

ANNUAL REPORT

20
18





Your New Highway in Finance



CONTENTS

Part 1 : Introduction

> Message from the CEO	03
> Bank Profile	04
> Shareholder’s Profile (KB Financial Group).....	05
> Shareholder’s Profile (KB Kookmin Card).....	06
> Shareholder’s Profile (Indochina Bank).....	07
> Vision & Mission	08
> Organization Chart	09
> Corporate Governance	10

Part 2 : Highlights of 2018

> 2018 Financial Highlights	12
> CSR Activities	13
> Other Activities	15

Part 3 : Audited Financial Statements

> Directors’ Report	20
> Independent Auditor’s Report	23
> Financial Statements	
· Balance Sheet	25
· Income Statement.....	26
· Statement of Changes in Equity	27
· Statement of Cash Flows	28
· Notes to the Financial Statements.....	29



Message from the CEO

I wish you tremendous success in everything you do.

I am proud to present a 2018 Bank Achievement Report, which is the first annual report created under the name of **KB Daehan Specialized Bank Plc.** I would like to express my sincere thanks to our shareholders for their strong support and encouragement for the bank’s noteworthy achievement.

KB Daehan Specialized Bank Plc. is a member of KB Financial Group, the top financial group in Korea, and it has grown as a leader in innovation and service in all areas of finance, including banking, security and credit cards.

In particular, despite being a latecomer in auto financing, the Korean market has been surprised by the sales record of more than 100 billion Won per month. It is recording 7.5 times growth in the two years since entering the market. This has been achieved through fast and accurate service provision.

In Laos, an auto leasing company named KB Kolao Leasing Company was founded in February 2017 and it is operating successfully.

We are setting a mission. **KB Daehan Specialized Bank Plc.** wants to be the fastest bank and the most flexible bank in Cambodia. Furthermore, our mission is to make people feel excited about **KB Daehan Specialized Bank Plc.** When a customer meets **KB Daehan Specialized Bank Plc.**, they can feel excited about a bright future. For the sake of customer’s future, we provide fast and flexible services, just like a supercar is driving on a highway.

We know that finance plays an important role so that customers can purchase assets.

We will make every effort to provide a strong engine for the benefit of the lives and businesses of our valuable customer in Cambodia based on our experience and know-how gained in Korea and Laos.

Let’s drive on “Your New Highway in Finance” **KB Daehan Specialized Bank Plc.!!**

Thank you.

Chief Executive Officer

Mr. Kong Sang Yeon



KB Daehan Specialized Bank Plc. is a joint venture between KB Kookmin Card and Indochina Bank. KB Kookmin Card is a subsidiary of KB Financial Group. KB Financial Group is a leading financial conglomerate offering a broad range of financial products and services. It is a member of Dow Jones sustainability indices of NYSE. Indochina Bank has had successful experience in auto finance in Lao PDR. Thus, KB Daehan Specialized Bank Plc. is able to provide fast and flexible services to the Cambodia credit market to make a better financial society.

BANK PROFILE

Bank Name	KB Daehan Specialized Bank PLC.
Registered Capital	USD 18,750,000.00
Shareholder	KB Kookmin Card 90% Indochina Bank 10%
History	2008.8 Founded as Tomato Specialized Bank 2018 changed into KB Daehan Specialized Bank Plc.
Business Sector	Specialized in Auto Finance and Housing Loan
No. of employees	101
Auditor	PricewaterhouseCoopers (Cambodia) Ltd.
Head Office	Building No.1 (Oval Office Tower), 21 st and 22 nd Floor, Street 360, Sangkat Boeng Keng Kang Ti Mouy, Khan Boeng Keng Kang, Phnom Penh, Cambodia.

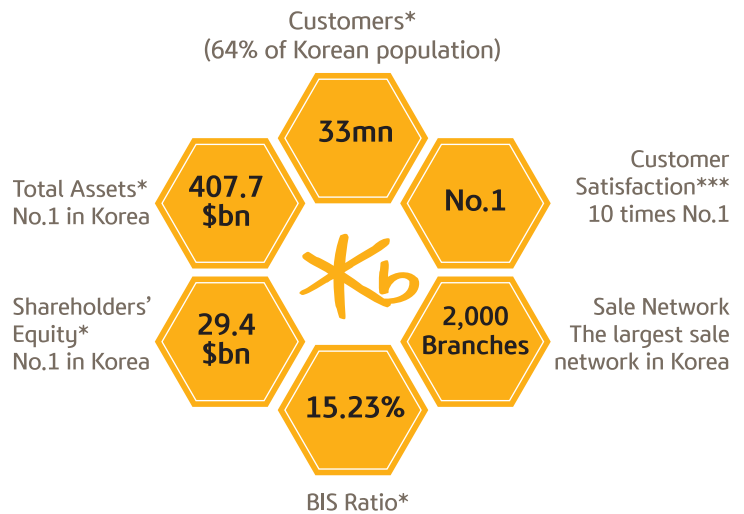
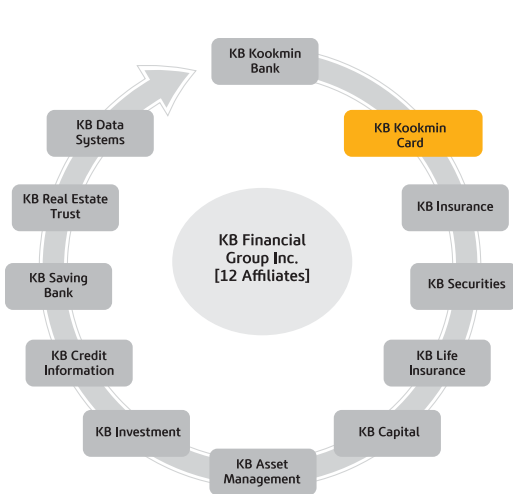
Shareholder's Profile

KB Financial Group

KB Financial Group is a **leading financial conglomerate** offering a broad range of financial products and services. The group is second to none in regards to its **broad customer base, wide distribution networks and strong brand.**

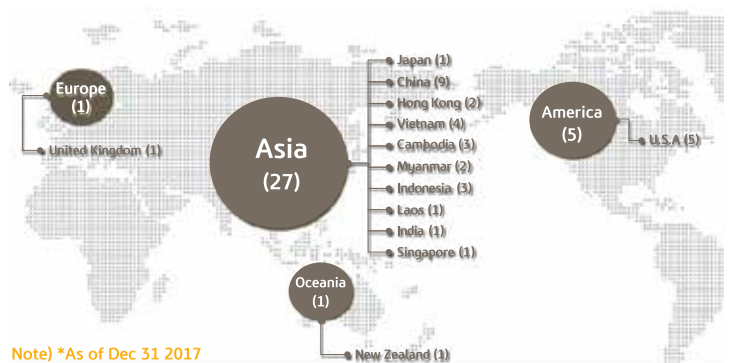


KB Financial Group is **Korea's No.1 financial institution** and wholly owns 12 subsidiaries including KB Kookmin Card.



** National Customer Satisfaction Index (NCSI), Korea Productivity Center

KB Financial Group has overseas networks covering all continents. The group aims to become a global financial institution leading the Asian financial market as a NYSE listed member.



Shareholder's Profile

KB Kookmin Card

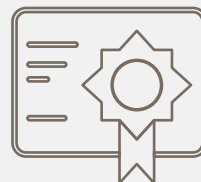
KB Kookmin Card is a top-tier credit card company having a customer base of 19.7million in Korea.

We aspire to be a “No.1 Lifestyle Solution Provider” offering better financial products for customers.

Driven by world-class talent and bold innovation, we hope to become your trusted partner in your pursuit of a happy life.



Establishment Date	September, 1987
Business Sector	Credit Card, Credit Finance, Auto Finance
Employee	1,562
Cardholders	19.7 million (40% of Korean population)
Merchants	2.5 million
Transaction Volume	USD 116 billion / Year
Total Asset	USD 16.5 billion
Operating Profit	USD 351 million



Fitch Ratings

A-(Stable)

Acquired ‘A-’ rating and ‘Stable’ opinion, the highest grade among credit-specific firms in Korea. (Nov. 2017)

Moody's

A2 (Stable)

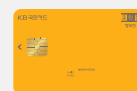
Acquired ‘A2’ rating and ‘Stable’ opinion, KB Kookmin Card’s first credit rating from Moody’s (Jun. 2019)

New Car Loan
Total asset USD 1.15 Billion



No.1

Check Card M/S
Usage amount USD 60 Billion



No.1

Card Usage M/S
Usage amount USD 116 Billion



No.2



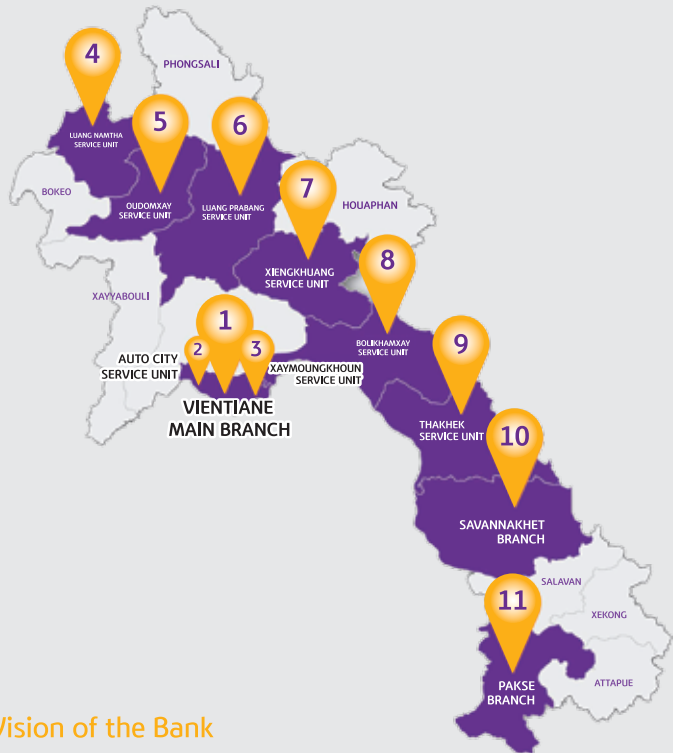
Shareholder's Profile



Indochina Bank Ltd was incorporated in Lao PDR in 2008. The bank's shareholders are comprised of reputable corporations and individuals with strong and stable business backgrounds, namely Mr. Oh Sei Young and **LVMC Investment Ltd**.

This bank has 13 branch networks covering all provinces.

This bank's experience and know-how will be spread to **KB Daehan Specialized Bank Plc**.



Vision of the Bank

“ TO BE THE NO.1 PRIVATE BANK IN LAOS IN TERMS OF BUSINESS GROWTH, CUSTOMER SERVICE, PRODUCTS, PROFIT AND BRANDING, AND CONTINUALLY ENHANCE OUR SERVICES TO MEET CUSTOMER'S NEEDS WITH THE HIGHEST LEVEL OF SATISFACTION”.

Main Branch

Address: Kolao Tower, 116,
23 Singha Road, P.O.Box 6029,
Tel : (+856-21) 455 000-3
Fax: (+856-21) 455 111

Vision & Mission

KB Daehan Specialized Bank Plc.'s Vision is to be the Best Specialized bank in Cambodia through successful experience in Korea.

KB Daehan Specialized Bank Plc.'s Mission is to make people feel excited by providing fast and flexible services, just like a car is driving on a highway.



Be the Best Specialized Bank in Cambodia

Product

> New Product

- Car Loan, Used Car Hire-Purchase
- Wholesale (Importer)
- Risk Based Housing Loan

Process

> Operation

- Dedicated person
- Express approval process
- Mobile loan application

> Customer Contact

- Call Center, Homepage

Program

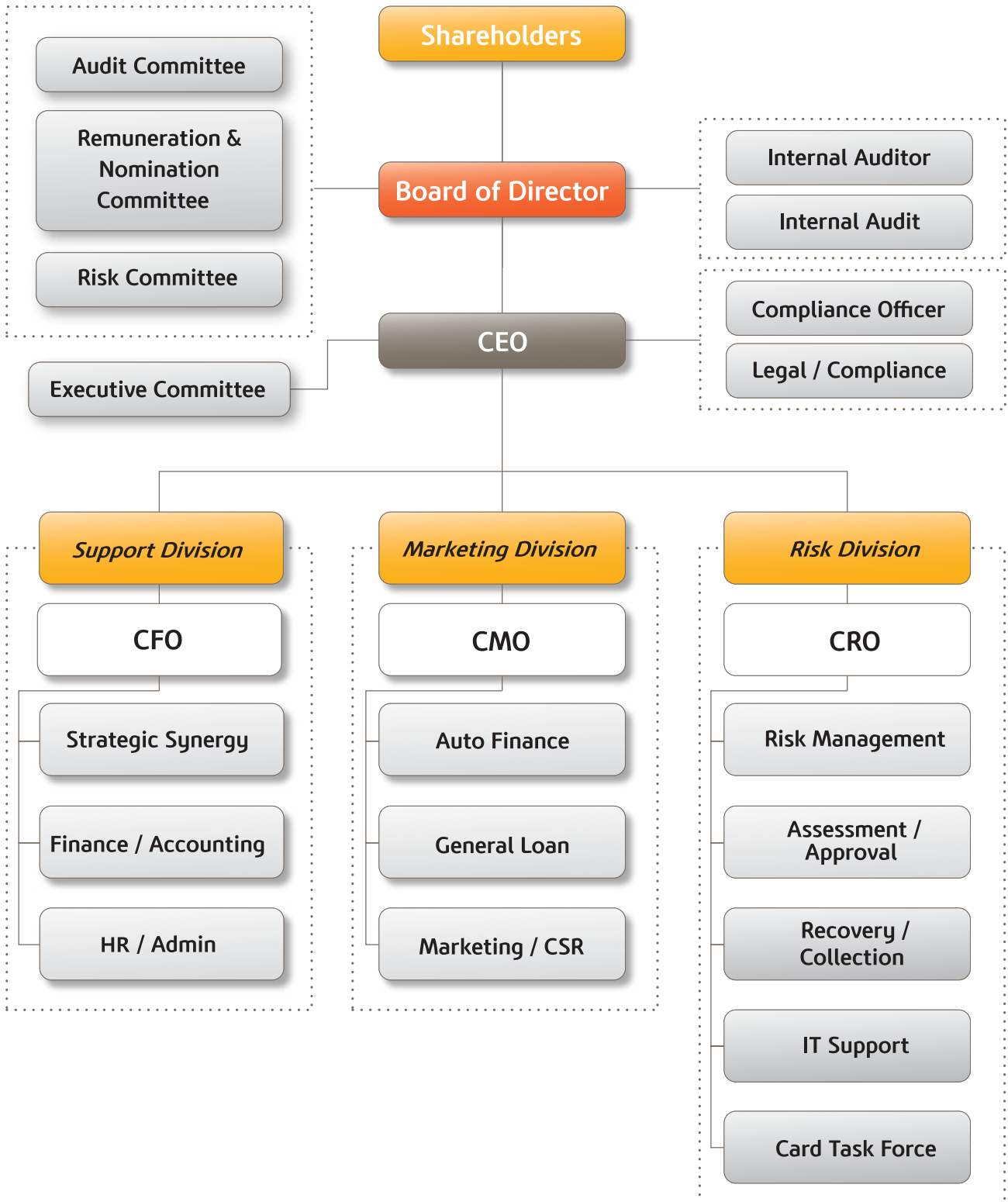
> Loyalty Program

- Existing customer care
- Providing benefits

> Customer Journey

- Managing life cycle
- Encouraging repurchase

Organization Chart



Corporate Governance

Board Structure and Composition

The Board of Directors (BOD) of KB Daehan Specialized Bank Plc. comprises 4 members, including one independent director. All were appointed at the general shareholder's meeting. All directors are professionals in their respective fields with extensive experience in areas such as business, management and law. The chair was elected by the Board of Directors.

Board of Directors

Mr. Kang Nam Che	Chair of BOD
Mr. Kong Sang Yeon	BOD
Mr. Lee Jae Hoo	BOD
Mr. Kim Hyong Kun	Independent BOD

Committees

. Audit Committee

The Audit Committee was established through the resolution of the Board on 20 July 2018 to assist the Board in the execution of its governance and oversight responsibilities. It consists of

Mr. Kim Hyong Kun	Chair of Committee (Independent Director)
Mr. Lee Sang In	Member
Mr. Men Narith	Member

. Remuneration & Nomination Committee

The Committee shall establish a fair evaluation and compensation system in accordance with the performance of the management and staff and general environment of the remuneration.

Mr. Kim Hyong Kun	Chair of Committee (Independent Director)
Mr. Kong Sang Yeon	Member
Mr. Lee Sang In	Member

. Risk Committee

The Committee acts as the highest decision-making body. It establishes and approves risk management strategies and guidelines to recognize, measure, monitor and control all the risks that arise from various transactions of bank in a timely manner.

Mr. Kong Sang Yeon	Chair of Committee
Mr. Lee Sang In	Member
Mr. Park Jong Deok	Member



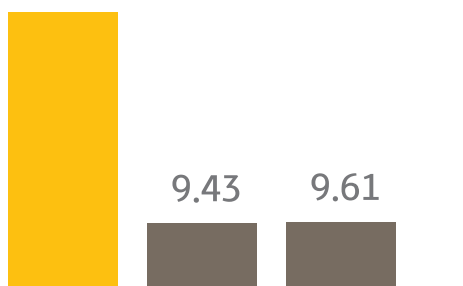
Highlights of 2018

2018 Financial Highlights

KB Daehan Specialized Bank Plc. has transformed into a wholly different bank, creating remarked disbursed loan amount and over 4 times more total assets.

Total Assets

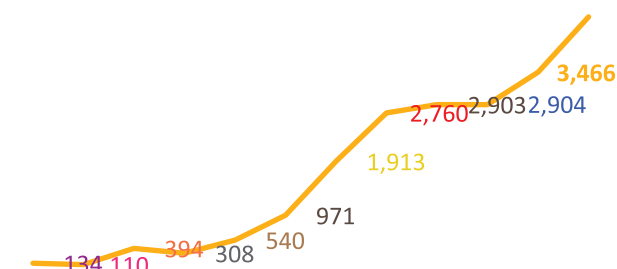
38.69 (Unit USD Million)



■ 2018 ■ 2017 ■ 2016

Disbursed Loan Amount

(Unit USD thousand)



Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec

410%

Total Asset Growth

3,400%

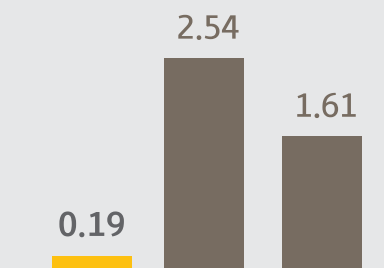
Monthly Loan disbursed growth

KB Daehan Specialized Bank Plc. also managed risk well through advanced knowledge gained in experience of risk management in Korea. Its result was 0.19% NPL Ratio.

In 2018, its first year of entering the market, the bank invested many kinds of expenses. This is why net income is lower than the previous year.

NPL Ratio

(Unit %)



■ 2018 ■ 2017 ■ 2016

Net Income

0.65



-0.2

-0.12

■ 2018 ■ 2017 ■ 2016

1,337%

NPL Ratio Reduction



CSR ACTIVITIES

Donation to Messiah Philharmonic Ensemble

Messiah Philharmonic Ensemble was founded in 2018 to uphold Messiah International School and Messiah Music School and to help the institute to continue musical education. It aims at giving the finest classical music to Cambodian society and developing classical music and performing culture.

At its grand opening ceremony, KB Daehan Specialized Bank Plc. donated to this institution.



Planting Mangrove Trees

Planting Mangrove Tree maintains Cambodian society. Mangrove trees promote more shrimps and other sea life.

KB Daehan Specialized Bank Plc.'s employees planted trees at Kompot Province.



CSR ACTIVITIES

Setting Corner Reflectors

Phnom Penh city has many narrow roads. These can be dangerous for drivers of motorbikes or cars and pedestrians. **KB Daehan Specialized Bank Plc.** has installed traffic mirror, at corners of narrow alley, which helps to reduce accident.



Sharing Gift Boxes to Student

In August, KB Kookmin Card, Shareholder of **KB Daehan Specialized Bank Plc.** donated 1,000 gift boxes to children in Kampong Speu Province. These gift boxes were made by employees of KB Kookmin Card and customers in Korea.

They consisted of clothes, shoes, books and toys. **KB Daehan Specialized Bank Plc.** plans to this activity with Korea continuously.

Other Activities

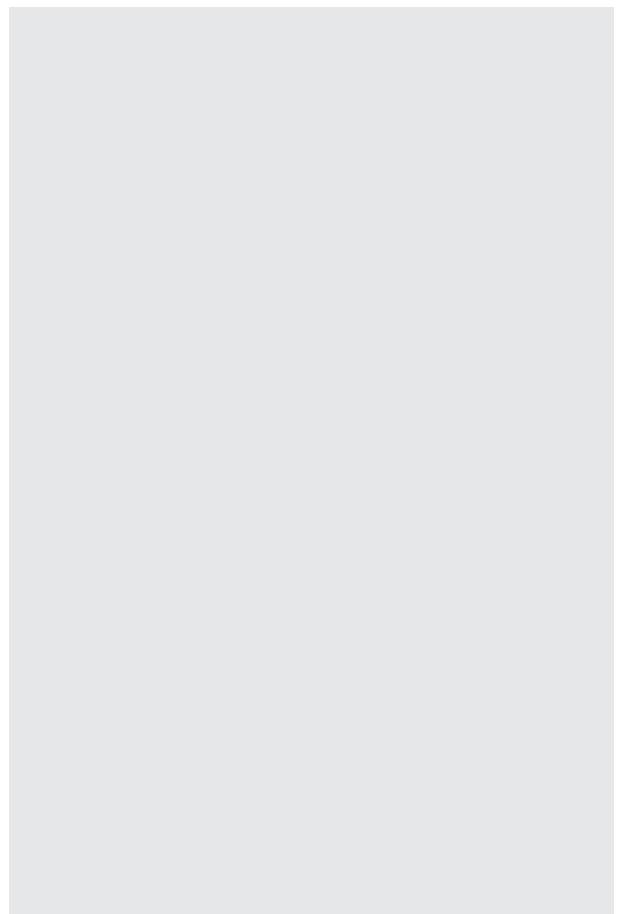


Deal Closing

KB Daehan Specialized Bank Plc. acquired from Tomato Specialized Bank, a bank under the supervision of KDIC, in April after gaining approval from NBC in March.

KB Daehan Specialized Bank Plc. prayed for success in acquisition at Wat Phnom.

KB Daehan Specialized Bank Plc. always respects Cambodian culture and people.



Other Activities



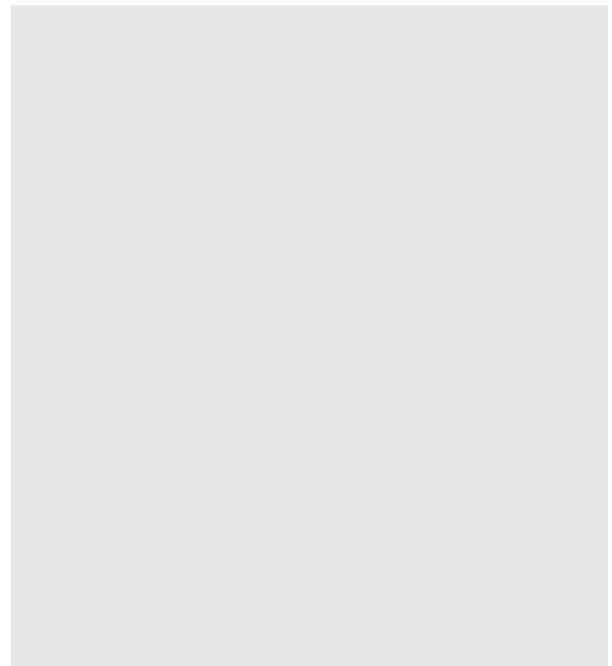
Moving Office

KB Daehan Specialized Bank Plc. changed office from Samdach Pan Street (214) of Tomato Specialized Bank's office to a brand new building, Oval Office Tower. This new office is a symbol of KB Daehan Specialized Bank Plc.'s vision, different shape and the highest level with sophisticated interior means new wave in Finance.



Welcome Party

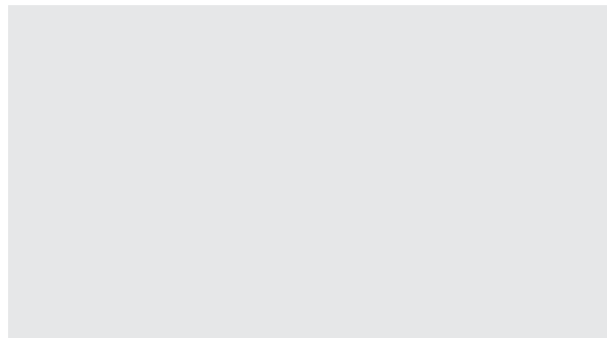
KB Daehan Specialized Bank Plc. invited and welcomed potential car dealers and customers with bank employees in new office. It announced the New Bank's Vision.



Other Activities

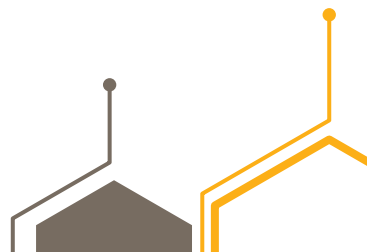
Grand Opening

On 6 September 2018 at the Phnom Penh Sokha Hotel, KB Daehan Specialized Bank Plc. opened officially. Many VIPs attended and enjoyed the opening of this new bank.



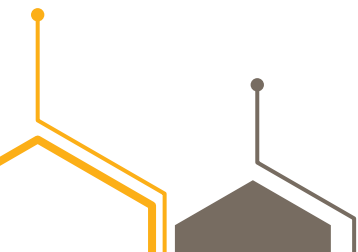
Off-Site Workshop

KB Daehan Specialized Bank Plc. staff visited Kompot Province to do a workshop. They focused on teamwork and making a bright future. They participated in many activities.





Audited Financial Statements



KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018



Directors' Report

The Board of Directors ("the Directors") hereby submit their report and the audited financial statements of **KB Daehan Specialized Bank Plc.** (formerly known as **Tomato Specialized Bank**) (the Bank) for the year ended 31 December 2018.

The Bank

The Bank was incorporated in Cambodia on 24 June 2008 under the registration number Co.5029 E/2008 issued by the Ministry of Commerce ("MoC").

The Bank obtained its specialised banking license from **the National Bank of Cambodia** ("the NBC") on 10 July 2008 to operate as a specialised bank. On 22 March 2018, NBC approved the Bank to change its name from 'Tomato Specialized Bank' to 'KB Daehan Specialized Bank Plc.'

The Bank's registered office is located at 21st and 22nd Floor, Building No.1, Street 360, Sangkat Boeung Keng Kong Ti Muoy, Khan Chamkarmon, Phnom Penh, Cambodia.

Financial Performance

The audited financial performance of the Bank for the year ended 31 December 2018 are set out in the income statement on page 26.

Share Capital

The Bank increased its share capital from US\$8,100,000 to US\$18,750,000 through additional paid-up capital of US\$10,650,000 during the year.

Principal Activities

The principal activity of the Bank is to provide the auto loans and general loans to small and medium enterprises operating in the Kingdom of Cambodia.

Bad And Doubtful Financial Facilities

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

At the date of this report and based on the best of knowledge, the Directors are not aware of any circumstances which would render the amount written off for bad financial facilities or the amount of the provision for bad and doubtful financial facilities in the financial statements of the Bank.

Assets

Before the financial statements of the Bank were prepared, the Directors took reasonable steps to ensure that assets have been written down to an amount that they might be expected to realise. At the date of this report and based on the best of knowledge, the Directors are not aware of any circumstances that would render the values attributed to the assets in the financial statements of the Bank misleading in any material respect.

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 year other than in the ordinary course of business.

Besides the contingent liability on non-compliance with the Central Bank, no other contingent or other liability of the Bank has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the year which, in the opinion of the Directors, will or may have a material effect on the ability of the Bank to meet its obligations as and when they fall due.

Change of Circumstances

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Bank which would render any amount stated in the financial statements misleading in any material respect.

Items of an Unusual Nature

The results of the operations of the Bank for the financial year were not, in the opinion of the Directors, materially affected by any items, transactions or events of a material and unusual nature. There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to substantially affect the results of the operations of the Bank for the year in which this report is made.

The Board of Directors

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

Board of Directors

Mr. Kang Nam Che	Chairman
Mr. Kong Sang Yeon	Member (Executive director)
Mr. Lee Jae Hoo	Member (Non-executive director)
Mr. Kim Hyon Kun	Member (Independent director)

The directors' responsibilities in respect of the financial statements

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

- i) adopt appropriate accounting policies that are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- ii) comply with the disclosure requirements and the guidelines issued by the National Bank of Cambodia and Cambodian Accounting Standards or, if there have been any departures in the interest of fair presentation, these have been appropriately disclosed, explained and quantified in the financial statements;
- iii) maintain adequate accounting records and an effective system of internal controls;
- iv) prepare the financial statements on the going concern basis unless it is inappropriate to assume that the Bank will continue operations in the foreseeable future; and
- v) effectively control and direct the Bank in all material decisions affecting the operations and performance and ascertain that such have been properly reflected in the financial statements. The Directors confirm that the Bank has complied with the above requirements in preparing the financial statements.

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

Approval of The Financial Statements

The accompanying financial statements, together with the notes thereto, which present fairly, in all material respects, the financial position of the Bank as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with the guidelines issued by the National Bank of Cambodia and Cambodian Accounting Standards, were approved by the Board of Directors.

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




Kong Sang Yeon
 Chief Executive Officer

Phnom Penh, Kingdom of Cambodia
 Date: 22 March 2019

Independent Auditor's Report

To the Shareholders of **KB** Daehan Specialized Bank Plc.

Our opinion

In our opinion, the financial statements of **KB** Daehan Specialized Bank Plc. (formerly known as **Tomato Specialized Bank**) ('the Bank') 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 the guidelines issued by the **National Bank of Cambodia** and **Cambodian Accounting Standards**.

What we have audited

The Bank's financial statements comprise:

- *the balance sheet as at 31 December 2018;*
- *the income statement for the year then ended;*
- *the statement of changes in equity for the year then ended;*
- *the statement of cash flows for the year then ended; and*
- *Notes to the financial statements, which include a summary of significant accounting policies.*

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

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the requirements of Kampuchea Institute of Certified Public Accountants and Auditors' Code of Ethics for Certified Public Accountants and Auditors ("KICPAA Code"). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and ethical requirements of KICPAA Code.

Other information

The Directors are responsible for the other information. The other information obtained at the date of this auditor's report is directors' report and appendix notes on requirement of the Central Bank's Prakas but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor’s responsibilities for the audit of the financial statements

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

As part of an audit in accordance with CISAs, we exercise professional judgment and maintain professional 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 PricewaterhouseCoopers (Cambodia) Ltd.



By Kuy Lim
Partner

Phnom Penh, Kingdom of Cambodia
Date: 29 March 2019

KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)

BALANCE SHEET
AS AT 31 DECEMBER 2018

	Note	2018		2017	
		US\$	KHR'000	US\$	KHR'000
ASSETS					
Cash on hand	4	2,520	10,125	2,588	10,448
Balances with the Central Bank	5	1,051,372	4,224,413	435,084	1,756,434
Balances with other banks	6	7,997,200	32,132,750	3,496,622	14,115,863
Loans and advances to customers	7	26,859,138	107,920,016	3,965,674	16,009,426
Other assets	8	588,230	2,363,508	78,925	318,619
Foreclosed properties	9	636,253	2,556,465	1,392,400	5,621,119
Investments	10	12,500	50,225	12,500	50,463
Property and equipment	11	911,944	3,664,191	29,286	118,228
Intangible assets	12	15,892	63,854	14,786	59,691
TOTAL ASSETS		38,075,049	152,985,547	9,427,865	38,060,291
LIABILITIES AND EQUITY					
LIABILITIES					
Other liabilities	13	660,287	2,653,033	203,100	819,915
Borrowings	14	18,000,000	72,324,000	-	-
TOTAL LIABILITIES		18,660,287	74,977,033	203,100	819,915
EQUITY					
Share capital	15	18,750,000	75,337,500	8,100,000	32,699,700
Retained earnings		664,762	2,671,014	1,124,765	4,540,676
TOTAL EQUITY		19,414,762	78,008,514	9,224,765	37,240,376
TOTAL LIABILITIES AND EQUITY		38,075,049	152,985,547	9,427,865	38,060,291

The accompanying notes on pages 29 to 67 form an integral part of these financial statements.

KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018		2017	
		US\$	KHR'000	US\$	KHR'000
Interest income	16	1,374,402	5,522,347	598,573	2,416,439
Interest expense		(74,613)	(299,795)	-	-
Net interest income		<u>1,299,789</u>	<u>5,222,552</u>	<u>598,573</u>	<u>2,416,439</u>
Provision for impairment losses on loans, advances and financing		(235,600)	(946,641)	(38,605)	(155,849)
Net interest income after provision for impairment losses on loans, advances and financing		<u>1,064,189</u>	<u>4,275,911</u>	<u>559,968</u>	<u>2,260,590</u>
Fee and commission income	17	283,820	1,140,389	49,933	201,580
Other income	18	65,053	261,383	58,631	236,693
Total operating income		<u>1,413,062</u>	<u>5,677,683</u>	<u>668,532</u>	<u>2,698,863</u>
Personnel expenses	19	(1,008,701)	(4,052,961)	(307,892)	(1,242,960)
Administrative and operating expenses	20	(744,777)	(2,992,514)	(476,161)	(1,922,262)
Depreciation charge	11	(115,093)	(462,444)	(7,154)	(28,881)
Amortisation charge	12	(4,494)	(18,057)	(4,569)	(18,445)
		<u>(1,873,065)</u>	<u>(7,525,976)</u>	<u>(795,776)</u>	<u>(3,212,548)</u>
Loss before income tax		<u>(460,003)</u>	<u>(1,848,293)</u>	<u>(127,244)</u>	<u>(513,685)</u>
Income tax expense	21	-	-	-	-
Loss for the year		<u>(460,003)</u>	<u>(1,848,293)</u>	<u>(127,244)</u>	<u>(513,685)</u>
Attributable to owners of the Bank		<u>(460,003)</u>	<u>(1,848,293)</u>	<u>(127,244)</u>	<u>(513,685)</u>

The accompanying notes on pages 29 to 67 form an integral part of these financial statements.

KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)

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

	Attributable to owners of the Bank		
	Share capital US\$	Retained earnings US\$	Total US\$
For the year ended 31 December 2017			
As at 1 January 2017	8,100,000	1,252,009	9,352,009
Loss for the year	-	(127,244)	(127,244)
As at 31 December 2017	<u>8,100,000</u>	<u>1,124,765</u>	<u>9,224,765</u>
<i>In KHR'000 equivalent</i>	<u>32,699,700</u>	<u>4,540,676</u>	<u>37,240,376</u>
For the year ended 31 December 2018			
As at 1 January 2018	8,100,000	1,124,765	9,224,765
Additional paid-up capital	10,650,000	-	10,650,000
Loss for the year	-	(460,003)	(460,003)
As at 31 December 2018	<u>18,750,000</u>	<u>664,762</u>	<u>19,414,762</u>
<i>In KHR'000 equivalent</i>	<u>75,337,500</u>	<u>2,671,014</u>	<u>78,008,514</u>

The accompanying notes on pages 29 to 67 form an integral part of these financial statements.

KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018		2017	
		US\$	KHR'000	US\$	KHR'000
Cash flows from operating activities					
Net cash used in operations	22	(28,273,471)	(113,602,806)	(816,998)	(3,298,220)
Interest received		1,236,171	4,966,935	608,333	2,455,840
Interest paid		(39,776)	(159,820)	-	-
Net cash used in operating activities		<u>(27,077,076)</u>	<u>(108,795,691)</u>	<u>(208,665)</u>	<u>(842,380)</u>
Cash flows from investing activities					
Purchases of property and equipment		(1,020,865)	(4,101,836)	(8,291)	(33,471)
Purchases of intangible assets		(5,600)	(22,501)	(1,539)	(6,213)
Proceeds from sales of property and equipment		1,120	4,500	-	-
Statutory capital deposit		(532,500)	(2,139,585)	-	-
Net cash used in investing activities		<u>(1,557,845)</u>	<u>(6,259,422)</u>	<u>(9,830)</u>	<u>(39,684)</u>
Cash flows from financing activities					
Proceeds from borrowings		18,000,000	72,324,000	-	-
Proceed from additional paid up capital		10,650,000	42,791,700	-	-
Net cash generated from financing activities		28,650,000	115,115,700	-	-
Net increase/(decrease) in cash and cash equivalents		15,079	60,587	(218,495)	(882,064)
Cash and cash equivalent at the beginning of the year		2,179,294	8,797,810	2,397,789	9,679,874
Currency translation differences		-	(41,407)	-	-
Cash and cash equivalent at the end of the year	23	<u>2,194,373</u>	<u>8,816,990</u>	<u>2,179,294</u>	<u>8,797,810</u>

The accompanying notes on pages 29 to 67 form an integral part of these financial statements.

KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)

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

1. BACKGROUND INFORMATION

The Bank was incorporated in Cambodia on 24 June 2008 under the registration number Co.5029 E/2008 issued by the Ministry of Commerce ("MoC"). The Bank obtained its specialised banking license from the National Bank of Cambodia ("the NBC") on 10 July 2008 to operate as a specialised bank with indefinite term.

The Bank has changed its name from "Tomato Specialized Bank" to "KB Daehan Specialized Bank Plc." on 22 March 2018 with the approval of the NBC. The Bank also obtained a new banking license with the its new name which is properly approved by NBC on 22 March 2018. The principal activities of the Bank are to provide the auto loans and general loans to small and medium enterprises operating in the Kingdom of Cambodia.

The Bank's registered office is located at 21st and 22nd Floor, Building No.1, Street 360, Sangkat Boeung Keng Kong Ti Muoy, Khan Chamkarmon, Phnom Penh, Cambodia. As at 31 December 2018, the Bank has 89 employees (2017: 22 employees). The financial statements were approved and 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 years presented, unless otherwise stated.

2.1 Basis of preparation

The Bank's financial statements have been prepared using historical cost convention and in accordance with the guidelines issued by the NBC and Cambodian Accounting Standards ("CAS"). In applying CAS, the Bank also applies Cambodian Financial Reporting Standard ("CFRS") CFRS 7: Financial Instruments: Disclosures.

The accounting principles applied may differ from generally accepted accounting principles adopted in other countries and jurisdictions. The accompanying financial statements are not intended to present the financial position, financial performance and cash flows in accordance with jurisdictions other than Cambodia.

Consequently, these financial statements are addressed to only those who are informed about Cambodian accounting principles, procedures and practices. The preparation of financial statements in accordance with the guidelines issued by NBC and CAS 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 the financial statements and the reported amounts of revenues and expenses during the reporting period.

Although these estimates are based on management's best knowledge of current event 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 to the financial statements.



KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 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 Accounting Standard 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 MoEF.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 periods beginning on or after 1 January 2019.

The Bank is required to adopt CIFRS for its financial statements commencing on 1 January 2019. CAS, the current accounting standard used, is different to CIFRS in many areas. Hence, the adoption of CIFRS will have some impacts on the financial statements of the Bank. The Bank is assessing the impact from adoption of CIFRS.

2.3 Foreign currency transaction

(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). The United States Dollars (US\$) reflects the economic substance of underlying events and circumstances of the Bank. The financial statements are therefore 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 at year-end exchange rates of monetary assets and liabilities denominated in currencies other than US\$, are recognised in the income statement.

(iii) Presentation in Khmer Riel

For the sole regulatory purpose of complying with the NBC’s Prakas No. B7-07-164 dated 13 December 2007, a translation to Khmer Riel (“KHR”) is provided for the balance sheet, the income statement, the statement of changes in shareholders’ equity, the statement of cash flows and the notes to the financial statements as of and for the year ended 31 December 2018 using the average official rate of exchange published by the NBC as at the reporting date, which was US\$1 to KHR4,018 (31 December 2017: US\$1 to KHR4,037). Such translation amounts are unaudited and should not be construed as representations that the US\$ amounts were, or have been or could be, converted into KHR at that or any other rate.

KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with original maturities of three months or less, including cash on hand, non-restricted balances with the Central Banks, and balances with other banks.

2.5 Loans and advances to customers

Loans and advances to customers are stated in the balance sheet at outstanding principal less any amounts written off and provision for losses on loans and advances.

Loans and advances are written off when there is no realistic prospect of recovery. Recovery of loans and advances previously written off or provided for decrease the amount of the provision for loan losses is recognised in the income statement.

2.6 Provision for financial facilities

The Bank followed the mandatory financial facilities classification and provisioning as required by the Central Bank’s Prakas No.B7-017-344 dated 1 December 2017 and Circular No. B7-018-001 Sor Ror Chor Nor dated 16 February 2018 on credit risk classification and provision on impairment for banks and financial institutions. Loans and advances and other financial products are classified into five classifications and the minimum regulatory provision is made depending on the classification concerned, regardless of the assets (except cash) pledged as collateral, unless other information is available to indicate worsening. Provision for loans and advances are presented as reduction from loans and advances. Provision for balances with other banks are presented as reduction from balances with other banks.

The table below shows loan classifications and minimum provisioning requirements:

<u>Facility classification</u>	<u>Number of days past due</u>	<u>Provision</u>
Short term		
General provision:		
Normal	Less than 15 days	1%
Specific provision:		
Special mention	15 days – 30 days	3%
Substandard	31 days – 60 days	20%
Doubtful	61 days – 90 days	50%
Loss	91 days or more	100%
Long term		
General provision:		
Normal	Less than 30 days	1%
Specific provision:		
Special mention	30 days – 89 days	3%
Substandard	90 days – 179 days	20%
Doubtful	180 days – 359 days	50%
Loss	360 days or more	100%

KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Property and equipment

Property and equipment are stated at historical cost less depreciation, except for land which is not depreciated. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditure relating to an item of property and equipment are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the year in which they are incurred.

Depreciation is calculated on a declining balance method, except for leasehold improvements which are depreciated on a straight-line method, over the respective estimated useful lives of the assets determined at the following rates:

<u>Class</u>	<u>Depreciation rate</u>
Leasehold improvements	20%
Office equipment	20% - 25%
Furniture, fixtures and fittings	20% - 25%
Computer equipment	50%
Motor vehicles	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

Work in progress is not depreciated until such time as the relevant assets are completed and put into operational use.

2.8 Intangible assets

Intangible assets comprise acquired computer software licences and related costs for the core banking system. They are stated at cost less accumulated amortisation and impairment loss, if any. Acquired computer software licences are capitalised on the basis of the cost incurred to acquire the specific software and bring it into use. These costs are amortised over their estimated useful lives of ten years using the straight-line method.

2.9 Leases

Leases in which a significant portion of risks and rewards of ownership of assets are retained by the lesser are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Impairment of non-financial assets

Assets that have an indefinite useful life and are not subject to amortisation are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Any impairment loss is charged to the income statement in the year in which it arises. Reversal of an impairment loss is recognised in the income statement to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, had no impairment loss been recognised.

2.11 Provision

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.12 Interest income

Interest income on loans and advances to customers, balances with the Central Bank and balances with other banks are recognised on an accrual basis, except where serious doubt exists as to the collectability of loans and advances to customers, in which case, interest is suspended until it is realised on a cash basis.

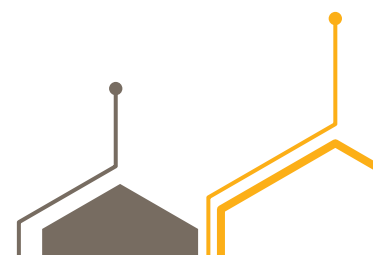
The policy on suspension of interest is in conformity with the Central Bank's Guidelines on the suspension of interest on non-performing loans and provision for loan losses.

2.13 Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service is provided. Loan processing fees are recognised as income when loan is disbursed.

2.14 Interest expense

Interest expense on due to other banks are recognised on accrual basis.



KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Employee benefits

Short-term employee benefits

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

Other short-term employment benefits - seniority payments

The amended labour law dated 26 June 2018 and the Ministerial Prakas No. 443 MLVT/Br.k dated 21 September 2018 introduced seniority payments obligations from 1 January 2019 and the payments are to be made every six month on 30 June and 31 December for unspecified duration employment contract (UDC). It also requires to back pay seniority payments up to 31 December 2018 for staff who had worked for the Bank before 31 December 2018 and still continue working with the Bank.

The past seniority payments depends on each staff past services and shall not exceed six months of average gross salaries. It will be paid at 7.5 days every six month along side with new seniority payments.

The seniority liability is recognised at the present value of the amount expected to be required to settle at reporting period to the cost to the Bank that employees have earned in return for their service in the current period, and the amount has been reliably estimated. That obligations arises as employees render the services that the Bank expected to pay in the future reporting periods.

2.16 Deferred and current income tax

The current income tax charge is calculated on the basis of the tax law enacted or substantively enacted at the reporting date in country where the Bank operates and generates taxable income. Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates expected to be applied to temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which 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.

2.17 Foreclosed properties

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are measure at the lower of carry amount and fair value less costs to sell.

KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Related parties transactions

Parties are considered to be related 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 one party 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. In accordance with the Law on Banking and Financial Institutions, related parties are defined as parties who hold, directly or indirectly, at least 10% of the capital of the Bank or voting rights and include any individual who participates in the administration, direction, management or internal control of the Bank.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

The Bank makes estimates, assumptions and judgements that affect the reported amounts of assets and liabilities. Estimates, assumptions and judgements 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.

a) Impairment losses on financial facilities

The Bank follows the mandatory loan classification and provisioning as required by NBC's Prakas No. B7-017-344 dated 01 December 2017 and Circular No. B7-018-001 Sor Ror Chor Nor dated 16 February 2018 on credit risk classification and provision on impairment for banks and financial institutions. Loans and advances are classified into five classifications and the minimum regulatory provision is made depending on the classification concerned, regardless of the assets (except cash) pledged as collateral. The Directors believe that the loan aging (by past due days) as a basis to determine the loan classification is appropriate to determine the adequacy of its impairment losses on financial liabilities so as to follow this Prakas.

b) Taxes

Taxes are calculated on the basis of current interpretation of the tax regulations enacted as at reporting date. The management periodically evaluates position taken in tax returns with respect to situations in which applicable tax regulation is subjected to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. However, these regulations are subject to periodic variation and the ultimate determination of tax liabilities will be made following inspection by the tax authorities. Where the final tax outcome of these matters is different from the amounts initially recorded, such differences will impact the taxes liabilities and balances in the period in which the determination is made.



KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)

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

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS (continued)

c) Other long term employee benefits – seniority payment obligations

The present value of the seniority payment obligations depends on a number of factors that are determined on a basis using a number of assumptions. The assumptions used in determining the ultimate cost for seniority payment obligations include the staff turnover and discount rate. Any changes in these assumptions will impact the carrying amount of seniority payment obligations.

4. CASH ON HAND

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
Cash on hand:				
US Dollar	2,497	10,033	2,032	8,203
Khmer Riel	23	92	556	2,245
	<u>2,520</u>	<u>10,125</u>	<u>2,588</u>	<u>10,448</u>

5. BALANCES WITH THE CENTRAL BANK

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
Current account	113,872	457,538	30,084	121,449
Capital guarantee	937,500	3,766,875	405,000	1,634,985
	<u>1,051,372</u>	<u>4,224,413</u>	<u>435,084</u>	<u>1,756,434</u>

a) Capital guarantee

Under the Central Bank's Prakas No. B7-00-05 dated 11 January 2000 on licensing of specialised banks, and Prakas No. B7-06-208 dated 13 September 2006 on the amendment to Article 9 and Article 13 of Prakas No. B7-00-05, the specialised banks are required to maintain an amount equal to five percent of its paid-up capital in a permanent account with the Central Bank.

This deposit is refundable should the Bank voluntarily ceases its operations in Cambodia and it is not available for use in the Bank's day-to-day operations.

b) Interest rates

Annual interest rates of balances with the central banks are as follows:

	2018	2017
Current accounts	Nil	Nil
Capital guarantee	0.46%	0.32%

KB DAEHAN SPECIALIZED BANK PLC.

(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

6. BALANCES WITH OTHER BANKS

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
Balances with local banks				
Current accounts (*)	1,074,748	4,318,338	525,651	2,122,053
Savings accounts (**)	3,232	12,986	20,971	84,660
Term deposits (***)	7,000,000	28,126,000	2,950,000	11,909,150
	<u>8,077,980</u>	<u>32,457,324</u>	<u>3,496,622</u>	<u>14,115,863</u>
Less: provision	<u>(80,780)</u>	<u>(324,574)</u>	<u>-</u>	<u>-</u>
	<u>7,997,200</u>	<u>32,132,750</u>	<u>3,496,622</u>	<u>14,115,863</u>

(*) The current account is non-interest bearing.

(**) The savings accounts earn interest ranking from 0.2% to 1.00% per annum (2017: 0.75% per annum).

(***) the term deposits have maturity ranking from 3 to 6 months and earn interest at the following annual rate:

	2018	2017
Term deposits	3.00% - 4.50%	1.00% - 3.30%

7. LOANS AND ADVANCES TO CUSTOMERS

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
General loans	13,938,371	56,004,375	4,090,766	16,514,423
Car loans	10,769,355	43,271,268	-	-
Staff loans	542,381	2,179,287	11,057	44,637
Related parties loans	1,900,000	7,634,200	-	-
	<u>27,150,107</u>	<u>109,089,130</u>	<u>4,101,823</u>	<u>16,559,060</u>
Provision for loan losses:				
General	(272,145)	(1,093,479)	(39,964)	(161,335)
Specific	(18,824)	(75,635)	(96,185)	(388,299)
Net loans and advances to customers	<u>26,859,138</u>	<u>107,920,016</u>	<u>3,965,674</u>	<u>16,009,426</u>

KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)

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

7. LOANS AND ADVANCES TO CUSTOMERS (continued)

a) Provision for loan losses

Movements of provision for loan losses are as follows:

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
At beginning of the year	136,149	549,634	97,544	393,785
Provision for the year	154,820	622,067	38,605	155,849
Currency translation differences	-	(2,587)	-	-
At end of the year	290,969	1,169,114	136,149	549,634

b) By classification

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
Standard loans:				
Secured	26,982,322	108,414,970	3,985,377	16,088,968
Unsecured	43,725	175,687	11,057	44,637
Special mention loans:				
Secured	35,225	141,534	9,489	38,307
Unsecured	-	-	-	-
Substandard loans:				
Secured	88,835	356,939	-	-
Unsecured	-	-	-	-
Doubtful loans:				
Secured	-	-	-	-
Unsecured	-	-	-	-
Loss loans:				
Secured	-	-	95,900	387,148
Unsecured	-	-	-	-
	27,150,107	109,089,130	4,101,823	16,559,060

KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)

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

7. LOANS AND ADVANCES TO CUSTOMERS (continued)

c) By industry

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
Wholesale and retail	1,766,853	7,099,215	1,018,091	4,110,033
Leasing	1,245,926	5,006,131	1,000,000	4,037,000
Building and construction	5,003,073	20,102,347	200,525	809,519
Hotel and restaurant	131,919	530,051	-	-
Lending	975,761	3,920,608	77,211	311,701
Manufacturing	305,714	1,228,359	8,998	36,325
Agriculture	354,368	1,423,851	23,933	96,618
Financial institutions	2,142,913	8,610,224	83,480	337,009
Automotive	10,434,345	41,925,198	-	-
Others	4,789,235	19,243,146	1,689,585	6,820,855
	27,150,107	109,089,130	4,101,823	16,559,060

d) By exposure

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
Large exposure (*)	1,900,000	7,634,200	-	-
Non-large exposure	25,250,107	101,454,930	4,101,823	16,559,060
	27,150,107	109,089,130	4,101,823	16,559,060

(*) Large exposure is defined by the Central Bank as overall credit exposure to any individual beneficiary which exceeds 10% of the Bank's net worth.

e) By relationship

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
Non-related parties	25,250,107	101,454,930	4,090,766	16,514,423
Related parties	1,900,000	7,634,200	11,057	44,637
	27,150,107	109,089,130	4,101,823	16,559,060

KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)

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

7. LOANS AND ADVANCES TO CUSTOMERS (continued)

f) By maturity

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
Not later than 1 year	1,798,589	7,226,731	1,142,862	4,613,734
Later than 1 year and no later than 3 years	7,228,232	29,043,036	686,922	2,773,104
Later than 3 years and no later than 5 years	8,208,493	32,981,725	1,541,672	6,223,730
Later than 5 years	9,914,793	39,837,638	730,367	2,948,492
	<u>27,150,107</u>	<u>109,089,130</u>	<u>4,101,823</u>	<u>16,559,060</u>

g) By loan terms

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
Short term loan (within 1 year)	219,540	882,112	-	-
Long term loan (more than 1 year)	26,930,567	108,207,018	4,101,823	16,559,059
	<u>27,150,107</u>	<u>109,089,130</u>	<u>4,101,823</u>	<u>16,559,059</u>

h) Interest rates

	2018	2017
General loans	5.00% - 18.00%	5.00% - 18.00%
Car loans	8.00% - 18.00%	-
Staff loans	5.00% - 11.00%	5.00%
Related parties loans	9.90%	-

8. OTHER ASSETS

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
Accrued interest receivables	177,151	711,793	38,920	157,120
Prepayments	256,116	1,029,074	26,916	108,660
Deposits	124,236	499,180	7,851	31,694
Others	30,727	123,461	5,238	21,145
	<u>588,230</u>	<u>2,363,508</u>	<u>78,925</u>	<u>318,619</u>

KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

8. OTHER ASSETS (continued)

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
Non-current	124,236	499,180	7,851	31,694
Current	463,994	1,864,328	71,074	286,925
	<u>588,230</u>	<u>2,363,508</u>	<u>78,925</u>	<u>318,619</u>

9. FORECLOSED PROPERTIES

Foreclosed properties consist of immovable properties acquired through foreclosure of collaterals from defaulting loans and advances that have devolved to the Bank as part of settlement of debts. These assets are not held for operational purposes and will be disposed to recover the outstanding amount within the maximum allowable period of twelve months based on the Central Bank's Prakas No. B-7-01-186.

Movements of foreclosed properties were as follows:

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
At beginning of year	1,392,400	5,621,119	1,697,372	6,852,291
Additions	-	-	344,561	1,390,993
Settlements	(756,147)	(3,038,199)	(590,249)	(2,382,835)
Write off	-	-	(59,284)	(239,330)
Currency translation differences	-	(26,455)	-	-
At end of year	<u>636,253</u>	<u>2,556,465</u>	<u>1,392,400</u>	<u>5,621,119</u>

10. INVESTMENTS

This represents investment in Credit Bureau of Cambodia ("CBC"). This investment is carried at original cost and held more than twelve months.

KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
11. PROPERTY AND EQUIPMENT

Non-current	Furniture, fixtures, and fittings							Total US\$
	Leasehold improvements US\$	Office equipment US\$	Computer equipment US\$	Motor vehicles US\$	Work in progress US\$			
Cost								
As at 1 January 2018	16,811	26,967	9,910	13,765	-	-	-	67,453
Additions	13,402	1,415	2,891	38,058	130,000	835,099	1,020,865	
Transfers	819,928	-	-	-	-	(819,928)	-	
Written-off/disposals	(16,811)	(23,255)	(12,493)	-	-	-	(52,559)	
As at 31 December 2018	833,330	5,127	308	51,823	130,000	15,171	1,035,759	
Accumulated depreciation								
As at 1 January 2018	(3,997)	(20,639)	(5,463)	(8,068)	-	-	(38,167)	
Depreciation charge	(83,543)	(964)	(764)	(11,447)	(18,375)	-	(115,093)	
Written-off/disposals	4,609	18,641	6,195	-	-	-	29,445	
As at 31 December 2018	(82,931)	(2,962)	(32)	(19,515)	(18,375)	-	(123,815)	
Net book value								
	750,399	2,165	276	32,308	111,625	15,171	911,944	
<i>In KHR'000 equivalent</i>	3,015,103	8,699	1,109	129,814	448,509	60,957	3,664,191	

KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

11. PROPERTY AND EQUIPMENT (continued)

Non- current	Leasehold	Office	Furniture,	Computer	Motor	Work	Total
	improvements	equipment	fixtures	equipment	vehicles	in progress	
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
Cost							
As at 1 January 2017	16,811	27,727	33,557	9,399	-	-	87,494
Additions	-	-	2,748	5,543	-	-	8,291
Transfers	-	-	-	-	-	-	-
Disposals	-	(760)	(26,395)	(1,177)	-	-	(28,332)
As at 31 December 2017	16,811	26,967	9,910	13,765	-	-	67,453
Accumulated depreciation							
As at 1 January 2017	(2,316)	(18,755)	(31,021)	(6,755)	-	-	(58,847)
Depreciation charge	(1,681)	(2,209)	(837)	(2,427)	-	-	(7,154)
Disposals	-	325	26,395	1,114	-	-	27,834
As at 31 December 2017	(3,997)	(20,639)	(5,463)	(8,068)	-	-	(38,167)
Net book value	12,814	6,328	4,447	5,697	-	-	29,286
<i>In KHR'000 equivalent</i>	51,730	25,546	17,953	22,999	-	-	118,228

KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

12. INTANGIBLE ASSETS

Non- current	Computer software US\$	Total US\$
Cost		
As at 1 January 2018	42,393	42,393
Additions	5,600	5,600
As at 31 December 2018	47,993	47,993
Accumulated depreciation		
As at 1 January 2018	(27,607)	(27,607)
Amortisation charge	(4,494)	(4,494)
As at 31 December 2018	(32,101)	(32,101)
Net book value	15,892	15,892
<i>In KHR'000 equivalent</i>	63,854	63,854
Cost		
As at 1 January 2017	46,058	46,058
Additions	1,539	1,539
Disposals	(5,204)	(5,204)
As at 31 December 2017	42,393	42,393
Accumulated depreciation		
As at 1 January 2017	(26,144)	(26,144)
Amortisation charge	(4,569)	(4,569)
Disposals	3,106	3,106
As at 31 December 2017	(27,607)	(27,607)
Net book value	14,786	14,786
<i>In KHR'000 equivalent</i>	59,691	59,691

KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)

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

13. OTHER LIABILITIES

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
Amount due to shareholders (note 25)	322,984	1,297,750	-	-
Accrued bonus	-	-	22,794	92,019
Accrued interest payables	34,837	139,975	-	-
Other tax payables	98,877	397,288	14,728	59,457
Seniority obligations	15,144	60,849	-	-
Advances from customers	85,336	342,880	2,738	11,053
Unearned income	-	-	13,597	54,891
Others	103,109	414,291	149,243	602,495
	<u>660,287</u>	<u>2,653,033</u>	<u>203,100</u>	<u>819,915</u>

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
Non-current	15,144	60,849	-	-
Current	645,143	2,592,184	203,100	819,915
	<u>660,287</u>	<u>2,653,033</u>	<u>203,100</u>	<u>819,915</u>

14. BORROWINGS

a) By relationship

	2018	
	US\$	KHR'000
Non-related parties:		
The Korea Development Bank	15,000,000	60,270,000
Related parties:		
Kookmin Bank Plc. (note 25)	3,000,000	12,054,000
Total borrowing	<u>18,000,000</u>	<u>72,324,000</u>

b) Interest rate

2018

Annual interest rates 3 month Libor + 1 .60 % and 4.1 5% per annum

KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

14. BORROWINGS (continued)

(c) By maturity

	2018	
	US\$	KHR'000
Non-current		
Due within one to two years	18,000,000	72,324,000
	<u>18,000,000</u>	<u>72,324,000</u>

The borrowings are guaranteed by the Shareholder's comfort letter.

15. SHARE CAPITAL

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
Opening balance	8,100,000	32,699,700	8,100,000	32,699,700
Paid-up capital during the year:				
Capital contribution	10,650,000	42,791,700	-	-
Currency translation differences	-	(153,900)	-	-
Closing balance	<u>18,750,000</u>	<u>75,337,500</u>	<u>8,100,000</u>	<u>32,699,700</u>

During the year, the shareholder authorised and issued additional share capital of US\$10,650,000 million (10.65 million shares) with a par value of US\$1 each. This additional share capital has been paid during the year. The Central Bank approved this paid-up capital on 23 March 2018. The Bank's Memorandum of Article and Association with the Ministry of Commerce was approved on 06 July 2018.

As at 31 December 2018, the new shareholding ratio of each shareholder is as follow:

Shareholders	Number of shares	Share ratio
KB Kookmin Card Co., Ltd.	16,875,000	90%
Indochina Bank Ltd.	1,875,000	10%

KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)

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

16. INTEREST INCOME

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
Interest income:				
Loans and advances to customers	1,303,810	5,238,709	501,333	2,023,881
Balances with the Central Bank	4,552	18,290	1,826	7,372
Balances with other banks	66,040	265,348	95,414	385,186
	<u>1,374,402</u>	<u>5,522,347</u>	<u>598,573</u>	<u>2,416,439</u>

17. FEE AND COMMISSION INCOME

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
Loan processing fees	280,650	1,127,652	42,039	169,711
Penalty fees on late payments of loans and advances	3,170	12,737	7,894	31,869
	<u>283,820</u>	<u>1,140,389</u>	<u>49,933</u>	<u>201,580</u>

18. OTHER INCOME

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
Dividend income from CBC	4,874	19,584	4,950	19,983
Other income	60,179	241,799	53,681	216,710
	<u>65,053</u>	<u>261,383</u>	<u>58,631</u>	<u>236,693</u>

19. PERSONNEL EXPENSES

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
Salaries	850,644	3,417,888	162,871	657,510
Bonuses	107,013	429,978	50,575	204,171
Seniority obligations	15,144	60,849	-	-
Others	35,900	144,246	94,446	381,279
	<u>1,008,701</u>	<u>4,052,961</u>	<u>307,892</u>	<u>1,242,960</u>

KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)

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

20. ADMINISTRATIVE AND OPERATING EXPENSES

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
Rental expenses	153,766	617,832	84,052	339,318
Legal and professional fees	146,742	589,609	111,492	450,093
Communication and public relation	91,150	366,241	13,494	54,475
Other tax expenses	60,509	243,125	58,742	237,142
Advertising expense	58,281	234,173	5,580	22,526
Office supplies	48,976	196,786	23,173	93,549
Utilities	27,145	109,069	16,663	67,269
Entertainment	27,076	108,791	22,093	89,189
1% minimum tax	17,232	69,238	10,572	42,679
Travelling	14,164	56,911	28,731	115,987
Membership fee	8,337	33,498	6,908	27,888
License fees	4,200	16,876	715	2,886
Security	3,840	15,429	7,680	31,004
Others	83,359	334,936	86,266	348,257
	744,777	2,992,514	476,161	1,922,262

21. INCOME TAX EXPENSE

(i) Income tax expense

	2018		2017	
	US\$	Riel'000	US\$	Riel'000
Current year income tax	-	-	-	-
Deferred tax	-	-	-	-
Income tax expense	-	-	-	-

(ii) Reconciliation between income tax expense and accounting profit

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
Loss before income tax	(460,003)	(1,848,293)	(116,672)	(471,005)
Tax calculated at 20%	(92,001)	(369,658)	(23,334)	(94,201)
Tax effect of reconciling items:				
Non-deductible expenses	23,833	95,760	31,332	126,487
Unrecognised deferred tax assets	64,569	259,439	(60,840)	(245,612)
	(3,599)	(14,459)	(52,842)	(213,326)
Income tax expense	-	-	-	-

KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)

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

21. INCOME TAX EXPENSE (continued)

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

Deferred tax assets

As of 31 December 2018, the Bank has not recognised a deferred tax asset of US\$64,569 due to probability that taxable profit will not be available to the Bank that will create taxable profit in further periods.

22. CASH FLOW FROM OPERATING ACTIVITIES

	2018		2017		
	Note	US\$	KHR'000	US\$	KHR'000
Cash flows from operating activities					
Loss before income tax		(460,003)	(1,848,293)	(127,244)	(513,685)
Adjustments for:					
Depreciation charges		115,093	462,444	7,154	28,881
Amortisation charges		4,494	18,057	4,568	18,441
Fixed assets written-off/disposals		21,994	88,372	2,597	10,484
Provision for loan losses		154,820	622,067	38,605	155,848
Provision for balances with other banks		80,780	324,574	-	-
Net interest expense		(1,374,402)	(5,522,347)	(598,573)	(2,416,439)
Net interest income		74,613	299,795	-	-
		<u>(1,382,611)</u>	<u>(5,555,331)</u>	<u>(672,893)</u>	<u>(2,716,470)</u>
Change in working capitals					
Loans and advances to customers		(23,048,284)	(92,608,005)	808,905	3,265,549
Balances with other banks		(4,650,000)	(18,683,700)	(1,200,000)	(4,844,400)
Other assets		(371,074)	(1,490,975)	(1,280)	(5,167)
Investment		-	-	294	1,187
Foreclosed properties		756,147	3,038,199	304,972	1,231,172
Other liabilities		422,351	1,697,006	(56,996)	(230,091)
		<u>(28,273,471)</u>	<u>(113,602,806)</u>	<u>(816,998)</u>	<u>(3,298,220)</u>

KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)

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

23. CASH AND CASH EQUIVALENTS

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

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
Cash on hand	2,520	10,125	2,588	10,448
Balances with the Central Bank:				
Current accounts	113,872	457,538	30,084	121,449
Balances with the other banks:				
Current accounts	1,074,749	4,318,341	525,651	2,122,053
Savings accounts	3,232	12,986	20,971	84,660
Fixed deposits	1,000,000	4,018,000	1,600,000	6,459,200
	<u>2,194,373</u>	<u>8,816,990</u>	<u>2,179,294</u>	<u>8,797,810</u>

24. COMMITMENTS

(a) Loan commitments

The Bank had the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers as follows:

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
Loan commitments	188,500	757,393	-	-
	<u>188,500</u>	<u>757,393</u>	<u>-</u>	<u>-</u>

b) Operating lease commitments – The Bank as lessee

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
No later than one year	204,840	823,047	-	-
Later than one year and no later than five years	734,010	2,949,252	-	-
	<u>938,850</u>	<u>3,772,299</u>	<u>-</u>	<u>-</u>

c) Capital commitments – Purchase of network devices

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
No later than one year	50,807	204,143	-	-
	<u>50,807</u>	<u>204,143</u>	<u>-</u>	<u>-</u>

KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)

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

25. RELATED PARTY TRANSACTIONS

a) The related parties of and their relationship with the Bank are as follows:

Related parties	Relationship
KB Kookmin Card Co., Ltd.	Parent Company
Daehan Auto (Cambodia) Co., Ltd	Sister Company
Kookmin Bank Cambodia Plc.	Sister Company
Key management personnel	All directors of the Bank who make critical decisions in relation to the strategic direction of the Bank and General Manager (including their close family members)

The following transactions were carried out with the related parties.

b) Loan to related parties

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
Daehan Auto (Cambodia) Co., Ltd	1,900,000	7,634,200	-	-
Interest receivables from DAC	3,658	14,698	-	-
	<u>1,903,658</u>	<u>7,648,898</u>	<u>-</u>	<u>-</u>
Interest income	<u>76,781</u>	<u>308,506</u>	<u>-</u>	<u>-</u>

c) Borrowing from related parties

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
Kookmin Bank Plc.	3,000,000	12,054,000	-	-
KB Kookmin Card Co., Ltd.	322,984	1,297,750	-	-
Interest payables to Kookmin Bank Plc.	34,837	139,975	-	-
	<u>3,357,821</u>	<u>13,491,725</u>	<u>-</u>	<u>-</u>
Interest expense	<u>41,777</u>	<u>167,860</u>	<u>-</u>	<u>-</u>

d) Key management personnel compensation

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
Remuneration for management and board of directors - short term benefit	390,755	1,570,054	237,575	959,090
	<u>390,755</u>	<u>1,570,054</u>	<u>237,575</u>	<u>959,090</u>

KB DAEHAN SPECIALIZED BANK PLC.**(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)****NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2018****26. CORRESPONDING FIGURES**

Certain corresponding figures have been reclassified to conform to current year presentation of the financial statements.

	As per reported US\$	Reclassification US\$	Reclassified Balance US\$
Balance sheets			
Liabilities			
Other liabilities	198,646	4,454	203,100
Current income tax liabilities	4,454	(4,454)	-
	<u>203,100</u>	<u>-</u>	<u>203,100</u>

	As per reported US\$	Reclassification US\$	Reclassified balance US\$
Income statement			
Interest income	606,467	(7,894)	598,573
Other income	100,252	(41,621)	58,631
Other operating expenses	(725,354)	725,354	-
Provision for loan losses	(38,753)	38,753	-
Foreclosed properties write off	(59,284)	59,284	-
Income tax expense	(10,572)	10,572	-
Provision for impairment losses on loans, advances and financing	-	(38,605)	(38,605)
Fee and commission income	-	49,933	49,933
Personnel expenses	-	(307,892)	(307,892)
General and administrative expenses	-	(476,161)	(476,161)
Depreciation charge	-	(7,154)	(7,154)
Amortisation charge	-	(4,569)	(4,569)
	<u>(127,244)</u>	<u>-</u>	<u>(127,244)</u>

27. CONTINGENT LIABILITIES ON NON COMPLIANCE WITH THE CENTRAL BANK**Lease arrangement**

As of 31 December 2018, the Bank provided auto finance credit facilities to customers under the arrangement that car ownership (collaterals) are registered the ownership under the Bank's name which was then interpreted as finance lease arrangement. Since the Bank obtained its License from the Central Bank as a specialised bank with no leasing activities, there is a risk that this kind of credit arrangement is deemed and treated as non-compliance with the existing business license approved by the Central Bank.

KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)

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

27. CONTINGENT LIABILITIES ON NON COMPLIANCE
WITH THE CENTRAL BANK (continued)

Lease arrangement (continued)

Management of the Bank has taken the non-compliance risk measurement and subsequently as of 1 January 2019, the Bank revised the internal credit procedures and contract arrangement with customers to mitigate and rectify this non-compliance risk.

Loan to related parties

In accordance with Prakas No. B7-02-146, dated 7 June 2002, issued by the Central Bank, All Banks and Financial Institutions must maintain its outstanding loan balance to related parties not exceeding 10% of the Bank's net worth. As of 31 December 2018, the Bank had the outstanding credit facility with the related party of US\$1,900,000 which represents 10.65% of the Bank's net worth. The Bank is not in compliance with this Prakas. The management had promptly taken action to rectify this non-compliance and as of 28 February 2019, the outstanding loan balance to related party was reduced to US\$1,500,000.

28. EVENT AFTER BALANCE SHEET DATE

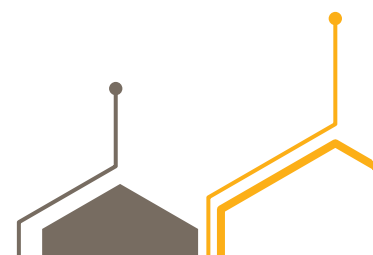
On 28 January 2019, the Bank signed a credit facility agreement 'operating loan' with Branch of Industrial Bank of Korea 'Phnom Penh' for a credit limit of US\$10,000,000. The operating loan bears an interest rate of 4% per annum. The loan shall have maturity of 3 years. The repayment of the loan principle is to be settled at the maturity date.

29. FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks: credit risk, market risk (including currency risk, interest rate risk and price risk), and liquidity risk. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. Financial assets are the contractual rights to receive cash or another financial asset from another entity. It is classified as loan and receivables and comprised of cash on hand, balances with the Central Bank, balances with other banks, loans to customers and other assets.

Financial liabilities are contractual obligations to deliver cash or another financial asset to another entity. It is classified as other liabilities comprise of borrowings and other liabilities. The Bank does not use derivative financial instruments such as foreign exchange contract and interest rate swaps to manage its risk exposures.

The Bank holds the following financial assets and liabilities:



KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)

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

29. FINANCIAL RISK MANAGEMENT (continued)

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
FINANCIAL ASSETS				
Cash on hand	2,520	10,125	2,588	10,448
Balances with the Central Bank*	113,872	457,538	30,084	121,449
Balances with other banks	7,997,200	32,132,750	3,496,622	14,115,863
Loans and advances to customers	26,859,138	107,920,016	3,965,674	16,009,426
Other assets	177,151	711,793	56,436	227,832
Total financial assets	35,149,881	141,232,222	7,551,404	30,485,018
FINANCIAL LIABILITIES				
Other liabilities	(541,359)	(2,175,180)	(146,247)	(590,399)
Borrowings	(18,000,000)	(72,324,000)	-	-
Total financial liabilities	(18,541,359)	(74,499,180)	(146,247)	(590,399)
Net financial assets	16,608,522	66,733,042	7,405,157	29,894,619

* excludes capital guarantee with the Central Bank

29.1 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 risk arises mainly from loans and advances arising from such lending activities.

Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk.

a) 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 programs which 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. Risk ratings are reviewed and updated on an annual basis, and in event of (i) change of loan terms and conditions including extension; (ii) repayment irregularities or delinquencies and (iii) adverse information relating to the borrower or transaction.

b) Risk limit control and mitigation policies

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

KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)

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

29. FINANCIAL RISK MANAGEMENT (continued)

29.1 Credit risk (continued)

b) Risk limit control and mitigation policies (continued)

The Bank is required, under the conditions of Prakas No. B7-06-226 of the Central Bank, to maintain at all times a maximum ratio of 20% between the Bank’s overall credit exposure to any individual 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 and advances to customers, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation.

The principal collateral types to secure for loans and advances to customers are:

- Mortgages over residential properties (land, buildings and other properties) and
- Cars

c) Impairment and provisioning policies

The Bank is required to follow the mandatory credit classification and provisioning in accordance with the relevant Prakas, as stated in note 2.6. Loans and advances less than 90 days past due are not considered impaired, unless other information available indicates otherwise.

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

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
Credit risks exposures relating to on-balance sheet assets:				
Balances with other banks	7,997,200	32,132,750	3,496,622	14,115,863
Loans and advances to customers	26,859,138	107,920,016	3,965,674	16,009,426
Other financial asset	177,151	711,793	56,436	227,832
Credit risks exposures relating to off-balance sheet items:				
Unused portion of approved credit facilities	186,615	749,819	-	-
	<u>35,220,104</u>	<u>141,514,378</u>	<u>7,518,732</u>	<u>30,353,121</u>

KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

29. FINANCIAL RISK MANAGEMENT (continued)

29.1 Credit risk (continued)

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

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2018 and 2017, without taking account of any collateral held or other credit enhancement attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts.

As shown above, 76% of total maximum exposure is derived from loans and advances to customers (2017: 53%). Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from its loans and advances on the followings:

- Approximately 99.84% of the loans and advances of the Bank are collateralised. Loans and advances granted by the Bank are at approximately 50% to 80% of the collateral value.
- The Bank has a credit evaluation process in place for granting of loans and advances to customers.

e) Loans and advances

Loans and advances are summarised as follows:

As at the balance sheet date, exposures of the Bank to credit risk arising from loans and advances to customers (without taking into account of any collateral held or other credit enhancements and provision for loan losses) are as follows:

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
Loans and advances:				
Neither past due nor impaired	26,848,916	107,878,944	3,889,586	15,702,260
Past due but not impaired	212,356	853,246	116,337	469,652
Past due and individually impaired	88,835	356,939	95,900	387,148
Gross	27,150,107	109,089,129	4,101,823	16,559,060
Less:				
Provision for loan losses	(290,969)	(1,169,113)	(136,149)	(549,634)
Net loans and advances	26,859,138	107,920,016	3,965,674	16,009,426

The total provision for loan loss is US\$290,969 (2017: US\$136,149) which represents specific provision and 1% general provision for all outstanding loans and advances.

KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)

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

29. FINANCIAL RISK MANAGEMENT (continued)

29.1 Credit risk (continued)

e) Loans and advances (continued)

i. Loans and advances neither past due nor impaired

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

ii. Loans and advances past due but not impaired

Loans and advances less than 90 days past due are not considered impaired unless other information is available to indicate the contrary. The gross amount of loans and advances by class to customers that were past due but not impaired are as follows:

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
Normal	177,131	711,712	106,848	431,345
Special mention	35,225	141,534	9,489	38,307
	212,356	853,246	116,337	469,652

iii. Loans and advances past due and individually impaired

In accordance with Prakas No. B7-09-074 dated 25 February 2009 on the classification and provisioning for loan losses; loans and advances past due more than 90 days are considered impaired and a minimum level of specific provision for impairment is made depending on the classification concerned, unless other information is available to indicate the contrary.

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
Substandard	88,835	356,939	-	-
Loss	-	-	95,900	387,148
	88,835	356,939	95,900	387,148

iv. Loans and advances renegotiated

Restructuring activities include extended payment arrangements, modification and deferral of payments. Following restructuring, the loan is still kept in its current classification unless there is strong evidence of improvement in the customer's financial condition.

As at 31 December 2018, the Bank restructured loans and advances amounting to US\$55,981 of which US\$27,521 were reclassified as performing loans and the remaining US\$28,460 were reclassified as non-performing loans as at 31 December 2018 (31 December 2017, the Bank restructured loans and advances amounting to US\$37,954 which were reclassified as normal loans).

KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

29. FINANCIAL RISK MANAGEMENT (continued)

29.1 Credit risk (continued)

f) Repossessed collateral

During the year, the Bank did not obtain assets by taking possession of collateral held as security (31 December 2017: US\$ 344,561).

Repossessed properties have to be sold within one year as required by the Central Bank. Repossessed property is classified in the balance sheet as foreclosed properties, if any.

As at 31 December 2018, there were foreclosed properties which had been recorded in the book of the Bank for more than twelve months. The Bank had obtained approval from the Central Bank to extend the disposal of all properties.

**KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

29. FINANCIAL RISK MANAGEMENT (continued)

29.1 Credit risk (continued)

g) Concentration of financial assets with credit risk exposure

i. Geographical sector

The Bank has credit exposure only in Cambodia so it does not have credit exposure by geographical region as at 31 December 2018.

ii. Industry sector

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by the industry sectors of our counterparties.

	Wholesale and retail US\$	Leasing US\$	Building and construction US\$	Hotel and restaurant US\$	Lending US\$	Manufacturing US\$	Agriculture US\$	Financial institution US\$	Auto Finance US\$	Others US\$	Total US\$
31 December 2018											
Loans and advances to customers	1,728,913	1,233,467	4,900,042	130,599	966,003	302,657	350,825	2,121,484	10,330,002	4,795,146	26,859,138
Other assets	-	-	-	-	-	-	-	-	-	177,151	177,151
As at 31 December 2018	<u>1,728,913</u>	<u>1,233,467</u>	<u>4,900,042</u>	<u>130,599</u>	<u>966,003</u>	<u>302,657</u>	<u>350,825</u>	<u>2,121,484</u>	<u>10,330,002</u>	<u>4,972,297</u>	<u>27,036,289</u>
<i>In KHR'000 equivalents</i>	<i>6,946,772</i>	<i>4,956,070</i>	<i>19,688,369</i>	<i>524,747</i>	<i>3,881,400</i>	<i>1,216,076</i>	<i>1,409,615</i>	<i>8,524,123</i>	<i>41,505,948</i>	<i>19,978,689</i>	<i>108,631,809</i>
31 December 2017											
Loans and advances to customers	1,007,720	990,000	198,519	-	76,439	8,908	23,694	82,645	-	1,577,749	3,965,674
Other assets	-	-	-	-	-	-	-	-	-	56,436	56,436
As at 31 December 2017	<u>1,007,720</u>	<u>990,000</u>	<u>198,519</u>	<u>-</u>	<u>76,439</u>	<u>8,908</u>	<u>23,694</u>	<u>82,645</u>	<u>-</u>	<u>1,634,185</u>	<u>4,022,110</u>
<i>In KHR'000 equivalents</i>	<i>4,068,166</i>	<i>3,996,630</i>	<i>801,421</i>	<i>-</i>	<i>308,584</i>	<i>35,962</i>	<i>95,653</i>	<i>333,638</i>	<i>-</i>	<i>6,597,204</i>	<i>16,237,258</i>

KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

29. FINANCIAL RISK MANAGEMENT (continued)

29.2 Market risk

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

As of 31 December 2018, the Bank did not have financial instruments carried at fair value. The Bank does not use derivative financial instruments such as foreign exchange contract and interest rate swaps to hold its risk exposures.

a) Foreign exchange risk

The Bank mainly transacts in US\$, which is the functional currency of the Bank. The Bank does not have significant exposure to foreign exchange risk.

b) Price risk

The Bank is not exposed to securities price risk because it does not hold any investment held and classified on the balance sheet either as available for sale or at fair value through profit or loss.

c) Interest rate risk

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

The table below summarises the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

If interest rates on variable-interest borrowings had been 2% higher or lower, with all other variables held constant, the post-tax profit for the year would have been US\$4,800 lower or higher.

KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

29. FINANCIAL RISK MANAGEMENT (continued)

29.2 Market risk (continued)

c) Interest rate risk (continued)

	Up to 1 month US\$	1 to 3 months US\$	3 to 12 months US\$	1 to 5 years US\$	Over 5 years US\$	Non interest bearing US\$	Total US\$
At 31 December 2018							
ASSETS							
Cash on hand	-	-	-	-	-	2,520	2,520
Balances with the Central Bank	-	-	-	-	-	113,872	113,872
Balances with other banks	-	990,000	5,940,000	-	-	1,067,200	7,997,200
Loans and advances to customers	1,536,616	1,585,489	4,778,432	12,645,360	6,313,241	-	26,859,138
Other assets	-	-	-	-	-	177,151	177,151
Total financial assets	1,536,616	2,575,489	10,718,432	12,645,360	6,313,241	1,360,743	35,149,881
LIABILITIES							
Other liabilities	-	-	-	-	-	(541,359)	(541,359)
Borrowings	-	-	-	(18,000,000)	-	-	(18,000,000)
Total financial liabilities	-	-	-	(18,000,000)	-	(541,359)	(18,541,359)
Total interest rate re-pricing gap	1,536,616	2,575,489	10,718,432	(5,354,640)	6,313,241	819,384	16,608,522
<i>In KHR'000 equivalent</i>	6,174,123	10,348,315	43,066,660	(21,514,944)	25,366,602	3,292,286	66,733,042

KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
29. FINANCIAL RISK MANAGEMENT (continued)

29.2 Market risk (continued)

c) Interest rate risk (continued)

At 31 December 2017	Up to	1 to 3	3 to 12	1 to 5	Over	Non interest	Total
	1 month	months	months	years	5 years	bearing	
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
ASSETS							
Cash on hand	-	-	-	-	-	-	2,588
Balances with the Central Bank	-	-	-	-	-	-	30,084
Balances with other banks	-	1,000,000	1,350,000	-	-	-	3,496,622
Loans and advances to customers	598,899	207,798	872,143	2,029,003	257,831	-	3,965,674
Other assets	-	-	-	-	-	-	56,436
Total financial assets	598,899	1,207,798	2,222,143	2,029,003	257,831	1,235,730	7,551,404
LIABILITIES							
Other liabilities	-	-	-	-	-	-	(146,247)
Total financial liabilities	-	-	-	-	-	-	(146,247)
Total interest rate re-pricing gap	598,899	1,207,798	2,222,143	2,029,003	257,831	1,089,483	7,405,157
<i>In KHR'000 equivalent</i>	2,417,755	4,875,881	8,970,791	8,191,085	1,040,864	4,398,243	29,894,619

KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

29. FINANCIAL RISK MANAGEMENT (continued)

29.3 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligation associated with its financial liabilities when they fall due and cash requirements from contractual commitments, or other cash outflows.

a) Liquidity risk management process

The management monitors balance sheet liquidity and manage the concentration and profile of debt maturities.

b) Funding approach

The main sources of funding of the Bank are from shareholder's paid-up capital and external borrowing. The sources of liquidity are regularly reviewed in the board of directors' meeting through management's review of lending limits where appropriate.

c) Non-derivative cash flows

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities and assets held for managing liquidity risk 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 liquidity risk based on expected undiscounted cash flows.

KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
29. FINANCIAL RISK MANAGEMENT (continued)
29.3 Liquidity risk (continued)
c) Non-derivative cash flows (continued)

	Up to 1 month US\$	1 to 3 months US\$	3 to 12 months US\$	1 to 5 years US\$	Over 5 years US\$	No maturity US\$	Total US\$
As at 31 December 2018							
ASSETS							
Cash on hand	-	-	-	-	-	2,520	2,520
Balances with the Central Bank	-	-	-	-	-	113,872	113,872
Balances with other banks	-	1,000,000	6,000,000	-	-	997,200	7,997,200
Loans and advances to customers	1,706,077	1,894,347	6,116,606	18,271,552	11,976,511	-	39,965,093
Other assets	171,786	-	5,365	-	-	-	177,151
Total financial assets	1,877,863	2,894,347	12,121,971	18,271,552	11,976,511	1,113,592	48,255,836
LIABILITIES							
Other liabilities	(540,513)	-	-	-	-	(846)	(541,359)
Borrowings	(61,791)	(123,582)	(556,119)	(18,649,952)	-	-	(19,391,444)
Total financial liabilities	(602,304)	(123,582)	(556,119)	(18,649,952)	-	(846)	(19,932,803)
Net financial assets	1,275,559	2,770,765	11,565,852	(378,400)	11,976,511	1,112,746	28,323,033
<i>In KHR'000 equivalent</i>	<u>5,125,196</u>	<u>11,132,934</u>	<u>46,471,593</u>	<u>(1,520,411)</u>	<u>48,121,621</u>	<u>4,471,013</u>	<u>113,801,946</u>

**KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)**

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

29. FINANCIAL RISK MANAGEMENT (continued)

29.3 Liquidity risk (continued)

c) *Non-derivative cash flows (continued)*

	Up to 1 month US\$	1 to 3 months US\$	3 to 12 months US\$	1 to 5 years US\$	Over 5 years US\$	No maturity US\$	Total US\$
At 31 December 2017							
ASSETS							
Cash on hand	-	-	-	-	-	2,588	2,588
Balances with the Central Bank	-	-	-	-	-	30,084	30,084
Balances with other banks	-	1,000,000	1,350,000	-	-	1,146,622	3,496,622
Loans and advances to customers	631,747	253,493	1,073,442	2,828,614	389,485	-	5,176,781
Other assets	-	38,919	17,517	-	-	-	56,436
Total financial assets	631,747	1,292,412	2,440,959	2,828,614	389,485	1,179,294	8,762,511
LIABILITIES							
Other liabilities	-	-	(146,247)	-	-	-	(146,247)
Total financial liabilities	-	-	(146,247)	-	-	-	(146,247)
Net financial assets	631,747	1,292,412	2,294,712	2,828,614	389,485	1,179,294	8,616,264
<i>In KHR'000 equivalent</i>	2,550,363	5,217,467	9,263,752	11,419,115	1,572,351	4,760,810	34,783,858

KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

29. FINANCIAL RISK MANAGEMENT (continued)

29.4 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. This includes legal, compliance, accounting and fraud risk.

The Bank has established policies and procedures to provide guidance to the key operating units on the risk governance structure and baseline internal controls necessary to identify, assess, monitor and control their operational risks. Internal control policies and measures that have been implemented including the establishment of signing authorities, defining system parameter controls, streamlining procedures and documentation ensuring compliance with regulatory and legal requirements. The policies and procedures are reviewed periodically, taking into account the business objectives and strategies of the Bank as well as regulatory requirements.

The internal audit function provides independent assessment of the adequacy of the internal control policies and procedures of the Bank to mitigate risk associated with operational activities. Any findings arising from the audit and review will be escalated to the senior management of the Bank and of the parent company.

29.5 Fair value of financial assets and liabilities

As at the balance sheet date, the fair values of financial instruments of the Bank approximate their carrying amounts. The estimated fair values are based on the following methodologies and assumptions:

(i) Balances with other banks

The fair values of balances with other banks with maturity of less than one year is approximate to their carrying amounts.

(ii) Loans and advances to customers

For fixed rate loans with remaining period to maturity of less than one year, the carrying amounts are generally reasonable estimates of their fair values.

For fixed rate loans with remaining period to maturity of one year and above, fair values are estimated by discounting the estimated future cash flows using a current lending rate as the prevailing market rates of loans with similar credit risks and maturities have been assessed as insignificantly different to the contractual lending rates. As a result, the fair value of non-current loan and advances to customers might approximate to their carrying value as reporting date.

(iii) Other assets and other liabilities

The carrying amounts of other financial assets and liabilities are assumed to approximate their fair values as these items are not materially sensitive to the shift in market interest rates.

KB DAEHAN SPECIALIZED BANK PLC.
(FORMERLY KNOWN AS TOMATO SPECIALIZED BANK)

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

29. FINANCIAL RISK MANAGEMENT (continued)

29.5 Fair value of financial assets and liabilities (continued)

(iv) Borrowings

The fair value of borrowings are estimated by discounting the expected future cash flows using the applicable prevailing market interest rates for borrowings with similar risk profiles. However, only the contractual interest rates which are confirmed and provided by all lenders are available at the reporting date instead of the applicable prevailing market interest rates.

The Bank believed that the contractual interest rates were not significantly different to the prevailing market interest rates on the ground that there was no change to interest rates following the lenders' consideration on the Bank's credit risk profile as at reporting date.

On this basis, the fair value of borrowings approximate their carrying values at the reporting date.

29.6 Capital management

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

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

The Central Bank requires all specialised banks to i) meet minimum capital requirement, ii) maintain the Bank's net worth at least equal to minimum capital and iii) comply with solvency and liquidity ratios.

The table below summarises the composition of regulatory capital:


	2018		2017	
	US\$	KHR'000	US\$	KHR'000
Tier 1 capital				
Share capital (*)	18,750,000	75,337,500	8,100,000	32,699,700
Retained earnings	664,762	2,671,014	1,124,765	4,540,676
Less: Intangible assets	(15,892)	(63,854)	(14,786)	(59,691)
Less: Loans and advances to related parties	(1,900,000)	(7,634,200)	-	-
	<u>17,498,870</u>	<u>70,310,460</u>	<u>9,209,979</u>	<u>37,180,685</u>
Tier 2 complementary capital				
Less: Equity participations in banking and financial institutions	(12,500)	(50,225)	(12,500)	(50,463)
Add: General provision	<u>352,925</u>	<u>1,418,053</u>	<u>39,964</u>	<u>161,335</u>
	<u>17,839,295</u>	<u>71,678,288</u>	<u>9,237,443</u>	<u>37,291,557</u>



Your New Highway in Finance

Office Center:

21F & 22F of Oval office tower (building No.1), St.360, Sangkat Boeung Keng Kang 1, Khan Boeung Keng Kang, Phnom Penh.

 023 991 555

 www.kdsb.com.kh

 info@kdsb.com.kh