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RURAL DEVELOPMENT BANK



2015

ANNUAL REPORT

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1. CEO Message



“2015 was a challenging year in which we continue to work hard to improve our management structure and corporate governance while at the same time enhancing our overall performance”.

Our main focus of the past year has been on the reform of RDB. There have been significant changes in key departments including, Credit, Human Resources, Risk Management and Internal Audit departments. Credit committee was re-composed; Bad Loan Collection Committee has been created. There was a restructure of Credit Department into four new divisions, segregating duties to avoid incompatible functions. Similarly to other departments including Human Resources, Risk Management and Internal Audit, Staff Remuneration and Discipline Committee, Risk Management Committee Charter, Compliance Department have been established.

With our improved corporate governance and management structure, RDB commits to become the first Agribank in Cambodia providing full banking services, enabling RDB to observe and facilitate customers’ business transactions. In addition to this, having deep insight of customers’ regular financial transactions could further enhance the credit risk assessment procedure; therefore, reduce the risk of non-performing loans.

Besides strengthening our internal structure in 2015, we have introduced the Agricultural Value Chain Finance (AgVCF), providing financial supports to allstakeholders in agricultural value chain. We diversify our product line by not limiting to the rice sector but also to animal raising and pepper plantation sectors. We are adapting the best practice models for AgVCF by cooperating with reputable firms in Cambodia to secure markets for farmers with guaranteed market price and standardized quality control. Through financing agricultural value chain, RDB is actively contributing to development of sustainable agricultural system, poverty alleviation and promotion of financial inclusion especially of the smallholders.

2015 has been an exciting year for RDB to also study another new product that would enhance both the quality of our credits and customers. Instead of providing solely financial supports,

RDB is introducing a loan product, catering especially to farmer organisations, where we cooperate with experts in key areas of agriculture to deliver needed techniques to our farmers.

Without a doubt, all the achievements in the past year would not have been possible without hard-work, dedications and professionalism of our employees. My sincere gratitude goes to our board of directors for all the guidance and hard work. My heartfelt thanks to our stakeholders: government of Cambodia, our customers, developing partners for your supports and belief on the Rural Development Bank.



Kao Thach

Chief Executive Director

2. The Rural Development Bank of Cambodia

Established in 1998 by the Royal Government of Cambodia, RDB is an autonomous public enterprise authorized to process all banking operations and loan services to support agriculture sectors, SMEs and micro-finance institutions, which play an important role in rural development in Cambodia.

Vision

RDB has a vision to become a progressive bank, ranked as a commercial bank in order to efficiently take part in agriculture and rural economic development in compliance with government policy through serving effective and sustainable financial services to all stakeholders in Agriculture Value Chain. RDB is dedicated to reduce difficulties in accessing to finances in agricultural sector in the future.

Mission

RDB has missions to enhance the access to finance for every stakeholder of Agricultural Value Chain especially for those who do not have enough capacity to get accessed to finance but having a strong commitment and potential; who can be a key player to strengthen and to enhance the quality of the whole value chain. RDB encourages implementation of agricultural value chain finances via:

- Providing finance to credit operators, micro-finances and other financial institutions that their activities support rural economic development.
- Providing finance to legal entities such as companies, farmer organizations, agriculture cooperatives which activities involve in agricultural value chain including producing, storing, transforming, distributing, and exporting agricultural products especially rice.
- Providing syndicated loan with other financial institutions to implement projects in agriculture, rural and rural economic development sectors.
- Managing and implementing government's financing project/fund or cooperating with developing partners in any pictures agreed by the Ministry of Economy and Finance.
- Attracting funds, concessional loans from developing partners to strengthen and expand RDB activities.

3. Achievements

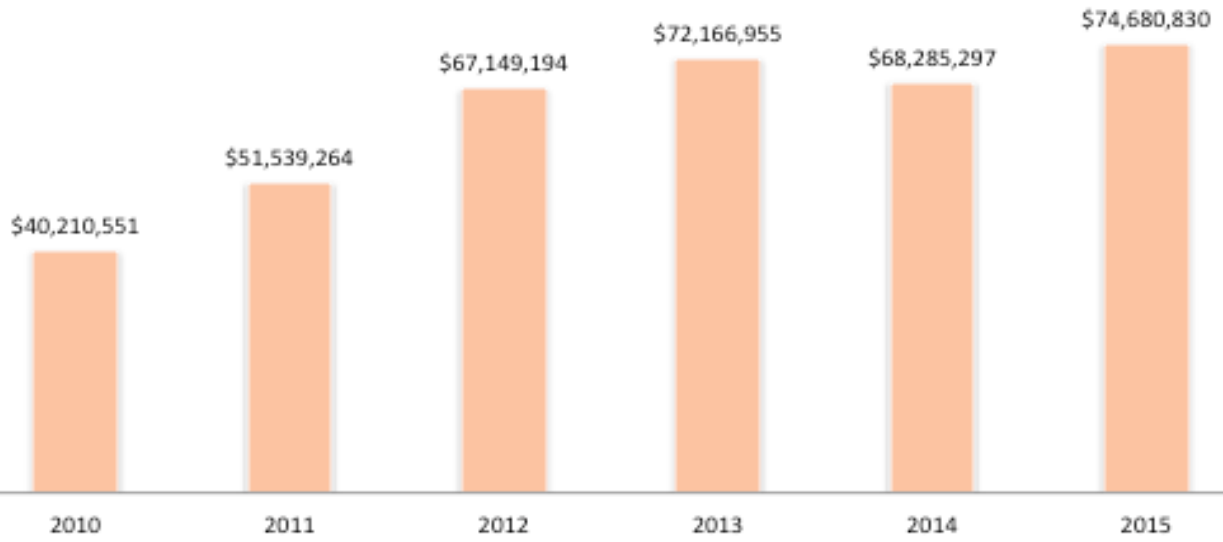
In 2015, RDB has focused exceptionally on the reform of management structure and corporate governance. There have been significant changes in key departments including, Credit, Human Resources, and Risk Management departments. There was a restructure of Credit Department into four new divisions, segregating duties to avoid incompatible functions. There has also been a recomposition of Credit committee and an establishment of Bad Loan Collection Committee. More skilled employees have been recruited to ensure quality and competitiveness of human resources of the bank while regular training courses have also been introduced throughout the year for our existing employees and top management. This past year, RDB has also begun preparing the key performance indicator (KPI) policy to transparently motivate all of our employees.

Besides strengthening our internal structure in 2015, we have introduced the Agricultural Value Chain Finance (AgVCF), providing financial supports to all stakeholders in agricultural value chain. We diversify our product line by not limiting to the rice sector but also to animal raising and pepper plantation sectors. We are adapting the best practice models for AgVCF by cooperating with reputable firms in Cambodia to secure markets for farmers with guaranteed market price and standardized quality control. Through financing agricultural value chain, RDB is actively contributing to development of sustainable agricultural system, poverty alleviation and promotion of financial inclusion especially of the smallholders.

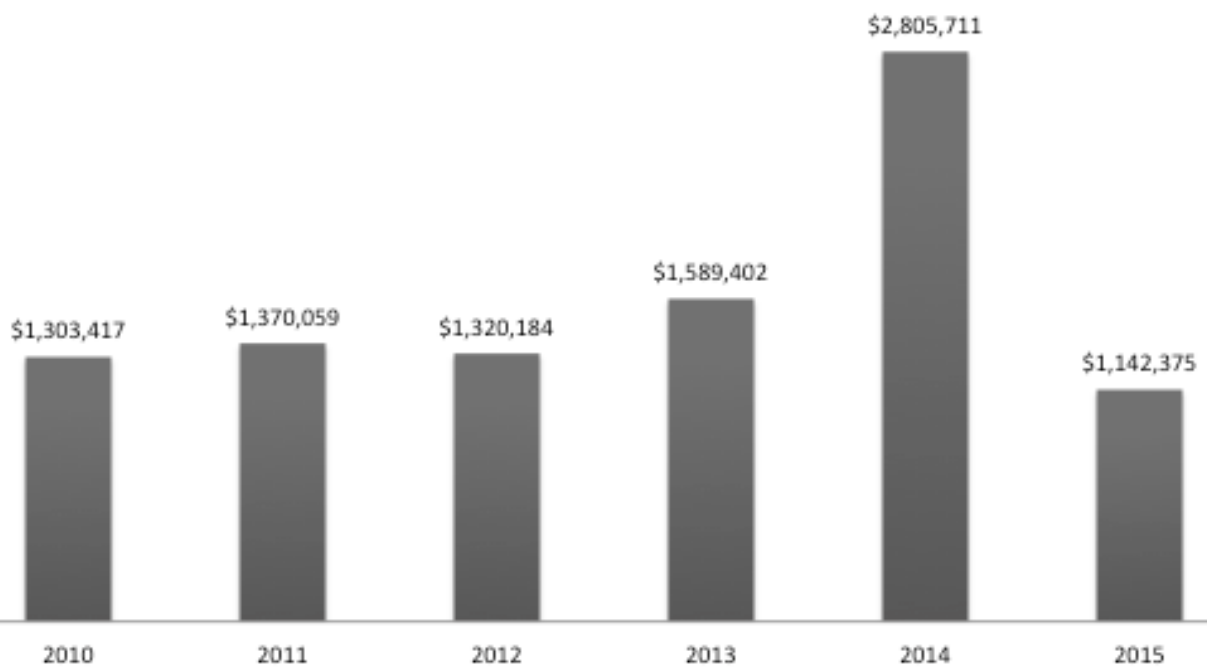
4. Financial Highlights

	2015	2014
Profitability		
Gross Revenue	3,123,233	4,142,187
Operating incomes before provision impairment	125,632	1,533,121
Net profit before tax	33,146	942,620
Net profit after tax	5,618*	693,667
Key Balance Sheet Items		
Total Assets	74,680,830	68,285,297
Shareholder's equity	34,950,922	26,611,370
Total Loans	43,975,491	52,288,259
Financial Ratios		
Return on Equity (ROE)	0.02%	2.61%
Return on Assets (ROA)	0.01%	1.02%
Total expenses to income ratio	99.82%	83.25%
Non-performing loans to total loans	5.04%	10.44%
Solvency Ratio	75.93%	49.93%
Quick Ratio	707.13%	349.15%

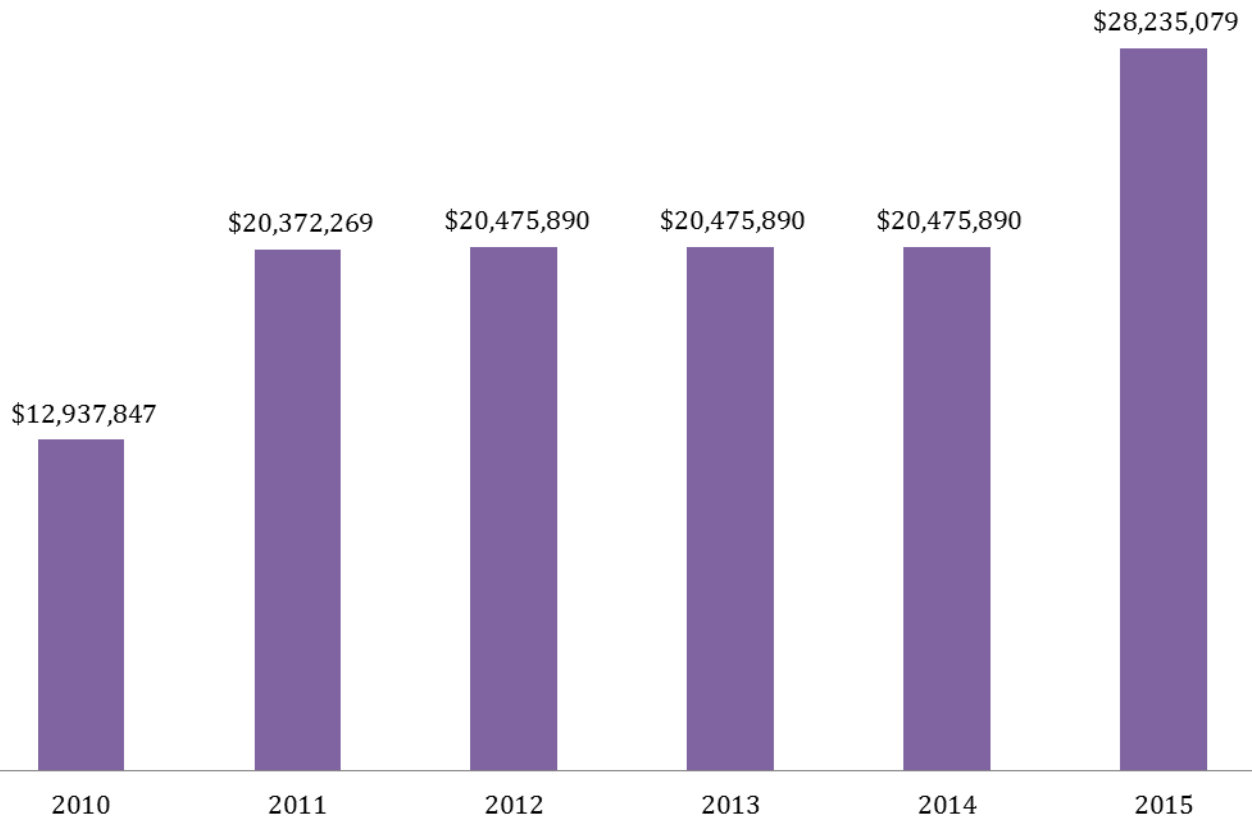
Total Assets (USD)



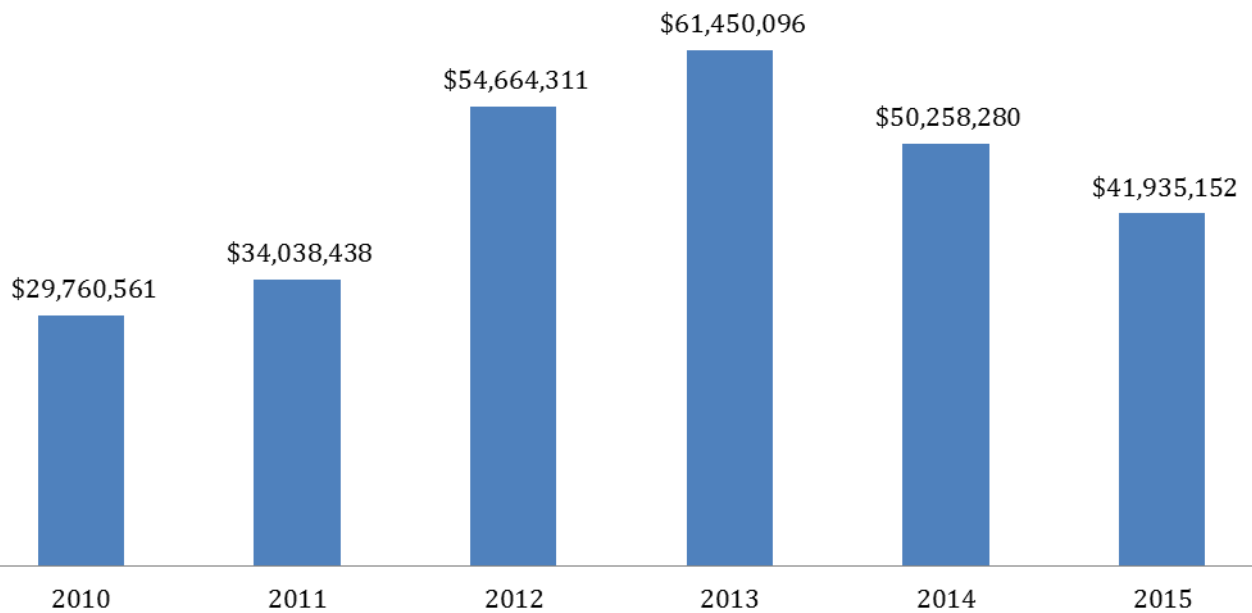
Total Deposits (USD)

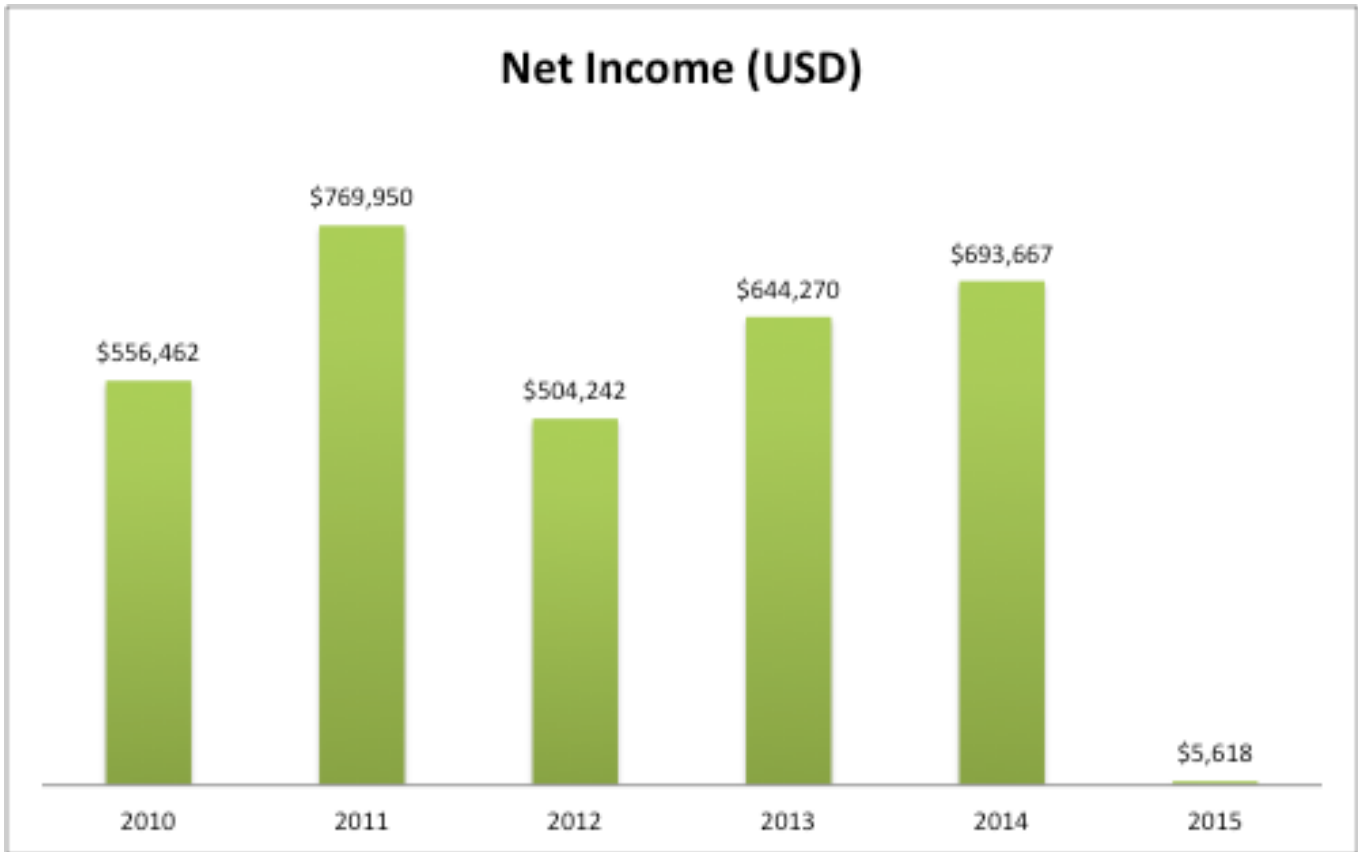


Share Capitals (USD)



Net Loan & Advances (USD)





(*) Note: RDB's net profit has been dramatically decreased to 5,618 US Dollars in 2015 compared to the net profit of 693,997 US Dollars in 2014 due to the transfer of non-performing loans and advances from the balance sheet and monitoring separately as an off-balance sheet items. Besides, the related allowances for bad and doubtful loans and advances amounting to 705,203 US Dollars have been reversed to retained earnings.

5. BOARD OF DIRECTORS



The RDB is supervised by a board of directors, which consists of seven members, a representative from Ministry of Economics and Finance as a Chairman, representatives from the Office of the Council of Minister, Ministry of Agriculture, Forestry and Fishery, Rural Development Ministry, CEO of Rural development Bank and another one from RDB Staff Representative. The board members were appointed by sub-decree.

6. Management Team



H.E. ROS Seilava

Undersecretary of State, Ministry of Economy and Finance

Chairman of the Board of Directors, Rural Development Bank of Cambodia

H.E. ROS Seilava is presently an Undersecretary of State of the Ministry of Economy and Finance and Member of the Supreme National Economic Council. He also serves as Chairman of the Board of Directors, Rural Development Bank of Cambodia.

Previously, he worked as Mechanical Technician and Laboratory Operator at Power Plant under the Ministry of Industry, Mines and Energy from 1985-1987. In 1993, he worked as Lecturer of the Phnom Penh Institute of Technology of the Ministry of Education, Youth and Sport. Since 1994, he joined the Ministry of Economy and Finance first as Financial Controller and then as Deputy Director of Economic and Financial Policy Planning and Monitoring Unit from 2002-2005, and as Director of Department of Economy and Public Finance Policy from 2005 to 2006. Later on, he was appointed as Deputy Secretary General on his return from the World Bank where he served as an Advisor to the Executive Director during 2006-2008. Finally, he was promoted as Undersecretary of State in 2013. He is also a writer of many RGC's key policy publications and has been involved in key research works.

H.E. ROS Seilava obtained his Master of International Affairs (MIA) in Economic Policy Management in 2002 from Columbia University, New York, USA. He holds BA in Social Science from Penza's Institute of Pedagogy, the former USSR, in 1987-1992.



H.E. KAO Thach

Chief Executive Director

H.E. KAO Thach is Chief Executive Officer and member of board of directors of the Rural Development bank of Cambodia. Currently, he is also a member of Supreme National Economic Council with the rank of the Secretary of State.

H.E. KAO Thach previously held a position as Deputy Director General of Securities and Exchange Commission of Cambodia (SECC). Before holding SECC's portfolio, he was the Head of Financial Market Division, Financial Industry Department, Ministry of Economy and Finance. He was one of the key persons working toward establishment of Securities and Exchange Commission and Securities Exchange in Cambodia. Since joining the Ministry of Economy and Finance in 2003, he has undertaken numerous assignments relating to financial sector development in Cambodia. These assignments include member of working groups responsible for drafting Law on Government Securities and Law on Issuance and Trading of Non-government Securities, and member of working group responsible for developing Financial Development Strategy 2006-2015. Besides, as a representative of the Ministry of Economy and Finance he have been involved in various ASEAN working groups in relation to capital market development such ABMI, ACMF, and Financial Services Liberalization.

Working in law field, he used to be a legal officer in the Ministry of Justice and also in court. Presently, he is also working as a volunteer Labour Arbitrator.

He holds Master of Laws from Bond University (Australia) in 2002, with an emphasis of International Trade Law System, WTO Legal Framework, Alternative Dispute Resolution, and Dispute System Design and Bachelor of Laws at University of Laws and Science Economic in Cambodia in 1998. H.E. KAO Thach has as well attended many training programs including Development of Security Market in Washington State, USA, Law in International Finance emphasised on World Bank's Laws and Regulations, International Development Fund, Trade Finances in Vienna, Austria and many other significant training programs.



Mr. CHAN Seyha
Deputy Director General
In charge of Admin, and
Finance and Operation Department

Joining RDB since 1999, Mr. Chan Seyha is now in charge of Admin, and Finance and Operation Department of Rural Development Bank of Cambodia. He has also been elected as a Staff Representative of Rural Development Bank.

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.

Mr. Chan Seyha got holds a Master degree in Finance from National University of Management in 2004 and Bachelor degree of Banking from the University of Banking, Vietnam in 1991.



Mr. UCH Chantha
Deputy Director General
In charge of Legal affairs, and
Humanresource Department

Joining RDB in 1999, Mr. Uch Chantha currently holds a position as a Deputy Director General in Charge of Legal Affairs and Human Resource Department.

His experiences in financial and economic sector including being served as 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 and Assistant to Economic Advisor of Royal Government.

Mr. Uch Chantha holds a Bachelor degree from Phnom Penh University.



Mr. PECH Sany
Deputy Director General
In charge of Credit, and
Marketing Department

With more than a decade working for Rural Development Bank of Cambodia since 2001, Mr. Pech Sany is currently a Deputy Director General in Charge of Credit and Marketing Department.

Mr. Pech Sany has more than two decades' banking experience to his name. He held various positions with NBC, RDB project and other Commercial Bank, starting from Supervision and Examination Department of NBC, Credit Officer of RDB, Chief Bureau in charge of MIS, Chief Bureau of R&D, Vice Head of Accounting and Finance Department and Head of Project Management Unit.

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



Mr. SAM Vongsy
Deputy Director General
In charge of Risk
Management Department

Mr. SAM Vongsy joined RDB in September 2014 as Deputy Director General responsible for the Risk Management Department. In this role, he develops and promotes the systematic management of risk as well as creating a risk-oriented working culture across the bank.

His previous work experience includes both public and private sector work. On the public sector side, he has worked in the areas of credit guarantees, macroeconomic and fiscal policy, and concessional loan financing of public investment projects at the Ministry of Economy and Finance. On the private sector side, he has worked in the areas of equity derivative swaps, mortgage operations, and mutual fund accounting at a number of banks and finance companies in Australia.

Mr. SAM Vongsy holds a Masters in Business Administration from the University of Technology, Sydney, Australia, and a Bachelor degree in economics and finance from the University of Sydney, Australia. In addition, he also holds a Graduate Diploma of Applied Finance and Investment from the Securities Institute of Australia.

RURAL DEVELOPMENT BANK

Financial Statements
for the year ended 31 December 2015
and
Report of the Independent Auditors

Corporate information

Bank	Rural Development Bank	
Registration No	Co.3942 et/1998	
Registered office	No. 9 – 13, Street 7 Sangkat Chaktomuk Khan Daun Penh Phnom Penh, Kingdom of Cambodia	
Shareholder	Ministry of Economy and Finance	
Board of Directors	H.E. Ros Seilava H.E. San Visal H.E. KhutChandara H.E. Kao Thach Mr. SreySothea Mr. Om Seng Bora Mr. Chan Seyha	Chairman of the Board Member Member Member Member Member Member
Management team	H.E. Kao Thach Mr. Chan Seyha Mr. Uch Chantha Mr. Pech Sany Mr. Sam Vongsy Mr. Mak Sophal Mr. Norng Thearith Mr. Sok Sonaro Mr. Chhoeung Sokhanara Mr. Mit Bun Ms. By Outhanvatey Mr. Net Panha Mr. Khék Piseth	Chief Executive Officer Deputy Chief Executive Officer Deputy Chief Executive Officer Deputy Chief Executive Officer Deputy Chief Executive Officer Head of Risk Management Department Head of Internal Audit Head of Human Resource Department Head of Operation Department Head of Finance and Administration Department Head of Marketing Department Head of Legal Affair and Secretariat Department Head of Credit Department
Auditors	KPMG Cambodia Ltd	

7.1 Report of the Directors

The Board of Directors has the pleasure in submitting their report together with the audited financial statements of Rural Development Bank (“the Bank”) for the year ended 31 December 2015.

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 were as follows:

	2015		2014
	US\$	KHR'000 (Note 4)	US\$
Profit before income tax	33,146	134,242	942,620
Income tax expense	(27,528)	(111,488)	(248,953)
Net profit for the year	5,618	22,754	693,667

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

On 13 January 2015, the Ministry of Economy and Finance who is the shareholder of the Bank has injected additional capital amounting to US\$26,028,756.

According to the letter No. 536 dated 3 February 2016 from the Ministry of Economy and Finance submitted to Samdech Akkak MonhaSena Padei Techo Hun Sen, Prime Minister of the Kingdom of Cambodia with his annotation on 4 February 2016, RDB is granted the approval upon request to take the following actions in respect of the 2015 financial statements:

- Transfer the non-performing loans and advances amounting to US\$18,269,567 from the balance sheet and monitor separately as an off-balance sheet item.
- Recognise the non-performing loans and advances amounting to US\$18,269,567 as a capital reduction.
- Recoverability of the non-performing loans and advances in the future will be recognised directly into capital accounts of the Bank.

The above actions were obtained approval from the National Bank of Cambodia on 31 March 2016.

Reserves and provisions

There were no material movement to or from reserves and provisions during the financial year other than as 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 material extent.

Current assets

Before the financial statements of the Bank were prepared, the Directors took reasonable steps to ensure that any current assets, other than 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 the Bank as at the date of this report are:

H.E. RosSeilava	Chairman
H.E. San Visal	Member
H.E. KhutChandara	Member
H.E. Kao Thach	Member
Mr.SreySothea	Member
Mr. Om Seng Bora	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 2015, 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.

Approval of the financial statements

We hereby approve the accompanying financial statements as set out on pages 22 to 65 which present fairly, in all material respects, the financial position of Rural Development Bank as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements.

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



H.E. Ros Seilava

Chairman of the Board

Phnom Penh, Kingdom of Cambodia

Date: 18 APR 2016

7.2 Report of the independent auditors

To the shareholder

We have audited the accompanying financial statements of Rural Development Bank (the “Bank” or “RDB”), which comprise the balance sheet as at 31 December 2015, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information as set out on pages 22 to 65.

Management’s responsibility for the financial statements

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

Auditors’ responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Cambodian International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Audit opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Rural Development Bank as at 31 December 2015, and its financial performance and its cash flows for the year then ended, in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 17 to the financial statements which described that the Bank has obtained approval from the National Bank of Cambodia on 31 March 2016 to transfer the non-performing loans and advances amounting to US\$18,269,567 to off-balance sheet through a capital reduction in the 2015 financial statements.

For **KPMG Cambodia Ltd**



Nge Huy
Partner

Phnom Penh, Kingdom of Cambodia

18 April 2016

7.3 Balance sheet

As at 31 December 2015

	Note	2015 US\$	2015 KHR'000 (Note 4)	2014 US\$
ASSETS				
Cash on hand	5	1,385,617	5,611,749	1,012,996
Balances with other banks	6	2,405,950	9,744,098	2,462,168
Balances with the National Bank of Cambodia	7	26,701,868	108,142,565	12,868,181
Loans and advances - net	8	41,935,152	169,837,366	50,258,280
Foreclosed properties	9	1,255,065	5,083,013	855,605
Other assets	10	143,523	581,268	34,599
Intangible assets	11	54,395	220,300	10,774
Property and equipment	12	799,260	3,237,003	782,694
TOTAL ASSETS		<u>74,680,830</u>	<u>302,457,362</u>	<u>68,285,297</u>
LIABILITIES AND EQUITY				
LIABILITIES				
Deposits from customers	13	1,092,888	4,426,196	2,756,837
Deposits from other banks	14	49,487	200,422	48,874
Borrowings	15	37,146,242	150,442,280	37,328,524
Other liabilities	16	1,437,178	5,820,571	1,328,049
Provision for income tax	24	4,113	16,658	211,643
TOTAL LIABILITIES		<u>39,729,908</u>	<u>160,906,127</u>	<u>41,673,927</u>
EQUITY				
Share capital	17	20,475,890	82,927,355	20,475,890
Additional capital	17	7,759,189	31,424,715	-
Subordinated debts	18	1,044,084	4,228,540	1,174,542
Retained earnings		5,671,759	22,970,625	4,960,938
TOTAL EQUITY		<u>34,950,922</u>	<u>141,551,235</u>	<u>26,611,370</u>
TOTAL LIABILITIES AND EQUITY		<u>74,680,830</u>	<u>302,457,362</u>	<u>68,285,297</u>

The accompanying notes form part of these financial statements.

7.4 Income statement

for the year ended 31 December 2015

	Note	2015 US\$	2015 KHR'000 (Note 4)	2014 US\$
Interest income	19	2,789,430	11,297,192	3,835,372
Interest expense	20	(884,938)	(3,583,999)	(1,007,056)
Net interest income		1,904,492	7,713,193	2,828,316
Non-interest income	21	333,803	1,351,902	306,815
Personnel and other staff cost	22	(1,038,544)	(4,206,103)	(860,279)
Depreciation and amortisation expenses		(126,086)	(510,648)	(103,648)
General and administrative expenses	23	(948,033)	(3,839,534)	(638,083)
Operating profit		125,632	508,810	1,533,121
Allowance for bad and doubtful loans and advances	8	(92,486)	(374,568)	(590,501)
Profit before income tax		33,146	134,242	942,620
Income tax expense	24	(27,528)	(111,488)	(248,953)
Net profit for the year		5,618	22,754	693,667

The accompanying notes form part of these financial statements

7.5 Statement of changes in equity

For the year ended 31 December 2015

	Share capital US\$	Additional capital US\$	Subordinated debts US\$	Retained earnings US\$	Total US\$
At 1 January 2014	20,475,890	-	1,305,000	4,267,271	26,048,161
Repayment to IFAD	-	-	(130,458)	-	(130,458)
Net profit for the year	-	-	-	693,667	693,667
At 31 December 2014	<u>20,475,890</u>	<u>-</u>	<u>1,174,542</u>	<u>4,960,938</u>	<u>26,611,370</u>
At 1 January 2015	20,475,890	-	1,174,542	4,960,938	26,611,370
Capital contribution	-	26,028,756	-	-	26,028,756
<i>Capital reduction against Non-performing loans and advances (see Note 17)</i>	-	(18,269,567)	-	705,203	(17,564,364)
Repayment to IFAD	-	-	(130,458)	-	(130,458)
Net profit for the year	-	-	-	5,618	5,618
At 31 December 2015	<u>20,475,890</u>	<u>7,759,189</u>	<u>1,044,084</u>	<u>5,671,759</u>	<u>34,950,922</u>
At 31 December 2015 (KHR'000 equivalents – Note 4)	<u><u>82,927,355</u></u>	<u><u>31,424,715</u></u>	<u><u>4,228,540</u></u>	<u><u>22,970,625</u></u>	<u><u>141,551,235</u></u>

The accompanying notes form part of these financial statements.

7.6 Statement of cash flows

For the year ended 31 December 2015

	2015	2014	
	US\$	KHR'000 (Note 4)	
	US\$	US\$	
Profit before income tax	33,146	134,242	942,620
Adjustments for:			
Depreciation and amortisation	126,086	510,648	103,648
Allowance for bad and doubtful loans and advances	92,486	374,568	590,501
Loss on property and equipment written off	-	-	329
Impairment for foreclosed properties	76,055	308,022	258,000
Loss on disposal of foreclosed properties	83,550	338,378	-
Unrealised exchange loss	2,273	9,206	(8,599)
	<u>413,596</u>	<u>1,675,064</u>	<u>1,886,499</u>
Changes in:			
Loans and advances	(9,333,722)	(37,801,574)	8,789,816
Foreclosed property	(559,065)	(2,264,213)	-
Statutory deposit	(2,909)	(11,781)	9,435
Other assets	(108,924)	(441,142)	(7,900)
Deposit from customers	(1,663,949)	(6,738,993)	1,216,242
Deposit from other banks	613	2,483	66
Other liabilities	109,129	441,972	(158,994)
	<u>(11,145,231)</u>	<u>(45,138,184)</u>	<u>11,735,164</u>
Net cash (used in) generated from operations	(11,145,231)	(45,138,184)	11,735,164
Income tax paid	(235,058)	(951,985)	(170,859)
	<u>(11,380,289)</u>	<u>(46,090,169)</u>	<u>11,564,305</u>
Net cash (used in) generated from operating activities			
Cash flows from investing activities			
Purchases of property and equipment	(136,204)	(551,626)	(130,438)
Purchases of intangible assets	(50,070)	(202,784)	(9,350)
	<u>(186,274)</u>	<u>(754,410)</u>	<u>(139,788)</u>
Net cash used in investing activities			
Cash flows from financing activities			
Repayments of subordinated debts	(130,458)	(528,355)	(130,458)
Repayments of borrowings	(16,014,554)	(64,858,944)	(14,756,676)
Proceeds from borrowings	15,830,000	64,111,500	9,185,000
Additional capital contribution	26,028,756	105,416,462	-
	<u>25,713,744</u>	<u>104,140,663</u>	<u>(5,702,134)</u>
Net cash generated from/(used in) financing activities			

7.6 Statement of cash flows (continued)

For the year ended 31 December 2015

	2015	2014
	US\$	KHR'000 (Note 4)
Net increase in cash and cash equivalents	14,147,181	5,722,383
Cash and cash equivalents at beginning of year	15,172,180	9,449,797
	<u>29,319,361</u>	<u>15,172,180</u>
Cash and cash equivalents at end of year (Note 25)	<u>29,319,361</u>	<u>118,743,413</u>

Significant non cash transactions

During the year there is the following significant non-cash transactions:

	2015	2014
	US\$	KHR'000 (Note 4)
Transfer of allowance for non-performing loans and advances	705,203	-
	<u>705,203</u>	<u>-</u>

The accompanying notes form part of these financial statements.

7.7 Notes To The Financial Statements

For the year ended 31 December 2015

1. Reporting entity

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 75 employees as at 31 December 2015 (31 December 2014: 74 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 18 April 2016.

(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	Provision
Normal/standard	<30 days	1%
Special mention	≥ 30 days – 89 days	3%
Substandard	≥ 90 days – 179 days	20%
Doubtful	≥ 180 days – 379 days	50%
Loss	≥ 360 days	100%

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

In determining the above allowance, 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.

3. Significant accounting policies (continued)

(f) Deposits and placements with banks

Deposits and placements with banks are stated at cost less allowance for uncollectable amounts, if any.

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

(i) Foreclose properties

Foreclosed properties consist of moveable and immovable properties which are carried at the lower of the outstanding balance of the related loans or advances and the estimated fair market value of the property at the date of the foreclosure. Gains or losses on the disposal of foreclosed properties are recognised in the income statement on the date of the disposal.

(j) 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.

(k) 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.

3. Significant accounting policies (continued)

(k) Property and equipment (continued)

- (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 and 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.

(l) Impairment of assets

(i) Financial assets

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

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.

3. Significant accounting policies (continued)

(l) Impairment of assets (continued)

(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.

(m) Other liabilities

Other liabilities are stated at their cost.

(n) 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.

(o) 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.

3. Significant accounting policies (continued)

(p) 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.

(q) 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)

(r) 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 4,050 published by the NBC on 31 December 2015. 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

	2015		2014
	US\$	KHR'000 (Note 4)	US\$
US Dollars	1,367,745	5,539,367	980,872
Khmer Riel	17,872	72,382	32,124
	<u>1,385,617</u>	<u>5,611,749</u>	<u>1,012,996</u>

6. Balances with other banks

	2015		2014
	US\$	KHR'000 (Note 4)	US\$
Canadia Bank Plc.	1,403,456	5,683,997	1,562,413
Cambodian Public Bank Plc.	757,985	3,069,839	678,776
ACLEDA Bank Plc.	244,509	990,262	220,979
	<u>2,405,950</u>	<u>9,744,098</u>	<u>2,462,168</u>

Balances with other banks do not earn interest and are further analysed as follows:

	2015		2014
	US\$	KHR'000 (Note 4)	US\$
(a) By maturity:			
Within 1 month	<u>2,405,950</u>	<u>9,744,098</u>	<u>2,462,168</u>
(b) By currency:			
Khmer Riels	35,394	143,346	6,940
US Dollars	<u>2,370,556</u>	<u>9,600,752</u>	<u>2,455,228</u>
	<u>2,405,950</u>	<u>9,744,098</u>	<u>2,462,168</u>
(c) By relationship:			
Non-related parties	<u>2,405,950</u>	<u>9,744,098</u>	<u>2,462,168</u>

7. Balances with the National Bank of Cambodia

	Note	2015 US\$	2015 KHR'000 (Note 4)	2014 US\$
Fixed deposit		-	-	7,024,540
Current accounts	(a)	14,478,411	58,637,565	4,672,476
Negotiable Certificate of Deposits	(b)	11,049,383	44,750,001	-
		<u>25,527,794</u>	<u>103,387,566</u>	<u>11,697,016</u>
Statutory deposits on:				
Capital guarantee deposit	(c)	1,019,136	4,127,500	1,016,258
Reserve requirement for customers' deposits	(d)	154,938	627,499	154,907
		<u>1,174,074</u>	<u>4,754,999</u>	<u>1,171,165</u>
		<u>26,701,868</u>	<u>108,142,565</u>	<u>12,868,181</u>

(a) Current accounts:

The accounts bear no interest.

(b) Negotiable Certificate of Deposits (NCD):

The Bank pledges NCD with the NBC as a collateral for settlement clearing facility.

The term of NCD is for a period of three months and earn interest at 0.26-0.29% for US\$ currency and at 1.49% for KHR currency per annum respectively.

(c) Capital guarantee deposit:

Under the Prakas No. B7-00-05 on licensing of specialised banks dated 11 January 2000, the specialised banks are required to maintain a statutory deposit of 5% of registered capital with the NBC. The deposit 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. The capital guarantee deposit earns interest at 3/8 LIBOR (six months) ranged from 0.08% to 3.00% per annum (2014: 0.11% to 0.12% per annum).

(d) Reserve requirement for customers' deposits:

This is a reserve requirement which fluctuates depending on the level of the Bank's customers' deposits. It is maintain in compliance with the National Bank of Cambodia's Prakas No. B7-00-005 dated 11 January 2000 at the rate of 5% of customers' deposit. This reserve requirement does not earn interest.

8. Loans and advances - net

	2015		2014
	US\$	KHR'000 (Note 4)	US\$
Long term loans	34,754,906	140,757,369	36,173,034
Short term loans	9,116,498	36,921,817	15,925,000
Staff loans	104,087	421,554	190,225
Total gross loans and advances (*)	43,975,491	178,100,740	52,288,259
Net interest receivable			
Accrued interest receivables	419,648	1,699,574	1,080,386
Interest in suspense	(126,654)	(512,949)	(164,315)
	<u>292,994</u>	<u>1,186,625</u>	<u>916,071</u>
Total gross loans and net interest receivable	44,268,485	179,287,365	53,204,330
Allowance for bad and doubtful loans and advances	(2,333,333)	(9,449,999)	(2,946,050)
Total loans and advances – net	<u>41,935,152</u>	<u>169,837,366</u>	<u>50,258,280</u>

(*) The gross loans and advances excluded the non-performing loans and advances amounting US\$18,269,567 which was approved to transfer through a reduction of capital (see Note 17) during the year by the National Bank of Cambodia through a letter dated 31 March 2016.

Movements of allowance for bad and doubtful loans and advances are as follows:

	2015		2014
	US\$	KHR'000 (Note 4)	US\$
At 1 January	2,946,050	11,931,503	2,355,832
Addition during the year	92,486	374,568	590,501
Transfer to off- balance sheet	(705,203)	(2,856,072)	-
Unrealised exchange difference	-	-	(283)
At 31 December	<u>2,333,333</u>	<u>9,449,999</u>	<u>2,946,050</u>

8. Loans and advances – net (continued)

The gross loans and advances are analysed as follows:

	2015	2014	
	US\$	KHR'000 (Note 4)	US\$
(a) By maturity:			
3 to 6 months	-	-	-
6 to 12 months	9,744,000	39,463,200	16,069,000
1 to 3 years	5,419,861	21,950,437	10,739,873
3 to 5 years	14,947,932	60,539,126	14,497,725
Over 5 years	13,863,698	56,147,977	10,981,661
	<u>43,975,491</u>	<u>178,100,740</u>	<u>52,288,259</u>
(b) By performance:			
Standard loans			
Secured	40,415,154	163,681,374	32,916,844
Unsecured	1,342,289	5,436,270	13,910,335
Special mention loans			
Secured	739,538	2,995,129	1,946,377
Unsecured	-	-	120,000
Substandard loans			
Secured	-	-	933,703
Unsecured	174,160	705,348	220,000
Doubtful loans			
Secured	-	-	120,000
Unsecured	-	-	820,000
Loss loans			
Secured	662,000	2,681,101	751,000
Unsecured	642,350	2,601,518	550,000
	<u>43,975,491</u>	<u>178,100,740</u>	<u>52,288,259</u>
(c) By currency:			
US Dollars	43,427,715	175,882,246	51,796,068
Khmer Riels	547,776	2,218,494	492,191
	<u>43,975,491</u>	<u>178,100,740</u>	<u>52,288,259</u>
(d) By residency status:			
Residents	<u>43,975,491</u>	<u>178,100,740</u>	<u>52,288,259</u>

8. Loans and advances – net (continued)

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

	2015	2014	
	US\$	KHR'000 (Note 4)	US\$
(e) By relationship:			
Non-related parties	43,871,404	177,679,187	52,098,034
Staff loans	104,087	421,553	190,225
	<u>43,975,491</u>	<u>178,100,740</u>	<u>52,288,259</u>
(f) By types of customers:			
Corporate	23,604,658	95,598,865	33,853,954
Individuals and soles traders	20,370,833	82,501,875	18,434,305
Other	-	-	-
	<u>43,975,491</u>	<u>178,100,740</u>	<u>52,288,259</u>
(g) By financing project:			
Ministry of Economy and Finance	18,505,000	74,945,250	27,592,500
Rural Development Bank's Fund	20,175,863	81,712,245	18,414,381
China Development Bank	4,800,000	19,440,000	5,400,000
Agence Française de Développement (AFD)	399,628	1,618,495	786,378
IFAD	95,000	384,750	95,000
	<u>43,975,491</u>	<u>178,100,740</u>	<u>52,288,259</u>
(h) By economic sectors:			
Privates	39,026,590	158,057,690	44,960,000
Registered Micro Finance Institutions	3,537,510	14,326,917	1,507,037
Licensed Financial Institutions	527,766	2,137,452	1,902,620
Associations	40,000	162,000	1,692,000
Families Rubber Plantation	739,538	2,995,129	786,377
Registered Non-Government Organisations	-	-	1,250,000
Staff loans	104,087	421,552	190,225
	<u>43,975,491</u>	<u>178,100,740</u>	<u>52,288,259</u>
(i) By large exposures:			
Large exposures	20,675,000	83,733,750	24,425,000
Non-large exposures	23,300,491	94,366,990	27,863,259
	<u>43,975,491</u>	<u>178,100,740</u>	<u>52,288,259</u>

8. Loans and advances – net (continued)

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

(i) By large exposures: (continued)

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):

	2015	2014
Short term loans	5.00% - 14.00%	5.00% - 12.00%
Long term loans	5.00% - 12.00%	5.00% - 12.00%
Staff loans	7%	7.00%

9. 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’s Prakas No B7-01-186.

	2015			2014	
	Land & Building US\$	Equipment US\$	Total US\$	Total KHR’000	Total US\$
Opening balance	596,000	517,605	1,113,605	4,510,100	1,113,605
Addition during the year	651,400	7,665	659,065	2,669,213	-
Less: Disposals during the year	-	(183,550)	(183,550)	(743,378)	-
	<u>1,247,400</u>	<u>341,720</u>	<u>1,589,120</u>	<u>6,435,935</u>	<u>1,113,605</u>
Less: Allowance for impairment	-	(334,055)	(334,055)	(1,352,922)	(258,000)
	<u>1,247,400</u>	<u>7,665</u>	<u>1,255,065</u>	<u>5,083,013</u>	<u>855,605</u>

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

9. Foreclosed properties (continued)

Movements of allowance for impairment for foreclosed properties are as follows:

	2015		2014
	US\$	KHR'000 (Note 4)	US\$
At 1 January	258,000	1,044,900	-
Addition during the year	76,055	308,022	258,000
At 31 December	<u>334,055</u>	<u>1,352,922</u>	<u>258,000</u>

10. Other assets

	2015		2014
	US\$	KHR'000 (Note 4)	US\$
Guarantee deposits	6,804	27,556	7,313
Prepaid rent	3,908	15,827	11,249
Prepaid insurance	399	1,616	432
Interest receivable	-	-	390
Others	132,412	536,269	15,215
	<u>143,523</u>	<u>581,268</u>	<u>34,599</u>

11. Intangible assets

	Computer software license		
	2015		2014
	US\$	KHR'000 (Note 4)	US\$
Cost			
At 1 January	111,760	452,628	102,410
Additions	50,070	202,784	9,350
At 31 December	<u>161,830</u>	<u>655,412</u>	<u>111,760</u>
Less: Accumulated amortisation			
At 1 January	100,986	408,994	94,239
Amortisation for the year	6,449	26,118	6,747
At 31 December	<u>107,435</u>	<u>435,112</u>	<u>100,986</u>
Carrying amounts			
At 31 December	<u>54,395</u>	<u>220,300</u>	<u>10,774</u>

12. Property and equipment

2015	Land US\$	Building US\$	Renovations US\$	Motor vehicles US\$	IT equipment US\$	Office equipment and furniture US\$	Total US\$	KHR'000 (Note 4)
Cost								
At 1 January 2015	241,500	329,344	61,436	598,349	163,997	132,704	1,527,330	6,185,687
Additions	-	-	-	89,000	21,811	25,393	136,204	551,626
At 31 December 2015	241,500	329,344	61,436	687,349	185,808	158,097	1,663,534	6,737,313
Less: Accumulated depreciation								
At 1 January 2015	-	95,105	20,434	389,760	140,611	98,726	744,636	3,015,776
Depreciation for the year	-	16,468	8,204	66,592	16,683	11,691	119,638	484,534
At 31 December 2015	-	111,573	28,638	456,352	157,294	110,417	864,274	3,500,310
Carrying amounts								
At 31 December 2015	241,500	217,771	32,798	230,997	28,514	47,680	799,260	3,237,003

12. Property and equipment (continued)

2014	Land US\$	Building US\$	Renovations US\$	Motor vehicles US\$	IT equipment US\$	Office equipment & furniture US\$	Total US\$
Cost							
At 1 January 2014	241,500	329,344	45,917	516,869	176,258	121,202	1,431,090
Additions	-	-	15,519	82,000	14,612	18,307	130,438
Written off	-	-	-	(520)	(26,873)	(6,805)	(34,198)
At 31 December 2014	<u>241,500</u>	<u>329,344</u>	<u>61,436</u>	<u>598,349</u>	<u>163,997</u>	<u>132,704</u>	<u>1,527,330</u>
Less: Accumulated depreciation							
At 1 January 2014	-	78,638	14,317	340,384	152,053	96,212	681,604
Depreciation for the year	-	16,468	6,118	49,892	15,431	8,992	96,901
Written off	-	-	-	(520)	(26,873)	(6,476)	(33,869)
At 31 December 2014	<u>-</u>	<u>95,106</u>	<u>20,435</u>	<u>389,756</u>	<u>140,611</u>	<u>98,728</u>	<u>744,636</u>
Carrying amounts							
At 31 December 2014	<u>241,500</u>	<u>234,238</u>	<u>41,001</u>	<u>208,593</u>	<u>23,386</u>	<u>33,976</u>	<u>782,694</u>

13. Deposits from customers

	2015 US\$	2015 KHR'000 (Note 4)	2014 US\$
Demand deposits	360,024	1,458,097	552,847
Savings accounts	166,346	673,701	573,730
Fixed deposits	566,518	2,294,398	1,630,260
	<u>1,092,888</u>	<u>4,426,196</u>	<u>2,756,837</u>

The deposits from customers are analysed as follows:

(a) By maturity:

	2015 US\$	2015 KHR'000 (Note 4)	2014 US\$
Within one month			
Current deposits	360,024	1,458,095	550,924
Saving deposits	228,030	923,522	576,329
Fixed deposits			
1 to 3 months	133,594	541,057	1,203,299
4 to 6 months	100,381	406,543	45,732
Over 6 months	270,859	1,096,979	380,553
	<u>1,092,888</u>	<u>4,426,196</u>	<u>2,756,837</u>

(b) By types of customer:

Business enterprises	403,128	1,632,668	556,221
Individuals	689,760	2,793,528	2,200,616
	<u>1,092,888</u>	<u>4,426,196</u>	<u>2,756,837</u>

(c) By residency status:

Residents	1,092,647	4,425,221	2,748,882
Non-residents	241	975	7,955
	<u>1,092,888</u>	<u>4,426,196</u>	<u>2,756,837</u>

(d) By currency:

US Dollars	1,066,922	4,321,034	2,733,326
Khmer Riels	25,966	105,162	23,511
	<u>1,092,888</u>	<u>4,426,196</u>	<u>2,756,837</u>

13. Deposits from customers (continued)

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

(e) By interest rate (per annum):

	2015	2014
Saving deposits	1.00% - 1.50%	1.00% - 1.50%
Fixed deposits	3.00% - 6.00%	3.00% - 6.00%

14. Deposits from other banks

	2015		2014
	US\$	KHR'000 (Note 4)	US\$
Current accounts	2,593	10,502	2,401
Savings accounts	46,894	189,920	46,473
	<u>49,487</u>	<u>200,422</u>	<u>48,874</u>

The deposits from other banks are analysed as follows:

	2015		2014
	US\$	KHR'000 (Note 4)	US\$
(a) By maturity:			
Within 1 month	<u>49,487</u>	<u>200,422</u>	<u>48,874</u>
(b) By currency:			
US Dollars	48,965	198,308	48,337
Khmer Riels	522	2,114	537
	<u>49,487</u>	<u>200,422</u>	<u>48,874</u>
(c) By residency status:			
Residents	<u>49,487</u>	<u>200,422</u>	<u>48,874</u>

14. Deposits from other banks (continued)

The deposits from other banks are analysed as follows: (continued)

(d) By interest rate (per annum):

	2015	2014
Current accounts	Nil	Nil
Savings deposits	1.00-1.50%	1.00-1.50%

15. Borrowings

	2015		2014
	US\$	KHR'000 (Note 4)	US\$
Ministry of Economy and Finance (ASDF)	30,737,500	124,486,875	30,330,000
China Development Bank	5,200,000	21,060,000	5,600,000
Asian Development Bank	960,281	3,889,138	1,150,063
Agence Française de Développement (AFD)	248,461	1,006,267	248,461
	<u>37,146,242</u>	<u>150,442,280</u>	<u>37,328,524</u>

The above amounts are analysed as follows:

(a) By maturity:

Within 1 year	11,700,000	47,385,000	17,955,000
1 to 3 years	-	-	-
3 to 5 years	19,037,500	77,101,875	-
Over 5 years	6,408,742	25,955,405	19,373,524
	<u>37,146,242</u>	<u>150,442,280</u>	<u>37,328,524</u>

(b) By maturity:

Within 1 year	11,700,000	47,385,000	17,955,000
1 to 3 years	-	-	-
3 to 5 years	19,037,500	77,101,875	-
Over 5 years	6,408,742	25,955,405	19,373,524
	<u>37,146,242</u>	<u>150,442,280</u>	<u>37,328,524</u>

15. Borrowings (continued)

The above amounts are analysed as follows:

(b) By interest rate (per annum):

	2015	2014
Ministry of Economy and Finance (ASDF)	2%	2.00%
China Development Bank	5.08% - 5.29%	5.08% - 5.14%
Asian Development Bank	0.32% - 2.66%	0.31% - 2.32%
Agence Française de Développement (AFD)	Nil	Nil

16. Other liabilities

	2015		2014
	US\$	KHR'000 (Note 4)	US\$
Accrued interest payables	889,176	3,601,163	995,422
Employment security funds	278,650	1,128,533	235,976
Unearned income	167,837	679,740	2,089
Other tax liabilities	6,560	26,568	4,887
Others	94,955	384,567	89,675
	<u>1,437,178</u>	<u>5,820,571</u>	<u>1,328,049</u>

17. Share capital and additional capital**(a) Share capital**

	2015		2014
	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>82,927,355</u>	<u>20,475,890</u>

17. Share capital and additional capital (continued)**(b) Additional capital**

		2015	2014	
		US\$	US\$	
		KHR'000		
		(Note 4)		
Capital contribution	(i)	26,028,756	105,416,462	-
Less: Non-performing loan transfer Principal outstanding	(ii)	(18,269,567)	(73,991,746)	-
Additional capital contribution – net		<u>7,759,189</u>	<u>31,424,715</u>	<u>-</u>

(i) On 13 January 2015, the Ministry of Economy and Finance who is the shareholder of the Bank has injected additional capital amounting to US\$26,028,756. The Bank has not proceed to update this additional capital in the Memorandum and Article with the Ministry of Commerce as at the date of this report yet.

(ii) According to the letter No. 536 dated 3 February 2016 from the Ministry of Economy and Finance submitted to SamdechAkkakMonhaSenaPadeiTecho Hun Sen, Prime Minister of the Kingdom of Cambodia with his annotation on 4 February 2016, RDB is granted the approval upon request to take the following actions in respect of the 2015 financial statements:

- Transfer the non-performing loans and advances amounting to US\$18,269,567 from the balance sheet and monitor separately as an off-balance sheet items.
- Recognise the non-performing loans and advances amounting to US\$18,269,567 as a capital reduction.
- Recoverability of the non-performing loans and advances in the future will be recognised directly into capital accounts of the Bank.

The above actions were obtained approval from the National Bank of Cambodia on 31 March 2016.

As the result of the above transactions, the related allowances for bad and doubtful loans and advances amounting to US\$705,203 have been reversed to retained earnings.

18. Subordinated debts

		2015	2014	
		US\$	US\$	
		KHR'000		
		(Note 4)		
Agence Française de Développement (AFD)*		1,044,084	4,228,540	1,044,084
International Fund for Agriculture and Development (IFAD)		-	-	130,458
		<u>1,044,084</u>	<u>4,228,540</u>	<u>1,174,542</u>

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

19. Interest income

	2015		2014
	US\$	KHR'000 (Note 4)	US\$
Loans and advances	2,755,982	11,161,728	3,817,773
Balances with other banks	33,448	135,464	17,599
	<u>2,789,430</u>	<u>11,297,192</u>	<u>3,835,372</u>

20. Interest expenses

	2015		2014
	US\$	KHR'000 (Note 4)	US\$
Borrowings	849,403	3,440,082	978,031
Deposits from customers:			
Fixed deposits	31,563	127,830	26,349
Saving accounts	3,972	16,087	2,676
	<u>884,938</u>	<u>3,583,999</u>	<u>1,007,056</u>

21. Non-interest income

	2015		2014
	US\$	KHR'000 (Note 4)	US\$
Commission income	292,087	1,182,952	279,766
Others income	41,716	168,950	26,999
Others	-	-	50
	<u>333,803</u>	<u>1,351,902</u>	<u>306,815</u>

22. Personnel and other staff cost

	2015		2014
	US\$	KHR'000 (Note 4)	US\$
Salary and wages	709,866	2,874,957	590,045
Bonuses	81,686	330,828	117,631
Employment benefits	71,786	290,733	73,645
Directors' remuneration	155,075	628,054	61,988
Uniform	20,131	81,531	16,970
	<u>1,038,544</u>	<u>4,206,103</u>	<u>860,279</u>

23. General and administrative expenses

	2015	2014
	US\$	US\$
	KHR'000	
	(Note 4)	
Mission, travelling and accommodation expenses	85,148	57,628
Loss on disposal of foreclosed properties	83,550	-
Impairment for foreclosed properties	76,055	258,000
Water and electricity	64,854	51,540
Social welfare	45,614	43,439
Other consumables and office supplies	41,873	29,815
Gasoline and motor vehicles operating expenses	21,761	16,671
Donation and gifts	14,021	10,096
Telecommunication and postage expenses	12,857	12,264
Public relations expenses	54,788	5,723
Membership fee	10,908	14,260
Reception charges	19,860	6,101
Professional fee	10,120	9,350
Repairs and maintenance	19,058	10,102
Court and other legal fees	93,457	42,600
Training charges	18,394	3,701
Clearing house and other fees	43,216	6,379
Tax on transportation vehicles	3,369	2,186
License fee	17,565	17,458
Advertising expenses	576	1,147
Fire and hazard insurance expenses	2,086	2,408
Publication and subscription expenses	1,423	1,160
Foreign exchange (gain)/loss	(10,258)	24,721
Other miscellaneous	217,738	11,334
	<u>948,033</u>	<u>638,083</u>
	<u><u>948,033</u></u>	<u><u>638,083</u></u>

24. Income tax**(a) Provision for income tax**

	2015	2014
	US\$	US\$
	KHR'000	
	(Note 4)	
At 1 January	211,643	133,549
Income tax expense	27,528	248,953
Income tax paid	(235,058)	(170,859)
	<u>4,113</u>	<u>211,643</u>
	<u><u>4,113</u></u>	<u><u>211,643</u></u>

24. Income tax (continued)**(b) Income tax expense**

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:

	2015		2014
	US\$	KHR'000 (Note 4)	US\$
Profit before income tax	33,146	134,242	942,620
Income tax rate at 20%	6,629	26,847	188,524
Effect of non-deductible expenses	12,161	49,252	8,829
Effect of temporary difference	14,445	58,502	51,600
Over provision in prior year	(12,658)	(51,265)	-
Effect of minimum tax	6,951	28,152	-
Income tax expense	<u>27,528</u>	<u>111,488</u>	<u>248,953</u>

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

25. Cash and cash equivalents

	2015		2014
	US\$	KHR'000 (Note 4)	US\$
Cash on hand (Note 5)	1,385,617	5,611,749	1,012,996
Balances with banks (Note 6)	2,405,950	9,744,098	2,462,168
Balances with the National Bank of Cambodia (Note 7)	25,527,794	103,387,566	11,697,016
	<u>29,319,361</u>	<u>118,743,413</u>	<u>15,172,180</u>

26. 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:

	2015	2014
	US\$	US\$
	KHR'000	
	(Note 4)	
Loan commitments	6,000,000	4,215,000
	<u>6,000,000</u>	<u>4,215,000</u>

(b) Off balance sheet items

The following are bad and doubtful loans and advances transferred to monitor as an off balance sheet items which were approved by the National Bank of Cambodia on 31 March 2016.

	2015	2014
	US\$	US\$
	KHR'000	
	(Note 4)	
Long term loans	13,249,567	10,875,000
Short term loans	5,020,000	8,030,000
Staff loans	-	-
	<u>18,269,567</u>	<u>18,905,000</u>
Total loans and advances	<u>18,269,567</u>	<u>18,905,000</u>

The loans and advances are analysed as follows:

(i) By economic sectors:

	2015	2014
	US\$	US\$
	KHR'000	
	(Note 4)	
Privates	14,159,367	14,368,000
Registered Micro Finance Institutions	1,137,000	1,182,000
Licensed Financial Institutions	1,683,200	1,700,000
Associations	1,290,000	1,655,000
Families Rubber Plantation	-	-
Registered Non-Government Organisations	-	-
Staff loans	-	-
	<u>18,269,567</u>	<u>18,905,000</u>
	<u>18,269,567</u>	<u>18,905,000</u>

26. Commitment and contingent liabilities (continued)

(b) Off balance sheet items (continued)**(ii) By types of Customers**

	2015		2014
	US\$	KHR'000 (Note 4)	US\$
Corporate	10,150,200	41,108,310	10,322,000
Individuals and soles trader	8,119,367	32,883,436	8,583,000
Others	-	-	-
	<u>18,269,567</u>	<u>73,991,746</u>	<u>18,905,000</u>

(c) Lease commitments

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

	2015		2014
	US\$	KHR'000 (Note 4)	US\$
Within one year	<u>6,000</u>	<u>24,300</u>	<u>4,800</u>

(d) 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 different interpretations and the effects since the incorporation of the Bank could be significant.

27. Related party balances and transactions

	US\$	2015 KHR'000 (Note 4)	2014 US\$
(a) Balance with related party			
<i>Board members</i>			
Deposit accounts	243,256	985,186	188,162
	<u> </u>	<u> </u>	<u> </u>
(b) Transactions with related parties			
<i>Key management compensation</i>			
Director's remuneration	155,075	628,054	61,988
Management salaries and bonus	344,227	1,394,119	480,368
House rental for management	-	-	12,000
	<u> </u>	<u> </u>	<u> </u>
<i>Shareholder - Ministry of Economy and Finance</i>			
Additional capital	26,028,756	105,416,462	188,162
	<u> </u>	<u> </u>	<u> </u>

28. 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.

(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.

28. Financial risk management (continued)

(b) Operational risk (continued)

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.

28. Financial risk management (continued)**(c) Credit risk (continued)****(ii) Exposure to credit risk**

	2015		2014
	US\$	KHR'000 (Note 4)	US\$
Individually impaired	1,478,510	5,987,967	21,284,704
Past due but not impaired	739,538	2,995,129	12,306,377
Neither past due nor impaired	41,757,443	169,117,644	18,697,178
	<hr/>	<hr/>	<hr/>
Total loans - gross	43,975,491	178,100,740	52,288,259
Net interest receivable			
Accrued interest receivables	419,648	1,699,574	1,080,386
Interest in suspense	(126,654)	(512,949)	(164,315)
	<hr/>	<hr/>	<hr/>
	292,994	1,186,625	916,071
	<hr/>	<hr/>	<hr/>
Total gross loans and net interest receivable	44,268,485	179,287,365	53,204,330
Allowance for bad and doubtful loans and advances	(2,333,333)	(9,449,999)	(2,946,050)
	<hr/>	<hr/>	<hr/>
	41,935,152	169,837,366	50,258,280
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Loans to customers neither past due nor impaired

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

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.

28. Financial risk management (continued)

(c) Credit risk (continued)

(ii) Exposure to credit risk (continued)

Impaired loans and advances

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).

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% (2013: 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.

28. Financial risk management (continued)**(c) Credit risk (continued)****(ii) Exposure to 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:

	2015		2014
	US\$	KHR'000 (Note 4)	US\$
Against individually impaired:			
Land and buildings	1,483,062	6,006,401	7,919,861
Past due but not impaired:			
Land and buildings	477,760	1,934,928	2,849,977
Neither past due nor impaired:			
Land and buildings	81,827,344	331,400,743	56,735,705
	<u>81,827,344</u>	<u>331,400,743</u>	<u>56,735,705</u>

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.

28. 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 2015, 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.

28. 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.

2015	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	-	-	-	-	-	-	1,385,617	1,385,617	
Balances with other banks	-	-	-	-	-	-	2,405,950	2,405,950	
Balances with the National Bank of Cambodia	11,049,383	-	-	-	-	1,019,136	13,459,275	25,527,794	0.08-3.00%
Loans and advances - gross	-	-	9,744,000	5,419,861	14,947,932	13,863,698	-	43,975,491	5.00-12.00%
Other assets	-	-	-	-	-	-	139,216	139,216	
	<u>11,049,383</u>	<u>-</u>	<u>9,744,000</u>	<u>5,419,861</u>	<u>14,947,932</u>	<u>14,882,834</u>	<u>17,390,058</u>	<u>73,434,068</u>	
Financial liabilities									
Deposits from customers	228,030	133,594	371,240	-	-	-	360,024	1,092,888	1.00-6.00%
Deposits from other banks	46,894	-	-	-	-	-	2,593	49,487	1.00-1.50%
Borrowings	-	-	11,700,000	-	19,037,500	6,160,281	248,461	37,146,242	0.31-5.14%
Other liabilities	-	-	-	-	-	-	1,437,178	1,437,178	
	<u>274,924</u>	<u>133,594</u>	<u>12,071,240</u>	<u>-</u>	<u>19,037,500</u>	<u>6,160,281</u>	<u>2,048,256</u>	<u>39,725,795</u>	
Maturity gap	<u>10,774,459</u>	<u>(133,594)</u>	<u>(2,327,240)</u>	<u>5,419,861</u>	<u>(4,089,568)</u>	<u>8,722,553</u>	<u>15,341,802</u>	<u>33,708,273</u>	

28. 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.

2014	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	-	-	-	-	-	-	1,012,996	1,012,996	
Balances with other banks	-	-	-	-	-	-	2,462,168	2,462,168	
Balances with the National Bank of Cambodia	7,024,540	-	1,016,258	-	-	-	3,656,218	11,697,016	0.08-0.12%
Loans and advances - gross	-	-	16,069,000	11,648,953	12,135,225	12,435,081	-	52,288,259	5.00-12.00%
Other assets	-	-	-	-	-	-	34,599	34,599	
	<u>7,024,540</u>	<u>-</u>	<u>17,085,258</u>	<u>11,648,953</u>	<u>12,135,225</u>	<u>12,435,081</u>	<u>7,165,981</u>	<u>67,495,038</u>	
Financial liabilities									
Deposits from customers	576,329	1,203,299	426,285	-	-	-	550,924	2,756,837	1.00-6.00%
Deposits from other banks	46,473	-	-	-	-	-	2,401	48,874	1.00-1.50%
Borrowings	-	-	17,955,000	-	-	19,125,063	248,461	37,328,524	0.75-5.45%
Other liabilities	-	-	-	-	-	-	1,328,049	1,328,049	
	<u>622,802</u>	<u>1,203,299</u>	<u>18,381,285</u>	<u>-</u>	<u>-</u>	<u>19,125,063</u>	<u>2,129,835</u>	<u>41,462,284</u>	
Maturity gap	<u>6,401,738</u>	<u>(1,203,299)</u>	<u>(1,296,027)</u>	<u>11,648,953</u>	<u>12,135,225</u>	<u>(6,689,982)</u>	<u>5,036,146</u>	<u>26,032,754</u>	

28. 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.

28. Financial risk management (continued)**(e) Liquidity risk (continued)**

2015	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	588,054	133,594	371,240	-	-	-	-	1,092,888
Deposits from other banks	49,487	-	-	-	-	-	-	49,487
Borrowings	-	-	11,700,000	-	19,037,500	6,160,281	248,461	37,146,242
Other liabilities	6,358	5,503	113,204	-	-	-	1,312,113	1,437,178
Total financial liabilities	643,899	139,097	12,184,444	-	19,037,500	6,160,281	1,560,574	39,725,795
Total financial assets	11,049,383	-	9,744,000	5,419,861	14,947,932	14,882,834	16,230,799	72,274,809
Net liquidity gap	10,405,484	(139,097)	(2,440,444)	5,419,861	(4,089,568)	8,722,553	14,670,225	32,549,014

28. Financial risk management (continued)**(e) Liquidity risk (continued)**

2014	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	1,127,253	1,203,299	426,285	-	-	-	-	2,756,837
Deposits from other banks	48,874	-	-	-	-	-	-	48,874
Borrowings	-	-	17,955,000	-	-	19,125,063	248,461	37,328,524
Other liabilities	4,886	4,675	997,511	-	-	-	320,977	1,328,049
Total financial liabilities	<u>1,181,013</u>	<u>1,207,974</u>	<u>19,378,796</u>	<u>-</u>	<u>-</u>	<u>19,125,063</u>	<u>569,438</u>	<u>41,462,284</u>
Total financial assets	<u>7,017,227</u>	<u>5,391,096</u>	<u>17,085,258</u>	<u>11,648,953</u>	<u>12,135,225</u>	<u>12,435,081</u>	<u>7,313</u>	<u>65,720,153</u>
Net liquidity gap	<u>5,836,214</u>	<u>4,183,122</u>	<u>(2,293,538)</u>	<u>11,648,953</u>	<u>12,135,225</u>	<u>(6,689,982)</u>	<u>(562,125)</u>	<u>24,257,869</u>

28. 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.

29. 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.