

LOLC (CAMBODIA) PLC.

**Financial Statements
for the year ended 31 December 2018
and
Report of the Independent Auditors**

Corporate information

Company	LOLC (Cambodia) Plc.
Registration No.	00012829
Registered office	Building No. 666B, Street 271 Sangkat Boeng Tumpun 2, Khan Mean Chey Phnom Penh, Kingdom of Cambodia
Shareholders	LOLC Private Limited TPC-ESOP CO., LTD.
Board of Directors	Mr. Brindley Chrisantha Gajanayake de Zylva, Chairman Mr. Indrajith Wijesiriwardana, Member Mr. Hans Michael Theodor Moormann, Member Mr. Dulip Rasika Samaraweera, Member (appointed on 2 July 2018) Mr. Francisco Kankanamalage Conrad Prasad Nirosh Dias (appointed on 12 February 2018) Mr. Ravindra Dhammika Tissera, Member (resigned on 2 July 2018) Mrs. Fernanda Pecanha Lacerda de Lima, Member (resigned on 12 February 2018)
Audit committee	Mr. Hans Michael Theodor Moormann, Chairman Mr. Brindley Chrisantha Gajanayake de Zylva, Member Mr. Indrajith Wijesiriwardana, Member
Risk committee	Mr. Hans Michael Theodor Moormann, Chairman Mr. Brindley Chrisantha Gajanayake de Zylva, Member Mr. Francisco Kankanamalage Conrad Prasad Nirosh Dias (appointed on 12 February 2018) Mrs. Fernanda Pecanha Lacerda de Lima, Member (resigned on 12 February 2018)
Appointment and remuneration committee	Mr. Indrajith Wijesiriwardana, Chairman Mr. Dulip Rasika Samaraweera, Member (appointed on 2 July 2018) Mr. Francisco Kankanamalage Conrad Prasad Nirosh Dias (appointed on 12 February 2018) Mr. Ravindra Dhammika Tissera, Member (resigned on 2 July 2018) Mrs. Fernanda Pecanha Lacerda de Lima, Member (resigned on 12 February 2018)

Executive committee	<p>Mr. Sok Voeun, Chief Executive Officer</p> <p>Mr. Sok Sophal, Chief Finance Officer</p> <p>Mr. Eng Bunthach, Chief Information Officer (resigned on 1 November 2018)</p> <p>Mr. Damburæ Liyanage Duleep Roshan (appointed on 1 November 2018)</p> <p>Mr. Tun Komg, Deputy Head of Credit Department</p> <p>Mrs. Leng Thavy, Head of Human Resources Department</p> <p>Mrs. Svoeuy Sodyna, Chief Risk Officer</p> <p>Mrs. Keo Taraty, Head of Finance Department (appointed on 19 June 2018)</p> <p>Mrs. Try Sola, Head of Treasury Department</p> <p>Mrs. Chheang Kagna, Head of Deposit & Financial Services Department</p> <p>Mr. Hul Sovutha, Head of Information Technology Department</p> <p>Mr. Seam Hak, Head of Administration and Procurement Department (appointed on 4 June 2018)</p> <p>Mr. Chhuon Sokcheth, Head of Marketing Department</p> <p>Mr. Teng Pheap, Head of Internal Audit Department</p> <p>Mr. Ban Phalleng, Head of Compliance Department</p> <p>Mr. Nuth Theng, Head of Business Department (appointed on 5 September 2018)</p> <p>Mr. Muth Pisey, Head of Credit Department (appointed on 15 August 2018)</p> <p>Mr. Romesh Perera, Chief Channel Officer (appointed on 1 September 2018)</p>
Auditor	KPMG Cambodia Ltd

LOLC (Cambodia) Plc.

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Report of the Board of Directors

The Board of Directors has pleasure in submitting their report together with the audited financial statements of LOLC (Cambodia) Plc. ("the Company" or "LOLC") for the year ended 31 December 2018.

Principal activity

The principal activity of the Company is to provide micro-finance services (deposit-taking and lending) to the rural population and micro-enterprises through its head office in Phnom Penh and its various branches in the Kingdom of Cambodia. Its corporate objective is to provide reliable and affordable access to financial services to micro-entrepreneurs.

Financial results

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

	Year ended 31 December 2018		Year ended 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Profit before income tax	101,778,322	25,330,592	76,700,350	18,999,343
Income tax expense	(20,747,921)	(5,163,743)	(15,509,521)	(3,841,843)
Net profit for the year	<u>81,030,401</u>	<u>20,166,849</u>	<u>61,190,829</u>	<u>15,157,500</u>

Dividends

No dividend was declared or paid and the Directors do not recommend any dividend to be paid for the year (2017: KHR5,499,472 thousand in respect of the profit for the year ended 31 December 2016).

Share capital

On 2 March 2018, the Company sent the request to the NBC to increase the share capital from KHR71,684,100 thousand (equivalent to US\$17,840,742) to KHR120,000,000 thousand (equivalent to US\$29,865,605). The request was approved by the NBC on 9 May 2018.

On 16 September 2017, LOLC Micro investments Asia Ltd. and DWM Investment Asia Ltd, transferred/sold all their shareholding to LOLC Private Limited. The transactions were approved by NBC on 28 November 2017. The revised Memorandum of Articles and Association ("MAA") was approved by the NBC on 14 March 2018 and endorsed by the Ministry of Commerce ("MoC") on 25 June 2018.

LOLC (Cambodia) Plc.

Advance capital contribution

On 12 November 2018, the Board of Directors approved to increase the registered capital to KHR140,846,600 thousand via cash capital injection from LOLC Private Limited and TPC-ESOP Co., Ltd amounting to KHR20,215,000 thousand and KHR631,600 thousand, respectively. As of the date of these financial statements, the Company is waiting for the final approval from the NBC and the endorsement on the revised Memorandum of Articles of Association ("MoAA") by the Ministry of the Commerce ("MOC").

Reserves and provisions

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

Bad and doubtful loans

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

At the date of this report, the Board of Directors is not aware of any circumstances which would render the amount written off for bad loans or the amount of allowance for doubtful loans in the financial statements of the Company inadequate to any material extent.

Assets

Before the financial statements of the Company were prepared, the Board of Directors ascertained that management (or 'the Company') took reasonable steps to ensure that any current assets, which were unlikely to be realised in the ordinary course of business at their values as shown in the accounting records of the Company had been written down to amounts which they might be expected to realise.

Valuation methods

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

Contingent and other liabilities

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

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

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Contingent and other liabilities (continued)

No contingent or other liability of the Company has become enforceable, or is likely to become enforceable within the period of 12 months after the end of the financial year which, in the opinion of the Board of Directors, will or may have a material effect on the ability of the Company to meet its obligations as and when they fall due.

Change of circumstances

At the date of this report, the Board of Directors is not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Company, which would render any amount stated in the financial statements misleading.

Items of an unusual nature

The results of the operations of the Company for the year were not, in the opinion of the Board of Directors, substantially affected by any item, transaction or event of a material and unusual nature.

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

The Board of Directors

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

- Mr. Brindley Chrisantha Gajanayake de Zylva, Chairman
- Mr. Indrajith Wijesiriwardana, Member
- Mr. Hans Michael Theodor Moormann, Member
- Mr. Dulip Rasika Samaraweera, Member (appointed on 2 July 2018)
- Mr. Francisco Kankanamalage Conrad Prasad Nirosh Dias, Member (appointed on 12 February 2018)
- Mr. Ravindra Dhammika Tissera, Member (resigned on 2 July 2018)
- Mrs. Fernanda Pecanha Lacerda de Lima, Member (resigned on 12 February 2018)

Audit committee

The members of the Audit committee during the year and at the date of this report are:

- Mr. Hans Michael Theodor Moormann, Chairman
- Mr. Brindley Chrisantha Gajanayake de Zylva, Member
- Mr. Indrajith Wijesiriwardana, Member

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Risk committee

The members of the Risk committee during the year and at the date of this report are:

- Mr. Hans Michael Theodor Moormann, Chairman
- Mr. Brindley Chrishantha Gajanayake de Zylva, Member
- Mr. Francisco Kankanamalage Conrad Prasad Nirosh Dias, Member
(appointed on 12 February 2018)
- Mrs. Femanda Pecanha Lacerda de Lima, Member (resigned on 12 February 2018)

Appointment and remuneration committee

The members of the appointment and remuneration committee during the year and at the date of this report are:

- Mr. Indrajith Wijesiriwardana, Chairman
- Mr. Dulip Rasika Samaraweera, Member (appointed on 02 July 2018)
- Mr. Francisco Kankanamalage Conrad Prasad Nirosh Dias, Member
(appointed on 12 February 2018)
- Mr. Ravindra Dhammika Tissera, Member (resigned on 02 July 2018)
- Mrs. Femanda Pecanha Lacerda de Lima, Member (resigned on 12 February 2018)

Responsibilities of the Board of Directors in respect of the financial statements

The Board of Directors is responsible for ascertaining that the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended, as set out on pages 9 to 62, in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements. In preparing these financial statements, the Board of Directors ensures that the Company:

- (i) adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- (ii) comply with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements or, if there have been any departures in the interest of true and fair presentation, ensure that these have been appropriately disclosed, explained and quantified in the financial statements;
- (iii) oversee the Company's financial reporting process and maintains adequate accounting records and an effective system of internal controls;
- (iv) 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; and

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Responsibilities of the Board of Directors in respect of the financial statements (continued)

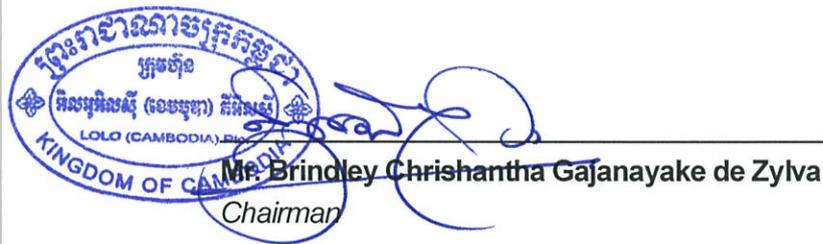
- (v) effectively control and direct effectively the Company in all material decisions affecting the operations and performance and ascertain that such have been properly reflected in the financial statements.

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

Approval of the financial statements

We hereby approve the accompanying financial statements as set out on pages 9 to 62 which, in our opinion, present fairly, in all material respects, the financial position of LOLC (Cambodia) Plc. as at 31 December 2018, and its financial performance and its cash flows for the year then ended, in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements.

On behalf of the Board of Directors



Mr. Brindley Chrisantha Gajanayake de Zylva
Chairman

Phnom Penh, Kingdom of Cambodia

Date: 18 MAR 2019



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Report of the independent auditors

To the shareholders

LOLC (Cambodia) Plc.

Opinion

We have audited the accompanying financial statements of LOLC (Cambodia) Plc. (“the Company”), which comprise the balance sheet as at 31 December 2018, and the income statement, the statements of changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out on pages 9 to 62.

In our opinion, the accompanying financial statements 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 Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements.

Basis for Opinion

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



Other Information

Management is responsible for the other information. The other information comprises the report of the Board of Directors on pages 1 to 5, and the annual report, which is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Responsibilities of Management and those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the 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.

Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with CISAs, we exercised professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the 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 KPMG Cambodia Ltd



Nge Huy
Partner

Phnom Penh, Kingdom of Cambodia

18 March 2019

LOLC (Cambodia) Plc.

Balance sheet as at 31 December 2018

	Note	As at 31 December 2018		As at 31 December 2017	
		KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
ASSETS					
Cash on hand	5	49,019,393	12,199,948	18,201,556	4,508,684
Balances with the National Bank of Cambodia	6	317,522,406	79,024,989	62,103,582	15,383,597
Balances with banks	7	108,150,865	26,916,591	95,936,028	23,764,188
Loans to customers – net	8	1,928,675,767	480,008,902	1,283,839,747	318,018,268
Other assets	9	44,105,879	10,977,073	23,979,171	5,939,849
Investment		60,270	15,000	60,555	15,000
Property and equipment	10	6,544,540	1,628,806	7,500,099	1,857,840
Intangible assets	11	4,505,809	1,121,406	3,389,764	839,674
Deferred tax assets, net	12(a)	7,581,894	1,886,982	4,404,379	1,091,003
TOTAL ASSETS		2,466,166,823	613,779,697	1,499,414,881	371,418,103
LIABILITIES AND EQUITY					
Liabilities					
Deposits from banks and other financial institutions	13	76,466,224	19,030,917	42,003,796	10,404,705
Deposits from customers	14	858,618,040	213,692,892	322,595,429	79,909,693
Provision for employee benefits	15	4,323,740	1,076,093	-	-
Other liabilities	16	64,295,429	16,001,848	38,400,976	9,512,255
Bank overdraft		-	-	963,916	238,770
Borrowings	17	1,088,456,511	270,895,100	830,007,983	205,600,195
Current income tax liability	12(b)	20,523,933	5,107,997	13,836,836	3,427,505
Total liabilities		2,112,683,877	525,804,847	1,247,808,936	309,093,123
Equity					
Share capital	18	120,000,000	29,865,605	71,684,100	17,756,775
Advance capital contribution	19	20,846,600	5,188,303	-	-
Reserves		110,415,116	27,480,118	7,168,410	1,775,677
Retained earnings		102,221,230	25,440,824	172,753,435	42,792,528
Total equity		353,482,946	87,974,850	251,605,945	62,324,980
TOTAL LIABILITIES AND EQUITY		2,466,166,823	613,779,697	1,499,414,881	371,418,103

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

LOLC (Cambodia) Plc.

Income statement for the year ended 31 December 2018

	Note	Year ended 31 December 2018		Year ended 31 December 2017	
		KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Interest income	20	292,192,298	72,720,831	235,190,188	58,258,654
Interest expense	21	(126,351,823)	(31,446,447)	(85,834,577)	(21,261,971)
Net interest income		165,840,475	41,274,384	149,355,611	36,996,683
Other income	22	78,684,898	19,583,101	35,729,664	8,850,548
Commission expenses	23	(2,398,475)	(596,933)	(1,701,056)	(421,366)
Personnel expenses	24	(76,035,389)	(18,923,691)	(58,032,093)	(14,375,054)
Depreciation	10	(3,943,169)	(981,376)	(3,757,136)	(930,675)
Amortisation	11	(226,193)	(56,295)	(130,353)	(32,290)
General and administrative expenses	25	(42,675,243)	(10,621,016)	(30,224,374)	(7,486,840)
(Loss)/gain on foreign exchange		(309,557)	(77,043)	1,335,467	330,807
Operating profit		118,937,347	29,601,131	92,575,730	22,931,813
Allowance for bad and doubtful financial instruments	8	(17,159,025)	(4,270,539)	(15,875,380)	(3,932,470)
Profit before income tax		101,778,322	25,330,592	76,700,350	18,999,343
Income tax expense	12(c)	(20,747,921)	(5,163,743)	(15,509,521)	(3,841,843)
Net profit for the year		81,030,401	20,166,849	61,190,829	15,157,500

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

LOLC (Cambodia) Plc.

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

	Share capital KHR'000	Reserves KHR'000	Advance capital contribution KHR'000	Retained earnings KHR'000	Total KHR'000
At 1 January 2017	23,368,200	4,861,722	-	167,684,666	195,914,588
Transfer from retained earnings	48,315,900	-	-	(48,315,900)	-
Dividends paid	-	-	-	(5,499,472)	(5,499,472)
Transfer to reserve	-	2,306,688	-	(2,306,688)	-
Net profit for the year	-	-	-	61,190,829	61,190,829
As at 31 December 2017	<u>71,684,100</u>	<u>7,168,410</u>	<u>-</u>	<u>172,753,435</u>	<u>251,605,945</u>
(US\$ equivalents – Note 4)	<u>17,756,775</u>	<u>1,775,677</u>	<u>-</u>	<u>42,792,528</u>	<u>62,324,980</u>
At 1 January 2018	71,684,100	7,168,410	-	172,753,435	251,605,945
Transfer from retained earnings	48,315,900	-	-	(48,315,900)	-
Additional capital	-	-	20,846,600	-	20,846,600
Transfer to reserve	-	103,246,706	-	(103,246,706)	-
Net profit for the year	-	-	-	81,030,401	81,030,401
As at 31 December 2018	<u>120,000,000</u>	<u>110,415,116</u>	<u>20,846,600</u>	<u>102,221,230</u>	<u>353,482,946</u>
(US\$ equivalents – Note 4)	<u>29,865,605</u>	<u>27,480,118</u>	<u>5,188,303</u>	<u>25,440,824</u>	<u>87,974,850</u>

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

LOLC (Cambodia) Plc.

Statement of cash flows for the year ended 31 December 2018

	Note	Year ended 31 December 2018		Year ended 31 December 2017	
		KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Cash flows from operating activities					
Profit before income tax		101,778,322	25,330,592	76,700,350	18,999,343
<i>Adjustments for:</i>					
Depreciation	10	3,943,169	981,376	3,757,136	930,675
Amortisation	11	226,193	56,295	130,353	32,290
Allowance for bad and doubtful loans	8	16,066,592	3,998,654	15,875,380	3,932,470
Allowance for deposit and placement with banks	7	1,092,433	271,885	-	-
Disposals and written-off of property and equipment		(156,553)	(38,963)	(53,255)	(13,192)
Net interest income		(165,840,475)	(41,274,384)	(149,355,611)	(36,996,683)
		(42,890,319)	(10,674,545)	(52,945,647)	(13,115,097)
Changes in:					
Reserve requirements with the NBC		(57,536,121)	(14,319,592)	(28,733,526)	(7,117,545)
Balances with banks		4,844,400	1,205,674	(4,844,400)	(1,200,000)
Loans to customers		(660,902,612)	(164,485,468)	(430,069,682)	(106,532,000)
Other receivables		(15,707,998)	(3,909,407)	(4,422,745)	(1,095,553)
Deposits from customers		536,022,611	133,405,329	268,694,661	66,558,004
Deposits from banks and other financial institutions		34,462,428	8,577,010	17,781,744	4,404,693
Other liabilities		18,225,827	4,536,045	12,734,188	3,154,369
		(183,481,784)	(45,664,954)	(221,805,407)	(54,943,129)
Cash used in operations					
Interest received		287,773,874	71,621,173	236,197,978	58,508,293
Interest paid		(114,359,457)	(28,461,786)	(80,133,117)	(19,849,670)
Income tax paid		(17,238,339)	(4,290,278)	(16,579,157)	(4,106,800)
		(27,305,706)	(6,795,845)	(82,319,703)	(20,391,306)
Net cash used in operating activities					
Cash flows from investing activities					
Capital guaranteed deposit with the NBC		(4,831,590)	(1,202,486)	(4,831,590)	(1,196,827)
Acquisition of property and equipment		(2,997,049)	(745,906)	(1,985,018)	(491,706)
Acquisition of intangible assets		(1,342,238)	(334,056)	(1,168,196)	(289,373)
Proceeds from disposals of property and equipment		165,991	41,312	66,704	16,523
		(9,004,886)	(2,241,136)	(7,918,100)	(1,961,383)
Net cash used in investing activities					

LOLC (Cambodia) Plc.

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

	Note	Year ended 31 December 2018		Year ended 31 December 2017	
		KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Cash flows from financing activities					
Proceeds from borrowings		590,585,241	146,984,878	466,832,214	115,638,399
Repayments of borrowings		(332,136,713)	(82,662,199)	(345,112,644)	(85,487,402)
Advance capital contribution		20,846,600	5,188,303	-	-
Dividend paid		-	-	(5,499,472)	(1,362,267)
Net cash generated from financing activities		279,295,128	69,510,983	116,220,098	28,788,730
Net increase in cash and cash equivalents					
		242,984,536	60,474,002	25,982,295	6,436,041
Cash and cash equivalents at 1 January		126,552,514	31,348,158	100,570,219	24,912,117
Currency translation differences		-	148,235	-	-
Cash and cash equivalents at 31 December	26	369,537,050	91,970,395	126,552,514	31,348,158

Significant non-cash transactions:

During the year there was the following significant non-cash transactions:

	Year ended 31 December 2018		Year ended 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Conversion of the retained earnings to the share capital	48,315,900	12,025,000	48,315,900	11,968,268
Transfer from retained earnings to reserve	103,246,706	25,696,000	-	-

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

LOLC (Cambodia) Plc.

Notes to the financial statements for the year ended 31 December 2018

These notes form an integral part and should be read in conjunction with the accompanying financial statements.

1. Reporting entity

LOLC (Cambodia) Plc. (formerly known as Thaneakea Phum (Cambodia) Ltd.) (“the Company”), a licensed micro-finance institution, incorporated in the Kingdom of Cambodia and registered with the Ministry of Commerce as a public limited liability company under the registration number Co. 1413 E/2002 and changed to the registration number 00012829, dated 23 May 2002 and latest renewed on 28 September 2015. After a change in the shareholding structure in September 2014, the Company became a subsidiary of LOLC Micro Investments Ltd., a company incorporated in Sri Lanka. The ultimate parent is Lanka ORIX Leasing Company PLC, a company incorporated in Sri Lanka and listed on the Colombo Stock Exchange.

On 16 September 2017, LOLC Micro investments Ltd. and DWM Investment Asia Ltd, transferred/sold all their shareholding of 96.97% to LOLC Private Limited. This was subsequently approved by the NBC on 28 November 2017. In addition, the subject shares were approved for the change in ownership by the NBC on 14 March 2018 and endorsed by the MoC on 25 June 2018.

The principal activity of the Company is to provide micro-finance services (deposit-taking and lending) to the rural population, micro-enterprises and small and medium enterprises through its head office in Phnom Penh and its various branches in the Kingdom of Cambodia. Financial services are provided either through village banks made up of solidarity groups of two to seven members each as well as to individuals.

On 11 September 2015, the Company obtained a Micro-finance Deposit Taking Institution (“MDI”) license to conduct deposit taking business from the National Bank of Cambodia.

The Company has 77 office locations (76 branches and a head office in Phnom Penh). The Company’s registered office is at Building No. 666B, Street 271, Sangkat Boeng Tumpun 2, Khan Mean Chey, Phnom Penh, Kingdom of Cambodia.

On 8 May 2018, the shareholders of the Company resolve to authorise the Company to issue corporate bond for additional source of fund to the existing local and international lenders. The request was approved by the NBC on 22 February 2019.

As at 31 December 2018, the Company had 2,327 employees (31 December 2017: 2,065 employees).

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

2. Basis of preparation

(a) Statement of compliance

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

The financial statements were approved by the Board of Directors and authorised for issue on 18 March 2019.

(b) Basis of measurement

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

(c) Functional and presentation currency

The Company transacts its business and maintains its accounting records in three currencies, Khmer Riel (“KHR”), United States Dollars (“US\$”) and Thai Baht (“THB”). Management have determined the KHR to be the Company’s functional and presentation currency as it reflects the economic substance of the underlying events and circumstances of the Company.

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

(d) Use of estimates and judgements

The preparation of financial statements in accordance with CAS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements, and the reported amounts of incomes and expenses during the reporting year. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. Although these estimates and judgements are based on the management’s best knowledge of current event and actions, actual results ultimately may differ from those estimates.

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

2. Basis of preparation (continued)

(d) Use of estimates and judgements (continued)

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below.

(ii) *Impairment losses on loans and advances to customers and balances with banks*

The Company follows the mandatory loan classification and provisioning as required by the National Bank of Cambodia'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 regulatory allowance 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 loans and advances so as to follow this Prakas.

(iii) *Taxes*

Taxes are calculated on the basis of current interpretation of the tax regulations. However, these regulations are subject to periodic variation and the ultimate determination of tax expenses will be made following inspection by tax authorities.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will have an impact on the income tax and deferred tax provisions in the period in which such determination is made.

(iv) *Seniority indemnity*

The present value of back pay seniority indemnity obligation depends on a number of factors that are determined by management using a number of assumptions such as turnover rates. The assumptions used in determining the net cost for back pay seniority indemnity include discount rate. The management used the average fixed deposit interest rate from other banks and MFIs as a discount rate to determine the present value of the estimated future cash outflows expected to be required to settle the back pay seniority indemnity obligation.

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

2. Basis of preparation (continued)

(e) New financial reporting framework

On 28 August 2009, the National Accounting Council of the Ministry of Economy and Finance (“the National Accounting Council” or “NAC”) 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.

3. Significant accounting policies

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

(a) Financial instruments

The Company’s financial assets and liabilities include cash and cash equivalents, originated loans and receivables, investments, deposits and other receivables, borrowings and other payables.

(b) Basis of aggregation

The Company’s financial statements comprise the financial statements of the head office and its branches. All inter-branch balances and transactions have been eliminated.

(c) Cash and cash equivalents

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

(d) Loans to customers

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

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

3. Significant accounting policies (continued)

(e) Allowance for bad and doubtful loans

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

In addition to the above qualitative information, the number of days past due is taken into account as follows:

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

The allowance for bad and doubtful loan for specific allowance is calculated as a percentage of the loans outstanding at the time the loan is classified and is charged as an expense in the interim income statement.

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

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

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

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

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

3. Significant accounting policies (continued)

(f) Interest in suspense

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

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

(g) Balances with the NBC and banks

Balances with the NBC, excluding statutory deposits and banks are carried at cost less any allowance for uncollectible amount.

(h) Statutory deposits

Statutory deposits, which is included in balances with the NBC, are maintained with the NBC in compliance with the Cambodian Law on Banking and Financial Institutions and are determined by defined percentage of minimum share capital and the customers' deposits as required by NBC. Statutory deposits are stated at cost.

(i) Other assets

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

(j) Investment

Investment in Credit Bureau of Cambodia ("CBC") is stated at cost less any impairment allowance to recognise non-temporary declines in the value of the investment.

(k) Property and equipment

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

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

3. Significant accounting policies (continued)

(k) Property and equipment (continued)

- (ii) Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of the individual assets as follows:

	Years
Office furniture and equipment	3 - 5
Motor vehicles	4 - 5
Computer equipment	3
Leasehold improvements - Shorter of its useful life and contractual terms	5 - 7

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

- (iii) Subsequent expenditure relating to an item of property and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Company. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- (iv) Gains or losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognised net within "other income" in the income statement.
- (v) Fully depreciated property and equipment are retained in the financial statements until they are disposed of or written-off.

(l) Intangible assets

Intangible assets, which comprise acquired computer software licenses and related costs, are stated at cost less accumulated amortisation and impairment loss. Acquired computer software licenses are capitalised on the basis of the cost incurred to acquire the specific software and bring it to use.

Intangible assets are amortised over their estimated useful lives from 5 to 20 years using the straight-line method.

Costs associated with the development or maintenance of computer software are recognised as expenses when incurred.

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

3. Significant accounting policies (continued)

(m) Impairment

(i) *Financial assets*

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

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

All impairment losses are recognised in the income statement.

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

(ii) *Non-financial assets*

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

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

(n) Deposits from customers

Deposits from customers are stated at cost.

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

3. Significant accounting policies (continued)

(o) Borrowings

Borrowings are stated at the amount of the principal outstanding. Fees paid on the establishment of borrowing facilities are capitalised and amortised on straight line basis over the period of each borrowing facilities to the income statement.

Borrowing costs (interest expense) shall be recognised as an expense in the period in which they are incurred, except to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalised as part of the cost of that asset. Capitalisation of borrowing costs shall cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

(p) Subordinated debts

Subordinated debts are treated as financial liabilities when there are contractual obligations to deliver cash or financial assets to the other entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Company, if otherwise, it is treated as equity.

The subordinated debts which are approved by the NBC are included as a Tier II line item in the calculation of the Company's net worth in accordance with the guidelines of the NBC.

(q) Long-term employee benefits

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

(r) Provisions

Provisions are recognised if, as a result of a past event, the Company has a legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

3. Significant accounting policies (continued)

(s) Income and expense recognition

Interest income on loans is recognised on an accruals basis. Where a loan becomes non-performing, the recording of interest as income is suspended until it is realised on a cash basis.

Loan fee income is calculated using the principal and the applicable fee rate and is recognised as income when the loan is disbursed to customers.

Interest expenses on borrowings and subordinated debts are recognised on an accruals basis.

(t) Fee and commission income

The Company earns fee and commission income from a diverse range of services it provides to its customers, mainly from loan processing.

Fee and commission income is recognised when the service is provided to customers.

(u) Operating leases

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expenses, over the term of lease.

(v) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates expected to be applied to temporary differences when they reverse, based on the law 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 related 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.

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

3. Significant accounting policies (continued)

(v) Income tax (continued)

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.

(w) Reserves

- (i) The reserves are transferred from retaining earnings, according to the borrowing agreement between Instituto De Crédito Oficial (“ICO”) of the Kingdom of Spain and the Company, whereby the Company is required, during the life of the borrowing, to transfer each year to a separate reserves at 3.5% of the outstanding principal borrowing from ICO, under the Spanish Microfinance Program. These reserves are for Institutional Strengthening, and still retained in the other reserves account of the life of the loan, except otherwise to be agreed by ICO.
- (ii) General reserves are set up for any overall financial risk of the Company. The Board of Directors exercises its discretion for the use and maintenance of the general reserves by transferring from retained earnings.

(x) Related parties

Parties are considered to be related to the Company 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.

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

4. Translation of Khmer Riels into United States Dollars

The financial statements are stated in the Khmer Riel. The translations of the Khmer Riel amounts into the United States Dollars are included solely for presentation purposes and have been made using the prescribed official exchange rate of US\$1: KHR4,018 published by the NBC on 31 December 2018 (31 December 2017: KHR4,037). These convenience translations should not be construed as representations that the Khmer Riel amounts have been, could have been, or could in the future be, converted into the United States Dollars at this or any other rate of exchange.

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

5. Cash on hand

	As at 31 December 2018		As at 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Head office	3,874,073	964,179	1,212,745	300,408
Branches	45,145,320	11,235,769	16,988,811	4,208,276
	<u>49,019,393</u>	<u>12,199,948</u>	<u>18,201,556</u>	<u>4,508,684</u>

The above amounts are analysed by currencies as follows:

	As at 31 December 2018		As at 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Khmer Riel	7,062,355	1,757,679	4,062,198	1,006,242
US Dollars	40,653,255	10,117,784	13,539,073	3,353,746
Thai Baht	1,303,783	324,485	600,285	148,696
	<u>49,019,393</u>	<u>12,199,948</u>	<u>18,201,556</u>	<u>4,508,684</u>

6. Balances with the National Bank of Cambodia

	Note	As at 31 December 2018		As at 31 December 2017	
		KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Current accounts		211,274,359	52,581,971	18,223,246	4,514,056
Capital guarantee	(a)	12,000,000	2,986,560	7,168,410	1,775,677
Reserve requirement	(b)	94,248,047	23,456,458	36,711,926	9,093,864
		<u>317,522,406</u>	<u>79,024,989</u>	<u>62,103,582</u>	<u>15,383,597</u>

(a) Capital guarantee

The statutory deposits are maintained with the NBC in compliance with Prakas No. B7-07-163 on the Licensing of Micro-Finance Deposit taking Institutions, the amounts of which are determined at 10% of the Company's registered share capital.

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

6. Balances with the National Bank of Cambodia (continued)

(a) Capital guarantee (continued)

The statutory deposit on registered share capital is refundable when the Company voluntarily liquidates and has no deposit liabilities.

The statutory deposit on registered capital placed with NBC earns interest at the rate of 3% per annum (2017: 3% per annum).

(b) Reserve requirement

The reserve requirement represents the minimum reserve requirement which is calculated at 8% of the total deposits from customers as required by Prakas B7-07-163 on Licensing of Micro-finance Deposit Taking Institutions.

The reserve requirement on customers' deposits fluctuates depending on the level of the customers' deposits. The reserve requirement relating to customers' deposits does not earn interest.

7. Balances with banks

	As at 31 December 2018		As at 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Current accounts	41,057,816	10,218,471	26,161,697	6,480,480
Savings accounts	68,185,482	16,970,005	64,929,931	16,083,708
Fixed term accounts	-	-	4,844,400	1,200,000
	<hr/>	<hr/>	<hr/>	<hr/>
	109,243,298	27,188,476	95,936,028	23,764,188
Regulatory allowances (Note 8)	(1,092,433)	(271,885)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	108,150,865	26,916,591	95,936,028	23,764,188

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

7. Balances with banks (continued)

Balances with banks analysed as follows:

	As at 31 December 2018		As at 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
(a) By currency:				
Khmer Riel	16,067,558	3,998,894	39,956,002	9,897,449
US Dollars	87,431,482	21,759,951	54,103,347	13,401,869
Thai Baht	5,744,258	1,429,631	1,876,679	464,870
	<u>109,243,298</u>	<u>27,188,476</u>	<u>95,936,028</u>	<u>23,764,188</u>
(b) By maturity:				
Within 1 month	109,243,298	27,188,476	91,091,628	22,564,188
3 - 12 months	-	-	4,844,400	1,200,000
	<u>109,243,298</u>	<u>27,188,476</u>	<u>95,936,028</u>	<u>23,764,188</u>
(c) By interest rate (per annum):				
Current accounts	0% - 1.75%		0%	
Savings accounts	0.20% - 2.00%		0.25% - 1.50%	
Fixed deposits	N/A		1.75% - 4.75%	

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

8. Loans to customers – net

	As at 31 December 2018		As at 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Group loans:				
Fixed term	36,427,565	9,066,094	63,755,342	15,792,753
End of cycle	151,811,520	37,782,857	117,943,196	29,215,555
Individual loans:				
Fixed term	1,540,976,788	383,518,364	930,005,172	230,370,367
End of cycle	211,849,035	52,724,996	179,846,476	44,549,536
Staff loans	17,691,324	4,403,018	15,003,961	3,716,611
	<u>1,958,756,232</u>	<u>487,495,329</u>	<u>1,306,554,147</u>	<u>323,644,822</u>
Allowance for bad and doubtful loans:				
Specific allowance	(10,681,315)	(2,658,366)	(9,833,443)	(2,435,829)
General allowance	(19,399,150)	(4,828,061)	(12,880,957)	(3,190,725)
	<u>(30,080,465)</u>	<u>(7,486,427)</u>	<u>(22,714,400)</u>	<u>(5,626,554)</u>
	<u>1,928,675,767</u>	<u>480,008,902</u>	<u>1,283,839,747</u>	<u>318,018,268</u>

Allowance for impairment losses recognised in income statement is as follows:

	As at 31 December 2018		As at 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Allowance for loan losses	16,066,592	3,998,654	15,875,380	3,932,470
Regulatory allowance for balances with banks	1,092,433	271,885	-	-
	<u>17,159,025</u>	<u>4,270,539</u>	<u>15,875,380</u>	<u>3,932,470</u>

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

8. Loans to customers – net (continued)

The movements in allowance for bad and doubtful loans to customers were as follows:

	Year ended 31 December 2018		Year ended 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
At 1 January	22,714,400	5,653,161	12,107,033	2,999,018
Allowance for the year	16,066,592	3,998,654	15,875,380	3,932,470
Written off during the year	(8,538,802)	(2,125,137)	(5,276,130)	(1,306,943)
Loss on foreign exchange	(161,725)	(40,251)	8,117	2,009
Currency translation differences	-	-	-	-
At 31 December	30,080,465	7,486,427	22,714,400	5,626,554

Loans to customers are analysed as follows:

	As at 31 December 2018		As at 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
(a) By maturity:				
Within 1 month	65,531,462	16,309,473	44,575,745	11,041,800
2 to 3 months	145,341,115	36,172,502	91,336,485	22,624,841
4 - 12 months	546,109,615	135,915,783	420,516,609	104,165,620
Over 12 months	1,201,774,040	299,097,571	750,125,308	185,812,561
	1,958,756,232	487,495,329	1,306,554,147	323,644,822
(b) By currency:				
Khmer Riel	376,639,935	93,738,162	290,019,103	71,840,253
US Dollars	1,468,871,736	365,572,856	936,725,722	232,035,106
Thai Baht	113,244,561	28,184,311	79,809,322	19,769,463
	1,958,756,232	487,495,329	1,306,554,147	323,644,822

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Notes to the financial statements (continued) for the year ended 31 December 2018

8. Loans to customers – net (continued)

Loans to customers are analysed as follows: (continued)

	As at 31 December 2018		As at 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
(c) By economic sector:				
Agriculture	710,998,374	176,953,304	613,277,623	151,914,199
Household/family	554,624,663	138,035,008	289,682,107	71,756,777
Trade and commerce	324,788,234	80,833,309	227,096,501	56,253,778
Services	278,768,720	69,379,970	144,212,153	35,722,604
Construction	60,072,943	14,950,956	21,548,802	5,337,826
Transportation	8,615,126	2,144,133	3,242,308	803,148
Other categories	20,888,172	5,198,649	7,494,653	1,856,490
	<u>1,958,756,232</u>	<u>487,495,329</u>	<u>1,306,554,147</u>	<u>323,644,822</u>
(d) By residency status:				
Residents	<u>1,958,756,232</u>	<u>487,495,329</u>	<u>1,306,554,147</u>	<u>323,644,822</u>
(e) By relationship:				
External customers	1,941,064,908	483,092,311	1,291,550,186	319,928,211
Staff loans	17,554,677	4,369,009	14,882,851	3,686,611
Related parties	136,647	34,009	121,110	30,000
	<u>1,958,756,232</u>	<u>487,495,329</u>	<u>1,306,554,147</u>	<u>323,644,822</u>

Secured loans are those loans guaranteed by land ownership either soft and hard title deed.

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

8. Loans to customers – net (continued)

Loans to customers are analysed as follows: (continued)

	As at		As at	
	31 December 2018	US\$	31 December 2017	US\$
	KHR'000	(Note 4)	KHR'000	(Note 4)
(f) By performance:				
Standard loans:				
Secured	1,755,410,399	436,886,610	1,112,478,312	275,570,550
Unsecured	184,504,489	45,919,485	175,671,301	43,515,309
Special mentioned:				
Secured	2,228,930	554,736	1,845,924	457,251
Unsecured	434,819	108,218	541,460	134,124
Sub-standard loans:				
Secured	2,572,807	640,320	2,592,043	642,072
Unsecured	577,559	143,743	871,490	215,876
Doubtful loans:				
Secured	4,905,424	1,220,862	4,434,643	1,098,500
Unsecured	1,206,375	300,243	2,537,591	628,583
Loss loans:				
Secured	5,399,587	1,343,849	3,504,687	868,141
Unsecured	1,515,843	377,263	2,076,696	514,416
	<u>1,958,756,232</u>	<u>487,495,329</u>	<u>1,306,554,147</u>	<u>323,644,822</u>

(g) By locations:

Head office	2,963,446	737,543	2,617,474	648,371
Branches	<u>1,955,792,786</u>	<u>486,757,786</u>	<u>1,303,936,673</u>	<u>322,996,451</u>
	<u>1,958,756,232</u>	<u>487,495,329</u>	<u>1,306,554,147</u>	<u>323,644,822</u>

	As at		As at	
	31 December 2018		31 December 2017	
(h) By interest rate (per month):				
Khmer Riel		1.50%		1.00% - 3.50%
US Dollars		1.20% – 1.50%		1.20% - 3.00%
Thai Baht		1.50%		1.00% - 3.50%
		<u>1.50%</u>		<u>1.00% - 3.50%</u>

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Notes to the financial statements (continued) for the year ended 31 December 2018

8. Loans to customers – net (continued)

In order to comply with the Prakas No. B7-017-109 on the interest rate cap issued by the NBC on 13 March 2017, the Company cap the interest rate to a maximum of 18% per annum for new loan contract entered from 1 April 2017.

9. Other assets

	As at 31 December 2018		As at 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Interest receivable	20,760,433	5,166,857	16,468,122	4,079,297
Interest in suspense	(2,500,378)	(622,294)	(2,626,489)	(650,604)
Net interest receivable	18,260,055	4,544,563	13,841,633	3,428,693
Prepayments	6,310,323	1,570,513	4,379,063	1,084,732
Unamortised borrowing fees	4,926,726	1,226,164	3,465,250	858,373
Others	14,608,775	3,635,833	2,293,225	568,051
	44,105,879	10,977,073	23,979,171	5,939,849

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

10. Property and equipment

	Office furniture and equipment KHR'000	Motor vehicles KHR'000	Computer equipment KHR'000	Leasehold improvements KHR'000	Total KHR'000
31 December 2018					
Cost					
At 1 January 2018	2,622,768	12,458,251	6,330,598	1,080,946	22,492,563
Additions	563,394	645,154	1,481,947	306,554	2,997,049
Disposals	(41,886)	(321,891)	(68,890)	-	(432,667)
Write off	(23,765)	(186,827)	(136,552)	-	(347,144)
At 31 December 2018	<u>3,120,511</u>	<u>12,594,687</u>	<u>7,607,103</u>	<u>1,387,500</u>	<u>24,709,801</u>
Less: Accumulated depreciation					
At 1 January 2018	1,770,988	9,256,663	3,585,914	378,899	14,992,464
Depreciation for the year	551,011	1,617,382	1,613,922	160,854	3,943,169
Disposals	(41,886)	(321,891)	(65,619)	-	(429,396)
Write off	(22,821)	(183,677)	(134,478)	-	(340,976)
At 31 December 2018	<u>2,257,292</u>	<u>10,368,477</u>	<u>4,999,739</u>	<u>539,753</u>	<u>18,165,261</u>
Carrying amounts					
At 31 December 2018	<u>863,219</u>	<u>2,226,210</u>	<u>2,607,364</u>	<u>847,747</u>	<u>6,544,540</u>
US\$ equivalents – Note 4	<u>214,838</u>	<u>554,059</u>	<u>648,921</u>	<u>210,988</u>	<u>1,628,806</u>

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

10. Property and equipment (continued)

	Office furniture and equipment KHR'000	Motor vehicles KHR'000	Computer equipment KHR'000	Leasehold improvements KHR'000	Work in progress KHR'000	Total KHR'000
31 December 2017						
Cost						
At 1 January 2017	2,355,703	11,689,221	3,896,699	1,030,335	1,990,463	20,962,421
Additions	308,992	957,756	667,659	50,611	-	1,985,018
Transfer	-	-	1,990,463	-	(1,990,463)	-
Disposals	(17,910)	(188,726)	(58,969)	-	-	(265,605)
Write off	(24,017)	-	(165,254)	-	-	(189,271)
At 31 December 2017	<u>2,622,768</u>	<u>12,458,251</u>	<u>6,330,598</u>	<u>1,080,946</u>	<u>-</u>	<u>22,492,563</u>
Less: Accumulated depreciation						
At 1 January 2017	(1,234,939)	(7,560,601)	(2,645,731)	(235,484)	-	(11,676,755)
Depreciation for the year	(574,094)	(1,879,200)	(1,160,427)	(143,415)	-	(3,757,136)
Disposals	15,906	183,138	55,134	-	-	254,178
Write off	22,139	-	165,110	-	-	187,249
At 31 December 2017	<u>(1,770,988)</u>	<u>(9,256,663)</u>	<u>(3,585,914)</u>	<u>(378,899)</u>	<u>-</u>	<u>(14,992,464)</u>
Carrying amounts						
At 31 December 2017	<u>851,780</u>	<u>3,201,588</u>	<u>2,744,684</u>	<u>702,047</u>	<u>-</u>	<u>7,500,099</u>
US\$ equivalents – Note 4	<u>210,994</u>	<u>793,061</u>	<u>679,882</u>	<u>173,903</u>	<u>-</u>	<u>1,857,840</u>

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Notes to the financial statements (continued) for the year ended 31 December 2018

11. Intangible assets

31 December 2018	Work in progress KHR'000	Software and license KHR'000	Total KHR'000
Cost			
At 1 January 2018	-	3,748,788	3,748,788
Additions	910,792	431,446	1,342,238
At 31 December 2018	<u>910,792</u>	<u>4,180,234</u>	<u>5,091,026</u>
Less: Accumulated amortisation			
At 1 January 2018	-	359,024	359,024
Amortisation for the year	-	226,193	226,193
At 31 December 2018	<u>-</u>	<u>585,217</u>	<u>585,217</u>
Carrying amounts			
At 31 December 2018	<u>910,792</u>	<u>3,595,017</u>	<u>4,505,809</u>
US\$ equivalents – Note 4	<u>226,678</u>	<u>894,728</u>	<u>1,121,406</u>
31 December 2017			
Cost			
At 1 January 2017	2,298,578	282,014	2,580,592
Additions	406,560	761,636	1,168,196
Transfer	(2,705,138)	2,705,138	-
At 31 December 2017	<u>-</u>	<u>3,748,788</u>	<u>3,748,788</u>
Less: Accumulated amortisation			
At 1 January 2017	-	(228,671)	(228,671)
Amortisation for the year	-	(130,353)	(130,353)
At 31 December 2017	<u>-</u>	<u>(359,024)</u>	<u>(359,024)</u>
Carrying amounts			
At 31 December 2017	<u>-</u>	<u>3,389,764</u>	<u>3,389,764</u>
US\$ equivalents – Note 4	<u>-</u>	<u>839,674</u>	<u>839,674</u>

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

12. Income tax

(a) Deferred tax assets, net

	As at 31 December 2018		As at 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Deferred tax assets, net	7,581,894	1,886,982	4,404,379	1,091,003

Movement in net deferred tax is as follows:

	Year ended 31 December 2018		Year ended 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
At 1 January	4,404,379	1,091,003	3,444,234	853,167
Credited to income statement	3,177,515	790,820	960,145	237,836
Currency translation differences	-	5,159	-	-
At 31 December	7,581,894	1,886,982	4,404,379	1,091,003

Movements of deferred tax assets, net are attributable to the following:

	Year ended 31 December 2018		Year ended 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Allowance for loan losses	1,297,375	322,891	787,626	195,102
Staff bonuses	1,715,556	426,968	42,199	10,453
Unrealised foreign exchange	61,912	15,409	267,093	66,161
Depreciation and amortisation	102,672	25,552	24,707	6,120
Other accruals	-	-	(161,480)	(40,000)
	3,177,515	790,820	960,145	237,836

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

12. Income tax (continued)

(b) Current income tax liability

	Year ended 31 December 2018		Year ended 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
At 1 January	13,836,836	3,427,505	13,946,327	3,454,626
Current income tax expense	23,925,436	5,954,563	16,469,666	4,079,679
Income tax paid	(17,238,339)	(4,290,278)	(16,579,157)	(4,106,800)
Currency translation differences	-	16,207	-	-
At 31 December	<u>20,523,933</u>	<u>5,107,997</u>	<u>13,836,836</u>	<u>3,427,505</u>

(c) Income tax expense

	Year ended 31 December 2018		Year ended 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Current income tax	23,925,436	5,954,563	16,469,666	4,079,679
Deferred tax	<u>(3,177,515)</u>	<u>(790,820)</u>	<u>(960,145)</u>	<u>(237,836)</u>
	<u>20,747,921</u>	<u>5,163,743</u>	<u>15,509,521</u>	<u>3,841,843</u>

In accordance with Cambodian Law on Taxation, the Company has an obligation to pay corporate income tax at the rate of 20% of taxable profits.

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

12. Income tax (continued)

(c) Income tax expense (continued)

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

	Year ended 31 December 2018		Year ended 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Profit before income tax	101,778,322	25,330,592	76,700,350	18,999,343
Tax at applicable income tax rate at 20%	20,355,664	5,066,118	15,340,070	3,799,869
Non-deductible expenses	392,257	97,625	169,451	41,974
	<u>20,747,921</u>	<u>5,163,743</u>	<u>15,509,521</u>	<u>3,841,843</u>

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

13. Deposits from banks and other financial institutions

	As at 31 December 2018		As at 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Savings deposits	2,081,407	518,021	229,060	56,740
Term deposits	74,384,817	18,512,896	41,774,736	10,347,965
	<u>76,466,224</u>	<u>19,030,917</u>	<u>42,003,796</u>	<u>10,404,705</u>

The deposits from banks and other financial institutions are in US\$ and bear interest at rates of 5% per annum for savings deposits and term deposits ranging from 2.00% to 6.50% per annum (31 December 2017: 4.50% to 6.50% per annum).

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

14. Deposits from customers

	As at 31 December 2018		As at 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Savings deposits	97,800,373	24,340,561	36,963,674	9,156,224
Term deposits	760,817,667	189,352,331	285,631,755	70,753,469
	<u>858,618,040</u>	<u>213,692,892</u>	<u>322,595,429</u>	<u>79,909,693</u>

The above amounts are analysed as follows:

	As at 31 December 2018		As at 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
(a) By maturity:				
Within 1 month	116,935,993	29,103,035	54,964,756	13,615,248
2 to 3 months	111,713,445	27,803,247	58,679,318	14,535,377
4 to 12 months	461,874,856	114,951,433	126,544,648	31,346,210
1 - 5 years	168,093,746	41,835,177	77,934,496	19,305,052
Over 5 years	-	-	4,472,211	1,107,806
	<u>858,618,040</u>	<u>213,692,892</u>	<u>322,595,429</u>	<u>79,909,693</u>
(b) By currency:				
Khmer Riel	122,762,563	30,553,151	54,270,489	13,443,272
US Dollars	730,013,909	181,685,891	265,696,480	65,815,328
Thai Baht	5,841,568	1,453,850	2,628,460	651,093
	<u>858,618,040</u>	<u>213,692,892</u>	<u>322,595,429</u>	<u>79,909,693</u>
(c) By relationship:				
Third parties	839,824,248	209,015,492	315,647,751	78,188,692
Staff	15,396,780	3,831,951	3,944,118	976,993
Related parties	3,397,012	845,449	3,003,560	744,008
	<u>858,618,040</u>	<u>213,692,892</u>	<u>322,595,429</u>	<u>79,909,693</u>

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

14. Deposits from customers (continued)

The above amounts are analysed as follows: (continued)

	As at 31 December 2018	As at 31 December 2017
(d) By interest rate (per annum)		
Savings deposits	5.00%	1.00% - 5.00%
Fixed deposit	<u>3.25% - 12.00%</u>	<u>5.25% - 10.50%</u>

15. Provision for employee benefits

This represents provision for seniority indemnity payments required by Prakas No. 443 issued by the Ministry of Labour and Vocational Training ("MoLVT") on 21 September 2018. This Prakas requires all employers to settle the seniority indemnity to their employee starting from 2019 onward.

The payment is determined at the amounts equal to 15 days of net wage per year. It is also required the employer to settle the retrospective (back-pay) seniority indemnity at a maximum amount of 6 months (depends on the length of the service employee served) to the employee who has seniority before 2019 but not excluding.

Payments is to be made twice a year, in June and December at 7.5 days each. Employee does not entitle to the remaining back-pay seniority indemnity which is not yet due, if he/she resigns from the entity.

Assumptions:

The following are the principal assumptions at the reporting date.

Discount rate *	7.32%
Term of payments	7.5 days each in June and December
Turnover rate	3.30% - 33.30%

* As information on Cambodian corporate or government bonds are not readily available, the Company has analysed the medium to long term deposit rates in denomination of US\$ of major banks and Microfinance institution in Cambodia.

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

15. Provision for employee benefits (continued)

Movement of provision for employee benefits is as follows:

	As at 31 December 2018		As at 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
At 1 January	-	-	-	-
Recognised in profit or loss	4,323,740	1,076,094	-	-
As at 31 December	4,323,740	1,076,094	-	-

16. Other liabilities

	As at 31 December 2018		As at 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
External customers	28,633,767	7,126,373	16,388,898	4,059,672
Related parties	53,796	13,389	306,298	75,873
Interest payables	28,687,563	7,139,762	16,695,196	4,135,545
Staff bonuses and incentives	14,802,266	3,683,989	12,023,987	2,978,446
Withholding tax payable	1,311,765	326,472	947,097	234,604
Accrued other expenses	7,693,276	1,914,703	877,622	217,395
Other payables	11,800,559	2,936,922	7,857,074	1,946,265
	64,295,429	16,001,848	38,400,976	9,512,255

17. Borrowings

	As at 31 December 2018		As at 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Local banks	217,820,699	54,211,224	144,314,272	35,747,900
Borrowings from overseas (*)	870,635,812	216,683,876	685,693,711	169,852,295
	1,088,456,511	270,895,100	830,007,983	205,600,195

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

17. Borrowings (continued)

- (*) It included the subordinated debts of KHR 83.57 billion (equivalent to US\$20.8 million) (31 December 2017: KHR42 billion, equivalent to US\$10.4 million) approved by the NBC.

The Company has entered into borrowing agreements with various lenders. The repayments of principal and interest are made either on a monthly, quarterly, semi-annual or annual basis based on the repayment schedule for each of the borrowing agreements.

Movement of borrowings during the year are as follows:

	Year ended 31 December 2018		Year ended 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
At 1 January	830,007,983	205,600,195	708,288,413	175,449,198
Additional borrowings	590,585,241	146,984,878	466,832,214	115,638,399
Repayments	(332,136,713)	(82,662,198)	(345,112,644)	(85,487,402)
Currency translation differences	-	972,225	-	-
At 31 December	1,088,456,511	270,895,100	830,007,983	205,600,195

Borrowings are analysed as follows:

	As at 31 December 2018		As at 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
(a) By maturity:				
Within 1 month	13,785,613	3,430,964	3,320,804	822,592
2 to 3 months	65,420,993	16,281,979	19,401,773	4,805,988
4 to 12 months	264,831,618	65,911,304	264,665,534	65,559,954
1 - 5 years	715,859,579	178,163,161	542,619,872	134,411,661
Over 5 years	28,558,708	7,107,692	-	-
	1,088,456,511	270,895,100	830,007,983	205,600,195
(b) By currency:				
Khmer Riel	66,752,945	16,613,476	35,959,804	8,907,556
US Dollars	926,219,162	230,517,462	722,921,329	179,073,899
Thai Baht	95,484,404	23,764,162	71,126,850	17,618,740
	1,088,456,511	270,895,100	830,007,983	205,600,195

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Notes to the financial statements (continued) for the year ended 31 December 2018

17. Borrowings (continued)

Borrowings are analysed as follows: (continued)

	As at 31 December 2018		As at 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
(c) By relationship:				
Third parties	1,088,456,511	270,895,100	807,582,730	200,045,264
Related parties	-	-	22,425,253	5,554,931
	<u>1,088,456,511</u>	<u>270,895,100</u>	<u>830,007,983</u>	<u>205,600,195</u>
	As at 31 December 2018		As at 31 December 2017	
(d) By interest rate (in currency and per annum):				
Khmer Riel	6.00% - 11.00%		6.00% - 12.20%	
US Dollars	2.55% - 10.50%		2.55% - 10.50%	
Thai Baht	6.85% - 9.80%		7.50% - 10.85%	

18. Share capital

	As at 31 December 2018		As at 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Registered, issued and fully paid share of KHR100,000 each 1.2 million shares	<u>120,000,000</u>	<u>29,865,605</u>	<u>71,684,100</u>	<u>17,756,775</u>

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

18. Share capital (continued)

As at 31 December 2018, the Company's shareholders and their respective interest are as follows:

	As at 31 December 2018			As at 31 December 2017		
	% of shareholding	Number of shares	Amount KHR'000	% of shareholding	Number of shares	Amount KHR'000
LOLC Private Limited	96.97%	1,163,642	116,364,200	-	-	-
TPC-ESOP Co., Ltd. (*)	3.03%	36,358	3,635,800	3.03%	21,719	2,171,900
LOLC Micro Investments Ltd.	-	-	-	60.00%	430,107	43,010,700
DWM Investment Asia Ltd	-	-	-	36.97%	265,015	26,501,500
	<u>100.00%</u>	<u>1,200,000</u>	<u>120,000,000</u>	<u>100.00%</u>	<u>716,841</u>	<u>71,684,100</u>

- (*) TPC-ESOP is a vehicle through which eligible employees can acquire an ownership interest in the Company. The ESOP serves as an employee benefit that enables employees to contribute long-term growth of the Company.

On 3 November 2016, the Board of Directors resolved to increase the share capital of the Company from KHR23,368,200 thousand (equivalent to US\$5,815,879) to KHR120,000,000 thousand (equivalent to US\$29,865,605) by increasing the number of shares from 233,682 shares to 1,200,000 shares.

The share capital was planned to be paid by way of converting the retained earnings into the registered capital in 2 tranches, 50% of the first tranche amounting to KHR48,315,900 thousand (equivalent to US\$11,968,269) converted by January 2017 and another 50% of the second tranche amounting to KHR48,315,900 thousand (equivalent to US\$12,024,863) was to be converted by January 2018.

On 2 March 2018, the Company sent the request to the NBC to increase the second tranche share capital amounting from KHR71,684,100 thousand (equivalent to US\$17,840,742) to KHR120,000,000 thousand (equivalent to US\$29,865,605). The request was approved by the NBC on 9 May 2018.

On 16 September 2017, LOLC Micro investments Asia Ltd. and DWM Investment Asia Ltd, transferred/sold all their shareholding to LOLC Private Limited. The transaction was approved by NBC on 28 November 2017. The revised Memorandum of articles and association ("MAA") was approved by the NBC on 14 March 2018 and endorsed by the MoC on 25 June 2018.

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

19. Advance capital contribution

On 12 November 2018, the Board of Directors approved to increase the registered capital to KHR140,846,600 thousand via cash capital injection from LOLC Private Limited and TPC-ESOP Co., Ltd amounting to KHR20,215,000 thousand and KHR631,600 thousand, respectively. As of the date of these financial statements, the Company is waiting for the final approval from the NBC and the endorsement on the revised Memorandum of Articles of Association ("MoAA") by the Ministry of the Commerce ("MOC").

20. Interest income

	Year ended 31 December 2018		Year ended 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Loans to customers	291,035,787	72,432,998	233,429,614	57,822,545
Placements with banks	1,156,511	287,833	1,760,574	436,109
	<u>292,192,298</u>	<u>72,720,831</u>	<u>235,190,188</u>	<u>58,258,654</u>

21. Interest expense

	Year ended 31 December 2018		Year ended 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Local borrowings	13,784,477	3,430,681	7,692,264	1,905,441
Overseas borrowings	69,254,520	17,236,068	63,471,478	15,722,437
Customers' deposits	43,312,826	10,779,698	14,670,835	3,634,093
	<u>126,351,823</u>	<u>31,446,447</u>	<u>85,834,577</u>	<u>21,261,971</u>

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

22. Other income

	Year ended 31 December 2018		Year ended 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Fees and commission on loans	71,613,944	17,823,281	32,258,204	7,990,638
Penalty income	4,716,080	1,173,738	2,333,731	578,085
Recovery from loans written off	1,263,852	314,548	651,884	161,477
Gains on disposals of property and equipment	156,553	38,963	53,255	13,192
Others	934,469	232,571	432,590	107,156
	<u>78,684,898</u>	<u>19,583,101</u>	<u>35,729,664</u>	<u>8,850,548</u>

23. Commission expenses

Commission expenses represent payments to the group loan collection coordinators and to Credit Bureau Cambodia ("CBC") on borrowers' information enquiry.

24. Personnel expenses

	Year ended 31 December 2018		Year ended 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Salaries and wages	68,251,668	16,986,478	52,306,024	12,956,657
Other short-term benefits	7,783,721	1,937,213	5,726,069	1,418,397
	<u>76,035,389</u>	<u>18,923,691</u>	<u>58,032,093</u>	<u>14,375,054</u>

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Notes to the financial statements (continued) for the year ended 31 December 2018

25. General and administrative expenses

	Year ended 31 December 2018		Year ended 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Bank and service charges and other fees	7,588,956	1,888,740	5,066,018	1,254,897
Rental expenses	7,206,392	1,793,527	6,339,322	1,570,305
Travelling expenses	3,704,918	922,080	3,419,131	846,948
Office supplies and equipment	1,806,897	449,701	1,323,938	327,951
Marketing expenses	1,394,803	347,139	1,042,779	258,305
Utilities	1,354,888	337,205	1,295,463	320,897
Professional services	1,968,668	489,962	1,635,545	405,139
Communications	1,293,275	321,870	1,144,523	283,508
Security expenses	1,079,717	268,720	1,025,534	254,034
Board of Directors' fees	549,552	136,773	502,503	124,474
Photocopies and printing	283,356	70,522	337,486	83,598
License fees	1,504,081	374,336	1,142,576	283,026
Other expenses	2,700,499	672,100	4,439,574	1,099,721
Other tax expenses	7,815,792	1,945,194	551,681	136,656
Other office expenses	702,480	174,833	577,437	143,036
Other insurance expenses	1,720,969	428,314	380,863	94,345
	<u>42,675,243</u>	<u>10,621,016</u>	<u>30,224,374</u>	<u>7,486,840</u>

26. Cash and cash equivalents

		As at 31 December 2018		As at 31 December 2017	
		KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Bank overdrafts		-	-	(963,916)	(238,770)
Cash on hand	5	49,019,393	12,199,948	18,201,556	4,508,684
Balances with the National Bank of Cambodia	6	211,274,359	52,581,971	18,223,246	4,514,056
Balances with banks	7	109,243,298	27,188,476	91,091,628	22,564,188
Cash and cash equivalents		<u>369,537,050</u>	<u>91,970,395</u>	<u>126,552,514</u>	<u>31,348,158</u>

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

27. Related party balances and transactions

(a) Board of Directors' fee

	Year ended 31 December 2018		Year ended 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Board fees	549,552	136,773	502,503	124,474

(b) Key management personnel

	As at 31 December 2018		As at 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Salaries and short-term benefit payable	444,313	110,581	962,376	238,389

	Year ended 31 December 2018		Year ended 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Salaries and short-term benefit expenses	2,287,926	569,419	2,185,389	541,340

(c) Loans to shareholders

	As at 31 December 2018		As at 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Loan outstanding	136,647	34,009	121,110	30,000
Accrued interest receivable	182	45	121	30
	136,829	34,054	121,231	30,030

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

27. Related party balances and transactions (continued)

(d) Interest income from shareholders

	Year ended 31 December 2018		Year ended 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Interest income	14,846	3,695	11,417	2,828

(e) Deposits from related parties

	As at 31 December 2018		As at 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Shareholders:				
Deposit outstanding	294,793	73,368	1,959,477	485,379
Accrued interest payable	8,678	2,160	14,557	3,606
	<u>303,471</u>	<u>75,528</u>	<u>1,974,034</u>	<u>488,985</u>
Board of Directors:				
Deposit outstanding	589,058	146,605	299,506	74,190
Accrued interest payable	15,670	3,900	3,690	914
	<u>604,728</u>	<u>150,505</u>	<u>303,196</u>	<u>75,104</u>
Key management:				
Deposit outstanding	2,513,161	625,476	884,353	219,062
Accrued interest payable	29,448	7,329	20,191	5,001
	<u>2,542,610</u>	<u>632,805</u>	<u>904,544</u>	<u>224,063</u>
Interest expenses in respect of deposit from related parties:				
Shareholders	31,151	7,753	167,782	41,561
Board of Directors	69,190	17,220	26,821	6,644
Key management	159,420	39,676	81,333	20,147
	<u>259,761</u>	<u>64,649</u>	<u>275,936</u>	<u>68,352</u>

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

27. Related party balances and transactions (continued)

(f) Borrowing from shareholders

	As at 31 December 2018		As at 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Outstanding borrowings	-	-	22,425,253	5,554,931
Accrued interest payable	-	-	267,861	66,351
	<u>-</u>	<u>-</u>	<u>22,693,114</u>	<u>5,621,282</u>
	Year ended 31 December 2018		Year ended 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Interest expense	-	-	1,293,602	320,436
	<u>-</u>	<u>-</u>	<u>1,293,602</u>	<u>320,436</u>

28. Financial risk management

The Company's activities expose it to a variety of financial risks: credit risk, market risk (including currency risk, interest rate risk and price risk), and liquidity risk. Taking risks is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Company does not use derivative financial instruments such as foreign exchange contracts and interest rate swaps to manage its risk exposures.

Financial assets are the contractual rights to receive cash or another financial asset from another entity. It is classified as loan and receivables and comprised of cash on hand, balances with the NBC, balances with 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 and comprised of deposits from customers, bank overdrafts, borrowings and other liabilities.

The guidelines and policies adopted by the Company to manage the risks that arise in the conduct of business activities are as follows:

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

28. Financial risk management (continued)

(a) Credit risk

Credit risk is the financial loss to the Company if a borrower or counterparty fails to meet its contractual obligations, and arises principally from the loans to customers.

(i) *Management of credit risk*

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. The credit policy documents the lending policy, collateral policy and credit approval processes, including the Company's own internal grading system, and procedures implemented to ensure compliance with the NBC guidelines.

(ii) *Risk limit control and mitigation policies*

The Company operates and provides loans to group, individuals or enterprises within the Kingdom of Cambodia. The Company manages limits and controls the concentration of credit risk whenever it is identified. Large exposure is defined by the NBC as overall credit exposure to any single beneficiary which exceeds 2% for individual loans and 3% for group loans of the Company's net worth under the conditions of Prakas No. B7-07-163 of the NBC.

Moreover, the general allowance has been provided on non-performing loan in addition to the existing specific provision to ensure the risk coverage ratio up to 100%.

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 a common practice. The Company implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types to secure for loans to customers are:

- Mortgages over residential properties (land, building and other properties); and
- Charges over business assets such as land and buildings.

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

28. Financial risk management (continued)

(a) Credit risk (continued)

(iii) Exposure to credit risk

The Company main exposure to credit risk is the loans to customers since they represented over 80% of the financial assets.

	As at 31 December 2018		As at 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Loans to customers				
Neither past due nor impaired	1,923,447,177	478,707,611	1,279,398,591	316,918,155
Past due but not impaired	5,228,590	1,301,291	4,441,156	1,100,113
Individually impaired	30,080,465	7,486,427	22,714,400	5,626,554
	<u>1,958,756,232</u>	<u>487,495,329</u>	<u>1,306,554,147</u>	<u>323,644,822</u>
Allowance for bad and doubtful loans	<u>(30,080,465)</u>	<u>(7,486,427)</u>	<u>(22,714,400)</u>	<u>(5,626,554)</u>
	<u>1,928,675,767</u>	<u>480,008,902</u>	<u>1,283,839,747</u>	<u>318,018,268</u>

Neither past due nor impaired

Neither past due nor impaired loans to customers are good quality loans to customers for which there is no experience of default and management views that likelihood of default is relatively low.

A minimum level of specific allowance for impairment is made depending on the classification concerned, unless other information is available to substantiate the repayment capacity of the counterparty. Refer to separate accounting policy stated in Note 3(e).

Past due but not impaired loans to customers

Past due but not impaired loans to customers are those for which contractual interest or principal payments are past due less than 31 days for long-term loans and 15 days for short-term loans, unless other information is available to indicate otherwise.

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

28. Financial risk management (continued)

(a) Credit risk (continued)

(iii) *Exposure to credit risk (continued)*

Impaired loans to customers

Individually impaired loans to customers are loans to customers for which the Company determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loans to customers. In compliance with NBC guidelines, an allowance for doubtful loans to customers is made for loan to customers with payment overdue more than 30 days for short-term loans and 90 days for long-term loans.

Repossessed collateral

During the year ended 31 December 2018, the Company did not obtain any assets by taking possession of collateral held as security (31 December 2017: Nil).

(b) 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.

(c) Market risk

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

(i) *Foreign currency exchange risk*

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US\$ and the Thai Baht. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

28. Financial risk management (continued)

(c) Market risk (continued)

(i) Foreign currency exchange risk (continued)

Management monitors its foreign exchange risk against functional currencies through monitoring the foreign exchange risk by using the absorbed risk of 20% of the net worth required by the NBC. The Company does not hedge its foreign exchange risk exposure arising from future commercial transactions and recognised assets and liabilities by using forward contracts.

Concentration of currency risk

The amounts of financial assets and liabilities, by currency denomination, are as follows:

31 December 2018	KHR	Denomination		Total
		KHR'000	equivalents	
		US\$	THB	
Financial assets				
Cash on hand	7,062,355	40,653,255	1,303,783	49,019,393
Balances with the NBC	116,441,716	94,832,643	-	211,274,359
Balances with banks	15,906,882	86,557,167	5,686,816	108,150,865
Investment	-	60,270	-	60,270
Loans to customers	370,059,337	1,447,353,840	111,262,590	1,928,675,767
Other assets	4,214,352	16,646,120	1,158,956	22,019,428
	513,684,642	1,686,103,295	119,412,145	2,319,200,082
Financial liabilities				
Deposits from banks and other financial institutions	5,728,378	70,737,846	-	76,466,224
Deposits from customers	122,762,563	730,013,909	5,841,568	858,618,040
Borrowings	66,752,945	926,219,162	95,484,404	1,088,456,511
Other liabilities	22,674,694	39,347,428	2,068,396	64,090,518
	217,918,580	1,766,318,345	103,394,368	2,087,631,293
Net asset/(liability) position	295,766,062	(80,215,050)	16,017,777	231,568,789
US\$ equivalents (Note 4)	73,610,269	(19,963,925)	3,986,505	57,632,849

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

28. Financial risk management (continued)

(c) Market risk (continued)

(i) Foreign currency exchange risk (continued)

Concentration of currency risk (continued)

The aggregate amounts of financial assets and liabilities, by currency denomination, are as follows:

31 December 2017	KHR	Denomination		Total
		KHR'000 equivalents US\$	THB	
Financial assets				
Cash on hand	4,062,198	13,539,073	600,285	18,201,556
Balances with the NBC	18,077,222	146,024	-	18,223,246
Balances with banks	39,956,002	54,103,347	1,876,679	95,936,028
Investment	-	60,555	-	60,555
Loans to customers	283,259,844	922,366,897	78,213,006	1,283,839,747
Other assets	3,676,301	10,041,469	959,551	14,677,321
	<u>349,031,567</u>	<u>1,000,257,365</u>	<u>81,649,521</u>	<u>1,430,938,453</u>
Financial liabilities				
Deposits from banks and other financial institutions	8,400,000	33,603,796	-	42,003,796
Deposits from customers	54,270,489	265,696,480	2,628,460	322,595,429
Bank overdrafts	-	963,916	-	963,916
Borrowings	35,959,804	722,921,329	71,126,850	830,007,983
Other liabilities	16,358,299	19,230,616	1,855,090	37,444,005
	<u>114,988,592</u>	<u>1,042,416,137</u>	<u>75,610,400</u>	<u>1,233,015,129</u>
Net asset/(liability) position	<u>234,042,975</u>	<u>(42,158,772)</u>	<u>6,039,121</u>	<u>197,923,324</u>
US\$ equivalents (Note 4)	<u>57,974,480</u>	<u>(10,443,094)</u>	<u>1,495,943</u>	<u>49,027,328</u>

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

28. Financial risk management (continued)

(c) Market risk (continued)

(i) *Foreign currency exchange risk (continued)*

Sensitivity analysis

As at 31 December 2018, if the KHR had weakened/strengthened by 1% against US\$ with all other variables held constant, the recalculated net profit for the year would have been KHR799 million higher/lower, mainly as a result of foreign exchange gains/losses on translation of its financial assets and financial liabilities.

As at 31 December 2018, if the KHR had weakened/strengthened by 1% against THB with all other variables held constant, the recalculated net profit for the year would have been KHR159 million higher/lower, mainly as a result of foreign exchange gains/losses on translation of its financial assets and financial liabilities.

(ii) *Interest rate risk*

Interest rate risk refers to the volatility in net interest income as a result of changes in the levels of interest rate and shifts in the composition of the assets and liabilities. The exposure to interest rate risk relate primarily to its loan, deposits and borrowings.

Since the majority of financial assets are short-term and the interest rates are subject to changes with the market rates, the Company does not use any derivative financial instrument to hedge the risk. As the majority of borrowings is with a fixed rate, plus the average term from borrowings is longer than loans to customers, the interest risk is minimised.

The following table indicates the effective interest rates at the reporting date and the periods in which the financial instruments re-price or mature, whichever is earlier.

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

28. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

31 December 2018	Up to 1 month KHR'000	> 1 – 3 months KHR'000	> 3 – 12 months KHR'000	> 1 – 5 years KHR'000	Over 5 Years KHR'000	Non-interest bearing KHR'000	Total KHR'000
Financial assets							
Cash on hand	-	-	-	-	-	49,019,393	49,019,393
Balance with the NBC	10,079,275	-	200,000	-	-	200,995,084	211,274,359
Balance with banks	67,093,049	-	-	-	-	41,057,816	108,150,865
Loans to customers	35,450,997	145,341,115	546,109,615	1,183,166,870	18,607,170	-	1,928,675,767
Investment	-	-	-	-	-	60,270	60,270
Other assets	-	-	-	-	-	22,019,428	22,019,428
	<u>112,623,321</u>	<u>145,341,115</u>	<u>546,309,615</u>	<u>1,183,166,870</u>	<u>18,607,170</u>	<u>313,151,991</u>	<u>2,319,200,082</u>
Financial liabilities							
Deposits from banks and other financial institutions	2,081,407	15,268,764	59,116,053	-	-	-	76,466,224
Deposits from customers	32,300,786	105,333,859	409,488,589	211,613,025	-	99,881,781	858,618,040
Borrowings	41,911,613	76,972,743	310,536,368	630,477,079	28,558,708	-	1,088,456,511
Other liabilities	-	-	-	-	-	64,090,518	64,090,518
	<u>76,293,806</u>	<u>197,575,366</u>	<u>779,141,010</u>	<u>842,090,104</u>	<u>28,558,708</u>	<u>163,972,299</u>	<u>2,087,631,293</u>
Gaps – KHR'000	<u>36,329,515</u>	<u>(52,234,251)</u>	<u>(232,831,395)</u>	<u>341,076,766</u>	<u>(9,951,538)</u>	<u>149,179,692</u>	<u>231,568,789</u>
US\$ equivalents – (Note 4)	<u>9,041,691</u>	<u>(13,000,062)</u>	<u>(57,947,087)</u>	<u>84,887,199</u>	<u>(2,476,739)</u>	<u>37,127,848</u>	<u>57,632,850</u>

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

28. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

31 December 2017	Up to 1 month KHR'000	> 1 – 3 months KHR'000	> 3 – 12 months KHR'000	> 1 – 5 years KHR'000	Over 5 Years KHR'000	Non-interest bearing KHR'000	Total KHR'000
Financial assets							
Cash on hand	-	-	-	-	-	18,201,556	18,201,556
Balance with the NBC	-	-	200,000	-	-	18,023,246	18,223,246
Balance with banks	64,929,931	-	4,844,400	-	-	26,161,697	95,936,028
Loans to customers							
- Performing loans	21,861,345	91,336,485	420,516,609	739,987,674	10,137,634	-	1,283,839,747
Investment	-	-	-	-	-	60,555	60,555
Other assets	-	-	-	-	-	14,677,321	14,677,321
	<u>86,791,276</u>	<u>91,336,485</u>	<u>425,561,009</u>	<u>739,987,674</u>	<u>10,137,634</u>	<u>77,124,375</u>	<u>1,430,938,453</u>
Financial liabilities							
Deposits from banks and other financial institutions	20,431,781	2,831,955	18,511,000	-	229,060	-	42,003,796
Deposits from customers	54,964,756	58,679,318	126,544,648	77,934,496	4,472,211	-	322,595,429
Bank overdrafts	963,916	-	-	-	-	-	963,916
Borrowings	3,320,804	19,401,773	264,442,484	542,619,870	-	223,052	830,007,983
Other liabilities	-	-	-	-	-	37,444,005	37,444,005
	<u>79,681,257</u>	<u>80,913,046</u>	<u>409,498,132</u>	<u>620,554,366</u>	<u>4,701,271</u>	<u>37,667,057</u>	<u>1,233,015,129</u>
Gaps – KHR'000	<u>7,110,019</u>	<u>10,423,439</u>	<u>16,062,877</u>	<u>119,433,308</u>	<u>5,436,363</u>	<u>39,457,318</u>	<u>197,923,324</u>
US\$ equivalents – (Note 4)	<u>1,761,214</u>	<u>2,581,976</u>	<u>3,978,914</u>	<u>29,584,669</u>	<u>1,346,634</u>	<u>9,773,921</u>	<u>49,027,328</u>

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

28. Financial risk management (continued)

(d) Liquidity risk

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

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

The following table provides an analysis of the financial liabilities of the Company into relevant maturity groupings based on the remaining periods to repayment.

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Notes to the financial statements (continued) for the year ended 31 December 2018

28. Financial risk management (continued)

(d) Liquidity risk (continued)

Non-derivative cash flows

	Up to 1 month KHR'000	> 1 – 3 months KHR'000	> 3 – 12 months KHR'000	> 1 – 5 years KHR'000	Over 5 years KHR'000	Total KHR'000
31 December 2018						
Financial liabilities						
Deposits from banks and other financial institutions	18,152,566	17,488,823	40,168,626	2,006,778	-	77,816,793
Deposits from customers	20,307,918	108,154,834	453,801,698	245,402,717	97,800,374	925,467,541
Borrowings	17,877,038	75,610,796	306,686,575	762,021,518	28,558,708	1,190,754,635
Other liabilities	25,743,006	22,009,587	14,855,473	1,328,920	153,532	64,090,518
	<u>82,080,528</u>	<u>223,264,040</u>	<u>815,512,372</u>	<u>1,010,759,933</u>	<u>126,512,614</u>	<u>2,258,129,487</u>
US\$ equivalents – (Note 4)	<u>20,428,205</u>	<u>55,565,963</u>	<u>202,964,752</u>	<u>251,557,972</u>	<u>31,486,465</u>	<u>562,003,357</u>
31 December 2017						
Financial liabilities						
Deposits from banks and other financial institutions	20,475,183	2,841,171	19,146,558	9,172	229,060	42,701,144
Deposits from customers	18,187,389	60,816,133	136,017,479	97,007,132	37,467,320	349,495,453
Bank overdrafts	963,916	-	-	-	-	963,916
Borrowings	8,376,145	29,591,576	305,556,576	588,781,809	-	932,306,106
Other liabilities	12,844,278	16,108,164	7,501,687	919,221	70,655	37,444,005
	<u>60,846,911</u>	<u>109,357,044</u>	<u>468,222,300</u>	<u>686,717,334</u>	<u>37,767,035</u>	<u>1,362,910,624</u>
US\$ equivalents – (Note 4)	<u>15,072,309</u>	<u>27,088,691</u>	<u>115,982,735</u>	<u>170,105,854</u>	<u>9,355,223</u>	<u>337,604,812</u>

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

28. Financial risk management (continued)

(e) Capital management

(i) *Regulatory capital*

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

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

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

(ii) *Capital allocation*

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

29. Commitments and contingencies

(a) Operating lease

The Company has commitments in respect of the office rental agreement as follows:

	As at 31 December 2018		As at 31 December 2017	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Within one year	5,905,773	1,469,829	4,143,521	1,026,386
2 to 5 years	14,586,239	3,630,224	7,916,674	1,961,029
Over five years	3,927,173	977,395	692,144	171,450
	<u>24,419,185</u>	<u>6,077,448</u>	<u>12,752,339</u>	<u>3,158,865</u>

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2018

29. Commitments and contingencies (continued)

(b) Taxation contingencies

The taxation system in Cambodia is relatively new and is characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges.

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

30. Fair values of assets and liabilities

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