



OUR WAY FORWARD

FINANCIAL REPORT 2017



www.rhbgroup.com

RHB Indochina Bank

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RHB BANKING GROUP

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RHB INDOCHINA BANK

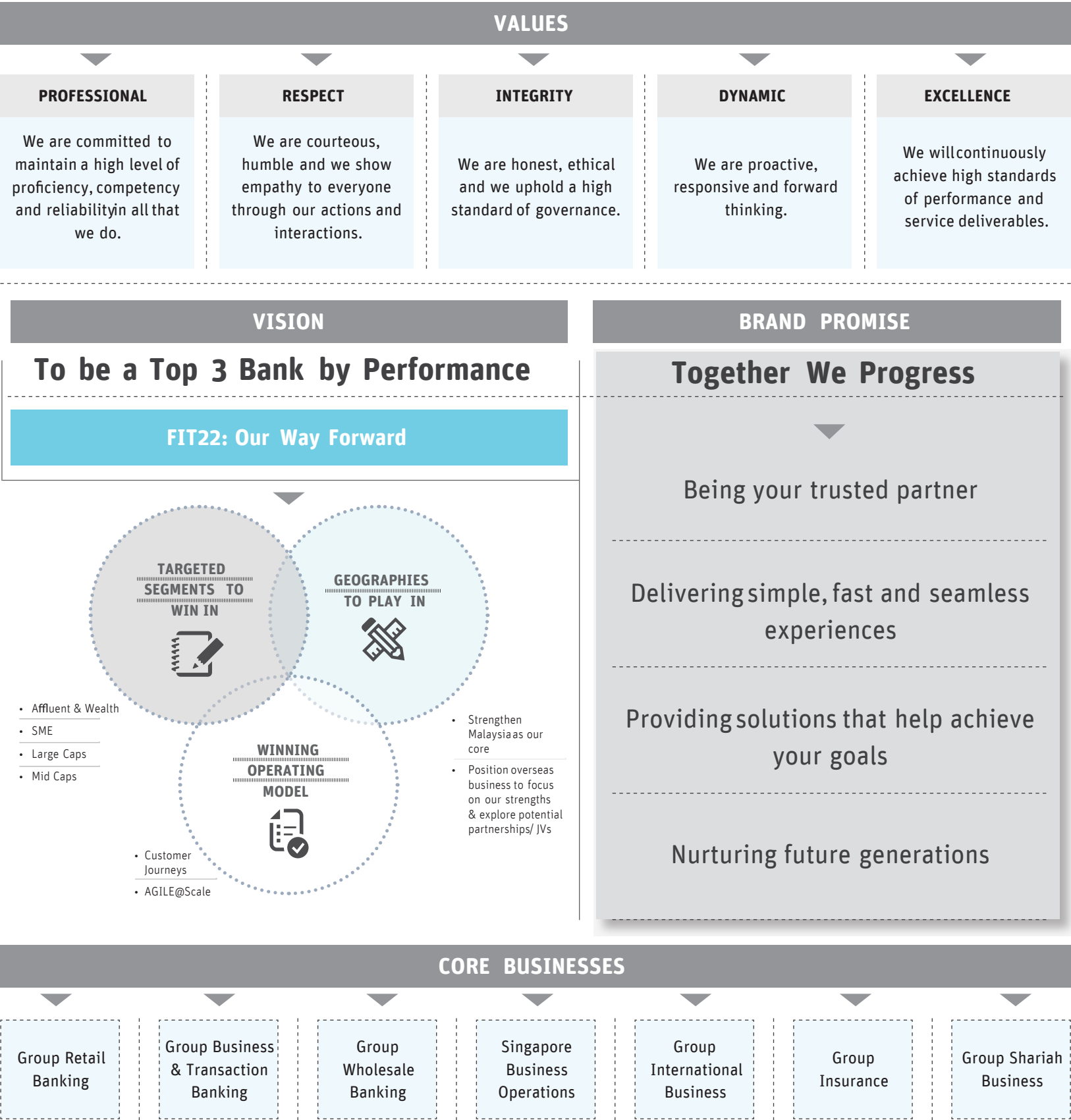
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A low-angle, upward-looking photograph of a modern, multi-story building with a glass and metal facade. A wide, modern escalator with glass railings leads up from a polished, reflective ground floor. The building's architecture features large glass windows and prominent vertical metal columns. A person is visible sitting on a bench near the base of the escalator. The overall tone is professional and contemporary.

ABOUT RHB BANKING GROUP



OVERVIEW



KEY FINANCIAL METRICS

MARKET CAPITALISATION
as at 31 December 2017**USD4.9** BILLION

TOTAL ASSETS

USD56.9 BILLION

PROFIT BEFORE TAX

USD643.3 MILLION

GROSS LOANS

USD39.6 BILLION

REGIONAL PRESENCE

- Malaysia
- Singapore
- Indonesia
- Thailand
- Cambodia
- Lao PDR
- Hong Kong/China
- Brunei
- Vietnam
- Myanmar



KEY FACTS AT A GLANCE



More than

14,000
Employeesacross
10 countries

Presence in

**10** Countries**254**
Branches
in Malaysia**1,830*** Self-Service
Terminals
in Malaysia

- ★ Consisting of:
- Automated Teller Machines
 - Cash Deposit Machines
 - Coin Deposit Machines
 - Cheque Deposit Machines
 - Cash Recycler Machines



Over

330
Branchesand offices across
ASEAN and Hong Kong/China

MALAYSIA



Employees

12,750



Branches/Offices

254



Total Income

RM **5.5** billion

SINGAPORE



Employees

668



Branches/Offices

9



Total Income

SGD **153.4** million

INDONESIA



Employees

357



Branches/Offices

24



Total Income

IDR **232.8** billion

THAILAND



Employees

438



Branches/Offices

13



Total Income

THB **997.3** million

CAMBODIA



Employees

245



Branches/Offices

13



Total Income

USD **22.4** million

LAO PDR



Employees

62



Branches/Offices

2



Total Income

LAK **37.1** billion

HONG KONG/CHINA



Employees 99



Branches/Offices 3

Total Income
HKD 86.0 million

BRUNEI



Employees 23



Branch/Office 1

Total Income
BND 3.9 million

VIETNAM

Representative Office



Employees 2

MYANMAR

Representative Office

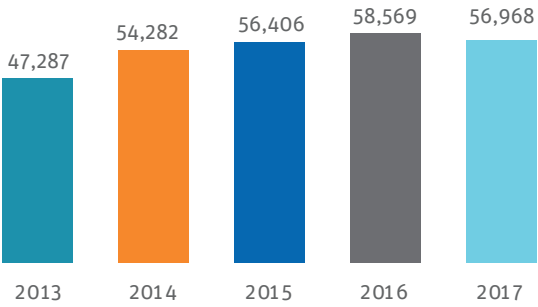


RHB Banking Group is a multinational regional financial services provider that is committed to deliver complete solutions to customers through differentiated segment offerings and an eco-system that supports simple, fast and seamless customer experience, underpinned by a cohesive and inspired workforce and relationship built with stakeholders.

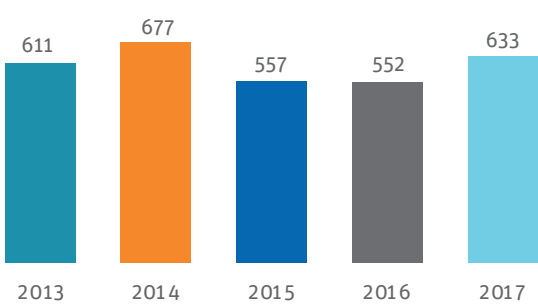
Ranked among the top banks in Malaysia and a significant player in ASEAN by performance, RHB has strong market leadership in Malaysia across targeted products and segments. With staff strength of more than 14,000 employees group-wide, RHB's presence spans across 9 countries in the ASEAN Region and Hong Kong/China. RHB also has representative offices in Vietnam and Myanmar.

SUMMARY OF FIVE-YEAR GROUP FINANCIAL HIGHLIGHTS

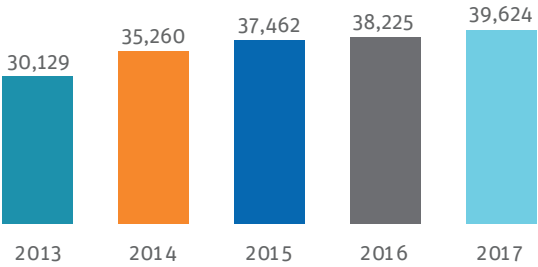
Total Assets (USD'million)



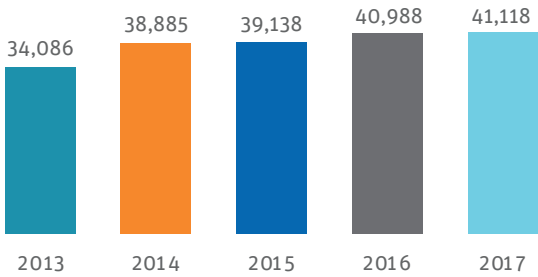
Profit Before Tax (USD'million)



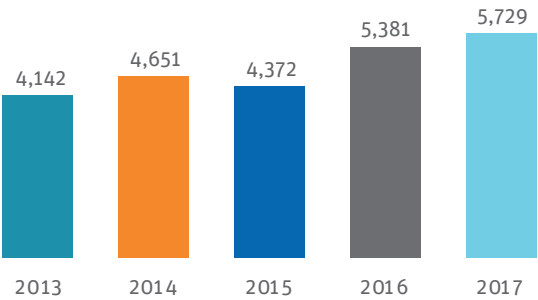
Gross Loans, Advances And Financing (USD'million)



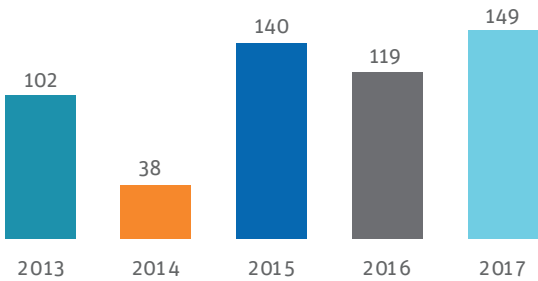
Deposits From Customers (USD'million)



Shareholders' Equity (USD'million)



Net Dividends (USD'million)



FIVE-YEAR GROUP FINANCIAL SUMMARY

	RHB BANK GROUP			RHB CAPITAL GROUP	
	2017	2016	2015	2014	2013
OPERATING RESULTS (USD'million)					
Operating profit before allowances	792	766	630	699	717
Profit before taxation	633	552	557	677	611
Net profit attributable to equity holders of the Bank	483	416	412	504	453
KEY BALANCE SHEET DATA (USD'million)					
Total assets	56,968	58,569	56,406	54,282	47,287
Gross loans, advances and financing	39,624	38,225	37,462	35,260	30,129
Total liabilities	51,231	53,181	52,028	49,606	43,095
Deposits from customers	41,118	40,988	39,138	38,885	34,086
Shareholders' equity	5,729	5,381	4,372	4,651	4,142
Commitments and contingencies	42,619	48,549	46,047	33,037	24,804
SHARE INFORMATION					
Gross dividend per share (cents)	3.7	2.9	4.0	1.4	4.0
Net assets per share (USD)	1.4	1.3	1.3	1.8	1.6
Net tangible assets per share (USD)	1.2	1.2	1.0	1.3	1.1
Basic earnings per share (cents)	12.0	10.8	12.0	19.7	18.0
Share price (USD)	1.2	1.17	1.0	1.8	1.9
Market capitalisation (USD'million)	4,962	4,674	4,317	4,851	4,979
FINANCIAL RATIOS (%)					
Profitability Ratios					
Net return on average equity	8.7	8.5	10.0	11.5	11.5
Net return on average assets	0.8	0.7	0.7	1.0	1.0
Cost-to-income ratio	49.9	50.0	58.8	54.7	51.3
Asset Quality					
Gross loans to deposits ratio	96.4	93.3	95.7	90.7	88.4
Gross impaired loans ratio	2.23	2.43	1.88	2.03	2.81
Ordinary Shares					
Dividend yield	3.0	2.5	3.7	0.8	2.1
Dividend payout ratio	30.8	28.6	33.9	7.6	22.6

OUR STRATEGIC ROAD MAP
IGNITE 2014 – 2017

STRATEGY STATEMENT

To be a multinational regional financial services provider that is committed to deliver complete solutions to our customers through differentiated segment offerings and an ecosystem that supports simple, fast and seamless customer experience, underpinned by a cohesive and inspired workforce and relationship built with our stakeholders

2020 ASPIRATIONS

Top 3 in Malaysia /
Top 8
in ASEAN by
performance



Strong market
leadership in
Malaysia across
targeted products
and segments



Regional
powerhouse in
ASEAN+, 20% profit
contribution from
international
operations



Next generation
customer-centric
bank delivering
innovative and
personalised
customer offerings



Prominent
employer of choice
within the
region

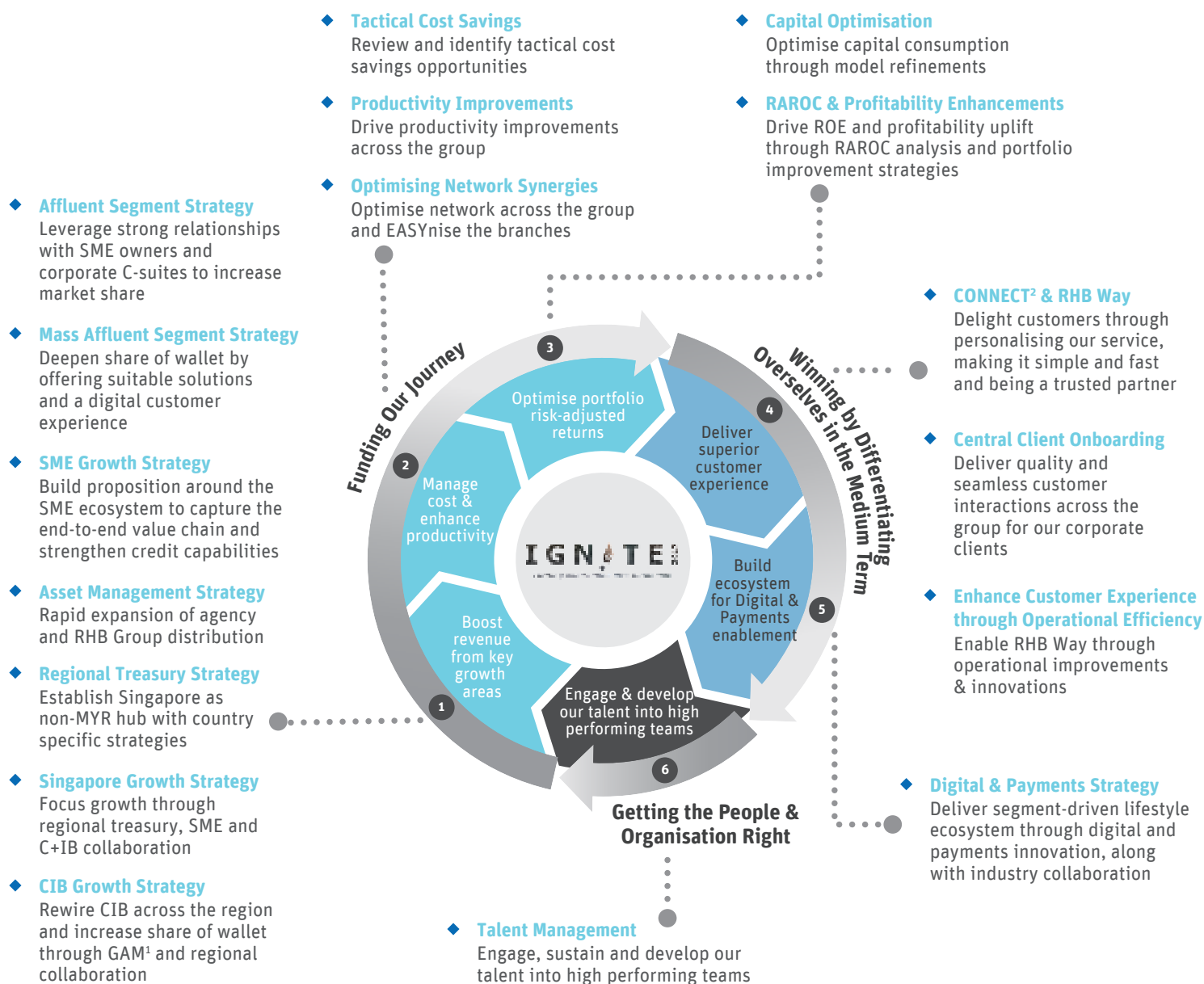


In order to achieve our 2020 Aspirations, we launched a three-year strategic blueprint in February 2014 – IGNITE 2017. In 2015, when the banking industry was impacted by external market volatilities, we reframed our strategy to focus on three broad themes and six strategic priorities.

- ▶ **FUNDING OUR JOURNEY** – focuses on boosting revenue from key growth areas, managing cost while enhancing productivity, and optimising risk-adjusted returns
- ▶ **WINNING BY DIFFERENTIATING OURSELVES IN THE MEDIUM TERM** – through delivering superior customer experience and building an ecosystem for digital and payments enablement
- ▶ **GETTING THE PEOPLE & ORGANISATION RIGHT** – by engaging and developing our talent into high performing teams



OUR SIX STRATEGIC PRIORITIES, WERE SUPPORTED BY 17 INITIATIVES



Notes:

- 1 GAM (Global Account Management) is an initiative to improve RHB's internal coordination and external service quality with our top corporate customers
- 2 CONNECT is RHB's branch sales management model covering key elements such as sales model, sales tools, sales routine and planning, sales performance and management and branch organisation

CORPORATE MILESTONES

1913
-
1990

1913

The Kwong Yik (Selangor) Banking Corporation, Limited incorporated and commenced business on 15 July 1913 at the Old Market Square.

1915

Moved from Market Square to the corner of Jalan Bandar and Jalan Silang where it remained until 1938.

1920's & 30's

Extended credit to local traders, mainly Chinese businessmen, miners and planters, in a financial environment largely dominated by foreign banks. Despite the economic depression of the 1930's, Kwong Yik Bank played a significant role in the growing prosperity of Malaya and the demand for rubber and tin.

1938

Moved to the Kwong Yik Bank Chambers. This remained its base until the 1960s.

1940's

Operations suspended with the Japanese Occupation and World War 2. The bank resumed business when the war ended. In 1941, deposits totaled RM5 million.

1950's

Played an integral part in the rehabilitation of the country's economy leading up to Independence. Links with overseas banks were established.

1961

Moved to its temporary premises in Jalan Bandar while awaiting the completion of its new headquarters. By this time, customer deposits totaled RM34 million.

1963

Kwong Yik Bank celebrated its Golden Jubilee.

1964

First sub-branch opened in Jalan Pasar.



1965

The landmark 10-storey Headquarters at Jalan Bandar (now Jalan Tun H.S. Lee) was opened by the Prime Minister then, Tunku Abdul Rahman on September 10. Opened branches in Jalan Ipoh and Jalan Bukit Bintang.

1967

First branch opened in Petaling Jaya. Both Kuala Lumpur and Petaling Jaya were rapidly expanding at this point and many of the landmark buildings were financed by Kwong Yik Bank.

1968

Malayan Banking buys 30% of Kwong Yik Bank's issued capital.

1970

Malayan Banking's shareholding in the bank increased to 51.15%. Kwong Yik Bank's deposits at this juncture totaled more than RM130 million.

1970

New linear logo unveiled.



April 1981

Opened a branch in Ipoh, the first outside Federal Territory and Selangor.

1985

Introduced ATM service called 'Boss' simultaneously at 12 of its branches in Kuala Lumpur, Petaling Jaya and Klang.

1987

Joined forces with Malayan Banking to launch the country's first shared ATM service called the ABC network.

1989

Launched the Boss Corporate Card and its Sunday Banking service.

1990

Mastercard facility launched.

1991 - current

1993

Kwong Yik Bank celebrated its 80th anniversary. It had 50 branches throughout the country at this juncture and 1,680 staff. To mark the occasion, the bank produced its first TV commercial.

1993

Rashid Hussain Bhd purchased Malayan Banking's share in Kwong Yik Bank. The bank then merged with DCB Bank (formerly D&C Bank, established 1966), which has been under the RHB stable since 1993. This biggest bank merger in the country's history formed RHB Bank Berhad, then Malaysia's third largest financial services group.



1997

Launch of RHB Online service for financial services via computer and telephone.



Sime Bank Berhad

1999

Sime Bank merged with RHB Bank to become part of RHB Banking Group. Sime Bank was set up after UMBC (United Malayan Banking Corporation, established 1960) became part of the Sime Darby Group in 1996.

2003

Merger of RHB Bank with Bank Utama Berhad, which was first established in 1976.

2007

The Employees Provident Fund (EPF) emerged as the single largest shareholder of RHB Capital. 30% equity in RHB Bank was purchased from Khazanah Nasional Berhad, making RHB Bank a 100% subsidiary of RHB Capital.



2009

Inception of Easy by RHB, the first innovative community bank in Asia that offers fast and simple banking experience through cutting-edge technology.

2012

RHB Capital acquired OSK Investment Bank, paving the way for RHB Banking Group's strong presence in ASEAN and Hong Kong.



2013

RHB Banking Group celebrates RHB Bank's 100th Anniversary.



28 June 2016

RHB Bank Berhad assumed the listing status of RHB Capital Berhad on Bursa Malaysia, thus becoming the new financial holding company of RHB Banking Group.



**ABOUT
RHB INDOCHINA BANK**



HEAD OFFICE

The Head Office is located at No. 263, Ang Doung Street (St.110), Phnom Penh, Cambodia.

Tel: (855) 23 992 833

Fax: (855) 23 991 822

Email: kh.phnompenhmain@rhbgroupp.com

Website: www.rhbgroupp.com

Facebook: facebook.com/RHBCambodia

PHNOM PENH MAIN OFFICE

RHB Indochina Bank Phnom Penh Main Office is led by Mr. Hourt Ang together with his team of 27 staff.

The Branch is located at No. 263, Ground Floor, Ang Doung Street (St.110), Phnom Penh, Cambodia.

Tel: (855) 23 992 833

Fax: (855) 23 991 822

Email: kh.phnompenhmain@rhbgroupp.com

CITY MALL OLYMPIC BRANCH

RHB Indochina Bank City Mall Olympic branch is led by Mr. Keang Chanveasna together with his team of 17 staff.

The Branch is located at Lot A3E0, Ground Floor, City Mall Olympic, Monireth Street, Phnom Penh, Cambodia.

Tel: (855) 23 993 568

Fax: (855) 23 993 565

Email: kh.citymall@rhbgroupp.com

STOEUNG MEANCHEY BRANCH

RHB Indochina Bank Stoeung Meanchey branch is led by Mr. Chem Sreynonn together with his team of 12 staff.

The Branch is located at Monireth Street (St. 217) Corner of Chaksomram Road, Phnom Penh, Cambodia.

Tel: (855) 23 969 228

Fax: (855) 23 969 231

Email: kh.stoeungmeanchey@rhbgroupp.com

KBAL THNAL BRANCH

RHB Indochina Bank Kbal Thnal branch is led by Mr. Nhim Borey together with his team of 12 staff.

The Branch is located at No. 530A - 530B, Monivong Blvd. (Junction of Street 271), Phnom Penh, Cambodia.

Tel: (855) 23 993 598

Fax: (855) 23 993 593

Email: kh.kbalthnal@rhbgroupp.com

PET LOK SONG BRANCH

RHB Indochina Bank Pet Lok Song branch is led by Mr. Tieng Sothearo together with his team of 11 staff.

The Branch is located at No. 1-3, Street 271, Phnom Penh, Cambodia.

Tel: (855) 23 969 368

Fax: (855) 23 969 370

Email: kh.petloksong@rhbgroupp.com

TOUL KORK BRANCH

RHB Indochina Bank Toul Kork branch is led by Mr. Huot Sovathanak together with his team of 12 staff.

The Branch is located at No. 18C, Kim IL Sung (St. 289), Phnom Penh, Cambodia.

Tel: (855) 23 989 600

Fax: (855) 23 989 606

Email: kh.toulkork@rhbgroupp.com

MAO TSE TUNG BRANCH

RHB Indochina Bank Mao Tse Tung branch is led by Mr. Sok Sopheng together with his team of 11 staff.

The Branch is located at No. 281A, Mao Tse Tung Blvd., Phnom Penh, Cambodia.

Tel: (855) 23 989 881

Fax: (855) 23 989 885

Email: kh.maotsetung@rhbgroupp.com

BOEUNG KENG KANG BRANCH

RHB Indochina Bank Boeung Keng Kang branch is led by Ms. Pheng Chanthou together with his team of 12 staff.

The Branch is located at No. 167, Preah Norodom Blvd., Phnom Penh, Cambodia.

Tel: (855) 23 989 188

Fax: (855) 23 989 788

Email: kh.boeungkengkang@rhbgroupp.com

BATTAMBANG BRANCH

RHB Indochina Bank Battambang branch is led by Mr. An Sok together with his team of 10 staff.

The Branch is located at No. 1-3-5-7, Street No. 3, Battambang Province, Cambodia.

Tel: (855) 53 952 811

Fax: (855) 53 952 966

Email: kh.battambang@rhbgroup.com

SIEM REAP BRANCH

RHB Indochina Bank Battambang branch is led by Ms. Kheom Sotheary together with her 10 staff.

The Branch is located at No. 12-14-16, National Road No. 6, Siem Reap Province, Cambodia.

Tel: (855) 63 969 811

Fax: (855) 63 969 816

Email: kh.siemreap@rhbgroup.com

KAMPONG CHAM BRANCH

RHB Indochina Bank Kampong Cham branch is led by Mr. Yen Chhayvat together with his team of 9 staff.

The Branch is located at No. 41, National Road No. 7, Kampong Cham Province, Cambodia.

Tel: (855) 42 942 811

Fax: (855) 42 942 899

Email: kh.kampongcham@rhbgroup.com

PREAH SIHANOUK BRANCH

RHB Indochina Bank Preah Sihanouk branch is led by Mr. Chhim Chanphearom together with his team of 10 staff.

The Branch is located at No. 129, Street 7 Makara, Preah Sihanouk Province, Cambodia.

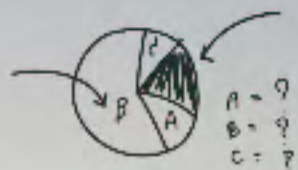
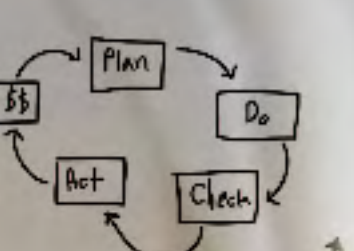
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Fax: (855) 34 934 816

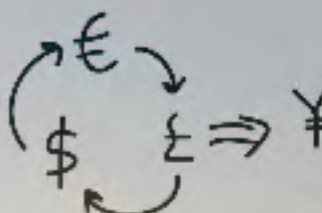
Email: kh.sihanoukville@rhbgroup.com

PERFORMANCE REVIEW





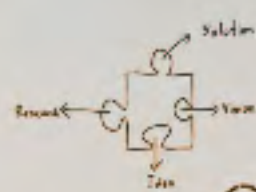
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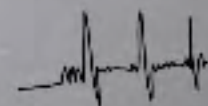
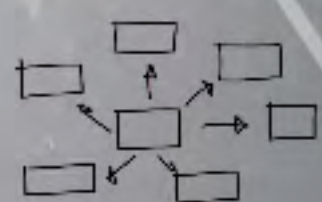
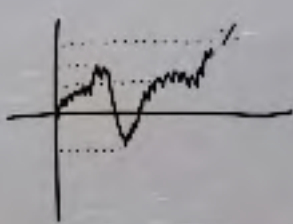
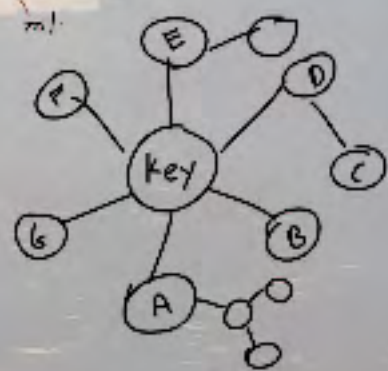
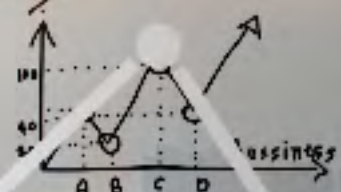
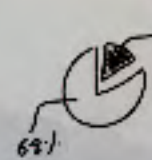
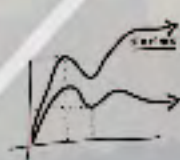
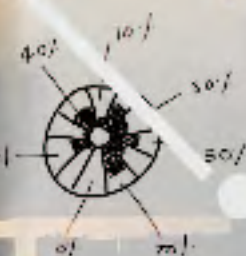


IDEA



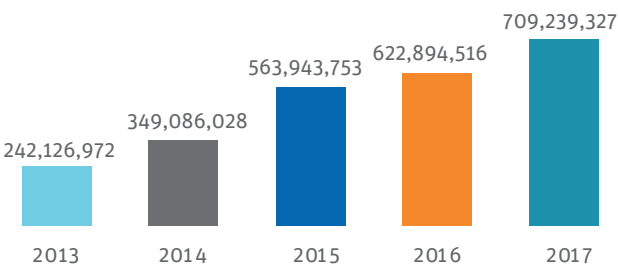
$$A+B = \frac{2+6x^2}{3x+6}$$

$$1+2-ABC$$

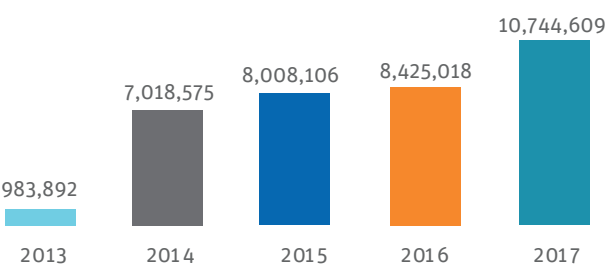


SUMMARY OF FIVE-YEAR FINANCIAL HIGHLIGHTS

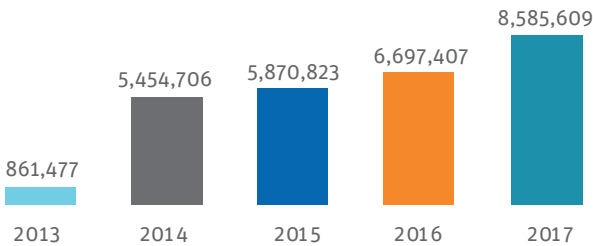
Total Assets (USD)



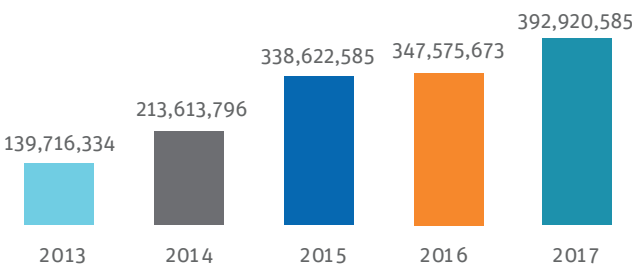
Profit Before Tax (USD)



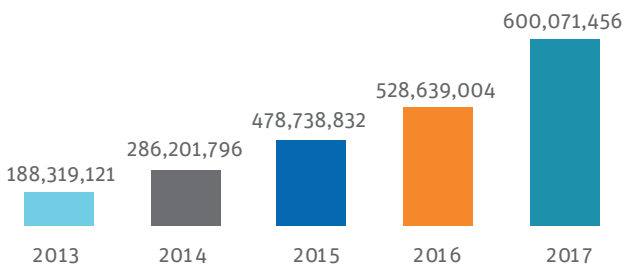
Profit After Tax (USD)



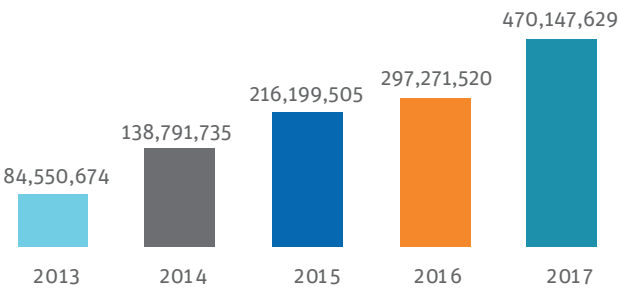
Loans and advances (USD)



Total Deposits (USD)



Customer Deposits (USD)



FIVE-YEAR FINANCIAL SUMMARY

	2017	2016	2015	2014	2013
PROFITABILITY (USD)					
Profit/(Loss) before tax expense	10,744,609	8,425,018	8,008,106	7,018,575	983,892
Profit/(Loss) after tax expense	8,585,609	6,697,407	5,870,823	5,454,706	861,477
FINANCIAL POSITION (USD)					
Total assets	709,239,327	622,894,516	563,943,753	349,086,028	242,126,972
Loans and advances	392,920,585	347,575,673	338,622,585	213,613,796	139,716,334
Total liabilities	612,207,049	538,447,847	486,194,491	292,207,589	190,703,239
Deposits from customers	470,147,629	297,271,520	216,199,505	138,791,735	84,550,674
Total deposits	600,071,456	528,639,004	478,738,832	286,201,796	188,319,121
Paid-up capital	71,000,000	67,000,000	67,000,000	52,000,000	52,000,000
Shareholder's equity	97,032,278	84,446,669	77,749,262	56,878,439	51,423,733
FINANCIAL RATIO (%)					
Non-performing loans to total loans and advances	3.83	2.47	0.87	0.49	3.01
Net return on assets	1.21	1.08	1.04	1.56	0.36
Net return on equity	8.85	7.93	7.55	9.59	1.68
Loans/Customer Deposit Ratio	83.57	116.92	156.88	155.79	169.29
Loans/Deposit Ratio	65.48	65.75	70.85	75.55	76.01





**PRODUCTS &
SERVICES**

PRODUCTS & SERVICES



➤ RHB SAVINGS ACCOUNT

- **We help you grow your family's finances which come with 24-hour banking convenience.**

RHB Savings Account opens the way to save for your dream home, your car, your child's education or even a computer.

➤ RHB FIXED DEPOSITS

- **Simple way to build your savings.**

RHB Fixed Deposits Account, with many value added features, is an effective investment product.

➤ RHB CURRENT ACCOUNT

- **The banking products at your finger tips.**

RHB Current Account is a powerful cash management tool as it can save you trips to the bank to pay those bills and expenses.

➤ RHB ESCROW ACCOUNT

- **A trusted partner to complete your transactions.**

RHB Escrow Account will assure your interest is protected with us when you are conducting a major deal.



➤ RHB TELEGRAPHIC MONEY TRANSFER

- **Transfer and receive your money with ease.**

RHB Remittance helps you move your money around the world with speed and efficiency, including services through Western Union.

➤ RHB BANKER'S CHEQUE

- **A reliable payment instrument.**

RHB Banker's Cheque is as good as Cash and you will have no problem making payment.

➤ RHB MONEY EXCHANGE

- **We offer competitive exchange rate for Forex.**

RHB Money Exchange buy or sell foreign currencies with the best rate in town.



➤ RHB HOME LOAN

➤ We help you own your dream home.

RHB Home Loan, with many value-added features and flexible options, is key to quickly owning your dream home.

➤ RHB PERSONAL LOAN

➤ Get what you have always desired now.

RHB Personal Loans are helpful in giving you the cash to enjoy life's opportunities. With flexible options, you will have what it takes to get a computer, to renovate your home, or to make an investment.

➤ RHB CAR LOAN

➤ Drive your dream today.

RHB Car Loan, with flexible options, can put you in the driving seat you have always wanted.



➤ RHB PROPERTY LOAN

➤ We help you invest in the property you want.

RHB Property Loan, helps you own the property either for your own business use or for investment purposes.

➤ RHB WORKING CAPITAL

➤ Let us help you attain healthy cashflow.

RHB Working Capital Loans, will enable you to achieve healthy cashflow for you to run your business with ease of mind.

➤ RHB TRADE FINANCING

➤ Comprehensive range of Import & Export financing facilities.

RHB Trade Financing facilities help you in your import and export needs; take the burden and worry of non-delivery of goods away from you.

➤ RHB CORPORATE & EQUITY

➤ Your business needs are our priority.

From listing your company to business merger and acquisition, you can be rest assured that you can count on us.



**DELIVERING
SOLUTIONS**



RHB*Now* INTERNET & MOBILE BANKING



RHB*Now* INTERNET BANKING

The Future. Right here, right now.

➤ HOW TO REGISTER INSTRUCTION FOR FIRST TIME USERS

- Go to 'https://rhbnow.rhbgroup.com/kh/'
- ATM Card Registration
- Click on the 'Registration' button on the navigation.
- Choose 'ATM'
- At the 'ATM' field, please key in your 16-digit ATM Card number and ATM PIN.
- Enter your preferred Username and Password.
- Read the 'Terms and Conditions' carefully and click 'I Agree'.

➤ CREDIT REMITTANCE

➤ FOREIGN TELEGRAPHIC TRANSFER

➤ FAST PAYMENT

➤ CHEQUE MANAGMENT

➤ FIXED DEPOSITS (PLACEMENT & WITHDRAWAL)



RHB*Now* MOBILE BANKING APP

A convenient, mobility and secure banking experience.



➤ CREDIT REMITTANCE

Domestic fund transfer to other commercial banks in Cambodia

➤ FAST PAYMENT

An electronic real-time transfer of KHR partnership with National Bank of Cambodia.

➤ BIOMETRIC LOGIN

Fingerprint ID Login



APPLICATION
ICON



QR
CODE

IN-BRANCH & OFF-SITE ATM NETWORK



IN-BRANCH ATM NETWORK

PHNOM PENH CITY

- Phnom Penh Main Office (3 units)
- City Mall Olympic Branch (2 units)
- Stoeung Meanchey Branch
- Kbal Thnal Branch
- Pet Lok Song Branch
- Toul Kork Branch
- Mao Tse Tung Branch (3 units)
- Boeung Keng Kang Branch (2 units)

OTHER PROVINCES

- Kampong Cham Branch
- Battambang Branch
- Siem Reap Branch
- Preah Sihanouk Branch

OFF-SITE ATM NETWORK

PHNOM PENH CITY

- Aeon Mall
- TK Avenue (Toul Kork)
- Deli Café (Preah Sihanouk Blvd.)
- Fair Market (St. 63 Junction of Mao Tse Tung Blvd.)
- H-Restaurant (Stoeung Meanchey)
- Pochentong Restaurant (Russian Blvd.)
- Long Then Solar Company (St. 271)
- Tela Mart (Chhroy Changva Bridge)
- Tela Mart (St. 1986)
- ABC Bakery (Kampuchea Krom Blvd.)
- Himawari Hotel (Sisowath Quay)
- Phamarcy Help Plus (Preah Monivong Blvd.)
- IIC University (National Road 2)

SIEM REAP PROVINCE

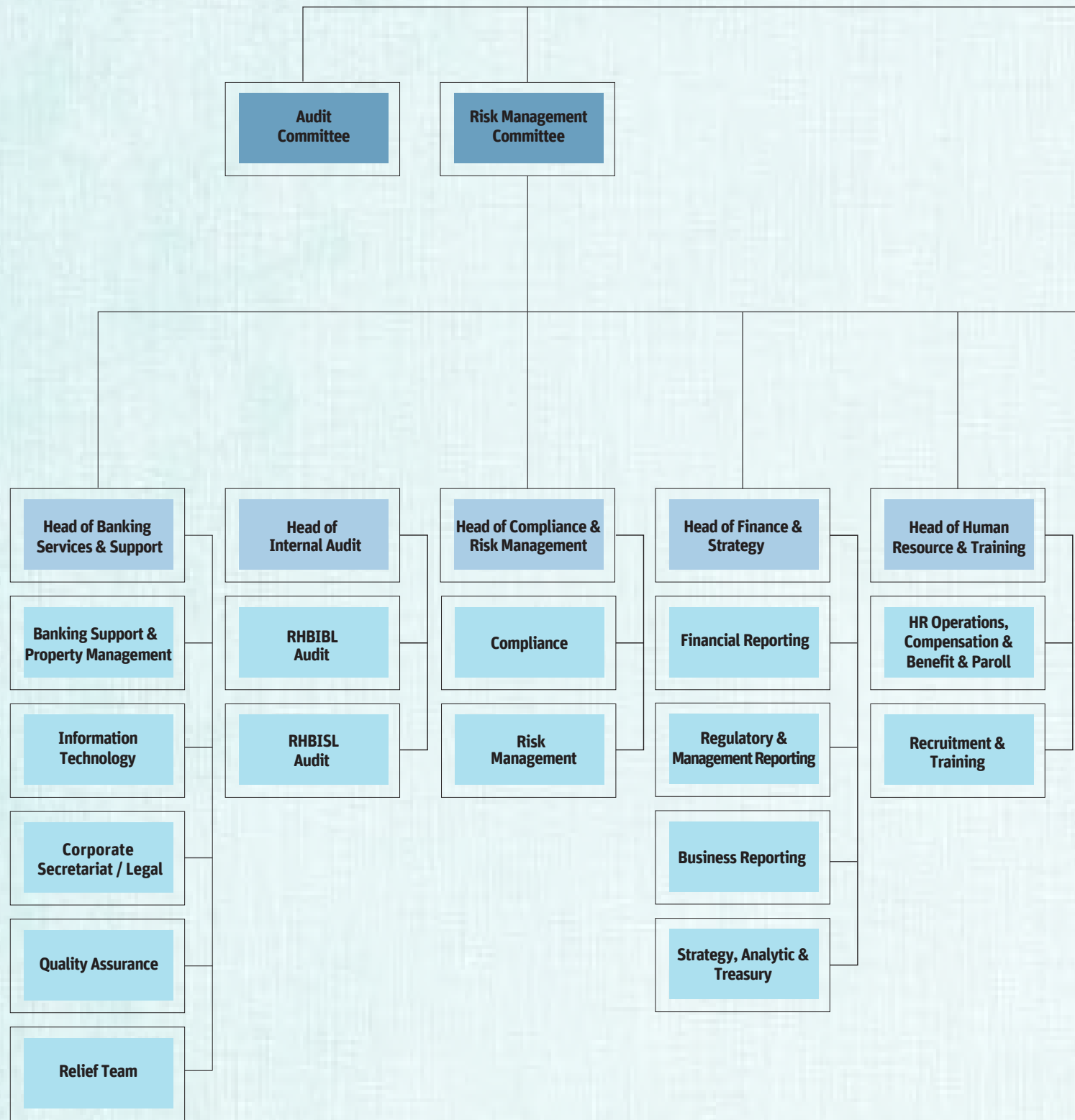
- Huy Meng Mini Mart (Sivutha Blvd.)
- Lucky Mall (Sivutha Blvd.)

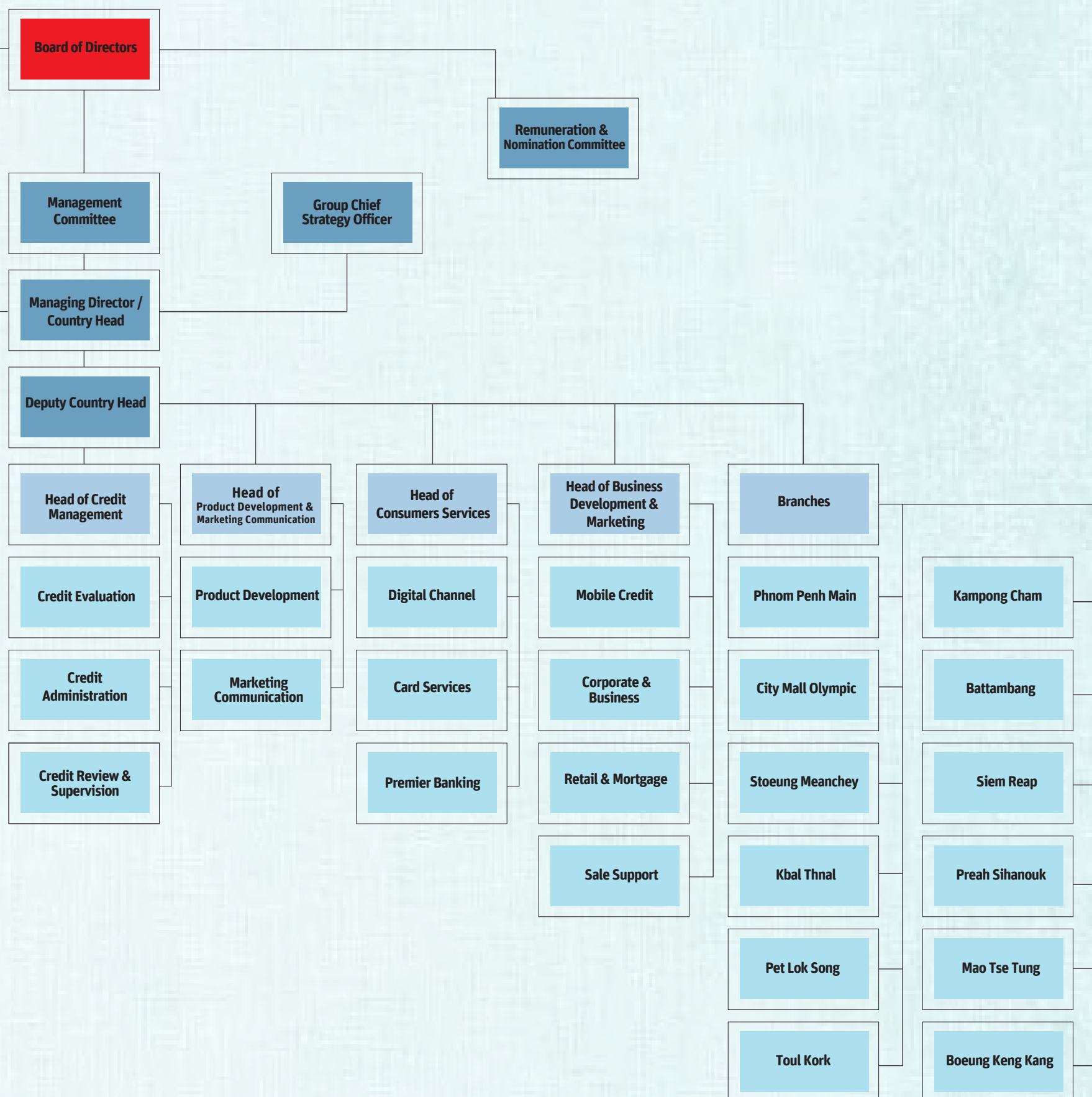



ORGANISATION STRUCTURE



ORGANISATION CHART





A full-page photograph of the Chairman of RHB Indochina Bank, a middle-aged man with grey hair and glasses, wearing a dark blue suit, white shirt, and blue tie. He is standing in a modern office environment with a glass wall behind him. The glass wall features the 'Digital.RHB' logo in large, stylized letters. The background shows a modern office interior with a grid ceiling and some furniture.






RHB Indochina Bank limited continued to deliver an impressive performance in 2017. Healthy GOP growth along with stable economic environment in Cambodia has provided opportunities for the Bank to capture good business traction in the country. The Bank will continue to leverage on the Group's strength and experience throughout its presence in 9 countries across ASEAN as well as Hong Kong/China. With that, looking at the high trajectory growth in Indochina, and our branches presence in 12 locations, we are confident that we will be able to play a key role and contribute to the business and economic growth particularly in the retail and SME segment in Cambodia.

FINANCIAL PERFORMANCE

In 2017, our profit after tax achieved a growth of 28% from USD6.7 million to USD8.6million. Return on equity continued to improve year on year, from 7.9% in 2016 to 8.8% in 2017 and return on assets improved from 1.1% in 2016 to 1.2% in 2017.

Our Total Assets stood at USD709 million, an increase of 13.8% from USD623 million in 2016. This ranked us 11th among 39 banks in Cambodia.

Customer Deposit grew significantly from USD297 million to USD470 million in 2017, which in turn Improved the Bank's Loans-to-Customer Deposit Ratio from 117% to 84% in 2017. The Customer Deposit growth rate of 58% surpassed the industry growth rate which reflects the confidence the market has for RHB Indochina Bank as the custodian of public funds. CASA to Customer Deposit composition also improved significantly from 18% to 49%.

	2016	2017
Profit After Tax	USD6.7mil	USD8.6mil 
Customer Deposits	USD297mil	USD470mil 
Loans to Deposit Ratio	117%	84% 
CASA to Deposits Ratio	18%	49% 
Total Assets	USD709mil	USD623mil 

GOVERNANCE

The Board of Directors and Senior Management of RHB Indochina Bank will continue to place great emphasis on governance, compliance and prudent risk management. This is aligned to the Group's Governance framework that stands firm in corporate governance and transparency across all business units.

The Bank has fully complied with all Cambodian regulatory requirements in 2017 including the new Minimum Capital Requirement, adoption of the new Regulation on Credit Risk Grading and Impairment Provisioning issued by the National Bank of Cambodia. We will continue with this priority of ensuring full compliance at all times.

The Board of Directors, as well as the Risk Management Committee and Audit Committee met quarterly in 2017 to discuss and address required matters including both risk and compliance. Our commitment will be to strategize, monitor closely, review regularly and take appropriate actions to build a strong compliance and robust risk management culture.

SOCIAL RESPONSIBILITY


We embarked on programs for the underprivileged and the underserved during the 2017 Group RHB "Touch Hearts" Community Weekend. This has benefited more than 100 underprivileged children in Sa Ang Commune in KandaI Province where they are now able to go to school with proper amenities to pursue their education. This is consistent with our brand promise of Together We Progress and Nurturing Future Generation. In sports, we organized the RHB Junior Football Cup and mountain biking events which are popular among the youths in the community.

MOVING FORWARD

This year, the bank started its digital transformation journey which is in-line with the Group's aspiration in Accelerating Growth through innovation focusing on customer journey. We will also continue to pay attention on growing our talent as we pursue a sustainable business growth over the long term, in line with the Group's new five year strategic roadmap FIT22. We target to be one of the top 10 banks in Cambodia in the near future and continue to be a key player in the country's economic and social development. The Board will continue to provide guidance and support to the Management to achieve its 2018 Business Plan and beyond

ACKNOWLEDGEMENTS

Our achievements in 2017 would not be possible without the support particularly from National bank of Cambodia, all relevant affiliates, business partners and our valued customers, and for that our sincere gratitude to you. We would also like to put on record our appreciation to all management and staffs at the bank for their commitment and tireless contribution.



Dato' Khairussaleh Ramli
Chairman



BOARDS OF DIRECTORS



From left to right:

1- Chulapong Yukate 2- Abdul Aziz Peru Mohamed 3- Ong Seng Pheow 4- Dato' Khairussaleh Ramli 5- Gan Pai Li 6- Lim Loong Seng

PROFILES OF THE BOARD OF DIRECTORS



DATO' KHAIRUSSALEH RAMLI

Non-Independent Non-Executive Chairman
Aged 50, Male, Malaysian

QUALIFICATIONS

- Bachelor of Science in Business Administration from Washington University, St. Louis
- Advanced Management Programme, Harvard Business School
- Fellow Chartered Banker, Asian Institute of Chartered Bankers

SKILLS AND EXPERIENCE

Dato' Khairussaleh Ramli has more than 21 years of experience in the financial services and capital markets industry, where he has held senior positions in well-established regional financial institutions. He is also a Council member of The Association of Banks in Malaysia and Asian Institute of Chartered Bankers.

His knowledge and experience earned him the "Best CFO in Malaysia Award" in 2010 and 2011 from Finance Asia and the "Best CFO in Malaysia Award" in 2012 from Alpha Southeast Asia.



ONG SENG PHEOW

Independent Non-Executive Director

Aged 69, Male, Malaysian

BOARD COMMITTEE MEMBERSHIPS

- Audit Committee (Member)
- Risk Management Committee (Member)
- Remuneration and Nomination Committee (Member)

RHB BANKING GROUP

BOARD COMMITTEE MEMBERSHIPS

- Board of Director of RHB Insurance Berhad (Chairman)
- Board Audit Committee (Member)
- Board Nominating & Remuneration Committee (Member)
- Board Technology Committee (Member)
- Investment Committee of RHB Insurance Berhad (Member)

QUALIFICATIONS

- Member of the Malaysian Institute of Certified Public Accountants
- Member of the Malaysian Institute of Accountants

SKILLS AND EXPERIENCE

Ong Seng Pheow has over 34 years of audit and accounting experience. He was a partner of Ernst & Young from 1984 to 2003. His last held position in Ernst & Young was as the National Director of Assurance and Advisory Business Services. He also served on committees and working groups of MICPA.

PROFILES OF THE BOARD OF DIRECTORS (CONTINUED)



ABDUL AZIZ PERU MOHAMED

Independent Non-Executive Director

Aged 69, Male, Malaysian

BOARD COMMITTEE MEMBERSHIPS

- Risk Management Committee (Chairman)
- Audit Committee (Member)
- Remuneration and Nomination Committee (Member)

RHB BANKING GROUP

BOARD COMMITTEE MEMBERSHIPS

- Board Credit Committee (Member)

QUALIFICATIONS

- Harvard Business School
- Pacific Bankers Rim programmes in the United States of America

SKILLS AND EXPERIENCE

Abdul Aziz Peru Mohamed is currently the Chief Executive Officer/Director of As-Salihin Trustee Berhad, a trust company specialising in Islamic estate planning. He held various senior management positions in the banking industry with almost 30 years in an accomplished career track spanning management of branch network and retail banking. He spent most of his working years at Malayan Banking Berhad, where his last position was General Manager, Consumer Banking Division. He was also formerly the Senior General Manager of AmBank Berhad from 2002 to 2005. During the years in the banking industry, he was appointed as Chairman of the Rules Committee of the Association of Banks of Malaysia and has held several other key positions including as a Board Member of Mayban Property Trust and Mayban Trustees Bhd.



CHULAPONG YUKATE

Independent Non-Executive Director

Aged 61, Male, Thai

BOARD COMMITTEE MEMBERSHIPS

- Audit Committee (Chairman)
- Remuneration & Nomination Committee (Chairman)
- Risk Management Committee (Member)

QUALIFICATIONS

- Master of Laws from University of Washington, United States (under Deacons' Scholarship)
- Graduate Certificate in the International Trade Law from University of Tokyo, Japan (under the scholarship from the then Ministry of International Trade and Industry of Japan)
- Bachelor of Laws degree from Chulalongkorn University, Thailand
- Lawyers' Council of Thailand
- Legal Services Board of State of Victoria, Australia

SKILLS AND EXPERIENCE

Chulapong brings extensive knowledge to the firm as he has been in the private practice for 30 years, with major areas of practice including M & A, Projects, Insurance and International Arbitration. He was a Partner and Of Counsel in leading international law firms of Deacons in Thailand and Australia, Colin Ng & Partners in Singapore and Baker & McKenzie in Thailand. He later joined Dhipaya Insurance Public Company Limited in Bangkok as a Group General Counsel until July 2013. He was also a Funding and Managing Partner of DLA Piper's Bangkok office, where it started with 2 lawyers in 2003 and 3 years later, they had successfully built up the office to have 25 lawyers.

PROFILES OF THE BOARD OF DIRECTORS (CONTINUED)



GAN PAI LI

Non-Independent Non-Executive Director

Age 45, Female, Malaysian

QUALIFICATIONS

- Global Masters in Business Administration (MBA), Manchester Business School
- Bachelor of Education, TESL, University of Malaya

SKILLS AND EXPERIENCE

Gan Pai Li has more than 20 years of working experience in the financial services industry. She began her career in Retail Banking. Subsequently moved on to roles in Corporate Banking, Capital Markets, Investment Banking, Group Strategy, Private Equity and Wholesale Banking. She was held various positions in the areas of post M&A integration, business transformation, green field expansions into ASEAN and various business transformation initiatives across CIMB Group.

She prior to joining RHB Banking Group, held the position of Senior Managing Director, Group Wholesale Bank, CEO's Office as well as the role of Head, Business Management Office in CIMB Investment Bank Berhad overseeing business performance and regulatory compliance of Group Wholesale Banking regionally.



LIM LOONG SENG

Managing Director / Country Head
Aged 63, Male, Malaysian

QUALIFICATIONS

- MBA in International Business from University of Sunderland (United Kingdom)
- Bachelor of Science in Agribusiness & Diploma in Agriculture both from University Putra Malaysia

SKILLS AND EXPERIENCE

Lim Loong Seng has more than 39 years working experience including more than 35 years in the financial services industry of which almost 10 years is in Cambodia. He started his career in banking with a leading Malaysian financial service group. He has wide ranging exposure and experience in corporate, business and consumer banking at senior positions encompassing operations, credit, risk and sales & marketing. He was responsible for starting up the RHB Cambodia operations for both the Banking and its securities arm in 2008 and 2010 respectively.

He was the winner of the SEARCA Gold Medal and Harvard Business Alumni Club Malaysia Gold Medal when he graduated with a Bachelor of Science in Agribusiness in 1986.

He sits on the Board of RHB Indochina Securities Co., Ltd. and RHB Bank (Laos) Ltd. He also oversees RHB's Chief Representative in Vietnam and Myanmar.

He is a Licensed Dealer approved by the Securities Exchange Commission of Cambodia. He has also been elected as the Vice President of the Malaysian Business Council of Cambodia since 2010.

This year marks the 9th year RHB Indochina Bank has been operating in Cambodia with great success and in the process succeeded in meeting customer's increasing demands while contributing to the development of the banking industry and economic growth in Cambodia. We have grown from strength to strength since our incorporation in 2008 and we will continue to achieve greater heights in Cambodia.

FINANCIAL PERFORMANCE

The Bank delivered significant achievements in year 2017 where profit before tax grew USD2.3 million to USD10.7 million, an increase of 7%. Customer Deposits recorded a strong growth of 58% from USD297 million to USD470 million with impressive growth in CASA (Current Account and Saving Account). Share of CASA to Customer Deposits thus spiked from 31% in 2016 to 49% in 2017. With the exceptional growth in customer deposits, the Bank's LDR dropped below 100% to 84%.

Gross loans at USD407 million recorded a net growth of 14% or USD49 million in 2017 compare to USD358 million in 2016. Total assets at USD709 million grew in tandem with loans growth at 14% from USD623 million in previous year. Our equity grew strongly from USD84 million in 2016 to USD97 million in 2017. In terms of key financial ratios, the Bank recorded overall improvements in CIR of 35.2% and return on equity of 8.9% for 2017.

The impressive performance in 2017 has helped RHB Indochina Bank to be ranked number 11th among the 39 banks in terms of Assets. The Bank has also improved its ranking to 11th from 14th in terms of Customer Deposits while ranking for loans also rise from 13th to 12th. Hence the Bank had improved its overall ranking as at December 2017.



DIGITAL TRANSFORMATION JOURNEY

RHB Indochina Bank launched its flagship “RHB Now” Internet Banking and Mobile Banking on 28 December 2017. “RHB Now” offers multiple functionalities including 1st & 3rd party transfer, instant transfer to other banks in Cambodia, credit remittance, e-Fixed Deposit, cheque management and foreign telegraphic transfer with the aim to provide convenience and also to improve customer experience. We believe our digital offerings and innovative product differentiation will not only excite the young and tech-savvy generation but the local Community across all customers segments in Cambodia. Upcoming exciting offerings that are under our digital transformation journey include mobile reload, our signature RHB “PayAnyone™”, bill payment and many more. Our new collaboration with third party service providers will also enhance our digital capabilities hence reaching a wider customer segments. Our journey to be a significant and outstanding digital banking player in Cambodia has just begun.

REGULATORY REQUIREMENT & GOVERNANCE

While we set sail for more exciting offerings and improving customer journey, we also pay very much attention to meeting new regulatory requirements which will strengthen the financial industry and support sustainable economic growth in Cambodia. 2017 had been a very challenging year with several new regulatory initiatives introduced by the National Bank of Cambodia and by other Government Agencies which included PRAKAS on Credit Risk Grading & Impairment Provisioning, Provision of Loans in National Currency by Banks & Financial Institutions, Determination of Capital Buffer of Banks and Financial Institutions, Resolution of Consumer Complaints, Risk Management Framework of Banking and Financial Institutions and VAT Implementation For Non-Taxable Supplies.

We will continue to be prudent and adhered to all these new requirements in-line with the RHB Banking Group’s Governance Framework in terms of corporate governance and transparency across all business units. We will continue to prioritize full compliance and to build a strong compliance and robust risk management culture.

CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility has been one of the focuses for RHB Indochina Bank. We built the 2nd pre-school in Sa Ang Commune in Kandal Province in 2017. Today the 2 pre-schools with proper school amenities serve more than 100 children in the commune including the provision of teaching materials and nutritious foods in collaboration with ‘Aide-to Action’.

We also established and funded special classes for Information Technology and English language for 50 youth within that commune.

In the year, we organized the RHB Junior Football Cup to nurture the next generation of youth’s interest in sports especially football. Besides that, we donated food, cash and basic necessities to poor families in Kampong Cham province in conjunction with the Hari Raya Aidilfitri celebration year-on-year. We also contributed to the Red Cross Cambodia and other charitable organizations in support of their initiatives for the benefits of the underprivileged in Cambodia.

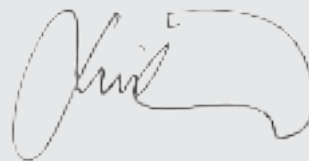
JOURNEY AHEAD

The competitive landscape for the financial industry is becoming keener with expected new entrants into the market in addition to the existing 39 banks, 15 specialized banks and 76 MFIs. Amidst such heightened competition but stable economic growth, it will be very challenging to continue to achieve exponential growth. Sustainable growth hence remains one of our key focuses supported by digital transformations to extend our reach to the fast changing consumer market. We have great aspiration in becoming one of the forefront digital banks in years to come.

We will continue to introduce more new and innovative products and services leveraging on RHB Brand with strong regional presence to meet our customers’ ever-growing needs. We strongly believe that investing in human capital development and building positive corporate culture would help the Bank to achieve greater new heights together with our customers.

A NOTE OF APPRECIATION

We sincerely express our gratitude to all our customers, National Bank of Cambodia and our Board of Directors for your utmost supports throughout our growth journey. A word of appreciation too to all our loyal and dedicated staff who has helped the Bank to achieve excellent performance since our inception. We hope to deliver another set of sterling achievements in the year to come. Always in our hearts, “Together We Progress”.



Lim Loong Seng
Managing Director/Country Head



**MANAGEMENT
TEAM**



From left to right:

1- Meung Samnang 2- Aldrian Rizal Zahari 3- Yong Ching San 4- Cheong Kim Soon 5- Lim Loong Seng 6- Chua Thiam Yew
7- Chhim Sareth 8- Pheng Tekhor 9- Koh Hao Jie

PROFILES OF THE MANAGEMENT TEAM



LIM LOONG SENG **MANAGING DIRECTOR/COUNTRY HEAD**

Lim Loong Seng has more than 39 years working experience including more than 35 years in the financial services industry of which almost 10 years is in Cambodia. He started his career in banking with a leading Malaysian financial service group. He has wide ranging exposure and experience in corporate, business and consumer banking at senior positions encompassing operations, credit, risk and sales & marketing. He was responsible for starting up the RHB Cambodia operations for both the Banking and its securities arm in 2008 and 2010 respectively.

He was the winner of the SEARCA Gold Medal and Harvard Business Alumni Club Malaysia Gold Medal when he graduated with a Bachelor of Science in Agribusiness in 1986.

He sits on the Board of RHB Indochina Securities Co., Ltd. and RHB Bank (Laos) Ltd. He also oversees RHB's Chief Representative in Vietnam and Myanmar.

He is a Licensed Dealer approved by the Securities Exchange Commission of Cambodia. He has also been elected as the Vice President of the Malaysian Business Council of Cambodia since 2010.



CHEONG KIM SOON, SIMON
ACTING DEPUTY COUNTRY HEAD / HEAD OF BANKING SERVICES AND SUPPORT

Mr. Simon has been with RHB Indochina Bank Limited since its inception in September 2008 and is currently the Head of Banking Services and Support. He was with a top financial institution in Malaysia for over 29 years where he rose through the ranks, and gained wide ranging exposure in Banking Operations and Support. He has spearheaded business and technical banking process improvement initiatives as well as research and development. His last position prior to joining RHB was Head of Project Implementation & Process Improvement, Business Processes & Procedures.

Mr. Simon graduated with an Ontario Secondary School Honors Graduation Diploma in 1981 and went on to attend York University in Ontario, Canada.



YONG CHING SAN
HEAD OF CREDIT MANAGEMENT

Mr. Yong joined RHB Indochina Bank Limited since November 2010 and is currently the Head of Credit Management. He has a total of 32 years of experience in banking and two years in Administration and as Training Consultant. He has a wide range of exposure and experience in commercial banking having served at both branch and head office levels in Credit, Operations, Loan Recovery, Business Development and Training. He graduated from Greenwich University, USA with a Masters of Business Administration in 2002.

He also achieved his Certified Financial Planner accreditation from Financial Planner Association of Malaysia (FPAM) in 2006.

PROFILES OF THE MANAGEMENT TEAM (CONTINUED)



CHUA THIAM YEW
HEAD OF FINANCE & STRATEGY

Mr. Chua joined RHB Indochina Bank Limited in May 2014 as the Head of Finance & Strategy. He has more than 16 years experience in the finance field with a leading bank in Malaysia and other renowned multinational corporations. He has vast exposure and experience in auditing, budgeting, financial management, financial reporting, taxation and business planning.

He graduated from Association of Chartered Certified Accountants (ACCA) from United Kingdom. He also holds a Master of Business Administration awarded by University of Melbourne, Australia.



ALDRIAN RIZAL ZAHARI
HEAD OF PRODUCT DEVELOPMENT & MARKETING COMMUNICATION

Mr. Rizal joined RHB Indochina Bank Limited on secondment from RHB Bank Berhad in July 2014. He has 22 years of working experience in banking and insurance industries. He has gained exposure and experience in Audit, Sales & Marketing, Bancassurance and International Banking Operations.

Mr. Rizal graduated from University of Northumbria at Newcastle in United Kingdom with a Bachelor of Accounting in 1996.



MEUNG SAMNANG
HEAD OF COMPLIANCE & RISK MANAGEMENT

Mr. Samnang is the Head of Compliance and Risk Management since January 2010. He has 14 years of experience in Consulting and Audit. He has wide ranging exposure in Audit and Compliance at KPMG Cambodia and at Internal Audit Department of Ministry of Economy and Finance where his last held position was as a Consultant. He graduated from Maharishi Vedic University, with a Bachelor of Business Administration in 2004.

He also achieved Certificate of Certified Accounting Technician (CAT) from the United Kingdom in 2007 and is currently pursuing certificate in Financial Risk Management from the Global Association of Risk Professional in the United States of America.



CHHIM SARETH
HEAD OF INTERNAL AUDIT

Mr. Sareth is the Head of Internal Audit. He joined the Bank in July 2009. He has 15 years of working experience with two years as accounting teacher and four years as external auditor. He has experience in Compliance and Advisory Audit on various industries such as Banking, Microfinance Institution, Insurance, Garment Factories, Restaurant and Service Companies during his time in KPMG Cambodia. Mr. Sareth holds a Master of Commerce in Finance from International Institute of Cambodia in 2006.

He also holds a Certificate of Certified Accounting Technician (CAT) in 2008 and is currently pursuing an Association of Chartered Certified Accountants (ACCA) from the United Kingdom.

PROFILES OF THE MANAGEMENT TEAM (CONTINUED)



PHENG TEKHOR
HEAD OF HUMAN RESOURCE & TRAINING

Mr. Tekhor is the Head of Human Resource & Training of RHBIBL. He graduated from National University of Management with a Bachelor of Business Administration. He joined RHBIBL since May 2017. Prior to that he was with (Cambodia) Advance Communications Co., Ltd (qb) since April 2011 as HR Manager and he was also the Human Resource Coordinator for Chevron (Cambodia) Limited (Caltex) since 2008. His experience in human resources management includes exposure in recruitment, HR operations, compensation & benefits administration, HR policy and procedures, performance management, employee engagement, industrial and employee relations.



KOH HAO JIE
HEAD OF DIGITAL BANKING

Mr. Koh joined RHB Indochina Bank Limited in August 2017 as the Head of Digital Banking. Prior to that he was with PanPages (Cambodia) Co, Ltd, with a wide range of exposure and experience in developing business platform, digital marketing strategy, data analysis, B2B Digital Platform and digital transformation. He holds double diploma in Advertising and Marketing Communication from IACT College in 2012. He has also achieved Google Adwords Certification.

BOARD OF DIRECTORS & BOARD COMMITTEE

BOARD OF DIRECTORS		
1.	Dato' Khairussaleh Ramli	Non-Independent Non-executive Chairman
2.	Mr. Ong Seng Pheow	Independent Non-executive Director
3.	Abdul Aziz Peru Mohamed	Independent Non-executive Director
4.	Mr. Chulapong Yukate	Independent Non-executive Director
5.	Ms. Gan Pai Li	Non-independent Non-executive Director (Appointed as at 6 February 2018)
6.	Mr. Lim Loong Seng	Managing Director/Country Head
AUDIT COMMITTEE		
1.	Mr. Chulapong Yukate	Chairman
2.	Mr. Ong Seng Pheow	Member
3.	Mr. Abdul Aziz Peru Mohamed	Member
RISK MANAGEMENT COMMITTEE		
1.	Mr. Abdul Aziz Peru Mohamed	Chairman
2.	Mr. Chulapong Yukate	Member
3.	Mr. Ong Seng Pheow	Member
REMUNERATION AND NOMINATION COMMITTEE		
1.	Mr. Chulapong Yukate	Chairman
2.	Mr. Ong Seng Pheow	Member
3.	Mr. Abdul Aziz Peru Mohamed	Member

MANAGEMENT COMMITTEE

MANAGEMENT COMMITTEE		
1.	Mr. Lim Loong Seng	Chairman
2.	Mr. Cheong Kim Soon	Member
3.	Mr. Chua Thiam Yew	Member
4.	Mr. Yong Ching San	Member
5.	Mr. Pheng Tekhor	Member
6.	Mr. Aldrian Rizal Zahari	Member
7.	Mr. Meung Samnang	Member
CREDIT LENDING COMMITTEE		
1.	Ms. Gan Pai Li	Chairman
2.	Mr. Lim Loong Seng	Member
3.	Mr. Cheong Kim Soon	Member
4.	Mr. Yong Ching San	Member

CALENDAR OF EVENTS 2017



BUDGET & STRATEGIC BUSINESS PLAN 2017
14 JANUARY 2017



BONDING DAY
15 JANUARY 2017



INVESTOR INSIGHT
18 APRIL 2017





GRAND LUCKY DRAW EVENT “RHB MOHA SAMNANG DEPOSIT CAMPAIGN 2017” 8 APRIL 2017



RHB MOUNT BOKOR CHALLENGE 2017 13 MAY 2017



RHB CAMBODIA JUNIOR FOOTBALL CUP 2017 22 MAY 2017



CALENDAR OF EVENT 2017 (CONTINUED)



RHB FAMILY DAY 2017
17 JUNE 2017



SECOND FOLLOW UP VISIT TO PRE-SCHOOL
30 AUGUST 2017



GRAND LUCKY DRAW EVENT "RHB PROVINCIAL BRANCH SOLO CAMPAIGN"
1 SEPTEMBER 2017





BUSINESS DISCOVERY - OPPORTUNITIES IN CAMBODIA 5 - 7 OCTOBER 2017



HUB ENTREPRENEUR CLUB - IMPACT HUB PHNOM PENH 16 OCTOBER 2017



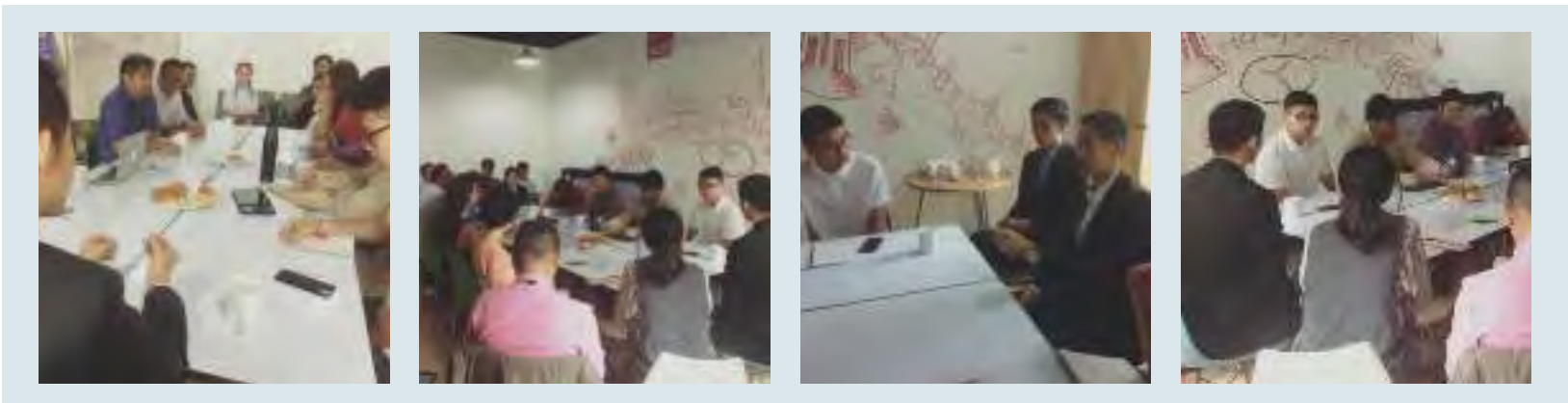
NATIONAL CAREER FAIRS 2017 27 - 28 OCTOBER 2017



CALENDAR OF EVENT 2017 (CONTINUED)



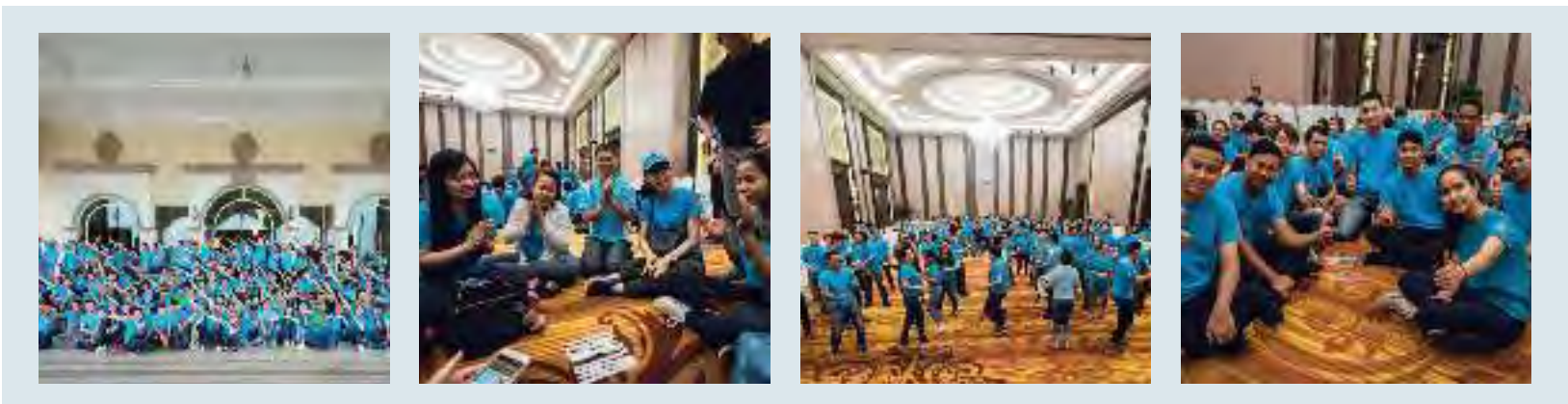
BREAKFAST WITH THE EXPERT
11 NOVEMBER 2017



RHB ANNUAL DINNER 2017
18 NOVEMBER 2017



RHB TEAM BUILDING 2017
19 NOVEMBER 2017



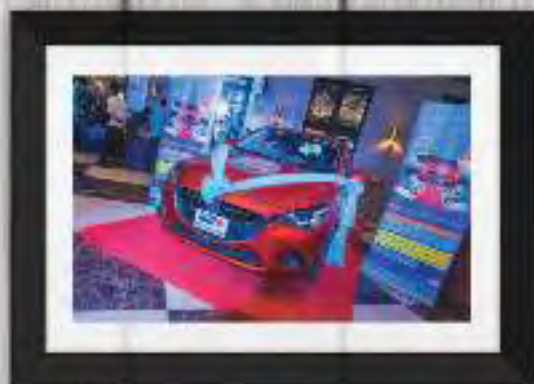
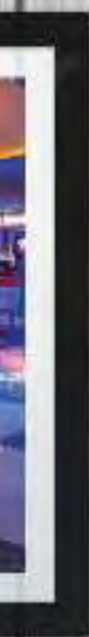


RHB COMMUNITY WEEKEND 2017 2 DECEMBER 2017





RHB MOHA SAMNANAG DEPOSIT CAMPAIGN





RHB CAMBODIA JUNIOR FOOTBALL UP 2017





**RHB
FAMILY DAY 2017**





RHB ANNUAL DINNER 2017





RHB TEAM BUILDING 2017





**RHB
COMMUNITY WEEKEND 2017**







DIRECTOR'S REPORT

The Board of Directors ("the Directors") is pleased to submit its report together with the financial statements of RHB Indochina Bank Limited ("the Bank") for the year ended 31 December 2017.

THE BANK

The Bank was incorporated on 9 July 2008 and is a wholly owned subsidiary of RHB Bank Berhad, a public limited liability company incorporated in Malaysia.

The Bank is a commercial bank and operates under the Cambodian Law on Commercial Enterprises and the regulations of the National Bank of Cambodia ("the Central Bank").

PRINCIPAL ACTIVITIES

The Bank is principally engaged in a broad range of commercial banking activities in Cambodia.

FINANCIAL PERFORMANCE

The financial performance of the Bank for the year is set out in the income statement on page 91.

STATUTORY CAPITAL

During the year, the Bank increased its issued and paid-up capital from US\$67,000,000 to US\$71,000,000 via the issuance of 4,000,000 new ordinary shares at US\$1 par value per share.

PROVISIONS

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

BAD AND DOUBTFUL LOANS AND ADVANCES

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

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

ASSETS

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

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

CONTINGENT AND OTHER LIABILITIES

At the date of this report, there is:

- (a) no charge on the assets of the Bank which has arisen since the end of the year which secures the liabilities of any other person, and
- (b) no contingent liability in respect of the Bank that has arisen since the end of the year other than in the ordinary course of the banking business.

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

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 in any material respect.

ITEMS OF AN UNUSUAL NATURE

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

THE BOARD OF DIRECTORS

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

Dato' Khairussaleh Ramli	Chairman (resignated on 6 February 2018)
Ong Seng Pheow	Member (resignated on 6 February 2018)
Abdul Aziz Peru Mohamed	Member
Chulapong Yukate	Member
Gan Pai Li	Member (appointed on 6 February 2018)
Lim Loong Seng	Member
Christopher Loh Meng Heng	Member (resigned on 6 February 2018)

THE DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for ensuring that the financial statements are properly drawn up so as to present fairly, in all material respects, the financial position of the Bank as at 31 December 2017 and the financial performance and cash flows of the Bank for the year then ended. In preparing these financial statements, the Directors are required to:

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

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

APPROVAL OF THE FINANCIAL STATEMENTS

The accompanying financial statements, together with the notes thereto, which present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, the financial performance and cash flows of the Bank for the year then ended in accordance with Cambodian Accounting Standards and the guidelines of National Bank of Cambodia, were approved by the Board of Directors.

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



Dato' Khairussaleh Ramli
Chairman

Date: 15 March 2018

INDEPENDENT AUDITOR'S REPORT

To the shareholders of RHB Indochina Bank Limited

OUR OPINION

In our opinion, the financial statements of RHB Indochina Bank Limited ("the Bank") present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia ("the Central Bank").

WHAT WE HAVE AUDITED

The Bank's financial statements comprise:

- Balance sheet as at 31 December 2017;
- Income statement for the year then ended;
- Statement of changes in equity for the year then ended;
- Cash flow statement for the year then ended; and
- The notes to the financial statements, which include a summary of significant accounting policies

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") and the requirements of Kampuchea Institute of Certified Public Accountant and Auditors' Code of Ethics for Certified Public Accountants and Auditors ("KICPAA Code"). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and ethical requirements of KICPAA Code.

OTHER INFORMATION

Management is responsible for the other information. The other information obtained at the date of this auditor's report is directors' report and appendix notes on requirement of the Central Bank's Prakas 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

As part of an audit in accordance with CISAs, we exercise professional judgment and maintain professional 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

For PricewaterhouseCoopers (Cambodia) Ltd.



Lang Hy

Partner

Phnom Penh, Kingdom of Cambodia

Date: 27 March 2018

INTERNAL CONTROL REPORT

INTRODUCTION

Pursuant to the provision of Article 25 of the Prakas B-7-010-172 Prokor on Internal Control of Bank and Financial Institutions issued on 28 September 2010 and Letter B-7-015-161 SCN issued on 3 March 2015, Cambodian banking institutions shall establish an annual report on the organisation and effectiveness of the internal control system.

The statement below has been prepared in accordance with the guidelines as set out in the “Prakas on the Internal Control of Bank and Financial Institutions: Guideline for Completing the Annual Report on the Organisation and Effectiveness of the Internal Control”.

RESPONSIBILITY

The Board acknowledges its overall responsibility in establishing a sound risk management and internal control system and for assessing its effectiveness. Such a system is designed to manage risks within established risk appetite and risk tolerance rather than total elimination of risks to achieve the Bank’s business objectives. The system can therefore only provide reasonable and not absolute assurance against material misstatement, loss or fraud.

The Board is assisted by the Risk Management Committee (“RMC”) and Audit Committee (“AC”) which have been delegated with primary oversight responsibilities and Bank’s risk management and internal control system.

The Board is further assisted by the Management who is responsible for implementing the Bank’s policies and processes to identify, evaluate, monitor and report on risks as well as the effectiveness of the internal control systems, taking appropriate and timely corrective actions as required, and to provide assurance to the Board that the processes have been carried out. In this regard, the Board has received assurance from the Managing Director as well as the Head of Risk Management that the Bank’s risk management and internal control system is operating adequately and effectively, in all material aspects, based on the risk management and internal control system of the Bank.

RISK MANAGEMENT AND INTERNAL CONTROL

- **Risk Management**

Risk management is integral to all aspects of the Bank’s activities and is the responsibility of all staff. The Bank has put in place a risk management framework approved by the Board for identifying, evaluating, managing and reporting of significant risks faced by the Bank that may affect the achievement of the Bank’s business objectives.

The Bank’s risk management framework seeks to ensure that there is an effective on-going process in place to manage risk across the Bank. This process is regularly reviewed by the Board through its RMC which provides oversight over the risk management activities for Bank to ensure that the Bank’s risk management process is functional and effective.

RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

- **Risk Management (continued)**

The Board, through the RMC function, establishes the risk appetite and risk tolerance for the Bank and relevant entities. The defined risk appetite and risk tolerance are regularly reviewed by the Management and the Board in line with the Group’s business strategies and operating environment. On the quarterly basis, a Bank Risk Management Report which includes the Bank’s risk metrics and tolerance dashboard is presented to the Board for information, deliberation or decision making if necessary.

The RMC also assists the Board to review the Bank’s overall risk management philosophy, frameworks, policies and models. In discharging its overall duties and responsibilities, the RMC is supported by the Risk Management function which monitors and evaluates the effectiveness of the Bank’s risk management system on an ongoing basis.

Risk Management function provides independent oversight on business activities and implements the Group Risk Management Framework in order to protect and safeguard the Bank’s assets, and to prevent and mitigate financial and reputational losses to the Bank. Its responsibilities include implementation to the Bank’s risk policy and framework, daily risk measurement and monitoring, provision of timely risk analysis to Management, ensuring compliance to regulatory risk reporting requirements, overseeing group-wide risk credit evaluation and assessment as well as implementing a comprehensive enterprise-wide risk governance framework and robust risk management infrastructure.

In line with regulatory requirements and industry best practices, the Bank subscribes to the principle that risk management is a core responsibility of the respective businesses and operating departments. This has been articulated and documented in the risk management framework of the Bank.

To support and promote accountability and ownership of risk management, a Risk and Control Self-Assessment (“RCSA”) framework has been implemented in business and functional units within the Bank as part of the risk management process. These business and functional units are required to identify and document the controls and processes for managing the risks arising from their business activities, as well as to assess the effectiveness thereof to ensure that the risks identified are adequately managed and mitigated.

- **Internal Control System**

The Bank’s internal control systems which encompasses the policies, procedures processes, organisational structures, tasks and other control aspects is implemented for assuring the achievement of the Bank’s objectives in operational effectiveness and efficiency, reliable financial reporting and compliance with laws, regulations and policies.

CONTROL ENVIRONMENT AND CONTROL ACTIVITIES

- **Organisation Structure**

The Bank has a clear organisational structure with well-defined accountabilities and responsibilities, and lines of reporting. The organisational structure provides the basis framework to help the Bank's operations proceed smoothly and functionally as well as depicting the span of control in ensuring effective supervision of day-to-day business conduct and accountability.

- **Internal Policies and Procedures**

Policies, procedures and processes governing the Bank's businesses and operations are documented and are communicated group-wide as well as made available to employee through the Bank's intranet portal for ease of reference and compliance. These policies, procedures and processes are reviewed and updated by the business and functional units through a structured process of review to cater to changes in laws and regulations as well as changes to the business and operational environment. Furthermore, reviews of the policies, procedures and processes are also carried out to ensure that appropriate controls are in place to manage risks inherent to the business and operations.

- **Authority Limits**

Delegation of authority including authorisation limits at various levels of Management in the Bank are documented and designed to ensure accountability and responsibility.

- **Information Technology (IT) Security**

The objectives of the IT security encompass the protection of programs, data, information stored and facilities of the computerised data processing system from unauthorised access and use, loss or destruction as well as reliability and continuous availability of the computerised data processing systems.

Computer equipment and information assets of various forms are provided to enable employees of the Bank and relevant third parties to satisfactorily complete their duties. These assets, depending on its value and risk exposure, are subjected to controls that are designed to protect them from accidental or intentional loss, or unauthorised access, modification, manipulation and disclosure.

IT security protects information from a wide range of threats as well as safeguards the confidentiality, integrity and availability of information. IT security in the Bank is achieved through the implementation of a suitable set of controls which includes policies, standards, procedures, guidelines, organisational structures and software control functions.

CONTROL ENVIRONMENT AND CONTROL ACTIVITIES (CONTINUED)

- **Budgeting Process**

A robust budgeting process is established requiring all key operating departments in the Bank to prepare budgets and business plans annually for approval by the Board. The Bank's budget and business plans as well as strategic initiatives, taking into account the risk appetite, were deliberated at the Board where the Bank budget was presented.

- **Human Capital Management**

One of the key constituents of any internal control system is its people and that our system of risk management and internal control is dependent on the responsibility, integrity and judgement that people apply to their work. Hence, the Bank has in place policies and procedures that govern recruitment, appointment, performance management, compensation and reward, as well as policies and procedures that govern discipline, termination and dismissal.

For sustainable growth, the Bank places emphasis on human capital development, talent management and succession planning. To enhance staff competencies, structured and technical training as well as management and leadership skills are provided to staff based on their identified needs during the annual performance assessment. For talent management, initiatives such as Leadership Development Programme, Individual Development Plan and Mentoring are implemented to develop identified talents in the Bank to facilitate the continuous supply of high potentials and suitable successors for future leadership roles.

- **Code of Ethics and Conduct**

The Bank Code of Ethics and Conduct ("the Code") sets out the standards of good and ethical banking practices, as well as aims to maintain confidence in the security and integrity of the Bank's business practices. It is a requirement that all employees of the Bank understand and observe the Code. New recruits are briefed on the Code and are required to sign the Employee Declaration of Compliance Form upon joining the Bank.

The Bank has also established the Gifts and Hospitality Guidelines to promote integrity and transparency for giving and receiving gifts. The Guidelines complement the Code and are designed to help the Bank and its employee understand the respective parties' obligation in upholding corporate integrity about gifting.

INTERNAL CONTROL REPORT (CONTINUED)

CONTROL ENVIRONMENT AND CONTROL ACTIVITIES (CONTINUED)

- **Fraud Risk Management Policy**

The Fraud Risk Management Policy is designed to promote consistent organisational behaviour through the development, implementation, and regular review of fraud prevention, detection and response strategies. The Policy defines the core governing principles for fraud management with the Bank which include leadership and ethical culture, fraud awareness, detection, reporting and escalation as well as fraud response with appropriate corrective actions.

- **Business Continuity Plan and Disaster Recovery Plan**

The Bank recognises and is fully committed to the need to provide continuous critical services to its customers, ensure the safety of its employees, protect its assets / data and safeguard the interest of its key stakeholders that collectively ensure the viability of the organisation. The Bank's Business Continuity Management (BCM) Programme is based on good business continuity practices and guidelines which are in line with the Group and internationally recognised standards.

The Bank has on-going and actively managed BCM programmes, which include effective crisis management to deal with real crisis. The BCP and Disaster Recovery is subject to regular testing / exercising to ensure their efficacy, reliability and functionality. Simulation exercise and drills are conducted to familiarise and equip staff with the skills and techniques requirement to identify, assess, respond and cope with a serious situation.

INFORMATION AND COMMUNICATION

- **Performance Review**

Regular and comprehensive information is provided by Management to monitor their performance against the strategic business plan and the annual budget approved by the Board. This information covers all key financial and operational indicators as well as key strategic initiatives undertaken by the Bank during the year.

The Board and the Management Committee receive and review financial reports on the Bank's monthly and quarterly financial performance against approved targets and the reasons for any significant variances as well as and measures that are being put in place to meet such targets.

- **Whistle Blower Policy**

There is an established process for reporting anyone found to be abusing or circumventing processes and controls of the Bank. All staff are accorded the opportunity to report via the Whistle-Blowing mechanism with the assurance that it will be dealt with confidentiality and that the reporter's identity will be protected.

INFORMATION AND COMMUNICATION (CONTINUED)

- **Incident Management Reporting**

To complement the Bank's system of internal control, a comprehensive incident management reporting system has been implemented to ensure proper escalation and management of incidents. The incident management reporting system also ensures that all incidences with material risk and losses are escalated promptly to Senior Management and the Board with necessary steps taken to mitigate any potential risks that may arise. This enables decision makers to undertake informed decision making and be kept up to date on situations as well as manage risks effectively.

MONITORING

- **Board Committees**

The Board has delegated certain responsibilities to the Board committees established in the Bank, namely the Risk Management Committee, Audit Committee and Remuneration & Nominating Committee.

These Board Committees have been delegated with specific duties to review and consider all matters within their scope of responsibility as defined in their respective terms of reference.

- **Management Committee**

The Management Committee ("Manco") comprises key management personnel of the Bank and is chaired by the Managing Director/ Country Head of the Bank. The Manco provides a forum for the Bank's Senior Management to discuss and deliberate on strategic matters that impact the Bank's vision, strategic directions, business synergies and brand value as well as to chart its strategic roadmap. The Manco meets on monthly basis and the minutes of meeting are tabled to the Group International Business Council and Board of the Bank for notation.

- **Compliance**

Compliance is the collective responsibility of the Board, Senior Management and every employee of the Bank. Therefore, everyone concerned is expected to promote self-regulation and be accountable for his or her own activities while maintaining ethical principles and behaviour in everything that he or she does.

The Bank Senior Management supports the Board and Risk Management Committee in managing compliance risks of the Bank by ensuring there is a compliance programme in place and regularly reviews the adequacy and effectiveness of the program in managing compliance risk. Additionally, the Bank Senior Management has established a compliance function at Bank level which is independent and which has direct access to the RMC and Board. A Head of Compliance Officer oversees the Bank's overall compliance management.

MONITORING (CONTINUED)

- **Compliance (continued)**

To facilitate the understanding of guidelines and Laws in enabling compliance, the Compliance Department organises engagement sessions with relevant business and functional units, providing advice on the key requirements and implications of the guidelines and Laws.

- **Internal Audit Function**

Internal Audit (“IA”) function assists the Board and Audit Committee (AC) by providing independent and objective assurance in respect of the adequacy of the design and operating effectiveness of the Bank’s risk management framework, control and governance processes implemented across the Bank.

The Internal Audit plan is developed based on a risk-based approach and is approved by the AC annually. Audit reports which include significant findings are recommended for improvement, and Management’s response to the recommendations are tabled to Manco and AC on the monthly basis and quarterly basis respectively.

The Head of Internal Audit reports functionally to the AC thru Group Internal Audit and administratively to the Managing Director to ensure IA’s independence from Management.

The AC holds regular meetings to deliberate on the findings and recommendations for improvement highlighted by both the internal and external auditors as well as the regulatory authorities on the state of the Bank’s internal control system. The minutes of the meetings of the AC are subsequently tabled to the Board for notation while the highlights of the AC are subsequently table to the respective Boards by the Chairman of AC.

- **Conflict of Interest**

There is an establishment of an effective segregation of duties and prevention from conflict of interest situations via independent checks, review and reconciliation activities to prevent human errors, fraud and abuses.

- **Anti-Money Laundering / Combating the Financing of Terrorism (“AML/CFT”)**

The AML/CFT Programme is continuously reviewed and updated to meet the regulatory requirements as well as to combat money laundering and financing of terrorism activities. All employees are expected to carry out their functions with the highest ethical and professional standards in accordance with the AML/CFT Programme and to be continuously vigilant against the Bank being exposed or used to launder money or finance illegal activities including terrorist financing.

The Board believes that the system of internal control in the Bank are adequate and have been effective, with no significant problems noted during the period under review.

AUDIT COMMITTEE REPORT

Activities Of The Audit Committee And The Internal Audit Function During The Financial Year Ended 31 December 2017

ACTIVITIES OF THE AUDIT COMMITTEE

During the financial year ended 31 December 2017 (“year”), a total of four (4) Audit Committee (“AC”) meetings were held. The AC comprises the following members and the details of attendance of each member at the AC meetings held during the year are as follows:

Composition of the AC	Attendance at Meetings
1. Chulapong Yukate (Chairman/ Independent Non-Executive Director)	4/4 (100%)
2. Ong Seng Pheow (Member/ Independent Non-Executive Director)	4/4 (100%)
3. Encik Abdul Aziz Peru Mohamed (Member/ Independent Non-Executive Director)	4/4 (100%)

NOTE:

The main activities undertaken by the AC during the year are summarised as follows:

- Reviewed the quarterly unaudited financial results and the annual audited financial statements of RHB Indochina Bank Limited (“the Bank”) prior to the approval by the Board;
- Reviewed the audit plan of the external auditors, the audit strategy, risk assessment and areas of audit emphasis for the year;
- Reviewed with the external auditors, the results of their annual audit and audit committee report together with the Management’s response to their findings and recommendations;
- Reviewed the non-audit services rendered by the external auditors and the related fees taking into consideration the fees threshold established under the Bank policy;
- Evaluated the performance of the external auditors and made the necessary recommendations to the Board for consideration in relation to their appointment and audit fees;
- Reviewed and approved the annual internal audit plan to ensure adequacy of scope and coverage of the identified auditable areas including staffing requirements;

NOTE: (CONTINUED)

- Reviewed the internal audit reports, audit recommendations and Management’s responses to these recommendations as well as actions taken to improve the system of internal controls and procedures, and completion of the internal audit plan;
- Reviewed the related party transactions entered into by the Bank;
- Tabled the minutes of each AC meeting to the Board for notation, and for further direction by the Board, where necessary.

During the year, the Members of the AC attended the following training programmes, conferences and seminars:

- Blockchain Technology and Potential Use Cases in Financial Services
- Impact of Digital Economy, Fintech & Sustainability as Force of Change
- Forensic Accounting and Digital Forensics - What Bankers Need To Know
- Malaysian Code on Corporate Governance - Expectation and Implications
- Bankruptcy (Amendment) Act 2017
- P2P/Crowd Funding/Crowd Sourcing
- Bank Negara Malaysia Compliance Conference 2017
- Fintech’s Opportunities for the Financial Services Industry in Malaysia
- Board In Digital Economy
- Global Perspective on Critical Success and Failure Factors in the Islamic Financial Industry
- Integrating An Innovation Mindset with Effective Governance
- Independent Directors’ Programme on The Essence of Independence

INTERNAL AUDIT FUNCTION

The Bank has an in-house internal audit department (“Internal Audit”) which is guided by the Internal Audit Charter and reports to the AC. Internal Audit’s primary role is to assist the AC in the discharge of their duties and responsibilities by independently reviewing and reporting on the adequacy and effectiveness of the Bank’s risk management, internal control and governance processes.

The AC approves the annual internal audit plan at the beginning of each financial year. Internal Audit adopts a risk-based approach towards the planning and conduct of audits, which is consistent with the Bank’s framework in designing, implementing and monitoring its internal control system.

Upon completion of the audits, Internal Audit closely monitors the implementation progress of its audit recommendations in order to obtain assurance that all major risk and control concerns have been duly addressed by Management. All audit reports on the results of work undertaken together with the recommended action plans and their implementation status are then presented to the Management and the AC.

Internal Audit works closely with the external auditors to resolve any control issues raised by them to ensure that all reported issues are duly acted upon by Management.

The cost incurred for the internal audit department for the year was USD 119,432.

INTERNAL AUDIT FUNCTION MEMBERS

1. Composition

- a) The Committee members shall be appointed by the BOD from amongst the directors of the Bank.
- b) The Committee shall consist of a minimum of three (3) members.

2. Chairman

- a) The members of the Committee shall elect the Chairman from among their number.
- b) The Committee shall be chaired by the Chairman who is an independent non-executive director

REPORTING STRUCTURE

Whilst the Committee reports to BOD, regular audit reports are to be tabled to Group AC as part of group oversight requirements.

DUTIES AND FUNCTIONS

Whilst the Committee reports to BOD, regular audit reports are to be tabled to Group AC as part of group oversight requirements.

1. Fair and Transparent Reporting

Ensure fair and transparent reporting and prompt publication of the financial statements.

2. Effectiveness of Internal Audit

- a) Oversee the functions of the Internal Audit Department and ensure compliance with relevant regulatory requirements.
- b) Review the adequacy of the scope, functions, competency and resources of the internal audit department, and that it has the necessary authority to carry out its work.
- c) Review the internal audit programme, internal audit findings and if necessary, recommend actions to be taken by the management.
- d) To appoint, set compensation, evaluate performance and decide on the transfer or dismissal of the Head of Internal Audit Department of the Bank.

3. Internal Controls

Review the effectiveness of internal controls and risk management processes.

4. External Auditors

- a) Recommend external auditors for appointment by the BOD.
- b) Recommend removals of external auditors by BOD.
- c) Assess objectivity, performance and independence of external auditor (e.g. by reviewing and assessing the various relationships between the external auditor and the Bank or any other entity).

AUDIT COMMITTEE REPORT (CONTINUED)

INTERNAL AUDIT FUNCTION (CONTINUED) DUTIES AND FUNCTIONS (CONTINUED)

4. External Auditors (continued)

- d) Review with the external auditor, the audit scope and plan, including any changes to the scope of the audit plan.
- e) Review with the external auditor, his evaluation of the system of internal controls and his audit report.
- f) Review the external auditor's management letter and response.
- g) Regularly review the audit findings and ensure that issues are being managed and rectified appropriately and in a timely manner.
- h) Review the periodic financial statements, prior to the approval by the BOD, focusing particularly on:
 - i) Changes in or implementation of major accounting policy changes.
 - ii) Significant and unusual events.
 - iii) Compliance with accounting standards and other legal requirements.
- i) Have direct communication channels with the external auditors and able to meet with the external auditors without the presence of management, at least once a year.
- j) Review any letter of resignation from the external auditors of the Bank.
- k) Approve the provision of non-audit services by the external auditor.
- l) Ensure that there are proper checks and balances in place so that the provision of non-audit services does not interfere with the exercise of independent judgment of the auditors.

5. Related Party Transactions

Review any related party transaction and conflict of interest situation that may arise within the Bank including any transaction, procedure or course of conduct that raises questions of management integrity.

AUTHORITY

The Committee shall within its terms of reference:

- a) have the resources which are required to perform its duties;
- b) have full and unrestricted access to any information as required to perform its duties;
- c) have the authority to investigate any activity within its terms of reference;

INTERNAL AUDIT FUNCTION (CONTINUED) AUTHORITY (CONTINUED)

- d) have the authority to form management / sub-committee(s) if deemed necessary and fit;
- e) have the authority to delegate any of its responsibilities to any person or committee(s) that is deemed fit;
- f) be able to obtain independent professional or other advice; and
- g) be able to convene meetings with the external auditors, the internal auditors or both, excluding the attendance of other directors and employees of the Bank, and with other external parties, whenever deemed necessary.

MEETINGS AND MINUTES

- a) The Committee shall preferably meet on quarterly basis, but in any event, no less than four (4) times a year, or whenever deemed necessary.
- b) The quorum of the meetings shall be at least two (2) members or 50% of the total members, whichever is higher.
- c) The Committee may convene meetings at any place in Cambodia or other country.
- d) The Committee is also allowed to carry out the resolution by way of circulation.
- e) Heads of the respective divisions and relevant management personnel (and others if deemed necessary) may be invited to attend the Committee meetings.
- f) The Committee may meet together for dispatch of business, adjourn, and otherwise regulate their meetings as they think fit by means of any communication technology by which all persons participating in the meeting are able to hear and be heard by all other participants without the need for a member to be in the physical presence in the meeting. The member participating in any such meeting shall be counted in the quorum for such meeting. All resolutions agreed by the member in such meeting shall be deemed to be as effective as a resolution passed at a meeting in person of the members duly convened and held.
- g) Resolutions, proposals and matters tabled for approvals at any meeting of the Committee shall be decided by a simple majority of the members present.
- h) The Chairman shall nominate any person as Secretary and minutes of meetings shall be taken.

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RHB Indochina Bank

263, Ang Duong Street (St.110), Phnom Penh, Cambodia

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OUR WAY FORWARD

FINANCIAL REPORT 2017



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BALANCE SHEET

AS AT 31 DECEMBER 2017

		2017		2016	
	Note	US\$	KHR'000	US\$	KHR'000
ASSETS					
Cash on hand		7,257,167	29,297,183	6,256,945	25,259,287
Balances with the Central Bank	4	232,939,178	940,375,462	146,491,301	591,385,382
Balances and placements with banks and other financial institutions	5	68,646,398	277,125,509	115,751,265	467,287,857
Loans and advances to customers	6	392,920,585	1,586,220,402	347,575,673	1,403,162,992
Other assets	7	3,208,715	12,953,582	2,931,117	11,832,919
Deferred tax assets	20(a)	773,896	3,124,218	637,890	2,575,162
Intangible assets	8	666,880	2,692,195	295,308	1,192,158
Property and equipment	9	2,826,508	11,410,613	2,955,017	11,929,404
TOTAL ASSETS		709,239,327	2,863,199,164	622,894,516	2,514,625,161
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits from banks and other financial institutions	10	129,923,827	524,502,490	231,367,484	934,030,533
Deposits from customers	11	470,147,629	1,897,985,978	297,271,520	1,200,085,126
Provision for off balance sheet commitments	23(a)	275,770	1,113,283	-	-
Current income tax liabilities	20(b)	1,930,164	7,792,072	1,610,398	6,501,177
Other liabilities	12	9,929,659	40,086,033	8,198,445	33,097,122
TOTAL LIABILITIES		612,207,049	2,471,479,856	538,447,847	2,173,713,958
EQUITY					
Share capital	13	71,000,000	286,627,000	67,000,000	270,479,000
Retained earnings		26,032,278	105,092,308	17,446,669	70,432,203
TOTAL EQUITY		97,032,278	391,719,308	84,446,669	340,911,203
TOTAL LIABILITIES AND EQUITY		709,239,327	2,863,199,164	622,894,516	2,514,625,161

The accompanying notes on page 94 to 130 form an integral part of these financial statements.

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017		2016	
		US\$	KHR'000	US\$	KHR'000
Interest income	14	34,916,894	140,959,501	32,740,161	132,172,030
Interest expense	15	(16,578,101)	(66,925,794)	(14,548,943)	(58,734,083)
Net interest income		18,338,793	74,033,707	18,191,218	73,437,947
Fee and commission income	16	3,350,546	13,526,154	2,561,002	10,338,765
Fee and commission expense		(8,511)	(34,359)	(7,811)	(31,533)
Net fee and commission income		3,342,035	13,491,795	2,553,191	10,307,232
Other operating income		248,503	1,003,207	183,267	739,849
Total operating income		21,929,331	88,528,709	20,927,676	84,485,028
Personnel expenses	17	(3,684,445)	(14,874,105)	(3,376,220)	(13,629,800)
Depreciation and amortisation charges	18	(1,014,306)	(4,094,753)	(1,035,209)	(4,179,139)
Administrative and operating expenses	19	(3,013,355)	(12,164,915)	(3,012,420)	(12,161,140)
Profit before provision for loan losses		14,217,225	57,394,936	13,503,827	54,514,949
Provision for loan losses	6(b)	(3,196,846)	(12,905,666)	(5,078,809)	(20,503,152)
Provision for off balance sheet commitments	23(a)	(275,770)	(1,113,283)	-	-
Profit before income tax		10,744,609	43,375,987	8,425,018	34,011,797
Income tax expense	20(c)	(2,159,000)	(8,715,883)	(1,727,611)	(6,974,365)
Profit for the year		8,585,609	34,660,104	6,697,407	27,037,432
Attributable to					
The parent of the Bank		8,585,609	34,660,104	6,697,407	27,037,432

The accompanying notes on page 94 to 130 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Attributable to the parent of the Bank		
	Share capital	Retained earnings	Total
	US\$	US\$	US\$
Balance as at 01 January 2016	67,000,000	10,749,262	77,749,262
Profit for the year	-	6,697,407	6,697,407
Balance as at 31 December 2016	67,000,000	17,446,669	84,446,669
<i>In KHR'000 equivalent</i>	270,479,000	70,432,203	340,911,203
Balance as at 01 January 2017	67,000,000	17,446,669	84,446,669
Capital contribution	4,000,000	-	4,000,000
Profit for the year	-	8,585,609	8,585,609
Balance as at 31 December 2017	71,000,000	26,032,278	97,032,278
<i>In KHR'000 equivalent</i>	286,627,000	105,092,308	391,719,308

The accompanying notes on page 94 to 130 form an integral part of these financial statements.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

		2017		2016	
	Note	US\$	KHR'000	US\$	KHR'000
Cash flows from operating activities					
Cash from operations	21	17,956,576	72,490,699	12,055,482	48,667,981
Generated received		34,919,040	140,968,164	32,906,597	132,843,932
Interest paid		(14,364,233)	(57,988,409)	(13,854,444)	(55,930,390)
Income tax paid		(1,975,240)	(7,974,044)	(2,326,525)	(9,392,181)
Net cash generated from operating activities		36,536,143	147,496,410	28,781,110	116,189,342
Cash flows from investing activities					
Capital guarantee with the Central Bank		(400,000)	(1,614,800)	-	-
Purchases of:					
- intangible assets	8	(489,616)	(1,976,580)	(45,935)	(185,440)
- property and equipment	9	(771,304)	(3,113,754)	(979,745)	(3,955,231)
Proceeds from disposal of subsidiary		-	-	12,500,000	50,462,500
Proceeds from disposals of property and equipment		8,009	32,333	14,800	59,748
Net cash (used in)/generated from investing activities		(1,652,911)	(6,672,801)	11,489,120	46,381,577
Cash flows from financing activities					
Proceeds from capital contribution		4,000,000	16,148,000	-	-
Net cash generated from financing activities		4,000,000	16,148,000	-	-
Net increase in cash and cash equivalents					
Cash and cash equivalents at beginning of the year		165,445,931	667,905,223	125,175,701	506,961,590
Currency translation differences		-	-	-	(1,627,286)
Cash and cash equivalents at end of the year	22	204,329,163	824,876,832	165,445,931	667,905,223

The accompanying notes on page 94 to 130 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. BACKGROUND INFORMATION

RHB Indochina Bank Limited (“the Bank”), established on 09 July 2008, was registered with the Ministry of Commerce and was granted a banking license by the National Bank of Cambodia (“NBC”) on 03 October 2008. The Bank is a wholly owned subsidiary of RHB Bank Berhad, a public limited liability company incorporated in Malaysia and is the ultimate holding company of the RHB Banking Group pursuant to the Group Corporate Structure effective from 13 June 2016.

The Bank is principally engaged in a broad range of commercial banking activities in Cambodia.

The registered head office of the Bank is located at No. 263, Preah Ang Duong Street, Phnom Penh, the Kingdom of Cambodia. The Bank also has twelve branches in Phnom Penh and provinces. The Phnom Penh branches are located in Phnom Penh Main Branch, City Mall Olympic, Stoeung Meanchey, Kbal Thnal, Pet Lok Song, Toul Kork, Mao Tse Tung and Boeung Keng Kang and provincial branches in Battambang, Kampong Cham, Siem Reap and Preah Sihanouk.

The financial statements were authorised for issue by the Board of Directors on 15 March 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The financial statements of the Bank have been prepared using the historical cost convention, in accordance with the Cambodian Accounting Standards (“CAS”) and guidelines of the Central Bank. In applying CAS, the Bank also apply CFRS 7: Financial Instruments: Disclosures.

The accounting principles applied may differ from generally accepted accounting principles adopted in other countries and jurisdictions. The accompanying financial statements are therefore not intended to present the financial position and results of operations and cash flows in accordance with jurisdictions other than Cambodia. Consequently, these financial statements are addressed to only those who are informed about Cambodian accounting principles, procedures and practices.

The preparation of financial statements in accordance with the CAS and guidelines of the Central Bank requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management’s best knowledge of current events and actions, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3 to the financial statements.

2.2 New financial reporting framework

On 28 August 2009, the National Accounting Council of the Ministry of Economy and Finance (“the National Accounting Council”) announced the adoption of Cambodian International Financial Reporting Standards (“CIFRS”) which are based on all standards published by the International Accounting Standard Board (“IASB”), including the related interpretations and amendments. Public accountable entities are required to prepare their financial statements in accordance with CIFRS for accounting period beginning on or after 01 January 2012.

Circular 058 MoEF.NAC dated 24 March 2017 issued by the National Accounting Council of the Ministry of Economy and Finance allowed banks and financial institutions to delay adoption of CIFRS until periods beginning on or after 1 January 2019.

CAS, the current accounting standard used, is different to CIFRS in many areas. Hence, the adoption of CIFRS will have some impacts on the financial statements of the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Foreign currencies translation

(i) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates (“the functional currency”). The US\$ reflects the economic substance of underlying events and circumstances of the Bank. The financial statements are therefore presented in US\$, which is the Bank’s functional and presentation currency.

(ii) Transactions and balances

Transactions in currencies other than US\$ are translated into US\$ at the exchange rates prevailing at the transaction dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in currencies other than US\$ at the period end exchange rates, are recognised in the income statement.

(iii) Presentation in Khmer Riel

For the sole regulatory purpose of complying with Prakas No. B7-07-164 dated 13 December 2007 of the Central Bank, a translation into Khmer Riel is provided for the balance sheet, income statements, statement of changes in equity, cash flow statement and notes to the financial statement as at and for the year ended 31 December 2017 using the official exchange rate published by the Central Bank as at the reporting date, which was US\$1 equal to Khmer Riel (“KHR”) 4,037 (31 December 2016: US\$1 equal to KHR4,037). Such translated amounts are unaudited and should not be construed as representations that the US\$ amounts represent, or have been or could be, converted into Khmer Riel at that or any other rate.

2.4 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with original maturity of three months or less from the date of acquisition, including cash on hand, the non-restricted balance with the Central Bank and balances and placements with banks and other financial institutions.

2.5 Loans and advances to customers

All loans and advances to customers are stated on the balance sheet at outstanding principal, less any amounts written off and provision for loan losses.

Loans and advances are written off when there are no realistic prospects of recovery. Recoveries of loans and advances previously written off or provided for are recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Provision for loan losses

The Bank followed the mandatory loan classification and provisioning as required by the Central Bank's Prakas No. B7-09-074, dated on 25 February 2009, on assets classification and provisioning for banks and financial institutions. The Central Bank issued Prakas No.B7-017-344 dated 1 December 2017 and Circular No. B7-018-001 Sor Ror Chor Nor dated 16 February 2018 on credit risk classification and provision on impairment for banks and financial institutions. Loans and advances, other financial products and off balance sheet financial commitments are classified into five classifications and the minimum regulatory provision is made depending on the classification concerned, regardless of the assets (except cash) pledged as collateral, unless other information is available to indicate worsening.

Provision for loans and advances are presented as reduction from loans and advances.

The table below shows the classification and the minimum regulatory provision requirements:

New Prakas No. B7-017-344 and Circular No. B7-018-001 Sor Ror Chor Nor			Old Prakas No. B7-09-074		
Facility classification	Number of days past due	Provision	Asset classification	Number of days past due	Provision
Short term					
General provision:			General provision:		
Normal	Less than 15 days	1%	Normal	Less than 30 days	1%
Specific provision:			Specific provision:		
Special mention	15 days – 30 days	3%	Special mention	30 days – 89 days	3%
Substandard	31 days – 60 days	20%	Substandard	90 days – 179 days	20%
Doubtful	61 days – 90 days	50%	Doubtful	180 days – 359 days	50%
Loss	91 days or more	100%	Loss	360 days or more	100%

New Prakas No. B7-017-344 and Circular No. B7-018-001 Sor Ror Chor Nor			Old Prakas No. B7-09-074		
Facility classification	Number of days past due	Provision	Asset classification	Number of days past due	Provision
Long term					
General provision:					
Normal	Less than 30 days	1%			
Specific provision:					
Special mention	30 days – 89 days	3%			
Substandard	90 days – 179 days	20%			
Doubtful	180 days – 359 days	50%			
Loss	360 days or more	100%			

The change in estimates of provision during the year followed the requirement of the Central Bank's Prakas so the impact of the change applies prospectively.

2.7 Other credit related commitments

In the normal course of business, the Bank enter into other credit related commitments including loan commitments, letters of credit and guarantees. The accounting policy and minimum regulatory provision followed the Central Bank's Prakas No. B7-017-344 and Circular No. B7-018-001 Sor Ror Chor Nor in Note 2.6 above when they become impaired.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Intangible assets

Intangible assets, which comprise acquired computer software licenses and related costs, are stated at cost less accumulated amortisation and impairment loss.

Acquired computer software licenses are capitalised on the basis of the cost incurred to acquire the specific software and bring it to use. These costs are amortised over five years using the straight-line method. Costs associated with maintaining computer software are recognised as expenses when incurred.

2.9 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent expenditure relating to an item of property and equipment are included in the asset's carrying amount or recognised as an asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the period in which they are incurred.

Depreciation of property and equipment is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets at the following annual rates:

	Useful life
Leasehold improvements	Shorter of its economic life and contractual terms
Office equipment	5
Furniture, fixtures and fittings	5
Computer equipment	3-5
Motor vehicles	5

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

2.10 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

Any impairment loss is charged to the income statement in the period in which it arises. Reversal of an impairment loss is recognised in the income statement to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, had no impairment loss been recognised.

2.11 Interest income and expense

Interest earned on loans and advances to customers, balances with the Central Bank and balances and placements with banks and other financial institutions is recognised on an accrual basis, except where serious doubt exists as to the collectability, in which case, interest is suspended until it is realised on a cash basis. The policy on the suspension of interest is in conformity with the Central Bank's guidelines on the suspension of interest on non-performing loans and provision for loan losses. Interest expense on deposits from banks, other financial institutions and customers is recognised on an accrual basis.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service is provided. Loan processing fees are recognised as income when loan is disbursed.

2.13 Operating leases

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

2.14 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

2.15 Employee benefits

Short-term employee benefits

Short-term employee benefits are accrued in the period in which the associated services are rendered by the employees of the Bank.

2.16 Deferred and income taxes

The current income tax charge is calculated on the basis of the tax law enacted or substantively enacted at the reporting date in Cambodia where the Bank operates and generates taxable income.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates expected to be applied to temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which 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.

2.17 Related-party transactions

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

In accordance with the Law on Banking and Financial Institutions, related parties are defined as parties who hold, directly or indirectly, at least 10% of the capital or voting rights and include any individual who participates in the administration, direction, management or internal controls of the Bank.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Bank makes estimates and judgements concerning the future. The results of accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment losses on loans and advances

The Bank follow the mandatory loan classification and provisioning as required by the Central Bank's Prakas No.B7-017-344 dated 1 December 2017 and Circular No. B7-018-001 Sor Ror Chor Nor dated 16 February 2018 on credit risk classification and provision on impairment for banks and financial institutions. Loans and advances, other financial products and off balance sheet financial commitments are classified into five classifications and the minimum regulatory provision is made depending on the classification concerned, regardless of the assets (except cash) pledged as collateral. The Directors believe that the loan aging (by past due days) as a basis to determine the loan classification is appropriate to determine the adequacy of its impairment losses on loans and advances so as to follow this Prakas.

(b) Taxes

Taxes are calculated on the basis of current interpretation of the tax regulations enacted as at reporting date. The management periodically evaluates position taken in tax returns with respect to situations in which applicable tax regulation is subjected to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

However, these regulations are subject to periodic variation and the ultimate determination of tax liabilities will be made following inspection by the tax authorities. Where the final tax outcome of these matters is different from the amounts initially recorded, such differences will impact the taxes liabilities and balances in the period in which the determination is made.

4. BALANCES WITH THE CENTRAL BANK

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
Current accounts	121,611,232	490,944,544	81,790,980	330,190,186
Clearing accounts	1,450,644	5,856,250	597,199	2,410,892
Reserve requirement (a)	64,413,580	260,037,622	54,353,580	219,425,403
Statutory deposit (b)	7,100,000	28,662,700	6,700,000	27,047,900
Negotiable certificate of deposits (c)	38,363,722	154,874,346	3,049,542	12,311,001
	232,939,178	940,375,462	146,491,301	591,385,382

(a) Reserve requirement

The reserve requirement represents the minimum reserve which is calculated at 8% (2016: 8%) and 12.50% (2016: 12.50%) of customers' deposits in Khmer Riel ("KHR") and other currencies respectively. The additional 4.50% (2016: 4.50%) of reserve requirement on customers' deposits in currencies other than KHR is interest bearing while the remaining 8% of the reserve requirement in KHR and other currencies bear no interest.

(b) Statutory deposit

Pursuant to Prakas No. B7-01-136 on Bank's Capital Guarantee dated 15 October 2001 issued by the Central Bank; banking and financial institutions are required to maintain 10% of its registered capital as a statutory deposit with the Central Bank. The deposit, which is not available for use in the Bank's day-to-day operations, is refundable should the Bank voluntarily cease its operations in Cambodia.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

4. BALANCES WITH THE CENTRAL BANK (CONTINUED)

(c) Negotiable certificate of deposits (NCDs)

NCDs are tradable instruments between the banks. NCDs denominated in KHR can have maturity between seven days and one year, with interest rate ranging from 1.22% to 2.75% per annum and in US\$ can have maturity between seven days and one year, with interest rate of 0.73% to 1.29%. NCDs can be used for Repurchase Agreement and pledged as collateral in inter-bank markets.

The Bank's NCDs amounting to US\$13,409,515 (2016: US\$3,049,542) was pledged as collaterals for three months for its overdraft facility with the Central Bank. As at 31 December 2017, the Bank has yet utilised the overdraft facility.

(d) Interest rates

The current and clearing accounts are non-interest bearing. Annual interest rate for statutory deposit, reserve requirement and negotiable certificate of deposits are as follows:

	2017	2016
Statutory deposit	0.32%	0.22%
Reserve requirement (1/3 is interest bearing)	0.38% - 0.61%	0.21% - 0.38%
Negotiable certificate of deposits	0.85% - 1.50%	0.54% - 0.98%

5. BALANCES AND PLACEMENTS WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
Current accounts (non-interest bearing)	4,646,398	18,757,509	27,751,265	112,031,857
Term deposits (*)	64,000,000	258,368,000	88,000,000	355,256,000
	68,646,398	277,125,509	115,751,265	467,287,857

(*) All term deposit accounts have maturity within one year and earn interest at the following annual rates:

	2017	2016
Term deposits	2.30% - 5.20%	1.10% - 5.20%

6. LOANS AND ADVANCES TO CUSTOMERS

(a) By type

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
Term loans	288,921,832	1,166,377,435	265,441,192	1,071,586,092
Housing loan	42,202,474	170,371,387	29,223,480	117,975,189
Overdrafts	70,495,543	284,590,507	59,965,411	242,080,364
Staff housing loan	3,824,279	15,438,614	3,068,612	12,387,986
Trust receipts	999,585	4,035,325	166,101	670,550
Staff vehicle loan	182,808	737,996	199,134	803,904
Vehicle loans	3,699	14,933	24,532	99,036
Gross loans and advances to customers	406,630,220	1,641,566,197	358,088,462	1,445,603,121
Provision for loan losses:				
Specific	(9,834,986)	(39,703,838)	(7,065,485)	(28,523,363)
General	(3,874,649)	(15,641,957)	(3,447,304)	(13,916,766)
	(13,709,635)	(55,345,795)	(10,512,789)	(42,440,129)
Net loans and advances to customers	392,920,585	1,586,220,402	347,575,673	1,403,162,992

(b) Provision for loan losses

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
At beginning of the year	10,512,789	42,440,129	5,433,980	22,007,619
Provision for the year	3,196,846	12,905,666	5,078,809	20,503,152
Currency translation differences	-	-	-	(70,642)
At end of the year	13,709,635	55,345,795	10,512,789	42,440,129

The Central Bank issued Prakas No.B7-017-344 dated 1 December 2017 and and Circular No. B7-018-001 Sor Ror Chor Nor dated 16 February 2018 on credit risk classification and provision on impairment for banks and financial institutions as stated in Note 2.6. The change in estimates on provision during the year followed the requirement of the Central Bank's Prakas so the impact of the change applies prospectively. Should the provision for loan losses have not been changed by the new Prakas, the provision charges for the year should have been decreased by US\$1,269,014.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

6. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) By maturity

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
Not later than 1 year	72,005,454	290,686,018	57,297,647	231,310,601
Later than 1 year but not later than 5 years	66,154,573	267,066,011	51,633,775	208,445,550
Later than 5 years but not later than 10 years	224,523,098	906,399,747	198,334,964	800,678,250
Later than 10 years	43,947,095	177,414,421	50,822,076	205,168,720
	406,630,220	1,641,566,197	358,088,462	1,445,603,121

(d) By performance

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
Normal loans				
Secured	387,446,382	1,564,121,044	344,711,945	1,391,602,122
Unsecured	18,502	74,693	18,445	74,462
Special mention loans				
Secured	2,820,371	11,385,838	4,522,303	18,256,537
Substandard loans				
Secured	7,348,706	29,666,724	1,909,721	7,709,544
Doubtful loans				
Secured	1,431,250	5,777,956	756,352	3,053,393
Loss loans				
Secured	7,565,009	30,539,942	6,169,696	24,907,063
	406,630,220	1,641,566,197	358,088,462	1,445,603,121

(e) By exposure

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
Large exposure	48,879,176	197,325,233	38,658,372	156,063,848
Non-large exposure	357,751,044	1,444,240,964	319,430,090	1,289,539,273
	406,630,220	1,641,566,197	358,088,462	1,445,603,121

6. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(f) Interest rates

Loans and advances to customers bear interest at the following rates per annum:

	2017	2016
Term loan	8.00% - 13.00%	7.50% - 15.25%
Overdraft	7.00% - 13.00%	8.00% - 12.50%

7. OTHER ASSETS

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
Gross interest receivable	7,493,584	30,251,599	4,364,456	17,619,309
Less: interest in suspense	(5,622,517)	(22,698,101)	(2,491,243)	(10,057,148)
Net interest receivable	1,871,067	7,553,498	1,873,213	7,562,161
Claim receivable	394,324	1,591,886	140,452	567,005
Deposits	392,276	1,583,618	396,711	1,601,522
Prepayments	205,404	829,216	130,099	525,210
Supplies	105,584	426,243	108,248	436,997
Due from related parties [note 24 (c)]	64,017	258,437	53,000	213,960
Others	176,043	710,684	229,394	926,064
	3,208,715	12,953,582	2,931,117	11,832,919

All of other assets are expected to be recovered within one year from balance sheet date, except for refundable deposits of US\$380,321 (2016: US\$374,473) related to office rental and ATM location rental.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

8. INTANGIBLE ASSETS

Details of intangible assets, which comprise computer software licenses, are as follows:

	Computer Software US\$	Total US\$
Cost		
As at 01 January 2017	1,245,494	1,245,494
Additions	489,616	489,616
As at 31 December 2017	1,735,110	1,735,110
Accumulated amortisation		
As at 01 January 2017	950,186	950,186
Amortisation charge	118,044	118,044
As at 31 December 2017	1,068,230	1,068,230
Net book value	666,880	666,880
In KHR' 000 equivalent	2,692,195	2,692,195
Cost		
As at 01 January 2016	1,199,559	1,199,559
Additions	45,935	45,935
As at 31 December 2016	1,245,494	1,245,494
Accumulated amortisation		
As at 01 January 2016	846,409	846,409
Amortisation charge	103,777	103,777
As at 31 December 2016	950,186	950,186
Net book value	295,308	295,308
In KHR' 000 equivalent	1,192,158	1,192,158

9. PROPERTY AND EQUIPMENT

Details of property and equipment are as follows:

	Leasehold improvements US\$	Office equipment US\$	Furniture, fixtures and fittings US\$	Computer equipment US\$	Motor vehicles US\$	Work in progress US\$	Total US\$
Cost							
As at 01 January 2017	3,373,667	2,238,015	520,992	1,313,873	548,060	-	7,994,607
Additions	45,283	111,815	2,780	9,636	53,691	548,099	771,304
Disposals	(1,659)	-	-	-	(5,530)	-	(7,189)
As at 31 December 2017	3,417,291	2,349,830	523,772	1,323,509	596,221	548,099	8,758,722
Accumulated depreciation							
As at 01 January 2017	1,816,989	1,588,275	277,614	1,055,231	301,481	-	5,039,590
Depreciation charge	342,443	222,045	69,844	164,454	97,476	-	896,262
Disposals	-	-	-	-	(3,638)	-	(3,638)
As at 31 December 2017	2,159,432	1,810,320	347,458	1,219,685	395,319	-	5,932,214
Net book value	1,257,859	539,510	176,314	103,824	200,902	548,099	2,826,508
In KHR' 000 equivalent	5,077,977	2,178,002	711,780	419,137	811,041	2,212,676	11,410,613

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

9. PROPERTY AND EQUIPMENT (CONTINUED)

	Leasehold improvements US\$	Office equipment US\$	Furniture, fixtures and fittings US\$	Computer equipment US\$	Motor vehicles US\$	Work in progress US\$	Total US\$
Cost							
As at 01 January 2016	2,866,885	2,051,176	447,194	1,202,787	483,020	-	7,051,062
Additions	506,782	186,839	73,798	111,086	101,240	-	979,745
Disposals	-	-	-	-	(36,200)	-	(36,200)
As at 31 December 2016	3,373,667	2,238,015	520,992	1,313,873	548,060	-	7,994,607
						-	
Accumulated depreciation							
As at 01 January 2016	1,488,054	1,317,066	216,130	872,399	242,873	-	4,136,522
Depreciation charge	328,935	271,209	61,484	182,832	86,972	-	931,432
Disposals	-	-	-	-	(28,364)	-	(28,364)
As at 31 December 2016	1,816,989	1,588,275	277,614	1,055,231	301,481	-	5,039,590
Net book value	1,556,678	649,740	243,378	258,642	246,579	-	2,955,017
In KHR' 000 equivalent	6,284,309	2,623,000	982,517	1,044,138	995,440	-	11,929,404

10. DEPOSITS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
Current accounts	9,679,448	39,075,932	2,628,331	10,610,572
Savings accounts	1,244,379	5,023,558	712,903	2,877,990
Term deposits	119,000,000	480,403,000	228,026,250	920,541,971
	129,923,827	524,502,490	231,367,484	934,030,533

As at the balance sheet date, deposits from banks and other financial institutions bear annual interest rates at the following rates; depending on the terms and currencies. All deposits have maturity within one year.

	2017	2016
Current accounts	2.10%	Nil
Savings accounts	1.00%	Nil
Term deposits	1.30% - 2.75%	1.10% - 2.75%

11. DEPOSITS FROM CUSTOMERS

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
Current accounts	180,370,858	728,157,154	53,777,712	217,100,623
Savings accounts	48,863,094	197,260,310	37,661,329	152,038,785
Term deposits	240,913,677	972,568,514	205,832,479	830,945,718
	470,147,629	1,897,985,978	297,271,520	1,200,085,126

As at the balance sheet date, deposits from customers bear annual interest rates at the following rates; depending on the terms and currencies. All deposits have maturity within one year, except the amount of US\$1,212,191 (2016: US\$22,963,381) with maturity of more than one year.

	2017	2016
Current accounts	0.00% - 2.08%	0.00% - 2.08%
Savings accounts	1.00% - 1.25%	1.25%
Term deposits	2.00% - 6.50%	2.00% - 5.75%

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

12. OTHER LIABILITIES

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
Interest payable	6,595,714	26,626,897	4,381,846	17,689,512
Accrued bonuses	891,000	3,596,967	792,000	3,197,304
Cheques for collection	1,450,644	5,856,250	597,199	2,410,892
Withholding tax payable	112,028	452,257	112,883	455,709
Account payable	257,701	1,040,339	106,695	430,728
Salary tax payable	18,464	74,539	21,370	86,271
Others (*)	604,108	2,438,784	2,186,452	8,826,706
	9,929,659	40,086,033	8,198,445	33,097,122

(*) Included in others, the amount of US\$440,544 (2016: US\$1,057,373) represents the overseas inwards to be credited to specific customer deposit account.

All of the above liabilities are expected to be settled within one year after balance sheet date.

13. SHARE CAPITAL

	Shares (‘000)	2017		Shares (‘000)	2016	
		US\$	KHR'000		US\$	KHR'000
Opening balance	67,000	67,000,000	270,479,000	67,000	67,000,000	271,350,000
Capital injection	4,000	4,000,000	16,148,000	-	-	-
Currency translation differences	-	-	-	-	-	(871,000)
Closing balance	71,000	71,000,000	286,627,000	67,000	67,000,000	270,479,000

During the year, the shareholder authorised and issued additional share capital of US\$4 million (4 million shares) with a par value of US\$1 each. This additional share capital has been paid during the year. The Central Bank approved this paid-up capital on 30 March 2017. The Bank is in the process of revising its Memorandum of Article and Association with Ministry of Commerce.

14. INTEREST INCOME

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
Interest income from:				
Loans and advances to customers	32,529,668	131,322,270	30,382,849	122,655,561
Balances with the Central Bank	309,000	1,247,433	66,898	270,068
Balances and placements with banks and other financial institutions	2,078,226	8,389,798	2,290,414	9,246,401
	34,916,894	140,959,501	32,740,161	132,172,030

15. INTEREST EXPENSE

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
Interest expense on:				
Term deposits	14,529,779	58,656,718	14,060,003	56,760,232
Savings accounts	483,844	1,953,278	363,806	1,468,685
Current accounts	1,564,478	6,315,798	125,134	505,166
	16,578,101	66,925,794	14,548,943	58,734,083

16. FEE AND COMMISSION INCOME

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
Loan processing fees	1,423,954	5,748,502	1,157,790	4,673,998
Early loan redemption fees	979,966	3,956,123	572,961	2,313,044
Commission fee	338,914	1,368,196	426,840	1,723,153
Loan commitment fees	220,869	891,648	186,539	753,058
Others	386,843	1,561,685	216,872	875,512
	3,350,546	13,526,154	2,561,002	10,338,765

17. PERSONNEL EXPENSES

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
Salaries and wages	2,599,060	10,492,406	2,566,632	10,361,493
Bonuses and incentives	647,060	2,612,181	553,880	2,236,014
Other short-term benefits	438,325	1,769,518	255,708	1,032,293
	3,684,445	14,874,105	3,376,220	13,629,800

18. DEPRECIATION AND AMORTISATION CHARGES

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
Depreciation (note 9)	896,262	3,618,209	931,432	3,760,191
Amortisation (note 8)	118,044	476,544	103,777	418,948
	1,014,306	4,094,753	1,035,209	4,179,139

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

19. ADMINISTRATIVE AND OPERATING EXPENSES

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
Office rental	646,308	2,609,145	618,632	2,497,417
Repairs and maintenance	365,656	1,476,153	337,778	1,363,610
Publication, marketing and promotion	278,478	1,124,216	319,090	1,288,166
License fees	269,018	1,086,026	260,459	1,051,473
Security	252,563	1,019,597	224,612	906,759
Utilities	216,500	874,011	222,071	896,501
Patent and other taxes	168,908	681,882	85,017	343,214
Insurance	153,295	618,852	146,363	590,867
Motor vehicle and running costs	100,491	405,682	89,852	362,733
Telecommunication	95,661	386,183	98,056	395,852
Business development	92,142	371,977	120,773	487,561
Stationeries and printing	82,654	333,674	135,731	547,946
Bank charges	65,747	265,421	30,221	122,002
Board of Directors' fees	56,362	227,533	78,200	315,693
Professional and other related costs	48,465	195,653	68,870	278,028
Supplies	21,877	88,317	16,356	66,029
Materials for banking activities	6,564	26,499	42,053	169,768
Other expenses	92,666	374,094	118,286	477,521
	3,013,355	12,164,915	3,012,420	12,161,140

20. TAXATION

(a) Deferred tax assets

The analysis of deferred tax assets and deferred tax liabilities is as follow:

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
Deferred tax assets	794,476	3,207,299	716,595	2,892,894
Deferred tax liabilities	(20,580)	(83,081)	(78,705)	(317,732)
Deferred tax assets - net	773,896	3,124,218	637,890	2,575,162

The movement of net deferred tax assets is as follow:

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
Balance at beginning of the year	637,890	2,575,162	151,520	613,656
Charge to the income statement	136,006	549,056	486,370	1,963,476
Currency translation differences	-	-	-	(1,970)
Balance at end of the year	773,896	3,124,218	637,890	2,575,162

Deferred tax assets:

	Provision for loan losses US\$
At 01 January 2016	272,337
Charged to the income statement	444,258
At 31 December 2016	716,595
In KHR' 000 equivalent	2,892,894
At 01 January 2017	716,595
Charged to the income statement	77,881
At 31 December 2017	794,476
In KHR' 000 equivalent	3,207,299

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

20. TAXATION (CONTINUED)

(a) Deferred tax assets (continued)

Deferred tax liabilities:

	Accelerated depreciation and amortisation US\$
At 01 January 2016	(120,817)
Charged to the income statement	42,112
At 31 December 2016	(78,705)
In KHR' 000 equivalent	(317,732)
At 01 January 2017	(78,705)
Charged to the income statement	58,125
At 31 December 2017	(20,580)
In KHR' 000 equivalent	(83,081)

(b) Current income tax liabilities

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
Balance at beginning of the year	1,610,398	6,501,177	1,722,942	6,977,915
Charged during the year	2,278,188	9,197,045	2,213,981	8,937,841
Adjustments for current tax of prior year	16,818	67,894	-	-
Income tax paid	(1,975,240)	(7,974,044)	(2,326,525)	(9,392,181)
Currency translation differences	-	-	-	(22,398)
Balance at end of the year	1,930,164	7,792,072	1,610,398	6,501,177

20. TAXATION (CONTINUED)

(c) Income tax expense

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
Current tax:				
Current tax for the year	2,278,188	9,197,045	2,213,981	8,937,841
Adjustments for current tax of prior year	16,818	67,894	-	-
Deferred income tax	(136,006)	(549,056)	(486,370)	(1,963,476)
	2,159,000	8,715,883	1,727,611	6,974,365

Reconciliation between income tax expenses and accounting profit:

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
Profit before income tax	10,744,609	43,375,987	8,425,018	34,011,797
Tax calculated at 20%	2,148,922	8,675,198	1,685,004	6,802,361
Tax effects in respect of:				
Expenses not deductible for tax purposes	43,406	175,230	42,607	172,004
Income not subject to tax	(50,146)	(202,439)	-	-
Adjustments for current tax of prior year	16,818	67,894	-	-
Income tax expense	2,159,000	8,715,883	1,727,611	6,974,365

Under the Cambodian tax regulations, the Company is subject to 20% Income Tax.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

21. CASH GENERATED FROM OPERATIONS

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
Profit before income tax	10,744,609	43,375,987	8,425,018	34,011,797
Adjustments for:				
Depreciation and amortisation (note 18)	1,014,306	4,094,753	1,035,209	4,179,139
Provision for loan losses (note 6(b))	3,196,846	12,905,666	5,078,809	20,503,152
Provision for off balance sheet commitments	275,770	1,113,283	-	-
Gain on disposals of property and equipment	(4,458)	(17,997)	(6,964)	(28,114)
Net interest income	(18,338,793)	(74,033,707)	(18,191,218)	(73,437,947)
Operating loss before changes in working capital	(3,111,720)	(12,562,015)	(3,659,146)	(14,771,973)
<i>Change in working capital:</i>				
Balances with the Central Bank	(10,060,000)	(40,612,220)	(5,568,593)	(22,480,410)
Balances and placements with banks and other financial institutions	9,000,000	36,333,000	(16,000,000)	(64,592,000)
Loans and advances to customers	(48,541,758)	(195,963,077)	(14,031,897)	(56,646,768)
Other assets	(279,744)	(1,129,326)	(356,284)	(1,438,319)
Deposits from banks and other financial institutions	(101,443,657)	(409,528,042)	(31,171,843)	(125,840,730)
Deposits from customers	172,876,109	697,900,852	81,072,015	327,287,725
Other liabilities	(482,654)	(1,948,473)	1,771,230	7,150,456
Cash generated from operations	17,956,576	72,490,699	12,055,482	48,667,981

22. CASH AND CASH EQUIVALENTS

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

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
Cash on hand	7,257,167	29,297,183	6,256,945	25,259,287
Balances with the Central Bank:				
Current accounts	121,611,232	490,944,544	81,790,980	330,190,186
Clearing accounts	1,450,644	5,856,250	597,199	2,410,892
Negotiable certificate of deposits (with maturity of three months or less)	38,363,722	154,874,346	3,049,542	12,311,001
Balances and placements with banks and other financial institutions:				
Current accounts	4,646,398	18,757,509	27,751,265	112,031,857
Term deposits (with maturity of three months or less)	31,000,000	125,147,000	46,000,000	185,702,000
	204,329,163	824,876,832	165,445,931	667,905,223

23. COMMITMENTS AND CONTINGENCIES

(a) Loan commitments, guarantee and other financial facilities

The Bank had the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers, guarantee and other facilities as follows:

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
Unused portion of overdraft	25,537,115	103,093,333	25,106,102	101,353,334
Documentary credit	-	-	1,052,755	4,249,972
Other guarantees	7,035,667	28,402,988	5,569,512	22,484,120
	32,572,782	131,496,321	31,728,369	128,087,426

As at 31 December 2017, the Bank made provision amounting to US\$275,770 for off balance sheet financial commitments following the Central Bank's Prakas No.B7-017-344 and Circular No.B7-018-001 Sor Ror Chor Nor on credit risk classification and provision on impairment for banks as stated in Note 2.6.

(b) Non-cancellable operating lease commitments

The Bank has non-cancellable lease commitments in respect of its leases of premises.

The future minimum lease payments under non-cancellable operating leases of the Bank are as follows:

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
Not later than one year	103,288	416,974	707,048	2,854,353
Later than one year but not later than five years	600,483	2,424,150	1,412,099	5,700,644
Later than five years	1,448,818	5,848,878	679,446	2,742,924
	2,152,589	8,690,002	2,798,593	11,297,921

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

24. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Related parties and relationship

The related parties of and their relationship with the Bank are as follows:

Relationship	Related parties
Parent company	RHB Bank Berhad
Related parties	All entities under the same ultimate parent company
All directors of the Bank who make critical decisions in relation to the strategic direction of the Bank and senior management staff (including their close family members)	Key management personnel

(b) Due to related parties

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
<i>Due to parent company</i>				
- Term deposits	28,000,000	113,036,000	134,000,000	540,958,000
- Current accounts	615,264	2,483,821	-	-
- Interest payable	178,323	719,890	358,389	1,446,816
	28,793,587	116,239,711	134,358,389	542,404,816

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
- Interest expense	2,284,179	9,221,231	3,742,145	15,107,039

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
<i>Due to a related parties</i>				
- Current accounts	46,133	186,239	113,016	456,246
- Term Deposits	28,713,599	115,916,799	8,596,025	34,702,153
- Interest payable	399,989	1,614,756	88,716	358,146
	29,159,721	117,717,794	8,797,757	35,516,545

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
- Interest expenses	740,710	2,990,246	291,766	1,177,859
- Referral expenses	12,496	50,446	250	1,009
	753,206	3,040,692	292,016	1,178,868

24. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)**(c) Due from related parties**

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
Due from related parties	31,943	128,954	27,304	110,226
Due from parent company	32,074	129,483	25,696	103,734
	64,017	258,437	53,000	213,960

(d) Key management personnel compensation

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
Salaries and short-term benefits	1,781,123	7,190,394	618,346	2,496,263

(e) Directors' remuneration

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
Directors' fees	56,362	227,533	78,200	315,693

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

25. FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks, including credit risk, market risk (including foreign exchange risk and interest rate risk) and liquidity risk as well as operational risk. Taking risk is core to the financial business, and operational risk is an inevitable consequence of being in business. The Bank does not use derivative financial instruments to manage its risk exposures.

Financial assets are the contractual rights to receive cash or another financial asset from another entity. It is classified as loan and receivables and comprised of cash on hand, balances with the Central Bank, balances with banks and other financial institutions, loans to customers and other assets.

Financial liabilities are contractual obligations to deliver cash or another financial asset to another entity. It is classified as other liabilities and comprised of deposits from banks and other financial institutions, deposits from customers and other liabilities.

The financial assets (loan and receivables) and liabilities (other liabilities at amortised costs) held by the Bank are as follows:

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
Financial assets				
Cash on hand	7,257,167	29,297,183	6,256,945	25,259,287
Balances with the Central Bank (*)	161,425,598	651,675,140	85,437,721	344,912,080
Balances and placements with banks and other financial institutions	68,646,398	277,125,509	115,751,265	467,287,857
Loans and advances to customers	392,920,585	1,586,220,402	347,575,673	1,403,162,992
Other assets	2,682,667	10,829,926	2,435,376	9,831,613
	632,932,415	2,555,148,160	557,456,980	2,250,453,829
Financial liabilities				
Deposits from banks and other financial institutions	129,923,827	524,502,490	231,367,484	934,030,533
Deposits from customers	470,147,629	1,897,985,978	297,271,520	1,200,085,126
Other liabilities	4,176,650	16,861,136	5,572,949	22,497,995
	604,248,106	2,439,349,604	534,211,953	2,156,613,654
Net financial assets	28,684,309	115,798,556	23,245,027	93,840,175

(*) It excluded the reserve requirement and statutory deposit with the Central Bank.

25.1 Credit risk

Credit risk is the risk of suffering financial loss should any of the Bank's customers, clients or market counterparties fail to fulfil their contractual obligations to the Bank. Credit risk arises mainly from loans and advances and loan commitments arising from such lending activities.

Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk.

(a) Credit risk measurement

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

The Bank also ensures that there is a clear segregation of duties between loan originators, evaluators and approving authorities.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.1 Credit risk (continued)

(b) Risk limit control and mitigation policies

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

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or group of borrowers, and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product and industry sector are approved by the Board of Directors.

Large exposure is defined by the Central Bank as overall credit exposure to any single beneficiary which exceeds 10% of the Bank's net worth. The Bank is required, under the conditions of Prakas No. B7-06-226 of the Central Bank, to maintain at all times a maximum ratio of 20% between the Bank's overall credit exposure to any single beneficiary and the Bank's net worth. The aggregate of large credit exposure must not exceed 300% of the Bank's net worth.

The Bank employs a range of policies and practices to mitigate credit risk, including requiring borrowers to pledge collateral against loans and advances granted by the Bank.

(c) Impairment and provisioning policies

The Bank is required to follow the mandatory credit classification and provisioning in accordance with the relevant Prakas, as stated in note 2.6 to the financial statements.

Loan classification and loan loss provisioning are determined taking into account past due period of loans and advances to customers.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.1 Credit risk (continued)

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

The table below presents the maximum credit risk exposure of the Bank, without taking into account any collateral held or other credit enhancements. For on-balance sheet assets, the exposures are based on net carrying amounts. For credit related commitments, the maximum exposure to credit risk represents the full amount of irrevocable committed facilities.

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
<i>On-balance sheet assets</i>				
Balances and placements with banks and other financial institutions	68,646,398	277,125,509	115,751,265	467,287,857
Loans and advances to customers	392,920,585	1,586,220,402	347,575,673	1,403,162,992
Other assets	2,682,667	10,829,926	2,435,376	9,831,613
	464,249,650	1,874,175,837	465,762,314	1,880,282,462
<i>Off-balance sheet items</i>				
Commitments	32,572,782	131,496,321	31,728,369	128,087,426
	496,822,432	2,005,672,158	497,490,683	2,008,369,888

To the extent possible, pledges of collateral are negotiated with the counterparties for the purposes of reducing credit risk. The Bank take into consideration the marketability of the collateral as well as the adequacy of debt coverage in assessing the acceptability of collateral. The main types of collateral and other credit enhancements obtained by the Bank in respect of loans and advances to customers are properties and guarantees. Properties are valued periodically based on valuation by independent professional valuers.

Management is confident of its ability to control and sustain minimal exposure to credit risk by the Bank resulting from loans and advances based on the following:

- Approximately 99.99% (2016: 99.99%) of the loans and advances of the Bank are collateralised; and
- The Bank has a proper credit evaluation process in place for granting of loans and advances to customers.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.1 Credit risk (continued)

(e) Credit quality of financial assets

Loans and advances to customers

As at the balance sheet date, exposures of the Bank to credit risk arising from loans and advances to customers (without taking into account of any collateral held or other credit enhancements and provision for loan losses) are as follows:

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
Loans and advances:				
Neither past due nor impaired	379,173,340	1,530,722,774	341,283,086	1,377,759,818
Past due but not impaired	7,152,655	28,875,268	4,386,634	17,708,841
Individually impaired	6,594,590	26,622,360	1,905,953	7,694,333
	392,920,585	1,586,220,402	347,575,673	1,403,162,992

Balances and placements with banks and other financial institutions

Analysis of the balances and placements with banks and other financial institutions of the Bank as at the balance sheet date by counterparty is as follows:

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
In Cambodia:				
Commercial banks	64,984,250	262,341,417	88,155,520	355,883,834
Outside Cambodia:				
Commercial banks	3,662,148	14,784,092	27,595,745	111,404,023
	68,646,398	277,125,509	115,751,265	467,287,857

Other financial assets

Other financial assets of the Bank mainly comprise interest receivable on placements with banks and other financial institutions and deposits placed by the Bank in respect of rental of premises.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.1 Credit risk (continued)

(f) Credit quality of loans and advances to customers

i. Loans and advances neither past due nor impaired

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

ii. Loans and advances that are past due but not impaired

Loans and advances past due up to special mention are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances to customers by classification that were past due but not impaired were as follows:

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
Normal	3,666,077	14,799,953	3,272,843	13,212,467
Special mention	3,571,189	14,416,890	1,249,460	5,044,070
	7,237,266	29,216,843	4,522,303	18,256,537
Less: Specific provision	(84,611)	(341,575)	(135,669)	(547,696)
	7,152,655	28,875,268	4,386,634	17,708,841

iii. Loans and advances that are individually impaired

In accordance with Prakas No. B7-017-344 dated 1 December 2017 on credit risk classification and provision on impairment, loans and advances past due from substandard are considered impaired:

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
Substandard	7,348,706	29,666,724	1,909,721	7,709,544
Doubtful	1,431,250	5,777,956	756,352	3,053,393
Loss	7,565,009	30,539,942	6,169,696	24,907,063
	16,344,965	65,984,622	8,835,769	35,670,000
Less: Specific provision	(9,750,375)	(39,362,262)	(6,929,816)	(27,975,667)
	6,594,590	26,622,360	1,905,953	7,694,333

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.1 Credit risk (continued)

(g) Repossessed collateral

The Central Bank requires banking institutions to classify repossessed property, if any as foreclosed property in the balance sheet and to dispose of the property within one year.

During the year, the Bank did not obtain any asset by taking possession of collateral held as security.

(h) Credit risk concentration of financial assets

i. By geographical distribution

As at the balance sheet date, the credit exposures of the Bank are derived mainly from Cambodia based on the country of domicile of the counterparties as follows:

	Cambodia US\$	Other countries US\$	Total US\$
As at 31 December 2017			
Balances and placements with banks and other financial institutions	64,984,250	3,662,148	68,646,398
Loans and advances to customers	392,920,585	-	392,920,585
Other assets	2,682,667	-	2,682,667
	460,587,502	3,662,148	464,249,650
<i>In KHR' 000 equivalent</i>	1,859,391,746	14,784,091	1,874,175,837
As at 31 December 2016			
Balances and placements with banks and other financial institutions	88,155,520	27,595,745	115,751,265
Loans and advances to customers	347,575,673	-	347,575,673
Other assets	2,435,376	-	2,435,376
	438,166,569	27,595,745	465,762,314
<i>In KHR' 000 equivalent</i>	1,768,878,439	111,404,023	1,880,282,462

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.1 Credit risk (continued)

(h) Credit risk concentration of financial assets (continued)

ii. By industry sector

	Balances and placements with banks and other financial institutions US\$	Loans and advances to customers US\$	Other assets US\$	Total	
				US\$	KHR'000
As at 31 December 2017					
Financial institution	68,646,398	9,197,711	668,903	78,513,012	316,957,030
Hotels and restaurants	-	48,769,469	206,194	48,975,663	197,714,752
Retail	-	55,079,061	165,451	55,244,512	223,022,095
Wholesale	-	64,559,448	193,577	64,753,025	261,407,962
Manufacturing	-	23,811,159	456,380	24,267,539	97,968,055
Agriculture, forestry and fishing	-	26,446,966	68,761	26,515,727	107,043,990
Mortgage, owner-occupied housing only	-	42,680,046	152,699	42,832,745	172,915,792
Rental and operational leasing activities, excluded real estate leasing and rentals	-	33,837,850	91,744	33,929,594	136,973,771
Transport and storage	-	3,864,149	11,781	3,875,930	15,647,129
Utilities	-	4,739,299	6,724	4,746,023	19,159,695
Real estate activities	-	24,628,444	469,996	25,098,440	101,322,402
Construction	-	31,904,921	87,549	31,992,470	129,153,601
Other non-financial services	-	20,397,439	73,166	20,470,605	82,639,832
Information media and telecommunications	-	1,131,856	2,742	1,134,598	4,580,372
Others	-	1,872,767	27,000	1,899,767	7,669,359
	68,646,398	392,920,585	2,682,667	464,249,650	1,874,175,837

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.1 Credit risk (continued)

(h) Credit risk concentration of financial assets (continued)

ii. By industry sector (continued)

	Balances and placements with banks and other financial institutions US\$	Loans and advances to customers US\$	Other assets US\$	Total US\$	KHR'000
As at 31 December 2016					
Financial institution	115,751,265	3,283,736	720,200	119,755,201	483,451,746
Hotels and restaurants		43,280,370	139,718	43,420,088	175,286,895
Retail	-	52,947,955	187,175	53,135,130	214,506,520
Wholesale	-	28,355,874	70,713	28,426,587	114,758,132
Manufacturing	-	26,651,820	198,188	26,850,008	108,393,482
Agriculture, forestry and fishing	-	23,779,910	73,206	23,853,116	96,295,029
Mortgage, owner-occupied housing only	-	33,053,369	119,304	33,172,673	133,918,081
Rental and operational leasing activities, excluded real estate leasing and rentals	-	30,782,433	97,963	30,880,396	124,664,159
Transport and storage	-	5,492,090	33,283	5,525,373	22,305,931
Utilities	-	3,051,345	8,797	3,060,142	12,353,793
Real estate activities	-	18,884,143	469,226	19,353,369	78,129,551
Construction	-	21,127,369	57,047	21,184,416	85,521,487
Other non-financial services	-	23,299,693	86,134	23,385,827	94,408,584
Information media and telecommunications	-	1,314,586	3,510	1,318,096	5,321,154
Others	-	32,270,980	170,912	32,441,892	130,967,918
	115,751,265	347,575,673	2,435,376	465,762,314	1,880,282,462

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.2 Market risk

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

(a) Price risk

The Bank managed its risk of unfavourable changes of prices of its investment by reviewing the monthly fund performance report.

(b) Foreign exchange risk

The Bank mainly transact in US\$, which is the functional currency of the Bank. The Bank do not have significant exposure to foreign exchange risk.

(c) Interest rate risk

Interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest margins may increase or decrease due to unexpected movements in rates. Management regularly monitors any mismatch of interest rate repricing undertaken.

The table below summarises the exposures of the Bank to interest rate risk. The assets and liabilities at carrying amount are categorised by the earlier of contractual repricing or maturity dates.

	Up to 1 month US\$	1 to 3 months US\$	3 to 12 months US\$	1 to 5 years US\$	Over 5 years US\$	Non-interest bearing US\$	Total US\$
As at 31 December 2017							
Financial assets							
Cash on hand	-	-	-	-	-	7,257,167	7,257,167
Balances with the Central Bank	161,425,598	-	-	-	-	-	161,425,598
Balances and placements with banks and other financial institutions	30,646,398	22,000,000	16,000,000	-	-	-	68,646,398
Loans and advances to customers	11,009,823	14,272,363	41,915,601	64,685,327	261,037,471	-	392,920,585
Other assets	1,871,067	-	-	-	-	811,600	2,682,667
	204,952,886	36,272,363	57,915,601	64,685,327	261,037,471	8,068,767	632,932,415
Financial liabilities							
Deposits from banks and other financial institutions	(62,000,000)	(28,000,000)	(29,000,000)	-	-	(10,923,827)	(129,923,827)
Deposits from customers	(22,833,887)	(36,178,655)	(180,688,945)	(1,212,191)	-	(229,233,951)	(470,147,629)
Other liabilities	(973,197)	-	-	-	-	(3,203,453)	(4,176,650)
	(85,807,084)	(64,178,655)	(209,688,945)	(1,212,191)	-	(243,361,231)	(604,248,106)
Total interest rate repricing gap							
- US\$	119,145,802	(27,906,292)	(151,773,344)	63,473,136	261,037,471	(235,292,464)	28,684,309
- In KHR' 000 equivalent	480,991,603	(112,657,701)	(612,708,990)	256,241,050	1,053,808,271	(949,875,677)	115,798,556

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.2 Market risk (continued)

(c) Interest rate risk (continued)

	Up to 1 month US\$	1 to 3 months US\$	3 to 12 months US\$	1 to 5 years US\$	Over 5 years US\$	Non-interest bearing US\$	Total US\$
As at 31 December 2016							
Financial assets							
Cash on hand	-	-	-	-	-	6,256,945	6,256,945
Balances with the Central Bank	85,437,721	-	-	-	-	-	85,437,721
Balances and placements with banks and other financial institutions	43,751,265	35,000,000	37,000,000	-	-	-	115,751,265
Loans and advances to customers	8,295,212	9,163,439	36,572,328	50,378,179	243,166,515	-	347,575,673
Other assets	1,873,213	-	-	-	-	562,163	2,435,376
	139,357,411	44,163,439	73,572,328	50,378,179	243,166,515	6,819,108	557,456,980
Financial liabilities							
Deposits from banks and other financial institutions	(114,000,000)	(53,026,250)	(61,000,000)	-	-	(3,341,234)	(231,367,484)
Deposits from customers	(25,774,383)	(41,620,107)	(115,474,609)	(22,963,381)	-	(91,439,041)	(297,271,521)
Other liabilities	(1,890,603)	-	-	-	-	(3,682,346)	(5,572,949)
	(141,664,986)	(94,646,357)	(176,474,609)	(22,963,381)	-	(98,462,621)	(534,211,954)
Total interest rate repricing gap							
- US\$	(2,307,575)	(50,482,918)	(102,902,281)	27,414,798	243,166,515	(91,643,513)	23,245,026
- In KHR' 000 equivalent	(9,315,680)	(203,799,540)	(415,416,508)	110,673,539	981,663,221	(369,964,862)	93,840,170

25.3 Liquidity risk

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

(a) Liquidity risk management process

The management monitors balance sheet liquidity and manages the concentration and maturity profile of deposits as well as the movements of main depositors and projection of their withdrawals.

(b) Funding approach

The main sources of funding of the Bank are from shareholder's paid-up capital and deposits from banks, other financial institutions and customers. The sources of funding are reviewed daily through management's review of maturity profile of term deposits.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.3 Liquidity risk (continued)

(c) Non-derivative cash flows

The table below presents the undiscounted cash flows arising from financial assets and liabilities and commitments of the Bank based on the remaining contractual maturities as at the balance sheet date.

	Up to 1 month US\$	1 to 3 months US\$	3 to 12 months US\$	1 to 5 years US\$	Over 5 years US\$	Total US\$
As at 31 December 2017						
Financial liabilities						
Deposits from banks and other financial institutions	(73,071,427)	(28,134,467)	(29,068,851)	-	-	(130,274,745)
Deposits from customers	(253,032,387)	(37,845,491)	(183,550,895)	(1,223,070)	-	(475,651,843)
Other liabilities	(4,176,650)	-	-	-	-	(4,176,650)
	(330,280,464)	(65,979,958)	(212,619,746)	(1,223,070)	-	(610,103,238)
Total financial assets	216,407,367	41,858,972	79,662,478	138,765,627	290,871,991	767,566,435
Net liquidity gap	(113,873,097)	(24,120,986)	(132,957,268)	137,542,557	290,871,991	157,463,197
In KHR' 000 equivalent	(459,705,692)	(97,376,420)	(536,748,491)	555,259,302	1,174,250,227	635,678,926
As at 31 December 2016						
Financial liabilities						
Deposits from banks and other financial institutions	(117,360,538)	(53,165,617)	(61,742,647)	-	-	(232,268,802)
Deposits from customers	(117,280,607)	(41,915,534)	(118,502,094)	(24,727,675)	-	(302,425,910)
Other liabilities	(5,572,949)	-	-	-	-	(5,572,949)
	(240,214,094)	(95,081,151)	(180,244,741)	(24,727,675)	-	(540,267,661)
Total financial assets	150,976,415	53,595,665	110,924,596	170,457,040	281,166,234	767,119,950
Net liquidity gap	(89,237,679)	(41,485,486)	(69,320,145)	145,729,365	281,166,234	226,852,289
In KHR' 000 equivalent	(360,252,510)	(167,476,907)	(279,845,425)	588,309,446	1,135,068,087	915,802,691

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.4 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. This includes legal, compliance, accounting and fraud risk.

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

The internal audit function provides independent assessment of the adequacy of the internal control policies and procedures of the Bank to mitigate risk associated with operational activities. Any findings arising from the audit and review will be escalated to the senior management of the Bank and the Audit Committees of the Bank and of the parent company.

25.5 Fair value of financial assets and liabilities

As at the balance sheet date, the fair values of financial instruments of the Bank approximate their carrying amounts.

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

i. Balances and placements with banks and other financial institutions

The fair values of balances and placements with banks and other financial institutions with maturity of less than one year approximate their carrying amounts.

ii. Loans and advances to customers

For fixed rate loans with remaining period to maturity of less than one year, the carrying amounts are generally reasonable estimates of their fair values.

For fixed rate loans with remaining period to maturity of one year and above, fair values are estimated by discounting the estimated future cash flows using a current lending rate as the prevailing market rates of loans with similar credit risks and maturities have been assessed as insignificantly different to the contractual lending rates. As a result, the fair value of non-current loans and advances to customers might approximate to their carrying value as reporting date.

iii. Deposits from banks, other financial institutions and customers

The fair values of deposits payable on demand (current and savings accounts), or deposits with remaining maturity of less than one year are estimated to approximate their carrying amounts. The fair values of deposits with remaining maturity of more than one year are estimated based on discounted cash flows using prevailing market rates for similar deposits from banks, other financial institutions and customers.

iv. Other financial assets and liabilities

The carrying amounts of other financial assets and liabilities are assumed to approximate their fair values as these items are not materially sensitive to the shift in market interest rates.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

25.6 Capital management

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

- To comply with the capital requirement set by the Central Bank;
- To safeguard the ability of the Bank to continue as a going concern so that it can provide returns to its shareholder and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of business.

The Central Bank requires all commercial banks to i) hold a minimum capital requirement, ii) maintain the Bank's net worth equal at least to the minimum capital and iii) comply with solvency and liquidity coverage ratios.

The table below summarises the composition of the Bank's regulatory capital:

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
Tier 1 capital				
Share capital	71,000,000	286,627,000	67,000,000	270,479,000
Retained earnings	26,032,278	105,092,308	17,446,669	70,432,203
Less: Intangible assets	(666,880)	(2,692,195)	(295,308)	(1,192,158)
	96,365,398	389,027,113	84,151,361	339,719,045
Tier 2 complementary capital				
General provision	3,874,649	15,641,957	3,447,304	13,916,766
Less: Equity participations in banking and financial institutions	(25,000)	(100,925)	(25,000)	(100,925)
	100,215,047	404,568,145	87,573,665	353,534,886

The National Bank of Cambodia issued a Prakas No. B7-016-117, dated 22 March 2016, on "new minimum registered capital requirement for banks and financial institutions". It requires that commercial banks being a local entity or a subsidiary of foreign bank must have a minimum registered capital of at least KHR 300 billion (equivalent to US\$75 million). The Prakas allows commercial banks to increase its capital to meet the new minimum registered capital requirement within 2 years from the date of this Prakas.

On 16 June 2016, the Central Bank issued an instruction on the implementation of its Prakas No. B7-016-117, dated 22 March 2016, on "new minimum registered capital requirement for banks and financial institutions". The Instruction requires the banks to increase the additional capital at least 50% of the amount to fulfil the minimum registered capital by end of March 2017 and the remaining amount by 22 March 2018.

During the year, the Bank increased its issued and paid-up capital from US\$67,000,000 to US\$71,000,000 via the issuance of US\$4,000,000 new ordinary shares. This additional share capital was approved by NBC on 30 March 2017. On 16 January 2018, the Bank has increased additional share capital by US\$4,000,000 to comply with this Prakas. The additional share capital was principally approved by NBC on 19 January 2018.

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