



# Bank of China Limited Phnom Penh Branch Annual Report 2018



## ABOUT BANK OF CHINA

Bank of China was formally established in February 1912 following the approval of Dr. Sun Yat-sen. As China's most internationalised and diversified bank, Bank of China provides a comprehensive range of financial services to customers across the Chinese mainland as well as 56 countries and regions. The Bank's core business is commercial banking, including corporate banking, personal banking and global markets services. BOC International Holdings Limited, a wholly owned subsidiary, is the Bank's investment banking arm. Bank of China Group Insurance Company Limited and Bank of China Insurance Company Limited, both wholly owned subsidiaries, run the Bank's insurance business. Bank of China Group Investment Limited, a wholly owned subsidiary, undertakes the Bank's direct investment and investment management business. Bank of China Investment Management Co., Ltd., a controlled subsidiary, operates the Bank's fund management business. BOC Aviation Limited, a controlled subsidiary, is in charge of the Bank's aircraft leasing business.

## ABOUT BANK OF CHINA PHNOM PENH BRANCH

Bank of China Phnom Penh Branch was incorporated in Cambodia in November 2010 under the name Bank of China Limited, Phnom Penh Branch, becoming the first Chinese Bank to enter and launch operations in Cambodia. As part of the restructuring exercise of the Bank of China Group in the ASEAN Region, Bank of China Limited Phnom Penh Branch was acquired and operates as a subsidiary of Bank of China (Hong Kong) Holdings Limited in November 2017.

Bank of China Phnom Penh Branch is principally engaged in Corporate Banking, Personal Banking, International Settlement, Trade Financing and Financial Services.

As the first Chinese Bank to have a presence in Cambodia, with the purpose to enhance financial and economic services whilst exploring new innovations and technology for our advancement to meet the needs of our clients, our objective is to provide a strong support to facilitate commercial and investment activities between Chinese and Cambodian enterprises and for the local community. We are the trusted partner of Chinese Going Global Enterprises and clients dealing with China because of our extensive and close banking relationships with leading local and international banks and comprehensive product range. As at 31 December 2017, the Branches have a total of 145 employees. We offer an efficient team of experts and well-trained workforce complement with multi-lingual ability, proficient in Cambodian, Chinese and English to effectively communicate and cater to the needs of a diverse set of clients.

In response to an increased demand for services, Bank of China Phnom Penh Branch has expanded and set up branches in three big cities across Cambodia- Phnom Penh, Siem Reap and Sihanoukville. The five branches consist of Phnom Penh Main Branch, Intercon Sub-Branch, Olympic Sub-Branch, Siem Reap Sub-Branch and Sihanoukville Sub-Branch.

Since the establishment in 2010, we have achieved remarkable progress and continuous outstanding performance. We hold a strong market position in Cambodia, ranking fifth in Total Assets and Deposits and ninth in Profits and Loans.

Corporate Services: Loan, Settlement, International Remittance, e-Banking, Working Capital Loan, Overdraft, Trade Financing, Project Financing, Syndicated Loan, etc.

Personal Service: Loan, Settlement, International Remittance, Credit Card, ATM, e-Banking, Mobile Banking, Payroll, UnionPay Online Payment Transaction, etc.

Web-Site: [www.boc.cn/kh](http://www.boc.cn/kh)

Address: Bank of China Limited Phnom Penh Branch

Canadia Tower, 1st & 2nd Floor,

315 Ang Duong St., P.O.BOX 110

Phnom Penh, Cambodia

# 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
Registered No	00014630
Registration office	Canadia Tower, 1st & 2nd Floor, 312 Ang Doung St. (Corner of Monivong Blvd.) Phnom Penh, Kingdom of Cambodia
Head office	Bank of China(Hong Kong) Limited, Hong Kong SAR

## Committee Composition

### RISK MANAGEMENT COMMITTEE

- Mr. Wang Huabin Chairman
- Mr. Liu Zheng Member
- Mr. Wang Hongsong Member
- Mr. Ouyang Chang Member
- Mr. Liu Xiao Feng, Member
- Mrs. Zhang Yuan Member
- Mr. Wang Wenzhe Member
- Mr. Huang Limao Member
- Mr. Si Zhengqiang Member
- Mr. Tian Ye Member
- Mr. Liu Dehua Member
- Mr. Wang Rui Member
- Mr. Liu Jianwu Member
- Ms. Liu Wenjing Member
- Ms Li Chunxiao Member
- Mr. Jin Yu Member
- Mr. Wang Junwei Member
- Mr. Cui Hongbo Member
- Ms. Chhor Chhun Vouch Member
- Ms. Tan Sokim Member
- Ms. Lu Ying Member& Secretary
- Ms. Sok Thy Secretary
- Ms. Liu Nian Secretary
- Ms. Mey Heang Secretary
- Ms. Kong Dalin Secretary

## CREDIT EVALUATION COMMITTEE

- Mr. Wang Hongsong Chairman
- Mrs. Zhang Yuan Member
- Ms. Mao Yukhea Member
- Mr. Liu Xiao Feng, Member
- Mr. Wang Junwei Member
- Mr. Wang Wenzhe Member
- Mr. Liu Jianwu Member
- Mr. Tian Ye Member
- Mr. Liu Dehua Member
- Mr. Jin Yu Member
- Mr. Wang Rui Member
- Ms. Lu Ying Secretary
- Ms. Sok Thy Secretary
- Ms. Liu Nian Secretary
- Ms. Mey Heang Secretary

## PROCUREMENT COMMITTEE

- Mr. Wang Huabin Chairman
- Mrs. Zhang Yuan Member
- Mr. Liu Xiaofeng Member
- Mr. Ouyang Chang Member
- Mr. Huang Limao Member
- Mr. Cui Hongbo Member
- Ms. Liu Wenjing Member
- Mr. Tian Ye Member
- Mr. Wang Huanhao Member
- Mr. Wang Wenzhe Member
- Mr. Liu Jianwu Member
- Mr. Si Zhengqiang Member
- Mr. Wang Junwei Secretary

## ALCO

- Mr. Wang Huabin Chairman
- Mr. Wang Hongsong Deputy Chairman
- Mr. Liu Zheng Deputy Chairman
- Mr. Liu Xiaofeng Member
- Mr. Huang Limao Member
- Mr. Cui Hongbo Member
- Mr. Wang Huanhao Member
- Mr. Wang Wenzhe Member
- Mr. Liu Jianwu Member
- Mr. Wang Junwei Secretary

## AML COMMITTEE

- Mr. Wang Hongsong Chairman
- Mr. Liu Zheng Member
- Mrs. Zhang Yuan Member
- Mr. Ouyang Chang Member
- Mr. Huang Limao Member
- Mr. Wang Wenzhe Member
- Mr. Wang Junwei Member
- Mr. Liu Xiaofeng Member
- Mr. Liu Jianwu Member
- Mr. Si Zhengqiang Member
- Mr. Cui Hongbo Member
- Mr. Wang Huanhao Member
- Ms. Chhor Chhun Vouch Observer

## INTERNAL CONTROL COMMITTEE

- Mr. Wang Hongsong Chairman
- Mr. Liu Zheng Member
- Mrs. Zhang Yuan Member
- Mr. Ouyang Chang Member
- Mr. Huang Limao Member
- Mr. Wang Wenzhe Member
- Mr. Wang Junwei Member
- Mr. Liu Xiaofeng Member
- Mr. Liu Jianwu Member
- Mr. Si Zhengqiang Member
- Mr. Cui Hongbo Member
- Mr. Wang Huanhao Member
- Ms. Chhor Chhun Vouch Member
- Ms. Li Chunxiao Observer

# MESSAGE FROM THE COUNTRY MANAGER



2018年，面对复杂的宏观环境，分行认真贯彻落实集团决策部署，围绕“建设一流的全功能国际化区域性银行”战略目标，依托区域整合，积极把握机遇，强化风险管理，取得了良好的经营业绩。

分行盈利再创新高，贷款规模持续扩大。2018年，分行经审计的税后净利润为2018万美元，较2017年增长27.41%；截至2018年12月31日，分行贷款总额5.15亿美元，较2017年增长19.13%；ROA 1.74%，较2017年提高0.33个百分点，ROE 9.51%，较2017年略有下降，减少0.44个百分点（受2017年底增资影响）。

In 2018, the branch earnestly carried out the development strategy from the Group and continued to pursue the strategic goal of building a top-class, full-service and internationalized regional bank, amid challenging macro-economic headwinds. Based on the strategy of regional development, we took full advantage of new opportunities, and enhanced the risk management and control ability. Together, these efforts translated into satisfactory operating results.

The Branch recorded new heights in profitability with expanded loan scale. In 2018, the Branch's audited profit was 20.18 million USD, up 27.41% year over year. As of 31 December 2018, total loans increased to 515 million USD, up 19.13% year over year. The ROA stood at 1.74%, a year-on-year increase of 0.33 BPs. The ROE was 9.51%, down by 0.44 percentage points compared to year 2017 because of the capital injection at the end of 2017.

资产质量保持稳定，主要指标符合监管要求。分行资产不良率0.22%，优于市场平均水平；成本收入比22.52%，保持在较低水平；主要的监管指标，比如LCR，CAR等，均满足央行监管要求，且距离最低标准尚有一定空间。

加快人民币业务拓展，特色优势持续保持。分行携手中银香港成功举办人民币业务论坛，柬埔寨国家银行、柬埔寨银行业协会、中银集团近20多家海内外机构的代表、30多家本地商业银行和30多家企业代表共同出席了论坛，进一步提升人民币业务在柬埔寨的影响力。继续做好人民币现钞业务，为来柬游客提供优质的现钞兑换服务。

重视合规文化建设，坚守依法合规底线。分行自上而下构建和传导依法合规的价值理念和行为准则，持续提升风险管理与内控合规水平，构建与集团战略相适应的风险管理内控合规体系，尤其在反洗钱方面，持续加大资源投入，严格客户准入，反洗钱管理在当地市场处于领先地位。

切实履行社会责任，重视回馈当地社会。2018年，分行陆续开展了改善桔井省仕伦光华学校设施、配合中国大使馆开展“澜湄光明行-走进柬埔寨”、捐助端华学校教室等一系列活动，为改善民生工作做出了卓有成效的贡献，同时接待多次来柬考察团队，为企业来柬投资提供指导和帮助。

The Branch's asset quality remained stable and the key indicators met the regulatory requirements. The NPLs was 0.22% which was significant below the market average, the cost to income ratio was 22.52%, and maintained at a lower level; the main regulatory indicators, such as LCR, CAR etc. was in line with the NBC's requirements, and there was still enough headroom compared with the minimum standards.

The Branch accelerated the expansion of RMB business and continued to enjoy distinct business advantages. The Branch held RMB business forum which further enhanced the influence of RMB business in the Cambodia with Bank of China (Hong Kong) Limited, the representatives from the National Bank of Cambodia, the Association of Banks in Cambodia, nearly 20 overseas institutions of BOC Group, more than 30 local commercial bank and at least 30 companies have participated it jointly. At the same time, the Branch continued to develop the RMB cash distribution business and provided good service to the tourist from overseas at cash exchange area.

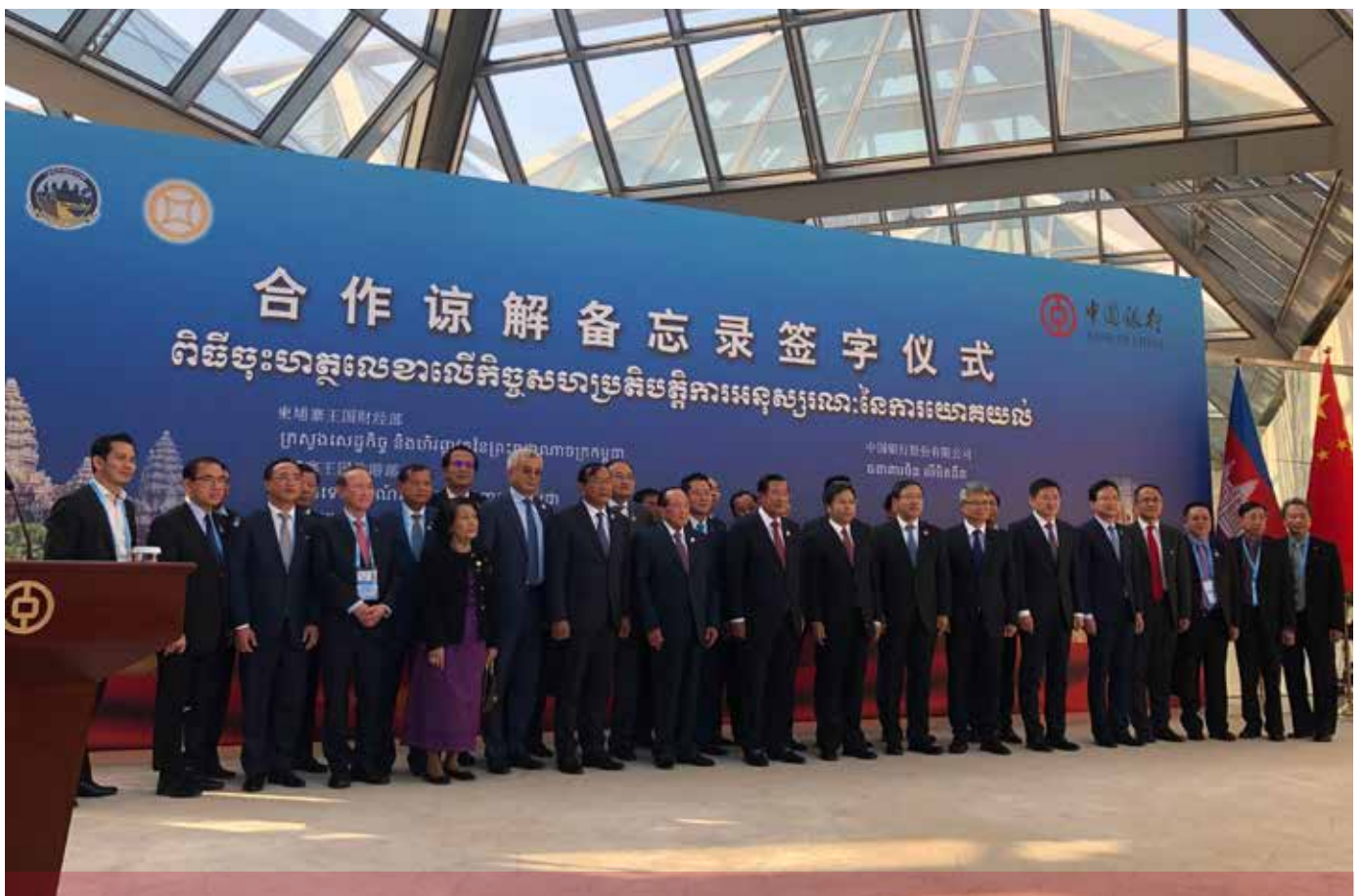
The Branch implemented measures to foster a sound compliance culture while continuing to diligently perform our duties in accordance with relevant laws and regulations. The Branch has adopted a top-down approach to developing and cascading a set of values and codes of legal compliance, we have further enhanced the standards of our risk management, compliance and internal controls so as to support our Group's strategy. Especially in the area of Anti-money Laundering, the Branch continues to distribute resources to the area and implements strict customer access procedure, and the Anti-money Laundering management is in a leading position in the local market.

The Branch earnestly fulfilled social responsibilities and focused on giving back to the local communities. In 2018, the Branch successively carried out the improvement of the facilities of the Shi Lun Guang Hua School in Kratie, cooperated with the Chinese Embassy to carry out the "China's Brightness Journey" program, and donated to the Duan Hua School for building the classroom, all these activities made effective achievement in improving people's livelihood work. By the way, the Branch has received many visits from the delegations who came to Cambodia to look for the opportunities to invest, and provided guidance and help to them.



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柬埔寨经济发展和柬中经贸合作，推动“一带一路”倡议与“四角战略”有机结合，进而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 still deeply support the development of Cambodia's economy and the economic and trade cooperation between Cambodia and China; promote the organic integration of the "One Belt One Road" initiative and the "Four Corner Strategy" for your trust and support.



## THE RISK MANAGEMENT COMMITTEE

- Undertaking all decisions given by Head Office and Management Team of the Branch
- According to the development strategy of Branch, research and prepare policy, strategy, working plans, annual working pinpoints, risk management.
- Ensure, implement and carry out the integral risk strategy and risk preference. Responsible for establishing and integrity management system in order to identify, measure, monitor and report the risks.
- Deliberating the important policies and system of risk management including revising the rules of the Committee.
- Researching important items of risk management, taking measurement and supervising on the implementation.
- Responsible for maintaining the overall operations of risk management , identifying the shortcomings and disadvantages of risk management , assessing the risk management system and effectiveness of the policies, monitoring the implementation of the relevant policies, reviewing the report of overall risk management and conditions of internal control regularly, propose measurement and implementation.
- Responsible for management of the whole bank's sudden significant risk event.
- Responsible for continuous management system and all kinds of contingency plans.
- Checking, assessing the validity of human resources and information technology support devices in risk management operating process and proposing adjustment demands.

## THE OPERATION RISK AND INTERNAL CONTROL COMMITTEE

- Undertaking and implementing BOCHK and the Branch's GMO decisions. Examining internal control, compliance and operational risk management material policies and procedures, including the rules of this Committee.
- According to the development strategy of the branch, research and establish internal control, compliance and operational risk policy, strategy plan, working plan and working pinpoints, and ensure the regular review, and obtain GMO office approval for the implementation after the revision.
- Establish and refine the identification, measurement, monitor, control and report of the branch's BCP, compliance operation, fraud risk and reputation risk. Set up and revise the branch's KRI and assist the internal and operational risk implementation effectiveness of each department.
- Promulgating and maintaining the branch's internal control, compliance and operational risk policies and procedures, and monitoring the implementation effectiveness. Deliberating the major tasks of internal control and operational risk area, and setup the measurement and monitor the practicable, as well as the major incident management.
- Monitoring and discussing new requirement and development of internal control, compliance and operational risk relevant policies of local and Hong Kong regulators, international organizations and the local banking sector.
- Examining and assessing the human resource and information technology setup effectiveness of internal control, compliance and operational risk management, and raise up any remediation requirements.
- Deliberating the branch's BCP policy and other relevant emergency plans.
- Report to GMO regarding the branch's internal control, compliance and operational risk management status, and monitor the remediation progress of the related findings optimization.
- Providing sufficient internal control, compliance and operational risk training to staff.

## CREDIT APPRAISAL COMMITTEE

- To perform the duty with full responsibility in relation to assess the credit application with the objectivity, honesty, carefully, thoroughly and follow the prudence principle of credit;
- To follow all the regulations and conditions stated in the Credit Risk Policy of Bank of China, Hong Kong, Phnom Penh Branch, Head Office Guidelines and National Bank of Cambodia Regulations.

## THE ANTI-MONEY LAUNDRY COMMITTEE

- The Committee is to perform the following responsibilities and rights in Improve employees' awareness of AML/CFT compliance, establish an effective AML/CFT risk management mechanism, monitor AML/CFT matters in a proactive and timely manner and urge each unit to implement relevant policies and legal requirements.
- Formulate AML/CFT policies and systems, re-inspect from time to time, and propose a revision thereof when necessary, which shall take effective after approval by the General Management Office.
- Publish and maintain the Branch's AML/CTF policies and systems and supervise the effective implementation thereof. Provide guidelines for the Branch's business management and internal control system and framework in terms of AML/CFT; urge each unit to formulate appropriate AML/CFT processes and control procedures within the scope of its functions.
- Ensure that employee will receive sufficient AML/CFT training.
- Supervise and discuss the local industry's legal requirements and development for AML/CFT and the international community's important new legal requirements and development for AML/CFT in respect of Hong Kong & Cambodia.
- Establish an AML/CFT monitoring model; promote and improve the Branch's AML/CFT supervision information system and delegate the management work to each unit.
- Report the operation, risk position and key monitoring data of AML/CFT on a quarterly basis to the General Management Office and supervise the progress of each relevant rectification and optimization project.
- Review the audit reports of external auditors and the regulatory authority in respect of the Branch's AML/CFT work, ratify relevant responses and supervise the on-time completion of relevant rectification undertakings.

## 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.

## 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**

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 2018 and for the year then ended

# REPORT OF THE EXECUTIVE MANAGEMENT

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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 2018 and for the year then ended.

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## ▶ THE BRANCH

The Branch was incorporated in Cambodia on 12 July 2010 originally named Bank of China Limited- Phnom Penh Branch, a branch of Bank of China Limited, under Registration No. 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 with new Registration No. 00014630 from the Ministry of Commerce. On 7 September 2017, the Branch obtained an updated banking license under the new name 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 eight 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 Street (Corner of Monivong Blvd.), Phnom Penh, Cambodia.

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

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## ▶ FINANCIAL RESULTS

The financial results of the Branch for the year are set out in the income statement.

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## ▶ BRANCH CAPITAL

The Branch’s capital as at 31 December 2018 is US\$150,000,000 or KHR602.7 billion (2017: US\$150,000,000 or KHR605.55 billion).

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## ▶ 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.

► **CHANGE OF CIRCUMSTANCES**

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

► **ITEMS OF UNUSUAL NATURE**

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

► **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.



## 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 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 Trade Finance Department
• Mr. Si Zhengqiang	Head of General Management Department
• Ms. Liu Wenjing	Head of Major of Customer Service Department
• Ms. Zhang Yuan	Head of Operation Department
• Mr. Liu Jianwu	Head of Banking Department

## AUDITOR

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

## EXECUTIVE MANAGEMENT'S BENEFITS

During and at the end of the year, 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 2018, and its financial performance and its 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

**STATEMENT OF EXECUTIVE MANAGEMENT’S RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS (CONTINUED)**

- 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.

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**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 2018, and its financial performance and its 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 Executive Management

Chen Chang Jiang  
Chief Executive Officer

Phnom Penh, Kingdom of Cambodia

29 March 2019

# INDEPENDENT AUDITOR'S REPORT

To: The Head Office of Bank of China (Hong Kong) 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 2018, 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 2018, 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 EXECUTIVE MANAGEMENT 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 2019

# BALANCE SHEET

AS AT 31 DECEMBER 2018

	Notes	2018		2017	
		US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>
<b>ASSETS</b>					
Cash and cheque items	3	31,193,448	125,335,274	32,267,234	130,262,824
Balances with the National Bank of Cambodia	4	285,382,784	1,146,668,026	335,166,737	1,353,068,117
Balances with other banks	5	273,450,604	1,098,724,527	409,237,107	1,652,090,201
Loans and advances	6	508,805,083	2,044,378,823	427,026,276	1,723,905,076
Property and equipment	7	2,552,745	10,256,929	2,873,229	11,599,225
Deferred tax assets	11.2	1,854,153	7,449,987	1,172,978	4,735,312
Other assets	8	5,579,648	22,419,026	3,540,208	14,291,820
<b>TOTAL ASSETS</b>		<b>1,108,818,465</b>	<b>4,455,232,592</b>	<b>1,211,283,769</b>	<b>4,889,952,575</b>
<b>LIABILITIES AND EQUITY</b>					
<b>Liabilities</b>					
Deposits from other banks	9	21,021,017	84,462,446	7,286,837	29,416,961
Deposits from customers	10	729,834,608	2,932,475,455	828,061,708	3,342,885,115
Provision for income tax	11.1	5,487,117	22,047,236	4,236,696	17,103,542
Interbank borrowings	12	123,500,000	496,223,000	153,500,000	619,679,500
Subordinated debt	13	-	-	8,000,000	32,296,000
Other liabilities	14	6,784,574	27,260,418	8,185,974	33,046,778
<b>Total liabilities</b>		<b>886,627,316</b>	<b>3,562,468,555</b>	<b>1,009,271,215</b>	<b>4,074,427,896</b>
<b>Equity</b>					
Branch capital	15	150,000,000	602,700,000	150,000,000	605,550,000
Retained earnings		72,191,149	290,064,037	52,012,554	209,974,679
<b>Total equity</b>		<b>222,191,149</b>	<b>892,764,037</b>	<b>202,012,554</b>	<b>815,524,679</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1,108,818,465</b>	<b>4,455,232,592</b>	<b>1,211,283,769</b>	<b>4,889,952,575</b>

# INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018		2017	
		US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>
Interest income	16	34,747,031	139,613,571	26,079,002	105,280,931
Interest expense	17	(8,147,194)	(32,735,425)	(7,350,583)	(29,674,304)
<b>Net interest income</b>		<b>26,599,837</b>	<b>106,878,146</b>	<b>18,728,419</b>	<b>75,606,627</b>
Net fee and commission income	18	9,858,355	39,610,870	9,680,176	39,078,871
Foreign exchange income	19	<b>1,950,549</b>	<b>7,837,306</b>	<b>1,168,171</b>	<b>4,715,906</b>
<b>Net operating income</b>		<b>38,408,741</b>	<b>154,326,322</b>	<b>29,576,766</b>	<b>119,401,404</b>
Personnel expenses	20	(5,043,203)	(20,263,590)	(4,682,902)	(18,904,875)
Depreciation	7	(883,335)	(3,549,240)	(625,990)	(2,527,122)
General and administrative expenses	21	(2,801,039)	(11,254,575)	(3,787,036)	(15,288,265)
Provision for losses on credit facilities	22	(3,963,751)	(15,926,352)	(262,128)	(1,058,211)
<b>Profit before tax</b>		<b>25,717,413</b>	<b>103,332,565</b>	<b>20,218,710</b>	<b>81,622,931</b>
Income tax expense	11	(5,538,818)	(22,254,971)	(4,380,893)	(17,685,665)
<b>Net profit for the year</b>		<b>20,178,595</b>	<b>81,077,594</b>	<b>15,837,817</b>	<b>63,937,266</b>

The attached notes 1 to 29 form part of these financial statements

# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Branch capital	Retained earnings	Total
	US\$	US\$	US\$
	(Note 15)		
Balance as at 1 January 2018	150,000,000	52,012,554	202,012,554
Net profit for the year	-	20,178,595	20,178,595
Balance as at 31 December 2018	<b>150,000,000</b>	<b>72,191,149</b>	<b>222,191,149</b>
<b>KHR'000 equivalent</b> (Note 2.1.3)	<b>602,700,000</b>	<b>290,064,037</b>	<b>892,764,037</b>
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
Balance as at 31 December 2017	<b>150,000,000</b>	<b>52,012,554</b>	<b>202,012,554</b>
<b>KHR'000 equivalent</b> (Note 2.1.3)	<b>605,550,000</b>	<b>209,974,679</b>	<b>815,524,679</b>

The attached notes 1 to 29 form part of these financial statements

# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018		2017	
		US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>
<b>Net cash (used in) generated from operating activities</b>	23	(132,991,546)	(540,060,644)	196,071,157	791,539,261
<b>INVESTING ACTIVITY</b>					
Acquisition of property and equipment	7	(562,851)	(2,261,535)	(1,271,059)	(5,131,265)
<b>FINANCING ACTIVITIES</b>					
Proceeds from interbank borrowings		131,867,816	529,844,885	522,000,000	2,107,314,000
Repayment of interbank borrowings		(161,867,816)	(650,384,885)	(572,000,000)	(2,309,164,000)
Repayment of subordinated debt		(8,000,000)	(32,296,000)	(2,000,000)	(8,074,000)
Proceeds from additional capital contribution		-	-	70,000,000	282,590,000
<b>Net cash (used in) from financing activities</b>		(38,000,000)	(152,836,000)	18,000,000	72,666,000
<b>(Decrease) increase in cash and cash equivalents</b>		(171,554,397)	(695,158,179)	212,800,098	859,073,996
Cash and cash equivalents at beginning of year		663,735,225	2,679,499,103	450,935,127	1,820,425,107
Foreign translation difference		-	(6,758,357)	-	-
<b>Cash and cash equivalents at end of year</b>	3	492,180,828	1,977,582,567	663,735,225	2,679,499,103

The attached notes 1 to 29 form part of these financial statements



# NOTES TO THE FINANCIAL STATEMENTS

AS AT 31 DECEMBER 2018 AND FOR THE YEAR THEN ENDED

## 1. CORPORATE INFORMATION

### *Establishment and operations*

The Branch was incorporated in Cambodia on 12 July 2010 originally named Bank of China Limited - Phnom Penh Branch, a branch of Bank of China Limited, under Registration No. 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 with new Registration No. 00014630 from the Ministry of Commerce. On 7 September 2017, the Branch obtained an updated banking license under the new name 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 eight 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 Branch’s capital as at 31 December 2018 is US\$150,000,000 or KHR602.7 billion (2017: US\$150,000,000 or KHR605.55 billion).

### ▶ **Location**

The Branch’s registered office address is at Canadia Tower, 1st and 2nd Floor, 315 Ang Doung Street Corner of Monivong Blvd., Phnom Penh, Cambodia. As at 31 December 2018, the Branch has two (4) sub-branches located in Phnom Penh, Siem Reap, and Preah Sihanouk province.

### ▶ **Employees**

As at 31 December 2018, the Branch has a total of 166 employees (2017: 145 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 2019.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

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

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

#### 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.

#### 2.1.2 Fiscal year

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

#### 2.1.3 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 KHR4,018: US\$1 ruling at the reporting date (2017: 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.

#### 2.1.4 Standards not yet adopted

On 24 March 2016, the National Accounting Council of Cambodia (“NAC”) announced that the adoption of Cambodian International Financial Reporting Standards (“CIFRSs”) is deferred for implementation commencing 1 January 2019. 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 is expected to 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:

## **2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **2.2.2 Functional currency (*Continue*)**

- 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 2.3.7.

### **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, except as otherwise indicated.

### **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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.3.4 Balances with other banks

Balances with other banks are carried at cost.

### 2.3.5 Statutory deposits

Capital guarantee and reserve requirement are maintained with the NBC in compliance with the Cambodian Law on Banking and Financial Institutions determined at defined percentages of minimum share capital and total deposits from customers, respectively.

### 2.3.6 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.

### 2.3.7 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.

On 1 December 2017, the NBC issued Prakas No. B7-017-344 on Credit Risk Grading and Impairment Provisioning (“the new Prakas”) which effectively replaced NBC Prakas No. B7-09-074 on Asset Classification and Provisioning In Banking and Financial Institutions (“the old Prakas”), effective from the date of its issue.

The new Prakas requires banks and financial institutions to classify their loan portfolio into five classes. Further, the NBC subsequently issued Circular No. B7-018-001 dated 16 February 2018 to clarify the mandatory level of general and specific allowance provided based on the loan classification as follows:

Classification	Number of days past due	Allowance rate
Standard	Zero to 14 days (short-term) Zero to 29 days (long-term)	1%
Special mention	15 days to 30 days (short-term) 30 days to 89 days (long-term)	3%
Substandard	31 days to 60 days (short-term) 90 days to 179 days (long-term)	20%
Doubtful	61 days to 90 days (short-term) 180 days to 359 days (long-term)	50%
Loss	More than 91 days (short-term) 360 days or more (long-term)	100%

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.3.7 Allowance for loan losses (continued)

The regulatory provision applies to all on and off-balance sheet facilities of banks and financial institutions.

The above Circular allowed banks and financial institutions who expressed difficulty in preparing financial statements for the year ended 31 December 2017 to follow the regulatory provisioning of the old Prakas. Due to difficulty in customizing its core banking at that time to meet the requirements of the new Prakas, the Branch computed the regulatory provision based on the old Prakas. The current year's regulatory provision now calculated based on the new Prakas resulted to an increase in the Branch's provision for losses on credit facilities as at 31 December 2018 amounting to US\$2,858,610 or KHR 11.49 billion and reduced the net profit for the year then ended by the same amount.

Further, the new Prakas requires the comparison of the regulatory provision with the impairment provision calculated following the relevant CIFRS when it is adopted. During the transition period before the implementation of CIFRSs, the Company will follow the mandatory credit classification and regulatory provision in the new Prakas.

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.

Factors considered in evaluating the adequacy of the allowance include the size of the portfolio, previous loss experience, current economic conditions and their effect on clients, the financial situation of clients and the performance of loans in relation to contract terms.

### 2.3.8 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.

### 2.3.9 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(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.

(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.

### 2.3.10 Deposits from customers and other banks

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

### 2.3.11 Interbank borrowings

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

### 2.3.12 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.

### 2.3.13 Other liabilities

Other liabilities are stated at cost.

### 2.3.14 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.3.15 Seniority indemnity

In 2018, the Ministry of Labour and Vocational Training's ("MoLVT") Prakas No. 443 dated 21 September 2018 mandated the payment of seniority indemnity for unspecified duration contracted employees with implementation guidelines issued on 22 March 2019. The said Prakas requires retroactive seniority payment equal to fifteen days per year of employee service for a maximum not exceeding 6 months based on the average net wages for each year. Payment shall be spread over a period beginning December 2021 and every June and December thereafter as follows:

- Equal to three days payable every June, and
- Equal to three days payable every December.

In 2018, the Branch provided US\$ 150,000 for seniority indemnity payment as mandated by the above Prakas.

### 2.3.16 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.

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

### 2.3.17 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.

### 2.3.18 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.3.18 Recognition of income and expense (*continued*)

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

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

- a) 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;
- b) 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
- c) 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.

### 2.3.19 Operating leases

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

### 2.3.20 Related parties

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:

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

### 2.3.21 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.

### 2.3.22 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.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**3. CASH AND CHEQUE ITEMS**

	2018		2017	
	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>
Cash on hand and in vault	26,624,101	106,975,638	17,445,263	70,426,527
Cash in ATM	391,480	1,572,966	442,510	1,786,413
Unpresented cheques	4,177,867	16,786,670	14,379,461	58,049,884
	<b>31,193,448</b>	<b>125,335,274</b>	<b>32,267,234</b>	<b>130,262,824</b>

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

	2018		2017	
	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>
Cash and other cheque items	31,193,448	125,335,274	32,267,234	130,262,824
Balances with the NBC (Note 4)				
Current accounts	181,204,649	728,080,280	214,980,884	867,877,828
Negotiable certificate of deposits ("NCDs")	3,570,000	14,344,260	7,250,000	29,268,250
Balances with other banks (Note 5)				
Current deposits	74,212,731	298,186,753	88,008,983	355,292,264
Term deposits	202,000,000	811,636,000	321,228,124	1,296,797,937
<b>Total cash and cash equivalents</b>	<b>492,180,828</b>	<b>1,977,582,567</b>	<b>663,735,225</b>	<b>2,679,499,103</b>

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

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

	2018		2017	
	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>
Current accounts	181,204,649	728,080,280	214,980,884	867,877,828
NCDs	3,570,000	14,344,260	7,250,000	29,268,250
Statutory deposits				
Reserve requirement	85,608,135	343,973,486	97,935,853	395,367,039
Capital guarantee	15,000,000	60,270,000	15,000,000	60,555,000
	<b>285,382,784</b>	<b>1,146,668,026</b>	<b>335,166,737</b>	<b>1,353,068,117</b>

**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 2018, the overdraft line is unutilized.

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

	2018	2017
Current accounts	Nil	Nil
Reserve deposits (before September 2018)	0.78% - 1.05%	0.38% - 0.78%
Reserve deposits (after September 2018)	Nil	N/A
Capital guarantee deposits	0.46% - 0.62%	0.32% - 0.36%
Negotiable certificate of deposit	0.58% - 0.98%	0.74% - 0.98%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**5. BALANCES WITH OTHER BANKS**

	2018		2017	
	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>
Local banks				
Current deposits	2,098,482	8,431,701	770,535	3,110,649
Term deposits	72,000,000	289,296,000	90,000,000	363,330,000
Overseas banks				
Current deposits	72,114,249	289,755,052	87,238,448	352,181,615
Term deposits	130,000,000	522,340,000	231,228,124	933,467,937
	<b>276,212,731</b>	<b>1,109,822,753</b>	<b>409,237,107</b>	<b>1,652,090,201</b>
General provision on balances with other banks	(2,762,127)	(11,098,226)	-	-
<b>Net</b>	<b>273,450,604</b>	<b>1,098,724,527</b>	<b>409,237,107</b>	<b>1,652,090,201</b>

Current deposits with local banks do not earn interest while those maintained with overseas banks earn interest at rates ranging from 0% to 2.39% per annum (2017: 0.11% to 0.15% per annum).

Term deposits earn interest at rates ranging from 0.40% to 2.88% per annum (2017: 0.40% to 1.85% per annum) for local banks and from 1.51% to 3.85% for overseas banks (2017: 2.02% to 3.85%).

Balances with overseas banks are maintained with related parties (Note 24).

**6. LOANS AND ADVANCES**

	2018		2017	
	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>
Long-term loans	370,777,868	1,489,785,474	331,478,224	1,338,177,590
Short-term loans	89,190,205	358,366,246	49,709,899	200,678,863
Overdraft	53,336,346	214,305,438	49,212,380	198,670,378
Trade financing	1,384,174	5,561,611	1,620,948	6,543,767
Credit cards	165,045	663,151	142,278	574,376
<b>Gross</b>	<b>514,853,638</b>	<b>2,068,681,920</b>	<b>432,163,729</b>	<b>1,744,644,974</b>
Allowance for loan losses				
Specific	(274,996)	(1,104,934)	(366)	(1,477)
General	(5,122,004)	(20,580,212)	(4,321,515)	(17,445,957)
	<b>(5,397,000)</b>	<b>(21,685,146)</b>	<b>(4,321,881)</b>	<b>(17,447,434)</b>
Unamortized loan processing fees	(651,555)	(2,617,951)	(815,572)	(3,292,464)
<b>Net</b>	<b>508,805,083</b>	<b>2,044,378,823</b>	<b>427,026,276</b>	<b>1,723,905,076</b>

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

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

	2018		2017	
	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>
<b>Specific allowance</b>				
Balance at beginning of year	366	1,471	242,119	977,434
Provision (reversal) of during the year	274,630	1,103,463	(241,753)	(975,957)
Balance at end of year	<b>274,996</b>	<b>1,104,934</b>	<b>366</b>	<b>1,477</b>
<b>General allowance</b>				
Balance at beginning of year	4,321,515	17,363,847	3,817,634	15,411,789
Provision during the year	800,489	3,216,365	503,881	2,034,168
Balance at end of year	<b>5,122,004</b>	<b>20,580,212</b>	<b>4,321,515</b>	<b>17,445,957</b>
<b>Total allowance at end of year</b>	<b>5,397,000</b>	<b>21,685,146</b>	<b>4,321,881</b>	<b>17,447,434</b>

Further analyses of loans and advances follow:

**(a) By industry sector**

	2018		2017	
	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>
Manufacturing	114,367,326	459,527,916	118,283,236	477,509,424
Wholesale/retail	44,615,551	179,265,284	45,160,677	182,313,653
Financial services	13,562,787	54,495,278	14,773,305	59,639,832
Services	30,460,860	122,391,735	666,668	2,691,339
Others	311,847,114	1,253,001,707	253,279,843	1,022,490,726
	<b>514,853,638</b>	<b>2,068,681,920</b>	<b>432,163,729</b>	<b>1,744,644,974</b>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

**(b) By classification/performance of loans and advances**

	2018		2017	
	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>
Normal loans				
Secured	438,541,927	1,762,061,465	428,928,426	1,731,584,056
Unsecured	73,658,476	295,959,757	3,223,114	13,011,711
Special mention loans				
Secured	1,503,831	6,042,393	9,516	38,416
Unsecured	-	-	2,673	10,791
Substandard loans				
Secured	1,149,404	4,618,305	-	-
	<b>514,853,638</b>	<b>2,068,681,920</b>	<b>432,163,729</b>	<b>1,744,644,974</b>

**(c) By currency, residency, relationship and exposure**

	2018		2017	
	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>
By currency				
US\$	<b>514,853,638</b>	<b>2,068,681,920</b>	<b>432,163,729</b>	<b>1,744,644,974</b>
By residency				
Residents	425,353,638	1,709,070,920	422,663,729	1,706,293,474
Non-residents	89,500,000	359,611,000	9,500,000	38,351,500
	<b>514,853,638</b>	<b>2,068,681,920</b>	<b>432,163,729</b>	<b>1,744,644,974</b>
By relationship				
External customers	513,942,429	2,065,020,682	431,329,613	1,741,277,648
Staff	911,209	3,661,238	834,116	3,367,326
	<b>514,853,638</b>	<b>2,068,681,920</b>	<b>432,163,729</b>	<b>1,744,644,974</b>
By exposure				
Non-large	260,131,147	1,045,206,949	267,620,916	1,080,385,638
Large	254,722,491	1,023,474,971	164,542,813	664,259,336
	<b>514,853,638</b>	<b>2,068,681,920</b>	<b>432,163,729</b>	<b>1,744,644,974</b>

There is no large exposure of off-balance sheet items as at 31 December 2018.

## 6. LOANS AND ADVANCES (CONTINUED)

### (d) Maturity

Refer to Note 26.4 on Liquidity risk.

### (e) Annual interest rates

	2018	2017
Overdraft	4.50% - 9.00%	3.68% - 9.00%
Trade financing	6.00% - 6.50%	6.00% - 6.50%
Short-term loans	4.50% - 8.00%	2.95% - 9.00%
Long-term loans	3.13% - 13.45%	2.50% - 9.60%

## 7. PROPERTY AND EQUIPMENT

	2017					
	<i>Construction in-progress</i>	<i>Leasehold improvements</i>	<i>Furniture and equipment</i>	<i>Computer equipment</i>	<i>Motor vehicles</i>	<i>Total</i>
	US\$	US\$	US\$	US\$	US\$	US\$
<b>Cost</b>						
As at 1 January 2018	20,711	3,847,735	981,965	746,596	536,601	6,133,608
Additions	-	129,902	124,660	148,289	160,000	562,851
Disposals	-	-	-	-	(60,000)	(60,000)
Transfers	(20,711)	20,711	-	-	-	-
As at 31 December 2018	-	<b>3,998,348</b>	<b>1,106,625</b>	<b>894,885</b>	<b>636,601</b>	<b>6,636,459</b>
<b>Less: accumulated depreciation</b>						
As at 1 January 2018	-	1,828,250	406,661	570,818	454,650	3,260,379
Charge for the year	-	524,794	215,020	100,735	42,786	883,335
Disposals	-	-	-	-	(60,000)	(60,000)
As at 31 December 2018	-	<b>2,353,044</b>	<b>621,681</b>	<b>671,553</b>	<b>437,436</b>	<b>4,083,714</b>
<b>Net book value</b>						
As at 31 December 2018	-	1,645,304	484,944	223,332	199,165	2,552,745
<b>KHR'000 equivalent</b> (Note 2.1.3)	-	6,610,832	1,948,502	897,349	800,246	10,256,929

**7. PROPERTY AND EQUIPMENT (CONTINUED)**

	2017					
	<i>Construction in-progress</i>	<i>Leasehold improvements</i>	<i>Furniture and equipment</i>	<i>Computer equipment</i>	<i>Motor vehicles</i>	<i>Total</i>
	US\$	US\$	US\$	US\$	US\$	US\$
<b>Cost</b>						
As at 1 January 2017	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	-	-	-	-
As at 31 December 2017	<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 2017	-	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)
As at 31 December 2017	-	<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 2017	20,711	2,019,485	575,304	175,778	81,951	2,873,229
<b>KHR'000 equivalent (Note 2.1.3)</b>	83,610	8,152,661	2,322,502	709,616	330,836	11,599,225

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**8. OTHER ASSETS**

**(b) By classification/performance of loans and advances**

	2018		2017	
	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>
Interest receivable from loan and advances	3,893,320	15,643,360	2,594,069	10,472,257
Interest receivable from placements with other banks	878,679	3,530,532	365,510	1,475,564
Prepayments and others	462,320	1,857,602	383,156	1,546,801
Deposits	354,116	1,422,838	197,473	797,199
<b>Gross</b>	<b>5,588,435</b>	<b>22,454,332</b>	<b>3,540,208</b>	<b>14,291,820</b>
General provision for interest receivable on placements with other banks	(8,787)	(35,306)	-	-
<b>Net</b>	<b>5,579,648</b>	<b>22,419,026</b>	<b>3,540,208</b>	<b>14,291,820</b>

**9. DEPOSITS FROM OTHER BANKS**

Deposits from other banks consist of:

	2018		2017	
	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>
Current deposits	1,021,017	4,102,446	2,286,837	9,231,961
Term deposits	20,000,000	80,360,000	5,000,000	20,185,000
	<b>21,021,017</b>	<b>84,462,446</b>	<b>7,286,837</b>	<b>29,416,961</b>

Further analyses of deposits from other banks are as follows:

	2018		2017	
	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>
<b>(a) By currency</b>				
USD	20,886,541	83,922,122	7,151,702	28,871,421
KHR	125,919	505,943	126,096	509,050
Chinese Yuan	8,557	34,381	9,039	36,490
	<b>21,021,017</b>	<b>84,462,446</b>	<b>7,286,837</b>	<b>29,416,961</b>



**9. DEPOSITS FROM OTHER BANKS (CONTINUED)**

	2018		2017	
	US\$	KHR'000 <i>equivalent (Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent (Note 2.1.3)</i>
<b>(b) By relationship</b>				
Non-related parties	20,913,229	84,029,354	7,286,837	29,416,961
Related parties	107,788	433,092	-	-
	<b>21,021,017</b>	<b>84,462,446</b>	<b>7,286,837</b>	<b>29,416,961</b>

**(c) By maturity analysis**

Refer to Note 26.4 on Liquidity risk.

**10. DEPOSITS FROM CUSTOMERS**

Deposits from customers consist of:

	2018		2017	
	US\$	KHR'000 <i>equivalent (Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent (Note 2.1.3)</i>
Current deposits	418,402,506	1,681,141,269	538,328,826	2,173,233,471
Savings deposits	145,216,838	583,481,255	147,387,026	595,001,424
Term deposits	163,725,264	657,848,111	141,096,441	569,606,332
Margin deposits	2,490,000	10,004,820	1,249,415	5,043,888
	<b>729,834,608</b>	<b>2,932,475,455</b>	<b>828,061,708</b>	<b>3,342,885,115</b>

**(a) By type of customer**

	2018		2017	
	US\$	KHR'000 <i>equivalent (Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent (Note 2.1.3)</i>
Legal entities	454,074,214	1,824,470,192	588,641,978	2,376,347,665
Individuals	275,760,394	1,108,005,263	239,419,730	966,537,450
	<b>729,834,608</b>	<b>2,932,475,455</b>	<b>828,061,708</b>	<b>3,342,885,115</b>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

**(b) By currency**

	2018		2017	
	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>
USD	706,499,410	2,838,714,629	771,972,621	3,116,453,471
KHR	20,011,587	80,406,557	52,061,402	210,171,880
Chinese Yuan	3,279,797	13,178,224	4,012,307	16,197,683
Others	43,814	176,045	15,378	62,081
	<b>729,834,608</b>	<b>2,932,475,455</b>	<b>828,061,708</b>	<b>3,342,885,115</b>

**(c) By residency**

	2018		2017	
	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>
Residents	618,202,109	2,483,936,074	747,999,067	3,019,672,233
Nonresidents	111,632,499	448,539,381	80,062,641	323,212,882
	<b>729,834,608</b>	<b>2,932,475,455</b>	<b>828,061,708</b>	<b>3,342,885,115</b>

**d) By maturity analysis**

Refer to Note 26.4 on Liquidity risk.

**(e) Annual interest rates**

	2018	2017
Current deposits	0.00% - 1.75%	0.00% - 1.75%
Savings deposits	0.00% - 0.50%	0.125% - 0.50%
Term deposits	1.00% - 3.50%	1.00% - 4.75%
Margin deposits	Nil	Nil

**11. INCOME TAX (CONTINUED)**

Components of income tax expense are as follows:

	2018		2017	
	US\$	KHR'000 <i>equivalent (Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent (Note 2.1.3)</i>
Current	6,219,993	24,991,932	4,601,164	18,574,899
Deferred	(681,175)	(2,736,961)	(220,271)	(889,234)
<b>Income tax expense</b>	<b>5,538,818</b>	<b>22,254,971</b>	<b>4,380,893</b>	<b>17,685,665</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:

	2018		2017	
	US\$	KHR'000 <i>equivalent (Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent (Note 2.1.3)</i>
<b>Profit before tax</b>	<b>25,717,413</b>	<b>103,332,565</b>	<b>20,218,710</b>	<b>81,622,931</b>
Income tax using statutory rate at 20%	5,143,483	20,666,513	4,043,742	16,324,586
Non-deductible expenses	395,335	1,588,458	337,151	1,361,079
<b>Income tax expense</b>	<b>5,538,818</b>	<b>22,254,971</b>	<b>4,380,893</b>	<b>17,685,665</b>

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**11. INCOME TAX (CONTINUED)**

**11.1 Current corporate income tax (“CIT”) (continued)**

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

	2018		2017	
	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>
Balance as at 1 January	4,236,696	17,103,542	3,436,486	13,873,094
Current income tax charge	6,219,993	24,991,932	4,601,164	18,574,899
Income tax paid	(4,969,572)	(19,967,740)	(3,800,954)	(15,344,451)
Foreign exchange difference	-	(80,498)	-	-
Balance as at 31 December	<b>5,487,117</b>	<b>22,047,236</b>	<b>4,236,696</b>	<b>17,103,542</b>

**11.2 Deferred income tax**

Details of deferred tax asset (liability) items recognized by the Branch are as follows:

	2018		2017	
	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>
Allowance for losses on credit facilities (Note 5, 6 and 14)	1,611,150	6,473,601	864,303	3,489,191
Deferred income	130,311	523,590	163,114	658,491
Provisions on other bad debts	5,905	23,726	14,406	58,157
Provision for seniority indemnity and bonus	82,570	331,766	125,022	504,714
Property and equipment	24,716	99,309	5,752	23,221
Unrealized foreign exchange (gain) loss	(499)	(2,005)	381	1,538
Deferred tax assets - net	<b>1,854,153</b>	<b>7,449,987</b>	<b>1,172,978</b>	<b>4,735,312</b>

**12. INTERBANK BORROWINGS**

Components of income tax expense are as follows:

	2018		2017	
	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>
Bank of China - Hong Kong	100,000,000	401,800,000	130,000,000	524,810,000
Bank of China - Beijing	23,500,000	94,423,000	23,500,000	94,869,500
	<b>123,500,000</b>	<b>496,223,000</b>	<b>153,500,000</b>	<b>619,679,500</b>

The unsecured borrowings from Bank of China - Hong Kong comprise US\$70 million with interest at 3.00% and a term of seven days (2017: 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 start from 3 November 2016.

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.

**13. SUBORDINATED DEBT**

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

On 29 June 2018, the NBC approved on settlement of whole subordinated debt. The Branch paid off the subordinated debt to Bank of China – Beijing on 19 July 2018 along with interest expenses amounted to US\$219,665.

**14. OTHER LIABILITIES**

	2018		2017	
	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>
Interest	3,731,441	14,992,930	2,910,093	11,748,045
Accrued bonus	1,559,379	6,265,585	1,319,648	5,327,419
Accruals and others	758,704	3,048,473	628,265	2,536,306
Remittances (*)	307,543	1,235,707	2,343,075	9,458,994
Other taxes	273,485	1,098,863	310,409	1,253,123
General provision on off-balance sheet items	117,718	472,991	-	-
Payable to suppliers	36,304	145,869	3,391	13,689
ATM card payable	-	-	671,093	2,709,202
	<b>6,784,574</b>	<b>27,260,418</b>	<b>8,185,974</b>	<b>33,046,778</b>

(\*) Outstanding remittances were subsequently cleared in January 2019.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**15. BRANCH CAPITAL**

Branch capital represents the equity invested by the head office.

	2018		2017	
	US\$	KHR'000 <i>equivalent (Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent (Note 2.1.3)</i>
Branch capital	<b>150,000,000</b>	<b>602,700,000</b>	<b>150,000,000</b>	<b>605,550,000</b>

**16. INTEREST INCOME**

Details of deferred tax asset (liability) items recognized by the Branch are as follows:

	2018		2017	
	US\$	KHR'000 <i>equivalent (Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent (Note 2.1.3)</i>
Loans and advances	28,271,685	113,595,631	22,491,859	90,799,635
Balances with NBC and other banks	6,475,346	26,017,940	3,587,143	14,481,296
	<b>34,747,031</b>	<b>139,613,571</b>	<b>26,079,002</b>	<b>105,280,931</b>

**17. INTEREST EXPENSE**

	2018		2017	
	US\$	KHR'000 <i>equivalent (Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent (Note 2.1.3)</i>
Deposits from customers	6,197,740	24,902,519	5,500,333	22,204,845
Interbank borrowings and subordinated debt	1,949,454	7,832,906	1,850,250	7,469,459
	<b>8,147,194</b>	<b>32,735,425</b>	<b>7,350,583</b>	<b>29,674,304</b>

**18. NET FEE AND COMMISSION INCOME**

Components of income tax expense are as follows:

	2018		2017	
	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>
Fee and commission income				
Loans and trade finance	6,498,097	26,109,354	5,632,919	22,740,094
Remittance	3,543,215	14,236,638	3,502,158	14,138,212
Card products	237,787	955,428	213,057	860,111
Others	986,666	3,964,424	713,407	2,880,025
	<b>11,265,765</b>	<b>45,265,844</b>	<b>10,061,541</b>	<b>40,618,442</b>
Fee and commission expense	(1,407,410)	(5,654,974)	(381,365)	(1,539,571)
	<b>9,858,355</b>	<b>39,610,870</b>	<b>9,680,176</b>	<b>39,078,871</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**

	2018		2017	
	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>
Salaries and wages	3,500,392	14,064,575	3,324,207	13,419,824
Allowances	1,328,306	5,337,134	1,189,575	4,802,314
Other benefits	214,505	861,881	169,120	682,737
	<b>5,043,203</b>	<b>20,263,590</b>	<b>4,682,902</b>	<b>18,904,875</b>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**21. BRANCH CAPITAL**

Branch capital represents the equity invested by the head office.

	2018		2017	
	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>
	150,000,000	602,700,000	150,000,000	605,550,000
Rental	705,442	2,834,466	677,980	2,737,005
Patent and other taxes	308,715	1,240,417	151,820	612,897
Social activities	262,993	1,056,706	190,202	767,845
Network and communication	198,158	796,199	201,935	815,212
License fees	170,436	684,812	567,126	2,289,488
Legal and professional fees	163,459	656,778	201,287	812,596
Travelling	156,254	627,829	144,593	583,722
Office supplies	116,930	469,825	89,267	360,371
Labor fees	116,612	468,547	84,891	342,705
Utilities	116,232	467,020	117,592	474,719
Insurances	81,220	326,342	85,012	343,193
Management fees	75,650	303,962	867,825	3,503,410
Repairs and maintenance	72,936	293,057	76,267	307,890
Advertising and marketing	63,513	255,195	86,044	347,360
Other	192,489	773,420	245,195	989,852
	<b>2,801,039</b>	<b>11,254,575</b>	<b>3,787,036</b>	<b>15,288,265</b>

**22. PROVISION FOR LOSSES ON CREDIT FACILITIES**

	2018		2017	
	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>
General provision on balances with other banks (Note 5)	2,762,127	11,098,226	-	-
Provision for losses on loans and advances (Note 6)	1,075,119	4,319,829	262,128	1,058,211
General provision on off-balance sheet items (Note 14)	117,718	472,991	-	-
General provision on interest receivable from placement with other banks (Note 14)	8,787	35,306	-	-
	<b>3,963,751</b>	<b>15,926,352</b>	<b>262,128</b>	<b>1,058,211</b>



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

	2018		2017	
	US\$	KHR'000 <i>equivalent (Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent (Note 2.1.3)</i>
<b>OPERATING ACTIVITIES</b>				
Profit before income tax	25,717,413	103,332,565	20,218,710	81,622,931
Add back: Depreciation	883,335	3,549,240	625,990	2,527,122
	<b>26,600,748</b>	<b>106,881,805</b>	<b>20,844,700</b>	<b>84,150,053</b>
Income tax paid	(4,969,572)	(19,967,740)	(3,800,954)	(15,344,451)
<b>Cash from operating activities before changes in operating assets and liabilities</b>	<b>21,631,176</b>	<b>86,914,065</b>	<b>17,043,746</b>	<b>68,805,602</b>
Change in operating assets and liabilities:				
Balances with NBC	12,327,718	51,678,553	(15,697,396)	(63,370,388)
Balances with other banks	2,762,127	11,098,226	101,507,993	409,787,768
Loans and advances	(81,778,807)	(320,473,747)	(49,763,975)	(200,897,167)
Other assets	(2,039,440)	(8,127,206)	161,960	653,832
Deposits from other banks	13,734,180	55,045,485	(9,943,220)	(40,140,779)
Deposits from customers	(98,227,100)	(410,409,660)	160,982,619	649,886,833
Other liabilities	(1,401,400)	(5,786,360)	(8,220,570)	(33,186,440)
<b>Net cash (used in) generated from operating activities</b>	<b>(132,991,546)</b>	<b>(540,060,644)</b>	<b>196,071,157</b>	<b>791,539,261</b>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**24. 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	2018		2017	
		US\$	KHR'000 equivalent (Note 2.1.3)	US\$	KHR'000 equivalent (Note 2.1.3)
BOC Hong Kong (Head office)	Balances with other banks (Note 5)	135,842,866	545,816,636	233,691,479	938,972,363
	Interbank borrowings (Note 12)	100,000,000	401,800,000	130,000,000	522,340,000
	Accrued interest payable	1,777,083	7,140,319	1,144,667	4,599,272
	Interest expense	769,525	3,091,951	711,755	2,859,832
	Accrued interest receivable	23,333	93,752	182,615	733,747
BOC - Beijing (affiliate and former head office)	Interbank borrowings (Note 12)	23,500,000	94,423,000	23,500,000	94,423,000
	Balances with other banks (Note 5)	6,005,605	24,130,521	22,343,036	89,774,319
	Subordinated debt (Note 13)	-	-	8,000,000	32,144,000
	Interest expense	940,502	3,778,937	891,074	3,580,335
	Accrued interest payable	159,324	640,164	185,324	744,632
BOC Cayman (affiliate)	Balances with other banks (Note 5)	60,000,000	241,080,000	60,000,000	241,080,000
	Interest income	1,607,443	6,458,706	980,556	3,939,874
	Accrued interest receivable	580,222	2,331,332	85,000	341,530
BOC - Shanghai (affiliate)	Balances with other banks (Note 5)	184,435	741,060	3,180	12,777
BOC - Frankfurt (affiliate)	Balances with other banks (Note 5)	81,343	326,836	35,369	142,113
Bank of China Limited	Current account (Note 9)	107,788	433,092	-	-
Key management personnel (*)	Compensation	2,330,947	9,365,745	2,012,507	8,086,253

(\*) Include the Executive Management.

## 25. COMMITMENTS AND CONTINGENCIES

### 25.1 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:

	2018		2017	
	US\$	KHR'000 <i>equivalent (Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent (Note 2.1.3)</i>
Loan commitments	43,295,076	173,959,615	1,377,251	5,559,962
Unutilized portion of overdraft				
15,164,995	60,932,950	20,924,540	84,472,369	
Letters of credit	3,305,647	13,282,090	343,652	1,387,322
Guarantees and others	62,861,479	252,577,423	57,175,190	230,816,240
	<b>124,627,197</b>	<b>500,752,078</b>	<b>79,820,633</b>	<b>322,235,893</b>

### 25.2 Operating lease commitments

The Branch, as lessee, has entered into commercial leases for its premises under an operating lease arrangement. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments in respect of these leases are as follows:

	2018		2017	
	US\$	KHR'000 <i>equivalent (Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent (Note 2.1.3)</i>
Within one year	673,421	2,705,806	585,738	2,364,624
Between one to five years	1,798,721	7,227,261	1,342,524	5,419,769
More than five years	456,344	1,833,590	707,760	2,857,227
	<b>2,928,486</b>	<b>11,766,657</b>	<b>2,636,022</b>	<b>10,641,620</b>

### 25.3 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.

## **26. 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.

### **26.1 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.

### **26.2 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.

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.

**26. FINANCIAL RISK MANAGEMENT (CONTINUED)****26.2 Credit risk (continued)****(c) Impairment and allowance policy**

The Branch is required to follow the mandatory credit classification and provisioning in accordance with the relevant Prakas as disclosed in Note 2.3.7.

**(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:

	2018		2017	
	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>
Balances with the NBC	184,774,649	742,424,540	222,230,884	897,146,078
Balances with other banks	273,450,604	1,098,724,527	409,237,107	1,652,090,201
Loans and advances - net	508,805,083	2,044,378,823	427,026,276	1,723,905,076
Other assets	4,763,212	19,138,586	2,959,579	11,947,821
	<b>971,793,548</b>	<b>3,904,666,476</b>	<b>1,061,453,846</b>	<b>4,285,089,176</b>

For off-balance sheet commitments, refer to Note 25.1.

**(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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

**26.2 Credit risk (continued)**

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

	Financial services	Service	Retail and wholesale	Manufacturing	Others	Allowance for loss on credit facilities	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
<b>2018</b>							
Balances with the NBC	184,774,649	-	-	-	-		184,774,649
Balances with other banks	276,212,731	-	-	-	-	(2,762,127)	273,450,604
Loans and advances- net	30,460,860	13,562,787	44,615,551	114,367,326	311,847,114	(6,048,555)	508,805,083
Other assets	1,407,198	17,261	122,015	563,422	2,662,103	(8,787)	4,763,212
<b>Total in US\$</b>	<b>492,855,438</b>	<b>13,580,048</b>	<b>44,737,566</b>	<b>114,930,748</b>	<b>314,509,217</b>	<b>(8,819,469)</b>	<b>971,793,548</b>
<b>KHR'000 equivalent (Note 2.1.3)</b>	<b>1,980,293,150</b>	<b>54,564,633</b>	<b>179,755,540</b>	<b>461,791,745</b>	<b>1,263,698,034</b>	<b>(35,436,626)</b>	<b>3,904,666,476</b>
<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	(5,137,453)	427,026,276
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>(5,137,453)</b>	<b>1,061,453,846</b>
<b>KHR'000 equivalent (Note 2.1.3)</b>	<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>(20,739,898)</b>	<b>4,285,089,176</b>

**26. FINANCIAL RISK MANAGEMENT (CONTINUED)****26.2 Credit risk (continued)****(f) Loans and advances**

Loans and advances of the Branch are summarized as follows:

	2018		2017	
	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>
Loans and advances neither past due nor impaired (i)	512,200,403	2,058,021,222	432,151,540	1,744,595,767
Loans and advances past due but not impaired (ii)	1,503,831	6,042,393	12,189	49,207
Loans and advances individually impaired (iii)	1,149,404	4,618,305	-	-
<b>Gross</b>	<b>514,853,638</b>	<b>2,068,681,920</b>	<b>432,163,729</b>	<b>1,744,644,974</b>
Allowance for loan losses	(5,397,000)	(21,685,146)	(4,321,881)	(17,447,434)
Unamortized loan processing fees	(651,555)	(2,617,951)	(815,572)	(3,292,464)
<b>Net</b>	<b>508,805,083</b>	<b>2,044,378,823</b>	<b>427,026,276</b>	<b>1,723,905,076</b>

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 31 days (short-term) and 90 (long-term) 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 the relevant NBC Prakas, loans and advances past due more than 30 days (short-term) and 89 days (long-term) 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.

## **26. FINANCIAL RISK MANAGEMENT (CONTINUED)**

### **26.2 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.

### **26.3 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.

#### **26.3.1 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, pre-determined 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.

#### **26.3.2 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.

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.



**26. FINANCIAL RISK MANAGEMENT (CONTINUED)****26.3 Market risk (continued)****26.3.2 Interest rate risk (continued)**

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.

Increase (decrease) in basis points	2018				2017			
	(100)	(50)	+50	+100	(100)	(50)	+50	+100
Loans and advances	(5,148,536)	(2,574,268)	2,574,268	5,148,536	(4,321,637)	(2,160,819)	2,160,819	4,321,637
Interbank borrowings	1,235,000	617,500	(617,500)	(1,235,000)	1,535,000	767,500	(767,500)	(1,535,000)
Subordinated debt	-	-	-	-	80,000	40,000	(40,000)	(80,000)

**26.4 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

**26.3 Market risk (continued)**

**26.4 Liquidity risk (continued)**

	2018						
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 to 5 years	Over 5 years	Allowance for losses on credit facilities and unamortized loan fees	Total
	US\$	US\$	US\$	US\$	US\$		US\$
<b>Financial assets</b>							
Cash and cheque items	31,193,448	-	-	-	-	-	31,193,448
Balances with the NBC	184,774,649	-	-	-	-	-	184,774,649
Balances with other banks	189,212,731	87,000,000	-	-	-	(2,762,127)	273,450,604
Loans and advances - net	28,500,456	9,125,028	68,278,625	268,226,740	140,722,789	(6,048,555)	508,805,083
Other assets	4,771,999	-	-	-	-	(8,787)	4,763,212
<b>Total financial assets</b>	<b>438,453,283</b>	<b>96,125,028</b>	<b>68,278,625</b>	<b>268,226,740</b>	<b>140,722,789</b>	<b>(8,819,469)</b>	<b>1,002,986,996</b>
<b>Financial liabilities</b>							
Deposits from other banks	21,021,017	-	-	-	-	-	21,021,017
Deposits from customers	622,295,177	52,143,349	54,860,456	535,626	-	-	729,834,608
Interbank borrowings	70,000,000	-	53,500,000	-	-	-	123,500,000
Subordinated debt	-	-	-	-	-	-	-
Other liabilities	4,193,006	-	-	-	-	-	4,193,006
<b>Total financial liabilities</b>	<b>717,509,200</b>	<b>52,143,349</b>	<b>108,360,456</b>	<b>535,626</b>	<b>-</b>	<b>-</b>	<b>878,548,631</b>
<b>Net liquidity surplus (gap)</b>	<b>(279,055,917)</b>	<b>43,981,679</b>	<b>(40,081,831)</b>	<b>267,691,114</b>	<b>140,722,789</b>	<b>(8,819,469)</b>	<b>124,438,365</b>
<b>KHR'000 equivalent (Note 2.1.3)</b>	<b>(1,121,246,675)</b>	<b>176,718,386</b>	<b>(161,048,797)</b>	<b>1,075,582,896</b>	<b>565,424,166</b>	<b>(35,436,626)</b>	<b>499,993,351</b>

**26. FINANCIAL RISK MANAGEMENT (CONTINUED)**
**26.3 Market risk (continued)**
**26.4 Liquidity risk (continued)**

	2017						
	Up to 1 month	>1 - 3 months	>3 - 12 months	>1 to 5 years	Over 5 years	Allowance for losses on credit facilities and unamortized loan fees	Total
	US\$	US\$	US\$	US\$	US\$		US\$
<b>Financial assets</b>							
Cash and 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 - net	50,973,715	6,952,082	66,159,532	169,931,685	138,146,715	(5,137,453)	427,026,276
Other assets	2,959,579	-	-	-	-	-	2,959,579
<b>Total financial assets</b>	<b>587,668,519</b>	<b>136,952,082</b>	<b>66,159,532</b>	<b>169,931,685</b>	<b>138,146,715</b>	<b>(5,137,453)</b>	<b>1,093,721,080</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>44,570,905</b>	<b>53,500,000</b>	<b>-</b>	<b>-</b>	<b>1,002,776,197</b>
<b>Net liquidity surplus (gap)</b>	<b>(265,700,549)</b>	<b>85,615,858</b>	<b>21,588,627</b>	<b>116,431,685</b>	<b>138,146,715</b>	<b>(5,137,453)</b>	<b>90,944,883</b>
<b>KHR'000 equivalent (Note 2.1.3)</b>	<b>(1,072,633,116)</b>	<b>345,631,219</b>	<b>87,153,287</b>	<b>470,034,712</b>	<b>557,698,288</b>	<b>(20,739,898)</b>	<b>367,144,493</b>

## 26. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 26.5 Capital management

#### 26.5.1 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:

	2018		2017	
	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>	US\$	KHR'000 <i>equivalent</i> <i>(Note 2.1.3)</i>
Tier I capital	212,691,149	854,593,036	202,012,554	815,524,679
Tier II capital	8,010,636	32,186,735	12,321,515	49,741,957
<b>Net worth</b>	<b>220,701,785</b>	<b>886,779,771</b>	<b>214,334,069</b>	<b>865,266,636</b>
Total risk-weighted assets	650,458,036	2,613,540,389	621,129,281	2,507,498,909
<b>Solvency ratio</b>	<b>33.93%</b>	<b>33.93%</b>	<b>34.51%</b>	<b>34.51%</b>

## 27. 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.

## 28. SUBSEQUENT EVENTS

Other than as disclosed elsewhere in these financial statements, at the date of this report, there were no events, which occurred subsequent after 31 December 2018 that had significant impact on the financial position and performance of the Branch as at 31 December 2018.

## 29. TAX CONTINGENCY

The taxation system in Cambodia is characterized by numerous taxes and frequently changing legislation, which is often unclear, contradictory and subject to interpretation. Often, differing interpretations exist 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.

