# CAMMA MICROFINANCE LIMITED

## FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2018

**CAMMA MICROFINANCE LIMITED**

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| **CONTENTS** | **Pages** |
|---|---|
| DIRECTORS' REPORT | 1 – 3 |
| INDEPENDENT AUDITOR'S REPORT | 4 – 6 |
| FINANCIAL STATEMENTS: | |
| Balance sheet | 7 |
| Income statement | 8 |
| Statement of changes in equity | 9 |
| Statement of cash flows | 10 |
| Notes to the financial statements | 11 – 47 |
| APPENDIX: NOTES ON REQUIREMENT OF THE CENTRAL BANK'S PRAKAS* | i – x |

* The Appendix does not form part of the audited financial statements.

## DIRECTORS' REPORT

The Board of Directors ("the Directors") hereby submits their report together with the financial statements of CAMMA Microfinance Limited ("the Company") for the year ended 31 December 2018.

## PRINCIPAL ACTIVITIES

The Company's principal activity is to efficiently and sustainably provide a wide variety of microfinance services to entrepreneurs of small and medium enterprises who are farmers, artisans and business persons.

## FINANCIAL PERFORMANCE

The audited financial performance of the Company for the year ended 31 December 2018 is set out in the income statement on page 8.

## SHARE CAPITAL

On 21 April 2015, the Board of Directors of the Company approved to issue additional share capital of 1,050,000 shares for US$1,050,000. On 5 September 2015, the Company obtained approval from National Bank of Cambodia to increase its share capital from US$1,053,000 to US$2,103,000 through cash injection and transfer from retained earnings of US$850,000 and US$200,000 respectively.

The amendment of the Articles of Incorporation was acknowledged by the Ministry of Commerce ("MoC") on 26 February 2018.

## BAD AND DOUBTFUL FINANCIAL FACILITIES

Before the financial statements of the Company 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 financial facilities, and satisfied themselves that all known bad loans had been written off and that adequate provisions have 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 and doubtful financial facilities or the amount of the provision for bad and doubtful financial facilities in the financial statements of the Company.



គ្រឹះស្ថានឯកជន Private Company | ផ្ទះលេខ១០១អា ផ្លូវ២៨៩ សង្កាត់បឹងកក់ទី១ ខណ្ឌទួលគោក ភ្នំពេញ
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## ASSETS

Before the financial statements of the Company were drawn up, the Directors took reasonable steps to ensure that any assets which were unlikely to be realised in the ordinary course of business at their value as shown in the accounting records of the Company, have been written down to an amount which 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 which would render the values attributed to the assets in the financial statements of the Company misleading in any material respect.

## CONTINGENT AND OTHER LIABILITIES

At the date of this report, there is:

(a) no charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person, and

(b) no contingent liability in respect of the Company that has arisen since the end of the financial year other than in the ordinary course of business.

In the opinion of the Directors no contingent or other liabilities of the Company has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the year that could have a material effect on the ability of the Company to meet its obligations as and when they become 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 Company, 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 Company 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 items, transactions or events of a material and unusual nature likely, in the opinion of the directors, to substantially affect the results of the operations of the Company for the year in which this report is made.

## THE BOARD OF DIRECTORS

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

| | |
|---|---|
| Mr. Thun Vathana | Chairman |
| Ms. Khat Sokean | Vice-chairwoman |
| Mr. Khov Soviet | Independent member |

**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 Company as at 31 December 2018 and the financial performance and cash flows for the year ended 31 December 2018 in accordance with the guidelines issued by the Central Bank and Cambodian Accounting Standards.

In preparing these financial statements, the Directors are required to:

i) adopt appropriate accounting policies which are supported by reasonable and prudent judgements and estimates and then apply them consistently;

ii) comply with the disclosure requirements and guidelines issued by the Central Bank and Cambodian Accounting Standards or, if there have been any departures in the interests 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 a going concern basis unless it is inappropriate to assume that the Company will continue operations in the foreseeable future; and

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

The Directors confirms that the Company 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 Company as at 31 December 2018 and the financial performance and cash flows of the Company for the year then ended in accordance with the guidelines issued by the Central Bank and Cambodian Accounting Standards, were approved by the Board of Directors.

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

CAMMA MICROFINANCE LIMITED

| | |
|---|---|
| Mr Thun Vathana | Madam Dith Nita |
| Chairman | Chief Executive Office |

Phnom Penh, Kingdom of Cambodia
Date: 30 APR 2019

## Independent auditor's report

To the shareholders of CAMMA Microfinance Limited

### Our opinion

In our opinion, the financial statements of CAMMA Microfinance Limited ("the Company") present fairly, in all material respects, the financial position of the Company 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 ("the Central Bank") and Cambodian Accounting Standards.

#### *What we have audited*

The Company'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 Company 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*

Management is responsible for the other information. The other information obtained at the date of this auditor's report is directors' report and appendix notes on the 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 and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

*PricewaterhouseCoopers (Cambodia) Ltd.*
*58C Sihanouk Boulevard, Sangkat Tonle Bassac, Khan Chamkarmon, Phnom Penh, Cambodia*
*T: +855 (0)23 860 606, F: +855(0)23 211 594, www.pwc.com/kh*

**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 Central Bank 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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 Company'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 Company'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 Company 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 Lang Hy
Partner

Phnom Penh, Kingdom of Cambodia
Date: 30 April 2019

**CAMMA MICROFINANCE LIMITED**

**BALANCE SHEET**
**AS AT 31 DECEMBER 2018**

| | | 2018 | | 2017 | |
|---|---|---|---|---|---|
| | **Note** | **US$** | **KHR'000** | **US$** | **KHR'000** |
| **ASSETS** | | | | | |
| Cash on hand | 4 | 186,706 | 750,185 | 148,494 | 599,470 |
| Balances with the Central Bank | 5 | 106,593 | 428,291 | 105,833 | 427,248 |
| Balances with other banks | 6 | 662,566 | 2,662,190 | 26,951 | 108,801 |
| Loans and advances to customers | 7 | 10,061,797 | 40,428,300 | 7,592,198 | 30,649,703 |
| Other assets | 8 | 155,088 | 623,143 | 122,452 | 494,339 |
| Deferred tax assets | 11(a) | 63,103 | 253,548 | 30,448 | 122,919 |
| Property and equipment | 9 | 30,205 | 121,364 | 59,938 | 241,970 |
| Intangible assets | 10 | 31,085 | 124,900 | 43,442 | 175,375 |
| **TOTAL ASSETS** | | 11,297,143 | 45,391,921 | 8,129,756 | 32,819,825 |
| **LIABILITIES AND EQUITY** | | | | | |
| **LIABILITIES** | | | | | |
| Other liabilities | 12 | 371,699 | 1,493,487 | 156,438 | 631,541 |
| Borrowings | 13 | 8,089,394 | 32,503,185 | 5,318,975 | 21,472,702 |
| Current income tax liabilities | | 88,021 | 353,668 | 52,873 | 213,448 |
| **TOTAL LIABILITIES** | | 8,549,114 | 34,350,340 | 5,528,286 | 22,317,691 |
| **EQUITY** | | | | | |
| Share capital | 14 | 2,103,000 | 8,449,854 | 2,103,000 | 8,489,811 |
| Retained earnings | | 645,029 | 2,591,727 | 498,470 | 2,012,323 |
| **TOTAL EQUITY** | | 2,748,029 | 11,041,581 | 2,601,470 | 10,502,134 |
| **TOTAL LIABILITIES AND EQUITY** | | 11,297,143 | 45,391,921 | 8,129,756 | 32,819,825 |

The accompanying notes on pages 11 to 47 form an integral part of these financial statements.

**CAMMA MICROFINANCE LIMITED**

**INCOME STATEMENT**
**FOR THE YEAR ENDED 31 DECEMBER 2018**

| | | 2018 | | 2017 | |
|---|---|---|---|---|---|
| | **Note** | **US$** | **KHR'000** | **US$** | **KHR'000** |
| Interest income | 15 | 1,532,335 | 6,156,922 | 1,444,169 | 5,830,110 |
| Interest expense | | (482,965) | (1,940,553) | (450,476) | (1,818,571) |
| **Net interest income** | | 1,049,370 | 4,216,369 | 993,693 | 4,011,539 |
| Provision for financial facilities | 16 | (125,324) | (503,551) | (108,829) | (439,343) |
| **Net interest income after provision for for financial facilities** | | 924,046 | 3,712,818 | 884,864 | 3,572,196 |
| Fee and commission income | 17 | 168,542 | 677,202 | 108,923 | 439,686 |
| Other income | 18 | 17,073 | 68,599 | 31,287 | 126,342 |
| **Total operating income** | | 1,109,661 | 4,458,619 | 1,025,074 | 4,138,224 |
| Personnel expenses | 19 | (601,082) | (2,415,147) | (491,913) | (1,985,853) |
| General and administrative expenses | 20 | (260,668) | (1,047,364) | (274,657) | (1,108,790) |
| Depreciation charges | 9 | (35,292) | (141,803) | (45,954) | (185,516) |
| Amortisation charge | 10 | (12,357) | (49,650) | (5,391) | (21,764) |
| | | (909,399) | (3,653,964) | (817,915) | (3,301,923) |
| **Profit before income tax** | | 200,262 | 804,655 | 207,159 | 836,301 |
| Income tax expenses | 11 | (53,703) | (215,779) | (58,581) | (236,492) |
| **Net profit for the year** | | 146,559 | 588,876 | 148,578 | 599,809 |
| **Profit attributable to owners of the Company** | | 146,559 | 588,876 | 148,578 | 599,809 |

The accompanying notes on pages 11 to 47 form an integral part of these financial statements.

CAMMA MICROFINANCE LIMITED

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

| | Attributable to owners of the Company | | |
|---|---|---|---|
| | **Share capital US$** | **Retained earnings US$** | **Total US$** |
| **For the year ended 31 December 2017** | | | |
| As at 1 January 2017 | 2,103,000 | 499,892 | 2,602,892 |
| Net profit for the year | - | 148,578 | 148,578 |
| Dividend distribution | - | (150,000) | (150,000) |
| **As at 31 December 2017** | 2,103,000 | 498,470 | 2,601,470 |
| ***In KHR'000 equivalent*** | 8,489,811 | 2,012,323 | 10,502,134 |
| **For the year ended 31 December 2018** | | | |
| As at 1 January 2018 | 2,103,000 | 498,470 | 2,601,470 |
| Net profit for the year | - | 146,559 | 146,559 |
| **As at 31 December 2018** | 2,103,000 | 645,029 | 2,748,029 |
| ***In KHR'000 equivalent*** | 8,449,854 | 2,591,727 | 11,041,581 |

The accompanying notes on pages 11 to 47 form an integral part of these financial statements.

**CAMMA MICROFINANCE LIMITED**

**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED 31 DECEMBER 2018**

| | | 2018 | | 2017 | |
|---|---|---|---|---|---|
| | **Note** | **US$** | **KHR'000** | **US$** | **KHR'000** |
| **Cash flows from operating activities** | | | | | |
| Net cash (used in)/generated from operating activities | 21 | (2,083,579) | (8,371,821) | 18,417 | 74,349 |
| **Cash flows from investing activities** | | | | | |
| Purchases of property and equipment | 9 | (5,559) | (22,336) | (43,435) | (175,347) |
| Purchases of intangible assets | | - | - | (48,785) | (196,945) |
| Net cash used in investing activities | | (5,559) | (22,336) | (92,220) | (372,292) |
| **Cash flows from financing activities** | | | | | |
| Proceeds from borrowings | | 10,771,052 | 43,278,088 | 7,205,111 | 29,087,033 |
| Repayments of borrowings | | (8,000,634) | (32,146,547) | (6,909,608) | (27,894,088) |
| Dividends distribution | | - | - | (150,000) | (605,550) |
| Net cash generated from financing activities | | 2,770,418 | 11,131,541 | 145,503 | 587,395 |
| **Net increase in cash and cash equivalents** | | 681,280 | 2,737,384 | 71,700 | 289,452 |
| Cash and cash equivalents at the beginning of the year | | 176,128 | 711,028 | 104,428 | 421,576 |
| Currency translation differences | | - | (3,347) | - | - |
| **Cash and cash equivalents at the end of the year** | 22 | 857,408 | 3,445,065 | 176,128 | 711,028 |

The accompanying notes on pages 11 to 47 form an integral part of these financial statements.

## 1. BACKGROUND INFORMATION

CAMMA Microfinance Limited (the Company) is incorporated in the Kingdom of Cambodia as a limited liability Company. The Company is registered with the Ministry of Commerce under the Registration No. Co. 0700 KH/2010, dated 06 April 2010. On 29 July 2010, the Company obtained a license from the National Bank of Cambodia (NBC or the Central Bank) to provide micro-finance services.

The Company's vision is to become a reliable microfinance institution which provides the Cambodian people with opportunities to improve their livelihoods through access to loans from the Company.

The Company's principal activity is to efficiently and sustainably provide a wide variety of microfinance services to entrepreneurs of small and medium enterprises who are farmers, artisans and business persons.

The Company's registered office is located at No.101A, Street 289, Sangkat Boeng Kak I, Khan Toul Kok, Phnom Penh, Cambodia.

The financial statements were authorised for issue by the Board of Directors on 30 April 2019.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the 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 financial statements of the Company have been prepared using the historical cost convention and in accordance with the guidelines issued by the Central Bank and Cambodian Accounting Standards ("CAS"). In applying CAS, the Company also applies Cambodian Financial Reporting Standards ("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 and 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 Cambodia 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.

## 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.

Circular No. 004 MoEF.NAC dated 3 January 2019 issued by the National Accounting Council regarding to the adoption of CIFRS for banks and financial institution by 1 January 2019. The Circular defined the definition of public accountable entity and non-public accountable entity. Any public accountable entities are required to adopt CIFRS, and non-public accountable entities are required to adopt either CIFRS or CIFRS for Small and Medium-sized Entities ("CIFRS for SMEs").

The Company is a non-public accountable entity, so it is required to adopt CIFRS for SMEs on 1 January 2019.

CAS, the current accounting standard used, is different to CIFRS for SMEs in many areas. Hence, the adoption of CIFRS for SMEs will have some impacts on the financial statements of the Company. The Company is assessing the impact from adoption of CIFRS for SMEs.

### 2.3 Foreign currency transaction

*i) Functional and presentation currency*

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the functional currency). The United States Dollars (US$") reflects the economic substance of underlying events and circumstances of the Company. The financial statements are therefore presented in US$, which is the Company'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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.3 Foreign currency transaction (continued)

*iii) Presentation in United States dollars (US$)*

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.

### 2.4 Basis of aggregation

The financial statements comprise the financial statements of the head office and the branch offices after the elimination of all significant inter-branch balances and transactions.

### 2.5 Cash and cash equivalents

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

### 2.6 Loans to customers

All loans to customers are stated on the balance sheet as the amount of outstanding principal less any amounts written off and the provision for loan losses.

Loans to customers are written off when there are no realistic prospects of recovery. Recoveries of loans to customers previously written off or provided for are recognised in the income statement.

### 2.7 Provision for financial facilities

The Company follows 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, other financial products and off balance sheet financial commitments 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 loan losses are presented as reduction from loans to customers.

Provision for balances with other banks are presented as reduction from balances with other banks.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.7 Provision for financial facilities (continued)

The table below shows the classifications and the minimum regulatory provisioning requirements:

| Facility classification | Number of days past due | Provision |
|---|---|---|
| **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% |

For the years prior to 31 December 2018, the Company provides additional provisions to substandard and doubtful loans classification as per the above table. For the year ended 31 December 2018, there is no additional provision provided by the Company.

The change in mandatory minimum regulatory provision during the year followed the requirement of the Central Bank's Prakas so the impact of the change applies prospectively.

### 2.8 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation of other property and equipment are charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.8 Property and equipment (continued)

| | Useful life |
|---|---|
| Leasehold improvements | Shorter of lease period or its economic lives |
| Office equipment | 4 years |
| Motor vehicles | 4 years |
| Computer and IT equipment | 2 - 4 years |

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 within the carrying amount and are recognised in the income statement.

### 2.9 Intangible assets

Intangible assets consist of computer softwares and are stated at cost less accumulated amortisation and impairment losses, if any. Acquired computer softwares are capitalised on the basis of the cost incurred to acquire the specific software and bring it into use. Intangible assets are amortised based on straight-line method over the period from 3 to 4 years.

### 2.10 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and 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. An 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 cost to sell and its value in use.

Any impairment loss is charged to the income statement in the year in which it arises. Reversal of 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 or amortisation, had no impairment loss been recognised.

### 2.11 Leases

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.12 Provisions

Provisions are recognised when the Company 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 expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provisions due to the passage of time is recognised as interest expense.

### 2.13 Borrowing

Borrowing are stated at the amount of the principle outstanding.

### 2.14 Current and deferred 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 Company operates and generates taxable income.

Deferred tax is provided using the 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.

### 2.15 Revenue recognition

*(i) Interest income*

Interest income on loans 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, in which case, interest is suspended until it is realised on a cash basis.

The policy on the suspension of interest is in conformity with the Central Bank’s guidelines on the suspension of interest on non-performing loans.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.15 Revenue recognition (continued)

*(ii) Fee and commission income*

Fee and commission income comprise loan processing fee, penalty fee, and others.

Fee and commission income are recognised on an accrual basis. Loan processing fees are recognised in the income statement over the period of loans to customers. The deferred portion is presented in balance sheet as 'deferred processing fee' under other liabilities.

### 2.16 Interest expense

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

### 2.17 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 Company.

*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 and the ministerial Guideline No. 042/19 MLVT dated 22 March 2019 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 Company before 31 December 2018 and still continue working with the Company. The past seniority payments depends on each staff past services and shall not exceed six months of average gross salaries.

The past seniority liability was recognised at the present value of defined obligation at the reporting period to better estimate the ultimate cost to the Company that employees have earned in return for their service in the current and prior period. That obligation arises as employees render the services that the Company expected to pay in the future reporting periods. The present value of the past seniority payment is determined by discounting the estimate future payments by references to the high quality corporate bond of the currency that the liability is denominated.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.18 Related party 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 the Company 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 Companying and Financial Institutions, related parties are defined as parties who hold, directly or indirectly, at least 10% of the capital of the Company or voting rights and include any individual who participates in the administration, direction, management or internal control of the Company.

## 3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

Estimates, assumptions and judgments are continually evaluated and based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates, assumptions and judgments concerning the future. The results of accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### a) Impairment losses on financial facilities

The Company follows 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, other financial products and off balance sheet financial commitments 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 fund balance in the period in which the determination is made.

## 3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS (continued)

### c) Other long term employee benefits - seniority payment

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 | 162,266 | 651,985 | 147,571 | 595,744 |
| Khmer Riel | 24,440 | 98,200 | 923 | 3,726 |
| | 186,706 | 750,185 | 148,494 | 599,470 |

## 5. BALANCES WITH THE CENTRAL BANK

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **US$** | **KHR'000** | **US$** | **KHR'000** |
| Current account | 1,443 | 5,798 | 683 | 2,757 |
| Capital guarantee | 105,150 | 422,493 | 105,150 | 424,491 |
| | 106,593 | 428,291 | 105,833 | 427,248 |

a) Capital guarantee

In compliance with Prakas B7-07-163 dated 13 December 2007 on the licensing of microfinance institutions, the Company is required to maintain a capital guarantee deposit with the Central Bank at 10% of the registered capital. This deposit is refundable should the Company voluntarily liquidate.

b) Interest rates

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

| | **2018** | **2017** |
|---|---|---|
| Current accounts | Nil | Nil |
| Capital guarantee | 0.62% | 0.32% - 0.36% |

## 6. BALANCES WITH OTHER BANKS

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **US$** | **KHR'000** | **US$** | **KHR'000** |
| Balances with local banks | | | | |
| Current accounts (*) | 72,781 | 292,433 | 4,047 | 16,334 |
| Savings accounts (**) | 96,478 | 387,649 | 22,904 | 92,467 |
| Term deposits (***) | 500,000 | 2,009,000 | - | - |
| | 669,259 | 2,689,082 | 26,951 | 108,801 |
| Less: provision | (6,693) | (26,892) | - | - |
| | 662,566 | 2,662,190 | 26,951 | 108,801 |

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

(**) The savings accounts earn interest 0.50% per annum (2017: 0.5% per annum).

(***) the term deposits have maturity from 1 to 3 months and earn interest ranking from 1% to 1.75% per annum.

## 7. LOANS TO CUSTOMERS

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **US$** | **KHR'000** | **US$** | **KHR'000** |
| Individual loans | 10,015,847 | 40,243,673 | 7,631,694 | 30,809,150 |
| Group loans | 19,980 | 80,280 | - | - |
| Staff loans | 298,821 | 1,200,663 | 114,724 | 463,139 |
| | 10,334,648 | 41,524,616 | 7,746,418 | 31,272,289 |
| Provision for loan losses: | | | | |
| General | (101,327) | (407,132) | (18,842) | (76,065) |
| Specific | (171,524) | (689,184) | (135,378) | (546,521) |
| | (272,851) | (1,096,316) | (154,220) | (622,586) |
| | 10,061,797 | 40,428,300 | 7,592,198 | 30,649,703 |

## 7. LOANS TO CUSTOMERS (continued)

### *(a) Provision for loan losses*

The movements in provision for loan losses are as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **US$** | **KHR'000** | **US$** | **KHR'000** |
| At beginning of the year | 154,220 | 622,586 | 45,391 | 183,243 |
| Provision for the year | 118,631 | 476,659 | 108,829 | 439,343 |
| Currency translation differences | - | (2,929) | - | - |
| At end of the year | 272,851 | 1,096,316 | 154,220 | 622,586 |

### *(b) By classification*

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **US$** | **KHR'000** | **US$** | **KHR'000** |
| Standard loans: | | | | |
| Secured | 9,985,111 | 40,120,176 | 7,528,299 | 30,391,743 |
| Unsecured | 147,556 | 592,880 | 8,472 | 34,201 |
| Special mention loans: | | | | |
| Secured | 26,516 | 106,541 | - | - |
| Unsecured | - | - | - | - |
| Substandard loans: | | | | |
| Secured | 5,919 | 23,783 | 44,849 | 181,055 |
| Unsecured | - | - | - | - |
| Doubtful loans: | | | | |
| Secured | - | - | 48,435 | 195,532 |
| Unsecured | - | - | - | - |
| Loss loans: | | | | |
| Secured | 169,546 | 681,236 | 116,363 | 469,758 |
| Unsecured | - | - | - | - |
| | 10,334,648 | 41,524,616 | 7,746,418 | 31,272,289 |

### *(c) By economic sector*

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **US$** | **KHR'000** | **US$** | **KHR'000** |
| Household/family | 7,851,112 | 31,545,768 | 4,979,055 | 20,100,445 |
| Trade and commerce | 1,212,943 | 4,873,605 | 1,315,273 | 5,309,757 |
| Services | 564,583 | 2,268,494 | 629,838 | 2,542,656 |
| Agriculture | 144,317 | 579,866 | 282,685 | 1,141,199 |
| Transportation | 148,173 | 595,359 | 132,541 | 535,068 |
| Construction | 85,349 | 342,932 | 117,721 | 475,240 |
| Other Categories | 328,171 | 1,318,592 | 289,305 | 1,167,924 |
| | 10,334,648 | 41,524,616 | 7,746,418 | 31,272,289 |

## 7. LOANS TO CUSTOMERS (continued)

*(d) By exposure*

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **US$** | **KHR'000** | **US$** | **KHR'000** |
| Non-large exposure | 10,334,648 | 41,524,616 | 7,746,418 | 31,272,289 |
| | 10,334,648 | 41,524,616 | 7,746,418 | 31,272,289 |

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

*(e) By relationship*

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **US$** | **KHR'000** | **US$** | **KHR'000** |
| Non-related parties | 10,205,081 | 41,004,016 | 7,691,264 | 31,049,632 |
| Related parties | 129,567 | 520,600 | 55,154 | 222,657 |
| | 10,334,648 | 41,524,616 | 7,746,418 | 31,272,289 |

*(f) By maturity*

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **US$** | **KHR'000** | **US$** | **KHR'000** |
| No later than 1 year | 322,607 | 1,296,235 | 226,100 | 912,766 |
| Later than 1 year and no later than 3 years | 2,435,041 | 9,783,995 | 2,364,200 | 9,544,275 |
| Later than 3 years and no later than 5 years | 7,170,145 | 28,809,643 | 5,150,419 | 20,792,242 |
| Later than 5 years | 406,855 | 1,634,743 | 5,699 | 23,006 |
| | 10,334,648 | 41,524,616 | 7,746,418 | 31,272,289 |

*(g) Interest rate*

The annual interest rates during the year are as follows:

| | **2018** | **2017** |
|---|---|---|
| Individual loans | 13.00% - 18.00% | 15.00% - 18.00% |
| Group loans | 18.00% | - |
| Staff loans | 13.00% - 16.00% | 13.00% - 16.00% |

## 8. OTHER ASSETS

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **US$** | **KHR'000** | **US$** | **KHR'000** |
| Accrued interest receivables | 85,832 | 344,873 | 69,181 | 279,284 |
| Prepayments | 17,349 | 69,708 | - | - |
| Deposits | 34,200 | 137,416 | 34,553 | 139,490 |
| Others | 17,707 | 71,146 | 18,718 | 75,565 |
| | 155,088 | 623,143 | 122,452 | 494,339 |

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **US$** | **KHR'000** | **US$** | **KHR'000** |
| Non-current | 34,200 | 137,416 | 34,553 | 139,490 |
| Current | 120,888 | 485,728 | 87,899 | 354,849 |
| | 155,088 | 623,144 | 122,452 | 494,339 |

## 9. PROPERTY AND EQUIPMENT

| Non-current | Leasehold Improvements US$ | Office Equipment US$ | Computer and IT Equipment US$ | Motor Vehicle US$ | Total US$ |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2018 | 76,319 | 41,954 | 74,432 | 19,800 | 212,505 |
| Additions | 2,475 | 3,084 | - | - | 5,559 |
| Written off | (4,254) | (450) | (1,533) | - | (6,237) |
| At 31 December 2018 | 74,540 | 44,588 | 72,899 | 19,800 | 211,827 |
| **Less: Accumulated depreciation** | | | | | |
| At 1 January 2018 | (60,306) | (25,553) | (58,613) | (8,095) | (152,567) |
| Depreciation | (6,106) | (8,745) | (14,293) | (6,148) | (35,292) |
| Written off | 4,254 | 450 | 1,533 | - | 6,237 |
| At 31 December 2018 | (62,158) | (33,848) | (71,373) | (14,243) | (181,622) |
| **Net book value** | 12,382 | 10,740 | 1,526 | 5,557 | 30,205 |
| ***In KHR'000 equivalent*** | 49,752 | 43,153 | 6,131 | 22,328 | 121,364 |
| **Cost** | 72,968 | 30,709 | 56,678 | 15,000 | 175,355 |
| At 1 January 2017 | 7,605 | 11,695 | 19,335 | 4,800 | 43,435 |
| Additions | (4,254) | (450) | (1,581) | - | (6,285) |
| Written off | 76,319 | 41,954 | 74,432 | 19,800 | 212,505 |
| At 31 December 2017 | | | | | |
| **Less: Accumulated depreciation** | | | | | |
| At 1 January 2017 | (57,655) | (16,151) | (36,981) | (2,053) | (112,840) |
| Depreciation | (6,905) | (9,842) | (23,165) | (6,042) | (45,954) |
| Written off | 4,254 | 440 | 1,533 | - | 6,227 |
| At 31 December 2017 | (60,306) | (25,553) | (58,613) | (8,095) | (152,567) |
| **Net book value** | 16,013 | 16,401 | 15,819 | 11,705 | 59,938 |
| ***In KHR'000 equivalent*** | 64,644 | 66,211 | 63,861 | 47,254 | 241,970 |

## 10. INTANGIBLE ASSETS

| Non-current | Banking liscense and Security device and software US$ | Total US$ |
|---|---|---|
| **Cost** | | |
| As at 1 January 2018 | 54,495 | 54,495 |
| Additions | - | - |
| As at 31 December 2018 | 54,495 | 54,495 |
| **Accumulated depreciation** | | |
| As at 1 January 2018 | (11,053) | (11,053) |
| Amortisation charge | (12,357) | (12,357) |
| As at 31 December 2018 | (23,410) | (23,410) |
| **Net book value** | 31,085 | 31,085 |
| ***In KHR'000 equivalent*** | 124,900 | 124,900 |
| **Cost** | | |
| As at 1 January 2017 | 5,710 | 5,710 |
| Additions | 48,785 | 48,785 |
| As at 31 December 2017 | 54,495 | 54,495 |
| **Accumulated depreciation** | | |
| As at 1 January 2017 | (5,662) | (5,662) |
| Amortisation charge | (5,391) | (5,391) |
| As at 31 December 2017 | (11,053) | (11,053) |
| **Net book value** | 43,442 | 43,442 |
| ***In KHR'000 equivalent*** | 175,375 | 175,375 |

## 11. TAXATION

### (a) Deferred tax

Deferred tax is calculated on the temporary differences under the liability method using the tax rate of 20% (2017: 20%).

The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | US$ | KHR'000 | US$ | KHR'000 |
| Deferred tax assets | 63,103 | 253,548 | 30,448 | 122,919 |
| Deferred tax liabilities | - | - | - | - |
| Deferred tax assets - net | 63,103 | 253,548 | 30,448 | 122,919 |

The movements of net deferred tax assets during the year are as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | US$ | KHR'000 | US$ | KHR'000 |
| At the beginning of the year | 30,448 | 122,919 | 6,738 | 27,200 |
| Credited to the income statement | 32,655 | 131,207 | 23,710 | 95,717 |
| Currency translation differences | - | (578) | - | 2 |
| At the end of the year | 63,103 | 253,548 | 30,448 | 122,919 |

## 11. TAXATION (continued)

### (a) Deferred tax (continued)

The movements of deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same jurisdiction, are as follows:

***Deferred tax assets***

| | Provision for financial facilities US$ | Accelerated tax depreciation US$ | Deferred processing fee US$ | Seniority obligation US$ | Total US$ |
|---|---|---|---|---|---|
| At 01 January 2018 | 4,665 | 4,850 | 20,933 | - | 30,448 |
| Charged/credited to the income statement | 17,335 | (8,415) | 14,745 | 8,990 | 32,655 |
| At 31 December 2018 | 22,000 | (3,565) | 35,678 | 8,990 | 63,103 |
| *In KHR'000 equivalent* | 88,396 | (14,324) | 143,354 | 36,122 | 253,548 |
| At 01 January 2017 | 1,371 | 3,118 | 2,249 | - | 6,738 |
| Charged/credited to the income statement | 3,294 | 1,732 | 18,684 | - | 23,710 |
| At 31 December 2017 | 4,665 | 4,850 | 20,933 | - | 30,448 |
| *In KHR'000 equivalent* | 18,833 | 19,579 | 84,507 | - | 122,919 |

### (b) Current income tax liabilities

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | US$ | KHR'000 | US$ | KHR'000 |
| Opening balance | 52,873 | 213,448 | 63,623 | 256,846 |
| Charged during the year | 86,358 | 346,986 | 82,291 | 332,209 |
| Income tax paid | (51,210) | (205,762) | (93,041) | (375,607) |
| Currency translation differences | - | (1,004) | - | - |
| Closing balance | 88,021 | 353,668 | 52,873 | 213,448 |

## 11. TAXATION (continued)

### (c) Income tax expense

Under the Cambodian tax regulations, the Company is subject to 20% income tax.

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **US$** | **KHR'000** | **US$** | **KHR'000** |
| Current income tax | 86,358 | 346,986 | 82,291 | 332,209 |
| Deferred income tax | (32,655) | (131,207) | (23,710) | (95,717) |
| | 53,703 | 215,779 | 58,581 | 236,492 |

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

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **US$** | **KHR'000** | **US$** | **KHR'000** |
| Profit before income tax | 200,262 | 804,655 | 207,159 | 836,301 |
| Tax calculated at 20% | 40,052 | 160,929 | 41,432 | 167,261 |
| Tax effect in respect of: | | | | |
| Expenses not deductible for tax purpose | 13,651 | 54,850 | 2,197 | 8,869 |
| Under accrual of income tax in prior year | - | - | 14,952 | 60,362 |
| Income tax expense | 53,703 | 215,779 | 58,581 | 236,492 |

## 12. OTHER LIABILITIES

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **US$** | **KHR'000** | **US$** | **KHR'000** |
| Accrued interest payable | 101,304 | 407,039 | 26,262 | 106,020 |
| Deferred processing fee | 178,390 | 716,771 | 100,119 | 404,181 |
| Seniority obligation | 44,948 | 180,601 | - | - |
| Professional fee | 9,600 | 38,573 | 5,304 | 21,412 |
| Accrued bonus | 16,610 | 66,739 | - | - |
| Other tax payables | 8,140 | 32,707 | 6,256 | 25,255 |
| Others | 12,707 | 51,057 | 18,497 | 74,673 |
| | 371,699 | 1,493,487 | 156,438 | 631,541 |

## 12. OTHER LIABILITIES (continued)

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **US$** | **KHR'000** | **US$** | **KHR'000** |
| Non-current | 44,948 | 180,601 | - | - |
| Current | 326,751 | 1,312,886 | 156,438 | 631,541 |
| | 371,699 | 1,493,487 | 156,438 | 631,541 |

## 13. BORROWINGS

Borrowings are analysed as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **US$** | **KHR'000** | **US$** | **KHR'000** |
| Individuals | 7,085,200 | 28,468,334 | 3,895,833 | 15,727,478 |
| Financial institutions | 1,004,194 | 4,034,851 | 1,423,142 | 5,745,224 |
| | 8,089,394 | 32,503,185 | 5,318,975 | 21,472,702 |

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **US$** | **KHR'000** | **US$** | **KHR'000** |
| Non-current | 2,600,448 | 10,448,600 | 2,307,117 | 9,313,831 |
| Current | 5,488,946 | 22,054,585 | 3,011,858 | 12,158,871 |
| | 8,089,394 | 32,503,185 | 5,318,975 | 21,472,702 |

**Interest rate**

| | **2018** | **2017** |
|---|---|---|
| Individuals | 5.9% - 9% | 6% - 9.5% |
| Financial institutions | 6% - 7.5% | 6% - 7.5% |

## 14. SHARE CAPITAL

On 21 April 2015, the Board of Directors of the Company approved to issue the additional share capital of 1,050,000 shares for US$1,050,000. On 5 September 2015, the Company obtained approval from National Bank of Cambodia to increase its share capital from US$1,053,000 to US$2,103,000 through cash injection and transfer from retained earnings of US$850,000 and US$200,000 respectively. The total number of share is 2,103,000 with a par value of US$1 per share.

The amendment of the Articles of Incorporation was acknowledged by the Ministry of Commerce on 26 February 2018.

## 14. SHARE CAPITAL (continued)

There are no changes in shareholders and shareholding during the year.

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **US$** | **KHR'000** | **US$** | **KHR'000** |
| At the beginning of the year | 2,103,000 | 8,489,811 | 2,103,000 | 8,489,811 |
| Foreign exchange difference | - | (39,957) | - | - |
| | 2,103,000 | 8,449,854 | 2,103,000 | 8,489,811 |

Ownership and number of shares are presented as below:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **% of Ownership** | **Number of shares** | **% of Ownership** | **Number of shares** |
| Madam Ou San | 90.91% | 1,896,623 | 90.91% | 1,896,623 |
| Madam Dith Nita | 9.81% | 206,377 | 9.81% | 206,377 |
| | 100% | 2,103,000 | 100% | 2,103,000 |

## 15. INTEREST INCOME

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **US$** | **KHR'000** | **US$** | **KHR'000** |
| Interest income: | | | | |
| Loans and advances to customers | 1,524,742 | 6,126,413 | 1,441,203 | 5,818,137 |
| Balances with the Central Bank | 568 | 2,282 | 359 | 1,449 |
| Balances with other banks | 7,025 | 28,227 | 2,607 | 10,524 |
| | 1,532,335 | 6,156,922 | 1,444,169 | 5,830,110 |

## 16. PROVISION FOR FINANCIAL FACILITIES

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **US$** | **KHR'000** | **US$** | **KHR'000** |
| Provision for loan losses (Note 7(a)) | 118,631 | 476,659 | 108,829 | 439,343 |
| Provision for balances with other banks (Note 6) | 6,693 | 26,892 | - | - |
| | 125,324 | 503,551 | 108,829 | 439,343 |

## 17. FEE AND COMMISSION INCOME

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | US$ | KHR'000 | US$ | KHR'000 |
| Loan processing fees | 112,961 | 453,877 | 27,762 | 112,075 |
| Penalty fees on late payments of loans and advances | 55,581 | 223,325 | 81,161 | 327,611 |
| | 168,542 | 677,202 | 108,923 | 439,686 |

## 18. OTHER INCOME

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | US$ | KHR'000 | US$ | KHR'000 |
| Rental income | 10,472 | 42,076 | 17,337 | 69,989 |
| Other income | 6,601 | 26,523 | 13,950 | 56,353 |
| | 17,073 | 68,599 | 31,287 | 126,342 |

## 19. PERSONNEL EXPENSES

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | US$ | KHR'000 | US$ | KHR'000 |
| Salaries | 427,333 | 1,717,024 | 440,737 | 1,779,255 |
| Bonuses | 55,996 | 224,992 | 33,467 | 135,106 |
| Seniority obligations | 44,948 | 180,601 | - | - |
| Other benefits | 12,991 | 52,198 | 3,303 | 13,334 |
| Others | 59,814 | 240,332 | 14,406 | 58,158 |
| | 601,082 | 2,415,147 | 491,913 | 1,985,853 |

## 20. GENERAL AND ADMINISTRATIVE EXPENSES

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | US$ | KHR'000 | US$ | KHR'000 |
| Rental expense | 99,090 | 398,144 | 97,483 | 393,539 |
| Advertising expense | 4,565 | 18,342 | 5,618 | 22,680 |
| Travelling and vehicle expenses | 33,691 | 135,370 | 34,369 | 138,748 |
| Utilities | 21,022 | 84,466 | 20,916 | 84,438 |
| License fee and taxation | 20,916 | 84,040 | 16,530 | 66,732 |
| Office supplies and equipment | 14,660 | 58,904 | 23,486 | 94,813 |
| Security | 19,571 | 78,636 | 19,519 | 78,798 |
| Professional fees | 14,655 | 58,884 | 9,684 | 39,094 |
| Communication | 11,926 | 47,919 | 14,501 | 58,541 |
| Repairs and maintenance | 11,325 | 45,504 | 3,680 | 14,856 |
| Printing and copy expenses | 1,991 | 8,000 | 4,664 | 18,828 |
| Others | 7,256 | 29,155 | 24,207 | 97,723 |
| | 260,668 | 1,047,364 | 274,657 | 1,108,790 |

## 21. NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | US$ | KHR'000 | US$ | KHR'000 |
| **Cash flows from operating activities** | | | | |
| Profit before income tax | 200,262 | 804,655 | 207,159 | 836,301 |
| *Adjustments for:* | | | | |
| Provision for financial facilities | 125,324 | 503,551 | 108,829 | 439,343 |
| Depreciation charges | 35,292 | 141,803 | 45,954 | 185,516 |
| Amortisation charges | 12,357 | 49,650 | 5,391 | 21,763 |
| Fixed assets written-off expenses | - | - | 58 | 234 |
| Net interest income | (1,532,335) | (6,156,922) | (1,444,169) | (5,830,110) |
| Net interest expense | 482,965 | 1,940,553 | 450,476 | 1,818,572 |
| | (676,135) | (2,716,710) | (626,302) | (2,528,381) |
| Changes in working capital | | | | |
| Loans to customers | (2,588,230) | (10,399,508) | (315,732) | (1,274,610) |
| Other assets | (15,984) | (64,224) | (2,358) | (9,519) |
| Other liabilities | 140,219 | 563,400 | 60,618 | 244,715 |
| **Net cash used in operations** | (3,140,130) | (12,617,042) | (883,774) | (3,567,795) |
| Interest income received | 1,515,684 | 6,090,018 | 1,444,687 | 5,832,201 |
| Interest expenses paid | (407,923) | (1,639,035) | (449,455) | (1,814,450) |
| Income tax paid | (51,210) | (205,762) | (93,041) | (375,607) |
| **Net cash (used in)/generated from operating activities** | (2,083,579) | (8,371,821) | 18,417 | 74,349 |

## 22. 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 | 186,706 | 750,185 | 148,494 | 599,470 |
| Balances with the Central Bank | | | | |
| Current accounts | 1,443 | 5,798 | 683 | 2,757 |
| Balances with other banks | | | | |
| Current accounts | 72,781 | 292,433 | 4,047 | 16,334 |
| Saving accounts | 96,478 | 387,649 | 22,904 | 92,467 |
| Fixed deposits | 500,000 | 2,009,000 | - | - |
| | 857,408 | 3,445,065 | 176,128 | 711,028 |

## 23. RELATED PARTY TRANSACTIONS AND BALANCES

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

| **Related party** | **Relationship** |
|---|---|
| Key management personnel | All directors of the Company who make critical decisions in relation to the strategic direction of the Company and senior management staff (including their close family members) |

The Company entered into a number of transactions with related parties in the normal course of business. The volumes of related-party transactions, outstanding balances at the year end, and related expenses and income for the year are as follows:

b) Due from related parties

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **US$** | **KHR'000** | **US$** | **KHR'000** |
| Loan to key management | 129,567 | 520,600 | 77,605 | 560,719 |
| Interest receivable | 989 | 3,974 | 805 | 560,719 |
| | 130,556 | 524,574 | 78,410 | 1,121,438 |
| Interest income | 6,552 | 26,326 | 3,843 | 15,514 |

## 23. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

c) Key management compensation

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | US$ | KHR'000 | US$ | KHR'000 |
| Remuneration for management and board of directors | | | | |
| Short term | 202,403 | 813,255 | 23,785 | 96,020 |
| Long term | 21,494 | 86,263 | - | - |
| | 223,897 | 899,518 | 23,785 | 96,020 |

## 24. COMMITMENTS

*(i) Operating lease commitments*

These operating leases mainly relate to the office rental, which is renewable upon mutual agreement.

Where the Company is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | US$ | KHR'000 | US$ | KHR'000 |
| No later than one year | 82,110 | 329,918 | 82,056 | 331,260 |
| Later than one year and no later than five years | 136,650 | 549,060 | 293,097 | 1,183,233 |
| | 218,760 | 878,978 | 375,153 | 1,514,493 |

## 25. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: credit risk, operational 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 to customers 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 Company does not use derivative financial instruments such as foreign exchange contract and interest rate swaps to manage its risk exposures.

## 25. FINANCIAL RISK MANAGEMENT (continued)

The Company holds the following financial assets and liabilities:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **US$** | **KHR'000** | **US$** | **KHR'000** |
| **Financial assets** | | | | |
| Cash on hand | 186,706 | 750,185 | 148,494 | 599,470 |
| Balances with the Central Bank (*) | 1,443 | 5,798 | 683 | 2,757 |
| Balances with other banks | 662,566 | 2,662,190 | 26,951 | 108,801 |
| Loans to customers | 10,061,797 | 40,428,300 | 7,592,198 | 30,649,703 |
| Other assets | 86,623 | 348,051 | 53,271 | 215,055 |
| Total financial assets | 10,999,135 | 44,194,524 | 7,821,597 | 31,575,786 |
| **Financial liabilities** | | | | |
| Other liabilities | (185,163) | (743,985) | (50,063) | (202,104) |
| Borrowings | (8,089,394) | (32,503,185) | (5,318,975) | (21,472,702) |
| Total financial liabilities | (8,274,557) | (33,247,170) | (5,369,038) | (21,674,806) |
| **Net financial assets** | 2,724,578 | 10,947,354 | 2,452,559 | 9,900,980 |

(*) exclude non-financial assets on capital guarantee and reserve requirement deposits.

### 25.1 Credit risk

The Company takes on exposure to credit risk, which is the risk that counterparties would cause a financial loss to the Company by failing to discharge an obligation. Credit risk is the most important risk for the Company's business. Credit exposure arises principally in lending activities that lead to loans to customers and balances with other banks. There is also credit risk in off-balance sheet financial instruments, such as foreign exchange swap. The credit risk management is carried out principally by the Company's credit committees.

The lending activities are guided by the Company's credit policy to ensure that the overall objectives in the area of lending are achieved; i.e., that the loan portfolio is strong and healthy and credit risks are well diversified and controlled. The credit policy documents the lending policy, collateral policy, and credit approval processes and procedures implemented to ensure accordance with Central Bank's guidelines. Customers with more than one account are subject to stringent and careful review and assessment. The Company closely monitors concentration of credit risk by industries,regions and product types. Additional criteria for loan disbursement are also imposed for some specific risk areas.

*(a) Credit risk measurement*

The Company assesses the probability of default of counterparties by focusing on borrowers' forecast profit and cash flow. The credit committees are responsible for approving loans to customers.

## 25. FINANCIAL RISK MANAGEMENT (continued)

### 25.1 Credit risk (continued)

*(b) Risk limit control and mitigation policies*

The Company operates and provides loans to individuals or small-medium enterprises within the Kingdom of Cambodia. The Company manages limits and controls the concentration of credit risk whenever it is identified.

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

- Mortgages over residential properties (land, building and other properties)

The Company has appropriate credit policies in place as it has processes and procedures to duly analyse the borrowers' need, their credit worthiness and credit mitigation through collateral and guarantees.

*(c) Impairment and provisioning policies*

The Company is required to follow the mandatory credit classification and mandatory minimum provisioning in accordance with relevant Prakas, as stated in Note 2.7.

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

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **US$** | **KHR'000** | **US$** | **KHR'000** |
| *Credit exposure relating to on-balance sheet assets:* | | | | |
| Loans to customers (Note 7) | 10,061,797 | 40,428,300 | 7,592,198 | 30,649,703 |
| Deposit and placements with other banks (Note 6) | 662,566 | 2,662,190 | 26,951 | 108,801 |
| Other assets | 86,623 | 348,051 | 53,271 | 215,055 |
| | 10,810,986 | 43,438,541 | 7,672,420 | 30,973,559 |

Management is confident in its ability to continue to control and sustain acceptable credit risk exposure to the Company relating to its loans to customers on the following basis:

- 98.05% of the loans in the portfolio are considered to be neither past due nor impaired (2017: 97.26%).
- The Company has introduced a more stringent selection and collection process for granting loans to customers.

## 25. FINANCIAL RISK MANAGEMENT (continued)

### 25.1 Credit risk (continued)

*(e) Loans to customers*

Loans to customers are summarised as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **US$** | **KHR'000** | **US$** | **KHR'000** |
| Loans and advances: | | | | |
| Neither past due nor impaired | 10,132,667 | 40,713,056 | 7,534,396 | 30,416,357 |
| Past due but not impaired | 26,516 | 106,541 | 2,375 | 9,588 |
| Past due and individually impaired | 175,465 | 705,019 | 209,647 | 846,344 |
| Gross | 10,334,648 | 41,524,616 | 7,746,418 | 31,272,289 |
| Less: | | | | |
| Provision for loan losses | (272,851) | (1,096,316) | (154,220) | (622,586) |
| Net loans to customers | 10,061,797 | 40,428,300 | 7,592,198 | 30,649,703 |

For the purpose of loan provisioning, the expected recovery from collateral (except cash) is not taken into consideration, in accordance with the Central Bank's requirements. The total provision for loan losses is US$ 272,851 (31 December 2017: US$ 154,220), which represents the general and specific provision required by Prakas No.B7-017-344 of the Central Bank as stated in Note 2.7.

*(i) Loans to customers neither past due nor impaired*

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

*(ii) Loans to customers past due but not impaired*

Loans to customers past due up to special mention (2017: less than 30 days past due) are not considered impaired, unless other information is available to indicate the contrary.The net amount of loans to customers that were past due but not impaired is as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **US$** | **KHR'000** | **US$** | **KHR'000** |
| Special mention | 26,516 | 106,541 | 2,375 | 9,588 |
| Less: Provision | (795) | (3,194) | (71) | (287) |
| | 25,721 | 103,347 | 2,304 | 9,301 |

## 25. FINANCIAL RISK MANAGEMENT (continued)

### 25.1 Credit risk (continued)

*(e) Loans to customers*

*(iii) Loans to customers individually impaired*

In accordance with Prakas B7-017-344 dated 1 December 2017 on credit risk grading and impairment provisioning, loans past due from substandard and below are considered impaired.

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **US$** | **KHR'000** | **US$** | **KHR'000** |
| Sub-standard loans | 5,919 | 23,783 | 44,849 | 181,055 |
| Doubtful loans | - | - | 48,435 | 195,532 |
| Loss loans | 169,546 | 681,236 | 116,363 | 469,757 |
| | 175,465 | 705,019 | 209,647 | 846,344 |
| Less: Provision | (170,730) | (685,993) | (149,550) | (603,733) |
| | 4,735 | 19,026 | 60,097 | 242,611 |

Most of the customers' collateral is in the form of land or house title receipts (which are not official land title deeds), as the Company generally issues loans to poor entrepreneurs in the provinces. The Company does not perform a revaluation of collateral either internally or externally. Since no legal official land title deeds have been obtained, no values have been ascribed to the collateral. Under the Central Bank's regulations, the value of collateral is not taken into account when determining the impairment of loans to customers.

*(iv) Loans to customers renegotiated*

There were no renegotiated loans to customers at 31 December 2018 (2017: nil).

*(f) Repossessed collateral*

During the year, the Company did not obtain any assets by taking possession of collateral held as security (2017: nil).

## 25. FINANCIAL RISK MANAGEMENT (continued)

### 25.2 Operational risk

The operational risk losses which would result from inadequate or failed internal processes, people and systems or from external factors is managed through established operational risk management processes, proper monitoring and reporting of the business activities by control and support units which are independent of the business units and oversight provided by the management.

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

### 25.3 Market risk

The Company takes on exposure to market risk, which is the risk that the fair value or future cash flow of financial instruments would fluctuate because of changes in market prices. Market risk arises from open positions in interest rates and currencies, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices.

The Company has created the independent market risk control function sitting under Risk Management and Compliance Division with the purpose of oversight and control.

*(i) Foreign exchange risk*

Foreign currency exchange risk refers to the adverse exchange rate movements on foreign currency exchange positions taken from time to time. The Company maintains a policy of not exposing itself to large foreign exchange positions. Any foreign currency exchange open positions are monitored against the operating requirements, predetermined position limits and cut-loss limits.

As of 31 December 2018, balances in monetary assets and liabilities denominated in currencies other than US$ are not significant. Therefore, no sensitivity analysis for foreign currency exchange risk was presented.

*(ii) Price risk*

The Company is not exposed to a securities price risk because it does not have any investment held and classified on the balance sheet at fair value.

*(iii) Interest rate risk*

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of the changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of the 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.

## 25. FINANCIAL RISK MANAGEMENT (continued)

### 25.3 Market risk (continued)

The management of the Company at this stage does not have a policy to set limits on the level of mismatch of interest rate repricing that may be undertaken; however, the management regularly monitors the mismatch.

The Company's interest rate risk arise from borrowings. Borrowings issued at fixed rates. The Borrowing with fixed rates does not expose the Company to cash flow interest rate risk.

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

## 25. FINANCIAL RISK MANAGEMENT (continued)

### 25.3 Market risk (continued)

*(iii) Interest rate risk (continued)*

| | Up to 1 month US$ | 1 - 3 months US$ | 3 - 12 months US$ | 1 – 5 years US$ | Over 5 years US$ | Non-interest bearing US$ | Total US$ |
|---|---|---|---|---|---|---|---|
| **As at 31 December 2018** | | | | | | | |
| **Assets** | | | | | | | |
| Cash on hand | - | - | - | - | - | 186,706 | 186,706 |
| Balances with the Central Bank | - | - | - | - | - | 1,443 | 1,443 |
| Balances with other banks | - | 495,000 | - | - | - | 167,566 | 662,566 |
| Loans to customers | 288,287 | 564,112 | 2,370,105 | 6,767,219 | 72,074 | - | 10,061,797 |
| Other assets | - | - | - | - | - | 86,623 | 86,623 |
| **Total financial assets** | 288,287 | 1,059,112 | 2,370,105 | 6,767,219 | 72,074 | 442,338 | 10,999,135 |
| **Liabilities** | | | | | | | |
| Borrowings | (195,915) | (1,061,161) | (4,268,335) | (2,563,983) | - | - | (8,089,394) |
| Other liabilities | - | - | - | - | - | (185,163) | (185,163) |
| **Total financial liabilities** | (195,915) | (1,061,161) | (4,268,335) | (2,563,983) | - | (185,163) | (8,274,557) |
| **Maturity gap** | 92,372 | (2,049) | (1,898,230) | 4,203,236 | 72,074 | 257,175 | 2,724,578 |
| ***In KHR'000 equivalent*** | 371,151 | (8,233) | (7,627,088) | 16,888,602 | 289,593 | 1,033,329 | 10,947,354 |

## 25. FINANCIAL RISK MANAGEMENT (continued)

### 25.3 Market risk (continued)

*(iii) Interest rate risk (continued)*

| | Up to 1 month US$ | 1 - 3 months US$ | 3 - 12 months US$ | 1 – 5 years US$ | Over 5 years US$ | Non-interest bearing US$ | Total US$ |
|---|---|---|---|---|---|---|---|
| **As at 31 December 2017** | | | | | | | |
| **Assets** | | | | | | | |
| Cash on hand | - | - | - | - | - | 148,494 | 148,494 |
| Balances with the Central Bank | - | - | | - | - | 683 | 683 |
| Balances with other banks | | | | | | 26,951 | 26,951 |
| Loans to customers | 228,059 | 447,269 | 1,899,641 | 5,017,229 | - | - | 7,592,198 |
| Other assets | - | - | - | - | - | 53,271 | 53,271 |
| **Total financial assets** | 228,059 | 447,269 | 1,899,641 | 5,017,229 | - | 229,399 | 7,821,597 |
| **Liabilities** | | | | | | | |
| Borrowings | (450,375) | (172,831) | (3,095,053) | (1,600,716) | - | - | (5,318,975) |
| Other liabilities | - | - | - | - | - | (50,063) | (50,063) |
| **Total financial liabilities** | (450,375) | (172,831) | (3,095,053) | (1,600,716) | - | (50,063) | (5,369,038) |
| **Maturity gap** | (222,316) | 274,438 | (1,195,412) | 3,416,513 | - | 179,336 | 2,452,559 |
| ***In KHR'000 equivalent*** | (897,489) | 1,107,908 | (4,825,879) | 13,792,462 | - | 723,978 | 9,900,980 |

## 25. FINANCIAL RISK MANAGEMENT (continued)

### 25.4 Liquidity risk

Liquidity risk is the risk that the Company 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 Company 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 Company 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 Company manages the liquidity risk based on expected undiscounted cash flows.

## 25. FINANCIAL RISK MANAGEMENT (continued)

### 25.4 Liquidity risk (continued)

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

| | Up to 1 month US$ | 1 - 3 months US$ | 3 - 12 months US$ | 1 - 5 years US$ | Later than 5 years US$ | Total US$ |
|---|---|---|---|---|---|---|
| **As at 31 December 2018** | | | | | | |
| **Liabilities** | | | | | | |
| Borrowings | 125,075 | 1,145,391 | 4,529,351 | 2,801,633 | - | 8,601,450 |
| Other liabilities | 168,553 | - | 16,610 | - | - | 185,163 |
| **Total financial liabilities** | 293,628 | 1,145,391 | 4,545,961 | 2,801,633 | - | 8,786,613 |
| ***In KHR'000 equivalent*** | 1,179,799 | 4,602,181 | 18,265,670 | 11,256,961 | - | 35,304,611 |
| **Assets held for managing liquidity risk** (expected maturity dates) | 937,588 | 1,251,011 | 3,167,198 | 9,413,006 | 111,360 | 14,880,163 |
| ***In KHR'000 equivalent*** | 3,767,229 | 5,026,562 | 12,725,802 | 37,821,458 | 447,444 | 59,788,495 |

## 25. FINANCIAL RISK MANAGEMENT (continued)

### 25.4 Liquidity risk (continued)

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

| | Up to 1 month US$ | 1 - 3 months US$ | 3 - 12 months US$ | 1 - 5 years US$ | Later than 5 years US$ | Total US$ |
|---|---|---|---|---|---|---|
| **As at 31 December 2017** | | | | | | |
| **Liabilities** | | | | | | |
| Borrowings | 450,375 | 172,831 | 3,095,053 | 1,600,716 | - | 5,318,975 |
| Other liabilities | 39,259 | 10,804 | - | - | - | 50,063 |
| **Total financial liabilities** | 489,634 | 183,635 | 3,095,053 | 1,600,716 | - | 5,369,038 |
| ***In KHR'000 equivalent*** | 1,976,652 | 741,334 | 12,494,729 | 6,462,090 | - | 21,674,805 |
| **Assets held for managing liquidity risk** (expected maturity dates) | 637,757 | 597,306 | 2,559,431 | 6,956,561 | - | 10,751,055 |
| ***In KHR'000 equivalent*** | 2,574,625 | 2,411,324 | 10,332,423 | 28,083,637 | - | 43,402,009 |

## 25. FINANCIAL RISK MANAGEMENT (continued)

### 25.5 Fair value of financial assets and liabilities

(a) Financial instruments measured at fair value

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

(b) Financial instruments not measured at fair value

As at the balance sheet date, the fair values of financial instruments of the Company 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

Loans to customers are net of provision for loan losses. The provision for loan lossess are made under the requirements of the Central Bank's Prakas.

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 insiginificantly 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.

(iv) Borrowing

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 Company 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 Company's credit risk profile as at reporting date. On this basis, the fair value of borrowings approximate their carrying values at the reporting date.

## 25. FINANCIAL RISK MANAGEMENT (continued)

### 25.6 Capital management

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

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

The Central Bank requires all licensed microfinance institutions to (i) fulfil the minimum capital requirements; and (ii) comply with solvency, liquidity and other requirements.

The table below summarises the composition of regulatory capital:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **US$** | **KHR'000** | **US$** | **KHR'000** |
| **Tier 1 Capital** | | | | |
| Share capital | 2,103,000 | 8,449,854 | 2,103,000 | 8,489,811 |
| Retained earnings | 645,029 | 2,591,727 | 498,470 | 2,012,323 |
| Less: Loans to related parties | (129,567) | (520,600) | (114,725) | (463,145) |
| Total regulatory capital | 2,618,462 | 10,520,981 | 2,486,745 | 10,038,989 |

# APPENDIX: NOTES ON REQUIREMENT OF THE CENTRAL BANK'S PRAKAS

**APPENDIX: NOTES ON REQUIREMENT OF THE CENTRAL BANK'S PRAKAS FOR THE YEAR ENDED 31 DECEMBER 2018**

## 1 CAPITAL ADEQUACY RATIO (SOLVENCY RATIO), PRAKAS NO. B7-07-163

A licensed micro-finance institution shall maintain, at all times, a capital adequacy ratio of no less than 15 percent. As at 31 December 2018, the capital adequacy of the Company was 23.80%.

The capital adequacy ratio calculation is detailed in Schedule 1.

## 2 LIQUIDITY COVERAGE RATIO (LCR), PRAKAS NO. B7-015-349

The Company was in compliance with this Prakas which requires a Liquidity Ratio of at least 50%. Liquidity Ratio was not applicable as there is no customer deposit so that there is no denominator B.

The liquidity coverage ratio calculation is detailed in Schedule 2.

## 3 NET OPEN POSITION IN FOREIGN CURRENCY, PRAKAS NO. B7-07-134

A licensed micro-finance institution shall, at all times, maintain a net open position in foreign currencies in either any foreign currency or an overall net open position in all foreign currencies, whether long or short, which shall not exceed 20% of the Institution's net worth.

As at 31 December 2018, the Company did not have net open position in foreign currencies exceeding 20% of the Company's net worth. Please refer to Schedule 3 for detail.

## APPENDIX: NOTES ON REQUIREMENT OF THE CENTRAL BANK'S PRAKAS FOR THE YEAR ENDED 31 DECEMBER 2018

### 4 CLASSIFICATION, AND PROVISIONING FOR FINANCIAL FACILITIES, PRAKAS No. B7-017-344

Banks and financial institutions shall classify their loan portfolios into the following five classes, depending on the financial situation of the borrower and the timeliness of principal and interest payment.

| | | Long term facilities | Short term facilities | Mandatory level of provision |
|---|---|---|---|---|
| Classification | Financial conditions | Days past due | Days past due | |
| Normal | Good financial condition and punctual payment of principal and interest, no doubt about future repayment and no potential weakness | 0 – 29 days | 0 – 14 days | 1% (general provision) |
| Special mention | Protected and may not be past due, but it exhibits potential weakness and doubt about future repayment | 30 – 89 days | 15 – 30 days | 3% (specific provision) |
| Substandard | Exhibits potential weakness and is not protect. Primary source of payment is not sufficient regardless of alternative source such as from collateral | 90 – 179 days | 31 – 60 days | 20% (specific provision) |
| Doubtful | Exhibits more severe weakness, collateral value is questionable and with high prospect of loss | 180 – 359 days | 61 – 90 days | 50% (specific provision) |
| Loss | Not collectable and little or nothing can be done to recover the outstanding amount | 360 days or more | 91 days or more | 100% (specific provision) |

As at 31 December 2018, the specific and general provision provided by the Company was US$ 171,524 and US$ 108,020 which is in accordance with the Central Bank's Prakas.

Classification, and provision for financial facilities calculation are detailed in Schedule 4.

## 5 DETERMINATION OF CAPITAL BUFFER OF BANKS AND FINANCIAL INSTITUTIONS, PRAKAS NO. B7-018-068

**AS AT 31 DECEMBER 2018**

The Central Bank issued Prakas No. B7-018-068 on 22 February 2018 with aims at:

- Strengthening capital base to settle any loss which may arise from risk of institution;
- Preventing the decrease of capital to that lower than minimum capital; and
- Reducing risk deriving from relationship between financial sector and pro-cyclicality

The Company is required to build up capital conservation buffer by 1.25% and 2.5% before 01 January 2019 and from 01 January 2020 respectively in addition to minimum tier 1 capital.

Some restriction on the dividend distribution and other forms of distributions may be imposed when tier capital 1 ratio (MCR1) of institution is under any quartile of capital conservation buffer as stipulated in article 11 of the present Prakas.

As at 31 December 2018, the Company's capital buffer is 16.30% which is already exceed the required capital conservation buffer of 1.25%.

Please refer to Schedule 5 for detail.

## SCHEDULE 1 - CAPITAL ADEQUACY RATIO
## AS AT 31 DECEMBER

### NET WORTH

| | 2018<br>US$ |
|---|---|
| Capital or endowment | 2,103,000 |
| Reserve, other than revaluation reserves | - |
| Premium related to capital (share premiums) | - |
| Provision for general Companying risks, with the prior agreement of the NBC | - |
| Retained earnings | 498,470 |
| Audited net profit for the last financial year | 146,559 |
| Other items approved by the NBC | - |
| **Sub-total A: Items to be added** | 2,748,029 |
| **Less:** | |
| For shareholders, directors, managers and their next of kind | |
| - unpaid portion of capital | - |
| - advances, loans, security and the agreement of the persons concerned as defined above | 129,567 |
| Holding of own shares at their book value | - |
| Accumulated losses | - |
| Formation expenses | - |
| Loss determined on dates other than the end of the annual accounting period | - |
| **Sub-total B: Items to be deducted** | 129,567 |
| **Sub-total C (A – B): Base net worth** | 2,618,462 |

**SCHEDULE 1 - CAPITAL ADEQUACY RATIO**
**AS AT 31 DECEMBER**

**NET WORTH** (continued)

| | **2018** **US$** |
|---|---|
| ***Add:*** | |
| Revaluation reserves, with the prior agreement of the NBC | - |
| Subordinated debt, with the prior agreement of the NBC, up to 100% of base net worth | - |
| Other items, with the prior agreement of the NBC, could be included in the calculation of the net worth and shall not be more than base net worth | - |
| **Sub-total D: Items to be added** | - |
| **Less:** | |
| Equity participation in Companying and financial institutions | - |
| Other items | - |
| **Sub-total E: Items to be deducted** | - |
| **Total net worth (C + D – E)** | 2,618,462 |

## SCHEDULE 1 - CAPITAL ADEQUACY RATIO
## AS AT 31 DECEMBER

### CAPITAL ADEQUACY RATIO

| | US$ | Weighting | 2018 US$ |
|---|---|---|---|
| **I. Numerator (A)** | | | |
| Net worth | 2,618,462 | | 2,618,462 |
| **II. Denominator (B)** | | | |
| Cash | 186,706 | 0% | - |
| Gold | - | 0% | - |
| Claims on the NBC | 106,593 | 0% | - |
| Assets collateralised by deposits | - | 0% | - |
| Claims on sovereigns rated AAA to AA- | - | 0% | - |
| Claims on sovereigns rated A+ to A- | - | 20% | - |
| Claims on banks rated AAA to AA- | - | 20% | - |
| Claims on sovereigns rated BBB to BBB- | - | 50% | - |
| Claims on banks rated A+ to A- | - | 50% | - |
| All other assets | 11,003,844 | 100% | 11,003,844 |
| All off-balance sheet items | - | 100% | - |
| **Denominator:** | 11,297,143 | | 11,003,844 |
| **Solvency ratio – Numerator/ Denominator** | | | 23.80% |

**CAMMA MICROFINANCE LIMITED** **UNAUDITED**

**SCHEDULE 2 – LIQUIDITY COVERAGE RATIO**
**AS AT 31 DECEMBER 2018**

| | |
|---|---|
| **LIQUIDITY RATIO (not applicable)** | **US$** |
| **I- NUMERATOR** | |
| - Cash on hand | 186,706 |
| - Deposits with the Central Bank (excluding statutory deposit and reserve requirement ) | 1,443 |
| - Deposits with other banks and financial institutions | 662,566 |
| **Subtotal A:** | 850,715 |
| ***Less:*** | |
| - Sight accounts maintained by the Central Bank, banks or financial Institutions | - |
| - Borrowings from the Central Bank with not more than one month to run | - |
| **Subtotal B:** | - |
| Net liquidity (A-B): | 850,715 |
| ***Plus:*** | |
| Portion of loan matured in less than one month: | 1,147 |
| **Liquid assets:** | 851,862 |
| **II- Denominator: Adjusted amount of Deposit** | |
| Voluntary saving (Weighted 25%) | - |
| **III- Liquidity ratio:** | **N/A** |

**SCHEDULE 3 – NET OPEN POSITION IN FOREIGN CURRENCY**
**AS AT 31 DECEMBER 2018**

| Currency | Element after deduction of affected provision | | | | Net open position | Net open position/ Net worth | Limit | Excess |
|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | | | |
| | | | Currency receivables | Currencies payables | | | | |
| | Assets | Liabilities and capital | Off-balance sheet | Off-balance sheet | + (long) or - (short) | | | |
| | + | - | + | - | (1+2+3+4) | | | |
| | | | | | | | | |
| KHR | 125,925 | (125,925) | - | - | - | 0.00% | 20% | No |
| US$ | 11,171,218 | (11,171,218) | - | - | - | 0.00% | 20% | No |
| **Grand total** | 11,297,143 | (11,297,143) | - | - | - | | | |

## SCHEDULE 4 – CLASSIFICATION, AND FOR PROVISIONING FINANCIAL FACILITIES FOR THE YEAR ENDED 31 DECEMBER 2018

The details of the Central Bank's required provision following its mandatory provisioning requirements based on the prescribed credit classification of loans and advances to customers are provided in the following table.

| | The Central Bank's required classification | Financial facilities amount 31-Dec-18 US$ | The Central Bank's provision Rate | The Central Bank's required provision US$ | Provision recorded by the Company US$ | Difference in provision amount US$ |
|---|---|---|---|---|---|---|
| **Short term:** | | | | | | |
| Financial facilities | General provision | 730,228 | 1% | 7,303 | 7,303 | - |
| Financial facilities | Special mention | - | 3% | - | - | - |
| Financial facilities | Sub-standard | - | 20% | - | - | - |
| Financial facilities | Doubtful | - | 50% | - | - | - |
| Financial facilities | Loss | - | 100% | - | - | - |
| **Sub-total** | | 730,228 | | 7,303 | 7,303 | - |
| **Long term:** | | | | | | |
| Financial facilities | General provision | 10,071,699 | 1% | 100,717 | 100,717 | - |
| Financial facilities | Special mention | 26,516 | 3% | 795 | 795 | - |
| Financial facilities | Sub-standard | 5,919 | 20% | 1,184 | 1,184 | - |
| Financial facilities | Doubtful | - | 50% | - | - | - |
| Financial facilities | Loss | 169,545 | 100% | 169,545 | 169,545 | - |
| **Sub-total** | | 10,273,679 | | 272,241 | 272,241 | - |
| | | | | | | |
| **Total** | | 11,003,907 | | 279,544 | 279,544 | - |

**CAMMA MICROFINANCE LIMITED**

**SCHEDULE 5 – DETERMINATION OF CAPITAL BUFFER OF BANKS AND FINANCIAL INSTITUTIONS**
**FOR THE YEAR ENDED 31 DECEMBER 2018**

| Tier 1 Capital Ratio | Minimum Capital Conservation Ratio (expressed as percentage of earning) |
|---|---|
| ≥ MCR1 (7.5%) to (MCR1 + 0.625%) | 100 |
| > (MCR1 + 0.625%) to (MCR1 + 1.25%) | 80 |
| > (MCR1 + 1.25%) to (MCR1 + 1.85%) | 60 |
| > (MCR1 + 1.85%) to (MCR1 + 2.5%) | 40 |
| > (MCR1 + 2.5%) | 0 |

| **THE COMPANY** | |
|---|---|
| **Specific rules applicable to the institution:** | **%** |
| Minimum solvency ratio = | 15 |
| Minimum Tier1 solvency ratio = | 7.50 |
| Capital conservation buffer (%) = | 1.25 |
| Countercyclical buffer (%) = | 0 |

| Buffer to be built | Amount | as % of RWA |
|---|---|---|
| Capital conservation buffer | 137,548 | 1.25 |
| Countercyclical capital buffer | - | - |
| Total capital buffer | 137,548 | 1.25 |
| Tier 1 Capital | 2,618,462 | 23.80 |
| Tier 2 Capital | - | - |
| Total Capital (Net Worth) | 2,618,462 | 23.80 |
| Risk Weighted Assets - RWA | 11,003,844 | |
| Tier 1 capital needed for Minimum Solvency ratio | 1,650,577 | 15.00 |
| Available Tier 1 Capital for Capital Buffer | 967,885 | 8.80 |

| | | |
|---|---|---|
| **Additional Tier 1 Capital buffer to be built up** | - | - |

| | | |
|---|---|---|
| **Minimum Tier 1 capital ratio + available Tier 1 capital for capital buffer** | | 16.30 |
| **Minimum Capital Conservation ratio (expressed as percentage of earnings)** | | - |