



ANNUAL REPORT 2017

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MESSAGE FROM THE CEO



Looking back at our work over the past year, we clearly see that ABA Bank's solid performance in 2017 reflected the steady growth of Cambodian economy and our adherence to the long-term strategy of constant development of our network and innovative banking solutions. This year, our profit has increased 59% reaching US\$ 46.19 million, and this growth proves the commitment and hard work of our staff in supporting our valued customers.

MAIN ACHIEVEMENTS

Let me now briefly highlight the most significant achievements we experienced in 2017.

First, I recall the official re-launch of our corporate logo back in January. We held this event together with Louis Vachon, the President and CEO of National Bank of Canada. The updated brand of ABA serves to emphasize our traditional strengths, our innovation, our reputation in the market, and credibility. It also clearly shows that one of the largest financial institutions from the North American continent securely backs up ABA Bank, which we are proud of.

Our branch network in 2017 kept expanding further throughout Cambodia. We opened another eight branches with five of them on the district level. It proves our commitment to developing the country and bringing modern financial services closer to people in provinces. Also in 2017, our network received its first Money Exchange Service outlet in one of Phnom Penh's busiest market area. We are optimistic on this business direction and have plans to expand it in future.

Speaking of the development of our services in 2017, I would describe it as "digitalization as much as possible". We fully understand the impact and importance of digital solutions in finance and are embracing the opportunities of digital finances. We ran numerous initiatives that helped customers to interact with their bank faster, safer, and easier with the help of technologies:

Our flagship product in retail banking, ABA Mobile app, received a significant development. Within a year, the number of active users of the app more than doubled from 42,000 to 100,000 people! In August, we released a big feature update, which allows our valued customers to open deposit accounts right in the app, to issue virtual cards for safe online shopping, and to make cashless payments in shops or online. But even before this massive update, the app already topped the charts, becoming the most popular financial app in Cambodia according to the iOS data report from Apple.

To make the onboarding process easier for our prospects, we launched Online Account Opening web service, which allows new customers to apply for any ABA Bank account remotely and at any time. This initiative was very well received, and significantly reduces time of our client's branch visit. We went further and launched Off-Site Account Opening project, where our properly trained and well-equipped staff visit perspective customers at their premises. This is extremely helpful for people who run their business or work in the office and have no time to visit the bank branch to open an account. This initiative brings ABA even closer to customers and delivers our service to where it is convenient to them.

In July, we introduced PayWay, our own online payment gateway that was designed and created with deep understanding of the local market. This secure and convenient solution helps local entrepreneurs sell their products or services online and accept payments instantly. PayWay became another great product in ABA financial ecosystem that gives access to digital financial solutions to more Cambodians.

At the same time, ABA paid attention to further development of other retail facilities. In 2017, we issued almost 100,000 cards including Visa, Mastercard, and UPI. Our ATM network remains the second largest in the country with more than 200 spots. Concurrently, our cash-in kiosk network has been significantly increased, which helps us greatly in collecting account deposits and loan repayments at our customers' convenience.

Our partnership with Manulife, one of the leading life insurance companies, extended even further after we signed an exclusive 15-year Partnership Agreement in June. This partnership offers our valued customers quality life insurance products for their protection. It means that our customers get more tools to make their lives and the lives of their loved ones safer.

In 2017, international financial magazines worthily praised our advancements. We proved our commitment to the customers and market excellence, having received two international awards. Global Finance Magazine named ABA the Best Bank in Cambodia for the third consecutive year, while Euromoney magazine gave us their top award for the fourth time in a row.

However, our international recognition now lies beyond awards from financial magazines. In 2017, for the first time in ABA's history, two major credit rating agencies assigned their ratings to the bank. Dagong Global Agency from Hong Kong issued "B+" long-term rating to ABA, and Standard & Poor's, one of the leading credit rating agencies in the world, assigned "B" short-term and long-term credit ratings. Thus, ABA Bank became the only bank in Cambodia with two international credit ratings. This recognition denotes ABA's strong creditworthiness, transparent governance structure, and validates our strong financial status in the banking industry.

FINANCIAL RESULTS

Our financial performance in 2017 is remarkable and we continued to show strong growth in all main business areas:

- Total assets of the Bank grew 47% within the year and reached US\$ 1.64 billion compared to 2016;
- Deposit portfolio reached US\$ 1.26 billion, compared to 856 million just a year ago (+40 growth year-to-year).
- We managed to increase the loan portfolio to US\$ 1.19 billion, which represents 51% growth year-to-year.

ABA continued to acquire new customers and managed to further extend its relationships with existing customers. At the end of 2017, more than 232,000 depositors and 37,000 borrowers trusted ABA. As result, we experienced a 59.17% increase in net profit that reached USD 46.19 million, representing a 28.06% return on equity, which is the highest among commercial banks.

PLANS FOR 2018

We see 2018 as the year of new opportunities and challenges. It is a good opportunity for us to seize new horizons and introduce advanced products and services to our customers.

Our network will continue to expand with more branches to open in new provinces and existing areas of operation. As part of the renovation plan, our upgraded Head Office building is set to launch in the first quarter of 2018. It is going to be a spacious contemporary office bringing a modern look and contributing to the landscape of the city.

In 2018, we will continue focusing on digitalization of the services. Our "mobile-first" strategy will continue to thrive, offering customers more and more opportunities for seamless and remote banking with ABA.

We will also keep investing in our e-commerce platform, PayWay. Online commerce has huge potential in Cambodia with more and more businesses getting involved in it, and it is a good opportunity to increase penetration on microbusiness level, making ABA their bank for all transactions.

In 2018, the Bank will deploy a new digital multichannel platform, which will allow us to introduce to the market a new corporate Internet Banking service and completely re-launch the Internet Banking service for retail segment.

The impact of digitalization becomes crucial in the financial sector. Together with it, we see growing importance of FinTech, which presents both opportunities and challenges to banks as we fiercely compete to grow our customers. However, I believe that ultimately our innovations along with those of FinTech will help enhance the services the industry provides to customers, and we at ABA are embracing the opportunities, nurturing an innovative culture as one of our top priorities.

On the lending side, we will certainly continue to follow our existing strategy and keep focusing on microbusiness and SME loans.

In short, we will try to make the most out of the opportunities that our current successes open for us. And, we are confident that ABA is well positioned to bring further value to its shareholders.

I would like to thank all our customers, shareholders, and each employee for their invaluable support and contribution to our development in 2017.



Askhat Azhikhanov

Chief Executive Officer

WHO WE ARE



ABA Bank is one of Cambodia's leading private financial institutions founded in 1996 as the Advanced Bank of Asia Limited.

For more than two decades of growth and development, ABA has significantly strengthened its position in the market and entered the Top 5 commercial banks of the country. Today, ABA offers a vast array of services to all customer segments covering SMEs, micro businesses, and individuals. With more than 55 branches, 100 self-banking kiosks, and 210 ATMs across the country, ABA Bank reaches out to a large number of customers with an array of modern financial services.

ABA Bank has an effective and well-synchronized professional team that is committed to maintaining and improving our performance. Our international management team brings invaluable expertise and allows ABA Bank to comply with international standards of service and security.

The most renowned financial publications of the globe recognized ABA's efforts to bring the very best to its clients:

- *Euromoney* magazine named ABA Bank as the "Best Bank in Cambodia" in 2014 – 2017.
- *Global Finance* magazine awarded "The Best Bank in Cambodia" title to ABA Bank in 2015 – 2018.
- *The Banker* magazine granted ABA the title "Cambodia's Bank of The Year" in 2014 and 2016.



In July 2014, the "A+" rated financial institution, National Bank of Canada became ABA Bank's shareholder. As

of December 31, 2017, National Bank of Canada is the major shareholder of ABA holding 90% of the Bank's shares. National Bank of Canada is the sixth largest bank in Canada and the leading bank in Quebec where it is the partner of choice among SMEs.

In 2017, ABA Bank became the first bank in Cambodia to receive two international credit ratings from two prominent international rating agencies:

**STANDARD
& POOR'S**

'B' long-term and short-term credit ratings from Standard & Poor's (S&P) Global Ratings Agency



'B+' long-term credit rating from Dagong Global Credit Rating Agency (Hong Kong)

VISION, MISSION AND VALUES

OUR VISION

The vision of our Bank is to be the country's number one supplier of dependable, easy-to-use, technologically advanced and easily accessible banking services. We want to be the bank that Cambodians trust to take care of all their personal and business banking needs.

OUR MISSION

Our mission is to help Cambodia, Cambodian businesses and people to build a bigger and brighter future by providing highly professional, technologically-advanced banking services for all.

We see ourselves as working in partnership with the Cambodian community as well as with private businesses and individuals. We are here to serve Cambodia.

OUR VALUES

Our values form the cornerstone of our business. We believe in the importance of:

HONESTY & RESPECT

At ABA we make it our responsibility to treat each and every customer with honesty and respect.

TRUST & PARTNERSHIP

At ABA we are there to offer help and assistance. We see ourselves as partners that our customers can always trust.

CONTRIBUTION

At ABA we aim to make a positive contribution to Cambodia. We want to play a beneficial role in the lives of our customers as well as for the future of the country as a whole.

SERVICE QUALITY

At ABA we strive to find solutions to all our banking needs. Our aim is to provide the most technologically advanced, reliable banking services to all of our Cambodian customers – be their personal or business account holders.

SUSTAINABILITY & GROWTH

At ABA we are always thinking about the future of our Bank, the Cambodian people and the country. We show the same level of commitment to our staff as we do to our customers. It is with this approach that we ensure the sustainable growth of the Bank.

ETHICS & MORALS

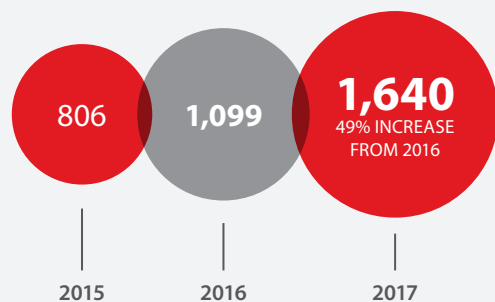
At ABA we apply the highest ethical and moral standards to each and everything that we do – inside and outside the Bank. It is these homegrown principles that form the basis of every relationship, with the customers and communities we serve as well as with our staff.

FINANCIAL HIGHLIGHTS

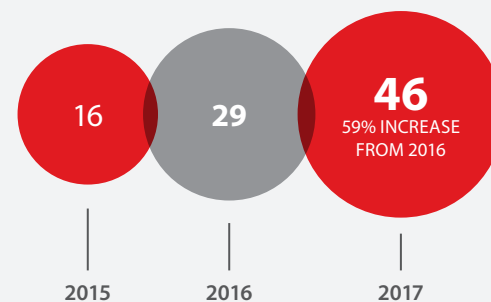
FINANCIAL YEAR ENDED 31 DECEMBER	2015	2016	2017
Balance Sheet (US\$ million)			
Total Deposits	654.4	855.8	1,264.5
Total Gross Loans	483.7	789.1	1,235.7
Equity	100.0	129.0	200.2
Total Assets	805.6	1,098.5	1,639.4
P&L Account (US\$ million)			
Net Interest Income	32.0	54.2	87.1
Net Fee & Commission Income	8.29	13.4	16.1
Net Profit	16.0	29.0	46.2
Key Performance Indicators (%)			
ROAE	19.5	25.3	28.1
ROAA	2.4	3.1	3.4
Cost/Income	46.4	39.4	37.3
Liquidity Ratio	54.1	73.2	91.7
Credit Deposit Ratio	73.9	92.2	97.7
Solvency Ratio	15.8	17.4	19.5
General Information			
Operating Branches	33	42	51
Staff	1,018	1,644	2,439
ATMs	128	167	204
POS Terminals	338	416	482
Depositors	85,607	141,734	232,418
Borrowers	14,700	26,226	92,640
Internet Banking Users	42,939	65,273	76,680
Mobile App Users	11,488	43,918	102,103

SIMPLIFIED FINANCIAL RESULTS

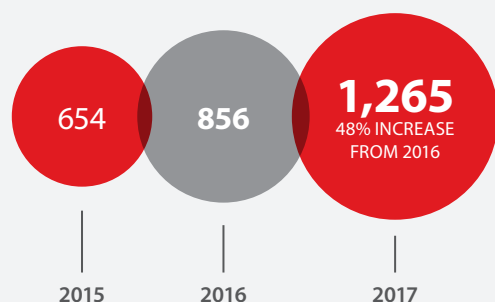
ASSETS in USD Millions



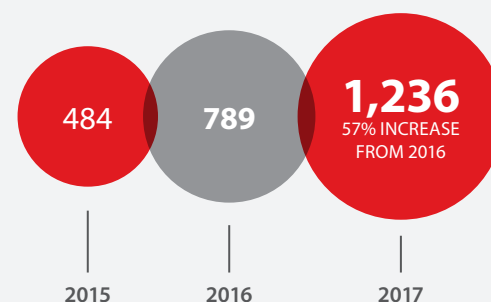
NET PROFIT in USD Millions



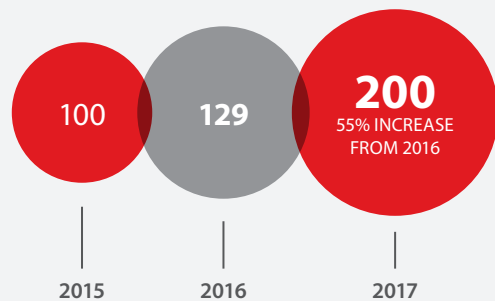
DEPOSITS in USD Millions



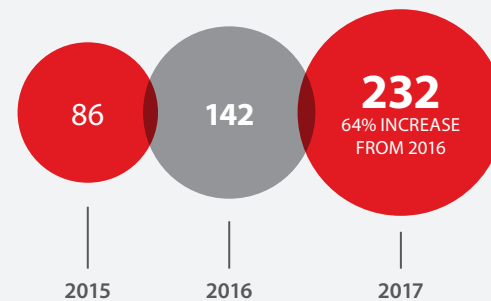
LOANS in USD Millions



SHAREHOLDERS' EQUITY in USD Millions



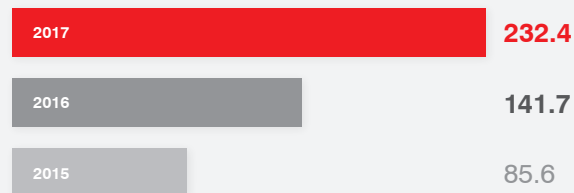
NUMBER OF DEPOSITORS in Thousands



GENERAL INFORMATION

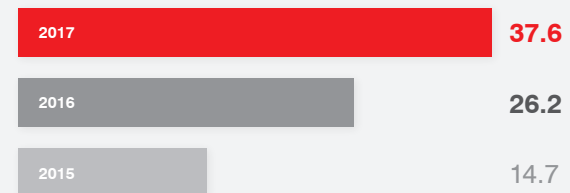
NUMBER OF DEPOSITORS IN THOUSANDS

64% INCREASE
FROM 2016



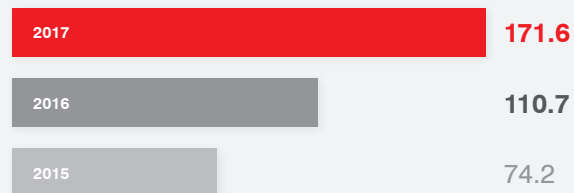
NUMBER OF BORROWERS IN THOUSANDS

43.5% INCREASE
FROM 2016



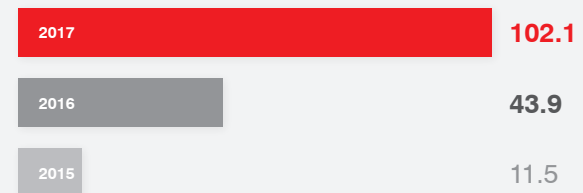
NUMBER OF ISSUED CARDS IN THOUSANDS

55% INCREASE
FROM 2016



NUMBER OF MOBILE APP USERS IN THOUSANDS

132% INCREASE
FROM 2016



NUMBER OF OPERATING BRANCHES

21.4% INCREASE

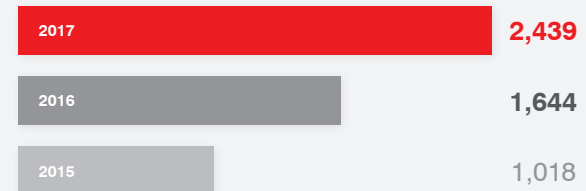
FROM 2016



NUMBER OF EMPLOYEES

48.3% INCREASE

FROM 2016



NUMBER OF ATM MACHINES

22.2% INCREASE

FROM 2016



NUMBER OF POSTERMINALS

15.9% INCREASE

FROM 2016



ACHIEVEMENTS IN 2017



REDESIGN OF ABA CORPORATE LOGO

Redesigned ABA corporate logo was introduced to reflect the strong partnership with and support of our major shareholder, National Bank of Canada.

The updated logo of ABA now reflects the Bank's latest key milestone – strategic partnership with National Bank of Canada, who became the major shareholder of ABA in 2016. Backed by such a strong shareholder, ABA Bank has more opportunities to operate in a highly competitive environment and gets unique expertise from the bank with more than 150 years of history.



BRANCH NETWORK EXPANSION

ABA experienced another great expansion with eight new branches and its first-ever money exchange office.

In Phnom Penh, ABA Bank added two new branches in Russey Keo and Phsar Derm Thkov areas and Money Exchange Office in Toul Tum Pong area.

On the provincial level, ABA Bank opened six branches in Bavet city, Oudong, Moug Reussey, S'ang, Kien Svay, and Angk Snuol districts. These new outlets help bring ABA closer to its customers be that personal or business.



LAUNCH OF PAYWAY E-COMMERCE GATEWAY

In line with the strategy to provide the best financial solutions to customers, ABA introduced its own online payment gateway, PayWay. This service aims at allowing Cambodian businesses to sell their products or services online and accept payments instantly on their bank accounts. ABA's PayWay provides secure, convenient, and easy-to-integrate solution for Cambodia's growing online businesses.



START OF ONLINE ACCOUNT OPENING SERVICE

In order to make onboarding process even easier for prospects, ABA launched Online Account Opening Service that allows new customers to apply for any ABA Bank account remotely. While applying online, user can select the type of account that suits their daily banking needs or saving purposes and apply for it instantly from anywhere and at any time. The service is available in both Khmer and English languages and has the user-friendly interface.



INTERNATIONAL RECOGNITION

In 2017, ABA received the “Best Bank in Cambodia” award from two prominent financial magazines, *Global Finance* and *Euromoney*.

Both international publications recognized ABA Bank’s technological drive in developing its financial solutions, impressive growth of its operation and branch network, financial stability, and continuous commitment to raising the standards of customer experience through its digital banking strategy.



INTERNATIONAL CREDIT RATINGS

ABA Bank became the first bank in Cambodia to receive two international credit ratings.

Standard & Poor’s (S&P) Global Rating assigned ‘B’ long-term and short-term rating to ABA Bank as recognition of the Bank’s financial stability, satisfactory funding and liquidity profile. In the same year, Dagong Global Credit Rating (Hong Kong) issued “B+” long-term rating with stable outlook. This great achievement reflects ABA’s consistent hard work and commitment to be a creditworthy financial institution.



DEVELOPMENT OF CASHLESS PAYMENTS

ABA partnered with major players in the market to facilitate financial inclusion and boost digital payments in Cambodia. Cooperation with Pi Pay, a leading cashless payment app, allowed ABA Mobile app and Pi Pay wallet users transfer money between apps quickly and easily. Extension of the Bank’s partnership with Smart Axiata, Cambodia’s leading mobile telecom provider, provided a seamless fund transfer method between ABA Mobile app and SmartLuy wallet, as well as from/to the extensive network of SmartLuy agents across the country.



EXPANDED PARTNERSHIP WITH MANULIFE

ABA Bank and Manulife Cambodia signed an exclusive 15-year Partnership Agreement. This deal assigns Manulife as the exclusive provider of life insurance solutions to ABA customers.

Cooperation between the two major financial and insurance companies helps to ensure that in addition to ABA’s short-term saving products, the Bank’s customers also gain access to long-term saving products for their child’s education or saving for own retirement.

MILESTONES

2012

Vietcom Bank (Vietnam) added to the network of correspondent banks

Asian Banking & Finance Magazine (Singapore) awarded ABA the Cambodia Retail Bank of the Year

ATM presence expanded by 30%, bringing the total number of ATMs to 41

Significant attention was paid to renovation of the Bank's Head Office Branch and increasing of its presence in Siem Reap by moving to a larger office

Following plans to expand its branches and ATM network, ABA Bank opened another branch in the capital – Stung Mean Chey

2013

ABA became the first Cambodian bank to protect its VISA and MasterCard holders with 3D-SECURE service

Six full service branches in Takhmao, Takeo, Sihanoukville, Chom Chao, Chbar Ampov and Kampong Speu launched

ABA Bank introduced new self-service cash-in machines, which combine the features of cash deposits and payments for services 24/7

ABA Bank officially launched its own ABA Point discount program for valued cardholders

Asian Banking & Finance Magazine (Singapore) awarded ABA Bank as "Cambodia's Domestic Technology and Operation Bank of the Year"

ABA Bank introduced its new premium service ABA Priority for its high net worth customers

2014

ABA Bank cooperated with IME, international money transfer provider from Malaysia, to offer an additional channel of sending and receiving money outside the country

ABA Bank signed an agreement with China's UnionPay International. The cooperation authorizes ABA to issue and accept China UnionPay cards under the licence of UnionPay International

ABA Bank has been awarded the Bank of the Year in Cambodia by The Banker magazine

The financial magazine Euromoney named ABA Bank as the Best Bank in Cambodia 2014

ABA witnessed a 56% growth in assets level, reaching remarkable threshold of half billion USD

National Bank of Canada became ABA Bank's shareholder in July 2014. This engagement brings ABA a new range of advantages and opportunities

Eight new branches opened. This is the biggest expansion of ABA's branch network within a year

2015

ABA successfully launched ABA Mobile, the first full-scale mobile banking app in Cambodia

ABA joined Easy Cash, the largest ATM network in Cambodia. This initiative gives ABA VISA cardholders access to their ABA accounts through ATMs shared by partnering banks

ABA started issuing UnionPay International (UPI) cards and became the largest issuer of UPI cards in Cambodia

Euromoney Magazine awarded ABA as "The Best Bank in Cambodia 2015"

Global Finance Magazine named ABA "Best Emerging Markets Bank in Cambodia 2015"

Cooperation with Booking.com offered an exclusive 6% discount to ABA card holders

Eight new branches opened with five of them on the district level in rural areas

National Bank of Canada increased its share in ABA up to 42%

2016

National Bank of Canada increased its share in ABA to 90%

Issuance of ABA Platinum cards started

Nine new branches opened with five of them on the district level in rural areas

ABA Bank was named as "The Best Bank in Cambodia" by the world's top financial magazines – The Banker, Euromoney and Global Finance

ABA Bank received "Fastest Growing Trade Finance Bank in Cambodia" award from Global Banking and Finance Review magazine

ABA became one of the founding institutions of "FAST" Payment System that enables customers to immediately send / receive funds between the participants

Cooperation with Manulife for distributing life insurance products in the Bank's branches

Cooperation with Agoda.com to offer special booking rates to ABA cardholders

2017

Logo of ABA updated to denote membership in National Bank of Canada Group

ABA Mobile app ranked #1 free financial app on iOS in Cambodia

Global Finance magazine recognized ABA as "Best Trade Finance Provider 2017"

Nine new branches entered ABA's branch network

PayWay e-commerce gateway launched to boost online businesses in Cambodia

Online Account Opening web service introduced to ease client onboarding process

ABA named "The Best Bank in Cambodia 2017" by *Euromoney* and *Global Finance* magazines

ABA became the first bank in Cambodia with two credit ratings

ABA joined IFC's Global Trade Finance Program to enhance support of Cambodian businesses

Long-term exclusive partnership agreement signed with Manulife Cambodia

CONTINUOUS IMPROVEMENT

BUSINESS DEVELOPMENT



Customers' satisfaction and convenience are our top priority. As such, we want our customers to have the best experience with our services be that a branch visit, self-banking, or an off-site location.

To ensure a great branch visit for customers, we always value and uphold our quality standards such as consistency, respect, honesty, to name a few, in delivering our services, and that is also what makes us stand out in such a competitive market. More than that, we care for customers' physical convenience when they are in our Bank's premise. With that, we did a large-scale renovation to many of our branches, with more seating arrangements, parking spaces, and self-banking facilities to accommodate our increasing number of customers.

As we learnt that customers are becoming busier, we took a proactive approach, which is to bring the bank to our customers. Thus, the off-site account opening platform was introduced to the market in July 2017. Strategically, it is the new channel that allows ABA to acquire more individual customers while increasing service coverage through a digital platform and a very convenient onboarding process. In this new platform, **Client Acquisition Officer (CAO)** would go door-to-door to promote our savings service and instantly open accounts to customers.

In addition to improving service quality, we at ABA are constantly working on developing response measures to customers' inquiries or requests as well as to resolve their complaints. Our 24/7 Contact Center has continued to monitor, provide support, and handle all customers' requests from all fronts, including the hotline, live chat, social media platform, and the frontline staff. We have also updated our Complaint Management Procedure (CMP) to comply with both internal and external regulations and have set up a **Complaint Resolution Unit (CRU)** whose responsibility is to receive, resolve, and respond to customers' complaints. This unit is crucial because their work is to ensure transparency of resolution procedures and progress as well as the Bank's handling of customers' complaints.

INTERNATIONAL OPERATIONS & TRADE FINANCE



As part of our international operations strategy, we continuously work to increase our international partnership and presence. In 2017, we set up correspondent relations with two banks — Woori Bank of South Korea and JP Morgan Chase Bank from USA — to make it more convenient for our customers when they want to send or receive money securely.

2017 witnessed a significant growth in the number of ABA's international transactions: Inward Telegraphic Transfers (+81%), Outward Telegraphic Transfers (+25%), and MoneyGram (+36%) compared to 2016. In response to this growth and to ensure effective work process as well as to strengthen relationship with our existing and new bank partners, the **International Operations Development Department** was created, along with its support and sales units.

On the Trade Finance side, we kept strengthening our positions to provide our clients with the secure and reliable solutions. In particular, we joined International Finance Corporation's **Global Trade Finance Program (GTFP)** to expand access to trade finance for Cambodian small and medium

enterprises that are involved in international trades. Having access to this global network and support from National Bank of Canada, ABA is well-equipped and positioned in helping Cambodian entrepreneurs to expand and introduce their business to regional and global markets. All these efforts resulted in Global Finance magazine's "**Best Trade Finance Provider**" award bestowed upon ABA Bank. Criteria for choosing the winners included transaction volume, scope of global coverage, customer service, competitive pricing and innovative technologies.

DIGITAL BANKING

Besides our commitment in delivering quality services, we at ABA are steadfast to be at the forefront of digital banking. In 2017, we introduced various digital solutions that help customers to interact with their bank faster, safer, and easier with the help of technologies.



On the personal banking side, we made a make-over to our mobile app, having introduced **ABA Mobile 2.0** with a transformed appearance and new unique functionalities. This became another clear evidence that ABA strictly adheres to **"mobile-first" strategy**, making its mobile app the main point of contact with its clientele.

This new release was developed with great attention paid to user experience and interface of the app to ensure streamline services and intuitive usage for our customers. With the new features of ABA Mobile, customers can now

- open deposit accounts,
- instantly issue Mastercard or Visa virtual cards,
- enjoy cashless payments in various shops and online.

All these features together with standard mobile banking tools of the app (funds transfers, bill payments, cardless cash withdrawals, templates for quick transfers / payments) help customers to interact with the bank faster, safer, and easier with the help of technologies.

To facilitate financial inclusion and boost digital payments in Cambodia, we also partnered with major players in the market.

Our cooperation with **Pi Pay** allowed ABA Mobile app and Pi Pay wallet users transfer money between apps quickly and easily. Extension of the Bank's partnership with **Smart Axiata**, Cambodia's leading mobile telecom provider, provided a seamless fund transfer method between ABA Mobile app and SmartLuy wallet. Additionally, ABA Mobile users can now send money to their unbanked friend or family members or top-up their ABA accounts through SmartLuy agents across the country.



As the business activity in the country keeps growing and our customers are becoming busier, we always try to find ways to make our financial products more convenient and accessible with minimal travel time.

To achieve this goal, we launched **Online Account Opening website** available at www.join.ababank.com. This service allows our prospects to open a savings or deposit account from the comfort of their place and at any convenient time.



On the commercial side, we successfully introduced **PayWay**, an online payment gateway that is tailored for e-businesses and entrepreneurs in Cambodia. PayWay allows merchants who sell services or products online to conveniently accept Mastercard and Visa cards, as well as payments made through a QR code, while the fund will go directly into their ABA accounts. For convenient monitoring purposes, our e-commerce platform has tracking feature that shows a live stream of transactions being made on merchant's website to ensure that all the payments are processed correctly and in time.

COMPLIANCE



The risk of regulatory non-compliance (including regulation on the Anti Money Laundering and Combating the Financing of Terrorism “AML/CFT”) arises from the possibility that ABA may not comply with regulatory requirements (laws, Prakas, prescribed practices) in force and applicable to it.

Failure to comply with these regulatory requirements may negatively impact ABA's reputation and result in penalties or increased regulatory oversight. AML/CFT remains a concern for ABA in order to stop the ability of individuals and criminal organizations to use its products and services to recycle funds. In addition to the risk of damage to its reputation and the administrative penalties that may result from non-compliance with the requirements in this matter, the money laundering and terrorism financing has impacts on the safety and soundness of both Cambodian and international financial sectors.

ABA takes these risks very seriously and **adopts practices based on international standards**, notably aligned with the National Bank of Canada. In 2017, the Bank management devoted an additional budget to Compliance, allowing it to invest more in human resources and technology. These investments made possible the enhancement of compliance risk management models as well as a computerized monitoring tool.

INTERNAL AUDIT



In addition to regulatory compliance, we also uphold Standard Internal Audit Procedure of National Bank of Canada to ensure integrity of the Bank's operation on the institutional level as well as on the staff level. To ensure this compliance, we regularly update our internal audit procedure.

In 2017, Internal Audit Department conducted **36 planned audits** at Head Office and branches and covered **49 branches with surprised audit**. Ensuring compliance and high quality of auditings is also what we always strive to achieve. Therefore, regular trainings are provided to all internal audit team members, in-person and online.

We also established detailed assessment of business process description, flow-chart, risk-analysis, and control design evaluation to ensure proper determining of audit objectives and scope relative to the risk level. Various audit techniques, trend analysis, and data mining were also used in preparation of audit planning phase.

Furthermore, as we continue to move towards introducing more digitally-driven products and to ensure the compliance at the same time, we created **Information Technology (IT) and Card Audit Unit** whose responsibility is to handle any audit activities for IT-related risks.

HUMAN RESOURCES MANAGEMENT



At ABA Bank, we always strive to deliver quality financial services and products to our customers. To ensure the delivering of such quality and to keep pace with technology advancement, we always dedicate efforts and pay great attention in improving our staff capacity.

In 2017, we provided trainings and learning opportunities to our staff in various forms including trainings by our skilled in-house trainers and exchange programs abroad. This year, we sent our staff from across departments to be trained in Thailand, Malaysia, and Vietnam, while our top and middle management personnel went to Canada to exchange experiences with our counterparts at National Bank of Canada offices.

On top of that, as we expanded our branch network, we actively searched for new talents to be part of ABA team. As of December 2017, ABA family counted 2,439 members, which is a 48% increase compared to 2016.

To ensure that our recruitment process was inclusive and expansive to as many people across Cambodia as possible, we conducted series of **Career Talk** events in various universities across Cambodia, including Phnom Penh and Svay Rieng, Battambang, Banteay Meanchey, Siem Reap, Takeo, Kampong Cham, Prey Veng, Kratie, and Ratanakiri provinces. As a result, sixty percent of participants were successfully selected and trained to become members of ABA team.

At the end of each year, we acknowledge our staff's dedication and commitment to contribute to the bank performance and growth. 2017 was no different: we presented thirty employees with "The Best Performance" awards and two employees with valuable "Loyalty Award" for their 20 years of service with us.

CORPORATE SOCIAL RESPONSIBILITY

As we grow, we also want our communities to grow with us. To achieve this and uphold our core values, we continued to implement our Corporate Social Responsibility (CSR) policy, which aims at improving financial literacy and encouraging young generation in the pursuit of SME tech-novation, as well as initiating sustainable development projects related to environment, education, and poverty alleviation. In 2017, we sponsored different types of events to positively contribute to local communities as well as the people of Cambodia.



Aiming to increase financial inclusion and fintech spirit among young Cambodians, ABA proudly sponsored the first FinTech edition of Startup Weekend powered by Google for Entrepreneurs in February. More than just a sponsor, ABA's team took part in mentoring participants, helping them with ideas, offering advice and guidance on basic financial concepts and marketing insights as well as serving on a judging panel. In the same month, we also supported the series of financial education seminars called "My Finance Fitness", which was organized by members of Zaman University Youth Club.



To enrich the sports in Cambodia and include people with disabilities to the movement, ABA supported the **Women's Wheelchair Basketball Match** organized by the Office of the Embassy of Canada. The teams received trainings from Canadian coaches prior to the match, which was also provided by the Office of the Embassy of Canada. With our support at the event, we hope that players will be empowered and encouraged to pursue their dreams regardless of their physical challenges and that this event will inspire and motivate other Cambodians to go into sports.



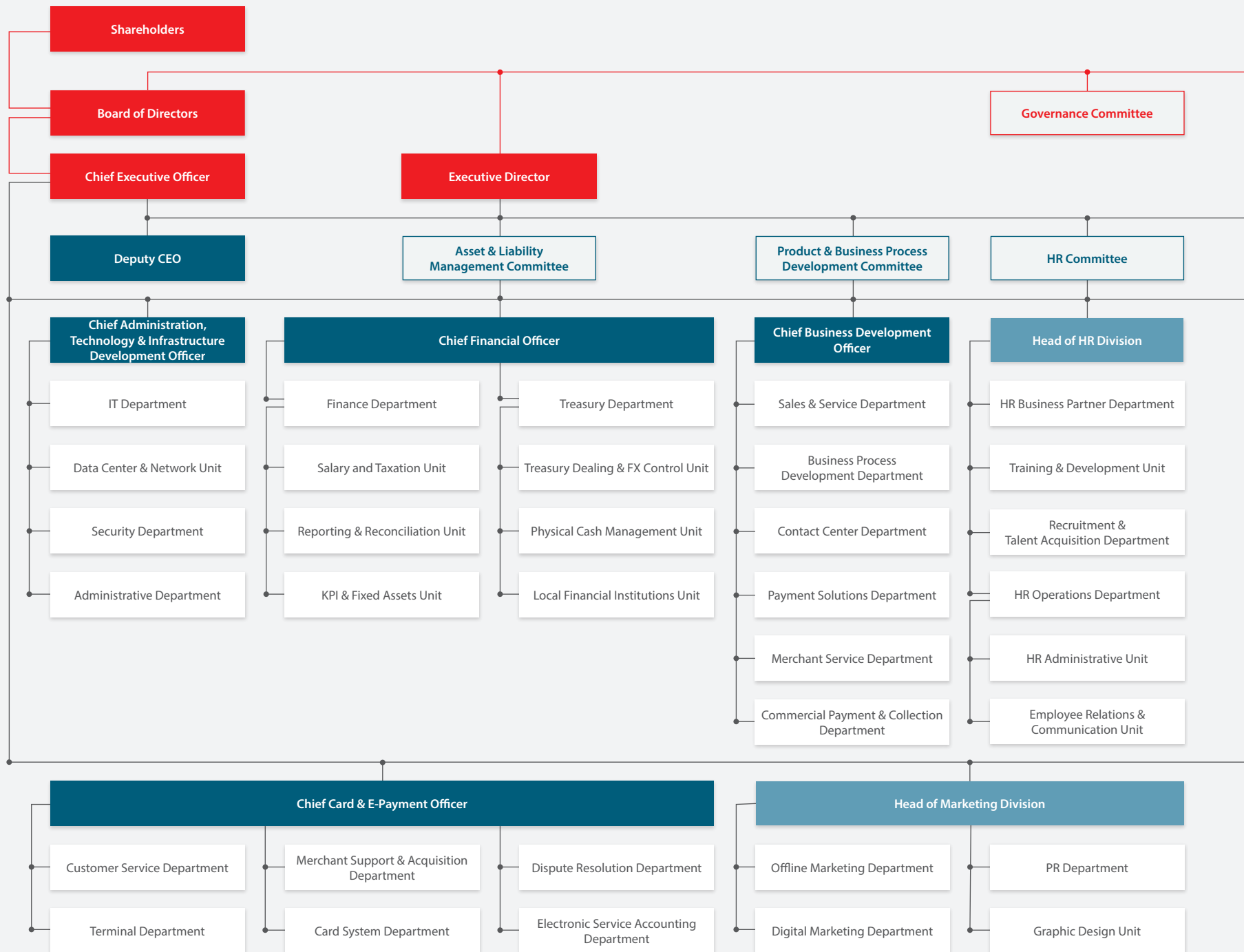
Similarly, ABA supported the **International Tennis Federation Juniors Tournament 2017** hosted by Cambodia's Tennis Federation after the recent nomination of Cambodia as one of the most improved tennis nations in Asia. The event was sponsored by ABA Bank as continuous support of tennis movement and thorough implementation of ABA's CSR policy based on core values. We hope that through our sponsorship, this tennis tournament will help nurture young Cambodian athletes to have experience competing internationally and will bring Cambodia to the international stage of tennis.

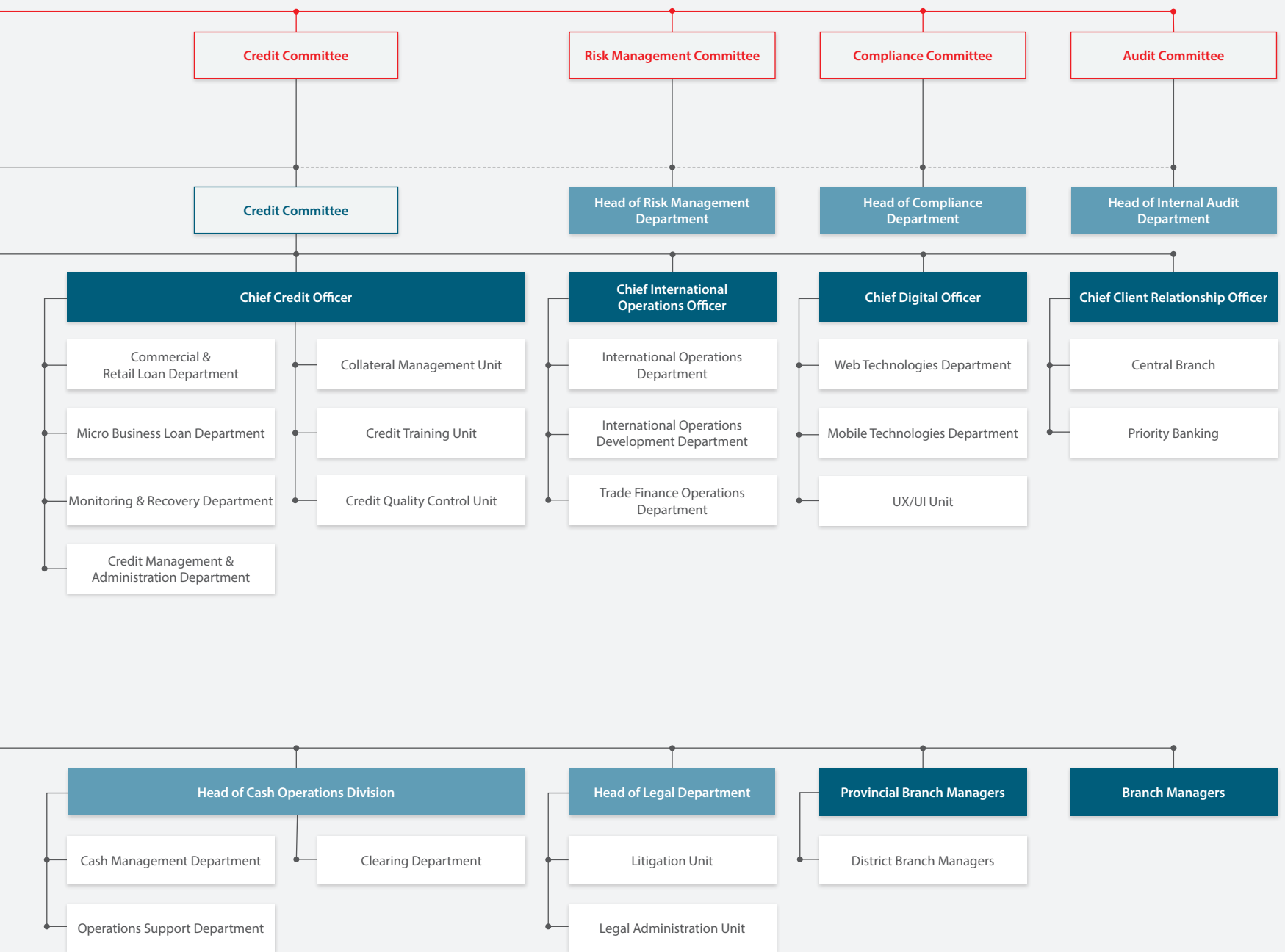


Acknowledging the significant role of education, arts, and culture in human capital of the country, ABA participated in various events that touched on all age groups. In October, we were the platinum sponsor of the **5th National Art Competition** with participants' age ranging from 4–8 years old. We bestowed the top prize of air tickets to the winners, who then participated in the international competition in Malaysia against 17 other countries.

Also, we supported an event hosted by Japan International Cooperation Agency (JICA), **Orientation on Major Selection and Career Development**. This event aimed at providing opportunities to young high schoolers and fresh graduates to acquire information necessary for them to make an informed decision for their school majors as well as career paths.

ORGANISATION CHART (AS AT 31 DECEMBER 2017)





BOARD OF DIRECTORS (AS AT 14 MARCH 2018)



Yves Jacquot
Chairman

Yves Jacquot graduated from ESSEC in France. Between 1980 and 1993, he occupied different positions, including the position of CEO in different banks and financial institutions in France, as well as in retail banking sector, investment and financial markets sectors and asset management sector.

He entered BRED Banque Populaire in 1993 and then became the deputy CEO of the Bank and CEO of COFIBRED, the holding company owning the subsidiaries of the group.

Mr. Jacquot is currently holding the position of the Head of International Development for the National Bank of Canada Group.

He joined the Board of Directors of ABA Bank on May 20, 2014.



André Bérard
Director

André Bérard is a corporate director and a career banker. Mr. Bérard dedicated his entire professional life to National Bank of Canada, rising through the ranks to serve as President and CEO of the Bank from 1989 to 2002, and Chairman of the Board of Directors from 1990 to 2003. Leading up to his years at the Bank's helm, he held several senior management positions, including Senior Vice-President and General Manager – International; Executive Vice-President – National Accounts; and Senior Executive Vice-President – Banking.

Mr. Bérard has received numerous awards and distinctions. In 2015, he was inducted as a Companion of the Order of the Canadian Business Hall of Fame for his enduring contributions to the country's economy and society.

In April 2016, he was appointed to the Board of Directors of ABA Bank.



Damir Karassayev
Director

Damir Karassayev came to ABA Bank with a wealth of commercial and financial experience. With his career beginning at Kazakhstan Stock Exchange (KASE) while still a student at the Kazakh State Academy of Management, Damir progressed from being a part-time assistant to becoming the KASE's CEO. He has also held senior positions with one of Kazakhstan's largest telecom companies, Kar-Tel, as well as with the state gas transportation company, KazTransGas. Damir's overseas experience includes a position as CEO of Nepal's leading mobile phone operator, Spice Nepal.

Damir has managed businesses in Southeast Asia since 2005. In 2007, he led the team responsible for executing the acquisition of ABA Bank.



Dominic Jacques
Director

Dominic Jacques is a graduate of HEC in Canada, Chartered Accountant (CPA, CA) and CFA Charterholder.

Mr. Jacques holds the position of Deputy Vice-President, International Development at National Bank of Canada. He is responsible for managing the Bank's portfolio of international investments as well as developing ancillary business opportunities.

Mr. Jacques started his career at PriceWaterhouseCoopers. He joined National Bank of Canada in 2010 in the Strategy and Corporate Development team. He was advising the Bank's senior management on strategic initiatives, partnerships and M&A activities.

Mr. Jacques has a sound knowledge of the banking industry and has been based in Montreal, London, Paris and USA.

In April 2016, he was appointed to the Board of Directors of ABA Bank.



**Jean François
Hanczakowski**
Director

Jean-François Hanczakowski is Senior Vice-President – Client Experience and Data at National Bank of Canada.

Mr. Hanczakowski is responsible, with his team, for understanding the needs of clients and their evolutions, and supporting the business line in satisfying them, mainly through traditional and digital marketing, brand management, community relations and charitable activities.

He has been with National Bank of Canada since 2004 and has held various positions within the organization, including Transformation Office Leader, Head of Internal Audit and VP Financial Market Operations.

Jean-François replaced David Furlong as the member of the Board of Directors of ABA Bank on March 14, 2018.



Madi Akmambet
Executive Director

Madi Akmambet holds an MBA with distinction from Cass Business School, City University London and a degree in Economics from Kazakh State Academy of Management.

He started his career in 1997 in Treasury Department of the Ministry of Finance of the Republic of Kazakhstan and then Banking Supervision Department of the National Bank of Kazakhstan.

Between 2000 and 2007, he held top management positions at several national companies and JSC "Tsesnabank" in Kazakhstan.

His international working experience started in 2007 with a private equity business projects in Uzbekistan.

In 2009, Madi was appointed the CEO of ABA Bank in Cambodia, where he had led a major turnaround of the Bank. Since 2012, he has been Executive Director of the Board of Directors of ABA.



Henri Calvet
Independent Director

Qualifications: Graduate of Ecole Normale Supérieure de Cachan and University degree (Economics, Paris-I Panthéon-Sorbonne).

Mr. Calvet is the founder of H2C CONSEIL, a company offering advisory and training services to credit institutions and securities firms, in the main following fields: banking accounting, prudential rules, internal control (including risk management and compliance control).

Prior to setting up his own business, Mr. Calvet had spent 10 years with the French Banking Commission and had later worked for numerous banks, namely, Compagnie Financière Edmond de Rothschild Banque and Compagnie Parisienne de Reescompte, inter-alia.



Etienne Chenevier
Independent Director

A graduate from Ecole Polytechnique and Ecole des Ponts et Chaussées in France, Etienne started his career at the French Ministry of Industry. He then joined the Air Liquide Group where he created in 1993 the first operations in China before being given responsibility of large supply contracts of industrial gases to the steel sector in Asia. After that, Etienne joined Rio Tinto where he developed and managed a number of operations in Singapore, Australia, China and Japan.

He then partnered with the French private equity firm CityStar to create their Asian Division in 2005, of which he is Partner and Director.

On May 20, 2014 Mr. Etienne was appointed as the member of the Board of Directors in ABA Bank.

BRANCH NETWORK

HEAD OFFICE

No. 148, Preah Sihanouk Blvd., Boeung Keng Kang I,
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Fax: (855) 23 216 333

info@ababank.com
www.ababank.com

P.O. Box 2277
SWIFT: ABAKHPP

BATI DISTRICT

098 203 649

BATTAMBANG

098 203 839

BARAY DISTRICT

098 203 739

BOREI KEYLA

098 203 869

BANTEAY MEANCHEY

098 203 759

BAVET

098 203 389

CENTRAL

098 203 199

CENTRAL MARKET

098 203 979

CHBAR AMPOV

098 203 929

CHEUNG PREY DISTRICT

098 203 749

CHHUK DISTRICT

098 203 729

CHOM CHAO

098 203 939

INDEPENDENCE MONUMENT

098 203 001

KAMPONG SPEU

098 203 949

KAMPOT

098 203 959

KANDAL STUENG DISTRICT

098 203 619

KAMPONG CHAM

098 203 879

KAMPONG CHHNANG

098 203 039

KAMPONG THOM

098 203 429

KIEN SVAY DISTRICT

098 203 479

KRATIE

098 203 049

MAO TSE TONG

023 203 809

MEMOT DISTRICT

098 203 639

MOUNG RUESSEI DISTRICT

098 203 459

OU BAEK K'AM

098 203 799

ODONGK DISTRICT

098 203 379

PAOY PAET

098 203 019

PEAM RO DISTRICT

098 203 629

PHSAR DERM THKOV

098 203 689

PHSAR LEU (SIEM REAP)

098 203 679

PREY VENG

098 203 059

PURSAT

098 203 969

RUSSEY KEO

098 203 659

S'ANG DISTRICT

098 203 369

SAENSOKH

098 203 779

SAMDECH SOTHEAROS

098 203 983

SAMRAONG TONG DISTRICT

098 203 719

SIEM REAP

098 203 829

SIHANOUKVILLE

098 203 899

STADE CHAS

098 203 819

STUNG MEANCHEY

098 203 889

SVAY RIENG

098 203 029

TAKEO

098 203 909

TAKHMAO

098 203 919

TBOUNG KHMUM

098 203 769

TOEK THLA

098 203 849

TMAR KOL DISTRICT

098 203 789

TRAM KAK DISTRICT

098 203 709

TOUL KORK

098 203 859

TUOL TUMPUNG MONEY EXCHANGE

098 203 299



**AUDITED
CONSOLIDATED
FINANCIAL
STATEMENTS**

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CORPORATE INFORMATION

BANK	Advanced Bank of Asia Limited	
REGISTRATION NO.	00010593	
REGISTERED OFFICE	No. 148, Preah Sihanouk Blvd Sangkat Boeung Keng Kang Khan Chamkamorn, Phnom Penh Kingdom of Cambodia	
SHAREHOLDERS	National Bank of Canada Mr. Damir Karassayev	
BOARD OF DIRECTORS	Mr. Yves Jacquot Mr. Andre Berard Mr. Damir Karassayev Mr. Dominic Jacques Mr. David Furlong Mr. Etienne Chenevier Mr. Henri Calvet Mr. Madi Akmambet	Chairman Director Director Director Director Independent Director Independent Director Executive Director
KEY MANAGEMENT TEAM	Mr. Askhat Azhikhanov Mr. Madi Akmambet Mr. Lee Young Ho Mr. Babu Ram Gyawali Mr. Bibhu Pandey Mr. Rasulov Zokhir Mr. Galymzhan Temirov Mr. Sanzhar Abdullayev Mr. Mey Polin Mr. Zhiger Atchabarov Ms. Adel Leilanie Legarta	Chief Executive Officer Executive Director Deputy Chief Executive Officer Chief Financial Officer and Company Secretary Chief Credit Officer Chief Digital Officer Chief Technology and Infrastructure Development Officer Chief Card & E-banking Officer Chief Business Development Officer Chief International Operations Officer Chief Client Relationship Officer
AUDITORS	Deloitte (Cambodia) Co., Ltd	

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors (“BOD” or “Directors”) has pleasure in submitting their report together with the audited financial statements of Advanced Bank of Asia Limited (“the Bank”) for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

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

There were no significant changes to these principal activities during the year.

FINANCIAL RESULTS

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

	For the year ended 31 December 2017		For the year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Profit before income tax	57,969,842	234,024,252	36,221,225	146,225,085
Income tax expense	(11,780,679)	(47,558,601)	(7,208,986)	(29,102,676)
Net profit for the year	46,189,163	186,465,651	29,012,239	117,122,409

RESERVES AND PROVISIONS

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

DIVIDENDS

No dividends were declared or paid during the financial year 2017 (2016: nil).

SHARE CAPITAL

On 22 March 2016, the National Bank of Cambodia issued a Prakas No. B7-016-117-ProKor, requiring locally incorporated commercial banks and subsidiaries of foreign banks to increase the minimal registered capital to at least KHR 300 billion (approximately US\$75 million). Banks are required to fulfil this requirement within two years from the date of the Prakas. In accordance with the Prakas and the Circular on the Implementation of this Prakas, No. B7-016-001 C.L., dated 16 June 2016, the Bank issued additional shares as follow:

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Balance at beginning of year	52,643,000	212,519,791	52,643,000	213,204,150
Convert from share premium (i)	18,357,000	74,107,209	–	–
Convert from retained earnings (ii)	29,000,000	117,073,000	–	–
Issued share capital (iii)	25,000,000	100,925,000	–	–
Currency translation difference	–	–	–	(684,359)
Balance at the end of year	125,000,000	504,625,000	52,643,000	212,519,791

- (i) On 4 January 2017, National Bank of Cambodia issued an approval letter allowing the Bank to increase its registered capital by US\$18,357,000 by converting their share premium, issuing additional 16,521 shares to National Bank of Canada and 1,836 shares to Mr. Damir Karassayev, with a par value of US\$1,000 per share.
- (ii) On 28 September 2017, National Bank of Cambodia issued an approval letter allowing the Bank to increase its registered capital by US\$29,000,000 by converting from retained earnings of the Bank, issuing additional 26,100 shares to National Bank of Canada and 2,900 shares to Mr. Damir Karassayev, with a par value of US\$1,000 per share.
- (iii) On 31 October 2017, National Bank of Cambodia issued an approved letter allowing the Bank to increase its registered capital by US\$25,000,000, issuing additional 22,500 shares to National Bank of Canada and 2,500 shares to Mr. Damir Karassayev, with a par value of US\$1,000 per share.

BAD AND DOUBTFUL LOANS

Before the financial statements of the Bank were prepared, the Directors took reasonable steps to ascertain that appropriate actions had been taken by management in relation to the writing off of any bad loans and the making of allowance for doubtful loans, and satisfied themselves that all known bad loans had been written off and adequate allowance had been made for bad and doubtful loans. At the date of this report, the Directors are not aware of any circumstances, which would render the amount written off for bad loans, or the amount of allowance for doubtful loans in the financial statements of the Bank, inadequate to any material extent.

ASSETS

Before the financial statements of the Bank were prepared, the Directors took reasonable steps to ascertain that management took appropriate actions so that any assets, which were unlikely to be realised in the ordinary course of business at their values as shown in the accounting records of the Bank had been written down to amounts which they might be expected to realise. At the date of this report, the Directors are not aware of any circumstances, which would render the values attributable to the assets in the financial statements of the Bank misleading.

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

At the date of this report, the Directors are not aware of:

- (a) any charge on the assets of the Bank which has arisen since the end of the year which secures the liabilities of any other person except as disclosed in the financial statements; and
- (b) any contingent liability in respect of the Bank that has arisen since the end of the year other than in the ordinary course of its business operations.

At the date of this report, the Directors are not aware that any 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 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 AN UNUSUAL NATURE

To the best knowledge of Directors:

- The results of the operations of the Bank for the year were not 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 year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Bank for the current year in which this report is made.

EVENTS AFTER THE REPORTING DATE

At the date of this report, to the best knowledge of the Directors, there have been no significant events occurring after balance sheet date which would require adjustments or disclosures to be made in the financial statements.

THE BOARD OF DIRECTORS

The members of the Board of Directors at the date of this report are:

- | | | | |
|------------------------|-----------------|-------------------------|-----------------------------|
| ■ Mr. Yves Jacquot | <i>Chairman</i> | ■ Mr. David Furlong | <i>Director</i> |
| ■ Mr. Andre Berard | <i>Director</i> | ■ Mr. Etienne Chenevier | <i>Independent Director</i> |
| ■ Mr. Damir Karassayev | <i>Director</i> | ■ Mr. Henri Calvet | <i>Independent Director</i> |
| ■ Mr. Dominic Jacques | <i>Director</i> | ■ Mr. Madi Akmambet | <i>Executive Director</i> |

DIRECTORS' INTERESTS

The Directors who held office at the end of the year and their interests in the shares of the Bank were as follows:

	31 December 2017		31 December 2016	
	Holding %	No. of shares of US\$1,000 each	Holding %	No. of shares of US\$1,000 each
Mr. Damir Karassayev	10%	12,500	10%	5,264

DIRECTORS' BENEFITS

During and at the end of the year, no arrangement existed to which the Bank is a party with the objective of enabling Directors of the Bank to acquire benefits by means of the share purchase option.

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

THE BOARD OF DIRECTOR'S RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Board of Directors are responsible for ascertaining that the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year ended 31 December 2017. The Board of Directors oversees the preparation of these financial statements by management who are required to:

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

Management is responsible for ensuring that the above requirements have been fulfilled and is also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

STATEMENT OF THE BOARD OF DIRECTORS

The accompanying financial statements as set out on pages 35 to 70 present fairly, in all material respects, the financial position of Advanced Bank of Asia Limited as at 31 December 2017, and its financial performance and its cash flows for the year ended in accordance with Cambodian Accounting Standards and relevant accounting regulations and guidelines issued by the National Bank of Cambodia, and at the date of this statement, there are reasonable grounds to believe that the Bank will be able to pay its debts as and when they fall due.

On behalf of the Board of Directors



Mr. Askhat Azhikhanov

Chief Executive Officer

Phnom Penh, Kingdom of Cambodia

Date: 14 March 2018

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF ADVANCED BANK OF ASIA LIMITED



OPINION

We have audited the financial statements of Advanced Bank of Asia Limited ("the Bank"), which comprise the balance sheet as at 31 December 2017, and the income statement, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 35 to 70.

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

BASIS FOR OPINION

We conducted our audit in accordance with Cambodian International Standards on Auditing ("CISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the 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.

INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

Management is responsible for the other information. The other information comprises the Report of the Board of Directors set out on pages 28 to 32 but does not include the financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF MANAGEMENT AND THE BOARD OF DIRECTORS FOR THE FINANCIAL STATEMENTS

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

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

The Board of Directors are responsible for overseeing the Bank's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

As part of an audit in accordance with CISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors 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 Deloitte (Cambodia) Co., Ltd.



Khoy Kimleng

Director

Phnom Penh, Kingdom of Cambodia

Date: 14 March 2018

BALANCE SHEET

AS AT 31 DECEMBER 2017

	Note	31 December 2017		31 December 2016	
		US\$	KHR'000	US\$	KHR'000
Assets					
Cash on hand	4	68,986,300	278,497,693	41,622,955	168,031,869
Balances with the NBC	5	207,289,364	836,827,162	146,050,847	589,607,269
Balances with other banks	6	84,923,895	342,837,764	77,566,867	313,137,442
Loans to customers, net	7	1,227,372,821	4,954,904,078	784,561,827	3,167,276,096
Foreclosed properties	8	601,375	2,427,751	1,847,062	7,456,589
Investment securities	9	16,849,632	68,021,964	25,373,046	102,430,987
Other assets	10	16,688,282	67,370,595	8,218,024	33,176,163
Deferred tax asset	17(b)	1,970,251	7,953,903	1,343,202	5,422,507
Intangible assets	11	1,765,748	7,128,325	1,891,319	7,635,255
Property and equipment	12	12,903,247	52,090,408	10,031,522	40,497,254
Total Assets		1,639,350,915	6,618,059,643	1,098,506,671	4,434,671,431
Liabilities and Equity					
Liabilities					
Deposits from customers	13	1,264,493,344	5,104,759,630	855,821,249	3,454,950,383
Borrowings	14	86,500,001	349,200,504	68,000,000	274,516,000
Subordinated debts	15	55,000,000	222,035,000	25,000,000	100,925,000
Other liabilities	16	22,114,413	89,275,885	12,851,061	51,879,733
Current income tax payable	17(a)	11,039,391	44,566,021	7,819,758	31,568,363
Total Liabilities		1,439,147,149	5,809,837,040	969,492,068	3,913,839,479
Equity					
Share capital	18	125,000,000	504,625,000	52,643,000	212,519,791
Share premium		–	–	18,357,000	74,107,209
Retained earnings		75,203,766	303,597,603	58,014,603	234,204,952
Total Equity		200,203,766	808,222,603	129,014,603	520,831,952
Total Liabilities And Equity		1,639,350,915	6,618,059,643	1,098,506,671	4,434,671,431

The accompanying notes from pages 40 to 70 form an integral part of these financial statements.

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	31 December 2017		31 December 2016	
		US\$	KHR'000	US\$	KHR'000
Interest income	19	125,830,819	507,979,016	85,204,333	343,969,892
Interest expense	20	(38,712,362)	(156,281,805)	(30,991,115)	(125,111,131)
Net interest income		87,118,457	351,697,211	54,213,218	218,858,761
Fee and commission income	21	21,873,479	88,303,235	15,924,328	64,286,512
Fee and commission expenses	22	(5,779,243)	(23,330,804)	(3,642,787)	(14,705,931)
Net fee and commission income		16,094,236	64,972,431	12,281,541	49,580,581
Other operating income	23	30,502	123,137	1,154,865	4,662,190
Personnel expenses	24	(21,259,401)	(85,824,202)	(14,169,080)	(57,200,576)
Operating expenses	25	(13,994,201)	(56,494,590)	(10,001,647)	(40,376,649)
Depreciation and amortisation expenses	26	(3,261,205)	(13,165,485)	(2,452,164)	(9,899,386)
Operating profit		64,728,388	261,308,502	41,026,733	165,624,921
Allowance for bad and doubtful loans	7	(6,758,546)	(27,284,250)	(4,805,508)	(19,399,836)
Profit before income tax		57,969,842	234,024,252	36,221,225	146,225,085
Income tax expense	17(c)	(11,780,679)	(47,558,601)	(7,208,986)	(29,102,676)
Net profit for the year		46,189,163	186,465,651	29,012,239	117,122,409

The accompanying notes from pages 40 to 70 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital	Share premium	Retained earnings	Total
	US\$	US\$	US\$	US\$
For the year ended 31 December 2017				
At 1 January 2017	52,643,000	18,357,000	58,014,603	129,014,603
Convert from share premium	18,357,000	(18,357,000)	-	-
Convert from retained earning	29,000,000	-	(29,000,000)	-
Issued share capital	25,000,000	-	-	25,000,000
Net profit for the year	-	-	46,189,163	46,189,163
At 31 December 2017	125,000,000	-	75,203,766	200,203,766
KHR'000 equivalents at 31 December 2017	504,625,000	-	303,597,603	808,222,603
For the year ended 31 December 2016				
At 1 January 2016	52,643,000	18,357,000	29,002,364	100,002,364
Net profit for the year	-	-	29,012,239	29,012,239
At 31 December 2016	52,643,000	18,357,000	58,014,603	129,014,603
KHR'000 equivalents at 31 December 2016	212,519,791	74,107,209	234,204,952	520,831,952

The accompanying notes from pages 40 to 70 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	31 December 2017		31 December 2016	
		US\$	KHR'000	US\$	KHR'000
Cash flow from operating activities					
Profit before income tax		57,969,842	234,024,252	36,221,225	146,225,085
Adjustments					
Depreciation and amortisation	26	3,261,205	13,165,485	2,452,164	9,899,386
Allowance for bad and doubtful loans	7	6,758,546	27,284,250	4,805,508	19,399,836
Loss/(gains) on disposals of property and equipment		64,160	259,014	(3,527)	(14,238)
Loss/(gains) on disposal of foreclosed properties		106,346	429,319	(825,945)	(3,334,340)
Effect of exchange rate on conversion from KHR to USD		–	–	(39,375)	(158,957)
Net interest income		(87,118,457)	(351,697,211)	(54,213,218)	(218,858,761)
		(18,958,358)	(76,534,891)	(11,603,168)	(46,841,989)
Changes in:					
Balances with the NBC		(60,294,481)	(243,408,818)	(26,432,803)	(106,709,226)
Balances with other banks		18,396,843	74,268,054	16,319,059	65,880,041
Loans to customers		(446,631,155)	(1,803,049,973)	(305,397,777)	(1,232,890,826)
Foreclosed properties		–	–	(466,357)	(1,882,683)
Other assets		(8,470,258)	(34,194,432)	(1,738,696)	(7,019,115)
Deposits from customers		429,711,825	1,734,746,638	198,794,949	802,535,209
Other liabilities		9,263,352	37,396,152	4,145,543	16,735,557
Cash used in operations		(76,982,232)	(310,777,270)	(126,379,250)	(510,193,032)
Interest received		122,892,434	496,116,756	82,863,460	334,519,788
Interest paid		(59,752,092)	(241,219,195)	(28,376,093)	(114,554,287)
Income tax paid	17(a)	(9,188,095)	(37,092,340)	(4,250,882)	(17,160,811)
Net cash used in operating activities		(23,029,985)	(92,972,049)	(76,142,765)	(307,388,342)

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	31 December 2017		31 December 2016	
		US\$	KHR'000	US\$	KHR'000
Cash flow from investing activities					
Investment securities		8,523,414	34,409,022	28,383,325	114,583,483
Purchases of intangible assets	11	(220,561)	(890,405)	(199,035)	(803,504)
Purchases of property and equipment	12	(5,855,013)	(23,636,687)	(5,324,260)	(21,494,038)
Proceeds from disposals of property and equipment		4,055	16,370	98,125	396,131
Proceeds from disposals of foreclosed properties		1,139,341	4,599,520	3,515,385	14,191,609
Net cash generated from investing activities		3,591,236	14,497,820	26,473,540	106,873,681
Cash flow from financing activities					
Proceeds from issuance of share capital		25,000,000	100,925,000	-	-
Proceeds from borrowings		63,000,000	254,331,000	98,000,000	395,626,000
Repayments of borrowings		(44,499,999)	(179,646,496)	(59,000,000)	(238,183,000)
Proceeds from subordinated debts		30,000,000	121,110,000	15,000,000	60,555,000
Net cash generated from financing activities		73,500,001	296,719,504	54,000,000	217,998,000
Net increase in cash and cash equivalents		54,061,252	218,245,275	4,330,775	17,483,339
Cash and cash equivalents at the beginning of the year		107,157,207	432,593,645	102,826,432	416,447,049
Currency translation differences		-	-	-	(1,336,743)
Cash and cash equivalents at the end of the year	27	161,218,459	650,838,920	107,157,207	432,593,645

The accompanying notes from pages 40 to 70 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. GENERAL INFORMATION

Advanced Bank of Asia Limited (“the Bank”) was incorporated in Cambodia on 25 October 1996 under Registration No. Co. 322/97E dated 25 October 1996 granted by the Ministry of Commerce and commenced operations on 25 October 1996. On 28 November 2006, the Bank was granted a permanent banking licence No. 14 from the National Bank of Cambodia (“NBC”).

The Bank is principally engaged in all aspects of banking business and the provision of related financial services in the Kingdom of Cambodia. There have been no significant changes in the nature of these principal activities during the year.

The registered office of the Bank is located at No. 148, Preah Sihanouk Blvd., Sangkat Boeung Keng Kang I, Khan Chamkamorn, Phnom Penh, Kingdom of Cambodia.

The financial statements of the Bank were authorised for issue by the Board of Directors on 14 March 2018.

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements have been prepared in accordance with Cambodian Accounting Standards (“CAS”) and relevant accounting regulations and guidelines issued by the National Bank of Cambodia.

(b) Basis of measurement

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

(c) Functional and presentation currency

The national currency of Cambodia is the Khmer Riel (“KHR”). However as the Bank transacts and maintains its accounting records primarily in United States Dollars (“US\$”), management 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.

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

(d) Presentation in Khmer Riel

In compliance with the Law on Accounting and Auditing dated 11 April 2016, a translation of the financial statements from US\$ to Khmer Riel is required.

Translations of US\$ into Khmer Riel are included in the financial statements solely for compliance with the Prakas No. B7-07-164 dated 13 December 2007 of the National Bank of Cambodia relating to the preparation and presentation of financial statements and have been made using the prescribed official exchange rate of US\$ 1 to Riel 4,037 as at 31 December 2017 (31 December 2016: US\$1 to KHR 4,037) published by the National Bank of Cambodia.

The financial statements expressed in Khmer Riel are unaudited and should not be construed as representation that the US\$ amounts have been, could have been, or could in the future be, converted into Khmer Riel at this or any other exchange rate.

(e) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, and income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future period affected.

For critical accounting estimates, assumptions and judgement, please refer to Note 3.

(f) Financial instruments

The Bank's financial assets and liabilities include cash and cash equivalents, loans to customers, investment securities, other receivables, deposits from customers, borrowings and payables. The accounting policies for the recognition and measurement of these items are disclosed in the respective accounting policies.

(g) Basis of aggregation

The Bank's financial statements comprise the financial statements of the head office and its branches. All inter-branch balances and transactions have been eliminated.

(h) 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.

(i) Loans to customers

Loans to customers are stated in the balance sheet at the amount of principal outstanding plus accrued interest less any amounts written off and specific and general allowances for bad and doubtful loans.

(j) Allowances for bad and doubtful loans and loan written off

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

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

Classification	Number of days past due	Allowance
General		
Normal/standard	Less than 30 days	1%
Specific		
Special-mention	30 days or more	3%
Sub-standard	90 days or more	20%
Doubtful	180 days or more	50%
Loss	360 days or more	100%

The minimum percentage of allowance for doubtful loans and advances are to be maintained according to the assigned classifications. Where reliable information suggests that losses are likely to be more than these minimum requirements, larger allowance is made.

In determining the above allowance, any collateral value other than cash deposits which has been pledged is disregarded except that, in the case of a loan classified as "loss", all collateral may be utilised.

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

Recoveries on loans previously written off and reversals of previous allowances are disclosed separately together with the net movement in the allowance for bad and doubtful loans in the income statement.

(k) Interest in suspense

Interest in suspense represents interest on non-performing loans, that is recorded as Interest in suspense rather than interest income until it is realised on a cash basis.

Interest in suspense is disclosed as a deduction from interest receivables.

(l) Foreclosed properties

Foreclosed properties consist of immovable properties which are carried at the lower of the outstanding balance of the related loans and the estimate fair value of the property at the date of the foreclosure.

(m) Investment securities

Held to maturity investments are carried at amortised cost using the effective interest method less any impairment losses.

(n) Other assets

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

(o) Intangible assets

Intangible assets comprise of software including costs incurred in acquiring and developing software, which is not integral to the operation of hardware, and is carried at cost less accumulated amortisation and accumulated impairment losses, if any. Software costs are amortised over the expected useful lives of 3 to 20 years.

Costs incurred in planning or evaluating software proposals, or in maintaining systems after implementation, are not capitalised.

(p) Property and equipment

- (i) Items of property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Where an item of premises and equipment comprises major components having different useful lives, they are accounted for as separate items of premises and equipment.
- (ii) Depreciation of property and equipment is charged to the income statement on a straight-line basis over the useful lives of the individual assets as follows:

	Useful lives
Leasehold improvements	1 – 10 years
Office equipment, furniture and fixture	5 years
Motor vehicles	5 years
Computers and IT equipment	3 – 6 years

Work in progress is not depreciated until such time as the relevant assets are completed and put into operational use.

- (iii) Subsequent expenditure relating to an item of premises and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Bank. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- (iv) Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the assets and are recognised in the income statement on the date of retirement or disposal.
- (v) Fully depreciated property and equipment are retained in the financial statements until disposed of or written off.

(q) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. This does not apply to loans to customers which has a separate accounting policy stated in Note 2(j).

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

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

All impairment losses are recognised in the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

(ii) *Non-financial assets*

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

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

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

(r) Deposits from customers

Deposits from customers are stated at cost.

(s) Borrowings

Borrowings are stated at the amount of the principal outstanding.

(t) Subordinated debts

Subordinated debts are treated as financial liabilities when there are contractual obligations to deliver cash or financial assets to the other entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Bank, if otherwise, it is treated as equity.

The subordinated debts which are approved by the NBC are included as a Tier II line item in the calculation of the Bank's net worth in accordance with the guidelines of the NBC. Subordinated debts are stated at cost.

(u) Provisions

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

(v) Income and expense recognition

Interest income is recognised on an accrual basis. Where a loan becomes non-performing, the recording of interest as income is suspended until it is realised on a cash basis.

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

- Loan arrangement fees and commissions on services and facilities are recognised at the time the services and facilities provided.
- Commitment fees and guarantee fees on services and facilities extended to customers are recognised on the occurrence of such transactions; and
- Service charges and processing fees are recognised when the service is provided.

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

(w) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

(x) Income tax and deferred tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement.

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

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

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

(y) New standards and interpretations not yet adopted

The National Accounting Council of Cambodia (“NAC”), as mandated by Prakas (Circular) No. 068–MEF–Pr dated 8 January 2009 issued by the Ministry of Economy and Finance of Cambodia on the adoption of Cambodian Financial Reporting Standards, has decided to adopt International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) effective for financial statements with periods beginning on or after 1 January 2012. The new standards will be referred to as Cambodian International Financial Reporting Standards (“CIFRS”).

On 30 July 2012, the Ministry of Economy and Finance through NAC issued a Notification on delaying of adopting the CIFRS for banks and microfinance institutions until periods beginning on 1 January 2016.

On 16 November 2015, the National Bank of Cambodia submitted a request for an extension of adopting the CIFRS for banks and financial institutions until 2019 to the NAC. On 24 March 2016, the NAC approved the request by delaying the adoption of the CIFRS for banks and financial institutions until periods beginning on 1 January 2019. Banks and financial institutions are required to implement CIFRS from 1 January 2019.

The Bank is assessing the potential impact on its financial statements resulting from the application of CIFRS for the financial year end but is not ready at the date of this financial statements.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

3.1 Key sources of estimation uncertainty

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Allowance for bad and doubtful loans

The Bank follows the mandatory credit classification and provisioning as required by Prakas No. B7–09–074, dated 25 February 2009, on asset classification and provisioning in banking and financial institutions, issued by the NBC. The NBC requires commercial banks to classify their loans, advances and similar assets into five classes and the minimum mandatory level of provisioning is provided, depending on the classification concerned and regardless of the assets pledged as collateral. For the purposes of loan classification, the Bank take into account all relevant factors that may affect the counterparties’ repayment abilities.

(b) Income tax

The taxation system in Cambodia is characterised by numerous taxes and frequently changing legislation, which is complex and subject to interpretation. Often, different interpretations exist among the numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, which are empowered by law to impose fines, penalties and interest charges.

These factors may create significant tax exposures for the Bank. Management believes that they have understood relevant tax regulations and adequately provided for tax liabilities based on their interpretation of the current tax legislation. However, the relevant authorities may have different interpretations and the effects could be significant.

(c) Useful lives and residual value of property and equipment

The Bank estimates the useful lives and residual value of its property and equipment based on past experiences. Management believes that their assumption is appropriate and reflects the economic benefits expected to be generated from those assets. If, for some reasons, the useful lives and residual value are no longer appropriate, management would revise their assumption accordingly.

3.2 Critical judgments in applying accounting policies

There are no critical judgements made by the Management in the process of applying the Bank's accounting policies that have the most significant effect on the amount recognised in these financial statements apart from those involving estimates, which are dealt with above.

4. CASH ON HAND

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Cash on hand	60,807,165	245,478,525	39,295,836	158,637,290
Cash items in the process of collection	8,179,135	33,019,168	2,327,119	9,394,579
	68,986,300	278,497,693	41,622,955	168,031,869

5. BALANCES WITH THE NBC

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Statutory deposits:				
Capital guarantee deposits	12,500,000	50,462,500	5,264,300	21,251,979
Reserve requirement	156,519,657	631,869,855	103,460,876	417,671,556
	169,019,657	682,332,355	108,725,176	438,923,535
Current accounts	32,745,828	132,194,907	34,831,566	140,615,032
Term deposits	5,523,879	22,299,900	2,494,105	10,068,702
	207,289,364	836,827,162	146,050,847	589,607,269

Capital guarantee deposits

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

During the year, interest was earned at rates ranging from 0.32% to 0.36% per annum (2016: 0.20% to 0.22% per annum).

Reserve requirement

This is a reserve requirement which fluctuates depending on the level of the Bank's customers' deposits. It is maintained in compliance with the National Bank of Cambodia's Prakas No. B7-012-140 dated 27 September 2012 at the rates of 8.00% of customers' deposits in KHR and 12.50% in currency other than KHR.

1/3 of the reserve requirement in currencies other than Riel earns interest at 1/2 of one-month LIBOR while the rest of the reserve requirement earns no interest.

6. BALANCES WITH OTHER BANKS

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Current accounts	12,199,052	49,247,573	14,030,028	56,639,223
Savings deposits	1,022,247	4,126,811	1,393,372	5,625,043
Term deposits	71,702,596	289,463,380	62,143,467	250,873,176
	84,923,895	342,837,764	77,566,867	313,137,442

Balances with other banks are analysed as follows:

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
(a) By currency:				
US Dollars	82,852,526	334,475,648	76,808,332	310,075,236
Khmer Riel	1,764,237	7,122,225	441,461	1,782,178
Euro	78,331	316,222	55,864	225,523
Thai Baht	13,927	56,223	58,433	235,894
British Pound	40,608	163,934	12,421	50,144
Singapore Dollars	168,177	678,931	190,356	768,467
Chinese Yuan	6,089	24,581	–	–
	84,923,895	342,837,764	77,566,867	313,137,442

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
(b) By maturity:				
Within 1 month	54,435,206	219,754,926	35,190,091	142,062,397
> 1 to 3 months	25,600,021	103,347,285	8,453,182	34,125,496
> 3 to 12 months	4,888,668	19,735,553	30,557,093	123,358,984
More than 12 months	–	–	3,366,501	13,590,565
	84,923,895	342,837,764	77,566,867	313,137,442

	31 December 2017		31 December 2016	
	(c) By interest rate (per annum):			
Current accounts		0%		0%
Saving deposits		0.00% – 0.75%		0.05% – 0.75%
Term deposits		1.56% – 6.10%		3.20% – 8.50%

7. LOANS TO CUSTOMERS

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Commercial loans:				
Long term loans	1,176,962,502	4,751,397,621	727,692,237	2,937,693,561
Short term loans	9,288,869	37,499,164	11,422,154	46,111,236
Overdrafts	28,138,086	113,593,453	30,743,700	124,112,317
Consumer loans:				
Housing loans	12,398,263	50,051,788	12,978,668	52,394,882
Vehicle loans	27,497	111,005	136,271	550,126
Staff loans	8,248,782	33,300,333	5,579,095	22,522,807
Credit cards	616,564	2,489,069	503,457	2,032,456
Total loans to customers, gross	1,235,680,563	4,988,442,433	789,055,582	3,185,417,385
Net accrued interest receivable				
Accrued interest receivable	9,135,475	36,879,912	5,576,562	22,512,581
Interest-in-suspense	(760,936)	(3,071,899)	(140,408)	(566,827)
Total gross loans and net interest receivable	1,244,055,102	5,022,250,446	794,491,736	3,207,363,139
Allowance for bad and doubtful loans				
General Provision	(12,217,831)	(49,323,383)	(9,253,587)	(37,356,731)
Specific Provision	(4,464,450)	(18,022,985)	(676,322)	(2,730,312)
	(16,682,281)	(67,346,368)	(9,929,909)	(40,087,043)
	1,227,372,821	4,954,904,078	784,561,827	3,167,276,096

The movements in allowance for bad and doubtful loans were as follows:

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
At the beginning of year	9,929,909	40,087,043	5,182,164	20,987,765
Addition during the year	6,758,546	27,284,250	4,805,508	19,399,836
Written off during the year	(6,174)	(24,925)	(57,763)	(233,189)
Currency translation difference	–	–	–	(67,369)
At end of year	16,682,281	67,346,368	9,929,909	40,087,043

Loans to customers are analysed as follows:

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
(a) By maturity:				
Within 1 month	3,791,152	15,304,881	2,317,953	9,357,576
> 1 to 3 months	8,242,154	33,273,576	11,272,901	45,508,701
> 3 to 12 months	33,427,807	134,948,057	35,327,627	142,617,630
More than 12 months	1,190,219,450	4,804,915,919	740,137,101	2,987,933,478
	1,235,680,563	4,988,442,433	789,055,582	3,185,417,385
(b) By currency:				
US Dollars	1,233,724,339	4,980,545,157	789,055,582	3,185,417,385
KHR	1,956,224	7,897,276	-	-
	1,235,680,563	4,988,442,433	789,055,582	3,185,417,385
(c) By performance:				
Standard loans				
Secured*	1,214,837,648	4,904,299,585	765,610,182	3,090,768,307
Unsecured**	6,945,560	28,039,226	19,748,608	79,725,130
Special-mention loans				
Secured*	4,133,513	16,686,992	1,969,600	7,951,275
Unsecured**	-	-	-	-
Sub-standard loans				
Secured*	5,658,116	22,841,814	876,378	3,537,938
Unsecured**	-	-	-	-
Doubtful loans				
Secured*	1,793,809	7,241,607	817,713	3,301,107
Unsecured**	-	-	-	-
Loss loans				
Secured*	2,301,833	9,292,500	15,575	62,876
Unsecured**	10,084	40,709	17,526	70,752
Total	1,235,680,563	4,988,442,433	789,055,582	3,185,417,385

* Secured loans are loans that are collateralised, by land, building and/or other immovable properties.

** Unsecured loans are provided mainly to financial institutions and other borrowers which are secured by personal or corporate guarantees.

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
(d) By residency status:				
Residents	1,234,972,005	4,985,581,984	788,460,830	3,183,016,371
Non-residents	708,558	2,860,449	594,752	2,401,014
	1,235,680,563	4,988,442,433	789,055,582	3,185,417,385
(e) By economic sector:				
Financial institution	4,216,667	17,022,685	15,616,667	63,044,485
Agriculture	62,762,946	253,374,013	33,478,293	135,151,869
Manufacturing	56,236,382	227,026,274	36,794,225	148,538,286
Utilities	6,313,616	25,488,068	9,034,961	36,474,138
Construction	38,564,869	155,686,376	24,091,367	97,256,849
Wholesale and trade	70,393,874	284,180,069	50,937,528	205,634,801
Retail trade	341,604,643	1,379,057,944	236,080,915	953,058,653
Hotel and restaurants	67,936,663	274,260,309	51,210,851	206,738,205
Transportation and storage	76,777,952	309,952,592	45,661,716	184,336,347
Information media and telecommunication	738,787	2,982,483	851,985	3,439,463
Rental and lease excluding real estate	34,351,898	138,678,612	17,544,368	70,826,614
Real estate operation (residential)	144,197,226	582,124,201	71,276,025	287,741,313
Real estate and public utilities	14,156,210	57,148,620	15,133,665	61,094,606
Other non-financial services	121,676,564	491,208,289	115,370,970	465,752,606
Credit cards	616,565	2,489,073	503,457	2,032,456
Personal consumption				
Staff loans	8,092,481	32,669,346	5,395,699	21,782,438
House loans	12,300,074	49,655,399	12,732,142	51,399,657
Vehicle loans	27,497	111,005	136,271	550,126
Loans provided for personal goods	3,657,125	14,763,814	3,124,031	12,611,713
Loans for House Renovations and Purchase (SME/MICRO)	120,174,199	485,143,241	31,928,445	128,895,132
Loans for Vehicle Purchase (SME/MICRO)	50,884,325	205,420,020	12,152,001	49,057,628
	1,235,680,563	4,988,442,433	789,055,582	3,185,417,385
(f) By relationship:				
External customers	1,227,431,781	4,955,142,100	783,476,487	3,162,894,578
Staff loans	8,248,782	33,300,333	5,579,095	22,522,807
	1,235,680,563	4,988,442,433	789,055,582	3,185,417,385

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
(g) By exposure:				
Non-large exposure	1,235,680,563	4,988,442,433	789,055,582	3,185,417,385

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

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
(h) By interest rate (per annum):				
Overdrafts		5.75% – 18.00%		6.25% – 18.00%
Loans		5.25% – 24.00%		6.75% – 24.00%
Trade finance		8.00% – 9.50%		8.00% – 9.50%
Staff loans		5.00% – 12.00%		5.00% – 12.00%

8. FORECLOSED PROPERTIES

Foreclosed properties relate to properties taken over from customers who are unable to repay their loans. NBC Guidelines require that the foreclosed assets be disposed of within 12 months of foreclosure. An approval from the NBC is obtained if the properties are not disposed of within 12 months.

9. INVESTMENT SECURITIES

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Securities held to maturity	16,849,632	68,021,964	25,373,046	102,430,987

Due to the excess of liquidity, the Bank decided to invest the excess portion in other companies' bonds which are designated as held to maturity securities. Those securities held to maturity are quoted in the market.

10. OTHER ASSETS

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Interest receivable from balances with the NBC and other banks and investment securities	1,493,315	6,028,513	1,916,361	7,736,351
Deposits and advance payments	8,172,194	32,991,146	2,407,362	9,718,520
Prepayments	2,253,571	9,097,666	1,194,148	4,820,775
Master/Visa Card and MoneyGram receivables	4,219,158	17,032,741	1,814,826	7,326,453
Investments – Credit Bureau	25,588	103,299	25,588	103,299
Pay&Go receivables	–	–	467,597	1,887,689
Others	524,456	2,117,230	392,142	1,583,076
	16,688,282	67,370,595	8,218,024	33,176,163

11. INTANGIBLE ASSETS

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Cost				
At 1 January	3,098,898	12,510,251	2,878,852	11,621,926
Additions	220,561	890,405	199,035	803,504
Disposals	(67,326)	(271,795)	–	–
Currency translation difference	–	–	21,011	84,821
At 31 December	3,252,133	13,128,861	3,098,898	12,510,251
Accumulated amortisation				
At 1 January	1,207,579	4,874,996	869,111	3,508,601
Amortisation for the year	346,133	1,397,339	334,842	1,351,757
Disposals	(67,327)	(271,799)	–	–
Currency translation difference	–	–	3,626	14,638
At 31 December	1,486,385	6,000,536	1,207,579	4,874,996
Carrying amounts				
At 31 December	1,765,748	7,128,325	1,891,319	7,635,255

12. PROPERTY AND EQUIPMENT

For the year ended 31 December 2017	Leasehold improvements	Office equipment, furniture and fixture	Motor vehicles	Computers and IT equipment	Construction in progress	Total	
	US\$	US\$	US\$	US\$	US\$	US\$	KHR'000
Cost							
At 1 January 2017	5,824,625	3,600,606	906,718	5,360,926	359,325	16,052,200	64,802,732
Additions	76,803	1,270,524	54,010	2,118,859	2,334,817	5,855,013	23,636,687
Transfer	1,084,224	100,987	–	–	(1,185,211)	–	–
Written off/disposals	(1,002,816)	(354,187)	(25,194)	(885,694)	–	(2,267,891)	(9,155,475)
At 31 December 2017	5,982,836	4,617,930	935,534	6,594,091	1,508,931	19,639,322	79,283,944
Accumulated depreciation							
At 1 January 2017	2,018,898	1,343,315	411,460	2,247,005	–	6,020,678	24,305,478
Depreciation for the year	772,886	779,366	183,166	1,179,655	–	2,915,073	11,768,150
Written off/disposals	(1,002,470)	(357,468)	(25,194)	(814,544)	–	(2,199,676)	(8,880,092)
At 31 December 2017	1,789,314	1,765,213	569,432	2,612,116	–	6,736,075	27,193,536
Carrying amounts							
At 31 December 2017	4,193,522	2,852,717	366,102	3,981,975	1,508,931	12,903,247	52,090,408

For the year ended 31 December 2016	Leasehold improvements	Office equipment, furniture and fixture	Motor vehicles	Computers and IT equipment	Construction in progress	Total	
	US\$	US\$	US\$	US\$	US\$	US\$	KHR'000
Cost							
At 1 January 2016	4,025,319	2,341,170	874,794	3,638,045	16,613	10,895,941	43,986,914
Additions	353,904	1,169,183	193,868	1,697,529	1,909,776	5,324,260	21,494,038
Transfer	1,445,502	121,562	–	–	(1,567,064)	–	–
Disposals	–	(37,426)	(164,593)	–	–	(202,019)	(815,551)
Currency translation difference	(100)	6,117	2,649	25,352	–	34,018	137,331
At 31 December 2016	5,824,625	3,600,606	906,718	5,360,926	359,325	16,052,200	64,802,732
Accumulated depreciation							
At 1 January 2016	1,456,635	851,228	290,918	1,399,968	–	3,998,749	16,142,950
Depreciation for the year	561,838	530,209	189,710	835,565	–	2,117,322	8,547,629
Disposals	–	(37,253)	(70,168)	–	–	(107,421)	(433,658)
Currency translation difference	425	(869)	1,000	11,472	–	12,028	48,557
At 31 December 2016	2,018,898	1,343,315	411,460	2,247,005	–	6,020,678	24,305,478
Carrying amounts							
At 31 December 2016	3,805,727	2,257,291	495,258	3,113,921	359,325	10,031,522	40,497,254

13. DEPOSITS FROM CUSTOMERS

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Demand deposits	161,624,131	652,476,617	87,003,298	351,232,315
Saving deposits	582,179,614	2,350,259,102	375,112,155	1,514,327,770
Fixed deposits	512,296,602	2,068,141,382	392,210,871	1,583,355,286
Margin deposits	8,392,997	33,882,529	1,494,925	6,035,012
	1,264,493,344	5,104,759,630	855,821,249	3,454,950,383

The deposits from customers are analysed as follows:

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
(a) By currency:				
US Dollars	1,253,998,399	5,062,391,537	853,855,753	3,447,015,676
Khmer Riel	10,295,239	41,561,880	1,674,246	6,758,931
Euro	199,706	806,213	291,210	1,175,615
Thai Baht	–	–	40	161
	1,264,493,344	5,104,759,630	855,821,249	3,454,950,383

(b) By maturity:				
Within 1 month	845,233,363	3,412,207,086	523,795,271	2,114,561,509
> 1 to 3 months	93,921,468	379,160,966	88,052,639	355,468,504
> 3 to 12 months	273,519,134	1,104,196,745	205,252,011	828,602,369
More than 12 months	51,819,379	209,194,833	38,721,328	156,318,001
	1,264,493,344	5,104,759,630	855,821,249	3,454,950,383

(c) By relationship:				
Non-related parties	1,261,490,729	5,092,638,073	850,876,415	3,434,988,087
Related parties	3,002,615	12,121,557	4,944,834	19,962,296
	1,264,493,344	5,104,759,630	855,821,249	3,454,950,383

	31 December 2017		31 December 2016	
	(d) By interest rate (per annum):			
Demand deposits		0.00% to 1.00%		0.00% to 0.75%
Saving deposits		0.00% to 3.40%		0.00% to 4.00%
Fixed deposits		1.00% to 7.50%		1.75%–7.00%
Margin deposits		–		–

14. BORROWINGS

		31 December 2017		31 December 2016	
		US\$	KHR'000	US\$	KHR'000
Industrial and Commercial Bank of China Limited	(i)	34,000,000	137,258,000	20,000,000	80,740,000
Taiwan Cooperative Bank	(ii)	25,000,000	100,925,000	–	–
AfrAsia Bank Limited	(iii)	15,000,000	60,555,000	30,000,000	121,110,000
DEG	(iv)	12,500,001	50,462,504	15,000,000	60,555,000
Shanghai Commercial & Savings Bank Limited		–	–	3,000,000	12,111,000
		86,500,001	349,200,504	68,000,000	274,516,000

- (i) Represents four loans from Industrial and Commercial Bank of China Limited, Phnom Penh Branch. The first loan amounting to US\$6,000,000 was obtained on 29 July 2016, the second loan amounting to US\$5,000,000 was obtained on 29 August 2016, the third loan amounting to US\$9,000,000 was obtained on 29 November 2016 and the fourth loan amounting to US\$14,000,000 was obtained on 30 June 2017. The interest is payable quarterly and the principal is repayable on maturities which are three years from the disbursement dates.
- (ii) Represents a 3 year syndicated loan arranged by Taiwan Cooperative Bank, Phnom Penh Branch, with the first loan drawdown for amount of US\$5,000,000 received on 26 January 2017, and the second drawdown for amounting of US\$20,000,000 received on 15 March 2017. The interest is payable semi-annually and the principal is repayable at maturity on 26 January 2020.
- (iii) Represents a money placements from AfrAsia Bank Limited, Mauritius, received on 31 January 2017 with twelve-month term.
- (iv) Represents two separate long term loans obtained from DEG-Deutsche Investitions und Entwicklungsgesellschaft Mbh. The first loan amounting to US\$10,000,000 was obtained on 23 June 2015 and the second loan amounting to US\$5,000,000 was obtained on 3 February 2016. The principal amounts are repayable by semi-annual installments starting from 15 December 2017. The interest is payable semi-annually from the date of each drawdown. On 15 December 2017 the principal amounting US\$2,499,999 was repaid to the lender.

The above borrowings are unsecured and bear interest rates ranging from 2.55% to 6.99% per annum (2016: 1.50% to 6.99%).

15. SUBORDINATED DEBTS

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
National Bank of Canada	55,000,000	222,035,000	25,000,000	100,925,000

This represents four subordinated debts obtained from National Bank of Canada. The first subordinated loan amounting to US\$10,000,000, maturing on 31 December 2022, and the second subordinated loan amounting to US\$15,000,000, maturing on 30 June 2023 were approved by the National Bank of Cambodia on 6th January 2016. The third subordinated loan amounting to US\$10,000,000 and the fourth subordinated loan amounting to US\$20,000,000, maturing on 31 July 2024 were approved by the National Bank of Cambodia on 26 October 2016 and 3 August 2017 respectively. The interest is repayable semi-annually and the principal is repayable in five equal consecutive instalments with the balance payable in full at maturities.

The above subordinated debts are unsecured and bear net interest rates ranging from 6.50% to 7.00% per annum.

16. OTHER LIABILITIES

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Interest payable	12,156,068	49,074,047	8,883,662	35,863,343
Accrued expenses	4,710,051	19,014,476	2,584,700	10,434,434
Other tax payable	506,525	2,044,841	787,539	3,179,295
Others	4,741,769	19,142,521	595,160	2,402,661
	22,114,413	89,275,885	12,851,061	51,879,733

17. INCOME TAX

(a) Current income tax payable

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Balance at beginning of year	7,819,758	31,568,363	3,424,617	13,869,699
Current income tax expense	12,407,728	50,089,998	7,972,520	32,185,063
Prior year adjustment	–	–	673,503	2,718,932
Income tax paid	(9,188,095)	(37,092,340)	(4,250,882)	(17,160,811)
Currency translation difference	–	–	–	(44,520)
	11,039,391	44,566,021	7,819,758	31,568,363

(b) Deferred tax

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Deferred tax asset	2,183,499	8,814,785	1,577,667	6,369,042
Deferred tax liabilities	(213,248)	(860,882)	(234,465)	(946,535)
	1,970,251	7,953,903	1,343,202	5,422,507

The movement of net deferred tax assets/liabilities is as follows:

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
At beginning of year	1,343,202	5,422,507	(93,835)	(380,032)
Charged/(credited) to income statement	627,049	2,531,396	763,534	3,082,387
Prior year adjustment	–	–	673,503	2,718,932
Currency translation difference	–	–	–	1,220
	1,970,251	7,953,903	1,343,202	5,422,507

	Loan losses Provision		Total
	US\$		US\$
Deferred tax assets			
At 1 January 2017		1,577,667	1,577,667
Credited to the income statement		605,832	605,832
At 31 December 2017		2,183,499	2,183,499
Equivalent in KHR '000		8,814,787	8,814,787
	Accelerated tax depreciation	Unrealised exchange gain	Total
	US\$	US\$	US\$
Deferred tax liabilities			
At 1 January 2017	(175,664)	(58,801)	(234,465)
Credited/(Charged) to the income statement	(28,428)	49,645	21,217
At 31 December 2017	(204,092)	(9,156)	(213,248)
Equivalent in KHR '000	(823,919)	(36,963)	(860,882)

(c) Income tax expense

	For the year ended 31 December 2017		For the year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Current income tax	12,407,728	50,089,998	7,972,520	32,185,063
Deferred tax	(627,049)	(2,531,397)	(763,534)	(3,082,387)
	11,780,679	47,558,601	7,208,986	29,102,676

The reconciliation of income taxes computed at the statutory tax rate of 20% to the income tax expense in respect to the current year is as follows:

	For the year ended 31 December 2017		For the year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Profit before income tax	57,969,842	234,024,252	36,221,225	146,225,085
Income tax using statutory rate	11,593,968	46,804,849	7,244,245	29,245,017
Non-deductible expenses	161,552	652,185	28,518	115,127
Under/(over) provision in prior year	25,159	101,567	(63,777)	(257,468)
Income tax expense	11,780,679	47,558,601	7,208,986	29,102,676

18. SHARE CAPITAL

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Shares of US\$1,000 each:				
Issued and fully paid	125,000,000	504,625,000	52,643,000	212,519,791

The details of shareholdings were as follows:

	31 December 2017			31 December 2016		
	% of Ownership	Number of shares	Amount US\$	% of Ownership	Number of shares	Amount US\$
National Bank of Canada	90%	112,500	112,500,000	90%	47,379	47,379,000
Mr. Damir Karassayev	10%	12,500	12,500,000	10%	5,264	5,264,000
	100%	125,000	125,000,000	100%	52,643	52,643,000

On 22 March 2016, the National Bank of Cambodia issued a Prakas No. B7-016-117-ProKor, requiring locally incorporated commercial banks and subsidiaries of foreign banks to increase the minimal registered capital to at least KHR 300 billion (approximately US\$75 million). Banks are required to fulfil this requirement within two years from the date of the Prakas. In accordance with the Prakas and the Circular on the Implementation of this Prakas, No. B7-016-001 C.L., dated 16 June 2016, the Bank issued additional shares as follow:

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Balance at beginning of year	52,643,000	212,519,791	52,643,000	213,204,150
Convert from share premium (i)	18,357,000	74,107,209	-	-
Convert from retained earnings (ii)	29,000,000	117,073,000	-	-
Issue share capital (iii)	25,000,000	100,925,000	-	-
Currency translation difference	-	-	-	(684,359)
Balance at the end of year	125,000,000	504,625,000	52,643,000	212,519,791

- (i) On 4 January 2017, National Bank of Cambodia issued an approval letter allowing the Bank to increase its registered capital by US\$18,357,000 by converting their share premium, issuing additional 16,521 shares to National Bank of Canada and 1,836 shares to Mr. Damir Karassayev, with a par value of US\$1,000 per share.
- (ii) On 28 September 2017, National Bank of Cambodia issued an approval letter allowing the Bank to increase its registered capital by US\$29,000,000 by converting from retained earnings of the Bank, issuing additional 26,100 shares to National Bank of Canada and 2,900 shares to Mr. Damir Karassayev, with a par value of US\$1,000 per share.
- (iii) On 31 October 2017, National Bank of Cambodia issued an approved letter allowing the Bank to increase its registered capital by US\$25,000,000, issuing additional 22,500 shares to National Bank of Canada and 2,500 shares to Mr. Damir Karassayev, with a par value of US\$1,000 per share.

19. INTEREST INCOME

	For the year ended 31 December 2017		For the year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Interest income from:				
Loans to customers	121,316,858	489,756,156	78,145,043	315,471,538
Deposits with banks	2,811,813	11,351,289	3,779,234	15,256,768
Investment securities	1,702,148	6,871,571	3,280,056	13,241,586
	125,830,819	507,979,016	85,204,333	343,969,892

20. INTEREST EXPENSE

	For the year ended 31 December 2017		For the year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Deposits from customers	31,113,149	125,603,782	27,522,447	111,108,118
Borrowings	4,655,283	18,793,378	2,150,148	8,680,148
Subordinated debts	2,943,930	11,884,645	1,318,520	5,322,865
	38,712,362	156,281,805	30,991,115	125,111,131

21. FEE AND COMMISSION INCOME

	For the year ended 31 December 2017		For the year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Loan commitment fees	9,632,670	38,887,090	6,249,594	25,229,610
Inward and outward remittances	2,175,221	8,781,367	1,598,593	6,453,520
Master/Visa and UPI cards	7,649,601	30,881,439	6,009,447	24,260,138
Cable charges	143,027	577,400	103,532	417,959
Other fees	2,272,960	9,175,939	1,963,162	7,925,285
	21,873,479	88,303,235	15,924,328	64,286,512

22. FEE AND COMMISSION EXPENSE

	For the year ended 31 December 2017		For the year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Mastercard	2,844,404	11,482,859	1,791,624	7,232,786
Visa card	2,541,819	10,261,323	1,576,426	6,364,032
Fee and commission paid to other banks and FIs	331,447	1,338,052	273,939	1,105,891
UnionPay	59,294	239,370	-	-
Others	2,279	9,200	798	3,222
	5,779,243	23,330,804	3,642,787	14,705,931

23. OTHER OPERATING INCOME

	For the year ended 31 December 2017		For the year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Gain/(loss) on sales of investment securities	(857,170)	(3,460,395)	600,341	2,423,576
Foreign exchange gain, net	592,591	2,392,290	412,643	1,665,840
Other incomes	295,081	1,191,242	141,881	572,774
	30,502	123,137	1,154,865	4,662,190

24. PERSONNEL EXPENSES

	For the year ended 31 December 2017		For the year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Salaries and wages	20,927,741	84,485,291	13,901,741	56,121,328
Others personnel costs	331,660	1,338,911	267,339	1,079,248
	21,259,401	85,824,202	14,169,080	57,200,576

25. OPERATING EXPENSES

	For the year ended 31 December 2017		For the year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Office rental	3,365,298	13,585,708	2,609,655	10,535,177
Marketing and advertising	1,491,209	6,020,011	1,191,958	4,811,934
Repairs and maintenance	1,218,511	4,919,129	642,450	2,593,571
Utilities expenses	843,845	3,406,602	652,139	2,632,685
Office supplies	1,199,238	4,841,324	816,025	3,294,293
License fees	546,782	2,207,359	502,581	2,028,919
Communication	622,282	2,512,152	450,906	1,820,308
Motor vehicle operation expenses	287,659	1,161,279	231,419	934,239
Travelling	647,253	2,612,960	509,640	2,057,417
Business meal and entertainment	153,778	620,802	60,604	244,658
Professional fees	414,157	1,671,952	280,511	1,132,423
Insurance expenses	277,337	1,119,609	191,511	773,130
Security expenses	804,952	3,249,591	577,165	2,330,015
Membership fees	25,621	103,432	145,493	587,355
Credit report (CBC) expenses	219,081	884,430	146,485	591,360
Vehicle rental expenses	955,358	3,856,780	535,878	2,163,339
Board of Director fees	126,320	509,954	85,793	346,346
Publications and subscription	90,078	363,645	65,213	263,265
Other expenses	705,442	2,847,871	306,221	1,236,215
	13,994,201	56,494,590	10,001,647	40,376,649

26. DEPRECIATION AND AMORTISATION EXPENSES

	For the year ended 31 December 2017		For the year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Depreciation	2,915,073	11,768,150	2,117,322	8,547,629
Amortisation	346,132	1,397,335	334,842	1,351,757
	3,261,205	13,165,485	2,452,164	9,899,386

27. CASH AND CASH EQUIVALENTS

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Cash on hand	68,986,300	278,497,693	41,622,955	168,031,869
Balances with the NBC	38,269,706	154,494,805	37,325,670	150,683,730
Balances with other banks	53,962,453	217,846,422	28,208,582	113,878,046
	161,218,459	650,838,920	107,157,207	432,593,645

28. COMMITMENTS AND CONTINGENCIES

(a) Operating lease commitments

The Bank has operating lease commitments for the lease of its headquarters and provincial offices as follows:

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
No later than 1 year	3,210,375	12,960,284	2,388,914	9,644,046
Later than 1 year and no later than 5 years	10,524,487	42,487,354	6,073,614	24,519,178
Later than 5 years	7,635,171	30,823,185	2,869,558	11,584,405
	21,370,033	86,270,823	11,332,086	45,747,629

(b) Other commitments

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Unused portion of overdrafts	17,305,614	69,862,764	14,319,977	57,809,747
Letter of credits	5,419,972	21,880,427	37,461,866	151,233,553
Performance bonds	7,498,846	30,272,841	5,512,706	22,254,794
Bid bonds	683,000	2,757,271	157,514	635,884
Other guarantees	3,361,246	13,569,350	2,792,872	11,274,824
Others	4,775,000	19,276,675	7,005,285	28,280,336
	39,043,678	157,619,328	67,250,220	271,489,138

29. RELATED PARTY TRANSACTIONS AND BALANCES

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

(a) Related party balances

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Borrowings from the National Bank of Canada	55,000,000	222,035,000	25,000,000	100,925,000
Deposits and placements by key management, shareholder and directors	3,002,615	12,121,557	4,944,834	19,962,296

(b) Other related party transactions

	For the year ended 31 December 2017		For the year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Interest expenses to the National Bank of Canada	2,943,930	11,884,645	1,318,520	5,322,865
Interest expenses to key management, shareholders and directors	843,949	3,407,023	211,497	853,814

(c) Key management, shareholders and director personnel remuneration

	For the year ended 31 December 2017		For the year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Salaries and benefits*	5,508,304	22,237,023	4,088,618	16,505,751

* Including the remuneration of key management personnel and meeting fees of Board of Directors.

30. FINANCIAL RISK MANAGEMENT

Introduction and overview

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

- Operational risk
- Credit risk
- Market risk
- Liquidity risk

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

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Asset and Liability (ALCO), Credit, Governance, Compliance, Audit, and Risk committees, which are responsible for developing and monitoring Bank's risk management policies in their specified areas. All committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

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 Audit and Risk Committee is responsible for monitoring compliance with the

Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank.

Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee for Board of Directors' meeting.

(a) Operational risk

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

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

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

(b) Credit risk

Credit risk is the financial loss to the Bank if a borrower or counterparty fails to meet its contractual obligations, and arises principally from the loans and advances.

(i) Management of credit risk

The lending activities are guided by the Bank's credit policy to ensure that the overall objectives in the area of lending are achieved; i.e., that the loan portfolio is strong and healthy and credit risks are well diversified. The credit policy documents the lending policy, collateral policy and credit approval processes, including the Bank's own internal grading system, and procedures implemented to ensure compliance with NBC Guidelines.

The Bank has established the Credit and Risk Policy which is designed to govern the Bank's risk undertaking activities. Extension of credit is governed by credit programs that set out the plan for a particular product or portfolio, including the target market, terms and conditions, documentation and procedures under which a credit product will be offered and measured.

Risk ratings are reviewed and updated on a semi-annual basis for all loans with outstanding greater than US\$200,000, and in event of (i) change of loan terms and conditions including extension; (ii) repayment irregularities or delinquencies and (iii) adverse information relating to the borrower or transaction.

(ii) Exposure to credit risk

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Loans to customers				
Neither past due nor impaired	1,221,783,208	4,932,338,811	785,358,790	3,170,493,435
Past due but not impaired	4,133,513	16,686,992	1,969,600	7,951,275
Individually impaired	9,763,842	39,416,630	1,727,192	6,972,675
	1,235,680,563	4,988,442,433	789,055,582	3,185,417,385

It is not practical to obtain fair value of collateral due to costs of obtaining such information outweigh the potential benefits. The Bank's policy is to fund approximately 65% of the collateral value, except margin deposits or restricted fixed deposits. Under NBC regulations, the value of collateral is not taken into account when determining the allowance for bad and doubtful loans.

Neither past due or impaired

Loans not past due or past due less than 30 days are not considered impaired, unless other information is available to indicate the contrary.

Past due but not impaired loans to customers

Past due but not impaired loans are those which are classified as special mention in compliance with NBC Guidelines with a specific allowance of 3% of the loan outstanding. For these loans the contractual interest or principal payments are past due more than 30 days but less than 90 days, unless other information is available to indicate otherwise.

Impaired loans to customers

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

Loans with renegotiated terms/restructured loans

Loans with renegotiated terms are loans that have been rescheduled or refinanced in accordance with an agreement setting forth a new repayment schedule on a periodic basis occasioned by weaknesses in the borrower's financial condition and/or inability to repay the loan as originally agreed. Loans to be restructured are analysed on the basis of the business prospects and repayment capacity of the borrower according to new cash flow projections supported by updated business perspectives and overall market conditions being based on realistic and prudent assumptions. As at 31 December 2017, the Bank has restructured loans amounting to US\$11,337,139 (31 December 2016: US\$15,557,190).

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

Write-off policy

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

Collateral

The Bank holds collateral against loans in the form of mortgage interests over property and/or guarantees. Estimates of value are based on the value of collateral assessed on an annual basis for loans above US\$200,000 and in event of (i) change of loan terms and conditions including extension; (ii) repayment irregularities or delinquencies and (iii) adverse information relating to the borrower or transaction.

Concentration of credit risk

The analysis of concentrations of credit risk from loans are shown in Note 7 to the financial statements.

(c) Market risk

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

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

(i) Foreign currency exchange risk

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

As of 31 December 2017, balances in monetary assets and liabilities denominated in currencies other than US\$ are not significant. Therefore, no sensitivity analysis for foreign currency exchange risk was presented.

(ii) Interest rate risk

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

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

	Up to 1 month	> 1 – 3 months	> 3 – 12 months	1 – 5 years	Over 5 years	Non-interest sensitive	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
31 December 2017							
Assets							
Cash on hand	–	–	–	–	–	68,986,300	68,986,300
Balance with the NBC	2,477,087	3,046,792	–	–	–	201,765,485	207,289,364
Balance with other banks	42,236,155	25,600,021	4,888,668	–	–	12,199,051	84,923,895
Loans to customers							
– Performing	3,635,947	8,222,420	32,057,798	283,467,506	898,533,050	–	1,225,916,721
– Non-performing	155,203	19,734	1,370,009	4,784,774	3,434,122	–	9,763,842
– Specific allowance	–	–	–	–	–	(4,464,450)	(4,464,450)
– General allowance	–	–	–	–	–	(12,217,831)	(12,217,831)
– Interest receivable	–	–	–	–	–	9,135,475	9,135,475
– Interest in suspense	–	–	–	–	–	(760,936)	(760,936)
Investment securities	–	–	5,755,133	11,094,499	–	–	16,849,632
Other assets	–	–	–	–	–	13,862,254	13,862,254
	48,504,392	36,888,967	44,071,608	299,346,779	901,967,172	288,505,348	1,619,284,266
Liabilities							
Deposits from customers	778,659,157	93,921,468	273,519,134	51,819,379	–	66,574,206	1,264,493,344
Borrowings	15,000,000	–	–	71,500,001	–	–	86,500,001
Subordinated debts	–	–	–	10,000,000	45,000,000	–	55,000,000
Other liabilities	–	–	–	–	–	22,114,413	22,114,413
	793,659,157	93,921,468	273,519,134	133,319,380	45,000,000	88,688,619	1,428,107,758
Interest sensitivity gap	(745,154,765)	(57,032,501)	(229,447,526)	166,027,399	856,967,172	199,816,729	191,176,508

	Up to 1 month	> 1 – 3 months	> 3 – 12 months	1 – 5 years	Over 5 years	Non-interest sensitive	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
31 December 2016							
Assets							
Cash on hand	–	–	–	–	–	41,622,955	41,622,955
Balance with the NBC	–	2,494,105	–	–	–	143,556,742	146,050,847
Balance with other banks	21,160,062	8,453,182	30,557,093	3,366,501	–	14,030,029	77,566,867
Loans to customers							
– Performing	2,153,314	11,272,901	35,325,429	252,779,600	485,797,146	–	787,328,390
– Non-performing	164,639	–	2,198	802,659	757,696	–	1,727,192
– Specific allowance	–	–	–	–	–	(676,322)	(676,322)
– General allowance	–	–	–	–	–	(9,253,587)	(9,253,587)
– Interest receivable	–	–	–	–	–	5,576,562	5,576,562
– Interest in suspense	–	–	–	–	–	(140,408)	(140,408)
Investment securities	–	–	–	21,994,638	3,378,408	–	25,373,046
Other assets	–	–	–	–	–	6,728,846	6,728,846
	23,478,015	22,220,188	65,884,720	278,943,398	489,933,250	201,444,817	1,081,904,388
Liabilities							
Deposits from customers	482,536,377	88,052,639	205,252,011	38,721,328	–	41,258,894	855,821,249
Borrowings	25,000,000	8,000,000	–	35,000,000	–	–	68,000,000
Subordinated debt	–	–	–	–	25,000,000	–	25,000,000
Other liabilities	–	–	–	–	–	12,851,061	12,851,061
	507,536,377	96,052,639	205,252,011	73,721,328	25,000,000	54,109,955	961,672,310
Interest sensitivity gap	(484,058,362)	(73,832,451)	(139,367,291)	205,222,070	464,933,250	147,334,862	120,232,078

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable-rate instruments

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

(d) Liquidity risk

Liquidity risk relates to the ability to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due at a reasonable cost.

In addition to full compliance of all liquidity requirements, the management of the Bank closely monitors all inflows and outflows and the maturity gaps through periodical reporting. Movements in loans and customers' deposits are monitored and liquidity requirements adjusted to ensure sufficient liquid assets to meet its financial commitments and obligations as and when they fall due.

The following table provides an analysis of the liquidity gap of the Bank into relevant maturity groupings based on the remaining periods to repayment. The table does not include imputed interests on financial assets and financial liabilities as the efforts to compute the imputed interest outweigh disclosure benefits. The management considers that the imputed interest receivables from loans are greater than imputed interest payables to customers on deposits and borrowings due to their sizes and interest rates. Hence, the liquidity gap when including the imputed interest is favourable to the Bank.

Although the table shows a negative liquidity gap, based on past experience, the management believes that customers will not withdraw their deposits according to the maturity. The deposits keep rolling from one cycle to another. Therefore, management believes that underlying liquidity risk is manageable.

	Up to 1 month	> 1 – 3 months	> 3 – 12 months	1 – 5 years	Over 5 years	Non-interest sensitive	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
31 December 2017							
Asset							
Cash on hand	68,986,300	–	–	–	–	–	68,986,300
Balance with the NBC	35,222,915	3,046,792	–	–	–	169,019,657	207,289,364
Balance with other banks	54,435,206	25,600,021	4,888,668	–	–	–	84,923,895
Loans to customers							
– Performing	17,947,345	38,191,721	109,666,278	743,255,199	316,856,178	–	1,225,916,721
– Non-performing	874,576	157,511	1,861,968	5,845,671	1,024,116	–	9,763,842
– Specific allowance	–	–	–	–	–	(4,464,450)	(4,464,450)
– General allowance	–	–	–	–	–	(12,217,831)	(12,217,831)
– Interest receivable	–	–	–	–	–	9,135,475	9,135,475
– Interest in suspense	–	–	–	–	–	(760,936)	(760,936)
Investment securities	–	–	5,755,133	11,094,499	–	–	16,849,632
Other assets	10,227,341	22,100	1,563,468	449,201	1,341,080	259,064	13,862,254
	187,693,683	67,018,145	123,735,515	760,644,570	319,221,374	160,970,979	1,619,284,266
Liabilities							
Deposits from customers	626,573,942	148,586,323	437,513,700	51,819,379	–	–	1,264,493,344
Borrowings	15,000,000	–	4,999,999	66,500,002	–	–	86,500,001
Subordinated debts	–	–	–	10,000,000	45,000,000	–	55,000,000
Other liabilities	22,114,413	–	–	–	–	–	22,114,413
	663,688,355	148,586,323	442,513,699	128,319,381	45,000,000	–	1,428,107,758
Liquidity gap	(475,994,672)	(81,568,178)	(318,778,184)	632,325,189	274,221,374	160,970,979	191,176,508

	Up to 1 month	> 1 – 3 months	> 3 – 12 months	1 – 5 years	Over 5 years	Non-interest sensitive	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
31 December 2016							
Asset							
Cash on hand	41,622,955	–	–	–	–	–	41,622,955
Balance with the NBC	34,831,566	2,494,105	–	–	–	108,725,176	146,050,847
Balance with other banks	35,190,091	8,453,182	30,557,093	3,366,501	–	–	77,566,867
Loans to customers							
– Performing	12,528,394	33,113,135	129,444,332	458,026,276	154,216,253	–	787,328,390
– Non-performing	312,546	35,341	175,731	956,218	247,356	–	1,727,192
– Specific allowance	–	–	–	–	–	(676,322)	(676,322)
– General allowance	–	–	–	–	–	(9,253,587)	(9,253,587)
– Interest receivable	–	–	–	–	–	5,576,562	5,576,562
– Interest in suspense	–	–	–	–	–	(140,408)	(140,408)
Investment securities	–	–	–	21,994,638	3,378,408	–	25,373,046
Other assets	2,547,737	1,000	1,925,770	500,191	911,840	842,308	6,728,846
	127,033,289	44,096,763	162,102,926	484,843,824	158,753,857	105,073,729	1,081,904,388
Liabilities							
Deposits from customers	355,096,927	130,227,226	331,775,768	38,721,328	–	–	855,821,249
Borrowings	25,000,000	8,000,000	2,499,999	32,500,001	–	–	68,000,000
Subordinated debt	–	–	–	–	25,000,000	–	25,000,000
Other liabilities	12,851,061	–	–	–	–	–	12,851,061
	392,947,988	138,227,226	334,275,767	71,221,329	25,000,000	–	961,672,310
Liquidity gap	(265,914,699)	(94,130,463)	(172,172,841)	413,622,495	133,753,857	105,073,729	120,232,078

(e) Capital management

(i) Regulatory capital

The Bank's lead regulator, the National Bank of Cambodia, sets and monitors capital requirements for the Bank as a whole.

The Bank's policy is to maintain a strong capital base so as to maintain market confidence and to sustain further development of the business. The impact of the level of capital on shareholders' return is also 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 Bank has complied with all regulatory imposed capital requirement throughout the year.

On 22 March 2016, the National Bank of Cambodia issued a Prakas No. B7-016-117-ProKor, requiring locally incorporated commercial banks and subsidiaries of foreign banks to increase the minimal registered capital to at least KHR 300 billion (approximately US\$75 million). Banks are required to fulfil this requirement within two years from the date of the Prakas. As at 31 December 2017, the Bank capital exceeds the required capital threshold.

(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.

31. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The Bank did not have financial instruments measured at fair value.

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arms-length basis. As verifiable market prices are not available, market prices are not available for a significant proportion of the Bank's financial assets and liabilities. Fair values, therefore, are not presented in the financial statements.

32. CURRENT AND NON-CURRENT

Management presents the financial statements based on liquidity. Information about short-term and long-term of assets and liabilities are disclosed in the financial risk management section. Property and equipment, intangible assets and deferred tax assets are non-current assets. Current income tax payable is current liability.

33. EVENTS AFTER THE REPORTING PERIOD

On 16 February 2018, the NBC issued a Circular No. B7-018-001 on the Implementation of Prakas on Credit Risk Grading and Impairment Provisioning, which clarifies the classification and impairment provisioning for short-term credit facilities as follows, among other clarifications:

Classification	Number of days past due	Allowance
Normal	14 days or less	1%
Special mention	15 days – 30 days	3%
Substandard	31 days – 60 days	20%
Doubtful	61 days – 90 days	50%
Loss	91 days or more	100%

In addition, banks and financial institutions shall provide allowance on off-balance sheet items in accordance with the detailed guidelines in the Circular. The Circular is effective from 16 February 2018.



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