



# ANNUAL REPORT 2022

---



# The Best Partner Bank for Small and Medium Enterprises in Cambodia

**Mrs. PHORK Hoeurng**  
Owner of Golden Yem  
Enterprise



## Cambodia Women Entrepreneurs Scheme (CWES)

Annual Interest Rate from

**5.50%**

## Cambodia Digital & Automation Scheme (CDAS)

Annual Interest Rate from

**5.88%**



**Mr. Song Khenglean**  
Owner of CSL Enterprise



## Cambodia SME Scheme (CSS)

Annual Interest Rate from

**5.88%**

## Cambodia Micro Enterprise Scheme (Unsecured Loan) (CMES)

Annual Interest Rate from

**7.50%**



# CONTENTS

## About SME Bank

---

Message from Chairman.....	6
Message from CEO.....	8
About SME Bank .....	10
Achievement Report in 2022 .....	12
Branch Networks.....	13
Corporate Milestones .....	14
Cash Management Partner .....	16
Partnerships .....	17

## Business Highlight

---

Co-Financing Scheme .....	19
The Direct Lending Scheme .....	21
Voice from Customers .....	22

## Events

---

Annual Meeting 2022 .....	24
Employee Recognition Program 2022 .....	25
Key Highlights .....	26
Memorandum of Understanding (MoU) with Participating Financial Institutions .....	30

## Corporate Governance

---

Organizational Structure.....	31
The Board of Directors .....	34
Senior Management .....	37
Corporate Governance .....	39
Board of Directors Meeting .....	40
Board Risk and Compliance Committee .....	41
Board Audit Committee .....	44
Board of Remuneration and Nomination Committee (BRNC) .....	46

## Financial Statements

---

Financial Statements .....	47
----------------------------	----

## | MESSAGE FROM CHAIRMAN

“

SME Bank is a policy bank established under the wise leadership of **Samdech Akka Moha Sena Padei Techo Hun Sen, Prime Minister of the Kingdom of Cambodia**, to support small and medium enterprises affected by COVID-19 and newly-established enterprises in need of financial and technical support.

”





On behalf of SME Bank of Cambodia (SME Bank) and the Board of Directors, I am honored and pleased to provide you with the bank's annual report for fiscal year 2022.

The growth of the global economy and trade remains at a slow pace despite the decrease in the COVID-19 spread. However, the war between Russia and Ukraine has prolonged, resulting in adverse impacts on the economy of the United States, European Union, and Southeast Asian countries.

The Cambodian economy began to recover in 2021 due to the support of various sectors; however, Cambodia is still facing a lot of obstacles in restoring its economy. Many SMEs have not been properly operated since some owners have had insufficient budget, resources, supporting products, capital and have faced an inflation. In this situation, the Royal Government of Cambodia has set out a number of policies and strategies to restore all sectors, such as the Cambodia Digital Economy and Society Policy Framework 2021-2035, the strategic framework and programs for economic recovery in the context of living with COVID-19 in a new normal for 2021-2023.

SME Bank is a policy bank established under the wise leadership of Samdech Akka Moha Sena Padei Techo Hun Sen, Prime Minister of the Kingdom of Cambodia, to support small and medium enterprises affected by COVID-19 and newly established enterprises, which need financial and technical support. The Bank has launched a number of financing schemes to support small and medium enterprises to meet their needs by offering favourable terms and low interest rates. As of the end of 2022, SME Bank has financed 231 small and medium enterprises (SMEs) through the direct financing, including 62 female entrepreneurs and 169 male entrepreneurs with a total loan amount of approximately USD 53.4 million and the loaning through Co-Financing with participating financial institutions, supporting a total of 3,037 enterprises, equivalent to a total amount of approximately USD 380 million.

In line with the policies and programs for economic recovery and to promote Cambodia's economic growth in living with COVID-19 in the new normal for 2021-2023 of the Royal Government of Cambodia, SME Bank continues to implement and strive to promote the growth of all small and medium enterprises to contribute to the sustainable economic growth.

As the Chairman of the Board, I am very pleased to sincerely thank the relevant authorities for their tireless efforts to support the Bank's growth and development. I also would like to sincerely thank our valued customers for their trust in SME Bank, even during the global epidemic. We are committed to being a trusted partner and continue to finance all enterprises that are still in need of finance to grow their businesses.



**H.E. Dr. Phan Phalla**

Secretary of State, Ministry of Economy and Finance, and Chairman of the Board

## MESSAGE FROM CEO



SME Bank remains committed to providing effective and efficient financing to business owners who support the priority sectors to contribute to the restoration and development of the Cambodian economy in line with the strategic framework and the programs for economic recovery and to promote Cambodia's economic growth in living with COVID-19 in the new normal for 2021-2023.

”

### **Dear our valued customers and the public**

Although the world has suffered from the epidemics and crisis that have caused adverse impacts on the global and Cambodian economy, Small and Medium Enterprise Bank of Cambodia Plc. (“SME Bank”) continues its mission to support the growth and development of small and medium enterprises in Cambodia. SME Bank remains committed to providing effective and efficient financing to business owners

who support the priority sectors to contribute to the restoration and development of the Cambodian economy in line with the strategic framework and the programs for economic recovery and to promote Cambodia's economic growth in living with COVID-19 in the new normal for 2021-2023.

Since 2022, SME Bank has continued focusing on widely expanding its distribution networks, such as: (1). The Bank has relocated its head office to the



“Business Development Centre” building of the Ministry of Economy and Finance, which is more spacious and has multiple institutions to support entrepreneurs technically and financially, and develop human resources, (2). SME Bank has officially operated two new branches, including Phsar Thmei Branch and Battambang Provincial Branch, to ensure convenience for small and medium enterprise owners who need financial support, (3). SME Bank has also further developed a number of business partners, including business incubation associations, commercial banks, payment services providers, financial technology companies, as well as local and international public institutions to expand the scope of services and move it closer to the target customers. Furthermore, SME Bank has set out a specific plan for the modernization of information technology systems and the development of digital platform infrastructures to improve the customer service experiences more effectively and efficiently in line with the Cambodia Digital Economy and Society Policy Framework 2021-2035.

To accelerate the financing, SME Bank has revised the definition of small and medium enterprises to suit current socio-economic development and has increased the maximum loan amount from USD 500,000 to USD 1,000,000 per customer. Furthermore, SME Bank has launched unsecured financing and overdraft schemes that offer additional options for target enterprises in accordance with their objectives and types of businesses.

As of 2022, SME Bank has achieved total assets of USD 281 million, representing an increase of USD 131 million from 2021, in which the total loan balance is USD 214 million. Meanwhile, in September 2022, SME Bank successfully completed the second phase of the SME Co-Financing Scheme, supporting a total of 1,992 enterprises, equivalent to a total of USD 240 million (USD 120 million from the Royal Government of Cambodia through the Ministry of Economy and Finance and SME Bank, and the other USD 120 million from participating financial institutions). Furthermore, SME Bank has developed and launched a Co-Financing

Scheme to support and boost the recovery of the tourism sector with a total amount of USD 150 million (USD 75 million from the Royal Government of Cambodia through the Ministry of Economy and Finance and SME Bank, and the other USD 75 million from participating financial institutions). As of December 2022, there were a total of 291 enterprises, using a total financing of USD 41.52 million, equivalent to 27.68% of the total budget.

The major strategic plans for the following year include: (1). Improve and develop products and services to meet the needs of target customers, (2). Continue to develop distribution networks such as branches, business partners, the development of digital platform technology infrastructures, which is an extensive connection point and gets closer to the target customers, (3). Develop human resources with sufficient knowledge and skills that ensure the work efficiency and transparency, and (4). Establish a better risk management system and culture.

All these achievements are made with the financial and technical support from the Ministry of Economy and Finance, as well as the cooperation of the competent authorities, in particular the National Bank of Cambodia, which is the supervisory institution. Furthermore, I would like to express my sincere gratitude to our valued customers, Board of Directors, management and employees, as well as our business partners for always supporting SME Bank to achieve the results in accordance with the plans, particularly in 2022.



**DR. LIM AUN**

Chief Executive Officer  
and Board Member

# I ABOUT SME BANK



Small and Medium Enterprises (SMEs) are the vital driver for economic growth in developing countries like Cambodia. However, some SMEs are facing some challenges accessing affordable financial services due to collateral requirements and higher interest rates. To better support this segment, the Royal Government of Cambodia has established the SME Bank of Cambodia (SME Bank).

SME Bank was officially licensed as a commercial bank by the National Bank of Cambodia (NBC) on the 27th February 2020. With the technical and financial guidance of the Ministry of Economy and Finance (MEF), the bank's strategic intent and direction are coherent with the policies set by The Royal Government of Cambodia, assuring reliable and sustainable banking to all small and medium enterprises.

SME Bank has been established in the Cambodian market for almost three years and was recognized as the policy bank which provides affordable financial services to SMEs in Cambodia by focusing on the priority sectors including food processing, manufacturing of consumer goods and spare parts, research and development in information and technology, manufacturing of medical equipment and medicines, and other business supporting the priority sectors. Currently, SME Bank of Cambodia is focusing on implementing Co—Financing Schemes with participating financial institutions (PFIs) and direct lending schemes.

## VISION



To be the Best and Preferred SME Bank in Cambodia, providing affordable financing, easy accessibility, technical support and excellent customer experience.



## MISSION

To provide efficient and sustainable financing and commercial banking services to support SMEs to promote economic diversification and exports in line with government policy.



### PEOPLE

We consider all employees as our core asset and will respect, value and actively engage them in all our business dealings.



### ACCOUNTABILITY

We will be professional by being accountable to all our stakeholders and responsible in discharging our duties.



### CUSTOMER

As customers are the main purpose for our existence we will provide excellent and consistent customer experience.



### INTEGRITY

We will ingrain integrity in our DNA to ensure a high level of trust and reputation in our business.



## CORE VALUES



### EFFICIENCY

We strive for operational excellence to ensure profitability, growth and sustainability for all our stakeholders.

# ACHIEVEMENT REPORT IN 2022

No of  
Customers



**+3,200**

Loan  
Outstanding



**USD  
+214**

Total Assets



**USD  
+281**

No of Women  
SMEs



**+24%**

No of Staff



**+138**

Loan Outstanding in  
The Priority Sectors



**+51%**

Branch Networks



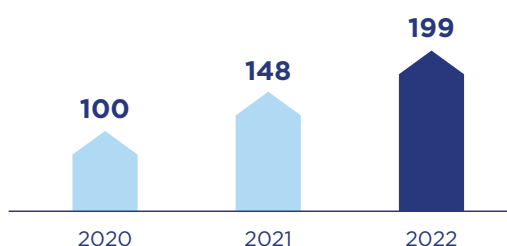
**3**

Business Partners

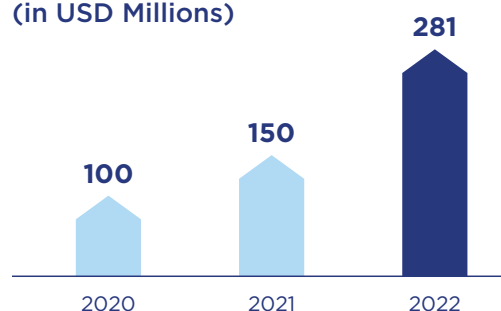


**10**

**Bank Equity**  
(in USD Millions)



**Total Assets**  
(in USD Millions)





# BRANCH NETWORKS



**Head Office**



**MEF Business Development Center,**  
Ground and 20<sup>th</sup> Floor,  
OCIC Street, Khan Chraoy  
Chongvar, Phnom Penh,  
Cambodia.



**Phsar Thmei Branch**



No 30, St. Pasteur corner  
Prey Nokor Street, Sangkat Phsar  
Thmei Ti Muoy, Khan Daun Penh,  
Phnom Penh, Cambodia.



**Battambang Provincial Branch**



No. 161 & 162, National Road No. 5,  
Group 6, Phum Rumchek 5, Sangkat  
Rottanak, Krong Battambang,  
Battambang Province, Cambodia.



# I CORPORATE MILESTONES



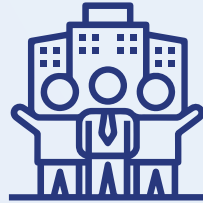
## 2020

- Obtained the Commercial Bank License on February 27<sup>th</sup>, 2020
- Launched the first phase of the SME Co-Financing Scheme, with a total amount of USD 100 million in collaboration with 33 participating financial institutions and completed it in October 2020;
- Launched the direct financing scheme, including:
  - Cambodia SME Scheme (CSS)
  - Cambodia Digital and Automation Scheme (CDAS)
  - Cambodia Women Entrepreneurs Scheme (CWES)
  - Cambodia Recovery Support Scheme (CRSS)
- Achieved total assets of **over USD 100 million.**



## 2021

- **“SME Bank of the Year – Cambodia”** awarded from the Asian Banking & Finance
- Memorandum of Understanding in promoting SMEs with the FASMEC, KE, and BanhJi FinTech Co., Ltd. etc.
- Launched the second phase of the SME Co-Financing Scheme, with a total amount of USD 240 in collaboration with 28 participating financial institutions and financed 981 enterprises to achieve total assets of **over USD 150 million.**



## 2022

- Launched a Co-Financing Scheme to support and boost the recovery of the tourism sector with **a total amount of USD 150 million** in collaboration with 24 participating financial institutions
- Became a member of the Fast Payment service of the National Bank of Cambodia to enable customers to transfer money via the bank quickly;
- Launched the Cambodia Micro Enterprise Scheme (CMES), an Unsecured Loan;
- Launched two more new branches, including Phsar Thmei and Battambang Provincial branches;
- Developed business partnerships with five additional SME associations to promote direct lending to target customers, including CEO Master Club of Life Education Co., Ltd., Young Entrepreneurs Association of Cambodia (YEAC), AgriBee (Cambodia) Plc., Cambodian Water Supply Association, and Cambodia Food Manufacture Association;
- Achieved total asset of **over USD 281 million.**

## CASH MANAGEMENT PARTNERS

SME Bank aims to promote financing to small and medium enterprises in various provinces and cities of Cambodia. SME Bank's branch network is currently limited and IT infrastructure is also limited and under development its capacity. To improve the customer experience, SME Bank has engaged some financial institutions to facilitate the bill payment through their available networks.

SME Bank has signed a Memorandum Of Understanding with ABA Bank and TrueMoney Cambodia to officially launch bill payment through its ABA Mobile and more than 11K TrueMoney agents across the country and the TrueMoney Wallet. This collaboration will provide a secured and convenient financial services experience.



# PARTNERSHIPS







# Business Highlight

In 2022, despite the slowdown in global economic growth, the SME Bank of Cambodia could increase loan net growth by 93%, from USD 111 million in 2021, to USD 214 million in 2022. The loan net growth was mainly contributed by two schemes, consisting of Co-Financing Scheme and Direct Lending Scheme. The Co-Financing scheme increased by 58% USD 96 million in 2021, compared to USD 152 million in 2022. Moreover, Direct Lending Scheme has a significant growth from USD 4 million in 2021 to 53 million in 2022. Additionally, as a bank's aspiration to financing SME in food processing and manufacturing, as well as other priority sectors, SME Bank has proactively provided direct lending loans to SME in processing and manufacturing sector for 46% of total loan outstanding in 2022 via Cambodia SME Scheme (CSS), Cambodia Women Entrepreneur Scheme (CWES), Cambodia Digital & Automation Scheme (CDAS), Cambodia Micro Enterprise Scheme (CMES).



# CO-FINANCING SCHEME

## Tourism Recovery Co-financing Scheme (TRCS)

The Tourism Recovery Co-Financing Scheme (TRCS) is a part of the support for the implementation of the “Strategic Framework and Program for Economic Recovery in the Context of Living with Covid-19 in a New Normal for 2021-2023”.

To promote tourism recovery, the Royal Government has decided to implement this scheme to address the lack of financing support for tourism-related businesses.

TRCS will support (a) re-operating the business, (b) improving and modernizing, and (c) strengthening and diversifying tourism services to prepare for national and international tourists in the post-covid-19 crisis.

TRCS was initiated in July 2022, with a total commitment budget of USD 150M, which co-financed between the government of Cambodia and PFIs.

As of December 2022, 24 PFIs joint the TRCS scheme. The scheme has been financed to about 291 enterprises (50 hotels, 97 guesthouses, 120 restaurants, and 51 Supplies of Products and Services supporting the tourism sector) with the disbursed amount of approximately USD 41.52M.

### Performance Update



#### Commitment Fund

**150** in USD Millions



#### Disbursed Amount

**41.52** in USD Millions



**291** No of Customer

**26%**

Hotel

**28%**

Guest House

**32%**

Restuarant

**14%**

Supply of Products and Service Supporting Tourism Sector

**43%**

No of Women SMEs



## SME Co-financing Scheme II (SCFS II)

The SME Co-Financing Scheme II (the “SCFS II”) has assisted SMEs that have been negatively impacted by Covid-19 to restart their businesses, aligning with RGC’s During and Post Covid-10 Recovery Plan and so as to contribute to the economic recovery.

SCFS II was initiated in August 2021, with a total commitment budget of USD 240 million, which Co-Financing between SME Bank and 32 PFIs. The scheme was completed on the 22nd August 2022 by providing financing to 1992 SMEs including the priority sector at 42%, the normal sector at 58%, and female entrepreneurs at 30%.

### Achievement



Commitment Fund

**240** in USD Millions



Disbursed Amount

**239.97** in USD Millions



**1,992** No of Customer

**42%**

Priorities  
Sector

**58%**

Normal  
Sector

**30%**

No of Women  
SMEs



# THE DIRECT LENDING SCHEME

SME Bank has operated according to its mission to support the government policies, especially providing access to finance to SMEs in the priority sector. The bank has initiated four types of direct lending schemes namely the Cambodia SME Scheme (CSS), the Cambodia Women Entrepreneur Scheme (CWES), the Cambodia Digital & Automation Scheme (CDAS),

the Cambodia Micro Enterprise Scheme (CMES) in 2021, and proactively provided financing support to 231 entrepreneurs with loan outstanding of USD 53M as of 31st December 2022. 69% of the loan outstanding was provided to the priority sector, and 46% of the loan outstanding was provided to processing and manufacturing of agricultural products.



**Cambodia Women Entrepreneurs Scheme (CWES)**

Financing Size Up to  
KHR  
**4,000,000,000**  
or USD  
**1,000,000**

Annual Interest Rate From  
**5.50%**

\*Terms & conditions apply



**Cambodia SME Scheme (CSS)**

Financing Size Up to  
KHR  
**4,000,000,000**  
or USD  
**1,000,000**

Annual Interest Rate From  
**5.88%**

\*Terms & conditions apply



**Cambodia Digital and Automation Scheme (CDAS)**

Financing Size Up to  
KHR  
**4,000,000,000**  
or USD  
**1,000,000**

Annual Interest Rate From  
**5.88%**

\*Terms & conditions apply



**Cambodia Micro Entrepreneurs Scheme (Unsecured Loan) (CMES)**

Financing Size Up to  
KHR  
**200,000,000**  
or USD  
**50,000**

Annual Interest Rate From  
**7.50%**

\*Terms & conditions apply



## VOICE FROM CUSTOMERS



### Mr. SOK Khenglean

Owner of CSL Enterprise

As a manufacturer and supplier of packaged food made from fruits, grains and spices in Sangkat Teuk Thla, Khan Sen Sok, Phnom Penh

<https://cslsnack.com/en/products> 

**“ Without the financial support of the SME Bank of Cambodia, the processing and development of local products or raw materials into value-added or finished products would not have been done smoothly. ”**

My enterprise started operating in 2017 with only a few products, observing the market demand as well as the support of new food packages and groceries by more and more customers; then in 2021, I decided to create more new products including packaged foods made from cashew nuts, mangoes, bananas, taro and logan, plus grocery such as mung beans, soybeans, red beans, dried chilli, and ground peppers, etc.

To achieve this goal, it requires me to have some capital to invest, such as buying better quality machines and working capital to buy raw materials. As a solution, I applied for a loan from SME Bank of Cambodia to purchase more machines and expand the warehouse to stock raw materials.


In fact, after receiving capital from the bank, my business has run better because the products of my enterprise can meet the needs of customers in a timely manner with good quality. The growth of my orders has been increasing by major supermarkets such as Aeon Mall, Lucky Mall, Makro Market, Thai Huot Market, Bayon Market and many depots across the country.

I am very happy and satisfied with the bank that has financed me with the most reasonable interest rate that I have been able to repay during the process of expanding my business.



**Mrs. PHORK Hoeung**  
Owner of Golden Yem

Tea and snack jacks producer  
in Sangkat Choam Chao, Khan Po  
Senchey district, Phnom Penh

Golden Yem 

**“SME Bank does not only provide financial services to food processing enterprises, but also provides and encourages businesswomen honestly and sincerely.”**

Initially, my business ran with only one product line which was natural tea bag products. As I have been planning to expand my business, I decided to create four more types of snacks packaging by adding many different flavours to fulfil the market demand.

Due to the lack of capital to purchase machines and equipment for making snacks as well as natural tea, I decided to apply for a loan from SME Bank to purchase more machines, relocate the warehouse to a bigger place and stock more ingredients for making snacks and natural tea.

My craft is running smoothly and growing remarkably due to the orders from many wholesale customers and supermarkets such as: Aeon Mall, Lucky Supermarket, Makro Mall, Thai Huot Supermarket, Bayon Supermarket, and nationwide distribution depots. My business started with only ten employees, but now I can employ more than 30 employees, which is 300% increase compared to the time before receiving a loan from SME Bank.

I have applied for a SME Bank loan through a friend with a similar business who has also applied for a SME Bank loan, and I am so grateful that SME Bank has a financing scheme designed specifically for female entrepreneurs with a favourable interest rate to support my business. I highly recommend to female entrepreneurs who need more fund to expand their businesses, please visit and apply a loan from SME Bank.



# EVENTS

## Annual Meeting 2022



SME Bank has organized the annual meeting with the participation of staff at all levels, the management of the Bank, as well as his excellency chairman and members of the Board of Directors. This annual meeting was held at Sokha Hotel, Preah Sihanouk Province, on Friday afternoon, February 4, 2023. In this meeting, SME bank provided an overview of the Bank's performance in 2022, emphasizing the fruitful results that reflect the Bank's growth as well as the new strategic plan that will be implemented in the coming year of 2023 in line with the vision of the Royal Government of the Kingdom of Cambodia.



## Employee Recognition Program 2022



SME Bank also organized the employee recognition ceremony in 2022 for top-performing employees who have actively contributed to the Bank's growth. This employee recognition ceremony was held in the evening of February 4, 2023, at Sokha Hotel in Preah Sihanouk Province. The Department of Human Resources organized this program based on the procedure of selecting candidates from all branches and offices and then discussing and seeking approval from the senior management of the Bank. This program is designed to recognize outstanding employees, encourage those who strive to achieve high results, foster a high-performing culture, and reward top-performing employees with value. The Bank identified 12 (twelve) award winners of the year who received congratulations, trophies, and the cash award of 1,000,000 (one million) KHR. The Board of Directors and the senior management personally presented the trophies and prizes to all the award winners.



## Key Highlights



The Dissemination Ceremony on  
“the Additional Fund Allocation for Small and  
Medium Enterprise Bank of Cambodia and  
Agricultural and Rural Development Bank”

February 14, 2022



The virtual discussion forum on “the Additional  
Budget for SME Co-Financing Scheme Phase II”

February 22, 2022



Participation in a panel discussion on  
“Understanding How to Access Financing”  
at the program launch on “Access to Finance”

April 01, 2022 at Olympia City Hotel



The virtual discussion forum on  
“the Presentation of Tourism Recovery  
Co-Financing Scheme”

April 20, 2022



10th Board of Directors Meeting

April 21, 2022 at the SME Bank’s Head Office



Launching Ceremony of  
“Tourism Recovery Co-Financing Scheme”

May 17, 2022



### Participation in discussion forum on “Access to Finance and Market for Women’s Business Growth”

June 16, 2022 at the Cambodia-Japan  
Cooperation Centre (CJCC)



### The virtual discussion forum on “The implementation of Tourism Recovery Co-Financing Scheme”

July 21, 2022



### Dr. Lim Aun Receives an International Global Leadership Awards 2022 in Management

July 30, 2022 at Westin Hotel in Kuala Lumpur,  
Malaysia



### 11th Board of Directors Meeting

August 4, 2022 at the SME Bank’s Head Office



### Participation in the launching ceremony of the “Digital Platform Accelerator”

August 24, 2022 at the Techo Startup Center’s  
Office



### Participation in the demo day of the “Digital Platform Accelerator”

August 24, 2022 at Cambodia-Japan  
Cooperation Center (CJCC)





### Discussion on “Tourism Recovery Co-Financing Scheme Progress Update”

September 27, 2022 at the SME Bank’s Head Office



### Participation in the Cambodian Women Entrepreneur’s Day on “MSMEs access to Finance on digital Era”

December 09, 2022 at Sofitel Phnom Penh Phokeetra Hotel



### Organized the “Strategy Workshop” to set the Bank’s business strategies plan for 2023-2025

September 30, 2022 at Hyatt Regency Hotel Phnom Penh



### Induction Training

Septemeber 27 - 30, 2022 at the SME Bank’s Head Office



### Seminar on “SME Access to Finance for Developing Global Market”

October 4, 2022 at the SME Bank’s Head Office



### Participation in “the 4th CEO Gathering & 2nd SMEs and Financial Institutions Night”

October 07, 2022 at Olympia City Hotel





### 12th Board of Directors Meeting

October 24, 2022 at the SME Bank's Head Office



### Co-sponsored on "the Cambodia Tech Expo 2022 (CTX 2022)"

November 11 - 13, 2022 at Koh Pich Convention and Exhibition Center



### Press Conference on "the Achievements of SME Co-Financing Scheme"

December 05, 2022 at Raffles Le Royal Hotel

## Memorandum of Understanding (MoU) with Participating Financial Institutions



Signing Ceremony of Memorandum of Understanding (MoU) between SME Bank and LOLC (Cambodia) Microfinance Institution Plc., to implement the SME Co-Financing Scheme Phase II

April 12, 2022



Signing Ceremony of Memorandum of Understanding (MoU) between SME Bank and Maybank (Cambodia) Plc., to implement the SME Co-Financing Scheme Phase II

April 19, 2022



Signing Ceremony of Memorandum of Understanding (MoU) between SME Bank and Cambodia Asia Bank Ltd., to implement the SME Co-Financing Scheme Phase II

May 03, 2022



Signing Ceremony of Memorandum of Understanding (MoU) between SME Bank and Amret Microfinance Institution Ltd., to implement the Tourism Recovery Co-Financing Scheme

September 05, 2022



Signing Ceremony of Memorandum of Understanding (MoU) between SME Bank and Cambodia Asia Bank Ltd., to implement the Tourism Recovery Co-Financing Scheme

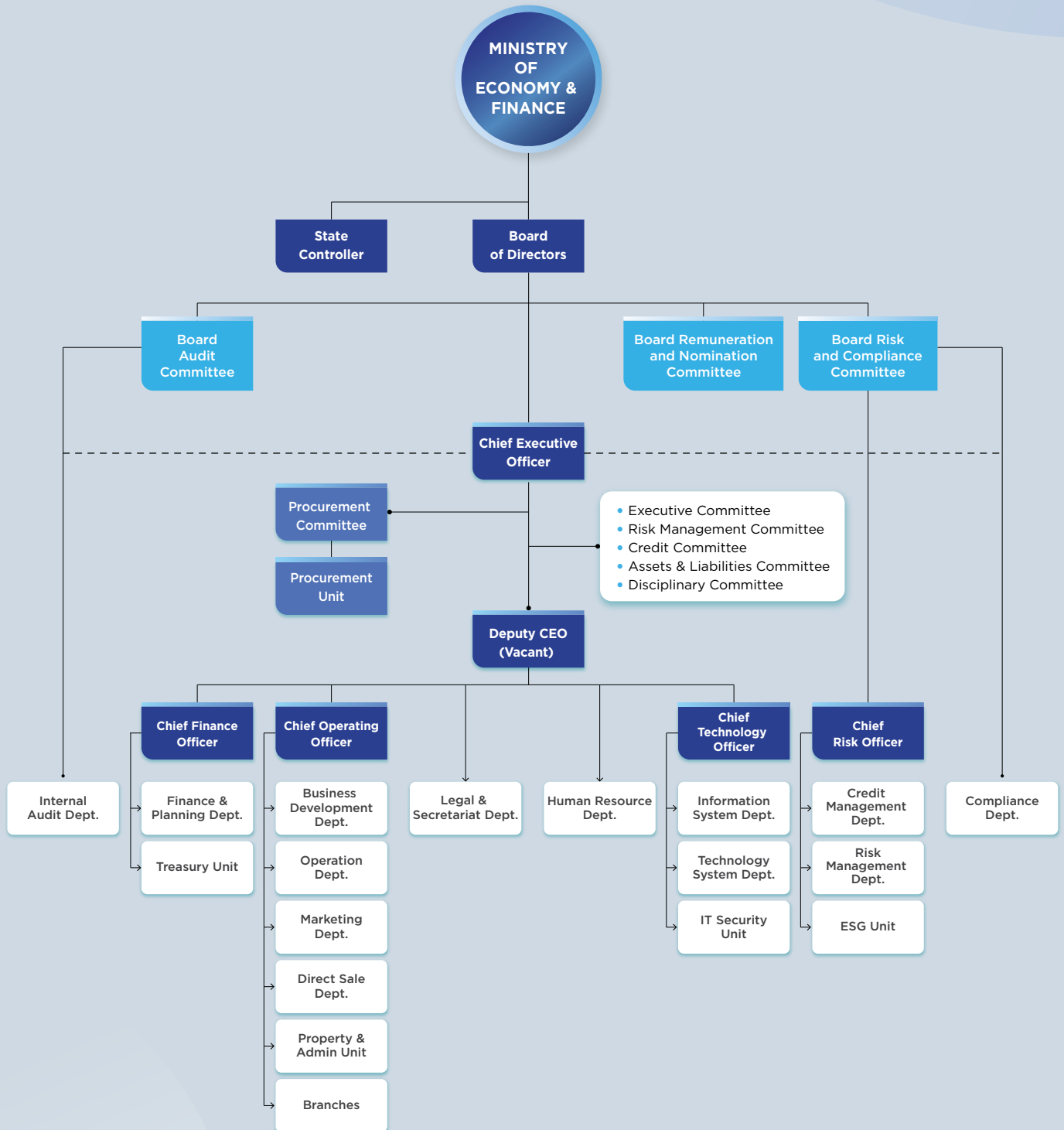
October 04, 2022



Signing Ceremony of Memorandum of Understanding (MoU) between SME Bank and J-Trust Royal Bank Ltd., to implement the Tourism Recovery Co-Financing Scheme

October 26, 2022

# ORGANIZATIONAL STRUCTURE







THE BOARD OF DIRECTORS



SENIOR MANAGEMENT



# THE BOARD OF DIRECTORS



## H.E. Dr. PHAN Phalla

Secretary of State, Ministry of Economy and Finance, and Chairman of the Board

H.E. Dr. PHAN Phalla has joined the Ministry of Economy and Finance and the Supreme National Economic Council since 2004. He has been actively involved in the development of the Financial Management Information System (FMIS) project, the Public Financial Management Reform Program (PFMRP), the preparation of national and sectoral strategies, revenue collection strategies, management, and Macroeconomic analysis, development of strategic framework and programs to restore and promote Cambodia's economic growth in living with COVID-19 in the new normal path for 2021-2023, etc.

He is currently a member of the Supreme National Economic Council, a board member of the Sihanoukville Autonomous Port, the Secretary-General of the Economic and Financial Policy Committee, the Secretary of State of the Ministry of Economy and Finance, and the Chairman of SME Bank of Cambodia. He holds a PhD in Economics from Australia.



## H.E. SON Seng Huot

Board Member

H.E. SON Seng Huot is the Secretary of State of the Ministry of Industry, Science, Technology, and Innovation, he has a lot of experience, before 2013, he was a director of Phnom Penh Department of Industry, Mines and Energy. From 2013 to 2014, He was the Deputy Director General of the Department of Small and Medium Enterprise and Handicrafts at the Ministry of Industry and Handicraft. From 2014 to the present, He is the Secretary of State of the Ministry of Industry, Science, Technology, and Innovation in charge of the General Department of Small and Medium Enterprise and Handicrafts and the Department of Industrial Affairs of the General Department of Industry.

He graduated from Vietnam with Small and Medium Enterprise Management Skills and One Village One Product Management Skills from Japan. He underwent short-term training courses on small and medium enterprise management from Singapore and Korea. He holds a master's degree in public administration from Asia Europe University.



**H.E. TEP Phiyorin**

Board Member

H.E. TEP Phiyorin is currently the Under Secretary of State at the Ministry of Economy and Finance. In the past, he was the Director General of the General Department of Policy. He also served as an advisor to the Executive Director of the World Bank Group, based in Washington D.C. the United States. He joined the Ministry of Economy and Finance in 1999 as a Budget Officer, and since then he has held several positions in the Ministry of Economy and Finance, including the Director of the Office of Macroeconomics, Deputy Head of Department, and Head of the Department of Economic Policy and Public Finance.

He holds a degree in Public Economics and Finance from the University of Birmingham in the United Kingdom and in Economics from the Kharkov State University of Economics in Ukraine. He is currently responsible for monitoring macroeconomic development, policy monitoring, and analysis of development issues. He is also in charge of the macroeconomic framework, and medium-term taxes, and advises on economics, finance, and the public management sector as well.

**Mrs. CHHORN Dalis**

Independent Board Member

Mrs. CHHORN Dalis has been appointed as an Independent Board Member of SME Bank of Cambodia in 2020. She has more than 20 years of experience as an accountant and leads small and medium enterprises in various fields, including agro-industry and clean water.

She holds a Master of Business Administration from the Asian Institute of Technology in Thailand and a Master of International Finance from Ceram Sophia Antipolis in France in 2002.



**H.E. CHAN Sok Ty**

Board Member

H.E. CHAN Sok Ty is currently the Royal Government of Cambodia Delegate in charge of the CEO of Green Trade Company of the Ministry of Commerce, with the same status as the Secretary of State and Board Member of SME Bank of Cambodia.

He is a member of the Food Reserve System Management Committee of Cambodia (ប.ស.ប.ក), which is responsible for managing the Royal Government's Food Reserve System.

He was also the Director General of Domestic Trade of the Ministry of Commerce; he has been the Director of Accelerating Inclusive Markets for Smallholders Project (AIMS).

His Excellency joined the Ministry of Commerce in 1997 as an Officer of the Laboratory Office of the General Department of CamControl, and since then he has also held various positions in the Ministry of Commerce, including Chong Ty Deputy Branch Manager, Deputy Head of Department and Deputy Director General of the General Department of International Trade, Acting Director General of the General Department of Trade Promotion of the Ministry of Commerce.

H.E. CHAN Sok Ty graduated with a degree in Food Chemistry Engineering from the Institute of Technology of Cambodia and a master's degree in agriculture from the University of Tokyo, Japan.



**Dr. LIM Aun**

Chief Executive Officer and Board Member



**Mr. NEAV Sokun**

Chief Operating Officer and Board Member

# SENIOR MANAGEMENT



**Dr. LIM Aun**

Chief Executive Officer  
and Board Member

Dr. LIM Aun has more than 25 years of experience in the field of banking and international auditing companies. Before joining SME Bank of Cambodia, from 1997 to 2021, he served as a Senior Auditor at KPMG in Cambodia and Malaysia, a Deputy General Manager at Vattanac Bank, and lastly, a Chief Executive Officer at Sathapana Bank.

He was appointed as a Chief Executive Officer and a Board Member of SME Bank of Cambodia by the Royal Government in August 2021.

He holds a PhD in Business Administration from France.



**Mr. NEAV Sokun**

Chief Operating Officer  
and Board Member

Mr. NEAV Sokun has more than 20 years of experience in the banking and financial sector. He has started his career in finance since 2003. He has held various senior positions including Branch Manager, Credit Executive, and Branch Manager with some big Banks. In August 2021, he joined the SME Bank of Cambodia as a Chief Operating Officer, being responsible for managing the processes and operations of the Business Department, Operations Department, Marketing Department, Business Development Department, Administration, and branches.

He holds a master's degree in business administration from Norton University and a Bachelor of Arts in English from Build Bright University. He has also received certifications in management and leadership training from many countries, including Italy, India, and Vietnam.



**Mr. DEN Davuth**

Chief Technology Officer

Mr. DEN Davuth joined the SME Bank of Cambodia in July 2021 with key responsibilities to execute Bank's IT strategy, business process re-engineering initiatives, and strengthen IT governance and control.

He started his career in 2005 with a local bank in the Information Technology Department. In 2010 he was among the pioneer team to set up a bank, one of the biggest regional banks in Cambodia, where he headed the Information Technology and Operations departments. From 2018-2019, he drove a project team to set up a new IT and Digital Banking infrastructure for a new local bank. From 2020-2021, he became the Chief Technology and Information Officer at Sathapana Bank.

He graduated with a bachelor's degree in computer science and engineering from the Royal University of Phnom Penh in 2004, a bachelor's degree in public communication from the Institute of Foreign Languages in 2009 and received his Management and Leadership certificate from Nanyang Technological University in 2013.



**Mr. OEUR Vibol**

Chief Risk Management

Mr. OEUR Vibol has more than 18 years of experience in the banking sector. He started his career at one of the leading local banks in 2004 with experience in numerous roles in accounting and finance. In 2010, he moved to one of the regional banks as a pioneer in setting up the bank, where he had an opportunity to expand his professional experience in accounting, finance, and risk management. In his last role as Head of Risk Analytics and Management, his main responsibilities were developing and implementing risk management frameworks and policies to suit operations and regulations.

In August 2020, he joined SME Bank as a Chief Risk Officer to oversee risk management functions, including but not limited to credit, operational, liquidity, and market risks.

He graduated from the National University of Management with a degree in Accounting and Finance and participated in numerous courses in accounting, finance, risk management, and leadership.





# Corporate Governance

The Bank has a strong governance structure through the technical and financial guidance of the Ministry of Economy and Finance with further supervision from the National Bank of Cambodia. The bank is managed by the Chairman and Members of the Board appointed by the Sub-Decree of the Royal Government of Cambodia.

The Bank operates on the basis of the principles, regulations, procedures, validation and evaluation mechanisms established by the management and other relevant departments within the Bank and approved by the Board of Directors.

# BOARD OF DIRECTORS MEETING

The Board of Directors (The Board) has seven members, with two Executive Directors and five Non-Executive Directors. The Board is responsible for setting the goal and overseeing the overall management and affairs of the Bank in accordance with the Royal Government of Cambodia's policy direction. It is primarily accountable to the Ministry of Economic and Finance (sole shareholder) for the proper conduct of the business of the Bank. The Bank has established three Board-level committees which are under the direct control of the Board, (1) Board Risk and Compliance Committee, (2) Board Nomination and Remuneration Committee, and (3) Board Audit Committee. The Bank also has five executive Committees under the supervision of the Chief Executive Officer; they are 1) Executive Committee, 2). Risk Management Committee, 3). Asset and Liability Management Committee, 4). Credit Committee, and 5). Procurement Committee.

A total of four Board meetings were held in 2022 and the Directors' attendance at the meetings are as follows:

No.	Directors	Composition
1	H.E Dr. Phan Phalla	Chairman
2	H.E Tep Phiyorin	Member
3	H.E Son Senghouth	Member
4	H.E Chan Sokty	Member
5	Dr. Lim Aun	Member
6	Mrs. Chhorn Dalis	Member
7	Mr. Neav Sokun	Member
8	H.E Dr. Kong Marry	State Controller



# BOARD RISK AND COMPLIANCE COMMITTEE

The Board appoints the Board Risk and Compliance Committee (BRCC) and comprises three Non-Executive Directors. BRCC's responsibility is authorized by the Board to ensure that the integrated risk management functions within the Bank are effectively discharged.

The BRCC oversees credit, liquidity, market, and operational risks including a review of strategic risks, policies, guidelines, assessment methodology, and risk management report. The BRCC reports to the Board of Directors on all risk and compliance matters of the Bank.

A total of seven BRCC meetings were held in 2022 and the Directors' attendance at the meetings is as follows:

No.	Directors	Composition
1	H.E. Tep Phiyorin	Chairman / Non-Executive Director
2	H.E. Song Seng Huot	Member / Independent Non-Executive Director
3	Mrs. Chhorn Dalis	Independent Non-Executive Director

**The terms of reference of the Board Risk and Compliance Committee are as follows:**

## › Risk Management

- To review, formulate and recommend policies for the Board's approval;
- To review and consider the adequacy of risk management policies and frameworks, identifying, measuring, monitoring, and controlling risk and the extent to which these are operating effectively;
- To ensure infrastructure, resources and systems are in place for risk management i.e., to ensure that the staff are responsible for implementing risk management systems performing those duties independently of the Bank's risk-taking activities;
- To review management's periodic reports on risk exposure, risk portfolio composition, risk rating systems, risk appetite, stress testing, and risk management activities;
- To review and approve risk-taking activities as delegated;
- To establish and keep under review any sub-committee.

## › Compliance

- Discuss compliance, anti-money laundering, and combating the financing of the terrorism risk, and ensure the risks are resolved effectively and efficiently;
- Review and comply with all regulations and policies on anti-money laundering and combating the financing of the terrorism and all necessary amendments to the compliance;
- Receive and review, at least annually, a report on anti-money laundering and combating the financing of terrorism crime produced by the Compliance Officer and any specific actions taken by senior management concerning the report;
- Review reports from Compliance Officer on the arrangements established by management for ensuring adherence to internal compliance policies, procedures, and compliance with specific laws and regulations, as required by the Committee or required by laws and regulations;
- Review and advise on the fundamental activities that are required by the Board of Directors.

## Key Matters Reviewed/Deliberated/Approved

Throughout the financial year ended 2022, BRCC has committed to ensuring the Bank's structure remained resilient against multiple stressors, most notably post-pandemic recovery strategies, and unexpected economic shocks. Other matters discussed are set out below:

- Discussed Risk Management Report;
- Discussed Compliance and Regulatory Compliance Risk Report;
- Discussed compliance, anti-money laundering, and combating the financing of the terrorism risk;
- Discussed the Bank's Business Continuity Management (BCP);
- Reviewed and endorsed Deviation Approval for Loan Application;
- Reviewed and endorsed Finance and Accounting Policy;
- Reviewed and approved on Finance's Delegated Authority;
- Reviewed and endorsed Credit Delegated Approving Authority;
- Reviewed and endorsed Pricing Delegated Authority for KHR Loan;
- Reviewed and endorsed Sale Channels Strategy;
- Reviewed and endorsed Business Partnership for Bill Payment Services;
- Reviewed and endorsed Revised TRCS Schemes Features;
- Reviewed and endorsed the Approved Property Developers for staff Housing Loans;
- Reviewed and endorsed Opening Bank Account and Delegated Authorized Signatories;
- Reviewed and endorsed Account Opening Proposal – Wing
- Approved Risk Management Division's and Compliance Department's Terms of Reference;
- Approved on AML/CFT Procedure;
- Approved Updating Credit Loss Rate;
- Approved Bill Payment Operations Manual;
- Approved Stress Test Scenario Result and Analysis for Position as of November 2022;

## › Risk Management Division

Risk Management plays a vital role in the banking business and is even more crucial during challenging business environments. The role of Risk Management has also been broadened, and a strong risk culture needs to be embedded into business units to ensure adequate risk transparency for the sustainable growth of the Bank. Risk Management functions works independently and closely with all relevant business units to ensure the understanding of risk culture and awareness.

Overall, Risk Management is responsible for administrating the day-to-day risk management functions as well as the monitoring and control of the Bank's risk exposures with regular reporting to the Risk Management Committee and the Board Risk and Compliance Committee (BRCC).



## Key Roles of Risk Management:



### Credit Risk

**Credit Risk** is the possibility of losses due to a borrower or market counterparty failing to perform its contractual obligations to the Bank.

The Credit Management is under the Risk Division, which is responsible for Credit Risk, including reviewing key risk strategies, policies, guidelines, risk assessment approaches, and risk reports. The Credit Management Department also provides an independent evaluation of credit applications before submissions for decisions. Credit management is also responsible for reviewing and monitoring the Bank's loan portfolio and any credit-related limit/threshold. Besides credit evaluation, Credit Management has also covered the scope for Credit Quality Control and Loan Monitoring and Recovery to strengthen the Bank's asset quality and its long-term sustainability.



### Liquidity Risk

**Liquidity Risk** is the risk that the Bank does not have sufficient financial resources available to fund increases in assets or to meet its obligations as they come without incurring unacceptable losses.

The Bank must maintain sufficient liquidity at all times so that its cash flow positions and/or liquefiable assets are readily available to meet financial and regulatory obligations under BAU and stress conditions.

Liquidity risk undertaken by the Bank is governed by an established liquidity risk appetite that defines the risk-taking level that the Bank is willing to accept in pursuit of its strategic and business objectives.

Risk Management is responsible for monitoring the Bank's liquidity risk profile and reports regularly to the Risk Management Committee and the BRCC to manage its liquidity position to meet its daily operational needs and regulatory requirements.



### Market Risk

**Market Risk** is defined as fluctuations in the value of financial instruments due to changes in market risk factors such as interest rates, currency exchange rates, credit spreads, equity prices, commodities prices, and their associated volatility.



### Operational Risk

**Operational Risk** refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. One of the key requirements of a robust risk management structure is having effective Operational Risk Management tools to identify comprehensively, measure, monitor, control, and report the entity's operational risk exposures.

## BOARD AUDIT COMMITTEE

The Board Audit Committee (“BAC”) is appointed by the Board. Board Audit Committee has composed of four members who are Non-Executive Directors to provide oversight of the internal audit, financial statements, internal control system, and risk management framework to ensure compliance with regulatory requirements in the Bank. A total of eight Board Audit Committee meetings were held in 2022 at the meetings are as follows:

No.	Directors	Composition
1	Mrs. CHHORN Dalis	Chairwoman
2	H.E. TEP Phiyorin	Member
3	H.E. SON Senghuot	Member
4	H.E. CHAN Sokty	Member

### The Board Audit Committee performs the roles and responsibilities as follows:

- Ensure the information provided to the Public and the National Bank of Cambodia is accurate and reliable.
- Ensure the internal auditors regularly audit the accounting methods, records, and financial statements to meet the expectations of the regulations and the Board.
- Evaluate, check, and approve the internal audit policies, procedures, and annual internal audit plans, mainly whether the system measuring, monitoring, and risk management are consistent and recommended on audit findings.
- Assist the Board in overseeing the implementation of accounting policies, preparing accurate and sufficient reports, and ensuring the effectiveness of internal control.
- Ensure corrective action between the internal auditor and senior management to comply with the target response.

### Results of the Board Audit Committee's performance achievement in 2022:

- Reviewed and advised on internal audit findings, and special audit findings;
- Discussed the KPIs for the Internal Audit team, budgeting, and staffing manpower;
- Reviewed the implementation following recommendations from the Internal Audit Department and the Board of Audit Committee;
- Reviewed and endorsed on External Auditor selection before the Board of Director approved;
- Conducted meeting between senior management with External Auditors on findings;
- Reviewed and endorsed on Annual Audit Report 2021 before the Board of Director for submitted to CAFIU;
- Reviewed and approved Internal Control Report 2021 for submitted to NBC and CAFIU
- Reviewed training course for internal auditors;
- Reviewed and approved Annual Internal Audit Plan for 2022;
- Evaluated annual performance of the Head Internal Audit.

The Internal Audit Department is responsible for regularly evaluating, checking, and monitoring the implementation of the Bank's internal control system and governance to ensure the Bank's vision and main objectives' effectiveness. To ensure the transparency and independence of the audit work, the internal auditors must report directly to the Board Audit Committee and indirectly to the Chief Executive Officer on certain administrative matters.

#### **Internal Audit's Key Roles:**

- Manage audit work, coordinate, review, and report on the internal audit's work, and provide the Audit Standards, criteria, and requirements of the internal audit.
- Plan, manage, and monitor the daily work activities of the Internal Audit Department and develop and maintain effective and efficient customers and staff.
- Ensure that Bank's management and employees fully implement all internal policies and procedures.
- Introduce management to the impact of risks related to new products and services or activities and plans to mitigate risks.
- Prepare and update an internal risk-based audit plan for evaluating the effectiveness of risk management and report the internal audit report to the Board Audit Committee.
- Ensure the management has responded and acted on the internal audit report and implemented the recommendation by the target date. Perform other tasks as assigned by the Board Audit Committee.
- Assist the Board Audit Committee and the Board of Directors in fulfilling their responsibilities for properly implementing accounting policies, reports, adequacy, and effectiveness of internal control.

# BOARD OF REMUNERATION AND NOMINATION COMMITTEE (BRNC)

The Board of Remuneration and Nomination (BRNC) Committee is appointed by the Board of Directors. The Board of Remuneration and Nomination Committee consists of 1 (one) executive director and 4 (four) non-executive directors to ensure that the Remuneration Policy is consistent with the long-term objectives and corporate values of the SME Bank and reasonable in the light of the SME Bank's objectives, compensation for a similar function in other banks and financial institutions, and other relevant factors with due regard to the interests of the shareholders and to the financial and commercial needs of the SME Bank. There were 5 (five) meetings held in 2022 with the participation of members as follows:

No.	Directors	Composition
1	H.E. SON Senghuot	Chairman
2	H.E. TEP Phiyorin	Member
3	H.E. CHAN Sokty	Member
4	Mrs. CHHORN Dalis	Member
5	Mr. NEAV Sokun	Member

## The BRNC performs the roles and responsibilities as follows:

- Cover all aspects of remuneration, including but not limited to Directors' fees, salaries, allowances, expenses, consultancy fees (where applicable) and benefits in kind; and
- Recommend the remuneration of the Directors of the SME Bank to the Board of Director.
- Recommend to the Board the performance targets and incentive plan (including bonus and any other scheme designed to encourage long-term corporate value creation) for the SME Bank Managements, the Head of Internal Audit, and the Compliance Manager for the coming year.
- Review the adequacy and form of compensation to the SME Bank Managements and Key Managers to ensure that it is realistically commensurate with the responsibilities and risks involved in being an effective member of the management team.
- Review and guide the evaluation of the effectiveness of the Board and the Board committee at least once per year.
- Review and update the relevant policies and procedures at least once a year for BOD's approval.

## Results of the Board of Remuneration and Nomination Committee in 2022:

- Reviewed and advised on the Annual salary increment of 2022 and special salary increments before the Board of Director approved
- Reviewed and advised on Sales incentive scheme before the Board of Director approved
- Reviewed and advised on revise SME bank's management restructure before the Board of Director approved
- Reviewed and approved on Employee performance evaluation form of 2022
- Reviewed and approved on Provision of training to employees
- Reviewed on defining employee performance evaluation criteria
- Reviewed and advised on Code of Conduct before the Board of Director approved
- Reviewed and evaluated the extension of employment contract of a C-level staff
- Reviewed and approved on employee recognition program



# FINANCIAL STATEMENTS

The background of the image is a dark blue gradient. It features several stylized financial charts. In the upper right, there is a line chart with a jagged, upward-trending path. Below it, a candlestick chart shows several blue bars, some with long wicks, indicating price movements. In the lower left, another line chart shows a more volatile, fluctuating path. A bright blue light flare is positioned in the center of the image, partially obscuring the text and the charts.

# REPORT OF THE BOARD OF DIRECTORS

The Board of Directors of Small and Medium Enterprise Bank of Cambodia Plc. (“the Bank”) presents its report and the Bank’s financial statements as at 31 December 2022 and for the year then ended.

## THE BANK

The Bank was incorporated in the Kingdom of Cambodia as a state-owned company organized under Law on the General Statute of Public Enterprise with the registration certificate Co. 0001 M/2020 issued by the Ministry of Commerce on 13 January 2020. The Bank is under technical and financial supervision of Ministry of Economy and Finance (“MEF”).

The Bank obtained its banking license from the National Bank of Cambodia (“NBC”) on 27 February 2020 to operate as a commercial bank with a permanent validity.

The Bank’s principal business activities are provisions of financing and commercial banking services to support small and medium enterprises in the Kingdom of Cambodia.

The Bank’s registered office address is located at MEF Business Development Center, #S, OCIC Street, Phum Kien Khleang, Sangkat Chraoy Chongvar, Khan Chraoy Chongvar, Phnom Penh, Cambodia.

## FINANCIAL RESULT

The Bank’s financial performance for the year is set out in the statement of comprehensive income.

## DIVIDENDS

No dividend was declared or paid, and the Board of Directors does not recommend any dividend to be paid for the year.

## EXPECTED CREDIT LOSSES ON LOANS AND ADVANCES

Before the financial statements of the Bank were prepared, the Board of Directors took reasonable steps to ascertain that action had been taken in relation to writing off of bad loans or recognition of allowance for expected credit losses and satisfied themselves that all known bad loans had been written off and that adequate allowance had been made for expected credit losses on loans and advances.

At the date of this report and based on the best of knowledge, the Board of Directors is not aware of any circumstances which would render the amount written off for bad loans or the amount of the allowance for expected credit losses in the financial statements of the Bank inadequate to any material extent.

## ASSETS

Before the financial statements of the Bank were prepared, the Board of Directors ascertained that management took reasonable steps to ensure that any assets, which were unlikely to be realized in the ordinary course of business at their values as shown in the accounting records of the Bank had been written down to amounts which they might be expected to realize.

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

## VALUATION METHODS

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

## CONTINGENT AND OTHER LIABILITIES

At the date of this report, there is:

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

No contingent or other liability of the Bank has become enforceable, or is likely to become enforceable within the period of 12 months after the end of the financial year which, in the opinion of the Board of 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 Board of Directors is not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Bank, which would render any amount stated in the financial statements misleading.

## ITEMS OF AN UNUSUAL NATURE

The result of the operation of the Bank for the year was not, in the opinion of the Board of Directors, substantially affected by any item, transaction or event of a material and unusual nature.

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

## EVENTS AFTER END OF THE REPORTING PERIOD

At the date of this report, to the best knowledge of the Board of Directors, there have been no significant events occurring after end of the reporting period which would require adjustments or disclosures to be made in the financial statements.

## THE BOARD OF DIRECTORS

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

Name	Position
H.E. Dr. Phan Phalla	Secretary of State, Ministry of Economy and Finance and Chairman of the Board of Directors
H.E. Tep Phiyorin	Member
H.E. Chan Sokty	Member
H.E. Son Seng Huot	Member
Mrs. Chhorn Dalis	Member
Dr. Lim Aun	Chief Executive Officer and Member
Mr. Neav Sokun	Chief Operating Officer and Member (Appointed on 1 February 2022)

## AUDITOR

Ernst & Young (Cambodia) Ltd. is the auditor of the Bank.

## DIRECTORS' INTERESTS

No directors held any interest in the equity of the Bank. No arrangement existed to which the Bank is a party with object of enabling the members to obtain an interest in the Bank or in any corporate body.

## DIRECTORS' BENEFITS

During and at the end of the year, no arrangement existed to which the Bank was a party with the objective of enabling the directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

During the 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 or a related corporation with a firm of which the director is a member, or with a company in which the director has substantial financial interest other than as disclosed in the financial statements.



## RESPONSIBILITIES OF THE BOARD OF DIRECTORS IN RESPECT OF THE FINANCIAL STATEMENTS

The Board of Directors is responsible for ascertaining that the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2022, and its financial performance and its cash flows for the year then ended. The Board of Directors oversees preparation of these financial statements by management who is required to:

- adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- comply with the disclosure requirements of Cambodian International Financial Reporting Standards ("CIFRSs"), or if there have been any departures in the interest of fair true and fair presentation, ensure that these have been appropriately disclosed, explained and quantified in the financial statements;
- oversee the Bank's financial reporting process and maintains adequate accounting records and an effective system of internal controls;
- 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
- effectively control and direct effectively the Bank in all material decisions affecting the operations and performance and ascertain that such have been properly reflected in the financial statements.

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

## APPROVAL OF THE FINANCIAL STATEMENTS

We hereby approve the accompanying financial statements which give a true and fair view of the financial position of the Bank as at 31 December 2022, and its financial performances and its cash flows for the year then ended in accordance with CIFRSs.

On behalf of the Board of Directors:


H.E. Dr. Phan Phalla  
Secretary of State of Ministry of Economy and Finance  
and Chairman of the Board of Directors



Dr. Lim Aun  
Chief Executive Officer and Member

Phnom Penh, Kingdom of Cambodia  
22 March 2023

# I INDEPENDENT AUDITOR'S REPORT

**To: The Shareholder of Small and Medium Enterprise Bank of Cambodia Plc.**

## Opinion

We have audited the accompanying financial statements of Small and Medium Enterprise Bank of Cambodia Plc. ("the Bank") which comprise the statement of financial position as at 31 December 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with Cambodian International Financial Reporting Standards ("CIFRSs").

## Basis for Opinion

We conducted our audit in accordance with Cambodian International Standards on Auditing ("CISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants and Auditors issued by the Ministry of Economy and Finance of Cambodia, together with the ethical requirements that are relevant to our audit of the financial statements in Cambodia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Information Other than the Financial Statements and Auditor's Report Thereon

The other information obtained at the date of the auditor's report comprises the Report of the Board of Directors. Management is responsible for the other information.

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.

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

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

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

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

## Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with CISAs, we exercise professional judgment and maintain professional 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 and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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.



Hong Khav  
Associate Partner

### Ernst & Young (Cambodia) Ltd.

Certified Public Accountants  
Registered Auditors

Phnom Penh, Kingdom of Cambodia  
22 March 2023

# STATEMENT OF FINANCIAL POSITION

as at 31 December 2022

	Notes	2022		2021	
		US\$	KHR'000 (Note 2.3)	US\$	KHR'000 (Note 2.3)
<b>ASSETS</b>					
Cash on hand	5	570,750	2,349,778	384,731	1,567,394
Balances with the National Bank of Cambodia ("NBC")	6	12,970,398	53,399,129	31,570,769	128,619,313
Balances with other banks	7	50,478,382	207,819,499	6,003,213	24,457,090
Loans and advances to customers - net	8	210,500,932	866,632,337	109,311,651	445,335,666
Other assets	9	182,939	753,159	53,455	217,776
Intangible assets	10	789,727	3,251,306	907,182	3,695,859
Property and equipment	11	1,808,897	7,447,229	847,587	3,453,069
Right-of-use assets	12	2,295,191	9,449,301	112,238	457,258
Statutory deposit	13	321,965	1,325,530	22,946	93,482
Deferred tax asset	14	820,969	3,379,929	-	-
<b>TOTAL ASSETS</b>		<b>280,740,150</b>	<b>1,155,807,197</b>	<b>149,213,772</b>	<b>607,896,907</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>					
<b>LIABILITIES</b>					
Deposits from other financial institutions	15	49,461	203,631	15,839	64,528
Deposits from customers	16	4,660,524	19,187,377	504,980	2,057,289
Borrowing	17	74,016,274	304,725,000	-	-
Income tax liability	14	253,069	1,041,885	9,889	40,288
Other liabilities	18	884,691	3,642,273	369,507	1,505,371
Lease liabilities	12	2,310,618	9,512,814	97,277	396,306
<b>Total Liabilities</b>		<b>82,174,637</b>	<b>338,312,980</b>	<b>997,492</b>	<b>4,063,782</b>
<b>SHAREHOLDER'S EQUITY</b>					
Share capital	19	200,000,000	800,000,000	150,000,000	600,000,000
Contributions from Ministry of Economy and Finance	20	1,246,882	4,987,528	1,308,082	5,232,328
Accumulated losses		(2,681,369)	(10,912,624)	(3,091,802)	(12,590,063)
Cumulative exchange differences on translation		-	23,419,313	-	11,190,860
<b>Total Shareholder's Equity</b>		<b>198,565,513</b>	<b>817,494,217</b>	<b>148,216,280</b>	<b>603,833,125</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>		<b>280,740,150</b>	<b>1,155,807,197</b>	<b>149,213,772</b>	<b>607,896,907</b>

The accompanying notes from 1 to 29 form an integral part of these financial statements.



# STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2022

	Notes	2022		2021	
		US\$	KHR'000 (Note 2.3)	US\$	KHR'000 (Note 2.3)
Operating income					
Interest income	21	6,387,859	26,107,180	2,182,518	8,878,483
Interest expense	21	(36,345)	(148,542)	(6,381)	(25,958)
<b>Net interest income</b>		<b>6,351,514</b>	<b>25,958,638</b>	<b>2,176,137</b>	<b>8,852,525</b>
Net fee and commission		24,062	98,341	46,289	188,304
Foreign exchange loss		(527,795)	(2,157,098)	(192,500)	(783,090)
<b>Total operating income</b>		<b>5,847,781</b>	<b>23,899,881</b>	<b>2,029,926</b>	<b>8,257,739</b>
Personnel expenses	22	(1,964,642)	(8,029,492)	(1,266,645)	(5,152,712)
Depreciation and amortization	23	(1,025,148)	(4,189,780)	(770,884)	(3,135,956)
General and administrative expenses	24	(929,799)	(3,800,089)	(627,216)	(2,551,515)
Provision for expected credit losses	8	(2,028,607)	(8,290,917)	(1,032,998)	(4,202,236)
<b>Loss before income tax</b>		<b>(100,415)</b>	<b>(410,397)</b>	<b>(1,667,817)</b>	<b>(6,784,680)</b>
Income tax benefit (expense)	14	510,848	2,087,836	(22,535)	(91,672)
<b>Net profit (loss)</b>		<b>410,433</b>	<b>1,677,439</b>	<b>(1,690,352)</b>	<b>(6,876,352)</b>
<b>Other comprehensive income item:</b>					
Exchange difference on translation		-	12,228,453	-	6,587,151
<b>Total comprehensive income (loss) for the year</b>		<b>410,433</b>	<b>13,905,892</b>	<b>(1,690,352)</b>	<b>(289,201)</b>

The accompanying notes from 1 to 29 form an integral part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2022

	Share capital		Contributions from Ministry of Economy and Finance (Note 20)		Accumulated losses		Regulatory reserves (Note 3.13)		Cumulative translation differences on translation	Total	
	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000	KHR'000	US\$	KHR'000
	(Note 2.3)	(Note 2.3)	(Note 2.3)	(Note 2.3)	(Note 2.3)	(Note 2.3)	(Note 2.3)	(Note 2.3)	(Note 2.3)	(Note 2.3)	(Note 2.3)
<b>As at 1 January 2022</b>	150,000,000	600,000,000	1,308,082	5,232,328	(3,091,802)	(12,590,063)	-	-	11,190,860	148,216,280	603,833,125
Capital injection	50,000,000	200,000,000	-	-	-	-	-	-	-	50,000,000	200,000,000
Net profit for the year	-	-	-	-	410,433	1,677,439	-	-	-	410,433	1,677,439
Return of contribution to MEF (Note 20)	-	-	(61,200)	(244,800)	-	-	-	-	-	(61,200)	(244,800)
Currency translation difference	-	-	-	-	-	-	-	-	12,228,453	-	12,228,453
<b>As at 31 December 2022</b>	<b>200,000,000</b>	<b>800,000,000</b>	<b>1,246,882</b>	<b>4,987,528</b>	<b>(2,681,369)</b>	<b>(10,912,624)</b>	<b>-</b>	<b>-</b>	<b>23,419,313</b>	<b>198,565,513</b>	<b>817,494,217</b>
<b>As at 1 January 2021</b>	100,000,000	400,000,000	1,308,082	5,232,328	(1,438,492)	(5,864,731)	37,042	151,020	4,603,709	99,906,632	404,122,326
Capital injection	50,000,000	200,000,000	-	-	-	-	-	-	-	50,000,000	200,000,000
Net profit for the year	-	-	-	-	(1,690,352)	(6,876,352)	-	-	-	(1,690,352)	(6,876,352)
Transfer from regulatory reserve	-	-	-	-	37,042	151,020	(37,042)	(151,020)	-	-	-
Currency translation difference	-	-	-	-	-	-	-	-	6,587,151	-	6,587,151
<b>As at 31 December 2021</b>	<b>150,000,000</b>	<b>600,000,000</b>	<b>1,308,082</b>	<b>5,232,328</b>	<b>(3,091,802)</b>	<b>(12,590,063)</b>	<b>-</b>	<b>-</b>	<b>11,190,860</b>	<b>148,216,280</b>	<b>603,833,125</b>

The accompanying notes from 1 to 29 form an integral part of these financial statements.

# STATEMENT OF CASH FLOWS

for the year ended 31 December 2022

	Notes	2022		2021	
		US\$	KHR'000 (Note 2.3)	US\$	KHR'000 (Note 2.3)
<b>OPERATING ACTIVITIES</b>					
Loss before income tax		(100,415)	(410,397)	(1,667,817)	(6,784,680)
<i>Adjustments for:</i>					
Depreciations and amortisation	23	1,025,148	4,189,780	770,884	3,135,956
Return of contribution to MEF	20	(61,200)	(250,124)	-	-
Provision for expected credit losses	8	2,028,607	8,290,917	1,798,998	7,318,324
Interest expense on lease liabilities	12	24,264	99,167	6,031	24,534
<i>Changes in:</i>					
Statutory deposit		(299,019)	(1,222,091)	(16,957)	(68,981)
Balance with other banks with original maturity more than 3 months	7	(17,253,163)	(70,513,677)	(2,634,000)	(10,715,112)
Loans and advances	8	(103,217,888)	(421,851,508)	(64,289,137)	(261,528,209)
Other assets		(152,797)	(624,481)	23,004	93,580
Deposits from other financial institutions	15	33,622	137,413	12,148	49,418
Deposits from customers	16	4,155,544	16,983,708	495,378	2,015,198
Other liabilities	18	515,184	2,105,557	(91,410)	(371,856)
<b>Cash used in operations</b>		<b>(113,302,113)</b>	<b>(463,065,736)</b>	<b>(65,592,878)</b>	<b>(266,831,828)</b>
Income tax paid	14	(66,941)	(273,588)	(19,840)	(80,709)
Net cash used in operating activities		(113,369,054)	(463,339,324)	(65,612,718)	(266,912,537)
<b>INVESTING ACTIVITIES</b>					
<i>Purchases of:</i>					
Property and equipment	11	(1,527,644)	(6,243,481)	(169,080)	(687,817)
Software	10	(78,154)	(319,415)	(316,194)	(1,286,277)
Net cash used in investing activities		(1,605,798)	(6,562,896)	(485,274)	(1,974,094)

	Notes	2022		2021	
		US\$	KHR'000 (Note 2.3)	US\$	KHR'000 (Note 2.3)
FINANCING ACTIVITIES					
Proceeds from:					
Additional share capital	19	50,000,000	204,350,000	50,000,000	203,400,000
Proceeds from borrowings	17	74,016,274	302,504,512	-	-
Lease payments	12	(233,768)	(955,410)	(129,075)	(525,077)
Net cash provided by financing activities		123,782,506	505,899,102	49,870,925	202,874,923
Net increase (decrease) in cash and cash equivalents		8,807,654	35,996,882	(16,227,067)	(66,011,708)
Cash and cash equivalents at beginning of year		35,324,713	143,912,881	51,551,780	208,526,950
Currency translation differences		-	1,783,192	-	1,397,639
Cash and cash equivalents at end of year	5	44,132,367	181,692,955	35,324,713	143,912,881

*Additional information on operational cash flow from interest:*

	Notes	2022		2021	
		US\$	KHR'000 (Note 2.3)	US\$	KHR'000 (Note 2.3)
Interest received		5,729,664	23,417,137	2,182,518	8,878,483
Interest paid		25,512	104,268	6,089	24,770



# NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2022 and for the year then ended

## 1. CORPORATE INFORMATION

The Bank was incorporated in the Kingdom of Cambodia as a state-owned company organized under Law on the General Statute of Public Enterprise with the registration certificate Co. 0001 M/2020 issued by the Ministry of Commerce on 13 January 2020. The Bank is under technical and financial supervision of Ministry of Economy and Finance (“MEF”).

The Bank obtained its banking license from the National Bank of Cambodia (“NBC”) on 27 February 2020 to operate as a commercial bank with a permanent validity.

The Bank’s principal business activities are provisions of financing and commercial banking services to support small and medium enterprises in the Kingdom of Cambodia.

The Bank’s registered office address is located at MEF Business Development Center, #S, OCIC Street, Phum Kien Khleang, Sangkat Chraoy Chongvar, Khan Chraoy Chongvar, Phnom Penh, Cambodia.

As at 31 December 2022, the Bank had 144 employees (2021: 52 employees).

### *Approval of the Bank’s financial statements*

The financial statements were authorized for issue by the Board of Directors on 22 March 2022.

## 2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The financial statements, expressed in United States dollar (“US\$”), have been prepared on a historical cost basis, except otherwise indicated.

### 2.1. Basis of preparation

The Bank’s financial statements have been prepared in accordance with Cambodian International Financial Reporting Standards (“CIFRS”).

### 2.2. Fiscal year

The Bank’s fiscal year starts on 1 January and ends on 31 December.

### 2.3. Functional and presentation currency

#### *Presentation currency*

The financial statements are presented in United State Dollar (“US\$”), which is the Bank’s functional and presentation currency.

#### *Transactions and balances*

Transactions in currencies other than US\$ are translated into US\$ at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in currencies other than

US\$ which are outstanding at the reporting date are translated into US\$ at the rate of exchange ruling at that date. Exchange differences arising on translation are recognized in profit or loss.

#### **Translation of US\$ in Khmer Riels (“KHR”)**

The translation of the US\$ amounts into thousands KHR (“KHR’000”) is presented in the financial statements to comply with the Law on Accounting and Audit dated 11 April 2016 using the closing and average rates for the year.

Assets and liabilities included in the statement of financial position are translated at the closing rate prevailing at the end of each reporting date, whereas income and expense items presented in the statement of comprehensive income are translated at the average rate for the year then ended. All resulting exchange differences are recognized in the statement of comprehensive income. Such translation should not be construed as a representation that the US\$ amounts represent, or have been or could be, converted into KHR at that or any other rate. All values in KHR are rounded to the nearest thousand (“KHR’000”), except if otherwise indicated.

The financial statements are presented in KHR based on the applicable exchange rates per US\$1 as follows:

	2022	2021
Closing rate	4,117	4,074
Average rate	4,087	4,068

## **2.4 Rounding of amounts**

Except as indicated otherwise, amounts in the financial statements have been rounded off to the nearest dollar for US\$ amounts and nearest thousand for KHR amounts.

## **2.5 New and amended standards and interpretations**

The accounting policies adopted are consistent with those of the previous financial year, except that the Bank has adopted the following new accounting pronouncements starting 1 January 2022. Adoption of these pronouncements did not have any significant impact on the Bank’s financial position or performance unless otherwise indicated.

- Onerous Contract – Costs of Fulfilling a Contract – Amendments to CIAS 37
- Reference to Conceptual Framework – Amendments to CIFRS 3
- Property, Plant and Equipment; Proceeds before Intended Use – Amendments to CIAS 16 Leases
- CIFRS 1 First-time Adoption of International Financial Reporting Standards - Subsidiary as a first-time adopter
- CIFRS 9 Financial Instruments - Fees in the ‘10 per cent’ test for derecognition of financial liabilities
- CIAS 41 Agriculture – Taxation in fair value measurements

## **2.6 Standards issued but not yet effective**

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank’s financial statements are disclosed below. These standards and amendments to CIFRSs issued but not yet effective are not expected to have a significant impact on the financial position or performance of the Bank.

*Effective beginning on or after 1 January 2023*

- CIFRS 17, Insurance Contracts
- Amendments to CIAS 1, First-time Adoption of Cambodian International Financial Reporting Standards - Classification of liabilities as current and non-current
- Amendments to CIAS 1, First-time Adoption of Cambodian International Financial Reporting Standards, and CIFRS Practice Statement 2 Making Materiality Judgments - Disclosure of Accounting Policies
- Amendments to CIAS 8, Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Accounting Estimates
- Amendments to CIAS 12, Income Taxes - Deferred Tax related to Assets and Liability arising from a Single Transaction.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES**

#### **3.1 Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, unrestricted balance with the NBC, balances with other banks and highly-liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

#### **3.2 Financial instruments**

The Bank's financial assets and liabilities include cash on hand, balances with the NBC (except statutory deposit), balances with other banks, loans and advances to customers, other assets (except for non-refundable deposits and prepayments), deposits from other financial institutions, deposits from customers, borrowing, and other liabilities (except for tax payable) which are measured at amortized cost following the business model discussed in Note 3.2.1.

*Initial recognition and measurement*

Financial assets and financial liabilities are recognized in the Bank's statement of financial position when the Bank becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

If the transaction price differs from fair value at initial recognition, the Bank will account for such difference as follows:

- If fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognized in profit or loss on initial recognition (i.e. day 1 profit or loss);
- In all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

##### **3.2.1 Business model**

The Bank measures balances with the NBC (except for statutory deposit), balances with other banks, loans and advances to customers, and other assets (except for non-refundable deposits and prepayments)

at amortized cost based on the business model or management of the asset's contractual term when the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial asset in order to collect contractual cash flow;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payment of principal and interest ("SPPI") on the principal amount outstanding.

The details of these conditions are outlined below.

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level that best reflects how the assets are managed. Factors considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Bank's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- How managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

### **3.2.2 Solely payments of principal and interest ("SPPI") test**

As a second step of its classification process, the Bank assess the contractual terms of the financial asset to identify whether they meet the SPPI test.

For purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse loans); and
- Features that modify consideration of the time value of money (e.g. periodical reset of interest rates).



***Non-recourse loans***

In some cases, loans made by the Bank that are secured by collateral of the borrower limit the Bank's claim to cash flows of the underlying collateral (non-recourse loans). The Bank applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Bank typically considers the following information when making this judgement:

- Whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- The fair value of the collateral relative to the amount of the secured financial asset;
- The ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- Whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- The Bank's risk of loss on the asset relative to a full-recourse loan;
- The extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- Whether the Bank will benefit from any upside from the underlying assets.

***Reclassification of financial assets and liabilities***

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

**3.2.3 Derecognition of financial assets and liabilities*****Financial assets***

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI is recognised in profit and loss.

***Financial liabilities***

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in profit or loss.

**3.2.4 Modifications and forbearance of financial assets**

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value plus any eligible transaction costs. Any fees received

as part of the modification are accounted for as follows:

- Fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- Other fees are included in profit and loss as part of the gain or loss on derecognition. If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.
- If the modification of a financial asset measured at amortized cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognizes the resulting adjustment as a modification gain or loss in profit and loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset.
- If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

### 3.2.5 Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

### 3.2.6 Fair value measurement

‘Fair value’ is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as ‘active’ if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognized

in profit and loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments – e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

### 3.2.7 Expected credit losses (“ECLs”)

The Bank recognizes allowance for ECLs on the following financial instruments that are measured at amortized cost:

- Balances with other banks;
- Loans and advances to customers; and
- Loan commitments and financial guarantee contracts issued.

ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL. More details on the determination of a significant increase in credit risk are provided below.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

- for undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Bank if the holder of the commitment draws down the loan and the cash flows that the Bank expects to receive if the loan is drawn down; and
- for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Bank expects to receive from the holder, the debtor or any other party.

The Bank measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present

value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

### ***Credit-impaired financial assets***

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- The disappearance of an active market for a security because of financial difficulties; or
- The purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event. Instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortized cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Bank considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default.

The definition of default (see below) includes unlikelihood to pay indicators and a backstop if amounts are overdue for 90 days or more.

### ***Definition of default***

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default ("PD") which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Bank considers the following as constituting an event of default:

- The borrower is past due more than 90 days on any material credit obligation to the Bank; or
- The borrower is unlikely to pay its credit obligations to the Bank in full.

This definition of default is used by the Bank for accounting purposes as well as for internal credit risk management purposes and is broadly aligned to the regulatory definition of default. The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

When assessing if the borrower is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the



asset, for example in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Bank uses a variety of sources of information to assess default which are either developed internally or obtained from external sources. As noted in the definition of credit impaired financial assets above, default is evidence that an asset is credit impaired. Therefore, credit impaired assets will include defaulted assets, but will also include other non-defaulted given the definition of credit impaired is broader than the definition of default.

### ***Significant increase in credit risk***

The Bank monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Bank will measure the loss allowance based on lifetime rather than 12-month ECL. Financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result, the Bank monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to impairment for significant increase in credit risk.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognized. In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Bank's historical experience and expert credit assessment including forward-looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

For corporate lending, forward-looking information includes the future prospects of the industries in which the Bank's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organizations, as well as consideration of various internal and external sources of actual and forecast economic information. For retail, lending forward-looking information includes the same economic forecasts as corporate lending with additional forecasts of local economic indicators, particularly for regions with a concentration to certain industries, as well as internally generated information of customer payment behavior. The Bank allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:

- The remaining lifetime PD at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

The PDs used are forward-looking and the Bank uses the same methodologies and data used to measure the loss allowance for ECL. The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However, the Bank still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate lending there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated. For retail

lending, the Bank considers the expectation of forbearance and payment holidays, credit scores and events such as unemployment, bankruptcy, divorce or death.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will be more significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD.

As a backstop when an asset becomes 30 days past due, the Bank considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL. In addition, loans that are individually assessed and are included on a watch list are in stage 2 of the impairment model. As noted if there is evidence of credit-impairment the assets are at stage 3 of the impairment model.

### **Write-off**

Loans and debt securities are written off when the Bank has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Bank may apply enforcement activities to financial assets written off. Recoveries resulting from the Bank's enforcement activities will result in impairment gains, which will be presented in 'net impairment loss on financial assets/other income' in profit or loss.

### **Presentation of allowance for ECL in the statement of financial position**

Loss allowances for ECL are presented in the statement of financial position as follows:

- For financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- For loan commitments and financial guarantee contracts: as a provision; and
- Where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

## **3.2.8 Financial liabilities and equity**

Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Bank or a contract that will or may be settled in the Bank's own equity instruments and is a non-derivative contract for which the Bank is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Bank's own equity instruments.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Equity instruments issued by the Bank are recognized at the proceeds received, net of direct issue costs. Repurchase of the Bank's own equity instruments is recognized and deducted directly in equity.

No gain/loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

#### ***Other financial liabilities***

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

#### ***Foreign exchange gains and losses***

For financial liabilities that are denominated in a foreign currency and are measured at amortized cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortized cost of the instruments. These foreign exchange gains and losses are recognized in the 'other gains and losses' line item in profit or loss for financial liabilities that are not part of a designated hedging relationship. For those which are designated as a hedging instrument for a hedge of foreign currency risk, foreign exchange gains and losses are recognized in other comprehensive income and accumulated in a separate component of equity.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognized in profit or loss for financial liabilities that are not part of a designated hedging relationship.

#### ***Modification and derecognition of financial liabilities***

The Bank derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability derecognized and consideration paid is recognized in profit and loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortized cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognized in profit and loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognized as an adjustment to the carrying amount of the liability and amortized over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

### **3.3 Property and equipment**

Items of property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Where an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gains or losses on disposal of an item of property and equipment is recognized in profit or loss.

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognized in the statement of comprehensive income.

*Useful life based on number of years*

Leasehold improvements	5
Equipment	4
Computer equipment	3
Furniture and fixture	4
Motor vehicles	5

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

During the year, the Bank has changed the useful life of the leasehold improvements from 3 years to 5 years, in order to reflect the shorter of lease term of the underlying asset.

Work in progress is not depreciated until they are ready for use as intended by the management.

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

Gains or losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized net within “other income” in the statement of comprehensive income.

Fully depreciated property and equipment are retained in the statement of financial position until they are disposed of or written-off.

### 3.4 Software

Computer software and related costs are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Amortisation is recognized in the statement of comprehensive income on a straight-line basis at the rate of 20% per annum. If there is an indication that there has been a significant change in amortisation rate or useful life of an intangible asset, the amortisation is revised prospectively to reflect the new expectations.

Software in progress is not amortized until they are ready for use as intended by the management.

### 3.5 Leases

The Bank assesses whether a contract is or contains a lease, at inception of a contract.

The Bank recognizes a right-of-use assets and a corresponding lease liabilities with respect to all lease agreements in which it is the lessee, except for leases of low value assets. For these leases, the Bank recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease.

#### **Right-of-use assets**

The right-of-use assets comprise the initial measurement of the corresponding lease liabilities, lease payments made at or before the commencement day and initial direct costs, if any. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the statement of financial position.

### ***Lease liabilities***

The lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using its incremental borrowing rate which is interest that the Bank would have to pay to borrow over a similar term and with a similar security the funds necessary to obtain an asset of a similar value to the right-of-use assets in a similar economic environment.

Lease payments included in the measurement of the lease liabilities comprise:

- Fixed lease payments, less any lease incentives;
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liabilities are presented as a separate line in the statement of financial position.

The lease liabilities are subsequently measured by increasing the carrying amount to reflect interest on the lease liabilities (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Bank remeasures the lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- The lease term has changed in which case the lease liabilities are remeasured by discounting the revised lease payments using a revised discount rate.
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liabilities are remeasured by discounting the revised lease payments using a revised discount rate.

### ***Short-term leases and leases of low-value assets***

The Bank applies the short-term lease recognition exemption to its short-term leases of vehicles (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption, if any. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

## **3.6 Impairment of non-financial assets**

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

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

An impairment loss is 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 comprehensive income.



### 3.7 Employee benefits

#### *Short-term employee benefits*

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

### 3.8 Provisions

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

### 3.9 Contributions from MEF

Contributions from MEF represents the Bank's start-up costs and leasehold improvement shouldered by MEF. The Bank recognised the start-up costs to profit or loss while capitalized expenditures are recognized in the statement of financial position and are depreciated over its useful life.

The start-up costs and leasehold improvement were fully transferred by MEF to the Bank with no refundable condition. Hence, the contributions from MEF are considered equity.

### 3.10 Effective interest method

Effective interest rate ("EIR") is a rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortized cost of a financial liability.

When calculating the effective interest rate, the Bank estimates the expected cash flow by considering all the contractual terms of the financial instrument, but not considering the expected credit loss. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

#### 3.10.1 Interest income

Interest income are recognized in profit and loss using the effective interest method. It is calculated by applying the effective interest rate to the gross carrying amount of financial asset except for:

- Purchased or originated credit-impaired financial assets. Credit-adjusted EIR is applied to the amortized cost of the financial assets.
- Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. EIR to the amortized cost of the financial asset in subsequent reporting periods is applied.

Credit-adjusted effective interest rate is a rate that exactly discounts the estimated future cash payment or receipts through the expected life of the financial asset to the amortized cost of a financial assets that is a purchased or originated credit-impaired financial asset.

Interest income calculated using the effective interest method presented in the statement of comprehensive income includes interest on financial assets measured at amortized cost.

### 3.10.2 Interest expense

Interest expense is also calculated using the EIR method for all financial liabilities held at amortized cost. Interest expense presented in the statement of comprehensive income includes financial liabilities measured at amortized cost.

### 3.11 Other fees and income

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

A contract with a customer that results in a recognized financial instrument in the Bank's financial statements may be partially in the scope of CIFRS 9 and partially in the scope of CIFRS 15. If this is the case, then the Bank first applies CIFRS 9 to separate and measure the part of the contract that is in the scope of CIFRS 9 and then applies CIFRS 15 to the residual. The Bank follows a five-step model to account for revenue arising from contracts with customers under CIFRS 15. The five-step model is as follows:

- i) Identify the contract(s) with a customer
- ii) Identify the performance obligations in the contract
- iii) Determine the transaction price
- iv) Allocate the transaction price to the performance obligation in the contract
- v) Recognize revenue when (or as) the entity satisfies a performance obligation

Fees and commission income are recognized as the related services are performed.

### 3.12 Income tax

Income tax on the statement of comprehensive income for the year comprises current and deferred tax. Income tax is recognized in the profit and loss 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 reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the reporting date.

A 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.

Deferred tax assets and liabilities are offset only if certain criteria are met.

### 3.13 Regulatory reserve

A regulatory reserve is established for the difference between the allowance for expected credit losses as determined in accordance with CIFRS 9 and the regulatory allowance in accordance with NBC Prakas No. B7-017-344 dated 1 December 2017 and Circular No. B7-018-001 dated 16 February 2018 on credit risk classification and provisioning for banks and financial institutions. The Bank shall compare the regulatory allowance with the provision in accordance with CIFRS 9, and:

- (i) In case the regulatory allowance is lower than the allowance in accordance with CIFRS 9, the entity records the allowance based on CIFRS 9; and
- (ii) In case the regulatory allowance is higher than the allowance in accordance with CIFRS 9, the entity records the allowance based on CIFRS 9 and transfer the difference from the retained earnings (accumulated losses) to regulatory reserve in the equity section of the statement of financial position.

The Prakas on regulatory provisioning requires banks and financial institutions to classify their loan portfolio into five classes and provide general and specific allowance based on the following loan classification:

Classification	Number of days past due	Allowance rate
Standard	0 to 14 days (short-term)	1%
	0 to 29 days (long-term)	
Special mention	15 days to 30 days (short-term)	3%
	30 days to 89 days (long-term)	
Substandard	31 days to 60 days (short-term)	20%
	90 days to 179 days (long-term)	
Doubtful	61 days to 90 days (short-term)	50%
	180 days to 359 days (long-term)	
Loss	From 91 days (short-term)	100%
	360 days or more (long-term)	

In December 2021, the NBC issued Circular No. B7-021-2314 to provide additional guidance to banks and financial institutions in classifying their loans which have been restructured up to 31 December 2021 and in providing the regulatory allowance. This Circular requires banks and financial institutions to classify the restructured loans as follows:

- Special mention if a restructured loan is “viable” or deemed as “performing”
- Substandard if a first-time restructured loan will need another restructuring
- Doubtful if a second-time restructured loan will need another restructuring
- Loss if a restructured loan is “non-viable” or deemed as “non-performing”

Allowance for ECLs per CIFRS 9 of US\$3,827,605 or KHR'000 15,758,250 (2021: US\$1,798,998 or KHR'000 7,329,118) is higher than regulatory allowance of US\$ 2,843,927 or KHR'000 11,708,447 (2021: US\$ 1,171,138 or KHR'000 4,771,216). As such, no regulatory reserve required.

### 3.14 Related parties

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

### 3.15 Rounding of amounts

All amounts disclosed in the financial statements and notes have been rounded off to the nearest KHR'000 and all amounts in US\$ are in whole currency unit, unless otherwise stated.

## 4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATION

The preparation of financial statements in accordance with CIFRSs requires the use of judgments, estimates and assumptions that affect the reported amounts and disclosures of assets and liabilities at the date of financial statements and the reported amounts and disclosures of revenues and expenses during the reporting period. The resulting accounting judgments and estimates will, by definition, seldom equal the related actual results.

Judgments, estimates and assumptions are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### 4.1 Judgments

The following are the critical judgements, apart from those involving estimation (Note 4.2), that management has made in the process of applying the Bank's accounting policies that have the most significant effect on the amounts recognized in the financial statements.

#### *(i) Significant increase in credit risk*

As explained in Note 3, ECLs are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. CIFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Bank takes into account qualitative and quantitative reasonable and supportable forward-looking information.

#### *(ii) Business model assessment*

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance is measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated.

The Bank monitors financial assets measured at amortized cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

#### *(iii) Establishing groups of assets with similar credit risk characteristics*

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Note 3.2 provides details of the characteristics considered in this judgement. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk

characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets.

Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

***(iv) Models and assumptions used***

The Bank uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

***(v) Leases***

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

***(vi) Functional currency***

CIAS 21 requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the Bank considers the following:

- i) The currency that mainly influences prices for financial instruments and services (this will often be the currency in which prices for its financial instruments and services are denominated and settled);
- ii) The currency in which funds from financing activities are generated; and
- iii) The currency in which receipts from operating activities are usually retained.

## **4.2 Estimation**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

The Bank based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

***(i) Taxes***

Taxes are calculated on the basis of the tax laws and regulations and its current interpretation. However, these regulations are subject to periodic variation and the ultimate determination of tax expense will be made following inspection by the General Department of Taxation ("GDT"). The Bank's tax returns are subject to periodic examination by the GDT. As the application of tax laws and regulations to many types of transactions are susceptible to varying interpretations, amounts reported in the financial statements could be changed at a later date upon final determination by the GDT.



Deferred tax assets are recognized for all unused tax losses and temporary differences to the extent that it is probable that future taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable income together with future tax planning strategies.

***(ii) Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward-looking information relevant to each scenario:***

When measuring ECL, the Bank uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Note 3.2 provides more details regarding the estimated forward-looking information.

***(iii) Probability of default***

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. Note 3.2 provides more details, including analysis of the sensitivity of the reported ECL to changes in PD resulting from changes in economic drivers.

***(iv) Loss given default (“LGD”)***

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. See note 3.2 for more details, including analysis of the sensitivity of the reported ECL to changes in LGD resulting from changes in economic drivers.

***(v) Estimating the incremental borrowing rate (“IBR”)***

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities. The IBR for lease liabilities are the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment. The Bank estimates the IBR for lease liabilities using observable inputs (by reference to prevailing risk-free rates) adjusted to take into account the Bank’s credit risk.

## 5. CASH ON HAND

	2022		2021	
	US\$	KHR'000 (Note 2.3)	US\$	KHR'000 (Note 2.3)
Cash on hand				
US\$	325,228	1,338,964	225,315	917,933
KHR	245,522	1,010,814	159,416	649,461
	<b>570,750</b>	<b>2,349,778</b>	<b>384,731</b>	<b>1,567,394</b>

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

	2022		2021	
	US\$	KHR'000 (Note 2.3)	US\$	KHR'000 (Note 2.3)
Cash on hand	570,750	2,349,778	384,731	1,567,394
Balances with the NBC (Note 6)	12,970,398	53,399,129	31,570,769	128,619,313
Balances with other banks (Note 7)	30,591,219	125,944,048	3,369,213	13,726,174
	44,132,367	181,692,955	35,324,713	143,912,881

## 6. BALANCES WITH THE NBC

	2022		2021	
	US\$	KHR'000 (Note 2.3)	US\$	KHR'000 (Note 2.3)
Current accounts				
US\$	5,012,796	20,637,681	19,774,014	80,559,333
KHR	7,957,602	32,761,448	11,796,755	48,059,980
	12,970,398	53,399,129	31,570,769	128,619,313

The current accounts do not earn any interest.

## 7. BALANCES WITH OTHER BANKS

	2022		2021	
	US\$	KHR'000 (Note 2.3)	US\$	KHR'000 (Note 2.3)
Current accounts	3,386,944	13,944,048	3,369,213	13,726,174
Time deposits with original maturity of:				
3 months or less	27,204,275	112,000,000	-	-
More than 3 months	19,431,625	80,000,000	2,586,939	10,539,189
Accrued interest receivable	455,538	1,875,451	47,061	191,727
	50,478,382	207,819,499	6,003,213	24,457,090

### Interest rate

Annual interest rates on balances with other banks are as follows:

	2022	2021
Current accounts	Nil	Nil
Time deposits	3.75% - 4.50%	1.50% - 4.00%

## 8. loans and advances to customers- NET

	2022		2021	
	US\$	KHR'000 (Note 2.3)	US\$	KHR'000 (Note 2.3)
Long-term loans	212,633,405	875,411,728	110,693,530	450,965,441
Staff loans	1,032,187	4,249,514	276,969	1,128,372
Short-term loans	744,070	3,063,336	-	-
Accrued interest receivable	389,868	1,605,087	140,150	570,971
Total principal and accrued interest receivable	214,799,530	884,329,665	111,110,649	452,664,784
Unamortised loan processing fee	(470,993)	(1,939,078)	-	-
Gross carrying amount	214,328,537	882,390,587	111,110,649	452,664,784
Allowance for ECL	(3,827,605)	(15,758,250)	(1,798,998)	(7,329,118)
<b>Net carrying amount</b>	<b>210,500,932</b>	<b>866,632,337</b>	<b>109,311,651</b>	<b>445,335,666</b>

Breakdown of allowance for ECL on loans and advances to customers is as follows:

	2022		2021	
	US\$	KHR'000 (Note 2.3)	US\$	KHR'000 (Note 2.3)
Stage 1	3,344,178	13,767,981	1,798,998	7,329,118
Stage 2	226,932	934,279	-	-
Stage 3	256,495	1,055,990	-	-
	<b>3,827,605</b>	<b>15,758,250</b>	<b>1,798,998</b>	<b>7,329,118</b>

Movements of allowance for ECL on loans and advances are as follows:

	2022		2021	
	US\$	KHR'000 (Note 2.3)	US\$	KHR'000 (Note 2.3)
As at 31 January	1,798,998	7,329,118	766,000	3,098,470
Provision for expected credit losses	2,028,607	8,290,917	1,032,998	4,202,236
Exchange differences on translation	-	138,215	-	28,412
As at 31 December	<b>3,827,605</b>	<b>15,758,250</b>	<b>1,798,998</b>	<b>7,329,118</b>

Further analyses of loans and advances to customers are as follows:

### (i) Staging of gross loan portfolio

	2022		2021	
	US\$	KHR'000 (Note 2.3)	US\$	KHR'000 (Note 2.3)
Stage 1	213,418,582	878,644,302	111,110,649	452,664,784
Stage 2	1,124,453	4,629,373	-	-
Stage 3	256,495	1,055,990	-	-
	<b>214,799,530</b>	<b>884,329,665</b>	<b>111,110,649</b>	<b>452,664,784</b>

**(ii) Movements of allowance for losses on loans and advances**

	2022			
	Stage 1 US\$	Stage 2 US\$	Stage 3 US\$	Total US\$
As at 1 January 2022	1,798,998	-	-	1,798,998
Newly originated assets	2,466,008	-	-	2,466,008
<i>Changes due to transfer between stages:</i>				
Newly originated assets that moved to stage 2 and stage 3	(483,427)	226,932	256,495	-
Net remeasurement of loss allowance	(387,708)	-	-	(387,708)
Financial assets derecognized during the period other than write off	(49,693)	-	-	(49,693)
<b>Allowance for ECL</b>	<b>3,344,178</b>	<b>226,932</b>	<b>256,495</b>	<b>3,827,605</b>
<b>KHR'000 (Note 2.3)</b>	<b>13,767,981</b>	<b>934,279</b>	<b>1,055,990</b>	<b>15,758,250</b>

	2021			
	Stage 1 US\$	Stage 2 US\$	Stage 3 US\$	Total US\$
As at 1 January 2021	766,000	-	-	766,000
Newly originated assets	1,179,714	-	-	1,179,714
<i>Changes due to transfer between stages:</i>				
Net remeasurement of loss allowance	(129,721)	-	-	(129,721)
Financial assets derecognized during the period other than write off	(16,995)	-	-	(16,995)
<b>Allowance for ECL</b>	<b>1,798,998</b>	<b>-</b>	<b>-</b>	<b>1,798,998</b>
<b>KHR'000 (Note 2.3)</b>	<b>7,329,118</b>	<b>-</b>	<b>-</b>	<b>7,329,118</b>

**(iii) Refer to Note 28.2 on Credit risk for analysis of loan quality.**

**(iv) Refer to Note 28.2 on Credit risk for analysis of loans by maturity, sector, currency, security, residency, relationship, and exposure**

**(v) By interest rate (per annum):**

	2022	2021
Interest rate	2.00% - 8.50%	2.00% - 7.50%

## 9. Other assets

	2022		2021	
	US\$	KHR'000 (Note 2.3)	US\$	KHR'000 (Note 2.3)
Advances and prepayments	100,143	412,289	44,986	183,273
Security deposits	51,547	212,219	-	-
Others	31,249	128,651	8,469	34,503
	<b>182,939</b>	<b>753,159</b>	<b>53,455</b>	<b>217,776</b>

## 10. INTANGIBLE ASSETS

	2022			
	Computer software US\$	Other intangible assets US\$	Software in progress US\$	Total US\$
<b>Cost</b>				
As at 1 January	817,600	231,200	4,994	1,053,794
Additions	-	76,310	1,844	78,154
Transfer	184,400	(184,400)	-	-
At 31 December	1,002,000	123,110	6,838	1,131,948
Less: accumulated amortization				
As at 1 January	145,838	-	774	146,612
Charge during the year	194,516	-	1,093	195,609
As at 31 December	340,354	-	1,867	342,221
Net book value				
<b>As at 31 December</b>	<b>661,646</b>	<b>123,110</b>	<b>4,971</b>	<b>789,727</b>
KHR'000 (Note 2.3)	2,723,997	506,844	20,466	3,251,306

	2021			
	Computer software US\$	Other intangible assets US\$	Software in progress US\$	Total US\$
<b>Cost</b>				
As at 1 January	461,000	276,600	-	737,600
Additions	80,000	231,200	4,994	316,194
Transfer	276,600	(276,600)	-	-
At 31 December	817,600	231,200	4,994	1,053,794
Less: accumulated amortization				
As at 1 January	30,784	-	-	30,784
Charge during the year	115,054	-	774	115,828
As at 31 December	145,838	-	774	146,612
Net book value				
<b>As at 31 December</b>	<b>671,762</b>	<b>231,200</b>	<b>4,220</b>	<b>907,182</b>
KHR'000 (Note 2.3)	2,736,758	941,909	17,192	3,695,859



## 11. PROPERTY AND EQUIPMENT

	2022					
	Leasehold improvements US\$	Equipment US\$	Computer equipment US\$	Furniture and fixture US\$	Motor vehicles US\$	Total US\$
<b>Cost</b>						
As at 1 January	838,140	44,278	691,736	-	140,810	1,714,964
Additions	706,748	341,886	193,137	41,873	244,000	1,527,644
As at 31 December	1,544,888	386,164	884,873	41,873	384,810	3,242,608
Less: accumulated depreciation						
As at 1 January	494,388	17,293	306,983	-	48,713	867,377
Charge during the year	268,847	37,872	209,422	4,944	45,249	566,334
As at 31 December	763,235	55,165	516,405	4,944	93,962	1,433,711
Net book value						
<b>As at 31 December</b>	<b>781,653</b>	<b>330,999</b>	<b>368,468</b>	<b>36,929</b>	<b>290,848</b>	<b>1,808,897</b>
In KHR'000 (Note 2.3)	3,218,065	1,362,723	1,516,983	152,037	1,197,421	7,447,229

	2021					
	Leasehold improvements US\$	Equipment US\$	Computer equipment US\$	Motor vehicles US\$	Total US\$	
<b>Cost</b>						
As at 1 January	838,140	44,278	522,656	140,810	1,545,884	
Additions	-	-	169,080	-	169,080	
As at 31 December	838,140	44,278	691,736	140,810	1,714,964	
Less: accumulated depreciation						
As at 1 January	215,245	6,239	105,061	20,461	347,006	
Charge during the year	279,143	11,054	201,922	28,252	520,371	
As at 31 December	494,388	17,293	306,983	48,713	867,377	
Net book value						
<b>As at 31 December</b>	<b>343,752</b>	<b>26,985</b>	<b>384,753</b>	<b>92,097</b>	<b>847,587</b>	
In KHR'000 (Note 2.3)	1,400,446	109,937	1,567,483	375,203	3,453,069	

## 12. LEASES

The Bank entered into several lease contracts for office premises used in its operations with lease terms ranging from 5 to 10 years. The Bank applies the 'short-term lease assets' recognition exemption for leases of vehicles.

Set out below are the carrying amounts of right-of-use assets and lease liabilities recognized and the movements during the year:

	Right-of-use assets			
	2022		2021	
	US\$	KHR'000 (Note 2.3)	US\$	KHR'000 (Note 2.3)
As at 1 January	112,238	457,258	246,923	998,804
Additions	2,446,158	10,070,832	-	-
Charge during the year	(263,205)	(1,075,719)	(134,685)	(547,899)
Exchange difference on translation	-	(3,070)	-	6,353
<b>As at 31 December</b>	<b>2,295,191</b>	<b>9,449,301</b>	<b>112,238</b>	<b>457,258</b>

	Lease liabilities			
	2022		2021	
	US\$	KHR'000 (Note 2.3)	US\$	KHR'000 (Note 2.3)
As at 1 January	97,277	396,306	220,321	891,198
Additions	2,422,845	9,974,853	-	-
Accretion of interest	24,264	99,167	6,031	24,534
Payments	(233,768)	(955,410)	(129,075)	(525,077)
Exchange difference on translation	-	(2,102)	-	5,651
<b>As at 31 December</b>	<b>2,310,618</b>	<b>9,512,814</b>	<b>97,277</b>	<b>396,306</b>
<i>Current and non-current portion</i>				
Current	279,287	1,149,824	97,277	396,306
Non-current	2,031,331	8,362,990	-	-
	<b>2,310,618</b>	<b>9,512,814</b>	<b>97,277</b>	<b>396,306</b>
Maturity analysis – contractual undiscounted cash flows				
Less than one year	330,894	1,362,291	110,250	449,159
One to five years	1,379,288	5,678,529	-	-
More than five years	808,111	3,326,993	-	-
<b>Total undiscounted lease liabilities</b>	<b>2,518,293</b>	<b>10,367,813</b>	<b>110,250</b>	<b>449,159</b>

The following amounts are recognized in profit or loss:

	2022		2021	
	US\$	KHR'000 (Note 2.3)	US\$	KHR'000 (Note 2.3)
Depreciation of right-of-use assets (Note 23)	263,205	1,075,719	134,685	547,899
Short-term lease assets (Note 24)	25,946	106,041	-	-
Accreted interest on lease liabilities (Note 21)	24,264	99,167	6,031	24,534
<b>Total lease expenses</b>	<b>313,415</b>	<b>1,280,927</b>	<b>140,716</b>	<b>572,433</b>

### 13. Statutory deposit

	2022		2021	
	US\$	KHR'000 (Note 2.3)	US\$	KHR'000 (Note 2.3)
Reserve requirement				
KHR	231,965	955,000	2,946	12,002
US\$	90,000	370,530	20,000	81,480
	<b>321,965</b>	<b>1,325,530</b>	<b>22,946</b>	<b>93,482</b>

#### *Reserve requirement*

Under NBC Prakas No. B7-020-230 dated 18 March 2020, commercial banks are required to maintain certain cash reserves with the NBC in the form of compulsory deposits, computed at 7.0% of customer deposits and borrowings in KHR and other currencies.

#### *Capital guarantee*

Under NBC Prakas No. B7-01-136 dated 15 October 2001, Banks are required to maintain a capital guarantee of 10% of registered capital with the NBC. However, the Bank obtained approval from the NBC on 29 January 2020 on the exemption from such obligation.

### 14. INCOME TAX

#### *(i) Income tax liability*

	2022		2021	
	US\$	KHR'000 (Note 2.3)	US\$	KHR'000 (Note 2.3)
As at 1 January	9,889	40,288	7,194	29,100
Income tax expense	310,121	1,267,465	22,535	91,672
Income tax paid	(66,941)	(273,588)	(19,840)	(80,709)
Exchange difference on translation	-	7,720	-	225
<b>As at 31 December</b>	<b>253,069</b>	<b>1,041,885</b>	<b>9,889</b>	<b>40,288</b>

#### *(ii) Income tax expense*

	2022		2021	
	US\$	KHR'000 (Note 2.3)	US\$	KHR'000 (Note 2.3)
Current income tax	310,121	1,267,465	22,535	91,672
Movement in deferred tax	(820,969)	(3,355,301)	-	-
<b>Income tax benefit (expense)</b>	<b>(510,848)</b>	<b>(2,087,836)</b>	<b>22,535</b>	<b>91,672</b>

In accordance with the Cambodian Law on Taxation, the Bank has an obligation to pay corporate income tax of either the profit tax at the rate of 20% of taxable profit or the minimum tax at 1% of annual turnover, whichever is higher.

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

	2022		2021	
	US\$	KHR'000 (Note 2.3)	US\$	KHR'000 (Note 2.3)
Loss before tax	(100,415)	(410,397)	(1,667,817)	(6,784,680)
Income tax at statutory rate of 20%	(20,083)	(82,079)	(333,563)	(1,356,936)
Non-deductible expenses	3,944	16,119	7,303	29,711
Effect of previously unrecognized deferred tax asset	(431,669)	(1,764,231)	-	-
Utilization of tax loss	(63,040)	(257,645)	-	-
Unrecognized deferred tax	-	-	326,260	1,327,225
Minimum tax	-	-	22,535	91,672
<b>Income tax benefit (expense)</b>	<b>(510,848)</b>	<b>(2,087,836)</b>	<b>22,535</b>	<b>91,672</b>

**(iii) Tax loss carried forward**

In accordance with the Prakas No. 098 on Tax on Income for the tax losses to be carried forward for a period of five consecutive years and utilized against taxable profit in subsequent years, the following conditions should be met:

- Tax loss has been calculated based on the tax rules and reported in the annual tax return to the GDT;
- The business activity of the Company must not have changed; and
- No tax unilateral reassessment on the tax losses has been made by the GDT.

Tax loss is subject to assessment by GDT and may not be utilized due to the criteria mentioned above.

The details of the tax loss and its utilization for the year are as follows:

Originating year	Can be utilized up to	Tax loss amount	Utilized	Forfeited	Unutilized as at 31 December 2022
		US\$	US\$	US\$	US\$
2020	2025	315,201	-	-	315,201
2021	2026	-	(1,508)	-	(1,508)
2022	2027	-	(313,693)	-	(313,693)
		315,201	(315,201)	-	-
<b>KHR'000 (Note 2.3)</b>		<b>1,297,683</b>	<b>(1,297,683)</b>	<b>-</b>	<b>-</b>

**(iv) Deferred tax assets**

Temporary differences recognized during the year giving rise to deferred tax assets are as follows:

	2022		2021	
	US\$	KHR'000 (Note 2.3)	US\$	KHR'000 (Note 2.3)
<i>Deferred tax assets (liabilities)</i>				
Lease liabilities under CIFRS 16	462,124	1,902,565	19,455	79,261
ROU under CIFRS 16	(459,038)	(1,889,859)	(22,448)	(91,452)
ECLs under CIFRS 9	738,859	3,041,883	359,800	1,465,824
Unrealized exchange (loss)/gain	(15,328)	(63,105)	37,117	151,213
Tax loss carried forward	-	-	63,040	256,826
Property and equipment	88,144	362,889	37,745	153,772
Provision for seniority indemnity	6,208	25,556	-	-
<b>Deferred tax assets - net</b>	<b>820,969</b>	<b>3,379,929</b>	<b>494,709</b>	<b>2,015,444</b>

## 15. DEPOSITS FROM OTHER FINANCIAL INSTITUTIONS

	2022		2021	
	US\$	KHR'000 (Note 2.3)	US\$	KHR'000 (Note 2.3)
Demand deposits	49,461	203,631	15,839	64,528

## 16. DEPOSITS FROM CUSTOMERS

	2022		2021	
	US\$	KHR'000 (Note 2.3)	US\$	KHR'000 (Note 2.3)
Time deposits	2,914,744	12,000,001	9,692	39,485
Demand deposits	977,481	4,024,289	488,405	1,989,762
Savings deposits	757,174	3,117,285	6,591	26,852
Interest payable	11,125	45,802	292	1,190
	<b>4,660,524</b>	<b>19,187,377</b>	<b>504,980</b>	<b>2,057,289</b>

Further analyses of deposits from customers are as follows:

### (i) Interest rates

Savings deposits and term deposits from other banks bear interest as follows:

	2022	2021
Demand deposits	Nil	Nil
Savings deposits	0.80%	0.80%
Term deposits	3.80%	3.70% - 4.00%

### (ii) Maturity analysis

Refer to Note 28.4 on Liquidity risk.

### (iii) Type of customers

	2022		2021	
	US\$	KHR'000 (Note 2.3)	US\$	KHR'000 (Note 2.3)
Domestic corporations	430,065	1,770,578	430,065	1,752,085
Individuals	4,230,459	17,416,799	74,915	305,204
	<b>4,660,524</b>	<b>19,187,377</b>	<b>504,980</b>	<b>2,057,289</b>



## 17. BORROWING

On 27 April 2022, the Bank has requested for an additional fund amounting to KHR'000 304,725,000 or US\$ 74,016,274 from MEF in order to support on Tourism Recovery Co-Financing Scheme (TRSC) which is part of its implementing strategies to restore and promote Cambodia's economic growth in living with Covid 19 in a new and financial normalization trajectory.

The amount was fully disbursed through 3 installments in June, July and August 2022 and was approved by MEF as borrowing. Up to date of this report, borrowing agreement has not yet signed by both parties as terms and conditions are being discussed and finalized with MEF.

## 18. Other liabilities

	2022		2021	
	US\$	KHR'000 (Note 2.3)	US\$	KHR'000 (Note 2.3)
Account payables	621,918	2,560,436	292,074	1,189,909
Accrued bonus	139,378	573,819	-	-
Accrued expenses	77,025	317,112	52,804	215,123
Accrued severance pays	31,039	127,788	15,836	64,516
Withholding tax payable	15,331	63,118	8,793	35,823
	884,691	3,642,273	369,507	1,505,371

## 19. SHARE CAPITAL

	2022		2021	
	US\$	KHR'000 (Note 2.3)	US\$	KHR'000 (Note 2.3)
Registered, issued and fully paid ordinary shares of US\$250 each	200,000,000	800,000,000	150,000,000	600,000,000

On 21 April 2022, the Bank obtained approval from the NBC for the increase of share capital of US\$ 50,000,000. The amendment of the Bank's memorandum and articles of association was endorsed by the Ministry of Commerce on 9 August 2022.

## 20. CONTRIBUTIONS FROM MINISTRY OF ECONOMY AND FINANCE

Contributions from MEF represents the Bank's start-up costs and capitalized expenditures shouldered by MEF amounted to US\$529,942 (KHR'000 2,119,768) and US\$778,140 (KHR'000 3,112,560), respectively.

MEF issued Deika No. 1686 dated 20 September 2021 requested the Bank to refund US\$ 61,200 regarding rental deposits returned by lessor upon maturity. The Bank has returned the deposits to MEF on 16 November 2022.

## 21. NET INTEREST INCOME

	2022		2021	
	US\$	KHR'000 (Note 2.3)	US\$	KHR'000 (Note 2.3)
<b>Interest income</b>				
Loans and advances to customers	5,289,639	21,618,755	1,311,872	5,336,695
Balances with the NBC and other banks	1,098,220	4,488,425	870,646	3,541,788
	6,387,859	26,107,180	2,182,518	8,878,483
<b>Interest expense</b>				
Customer deposits	12,081	49,375	350	1,424
Lease liabilities (Note 12)	24,264	99,167	6,031	24,534
	36,345	148,542	6,381	25,958
<b>Net interest income</b>	<b>6,351,514</b>	<b>25,958,638</b>	<b>2,176,137</b>	<b>8,852,525</b>

## 22. PERSONNEL EXPENSES

	2022		2021	
	US\$	KHR'000 (Note 2.3)	US\$	KHR'000 (Note 2.3)
Salaries and bonuses	1,920,024	7,847,138	1,241,941	5,052,216
Other staff related costs	44,618	182,354	24,704	100,496
	<b>1,964,642</b>	<b>8,029,492</b>	<b>1,266,645</b>	<b>5,152,712</b>

## 23. DEPRECIATION AND AMORTIZATION

	2022		2021	
	US\$	KHR'000 (Note 2.3)	US\$	KHR'000 (Note 2.3)
Property and equipment (Note 11)	566,334	2,314,607	520,371	2,116,869
Right-of-use assets (Note 12)	263,205	1,075,719	134,685	547,899
Intangible assets (Note 10)	195,609	799,454	115,828	471,188
	<b>1,025,148</b>	<b>4,189,780</b>	<b>770,884</b>	<b>3,135,956</b>

## 24. GENERAL AND ADMINISTRATIVE EXPENSES

	2022		2021	
	US\$	KHR'000 (Note 2.3)	US\$	KHR'000 (Note 2.3)
Repairs and IT maintenance	296,766	1,212,883	206,551	840,249
License and membership fee	71,207	291,023	44,701	181,844
Security	63,288	258,658	15,092	61,394
Office supplies	62,725	256,357	60,657	246,753
Business meal and entertainment	59,496	243,160	15,032	61,150
Other low value assets	54,328	222,039	-	-
Advertising	51,925	212,217	39,158	159,295
Transportation	51,276	209,565	9,072	36,905
Utilities	43,206	176,583	24,935	101,436
Other taxes	36,280	148,276	30,967	125,974
Insurance	35,282	144,198	12,613	51,310
Professional services	33,041	135,039	140,478	571,465
Communication	27,135	110,901	20,822	84,704
Short-term lease assets	25,946	106,041	-	-
Others	17,898	73,149	7,138	29,036
	<b>929,799</b>	<b>3,800,089</b>	<b>627,216</b>	<b>2,551,515</b>

## 25. RELATED PARTY BALANCES AND TRANSACTIONS

### 25.1 Outstanding balance with related party

	2022		2021	
	US\$	KHR'000 (Note 2.3)	US\$	KHR'000 (Note 2.3)
<i>MEF</i>				
Borrowing (Note 17)	74,016,274	304,725,000	-	-
<i>Key management's personnel</i>				
Loan (principal and accrued interest receivable)	642,594	2,645,559	-	-

### 25.2 Transactions with related parties

Significant transactions with related parties during the year are as follows:

	2022		2021	
	US\$	KHR'000 (Note 2.3)	US\$	KHR'000 (Note 2.3)
<i>MEF</i>				
Proceeds from borrowing	74,016,274	304,725,000	-	-
Proceed from additional capital	50,000,000	200,000,000	50,000,000	200,000,000
Return of contributions	(61,200)	(244,800)	-	-
<i>Key management compensation</i>				
Salaries and benefits	466,024	1,904,640	492,047	2,001,647
Interest income from loans	14,348	58,640	-	-

## 26. COMMITMENT AND CONTINGENCY

### 26.1 Credit commitment

	2022		2021	
	US\$	KHR'000 (Note 2.3)	US\$	KHR'000 (Note 2.3)
Undisbursed portion of loans and advances	3,778,540	15,556,249	-	-

### 26.2 Tax contingency

The taxation system in Cambodia has undergone numerous changes and is characterized by either often unclear, contradictory and/or differing interpretations existing among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges. These facts may create tax risks in Cambodia substantially more significant than in other countries.

Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects since the incorporation of the Bank and its subsidiaries could be significant.

## 27. MATURITY PROFILE OF ASSETS AND LIABILITIES

The following table shows an analysis of assets and liabilities as to whether they are expected to be recovered or settled within one year or beyond one year from the end of reporting period:

	2022			2021		
	Within one year US\$	Beyond one year US\$	Total US\$	Within one year US\$	Beyond one year US\$	Total US\$
<b>Financial assets</b>						
Cash on hand	570,750	-	570,750	384,731	-	384,731
Balances with the NBC	12,970,398	-	12,970,398	31,570,769	-	31,570,769
Balances with other banks	50,478,382	-	50,478,382	6,003,213	-	6,003,213
Loans and advances to customers	4,759,700	210,039,830	214,799,530	126,410	110,984,239	111,110,649
Other assets	-	51,547	51,547	2,163	-	2,163
	68,779,230	210,091,377	278,870,607	38,087,286	110,984,239	149,071,525
<b>Non-financial assets</b>						
Other assets	131,392	-	131,392	51,292	-	51,292
Statutory deposit	-	321,965	321,965	-	22,946	22,946
Property and equipment	-	1,808,897	1,808,897	-	847,587	847,587
Right-of-use assets	-	2,295,191	2,295,191	-	112,238	112,238
Intangible assets	-	789,727	789,727	-	907,182	907,182
Deferred tax assets	820,969	-	820,969	-	-	-
	952,361	5,215,780	6,168,141	51,292	1,889,953	1,941,245
<b>Total financial and non-financial assets</b>			285,038,748			151,012,770
Unamortised loan processing fee			(470,993)			-
Allowance for ECL			(3,827,605)			(1,798,998)
<b>Total assets</b>			<b>280,740,150</b>			<b>149,213,772</b>
<b>In KHR'000 (Note 2.3)</b>			<b>1,155,807,197</b>			<b>607,896,907</b>

	2022			2021		
	Within one year US\$	Beyond one year US\$	Total US\$	Within one year US\$	Beyond one year US\$	Total US\$
<b>Financial liabilities</b>						
Deposits from other financial institutions	49,461	-	49,461	15,839	-	15,839
Deposits from customers	1,745,780	2,914,744	4,660,524	504,980	-	504,980
Borrowing	-	74,016,274	74,016,274	-	-	-
Lease liabilities	279,287	2,031,331	2,310,618	97,277	-	97,277
Other liabilities	869,360	-	869,360	369,507	-	369,507
	2,943,888	78,962,349	81,906,237	987,603	-	987,603
<b>Non-financial liabilities</b>						
Other liabilities	15,331	-	15,331	-	-	-
Income tax liability	253,069	-	253,069	9,889	-	9,889
	268,400	-	268,400	9,889	-	9,889
<b>Total liabilities</b>	<b>3,212,288</b>	<b>78,962,349</b>	<b>82,174,637</b>	<b>997,492</b>	<b>-</b>	<b>997,492</b>
<b>In KHR'000 (Note 2.3)</b>			<b>338,312,981</b>			<b>4,063,782</b>

## 28. FINANCIAL RISK MANAGEMENT

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

- Operational risk;
- Credit risk;
- Market risk; and
- Liquidity risk

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

### *Risk management functional and governance structure*

The Bank's activities expose it to a variety of financial risks: credit risk, market risk (including currency risk, interest rate risk and price risk) and liquidity risk. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business.

The Bank does not use derivative financial instruments such as foreign exchange contract and interest rate swaps to manage its risk exposure.

A primary objective of the Bank in risk management is to comply with NBC's regulations. On the other hand, the Bank has recognized the importance of achieving international best practices on risk management. The Board of Directors has established a Credit Committee to formulate broad parameters of acceptable risk for the Bank and monitor the activities against these parameters.

### 28.1 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.



The operational risk loss 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. These are continually reviewed to address the operational risks of the business unit as well as to assess the level of compliance with the Bank policies by a program of periodic reviews undertaken by the internal audit function. The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

## **28.2 Credit risk**

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business. Credit exposure arises principally in lending activities that lead to loans and advances. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. 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 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 the NBC's guidelines.

### ***(a) Credit risk measurement***

The Bank assesses the probability of default of individual counterparties using internal rating tool. Local credit committee is responsible for determining the risk rating policies.

Risk ratings are reviewed and updated regularly, and in events of (i) change of loan terms and conditions including extension; (ii) repayment irregularities or delinquencies and (iii) adverse information relating to the borrower or transaction.

### ***(b) Risk limit control and mitigation policies***

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

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

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

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

**(c) Management of credit risk**

- Developing and maintaining the Bank's processes for measuring ECL: This includes processes for:
  - initial approval, regular validation and back-testing of the models used;
  - determining and monitoring significant increase in credit risk; and
  - incorporation of forward-looking information.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to the Bank and may require appropriate corrective action to be taken. These include reports containing estimates of ECL allowances.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

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

Details of maximum exposure to credit risk before collateral held or other credit enhancements are as follows:

	2022		2021	
	US\$	KHR'000 (Note 2.3)	US\$	KHR'000 (Note 2.3)
<b>On-balance sheet financial assets</b>				
Balances with the NBC	12,970,398	53,399,129	31,570,769	128,619,313
Balances with other banks	50,478,382	207,819,499	6,003,213	24,457,090
Loans and advances to customers, gross	214,799,530	884,329,665	111,110,649	452,664,784
Other assets	51,547	212,219	2,163	8,812
	278,299,857	1,145,760,512	148,686,794	605,749,999
<b>Off-balance sheet item</b>				
Credit commitments	3,778,540	15,556,249	-	-
<b>Total credit exposure</b>	<b>282,078,397</b>	<b>1,161,316,761</b>	<b>148,686,794</b>	<b>605,749,999</b>

**(e) Concentration of risk**

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

The Bank monitors concentration of credit risk of counterparty by industry. An analysis of concentration of the credit risk as at the reporting date for loans and advances to customer is shown below:

	2022		2021	
	US\$	KHR'000 (Note 2.3)	US\$	KHR'000 (Note 2.3)
<i>By maturity:</i>				
Within 1 month	-	-	-	-
1 to 3 months	143,516	590,855	-	-
3 to 12 months	4,616,184	19,004,830	126,410	514,994
1 to 3 years	5,090,199	20,956,349	3,065,446	12,488,627
3 to 5 years	48,717,971	200,571,887	22,822,129	92,977,354
Over 5 years	156,231,660	643,205,744	85,096,664	346,683,809
	<b>214,799,530</b>	<b>884,329,665</b>	<b>111,110,649</b>	<b>452,664,784</b>
<i>By security:</i>				
Secured	53,756,396	221,315,082	196,529	800,659
Unsecured	161,043,134	663,014,583	110,914,120	451,864,125
	<b>214,799,530</b>	<b>884,329,665</b>	<b>111,110,649</b>	<b>452,664,784</b>
<i>By economic sector:</i>				
Financial institutions	160,204,714	659,562,808	106,172,280	432,545,869
Manufacturing	21,941,745	90,334,164	1,145,560	4,667,011
Utilities	9,241,524	38,047,354	875,331	3,566,098
Other Non-Financial Services	7,468,258	30,746,818	837,188	3,410,704
Wholesale trade	7,192,312	29,610,749	901,694	3,673,501
Hotel and tourism	3,391,997	13,964,852	230,223	937,929
Retail trade	3,272,781	13,474,039	151,031	615,300
Personal loans	1,032,682	4,251,552	277,101	1,128,910
Information media and telecommunication	680,157	2,800,206	495,241	2,017,612
Other lending	373,360	1,537,123	-	-
Construction	-	-	25,000	101,850
	<b>214,799,530</b>	<b>884,329,665</b>	<b>111,110,649</b>	<b>452,664,784</b>
<i>By currency:</i>				
US\$	190,913,451	785,990,678	99,696,653	406,164,164
KHR	23,886,079	98,338,987	11,413,996	46,500,620
	<b>214,799,530</b>	<b>884,329,665</b>	<b>111,110,649</b>	<b>452,664,784</b>

	2022		2021	
	US\$	KHR'000 (Note 2.3)	US\$	KHR'000 (Note 2.3)
<i>By residency:</i>				
Residents	214,799,530	884,329,665	111,110,649	452,664,784
<i>By relationship:</i>				
External customers	213,766,848	880,078,113	110,833,548	451,535,875
Staffs	1,032,682	4,251,552	277,101	1,128,909
	<b>214,799,530</b>	<b>884,329,665</b>	<b>111,110,649</b>	<b>452,664,784</b>
<i>By exposure:</i>				
Large exposures	64,728,573	266,487,535	43,798,875	178,436,617
Non-large exposures	150,070,957	617,842,130	67,311,774	274,228,167
<b>Total</b>	<b>214,799,530</b>	<b>884,329,665</b>	<b>111,110,649</b>	<b>452,664,784</b>
Interest rates (per annum)		2.00% - 8.50%		2.00% - 7.50%

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

	2022				2021			
	Stage 1 US\$	Stage 2 US\$	Stage 3 US\$	Total US\$	Stage 1 US\$	Stage 2 US\$	Stage 3 US\$	Total US\$
Balances with the NBC								
- gross	12,970,398	-	-	12,970,398	31,570,769	-	-	31,570,769
Balances with other banks - gross	50,478,382	-	-	50,478,382	6,003,213	-	-	6,003,213
Loans and advances to customers - gross								
carrying amount	213,418,582	1,124,453	256,495	214,799,530	111,110,649	-	-	111,110,649
Other assets	51,547	-	-	51,547	2,163	-	-	2,163
	276,918,909	1,124,453	256,495	278,299,857	148,686,794	-	-	148,686,794
Allowance for ECLs	(3,344,178)	(226,932)	(256,495)	(3,827,605)	(1,798,998)	-	-	(1,798,998)
<b>Total</b>	<b>273,574,731</b>	<b>897,521</b>	<b>-</b>	<b>274,472,252</b>	<b>146,887,796</b>	<b>-</b>	<b>-</b>	<b>146,887,796</b>
<b>In KHR'000 (Note 2.3)</b>	<b>1,126,307,168</b>	<b>3,695,093</b>	<b>-</b>	<b>1,130,002,261</b>	<b>598,420,881</b>	<b>-</b>	<b>-</b>	<b>598,420,881</b>

The Bank applies a three-stage approach based on the change in credit quality since initial recognition:

Allowance for impairment will be made based on the following three-stage approach which reflects the change in credit quality of the financial instrument since initial recognition:

**(i) Stage 1: 12-month ECL – not credit-impaired**

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired upon origination, the ECL associated with the probability of default events occurring within next 12 months will be recognized.

**(ii) Stage 2: Lifetime ECL – not credit-impaired**

For exposures where there has been a significant increase in credit risk since initial recognition but that are not credit-impaired, a lifetime ECL will be recognized.

**(iii) Stage 3: Lifetime ECL – credit-impaired**

Financial assets are assessed as credit-impaired when one or more events that have detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that are credit-impaired, a lifetime ECL will be recognized.

**(iv) Incorporation of forward-looking information**

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, supranational organizations such as the International Monetary Fund, and selected private-sector and academic forecasters.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments in accordance with each country and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

**(f) Repossessed collateral**

During the year, the Bank did not repossess any collateral held as security.

**28.3 Market risk**

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

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

**(i) Foreign exchange risk**

Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities denominated in a currency that is not the Bank's functional currency. 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, pre-determined position limits and cut-loss limits.

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

**(ii) Price risk**

The Bank is not exposed to price risk of securities because it does not hold any investments classified on the statement of financial position as marketable securities.

**(iii) Interest rate risk**

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest margins may increase as a result of changes and may reduce losses in the event that unexpected movements arise. The management of the Bank at this stage does not have a policy to set limits on the level of mismatch of interest rate re-pricing that may be undertaken; however, management regularly monitors the mismatch.

The Bank has no significant financial assets and liabilities with floating interest rates. Balances with the NBC, balances with other banks, and loans and advances earn fixed interest rates and deposits from other banks and customers have fixed interest rates.

**28.4 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 and customers' deposits 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 assets and liabilities of the Bank into relevant maturity groupings, including instalments due.



## Analysis for financial assets and financial liabilities by contractual maturity

	2022							
	On demand US\$	Up to 1 month US\$	> 1 - 3 months US\$	> 3 - 12 months US\$	> 1 - 3 years US\$	> 3 - 5 years US\$	Over 5 years US\$	Total US\$
<b>Financial assets</b>								
Cash on hand	570,750	-	-	-	-	-	-	570,750
Balances with the NBC	12,970,398	-	-	-	-	-	-	12,970,398
Balances with other banks	50,478,382	-	-	-	-	-	-	50,478,382
Loans and advances to customers	-	-	143,516	4,616,184	5,090,199	48,717,971	156,231,660	214,799,530
Other assets	-	-	-	-	-	42,844	8,703	51,547
	64,019,530	-	143,516	4,616,184	5,090,199	48,760,815	156,240,363	278,870,607
<b>Financial liabilities</b>								
Deposits from customers	1,745,780	-	-	-	2,914,744	-	-	4,660,524
Deposits from other banks	49,461	-	-	-	-	-	-	49,461
	-	-	-	-	11,803,229	24,222,950	37,990,095	74,016,274
Lease liabilities	-	22,550	44,863	211,874	675,705	583,666	771,960	2,310,618
Other liabilities	869,360	-	-	-	-	-	-	869,360
	2,664,601	22,550	44,863	211,874	15,393,678	24,806,616	38,762,055	81,906,237
<b>Maturity gap</b>	<b>61,354,929</b>	<b>(22,550)</b>	<b>98,653</b>	<b>4,404,310</b>	<b>(10,303,479)</b>	<b>23,954,199</b>	<b>117,478,308</b>	<b>196,964,370</b>
<b>In KHR'000 (Note 2.3)</b>	<b>252,598,243</b>	<b>(92,838)</b>	<b>406,154</b>	<b>18,132,544</b>	<b>(42,419,423)</b>	<b>98,619,437</b>	<b>483,658,194</b>	<b>810,902,311</b>

	2021							
	On demand US\$	Up to 1 month US\$	> 1 – 3 months US\$	> 3 – 12 months US\$	> 1 – 3 years US\$	> 3 – 5 years US\$	Over 5 years US\$	Total US\$
<b>Financial assets</b>								
Cash on hand	384,731	-	-	-	-	-	-	384,731
Balances with the NBC	31,570,769	-	-	-	-	-	-	31,570,769
Balances with other banks	6,003,213	-	-	-	-	-	-	6,003,213
Loans and advances to customers	-	-	-	126,410	3,065,446	22,822,129	85,096,664	111,110,649
Other assets	2,163	-	-	-	-	-	-	2,163
	37,960,876	-	-	126,410	3,065,446	22,822,129	85,096,664	149,071,525
<b>Financial liabilities</b>								
Deposits from customers	494,995	-	-	9,985	-	-	-	504,980
Deposits from other banks	15,839	-	-	-	-	-	-	15,839
Lease liabilities	-	-	21,520	75,757	-	-	-	97,277
Other liabilities	369,507	-	-	-	-	-	-	369,507
	880,341	-	21,520	85,742	-	-	-	987,603
<b>Maturity gap</b>	<b>37,080,535</b>	<b>-</b>	<b>(21,520)</b>	<b>40,668</b>	<b>3,065,446</b>	<b>22,822,129</b>	<b>85,096,664</b>	<b>148,083,922</b>
<b>In KHR'000 (Note 2.3)</b>	<b>151,066,100</b>	<b>-</b>	<b>(87,672)</b>	<b>165,680</b>	<b>12,488,627</b>	<b>92,977,354</b>	<b>346,683,809</b>	<b>603,293,898</b>

## 28.5 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. The fair value of the Bank's financial assets and liabilities such as cash on hand, balances with the NBC, balances with other banks, other assets, deposits from other financial institutions, deposits from customers, and other liabilities are not materially sensitive to shifts in market profit rate because of the limited term to maturity of these instruments. In making this assessment, the management also assumes that loans and advances are mainly held to maturity with fair values equal to the book value of loans adjusted for allowance for loan losses, if any.

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 (Level 3).

## 29. EVENTS AFTER END OF THE REPORTING PERIOD

Other than as disclosed elsewhere in these financial statements, at the date of this report, there were no events which occurred subsequent to 31 December 2022 that had significant impact on the financial position of the Bank as at 31 December 2022.







**ធនាគារសហគ្រាសមុនតូច និងមធ្យម កម្ពុជា ថ.ក**  
SMALL AND MEDIUM ENTERPRISE BANK OF CAMBODIA PLC.