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CAMKO SPECIALIZED BANK PLC.

Annual Report

2018



CAMKO Specialized Bank



www.camkobank.com

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1. Board Chairman's Message



2018 was a transition year for the Bank, and it still remains in 2019 — changed ownership and managements. We strive for the better.

HIGHLIGHTED PERFORMANCE

FY2018, the Bank resumes lending operations, as result the gross loan portfolio grew to US\$8M (2017:US\$2.6M) and Operating Incomes were US\$1.2M (2017:US\$0.52M). The Bank made profits after tax of US\$0.37M (2017:US\$0.06M). Portfolio at Risk (PAR 30) had improved significantly and recorded at 1.7% (2017: 5%).

The Bank had not leveraged yet, and still uses equity to fund its operations as results the solvency ratio remains very high, recorded at 107.67% (2017: 106.8%).

THE IMPROVEMENT JOURNEYS

To support the new vision and mission of the Bank, there are following imperative strategies needs to focus on:

- a. Organizational structure changes to meet the future growth and expansion
- b. Bring in and retained experienced staffs and managements to support the journey of changes for the Bank
- c. Streamline policies, procedures, process design to ensure simple, fast and reliable to customers and effective & efficient for the Bank
- d. Implement new Core Banking system—online real-time, multi currencies and consolidated.
- e. Implement IFRS as per requirement of regulators
- f. Redesign new corporate branding
- g. Mobilized equity and borrowing to support loan growth. We are also working on polishing our existing products as well as on creating new products to be delivering to our target clientele in the year to come.

The Bank believes that financial achievement is not an ultimate goal. We need to support our clients to success, as we will also grow with clients. We need to humanize our services to deliver to the target group of clients, as they had clearly indicated in our vision and mission.

HUMAN IN THE BANK

The Bank also focus on communicating vision, mission and strategies to our staffs, so as to achieve a real cultural enhancement fuelled by our shared value. As the journey of changes has just begun, it has confirmed my view that the Bank needs talent manpower at all levels in the Bank. We plan implemented the award program for our outstanding employees.

Though, we are new to the Bank but many initiatives have been brought up to nurture talent, to boost efficiency, effectiveness, productivity and innovation, and to inculcate the spirit of service. All these initiatives are based on the recognition that each of our employees is an important asset with a part to play in our long- term sustainable future. We hire the best people for the job and strive to retain,

motivate, empower and reward them for their contribution. In this way, and through our shared spirit, we believe our people find meaning in their work and will strive to serve from the heart. Improving our services begins at home. Many of our employees' suggestions have been taken into considerations by senior management and implemented. We engage our employees in honesty, openness, trust and dialogue regarding their viewpoints and aspirations.

THE PROSPECT

Cambodia has attained lower middle-income status with gross national income (GNI) per capita reaching US\$1,230 in 2017. Driven by garment exports and tourism, Cambodia has sustained an average growth rate of 7.7% between 1995-2017, the sixth fastest-growing economy in the world. As global demand peaks in 2018, economic growth is expected to reach 7%, compared to 6.9% in 2017. Growth is expected to remain robust over the medium term (the World Bank).

Economic and business environments moving forward positively will bring with it more opportunities for financial sector. Competition will intensify undoubtedly within the industry as well as new entrances. The Bank needs to build confidences and solid grounds to work with clients to ensure mutual appropriate returns for long term.

GIVING THANKS

We are profoundly grateful for the dedication of all our staffs and the loyalty of our customers, the trust of our partners and associates, and the support of National Bank of Cambodia, and the other regulatory authorities that have guided and supported us over the years—especially during the transition in 2018.

In the same way, my thanks to my fellow management colleagues for their support and commitment in steering the Bank moving forward during the upcoming journey of changes.

Sincerely,



Mr. Sam Pheakdei,
Chairman of the Board,

2. Bank's Information

Bank	Camko Specialized Bank Plc.
Registration No.	Co-3374/07E
Registered Office	No.S2-21&22, Street PreahMonireth (No. 217), Sangkat Veal Vong, Khan 7 Makara, Phnom Penh, Kingdom of Cambodia
Registered Capital	US Dollar 15 Millions
Shareholders	Daun Penh Land Co., Ltd.
Board of Directors	Mr. Sam Pheakdei (Chairman of the Board) Dr. Phai Touch (Independent Board Member) Mr. Leang Kimhouth (Board Member and Acting CEO)
Auditor	Mr. Peou Dara (For and on behalf of HRDP and Associates)
Phone	(855)23 901 220
Email	info@camkobank.com
Website	www.camkobank.com

3. Vision and Mission

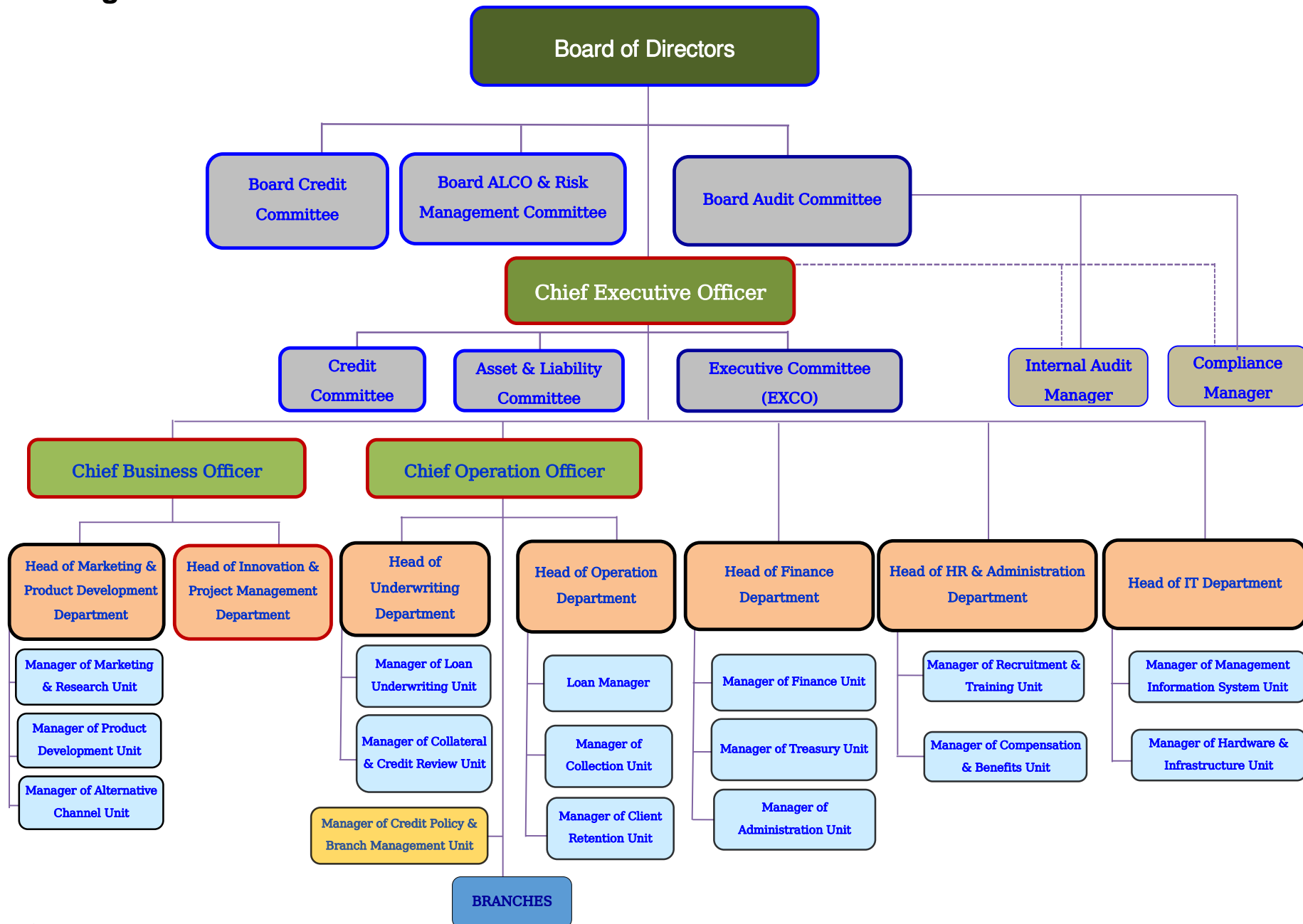
Vision

To be a top minded bank in providing simple financial solutions to income generation people.

Mission

We leverage channel distribution and innovative technology solutions to provide best customer experiences at affordable costs and reasonable returns to stakeholders and community.

4. Organizational Chart



5. Board of Directors



Mr. Sam Pheakdei
Chairman of the Board



Dr. Phai Touch
Independent Board Member



Mr. Leang Kimhouth
Board Member and Acting CEO

6. Scope of Business

Camko Specialized Bank Plc. is specialist in providing loan which includes: Staff Loan, Housing Loans, Business Loans, etc.

7. Report of the Board of Directors

The Directors ("the Board of Directors") are pleased to submit their report together with the audited financial statements of CAMKO Specialized Bank ("the Bank") as at and for the year ended 31 December 2018.

CAMKO Specialized Bank

The Bank was incorporated in Cambodia on 23 January 2007 under registration number Co 33741078. The Bank obtained a license from the National Bank of Cambodia ("NBC") to operate as a commercial bank effective from 23 May 2007 and officially commenced operations on 1 June 2007. On 6 July 2011, the Bank obtained a license from the NBC to operate as a specialized bank effective from 1 July 2011.

On July 20th 2018, shareholders of Camko Specialized Bank entered into Share Sale and Purchase Agreement with Daun Penh Land Co., Ltd as purchaser. The transaction got approval from National Bank of Cambodia ("NBC") on 17th October 2018 and ratified amended Memorandum and Article of Associations ("MoA") on 22 October 2018. Currently, the MoA is under process of getting registered with Ministry of Commerce, expecting to have it completed within first semester of 2019.

With new shareholder approved by NBC on 17th October 2018, the registered capital of the Bank increased to 60 billion Riel (equivalent to US\$ 15,000,000), the total number of shares is 15 million.

Principal activity

The Bank is principally engaged in credit operations for valuable consideration, including leasing, guarantees and commitments in Cambodia. There were no changes in the nature of the principal activities during the year.

Results and dividends

The results of operations for the year ended 31 December 2018 are set out in the statement of income on page 9. No dividends were declared or paid during the year ended 31 December 2018 (2017: Nil).

Assets

As at the date of this report, the Directors are not aware of any circumstances that would render the values attributed to the assets in the financial statements of the Bank misleading in any material respect.

Statutory capital

The Bank increased its share capital to US\$15,000,000 in 2018.

Reserves and provisions

There were no material movements to or from reserves and provisions during the year under review.

Bad and doubtful loans

Before the financial statements of the Bank were drawn up, the Directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad loans and making of provisions for doubtful loans, and satisfied themselves that all known bad loans had been written off and that adequate provisions have been made for bad and doubtful loans.

At the date of this report and based on the best of their knowledge, the Directors are not aware of any circumstances which would render the amount written off for bad loans or the amount of the provision for bad and doubtful loans in the financial statements of the Bank inadequate to any material extent.

Current assets

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

At the date of this report and based on the best of their knowledge, the Directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Bank misleading in any material respect.

Valuation methods

At the date of this report and based on the best of their knowledge, the Directors are not aware of any circumstances that have arisen which would render adherence to the existing methods of valuation of assets and liabilities in the financial statements of the Bank misleading or inappropriate in any material respect.

Contingent and other liabilities

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

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

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

Changes of circumstances

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

Items of an unusual nature

The results of the operations of the Bank for the year ended 31 December 2018 were not, in the opinion of the Directors, materially 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 year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to substantially affect the results of the operations of the Bank for the current financial year in which this report is made.

The Board of Directors

The members of the Board of Directors holding office during the year and as at the date of this report are:

Mr. Sam Pheakdei	Chairman of the Board
Dr. Phai Touch	Independent Board Member
Mr. Leang Kimhouth	Board Member and Acting CEO

Directors' interest

The Directors who held office at the end of the reporting date do not have interests in the shares of the Bank.

Directors' benefit

During and at the end of the financial year, no arrangements existed to which the Bank was a party with the object of enabling the Directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other corporate body.

Since the end of the previous financial year, no Director of the Bank has received or become entitled to receive any benefit by reason of a contract made by the Bank with the Director or with a firm of which the Director is a member, or with a company in which the Director has a material financial interest, other than as disclosed in the financial statements.

Responsibilities of the Directors in respect of the financial statements

The Directors are responsible to ensure that the financial statements for each financial year are properly drawn up so as to give a true and fair view of the financial position of the Bank as at 31 December 2018, and of its financial performance and cash flows for the year then ended. In preparing those financial statements, the Directors are required to:

- (i) adopt appropriate accounting policies which are supported by reasonable and prudent judgements and estimates and then apply them consistently;
- (ii) comply with Cambodian Accounting Standards and the National Bank of Cambodia's guidelines or, if there have been any departures in the interests of fair presentation, these have been appropriately disclosed, explained and quantified in the financial statements;
- (iii) maintain adequate accounting records and an effective system of internal controls;
- (iv) prepare the financial statements on a going concern basis unless it is inappropriate to assume that the Bank will continue operations in the foreseeable future; and
- (v) effectively control and direct the Bank in all material decisions and actions affecting the operations and performance and ascertain that such have been properly reflected in the financial statements.

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

Statement by Directors

The accompanying financial statements, which have been drawn up so as to give a true and fair view of the financial position of the Bank as at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with the National Bank of Cambodia's guidelines and Cambodian Accounting Standards, were approved by the Board of Directors on the date stated below.

On behalf of the Board of Directors



Mr. Sam Pheakdei
Chairman of the Board

Phnom Penh, Kingdom of Cambodia
Date

8. REPORT OF THE INDEPENDENT AUDITORS

To the shareholders and Board of Directors

CAMKO Specialized Bank

Opinion

We have audited the financial statements of CAMKO Specialized Bank ("the Bank"), which comprise the balance sheet as at 31 December 2018 and the related statements of income, changes in equity, and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information as set out on pages 8 to 40.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2018 and of its financial performance and cash flows for the year then ended, in accordance with Cambodian Accounting Standards and the National Bank of Cambodia's guidelines.

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 Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in Cambodia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The financial statements of the Bank as at and for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those statements on 9 March 2018.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditors' report is the information included in the Report of Directors as set out on pages 1 to 4, but does not include the financial statements and our auditors' report thereon.

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

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

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

Directors are responsible for the preparation and fair presentation of the financial statements in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, directors are responsible for assessing the Institution'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 Institution or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with CISA, we exercise professional judgment and maintain professional scepticism 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 Institution'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 Institution's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Institution 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.

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

For and on behalf of **HRDP and Associates**



Mr. Peou Dara
Partner

Phnom Penh, Kingdom of Cambodia
Date:

9. Balance sheets

	Notes	31 December 2018		31 December 2017
		US\$	KHR'000	US\$
ASSETS				
Cash on hand	4	73,303	294,531	4,968
Balances with banks	5	199,500	801,591	420,244
Balances with other banks	6	3,430,000	13,781,740	6,234,000
Loans to customers – net	7	8,078,523	32,459,505	2,630,322
Statutory deposits with NBC	8	764,200	3,070,556	664,200
Property and equipment	9	84,225	338,416	6,627
Other assets	11	139,064	558,759	403,381
TOTAL ASSETS		12,768,815	51,305,098	10,363,742
LIABILITIES AND EQUITY				
LIABILITIES				
Deposits from customers	12	12,711	51,073	4,877
Accrued expenses and other liabilities	13	50,315	202,165	24,763
TOTAL LIABILITIES		63,026	253,238	29,640
EQUITY				
Share capital	14	15,000,000	60,270,000	13,000,000
Accumulated losses		(2,294,211)	(9,218,140)	(2,665,898)
TOTAL EQUITY		12,705,789	51,051,860	10,334,102
TOTAL LIABILITIES AND EQUITY		12,768,815	51,305,098	10,363,742

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

10. Income statement

For the year ended 31 December 2018

	Notes	For year ended 31 December 2018		For year ended 31 December 2017
		US\$	KHR'000	US\$
Interest income	15	570,450	2,292,068	478,956
Other income	16	629,647	2,529,922	38,910
Total operating income		1,200,097	4,821,990	517,866
Other operating expense	17	(772,206)	(3,102,724)	(421,393)
Provision for loans losses	7	(44,030)	(176,913)	(33,015)
Profit before income tax		383,861	1,542,353	63,458
Income tax expense	18	(12,174)	(48,915)	(5,605)
Net profit for the year		371,687	1,493,438	57,853

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

11. Statement of Changes in Equity

	Share capital US\$	Retained earnings US\$	Total US\$
Balance as at 1 January 2018	13,000,000	(2,665,898)	10,334,102
Issuance of share capital	2,000,000	-	2,000,000
Net profit for the year	-	371,686	371,686
Balance as at 31 December 2018	<u>15,000,000</u>	<u>(2,294,212)</u>	<u>12,705,788</u>
KHR'000 equivalents	<u>60,270,000</u>	<u>(9,218,144)</u>	<u>51,051,856</u>
Balance as at 1 January 2017	13,000,000	(2,723,751)	10,276,249
Net profit for the year	-	57,853	57,853
Balance as at 31 December 2017	<u>13,000,000</u>	<u>(2,665,898)</u>	<u>10,334,102</u>

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

12. Statement of cash flows

For the year ended 31 December 2018

	Notes	For year ended		For year ended
		31 December 2018	31 December 2017	31 December 2017
		US\$	KHR'000	US\$
Cash flows from operating activities				
Profit before tax		383,861	1,542,353	63,458
Adjustments for:				
Depreciation and amortization	9	20,408	81,999	2,323
Allowance for doubtful loans	7	44,030	176,913	(4,144,833)
Gain on disposal of fixed assets		(8,913)	(35,812)	(15,434)
Income tax paid		(12,174)	(48,916)	(5,605)
		<u>427,212</u>	<u>1,716,537</u>	<u>(4,100,091)</u>
Working Capital Changes:				
Balance with NBC		(100,000)	(401,800)	-
Balance with other banks		2,804,000	11,266,472	907,470
Loans to customers	7	(5,492,231)	(22,067,784)	3,454,356
Other assets		264,317	1,062,026	(121,549)
Deposits from customers		7,834	31,477	3,430
Other payables		25,552	102,668	(43,681)
Net cash used in operating activities		<u>(2,063,316)</u>	<u>(8,290,404)</u>	<u>99,935</u>
Cash flows from investing activities				
Acquisition of property and equipment	9	(102,939)	(413,609)	(6,625)
Proceed from disposal of property and equipment		13,846	55,633	20,295
Net cash used in investing activities		<u>(89,093)</u>	<u>(357,976)</u>	<u>13,670</u>
Cash flows from financing activities				
Capital contribution	14	2,000,000	8,036,000	-
Net cash used in financing activities		<u>2,000,000</u>	<u>8,036,000</u>	<u>-</u>
Net increase or decrease in cash and cash equivalents		<u>(152,409)</u>	<u>(612,380)</u>	<u>113,605</u>
Cash and cash equivalents at beginning of the year		<u>425,212</u>	<u>1,708,502</u>	<u>311,607</u>
Cash and cash equivalents at end of the year	20	<u><u>272,803</u></u>	<u><u>1,096,122</u></u>	<u><u>425,212</u></u>

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

1. GENERAL INFORMATION

CAMKO Specialized Bank (“the Bank”) is a specialized bank incorporated and registered in the Kingdom of Cambodia. The Bank was incorporated in Cambodia on 23 January 2007 under registration number Co.3374/07E. The Bank obtained a license from the National Bank of Cambodia (“NBC”) to operate as a commercial bank effective from 23 May 2007 and officially commenced operations on 1 June 2007. On 6 July 2011, the Bank obtained a license from the NBC to operate as a specialized bank effective from 1 July 2011.

Under the specialized banking license, the Bank is principally engaged in credit operations for valuable consideration, including leasing, guarantees and commitments in Cambodia. There were no changes in the nature of the principal activities during the year.

The Bank head office is located at No. 81, Norodom Boulevard, Phnom Penh, Kingdom of Cambodia. On 1 February 2018, the Bank moved its head office to No. S2-21 and S2-22, Street Preah Monireth (No. 217), Sangkat Veal Vong, Khan 7 Makara, Phnom Penh.

On July 20th 2018, shareholders of Camko Specialized Bank entered into Share Sale and Purchase Agreement with Daun Penh Land Co., Ltd as purchaser. The transaction got approval from National Bank of Cambodia (“NBC”) on 17th October 2018 and ratified amended Memorandum and Article of Associations (“MoA”) on 22 October 2018. Currently, the MoA is under process of getting registered with Ministry of Commerce, expecting to have it completed within first semester of 2019.

With new shareholder approved by NBC on 17th October 2018, the registered capital of the Bank increased to 60 billion Riel (equivalent to US\$ 15,000,000), the total number of shares is 15 million.

As at 31 December 2018, the Bank employed 24 employees (2017: 12 employees).

The financial statements were authorized for issue by the Board of Directors on 28 March 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of accounting

The financial statements of the Bank are prepared under the historical cost convention in accordance with the guidelines issued by the National Bank of Cambodia (“NBC”) and Cambodian Accounting Standards (“CAS”). Those principles require that financial instruments be carried at cost less allowances for impairment. This practice differs from the International Financial Reporting Standards, which require that loans and receivables be carried at amortized cost using the effective interest method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or uncollectability.

13. Notes to the financial statements

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of accounting (Continued)

The presentation of financial statements in conformity with CAS as modified by NBC guidelines requires that the Bank's Management make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates have been made based on existing available information and the Management's best knowledge of current events and actions; therefore, actual results may ultimately differ from those estimates.

The accompanying financial statements are prepared for jurisdiction of Cambodia and the National Bank of Cambodia's guidelines. It is not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in other countries and jurisdictions other than Cambodia.

2.2 New accounting framework

On 28 August 2009, the National Accounting Council ("NAC"), as mandated by Prakas (Circular) No. 068-MEF-Pr dated 8 January 2009 issued by the Ministry of Economy and Finance of Cambodia, announced the adoption of the Cambodian International Financial Reporting Standards ("CIFRS") which are based on full International Financial Reporting Standards. Public accountable entities shall prepare their financial statements in accordance with CIFRS for accounting period beginning on or after 1 January 2012.

However, the NAC announced on 30 July 2012 that the implementation of CIFRS is postponed until 1 January 2017 for banking and financial institutions.

On 20 October 2016, the Association of Banks in Cambodia ("ABC"), citing a lack of preparedness of a significant number of banks for adoption of CIFRS, has submitted a request to the NBC to defer the implementation of the CIFRS for another three years until the fiscal year 2019. Pursuant to this request, the NBC has on 16 November 2015 made an official request to the NAC to postpone the implementation of the CIFRS to fiscal year 2019 with early application permitted. The NAC has issued an announcement dated 25 February 2016 agreeing to postpone the implementation of the CIFRS to fiscal year 2019.

The adoption of CIFRS for its first financial statements for the year ending 31 December 2019 will have significant impact on the financial statements. The Bank will assess the full impact of the first adoption of CIFRS and the CIFRS implementation will be updated as necessary should they occur.

2.3 Foreign currencies translation

(a) *Functional and presentation currency*

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates ('the functional currency').

2.3 Foreign currencies translation (Continued)

(a) *Functional and presentation currency*

The Bank transacts essentially in US Dollar (“US\$”) and maintains its books of accounts primarily in US\$ and the financial statements are presented in US\$, which is the Bank’s functional and presentation currency as it reflects the economic substance of the underlying events and circumstances of the Bank.

In compliance with the requirements of the NBC, all assets, liabilities, profit and loss statement items in foreign currencies at the end of the year are converted into thousand Khmer Riel (“KHR’000”) using the official exchange rate announced by the NBC at the balance sheet date, of 1 US\$ = KHR 4,018 (31 December 2017: KHR 4,037). The purposes of such conversions are to comply with NBC’s financial statements presentation guidelines only and should not be construed as representations that the KHR amounts have been, could be, or could in the future be, converted into US\$ at this or any other rate of exchange.

(b) *Transactions and balances*

Assets and liabilities expressed in currencies other than US\$ are translated into US\$ at the rate of exchange quoted by the NBC at the date of the balance sheet. Income and expenses arising in foreign currencies are converted into US\$ at the rate of exchange prevailing on the transaction dates. Exchange differences arising from conversion are reported on a net basis in the statement of income.

2.4 Cash and cash equivalents

Cash and cash equivalents comprise balances with original maturity of three months or less from the date of placements, including cash on hand, non-restricted balances with the NBC and balances with other banks, which are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

2.5 Deposits and placements with banks

Deposits and placements with banks are stated at cost less allowance for uncollectible amounts.

2.6 Statutory deposits with central bank

Statutory deposits represent mandatory reserve deposits and cash maintained with the NBC in compliance with the Law on Banking and Financial Institutions (“LBFI”) and are not available to finance the Bank’s day-to-day operations and hence are not considered as part of cash and cash equivalents for the purpose of the statement of cash flows.

2.7 Loans to customers

Loans to customers are stated at outstanding balances and interests, less allowances for loan loss and any amount written off. Interest in suspense represents interest accrued on non-performing loans that are classified as substandard, doubtful or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Loans to customers (Continued)

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

2.8 Allowances for loan losses

Allowances for loan losses are based on the latest mandatory credit classification and provisioning guidelines required by Prakas B7-018-001 dated 16 February 2018 issued by the NBC. All loans to customers are classified according to the repayment capacity of the counterparty. This repayment capacity is assessed through past payment experience, financial conditions of the borrowers, business prospective and cash flow projections, borrowers' ability and willingness to repay, financial environment, and quality of documentation.

Allowances are made with regard to specific risks on loans individually reviewed and classified into five classes as normal, special mention, substandard, doubtful and loss.

NBC guidelines require the following loan classification and minimum level of allowances:

Classification	Number of days past due	Allowance
Short-term loans (less than or equal one year):		
Normal	<15 days	1%
Special mention	15 days – 30 days	3%
Sub-standard	31 days – 60 days	20%
Doubtful	61 days – 90 days	50%
Loss	≥ 91 days	100%
Long-term loans (more than one year):		
Normal	<30 days	1%
Special mention	30 days – 89 days	3%
Sub-standard	90 days – 179 days	20%
Doubtful	180 days – 359 days	50%
Loss	≥ 360 days	100%

Exception on the above provision rate may be considered but this is conditional on the actual market value of the collateral having been deemed acceptable by the NBC on a case-by-case basis. In accordance with NBC guidelines, overdue loans are defined as the total outstanding principal where the principal or interest is past due.

An uncollectible loans and 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Other assets

Other investment and other assets are stated at cost.

2.10 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition for its intended use.

Subsequent expenditures are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the financial year in which they are incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset, as follows:

Leasehold improvement	3 years
Furniture and fixtures	3 to 5 years
Office equipment	3 to 5 years
Computer equipment	3 years
Motor vehicles	5 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposal are determined by comparing proceeds with carrying amount and are recognized in the statement of income.

2.11 Software

Software is stated at cost less accumulated amortization and accumulated impairment losses. It is amortized over its estimated useful life of five years using the straight-line basis. If there is an indication that there has been a significant change in amortization rate, useful life or residual value of computer software, the amortization is revised prospectively to reflect the new expectations. Costs associated with maintaining computer software are recognized as an expense when incurred.

2.12 Liabilities

Deposits from customers are stated at placement values. Accrued expenses and other liabilities are stated at cost which is the fair value of the consideration expected to be paid in the future for goods and services received.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**2.13 Interest income**

Interest earned on loans to customers, deposits with the National Bank of Cambodia and other banks are recognized on the accrual basis, except when loans to customers become doubtful of collection, in which case, no interest is recognized as income.

Where an account is classified as non-performing, recognition of interest income is suspended until it is realized on a cash basis. Customer's loan accounts are classified as non-performing where repayments are in arrears for ninety days and more.

2.14 Fee and commission income

Loan arrangement fee and commissions are generally recognized based on the occurrence when the service has been provided and consideration received.

Service charges and processing fees are recognized as income when loan is disbursed.

2.15 Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of income on a straight-line basis over the period of the lease.

2.16 Current and deferred income tax

Income tax for the year comprises current and deferred tax. Income tax is recognized in the statement of income except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.

Current income tax is calculated on the basis of taxable profit using tax rates that have been enacted or substantially enacted at the balance sheet date in accordance with Cambodian Law on Taxation.

Deferred tax is provided in full, using the balance sheet liability method, on temporary differences between tax bases of assets and liabilities and their carrying amounts in the financial statements. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rate enacted or substantially enacted at the balance sheet date.

Deferred tax assets are measured at the highest amount that, on the basis of current or estimated future taxable profit, is more likely than not to be recovered. The carrying amounts of deferred tax asset are reviewed at each reporting date and are adjusted to reflect the current assessment of future taxable profit.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**2.17 Provision**

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligations; and a reliable estimate of the amount of the obligation can be made.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

2.18 Related parties

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

Under the LBFI, the definition of related parties includes parties who hold, directly or indirectly, at least 10 percent of the capital or voting rights and includes any individual who participates in the administration, direction, management or internal control of the Bank.

2.19 Rounding off amounts

Amounts in the financial statements have been rounded off to the nearest dollar and nearest thousand KHR (KHR'000) for US\$ and KHR amounts, respectively.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations with regard to future events that are believed to be reasonable under the circumstances. These estimates may differ from actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Impairment losses on loans to customers

The Bank follows the mandatory credit classification and provisioning as required by Prakas No. B7-018-001 dated 16 February 2018 on asset classification and provisioning in the banking and financial institutions issued by the NBC. The NBC requires banks to classify their loans and similar assets into five classes and the minimum mandatory level of provisioning is provided, depending on the classification concerned. For the purpose of loan classification, the Bank takes into account all risks and relevant factors which may affect the counterparties' repayment abilities.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)*(ii) Income tax*

Taxes are calculated on the basis of current interpretation of the tax regulations. However, the application of tax laws and regulations on many types of transactions are subject to periodic variation and the ultimate determination of tax expenses will be made following inspection by the Tax Authorities.

Where the final tax outcome is different from the amounts that were initially recorded, such differences will have an impact on the income tax and deferred tax provisions in the financial period in which such determination is made.

(iii) Property and equipment

Accounting for property and equipment involves the use of estimates for determining the expected useful lives of these assets. The determination of the useful lives of the assets is based on management's judgement.

4. CASH ON HAND

	31 December 2018		31 December 2017
	US\$	KHR'000	US\$
Cash in hand in US\$	73,220	294,198	4,439
Cash in hand in KHR	83	333	529
	<u>73,303</u>	<u>294,531</u>	<u>4,968</u>

5. BALANCES WITH BANKS

	31 December 2018		31 December 2017
	US\$	KHR'000	US\$
In Cambodia:			
Current accounts with NBC	16,542	66,466	13,954
Current accounts with other banks	14,970	60,149	7,033
Savings accounts with other banks	167,988	674,976	399,257
	<u>199,500</u>	<u>801,591</u>	<u>420,244</u>

5. BALANCES WITH BANKS (CONTINUED)

Further analysis of the above balances is as follows:

	31 December 2018		31 December 2017
	US\$	KHR'000	US\$
(i) By maturity period:			
Within one month	199,500	801,591	420,244
	<u>199,500</u>	<u>801,591</u>	<u>420,244</u>
(ii) By currency:			
Khmer Riels	263	1,057	350
US Dollars	199,237	800,534	419,894
	<u>199,500</u>	<u>801,591</u>	<u>420,244</u>
	31 December 2018		31 December 2017
By interest rates (per annum):			
Savings accounts	0.20% - 1.25%		0.25% - 0.40%

6. PLACEMENTS WITH OTHER BANKS

This consists of term deposits with local banks denominated in US\$ with original maturities of six months to one year and earning annual interest at rates ranging from 4.00% to 5.10% in 2018 (2017: 3.50% to 4.00%).

7. LOANS TO CUSTOMERS – NET

	31 December 2018		31 December 2017
	US\$	KHR'000	US\$
Commercial loans:			
Corporate	3,000,000	12,054,000	-
Overdraft	-	-	-
Housing	-	-	-
Consumer loans:			
Operation loans	4,342,704	17,448,985	1,150,792
Overdraft	-	-	62,966
Housing	957,770	3,848,320	1,594,485
Loans to customers – gross	<u>8,300,474</u>	<u>33,351,305</u>	<u>2,808,243</u>
Allowance for loan losses	<u>(221,951)</u>	<u>(891,800)</u>	<u>(177,921)</u>
Loans to customers – net	<u>8,078,523</u>	<u>32,459,505</u>	<u>2,630,322</u>

7. LOANS TO CUSTOMERS – NET (CONTINUED)

Movements of allowance for losses on loans to customers:

	31 December 2018 US\$	31 December 2017 KHR'000	31 December 2017 US\$
At beginning of the year	(177,921)	(714,887)	(4,322,754)
Provisions during the year:			
Provision for loan written off	-	-	4,111,818
Provision for the year	(44,030)	(176,913)	33,015
At end of the year	<u>(221,951)</u>	<u>(891,800)</u>	<u>(177,921)</u>

Further analysis of loans to customers is as follows:

(i) Analyses by performance:

	31 December 2018 US\$	31 December 2017 KHR'000	31 December 2017 US\$
Normal loans:			
Secured (*)	4,869,604	19,566,070	1,548,321
Unsecured	3,290,520	13,221,309	575,005
Special mention loans:			
Secured (*)	-	-	-
Unsecured	-	-	544,567
Substandard loans:			
Secured (*)	-	-	-
Unsecured	-	-	-
Doubtful loans:			
Secured (*)	-	-	-
Unsecured	-	-	-
Loss loans:			
Secured (*)	-	-	140,350
Unsecured	140,350	563,926	-
Total	<u>8,300,474</u>	<u>33,351,305</u>	<u>2,808,243</u>

Refer to Note 22.2 on credit risk for the analysis of loans quality.

(*) Secured loans represent loans to customers that are collateralized by land, building and/or other immovable properties.

7. LOANS TO CUSTOMERS – NET (CONTINUED)

(ii) Analysis of loan portfolio by industrial sector and the related allowance for losses on loans to customers:

	31 December 2018		31 December 2017	
	Principal US\$	Allowance US\$	Principal US\$	Allowance US\$
Corporate	3,000,000	30,000	-	-
Housing	957,770	148,524	1,594,485	165,783
Others	4,342,704	43,427	1,213,758	12,138
	<u>8,300,474</u>	<u>221,951</u>	<u>2,808,243</u>	<u>177,921</u>
KHR'000 equivalents	<u>32,459,505</u>	<u>891,800</u>	<u>11,336,879</u>	<u>718,268</u>

(iii) For the analysis of loan portfolio by maturity, refer to Note 22.4 on liquidity risk.

(iv) Analyses by residency:

	31 December 2018		31 December 2017
	US\$	US\$	US\$
Residents	5,939,430	23,864,630	2,808,243
Non-residents	2,361,044	9,486,675	-
	<u>8,300,474</u>	<u>33,351,305</u>	<u>2,808,243</u>

(v) Analyses by currency denomination:

US Dollars	8,300,474	33,351,305	2,773,376
Khmer Riels	-	-	34,867
	<u>8,300,474</u>	<u>33,351,305</u>	<u>2,808,243</u>

(vi) Analyses by relationship:

Non-related parties	<u>8,300,474</u>	<u>33,351,305</u>	<u>2,808,243</u>
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(vii) Analyses by exposure:

Non-large exposure	<u>8,300,474</u>	<u>33,351,305</u>	<u>2,808,243</u>
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A “large exposure” is defined under NBC Prakas as the overall gross exposure the aggregate balance of loans and advances with one single beneficiary, which exceeds 10% of the Bank’s net worth. The gross exposure is the higher of the outstanding loans or commitments and the authorized loans or commitments.

7. LOANS TO CUSTOMERS – NET (CONTINUED)

(viii) Analysis by annual interest rates:

	2018	2017
Overdraft	-	10.00%
Corporate loans	7.80 - 8.00%	-
Operation loans	8.00 - 13.00%	10.00%
Housing loans	8.00 - 12.00%	8.50 - 12.00%

8. STATUTORY DEPOSITS WITH THE NATIONAL BANK OF CAMBODIA

	31 December 2018		31 December 2017
	US\$	KHR'000	US\$
Capital guarantee deposit	750,000	3,013,500	650,000
Reserve deposits	14,200	57,056	14,200
	<u>764,200</u>	<u>3,070,556</u>	<u>664,200</u>

(a) Capital guarantee:

Under Prakas No. B7-06-208 dated 13 September 2006 on the amendment to Article 9 and Article 13 of Prakas No. B7-00-05 on licensing of specialized bank, the Bank is required to maintain a statutory deposit of five per cent of its capital in a permanent account with the NBC. This deposit is not available for use in the Bank's day-to-day operations and is refundable should the Bank voluntarily cease its operations in Cambodia.

(b) Reserve deposits:

Under NBC's Prakas No. B7-012-140 dated 13 September 2012, banks are required to maintain a reserve against customer deposits at a daily average balance equal to eight per cent (8%) in Riels and twelve point five per cent (12.5%) in foreign currencies with the NBC.

(c) Interest rates

Interest rate per annum	31 December 2018	31 December 2017
Capital guarantee deposit	0.62%	0.36%
Reserve deposit	Nil	Nil

9. PROPERTY AND EQUIPMENT

	Leasehold improvements US\$	Furniture and fixtures US\$	Office equipment US\$	Computer equipment US\$	Motor vehicles US\$	Total US\$
Cost						
At 1 January 2018	284,073	13,126	32,251	128,265	26,392	484,107
Additions	52,279	6,639	160	7,121	36,740	102,939
Disposals	-	-	-	-	(26,392)	(26,392)
At 31 December 2018	336,352	19,765	32,411	135,386	36,740	560,654
Accumulated depreciation						
At 1 January 2018	(284,073)	(13,126)	(31,974)	(127,384)	(20,923)	(477,480)
Additions	(13,086)	(448)	(245)	(1,549)	(5,080)	(20,408)
Disposals	-	-	-	-	21,459	21,459
At 31 December 2018	(297,159)	(13,574)	(32,219)	(128,933)	(4,544)	(476,429)
Net carrying amount						
At 31 December 2018	39,193	6,191	192	6,453	32,196	84,225
KHR'000 equivalents	157,477	24,875	771	25,928	129,364	338,416

9. PROPERTY AND EQUIPMENT (CONTINUED)

	Leasehold improvements US\$	Furniture and fixtures US\$	Office equipment US\$	Computer equipment US\$	Motor vehicles US\$	Total US\$
Cost						
At 1 January 2017	284,073	20,192	66,183	127,600	26,750	524,798
Additions	-	-	68	665	5,892	6,625
Disposals	-	(7,066)	(34,000)	-	(6,250)	(47,316)
At 31 December 2017	284,073	13,126	32,251	128,265	26,392	484,107
Accumulated depreciation						
At 1 January 2017	(284,073)	(20,192)	(65,770)	(126,461)	(21,116)	(517,612)
Additions	-	-	(204)	(923)	(1,196)	(2,323)
Disposals	-	7,066	34,000	-	1,389	42,455
At 31 December 2017	(284,073)	(13,126)	(31,973)	(127,385)	(20,923)	(477,480)
Net carrying amount						
At 31 December 2017	-	-	278	880	5,469	6,627

10. SOFTWARE

The Bank has fully amortized its software still in use with original cost of US\$ 71,675.

11. OTHER ASSETS

	31 December 2018		31 December 2017
	US\$	KHR'000	US\$
Interests receivable	73,796	296,512	141,237
Deposits	39,309	157,944	236,759
Other investment	12,500	50,225	12,500
Prepaid expenses	13,459	54,078	12,885
	<u>139,064</u>	<u>558,759</u>	<u>403,381</u>

12. DEPOSITS FROM CUSTOMERS

Deposits from customers are held for the purpose of monthly repayments on loans and earn no interest.

13. ACCRUED EXPENSES AND OTHER LIABILITIES

	31 December 2018		31 December 2017
	US\$	KHR'000	US\$
Provision for tax liability	4,660	18,724	17,378
Accruals and others	45,655	183,441	7,385
	<u>50,315</u>	<u>202,165</u>	<u>24,763</u>

14. SHARE CAPITAL

	31 December 2018		31 December 2017
	US\$	KHR'000	US\$
Issued and fully paid	<u>15,000,000</u>	<u>60,270,000</u>	<u>13,000,000</u>

(i) The share capital of the Bank consists of 15,000,000 authorized numbers of shares with par value of US\$1.

(ii) The capital guarantee of 5% of registered capital amounting to US\$ 750,000 is maintained with the NBC, as disclosed in Note 8.

(iii) The NBC's Prakas No. B B7-016-117 on new capital requirement and criteria for licensing approval of banks requires that specialized banks locally incorporated as companies must have a minimum capital of at least KHR 60 billion (approximately US\$ 15 million). This new capital requirement will be effective in two years starting from 22 March 2016. The circular dated 22 June 2016 of the Nation Bank of Cambodia has allowed locally incorporated specialized banks to increase their capital in two equal capital injections, the first one before end of March 2017 and the last one before 22 March 2018.

14. SHARE CAPITAL (CONTINUED)

On July 20th 2018, shareholders of Camko Specialized Bank entered into Share Sale and Purchase Agreement with Daun Penh Land Co., Ltd as purchaser. The transaction got approval from National Bank of Cambodia (“NBC”) on 17th October 2018 and ratified amended Memorandum and Article of Associations (“MoA”) on 22 October 2018. Currently, the MoA is under process of getting registered with Ministry of Commerce, expecting to have it completed within first semester of 2019.

With new shareholder approved by NBC on 17th October 2018, the registered capital of the Bank increased to 60 billion Riel (equivalent to US\$ 15,000,000).

15. INTEREST INCOME

	31 December 2018		31 December 2017
	US\$	KHR'000	US\$
Loans to customers	413,393	1,661,013	238,061
Balances with the NBC and other banks	157,057	631,055	240,895
	<u>570,450</u>	<u>2,292,068</u>	<u>478,956</u>

16. OTHER INCOMES

	31 December 2018		31 December 2017
	US\$	KHR'000	US\$
Loan recovery	551,000	2,213,918	-
Gain on sale of fixed asset	8,913	35,812	15,434
Dividend income from investment	1,961	7,879	4,950
Service charges	2,704	10,865	4,681
Other miscellaneous income	69,299	278,443	14,882
Foreign exchange gain/(loss)	(1,293)	(5,194)	144
	<u>632,584</u>	<u>2,541,723</u>	<u>40,091</u>
Fee and commission expense	(2,937)	(11,801)	(1,181)
	<u>629,647</u>	<u>2,529,922</u>	<u>38,910</u>

17. OTHER OPERATING EXPENSES

	31 December 2018		31 December 2017
	US\$	KHR'000	US\$
Rent	92,000	369,656	180,000
Personnel and other related costs	177,635	713,737	87,130
Professional fees	351,072	1,410,607	29,962
Taxes and licenses	51,904	208,550	63,847
Security	11,218	45,074	15,525
Utilities	11,919	47,891	13,846
Travel and entertainment	11,759	47,248	1,492
Communication	5,835	23,445	6,572
Vehicle expenses	6,024	24,204	2,124
Office supplies	11,113	44,652	5,222
Repairs and maintenance	2,973	11,946	3,176
Marketing and advertising	3,900	15,670	466
Depreciation and amortization	20,420	82,048	2,323
Insurance	389	1,563	883
Others	14,045	56,433	8,825
	<u>772,206</u>	<u>3,102,724</u>	<u>421,393</u>

18. INCOME TAX

Income tax expense represents minimum tax for the year.

	31 December 2018		31 December 2017
	US\$	KHR'000	US\$
Current income tax	<u>12,174</u>	<u>48,915</u>	<u>5,605</u>
	<u>12,174</u>	<u>48,915</u>	<u>5,605</u>

(a) Reconciliation of current income tax

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

18. INCOME TAX (CONTINUED)**(a) Reconciliation of current income tax (Continued)**

	31 December 2018 US\$	31 December 2017 KHR'000	31 December 2017 US\$
Accounting profit before income tax	383,861	1,542,353	63,458
Income tax expense at 20%	76,772	308,471	12,692
Non-deductible expenses	15,303	61,486	14,835
Utilized tax loss	(92,075)	(369,957)	(27,527)
	-	-	-
Minimum tax at 1% of turnover	12,174	48,915	5,605
	12,174	48,915	5,605

(b) Deferred income tax

Tax losses carried forward

The Bank is entitled to carry each individual tax loss forward to offset against taxable profits arising within five (5) years subsequent to the year in which the loss was incurred. At the balance sheet date, the Bank has estimated accumulated tax losses of US\$ 1,559,066 or KHR 6.30 billion (2017: US\$ 1.56 million or KHR 6.3 billion) available for offset against future taxable profits.

Details are as follows:

Originating year	Can be utilized up to	Tax loss amount US\$	Utilized up to 2018 US\$	Forfeited US\$	Unutilized as at 31 December 2018 US\$
2013	2018	1,465,341	92,075	1,373,266	-
2014	2019	36,996	-	-	36,996
2015	2020	194,364	-	-	194,364
		1,696,701	92,075	1,373,266	231,360
KHR'000 equivalents		6,817,345	369,957	5,517,783	929,604

The Bank did not recognize deferred tax asset from tax loss carry forward as management believes that there is no sufficient taxable profit that will be available against which this can be utilized.

There is no other material deferred tax balances.

19. CASH AND CASH EQUIVALENTS

For statement of cash flows purposes, cash and cash equivalents comprise:

	31 December 2018		31 December 2017
	US\$	KHR'000	US\$
Cash on hand	73,303	294,531	4,968
Balances with NBC	16,542	66,466	13,954
Balances with other banks	182,958	735,125	406,290
	<u>272,803</u>	<u>1,096,122</u>	<u>425,212</u>

20. COMMITMENTS

Lease commitments

The Bank has lease commitments in respect of the lease of Bank's premises as follows:

	31 December 2018		31 December 2017
	US\$	KHR'000	US\$
Less than one year	84,000	337,512	77,000
More than one year and less than 5 years	91,000	365,638	175,000
	<u>175,000</u>	<u>703,150</u>	<u>252,000</u>

21. RELATED PARTY TRANSACTIONS AND BALANCES

Transactions with related party:

	31 December 2018		31 December 2017
	US\$	KHR'000	US\$
Key management compensation (including salaries and benefits)	19,500	78,351	-

22. FINANCIAL RISK MANAGEMENT

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The Bank's risk management is to identify all key risks, measure these risks, manage the risk positions and determine capital allocations. The risks arising from financial business to which the Bank's activities are exposed are operational risk, financial risks: credit risk, market risk (including foreign exchange risk and interest rate risk), and liquidity risk. The following are policies and guidelines adopted by the Bank to manage risks related to its business activities.

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

	31 December 2018		31 December 2017
	US\$	KHR'000	US\$
Financial assets			
Cash on hand	73,303	294,531	4,968
Balance with banks	199,500	801,591	420,244
Placement with other banks	3,430,000	13,781,740	6,234,000
Loans to customers	8,078,523	32,459,505	2,630,322
Other assets	125,605	504,681	390,496
Total financial assets	11,906,931	47,842,048	9,680,030
Financial liabilities			
Deposits from customers	12,711	51,073	4,877
Accrued expenses and other liabilities	45,655	183,441	7,385
Total financial liabilities	58,366	234,514	12,262

22.1 Operational risk

Operational risk is the risk of losses arising from inadequate or failed internal processes, people or systems or from external factors. This risk is managed through established operational risk management processes, proper monitoring and reporting of the business activities by control and support units which are independent of the business units and oversight provided by the senior management. This includes legal, compliance, accounting and fraud risks.

Operational risk management entails the establishment of policies and procedures to provide guidance to the key operating units on the risk governance structure and internal controls necessary to identify, assess, monitor and control their operational risks. Internal control policies and measures that have been implemented including the establishment of signing authorities, defining system parameters controls, streamlining procedures and documentation ensuring compliance with regulatory and legal requirements. These are reviewed continually, taking into account the business objectives and strategies of the Bank as well as regulatory requirements.

22.2 Credit risk

The Bank assumes exposure to credit risk which is the risk that customers, clients or market counterparties fail to fulfil their contractual obligations to the Bank when due. Credit risk arises mainly from loans and advances and loan commitments arising from such lending activities.

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit risk (Continued)

(a) Credit risk measurement

The Bank has set up the Credit Policy which is designed to govern the Bank's risk undertaking activities. Procedures of risk limit setting, monitoring, usage, and control are governed by credit programs which set out the plan for a particular product or portfolio, including the target market, terms and conditions, documentation and procedures under which a credit product will be offered and measured. The Bank also ensures that there is a clear segregation of duties between loan originators, evaluators and approving authorities.

(b) Risk limit control and mitigation policies

The Bank manages, limits and controls concentration of credit risk whenever they are identified - in particular, to individual counterparties and groups, and to industries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to borrowers and industry segments. Exposure to credit risk is managed through regular analysis of the ability of the borrowers and potential borrowers to meet interest and capital repayment obligations and reviewing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate or personal guarantees as well as by providing for loan losses. Limits on level of credit risk by product and industry sector are approved by the Directors.

(c) Impairment and provisioning policies

The Bank is required to follow the mandatory credit classification and provisioning in accordance with the relevant Prakas issued by NBC, as stated in Note 2.8 to the financial statements. Loans and advances less than 30 days past due are not considered impaired, unless other information available indicates otherwise. A minimum level of specific provision for impairment is made depending on the classification concerned.

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

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

	31 December 2018		31 December 2017
	US\$	KHR'000	US\$
Credit risks exposures relating to on-balance sheet assets:			
Balances with other banks	199,500	801,591	420,244
Placements with other banks	3,430,000	13,781,740	6,234,000
Loans to customers	8,078,523	32,459,505	2,630,322
Other assets	125,605	504,681	390,496
	<u>11,833,628</u>	<u>47,547,517</u>	<u>9,675,062</u>

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.2 Credit risk (Continued)

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

The table above represents the maximum credit risk exposure to the Bank as at 31 December 2018, without taking into account any collateral held or other credit enhancements.

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 Bank's performance to developments affecting a particular industry or geographic location. The analysis of concentrations of credit risks from loans to customers at the balance sheet date are shown in Note 8.

(e) Loans to customers

Loans and advances are summarized as follows:

	31 December 2018		31 December 2017
	US\$	KHR'000	US\$
Loans and advances neither past due nor impaired	8,160,124	32,787,379	2,123,326
Loans and advances past due but not impaired	-	-	544,567
Loans and advances individually impaired	140,350	563,926	140,350
Gross	8,300,474	33,351,305	2,808,243
Provision for loan losses	(221,951)	(891,800)	(177,921)
Net	8,078,523	32,459,505	2,630,322

(i) Loans and advances neither past due or impaired

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

(ii) Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. In compliance with NBC guidelines, such loans are classified as special mention with a specific provision of 3%.

22. FINANCIAL RISK MANAGEMENT (CONTINUED)**22.2 Credit risk (Continued)****(e) Loans to customers (Continued)****(iii) Loans and advances individually impaired**

Loans and advances individually impaired are loans and advances for which the Bank determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loans and advances. In accordance with NBC guidelines, loans and advances past due more than 90 days are considered impaired and minimum level of specific provision for impairment is made depending on the classification concerned, unless other information is available to indicate the contrary.

22.3 Market risk

The Bank takes on exposure to market risk, which is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market prices. Market risk arises from open positions in interest rates, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads and foreign exchange rates.

(a) Foreign exchange risk

Foreign exchange risk is the risk that the value of financial assets and liabilities will fluctuate due to changes in foreign exchange rates.

The Bank has no material exposures to foreign exchange risk as it transacts essentially in US Dollar. Therefore, no sensitivity analysis for foreign currency exchange risk was presented.

(b) Price risk

The Bank is not exposed to securities price risk because it does not hold investment securities which are classified on the balance sheet at fair market value.

(c) Interest rate risk

Interest rate risk refers to the volatility in net interest income as a result of changes in the levels of interest rate and shifts in the composition of the assets and liabilities. Interest rate risk is managed through close monitoring of returns on investment, market pricing, cost of funds and through interest rate sensitivity gap analysis. The potential reduction in net interest income from an unfavourable interest rate movement is monitored against the risk tolerance limits set.

The Bank has no financial assets and liabilities with floating interest rates. All financial assets earn fixed interest rate for the period, while deposits from customers do not earn interest.

22. FINANCIAL RISK MANAGEMENT (CONTINUED)**22.4 Liquidity risk**

Liquidity risk is the risk that the Bank is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows.

The Bank's management monitors balance sheet liquidity and manages the concentration and profile of debt maturities. The Management closely monitors all inflows and outflows and the maturity gaps through periodical reporting. The management monitors the movement of the main depositors and projection of their withdrawals.

The table below analyses financial assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual or estimated maturity dates.

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.4 Liquidity risk (Continued)

As at 31 December 2018	Up to 1 month US\$	> 1-3 month US\$	> 3-6 month US\$	> 6-12 month US\$	> 1-5 years US\$	Over 5 years US\$	No maturity US\$	Total US\$
Financial assets								
Cash on hand	73,303	-	-	-	-	-	-	73,303
Balances with other banks	199,500	-	-	-	-	-	-	199,500
Placements with other banks	-	-	2,590,000	840,000	-	-	-	3,430,000
Loans to customers	-	-	-	-	3,462,043	4,838,431	-	8,300,474
Allowances	-	-	-	-	(173,567)	(48,384)	-	(221,951)
Other assets	113,105	-	-	-	-	-	12,500	125,605
Total financial assets	385,908	-	2,590,000	840,000	3,288,476	4,790,047	12,500	11,906,931
Financial liabilities								
Deposits from customers	12,711	-	-	-	-	-	-	12,711
Accrued expenses and other liabilities	45,655	-	-	-	-	-	-	45,655
Total financial liabilities	58,366	-	-	-	-	-	-	58,366
Net position 2018	327,542	-	2,590,000	840,000	3,288,476	4,790,047	12,500	11,848,565
KHR'000 equivalents	1,316,064	-	10,406,620	3,375,120	13,213,097	19,246,409	50,225	47,607,534

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.4 Liquidity risk (Continued)

As at 31 December 2017	Up to 1 month US\$	> 1-3 month US\$	> 3-6 month US\$	> 6-12 month US\$	> 1-5 years US\$	Over 5 years US\$	No maturity US\$	Total US\$
Financial assets								
Cash on hand	4,968	-	-	-	-	-	-	4,968
Balances with other banks	420,244	-	-	-	-	-	-	420,244
Placements with other banks	110,000	2,309,000	2,095,000	1,720,000	-	-	-	6,234,000
Loans to customers	-	-	-	-	146,428	2,661,815	-	2,808,243
Allowances	-	-	-	-	(1,464)	(176,457)	-	(177,921)
Other assets	377,996	-	-	-	-	-	12,500	402,996
Total financial assets	913,208	2,309,000	2,095,000	1,720,000	144,964	2,485,358	12,500	9,692,530
Financial liabilities								
Deposits from customers	4,877	-	-	-	-	-	-	4,877
Accrued expenses and other liabilities	7,385	2,882	14,496	-	-	-	-	24,763
Total financial liabilities	12,262	2,882	14,496	-	-	-	-	29,640
Net position 2017	900,946	2,306,118	2,080,504	1,720,000	144,964	2,485,358	12,500	9,650,390

22. FINANCIAL RISK MANAGEMENT (CONTINUED)

22.5 Capital management

The Bank considers the need to balance efficiency, flexibility and adequacy when determining sufficiency of capital and when developing capital management plans. The Bank details these considerations through an internal capital adequacy assessment process and the key features of which include (a) consideration of both economic and regulatory of minimum capital requirements set by the National Bank of Cambodia, (b) safeguarding the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders, (c) maintaining a strong capital base to support the development of business.

As at 31 December 2018, the Bank has a paid-up statutory capital of US\$ 15 million. The paid-up capital was disclosed in Note 14 to the financial statements.

22.6 Fair value of financial assets and liabilities

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation.

Since market prices for the major part of Bank's financial assets and liabilities are not available, the fair value of these items is based on the estimates of the Management according to the type of assets and liabilities. According to the estimation of the Management, the market value is not materially different from the carrying amount of all categories of assets and liabilities.

23. CONTINGENCIES

(i) Demand from World City ("WC")

The Bank and WC entered into a financial consulting service agreement in 2007. The Bank received a consulting fee from WC. On 10 April 2014, the Bank received a letter from WC demanding the refund of the consulting fee together with penalties aggregating to US\$ 5.31 million. Subsequent to this and as at the date of this report, no further communication was received by the Bank. Accordingly, the management believes that the likelihood of this matter to become an actual liability is remote. It is possible, however, that future results of operations could be affected by changes in the estimates or by subsequent actions to be taken by the Bank or WC.

In addition, the Bank, WC and Hanil Engineering and Construction Co., Ltd. entered into a business agreement and a guarantee agreement ("the Agreements") in September 2007 to provide loans to house buyers of CamKo City Project. On 21 July 2016, the Bank received a court complaint from WC demanding the confirmation to nullify the Agreements and return the deposit of US\$1.13 million. On 15 September 2016, the Phnom Penh Municipal Court (PPMC) issued a verdict condemning the Bank to repay the amounts owed to WC.

23. CONTINGENCIES (CONTINUED)**(i) Demand from World City (“WC”) (Continued)**

On 14 October 2016, the Bank did not acknowledge the verdict and lodged an appeal to the Appeal Court. On 9 May 2017, the Appeal Court issued a verdict denying the Bank’s appeal and upholding the verdict issued by the PPMC dated 15 September 2016.

On 23 June 2017, the Bank did not acknowledge the verdict from the Appeal Court and lodged an appeal to the Supreme Court. This appeal is currently in process at the Supreme Court.

As of the date of this report, the dispute is still in progress and the outcome of the Supreme Court verdict is unknown. However, the Share Sale and Purchase Agreement dated 20th July 2018 protected the bank from any claims by the WC, and turned out to be a sole liability of the selling shareholder of the bank who will take control and a full responsibility on such Legal Dispute as whole.

(ii) Tax contingencies

Taxes are calculated on the basis of current interpretation of the tax regulations. However, the application of tax laws and regulations on many types of transactions is susceptible to varying interpretations when reviewed by the Tax authorities. The Bank’s judgement of its business activities may not coincide with the interpretation of the same activities by the Tax authorities.

If a particular treatment was to be challenged by those Tax authorities, the Bank may be assessed additional taxes, penalties and interest, which can be significant. Tax years remain open to review by the Tax authorities for three years with a possible extension of up to ten years.

24. EVENTS AFTER THE BALANCE SHEET DATE

The loan to Welcome Finance Co., Ltd in amount of US\$ 2 million which will be matured on 20 July 2020 was prepaid to the Bank on 25 February 2019 based on mutual discussions between the bank and Welcome Finance Co., Ltd. After such prepayment, the unsecured loan of the Bank reduced by US\$ 2 million.

The amended Memorandum and Article of Associations (“MoA”) was registered with Ministry of Commerce on 22 March 2019.