

**LOLC (CAMBODIA) PLC.**

**Financial Statements  
for the year ended 31 December 2019  
and  
Report of the Independent Auditors**

## Corporate information

Company	LOLC (Cambodia) Plc.
Registration No.	00012829
Registered office	Building No. 666B, Street 271 Sangkat Boeung Tumpun 2, Khan Mean Chey Phnom Penh Kingdom of Cambodia
Shareholders	LOLC Private Limited TPC-ESOP Co., Ltd.
Board of Directors	Mr. Brindley Chrishantha Gajanayake de Zylva, Chairman Mr. Indrajith Wijesiriwardana, Member Mr. Hans Michael Theodor Moormann, Member Mr. Dulip Rasika Samaraweera, Member Mr. Francisco Kankanamalage Conrad Prasad Nirosh Dias, Member
Audit committee	Mr. Hans Michael Theodor Moormann, Chairman Mr. Brindley Chrishantha Gajanayake de Zylva, Member Mr. Indrajith Wijesiriwardana, Member
Risk committee	Mr. Hans Michael Theodor Moormann, Chairman Mr. Brindley Chrishantha Gajanayake de Zylva, Member Mr. Francisco Kankanamalage Conrad Prasad Nirosh Dias, Member
Appointment and remuneration committee	Mr. Indrajith Wijesiriwardana, Chairman Mr. Dulip Rasika Samaraweera, Member Mr. Francisco Kankanamalage Conrad Prasad Nirosh Dias, Member
Executive committee	Mr. Sok Voeun, Chief Executive Officer Mr. Sok Sophal, Deputy Chief Executive Officer/Chief Finance Officer Mr. Damburue Liyanage Duleep Roshan, Chief Information Officer Mrs. Svoeuy Sodyna, Chief Risk Officer Mr. Romesh Perera, Chief Channel Officer Mrs. Chheang Kagna, Chief Digital Financial Services and Deposit Officer Mrs. Leng Thavy, Head of Human Resources Department Mrs. Keo Taraty, Head of Finance Department Mrs. Try Sola, Head of Treasury Department Mr. Seam Hak, Head of Administration and Procurement Department Mr. Hul Sovutha, Head of Information Technology Department Mr. Chhuon Sokcheth, Head of Marketing Department Mr. Teng Pheap, Head of Internal Audit Department Mr. Ban Phalleng, Head of Compliance Department Mr. Nuth Theng, Head of Business Department Mr. Muth Pisey, Head of Credit Department Mr. Yin Pholy, Head of Asset Backed Finance Department (appointed on 16 May 2019) Mr. Tun Korng, Deputy Head of Credit Department
Auditors	KPMG Cambodia Ltd

# **LOLC (Cambodia) Plc.**

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## Report of the Board of the Directors

The Board of Directors ("the Directors" or "the Board") hereby submit their report together with the audited financial statements of LOLC (Cambodia) Plc. ("the Company") for the year ended 31 December 2019.

### Principal activities

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. Its corporate objective is to provide reliable and affordable access to financial services to micro-entrepreneurs and small and medium enterprises.

There were no significant changes to these principal activities during the financial year.

### Financial results

The financial results of the Company were as follows:

	2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)
Profit before income tax	160,998,914	82,294,303	39,733,196	20,344,696
Income tax expense	<u>(17,266,072)</u>	<u>(20,747,922)</u>	<u>(4,261,123)</u>	<u>(5,129,276)</u>
Net profit for the year	<u>143,732,842</u>	<u>61,546,381</u>	<u>35,472,073</u>	<u>15,215,420</u>

### Dividends

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

### Share capital

On 10 November 2018, the Company sent the request to the NBC to increase the share capital from KHR120,000,000 thousand (equivalent to US\$29,204,327) to KHR140,846,600 thousand (equivalent to US\$34,563,583). The request was approved by the NBC on 22 February 2019.

On 10 June 2019, the Company sent the request to the NBC to increase the share capital from KHR140,846,600 thousand (equivalent to US\$34,563,583) to KHR182,612,000 thousand (equivalent to US\$44,812,761). The request was approved by the NBC on 19 August 2019.

## **LOLC (Cambodia) Plc.**

### **Share capital (continued)**

On 19 August 2019, the Company sent the request letter to the NBC to increase the share capital from KHR182,612,000 thousand (equivalent to US\$44,812,761) to KHR224,377,400 thousand (equivalent to US\$55,444,746). The request was approved by the NBC on 28 October 2019.

### **Reserves and provisions**

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

### **Loans to customers**

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

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

### **Current assets**

Before the financial statements of the Company were prepared, the Directors took reasonable steps to ensure that any current assets, other than debts, which were unlikely to be realised in the ordinary course of business at their value as shown in the accounting records of the Company had been written down to an amount which they might be expected to realise.

At the date of this report, the management is not aware of any circumstances, which would render the values attributed to the current assets in the financial statements of the Company misleading.

### **Valuation methods**

At the date of this report, the Directors is not aware of any circumstances which have arisen which render adherence to the existing method of valuation of assets and liabilities in the financial statements of the 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, or
- (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 banking business.

## **LOLC (Cambodia) Plc.**

### **Contingent and other liabilities**

No contingent or other liability of the Company has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect 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 Directors are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Company, which would render any amount stated in the financial statements misleading.

### **Items of unusual nature**

The results of the operations of the Company for the financial year were not, in the opinion of the Management, 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 Directors, to affect substantially the results of the operations of the Company for the current period in which this report is made.

### **Events since the reporting date**

At the date of this report, except as disclosed in the financial statements, there have been no significant events occurring after the reporting date which would require adjustments or disclosures to be made in the financial statements.

### **The Board of the Directors**

The Directors who served during the year and at the date of this report are:

Mr. Brindley Chrishantha Gajanayake de Zylva	Chairman
Mr. Indrajith Wijesiriwardana	Member
Mr. Hans Michael Theodor Moormann	Member
Mr. Dulip Rasika Samaraweera	Member
Mr. Francisco Kankanamalage Conrad Prasad Nirosh Dias	Member

### **Directors' interests**

None of the Directors held or dealt directly in the shares of the Company during the financial year.

## **LOLC (Cambodia) Plc.**

### **Directors' benefits**

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

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

### **Directors' responsibility 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 2019, and its financial performance and its cash flows for the year then ended. In preparing these financial statements, the Board of Directors is required to:

- (i) adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- (ii) comply with Cambodian International Financial Reporting Standards ("CIFRSs") 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 maintain adequate accounting records and an effective system of internal controls;
- (iv) assess 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
- (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 complied with the above requirements in preparing the financial statements.

## LOLC (Cambodia) Plc.

### Approval of the financial statements

I, the undersigned, hereby approve the accompanying financial statements together with the notes thereto as set out on pages 9 to 118 which, in our opinion, present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with CIFRSs.

*Signed on behalf of the Company,*



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**Mr. Sok Voeun**

*Chief Executive Officer*

Phnom Penh, Kingdom of Cambodia

Date: 30 MAR 2020



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## **Report of the Independent Auditors To the shareholders of LOLC (Cambodia) Plc.**

### ***Opinion***

We have audited the financial statements of LOLC (Cambodia) Plc. ("the Company"), which comprise the statement of financial position as at 31 December 2019, the statements of profit or loss and other comprehensive income, 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 118 (hereafter referred to as "the financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with Cambodian International Financial Reporting Standards ("CIFRSs").

### ***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 Matter***

As stated in Note 36 to the financial statements, the Company adopted CIFRSs on 1 January 2019 with a transition date of 1 January 2018. These standards were applied retrospectively to the comparative information in these financial statements, including the statement of financial position as at 31 December 2018 and 1 January 2018, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year ended 31 December 2018 and related explanatory notes disclosures. We were not engaged to audit on the restated comparative information and it is unaudited.



Our responsibilities in respect of this comparative information is to determine whether the financial statements include the comparative information required by CIFRSs and whether such information is appropriately classified.

### ***Other Information***

Management is responsible for the other information. The other information obtained at the date of this auditors' report is 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 CIFRSs, 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 exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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

30 March 2020

## LOLC (Cambodia) Plc.

### Statement of financial position as at 31 December 2019

	Note	31 December		31 December		1 January 2018	
		2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)	KHR'000	US\$ (Note 5)
<b>ASSETS</b>							
Cash and cash equivalents	6	753,196,844	368,244,617	184,833,582	91,648,735	127,316,430	31,537,387
Placements with banks	7	200,181	200,340	49,125	49,861	5,377,104	1,331,955
Statutory deposits	8	187,099,453	106,248,047	45,913,976	26,443,018	43,880,336	10,869,541
Loans to customers to customers – net	9	3,115,481,925	1,922,394,751	764,535,442	478,445,682	1,284,446,599	318,168,590
Other assets	10	15,331,600	18,134,179	3,762,355	4,513,235	4,617,456	1,143,784
Investment – equity instrument		61,125	60,270	15,000	15,000	60,555	15,000
Intangible assets	11	5,100,225	4,505,809	1,251,589	1,121,406	3,389,765	839,674
Property and equipment	12	7,841,251	6,544,540	1,924,233	1,628,805	7,500,097	1,857,839
Right-of-use assets	13	19,667,509	18,384,941	4,826,383	4,575,645	18,473,235	4,575,981
Deferred tax assets – net	21A	9,127,261	7,581,894	2,239,819	1,886,982	4,404,378	1,091,003
<b>Total assets</b>		<b>4,113,107,374</b>	<b>2,452,299,388</b>	<b>1,009,351,504</b>	<b>610,328,369</b>	<b>1,499,465,955</b>	<b>371,430,754</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>							
<b>Liabilities</b>							
Deposits from customers	14	1,864,970,492	951,905,926	457,661,470	236,910,385	370,736,597	91,834,678
Borrowings	15	1,426,459,591	1,011,797,243	350,051,433	251,816,138	787,804,195	195,145,949
Debt securities	16	81,755,899	-	20,062,797	-	-	-
Subordinated debts	17	120,587,586	85,105,957	29,592,046	21,181,174	45,213,597	11,199,801
Lease liabilities	18	18,602,031	16,891,194	4,564,916	4,203,881	16,418,402	4,066,981
Other liabilities	19	30,852,745	35,607,866	7,571,226	8,862,087	21,705,780	5,376,710
Provision for employee benefits	20	2,850,672	4,323,740	699,552	1,076,093	-	-
Current income tax liability	21B	13,621,187	20,523,933	3,342,623	5,107,997	13,836,836	3,427,505
<b>Total liabilities</b>		<b>3,559,700,203</b>	<b>2,126,155,859</b>	<b>873,546,063</b>	<b>529,157,755</b>	<b>1,255,715,407</b>	<b>311,051,624</b>

## LOLC (Cambodia) Plc.

### Statement of financial position (continued) as at 31 December 2019

	Note	31 December		31 December		1 January 2018	
		2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)	KHR'000	US\$ (Note 5)
<b>Shareholders' equity</b>							
Share capital	22	224,377,400	120,000,000	55,460,850	29,701,373	71,684,100	17,756,775
Advance capital contribution	23	-	20,846,600	-	5,153,671	-	-
General reserves		210,415,116	110,415,116	51,979,374	27,300,203	7,168,410	1,775,677
Regulatory reserves	24	10,694,760	8,384,769	2,645,229	2,075,142	4,632,244	1,147,447
Retained earnings		107,919,895	66,497,044	26,740,647	16,517,832	160,265,794	39,699,231
Currency translation reserves		-	-	(1,020,659)	422,393	-	-
Total shareholder's equity		<u>553,407,171</u>	<u>326,143,529</u>	<u>135,805,441</u>	<u>81,170,614</u>	<u>243,750,548</u>	<u>60,379,130</u>
<b>Total liabilities and shareholders' equity</b>		<u>4,113,107,374</u>	<u>2,452,299,388</u>	<u>1,009,351,504</u>	<u>610,328,369</u>	<u>1,499,465,955</u>	<u>371,430,754</u>

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

## LOLC (Cambodia) Plc.

### Statement of profit or loss and other comprehensive income for the year ended 31 December 2019

	Note	2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)
<b>Operating income</b>					
Interest income	25	471,493,078	314,855,256	116,360,582	77,838,135
Interest expense	26	<u>(215,485,800)</u>	<u>(138,562,482)</u>	<u>(53,180,109)</u>	<u>(34,255,249)</u>
<b>Net interest income</b>		256,007,278	176,292,774	63,180,473	43,582,886
Impairment losses on loans to customers	9	(17,565,493)	(12,314,067)	(4,335,018)	(3,044,269)
Impairment losses on placements with banks		<u>328,885</u>	<u>(1,092,433)</u>	<u>81,166</u>	<u>(270,070)</u>
<b>Total operating profit</b>		238,770,670	162,886,274	58,926,621	40,268,547
Other income	27	70,736,898	40,630,762	17,457,280	10,044,688
Commission expenses	28	(3,543,768)	(2,398,475)	(874,573)	(592,948)
Personnel expenses	29	(100,060,719)	(76,035,389)	(24,694,156)	(18,797,377)
Depreciation and amortisation		(10,307,083)	(9,034,468)	(2,543,703)	(2,233,491)
General and administrative expenses	30	(36,166,742)	(33,444,843)	(8,925,652)	(8,268,194)
Gain/(loss) on foreign exchange - Net		<u>1,569,658</u>	<u>(309,558)</u>	<u>387,379</u>	<u>(76,529)</u>
<b>Total operating expenses</b>		(148,508,654)	(121,222,733)	(36,650,705)	(29,968,539)
<b>Profit before income tax</b>		160,998,914	82,294,303	39,733,196	20,344,696
Income tax expense	21	<u>(17,266,072)</u>	<u>(20,747,922)</u>	<u>(4,261,123)</u>	<u>(5,129,276)</u>
<b>Net profit for the year</b>		<u>143,732,842</u>	<u>61,546,381</u>	<u>35,472,073</u>	<u>15,215,420</u>
<b>Other comprehensive (loss)/income</b>					
Currency translation difference		<u>-</u>	<u>-</u>	<u>(1,451,955)</u>	<u>422,393</u>
<b>Total comprehensive income for the year</b>		<u>143,732,842</u>	<u>61,546,381</u>	<u>34,020,118</u>	<u>15,637,813</u>

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 2019

	Share capital		Advance capital contribution		General reserves		Regulatory reserves		Retained earnings		Currency translation reserves		Total	
	KHR'000	US\$ (Note 5)	KHR'000	US\$ (Note 5)	KHR'000	US\$ (Note 5)	KHR'000	US\$ (Note 5)	KHR'000	US\$ (Note 5)	KHR'000	US\$ (Note 5)	KHR'000	US\$ (Note 5)
At 1 January 2018	71,684,100	17,756,775	-	-	7,168,410	1,775,677	4,632,244	1,147,447	160,265,794	39,699,231	-	-	243,750,548	60,379,130
Additional share capital	48,315,900	11,944,598	20,846,600	5,153,671	-	-	-	-	(48,315,900)	(11,944,598)	-	-	20,846,600	5,153,671
Transfer to general reserves	-	-	-	-	103,246,706	25,524,526	-	-	(103,246,706)	(25,524,526)	-	-	-	-
Transfer of retained earnings to regulatory reserves	-	-	-	-	-	-	3,752,525	927,695	(3,752,525)	(927,695)	-	-	-	-
<i>Comprehensive income</i>														
Net profit for the year	-	-	-	-	-	-	-	-	61,546,381	15,215,420	-	-	61,546,381	15,215,420
Currency translation difference	-	-	-	-	-	-	-	-	-	-	-	422,393	-	422,393
	-	-	-	-	-	-	-	-	61,546,381	15,215,420	-	422,393	61,546,381	15,637,813
<b>At 31 December 2018</b>	<b>120,000,000</b>	<b>29,701,373</b>	<b>20,846,600</b>	<b>5,153,671</b>	<b>110,415,116</b>	<b>27,300,203</b>	<b>8,384,769</b>	<b>2,075,142</b>	<b>66,497,044</b>	<b>16,517,832</b>	<b>-</b>	<b>422,393</b>	<b>326,143,529</b>	<b>81,170,614</b>
At 1 January 2019	120,000,000	29,701,373	20,846,600	5,153,671	110,415,116	27,300,203	8,384,769	2,075,142	66,497,044	16,517,832	-	422,393	326,143,529	81,170,614
Transfer from advance capital contribution to share capital	20,846,600	5,144,768	(20,846,600)	(5,153,671)	-	-	-	-	-	-	-	8,903	-	-
Additional share capital issued	83,530,800	20,614,709	-	-	-	-	-	-	-	-	-	-	83,530,800	20,614,709
Transfer of retained earnings to regulatory reserves	-	-	-	-	-	-	2,309,991	570,087	(2,309,991)	(570,087)	-	-	-	-
Transfer to general reserves	-	-	-	-	100,000,000	24,679,171	-	-	(100,000,000)	(24,679,171)	-	-	-	-
<i>Comprehensive income</i>														
Net profit for the year	-	-	-	-	-	-	-	-	143,732,842	35,472,073	-	-	143,732,842	35,445,829
Currency translation difference	-	-	-	-	-	-	-	-	-	-	-	(1,451,955)	-	(1,451,955)
	-	-	-	-	-	-	-	-	143,732,842	35,472,073	-	(1,451,955)	143,732,842	34,020,118
<b>At 31 December 2019</b>	<b>224,377,400</b>	<b>55,460,850</b>	<b>-</b>	<b>-</b>	<b>210,415,116</b>	<b>51,979,374</b>	<b>10,694,760</b>	<b>2,645,229</b>	<b>107,919,895</b>	<b>26,740,647</b>	<b>-</b>	<b>(1,020,659)</b>	<b>553,407,171</b>	<b>135,805,441</b>

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

## LOLC (Cambodia) Plc.

### Statement of cash flows for the year ended 31 December 2019

	Note	2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)
<b>Cash flows from operating activities</b>					
Net profit for the year		143,732,842	61,546,381	35,472,073	15,215,420
<i>Adjustments for:</i>					
Net interest income		(256,007,278)	(176,292,774)	(63,180,473)	(43,582,886)
Depreciation		4,381,555	3,943,169	1,081,331	974,825
Amortisation		394,062	226,194	97,251	55,919
Depreciation on right-of-use assets		5,531,466	4,865,105	1,365,120	1,202,745
Income tax expense		17,266,072	20,747,922	4,261,123	5,129,276
(Reversal of)/provision for employee benefits		(1,473,068)	4,323,740	(363,541)	1,068,910
Gains on disposals of property and equipment		(15,072)	(156,553)	(3,720)	(38,703)
Impairment allowance for loans to customers	9	17,565,493	12,314,067	4,335,018	3,044,269
Impairment losses on placements with other banks		(328,885)	1,092,433	(81,166)	270,070
		(68,952,813)	(67,390,316)	(17,016,984)	(16,660,155)
<i>Changes in:</i>					
Loans to customers		(1,202,682,685)	(641,561,690)	(296,812,114)	(158,606,104)
Regulatory deposits – increase in reserve requirement		(70,413,667)	(57,536,121)	(17,377,509)	(14,224,010)
Other assets		2,801,721	(13,516,438)	691,442	(3,341,517)
Deposits from customers		913,064,566	581,169,329	225,336,764	143,675,978
Other liabilities		(4,713,596)	13,902,086	(1,163,276)	3,436,857
Cash used in operations		(430,896,474)	(184,933,150)	(106,341,677)	(45,718,951)
Interest received		464,392,506	305,424,639	114,608,220	75,506,709
Interest paid		(213,549,696)	(125,399,131)	(52,702,294)	(31,001,021)
Income tax paid	21	(25,714,185)	(17,238,339)	(6,346,049)	(4,261,641)
Net cash used in operating activities		(205,767,849)	(22,145,981)	(50,781,800)	(5,474,904)

## LOLC (Cambodia) Plc.

### Statement of cash flows (continued) for the year ended 31 December 2019

Note	2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)
<b>Cash flows from investing activities</b>				
Term deposit with original maturity of more than three months	(159)	5,176,764	(39)	1,279,793
Capital guaranteed deposit with the NBC	(10,437,740)	(4,831,590)	(2,575,948)	(1,194,460)
Proceeds from disposals of property and equipment	16,135	165,991	3,982	41,036
Acquisition of property and equipment	(5,685,615)	(2,997,049)	(1,403,163)	(740,927)
Acquisition of intangible assets	(988,478)	(1,342,238)	(243,948)	(331,826)
Net cash used in investing activities	<u>(17,095,857)</u>	<u>(3,828,122)</u>	<u>(4,219,116)</u>	<u>(946,384)</u>
<b>Cash flows from financing activities</b>				
Proceeds from borrowings and subordinated debts	737,561,531	595,465,956	182,024,070	147,210,372
Repayments of borrowings and subordinated debts	(290,240,889)	(343,446,449)	(71,629,045)	(84,906,415)
Proceeds from share issuance	41,765,400	-	10,307,354	-
Advance capital contribution	41,765,400	20,846,600	10,307,354	5,153,671
Proceeds from issuance of corporate bonds	80,531,351	-	19,874,470	-
Payments of lease liabilities	<u>(5,624,871)</u>	<u>(4,871,384)</u>	<u>(1,388,172)</u>	<u>(1,204,298)</u>
Net cash generated from financing activities	<u>605,757,922</u>	<u>267,994,723</u>	<u>149,496,031</u>	<u>66,253,330</u>
<b>Net increase in cash and cash equivalents</b>	<b>382,894,216</b>	<b>242,020,620</b>	<b>94,495,115</b>	<b>59,832,042</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>369,337,050</b>	<b>127,316,430</b>	<b>91,149,321</b>	<b>31,475,014</b>
Currency translation difference	-	-	(1,047,806)	613,564
<b>Cash and cash equivalents at end of the year</b>	<b><u>752,231,266</u></b>	<b><u>369,337,050</u></b>	<b><u>184,596,630</u></b>	<b><u>91,920,620</u></b>

## LOLC (Cambodia) Plc.

### Statement of cash flows (continued) for the year ended 31 December 2019

Cash and cash equivalents in the statement of cash flows comprises of:

	Note	2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)
Cash and cash equivalents	6	753,977,565	369,337,050	185,025,170	91,920,620
Overdraft	15	(1,746,299)	-	(428,540)	-
		<u>752,231,266</u>	<u>369,337,050</u>	<u>184,596,630</u>	<u>91,920,620</u>

#### Significant non-cash transactions:

During the year, the significant non-cash transaction is as follows:

		2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)
Transfers from advance capital contribution to share capital	23	20,846,600	-	5,144,768	-
Transfers from retained earnings to the general reserves		100,000,000	103,246,706	24,679,171	25,524,526
Transfers from retained earnings to the share capital		<u>-</u>	<u>48,315,900</u>	<u>-</u>	<u>11,944,598</u>

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 2019

### 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 (“MoC”) as a public limited liability company under the registration number Co. 1413 E/2002, dated 23 May 2002 and changed to the new registration number 00012829 dated 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 LOLC Holdings PLC (previously known as 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. Its corporate objective is to provide reliable and affordable access to financial services to micro-entrepreneurs and small and medium enterprises.

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 (“NBC”).

The Company has 79 office locations (78 branches and a head office in Phnom Penh). The Company’s registered office is at Building No. 666B, Street 271, Sangkat Boeung Tumpun 2, Khan Mean Chey, Phnom Penh, the Kingdom of Cambodia.

As at 31 December 2019, the Company had 2,757 employees (2018: 2,327 employees).

### 2. Basis of accounting

The financial statements of the Company have been prepared in accordance with the Cambodian International Financial Reporting Standards (“CIFRSs”). These are the Company’s first financial statements prepared in accordance with CIFRSs and CIFRS 1, *First-time Adoption of Cambodian International Financial Reporting Standards* has been applied.

In the previous financial years, the financial statements were prepared in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia (“NBC”) relating to the preparation and presentation of financial statements. An explanation of how the transition to CIFRSs have affected the reported financial position, financial performance and cash flows is provided in Note 36.

# LOLC (Cambodia) Plc.

## Notes to the financial statements (continued) for the year ended 31 December 2019

### 2. Basis of accounting (continued)

The accounting policies and methods of computation have been applied consistently to all periods presented in these financial statements.

Details of the Company's accounting policies are included in Note 35.

### 3. 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 profit or loss.

These financial statements are presented in KHR, which is the Company's functional currency. All amounts have been rounded to the nearest thousand riels or the nearest dollar, except when otherwise indicated.

### 4. Use of judgments and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes.

- Note 35C(ii): classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are 'the solely payments for interest and principle' ("SPPI") on the principal amount outstanding.
- Note 35C(vii): establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of 'the expected credit loss' ("ECL") and selection and approval of models used to measure ECL.

# LOLC (Cambodia) Plc.

## Notes to the financial statements (continued) for the year ended 31 December 2019

### 4. Use of judgments and estimates (continued)

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are included in the following notes:

- Note 35C(vii): impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information.
- Note 35C(vi): determination of the fair value of financial instruments with significant unobservable inputs.
- Note 35C(vii): impairment of financial instruments: key assumptions used in estimating recoverable cash flows.

### 5. Translation of Khmer Riel into United States Dollars

The financial statements are expressed in Khmer Riel (“KHR”). The translations of KHR amounts into United States Dollars (“US\$”) are included solely for presentation purpose.

Assets and liabilities are translated at the closing rate as at the reporting date. The statements of profit or loss and other comprehensive income and cash flows are translated into KHR using the average rate for the year. Exchange differences arising from the translation are recognised as “Currency Translation Difference” in the other comprehensive income.

The Company uses the following exchange rates:

			<b>Closing rate</b>	<b>Average rate</b>
31 December 2019	US\$1	=	KHR4,075	KHR4,052
31 December 2018	US\$1	=	KHR4,018	KHR4,045
1 January 2018	US\$1	=	KHR4,037	N/A

These convenience translations should not be construed as representations that KHR amounts have been, could have been, or could in the future be, converted into US\$ at this or any other rate of exchange.

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 6. Cash and cash equivalents

	31 December		31 December		1 January 2018	
	2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)	KHR'00	US\$ (Note 5)
Cash on hand	105,185,581	49,019,393	25,812,413	12,199,949	18,201,556	4,508,684
Cash equivalents with NBC	570,719,826	211,074,359	140,053,945	52,532,195	18,023,246	4,464,515
Cash equivalents with other banks	<u>78,072,158</u>	<u>109,243,298</u>	<u>19,158,812</u>	<u>27,188,476</u>	<u>91,091,628</u>	<u>22,564,188</u>
	753,977,565	369,337,050	185,025,170	91,920,620	127,316,430	31,537,387
Allowance for impairment losses	<u>(780,721)</u>	<u>(1,092,433)</u>	<u>(191,588)</u>	<u>(271,885)</u>	-	-
	<u>753,196,844</u>	<u>368,244,617</u>	<u>184,833,582</u>	<u>91,648,735</u>	<u>127,316,430</u>	<u>31,537,387</u>

During the year, the Company reversed allowance for impairment losses on placement with banks amounting to KHR328,885 thousand (2018: additional allowance of KHR1,092,433 thousand).

#### 7. Placements with banks

	31 December		31 December		1 January 2018	
	2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)	KHR'000	US\$ (Note 5)
Negotiable certificate of deposit ("NCD")	<u>200,181</u>	<u>200,340</u>	<u>49,125</u>	<u>49,861</u>	<u>5,377,104</u>	<u>1,331,955</u>

Placements with other banks represent the negotiable certificate of deposit ("NCD") with NBC which will mature in 5 months and earned interest 0.61% per annum (2018: 1.17% per annum).

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 8. Statutory deposits

	31 December		31 December		1 January 2018	
	2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)	KHR'000	US\$ (Note 5)
Capital guarantee	22,437,740	12,000,000	5,506,194	2,986,560	7,168,410	1,775,677
Reserve requirements on customers' deposits	164,661,713	94,248,047	40,407,782	23,456,458	36,711,926	9,093,864
	<u>187,099,453</u>	<u>106,248,047</u>	<u>45,913,976</u>	<u>26,443,018</u>	<u>43,880,336</u>	<u>10,869,541</u>

#### A. Capital guarantee

The Capital guarantee is 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. This deposit is not available for use in the Company's day-to-day operations and is refundable should the Company voluntarily cease its operations in Cambodia.

The deposit on registered capital placed with NBC earns interest at the rate of 3% per annum (2018: 3% per annum).

#### B. Reserve requirements on customers' deposits

The reserve requirement represents the minimum reserve requirement which is calculated at 8% of the total deposits from customers as required by Prakas No. 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.

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 9. Loans to customers

	31 December		31 December		1 January 2018	
	2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)	KHR'000	US\$ (Note 5)
Group loans:						
Fixed term	18,118,906	36,427,565	4,446,357	9,066,094	63,755,343	15,792,753
End of cycle	339,375,537	151,811,520	83,282,340	37,782,857	117,943,196	29,215,555
Individual loans:						
Fixed term	2,506,993,213	1,540,976,788	615,213,058	383,518,364	930,005,172	230,370,367
End of cycle	287,546,919	211,849,035	70,563,661	52,724,996	179,846,476	44,549,536
Staff loans	20,587,185	17,691,324	5,052,071	4,403,018	15,003,961	3,716,612
Gross loans	<u>3,172,621,760</u>	<u>1,958,756,232</u>	<u>778,557,487</u>	<u>487,495,329</u>	<u>1,306,554,148</u>	<u>323,644,823</u>
Interest receivables	29,411,283	18,259,714	7,217,493	4,544,478	13,508,930	3,346,279
Unearned processing fees	<u>(55,259,912)</u>	<u>(32,925,500)</u>	<u>(13,560,715)</u>	<u>(8,194,500)</u>	<u>(17,534,322)</u>	<u>(4,343,404)</u>
	<u>3,146,773,131</u>	<u>1,944,090,446</u>	<u>772,214,265</u>	<u>483,845,307</u>	<u>1,302,528,756</u>	<u>322,647,698</u>
Allowance for impairment losses	<u>(31,291,206)</u>	<u>(21,695,695)</u>	<u>(7,678,823)</u>	<u>(5,399,625)</u>	<u>(18,082,157)</u>	<u>(4,479,108)</u>
Loans to customers, net	<u>3,115,481,925</u>	<u>1,922,394,751</u>	<u>764,535,442</u>	<u>478,445,682</u>	<u>1,284,446,599</u>	<u>318,168,590</u>

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 9. Loans to customers (continued)

The movements of allowance for impairment losses on loans to customers during the year were as follows:

	2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)
At 1 January	21,695,695	18,082,157	5,399,625	4,479,108
Allowance for the year	17,565,493	12,314,067	4,335,018	3,044,269
Written off for the year	(8,639,417)	(8,538,802)	(2,132,136)	(2,110,952)
Others	669,435	(161,727)	165,211	(39,982)
Currency translation difference	-	-	(88,895)	27,182
At 31 December	<u>31,291,206</u>	<u>21,695,695</u>	<u>7,678,823</u>	<u>5,399,625</u>

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 9. Loans to customers (continued)

Gross amounts of loans to customers to customers by maturity are as follows:

	31 December		31 December		1 January 2018	
	2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)	KHR'000	US\$ (Note 5)
Within 1 month	115,339,754	67,093,284	28,304,234	16,698,179	58,084,527	14,388,042
1 to 3 months	287,018,083	142,701,507	70,433,885	35,515,557	91,331,417	22,623,586
3 to 6 months	422,687,371	208,616,538	103,726,962	51,920,492	147,726,401	36,593,114
6 to 12 months	675,894,102	331,719,718	165,863,583	82,558,417	271,717,353	67,306,751
1 to 3 years	1,201,762,081	880,997,562	294,910,940	219,262,708	574,782,385	142,378,594
3 to 5 years	426,482,339	295,398,612	104,658,243	73,518,818	149,253,676	36,971,433
Over 5 years	17,589,402	17,563,226	4,316,418	4,371,136	9,632,997	2,386,178
	<u>3,146,773,131</u>	<u>1,944,090,446</u>	<u>772,214,265</u>	<u>483,845,307</u>	<u>1,302,528,756</u>	<u>322,647,698</u>

For additional analysis of gross amount of loans to customers, refer to Note 33B.

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 10. Other assets

	31 December		31 December		1 January 2018	
	2019	2018	2019	2018	KHR'000	US\$
	KHR'000	KHR'000	US\$	US\$		(Note 5)
			(Note 5)	(Note 5)		(Note 5)
Security deposits	463,039	239,143	113,629	59,518	194,333	48,138
Others	14,868,561	17,895,036	3,648,726	4,453,717	4,423,123	1,095,646
	<u>15,331,600</u>	<u>18,134,179</u>	<u>3,762,355</u>	<u>4,513,235</u>	<u>4,617,456</u>	<u>1,143,784</u>

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 11. Intangible assets

	2019			2018		
	Work in progress KHR'000	Software and license KHR'000	Total KHR'000	Work in progress KHR'000	Software and license KHR'000	Total KHR'000
<b>Cost</b>						
At 1 January	910,792	4,180,234	5,091,026	-	3,748,788	3,748,788
Additions	56,132	932,346	988,478	910,792	431,446	1,342,238
At 31 December	966,924	5,112,580	6,079,504	910,792	4,180,234	5,091,026
<b>Less: Accumulated amortisation</b>						
At 1 January	-	585,217	585,217	-	359,023	359,023
Amortisation for the year	-	394,062	394,062	-	226,194	226,194
At 31 December	-	979,279	979,279	-	585,217	585,217
<b>Carrying amounts</b>						
At 31 December	966,924	4,133,301	5,100,225	910,792	3,595,017	4,505,809
US\$ equivalents – Note 5	237,282	1,014,307	1,251,589	226,678	894,728	1,121,406
At 1 January 2018				-	3,389,765	3,389,765
US\$ equivalents – Note 5				-	839,674	839,674

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 12. Property and equipment

2019	Office furniture and equipment KHR'000	Motor vehicles KHR'000	Computer equipment KHR'000	Leasehold improvements KHR'000	Total KHR'000	US\$ (Note 5)
<b>Cost</b>						
At 1 January 2019	3,120,511	12,594,687	7,607,103	1,387,500	24,709,801	6,149,776
Additions	706,878	615,901	4,150,080	212,756	5,685,615	1,403,163
Disposals	(25,411)	(41,891)	(242,263)	-	(309,565)	(76,398)
Currency translation difference	-	-	-	-	-	(93,510)
At 31 December 2019	<u>3,801,978</u>	<u>13,168,697</u>	<u>11,514,920</u>	<u>1,600,256</u>	<u>30,085,851</u>	<u>7,383,031</u>
<b>Less: Accumulated depreciation</b>						
At 1 January 2019	2,257,292	10,368,477	4,999,739	539,753	18,165,261	4,520,971
Depreciation for the year	476,724	1,353,951	2,341,489	209,391	4,381,555	1,081,331
Disposals	(25,410)	(41,892)	(234,914)	-	(302,216)	(74,584)
Currency translation difference	-	-	-	-	-	(68,920)
At 31 December 2019	<u>2,708,606</u>	<u>11,680,536</u>	<u>7,106,314</u>	<u>749,144</u>	<u>22,244,600</u>	<u>5,458,798</u>
<b>Carrying amounts</b>						
At 31 December 2019	<u>1,093,372</u>	<u>1,488,161</u>	<u>4,408,606</u>	<u>851,112</u>	<u>7,841,251</u>	<u>1,924,233</u>

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 12. Property and equipment (continued)

2018	Office furniture and equipment KHR'000	Motor vehicles KHR'000	Computer equipment KHR'000	Leasehold improvements KHR'000	Total KHR'000	US\$ (Note 5)
<b>Cost</b>						
At 1 January 2018	2,622,768	12,458,251	6,330,598	1,080,946	22,492,561	5,571,603
Additions	563,394	645,154	1,481,947	306,554	2,997,049	745,906
Disposals	(41,886)	(321,891)	(68,890)	-	(432,667)	(107,682)
Write off	(23,765)	(186,827)	(136,552)	-	(347,142)	(86,398)
Currency translation difference	-	-	-	-	-	26,347
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>	<u>6,149,776</u>
<b>Less: Accumulated depreciation</b>						
At 1 January 2018	1,770,988	9,256,663	3,585,914	378,899	14,992,464	3,713,764
Depreciation of the year	551,011	1,617,382	1,613,922	160,854	3,943,169	981,376
Disposals	(41,886)	(321,891)	(65,619)	-	(429,396)	(106,868)
Write off	(22,821)	(183,677)	(134,478)	-	(340,976)	(84,862)
Currency translation difference	-	-	-	-	-	17,561
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>	<u>4,520,971</u>
<b>Carrying amounts</b>						
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>	<u>1,628,805</u>
At 1 January 2018	<u>851,780</u>	<u>3,201,588</u>	<u>2,744,684</u>	<u>702,047</u>	<u>7,500,097</u>	<u>1,857,839</u>

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 13. Right-of-use assets

Information about the Company's leases is disclosed within this note and Note 18.

	31 December		31 December		1 January 2018	
	2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)	KHR'000	US\$ (Note 5)
Right of use assets	<u>19,667,509</u>	<u>18,384,941</u>	<u>4,826,383</u>	<u>4,575,645</u>	<u>18,473,235</u>	<u>4,575,981</u>

The Company leases office building for its operations. Information about leases for which the Company is a lessee is presented below.

	2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)
<b>Right-of-use assets</b>				
At 1 January	18,384,941	18,473,235	4,575,645	4,575,981
Additions	6,452,378	4,895,228	1,592,393	1,210,492
Depreciation for the year	(5,531,466)	(4,865,105)	(1,365,120)	(1,203,043)
Foreign exchange gain/(loss)	361,656	(118,417)	89,254	(29,282)
Currency translation difference	-	-	(65,789)	21,497
At 31 December	<u>19,667,509</u>	<u>18,384,941</u>	<u>4,826,383</u>	<u>4,575,645</u>

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 14. Deposits from customers

	31 December		31 December		1 January 2018	
	2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)	KHR'000	US\$ (Note 5)
Saving accounts	166,048,516	99,881,780	40,748,102	24,858,581	37,192,735	9,212,964
Fixed deposits	<u>1,661,618,338</u>	<u>835,202,484</u>	<u>407,759,101</u>	<u>207,865,228</u>	<u>327,406,490</u>	<u>81,101,434</u>
	1,827,666,854	935,084,264	448,507,203	232,723,809	364,599,225	90,314,398
Interest payable	<u>37,303,638</u>	<u>16,821,662</u>	<u>9,154,267</u>	<u>4,186,576</u>	<u>6,137,372</u>	<u>1,520,280</u>
	<u>1,864,970,492</u>	<u>951,905,926</u>	<u>457,661,470</u>	<u>236,910,385</u>	<u>370,736,597</u>	<u>91,834,678</u>

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 14. Deposits from customers (continued)

Deposits from customers, excluding accrued interest, are analysed as follows:

	31 December		31 December		1 January 2018	
	2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)	KHR'000	US\$ (Note 5)
<b>A. By maturity:</b>						
Within 1 month	256,409,609	134,263,974	62,922,603	33,415,623	75,625,597	18,733,118
1 to 3 months	264,148,701	120,602,623	64,821,767	30,015,586	61,511,274	15,236,877
3 to 6 months	267,530,423	155,907,123	65,651,638	38,802,171	55,614,561	13,776,210
6 to 12 months	290,106,706	124,281,879	71,191,830	30,931,279	89,441,088	22,155,335
1 to 3 years	358,507,291	188,415,639	87,977,249	46,892,892	75,199,122	18,627,476
3 to 5 years	332,750,160	175,078,606	81,656,481	43,573,570	2,735,374	677,576
Over 5 years	58,213,964	36,534,420	14,285,635	9,092,688	4,472,209	1,107,806
	<u>1,827,666,854</u>	<u>935,084,264</u>	<u>448,507,203</u>	<u>232,723,809</u>	<u>364,599,225</u>	<u>90,314,398</u>
<b>B. By customer type:</b>						
Individuals	1,694,128,872	827,771,229	415,737,147	206,015,737	320,853,047	79,478,089
Business enterprises	133,537,982	107,313,035	32,770,056	26,708,072	43,746,178	10,836,309
	<u>1,827,666,854</u>	<u>935,084,264</u>	<u>448,507,203</u>	<u>232,723,809</u>	<u>364,599,225</u>	<u>90,314,398</u>

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 14. Deposits from customers (continued)

Deposits from customers, excluding accrued interest, are analysed as follows: (continued)

	31 December		31 December		1 January 2018	
	2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)	KHR'000	US\$ (Note 5)
<b>C. By residency status:</b>						
Residents	1,810,335,399	926,672,042	444,254,085	230,630,175	355,818,282	88,139,282
Non-residents	17,331,455	8,412,222	4,253,118	2,093,634	8,780,943	2,175,116
	<u>1,827,666,854</u>	<u>935,084,264</u>	<u>448,507,203</u>	<u>232,723,809</u>	<u>364,599,225</u>	<u>90,314,398</u>
<b>D. By interest rate (per annum):</b>						
Saving accounts	2019		2018			
	1.00% – 5.00%		1.00% – 5.00%			
Fixed deposits	<u>3.25% – 12.00%</u>		<u>2.00% – 12.00%</u>			

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 15. Borrowings

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.

	31 December		31 December		1 January 2018	
	2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)	KHR'000	US\$ (Note 5)
Local banks (*)	404,777,025	217,044,635	99,331,785	54,018,077	143,543,037	35,556,859
Borrowings from overseas (**)	1,021,682,566	794,752,608	250,719,648	197,798,061	644,261,158	159,589,090
	<u>1,426,459,591</u>	<u>1,011,797,243</u>	<u>350,051,433</u>	<u>251,816,138</u>	<u>787,804,195</u>	<u>195,145,949</u>

(\*) Included the overdraft balance of KHR1,746,299 thousand (2018: Nil).

(\*\*) It included the subordinated debts of KHR83.57 billion (equivalent to US\$20.8 million) (31 December 2018: KHR42 billion, equivalent to US\$10.4 million) approved by the NBC.

Movements of borrowings during the year were as follows:

	2019	2018	2019	2018
	KHR'000	KHR'000	US\$ (Note 5)	US\$ (Note 5)
At 1 January	1,011,797,243	787,804,195	251,816,138	195,145,949
Additions	696,881,531	550,637,141	171,984,583	136,127,847
Accrued interest expense	102,495,948	87,173,191	25,295,150	21,695,667
Repayment of principal	(284,976,488)	(336,595,049)	(70,329,834)	(83,212,620)
Payments for interest	(99,738,643)	(77,222,235)	(24,614,670)	(19,090,787)
Currency translation difference	-	-	(4,099,934)	1,150,082
At 31 December	<u>1,426,459,591</u>	<u>1,011,797,243</u>	<u>350,051,433</u>	<u>251,816,138</u>

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 15. Borrowings (continued)

Borrowings are analysed as follows:

	31 December		31 December		1 January 2018	
	2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)	KHR'000	US\$ (Note 5)
<b>A. By relationship:</b>						
Non-related parties	<u>1,426,459,591</u>	<u>1,011,797,243</u>	<u>350,051,433</u>	<u>251,816,138</u>	<u>787,804,195</u>	<u>195,145,949</u>
<b>B. By residency status:</b>						
Within 1 month	3,123,134	12,650,016	766,413	3,148,336	3,055,958	756,987
1 to 3 months	81,547,338	67,074,240	20,011,617	16,693,439	54,276,405	13,444,737
3 to 6 months	82,137,097	102,592,602	20,156,343	25,533,250	133,615,328	33,097,679
6 to 12 months	124,116,577	163,617,391	30,458,056	40,721,102	122,914,704	30,447,041
1 to 3 years	974,152,155	615,984,113	239,055,743	153,306,150	453,860,539	112,425,202
1 to 3 years	161,383,290	40,572,245	39,603,261	10,097,621	20,081,261	4,974,303
Over 5 years	-	9,306,636	-	2,316,235	-	-
	<u>1,426,459,591</u>	<u>1,011,797,243</u>	<u>350,051,433</u>	<u>251,816,133</u>	<u>787,804,195</u>	<u>195,145,949</u>
<b>C. By interest rate (in currency and per annum):</b>						
		2019		2018		
Khmer Riel		6.00% – 11.00%		6.00% – 11.00%		
US Dollars		2.55% – 10.50%		2.55% – 10.50%		
Thai Baht		<u>6.85% – 9.80%</u>		<u>6.85% – 9.80%</u>		

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 16. Debt securities

On 18 May 2018, the lenders of the Company resolved to authorise the Company to issue corporate bond as additional source of fund to the existing local and international lenders. The Company obtained approval on public bond issuance from the NBC and the Securities and Exchange Commission of Cambodia ("SECC") on 22 February 2019 and 22 April 2019, respectively. The Cambodia Securities Exchange ("CSX") approved for the corporate bond listing on 7 May 2019.

The Company issued bond payables on 26 April 2019 with par value in amount of KHR80,000,000 thousands with maturity date for three-year period. These bonds are divided into two types, as plain bond and foreign exchange-indexed bond with coupon rate of 9% and 8% per annum, respectively.

#### 17. Subordinated debts

The movement of subordinated debts are as follows:

	2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)
At 1 January	85,105,957	45,213,597	21,181,174	11,199,801
Additional borrowing	40,680,000	44,828,815	10,039,487	11,082,525
Accrued interest expense	9,354,833	6,779,014	2,308,695	1,675,900
Repayment of principal	(5,264,400)	(6,851,400)	(1,299,210)	(1,693,795)
Payment for interest	(9,288,804)	(4,864,069)	(2,292,400)	(1,202,489)
Currency translation difference	-	-	(345,700)	119,232
At 31 December	<u>120,587,586</u>	<u>85,105,957</u>	<u>29,592,046</u>	<u>21,181,174</u>

Subordinated debts are obtained from lenders with interest and principal repayments on monthly and quarterly basis according to each contract. The subordinated debts bear interest at rates ranging from 10.17% to 12.21% per annum (2018: 10.47% to 12.21% per annum).

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 17. Subordinated debts (continued)

Further analysis by maturity period are as follows:

	31 December		31 December		1 January 2018	
	2019 KHR'000	2018 KHR'00	2019 US\$ (Note 5)	2018 US\$ (Note 5)	KHR'000	US\$ (Note 5)
Within 1 year	6,588,480	6,488,373	1,616,804	1,614,827	4,042,831	1,001,444
1 to 3 years	59,782,451	39,430,142	14,670,541	9,813,375	20,409,956	5,055,724
3 to 5 years	36,144,437	19,593,721	8,869,801	4,876,486	20,760,810	5,142,633
Over 5 years	18,072,218	19,593,721	4,434,900	4,876,486	-	-
	<u>120,587,586</u>	<u>85,105,957</u>	<u>29,592,046</u>	<u>21,181,174</u>	<u>45,213,597</u>	<u>11,199,801</u>

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 18. Lease liabilities

	31 December		31 December		1 January 2018	
	2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)	KHR'000	US\$ (Note 5)
<b>Present value of lease liabilities</b>						
Current	4,321,097	3,593,378	1,060,392	894,320	3,593,376	890,111
Non-current	14,280,934	13,297,816	3,504,524	3,309,561	12,825,026	3,176,870
	<u>18,602,031</u>	<u>16,891,194</u>	<u>4,564,916</u>	<u>4,203,881</u>	<u>16,418,402</u>	<u>4,066,981</u>
Less than one year	6,253,079	5,905,773	1,534,498	1,469,829	4,143,521	1,026,386
One to five years	14,008,297	14,586,239	3,437,619	3,630,224	7,916,674	1,961,029
More than five years	7,232,198	3,927,173	1,774,773	977,395	692,144	171,450
<b>Total undiscounted lease liabilities</b>	<u>27,493,574</u>	<u>24,419,185</u>	<u>6,746,890</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 2019

#### 18. Lease liabilities (continued)

##### Amounts recognised in profit or loss

	2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)
Interest on lease liabilities	<u>1,380,818</u>	<u>1,297,451</u>	<u>340,774</u>	<u>320,755</u>

##### Amounts recognised in the statement of cash flows

	2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)
Total cash outflow for leases	<u>5,624,871</u>	<u>4,871,384</u>	<u>1,387,144</u>	<u>1,204,595</u>

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 19. Other liabilities

	31 December		31 December		1 January 2018	
	2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)	KHR'000	US\$ (Note 5)
Other tax payables	2,058,690	1,311,765	505,200	326,472	947,097	234,604
Staff bonuses and incentives	22,379,018	14,802,266	5,491,784	3,683,989	12,023,987	2,978,446
Accrued expenses	4,459,097	12,017,016	1,094,257	2,990,795	877,622	217,395
Other payables	1,955,940	7,476,819	479,985	1,860,831	7,857,074	1,946,265
	<u>30,852,745</u>	<u>35,607,866</u>	<u>7,571,226</u>	<u>8,862,087</u>	<u>21,705,780</u>	<u>5,376,710</u>

#### 20. Provision for employee benefits

	31 December		31 December	
	2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)
At 1 January	4,323,740	-	1,076,093	-
Reversed/recognised in profit or loss	(1,473,068)	4,323,740	(363,272)	1,068,910
Currency translation difference	-	-	(13,269)	7,183
	<u>2,850,672</u>	<u>4,323,740</u>	<u>699,552</u>	<u>1,076,093</u>

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 20. Provision for employee benefits (continued)

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, and subsequently amended by the Instruction No. 042/19 dated 22 March 2019. It requires all employers to settle the seniority indemnity to their employee as follows:

- Current pay: starting from 2019 onwards at the amounts equal to 15 days of wages and other benefits per year.
- Retrospective (back-pay): starting from 2021 onwards at the amounts equal to 6 days of net wages per year. The provision of back-pay seniority indemnity is calculated at a maximum amount of 6 months net wages (depends on the length of the service employee served) to the employee who has seniority before 2019.

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

#### 21. Income tax

##### A. Deferred tax assets – net

	31 December		31 December		1 January 2018	
	2019	2018	2019	2018	KHR'000	US\$
	KHR'000	KHR'000	US\$	US\$		(Note 5)
			(Note 5)	(Note 5)		
Deferred tax assets – net	<u>9,127,261</u>	<u>7,581,894</u>	<u>2,239,819</u>	<u>1,886,982</u>	<u>4,404,378</u>	<u>1,091,003</u>

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 21. Income tax (continued)

##### A. Deferred tax assets – net (continued)

Deferred taxes are attributable to the following:

	31 December		31 December		1 January 2018	
	2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)	KHR'000	US\$ (Note 5)
Allowance for impairment losses	8,594,435	6,771,656	2,109,064	1,685,330	3,758,724	931,069
Depreciation and amortisation	182,426	207,666	44,767	51,684	104,994	26,008
Deferred income	350,400	602,572	85,988	149,968	540,660	133,926
	<u>9,127,261</u>	<u>7,581,894</u>	<u>2,239,819</u>	<u>1,886,982</u>	<u>4,404,378</u>	<u>1,091,003</u>

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 21. Income tax (continued)

##### A. Deferred tax assets – net (continued)

The movements of deferred tax are as follows:

	2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)
At 1 January	7,581,894	4,404,380	1,886,982	1,091,003
Recognised in profit or loss	1,545,367	3,177,514	381,384	785,541
Currency translation difference	-	-	(28,547)	10,438
	<u>9,127,261</u>	<u>7,581,894</u>	<u>2,239,819</u>	<u>1,886,982</u>

##### B. Current income tax liability

	2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)
At 1 January	20,523,933	13,836,836	5,107,997	3,427,505
Income tax expense	18,811,439	23,925,436	4,642,507	5,914,817
Income tax paid	(25,714,185)	(17,238,339)	(6,341,353)	(4,262,695)
Currency translation difference	-	-	(66,528)	28,370
At 31 December	<u>13,621,187</u>	<u>20,523,933</u>	<u>3,342,623</u>	<u>5,107,997</u>

##### C. Income tax expense

	2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)
Current income tax	18,811,439	23,925,436	4,642,507	5,914,817
Deferred tax income	<u>(1,545,367)</u>	<u>(3,177,514)</u>	<u>(381,384)</u>	<u>(785,541)</u>
	<u>17,266,072</u>	<u>20,747,922</u>	<u>4,261,123</u>	<u>5,129,276</u>

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 21. Income tax (continued)

##### C. Income tax expense (continued)

The reconciliations of income tax computed at the statutory tax rate of 20% to the income tax expense shown in profit or loss are as follows:

	2019			2018		
	KHR'000	US\$ (Note 5)	%	KHR'000	US\$ (Note 5)	%
Profit before income tax	<u>160,998,914</u>	<u>39,733,196</u>		<u>82,294,303</u>	<u>20,344,698</u>	
Income tax using statutory rate	16,099,891	3,973,320	10%	16,458,861	4,068,940	20%
Non-deductible expenses	3,475,377	857,694	2%	4,647,309	1,148,902	6%
Others	<u>(2,309,196)</u>	<u>(569,891)</u>	-1%	<u>(358,248)</u>	<u>(88,566)</u>	-
Income tax expense	<u>17,266,072</u>	<u>4,261,123</u>	11%	<u>20,747,922</u>	<u>5,129,276</u>	26%

In accordance with Cambodian Law on Taxation, the Company has an obligation to pay corporate income tax of either the profit tax at the rate of 20% of taxable profits or the minimum tax at 1% of gross revenues, whichever is higher. Having been successfully listed on CSX, the Company is entitled to a reduction on the tax on profit 50% for the period of 3 years in accordance with the Sub-decree No. 01 of the Royal Government of Cambodia ("RGC") dated on 4 January 2019. On 10 January 2020, the Company submitted a letter to the General Department of Taxation ("GDT") requesting for the written approval on the 50% reduction on the tax on profit of Company starting from 2019. As of the date of these financial statements, the Company is awaiting written approval from the GDT.

The calculation of taxable income is subject to the final review and approval of the tax authorities.

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 22. Share capital

There was no change in shareholders and shareholding structure during the year. The share capital structure and the details of authorised and registered shareholding are as follows:

	Registered, issued and fully paid								
	As at 31 December 2019			As at 31 December 2018			1 January 2018		
	Number of shares	Amount KHR'000	%	Number of shares	Amount KHR'000	%	Number of shares	Amount KHR'000	%
LOLC Micro Investments Ltd	-	-	-	-	-	-	430,107	43,010,700	60.00%
DWM Investment Asia Ltd	-	-	-	-	-	-	265,015	26,501,500	36.97%
LOLC Private Limited	2,175,792	217,579,200	96.97%	1,163,642	116,364,200	96.97%			
TPC-ESOP Co., Ltd.	67,982	6,798,200	3.03%	36,358	3,635,800	3.03%	21,719	2,171,900	3.03%
	<u>2,243,774</u>	<u>224,377,400</u>	<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>	<u>100.00%</u>
US\$ equivalents – Note 5		<u>55,444,746</u>			<u>29,704,327</u>			<u>17,756,775</u>	

#### 23. Advance capital contribution

On 22 February 2019, the Company transferred the advance capital contribution amounting to KHR20,846,600 thousand to share capital. On 10 June 2019, the Company sent the request to the NBC to increase the share capital from KHR140,846,600 thousand to KHR182,612,000 thousand. The request was approved by the NBC on 19 August 2019. On 19 August 2019, the Company sent another request letter to the NBC to increase the share capital from KHR182,612,000 thousand to KHR224,377,400 thousand. The request was approved by the NBC on 28 October 2019.

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 24. Regulatory reserves

These represent the reserves transferred from retained earnings by the Company to comply with the Article 73 of NBC's Prakas No. B7-017-344 dated 1 December 2017.

During the year, the Company transferred the retained earnings amounting to KHR2,309,991 thousand (2018: KHR3,752,525 thousand) to regulatory reserves.

#### 25. Interest income

	2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)
Loans to customers	469,993,964	313,698,746	115,990,613	77,552,224
Placements with banks	1,499,114	1,156,510	369,969	285,911
	<u>471,493,078</u>	<u>314,855,256</u>	<u>116,360,582</u>	<u>77,838,135</u>

#### 26. Interest expense

	2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)
Borrowings	111,850,781	93,952,205	27,603,845	23,226,750
Customers' deposits	97,665,614	43,312,826	24,103,065	10,707,744
Debt securities	4,588,587	-	1,132,425	-
Lease liabilities	1,380,818	1,297,451	340,774	320,755
	<u>215,485,800</u>	<u>138,562,482</u>	<u>53,180,109</u>	<u>34,255,249</u>

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 27. Other income

	2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)
Fees and commission incomes on loans	58,172,133	33,559,807	14,356,400	8,296,615
Recovery from loans written off	2,046,275	1,263,853	505,004	312,449
Penalty income	8,544,358	4,716,080	2,108,676	1,165,903
Gain on disposal of property and equipment	15,072	156,553	3,720	38,703
Other income	1,959,060	934,469	483,480	231,018
	<u>70,736,898</u>	<u>40,630,762</u>	<u>17,457,280</u>	<u>10,044,688</u>

#### 28. Commission expenses

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

#### 29. Personnel expenses

	2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)
Salaries and wages	90,682,833	68,251,668	22,379,771	16,873,095
Other short-term benefits	9,377,886	7,783,721	2,314,385	1,924,282
	<u>100,060,719</u>	<u>76,035,389</u>	<u>24,694,156</u>	<u>18,797,377</u>

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 30. General and administrative expenses

	2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)
Advertising	1,724,821	1,394,803	425,672	344,822
Professional fees	3,945,372	1,968,668	973,685	486,692
Repairs and maintenance	433,678	306,977	107,028	75,890
Vehicle expenses	3,642,299	3,704,918	898,889	915,925
Office supplies and stationery	2,124,046	1,806,897	524,197	446,699
Communication	1,566,216	1,293,275	386,529	319,722
Utilities	1,590,393	1,354,888	392,496	334,954
Rental	3,384,545	2,335,009	835,278	577,258
Security guard	1,171,990	1,079,717	289,237	266,926
Insurance	4,407,865	1,720,969	1,087,825	425,456
BOD expenses	697,375	549,552	172,106	135,860
Charitable contributions	186,009	80,249	45,905	19,839
Others	11,292,133	15,848,921	2,786,805	3,918,151
	<u>36,166,742</u>	<u>33,444,843</u>	<u>8,925,652</u>	<u>8,268,194</u>

#### 31. Commitments and contingencies

##### A. Lease commitments

As at 31 December, the Company has commitments in respect of short-term and low-value lease related to staff motorbikes and staff housing as follows:

	31 December		31 December	
	2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)
Within 1 year	<u>1,373,248</u>	<u>740,916</u>	<u>336,993</u>	<u>184,399</u>

## **LOLC (Cambodia) Plc.**

### **Notes to the financial statements (continued) for the year ended 31 December 2019**

#### **31. Commitments and contingencies (continued)**

##### **B. Taxation contingencies**

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

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

#### **32. Related Parties**

##### **A. Identity of related parties**

For the purposes of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

The Company have related party relationships with shareholders and key management personnel.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company either directly or indirectly. The key management personnel include all the Directors of the Company, and certain senior management members of the Company.

Key management have banking relationships with Company entities which are entered into in the normal course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with other persons of a similar standing or, where applicable, with other employees. These transactions did not involve more than the normal risk of repayment or present other unfavourable features.

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 32. Related parties (continued)

##### B. Transactions with related parties

	2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)
<b>(a) Board of Directors' fee</b>				
Board fees	<u>697,375</u>	<u>549,552</u>	<u>172,106</u>	<u>135,860</u>
<b>(b) Key management personnel</b>				
Salaries and short-term benefit expense	<u>3,473,103</u>	<u>2,287,926</u>	<u>857,133</u>	<u>565,618</u>
<b>(c) Interest income</b>				
Shareholders	15,641	14,846	3,860	3,670
Key management personnel	<u>14,706</u>	<u>-</u>	<u>3,629</u>	<u>-</u>
<b>(d) Interest expenses in respect of deposit from related parties:</b>				
Shareholders	3,099	31,885	765	7,883
Board of Directors	16,756	33,027	4,135	8,165
Key management personnel	<u>87,384</u>	<u>152,544</u>	<u>21,566</u>	<u>37,712</u>
	<u>107,239</u>	<u>217,456</u>	<u>26,466</u>	<u>53,760</u>

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 32. Related parties (continued)

##### C. Balance with related parties

	31 December		31 December		1 January 2018	
	2019 KHR'000	2018 KHR'000	2019 US\$ (Note 5)	2018 US\$ (Note 5)	KHR'000	US\$ (Note 5)
<b>(a) Loans to related parties:</b>						
<b>Loan to shareholders</b>						
Outstanding	142,654	136,647	35,007	34,009	121,110	30,000
Accrued interest receivables	<u>174</u>	<u>182</u>	<u>43</u>	<u>45</u>	<u>121</u>	<u>30</u>
	<u>142,828</u>	<u>136,829</u>	<u>35,050</u>	<u>34,054</u>	<u>121,231</u>	<u>30,030</u>
<b>Loan to key management personnel</b>						
Outstanding	113,237	-	27,788	-	-	-
Accrued interest receivables	<u>151</u>	<u>-</u>	<u>37</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>113,388</u>	<u>-</u>	<u>27,825</u>	<u>-</u>	<u>-</u>	<u>-</u>

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 32. Related parties (continued)

##### C. Balance with related parties (continued)

	31 December		31 December		1 January 2018	
	KHR'000	KHR'000	US\$ (Note 5)	US\$ (Note 5)	KHR'000	US\$ (Note 5)
<b>(b) Deposits from related parties</b>						
<b>Shareholders:</b>						
Deposit outstanding	153,053	294,793	37,559	73,368	1,959,477	485,379
Accrued interest payables	-	8,678	-	2,160	14,557	3,606
	<u>153,053</u>	<u>303,471</u>	<u>37,559</u>	<u>75,528</u>	<u>1,974,034</u>	<u>488,985</u>
<b>Board of Directors:</b>						
Deposit outstanding	687,448	589,058	168,699	146,605	299,506	74,190
Accrued interest payables	15,385	15,670	3,775	3,900	3,690	914
	<u>702,833</u>	<u>604,728</u>	<u>172,474</u>	<u>150,505</u>	<u>303,196</u>	<u>75,104</u>
<b>Key management:</b>						
Deposit outstanding	2,045,000	2,513,161	501,840	625,476	884,353	219,062
Accrued interest payables	11,040	29,448	2,709	7,329	20,191	5,001
	<u>2,056,040</u>	<u>2,542,609</u>	<u>504,549</u>	<u>632,805</u>	<u>904,544</u>	<u>224,063</u>
<b>Browns Machinery (Cambodia) Co., Ltd.</b>	<u>1,599,874</u>	<u>825,656</u>	<u>392,607</u>	<u>205,489</u>	-	-

# LOLC (Cambodia) Plc.

## Notes to the financial statements (continued) for the year ended 31 December 2019

### 33. Financial risk management

#### A. Introduction and overview

The Company has exposure to the following risks from financial instruments:

- credit risk;
- market risk;
- liquidity risk; and
- operational risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

#### ***Risk management functional and governance structure***

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors has established the Asset and Liability Management Committee ("ALCO"), which is responsible for approving and monitoring Company's risk management policies.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Company's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Company's Audit Committee.

# LOLC (Cambodia) Plc.

## Notes to the financial statements (continued) for the year ended 31 December 2019

### 33. Financial risk management (continued)

#### B. Credit risk

'Credit risk' is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans to customers and other banks, and investment debt securities. For risk management reporting purposes, the Company considers and consolidates all elements of credit risk exposure – e.g. individual obligor default risk, country and sector risk.

Credit risk is the potential loss of revenue and principal losses arising mainly from loans to customers and loan commitments as a result of default by the borrowers or counterparties through its lending activities.

#### (i). *Management of credit risk*

The Board of Directors created the Company's Credit Committee for the oversight of credit risk. A separate Company Credit Department, reporting to the Company Credit Committee, is responsible for managing the Company's credit risk, including the following.

- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Establishing the authorisation structure* for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Company's Credit, the Head of Company Credit, the Company Credit Committee or the Board of Directors, as appropriate.
- *Reviewing and assessing credit risk*: Company Credit assesses all credit exposures in excess of designated limits, before facilities are committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- *Limiting concentrations of exposure* to counterparties, geographies and industries (for loans, financial guarantees and similar exposures), and by issuer, credit rating band, market liquidity and country (for investment securities).
- *Developing and maintaining the Company's risk gradings* to categorise exposures according to the degree of risk of default. The current risk grading framework consists of 5 grades reflecting varying degrees of risk of default. The responsibility for setting risk grades lies with the final approving executive or committee, as appropriate. Risk grades are subject to regular reviews by Company Risk.

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 33. Financial risk management (continued)

##### B. Credit risk (continued)

###### (i). *Management of credit risk (continued)*

- *Developing and maintaining the Company's processes for measuring ECL:* This includes processes for:
  - initial approval, regular validation and back-testing of the models used;
  - determining and monitoring significant increase in credit risk; and
  - incorporation of forward-looking information.
- *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to Company Credit, which may require appropriate corrective action to be taken. These include reports containing estimates of ECL allowances.
- *Providing advice, guidance and specialist skills* to business units to promote best practice throughout the Company in the management of credit risk.

Each business unit is required to implement Company credit policies and procedures, with credit approval authorities delegated from the Company Credit Committee. Each business unit has a Chief Credit Risk Officer who reports on all credit-related matters to local management and the Company Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Regular audits of business units and Company Credit processes are undertaken by Internal Audit.

###### (ii). *Concentration of risk*

The following table presents the Company's maximum exposure to credit risk of on-balance sheet and off-balance sheet financial instruments, without taking into account of any collateral held or other credit enhancements. For on-balance sheet assets, the exposure to credit risk equals their carrying amount. For contingent liabilities, the maximum exposure to credit risk is the maximum amount that the Company would have to pay if the obligations of the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers.

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 33. Financial risk management (continued)

##### B. Credit risk (continued)

##### (ii). Concentration of risk (continued)

##### *Type of credit exposure*

	Maximum credit exposure KHR'000	Maximum credit exposure US\$ (Note 5)	Fully subject to collateral/credit enhancement %	Partially subject to collateral/ credit enhancement %	Unsecured and not subject to collateral/ credit enhancement %
<b>31 December 2019</b>					
Cash and cash equivalents	753,196,844	184,833,582	-	-	100.00%
Placements with banks	200,181	49,125	-	-	100.00%
Loans to customers, net	3,115,481,925	764,535,442	86.67%	0.33%	13.00%
Other assets	9,081,668	2,228,630	-	-	100.00%
Other investments	61,125	15,000	-	-	100.00%
Total	<u>3,878,021,743</u>	<u>951,661,779</u>	<u>69.63%</u>	<u>0.27%</u>	<u>30.10%</u>

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 33. Financial risk management (continued)

##### B. Credit risk (continued)

##### (ii). Concentration of risk (continued)

##### Type of credit exposure (continued)

	Maximum credit exposure KHR'000	Maximum credit exposure US\$ (Note 5)	Fully subject to collateral/credit enhancement %	Partially subject to collateral/ credit enhancement %	Unsecured and not subject to collateral/ credit enhancement %
<b>31 December 2018</b>					
Cash and cash equivalents	368,244,617	91,648,735	-	-	100.00%
Placements with banks	200,340	49,861	-	-	100.00%
Loans to customers, net	1,922,394,751	478,445,682	88.13%	-	11.87%
Other assets	3,759,713	935,717	-	-	100.00%
Other investments	60,270	15,000	-	-	100.00%
Total	<u>2,294,659,691</u>	<u>571,094,995</u>	<u>73.83%</u>	<u>0.00%</u>	<u>26.17%</u>

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 33. Financial risk management (continued)

##### B. Credit risk (continued)

##### (ii). Concentration of risk (continued)

##### Concentration risk by industrial sectors

31 December 2019	Cash and cash equivalents KHR'000	Placements with other banks KHR'000	Loans to customers, net KHR'000	Other assets KHR'000	Other investments KHR'000	Total KHR'000
Services	-	-	416,584,199	-	-	416,584,199
Trade and Commerce	-	-	488,531,857	-	-	488,531,857
Construction	-	-	295,336,287	-	-	295,336,287
Financial institutions	753,196,844	200,181	-	-	-	753,397,025
Manufacturing	-	-	16,086,941	-	-	16,086,941
Agriculture	-	-	1,061,495,269	-	-	1,061,495,269
Transport and storage	-	-	36,426,972	-	-	36,426,972
Staff loans	-	-	19,975,241	-	-	19,975,241
Others	-	-	781,045,159	15,331,600	61,125	796,437,884
Total (KHR'000)	<u>753,196,844</u>	<u>200,181</u>	<u>3,115,481,925</u>	<u>15,331,600</u>	<u>61,125</u>	<u>3,884,271,675</u>
Total (US\$– Note 5)	<u>184,833,582</u>	<u>49,125</u>	<u>764,535,442</u>	<u>3,762,355</u>	<u>15,000</u>	<u>953,195,504</u>

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 33. Financial risk management (continued)

##### B. Credit risk (continued)

##### (ii). Concentration of risk (continued)

##### Concentration risk by industrial sectors (continued)

31 December 2018	Cash and cash equivalents KHR'000	Placements with other banks KHR'000	Loans to customers, net KHR'000	Other assets KHR'000	Other investments KHR'000	Total KHR'000
Services	-	-	238,905,262	-	-	238,905,262
Trade and Commerce	-	-	283,787,527	-	-	283,787,527
Construction	-	-	177,737,917	-	-	177,737,917
Financial institutions	368,244,617	200,340	-	-	-	368,444,957
Manufacturing	-	-	15,814,247	-	-	15,814,247
Agriculture	-	-	727,835,941	-	-	727,835,941
Transport and storage	-	-	21,534,503	-	-	21,534,503
Staff loans	-	-	17,149,597	-	-	17,149,597
Others	-	-	439,629,757	18,134,179	60,270	457,824,206
Total (KHR'000)	<u>368,244,617</u>	<u>200,340</u>	<u>1,922,394,751</u>	<u>18,134,179</u>	<u>60,270</u>	<u>2,309,034,157</u>
Total (US\$ – Note 5)	<u>91,648,735</u>	<u>49,861</u>	<u>478,445,682</u>	<u>4,513,235</u>	<u>15,000</u>	<u>574,672,513</u>

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 33. Financial risk management (continued)

##### B. Credit risk (continued)

##### (ii). Concentration of risk (continued)

Concentration risk by residency and relationship, and large-exposures for loans to customers:

	31 December		31 December		1 January 2018	
	2019	2018	2019	2018	KHR'000	US\$
	KHR'000	KHR'000	US\$	US\$		(Note 5)
			(Note 5)	(Note 5)		
<b>By residency status:</b>						
Residents	<u>3,146,773,131</u>	<u>1,944,090,447</u>	<u>772,214,265</u>	<u>483,845,308</u>	<u>1,302,528,755</u>	<u>322,647,698</u>
<b>By relationship:</b>						
External customers	3,129,176,251	1,927,847,735	767,896,012	479,802,821	1,291,550,186	319,928,211
Staff loans	<u>17,596,880</u>	<u>16,242,712</u>	<u>4,318,253</u>	<u>4,042,487</u>	<u>15,003,961</u>	<u>3,716,612</u>
	<u>3,146,773,131</u>	<u>1,944,090,447</u>	<u>772,214,265</u>	<u>483,845,308</u>	<u>1,302,528,755</u>	<u>322,647,698</u>
<b>By exposure:</b>						
Large exposures (*)	-	-	-	-	-	-
Non-large exposures	<u>3,146,773,131</u>	<u>1,944,090,447</u>	<u>772,214,265</u>	<u>483,845,308</u>	<u>1,302,528,755</u>	<u>322,647,698</u>
	<u>3,146,773,131</u>	<u>1,944,090,447</u>	<u>772,214,265</u>	<u>483,845,308</u>	<u>1,302,528,755</u>	<u>322,647,698</u>

## **LOLC (Cambodia) Plc.**

### **Notes to the financial statements (continued) for the year ended 31 December 2019**

#### **33. Financial risk management (continued)**

##### **B. Credit risk (continued)**

###### **(ii). Concentration of risk (continued)**

(\*) A “large exposure” is defined under the NBC’s Prakas as the overall gross exposure of the aggregate balance of loans to customers with one single beneficiary, which exceeds 10% of the Company’s net worth. The exposure is the higher of the outstanding loans or commitments and the authorised loans or commitments.

###### **(iii). Collateral**

Whilst the Company’s maximum exposure to credit risk is the carrying amount of the assets, the likely exposure may be lower due to offsetting collateral, credit guarantees and other actions taken to mitigate the Company’s exposure.

The description of collateral for each class of financial asset is set out below.

###### **Cash and cash equivalents, placements with other banks, investments and other assets**

Collateral is generally not sought for these assets.

###### **Loans to customers, contingent liabilities and commitments**

Certain Loans to customers are typically collateralised to a substantial extent. In particular, residential mortgage exposures are generally fully secured by residential properties.

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 33. Financial risk management (continued)

##### B. Credit risk (continued)

##### (iii). Collateral (continued)

The table below summarises the Company's security coverage of its loans to customers:

	Collateral/credit enhancement				Unsecured credit exposure KHR'000	Total KHR'000
	Properties KHR'000	Floating assets KHR'000	Fixed deposits KHR'000	Others KHR'000		
<b>31 December 2019</b>						
Loans to customers	2,324,331,670	-	228,206	413,224,459	408,988,796	3,146,773,131
Others						
	<u>2,324,331,670</u>	<u>-</u>	<u>228,206</u>	<u>413,224,459</u>	<u>408,988,796</u>	<u>3,146,773,131</u>
<b>31 December 2018</b>						
Loans to customers	1,504,051,914	-	797,583	208,467,762	230,773,187	1,944,090,446
Others						
	<u>1,504,051,914</u>	<u>-</u>	<u>797,583</u>	<u>208,467,762</u>	<u>230,773,187</u>	<u>1,944,090,446</u>

# LOLC (Cambodia) Plc.

## Notes to the financial statements (continued) for the year ended 31 December 2019

### 33. Financial risk management (continued)

#### B. Credit risk (continued)

##### (iv). *Credit quality of gross loans to customers*

Pursuant to the NBC guideline Prakas B7-017-344, it has defined each credit grading according to its credit quality as follows:

##### **Normal:**

Outstanding facility is repaid on timely manner and is not in doubt for the future repayment. Repayment is steadily made according with the contractual terms and the facility does not exhibit any potential weakness in repayment capability, business, cash flow and financial position of the counterparty.

##### **Special mention:**

A facility in this class is currently protected and may not be past due but it exhibits potential weaknesses that may adversely affect repayment of the counterparty at the future date, if not corrected in a timely manner, and close attention by the Institution.

Weaknesses include but are not limited to a declining trend in the business operations of the counterparty or in its financial position, and adverse economic and market conditions that all might affect its profitability and its future repayment capacity, or deteriorating conditions on the collateral. This class has clearly its own rational and should not be used as a compromise between Normal and Substandard.

##### **Substandard**

A facility ranked in this class exhibits noticeable weakness and is not adequately protected by the current business or financial position and repayment capacity of the counterparty. In essence, the primary source of repayment is not sufficient to service the debt, not taking into account the income from secondary sources such as the realization of the collateral.

Factors leading to a substandard classification include:

- Inability of the counterparty to meet the contractual repayments' terms,
- Unfavourable economic and market conditions that would adversely affect the business and profitability of the counterparty in the future,
- Weakened financial condition and/or inability of the counterparty to generate enough cash flow to service the payments,
- Difficulties experienced by the counterparty in repaying other facilities granted by the Institution or by other institutions when the information is available, and
- Breach of financial covenants by the counterparty.

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 33. Financial risk management (continued)

##### B. Credit risk (continued)

###### (iv). Credit quality of gross loans to customers (continued)

###### Doubtful

A facility classified in this category exhibits more severe weaknesses than one classified Substandard such that its full collection on the basis of existing facts, conditions or collateral value is highly questionable or improbable. The prospect of loss is high, even if the exact amount remains undetermined for now.

###### Loss

A facility is classified Loss when it is not collectable, and little or nothing can be done to recover the outstanding amount from the counterparty.

###### Recognition of ECL

The Company apply a three-stage approach based on the change in credit quality since initial recognition:

3-Stage approach	Stage 1	Stage 2	Stage 3
	Performing	Underperforming	Nonperforming
Recognition of expected credit losses	12 months expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses
Criterion	No significant increase in credit risk	Credit risk increased significantly	Credit impaired assets
Basic of calculation of profit revenue	On gross carrying amount	On gross carrying amount	On net carrying amount

The Company will measure ECL by using the general approach. The general approach consists of segregating the customers into three different stages according to the staging criteria by assessing the credit risk. 12-month ECL will be computed for stage 1, while lifetime ECL will be computed for stage 2 and stage 3. At each reporting date, the Company will assess credit risk of each account as compared to the risk level at origination date.

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 33. Financial risk management (continued)

##### B. Credit risk (continued)

##### (iv). Credit quality of gross loans to customers (continued)

##### Recognition of ECL (continued)

##### Long-term facilities (more than one year)

Stages	Credit Risk Status	Grades	DPD	Default Indicator
1	No significant increase in credit risk	Normal	$0 \leq \text{DPD} < 30$	Performing
2	Credit risk increased significantly	Special Mention	$30 \leq \text{DPD} < 90$	Underperforming
3	Credit impaired assets	Substandard	$90 \leq \text{DPD} < 180$	Nonperforming
		Doubtful	$180 \leq \text{DPD} < 360$	
		Loss	$\text{DPD} \geq 360$	

##### Short-term facilities (one year or less)

Stages	Credit Risk Status	Grades	DPD	Default Indicator
1	No significant increase in credit risk	Normal	$0 \leq \text{DPD} \leq 14$	Performing
2	Credit risk increased significantly	Special Mention	$15 \leq \text{DPD} \leq 30$	Underperforming
3	Credit impaired assets	Substandard	$31 \leq \text{DPD} \leq 60$	Nonperforming
		Doubtful	$61 \leq \text{DPD} \leq 90$	
		Loss	$\text{DPD} \geq 91$	

The Company will use the day past due (“DPD”) information and NBC’s classification for staging criteria.

As for financial assets that are short term in nature, simplified approach will be adopted where no staging criteria is required. In this case, it will be either performing (stage1) or non-performing.

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 33. Financial risk management (continued)

##### B. Credit risk (continued)

##### (iv). Credit quality of gross loans to customers (continued)

##### Recognition of ECL (continued)

The table below summarises the credit quality of the Company's gross financing according to the above classifications.

	31 December 2019			
	Stage 1 KHR'000	Stage 2 KHR'000	Stage 3 KHR'000	Total KHR'000
<b>Loans customers at amortised cost</b>				
Normal	3,127,279,541	-	-	3,127,279,541
Special mention	42,694	3,646,766	-	3,689,460
Substandard	14,145	-	3,328,739	3,342,884
Doubtful	13,663	-	5,655,224	5,668,887
Loss	-	-	6,792,359	6,792,359
	<u>3,127,350,043</u>	<u>3,646,766</u>	<u>15,776,322</u>	<u>3,146,773,131</u>
ECL allowance for impairment losses	<u>(24,377,268)</u>	<u>(552,581)</u>	<u>(6,361,357)</u>	<u>(31,291,206)</u>
Carrying amount (KHR'000)	<u>3,102,972,775</u>	<u>3,094,185</u>	<u>9,414,965</u>	<u>3,115,481,925</u>
Carrying amount (US\$)	<u>761,465,712</u>	<u>759,309</u>	<u>2,310,421</u>	<u>764,535,442</u>
	31 December 2018			
	Stage 1 KHR'000	Stage 2 KHR'000	Stage 3 KHR'000	Total KHR'000
<b>Loans to customers at amortised cost</b>				
Normal	1,925,285,368	-	-	1,925,285,368
Special mention	49,836	2,666,446	-	2,716,282
Substandard	19,750	-	3,091,504	3,111,254
Doubtful	21,260	-	6,045,162	6,066,422
Loss	-	-	6,911,120	6,911,120
	<u>1,925,376,214</u>	<u>2,666,446</u>	<u>16,047,786</u>	<u>1,944,090,446</u>
ECL allowance for impairment losses	<u>(14,482,901)</u>	<u>(438,766)</u>	<u>(6,774,028)</u>	<u>(21,695,695)</u>
Carrying amount (KHR'000)	<u>1,910,893,313</u>	<u>2,227,680</u>	<u>9,273,758</u>	<u>1,922,394,751</u>
Carrying amount (US\$)	<u>475,583,204</u>	<u>554,425</u>	<u>2,308,053</u>	<u>478,445,682</u>

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 33. Financial risk management (continued)

##### B. Credit risk (continued)

###### (iv). Credit quality of gross loans to customers (continued)

###### *Incorporation of forward-looking information*

The Company incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Company operates, supranational organisations such as the International Monetary Fund, and selected private-sector and academic forecasters.

The Company has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments in accordance with each country and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

###### (v). Amounts arising from ECL

###### *Loss allowance*

The following tables show reconciliation from the opening to the closing balance of the loss allowance by class of financial instrument.

	2019			
	Stage 1 KHR'000	Stage 2 KHR'000	Stage 3 KHR'000	Total KHR'000
<b>Loans to customers at amortised cost</b>				
Balance at 1 January	14,482,903	438,766	6,774,026	21,695,695
- Transfer to Stage 1	48,427	(19,339)	(29,088)	-
- Transfer to Stage 2	(53,580)	59,477	(5,897)	-
- Transfer to Stage 3	(252,708)	(205,685)	458,393	-
New financial assets originated	16,682,772	482,987	3,558,558	20,724,317
Financial assets that been derecognised	(5,678,003)	153,730	3,034,884	(2,489,389)
Write-offs	(852,543)	(357,355)	(7,429,519)	(8,639,417)
Balance at 31 December (KHR'000)	<u>24,377,268</u>	<u>552,581</u>	<u>6,361,357</u>	<u>31,291,206</u>
US\$ Equivalent – Note 5	<u>5,982,152</u>	<u>135,603</u>	<u>1,561,068</u>	<u>7,678,823</u>

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 33. Financial risk management (continued)

##### B. Credit risk (continued)

###### (v). Amounts arising from ECL

###### Loss allowance (continued)

	2018			
	Stage 1 KHR'000	Stage 2 KHR'000	Stage 3 KHR'000	Total KHR'000
<b>Loans to customers at amortised cost</b>				
Balance at 1 January	10,889,561	324,523	6,868,073	18,082,157
- Transfer to Stage 1	100,941	(27,662)	(73,279)	-
- Transfer to Stage 2	(39,810)	40,953	(1,143)	-
- Transfer to Stage 3	(221,563)	(195,427)	416,990	-
New financial assets originated	9,174,806	394,966	4,055,272	13,625,044
Financial assets that been derecognised	(4,831,513)	129,331	3,229,478	(1,472,704)
Write-offs	(589,521)	(227,918)	(7,721,363)	(8,538,802)
Balance at 31 December (KHR'000)	<u>14,482,901</u>	<u>438,766</u>	<u>6,774,028</u>	<u>21,695,695</u>
Balance at 31 December (US\$)	<u>3,604,505</u>	<u>109,200</u>	<u>1,685,920</u>	<u>5,399,625</u>

##### C. Market risk

Market risk is the risk that changes in market prices – e.g. interest rates, foreign exchange rates and equity prices – will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

###### (i). Interest rate risk

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

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 33. Financial risk management (continued)

##### C. Market risk (continued)

##### (i). Interest rate risk (continued)

The table below summarises the Company's exposure to interest rate risk. The table indicates the periods in which the financial instruments reprice or mature, whichever is earlier.

As at 31 December 2019	Up to 1 month KHR'000	> 1-3 months KHR'000	> 3-6 months KHR'000	> 6-12 months KHR'000	> 1 to 5 years KHR'000	Over 5 years KHR'000	Non-interest bearing KHR'000	Total KHR'000	Interest rate %
<b>Financial assets</b>									
Cash and cash equivalents	72,421,659	-	-	-	-	-	680,775,185	753,196,844	0-2%
Placements with banks	-	200,181	-	-	-	-	-	200,181	0.65%
Loans to customers – net	113,695,585	286,557,893	421,732,185	673,761,387	1,603,178,052	16,556,823	-	3,115,481,925	17.06%
Other assets	-	-	-	-	-	-	9,081,668	9,081,668	-
Investment – equity instrument	-	-	-	-	-	-	61,125	61,125	-
	<u>186,117,244</u>	<u>286,758,074</u>	<u>421,732,185</u>	<u>673,761,387</u>	<u>1,603,178,052</u>	<u>16,556,823</u>	<u>689,917,978</u>	<u>3,878,021,743</u>	
<b>Financial liabilities</b>									
Deposits from customers	260,015,492	275,278,677	277,813,253	657,718,596	394,144,474	-	-	1,864,970,492	6.73%
Borrowings	3,123,134	81,547,338	82,137,097	124,116,577	1,135,535,445	-	-	1,426,459,591	8.65%
Subordinated debts	4,094,203	2,494,277	-	-	95,926,888	18,072,218	-	120,587,586	9.17%
Debt securities	-	-	1,224,548	-	80,531,351	-	-	81,755,899	8.33%
Other liabilities	-	-	-	-	-	-	34,099,559	34,099,559	-
	<u>267,232,829</u>	<u>359,320,292</u>	<u>361,174,898</u>	<u>781,835,173</u>	<u>1,706,138,158</u>	<u>18,072,218</u>	<u>34,099,559</u>	<u>3,527,873,127</u>	
Interest sensitivity gap	<u>(81,115,585)</u>	<u>(72,562,218)</u>	<u>60,557,287</u>	<u>(108,073,786)</u>	<u>(102,960,106)</u>	<u>(1,515,395)</u>	<u>655,818,419</u>	<u>350,148,616</u>	
(US\$ equivalents - Note 5)	<u>(19,905,665)</u>	<u>(17,806,679)</u>	<u>14,860,684</u>	<u>(26,521,174)</u>	<u>(25,266,284)</u>	<u>(371,876)</u>	<u>160,937,035</u>	<u>85,926,041</u>	

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 33. Financial risk management (continued)

##### C. Market risk (continued)

##### (i). Interest rate risk (continued)

The table below summarises the Company's exposure to interest rate risks which includes assets and liabilities at carrying amounts.

<b>As at 31 December 2018</b>	Up to 1 month KHR'000	> 1-3 months KHR'000	> 3-6 months KHR'000	> 6-12 months KHR'000	> 1 to 5 years KHR'000	Over 5 years KHR'000	Non-interest bearing KHR'000	Total KHR'000	Interest rate %
<b>Financial assets</b>									
Cash and cash equivalents	103,281,089	-	-	-	-	-	264,963,528	368,244,617	0-2%
Placements with banks	-	-	200,340	-	-	-	-	200,340	0.61%
Loans to customers – net	64,371,112	142,048,920	207,725,765	330,031,510	1,161,550,119	16,667,325	-	1,922,394,751	17.76%
Other assets	-	-	-	-	-	-	3,759,713	3,759,713	N/A
Investment – equity instrument	-	-	-	-	-	-	60,270	60,270	N/A
	<u>167,652,201</u>	<u>142,048,920</u>	<u>207,926,105</u>	<u>330,031,510</u>	<u>1,161,550,119</u>	<u>16,667,325</u>	<u>268,783,511</u>	<u>2,294,659,691</u>	
<b>Financial liabilities</b>									
Deposits from customers	135,636,907	124,290,385	160,816,467	318,236,131	212,926,036	-	-	951,905,926	7.17%
Borrowings	12,650,016	67,074,240	102,592,602	163,617,391	615,984,113	40,572,245	9,306,636	1,011,797,243	8.65%
Subordinated debts	-	4,030,822	2,457,551	-	59,023,863	19,593,721	-	85,105,957	9.51%
Other liabilities	-	-	-	-	-	-	60,573,295	60,573,295	N/A
	<u>148,286,923</u>	<u>195,395,447</u>	<u>265,866,620</u>	<u>481,853,522</u>	<u>887,934,012</u>	<u>60,165,966</u>	<u>69,879,931</u>	<u>2,109,382,421</u>	
Interest sensitivity gap	<u>19,365,278</u>	<u>(53,346,527)</u>	<u>(57,940,515)</u>	<u>(151,822,012)</u>	<u>273,616,107</u>	<u>(43,498,641)</u>	<u>198,903,580</u>	<u>185,277,270</u>	
(US\$ equivalents - Note 5)	<u>4,588,782</u>	<u>(13,394,331)</u>	<u>68,473,267</u>	<u>15,420,475</u>	<u>(65,592,203)</u>	<u>(11,987,548)</u>	<u>72,959,589</u>	<u>70,468,031</u>	

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 33. Financial risk management (continued)

##### C. Market risk (continued)

##### (i). Interest rate risk (continued)

A change of 100 basis points in interest rates at the reporting date would have increased/ (decreased) equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or loss		Equity	
	100 bp Increase KHR'000	100 bp Decrease KHR'000	100 bp Increase KHR'000	100 bp Decrease KHR'000
<b>2019</b>				
Variable rate instruments	<u>(1,864,313)</u>	<u>1,864,313</u>	<u>(1,864,313)</u>	<u>(1,864,313)</u>
US\$ – Note 5	<u>(459,757)</u>	<u>459,757</u>	<u>(459,757)</u>	<u>459,757</u>
<b>2018</b>				
Variable rate instruments	<u>(1,205,400)</u>	<u>1,205,400</u>	<u>(1,205,400)</u>	<u>1,205,400</u>
US\$ – Note 5	<u>(298,071)</u>	<u>298,071</u>	<u>(298,071)</u>	<u>298,071</u>

##### (ii). Foreign currency exchange risk

Foreign currency exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

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.

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.

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 33. Financial risk management (continued)

##### C. Market risk (continued)

##### (ii). Foreign currency exchange risk (continued)

##### Concentration of currency risk

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

31 December 2019	Denomination KHR'000 equivalents			Total
	KHR	US\$	Others	
<b>Financial assets</b>				
Cash and cash equivalents	271,992,316	478,340,717	2,863,811	753,196,844
Placements with other banks	200,181	-	-	200,181
Loans to customers	656,873,574	2,267,173,312	191,435,039	3,115,481,925
Investment	-	61,125	-	61,125
Other assets	312,959	8,605,507	163,202	9,081,668
	<u>929,379,030</u>	<u>2,754,180,661</u>	<u>194,462,052</u>	<u>3,878,021,743</u>
<b>Financial liabilities</b>				
Deposits from customers	230,303,725	1,626,878,455	7,788,312	1,864,970,492
Borrowings	174,879,480	1,094,167,688	157,412,423	1,426,459,591
Debt securities	27,624,548	54,131,351	-	81,755,899
Subordinated Debt	-	120,587,586	-	120,587,586
Other liabilities	30,248,818	3,846,120	4,621	34,099,559
	<u>463,056,571</u>	<u>2,899,611,200</u>	<u>165,205,356</u>	<u>3,527,873,127</u>
<b>Net asset/(liability) position</b>	<u>466,322,459</u>	<u>(145,430,539)</u>	<u>29,256,696</u>	<u>350,148,616</u>
<b>US\$ equivalents (Note 5)</b>	<u>114,434,959</u>	<u>(35,688,476)</u>	<u>7,179,557</u>	<u>85,926,040</u>

# LOLC (Cambodia) Plc.

## Notes to the financial statements (continued) for the year ended 31 December 2019

### 33. Financial risk management (continued)

#### C. Market risk (continued)

##### (ii). Foreign currency exchange risk (continued)

##### Concentration of currency risk (continued)

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

31 December 2018	Denomination KHR'000 equivalents			Total
	KHR	US\$	Others	
<b>Financial assets</b>				
Cash and cash equivalents	139,210,952	222,043,065	6,990,600	368,244,617
Placements with other banks	200,340	-	-	200,340
Loan to customers	364,725,094	1,447,060,971	110,608,686	1,922,394,751
Investment	-	60,270	-	60,270
Other assets	371,148	3,358,690	29,875	3,759,713
	<u>504,507,534</u>	<u>1,672,522,996</u>	<u>117,629,161</u>	<u>2,294,659,691</u>
<b>Financial liabilities</b>				
Deposits from customers	131,145,807	814,813,527	5,946,592	951,905,926
Borrowings	66,790,656	847,970,151	97,036,436	1,011,797,243
Subordinated debt	-	85,105,957	-	85,105,957
Other liabilities	44,591,913	15,851,006	130,376	60,573,295
	<u>242,528,376</u>	<u>1,763,740,641</u>	<u>103,113,404</u>	<u>2,109,382,421</u>
<b>Net asset/(liability) position</b>	<u>261,979,158</u>	<u>(145,430,539)</u>	<u>14,515,757</u>	<u>185,277,270</u>
<b>US\$ equivalents (Note 5)</b>	<u>65,201,383</u>	<u>(35,688,476)</u>	<u>3,612,682</u>	<u>46,111,814</u>

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 33. Financial risk management (continued)

##### C. Market risk (continued)

##### (ii). Foreign currency exchange risk

###### Sensitivity analysis

Considering that other risk variables remain constant, the foreign currency revaluation sensitivity for the Company as at reporting date is summarised as follows (only exposures in currencies that accounts for more than 5 percent of the net open positions are shown in its specific currency in the table below. For other currencies, these exposures are grouped as 'Others'):

	31 December 2019		31 December 2018	
	- 1%	+ 1%	- 1%	+ 1%
	Depreciation KHR'000	Appreciation KHR'000	Depreciation KHR'000	Appreciation KHR'000
US\$	(91,763)	91,763	(49,304)	49,304
THB	284,767	(284,767)	141,934	(141,934)
	<u>193,004</u>	<u>(193,004)</u>	<u>92,630</u>	<u>(92,630)</u>
US\$ – Note 5	<u>(47,597)</u>	<u>(47,597)</u>	<u>22,906</u>	<u>(22,906)</u>

##### D. Liquidity risk

'Liquidity risk' is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises from mismatches in the timing and amounts of cash flows, which is inherent to the Company's operations and investments.

###### Management of liquidity risk

The Company manages its liquidity through its Asset Liability Management Committee which is responsible for establishing the liquidity policy as well as monitoring liquidity on an ongoing basis. A Minimum Liquid Asset requirement has been established to ensure that the ratio of liquid assets to qualifying liabilities is subject to a minimum threshold at all times.

The table below summarises the Company's assets and liabilities based on remaining contractual maturities. The expected cash flows of these assets and liabilities could vary significantly from what is shown in the table. For example, deposits from customers are not all expected to be withdrawn immediately.

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 33. Financial risk management (continued)

##### D. Liquidity risk (continued)

<b>As at 31 December 2019</b>	Up to 1 month KHR'000	> 1-3 months KHR'000	> 3-6 months KHR'000	> 6-12 months KHR'000	> 1 to 5 months KHR'000	Over 5 years KHR'000	Non-interest bearing KHR'000	Total KHR'000
<b>Financial liabilities</b>								
Deposits from customers	260,015,492	275,278,677	277,813,253	657,718,596	394,144,474	-	-	1,864,970,492
Borrowings	3,123,134	81,547,338	82,137,097	124,116,577	1,135,535,445	-	-	1,426,459,591
Debt securities	-	-	1,224,548	-	80,531,351	-	-	81,755,899
Subordinated debts	4,094,203	2,494,277	-	-	95,926,888	18,072,218	-	120,587,586
Other liabilities	-	-	-	-	-	-	34,099,559	34,099,559
	<u>267,232,829</u>	<u>359,320,292</u>	<u>361,174,898</u>	<u>781,835,173</u>	<u>1,706,138,158</u>	<u>18,072,218</u>	<u>34,099,559</u>	<u>3,527,873,127</u>
(US\$ equivalents - Note 5)	<u>65,578,608</u>	<u>88,176,759</u>	<u>88,631,877</u>	<u>191,861,392</u>	<u>418,684,211</u>	<u>4,434,900</u>	<u>8,367,990</u>	<u>865,735,737</u>
<b>As at 31 December 2018</b>	Up to 1 month KHR'000	> 1-3 months KHR'000	> 3-6 months KHR'000	> 6-12 months KHR'000	> 1 to 5 months KHR'000	Over 5 years KHR'000	Non-interest bearing KHR'000	Total KHR'000
<b>Financial liabilities</b>								
Deposits from customers	135,636,907	124,290,385	160,816,467	318,236,131	212,926,036	-	-	951,905,926
Borrowings	12,650,016	67,074,240	102,592,602	163,617,391	615,984,113	40,572,245	9,306,636	1,011,797,243
Subordinated debts	-	4,030,822	2,457,551	-	59,023,863	19,593,721	-	85,105,957
Other liabilities	-	-	-	-	-	-	60,573,295	60,573,295
	<u>148,286,923</u>	<u>195,395,447</u>	<u>265,866,620</u>	<u>481,853,522</u>	<u>887,934,012</u>	<u>60,165,966</u>	<u>69,879,931</u>	<u>2,109,382,421</u>
(US\$ equivalents - Note 5)	<u>36,905,655</u>	<u>48,630,027</u>	<u>66,168,895</u>	<u>119,923,724</u>	<u>220,989,052</u>	<u>14,974,108</u>	<u>17,391,720</u>	<u>524,983,181</u>

# LOLC (Cambodia) Plc.

## Notes to the financial statements (continued) for the year ended 31 December 2019

### 33. Financial risk management (continued)

#### E. Operational risk

The operational risk is the risk of losses arising from inadequate or failed internal processes, people or systems or from external factors. This risk is managed through established operational risk management processes, proper monitoring and reporting of the business activities by control and oversight provided by the senior Management. This includes legal, compliance, accounting and fraud risk.

The operational risk management entails the establishment of clear organizational structures, roles and control policies. Various internal control policies and measures have been implemented. These include the establishment of signing authorities, defining system parameters controls, streaming procedures and documentation ensuring compliance with regulatory and legal requirements. These are reviewed continually to address the operational risks of its banking business.

#### F. Capital management

##### (i). *Regulatory capital*

The Company's objectives when managing capital, which is a broader concept than the "equity" on the face of the statement of financial position, are:

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

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

The above regulated capital is calculated in accordance with the guidance issued by the NBC which may be different in some material respects compared to generally accepted principles applied by financial institutions in other jurisdiction. The above regulated capital information is therefore not intended for users who are not informed about the guidance issued by the NBC.

##### (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.

# **LOLC (Cambodia) Plc.**

## **Notes to the financial statements (continued) for the year ended 31 December 2019**

### **33. Financial risk management (continued)**

Financial instruments comprise financial assets, financial liabilities and off-balance sheet instruments. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The information presented herein represents the estimates of fair values as at the financial position date.

Quoted and observable market prices, where available, are used as the measure of fair values of the financial instruments. Where such quoted and observable market prices are not available, fair values are estimated based on a range of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors.

Fair value information for non-financial assets and liabilities are excluded as they do not fall within the scope of CIFRS 7: Financial Instruments Disclosures which requires the fair value information to be disclosed.

The fair value of the Company's financial instruments such as cash and short-term funds, deposits and placements with banks and other financial institutions, deposits from customers and banks, other assets, other liabilities and short-term borrowings are not materially sensitive to shifts in market profit rate because of the limited term to maturity of these instruments. As such, the carrying value of these financial assets and liabilities at financial position date approximate their fair values.

The fair values are based on the following methodologies and assumptions:

#### **Investments**

The estimated fair values are generally based on quoted and observable market prices. Where there is no ready market in certain securities, fair values have been estimated by reference to market indicative yields or net tangible asset backing of the investee.

#### **Financing, advances and others**

The fair value is estimated by discounting the estimated future cash flows using the prevailing market rates of financing with similar credit risks and maturities.

# LOLC (Cambodia) Plc.

## Notes to the financial statements (continued) for the year ended 31 December 2019

### 34. Fair values of financial assets and liabilities (continued)

#### Fair value hierarchy

CIFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources and unobservable inputs reflect the Company's market assumptions. The fair value hierarchy is as follows:

- Level 1 – Quoted price (unadjusted) in active markets for the identical assets or liabilities. This level includes listed equity securities and debt instruments.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3 – Inputs for asset or liability that are not based on observable market data (unobservable inputs). This level includes equity instruments and debt instruments with significant unobservable components.

The carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy are as follows. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

31 December 2019	Level 1 KHR'000	Fair values Level 2 KHR'000	Level 3 KHR'000
<b>Financial assets measured at fair value</b>			
Investments	-	-	61,125
Total (US\$) – Note 5	-	-	15,000
<b>Financial assets not measured at fair value</b>			
Cash and cash equivalents			753,196,844
Placements with banks			200,181
Loans to customers	-	-	3,115,481,925
Others	-	-	61,125
Total (KHR'000)	-	-	3,868,940,075
Total (US\$)	-	-	949,433,147

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 34. Fair values of financial assets and liabilities (continued)

##### Fair value hierarchy (continued)

31 December 2018	Fair values		
	Level 1 KHR'000	Level 2 KHR'000	Level 3 KHR'000
<b>Financial assets measured at fair value</b>			
Investments	-	-	60,270
Total (US\$)	-	-	15,000
<b>Financial assets not measured at fair value</b>			
Cash and cash equivalents	-	-	368,244,617
Placements with banks	-	-	200,340
Loans to customers	-	-	1,922,394,751
Others	-	-	3,759,713
Total (KHR'000)	-	-	2,294,599,421
Total (US\$) – Note 5	-	-	571,079,995

#### 35. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing the opening CIFRS statement of financial position at 1 January 2018 for the purposes of the transition to, unless otherwise indicated.

##### A. Basis of measurement

The financial statements have been prepared on a historical cost.

##### B. Foreign currency transactions

Transactions in currencies other than US\$ are translated into US\$ at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in currencies other than US\$ are translated into US\$ at the exchange rates at the reporting date. Foreign currency differences are generally recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in other currency are translated using the exchange rate as at the respective dates of the initial transactions.

# LOLC (Cambodia) Plc.

## Notes to the financial statements (continued) for the year ended 31 December 2019

### 35. Significant accounting policies (continued)

#### C. Financial assets and financial liabilities

##### (i). *Recognition and initial measurement*

The Company initially recognises loans to customers, borrowings and subordinated liabilities on the date on which they are originated. All other financial the date on which the Company becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at 'fair value through profit or loss' ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue.

##### (ii). *Classification*

###### **Financial assets**

On initial recognition, a financial asset is classified as measured at: amortised cost, 'fair value through other comprehensive income' ("FVOCI") or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in 'other comprehensive income' ("OCI"). This election is made on an investment-by-investment basis.

# LOLC (Cambodia) Plc.

## Notes to the financial statements (continued) for the year ended 31 December 2019

### 35. Significant accounting policies (continued)

#### C. Financial assets and financial liabilities (continued)

##### (ii). Classification (continued)

###### Financial assets (continued)

###### All other financial assets are classified as measured at FVTPL

In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

###### **Business model assessment**

The Company makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Company's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

# LOLC (Cambodia) Plc.

## Notes to the financial statements (continued) for the year ended 31 December 2019

### 35. Significant accounting policies (continued)

#### C. Financial assets and financial liabilities (continued)

##### (ii). Classification (continued)

###### Financial assets (continued)

###### *Assessment of whether contractual cash flows are solely payments of principal and interest*

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Company considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

###### *Non-recourse loans*

In some cases, loans made by the Company that are secured by collateral of the borrower limit the Company's claim to cash flows of the underlying collateral (non-recourse loans). The Company applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Company typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;

# LOLC (Cambodia) Plc.

## Notes to the financial statements (continued) for the year ended 31 December 2019

### 35. Significant accounting policies (continued)

#### C. Financial assets and financial liabilities (continued)

##### (ii). Classification (continued)

###### Financial assets (continued)

###### *Non-recourse loans (continued)*

The Company typically considers the following information when making this judgement: (continued)

- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Company's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Company will benefit from any upside from the underlying assets.

###### Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Company changes its business model for managing financial assets.

##### (iii). Derecognition

###### Financial assets

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit and loss.

###### Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

# LOLC (Cambodia) Plc.

## Notes to the financial statements (continued) for the year ended 31 December 2019

### 35. Significant accounting policies (continued)

#### C. Financial assets and financial liabilities (continued)

##### (iv). *Modifications of financial assets and financial liabilities*

###### Financial assets

If the terms of a financial asset are modified, then the Company evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see (iii)) and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit and loss as part of the gain or loss on derecognition.
- If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Company plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.
- If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Company first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit and loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.
- If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

# LOLC (Cambodia) Plc.

## Notes to the financial statements (continued) for the year ended 31 December 2019

### 35. Significant accounting policies (continued)

#### C. Financial assets and financial liabilities (continued)

##### (iv). *Modifications of financial assets and financial liabilities (continued)*

###### **Financial liabilities**

The Company derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit and loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit and loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

##### (v). *Offsetting*

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

##### (vi). *Fair value measurement*

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

# LOLC (Cambodia) Plc.

## Notes to the financial statements (continued) for the year ended 31 December 2019

### 35. Significant accounting policies (continued)

#### C. Financial assets and financial liabilities (continued)

##### (vi). Fair value measurement (continued)

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Company determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit and loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Company measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Company on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments – e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Company recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

# LOLC (Cambodia) Plc.

## Notes to the financial statements (continued) for the year ended 31 December 2019

### 35. Significant accounting policies (continued)

#### C. Financial assets and financial liabilities (continued)

##### (vii). Impairment

The Company recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The Company measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

At each reporting date, the Company assesses whether the credit risk of a financial instrument has increased significantly since initial recognition. When credit risk has increased significantly since initial recognition, loss allowance is measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and includes forward-looking information.

If credit risk has not increased significantly since initial recognition or if the credit quality of the financial instruments improves such that there is no longer a significant increase in credit risk since initial recognition, loss allowance is measured at an amount equal to 12-month ECLs.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

# LOLC (Cambodia) Plc.

## Notes to the financial statements (continued) for the year ended 31 December 2019

### 35. Significant accounting policies (continued)

#### C. Financial assets and financial liabilities (continued)

##### (vii). Impairment (continued)

###### **Determining whether credit risk has increased significantly**

The Company assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region.

The Company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

###### **Definition of default**

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- The Company considers that a significant increase in credit risk occurs no later than when an asset is more than or equal to 30 days past due for long-term facilities or more than or equal to 15 days past due for short-term facilities.

###### **Measurement of ECL**

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows; and
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Company if the commitment is drawn down and the cash flows that the Company expects to receive.

# LOLC (Cambodia) Plc.

## Notes to the financial statements (continued) for the year ended 31 December 2019

### 35. Significant accounting policies (continued)

#### C. Financial assets and financial liabilities (continued)

##### (vii). Impairment (continued)

###### Inputs, assumptions and techniques used for estimating impairment

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (“PD”);
- Loss given default (“LGD”); and
- Exposure at default (“EAD”).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The statistical model has been employed to analyse data collected and generate estimate of remaining lifetime PD of exposure and how these are expected to change as result of passage of time.

LGD is the magnitude of the likely loss if there is a default. The Company estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Company derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Company measures ECL considering the risk of default over the maximum contractual period (including any borrower’s extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Company considers a longer period. The maximum contractual period extends to the date at which the Company has the right to require repayment of an advance or terminate a loan commitment or guarantee.

# LOLC (Cambodia) Plc.

## Notes to the financial statements (continued) for the year ended 31 December 2019

### 35. Significant accounting policies (continued)

#### C. Financial assets and financial liabilities (continued)

##### (vii). Impairment (continued)

###### *Restructured financial assets*

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

###### *Credit-impaired financial assets*

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;  
or
- the disappearance of an active market for a security because of financial difficulties.

# LOLC (Cambodia) Plc.

## Notes to the financial statements (continued) for the year ended 31 December 2019

### 35. Significant accounting policies (continued)

#### C. Financial assets and financial liabilities (continued)

##### (vii). Impairment (continued)

###### *Credit-impaired financial assets (continued)*

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

###### **Presentation of allowance for ECL in the statement of financial position**

Loss allowances for ECL are presented in the statement of financial position for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets.

###### **Write-off**

Loans to customers are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Company determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit and loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

#### D. Cash and cash equivalents

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

# **LOLC (Cambodia) Plc.**

## **Notes to the financial statements (continued) for the year ended 31 December 2019**

### **35. Significant accounting policies (continued)**

#### **E. Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of the ordinary share are recognised as a deduction from equity, net of any tax effects. Distributions to holders of a financial instrument classified as an equity instrument are charged directly to equity.

#### **F. General reserves and regulatory reserves**

The general reserves are set up for any overall financial risk. The Board of Directors exercises its discretion for the use and maintenance of the general reserves. The transfer from retained earnings to general reserves is subject to the approval of Board of Directors of the Company.

Regulatory reserves are set up for the variance of provision between loan impairment in accordance with CIFRSs and regulatory provision in accordance with 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. In accordance with Article 73, the entity shall compare the provision calculated in accordance with Article 49 to 71 and the provision calculated in accordance with Article 72, and the record:

- (i) In case that the regulatory provision calculated in accordance with Article 72 is lower than provision calculated in accordance with Article 49 to 71, the entity records the provision calculated in accordance with CIFRSs; and
- (ii) In case that the regulatory provision calculated in accordance with Article 72 is higher than provision calculated in accordance with Article 49 to 71, the entity records the provision calculated in accordance with CIFRSs and transfer the difference from retained earnings or accumulated loss account into regulatory reserve in shareholders' equity of the statement of the financial position.

The regulatory reserves are not an item to be included in the calculated of the Institution's net worth.

#### **G. Placements with banks**

Placements with banks are stated at cost less impairment for any uncollectable amounts.

# LOLC (Cambodia) Plc.

## Notes to the financial statements (continued) for the year ended 31 December 2019

### 35. Significant accounting policies (continued)

#### H. Statutory deposits

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

#### I. Loans to customers

'Loans to customers' captions in the statement of financial position include loans to customers measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

#### J. Other assets

Other assets are carried at cost less impairment if any.

#### K. Property and equipment

##### (i) *Recognition and measurement*

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property and equipment.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant 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 2019

### 35. Significant accounting policies (continued)

#### K. Property and equipment (continued)

##### (ii). *Subsequent costs*

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment and is recognised net within “other income” and “other expenses” respectively in profit or loss.

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

##### (iii). *Depreciation*

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised as an expense in profit or loss on a [straight-line/declining basis] over the estimated useful lives of each component of an item of property and equipment.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Freehold land is not depreciated.

Depreciation is recognised from the date that the property, plant and equipment are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

# LOLC (Cambodia) Plc.

## Notes to the financial statements (continued) for the year ended 31 December 2019

### 35. Significant accounting policies (continued)

#### K. Property and equipment (continued)

##### (iii). Depreciation (continued)

The estimated useful lives for the current period are as follows:

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

Depreciation methods, useful lives and residual values are reassessed at end of the reporting period and adjusted if appropriate.

#### 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.

#### M. Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for period of time in exchange for consideration.

# LOLC (Cambodia) Plc.

## Notes to the financial statements (continued) for the year ended 31 December 2019

### 35. Significant accounting policies (continued)

#### M. Leases (continued)

To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right throughout the period of use, then the asset is not identified;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In cases where all the decisions about how and for what purpose the asset is used are predetermined, the Company has the right to direct the use of the asset if either:
  - the Company has the right to operate the asset; or
  - the Company designed the asset in a way that predetermines how and for what purpose It will be used.

This policy is applied to contracts entered into, or changed, on or after 1 January 2018.

At inception or on reassessment of a contract that contains a lease and non-lease component, the Company allocates the consideration in the contract to each lease component and aggregate of non-lease components on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

#### Leases in which the Company is a lessee

An arrangement conveyed the right to use the asset if one of the following was met:

- the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
- the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

# LOLC (Cambodia) Plc.

## Notes to the financial statements (continued) for the year ended 31 December 2019

### 35. Significant accounting policies (continued)

#### M. Leases (continued)

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The estimated useful lives for the current period are as follows:

- Building and office branches 3 – 10 years

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, to the lessee's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

# LOLC (Cambodia) Plc.

## Notes to the financial statements (continued) for the year ended 31 December 2019

### 35. Significant accounting policies (continued)

#### M. Leases (continued)

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in the lease term, a change in the assessment of the option to purchase the underlying asset, a change in future lease payments arising from a change in an index or rate, or if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

#### Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

#### N. Borrowings

Borrowings are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at amortised cost using effective interest method.

#### O. Employee benefits

##### (i). Short-term employee benefits

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

##### (ii). Other long-term employee benefits

The 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 and loss in the period in which they arise.

# LOLC (Cambodia) Plc.

## Notes to the financial statements (continued) for the year ended 31 December 2019

### 35. Significant accounting policies (continued)

#### P. Provisions

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

#### Q. Interest

##### *Effective interest rate*

Interest income and expense are recognised in profit and loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

##### *Amortised cost and gross carrying amount*

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

# LOLC (Cambodia) Plc.

## Notes to the financial statements (continued) for the year ended 31 December 2019

### 35. Significant accounting policies (continued)

#### Q. Interest (continued)

##### *Calculation of interest income and expense*

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

##### *Presentation*

Interest income calculated using the effective interest method presented in the statement of profit and loss and OCI includes interest on financial assets and financial liabilities measured at amortised cost.

Interest expense presented in the statement of profit and loss and OCI includes financial liabilities measured at amortised cost.

#### R. Fee and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Other fee and commission income – including account servicing fees is recognised as the related services are performed.

A contract with a customer that results in a recognised financial instrument in the Company's financial statements may be partially in the scope of CIFRS 9 and partially in the scope of CIFRS 15. If this is the case, then the Company first applies CIFRS 9 to separate and measure the part of the contract that is in the scope of CIFRS 9 and then applies CIFRS 15 to the residual.

# LOLC (Cambodia) Plc.

## Notes to the financial statements (continued) for the year ended 31 December 2019

### 35. Significant accounting policies (continued)

#### S. Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories, contract assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs 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 or CGU.

For the purpose of impairment testing, assets that cannot be tested individually 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 CGUs.

Impairment losses are recognised in profit and loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### T. Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit and loss except items recognised directly in equity or in other comprehensive income.

The Company has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore has accounted for them under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and has recognised the related expenses in 'other expenses'.

# LOLC (Cambodia) Plc.

## Notes to the financial statements (continued) for the year ended 31 December 2019

### 35. Significant accounting policies (continued)

#### T. Income tax (continued)

##### (i). *Current tax*

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

##### (ii). *Deferred tax*

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset are recognised for unused tax losses and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used. 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; such reductions are reversed when the probability of future taxable profits improves.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Differed tax assets and liabilities are offset only if certain criteria are met.

#### U. Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is not recognised in the statements of financial position and is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

# LOLC (Cambodia) Plc.

## Notes to the financial statements (continued) for the year ended 31 December 2019

### 35. Significant accounting policies (continued)

#### V. Contingent assets

Where it is not possible that there is an inflow of economic benefits, or the amount cannot be estimated reliably, the asset is not recognised in the statements of financial position and is disclosed as a contingent asset, unless the probability of inflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent assets unless the probability of inflow of economic benefits is remote.

### 36. Explanation of transition to CIFRSs

#### Adoption of CIFRS Framework

The Company has adopted the Cambodia International Financial Reporting Standards (“CIFRSs”) which are consistent with Cambodia International Financial Reporting Standards (“CIFRSs”) as issued by the International Accounting Standards Board (“IASB”) as at 1 January 2019. These financial statements of the Company for the year ended 31 December 2019 are the first set of financial statements prepared in accordance with CIFRSs including the application of CIFRS 1 First-time Adoption of International Financial Reporting Standards.

Accordingly, the Company have prepared financial statements which comply with CIFRSs applicable for periods ending on or after 31 December 2019, together with the comparative period information as at and for the period ended 31 December 2018, as described in the significant accounting policies in Note 35.

In preparing these financial statements, the Company’s opening statements of financial position were prepared as at 1 January 2018, being the Company’s date of transition to CIFRSs. Principal adjustments made by the Company in restating its statements of financial position as at 1 January 2018 and its previously published financial statements for the year ended 31 December 2018, both of which was prepared in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of the financial statements (“Cambodia GAAP”) are presented in below.

#### Optional exemptions applied

CIFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under CIFRSs. The Company have applied the following exemptions:

#### *Fair value or revaluation as deemed cost - property and equipment*

The Company has elected to measure individual items of property and equipment using Cambodia GAAP that are broadly comparable to depreciated cost in accordance with CIFRSs as at the date of transition to CIFRSs.

# LOLC (Cambodia) Plc.

## Notes to the financial statements (continued) for the year ended 31 December 2019

### 36. Explanation of transition to CIFRSs (continued)

#### Optional exemptions applied (continued)

##### *Leases*

CIFRS 16 introduces consequential amendments to CIFRS 1, which include an option for a first-time adopter to apply the new lease definition to contracts existing at the date of transition based on facts and circumstances at that date.

The Company applied the abovementioned exemption and maintained the conclusions achieved arising from assessments previously made under Cambodia GAAP for existing lease arrangements.

Other optional exemptions available under CIFRS 1, which are not discussed here, are not material to the Company.

#### Mandatory exemptions

##### *Estimates*

The estimates at 1 January 2018 and at 31 December 2018 are consistent with those made for the same dates in accordance with Cambodia GAAP. The estimates used by the Company to present these amounts in accordance with CIFRSs reflect conditions at 1 January 2018, the date of transition to CIFRSs, and as at 31 December 2018.

##### *Derecognition of financial assets and financial liabilities*

A first-time adopter shall apply the derecognition requirements of CIFRSs prospectively for transactions occurring on or after 1 January 2018, the date of transition to CIFRSs. However, an entity may apply the derecognition requirements of CIFRSs from a retrospective date of the entity's choosing provided that the information required to do this was obtained at the time of initially accounting for those transactions.

The Company have applied the derecognition requirements of CIFRSs prospectively for transactions occurring on or after 1 January 2018.

The reconciliations contain two columns for each period as well as the Cambodia GAAP and CIFRS results. The "reclassification" column includes reclassification and reanalysis of amounts from their Cambodia GAAP statement of financial position lines to the appropriate CIFRS statement of financial position lines. The "effect of transition to CIFRSs" column sets out the effects of the recognition and measurement changes required by the transition to IFRS. The "effect of transition to CIFRSs" columns are further analysed into the type of adjustment.

An explanation of how the transition from previous Cambodia GAAP to CIFRSs and the adoption of CIFRS 9 and CIFRS 15 have affected the Company's financial position, financial performance and cash flows, is set out under the summary of quantitative impact and the accompanying notes.

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 36. Explanation of transition to CIFRSs (continued)

##### 36.1 Reconciliation of equity

The following reconciliations summarise the impacts on initial application of CIFRSs on the Company's financial position as at 31 December 2017 and 1 January 2018 and the Company's profit or loss and other comprehensive income for the year ended 31 December 2018.

	Note	31 December 2017			1 January 2018 CIFRSs (KHR'000)
		Cambodia GAAP (KHR'000)	Effect of transition to CIFRSs		
			Reclassification (KHR'000)	Remeasurement (KHR'000)	
<b>ASSETS</b>					
Cash and cash equivalents		127,316,430	-	-	127,316,430
Placements with banks		5,044,400	332,704	-	5,377,104
Statutory deposits		43,880,336	-	-	43,880,336
Loans to customers – net	361A(ii)	1,283,839,747	13,508,930	(12,902,078)	1,284,446,599
Other assets	36B	23,979,172	(17,306,884)	(2,054,833)	4,617,455
Investment – equity instrument		60,555	-	-	60,555
Intangible assets		3,389,765	-	-	3,389,765
Property and equipment		7,500,098	-	-	7,500,098
Right-of-use assets	36B	-	-	18,473,235	18,473,235
Deferred tax assets – net		4,404,378	-	-	4,404,378
<b>Total assets (KHR'000)</b>		<b>1,499,414,881</b>	<b>(3,465,250)</b>	<b>3,516,324</b>	<b>1,499,465,955</b>

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 36. Explanation of transition to CIFRSs (continued)

##### 36.1 Reconciliation of equity (continued)

	Note	31 December 2017			1 January 2018
		Cambodia GAAP (KHR'000)	Effect of transition to CIFRSs		CIFRSs (KHR'000)
			Reclassification (KHR'000)	Remeasurement (KHR'000)	
<b>LIABILITIES AND EQUITY</b>					
Deposits from customers		364,599,225	6,137,372	-	370,736,597
Borrowings		788,987,098	6,460,069	(7,642,972)	787,804,195
Subordinated debts		41,984,800	632,505	2,596,292	45,213,597
Lease liabilities	36B	-	-	16,418,402	16,418,402
Other liabilities		38,400,976	(16,695,196)	-	21,705,780
Current income tax liability		13,836,836	-	-	13,836,836
Total liabilities		<u>1,247,808,935</u>	<u>(3,465,250)</u>	<u>11,371,722</u>	<u>1,255,715,407</u>
<b>EQUITY</b>					
Share capital		71,684,100	-	-	71,684,100
General reserves		7,168,410	-	-	7,168,410
Regulatory reserves	36A(iv)	-	-	4,632,244	4,632,244
Retained earnings	36A(iv)	<u>172,753,436</u>	-	<u>(12,487,642)</u>	<u>160,265,794</u>
Total equity		<u>251,605,946</u>	-	<u>(7,855,398)</u>	<u>243,750,548</u>
<b>Total liabilities and equity</b>		<u>1,499,414,881</u>	<u>(3,465,250)</u>	<u>3,516,324</u>	<u>1,499,465,955</u>

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 36. Explanation of transition to CIFRSs (continued)

##### 36.1 Reconciliation of equity (continued)

The following reconciliations summarise the impacts on initial application of CIFRSs on the Company's financial position as at 31 December 2017 and 1 January 2018 and the Company's profit or loss and other comprehensive income for the year ended 31 December 2018.

	Note	31 December 2018		31 December 2018	
		Cambodia GAAP (KHR'000)	Effect of transition to CIFRSs		CIFRSs (KHR'000)
			Reclassification (KHR'000)	Remeasurement (KHR'000)	
<b>ASSETS</b>					
Cash and cash equivalents		368,244,617	-	-	368,244,617
Placements with banks		200,000	340	-	200,340
Statutory deposits		106,248,047	-	-	106,248,047
Loans to customers – net	36A(ii)	1,928,675,767	18,259,715	(24,540,731)	1,922,394,751
Other assets		44,105,879	(23,186,781)	(2,784,919)	18,134,179
Investment – equity instrument		60,270	-	-	60,270
Intangible assets		4,505,809	-	-	4,505,809
Property and equipment		6,544,540	-	-	6,544,540
Right-of-use assets	36B	-	-	18,384,941	18,384,941
Deferred tax assets – net		7,581,894	-	-	7,581,894
<b>Total assets (KHR'000)</b>		<u>2,466,166,823</u>	<u>(4,926,726)</u>	<u>(8,940,709)</u>	<u>2,452,299,388</u>

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 36. Explanation of transition to CIFRSs (continued)

##### 36.1 Reconciliation of equity (continued)

	Note	31 December 2018			31 December 2018
		Cambodia GAAP (KHR'000)	Effect of transition to CIFRSs		CIFRSs (KHR'000)
			Reclassification (KHR'000)	Remeasurement (KHR'000)	
<b>LIABILITIES AND EQUITY</b>					
Deposits from customers		935,084,264	16,821,662	-	951,905,926
Borrowings		1,004,882,111	5,562,089	1,353,043	1,011,797,243
Subordinated debts		83,574,400	1,377,086	154,471	85,105,957
Lease liabilities	36B	-	-	16,891,194	16,891,194
Other liabilities		64,295,429	(28,687,563)	-	35,607,866
Provision for employee benefits		4,323,740	-	-	4,323,740
Current income tax liability		20,523,933	-	-	20,523,933
Total liabilities		<u>2,112,683,877</u>	<u>(4,926,726)</u>	<u>18,398,708</u>	<u>2,126,155,859</u>
<b>EQUITY</b>					
Share capital		120,000,000	-	-	120,000,000
Advance capital contribution		20,846,600	-	-	20,846,600
General reserves		110,415,116	-	-	110,415,116
Regulatory reserves	36A(iv)	-	-	8,384,769	8,384,769
Retained earnings	36A(iv)	102,221,230	-	(35,724,186)	66,497,044
Total equity		<u>353,482,946</u>	<u>-</u>	<u>(27,339,417)</u>	<u>326,143,529</u>
<b>Total liabilities and equity</b>		<u><u>2,466,166,823</u></u>	<u><u>(4,926,726)</u></u>	<u><u>(8,940,709)</u></u>	<u><u>2,452,299,388</u></u>

# LOLC (Cambodia) Plc.

## Notes to the financial statements (continued) for the year ended 31 December 2019

### 36. Explanation of transition to CIFRSs (continued)

Summary of balance sheet reclassifications and key adjustments as a result of transition from Cambodia GAAP to CIFRSs:

#### A. Financial assets and liabilities

CIFRS 9 Financial Instruments sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. It also introduces a new 'expected credit loss' (ECL) model and a new general hedge accounting model. The Company adopted CIFRS 9 from 1 January 2018.

Changes in accounting policies resulting from the adoption of CIFRS 9 have been generally applied by the Company retrospectively, except as described below.

- The following assessments were made on the basis of facts and circumstances that existed at 1 January 2018.
  - The determination of the business model within which a financial asset is held;
  - The determination of whether the contractual terms of a financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding;
  - The designation of an equity investment that is not held-for-trading as at FVOCI; and
- If a debt investment has low credit risk at 1 January 2018, the Company had assumed that the credit risk on the asset has not increased significantly since its initial recognition.

The impact upon adoption of CIFRS 9, including the corresponding tax effects, are described below.

#### (i) *Classification of financial assets and financial liabilities*

Under CIFRS 9, financial assets are classified in the following categories: measured at amortised cost, FVOCI – debt instrument, FVOCI – equity instrument; or FVTPL. The classification of financial assets under CIFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

For an explanation of how the Company classifies and measures financial assets and related gains and losses under CIFRS 9, see Note 35C(ii).

The following table and the accompanying notes below explain the original measurement categories under Cambodia GAAP and the new measurement categories under CIFRS 9 for each class of the Company's financial assets as at 1 January 2018.

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 36. Explanation of transition to CIFRSs (continued)

##### 36.1 Reconciliation of statements of financial position (continued)

##### A. Financial assets and liabilities (continued)

##### (i) Classification of financial assets and financial liabilities (continued)

	Note	Original classification under Cambodia GAAP	New classification under CIFRS 9	Original carrying amount under Cambodia GAAP KHR'000	New carrying amount under CIFRS 9 KHR'000
<b>Financial assets</b>					
Cash and cash equivalents		Cost	Amortised cost	127,316,430	127,316,430
Placements with banks		Cost	Amortised cost	5,044,400	5,377,104
Investment	(a)	Cost	Mandatorily at FVOCI	60,555	60,555
Loans to customers	(b)	Carrying amount	Amortised cost	1,283,839,747	1,284,446,599
Other assets	(b)	Carrying amount	Amortised cost	23,979,172	4,617,456
<b>Total financial assets (KHR'000)</b>				<u>1,440,240,304</u>	<u>1,421,818,144</u>
<b>Total financial assets (US\$)</b>				<u>356,760,046</u>	<u>352,196,716</u>

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 36. Explanation of transition to CIFRSs (continued)

##### 36.1 Reconciliation of statements of financial position (continued)

##### A. Financial assets and liabilities (continued)

##### (i) Classification of financial assets and financial liabilities (continued)

	Note	Original classification under Cambodia GAAP	New classification under CIFRS 9	Original carrying amount under Cambodia GAAP KHR'000	New carrying amount under CIFRS 9 KHR'000
<b>Financial liabilities</b>					
Deposits from customers	(c)	Cost	Amortised cost	364,599,225	364,599,225
Borrowings	(c)	Cost	Amortised cost	788,987,099	787,804,195
Subordinated debts	(c)	Carrying amount	Amortised cost	41,984,800	45,213,597
Other liabilities	(c)	Carrying amount	Amortised cost	38,400,976	21,163,864
<b>Total financial liability (KHR'000)</b>				<u>1,233,972,100</u>	<u>1,218,780,881</u>
<b>Total financial liability (US\$)</b>				<u>305,665,618</u>	<u>301,902,621</u>

- (a) Under Cambodia GAAP, these equity investments were measured at cost. These assets have been classified as mandatorily measured under FVOCI under CIFRS 9.
- (b) Loans to customers to customers classified as loans and receivables under Cambodia GAAP are now classified at amortised cost. An increase of KHR4,632,244 thousand in the allowance for impairment was recognised in opening retained earnings of the Company at 1 January 2018 respectively on transition to CIFRS 9.
- (c) Under Cambodia GAAP, these financial liabilities that were classified at cost are now classified at amortised cost which resulted in an increase of the amortised cost of KHR15,191,219 thousand at 1 January 2018.

# LOLC (Cambodia) Plc.

## Notes to the financial statements (continued) for the year ended 31 December 2019

### 36. Explanation of transition to CIFRSs (continued)

#### 36.1 Reconciliation of statements of financial position (continued)

##### A. Financial assets and liabilities (continued)

###### (ii) *Impairment of financial assets*

CIFRS 9 replaces the 'incurred loss' model in Cambodia GAAP with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets, debt investments at FVOCI and intra-group financial guarantee contracts, but not to equity investments. The adoption of the new impairment model under CIFRS 1 does not affect the carrying amount of intra-group financial guarantee contracts at 1 January 2018, as the amount initially recognised less the cumulative amount of income recognised in accordance with CIFRS 15 is higher than the estimated ECL amount.

The application of CIFRS 9 impairment requirements at 1 January 2018 results in less allowances for impairment as follows:

	KHR'000	US\$ (Note 5)
Loss allowance at 31 December 2017 under Cambodia GAAP	22,714,400	5,626,554
Less impairment recognised at 1 January 2018 on:		
Loans to customers	(4,632,244)	(1,147,447)
Placements with banks	-	-
Loss allowance at 1 January 2018 under CIFRS 9	<u>18,082,156</u>	<u>4,479,107</u>

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt investments at FVOCI, the loss allowance is recognised in OCI, instead of reducing the carrying amount of the asset.

Additional information about how the Company measure the allowance for impairment is described in Note 9.

###### (iii) *Interest*

Under Cambodia GAAP, fees integral to the financial assets and liabilities were not considered as effective interest and recognised as income or expense on occurrence of transactions.

Recognition of interest income was suspended when loan become non-performing.

Under CIFRSs, a financial asset or financial liability is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue.

# LOLC (Cambodia) Plc.

## Notes to the financial statements (continued) for the year ended 31 December 2019

### 36. Explanation of transition to CIFRSs (continued)

#### 36.1 Reconciliation of statements of financial position (continued)

##### A. Financial assets and liabilities (continued)

###### (iii) Interest (continued)

The impact arising from the change is summarised as follows:

	1 January 2018 KHR'000	31 December 2018 KHR'000
<b>Statement of financial position</b>		
Loans to customers	(12,902,078)	(15,391,178)
Right-of-use assets	-	(1,291,172)
Borrowings	7,642,972	(6,399,723)
Subordinated debts	(2,596,292)	(154,471)
Adjustment to retained earnings	<u>(7,855,398)</u>	<u>(23,236,544)</u>
<b>Statement of profit or loss and other comprehensive income</b>		
Interest income		22,662,959
Interest expense		(12,210,661)
Allowance for impairment		3,752,525
Fees and commission income		(38,054,137)
Fees and commission expense		<u>4,365,295</u>
		<u>(19,484,019)</u>

# LOLC (Cambodia) Plc.

## Notes to the financial statements (continued) for the year ended 31 December 2019

### 36. Explanation of transition to CIFRSs (continued)

#### 36.1 Reconciliation of statements of financial position (continued)

##### A. Financial assets and liabilities (continued)

###### (iv) Transition impact on equity

The following table summarises the impact, net of tax, of transition to CIFRS 9 on regulatory reserves and retained earnings at 1 January 2018.

	Impact of adopting CIFRS 9 at 1 January 2018	
	KHR'000	US\$ (Note 5)
<b>Regulatory reserves</b>		
Closing balance under Cambodia GAAP (31 December 2017)	-	-
Transfer from retained earnings to regulatory reserves	4,632,244	1,147,447
Opening balance under CIFRS 9 (1 January 2018)	<u>4,632,244</u>	<u>1,147,447</u>

	Impact of adopting CIFRS 9 at 1 January 2018	
	KHR'000	US\$ (Note 5)
<b>Retained earnings</b>		
Closing balance under Cambodia GAAP (31 December 2017)	172,753,436	42,792,528
Remeasurement of amortised costs under CIFRS 9	(12,487,642)	(3,093,297)
Recognition of expected credit losses under CIFRS 9	4,632,244	1,147,447
Transfer to regulatory reserves	<u>(4,632,244)</u>	<u>(1,147,447)</u>
Opening balance under CIFRS 9 (1 January 2018)	<u>160,265,794</u>	<u>39,699,231</u>

##### B. Leases

The Company previously classified leases as operating leases under CAS 17 based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under CIFRS 16, the Company recognises right-of-use assets and lease liabilities for leases of office premises – i.e. these leases are on-balance sheet.

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 36. Explanation of transition to CIFRSs (continued)

##### 36.1 Reconciliation of statements of financial position (continued)

###### B. Leases (continued)

The impact arising from the change is summarised as follows:

	1 January 2018 KHR'000	31 December 2018 KHR'000
<b>Statement of financial position</b>		
Right-of-used assets	18,473,235	18,384,941
Other assets	(2,054,833)	(2,784,919)
Lease liabilities	<u>(16,418,402)</u>	<u>(16,891,194)</u>
<b>Adjustment to retained earnings</b>	<u>-</u>	<u>(1,291,172)</u>
US\$ – Note 5	<u>-</u>	<u>(319,202)</u>
		2018
<b>Statement of profit or loss and other comprehensive income</b>		
Depreciation of right-of-used assets		(4,865,105)
Interest expense on lease liability		(1,297,451)
Rental expenses		<u>4,871,384</u>
<b>Adjustment before income tax – KHR'000</b>		<u>(1,291,172)</u>
<b>Adjustment to before income tax (US\$ – Note 5)</b>		<u>(319,202)</u>

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 36. Explanation of transition to CIFRSs (continued)

##### 36.2 Reconciliation of statement of profit or loss and other comprehensive income for the year ended 31 December 2018

	Note	Cambodia GAAP KHR'000	Effect of transition to CIFRSs		CIFRSs KHR'000
			Reclassification KHR'000	Remeasurement KHR'000	
<b>Operating income</b>					
Interest income		292,192,298	-	22,662,959	314,855,256
Interest expense		(126,351,823)	-	(12,210,661)	(138,562,482)
<b>Net interest income</b>		<u>165,840,475</u>	<u>-</u>	<u>10,452,298</u>	<u>176,292,774</u>
Allowances for bad and doubtful loans to customers		(16,066,592)	-	3,752,525	(12,314,067)
Allowance for impairment on balances with other banks		(1,092,433)	-	-	(1,092,433)
<b>Total operating profit</b>		<u>148,681,451</u>	<u>-</u>	<u>14,204,823</u>	<u>162,886,274</u>
Operating income		78,684,898	-	(38,054,137)	40,630,762
Commission expenses		(2,398,475)	-	-	(2,398,475)
Personnel expenses		(76,035,389)	-	-	(76,035,389)
Depreciation and amortisation		(4,169,363)	-	(4,865,105)	(9,034,468)
General and administrative expenses		(42,675,243)	-	9,230,400	(33,444,843)
Net foreign exchange loss		(309,557)	-	-	(309,558)
<b>Total operating expenses</b>		<u>(46,903,129)</u>	<u>-</u>	<u>(33,688,842)</u>	<u>(80,591,971)</u>

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 36. Explanation of transition to CIFRSs (continued)

##### 36.2 Reconciliation of statement of profit or loss and other comprehensive income for the year ended 31 December 2018 (continued)

	Note	Cambodia GAAP KHR'000	Effect of transition to CIFRSs		CIFRSs KHR'000
			Reclassification KHR'000	Remeasurement KHR'000	
<b>Profit before income tax</b>		101,778,322	-	(19,484,019)	82,294,303
Income tax expense		<u>(20,747,922)</u>	-	-	<u>(20,747,922)</u>
<b>Net profit for the year</b>		<u>81,030,400</u>	-	<u>(19,484,019)</u>	<u>61,546,381</u>
<b>Other comprehensive income</b>					
Currency translation reserves		<u>-</u>	-	-	<u>-</u>
<b>Total comprehensive income for the year</b>		<u>81,030,400</u>	-	<u>(19,484,019)</u>	<u>61,546,381</u>

# LOLC (Cambodia) Plc.

## Notes to the financial statements (continued) for the year ended 31 December 2019

### 36. Explanation of transition to CIFRSs (continued)

#### 36.2 Reconciliation of statement of profit or loss and other comprehensive income for the year ended 31 December 2018 (continued)

Summary of profit or loss and other comprehensive income reclassifications and key adjustments as a result of transition from Cambodia GAAP to CIFRSs:

##### A. Fees and commission

CIFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It also introduces new cost guidance which requires certain costs of obtaining and fulfilling contracts to be recognised as separate assets when specified criteria are met.

The Company adopted CIFRS 15 in its financial statements using the retrospective approach. All requirements of CIFRS 15 have been applied retrospectively, except for the application of the practical expedients as described below, and the information presented for 2018 has been restated.

The Company has applied the following practical expedients as allowed under CIFRS 1.

- Completed contracts that began and ended in the same annual reporting period in 2018 and contracts completed at 1 January 2018 are not restated.
- For completed contracts that have variable consideration, the Company used the transaction price at the date the contract was completed to restate comparative information.
- For contracts modified before 1 January 2018, the Company has reflected the aggregate effect of all of the modifications that occurred before 1 January 2018 when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price to the satisfied and unsatisfied performance obligations. Had the Company elected not to apply this practical expedient, the amount of revenue recorded for the prior year would have been higher.
- For the year ended 31 December 2018, the Company did not disclose the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the Company expects to recognise that amount as revenue.

The impact upon the adoption of CIFRS 15, including the corresponding tax effects, are described below:

	31 December 2018		1 January 2018	
	KHR'000	US\$	KHR'000	US\$
		Note 5		Note 5
<b>Statement of financial position</b>				
Increase in deferred tax liabilities	-	-	-	-
Increase in retained earnings	<u>(23,236,544)</u>	<u>(5,745,931)</u>	<u>(12,487,642)</u>	<u>(3,087,180)</u>

## LOLC (Cambodia) Plc.

### Notes to the financial statements (continued) for the year ended 31 December 2019

#### 36. Explanation of transition to CIFRSs (continued)

##### 36.2 Reconciliation of statement of profit or loss and other comprehensive income for the year ended 31 December 2018 (continued)

###### A. Fees and commission (continued)

The impact upon the adoption of CIFRS 15, including the corresponding tax effects, are described below: (continued)

	2018		2017	
	KHR'000	US\$ (Note 5)	KHR'000	US\$ (Note 5)
<b>Statement of profit or loss</b>				
Increase in interest income	22,662,959	5,604,095	17,534,322	4,334,814
Increase in interest expense	(12,210,661)	(3,019,451)	991,008	244,996
Decrease in loss allowance	3,752,525	927,924	4,632,244	1,145,178
Increase in fee/commission income	(38,054,137)	(9,410,024)	(25,093,667)	(6,203,626)
Increase in fee/commission expense	<u>4,365,295</u>	<u>1,079,450</u>	<u>3,942,126</u>	<u>974,568</u>
Increase in profit for the year	<u>(19,484,019)</u>	<u>(4,818,006)</u>	<u>2,006,033</u>	<u>495,930</u>

##### 36.3 Reconciliation of profit after tax

	KHR'000	US\$ (Note 5)
<b>31 December 2018</b>		
Profit after tax under Cambodia GAAP	81,030,400	20,037,191
Interest income from loans to customers	(11,638,653)	(2,878,005)
Interest expense on borrowings	(6,399,723)	(1,582,523)
Interest expense on subordinated debts	(154,471)	(38,198)
Interest expense on lease liabilities	(1,291,172)	(319,282)
Income tax	-	-
	<u>(19,484,019)</u>	<u>(4,818,008)</u>
Profit after tax under CIFRSs	<u>61,546,381</u>	<u>15,219,183</u>

##### 36.4 Material adjustments to the statement of cash flows for 2018

The statement of cash flows presented under CIFRSs is similar, in all material respects, to the statement of cash flows presented under Cambodia GAAP.

## **LOLC (Cambodia) Plc.**

### **Notes to the financial statements (continued) for the year ended 31 December 2019**

#### **37. Subsequent event**

##### **Coronavirus and impact on ECL**

The ECL at 31 December 2019 was estimated based on a range of forecast economic conditions as at that date. Since early January 2020, the coronavirus outbreak has spread across mainland China, Cambodia and beyond, causing disruption to business and economic activity. The impact on GDP and other key indicators will be considered when determining the severity and likelihood of downside economic scenarios that will be used to estimate ECL under CIFRS 9 in 2020.