



INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED PHNOM PENH BRANCH

# 2018 Annual Report

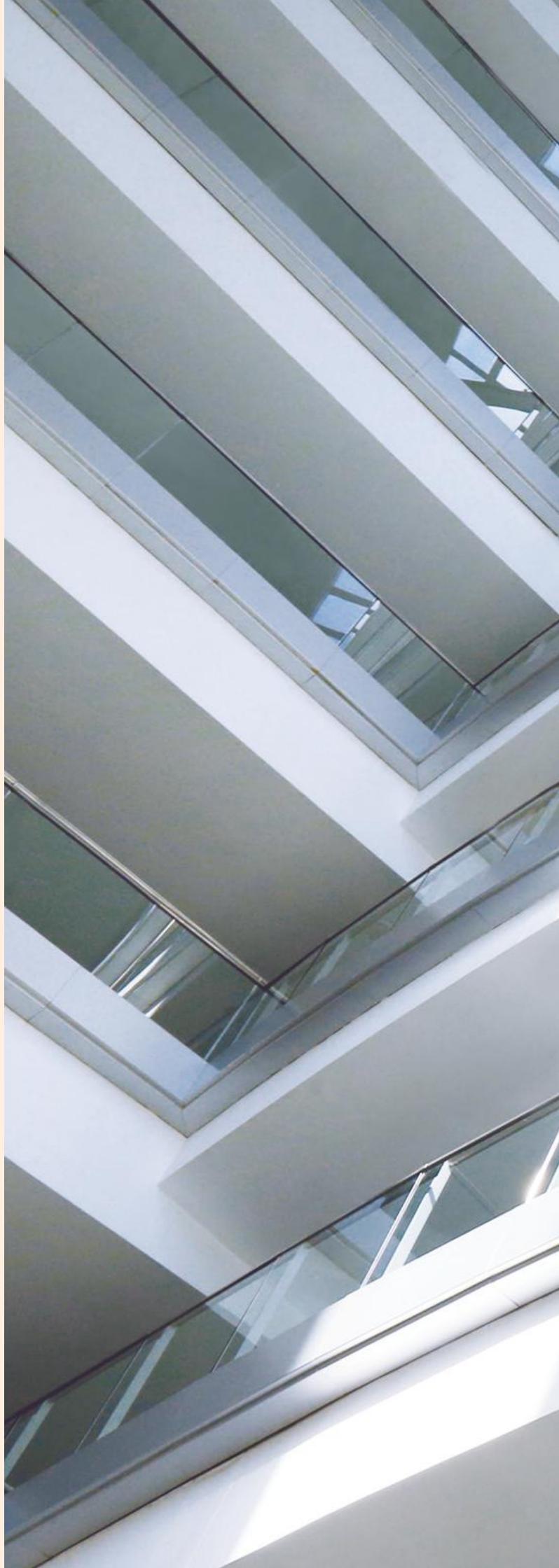
## Company Profile

Industrial and Commercial Bank of China was established on 1 January 1984. On 28 October 2005, the Bank was wholly restructured to a joint-stock limited company. On 27 October 2006, the Bank was successfully listed on both Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited.

Through its continuous endeavor and stable development, the Bank has developed into the leading bank in the world, possessing an excellent customer base, a diversified business structure, strong innovation capabilities and market competitiveness. The Bank regards service as the very foundation to seek further development and adheres to creating value through services while providing a comprehensive range of financial products and services to 7,033 thousand corporate customers and 607 million personal customers. The Bank has been consciously integrating the social responsibilities with its development strategy and operation and management activities, and gaining wide recognition in the aspects of promoting inclusive finance, supporting targeted poverty relief, protecting environment and resources and participating in public welfare undertakings.

The Bank always keeps in mind its underlying mission of serving the real economy with its principal business, and along with the real economy it prospers, suffers and grows. Taking a risk-based approach and never overstepping the bottom line, it constantly enhances its capability of controlling and mitigating risks. Besides, the Bank remains steadfast in understanding and following the business rules of commercial banks to strive to be a century-old bank. It also stays committed to seeking progress with innovation while maintaining stability, continuously enhances the strategy of mega retail, mega asset management, mega investment banking as well as international and comprehensive development, and actively embraces the internet. The Bank unswervingly delivers specialized services, and pioneers a specialized business model, thus making it "a craftsman in large banking".

The Bank was ranked the 1<sup>st</sup> place among the Top 1000 World Banks by The Banker, ranked 1<sup>st</sup> place in the Global 2000 listed by Forbes and topped the sub-list of commercial banks of the Global 500 in Fortune for the sixth consecutive year, and took the 1<sup>st</sup> place among the Top 500 Banking Brands of Brand Finance for the third consecutive year.





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### **Our Mission**

Excellence for You

Excellent Services to Clients, Maximum Returns to Shareholders

Real Success for Our People, Great Contribution to Society

### **Our Vision**

A Global Leading Bank with the Best Profitability,

Performance and Prestige

### **Our Value**

Integrity Leads to Prosperity

Integrity, Humanity, Prudence, Innovation and Excellence

### ICBC Group

#### Legal Name in Chinese

中国工商银行股份有限公司

#### Legal Name in English

Industrial and Commercial Bank of China Limited ("ICBC")

#### Legal Representative

Gu Shu and Guan Xueqing

#### Registered Address and Office Address

No. 55 Fuxingmennei Avenue, Xicheng District, Beijing, PRC

Postal code: 100140

Telephone: 86-10-66106114

Business enquiry and compliant hotline: 86-95588

Website: [www.icbc.com.cn](http://www.icbc.com.cn), [www.icbc-ltd.com](http://www.icbc-ltd.com)

Stock codes

A Share: 601398

H Share: 1398

#### International Rating (Long-term foreign currency deposits rating)

Moody's : A1 S&P: A

#### Name and Address of Auditors

##### Domestic Auditors

KPMG Huazhen LLP

8/F, Tower E2, Oriental Plaza, 1 East Chang'an Avenue

Dongcheng, District, Beijing, PRC

##### International Auditors

KPMG

8/F, Prince's Building, 10 Chater Road, Central, Hong Kong

## Corporate Information

### ICBC Limited Phnom Penh Branch

#### Legal Representative

Jing Jun

#### Office Address

17th Floor, Exchange Square, No.19-20,

Street 106, Phnom Penh, Cambodia

Telephone : (855) 23955880

Fax : (855) 23965268

NBC License No. : **B 33**

MoC License No. : 00005760

GDT License No. : L001-100179320

SWIFT : ICBKKHPP

EMAIL : icbckh@kh.icbc.com.cn

Website : www.icbc.com.kh

#### Auditors

KPMG Cambodia Ltd

PO Box 2352, 4th floor, Delano Center

No.144, Street 169, Khan 7 Makara,

Phnom Penh, Kingdom of Cambodia

Tel: (855) 23216899

Fax: (855) 23217279

EMAIL: kpmg@kpmg.com.kh

### About Us

On November 8, 2011 ICBC Limited Phnom Penh Branch officially got the Commercial bank License from National Bank of Cambodia to conduct all ranges of banking business. On November 30, 2011, Phnom Penh Branch held the Grand Opening Ceremony and officially commenced its business. ICBC Phnom Penh Branch is relocated at 17th Floor, Exchange Square, No.19-20, Street 106, Phnom Penh, Cambodia. ICBC Limited Phnom Penh Branch has 9 departments and 76 professional employees. The Branch dedicates to be regulations compliant, public trust and customer praised bank, meanwhile becomes the excellent bank which has a good social reputation. The Branch has steadily advanced localization development and diversified operation, and stepped up its financial services to both corporate and individual customers with various type of financial products.

### Bank Philosophy

#### Customers

The Branch aims at the clientele for wholesale banking business, and heeds to the development of clientele for retail banking business, and provides premium financial services.

#### Employees

Upon the rationales of talent-centered services, mutual assistances and scientific management, the Branch employs recruitment policies revolving around the development plan of the Branch and recruits local talents. As a result, the Branch further builds upon the basis of the professional, international and multitasking talents.

#### Environment, Social and Community

By upholding the core of ICBC enterprise culture, the Branch proactively performs its social enterprise responsibilities, and promotes the fusion of enterprise culture and operation management.

#### Shareholders

ICBC Limited Phnom Penh Branch is foreign branch wholly owned by ICBC and all aspects of the Branch's operation to are reported and supervised by ICBC Head Office.

## Financial Highlights and Analysis of the Results

### Financial Highlights

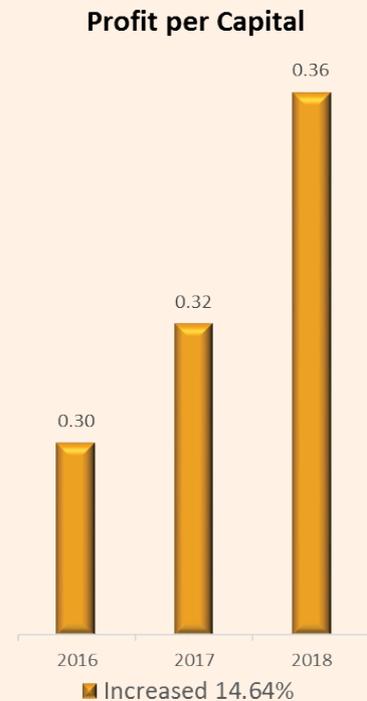
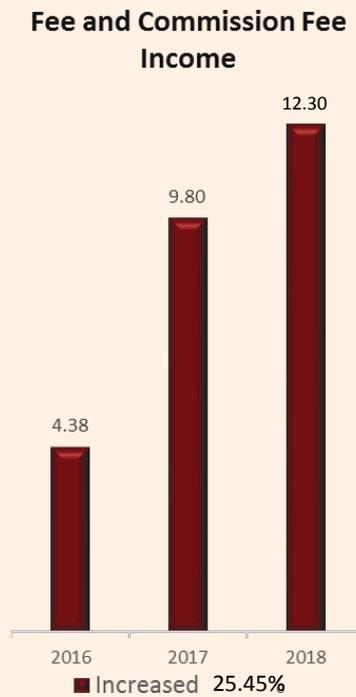
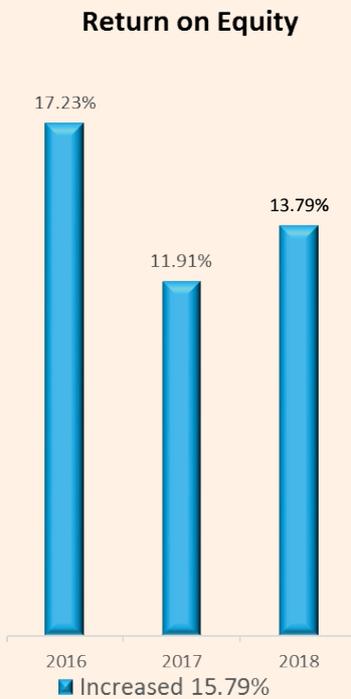
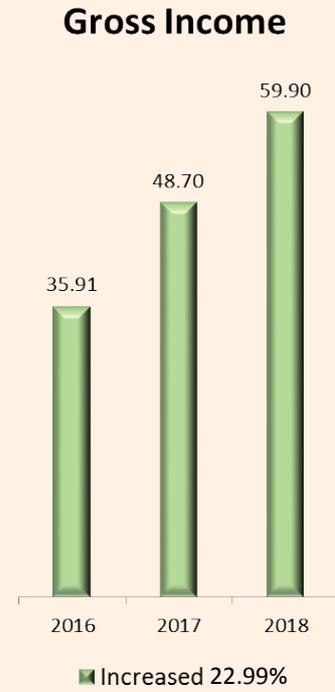
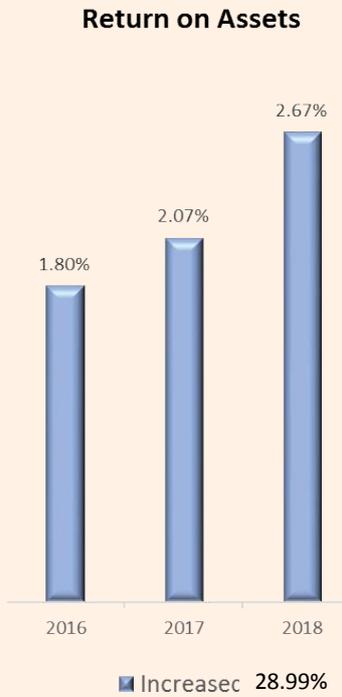
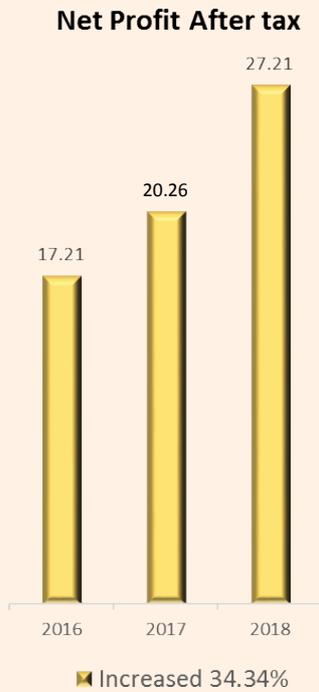
In US Dollar	2018	2017	Change
	US\$	US\$	(%)
<b>Profitability</b>	<b>Audited</b>	<b>Audited</b>	<b>(%)</b>
Gross Income	59,897,554	48,700,828	22.99
Profit Before Tax	34,147,453	25,461,302	34.12
Net Profit After Tax	27,216,171	20,258,853	34.34
Tax on Profit	6,931,282	5,202,449	33.23
Profit per Capita	362,883	316,545	14.64
Fee and Commission Income	12,299,220	9,804,299	25.45
<b>Key Balance Sheet Item</b>			
Total Assets	1,019,747,524	978,455,585	4.22
Loans and advances to customers	622,874,568	532,031,862	17.07
Total liabilities	822,400,793	808,325,025	1.74
Deposits	501,959,271	305,100,807	64.52
Total Equity	197,346,731	170,130,560	16.00
<b>Key Financial Ratios</b>			
NPL to total loans		0	0
Return on equity	13.79%	11.91%	15.79
Return on assets	2.67%	2.07%	28.99
Solvency ratio	23.94%	26.37%	-9.22
Net worth to total assets	18.84%	18.47%	2.00
Deposits to total loans	142.57%	51.27%	178.08

### Analysis of the Results

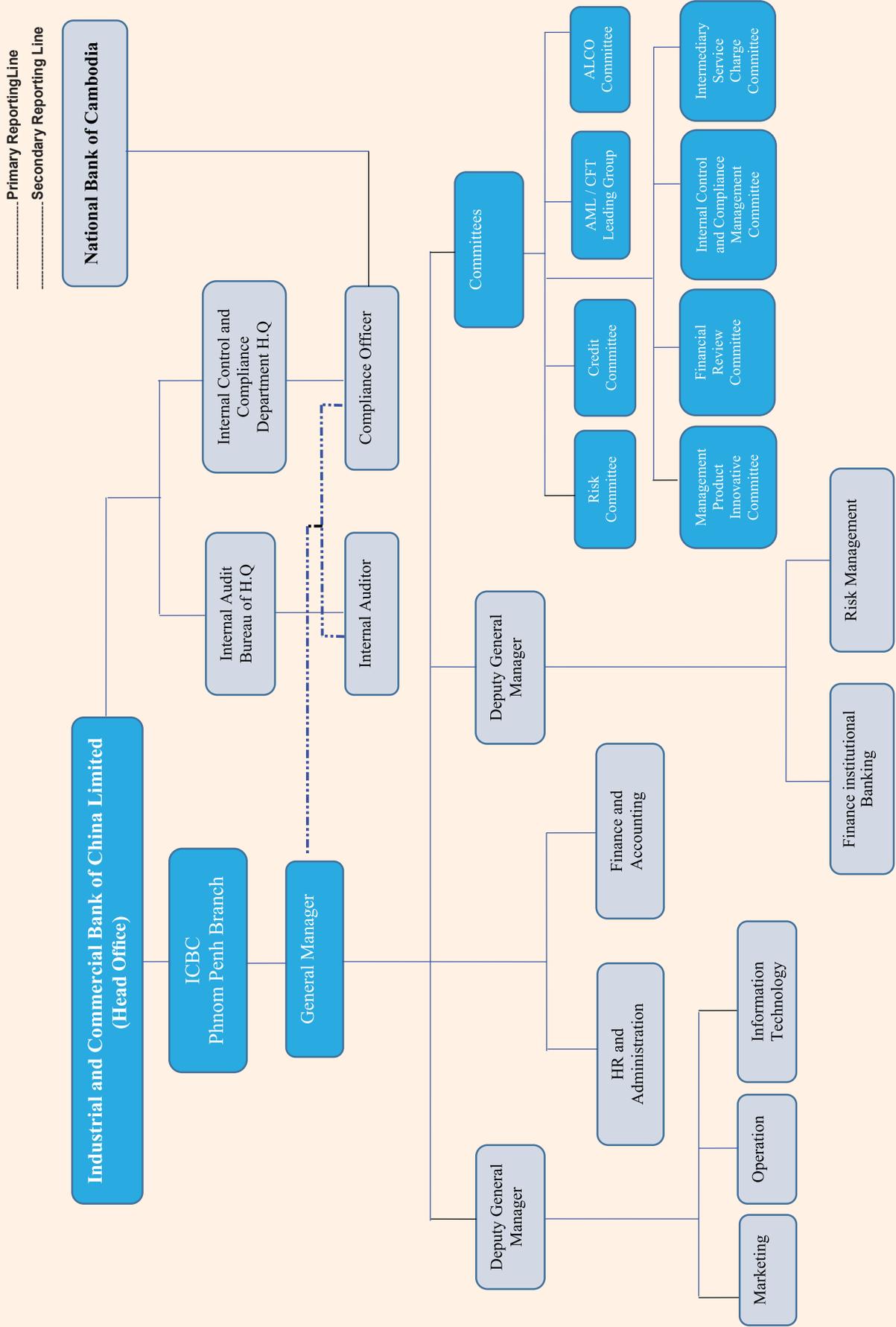
- Profit Before Tax in 2018 increased to USD 34.15 million
- Total Assets in 2018 is USD 1,019.75million.
- Loans and advances after provision in 2018 is USD 622.87million.
- Deposit in 2018 is USD 501.96million.

## Financial Highlights and Analysis of the Results

Units in US\$ Million  
Increase: in year 2018



# Organizational Structure of ICBC limited Phnom Penh Branch



### Jing Jun

General Manager



Mr. Jing Jun acts in the capacity of General Manager of Industrial and Commercial Bank of China Limited Phnom Penh Branch since June 2015.

Mr. Jing has 33 years of extraordinary experience serving in the banking industry, with expertise in extensive business fields in banking sector, and has rich overseas experience including the management of 3 branches and 1 subsidiary of ICBC.

## Departments

### Marketing Department

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The Marketing Department of ICBC Limited Phnom Penh Branch is the professional team in charge of the customer services, corporate and individual credit business. We have the expertise in marketing of banking services, client relationship management and delivery of corporate and individual credit business for the Branch. Under the principles upheld by ICBC, namely “innovative products, professional team, internationalized operation, and efficient services”, we rely upon the powerful system platform of ICBC Group and deliver internationalized financial services and consultancies to our clients with a focus on the main products such as working capital financing, project financing, trade finance such as L/C issuance, export L/C, L/C advising, import collection, Bank Guarantee issuance, L/C and Bank Guarantee re-issuance, overseas financing against domestic guarantee, and facility secured by immovable property, and supply chain finance, Escrow Account and financing consultant service, etc.

### Finance Institutional Banking Department

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The Finance Institutional Banking Department is responsible for financial market business and inter-bank business along with asset and liability management. In reliance of ICBC Group’s advanced trading platform, global network of correspondents, funding capacity, and premium credit rating as well as its advanced settlement system, the Department manages the correspondent banks relationship and provide money market and FX market services, credit business, and other services to its local correspondent banks, whilst cooperate with counterparties in financial market to maintain treasury activities.

### Operation Department

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The Operation Department leverages on the ICBC Group global network of 16788 domestic institutions, 412 institutions in 42 countries and regions 1507 correspondent banks in 143 countries and regions to serve the corporate and individual clients with local and transactional business. We upholds the tenets of “professionalism, integrity, fairness” and develops our advantages in UnionPay/VISA and POS services, Remittance, Payroll and E-banking services in order to provide our client with the state-of-art financial services

### Risk Management Department

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The Risk Management Department is responsible for the implementation of the Branch’s comprehensive risk management system based on credit risk, operational risk, market risk, various risks, such as liquidity risk management undertaken, monitoring, assessment and reporting, and effective control of all the risks at various levels of the business. The Department also take lead in the risk business review, credit management, Internal and is responsible for overall risk assessment through Overall Risk Management Committee and Credit Review Committee.

### **Finance and Accounting Department**

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Based on the Branch's development strategy, the Finance and Accounting Department formulates business plans, financial budgets, rules and implementation regulations, and promotes the coordinated development of the bank management to ensure the realization of annual business objectives. The Department specifically implements financial accounting management to ensure that each business meets financial tax revenue management system, and instructs and supervises the financial activities guaranteeing the quality of financial accounting.

### **Information Technology Department**

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The IT Department is responsible for the operational management and control of information security in order for technological assurance of safe and secure operation of the Branch.

### **HR and Administration Department**

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The Administration Department is responsible for administrative affairs, human resource management and back up support for the Branch's business development and construction of excellent enterprise culture.

### **Internal Audit Department**

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Internal Audit Department is responsible for the audit reviews and investigations of the Branch independently, objectively and effectively , providing suggestions on risk management, internal control of the Branch for help it control the risks within an acceptable level.

### **Compliance Department**

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Compliance department responsible for the branch compliance development plan and annual compliance plan, directly implement or organize the tracking and analysis the branch's regulatory rules, organize the implementation of compliance review and consultation, and take lead in the Branch's AML works, implement requirements and specific AML works required by local regulator and Head Office.

## General Manager's Statement

The year 2018 marked the 60th anniversary of the establishment of diplomatic relations between China and Cambodia. In retrospect from this significant juncture in history, we feel honored to witness the great profound friendship between the two countries, and to have taken part in supporting Cambodia economic development and construction. In 2018, the Branch stayed focused, stimulated vitality and pooled efforts to deliver its annual results marked with high-quality development.

**Our overall operation and fundamentals were "stable", especially our profitability, quality and risk control constituted a "multi-stable" prospect.** In terms of profitability, the Branch recorded USD27.18 million in net profit, representing an increase of 34% from the previous year. In terms of quality, the Bank continued to maintain asset quality, our ability to serve the local economy has become more sustainable, NPL balance remains as zero for 7 years. In terms of risk control, we have acquired a deeper understanding of the characteristics and nature of risks as they evolve. We have built a risk control system that allows for management of a full spectrum of risks across the market, which in turn ensures that the risk is within a manageable level and forges a healthier operation structure.

We stepped **"forward" by further improving and enhancing our financial services for Chinese background companies, local clients and financial institutions.** The Branch has been acting as the bridge of economic integration between Cambodia and China, takes the opportunities in supporting the "Going Global" Chinese funded enterprises in the aspects of serving the Belt and Road initiative. Meanwhile, localization has always been the cornerstone for the Branch's sustainable development. The Branch has performed extensive efforts in researching the local market, sought opportunity to serve local valued customers in many areas especially in infrastructure. The Branch took active part in the syndicated loan for Siem Reap Angkor International Airport Project and Expressway Project from Phnom Penh to Sihanoukville. We also provided high quality customers with personal loan service to fulfill their residential and business plan.

We were **"stable" while making "progress", as we insisted on transformation and innovation.** The Branch continues the efforts to realize the goal of steadily operation and sustainable development, to deepen the transformation and the structural adjustment, speed up the construction of fintech and business innovation. The Branch became the first overseas branch of ICBC group which actively implemented the intelligent POS system, and took the lead position in paying receipts by WeChat online. The acquiring business reached RMB199.22 million (approximately USD30 million), an increase of 34.8 percentage points compared with the previous year.

Looking ahead to 2019, Cambodia's political situation is stable and economy is growing rapidly. At the same time, China-Cambodia friendship has benefited from the high degree of conformity between the development strategies and the highly complementary economic development of the two countries, which creates good conditions for the development of our bank. First, after the general election in 2018, the People's Party will continue to stay in power, the political situation in Cambodia will become more stable, and external evaluation will be more positive. It is expected that Cambodia's economy will continue to maintain rapid growth. Secondly, The Belt and Road Initiative and Cambodia's Rectangular Strategy complement and reinforce each other, which not only helps Cambodia accelerate the transformation and upgrading of economy, but also provides a broad space for Chinese companies to enhance international cooperation and development. Thirdly, with the escalation of the Sino-US trade friction and the transfer of China's production capacity, Chinese enterprises will gradually increase their investment in Cambodia, providing opportunities for us to expand major projects and develop high-quality customers.

The Branch will make further breakthroughs on the basis of prudent operations, promote innovation-driven development in virtue of fintech to cultivate new growth drivers and new growth poles, continue to consolidate and develop the competitive edge in core businesses, guard against financial risks and continuously tighten comprehensive risk management.

Finally, on behalf of the management, I would like to take this opportunity to extend my sincere gratitude to Royal Government of Cambodia, the National Bank of Cambodia, financial institutions, our customers for their continuous support and trust, as well as our staff members for their excellent work in 2018.

## Policy and Practice Guidelines for Corporate Governance

### Selection of Managers

All the members of the management team should have the qualification required by China Banking Regulatory Committee and be appointed by ICBC head office.

### The Management

The members of the Management include General Manager and Deputy General Manager. The management team regularly holds weekly meetings with all heads of departments in order to review and decide all matters in relation to the business and development of the Branch.

### Internal Control

In pursuance to the internal control policy implemented by the Branch, the Internal Control Committee is established in order for policy making and monitoring in all aspects of internal control. The Internal Control Committee regularly holds meetings on a quarterly basis to improve the policies and mechanisms for the management of Internal control, implements all spot checks on daily basis on operation matters, and sets up and expands the Branch's capacities and alarming mechanisms to tackle the major risks and emergencies.

### Risks Management

The Branch adopts and improves on a comprehensive risk management system and establishes the Comprehensive Risk Management Committee which is the decision-making body for senior management of the Branch on comprehensive risk management including credit risk, market risk, operational risk, liquidity risk, interest rate risk of banking book, country risk, reputation risk, strategic risk, concentration risk, legal risk, information technology risk and other relevant risk, regulate the specific duties and responsibilities of every department and level, improve reporting mechanism, and enhance the capacity for comprehensive risk management.

### Code of Ethics

The Branch assures its operation and management are compliant with relevant laws and regulations. Meanwhile, operating under the guideline of our core values, ICBC's corporate principles and employee code of conduct constitute the behavioral norms and framework.

### Independency and Transparency

The Branch engaged KPMG Cambodia Ltd (KPMG) to audit and provide independent audit opinions on the financial statement of the Branch. In 2018, the Branch further increased the quality and transparency of annual report disclosures and enhanced the sense of responsibility in annual report preparation and disclosure entities. During the reporting period, no correction of significant accounting errors, remediation of material omissions or modification of results preview referred in the Accountability System for Material Errors in Information Disclosure in Annual Report took place at the Branch.

## Business Operation Target

### Financial Perspective

The Branch has integrated its main area of business into local commercial environment, and with the support from ICBC Head Office it has also expanded to the domestic market with its unique path of development. The Branch has recorded the total assets of USD 1,019,747,524, the total liabilities USD 822,400,793, annual net interest income USD 31,991,256 and net profit after tax USD 27,216,171 at the end of 2018.

### Customer Perspective

The Branch makes tremendous effort toward analyzing the market trend, positioning the high-end market and targeting the premium clients. The Branch also attempts to avoid the vicious competition within the industry by expanding its strength and mitigating the weakness, applies ICBC competitive advantages to the fullest extent such as in the domains of products, IT and capitals. The Branch tries to provide customers with the high quality services. Through differentiation and high quality services, the Branch will enhance the influences of ICBC corporate business among its peers and other financial institutions in Cambodia. In light of the foregoing, it will gradually achieve the localization and mainstreaming of corporate business.

### Internal Process Perspective

The Branch continually refined its internal control mechanism and actively improved its internal control management so as to make the internal control management more reasonable and effective. It systemically advanced the building of the Branch's internal control system, revised the measures for assessment on internal controls, improved the assessment indicator design and data access methods, and enhanced the application of assessment results. It paid heed to the risks in hot and key businesses and conducted the verification of operational risk. While launching the "Year of Internal Control and Compliance" campaign, the Branch promoted the core philosophy of compliance culture that "compliance is the fundamental of responsibility of the entire staff to keep risks under control and ensure efficient operation", constantly pushed forward the dissemination of the core concepts of the compliance culture and made them deeply rooted in the minds of its employees.

### Human Resource Development

In order to enhance training and development of employees, the Branch provides numerous training opportunities of various kinds to global employees of different levels and professions each year. Besides from distance video trainings and online university trainings, the Branch also arranges employees to join training programs within China on a regular basis integrate more into the group culture and further improve their professional expertise.

## Business Operation Target

ICBC Limited Phnom Penh Branch has the mission of promoting the ICBC brand in Cambodia to the image of a global leading bank with the best profitability, performance, and prestige. Under the general guide of localization, integration and digitization the Branch shall adhere to the strategy of seeking progress while maintaining stability, formulate its development targets and strategies for 2019 as follows:

- To grasp the core customers, and strive to boost the net profit. In 2019, the Branch shall select local key industrial projects, target on quality customers and projects with Chinese background, actively expand credit resource, tamping the basis of customer, improve the quality of customer and assets.
- To strengthen cooperation on syndicated facility and interbank business. The Branch will take advantage of linkage with other affiliates within ICBC Group, and tightly connected with local peers, seek opportunities on syndicated cooperation and obtain skill through practice, in order for cultivation of ability and summarization of experience.
- To improve the competitiveness of customers and deposits. Use the integrated services, consolidate and improve the advantages of deposits, and actively explore new models of driving personal deposits with corporate deposits and promoting the latter with the former to achieve all closed customer expansion and deposit increase in the entire chain. Meanwhile, the Branch will manage interest rate pricing, take a forward-looking response to the trend in market liquidity and interest rate, optimize deposit assessment, interest rate constraints, and tiered pricing mechanisms, play a good role of active liability in expanding new customers and seizing new funds, strengthen the coordinated development of volume and price.

Based on the previous endeavor in market exploration and the market opportunity under the promoting of “One Belt and One Road”, the Branch has laid foundations for long-term growth in local and cross-board business, and shall continue to make effort in expanding the high-end market and targeting the premium clients, exploring investment and infrastructure projects between Sino-Cambodia, serving Going-Out enterprises from China.

The Branch formulates its development roadmap upon the following:

- Seeking the cooperation opportunities with the potential local clients who plays an important role in each sectors.
- Taking the opportunities of One-belt and One-road, gathering information and reserve all resource, facilitate projects concerning One-belt and One-road locating in Cambodia, focusing on entities with strong Chinese funded background and large scale projects concerning infrastructure, electricity generation, expressway, etc., which will spur Cambodian economic development.
- Accelerating cooperation with Cambodian government including Ministry of Economics and Finance, Electricite Du Cambodge, General Department of Taxation, seek opportunity to step in the commercial loan project related to sovereign debt or government-led infrastructure.

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## Business Operation Target

- Further tapping cooperation with local MFIs and banks, extending business scale from funds and loan to clearing, technology, bank card, Reminbi businesses and derivative transactions, meanwhile control risk exposure appropriately.
- Developing trade finance business, choose target clients who have demands for cross-border trade, strengthen interaction and cooperation between domestic and overseas institutions, take the advantages of global networks for purpose of expansion of cross-border finance.
- Continue to accelerating individual loan business, and bring the Branch the new profit growth point.

## FINANCIAL RISK MANAGEMENT POLICIES

The Branch has ensured a comprehensive risk management system in place, follows the principles including matching return with risk, internal check and balance with consideration as to efficiency, risk diversification, combination of quantitative and qualitative analysis, dynamic adaptability adjustments and gradual improvement. Risk Management Committee has been established and is responsible for liquidity risk, credit risk, market risk, operation risk, reputation risk, strategic risk and other relevant types of risks potentially faced by the Branch.

### Liquidity risk

The Branch focuses on strengthening the monitoring of liquidity indicators on a day-to-day basis, guarantees that the liquidity indicators meet the relevant requirement by NBC. In 2018, according to the Prakas No. B7-015-349 Prokor on Liquidity Coverage Ratio, requirement of LCR has been upgraded from 70% to present 80%, and subsequent 90% from June 2019. The gradual increasing indicator of LCR requires the Branch holding adequate stock of unencumbered liquid assets. The Branch expand the source of funds and appropriately increases the proportion of long term funds to ensure the Liquidity Coverage Ratio, adjust the term structure of assets and liabilities to meet the requirement by NBC. Thereby, the Branch enhances its capacity on multiple levels of liquidity management with primary measures as follows:

- Strengthen monitoring the liquidity target set by NBC with the joint effort of the Finance Institution Department, Marketing Department, Finance and Accounting Department and Risk Management Department. Under the normal state of operation and target pressure, the Branch should constantly meet its liquidity demand arising from demand assets, liabilities and off-balance sheet businesses and fulfill its outbound payment obligations so as to balance the benefits derived from and the security of the fund;
- Proactively expand the sources to acquire fund, increase the numbers of the transaction counterparties within and external to the ICBC Group. The Branch should ensure an increase of the portion of comparatively long term borrowings from other banks and financial institutions and the long term deposits from other banks and the customers in order to ensure the LCR conforming with the regulations by NBC;
- Collect and assort in a timely manner the information about the total due balance of deposit, loan and other businesses. The Branch should periodically analyze the status of liquidity risk potentially faced by it with a focus on the causes, and the trends, and thereby propose effective measures to mitigate the risks.

## FINANCIAL RISK MANAGEMENT POLICIES

### Credit (Counterparty) Risk

The Branch is facing credit risk (or counterparty risk) deriving from various financial instruments including loans, acceptances, inter-bank transactions, trade financing, foreign exchange transactions, financial futures, swaps, bonds, equities, options, and commitments and guarantees, and the settlement of transactions.

Assessing such a risk shall require an understanding of the customers' ability and willingness to repay but also the understanding of the risks the specific customer faces and how well it could manage them. The Branch always addresses the following areas: all borrowers are to be rated in terms of risk using the most appropriate scorecard and allocated with a credit grade that expresses the best estimation of the probability of default over the next 12 months. Scorecards will be developed, monitored as to predictive capabilities and updated regularly for the specific group of borrowers with similar risk characteristics.

Credit grades are to be updated to reflect the impact of updated or new information. The effective management of risk at individual or portfolio level requires that:

- each customer is allocated with a credit grade;
- credit grades are accurately assessed and represent a forward looking estimation of the probability of default over the next 12 months; and
- credit grades are updated yearly.

Credit limit are to be approved which represent highest risk limit by the Branch for conducting financing business for corporate customers. Such credit limit shall be calculated through quantitative models and determined by qualitative risk analysis in accordance with the principle of substance over form, and to be updated annually on basis of customer's financial performance, operation status, potential development, etc.

By following the proper instruction from the Headquarters suggestions, and by group decision at the local level, the Branch establishes the Branch Credit Review Committee and develops the regulations, scope of works and responsibilities to review and make group decision on allocation of customers' credit grade, annual credit line and credit business.

The Risk Management Committee also analysis and reviews the credit risk of the Branch regularly. The Committee follows the rules to discuss, review and make group decision pertinent to the issues, as well as the Cambodia country risk analysis and legal risk analysis.

The Branch follows the credit business management and requirement instructed by the headquarters to update ICBC Phnom Penh Credit Manual yearly. In this manual, credit management system, procedures, credit rate and credit line, security, duration management, credit classification and all credit products have been included.

### Market Risk

Market risk is the risk of loss arising from adverse movement in the level of market prices, the two key components being foreign currency exchange risk and interest rate risk. In order to control effectively the market risk, the Branch matches the sensitivity of its assets and liabilities and appoints the related department to monitor the fluctuation of the interest rate and exchange rate every day.

The Risk Management Committee should be responsible for the management of the market risk with its main duties and measures as follows:

- Strengthen the analysis and monitoring of the interest rate variation contingent upon interest rate market, and enhance gap management of interest rate sensitivity;
- Strictly enforce the regulations made by Headquarters and NBC in respect of the limit of foreign exchange exposure. The Branch should endeavor to avoid the foreign exchange rate risks attributable to variation of the foreign exchange rate, and mitigate the foreign exchange risks;
- The Branch should ensure an increase of the portion of comparatively long term borrowings from other banks and financial institutions and the long term deposits from other banks and the customers in order to ensure the stable source of fund inflow and lockdown the potential interest rate risks due to the timing mismatch of assets and liabilities businesses.

## FINANCIAL RISK MANAGEMENT POLICIES

### Operational Risk

Operation risk is defined as the risk of loss resulting from insufficient or problematic internal procedures, employees and information technology systems or from external events. There are seven major types of operational risks including internal fraud, external fraud, employment system and workplace safety, customers, products and business activities, damage to physical assets, IT system, execution and delivery and process management.

The Branch continuously strengthens the operational risk control system of each business line, strenuously effects the risk management of internal and external frauds, reinforces compliance management, standardize compliance review processing flow. Three lines of defense have been established and work effectively:

- Each department forms as first line of defense of operational risk management, which assume direct responsibility for operational risk management in their own business line.
- Compliance Department is and Risk Management Department for operational risk of the Branch and assumes the duty of operating the second line of defense.
- Internal Audit Department is responsible for auditing and evaluating the operation of the operational risk management system, and forms the third line of defense.

In 2018, the Branch actively conducts in-depth crackdown campaign to improve or update policies, procedures, systems and mechanisms and the procedure-based hard control over key links. During the reporting period, the operational risk management system of the Branch operated smoothly and the operational risk was controllable on the

### Strategic Risk

The Branch has set up a development plan, target and implementation plan and related policy and flow for implementation. On the basis of strategy management, the Branch will give further consideration on potential problems in the strategic planning and implementation. The Branch attempts to accurately predict on the impact of these problems in order for well-around preparation. Throughout the management process, the Branch maintains the risk management, strategy plan and implementation scheme, with the centralized coordination to achieve the strategy goal and minimize the lost.

All the risk management's reports shall be submitted on a quarterly basis, semiannually and at the end of year. The said report will be submitted to the Headquarters after the approval from the risk management committee.

## Statement by the management

I, being the management of Industrial and Commercial Bank of China Limited Phnom Penh Branch("the Branch"), do hereby state that in my opinion, the financial statements of the Branch set out on pages 26 to 52, present fairly, in all material respects, the financial position of the Branch as at 31 December 2018, and its financial performance and its cash flows for the year then ended, in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of the financial statements.

*Signed on behalf of the Branch:*

The image shows a handwritten signature in black ink above a blue circular official stamp. The stamp contains text in Khmer and English, including "ICBC LIMITED Phnom Penh Branch".

Mr. Jing Jun  
*General Manager*

Phnom Penh, Kingdom of Cambodia

Date: 21-March-2019

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Independent Auditor's  
Report and Financial  
Statements



ICBC

中国工商银行

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## REPORT OF THE INDEPENDENT AUDITORS

### To the Industrial and Commercial Bank of China Limited, Head Office

#### Opinion

We have audited the financial statements of Industrial and Commercial Bank of China Limited Phnom Penh Branch (“the Branch”), which comprise the balance sheet as at 31 December 2018, the income statement, the statements of changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out on pages 26 to 52.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Branch as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of the financial statements.

#### Basis for Opinion

We conducted our audit in accordance with Cambodian International Standards on Auditing (“CISAs”). Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Branch in accordance with the ethical requirements that are relevant to our audit of the financial statements in Cambodia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Responsibilities of Management and Those Charged with Governance for the Financial Statements.

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

In preparing the financial statements, management is responsible for assessing the Branch’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 Branch or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Branch’s financial reporting process.

#### Auditors’ Responsibilities for the Audit of the Financial Statements

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

## REPORT OF THE INDEPENDENT AUDITORS

### Auditors' Responsibilities for the Audit of the Financial Statements (continued)

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

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

**KPMG Cambodia Ltd**



**Lim Chew Teng**

*Partner*

Phnom Penh, Kingdom of Cambodia

Date: 21-March-2019

## BALANCE SHEET AS AT 31 DECEMBER 2018

		2018		2017	
	Note	US \$	KHR'000 (Note 4)	US \$	KHR'000 (Note 4)
<b>ASSETS</b>					
Cash on hand		2,638,330	10,600,810	2,814,542	11,362,306
Deposits with the National Bank of Cambodia	5	167,072,483	671,297,237	212,959,171	859,716,173
Deposits and placements with other banks		216,286,090	869,037,510	220,392,106	889,722,932
Loans and advances to customers		622,874,568	2,502,710,014	532,031,862	2,147,812,627
Other assets		8,502,732	34,163,977	8,122,220	32,789,402
Property and equipment		280,776	1,128,158	373,209	1,506,645
Long term prepayments		351,888	1,413,886	447,677	1,807,272
Deferred tax assets		1,740,657	6,993,959	1,314,798	5,307,839
<b>TOTAL ASSETS</b>		<b>1,019,747,524</b>	<b>4,097,345,551</b>	<b>978,455,585</b>	<b>3,950,025,196</b>
<b>LIABILITIES AND EQUITY</b>					
<b>Liabilities</b>					
Deposits from other banks		127,653,181	512,910,481	136,977,652	552,978,781
Deposits from customers		374,306,090	1,503,961,870	168,123,155	678,713,177
Borrowings		276,535,295	1,111,118,815	466,899,710	1,884,874,129
Subordinated debt	6	25,000,000	100,450,000	25,000,000	100,925,000
Provision for income tax	7	6,759,558	27,159,904	5,200,259	20,993,446
Other liabilities	8	12,146,669	48,805,316	6,124,249	24,723,592
<b>Total liabilities</b>		<b>822,400,793</b>	<b>3,304,406,386</b>	<b>808,325,025</b>	<b>3,263,208,125</b>
<b>Equity</b>					
Head Office's capital contribution	9	100,000,000	401,800,000	100,000,000	403,700,000
Retained earnings		97,346,731	391,139,165	70,130,560	283,117,071
<b>Total equity</b>		<b>197,346,731</b>	<b>792,939,165</b>	<b>170,130,560</b>	<b>686,817,071</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1,019,747,524</b>	<b>4,097,345,551</b>	<b>978,455,585</b>	<b>3,950,025,196</b>

The accompanying notes form an integral part of these financial statements

**INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Note	2018		2017	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Interest income	10	47,598,334	191,250,106	38,896,529	157,025,288
Interest expense	11	(15,607,078)	(62,709,239)	(14,419,402)	(58,211,126)
<b>Net interest income</b>		<b>31,991,256</b>	<b>128,540,867</b>	<b>24,477,127</b>	<b>98,814,162</b>
Allowance for loan losses and deposits and placements with other banks		(2,701,420)	(10,854,306)	(2,552,074)	(10,302,723)
<b>Net interest income after allowance for impairment losses</b>		<b>29,289,836</b>	<b>117,686,561</b>	<b>21,925,053</b>	<b>88,511,439</b>
Fee and commission income		12,299,220	49,418,266	9,804,299	39,579,955
Fee and commission expense		(280,749)	(1,128,049)	(187,528)	(757,051)
Net fee and commission income		12,018,471	48,290,217	9,616,771	38,822,904
Realised/Unrealised foreign exchange losses		(86,819)	(348,839)	(72,812)	(293,942)
Personnel expenses		(5,109,253)	(20,528,979)	(4,388,738)	(17,717,336)
Depreciation		(163,824)	(658,245)	(109,649)	(442,653)
Administrative and operating expenses		(1,800,958)	(7,236,249)	(1,509,323)	(6,093,136)
		(7,160,854)	(28,772,312)	(6,080,522)	(24,547,067)
<b>Profit before income tax</b>		<b>34,147,453</b>	<b>137,204,466</b>	<b>25,461,302</b>	<b>102,787,276</b>
Income tax expense		(6,931,282)	(27,849,891)	(5,202,449)	(21,002,287)
<b>Net profit for the year</b>		<b>27,216,171</b>	<b>109,354,575</b>	<b>20,258,853</b>	<b>81,784,989</b>

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

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Head Office's capital contribution US\$	Retained earnings US\$	Total US\$
Balance as at 1 January 2017	50,000,000	49,871,707	99,871,707
Additional capital contribution	50,000,000	-	50,000,000
Net profit for the year	-	20,258,853	20,258,853
Balance as at 31 December 2017	<u>100,000,000</u>	<u>70,130,560</u>	<u>170,130,560</u>
(KHR'000 equivalents – Note 4)	<b><u>403,700,000</u></b>	<b><u>283,117,071</u></b>	<b><u>686,817,071</u></b>
Balance as at 1 January 2018	100,000,000	70,130,560	170,130,560
Net profit for the year	-	27,216,171	27,216,171
Balance as at 31 December 2018	<u>100,000,000</u>	<u>97,346,731</u>	<u>197,346,731</u>
(KHR'000 equivalents – Note 4)	<b><u>401,800,000</u></b>	<b><u>391,139,165</u></b>	<b><u>792,939,165</u></b>

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

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
<b>Net cash generated from/(used in) operating activities</b> (Note 12)	183,333,849	736,635,406	(223,816,087)	(903,545,544)
<b>Cash flows from investing activities</b>				
Purchase of property and equipment	(71,391)	(286,849)	(312,575)	(1,261,865)
Long term prepayment	95,789	384,880	(447,677)	(1,807,272)
<b>Net cash generated from/(used in) investing activities</b>	24,398	98,031	(760,252)	(3,069,137)
<b>Cash flows from financing activities</b>				
Proceeds from borrowings	2,910,421,983	11,694,075,528	4,428,664,343	17,878,517,953
Repayments of borrowings	(3,100,786,398)	(12,458,959,747)	(4,485,764,633)	(18,109,031,823)
Proceeds from additional capital contribution	-	-	50,000,000	201,850,000
<b>Net cash used in financing activities</b>	(190,364,415)	(764,884,219)	(7,100,290)	(28,663,870)
<b>Net decrease in cash and cash equivalents</b>	(7,006,168)	(28,150,782)	(231,676,629)	(935,278,551)
<b>Cash and cash equivalents at beginning of the year</b>	133,815,571	540,213,460	365,492,200	1,475,492,011
Currency translation difference	-	(2,542,496)	-	-
<b>Cash and cash equivalents at end of the year</b> (Note 13)	126,809,403	509,520,182	133,815,571	540,213,460

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

# NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

## 1. REPORTING ENTITY

Industrial and Commercial Bank of China Limited Phnom Penh Branch (“the Branch”) is a branch of Industrial and Commercial Bank of China Limited (“Head Office”) incorporated in People Republic of China. The Branch was established in the Kingdom of Cambodia with the Ministry of Commerce under the Registration No. Co. 0049 Br/2011 dated 29 July 2011. On 12 April 2016, the Branch obtained the Re-Registration No. 00005760 from the Ministry of Commerce. The Branch obtained a license from the National Bank of Cambodia (“NBC”) to operate as a commercial bank branch with effect from 8 November 2011 and officially commenced its operations on 1 December 2011.

The principal activities of the Branch comprise the operations of core banking businesses and the provision of related financial services in Cambodia.

The registered office of the Branch is currently located at No.19 & 20, Exchange Square, Street 106, Phum 2, Sangkat Wat Phnom, Khan Daun Penh, Phnom Penh, Cambodia

As at 31 December 2018, the Branch had 75 employees (31 December 2017: 64 employees).

## 2. BASIS OF PREPARATION

### (a) Statement of compliance

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

The financial statements of the Branch were authorized for issue by the management on 21 March 2019.

### (b) Basis of measurement

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

### (c) Functional and presentation currency

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

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

## **2. BASIS OF PREPARATION (continued)**

### **(d) Use of estimates and judgments**

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected.

Key accounting estimates and judgements applied in the preparation of financial statements include estimates of recoverable amount for loans and advances which have a separate accounting policy stated in Note 3(e).

### **(e) New financial reporting framework**

On 28 August 2009, the National Accounting Council of the Ministry of Economy and Finance (“the National Accounting Council” or “NAC”) announced the adoption of Cambodian International Financial Reporting Standards (“CIFRS”) which are based on all standards issued 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 1 January 2012.

Circular 058 MoEF.NAC dated 24 March 2016 issued by the National Accounting Council of the Ministry of Economy and Finance allowed banks and relevant financial institutions to further delay adoption of CIFRS until periods beginning on or after 1 January 2019.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

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

### **(a) Foreign currency transactions**

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (b) Financial instruments

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

#### (c) Cash and cash equivalents

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

#### (d) Loans and advances

Loans and advances are stated in the balance sheet at the amount of principal outstanding less any amounts written off, and allowance for specific and general provisions.

#### (e) Allowance for bad and doubtful loans and advances

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

In addition to the above qualitative information, number of days past due is taken into account. Prior to 1 January 2018, the allowance for bad and doubtful loans and advances were calculated as below:

Classification	Number of days past due	Allowance rate
Normal/Standard	<30 days	1%
Special mention	≥ 30 days – 89 days	3%
Substandard	≥ 90 days – 179 days	20%
Doubtful	≥ 180 days – 359 days	50%
Loss	360 days or more	100%

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (e) Allowance for bad and doubtful loans and advances (continued)

From 1 January 2018, the allowance for bad and doubtful loans and advances were revised as below:

Classification	Number of days past due	Allowance rate
<b>Short-term loans (less than or equal one year):</b>		
Normal/standard	≤14 days	1%
Special mention	15 days – 30 days	3%
Substandard	31 days – 60 days	20%
Doubtful	61 days – 90 days	50%
Loss	≥ 91 days	100%
<b>Long-term loans (more than one year):</b>		
Normal/standard	<30 days	1%
Special mention	≥ 30 days – days	3%
Substandard	≥ 90 days – 179 days	20%
Doubtful	≥ 180 days – 359 days	50%
Loss	More than 359 days	100%

The Branch followed the mandatory loan classification and provisioning as required by the National Bank of Cambodia's Prakas No.B7-017-344 dated 1 December 2017 and Circular No. B7-018-001 Sor Ror Chor Nor dated 16 February 2018 on credit risk classification and provision on impairment for banks and financial institutions. Loans and advances, other financial products and off balance sheet financial commitments are classified into five classifications and the 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.

The change in the credit risk grading and provisioning is applied prospectively and the effect of this change does not significantly impact the allowance for bad and doubtful loans and advances for the year ended 31 December 2018 as majority of the loans and advances to the customers are classified as standard loans.

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

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

#### (f) Other credit related commitments

In the normal course of business, the Branch enters into other credit related commitments including loan commitments, letters of credit and guarantees. The accounting policy and regulatory provision followed the National Bank of Cambodia's Prakas No. B7-017-344 and Circular No. B7-018-001 SorRorChorNor are stated in Note 3(e).

Provision for off balance sheet commitments are presented as a separate liability line item.

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (g) Interest in suspense

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

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

#### (h) Deposits and placements with other banks and the National Bank of Cambodia

Deposits and placements with other banks and the NBC are stated at costless impairment for any uncollectable amounts.

#### (i) Other assets

Other assets are stated at the lower of cost and estimated realisable value. An estimate is made for doubtful receivables based on a review of outstanding amounts at the reporting date.

#### (j) Statutory deposits

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

#### (k) Property and equipment

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

(ii) Depreciation of property and equipment is charged to the income statement on a straight line method over the useful lives of the individual assets as follows:

Furniture and equipment	3 to 5 years
Computer equipment	3 years
Motor vehicles	5 years

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

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (k) Property and equipment (continued)

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

#### (l) Impairment of assets

##### (i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimate future cash flows of that asset. This does not apply to loans and advances which has a separate accounting policy stated in Note 3(e).

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

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

All impairment losses are recognised in the income statement.

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

##### (ii) Non-financial assets

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

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (l) Impairment of assets (continued)

##### (ii) Non-financial assets (continued)

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

#### (m) Deposits from customers and other banks

Deposits from customers and other banks are stated at cost.

#### (n) Borrowings

Borrowings are stated at cost.

#### (o) Subordinated debt

Subordinated debt is treated as part of the liabilities and included in the Branch's net worth computation under the NBC's guidelines and stated at cost.

#### (p) Other liabilities

Other liabilities are stated at cost.

#### (q) Provisions

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

#### (r) Income recognition

Interest income on performing loans and advances are recognised on a daily accrual basis. Interest on non-performing loans is recorded as interest in suspense rather than income until it is realised on a cash basis. Income from the various activities of the Branch is accrued using the following Basis:

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (r) Income recognition (continued)

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

#### (s) Interest expense

Interest expense on deposits and borrowings is recognised on a daily accrual basis

#### (t) Employee benefits

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

#### (u) Operating leases

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease commitments are not recognised as liabilities until the obligation to pay becomes due.

#### (v) Income tax

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

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

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

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

#### (w) Related parties

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

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

#### 4. TRANSLATION OF UNITED STATES DOLLARS INTO KHMER RIEL

The financial statements are stated in United States Dollars. The translations of United States Dollars amounts into Khmer Riel are included solely for the compliance with the guidelines issued by the NBC regarding the preparation and presentation of financial statements and have been made using the prescribed official exchange rate of US\$1 to KHR4,018 (2017: US\$1 to KHR4,037) published by the NBC on 31 December 2018. These convenience translations should not be construed as representations that the United States Dollars amounts have been, could have been, or could in the future be, converted into Khmer Riel at this or any other rate of exchange.

#### 5. DEPOSITS WITH THE NATIONAL BANK OF CAMBODIA

		2018		2017	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Statutory deposits:					
Capital guarantee	(a)	10,000,000	40,180,000	10,000,000	40,370,000
Reserve requirement	(b)	86,037,500	345,698,675	94,350,248	380,891,951
		<u>96,037,500</u>	<u>385,878,675</u>	<u>104,350,248</u>	<u>421,261,951</u>
Current accounts (Note 13)		52,759,443	211,987,442	87,666,219	353,908,526
Fixed deposits * (Note 13)		18,275,540	73,431,120	20,942,704	84,545,696
		<u>71,034,983</u>	<u>285,418,562</u>	<u>108,608,923</u>	<u>438,454,222</u>
		<u>167,072,483</u>	<u>671,297,237</u>	<u>212,959,171</u>	<u>859,716,173</u>

\* Fixed deposits have maturity of less than three months and earn interest at the rate of US\$: 0.76% and KHR: 0.92% (2017: US\$:0.66% to 1.01%, KHR: 0.75%) per annum.

## 5. DEPOSITS WITH NATIONAL BANK OF CAMBODIA (continued)

### (a) Capital guarantee

Under NBC Prakas No B7-01-136 dated 15 October 2001, banks are required to maintain a statutory deposit of 10% of registered capital with the NBC. This deposit is not available for use in the Branch's day-to-day operations but is refundable when the Branch voluntarily ceases to operate the business in Cambodia. This capital guarantee earns interest at the rate of 0.46% to 0.62% (2017: 0.32% to 0.36%) per annum.

### (b) Reserve requirement

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

## 6. SUBORDINATED DEBT

Subordinated debt represents borrowing from Industrial and Commercial Bank of China Limited, Head Office. The subordinated debt has no collateral, bears interest at a rate of 6 months LIBOR plus 130 basic points and will mature in 2024. This was approved by the NBC on 17 January 2014.

## 7. INCOME TAX

### (a) Provision for income tax

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At 1 January	5,200,259	20,993,446	3,207,377	12,948,181
Recognised in the income statement	7,357,141	29,560,993	5,728,640	23,126,520
Income tax paid	(5,797,842)	(23,295,729)	(3,735,758)	(15,081,255)
Currency translation difference	-	(98,806)	-	-
At 31 December	6,759,558	27,159,904	5,200,259	20,993,446

## 7. INCOME TAX (continued)

### (b) Income tax expense

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Current income tax	7,357,141	29,560,993	5,728,640	23,126,520
Deferred tax income	(425,859)	(1,711,102)	(526,191)	(2,124,233)
	<u>6,931,282</u>	<u>27,849,891</u>	<u>5,202,449</u>	<u>21,002,287</u>

In accordance with Cambodian Law on Taxation, the Branch bears corporate income tax at the rate of 20% of taxable profits or the minimum tax at 1% of gross revenue, whichever is higher.

## 8. OTHER LIABILITIES

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Remittances payables	8,039,299	32,301,903	1,515,184	6,116,798
Accrued bonuses	406,655	1,633,940	660,000	2,664,420
Accrued interest payables	2,803,268	11,263,531	3,308,097	13,354,788
Withholding tax payables	266,224	1,069,688	260,331	1,050,955
Others	631,223	2,536,254	380,637	1,536,631
	<u>12,146,669</u>	<u>48,805,316</u>	<u>6,124,249</u>	<u>24,723,592</u>

## 9. HEAD OFFICE'S CAPITAL CONTRIBUTION

Head Office's capital contribution represents capital contribution from Industrial and Commercial Bank of China Limited, a state owned bank of the People Republic of China which is also the ultimate parent entity. The Branch's capital contribution is wholly held in form of Head Office's capital contribution.

## 10. INTEREST INCOME

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loans and advances to customers	40,459,371	162,565,753	29,760,555	120,143,361
Deposits and placements with other banks	6,783,858	27,257,541	8,888,604	35,883,294
Deposits with the National Bank of Cambodia	355,105	1,426,812	247,370	998,633
	<u>47,598,334</u>	<u>191,250,106</u>	<u>38,896,529</u>	<u>157,025,288</u>

## 11. INTEREST EXPENSE

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Deposits from other banks:				
Fixed deposits	3,800,134	15,268,938	2,255,897	9,107,056
Deposits from customers:				
Current accounts	44,627	179,311	51,777	209,024
Savings accounts	899,677	3,614,902	732,022	2,955,173
Fixed deposits	124,591	500,607	333,428	1,346,049
Other deposits	1,765,611	7,094,225	93,483	377,391
	2,834,506	11,389,045	1,210,710	4,887,637
Borrowings	7,953,377	31,956,669	10,163,921	41,031,749
Subordinated debt	1,019,061	4,094,587	788,874	3,184,684
	8,972,438	36,051,256	10,952,795	44,216,433
	15,607,078	62,709,239	14,419,402	58,211,126

## 12. NET CASH GENERATED FROM/ (USED IN) OPERATING ACTIVITIES

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Profit before income tax	34,147,453	137,204,466	25,461,302	102,787,276
Adjustments for:				
Allowance for loan losses	851,420	3,421,006	2,552,074	10,302,723
Allowance for deposits and placements with other banks	1,850,000	7,433,300	-	-
Depreciation	163,824	658,245	109,649	442,653
Property and equipment written off	-	-	228	920
Net interest income	(31,991,256)	(128,540,867)	(24,477,127)	(98,814,162)
	5,021,441	20,176,150	3,646,126	14,719,410
Changes in:				
Statutory deposits	8,312,748	33,400,621	(14,150,248)	(57,124,551)
Deposits and placements with other banks	33,000,000	132,594,000	12,500,000	50,462,500
Loans and advances to customers	(91,694,126)	(368,426,998)	(255,198,416)	(1,030,236,005)
Other assets	(1,307,131)	(5,252,052)	(157,911)	(637,487)
Deposits from other banks	(9,324,471)	(37,465,724)	(32,102,183)	(129,596,513)
Deposits from customers	206,182,935	828,443,033	38,359,010	154,855,323
Other liabilities	6,527,249	26,226,486	1,338,748	5,404,526
Cash generated from/(used in) operations	156,718,645	629,695,516	(245,764,874)	(992,152,797)
Interest received	48,524,953	194,973,261	38,441,045	155,186,499
Interest paid	(16,111,907)	(64,737,642)	(12,756,500)	(51,497,991)
Income tax paid	(5,797,842)	(23,295,729)	(3,735,758)	(15,081,255)
<b>Net cash generated from/(used in) operating activities</b>	<b>183,333,849</b>	<b>736,635,406</b>	<b>(223,816,087)</b>	<b>(903,545,544)</b>

### 13. CASH AND CASH EQUIVALENTS

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Cash on hand	2,638,330	10,600,810	2,814,542	11,362,306
Deposits with the NBC				
Current accounts (Note 5)	52,759,443	211,987,442	87,666,219	353,908,526
Fixed deposits (Note 5)	18,275,540	73,431,120	20,942,704	84,545,696
Deposits and placements with other banks:				
Current accounts	33,136,090	133,140,810	22,392,106	90,396,932
Fixed deposits, less than three months maturity	20,000,000	80,360,000	-	-
	<u>126,809,403</u>	<u>509,520,182</u>	<u>133,815,571</u>	<u>540,213,460</u>

### 14. COMMITMENTS AND CONTINGENT LIABILITIES

#### Loan commitment, guarantee and other financial liabilities

At 31 December, the Branch had the contractual amounts of the Branch's off-balance sheet financial instruments that commit it to extend the credit to its customers as follows:

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
<b>Bank guarantees and others</b>	<u>26,134,738</u>	<u>105,009,377</u>	<u>20,589,739</u>	<u>83,120,776</u>

### 15. FINANCIAL RISK MANAGEMENT

#### (a) Credit risk

##### (i) Credit risk measurement

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

## 15. FINANCIAL RISK MANAGEMENT (continued)

### (ii) Risk limit control and mitigation policies

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

The Branch is required, under the conditions of NBC Prakas No. B7-06-226, to maintain at all times a maximum ratio of 20% between the Branch's overall credit exposure to any single beneficiary and the Branch's net worth. The aggregation of large credit exposure must not exceed 300% of the Branch's net worth.

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

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

### (iii) Exposure to credit risk

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loans and advances:				
Neither past due nor impaired	629,083,357	2,527,656,928	537,404,897	2,169,503,568
Past due but not impaired	1,932	7,763	1,045	4,220
Impaired loans and advances	14,779	59,382	-	-
	<u>629,100,068</u>	<u>2,527,724,073</u>	<u>537,405,942</u>	<u>2,169,507,788</u>
Less: Allowance for loan losses	(6,225,500)	(25,014,059)	(5,374,080)	(21,695,161)
	<u>622,874,568</u>	<u>2,502,710,014</u>	<u>532,031,862</u>	<u>2,147,812,627</u>

#### Neither past due nor impaired

Loans to customers neither past due nor impaired are good quality loans to customers for which no experience of default. These loans are supported by bank guarantee and management views that likelihood of default is relatively low.

## 15. FINANCIAL RISK MANAGEMENT (continued)

### (a) Credit risk (continued)

#### Past due but not impaired

Loans past due up to special mention are not considered impaired, unless other information is available to indicate the contrary.

#### Impaired loans and advances

Individually impaired loans and advances are loans and advances for which the Branch determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loans and advances. In accordance with Prakas No. B7-017-344 dated 1 December 2017 and on credit risk classification and provision on impairment, loans and advances past due from substandard are considered impaired. Refer to separate accounting policy stated in Note 3(e).

#### Loans with renegotiated terms/restructured loans

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

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

#### Write-off policy

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

#### Collateral

During the year, the Branch took no repossession of collateral held as security.

## 15. FINANCIAL RISK MANAGEMENT (continued)

### (b) Market risk

The Branch takes on exposure to market risk, which is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market prices.

Market risk arises from open positions in interest rates, 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.

The Branch does not use derivative financial instruments except foreign exchange contract and interest rate swaps to hedge its risk exposure.

#### (i) Foreign exchange risk

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

As at balance sheet date, balances in monetary assets and liabilities denominated in currencies other than US\$ are not significant as disclosed in respective notes to the financial statement.

#### Sensitivity analysis

A reasonably possible strengthening (weakening) of the US\$ against CNY or KHR would have affected the measurement of financial instruments (including off-balance sheet items) denominated in a foreign currency and affected profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant.

*Effect in US\$*

	2018		2017	
	Strengthening	(Weakening)	Strengthening	(Weakening)
CNY (5% movement)	276,660	(276,660)	2,148,833	(2,148,833)
KHR (5% movement)	163,533	(163,533)	867,896	(867,896)
	<u>440,192</u>	<u>(440,192)</u>	<u>3,016,729</u>	<u>(3,016,729)</u>

## 15. FINANCIAL RISK MANAGEMENT (continued)

### (b) Market risk (continued)

#### (ii) Interest rate risk

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

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

## 15. FINANCIAL RISK MANAGEMENT (continued)

### (b) Market risk (continued)

#### (ii) Interest rate risk (continued)

31 December 2018

#### Financial assets

	Up to 1 month US\$	1 to 3 month US\$	3 to 12 month US\$	1 to 5 years US\$	Over 5 years US\$	Non-interest sensitive US\$	Total US\$
Cash on hand	-	-	-	-	-	2,638,330	2,638,330
Deposits with the NBC *	18,275,540	-	-	-	-	52,759,443	71,034,983
Deposits and placements with other banks	40,000,000	-	145,000,000	-	-	33,136,090	218,136,090
Loan and advance to customers **	37,751,005	39,810,521	149,324,000	387,062,435	15,152,107	-	629,100,068
Other assets ***	-	-	-	-	-	8,401,575	8,401,575

	96,026,545	39,810,521	294,324,000	387,062,435	15,152,107	96,935,438	929,311,046
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#### Financial liabilities

Deposits from other banks	26,000,000	80,000,000	11,500,000	-	-	10,153,181	127,653,181
Deposits from customers	84,519,465	93,906,461	26,868,965	2,850,000	-	166,161,199	374,306,090
Borrowings	128,535,295	148,000,000	-	-	-	-	276,535,295
Subordinated debt	-	-	-	-	25,000,000	-	25,000,000
Other liabilities ***	-	-	-	-	-	11,880,445	11,880,445

	239,054,760	321,906,461	38,368,965	2,850,000	25,000,000	188,194,825	815,375,011
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#### Total interest re-pricing gap

	(143,028,215)	(282,095,940)	255,955,035	384,212,435	(9,847,893)	(91,259,387)	113,936,035
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#### In KHR'000 equivalents (Note 4)

	(574,687,368)	(1,133,461,487)	1,028,427,331	1,543,765,564	(39,568,834)	(366,680,217)	457,794,989
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(\*) Excludes statutory deposits.

(\*\*) Exclude regulatory allowances for impairment losses.

(\*\*\*) Includes only financial assets and liabilities.

## 15. FINANCIAL RISK MANAGEMENT (continued)

### (b) Market risk (continued)

#### (ii) Interest rate risk (continued)

31 December 2017	Up to 1 month US\$	1 to 3 month US\$	3 to 12 month US\$	1 to 5 years US\$	Over 5 years US\$	Non-interest sensitive US\$	Total US\$
<b>Financial assets</b>							
Cash on hand	-	-	-	-	-	2,814,542	2,814,542
Deposits with the NBC *	-	20,942,704	-	-	-	87,666,219	108,608,923
Deposits and placements with other banks	40,000,000	-	158,000,000	-	-	22,392,106	220,392,106
Loan and advance to customers **	7,664,840	54,428,368	190,674,710	284,638,024	-	-	537,405,942
Other assets ***	-	-	-	-	-	7,254,269	7,254,269
	47,664,840	75,371,072	348,674,710	284,638,024	-	120,127,136	876,475,782
<b>Financial liabilities</b>							
Deposits from other banks	8,000,000	97,339,700	25,000,000	-	-	6,637,952	136,977,652
Deposits from customers	31,008,066	29,147,632	18,892,270	-	-	89,075,187	168,123,155
Borrowings	228,167,000	180,000,000	58,732,710	-	-	-	466,899,710
Subordinated debt	-	-	-	-	25,000,000	-	25,000,000
Other liabilities ***	-	-	-	-	-	6,124,249	6,124,249
	267,175,066	306,487,332	102,624,980	-	25,000,000	101,837,388	803,124,766
<b>Total interest re-pricing gap</b>	(219,510,226)	(231,116,260)	246,049,730	284,638,024	(25,000,000)	18,289,748	73,351,016
<b>In KHR'000 equivalents (Note 4)</b>	(886,162,782)	(933,016,342)	993,302,760	1,149,083,703	(100,925,000)	73,835,713	296,118,052

(\*) Excludes statutory deposits.

(\*\*) Exclude regulatory allowances for impairment losses.

(\*\*\*) Includes only financial assets and liabilities.

## 15. FINANCIAL RISK MANAGEMENT (continued)

### (b) Market risk (continued)

#### (ii) Interest rate risk (continued)

##### Fair value sensitivity analysis for fixed rate instruments

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

#### (c) Liquidity risk

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

##### (i) Liquidity risk management process

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

##### (ii) Funding approach

The Branch's main sources of funding are from the Branch's paid-up capital deposits from banks and customers and borrowings. The sources of funding are reviewed daily through management's review of maturity profile of fixed deposits.

##### (iii) Non-derivative cash flows

The table below presents the cash flows arising from non-derivative financial assets and liabilities by remaining contractual maturities as at the balance sheet date. The amounts disclosed in the table are the contractual cash flows, excluding expected interest, whereas the Branch manages the inherent liquidity risk based on expected undiscounted cash flows.

## 15. FINANCIAL RISK MANAGEMENT (continued)

### (c) Liquidity risk (continued)

#### (iii) Non-derivative cash flows (continued)

31 December 2018	Up to 1 month US\$	1 to 3 month US\$	3 to 12 month US\$	1 to 5 years US\$	Over 5 years US\$	No maturity US\$	Total US\$
<b>Financial liabilities</b>							
Deposits from other banks	36,153,181	80,000,000	11,500,000	-	-	-	127,653,181
Deposits from customers	250,680,664	93,906,461	26,868,965	2,850,000	-	-	374,306,090
Borrowings	128,535,295	148,000,000	-	-	-	-	276,535,295
Subordinated debt	-	-	-	-	25,000,000	-	25,000,000
Other liabilities	-	11,880,445	-	-	-	-	11,880,445
<b>Total financial liabilities</b>	<b>415,369,140</b>	<b>333,786,906</b>	<b>38,368,965</b>	<b>2,850,000</b>	<b>25,000,000</b>	<b>-</b>	<b>815,375,011</b>
<b>In KHR'000 equivalents (Note 4)</b>	<b>1,668,953,205</b>	<b>1,341,155,788</b>	<b>154,166,501</b>	<b>11,451,300</b>	<b>100,450,000</b>	<b>-</b>	<b>3,276,176,794</b>

## 15. FINANCIAL RISK MANAGEMENT (continued)

### (c) Liquidity risk (continued)

#### (iii) Non-derivative cash flows (continued)

	31 December 2017	Up to 1 month US\$	1 to 3 month US\$	3 to 12 month US\$	1 to 5 years US\$	Over 5 years US\$	No maturity US\$	Total US\$
<b>Financial liabilities</b>								
Deposits from other banks		14,637,952	97,339,700	25,000,000	-	-	-	136,977,652
Deposits from customers		120,083,253	29,147,632	18,892,270	-	-	-	168,123,155
Borrowings		228,167,000	180,000,000	58,732,710	-	-	-	466,899,710
Subordinated debt		-	-	-	-	25,000,000	-	25,000,000
Other liabilities		-	6,124,249	-	-	-	-	6,124,249
<b>Total financial liabilities</b>		<b>362,888,205</b>	<b>312,611,581</b>	<b>102,624,980</b>	<b>-</b>	<b>25,000,000</b>	<b>-</b>	<b>803,124,766</b>
<b>In KHR'000 equivalents (Note 4)</b>		<b>1,464,979,684</b>	<b>1,262,012,952</b>	<b>414,297,044</b>	<b>-</b>	<b>100,925,000</b>	<b>-</b>	<b>3,242,214,680</b>

## 15. FINANCIAL RISK MANAGEMENT (continued)

### (d) Capital management (continued)

#### (i) Regulatory capital

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

- To comply with the capital requirements set by the NBC;
- To safeguard the Branch's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of the business.

The Branch's policy is to maintain a strong capital base so as to maintain market confidence and to sustain further development of the business. The impact of the level of capital on shareholders' return is also recognised and the Branch recognised the need to maintain a balance between the higher returns that might be possible with greater gearing and advantages and security afforded by a sound capital position.

#### (ii) Capital allocation

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

## 16. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

### **Disclaimer**

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