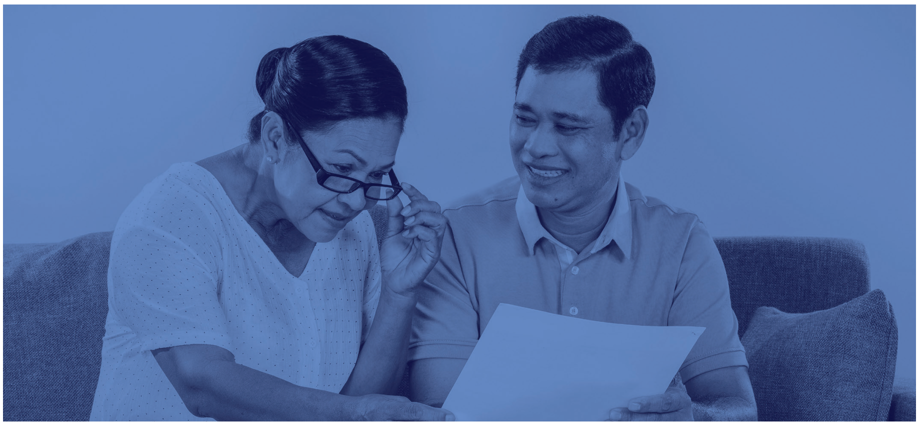
BRED Bank

Annual Report

2019



Published: June 2020

Contents

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 the overall development of the financial sector over the past two decades has made the Kingdom an attractive market for foreign investors. In this regard BRED Bank (Cambodia) Plc. ("the Bank") was established on January 10th, 2017 and started banking operations on March, 2nd 2017.

In 2019 the real growth remained robust to reach 7.1%, compared to 7.5% in 2018. The main drivers of the economic growth are the tourism, exports of garment agricultural products and the construction and real estate. While remaining strong, FDI inflows have slowed in 2019 to reach 10.8% of the GDP versus a record high of 13.4% of GDP in 2018. The economy is expected to grow at the same pace in 2020 but the global crisis brought by Covid-19 in early 2020 is likely to have a strong negative impact.

The financial sector is still growing rapidly in 2019 and the banking market remains highly competitive. The rapid credit expansion during the last few years has maintained in 2019 to reach a 25% growth, this growth being driven by the loan to real estate activities. The outstanding loan provided by the banking sector is reaching 100% of the deposits. In the meantime the total deposits are still growing at a similar pace, with a +19% in 2019. The financial sector is playing more than ever an increasingly role in supporting the economic growth of the country.

Performance

In this very competitive and quickly growing banking sector BRED Bank Cambodia remains a small and new player in 2019 even if the subsidiary of BRED Group is growing faster than the market. Less than three years after obtaining the commercial banking license from the National Bank of Cambodia, the market share of the lending portfolio of BRED Bank Cambodia is very close to 1% whereas the share of its customer's deposits is reaching 0.7% of the market.

The bank kept on enlarging the range of products and services to all segments of clients and is serving more than 5,300 clients in total including more than 400 business customers as of 2019. The business clients are belonging to a wide range of sectors including agriculture, import-export operations and manufacturing. The loan and deposit portfolio have respectively reached US$224 million and US$192 million as of 31/12/2019. The growth of the Bank activity and the overall 2019 financial performance is a clear signal that the breakeven point will be reached in the next coming months bringing the Bank to the path of profitability in the following years.

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 were the first bank to open seven days a week from 8am to 8pm. With a rapid penetration into the market, we already opened 6 branches and set up 41 ATMs and plan to increase to 50 next year. Our vision of banking is based on a long-term win-win relationship between 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 Group. 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 are confident in the prospects of 2020 for BRED Bank Cambodia. Despite growing competition in the banking sector in Cambodia, our well-equipped technology, efforts on the quality of our services, continuous development of our people and our branding strategy, will reinforce the strong foundations for the Bank to achieve its targets. More importantly in the early days of possible uncertainties coming from a new global crisis in 2020, the strong financial base of our Bank in Cambodia backed by one of the largest worldwide banking group will be a strong asset to face the future rising global economic issues. Finally, we would like to recognize our customers for their supports and partnering with us.

Start with BRED, Grow with BRED.

Guillaume Claude Perdon
Chief Executive Officer
28 June 2020

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 registration number 00002982 issued by the Ministry of Commerce on 1 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. The Bank had 193 employees as at 31 December 2019 (2018: 140 employees).

The Group

BRED is a member of the Banque Populaire group of cooperative banks. It consists of 200,000 cooperative members, owns €4.9 billion of equity capital and employs 6,000 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 operations in Greater Paris, in Normandy, in Seine-et-Marne/Aisne and in the French overseas départements, as well as through its commercial banking subsidiaries in Southeast Asia, the South Pacific, the Horn of Africa and Switzerland. A local bank committed to its communities, its network consists of 475 agencies, including 75 outside France. It maintains long-term relationships with more than one million clients..

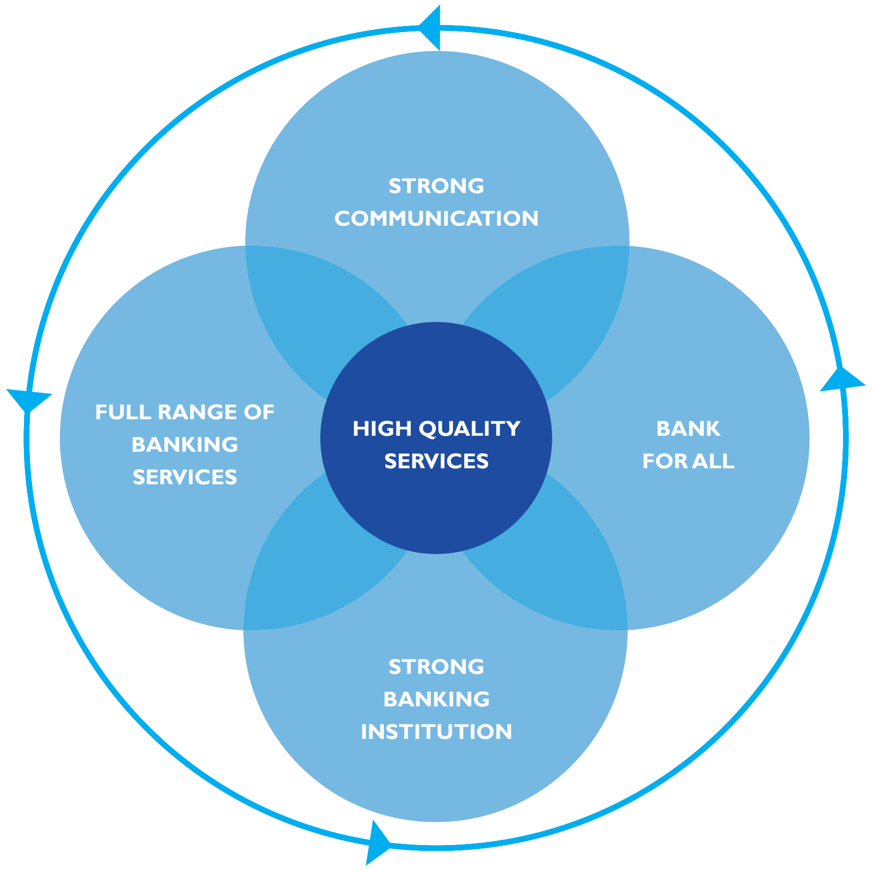
BRED Banque Populaire, a member of the BPCE Group, is engaged in a range of diversified businesses – retail banking, corporate and institutional banking, private banking, asset management, securities trading, an insurance company and international trade. It also carries out its commercial banking business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

In 2019, BRED recorded consolidated Net Banking Income (NBI) of €1,252 million (+5%). It posted net profit of €307 million, an increase of 11%.

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.

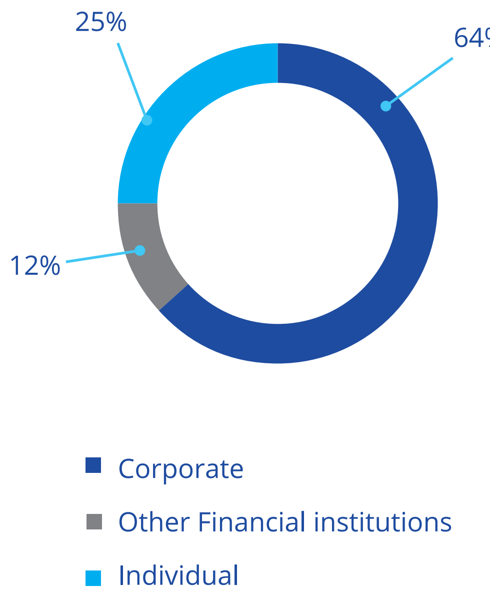


Towards high quality services, we are committed to	
Streamlined processes	• Be fast in making decisions • Continuously innovate our processes • Move toward digitalization (online, remote channel,..)
Customer relationship	• Commit ourselves to transparency • Ensure fair pricing • Hold on mechanism for resolution • Provide best banking experience and appoint a dedicated point of contact for each customer • Promote employees' ethical behaviors
Branch network	• 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	• 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

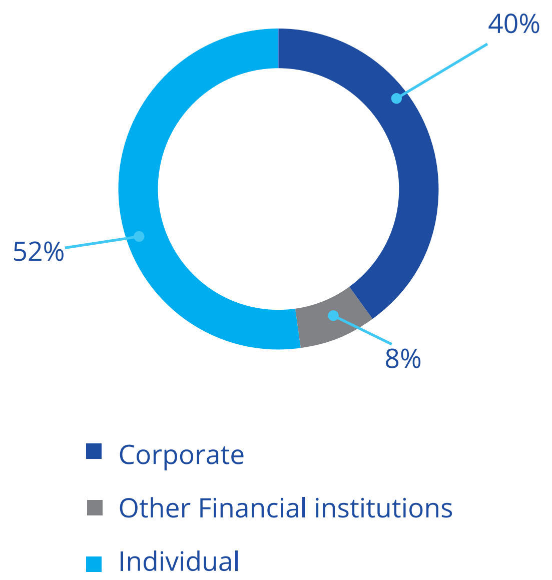
Financial Highlight

	2019 US$	2018 US$
Balance Sheet		
Deposits from customers	195,779,640	145,766,445
Loans and advances - net	220,740,598	115,267,778
Equity	63,032,964	65,379,043
Total assets	322,787,907	218,854,342
Income statement		
Net interest income	7,772,063	4,447,440
Net fee & commission	421,163	36,154
General information		
Branch	7	4
Staff	193	133
ATMs	42	30
Depositors	5,289	1,801
Borrowers	886	454
Number of issued cards	5,130	1,574

Gross Loans in USD Millions



Gross Deposits in USD Millions



Achievement in 2017

Licenses

The Bank was incorporated in Cambodia on 1 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.

Achievement in 2018

Branches

- Tuol Kouk Branch Grand Opening in September 2018
- Siem Reap Branch Grand Opening in October 2018
- Mao Tse Toung Branch Grand Opening in November 2018

Mastercard Acquisition

In December 2018, we launched MasterCard Acquisition. MasterCard cardholders can now withdraw cash from our ATM.

Extra Cash

In order to facilitate the cash withdrawal of international travelers coming to Cambodia, BRED BANK Cambodia will provide a new service, Extra Cash from September 2018. This will allow the travelers to withdraw additional money in need after exceeding the withdrawal amount allowed by ATM. This service will be available at any BRED BANK Cambodia branches in Cambodia.

Women initiative

In 2018, BRED Bank Cambodia has decided to initiate a Women-dedicated Program, with the ambition of becoming "The Bank of Choice for Women" in Cambodia and better serve the Women of this country, especially Women entrepreneurs.

As BRED Bank Cambodia has grown, we have recognized that women may have specific requirements, and their Bank needs to adapt in developing new products and services tailored to their needs. In 2018, along with the International Finance Corporation (IFC), Bred Bank undertook an extensive survey with more than 150 Cambodian Business women to understand their needs and challenges.

BRED Bank's Women Initiative is addressing their main concerns in various ways, and mainly through the development for Non-Financial Services, specifically designed to take into account women's needs. And that will eventually appeal to men. Keep an eye out for further announcements around our upcoming programs.

Achievement in 2019

Branches

- Battambang Branch Opening Grand Opening in february 2019
- Cham Chao Branch Opening Grand Opening in August 2019
- Olympic Branch: soft opening in Decmeber 2019

Shine Initiative Learning Academy Training

Learning Academy

As part of our new program at the Women Initiative Learning Academy, the 1st training sessions on Active Listening were held on Saturday, May 25th at BRED Bank Headquarters. This training aims to help businesswomen leaders how to motivate, influence, persuade and engage with their employees by actively listening to them.

It was a great success for the Bank. 24 women leaders from different companies were delighted to attend, to share their feedback and to await further training.

Breakfast Talk

The first talk falls under the "**Shine Initiative**" program and had a topic of '**Understanding and overcoming your fear of public speaking**'. The Shine Initiative, based on extensive research with Cambodia businesswomen, has been developed to empower, inform and inspire all Cambodian entrepreneurs to help build better businesses.

Shine
BETTER BUSINESS ACADEMY

POS

POS Available for **VISA** and **Mastercard transactions**.

Mobile App Enhancement

- Fingerprint Features
- New currencies available for transfers
- Khmer language available
- schedule future dated and recurring transfer

Internet Banking enhancement

- The available balance is now automatically updated after a transfer or a transaction
- When a customer sends us an email through our Internet Banking, it is directly forwarded to their RM
- It's possible to have several levels of validation for the needs of corporates
- A new unauthorized account is no longer displayed

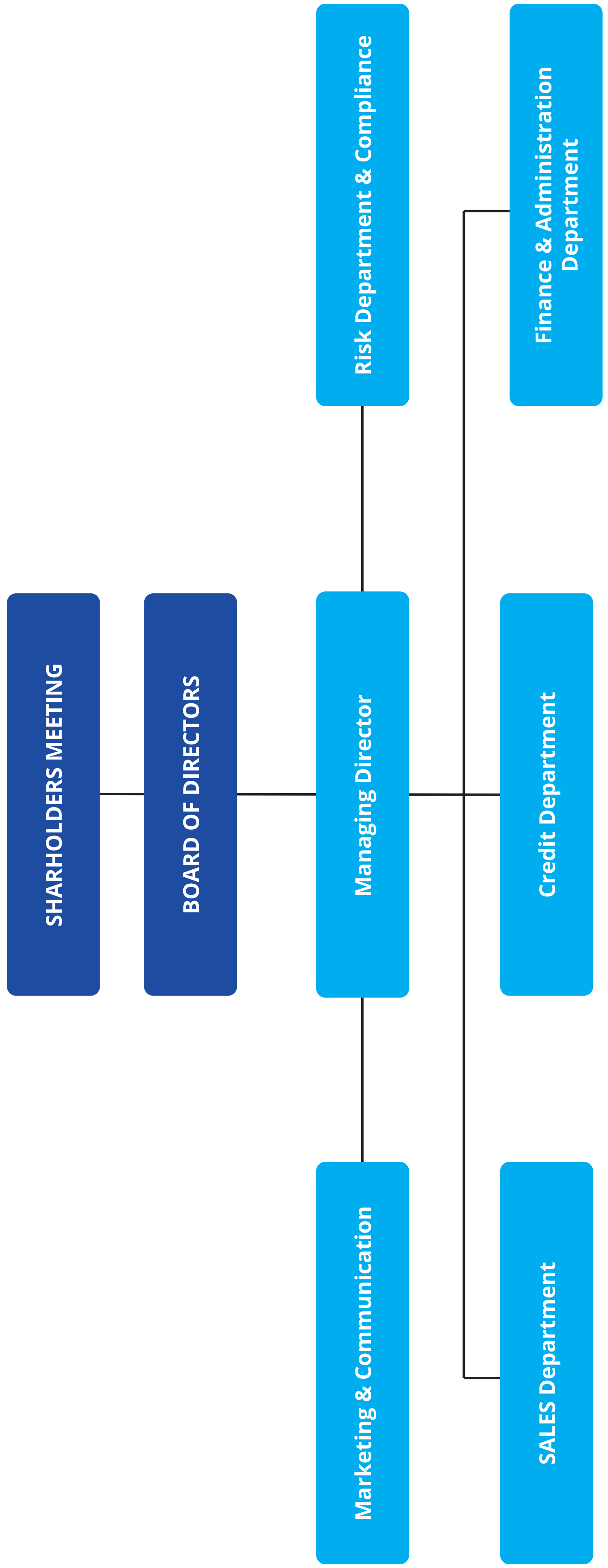
Extra cash (Update)

Extra cash service available for Mastercards

2020 Development

- Convenient and quick access of our customers to their funds is very crucial to us. We will set up more ATMs in 2020 along with our branch expansion in Phnom Penh and provinces. We plan to increase up to 50 ATMs by end of 2020.
- By end of 2020, we plan to establish two branches in Phnom Penh (Chbar Ampov and Street 271) with the increase in number of employees up to 240 employees.
- We are investing in digital technology through the Mobile App and improve our Internet Banking features. We ensure that we are continuing to innovate our products, provide solution and deliver the desirable services to our customers.
- We will keep offering non-financial services to support our customers (coaching and training of our customers on accounting, management and control systems, finance and marketing strategies).
- We will [INFORM] through a series of informative videos posted on social networks and available to all. The Bank will organize a series of Breakfast Talk with a mix of technical experts and inspirational speakers, who will come deliver and share their experiences.
- We will support the [EMPOWERMENT] of women by building up an Academy that will serve as a platform to offer training modules specifically designed to take into account women's needs, with a combination of technical and soft skills. Our first pilot will be organized in May.
- [INSPIRE] In 2020, BRED will organize its first Women Business Award, to award and recognize outstanding women that have performed in their businesses.
- [SUPPORT, Financially] This offer of non-financial services will be bundled with our financial services: payments, deposits, savings and loans, with the objective to improve the customer journey. In the coming years, our teams will keep on working to build a better ecosystem for our women customers. "Start with
- BRED, Grow with BRED" Woman Banking Project (to be added)

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. Jerome Zerbib	Chairman
Mr. Olivier Jean Klein	Director
Mr. Stéphane Mangiavacca	Director
Mr. Bruno Moschetto	Independent Director
Mr. Bernard Ramanantsoa	Independent Director
Mr. Guillaume Massin	Independent Director
Mr. Guillaume Claude Perdon	Director and Chief Executive Officer

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. Jerome Zerbib	Member
Mr. Stéphane Mangiavacca	Member
Mr Bruno Moschetto	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. Jerome Zerbib	Member
Mr. Stéphane Mangiavacca	Member
Mr. Bruno Moschetto	Member
Mr. Kamal benchabane	Member

BRED BANK CAMBODIA

BRED BANK (CAMBODIA) PLC.

Audited Financial Statements for the year ended 31 December 2019

Contents

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	Jerome ZERBIB	Chairman (appointed on 4 December 2019)
	Thierry Moreau	Chairman (resigned on 4 December 2019)
	Olivier Jean Klein	Director
	Stéphane Mangiavacca	Director
	Guillaume Claude Perdon	Director and Chief Executive Officer
	Bernard Ramanantsoa	Independent Director
	Guillaume MASSIN	Independent Director
	Bruno MOSCHETTO	Independent Director
Management team	Guillaume Claude Perdon	Chief Executive Officer
	Sopha MIN	Deputy Chief Executive Officer
	Anne-Laure Seidou	Chief Finance Officer
	Kamal Benchabane	Chief Risk & Compliance Officer
	Marion Quintin	Head of Credit
	Chhay Huoy	Head of Credit Administration
	Kunthea Meas	Head of Network
	Laurent AYOUN	Information Technology Manager
	Nicolas SOSNOWIEZ	Head of Marketing & Communication
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 2019.

Principal activities

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 these principal activities during the financial year.

Financial results

The financial results of the Bank for the year ended 31 December 2019 were as follows:

	2019 US$	2018 US$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Loss before income tax	(2,569,655)	(4,215,961)	(10,412,242)	(17,053,562)
Income tax expense	223,576	287,690	905,930	1,163,706
Net loss for the year	(2,346,079)	(3,928,271)	(9,506,312)	(15,889,856)

Dividends

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

Share capital

The Bank's share capital as at 31 December 2019 was US$75,000,000 (2018: US$75,000,000) by way of issuance of shares with par value of US$1 per share. All shares are issued and fully paid.

Reserves and provisions

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

Losses loans and advances

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

At the date of this report, the Directors are not aware of any circumstances, which would render the amount written off for bad loans and advances, or the amount of allowance for losses on 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 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 had been written down to an amount which they might be expected to realise.

At the date of this report, the management is 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 is 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 course of banking business.

Contingent and other liabilities

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 Management, substantially affected by any item, transaction or event of a material and unusual nature.

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

Events since the reporting date

The ECL at 31 December 2019 was estimated based on a range of forecast economic conditions as at that date. Subsequently, the coronavirus outbreak has spread across mainland China, Cambodia and beyond, causing disruption to business and economic activity. The impact on GDP and other key indicators will be considered when determining the severity and likelihood of downside economic scenarios that will be used to estimate ECL under CIFRS 9 in 2020.

The Board of Directors

The Management who served during the year and at the date of this report are:

Jerome ZERBIB	Chairman (appointed on 4 December 2019)
Thierry Moreau	Chairman (resigned on 4 December 2019)
Olivier Jean Klein	Director
Stéphane Mangiavacca	Director
Guillaume Claude Perdon	Director and Chief Executive Officer
Bernard Ramanantsoa	Independent Director
Guillaume MASSIN	Independent Director
Bruno MOSCHETTO	Independent Director

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 existed 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.

During the 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 received or due and 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 2019, 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;

BRED BANK CAMBODIA

(ii) comply with Cambodian International Financial Reporting Standards ("CIFRSs") 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 management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so; and

(v) effectively 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

We hereby approve the accompanying financial statements together with the notes thereto as set out on pages 10 to 113 which, in our opinion, present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, and its financial performance and its cash flows for the year then ended, in accordance with CIFRSs.

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

BRED BANK (CAMBODIA) PLC.
KINGDOM OF CAMBODIA

Guillaume Claude Perdon
Director and Chief Executive Officer

Phnom Penh, Kingdom of Cambodia

Date: 7 MAY 2020

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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., ("the Bank"), which comprise the statement of financial position as at 31 December 2019, the statements of profit or loss and other comprehensive income, 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 10 to 113 (hereafter referred to as "the financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with Cambodian International Financial Reporting Standards ("CIFRSs").

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 matter

As stated in Note 35 to the financial statements, the Bank adopted CIFRSs on 1 January 2019 with a transition date of 1 January 2018. These standards were applied retrospectively to the comparative information in these financial statements, including the statement of financial position as at 31 December 2018 and 1 January 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows of the Bank for the year ended 31 December 2018 and related explanatory notes. We were not engaged to audit on the restated comparative information and it is unaudited. Our responsibilities in respect of this comparative information is to determine whether the financial statements include the comparative information required by CIFRSs and whether such information is appropriately classified.

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 1 to 5, 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 International Financial Reporting Standards, 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.

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

7 May 2020

Statement of financial position
as at 31 December 2019

	Note	31 December 2019 US$	31 December 2018 US$	31 December 2019 KHR'000 (Note 5)	31 December 2018 KHR'000 (Note 5)	1 January 2018 US$	1 January 2018 KHR'000 (Note 5)
ASSETS							
Cash and cash equivalents	6	41,060,000	66,579,026	167,319,500	267,514,526	32,137,612	129,739,540
Placements with other banks	7	11,235,640	-	45,785,233	-	-	-
Statutory deposits	8	35,413,497	25,424,888	144,310,000	102,157,200	10,763,624	43,452,750
Loans and advances to customers – net	9	220,740,598	115,267,778	899,517,937	463,145,932	49,259,512	198,860,650
Other assets	10	2,139,846	1,268,025	8,719,872	5,094,924	1,091,903	4,408,012
Intangible assets	11	1,167,100	1,382,636	4,755,933	5,555,431	1,526,114	6,160,922
Property and equipment	12	3,682,213	2,912,745	15,005,018	11,703,409	1,393,429	5,625,273
Right-of-use assets	13	6,494,545	5,531,698	26,465,271	22,226,363	3,814,137	15,397,671
Deferred tax assets – net	21	854,468	487,546	3,481,957	1,958,960	118,056	476,592
Total assets		322,787,907	218,854,342	1,315,360,721	879,356,745	100,104,387	404,121,410
LIABILITIES AND SHAREHOLDER'S EQUITY							
Liabilities							
Deposits from customers	14	195,779,640	145,766,445	797,802,033	585,689,576	46,532,763	187,852,764
Deposits from other banks	15	12,004,881	-	48,919,890	-	2,338,505	9,440,545
Borrowings	16	10,947,833	-	44,612,419	-	-	-
Subordinated debts	17	32,012,466	-	130,450,799	-	-	-
Derivative liabilities		4,080	-	16,626	-	-	-
Lease liabilities	18	6,689,548	5,615,745	27,259,908	22,564,063	3,814,137	15,397,671
Other liabilities	19	1,469,020	1,559,617	5,986,258	6,266,540	611,668	2,469,303

Provision for impairment of off balance sheet items		786,350	362,492	3,204,376	1,456,493	-	-
Provision for employee benefits	20	61,080	163,000	248,901	654,934	-	-
Current income tax liability	21	45	8,000	183	32,144	-	-
Total liabilities		259,754,943	153,475,299	1,058,501,393	616,663,750	53,297,073	215,160,283

		31 December		31 December		1 January 2018	
		2019	2018	2019	2018		
	Note	US$	US$	KHR'000 (Note 5)	KHR'000 (Note 5)	US$	KHR'000 (Note 5)
Shareholder's equity							
Share capital	22	75,000,000	75,000,000	300,000,000	300,000,000	52,500,000	210,000,000
Regulatory reserves	23	-	-	-	-	-	-
Accumulated losses		(11,967,036)	(9,620,957)	(48,377,541)	(38,871,229)	(5,692,686)	(22,981,373)
Currency translation reserves		-	-	5,236,869	1,564,224	-	1,942,500
Total shareholder's equity		63,032,964	65,379,043	256,859,328	262,692,995	46,807,314	188,961,127
Total liabilities and shareholder's equity		322,787,907	218,854,342	1,315,360,721	879,356,745	100,104,387	404,121,410

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

Statement of profit or loss and other comprehensive income
for the year ended 31 December 2019

	Note	2019 US$	2018 US$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Operating income					
Interest income	24	13,092,725	7,020,083	53,051,722	28,396,236
Interest expense	25	(5,320,662)	(2,572,643)	(21,559,322)	(10,406,341)
Net interest income		7,772,063	4,447,440	31,492,400	17,989,895
Net fee and commission income	26	421,163	36,154	1,706,552	146,243
Other income	27	40,176	683	162,793	2,763
Total operating profit		8,233,402	4,484,277	33,361,745	18,138,901
Personnel expenses	28	(3,376,824)	(2,779,149)	(13,682,891)	(11,241,658)
Other operating expenses	29	(5,832,046)	(4,162,075)	(23,631,450)	(16,835,593)
Total operating expenses		(9,208,870)	(6,941,224)	(37,314,341)	(28,077,251)
Operating profit before impairment		(975,468)	(2,456,947)	(3,952,596)	(9,938,350)
Impairment losses on financial instruments	9	(1,594,187)	(1,759,014)	(6,459,646)	(7,115,212)
Loss before income tax		(2,569,655)	(4,215,961)	(10,412,242)	(17,053,562)
Income tax / Minimum tax expense	21	223,576	287,690	905,930	1,163,706
Net loss for the year		(2,346,079)	(3,928,271)	(9,506,312)	(15,889,856)
Currency translation reserves		-	-	3,672,645	(378,276)
Total comprehensive loss for the year		(2,346,079)	(3,928,271)	(5,833,667)	(16,268,132)

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

Statement of changes in equity
for the year ended 31 December 2019

	Share capital US$	Share capital KHR'000 (Note 5)	Accumulated losses US$	Accumulated losses KHR'000 (Note 5)	Currency translation reserves US$	Currency translation reserves KHR'000 (Note 5)	Total US$	Total KHR'000 (Note 5)
Balance as at 1 January 2018	52,500,000	210,000,000	(5,692,686)	(22,981,373)	-	1,942,500	46,807,314	188,961,127
Transactions recognised directly in equity								
Issuance of share capital	22,500,000	90,000,000	-	-	-	-	22,500,000	90,000,000
Comprehensive loss								
Net loss for the year	-	-	(3,928,271)	(15,889,856)	-	-	(3,928,271)	(15,889,856)
Currency translation reserves	-	-	-	-	-	(378,276)	-	(378,276)
Balance as at 31 December 2018	75,000,000	300,000,000	(9,620,957)	(38,871,229)	-	1,564,224	65,379,043	262,692,995
Balance as at 1 January 2019	75,000,000	300,000,000	(9,620,957)	(38,871,229)	-	1,564,224	65,379,043	262,692,995
Net loss for the year	-	-	(2,346,079)	(9,506,312)	-	-	(2,346,079)	(9,506,312)
Currency translation reserves	-	-	-	-	-	3,672,645	-	3,672,645

Statement of cash flows
for the year ended 31 December 2019

BRED BANK
CAMBODIA

	Note	2019 US$	2018 US$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Cash flows from operating activities					
Net loss for the year		(2,346,079)	(3,928,271)	(9,506,312)	(15,889,856)
Adjustment for:					
Depreciation and amortisation		1,889,966	1,407,085	7,658,142	5,691,659
Interest income		(13,092,725)	(7,020,083)	(53,051,722)	(28,396,236)
Finance cost		192,356	154,131	779,427	623,460
Income tax expense		(223,576)	(287,690)	(905,930)	(1,163,706)
Allowances for losses on loans and advances	9	1,594,187	1,759,014	6,459,646	7,115,212
Provision for employee benefits		(101,920)	163,000	(412,980)	659,335
Interest expense		5,320,662	2,572,643	21,559,322	10,406,341
Gain on disposal		(40,176)	(683)	(162,793)	(2,763)
		(6,807,305)	(5,180,854)	(27,583,200)	(20,956,554)
Changes in:					
Deposits and placements with other banks		(11,683,208)	-	(47,340,359)	-
Loans and advances		(107,081,251)	(66,845,502)	(433,893,229)	(270,390,056)
Statutory deposits		(9,988,609)	(12,411,264)	(40,473,844)	(50,203,563)
Other assets		(102,524)	(112,399)	(415,427)	(454,654)
Deposits from customers		47,928,115	98,490,671	194,204,722	398,394,764
Deposits from other banks		12,004,881	(2,338,505)	48,643,778	(9,459,253)
Other liabilities		1,623,659	3,260,742	6,579,066	13,189,701
Cash (used in)/ generated from operations		(67,298,937)	20,043,743	(272,695,293)	81,076,939
Interest received		12,761,530	6,890,980	51,709,720	27,874,014
Interest paid of lease liability		(192,356)	(154,131)	(779,427)	(623,460)
Interest paid		(3,235,582)	(1,829,632)	(13,110,578)	(7,400,861)
Income tax/minimum tax paid	21	(151,301)	(73,800)	(613,072)	(298,521)

Balance as at 31 December 2019	75,000,000	300,000,000	(11,967,036)	(48,377,541)	-	5,236,869	63,032,964	256,859,328

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

	Note	2019 US$	2018 US$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Net cash (used in)/ generated from operating activities		(64,923,951)	19,696,306	(263,071,850)	79,671,557
Cash flows from investing activities					
Statutory deposits		-	(2,250,000)	-	(9,101,250)
Purchase of property and equipment and intangible assets		(3,459,069)	(4,508,501)	(14,016,148)	(18,236,887)
Proceed from sale of property and equipment		92,500	8,700	374,810	35,192
Net cash used in investing activities		(3,366,569)	(6,749,801)	(13,641,338)	(27,302,945)

	Note	2019 US$	2018 US$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Cash flows from financing activities					
Proceeds from borrowings		42,960,299	22,500,000	174,075,132	91,012,500
Payment of lease liabilities		(636,373)	(511,185)	(2,578,583)	(2,067,743)
Net cash generated from financing activities		42,323,926	21,988,815	171,496,549	88,944,757
Net /(decrease) /increase in cash and cash equivalents		(25,966,594)	34,935,320	(105,216,639)	141,313,369
Cash and cash equivalents at beginning of the year		67,158,941	32,223,621	269,844,624	130,086,758
Currency translation difference		-	-	3,230,829	(1,555,503)
Cash and cash equivalents at end of the year	6	41,192,347	67,158,941	167,858,814	269,844,624

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

1. Reporting entity

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 192 employees as at 31 December 2019 (2018: 139 employees).

2. Basis of accounting

The financial statements of the Bank have been prepared in accordance with the Cambodian International Financial Reporting Standards ("CIFRSs"). These are the Bank's first financial statements prepared in accordance with CIFRSs and CIFRS 1 First-time Adoption of Cambodian International Financial Reporting Standards has been applied.

In the previous financial years, the financial statements were 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. An explanation of how the transition to CIFRSs have affected the reported financial position, financial performance and cash flows is provided in Note 35.

The accounting policies and methods of computation have been applied consistently to all periods presented in these financial statements.

Details of the Bank's accounting policies are included in Note 34.

The financial statements were authorised for issue by the Board of Directors on 7 May 2020.

3. Functional and presentation currency

The Bank transacts its business and maintains its accounting records in United States Dollars ("US$"). Management has determined the US$ to be the Bank's functional and presentation currency as it reflects the economic substance of the underlying events and circumstances of the Bank.

These financial statements are presented in US$, which is the Bank's functional currency. All amounts have been rounded to the nearest dollar, except when otherwise indicated.

4. Use of judgments and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes.

- Note 34C(ii): classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.
- Note 34C(vii): establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are included in the following notes:

- Note 34C(vii): impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information.
- Note 34C(vi): determination of the fair value of financial instruments with significant unobservable inputs.
- Note 34C(vii): impairment of financial instruments: key assumptions used in estimating recoverable cash flows.

5. Translation of United States Dollars into Khmer Riel

The financial statements are expressed in United States Dollars. The translations of United States Dollars amounts into Khmer Riel are included solely for compliance with the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements.

Assets and liabilities are translated at the closing rate as at the reporting date. The statements of comprehensive income and cash flows are translated into KHR using the average rate for the year. Exchange differences arising from the translation are recognised as "Currency Translation Difference" in the other comprehensive income.

The Bank uses the following exchange rates:

			Closing rate	Average rate
31 December 2019	US$1	=	KHR 4075	KHR 4052
31 December 2018	US$1	=	KHR 4018	KHR 4045
1 January 2018	US$1	=	KHR 4037	N/A

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 Riels at this or any other rate of exchange.

6. Cash and cash equivalents

	31 December 2019 US$	31 December 2018 US$	31 December 2019 KHR'000 (Note 5)	31 December 2018 KHR'000 (Note 5)	1 January 2018 US$	1 January 2018 KHR'000 (Note 5)
Cash on hand	8,900,657	5,568,007	36,270,177	22,372,252	2,830,617	11,427,201
Cash equivalents with other banks	32,291,690	61,590,934	131,588,637	247,472,372	29,393,004	118,659,557
	41,192,347	67,158,941	167,858,814	269,844,624	32,223,621	130,086,758
Provision for expected credit losses	(132,347)	(579,915)	(539,314)	(2,330,098)	(86,009)	(347,218)
	41,060,000	66,579,026	167,319,500	267,514,526	32,137,612	129,739,540

The movements of allowance for losses on cash equivalents with other banks were as follows:

	2019 US$	2018 US$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
At 1 January	579,915	86,009	2,330,098	347,218
Allowance for the year	(447,568)	493,906	(1,813,546)	1,997,850
Currency translation difference	-	-	22,762	(14,970)
At 31 December	132,347	579,915	539,314	2,330,098

7. Placements with other banks

	31 December 2019 US$	31 December 2018 US$	31 December 2019 KHR'000 (Note 5)	31 December 2018 KHR'000 (Note 5)	1 January 2018 US$	1 January 2018 KHR'000 (Note 5)
Term deposit (non-cash equivalents)	11,235,640	-	45,785,233	-	-	-

Placements with other banks are maturing from 5 to 12 months and earned interest ranging from 0.60% to 1.01% per annum.

8. Statutory deposits

	31 December 2019 US$	31 December 2018 US$	31 December 2019 KHR'000 (Note 5)	31 December 2018 KHR'000 (Note 5)	1 January 2018 US$	1 January 2018 KHR'000 (Note 5)
Statutory capital deposit	7,500,000	7,500,000	30,562,500	30,135,000	5,250,000	21,194,250
Reserve requirements on customers' deposits	27,913,497	17,924,888	113,747,500	72,022,200	5,513,624	22,258,500
	35,413,497	25,424,888	144,310,000	102,157,200	10,763,624	43,452,750

8. Statutory deposits (continued)

A. Statutory capital deposit

Under the NBC's Prakas No. B7-01-136 dated 15 October 2001, the Bank is required to maintain a statutory deposit 10% of its capital. This deposit is not available for use in the Bank's day-to-day operations and is refundable should the Bank voluntarily cease its operations in Cambodia.

B. Reserve requirements on customers' deposits

The reserve requirement represents the minimum reserve which is calculated at 8% for KHR and 12.50% for other currencies of the total amount of deposits from customers, non-residential banks and financial institution deposits, and non-residential borrowings. Pursuant to the National Bank of Cambodia's Prakas No. B7-018-282 on the maintenance of reserve requirement against commercial banks' deposits and borrowings, reserve requirements both in KHR and in other currencies bear no interest effective from 29 August 2018.

C. By interest rate (per annum):

	2019	2018
Statutory capital deposit	0.48%	0.48%

9. Loans and advances to customers – net

	31 December		31 December		1 January 2018	
	2019	2018	2019	2018		
	US$	US$	KHR'000	KHR'000	US$	KHR'000
			(Note 5)	(Note 5)		(Note 5)
Commercial loans:						
Overdrafts	11,737,326	7,295,216	47,829,603	29,312,178	4,290,409	17,320,381
Short term loans	23,641,032	13,467,023	96,337,205	54,110,498	16,011,096	64,636,795
Long term loans	133,924,751	69,148,660	545,743,361	277,839,316	25,192,923	101,703,830
Trust receipts	159,273	587,591	649,037	2,360,941	-	-
Consumer loans	54,476,062	26,349,237	221,989,953	105,871,234	4,442,417	17,934,037
Gross loans and advances	223,938,444	116,847,727	912,549,159	469,494,167	49,936,845	201,595,043
Impairment allowance	(3,197,846)	(1,579,949)	(13,031,222)	(6,348,235)	(677,333)	(2,734,393)
Loans and advances – net	220,740,598	115,267,778	899,517,937	463,145,932	49,259,512	198,860,650

9. Loans and advances to customers – net (continued)

Reconciliation of loan and advances to note 32B(iv)

	2019 US$	2018 US$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Gross loans and advances	223,938,444	116,847,727	912,549,159	469,494,167
Deferred income from loan	893,267	543,173	3,640,063	2,182,469
	224,831,711	117,390,900	916,189,222	471,676,636

Allowance for impairment losses on financial instruments recognised in profit and loss was summarised as follows:

	2019 US$	2018 US$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Net impairment loss on balances with other banks	(447,568)	493,906	(1,813,546)	1,997,850
Net impairment loss on loans	1,617,897	902,616	6,555,719	3,651,082
Net impairment loss of off balance sheet items	423,858	362,492	1,717,473	1,466,280
	1,594,187	1,759,014	6,459,646	7,115,212

The movements of allowance for losses on loans and advances were as follows:

	2019 US$	2018 US$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
At 1 January	1,579,949	677,333	6,348,235	2,734,393
Allowance for the year	1,617,897	902,616	6,555,719	3,651,082
Currency translation difference	-	-	127,268	(37,240)
At 31 December	3,197,846	1,579,949	13,031,222	6,348,235

9. Loans and advances to customers – net (continued)

Gross amounts of loans and advances to customers by maturity are as follows:

	31 December 2019 US$	31 December 2018 US$	31 December 2019 KHR'000 (Note 5)	31 December 2018 KHR'000 (Note 5)	1 January 2018 US$	1 January 2018 KHR'000 (Note 5)
Within 1 month	3,754	388	15,298	1,559	406	1,639
> 1 to 3 months	5,120,680	2,047,461	20,866,771	8,226,698	2,980,600	12,032,682
> 3 to 6 months	14,752,014	10,008,720	60,114,457	40,215,037	5,480,197	22,123,555
> 6 to 12 months	8,644,933	4,606,715	35,228,102	18,509,781	11,871,465	47,925,104
> 1 to 3 years	36,096,079	22,999,985	147,091,522	92,413,940	3,996,771	16,134,965
> 3 to 5 years	22,285,764	14,883,759	90,814,488	59,802,944	8,199,575	33,101,684
Over 5 years	137,035,220	62,300,699	558,418,521	250,324,208	17,407,831	70,275,414
	223,938,444	116,847,727	912,549,159	469,494,167	49,936,845	201,595,043

For additional analysis of gross amount of loans and advances to customers, refer to Note 32B.

10. Other assets

	31 December 2019 US$	31 December 2018 US$	31 December 2019 KHR'000 (Note 5)	31 December 2018 KHR'000 (Note 5)	1 January 2018 US$	1 January 2018 KHR'000 (Note 5)
Guarantee deposits	273,548	176,270	1,114,708	708,253	105,356	425,322
Prepayments	1,394,134	1,011,347	5,681,096	4,063,592	951,086	3,839,534
Others	472,164	80,408	1,924,068	323,079	35,461	143,156

11. Intangible assets

2019	Computer software US$	Website design US$	Total US$	Total KHR'000 (Note 5)
Cost				
At 1 January 2019	2,063,234	94,708	2,157,942	8,670,611
Additions	305,249	55,076	360,325	1,460,037
Currency translation difference	-	-	-	131,291
At 31 December 2019	2,368,483	149,784	2,518,267	10,261,939
Less: **Accumulated amortisation**				
At 1 January 2019	746,000	29,306	775,306	3,115,180
Amortisation	538,853	37,008	575,861	2,333,389
Currency translation difference	-	-	-	57,437
At 31 December 2019	1,284,853	66,314	1,351,167	5,506,006
Carrying amounts				
At 31 December 2019	1,083,630	83,470	1,167,100	4,755,933

2018	Computer software US$	Website design US$	Total US$	Total KHR'000 (Note 5)
Cost				
At 1 January 2018	1,801,269	61,246	1,862,515	7,518,973
Additions	261,965	33,462	295,427	1,195,002
Currency translation difference	-	-	-	(43,364)
At 31 December 2018	2,063,234	94,708	2,157,942	8,670,611
Less: **Accumulated amortisation**				
At 1 January 2018	329,597	6,804	336,401	1,358,051
Amortisation	416,403	22,502	438,905	1,775,371
Currency translation difference	-	-	-	(18,242)
At 31 December 2018	746,000	29,306	775,306	3,115,180

2019	Computer software US$	Website design US$	Total US$	Total KHR'000 (Note 5)
Carrying amounts				
At 31 December 2018	1,317,234	65,402	1,382,636	5,555,431
At 1 January 2018	1,471,672	54,442	1,526,114	6,160,922

12. Property and equipment

2019	Furniture Fixture US$	Equipment US$	Computer Equipment US$	Motor Vehicles US$	Work in progress US$	Total US$	Total KHR'000 (Note 5)
Cost							
At 1 January 2019	637,184	480,008	1,296,163	445,844	666,463	3,525,662	14,166,110
Additions	445,605	106,620	396,780	227,754	212,930	1,389,689	5,631,020
Disposals	-	-	-	(156,290)	-	(156,290)	(633,287)
Currency translation difference	-	-	-	-	-	-	229,331
At 31 December 2019	1,082,789	586,628	1,692,943	517,308	879,393	4,759,061	19,393,174
Less: **Accumulated depreciation**							
At 1 January 2019	13,999	96,441	359,695	142,782	-	612,917	2,462,701
Depreciation	80,783	82,005	303,966	101,143	-	567,897	2,301,119
Disposals	-	-	-	(103,966)	-	(103,966)	(421,270)
Currency translation difference	-	-	-	-	-	-	45,606
At 31 December 2019	94,782	178,446	663,661	139,959	-	1,076,848	4,388,156
Carrying amounts							
At 31 December 2019	988,007	408,182	1,029,282	377,349	879,393	3,682,213	15,005,018

12. Property and equipment (continued)

2018	Furniture Fixture US$	Equipment US$	Computer Equipment US$	Motor Vehicles US$	Work in progress US$	Total US$	Total KHR'000 (Note 5)
Cost							
At 1 January 2018	15,042	380,672	782,946	347,684	112,037	1,638,381	6,614,144
Additions	622,142	99,336	513,217	111,160	554,426	1,900,281	7,686,637
Disposals	-	-	-	(13,000)	-	(13,000)	(52,585)
Currency translation difference	-	-	-	-	-	-	(82,086)
At 31 December 2018	637,184	480,008	1,296,163	445,844	666,463	3,525,662	14,166,110
Less: **Accumulated depreciation**							
At 1 January 2018	2,344	38,862	135,363	68,383	-	244,952	988,871
Depreciation	11,655	57,579	224,332	79,382	-	372,948	1,508,575
Disposals	-	-	-	(4,983)	-	(4,983)	(20,156)
Currency translation difference	-	-	-	-	-	-	(14,589)
At 31 December 2018	13,999	96,441	359,695	142,782	-	612,917	2,462,701
Carrying amounts							
At 31 December 2018	623,185	383,567	936,468	303,062	666,463	2,912,745	11,703,409
At 1 January 2018	12,698	341,810	647,583	279,301	112,037	1,393,429	5,625,273

13. Right of use assets

Information about the Bank's leases is disclosed within this note and Note 18.

	31 December 2019 US$	31 December 2018 US$	31 December 2019 KHR'000 (Note 5)	31 December 2018 KHR'000 (Note 5)	1 January 2018 US$	1 January 2018 KHR'000 (Note 5)
Right of use assets	6,494,545	5,531,698	26,465,271	22,226,363	3,814,137	15,397,671

The Bank leases many assets including office spaces. Information about leases for which the Bank is a lessee is presented below.

	2019 US$	2018 US$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Right-of-use assets				
Costs				
At 1 January	6,126,930	3,814,137	24,618,005	15,397,671
Additions	1,709,055	2,312,793	6,925,091	9,355,248
Currency translation difference	-	-	388,543	(134,914)
At 31 December	7,835,985	6,126,930	31,931,639	24,618,005
Accumulated depreciation				
At 1 January	595,232	-	2,407,713	-
Depreciation for the year	746,208	595,232	3,023,635	2,407,713
Currency translation difference	-	-	35,020	(16,071)
At 31 December	1,341,440	595,232	5,466,368	2,391,642
Carrying amounts				
At 31 December	6,494,545	5,531,698	26,465,271	22,226,363

	2019 US$	2018 US$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Right-of-use assets				
Costs				
At 1 January	6,126,930	3,814,137	24,618,005	15,397,671
Additions	1,709,055	2,312,793	6,925,091	9,355,248
Currency translation difference	-	-	388,543	(134,914)
At 31 December	7,835,985	6,126,930	31,931,639	24,618,005
Accumulated depreciation				
At 1 January	595,232	-	2,407,713	-
Depreciation for the year	746,208	595,232	3,023,635	2,407,713
Currency translation difference	-	-	35,020	(16,071)
At 31 December	1,341,440	595,232	5,466,368	2,391,642
Carrying amounts				
At 31 December	6,494,545	5,531,698	26,465,271	22,226,363

14. Deposits from customers

	31 December 2019 US$	31 December 2018 US$	31 December 2019 KHR'000 (Note 5)	31 December 2018 KHR'000 (Note 5)	1 January 2018 US$	1 January 2018 KHR'000 (Note 5)
Saving accounts	15,346,615	6,460,766	62,537,456	25,959,358	4,403,641	17,777,499
Fixed deposits	129,235,227	113,320,106	526,633,550	455,320,186	30,651,196	123,738,878
Demand deposits	51,197,798	25,985,573	208,631,027	104,410,032	11,477,926	46,336,387
	195,779,640	145,766,445	797,802,033	585,689,576	46,532,763	187,852,764

Deposits from customers are analysed as follows:

	31 December 2019 US$	31 December 2018 US$	31 December 2019 KHR'000 (Note 5)	31 December 2018 KHR'000 (Note 5)	1 January 2018 US$	1 January 2018 KHR'000 (Note 5)
A. By maturity:						
Within 1 month	66,544,414	32,447,492	271,168,487	130,374,023	21,239,063	85,742,097
> 1 to 3 months	27,002,258	30,152,277	110,034,201	121,151,849	12,239,819	49,412,149
> 3 to 6 months	6,233,089	2,895,922	25,399,838	11,635,815	2,341,948	9,454,444
> 6 to 12 months	25,403,042	28,879,559	103,517,396	116,038,068	3,046,378	12,298,228
> 1 to 3 years	23,582,919	17,247,203	96,100,395	69,299,262	7,404,612	29,892,419
> 3 to 5 years	35,398,999	33,652,735	144,250,921	135,216,689	46,820	189,012
Over 5 years	11,614,919	491,257	47,330,795	1,973,870	214,123	864,415
	195,779,640	145,766,445	797,802,033	585,689,576	46,532,763	187,852,764

14. Deposits from customers (continued)

Deposits from customers are analysed as follows: (continued)

	31 December 2019 US$	31 December 2018 US$	31 December 2019 KHR'000 (Note 5)	31 December 2018 KHR'000 (Note 5)	1 January 2018 US$	1 January 2018 KHR'000 (Note 5)
B. By customer type:						
Individuals	104,064,036	86,974,658	424,060,947	349,464,176	15,757,258	63,612,051
Business enterprises	91,715,604	58,791,787	373,741,086	236,225,400	30,775,505	124,240,713
	195,779,640	145,766,445	797,802,033	585,689,576	46,532,763	187,852,764
C. By residency status:						
Residents	189,419,874	138,132,562	771,885,987	555,016,634	38,839,462	156,794,908
Non-residents	6,359,766	7,633,883	25,916,046	30,672,942	7,693,301	31,057,856
	195,779,640	145,766,445	797,802,033	585,689,576	46,532,763	187,852,764

	2019	2018
D. By interest rate (per annum):		
Saving accounts	0.30%-1.50%	0.30%-1.50%
Current Deposit	0.30%-1.50%	0.30%-1.50%
Fixed deposits	1.00%-6.00%	0.25%-6.60%

15. Deposits from other banks

	31 December 2019 US$	31 December 2018 US$	31 December 2019 KHR'000 (Note 5)	31 December 2018 KHR'000 (Note 5)	1 January 2018 US$	1 January 2018 KHR'000 (Note 5)
Demand deposit	12,004,881	-	48,919,890	-	2,338,505	9,440,545

Deposit from other banks is analysed as follows:

	31 December 2019 US$	31 December 2018 US$	31 December 2019 KHR'000 (Note 5)	31 December 2018 KHR'000 (Note 5)	1 January 2018 US$	1 January 2018 KHR'000 (Note 5)
A. By maturity:						
Within 1 month	12,004,881	-	48,919,890	-	2,338,505	9,440,545
B. By relationship:						
Related party	12,004,881	-	48,919,890	-	2,338,505	9,440,545

16. Borrowings

	31 December 2019 US$	31 December 2018 US$	31 December 2019 KHR'000 (Note 5)	31 December 2018 KHR'000 (Note 5)	1 January 2018 US$	1 January 2018 KHR'000 (Note 5)
Non-related parties	10,947,833	-	44,612,419	-	-	-

These borrowings are unsecured and bear interest at rates ranging from 2.8% to 3.15% per annum (2018: Nil).

Further analysis by maturity period are as follows:

	31 December 2019 US$	31 December 2018 US$	31 December 2019 KHR'000 (Note 5)	31 December 2018 KHR'000 (Note 5)	1 January 2018 US$	1 January 2018 KHR'000 (Note 5)
> 3 to 6 months	1,239,426	-	5,050,661	-	-	-
> 6 to 12 months	9,708,407	-	39,561,758	-	-	-
	10,947,833	-	44,612,419	-	-	-

17. Subordinated debt

This represents a short-term unsecured borrowing from BRED Banque Populaire – Head Office outstanding amount as at 31 December 2019 of US$32,000,000 (2018: Nil) based on agreement dated 9 December 2019 with the following terms and conditions.

Total credit facilities	US$32,000,000
Maturity	27 December 2019 – 27 January 2020
Principal repayment	At maturity date
Interest repayment	At maturity date
Interest rate	Libour + 1%.

The movement of subordinated debt is as follows:

	31 December		31 December	
	2019	2018	2019	2018
	US$	US$	KHR'000 (Note 5)	KHR'000 (Note 5)
At 1 January	-	-	-	-
Additions	32,012,466	-	129,714,512	-
Currency translation difference	-	-	736,287	-
At 31 December	32,012,466	-	130,450,799	-

18. Lease liabilities

	31 December		31 December		1 January 2018	
	2019	2018	2019	2018		
	US$	US$	KHR'000 (Note 5)	KHR'000 (Note 5)	US$	KHR'000 (Note 5)
Maturity analysis – contractual undiscounted cash flows						
Less than one year	844,216	801,049	3,440,180	3,218,615	492,000	1,986,204
One to five years	4,360,948	4,160,448	17,770,863	16,716,680	2,460,000	9,931,020
More than five years	2,597,941	2,835,853	10,586,609	11,394,458	1,435,000	5,793,095
Total undiscounted lease liabilities	7,803,105	7,797,350	31,797,652	31,329,753	4,387,000	17,710,319
Present value of lease liabilities						
Current	692,879	587,423	2,823,482	2,360,266	375,851	1,517,310
Non-current	5,996,669	5,028,322	24,436,426	20,203,797	3,438,286	13,880,361
	6,689,548	5,615,745	27,259,908	22,564,063	3,814,137	15,397,671

18. Lease liabilities (continued)

Amounts recognised in profit and loss

	31 December		31 December	
	2019	2018	2019	2018
	US$	US$	KHR'000 (Note 5)	KHR'000 (Note 5)
Interest on lease liabilities	192,356	154,131	779,427	623,460

Amounts recognised in the statement of cash flows

	31 December		31 December	
	2019	2018	2019	2018
	US$	US$	KHR'000 (Note 5)	KHR'000 (Note 5)
Cash flows from financing activity				
Cash payments for the principal portion of the lease liabilities	636,373	511,185	2,578,584	2,067,743
Cash flows from operating activity				
Cash payments for the interest portion of the lease liabilities	192,356	154,131	779,427	623,460
Total cash outflow for leases	828,729	665,316	3,358,011	2,691,203

19. Other liabilities

	31 December		31 December		1 January 2018	
	2019	2018	2019	2018		
	US$	US$	KHR'000 (Note 5)	KHR'000 (Note 5)	US$	KHR'000 (Note 5)
Accruals and other payables	1,332,973	1,493,589	5,431,866	6,001,239	577,969	2,333,260
Other tax payables	136,047	66,028	554,392	265,301	33,699	136,043
	1,469,020	1,559,617	5,986,258	6,266,540	611,668	2,469,303

20. Provision for employee benefits

	31 December		31 December		1 January 2018	
	2019	2018	2019	2018		
	US$	US$	KHR'000 (Note 5)	KHR'000 (Note 5)	US$	KHR'000 (Note 5)
Provision for seniority indemnity	61,080	163,000	248,901	654,934	-	-

This represents provision for seniority indemnity payments required by Prakas No. 443 issued by the Ministry of Labour and Vocational Training ("MoLVT") on 21 September 2018, and subsequently amended by the Instruction No. 042/19 dated 22 March 2019. It requires all employers to settle the seniority indemnity to their employee as follows:

- Current pay: starting from 2019 onwards at the amounts equal to 15 days of wages and other benefits per year.
- Retrospective (back-pay): starting from 2021 onwards at the amounts equal to 6 days of net wages per year. The provision of back-pay seniority indemnity is calculated at a maximum amount of 6 months net wages (depends on the length of the service employee served) to the employee who has seniority before 2019.

Payments will be made twice a year, in June and December respectively. Employee does not entitle to the remaining back-pay seniority indemnity which is not yet due, if he/she resigns from the Bank.

21. Income tax/Minimum tax

A. Deferred tax assets – net

	31 December		31 December		1 January 2018	
	2019	2018	2019	2018		
	US$	US$	KHR'000 (Note 5)	KHR'000 (Note 5)	US$	KHR'000 (Note 5)
Deferred tax assets	2,338,674	1,735,329	9,530,097	6,972,552	961,838	3,882,940
Deferred tax liabilities	(1,484,206)	(1,247,783)	(6,048,140)	(5,013,592)	(843,782)	(3,406,348)
Deferred tax assets – net	854,468	487,546	3,481,957	1,958,960	118,056	476,592

21. Income tax/Minimum tax (continued)

A. Deferred tax assets – net (continued)

Deferred tax assets are attributable to the following:

	31 December 2019		31 December 2018		1 January 2018	
	US$	US$	KHR'000 (Note 5)	KHR'000 (Note 5)	US$	KHR'000 (Note 5)
Allowance for loan losses	639,569	315,990	2,606,244	1,269,648	135,467	546,880
Allowance for off balance sheet commitments	156,073	72,498	635,997	291,297	-	-
Allowance for banks	26,469	115,983	107,861	466,020	17,202	69,444
Right of use	(1,298,908)	(1,106,340)	(5,293,050)	(4,445,274)	(762,827)	(3,079,533)
Lease liabilities	1,337,910	1,123,149	5,451,983	4,512,813	762,827	3,079,533
Deferred income from loan	178,653	107,709	728,011	432,774	46,342	187,083
Depreciation and amortisation	(185,298)	(141,443)	(755,089)	(568,318)	(80,955)	(326,815)
	854,468	487,546	3,481,957	1,958,960	118,056	476,592

21. Income tax/Minimum tax (continued)

A. Deferred tax assets – net (continued)

The movements of deferred tax are as follows:

	2019 US$	2018 US$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
At 1 January	487,546	118,056	1,958,960	476,592
Recognised in profit or loss	854,468	487,546	3,462,304	1,972,124
Reversal	(487,546)	(118,056)	(1,975,536)	(477,537)
Currency translation difference	-	-	36,229	(12,219)
	854,468	487,546	3,481,957	1,958,960

B. Current income tax liability

	2019 US$	2018 US$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
At 1 January	8,000	-	32,144	-
Income tax expense	143,346	81,800	580,838	330,881
Income tax/Minimum tax paid	(151,301)	(73,800)	(613,072)	(298,521)
Currency translation difference	-	-	273	(216)
At 31 December	45	8,000	183	32,144

C. Income tax / Minimum tax expense

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 revenues, whichever is higher.

	2019 US$	2018 US$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Minimum tax expense	143,346	81,800	580,838	330,881
Deferred tax income	(366,922)	(369,490)	(1,486,768)	(1,494,587)
	(223,576)	(287,690)	(905,930)	(1,163,706)

21. Income tax/ Minimum tax (continued)

C. Income tax / Minimum tax expense (continued)

The reconciliation of income tax computed at the statutory tax rate of 20% to the income tax expense shown in profit or loss is as follows:

	2019 US$	2018 US$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Profit before income tax	(2,569,655)	(4,215,961)	(10,412,242)	(17,053,562)
Income tax rate of 20%	(513,931)	(843,192)	(2,082,448)	(3,410,712)
Effect of non-deductible expenses	186,974	58,315	757,619	235,884
Effect of temporary differences	(39,965)	415,387	(161,939)	1,680,241
	(366,922)	(369,490)	(1,486,768)	(1,494,587)
Minimum tax expense	143,346	81,800	580,838	330,881
Income tax benefit	(223,576)	(287,690)	(905,930)	(1,163,706)

The calculation of taxable income is subject to the final review and approval of the tax authorities.

22. Share capital

	31 December 2019 US$	31 December 2018 US$	31 December 2019 KHR'000 (Note 5)	31 December 2018 KHR'000 (Note 5)	1 January 2018 US$	1 January 2018 KHR'000 (Note 5)
Contributed capital	75,000,000	75,000,000	300,000,000	300,000,000	52,500,000	210,000,000

The total authorised number of shares is 75,000 (2018: 75,000) shares with par value of US$1,000 per share. All shares are issued and fully paid.

24. Interest income

	2019 US$	2018 US$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Loans and advances	12,770,996	6,956,360	51,748,076	28,138,476
Placements with the NBC	108,261	63,723	438,674	257,760
Placements with other banks	213,468	-	864,972	-
	13,092,725	7,020,083	53,051,722	28,396,236

25. Interest expense

	2019 US$	2018 US$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Fixed deposits	4,597,820	2,337,245	18,630,366	9,454,156
Borrowings	427,393	-	1,731,796	-
Demand accounts	160,109	140,990	648,762	570,305
Saving accounts	135,340	94,408	548,398	381,880
	5,320,662	2,572,643	21,559,322	10,406,341

26. Net fee and commission income

	2019 US$	2018 US$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Inward and outward remittance	369,230	270,589	1,496,120	1,094,533
Other fees	51,933	(234,435)	210,432	(948,290)
	421,163	36,154	1,706,552	146,243

27. Other income

	2019 US$	2018 US$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Other income	40,176	683	162,793	2,763

28. Personnel expenses

	2019 US$	2018 US$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Salaries and wages	2,472,724	1,808,235	10,019,478	7,314,311
Fringe benefits – Management	213,870	224,085	866,601	906,424
Other benefits	690,230	746,829	2,796,812	3,020,923
	3,376,824	2,779,149	13,682,891	11,241,658

29. Other operating expenses

	2019 US$	2018 US$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Depreciation and amortisation charge	1,889,966	1,407,085	7,658,142	5,691,659
Professional fees	1,104,776	758,123	4,476,552	3,066,608
Other tax expenses	774,102	537,180	3,136,661	2,172,893
Public relations, marketing and advertising	361,085	378,841	1,463,116	1,532,412
Low value lease and short term rental	226,891	129,449	919,362	523,621
Financial cost	192,356	154,131	779,427	623,460
License fees	183,742	124,833	744,523	504,949
Utilities expenses	127,086	88,506	514,952	358,007
Repairs and maintenance	118,239	51,817	479,104	209,600
Insurance expense	115,468	98,460	467,876	398,271

29. Other operating expenses

	2019 US$	2018 US$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Communication	96,173	68,150	389,693	275,667
Travelling and accomodation	65,388	87,430	264,952	353,654
Office supplies	58,182	59,854	235,753	242,109
Foreign exchange (gain)	(104,211)	(122,079)	(422,263)	(493,810)
Other expenses	622,803	340,295	2,523,600	1,376,493
	5,832,046	4,162,075	23,631,450	16,835,593

30. Commitments and contingencies

A. Operations

In the normal course of business, the Bank makes various commitments and incurs certain contingencies with legal recourse to its customers. No material losses are anticipated from these transactions, which consist of:

	31 December 2019 US$	2018 US$	31 December 2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Foreign exchange contracts	17,086,271	-	69,626,554	-
- Foreign exchange commitments - buy	8,500,000	-	34,637,500	-
- Foreign exchange commitments - sell	8,586,271	-	34,989,054	-
Unused portion of credit facilities	37,308,268	20,770,566	152,031,192	83,456,134
Letters of credits	2,342,638	367,850	9,546,250	1,478,021
Bankers' guarantees	11,824,154	5,712,818	48,183,428	22,954,103
	68,561,331	26,851,234	279,387,424	107,888,258

B. 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 could be significant.

31. Related parties

A. Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Bank if the Bank has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Bank and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

The Bank have related party relationships with its shareholder, associates and key management personnel.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank either directly or indirectly. The key management personnel include all the Directors of the Bank, and certain senior management members of the Bank.

Key management have banking relationships with Bank entities which are entered into in the normal course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with other persons of a similar standing or, where applicable, with other employees. These transactions did not involve more than the normal risk of repayment or present other unfavourable features.

B. Transactions with related parties

	2019 US$	2018 US$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Customer deposits				
Representative office of Compagnie Financiere de la BRED	1,027,452	1,349,360	4,163,236	5,458,161
BRD (Cambodia) Limited	717,720	229,349	2,908,201	927,717
Rental expense (building and meeting room)				
BRD (Cambodia) Limited	548,615	541,200	2,222,988	2,189,154
Electricity				
BRD (Cambodia) Limited	79,447	-	321,919	-
Access cards - fitness registration				
BRD (Cambodia) Limited	2,901	-	11,755	-

31. Related parties (continued)

B. Transactions with related parties (continued)

	2019 US$	2018 US$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Share capital injection				
BRED Banque Populaire	-	22,500,000	-	90,000,000
Overdraft on Correspondent Account				
BRED Banque Populaire	12,004,881	-	48,643,778	-
ALM Line				
BRED Banque Populaire	32,000,000	-	129,664,000	-
Management remuneration				
Salary for management	388,658	368,290	1,574,842	1,489,733
Benefits for management	30,144	221,292	122,143	895,126

31. Related parties (continued)

C. Balances with related parties

	31 December 2019 US$	31 December 2018 US$	31 December 2019 KHR'000 (Note 5)	31 December 2018 KHR'000 (Note 5)	1 January 2018 US$	1 January 2018 KHR'000 (Note 5)
Amount due to related party						
BRED Banque Populaire	12,004,881	-	48,919,890	-	2,338,505	9,440,545
Deposits from related parties						
Representative office of Compagnie Financiere de la BRED	1,027,452	1,349,360	4,186,867	5,421,728	1,275,942	5,150,978
BRD (Cambodia) Limited	717,720	229,349	2,924,709	921,522	57,995	234,126
	1,745,172	1,578,709	7,111,576	6,343,250	1,333,937	5,385,104
Deposits and placements with other banks						
Bred Banque Populaire - current account	5,716,765	42,514,364	23,295,817	170,822,715	1,490,800	6,018,360

BRED BANK CAMBODIA

32. Financial risk management

A. Introduction and overview

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

- credit risk;
- market risk;
- liquidity risk; and
- operational 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.

Risk management functional and governance structure

The Bank's Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board of Directors has established the Bank Audit committee and the Risk Committee, which are respectively responsible for approving and monitoring Bank's risk management policies.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Bank's activities. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Bank's Audit Committee oversees how management monitors compliance with the Bank's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Bank's Audit Committee.

32. Financial risk management (continued)

B. Credit risk

'Credit risk' is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks, and investment debt securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure – e.g. individual obligor default risk, country and sector risk.

Credit risk is the potential loss of revenue and principal losses arising mainly from loans and advances and loan commitments as a result of default by the borrowers or counterparties through its lending activities.

(i). Management of credit risk

BRED's credit risk management is based on the strict independence of the Commitments Department from the commercial business lines. The Commitments Department is involved in the decision-making process and subsequent monitoring of commitments. It has collaborators in the regional operational directorates, that, besides making credit decisions, ensure promotion good practices in order to satisfactorily control risk.

The Commitments Department proposes BRED's credit policy, as validated by its staff managers and approved by the Board of Directors. It validates the credit policies of the subsidiaries, once they have been approved by their respective surveillance departments. It monitors the dissemination and correct implementation of these policies within the BRED Group. The Credit Risk Department (DRC) is under the Head of Risk, Compliance and Permanent Control, which itself is directly under the General Management and reports to the Board of Directors.

The Credit Risk Department, which is totally independent from the commercial business lines and from the Commitments Department, is responsible for second level permanent control of credit risk. It validates the credit policies once they have been set by the head of department, before to be approved by BRED HQ Credit risk department and approved by the Board of Directors.

Management of credit risk is mainly based on:

- a system of delegation of powers to specific persons, reviewed annually by the Commitments Department and Credit Risk Department;
- an internal rating system that is highly integrated into the decision-making process;
- risk-spreading criteria;

32. Financial risk management (continued)

(i). Management of credit risk (continued)

Management of credit risk is mainly based on (continued)

- the following up on commitments on a continuous flow basis, with the help of an automated system of "position monitoring", of close-outs for depreciable trials and of defective accounts;
- reinforced detection and prevention of risks with retail, professional and corporate customers via the action of branch network employees and their hierarchy of monitoring tools;
- permanent control conducted by the Credit Risk Department on regular basis, through a sample selection.

(ii). Concentration of risk

The Board of Directors created the Bank Credit Committee for the oversight of credit risk. A separate Bank Credit department, reporting to the Bank Credit Committee, is responsible for managing the Bank's credit risk, including the following.

The following table presents the Bank's maximum exposure to credit risk of on-balance sheet and off-balance sheet financial instruments, without taking into account of any collateral held or other credit enhancements. For on-balance sheet assets, the exposure to credit risk equals their carrying amount. For contingent liabilities, the maximum exposure to credit risk is the maximum amount that the Bank would have to pay if the obligations of the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers.

32. Financial risk management (continued)

B. Credit risk (continued)

(ii). Concentration of risk (continued)

Type of credit exposure

31 December 2019	Maximum credit exposure US$	Maximum credit exposure KHR'000 (Note 5)	Fully subject to collateral/credit enhancement %	Partially subject to collateral/ credit enhancement %	Unsecured and not subject to collateral/ credit enhancement %
On Balance sheet items					
Cash equivalents with other banks	32,291,690	131,588,637	-	-	100%
Placements with other banks	11,235,640	45,785,233	-	-	100%
Loans and advances to customers	223,938,444	912,549,159	33%	53%	14%
Other assets	745,712	3,038,776	-	-	100%
Total	268,211,486	1,092,961,805			
Off-Balance sheet items					
Commitments	68,561,331	279,387,424	23%	70%	7%

32. Financial risk management (continued)

B. Credit risk (continued)

(ii). Concentration of risk (continued)

Type of credit exposure (continued)

31 December 2018	Maximum credit exposure US$	Maximum credit exposure KHR'000 (Note 5)	Fully subject to collateral/credit enhancement %	Partially subject to collateral/ credit enhancement %	Unsecured and not subject to collateral/ credit enhancement %
On Balance sheet items					
Cash equivalents with other banks	61,590,934	247,472,372	-	-	100%
Loans and advances to customers	116,847,727	469,494,167	32%	52%	16%
Other assets	256,678	1,031,332	-	-	100%
Total	178,695,339	717,997,871			
Off-Balance sheet items					
Commitments	26,851,234	107,888,258	20%	72%	8%

32. Financial risk management (continued)

B. Credit risk (continued)

(ii). Concentration of risk (continued)

Concentration risk by industrial sectors

31 December 2019	Cash and cash equivalents US$	Placements with other banks US$	Loans and advances to customers US$	Other assets US$	Total US$
Banking	41,192,347	11,235,640	-	-	52,427,987
Microfinance Institutions	-	-	26,726,752	-	26,726,752
Manufacturing	-	-	16,374,188	-	16,374,188
Printing	-	-	2,793,656	-	2,793,656
Water, Sewerage and Drainage	-	-	920,817	-	920,817
Construction Services	-	-	5,446,532	-	5,446,532
Import and Export	-	-	54,358,772	-	54,358,772
Other Wholesale Trade	-	-	16,439,573	-	16,439,573
Retail Trade	-	-	14,716,697	-	14,716,697
Hotels and Restaurants	-	-	15,615,190	-	15,615,190
Transport and Storage	-	-	3,305,084	-	3,305,084
Real Estate Loan	-	-	34,978,732	-	34,978,732
Other Retail Lending	-	-	18,873,289	-	18,873,289
Others	-	-	13,389,162	745,712	14,134,874
Total (US$)	41,192,347	11,235,640	223,938,444	745,712	277,112,143
Total (KHR'000 – Note 5)	167,858,814	45,785,233	912,549,159	3,038,776	1,129,231,982

32. Financial risk management (continued)

B. Credit risk (continued)

(ii). Concentration of risk (continued)

Concentration risk by industrial sectors

31 December 2018	Cash and cash equivalents US$	Placements with other banks US$	Loans and advances to customers US$	Other assets US$	Total US$
Banking	67,158,941	-	-	-	67,158,941
Microfinance Institutions	-	-	15,008,868	-	15,008,868
Manufacturing	-	-	8,479,089	-	8,479,089
Printing	-	-	845,457	-	845,457
Electricity	-	-	498,951	-	498,951
Water, Sewerage and Drainage	-	-	628,678	-	628,678
Construction Services	-	-	1,053,207	-	1,053,207
Import and Export	-	-	32,789,772	-	32,789,772
Other Wholesale Trade	-	-	6,584,388	-	6,584,388
Retail Trade	-	-	7,303,071	-	7,303,071
Hotels and Restaurants	-	-	6,134,931	-	6,134,931
Transport and Storage	-	-	1,494,413	-	1,494,413
Real Estate Loan	-	-	15,234,640	-	15,234,640
Other Retail Lending	-	-	11,126,618	-	11,126,618
Others	-	-	9,665,644	256,678	9,922,322
Total (US$)	67,158,941	-	116,847,727	256,678	184,263,346
Total (KHR'000 – Note 5)	269,844,624	-	469,494,167	1,031,332	740,370,123

32. Financial risk management (continued)

B. Credit risk (continued)

(ii). Concentration of risk (continued)

Concentration risk by residency and relationship, and large-exposures for loans and advances:

	31 December 2019 US$	31 December 2018 US$	31 December 2019 KHR'000 (Note 5)	31 December 2018 KHR'000 (Note 5)	1 January 2018 US$	1 January 2018 KHR'000 (Note 5)
By residency status:						
Residents	223,938,444	116,847,727	912,549,159	469,494,167	49,936,845	201,595,043
By relationship:						
External customers	220,149,951	115,343,096	897,111,050	463,448,560	49,332,433	199,155,032
Staff loans	3,788,493	1,504,631	15,438,109	6,045,607	604,412	2,440,011
	223,938,444	116,847,727	912,549,159	469,494,167	49,936,845	201,595,043
By exposure:						
Large exposures (*)	54,477,548	32,702,838	221,996,008	131,400,003	15,905,855	64,211,937
Non-large exposures	169,460,896	84,144,889	690,553,151	338,094,164	34,030,990	137,383,106
	223,938,444	116,847,727	912,549,159	469,494,167	49,936,845	201,595,043

32. Financial risk management (continued)

B. Credit risk (continued)

(ii). Concentration of risk (continued)

(*) A "large exposure" is defined under the NBC's 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.

(iii). Collateral

Whilst the Bank's maximum exposure to credit risk is the carrying amount of the assets or, in the case of off-balance sheet instruments, the amount guaranteed, committed, accepted or endorsed, the likely exposure may be lower due to offsetting collateral, credit guarantees and other actions taken to mitigate the Bank's exposure.

The description of collateral for each class of financial asset is set out below.

Cash and cash equivalents, placements with other banks, statutory deposits and other assets

Collateral is generally not sought for these assets.

Loans and advances to customers, contingent liabilities and commitments

Certain Loans and advances to customers, contingent liabilities and commitments are typically collateralised to a substantial extent. In particular, residential mortgage exposures are generally fully secured by residential properties.

32. Financial risk management (continued)

B. Credit risk (continued)

(iii). Collateral (continued)

The table below summarises the Bank's security coverage of its financial assets:

	Collateral/credit enhancement				Unsecured credit exposure	Total
	Properties US$	Floating assets US$	Fixed deposits US$	Others US$	US$	US$
31 December 2019						
Loans and advances to customers	185,160,630	-	3,346,945	4,436,697	30,994,172	223,938,444
Commitments	-	-	-	-	68,561,331	68,561,331
	185,160,630	-	3,346,945	4,436,697	99,555,503	292,499,775
31 December 2018						
Loans and advances to customers	79,922,546	-	3,346,945	2,220,840	31,357,396	116,847,727
Commitments	-	-	-	-	26,851,234	26,851,234
	79,922,546	-	3,346,945	2,220,840	58,208,630	143,698,961

32. Financial risk management (continued)

B. Credit risk (continued)

(iv). Credit quality of gross Loans and advances to customers

Pursuant to the NBC guideline Prakas B7.017.344, it has defined the each credit grading according to its credit quality as follows:

Normal:

Outstanding facility is repaid on timely manner and is not in doubt for the future repayment. Repayment is steadily made according with the contractual terms and the facility does not exhibit any potential weakness in repayment capability, business, cash flow and financial position of the counterparty.

Special mention:

A facility in this class is currently protected and may not be past due but it exhibits potential weaknesses that may adversely affect repayment of the counterparty at the future date, if not corrected in a timely manner, and close attention by the Institution.

Weaknesses include but are not limited to a declining trend in the business operations of the counterparty or in its financial position, and adverse economic and market conditions that all might affect its profitability and its future repayment capacity, or deteriorating conditions on the collateral. This class has clearly its own rational and should not be used as a compromise between Normal and Substandard.

Substandard

A facility ranked in this class exhibits noticeable weakness and is not adequately protected by the current business or financial position and repayment capacity of the counterparty. In essence, the primary source of repayment is not sufficient to service the debt, not taking into account the income from secondary sources such as the realization of the collateral.

Factors leading to a substandard classification include:

- Inability of the counterparty to meet the contractual repayments' terms,
- Unfavourable economic and market conditions that would adversely affect the business and profitability of the counterparty in the future,
- Weakened financial condition and/or inability of the counterparty to generate enough cash flow to service the payments,
- Difficulties experienced by the counterparty in repaying other facilities granted by the Institution or by other institutions when the information is available, and
- Breach of financial covenants by the counterparty.

32. Financial risk management (continued)

B. Credit risk (continued)

(iv). Credit quality of gross Loans and advances to customers (continued)

Doubtful

A facility classified in this category exhibits more severe weaknesses than one classified Substandard such that its full collection on the basis of existing facts, conditions or collateral value is highly questionable or improbable. The prospect of loss is high, even if the exact amount remains undetermined for now.

Loss

A facility is classified Loss when it is not collectable, and little or nothing can be done to recover the outstanding amount from the counterparty.

Recognition of ECL

The Bank apply a three-stage approach based on the change in credit quality since initial recognition:

3-Stage approach	Stage 1	Stage 2	Stage 3
	Performing	**Underperforming**	**Nonperforming**
Recognition of expected credit losses	12 months expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses
Criterion	No significant increase in credit risk	Credit risk increased significantly	Credit impaired assets
Basic of calculation of profit revenue	On gross carrying amount	On gross carrying amount	On net carrying amount

The Bank will measure ECL by using the general approach. The general approach consists of segregating the customers into three different stages according to the staging criteria by assessing the credit risk. 12-month ECL will be computed for stage 1, while lifetime ECL will be computed for stage 2 and stage 3. At each reporting date, the Bank will assess credit risk of each account as compared to the risk level at origination date.

Recognition of ECL (continued)

Long-term facilities (more than one year)

Stages	Credit Risk Status	Grades	DPD	Default Indicator
1	No significant increase in credit risk	Normal	0 ≤ DPD < 30	Performing
2	Credit risk increased significantly	Special Mention	30 ≤ DPD < 90	Underperforming
3	Credit impaired assets	Substandard	90 ≤ DPD < 180	Nonperforming
		Doubtful	180 ≤ DPD <360	
		Loss	DPD ≥ 360	

Short-term facilities (one year or less)

Stages	Credit Risk Status	Grades	DPD	Default Indicator
1	No significant increase in credit risk	Normal	0 ≤ DPD ≤ 14	Performing
2	Credit risk increased significantly	Special Mention	15 ≤ DPD ≤ 30	Underperforming
3	Credit impaired assets	Substandard	31 ≤ DPD ≤ 60	Nonperforming
		Doubtful	61 ≤ DPD ≤ 90	
		Loss	DPD ≥ 91	

The Bank will use the day past due (DPD) information and NBC's classification for staging criteria. Also, the Bank will incorporate credit scoring or more forward-looking elements in the future when information is more readily available. Upon the implementation of credit scoring system, it the risk level drops by two or more notches as compared to the risk level at origination, the accounts have to be classified under stage 2.

As for financial assets that are short term in nature, simplified approach will be adopted where no staging criteria is required. In this case, it will be either performing (stage1) or non-performing.

32. Financial risk management (continued)

B. Credit risk (continued)

(iv). Credit quality of gross Loans and advances to customers (continued)

Recognition of ECL (continued)

The table below summarises the credit quality of the Bank's gross financing according to the above classifications.

	31 December 2019			
	Stage 1 US$	Stage 2 US$	Stage 3 US$	Total US$
Loans and advances to customers at amortised cost				
Normal	224,022,703	549,924	674	224,573,301
Special Mention	15,835	38,664	-	54,499
Substandard	-	-	120,928	120,928
Doubtful	-	-	77,355	77,355
Loss	-	-	5,628	5,628
	224,038,538	588,588	204,585	224,831,711
Less allowance	(3,024,520)	(104,180)	(69,146)	(3,197,846)
Carrying amount (US$)	221,014,018	484,408	135,439	221,633,865
Carrying amount (KHR'000)	900,632,123	1,973,963	551,914	903,158,000

	31 December 2018			
	Stage 1 US$	Stage 2 US$	Stage 3 US$	Total US$
Loans and advances to customers at amortised cost				
Normal	117,387,680	95	-	117,387,775
Substandard	1,246	1,879	-	3,125
	117,388,926	1,974	-	117,390,900
Less allowance	(1,579,611)	(338)	-	(1,579,949)
Carrying amount (US$)	115,809,315	1,636	-	115,810,951
Carrying amount (KHR'000)	465,321,828	6,573	-	465,328,401

32. Financial risk management (continued)

B. Credit risk (continued)

(iv). Credit quality of gross Loans and advances to customers (continued)

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, supranational organisations such as the International Monetary Fund, and selected private-sector and academic forecasters.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments in accordance with each country and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

(v). Amounts arising from ECL

Loss allowance

The following tables show reconciliation from the opening to the closing balance of the loss allowance by class of financial instrument.

	2019			
	Stage 1 US$	Stage 2 US$	Stage 3 US$	Total US$
Loans and advances to customers at amortised cost				
Balance at 1 January	1,579,611	338	-	1,579,949
- Transfer to Stage 1	(10,334)	7,891	2,443	-
- Transfer to Stage 2	-	(2)	2	-
- Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	(191,357)	73,636	48,399	(69,322)
New financial assets originated or purchased	1,916,071	22,655	18,302	1,957,028
Financial assets that has been derecognised	(269,471)	(338)	-	(269,809)
Balance at 31 December (US$)	3,024,520	104,180	69,146	3,197,846
Balance at 31 December (KHR'000)	12,324,919	424,534	281,769	13,031,222

32. Financial risk management (continued)

B. Credit risk (continued)

(iv). Credit quality of gross Loans and advances to customers (continued)

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

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32. Financial risk management (continued)

C. Market risk (continued)

(i). Interest rate risk (continued)

The table below summarises the Bank's exposure to interest rate risk. The table indicates the periods in which the financial instruments reprice or mature, whichever is earlier.

As at 31 December 2019	Up to 1 month US$	> 1-3 months US$	> 3-6 months US$	> 6-12 months US$	> 1 to 5 years US$	Over 5 years US$	Non-interest bearing US$	Total US$	Interest rate %
Financial assets									
Cash and cash equivalents	1,830,000	-	-	-	-	-	39,362,347	41,192,347	0%-0.65%
Placements with other banks	-	1,268,651	1,280,855	8,686,134	-	-	-	11,235,640	0.60%-1.01%
Loans and advances to customers – gross	3,685,964	22,219,013	10,164,256	4,138,876	55,102,237	127,983,115	644,983	223,938,444	4.25%-18%
Other assets	-	-	-	-	-	-	745,712	745,712	
	5,515,964	23,487,664	11,445,111	12,825,010	55,102,237	127,983,115	40,753,042	277,112,143	
Financial liabilities									
Deposits from customers	71,942,604	39,083,830	3,137,939	27,322,678	39,686,900	11,614,919	2,990,770	195,779,640	0%-6%
Deposits from other banks	12,004,881	-	-	-	-	-	-	12,004,881	
Borrowings	-	1,239,426	1,250,616	8,457,791	-	-	-	10,947,833	2.8%-3.15%
Subordinated debts	32,012,466	-	-	-	-	-	-	32,012,466	2.80%
Derivative liabilities	-	-	-	-	-	-	4,080	4,080	
Lease liabilities	56,618	113,236	169,854	504,508	4,360,948	2,597,941	-	7,803,105	2.33%-3.24%
Other liabilities	-	-	-	-	-	-	1,469,020	1,469,020	
	116,016,569	40,436,492	4,558,409	36,284,977	44,047,848	14,212,860	4,463,870	260,021,025	
Interest sensitivity gap	(110,500,605)	(16,948,828)	6,886,702	(23,459,967)	11,054,389	113,770,255	36,289,172	17,091,118	
(KHR'000 equivalents - Note 5)	(450,289,965)	(69,066,474)	28,063,311	(95,599,366)	45,046,635	463,613,790	147,878,376	69,646,307	

32. Financial risk management (continued)

C. Market risk (continued)

(i). Interest rate risk (continued)

The table below summarises the Bank's exposure to interest rate risks which includes assets and liabilities at carrying amounts.

As at 31 December 2018	Up to 1 month US$	> 1-3 months US$	> 3-6 months US$	> 6-12 months US$	> 1 to 5 years US$	Over 5 years US$	Non-interest bearing US$	Total US$	Interest rate %
Financial assets									
Cash and cash equivalents	30,643,800	-	-	-	-	-	36,515,141	67,158,941	0%-0.8%
Loans and advances to customers – gross	2,251,986	9,821,974	6,329,682	3,056,951	34,150,145	61,236,989	-	116,847,727	4.5%-18%
Other assets	-	-	-	-	-	-	256,678	256,678	
	32,895,786	9,821,974	6,329,682	3,056,951	34,150,145	61,236,989	36,771,819	184,263,346	
Financial liabilities									
Deposits from customers	41,086,676	28,205,435	5,299,149	22,366,945	48,316,983	491,257	-	145,766,445	0%-6%
Lease liabilities	49,718	99,436	149,154	502,741	4,160,448	2,835,853	-	7,797,350	2.33%-3.24%
Other liabilities	-	-	-	-	-	-	1,559,617	1,559,617	
	41,136,394	28,304,871	5,448,303	22,869,686	52,477,431	3,327,110	1,559,617	155,123,412	
Interest sensitivity gap	(8,240,608)	(18,482,897)	881,379	(19,812,735)	(18,327,286)	57,909,879	35,212,202	29,139,934	
(KHR'000 equivalents - Note 5)	(33,110,763)	(74,264,280)	3,541,381	(79,607,569)	(73,639,035)	232,681,893	141,482,628	117,084,255	

32. Financial risk management (continued)

C. Market risk (continued)

(i). Interest rate risk (continued)

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or loss		Equity	
	100 bp Increase US$	100 bp Decrease US$	100 bp Increase US$	100 bp Decrease US$
31 December 2019				
Variable rate instruments	320,000	320,000	320,000	320,000
KHR'000 – Note 5	1,296,640	(1,296,640)	1,296,640	(1,296,640)

(ii). Foreign currency exchange risk

Foreign currency exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

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

32. Financial risk management (continued)

C. Market risk (continued)

(ii). Foreign currency exchange risk (continued)

Concentration of currency risk

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

	Denomination US$ equivalents				
	KHR	US$	EUR	THB	Total
31 December 2019					
Financial assets					
Cash and cash equivalents	2,529,255	32,241,025	6,131,972	290,095	41,192,347
Placements with other banks	-	11,235,640	-	-	11,235,640
Loans and advances to customers	22,475,401	201,463,018	25	-	223,938,444
Other assets	6,640	739,072	-	-	745,712
	25,011,296	245,678,755	6,131,997	290,095	277,112,143

32. Financial risk management (continued)

C. Market risk (continued)

(ii). Foreign currency exchange risk (continued)

Concentration of currency risk

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

	Denomination US$ equivalents				
31 December 2019	KHR	US$	EUR	THB	Total
Financial liabilities					
Deposits from customers	3,485,005	185,781,191	6,299,950	213,494	195,779,640
Deposits from other banks	-	12,004,881	-	-	12,004,881
Borrowings	10,947,833	-	-	-	10,947,833
Subordinated debts	-	32,012,466	-	-	32,012,466
Derivative liabilities	-	4,080	-	-	4,080
Lease liabilities	-	6,689,548	-	-	6,689,548
Other liabilities	1,401	1,463,820	3,795	4	1,469,020
	14,434,239	237,955,986	6,303,745	213,498	258,907,468
Net asset/(liability) position	10,577,057	7,722,769	(171,748)	76,597	18,204,675
KHR equivalents (Note 5)	43,101,507	31,470,284	(699,873)	312,133	74,184,051

32. Financial risk management (continued)

C. Market risk (continued)

(ii). Foreign currency exchange risk (continued)

Concentration of currency risk (continued)

The amounts of financial assets and liabilities, by currency denomination, are as follows: (continued)

	Denomination US$ equivalents				
31 December 2018	KHR	US$	EUR	THB	Total
Financial assets					
Cash and cash equivalents	3,989,142	58,096,798	4,739,354	333,647	67,158,941
Loans and advances to customers	6,715,580	110,132,085	57	5	116,847,727
Other assets	-	256,678	-	-	256,678
	10,704,722	168,485,561	4,739,411	333,652	184,263,346

32. Financial risk management (continued)

C. Market risk (continued)

(ii). Foreign currency exchange risk (continued)

Concentration of currency risk (continued)

The amounts of financial assets and liabilities, by currency denomination, are as follows: (continued)

	Denomination US$ equivalents				
31 December 2018	KHR	US$	EUR	THB	Total
Financial liabilities					
Deposits from customers	10,272,907	130,421,576	4,752,314	319,648	145,766,445
Lease liabilities	-	5,615,745	-	-	5,615,745
Other liabilities	5,587	1,545,942	8,082	6	1,559,617
	10,278,494	137,583,263	4,760,396	319,654	152,941,807
Net asset/(liability) position	426,228	30,902,298	(20,985)	13,998	31,321,539
KHR equivalents (Note 5)	1,712,584	124,165,433	(84,318)	56,244	125,849,943

32. Financial risk management (continued)

C. Market risk (continued)

(ii). Foreign currency exchange risk

Sensitivity analysis

Considering that other risk variables remain constant, the foreign currency revaluation sensitivity for the Bank as at reporting date is summarised as follows (only exposures in currencies that accounts for more than 5 percent of the net open positions are shown in its specific currency in the table below. For other currencies, these exposures are grouped as 'Others'):

	31 December 2019		31 December 2018	
	- 1% Depreciation US$	+ 1% Appreciation US$	- 1% Depreciation US$	+ 1% Appreciation US$
KHR	(105,771)	105,771	(4,262)	4,262
EUR	1,717	(1,717)	210	(210)
THB	(766)	766	(140)	140
	(104,820)	104,820	(4,192)	4,192
KHR'000 – Note 5	(427,142)	427,142	(16,843)	16,843

D. Liquidity risk

'Liquidity risk' is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises from mismatches in the timing and amounts of cash flows, which is inherent to the Bank's operations and investments.

Management of liquidity risk

The table below summarises the Bank's assets and liabilities based on remaining contractual maturities. The expected cash flows of these assets and liabilities could vary significantly from what is shown in the table. For example, deposits from customers are not all expected to be withdrawn immediately.

32. Financial risk management (continued)

D. Liquidity risk (continued)

As at 31 December 2019	Up to 1 month US$	> 1-3 months US$	> 3-6 months US$	> 6-12 months US$	> 1 to 5 years US$	Over 5 years US$	Non-interest bearing US$	Total US$
Financial assets								
Cash and cash equivalents	1,830,000	-	-	-	-	-	39,362,347	41,192,347
Placements with other banks	-	1,268,651	1,280,855	8,686,134	-	-	-	11,235,640
Loans and advances to customers – gross	3,685,964	22,219,013	10,164,256	4,138,876	55,102,237	127,983,115	644,983	223,938,444
Other assets	-	-	-	-	-	-	745,712	745,712
	5,515,964	23,487,664	11,445,111	12,825,010	55,102,237	127,983,115	40,753,042	277,112,143
Financial liabilities								
Deposits from customers	71,942,604	39,083,830	3,137,939	27,322,678	39,686,900	11,614,919	2,990,770	195,779,640
Deposits from other banks	12,004,881	-	-	-	-	-	-	12,004,881
Borrowings	-	1,239,426	1,250,616	8,457,791	-	-	-	10,947,833
Subordinated debts	32,012,466	-	-	-	-	-	-	32,012,466
Derivative liabilities	-	-	-	-	-	-	4,080	4,080
Lease liabilities	56,618	113,236	169,854	504,508	4,360,948	2,597,941	-	7,803,105
Other liabilities	-	-	-	-	-	-	1,469,020	1,469,020
	116,016,569	40,436,492	4,558,409	36,284,977	44,047,848	14,212,860	4,463,870	260,021,025
Maturity gap – US$	(110,500,605)	(16,948,828)	6,886,702	(23,459,967)	11,054,389	113,770,255	36,289,172	17,091,118
(KHR'000 equivalents - Note 5)	(450,289,965)	(69,066,474)	28,063,311	(95,599,366)	45,046,635	463,613,790	147,878,376	69,646,307

32. Financial risk management (continued)

D. Liquidity risk (continued)

As at 31 December 2018	Up to 1 month US$	> 1-3 months US$	> 3-6 months US$	> 6-12 months US$	> 1 to 5 years US$	Over 5 years US$	Non-interest bearing US$	Total US$
Financial assets								
Cash and cash equivalents	30,643,800	-	-	-	-	-	36,515,141	67,158,941
Loans and advances to customers – gross	2,251,986	9,821,974	6,329,682	3,056,951	34,150,145	61,236,989	-	116,847,727
Other assets	-	-	-	-	-	-	256,678	256,678
	32,895,786	9,821,974	6,329,682	3,056,951	34,150,145	61,236,989	36,771,819	184,263,346
Financial liabilities								
Deposits from customers	41,086,676	28,205,435	5,299,149	22,366,945	48,316,983	491,257	-	145,766,445
Lease liabilities	49,718	99,436	149,154	502,741	4,160,448	2,835,853	-	7,797,350
Other liabilities	-	-	-	-	-	-	1,559,617	1,559,617
	41,136,394	28,304,871	5,448,303	22,869,686	52,477,431	3,327,110	1,559,617	155,123,412
Maturity gap – US$	(8,240,608)	(18,482,897)	881,379	(19,812,735)	(18,327,286)	57,909,879	35,212,202	29,139,934
(KHR'000 equivalents - Note 5)	(33,110,763)	(74,264,280)	3,541,381	(79,607,569)	(73,639,035)	232,681,893	141,482,628	117,084,255

32. Financial risk management (continued)

E. Operational risk

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

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 parameters controls, streaming procedures and documentation ensuring compliance with regulatory and legal requirements. These are reviewed continually to address the operational risks of its banking business.

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 statement of financial position, 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 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 recognised and the Bank recognised the need 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.

The above regulated capital is calculated in accordance with the guidance issued by the NBC which may be different in some material respects compared to generally accepted principles applied by financial institutions in other jurisdiction. The above regulated capital information is therefore not intended for users who are not informed about the guidance issued by the NBC.

(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.

33. Fair values of financial assets and liabilities

Financial instruments comprise financial assets, financial liabilities and off-balance sheet instruments. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The information presented herein represents the estimates of fair values as at the financial position date.

Quoted and observable market prices, where available, are used as the measure of fair values of the financial instruments. Where such quoted and observable market prices are not available, fair values are estimated based on a range of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors.

Fair value information for non-financial assets and liabilities are excluded as they do not fall within the scope of CIFRS 7: Financial Instruments Disclosures which requires the fair value information to be disclosed. These include investment in subsidiaries and property and equipment.

The fair value of the Bank's financial instruments such as cash and short-term funds, balances with Prakash, deposits and placements with banks and other financial institutions, deposits from customers and banks, other assets, other liabilities and short-term borrowings are not materially sensitive to shifts in market profit rate because of the limited term to maturity of these instruments. As such, the carrying value of these financial assets and liabilities at financial position date approximate their fair values.

The fair values are based on the following methodologies and assumptions:

Financing, advances and others

The fair value is estimated by discounting the estimated future cash flows using the prevailing market rates of financing with similar credit risks and maturities.

Fair value hierarchy

CIFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources and unobservable inputs reflect the Bank's market assumptions. The fair value hierarchy is as follows:

- Level 1 – Quoted price (unadjusted) in active markets for the identical assets or liabilities. This level includes listed equity securities and debt instruments.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3 – Inputs for asset or liability that are not based on observable market data (unobservable inputs). This level includes equity instruments and debt instruments with significant unobservable components.

33. Fair values of financial assets and liabilities (continued)

Fair value hierarchy (continued)

The Bank's financial assets and liability are not measured at fair value. As verifiable market prices are not available, market prices are not available for a significant proportion of the Bank's financial assets and liabilities, the 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 balance sheet are a reasonable estimation of their fair values.

34. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing the opening CIFRS statement of financial position at 1 January 2018 for the purposes of the transition to, unless otherwise indicated.

A. Basis of measurement

The financial statements have been prepared on a historical cost basis.

B. Foreign currency

Transactions in foreign currencies are translated into the functional currency at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the spot exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

C. Financial assets and financial liabilities

(i). Recognition and initial measurement

The Bank initially recognises loans and advances, borrowings and subordinated liabilities on the date on which they are originated. All other financial the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

(ii). Classification

Financial assets

On initial recognition, a financial asset is classified as measured at amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

(ii). Classification (continued)

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

34. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(ii). Classification (continued)

Financial assets (continued)

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Non-recourse loans

In some cases, loans made by the Bank that are secured by collateral of the borrower limit the Bank's claim to cash flows of the underlying collateral (non-recourse loans). The Bank applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Bank typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;

34. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(ii). Classification (continued)

Financial assets (continued)

Non-recourse loans (continued)

- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Bank's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Bank will benefit from any upside from the underlying assets.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

(iii). Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit and loss.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

34. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(iv). Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see (iii)) and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit and loss as part of the gain or loss on derecognition.
- If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.
- If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit and loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.
- If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

(iv). Modifications of financial assets and financial liabilities (continued)

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit and loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit and loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(v). Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(vi). Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

34. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(vi). Fair value measurement (continued)

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit and loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments – e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

34. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(vii). Impairment

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments; and
- loan commitments issued.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

At each reporting date, the Bank assesses whether the credit risk of a financial instrument has increased significantly since initial recognition. When credit risk has increased significantly since initial recognition, loss allowance is measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and informed credit assessment and includes forward-looking information.

If credit risk has not increased significantly since initial recognition or if the credit quality of the financial instruments improves such that there is no longer a significant increase in credit risk since initial recognition, loss allowance is measured at an amount equal to 12-month ECLs.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Bank is exposed to credit risk.

34. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(vii). Impairment (continued)

Determining whether credit risk has increased significantly

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region.

The Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

Definition of default

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- The Bank considers that a significant increase in credit risk occurs no later than when an asset is more than or equal to 30 days past due for long-term facilities or more than or equal to 15 days past due for short-term facilities.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows; and

34. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(vii). Impairment (continued)

- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive.

Inputs, assumptions and techniques used for estimating impairment

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default ("PD");
- Loss given default ("LGD"); and
- Exposure at default ("EAD").

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

As Stage 2 exposures encompass Watch List exposures, prudential PD used for credit risk own funds requirements on Watch list exposures is taken into account. The bank credit granting policy follows general principles and rules defined in accordance with BRED Group credit granting approach. One shall remind that a significant part of the credit exposures, including the biggest files, are even presented to BRED credit committee for decision making. As a consequence, watch listed items are expected to process from similar credit granting processes and display similar behavior in terms of defaulting.

As per BRED Group Watch List methodology, credit exposures ranked on credit grades 14 and higher are included in the Watch List. Such exposures bear a PD at least equal to 11.73%. That grade 14 PD is therefore considered for stage 2 consistently with BRED Group credit practices.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters by setting default value set at 45% which corresponds to the Basel IRBF parameter for senior claims on corporates, sovereigns and banks not secured by recognised collateral.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

34. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(vii). Impairment (continued)

Credit-impaired financial assets (continued)

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets.

Write-off

Loans and advances are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit and loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

D. Cash and cash equivalents

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

34. Significant accounting policies (continued)

E. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of the ordinary share are recognised as a deduction from equity, net of any tax effects. Other shares are classified as equity and/or liability according to the economic substance of the particular instrument. Distributions to holders of a financial instrument classified as an equity instrument are charged directly to equity.

F. Regulatory reserves

Regulatory reserves are set up for the variance of provision between loan impairment in accordance with CIFRSs and regulatory provision in accordance with National Bank of Cambodia's Prakas No. B7-017-344 dated 1 December 2017 and Circular No. B7-018-001 Sor Ror Chor Nor dated 16 February 2018 on credit risk classification and provision on impairment for banks and financial institutions. In accordance with Article 73, the entity is shall compare the provision calculated in accordance with Article 49 to 71 and the provision calculated in accordance with Article 72, and the record:

(i) In case that the regulatory provision calculated in accordance with Article 72 is lower than provision calculated in accordance with Article 49 to 71, the entity records the provision calculated in accordance with CIFRSs; and

(ii) In case that the regulatory provision calculated in accordance with Article 72 is higher than provision calculated in accordance with Article 49 to 71, the entity records the provision calculated in accordance with CIFRSs and transfer the difference from retained earnings or accumulated loss account into regulatory reserve in shareholders' equity of the statement of the financial position.

The regulatory reserves are not an item to be included in the calculated of the Institution net worth.

G. Deposits and placements with banks

Deposits and placements with banks are stated at cost less impairment for any uncollectable amounts.

34. Significant accounting policies (continued)

H. Statutory deposits

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

I. Loans and advances

'Loans and advances' captions in the statement of financial position include loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

J. Other assets

Other assets are carried at cost less impairment if any.

K. Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property and equipment.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

34. Significant accounting policies (continued)

K. Property and equipment (continued)

(ii). Subsequent costs

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment and is recognised net within "other income" and "other expenses" respectively in profit or loss.

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Bank, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii). Depreciation

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Bank, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised as an expense in profit or loss on a straight-line over the estimated useful lives of each component of an item of property and equipment.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Bank will obtain ownership by the end of the lease term. Freehold land is not depreciated.

Depreciation is recognised from the date that the property, plant and equipment are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

34. Significant accounting policies (continued)

K. Property and equipment (continued)

(iii). Depreciation (continued)

The estimated useful lives for the current period are as follows:

	Years
Furniture and fixture	5 to 10
Equipment	5 to 10
Computer equipment	5
Motor vehicles	5

Depreciation methods, useful lives and residual values are reassessed at end of the reporting period and adjusted if appropriate.

L. Intangible assets

Intangible assets, which comprise acquired computer software licenses and related costs, are stated at cost less accumulated amortisation and impairment loss. Acquired computer software licenses are capitalised on the basis of the cost incurred to acquire the specific software and bring it to use.

Intangible assets are amortised over their estimated useful lives from 5 to 20 years using the straight-line method.

Costs associated with the development or maintenance of computer software are recognised as expenses when incurred.

M. Leases

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for period of time in exchange for consideration.

34. Significant accounting policies (continued)

M. Leases (continued)

To assess whether a contract conveys the right to control the use of an identified asset, the Bank assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right throughout the period of use, then the asset is not identified;
- the Bank has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Bank has the right to direct the use of the asset. The Bank has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In cases where all the decisions about how and for what purpose the asset is used are predetermined, the Bank has the right to direct the use of the asset if either:
  - the Bank has the right to operate the asset; or
  - the Bank designed the asset in a way that predetermines how and for what purpose It will be used.

This policy is applied to contracts entered into, or changed, on or after 1 January 2018.

At inception or on reassessment of a contract that contains a lease and non-lease component, the Bank allocates the consideration in the contract to each lease component and aggregate of non-lease components on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Bank has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

Leases in which the Bank is a lessee

An arrangement conveyed the right to use the asset if one of the following was met:

- the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
- the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or

34. Significant accounting policies (continued)

M. Leases (continued)

- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The estimated useful lives for the current period are as follows:

- Building and office branches 3 – 10 years

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, to the lessee's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

34. Significant accounting policies (continued)

M. Leases (continued)

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in the lease term, a change in the assessment of the option to purchase the underlying asset, a change in future lease payments arising from a change in an index or rate, or if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Transition

The Bank applies CIFRS 16 initially on 1 January 2018, using the modified retrospective approach. Therefore, the cumulative effect of adopting CIFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2018, with no restatement of comparative information.

The Bank is not permitted to apply the practical expedient to grandfather the definition of a lease under the Cambodian Accounting Standards on transition. This means that it will apply CIFRS 16 to all contracts entered into before 1 January 2018 and assess whether the contracts are/contain leases. However, CIFRS 16 introduces consequential amendments to CIFRS 1, which include an option for a first-time adopter to apply the new lease definition to contracts existing at the date of transition based on facts and circumstances at that date.

N. Borrowings

Borrowings are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at amortised cost using effective interest method.

34. Significant accounting policies (continued)

O. Employee benefits

(i). Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii). Other long-term employee benefits

The Bank's net obligation in respect of long-term employee benefits is the amount of the benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit and loss in the period in which they arise.

P. Provisions

Provisions are recognised in the statement of financial position 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. The unwinding of the discount is recognised as finance cost.

Q. Interest

Effective interest rate

Interest income and expense are recognised in profit and loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

34. Significant accounting policies (continued)

Q. Interest (continued)

Effective interest rate (continued)

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank/the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit- impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Calculation of interest income and expense (continued)

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit and loss and OCI includes interest on financial assets and financial liabilities measured at amortised cost.

Interest expense presented in the statement of profit and loss and OCI includes financial liabilities measured at amortised cost.

R. Fee and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Other fee and commission income – including account servicing fees is recognised as the related services are performed.

A contract with a customer that results in a recognised financial instrument in the Bank's financial statements may be partially in the scope of CIFRS 9 and partially in the scope of CIFRS 15. If this is the case, then the Bank first applies CIFRS 9 to separate and measure the part of the contract that is in the scope of CIFRS 9 and then applies CIFRS 15 to the residual.

S. Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than inventories, contract assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

34. Significant accounting policies (continued)

S. Impairment of non-financial assets (continued)

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs 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 or CGU.

For the purpose of impairment testing, assets that cannot be tested individually 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 CGUs.

Impairment losses are recognised in profit and loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

T. Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit and loss except items recognised directly in equity or in other comprehensive income.

The Bank has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore has accounted for them under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and has recognised the related expenses in 'other expenses'.

(i). Current tax

Current tax comprises the expected tax payable or receivable on the taxable income for the period using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous period.

34. Significant accounting policies (continued)

T. Income tax (continued)

(ii). Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset are recognised for unused tax losses and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used. 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; such reductions are reversed when the probability of future taxable profits improves.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deffered tax assets and liabilities are offset only if certain criteria are met.

U. Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is not recognised in the statements of financial position and is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

V. Contingent assets

Where it is not possible that there is an inflow of economic benefits, or the amount cannot be estimated reliably, the asset is not recognised in the statements of financial position and is disclosed as a contingent asset, unless the probability of inflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent assets unless the probability of inflow of economic benefits is remote.

35. Explanation of transition to CIFRSs

Adoption of CIFRS Framework

The Bank has adopted the Cambodian International Financial Reporting Standards ("CIFRSs") which is consistent with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") as at 1 January 2019. These financial statements of the Bank for the year ended 31 December 2019 are the first set of financial statements prepared in accordance with CIFRSs including the application of CIFRS 1 First-time Adoption of Cambodian International Financial Reporting Standards.

Accordingly, the Bank have prepared financial statements which comply with CIFRSs applicable for periods ending on or after 31 December 2019, together with the comparative period information as at and for the period ended 31 December 2018, as described in the significant accounting policies in Note 34.

In preparing these financial statements, the Bank's opening statements of financial position were prepared as at 1 January 2018, being the Bank's date of transition to CIFRSs. Principal adjustments made by the Bank in restating its statements of financial position as at 1 January 2018 and its previously published financial statements for the year ended 31 December 2018, both of which was prepared in accordance with the Cambodian Accounting Standards are presented in below.

Optional exemptions applied

CIFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under CIFRSs. The Bank have applied the following exemptions:

Fair value or revaluation as deemed cost - property and equipment

The Bank has elected to measure individual items of property and equipment using previous GAAP that are broadly comparable to depreciated cost in accordance with CIFRSs as at the date of transition to CIFRSs.

Leases

CIFRS 16 introduces consequential amendments to CIFRS 1, which include an option for a first-time adopter to apply the new lease definition to contracts existing at the date of transition based on facts and circumstances at that date.

The Bank applied the abovementioned exemption and maintained the conclusions achieved arising from assessments previously made under Cambodia Accounting Standards for existing lease arrangements.

Other optional exemptions available under CIFRS 1, which are not discussed here, are not material to the Bank.

35. Explanation of transition to CIFRSs (continued)

Mandatory exemptions

Estimates

The estimates at 1 January 2018 and at 31 December 2018 are consistent with those made for the same dates in accordance with Cambodian Accounting Standards. The estimates used by the Bank to present these amounts in accordance with CIFRSs reflect conditions at 1 January 2018, the date of transition to CIFRSs, and as at 31 December 2018.

Derecognition of financial assets and financial liabilities

A first-time adopter shall apply the derecognition requirements of CIFRSs prospectively for transactions occurring on or after 1 January 2018, the date of transition to CIFRSs. However, an entity may apply the derecognition requirements of CIFRSs from a retrospective date of the entity's choosing provided that the information required to do this was obtained at the time of initially accounting for those transactions.

The Bank have applied the derecognition requirements of CIFRSs prospectively for transactions occurring on or after 1 January 2018.

The reconciliations contain two columns for each period as well as the Cambodia GAAP and CIFRSs results. The "reclassification" column includes reclassification and reanalysis of amounts from their Cambodia GAAP statement of financial position lines to the appropriate CIFRS statement of financial position lines. The "effect of transition to CIFRSs" column sets out the effects of the recognition and measurement changes required by the transition to CIFRSs. The "effect of transition to CIFRSs" columns are further analysed into the type of adjustment.

An explanation of how the transition from previous Cambodia GAAP to CIFRSs and the adoption of CIFRS 9, CIFRS 15 and CIFRS 16 have affected the Bank's financial position, financial performance and cash flows, is set out under the summary of quantitative impact and the accompanying notes.

35. Explanation of transition to CIFRSs (continued)

Reconciliation of equity

The following reconciliations summarise the impacts on initial application of CIFRSs on the Bank's financial position as at 31 December 2017 and 1 January 2018 and the Bank's profit or loss and other comprehensive income for the year ended 31 December 2018.

	Note	31 December 2017			1 January 2018	31 December 2018			
		Cambodia GAAP	Effect of transition to CIFRSs		CIFRSs	Cambodia GAAP	Effect of transition to CIFRSs		CIFRSs
			Reclassification	Remeasurement			Reclassification	Remeasurement	
		US$	US$	US$	US$	US$	US$	US$	US$
ASSETS									
Cash on hand	A(i)	2,830,617	(2,830,617)	-	-	5,568,008	(5,568,008)	-	-
Balances with the NBC	A(i)	23,017,701	(23,017,701)	-	-	18,629,258	(18,629,258)	-	-
Placements with other banks	A(i)	6,371,045	(6,371,045)	-	-	42,527,121	(42,527,121)	-	-
Cash and cash equivalents	A(i)	-	32,223,621	(86,009)	32,137,612	-	66,729,374	(150,348)	66,579,026
Statutory deposits		10,763,624	-	-	10,763,624	25,424,888	-	-	25,424,888
Loans and advances to customers – net	A(i)	49,421,700	15,936	(178,124)	49,259,512	115,828,585	(162,422)	(398,385)	115,267,778
Other assets	A(i)	1,343,806	(251,903)	-	1,091,903	1,649,031	(381,006)	-	1,268,025
Intangible assets		1,526,114	-	-	1,526,114	1,382,636	-	-	1,382,636
Property and equipment		1,393,429	-	-	1,393,429	2,912,745	-	-	2,912,745
Right-of-use assets	B	-	-	3,814,137	3,814,137	-	-	5,531,698	5,531,698
Deferred tax assets – net	C	-	-	118,056	118,056	-	-	487,546	487,546
Total assets (US$)		96,668,036	(231,709)	3,668,060	100,104,387	213,922,272	(538,441)	5,470,511	218,854,342
Total assets (KHR'000 – Note 5)		390,248,862	(935,409)	14,807,957	404,121,410	859,539,689	(2,163,456)	21,980,512	879,356,745

35. Explanation of transition to CIFRSs (continued)

Reconciliation of equity (continued)

	Note	31 December 2017			1 January 2018	31 December 2018			
		Cambodia GAAP	Effect of transition to CIFRSs		CIFRSs	Cambodia GAAP	Effect of transition to CIFRSs		CIFRSs
			Reclassification	Remeasurement			Reclassification	Remeasurement	
		US$	US$	US$	US$	US$	US$	US$	US$
LIABILITIES AND EQUITY									
Deposits from customers	A(i)	46,256,411	276,352	-	46,532,763	144,747,083	1,019,362	-	145,766,445
Deposits from other banks	A(i)	-	2,338,505	-	2,338,505	-	-	-	-
Amount due to related parties	A(i)	2,338,505	(2,338,505)	-	-	-	-	-	-
Lease liabilities	B	-	-	3,814,137	3,814,137	-	-	5,615,745	5,615,745
Other liabilities	A(i)	1,119,729	(508,061)	-	611,668	3,449,444	(1,889,825)	(2)	1,559,617
Provision for impairment off balance sheet items	A(ii)	-	-	-	-	-	332,022	30,470	362,492
Provision for employee benefits		-	-	-	-	163,000	-	-	163,000
Current income tax liability		-	-	-	-	8,000	-	-	8,000
Total liabilities		49,714,645	(231,709)	3,814,137	53,297,073	148,367,527	(538,441)	5,646,213	153,475,299
EQUITY									
Share capital		52,500,000	-	-	52,500,000	75,000,000	-	-	75,000,000
Accumulated losses	A(iv)	(5,546,609)	-	(146,077)	(5,692,686)	(9,445,255)	-	(175,702)	(9,620,957)
Total shareholder's equity		46,953,391	-	(146,077)	46,807,314	65,554,745	-	(175,702)	65,379,043
Total liabilities and equity (US$)		96,668,036	(231,709)	3,668,060	100,104,387	213,922,272	(538,441)	5,470,511	218,854,342
Total liabilities and equity (KHR'000 – Note 5)		390,248,862	(935,409)	14,807,957	404,121,410	859,539,689	(2,163,456)	21,980,512	879,356,745

35. Explanation of transition to CIFRSs (continued)

Reconciliation of statement of profit or loss for the year ended 31 December 2018

	Note	Cambodia GAAP US$	Effect of transition to CIFRSs Reclassification US$	Remeasurement US$	CIFRSs US$
Operating income					
Interest income	A(iii)	6,663,568	356,515	-	7,020,083
Interest expense		(2,572,643)	-	-	(2,572,643)
Net interest income		4,090,925	356,515	-	4,447,440
Net fee and commission income	A(iii)	392,669	(356,515)	-	36,154
Other income		683	-	-	683
Total operating profit		4,484,277	-	-	4,484,277
Personnel expenses		(2,779,149)	-	-	(2,779,149)
Other operating expenses	B	(4,078,029)	-	(84,046)	(4,162,075)
Total operating expenses		(6,857,178)	-	(84,046)	(6,941,224)
Operating loss before impairment		(2,372,901)	-	(84,046)	(2,456,947)
Impairment losses on financial instruments	A(ii)	(1,443,945)	-	(315,069)	(1,759,014)
Loss before income tax		(3,816,846)	-	(399,115)	(4,215,961)
Income tax expense	C	(81,800)	-	369,490	287,690
Net loss for the year		(3,898,646)	-	(29,625)	(3,928,271)
Other comprehensive loss		-	-	-	-
Currency translation reserves		-	-	-	-
Total comprehensive loss for the year		(3,898,646)	-	(29,625)	(3,928,271)

35. Explanation of transition to CIFRSs (continued)

Summary of profit or loss and other comprehensive income reclassifications and key adjustments as a result of transition from Cambodia GAAP to CIFRS.

Summary of balance sheet reclassifications and key adjustments as a result of transition from Cambodia GAAP to CIFRS.

A. Financial assets and liabilities

CIFRS 9 Financial Instruments sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. It also introduces a new 'expected credit loss' (ECL) model and a new general hedge accounting model. The Bank adopted CIFRS 9 from 1 January 2018.

Changes in accounting policies resulting from the adoption of CIFRS 9 have been generally applied by the Bank retrospectively, except as described below.

- The following assessments were made on the basis of facts and circumstances that existed at 1 January 2018.
  - The determination of the business model within which a financial asset is held;
  - The determination of whether the contractual terms of a financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding;
  - The designation of an equity investment that is not held-for-trading as at FVOCI; and
- If a debt investment has low credit risk at 1 January 2018, the Bank had assumed that the credit risk on the asset has not increased significantly since its initial recognition.

The impact upon adoption of CIFRS 9, including the corresponding tax effects, are described below.

(i) Classification of financial assets and financial liabilities

Under CIFRS 9, financial assets are classified in the following categories: measured at amortised cost, FVOCI – debt instrument, FVOCI – equity instrument; or FVTPL. The classification of financial assets under CIFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

For an explanation of how the Bank classifies and measures financial assets and related gains and losses under CIFRS 9, see Note 34C(ii).

The following table and the accompanying notes below explain the original measurement categories under Cambodia GAAP and the new measurement categories under CIFRS 9 for each class of the Bank's financial assets as at 1 January 2018 and 31 December 2018.

35. Explanation of transition to CIFRSs (continued)

A. Financial assets and liabilities (continued)

(i) Classification of financial assets and financial liabilities (continued)

	Note	Original classification under Cambodia GAAP	New classification under CIFRS 9	1 January 2018 Original carrying amount under Cambodia GAAP US$	1 January 2018 New carrying amount under CIFRS 9 US$	31 December 2018 Original carrying amount under Cambodia GAAP US$	31 December 2018 New carrying amount under CIFRS 9 US$
Financial assets							
Cash and cash equivalents (reclassified)	(a)	Cost	Amortised cost	32,219,363	32,137,612	66,724,387	66,579,026
Loans and advances to customers	(b)	Carrying amount	Amortised cost	49,421,700	49,259,512	115,828,585	115,267,778
Other assets	(c)	Cost	Amortised cost	1,343,806	1,091,903	1,649,031	1,268,025
Total financial assets (US$)				82,984,869	82,489,027	184,202,003	183,114,829
Total financial assets (KHR'000 – Note 5)				335,009,916	333,008,202	740,123,648	735,755,383

35. Explanation of transition to CIFRSs (continued)

A. Financial assets and liabilities (continued)

(i) Classification of financial assets and financial liabilities (continued)

	Note	Original classification under Cambodia GAAP	New classification under CIFRS 9	1 January 2018 Original carrying amount under Cambodia GAAP US$	1 January 2018 New carrying amount under CIFRS 9 US$	31 December 2018 Original carrying amount under Cambodia GAAP US$	31 December 2018 New carrying amount under CIFRS 9 US$
Financial liabilities							
Deposits from customers	(c)	Cost	Amortised cost	46,256,411	46,532,763	144,747,083	145,766,445
Deposits from other banks (reclassified)	(c)	Cost	Amortised cost	2,338,505	2,338,505	-	-
Other liabilities	(c)	Cost	Amortised cost	1,119,729	611,668	3,449,444	1,559,617
Total financial liability (US$)				49,714,645	49,482,936	148,196,527	147,326,062
Total financial liability (KHR'000 – Note 5)				200,698,022	199,762,613	595,453,645	591,956,117

35. Explanation of transition to CIFRSs (continued)

A. Financial assets and liabilities (continued)

(i) Classification of financial assets and financial liabilities (continued)

(a) Under Cambodia GAAP, cash on hand, balances with the NBC and placements with other banks which are reclassified to cash and cash equivalents, and statutory deposits to conform to the current presentation, which were previously measured at cost are now measured at amortised cost.

(b) Loans and advances to customers that were classified as loans and receivables under Cambodia GAAP are now classified at amortised cost.

(c) Other assets and the financial liabilities that were classified at cost are now classified at amortised cost.

(ii) Impairment of financial assets

CIFRS 9 replaces the 'incurred loss' model in Cambodia GAAP with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost.

The application of CIFRS 9 impairment requirements at 1 January 2018 results in additional allowances for impairment as follows:

	1 January 2018 US$	31 December 2018 US$
Loss allowance under Cambodia GAAP	499,209	1,943,154
Additional impairment recognised on:		
Loans and advances to customers – amortised costs	178,124	398,384
Off balance sheet items	-	30,470
Placement with Banks	86,009	150,348
Loss allowance under CIFRS 9	763,342	2,522,356
Loss allowance under CIFRS 9 (KHR'000 – Note 5)	3,081,612	10,134,826

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

There were no transfers of regulatory reserves from retained earnings to regulatory reserves.

35. Explanation of transition to CIFRSs (continued)

A. Financial assets and liabilities (continued)

(ii) Impairment of financial assets (continued)

Additional information about how the Bank measure the allowance for impairment is described in Note 32B.

(iii) Interest

Under Cambodia GAAP, fees integral to the financial assets and liabilities were not considered as effective interest and recognised as income on occurrence of transactions. Recognition of interest income was suspended when loan become non-performing.

Under CIFRSs, a financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. Interest is still recognised on the non-performing loan.

The impact arising from the change is summarised as follows:

	1 January 2018 US$	31 December 2018 US$
Statement of financial position		
Decrease in loans and advances	(231,709)	(538,441)
Related tax effect	(46,342)	(107,688)
Adjustment to retained earnings	(278,051)	(646,129)
Adjustment to retained earnings (KHR'000 – Note 5)	(1,122,492)	(2,596,146)
Statement of comprehensive income		
Increase in interest income		356,515
Decrease in fees and commission income		(356,515)
Adjustment before income tax – US$		-
Adjustment to before income tax (KHR'000 – Note 5)		-

35. Explanation of transition to CIFRSs (continued)

A. Financial assets and liabilities (continued)

(iv) Transition impact on equity

The following table summarises the impact, net of tax, of transition to CIFRS 9 on reserves, retained earnings at 1 January 2018.

	Impact of adopting CIFRS 9 at 1 January 2018	
	US$	KHR'000
Retained earnings		
Closing balance under Cambodia GAAP (31 December 2017)	(5,546,609)	(22,391,659)
Recognition of expected credit losses under CIFRS 9	(264,133)	(1,066,306)
Related tax	118,056	476,592
Opening balance under CIFRS 9 (1 January 2018)	(5,692,686)	(22,981,373)

B. Leases

The Bank previously classified leases as operating leases under CAS 17 based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Bank. Under CIFRS 16, the Bank and the Bank recognises right-of-use assets and lease liabilities for leases of branch and office premises – i.e. these leases are on-balance sheet.

	1 January 2018	31 December 2018
	US$	US$
Statement of financial position		
Right-of-used assets	3,814,137	5,531,698
Deferred tax assets	-	16,809
Lease liabilities	(3,814,137)	(5,615,745)
Adjustment to retained earnings	-	(67,238)
Adjustment to retained earnings (KHR'000 – Note 5)	-	(270,162)

Statement of comprehensive income	
Depreciation of right-of-used assets	(595,232)
Interest expense on lease liability	(154,131)
Rental expenses	665,317
Adjustment before income tax – US$	(84,046)
Adjustment to before income tax - (KHR'000 – Note 5)	(339,966)

35. Explanation of transition to CIFRSs (continued)

C. Income tax

The above changes decreased the deferred tax assets as follows:

	1 January 2018 US$	31 December 2018 US$
Impairment allowance	152,669	504,471
Rights-of- use assets	762,827	1,106,340
Lease liabilities	(762,827)	(1,123,149)
Loan processing fees	(46,342)	(107,709)
Others	11,729	107,593
Increase in deferred tax assets – US$	118,056	487,546
Increase in deferred tax assets – KHR'000 – Note 5	476,592	1,958,960

36. Events after the reporting date

The ECL at 31 December 2019 was estimated based on a range of forecast economic conditions as at that date. Subsequently, the coronavirus outbreak has spread across mainland China, Cambodia and beyond, causing disruption to business and economic activity. The impact on GDP and other key indicators will be considered when determining the severity and likelihood of downside economic scenarios that will be used to estimate ECL under CIFRS 9 in 2020.