

AEON



ANNUAL REPORT **2018**



ធនាគារឯកទេស អ៊ីអន (ខេមបូឌា) ភីអិលស៊ី
AEON SPECIALIZED BANK (CAMBODIA) PLC.



ធនាគារឯកទេស អ៊ីអន (ខេមបូឌា) ភីអិលស៊ី
 AEON SPECIALIZED BANK (CAMBODIA) PLC.



➤SIMPLE ➤FAST ➤CONVENIENT



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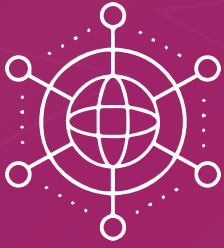
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AEON FINANCIAL SERVICE GROUP NETWORK

“Support customers Lifestyle and enable each individual to maximize future opportunities through effective use of credit”



FY2018 FINANCIAL HIGHLIGHTS



OUR BACKGROUND

The company was incorporated as a private company limited in Cambodia on 5th October 2011 under Registration No. Co. 2380 E/2011, issued by the Ministry of Commerce. On 7th October 2011, the Company obtained its license as a micro-finance institution from National Bank of Cambodia. As a microfinance institution, the company was the first to offer unsecured Installment Service such as home appliances, motorbike, mobile phone, personal loan and agriculture machinery.

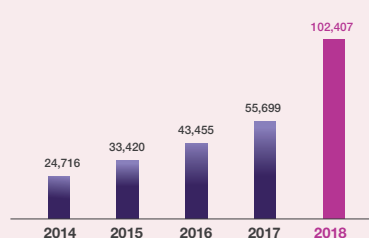
On 26th October 2015, the Company obtained a specialized bank's license from the National Bank of Cambodia. Since then the Company has transformed into a specialized bank and started issuing Credit Card, AEON Wallet, AEON Card Mobile(m-Visa) as our business expansion.

In 2018, AEON Thana Sinsap (Thailand) Plc., a listed company in Thailand, owns 50% shares of the company while another 50% is owned by AEON Financial Service Co., Ltd. a listed company in Japan.

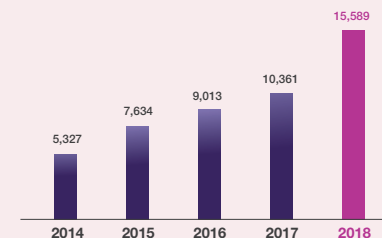


KEY FINANCIAL DATA

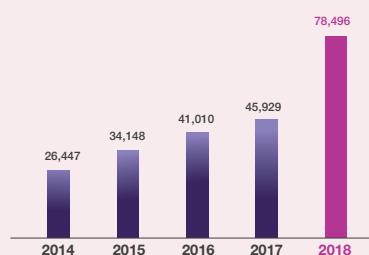
Total Sales (Unit: '000 USD)



Total Revenue (Unit: '000 USD)



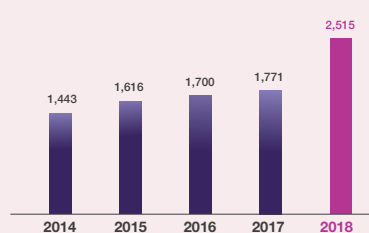
Total Assets (Unit: '000 USD)



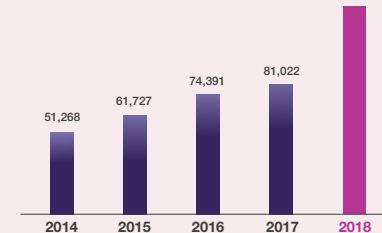
Accounts Recieveable (Unit: '000 USD)



Number of Partner Shops (Loan Business)



Number of Application (App. in)



MESSAGE FROM MANAGEMENT



Mr. Taketo Ando

Vice-Chairman of the Board and Managing Director

We would like to introduce AEON Specialized Bank's products and services in Cambodian market as a slogan "SIMPLE, FAST and CONVENIENT"

Dear readership,

We, AEON Specialized Bank (Cambodia) Plc. have been established in Cambodia in October 2011 as Microfinance which offer first product is unsecured installment service. We have obtained a specialized bank license from the National Bank of Cambodia in October 2015. To extend of business, we would like to introduce a new product is AEON Wallet that we started on 26th April 2018. Our aim is to offer customers' convenient financial services as well as benefits including special privileges at AEON Group shopping mall.

For 2019 as the year of new opportunities and challenges, we will continue focusing on our produce and service to customers such as Installment service, Car Loan product, Agriculture Loan, Personal Loan both of Khmer Riel & USD currency, unsecure Credit Card, AEON Card Mobile (Scan to Pay), Smartphone Application (AEON Wallet) in local currency Khmer Riel, equipped with QR Code payment and remittance functions. The products is "SIMPLE, FAST and CONVENIENT". The customers can use installment

service through our cooperated dealers around 3,085 (December 2018) from cities and provinces in Cambodia.

Finally, we are reinforcing our commitment to connect with our customers. And, we are trusted that AEON Specialized Bank is well positioned to bring further value to customers. We would like to thank all our customers, and colleagues for their necessary support and contribution to our development in year 2018.

Mr. Taketo Ando

Vice-Chairman of the Board
and Managing Director

BOARD OF DIRECTORS



Mr. Masanori Kosaka

Position : Chairman of the Board
Born (year) : 1956
Education : Bachelor of Laws
 Kyoto Sangyo University, Japan



Mr. Taketo Ando

Position : Vice Chairman of the Board and Managing Director.
Born (year) : 1967
Education : Bachelor's Degree in Faculty of Business Administration Senshu University, Japan



Mr. Keiichi Nambu

Position : Executive Director
Born (year) : 1972
Education : Bachelor's Degree in Economics Department, Takasaki City University, Japan



Mr. Kazuyoshi Suzuki

Position : Non- Executive Director
Born (year) : 1962

2018 – Present:

Chairman of the board AEON Specialized Bank (Cambodia) Plc.

2017 – Present:

ACS SERVICING (THAILAND) CO., LTD., Managing Director (current position) AEON THANA SINSAP (THAILAND) Plc, Executive Director(current position)

2015 – 2017 :

AEON FINANCIAL SERVICE CO., LTD. ("AFS"), Division Head of Overseas Business & Department Head of Overseas Business Planning AFS Audit Division

2013 – 2015 :

AEON CREDIT HOLDINGS (HONG KONG) CO., LTD., Managing Director

2012 – 2013 :

AEON INSURANCE SERVICE CO., LTD., President

2017 – Present :

Vice-chairman of the Board and Managing Director, AEON Specialized Bank (Cambodia) Plc.

2015 – 2017 :

Managing Director, ACS Servicing (Thailand) Co., Ltd.

2014 – 2015 :

Executive Director, AEON THANA SINSAP (THAILAND) Plc.

2013 – 2014 :

Project Team Leader of Makuhari-Shintoshin Branch Project, AEON Credit Service Co., Ltd.

2012 – 2013 :

Regional Head of South Kanto Region, AEON Credit Service Co., Ltd.

2016 – Present :

Executive Director, AEON Specialized Bank (Cambodia) Plc.

2012 – 2016 :

Resident Officer AEON Credit Service India Private Limited

2011 – 2012 :

Resident Officer, AEON Credit Service Co., Ltd Representative Office India.

2008 – 2011 :

Officer of Overseas Division AEON Credit Service Co., Ltd.

2018 – Present :

Non-Executive Director AEON Specialized Bank (Cambodia) Plc.

2017 – Present :

Director and Division Head of Corporate Planning, AEON FINANCIAL SERVICE CO.,LTD.,

2015 – 2017 :

AEON PRODUCT FINANCE CO., LTD., Senior Managing Director

2014 – 2015 :

ABK Director & Executive Officer, Division Head of Corporate Management and Department Head of Planning



Mr. Om Sengbora

Position : Independent Director
Born (year) : 1977
Education : Honorary Doctoral Degree of Business Administration from Preston University, United States

2019 – PRESENT :

Chairman of CEO Master Club Investment Plc.

2015 – PRESENT :

Chairman of CEO Institute including CEO Master Club, Real Estate School of Cambodia, and Faculty of International Business Management

2013 – PRESENT :

Independent Board of Director of Phnom Penh Water Supply Authority

2012 – PRESENT :

Advisory Member of Cambodia Chamber of Commerce

2011 – PRESENT :

Independent Board of Director of AEON Specialized Bank (Cambodia) Plc.



Mrs. Khieu Mealy

Position : Independent Director
Born (year) : 1964
Education : Double Master Degree from University Libre de Bruxelles (ULB) and Royal University of Law and Economics in collaboration with University of Montreal, and University of Geneva (LLM) and LLB from Royal University of Law and Economics; Bachelor of Law at National Institute of Management and Royal University of Law and Economic.

2017 – Present :

Member of APAA and Council Member of APAA-Cambodian Group

2016 – Present :

Member of ASEAN IPA- Country Head of Cambodian Group

2014 – Present :

Independent Director, AEON Specialized Bank (Cambodia) Plc.

2014 – Present :

Board member of Nokor Tep Women Cancer Hospital

2013 – Present :

Founding Member of the National Commercial Arbitration Center

2010 – present :

Partner of SokSiphana&associates, a member of ZICOLAW

2009 – Present :

Authorized Trade Mark Agent

2009 – Present :

Founding Member of Intellectual Property Association of Cambodia (IPAC)

2004 – Present :

Member of Bar Association of the Kingdom of Cambodia

ADVISORY



H.E. Dr. Sok Siphana

Position : Advisory
Born (year) : 1960
Education : Juris Doctor (J.D.), Widener University School of Law, Delaware, (USA), Doctor of Philosophy (Ph.D.), Bond University School of Law, Queensland (Australia); Currently pursuing another Ph.D. degree at the University of Paris 2, Pantheon Assas on Comparative Laws.

2018 – PRESENT:

Senior Advisor to the Royal Government of Cambodia attached to the Ministry of Foreign Affairs and International Cooperation.

2014 – PRESENT:

Advisory, AEON Specialized Bank (Cambodia) Plc.

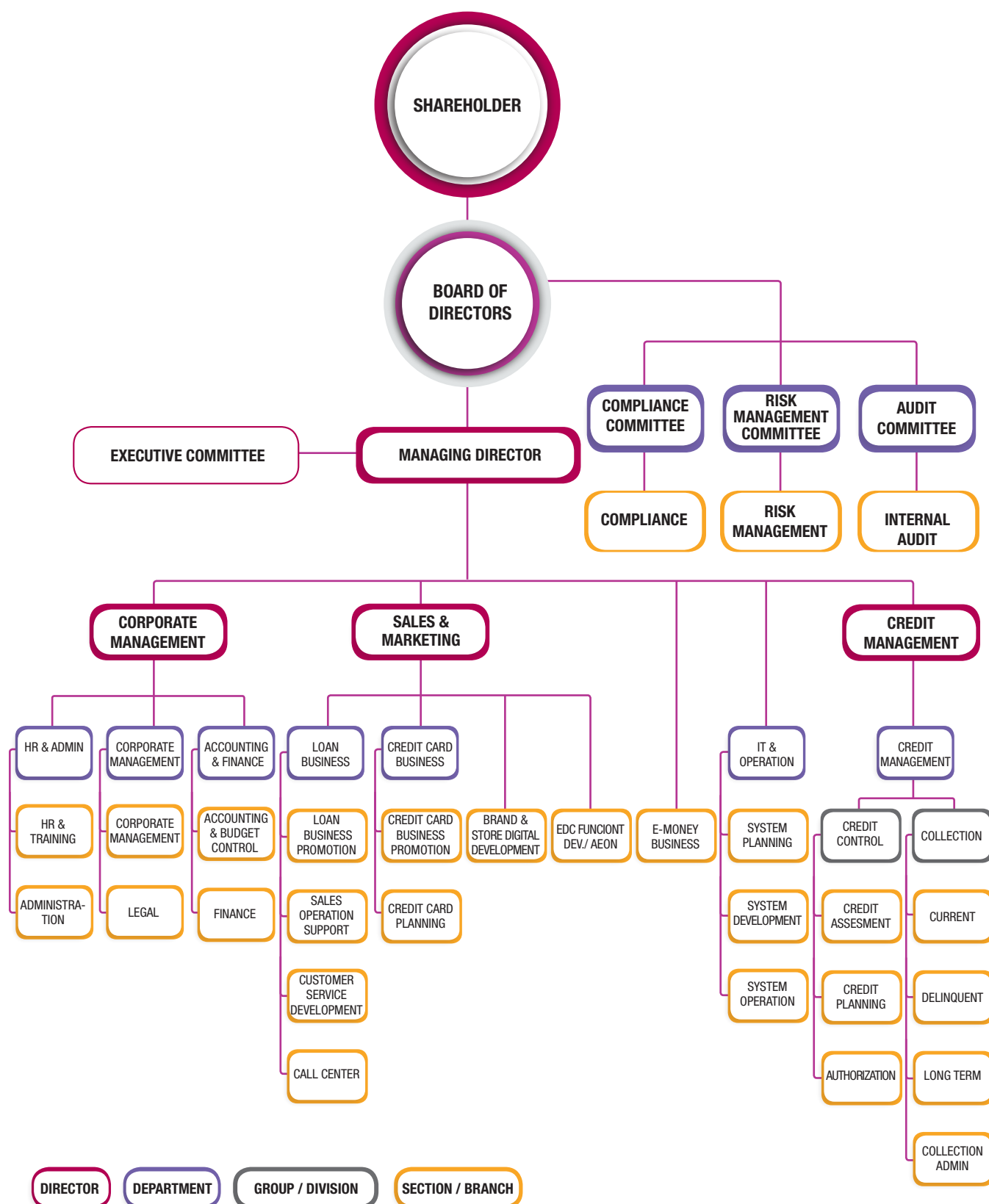
2009 – PRESENT:

Managing Partner, SokSiphana&associates, a member of ZICOLaw.

2009 – PRESENT:

Occasional Lecturer of Laws and Policies at the Royal University of Law and Economics (RULE)

ORGANIZATION CHART



CORPORATE HISTORY

2011



- Nov** Obtain the Microfinance Institution License
- Dec** Launch installment service

2014



- Mar** Launch personal loan service
- May** Battambang branch opening
- May** Phnom Penh Head Office relocation
- Jun** AEON Mall branch opening
- Jun** Start the point card service provider business for AEON Phnom Penh
- Sep** Start Agriculture installment seasonal payment
- Oct** Kampong Cham branch opening

2016



- Feb** Transformed to Specialized Bank
- Apr** AEON Mall branch renovation
- Apr** Start issuing Gold Credit Card
- Jul** Start issuing violet Credit Card

2018



- Apr** Launched electronic money (AEON Wallet)
- Apr** Started Car Loan
- Jun** Mall Sen Sok City branch open
- Aug** Takeo branch Opening
- Aug** Bonteymeachey branch Opening
- Dec** Launch AEON Card Mobile (Scan to Pay)

2012



- Jan** Launch mobile phone installment service
- Jul** Launch motorcycle installment service

2013



- Apr** Positive turnaround in monthly basis
- May** Launch Agriculture Machinery any installment service
- Jun** Siem Reap branch opening
- Sep** Launching Member Card
- Dec** Chamkamon branch opening

2015



- Mar** Launch Insurance installment with FORTE
- Oct** Obtain the Specialized Bank License
- Nov** Launch Tablet application

2017



- Jan** Pochentong branch opening
- Jul** Battambang branch relocation/renovation
- Aug** Head office renovation
- Oct** Siem Reap branch relocation/renovation
- Dec** AEON card receive VISA award



BUSINESS HIGHLIGHT 2018

AEON Wallet

AEON Wallet is virtual prepaid card which makes a purchasing transaction through smart phone by scanning QR code or EDC payment terminal and everything settle in Khmer Riel Currency (KHR). Cash in to AEON Wallet where in AEON Specialized Bank HQ and AEON Wallet branch, booth in AEON Mall. The payment will be done at AEON Wallet merchants where recruited. The new experience of user interface on mobile application both iOS and Android device will be designed. The transaction will be made an instant

without signature, and customer no need to bring the cash. It is convenient because not necessary to carry the cash. In order to penetrate KHR utilization, AEON Specialized Bank recruited 465 AEON Wallet merchants and sign up AEON Wallet customers 6,227 by December 2018. We started point of recruiting AEON Wallet merchant will be inside AEON Mall supermarket, public transportation service, small restaurant, and somewhere common spending to provide convenience way of daily spending.

1 CASH IN 2 SHOP 3 SCAN/PAY 4 EARN POINTS

ទូទាត់ ងាយស្រួល

AEON Wallet Cambodia

BUSINESS PERSPECTIVE 2019



AEON CARD MOBILE

As vision of us, the new payment options were developed and implemented by Q4 2018, those are included the new mobile application called “AEON CARD MOBILE”, this application will provide AEON Cardholders SIMPLE to register, CONVENIENT managing AEON Card account which allow to view

credit balance, transaction history, monthly billing statements, happy plus point and so on. Also FAST payment via Scan to Pay by just scanning QR Code from cardholder’s smartphone. Plus above, contactless features also allowed cardholder to make payment faster by just tap and pay.

TUK TUK LOAN

A new trend of transportation in town! We welcome such an innovation of travelling with economical cost. In Q3 2018, we started offering the loan of rickshaw to both individual user and those who use it as taxi service. With the simple criteria, fast approval speed

and convenient service, we get huge inquiries and many rickshaws were disbursed to our customers. We surely will continue to keep our promise to provide access to this product and others loan services for better lifestyle of our Cambodian customers.

បង់រំលស់ម៉ូតូកង់បីកាន់តែងាយស្រួល

មិនបាច់មានប្រាក់កក់
មានធានារ៉ាប់រង
រំលស់បានរហូតដល់ 48 ខែ



INTERNAL CONTROL

COMPANY'S COMPLIANCE

We understand that acting within the financial sector, Compliance plays a very important role for the success of such an institution. At AEON Specialized Bank, our staff's internal compliance is regularly monitored. We focus a lot on "Personal Data Protection", "Code of Conduct", and other compliance issues where deemed necessary for the international standards of a bank. Besides this, our Legal and Compliance Team also pays a lot of attention to "Corporate Compliance" with the regulations of Kingdom of Cambodia to ensure we fully comply with the law and also by outsourcing to ensure more efficiency. To achieve this we have created a "monthly legal update" in which we regularly monitor the update of all laws and regulations and prepare ourselves for all changes required by law. On the monitoring basis of the law enforcement movements, such updates are regularly observed. To make it fit to current operations and business up grading, we are revising existing internal policies. We also created the "Corporate Calendar" which records all necessary items to be reported to relevant authorities, and we use this calendar to monitor the full enforcement of our compliance



system. Training workshops were also developed to keep our staff up to date on the current situation in this country, with "Annual Compliance Training" provided to all staff on an annual basis, to update them on any changes and [to give them the opportunity to] participate in strengthening the compliance system.

We have enhanced more on Anti Money Laundering Program by setting up the AML framework, effective customer due diligence, customer screening and rescreening reporting mechanism and proper training on AML to our staff.

RISK MANAGEMENT

The company considers risk management as an important element of the business and embeds strong risk culture in its day-to-day business operations. Understanding the importance of risk management to sustain able growth, the Risk Management team is involved in all stages of the risk management process to provide an independent view and input including overseeing, planning and conducting its own risk management.

The company has been conduct monthly regional risk management meeting amongst Japan, Thailand, Myanmar and Laos which are Aeon group companies.



CORPORATE SOCIAL RESPONSIBILITY



As a Cambodian responsible corporate citizen, the company recognizes the significance of our mission to serve as a leader in part of the economy, as well as our social responsibilities. The company offered scholarships to university students thru “NEAK BONTORVEN” program, and well digging with AEON group companies.

In 2018 we conducted two times of clean city in the Phnom Penh area and all the provincial branches with over 400 staffs and volunteers participated in cooperation with the Ministry of Tourism and students. We joined clean city challenging with Japan total around 20 companies from Phnom Penh. This cleaning activities not only play a role in beautifying the city, but also have various educational significance for local residents. We also joined well digging at Takeo province. We completed dig 2 wells. Through these activities we would like to search for a better way to make a contribution to Cambodian society and to enhance dependability.



INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AEON Specialized Bank (Cambodia) Plc.

Opinion

We have audited the financial statements of AEON Specialized Bank (Cambodia) Plc. (the "Bank"), which comprise the balance sheet as at 31 December 2018, and the income statement, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 16 to 43.

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 relevant accounting regulations and guidelines issued by the National Bank of Cambodia.

Basis for Opinion

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

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

Management is responsible for the other information. The other information obtained at the date of this auditors report is 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, 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 the Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Cambodian Accounting Standards and relevant accounting regulations and guidelines issued by the National Bank of Cambodia, 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.

The Board of Directors is responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

For Deloitte (Cambodia) Co., Ltd.



Ung Kimsopheaktra

Director

Phnom Penh, Kingdom of Cambodia

Date: **22 MAR 2019**

BALANCE SHEET

AS AT 31 DECEMBER 2018

		31 December 2018		31 December 2017	
	Note	US\$	KHR'000	US\$	KHR'000
ASSETS					
Cash on hand	4	426,133	1,712,202	242,884	980,523
Balances with the NBC	5	1,013,829	4,073,565	637,384	2,573,119
Balances with other banks	6	2,450,339	9,845,462	2,116,532	8,544,440
Loans to customers	7	65,700,471	263,984,492	35,956,288	145,155,535
Other assets	8	4,241,834	17,043,689	2,322,233	9,374,855
Property and equipment	9	1,868,870	7,509,120	2,217,176	8,950,740
Intangible assets	10	2,463,764	9,899,404	2,190,843	8,844,433
Deferred tax assets	12(a)	330,815	1,329,215	245,893	992,670
Total assets		78,496,055	315,397,149	45,929,233	185,416,315
LIABILITIES AND EQUITY					
LIABILITIES					
Other liabilities	11	2,385,294	9,584,111	1,519,019	6,132,280
Amounts due to related parties	26(a)	175,764	706,220	42,783	172,715
Current income tax liability	12(b)	364,632	1,465,091	17,481	70,571
Borrowings	13	54,000,000	216,972,000	30,700,000	123,935,900
Employee benefit obligations	14	177,778	714,312	-	-
Total liabilities		57,103,468	229,441,734	32,279,283	130,311,466
EQUITY					
Share capital	15	20,000,000	80,360,000	12,500,000	50,462,500
Retained earnings		1,392,587	5,595,415	1,149,950	4,642,349
Total equity		21,392,587	85,955,415	13,649,950	55,104,849
Total liabilities and equity		78,496,055	315,397,149	45,929,233	185,416,315

The accompanying notes from pages 20 to 43 form an integral part of these financial statements.

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

		Year ended 31 December 2018		Year ended 31 December 2017	
	Note	US\$	KHR'000	US\$	KHR'000
Interest income	16	13,835,823	55,592,337	9,517,710	38,422,995
Interest expense	13	(1,146,505)	(4,606,657)	(686,891)	(2,772,979)
Net interest income		12,689,318	50,985,680	8,830,819	35,650,016
Fee and commission income	17	1,595,511	6,410,763	830,815	3,354,000
Other operating income	18	157,855	634,261	9,300	37,544
Operating profit		14,442,684	58,030,704	9,670,934	39,041,560
Personnel expenses	19	(4,812,236)	(19,335,564)	(3,432,324)	(13,856,292)
Depreciation and amortisation	20	(1,222,730)	(4,912,929)	(1,317,110)	(5,317,173)
Other operating expenses	21	(5,223,111)	(20,986,460)	(3,359,837)	(13,563,662)
Allowance for credit facilities	22	(1,365,528)	(5,486,692)	(1,406,989)	(5,680,015)
Profit before income tax		1,819,079	7,309,059	154,674	624,418
Income tax expense	12(c)	(426,492)	(1,713,645)	(78,457)	(316,731)
Net profit for the year		1,392,587	5,595,414	76,217	307,687

The accompanying notes from pages 20 to 43 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital	Retained earnings	Total
	US\$	US\$	US\$
Balance as at 1 January 2018	12,500,000	1,149,950	13,649,950
Share issued during the year	7,500,000	-	7,500,000
Dividend paid during the year (Note 23)	-	(1,149,950)	(1,149,950)
Net profit for the year	-	1,392,587	1,392,587
Balance as at 31 December 2018	20,000,000	1,392,587	21,392,587
In KHR'000 equivalent	80,360,000	5,595,415	85,955,415
Balance as at 1 January 2017	10,000,000	1,073,733	11,073,733
Share issued during the year	2,500,000	-	2,500,000
Net profit for the year	-	76,217	76,217
Balance as at 31 December 2017	12,500,000	1,149,950	13,649,950
In KHR'000 equivalent	50,462,500	4,642,349	55,104,849

The accompanying notes from pages 20 to 43 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

		Year ended 31 December 2018		Year ended 31 December 2017	
	Note	US\$	KHR'000	US\$	KHR'000
Cash flows from operating activities					
Profit before income tax		1,819,079	7,309,059	154,674	624,418
<i>Adjustments for:</i>					
Allowance for balances with other banks	6	24,751	99,450	-	-
Allowance for bad and doubtful loans	7	1,340,777	5,387,242	1,406,989	5,680,015
Provision for employee benefit obligations		177,778	714,312	-	-
Depreciation and amortisation	20	1,222,730	4,912,929	1,317,110	5,317,173
Losses on disposals of property and equipment	21	1,138	4,572	-	-
Net interest income		(12,689,318)	(50,985,680)	(8,830,819)	(35,650,016)
<i>Changes in working capital:</i>					
Balances with the NBC		(375,000)	(1,506,750)	(125,000)	(504,625)
Loans to customers		(31,084,960)	(124,899,369)	(4,006,051)	(16,172,428)
Other assets		(1,199,177)	(4,818,293)	(450,820)	(1,819,959)
Other liabilities		958,023	3,849,336	367,356	1,483,017
Amounts due to related parties		132,981	534,318	(73,053)	(294,915)
Cash used in operations		(39,671,198)	(159,398,874)	(10,239,614)	(41,337,320)
Interest received		13,115,399	52,697,673	9,425,261	38,049,779
Interest paid		(1,108,161)	(4,452,591)	(657,349)	(2,653,718)
Income tax paid	12(b)	(164,263)	(660,009)	(245,288)	(990,228)
Net cash used in operating activities		(27,828,223)	(111,813,801)	(1,716,990)	(6,931,487)
Cash flows from investing activities					
Purchases of property and equipment		(685,838)	(2,755,697)	(1,564,043)	(6,314,042)
Proceeds from disposals of property and equipment		681	2,736	-	-
Purchases of intangible assets		(593,418)	(2,384,354)	(550,273)	(2,221,452)
Net cash used in investing activities		(1,278,575)	(5,137,315)	(2,114,316)	(8,535,494)

STATEMENT OF CASH FLOWS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2018

		Year ended 31 December 2018		Year ended 31 December 2017	
	Note	US\$	KHR'000	US\$	KHR'000
Cash flows from financing activities					
Proceeds from borrowings		31,100,000	124,959,800	22,700,000	91,639,900
Repayment of borrowings		(7,800,000)	(31,340,400)	(20,690,000)	(83,525,530)
Issuance of share capital	15	7,500,000	30,135,000	2,500,000	10,092,500
Payment of dividend	23	(1,149,950)	(4,620,499)	-	-
Net cash generated from financing activities		29,650,050	119,133,901	4,510,000	18,206,870
Net increase in cash and cash equivalents		543,252	2,182,785	678,694	2,739,889
Cash and cash equivalents at beginning of the year		2,371,800	9,574,958	1,693,106	6,835,069
Currency translation differences		-	(45,064)	-	-
Cash and cash equivalents at the end of the year	24	2,915,052	11,712,679	2,371,800	9,574,958
Significant non-cash transactions					

* In 2017, included in purchases of property and equipment is an amount of US\$130,092 not paid included in other liabilities. This amount is fully paid in the year 2018.

The accompanying notes from pages 20 to 43 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1. GENERAL INFORMATION

AEON Specialized Bank (Cambodia) Plc. (the “Bank”) is a licensed specialised bank incorporated and registered in the Kingdom of Cambodia.

The Bank was incorporated as a private limited liability company in Cambodia on 5 October 2011 under Registration No. 00006388 issued by the Ministry of Commerce. The Bank obtained its license as a micro-finance institution from the National Bank of Cambodia (“NBC”) dated 21 November 2011. The Bank was initially wholly-owned by AEON Thana Sinsap (Thailand) Public Company Limited, a company registered in Thailand.

On 26 October 2015, the Bank obtained a specialised banking license from the NBC to operate as a specialized bank with the permanent validity. On 1 February 2016, the Bank obtained the approval from the Ministry of Commerce (“MoC”) on the changes in the Bank’s name from AEON Microfinance (Cambodia) Co., Ltd. to AEON Specialized Bank (Cambodia) Plc. and shareholding structure is 80% owned by AEON Thana Sinsap (Thailand) Public Company Limited and 20% owned by AEON Financial Service Co., Ltd., a company registered in Japan.

On 4 September 2018, the Bank obtained the approval from the MoC to change the shareholding structure to 50% equally owned by AEON Thana Sinsap (Thailand) Public Company Limited and AEON Financial Service Co., Ltd. The ultimate holding company of the Bank is AEON Co., Ltd., a company incorporated in Japan.

The principal activities of the Bank are as follows:

- Credit card service;
- Lending services in the form of hire-purchase (instalment) and loan; and
- Other business-related services subject to the approval by the NBC.

The head office of the Bank is located at Building No. 721, Monivong Blvd, Sangkat Boeung Keng Kang III, Khan Chamkarmon, Phnom Penh, Kingdom of Cambodia.

The financial statements were authorised for issue by the Board of Directors on 22 March 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the year presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of the Bank have been prepared in accordance with Cambodian Accounting Standards (“CAS”) and relevant accounting regulations and guidelines issued by the National Bank of Cambodia. The accounting principles applied may differ from generally accepted accounting principles adopted in other countries and jurisdictions. The accompanying financial statements are therefore not intended to present the financial position and results of operations and cash flows in accordance with jurisdictions other than Cambodia. Consequently, these financial statements are addressed to only those who are informed about Cambodia accounting principles, procedures and practices.

The financial statements are prepared using the historical cost convention.

The preparation of financial statements in accordance with Cambodian Accounting Standards and relevant accounting regulations and guidelines issued by the National Bank of Cambodia requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management’s best knowledge of current events and actions, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Financial reporting framework

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

The NAC, through Circular No. 086 MoEF.NAC dated 30 July 2012, approves banks and financial institutions to delay adoption of the CIFRS until the periods beginning on or after 1 January 2016. On 24 March 2016, the NAC issued a Notification No. 058 MoEF.NAC to banks and financial institutions on the delay in adoption of the CIFRS until the periods beginning on or after 1 January 2019, following the request of the NBC dated 16 November 2015.

On 3 January 2019, the NAC issued a Circular No. 004 MoEF.NAC to banks and financial institutions on the adoption of the accounting standards for financial institutions, allowing specialised banks to opt for adoption of CIFRS or CIFRS for SMEs.

On 15 February 2019, the NBC issued a Notification No. B7-019-122 on the preparation of the financial statements of banks and financial institutions requiring specialised banks to adopt CIFRS.

The current accounting standard used is different to the CIFRS in many areas. Hence, the adoption of the CIFRS may have a significant impact on the financial statements of the Bank. Management is assessing the impact of the change to CIFRS framework but not fully completed at the date of this report.

2.3 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates (the functional currency). Management has determined the US\$ to be the Bank’s functional currency owing to the significant influence of the US\$ on its operations. The financial statements are presented in US\$, which is the Bank’s functional and presentation currency.

(ii) Transactions and balances

Transactions in currencies other than US\$ are translated into US\$ at the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in currencies other than US\$ at the year-end exchange rates, are recognised in the income statement.

(iii) Presentation in Khmer Riel

In compliance with the Law on Accounting and Auditing dated 11 April 2016 and Prakas No. 643 MEF PRK dated 26 July 2007 of the Ministry of Economy and Finance, a translation of the financial statements from US\$ to Khmer Riel (“KHR”) is required.

Translations of US\$ into KHR are included in the financial statements solely for compliance with the Prakas No. B7-07-164 dated 13 December 2007 of the National Bank of Cambodia relating to the preparation and presentation of financial statements and have been made using the prescribed official exchange rate of US\$ 1 to KHR 4,018 (2017: US\$ 1 to KHR 4,037) published by the NBC.

The financial statements expressed in KHR are unaudited and should not be construed as representation that the US\$ amounts have been, could have been, or could in the future be, converted into KHR at this or any other exchange rate.

2.4 Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances with the NBC, balances with other banks, and other short-term highly liquid investments with original maturities of three months or less where the Bank has full ability to withdraw for general purpose whenever needed and is subject to insignificant change in value.

2.5 Loans to customers

Loans and advances are stated in the balance sheet at the amount of principal outstanding less any amounts written off and allowance for bad and doubtful loans.

2.6 Allowance for credit facilities

The Bank makes the allowance for bad and doubtful loans based on the mandatory level of allowance as required by the NBC or an allowance at 100% of the portfolio at risk (past due loans for 79 days or more), whichever is higher. Management believes that this more reasonably reflects the allowance necessary to absorb risks relating to the nature of the operations of the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Allowance for credit facilities (continued)

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.

Classification	Number of past due days		Allowance
	Short-term loans (one year or less)	Long-term loans (more than one year)	
Normal	14 days or less	29 days or less	1%
Special mention	15 days – 30 days	30 days – 89 days	3%
Substandard	31 days – 60 days	90 days – 179 days	20%
Doubtful	61 days – 90 days	180 days – 359 days	50%
Loss	91 days or more	360 days or more	100%

The adequacy of the allowance for bad and doubtful loans is evaluated monthly by 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.

In addition, the Prakas also requires banks and financial institutions to provide allowance on other financial products, whether reported on balance sheet or off-balance sheet which give rise to credit risk exposure.

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

2.7 Other assets

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

2.8 Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Where an item of property and equipment comprises major components having different useful lives, the components are accounted for as separate items of property and equipment.

In addition to the above qualitative information, number of days past due is taken into account. The minimum percentages of allowance for bad and doubtful loans are to be maintained according to the assigned classifications. Where reliable information suggests that losses are likely to be more than these minimum requirements, larger allowance is made.

On 1 December 2017, The NBC issued a Prakas No. B7-017-344 on Credit Risk Grading and Impairment Provisioning, and clarified by a Circular No. B7-018-001 dated 16 February 2018, which requires banks and financial institutions to provide impairment provisioning for short-term and long-term facilities as follows:

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

• Leasehold improvements	3 – 10 years
• Furniture and fixtures	3 – 5 years
• IT equipment and computers	3 – 5 years
• Office equipment	2 – 3 years

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

Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the assets and are recognised in the income statement on the date of retirement or disposal.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Intangible assets

Intangible assets consist of computer software licenses and related costs 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 ten years.

2.10 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 estimated future cash flows of that asset. This does not apply to loans to customers, which has a separate accounting policy stated in Note 2.6.

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

All impairment losses are recognised in the income statement.

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

(ii) Non-financial assets

The carrying amounts of the Bank's 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.

2.11 Borrowings

Borrowings are recognised initially at cost and subsequently stated at the outstanding principal amount.

2.12 Provisions

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

2.13 Employee benefit obligations

Seniority payment

On 21 September 2018, the Minister of Labour and Vocational Training issued a Prakas No. 443 MoLVT on Seniority Payment requiring the Bank to pay past seniority payment to employees with undetermined duration contract. All employees who have been working before 01 January 2019 and continue to work are entitled to a payment of fifteen (15) days of their average wages of each year of service, totalling not exceeding 6 months, and shall be paid every year starting 2019 as follows:

- 7.5 days shall be made in June; and
- 7.5 days shall be made in December of each year.

Employees are not entitled to the remaining past seniority payment upon resignation.

The past seniority payment is recognised in full during the year 2018.

This Prakas also requires the Bank to pay its employees the seniority for the employment service from 2019 amounting to 15 days per annum of their wages and other benefits, 7.5 days of which shall be paid in June and in December of each year. This seniority will be recognised during the employees' periods of service.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Employee benefit obligations (continued)

For employees with determined duration contract, they are entitled to the severance pay at least 5% of their wages paid during the length of the contract.

2.14 Income recognition

Interest income on loans is recognised on an accrual basis. Where a loan becomes non-performing, the recording of interest as income is suspended until it is realised on a cash basis. Interest on loans is calculated using the declining balance method on monthly balances of the principal amount outstanding.

Loan application fee income is recognised as income when the loan is disbursed to customers.

Service charges are recognised as income when the service is provided.

2.15 Interest expense

Interest expense is recognised on an accrual basis.

2.16 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as 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.

2.17 Income tax and deferred tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement.

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

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

realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.18 Dividend distribution

Dividend distribution to the Bank's Shareholders is recognised as a liability in the Bank's financial statements in the year in which the dividends are approved by the Bank's Shareholders.

2.19 Rounding of amounts

Amounts in the financial statements have been rounded off to the nearest dollar and thousand Khmer Riel ("KHR'000") for US\$ and KHR amounts, respectively.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

3.1 Key sources of estimation uncertainty

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Allowance for credit facilities

The Bank makes the allowance for bad and doubtful loans based on the mandatory level of allowance as required by the NBC or an allowance at 100% of the portfolio at risk (past due loans for 79 days or more), whichever is higher. Management believes that this more reasonably reflect the allowance necessary to absorb risks relating to nature of the operation of the Bank.

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.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.1 Key sources of estimation uncertainty (continued)

(i) Allowance for credit facilities (continued)

The number of past due days is also taken into account. The minimum percentage of allowance for doubtful loans to customers are to be maintained according to the assigned classifications. Where reliable information suggests that losses are likely to be more than these minimum requirements, larger allowance is made.

In addition, the Prakas also requires banks and financial institutions to provide allowance on other financial products, whether reported on balance sheet or off-balance sheet which give rise to credit risk exposure.

(ii) Income tax

The taxation system in Cambodia is characterised by numerous taxes and frequently changing legislation,

which is often unclear, contradictory and subject to interpretation. Often, different interpretations exist among the numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, which are empowered by law to impose fines, penalties and interest charges.

These factors may create significant tax exposures for the Bank. Directors believe that they have understood relevant tax regulations and adequately provided for tax liabilities based on their interpretation of the current tax legislation. However, the relevant authorities may have different interpretations and the effects could be significant.

3.2 Critical judgments in applying accounting policies

There are no critical judgements made by the Management in the process of applying the Bank's accounting policies that have the most significant effect on the amount recognized in these financial statements apart from those involving estimates, which are dealt with above.

4. CASH ON HAND

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
US dollars	340,314	1,367,382	242,884	980,523
Khmer riels	85,819	344,820	-	-
	<u>426,133</u>	<u>1,712,202</u>	<u>242,884</u>	<u>980,523</u>

5. BALANCES WITH THE NBC

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Current account	13,829	55,565	12,384	49,994
Statutory deposits *	1,000,000	4,018,000	625,000	2,523,125
	<u>1,013,829</u>	<u>4,073,565</u>	<u>637,384</u>	<u>2,573,119</u>

* Under Prakas No. B7-00-05 on the Licensing of Specialized Banks dated 11 January 2000, the Specialized bank is required to maintain a capital guarantee deposit equivalent to 5% of registered capital with the National Bank of Cambodia. This deposit is not available for use in the Bank's day-to-day operations but 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 (2017: 0.32% to 0.36%).

6. BALANCE WITH OTHER BANKS

This represents current accounts, which do not earn interest.

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
<i>Local banks:</i>				
Current accounts	1,909,872	7,673,866	1,381,845	5,578,509
<i>Overseas banks:</i>				
Current accounts	565,218	2,271,046	734,687	2,965,931
	2,475,090	9,944,912	2,116,532	8,544,440
Allowance for balance with other banks	(24,751)	(99,450)	-	-
Balance with other banks - net	2,450,339	9,845,462	2,116,532	8,544,440

Movements of allowance for balance with other banks are as follows:

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
At 1 January	-	-	-	-
Allowance during the year	24,751	99,450	-	-
As 31 December	24,751	99,450	-	-

The gross balance with other banks is analysed as follows:

By currency:

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
US dollars	2,220,222	8,920,852	2,116,532	8,544,440
Khmer riels	254,868	1,024,060	-	-
	2,475,090	9,944,912	2,116,532	8,544,440

7. LOANS TO CUSTOMERS

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Individual loans	67,165,775	269,872,084	37,276,190	150,483,979
	67,165,775	269,872,084	37,276,190	150,483,979
<i>Allowance for bad and doubtful loans:</i>				
Specific	(816,825)	(3,282,002)	(728,384)	(2,940,486)
General	(648,479)	(2,605,590)	(591,518)	(2,387,958)
	(1,465,304)	(5,887,592)	(1,319,902)	(5,328,444)
Loans to customers - net	65,700,471	263,984,492	35,956,288	145,155,535

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

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
At 1 January	1,319,902	5,328,444	1,170,485	4,725,249
Allowance during the year	1,340,777	5,387,242	1,406,989	5,680,015
Write off	(1,195,375)	(4,803,017)	(1,257,572)	(5,076,820)
Currency translation difference	-	(25,077)	-	-
As 31 December	1,465,304	5,887,592	1,319,902	5,328,444

The gross loans to customers are analysed as follows:

(a) By Performance:

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
<i>Unsecured*</i>				
Standard loans	64,677,508	259,874,227	35,094,851	141,677,913
Special-mention loans	1,069,388	4,296,801	938,170	3,787,392
Sub-standard loans	405,657	1,629,930	374,774	1,512,963
Doubtful loans	619,219	2,488,022	462,116	1,865,562
Loss loans	394,003	1,583,104	406,279	1,640,149
	67,165,775	269,872,084	37,276,190	150,483,979

* Unsecured loans represent the uncollateralised loans.

7. LOANS TO CUSTOMERS (continued)

(b) By maturity

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Within 1 month	11,474,169	46,103,211	13,902,335	56,123,726
1 to 3 months	1,762,224	7,080,616	705,832	2,849,444
3 to 12 months	17,996,059	72,308,165	9,213,837	37,196,260
1 to 5 years	35,430,060	142,357,981	13,095,875	52,868,047
Over 5 years	503,263	2,022,111	358,311	1,446,502
	<u>67,165,775</u>	<u>269,872,084</u>	<u>37,276,190</u>	<u>150,483,979</u>

(c) By economic sector:

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Personal loans	20,696,037	83,156,677	9,454,787	38,168,975
Motor vehicles hire purchases	19,216,601	77,212,303	12,243,672	49,427,704
General hire purchases	14,980,003	60,189,652	7,958,063	32,126,700
Credit cards	11,152,961	44,812,597	5,517,618	22,274,624
Agriculture	1,120,173	4,500,855	2,102,050	8,485,976
	<u>67,165,775</u>	<u>269,872,084</u>	<u>37,276,190</u>	<u>150,483,979</u>

(d) By currency:

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
US dollars	67,000,773	269,209,106	37,276,190	150,483,979
Khmer riels	165,002	662,978	-	-
	<u>67,165,775</u>	<u>269,872,084</u>	<u>37,276,190</u>	<u>150,483,979</u>

On 1 December 2016, the NBC issued a Prakas No. B7-016-334 on Provision of Credit in National Currency of Banking and Financial Institutions, which requires all institutions to have loans in national currency (KHR) at

least 10% of the total loan portfolio. The Bank is required to fully implement this requirement by 31 December 2019.

(e) By residency status:

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Residents	<u>67,165,775</u>	<u>269,872,084</u>	<u>37,276,190</u>	<u>150,483,979</u>

7. LOANS TO CUSTOMERS (continued)

(f) By relationship:

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
External customers	66,599,002	267,594,790	37,072,892	149,663,265
Staff loans	566,773	2,277,294	203,298	820,714
	67,165,775	269,872,084	37,276,190	150,483,979

(g) By exposure:

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Non-large exposure	67,165,775	269,872,084	37,276,190	150,483,979

(h) By interest rate (per annum):

	31 December 2018	31 December 2017
Individual loans	0% - 43.80%	7.08% - 43.80%

8. OTHER ASSETS

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Accrued interest receivable	1,589,223	6,385,496	868,799	3,507,340
Accounts receivable	1,189,147	4,777,993	724,153	2,923,406
Advances and deposits	844,933	3,394,941	502,458	2,028,423
Prepayments	289,107	1,161,632	93,660	378,105
Others	329,424	1,323,627	133,163	537,581
	4,241,834	17,043,689	2,322,233	9,374,855

9. PROPERTY AND EQUIPMENT

	Leasehold improvement	Furniture and fixtures	Office equipment	IT equipment and computers	Work in progress	Total
	US\$	US\$	US\$	US\$	US\$	US\$
Cost						
At 1 January 2018	1,534,970	217,808	377,770	1,654,227	366,207	4,150,982
Additions	219,459	60,952	115,734	130,423	29,178	555,746
Transfers	76,981	-	38,984	249,836	(365,801)	-
Disposals	(61,844)	(2,871)	(25,817)	(4,963)	-	(95,495)
At 31 December 2018	1,769,566	275,889	506,671	2,029,523	29,584	4,611,233
Less: Accumulated depreciation						
At 1 January 2018	(804,802)	(127,911)	(176,447)	(824,646)	-	(1,933,806)
Depreciation for the year	(347,210)	(46,642)	(133,575)	(374,806)	-	(902,233)
Disposals	61,171	2,763	25,717	4,025	-	93,676
At 31 December 2018	(1,090,841)	(171,790)	(284,305)	(1,195,427)	-	(2,742,363)
Carrying amounts						
At 31 December 2018	678,725	104,099	222,366	834,096	29,584	1,868,870
In KHR'000 equivalent	2,727,117	418,270	893,467	3,351,398	118,868	7,509,120

	Leasehold improvement	Furniture and fixtures	Office equipment	IT equipment and computers	Work in progress	Total
	US\$	US\$	US\$	US\$	US\$	US\$
Cost						
At 1 January 2017	1,173,279	186,818	182,449	1,033,594	-	2,576,140
Additions	476,986	30,990	199,319	620,633	366,207	1,694,135
Disposals	(115,295)	-	(3,998)	-	-	(119,293)
At 31 December 2017	1,534,970	217,808	377,770	1,654,227	366,207	4,150,982
Less: Accumulated depreciation						
At 1 January 2017	(683,503)	(74,331)	(91,371)	(535,808)	-	(1,385,013)
Depreciation for the year	(236,594)	(53,580)	(89,074)	(288,838)	-	(668,086)
Disposals	115,295	-	3,998	-	-	119,293
At 31 December 2017	(804,802)	(127,911)	(176,447)	(824,646)	-	(1,933,806)
Carrying amounts						
At 31 December 2017	730,168	89,897	201,323	829,581	366,207	2,217,176
In KHR'000 equivalent	2,947,688	362,914	812,741	3,349,018	1,478,379	8,950,740

10. INTANGIBLE ASSETS

	Computer software	Work-in- progress	Total
	US\$	US\$	US\$
Cost			
At 1 January 2018	3,291,708	524,778	3,816,486
Additions	42,798	550,620	593,418
Transfers	1,047,445	(1,047,445)	-
Write off	(8,067)	-	(8,067)
At 31 December 2018	4,373,884	27,953	4,401,837
Less: Accumulated amortisation			
At 1 January 2018	(1,625,643)	-	(1,625,643)
Amortisation for the year	(320,497)	-	(320,497)
Write off	8,067	-	8,067
At 31 December 2018	(1,938,073)	-	(1,938,073)
Carrying amounts			
At 31 December 2018	2,435,811	27,953	2,463,764
In KHR'000 equivalent	9,787,089	112,315	9,899,404
Cost			
At 1 January 2017	3,266,213	-	3,266,213
Additions	25,495	524,778	550,273
At 31 December 2017	3,291,708	524,778	3,816,486
Less: Accumulated amortisation			
At 1 January 2017	(976,619)	-	(976,619)
Amortisation for the year	(649,024)	-	(649,024)
At 31 December 2017	(1,625,643)	-	(1,625,643)
Carrying amounts			
At 31 December 2017	1,666,065	524,778	2,190,843
In KHR'000 equivalent	6,725,904	2,118,529	8,844,433

11. OTHER LIABILITIES

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Payable to dealers and suppliers	1,400,817	5,628,483	874,826	3,531,673
Accrued expenses	247,605	994,877	141,556	571,462
Advance payments from customers	165,963	666,839	88,511	357,319
Other tax liabilities	121,502	488,195	74,587	301,108
Accrued interest payable	112,753	453,042	74,409	300,389
Interest in suspense	39,543	158,884	32,583	131,538
Others	297,111	1,193,791	232,547	938,791
	2,385,294	9,584,111	1,519,019	6,132,280

12.INCOME TAX

(a) Deferred tax assets, net

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset deferred tax assets against deferred tax liabilities and when deferred taxes relate to the same fiscal authority. The offset amounts are as follows:

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Deferred tax assets	330,815	1,329,215	246,414	994,774
Deferred tax liabilities	-	-	(521)	(2,104)
	330,815	1,329,215	245,893	992,670

The movement of net deferred tax assets is as follows:

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
At 1 January	245,893	992,670	200,776	810,533
Credited to income statement	84,922	341,217	39,933	161,209
Tax amendments in respect of prior years	-	-	5,184	20,928
Currency translation differences	-	(4,672)	-	-
	330,815	1,329,215	245,893	992,670

Deferred tax assets/(liabilities) are attributable to the following:

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Allowance for credit facilities	141,062	566,787	123,933	500,318
Depreciation and amortisation	71,404	286,901	71,437	288,391
Unearned income	60,343	242,458	37,702	152,203
Employee benefits obligation	35,556	142,864	-	-
Accrual to related parties	12,806	51,455	-	-
Accrued bonuses	9,259	37,203	13,342	53,862
Unrealised exchange loss/(gain)	385	1,547	(521)	(2,104)
	330,815	1,329,215	245,893	992,670

(b) Current income tax liability

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
At 1 January	17,481	70,571	139,195	561,930
Current income tax expense	511,414	2,054,861	118,390	477,940
Income tax paid	(164,263)	(660,009)	(245,288)	(990,228)
Tax amendments in respect of prior years	-	-	5,184	20,929
Currency translation difference	-	(332)	-	-
At 31 December	364,632	1,465,091	17,481	70,571

12. INCOME TAX (continued)

(b) Current income tax liability (continued)

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

(c) Income tax expense

	Year ended 31 December 2018		Year ended 31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Current income tax	511,414	2,054,861	118,390	477,940
Deferred tax	(84,922)	(341,216)	(39,933)	(161,209)
Income tax expense	426,492	1,713,645	78,457	316,731

The reconciliation between income tax expense and accounting profit is as follows:

	Year ended 31 December 2018		Year ended 31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Profit before income tax	1,819,079	7,309,059	154,674	624,418
Tax at application income tax rate at 20%	363,816	1,461,813	30,935	124,885
Effect of non-deductible expense	62,676	251,832	41,815	168,807
Tax amendments in respect of prior years	-	-	5,184	20,928
Effect on deferred tax balances	-	-	523	2,111
Income tax expense	426,492	1,713,645	78,457	316,731

The Bank's tax returns are subject to periodic examination by the General Department of Taxation. As the application of tax laws and regulations to various types of transactions is susceptible to varying interpretations, amounts reported in the financial statements could be changed at a later date, upon final determination by the General Department of Taxation.

13. BORROWINGS

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
At 1 January	30,700,000	123,935,900	28,690,000	115,821,530
Addition during the year	31,100,000	124,959,800	22,700,000	91,639,900
Repaid during the year	(7,800,000)	(31,340,400)	(20,690,000)	(83,525,530)
Currency translation differences	-	(583,300)	-	-
At 31 December	54,000,000	216,972,000	30,700,000	123,935,900

These represent borrowings in US\$ from overseas banks which bear interest at rates ranging from 2.29% to 3.78% per annum (2017: 2.14% to 3.30%).

Interest expense during the year amounted to US\$1,146,505 (2017: US\$686,891).

13. BORROWINGS (continued)

Borrowings are further analysed as follows:

(a) By Currency

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
US dollars	54,000,000	216,972,000	30,700,000	123,935,900

(b) By maturity

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Within 1 month	-	-	10,000,000	40,370,000
1 to 3 months	5,000,000	20,090,000	6,700,000	27,047,900
3 to 12 months	33,000,000	132,594,000	14,000,000	56,518,000
Over 12 months	16,000,000	64,288,000	-	-
	54,000,000	216,972,000	30,700,000	123,935,900

14.EMPLOYEE BENEFIT OBLIGATIONS

This represents the seniority payments obliged by the Bank in accordance with the Prakas on Seniority Payment issued by the Ministry of Labour and Vocational Training on 21 September 2018.

The movement in the obligations is as follows:

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
At 1 January	-	-	-	-
Charges during the year	177,778	714,312	-	-
Payments during the year	-	-	-	-
At 31 December	177,778	714,312	-	-

15.SHARE CAPITAL

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Registered, issued and fully paid of US\$1 each	20,000,000	80,360,000	12,500,000	50,462,500

The details of shareholding were as follows:

	31 December 2018		31 December 2017	
	Holding %	Number of shares	Holding %	Number of shares
AEON Thana Sinsap (Thailand) Public Company Limited	50%	10,000,000	80%	10,000,000
AEON Financial Service Co., Ltd.	50%	10,000,000	20%	2,500,000
	100%	20,000,000	100%	12,500,000

15.SHARE CAPITAL (continued)

According to Prakas B7-016-117 issued by the NBC on 22 March 2016 on the “Minimum Registered Capital of Banking and Financial Institutions”, the specialized bank locally incorporated shall have a minimum registered capital of at least KHR60 billion (equivalent to US\$15 million). Banks are required to fulfil this requirement within two years from the date of the Prakas. On 16 June 2016, the NBC issued a Circular No. B7-016-003 on the implementation of Prakas on Minimum Registered Capital of Banking and Financial Institutions, requiring the Bank to increase the minimum registered capital by at least half of the required additional capital by the end of March 2017, and in full at the latest by 22 March 2018.

On 24 April 2018, the Bank obtained approval from the National Bank of Cambodia on the increase in capital from US\$12,500,000 to US\$20,000,000. The Amendment of Memorandum and Articles of Association was approved by the Ministry of Commerce on 4 September 2018.

16.INTEREST INCOME

	Year ended 31 December 2018		Year ended 31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Loans to customers	13,773,777	55,343,036	9,480,127	38,271,273
Balances with the NBC and other banks	49,466	198,754	35,315	142,567
Capital guarantee	12,580	50,547	2,268	9,155
	<u>13,835,823</u>	<u>55,592,337</u>	<u>9,517,710</u>	<u>38,422,995</u>

17.FEE AND COMMISSION INCOME

	Year ended 31 December 2018		Year ended 31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Reimbursement fees	597,133	2,399,280	270,444	1,091,782
Penalty fees	318,685	1,280,476	204,449	825,361
Loan application fees	292,025	1,173,356	160,655	648,564
Other fees	387,668	1,557,651	195,267	788,293
	<u>1,595,511</u>	<u>6,410,763</u>	<u>830,815</u>	<u>3,354,000</u>

18.OTHER OPERATING INCOME

	Year ended 31 December 2018		Year ended 31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Recovery from loan written off	157,518	632,907	12,827	51,782
Gains/(losses) on foreign exchange - net	337	1,354	(3,527)	(14,238)
	<u>157,855</u>	<u>634,261</u>	<u>9,300</u>	<u>37,544</u>

19.PERSONNEL EXPENSES

	Year ended 31 December 2018		Year ended 31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Salaries and wages	4,312,453	17,327,436	3,175,355	12,818,908
Seniority payment expense	177,778	714,312	-	-
Training expenses	100,520	403,889	106,462	429,787
Staff housing and related expenses	83,979	337,428	79,177	319,638
Medical expenses	9,634	38,709	10,544	42,566
Others	127,872	513,790	60,786	245,393
	<u>4,812,236</u>	<u>19,335,564</u>	<u>3,432,324</u>	<u>13,856,292</u>

20.DEPRECIATION AND AMORTISATION

	Year ended 31 December 2018		Year ended 31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Depreciation	902,233	3,625,171	668,085	2,697,058
Amortisation	320,497	1,287,758	649,025	2,620,115
	<u>1,222,730</u>	<u>4,912,929</u>	<u>1,317,110</u>	<u>5,317,173</u>

21.OTHER OPERATING EXPENSES

	Year ended 31 December 2018		Year ended 31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Repairs and maintenance	1,363,444	5,478,318	565,093	2,281,280
Promotion and advertising	721,610	2,899,429	422,044	1,703,794
Office rental	482,284	1,937,817	455,658	1,839,491
Communication	382,991	1,538,858	271,410	1,095,682
Professional fees	340,806	1,369,359	88,338	356,621
Travel	336,862	1,353,512	270,345	1,091,383
Stationaries and printing	320,072	1,286,049	240,848	972,303
Vehicle rental and running costs	283,012	1,137,142	213,408	861,528
Taxes and licenses	209,273	840,859	161,452	651,782
Credit card and ATM operating expenses	247,602	994,865	148,524	599,591
Management fee	123,648	496,818	114,473	462,127
Utilities	122,877	493,720	101,979	411,689
Insurance	109,319	439,244	75,334	304,123
Loss on property and equipment written off	1,138	4,572	-	-
Others	178,173	715,898	230,931	932,268
	<u>5,223,111</u>	<u>20,986,460</u>	<u>3,359,837</u>	<u>13,563,662</u>

22.ALLOWANCE FOR CREDIT FACILITIES

	Year ended 31 December 2018		Year ended 31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Allowance for balances with other banks (Note 6)	24,751	99,450	-	-
Allowance for bad and doubtful loans (Note 7)	1,340,777	5,387,242	1,406,989	5,680,015
	1,365,528	5,486,692	1,406,989	5,680,015

23.DIVIDEND

During the year, the Shareholders have passed a resolution to approve dividend payments of US\$1,149,950 (2017: Nil) in total and all were paid.

24.CASH AND CASH EQUIVALENTS

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

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Cash on hand	426,133	1,712,202	242,884	980,523
Current account with NBC	13,829	55,565	12,384	49,994
Balances with other banks	2,475,090	9,944,912	2,116,532	8,544,441
	2,915,052	11,712,679	2,371,800	9,574,958

25.COMMITMENTS

(a) Operating lease commitments

The Bank leases office premises under an operating lease arrangement with minimum lease commitments as follows:

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Not later than one year	625,477	2,513,167	387,580	1,564,660
Later than one year and not later than five years	1,955,678	7,857,914	225,490	910,303
More than five years	74,178	298,047	-	-
	2,655,333	10,669,128	613,070	2,474,963

(b) Lending commitments

	31 December 2018		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Unused portion of credit facilities	18,933,666	76,075,470	6,978,595	28,172,588

25.COMMITMENTS (continued)

(c) Capital commitments

Capital expenditure contracted at the end of the reporting period but not yet paid is as follows:

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Not later than one year	-	-	787,470	3,179,016

26.RELATED PARTY BALANCES AND TRANSACTIONS

Significant transactions and balances with related parties are as follows:

Relationship	Related party
Parent company	The company that has significant ownership and control over the Bank.
Affiliates	The companies that are members of the same group of the Bank.
Key management personnel	Persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including any director (whether executive or otherwise) of the Bank.

(a) Related party balances

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
<i>Amounts due from</i>				
Parent company	15,681	63,006	890	3,593
Affiliates	2,247	9,028	13,117	52,953
Loans to key management	71,824	288,589	37,900	153,002
Accrued interest receivable from key management	355	1,426	290	1,171
<i>Amounts due to</i>				
Affiliates	175,764	706,220	66,573	268,755

Amounts due to related parties are unsecured, interest free and repayable on demand.

(b) Related party transactions

	Year ended 31 December 2018		Year ended 31 December 2017	
	US\$	KHR'000	US\$	KHR'000
<i>Parent companies</i>				
Payment on behalf by the Bank	15,944	64,063	-	-
Payment on behalf of the Bank	8,892	35,728	-	-
Dividend payment	1,149,950	4,620,499	-	-
Purchases of services and goods	153,351	616,164	99,818	77
Management fee	123,648	496,818	114,473	462,127
License fees	87,328	350,884	-	-
Guarantee fees	75,693	304,134	-	-
Reimbursement of expenses	-	-	1,142	4,610
<i>Affiliate</i>				
Settlement of customers' liabilities	904,944	3,636,065	582,890	2,353,127
Sales of goods	57,124	229,524	-	-
Payment on behalf by the Bank	4,566	18,346	-	-

26.RELATED PARTY BALANCES AND TRANSACTIONS (continued)

(b) Related party transactions (continued)

	Year ended 31 December 2018		Year ended 31 December 2017	
	US\$	KHR'000	US\$	KHR'000
<i>Affiliate (continued)</i>				
Purchases of intangible assets	1,034,808	4,157,859	690,961	2,789,410
Management remuneration charged	629,631	2,529,857	940,085	3,795,123
Services and goods received	453,641	1,822,730	383,864	1,549,659
Rental expenses	148,917	598,349	65,292	263,584
Rendering of services	-	-	30,572	123,419
<i>Key management</i>				
Interest income	3,403	13,673	1,102	4,449

(c) Key management compensation

Compensation including other benefits of directors and key management personnel for the year amounted to US\$667,749 (2017: US\$477,920).

27.FINANCIAL RISK MANAGEMENT

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

In the absence of a derivative market in Cambodia, the Bank does not use derivative financial instruments such as foreign exchange contract and interest rate swaps to manage its risk exposure.

The Bank intends to comply with the NBC's regulations for financial risk management purposes. The Bank however recognises that international best practices on risk management are yet to be fully implemented. The Board of Directors has established a Risk Management Section to formulate broad parameters of acceptable risk for the Bank and monitor the activities against these parameters.

The Bank holds the following financial assets and liabilities:

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Financial assets				
Cash on hand	426,133	1,712,202	242,884	980,523
Balances with the NBC	1,013,829	4,073,565	637,384	2,573,119
Balances with other banks	2,450,339	9,845,462	2,116,532	8,544,440
Loans to customers	65,700,471	263,984,492	35,956,288	145,155,535
Other assets	3,113,613	12,510,497	1,752,582	7,075,174
Total financial assets	72,704,385	292,126,218	40,705,670	164,328,791
Financial liabilities				
Other liabilities	1,724,604	6,929,459	1,048,822	3,283,833
Amounts due to related parties	175,764	706,220	42,783	172,715
Borrowings	54,000,000	216,972,000	30,700,000	123,935,900
Total financial liabilities	55,900,368	224,607,679	31,791,605	127,392,448

(a) Operational risk

The operational risk losses which would result from inadequate or failed internal processes, people and systems or from external factors 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 management.

27.FINANCIAL RISK MANAGEMENT (continued)

(a) Operational risk (continued)

The operational risk management entails the establishment of clear organisational structure, roles and responsibilities. Various internal control policies and measures have been implemented. These include the establishment of signing authorities, defining system parameters controls, streamlining procedures and documentation. These are reviewed continually to address the operational risks of its micro-finance business.

(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 exposure arises principally in lending activities that lead to loans to customers. The credit risk management is carried out by the Bank's Risk Management Section.

(i) Credit risk measurement

The Bank assesses the probability of default of individual counterparties in accordance with its credit policy, procedures and practices. Risk Management Section is responsible for determining the risk rating policies.

(ii) Risk limit control and mitigation policies

The Bank operates and provides loans to individuals 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.

(iii) Impairment and allowance policies

The Bank is required to follow the mandatory credit classification and allowance in accordance with new Prakas No. B7-017-344, dated 1 December 2017 on Credit Risk Grading and Impairment Provisioning. Refer to Note 2.6 for details.

(iv) Exposure to credit risk

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
<i>On-balance sheet assets:</i>				
Balances with other banks	2,450,339	9,845,462	2,116,532	8,544,440
Loans to customers	65,700,471	263,984,492	35,956,288	145,155,535
Other assets	3,113,613	12,510,497	1,752,582	7,075,174
<i>Off-balance sheet items:</i>				
Unused portion of credit facilities	18,933,666	76,075,470	6,978,595	28,172,588
	<u>90,198,089</u>	<u>362,415,921</u>	<u>46,803,997</u>	<u>188,947,737</u>

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2018, without taking account of any other credit enhancement attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts.

As shown above, 72.84% (2017: 76.82%) of total maximum exposure is derived from loans to customers.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from its loans, as the Bank maintains a credit evaluation process in place for granting of loans to customers.

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
<i>Loans to customers</i>				
Neither past due nor impaired	64,310,209	258,398,420	35,104,537	141,717,016
Past due but not impaired	1,488,113	5,979,238	928,484	3,748,290
Individual impaired	1,367,453	5,494,426	1,243,169	5,018,673
	<u>67,165,775</u>	<u>269,872,084</u>	<u>37,276,190</u>	<u>150,483,979</u>

27. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit risk (continued)

(iv) Exposure to credit risk (continued)

Neither past due nor impaired

Loans to customers which are not past due are not considered impaired, unless other information is available to indicate the contrary.

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 less than 31 days and 90 days for short-term and long-term loans, respectively unless other information is available to indicate otherwise.

Impaired loans to customers

In compliance with NBC Guidelines, an allowance for doubtful loans to customers is made for loans to customers with payment overdue more than 30 days and 89 days for short-term and long-term loans, respectively. A minimum level of specific allowance for impairment is made depending on the classification concerned, unless other information is available to substantiate the repayment capacity of the counterparty. Refer to accounting policy stated in Note 2.6.

(c) Market risk

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

In the absence of derivatives market, the Bank does not use derivative financial instruments such as foreign exchange contract and interest rate swaps to hedge its risk exposure.

The Bank has maintained a minimum foreign currency exposure ratio in accordance with guidelines issued by the National Bank of Cambodia.

(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. 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.

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

(ii) Interest rate risk

Interest rate risk refers to the volatility in net interest income as a result of changes in the levels of interest rate and shifts in the composition of the assets and liabilities. The exposure to interest rate risk relate primarily to its balances with other banks, loans to customers and borrowings.

An analysis of interest rate risk at the reporting date and the periods in which the financial instruments re-price or mature, whichever is earlier, was as follows:

	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\$
At 31 December 2018							
Assets							
Cash on hand	-	-	-	-	-	426,133	426,133
Balances with the NBC	-	-	-	-	1,000,000	13,829	1,013,829
Balances with other banks	-	-	-	-	-	2,450,339	2,450,339
Loans to customers	11,466,202	1,673,841	17,668,336	35,366,070	503,263	488,063	67,165,775
Other assets	-	-	-	-	-	3,113,613	3,113,613
	<u>11,466,202</u>	<u>1,673,841</u>	<u>17,668,336</u>	<u>35,366,070</u>	<u>1,503,263</u>	<u>6,491,977</u>	<u>74,169,689</u>
Liabilities							
Other liabilities	-	-	-	-	-	1,724,604	1,724,604
Amounts due to related parties	-	-	-	-	-	175,764	175,764
Borrowings	-	-	38,000,000	16,000,000	-	-	54,000,000
	<u>-</u>	<u>-</u>	<u>38,000,000</u>	<u>16,000,000</u>	<u>-</u>	<u>1,900,368</u>	<u>55,900,368</u>
Interest sensitivity gap	<u>11,466,202</u>	<u>1,673,841</u>	<u>(20,331,664)</u>	<u>19,366,070</u>	<u>1,503,263</u>	<u>4,591,609</u>	<u>18,269,321</u>
In KHR'000 equivalent	<u>46,071,200</u>	<u>6,725,493</u>	<u>(81,692,626)</u>	<u>77,812,869</u>	<u>6,040,111</u>	<u>18,449,085</u>	<u>73,406,132</u>

27.FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

	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\$
At 31 December 2017							
Assets							
Cash on hand	-	-	-	-	-	242,884	242,884
Balances with the NBC	-	-	-	-	625,000	12,384	637,384
Balances with other banks	-	-	-	-	-	2,116,532	2,116,532
Loans to customers	13,902,335	705,832	9,213,837	13,095,875	358,311	-	37,276,190
Other assets	-	-	-	-	-	1,752,582	1,752,582
	<u>13,902,335</u>	<u>705,832</u>	<u>9,213,837</u>	<u>13,095,875</u>	<u>983,311</u>	<u>4,124,382</u>	<u>42,025,572</u>
Liabilities							
Other liabilities	-	-	-	-	-	1,047,102	1,047,102
Amounts due to related parties	-	-	-	-	-	42,783	42,783
Borrowings	<u>10,000,000</u>	<u>1,700,000</u>	<u>-</u>	<u>19,000,000</u>	<u>-</u>	<u>-</u>	<u>30,700,000</u>
	<u>10,000,000</u>	<u>1,700,000</u>	<u>-</u>	<u>19,000,000</u>	<u>-</u>	<u>1,089,885</u>	<u>31,789,885</u>
Interest sensitivity gap	<u>3,902,335</u>	<u>(994,168)</u>	<u>9,213,837</u>	<u>(5,904,125)</u>	<u>983,311</u>	<u>3,034,497</u>	<u>10,235,687</u>
In KHR'000 equivalent	<u>15,753,726</u>	<u>(4,013,456)</u>	<u>37,196,260</u>	<u>(23,834,953)</u>	<u>3,969,627</u>	<u>12,250,264</u>	<u>41,321,468</u>

Fair value sensitivity analysis for fixed rate instruments

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

(d) Liquidity risk

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

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

The following table provides an analysis of the financial assets and liabilities of the Bank into relevant maturity groupings based on the remaining contractual maturity.

	Up to 1 month US\$	> 1 – 3 months US\$	> 3 – 12 months US\$	>1 – 5 years US\$	Over 5 years US\$	No fixed term US\$	Total US\$
At 31 December 2018							
Liabilities							
Other liabilities	1,611,851	-	-	-	-	-	1,611,851
Amounts due to related parties	-	-	-	-	-	175,764	175,764
Borrowings	<u>203,969</u>	<u>188,690</u>	<u>33,830,107</u>	<u>21,345,266</u>	<u>-</u>	<u>-</u>	<u>55,568,032</u>
	<u>1,815,820</u>	<u>188,690</u>	<u>33,830,107</u>	<u>21,345,266</u>	<u>-</u>	<u>175,764</u>	<u>57,355,647</u>
In KHR'000 equivalent	<u>7,295,965</u>	<u>758,156</u>	<u>135,929,370</u>	<u>85,765,279</u>	<u>-</u>	<u>706,220</u>	<u>230,454,990</u>

27. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

	Up to 1 month US\$	> 1 – 3 months US\$	> 3 – 12 months US\$	>1 – 5 years US\$	Over 5 years US\$	No fixed term US\$	Total US\$
At 31 December 2017							
Liabilities							
Other liabilities	1,047,102	-	-	-	-	-	1,047,102
Amounts due to related parties	-	-	-	-	-	42,783	42,783
Borrowings	14,252	3,766,835	8,541,154	19,905,773	-	-	32,228,014
	<u>1,061,354</u>	<u>3,766,835</u>	<u>8,541,154</u>	<u>19,905,773</u>	<u>-</u>	<u>42,783</u>	<u>33,317,899</u>
In KHR'000 equivalent	<u>4,284,686</u>	<u>15,206,713</u>	<u>34,480,639</u>	<u>80,359,606</u>	<u>-</u>	<u>172,715</u>	<u>134,504,359</u>

The Bank performs maturity analysis for financial liabilities that shows the remaining contractual maturities. However, the Bank monitors the assets held to manage liquidity risk only one month ahead as it has short-term borrowings from banks anytime it encounters liquidity problem.

(e) Capital management

(i) Regulatory capital

The Bank's lead regulator, the NBC, sets and monitors capital requirements for the Bank as a whole.

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

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

(ii) Capital allocation

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

28. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The Bank did not have financial instruments measured at fair value.

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

29. CURRENT AND NON-CURRENT

Management presents the financial statements based on liquidity. Information about short-term and long-term of assets and liabilities are disclosed in the financial risk management section. Property and equipment, intangible assets and deferred tax assets are non-current assets. Current income tax liability is current liability and employee benefit obligations is non-current liabilities.

30. EVENTS AFTER THE REPORTING PERIOD

On 21 January 2019, AEON Financial Service Co., Ltd. ("AFS"), a shareholder of the Bank, issued a notification of transition of company and group restructuring by a corporate split. With this announcement, AFS resolved to implement a transition of company structure effective from 1 April 2019 where AFS will no longer be a bank holding company. Therefore, shares of the Bank will be fully transferred to AFS Corporation Co., Ltd., a wholly-owned subsidiary of AFS.



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