

Sacombank

ធនាគារ សាខមប៉ែង (ខេមបូឌា) ភីអិលស៊ី

ANNUAL REPORT
2016



SACOMBANK (CAMBODIA) PLC.

Report of the Board of Management and
Financial statements in accordance with
Cambodian Accounting Standards and
Regulations and Guidelines of the National Bank of Cambodia

as at 31 December 2016 and for the year then ended

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EDITORIAL TEAM

Chief Editor

Mr. Nguyen Nhi Thanh

Member of the BOD cum General Director

Deputy Chief Editor

Mr. Phung Thai Phung

Deputy General Director

Graphic Designer

Mr. Cheng Sambo

Design Manager

Mr. Tang Chheng

Communication Officer

MISSION

To be the leading Vietnamese bank and top ten bank in Cambodia.

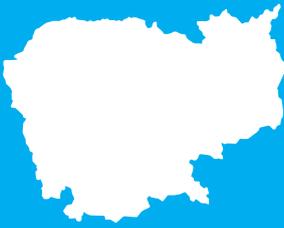
VISION

- Constantly maximize value for customers and shareholders
- Bring value to staff in terms of career development and wealth
- Contribute to the development of the community

CORE VALUES

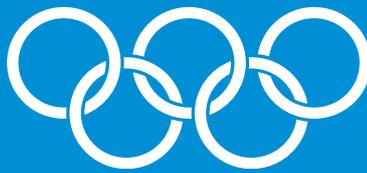
1. Pioneering to be an explorer and accept challenges to discover new horizons;
2. Novel, Dynamic and Innovative to turn difficulties and challenges into growth opportunities;
3. High Commitment with the highest professionalism, dedication and prestige towards customers and partners
4. Social Responsibility under its slogan: Sacombank and the Community - "Growing Together"
5. Making a Difference with innovative breakthroughs in Products, Business Methods and Corporate Governance Models.

SACOMBANK (CAMBODIA) PLC. MILESTONES



23 June 2009

Sacombank opened its Phnom Penh Branch, making it the 27th foreign bank to operate in Cambodia and the first Vietnamese bank to invest in the country. In pioneering the entry into the Cambodian banking sector, Sacombank Phnom Penh branch has contributed to an increase in cross-border trade between Cambodia and Vietnam. This event marks another miles in the bank's growth in Indochina region.



08 December 2010

Sacombank celebrated the grand opening of the first sub-branch in Phnom Penh Olympic sub-branch, located at one of the busiest trading areas in the city. The sub-branch supports to fulfil a high demand of financial services in the Olympic market area by providing key products and services such as trade finance, business loan, and money transfer.



30 August 2011

Sacombank continued to expand branch network as a part of its expansion strategy in Phnom Penh by opening the second sub-branch, located at Vietnamese Supermarket. The new branch creates significant opportunities for individual and business customers in the surroundings through diversified products and services and its convenient location particularly.



05 September 2011

Sacombank opened its third sub-branch in the western part of Phnom Penh city, located at Chbar Ampeou market area. As one of the crowded area in the city, where economic development is growing rapidly, Chbar Ampeou sub-branch has the opportunity to contribute to the improvement of the business conditions of market vendors.



01 October 2011

The Board of Directors announced to transform its Phnom Penh branch into wholly-owned subsidiary of Sacombank under the approval of National Bank of Cambodia and support of State Bank of Vietnam. This important event marked the transition to a new phase in the development and performance improvement strategy of Sacombank in Cambodia, thus further promoting the good trading relationship of the business communities between Vietnam and Cambodia.



22 March 2012

For the first time, Sacombank (Cambodia) Plc. (Sacombank Cambodia) started outreaching to one of the busiest trading hubs outside the capital city by opening a branch in Kampong Cham province. Besides the key products and services to meet the financial demands of local customers, the newest branch provides quick money transfer services between Kampong Cham and Phnom Penh, increasing the trading capacity between the country's two biggest economic hubs.



26 November 2012

In the response to strong demands from the bank's customers, Sacombank Cambodia moved its Vietnamese Supermarket Branch to a larger office located at 537 A-B Monivong Boulevard, Phnom Penh under the name of Preah Monivong branch. The creation of a new transaction office in the city centre is the right thing to support the continuous expansion of the bank. The new office has a perfect location where the economic development, strategy and growth potential exist.



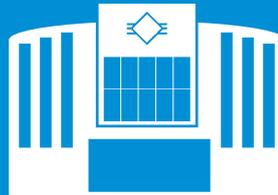
06 December 2012

Sacombank Cambodia kicked-off cross-border trade payment service, aims to streamline the process for settling cross-border trade in the Vietnam dong and enables Cambodian enterprises to conduct cross-border trade in Vietnam dong electronically without holding an account in the currency. Vice versa, Cambodia suppliers can also receive their payment from Vietnam buyer directly in Khmer riel. The implementing of this service has been supporting the daily trade payment of enterprises in the both country and therefore enhance their trading capacity.



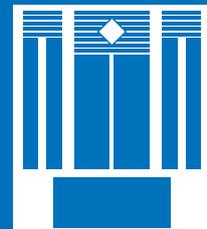
17 January 2013

As a focal point for network expansion strategy, Sacombank Cambodia continued to expand its branch network in Phnom Penh by inaugurating Phsar Heng Ly branch, bringing its broad range of banking products & services to the surrounding community of the major market.



24 June 2013

Sacombank Cambodia announced the opening of Pochentong branch in the western part of Phnom Penh city. This branch is Sacombank Cambodia's 7th entity in the country, complementing Head Office and 5 branches: Olympic, Preah Monivong, Chbar Ampeou, Kampong Cham, Phsar Heng Ly.



23 April 2014

In order to support the business economy development of one of the most active city in the southern of Phnom Penh. Sacombank Cambodia announced the opening of Takhmao Branch. This is the eighth entity in the country and is the second entity outside Phnom Penh. Continued showing our commitment to expand in the country.

MESSAGE FROM CHAIRMAN OF THE BOARD OF DIRECTORS



Year 2016 was another year to prove that the economy of Cambodia continued to grow with GDP rate of 7% which was considered as one among the fastest economic growth in the region. The trading and cross border payment between Cambodia and Vietnam as well as other countries had developed positively to another higher level, the corporates had increased their investment and capital to seize the opportunities during the late 2016.

By the end of 2016, total asset of Sacombank (Cambodia) Plc. reached US\$172.25 million, an increase of US\$11.69 million or 7.3% compared to 2015. Total deposit from customers stood at US\$127.98 million in which mobilized from economic entities and individuals of US\$67.74 million, up US\$14.51 million or 27.3% compared to the beginning of the year; total loans reached US\$111.88 million, an increase of US\$4.22 million or 3.9%. The service incomes achieved US\$1.51 million, increased by US\$130 thousand or 9.3% compared to 2015. Profit before tax reached US\$1.85 million, decreased of 1% compared to the previous year.

Our network includes 1 Head Office and 5 branches in Phnom Penh, one branch in Kampong Cham province and another branch in Kandal province which are operating more efficiently and stably; significantly contributes to Sacombank (Cambodia) Plc. strategy implementation to become a modern and multifunctional retail bank. Today, Sacombank (Cambodia) Plc. is serving and getting trust from more than 10,000 customers, an increase of 2,000 customers compared to 2015, from all sector including resident and non-resident and it is increasing everyday while the reputation of Sacombank (Cambodia) Plc. is more widely known in Cambodia.

In early 2017, the Cambodian economy has entered into the accelerative phase with the

estimated GDP rate over 7%; this creates more favorable conditions for banking sector at the same time it also causes more challenges for Sacombank (Cambodia) Plc. in term of management and competitiveness. Board Management of Sacombank (Cambodia) Plc. has set below key solutions to ensure the bank operates safely, efficiently and sustainably:

- Continue to promote small and medium loan to those customers who has good, stable and potential business;
- Stabilize and increase the capital mobilization which mainly focus on economic entities and individuals;
- Make policy to support bilateral trade between Cambodia and Vietnam in order to exploit well the potential customers of the two countries; increase the services income and generate the stable earnings platform;
- Concentrate on managing and handling past due debt, strengthen the credit management in order to minimize the overdue debt thus increase the credit quality;
- Closely manage operating cost and improve cost efficiency;
- Improve the productivity of employees, provide training to the planning inherited employees to ensure the stability of the bank workforce;
- Apply more information technologies in both operation and management;
- Strongly develop card products and services, POS, Sales policies and benefits to promote customers to use cards instead of cash transactions;
- Increase and improve the efficiency of all branch operations;
- Promulgate and provide effective training on policies and procedures in order to comply with all regulations about Anti-Money Laundering and Terrorist Financing such as FATCA.

With the above solutions, Sacombank (Cambodia) Plc. confidently set the business plan for 2017 with

the estimated total deposit of US\$125.46 million, total loans US\$124.46 million, service income US\$1.49 million and profit before tax of US\$3.34 million. Sacombank (Cambodia) Plc. continues to bring all efforts and strives to become one of the leading commercial banks in Cambodia; to make customers experience about the modern bank products and services, thoughtful customer services, friendliness from all employee levels of Sacombank (Cambodia) Plc. that brings back the employees the personal branding value and the partners the satisfactions and cooperation.

We wish to always get supports and trust from all customers and partners; consensus from all employees in the development process of Sacombank (Cambodia) Plc.

With my sincerest thanks and wish good health, prosperity and success!



Tram Be (Mr.)

Chairman
Sacombank (Cambodia) Plc.



INTRODUCTION OF SACOMBANK (CAMBODIA) PLC.

Sacombank is a leading commercial banks in Vietnam and continuously growing in Cambodia and Laos with more than 15,000 employees and 563 branches in the region.

The bank first established a presence in Cambodia on 23 June 2009 with the opening of its Phnom Penh branch, became the first Vietnamese bank to open its branch in Cambodia. In pioneering the entry into the Cambodian banking sector, Sacombank made a significant contribution in cross-border trade expansion between Cambodia and Vietnam.

After 2 years of operation, Sacombank (Cambodia) Plc. completed local incorporation on 1 October 2011. After the transformation, the bank continuously reforms its operation, cooperates with international strategic partners, develops new products and services to meet the characteristics of local financial market and become a more competitive banking service provider in the kingdom.

English name	:	Saigon Thuong Tin Bank (Cambodia) Plc.
Abbreviated name	:	Sacombank (Cambodia) Plc.
Head office	:	60 Preah Norodom Boulevard, Sangkat Chey Chumneas, Khan Daun Penh, Phnom Penh.
Telephone	:	(855) 23 223 423
Fax	:	(855) 23 223 433
Email	:	info@sacombank.com.kh
Website	:	www.sacombank.com.kh
Date of establishment	:	23 June 2009
Chartered capital	:	USD 38,000,000
Number of business locations	:	8

Sacombank (Cambodia) Plc. provides a broad range of banking products and services to private individuals, self-employed customers as well as small and medium sized enterprises. These services include:

- Receipt of demand deposits, term deposits, savings deposits and other types of deposits.
- Issuance of certificates of deposit, bills of exchange, bills of credit.
- Grant of credit in the form of:
 - Lending;
 - Discount and rediscount of commercial instruments and other valuable papers;
 - Bank's guarantee;
 - Other forms of credit granting
- Opening of payment accounts for customers.
- Provision of payment facilities.
- Provision of the following payment services:
 - Rendering domestic payment services, including cheques, payment orders, banker's check, bank collection, letters of credit, entrusted collection and payment services;
 - International payment services and other payment services.

EVENT HIGHLIGHTS

PROMOTION “BANKING CONTEST – EASY TO WIN”

Sacombank Cambodia has launched the “Banking contest - easy to win”. In this program, the customers and fan page of Sacombank Cambodia could be win the gifts of: JBL Flip3, JBL Clip +, JBL Headset, JBL Go, movie tickets, raincoat ..., by joining and answering questions related to products and services of Sacombank Cambodia. Moreover, Sacombank Cambodia has invited famous actors and models to participate in lucky draws such as Mr. Sokun Therayu, Ms. Sopha Linda, Ms. Sok Somavatey, Ms. Ny Monineath, Ms. Pin Tepy and Ms. Maya. The program has ended successfully with the participation of thousands of followers of the fan page. Furthermore, Sacombank Cambodia promises to continue organizing more attractive programs for customers to participate.



CHARITY PROGRAM “GIVE WHAT YOU HAVE – GET WHAT YOU NEED”

On September 2016, at the Head Office, Sacombank Cambodia successfully organized a charity program called “Give what you have, take what you need” to promote the culture of sharing in the community, help people in difficult circumstances in life.

The items in this charity program are used clothes with good quality and clean wash received from the valuable contribution of customers, sponsors and all employees of Sacombank. Cambodia.

Sacombank Cambodia hopes that people in difficult circumstances will be better and more confident when going out on the road as well as warmer when the night is cold. And Sacombank Cambodia hopes to continue to received sponsorship from all existing customers, sponsors, loyalists and employees. Hope this program will be expanding in the community to those who have difficulties in life.



DEPOSIT MONEY GET LUCKY GIFTS

Sacombank (Cambodia) PLC. Has just create a special promotion to the valued customers to participate in the program “Deposit Money Get Lucky Gifts” on December 2016. Customers are able to get not only high interest, but also get special gifts based on the amount of deposit, such as: iPhone 7 plus, Samsung refrigerator 382 liters , Samsung TV 32”, JBL Flip3, and many other interesting gifts awaiting.





THE ANNUAL YEAR-END CONFERENCE

Phnom Penh, Sacombank (Cambodia) Plc held the annual year-end conference for the fiscal year 2016 to congratulate the business achievement and to prepare the business plan for 2017.

The event was held at the Head Office with the present of Board of Management and all employees of Sacombank Cambodia.

At the end of the event, all 7 branches and Head Office having a commitment of achieve the high target of 2017.



ANNUAL TRIP TO SIHANOUK VILLE 2016

May 2016, Sacombank Cambodia has celebrate the Annual Trip to Sihanouk Ville for all staffs. The trip is also a chance for all staff to express their solidarity through teamwork through teambuilding games prepared by the organizers.



DONATE FOR THE RED CROSS 2016

Sacombank Cambodia demonstrates the responsibility to community through the charitable donations to the annual Red Cross program. Sacombank Cambodia hopes to contribute some of its energy to jointly build up the Red Cross work of the Cambodian government.

FRIENDLY FOOTBALL BETWEEN SC AND OTHER BANKS IN CAMBODIA

In November 2016, Sacombank Cambodia join in a friendly football match with Hongleong Bank. The players and fans of the two teams made interesting and exciting match together.

Hopefully in the future, these friendly matches will be held more often between other banks in Phnom Penh as well as throughout Cambodia to provide the spirit of sportsmanship among banking social networks.





BRANCH NETWORK

HEAD OFFICE

60 Preah Norodom Boulevard, Sangkat Chey Chumneas,
Khan Daun Penh, Phnom Penh.

Tel: (855) 23 223 422 | Fax: (855) 23 223 433

Olympic Branch

319-321, Sihanouk, Phnom Penh

Tel: (855) 23 223 420 | Fax: (855) 23 223 402

Preah Monivong Branch

537A-B, Preah Monivong, Phnom Penh

Tel: (855) 23 223 421 | Fax: (855) 23 214 734

Chbar Ampeou Branch

577A-578B, National Road 1, Phnom Penh

Tel: (855) 23 223 418 | Fax: (855) 23 721 571

Kampong Cham Branch

43, National Road No 7, Sangkat Veal Vong,
Kampong Cham

Tel: (855) 42 942 800 | Fax: (855) 42 942 801

Phsar Heng Ly Branch

25-27A Street 271, Phnom Penh

Tel: (855) 23 881 468 | Fax: (855) 23 881 665

Pochentong Branch

378-379, Russian Federation Blvd., Phnom Penh

Tel: (855) 23 890 146 | Fax: (855) 23 890 246

Takhmao Branch

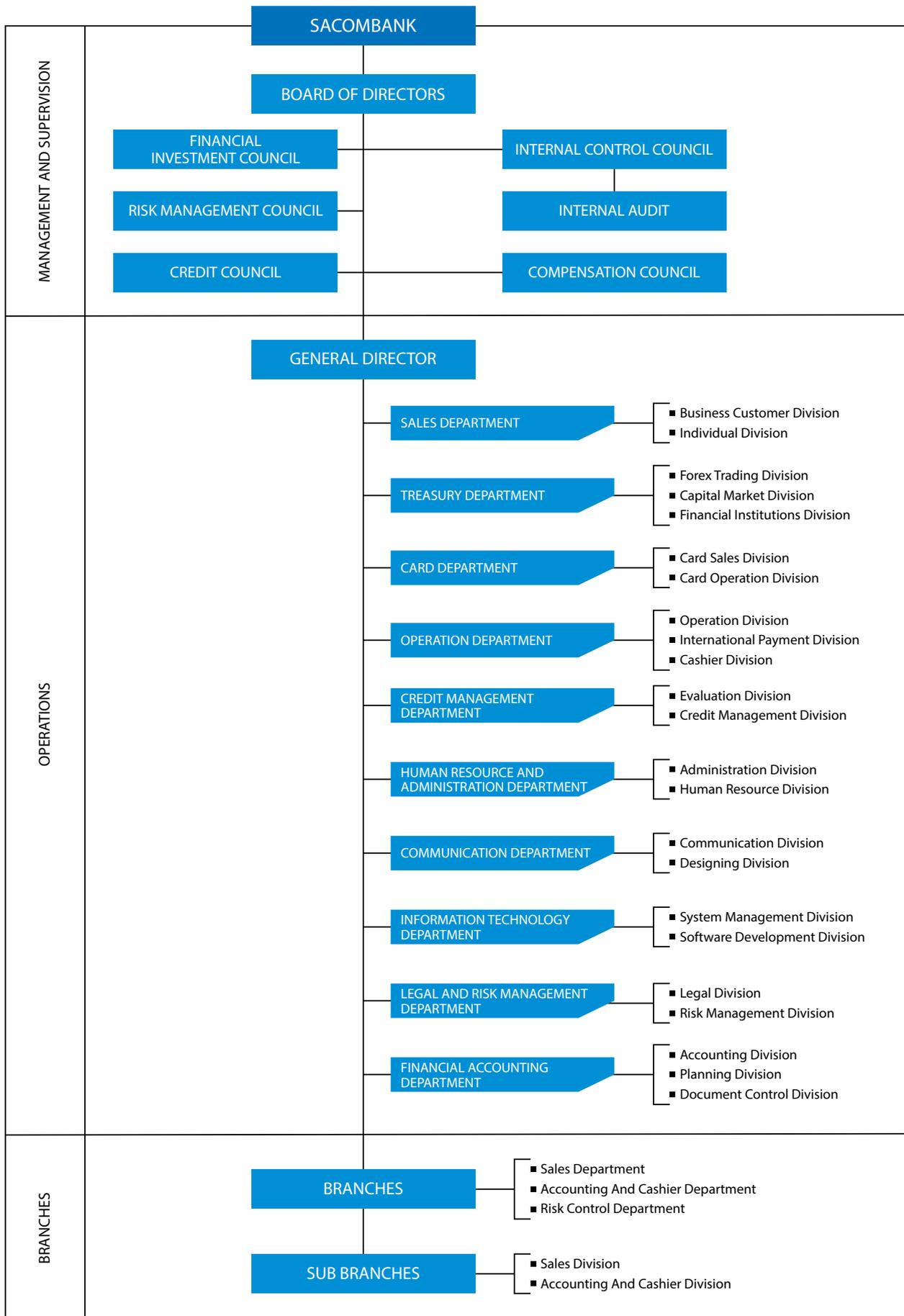
539, Street 21B, Sangkat Takhmao, Kandal

Tel: (855) 23 425 835 | Fax: (855) 23 425 586

Email: info@sacombank.com.kh

Website: www.sacombank.com.kh

ORGANIZATION CHART



INTRODUCTION OF THE BOARD OF DIRECTORS



Mr. Tram Be
Chairman

Over 13 years' experience in
Finance and Banking



Mr. Diep Tan Dung
Vice Chairman

Over 19 years' experience in
Finance and Banking



Mr. NGUYEN BA TRI
Member

Over 23 years' experience in
Finance and Banking



Mr. NGUYEN NHI THANH
Member

Over 27 years' experience in
Finance and Banking



Mr. LE MINH TRUNG
Member

Over 14 years' experience in
Finance and Banking



Mr. DUONG THE NHAT XUAN
Independent member

Over 9 years' experience in
Finance and Banking



Ms. THACH THI PHOLY
Independent member

Over 10 years' experience in
Finance and Banking

INTRODUCTION OF THE BOARD OF MANAGEMENT



Mr. NGUYEN NHI THANH

Member of the BOD cum General Director

Over 27 years' experience in Finance and Banking
Master Degree of Economics



Mr. PHUNG THAI PHUNG

Deputy General Director

Over 14 years' experience in Finance and Banking
Bachelor of Business Administration



Ms. THEARO SIDTHIPOR

Deputy General Director

Over 14 years' experience in Finance and Banking
Master Degree of Financial and Banking



Mr. CHHUON CHHEN

Deputy General Director

Over 13 years' experience in Finance and Banking
Master Degree of Finance and Banking

REPORT OF THE BOARD OF MANAGEMENT

The Board of Management of Sacombank (Cambodia) Plc. ("the Bank") presents its report together with the Bank's financial statements as at 31 December 2016 and for the year then ended.

THE BANK

The Bank is a wholly-owned subsidiary of Saigon Thuong Tin Commercial Joint Stock Bank ("Sacombank"), a bank incorporated in Vietnam. The Bank operates in the Kingdom of Cambodia under indefinite banking license No. 27 dated 19 June 2009 issued by the National Bank of Cambodia and license No. 523/09B from the Ministry of Commerce dated 18 March 2009.

PRINCIPAL ACTIVITIES

The Bank is principally engaged in all aspects of banking business and the provision of related financial services. There were no significant changes to these principal activities during the year.

FINANCIAL RESULTS

The financial results of the Bank are as follows:

	2016 US\$	2015 US\$
Profit before tax	1,845,263	1,864,503
Income tax expense	(399,304)	(409,050)
Net profit for the year	1,445,959	1,455,453
KHR'000 equivalent (Note 2.1.5)	5,837,338	5,894,586

PAID-UP CAPITAL

The total paid-up capital of the Bank as at 31 December 2016 is US\$38,000,000 or KHR153.41 billion (2015: US\$38,000,000 or KHR153.90 billion).

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.

REPORT OF THE BOARD OF MANAGEMENT (continued)

BAD AND DOUBTFUL LOANS AND ADVANCES

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

At the date of this report, the Board of Management is not aware of any circumstances, which would render the amount written off for bad loans and advances, or the amount of provision for bad and doubtful loans and advances 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 Board of Management took reasonable steps to ascertain that any current assets, other than loans, which were unlikely to be realised in the ordinary course of business at their value as shown in the accounting records of the Bank had been written down to an amount which they might be expected to realise.

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

VALUATION METHODS

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

CONTINGENCIES AND OTHER LIABILITIES

At the date of this report, there are:

- No 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; and
- No 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 contingencies or other liabilities of the Bank have become enforceable, or are likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Board of Management, will or may have a material effect on the ability of the Bank to meet its obligations as and when they fall due.

EVENTS AFTER THE BALANCE SHEET DATE

On 12 April 2017, the Bank sent Official Letter to the National Bank of Cambodia (NBC) to seek for approval of collections of the principals of some loans from certain mining customers within three years starting at the end of 2018 and classification of these loans as Normal (Group 1). At the date of these financial statements, the Bank has not yet received the approval from the NBC.

REPORT OF THE BOARD OF MANAGEMENT (continued)

THE BOARD OF DIRECTORS

The members of the Board of Directors during the year ended 31 December 2016 and as at the date of this report are:

Name	Position	Date of appointment
Mr. TRAM BE	Chairman	Reappointed on 15 October 2015
Mr. DIEP TAN DUNG	Vice Chairman	Appointed on 15 October 2015
Mr. NGUYEN BA TRI	Member	Reappointed on 15 October 2015
Mr. NGUYEN NHI THANH	Member	Reappointed on 15 October 2015
Mr. LE MINH TRUNG	Member	Appointed on 15 October 2015
Mr. DUONG THE NHUT XUAN	Independent Member	Reappointed on 15 October 2015
Ms. THACH THI PHO LY	Independent Member	Reappointed on 15 October 2015

THE BOARD OF MANAGEMENT

The members of the Board of Management during the year ended 31 December 2016 and as at the date of this report are:

Name	Position	Date of appointment
Mr. NGUYEN NHI THANH	Member of the BOD cum General Director	Appointed on 19 September 2011
Mr. PHUNG THAI PHUNG	Deputy General Director	Reappointed on 1 March 2012
Ms. THEARO SIDTHIPOR	Deputy General Director	Appointed on 11 February 2013
Mr. CHHUON CHHEN	Deputy General Director	Appointed on 26 July 2016

AUDITOR

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

THE BOARD OF MANAGEMENT'S BENEFITS

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

No manager has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by the Board of Management, or the fixed salary of a full time employee of the Bank as disclosed in Note 24(c) to the financial statements) by reason of a contract made by the Bank or with a firm of which he is a member, or with a company in which he has a material financial interest other than those disclosed in the financial statements.

REPORT OF THE BOARD OF MANAGEMENT (continued)

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

The Board of Management is responsible for ensuring that the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2016, and its financial performance, its changes in equity and its cash flows for the year then ended. In preparing these financial statements, the Board of Management oversees preparation of these financial statements by management who 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 Bank will continue operations in the foreseeable future; and
- Set overall policies for the Bank, ratify all decisions and actions by the management that have a material effect on the operations and performance of the Bank, and ensure they have been properly reflected in the financial statements.

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

The Board of Management confirms that it has complied with these requirements in preparing the accompanying financial statements.

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 Bank as at 31 December 2016, and its financial performance, its changes in equity 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 Board of Management:



Mr. NGUYEN NHI THANH

Member of the BOD cum General Director

Phnom Penh, Kingdom of Cambodia

25 April 2017

INDEPENDENT AUDITORS' REPORT

To: The Owner of Sacombank (Cambodia) Plc.

Opinion

We have audited the accompanying financial statements of Sacombank (Cambodia) Plc. ("the Bank"), which comprise the balance sheet as at 31 December 2016, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2016, and its financial performance, its changes in equity 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 Bank 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.

Emphasis of matter

We would like to draw your attention to Note 6 - Loan and advances to customers. Included in the outstanding secured normal loans at 31 December 2016 were some loans of certain mining customers which were required to be recovered by the end of 2018 by National Bank of Cambodia (NBC). On 12 April 2017, the Bank sent Official Letter to NBC to seek for approval of collections of the principals of these loans according to the repayment schedule within three years starting at the end of 2018 and classification of these loans as Normal (Group 1) provided that these loans are repaid punctually according to the repayment schedule. At the date of these financial statements, the Bank has not yet received the approval from the NBC. Our opinion is not modified in respect of this matter.

Other matter

The equivalent amounts in KHR presented in the accompanying financial statements have been translated on the basis set forth in Note 2.1.5 to the financial statements solely for the Bank's internal use and for reporting to the relevant authorities in compliance with the current regulations.

Responsibilities of Management and the Board of Directors 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 relevant to preparation and presentation of financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Bank'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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Nguyen Xuan Dai

Partner



Ernst & Young (Cambodia) Ltd.

Certified Public Accountants

Registered Auditors

Phnom Penh, Kingdom of Cambodia

25 April 2017

BALANCE SHEET

as at 31 December 2016

	Notes	31 December 2016		31 December 2015	
		US\$	KHR'000 (Note 2.1.5)	US\$	KHR'000 (Note 2.1.5)
ASSETS					
Cash and gold	3	12,866,545	51,942,242	4,251,688	17,219,336
Balances with the National Bank of Cambodia	4	30,131,588	121,641,221	18,181,507	73,635,103
Due from other financial institutions	5	11,891,247	48,004,964	26,083,124	105,636,652
Loans and advances to customers	6	111,882,420	451,669,330	107,660,594	436,025,406
Investment in security	7	25,000	100,925	25,000	101,250
Property and equipment	8	1,310,136	5,289,019	894,425	3,622,421
Intangible assets	9	259,418	1,047,270	32,378	131,131
Deferred tax assets	13	222,349	897,623	48,856	197,867
Other assets	10	3,665,381	14,797,143	3,386,349	13,714,713
TOTAL ASSETS		172,254,084	695,389,737	160,563,921	650,283,879
LIABILITIES AND OWNER'S EQUITY					
LIABILITIES					
Due to other financial institutions	11	60,245,872	243,212,585	64,746,532	262,223,455
Due to customers	12	67,736,153	273,450,850	53,230,047	215,581,690
Current income tax payable	13	484,079	1,954,227	346,770	1,404,419
Other liabilities	14	1,553,137	6,270,014	1,451,688	5,879,335
Total liabilities		130,019,241	524,887,676	119,775,037	485,088,899
Owner's equity					
Paid-up capital	15	38,000,000	153,406,000	38,000,000	153,900,000
Retained earnings		4,234,843	17,096,061	2,788,884	11,294,980
Total owner's equity		42,234,843	170,502,061	40,788,884	165,194,980
TOTAL LIABILITIES AND OWNER'S EQUITY		172,254,084	695,389,737	160,563,921	650,283,879

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

INCOME STATEMENT

for the year ended 31 December 2016

	Notes	2016		2015	
		US\$	KHR'000 (Note 2.1.5)	US\$	KHR'000 (Note 2.1.5)
Interest and similar income	16	8,344,636	33,687,296	8,054,710	32,621,576
Interest and similar expenses	17	(3,121,722)	(12,602,392)	(2,562,589)	(10,378,485)
Net interest and similar income		5,222,914	21,084,904	5,492,121	22,243,091
Fee and commission income	18	1,685,735	6,805,312	1,536,451	6,222,627
Fee and commission expenses	19	(176,984)	(714,484)	(156,530)	(633,947)
Net fee and commission income		1,508,751	6,090,828	1,379,921	5,588,680
Income from investment in security		4,950	19,983	14,256	57,737
Other operating gain/(loss)	20	61,644	248,857	(38,096)	(154,289)
TOTAL OPERATING INCOME		6,798,259	27,444,572	6,848,202	27,735,219
General and administrative expenses	21	(4,422,361)	(17,853,071)	(4,496,319)	(18,210,092)
Credit loss expenses	6	(530,635)	(2,142,173)	(487,380)	(1,973,889)
PROFIT BEFORE TAX		1,845,263	7,449,328	1,864,503	7,551,238
Current income tax expense	13	(572,797)	(2,312,381)	(453,664)	(1,837,339)
Deferred income tax income	13	173,493	700,391	44,614	180,687
Total income tax expense		(399,304)	(1,611,990)	(409,050)	(1,656,652)
NET PROFIT FOR THE YEAR		1,445,959	5,837,338	1,455,453	5,894,586

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

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

	Paid-up capital US\$	Retained earnings US\$	Total US\$
For the year ended 31 December 2015			
Balance as at 1 January 2015	38,000,000	1,333,431	39,333,431
Net profit for the year	-	1,455,453	1,455,453
Balance as at 31 December 2015	38,000,000	2,788,884	40,788,884
KHR'000 equivalent (Note 2.1.5)	153,900,000	11,294,980	165,194,980
For the year ended 31 December 2016			
Balance as at 1 January 2016	38,000,000	2,788,884	40,788,884
Net profit for the year	-	1,445,959	1,445,959
Balance as at 31 December 2016	38,000,000	4,234,843	42,234,843
KHR'000 equivalent (Note 2.1.5)	153,406,000	17,096,061	170,502,061

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

STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	2016		2015	
		US\$	KHR'000 (Note 2.1.5)	US\$	KHR'000 (Note 2.1.5)
Net cash provided by/(used in) operating activities	22	6,040,967	24,387,383	(886,662)	(3,590,981)
Investing activities					
Acquisition of property and equipment	8	(770,118)	(3,108,966)	(60,831)	(246,366)
Acquisition of computer software	9	(257,797)	(1,040,726)	-	-
Proceeds from disposal of property and equipment	20	5,000	20,185	-	-
Net cash used in investing activities		(1,022,915)	(4,129,507)	(60,831)	(246,366)
Increase/(decrease) in cash and cash equivalents		5,018,052	20,257,876	(947,493)	(3,837,347)
Cash and cash equivalents at beginning of year		33,349,035	135,063,591	34,296,528	139,758,351
Foreign exchange difference		-	(433,537)	-	(857,413)
Cash and cash equivalents at end of year	3	38,367,087	154,887,930	33,349,035	135,063,591

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

NOTES TO THE FINANCIAL STATEMENTS

as at and for the year ended 31 December 2016

1. CORPORATE INFORMATION

Sacombank (Cambodia) Plc. (“the Bank”) was incorporated and registered in the Kingdom of Cambodia.

Establishment and operations

The Bank is a wholly-owned subsidiary of Saigon Thuong Tin Commercial Joint Stock Bank (“Sacombank”), a bank incorporated in Vietnam. The Bank operates in the Kingdom of Cambodia under indefinite banking license No. 27 dated 19 June 2009 issued by the National Bank of Cambodia (NBC) and license No. 523/09B from the Ministry of Commerce dated 18 March 2009.

The principal activities of the Bank are to provide banking and related financial services in Cambodia.

Paid-up capital

The total share capital of the Bank as at 31 December 2016 is US\$38,000,000 or KHR153.41 billion (2015: US\$38,000,000 or KHR153.90 billion).

Location

The head office of the Bank is located at No. 60, Preah Norodom Boulevard, Sangkat Chey Chumneas, Khan Daun Penh, Phnom Penh, Cambodia.

Employees

As at 31 December 2016, the Bank had 207 employees including 105 employees in the Head Office, 21 employees in Olympic Branch, 15 employees in Kampong Cham Branch, 15 employees in Chbar Ampeou Branch, 12 employees in Hengly Branch, 15 employees in Monivong Branch, 13 employees in Pochentong Branch and 15 employees in Takhmao Branch (31 December 2015: 205 employees).

Approval of the financial statements

The financial statements were authorized for issue by the Board of Management on 25 April 2017.

2. ACCOUNTING POLICIES

2.1 *Basis of preparation*

2.1.1 *Statement of compliance*

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

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

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

2.1.2 *Basis of measurement*

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

2.1.3 *Fiscal year*

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at and for the year ended 31 December 2016

2. ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

2.1.4 *Functional and presentation currency*

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

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

2.1.5 *Translation of US\$ into KHR*

The translation of the US\$ amounts into KHR is presented in the financial statements to comply with the Cambodian Law on Corporate Accounts, their Audit and the Accounting Profession dated 8 July 2002 and relevant Prakas of NBC, using the closing exchange rate of KHR4,037: US\$1 ruling at the reporting date (2015: KHR4,050: US\$1), as announced by the 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.

2.2 *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 Bank has entered into lease on premises used for its operations. The Bank 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 Bank considers the following:

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

2.2.3 *Allowance for loan losses*

When preparing the financial statements, the quality of loans and advances is reviewed and assessed to determine their classification and level of allowance for loan losses, as more fully disclosed in Note 2.3.7.

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at and for the year ended 31 December 2016

2. ACCOUNTING POLICIES (continued)

2.2 Significant accounting judgments and estimates (continued)

2.2.4 Recognition of deferred tax assets

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

2.2.5 Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The Bank 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 Bank 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.

2.2.6 Estimated useful lives of property and equipment, and software cost

The Bank estimates the useful lives of its property and equipment, and software cost. This estimate is reviewed periodically to ensure that the period of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property and equipment, and software cost.

2.3 Summary of significant accounting policies

2.3.1 Change in accounting policies

The accounting policies and methods of computation applied by the Bank are consistent with those adopted in prior periods.

2.3.2 Deposits and placements with banks

The Bank 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, demand deposits, short-term deposits and 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.

2.3.4 Statutory deposits

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at and for the year ended 31 December 2016

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

2.3.5 Deposits and placements with banks

Deposits and placements with banks are carried at cost.

2.3.6 Loans and advances

All loans and advances to customers are stated in the balance sheet at principal amount, less any amounts written off and allowance for losses on loans and advances. 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 written off, or provided for, decrease the amount of allowance for losses on loans and advances in the income statement.

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

2.3.7 Allowance for losses on loans and advances

Allowance for losses on loans and advances is made with regard to specific risks and relate to those loans and advances that have been individually reviewed and specifically identified as special mention, substandard, doubtful or loss. In addition, a general allowance is also maintained for loans classified as normal.

The Bank follows the mandatory credit classification and provisioning as required by NBC Prakas No. B7-09-074 dated 25 February 2009, which is to classify their loan portfolio into five classes. The Prakas also requires that minimum general and specific allowances be provided depending on loan classification.

The allowance is based on a percentage of total outstanding loans and advances as follows:

<u>Classification</u>	<u>Number of days past due</u>	<u>Allowance percentage</u>
<i>General allowance</i>		
Normal	Less than 30 days	1%
<i>Specific allowance</i>		
Special mention	30 days or more but less than 90 days	3%
Substandard	90 days or more but less than 180 days	20%
Doubtful	180 days or more but less than 360 days	50%
Loss	360 days or more	100%

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

2.3.8 Other credit-related commitments

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at and for the year ended 31 December 2016

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

2.3.9 Available-for-sale financial investments

AFS investment is a non-derivative financial asset which is designated as such and is purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

2.3.10 Other assets

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

2.3.11 Intangible asset

Computer software is stated at cost less accumulated amortization. Computer software is amortised on a straight-line basis over five years.

2.3.12 Property and equipment

(i) Items of property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Where an item of property and equipment comprises major components having different useful lives, the components are accounted for as separate items of property and equipment.

(ii) Depreciation is calculated using the straight-line method to allocate their cost to their residual value over their estimated useful lives, as follows:

Leasehold building	15 years
Computer equipment	4 years
Furniture and equipment	4-5 years
Motor vehicles	4-5 years

(iii) Subsequent expenditure relating to an item of property and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Bank. All other subsequent expenditure is recognised as an expense in the year in which it is incurred.

(iv) Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the assets and are recognised in the income statement at the date of retirement or disposal.

(v) Fully depreciated property and equipment are retained in the financial statements until disposed of or written off.

(vi) 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.

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

2.3.13 Due to other financial institutions and due to customers

Due to other financial institutions and due to customers are stated at their placement values.

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at and for the year ended 31 December 2016

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

2.3.14 Other liabilities

Other liabilities recognized for amount to be paid in the future for goods and services received, whether or not billed to the Bank.

2.3.15 Provisions for liabilities

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

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

2.3.16 Corporate income tax

Current tax

Current 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.

Deferred 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 amounts 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 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 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 current 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at and for the year ended 31 December 2016

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

2.3.18 Recognition of income and expense

(a) Interest income

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured.

Interest income on overdraft, term loans and other loans is recognized on a daily accrual basis. Where a loan becomes non-performing, the recording 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 ninety days or more.

(b) Fee and commission income

Fee and commission income includes the following:

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

(c) Interest expense

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

(d) Fee and commission expense

Fee and commission expense is recognized as incurred.

2.3.19 Operating leases

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

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 Bank 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 Bank.

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at and for the year ended 31 December 2016

2. ACCOUNTING POLICIES (continued)

2.3 Summary of significant accounting policies (continued)

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.

3. CASH AND GOLD

	31 December 2016		31 December 2015	
	US\$	KHR'000 (Note 2.1.5)	US\$	KHR'000 (Note 2.1.5)
Cash				
US\$	12,292,716	49,625,694	3,691,949	14,952,393
KHR	128,533	518,888	179,002	724,958
Other foreign currencies	117,431	474,069	81,696	330,869
	12,538,680	50,618,651	3,952,647	16,008,220
Gold				
Gold XBJ	327,592	1,322,489	298,793	1,210,112
Gold XAU	273	1,102	248	1,004
	327,865	1,323,591	299,041	1,211,116
	12,866,545	51,942,242	4,251,688	17,219,336

For the purpose of the statement of cash flows, cash and cash equivalents comprise:

	31 December 2016		31 December 2015	
	US\$	KHR'000 (Note 2.1.5)	US\$	KHR'000 (Note 2.1.5)
Cash and gold	12,866,545	51,942,242	4,251,688	17,219,336
Balances with the NBC				
<i>Current and settlement accounts</i>	13,059,295	52,720,374	2,734,223	11,073,603
<i>Negotiable certificate of deposits ("NCD")</i>	550,000	2,220,350	280,000	1,134,000
Balances with other banks - current deposits	11,891,247	48,004,964	26,083,124	105,636,652
	38,367,087	154,887,930	33,349,035	135,063,591

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at and for the year ended 31 December 2016

4. BALANCES WITH THE NATIONAL BANK OF CAMBODIA

	31 December 2016		31 December 2015	
	US\$	KHR'000 (Note 2.1.5)	US\$	KHR'000 (Note 2.1.5)
Current and settlement accounts	13,059,295	52,720,374	2,734,223	11,073,603
Current account - US\$	11,363,330	45,873,763	995,455	4,031,592
Current account - KHR	536,966	2,167,732	5,178	20,971
Settlement account - US\$	1,059,839	4,278,570	1,717,410	6,955,511
Settlement account - KHR	99,160	400,309	16,180	65,529
NCD (iii)	550,000	2,220,350	280,000	1,134,000
Statutory deposits	16,522,293	66,700,497	15,167,284	61,427,500
Capital guarantee deposit - US\$ (i)	3,800,000	15,340,600	3,800,000	15,390,000
Reserve deposit - US\$ (ii)	12,700,000	51,269,900	11,350,000	45,967,500
Reserve deposit - KHR (ii)	22,293	89,997	17,284	70,000
	30,131,588	121,641,221	18,181,507	73,635,103

(i) Capital guarantee deposit

Under NBC Prakas No. B7-01-136 dated 15 October 2001, banks are required to maintain a statutory deposit of 10.00% of registered capital with the NBC. This deposit is not available for use in the Bank's day-to-day operations but it is refundable when the Bank voluntarily ceases to operate the business in Cambodia.

(ii) Reserve deposits

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 deposits from customers in KHR and in foreign currencies, respectively.

(iii) Negotiable certificate of deposits

The NCD has a term of 3 months and bears interest of 0.7% per annum

Annual interest rates of deposits and placements with the NBC were summarised as follows:

	2016	2015
Capital guarantee deposit - US\$	0.21%	0.11%
Reserve deposit - US\$	0.24%	0.21%
Reserve deposit - KHR	0.00%	0.00%
Term deposit	0.70%	0.25%
Current accounts	0.00%	0.00%
Settlement accounts	0.00%	0.00%

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at and for the year ended 31 December 2016

5. DUE FROM OTHER FINANCIAL INSTITUTIONS

	31 December 2016		31 December 2015	
	US\$	KHR'000 (Note 2.1.5)	US\$	KHR'000 (Note 2.1.5)
Current deposits				
Local financial institutions	3,318,994	13,398,779	961,616	3,894,545
Overseas financial institutions	8,572,253	34,606,185	25,121,508	101,742,107
<i>In which:</i>				
<i>Demand deposits with parent bank (Note 24)</i>	8,066,044	32,562,618	24,598,620	99,624,411
	11,891,247	48,004,964	26,083,124	105,636,652

Annual interest rates of due from other financial institutions at the year end were as follows:

	31 December 2016	31 December 2015
Current deposits	0.00% - 0.50%	0.00% - 0.50%

6. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2016		31 December 2015	
	US\$	KHR'000 (Note 2.1.5)	US\$	KHR'000 (Note 2.1.5)
Loans				
<i>Term loans</i>	95,981,569	387,477,594	95,015,553	384,812,991
<i>Overdrafts</i>	19,020,034	76,783,877	15,295,406	61,946,394
Credit card facilities	117,984	476,302	56,167	227,476
	115,119,587	464,737,773	110,367,126	446,986,861
Allowance for loan losses				
Specific provision	(2,130,702)	(8,601,644)	(1,624,192)	(6,577,978)
General provision	(1,106,465)	(4,466,799)	(1,082,340)	(4,383,477)
	(3,237,167)	(13,068,443)	(2,706,532)	(10,961,455)
Loans and advances - net	111,882,420	451,669,330	107,660,594	436,025,406

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at and for the year ended 31 December 2016

6. LOANS AND ADVANCES TO CUSTOMERS (continued)

Changes in the allowance for losses on loans and advances were summarized below:

	2016		2015	
	US\$	KHR'000 (Note 2.1.5)	US\$	KHR'000 (Note 2.1.5)
Specific allowance				
Beginning balance	1,624,192	6,577,978	1,189,518	4,847,286
Provision during the year	506,510	2,044,780	434,674	1,760,430
Exchange difference	-	(21,114)	-	(29,738)
Ending balance	2,130,702	8,601,644	1,624,192	6,577,978
General allowance				
Beginning balance	1,082,340	4,383,477	1,029,634	4,195,759
Provision during the year	24,125	97,393	52,706	213,459
Exchange difference	-	(14,071)	-	(25,741)
Ending balance	1,106,465	4,466,799	1,082,340	4,383,477
Total allowance at the end of year	3,237,167	13,068,443	2,706,532	10,961,455

(a) The loan portfolio was graded as follows:

	31 December 2016		31 December 2015	
	US\$	KHR'000 (Note 2.1.5)	US\$	KHR'000 (Note 2.1.5)
Normal loans				
Secured	109,790,305	443,223,461	69,482,965	281,406,008
Unsecured	856,233	3,456,613	38,749,518	156,935,549
	110,646,538	446,680,074	108,232,483	438,341,557
Special mention loans				
Secured	2,279,640	9,202,907	191,774	776,685
Unsecured	-	-	-	-
	2,279,640	9,202,907	191,774	776,685
Substandard loans				
Secured	18,297	73,865	-	-
Unsecured	-	-	50,000	202,500
	18,297	73,865	50,000	202,500
Doubtful loans				
Secured	232,918	940,290	568,860	2,303,883
Unsecured	-	-	-	-
	232,918	940,290	568,860	2,303,883
Loss loans				
Secured	1,942,194	7,840,637	1,324,009	5,362,236
Unsecured	-	-	-	-
	1,942,194	7,840,637	1,324,009	5,362,236
	115,119,587	464,737,773	110,367,126	446,986,861

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at and for the year ended 31 December 2016

6. LOANS AND ADVANCES TO CUSTOMERS (continued)

(a) The loan portfolio was graded as follows (continued)

Included in the outstanding secured normal loans at 31 December 2016 were some loans of certain mining customers amounting to US\$46,433,229 which were required to be recovered by the end of 2018 by National Bank of Cambodia (NBC). On 12 April 2017, the Bank sent Official Letter to NBC to seek for approval of collections of the principals of these loans according to the repayment schedule within three years starting at the end of 2018 and classification of these loans as Normal (Group 1) provided that these loans are repaid punctually according to the repayment schedule. At the date of these financial statements, the Bank has not yet received the approval from the NBC.

(b) For an analysis of loans and advances by maturity, refer to Note 25.2 on Financial Risk Management.

(c) For an analysis of loans and advances by currency, refer to Note 25.3 on Financial Risk Management.

(d) Analysis of loans and advances by type of loans was as follows:

	31 December 2016		31 December 2015	
	US\$	KHR'000 (Note 2.1.5)	US\$	KHR'000 (Note 2.1.5)
Commercial loans	67,455,008	272,315,868	73,386,497	297,215,313
Consumer loans	47,664,579	192,421,905	36,980,629	149,771,548
	115,119,587	464,737,773	110,367,126	446,986,861

(e) Analysis of loan portfolio by industrial sector was as follows:

	31 December 2016		31 December 2015	
	US\$	KHR'000 (Note 2.1.5)	US\$	KHR'000 (Note 2.1.5)
Mining	46,433,229	187,450,946	45,684,902	185,023,853
Wholesale and retail	37,001,848	149,376,461	23,978,670	97,113,614
Personal use	12,732,831	51,402,440	8,866,001	35,907,304
Services	8,716,622	35,189,002	6,460,284	26,164,150
Import & Export	4,053,354	16,363,388	6,928,090	28,058,765
Real estate & Construction	1,218,022	4,917,156	1,857,253	7,521,875
Other industries	4,963,681	20,038,380	16,591,926	67,197,300
	115,119,587	464,737,773	110,367,126	446,986,861

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at and for the year ended 31 December 2016

6. LOANS AND ADVANCES TO CUSTOMERS (continued)

(f) Further analyses of loans and advances by residency, relationship, and exposure were as follows:

	31 December 2016		31 December 2015	
	US\$	KHR'000 (Note 2.1.5)	US\$	KHR'000 (Note 2.1.5)
Residence status				
Residents	115,119,587	464,737,773	110,367,126	446,986,861
Non-residents	-	-	-	-
	115,119,587	464,737,773	110,367,126	446,986,861
Relationship				
Related parties	160,317	647,200	5,758	23,320
Non-related parties	114,959,270	464,090,573	110,361,368	446,963,541
	115,119,587	464,737,773	110,367,126	446,986,861
Exposure				
Large	44,533,229	179,780,646	55,576,795	225,086,020
Non-large	70,586,358	284,957,127	54,790,331	221,900,841
	115,119,587	464,737,773	110,367,126	446,986,861

Based on Prakas No. B7-06-226 issued by the NBC, large exposure is defined as the overall gross exposure resulting from banking operations with one single beneficiary, where such exposure exceeds 10% of the Bank's net worth. Exposure means the higher of two items: (a) the outstanding loans or commitments, and (b) the authorized loans or commitments. Large exposures of off-balance sheet items was nil as at 31 December 2016.

Annual interest rates of loans and advances to customers at the year end were as follows:

	2016	2015
Short-term loans	5.00% - 12.00%	5.00% - 18.00%
Medium and long-term loans	5.00% - 18.00%	3.00% - 18.00%

7. INVESTMENTS IN SECURITIES

	2016			2015		
	US\$	KHR'000 (Note 2.1.5)	% owned by the bank	US\$	KHR'000 (Note 2.1.5)	% owned by the bank
Credit Bureau of Cambodia Company	25,000	100,925	1%	25,000	101,250	1%

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at and for the year ended 31 December 2016

8. PROPERTY AND EQUIPMENT

	Leasehold building US\$	Computer equipment US\$	Furniture and equipment US\$	Motor vehicles US\$	Total US\$
Cost					
At 1 January 2016	799,536	834,078	439,782	553,960	2,627,356
Additions	54,522	660,929	34,912	19,755	770,118
Disposal	-	-	-	(9,200)	(9,200)
At 31 December 2016	854,058	1,495,007	474,694	564,515	3,388,274
Accumulated depreciation					
At 1 January 2016	396,532	769,606	245,488	321,305	1,732,931
Charges	147,678	41,071	70,379	95,279	354,407
Disposal	-	-	-	(9,200)	(9,200)
At 31 December 2016	544,210	810,677	315,867	407,384	2,078,138
Net book value					
At 1 January 2016	403,004	64,472	194,294	232,655	894,425
At 31 December 2016	309,848	684,330	158,827	157,131	1,310,136
KHR'000 equivalent (Note 2.1.5)					
At 1 January 2016	1,632,165	261,112	786,891	942,253	3,622,421
At 31 December 2016	1,250,856	2,762,640	641,185	634,338	5,289,019

9. INTANGIBLE ASSET

	Computer software US\$
Cost	
At 1 January 2016	429,912
Additions	257,797
At 31 December 2016	687,709
Accumulated amortization	
At 1 January 2016	397,534
Charges	30,757
At 31 December 2016	428,291
Net book value	
At 1 January 2016	32,378
At 31 December 2016	259,418
KHR'000 equivalent (Note 2.1.5)	
At 1 January 2016	131,131
At 31 December 2016	1,047,270

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at and for the year ended 31 December 2016

10. OTHER ASSETS

	31 December 2016		31 December 2015	
	US\$	KHR'000 (Note 2.1.5)	US\$	KHR'000 (Note 2.1.5)
Accrued interest receivables	3,811,996	15,389,028	3,305,219	13,386,137
Rental deposits	210,100	848,174	209,815	849,751
Advances for employees	63,403	255,958	5,330	21,587
Advance for T24 and IBM system maintenance	46,170	186,388	81,689	330,840
Prepaid rental and insurance	24,136	97,437	22,538	91,279
Advances for express and remittance	16,912	68,274	-	-
Others	5,788	23,366	12,443	50,393
	4,178,505	16,868,625	3,637,034	14,729,987
Allowance for interest receivables	(513,124)	(2,071,482)	(250,685)	(1,015,274)
	3,665,381	14,797,143	3,386,349	13,714,713

Included in accrued interest receivables at 31 December 2016 were some accrued interest amounting to US\$3,027,502 (31 December 2015: US\$2,244,096) from loans to some mining customers which were required to be recovered by NBC. See Note 6 for further information

11. DUE TO OTHER FINANCIAL INSTITUTIONS

	31 December 2016		31 December 2015	
	US\$	KHR'000 (Note 2.1.5)	US\$	KHR'000 (Note 2.1.5)
Demand deposits	36,869,363	148,841,618	43,560,488	176,419,977
<i>In which:</i>				
<i>Parent bank (Note 24)</i>	<i>36,865,944</i>	<i>148,827,815</i>	<i>43,539,436</i>	<i>176,334,716</i>
Term deposits and loans	23,376,509	94,370,967	21,186,044	85,803,478
	60,245,872	243,212,585	64,746,532	262,223,455

Annual interest rates of due to other financial institutions at the year end were as follows:

	31 December 2016	31 December 2015
Demand deposits	0.00%	0.00%
Term deposits	2.00% - 4.40%	2.00% - 4.50%

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at and for the year ended 31 December 2016

12. DUE TO CUSTOMERS

	31 December 2016		31 December 2015	
	US\$	KHR'000 (Note 2.1.5)	US\$	KHR'000 (Note 2.1.5)
Current accounts	4,123,917	16,648,253	4,969,193	20,125,231
Fixed deposits	47,454,599	191,574,216	36,532,495	147,956,605
Savings deposits	16,157,637	65,228,381	11,728,359	47,499,854
	67,736,153	273,450,850	53,230,047	215,581,690

Further analyses of deposits from customers were as follows:

(a) Types of customers

	31 December 2016		31 December 2015	
	US\$	KHR'000 (Note 2.1.5)	US\$	KHR'000 (Note 2.1.5)
Domestic corporations	7,221,492	29,153,163	4,492,216	18,193,474
Foreign corporations	67,097	270,871	2,885,314	11,685,522
Resident individuals	56,683,638	228,831,847	42,864,264	173,600,269
Non-residents individuals	3,763,926	15,194,969	2,988,253	12,102,425
	67,736,153	273,450,850	53,230,047	215,581,690

(b) For maturity analysis, refer to Note 25.3 on Financial risk management.

(c) For deposits from related parties, refer to Note 24 on Related party transactions and balances.

(d) The annual interest rates of deposits from customers at the year end were as follows:

	31 December 2016	31 December 2015
Fixed deposits	2.25% - 6.30%	2.25% - 6.50%
Saving deposits	0.00% - 1.00%	0.00% - 1.00%
Current accounts	0.00% - 1.00%	0.00% - 1.00%
Margin deposits	0.00%	0.00%

13. TAXATION

Major components of income tax expense for the year were as follows:

	2016		2015	
	US\$	KHR'000 (Note 2.1.5)	US\$	KHR'000 (Note 2.1.5)
Corporate income tax ("CIT")				
Current CIT	572,797	2,312,381	453,664	1,837,339
Deferred CIT	(173,493)	(700,391)	(44,614)	(180,687)
Income tax expense for the year	399,304	1,611,990	409,050	1,656,652

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at and for the year ended 31 December 2016

13. TAXATION (continued)

Current income tax

The Bank's tax returns are subject to 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.

In accordance with Cambodian tax regulations, current income tax is calculated at the higher of the taxable income for the year multiplied by the tax rate of 20% at the reporting date and 1% of turnover.

A reconciliation between the income tax expense and the accounting profit multiplied by 20% tax rate was as follows

	2016		2015	
	US\$	KHR'000 (Note 2.1.5)	US\$	KHR'000 (Note 2.1.5)
Accounting profit before tax	1,845,263	7,449,328	1,864,503	7,551,238
Statutory income tax rate of 20%	369,053	1,489,866	372,901	1,510,248
<i>Adjustment:</i>				
Non-deductible expenses	204,734	826,512	83,615	338,642
Dividend income	(990)	(3,997)	(2,852)	(11,551)
Income tax expense in the income statement	572,797	2,312,381	453,664	1,837,339
Balance at beginning of year	346,770	1,404,419	337,025	1,373,377
Payment of tax during the year	(346,770)	(1,399,910)	(337,025)	(1,364,951)
Tax prepayment	(88,718)	(358,155)	(106,894)	(432,921)
Foreign exchange difference	-	(4,508)	-	(8,425)
Balance at end of year	484,079	1,954,227	346,770	1,404,419

Deferred income tax

	Balance sheet		Charged (credited) to the income statement	
	2016 US\$	2015 US\$	2016 US\$	2015 US\$
Deferred tax assets				
Unrealized exchange loss	5,368	18,733	(13,365)	7,619
Accelerated tax depreciation	-	30,123	(30,123)	30,123
Provision for normal loan and special mentioned loan	234,971	-	234,971	-
	240,339	48,856	191,483	37,742
Deferred tax liabilities				
Accelerated tax depreciation	(17,990)	-	(17,990)	6,872
	(17,990)	-	(17,990)	6,872
Net deferred tax assets	222,349	48,856		
KHR'000 equivalent (Note 2.1.5)	897,623	197,867		
Net deferred income tax income			173,493	44,614
KHR'000 equivalent (Note 2.1.5)			700,391	180,678

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at and for the year ended 31 December 2016

14. OTHER LIABILITIES

	31 December 2016		31 December 2015	
	US\$	KHR'000 (Note 2.1.5)	US\$	KHR'000 (Note 2.1.5)
Interest payable	1,324,599	5,347,406	1,070,515	4,335,586
Other tax payable	103,624	418,330	48,008	194,432
Payables on remittance	80,703	325,798	90,520	366,606
Payables to parent bank (Note 24)	-	-	42,911	173,790
Others	44,211	178,480	199,734	808,921
	1,553,137	6,270,014	1,451,688	5,879,335

15. PAID-UP CAPITAL

The paid-up capital amounting to US\$38,000,000 or KHR'000 153,406,000 was fully contributed by Saigon Thuong Tin Commercial Joint Stock Bank, incorporated in Vietnam.

16. INTEREST AND SIMILAR INCOME

	2016		2015	
	US\$	KHR'000 (Note 2.1.5)	US\$	KHR'000 (Note 2.1.5)
Interest income from lending	8,321,965	33,595,773	8,043,721	32,577,070
Interest income from deposits	22,671	91,523	10,989	44,506
<i>The NBC</i>	17,516	70,712	6,645	26,912
<i>The other financial institutions</i>	5,155	20,811	4,344	17,594
	8,344,636	33,687,296	8,054,710	32,621,576

17. INTEREST AND SIMILAR EXPENSE

	2016		2015	
	US\$	KHR'000 (Note 2.1.5)	US\$	KHR'000 (Note 2.1.5)
Interest expense on due to other financial institutions	711,396	2,871,906	891,041	3,608,716
Interest expense on due to customers	2,410,326	9,730,486	1,671,548	6,769,769
	3,121,722	12,602,392	2,562,589	10,378,485

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at and for the year ended 31 December 2016

18. FEES AND COMMISSION INCOME

	2016		2015	
	US\$	KHR'000 (Note 2.1.5)	US\$	KHR'000 (Note 2.1.5)
Commission received on remittances	1,143,837	4,617,670	1,192,666	4,830,297
Loan processing fees	380,272	1,535,158	226,366	916,782
Other commissions and fees	161,626	652,484	117,419	475,548
	1,685,735	6,805,312	1,536,451	6,222,627

19. FEES AND COMMISSION EXPENSE

	2016		2015	
	US\$	KHR'000 (Note 2.1.5)	US\$	KHR'000 (Note 2.1.5)
Fees and commission paid to banks and other financial organisations	176,984	714,484	156,530	633,947

20. OTHER OPERATING LOSS

	2016		2015	
	US\$	KHR'000 (Note 2.1.5)	US\$	KHR'000 (Note 2.1.5)
Foreign exchange gain/(loss)	56,644	228,672	(38,096)	(154,289)
Gain on asset disposal	5,000	20,185	-	-
	61,644	248,857	(38,096)	(154,289)

21. GENERAL AND ADMINISTRATIVE EXPENSES

	2016		2015	
	US\$	KHR'000 (Note 2.1.5)	US\$	KHR'000 (Note 2.1.5)
Salaries and wages	2,335,909	9,430,065	2,447,002	9,910,358
Rental, repairs and maintenance	546,461	2,206,063	580,962	2,352,896
Depreciation and amortization	385,164	1,554,907	389,388	1,577,021
License fee	211,406	853,446	209,773	849,581
Telecommunication	118,712	479,240	115,222	466,649
Electricity and utilities	108,435	437,752	97,007	392,878
BOD's remuneration	102,301	412,989	61,588	249,431
Staff benefit	83,000	335,071	38,501	155,929
Other taxes	77,244	311,834	47,188	191,111
Marketing	74,090	299,101	104,114	421,662
Travelling and communication	64,373	259,874	56,929	230,562
Office supplies	61,340	247,630	51,942	210,365
Others	253,926	1,025,099	296,703	1,201,649
	4,422,361	17,853,071	4,496,319	18,210,092

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at and for the year ended 31 December 2016

22. NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES

	2016		2015	
	US\$	KHR'000 (Note 2.1.5)	US\$	KHR'000 (Note 2.1.5)
Operating activities				
Profit before income tax	1,845,263	7,449,328	1,864,503	7,551,238
<i>Adjustments for:</i>				
Depreciation and amortisation expense	385,164	1,554,907	389,388	1,577,021
Allowance for losses on loans and advances	530,635	2,142,173	487,380	1,973,889
Gain from disposal of property and equipment	(5,000)	(20,185)	-	-
	2,756,062	11,126,223	2,741,271	11,102,148
Income tax paid	(435,488)	(1,758,065)	(443,919)	(1,797,872)
Cash provided by operating activities before changes in net operating assets and liabilities	2,320,574	9,368,158	2,297,352	9,304,276
(Increase) decrease in operating assets:				
Capital guarantee and deposits with NBC	(1,355,009)	(5,470,171)	(5,750,106)	(23,287,929)
Loans and advances to customers	(4,752,461)	(19,185,685)	(5,234,013)	(21,197,753)
Other assets	(279,032)	(1,126,452)	462,894	1,874,721
(Decrease) increase in operating liabilities:				
Due to other financial institutions	(4,500,660)	(18,169,164)	179,276	726,068
Due to customers	14,506,106	58,561,150	6,784,697	27,478,023
Other liabilities	101,449	409,547	373,238	1,511,613
Net cash provided by/(used in) operating activities	6,040,967	24,387,383	(886,662)	(3,590,981)

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at and for the year ended 31 December 2016

23. COMMITMENTS AND CONTINGENCIES

23.1 Lending commitments

To meet the financial needs of customers, the Bank enters into various commitments and contingent liabilities, as follows:

	31 December 2016		31 December 2015	
	US\$	KHR'000 (Note 2.1.5)	US\$	KHR'000 (Note 2.1.5)
Undrawn credit facilities	14,716,746	59,411,504	3,480,258	14,095,045
Letters of credit	90,071	363,617	21,344	86,443
	14,806,817	59,775,121	3,501,602	14,181,488

23.2 Operating lease commitments

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

Future minimum lease payments as at 31 December are as follows:

	2016		2015	
	US\$	KHR'000 (Note 2.1.5)	US\$	KHR'000 (Note 2.1.5)
Up to 1 year	301,401	1,216,756	483,713	1,959,038
From 1 year to 5 years	1,133,008	4,573,953	1,364,629	5,526,747
Over 5 years	243,000	980,991	135,000	546,750
	1,677,409	6,771,700	1,983,342	8,032,535

23.3 Taxation contingency

The taxation system in Cambodia is relatively new and 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 could be significant.

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at and for the year ended 31 December 2016

24. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Significant transactions with related parties during the year were as follows:

	2016		2015	
	US\$	KHR'000 (Note 2.1.5)	US\$	KHR'000 (Note 2.1.5)
Interest income on loans to parent bank	90	363	-	-
Interest income on loans to employees	195	787	128	518
Interest expense on deposits from parent bank	262	1,058	-	-
Interest expense on deposits from employees	568	2,293	39	158
Payments on behalf of the Bank	-	-	42,911	173,790

(b) Outstanding amounts due from/to related parties were as follows:

	2016		2015	
	US\$	KHR'000 (Note 2.1.5)	US\$	KHR'000 (Note 2.1.5)
Due from related parties				
Parent bank	8,067,584	32,568,835	24,598,620	99,624,411
- Demand deposits	8,066,044	32,562,618	24,598,620	99,624,411
- Receivable for margin deposit	1,540	6,217	-	-
Fellow subsidiaries and employees	177,222	715,445	12,586	50,973
	8,244,806	33,284,280	24,611,206	99,675,384
Due to related parties				
Parent bank	36,865,944	148,827,815	43,582,347	176,508,506
- Demand deposits	36,865,944	148,827,815	43,539,436	176,334,716
- Receivable from card transaction	-	-	42,911	173,790
Fellow subsidiaries and employees	28,428	114,764	4,192	16,978
	36,894,372	148,942,579	43,586,539	176,525,484

(c) Key management personnel compensation

Remuneration of directors and other members of key management of the Bank were as follows:

	2016		2015	
	US\$	KHR'000 (Note 2.1.5)	US\$	KHR'000 (Note 2.1.5)
Salaries and other short-term benefits of key management	459,711	1,855,853	462,196	1,871,894

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at and for the year ended 31 December 2016

25. FINANCIAL RISK MANAGEMENT

The Bank'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 Bank uses derivative financial instruments such as forward contracts to manage its risk exposure.

The Bank intends to comply with NBC's regulations for financial risk management purposes. In addition to minimum requirements of the NBC, the Bank also adopts relevant financial risk management procedures of the parent bank.

The Bank holds the following financial assets and liabilities:

	2016		2015	
	US\$	KHR'000 (Note 2.1.5)	US\$	KHR'000 (Note 2.1.5)
Financial assets				
Cash and gold	12,866,545	51,942,242	4,251,688	17,219,336
Balances with the NBC	30,131,588	121,641,221	18,181,507	73,635,103
Due from other financial institutions	11,891,247	48,004,964	26,083,124	105,636,652
Loans and advances to customers - gross	115,119,587	464,737,773	110,367,126	446,986,861
Investment in security	25,000	100,925	25,000	101,250
Other assets	3,531,672	14,257,360	3,264,349	13,220,613
Total financial assets	173,565,639	700,684,485	162,172,794	656,799,815
Financial liabilities				
Due to other financial institutions	60,245,872	243,212,585	64,746,532	262,223,455
Due to customers	67,736,153	273,450,850	53,230,047	215,581,690
Other liabilities	1,449,513	5,851,684	1,392,254	5,638,629
Total financial liabilities	129,431,538	522,515,119	119,368,833	483,443,774
Net financial assets	44,134,101	178,169,366	42,803,961	173,356,041

25.1 Operational risk

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at and for the year ended 31 December 2016

25. FINANCIAL RISK MANAGEMENT (continued)

25.2 Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counter party will cause a financial loss to the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank'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, mitigation and concentration control

The Bank assesses the probability of default of individual counterparties in accordance with its credit policy, procedures and practices. Credit Risk Department is responsible for determining the risk rating policies.

(b) Risk limit control and mitigation policies

The Bank operates and provides loans and advances to individuals or enterprises within the Kingdom of Cambodia. The Bank manages, limits and controls the concentration of credit risk whenever it is identified. Large exposure is defined by the NBC as overall credit exposure to any single beneficiary which exceeds 10% of the Bank's net worth.

The Bank is required, under the conditions of NBC Prakas No. B7-06-226 of the NBC, to maintain at all times a maximum ratio of 20% between the Bank's overall credit exposure to any single beneficiary and the Bank's net worth. The aggregation of large credit exposure must not exceed 300% of the Bank's net worth. As at 31 December 2016, the Bank has six large exposures exceeding 10% of its net worth and has no large exposure exceeding the maximum ceiling limit of 20% for individual large exposure.

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

- Mortgages over residential properties (land, building and other properties);
- Charges over business assets such as land and buildings;
- Customers' fixed deposits placed with the Bank;
- Cash in the form of margin deposits; and
- Debenture over fixed and floating assets of borrowers.

(c) Impairment and provisioning policies

The Bank 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

	2016		2015	
	US\$	KHR'000 (Note 2.1.5)	US\$	KHR'000 (Note 2.1.5)
Balances with the NBC	30,131,588	121,641,221	18,181,507	73,635,103
Due from other financial institutions	11,891,247	48,004,964	26,083,124	105,636,652
Loans and advances to customers - gross	115,119,587	464,737,773	110,367,126	446,986,861
Other assets	3,531,672	14,257,360	3,264,349	13,220,613
	160,674,094	648,641,318	157,896,106	639,479,229

The details of credit risk exposure relating to off-balance-sheet items are disclosed in Note 23.1 on Credit-related commitments.

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at and for the year ended 31 December 2016

25. FINANCIAL RISK MANAGEMENT (continued)

25.2 Credit risk (continued)

(e) Credit quality by class of financial assets

The Bank manages the credit quality of financial assets using internal credit ratings. The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Bank's internal credit rating system. The amounts presented are gross of impairment allowance.

	Neither past due nor impaired (i) US\$	Past due but not impaired (ii) US\$	Individually impaired (iii) US\$	Total US\$
2016				
Balances with the NBC	30,131,588	-	-	30,131,588
Due from other financial institutions	11,891,247	-	-	11,891,247
Loans and advances to customers - gross	110,646,538	2,279,640	2,193,409	115,119,587
Other assets	3,531,672	-	-	3,531,672
	156,201,045	2,279,640	2,193,409	160,674,094
KHR'000 equivalent (Note 2.1.5)	630,583,619	9,202,907	8,854,792	648,641,318
2015				
Balances with the NBC	18,181,507	-	-	18,181,507
Due from other financial institutions	26,083,124	-	-	26,083,124
Loans and advances to customers - gross	108,232,483	191,774	1,942,869	110,367,126
Other assets	3,264,349	-	-	3,264,349
	155,761,463	191,774	1,942,869	157,896,106
KHR'000 equivalent (Note 2.1.5)	630,833,925	776,685	7,868,619	639,479,229

(i) Loans and advances neither past due nor impaired

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

(ii) Loans and advances past due but not impaired

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

(iii) Loans and advances individually impaired

Individually impaired loans and advances are loans and advances for which the Bank determines that there is an objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loans and advances. In accordance with NBC Prakas No. B7-09-074 dated 25 February 2009 on the classification and provisioning for bad and doubtful debts, loans and advances more than 90 days past due are considered impaired and a minimum level of specific provision for impairment is made depending on the classification concerned, unless other information is available to indicate the contrary.

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at and for the year ended 31 December 2016

25. FINANCIAL RISK MANAGEMENT (continued)

25.2 Credit risk (continued)

(f) Concentration of risks of financial assets with credit risk exposure

Concentration arises 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. Concentration indicates the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

The Bank monitors concentration of credit risk of counterparty by industry. An analysis of the Bank's concentration of credit risk as at 31 December was shown below:

	Financial intermediaries US\$	Mining US\$	Wholesale and retail US\$	Personal use US\$	Import & Export US\$	Real estate US\$	Services US\$	Other industries US\$	Total US\$
2016									
Balances with the NBC	30,131,588	-	-	-	-	-	-	-	30,131,588
Due from other financial institutions	11,891,247	-	-	-	-	-	-	-	11,891,247
Loans and advances to customers - gross	-	46,433,229	37,001,848	12,732,831	4,053,354	1,218,022	8,716,622	4,963,681	115,119,587
Other assets	-	3,027,502	109,296	74,003	21,004	1,536	35,347	262,984	3,531,672
	42,022,835	49,460,731	37,111,144	12,806,834	4,074,358	1,219,558	8,751,969	5,226,665	160,674,094
KHR'000 equivalent (Note 2.1.5)	169,646,185	199,672,972	149,817,689	51,701,191	16,448,181	4,923,356	35,331,698	21,100,046	648,641,318
2015									
Balances with the NBC	18,181,507	-	-	-	-	-	-	-	18,181,507
Due from other financial institutions	26,083,124	-	-	-	-	-	-	-	26,083,124
Loans and advances to customers - gross	-	45,684,902	23,978,670	8,866,001	6,928,090	1,857,253	6,460,284	16,591,926	110,367,126
Other assets	-	2,244,096	74,219	49,586	27,139	2,258	35,272	831,779	3,264,349
	44,264,631	47,928,998	24,052,889	8,915,587	6,955,229	1,859,511	6,495,556	17,423,705	157,896,106
KHR'000 equivalent (Note 2.1.5)	179,271,756	194,112,442	97,414,200	36,108,127	28,168,677	7,531,020	26,307,002	70,566,005	639,479,229

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at and for the year ended 31 December 2016

25. FINANCIAL RISK MANAGEMENT (continued)

25.3 *Liquidity risk*

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence of this may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

The Bank's management monitors balance sheet liquidity and manages the concentration and profile of debt maturities. Monitoring and reporting take the form of the daily cash position and projection for the next day, week and month respectively, as these are key periods for liquidity management. Management monitors the movements of the main depositors and projection of their withdrawals.

Analysis of financial assets and liabilities by remaining contractual maturities

An analysis of the assets and liabilities of the Bank by relevant maturity based on the remaining period as at 31 December to the contractual or estimated maturity dates is set out on the next page.

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at and for the year ended 31 December 2016

25. FINANCIAL RISK MANAGEMENT (continued)

25.3 Liquidity risk (continued)

	Overdue			Current			Total US\$
	Above 3 months US\$	Up to 3 months US\$	Up to 1 month US\$	From 1 to 3 months US\$	From 3 to 12 months US\$	From 1 to 5 years US\$	
2016							
Financial assets							
Cash and gold	-	-	12,866,545	-	-	-	12,866,545
Balances with the NBC	-	-	13,059,295	550,000	-	-	30,131,588
Due from other financial institutions	-	-	11,891,247	-	-	-	11,891,247
Loans and advances to customers - gross	2,175,113	397,936	22,337,206	12,227,663	24,922,226	32,985,950	115,119,587
Investments in securities	-	-	-	-	-	-	25,000
Other assets	510,632	16,133	44,594	284,670	321,187	2,222,456	3,531,672
Total discounted financial assets	2,685,745	414,069	60,198,887	13,602,333	25,243,413	35,208,406	173,565,639
Financial liabilities							
Due to other financial institutions	-	-	47,245,872	6,000,000	7,000,000	-	60,245,872
Due to customers	-	-	30,496,417	5,221,848	29,112,494	2,905,394	67,736,153
Other liabilities	-	-	597,923	158,377	603,947	89,266	1,449,513
Total discounted financial liabilities	-	-	78,340,212	11,380,225	36,716,441	2,994,660	129,431,538
Net liquidity surplus (gap)	2,685,745	414,069	(18,141,325)	1,682,108	(11,473,028)	32,213,746	44,134,101
KHR'000 equivalent (Note 2.1.5)	10,842,353	1,671,597	(73,236,529)	6,790,670	(46,316,614)	130,046,893	178,169,366

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at and for the year ended 31 December 2016

25. FINANCIAL RISK MANAGEMENT (continued)

25.3 Liquidity risk (continued)

	Overdue				Current			Total US\$
	Above 3 months US\$	Up to 3 months US\$	Up to 1 month US\$	From 1 to 3 months US\$	From 3 to 12 months US\$	From 1 to 5 years US\$	Over 5 years US\$	
2015								
Financial assets								
Cash and gold	-	-	4,251,688	-	-	-	-	4,251,688
Balances with the NBC	-	-	2,734,223	280,000	-	-	15,167,284	18,181,507
Due from other financial institutions	-	-	26,083,124	-	-	-	-	26,083,124
Loans and advances to customers - gross	1,942,869	191,774	4,487,491	14,496,036	40,498,547	38,609,720	10,140,689	110,367,126
Investments in securities	-	-	-	-	-	-	25,000	25,000
Other assets	-	-	3,056,834	-	-	66,515	141,000	3,264,349
Total discounted financial assets	1,942,869	191,774	40,613,360	14,776,036	40,498,547	38,676,235	25,473,973	162,172,794
Financial liabilities								
Due to other financial institutions	-	-	49,746,532	7,000,000	8,000,000	-	-	64,746,532
Due to customers	-	-	24,269,955	5,916,426	21,970,904	1,072,712	50	53,230,047
Other liabilities	-	-	594,564	280,442	479,096	38,152	-	1,392,254
Total discounted financial liabilities	-	-	74,611,051	13,196,868	30,450,000	1,110,864	50	119,368,833
Net liquidity surplus (gap)	1,942,869	191,774	(33,997,691)	1,579,168	10,048,547	37,565,371	25,473,923	42,803,961
KHR'000 equivalent (Note 2.1.5)	7,868,619	776,685	(137,690,649)	6,395,630	40,696,615	152,139,753	103,169,388	173,356,041

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at and for the year ended 31 December 2016

25. FINANCIAL RISK MANAGEMENT (continued)

25.4 *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 and currency, 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.

The Bank uses derivative financial instruments such as forward contract to hedge its risk exposure.

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Interest margins may increase as a result of changes and may reduce losses in the event that unexpected movements arise. The management of the Bank at this stage does not have a policy to set limits on the level of mismatch of interest rate re-pricing that may be undertaken; however, the management regularly monitors the mismatch.

The table below analyses the Bank's interest rate risk exposure on non-trading financial assets and liabilities as at 31 December. The Bank's assets and liabilities are included at carrying amount and categorised by the earlier of contractual re-pricing or maturity dates.

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

25. FINANCIAL RISK MANAGEMENT (continued)

25.4 Market risk (continued)

Interest rate risk (continued)

	Overdue US\$	Non-interest bearing US\$	Interest re-pricing period						Total US\$
			Less than 1 month US\$	1 to 3 months US\$	3 to 6 months US\$	6 to 12 months US\$	1 to 5 years US\$	Over 5 years US\$	
2016									
Financial assets									
Cash and gold	-	12,866,545	-	-	-	-	-	-	12,866,545
Balances with the NBC	-	-	30,131,588	-	-	-	-	-	30,131,588
Due from other financial institutions	-	553,909	11,337,338	-	-	-	-	-	11,891,247
Loans and advances to customers – gross	2,573,049	-	22,337,206	12,227,663	5,376,911	19,545,315	32,985,950	20,073,493	115,119,587
Investments in securities	-	25,000	-	-	-	-	-	-	25,000
Other assets	-	3,531,672	-	-	-	-	-	-	3,531,672
Total discounted financial assets	2,573,049	16,977,126	63,806,132	12,227,663	5,376,911	19,545,315	32,985,950	20,073,493	173,565,639
Financial liabilities									
Due to other financial institutions	-	257,504	46,988,368	6,000,000	3,000,000	4,000,000	-	-	60,245,872
Due to customers	-	-	30,496,417	5,221,848	8,716,167	20,396,327	2,905,394	-	67,736,153
Other liabilities	-	1,449,513	-	-	-	-	-	-	1,449,513
Total discounted financial liabilities	-	1,707,017	77,484,785	11,221,848	11,716,167	24,396,327	2,905,394	-	129,431,538
Interest sensitivity gap	2,573,049	15,270,109	(13,678,653)	1,005,815	(6,339,256)	(4,851,012)	30,080,556	20,073,493	44,134,101
KHR'000 equivalent (Note 2.1.5)	10,387,399	61,645,430	(55,220,721)	4,060,473	(25,591,576)	(19,583,535)	121,435,205	81,036,691	178,169,366

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at and for the year ended 31 December 2016

25. FINANCIAL RISK MANAGEMENT (continued)

25.4 Market risk (continued)

Interest rate risk (continued)

	Overdue US\$	Non-interest bearing US\$	Interest re-pricing period					Total US\$
			Less than 1 month US\$	1 to 3 months US\$	3 to 6 months US\$	6 to 12 months US\$	1 to 5 years US\$	
2015								
Financial assets								
Cash and gold	-	4,251,688	-	-	-	-	-	4,251,688
Balances with the NBC	-	-	18,181,507	-	-	-	-	18,181,507
Due from other financial institutions	-	1,963,994	24,119,130	-	-	-	-	26,083,124
Loans and advances to customers - gross	2,134,643	-	4,487,491	14,496,036	18,915,871	21,582,676	38,609,720	110,367,126
Investments in securities	-	25,000	-	-	-	-	-	25,000
Other assets	-	3,264,349	-	-	-	-	-	3,264,349
Total discounted financial assets	2,134,643	9,505,031	46,788,128	14,496,036	18,915,871	21,582,676	38,609,720	162,172,794
Financial liabilities								
Due to other financial institutions	-	43,546,733	6,199,799	7,000,000	4,000,000	4,000,000	-	64,746,532
Due to customers	-	16,697,552	7,572,403	5,916,426	4,281,021	17,689,883	1,072,762	53,230,047
Other liabilities	-	1,392,254	-	-	-	-	-	1,392,254
Total discounted financial liabilities	-	61,636,539	13,772,202	12,916,426	8,281,021	21,689,883	1,072,762	119,368,833
Interest sensitivity gap	2,134,643	(52,131,508)	33,015,926	1,579,610	10,634,850	(107,207)	37,536,958	42,803,961
KHR'000 equivalent (Note 2.1.5)	8,645,304	(211,132,608)	133,714,499	6,397,421	43,071,143	(434,188)	152,024,680	173,356,041

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at and for the year ended 31 December 2016

25. FINANCIAL RISK MANAGEMENT (continued)

25.4 Market risk (continued)

Currency risk

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

The Bank was incorporated and is operating in Cambodia, and USD is the reporting currency. The major currency in which the Bank transacts is also USD. However, some transactions were denominated in KHR, EUR and other foreign currencies. The Bank's management has set limits to control the positions of the currencies. Positions are monitored on a daily basis and hedging strategies are used to ensure positions of the currencies are maintained within established limits.

Assets and liabilities denominated in other currencies which were translated into USD were as follows:

	KHR equivalent to US\$	EUR equivalent to US\$	Other foreign currencies equivalent to US\$	Total US\$
2016				
Financial assets				
Cash and gold	128,533	76,471	368,825	573,829
Balances with the NBC	658,419	-	-	658,419
Due from other financial institutions	2,750	71,097	294,926	368,773
Total financial assets	789,702	147,568	663,751	1,601,021
Financial liabilities				
Due to other financial institutions	-	84,811	239,083	323,894
Due to customers	221,823	232	264,266	486,321
Other liabilities	383	-	1	384
Total financial liabilities	222,206	85,043	503,350	810,599
Foreign exchange position on-balance-sheet	567,496	62,525	160,401	790,422
KHR'000 equivalent (Note 2.1.5)	2,290,981	252,413	647,539	3,190,933

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at and for the year ended 31 December 2016

25. FINANCIAL RISK MANAGEMENT (continued)

25.4 Market risk (continued)

Currency risk (continued)

	KHR equivalent to US\$	EUR equivalent to US\$	Other foreign currencies equivalent to US\$	Total US\$
2015				
Financial assets				
Cash and gold	179,002	51,164	329,573	559,739
Balances with the NBC	38,642	-	-	38,642
Due from other financial institutions	2,455	179,832	332,044	514,331
Total financial assets	220,099	230,996	661,617	1,112,712
Financial liabilities				
Due to other financial institutions	-	156,833	226,436	383,269
Due to customers	152,574	246	342,693	495,513
Other liabilities	1,444	42,911	29,274	73,629
Total financial liabilities	154,018	199,990	598,403	952,411
Foreign exchange position on-balance-sheet	66,081	31,006	63,214	160,301
KHR'000 equivalent (Note 2.1.5)	267,628	125,574	256,017	649,219

25.5 Fair value 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.

25.6 Capital management

25.6.1 Regulatory capital

The Bank's lead regulator, the NBC, sets and monitors capital requirements for the Bank as a whole. The Bank's policy is to maintain a strong capital base so as to maintain market confidence and to sustain further development of the business.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at and for the year ended 31 December 2016

25. FINANCIAL RISK MANAGEMENT (continued)

25.6 Capital management (continued)

25.6.1 Regulatory capital (continued)

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

	2016 (unaudited)		2015 (unaudited)	
	US\$	KHR'000	US\$	KHR'000
Tier I capital	41,815,108	168,807,591	40,750,748	165,040,529
Tier II capital	1,081,465	4,365,874	1,057,340	4,282,227
Net worth	42,896,573	173,173,465	41,808,088	169,322,756
Total risk-weighted assets	128,703,182	519,574,745	137,875,662	558,396,433
Solvency ratio	33.33%	33.33%	30.32%	30.32%

25.6.2 Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital.

26. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

27. SUBSEQUENT EVENTS

On 12 April 2017, the Bank sent Official Letter to the National Bank of Cambodia (NBC) to seek for approval of collections of the principals of some loans from certain mining customers within three years starting at the end of 2018 and classification of these loans as Standard (Group 1). At the date of these financial statements, the Bank has not yet received the approval from the NBC.

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