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RURAL DEVELOPMENT BANK

ANNUAL REPORT

2018



For Farmer And Socio - Economic Development

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I. ABOUT RURAL DEVELOPMENT BANK

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Rural Development Bank (RDB)

The Rural Development Bank was established by sub-decree No.01, dated January 21, 1998 and amended by sub-decree No.199, dated 11 June 2014 on fulfilling the lack of demand and supply of financial services in the rural areas in order to take part in poverty alleviation and to raise the living condition of rural Cambodian people. RDB is a public enterprise, registered and licensed as banking operations. RDB is an autonomous entity which it's broadened management and decision-making with the most efficiency way, sustainable manner and for the growth. The RDB is under the technical and financial supervision of the Minister of Economy and Finance and under the National Bank of Cambodia supervision in compliance with Law of Banking Systems.

Vision

To become a leading "Agri-Bank of Cambodia", with the status of a full commercial bank, in order to further support and implement Royal Government policy in the agricultural sector and rural economy. This will be achieved by financing to key stakeholders of agricultural value chains, contributing to the increase of poor people's livelihood and socio-economic development.

Mission

Mission of Rural Development bank is to finance to all key stakeholders of Agriculture Value Chain by means of:

- Providing loan to enterprises, Small and Medium Enterprises, farming organizations or association which is entity in Value Chain of Agriculture and Rural Economy; such as production, storage, processing, distribution, and export of agricultural products, especially rice and any others relating to infrastructural development of agriculture and rural economy.
- Financing to Microfinance operators and other financial institutions, activities in supporting rural economy.
- Syndicating loan with any financial institutions to provide loan to implement projects of agriculture sector, sub-sector, and infrastructural development of agriculture and rural economy.
- Implementing project or other fund management in the framework for cooperation with development partners.
- Managing programme or special project of Government or others, with approval of Ministry of Economy and Finance.
- Negotiating with development partners in order to attract grants and concessional loans for expanding RDB's activities.

CEO'S STATEMENT



H.E. KAO THACH

Chief Executive Officer
Rural Development Bank

The Rural Development Bank (RDB), which is not profit maximization oriented bank as private banks, has been dedicated and expanding its support to the development of Agricultural Sector, contributing to socio-economic development through financing to rice sector and diversification on non-rice sectors including vegetable production and animal raising. Meanwhile, RDB has done its Transformation Plan of the Rural Development Plan into “Rural Development Bank and Agriculture” with its key role of full status of commercial bank and policy bank, which can fulfill lack of demand and supply of financial services.

As stated-bank implementing the Government's Policy in Agricultural and Rural Economy, RDB adheres to its vision and main mission contributing to the poverty reduction and enhancing farmers' livelihood in rural area through financing to all key stakeholders of agricultural value chain including production, storage, processing, distribution, and exporting the agricultural commodities, particularly milled rice.

The Rural Development Bank has been remarkable expanded its loan portfolio, by December 2018, the bank's financing continued with growth rate of 30% comparing to 2017, in which this growth rate contributed to the rice sector including rice infrastructure 76.13%, non-rice sectors such as cashew, pepper, coffee, cassava, sugar cane and corn with rate of 14.89%, and MFIs, animal raising, and others with total rate of 8.97%.

The bank business size also reflected by strong financial performances, in which gross revenue increases 43%, net profit for the year increases up to 169% and total assets grows 14%, comparing to 2017.

In striving to meet its mandate role of financing in line with the Government's policy in Agriculture and Rural Economy, with its strong efforts, RDB has addressed the problem of rice price decrease, which can make good improvement for rice price stability. **Samdech Akka Moha Sena Padei Techo HUN SEN, Prime Minister of Royal Government of Cambodia** authorized RDB to be the operator of the “**Special Programme of RGC**”, with total budget of **50 million US dollars**; 43 million US dollars from the National Budget and 7 million US dollars contributed by RDB's fund. This project is to enhance local purchase of rice and rice price stability. In doing so, RDB provides concessional loans with flexible and easy loan requirements to rice millers, traders, so that they can buy fragrant rice from farmers at a minimum set price.

In the meantime, **the Royal Government of Cambodia** authorized RDB to operate and provide finances, with total budget of **30 million US dollars**, to develop rice warehouse and drying facility supporting the agricultural infrastructure development, which assists rice purchase under Private-Public Partnership. 15 million US dollars is to support the development and operation of 200,000 tons rice warehouse and drying facility with capacity to dry 3,000 tons per day, located in Battambang province; this facility can extend the coverage of northwest of Cambodia including Pursat, Battambang, Banteay Meanchey and Siem Reap province. Another 15 million US dollars is to support development and operation of 50,000 tons rice warehouse and drying facility with capacity to dry 1,500 tons per day, for another 3 locations including Kampong Thom, Prey Veng, Takeo province, each. These rice warehouse and drying facilities have been completed construction as expected and launched in July, 2018, and these facilities have improved rice storage and processing capacity, particularly supporting rice export, in main areas of the country. As a result, this intervention obtained a remarkable accomplishment in contributed to the increase rice price, in which farmers are very happy and cheerful the result.

In supporting non-rice sectors, RDB has been implemented **financing project on vegetable** with objective to boost vegetable production of our farmers and agricultural cooperatives in Cambodia, ensure food security, reduce high-chemical vegetable exported and to enhance farmer's livelihood. The project is involved by private sector as vegetable collector company to buy vegetable from farmers, and RDB is to finance with appropriate interest rate providing to both farmers and collector company.

In order to contribute to the extent of contract farming implementation in Cambodia, RDB has been implementing financing project on **3-parties contract farming on pig feeding and chicken raising**.



On doing so, RDB provides finance to producer with appropriate interest rate, and Collector Company as private company is to buy back pig and chicken with agreed price. This financing mechanism provides producer with rate of return from 11% - 17% per cycle feeding.

Furthermore, with its remarkable achievements in 2018, RDB has expanded distribution channels closed to customers in rural area by established another **3 mobile units located in Kampong Thom, Pursat and Prevey province**. As well, RDB has done Transformation Plan of the Rural Development Plan into “**Rural Development Bank and Agriculture**” with its key role of full status of commercial bank and policy bank, which can fulfill lack of demand and supply of financial services, particularly financing to all key stakeholders of agricultural value chain. This Transformation requires the bank to reform main parts of bank, in order for RDB to carry out its mission effectively and sustainably in line with the development of finance and banking sector and economy.

Our Future Plan

The Rural Development Bank will transform into “**Rural Development Bank and Agriculture**” with its key role of full status of commercial bank and policy bank, strengthen and expand its bank operations through establishment of branch or mobile units in target areas, continue financing support rice sector and diversify to non-rice sectors, upgrade core banking and Information Technology, offer digital banking services, implement any financing projects supporting socio-economic development and to seek more source of fund from government or development partners.

On a final note, as always, I would like to express my sincere appreciation to the Board of Directors for their ongoing commitment and recommendation throughout the year, and thank all of our staffs for their dedication and continued efforts, as well thank our loyal customers and development partners for their well cooperation with RDB to contribute to the development of Agricultural Sector in Cambodia.

Particularly, I would like to express my deepest appreciation to the **Royal Government of Cambodia**, Ministry of Economy and Finance, and National Bank of Cambodia for their ongoing support and trust.



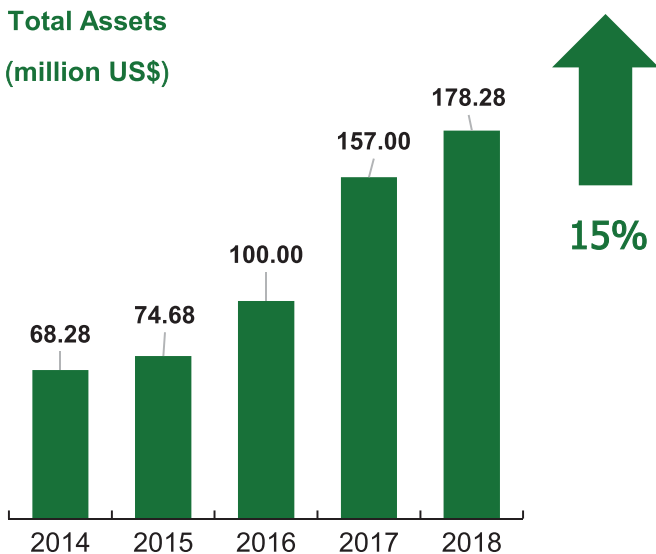
His Excellency KAO THACH
Chief Executive Officer,
Rural Development Bank

FINANCIAL SNAPSHOT

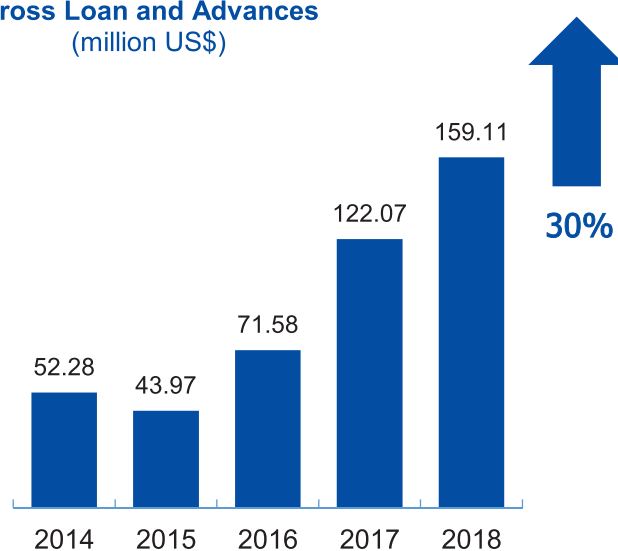
FINANCIAL HIGHLIGHT FOR 3-YEARS

Financial Indicators (US\$)	2018	2017	2016
Gross Revenue	9,391,151	6,587,783	4,088,646
Operating incomes before provision	4,889,002	2,799,915	1,447,886
Net profit before tax	3,353,915	1,153,088	629,739
Net profit after tax	2,564,287	953,254	536,336
Key Balance Sheet items (US\$)			
Total Assets	178,281,305	157,535,361	100,442,088
Total Capital	44,586,597	41,759,172	37,611,397
Total Gross Loans and Advances	159,115,208	122,070,986	71,583,770
Financial Ratios (%)			
Return on Equity	5.75	2.28	1.43
Return on Asset	1.44	0.61	0.53
Non-performing loans to total loans	3.58	3.16	6.94
Solvency Ratio	28.41	34.10	51.00

Total Assets
(million US\$)



Gross Loan and Advances
(million US\$)



SIGNIFICANT EVENTS

8 March 2018



The Rural Development Bank celebrates 108th Anniversary of International Women's Right Day 8th March, on topic of promoting equality, Gender and Social protection for development human resource. For the occasion, RDB gives some money to all women employees as incentives.

Programme of Providing-Receiving computers provided by Rural Development Bank and Promotion of credit guideline and market linkage between agricultural cooperatives, producers, and Buyers



Programme of providing computers to AC in Kampong Thom province, May 25, 2018



Programme of Providing computers to AC in Takeo province, June 4, 2018

H.E. Kao Thach, CEO of the Rural Development Bank, and his colleagues attended the events of Meeting with agricultural farmers in order to promote information of market linkage between agricultural cooperatives, producers and collectors companies, as well to promote credit guideline for agricultural cooperatives. During the event, H.E. Kao Thach provided 40 computers to agricultural cooperatives whose under Heifer International Cambodia facilitation, in Kampong Thom, Siem Reap, Banteaymeanchey, Battambang, Pursat, Kampong Chhnang, Kampong Speu, Sihanuk, Kamport, and Takeo province.

In that occasion, H.E. Kao Thach informed members of agricultural cooperatives about the strong efforts of the **Royal Government** in agricultural sector, particularly addressing farmer's issue with the subsequent disbursement through RDB to rice millers, rice exporters, and agricultural cooperatives with appropriate interest rate. In addition, H.E. Kao Thach advised agricultural cooperatives to expand the fragrant rice production as needed in market and prepare for contract farming with company.

3 July 2018

200,000 tons Rice Warehouse and 3,000 tons of Drying Facility in Battambang province been launched

On Tuesday July 3, 2018, preside over by H.E. Chou KimLeng, Secretary of State of Ministry of Economy and Finance, as representative of H.E. Dr. Aun Pornmoniroth, Deputy Prime Minister of the Royal Government of Cambodia, Ministry of Economy and Finance, and H.E. Kao Thach, CEO of the Rural Development Bank attended launching event for 200,000 tons Rice Warehouse and 3,000 tons of Drying Facility in Battambang province, which is the largest rice storage in Cambodia. This investment project is in form of The Royal Government of Cambodia's debt with Rice Bank (Cambodia) PLC in the form of "Construction-Operation-Settlement" (BOP) in the total value \$ 15 million. On that occasion, H.E. Kao Thach informed agricultural cooperatives that:



Obviously, while rice price decreased in 2016, seeing the challenges our farmers encountered such as rice price decreased dramatically, lack of rice storage and drying facility, lack of working capital as well the problem of oversupply of rice to demand, with due attention from the Royal Government of Cambodia under the leadership of **Samdech Akka Moha Sena Padei Techo HUN SEN**, Prime Minister of Royal Government of Cambodia, through the Rural Development Bank authorized to be the operator for implementing special investment project on developing and operating rice storage and drying facility in Battambang province in order to ensure rice stability, promote rice price to farmers, and to contribute to the improve of farmers'livelihoods. As a result, this facility has improved rice storage and processing capacity within the region, increased rice collecting in large quantities, made it easier to stockpile rice stock in key areas as well the significant price increased comparing to previous year. Apparently, price of fragrant rice increased to 1,200 riels/kg during harvest season 2017-2018 comparing to last year at around 900 riels/kg.



4 July 2018

50,000 tons Rice Warehouse and 1,500 tons of Drying Facility in Kampong Thom province been launched

On Wednesday July 4, 2018, preside over by H.E. Ros Seilava, Under Secretary of State of Ministry of Economy and Finance, as representative of H.E. Dr. Aun Pornmoniroth, Deputy Prime Minister of the Royal Government of Cambodia, Ministry of Economy and Finance, and H.E. Kao Thach, CEO of the Rural Development Bank attended launching event for 50,000 tons Rice Warehouse and 1,500 tons of Drying Facility in Kampong Thom province, which is the largest rice storage in Kampong Thom province. This investment project is in form of The Royal Government of Cambodia's debt with AMRU Rice (Cambodia) Co., Ltd in the form of "Construction-Operation-Settlement" (BOP) in the total value \$5 million.

On that occasion, H.E. Ros Seilava said that through the Rural Development Bank as operator successfully implementing the development and operation rice storage and drying facility in Kampong Thom province, which effectively addressed rice issues, drying facility, and working capital financing to rice millers for collecting rice in harvest season. This financing mechanism maintained fairly affordable prices to farmers and filled the rice volume for sufficient exports.

In the meantime, H.E. Kao Thach strongly believes that for this year harvest season, rice warehouse and drying facility is a new achievement in Kampong Thom province, which has enough capacity to absorb rice from local farmers and ensure Market prices and also help solve paddy damage.

50,000 tons Rice Warehouse and 1,500 tons of Drying Facility in Kampong Speu province been launched

On Friday July 6, 2018, preside over by H.E. Chou Vichith, Secretary of State of Ministry of Economy and Finance, as representative of H.E. Dr. Aun Pornmoniroth, Deputy Prime Minister of the Royal Government of Cambodia, Ministry of Economy and Finance, and H.E. Kao Thach, CEO of the Rural Development Bank attended launching event for 50,000 tons Rice Warehouse and 1,500 tons of Drying Facility in Kampong Speu province, which is the largest rice storage in Kampong Speu province. This investment project is in form of The Royal Government of Cambodia's debt with Khmer Food Group Co., Ltd in the form of "Construction-Operation-Settlement" (BOP) in the total value \$5 million.



Within the occasion, H.E. Kao Thach informed agricultural cooperatives that rice storage and drying facility is the largest one and new achievement in Kampong Speu province, after warehouse and drying facility in Battambang, Kampong Thom and Preyveng province, under the leadership of **Samdech Akka Moha Sena Padei Techo HUN SEN**, Prime Minister of Royal Government of Cambodia, in which this warehouse can support key areas such as Kampong Speu, Takeo and Kandal province.

15 July 2018

Cambodia-Japan Natural Vegetable Garden in Kandal province been launched

On July 15, 2018, H.E. Kao Thach, CEO of the Rural Development Bank and Lok Chumteav attended launching event of Cambodia-Japan Natural Vegetable Garden, located in Koh Thom district, Kandal province. This natural garden has been cooperated with the agricultural technical specialist from Japan, in order to produce organic vegetable to ensure food security for people.



It has been seen that some farmers have grown vegetables with excessive chemicals, which seriously affected health of the population. As such to change the habit of cultivating vegetables by farmers, using chemicals and turning them into natural vegetable farming, H. E. Kao Thach requested to establish a natural vegetable garden in Kandal province as model for farmers, with cooperation of technical experts from Japan directly. H.E. Kao Thach will request to continue to expand cultivation to all localities in commune, district and provincial vegetable producers by collecting farmer producers as agricultural cooperative, if this model is successfully cultivated, also to support fertilizer techniques and find market for farmers.

H.E. Kao Thach strongly believes that this natural garden will be as good practice model, which enable farmers to turn from excessive chemical use to natural vegetable cultivating. By doing so, it will help reduce high chemical vegetable imports.



Bank Social Responsibility Programme

The Charity Programme: Rural Development Bank and Khmer Association Hamilton-Phnom Penh to provide sponsors to Future Light Organization

H.E KAO Thach, CEO of Rural Development Bank, with his colleagues and Mr. TEK Kheang, Director of Khmer Association Hamilton-Phnom Penh met with orphan in the charity event: “The charity of Rural Development Bank and Khmer Association Hamilton-Phnom Penh to provide sponsors to Future Light Organization”



located in Prey Lvea village, Sangkat Chaom Chao, Khan Pou Sensok, Phnom Penh.

H.E KAO Thach has distributed some fund raising and other materials to the organization include two tons of rice, three hundred of shirts and other study materials to 80 orphans and each kids was given writing books, 2pens and 2 pencils. In addition, H.E KAO Thach has also provided 1 million riel per month to the organization for the whole year 2019.

On that occasion, H.E.Kao Thach advised to the kids to pay more attention and concentrate on their study in order to become outstanding students or at least finishing their high school. Moreover, he added that all kids need to be united, to be love and cared by another as a family because all are living in the same roof of community although have no parents like other kids do. Yet, kids have the support from the director and teachers of the organization as their parents and sponsors when the need and keep them warm, to be cared and loved. Besides their studies, H.E KAO Thach also suggested them to take good care of their study materials as well as the organization's properties to use longer. Last but not least, he has given the orphan a very good advice, “always doing good to be a good model in the next generation”.

II. CORPORATE GOVERNANCE

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RISK MANAGEMENT AND INTERNAL CONTROL

Board of Directors

The composition of Board of Director is as followings;

H.E ROS Seilava	(President)
H.E SAN Visal	(Member)
H.E KAO Thach	(Member and CEO)
Mr. SAR Chetra	(Member)
Mr. TEAN Soserey	(Member)
Mr. Om Sengbora	(Member)
Mr. CHAN Seyha	(Member as staff representative)

Risk Management Committee

Risk Management Committee is directly under the Board of Director. It has full responsible for board of director in risk management, as followings:

- Review and give approval n strategy, policy, guideline, procedure and appropriate parameters for risk management for the bank and make it revise for necessary case.
- Review risk data reported by the CEO, verifying and comparing to strategy, policy, guideline, procedure and parameters determined by the bank.
- Give management and board of director any recommendation relating to problems finding in risk management in necessary case
- Ensure the appropriateness of risk management structure, infrastructure, system and other resources supporting risk management affairs.

Audit Committee

The Audit Committee is an independent committee that is directly under the Board of Directors. The Audit Committee is responsible for strengthening corporate governance and risk management, as following responsibilities:

- Ensure the efficiency of financial report and audit procedure.
- Ensure the efficiency of internal audit and risk management system
- Make approval on internal audit action plan and result of internal auditing for Board of Director for review and decision.
- Ensure the accuracy of annual report.

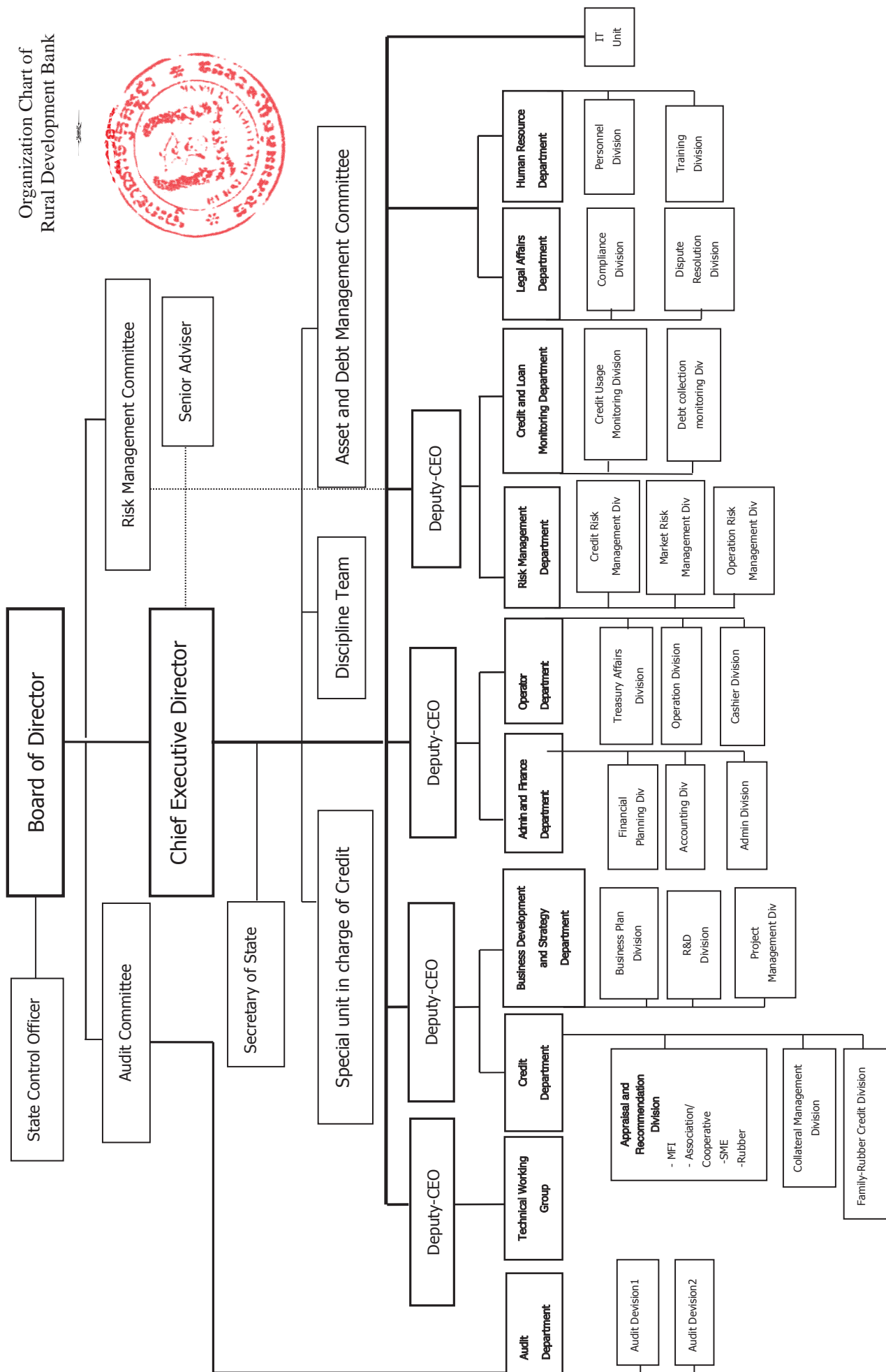
Council Discipline

The Council discipline is the special committee, which is under the executive's management 'competence. The responsibilities of council discipline are as below:

- Review and appraise the application to appoint, and promote a rank, based on the merits.
- Review the appropriateness of staff's salary rank and remuneration.
- Review and evaluate staff's incentives and bonus offering is based on the performance of the staff
- Review and evaluate punishment for staff who does not comply with terms of staff statutes
- Review and observe the misconduct of staff for all level, for taking necessary measure.

ORGANIZATION CHART OF RURAL DEVELOPMENT BANK

Organization Chart of
Rural Development Bank





BOARD OF DIRECTORS

Standing from left to right

- | | | | | | | | | | | | | | | | |
|---|------------------|---|----------------|---|-----------------|---|------------------|---|----------------|---|----------------|---|----------------|---|----------------|
| 1 | Mr. TEAN Soserey | 2 | Mr. SAR Chetra | 3 | Mr. OM Sengbora | 4 | H.E. ROS Seilava | 5 | H.E. KAO Thach | 6 | H.E. SAN Visal | 7 | Mr. CHAN Seyha | 8 | Mr. KIM Phalla |
|---|------------------|---|----------------|---|-----------------|---|------------------|---|----------------|---|----------------|---|----------------|---|----------------|

BOARD OF DIRECTOR'S PROFILE



H.E ROS Seilava

Under Secretary of State of the Ministry of Finance and Economy

Chairman of Board of Directors

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.

H.E. 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 SAN Visal

Undersecretary of State of the
Ministry of Rural Development

Member of Board of Directors

Is presently Undersecretary of State of the Ministry of Rural Development and member of Board of Directors, Rural Development Bank of Cambodia.

From 1990 to 2005 he worked as technical officer of Department of Agricultural Machinery, Department of Agronomy of Ministry of Agriculture. From 2005 to 2008 H.E was head of Mean Chey District, Phnom Penh. He did not only serves for government affairs but also private sector as well non-government; he has been as Secretary General of Student Federation of the democratic intellectuals since 1994.

H.E obtained his Master from Chamroeun University of Poly-Technology in 2005, as well as best equipped with lots of important trainings



H.E KAO Thach

Member of Board of Directors
Chief Executive Officer

H.E. was nominated to be Chief Executive Officer of The Rural Development Bank on July 4th, 2014 and to be member of the RDB's Board on August 7th, 2014.

H.E. also is a member of Supreme National Economic Council (SNEC) with the rank to Secretary of State and used to be labor arbitrator of the Arbitration Council since 2003.

Before holding RDB's portfolio, he was Deputy Director General of the Securities and Exchange Commission of Cambodia with the rank and privilege to Undersecretary of State and the Head of Financial Market Division, Financial Industry Department, Ministry of Economy and Finance. Working in law field, he used to be a legal officer in the Ministry of Justice and also in court.

H.E. was one of the key persons working toward the establishment of Securities and Exchange Commission and Cambodia Securities Exchange. 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 and 2011-2020. Besides, as a representative of the Ministry of Economy and Finance he has been involved in various ASEAN working groups in relation to capital market development such ACMF, ABMI, CMI, WG-FSL, WG-CAL

H.E. 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. H.E. Kao Thach has as well attended many training programs.



Mr. SAR Chetra

Deputy Secretary General
Ministry of Agriculture Forestry
and Fisheries

Member of Board of Directors

Presently Mr. SAR Chetra is Deputy Secretary General, Ministry of Agriculture Forestry and Fisheries, serves as member of Board of Director of the Rural Development Bank.

He has various work experiences, Ministry of Agriculture Forestry and Fisheries since 2005, as following job history:

- An official of Department of Animal Health and Production from June 1995 to April 1999
- Deputy-chief of animal production division, Department of Animal Health and Production
- Chief of animal production division, Department of Animal Health and Production
- Deputy-chief of Department of Animal Health and Production from June 2011 to March 2014
- Deputy Secretary General in charge of Department of Planning and Statistics and Department of Administration Affairs

Mr. SAR Chetra obtained Doctor of Animal Science in 2005 and that of Master degree in 2002, from Iwate University of Japan.



Mr. TEAN Soserey

Assistant to Cabinet of H.E. Kittinittakorsalbandit
BIN CHHIN Permanent Deputy Prime Minister,
Office of the Council of Ministers,
Member of Board of Directors

Presently Mr. TEAN Soserey is the Assistant to Cabinet of H.E. Kittinittakorsalbandit BIN CHHIN Permanent Deputy Prime Minister, Office of the Council of Ministers, serves as member of Board of Director of the Rural Development Bank.

As well, he was Chief of administration and personnel office, Administration Department from 2007 to 2009 and Chief of education and human resources development office, Department of prevention and education in 2009, of National Land Authority "Council of Ministers".

He currently has been pursuing Master Public Administration at Royal Academy of Cambodia.



Mr. OM Sengbora

Independent Board of Directors
Member of Board Director

Presently Mr. OM Sengbora is an Independent Board of Directors, serves as member, Rural Development Bank.

As well, he has currently been an independent board of directors of Phnom Penh Water Supply Authority and a member of Cambodia Chamber of Commerce.

He not only works for government affair also private sector as well non-government. From 2004 to 2009 he was Executive Director of Vision Fund Cambodia. He has been Chairman of Aplus Consulting and Aplus School for Professionals, Chairman of Cambodia Microfinance Institute since 2010, and Co-founder & Board of Director of Cambodia Investor Club and Board of Director of Start-up Business Network since 2013, and an independent Board of Director of Teuk Saat 1001 and Founder & Chairman of Cambodia Empire Group since 2014.

He completed Master degree of Business Administration, Preston University in Cambodia, an affiliate of Preston University in USA in 2008, and Bachelor degree of Management, Accounting Specialization, Maharishi Vedic University (MVU), Cambodia in 1998.



Mr. CHAN Seyha

Staff Representative
Member of Board Director

Joining RDB since 1991, Mr. Chan Seyha is now in charge of Credit and Business Development and Strategy 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 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.

MANAGEMENT'S PROFILE



His Excellency KAO Thach **Chief Executive Officer**

- ❖ Was nominated to be Chief Executive Officer of The Rural Development Bank on July 4th, 2014 and to be member of the RDB's Board on August 7th, 2014.
- ❖ Is a member of Supreme National Economic Council (SNEC) with the rank to Secretary of State and used to be labor arbitrator of the Arbitration Council since 2003.
- ❖ Was Deputy Director General of the Securities and Exchange Commission of Cambodia and was the Head of Financial Market Division, Financial Industry Department, Ministry of Economy and Finance as well as a legal officer in the Ministry of Justice and also in court.
- ❖ Was one of the key persons working toward the establishment of Securities and Exchange Commission and Cambodia Securities Exchange.
- ❖ Was member of working groups responsible for establishing 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 and 2011-2020.
- ❖ Was member of working groups of ASEAN working groups in relation to capital market development such ACMF, ABMI, CMI, WG-FSL, WG-CAL.



Mr. CHAN Seyha

Deputy-CEO and staff representative
RURAL DEVELOPMENT BANK

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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 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-CEO
RURAL DEVELOPMENT BANK

Joining RDB in 1999, Mr. Uch Chantha currently holds a position as a Deputy CEO in Charge of Technical Working Group.

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 in 1991.



Mr. PECH Sany

Deputy-CEO

RURAL DEVELOPMENT BANK

With more than a decade working for Rural Development Bank of Cambodia since 2001, Mr. Pech Sany is currently a Deputy CEO in Charge of Operation Department and Admin and Finance 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. MAK Sophal

Deputy-CEO

RURAL DEVELOPMENT BANK

Mr. Mok Sophal is currently a Deputy CEO in charge of Risk Management Department of Rural Development Bank.

He has been starting with RDB since 1999, as head of Credit Department and was appointed a deputy of Rural Development Bank in 2018.

From 1993 to 1998, He worked as Monitoring Officer at National Bank of Cambodia and Part-Time at Pacific Commercial Bank.

He has Bachelor Degree of Banking from HO CHI MINH City University of Technology, Vietnam, in 1993.

III. FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT AUDITORS

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THIS REPORT CONTAINS A SECTION FOR THE NATIONAL BANK OF CAMBODIA USE
WHICH DOES NOT FORM PART OF THE FINANCIAL STATEMENTS (PAGE I TO XII)



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RURAL DEVELOPMENT BANK

លេខ / No : ជ.អ.ជ / RDB

KINGDOM OF CAMBODIA

ជាតិ សាសនា ព្រះមហាក្សត្រ

Nation-Religion-King



REPORT OF THE BOARD OF DIRECTORS

The Board of Directors (“the Directors”) hereby submit their report together with the audited financial statements of Rural Development Bank (“the Bank”) as at and for the year ended 31 December 2018.

RURAL DEVELOPMENT BANK

Rural Development Bank is a wholly state-owned entity established by *Anukret* (Sub-Decree) dated 21 January 1998 aiming to bridge the gap between the demand and supply of rural financial services in order to alleviate poverty. The Bank is operating under the financial and technical guardianship of the Ministry of Economy and Finance and under the supervision of the National Bank of Cambodia.

PRINCIPAL ACTIVITIES

The principal activities of the Bank have remained unchanged during the year under review and consisted of providing financial resources to commercial and specialised banks, and MFIs involved in the provisions of credit and savings services for rural households and small businesses. In addition, the activities of the Bank have been extended by the Sub-decree dated 14 September 2007 to include implementing development projects upon request from implementing partners where such development projects may not be implemented by a micro finance operator, funding the implementation of special development projects of the Royal Government or other special development projects upon authorization from the Ministry of Economy and Finance.

RESULTS AND DIVIDENDS

The financial performance for the year ended 31 December 2018 are set out in the statement of income on page 9.

There were no dividends declared or paid during the financial year.

ASSETS

As at the date of this report, the Directors are not aware of any circumstances that would render the values attributed to the assets in the financial statements of the Bank misleading in any material respect.

RESERVES AND PROVISIONS

Movements to or from reserves and provisions during the financial year are disclosed in Note 16.

BAD AND DOUBTFUL DEBTS

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

At the date of this report, the Directors are not aware of any circumstances which would render the amount written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Bank inadequate to any material amount.

CURRENT ASSETS

Before the financial statements of the Bank were drawn up, the Directors took reasonable steps to ensure that any current assets, other than loans, which were unlikely to be realized 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 realize.

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 in any material respect.

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

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

- (a) any charge on the assets of the Bank that 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 course 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 have a material effect on 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 in any material respect.

ITEMS OF AN UNUSUAL NATURE

The financial performance of the Bank for the financial year ended 31 December 2018 were not, in the opinion of the Directors, materially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the 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.

DIRECTORS

The Board of Directors comprises representatives of Ministries and the civil community as follows:

H.E. Ros Seilava	Non-Executive director	Chairman of the Board
H.E. San Visal	Non-executive director	Member
H.E. Kao Thach	Executive director	Member, Chief Executive Director
Mr. Sar Chetra	Non-executive director	Member
Mr. Tean Soserey	Non-executive director	Member
Mr. Om Seng Bora	Non-Executive director	Member
Mr. Kim Phalla	Non-Executive director	Member
Mr. Chan Seyha	Executive director	Member

DIRECTORS' INTERESTS

The Directors who held office at the end of the reporting date do not have interests in the shares of the Bank.

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted 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 corporate body.

Since the end of the previous financial year, no director of the Bank has received or become entitled to receive any benefit by reason of a contract made by the Bank with the Directors or 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.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible to ensure that the financial statements for each financial year are properly drawn up so as to give a true and fair view of the financial position of the Bank as at 31 December 2018, and of its financial performance and cash flows for the year ended on that date. In preparing those 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 the disclosures requirements and the National Bank of Cambodia's guidelines and Cambodian Accounting Standards, or if there have been any departures in the interests of true and fair presentation, these have been appropriately disclosed, explained and quantified in the financial statements;
- iii) oversee the Bank's financial reporting process and maintain adequate accounting records and an effective system of internal controls;
- iv) assess the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so; and
- v) effectively control and direct the Bank in all material decisions affecting the operations and performance and ascertain that such have been properly reflected in the financial statements.

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



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RURAL DEVELOPMENT BANK

លេខ / No : ធី.អ.ជ / RDB

KINGDOM OF CAMBODIA

ជាតិ សាសនា ព្រះមហាក្សត្រ

Nation-Religion-King

STATEMENT BY DIRECTORS

We, the undersigned, do hereby state that in our opinion:

- i) the financial performance of the Bank for the year ended 31 December 2018 have not been materially affected by any item, transaction and event of any material and unusual nature nor has any such item, transaction and event occurred in the interval between the end of the year and the date of this report other than as disclosed in the financial statements, and
- ii) the accompanying financial statements of the Bank, as set out on pages 8 to 45, have been drawn up so as to give a true and fair view of the financial position of the Bank as at 31 December 2018, and of its financial performance and cash flows for the year ended on that date, in compliance with the National Bank of Cambodia's guidelines and Cambodian Accounting Standards.

Signed on behalf of the Board by:

H.E. Ros Seilava
Chairman

Date: 24 April 2019

H.E. Kao Thach
Chief Executive Officer

Date: 24 April 2019

REPORT OF INDEPENDENT AUDITORS TO THE SHAREHOLDER AND BOARD OF DIRECTORS OF RURAL DEVELOPMENT BANK

Qualified Opinion

We have audited the financial statements of Rural Development Bank (the “Bank”), which comprise the balance sheet as at 31 December 2018 and the related statements of income, changes in equity, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 8 to 45.

In our opinion, except for the effect of the matter described in the ‘Basis for Qualified Opinion’ section of our report, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2018, and of its financial performance and cash flows for the year then ended, in accordance with Cambodian Accounting Standards and the National Bank of Cambodia’s guidelines.

Basis for Qualified Opinion

Note 9 to the financial statements: the total interest in suspense reported was USD 1,435,107. There were no supporting verification to substantiate these balances. The Bank’s loan system could not produce complete information necessary to recompute interest receivables for non-performing loans. The Bank was unable to provide accurate and complete justification regarding the computation of interest in suspense. As a result of these matters, we were unable to satisfy ourselves as to the accuracy, completeness and valuation of interest in suspense balances and whether any adjustments would be required in respect of these balances and other elements making up the statements of financial position, comprehensive income and cash flows for the year ended 31 December 2018 by way of other audit procedures.

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

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditors’ report is the information included in the Report of Directors as set out on pages 1 to 4, but does not include the financial statements and our auditors’ report thereon.

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

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

REPORT OF INDEPENDENT AUDITORS TO THE SHAREHOLDER AND BOARD OF DIRECTORS OF RURAL DEVELOPMENT BANK (continued)

Responsibilities of Management and those Charged with Governance for the Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, and related disclosures made by management.

REPORT OF INDEPENDENT AUDITORS TO THE SHAREHOLDER AND BOARD OF DIRECTORS OF RURAL DEVELOPMENT BANK (continued)

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

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

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

Morison Kak & Associés
Certified Public Accountants
Independent Auditors


Saksom Meas
Managing Partner



Date: 24 April 2019

RURAL DEVELOPMENT BANK

BALANCE SHEET AS AT 31 DECEMBER 2018

		2018		2017
	Notes	USD	KHR'000	USD
ASSETS				
Cash on hand	4	1,767,588	7,102,169	2,181,446
Balances with other banks	5	901,239	3,621,178	5,015,713
Balances with the National Bank of Cambodia	6	14,568,845	58,537,619	29,570,190
Loans and advances - net	7	152,810,766	613,993,658	117,301,679
Foreclosed properties	8	2,875,934	11,555,503	1,158,384
Other assets	9	2,472,939	9,936,269	1,332,772
Intangible assets	10	11,964	48,071	18,785
Property and equipment	11	2,872,030	11,539,817	956,392
TOTAL ASSETS		178,281,305	716,334,284	157,535,361
LIABILITIES AND CAPITAL				
LIABILITIES				
Deposits from customers	12	3,446,575	13,848,338	2,310,999
Deposits from others banks	13	24,769	99,522	50,462
Borrowings	14	125,844,097	505,641,582	111,758,308
Other liabilities	15	3,718,082	14,939,254	1,518,773
Provision for income tax	23	661,185	2,656,641	137,647
TOTAL LIABILITIES		133,694,708	537,185,337	115,776,189
CAPITAL				
Share capital	16	24,962,757	100,300,358	22,035,837
Additional capital	16	7,955,048	31,963,383	10,700,928
Capital reserve	16	899,072	3,612,471	816,974
Subordinated debts	17	1,044,084	4,195,130	1,044,084
Retained earnings		9,725,636	39,077,605	7,161,349
TOTAL CAPITAL		44,586,597	179,148,947	41,759,172
TOTAL LIABILITIES & CAPITAL		178,281,305	716,334,284	157,535,361

Signed and authorized for release on behalf of the Board of the Bank



H.E. Ros Seilava
Chairman

Date: 24 April 2019



H.E. Kao Thach
Chief Executive Officer

Date: 24 April 2019

RURAL DEVELOPMENT BANK

STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

		2018		2017
	Note	USD	KHR'000	USD
Interest income	18	8,317,964	33,421,579	5,631,458
Interest expense	19	(619,100)	(2,487,544)	(598,494)
Net interest income		7,698,864	30,934,035	5,032,964
Non-interest income	20	1,073,187	4,312,065	956,325
Personnel and other staff costs	21	(1,883,439)	(7,567,658)	(1,593,473)
Depreciation and amortization expenses		(209,005)	(839,782)	(178,461)
General and administrative expenses	22	(1,790,605)	(7,194,651)	(1,417,440)
Operating profit		4,889,002	19,644,009	2,799,915
Allowance for bad and doubtful loans	7	(1,535,087)	(6,167,980)	(1,646,827)
Profit before income tax		3,353,915	13,476,029	1,153,088
Income tax expense	23	(789,628)	(3,172,725)	(199,834)
Net profit for the year		2,564,287	10,303,304	953,254

Signed and authorized for release on behalf of the Board of the Bank



H.E. Ros Seilava
Chairman

Date: 24 April 2019



H.E. Kao Thach
Chief Executive Officer

Date: 24 April 2019

RURAL DEVELOPMENT BANK

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

	Share capital USD	Additional capital USD	Capital reserve USD	Subordinated debt USD	Retained earnings USD	Total USD
Balance as at 1 January 2017	20,475,890	9,319,136	564,192	1,044,084	6,208,095	37,611,397
Transfer to share capital	1,559,947	(1,559,947)	-	-	-	-
Recoveries of principal of non-performing loans previously transferred to off balance sheet (see note 16)	-	2,941,739	-	-	-	2,941,739
Recoveries of interest income of principal non-performing loans previously transferred to off balance sheet (see note 16)	-	-	252,782	-	-	252,782
Net profit for the year	-	-	-	-	953,254	953,254
Balance as at 31 December 2017	22,035,837	10,700,928	816,974	1,044,084	7,161,349	41,759,172
Balance as at 1 January 2018	22,035,837	10,700,928	816,974	1,044,084	7,161,349	41,759,172
Transfer to share capital	2,926,920	(2,926,920)	-	-	-	-
Recoveries of principal of non-performing loans previously transferred to off balance sheet (see note 16)	-	181,040	-	-	-	181,040
Recoveries of interest income of principal non-performing loans previously transferred to off balance sheet (see note 16)	-	-	82,098	-	-	82,098
Net profit for the year	-	-	-	-	2,564,287	2,564,287
Balance as at 31 December 2018	24,962,757	7,955,048	899,072	1,044,084	9,725,636	44,586,597
Balance as at 31 December 2018 (KHR'000 equivalents)	100,300,358	31,963,383	3,612,471	4,195,130	39,077,605	179,148,947

The accompanying notes from page 12 to 45 form an integral part of these financial statements.

RURAL DEVELOPMENT BANK

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

		2018		2017
	Note	USD	KHR'000	USD
Net cash used in operating activities	24	(31,611,937)	(127,016,763)	(47,833,550)
Cash flows from investing activities				
Purchases of property and equipment		(2,114,475)	(8,495,961)	(301,441)
Proceeds from disposal of property and equipment		-	-	2,429
Purchase of intangible assets		(3,347)	(13,448)	(4,677)
Net cash used in investing activities		(2,117,822)	(8,509,409)	(303,689)
Cash flows from financing activities				
Repayment of borrowings		(2,061,668)	(8,283,782)	(7,758,975)
Proceeds from borrowings		15,800,000	63,484,400	59,487,870
Recoveries of interest on principal of non-performing loans previously transferred to off balance sheet		82,098	329,870	252,782
Recoveries of principal non-performing loans previously transferred to off balance sheet		181,040	727,419	2,941,739
Net cash generated from financing activities		14,001,470	56,257,907	25,006,316
Net changes in cash and cash equivalents		(19,728,289)	(79,268,265)	6,786,177
Cash and cash equivalents, beginning of year		35,122,075	141,120,497	28,335,898
Cash and cash equivalents, end of year		15,393,786	61,852,232	35,122,075
<i>Represented by:</i>				
Cash on hand	4	1,767,588	7,102,169	2,181,446
Balances with other banks	5	901,239	3,621,178	5,015,713
Deposits and placements with NBC	6	12,724,959	51,128,885	27,924,916
		15,393,786	61,852,232	35,122,075

The accompanying notes from page 12 to 45 form an integral part of these financial statements.

RURAL DEVELOPMENT BANK

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

1. GENERAL INFORMATION

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 license from the National Bank of Cambodia (“NBC”) to operate as a specialized bank with permanent validity from the NBC on 15 June 2007.

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

The financial statements were authorized for issued by the Board of Directors on 24 April 2019.

2. SUMMARY OF 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.

2.1 Basis of preparation

The financial statements of the Bank have been prepared under the historical cost convention in accordance with the guidelines issued by the National Bank of Cambodia (“NBC”) and Cambodian Accounting Standards (“CAS”). Those principles require that financial instruments be carried at cost less allowances for impairment. This practice differs from the International Financial Reporting Standards, which require that loans and receivables be carried at amortized cost using the effective interest method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or uncollectability.

The presentation of financial statements in conformity with CAS as modified by NBC guidelines requires that the Bank’s Management make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates have been made based on existing available information and the Management’s best knowledge of current events and actions; therefore, actual results may ultimately differ from those estimates.

The accompanying financial statements are prepared for jurisdiction of Cambodia and the National Bank of Cambodia’s guidelines. It is not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in other countries and jurisdictions other than Cambodia.

RURAL DEVELOPMENT BANK

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 New accounting framework

On 28 August 2009, the National Accounting Council (“NAC”), as mandated by Prakas (Circular) No. 068-MEF-Pr dated 8 January 2009 issued by the Ministry of Economy and Finance of Cambodia, announced the adoption of the Cambodian International Financial Reporting Standards (“CIFRS”) which are based on full International Financial Reporting Standards. Public accountable entities shall prepare their financial statements in accordance with CIFRS for accounting period beginning on or after 1 January 2012.

However, the NAC announced on 30 July 2012 that the implementation of CIFRS is postponed until 1 January 2017 for banking and financial institutions.

On 20 October 2016, the Association of Banks in Cambodia (“ABC”), citing a lack of preparedness of a significant number of banks for adoption of CIFRS, has submitted a request to the NBC to defer the implementation of the CIFRS for another three years until the fiscal year 2019. Pursuant to this request, the NBC has on 16 November 2015 made an official request to the NAC to postpone the implementation of the CIFRS to fiscal year 2019 with early application permitted. The NAC has agreed to postpone the implementation of the CIFRS to fiscal year 2019 in its communiqué dated 25 February 2016.

The current accounting standards used is different to the CIFRS in many areas. Hence, the adoption of CIFRS for its first financial statements for the year ending 31 December 2019 will have significant impact on the financial statements. The Bank will assess the full impact of the first adoption of CIFRS and the CIFRS implementation will be updated as necessary should they occur.

2.3 Foreign currencies translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Transactions in currencies other than USD are translated to USD at the exchange rate ruling at the dates of the transactions. Assets and liabilities denominated in currencies other than USD at the balance sheet date are translated into USD at the rate of exchange quoted by the NBC ruling at that date. Exchange differences arising on translation are recognized in the statement of income.

2.4 Translation of United States Dollar into Khmer Riel

The translation of United States Dollars amounts into Khmer Riel are included solely for compliance with the guidelines issued by the NBC relating to the preparation and presentation of financial statements and have been made using the prescribed official exchange rate of USD 1 to KHR 4,018 published by the NBC on 31 December 2018 (31 December 2017 USD 1 to KHR 4,037). These translations should not be construed as representation that the United States Dollar amounts have been, could have been, or could in the future be, converted into Khmer Riel at this or any other rate of exchange.

RURAL DEVELOPMENT BANK

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 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.

2.6 Segment information

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

2.7 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.

2.8 Deposits and placements with banks

Deposits and placements with banks are stated at cost less any allowance for uncollectible amounts.

2.9 Statutory deposits

Statutory deposits are maintained with the NBC in compliance with the Cambodia Law on Banking and Financial Institutions and are determined by defined percentage of minimum share capital and customers' deposits required by NBC. Statutory deposits are not available to finance the Bank's day-to-day operations and hence are not considered as part of cash and cash equivalents for the purpose of the statement of cash flows.

2.10 Loans and advances

Loans and advances are stated in the balance sheet at the amount of principal outstanding less any amounts written off and allowances for loan losses.

The adequacy of the allowances for bad and doubtful loans and advances 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.

2.11 Allowance for loans and advances

The Bank follows the latest mandatory credit risk grading and impairment provisioning as required by the Central Bank's Prakas B7-017-344 dated 01 December 2017 on loan classification and provisioning. The Prakas requires banking institutions to classify facilities into five categories at a minimum unless other information is available to indicate worsening conditions.

RURAL DEVELOPMENT BANK

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

Allowances are made with regard to specific risks on loans individually reviewed and classified into five classes as normal, special mention, substandard, doubtful and loss.

RURAL DEVELOPMENT BANK

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Allowance for loans and advances (continued)

NBC guidelines require the following loan classification and minimum level of allowances based on number of days past due:

Classification	Number of days past due	Type of provision	Rate of allowances
Normal/ Standard	- Less than 15 days (original term of up to one year)	General provision	1%
	- Less than 30 days (original term of more than one year)		
Special mention	- 15 days and more (original term of up to one year)	Specific provision	3%
	- 30 days and more (original term of more than one year)		
Substandard	- 31 days and more (original term of up to one year)	Specific provision	20%
	- 90 days and more (original term of more than one year)		
Doubtful	- 61 days and more (original term of up to one year)	Specific provision	50%
	- 180 days and more (original term of more than one year)		
Loss	- 91 days and more (original term of up to one year)	Specific provision	100%
	- 360 days and more (original term of more than one year)		

In compliance with NBC Guidelines, all loans and advances are classified according to the repayment capacity of the counterparty. Overdue loans are defined as the total outstanding principal where the principal or interest is past due.

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

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

2.12 Other assets

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

2.13 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 properties at the date of the foreclosure. Gain or losses on the disposal of foreclosed properties are recognized in the statement of income on the date of the disposal.

2.14 Intangible assets

Intangible assets are computer software that is stated at cost less accumulated amortization and any accumulated impairment losses, if any. Acquired computer software licenses are capitalized

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

on the basis of the cost incurred to acquire the specific software and bring it to use. It is amortized on a declining method at the rate of 20% per annum.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Property and equipment

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition for its intended use. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance is recognized as an expense in the year in which it is incurred.

Depreciation is calculated on a declining balance basis (except building and renovations which are charged on a straight-line method) using the net book value of the individual assets as at the beginning of the year at the following annual rates per annum:

Items	Depreciation rate	Depreciation method
Building	5%	Straight-line
Renovations	10%	Straight-line
Motor vehicles	12.50%	Declining
IT equipment	25%	Declining
Office equipment and furniture	12.50%	Declining

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposal are determined by comparing proceeds with carrying amount and are recognized in the statement of income.

Fully depreciated property and equipment are retained in the financial statements until disposal or write off.

2.16 Impairment of assets

(i) *Impairment of financial assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimate future cash flows of that asset. This does not apply to loans and advances which has a separate accounting policy stated in Note 2.10 and 2.11.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Impairment of assets (continued)

(ii) *Impairment of non-financial assets*

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

The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimate future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment 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 from other assets or group of assets (the "cash-generating unit").

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

2.17 Liabilities

Deposits from customers and banks are stated at placement values. Accrued expenses and other liabilities are stated at cost which is the fair value of the consideration expected to be paid in the future for goods and services received.

2.18 Income recognition

Interest income on performing loans and advances, deposits with the Central Bank and placements with other banks are recognized on a daily accrual basis. Interest on non-performing loans is recorded as interest in suspense rather than income until it is realized on a cash basis. Customer's loan accounts are classified as non-performing when loans and advances are classified as substandard, doubtful or loss.

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

- Loan arrangement fees and commissions on services and facilities are recognized 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 recognized as income over the period in which the service and facilities are extended; and
- Service charges and processing fees are recognized when the service is provided.

2.19 Income tax

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

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**NOTES TO THE FINANCIAL STATEMENTS
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RURAL DEVELOPMENT BANK

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Income tax (continued)

Deferred tax is provided on 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 realization or settlement of the carrying amounts of assets and liabilities, using tax rates enacted at the balance sheet date.

Deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. 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 realized.

2.20 Provisions

Provisions are recognized 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 assessment of the time value of money and, where appropriate, the risks specific to the liability.

2.21 Operating leases

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

2.22 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 individuals 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 percent of the capital of the Bank or voting rights, or who participates in the administration, direction, management or the design and implementation of the internal controls of the Bank.

2.23 Rounding off amounts

Amounts in the financial statements have been rounded off to the nearest dollar and nearest thousand KHR (KHR'000) for USD and KHR amounts, respectively.

RURAL DEVELOPMENT BANK

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

3. USE OF ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations with regard to future events that are believed to be reasonable under the circumstances. These estimates may differ from actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) *Impairment losses on loans to customers*

The Bank follows the mandatory credit classification and provisioning as required by Prakas on asset classification and provisioning in the banking and financial institutions issued by the NBC. The NBC requires banks to classify their loans and similar assets into five classes and the minimum mandatory level of provisioning is provided, depending on the classification concerned. For the purpose of loan classification, the Bank takes into account all risks and relevant factors which may affect the counterparties' repayment abilities.

(ii) *Property and equipment*

Accounting for property and equipment involves the use of estimates for determining the expected useful lives of these assets. The determination of the useful lives of the assets is based on management's judgement.

4. CASH ON HAND

	2018		2017
	USD	KHR'000	USD
Cash on hand - USD	1,698,831	6,825,903	2,099,204
Cash on hand - KHR	68,757	276,266	82,242
	<u>1,767,588</u>	<u>7,102,169</u>	<u>2,181,446</u>

5. BALANCES WITH OTHER BANKS

	2018		2017
	USD	KHR'000	USD
Canadia Bank Plc.	788,201	3,166,992	4,029,541
Cambodian Public Bank Plc.	40,561	162,974	643,351
Acleda Bank Plc.	72,477	291,212	342,821
	<u>901,239</u>	<u>3,621,178</u>	<u>5,015,713</u>

Balances with other banks do not earned interest and are further analyzed as follows:

(a) By maturity:

	2018		2017
	USD	KHR'000	USD
Within one month	<u>901,239</u>	<u>3,621,178</u>	<u>5,015,713</u>

RURAL DEVELOPMENT BANK

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

5. BALANCES WITH OTHER BANKS (continued)

(b) By currency:

	2018		2017
	USD	KHR'000	USD
Khmer Riels	125,622	504,749	422,495
US Dollars	775,617	3,116,429	4,593,218
	<u>901,239</u>	<u>3,621,178</u>	<u>5,015,713</u>

(c) By relationship:

	2018		2017
	USD	KHR'000	USD
Non-related parties	<u>901,239</u>	<u>3,621,178</u>	<u>5,015,713</u>

6. BALANCES WITH THE NATIONAL BANK OF CAMBODIA

		2018		2017
	Note	USD	USD	USD
Current accounts	(i)	12,005,183	48,236,825	6,375,374
Negotiable certificates of deposits	(ii)	<u>719,776</u>	<u>2,892,060</u>	<u>21,549,542</u>
		12,724,959	51,128,885	27,924,916
Statutory deposits on:				
Capital guarantee deposit	(iii)	1,635,175	6,570,133	1,486,604
Reserve requirement	(iv)	<u>208,711</u>	<u>838,601</u>	<u>158,670</u>
		1,843,886	7,408,734	1,645,274
		<u>14,568,845</u>	<u>58,537,619</u>	<u>29,570,190</u>

(i) Current accounts:

The current accounts bear no interest.

(ii) Negotiable certificates 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 or less and earns interest at 0.24% to 1.01% for USD and at 1.43% for KHR per annum, respectively (2017: at 0.24% to 1.01% for USD and at 1.43% for KHR per annum, respectively).

(iii) Capital guarantee deposit:

Under Prakas No. B7-06-208 dated 13 September 2006 on the amendment to Article 9 and Article 13 of Prakas No. B7-00-05 on licensing of specialized banks, specialized banks are required to maintain a statutory deposit of 5% of its 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.

RURAL DEVELOPMENT BANK

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

6. BALANCES WITH THE NATIONAL BANK OF CAMBODIA (continued)

(iv) Reserve requirement:

This is a reserve requirement which fluctuates depending on the level of the Bank's customers' deposits. It is maintained in compliance with the NBC's Prakas No. B7-00-005 dated 11 January 2000 at the rate of 5% of customers' deposit.

(v) The above Capital guarantee deposits and reserve requirement earn interest at the following rates per annum:

	2018	2017
Statutory capital deposits	0.32% - 0.36%	0.22% to 3.00%
5% of reserve requirements in Khmer currencies	Nil	Nil
5% of reserve requirements in foreign currencies	Nil	Nil

7. LOANS AND ADVANCES - NET

	2018		2017
	USD	KHR'000	USD
Long term loans and advances	102,303,592	411,055,831	85,917,320
Short term loans and advances	55,021,078	221,074,693	35,483,938
Staff loans	1,790,538	7,194,382	669,728
	159,115,208	639,324,906	122,070,986
Allowance for bad and doubtful loans	(6,304,442)	(25,331,248)	(4,769,307)
Total loans and advances - net	152,810,766	613,993,658	117,301,679

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

	2018		2017
	USD	KHR'000	USD
At 1 January	4,769,307	19,163,076	3,122,480
Addition during the year	1,535,135	6,168,172	1,646,827
	6,304,442	25,331,248	4,769,307

RURAL DEVELOPMENT BANK

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

7. LOANS AND ADVANCES - NET (continued)

Further analysis of the above gross loans and advances are as follows:

(a) By maturity period:	2018		2017
	USD	KHR'000	USD
1 to 3 months	5,280,000	21,215,040	-
3 to 6 months	800,000	3,214,400	19,740,000
6 to 12 months	48,158,266	193,499,913	12,510,771
1 to 3 years	12,744,629	51,207,919	8,663,350
3 to 5 years	41,886,381	168,299,479	14,252,734
Over five years	50,245,932	201,888,155	66,904,131
	<u>159,115,208</u>	<u>639,324,906</u>	<u>122,070,986</u>
(b) By currency denomination:			
US Dollars	155,832,898	626,136,584	118,728,831
Khmer Riels	<u>3,282,310</u>	<u>13,188,322</u>	<u>3,342,155</u>
	<u>159,115,208</u>	<u>639,324,906</u>	<u>122,070,986</u>
(c) By residency status:			
Residents	<u>159,115,208</u>	<u>639,324,906</u>	<u>122,070,986</u>
(d) By performance:			
Standard loans:			
Secured	92,106,372	370,083,403	80,318,575
Unsecured	52,026,350	209,041,874	35,411,000
Special mention:			
Secured	8,792,341	35,327,626	2,490,000
Unsecured	500,000	2,009,000	-
Substandard loans:			
Secured	976,000	3,921,568	143,000
Unsecured	-	-	-
Doubtful loans:			
Secured	600,000	2,410,800	349,400
Unsecured	50,000	200,900	50,000
Loss loans:			
Secured	2,179,145	8,755,805	3,286,073
Unsecured	<u>1,885,000</u>	<u>7,573,930</u>	<u>22,938</u>
	<u>159,115,208</u>	<u>639,324,906</u>	<u>122,070,986</u>

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

RURAL DEVELOPMENT BANK

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

7. LOANS AND ADVANCES - NET (continued)

(e) By relationship:	2018		2017
	USD	KHR'000	USD
Non related parties	157,324,670	632,130,524	121,401,258
Staff loans	1,790,538	7,194,382	669,728
	<u>159,115,208</u>	<u>639,324,906</u>	<u>122,070,986</u>
(f) By type of customers:			
Corporate	157,324,670	632,130,524	121,401,259
Individuals and sole traders	1,790,538	7,194,382	669,727
	<u>159,115,208</u>	<u>639,324,906</u>	<u>122,070,986</u>
(g) By financing projects:			
Ministry of Economy and Finance	27,180,000	109,209,240	27,365,000
Rural Development Bank's Fund	57,316,117	230,296,158	46,362,896
Agence Française de Développement (AFD)	445,797	1,791,212	557,870
Government of Cambodia-Special fund	74,173,294	298,028,296	47,785,220
	<u>159,115,208</u>	<u>639,324,906</u>	<u>122,070,986</u>
(h) By economic sectors:			
Privates	154,607,277	621,212,039	116,709,247
Registered Micro Finance Institutions	780,000	3,134,040	3,249,370
Licensed Financial Institutions	564,086	2,266,498	124,771
Associates	927,510	3,726,735	760,000
Families Rubber Plantations	445,797	1,791,212	557,870
Staff loans	1,790,538	7,194,382	669,728
	<u>159,115,208</u>	<u>639,324,906</u>	<u>122,070,986</u>
(i) By large exposures:			
Large exposures	71,605,294	287,710,071	60,051,220
Non-large exposures	87,509,914	351,614,835	62,019,766
	<u>159,115,208</u>	<u>639,324,906</u>	<u>122,070,986</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 rates (per annum):

	2018	2017
Short term loans	5.00%-12.00%	5.00%-12.00%
Long term loans	5.00%-12.00%	5.00%-12.00%
Staff loans	6.00%	6.00%

RURAL DEVELOPMENT BANK

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

8. FORECLOSED PROPERTIES

These represent the collaterals foreclosed from customers who are unable to repay their loans. These properties are not held for operational purposes 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.

	2018				2017
	Land and Building USD	Equipment USD	Total USD KHR'000		Total USD
Balance as at 01 January	1,150,719	341,720	1,492,439	5,996,620	1,466,120
Addition during the year	1,736,369	-	1,736,369	6,976,731	26,319
Less: disposals during the year	(18,819)	-	(18,819)	(75,615)	-
	2,868,269	341,720	3,209,989	12,897,736	1,492,439
Less: allowance for impairment	-	(334,055)	(334,055)	(1,342,233)	(334,055)
Balance as at 31 December	2,868,269	7,665	2,875,934	11,555,503	1,158,384

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

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

	2018		2017
	USD	KHR'000	USD
At 1 January	334,055	1,342,233	334,055
Addition during the year	-	-	-
	334,055	1,342,233	334,055

9. OTHER ASSETS

	2018		2017
	USD	KHR'000	USD
Accrued interest receivables	3,517,576	14,133,620	2,402,265
Interest in suspense (*)	(1,435,107)	(5,766,260)	(1,199,214)
Advance payment to suppliers	253,770	1,019,648	-
Prepaid insurance	1,098	4,412	1,297
Interests receivable	11,836	47,557	11,830
Prepaid petrol	50,420	202,588	32,015
Others	73,346	294,704	84,579
	2,472,939	9,936,269	1,332,772

(*) The total interest in suspense reported was unverifiable. The Bank's loan system could not produce complete information necessary to classify interest receivables for non-performing loans.

RURAL DEVELOPMENT BANK

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

10. INTANGIBLE ASSETS

	Computer software license		
	2018		2017
	USD	KHR'000	USD
Cost			
At 1 January	169,557	681,280	164,880
Additions	3,347	13,448	4,677
At 31 December	172,904	694,728	169,557
Less: Accumulated amortization			
At 1 January	150,772	605,802	134,710
Amortization for the year	10,168	40,855	16,062
At 31 December	160,940	646,657	150,772
Carrying amount			
At 31 December	11,964	48,071	18,785

RURAL DEVELOPMENT BANK

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

11. PROPERTY AND EQUIPMENT

Cost	Land	Building	Renovations	Motor vehicles	IT equipment	Office equipment & furniture	Total
	USD	USD	USD	USD	USD	USD	USD
At 1 January 2018	241,500	329,344	61,436	894,418	243,344	233,225	2,003,267
Additions	1,765,171	-	105,354	147,510	59,953	36,487	2,114,475
At 31 December 2018	2,006,671	329,344	166,790	1,041,928	303,297	269,712	4,117,742
Accumulated depreciation							
At 1 January 2018	-	144,555	40,468	532,260	204,024	125,568	1,046,875
Depreciation for the year	-	16,513	24,452	91,449	31,312	35,111	198,837
At 31 December 2018	-	161,068	64,920	623,709	235,336	160,679	1,245,712
Net book value							
At 31 December 2018	2,006,671	168,276	101,870	418,219	67,961	109,033	2,872,030
At 31 December 2017	241,500	184,789	20,968	362,158	39,320	107,657	956,392

RURAL DEVELOPMENT BANK

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

11. PROPERTY AND EQUIPMENT (continued)

Equivalents in KHR'000	Land KHR'000	Building KHR'000	Renovations KHR'000	Motor vehicles KHR'000	IT equipment KHR'000	Office equipment & furniture KHR'000	Total KHR'000
Cost							
At 1 January 2018	970,347	1,323,304	246,850	3,593,772	977,756	937,098	8,049,127
Additions	7,092,457	-	423,312	592,695	240,891	146,605	8,495,960
At 31 December 2018	8,062,804	1,323,304	670,162	4,186,467	1,218,647	1,083,703	16,545,087
Accumulated depreciation							
At 1 January 2018	-	580,822	162,600	2,138,621	819,768	504,532	4,206,343
Depreciation for the year	-	66,349	98,248	367,442	125,812	141,076	798,927
At 31 December 2018	-	647,171	260,848	2,506,063	945,580	645,608	5,005,270
Net book value							
At 31 December 2018	8,062,804	676,133	409,314	1,680,404	273,067	438,095	11,539,817
At 31 December 2017	974,936	745,994	84,648	1,462,032	158,734	434,611	3,860,955

RURAL DEVELOPMENT BANK

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

12. DEPOSITS FROM CUSTOMERS

	2018		2017
	USD	KHR'000	USD
Demand deposits	1,880,633	7,556,383	735,828
Saving accounts	580,462	2,332,296	944,611
Fixed deposits	985,480	3,959,659	630,560
	<u>3,446,575</u>	<u>13,848,338</u>	<u>2,310,999</u>

Deposits from customers are further analyzed as follows:

	2018		2017
	USD	KHR'000	USD
(a) By maturity period:			
Within one month			
Current deposits	1,880,633	7,556,383	735,828
Saving deposits	580,462	2,332,297	944,611
Fixed deposits			
1 to 3 months	142,443	572,336	313,216
4 to 6 months	5,800	23,304	5,590
Over 6 months	837,237	3,364,018	311,754
	<u>3,446,575</u>	<u>13,848,338</u>	<u>2,310,999</u>

(b) By type of customers:			
Domestic corporations (private sector)	1,889,005	7,590,022	1,549,691
Individuals	1,557,570	6,258,316	761,308
	<u>3,446,575</u>	<u>13,848,338</u>	<u>2,310,999</u>

(c) By status of residence:			
Residents	3,444,879	13,841,523	2,280,624
Non-residents	1,696	6,815	30,375
	<u>3,446,575</u>	<u>13,848,338</u>	<u>2,310,999</u>

(d) By currency denomination:			
US Dollar	3,436,084	13,806,185	2,302,573
Khmer Riel	10,491	42,153	8,426
	<u>3,446,575</u>	<u>13,848,338</u>	<u>2,310,999</u>

(e) By interest rates:

	2018	2017
Saving deposits	1.00%	1.00% - 1.50%
Fixed deposits	3.00% - 5.00%	3.00% - 6.00%

RURAL DEVELOPMENT BANK

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

13. DEPOSITS FROM OTHER BANKS

	2018		2017
	USD	KHR'000	USD
Current accounts	24,074	96,729	2,706
Saving accounts	695	2,793	47,756
	<u>24,769</u>	<u>99,522</u>	<u>50,462</u>

Deposits from other banks are further analyzed as follows:

(a) By maturity:

	2018		2017
	USD	KHR'000	USD
Within one month	<u>24,769</u>	<u>99,522</u>	<u>50,462</u>

(b) By currency denomination:

	2018		2017
	USD	KHR'000	USD
US Dollar	24,769	99,522	49,952
Khmer Riels	-	-	510
	<u>24,769</u>	<u>99,522</u>	<u>50,462</u>

(c) By residency status:

	2018		2017
	USD	KHR'000	USD
Residents	<u>24,769</u>	<u>99,522</u>	<u>50,462</u>

(d) By annual interest rates:

	2018	2017
Current account	Nil	Nil
Saving deposits	1.00%	1.00% - 1.50%

14. BORROWINGS

	2018		2017
	USD	KHR'000	USD
Royal Government of Cambodia-Special Fund	83,825,535	336,811,000	73,478,078
Ministry of Economy and Finance (ASDF)	39,385,000	158,248,930	37,455,000
Asian Development Bank	385,101	1,547,336	576,769
Agence Française de Développement (AFD)	248,461	998,316	248,461
IFAD	<u>2,000,000</u>	<u>8,036,000</u>	-
	<u>125,844,097</u>	<u>505,641,582</u>	<u>111,758,308</u>

RURAL DEVELOPMENT BANK

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

14. BORROWINGS (continued)

The above borrowings are analyzed as follows:

(a) By maturity:

	2018		2017
	USD	KHR'000	USD
Within 1 year	11,520,000	46,287,360	12,060,000
1 to 3 years	14,000,000	56,252,000	-
3 to 5 years	25,865,000	103,925,570	25,395,000
Over 5 years	74,459,097	299,176,652	74,303,308
	<u>125,844,097</u>	<u>505,641,582</u>	<u>111,758,308</u>

(b) By interest rates:

	2018	2017
Royal Government of Cambodia - Special Fund	Nil	Nil
Ministry of Economy and Finance (ASDF)	2.00%	2.00%
IFAD	1.50%	-
Asian Development Bank	1.29% - 3.67%	0.55% - 2.55%
Agence Française de Développement (AFD)	Nil	Nil

15. OTHER LIABILITIES

	2018		2017
	USD	KHR'000	USD
Accrued interests payable	1,478,944	5,942,397	960,131
Employment security funds	-	-	359,378
Other tax liabilities	49,207	197,714	8,844
Others	2,189,931	8,799,143	190,420
	<u>3,718,082</u>	<u>14,939,254</u>	<u>1,518,773</u>

16. SHARE CAPITAL, ADDITIONAL CAPITAL AND CAPITAL RESERVE

(a) Share capital

	2018		2017
	USD	KHR'000	USD
The Ministry of Economy and Finance	22,035,837	88,539,993	20,475,890
Capital contribution (Note 16, b)	2,926,920	11,760,365	1,559,947
	<u>24,962,757</u>	<u>100,300,358</u>	<u>22,035,837</u>

The registered share capital of the Bank, stated in the updated Memorandum and Articles of Association, is amounting to USD 46,365,538 (KHR 187,177,680,000) divided into 10,000 authorized numbers of shares with par value of USD 4,636.55 per share.

RURAL DEVELOPMENT BANK

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

16. SHARE CAPITAL, ADDITIONAL CAPITAL AND CAPITAL RESERVE (continued)

(b) Additional capital

	2018		2017
	USD	KHR'000	USD
Balance as at 01 January	10,700,928	42,996,329	9,319,136
Capital contribution	(2,926,920)	(11,760,365)	(1,559,947)
Less: Non-performing loans transferred to off balance sheet	-	-	-
Add: recoveries of non-performing loans principal previously transferred to off balance sheet	181,040	727,419	2,941,739
Additional capital contribution - net	<u>7,955,048</u>	<u>31,963,383</u>	<u>10,700,928</u>

- (i) On 13 January 2015, the Ministry of Economy and Finance who is the only shareholder of the Bank has injected additional capital amounting to USD 26,028,756.
- (ii) According to the letter No. 536 dated 3 February 2016 from the Ministry of Economy and Finance submitted to Samdech Akkak Moha Sena Padei Techo Hun Sen, Prime Minister of the Kingdom of Cambodia and appended with his annotation dated 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 USD 18,269,567 from the balance sheet and monitor them separately as an off-balance sheet item.
 - Recognize the non-performing loans and advances amounting to USD 18,269,567 as a capital reduction.
 - Recoverability of the non-performing loans and advances in the future will be recognized directly into capital accounts of the Bank.

The Bank obtained approval on the above actions from NBC on 31 March 2016.

- (iii) On 10 February 2017, the Bank has requested NBC to approve the transfer of the amount of USD 1,559,947, being the recoveries of principal of non-performing loans and advances transferred to off-balance sheet in the previous year to paid-up capital. The request was approved by NBC on 21 August 2017.
- (iv) On 28 March 2017, the Bank has requested NBC to approve the transfer of the amount of USD 2,926,920, being the recoveries of principal of non-performing loans and advances transferred to off-balance sheet in the previous year to paid-up capital. The request was approved by NBC on 17 July 2018.

(c) Capital reserve

This represents the recoveries of interests earned from the principal of non-performing loans and advances which were transferred to off balance sheet in 2015. Based on the Bank's management representation, this capital reserve will be transferred to paid-up capital in the future.

RURAL DEVELOPMENT BANK

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

17. SUBORDINATED DEBTS

	2018		2017
	USD	KHR'000	USD
Agence Française de Développement (AFD)	1,044,084	4,195,130	1,044,084
	<u>1,044,084</u>	<u>4,195,130</u>	<u>1,044,084</u>

The amount due to AFD is unsecured, interest free with no fixed term of repayment.

18. INTEREST INCOMES

	2018		2017
	USD	KHR'000	USD
Loans and advances	8,274,893	33,248,520	5,406,460
Balances with other banks	43,071	173,059	224,998
	<u>8,317,964</u>	<u>33,421,579</u>	<u>5,631,458</u>

19. INTEREST EXPENSES

	2018		2017
	USD	KHR'000	USD
Borrowings	576,146	2,314,955	559,762
Deposits from customers:			
Fixed deposits	31,280	125,683	25,398
Saving accounts	11,674	46,906	13,334
	<u>619,100</u>	<u>2,487,544</u>	<u>598,494</u>

20. NON-INTEREST INCOME

	2018		2017
	USD	KHR'000	USD
Commission income	1,054,800	4,238,186	869,401
Other incomes	18,387	73,879	86,924
	<u>1,073,187</u>	<u>4,312,065</u>	<u>956,325</u>

21. PERSONNEL AND OTHER STAFF COSTS

	2018		2017
	USD	KHR'000	USD
Salaries and wages	1,152,281	4,629,865	986,232
Bonuses	253,929	1,020,287	177,591
Employment benefits	304,018	1,221,544	271,562
Directors' remuneration	173,211	695,962	158,088
	<u>1,883,439</u>	<u>7,567,658</u>	<u>1,593,473</u>

RURAL DEVELOPMENT BANK

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

22. GENERAL AND ADMINISTRATIVE EXPENSES

	2018		2017
	USD	KHR'000	USD
Court and other legal fees	446,858	1,795,475	238,499
Professional fees	322,185	1,294,539	13,961
Foreign exchange (gain)/loss	304,273	1,222,569	610,895
Mission, travelling and accommodation expense	192,765	774,530	128,220
Donation and gifts	85,791	344,708	31,063
Gasoline and motor vehicles operating expenses	78,322	314,698	70,179
Public relations expenses	65,419	262,854	46,517
Other consumables and office supplies	50,340	202,266	43,615
Advertising expenses	44,971	180,693	39,278
Social welfare	36,239	145,608	38,178
Water and electricity	29,891	120,102	32,190
Repairs and maintenance	19,517	78,419	25,276
License fee	17,423	70,006	17,340
Training charges	16,711	67,145	6,081
Membership fee	14,293	57,429	14,533
Clearing house and other fees	7,838	31,493	7,751
Tax on transportation vehicles	4,920	19,769	3,901
Telecommunication and postage expenses	4,415	17,739	3,624
Fire and hazard insurance expenses	5,610	22,541	5,046
Other miscellaneous	42,824	172,068	41,293
	<u>1,790,605</u>	<u>7,194,651</u>	<u>1,417,440</u>

23. INCOME TAX

(a) Provision for income tax

	2018		2017
	USD	KHR'000	USD
At 1 January	137,647	553,064	40,799
Income tax expense	789,628	3,172,725	199,834
Income tax paid	(266,090)	(1,069,148)	(102,986)
	<u>661,185</u>	<u>2,656,641</u>	<u>137,647</u>

RURAL DEVELOPMENT BANK

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

23. INCOME TAX (continued)

(b) Income tax expense

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

	2018		2017
	USD	KHR'000	USD
Profit before income tax	3,353,915	13,476,030	1,153,088
Income tax rate at 20%	670,783	2,695,206	230,618
Effect of non-deductible expenses	50,281	202,029	81,037
Effect of temporary differences	41,314	166,000	-
Under/(over) provision in prior year	27,250	109,490	(111,821)
	<u>789,628</u>	<u>3,172,725</u>	<u>199,834</u>

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

There is no other material deferred tax balances.

24. CASH FLOWS FROM OPERATING ACTIVITIES

	2018		2017
	USD	KHR'000	USD
Profit before income tax	3,353,915	13,476,030	1,153,088
Adjustments for:			
Depreciation and amortization (Note 10/11)	209,005	839,782	178,461
Allowances for bad and doubtful loans (Note 7)	1,535,135	6,168,172	1,646,827
Gain on disposal of property & equipment	-	-	(1,591)
Unrealized exchange loss/(gain)	347,457	1,396,082	-
Operating profit before changes in working capital	5,445,512	21,880,066	2,976,785
Increase/(decrease) in cash attributable to changes in working assets and liabilities:			
Loans and advances	(37,044,222)	(148,843,684)	(50,487,216)
Foreclosed properties (Note 8)	(1,717,550)	(6,901,116)	(26,319)
Statutory deposits	(198,612)	(798,023)	(469,673)
Other assets	(1,140,167)	(4,581,191)	(843,896)
Deposits from customers	1,135,576	4,562,744	1,032,384
Deposits from other banks	(25,693)	(103,234)	544
Other liabilities	2,199,309	8,836,825	86,827
Cash used in operations	(31,345,847)	(125,947,613)	(47,730,564)
Income tax paid (Note 23)	(266,090)	(1,069,150)	(102,986)
Net cash used in operating activities	(31,611,937)	(127,016,763)	(47,833,550)

RURAL DEVELOPMENT BANK

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

25. 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:

	2018		2017
	USD	KHR'000	USD
Loan commitments	300,000	1,205,400	300,000

(b) Off balance sheet items

The following are bad and doubtful loans and advances transferred for monitoring as an off balance sheet item which was approved by the National Bank of Cambodia on 31 March 2016.

	2018		2017
	USD	KHR'000	USD
Long term loans	10,758,160	43,226,287	8,779,944
Short term loans	2,887,244	11,600,946	5,020,000
	13,645,404	54,827,233	13,799,944

The loans and advances are analyzed as follows:

(i) Movement:

	2018		2017
	USD	KHR'000	USD
Opening balance	13,799,944	55,448,175	16,876,864
Recovery during the year	(181,040)	(727,419)	(2,941,739)
Write off during the year	-	-	(135,181)
Capitalization during the year	26,500	106,477	-
Ending balance	13,645,404	54,827,233	13,799,944

	2018		2017
	USD	KHR'000	USD
(ii) By economic sectors:			
Privates	10,302,375	41,394,943	10,112,500
Registered Micro Finance Institutions	-	-	583,200
Licensed Finance Institutions	583,200	2,343,298	367,244
Associations	2,759,829	11,088,992	2,737,000
	13,645,404	54,827,233	13,799,944

(iii) By type of customers:

Corporate	8,093,829	32,521,005	8,087,444
Individuals and soles traders	5,551,575	22,306,228	5,712,500
	13,645,404	54,827,233	13,799,944

RURAL DEVELOPMENT BANK

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

26. COMMITMENT AND CONTINGENT LIABILITIES (continued)

(c) Taxation contingencies

Taxes are calculated on the basis of current interpretation of the tax regulations. However, the application of tax laws and regulations on many types of transactions is susceptible to varying interpretations when reviewed by the Tax authorities. The Bank's judgment of its business activities may not coincide with the interpretation of the same activities by the tax offices.

If a particular treatment was to be challenged by those Tax authorities, the Bank may be assessed additional taxes, penalties and interest, which can be significant. Tax years remain open to review by the Tax authorities for three years with a possible extension of up to ten years.

27. RELATED PARTY BALANCES AND TRANSACTIONS

	2018		2017
	USD	KHR'000	USD
(a) Balances with related parties			
Board members			
Deposit accounts	22,157	89,027	12,336
(b) Transactions with related parties			
Key management compensation			
Director's remuneration	173,211	695,962	158,088
Management salaries and bonuses	527,363	2,118,945	460,505
Shareholder-Ministry of Economy and Finance			
Additional capital	7,955,048	31,963,383	10,700,928

28. FINANCIAL RISK MANAGEMENT

(a) Introduction and overview

The Bank has exposures 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 risks, 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 behavior.

RURAL DEVELOPMENT BANK

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

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 organizational 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.

(ii) Exposure to credit risk

	2018		2017
	USD	KHR'000	USD
Neither past due nor impaired	144,132,722	579,125,277	115,729,575
Past due but no impaired	9,292,341	37,336,626	2,490,000
Individually impaired	5,690,145	22,863,003	3,851,411
Total loans - gross	159,115,208	639,324,906	122,070,986
Net interest receivables			
Accrued interest receivables	3,517,576	14,133,620	2,402,265
Interest in suspense	(1,435,107)	(5,766,260)	(1,199,214)
	2,082,469	8,367,360	1,203,051
Total gross loans and net interest receivable	161,197,677	647,692,266	123,274,037
Allowance for bad and doubtful loans and advances	(6,304,442)	(25,331,248)	(4,769,307)
	<u>154,893,235</u>	<u>622,361,018</u>	<u>118,504,730</u>

Loans and advances to customers neither past due nor impaired

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

RURAL DEVELOPMENT BANK

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

28. FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk (continued)

(ii) Exposure to 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 30 days but less than 90 days (15 days to 30 days for short-term loans and advances), 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%.

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 past due 90 days (60 days for short-term loans and advances) or more. 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 allowances, 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 utilized at market values approved by the NBC. Refer to separate accounting policy stated in Notes 2.10 and 2.11.

Loan 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 analyzed 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 for 6 installment periods consecutively (for 3 installment periods consecutively for short-term loans).

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.

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.

RURAL DEVELOPMENT BANK

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

28. FINANCIAL RISK MANAGEMENT (continued)

(c) Credit risk (continued)

(ii) Exposure to credit risk (continued)

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 7 (a) 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.

(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.

(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 unfavorable 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.

RURAL DEVELOPMENT BANK

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

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.

As at 31 December 2018

ASSETS	Up to 1 month USD	> 1-3 months USD	>3-12 months USD	>1-3 years USD	>3-5 years USD	Over 5 years USD		Non-interest bearing USD	Total USD	Effective interest rate %
Cash on hand	-	-	-	-	-	-	-	1,767,588	1,767,588	-
Balances with other banks	-	-	-	-	-	-	-	901,239	901,239	-
Balances with the NBC	-	719,776	-	-	-	1,843,886	12,005,183	14,568,845	14,568,845	0.24 - 1.43
Loans and advances – gross	-	5,280,000	48,958,266	12,744,629	41,886,381	50,245,932	-	159,115,208	159,115,208	5.00 - 12.00
Other assets	-	-	-	-	-	-	2,472,939	2,472,939	2,472,939	-
TOTAL ASSETS	-	5,999,776	48,958,266	12,744,629	41,886,381	52,089,818	17,146,949	178,825,819	178,825,819	
LIABILITIES										
Deposits from customers	580,462	142,443	843,037	-	-	-	1,880,633	3,446,575	3,446,575	1.00 - 5.00
Deposits from other banks	695	-	-	-	-	-	24,074	24,769	24,769	1.00
Borrowings	-	-	11,520,000	14,000,000	25,865,000	74,210,636	248,461	125,844,097	125,844,097	0.00 - 3.67
Other liabilities	-	-	-	-	-	-	3,718,082	3,718,082	3,718,082	
TOTAL LIABILITIES	581,157	142,443	12,363,037	14,000,000	25,865,000	74,210,636	5,871,250	133,033,523	133,033,523	
<i>Interest rate sensitivity gap</i>	<i>(581,157)</i>	<i>5,857,333</i>	<i>36,595,229</i>	<i>(1,255,371)</i>	<i>16,021,381</i>	<i>(22,120,818)</i>	<i>11,275,699</i>	<i>45,792,296</i>	<i>45,792,296</i>	
<i>Interest rate sensitivity gap KHR'000</i>	<i>(2,335,089)</i>	<i>23,534,764</i>	<i>147,039,630</i>	<i>(5,044,081)</i>	<i>64,373,909</i>	<i>(88,881,447)</i>	<i>45,305,759</i>	<i>183,993,445</i>	<i>183,993,445</i>	

RURAL DEVELOPMENT BANK

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

28. FINANCIAL RISK MANAGEMENT (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

As at 31 December 2017

ASSETS	Up to 1 month USD	> 1-3 months USD	>3-12 months USD	>1-3 years USD	>3-5 years USD	Over 5 years USD	Non-interest bearing		Effective interest rate %
							USD	USD	
Cash on hand	-	-	-	-	-	-	2,181,446	2,181,446	-
Balances with other banks	-	-	-	-	-	-	5,015,713	5,015,713	-
Balances with the NBC	-	21,549,542	-	-	-	1,645,274	6,375,374	29,570,190	0.24 - 1.43
Loans and advances – gross	-	-	32,250,771	8,663,350	14,252,734	66,904,131	-	122,070,986	5.00 - 12.00
Other assets	-	-	-	-	-	-	1,332,722	1,332,772	-
TOTAL ASSETS	-	21,549,542	32,250,771	8,663,350	14,252,734	68,549,405	14,905,255	160,171,107	
LIABILITIES									
Deposits from customers	944,611	313,216	317,344	-	-	-	735,828	2,310,999	1.00 - 6.00
Deposits from other banks	47,756	-	-	-	-	-	2,706	50,462	1.00 - 1.50
Borrowings	-	-	12,060,000	-	25,395,000	74,054,847	248,461	111,758,308	0.55 - 2.55
Other liabilities	-	-	-	-	-	-	1,518,773	1,518,773	
TOTAL LIABILITIES	992,367	313,216	12,377,344	-	25,395,000	74,054,847	2,505,768	115,638,542	
<i>Interest rate sensitivity gap</i>	<i>(992,367)</i>	<i>21,236,326</i>	<i>19,873,427</i>	<i>8,663,350</i>	<i>(11,142,266)</i>	<i>(5,505,442)</i>	<i>12,399,537</i>	<i>44,532,565</i>	
<i>Interest rate sensitivity gap KHR '000</i>	<i>(4,006,186)</i>	<i>85,731,048</i>	<i>80,229,025</i>	<i>34,973,944</i>	<i>(44,981,328)</i>	<i>(22,225,469)</i>	<i>50,056,931</i>	<i>179,777,965</i>	

RURAL DEVELOPMENT BANK

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

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 the statement of income.

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.

RURAL DEVELOPMENT BANK

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

28. FINANCIAL RISK MANAGEMENT (continued)

(e) Liquidity risk (continued)

As at 31 December 2018	Up to 1 month USD	> 1-3 months USD	> 3-12 months USD	> 1-3 months USD	> 3-5 years USD	Over 5 years USD	No fixed maturity date		Total
							USD	KHR'000	
Financial liabilities									
Deposits from customers	2,461,095	142,443	843,037	-	-	-	-	3,446,575	13,848,338
Deposits from other banks	24,769	-	-	-	-	-	-	24,769	99,522
Borrowings	-	-	11,520,000	14,000,000	25,865,000	74,210,636	248,461	125,844,097	505,641,582
Other liabilities	1,528,151	-	2,189,931	-	-	-	-	3,718,082	14,939,253
Total financial liabilities	4,014,015	142,443	14,552,968	14,000,000	25,865,000	74,210,636	248,461	133,033,523	534,528,695
Financial assets									
Cash on hand	1,767,588	-	-	-	-	-	-	1,767,588	7,102,169
Balances with other banks	901,239	-	-	-	-	-	-	901,239	3,621,178
Balances with NBC	12,005,183	719,776	-	-	-	-	1,843,886	14,568,845	58,537,619
Loans and advances – gross	-	5,280,000	48,958,266	12,744,629	41,886,381	50,245,932	-	159,115,208	639,324,906
Other assets	2,094,305	-	253,770	-	-	-	124,864	2,472,939	9,936,269
Total financial assets	16,768,315	5,999,776	49,212,036	12,744,629	41,886,381	50,245,932	1,968,750	178,825,819	718,522,141
Net liquidity gap	12,754,300	5,857,333	34,659,068	(1,255,371)	16,021,381	(23,964,704)	1,720,289	45,792,296	183,776,474

RURAL DEVELOPMENT BANK

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

28. FINANCIAL RISK MANAGEMENT (continued)

(e) Liquidity risk (continued)

As at 31 December 2017	Up to 1 month USD	> 1-3 months USD	> 3-12 months USD	> 1-3 months USD	> 3-5 years USD	Over 5 years USD	No fixed maturity date USD	Total	
								USD	KHR'000
Financial liabilities									
Deposits from customers	1,680,439	313,216	317,344	-	-	-	-	2,310,999	9,329,503
Deposits from other banks	50,462	-	-	-	-	-	-	50,462	203,715
Borrowings	-	-	12,060,000	-	25,395,000	74,054,847	248,461	111,758,308	451,168,289
Other liabilities	968,975	190,420	-	-	-	-	359,378	1,518,773	6,131,287
Total financial liabilities	2,699,876	503,636	12,377,344	-	25,395,000	74,054,847	607,839	115,638,542	466,832,794
Financial assets									
Cash on hand	2,181,446	-	-	-	-	-	-	2,181,446	8,806,498
Balances with other banks	5,015,713	-	-	-	-	-	-	5,015,713	20,248,433
Balances with NBC	6,375,374	21,549,542	-	-	-	-	1,645,274	29,570,190	119,374,857
Loans and advances – gross	-	-	32,250,771	8,663,350	14,252,734	66,904,131	-	122,070,986	492,800,570
Other assets	1,214,881	-	-	-	-	-	117,891	1,332,772	5,380,401
Total financial assets	14,787,414	21,549,542	32,250,771	8,663,350	14,252,734	66,904,131	1,763,165	160,171,107	646,610,759
Net liquidity gap	12,087,538	21,045,906	19,873,427	8,663,350	(11,142,266)	(7,150,716)	1,155,326	44,532,565	179,777,965

RURAL DEVELOPMENT BANK

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

28. FINANCIAL RISK MANAGEMENT (continued)

(f) Capital management

(i) Regulatory capital

The Bank's lead regulator, the National Bank of Cambodia sets and monitors capital requirements for the Bank as a whole. The Bank's policy is to maintain a strong capital base so as to maintain market confidence and to sustain further development of the business. The impact of the level of capital on shareholders' return is also recognized and the Bank recognizes 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 optimization 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 VALUE 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.

30. COMPARATIVE FIGURES

Where necessary, certain comparative figures have been reclassified to conform to current year presentation of the financial statements.

FOR THE NATIONAL BANK OF CAMBODIA USE ONLY

**SUPPLEMENTARY FINANCIAL INFORMATION
AND OTHER DISCLOSURES REQUIRED
BY THE NATIONAL BANK OF CAMBODIA**

Ratio and information contained in this section have been extracted from data contained in the audited financial statements for the year ended 31 December 2018.



ធនាគារអភិវឌ្ឍន៍ជនបទ

RURAL DEVELOPMENT BANK

លេខ / No : ធនាគារអភិវឌ្ឍន៍ជនបទ / RDB

KINGDOM OF CAMBODIA

ជាតិ សាសនា ព្រះមហាក្សត្រ

Nation-Religion-King

STATEMENT BY DIRECTORS

We, the undersigned, do hereby state that in our opinion, the accompanying supplementary financial information consisting in disclosures requirements set by Prakas of the National Bank of Cambodia is properly drawn up so as to reflect fairly the required financial information of the Bank as at 31 December 2018. Information and data contained herein are the responsibility of the Bank's management.

Signed on behalf of the Board by:

H.E. Ros Seilava
Chairman

Date: 24 April 2019

H.E. Kao Thach
Chief Executive Officer

Date: 24 April 2019

RURAL DEVELOPMENT BANK

NET WORTH AS AT 31 DECEMBER 2018

In accordance with the NBC's Prakas No. B7-010-182 dated 15 October 2010; the Bank is required to calculate its Net Worth aiming at adopting the international standards related to the regulatory capital's structure, by operating a distinction between core capital ("Tier 1") and complementary capital ("Tier 2"). The Bank's net worth as at 31 December 2018 was calculated as follows:

TIER 1: CORE CAPITAL

	2018		2017
	USD	KHR'000	USD
CATEGORY A ITEMS			
Paid up capital	24,962,757	100,300,358	22,035,837
Reserves other than re-evaluation reserves	899,072	3,612,471	816,974
Current year earnings	2,564,287	10,303,305	953,254
Retained earnings	7,161,349	28,774,300	6,208,095
Other items approved by NBC	7,955,048	31,963,383	10,700,928
SUB-TOTAL A	43,542,513	174,953,817	40,715,088

Limit check on retained earnings

(max. 20% of Sub-total A)

16.45% 16.45% 15.25%

CATEGORY B ITEMS

Holding of own shares	-	-	-
Intangible assets	11,964	48,071	18,785
Due from shareholders, directors, related parties	-	-	-
Loss determined on dates other than year-end	-	-	-
SUB-TOTAL B	11,964	48,071	18,785

C. TOTAL TIER 1 (Core capital) (A-B)

43,530,549 174,905,746 40,696,303

TIER 2: COMPLEMENTARY CAPITAL

CATEGORY C ITEMS

Revaluation reserves	-	-	-
Provisions for general banking risks	-	-	-
1% general provision	1,441,327	5,791,252	1,157,296
Subordinated debts	1,044,084	4,195,130	1,044,084
SUB-TOTAL C	2,485,411	9,986,382	2,201,380

Limit check on subordinated debts

(Max. 50% of Tier 1 capital)

2.40% 2.40% 2.57%

CATEGORY D ITEMS

Equity participation in banking or OFIs	-	-	-
Other items	-	-	-
SUB-TOTAL D	-	-	-

TOTAL TIER 2 (Complementary capital) (C)-(D)

2,485,411 9,986,382 2,201,380

Limit check on Tier 2 capital

(Tier 2 = max. 100% of tier 1)

5.72% 5.72% 5.41%

RURAL DEVELOPMENT BANK

E. TOTAL NET WORTH (A-B+C-D)	<u>46,015,960</u>	<u>184,892,128</u>	<u>42,897,683</u>
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RURAL DEVELOPMENT BANK

SOLVENCY RATIO AS AT 31 DECEMBER 2018

In accordance with the NBC's Prakas No. B 7-00-46 dated 16 February 2000 amended by Prakas No. B7-04-206 dated 29 December 2004 and Prakas No. B7-07-135 dated 27 August 2007; banks shall observe a solvency ratio which is the ratio of their net worth to their aggregate credit risk exposures. The result found shall not be less than 15 per cent.

	Weighting	2018		2017
		USD	KHR'000	USD
NUMERATOR				
A. Net worth as at 31 December		46,015,960	184,892,128	42,897,683
DENOMINATOR				
Cash in hand	0%	-	-	-
Deposits with central bank	0%	-	-	-
Claims on Sovereigns rated AAA to AA-	0%	-	-	-
Claims on Sovereigns rated A+ to A-	20%	-	-	-
Claims on banks rated AAA to AA-	20%	-	-	-
Claims on Sovereigns rated BBB+ to BBB-	50%	-	-	-
Claim on banks rated A+ to A-	50%	-	-	-
Other assets	100%	161,944,872	650,694,496	125,783,725
Off-balance sheet items:				
Full risk	100%	-	-	-
Medium risk	50%	-	-	-
Moderate risk	20%	-	-	-
B. Total risk-weighted assets		161,944,872	650,694,496	125,783,725
SOLVENCY RATIO (A/B)		28%		34%

RURAL DEVELOPMENT BANK

LOAN CLASSIFICATION AND PROVISION FOR BAD AND DOUBTFUL DEBTS AS AT 31 DECEMBER 2018

The Bank follows the latest mandatory credit risk grading and impairment provisioning as required by the Central Bank's Prakas B7-017-344 dated 01 December 2017 on loan classification and provisioning. The Prakas requires banking to classify facilities into five categories at a minimum unless other information is available to indicate worsening conditions.

	Principal loans USD	% of Provision %	NBC's Standard USD	Bank's Provision USD	Difference USD
As at 31 December 2018					
Standard	144,132,722	1	1,441,327	1,441,327	-
Special mention	9,292,341	3	278,770	278,770	-
Substandard	976,000	20	195,200	195,200	-
Doubtful	650,000	50	325,000	325,000	-
Loss	4,064,145	100	4,064,145	4,064,145	-
	159,115,208		6,304,442	6,304,442	-
Equivalent in					
	KHR'000	%	KHR'000	KHR'000	KHR'000
Standard	579,125,277	1	5,791,252	5,791,252	-
Special mention	37,336,626	3	1,120,098	1,120,098	-
Substandard	3,921,568	20	784,314	784,314	-
Doubtful	2,611,700	50	1,305,850	1,305,850	-
Loss	16,329,735	100	16,329,734	16,329,734	-
	639,324,906		25,331,248	25,331,248	-
	Principal loans USD	% of Provision %	NBC's Standard USD	Bank's Provision USD	Difference USD
As at 31 December 2017					
Standard	115,729,575	1	1,157,296	1,157,296	-
Special mention	2,490,000	3	74,700	74,700	-
Substandard	143,000	20	28,600	28,600	-
Doubtful	399,400	50	199,700	199,700	-
Loss	3,309,011	100	3,309,011	3,309,011	-
	122,070,986		4,769,307	4,769,307	-

Note: There is a loan provided to one customer in a joint agreement between the Bank and Canada Bank Plc. The Bank provides the full allowance for this loan balance as at 31 December 2018.

RURAL DEVELOPMENT BANK

FOREIGN CURRENCY TRANSACTIONS AS AT 31 DECEMBER 2018

In accordance with the NBC's Prakas B7-00-50 dated 9 February 2000, the Bank is required to disclose a summary of assets and liabilities at the balance sheet date in their sources currencies which was as follows:

		2018		2017
		USD	KHR'000	USD
		or equivalents	or equivalents	or equivalents
Assets:				
	US Dollar	173,758,575	698,161,954	151,912,385
	Khmer Riel	4,522,730	18,172,330	5,622,976
		178,281,305	716,334,284	157,535,361
Liabilities:				
	US Dollar	59,059,443	237,300,842	41,955,121
	Khmer Riel	74,635,265	299,884,495	73,821,068
		133,694,708	537,185,337	115,776,189

No hedging was recognized in the above balances.

RURAL DEVELOPMENT BANK

OTHER INFORMATION AND PRUDENTIAL REGULATIONS REQUIRED BY THE LAW ON BANKING AND FINANCIAL INSTITUTIONS AS AT 31 DECEMBER 2018

▪ MINIMUM CAPITAL, Prakas B7-016-117

The NBC's Prakas No. B7-016-117 on new capital requirement and criteria for licensing approval of banks requires that specialized banks locally incorporated as companies must have a minimum capital of at least KHR 60 billion (approximately USD15 million).

As at 31 December 2018, the Bank has a paid-up statutory capital of USD 24,962,757 (2017: USD 22,035,837) which is in excess of the NBC capital requirement.

▪ FIXED ASSETS, Prakas B7-01-186

Fixed assets acquired by banks for operational purposes shall be less than 30% of the Bank's total net worth as defined in Prakas B7-010-182. Fixed assets with no direct link to operations of the Bank shall be sold not later than one year after the date they became property of the Bank.

As at 31 December 2018, the Bank's fixed assets at book value was amounting to USD 2,883,994 which is equivalent to **6.27%** (2017: USD 975,177 or 2.27%) of the Bank's net worth and this is therefore in compliance with the fixed asset ratio required by this Prakas.

As at 31 December 2018, the Bank hold repossessed property at carrying value USD 2,875,934 (2017: USD 1,158,384).

Repossessed properties have to be sold within one year as required by the NBC. Repossessed property is classified in the balance sheet as foreclosed properties. These foreclosed assets are recorded at fair value. These assets will not be held for operational purposes and with the intention to be disposed of to recover the outstanding amount within the maximum allowable period of twelve months as per NBC's guidelines.

The Bank has not fully disposed these properties that were foreclosed since October 2012; and the request for extension to NBC to hold these foreclosed properties has not been made.

▪ LOANS TO RELATED PARTIES, No. B7-02-146

The Bank's total of weighted outstanding balances of loans to related parties shall not be more than 10% of the Bank's net worth.

There were no significant related party loans during the year under review.

RURAL DEVELOPMENT BANK

OTHER INFORMATION AND PRUDENTIAL REGULATIONS REQUIRED BY THE LAW ON BANKING AND FINANCIAL INSTITUTIONS (continued) AS AT 31 DECEMBER 2018

▪ LARGE CREDIT EXPOSURES, Prakas B7-00-52 and B7-06-226

Large exposure is defined as the overall gross exposure resulting from banking operations with one single beneficiary, where such exposure exceeds 10% of the Bank's net worth.

Banks are required, under the conditions of the above Prakas, to maintain at all times a maximum ratio of 20% between their overall exposure resulting from their operations with each individual beneficiary and their net worth and the aggregate individual large credit exposure must not be more than 300% of the Bank's net worth.

As at 31 December 2018, the Bank has large exposure individually exceeding 10% of the Bank's net worth as follows:

Particulars	Approved limit (USD)	Outstanding balances (USD)	Bank's net worth (USD)	% of outstanding balance to net worth
Item No. 1	34,470,294	34,470,294	46,015,960	74.91%
Item No. 2	13,710,000	13,710,000	46,015,960	29.79%
Item No. 3	12,900,000	12,900,000	46,015,960	28.03%
Item No. 4	5,375,000	5,375,000	46,015,960	11.68%
Item No. 5	5,150,000	5,150,000	46,015,960	11.19%

The Bank was not in compliance with NBC's Prakas as three of its large exposure (2017: One of its large exposure) to a single beneficiary exceeded 20% of the Bank Net Worth. However, the aggregate credit exposures did not exceed 300% of the Bank's Net Worth.

RURAL DEVELOPMENT BANK

SUPPLEMENTARY FINANCIAL INFORMATION AND OTHER DISCLOSURES REQUIRED BY THE NBC

FINANCIAL SOUNDNESS INDICATORS AS AT 31 DECEMBER 2018

	2018 USD or %	2017 USD or %
I - CAPITAL		
1. Equity to total assets (A/B)	25.01%	26.51%
A - Equity	44,586,597	41,759,172
B - Total assets	178,281,305	157,535,361
2. Capital tier I to total assets (A/B)	24.42%	25.83%
A - Capital tier I	43,530,549	40,696,303
B - Total assets	178,281,305	157,535,361
3. Capital tier I to risk-weighted assets (A/B)	26.88%	32.35%
A - Capital tier I	43,530,549	40,696,303
B - Risk weighted assets	161,944,872	125,783,725
4. Capital tier I + tier II to risk-weighted assets (A/B)	28.41%	34.10%
A - Capital tier I + tier II	46,015,960	42,897,683
B - Risk-weighted assets	161,944,872	125,783,725
5. Net worth to total assets (A/B)	25.81%	27.23%
A - Net worth	46,015,960	42,897,683
B - Total assets	178,281,305	157,535,361
6. Solvency ratio (A/B)	28.41%	34.10%
A - Net worth	46,015,960	42,897,683
B - Risk-weighted assets	161,944,872	125,783,725
7. Debt to total assets (A/B)	74.99%	73.49%
A - Total liabilities	133,694,708	115,776,189
B - Total assets	178,281,305	157,535,361
8. Debt to equity (A/B)	299.85%	277.25%
A - Total liabilities	133,694,708	115,776,189
B - Equity	44,586,597	41,759,172
9. Dividends to net profit (A/B)	0.00%	0.00%
A - Dividends	-	-
B - Net profit/(loss)	2,564,287	953,254

RURAL DEVELOPMENT BANK

SUPPLEMENTARY FINANCIAL INFORMATION AND OTHER DISCLOSURES REQUIRED BY THE NBC

FINANCIAL SOUNDNESS INDICATORS AS AT 31 DECEMBER 2018

	2018 USD or %	2017 USD or %
II - ASSET QUALITY		
10. Banking reserves to total loans (A/B)	0.57%	0.67%
A - Banking reserves	899,072	816,974
B - Total loans (gross)	159,115,208	122,070,986
11. Banking reserves to total assets (A/B)	0.50%	0.52%
A - Banking reserves	899,072	816,974
B - Total assets	178,281,305	157,535,361
12. Non-performing loans to total loans (A/B)	3.58%	3.16%
A - Non-performing loans	5,690,145	3,851,411
B - Total loans (gross)	159,115,208	122,070,986
13. Non-performing loans to total assets (A/B)	3.19%	2.44%
A - Non-performing loans	5,690,145	3,851,411
B - Total assets	178,281,305	157,535,361
14. Classified assets to total loans (A/B)	3.58%	3.16%
A - Classified assets	5,690,145	3,851,411
B - Total loans (gross)	159,115,208	122,070,986
15. Classified assets to total assets (A/B)	3.19%	2.44%
A - Classified assets	5,690,145	3,851,411
B - Total assets	178,281,305	157,535,361
16. Classified assets to equity (A/B)	12.76%	9.22%
A - Classified assets	5,690,145	3,851,411
B - Equity	44,586,597	41,759,172
17. Loans to related parties to total loans (A/B)	0.00%	0.00%
A - Loans to related parties	-	-
B - Total loans (gross)	159,115,208	122,070,986
18. Large exposures to total loans (A/B)	45.00%	49.19%
A - Large exposures	71,605,294	60,051,220
B - Total loans (gross)	159,115,208	122,070,986

RURAL DEVELOPMENT BANK

SUPPLEMENTARY FINANCIAL INFORMATION AND OTHER DISCLOSURES REQUIRED BY THE NBC

FINANCIAL SOUNDNESS INDICATORS AS AT 31 DECEMBER 2018

	2018 USD or %	2017 USD or %
19. Loans to related parties to net worth (A/B)	0.00%	0.00%
A - Loans to related parties	-	-
B - Net worth	46,015,960	42,897,683
20. Large exposures to net worth (A/B)	155.61%	139.99%
A - Large exposures	71,605,294	60,051,220
B - Net worth	46,015,960	42,897,683
21. General provisions to total loans (A/B)	0.91%	0.95%
A - General provisions	1,441,327	1,157,296
B - Total loans (gross)	159,115,208	122,070,986
22. Specific provisions to total loans (A/B)	3.06%	2.96%
A - Specific provisions	4,863,115	3,612,011
B - Total loans (gross)	159,115,208	122,070,986
23. Specific provisions to non-performing loans (A/B)	85.47%	93.78%
A - Specific provisions	4,863,115	3,612,011
B - Non-performing loans	5,690,145	3,851,411
24. All allowances to total assets (A/B)	3.54%	3.03%
A - Total all allowances	6,304,442	4,769,307
B - Total assets	178,281,305	157,535,361
25. Loans to deposits (A/B)	4600.25%	5276.77%
A - Total loans to non-bank customers (gross)	158,551,122	121,946,215
B - Customer's deposits (non-bank customers)	3,446,575	2,310,999
III - EARNINGS		
26. Return on assets (A/B)	1.44%	0.61%
A - Net profit after tax	2,564,287	953,254
B - Total assets	178,281,305	157,535,361
27. Return on equity (A/B)	5.75%	2.28%
A - Net profit after tax	2,564,287	953,254
B - Equity	44,586,597	41,759,172

RURAL DEVELOPMENT BANK

SUPPLEMENTARY FINANCIAL INFORMATION AND OTHER DISCLOSURES REQUIRED BY THE NBC

FINANCIAL SOUNDNESS INDICATORS AS AT 31 DECEMBER 2018

	2018 USD or %	2017 USD or %
28. Gross yield (A/B)	4.67%	3.57%
A - Interest income	8,317,964	5,631,458
B - Total assets	178,281,305	157,535,361
29. Net interest margin [(A-B)/C]	4.32%	3.19%
A - Interest income	8,317,964	5,631,458
B - Interest expense	619,100	598,494
C - Total assets	178,281,305	157,535,361
30. Other income (A/B)	0.60%	0.61%
A - Other income	1,073,187	956,325
B - Total assets	178,281,305	157,535,361
31. Provisions to total assets (A/B)	3.54%	3.03%
A - Provisions	6,304,442	4,769,307
B - Total assets	178,281,305	157,535,361
32. Overhead (A/B)	2.18%	2.02%
A - Non-interest expense	3,883,049	3,189,784
B - Total assets	178,281,305	157,535,361
33. Net income before tax (A/B)	1.88%	0.73%
A - Net profit before tax	3,353,915	1,153,088
B - Total assets	178,281,305	157,535,361
34. Tax to total assets (A/B)	0.45%	0.13%
A - Tax (all categories)	796,130	199,834
B - Total assets	178,281,305	157,535,361
35. Interest margin to gross income [(A-B)/C]	81.98%	76.40%
A - Interest income	8,317,964	5,631,458
B - Interest expense	619,100	598,494
C - Gross income	9,391,151	6,587,783
36. Non-interest income to gross income (A/B)	11.43%	14.52%
A - Non-interest income	1,073,187	956,325
B - Gross income	9,391,151	6,587,783

RURAL DEVELOPMENT BANK

SUPPLEMENTARY FINANCIAL INFORMATION AND OTHER DISCLOSURES REQUIRED BY THE NBC

FINANCIAL SOUNDNESS INDICATORS AS AT 31 DECEMBER 2018

	2018 USD or %	2017 USD or %
37. Non-interest expense to gross income (A/B)	41.35%	48.41%
A - Non-interest expense	3,883,049	3,189,374
B - Gross income	9,391,151	6,587,783
38. Times interest earned [(A-B)/C]	6.42	2.93
A - Net profit before tax	3,353,915	1,153,088
B - Interest expense	619,100	598,494
C - Interest expense	619,100	598,494
IV - LIQUIDITY		
39. Liquid assets (A/B)	8.22%	8.58%
A - Liquid assets	14,649,241	13,522,071
B - Total assets	178,281,305	157,535,361
40. Short-term liabilities (A/B)	10.49%	9.89%
A - Short-term liabilities (less than one year)	18,709,426	15,580,856
B - Total assets	178,281,305	157,535,361
41. Net liquid assets [(A-B)/C]	-3.04%	-1.78%
A - Liquid assets	14,649,241	13,522,071
B - Short-term liabilities (less than one month)	18,709,426	15,580,856
C - Total liabilities	133,694,708	115,776,189
42. Quick ratio (A/B)	78.43%	87.11%
A - Quick assets	14,674,010	13,572,533
B - Current liabilities	18,709,426	15,580,856
43. Deposits to total loans (A/B)	2.17%	1.90%
A - Total customers' deposits (non-bank customers)	3,446,575	2,310,999
B - Total loans to non-bank customers (gross)	158,551,122	121,946,215
44. Property and equipment to net worth (A/B)	6.27%	2.27%
A. Property and equipment	2,883,994	975,177
B. Net worth	46,015,960	42,897,683