



ANNUAL **REPORT**

2018

BANK OF CHOICE



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ABOUT PRINCE BANK

Prince Bank Plc. started its business operations in 2015 as a private microfinance institution under the former name “Prince Finance Plc.” and was transformed into a commercial bank with license No. B 46 granted by the National Bank of Cambodia on 18 July 2018. The head office is located at #175CD, Mao Tse Toung Blvd., Phum 5, Sangkat Tuol Svay Prey Ti Muoy, Khan Chamkar Mon, Phnom Penh.

The bank is incorporated as a public limited company under business registration No. 00014627 at the Ministry of Commerce. With a strong capital base, robust technological capabilities, solid expertise and extensive knowledge of the local market, the bank aspires to become the industry leader by offering differentiated financial solutions through a mix of channels with great convenience to our customers. We are keen on contributing to the development of small and medium enterprises that constitute a key segment of our target customers.

As of the reporting date, Prince Bank Plc. has nine branches: Phnom Penh (Head Office), Battambang, Chaom Chao, Kampong Cham, Siem Reap, Toul Sangke, Chhroy Changva, Krong Takhmao and Preah Sihanouk. The plan is to open more physical branches throughout the year, expanding our business operations across Cambodia in order to be more accessible to customers and to fulfill their financial needs.

The Bank offers products such as current and savings accounts, term deposits, home loans, personal loans, business loans, and overdraft facilities.

Prince Bank Plc. is firmly committed to corporate social responsibility activities in the areas of education, environment, and culture.

MESSAGE FROM THE CHAIRMAN

On behalf of the Board of Directors, I am honoured and humbled to share with you the journey we have embarked upon to transform ourselves from a microfinance institution into a full-fledged commercial bank. We are aware that this ambitious growth and expansion plan requires us to be committed and act responsibly as we aspire to become Cambodia's financial institution of choice by leading in digital innovations and offering a variety of services and products with professionalism.

The successes of the past three years would not have been possible without the favorable business environment advanced by the leadership of the Royal Government of Cambodia, the guidance and support of the National Bank of Cambodia (NBC), the encouragement from customers and business partners, and of course, the commitment of Prince Bank's shareholders and staff.

2018 was a transformative year—we increased our capital base from USD15 million to USD100 million to become a commercial bank. As anticipated, we registered a net loss of USD 3.3 million due to huge increases in costs associated with expansion initiatives. As a result of expansion, we managed to grow our total assets to \$170.7 million, which was an increase of more than 500%.

This year, we continue to strengthen our business operations and grow our business further by rolling out more branches and introducing new channels and products. We keep ensuring that the bank is moving in the right direction and continues to deliver well-balanced, sustainable and inclusive growth in 2019 and beyond.

Finally, on behalf of the Board, I would like to sincerely thank my Board colleagues, our CEO, executive committee members, and all the staff of the bank for their hard work, commitment and passion to help us get to where we are today. I am also grateful to our customers and business partners for their continued support and trust in our bank. Last, but not least, I would like to express my deepest gratitude to the National Bank of Cambodia and cooperative authorities for their invaluable assistance and guidance.



Mr. Guy Chhay

Chairman

31 December 2018





MESSAGE FROM THE CEO

Cambodia's economic growth remained strong in 2018 at the rate of 7.5%. The momentum was driven by exports and domestic demand that was supported by higher wages and greater public expenditures. The banking industry kept growing at a double-digit rate with loans going up by 20% and deposits by 14%. Thanks to the favorable business environment, Prince Bank Plc. delivered a strong result while expanding the business operations at a very fast pace.

2018 was a remarkable year for us when we converted our business from a microfinance institution into a full-fledged commercial banking operation. The branch network was expanded from five branches at the beginning of the year to nine branches operational at the end of the year. We launched our call center and invested in technology infrastructure in preparation for greater growth ahead. Our full-time employees increased from 168 in 2017 to 661 in 2018. As shown in the audited financial statements, our total loan portfolio grew exponentially from USD 18.83 million in 2017 to USD 113.40 million at the end of 2018, and the total assets increased from USD 26.93 million to USD 170.70 million during the same period.

Looking into the future, the outlook is very positive, and we have more to deliver in 2019 and beyond, building on what has been done and achieved in the past. In the next five years, Prince Bank Plc. aspires to be the best digital bank with the best customer and employee experience. In this regard, we are making efforts to offer even greater channel experience and better solutions for our customers.

To conclude, I would like to take this opportunity to express my deepest gratitude to the National Bank of Cambodia and government authorities for their on-going guidance and assistance. I would like to also thank our customers and business partners for their continued support. Finally, I am grateful to all my colleagues at Prince Bank Plc. for all the hard work, collaboration, and commitment.

A handwritten signature in blue ink, appearing to read 'H. Sorachna', written over a light blue background.

Mr. Honn Sorachna

Chief Executive Officer
31 December 2018



VISION, MISSION AND CORE VALUES

VISION: To be the financial institution of choice for our target customers.

MISSION : To help our customers succeed through professional financial services.

CORE VALUES

P ROFESSIONALISM

We value professional attire, and we always speak respectfully with one another inside and outside our offices. Furthermore, we stress the importance of fulfilling our duties and responsibilities to the best of our abilities.

R ESPONSIBILITY

We value commitment and are conscious to bear the weight of responsibility of our every action. We ensure our actions produce positive results so as to prevent any negative consequences that may impact our organization.

I NTEGRITY

We value actions conducted in accordance with the codes of morality and ethics of our company. Fraud or deception in any form is absolutely prohibited.

N OBLE

We value good moral character and a strong sense of duty to the welfare of our company and our customers. In addition, we value initiative to share knowledge for the progress of our teams and to strengthen our position within the finance industry.

C OMMITMENT

We value solution-oriented thinking in order to effectively and efficiently fulfill our duties. There is no room within our organization for excuses or false promises.

E STEEM

We value self-confidence and sound decision-making to solve problems internally and externally. We also put great emphasis on a proactive attitude to provide correct, efficient and effective responses to issues within our organization or with our customers. We value humility and equality for the benefit of the organization at large.

DIRECTOR PROFILES

Oknha CHEN ZHI

Shareholder and Director



Oknha CHEN ZHI is a shareholder and director of Prince Bank Plc. He participates in making core decisions for the bank. These include strategies on how to increase capital, and ways to expand business operations.

In addition to his investment in the banking industry, Oknha CHEN ZHI has other business interests that encompass various sectors. He has investments in the real estate sector such as architectural decoration services, hotel properties, property development, and property management.

In terms of media-related businesses, he invests in marketing agencies and internet service providers.

Oknha CHEN ZHI also has interests in businesses that provide services in yacht management, retail chain, gardening and equity investments.

MR. GUY CHHAY

Chairman of The Board of Directors



After years in the private sector, Mr. GUY CHHAY decided to set up his own business with the collaboration of his business partners in early 2010. His focus at that time was on real estate development. With strong support from his investment partners, he was able to expand his investments across various sectors, particularly in the finance sector. He established Prince Finance Plc. with his goal in mind to focus on utilizing this as a starting point for the current commercial bank that we know today.

He is a businessman with great vision, understands the economic potential of any business endeavor and seizes every opportunity that arises. In addition, he has a clear understanding of the domestic business environment and the strengths of the trade sectors in the Kingdom of Cambodia.

Mr. GUY CHHAY has other businesses in marketing and printing service, internet service provision, distribution of fast moving consumer goods, and real estate investment.



MR. HONN SORACHNA

Non-Independent Executive Director

Mr. HONN SORACHNA is the Chief Executive Officer, one of the founding members; and Managing Director of Prince Bank Plc. Mr. HONN SORACHNA has more than ten years of experiences in insurance, education and banking. He has great vision for Prince Bank Plc. and is focused on strategy and management to lead the Bank to a bright future. He holds an International M.A. in Management from the Audencia-School of Business in Nantes, France.



MR. THEN SAMVISOTH

Independent Non-Executive Director

Mr. THEN SAMVISOTH is an Independent Non-Executive Director. He was a lecturer of Accounting and Taxation for various universities here in Cambodia as well as in France.

Not only is he an educator, but he is also the successful Director-Owner of AT&B Consulting Co. Ltd. His company offers tax advisory/services, accounting services, and training. Before that, he was the Financial Director of Meas Development Holding Co. Ltd., a company that manages various food related establishments.

He holds a B.A. in Business Administration from the Royal University of Law and Economics in Phnom Penh and an M.B.A. from the Asian Institute of Technology (AIT) in Bangkok, Thailand. He also finished his post-graduate at the *Université Pierre Mendes* in France.



MR. SIM HOY CHHOUNG

Independent Non-Executive Director

Mr. SIM HOY CHHOUNG is an Independent Non-Executive Director of Prince Bank Plc. He has sixteen years of accounting, financial, and banking experience from ACLEDA Bank, ABA Bank, Canadia Bank, and other institutions. He is a shareholder and member of the Board of Directors of Japan Valuers Co. Ltd.

He holds both a B.A. and an M.A. in Economics from the Royal Academy of Cambodia. He earned an additional M.A. in Business Administration with a concentration on International Finance from the prestigious International Business School of Brandeis University in Massachusetts, USA.

Mr. CHHOUNG is affiliated with the Association of Chartered Certified Accountants (ACCA), a subordinate of UK ACCA.



MR. DIETER BILLMEIER

Advisor

Mr. DIETER BILLMEIER is Advisor to the board of Prince Bank Plc. His role is to provide support, guidance, recommendations, and advice in order to ensure the bank's success.

Mr. BILLMEIER is also a board member of a prestigious international school in Cambodia, and a former Senior VP and Advisor to the Board of Directors of Canadia Bank Plc. Prior to this, he was a renowned professional consultant here and in Hong Kong. For 17 years, he held various positions for Commerzbank covering treasury, administration, foreign exchanges & money markets, and strategies. He was based in different countries including Germany, the US, France, and Hong Kong. Mr. BILLMEIER eventually was able to secure the Vice President & Joint General Manager position in Hong Kong for the same bank.

Originally from Germany, he studied at the *Advanced Business School for Finance & Banking in Bamberg*, and at the *Academy of Banking & Finance in Nuremberg*.

MANAGEMENT PROFILES

At the executive management, there are a number of committees established to assist management in discharging their duties and responsibilities. Those committees include Human Resources Committee (HRC), Risk Management Committee, Management Credit Committee (MCC) , Assets and Liabilities Committee (ALCO), and Executive Committee.



MR. HONN SORACHNA
Chief Executive Officer

Mr. HONN SORACHNA, a Cambodian national, occupies a dual role as Chief Executive Officer (“CEO”) of the Bank and also as Managing Director (“MD”) of the Board. As MD/CEO, Mr. HONN SORACHNA has an overall responsibility for overseeing and implementing the Bank’s policies and strategies, executing the Board’s direction, managing the Bank’s businesses, and driving performance within strategic goals and commercial objectives. He leads the Executive Management in carrying out the corporate strategy and vision of the Bank. Additionally, he is accountable to the Board for the day-to-day operations for the Bank’s business.



MR. BIN DEVIN

Deputy Chief Executive Officer and Chief Business Officer

Mr. BIN DEVIN is the Deputy Chief Executive Officer and Chief Business Officer of the Bank. He holds three M.A. degrees in Management from Thailand and France, and has over fifteen years of experience at management level in both the development and private sectors. In banking, he has worked in branch network management, electronic banking services, operations, card business, compliance and business development.



MR. KEO VUTHY

Chief Audit Officer

Mr. KEO VUTHY is Chief Audit Officer at Prince Bank Plc. He has over nineteen years of experience in finance, banking, accounting, and other related sectors. His experience ranges from review and assurance on governance, risk management, internal control systems to fraud/misconduct/wrongdoing investigation in financial institutions.

Mr. KEO VUTHY holds M.A. degrees in Accounting, Auditing, Finance, and Business Administration from local and international institutions (Cambodia, UK, and Switzerland). Moreover, he holds many professional certificates from international professional institutions and associations.



MR. TEANG SRENG

Chief Human Resources Officer

Mr. TEANG SRENG is the Chief HR Officer at Prince Bank Plc. He is in charge of leading and developing Human resources strategies for improving overall learning capacities of our employees, and for developing competitive benefits packages.

He has eleven years of experience in developing HR departments within the finance sector. Prior to finance, he spent three years with several private companies and NGOs as a trainer, a year as a Product Label Officer, and three years as president of a gasoline station.

Mr. TEANG SRENG holds a M.A. degree and two B.A. degrees: a General Management MBA from Build Bright University, a B.A. in Education from the Royal University of Phnom Penh, the Institute of Foreign Languages (IFL), and a BBA from the National Institute of Management (now known as the National University of Management).



MR. LENG SENGLAN

Chief Risk Officer

Mr. LENG SENGLAN is the Chief Risk Officer at Prince Bank Plc. He has more than eleven years of experience in banking, finance, insurance, and stocks/securities from other leading banks.

He also has extensive expertise in system development and management such as in the areas of branch networks, risk management, financial management, and taxation.

Mr. LENG SENGLAN holds a M.A. in Finance from the *ESCP-EAP European School of Management* in France, and a M.A. in Administration and Business Development from the *Asian Institute of Technology (AIT)* in Thailand.



MR. UTPAL BORA
Chief Technology Officer

Mr. UTPAL BORA is Chief Technology Officer at Prince Bank Plc. and he brings with him over 70,000 hours of experience in Program Management and Technology Leadership. He has handled multiple technology initiatives and technology implementation projects in the Asia-Pacific region for the past fourteen years. Mr. UTPAL started his career with the State Bank of India in 2004 and went on to join I-Flex Solutions Ltd. (later named Oracle Financial Services Software Limited).

He led the core banking and digital banking solution implementation projects delivered in Japan, Vietnam, Malaysia, Singapore, Mongolia, Lao People's Democratic Republic, Myanmar, and Cambodia.

As the Chief Information Officer of a large commercial bank in Myanmar, and within only four years Mr. UTPAL built the team from ground up while simultaneously

expanding capacity through a mechanism of harnessing people's knowledge and capacity, and building processes and technology driven insights and innovation in the workplace to see products, services, and channels roll out and expand to a network of over 500 offices which allowed the bank to be easily accessible to the majority of the population.

Mr. UTPAL loves to share his experiences and is always on the lookout to make things better for customer engagements. He is a strong advocate for information sharing within start-up economies like the cloud, API driven digital economies, and data driven-digitization efforts to create the best customer experience possible.



MR. GEOFF ANICH
Chief Operating Officer

Mr. GEOFF ANICH is the Chief Operating Officer at Prince Bank Plc. He has over 20 years commercial experience including well over 10 years in banking across operations, sales, strategy, and learning & development. He has also worked outside banking in agribusiness, investment, and corporate development. GEOFF's passion is developing, implementing, and embedding strategies to grow better organizations and people. GEOFF holds a B.A. in Agricultural Science and an MBA from the University of Queensland Australia. GEOFF is also CPA certified.



MRS. SOUN HOUR
Head of Finance and Accounting

Mrs. SOUN HOUR is the Head of Finance and Accounting at Prince Bank Plc. She has more than eight years of experience in auditing, finance, and accounting from four leading banks and companies.

She is an academic achiever and a top scorer for ACCA F4, F5, and F9. Ms. Hour once received a bronze medal from a business plan competition. Additionally, she earned scholarships from three Cambodian educational institutions and holds an MBA degree from the National University of Management (NUM). She also has a B.A. in Teaching English as a Foreign Language.

Mrs. SOUN HOUR is multilingual—in addition to Khmer she speaks English, Chinese Mandarin, and Theo Chew.



MR. ANN SOVATHANA

Head of Legal Affairs and Corporate Secretary

Mr. ANN SOVATHANA is currently holding a position as the Head of Legal Affairs and Corporate Secretary at Prince Bank Plc. He previously worked for almost a decade as a manager and senior advisor for BUN & ASSOCIATES, one of the most prestigious law firms registered with the BAKC. Mr. Ann Sovathana also served as an Associate Legal Officer for the Supreme Court Extraordinary Chambers in the Court of Cambodia before joining Prince Bank Plc. in September 2018. He is also an active member of the Cambodian Economic Association (CEA), Japan Alumni of Cambodia (JAC), and Trainer at the Institute of Banking and Finance.

Mr. SOVATHANA possesses a Bachelor of Commerce in Banking and Finance from the International Institute of Cambodia. His tertiary education includes four different master's degrees—two of which were granted from international universities (Japan and France) in various courses such as *International Relations, Law, Risk Management in Insurance and Finance, and Banking & Insurance*.



2018 BUSINESS HIGHLIGHTS

With the vision to become the financial institution of choice for target customers, Prince Bank Plc. has embarked on an ambitious business expansion plan through the development of branch networks, new products, and channels. The plan enables the bank to play a greater role in the development process in light of the continued robust growth of the economy and financial sector.

The distribution network expanded from 5 branches in 2017 to 9 branches in 2018 covering Phnom Penh and 5 provinces. The bank launched its call center operations in the same year as well. In 2018, Prince Bank Plc. saw an exponential growth in loan portfolio with the total loan outstanding sitting at USD 113.40 million, up from USD 18.83 million in 2017, while at the same time maintaining good asset quality. Total assets increased to USD 170.70 million, which is more than six times last year's figure.

The Core Banking System was upgraded to Oracle's FlexCube system. The bank is building its foundation to differentiate itself from the rest of the industry through seamless customer experience, value-added consultation as well as tailor-made and swift solutions.

Prince Bank Plc. has been actively promoting loans in Khmer Riel with a view to having at least 10% of the total loan portfolio in the national currency by the end of 2019.

At the end of 2018, the loans in Khmer Riel sat at 3.94%, an increase of 0.03% from the beginning of the year. Furthermore, community activities around environmental preservation and protection, education, health, and culture continued to be an important part of the bank's overall agenda.

Over the next five years, Prince Bank Plc. aspires to be the best and largest bank in terms of superb customer service and a majority market share of professional employees and small and medium enterprise customers.

KEY FINANCIAL HIGHLIGHTS

Year End 31st December

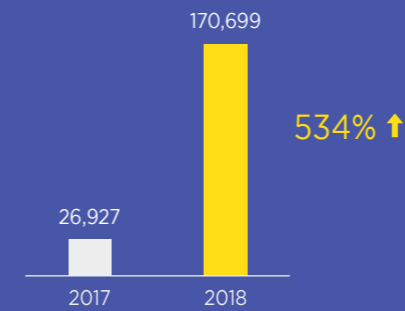
	2018	2017	Change (%)
P&L Account (US\$ Thousand)			
Gross Revenue	6,981	2,228	213%
Net Profit	(3,310)	115	-2,982%
Balance Sheet (US\$ Thousand)			
Total Assets	170,699	26,927	534%
Shareholders' Equity	96,154	14,464	565%
Total Loan (net)	113,399	18,833	502%
Total Deposit	1,009	-	>100%
Net Worth	94,470	14,192	566%
Key Performance Indicators (%)			
Returns on Shareholders' Equity (ROE)	-3.44%	0.79%	-534%
Returns on Assets (ROA)	-1.94%	0.43%	-555%
Interest Margin to Gross Revenue	83.24%	94.08%	-12%
Operating Cost to Income Ratio	139.25%	93.81%	47%
Gross Loan to Deposits	11,318.48%	-	>100%
Solvency Ratio	63.29%	54.35%	16%
Liquidity Coverage Ratio (LCR)	5,257.60%	-	>100%

- Gross revenue increased by 213% from US\$2.23 million to US\$6.98 million.
- Total assets rose by 534% from US\$26.93 million to US\$170.70 million.
- Shareholder equity grew by 565% from US\$14.46 million to \$96.15 million. Similarly the Bank's Net Worth grew to \$94.47 million.
- Total loan grew by 502% from US\$18.83 million to US\$113.40 million.
- The Solvency Ratio increased by 16% from 54.35% to 63.29%.

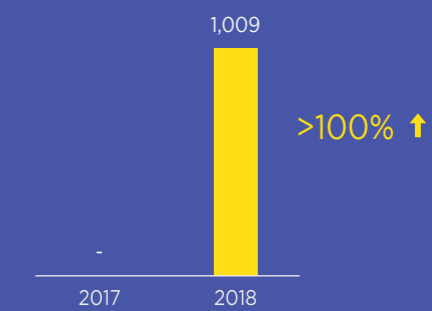
SIMPLIFIED FINANCIAL RESULTS

■ 2017
■ 2018

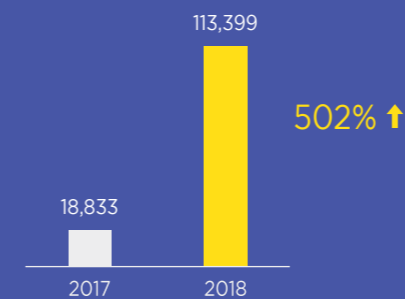
Total Asset (US\$ Thousand)



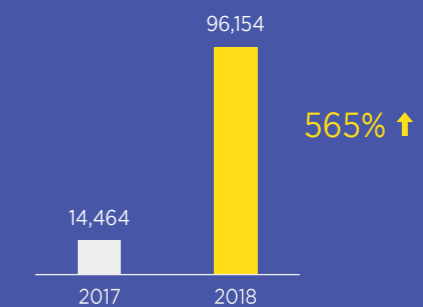
Total Deposit (US\$ Thousand)



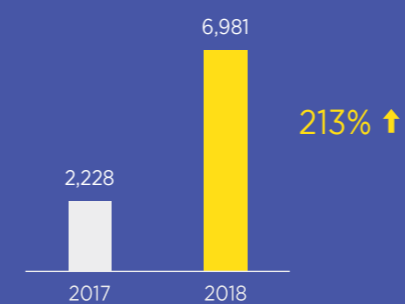
Total Loan (NET) (US\$ Thousand)



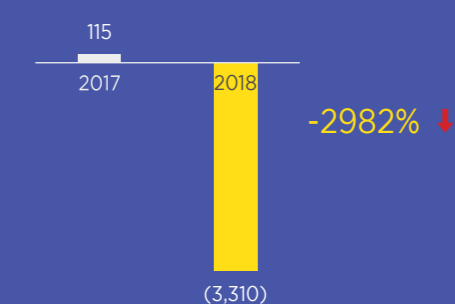
Shareholders' Equity (US\$ Thousand)



Gross Revenue (US\$ Thousand)



Net Profit (US\$ Thousand)



ACHIEVEMENTS IN 2018

Converted to Commercial Bank

After obtaining a license to operate as a comprehensive commercial bank, Prince Bank Plc. has embarked on an exponential business expansion. This is possible thanks to a strong capital base, shareholders' passion and commitment to long-term sustainable investment in the banking industry, and the experience of senior management with profound local market knowledge.



Branch Network Expansion

Prince Bank increased the number of branches from five to nine. These additions include a branch in Phnom Penh and three branches in Kandal, Preah Sihanouk, and Kampong Cham provinces. This expansion plan enabled us to be closer to our customers and to offer them financial solutions with convenience as we transform our branches into modern, friendly, and technologically updated service points.



Core Banking System

To enhance our operational capability, Prince Bank Plc. has invested in upgrading its core banking system to Oracle's Flexcube system. The new system offers the bank the facility to manage all banking transactions and products in a secure and efficient manner. It is a building block of the bank's foundation that is ready for growth.

MILESTONES

2015

- Prince Finance Plc. was established as a microfinance institution.

2016

- Three branches were operational in Phnom Penh.
- The institution employed 109 staff.
- Total Assets amounted to US\$ 13.70 million.
- 356 loan customers were served.

2017

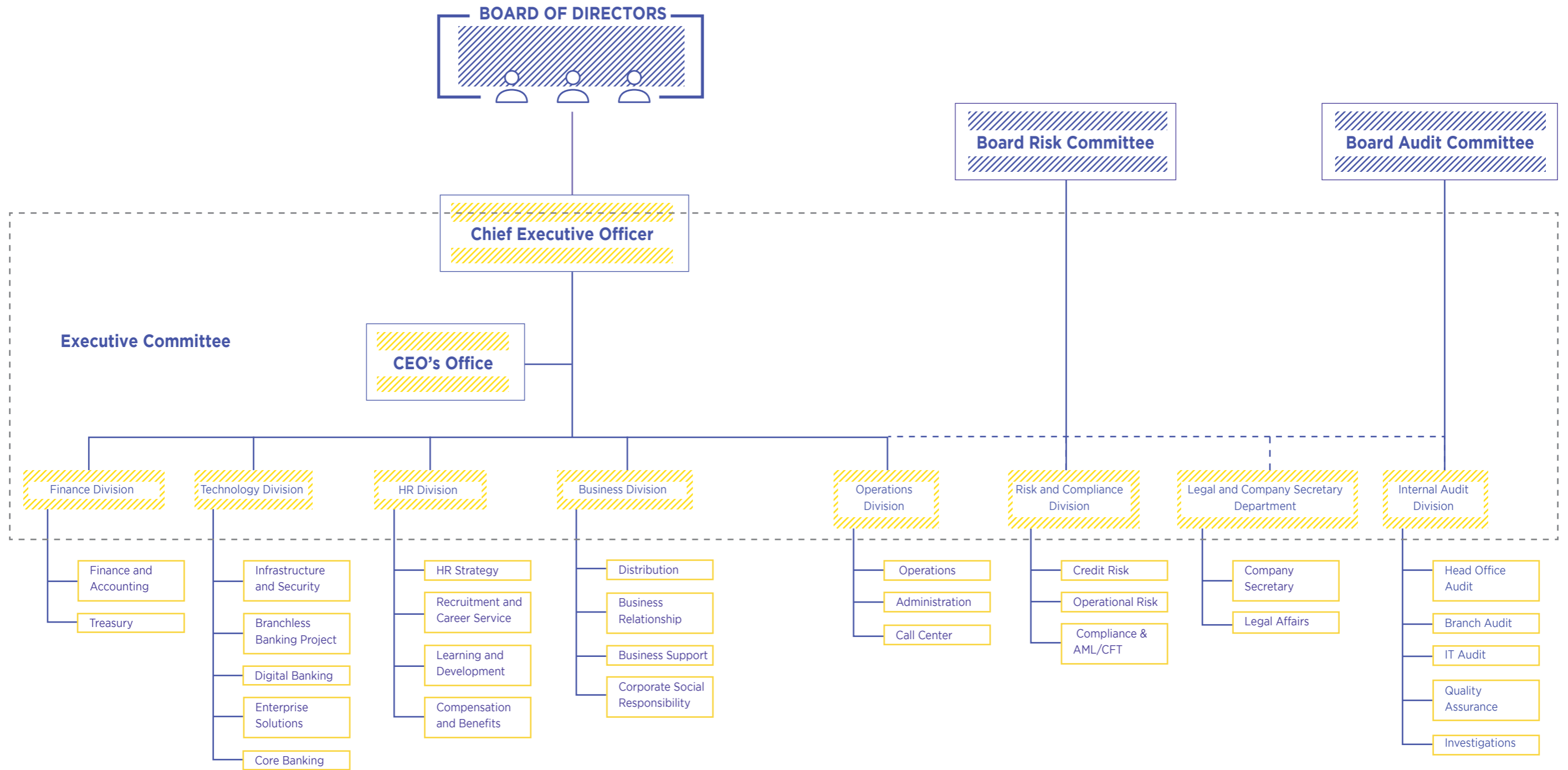
- Five branches were operational in Phnom Penh, Siem Reap, and Battambang.
- The institution employed 168 staff.
- Total Assets increased to US\$ 26.93 million.
- 688 loan customers were served.

2018

- The institution was granted the license to carry out banking operations in July 2018.
- Prince Bank Plc. invested in Flexcube core banking system.
- Nine branches were operational in Phnom Penh, Siem Reap, Battambang, Preah Sihanouk and Kampong Cham.
- Total staff increased to 661.
- Total Assets increased to US\$ 170.70 million.
- Customer based was up to 1,711.



ORGANIZATIONAL STRUCTURE



CORPORATE GOVERNANCE

The Bank clearly understands that effective corporate governance is critical to the proper functioning of the Bank. Therefore, the Bank has adopted the best practice of corporate governance in the banking industry with a check and balance mechanism whereby the Board oversees business operations that are run by management. The Bank is structured to ensure the separation of duties between business functions that directly control business operations and the oversight function comprising compliance and risk which independently challenge the business function by reporting directly to the Board Committee. Furthermore, the internal audit function performs assurance on the controls of the business function and the oversight by Compliance and Risk, and reports directly to the Board Audit Committee.

CODE OF CONDUCT

The trust and confidence that customers and the public have in the Bank are crucial for the continued growth and success of the bank. Prince Bank Plc. actively seeks to conduct itself and abide by the Bank's code of conduct. The directors, staff, contractors, and suppliers are required to acknowledge the bank's code of conduct with which the bank requires strict compliance.

SHAREHOLDERS

Currently, there are two shareholders in Prince Bank Plc.

Oknha CHEN ZHI, a Cambodian citizen, is the majority shareholder of Prince Bank Plc. He participates in the Bank's core decision-making process which includes increasing capital and expanding business operations.

Mr. GUY CHHAY, a Cambodian citizen, is also a shareholder of Prince Bank Plc. He is a passionate entrepreneur with expertise in various fields such as real estate, hotels, resorts, restaurant development and management, information technology, as well as transportation.



BOARD OF DIRECTORS

The Board of Directors (the “Board”) is composed of five members, two of whom are independent directors.

The Board is the ultimate decision-making body of the Bank with the exception of matters requiring shareholder’s approval as provided in the Memorandum of Article of Association and Law on Commercial Enterprise. The Board takes full responsibility for leading, governing, guiding, and monitoring the entire performance of the Bank, and enforces standards of accountability to enable management to execute its responsibilities effectively and efficiently.

The Board adopts a collective decision-making process in all aspects of its judgment. With this effort, the Board benefits from the in-depth knowledge and contribution of each of its Directors in all areas of the Bank’s businesses and operations. In addition to their wide range of skills and expertise, the Independent Directors bring independent judgment in the deliberations on issues of key strategy, audit, performance, and risk.

The Board has always prioritized regulatory compliance as provided in the laws and regulations, particularly with respect to all of the Prakas issued by the National Bank of Cambodia (“NBC”). In this regard, the structure and composition of the Board is aligned with NBC requirements. This ensures that the Bank benefits from

the balance of authority, increased accountability and greater capacity for independent decision making.

The Board believes that strong corporate governance is vital and essential to successfully drive the Bank’s mission. The corporate governance framework adopted by the Bank is developed on the basis of principles provided by the Prakas No.B-7-08-211 on Governance in Banks and Financial Institutions dated 25-November-2008 (“Prakas on Governance”), the Prakas No. B7-08-212 on Fit and Proper Regulatory Requirement for Applying to Entities and Licensed Banks and Financial Institutions dated 25-November-2008 (“Prakas on Fit and Proper”), and Prakas No. B7-010-072 on the Internal Control of Bank and Financial Institutions dated 28-September-2010 (“Prakas on Internal Control”) issued by the NBC, together with other international and best practices in corporate governance, where applicable.

Two committees have been set up at the Board level:

Board Audit Committee (“BAC”)

Composition

- **Mr. THEN SAMVISOTH**, Chairman
(Non-Executive, Independent Director)
- **Mr. GUY CHHAY**, Member
- **Mr. SIM HOY CHHOUNG**, Member
(Non-Executive, Independent Director)

Key Duties and Responsibilities

a) Internal Process and Controls

1. Approve principles, policies, processes, and control frameworks for management of the Bank’s business operations.
2. Review adequacy of internal controls, including financial, operational and compliance controls, established by management.
3. The BAC should ensure that a review of the effectiveness of internal control is conducted on a regular basis.
4. Review the compliance with laws, regulations, and the bank’s code of conduct. Consider the major findings of any relevant internal investigations into control weakness, fraud or misconduct, and management’s response (in the absence of management where applicable).
5. Direct the relevant units to update the BAC and advise on implications of any possible or actual changes in the regulatory environment.
6. Recommend to take appropriate actions to address any adverse impact that the above may have on the Bank’s operations, or capitalize on opportunities provided.

b) Financial Reporting

To oversee the financial reporting process and the disclosure of its financial information to ensure that the financial statements are correct, sufficient, and credible. This could include, but is not limited to the following:

1. Review accounting policies.
2. Review significant financial reporting issues and judgements to ensure the integrity of the financial statements.
3. Report to the Board in a timely manner all issues that could significantly impact its financial condition.

4. Review the quarterly, half-yearly and annual financial statements before submission to the board focusing primarily on:
- Any changes in accounting policies and practices.
 - Major accounting entries based on exercise of judgement by management.
 - Qualifications, if any, in draft audit report.
 - Significant adjustments arising out of audit.
 - Representation letter to the auditor.
 - Going concern assumption.
 - Compliance with the accounting standards.
 - Compliance with legal and regulatory requirements concerning financial statements.
 - Any related party transactions, i.e. transactions of material nature with promoters or the management, their related/associated companies or relatives, etc. that may have potential conflict with the interest of the institution at large.

c) External Audit

1. Review the scope of the audit and its Cost-effectiveness, and the independence and objectivity of external auditors. Where the auditors also supply a substantial volume of non-audit services, the BAC should keep the nature and extent of such services under review, seeking to balance the maintenance of objectivity and value for money.
2. Make recommendations to the Board on the appointment, re-appointment and removal of external auditor and approve the remuneration and terms of engagement of external auditor.
3. Review the findings of the audit with the external auditor, considering the external auditor's management letter and management's response to the auditor's findings and recommendations.

d) Internal Audit

1. Review the scope, activities and effectiveness of internal audit function.
2. Review the annual internal audit plan and ensure that the internal audit function is adequately resourced and has appropriate access to information within the institution.
3. Review quarterly review reports and recommendations from internal auditors and ensure that corrective actions are properly taken by the management within the deadlines.
4. Recommend to the Board the appointment of or removal of the executive in charge of Internal Audit Function.
5. Review the findings of any internal investigations by the internal auditor into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.

e) Others

1. Coordinate with Board Risk Committee to ensure that there is an effective Business Continuity Plan in place.
2. Perform other duties and activities that it or the Board considers appropriate in the context of these terms of reference.

Board Risk Committee ("BRC")

Composition

- **Mr. SIM HOY CHHOUNG**, Chairman
(Non-Executive, Independent Director)
- **Mr. GUY CHHAY**, Member
- **Mr. THEN SAMVISOTH**, Member
(Non-Executive, Independent Director)

Key Duties and Responsibilities

- a) Review management reports detailing the adequacy and overall effectiveness of the Company's risk management functions and its implementation by management, and reports on internal control, any recommendations, and confirm that appropriate action has been taken.
- b) Review the risk philosophy, framework, strategy and policies as recommended by management, ensuring compliance with such policies, and with the overall risk profile of the Institution. Risk in the broadest sense includes market risk, credit risk, liquidity risk, operational risk and commercial risk.
- c) Review adequacy of insurance coverage.
- d) Review risk identification and measurement methodologies.
- e) Have due regard for the principles of governance and codes of best practice.
- f) Detail items that should be published in the Institution's Annual Report relating to the activities of the BRC, including the Risk Framework and Methodologies.
- g) Obtain external independent advice, in writing or orally, as necessary.
- h) Form sub-risk committees from its membership to address specific aspects of its duties.

Executive Committee

At the executive management level, the committee is composed of:

- i. **Mr. HONN SORACHNA**, Chief Executive Officer (CEO), as Chairman of Executive Committee.
- ii. **Mr. BIN DEVIN**, Chief Business Officer (CBO), as member.
- iii. **Mr. TEANG SRENG**, Chief Human Resources Officer (CHR), as member.
- iv. **Mr. KEO VUTHY**, Chief Internal Audit Officer (CIA), as member.
- v. **Mr. UTPAL BORA**, Chief Technology Officer (CTO), as member.
- vi. **Mr. ANN SOVATHANA**, Head of Legal Affairs and Secretary (HLC), as member.
- vii. **Ms. SOUN HOUR**, Head of Finance and Accounting (HFA), as member.
- viii. **Mr. LENG SENGLAN**, Chief Risk Compliance Officer (CRO), as member.
- ix. **Mr. GEOFF ANICH**, Chief Operating Officer (COO), as member.

ADOPTION OF SUSTAINABLE FINANCE PRINCIPLES

Prince Bank Plc. has adopted the Cambodia Sustainable Finance Principles which are the products of joint efforts by members of the Association of Banks in Cambodia (ABC). The principles are:

<p>1 ENVIRONMENT PROTECTION</p> 	<p>We will assess and manage environmental risks relating to climate change, pollution and waste management and the protection of our critical natural resources.</p>
<p>We will assess and manage risks that could potentially negatively impact our people, in particular local communities, workers, and indigenous/minority populations.</p>	<p>2 PEOPLE PROTECTION</p> 
<p>3 CULTURE PROTECTION</p> 	<p>We will assess and manage risks that could potentially negatively impact aspects of our cultural heritage, including our language, culture, traditions and monuments.</p>
<p>We will increase the financial awareness and literacy of the Cambodian people and improve our approach to customer/client protection.</p>	<p>4 FINANCIAL LITERACY</p> 

<p>5 FINANCIAL INCLUSION</p> 	<p>We will expand our reach to those who previously had no or limited access to the formal banking sector, as well as providing more innovative solutions to improve banking access and service levels.</p>
<p>We will finance innovations that create efficiencies and improvements of existing, traditional sectors and business activities as well as for developing new green economy activities.</p>	<p>6 FINANCIAL INNOVATION</p> 
<p>7 ENVIRONMENTAL & SOCIAL STANDARDS</p> 	<p>We will seek to build capacity across the banks to deliver on our commitments as well as raise awareness of our customers and communities about sustainable, inclusive finance.</p>
<p>We will manage our own environmental and social (E&S) footprints and request similar standards to our suppliers.</p>	<p>8 ENVIRONMENTAL & SOCIAL FOOTPRINTS</p> 
<p>9 TRANSPARENCY & ACCOUNTABILITY</p> 	<p>We will annually report our individual and sector progress against these commitments to hold ourselves accountable and to share the story and outcomes of our journey and the value we believe can be created for Cambodia.</p>

Committed to the nine principles, we are working on the implementation, including staff awareness raising and training, throughout 2019. The principles were adopted by member banks of ABC in late 2018. Adhering to these principles can help banks lower investment risks and find new business opportunities while also preserving the environment and supporting local cultures and communities.

CORPORATE SOCIAL RESPONSIBILITY

Prince Bank Plc. has been actively participating in CSR activities in the areas of environmental sustainability, culture, humanitarian work, and education.

EDUCATION

Educational Clip of “NAIL BOY”

To encourage positive thinking when confronted with hardship, Prince Bank Plc. sponsored the production of an educational video entitled “Nail Boy.” It was widely viewed and shared on social media.



Sponsorship of the 4th Annual Global Alumni Convention

Prince Bank Plc. participated in the 4th Annual Global Alumni Convention (GAC) organized by IDP from the 10th – 12th of November 2018 as a platinum sponsor. We had the opportunity to share our experience on how banks stay up-to-date on industry developments. The annual GAC is one of the most recognized events that promote international educational opportunities, and the convention also serves as a space for business-networking in Cambodia.



Sponsoring of a Chinese Speaking Contest

In a rapidly changing economic environment, second language acquisition is essential. Prince Bank Plc. supported the Chinese Speaking Contest organized by the CAM-ASEAN School to encourage the next generation in foreign language acquisition. The event took place on 27th October 2018.

SPORTS

Sponsorship of Sports facilities

Prince Bank Plc. donated four sets of boules, twenty cases of mineral water, twenty sets of teaching facilities, and a budget for the construction of a boule field in Somrong Leu Commune, Banteay Meas District. This sponsorship is to encourage youth to participate in sporting activities.

Participation in the 8th Annual Phnom Penh International Half Marathon

Fifty-four staff members joined the half marathon, which was organized to raise funds for Kuntha Bopha Hospital for Children.



ENVIRONMENT

Tree-Planting to Preserve Mangroves

To promote awareness of the benefits of mangroves, Prince Bank Plc. organized a campaign of planting trees entitled “One Customer One Plant” to celebrate National Arbor Day on the 9th July 2018. This campaign was held at Tompaing Sangke Community, Teukchou District, Kampot Province.



Sponsoring “Phnom Penh Sart”

Prince Bank Plc. participated in the campaign “Phnom Penh Sart” by publicizing the event to public and private institutions. Additionally, we provided 1,250 environmentally friendly bags in an effort to reduce the use of plastic bags and promote Phnom Penh as a clean city.



BUSINESS

Sponsorship of Business Day

“Business Day” was organized by the National University of Management (NUM) in order to promote entrepreneurship. Moreover, Prince Bank Plc. sponsored laptops to the winners of the competition.



Sponsorship of the SHE Conference

The annual SHE Conference took place on September 13th with the theme, “The Ripple Effects of Investing in Women.” Prince Bank Plc. supported this event to celebrate Cambodian female entrepreneurship in a fun and informative forum. We believe that this forum inspired more women to become engaged in more innovative ideas, addressing household income inequities.





CULTURE

Sponsorship of the “4th Heritage Forum”

Prince Bank Plc. sponsored the 4th Heritage Forum entitled “Lkhon Khol: An Inherited Khmer Tradition.” An art exhibition was on display, and traditional dance demonstrations reflected the rich value and need to preserve a form of Khmer performing arts.



HUMANITARIAN

Supporting A Professional Dog Trainer

Mr. HIN RATTANA, a dog whisperer, was seriously injured in a traffic accident. In partnership with Sabay, Prince Bank Plc. contributed to fundraising efforts to help relieve his medical bills. The joint efforts generated USD 15,000 from the public and contributing sponsorship by Sabay and Prince Bank Plc.



2nd Annual Blood Donation Campaign on 3rd June 2018

The 2nd Annual Blood Donation campaign was organized under the theme, “One Pack of Blood Saves 3 Lives”. The institution led a team of twenty-seven staff members to participate in the event at Himawari Hotel.



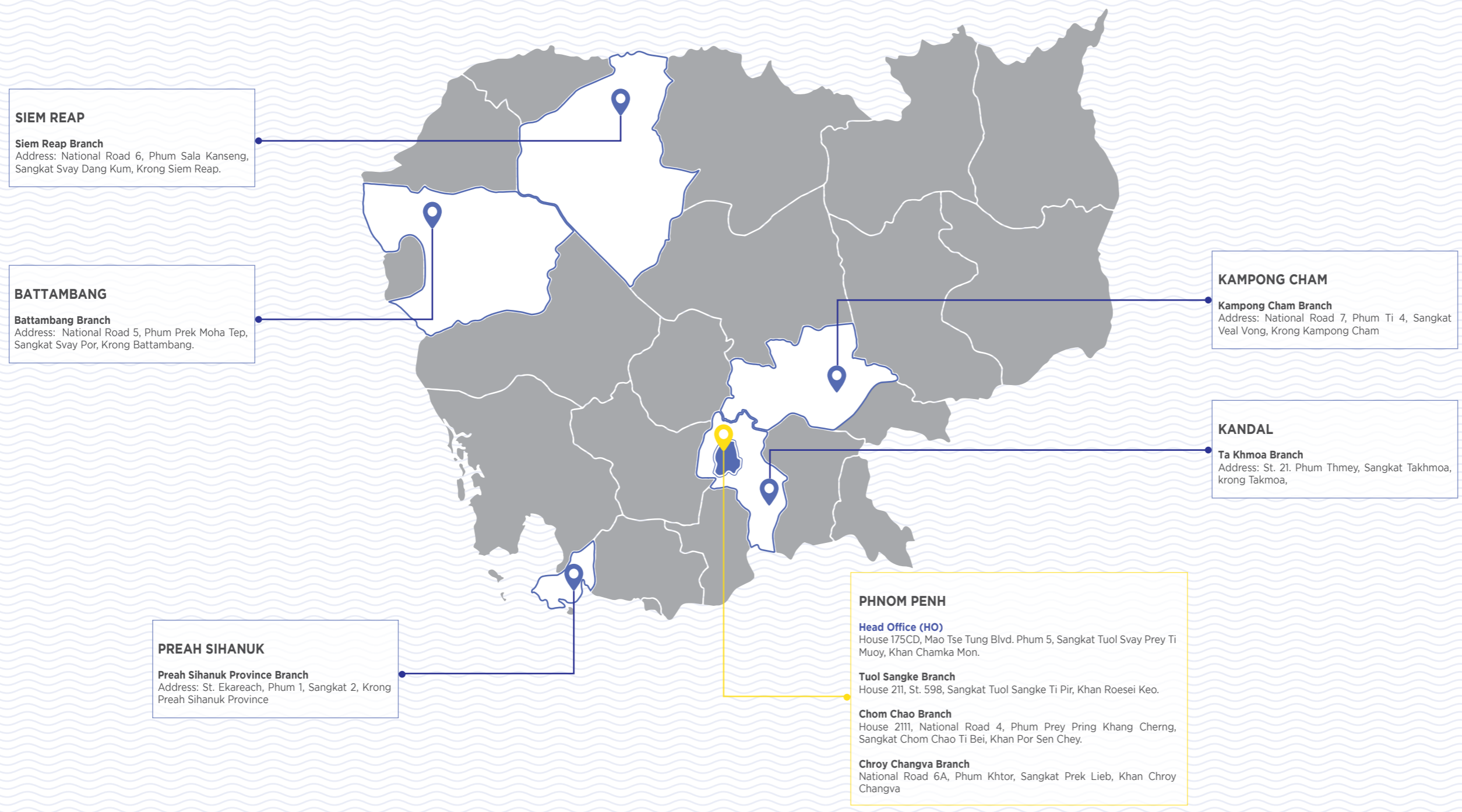
“Charity Music” Sponsorship

This program was held on 08 December 2018 at the Institute of Technology by its Cambodian Red Cross Youth Club to collect funds to support poor students, and Prince Bank Plc. was a key sponsor.

BRANCH NETWORK

As of 31st December 2018, Prince Bank Plc. had 9 branches operational:

PHNOM PENH	4 Branches
BATTAMBANG	1 Branch
SIEM REAP	1 Branch
KAMPONG CHAM	1 Branch
PREAH SIHANUK	1 Branch
KANDAL	1 Branch



REPORT OF THE BOARD OF DIRECTORS



The Board of Directors hereby submit their report together with the financial statements of Prince Bank Plc. (“the Bank”) (formerly known as Prince Finance Plc.) for the year ended 31 December 2018.

Principal Activities

Prior to 18 July 2018, Prince Bank Plc. (“the Bank”) was named as Prince Finance Plc. (“the Institution”) which is a private limited company formed under the Laws of the Kingdom of Cambodia to operate as a microfinance business in the Kingdom of Cambodia under registration number Co. 1511 KH/2015 dated 28 April 2015, issued by the Ministry of Commerce. On 18 July 2018, the National Bank of Cambodia issued a license to the Institution to become a private commercial bank with the name changed to Prince Bank Plc. The transactions was also acknowledged and endorsed with the Ministry of Commerce on 21 August 2018.

The principal activity of the Bank is to carry out all banking business including but not limited to providing all credit operations, including leasing, loan, credit card, guarantee, commitment under signature and any other form of financing operations, deposit taking from public and other permissible financial services in the Kingdom of Cambodia.

Financial Results

The financial results of the Bank for the year ended 31 December 2018 were as follows:

	2018		2017	
	US\$	KHR'000 (Note 5)	US\$ (Restated)	KHR'000 (Note 5)
(Loss)/Profit before income tax	(3,309,811)	(13,298,820)	138,005	557,127
Income tax expense	-	-	(23,161)	(93,501)
Net (loss)/profit for the year	(3,309,811)	(13,298,820)	114,844	463,626

Dividend

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

Reserves and Provisions

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

Share Capital

On 6 July 2018, the additional share capital amounting to US\$85million was injected by the shareholders to increase the share capital to US\$100million via the issuance of 100,000 ordinary shares of US\$1,000 per share in order to convert the Company from microfinance to a commercial bank. The transaction was approved by the National Bank of Cambodia (“NBC”) on 18 July 2018 and the new Memorandum and Articles of Association was endorsed with the Ministry of Commerce on 21 August 2018.

Bad and Doubtful Loans

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

At the date of this report, the Board of Directors are not aware of any circumstances, which would render the amount written off for bad loans, or the amount of allowance for doubtful loans 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 took reasonable steps to ensure that any assets, other than debts, which were unlikely to be realised in the ordinary course of business at their value as shown in the accounting records of the Bank had been written down to an amount which they might be expected to realise.

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

Valuation Methods

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

Contingent and Other Liabilities

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

- (a) any charge on the assets of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person; and
- (b) any contingent liability in respect of the Bank that has arisen since the end of the financial year other than in the ordinary course of its business operations.

No contingent or other liability of the Bank has become enforceable, or is likely to become enforceable within the year of 12 months after the end of the financial year which, in the opinion of the Board of Directors, will or may substantially affect the ability of the Bank to meet its obligations as and when they fall due.

Change of Circumstances

At the date of this report, the 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 Unusual Nature

The results of the operations of the Bank for the financial year were 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, to affect substantially the results of the operations of the Bank for the current financial year in which this report is made.

The Board of Directors

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

Mr. Guy Chhay	Chairman
Mr. Chen Zhi	Director
Mr. Honn Sorachna	CEO & Managing Director
Mr. Then Samvisoth	Independent Director (Appointed on 10 April 2018)
Mr. Sim Hoy Chhoung	Independent Director (Appointed on 10 April 2018)

Directors' Interests

The Directors who held office at the end of the financial year and their interests in the shares of the Bank is as follows:

	2018			2017		
	Holding		Shares of US\$1,000 each US\$	Holding		Shares of US\$1,000 each US\$
	%	Number		%	Number	
Mr. Chen Zhi	98.90	98,900	98,900,000	92.67	13,900	13,900,000
Mr. Guy Chhay	1.10	1,100	1,100,000	7.33	1,100	1,100,000
	100.00	100,000	100,000,000	100.00	15,000	15,000,000

31st December

Directors' Benefits

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

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

Responsibilities of the Board of Directors in Respect of The Financial Statements

The Board of Directors is responsible for ascertaining that the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018, and its financial performance and its cash flows for the year then ended. In preparing these financial statements, the Board of Directors is required to:

- (i) adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- (ii) comply with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements or, if there have been any departures in the interest of true and fair presentation, ensure that these have been appropriately disclosed, explained and quantified in the financial statements;

(iii) oversee the Bank's financial reporting process and maintain adequate accounting records and an effective system of internal controls;

(iv) assess the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative; and

(v) control and direct effectively the Bank in all material decisions affecting the operations and performance and ascertain that such have been properly reflected in the financial statements.

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

Approval of The Financial Statements

I, the undersigned, on behalf of the Board of Directors, hereby approve the accompanying financial statements which include the balance sheet as at 31 December 2018, the related income statement, statements of changes in equity and cash flows for the year then ended, and notes as set out on pages 63 to 111 which, in our opinion, are presented fairly, in all material respects, in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements.



Mr. Guy Chhay

Chairman

Phnom Penh, Kingdom of Cambodia

14 March 2019



REPORT OF THE INDEPENDENT AUDITORS

TO THE SHAREHOLDERS PRINCE BANK PLC.

Opinion

We have audited the financial statements of Prince Bank Plc. (“the Bank”) (formerly known as Prince Finance Plc.), which comprise the balance sheet as at 31 December 2018, the income statement, the statements of changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out on pages 63 to 111.

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

Basis For Opinion

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

Emphasis of Matter – Comparative Information

We draw attention to Note 3(r) to the financial statements which describes that the Bank elected to change its accounting policy for processing fee recognition and made retrospective adjustments to the comparative information in the accompanying financial statements. Consequently, the comparative information in the accompanying financial statements has been restated. Our opinion is not modified in respect of this matter.

Other Matters

The financial statements of the Bank as at and for the year ended 31 December 2017, excluding the retrospective adjustments described in Note 3(r) to the financial statements, were audited by another auditor who expressed an unmodified opinion on those financial statements on 20 April 2018.

As part of our audit of the financial statements as at and for the year ended 31 December 2018, we also audited the retrospective adjustments described in Note 3(r) to the financial statements that were applied to restate the comparative information.

We were not engaged to audit, review, or apply any procedures to the comparative information, other than with respect to the retrospective adjustments described in Note 3(r) to the financial statements. Accordingly, we do not express an opinion or any other form of assurance on comparative information. However, in our opinion, the retrospective adjustments described in Note 3(r) to the financial statements are appropriate and have been properly applied.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditors' report is the information included in the Report of the Board of Directors as set out on pages 47 to 55, and the annual report which is expected to be made available to us after that date.

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 on the other information obtained prior to the date of this auditors' report, 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 and fair presentation of the financial statements in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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 auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the 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.

For KPMG Cambodia Ltd



Taing YoukFong

Partner

Phnom Penh, Kingdom of Cambodia

Date: 14 March 2019

AUDITED FINANCIAL STATEMENTS

Balance sheet as at 31 December 2018

	Note	2018		2017	
		US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5) (Restated)
ASSETS					
Cash on hand	6	1,064,975	4,279,070	67,064	270,737
Balance with the National Bank of Cambodia	7	15,839,463	63,642,962	750,858	3,031,214
Balance with other banks	8	29,757,854	119,567,057	6,200,924	25,033,130
Loans to customers	9	113,399,397	455,638,777	18,833,156	76,029,451
Other assets	10	3,152,869	12,668,228	186,315	752,155
Property and equipment	11	4,568,769	18,357,314	832,519	3,360,879
Intangible assets	12	2,915,469	11,714,353	56,605	228,513
TOTAL ASSETS		<u>170,698,796</u>	<u>685,867,761</u>	<u>26,927,441</u>	<u>108,706,079</u>
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits from customers	13	1,009,079	4,054,479	-	-
Other liabilities	14	7,238,120	29,082,766	1,460,459	5,895,873
Borrowings from shareholders	15	66,000,000	265,188,000	11,000,000	44,407,000
Minimum tax/Current income tax liabilities	17	12,700	51,029	3,402	13,734
Employee benefits	16	285,128	1,145,644	-	-
TOTAL LIABILITIES		<u>74,545,027</u>	<u>299,521,918</u>	<u>12,463,861</u>	<u>50,316,607</u>
EQUITY					
Share capital	18	100,000,000	401,800,000	15,000,000	60,555,000
Accumulated losses		(3,846,231)	(15,454,157)	(536,420)	(2,165,528)
TOTAL EQUITY		<u>96,153,769</u>	<u>386,345,843</u>	<u>14,463,580</u>	<u>58,389,472</u>
TOTAL LIABILITIES AND EQUITY		<u>170,698,796</u>	<u>685,867,761</u>	<u>26,927,441</u>	<u>108,706,079</u>

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

Income statement for the year ended 31 December 2018

		2018		2017	
		US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5) (Restated)
OPERATING INCOME					
Interest income	19	6,380,555	25,637,070	2,095,802	8,460,753
Interest expenses	20	(569,887)	(2,289,806)	-	-
NET INTEREST INCOME		<u>5,810,668</u>	<u>23,347,264</u>	<u>2,095,802</u>	<u>8,460,753</u>
Fees and commission income		250,017	1,004,568	49,381	199,351
Other operating income	21	349,991	1,406,264	82,501	333,057
TOTAL NET OPERATING INCOME		<u>6,410,676</u>	<u>25,758,096</u>	<u>2,227,684</u>	<u>8,993,161</u>
General and administrative expenses	22	(7,759,665)	(31,178,334)	(1,932,977)	(7,803,428)
Employee benefits	16	(285,128)	(1,145,644)	-	-
Allowance for bad and doubtful loans	9	(1,597,228)	(6,417,662)	(156,702)	(632,606)
Minimum tax expense	17	(78,466)	(315,276)	-	-
(LOSS)/PROFIT BEFORE INCOME TAX		<u>(3,309,811)</u>	<u>(13,298,820)</u>	<u>138,005</u>	<u>557,127</u>
Income tax expense	17	-	-	(23,161)	(93,501)
NET (LOSS)/PROFIT FOR THE YEAR		<u>(3,309,811)</u>	<u>(13,298,820)</u>	<u>114,844</u>	<u>463,626</u>

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

Statement of changes in equity for the year ended 31 December 2018

	Share Capital (US\$)	Accumulated losses (US\$)	Total (US\$)
As at 1 January 2017 (Restated)	5,000,000	(651,264)	4,348,736
Additional capital	10,000,000	-	10,000,000
Net profit for the year (Restated)	-	114,844	114,844
As at 31 December 2017 (Restated)	15,000,000	(536,420)	14,463,580
(KHR'000 equivalents - Note 5) (Restated)	60,555,000	(2,165,528)	58,389,472
As at 1 January 2018	15,000,000	(536,420)	14,463,580
Additional capital	85,000,000	-	85,000,000
Net loss for the year	-	(3,309,811)	(3,309,811)
As at 31 December 2018	100,000,000	(3,846,231)	96,153,769
(KHR'000 equivalents - Note 5)	401,800,000	(15,454,157)	386,345,843

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

Statement of cash flows for the year ended 31 December 2018

	Note	2018		2017	
		US\$	KHR'000 (Note 5)	US\$ (Restated)	KHR'000 (Note 5)
CASH FLOWS FROM OPERATING ACTIVITIES					
(Loss)/Profit before income tax	6	(3,309,811)	(13,298,820)	138,005	557,127
<i>Adjustments for:</i>					
Allowance for bad and doubtful loans	9	1,597,228	6,417,662	156,702	632,606
(Gain)/loss on disposal of property and equipment	11	(12,265)	(49,281)	5,520	22,284
Depreciation and amortisation	22	447,453	1,797,867	238,361	962,264
Minimum tax expense	17	78,466	315,276	-	-
		(1,198,929)	(4,817,296)	538,588	2,174,281
<i>Changes in:</i>					
Loans to customers		(95,796,642)	(384,910,908)	(7,885,657)	(31,834,397)
Reserve requirement		(886,222)	(3,560,840)	-	-
Other assets		(2,966,554)	(11,919,614)	(83,080)	(335,395)
Other liabilities		5,711,418	22,948,478	1,040,890	4,202,073
Deposits from customers		1,009,079	4,054,479	-	-
Employee benefits		285,128	1,145,644	-	-
Cash used in operations		(93,842,722)	(377,060,057)	(6,389,259)	(25,793,438)
Income tax paid	17	(69,168)	(277,917)	(21,482)	(86,723)
Net cash used in operating activities		(93,911,890)	(377,337,974)	(6,410,741)	(25,880,161)
CASH FLOWS FROM INVESTING ACTIVITIES					
Statutory deposits		(9,250,000)	(37,166,500)	(500,000)	(2,018,500)
Purchase of property and equipment	11	(4,172,803)	(16,766,322)	(211,400)	(853,422)
Purchase of intangible asset	12	(2,887,619)	(11,602,453)	(49,826)	(201,148)
Proceed from disposal of property and equipment		30,120	121,022	22,800	92,044
Net cash used in investing activities		(16,280,302)	(65,414,253)	(738,426)	(2,981,026)
CASH FLOWS FROM FINANCING ACTIVITIES					
Borrowing from shareholders	23	55,000,000	220,990,000	2,000,000	8,074,000
Capital injection	23	85,000,000	341,530,000	10,000,000	40,370,000
Net cash generated from financing activities		140,000,000	562,520,000	12,000,000	48,444,000

Statement of cash flows (continued) for the year ended 31 December 2018

	2018		2017	
	US\$	KHR'000 (Note 5)	US\$ (Restated)	KHR'000 (Note 5)
NET INCREASE IN CASH AND CASH EQUIVALENTS	29,807,808	119,767,773	4,850,833	19,582,813
CASH AND CASH EQUIVALENTS AT 1 JANUARY	6,268,846	25,307,331	1,418,013	5,724,518
Currency translation difference	-	(119,108)	-	-
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	<u>36,076,654</u>	<u>144,955,996</u>	<u>6,268,846</u>	<u>25,307,331</u>

Cash and cash equivalents comprise the following:

	Note	2018		2017	
		US\$	KHR'000 (Note 5)	US\$ (Restated)	KHR'000 (Note 5)
Cash on hand	6	1,064,975	4,279,070	67,064	270,737
Balances with the National Bank of Cambodia (excluding statutory deposits)	7	4,953,241	19,902,122	858	3,464
Balance with other banks	8	30,058,438	120,774,804	6,200,924	25,033,130
		<u>36,076,654</u>	<u>144,955,996</u>	<u>6,268,846</u>	<u>25,307,331</u>

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

NOTES TO FINANCIAL STATEMENTS

1. Reporting Entity

Prior to 18 July 2018, Prince Bank Plc. was named as Prince Finance PLC (“the Institution”) which was a private limited company formed under the Laws of the Kingdom of Cambodia to operate as a microfinance business in the Kingdom of Cambodia under registration number Co.1511 KH/2015 dated 28 April 2015, issued by the Ministry of Commerce. On 18 July 2018, the National Bank of Cambodia issued a license for the Bank to become a private commercial bank with the name changed to Prince Bank Plc. The transactions was also acknowledged and endorsed with the Ministry of Commerce on 21 August 2018.

The principal activity of the Bank is to carry out all banking business including but not limited to providing all credit operations, including leasing, loan, credit card, guarantee, commitment under signature and any other form of financing operations, deposit taking from public and other permissible financial services in the Kingdom of Cambodia.

The Bank currently operates in 9 locations including Head office located in Phnom Penh.

The registered office of the Bank is located at No. 175CD, Mao Tse Tung Blvd, Sangkat Toul Svay Prey I, Khan Chamkarmon, Phnom Penh, Kingdom of Cambodia.

As at 31 December 2018, the Bank had 661 employees (31 December 2017: 168 employees).



2. Basis of Preparation

(a) Statement of compliance

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

The financial statements were approved and authorised for issue by the Board of Directors on 14 March 2019.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

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

(d) Use of estimates and judgments

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

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

Key accounting estimates and judgements applied in the preparation of financial statements include estimates of recoverable amounts for loans to customers which have a separate accounting policy stated in Note 3(g).

3. Significant Accounting Policies

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

(a) Foreign currency transactions

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

(b) Financial instruments

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

(c) Cash and cash equivalents

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

(d) Balances with the National Bank of Cambodia and other banks

Deposits and placements with the NBC are stated at cost.

Deposits and placements with other banks are stated at cost less impairment for any uncollectable amounts.

3. Significant Accounting Policies (continued)

(e) Statutory deposits

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

(f) Loans to customers

Loans to customers are stated in the balance sheet at the amount of principal outstanding less any amounts written off and specific and general allowances.

(g) Allowance for bad and doubtful loans

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

Prior to 1 January 2018

The Company (Prince Finance Plc.) records the mandatory credit classification and provisioning as required by Prakas B7-02-186 Pro Kor dated 13 September 2002. The Prakas requires microfinance institution to classify their loan portfolio into the following four classes and ensure that the minimum mandatory level of specific provisioning is provided:

CLASSIFICATION	NUMBER OF DAYS PAST DUE	ALLOWANCE
Short-term loans (less than or equal to one year):		
Standard (*)	0 - 29 days	1%
Substandard	30 - 59 days	10%
Doubtful	60 - 89 days	30%
Loss	90 days or more	100%
Long-term loans (more than one year):		
Standard (*)	0 - 29 days	1%
Substandard	30 - 179 days	10%
Doubtful	180 - 359 days	30%
Loss	360 days or more	100%

(*) 1% of general provision has been provided as compared to 0% as required in the Prakas B7-02-186 Pro Kor.

3. Significant Accounting Policies (continued)

(g) Allowance for bad and doubtful loans (continued)

From 1 January 2018

The NBC issued Prakas No. B7-017-344 dated 1 December 2017 on Credit Risk Grading and Provision on Impairment and Circular No. B7-018-001 dated 16 February 2018 on the Implementation of Prakas on Credit Risk Grading and Provision on Impairment, which require all banks and financial institutions ("Institution") to measure the impairment and provide sufficient allowance for bad and doubtful loans based on the new credit risk grading and provision as follows:

CLASSIFICATION	NUMBER OF DAYS PAST DUE	ALLOWANCE
Short-term loans (less than or equal one year):		
Normal/standard	≤ 14 days	1%
Special mention	15 days - 30 days	3%
Substandard	31 days - 60 days	20%
Doubtful	61 days - 90 days	50%
Loss	≥ 91 days	100%

CLASSIFICATION	NUMBER OF DAYS PAST DUE	ALLOWANCE
Short-term loans (less than or equal one year):		
Normal/standard	<30 days	1%
Special mention	≥ 30 days - 89 days	3%
Substandard	≥ 90 days - 179 days	20%
Doubtful	≥ 180 days - 359 days	50%
Loss	More than 359 days	100%

The change in the credit risk grading and provisioning is applied prospectively and the effect of this change resulted in increase in allowance for bad and doubtful loans for the year ended 31 December 2018 of US\$47,883.

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

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

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

Recoveries on loans previously written off and reversal of previous allowances are disclosed as other income in the income statement.

3. Significant Accounting Policies (continued)

(h) Other credit related commitments

In the normal course of business, the Bank enters into other credit related commitments including loan commitments. The accounting policy and regulatory provision followed the National Bank of Cambodia's Prakas No. B7-017-344 and Circular No. B7-018-001 Sor Ror Chor Nor in Note 3(g) above.

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

(i) Interest in suspense

Interest in suspense represents interest on non-performing loans to customers, that is recorded as an allowance rather than income until it is realised on a cash basis.

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

(j) Other assets

Other assets are stated at cost less allowance for losses.

(k) Property and equipment

(i) 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 comprises major components having different useful lives, the components are accounted for as separate items of property and equipment.

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

	2018	2017
Leasehold improvement	10 years	5 years
Motor vehicles	4 - 8 years	5 years
Computer equipment	4 years	4 years
Office furniture and fixtures	4 years	4 years
Other fixed assets	4 years	4 years

3. Significant Accounting Policies (continued)

(k) Property and equipment (continued)

During the year, the Bank has revised the useful life of Leasehold improvement and Motor vehicles which resulted in a decrease of depreciation expense for the year ended 31 December 2018 amounting to US\$38,746.

Assets under constructions is not depreciated until such time as the relevant assets are completed and put into operational use.

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

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

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

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

(l) Intangible assets

Intangible assets consist of computer software and Core Banking Licence and are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Acquired computer software is capitalised on the basis of the cost incurred to acquire the specific software and bring it into use. Intangible assets are amortised on a straight-line basis over their specific useful life or estimated useful lives of 10 years. Assets under constructions is not depreciated until such time as the relevant assets are completed and put into operational use.

During the year, the Bank revised the useful life of computer software from 4 to 10 years which resulted in a decrease of amortisation expense for the year ended 31 December 2018 amounting to US\$21,244.

3. Significant Accounting Policies (continued)

(m) Impairment

(i) Financial assets

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

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

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

All impairment losses are recognised in the income statement.

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

(ii) Non-financial assets

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

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

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

(n) Deposits from customers and other financial institutions

Deposits from customers and other financial institutions are stated at cost.

3. Significant Accounting Policies (continued)

(o) Borrowings

Borrowings are stated at the amount of the principal outstanding. Fees paid on the establishment of borrowing facilities are capitalised and amortised over the year of the borrowings using the straight-line method.

Borrowing costs (interest expense) shall be recognised as an expense in the year in which they are incurred, except to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalised as part of the cost of that asset.

(p) Employee benefits

(i) Short-term employee benefits

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

(ii) Other long-term employee benefits

The Bank's net obligation in respect of long-term employee benefits is the amount of the benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

The Bank provides pension fund benefit scheme to all employees who complete the year of service for 2 years or more. The entitled employees are granted with 8% of monthly salary aggregated from the first day of employment.

The pension fund is subject to be paid to employees upon their retirement, resignation or termination of employment.

Based on the resolution dated 2 January 2019 approved by the Bank, the Board of Directors decided to fully pay pension fund to staff who completed year of service for 2 years or more in 2019 and terminate the pension fund policy. The Bank starts to pay seniority indemnity as required by the Ministry of Labour and Vocational Training from 1 January 2019 onward.

(q) Provisions

Provisions are recognised in the balance sheet 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 economic benefits will be required to settle the obligation. Provisions are measured at the present value of the expenditure expected to be required to settle obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3. Significant accounting policies (continued)

(r) Income recognition

Interest income on performing loans to customers and deposits with the NBC and other banks are recognised on a daily accrual basis. Interest on non-performing loans is recorded as interest in suspense rather than income until it is realised on a cash basis.

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

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

In 2018, the Bank has changed in accounting policy for the recognition of loan processing fees from cash basis (recognised as income on the occurrence of such transactions) to the amortisation method, on a straight line basis over the term of the loans.

The effects of changes in accounting policy on corresponding figures are as follows:

	AS PREVIOUSLY REPORTED US\$	AS RESTATED US\$
BALANCE SHEET		
Unearned income	-	179,829
Accumulated losses	(356,591)	(536,420)
INCOME STATEMENT		
Fee and commission income	-	49,381
Other operating income	252,550	82,501

(s) Interest expense

Interest expense on deposits is recognised on a daily accruals basis.

3. Significant accounting policies (continued)

(t) Operating leases

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

(u) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised as a component of shareholders' equity, in which case it is also disclosed as a component of shareholders' equity.

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

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available to permit the realisation of the asset. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(v) Related parties

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

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

4. New Financial Reporting Framework

On 28 August 2009, the National Accounting Council of the Ministry of Economy and Finance (“the National Accounting Council”) announced the adoption of Cambodian International Financial Reporting Standards (“CIFRS”) which are based on all standards published by the International Financial Reporting Standards Board (“IASB”), including the related interpretations and amendments. Public accountable entities are required to prepare their financial statements in accordance with CIFRS for accounting period beginning on or after 1 January 2012.

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

5. Translation of United States Dollars Into Khmer Riels

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

6. Cash On Hand

	2018		2017	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Cash on hand				
US Dollars	1,040,082	4,179,050	63,881	257,888
Khmer Riel	24,893	100,020	3,183	12,849
	<u>1,064,975</u>	<u>4,279,070</u>	<u>67,064</u>	<u>270,737</u>

7. Balance with the National Bank of Cambodia

	2018		2017	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Statutory deposit				
Capital guarantee deposit	10,000,000	40,180,000	750,000	3,027,750
Reserve deposits	886,222	3,560,840	-	-
	<u>10,886,222</u>	<u>43,740,840</u>	<u>750,000</u>	<u>3,027,750</u>
Current accounts (*)	4,953,241	19,902,122	858	3,464
	<u>15,839,463</u>	<u>63,642,962</u>	<u>750,858</u>	<u>3,031,214</u>

Capital guarantee deposit

Under Prakas B7-01-136 dated 15 October 2001, banks are required to maintain a statutory deposit of 10% of registered capital with the NBC. This deposit is not available for use in the Bank's day-to-day operations but it is refundable when the Bank voluntarily ceases to operate the business in Cambodia. The capital guarantee deposit earns interest ranging from 0.46% to 0.62% per annum during the year (2017: 0.20% to 0.22% per annum).

Prior to 18 July 2018, Prince Finance Plc., which operated as a microfinance institution, was required to maintain a statutory capital deposit with the NBC of 5% of registered capital in compliance with Prakas B7-00-006 Pro Kor dated 11 January 2000 and B7-06-209 Pro Kor dated 13 September 2006 on the Licensing of Microfinance Institutions. This deposit is refundable should the Institution voluntarily liquidate.

Reserve deposits

Under NBC Prakas No. B7-018-282 dated 29 August 2018, banks are required to maintain certain cash reserves with the NBC in the form of compulsory deposits, computed at 8.00% and 12.50% of customer deposits and borrowings in KHR and in foreign currencies, respectively. The reserve deposits earns interest at 0.55% per annum.

Prior to 18 July 2018, Prince Finance Plc. was a non-deposit taking Microfinance. Therefore, there was no reserve deposits required.

Current accounts

Current accounts with the NBC bear no interest.

8. Balances With Other Banks

	2018		2017	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
31st December				
In Cambodia:				
Saving accounts	9,055,050	36,383,191	6,198,810	25,024,596
Current accounts	21,003,388	84,391,613	2,114	8,534
	<u>30,058,438</u>	<u>120,774,804</u>	<u>6,200,924</u>	<u>25,033,130</u>
Regulatory allowance (Note 9(a,i))	(300,584)	(1,207,747)	-	-
	<u>29,757,854</u>	<u>119,567,057</u>	<u>6,200,924</u>	<u>25,033,130</u>
Accounts are analysed as follows:				
(A) BY MATURITY:				
Within one month	<u>30,058,438</u>	<u>120,774,804</u>	<u>6,200,924</u>	<u>25,033,130</u>
(B) BY CURRENCY:				
US Dollars	28,610,158	114,955,615	6,146,463	24,813,271
Khmer Riel	1,448,280	5,819,189	54,461	219,859
	<u>30,058,438</u>	<u>120,774,804</u>	<u>6,200,924</u>	<u>25,033,130</u>

	31 DECEMBER 2018	31 DECEMBER 2017
(C) BY INTEREST RATE (PER ANNUM):		
Saving accounts	0.25% - 0.50%	0.00%
Current accounts	0.00%	0.00%

9. Loans to Customers

	2018		2017	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
31st December				
Short term loans	6,119,084	24,586,480	1,427,936	5,764,577
Long term loans	108,093,350	434,319,080	17,543,365	70,822,565
	<u>114,212,434</u>	<u>458,905,560</u>	<u>18,971,301</u>	<u>76,587,142</u>
Total loans, gross				
Net interest receivable:				
Accrued interest receivable	736,861	2,960,707	147,367	594,920
Interest in suspense	(51,375)	(206,425)	(17,390)	(70,203)
	<u>685,486</u>	<u>2,754,282</u>	<u>129,977</u>	<u>524,717</u>
Total gross loans and net interest receivable	<u>114,897,920</u>	<u>461,659,842</u>	<u>19,101,278</u>	<u>77,111,859</u>
Allowance for bad and doubtful loans:				
General	(1,130,470)	(4,542,229)	(187,009)	(754,955)
Specific	(368,053)	(1,478,836)	(81,113)	(327,453)
	<u>(1,498,523)</u>	<u>(6,021,065)</u>	<u>(268,122)</u>	<u>(1,082,408)</u>
Loans to customers - net	<u>113,399,397</u>	<u>455,638,777</u>	<u>18,833,156</u>	<u>76,029,451</u>

9. Loans to Customers (Continued)

31st December

	2018		2017	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
(A) ALLOWANCE FOR BAD AND DOUBTFUL LOANS				
(i) Allowance for bad and doubtful loans recognised in income statement:				
Allowance for bad and doubtful loans	1,230,401	4,943,751	156,702	632,606
Allowance for off-balance sheet Items (Note 14)	66,243	266,164	-	-
Regulatory allowance for balance with other banks (Note 8)	300,584	1,207,747	-	-
	<u>1,597,228</u>	<u>6,417,662</u>	<u>156,702</u>	<u>632,606</u>
(ii) Movements of allowance for bad and doubtful loans:				
Balance at 1 January	268,122	1,082,408	111,420	449,802
Allowance for the year				
General	943,461	3,790,826	97,890	395,182
Specific	286,940	1,152,925	58,812	237,424
Currency translation difference	-	(5,094)	-	-
	<u>1,498,523</u>	<u>6,021,065</u>	<u>268,122</u>	<u>1,082,408</u>
Loans to customers are analysed as follows:				
(B) BY MATURITY				
Within 1 month	1,909,731	7,673,300	50,125	202,355
> 1 to 3 months	5,851,182	23,510,049	-	-
> 3 to 12 months	8,059,856	32,384,501	1,397,117	5,640,161
Within 1- 5 years	42,851,063	172,175,571	4,564,613	18,427,343
Over 5 years	55,540,602	223,162,139	12,959,446	52,317,283
	<u>114,212,434</u>	<u>458,905,560</u>	<u>18,971,301</u>	<u>76,587,142</u>
(C) BY CURRENCY				
US Dollar	109,712,812	440,826,079	18,965,871	76,565,221
Khmer Riel	4,499,622	18,079,481	5,430	21,921
	<u>114,212,434</u>	<u>458,905,560</u>	<u>18,971,301</u>	<u>76,587,142</u>

9. Loans to Customers (Continued)

31st December

	2018		2017	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Loans to customers are analysed as follows (continued):				
(D) BY RELATIONSHIP				
Non-related parties	112,920,869	453,716,052	18,119,752	73,149,439
Related parties:				
Staff loans	1,291,565	5,189,508	851,549	3,437,703
	<u>114,212,434</u>	<u>458,905,560</u>	<u>18,971,301</u>	<u>76,587,142</u>
(E) BY ECONOMIC SECTOR				
Household/Family	40,689,753	163,491,428	7,709,357	31,122,674
Trade and commerce	19,433,817	78,085,077	4,283,048	17,290,665
Services	1,285,230	5,164,054	3,496,276	14,114,466
Transportation	1,734,547	6,969,410	518,612	2,093,637
Building and constructions	23,786,802	95,575,370	481,990	1,945,794
Agriculture	2,684,657	10,786,952	352,891	1,424,621
Others	24,597,628	98,833,269	2,129,127	8,595,285
	<u>114,212,434</u>	<u>458,905,560</u>	<u>18,971,301</u>	<u>76,587,142</u>
(F) BY PERFORMANCE/CLASSIFICATION				
Normal loans:				
Secured	112,888,739	453,586,953	18,700,926	75,495,638
Unsecured	32,335	129,922	-	-
Special mention loans:				
Secured	540,523	2,171,821	-	-
Unsecured	-	-	-	-
Substandard loans:				
Secured	335,819	1,349,321	270,375	1,091,504
Unsecured	-	-	-	-
Doubtful loans:				
Secured	260,689	1,047,449	-	-
Unsecured	-	-	-	-
Loss loans:				
Secured	154,329	620,094	-	-
Unsecured	-	-	-	-
	<u>114,212,434</u>	<u>458,905,560</u>	<u>18,971,301</u>	<u>76,587,142</u>

9. Loans to Customers (Continued)

31st December

	2018		2017	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Loans to customers are analysed as follows (continued):				
(G) BY RESIDENCY STATUS				
Residents	114,212,434	458,905,560	18,971,301	76,587,142
(H) BY EXPOSURE				
Non-large exposure	114,212,434	458,905,560	18,971,301	76,587,142

Large exposure is defined under NBC Prakas as overall gross exposure to any single beneficiary that exceeds 10% of the Bank's net worth. The exposure is the higher of the outstanding loans or commitments and the authorised loans or commitments.

	31 DECEMBER 2018	31 DECEMBER 2017
(I) BY INTEREST RATE (PER ANNUM):		
Term loan	7% - 22.8%	9% - 22.8%
Staff loan	8% - 9%	9%

10. Other Assets

31st December

	2018		2017	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
			(Restated)	
Prepayments	1,586,071	6,372,834	57,673	232,826
Advances and deposits	1,498,570	6,021,254	87,000	351,219
Others	68,228	274,140	41,642	168,110
	3,152,869	12,668,228	186,315	752,155

11. Property and Equipment

2018	Leasehold improvement		Motor vehicles		Computer equipment		Office furniture and fixtures		Assets under construction		Total	
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	KHR'000 (Note 5)
COST												
As at 1 January 2018	50,0283	409,812	139,429	105,571	33,977	1,189,072	4,800,284					
Additions	11,927	1,529,308	560,811	612,119	1,458,638	4,172,803	16,766,322					
Disposal	-	(35,743)	-	-	-	(35,743)	(143,615)					
Currency translation difference	-	-	-	-	-	-	(22,593)					
As at 31 December 2018	512,210	1,903,377	700,240	717,690	1,492,615	5,326,132	21,400,398					
LESS: ACCUMULATED DEPRECIATION												
As at 1 January 2018	168,358	86,722	59,398	42,075	-	356,553	1,439,405					
Depreciation for the year	89,762	172,856	78,086	77,994	-	418,698	1,682,327					
Disposal	-	(17,888)	-	-	-	(17,888)	(71,872)					
Currency translation difference	-	-	-	-	-	-	(6,776)					
As at 31 December 2018	258,120	241,690	137,484	120,069	-	757,363	3,043,084					
CARRYING AMOUNTS												
As at 31 December 2018	254,090	1,661,687	562,756	597,621	1,492,615	4,568,769	18,357,314					

11. Property and Equipment (Continued)

2017	Leasehold improvement		Motor vehicles		Computer equipment		Office furniture and fixtures		Assets under construction		Total	
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	KHR'000 (Note 5)
COST												
As at 1 January 2017	490,176	280,457	108,164	91,747	49,128	1,019,672	4,116,416					
Additions	10,107	171,355	29,938	-	-	211,400	853,422					
Disposal	-	(42,000)	-	-	-	(42,000)	(169,554)					
Transfers	-	-	1,327	13,824	(15,151)	-	-					
As at 31 December 2017	500,283	409,812	139,429	105,571	33,977	1,189,072	4,800,284					
LESS: ACCUMULATED DEPRECIATION												
As at 1 January 2017	69,202	35,664	29,232	20,009	-	154,107	622,130					
Depreciation for the year	99,156	64,738	30,166	22,066	-	216,126	872,501					
Disposal	-	(13,680)	-	-	-	(13,680)	(55,226)					
As at 31 December 2017	168,358	86,722	59,398	42,075	-	356,553	1,439,405					
CARRYING AMOUNTS												
As at 31 December 2018	331,925	323,090	80,031	63,496	33,977	832,519	3,360,879					

12. Intangible Assets

	2018			
	Computer software US\$	Assets under construction KHR'000 (Note 5)	Total US\$	Total KHR'000 (Note 5)
COST				
As at 1 January 2018	97,277	-	97,277	392,708
Addition	456,694	2,430,925	2,887,619	11,602,453
Currency translation difference	-	-	-	(1,849)
As at 31 December 2018	553,971	2,430,925	2,984,896	11,993,312
LESS: ACCUMULATED AMORTISATION				
As at 1 January 2018	40,672	-	40,672	164,193
Amortisation for the year	28,755	-	28,755	115,538
Currency translation difference	-	-	-	(772)
As at 31 December 2018	69,427	-	69,427	278,959
CARRYING AMOUNTS				
As at 31 December 2018	484,544	2,430,925	2,915,469	11,714,353

	2017	
	Computer software US\$	Computer software KHR'000 (Note 5)
COST		
As at 1 January 2017	47,451	191,559
Addition	49,826	201,148
As at 31 December 2017	97,277	392,707
LESS: ACCUMULATED AMORTISATION		
As at 1 January 2017	18,437	74,431
Amortisation for the year	22,235	89,763
As at 31 December 2017	40,672	164,194
CARRYING AMOUNTS		
As at 31 December 2017	56,605	228,513

13. Deposits from Customers

	31st December 2018	
	US\$	KHR'000 (Note 5)
Current accounts	771,329	3,099,200
Savings deposits	237,550	954,476
Term deposits	200	803
	<u>1,009,079</u>	<u>4,054,479</u>

The above deposits from customers are analysed as follows:

	31st December 2018	
	US\$	KHR'000 (Note 5)
(A) BY MATURITY		
Within 1 month	1,008,879	4,053,676
> 1 to 3 months	160	642
> 3 to 6 months	10	40
> 6 to 12 months	30	121
	<u>1,009,079</u>	<u>4,054,479</u>
(B) BY TYPE OF CUSTOMERS		
Business enterprises	798	3,206
Individuals	1,008,281	4,051,273
	<u>1,009,079</u>	<u>4,054,479</u>
(C) BY CURRENCY		
US Dollar	1,001,457	4,023,854
Khmer Riel	7,622	30,625
	<u>1,009,079</u>	<u>4,054,479</u>
(D) BY RESIDENCY STATUS		
Resident	982,963	3,949,545
Non-resident	26,116	104,934
	<u>1,009,079</u>	<u>4,054,479</u>

13. Deposits from Customers (Continued)

The above deposits from customers are analyzed as follows (continued):

	31st December 2018	
	US\$	KHR'000 (Note 5)
(E) BY RELATIONSHIP		
Related parties (Note 23 (a))	4,536	18,226
Non-related parties	1,004,543	4,036,253
	<u>1,009,079</u>	<u>4,054,479</u>

	31st December 2018	
(F) BY INTEREST RATE (PER ANNUM)		
Current accounts		0.00%
Saving deposits		1.00% - 1.25%
Term deposits		2.75% - 3.25%

14. Other Liabilities

	2018		2017	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
			(Restated)	
Amounts due to related parties (*) (Note 23(a))	4,870,658	19,570,304	883,614	3,567,150
Settlement account payables	-	-	372,991	1,505,765
Unearned income	1,093,243	4,392,650	179,829	725,970
Accrued bonus/incentive payable	321,530	1,291,908	3,116	12,579
Accrued tax payable	184,099	739,710	9,867	39,833
Allowance for off-balance sheet Items (Note 9(a,i))	66,243	266,164	-	-
Other payables	702,347	2,822,030	11,042	44,576
	<u>7,238,120</u>	<u>29,082,766</u>	<u>1,460,459</u>	<u>5,895,873</u>

14. Other Liabilities (Continued)

(*) The Bank entered into a Memorandum of Understanding with Prince Real Estate (Cambodia) Group Co., Ltd to provide loans to customers who buy properties from its projects. The Bank will repay the down payments to two related companies, Prince Real Estate (Cambodia) Group Co., Ltd and Xin Tian Jian (Cambodia) Real Estate Development Co., Ltd, based on the respective projects they are handling.

15. Borrowings from Shareholders

	2018		2017	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Mr. Chen Zhi (Note 23(a))	66,000,000	265,188,000	6,000,000	24,222,000
Mr. Guy Chhay	-	-	5,000,000	20,185,000
	<u>66,000,000</u>	<u>265,188,000</u>	<u>11,000,000</u>	<u>44,407,000</u>

On 14 July 2016, the Bank entered into a loan agreement with Mr. Chen Zhi, the shareholder of the Bank with total amount of US\$6 million. During 2018, the Bank entered into other loan agreements with him for additional loans of US\$55 million.

On 5 June 2015 and 17 December 2015, the Bank entered into the loan agreements with Mr. Guy Chhay, another shareholder of the Bank, for facilities amounting to US\$2 million and US\$3 million respectively. On 8 February 2018, Mr. Guy Chhay entered into a settlement agreement with Mr. Chen Zhi to transfer these facilities to Mr. Chen Zhi. Therefore, the outstanding borrowings from Mr. Chen Zhi is US\$66 million as at 31 December 2018. The loans are unsecured and bear interest rate at 4% per annum (Note 21). The outstanding loan is subject to be repaid by two instalments, US\$36 million on 20 August 2019 and US\$30 million on 12 December 2019.

16. Employee Benefits

31st December 2018

	US\$	KHR'000 (Note 5)
Pension fund	177,253	712,202
Seniority indemnity	107,875	433,442
	<u>285,128</u>	<u>1,145,644</u>

Prior to the issuance of the Prakas number 443 MoLVT on Payment of Seniority Indemnity from the Ministry of Labour and Vocational Training dated 21 September 2018, all employees who have been working with the Bank for more than 2 years (from the first date of employment) are entitled to 8% of monthly salary upon their resignation/retirement which was known as pension fund.

Upon the issuance of the above Prakas, the condition to pay upon resignation/retirement is no longer required and the Bank starts to pay to existing employees who have been working with the Bank for more than 2 years on a quarterly basis starting from 2019. Furthermore, for employee who does not meet the pension fund entitlement period and new employees recruited from 2019, they are entitled to seniority payment in according to the merit of the above Prakas:

- Current Seniority Indemnity: Employees who have worked from 1 month to 6 months (not including probation period) by June 30, or December 31, will receive seniority indemnity equal to 7.5 days.
- Back Pay Seniority Indemnity: Employees who have worked under permanent contract from 1 month to 6 months in fiscal year will receive payment of seniority indemnity equal to 7.5 days, in case over 6 months but less than 2 years will receive seniority indemnity equal to 15 days.

17. Income Tax

(a) Minimum tax/Current tax liabilities

Ended 31st December

	2018		2017	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
As at 1 January	3,402	13,734	1,723	6,956
Income tax expense	78,466	315,276	23,161	93,501
Income tax paid	(69,168)	(277,917)	(21,482)	(86,723)
Currency translation difference	-	(64)	-	-
As at 31 December	<u>12,700</u>	<u>51,029</u>	<u>3,402</u>	<u>13,734</u>

17. Income Tax (Continued)

(b) Minimum tax/Income tax expense

In accordance with Cambodian law on taxation, the Bank has an obligation to pay corporate income tax at the rate of 20% of taxable profits.

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

Ended 31 December

	2018		2017	
	US\$	KHR'000 (Note 5)	US\$ (Restated)	KHR'000 (Note 5)
(Loss)/Profit before income tax	(3,309,811)	(13,298,820)	138,005	557,127
Minimum tax expense	78,466	315,276	-	-
	<u>(3,231,345)</u>	<u>(12,983,544)</u>	<u>138,005</u>	<u>557,127</u>
Tax calculated at a rate of 20%	(646,269)	(2,596,709)	27,601	111,425
<i>Tax effects in respect of:</i>				
Non-deductible expenses	232,396	933,767	(4,440)	(17,924)
Unrecognised deferred tax assets	413,873	1,662,942	-	-
Income tax expense	<u>-</u>	<u>-</u>	<u>23,161</u>	<u>93,501</u>

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

(c) Unrecognised deferred tax assets

Deferred tax assets are not recognised in the financial statements because it is not probable that future taxable profits will be available against which the Bank can use benefits therefrom.

18. Share Capital

Ended 31 December

	2018		2017	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Registered, issued and paid up 10,000 shares at US\$1,000 each	100,000,000	401,800,000	15,000,000	60,555,000

The detailed shareholding structure is as follows:

Ended 31 December

	2018			2017		
	% of ownership	Number of shares	Amount US\$	% of ownership	Number of shares	Amount US\$
Mr. Chen Zhi	98.9	98,900	98,900,000	92.67	13,900	13,900,000
Mr. Guy Chhay	1.1	1,100	1,100,000	7.33	1,100	1,100,000
	100	100,000	100,000,000	100	15,000	15,000,000
(KHR'000 equivalents - Note 5)	-	-	401,800,000	-	-	60,555,000

On 6 July 2018, the additional share capital amounting to US\$85million was injected by the shareholders to increase the share capital to US\$100 million via the issuance of 100,000 ordinary shares of US\$1,000 per shares in order to convert the Bank from microfinance to a commercial bank. The transaction was approved by the National Bank of Cambodia ("NBC") on 18 July 2018 and the new Memorandum and Articles of Association was endorsed with the Ministry of Commerce on 21 August 2018.

19. Interest Income

	2018		2017	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Loans to customers	6,343,530	25,488,304	2,095,802	8,460,753
Deposits and placements with banks	37,025	148,766	-	-
	6,380,555	25,637,070	2,095,802	8,460,753

20. Interest Expenses

	2018		2017	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Deposits from customers	792	3,182	-	-
Borrowings from shareholders (Note 23(b))	569,095	2,286,624	-	-
	569,887	2,289,806	-	-

21. Other Operating Income

	2018		2017	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
			(Restated)	
Penalty of late and early loan repayment	132,907	534,020	33,402	134,844
Foreign exchange gain	123,320	495,500	14,161	57,168
Gain on disposal of property and equipment	12,265	49,281	-	-
Others	81,499	327,463	34,938	141,045
	349,991	1,406,264	82,501	333,057

22. General and Administrative Expenses

	2018		2017	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Salaries and wages	3,369,745	13,539,635	982,741	3,967,325
Marketing and advertising expense	1,073,316	4,312,584	36,575	147,653
Rental expenses	670,414	2,693,724	200,402	809,023
Other personnel cost	538,241	2,162,652	32,129	129,705
Depreciation and amortisation	447,453	1,797,867	238,361	962,264
Transportation	281,447	1,130,854	90,712	366,204
Professional fee	213,358	857,272	27,527	111,126
Office supplies	182,148	731,871	72,359	292,113
Representation and entertainment	141,913	570,206	56,509	228,127
Utilities	110,156	442,607	35,319	142,583
Directors' fee (Note 23(b))	65,500	263,179	-	-
Communication expense	71,899	288,890	49,618	200,308
Charitable donation	54,638	219,535	21,396	86,376
Security and insurance expenses	50,417	202,576	9,065	36,595
License and membership fees	41,688	167,502	28,645	115,640
Printing expenses	17,214	69,166	12,575	50,765
Repair and maintenance	16,552	66,506	6,058	24,456
Loss on disposal of assets	-	-	5,520	22,284
Miscellaneous expense	413,566	1,661,708	27,466	110,881
	<u>7,759,665</u>	<u>31,178,334</u>	<u>1,932,977</u>	<u>7,803,428</u>

23. Related Party Balances and Transactions

(a) Related party balances

	2018		2017	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
				31st December
<i>Deposit from related party (Note 13)</i>				
Deposits from Key management team	<u>4,536</u>	<u>18,226</u>	<u>-</u>	<u>-</u>
<i>Borrowings from shareholders (Note 15)</i>				
Mr. Chen Zhi borrowings	<u>66,000,000</u>	<u>265,188,000</u>	<u>6,000,000</u>	<u>24,222,000</u>
Mr. Guy Chhay borrowings	<u>-</u>	<u>-</u>	<u>5,000,000</u>	<u>20,185,000</u>
<i>Loans to related parties</i>				
Due from Mr. Guy Chhay	<u>-</u>	<u>-</u>	<u>192,831</u>	<u>778,459</u>
Loans to key management team	<u>265,306</u>	<u>1,066,000</u>	<u>209,494</u>	<u>845,727</u>
<i>Amount due to related parties (Note 14)</i>				
Prince Real Estate (Cambodia) Group Co., Ltd	<u>4,386,192</u>	<u>17,623,719</u>	<u>883,614</u>	<u>3,567,150</u>
Xin Tian Jian (Cambodia) Real Estate Development Co., Ltd	<u>484,466</u>	<u>1,946,585</u>	<u>-</u>	<u>-</u>
	<u>4,870,658</u>	<u>19,570,304</u>	<u>883,614</u>	<u>3,567,150</u>

(b) Related party transactions

	2018		2017	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
				31st December
<i>Borrowings from shareholders</i>				
Proceeds from borrowings	<u>55,000,000</u>	<u>220,990,000</u>	<u>2,000,000</u>	<u>8,074,000</u>
Interest expense (Note 20)	<u>569,095</u>	<u>2,286,624</u>	<u>-</u>	<u>-</u>
<i>Share capital injection</i>				
Capital injection	<u>85,000,000</u>	<u>341,530,000</u>	<u>10,000,000</u>	<u>40,370,000</u>
<i>Board of directors and shareholders</i>				
Directors' fee (Note 22)	<u>65,500</u>	<u>263,179</u>	<u>-</u>	<u>-</u>
Key management remuneration	<u>585,573</u>	<u>2,352,833</u>	<u>59,135</u>	<u>238,728</u>

24. Commitments and Contingencies

(a) Lease commitments

The Bank had entered into non-cancellable lease agreements for office space, resulting in future rental commitments. As at 31 December 2018, the Bank has outstanding commitments under non-cancellable operating leases that fall due, as follows:

	2018		2017	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Not later than one year	1,371,389	5,510,241	218,400	881,681
Later than one year and not later than five years	7,565,640	30,398,742	660,460	2,666,277
Over five years	479,600	1,927,033	630,124	2,543,811
	<u>9,416,629</u>	<u>37,836,016</u>	<u>1,508,984</u>	<u>6,091,769</u>

(b) Capital commitments

	2018		2017	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Intangible assets	2,626,338	10,552,627	-	-

(c) Credit commitments

	2018		2017	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Unused portion of loans	7,076,902	28,434,993	-	-

The Bank has provided provision of this balance according to the NBC's Prakas No. B7-017-344 on Credit Risk Grading and Impairment Provision. See Note 9 to the financial statements.

24. Commitments and Contingencies (Continued)

(d) Taxation contingencies

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

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

25. Financial Risk Management

The Bank has exposure to the following risks:

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

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

(a) Operational risk

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

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

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

25. Financial Risk Management (Continued)

(b) Credit risk

The Bank takes on exposure to credit risk, which is the risk that 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 exposures arise principally in activities that lead to loans and advances. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management is carried out by the credit committee.

(i) Credit risk measurement

The Bank has established the Core Credit Risk Policy which is designed to govern the Bank's risk undertaking activities. Extension of credit is governed by credit programmes that set out the plan for a particular product or portfolio, including the target market, terms and conditions, documentation and procedures under which a credit product will be offered and measured.

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

(ii) Risk limit control and mitigation policies

The Bank operates and provides loans to customers 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 single 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 aggregation 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 to customers to customers, which is a common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation.

The principal collateral types to secure for loans to customers 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.

25. Financial Risk Management (Continued)

(b) Credit risk (continued)

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

The table below presents the maximum credit risk exposure of the Bank, without taking into account any collateral held or other credit enhancement. For on-balance sheet assets the exposures are based on net carrying amounts. For credit related commitment, the maximum exposure to credit risk represents the full amount of irrecoverable committed facilities.

31st December

	2018		2017	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Balance with the NBC (excluding statutory deposits)	4,953,241	19,902,122	858	3,464
Balance with other banks	30,058,438	120,774,804	6,200,924	25,033,130
Loans to customers	114,212,434	458,905,560	18,971,301	76,587,142
Other assets	3,152,869	12,668,228	186,315	752,154
	<u>152,376,982</u>	<u>612,250,714</u>	<u>25,359,398</u>	<u>102,375,890</u>

The Bank deposits short-term excess liquidity with banks leading to counter party risk exposure. The Bank manages counter party risk exposure by performing due diligence on individual counter parties, having counterparty limits and diversifying the deposits to different banks.

Off-balance sheet items:

The details of credit risk exposure relating to off-balance sheet items are disclosed in Note 24 on Commitments and contingencies.

25. Financial Risk Management (Continued)

(b) Credit risk (continued)

(iv) Exposure to credit risk

Maximum exposure to credit risk before collateral held or other credit enhancements.

31st December

	2018		2017	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Loans to customers neither past due nor impaired	112,921,074	453,716,875	18,700,926	75,495,638
Loans to customers past due but not impaired	540,523	2,171,821	-	-
Loans to customers individually impaired	750,837	3,016,864	270,375	1,091,504
Loans to customers - gross	<u>114,212,434</u>	<u>458,905,560</u>	<u>18,971,301</u>	<u>76,587,142</u>
Less:				
Allowance for bad and doubtful loans	(1,498,523)	(6,021,065)	(268,122)	(1,082,408)
Unamortised loan fees	(1,093,243)	(4,392,650)	(179,829)	(725,970)
Loans to customers	<u>111,620,668</u>	<u>448,491,845</u>	<u>18,523,350</u>	<u>74,778,764</u>

Impaired loans to customers

Individually impaired loans to customers are loans to customers for which the Bank determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loans to customers. In compliance with NBC Guidelines, an allowance for bad and doubtful loans is made for loans to customers with payment overdue more than 30 days for short-term loans and 90 days for long-term loans. A minimum level of specific provision for impairment is made depending on the classification concerned, unless other information is available to substantiate the repayment capacity of the counterparty.

Past due but not impaired loans to customers

Past due but not impaired loans to customers are those for which contractual interest or principal payments are past due more than 15 days but less than 31 days for short-term loans and 30 days but less than 90 days for loan-term loans, unless other information is available to indicate otherwise. In compliance with NBC Guidelines such loans are classified as special mention with a specific provision of 3%.

25. Financial Risk Management (Continued)

(b) Credit risk (continued)

(iv) Exposure to credit risk

Loans with renegotiated terms/restructured loans

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

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

Write-off policy

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

Collateral

The Bank holds collateral against loans and advances in the form of mortgage interests over property and/or guarantees. Estimates of value are based on the value of collateral assessed on an annual basis.

There are no non-financial assets obtained by the Bank during the year by taking possession of collateral held as security against loans and advances.

(v) Concentration of risks of financial assets with credit risk exposure to control and mitigation policies

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.

(vi) Balance with other banks

The Bank deposits short-term excess liquidity with banks leading to counter party risk exposure. The Bank manages counter party risk exposure by performing due diligence on individual counter parties, having counterparty limits and diversifying the deposits to different banks.

25. Financial Risk Management (Continued)

(c) Market risk

The Bank takes on exposure to market risk, which is the risk that the fair value or future cash flows of financial instruments 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 currency exchange risk

The Bank operates in the Kingdom of Cambodia and transacts in many currencies, and is exposed to various currency risks, primarily with respect to KHR and US\$.

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

Management monitors its foreign exchange risk against functional currencies through monitoring the foreign exchange risk by using the absorbed risk of 20% of the net worth required by the NBC.

As at balance sheet date, 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 balance sheet as marketable securities.

(iii) Interest rate risk

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

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

25. Financial Risk Management (Continued)

(c) Market risk

(ii) Interest rate risk (continued)

	As at 31 December 2018						Total US\$
	Up to 1 month US\$	1 - 3 months US\$	3 - 12 months US\$	1 - 5 years US\$	Over 5 years US\$	Non-interest sensitive US\$	
FINANCIAL ASSETS							
Cash on hand	-	-	-	-	-	1,064,975	1,064,975
Balances with the NBC	-	-	-	-	-	15,839,463	15,839,463
Balances with other banks	-	-	-	-	-	30,058,438	30,058,438
Loans to customers	1,909,731	5,851,182	8,059,856	42,851,063	55,540,602	114,212,434	114,212,434
Other assets	-	-	-	-	-	3,152,869	3,152,869
	1,909,731	5,851,182	8,059,856	42,851,063	55,540,602	164,328,179	164,328,179
FINANCIAL LIABILITIES							
Deposits from customers	1,008,879	160	40	-	-	-	1,009,079
Borrowings from shareholders	-	-	66,000,000	-	-	-	66,000,000
Other liabilities	-	-	-	-	-	6,987,778	6,987,778
	1,008,879	160	66,000,040	-	-	6,987,778	73,996,857
Maturity gap - US\$	900,852	5,851,022	(57,940,184)	42,851,063	55,540,602	43,127,967	90,331,322
Maturity gap - KHR'000 (Note 5)	3,619,623	23,509,406	(232,803,659)	172,175,571	223,162,139	173,288,171	362,951,251

25. Financial Risk Management (Continued)

(c) Market risk (continued)

(iii) Interest rate risk (continued)

As at 31 December 2017

	Up to 1 month US\$	1 - 3 months US\$	3 - 12 months US\$	1 - 5 years US\$	Over 5 years US\$	Non-interest sensitive US\$	Total US\$
FINANCIAL ASSETS							
Cash on hand	-	-	-	-	-	67,064	67,064
Balances with the NBC	-	-	-	-	-	750,858	750,858
Balances with other banks	-	-	-	-	-	6,200,924	6,200,924
Loans and advances	50,125	-	1,397,117	4,564,613	12,959,446	-	18,971,301
Other assets	-	-	-	-	-	186,315	186,315
	50,125	-	1,397,117	4,564,613	12,959,446	7,205,161	26,176,462
FINANCIAL LIABILITIES							
Borrowings from shareholders	-	-	-	-	-	11,000,000	11,000,000
Other liabilities	-	-	-	-	-	1,450,593	1,450,593
	-	-	-	-	-	12,450,593	12,450,593
Maturity gap - US\$	50,125	-	1,397,117	4,564,613	12,959,446	(5,245,432)	13,725,869
Maturity gap - KHR'000 (Note 5)	202,355	-	5,640,161	18,427,343	52,317,283	(21,175,809)	55,411,333

25. Financial Risk Management (Continued)

(c) Market risk (continued)

(iii) Interest rate risk (continued)

Fair value sensitivity analysis for fixed-rate instruments

The Bank does not account for any fixed-rate financial assets or financial liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable-rate instruments

The Bank does not have variable-rate instruments. Therefore, cash flow sensitivity analysis is not presented.

(d) Liquidity risk

Liquidity risk is the risk of the Bank being unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence of this may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

(i) Liquidity risk management process

The Bank's management monitors balance sheet liquidity and manages the concentration and profile of debt maturities. Monitoring and reporting take the form of the reviewing of the daily cash position and projections for the next day, week and month, as these are key years for liquidity management.

(ii) Funding approach

The Bank's main sources of liquidity arise from the shareholders' paid-up capital, borrowings and customers deposits. The sources of liquidity are reviewed regularly through management's review of the maturity of term deposits, key depositors and borrowings.

(iii) Non-derivative cash flows

The table on the following page presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on the expected undiscounted cash flows.

25. Financial Risk Management (Continued)

(d) Liquidity risk (continued)

(iii) Non-derivative cash flows (continued)

	Up to 1 month US\$	1 - 3 months US\$	3 - 12 months US\$	1 - 5 years US\$	Over 5 years US\$	No fixed terms US\$	Total US\$
2018							
FINANCIAL ASSETS							
Cash on hand	-	-	-	-	-	1,064,975	1,064,975
Balances with the NBC (excluding statutory deposit)	-	-	-	-	-	4,953,241	4,953,241
Balances with other banks	9,055,050	-	-	-	-	21,003,388	30,058,438
Loans to customers	1,909,731	5,851,182	8,059,856	42,851,063	55,540,602	-	114,212,434
Other assets	-	-	-	-	-	3,152,869	3,152,869
Total financial assets	10,964,781	5,851,182	8,059,856	42,851,063	55,540,602	30,174,473	153,441,957
FINANCIAL LIABILITIES							
Deposits from customers	1,008,879	160	40	-	-	-	1,009,079
Borrowings from shareholders	-	-	66,000,000	-	-	-	66,000,000
Other liabilities	-	-	-	-	-	6,987,778	6,987,778
Total financial liabilities	1,008,879	160	66,000,040	-	-	6,987,778	73,996,857
Maturity gap - US\$	9,955,902	5,851,022	(57,940,184)	42,851,063	55,540,602	23,186,695	79,445,100
Maturity gap - KHR'000 (Note 5)	40,002,814	23,509,406	(232,803,659)	172,175,571	223,162,139	93,164,141	319,210,412

25. Financial Risk Management (Continued)

(d) Liquidity risk (continued)

(iii) Non-derivative cash flows (continued)

	Up to 1 month US\$	1 - 3 months US\$	3 - 12 months US\$	1 - 5 years US\$	Over 5 years US\$	No fixed terms US\$	Total US\$
2017							
FINANCIAL ASSETS							
Cash on hand	-	-	-	-	-	67,064	67,064
Balances with the NBC (excluding statutory deposit)	-	-	-	-	-	858	858
Balances with other banks	6,198,810	-	-	-	-	2,114	6,200,924
Loans to customers	50,125	-	1,397,117	4,564,613	12,959,446	-	18,971,301
Other assets	-	-	-	-	-	186,315	186,315
Total financial assets	6,248,935	-	1,397,117	4,564,613	12,959,446	256,351	25,426,462
FINANCIAL LIABILITIES							
Borrowings from shareholders	-	-	-	-	-	11,000,000	11,000,000
Other liabilities	-	-	-	-	-	1,450,593	1,450,593
Total financial liabilities	-	-	-	-	-	12,450,593	12,450,593
Maturity gap - US\$	6,248,935	-	1,397,117	4,564,613	12,959,446	(12,194,242)	12,975,869
Maturity gap - KHR'000 (Note 5)	25,226,951	-	5,640,161	18,427,343	52,317,284	(49,228,155)	52,383,584

25. Financial Risk Management (Continued)

(e) Capital management

(i) Regulatory capital

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

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

The NBC requires all licensed commercial banks to (i) fulfil the minimum capital requirements, and (ii) comply with solvency, liquidity and other requirements.

(ii) Capital allocation

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

(f) Fair values

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 and market prices are not available for a significant proportion of the Bank's financial assets and liabilities fair values, therefore, were not presented.

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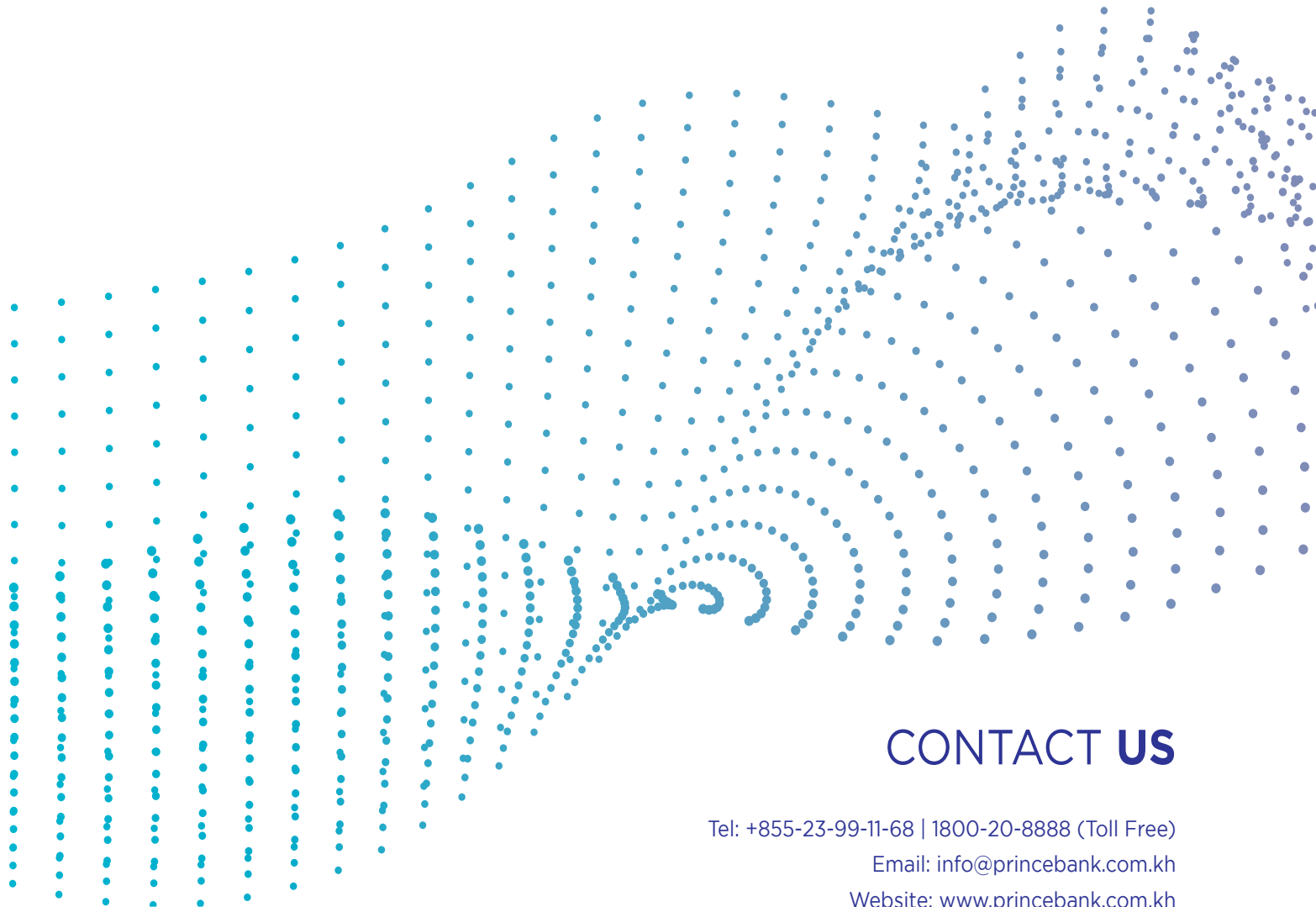
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