



Rural Development Bank



ANNUAL REPORT 2013

Table of Contents

Background, Mission, Main Duties	1
Products and Service, Interest Rate, Source of Funds, RDB's Partners	2
Chairman & CEO's Statement	3
Financial Highlight	5
Organization Chart	6
Coperate Governance	7
Board of Director	8
Management Team	11
Recruitment Policy and Career Development	13
Code of Conduct, Corporate Objective	14
Implementing Projects	15
Partners	19
Report of Directors	21
Balance Sheet	25
Income Statement	26
Statement of Change Equity	27
Statement of Cash Flows	28
Notes to the Financial Statement	29

BACKGROUND

The Rural Development Bank (RDB) was created by the Royal Government of Cambodia in 1998. The RDB is a public and autonomous enterprise, authorized to operate as a specialized bank.

The RDB is a key mechanism to support and strengthen micro finance and rural credit services, promote small and medium enterprises.

MISSION

RDB's vision is to promote agricultural, rural development and general economic activities in order to take part in poverty alleviation and raise the living standard of people.

MAIN DUTIES

- To provide finance to licensed financial institutions, commercial banks, specialized banks, Micro Finance Institutions, Credit Operators, Associations, Development Communities, Micro Small and Medium Enterprises (MSME), whose activities support the rural economy,
- To negotiate with development partners in order to attract grants and concessional loan funds for expanding the bank's operations,
- To cooperate with financial institutions in extending credit for implementing the project in agriculture, rural development and rural economy,
- To provide technical training to the Credit Operators,
- To implement the loan project according to the request of development partners while other Micro Finance Institutions could not implement,
- To provide loan for implementing special projects of the government or other sources with an agreement from the Ministry of Economic and Finance.

Products and Services

- **Loans** : Short term, Medium term, Long term, Overdraft
- **Deposits**: Saving Accounts, Fixed Deposit, Checking Accounts
- **Services**: Remittances, Inter-bank transactions

The Interest Rate

Interest rate can be adjusted according to market trends. For funds coming from development partners or from international financial institutions, the interest rates can be set according to the terms and conditions of the agreement between development partners or lenders and the RDB or with the Royal Government and RDB.

Source and Funds

- National budget as the RDB's capital to support rural micro finance, associations, development communities and SMEs.
- Special Funds of the Royal Government of Cambodia (Agricultural Supporting Development Fund) for supporting and developing agricultural and agro-industrial sectors.
- The agence Française de Développement (AFD), supporting Family Rubber Plantation Project in Kompong Cham Province.
- The Asian Development Bank (ADB) for Rural Credit and Saving Project.
- The International Fund for Agricultural Development (IFAD)
- Syndicated loans from commercial banks such as Canada Bank and Foreign Trade Bank of Cambodia
- Loan from China Development Bank for paddy and rice improvement in Cambodia
- Deposit

RDB's partners

RDB works in cooperation with national and international financial institutions in Cambodia and overseas such as Commercial banks, Micro-finance institutions, Bank for Investment and Development of Cambodia (BIDC) the Agence Française de Développement (AFD), the Asian Development Bank (ADB), the China Development Bank (CDB), and the International Fund for Agricultural Development (IFAD). RDB is a member of the Association of Banks in Cambodia (ABC), the Association of Development Financing Institutions in Asia and the Pacific (ADFIAP), and the Asia-Pacific Rural and Agricultural Credit Association (APRACA). RDB also has the cooperation with the Chamber of Professional and Micro Enterprises of Cambodia (CPMEC), the Cambodian One Village One Product National Committee (OVOP), and the China Development Bank.



Chairman & CEO's Statement

Rural development Bank has continued to stick on its vision to serve microfinance service in order to improve the quality of life of people in rural area, including social-economic development. Rural Development Bank plays as a mechanism to serve the government's policies not only provide own capital to microfinance institutions, loan for supporting family rubber plantation farmers, community farmers, agricultural development association and small and medium enterprises, but also provides special fund through Agriculture Support and Development Fund (ASDF) to rice miller association, rice market and paddy-rice processing companies, with both working capital to purchase agricultural products, especially rice products to prevent urinary abroad harvest, to increase local processing, to push rice exporting instead of paddy and investment capital to expand and modernize the dryer and processing machines.

This is actively involved in implementation of Government's Rectangular Strategy, which has given high priority on agricultural development, which is a core of promoting rural economy. Through this implementation of Government Special Fund, rice mill trader has enabled to competitive price, to collect paddy with neighbors countries in order to keep prices vary, to create rice market with sustainable price for local farmers and rice mill is also able to process rice for exporting which makes Cambodian rice export increase from year by year. The success of this implementation has attracted local banks extend loan for supporting agriculture sector. Moreover they have been interested in loan cooperation with Rural Development Bank for supporting rice sector in Cambodia through long term loan after government has laid down policy on the Promotion of Paddy Rice Production and Export of Milled Rice. Specifically, China Development Bank has provided long term loan through Rural Development Bank with total amount of 8 Million USD for supporting rice sector in Cambodia. The Export-Import Bank of China also signed a memorandum of understanding on cooperation for financial to agriculture and rice sector in Cambodia.

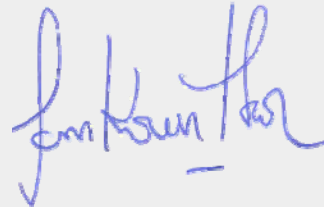
By recommendations of Samdech Akka Moha Sena Padei Techo Hun Sen's, the prime minister of the Royal Government of Cambodia in promoting the development of frontier regions, Rural Development bank has expanded credit to rural western frontier in Battambang and Banteay Meanchey province, especially in Malai district and Banteay Chmar commune, Thmor Pouk district to make those area become a agricultural zone with agricultural market, dryer machine, processing companies and more collectors in order to make better households' standard of living from year by year. Furthermore, the special fund to army family communities could assist livelihood and ensure the army households' standard of living and long-term resettlements; particularly living with families and this is to pitch in to supply food to the army who are stationing at the Preah Vihear Temple area in the mission to protect the public ribbon territory. In 2013, Rural Development Bank received award in the credit project for supporting farmer communities and army family communities along border from Association of Development Financing Institutions in Asia and the Pacific (ADFIAP).

Base on the need of Rural Development Bank in providing loan which is increasing every year as in 2010, total of loan is 48 Million USD, 53.5 Million USD in 2011, 70.5 Million USD in 2012 and 85.5 Million in 2013.

As of 2013, Rural Development Bank has provided loans to 4 MFIs, 17 Microfinance operators, 8 provincial rice mill association which has 65 rice mill owners as member, 3 rice traders, 71 SMEs, 4 agricultural development communities and 455 households under the Family Rubber Plantation Project.

After payment from clients, the amount of loans and advances at the yearend is 61.45 Million USD and total asset increased to 72.17% Million USD, up 7.47% compared to 2012. Total revenue is 4.41 Million USD and profit before tax is 0.84 Million USD. Rural Development Bank's target is focused on improving the living condition of people and rural economic development rather than profit oriented.

Instead of Board of Directors, I would like to express our deep gratitude to the government, Ministry of Economy and Finance, especially National Bank of Cambodia, which has always supported and provided recommendation to improve the operation of Rural Development Bank.



SON Koun Thor
Chairman and CEO



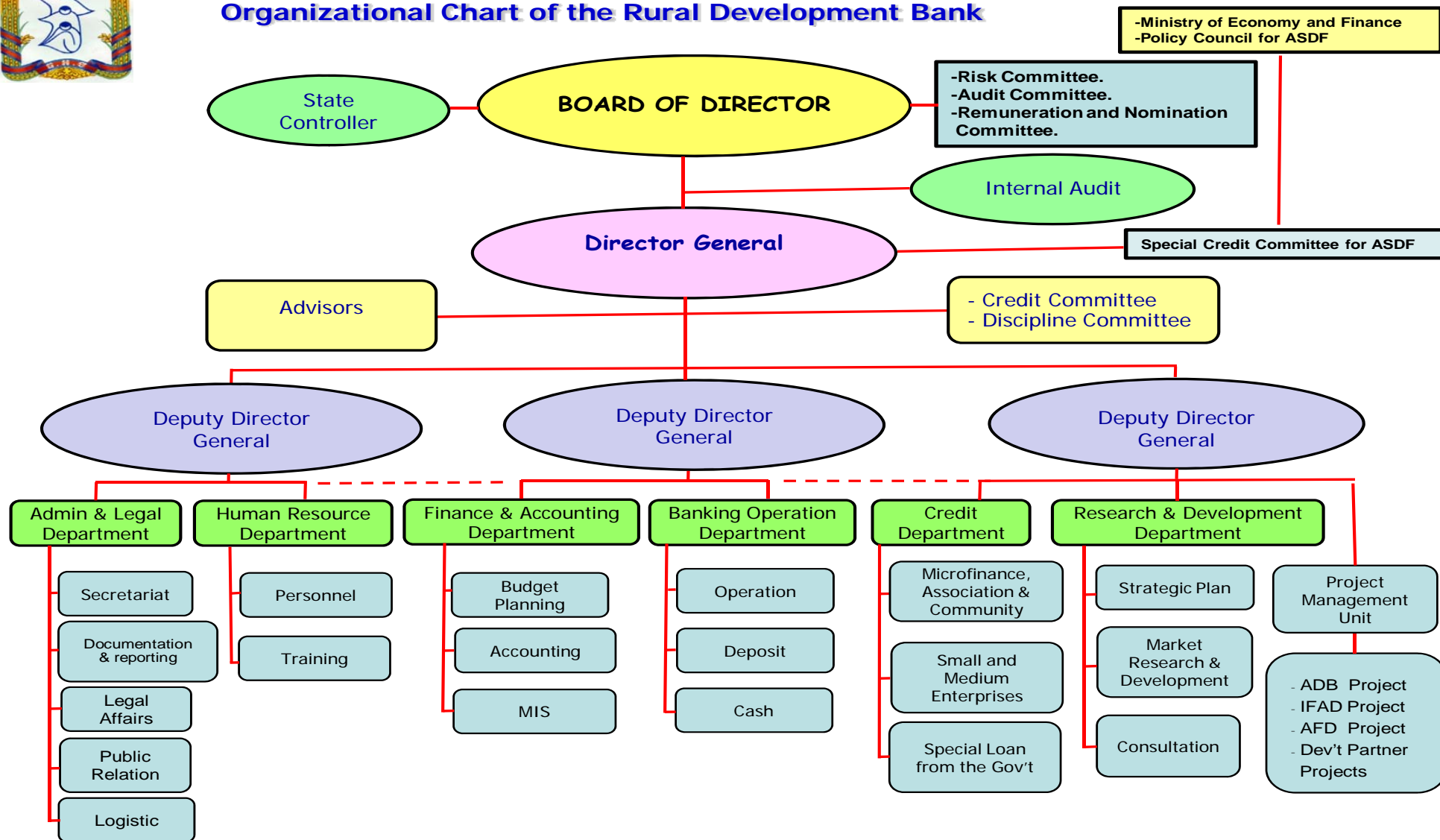
Financial Highlights

The following indicators are the financial highlights for the position ending December 31, 2011-2013 presented in USD:

	2013	2012	2011
Profitability :			
Total income	4,407,964	3,871,062	2,195,896
Operating incomes before provision impairment	2,075,605	1,507,104	1,107,521
Profit Before Tax	843,573	698,024	984,171
Profit After Tax	644,270	504,242	769,950
Key Balance Sheet Items:			
Total Assets	72,166,955	67,149,194	51,539,264
Shareholder's fund	26,048,161	25,534,349	25,056,944
Loans and advances	61,450,096	54,664,311	34,038,438
Deposits from non bank customers	1,540,595	1,271,810	1,316,589
Financial Ratios:			
Return on Equity	2.47%	1.94%	3.04%
Return on Assets	0.89%	0.75%	1.49%
Total expenses to income ratio	85.38%	86.97%	64.94%
Non performing loans to total loans	5.97%	11.13%	5.68%
Solvency Ratio (NBC)	41.92%	45.63%	71.88%
Quick Ratio	294.39%	365.21%	655.61%



Organizational Chart of the Rural Development Bank



CORPERATE GOVERNANCE

Principles

The Rural development Bank is governed on the rule of simple separation of responsibilities between a non-executive Board of Directors, with a Chairman, acting collectively and answerable to the unique shareholder, in accordance with the state controller, and an executive management team under the Chief Executive Officer who has the direct day-to-day responsibilities of controlling current businesses of the Bank.

Shareholder

RDB is a full State-owned company which operates under the financial and technical guardianship of the Ministry of Economy and Finance, and under the supervision of the National Bank of Cambodia.

Board of Directors' Roles

The Chairman and the directors were appointed by sub-decree on the proposal of the Minister of Economy and Finance, and signed by Samdech Akak Moha Sena Padei Decho Hun Sen Prime Minister of the Kingdom of Cambodia for a renewable period of 3 years. The Articles provide that Board shall consist of six appointed directors and one automatic member who is the representative of the personnel.

The Board of Directors defines general orientation and controls the operations of the RDB in accordance with the general rules and regulations that govern State enterprises. The following duties shall be achieved:

- To achieve the development project in compliance with the Royal Government goals and policies,
- To approve the annual budget and investment plan of the RDB,
- To approve the annual report of activities and other financial management reports,
- To review and approve, on request of the Director General, on the organization chart of internal rules, personnel's statutes, salaries, bonus and other rewards in accordance with the setting up rules and regulations,
- To review and approve on the RDB's contract documents in compliance with terms and conditions stipulated in rules and regulations,
- To propose the amendment to the Statute of the RDB,
- To delegate a part of its authorities to the Director General for the implementations of credit operations,
- To evaluate the achievements of the RDB regularly and to take action for improving the business performance,
- For special circumstances, the Board of Director is entitled to invite the Director General to make a report

BOARD OF DIRECTORS

H.E. Mr. SON Koun Thor
(Chairman)



H.E. Mr. SON Koun Thor is also an advisor to Samdech Prime Minister HUN SEN (with Senior Minister Status), Vice-Chairman of the Supreme National Economic Council (Prime Minister's Office), President of Chamber of Professional and Micro Enterprises of Cambodia, Secretary General of the Cambodia One Village One Product National Committee (OVOP), and Vice-chairman of the Council for Agricultural and Rural Development (CARD).

He got the Bachelor degree of Law and Sciences Economics at the University of Phnom Penh, Cambodia in 1973 and completed his Doctorate (PhD) in Accounting in Paris-France in 1976.

He obtained the MBA on Management at Institut Supérieur de Sciences Economiques et Commerciales (SSEC) Paris-France in 1979 and completed Doctorate (PhD) on Banking and Finance at the University of Paris VI-France in 1984.

From 1968 to 1973, He served as a Director of Economic Studies and Documentation of National Bank of Cambodia and Deputy Chief of Finance and Accounting Department at Usitra France Services Group Paris-France from 1974 to 1979. From 1979 to 1984 he was an auditor at Credit Mutual Paris-France and was promoted to the Financial Analyst Department from 1984-1985. From 1985 to 1989 He was appointed by UNFAO at Office Special Relief Operation (OSRO) Rome-Italy as Project Coordinator and from 1989 to 1992 he was an officer of UNFAO, in charge of Agricultural Project in Ivory Coast. His Excellency SON Koun Thor was also appointed as the UNFAO Representative in Cambodia from 1992 to 1994.

H.E. Mr. HING Thoraxy

(Board member, Representative of the Office of the Council of Ministers)



H.E. Mr. **HING Thoraxy** currently is a Secretary of State of the Office of the Council of Ministers.

He got the Ph.D. in Economics, Moscow, Russia in 1991 and M.Sc. in Economics with Honors, Moscow, Russia in 1986.

In 1999-2004, before he became a Director-Cambodian Investment Board (CIB), CDC, he was a Deputy Director-Cambodian Investment Board (CIB) – Council for Development of Cambodia (CDC) from 1997-1999.

He was also Assistant Director – Credit Committee for Rural Development (CCRD) in 1995-1997. At that mean time in 1994-1997 he was a Deputy Director – Cambodian Rehabilitation and Development Board (CRDB) Council for Development of Cambodia (CDC).

In 1994-1995 he was an Assistant to Vice-Chairman of CDC – Cambodian Rehabilitation and Development Board (CRDB) of Council for Development of Cambodia (CDC). He was an Assistant to Senior Minister H.E. KEAT Chhon, Cabinet of Council of Ministers. In 1992-1993 he was a Deputy Director of Department, Cabinet of Council of Ministers. He was also an Economist in Commerce – Finance-Bank Department, Cabinet of Council of Ministers. From 1979-1980 he was an Educator, Central Committee for Information and Education.

Mr. LY Savuth

(Board member, Representative of the Ministry of Rural Development)



Mr. **LY Savuth** is currently a Deputy Director General for Administration and Finance, Senior Official.

He got the Master of Business Administration degree in 2008 and BSc (Social Science) in 1991. He completed the High School Diploma in 1974.

From 1998-2000, he occupied as a Deputy Director for Administration and Personnel. He was an Office Chief for Public Relation from 1993-1998. He was also a Deputy Chief for Informal Training from 1979-1992.

Mr. HEL Chamroeun

(Board member, Representative of the Ministry of Economy and Finance)



Mr. **HEL Chamroeun** is currently a Law Department Director of Economy and Finance Ministry and Division Chief of Study and Governance Policy analysis of General Secretariat of Supreme National Economic Council.

He got the Ph.D. in Law in 2008 and Master in Private Law in 2002, Paris 1 Panthéon Sorbonne University, France and, Bachelor degree in Law, Lumiere Lyon 2, France, in 2000.

From 2008-2010, he served for Council of Minister and Private Law Lecturer at Royal Law and Economic Science University from 2003-2010.

During 2003 and 2009, he occupied as Deputy Law Department Director of Economy and Finance Ministry, Deputy Division Chief of Study and Governance Policy analysis of General Secretariat of Supreme National Economic Council, Coordinator and Translator, assistant, and others. Besides, he wrote and published research books on **Cambodian Heritage Justice** and **Law of Job** in 2010 and 2005.

Mr. OU Sophanarith

(Board member, representative of the Banking Business)



Mr. **OU Sophanarith** is currently Financial Controller /Senior Manager of Canadia Bank Plc, Board member of Cana Securities Ltd. (a subsidiary of Canadia Bank Plc) and Board member of Khmers HIV/AIDS NGOs Alliance (KHANA).

He got Certified Public Accountant (CPA) and ACCA in 2006 and Bachelor degree of Business Administration at National University of Management in 2000.

From 2000-2006, he served as Audit Supervisor at PricewaterhouseCoopers Cambodia Ltd.

Lok Chumteav Oknha TAN Phally
(Board member, Representative of Microfinance Institution)



Lok Chumteav Oknha TAN Phally is currently Chairman and CEO of Entean Akpheavath Prachea Chun Limited. She graduated master degree of Public Administration at Chamroeun University of Poly-Technology in 2009. She has attended a large number of local and international training programs in English Language at Long Beach City College, USA in 2002, Basic Administration Course in Guiding at Thailand in 1999, Association for Overseas Technical Scholarship in Tokyo, Japan 1998, Gemmologist in 1991 at Paris, France and others.

Lok Chumteav Oknha is an outstanding performer. From 1979 to 2007, she was chairman and CEO of Sokha-Phally Dusit Group. In the same period, she occupied as the Owner of Dusit Gems & Jewelry (Cambodia & Los Angeles), Dusit Real State, Dusit commercial Import Export, Dusit Hotele & Restaurant and Dusit Travel Agency, and she also had a lot of experiences with Private sector, NGO and government as Chief of Accounting and Administration, Project Manager, Chief Commissioner, Advisor, etc. Besides, she has contributed and gotten many medals for national building.

Mr. CHAN Seyha
(Board member, representative of the personnel of RDB)



Mr. **CHAN Seyha** is currently Deputy Director General at Rural Development Bank of Cambodia.

He got Master degree in Finance from National University of Management in 2004 and Bachelor degree of Banking from the University of Banking, Vietnam in 1991.

From 1991 to 1999, He served as a Deputy Chief of Accounts Management Division, Chief of Section in charge of Clearing House Division, Banking department, and Accounting Officer of National Bank of Cambodia.

MANAGEMENT TEAM

Name and Position	Education	Working Experiences
 <p>H.E. Mr. SON Koun Thor CEO</p> <p>-Date of birth : June 05, 1950 -Appointed as Chairman & CEO of RDB since July 22, 1999</p>	<p>PhD Banking and Finance. Paris VI University.</p> <p>PhD in Accounting EHSS, Paris.</p> <p>MBA Management in ISSEC, France.</p> <p>BA in Law & Sciences Economics.</p>	<ul style="list-style-type: none"> - Advisor to Samdech Techo HUN Sen, Prime Minister (Senior Minister Status) - Advisor to the Royal Government of Cambodia (Minister Status) - Vice Chairman of the Supreme National Economic Council (Prime Minister's Office) - President of Chamber of Professional and Micro Enterprises of Cambodia - Secretary General of the Cambodia One Village One Product National Committee - FAO Representative in Cambodia - FAO Financial Expert (Africa) - Credit Mutual (France) - Officer (National Bank of Cambodia)
 <p>Mr. CHAN Seyha Deputy Director General in charge of Accounting Finance & Operation</p> <p>-Date of Birth :August 07, 1965 -Joining RDB since Jan 20, 1999</p>	<p>Master of Finance at National University of Management</p> <p>Bachelor in Banking, Banking College, Ho Chi Minh City Viet Nam</p>	<ul style="list-style-type: none"> - Head of Operation Department of RDB - Deputy Chief of Accounts Management Division, Banking Department (NBC) - Chief of Section, Clearing House Division, Banking Department of NBC. - Accounting Staff at NBC
 <p>Mr. UCH Chantha Deputy Director General in charge of Admin. & Legal and Human resource</p> <p>-Date of Birth : August 25, 1966 -Joining RDB since Sept 15, 1999</p>	<p>Bachelor Phnom Penh University</p>	<ul style="list-style-type: none"> - Vice Secretary General, Cambodian One Village One Product National Committee. - Secretary General Official of the Supreme National Economic Council. - Member of the secretary General of Economics, Social and Cultural Observation Unit (ESCOB) of the Office of the Council of Ministers - Assistant to Economic Advisor of Royal Government
 <p>Mr. PECH Sany Deputy Director General in charge of Credit and Research & Dev't</p> <p>-Date of Birth : October 1, 1964</p>	<p>Master of Business Administration at NIB</p> <p>Bachelor of Banking, Banking College Ho Chi Minh City Viet Nam</p>	<ul style="list-style-type: none"> - Head of Project Management Unit, RDB - Vice Head of Accounting and Finance Department, RDB - Chief Bureau of R&D, Credit Department of RDB - Chief Bureau in charge of MIS - Credit Officer of RDB - Worked for Rich Nation Bank - Worked in Supervision and Examination Department of NBC - Worked in Accounting Department of NBC

-Joining RDB since Jan 01, 2001



Mr. MAK Sophal

Advisor to CEO

-Date of birth : June 07, 1964

-Joining RDB since Jan 20, 1999

Bachelor in Banking,
Banking College,
Ho Chi Minh City
Viet Nam

- Head of Credit Department of RDB
- Section Chief of analysis & Regulation
Section of Bank Supervision
Department (NBC)
- Instructor at Banking Study Center
- Worked in On-off site examination
Supervision, NBC
- Internship Banking College Ho Chi
Minh City, Viet Nam
- Internal Audit Committee of NBC



Mr. Nong Thearith

Head of Internal Audit

-Date of Birth : Jan. 30, 1963

-Joining RDB since Jan. 25, 1999

Master of Science in
Economics at:

- Economic & Financial
Institute St. Petersburg
(former Leningrad City)
Russia (1985-90)
- Kiev University, Kiev
City, Ukraine.(1984-85)

- Bureau Chief, International
Cooperation Dept. GMS Project,
Ministry of Planning
- Division Chief, Project Monitoring and
Coordination Unit (PMCU), MoP /
ADB, as Executing Agency of SRAL,
Loan No 1199-CAM(SF)
- Officer of Financial & Commercial
Department of Ministry of Planning



Mr. SOK Sorano

Head of Human Resource

-Date of Birth : May 29, 1967

-Joining RDB since Dec 20, 1998

Master of Business
Administration at NIB

High Diploma of Business
Administration in
Accounting & Finance

Bachelor of Animal
Product and Health
(1992-1996)

- Vice Head of Human Resource, RDB
- Bureau Chief of Human Resource
- Bureau Chief of Credit, RDB
- Chief Office of Environment Ministry
- Officer of Fishery Department, Ministry
of Agriculture, Forestry and Fishery



Mr. SIM Thiravuth

Head of Admin. and Legal

-Date of Birth : March 29, 1968

-Joining RDB since Dec 25, 1998

Master of Business
Administration at National
University of Management

Bachelor of Economics at
Faculty of Business

- Vice Head of Admin. and Legal, RDB
- Bureau Chief of Admin., RDB
- Operation staff, RDB
- Vice Chief of Admin. Office, Tourism
Ministry



Mr. SOKRET Than Issara

Head of Credit

-Date of Birth : July 25, 1982

-Joining RDB since Apr 04, 2001

Master of Finance at
Panhasastra University

Bachelor of Finance and
Banking at National
University of Management

- Head of Research and Development, RDB
- Deputy Head of Research and Development, RDB
- Deputy Bureau Chief of Research & Development, RDB
- Credit Officer, RDB



Mr. OR Somara

Head of Accounting and Finance

-Date of Birth : Oct 18, 1978

-Joining RDB since Oct 16, 2003

Master of Finance at
National University of
Management

Bachelor of Accounting
at National University of
Management

- Vice Head of Accounting and Finance, RDB
- Bureau Chief of Accounting, RDB
- Accounting Staff, RDB



Mr. CHHOENG Sokhanara

Head of Operation

-Date of Birth : Jan 14, 1968

-Joining RDB since Apr 17, 2001

Bachelor of Accounting
at Cambodian University
for Specialties

- Vice Head of Operation, RDB
- Bureau Chief of Operation, RDB
- Operation staff, RDB
- Staff at Rich Nation Bank
- Staff at SBC Bank

RECRUITMENT POLICY AND CAREER DEVELOPMENT

The majority of the people in the management team are professional bankers from both overseas and local banks. Most officers are graduated in accounting, business, economics, or finance. They are skillful and some of them have accomplished a very successful background in terms of experiences and professional qualifications.

RDB encourages its staff for the improvement of their skills by allowing and helping them continue their studies at various universities or institutes and participate in the training courses. From 2001 until now, 9 of them have been graduated respectively from Associate/ High Diploma to Master Degree.

Upon the recruitment policies, all officers will be required to undertake a period of general banking orientation, during which they will work for a period of time in every department/section. At the completion of the orientation period, an officer's career path will be then decided on the basis of the officer's academic qualification, in accordance with his or her own choice and RDB's opinion over the person's performance.

The bank's promotion policy is fairly and sincerely based on the merits. Few core criteria are into account for the consideration of an officer's career. We are caring about every personal result as well as his or her ability to contribute to the team's performance.

The recruitment policy is being undergone progressively, so that we can respond to the expansion of our activities, such as in developing a specific and adapted financial offer to the SME sector, the fishery communities, the agricultural communities, and the agro-industry sector, in accordance with the rural development program of the government. Nowadays, RDB employs 50 people and it seems to be sufficient at the moment.

RDB is alert to the fact that its prime resource is its staffs. RDB will ensure that staffs are continuously upgraded and that excellence and achievement are encouraged and rewarded. RDB is increasingly conscious of the need to avoid exposure to environmental risks and to be sensitive to environmental issues.

CODE OF CONDUCT

Whilst directors' conduct is governed by our Bylaw, relevant laws and regulations of the Kingdom of Cambodia, RDB is very careful to follow the continuing evolution of the banking system and corporate ethics. We are very cautious to maintain the internal standards of corporate behavior at the highest levels. Our bank is monitoring everyday the staffs' behavior, relationships between colleagues inside the bank, and especially to insure our customers' confidentiality. Our internal rules prevent conflicts of interests; we formally forbid every acceptance of gifts; we are struggling against money laundering and 'whistle blowing'.

CORPORATE OBJECTIVE

The development of a balanced portfolio diversified by sub-sector, partners' size, geographic location, and product type is central to the conduct of RDB's business. To this effect, RDB will formulate short and medium term goals within a rolling five-year corporate plan.

RDB's main objective is to be a profitable and self-sustaining financial institution, providing financial and counsel services for the development and the expansion of enterprises in every economic sector in the rural areas of Cambodia.

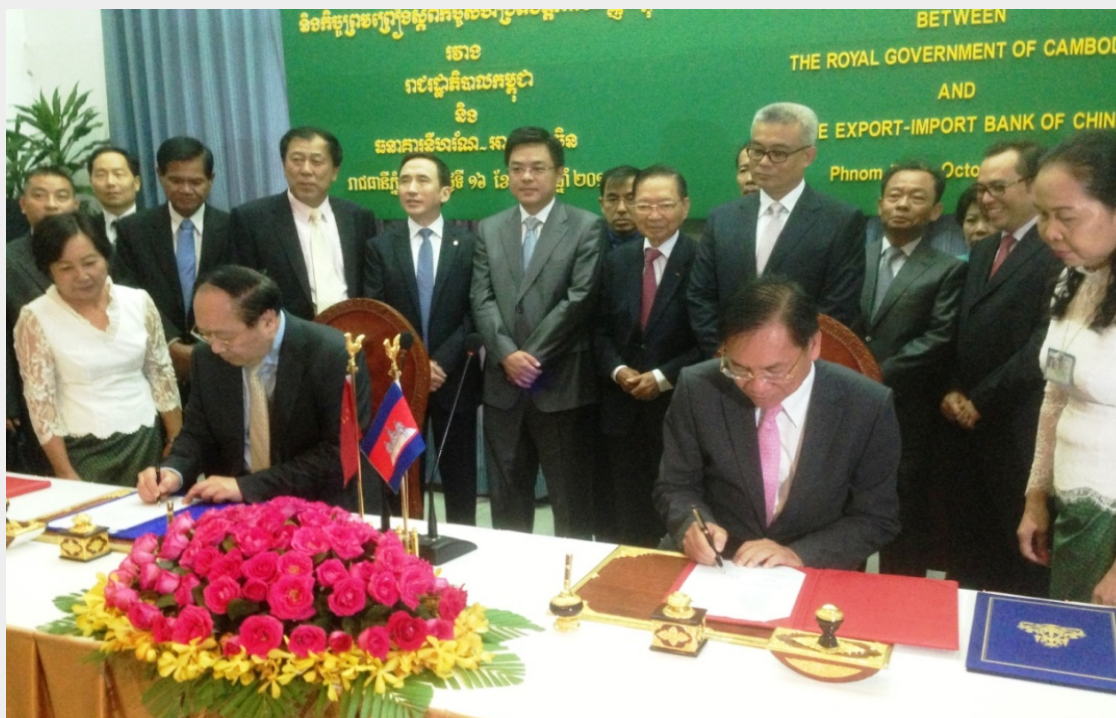
The upholding of good profitability and return on investment, by increasing the liquidity of our funds, is fundamental in order to be able to support small and medium enterprises' initiatives. The RDB raised several times its equity and the bank received KHR 8,000 million and US\$ 6 million from the Royal Government of Cambodia during the year 2006 and 2008 respectively. Our institution has become a well-known bank in the Cambodian financial market, acquiring at the same time a high level of standing for its qualities in doing business. RDB has to stimulate competition between micro credit operators by providing its funds to those who are the most competitive, efficient, and profitable in delivering low cost loans to the people that are in real needs.

IMPLEMENTING PROJECTS:

Agriculture Support and Development Funds (ASDF)

According to the highest recommendation of Samdech Akeakmohasenapadey Dacho Hun Sen Prime Minister of the Kingdom of Cambodia and following the care from the Ministry of Economy and Finance and Supreme National Economic Council, RDB is responsible for implementation the special loan provided by the government included the counterpart fund of RDB as a working capital to the Rice Miller Associations and Rice Market in the purpose of purchasing paddy during the harvest season, preventing paddy outflow and enhancing domestic recycle, increasing value added, increasing the number of stock for national food security, and the rice market competition both price and quality, especially, transforming the paddy exporting to the rice exporting. This financing has been started since 2005 in the amounts of USD 2 Million and increased to USD 4 Million in 2006, USD 6 Million in 2007, USD 16 Million in 2008, USD 16 Million in 2009, and USD 18 Million in 2010. As the result, this project is taking part in pushing the rice price in Cambodia to the lower rate growth comparing to the neighboring countries and world market.

In 2011, RDB has strongly been continuing to play its vital role following to the Royal Government of Cambodia's policy in promoting rice producing and exporting under the Agriculture Support and Development Funds (ASDF) financing in the amount of 18 million USD to Rice Miller Associations and Rice Processing Companies as short term working capital in purchasing paddy storing for rice processing for domestic demand and export and as long term investment capital in strengthening, expanding and modernizing of drying and processing machines. With this financing, Cambodia was possible to prevent the huge increase of rice price from dealers in the previous years.





1. Family Rubber Plantation Program

The Philosophy of the Project

The Cambodian rubber plantation industry knew an important development before being ruined by the civil war during the last twenty years. A plan of raise was the object of profound discussions between the Cambodian authorities and the Agence Française de Développement. An agreement had been intervened on its main objectives that are the privatization of the industrial rubber plantations, nationalized in 1979, and the development of the family rubber plantations.

The Objectives, Justification and Means of the Project

The pilot project, initiated in 1999 for three years, aspired to test on 1500 hectares the most suitable solutions, in terms of technical, institutional and financial plans, which will permit the development of small family plantations on a large scale.

This project essentially applies to small farmers who cultivate less than 5 hectares, but the system will be further tested in the same way for individual plantations of a bigger dimension.

The Organization of the project

The development of the family rubber plantations should be confided to a national structure, in the kind of a corporation in "mixed economy", associating various partners.

Considering the long delay of entry in production of the rubber trees, the project will facilitate the setting up of a long term credit whose conditions would be the following:

- Length of 20 years maximum differ in capital and interests of 10 years
- The refund of the credit by the farmer will only begin in the year 11

The Intermediary phase

As the experimental phase ended in June 2003 and succeeded with nearly 1,300 hectares of plantations and more than 500 farmers who had participated to the program, the AFD and the Royal Government of Cambodia decided to go forwards with a new agreement. It was introduced an intermediary phase, during which EUR 3,5 millions (partly entrusted to the RDB, under the provision of an agreement with the Government) would be invested in the development of additional 1,500 hectares of such a small family plantation over the period 2003 – 2006. The financial scheme had evolved in comparison to the experimental phase. So as to prevent the farmers from bearing the foreign exchange risk, the loans were denominated in Khmer Riels with an annually compounded interest rate, which had been raised from 7 % to 9%. The duration was scheduled for 20 years and the grace period had been reduced to 8 years from the previous 10 years, partly due to technical improvement leading to swifter tapping of rubber trees.

This phase, fell due by march 2006, was managed through a partnership with the Groupe de Recherche et d'Echanges Technologiques teams (GRET) and already showed significant results in terms of the number of farmers entitled to loan facilities (about 603 farmers), their knowledge of long term credit, and planted areas (1889 hectares as of march 2005) totaling nearly a one-million-dollars outstanding loan.

The bank and the GRET jointly invited various microfinance institutions to attend the information meeting on 28 February 2007, so as to see whether they were interested in taking over this project, in return of a subordinated debt with the Ministry of Economy and Finance. By the deadline date of 12 March 2007, none of them had expressed any interests in the acquisition. Consequently to this result, the RDB would manage the credit part of this project on its own from April 2007 onwards, upon the expiration of the agreement with the GRET.

4. IFAD Project

The Philosophy of the Project

The project is intended to provide funds from the International Fund for Agricultural Development, under technical assistances of the Rural Development Bank, to eligible Non-Government Organizations who will on-lend these funds to the IFAD' s target groups. The assessment of the expected demand for credits from the members of the IFAD' s target group indicated that there is a requirement of USD 1.235 million of incremental funds over five years (2001-2006), based on an overall 95% repayment rate. The lending consists of:

- The seasonal loan (about USD 38 to 79) to finance farm inputs and the Agricultural Improvement Program (AIP). Technologies around USD 30,000 (25,000 in the lowlands and 5,000 in the uplands). The households targeted by the AIP borrow for an average period of six months;
- USD 11,625 short-term loan for the farm and the off-farm income generation (between USD 18-38), which are repaid within one year;
- An amount about USD 6 250 medium-term loan for the farm and the off-farm income generation repayable over two years (i.e. USD 72 for a share in a pump). The interest rates are marketed under the saving and credit program whereas 11,785 households are expected to benefit from the program.

The Targeted Activities

There are three groups of activities for which the potential borrowers from the IFAD target group might require credits: (i) crops and livestock productions; (ii) agro-industries and manufactures; (iii) and trade and other services.

The Responsibilities of the RDB

The RDB has the following duties:

1. Confirming and selecting qualified NGOs;
2. Organizing and providing specialized trainings to the NGOs' staffs;
3. Processing the on-lending of the loan from the Ministry of Economy and Finance;
4. Reviewing and consolidating the annual Action Work Plan and Budget (AWPB);
5. Processing and consolidating the eligible project expenditures and withdrawing the applications for submission to the Project Support Unit (PSU);
6. Establishing an effective monitoring and evaluation system;
7. Preparing the quarterly project progress reports for submission to the Project Support Unit.

The Duties of Participated Entities

The participated NGOs must provide savings and credit services to the households living in the communes targeted by the AIP. These NGOs can follow their own approach for the delivery of savings and credit services but shall include in their program: (i) working groups and village bank instruction; (ii) participating to the demonstration and extension of agricultural program of the IFAD's target groups.

The Outcome

The rural credit project under the IFAD loan No.513-KH is being successfully implemented since 2004. Seven RDB partners are operating in four targeted provinces: Seilanithih and NEW in Pursat; SDR, KRDA, AFA and CBIRD in Battambang; Seilanithih and AFA in Banteay Meanchey; and CEB, CBIRD and NEW in Siem Reap



Our Partners

Engaging in partnerships is one of Rural Development Bank's guiding principles. Both public and private agencies, national and international organizations are working hand in hand with RDB to ensure the best financial services in Cambodia. To this end, RDB has signed with the following partners:



Agence Française de Développement



Groupe de Recherche et d'Echanges Technologiques



International Fund for Agricultural Development



Northwest Development Association



CHC Limited (Micro Finance Institute)



Seilanithih Ltd.



Hattha Kaksekar, Ltd. (HKL)



Cambodian Entrepreneur Building



Entean Akpevath Pracheachun



Khmer Rural Development Association (KRDA)



Inatean Polroth Rong Rerng LTD



MAXIMA MIKROHERANHVATHO Co. Ltd.



Farmer Union Development Funds



Aid Farmer Association (AFA)



Cambodia Business Integrated in Rural Development Agency (CBIRD)



Social Development in Rural (SDR)



Federation of Cambodia Rice Millers Associations



Kristhan Pisith Akphiwat Sethakech Co.,LTD



CANADIA Bank Plc.



Foreign Trade Bank of Cambodia



China Development Bank

Report of the Directors

The Board of Directors has pleasure in submitting their report together with the audited financial statements of Rural Development Bank (“the Bank”) for the year ended 31 December 2013.

Principal activity

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

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

Financial results

The financial results of the Bank for the year ended 31 December 2013 were as follows:

	2013		2012
	US\$	KHR'000 (Note 4)	US\$
Profit before income tax	843,573	3,370,073	698,024
Income tax expense	(199,303)	(796,215)	(193,782)
Net profit for the year	<u>644,270</u>	<u>2,573,858</u>	<u>504,242</u>

Dividends

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

Share capital

There were no changes in the registered and issued share capital of the Bank for the year under review

Reserves and provisions

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

Bad and doubtful loans and advances

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

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

Current assets

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

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

Valuation methods

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

Contingent and other liabilities

At the date of this report, there does not exist:

- (a) any charge on the assets of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person, or
- (b) any contingent liability in respect of the Bank that has arisen since the end of the financial year other than in the ordinary courses of banking business.

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

Change of circumstances

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

Items of unusual nature

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

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

Board of Directors

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

H.E. Son Koun Thor	Chairman
H.E. Hing Thoraxy	Member
H.E. Hel Chamroeun	Member
Louk Chumteav Tan Phally	Member
Mr. Ou Sophanarith	Member
Mr. Ly Savuth	Member
Mr. Chan Seyha	Member

Directors' interests

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

Directors' benefits

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

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

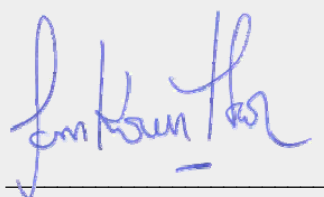
Directors' responsibility in respect of the financial statements

The Directors are responsible for ascertaining that the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2013, and its financial performance and its cash flows for the year then ended. In preparing these financial statements, the Directors are required to:

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

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

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



H.E. Son Koun Thor

Chairman and Chief Executive Officer

31 March 2014

Rural Development Bank

Balance sheet

As at 31 December 2013

	Note	2013 US\$	2013 KHR'000 (Note 4)	2012 US\$
Assets				
Cash on hand	5	1,017,594	4,065,288	324,141
Balances with banks	6	1,877,977	7,502,518	1,085,683
Balances with the National Bank of Cambodia	7	7,734,826	30,900,630	9,734,348
Loans and advances - net	8	59,638,597	238,256,195	54,073,497
Investment	9	12,500	49,937	12,500
Foreclosed properties	10	1,113,605	4,448,852	1,113,605
Other assets	11	14,199	56,725	179,959
Intangible assets	12	8,171	32,643	16,319
Property and equipment	13	749,486	2,994,197	609,142
Total assets		72,166,955	288,306,985	67,149,194
Liabilities and shareholders' equity				
Liabilities				
Deposits from customers	14	1,540,595	6,154,677	1,271,810
Deposits from banks	15	48,808	194,988	48,374
Borrowings	16	42,908,799	171,420,652	38,886,704
Other liabilities	17	1,487,043	5,940,737	1,246,728
Provision for income tax	25	133,549	533,528	161,229
Total liabilities		46,118,794	184,244,582	41,614,845
Shareholders' equity				
Share capital	18	20,475,890	81,801,181	20,475,890
Subordinated debts	19	1,305,000	5,213,475	1,435,458
Retained earnings		4,267,271	17,047,747	3,623,001
Total shareholders' equity		26,048,161	104,062,403	25,534,349
Total liabilities and shareholders' equity		72,166,955	288,306,985	67,149,194

The accompanying notes form part of these financial statements.

Rural Development Bank

Income statement for the year ended 31 December 2013

	Note	2013 US\$	2013 KHR'000 (Note 4)	2012 US\$
Interest income	20	4,098,440	16,373,268	3,558,862
Interest expense	21	(1,160,394)	(4,635,774)	(1,125,565)
Net interest income		2,938,046	11,737,494	2,433,297
Non-interest income	22	309,524	1,236,548	312,200
Personnel and other staff cost	23	(746,404)	(2,981,884)	(699,113)
Depreciation and amortisation expenses		(110,699)	(442,243)	(101,075)
General and administrative expenses	24	(314,862)	(1,257,874)	(438,205)
Operating income		2,075,605	8,292,041	1,507,104
Allowance for bad and doubtful loans and advances	8	(1,232,032)	(4,921,968)	(809,080)
Profit before income tax		843,573	3,370,073	698,024
Income tax expense	25	(199,303)	(796,215)	(193,782)
Net profit for the year		644,270	2,573,858	504,242

The accompanying notes form part of these financial statements

Rural Development Bank

Statement of changes in equity for the year ended 31 December 2013

	Share capital US\$	Subordinated debts US\$	Retained earning US\$	Total US\$
Balance as at 1 January 2012	20,475,890	1,565,916	3,118,759	25,160,565
Repayment to IFAD	-	(130,458)	-	(130,458)
Net profit for the year	-	-	504,242	504,242
Balance as at 31 December 2012	<u>20,475,890</u>	<u>1,435,458</u>	<u>3,623,001</u>	<u>25,534,349</u>
Balance as at 1 January 2013	20,475,890	1,435,458	3,623,001	25,534,349
Repayment to IFAD	-	(130,458)	-	(130,458)
Net profit for the year	-	-	644,270	644,270
Balance as at 31 December 2013	<u>20,475,890</u>	<u>1,305,000</u>	<u>4,267,271</u>	<u>26,048,161</u>
Balance as at 31 December 2013 (KHR'000 equivalents)	<u>81,801,181</u>	<u>5,213,475</u>	<u>17,047,747</u>	<u>104,062,403</u>

The accompanying notes form part of these financial statements.

Rural Development Bank

Statement of cash flows for the year ended 31 December 2013

	US\$	2013 KHR'000 (Note 4)	2012 US\$
Profit before income tax	843,573	3,370,073	698,024
Adjustments for:			
Depreciation and amortisation expenses	110,699	442,243	101,075
Allowance for bad and doubtful loans and advances	1,232,032	4,921,968	809,080
Gain on disposals of property and equipment -	-	(4,099)	-
Foreign exchange difference	-	-	109,756
	2,186,304	8,734,284	1,713,836
Changes in:			
Loans and advances	(6,797,132)	(27,154,542)	(21,173,114)
Other assets	165,760	662,211	(356,641)
Foreclosed properties	-	-	(1,113,605)
Deposit from customers	268,785	1,073,796	(95,014)
Deposit from banks	434	1,734	1,196
Other liabilities	240,315	960,058	315,695
Net cash used in operations	(3,935,534)	(15,722,459)	(20,707,647)
Income tax paid	(226,983)	(906,797)	(226,600)
Net cash used in operating activities	(4,162,517)	(16,629,256)	(20,934,247)
Cash flows from investing activities			
Purchase of property and equipment	(242,895)	(970,365)	(180,024)
Proceeds from disposals of property and equipment	-	-	4,099
Net cash used in investing activities	(242,895)	(970,365)	(175,925)
Cash flows from financing activities			
Repayments of subordinated debts	(130,458)	(521,180)	(130,458)
Repayments of borrowings	(12,742,905)	(50,907,905)	(12,787,904)
Proceeds from borrowings	16,765,000	66,976,175	27,675,000
Net cash generated from financing activities	3,891,637	14,756,638	15,547,090
Net decrease in cash and cash equivalents (513,775)	(2,052,531)	(6,353,534)	
Cash and cash equivalents at beginning of year	9,963,572	39,804,470	16,317,106
Cash and cash equivalents at end of year (Note 26)	9,449,797	37,751,939	9,963,572

The accompanying notes form part of these financial statements.

Rural Development Bank

Notes to the financial statements for the year ended 31 December 2013

1. Background and principal activity

Rural Development Bank is a wholly state-owned entity established by Anukret (Sub-Decree) dated 21 January 1998 with the aim to promote agricultural and rural activities in order to alleviate poverty and to raise the standard of living of rural people.

The Bank commenced operations under the registration number Co.3942 et/1998 issued by the Ministry of Commerce dated 12 May 1998. The Bank obtained a licence from the National Bank of Cambodia (“NBC”) to operate as a specialized bank with the permanent validity from the NBC on 15 June 2007.

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

The Bank had 67 employees as at 31 December 2013 (31 December 2012: 68 employees).

2. Basis of preparation

(a) Statement of compliance

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

The financial statements were authorised for issue by the Board of Directors on 31 March 2014.

(b) Basis of measurement

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

(c) Functional and presentation currency

The Bank transacts its business and maintains its accounting records in two currencies, Khmer Riel (“KHR”) and United States Dollars (“US\$”). Management has determined the US\$ to be the Bank’s functional and presentation currency as it reflects the economic substance of the underlying events and circumstances of the Bank.

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

2. Basis of preparation (continued)

(d) Use of estimates and judgements

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

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

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

3. Significant accounting policies

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

(a) Financial instruments

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

(b) Segment information

The Bank operates within one business segment, specialised banking, and within one geographical segment, the Kingdom of Cambodia.

(c) Cash and cash equivalents

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

3. Significant accounting policies (continued)

(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 specific and general allowance.

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

(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 as follows:

Classification	Number of days past due
Normal/standard	<30 days
Special mention	≥ 30 days – 89 days
Substandard	≥ 90 days – 179 days
Doubtful	≥ 180 days – 360 days
Loss	More than 360 days

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

Classification	Minimum allowance
Normal/standard	1%
Special mention	3%
Substandard	20%
Doubtful	50%
Loss	100%

3. Significant accounting policies (continued)

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

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

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

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 judgment of the management there is no prospect of recovery.

(f) Deposits and placements with banks

Deposits and placements with banks are stated at cost.

(g) Statutory deposits

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

(h) Other assets

Other assets are carried at estimated realisable value.

(i) Intangible assets

Intangible assets are computer software that is stated at cost less accumulated amortisation and any accumulated impairment losses, if any. It is amortised on a declining method at the rate of 20% per annum. If there is an indication that there has been a significant change in amortisation rate, useful life or residual value of an intangible asset, the amortisation is revised prospectively to reflect the new expectations.

3. Significant accounting policies (continued)

(j) Property and equipment

- (i) Items of property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Freehold land is stated at cost. Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.
- (ii) Freehold land is not depreciated. Depreciation is charged to the income statement on a declining balance basis (except building and renovations are charged on straight-line method) using the net book value of the individual assets as at the beginning of the year at the following annual rates:

Building	5%	Straight line
Renovations	10%	Straight line
Motor vehicles	12.50%	Decline balance
IT equipment	25%	Decline balance
Office equipment & furniture	12.50%	Decline balance

- (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 Bank. 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 estimated net disposal proceeds and the carrying amount of the assets and are recognised in the income statement on the date of retirement or disposal.
- (v) Fully depreciated property and equipment are retained in the financial statements until disposed of or written off.

(k) 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 Notes 3(d) and 3(e).

3. Significant accounting policies (continued)

(k) Impairment of assets (continued)

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

All impairment losses are recognised in the income statement.

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

(ii) Non-financial assets

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

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

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

(l) Other liabilities

Other liabilities are stated at their cost.

(m) Provisions

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

3. Significant accounting policies (continued)

(n) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the period of the lease. Lease commitments are not recognised as liabilities until the obligation to pay becomes due.

(o) 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 Bank is accrued using the following basis:

- Loan arrangement fees and commissions on services and facilities are recognised as income on a yearly basis for short term loans and on an annual basis for long term loans;
- The facilities extended to customers are recognised as income over the period in which the service and facilities are extended; and
- Service charges and processing fees are recognised when the service is provided.

(p) Income tax

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

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

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.

3. Significant accounting policies (continued)

(q) Related parties

Parties are considered to be related to the Bank if one party 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 where the Bank and the other 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 Law on Banking and Financial Institutions, related parties include individuals who hold directly or indirectly a minimum of 10% of the capital of the Bank or voting rights therefore, or who participates in the administration, direction, management or the design and implementation of the internal controls of the Bank.

4. Translation of United States Dollars into Khmer Riel

The financial statements are stated in United States Dollars. The translations of United States Dollars amounts into Khmer Riel are included solely for compliance with the guidelines issued by the National Bank of Cambodia relating to the preparation and presentation of financial statements and have been made using the prescribed official exchange rate of US\$1 to KHR 3,995 published by the NBC on 31 December 2013. 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. Cash on hand

	2013		2012
	US\$	KHR'000 (Note 4)	US\$
US Dollars	1,001,659	4,001,628	283,180
Khmer Riel	15,935	63,660	40,961
	<u>1,017,594</u>	<u>4,065,288</u>	<u>324,141</u>

6. Balances with banks

	2013 US\$	KHR'000 (Note 4)	2012 US\$
Canadia Bank Plc.	1,095,936	4,378,264	559,835
Cambodian Public Bank Plc.	576,356	2,302,542	260,840
Acleda Bank Plc.	200,842	802,364	260,160
Foreign Trade Bank of Cambodia	4,843	19,348	4,848
	<u>1,877,977</u>	<u>7,502,518</u>	<u>1,085,683</u>

The balances with banks are analysed as follows:

	2013 US\$	KHR'000 (Note 4)	2012 US\$
(a) By maturity:			
Within 1 month	1,877,977	7,502,518	996,759
2 to 3 months	-	-	88,924
	<u>1,877,977</u>	<u>7,502,518</u>	<u>1,085,683</u>
(b) By currency :			
Khmer Riel	21,288	85,045	138,407
US Dollars	1,856,689	7,417,473	947,276
	<u>1,877,977</u>	<u>7,502,518</u>	<u>1,085,683</u>
(c) By relationship:			
Non-related parties	<u>1,877,977</u>	<u>7,502,518</u>	<u>1,085,683</u>
(d) By interest rate (per annum):			
	2013		2012
Term deposits	<u>-</u>		<u>2.00%</u>

7. Balances with the National Bank of Cambodia

	Note	2013 US\$	KHR'000 (Note 4)	2012 US\$
Term deposit	(a)	4,000,000	15,980,000	7,000,000
Demand deposits with NBC	(b)	2,554,226	10,204,133	1,553,748
		<u>6,554,226</u>	<u>26,184,133</u>	<u>8,553,748</u>
Statutory deposits on:				
Statutory capital deposit	(c)	1,025,594	4,097,248	1,025,594
Customers' deposits	(d)	155,006	619,249	155,006
		<u>1,180,600</u>	<u>4,716,497</u>	<u>1,180,600</u>
		<u>7,734,826</u>	<u>30,900,630</u>	<u>9,734,348</u>

(a) The term deposit is matured within one month and bears interest at the rates ranging from 0.08% - 0.10% (2012: 0.18% - 0.52%) per annum.

(b) The demand deposits with NBC is non-interest bearing.

(c) Statutory capital deposit:

This is a capital guarantee deposit of 5% of the registered capital under the Prakas No. B7-00-05 on licensing of specialised banks dated 11 January 2000. This capital guarantee which is placed with the National Bank of Cambodia in US\$, is not available for use in the Bank's day to day operations but is refundable when the Bank voluntarily ceases its operations in Cambodia. During the year, the interest earned at 3/8 SIBOR (six months) ranged from 0.11% to 0.12% per annum (2012: 0.20% per annum).

(d) Customers' deposits:

This is a reserve requirement which fluctuates depending on the level of the Bank's customers' deposits. It is maintained in compliance with the National Bank of Cambodia's Prakas No.B7-00-05 dated 11 January 2000 at the rate of 5% of customer's deposit. This reserve requirement does not earn interest.

8. Loans and advances - net

	2013 US\$	KHR'000 (Note 4)	2012 US\$
Long term loans	39,410,177	157,443,657	35,847,127
Short term loans	21,819,000	87,166,905	18,614,000
Staff loans	220,919	882,572	203,184
Total loans - gross	61,450,096	245,493,134	54,664,311
Net interest receivable			
Accrued interest receivables	619,821	2,476,185	565,461
Interest in suspense	(75,488)	(301,575)	(32,475)
	544,333	2,174,610	532,986
Total gross loans and net interest receivable	61,994,429	247,667,744	55,197,297
Allowance for bad and doubtful loans and advances	(2,355,832)	(9,411,549)	(1,123,800)
	59,638,597	238,256,195	54,073,497

Movements of allowances for bad and doubtful loans and advances of the Bank are as follows:

	2013 US\$	KHR'000 (Note 4)	2012 US\$
At beginning of year	1,123,800	4,489,581	861,961
Addition during the year	1,232,032	4,921,968	809,080
Recovery during the year	-	-	(547,413)
Unrealised exchange difference	-	-	172
At end of year 2,355,832	9,411,549	1,123,800	

8. Loans and advances – net (continued)

The loans and advances are analysed as follows:

	2013		2012
	US\$	KHR'000 (Note 4)	US\$
(a) By maturity :			
3 to 6 months -	-	479,000	
6 to 12 months	21,585,000	86,232,075	24,988,622
1 to 3 years	10,653,292	42,559,902	2,249,896
3 to 5 years	19,473,739	77,797,587	12,884,788
Over 5 years	9,738,065	38,903,570	14,062,005
	<u>61,450,096</u>	<u>245,493,134</u>	<u>54,664,311</u>
(b) By performance:			
Standard loans			
Secured	43,903,356	175,393,907	18,818,227
Unsecured	10,734,723	42,885,219	21,464,506
Special mention loans			
Secured	3,142,066	12,552,554	1,443,578
Unsecured	-	-	6,854,000
Substandard loans			
Secured	1,530,951	6,116,149	70,000
Unsecured	700,000	2,796,500	-
Doubtful loans			
Secured	340,000	1,358,300	5,500,000
Loss loans			
Secured	729,000	2,912,355	229,000
Unsecured	370,000	1,478,150	285,000
	<u>61,450,096</u>	<u>245,493,134</u>	<u>54,664,311</u>

Included in the standard loans are the loans and advances to customers amounting to US\$3,330,000 and US\$2,000,000 which were overdue for more than 180 days and 360 days respectively as at 31 December 2013. On 31 January 2014, the Bank requested to the NBC to exempt from the provisioning requirements. However, as of the date of this report there was no response from the NBC yet. Accordingly, no allowance for doubtful loans and advances had been provided by the Bank as at 31 December 2013.

8. Loans and advances – net (continued)

The loans and advances are analysed as follows (continued) :

	2013 US\$	KHR'000 (Note 4)	2012 US\$
(c) By currency denomination:			
US Dollars	60,902,124	243,303,985	54,145,424
Khmer Riel	547,972	2,189,149	518,887
	<u>61,450,096</u>	<u>245,493,134</u>	<u>54,664,311</u>
(d) By residency status:			
Residents	<u>61,450,096</u>	<u>245,493,134</u>	<u>54,664,311</u>
(e) By relationship:			
Non related parties	<u>61,450,096</u>	<u>245,493,134</u>	<u>54,664,311</u>
(f) By types of customers:			
Corporate	32,575,827	130,140,429	48,834,627
Individuals and soles traders	20,959,269	83,732,280	4,872,500
Other	7,915,000	31,620,425	957,184
	<u>61,450,096</u>	<u>245,493,134</u>	<u>54,664,311</u>
(g) By financing project:			
Ministry of Economy and Finance	32,515,000	129,897,425	28,520,000
Rural Development Bank	21,942,028	87,658,402	16,983,728
China Development Bank	6,000,000	23,970,000	8,000,000
Agence Française de Développement (AFD)	817,066	3,264,178	903,578
IFAD	176,002	703,129	257,005
	<u>61,450,096</u>	<u>245,493,134</u>	<u>54,664,311</u>

8. Loans and advances – net (continued)

The loans and advances are analysed as follows (continued) :

(h) By economic sectors:

	2013 US\$	2013 KHR'000 (Note 4)	2012 US\$
Privates	53,059,366	211,972,167	47,222,500
Registered Micro Finance Institutions	2,699,232	10,783,432	2,138,226
Licensed Financial Institutions	2,683,515	10,720,643	2,443,821
Associations	1,370,000	5,473,150	1,024,000
Families Rubber Plantation	817,065	3,264,175	903,578
Registered Non-Government Organisations	600,000	2,397,000	729,000
Staff loans	220,918	882,567	203,186
	<u>61,450,096</u>	<u>245,493,134</u>	<u>54,664,311</u>

(i) By large exposures:

Large exposures	30,340,000	121,208,300	24,400,000
Non-large exposures	31,110,096	124,284,834	30,264,311
	<u>61,450,096</u>	<u>245,493,134</u>	<u>54,664,311</u>

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

(j) By interest rate (per annum):

	2013	2012
Short term loans	5.00% - 12.00%	6.00% - 12.00%
Long term loans	5.00% - 12.00%	6.00% - 12.00%
Staff loans	7.00%	7.00%

9. Investment

This represents the investment in Credit Bureau Holding (Cambodia) (“CBH”) Ltd through the Association of Banks in Cambodia (“ABC”). CBH is one of the shareholders of Credit Bureau (Cambodia) Co., Ltd which is a Company operates as the leading provider of information, analytical tools and credit reporting services and Micro-finance Institutions and consumers in Cambodia.

10. Foreclosed properties

These represent the collaterals foreclosed from customers who are unable to repay their loans. These properties are not held for operational purpose and with the intention to be disposed of within the maximum allowed period of twelve months as per NBC’Prakas No B7-01-186.

As of the date of this report, the Bank has yet disposed of these properties that foreclosed since October 2012 and the request for extension to hold these foreclosed properties to NBC has not been made.

11. Other assets

	2013		2012
	US\$	KHR’000 (Note 4)	US\$
Guarantee deposits	7,335	29,303	7,801
Prepaid rent	3,973	15,872	6,250
Prepaid insurance	254	1,015	284
Interest receivable	248	991	414
Others	2,389	9,544	165,210
	<u>14,199</u>	<u>56,725</u>	<u>179,959</u>

12. Intangible assets

	US\$	2013 KHR'000 (Note 4)	2012 US\$
Computer software license			
Cost			
At 1 January/31 December	102,410	409,128	102,410
Less: Accumulated amortisation			
At 1 January	86,091	343,934	68,453
Amortisation for the year	8,148	32,551	17,638
At 31 December	94,239	376,485	86,091
Carrying amounts			
At 31 December	8,171	32,643	16,319

13. Property and equipment

2013	Land US\$	Building US\$	Renovations US\$	Motor vehicles US\$	IT equipment US\$	Office equipment & furniture US\$	Total US\$	KHR'000 (Note 4)
Cost								
At 1 January 2013	241,500	150,653	12,308	516,869	155,667	111,198	1,188,195	4,746,840
Additions	-	178,691	33,609	-	20,591	10,004	242,895	970,365
At 31 December 2013	241,500	329,344	45,917	516,869	176,258	121,202	1,431,090	5,717,205
Accumulated depreciation								
At 1 January 2013	-	67,384	12,026	281,095	130,069	88,479	579,053	2,313,317
Depreciation for the year	-	11,254	2,291	59,289	21,984	7,733	102,551	409,691
At 31 December 2013	-	78,638	14,317	340,384	152,053	96,212	681,604	2,723,008
Carrying amounts								
At 31 December 2013	241,500	250,706	31,600	176,485	24,205	24,990	749,486	2,994,197

13. Property and equipment (continued)

2012	Land US\$	Building US\$	Renovations US\$	Motor vehicles US\$	IT equipment US\$	Office equipment & furniture US\$	Total US\$
Cost							
At 1 January 2012	241,500	150,653	12,308	390,969	132,842	107,999	1,036,271
Additions	-	-	-	154,000	22,825	3,199	180,024
Disposals	-	-	-	(28,100)	-	-	(28,100)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2012	241,500	150,653	12,308	516,869	155,667	111,198	1,188,195
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Accumulated depreciation							
At 1 January 2012	-	59,810	11,564	260,038	112,063	80,241	523,716
Depreciation for the year	-	7,574	462	49,157	18,006	8,238	83,437
Disposals	-	-	-	(28,100)	-	-	(28,100)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2012	-	67,384	12,026	281,095	130,069	88,479	579,053
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Carrying amounts							
At 31 December 2012	241,500	83,269	282	235,774	25,598	22,719	609,142
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

14. Deposits from customers

	2013		2012
	US\$	KHR'000 (Note 4)	US\$
Demand deposits	889,572	3,553,840	441,777
Saving accounts	239,279	955,920	193,726
Fixed deposits 411,744	1,644,917	636,307	
	<u>1,540,595</u>	<u>6,154,677</u>	<u>1,271,810</u>

The deposits from customers are analysed as follows:

(a) By maturity:

	2013		2012
	US\$	KHR'000 (Note 4)	US\$
Within one month			
Current deposits	889,572	3,553,840	441,777
Saving deposits	239,279	955,920	193,726
Fixed deposits	-	-	67,021
1 to 3 months	258,790	1,033,866	268,367
4 to 6 months	79,932	319,328	12,499
Over 6 months	73,022	291,723	288,420
	<u>1,540,595</u>	<u>6,154,677</u>	<u>1,271,810</u>

(b) By type of customers:

Business enterprises	939,971	3,755,184	437,811
Individuals	600,624	2,399,493	833,999
	<u>1,540,595</u>	<u>6,154,677</u>	<u>1,271,810</u>

14. Deposits from customers (continued)

The deposits from customers are analysed as follows (continued) :

	2013	2012
	US\$	US\$
	KHR'000	
	(Note 4)	
(c) By residency status:		
Residents	1,452,145	1,271,723
Non-residents	88,450	87
	<u>1,540,595</u>	<u>1,271,810</u>
	<u><u>1,540,595</u></u>	<u><u>1,271,810</u></u>
(d) By currency:		
US Dollars	1,500,104	1,239,542
Khmer Riel	40,491	32,268
	<u>1,540,595</u>	<u>1,271,810</u>
	<u><u>1,540,595</u></u>	<u><u>1,271,810</u></u>
(e) By interest rate (per annum):		
	2013	2012
Saving deposits	1.00 – 1.50%	1.00 – 1.50%
Fixed deposits	3.00 – 6.00%	3.00 – 6.00%

15. Deposits from banks

	2013		2012
	US\$	KHR'000 (Note 4)	US\$
Current accounts	2,793	11,158	2,755
Saving accounts	46,015	183,830	45,619
	<u>48,808</u>	<u>194,988</u>	<u>48,374</u>

15. Deposits from banks (continued)

The deposits from banks are analysed as follows:

	2013		2012
	US\$	KHR'000 (Note 4)	US\$
(a) By maturity:			
Within 1 month	48,808	194,988	48,374
	<hr/>	<hr/>	<hr/>
(b) By currency:			
US Dollars	48,305	192,978	47,866
Khmer Riel	503	2,010	508
	<hr/>	<hr/>	<hr/>
	48,808	194,988	48,374
	<hr/>	<hr/>	<hr/>
(c) By residency status:			
Residents	48,808	194,988	48,374
	<hr/>	<hr/>	<hr/>
(d) By interest rate (per annum):			
	2013		2012
Savings deposits	1.00% - 1.50%		1.00% - 1.50%
	<hr/>		<hr/>

16. Borrowings

	2013		2012
	US\$	KHR'000 (Note 4)	US\$
Ministry of Economy and Finance (ASDF)	33,310,000	133,073,450	29,095,000
China Development Bank	8,000,000	31,960,000	8,000,000
Asian Development Bank	1,350,338	5,394,600	1,543,243
Agence Française de Développement (AFD)	248,461	992,602	248,461
	<u>42,908,799</u>	<u>171,420,652</u>	<u>38,886,704</u>

The above amounts are analysed as follows:

	2013		2012
	US\$	KHR'000 (Note 4)	US\$
(a) By maturity:			
Within 1 year	192,904	770,651	-
1 to 3 years	578,712	2,311,955	600,000
3 to 5 years	578,722	2,311,994	800,000
Over 5 years	41,558,461	166,026,052	37,286,704
	<u>42,908,799</u>	<u>171,420,652</u>	<u>38,886,704</u>

(b) By interest rate (per annum):

	2013	2012
Ministry of Economy and Finance (ASDF)	2.00% - 3.00%	3.00% - 4.00%
China Development Bank	5.21% - 5.45%	4.75% - 5.49%
Asian Development Bank	0.75% - 2.75%	0.75% - 2.75%
Agence Française de Développement (AFD)	Nil	Nil

17. Other liabilities

	2013		2012
	US\$	KHR'000 (Note 4)	US\$
Accrued interest payables	1,161,419	4,639,869	1,053,255
Employment security fund	210,961	842,789	169,417
Unearned income	20,925	83,596	14,980
Other tax liabilities	4,338	17,330	3,780
Others	89,400	357,153	5,296
	<u>1,487,043</u>	<u>5,940,737</u>	<u>1,246,728</u>

18. Share capital

	2013		2012
	US\$	KHR'000 (Note 4)	US\$
Issued and fully paid 10,000 shares of US\$2,047.60 each	<u>20,475,890</u>	<u>81,801,181</u>	<u>20,475,890</u>

There were no changes in the shareholder and the shareholding of the Bank during the year.

19. Subordinated debts

	2013		2012
	US\$	KHR'000 (Note 4)	US\$
Agence Française de Développement (AFD)*	1,044,084	4,171,116	1,044,084
International Fund for Agriculture and Development (IFAD) **	<u>260,916</u>	<u>1,042,359</u>	<u>391,374</u>
	<u>1,305,000</u>	<u>5,213,475</u>	<u>1,435,458</u>

* The amount due to AFD was unsecured, interest free and has no fixed term of repayment.

** The amount due to IFAD was unsecured, bears interest at the rate of 3% per annum and due to be fully repaid on 31 December 2015.

20. Interest income

	2013		2012
	US\$	KHR'000 (Note 4)	US\$
Loans and advances	4,080,748	16,302,588	3,533,589
Balances with banks	17,692	70,680	25,273
	<u>4,098,440</u>	<u>16,373,268</u>	<u>3,558,862</u>

21. Interest expenses

	2013		2012
	US\$	KHR'000 (Note 4)	US\$
Borrowings	1,139,502	4,552,311	1,101,202
Deposits from customers:			
Fixed deposits	17,932	71,638	21,199
Saving accounts	2,960	11,825	3,164
	<u>1,160,394</u>	<u>4,635,774</u>	<u>1,125,565</u>

22. Non-interest income

	2013		2012
	US\$	KHR'000 (Note 4)	US\$
Commission income	279,478	1,116,514	171,076
Others income	30,046	120,034	14,115
Donation in kind	-	-	122,910
Gain on disposals of property and equipment	-	-	4,099
	<u>309,524</u>	<u>1,236,548</u>	<u>312,200</u>

23. Personnel and other staff cost

	2013		2012
	US\$	KHR'000 (Note 4)	US\$
Salary and wages	499,623	1,995,994	442,444
Bonuses	101,273	404,585	111,240
Employment benefits	72,405	289,258	75,708
Directors' remuneration	56,603	226,129	51,456
Uniform	16,500	65,918	17,923
Overtime	-	-	342
	<u>746,404</u>	<u>2,981,884</u>	<u>699,113</u>

24. General and administrative expenses

	2013		2012
	US\$	KHR'000 (Note 4)	US\$
Mission, travelling and accommodation expenses	49,748	198,743	52,139
Water and electricity	46,387	185,316	49,081
Social welfare	44,835	179,116	40,394
Other consumables and office supplies	37,166	148,478	24,394
Gasoline and motor vehicles operating expenses	16,908	67,547	17,377
Donation and gifts	15,133	60,456	24,951
Telecommunication and postage expenses	12,459	49,774	28,325
Public relations expenses	13,571	54,216	10,809
Membership fee	10,900	43,546	8,260
Reception charges	10,204	40,765	6,703
Professional fee	8,800	35,156	10,450
Repairs and maintenance	5,342	21,341	2,743
Court and other legal fees	5,201	20,778	15,000
Training charges	4,178	16,691	2,209
Clearing house and other fees	3,833	15,313	7,434
Tax on transportation vehicles	2,920	11,665	2,875
License fee	2,788	11,138	2,788
Advertising expenses	2,776	11,090	4,732
Fire and hazard insurance expenses	2,086	8,334	2,490
Publication and subscription expenses	1,027	4,103	1,043
Foreign exchange (gain)/loss	(5,036)	(20,119)	107,578
Other miscellaneous	23,636	94,427	16,430
	<u>314,862</u>	<u>1,257,874</u>	<u>438,205</u>

25. Income tax expenses

(a) Provision for income tax

	2013		2012
	US\$	KHR'000 (Note 4)	US\$
Balance at beginning of year	161,229	644,110	194,047
Income tax expense	199,303	796,215	193,782
Income tax paid	(226,983)	(906,797)	(226,600)
	<hr/>	<hr/>	<hr/>
Balance at end of year	133,549	533,528	161,229
	<hr/>	<hr/>	<hr/>

(b) Income tax expenses

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

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

	2013		2012
	US\$	KHR'000 (Note 4)	US\$
Profit before income tax	843,573	3,370,073	698,024
	<hr/>	<hr/>	<hr/>
Income tax rate of 20%	168,715	674,016	139,605
Effect of non-deductible expenses	30,588	122,199	54,177
	<hr/>	<hr/>	<hr/>
Income tax expense	199,303	796,215	193,782
	<hr/>	<hr/>	<hr/>

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

26. Cash and cash equivalents

	2013 US\$	KHR'000 (Note 4)	2012 US\$
Cash on hand (Note 5)	1,017,594	4,065,288	324,141
Balances with banks (Note 6)	1,877,977	7,502,518	1,085,683
Balances with the National Bank of Cambodia (Note 7)	6,554,226	26,184,133	8,553,748
	<u>9,449,797</u>	<u>37,751,939</u>	<u>9,963,572</u>

27. Commitment and contingent liabilities

(a) Operations

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

	2013 US\$	KHR'000 (Note 4)	2012 US\$
Loan commitments	<u>8,386,903</u>	<u>33,505,677</u>	<u>5,720,433</u>

(b) Lease commitments

The Bank has operating lease commitments in respect of the lease of an office building and a house rental as follows:

	2013 US\$	KHR'000 (Note 4)	2012 US\$
Within one year	11,500	45,943	33,000
Two to three years	-	-	11,500
	<u>11,500</u>	<u>45,943</u>	<u>44,500</u>

27. Commitment and contingent liabilities (continued)

(c) Taxation contingencies

Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges. The application of tax laws and regulations to many types of transactions are susceptible to varying interpretations.

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

28. Related party balances and transactions

	2013		2012
	US\$	KHR'000 (Note 4)	US\$
Deposits:			
Board members	118,603	473,819	150,774
Key management compensation			
Director's remuneration	56,603	226,129	51,456
Management salaries and 13 th month	372,484	1,488,074	315,301
House rental for management	22,000	87,890	30,000
	<u> </u>	<u> </u>	<u> </u>

29. Financial risk management

(a) Introduction and overview

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

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

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

29. Financial risk management (continued)

(b) Operational risk

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

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

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

(c) Credit risk

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

(i) Management of credit risk

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

29. Financial risk management (continued)

(c) Credit risk (continued)

(ii) Exposure to credit risk

	US\$	2013 KHR'000 (Note 4)	2012 US\$
Individually impaired	3,669,951	14,661,454	6,084,000
Past due but not impaired	3,142,066	12,552,554	8,297,578
Neither past due nor impaired	54,638,079	218,279,126	40,282,733
Total loans - gross	61,450,096	245,493,134	54,664,311
Net interest receivable			
Accrued interest receivables	619,821	2,476,185	565,461
Interest in suspense	(75,488)	(301,575)	(32,475)
	544,333	2,174,610	532,986
Total gross loans and net interest receivable	61,994,429	247,667,744	55,197,297
Allowance for bad and doubtful loans and advances	(2,355,832)	(9,411,549)	(1,123,800)
	59,638,597	238,256,195	54,073,497

Impaired loans and advances

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

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

29. Financial risk management (continued)

(c) Credit risk (continued)

Past due but not impaired loans and advances

Past due but not impaired loans and advances are those for which contractual interest or principal payments are past due more than 30 days but less than 90 days, unless other information is available to indicate otherwise. In compliance with NBC Guidelines such loans are classified as special mention with a specific provision of 3% (2012: 3%).

Loans with renegotiated terms/restructured loans

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

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

Write-off policy

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

29. Financial risk management (continued)

(c) Credit risk (continued)

Collateral

The Bank holds collateral against loans and advances in the form of mortgage interests over property and/or guarantees. The value of collateral is based on the value assessed by the external evaluators.

An estimate value of collaterals held against loans and advances are shown below:

	2013 US\$	KHR'000 (Note 4)	2012 US\$
Against individually impaired:			
Land and buildings	10,573,618	42,241,604	4,229,865
Past due but not impaired:			
Land and buildings	8,440,928	33,721,507	2,460,738

Concentration of credit risk

The repossessed properties have to be sold within one year as required by the NBC's guidelines and are classified in the balance sheet as foreclosed properties.

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

(d) Market risk

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

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

29. Financial risk management (continued)

(d) Market risk (continued)

(i) Foreign currency exchange risk

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

As of 31 December 2013, balances in monetary assets and liabilities denominated in currencies other than US\$ are not significant. Therefore, no sensitivity analysis for foreign currency exchange risk was presented.

(ii) Interest rate risk

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

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

29. Financial risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

The table indicates the effective interest rates at the balance sheet date, in which the financial instruments re-price or mature, whichever is earlier.

2013	Up to 1 months US\$	> 1 – 3 months US\$	> 3 – 12 months US\$	> 1 – 3 years US\$	> 3 – 5 years US\$	Over 5 years US\$	Non-interest sensitive US\$	Total US\$	Weighted interest rate (%)
Financial assets									
Cash on hand	-	-	-	-	-	-	1,017,594	1,017,594	
Balances with banks	-	-	-	-	-	-	1,877,977	1,877,977	
Balances with the National Bank of Cambodia	4,000,000	-	-	-	-	1,025,594	2,709,232	7,734,826	0.08%-0.12%
Loans and advances - net	-	-	21,585,000	10,653,292	19,473,739	9,738,065	-	61,450,096	5.00% - 12.00%
Allowance for bad doubtful loans and advances	-	-	-	-	-	-	(2,355,832)	(2,355,832)	
Investment	-	-	-	-	-	-	12,500	12,500	
Other assets	-	-	-	-	-	-	14,199	14,199	
	<u>4,000,000</u>	<u>-</u>	<u>21,585,000</u>	<u>10,653,292</u>	<u>19,473,739</u>	<u>10,763,659</u>	<u>3,275,670</u>	<u>69,751,360</u>	
Financial liabilities									
Deposits from customers	239,279	258,790	152,954	-	-	-	889,572	1,540,595	1.00% - 6.00%
Deposits from banks	46,015	-	-	-	-	-	2,793	48,808	1.00% - 1.50%
Borrowings	-	-	192,904	578,712	578,722	41,310,000	248,461	42,908,799	0.75% - 5.45%
Other liabilities	-	-	-	-	-	-	1,487,043	1,487,043	
	<u>285,294</u>	<u>258,790</u>	<u>345,858</u>	<u>578,712</u>	<u>578,722</u>	<u>41,310,000</u>	<u>2,627,869</u>	<u>45,985,245</u>	
Maturity gap	<u>3,714,706</u>	<u>(258,790)</u>	<u>21,239,142</u>	<u>10,074,580</u>	<u>18,895,017</u>	<u>(30,546,341)</u>	<u>647,801</u>	<u>23,766,115</u>	

29. Financial risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

The table indicates the effective interest rates at the balance sheet date, in which the financial instruments re-price or mature, whichever is earlier.

2012	Up to 1 months US\$	> 1 – 3 months US\$	> 3 – 12 months US\$	> 1 – 3 years US\$	> 3 – 5 years US\$	Over 5 years US\$	Non-interest sensitive US\$	Total US\$	Weighted interest rate (%)
Financial assets									
Cash on hand	-	-	-	-	-	-	324,141	324,141	
Balances with banks	-	88,924	-	-	-	-	996,759	1,085,683	2.00%
Balances with the National Bank of Cambodia	7,000,000	-	-	-	-	1,025,594	1,708,754	9,734,348	0.09% - 3.00%
Loans and advances - net	-	-	25,467,622	2,249,896	12,884,788	14,062,005	-	54,664,311	6.00% - 9.00%
Allowance for bad doubtful loans and advances	-	-	-	-	-	-	(1,123,800)	(1,123,800)	
Investment	-	-	-	-	-	-	12,500	12,500	
Other assets	-	-	-	-	-	-	179,959	179,959	
	<u>7,000,000</u>	<u>88,924</u>	<u>25,467,622</u>	<u>2,249,896</u>	<u>12,884,788</u>	<u>15,087,599</u>	<u>2,098,313</u>	<u>64,877,142</u>	
Financial liabilities									
Deposits from customers	702,524	268,367	300,919	-	-	-	-	1,271,810	1.00% - 6.00%
Deposits from banks	48,374	-	-	-	-	-	-	48,374	1.00% - 6.00%
Borrowings	-	-	-	600,000	800,000	37,238,243	248,461	38,886,704	0.46% - 5.45%
Other liabilities	-	-	-	-	-	169,417	1,077,311	1,246,728	
	<u>750,898</u>	<u>268,367</u>	<u>300,919</u>	<u>600,000</u>	<u>800,000</u>	<u>37,407,660</u>	<u>1,325,772</u>	<u>41,453,616</u>	
Maturity gap	<u>6,249,102</u>	<u>(179,443)</u>	<u>25,166,703</u>	<u>1,649,896</u>	<u>12,084,788</u>	<u>(22,320,061)</u>	<u>772,541</u>	<u>23,423,526</u>	

29. Financial risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity analysis for variable-rate instruments

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

(e) Liquidity risk

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

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

The following table provides an analysis of the financial liabilities of the Bank into relevant maturity groupings based on the remaining periods to repayment.

29. Financial risk management (continued)

(e) Liquidity risk (continued)

2013	Up to 1 month US\$	> 1 - 3 months US\$	> 3 -12 months US\$	> 1 - 3 years US\$	> 3 - 5 years US\$	Over 5 years US\$	No fixed terms US\$	Total US\$
Financial liabilities								
Deposits from customers	1,128,851	258,790	152,954	-	-	-	-	1,540,595
Deposits from banks	48,808	-	-	-	-	-	-	48,808
Borrowings	-	-	192,904	578,712	578,722	41,310,000	248,461	42,908,799
Other liabilities	4,338	4,400	1,182,344	-	-	-	295,961	1,487,043
Total financial liabilities	<u>1,181,997</u>	<u>263,190</u>	<u>1,528,202</u>	<u>578,712</u>	<u>578,722</u>	<u>41,310,000</u>	<u>544,422</u>	<u>45,985,245</u>
Total financial assets	<u>6,909,770</u>	<u>-</u>	<u>21,585,000</u>	<u>10,653,292</u>	<u>19,473,739</u>	<u>10,763,659</u>	<u>463,200</u>	<u>69,848,660</u>
Net liquidity gap	<u>5,727,773</u>	<u>(263,190)</u>	<u>20,056,798</u>	<u>10,074,580</u>	<u>18,895,017</u>	<u>(30,546,341)</u>	<u>(81,222)</u>	<u>23,863,415</u>

29. Financial risk management (continued)

(e) Liquidity risk (continued)

2012	Up to 1 month US\$	> 1 - 3 months US\$	> 3 - 12 months US\$	> 1 - 3 years US\$	> 3 - 5 years US\$	Over 5 years US\$	No fixed terms US\$	Total US\$
Financial liabilities								
Deposits from customers	702,524	268,367	300,919	-	-	-	-	1,271,810
Deposits from banks	48,374	-	-	-	-	-	-	48,374
Borrowings	-	-	-	1,400,000	-	37,486,704	-	38,886,704
Other liabilities	38,788	1,023,031	15,421	169,488	-	-	-	1,246,728
Total financial liabilities	<u>789,686</u>	<u>1,291,398</u>	<u>316,340</u>	<u>1,569,488</u>	<u>-</u>	<u>37,486,704</u>	<u>-</u>	<u>41,453,616</u>
Total financial assets	<u>10,662,466</u>	<u>6,250</u>	<u>26,581,227</u>	<u>15,134,684</u>	<u>-</u>	<u>14,062,005</u>	<u>77,101</u>	<u>66,523,733</u>
Net liquidity gap	<u>9,872,780</u>	<u>(1,285,148)</u>	<u>26,264,887</u>	<u>13,565,196</u>	<u>-</u>	<u>(23,424,699)</u>	<u>77,101</u>	<u>25,070,117</u>

29. Financial risk management (continued)

(f) Capital management

(i) Regulatory capital

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

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

The Bank and its individually regulated operations have complied with all externally imposed capital requirement throughout the year.

(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.

30. Fair values of financial assets and liabilities

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

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