.1.5)
US\$	<b>432,163,729</b>	<b>1,744,644,974</b>	<b>382,005,518</b>	<b>1,542,156,276</b>
Residents	422,663,729	1,706,293,474	362,234,064	1,462,338,916
Non-residents	9,500,000	38,351,500	19,771,454	79,817,360
	<b>432,163,729</b>	<b>1,744,644,974</b>	<b>382,005,518</b>	<b>1,542,156,276</b>
External customers	431,329,613	1,741,277,648	381,016,198	1,538,162,391
Staff	834,116	3,367,326	989,320	3,993,885
	<b>432,163,729</b>	<b>1,744,644,974</b>	<b>382,005,518</b>	<b>1,542,156,276</b>
Non-large exposures	267,620,916	1,080,385,638	162,354,128	655,423,615
Large exposures	164,542,813	664,259,336	219,651,390	886,732,661
	<b>432,163,729</b>	<b>1,744,644,974</b>	<b>382,005,518</b>	<b>1,542,156,276</b>

There is no large exposure of off-balance sheet items as at 31 December 2017 (2016: US\$23.37 million).

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**6. LOANS AND ADVANCES** (continued)

(d) Maturity

Refer to Note 25.4 on liquidity risk.

(e) Annual interest rates

	<u>2017</u>	<u>2016</u>
Overdraft	3.68% - 9.00%	3.68% - 9.00%
Trade financing	6.00% - 6.50%	6.50%
Short-term loans	2.95% - 9.00%	2.50% - 8.00%
Long-term loans	2.50% - 9.60%	3.00 - 9.00%

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7. PROPERTY AND EQUIPMENT

	2017					Total US\$
	Construction in-progress US\$	Leasehold improvements US\$	Furniture and equipment US\$	Computer equipment US\$	Motor vehicles US\$	
<b>Cost</b>						
As at 1 January	912,842	2,117,700	730,236	642,720	536,601	4,940,099
Additions	20,711	817,193	329,279	103,876	-	1,271,059
Disposals	-	-	(77,550)	-	-	(77,550)
Transfers	(912,842)	912,842	-	-	-	-
<b>As at 31 December</b>	<b>20,711</b>	<b>3,847,735</b>	<b>981,965</b>	<b>746,596</b>	<b>536,601</b>	<b>6,133,608</b>
<b>Less accumulated depreciation</b>						
As at 1 January	-	1,538,785	313,092	450,679	409,383	2,711,939
Charge for the year	-	289,465	171,119	120,139	45,267	625,990
Disposals	-	-	(77,550)	-	-	(77,550)
<b>As at 31 December</b>	<b>-</b>	<b>1,828,250</b>	<b>406,661</b>	<b>570,818</b>	<b>454,650</b>	<b>3,260,379</b>
<b>Net book value</b>						
As at 31 December	20,711	2,019,485	575,304	175,778	81,951	2,873,229
<b>KHR'000 equivalent (Note 2.1.5)</b>	<b>83,610</b>	<b>8,152,661</b>	<b>2,322,502</b>	<b>709,616</b>	<b>330,836</b>	<b>11,599,225</b>

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7. PROPERTY AND EQUIPMENT (continued)

	2016					Total US\$
	Construction in-progress US\$	Leasehold improvements US\$	Furniture and equipment US\$	Computer equipment US\$	Motor vehicles US\$	
<b>Cost</b>						
As at 1 January	-	2,030,843	312,167	633,067	536,601	3,512,678
Additions	912,842	86,857	312,485	120,369	-	1,432,553
Disposals	-	-	-	(5,132)	-	(5,132)
Transfers	-	-	105,584	(105,584)	-	-
<b>As at 31 December</b>	<b>912,842</b>	<b>2,117,700</b>	<b>730,236</b>	<b>642,720</b>	<b>536,601</b>	<b>4,940,099</b>
<b>Less accumulated depreciation</b>						
As at 1 January	-	1,286,521	119,240	444,733	319,950	2,170,444
Charge for the year	-	252,264	103,201	101,457	89,433	546,355
Disposals	-	-	-	(4,860)	-	(4,860)
Transfers	-	-	90,651	(90,651)	-	-
<b>As at 31 December</b>	<b>-</b>	<b>1,538,785</b>	<b>313,092</b>	<b>450,679</b>	<b>409,383</b>	<b>2,711,939</b>
<b>Net book value</b>						
<b>As at 31 December</b>	<b>912,842</b>	<b>578,915</b>	<b>417,144</b>	<b>192,041</b>	<b>127,218</b>	<b>2,228,160</b>
<b>KHR'000 equivalent (Note 2.1.5)</b>	<b>3,685,143</b>	<b>2,337,080</b>	<b>1,684,010</b>	<b>775,270</b>	<b>513,579</b>	<b>8,995,082</b>

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8. OTHER ASSETS

	2017		2016	
	US\$	KHR'000 equivalent (Note 2.1.5)	US\$	KHR'000 equivalent (Note 2.1.5)
Interest receivable	2,959,579	11,947,820	3,200,373	12,919,906
Prepayments and others	383,156	1,546,801	432,418	1,745,671
Deposits	197,473	797,199	69,377	280,075
	<b>3,540,208</b>	<b>14,291,820</b>	<b>3,702,168</b>	<b>14,945,652</b>

9. DEPOSITS FROM OTHER BANKS

Deposits from other banks consist of:

	2017		2016	
	US\$	KHR'000 equivalent (Note 2.1.5)	US\$	KHR'000 equivalent (Note 2.1.5)
Current deposits	2,286,837	9,231,961	7,230,057	29,187,740
Term deposits	5,000,000	20,185,000	10,000,000	40,370,000
	<b>7,286,837</b>	<b>29,416,961</b>	<b>17,230,057</b>	<b>69,557,740</b>

Further analyses of deposits from other banks are as follows:

(a) Currency

	2017		2016	
	US\$	KHR'000 equivalent (Note 2.1.5)	US\$	KHR'000 equivalent (Note 2.1.5)
USD	7,151,702	28,871,421	17,202,654	69,447,114
KHR	126,096	509,050	18,066	72,933
Chinese Yuan	9,039	36,490	9,337	37,693
	<b>7,286,837</b>	<b>29,416,961</b>	<b>17,230,057</b>	<b>69,557,740</b>

(b) Relationship and residency

	2017		2016	
	US\$	KHR'000 equivalent (Note 2.1.5)	US\$	KHR'000 equivalent (Note 2.1.5)
Non-related parties	<b>7,286,837</b>	<b>29,416,961</b>	<b>17,230,057</b>	<b>69,557,740</b>
Residents	<b>7,286,837</b>	<b>29,416,961</b>	<b>17,230,057</b>	<b>69,557,740</b>

(c) Maturity analysis

Refer to Note 25.4 on Liquidity risk.

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9. DEPOSITS FROM OTHER BANKS (continued)

(d) Annual interest rates

	<u>2017</u>	<u>2016</u>
Current deposits	0.00% - 0.25%	0.00% - 0.25%
Term deposits	1.35%	1.00% - 3.65%

10. DEPOSITS FROM CUSTOMERS

Deposits from customers consist of:

	<u>2017</u>		<u>2016</u>	
	<i>US\$</i>	<i>KHR'000 equivalent (Note 2.1.5)</i>	<i>US\$</i>	<i>KHR'000 equivalent (Note 2.1.5)</i>
Current deposits	538,328,826	2,173,233,471	421,107,412	1,700,010,621
Savings deposits	147,387,026	595,001,424	128,746,666	519,750,291
Term deposits	141,096,441	569,606,332	116,171,858	468,985,791
Margin deposits	1,249,415	5,043,888	1,053,153	4,251,579
	<b><u>828,061,708</u></b>	<b><u>3,342,885,115</u></b>	<b><u>667,079,089</u></b>	<b><u>2,692,998,282</u></b>

Further analyses of deposits from customers are as follows:

(a) Customer

	<u>2017</u>		<u>2016</u>	
	<i>US\$</i>	<i>KHR'000 equivalent (Note 2.1.5)</i>	<i>US\$</i>	<i>KHR'000 equivalent (Note 2.1.5)</i>
Legal entities	588,641,978	2,376,347,665	470,984,018	1,901,362,480
Individuals	239,419,730	966,537,450	196,095,071	791,635,802
	<b><u>828,061,708</u></b>	<b><u>3,342,885,115</u></b>	<b><u>667,079,089</u></b>	<b><u>2,692,998,282</u></b>

(b) Currency

	<u>2017</u>		<u>2016</u>	
	<i>US\$</i>	<i>KHR'000 equivalent (Note 2.1.5)</i>	<i>US\$</i>	<i>KHR'000 equivalent (Note 2.1.5)</i>
USD	771,972,621	3,116,453,471	634,797,985	2,562,679,465
KHR	52,061,402	210,171,880	28,450,216	114,853,522
Chinese Yuan	4,012,307	16,197,683	3,780,975	15,263,796
Others	15,378	62,081	49,913	201,499
	<b><u>828,061,708</u></b>	<b><u>3,342,885,115</u></b>	<b><u>667,079,089</u></b>	<b><u>2,692,998,282</u></b>

(c) Residency

	<u>2017</u>		<u>2016</u>	
	<i>US\$</i>	<i>KHR'000 equivalent (Note 2.1.5)</i>	<i>US\$</i>	<i>KHR'000 equivalent (Note 2.1.5)</i>
Residents	747,999,067	3,019,672,233	587,084,371	2,370,059,605
Nonresidents	80,062,641	323,212,882	79,994,718	322,938,677
	<b><u>828,061,708</u></b>	<b><u>3,342,885,115</u></b>	<b><u>667,079,089</u></b>	<b><u>2,692,998,282</u></b>



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**10. DEPOSITS FROM CUSTOMERS** (continued)

(d) Maturity analysis

Refer to Note 25.4 on Liquidity risk.

(e) Annual interest rates

	<u>2017</u>	<u>2016</u>
Current deposits	0.00% - 1.75%	0.00% - 1.75%
Savings deposits	0.125% - 0.50%	0.00% - 0.50%
Term deposits	1.00% - 4.75%	1.00% - 3.65%
Margin deposits	Nil	Nil

**11. INCOME TAX**

Components of income tax expense are as follows:

	<u>2017</u>		<u>2016</u>	
	<i>US\$</i>	<i>KHR'000 equivalent (Note 2.1.5)</i>	<i>US\$</i>	<i>KHR'000 equivalent (Note 2.1.5)</i>
Current	4,601,164	18,574,899	3,740,129	15,098,901
Deferred	(220,271)	(889,234)	(564,987)	(2,280,853)
<b>Income tax expense</b>	<b>4,380,893</b>	<b>17,685,665</b>	<b>3,175,142</b>	<b>12,818,048</b>

**11.1 Current corporate income tax ("CIT")**

In accordance with Cambodian tax law, the Branch has an obligation to pay current CIT of either the profit tax at the rate of 20% of taxable income or a minimum tax at 1% of gross revenue, whichever is higher.

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

	<u>2017</u>		<u>2016</u>	
	<i>US\$</i>	<i>KHR'000 equivalent (Note 2.1.5)</i>	<i>US\$</i>	<i>KHR'000 equivalent (Note 2.1.5)</i>
<b>Profit before tax</b>	<b>20,218,710</b>	<b>81,622,931</b>	<b>17,413,072</b>	<b>70,296,573</b>
Income tax using statutory rate	4,043,742	16,324,586	3,482,614	14,059,315
Non-deductible expenses	378,618	1,528,481	363,071	1,465,716
Movement of deferred tax assets	(220,271)	(889,234)	(564,987)	(2,280,853)
Under (over) provision in prior year	178,804	721,832	(105,556)	(426,130)
	<b>4,380,893</b>	<b>17,685,665</b>	<b>3,175,142</b>	<b>12,818,048</b>

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**11. INCOME TAX** (continued)

**11.1 Current corporate income tax** (continued)

The Branch's tax returns are subject to periodic examination by the tax authorities. Because the application of tax laws and regulations to many types of transactions is susceptible to varying interpretations, amounts reported in the financial statements could be changed at a later date upon final determination by the tax authorities.

The movements of provision for income tax during the year are as follows:

	2017		2016	
	US\$	KHR'000 equivalent (Note 2.1.5)	US\$	KHR'000 equivalent (Note 2.1.5)
Balance as at 1 January	3,436,486	13,873,094	2,980,843	12,072,414
Current income tax charge	4,601,164	18,574,899	3,740,129	15,098,901
Income tax paid	(3,800,954)	(15,344,451)	(3,284,486)	(13,259,470)
Foreign exchange difference	-	-	-	(38,751)
<b>Balance as at 31 December</b>	<b>4,236,696</b>	<b>17,103,542</b>	<b>3,436,486</b>	<b>13,873,094</b>

**11.2 Deferred income tax**

Details of deferred tax assets - net are as follows:

	2017		2016	
	US\$	KHR'000 equivalent (Note 2.1.5)	US\$	KHR'000 equivalent (Note 2.1.5)
Allowance for loan losses	864,303	3,489,191	763,527	3,082,358
Deferred income	163,114	658,491	136,693	551,830
Provisions	139,428	562,871	11,657	47,059
Property and equipment	5,752	23,221	41,136	166,066
Unrealized foreign exchange loss (gain)	381	1,538	(306)	(1,235)
	<b>1,172,978</b>	<b>4,735,312</b>	<b>952,707</b>	<b>3,846,078</b>

**12. INTERBANK BORROWINGS**

	2017		2016	
	US\$	KHR'000 equivalent (Note 2.1.5)	US\$	KHR'000 equivalent (Note 2.1.5)
Bank of China - Hong Kong	130,000,000	524,810,000	180,000,000	726,660,000
Bank of China - Beijing	23,500,000	94,869,500	23,500,000	94,869,500
	<b>153,500,000</b>	<b>619,679,500</b>	<b>203,500,000</b>	<b>821,529,500</b>

The unsecured borrowings from Bank of China - Hong Kong comprise US\$100 million with interest at 2.10% per annum and a term of four days and US\$30 million with interest at 2.06% per annum and a term of three years.

The unsecured borrowing from the Bank of China - Beijing bears interest at six-month LIBOR plus 110 basis points per annum and matures on 28 April 2022.

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**13. SUBORDINATED DEBT**

This represents an unsecured term loan from BOC – Beijing with interest at 12-month LIBOR plus 150 basis points per annum that is repriced every year. The subordinated debt is repayable on five equal annual installments starting September 2017 and matures on September 2021. On 7 September 2011, the NBC approved the subordinated debt for net worth calculation purposes.

**14. OTHER LIABILITIES**

	2017		2016	
	US\$	KHR'000 equivalent (Note 2.1.5)	US\$	KHR'000 Equivalent (Note 2.1.5)
Remittances	2,343,075	9,458,994	13,190,639	53,250,610
Interest	2,910,093	11,748,045	1,982,681	8,004,083
Accrued bonus	1,319,648	5,327,419	840,738	3,394,059
ATM card payable	671,093	2,709,202	-	-
Accruals and others	628,265	2,536,306	243,904	984,640
Other taxes	310,409	1,253,123	145,320	586,657
Payable to suppliers	3,391	13,689	3,262	13,169
	<b>8,185,974</b>	<b>33,046,778</b>	<b>16,406,544</b>	<b>66,233,218</b>

Outstanding remittances were cleared in January 2018.

**15. BRANCH CAPITAL**

Branch capital represents the equity invested by the head office.

On 29 December 2017, the NBC approved the US\$70 million increase in the Branch's registered capital. On 29 December 2017, the Branch paid the additional capital guarantee resulting from the capital increase.

**16. INTEREST INCOME**

	2017		2016	
	US\$	KHR'000 equivalent (Note 2.1.5)	US\$	KHR'000 equivalent (Note 2.1.5)
Loans and advances	22,491,859	90,799,635	20,435,129	82,496,616
Balances with NBC and other banks	3,587,143	14,481,296	2,326,354	9,391,491
	<b>26,079,002</b>	<b>105,280,931</b>	<b>22,761,483</b>	<b>91,888,107</b>

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**17. INTEREST EXPENSE**

	2017		2016	
	US\$	KHR'000 equivalent (Note 2.1.5)	US\$	KHR'000 equivalent (Note 2.1.5)
Deposits from customers	5,500,333	22,204,845	4,979,109	20,100,663
Interbank borrowings and subordinated debt	1,850,250	7,469,459	1,645,661	6,643,533
	<b>7,350,583</b>	<b>29,674,304</b>	<b>6,624,770</b>	<b>26,744,196</b>

**18. FEE AND COMMISSION INCOME**

	2017		2016	
	US\$	KHR'000 equivalent (Note 2.1.5)	US\$	KHR'000 equivalent (Note 2.1.5)
Fee and commission income				
Loans and trade finance	5,632,919	22,740,094	3,317,588	13,393,103
Remittance	3,502,158	14,138,212	3,384,537	13,663,376
Card products	213,057	860,111	145,418	587,052
Others	713,407	2,880,025	131,016	528,912
	10,061,541	40,618,442	6,978,559	28,172,443
Fee and commission expense	(381,365)	(1,539,571)	(88,801)	(358,490)
	<b>9,680,176</b>	<b>39,078,871</b>	<b>6,889,758</b>	<b>27,813,953</b>

**19. FOREIGN EXCHANGE INCOME**

This represents fees earned from foreign currency arbitrage among Chinese Yuan, United States Dollars, Hong Kong Dollars and Euro.

**20. PERSONNEL EXPENSES**

	2017		2016	
	US\$	KHR'000 equivalent (Note 2.1.5)	US\$	KHR'000 equivalent (Note 2.1.5)
Salaries and wages	3,324,207	13,419,824	2,095,011	8,457,559
Allowances	1,189,575	4,802,314	896,055	3,617,374
Other benefits	169,120	682,737	138,688	559,884
	<b>4,682,902</b>	<b>18,904,875</b>	<b>3,129,754</b>	<b>12,634,817</b>

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**21. GENERAL AND ADMINISTRATION EXPENSES**

	2017		2016	
	US\$	KHR'000 equivalent (Note 2.1.5)	US\$	KHR'000 equivalent (Note 2.1.5)
Rental, repairs and maintenance	1,190,476	4,805,952	903,425	3,647,127
Legal and professional fees	659,588	2,662,757	161,785	653,126
Social activities	224,669	906,989	162,280	655,124
Office supplies	192,048	775,298	112,661	454,812
Other taxes	151,820	612,897	50,490	203,828
Travelling	116,700	471,118	112,923	455,870
Utilities	110,910	447,744	113,481	458,123
Telephone and internet	105,634	426,444	21,282	85,915
Advertising and marketing	37,893	152,974	80,063	323,214
Installation	1,091	4,404	30,031	121,235
Others	996,207	4,021,688	932,832	3,765,844
	<b>3,787,036</b>	<b>15,288,265</b>	<b>2,681,253</b>	<b>10,824,218</b>

Others include mainly withholding taxes borne by the Branch, promotions, insurance and donation.

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**22. NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES**

	2017		2016	
	US\$	KHR'000 equivalent (Note 2.1.5)	US\$	KHR'000 equivalent (Note 2.1.5)
<b>Cash flows from operating activities</b>				
Profit before income tax	20,218,710	81,622,931	17,413,072	70,296,573
<i>Adjustments for:</i>				
Depreciation	625,990	2,527,122	546,355	2,205,635
Loss on disposal of property and equipment	-	-	272	1,097
	<b>20,844,700</b>	<b>84,150,053</b>	<b>17,959,699</b>	<b>72,503,305</b>
Income tax paid	(3,800,954)	(15,344,451)	(3,284,486)	(13,259,470)
<b>Cash provided by operating activities before changes in operating assets and liabilities</b>	<b>17,043,746</b>	<b>68,805,602</b>	<b>14,675,213</b>	<b>59,243,835</b>
<i>Decrease (increase) in operating assets</i>				
Balances with NBC	(15,697,396)	(63,370,388)	(20,468,450)	(82,631,133)
Balances with other banks	101,507,993	409,787,768	(61,507,993)	(248,307,768)
Loans and advances	(49,763,975)	(200,897,167)	(57,859,755)	(233,579,831)
Other assets	161,960	653,832	(1,428,535)	(5,766,996)
<i>Increase (decrease) in operating liabilities</i>				
Deposits from other banks	(9,943,220)	(40,140,779)	(10,123,494)	(40,868,545)
Deposits from customers	160,982,619	649,886,833	121,019,021	488,553,788
Other liabilities	(8,220,570)	(33,186,440)	12,217,659	49,322,689
<b>Net cash generated from (used in) operating activities</b>	<b>196,071,157</b>	<b>791,539,261</b>	<b>(3,476,334)</b>	<b>(14,033,961)</b>

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**23. RELATED PARTY TRANSACTIONS AND BALANCES**

Significant related party transactions of the Branch during the year and the outstanding balances at balance sheet date are as follows:

Related party	Nature of transaction	2017		2016	
		US\$	KHR'000 equivalent (Note 2.1.5)	US\$	KHR'000 equivalent (Note 2.1.5)
BOC - New York (affiliate)	Balances with other banks	-	-	9,776,827	39,469,051
BOC - Hong Kong (Head office))	Balances with other banks	233,691,479	943,412,501	203,880,462	823,065,425
	Interbank borrowings	130,000,000	524,810,000	180,000,000	726,660,000
	Accrued interest payable	1,144,667	4,621,021	525,167	2,120,099
	Interest expense	711,755	2,873,355	836,945	3,378,747
	Accrued interest receivable	182,615	737,217	436,406	1,761,771
BOC - Beijing (affiliate and former head office)	Interbank borrowings	23,500,000	94,869,500	23,500,000	94,869,500
	Balances with other banks	22,343,036	90,198,836	766,512	3,094,409
	Subordinated debt	8,000,000	32,296,000	10,000,000	40,370,000
	Interest expense	891,074	3,597,266	808,716	3,264,786
	Accrued interest payable	185,324	748,153	191,190	771,834
BOC - Cayman (affiliate)	Balances with other banks	60,000,000	242,220,000	30,000,000	121,110,000
	Interest income	980,556	3,958,505	301,667	1,217,830
	Accrued interest receivable	85,000	343,145	-	-
BOC - Shanghai (affiliate)	Balances with other banks	3,180	12,838	61,336	247,613
BOC - Frankfurt (affiliate)	Balances with other banks	35,369	142,785	55,157	222,669
Key management personnel	Compensation	2,012,507	8,124,491	1,590,580	6,421,171

Key management personnel includes the executive management.



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## 24. COMMITMENTS AND CONTINGENCIES

### 24.1 Lending commitments

To meet the financial needs of customers, the Branch enters into various commitments. No material losses are anticipated from these transactions, as follows:

	2017		2016	
	US\$	KHR'000 equivalent (Note 2.1.5)	US\$	KHR'000 equivalent (Note 2.1.5)
Unutilized portion of overdraft	20,924,540	84,472,369	13,825,526	55,813,648
Loan commitments	1,377,251	5,559,962	6,896,781	27,842,305
Letters of credit	343,652	1,387,322	11,617,438	46,899,597
Guarantees and others	57,175,190	230,816,241	41,171,691	166,210,117
	<b>79,820,633</b>	<b>322,235,894</b>	<b>73,511,436</b>	<b>296,765,667</b>

### 24.2 Operating lease commitments

The Branch, as lessee, has entered into commercial leases on premises. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments in respect of the lease of the five office buildings as at 31 December are as follows:

	2017		2016	
	US\$	KHR'000 equivalent (Note 2.1.5)	US\$	KHR'000 equivalent (Note 2.1.5)
Within one year	585,738	2,364,624	589,461	2,379,654
Between one to five years	1,342,524	5,419,769	1,329,096	5,365,561
More than five years	707,760	2,857,227	940,187	3,795,535
	<b>2,636,022</b>	<b>10,641,620</b>	<b>2,858,744</b>	<b>11,540,750</b>

### 24.3 Taxation contingency

The taxation system in Cambodia has undergone numerous changes and is characterized by either often unclear, contradictory and/or differing interpretations existing 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 significant than in other countries.

Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects since the incorporation of the Bank could be significant.

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as at 31 December 2017 and for the year then ended

## **25. FINANCIAL RISK MANAGEMENT**

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

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

The Branch aims to comply with NBC's regulations for financial risk management purposes. In addition to minimum requirements of NBC, the Branch also adopts relevant financial risk management procedures of the head office.

### **25.1 Operational risk**

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

The operational risk management entails the establishment of clear organizational structures, roles and control policies. Various internal control policies and measures have been implemented. These include the establishment of signing authorities, defining system parameter controls, streamlining procedures and documentation. These are reviewed continually to address the operational risks of its banking business.

### **25.2 Credit risk**

The Branch takes on exposure to credit risk, which is the risk that a counter party will cause a financial loss to the Branch by failing to discharge an obligation. Credit risk is the most important risk for the Branch's business. Credit exposure arises principally in lending activities that lead to loans and advances. There is also credit risk in off-balance sheet financial instruments, such as loan commitments.

#### **(a) Credit risk measurement**

The Branch assesses the probability of default of individual counterparties by focusing on borrowers' forecast profit and cash flow. The credit department is responsible for determining the risk rating for each borrower.

In measuring credit risk of loans and advances to customers, the Branch reflects the various of risk rating categories range from AAA to D in which AAA is the highest rating and D is the lowest rating.

Risk rating are reviewed and updated on an annual basis, and in event of (i) change of loan terms and conditions including extension; (ii) repayment irregularities or delinquencies and (iii) adverse information relating to the borrower or transaction.

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

The Branch operates and provides loans and advances to individuals or enterprises within the Kingdom of Cambodia. The Branch manages limits and controls concentration of credit risk whenever they are identified. One approach the Branch considers is to endorse the loan to its affiliates.

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## 25. FINANCIAL RISK MANAGEMENT (continued)

### 25.2 Credit risk (continued)

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

The Branch 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 Branch 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.

#### (c) Impairment and allowance policy

The Branch follows the mandatory credit classification and allowance of NBC Prakas No. B7-09-074 dated 25 February 2009, as disclosed in Note 2.3.5.

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

Maximum exposure to credit risk before collateral held or other credit enhancements of the Branch follows:

	2017		2016	
	US\$	KHR'000 equivalent (Note 2.1.5)	US\$	KHR'000 equivalent (Note 2.1.5)
Balances with the NBC	222,230,884	897,146,078	159,784,052	645,048,218
Balances with other banks	409,237,107	1,652,090,201	362,891,381	1,464,992,505
Loans and advances	427,026,276	1,723,905,076	377,262,301	1,523,007,909
Other assets	2,959,579	11,947,820	3,200,373	12,919,906
	<b>1,061,453,846</b>	<b>4,285,089,175</b>	<b>903,138,107</b>	<b>3,645,968,538</b>

For off-balance sheet accounts, see Note 24.1.

#### (e) Concentration of risks of financial assets with credit risk exposure

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Branch's performance to developments affecting a particular industry or geographic location. An analysis of such concentration of risk by industry is set out on the following table.

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

**25.2 Credit risk (continued)**

(e) Concentration of risks of financial assets with credit risk exposure (continued)

	Financial services	Service	Retail & wholesale	Manufacturing	Others	Total
<b>2017</b>						
Balances with the NBC	222,230,884	-	-	-	-	222,230,884
Balances with other banks	409,237,107	-	-	-	-	409,237,107
Loans and advances	666,668	14,773,305	45,160,677	118,283,236	253,279,843	432,163,729
Other assets	399,706	207,823	350,538	410,285	1,591,227	2,959,579
<b>Total in US\$</b>	<b>632,534,365</b>	<b>14,981,128</b>	<b>45,511,215</b>	<b>118,693,521</b>	<b>254,871,070</b>	<b>1,066,591,299</b>
<b>KHR'000 equivalent</b> (Note 2.1.5)	<b>2,553,541,232</b>	<b>60,478,814</b>	<b>183,728,775</b>	<b>479,165,744</b>	<b>1,028,914,510</b>	<b>4,305,829,074</b>
<b>2016</b>						
Balances with the NBC	159,784,052	-	-	-	-	159,784,052
Balances with other banks	362,891,381	-	-	-	-	362,891,381
Loans and advances	8,409,765	6,674,659	104,870,040	125,723,443	136,327,611	382,005,518
Other assets	827,908	20,245	387,330	515,583	1,449,307	3,200,373
<b>Total in US\$</b>	<b>531,913,106</b>	<b>6,694,904</b>	<b>105,257,370</b>	<b>126,239,026</b>	<b>137,776,918</b>	<b>907,881,324</b>
<b>KHR'000 equivalent</b> (Note 2.1.5)	<b>2,147,333,209</b>	<b>27,027,327</b>	<b>424,924,003</b>	<b>509,626,948</b>	<b>556,205,418</b>	<b>3,665,116,905</b>

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

**25.2 Credit risk** (continued)

(f) Loans and advances

Loans and advances of the Branch are summarized as follows:

	2017		2016	
	US\$	KHR'000 equivalent (Note 2.1.5)	US\$	KHR'000 equivalent (Note 2.1.5)
Loans and advances neither past due nor impaired (i)	432,151,540	1,744,595,767	381,763,399	1,541,178,842
Loans and advances past due but not impaired (ii)	12,189	49,207	-	-
Loans and advances individually impaired (iii)	-	-	242,119	977,434
<b>Loans and advances - gross</b>	<b>432,163,729</b>	<b>1,744,644,974</b>	<b>382,005,518</b>	<b>1,542,156,276</b>
Allowance for loan losses	(4,321,881)	(17,447,434)	(4,059,753)	(16,389,223)
Unamortized loan processing fees	(815,572)	(3,292,464)	(683,464)	(2,759,144)
<b>Loans and advances – net</b>	<b>427,026,276</b>	<b>1,723,905,076</b>	<b>377,262,301</b>	<b>1,523,007,909</b>

(i) Loans and advances neither past due nor impaired

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

(ii) Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary.

(iii) Loans and advances individually impaired

Individually impaired loans and advances are loans and advances for which the Branch determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loans and advances.

In accordance with NBC Prakas No. B7-09-074 dated 25 February 2009 on the classification and provisioning for bad and doubtful debts, loans and advances more than 90 days past due are considered impaired and a minimum level of specific provision for impairment is made depending on the classification concerned, unless other information is available to indicate the contrary.

(iv) Loans with renegotiated terms/restructured loans

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

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NOTES TO THE FINANCIAL STATEMENTS (continued)  
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## 25. FINANCIAL RISK MANAGEMENT (continued)

### 25.2 *Credit risk* (continued)

#### (f) Loans and advances (continued)

##### (iv) Loans with renegotiated terms/restructured loans (continued)

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

##### (v) Write-off policy

In compliance with the relevant NBC guideline, the Branch shall remove a loan/advance or a portion of a loan from its balance sheet when the Branch 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.

##### (vi) Collateral repossessed

The Branch 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. The repossessed properties have to be sold within one year based on the relevant NBC guideline and are classified in the balance sheet as foreclosed property.

During the year, the Branch did not obtain assets by taking possession of collateral held as security.

### 25.3 *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.

#### 25.3.1 *Foreign currency exchange risk*

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

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

#### 25.3.2 *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.

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

**25.3 Market risk** (continued)

25.3.2 *Interest rate risk* (continued)

*Fair value sensitivity analysis for fixed rate instruments*

The Branch does not account for any fixed rate instruments at fair value through profit or loss, and the Branch does not have derivatives as at year end. Therefore, a change in interest rates at the reporting date would not affect profit or loss

*Cash flow sensitivity analysis for variable-rate instruments*

Certain borrowings of the Branch are variable-rate instruments. The Branch follows a prudent policy on managing its assets and liabilities to ensure that exposure to fluctuation in interest rates are kept within acceptable limits.

The table below demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Branch's net interest income.

<i>Increase (decrease) in basis points</i>	2017			2016				
	(100)	(50)	+50	+100	(100)	(50)	+50	+100
Loans and advances	(4,321,637)	(2,160,819)	2,160,819	4,321,637	(3,820,055)	(1,910,028)	1,910,028	3,820,055
Interbank borrowings	235,000	117,500	(117,500)	(235,000)	235,000	117,500	(117,500)	(235,000)
Subordinated debt	80,000	40,000	(40,000)	(80,000)	100,000	50,000	(50,000)	(100,000)

**25.4. 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.

Management believes that the Branch fully complies with all liquidity requirements of NBC as it closely monitors all inflows and outflows and the maturity gaps through periodical reporting. Additionally, movements in loans and advances 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.



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

**25.4. Liquidity risk (continued)**

Analysis of the financial assets and liabilities of the Branch into relevant maturity groupings based on the remaining periods to repayment follows:

	2017					Total US\$
	Up to 1 month US\$	>1 - 3 months US\$	>3 - 12 months US\$	>1 to 5 years US\$	Over 5 years US\$	
<b>Financial assets</b>						
Cash and other cheque items	32,267,234	-	-	-	-	32,267,234
Balances with the NBC	222,230,884	-	-	-	-	222,230,884
Balances with other banks	279,237,107	130,000,000	-	-	-	409,237,107
Loans and advances - gross	50,973,715	6,952,082	66,159,532	169,931,685	138,146,715	432,163,729
Other assets	2,959,579	-	-	-	-	2,959,579
<b>Total financial assets</b>	<b>717,668,519</b>	<b>6,952,082</b>	<b>66,159,532</b>	<b>169,931,685</b>	<b>138,146,715</b>	<b>1,098,858,533</b>
<b>Financial liabilities</b>						
Deposits from other banks	7,286,837	-	-	-	-	7,286,837
Deposits from customers	740,154,579	51,336,224	36,570,905	-	-	828,061,708
Interbank borrowings	100,000,000	-	-	53,500,000	-	153,500,000
Subordinated debt	-	-	8,000,000	-	-	8,000,000
Other liabilities	5,927,652	-	-	-	-	5,927,652
<b>Total financial liabilities</b>	<b>853,369,068</b>	<b>51,336,224</b>	<b>68,070,905</b>	<b>30,000,000</b>	<b>-</b>	<b>1,002,776,197</b>
<b>Net liquidity surplus (gap)</b>	<b>(135,700,549)</b>	<b>(44,384,142)</b>	<b>(1,911,373)</b>	<b>139,931,685</b>	<b>138,146,715</b>	<b>96,082,336</b>
<b>KHR'000 equivalent (Note 2.1.5)</b>	<b>(547,823,116)</b>	<b>(179,178,781)</b>	<b>(7,716,213)</b>	<b>564,904,212</b>	<b>557,698,288</b>	<b>387,884,390</b>

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

**25.4. Liquidity risk (continued)**

	2016					Total US\$
	Up to 1 month US\$	>1 - 3 months US\$	>3 - 12 months US\$	>1 to 5 years US\$	Over 5 years US\$	
<b>Financial assets</b>						
Cash and other cheque items	29,767,687	-	-	-	-	29,767,687
Balances with the NBC	159,784,052	-	-	-	-	159,784,052
Balances with other banks	279,280,630	52,176,730	31,434,021	-	-	362,891,381
Loans and advances - gross	39,247,075	1,123,299	37,624,118	160,604,000	138,663,809	377,262,301
Other assets	3,200,373	-	-	-	-	3,200,373
<b>Total financial assets</b>	<b>511,279,817</b>	<b>53,300,029</b>	<b>69,058,139</b>	<b>160,604,000</b>	<b>138,663,809</b>	<b>932,905,794</b>
<b>Financial liabilities</b>						
Deposits from other banks	17,230,057	-	-	-	-	17,230,057
Deposits from customers	594,938,973	39,351,413	32,788,703	-	-	667,079,089
Interbank borrowings	150,000,000	-	-	30,000,000	23,500,000	203,500,000
Subordinated debt	-	-	10,000,000	-	-	10,000,000
Other liabilities	15,176,582	-	-	-	-	15,176,582
<b>Total financial liabilities</b>	<b>777,345,612</b>	<b>39,351,413</b>	<b>42,788,703</b>	<b>30,000,000</b>	<b>23,500,000</b>	<b>912,985,728</b>
<b>Net liquidity surplus (gap)</b>	<b>(266,065,795)</b>	<b>13,948,616</b>	<b>26,269,436</b>	<b>130,604,000</b>	<b>115,163,809</b>	<b>19,920,066</b>
<b>KHR'000 equivalent (Note 2.1.5)</b>	<b>(1,074,107,614)</b>	<b>56,310,563</b>	<b>106,049,713</b>	<b>527,248,348</b>	<b>464,916,297</b>	<b>80,417,306</b>

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## 25. FINANCIAL RISK MANAGEMENT (continued)

### 25.5 Capital management

#### 25.5.1 Regulatory capital

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

The Branch's policy is to maintain a strong capital base so as to maintain market confidence and to sustain further development of the business.

The impact of the level of capital on shareholders' return is also recognized. As such, the Branch tries to maintain a balance between the higher returns that may be possible with greater gearing and advantages and security afforded by a sound capital position.

As at balance sheet date, the Branch complies with the solvency ratio prescribed by the NBC at 15%, as shown in the table below:

	2017 (Unaudited)		2016 (Unaudited)	
	US\$	KHR'000 equivalent (Note 2.1.5)	US\$	KHR'000 equivalent (Note 2.1.5)
Tier I capital	202,012,554	815,524,679	116,174,737	468,997,413
Tier II capital	12,321,515	49,741,957	13,817,634	55,781,789
<b>Net worth</b>	<b>214,334,069</b>	<b>865,266,636</b>	<b>129,992,371</b>	<b>524,779,202</b>
Total risk-weighted assets	621,129,281	2,507,498,907	627,139,447	2,531,761,947
<b>Solvency ratio</b>	<b>34.51%</b>	<b>34.51%</b>	<b>20.73%</b>	<b>20.73%</b>

## 26. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The aggregate fair values of financial assets and liabilities carried on the balance sheet are approximately equal to their carrying values as at balance sheet date.

## 27. SUBSEQUENT EVENTS

Other than as disclosed elsewhere in these financial statements, at the date of this report, there were no events, which occurred subsequent to 31 December 2017 that had significant impact on the financial position and performance of the Branch as at 31 December 2017.

