

BRED
BANK

CAMBODIA

Start
WITH BRED
Grow
WITH BRED

ANNUAL REPORT 2017





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MESSAGE FROM THE CEO

GUILLAUME CLAUDE PERDON

Chief Executive Officer of BRED Bank (Cambodia) plc.



ECONOMIC OUTLOOK

The stability of Cambodia's economic growth and its development over the past two decades have made the Kingdom an attractive market for foreign investors. That is why BRED Bank (Cambodia) Plc. ("the Bank") was established on 10 January 2017 and commenced banking operations on 2nd of March 2017 with an aim to scale up growth in financial sectors.

While the economy continues to expand rapidly in Cambodia, real GDP growth decreased to 6.8% in 2017 from 7% in 2016. Cambodia is therefore slightly not following the regional trend as most developing countries in East Asia experienced a growth acceleration in 2017. The key sectors driving the growth are the garment industry, agriculture, tourism, trading, manufacturing and construction. An expected 6.9% growth in 2018 is projected to remain robust.

Large foreign direct investment inflows and rising public investment in infrastructure are expected to help expand the productive capacity of the economy. This, together with several structural reforms designed primarily to boost Cambodia's external competitiveness, could help speed up growth momentum on a longer-term basis.

Rapid credit expansion during the last few years has propelled outstanding credit provided by the banking sector to reach over 100% of GDP. The financial sector has played an increasingly larger role in supporting growth. In other words, the financial and banking sector policies have now become an important tool for macroeconomic management.

PERFORMANCE

Less than a year after obtaining license from the National Bank of Cambodia, our loans and deposits have respectively reached US\$49.9 million and US\$46.2 million. We have offered a full range of products and services for all type of customers. We serve more than 1,000 clients in total, with 150 key business customers. Our customers belong to a wide range of sectors including agriculture, import-export operations and manufacturing. With the financial result of end of year 2017, 31 December, we are confident that the Bank will continue further momentum and sustain growth in the years ahead.

MESSAGE FROM THE CEO (CONTINUED)

PERFORMANCE (CONTINUED)

Our focus, driven by innovation and quality, is to stay committed to customer service and value delivery to our customers. We differentiate ourselves in the market with the quality of our services. For example, we are the first bank to open seven days a week from 8am to 8pm. With a rapid penetration into the market, we have already set up 9 ATMs and plan to increase the number to 50 within three years.

Our vision of banking is based on a long-term win-win relationship between the customers and the Bank where trust is essential; the trust of our customers, regulators, communities and staffs is paramount. We adopt a “Banking Without Distance” approach of BRED. This approach is our promise to customers of a global model of proximity through a targeted physical network and through digital solutions. This relationship model is built on being able to find appropriate and tailored solutions on a long term basis to meet all the needs of our customers, in every concrete situation they encounter and at every phase of their lives or their businesses. This development strategy is backed up by a sustainable program of investment.

CLOSING

We remain confident in the prospects of 2018. Despite growing competition in the banking sector in Cambodia, our strong financial base, well-equipped technology, efforts on the quality of our services, continuous development of our people and our attractive marketing campaigns, provide a strong foundation for the Bank to achieve steady growth. Finally, we thank our first customers for their support and for being our business partners.

Start with BRED, Grow with BRED.



Guillaume Claude Perdon
Chief Executive Officer
29 June 2018



ABOUT BRED BANK (CAMBODIA) PLC.

THE BANK

BRED Bank (Cambodia) Plc. (“the Bank”) is 100% owned by BRED Banque Populaire (“BRED”), a French regional cooperative bank incorporated under the laws of France. The Bank was incorporated in Cambodia under the registration number 00002982, issued by the Ministry of Commerce on 1st of April 2016. The Bank obtained its license to conduct banking operations from the National Bank of Cambodia (“NBC”) on 10 January 2017 and commenced operations on the 2nd of March 2017.

The Bank’s registered office is located at 30 Norodom Boulevard, Sangkat Phsar Thmey 3, Khan Daun Penh, Phnom Penh, Kingdom of Cambodia. It employs 89 employees as of 31st of December 2017 (with 58 employees in 2016).

THE GROUP

BRED is a member of the Banque Populaire group of cooperative banks. It consists of 180,000 cooperative members, owns €4.1 billion of equity capital, and employs 5,500 employees, 25% of whom are located outside France or in the French overseas territories. Its core business is commercial banking in France through its regional operation in Greater Paris, Seine-et-Marne/ Aisne, Normandy, Reunion Island, Mayotte, Guadeloupe, the Northern Islands, Martinique and French Guiana. Being a bank committed to its communities, its French network comprises 343 local branches, 17 business centres, 13 asset management centres and a wealth management division. It maintains long-term relationships with more than one million clients.

In 2017, BRED recorded a consolidated Net Banking Income (NBI) of €1,152 million (+5.2%). Commercial banking in France continued its growth, with a 4% increase in NBI in spite of a highly competitive environment and an unfavorable interest rate curve, accounting for two-thirds of total NBI growth.

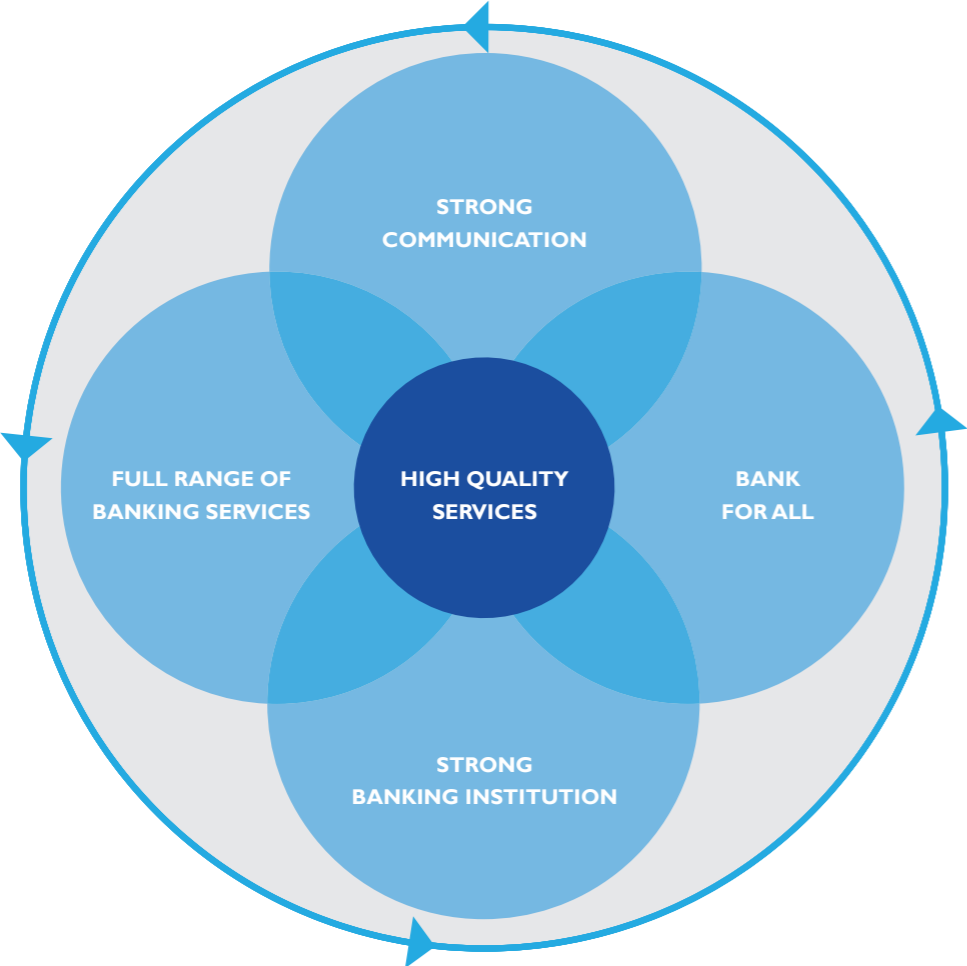
BRED Banque Populaire, as an entity of the BPCE Group, is engaged in a range of diversified businesses – retail banking, corporate and institutional banking, private banking, international banking, asset management, securities trading, insurance services and international trade. It also carries out its commercial banking business through its banking subsidiaries in Southeast Asia, the Pacific and the Horn of Africa.

BPCE Group is the 2nd largest banking group in France, serving more than 31.2 million customers, employing more than 100,000 people worldwide, and counting 9 million cooperative shareholders. BPCE Group has an A/A+ rating, and is one of the banks with the highest international standards.



OUR STRATEGY

Our strategy is to be a leading bank in the next 10 years by providing a high quality banking experience to our customers with a full range of banking services for all following the international standards.

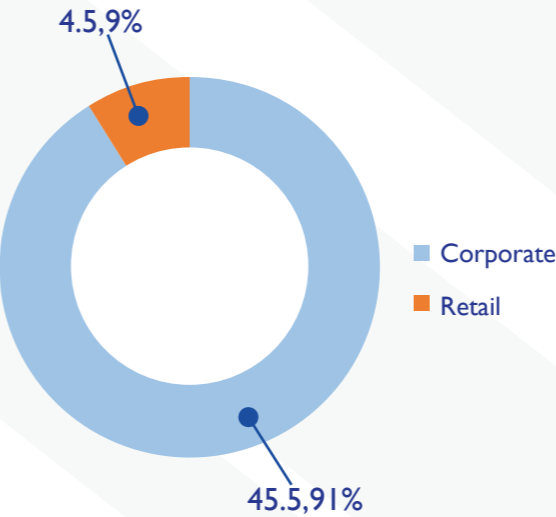


Towards high quality services, we're are committed to	
Streamlined processes	<ul style="list-style-type: none">• Be fast in making decisions• Continuously innovate our processes• Move toward digitalization (online, remote channel,..)
Customer relationship	<ul style="list-style-type: none">• Commit ourselves to transparency• Ensure fair pricing• Hold on mechanism for resolution• Provide best banking experience and appoint a dedicated point of contact for each customer• Promote employees' ethical behaviors
Branch network	<ul style="list-style-type: none">• Develop sufficient physical branch network• Set up queuing management/express lanes• Extend operational hours• Locate our branches at a convenient and accessible areas• Dedicated areas (VIP, Business, Private banking)
Remote access	<ul style="list-style-type: none">• Respond quickly to customer through hotline, call center or chat• Live information through website, Facebook, and SMS• Provide intuitive customer experience on online banking and mobile App• Innovate new products such as mobile wallet and agent banking

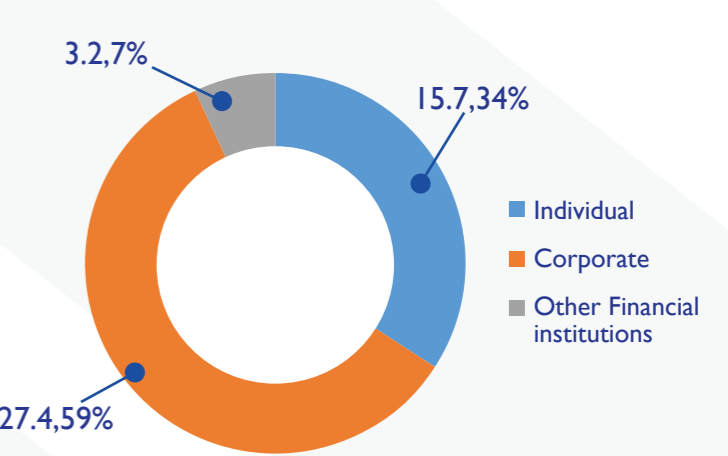
FINANCIAL HIGHLIGHT

	2017 US\$	2016 US\$
Balance Sheet		
Deposits from customers	46,256,411	-
Loans and advances - net	49,421,700	-
Equity	46,953,391	28,423,121
Total assets	96,668,036	32,725,150
Income statement		
Net interest income	1,124,023	-
Net fee & commission	148,651	-
General information		
Branch	1	1
Staff	89	58
ATMs	9	-
Depositors	763	-
Borrowers	125	-
Number of issued cards	554	-

GROSS LOANS
IN USD MILLIONS



GROSS DEPOSITS
IN USD MILLIONS



ACHIEVEMENT IN 2017



LICENSES

The Bank was incorporated in Cambodia on 1st of April 2016 and obtained banking license from the National Bank of Cambodia on 10 January 2017 with the commencement of operations on the same date.



ATM

The Bank is fast and efficient to deliver easy access to customers. By end of 2017, 9 ATMs were installed and located both on and off sites in Phnom Penh, and are operating 24 hours a day and 7 days a week.



INTERNET BANKING

We introduced Internet Banking in July 2017 helping our customers to access their accounts any time and perform various banking transactions after office hours. It is secure, simple and easy to operate.



VISA DEBIT

In September 2017, we launched Visa Debit. To enhance security in transactions through Visa card, 3D Secure was added into the feature of Visa. With BRED Bank Platinum Visa Debit card customers have access to many promotions with commercial partners.



MOBILE APP

We launched Mobile Apps (App Store and Google Play) in November 2017. Customers can access internet banking through mobile when needed. The Mobile Apps provide all the range of services available on the Bank Internet Banking.

2018 DEVELOPMENT



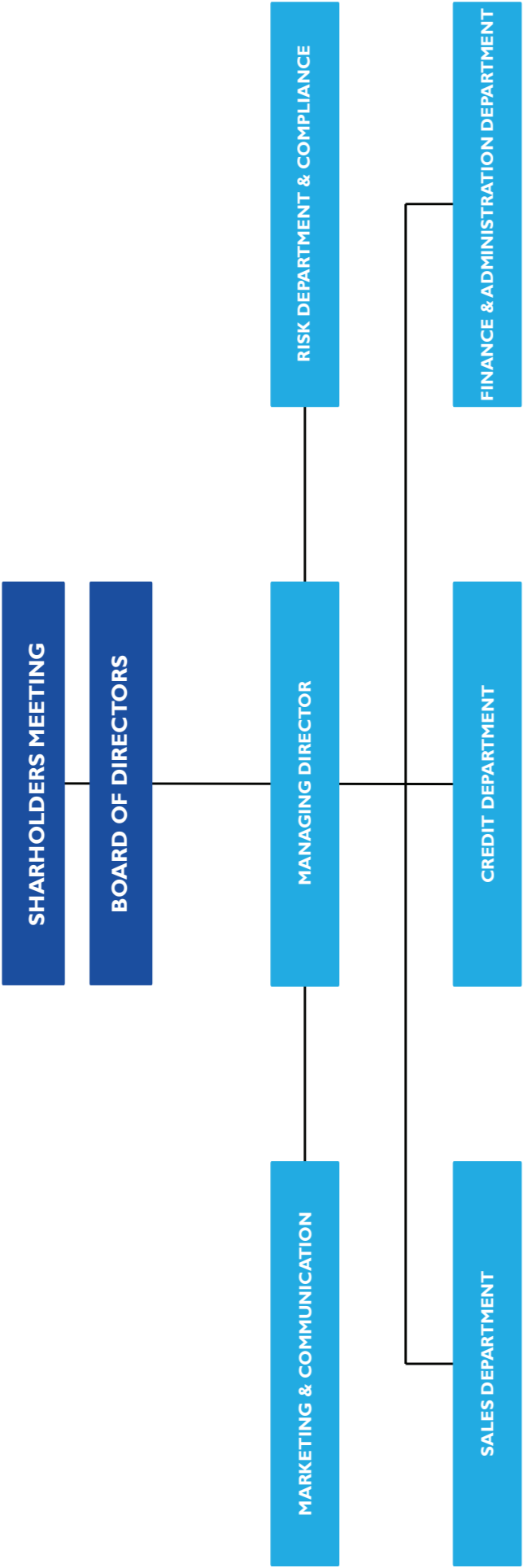
Convenient and quick access of our customers to their funds is very crucial to us. We will set up more ATMs in 2018 along with our branches expansion in Phnom Penh and the provinces. We plan to increase up to 50 the number of ATMs by end of 2019.

By end of 2018, we plan to establish three branches in Phnom Penh (Toul Kork, Mao Tse Tung, and Olympic Stadium) and two branches in two provinces (Siem Reap, Battambang) with the increase in number of up to 170 employees.

We are investing in digital technology through the Mobile App and improving our Internet Banking features. We ensure that we are continuing to innovate our products, provide solutions and deliver the desirable services to our customers.

We also plan to offer non-financial services to support our customers (coaching and training of our customers on accounting, management and control systems, finance and marketing strategies).

ORGANIZATIONAL CHART



CORPORATE GOVERNANCE

I. THE BOARD OF DIRECTORS

The roles and responsibilities of the Board of Directors are set out in the Memorandum and Article of Associations and broadly defined as follows:

- The Board is responsible for determining the strategy of the Bank and for supervising the conduct of its business and affairs. The Board shall act in the best interest of the Bank;
- Appoint and remove officers and/or managers for the day-to-day management of the Bank and determine the specific powers for such officers and/or managers;
- Set the salaries and other compensation for officers and/or managers of the Banks;
- Propose the salary or other compensation for all directors and submit such proposal to the shareholders for approval;
- Issue notes, bonds, debentures and other forms of debt and the terms of such instruments;
- Propose to the shareholders amendments to the MAA;
- Propose to the shareholders the increase or decrease of the capital;
- Propose to the shareholders an agreement of merger or consolidation between the Bank and any other person;
- Propose to the shareholders the sale of all or a major part of the Bank's assets;
- Propose to the shareholders the dissolution or liquidation of the Bank;
- Declare dividends in accordance with accounting principles and the terms of payment of each class of shares entitled to receive dividends;
- Issue shares in the Bank to the extent permitted under the MAA and in accordance with the laws of Cambodia;
- Borrow money on behalf of the Bank;
- Issue, reissue or sell securities in the Bank;
- Give a guarantee on behalf of the Bank;
- Mortgage, hypothecate, pledge or otherwise create a security interest in any or all property of the Bank to secure any obligation of the Bank; and
- Prepare financial statements each fiscal year (defined below) for submission to the shareholders for approval.

The member of the Board of Directors during the financial year and at the date of this report are:

Mr.Thierry Moreau	Chairman
Mr. Olivier Jean Klein	Director
Mr. Stéphane Mangiavacca	Director
Mr. Bernard Ramanantsoa	Independent Director
Mr. Guillaume MASSIN	Independent Director
Mr. Guillaume Claude Perdon	Director and Chief Executive Officer

CORPORATE GOVERNANCE (CONTINUED)

II. AUDIT COMMITTEE

The roles and responsibilities of the Audit Committee is to ensure that management properly develops and adheres to a sound system of internal controls, that procedures are in place to objectively assess management's practices and internal controls, and that the outside auditors, through their own review, objectively assess the Company's financial reporting practices. The Audit Committee during the financial year and at the date of this report are:

Mr. Bernard Ramanantsoa	Acting chairman
Mr. Sébastien Jaseph Louis Nahon	Member
Mr. Stéphane Mangiavacca	Member

III. RISK MANAGEMENT COMMITTEE

The roles and responsibilities of Risk Management Committee is to oversee policies and set risk management activities and provide communication to the Board. The Risk Management Committee during the financial year and at the date of this report are:

Mr. Bernard Ramanantsoa	Acting chairman
Mr. Sébastien Jaseph Louis Nahon	Member
Mr. Stéphane Mangiavacca	Member



BRED BANK (CAMBODIA) PLC.

AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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CORPORATE INFORMATION

BANK	BRED Bank (Cambodia) Plc.	
REGISTRATION NO.	00002982	
REGISTERED OFFICE	No. 30 Norodom Boulevard, Sangkat Phsar Thmey 3, Khan Daun Penh, Phnom Penh, Kingdom of Cambodia	
SHAREHOLDER	BRED Banque Populaire (“BRED”)	
BOARD OF DIRECTORS	Thierry Moreau	Chairman (Appointed on 14 May 2018)
	Sébastien Joseph Louis Nahon	Chairman (Resigned on 14 May 2018)
	Olivier Jean Klein	Director
	Stéphane Mangiavacca	Director
	Bernard Ramanantsoa	Independent Director (Appointed on 26 January 2017)
	Jean-Christophe LEVENS	Independent Director (Resigned on 26 January 2017)
	Guillaume MASSIN	Independent Director (Appointed on 30 June 2017)
	Guillaume Claude Perdon	Director and Chief Executive Officer
MANAGEMENT TEAM	Guillaume Claude Perdon	Chief Executive Officer
	Anne-Laure Seidou	Chief Finance Officer
	Kamal Benchabane	Chief Risk & Compliance Officer
	Sandra Boinon	Business Development Manager
	Marion Quintin	Senior Credit Manager - Fast Track
	Min Sopha	Head of Commercial Banking
	Chhay Huoy	Senior Credit Manager
PRINCIPAL BANKERS	Kunthea Meas	Head of Network
	BRED Banque Populaire Wells Fargo Bank	
AUDITORS	KPMG Cambodia Ltd	



REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their report together with the audited financial statements of BRED Bank (Cambodia) PLC. (“the Bank”) for the year ended 31 December 2017.

PRINCIPAL ACTIVITY

The Bank is principally engaged in all aspects of banking business and the provision of related financial services in the Kingdom of Cambodia.

There were no significant changes to this principal activity during the year.

FINANCIAL RESULTS

The financial results of the Bank for the year ended 31 December 2017 were as follows:

	Year ended 31 December 2017		Period from 1 April 2016 (date of incorporation) to 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
		(Note 4)		(Note 4)
Loss before income tax	(3,954,299)	(15,963,504)	(1,576,879)	(6,365,860)
Income tax expense	(15,431)	(62,295)	-	-
Net loss for the year/period	(3,969,730)	(16,025,799)	(1,576,879)	(6,365,860)

DIVIDENDS

No dividend was declared or paid and the Directors do not recommend any dividend to be paid for the year.

SHARE CAPITAL

On 28 October 2016, the Board of Directors approved to increase share capital from US\$30,000,000 to US\$75,000,000 of which half of the incremental amount of US\$22,500,000 was paid in March 2017 and the remaining of US\$22,500,000 was paid by 22 March 2018.

On 13 December 2016, the Bank submitted a request letter to the NBC to increase its share capital from US\$30,000,000 to US\$52,500,000. The Bank received the approval from the NBC on 28 April 2017.

On 16 January 2018, the Bank sent a request letter to the NBC to inform about the Bank's intention to sell 30% of share, equivalent to US\$22,500,000, to two new intended shareholders, the International Finance Corporation and the Asian Development Bank. This request was approved by the NBC on 20 March 2018.

On 21 March 2018, the BRED Banque Populaire, the existing shareholder, injected another US\$22,500,000 to the Bank's account. On 22 March 2018, the Bank submitted a request letter to the NBC to increase this last instalment of share capital to meet the minimum capital requirement. The request was approved by the NBC on 11 April 2018.

RESERVES AND PROVISIONS

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

BAD AND DOUBTFUL LOANS

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

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

CURRENT ASSETS

Before the financial statements of the Bank were prepared, the Directors took reasonable steps to ensure that any current assets, other than debts, which were unlikely to be realised in the ordinary course of business at their value as shown in the accounting records of the Bank have been written down to an amount which they might be expected to realise.

At the date of this report, the Directors are not aware of any circumstances, which would render the values attributed to the current assets in the financial statements of the Bank misleading.

VALUATION METHODS

At the date of this report, the Directors are not aware of any circumstances which have arisen which render adherence to the existing method of valuation of assets and liabilities in the financial statements of the Bank misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

- At the date of this report, there does not exist:
- (a) any charge on the assets of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person, or
 - (b) any contingent liability in respect of the Bank that has arisen since the end of the financial year other than in the ordinary courses of banking business.

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF UNUSUAL NATURE

The results of the operations of the Bank for the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

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

EVENTS SINCE THE REPORTING DATE

At the date of this report, except as disclosed in the financial statements, there have been no significant events occurring after the reporting date which would require adjustments or disclosures to be made in the financial statements.

DIRECTORS

The Directors who served since the date of the last report are:

Thierry Moreau	Chairman (Appointed on 14 May 2018)
Sébastien Joseph Louis Nahon	Chairman (Resigned on 14 May 2018)
Olivier Jean Klein	Director
Stéphane Mangiavacca	Director
Bernard Ramanantsoa	Independent Director (Appointed on 26 January 2017)
Jean-Christophe Levens	Independent Director (Resigned on 26 January 2017)
Guillaume Massin	Independent Director (Appointed on 30 June 2017)
Guillaume Claude Perdon	Director and Chief Executive Officer

DIRECTORS' INTERESTS

None of the Directors held or dealt directly in the shares of the Bank during the financial year.

DIRECTORS' BENEFITS

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

Since the end of the previous financial year, no Director of the Bank has received or become entitled to receive any benefit (other than a benefit included in the aggregate amount of emoluments receivable by the Directors as disclosed in the financial statements) by reason of a contract made by the Bank or a related corporation with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest other than as disclosed in the financial statements.

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Board of Directors is responsible for ascertaining that the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended. In preparing these financial statements, the Board of Directors is required to:

- i. adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- ii. comply with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements or, if there have been any departures in the interest of true and fair presentation, ensure that these have been appropriately disclosed, explained and quantified in the financial statements;
- iii. oversee the Bank's financial reporting process and maintain adequate accounting records and an effective system of internal controls;
- iv. assess 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 Directors either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so; and
- v. control and direct effectively the Bank in all material decisions affecting the operations and performance and ascertain that such have been properly reflected in the financial statements.

The Board of Directors confirms that they have complied with the above requirements in preparing the financial statements.

APPROVAL OF THE FINANCIAL STATEMENTS

I hereby approve the accompanying financial statements as set out on pages 20 to 56 which present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended, in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements.

Signed in accordance with a resolution of the Board of Directors,



Guillaume Claude Perdon
Director and Chief Executive Officer
Phnom Penh, Kingdom of Cambodia
Date: 29 May 2018



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REPORT OF THE INDEPENDENT AUDITORS TO THE SHAREHOLDER BRED BANK (CAMBODIA) PLC.

OPINION

We have audited the financial statements of BRED Bank (Cambodia) Plc., which comprise the balance sheet as at 31 December 2017, the income statement, the statements of changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out on pages 24 to 56.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with Cambodian Accounting Standards and guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements.

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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in Cambodia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OTHER INFORMATION

Management is responsible for the other information. The other information obtained at the date of this auditors' report is the report of the Directors on pages 13 to 16, and the annual report, which is expected to be made available to us after that date.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the 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.

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the 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.



AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

For **KPMG Cambodia Ltd**



Nge Huy

Partner

Phnom Penh, Kingdom of Cambodia

29 May 2018

BALANCE SHEET

AS AT 31 DECEMBER 2017

		As at 31 December 2017		As at 31 December 2016	
	Note	US\$	KHR'000	US\$	KHR'000
			(Note 4)		(Note 4)
ASSETS					
Cash on hand	5	2,830,617	11,427,201	-	-
Deposits and placements with financial institutions	6	6,371,045	25,719,909	-	-
Balance with the National Bank of Cambodia	7	23,017,701	92,922,459	27,000,000	108,999,000
Loans and advances - net	8	49,421,700	199,515,403	-	-
Statutory deposits	9	10,763,624	43,452,750	3,000,000	12,111,000
Other assets	10	1,343,806	5,424,945	56,728	229,011
Intangible assets	11	1,526,114	6,160,922	49,835	201,184
Property and equipment	12	1,393,429	5,625,273	2,618,587	10,571,236
TOTAL ASSETS		96,668,036	390,248,862	32,725,150	132,111,431
LIABILITIES AND SHAREHOLDER'S EQUITY					
Liabilities					
Deposits from customers	13	46,256,411	186,737,131	-	-
Amount due to related parties	25	2,338,505	9,440,545	4,116,100	16,616,696
Other liabilities	15	1,119,729	4,520,345	185,929	750,595
Total liabilities		49,714,645	200,698,021	4,302,029	17,367,291
Shareholder's equity					
Share capital	16	52,500,000	211,942,500	30,000,000	121,110,000
Accumulated losses		(5,546,609)	(22,391,659)	(1,576,879)	(6,365,860)
Total shareholder's equity		46,953,391	189,550,841	28,423,121	114,744,140
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		96,668,036	390,248,862	32,725,150	132,111,431

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

		As at 31 December 2017		Period from 1 April 2016 (date of incorporation) to 31 December 2016	
	Note	US\$	KHR'000	US\$	KHR'000
			(Note 4)		(Note 4)
Interest income	17	1,590,354	6,420,259	-	-
Interest expense		(466,331)	(1,882,578)	-	-
Net interest income		1,124,023	4,537,681	-	-
Fee and commission income	18	298,263	1,204,088	-	-
Fee and commission expense	19	(149,612)	(603,984)	-	-
Personnel costs	20	(1,934,727)	(7,810,493)	(744,572)	(3,005,837)
Depreciation and amortisation	21	(532,327)	(2,149,004)	(49,339)	(199,181)
General and administrative expenses	22	(2,260,710)	(9,126,485)	(782,968)	(3,160,842)
Operating loss		(3,455,090)	(13,948,197)	(1,576,879)	(6,365,860)
Allowances for bad and doubtful loans and advances	8	(499,209)	(2,015,307)	-	-
Loss before income tax		(3,954,299)	(15,963,504)	(1,576,879)	(6,365,860)
Income tax expense	14(b)	(15,431)	(62,295)	-	-
Net loss for the year/period		(3,969,730)	(16,025,799)	(1,576,879)	(6,365,860)

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital	Accumulated losses	Total
	US\$	US\$	US\$
At 1 April 2016 (date of incorporation)	-	-	-
Issuance of share capital	30,000,000	-	30,000,000
Net loss for the period	-	(1,576,879)	(1,576,879)
At 31 December 2016	30,000,000	(1,576,879)	28,423,121
At 31 December 2016 (KHR'000 equivalents - Note 4)	121,110,000	(6,365,860)	114,744,140
At 1 January 2017	30,000,000	(1,576,879)	28,423,121
Issuance of share capital	22,500,000	-	22,500,000
Net loss for the year	-	(3,969,730)	(3,969,730)
At 31 December 2017	52,500,000	(5,546,609)	46,953,391
At 31 December 2017 (KHR'000 equivalents - Note 4)	211,942,500	(22,391,659)	189,550,841

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

		As at 31 December 2017	Period from 1 April 2016 (date of incorporation) to 31 December 2016	
	Note	US\$	KHR'000	
			(Note 4)	(Note 4)
Cash flows from operating activities				
Net cash used in operating activities	23	(8,733,728)	(35,258,060)	(1,398,339)
Cash flows from investing activities				
Statutory deposits		(7,763,624)	(31,341,750)	(3,000,000)
Purchase of property and equipment		(453,300)	(1,829,972)	(2,648,823)
Purchase of intangible assets		(331,085)	(1,336,590)	(68,938)
Proceeds from disposals of property and equipment		1,100	4,441	-
Net cash used in investing activities		(8,546,909)	(34,503,871)	(5,717,761)
Cash flows from financing activities				
Share capital issued		22,500,000	90,832,500	30,000,000
Funds received from a related party		-	-	4,116,100
Net cash generated from financing activities		22,500,000	90,832,500	34,116,100
Net increase in cash and cash equivalents		5,219,363	21,070,569	27,000,000
Cash and cash equivalents at beginning of year/period		27,000,000	108,999,000	-
Currency translation difference		-	-	-
Cash and cash equivalents at end of year/period (Note 24)		32,219,363	130,069,569	27,000,000
				108,999,000

I. ORGANISATION AND PRINCIPAL ACTIVITIES

BRED Bank (Cambodia) Plc. (“the Bank”) was incorporated in Cambodia under registration number 00002982 issued by the Ministry of Commerce on 1 April 2016.

The Bank obtained its license to conduct its banking operations from the National Bank of Cambodia (“NBC”) on 10 January 2017 and commenced operations on the same date.

The registered office is located at 30 Norodom Boulevard, Sangkat Phsar Thmey 3, Khan Daun Penh, Phnom Penh, Kingdom of Cambodia.

The immediate and ultimate parent bank is BRED Banque Populaire, a bank incorporated in France. The Bank had 89 employees as at 31 December 2017 (2016: 58 employees).

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia (“NBC”) relating to the preparation and presentation of financial statements.

(b) Basis of measurement

The financial statements of the Bank have been prepared on the historical cost basis.

(c) Functional and presentation currency

The national currency of Cambodia is the Khmer Riel (“KHR”). However, as the Bank transacts and maintains its accounting records primarily in United States Dollars (“US\$”), management have determined the US\$ to be the Bank’s functional and presentation currency as it reflects the economic substance of the underlying events and circumstances of the Bank.

Transactions in foreign currencies are translated into US\$ at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in currencies other than US\$ at the reporting date are translated into US\$ at the rates of exchange ruling at that date. Exchange differences arising on translation are recognised in the income statement.

The financial statements are presented in US\$, which is the Bank’s functional currency. All amounts have been rounded to the nearest dollars, unless otherwise indicated.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, and income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future periods affected.

3. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been adopted by the Bank in the preparation of these financial statements. These policies have been consistently applied to all the year presented, unless otherwise stated.

(a) Financial instruments

The Bank’s financial assets and liabilities include cash and cash equivalents, originated loans and receivables, other receivables, customers’ deposits and payables. The accounting policies for the recognition and measurement of these items are disclosed in the respective accounting policies.

(b) Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances, demand deposits and short-term highly liquid investments with 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.

(c) Loans and advances

All loans and advances to customers are stated in the balance sheet at the amount of principal, less any amounts written off, and allowance for bad and doubtful loans and advances. Loans and advances 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 the allowance for losses on loans and advances in the income statement. Loans and advances classified as substandard, doubtful or loss are considered non-performing loans.

(d) Allowance for bad and doubtful loans and advances

In compliance with NBC Guidelines, all loans to customers are classified according to the repayment capacity of the counterparty. This repayment capacity is assessed through past payment experience, financial condition of the borrower, business prospective and cash flow projections, borrowers’ ability and willingness to repay, financial environment, and quality of documentation.

In addition to the above qualitative information, the number of days past due is taken into account as follows:

Classification	Number of days past due	Allowance
Normal/standard	<30 days	1 %
Special mention	≥ 30 days – 90 days	3 %
Substandard	≥ 90 days – 180 days	20 %
Doubtful	≥ 180 days – 360 days	50 %
Loss	More than 360 days	100 %

In determining the above allowance, any collateral value other than cash deposits which has been pledged is disregarded except that, in the case of a loan classified as “loss”, all collateral may be utilised, at market values approved by the NBC.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Allowance for bad and doubtful loans and advances (continued)

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

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 judgement of the management there is no prospect of recovery.

Recoveries on loans previously written off and reversal of previous allowances are disclosed as other income in the income statement.

New NBC Credit Risk Grading and Provision on Impairment not yet adopted:

The NBC issued Prakas No. B7-017-344 dated 1 December 2017 on Credit Risk Grading and Provision on Impairment and Circular No. B7-018-001 dated 16 February 2018 on the Implementation of Prakas on Credit Risk Grading and Provision on Impairment, which require all banks and financial institutions ("Institution") to measure the impairment and provide sufficient allowance for bad and doubtful loans based on the new credit risk grading and provision as follows:

Classification	Number of days past due	Allowance
SHORT-TERM LOANS (LESS THAN OR EQUAL ONE YEAR):		
Normal/standard	<14 days	1 %
Special mention	15 days – 30 days	3 %
Substandard	31 days – 60 days	20 %
Doubtful	61 days – 90 days	50 %
Loss	≥ 91 days	100 %
LONG-TERM LOANS (MORE THAN ONE YEAR):		
Normal/standard	<30 days	1%
Special mention	≥ 30 days – 89 days	3%
Substandard	≥ 90 days – 179 days	20%
Doubtful	≥ 180 days – 359 days	50%
Loss	More than 359 days	100%

Based on Section I of the Circular No. B7-018-001, the Group and the Bank decided to adopt prospectively all requirements of Prakas No. B7-017-344 including the calculation of provision on impairment in its 2018 financial statements.

Management is assessing the potential impact on its financial statements resulting from the application of this new credit risk grading and provision on impairment.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Deposits and placements with financial institutions

Deposits and placements with financial institutions are stated at cost less allowance for any uncollectable amounts, if any.

(f) Other assets

Other assets are carried at cost. An estimate is made for doubtful receivables based on a review of outstanding amounts at the reporting date.

(g) Statutory deposits

Statutory deposits 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 NBC.

(h) Intangible assets

Intangible assets represent the computer software and website design. Intangible assets that are acquired by the Bank are stated at cost less accumulated amortisation and impairment losses, if any.

Amortisation is recognised in the income statement on a declining basis over the estimated useful lives of intangible assets at the rate of 20% and 50% respectively.

(i) Property and equipment

(i) Recognition and measurement

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 have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gains or losses on disposal of an item of property and equipment is recognised in income statement.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Property and equipment (continued)

(iii) Depreciation (continued)

The estimated useful lives of property and equipment are as follows:

Furniture and fixture	10% - 20%
Equipment	10%-20%
Computer equipment	20%
Motor vehicles	20%

Work in progress is not depreciated until such time as the items are completed and put into operational use. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(j) Impairment of assets

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimate future cash flows of that asset.

An impairment loss in respect of a financial asset is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

(ii) Non-financial assets

The carrying amounts of the non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(K) Deposits from customers

Deposits from customers are stated at placement value.

(l) Provisions

Provisions are recognised in the balance sheet when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(m) Income recognition

Interest income is recognised on an accrual basis. Interest income on deposits and placements with banks, overdrafts, term loans and other loans is recognised by reference to rest periods, which are either monthly or daily. Where an account becomes non-performing, the recording of interest is suspended until it is realised on a cash basis.

Income from the various activities of the Bank is accrued using the following basis:

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

(n) Interest expense

Interest expense on deposits from customers is recognised on an accruals basis.

(o) Operating leases

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

(p) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Income tax (continued)

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(q) 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.

Under the Cambodia Law on Banking and Financial Institutions, related parties include individuals who hold, directly or indirectly a minimum of 10% of the capital of the Bank or voting rights therefore, or who participates in the administration, direction, management, or the design and implementation of the internal controls of the Bank.

4. TRANSLATION OF UNITED STATES DOLLARS INTO KHMER RIEL

The financial statements are stated in United States Dollars. The translations of United States Dollars amounts into Khmer Riel are included solely for the compliance with the guidelines issued by the NBC regarding the preparation and presentation of financial statements and have been made using the prescribed official exchange rate of US \$1 to KHR4,037 (2016: US\$1 to KHR4,037) published by the NBC on 31 December 2017. These convenience translations should not be construed as representations that the United States Dollars amounts have been, could have been, or could in the future be, converted into Khmer Riel at this or any other rate of exchange.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

5. CASH ON HAND

	As at 31 December 2017	
	US\$	KHR'000
		(Note 4)
US Dollar	2,423,228	9,782,571
Euro	360,105	1,453,744
Khmer Riel	33,783	136,382
Thai Baht	13,501	54,504
	2,830,617	11,427,201

6. DEPOSITS AND PLACEMENTS WITH FINANCIAL INSTITUTIONS

	As at 31 December 2017	
	US\$	KHR'000
		(Note 4)
Current:		
Wells Fargo (*)	4,880,245	19,701,549
Bred Banque France	1,490,800	6,018,360
	6,371,045	25,719,909
(a) By currency:		
US Dollars	4,880,245	19,701,549
Euro	1,490,800	6,018,360
	6,371,045	25,719,909
(b) By relationship:		
Non-related parties	4,880,245	19,701,549
Related parties	1,490,800	6,018,360
	6,371,045	25,719,909

(*) The SWEEP account earns interest at 0.55% per annum in 2017.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

7. BALANCE WITH THE NATIONAL BANK OF CAMBODIA

	As at 31 December 2017		As at 31 December 2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Deposits and placements				
Khmer Riels	164,889	665,657	-	-
US Dollars	20,752,812	83,779,102	27,000,000	108,999,000
Negotiable Certificate Deposit ("NCD") with the NBC – US\$ (*)	2,100,000	8,477,700	-	-
	23,017,701	92,922,459	27,000,000	108,999,000

(*) This represents the Tradable Securities Subscription obtained from the NBC with interest rate of 1.00% per annum and three-month maturity which was expired 19 April 2018.

8. LOANS AND ADVANCES – NET

	As at 31 December 2017	
	US\$	KHR'000 (Note 4)
Microfinance Institution	7,500,000	30,277,500
Consumer loans	34,140,711	137,826,050
Overdrafts	4,290,427	17,320,454
Staff loans	603,264	2,435,377
Others	3,386,507	13,671,329
Gross loans and advances	49,920,909	201,530,710
Allowance for bad and doubtful loans and advances	(499,209)	(2,015,307)
Loans and advances- net	49,421,700	199,515,403

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

8. LOANS AND ADVANCES – NET (CONTINUED)

Movements of allowance for bad and doubtful loans and advances of the Bank were as follows:

	As at 31 December 2017	
	US\$	KHR'000 (Note 4)
At 1 January	-	-
Addition during the year	499,209	2,015,307
At 31 December	499,209	2,015,307

Loans and advances are analysed as follows:

	As at 31 December 2017	
	US\$	KHR'000 (Note 4)
(a) By maturity:		
1 to 3 months	10,885,106	43,943,173
3 to 12 months	9,404,544	37,966,144
1 to 3 years	3,952,008	15,954,256
3 to 5 years	7,662,856	30,934,950
More than 5 years	18,016,395	72,732,187
	49,920,909	201,530,710
(b) By industry:		
Commercial loan	33,678,485	135,960,044
Housing loan	3,382,464	13,655,007
Others	12,859,960	51,915,659
	49,920,909	201,530,710
(c) By currency:		
US Dollar	49,920,720	201,529,947
Euro	189	763
	49,920,909	201,530,710
(d) By residency status:		
US Dollar	49,920,905	201,530,693
Euro	4	17
	49,920,909	201,530,710
(e) By relationship:		
US Dollar	49,317,645	199,095,333
Euro	603,264	2,435,377
	49,920,909	201,530,710

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

8. LOANS AND ADVANCES – NET (CONTINUED)

	As at 31 December 2017	
	US\$	KHR'000 (Note 4)
(f) By performance:		
Standard loans		
Secured	48,845,829	197,190,610
Unsecured	1,075,080	4,340,100
	49,920,909	201,530,710
(g) By collaterals		
Real estate	36,597,347	147,743,490
Moveable property	502,999	2,030,607
No collateral	12,820,563	51,756,613
	49,920,909	201,530,710
(h) By exposure:		
Large exposures	15,905,855	64,211,936
Non large exposures	34,015,054	137,318,774
	49,920,909	201,530,710

A “large exposure” is defined under NBC Prakas as the overall gross exposure of the aggregate balance of loans and advances with one single beneficiary, which exceeds 10% of the Bank’s net worth. The exposure is the higher of the outstanding loans or commitments and the authorised loans or commitments.

	As at 31 December 2017	
(i) By interest rate (per annum)		
Consumer loans		
Staff loans	4.50% – 7.00%	
Loans to non-related parties	6.75 % – 18.00%	

9. STATUTORY DEPOSITS

	As at 31 December 2017		As at 31 December 2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Statutory deposits on:				
Minimum share capital	5,250,000	21,194,250	3,000,000	12,111,000
Customers’ deposits	5,513,624	22,258,500	-	-
	10,763,624	43,452,750	3,000,000	12,111,000

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

9. STATUTORY DEPOSITS (CONTINUED)

(i) Statutory deposit on minimum capital

This is a capital guarantee deposit of 10% of the registered capital under the Article I of the Prakas No. B7-01136 on Bank’s capital guarantee dated 15 October 2001. This capital guarantee which is placed with the National Bank of Cambodia in US\$, is refundable only when the Bank ceases its operations in Cambodia. The deposit earns interest at 1/4 LIBOR (six months) per annum.

(ii) Statutory deposit on customers’ deposits

This is a reserve requirement which fluctuates depending on the level of the Bank’s customers’ deposits. It is maintained in compliance with the National Bank of Cambodia’s Prakas No. B7-012-140 dated 27 September 2012 at the rates of 8% of customers’ deposits in KHR and 12.5% in currency other than KHR. The 4.5% of statutory deposit on customers’ deposits in currency other than KHR earns interest at 1/2 LIBOR (one month) while the remaining 8% and the statutory deposit on customers’ deposits in KHR do not earn interest.

10. OTHER ASSETS

	As at 31 December 2017		As at 31 December 2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Accrued interest receivables	251,903	1,016,932	-	-
Prepayments	1,056,442	4,264,856	29,240	118,042
Deposits	27,453	110,828	27,488	110,969
Others	8,008	32,329	-	-
	1,343,806	5,424,945	56,728	229,011

11. INTANGIBLE ASSETS

	Computer software	Website Design	Total	
	US\$	US\$	US\$	KHR'000
2017				
Cost				
At 1 January 2017	68,938	-	68,938	278,303
Additions	269,839	61,246	331,085	1,336,590
Transfer from property and equipment	1,462,492	-	1,462,492	5,904,080
At 31 December 2017	1,801,269	61,246	1,862,515	7,518,973
Less: Accumulated amortisation				
At 1 January 2017	19,103	-	19,103	77,119
Amortisation for the year	310,494	6,804	317,298	1,280,932
At 31 December 2017	329,597	6,804	336,401	1,358,051
Carrying amounts				
At 31 December 2017	1,471,672	54,442	1,526,114	6,160,922

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

11. INTANGIBLE ASSETS (CONTINUED)

	Computer software	
	US\$	KHR'000 (Note 4)
2016		
Cost		
At 1 April 2016 (date of incorporation)	-	-
Additions	68,938	278,303
At 31 December 2016	68,938	278,303
Less: Accumulated amortisation		
At 1 April 2016 (date of incorporation)	-	-
Amortisation for the year	19,103	77,119
At 31 December 2016	19,103	77,119
Carrying amounts		
At 31 December 2016	49,835	201,184

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

12. PROPERTY AND EQUIPMENT

	Furniture and fixture	Equipment	Computer equipment	Motor vehicles	Work in progress	Total	KHR'000 (Note 4)
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
2017							
Cost							
At 1 January 2017	12,787	720	59,440	189,429	2,386,447	2,648,823	10,693,298
Additions	2,255	109,116	70,387	159,505	112,037	453,300	1,829,972
Transfers	-	270,836	653,119	-	(2,386,447)	(1,462,492)	(5,904,080)
Disposals	-	-	-	(1,250)	-	(1,250)	(5,046)
At 31 December 2017	15,042	380,672	782,946	347,684	112,037	1,638,381	6,614,144
Less: Accumulated depreciation							
At 1 January 2017	916	108	6,524	22,688	-	30,236	122,062
Depreciation for the year	1,428	38,754	128,839	46,008	-	215,029	868,072
Disposals	-	-	-	(313)	-	(313)	(1,263)
At 31 December 2017	2,344	38,862	135,363	68,383	-	244,952	988,871
Carrying amounts							
At 31 December 2017	12,698	341,810	647,583	279,301	112,037	1,393,429	5,625,273

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

12. PROPERTY AND EQUIPMENT (CONTINUED)

	Furniture and fixture	Equipment	Computer equipment	Motor vehicles	Work in progress	Total	KHR'000 (Note 4)
	US\$	US\$	US\$	US\$	US\$	US\$	
2016							
Cost							
At 1 April 2016 (date of incorporation)	-	-	-	-	-	-	-
Additions	12,787	720	59,440	189,429	2,386,447	2,648,823	10,693,298
At 31 December 2016	12,787	720	59,440	189,429	2,386,447	2,648,823	10,693,298
Less: Accumulated depreciation							
At 1 April 2016 (date of incorporation)	-	-	-	-	-	-	-
Depreciation for the period	916	108	6,524	22,688	30,236	30,236	122,062
At 31 December 2016	916	108	6,524	22,688	-	30,236	122,062
Carrying amounts							
At 31 December 2016	11,871	612	52,916	166,741	2,386,447	2,618,587	10,571,236

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

13. DEPOSITS FROM CUSTOMERS

	As at 31 December 2017	
	US\$	KHR'000
		(Note 4)
Current account	11,477,908	46,336,315
Savings accounts	4,403,658	17,777,567
Fixed deposits	30,374,845	122,623,249
	46,256,411	186,737,131

Deposits from banks and non-bank customers are as follows:

	As at 31 December 2017	
	US\$	KHR'000
		(Note 4)
Financial institutions	3,154,250	12,733,707
Non-financial institution customers	43,102,161	174,003,424
	46,256,411	186,737,131

The above amounts are analysed as follows:

	As at 31 December 2017	
	US\$	KHR'000
		(Note 4)
(a) By maturity:		
Within 1 month	21,112,927	85,232,886
1 to 3 months	12,167,129	49,118,700
3 to 12 months	5,356,326	21,623,488
1 to 5 years	7,407,179	29,902,782
Over 5 years	212,850	859,275
	46,256,411	186,737,131
(b) By type of customers:		
Business enterprises	27,438,483	110,769,156
Individuals	15,663,678	63,234,268
Financial Institutions	3,154,250	12,733,707
	46,256,411	186,737,131

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

13. DEPOSITS FROM CUSTOMERS (CONTINUED)

	As at 31 December 2017	
	US\$	KHR'000 (Note 4)
(c) By relationship:		
External customers	44,922,474	181,352,028
Related parties (Note 25(b))	1,333,937	5,385,103
	46,256,411	186,737,131
(d) By residency status:		
Residents	38,608,799	155,863,722
Non-residents	7,647,612	30,873,409
	46,256,411	186,737,131
(e) By currency:		
US Dollar	44,594,521	180,028,081
EURO	1,420,149	5,733,142
Khmer Riel	241,310	974,168
Thai Bath	431	1,740
	46,256,411	186,737,131
(f) By interest rate (per annum):		
Current accounts	0.30% - 1.50%	
Saving accounts	0.30% - 1.50%	
Time deposits	0.25% - 6.60%	

14. INCOME TAX

(a) Provision for income tax

	As at 31 December 2017	
	US\$	KHR'000 (Note 4)
Balance at beginning of the year	-	-
Current income tax expense	15,431	62,295
Income tax paid	(15,431)	(62,295)
	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

14. INCOME TAX (CONTINUED)

(b) Current income tax expenses

	Year ended 31 December 2017	
	US\$	KHR'000 (Note 4)
Income tax paid	15,431	62,295

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

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

	Year ended 31 December 2017		Period from 1 April 2016 (date of incorporation) to 31 December 2016	
	US\$	US\$ (Note 4)	US\$	KHR'000 (Note 4)
Loss before income tax	(3,954,299)	(15,963,504)	(1,576,879)	(6,365,860)
Income tax using statutory rate	(790,860)	(3,192,702)	(315,376)	(1,273,173)
Non-deductible expenses	88,692	358,050	35,378	142,821
Deferred tax assets not recognised	77,514	312,924	279,998	1,130,352
Effect of tax losses not utilised	624,654	2,521,728	-	-
	-	-	-	-
Effect of minimum tax	15,431	62,295	-	-
Income tax expense	15,431	62,295	-	-

The calculation of income tax is subject to the review and assessment of the tax authorities.

(c) Unrecognised tax losses

Tax losses can be carried forward to offset against the taxable profits of subsequent years for up to five years from the year in which they were incurred. The actual amount of accumulated losses that can be carried forward is subject to the review and assessment of the tax authorities.

A deferred tax asset on the Bank's tax losses has not been recognised as it is not probable that future taxable profits will be available against which the benefit on tax losses can be utilised.

As at 31 December 2017, the Bank had unutilised tax losses that will expire in the following years.

Year of expiry	Status of tax review	US\$
Income tax paid	Open	3,123,272

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

15. OTHER LIABILITIES

	As at 31 December 2017		As at 31 December 2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Accrual interest payable	276,351	1,115,629	-	-
Accrued expenses	558,567	2,254,935	170,939	690,080
Tax payable	33,699	136,043	14,990	60,515
Others	251,112	1,013,738	-	-
	1,119,729	4,520,345	185,929	750,595

16. SHARE CAPITAL

	As at 31 December 2017		As at 31 December 2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Shares of US\$ 1,000 each:				
Issued and fully paid 52,500 shares	52,500,000	211,942,500	30,000,000	121,110,000

On 28 October 2016, the Board of Directors approved to increase share capital from US\$30,000,000 to US\$75,000,000 of which half of the incremental amount of US\$22,500,000 will be paid by end of March 2017 and the remaining of US\$22,500,000 was paid by 22 March 2018.

On 13 December 2016, the Bank submitted a request letter to the NBC to increase its share capital from US\$30,000,000 to US\$52,500,000. The Bank received the approval from the NBC on 28 April 2017.

On 16 January 2018, the Bank sent a request letter to the NBC to inform about the Bank's intention to sell 30% of share, equivalent to US\$22,500,000, to two new intended shareholders, the International Finance Corporation and the Asian Development Bank. This request was approved by the NBC on 20 March 2018.

On 21 March 2018, the BRED Banque Populaire, the existing shareholder, injected another US\$22,500,000 to the Bank's account. On 22 March 2018, the Bank submitted a request letter to the NBC to increase this last instalment of share capital to meet the minimum capital requirement. The request was approved by the NBC on 20 March 2018.

17. INTEREST INCOME

Interest income was made from the following sources:

	Year ended 31 December 2017	
	US\$	KHR'000 (Note 4)
Loans and advances	1,572,592	6,348,554
Balances with the National Bank of Cambodia	17,762	71,705
	1,590,354	6,420,259

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

18. FEE AND COMMISSION INCOME

	Year ended 31 December 2017	
	US\$	KHR'000 (Note 4)
Loans processing fees	160,965	649,816
Service fees and penalty charges	33,193	134,000
Remittance charges	76,720	309,719
Others	27,385	110,553
	298,263	1,204,088

19. FEE AND COMMISSION EXPENSE

	Year ended 31 December 2017	
	US\$	KHR'000 (Note 4)
Loans processing fees	74,199	299,541
Master and Visa card fees	32,291	130,359
Others	43,122	174,084
	149,612	603,984

20. PERSONNEL COSTS

	Year ended 31 December 2017		Period from 1 April 2016 (date of incorporation) to 31 December 2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Salaries and wages	1,331,723	5,376,166	496,442	2,004,136
Performance reward scheme	119,000	480,403	100,000	403,700
Medical benefits	29,024	117,170	19,681	79,452
Other benefits	454,980	1,836,754	128,449	518,549
	1,934,727	7,810,493	744,572	3,005,837

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

21. DEPRECIATION AND AMORTISATION

	Year ended 31 December 2017		Period from 1 April 2016 (date of incorporation) to 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
		(Note 4)		(Note 4)
Amortisation (Note 11)	317,298	1,280,932	19,103	77,119
Depreciation (Note 12)	215,029	868,072	30,236	122,062
	532,327	2,149,004	49,339	199,181

22. GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December 2017		Period from 1 April 2016 (date of incorporation) to 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
		(Note 4)		(Note 4)
Rental expense	547,778	2,211,380	40,397	163,083
Other tax expenses	388,179	1,567,079	155,074	626,034
Professional fee	341,836	1,379,992	296,693	1,197,750
Advertising expense	340,826	1,375,915	3,410	13,766
Transportation and accommodation cost	118,578	478,699	150,879	609,099
Licence and membership fee	99,836	403,038	3,565	14,392
Repairs and maintenance	99,632	402,214	2,314	9,341
Utilities expense	63,804	257,577	28,989	117,029
Communication expense	46,695	188,508	28,196	113,827
Office supplies	35,241	142,268	14,447	58,323
Miscellaneous expense	178,305	719,815	59,004	238,198
	2,260,710	9,126,485	782,968	3,160,842

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

23. NET CASH USED IN OPERATING ACTIVITIES

	Year ended 31 December 2017		Period from 1 April 2016 (date of incorporation) to 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
		(Note 4)		(Note 4)
Loss before income tax	(3,954,299)	(15,963,504)	(1,576,879)	(6,365,860)
Adjustments for:				
Amortisation	317,298	1,280,932	19,103	77,119
Depreciation	215,029	868,072	30,236	122,062
Interest income-net	(1,590,354)	(6,420,259)	-	-
Allowances for bad and doubtful Loans and advances	499,209	2,015,307	-	-
Interest expense	466,331	1,882,578	-	-
Gain on disposal of property and equipment	(163)	(660)	-	-
Cash used in operations	(4,046,949)	(16,337,534)	(1,527,540)	(6,166,679)
Changes in:				
Loans and advances	(49,920,909)	(201,530,710)	-	-
Other assets	(1,035,175)	(4,179,001)	(56,728)	(229,011)
Deposits from customers	46,256,411	186,737,131	-	-
Other liabilities	657,449	2,654,122	185,929	750,595
Amount due to related party	(1,777,595)	(7,176,151)	-	-
Net cash used in operations	(9,866,768)	(39,832,143)	(1,398,339)	(5,645,095)
Interest received	1,338,451	5,403,327	-	-
Interest paid	(189,980)	(766,949)	-	-
Income tax paid	(15,431)	(62,295)	-	-
Net cash used in operating activities	(8,733,728)	(35,258,060)	(1,398,339)	(5,645,095)

24. CASH AND CASH EQUIVALENTS

	As at 31 December 2017		As at 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
		(Note 4)		(Note 4)
Cash on hand (Note 5)	2,830,617	11,427,201	-	-
Deposits and placements with financial institutions	6,371,045	25,719,909	-	-
Balances with the National Bank of Cambodia	23,017,701	92,922,459	27,000,000	108,999,000
	32,219,363	130,069,569	27,000,000	108,999,000

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

25. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Transactions with related parties

	Year ended 31 December 2017		Period from 1 April 2016 (date of incorporation) to 31 December 2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
<i>Customer deposits:</i>				
Representative office of Compagnie Financiere de la BRED	1,275,942	5,150,978	4,116,100	16,616,696
BRD (Cambodia) Limited	57,995	234,126	-	-
<i>Rental expense</i>				
BRD (Cambodia) Limited	542,624	2,190,572	40,397	163,083
<i>Purchase of software</i>				
BRED IT	295,118	1,191,393	481,866	1,945,293
<i>Overdraft on Correspondent Account</i>				
Bred Banque Populaire	2,338,505	9,440,545	-	-

(b) Balances with related parties

	As at 31 December 2017		As at 31 December 2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
<i>Amount due to related party</i>				
Bred Bank Populaire	2,338,505	9,440,545	4,116,100	16,616,696
<i>Deposits from customers : (Note 13 (c))</i>				
Representative office of Compagnie Financiere de la BRED	1,275,942	5,150,978	-	-
BRD (Cambodia) Limited	57,995	234,125	-	-
	1,333,937	5,385,103	-	-

The amounts due to related parties are unsecured, interest free and have no fixed term of repayments.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

25. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

	Year ended 31 December 2017		Period from 1 April 2016 (date of incorporation) to 31 December 2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Salary and benefits	680,691	2,747,950	566,637	2,287,514

26. COMMITMENTS AND CONTINGENCIES

(a) Credit commitments

	As at 31 December 2017	
	US\$	KHR'000 (Note 4)
Unused portion of overdrafts	2,233,000	9,014,621
Undisbursed portion of loans and advances	50,000	201,850
	2,283,000	9,216,471
Letters of credit	528,091	2,131,904
Bank guarantees	2,211,172	8,926,500
	2,739,263	11,058,404

(b) Lease commitments

The Bank has operating lease commitments in respect of leasehold land and buildings as follows:

	2017		2016	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Within 1 year	596,616	2,408,539	492,000	1,986,204
Between 2 to 5 years	2,405,664	9,711,666	1,968,000	7,944,816
Over 5 years	2,395,340	9,669,988	2,378,000	9,599,986
	5,397,620	21,790,193	4,838,000	19,531,006

(c) Taxation contingencies

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. The application of tax laws and regulations to many types of transactions are susceptible to varying interpretations.

These facts may create tax risks in Cambodia substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects since the incorporation of the Bank could be significant.

27. FINANCIAL RISK MANAGEMENT

(a) Introduction and overview

The Bank has exposure to the following risks from financial instruments:

- operational risk
- credit risk
- market risk
- liquidity risk.

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

(b) Operational risk

Operational risk is the risk of direct or indirect loss arising from inadequate or failed internal processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The operational risk losses is managed through established operational risk management processes, proper monitoring and reporting of the business activities by control and support units which are independent of the business units and oversight provided by the senior management of the Bank.

The Bank's operational risk management entails the establishment of clear organisational structures, roles and control policies. Various internal control policies and measures have been implemented including the establishment of signing authorities, defining system parameters controls, streamlining procedures and documentation and compliance with regulatory and other legal requirements.

(c) Credit risk

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

The primary exposure to credit risk arises through its loans to customers. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. The lending activities are guided by the Bank's credit policy to ensure that the overall objectives in the area of lending are achieved; i.e., that the loans portfolio is strong and healthy and credit risks are well diversified. The credit policy documents the lending policy, collateral policy and credit approval processes and procedures implemented to ensure compliance with NBC Guidelines.

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

(i) Credit risk measurement

The Bank assesses the probability of default of individual counterparties by focusing on borrowers' forecast profit and cash flow.

(ii) Risk limit control and mitigation policies

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

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Credit risk (continued)

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

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

(iii) Impairment and provisioning policies

The Bank is required to follow the mandatory credit classification and provisioning in accordance with Prakas B7-09-074 dated 25 February 2009 on loan classification and provisioning. Refer to Note 3(d) for detail.

(iv) Exposure to credit risk

	As at 31 December 2017	
	US\$	KHR'000
		(Note 4)
Loans and advances		
Neither past due nor impaired	49,920,909	201,530,710
Allowance for doubtful loans and advances	(499,209)	(2,015,307)
	49,421,700	199,515,403

Impaired loans and advances

Individually impaired loans and advances are loans and advances for which the Bank determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loans and advances. In compliance with NBC Guidelines, an allowance for doubtful loans and advances is made for loans and advances with payment overdue more than 90 days. A minimum level of specific provision for impairment is made depending on the classification concerned, unless other information is available to substantiate the repayment capacity of the counterparty.

In determining the allowance, any collateral value other than cash deposits which has been pledged is disregarded except that, in the case of a loan classified as "loss" all collateral may be utilised, at market values approved by the NBC. Refer to separate accounting policy stated in Note 3(d).

Past due but not impaired loans and advances

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 NBC Guidelines such loans are classified as special mention with a specific provision of 3%.

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Credit risk (continued)

(iv) Exposure to credit risk (continued)

Loans with renegotiated terms/restructured loans

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

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

Write-off policy

In compliance with NBC Guidelines, the Bank shall remove a loan/advance or a portion of a loan from its balance sheet when the Bank loses control of the contractual rights over the loan or when all or part of a loan is deemed uncollectible; or there is no realistic prospect of recovery.

Collateral

The Bank holds collateral against loans and advances in the form of mortgage interests over property and/or guarantees. Estimates of fair value are based on the value of collateral assessed on an annual basis. There were no non-financial assets obtained by the Bank during the year by taking possession of collateral held as security against loans and advances. The repossessed properties have to be sold within one year as the required by the NBC Guidelines and are classified in the balance sheet as foreclosed property.

Concentration of credit risk

The analysis of concentrations of credit risk from loans and advances at the balance date is shown in Note 8 to the financial statements.

(d) Market risk

Market risk is the risk of loss arising from adverse movement in the level of market prices or rates, the two key components being foreign currency exchange risk and interest rate risk.

Market risk arising from the trading activities is controlled by marking to market the trading positions against their predetermined market risk limits.

(i) Foreign currency exchange risk

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

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

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2017. Included in the table are the financial instruments at carrying amount by currency in US\$ equivalent.

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk (continued)

(i) Foreign currency exchange risk (continued)

Concentration of currency risk

The amounts of assets and liabilities, by currency denomination, are as follows:

	US\$ equivalents				
	US\$	KHR	EUR	THB	TOTAL
As at 31 December 2017					
Financial assets					
Cash on hand	2,423,228	33,783	360,105	13,501	2,830,617
Balance with the NBC	22,852,812	164,889	-	-	23,017,701
Deposits and placements with financial institutions	4,880,245	-	1,490,800	-	6,371,045
Loans and advances	49,920,720	-	189	-	49,920,909
Other assets	259,911	-	-	-	259,911
Total financial assets	80,336,916	198,672	1,851,094	13,501	82,400,183
Financial liabilities					
Deposit from customers	44,594,521	241,310	1,420,149	431	46,256,411
Other liabilities	854,319	-	-	-	854,319
Total financial liabilities	45,448,840	241,310	1,420,149	431	47,110,730
Net asset/ (liability) position	34,888,076	(42,638)	430,945	13,070	35,289,453
KHR'000 equivalent (Note 4)	140,843,163	(172,130)	1,739,725	52,764	142,463,522

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk (continued)

(ii) Interest rate risk

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

An analysis of the interest rate risk pertaining to the Bank's assets and liabilities is disclosed below.

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

As at 31 December 2017	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest sensitive	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Financial assets							
Cash on hand	-	-	-	-	-	2,830,617	2,830,617
Balance with the nbc	2,100,000	-	-	-	-	20,917,701	23,017,701
Deposits and placements with financial institutions	6,371,045	-	-	-	-	-	6,371,045
Loans and advances	-	10,885,106	9,404,544	11,614,864	18,016,395	-	49,920,909
Other assets	-	-	-	-	-	259,911	259,911
	8,471,045	10,885,106	9,404,544	11,614,864	18,016,395	24,008,229	82,400,183
Financial liabilities							
Deposits from customers	21,112,927	12,167,129	5,356,326	7,407,179	212,850	-	46,256,411
Other liabilities	854,319	-	-	-	-	-	854,319
	21,967,246	12,167,129	5,356,326	7,407,179	212,850	-	47,110,730
Gaps	(13,496,201)	(1,282,023)	4,048,218	4,207,685	17,803,545	24,008,229	35,289,453
KHR'000 equivalent (Note 4)	(54,484,163)	(5,175,527)	16,342,656	16,986,424	71,872,911	96,921,220	142,463,522

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable-rate instruments

The Bank does not have significant variable-rate instruments. Therefore, no cash flow sensitivity analysis for variable-rate instruments was presented.

(e) Liquidity risk

(i) Liquidity risk management process

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 reviewing of the daily cash position and projections for the next day, week and month, as these are key years for liquidity management. Management monitors the movement of the main depositors and lenders and projections of their withdrawals.

(ii) Funding approach

The Bank's main sources of liquidity arise from the shareholders' paid-up capital, borrowings and customers' deposits. The sources of liquidity are reviewed regularly through management's review of the maturity of term deposits, key depositors, borrowings and subordinated debts.

(iii) Funding approach

The table on the following page presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on the expected undiscounted cash flows.

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Liquidity risk (continued)

As at 31 December 2017	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest sensitive	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Financial assets							
Cash on hand	-	-	-	-	-	2,830,617	2,830,617
Balance with the NBC	2,100,000	-	-	-	-	20,917,701	23,017,701
Balance with other banks	6,371,045	-	-	-	-	-	6,371,045
Loans to customers	-	10,885,106	9,404,544	11,614,864	18,016,395	-	49,920,909
Other assets	-	-	-	-	-	259,911	259,911
	8,471,045	10,885,106	9,404,544	11,614,864	18,016,395	24,008,229	82,400,183
Financial liabilities							
Deposits from customers	21,112,927	12,167,129	5,356,326	7,407,179	212,850	-	46,256,411
Other liabilities	854,319	-	-	-	-	-	854,319
	21,967,246	12,167,129	5,356,326	7,407,179	212,850	-	47,110,730
Gaps	(13,496,201)	(1,282,023)	4,048,218	4,207,685	17,803,545	24,008,229	35,289,453
KHR'000 equivalent (Note 4)	(54,484,163)	(5,175,527)	16,342,656	16,986,424	71,872,911	96,921,220	142,463,522

27. FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Capital management

(i) Regulatory capital

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the balance sheet, are:

- To comply with the capital requirements set by the NBC;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of the business. The NBC requires all the Banks to (i) fulfil the minimum capital requirements, and (ii) comply with solvency, liquidity and other requirements.

(ii) Capital allocation

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

28. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arms-length basis. As verifiable market prices are not available, market prices are not available for a significant proportion of the Bank's financial assets and liabilities. Fair values, therefore, have been based on management assumptions according to the profile of the asset and liability base. In the opinion of the management, the carrying amounts of the financial assets and liabilities included in the statement of financial position are a reasonable estimation of their fair values.



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