

LOLC (CAMBODIA) PLC.

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

LOLC (CAMBODIA) PLC.

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

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DIRECTORS' REPORT

The Board of Directors ("the Directors") hereby submits their report together with the audited financial statements of LOLC (Cambodia) Plc. ("the Company") for the year ended 31 December 2020.

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.

FINANCIAL PERFORMANCE

The financial performance of the Company for the year is set out in the in the statement of profit or loss and other comprehensive income on page 10.

STATUTORY CAPITAL

There were no changes in the shareholders of the Company during the year.

BAD AND DOUBTFUL FINANCIAL FACILITIES

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

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

ASSETS

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

At the date of this report and to the best of their knowledge, the Directors are not aware of any circumstances which would render the values attributed to the assets in the financial statements of the Company misleading in any material respect.

CONTINGENT AND OTHER LIABILITIES

At the date of this report, there is:

- (a) no charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person, and
- (b) no contingent liability in respect of the Company that has arisen since the end of the financial year other than in the ordinary course of banking business.

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

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

THE BOARD OF DIRECTORS

The Board of Directors of the Company during the year and up to the date of this report are:

- | | |
|--|----------|
| 1. Mr. Brindley Chrishantha Gajanayake de Zylva | Chairman |
| 2. Mr. Indrajith Wijesiriwardana | Member |
| 3. Mr. Hans Michael Theodor Moormann | Member |
| 4. Mr. Dulip Rasika Samaraweera | Member |
| 5. Mr. Francisco Kankanamalage Conrad Prasad Nirosh Dias | Member |

THE DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for ascertaining that the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020 and of its financial performance and its cash flows for the year then ended in accordance with the Cambodian International Financial Reporting Standards ("CIFRS").

In preparing these financial statements, the Directors are 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 the disclosure requirements of CIFRS or, if there have been any departures in the interest of fair presentation, these have been appropriately disclosed, explained and quantified in the financial statements;
- iii) maintain adequate accounting records and an effective system of internal controls;
- iv) prepare the financial statements on the going concern basis unless it is inappropriate to assume that the Company will continue operations in the foreseeable future; and

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

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

APPROVAL OF THE FINANCIAL STATEMENTS

The accompanying financial statements, together with the notes thereto, which present fairly, in all material respects, the financial position of the Company as at 31 December 2020 and the financial performance and cash flows of the Company for the year then ended in accordance with the Cambodian International Financial Reporting Standards, were approved by the Board of Directors.

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



Mr. Sok Voeun
Chief Executive Officer

Phnom Penh, Kingdom of Cambodia

26 MAR 2021



Independent auditor's report

To the shareholders of LOLC (Cambodia) Plc.

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of LOLC (Cambodia) Plc. ("the Company") as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with Cambodian International Financial Reporting Standards ("CIFRS").

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2020;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Cambodian International Standards on Auditing (CISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code") and the ethical requirements of the Kampuchea Institute of Certified Public Accountants and Auditors' Code of Ethics for Certified Public Accountants and Auditors ("KICPAA Code") that are relevant to our audit of the financial statements in Cambodia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the KICPAA Code.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. We determine one key audit matter: Allowances for expected credit losses on loans to customers. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.



Key audit matter	How our audit addressed the key audit matter
<p>Allowances for expected credit losses on loans to customers</p> <p>Refer to:</p> <ul style="list-style-type: none"> • Note 2.5.e – Summary of significant accounting policies on allowances for expected credit losses on loans to customers • Note 3.i - Assumptions and judgments on allowances for expected credit losses on loans to customers • Note 8.a – Allowances for expected credit losses on loans to customers • Note 36.1 – Credit risk <p>Management applied significant assumptions and judgements using the collective assessment approach in measuring allowances for expected credit losses (ECL) on loans to customers. Key assumptions and judgements include:</p> <ul style="list-style-type: none"> • grouping financial assets sharing similar credit risk characteristics for the purposes of measuring ECL • choosing appropriate models and assumptions to measure ECL • determining criteria for identifying loans to customers that have experienced a significant increase in credit risk (SICR) • applying assumptions and analysis on expected future cash flows and forward-looking information • applying a non-mechanistic approach to ECL by considering additional qualitative criteria for SICR on restructured loans due to COVID-19 and determining percentages for probability-weighted scenarios reflecting the most recent economic conditions due to COVID-19, which the existing ECL model was not built for. <p>We focused on this area because significant management judgement was required to make an appropriate and accurate estimation.</p>	<p>These were the procedures used to examine management’s estimation for ECL:</p> <ul style="list-style-type: none"> • obtaining an understanding of and evaluating the credit policies, procedures and controls put in place by management • obtaining an understanding of and evaluating CIFRS 9 accounting policies • testing loan samples to check compliance with the Company’s credit policies and procedures • assessing the appropriateness of grouping financial assets that share similar credit risk characteristics • gaining an understanding of and assessing the ECL model methodology applied against the inherent nature of each loan portfolios and the requirements of CIFRS 9 • evaluating the design and testing operating effectiveness of internal controls on the approval of loan write-offs, and on the review and approval of the ECL impairment model, forward-looking macro-economic variables and the percentage for probability-weighted scenarios • assessing the reasonableness of and testing assumptions made by management on expected future cash flows, forward-looking information, percentages for probability-weighted scenario, and other assumptions against the requirement of CIFRS 9 and reasonable and supportable information • testing the reliability of data, on a sample basis, of historical loan data, loan data at 31 December 2020, and historical macro-economic • assessing the reasonableness of and testing the selection of forward-looking macro-economic variables conforming to model methodology • testing the criteria and thresholds used to determine SICR against the requirements of CIFRS 9



Key audit matter	How our audit addressed the key audit matter
	<ul style="list-style-type: none"> • on a sample basis, tracing transfers between stages of loans conformed to criteria and thresholds used to determine SICR and that stages have been reflected in ECL calculation • on a sample basis, recomputing ECL and reconciling ECL balances to accounting records and testing ECL movement <p>These were the procedures relating to the impact of COVID-19 impact on ECL measurement:</p> <ul style="list-style-type: none"> • evaluating the design and testing operating effectiveness of internal controls on credit risk assessment and on approval for loan restructuring • on a sample basis, recomputing gain/loss from loan modifications due to restructuring • assessing qualitative criteria for SICR for restructured loans due to COVID-19 against requirements of CIFRS 9 • on a sample basis, tracing transfers between stages due to COVID-19 restructuring to check they have been reflected in the ECL calculation • assessing the reasonableness of and testing assumptions used for determining percentages for probability-weighted scenarios due to COVID-19, by benchmarking to reasonable and supportable information <p>From the results of these procedures, we determined that the key assumptions for management's estimation were reasonable. We found no material exception.</p>



Other information

Management is responsible for the other information. The other information comprises the directors' report and the supplementary financial information and other disclosures required by the National Bank of Cambodia but does not include the financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and an 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

When we read an annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CISA's 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 CISA's, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:



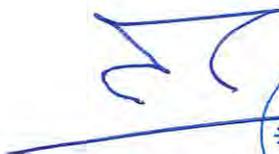
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

For PricewaterhouseCoopers (Cambodia) Ltd.


By Kuy Lim
Partner



Phnom Penh, Kingdom of Cambodia
26 March 2021

LOLC (CAMBODIA) PLC.

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020**

	Notes	2020 KHR'000	2019 KHR'000	2020 US\$	2019 US\$
ASSETS					
Cash on hand	4	89,631,890	105,185,581	22,158,687	25,812,413
Deposits and placements with the central bank	5	322,627,715	570,920,007	79,759,633	140,103,069
Deposits and placements with banks	6	235,909,185	77,291,436	58,321,183	18,967,224
Financial assets at fair value through other comprehensive income	7	60,675	61,125	15,000	15,000
Loans and advances at amortised cost	8	3,394,874,917	3,115,481,925	839,276,865	764,535,442
Statutory deposits with the central bank	9	217,819,305	187,099,453	53,849,025	45,913,976
Property and equipment	10	7,540,158	7,841,251	1,864,069	1,924,233
Right-of-use assets	11	20,687,945	19,667,508	5,114,449	4,826,382
Intangible assets	12	6,109,699	5,100,225	1,510,432	1,251,589
Deferred tax assets	13	25,449,305	9,127,261	6,291,546	2,239,819
Other assets	14	13,623,985	15,331,602	3,368,105	3,762,357
TOTAL ASSETS		<u>4,334,334,779</u>	<u>4,113,107,374</u>	<u>1,071,528,994</u>	<u>1,009,351,504</u>
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits from banks and other financial institutions	15	134,232,604	93,135,131	33,184,822	22,855,247
Deposits from customers	16	2,033,967,962	1,771,835,361	502,835,096	434,806,223
Borrowings	17	1,083,286,330	1,426,459,591	267,808,734	350,051,433
Debt securities	18	81,350,297	81,755,899	20,111,322	20,062,797
Lease liabilities	11	18,229,165	18,602,031	4,506,592	4,564,916
Current income tax liabilities	19	47,899,684	13,621,187	11,841,702	3,342,623
Employee benefits	20	2,650,325	2,850,672	655,210	699,551
Other liabilities	21	34,299,188	30,852,745	8,479,403	7,571,227
Subordinated debts	22	165,561,432	120,587,586	40,929,897	29,592,046
TOTAL LIABILITIES		<u>3,601,476,987</u>	<u>3,559,700,203</u>	<u>890,352,778</u>	<u>873,546,063</u>
EQUITY					
Share capital	23	224,377,400	224,377,400	55,460,850	55,460,850
Retained earnings		298,065,276	107,919,895	73,379,198	26,740,647
General reserves		210,415,116	210,415,116	51,979,374	51,979,374
Regulatory reserves	24	-	10,694,760	-	2,645,229
Other reserves		-	-	356,794	(1,020,659)
TOTAL EQUITY		<u>732,857,792</u>	<u>553,407,171</u>	<u>181,176,216</u>	<u>135,805,441</u>
TOTAL LIABILITIES AND EQUITY		<u>4,334,334,779</u>	<u>4,113,107,374</u>	<u>1,071,528,994</u>	<u>1,009,351,504</u>

The accompanying notes on pages 13 to 72 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 2020**

	Notes	2020 KHR'000	2019 KHR'000	2020 US\$	2019 US\$
Interest income	25	665,618,450	522,750,976	163,261,822	129,010,606
Interest expense	25	(269,689,816)	(215,485,800)	(66,149,084)	(53,180,109)
Net interest income		<u>395,928,634</u>	<u>307,265,176</u>	<u>97,112,738</u>	<u>75,830,497</u>
Fee and commission income	26	19,548,817	12,614,519	4,794,902	3,113,158
Fee and commission expense	26	(698,829)	(1,118,386)	(171,408)	(276,008)
Net fee and commission income		<u>18,849,988</u>	<u>11,496,133</u>	<u>4,623,494</u>	<u>2,837,150</u>
Other operating income		4,452,855	2,377,752	1,092,189	586,809
Other (losses)/gains – net		(539,199)	1,584,730	(132,254)	391,099
Total other operating income		<u>3,913,656</u>	<u>3,962,482</u>	<u>959,935</u>	<u>977,908</u>
Credit impairment losses	27	(38,192,446)	(12,260,613)	(9,367,782)	(3,025,818)
Net gains/(losses) on derecognition of financial assets measured at amortised cost		(3,367,892)	(2,929,720)	(826,071)	(723,030)
Net other operating loss		<u>(37,646,682)</u>	<u>(11,227,851)</u>	<u>(9,233,918)</u>	<u>(2,770,940)</u>
Personnel expenses	28	(115,708,934)	(100,060,719)	(28,380,901)	(24,694,156)
Depreciation and amortisation charges	29	(10,243,616)	(10,307,083)	(2,512,538)	(2,543,703)
Other operating expenses	30	(39,841,017)	(36,166,742)	(9,772,141)	(8,925,652)
Profit before income tax		<u>211,338,373</u>	<u>160,998,914</u>	<u>51,836,734</u>	<u>39,733,196</u>
Income tax expense	31	(31,887,752)	(17,266,072)	(7,821,377)	(4,261,123)
Profit for the year		<u>179,450,621</u>	<u>143,732,842</u>	<u>44,015,357</u>	<u>35,472,073</u>
Other comprehensive income: <i>Items that will not be reclassified to profit or loss</i>					
Currency translation differences		-	-	1,377,453	(1,443,052)
Other comprehensive income for the year, net of tax		-	-	1,377,453	(1,443,052)
Total comprehensive income for the year		<u>179,450,621</u>	<u>143,732,842</u>	<u>45,392,810</u>	<u>34,029,021</u>
Profit attributable to:					
Owners of the Company		<u>179,450,621</u>	<u>143,732,842</u>	<u>44,015,357</u>	<u>35,472,073</u>
Total comprehensive income attributable to:					
Owners of the Company		<u>179,450,621</u>	<u>143,732,842</u>	<u>45,392,810</u>	<u>34,029,021</u>

The accompanying notes on pages 13 to 72 form an integral part of these financial statements.

LOLC (CAMBODIA) PLC.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	Attributable to owners of the Company													
	Share capital KHR'000	Retained earnings KHR'000	General reserves KHR'000	Advance capital contribution KHR'000	Regulatory reserves KHR'000	Other reserves KHR'000	Total KHR'000	Share capital US\$	Retained earnings US\$	General reserves US\$	Advance capital contribution US\$	Regulatory reserves US\$	Other reserves US\$	Total US\$
Balance at 1 January 2019	120,000,000	66,497,044	110,415,116	20,846,600	8,384,769	-	326,143,529	29,701,373	16,517,832	27,300,203	5,153,671	2,075,142	422,393	81,170,614
Profit for the year	-	143,732,842	-	-	-	-	143,732,842	-	35,472,073	-	-	-	-	35,472,073
Other comprehensive income – currency translation differences	-	-	-	-	-	-	-	-	-	-	-	-	(1,443,052)	(1,443,052)
Total comprehensive income the year	-	143,732,842	-	-	-	-	143,732,842	-	35,472,073	-	-	-	(1,443,052)	34,029,021
Transactions with owners in their capacity as owners:														
Issue of share capital	83,530,800	-	-	-	-	-	83,530,800	20,614,709	-	-	-	-	-	20,614,709
Transfer to share capital	20,846,600	-	-	(20,846,600)	-	-	-	5,144,768	-	-	(5,144,768)	-	-	-
Transfer to general reserves	-	(100,000,000)	100,000,000	-	-	-	-	-	(24,679,171)	24,679,171	-	-	-	-
Transfer to regulatory reserves	-	(2,309,991)	-	-	2,309,991	-	-	-	(570,087)	-	-	570,087	-	-
Currency translation differences	-	-	-	-	-	-	-	-	-	-	(8,903)	-	-	(8,903)
Total transactions with owners in their capacity as owners:	104,377,400	(102,309,991)	100,000,000	(20,846,600)	2,309,991	-	83,530,800	25,759,477	(25,249,258)	24,679,171	(5,153,671)	570,087	-	20,605,806
Balance at 31 December 2019	224,377,400	107,919,895	210,415,116	-	10,694,760	-	553,407,171	55,460,850	26,740,647	51,979,374	-	2,645,229	(1,020,659)	135,805,441
Balance at 1 January 2020	224,377,400	107,919,895	210,415,116	-	10,694,760	-	553,407,171	55,460,850	26,740,647	51,979,374	-	2,645,229	(1,020,659)	135,805,441
Profit for the year	-	179,450,621	-	-	-	-	179,450,621	-	44,015,357	-	-	-	-	44,015,357
Other comprehensive income – currency translation differences	-	-	-	-	-	-	-	-	-	-	-	-	1,377,453	1,377,453
Total comprehensive income for the year	-	179,450,621	-	-	-	-	179,450,621	-	44,015,357	-	-	-	1,377,453	45,392,810
Transactions with owners in their capacity as owners:														
Transfer from regulatory reserves	-	10,694,760	-	(10,694,760)	-	-	-	-	2,623,194	-	-	(2,623,194)	-	-
Currency translation differences	-	-	-	-	-	-	-	-	-	-	-	(22,035)	-	(22,035)
Total transactions with owners	-	10,694,760	-	(10,694,760)	-	-	-	-	2,623,194	-	-	(2,645,229)	-	(22,035)
Balance at 31 December 2020	224,377,400	298,065,276	210,415,116	-	-	-	732,857,792	55,460,850	73,379,198	51,979,374	-	-	356,794	181,176,216

The accompanying notes on pages 13 to 72 form an integral part of these financial statements.

LOLC (CAMBODIA) PLC.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020**

	Notes	2020 KHR'000	2019 KHR'000	2020 US\$	2019 US\$
Cash flows from operating activities					
Cash used in operations	33	(191,252,146)	(524,359,855)	(46,910,020)	(129,407,664)
Interest received		665,080,424	533,933,978	163,129,856	131,770,478
Interest paid		(260,578,434)	(190,443,622)	(63,914,259)	(46,999,907)
Income tax paid	19	(13,931,299)	(25,714,185)	(3,417,047)	(6,346,048)
Cash generated from/(used in) operating activities		199,318,545	(206,583,684)	48,888,530	(50,983,141)
Cash flows from investing activities					
Capital guarantee deposits		-	(10,437,740)	-	(2,575,948)
Deposits and placements with the central bank		(1,618,372)	-	(396,952)	-
Purchases of property and equipment	10	(3,931,514)	(5,685,615)	(964,315)	(1,403,163)
Purchases of intangible assets	12	(1,643,662)	(988,478)	(403,155)	(243,948)
Proceeds from disposals of property and equipment		80,691	16,135	19,792	3,982
Cash used in investing activities		(7,112,857)	(17,095,698)	(1,744,630)	(4,219,077)
Cash flows from financing activities					
Proceeds from issuance of share capital		-	83,530,800	-	20,614,709
Proceeds from borrowings	33(b)	247,769,133	703,278,993	60,772,414	173,563,424
Repayments of borrowings	33(b)	(582,666,925)	(284,976,489)	(142,915,606)	(70,329,834)
Proceeds from subordinated debts	33(b)	61,155,000	41,133,955	15,000,000	10,151,519
Repayments of subordinated debts	33(b)	(14,602,000)	(5,264,400)	(3,581,555)	(1,299,210)
Proceeds from issuance of corporate bonds	33(b)	-	80,000,000	-	19,743,337
Payment of transaction costs of borrowings and subordinated debts		(3,070,423)	(6,851,417)	(753,108)	(1,690,873)
Principal element of lease payments	33(b)	(4,781,532)	(4,277,844)	(1,172,806)	(1,055,736)
Cash (used in)/generated from financing activities		(296,196,747)	606,573,598	(72,650,661)	149,697,336
Net (decrease)/increase in cash and cash equivalents		(103,991,059)	382,894,216	(25,506,761)	94,495,118
Cash and cash equivalents at beginning of year		752,231,266	369,337,050	184,596,630	91,149,321
Currency translation differences		-	-	1,167,289	(1,047,809)
Cash and cash equivalents at end of year	32	648,240,207	752,231,266	160,257,158	184,596,630

Non-cash investing and financing activities are:

- Acquisition of right-of-use assets – Note 11(a)
- For the year ended 31 December 2019, the Company transferred from advance capital contribution of KHR 20,846,600 thousand to share capital, which is excluded from the statement of cash flows.

The accompanying notes on pages 13 to 72 form an integral part of these financial statements.

LOLC (CAMBODIA) PLC.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. GENERAL INFORMATION

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 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 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” or “the central bank”).

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 which was approved by NBC on 28 November 2017. NBC approved for the change in ownership 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.

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.

The financial statements were authorised for issue by the Board of Directors on 26 March 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The financial statements are prepared in accordance with Cambodian International Financial Reporting Standards (“CIFRS”) which are based on all standards published by the International Accounting Standard Board including other interpretations and amendments that may occur in any circumstances to each standard.

The financial statements have been prepared under the historical cost convention, except for financial asset of equity instrument that measured at fair value.

The Company discloses the amount for each asset and liability that expected to be recovered or settled no more than 12-month after the reporting period as current, and more than 12-month after the reporting period as non-current.

The preparation of financial statements in conformity with CIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

LOLC (CAMBODIA) PLC.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

An English version of the financial statements have been prepared from the statutory financial statements that are in the Khmer language. In the event of a conflict or a difference in interpretation between the two languages, the Khmer language statutory financial statements shall prevail.

2.2 New standards and interpretation

i) New and amended standards adopted by the Company

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

- Definition of Material – amendments to CIAS 1 and CIAS 8
- Revised Conceptual Framework for Financial Reporting

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current and future periods.

ii) New standards and interpretations not yet adopted by the Company

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting period and have not been early adopted by the Company. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2.3 Foreign currency translation

i) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (“the functional currency”). The functional currency is the Khmer Riel (“KHR”) because of the significant influence of the KHR on its operations. The financial statements are presented in KHR which is the Company’s functional currency.

ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings are presented in profit or loss, within interest expense. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other gains/(losses) - net.

LOLC (CAMBODIA) PLC.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Foreign currency translation (continued)

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

The translation of KHR into US\$ is solely for management's use only and is based on the official exchange rates published by the Central Bank as at the reporting dates and average rate for the year. The statement of profit or loss and other comprehensive income and cash flow statement are translated into US\$ using the average rate for the year. Assets and liabilities for each statement of financial position presented and other reserves are translated at the closing rate as of the reporting date. Shareholders' capital is translated at the rate at the date of transaction. Resulting exchange difference arising from the translation of other reserves are recognised directly in equity; all other resulting exchange differences are recognised in other comprehensive income.

The Company has used the official rate of exchange published by the National Bank of Cambodia. As at the reporting date, the yearly average rate was US\$ 1 to KHR 4,077 (2019: US\$ 1 to KHR 4,052) and the closing rate was US\$1 to KHR 4,045 (2019: US\$ 1 to KHR 4,075).

2.4 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents comprise cash on hand, unrestricted deposits and placements with the central bank and banks, and other short-term highly liquid investments with original maturities of three months or less where the Company has full ability to withdraw for general purpose whenever needed and subject to an insignificant risk of changes in value and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

Deposits and placements with the central bank and banks are carried at amortised cost in the statement of financial position.

2.5 Financial assets

a) Classification

The Company classifies its financial assets in the following measurement categories:

- those to be measured at amortised cost are cash on hand, deposits and placements with the central bank and banks, loans and advances at amortised cost, other assets, and
- those to be measured subsequently at fair value through other comprehensive income ("OCI").

The classification depends on the Company's model for managing financial assets and the contractual terms of the financial assets cash flows.

For assets measured at fair value, gains or losses will either be recorded in profit or loss or OCI. For investment in equity instruments that are held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

(i) Financial assets at fair value through OCI comprise of:

- Equity securities which are not held for trading, and for which the Company have made an irrevocable election at initial recognition to recognise changes in fair value through other comprehensive income rather than profit or loss.

LOLC (CAMBODIA) PLC.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Classification (continued)

- (ii) The Company classifies their financial assets at amortised cost only if both of the following criteria are met:
- The asset is held within a business model with the objective of collecting the contractual cash flows, and
 - The contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

b) Recognition and derecognition

Financial assets are recognised when the Company becomes a party to the contractual provision of the instruments. Regular way purchases and sales of financial assets are recognised on trade date, being the date on which the Company commits to purchase or sell the assets.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. A gain or loss on derecognition of a financial asset measured at amortised cost is recognised in profit or loss when the financial asset is derecognised. This includes the amount written off and reversal of subsequent recoveries from write off.

c) Measurement

At initial recognition, the Company measures a financial assets at its fair value plus, in the case of a financial assets not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance ("ECL") is recognised for financial assets measured at amortised cost, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the assets and the cash flow characteristics of the assets. The Company classifies its debt instruments as financial assets measured at amortised cost.

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows are solely payments of principal and interest ("SPPI"), are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised. Interest income from these financial assets is included in finance income using the effective interest rate method.

Equity instruments

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains or losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss allowing the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Company's right to receive payments is established. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Financial assets (continued)

d) Reclassification of financial assets

The Company reclassifies financial assets when and only when their business model for managing those assets changes.

e) Impairment

The Company assesses on a forward-looking basis the expected credit losses (“ECL”) associated with its debt instrument assets carried at amortised cost. The Company recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Company applies a three-stage approach to measuring expected credit losses for debt instruments measured at amortised cost.

The three-stage approach is based on the change in credit risk since initial recognition:

(a) Stage 1: 12-months ECL

Stage 1 includes financial assets which have not had a significant increase in credit risk since initial recognition or which have low credit risk at reporting date. 12-months ECL is recognised and interest income is calculated on the gross carrying amount of the financial assets.

(b) Stage 2: Lifetime ECL – not credit impaired

Stage 2 includes financial assets which have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but do not have objective evidence of impairment. Lifetime ECL is recognised and interest income is calculated on the gross carrying amount of the financial assets.

(c) Stage 3: Lifetime ECL – credit impaired

Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. Lifetime ECL is recognised and interest income is calculated on the net carrying amount of the financial assets.

2.6 Financial liabilities

Financial liabilities are recognised when the Company becomes a party to the contractual provision of the instruments. Financial liabilities of the Company include deposits from banks and other financial institutions, deposits from customers, borrowings, subordinated debts, debt securities and other financial liabilities.

Financial liabilities are initially recognised at fair value less transaction costs for all financial liabilities not carried at fair value through profit or loss.

LOLC (CAMBODIA) PLC.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial liabilities (continued)

Financial liabilities that are not classified as fair value through profit or loss are measured at amortised cost. The financial liabilities measured at amortised cost are deposits from banks and other financial institutions, deposits from customers, borrowings, subordinated debts, debt securities and other liabilities.

Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

2.7 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.8 Property and equipment

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

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

Capital work-in-progress is not depreciated. Depreciation of property and equipment is charged to the profit or loss on a straight-line basis over the estimated useful lives of the individual assets at the following rates:

	Years
Leasehold improvement	Shorter of contractual lease period and its economic lives
Office furniture and equipment	3-5
Computer equipment	3
Motor vehicles	3-5

Depreciation on capital work-in-progress commences when the assets are ready for their intended use. The assets' useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

2.9 Intangible assets

Intangible assets, which comprise acquired computer software and licences and related costs, are stated at cost less accumulated amortisation and impairment loss. Acquired computer software licences are capitalised based on the cost incurred to acquire the specific software and bring it into use. The cost is amortised from 5 to 20 years using the straight-line basis.

Work-in-progress is not depreciated. Costs associated with maintaining intangible assets are recognised as an expense when incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Any impairment loss is charged to profit or loss in the period in which it arises. Reversal of impairment losses is recognised in profit or loss to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised.

2.11 Leases

The Company as a lessee

As inception of contract, the Company assesses whether the 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 a period of time in exchange for consideration.

Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Lease terms are negotiated on an individual basis and contain a wide range of different term and conditions. The lease agreements do not impose any covenants other than the security interests in the lease assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use.

Assets and liabilities arising from a lease are initially measured on a present value basis.

i) Lease liabilities

Lease liabilities include the net present value of the lease payments from fixed payments (including in-substance fixed payments), less any lease incentives receivable.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Leases (continued)

i) Lease liabilities (continued)

To determine the incremental borrowing rate, the Company where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

Lease payments are allocated between principal and interest expense. The interest expense was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

ii) Right-of-use assets

Right-of-use assets are measured at cost comprising the following:

- the amount the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct cost, and
- restoration cost, if any

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Subsequently the right-of-use asset is measured at cost less depreciation and any accumulated impairment losses.

iii) Recognition exemptions

Payments associated with all short-term leases and low value leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases comprise motorbike rental, car rental and staff house rental. Low-value leases comprise small items of office equipment.

2.12 Income tax

The income tax expenses is the tax payables on the current's period taxable income, based on the applicable income tax rate, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax law enacted or substantively enacted at the reporting date in country where the Company operates and generates taxable income.

Deferred tax is provided in full, using the liability method, providing for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates based on laws that have been enacted or substantively enacted by the reporting date.

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

LOLC (CAMBODIA) PLC.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Income tax (continued)

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.13 Provision

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

2.14 Regulatory reserves

Banks and financial institutions are required to compute regulatory provisions according to Prakas No. B7-017-344 dated 1 December 2017 and Circular No. B7-018-001 dated 16 February 2018 on credit risk classification and provisions on impairment. If the accumulated regulatory provision is higher than the accumulated impairment based on CIFRS 9, the 'topping up' will be recorded as regulatory reserves presented under equity. The reserve is subsequently reversed (up to zero) should the accumulated regulatory provision equal or be lower than accumulated impairment based on CIFRS 9. The regulatory reserve is set aside as a buffer, is non-distributable, is not allowed to be included in the net worth calculation.

2.15 General reserves

General reserves are set up for any overall financial risk of the Company. The Board of Directors exercises its discretion for the use and maintenance of the general reserves by transferring from retained earnings.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Employee benefits

i) Short-term employee benefits

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

ii) Long term employment benefits - seniority payments

In June 2018, the Cambodian government amended the Labour Law introducing the seniority pay scheme. Subsequently on 21 September 2018, Prakas No. 443 K.B/Br.K.Kh.L, was issued providing guidelines on the implementation of the law. In accordance with the law/Prakas, each entity is required to pay each employee with unspecified duration employment contract the following seniority scheme:

- Annual service - effective January 2019, 15 days of their average monthly salary and benefits each year payable every six month on 30 June and 31 December (7.5 days each payment).
- Past years of seniority service - employees are entitled to 15 days of their salary per year of service since the commencement of employment up to 31 December 2018 and still continue working with the Company. The past seniority payment depends on each staff past services and shall not exceed six months of average gross salaries. On 22 March 2019, the Ministry of Labour and Vocational Training issued guideline number 042/19 K.B/S.N.N.Kh.L, to delay the payment of the past years of seniority service which will be payable three days each in June and in December starting December 2021.

The annual service pay is considered as short-term employee benefits. These are accrued in the year in which the associated services are rendered by the employees of the Company.

The past years of seniority service is classified as long term employee benefits. Past seniority liability is recognised at the present value of defined obligations at the reporting period. That obligation arises as employees render the services that the Company expected to pay in the future reporting periods. The present value of the past seniority payment is determined by discounting the estimate future payments by references to the high quality corporate bond of the currency that the liability is denominated.

2.17 Interest income and expense

Interest income and expense from financial instruments at amortised cost are recognised within “interest income” and “interest expense” respectively in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instruments or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Interest income and expense (continued)

Interest income is calculated by applying effective interest rate to the gross carrying amount of a financial asset except for:

- Purchased or originated credit-impaired financial assets (“POCI”), for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial assets.
- Financial assets that are not POCI but have subsequently become credit-impaired (or “stage 3”), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

2.18 Fee and commission income

Fees and commissions are recognised as income when all conditions precedent are fulfilled (performance obligations are satisfied and control is transferred over time or point in time).

Commitment fees for loans and advances that are likely to be drawn down are deferred (together with related direct costs) and income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate on the financial instrument.

2.19 Rounding of amounts

All Khmer Riel amounts disclosed in the financial statements and notes have been rounded off to the nearest thousand currency units unless otherwise stated.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Company make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. To enhance the information content of the estimates, certain key variables that are anticipated to have material impact to the Company’s results and financial position are tested for sensitivity to changes in the underlying parameters. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are outlined below:

i) Expected credit loss allowance on financial assets at amortised cost

The expected credit loss allowance for financial assets measured at amortised cost requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- grouping financial assets sharing similar credit risk characteristics for the purposes of measuring ECL
- choosing appropriate models and assumptions to measure ECL
- determining criteria for identifying loans to customers that have experienced a significant increase in credit risk (“SICR”)
- applying assumptions and analysis on expected future cash flows and forward-looking information
- applying a non-mechanistic approach to ECL by considering additional qualitative criteria for SICR on restructured loans due to COVID-19 and determining percentages for probability-weighted scenarios reflecting the most recent economic conditions due to COVID-19, which the existing ECL model was not built for.

LOLC (CAMBODIA) PLC.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

ii) Other long term employee benefits - seniority payments

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

iii) Lease terms

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

iv) Functional and presentation currency

The management considers the KHR currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. The critical factors which trigger the KHR being the functional currency include the currency that is regulated for loans to customers to certain extent by the central bank, staff costs, the source of equity funding in which the Company receives share subscriptions from and the distribution of dividends to its shareholders. The financial statements are therefore presented in KHR which is the Company's functional and presentation currency.

4. CASH ON HAND

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
<i>Current:</i>				
Khmer Riel	16,187,628	20,383,956	4,001,886	5,002,198
US Dollars	68,975,478	81,937,814	17,052,034	20,107,439
Thai Baht	4,468,784	2,863,811	1,104,767	702,776
	<u>89,631,890</u>	<u>105,185,581</u>	<u>22,158,687</u>	<u>25,812,413</u>

5. DEPOSITS AND PLACEMENTS WITH THE CENTRAL BANK

(a) By account types

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
Settlement accounts	15,378,000	2,677,807	3,801,731	657,131
Current accounts	305,431,163	568,042,019	75,508,322	139,396,814
Negotiable certificate of deposits	1,818,552	200,181	449,580	49,124
	<u>322,627,715</u>	<u>570,920,007</u>	<u>79,759,633</u>	<u>140,103,069</u>

The Company has pledged negotiable certificate of deposits amounting to KHR 400,000 thousands as collateral for overdraft (31 December 2019: KHR 200,000 thousand) and KHR 1,211,250 thousand as collateral for Real time fund transfer ("RFT").

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5. DEPOSITS AND PLACEMENTS WITH THE CENTRAL BANK (continued)

(b) By maturity

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
Current	322,627,715	570,920,007	79,759,633	140,103,069
Non-current	-	-	-	-
	<u>322,627,715</u>	<u>570,920,007</u>	<u>79,759,633</u>	<u>140,103,069</u>

Annual interest rates of deposits and placements with the central bank are as follows:

	2020	2019
Settlement accounts	0%	0%
Current accounts	0%	0%
Negotiable certificates of deposits	0.18%-1.94%	0.61%

6. DEPOSITS AND PLACEMENTS WITH BANKS

(a) By account types

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
Deposits and placements with local banks:				
Savings deposits	84,330,797	41,598,705	20,848,157	10,208,271
Current accounts	85,715,464	36,473,452	21,190,473	8,950,541
Time deposits	67,752,893	-	16,749,789	-
	<u>237,799,154</u>	<u>78,072,157</u>	<u>58,788,419</u>	<u>19,158,812</u>
Less: Allowance for expected credit loss	<u>(1,889,969)</u>	<u>(780,721)</u>	<u>(467,236)</u>	<u>(191,588)</u>
	<u>235,909,185</u>	<u>77,291,436</u>	<u>58,321,183</u>	<u>18,967,224</u>

(b) By maturity

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
Current	237,799,154	78,072,157	58,788,419	19,158,812
Non-current	-	-	-	-
	<u>237,799,154</u>	<u>78,072,157</u>	<u>58,788,419</u>	<u>19,158,812</u>

Annual interest rates of deposits and placements with banks are as follows:

	2020	2019
Savings deposits	0% – 1.20%	0% – 2.00%
Current accounts	0% – 1.30%	0% – 1.75%
Term deposits	0% – 3.25%	0%

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7. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<u>2020</u> <u>KHR'000</u>	<u>2019</u> <u>KHR'000</u>	<u>2020</u> <u>US\$</u>	<u>2019</u> <u>US\$</u>
Non-current				
<i>Unlisted securities</i>				
Investment in Credit Bureau Cambodia	60,675	61,125	15,000	15,000

The Company designated investment in Credit Bureau Cambodia ("CBC") to be measured at fair value through other comprehensive income as they are not held for trading and the Company has irrevocably elected at initial recognition to recognise as the financial assets at FVOCI. These are the strategic investments and the Company considers this classification to be more relevant.

The fair value of the investment at 31 December 2020 was KHR 60,675 thousands.

Dividend received during the year was KHR 71,280 thousand (2019: KHR 71,565 thousand).

There is no gain/loss recognised in other comprehensive income due to fair value approximate the carrying amount. There is no loss allowance for this FVOCI at 31 December 2020.

8. LOANS AND ADVANCES AT AMORTISED COST

	<u>2020</u> <u>KHR'000</u>	<u>2019</u> <u>KHR'000</u>	<u>2020</u> <u>US\$</u>	<u>2019</u> <u>US\$</u>
<i>At amortised cost</i>				
Group loans	441,025,832	347,464,302	109,029,872	85,267,314
Individual loans:	2,996,973,447	2,778,705,131	740,908,145	681,890,830
Staff loans	24,203,637	20,603,698	5,983,594	5,056,122
Total gross loans	<u>3,462,202,916</u>	<u>3,146,773,131</u>	<u>855,921,611</u>	<u>772,214,266</u>
Less: Allowance for expected credit loss	<u>(67,327,999)</u>	<u>(31,291,206)</u>	<u>(16,644,746)</u>	<u>(7,678,824)</u>
Total net loans	<u>3,394,874,917</u>	<u>3,115,481,925</u>	<u>839,276,865</u>	<u>764,535,442</u>

a) Allowance for expected credit loss

Allowance for expected credit loss by stages are as follow:

	<u>2020</u> <u>KHR'000</u>	<u>2019</u> <u>KHR'000</u>	<u>2020</u> <u>US\$</u>	<u>2019</u> <u>US\$</u>
12-month ECL (Stage 1)	30,823,708	24,377,268	7,620,200	5,982,152
Lifetime ECL-not credit impaired (Stage 2)	5,132,755	552,581	1,268,913	135,603
Lifetime ECL-credit impaired (Stage 3)	31,371,536	6,361,357	7,755,633	1,561,069
	<u>67,327,999</u>	<u>31,291,206</u>	<u>16,644,746</u>	<u>7,678,824</u>

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8. LOANS AND ADVANCES AT AMORTISED COST (continued)

b) By industry

	2020 KHR'000	2019 KHR'000	2020 US\$	2019 US\$
Trade and commerce	628,357,223	493,234,369	155,341,711	121,039,109
Services	562,191,223	420,091,494	138,984,233	103,089,937
Manufacturing	44,961,931	16,353,875	11,115,434	4,013,221
Transportation	20,332,995	36,750,608	5,026,698	9,018,554
Agriculture	889,415,893	1,075,119,979	219,880,320	263,833,125
Construction	139,328,660	297,546,619	34,444,663	73,017,575
Household/family	1,177,200,085	798,344,204	291,025,979	195,912,688
Others	414,906	9,331,983	102,573	2,290,057
Total gross loans	<u>3,462,202,916</u>	<u>3,146,773,131</u>	<u>855,921,611</u>	<u>772,214,266</u>

c) Analysis by loan classification

	2020 KHR'000	2019 KHR'000	2020 US\$	2019 US\$
<i>Performing</i>				
Gross amount	<u>3,295,828,183</u>	<u>3,127,350,043</u>	<u>814,790,651</u>	<u>767,447,864</u>
Exposure at default	<u>3,295,828,183</u>	<u>3,127,350,043</u>	<u>814,790,651</u>	<u>767,447,864</u>
Allowance for expected credit loss	<u>(30,823,708)</u>	<u>(24,377,268)</u>	<u>(7,620,200)</u>	<u>(5,982,152)</u>
<i>Under-performing</i>				
Gross amount	<u>101,152,077</u>	<u>3,646,766</u>	<u>25,006,694</u>	<u>894,912</u>
Exposure at default	<u>101,152,077</u>	<u>3,646,766</u>	<u>25,006,694</u>	<u>894,912</u>
Allowance for expected credit loss	<u>(5,132,755)</u>	<u>(552,581)</u>	<u>(1,268,913)</u>	<u>(135,603)</u>
<i>Non-performing</i>				
Gross amount	<u>65,222,656</u>	<u>15,776,322</u>	<u>16,124,266</u>	<u>3,871,490</u>
Exposure at default	<u>65,222,656</u>	<u>15,776,322</u>	<u>16,124,266</u>	<u>3,871,490</u>
Allowance for expected credit loss	<u>(31,371,536)</u>	<u>(6,361,357)</u>	<u>(7,755,633)</u>	<u>(1,561,069)</u>
Total gross loans	<u>3,462,202,916</u>	<u>3,146,773,131</u>	<u>855,921,611</u>	<u>772,214,266</u>
Exposure at default	<u>3,462,202,916</u>	<u>3,146,773,131</u>	<u>855,921,611</u>	<u>772,214,266</u>
Allowance for expected credit loss	<u>(67,327,999)</u>	<u>(31,291,206)</u>	<u>(16,644,746)</u>	<u>(7,678,824)</u>

d) By maturity

	2020 KHR'000	2019 KHR'000	2020 US\$	2019 US\$
Not later than 1 year	233,862,319	217,135,654	57,815,159	53,284,823
Later than 1 year and no later than 3 years	1,217,226,898	1,123,912,583	300,921,359	275,806,769
Later than 3 years and no later than 5 years	1,607,082,736	1,682,330,381	397,301,047	412,841,811
Later than 5 years	404,030,963	123,394,513	99,884,046	30,280,863
Total gross loans	<u>3,462,202,916</u>	<u>3,146,773,131</u>	<u>855,921,611</u>	<u>772,214,266</u>

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8. LOANS AND ADVANCES AT AMORTISED COST (continued)

e) By relationship

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
Related parties (including staff loans)	24,203,637	17,596,880	5,983,594	4,318,253
Non-related parties	<u>3,437,999,279</u>	<u>3,129,176,251</u>	<u>849,938,017</u>	<u>767,896,013</u>
Total gross loans	<u>3,462,202,916</u>	<u>3,146,773,131</u>	<u>855,921,611</u>	<u>772,214,266</u>

f) By residency

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
Residents	3,462,202,916	3,146,773,131	855,921,611	772,214,266
Non-residents	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total gross loans	<u>3,462,202,916</u>	<u>3,146,773,131</u>	<u>855,921,611</u>	<u>772,214,266</u>

g) By interest rate

	2020	2019
Short term loans	11.00% - 18.00%	11.00% - 18.00%
Long term loans	9.00% - 18.00%	9.87% - 18.00%

9. STATUTORY DEPOSITS WITH THE CENTRAL BANK

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
<i>Current</i>				
Reserve requirement	195,381,565	164,661,713	48,301,994	40,407,782
<i>Non-current</i>				
Capital guarantee deposit	<u>22,437,740</u>	<u>22,437,740</u>	<u>5,547,031</u>	<u>5,506,194</u>
	<u>217,819,305</u>	<u>187,099,453</u>	<u>53,849,025</u>	<u>45,913,976</u>

(i) Reserve requirement

The reserve requirement represents the minimum reserve which is calculated at 8% of customers' deposits. The reserve requirement on customers' deposits bear no interest.

(ii) Capital guarantee deposit

Pursuant to Prakas No. B7-01-163 on the licensing of deposit-taking microfinance institutions, dated 13 December 2007, issued by the Central Bank, the Company is required to maintain 10% of its registered capital as a statutory deposit with the Central Bank. The deposit, which is not available for use in the Company's day-to-day operations, is refundable should the Company voluntarily cease its operations in Cambodia.

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9. STATUTORY DEPOSITS WITH THE CENTRAL BANK (continued)

Annual interest rates:

	<u>2020</u>	<u>2019</u>
Capital guarantee deposit	3%	3%
Reserve requirement	0%	0%

10. PROPERTY AND EQUIPMENT

Non-current	Office furniture and equipment KHR'000	Motor vehicles KHR'000	Computer equipment KHR'000	Leasehold improvement KHR'000	Total KHR'000
As at 1 January 2019					
Cost	3,120,511	12,594,687	7,607,103	1,387,500	24,709,801
Accumulated depreciation	(2,257,292)	(10,368,477)	(4,999,739)	(539,753)	(18,165,261)
Net book value	<u>863,219</u>	<u>2,226,210</u>	<u>2,607,364</u>	<u>847,747</u>	<u>6,544,540</u>
In US\$ equivalent	<u>214,838</u>	<u>554,059</u>	<u>648,921</u>	<u>210,987</u>	<u>1,628,805</u>
For the year ended 31 December 2019					
Opening net book value	863,219	2,226,210	2,607,364	847,747	6,544,540
Additions	706,877	615,902	4,150,080	212,756	5,685,615
Disposal	-	-	(7,349)	-	(7,349)
Depreciation charge	(476,724)	(1,353,951)	(2,341,489)	(209,391)	(4,381,555)
Closing net book value	<u>1,093,372</u>	<u>1,488,161</u>	<u>4,408,606</u>	<u>851,112</u>	<u>7,841,251</u>
As at 31 December 2019					
Cost	3,801,978	13,168,697	11,514,920	1,600,256	30,085,851
Accumulated depreciation	(2,708,606)	(11,680,536)	(7,106,314)	(749,144)	(22,244,600)
Net book value	<u>1,093,372</u>	<u>1,488,161</u>	<u>4,408,606</u>	<u>851,112</u>	<u>7,841,251</u>
In US\$ equivalent	<u>268,312</u>	<u>365,193</u>	<u>1,081,867</u>	<u>208,861</u>	<u>1,924,233</u>
For the year ended 31 December 2020					
Opening net book value	1,093,372	1,488,161	4,408,606	851,112	7,841,251
Additions	525,233	727,239	2,574,701	104,341	3,931,514
Disposal	(408)	-	(867)	-	(1,275)
Depreciation charge	(563,412)	(766,822)	(2,660,328)	(240,770)	(4,231,332)
Closing net book value	<u>1,054,785</u>	<u>1,448,578</u>	<u>4,322,112</u>	<u>714,683</u>	<u>7,540,158</u>
As at 31 December 2020					
Cost	4,164,831	13,451,294	13,585,069	1,643,846	32,845,040
Accumulated depreciation	(3,110,046)	(12,002,716)	(9,262,957)	(929,163)	(25,304,882)
Net book value	<u>1,054,785</u>	<u>1,448,578</u>	<u>4,322,112</u>	<u>714,683</u>	<u>7,540,158</u>
In US\$ equivalent	<u>260,763</u>	<u>358,116</u>	<u>1,068,507</u>	<u>176,683</u>	<u>1,864,069</u>

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11. LEASES

This note provides information for leases where the Company is a lessee.

The Company leases various buildings for its head office and branch operation. Rental contracts are typically made for fixed periods of one to twelve years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

a) Amounts recognised in the statement of financial position

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
<i>Right-of-use assets (Non-current)</i>				
Buildings	20,687,945	19,667,508	5,114,449	4,826,382
	<u>20,687,945</u>	<u>19,667,508</u>	<u>5,114,449</u>	<u>4,826,382</u>
<i>Lease liabilities</i>				
Current	7,088,062	4,321,097	1,752,302	1,060,392
Non-current	11,141,103	14,280,934	2,754,290	3,504,524
	<u>18,229,165</u>	<u>18,602,031</u>	<u>4,506,592</u>	<u>4,564,916</u>

Additions to the right-of-use assets during the year were KHR 8,218,494 thousand (2019: KHR 5,666,198 thousand).

b) Amounts recognised in the statement of profit or loss

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
<i>Depreciation of right-of-use assets</i>				
Buildings (Note 29)	5,378,922	5,531,466	1,319,333	1,365,120
	<u>5,378,922</u>	<u>5,531,466</u>	<u>1,319,333</u>	<u>1,365,120</u>
Interest expense (Note 25)	1,276,572	1,380,818	313,116	340,774
	<u>1,276,572</u>	<u>1,380,818</u>	<u>313,116</u>	<u>340,774</u>
Expense relating to short-term lease and leases of low-value assets (included in operating expenses) (Note 30)	5,165,454	3,384,544	1,266,974	835,277
	<u>5,165,454</u>	<u>3,384,544</u>	<u>1,266,974</u>	<u>835,277</u>
Total expenses related to leases	<u>11,820,948</u>	<u>10,296,828</u>	<u>2,899,423</u>	<u>2,541,171</u>

Total cash outflow for lease for year ended 31 December 2020 was KHR 11,223,558 thousand (2019:KHR 9,042,206 thousand).

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12. INTANGIBLE ASSETS

Non-current	Software and license KHR'000	Work in progress KHR'000	Total KHR'000
As at 1 January 2019			
Cost	4,180,234	910,792	5,091,026
Accumulated amortisation	(585,217)	-	(585,217)
Net book value	<u>3,595,017</u>	<u>910,792</u>	<u>4,505,809</u>
In US\$ equivalent	<u>894,728</u>	<u>226,678</u>	<u>1,121,406</u>
For the year ended 31 December 2019			
Opening net book value	3,595,017	910,792	4,505,809
Additions	349,748	638,730	988,478
Transfer	582,598	(582,598)	-
Amortisation charge	(394,062)	-	(394,062)
Closing net book value	<u>4,133,301</u>	<u>966,924</u>	<u>5,100,225</u>
As at 31 December 2019			
Cost	5,112,580	966,924	6,079,504
Accumulated amortisation	(979,279)	-	(979,279)
Net book value	<u>4,133,301</u>	<u>966,924</u>	<u>5,100,225</u>
In US\$ equivalent	<u>1,014,307</u>	<u>237,282</u>	<u>1,251,589</u>
For the year ended 31 December 2020			
Opening net book value	4,133,301	966,924	5,100,225
Additions	248,334	1,395,328	1,643,662
Transfer	966,923	(966,923)	-
Write-off	(826)	-	(826)
Amortisation charge	(633,362)	-	(633,362)
Closing net book value	<u>4,714,370</u>	<u>1,395,329</u>	<u>6,109,699</u>
As at 31 December 2020			
Cost	6,156,989	1,395,329	7,552,318
Accumulated amortisation	(1,442,619)	-	(1,442,619)
Net book value	<u>4,714,370</u>	<u>1,395,329</u>	<u>6,109,699</u>
In US\$ equivalent	<u>1,165,480</u>	<u>344,952</u>	<u>1,510,432</u>

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13. DEFERRED TAX ASSETS

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
<i>Non-current</i>				
Deferred tax assets	29,586,894	9,127,261	7,314,436	2,239,819
Deferred tax liabilities	<u>(4,137,589)</u>	<u>-</u>	<u>(1,022,890)</u>	<u>-</u>
Net deferred tax assets	<u>25,449,305</u>	<u>9,127,261</u>	<u>6,291,546</u>	<u>2,239,819</u>

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

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
As at 1 January	9,127,261	7,581,894	2,239,819	1,886,982
Charged to profit or loss (Note 31(a))	16,322,044	1,545,367	4,003,445	381,384
Currency translation differences	<u>-</u>	<u>-</u>	<u>48,282</u>	<u>(28,547)</u>
As at 31 December	<u>25,449,305</u>	<u>9,127,261</u>	<u>6,291,546</u>	<u>2,239,819</u>

a) Deferred tax assets

	Impairment loss KHR'000	Unamortised loan fee KHR'000	Lease liabilities KHR'000	Accelerated depreciation KHR'000	Accrued expense KHR'000	Others KHR'000	Total KHR'000
As at 1 January 2019	3,942,837	-	-	207,666	2,828,819	602,572	7,581,894
(Charged)/credited to profit or loss	<u>2,676,604</u>	<u>-</u>	<u>-</u>	<u>(25,240)</u>	<u>(853,825)</u>	<u>(252,172)</u>	<u>1,545,367</u>
As at 31 December 2019	<u>6,619,441</u>	<u>-</u>	<u>-</u>	<u>182,426</u>	<u>1,974,994</u>	<u>350,400</u>	<u>9,127,261</u>
In US\$ equivalent	<u>1,624,403</u>	<u>-</u>	<u>-</u>	<u>44,767</u>	<u>484,661</u>	<u>85,988</u>	<u>2,239,819</u>
As at 1 January 2020	6,619,441	-	-	182,426	1,974,994	350,400	9,127,261
(Charged)/credited to profit or loss	<u>4,010,095</u>	<u>12,349,459</u>	<u>3,645,833</u>	<u>(28,356)</u>	<u>266,487</u>	<u>216,115</u>	<u>20,459,633</u>
As at 31 December 2020	<u>10,629,536</u>	<u>12,349,459</u>	<u>3,645,833</u>	<u>154,070</u>	<u>2,241,481</u>	<u>566,515</u>	<u>29,586,894</u>
In US\$ equivalent	<u>2,627,821</u>	<u>3,053,019</u>	<u>901,318</u>	<u>38,089</u>	<u>554,136</u>	<u>140,053</u>	<u>7,314,436</u>

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13. DEFERRED TAX ASSETS (continued)

b) Deferred tax liabilities

	Right-of-use assets KHR'000	Total KHR'000
As at 1 January 2019	-	-
Charged/(credited) to profit or loss	-	-
As at 31 December 2019	-	-
In US\$ equivalent	-	-
As at 1 January 2020	-	-
Charged/(credited) to profit or loss	4,137,589	4,137,589
As at 31 December 2020	4,137,589	4,137,589
In US\$ equivalent	1,022,890	1,022,890

14. OTHER ASSETS

	2020 KHR'000	2019 KHR'000	2020 US\$	2019 US\$
Account receivables	2,810,741	5,794,165	694,868	1,421,881
Prepayments	5,779,244	5,454,822	1,428,738	1,338,607
Office and house rental deposits	437,090	617,192	108,057	151,458
Supplies	95,629	232,041	23,641	56,943
Others	4,501,281	3,233,382	1,112,801	793,468
	<u>13,623,985</u>	<u>15,331,602</u>	<u>3,368,105</u>	<u>3,762,357</u>
	2020 KHR'000	2019 KHR'000	2020 US\$	2019 US\$
Current	13,357,144	14,714,410	3,302,137	3,610,899
Non-current	266,841	617,192	65,968	151,458
	<u>13,623,985</u>	<u>15,331,602</u>	<u>3,368,105</u>	<u>3,762,357</u>

15. DEPOSITS FROM BANK AND OTHER FINANCIAL INSTITUTIONS

	2020 KHR'000	2019 KHR'000	2020 US\$	2019 US\$
Savings deposits	1,443,040	737,750	356,747	181,043
Fixed deposits	129,991,365	90,177,022	32,136,308	22,129,331
	<u>131,434,405</u>	<u>90,914,772</u>	<u>32,493,055</u>	<u>22,310,374</u>
Accrued interest payables	2,798,199	2,220,359	691,767	544,873
	<u>134,232,604</u>	<u>93,135,131</u>	<u>33,184,822</u>	<u>22,855,247</u>

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15. DEPOSITS FROM BANK AND OTHER FINANCIAL INSTITUTIONS (continued)

a) By maturity

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
Current	129,363,297	93,135,131	31,981,038	22,855,247
Non-current	4,869,307	-	1,203,784	-
	<u>134,232,604</u>	<u>93,135,131</u>	<u>33,184,822</u>	<u>22,855,247</u>

b) By interest rate

	2020	2019
Savings deposits	1.00%	5.00%
Fixed deposits	2.50%-6.50%	3.00%-6.50%

16. DEPOSITS FROM CUSTOMERS

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
Savings deposits	167,120,992	165,310,766	41,315,450	40,567,059
Fixed deposits	1,820,635,830	1,571,441,316	450,095,384	385,629,771
	<u>1,987,756,822</u>	<u>1,736,752,082</u>	<u>491,410,834</u>	<u>426,196,830</u>
Accrued interest payables	46,211,140	35,083,279	11,424,262	8,609,393
	<u>2,033,967,962</u>	<u>1,771,835,361</u>	<u>502,835,096</u>	<u>434,806,223</u>

a) By maturity

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
Current	1,736,804,660	1,211,642,371	429,370,744	297,335,551
Non-current	297,163,302	560,192,990	73,464,352	137,470,672
	<u>2,033,967,962</u>	<u>1,771,835,361</u>	<u>502,835,096</u>	<u>434,806,223</u>

b) By interest rate

	2020	2019
Savings deposits	3.00%-5.00%	1.00%-5.00%
Fixed deposits	3.50%-10.50%	3.25%-12.00%

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17. BORROWINGS

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
Current borrowings				
Overdraft	-	1,746,299	-	428,540
Other current borrowings	518,148,136	484,225,441	128,095,955	118,828,328
	<u>518,148,136</u>	<u>485,971,740</u>	<u>128,095,955</u>	<u>119,256,868</u>
Non-current borrowings	<u>565,138,194</u>	<u>940,487,851</u>	<u>139,712,779</u>	<u>230,794,565</u>
	<u>1,083,286,330</u>	<u>1,426,459,591</u>	<u>267,808,734</u>	<u>350,051,433</u>

During the year, the Company obtained additional borrowings of KHR 247,769,133 thousand (US\$60,772,414). The annual interest rates are ranging from 4.71% to 8.72% (2019: 2.55% to 9.88%).

All of the borrowings are unsecured.

18. DEBT SECURITIES

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
Current	1,217,459	1,224,548	300,979	300,502
Non-current	80,132,838	80,531,351	19,810,343	19,762,295
	<u>81,350,297</u>	<u>81,755,899</u>	<u>20,111,322</u>	<u>20,062,797</u>

The Company issued corporate bond payables on 26 April 2019 with par value in amount of KHR 80,000,000 thousand with three-year maturity 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.

19. CURRENT INCOME TAX LIABILITIES

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
As at 1 January	13,621,187	20,523,933	3,342,623	5,107,997
Income tax expense (Note 31(a))	48,209,796	18,811,439	11,824,822	4,642,507
Income tax paid	(13,931,299)	(25,714,185)	(3,417,047)	(6,346,048)
Currency translation differences	-	-	91,304	(61,833)
As at 31 December	<u>47,899,684</u>	<u>13,621,187</u>	<u>11,841,702</u>	<u>3,342,623</u>

20. EMPLOYEE BENEFITS

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
<i>Provision on seniority payment:</i>				
Current	199,649	-	49,357	-
Non-current	2,450,676	2,850,672	605,853	699,551
	<u>2,650,325</u>	<u>2,850,672</u>	<u>655,210</u>	<u>699,551</u>

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21. OTHER LIABILITIES

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
Staff bonuses and incentives	23,668,826	22,379,018	5,851,378	5,491,784
Accrued expenses	1,996,481	1,608,425	493,568	394,706
Tax payables	1,990,734	2,058,690	492,147	505,200
Others	6,643,147	4,806,612	1,642,310	1,179,537
	<u>34,299,188</u>	<u>30,852,745</u>	<u>8,479,403</u>	<u>7,571,227</u>
	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
Current	34,299,188	26,447,847	8,479,404	6,490,269
Non-current	-	4,404,898	-	1,080,957
	<u>34,299,188</u>	<u>30,852,745</u>	<u>8,479,404</u>	<u>7,571,226</u>

22. SUBORDINATED DEBTS

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
Current	32,694,213	6,588,480	8,082,624	1,616,805
Non-current	132,867,219	113,999,106	32,847,273	27,975,241
	<u>165,561,432</u>	<u>120,587,586</u>	<u>40,929,897</u>	<u>29,592,046</u>

During the year, the Company obtained additional subordinated debts of KHR 61,155,000 thousand (US\$15,000,000). The annual interest rates for all subordinated debts are ranging from 9.77% to 12.21% (2019: 10.17% to 12.21%).

23. SHARE CAPITAL

The total number of authorised share of the Company as at 31 December 2020 was 2,243,774 shares (2019: 2,243,774 shares) with a par value of KHR 100 thousand per share (2019: KHR 100 thousand). All authorised shares are issued and fully paid up.

	2020			2019		
	Number of shares	%	KHR'000	Number of shares	%	KHR'000
Shareholders:						
LOLC Private Investment Limited	2,175,792	97%	217,579,200	2,175,792	97%	217,579,200
TPC-ESOP Co., Ltd	67,982	3%	6,798,200	67,982	3%	6,798,200
	<u>2,243,774</u>	<u>100%</u>	<u>224,377,400</u>	<u>2,243,774</u>	<u>100%</u>	<u>224,377,400</u>
In US\$ equivalent			<u>55,460,850</u>			<u>55,460,850</u>

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23. SHARE CAPITAL (continued)

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
As at 1 January	224,377,400	120,000,000	55,460,850	29,701,373
Additional share capital during the year	-	104,377,400	-	25,759,477
As at 31 December	<u>224,377,400</u>	<u>224,377,400</u>	<u>55,460,850</u>	<u>55,460,850</u>

24. REGULATORY RESERVES

As at the reporting date, the accumulated regulatory provision is lower than the accumulated impairment based on CIFRS 9, so the regulatory reserve is reversed to retained earnings as per the central bank's guidelines.

25. NET INTEREST INCOME

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
<i>Interest income from financial assets at amortised cost</i>				
Loans and advances	662,360,723	521,251,862	162,462,772	128,640,637
Deposits and placements with banks	2,576,184	1,017,334	631,882	251,070
Deposits and placements with the central bank	681,543	481,780	167,168	118,899
Total interest income	<u>665,618,450</u>	<u>522,750,976</u>	<u>163,261,822</u>	<u>129,010,606</u>
<i>Interest expense on financial liabilities at amortised cost</i>				
Deposits from customers	(146,527,675)	(97,665,614)	(35,940,071)	(24,103,064)
Borrowings	(101,743,226)	(102,495,948)	(24,955,415)	(25,295,151)
Subordinated debts	(13,394,009)	(9,354,833)	(3,285,261)	(2,308,695)
Debt securities	(6,748,334)	(4,588,587)	(1,655,221)	(1,132,425)
Lease liabilities	(1,276,572)	(1,380,818)	(313,116)	(340,774)
Total interest expense	<u>(269,689,816)</u>	<u>(215,485,800)</u>	<u>(66,149,084)</u>	<u>(53,180,109)</u>
Net interest income	<u>395,928,634</u>	<u>307,265,176</u>	<u>97,112,738</u>	<u>75,830,497</u>

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26. NET FEE AND COMMISSION INCOME

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
Fee and commission income				
Fees and commission income on loans	2,179,240	4,488,854	534,520	1,107,812
Penalty income	17,349,235	8,125,665	4,255,392	2,005,346
Other fees	20,342	-	4,990	-
	<u>19,548,817</u>	<u>12,614,519</u>	<u>4,794,902</u>	<u>3,113,158</u>
Fee and commission expense	<u>(698,829)</u>	<u>(1,118,386)</u>	<u>(171,408)</u>	<u>(276,008)</u>
Net fee and commission income	<u>18,849,988</u>	<u>11,496,133</u>	<u>4,623,494</u>	<u>2,837,150</u>

27. CREDIT IMPAIRMENT LOSSES

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
<i>Expected Credit Loss:</i>				
Loans and advances	37,058,791	12,589,498	9,089,721	3,106,984
Deposits and placements with banks	1,133,655	(328,885)	278,061	(81,166)
	<u>38,192,446</u>	<u>12,260,613</u>	<u>9,367,782</u>	<u>3,025,818</u>

28. PERSONNEL EXPENSES

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
Salaries and wages	107,564,240	90,682,833	26,383,184	22,379,771
Other benefits	8,144,694	9,377,886	1,997,717	2,314,385
	<u>115,708,934</u>	<u>100,060,719</u>	<u>28,380,901</u>	<u>24,694,156</u>

29. DEPRECIATION AND AMORTISATION CHARGES

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
Depreciation of property and equipment	4,231,332	4,381,555	1,037,854	1,081,331
Depreciation of right-of-use assets	5,378,922	5,531,466	1,319,333	1,365,120
Amortisation of intangible assets	633,362	394,062	155,351	97,252
	<u>10,243,616</u>	<u>10,307,083</u>	<u>2,512,538</u>	<u>2,543,703</u>

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30. GENERAL AND ADMINISTRATIVE EXPENSES

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
Insurance	6,234,101	4,407,865	1,529,090	1,087,825
Rental expense related to short-term lease and lease of low-value assets	5,165,454	3,384,544	1,266,974	835,277
Professional fees	4,455,594	3,945,372	1,092,861	973,685
Travelling expenses	3,755,077	3,642,299	921,039	898,889
Office supplies and stationery	2,792,506	2,124,046	684,941	524,197
Advertising	1,605,704	1,724,821	393,844	425,672
Communication	1,695,915	1,566,216	415,971	386,529
Utilities	1,607,348	1,590,393	394,248	392,496
Security guard	1,269,590	1,171,990	311,403	289,237
Charitable contributions	727,787	186,009	178,510	45,905
Board of directors' expenses (Note 35(g))	647,028	697,375	158,702	172,106
Repairs and maintenance	394,450	433,678	96,750	107,028
Others	9,490,463	11,292,134	2,327,808	2,786,806
	<u>39,841,017</u>	<u>36,166,742</u>	<u>9,772,141</u>	<u>8,925,652</u>

31. INCOME TAX EXPENSE

a) Income tax expense

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
Current income tax	48,209,796	18,811,439	11,824,822	4,642,507
Deferred income tax	(16,322,044)	(1,545,367)	(4,003,445)	(381,384)
	<u>31,887,752</u>	<u>17,266,072</u>	<u>7,821,377</u>	<u>4,261,123</u>

b) Reconciliation of income tax expense and accounting profit

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
Profit before income tax	211,338,373	160,998,914	51,836,734	39,733,196
Tax at 19.02% (2019: 10%)	40,198,860	16,099,891	9,859,912	3,973,320
Tax effect of reconciling items:				
Expenses not deductible for tax purposes	260,161	347,538	63,812	85,769
Recognised previously unrecognised deferred tax	(8,571,269)	(535,066)	(2,102,347)	(132,050)
Others	-	1,353,709	-	334,084
Income tax expense	<u>31,887,752</u>	<u>17,266,072</u>	<u>7,821,377</u>	<u>4,261,123</u>

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31. INCOME TAX EXPENSE (continued)

b) Reconciliation of income tax expense and accounting profit: (continued)

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

In accordance with the Sub-decree No. 01 of the Royal Government of Cambodia (“RGC”) dated on 4 January 2019, an entity who listed corporate bond on Cambodia Securities Exchange (“CSX”) is entitled up to 50% reduction on tax on profit (20%) for the period of three years.

The Company successfully listed its corporate bond on CSX on 26 April 2019. On 25 March 2020, the Company received an approval from the General Department of Taxation (“GDT”) on the tax on profit reduction of 50% for the year ended 2019. In the GDT’s letter also stated that the Company will entitle to reduction of tax on profit for the years ending 2020 and 2021 with the following conditions as per Prakas No. 183 MoEF Br.K dated 25 February 2020.

- Issue bond size is more than 20% of total assets, the reduction on tax on profit at 50%.
- Issue bond size is 20% or less than total assets, the reduction on tax on profit is based on a pro-rata basis but the tax incentive amount should not exceed KHR 8,000 million.

As at 31 December 2020, the Company’s bond issuance was approximately 2% of total assets. The Company has calculated the tax incentives for the year then ended 31 December 2020 based on pro-rata basis resulting in 4.89% incentive of tax on profit (20%). Therefore, the Company’s income tax is calculated at 19.02% for the year then ended 31 December 2020. For the year ended 31 December 2019, the Company’s income tax liabilities was at 10% as the Company received full tax reduction for the year ended 31 December 2019.

c) Other matter

Taxes are calculated on the basis of current interpretation of the tax regulations enacted as at reporting date. The management periodically evaluates position taken in tax returns with respect to situations in which applicable tax regulation is subjected to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

However, these regulations are subject to periodic variation and the ultimate determination of tax liabilities will be made following inspection by the tax authorities. Where the final tax outcome of these matters is different from the amounts initially recorded, such differences will impact the taxes liabilities and balances in the period in which the determination is made.

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32. CASH AND CASH EQUIVALENTS

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
Cash on hand	89,631,890	105,185,581	22,158,687	25,812,413
Deposits and placements with the central bank				
Current accounts	305,431,163	568,042,019	75,508,322	139,396,814
Settlement accounts	15,378,000	2,677,808	3,801,731	657,131
Deposits and placements with banks				
Current accounts	85,715,464	36,473,452	21,190,473	8,950,541
Savings accounts	84,330,797	41,598,705	20,848,157	10,208,271
Fixed deposits with maturity three months or less	67,752,893	-	16,749,788	-
Overdraft	-	(1,746,299)	-	(428,540)
	<u>648,240,207</u>	<u>752,231,266</u>	<u>160,257,158</u>	<u>184,596,630</u>

33. CASH FLOW INFORMATION

a) Cash flow from operations

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
Profit before income tax	211,338,373	160,998,914	51,836,734	39,733,196
<i>Adjustments for:</i>				
Depreciation and amortisation charges (Note 29)	10,243,616	10,307,083	2,512,538	2,543,703
Credit impairment losses (Note 27)	38,192,446	12,260,613	9,367,782	3,025,818
Net gains/(losses) on derecognition of financial assets measured at amortised cost	5,165,455	4,975,995	1,266,974	1,228,034
Gain on disposals of property and equipment	(78,590)	(15,072)	(19,276)	(3,720)
Remeasurement gain of employee benefit	(200,347)	(1,473,068)	(49,141)	(363,541)
Unrealised exchange losses/(gains)	(2,247,809)	(1,625,889)	(551,339)	(401,256)
Net interest income (Note 25)	(395,928,634)	(307,265,176)	(97,112,738)	(75,830,497)
<i>Changes in working capital:</i>				
Reserve requirement deposits	(30,719,852)	(70,413,666)	(7,534,916)	(17,377,509)
Loans and advances	(323,695,237)	(1,222,739,635)	(79,395,447)	(301,762,003)
Other assets	1,707,617	2,802,577	418,842	691,653
Deposits from banks and other financial institutions	41,097,473	15,515,800	10,080,322	3,829,171
Deposits from customers	250,426,900	877,066,790	61,424,307	216,452,811
Other liabilities	3,446,443	(4,755,121)	845,338	(1,173,524)
Cash used in operations	<u>(191,252,146)</u>	<u>(524,359,855)</u>	<u>(46,910,020)</u>	<u>(129,407,664)</u>

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33. CASH FLOW INFORMATION (continued)

b) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the year presented.

Net debt	2020 KHR'000	2019 KHR'000	2020 US\$	2019 US\$
Cash and cash equivalents	648,240,207	752,231,266	160,257,158	184,596,630
Borrowings (including overdraft)	(1,083,286,330)	(1,426,459,591)	(267,808,734)	(350,051,433)
Subordinated debts	(165,561,432)	(120,587,586)	(40,929,897)	(29,592,046)
Debt securities	(81,350,297)	(81,755,899)	(20,111,322)	(20,062,797)
Lease liabilities	(18,229,165)	(18,602,031)	(4,506,592)	(4,564,916)
Net debt	(700,187,017)	(895,173,841)	(173,099,387)	(219,674,562)
Cash and liquid investments	648,240,207	752,231,266	160,257,158	184,596,630
Gross debt – fixed interest rates	(1,207,601,428)	(1,436,250,049)	(298,541,762)	(352,454,000)
Gross debt – variable interest rates	(140,825,796)	(211,155,058)	(34,814,783)	(51,817,192)
Net debt	(700,187,017)	(895,173,841)	(173,099,387)	(219,674,562)

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33. CASH FLOW INFORMATION (continued)

b) Net debt reconciliation (continued)

	Borrowings KHR'000	Leases KHR'000	Subordinated Debts KHR'000	Debt Securities KHR'000	Sub-total KHR'000	Cash/ bank overdraft KHR'000	Total KHR'000
Net debt as at 1 January 2019	(1,011,797,243)	(16,891,194)	(85,105,957)	-	(1,113,794,394)	369,337,050	(744,457,344)
Cash flows	(418,302,504)	4,277,844	(35,869,555)	(80,000,000)	(529,894,215)	382,894,216	(146,999,999)
New leases	-	(5,666,198)	-	-	(5,666,198)	-	(5,666,198)
Foreign exchange adjustments	6,708,904	(322,483)	654,832	(531,351)	6,509,902	-	6,509,902
Other changes (i)	(3,068,748)	-	(266,906)	(1,224,548)	(4,560,202)	-	(4,560,202)
Net debt as at 31 December 2019	(1,426,459,591)	(18,602,031)	(120,587,586)	(81,755,899)	(1,647,405,107)	752,231,266	(895,173,841)
In US\$ equivalent	<u>(350,051,433)</u>	<u>(4,564,916)</u>	<u>(29,592,046)</u>	<u>(20,062,797)</u>	<u>(404,271,192)</u>	<u>184,596,630</u>	<u>(219,674,562)</u>
Net debt as at 1 January 2020	(1,426,459,591)	(18,602,031)	(120,587,586)	(81,755,899)	(1,647,405,107)	752,231,266	(895,173,841)
Cash flows	334,897,792	4,781,532	(46,553,000)	-	293,126,324	(103,991,059)	189,135,265
New leases	-	(4,594,044)	-	-	(4,594,044)	-	(4,594,044)
Foreign exchange adjustments	5,588,385	185,378	1,679,009	398,513	7,851,285	-	7,851,285
Other changes (i)	2,687,084	-	(99,855)	7,089	2,594,318	-	2,594,318
Net debt as at 31 December 2020	(1,083,286,330)	(18,229,165)	(165,561,432)	(81,350,297)	(1,348,427,224)	648,240,207	(700,187,017)
In US\$ equivalent	<u>(267,808,734)</u>	<u>(4,506,592)</u>	<u>(40,929,897)</u>	<u>(20,111,322)</u>	<u>(333,356,545)</u>	<u>160,257,158</u>	<u>(173,099,387)</u>

(i) Other changes include non-cash movements, including accrued interest expense which will be presented as operating cash flows in the statement of cash flows when paid.

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34. COMMITMENTS AND CONTINGENCIES

a) Loan commitment and guarantee

For the year ended 31 December 2020, the Company did not have any commitments on financial instruments that it commits to extend credit to customers, guarantees and other facilities.

b) Lease commitments

The Company recognised right-of-use assets and lease liabilities for lease contracts where the Company is a lessee, except for short-term leases and low value leases, see Note 2.11.iii) and Note 11 for further information. The lease commitments of short-term leases and low value leases are as follows:

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
Within one year	1,134,764	1,373,248	280,535	336,993
	<u>1,134,764</u>	<u>1,373,248</u>	<u>280,535</u>	<u>336,993</u>

c) Capital commitments

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
<i>Intangible assets:</i>				
Within one year	548,753	-	135,662	-
	<u>548,753</u>	<u>-</u>	<u>135,662</u>	<u>-</u>

35. RELATED-PARTY TRANSACTIONS

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

a) Related parties and relationships

The related parties of the Company are as follows:

Relationship	Related party
Ultimate parent Shareholders	LOLC Holdings Plc. LOLC Private Limited TPC-ESOP Co., Ltd.
Related company	Entity under the same parent company
Key management personnel	All directors of the Company who make critical decisions in relation to the strategic direction of the Company and senior management staff (including their close family members)

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35. RELATED-PARTY DISCLOSURES (continued)

(b) Loans and advances to key management personnel

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
Loans to key management personnel	<u>2,602,339</u>	<u>248,596</u>	<u>643,347</u>	<u>61,005</u>
Interest income	<u>203,471</u>	<u>30,347</u>	<u>49,907</u>	<u>7,489</u>

Loans and advances to key management personnel are secured and having interest rate of 9.4% to 12% per annum (2019: 11% to 12% per annum). Allowances for expected credit losses for loans to related parties was recognised during the year of KHR 6,617 thousand (2019: KHR 7,620 thousand).

(c) Receivables from related parties

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
Receivables from related companies	<u>1,187,960</u>	<u>5,031,097</u>	<u>293,686</u>	<u>1,234,625</u>

The receivables are unsecured and bear no interest. There are no allowances against receivables from related parties (2019: nil).

(d) Payables to related parties

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
Payables to related companies	<u>81,568</u>	<u>-</u>	<u>20,165</u>	<u>-</u>

The payables to related company are unsecured and bear no interest.

(e) Deposits from related parties

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
Shareholders	7,345,425	115,308	1,815,927	28,296
Board of directors	772,537	687,448	190,986	168,699
Key management personnel	4,871,465	2,082,745	1,204,318	511,103
Related companies	<u>41,304</u>	<u>1,599,874</u>	<u>10,211</u>	<u>392,607</u>
	<u>13,030,731</u>	<u>4,485,375</u>	<u>3,221,442</u>	<u>1,100,705</u>
Interest payable	<u>126,666</u>	<u>26,425</u>	<u>31,314</u>	<u>6,484</u>
Interest expense	<u>302,735</u>	<u>107,239</u>	<u>74,254</u>	<u>26,466</u>

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35. RELATED-PARTY DISCLOSURES (continued)

(e) Deposits from related parties (continued)

Annual interest rates during the year are as follows:

	<u>2020</u>	<u>2019</u>
Shareholders	3.00%	5.00%
Board of directors	3.00% – 8.75%	5.00% – 8.75%
Key management personnel	3.00% – 9.00%	5.00% – 9.25%
Related companies	3.00%	5.00%

(f) Transactions with related parties

	<u>2020</u> <u>KHR'000</u>	<u>2019</u> <u>KHR'000</u>	<u>2020</u> <u>US\$</u>	<u>2019</u> <u>US\$</u>
<i>i) Incomes from related companies:</i>				
Rental income	37,671	10,697	9,240	2,640
Management fee income	59,712	-	14,646	-
	<u>97,383</u>	<u>10,697</u>	<u>23,886</u>	<u>2,640</u>
<i>ii) Expenses to related companies:</i>				
Purchases of assets for financial leasing products	2,359,971	-	578,850	-
License fees	596,379	27,327	146,279	8,095
IT consultancy and support fees	552,931	44,746	135,622	11,043
	<u>3,509,281</u>	<u>72,073</u>	<u>860,751</u>	<u>19,138</u>

Transactions with related parties were made on normal commercial terms and conditions and at market rate.

(g) Key management compensation

	<u>2020</u> <u>KHR'000</u>	<u>2019</u> <u>KHR'000</u>	<u>2020</u> <u>US\$</u>	<u>2019</u> <u>US\$</u>
Directors' fees	647,028	697,375	158,702	172,106
Salaries and other benefits to key management	10,372,013	3,473,103	2,544,031	857,133
	<u>11,019,041</u>	<u>4,170,478</u>	<u>2,702,733</u>	<u>1,029,239</u>

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36. FINANCIAL RISK MANAGEMENT

The Company embraces risk management as an integral part of the Company's business, operations and decision-making process. In ensuring that the Company achieves optimum returns whilst operating within a sound business environment, the risk management teams are involved at the early stage of the risk-taking process by providing independent inputs, including relevant valuations, credit evaluations, new product assessments and quantification of capital requirements. These inputs enable the business units to assess the risk-vs-reward of their propositions, thus enabling risk to be priced appropriately in relation to the return.

Generally, the objectives of the Company's risk management activities are to:

- identify the various risk exposures and capital requirements;
- ensure risk-taking activities are consistent with risk policies and the aggregated risk position are within the risk appetite as approved by the Board; and
- create shareholders' value through sound risk management framework.

	2020	2019	2020	2019
	KHR'000	KHR'000	US\$	US\$
Financial assets				
Financial assets at amortised costs				
Cash on hand	89,631,890	105,185,581	22,158,687	25,812,413
Deposits and placements with the central bank	322,627,715	570,920,007	79,759,633	140,103,069
Deposits and placements with banks	235,909,185	77,291,436	58,321,183	18,967,224
Loans and advances at amortised cost	3,394,874,917	3,115,481,925	839,276,865	764,535,442
Other financial assets	3,451,321	6,389,503	853,231	1,567,976
	<u>4,046,495,028</u>	<u>3,875,268,452</u>	<u>1,000,369,599</u>	<u>950,986,124</u>
Financial assets at fair value through other comprehensive income				
	60,675	61,125	15,000	15,000
Total financial assets	<u>4,046,555,703</u>	<u>3,875,329,577</u>	<u>1,000,384,599</u>	<u>951,001,124</u>
Financial liabilities				
Financial liabilities at amortised cost				
Deposits from banks and other financial institutions	134,232,604	93,135,131	33,184,822	22,855,247
Deposits from customers	2,033,967,962	1,771,835,361	502,835,096	434,806,223
Borrowings	1,083,286,330	1,426,459,591	267,808,734	350,051,433
Subordinated debts	165,561,432	120,587,586	40,929,897	29,592,046
Debt securities	81,350,297	81,755,899	20,111,322	20,062,797
Lease liabilities	18,229,165	18,602,031	4,506,592	4,564,916
Other financial liabilities	2,290,727	1,742,626	566,311	427,638
Total financial liabilities	<u>3,518,918,517</u>	<u>3,514,118,225</u>	<u>869,942,774</u>	<u>862,360,300</u>
Net financial assets	<u>527,637,186</u>	<u>361,211,352</u>	<u>130,441,825</u>	<u>88,640,824</u>

36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk

Credit risk is the risk of suffering financial loss, should any of the Company's customers or market counterparties fail to fulfil their contractual obligations to the Company. Credit risk arises from deposits and placements with the central bank and banks, loans and advances, other financial assets, and credit commitments and financial guarantee contracts. Credit exposure arises principally in lending activities.

(a) Credit risk measurement

Credit risk is managed on a group basis.

For loans and advances and credit commitments, the estimation of credit exposure for risk management purposes requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of default occurring, of the associated loss ratios and of default correlations between counterparties. The Company measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) for the purposes of measuring Expected Credit Loss (ECL) under CIFRS 9.

Deposits and placements with the central bank and banks are considered to be low credit risk. The credit ratings of these assets are monitored for credit deterioration. Measurement for impairment is limited to 12-month expected credit loss. Other financial assets at amortised cost are monitored for its credit rating deterioration, and the measurement of impairment follows a three-stage approach in note 36.1 (c).

(b) Risk limit control and mitigation policies

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

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

- Mortgages over residential properties (land, building and other properties);
- Movable properties
- Cash in the form of margin deposits, if any.

(c) Impairment (expected credit loss) policies

The measurement of expected credit loss allowance under the CIFRS 9's three-stage approach is to recognise lifetime expected credit loss allowance for financial instruments for which there has been a significant increase in credit risk since initial origination or is credit-impaired as at the reporting date. The financial instrument which has not undergone any significant deterioration in credit risk shall be recognised with 12-month expected credit loss allowance.

Under the three-stage approach, the financial instrument is allocated into three stages based on the relative movement in the credit risk.

36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

(c) Impairment (expected credit loss) policies (continued)

- Stage 1 includes financial instruments that neither have a significant increase in credit risk since initial recognition nor credit-impaired as at reporting date. For these assets, 12-month expected credit loss allowance are recognised.
- Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition but do not have objective evidence of impairment. For these assets, lifetime expected credit loss allowance are recognised.
- Stage 3 includes financial instruments that have objective evidence of impairment at the reporting date. For these assets, lifetime expected credit loss allowance are recognised.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their expected credit loss allowance is always measured on a lifetime basis (Stage 3).

The key judgements and assumptions adopted by the Company in addressing the requirements of the standard on the measurement of allowances are:

(i) Significant increase in credit risk ('SICR')

The assessment of SICR shall be a multifactor and holistic analysis and based on a mixture of quantitative and/or qualitative information. To determine whether the risk of default of a loan/financing has increased significantly since initial recognition, the current risk of default at the reporting date is compared with the risk of default at initial recognition. A borrower is considered to have credit risk increased significantly since initial recognition if past due more than 30 days. For a loan that has been restructured once due to COVID 19 and exhibiting late or no payment for the six consecutive months counting backward from the reporting date is also considered to have significant increase in credit risk.

(ii) Definition of default and credit impaired

The Company defines a financial instrument as in default which is also credit-impaired when it meets one of the following criteria:

- Where the principal or interest or both of any of the credit facility is past due for more than 90 days or 3 months; or
- Where the amount is past due or the outstanding amount has been in excess of the approved limit for 90 days or 3 months or less, the loan exhibits credit weaknesses and is downgraded to Impaired High Risk ; or
- When the loan is classified as restructuring and rescheduling twice or more due to COVID 19. Restructuring and rescheduling of a loan facility involves any modification made to the original repayment terms and conditions of the loan facility following an increase in the credit risk of an obligor/counterparty.
- When an obligor/counterparty has multiple loans with the Company and cross default obligation applies, an assessment of provision is required under which default of one debt obligation triggers default on another debt obligation (cross default). Where there is no right to set off clause is available, assessment of provision needs to be performed on individual loan level instead of consolidated obligor/counterparty level.
- Write-off/charged-off accounts.

36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

(c) Impairment (expected credit loss) policies (continued)

(iii) Measuring (ECL - inputs, assumptions and estimation techniques)

The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. The ECL is assessed and measured on collective basis.

For collective assessment, the ECL is determined by projecting the PD, LGD and EAD for each future month and for the collective segment. The three components are multiplied together to calculate an ECL for each future year, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

Probability of default

The PD represents the likelihood that a borrower will be unable to meet its financial obligation either over the next 12 months (12-month PD) or over the remaining lifetime (Lifetime PD) of the obligation.

The 12-month and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and remaining lifetime of the financial instruments, respectively, based on conditions existing at the reporting date and future economic conditions that affect credit risk.

The PD is derived using historical default rates adjusted for forward-looking information and reflecting current portfolio composition and market data.

For portfolios without sufficient default data, forward-looking proxy PDs are used.

Exposure at Default

EAD is the total amount that the Company is exposed to at the time the borrower defaults.

For amortising products and bullet repayment loans, the 12-month and lifetime EADs are determined based on the expected payment profile which is the contractual repayments owed by the borrower over a 12-month or remaining maturity.

Loss Given Default

LGD represents the Company's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default. LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured facilities, this is based on historical recovery post default discounted to the default date with consideration of projected collateral value through collateral haircut varied by collateral type.
- For unsecured facilities, this is solely based on historical recovery post default discounted to the default date. The recovery is influenced by collection strategies post default which also include recovery post write off.

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36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

(c) Impairment (expected credit loss) policies (continued)

(iii) Measuring (ECL - inputs, assumptions and estimation techniques) (continued)

Loss Given Default (continued)

Among the seven portfolios, group loan portfolio shows correlation with macro-economic variables based on statistical regression analysis performed and thus forward looking information has been applied. For the other portfolios which has no correlation with any macro-economic variables, historical data are the reasonable and supportable information.

For portfolio without sufficient default data, Proxy LGD is used.

The assumptions underlying the ECL calculation are monitored and reviewed periodically. There have been no significant changes in estimation techniques or significant assumptions made during the reporting year.

(iv) Forward-looking information incorporated into the ECL models

The calculation of ECL incorporate forward-looking information. The Company has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the PD vary by financial instrument. Expert judgement has also been applied in this process. The historical and forecasts of these economic variables (the "base economic scenario") are sourced from external research house. The impact of these economic variables on the PD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates, while LGD is based historical recovery post default and the Company's consideration of projected collateral value through collateral haircut, except for Group loan portfolio that has incorporated forward-looking information and EAD is based on the expected payment profiles.

In addition to the based economic scenario, the Company considers other possible scenarios along with scenario weightings. The number of other scenarios used is set based on the analysis of each major product type to ensure non-linearities are captured. The number of scenarios and their attributes are reassessed at each reporting date. At 31 December 2019 and 31 December 2020, the Company concluded that three scenarios appropriately captured non-linearities. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of.

To consider the effect of COVID-19 pandemic on the Company's loans and advances, the management continuously refreshes the macroeconomic variables quarterly to reflect the current economic condition in its forward-looking model. For the year ended 31 December 2020, the management has refreshed the latest macroeconomics variables available which were up to 31 December 2020. The management believes that the adjustment reflected the most recent economic condition. The longevity of COVID-19 pandemic has also led to an uncertain economic environment which may result in higher credit impairment expenses. As a result, the managements have adjusted the Company's probability weighted percentage in the probability weighted forward looking Probability of Default ("PD") to give a heavier weight to the worst case scenario and a lighter weight to the best case scenario while keeping the base percentage the same using reasonable and supportable information.

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**NOTES TO THE FINANCIAL STATEMENTS
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36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

- (c) Impairment (expected credit loss) policies (continued)
- (iv) Forward-looking information incorporated into the ECL models (continued)

As with any economic forecasts, the projects and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Company considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Company’s different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Macroeconomic variable assumptions

The weightings assigned to each economic scenario as at 31 December 2019 and 31 December 2020 are as follows:

	Base	Best	Worst
	%	%	%
As at 31 December 2020			
Scenario probability weighting	60%	15%	25%
	Base	Best	Worst
	%	%	%
As at 31 December 2019			
Scenario probability weighting	60%	20%	20%

Sensitivity analysis

The Company has used different macro-economic variable pairs for each portfolio based on the result of statistical regression analysis and expert judgement which makes intuitive or business sense. The Company regularly performs statistical testing on its forward looking models and refreshes macro-economic variable pairs that are fit for use based on the latest qualitative and quantitative data available. The macro-economic variable pairs that have been used for the year ended 31 December 2020 and 31 December 2019 are as follows:

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**NOTES TO THE FINANCIAL STATEMENTS
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36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

(c) Impairment (expected credit loss) policies (continued)

(iv) Forward-looking information incorporated into the ECL models (continued)

Sensitivity analysis (continued)

Model	Portfolio	2020	2019
PD	Group loan	Interest rate loans 12 months	Foreign direct investment (% of GDP)
		Cambodia commodity imports	Domestic private sector credit to GDP
	Individual loan	Foreign direct investment (% of GDP)	Foreign direct investment (% of GDP)
		US 1 year treasury yield curve rates	US 1 year treasury yield curve rates
		Cambodia CPI All Items, 2010=100	Cambodia CPI All Items, 2010=100
	Life improvement loan asset backed	Foreign direct investment (% of GDP)	Foreign direct investment (% of GDP)
		US dollars to Cambodia riel currency exchange rate	US dollars to Cambodia riel currency exchange rate
	Home improvement loan	Foreign direct investment (% of GDP)	Cambodia Foreign Reserves
		Interest rate loans 12 months	Domestic private sector credit to GDP
		Domestic private sector credit to GDP	
	Seasonal loan	Foreign direct investment (% of GDP)	Cambodia Foreign Reserves
			Cambodia composite index (containing all issues in the market)
	SME loan	US 1 year treasury yield curve rates	US 1 year treasury yield curve rates
		Interest rate loans 12 months	Cambodia commodity Imports
	Staff loan	Foreign direct investment (% of GDP)	Cambodia composite index (containing all issues in the market)
US 1 year treasury yield curve rates		US dollars to Cambodia riel currency exchange rate	
Cambodia CPI All Items, 2010=100		Interest rate fixed deposit 12 months	
LGD	Group loan	Total unemployment Cambodia (ILO est)	US dollars to Cambodia riel currency exchange rate
		Cambodia composite index (containing all issues in the market)	Cambodia commodity Imports

Set out below are the estimated changes to the ECL for the year ended 31 December 2020 and 31 December 2019 due to the possible changes in the macro-economic variables from the actual assumption used. The changes in the macro-economic variables (“MEVs”) are set to change together with their own pairs and are each analysed for a sensitivity range within a standard deviation, a common statistical term predicting the variation from the forecasted macro-economic variables.

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36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

(c) Impairment (expected credit loss) policies (continued)

(iv) Forward-looking information incorporated into the ECL models (continued)

Sensitivity analysis (continued)

	ECL		ECL	
	2020 KHR'000	2019 KHR'000	2020 US\$	2019 US\$
Group loan				
Variation added to MEVs	(7,304,118)	(1,573,556)	(1,805,715)	(386,149)
Variation deducted from MEVs	3,805,662	1,412,632	940,831	346,658
Individual loan				
Variation added to MEVs	(5,156,918)	(5,263,535)	(1,274,887)	(1,291,665)
Variation deducted from MEVs	3,594,452	3,137,181	888,616	769,860
Life improvement loan asset backed				
Variation added to MEVs	298,078	24,914	73,690	6,114
Variation deducted from MEVs	(320,979)	(25,333)	(79,352)	(6,217)
Home improvement loan				
Variation added to MEVs	(1,123,580)	(543,788)	(277,770)	(133,445)
Variation deducted from MEVs	739,616	313,704	182,847	76,983
Seasonal loan				
Variation added to MEVs	703,038	1,375,788	173,804	337,617
Variation deducted from MEVs	(3,059,425)	(3,703,631)	(756,347)	(908,867)
SME loan				
Variation added to MEVs	(20,977,054)	(5,810,053)	(5,185,922)	(1,425,780)
Variation deducted from MEVs	7,384,119	2,869,791	1,825,493	704,243
Staff loan				
Variation added to MEVs	(38,669)	300,389	(9,560)	73,715
Variation deducted from MEVs	25,620	(599,107)	6,334	(147,020)

(v) Grouping of exposure for ECL measured on collective basis

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Company has considered benchmarking internal/external supplementary data to use for modelling purposes.

The appropriateness of groupings is monitored and reviewed on a periodic basis by the Credit Risk.

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36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

(c) Impairment (expected credit loss) policies (continued)

(vi) Write off policy

Write-off is usually taken when relevant recovery actions have been exhausted or further recovery is not economically feasible or justifiable. When a loan or debt instrument is deemed uncollectible, it is written off against the related allowance for impairment. Such loans are either written off in full or partially after taking into consideration the realisable value of collateral (if any) and when in the judgement of the management, there is no prospect of recovery. All write-offs must be approved by the Board or its delegated authorities.

(vii) Modification of loans

The Company sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Company assesses whether or not the new terms are substantially different from the original terms. The Company does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

The risk of default of such loans after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original loans. The Company monitors the subsequent performance of modified assets. The Company may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for six consecutive months or more.

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

The maximum exposure to credit risk for financial assets recognised in the statements of financial position is their carrying amounts. 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. The table below shows the maximum exposure to credit risk for the Company on financial instruments subject to impairment:

	2020 KHR'000	2019 KHR'000	2020 US\$	2019 US\$
Credit risk exposure relating to on-balance sheet assets:				
Deposits and placements with banks	235,909,185	77,291,436	58,321,183	18,967,224
Loans and advances at amortised cost	3,394,874,917	3,115,481,925	839,276,865	764,535,442
Other financial assets	3,451,321	6,389,503	853,231	1,567,976
Total maximum credit risk exposure that are subject to impairment	<u>3,634,235,423</u>	<u>3,199,162,864</u>	<u>898,451,279</u>	<u>785,070,642</u>

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36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

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

The above table represents a worst-case scenario of credit risk exposure to the Company, since collateral held and/or other credit enhancement attached were not taken into account. The exposures set out above are based on net carrying amounts. As shown above, 93% (2019: 97%) of total maximum exposure is derived from loans and advances. Management is confident of its ability to continue to control and sustain minimal exposure on credit risk resulting from the Company's loans and advances due to the following:

- Almost all loans and advances are collateralised and loan to collateral value range from 50% to 80%.
- The Company has a proper credit evaluation process in place for granting of loans and advances to customers.
- All of the deposits and placement with banks are held with local banks and management has done proper risk assessment and believe there will be no material loss from these local banks.

(e) Credit quality of financial assets

The Company assesses credit quality of loans, advances and financing using internal rating techniques tailored to the various categories of products and counterparties. These techniques have been developed internally and combine statistical analysis with credit officers judgement.

Credit quality description is summarised as follows:

Credit quality	Description
Standard monitoring	Obligors in this category exhibit strong capacity to meet financial commitment.
Special monitoring	<p>The Company monitors obligors in this category by delinquency status. Obligors that are less than 30 days past due on its contractual payments for both short-term and long-term facilities are in standard monitoring.</p> <p>Obligors in this category have a fairly acceptable capacity to meet financial commitments.</p> <p>The Company monitors obligors in this category by delinquency status. Obligors that are 30 days past due on its contractual payments are included in special monitoring.</p>
Default/Credit impaired	Obligors are assessed to be impaired.

The credit quality of financial instruments other than loans, advances and financing are determined based on the ratings of counterparties as defined equivalent ratings of other international rating agencies as defined below:

Credit quality	Description
Sovereign	Refer to financial assets issued by the central bank/government or guarantee by the central bank/government.
Investment grade	Refers to the credit quality of the financial asset that the issuer is able to meet payment obligation and exposure bondholder to low credit risk of default.
Non-investment grade	Refers to low credit quality of the financial asset that is highly exposed to default risk.
Un-graded	Refers to financial assets which are currently not assigned with ratings due to unavailability of ratings models.
Credit impaired	Refers to the asset that is being impaired.

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NOTES TO THE FINANCIAL STATEMENTS
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36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

(e) Credit quality of financial assets (continued)

The following table shows an analysis of the credit exposure by stages, together with the ECL allowance provision:

	2020			2019				
	12-month ECL KHR'000	Lifetime ECL not Credit- Impaired KHR'000	Lifetime ECL Credit- Impaired KHR'000	Total KHR'000	12-month ECL KHR'000	Lifetime ECL not Credit- Impaired KHR'000	Lifetime ECL Credit- Impaired KHR'000	Total KHR'000
Deposits and placements with banks								
Investment grade	90,474,482	-	-	90,474,482	30,292,766	-	-	30,292,766
Un-graded	147,324,672	-	-	147,324,672	47,779,391	-	-	47,779,391
Gross carrying amount	237,799,154	-	-	237,799,154	78,072,157	-	-	78,072,157
Less: Expected credit loss	(1,889,969)	-	-	(1,889,969)	(780,721)	-	-	(780,721)
Net carrying amount	235,909,185	-	-	235,909,185	77,291,436	-	-	77,291,436
In US\$ equivalent	58,321,183	-	-	58,321,183	18,967,224	-	-	18,967,224

LOLC (CAMBODIA) PLC.

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36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

(e) Credit quality of financial assets (continued)

The following table shows an analysis of the credit exposure by stages, together with the ECL allowance provision:

	2020				2019			
	12-month ECL KHR'000	Lifetime ECL not Credit- Impaired KHR'000	Lifetime ECL Credit- Impaired KHR'000	Total KHR'000	12-month ECL KHR'000	Lifetime ECL not Credit- Impaired KHR'000	Lifetime ECL Credit- Impaired KHR'000	Total KHR'000
Loans and advances at amortised cost								
Standard monitoring	3,295,828,183	-	-	3,295,828,183	3,127,350,043	-	-	3,127,350,043
Special monitoring	-	101,152,077	-	101,152,077	-	3,646,766	-	3,646,766
Default	-	-	65,222,656	65,222,656	-	-	15,776,322	15,776,322
Gross carrying amount	3,295,828,183	101,152,077	65,222,656	3,462,202,916	3,127,350,043	3,646,766	15,776,322	3,146,773,131
Less: Expected credit loss	(30,823,708)	(5,132,755)	(31,371,536)	(67,327,999)	(24,377,268)	(552,581)	(6,361,357)	(31,291,206)
Net carrying amount	3,265,004,475	96,019,322	33,851,120	3,394,874,917	3,102,972,775	3,094,185	9,414,965	3,115,481,925
In US\$ equivalent	807,170,451	23,737,781	8,368,633	839,276,865	761,465,712	759,309	2,310,421	764,535,442

LOLC (CAMBODIA) PLC.

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36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

(f) Loss allowance

(i) Expected credit loss reconciliation – loans and advances at amortised cost

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	KHR'000	not Credit-	Credit-	KHR'000
		Impaired	Impaired	
		KHR'000	KHR'000	
Expected Credit Losses				
Loss allowance as at 1 January 2020	24,377,268	552,581	6,361,357	31,291,206
<i>Changes due to exposure:</i>				
Transfer to stage 1	35,243	(23,035)	(12,208)	-
Transfer to stage 2	(733,340)	735,036	(1,696)	-
Transfer to stage 3	(604,659)	(324,448)	929,107	-
Net remeasurement of loss allowance (*)	(3,578,099)	3,030,983	21,516,547	20,969,431
New financial assets originated	19,519,136	1,321,941	3,902,334	24,743,411
Financial assets derecognised during the year other than write off	(8,276,173)	(97,036)	(280,841)	(8,654,050)
Write-offs	(41,841)	(97,513)	(3,188,652)	(3,328,006)
Foreign exchange difference	126,173	34,246	162,348	322,767
Unwinding of discount (**)	-	-	1,983,240	1,983,240
Loss allowance as at 31 December 2020	<u>30,823,708</u>	<u>5,132,755</u>	<u>31,371,536</u>	<u>67,327,999</u>
In US\$ equivalent	<u>7,620,200</u>	<u>1,268,913</u>	<u>7,755,633</u>	<u>16,644,746</u>

(*) Impact of the measurement of ECL due to changes in EADs, PDs and LGDs during the year arising from regular refreshing of inputs to models.

(**) The unwinding of discount on Stage 3 loans is reported within 'Interest income' so that interest income is recognised on the amortised cost (after deducting the ECL allowance).

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	KHR'000	not Credit-	Credit-	KHR'000
		Impaired	Impaired	
		KHR'000	KHR'000	
Gross carrying amount				
Gross carrying amount as at 1 January 2020	3,127,350,043	3,646,766	15,776,322	3,146,773,131
<i>Changes due to exposure:</i>				
Transfer to stage 1	180,804	(151,267)	(29,537)	-
Transfer to stage 2	(89,986,122)	89,991,795	(5,673)	-
Transfer to stage 3	(47,846,352)	(2,284,654)	50,131,006	-
New financial assets originated or purchased	1,375,919,988	11,014,065	7,388,187	1,394,322,240
Financial assets derecognised during the year other than write off	(1,069,082,787)	(576,537)	(739,670)	(1,070,398,994)
Write-offs	(707,391)	(488,091)	(7,297,979)	(8,493,461)
Gross carrying amount as at 31 December 2020	<u>3,295,828,183</u>	<u>101,152,077</u>	<u>65,222,656</u>	<u>3,462,202,916</u>
In US\$ equivalent	<u>814,790,651</u>	<u>25,006,694</u>	<u>16,124,266</u>	<u>855,921,611</u>

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**NOTES TO THE FINANCIAL STATEMENTS
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36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

(f) Loss allowance (continued)

(i) Expected credit loss reconciliation – loans and advances at amortised cost (continued)

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL not Credit- Impaired	Lifetime ECL Credit- Impaired	Total
	KHR'000	KHR'000	KHR'000	KHR'000
Expected Credit Losses				
Loss allowance as at 1 January 2019	14,482,901	438,766	6,774,028	21,695,695
<i>Changes due to exposure:</i>				
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	-
Net remeasurement of loss allowance	(3,825,124)	225,738	2,704,985	(894,401)
New financial assets originated	19,803,543	241,283	669,766	20,714,592
Financial assets derecognised during the year other than write off	(6,446,219)	(85,463)	(699,011)	(7,230,693)
Write-offs	(84,327)	(118,162)	(3,695,624)	(3,898,113)
Foreign exchange difference	704,355	15,966	183,805	904,126
Loss allowance as at 31 December 2019	<u>24,377,268</u>	<u>552,581</u>	<u>6,361,357</u>	<u>31,291,206</u>
In US\$ equivalent	<u>5,982,152</u>	<u>135,603</u>	<u>1,561,069</u>	<u>7,678,824</u>
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL not Credit- Impaired	Lifetime ECL Credit- Impaired	Total
	KHR'000	KHR'000	KHR'000	KHR'000
Gross carrying amount				
Gross carrying amount as at 1 January 2019	1,925,376,214	2,666,446	16,047,786	1,944,090,446
<i>Changes due to exposure:</i>				
Transfer to stage 1	247,248	(159,207)	(88,041)	-
Transfer to stage 2	(2,860,102)	2,879,739	(19,637)	-
Transfer to stage 3	(8,258,583)	(1,529,120)	9,787,703	-
New financial assets originated or purchased	2,075,571,794	713,258	(437,622)	2,075,847,430
Financial assets derecognised during the year other than write off	(861,888,912)	(516,513)	(1,885,212)	(864,290,637)
Write-offs	(837,616)	(407,837)	(7,628,655)	(8,874,108)
Gross carrying amount as at 31 December 2019	<u>3,127,350,043</u>	<u>3,646,766</u>	<u>15,776,322</u>	<u>3,146,773,131</u>
In US\$ equivalent	<u>767,447,864</u>	<u>894,912</u>	<u>3,871,490</u>	<u>772,214,266</u>

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NOTES TO THE FINANCIAL STATEMENTS
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36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

(g) Concentration of financial assets with credit risk exposure

(i) Industry sector

The following table breaks down the Company's main credit exposure at their gross carrying amounts less impairment if any, as categorised by the industry sectors of its counterparties.

	2020				2019			
	Deposits and placements with banks KHR'000	Loans and advances at amortised cost KHR'000	Other financial assets KHR'000	Total KHR'000	Deposits and placements with banks KHR'000	Loans and advances at amortised cost KHR'000	Other financial assets KHR'000	Total KHR'000
Financial institutions	237,799,154	-	-	237,799,154	78,072,157	-	-	78,072,157
Trade and commerce	-	628,357,223	-	628,357,223	-	493,234,369	-	493,234,369
Services	-	562,191,223	-	562,191,223	-	420,091,494	-	420,091,494
Manufacturing	-	44,961,931	-	44,961,931	-	16,353,875	-	16,353,875
Transportation	-	20,332,995	-	20,332,995	-	36,750,608	-	36,750,608
Agriculture	-	889,415,893	-	889,415,893	-	1,075,119,979	-	1,075,119,979
Construction	-	139,328,660	-	139,328,660	-	297,546,619	-	297,546,619
Household/family	-	1,177,200,085	-	1,177,200,085	-	798,344,204	-	798,344,204
Others	-	414,906	3,451,321	3,866,227	-	9,331,983	6,389,503	15,721,486
Gross carrying amount	237,799,154	3,462,202,916	3,451,321	3,703,453,391	78,072,157	3,146,773,131	6,389,503	3,231,234,791
Less: Expected credit loss	(1,889,969)	(67,327,999)	-	(69,217,968)	(780,721)	(31,291,206)	-	(32,071,927)
Net carrying amount	235,909,185	3,394,874,917	3,451,321	3,634,235,423	77,291,436	3,115,481,925	6,389,503	3,199,162,864
In US\$ equivalent	58,321,183	839,276,865	853,231	898,451,279	18,967,224	764,535,442	1,567,976	785,070,642

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

(g) Concentration of financial assets with credit risk exposure (continued)

(ii) *Geographical sector*

All of the Company's financial assets are located in Cambodia. Therefore, the Company's credit exposure is within Cambodia only.

(h) Repossessed collateral

Reposessed collaterals are sold as soon as practicable. The Company does not utilise the reposessed collaterals for its business use.

The Company did not obtain assets by taking possession of collateral held as security as at 31 December 2020 and 31 December 2019.

36.2 Market risk

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

The Company does not use derivative financial instruments such as foreign exchange contract and interest rate swaps to hedge its risk exposure.

(i) Foreign exchange risk

The Company operates in Cambodia and transacts in Khmer Riel, United States Dollars and Thai Bath ("THB"), and is exposed to various currency risks, primarily with respect to US\$ and THB.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the Company's functional currency.

Management monitors foreign exchange risk against the Company's functional currency. However, the Company does not hedge its foreign exchange risk exposure arising from future commercial transactions and recognised assets and liabilities using forward contracts.

The Company's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines.

The table below summarises the Company's exposure to foreign currency exchange rate risk. Included in the table are and Company's financial instruments at their carrying amounts by currency in KHR equivalent.

LOLC (CAMBODIA) PLC.

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36. FINANCIAL RISK MANAGEMENT (continued)

36.2 Market risk (continued)

(i) Foreign exchange risk (continued)

	In KHR'000 equivalent			
	KHR	US\$	THB	Total
As at 31 December 2020				
Financial assets				
Cash on hand	16,187,629	68,975,478	4,468,783	89,631,890
Deposits and placements with the central bank	118,291,738	204,335,977	-	322,627,715
Deposits and placements with banks	57,830,109	178,079,076	-	235,909,185
Loans and advances at amortised cost	840,985,921	2,338,374,180	215,514,816	3,394,874,917
Financial assets at fair value through other comprehensive income	-	60,675	-	60,675
Other financial assets	803,113	2,581,248	66,960	3,451,321
Total financial assets	1,034,098,510	2,792,406,634	220,050,559	4,046,555,703
Financial liabilities				
Deposits from banks and other financial institutions	1,897	134,230,707	-	134,232,604
Deposits from customers	140,343,337	1,881,548,230	12,076,395	2,033,967,962
Borrowings	132,580,544	775,718,368	174,987,418	1,083,286,330
Subordinated debts	-	165,561,432	-	165,561,432
Debt securities	27,617,459	53,732,838	-	81,350,297
Lease liabilities	-	18,229,165	-	18,229,165
Other liabilities	958,561	1,312,613	19,553	2,290,727
Total financial liabilities	301,501,798	3,030,333,353	187,083,366	3,518,918,517
Net on-balance sheet position	732,596,712	(237,926,719)	32,967,193	527,637,186
In US\$ equivalent	181,111,672	(58,819,955)	8,150,108	130,441,825
As at 31 December 2019				
Financial assets				
Cash on hand	20,383,956	81,937,814	2,863,811	105,185,581
Deposits and placements with the central bank	234,840,155	336,079,852	-	570,920,007
Deposits and placements with banks	16,968,385	60,323,051	-	77,291,436
Loans and advances at amortised cost	687,323,559	2,230,580,747	197,577,619	3,115,481,925
Financial assets at fair value through other comprehensive income	-	61,125	-	61,125
Other financial assets	301,051	5,925,250	163,202	6,389,503
Total financial assets	959,817,106	2,714,907,839	200,604,632	3,875,329,577
Financial liabilities				
Deposits from banks and other financial institutions	2,694,970	90,440,161	-	93,135,131
Deposits from customers	227,608,755	1,536,438,294	7,788,312	1,771,835,361
Borrowings	175,779,975	1,092,829,878	157,849,738	1,426,459,591
Subordinated debts	-	120,587,586	-	120,587,586
Debt securities	27,624,548	54,131,351	-	81,755,899
Lease liabilities	-	18,602,031	-	18,602,031
Other liabilities	713,037	1,027,257	2,332	1,742,626
Total financial liabilities	434,421,285	2,914,056,558	165,640,382	3,514,118,225
Net on-balance sheet position	525,395,821	(199,148,719)	34,964,250	361,211,352
In US\$ equivalent	128,931,490	(48,870,851)	8,580,185	88,640,824

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36. FINANCIAL RISK MANAGEMENT (continued)

36.2 Market risk (continued)

(i) Foreign exchange risk (continued)

Sensitivity analysis

As shown in the table above, the Company is primarily exposed to changes in KHR/US\$ and KHR/THB exchange rates. The sensitivity of profit or loss to changes in the exchange rates arises mainly from US\$ and THB denominated financial instruments.

	Impact on post tax profit KHR'000	Impact on other component of equity KHR'000	Impact on post tax profit US\$	Impact on other component of equity US\$
2020				
KHR/US\$ exchange rate- increase by 2%	3,777,852	-	933,956	-
KHR/US\$ exchange rate- decrease by 2%	(3,932,051)	-	(972,077)	-
KHR/THB exchange rate- increase by 6%	(1,511,121)	-	(373,577)	-
KHR/THB exchange rate- decrease by 6%	1,704,030	-	421,268	-
2019				
KHR/US\$ exchange rate- increase by 2%	3,514,389	-	868,823	-
KHR/US\$ exchange rate- decrease by 2%	(3,657,833)	-	(904,285)	-
KHR/THB exchange rate- increase by 6%	(1,781,198)	-	(440,346)	-
KHR/THB exchange rate- decrease by 6%	2,008,584	-	496,560	-

(ii) Price risk

The Company's exposure to equity securities price risk arises from investment held by the Company and classified as FVOCI. The investment amount is insignificant, so the Company did not have any policy to manage its price risk arising from investments in equity securities.

(iii) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Interest margins may increase as a result of changes but may reduce losses in the event that unexpected movements arise.

The Company's main interest rate risk arises from borrowings with variable rates, which exposes the Company to cash flow interest rate risk. The Company's borrowing consists of both fixed rates and variable rates, in which majority of the borrowings are at fixed rates as the Company's policy is to maintain at least 70% of its borrowing at fixed rate. The Company does not have fair value interest rate risk as the interest rates of financial instruments measured at amortised cost are similar to prevailing market rates.

The management of the Company at this stage does not have a policy to set limits on the level of mismatch of interest rate repricing that may be undertaken; however, the management regularly monitors the mismatch. In addition, the management regularly analyses and foresees the expected changes in the interest rates and manages cash flow interest rate risk by assessing its impacts and developed actions to respond to the interest rate risk.

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NOTES TO THE FINANCIAL STATEMENTS
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36. FINANCIAL RISK MANAGEMENT (continued)

36.2 Market risk (continued)

(iii) Interest rate risk (continued)

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

	Up to 1 month KHR'000	1 to 3 months KHR'000	3 to 12 months KHR'000	1 to 5 years KHR'000	Over 5 years KHR'000	Non-interest rate sensitive KHR'000	Total KHR'000
As at 31 December 2020							
Financial assets							
Cash on hand	-	-	-	-	-	89,631,890	89,631,890
Deposits and placements with the central bank	-	1,009,208	809,344	-	-	320,809,163	322,627,715
Deposits and placements with banks	67,751,386	67,333,610	-	-	-	100,824,189	235,909,185
Financial assets at fair value through other comprehensive income	-	-	-	-	-	60,675	60,675
Loans and advances at amortised cost	8,883,741	24,485,961	190,256,255	2,774,086,772	397,162,188	-	3,394,874,917
Other financial assets	-	-	-	-	-	3,451,321	3,451,321
Total financial assets	76,635,127	92,828,779	191,065,599	2,774,086,772	397,162,188	514,777,238	4,046,555,703
Financial liabilities							
Deposits from banks and other financial institutions	29,503,739	37,555,405	62,304,153	4,869,307	-	-	134,232,604
Deposits from customers	374,713,967	371,772,211	990,318,482	297,163,302	-	-	2,033,967,962
Borrowings	20,907,070	39,495,120	248,549,086	774,335,054	-	-	1,083,286,330
Subordinated debts	-	12,449,902	2,480,053	89,897,312	60,734,165	-	165,561,432
Debt securities	-	-	-	81,350,297	-	-	81,350,297
Lease liabilities	17,873	34,696	138,659	398,670	17,639,267	-	18,229,165
Other financial liabilities	-	-	-	-	-	2,290,727	2,290,727
Total financial liabilities	425,142,649	461,307,334	1,303,790,433	1,248,013,942	78,373,432	2,290,727	3,518,918,517
Net interest repricing gap	(348,507,522)	(368,478,555)	(1,112,724,834)	1,526,072,830	318,788,756	512,486,511	527,637,186
In US\$ equivalent	(86,157,607)	(91,094,822)	(275,086,486)	377,273,876	78,810,570	126,696,294	130,441,825

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36. FINANCIAL RISK MANAGEMENT (continued)

36.2 Market risk (continued)

(iii) Interest rate risk (continued)

	Up to 1 month KHR'000	1 to 3 months KHR'000	3 to 12 months KHR'000	1 to 5 years KHR'000	Over 5 years KHR'000	Non-interest rate sensitive KHR'000	Total KHR'000
As at 31 December 2019							
Financial assets							
Cash on hand	-	-	-	-	-	105,185,581	105,185,581
Deposits and placements with the central bank	-	200,180	-	-	-	570,719,827	570,920,007
Deposits and placements with banks	11,035,100	-	-	-	-	66,256,336	77,291,436
Financial assets at fair value through other comprehensive income	-	-	-	-	-	61,125	61,125
Loans and advances at amortised cost	113,695,585	286,557,893	1,095,493,572	1,603,178,052	16,556,823	-	3,115,481,925
Other financial assets	-	-	-	-	-	6,389,503	6,389,503
Total financial assets	124,730,685	286,758,073	1,095,493,572	1,603,178,052	16,556,823	748,612,372	3,875,329,577
Financial liabilities							
Deposits from banks and other financial institutions	16,479,987	26,536,957	50,118,187	-	-	-	93,135,131
Deposits from customers	382,799,991	392,156,211	823,403,618	173,475,541	-	-	1,771,835,361
Borrowings	3,123,134	81,547,338	206,253,674	1,135,535,445	-	-	1,426,459,591
Subordinated debts	4,094,203	2,494,277	-	95,926,888	18,072,218	-	120,587,586
Debt securities	-	-	1,224,548	80,531,351	-	-	81,755,899
Lease liabilities	385,320	758,334	3,309,666	9,716,775	4,431,936	-	18,602,031
Other financial liabilities	-	-	-	-	-	1,742,626	1,742,626
Total financial liabilities	406,882,635	503,493,117	1,084,309,693	1,495,186,000	22,504,154	1,742,626	3,514,118,225
Net interest repricing gap	(282,151,950)	(216,735,044)	11,183,879	107,992,052	(5,947,331)	746,869,746	361,211,352
In US\$ equivalent	(69,239,742)	(53,186,514)	2,744,510	26,501,117	(1,459,468)	183,280,921	88,640,824

LOLC (CAMBODIA) PLC.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

36. FINANCIAL RISK MANAGEMENT (continued)

36.2 Market risk (continued)

(iii) Interest rate risk (continued)

Sensitivity analysis

Profit or loss is sensitive to higher/lower interest income from financial instruments as a result of changes in interest rates.

	Impact on post tax profit KHR'000	Impact on other component of equity KHR'000	Impact on post tax profit US\$	Impact on other component of equity US\$
2020				
Interest rate increase by 100 basis point	1,140,392	-	281,926	-
Interest rate decrease by 100 basis point	(1,140,392)	-	(281,926)	-
2019				
Interest rate increase by 100 basis point	1,900,396	-	466,355	-
Interest rate decrease by 100 basis point	(1,900,396)	-	(466,355)	-

36.3 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence of this may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

(a) Liquidity risk management process

The Company's management monitors balance sheet liquidity and manages the concentration and profile of debt maturities. Monitoring and reporting take the form of the daily cash position and project for the next day, week and month respectively, as these are key periods for liquidity management. The management monitors the movement of the main depositors and projection of their withdrawals.

(b) Funding approach

The Company's main sources of liquidities arise from shareholder's paid-up capital, borrowing, subordinated debts and customers' deposits. The sources of liquidity are regularly reviewed daily through management's review of maturity of term deposits and key depositors.

(c) Non-derivative cash flows

The table below presents the cash flows payable by the Company under non-derivative financial liabilities based on remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Company manages the inherent liquidity risk based on expected undiscounted cash flows.

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36. FINANCIAL RISK MANAGEMENT (continued)

36.3 Liquidity risk (continued)

(c) Non-derivative cash flows (continued)

	Up to 1 month KHR'000	1 to 3 months KHR'000	3 to 12 months KHR'000	1 to 5 years KHR'000	Over 5 years KHR'000	Total KHR'000
As at 31 December 2020						
Financial assets						
Cash on hand	89,631,890	-	-	-	-	89,631,890
Deposits and placements with the central bank	320,809,163	1,012,580	810,471	-	-	322,632,214
Deposits and placements with banks	168,156,292	67,979,886	-	-	-	236,136,178
Financial assets at fair value through other comprehensive income	60,675	-	-	-	-	60,675
Loans and advances at amortised cost	201,919,322	289,475,911	1,224,356,795	2,714,032,125	89,044,260	4,518,828,413
Other financial assets	3,055,242	13,146	116,092	122,968	143,873	3,451,321
Total financial assets by remaining contractual maturities	783,632,584	358,481,523	1,225,283,358	2,714,155,093	89,188,133	5,170,740,691
Financial liabilities						
Deposits from banks and other financial institutions	28,189,156	39,072,767	63,648,125	5,285,235	-	136,195,283
Deposits from customers	368,851,117	398,681,910	1,035,692,983	331,206,591	-	2,134,432,601
Borrowings	38,809,983	106,026,219	438,687,807	605,689,956	-	1,189,213,965
Subordinated debts	-	15,325,392	33,137,068	149,256,429	23,068,521	220,787,410
Debt securities	-	-	6,701,848	83,474,581	-	90,176,429
Lease liabilities	488,968	950,394	3,979,469	11,018,136	585,276	17,022,243
Other financial liabilities	2,290,727	-	-	-	-	2,290,727
Total financial liabilities by remaining contractual maturities	438,629,951	560,056,682	1,581,847,300	1,185,930,928	23,653,797	3,790,118,658
Net liquidity (gap)/surplus	345,002,633	(201,575,159)	(356,563,942)	1,528,224,165	65,534,336	1,380,622,033
In US\$ equivalent	85,291,133	(49,833,167)	(88,149,306)	377,805,727	16,201,319	341,315,706

As at 31 December 2020, the Company has undrawn overdraft facilities amounting to KHR 24,670,000 thousands (US\$ 6,098,888) from local financial institutions.

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NOTES TO THE FINANCIAL STATEMENTS
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36. FINANCIAL RISK MANAGEMENT (continued)

36.3 Liquidity risk (continued)

(c) Non-derivative cash flows (continued)

	Up to 1 month KHR'000	1 to 3 months KHR'000	3 to 12 months KHR'000	1 to 5 years KHR'000	Over 5 years KHR'000	Total KHR'000
As at 31 December 2019						
Financial assets						
Cash on hand	105,185,581	-	-	-	-	105,185,581
Deposits and placements with the central bank	570,719,827	-	200,617	-	-	570,920,444
Deposits and placements with banks	77,291,436	-	-	-	-	77,291,436
Financial assets at fair value through other comprehensive income	61,125	-	-	-	-	61,125
Loans and advances at amortised cost	183,125,120	263,581,880	1,138,474,045	2,493,450,592	27,141,132	4,105,772,769
Other financial assets	6,389,503	-	-	-	-	6,389,503
Total financial assets by remaining contractual maturities	942,772,592	263,581,880	1,138,674,662	2,493,450,592	27,141,132	4,865,620,858
Financial liabilities						
Deposits from banks and other financial institutions	15,221,020	27,988,144	51,463,746	-	-	94,672,910
Deposits from customers	377,981,497	408,632,571	866,998,902	202,611,957	-	1,856,224,927
Borrowings	33,974,299	147,850,991	400,574,581	1,014,358,266	-	1,596,758,137
Subordinated debts	4,566,248	4,704,825	104,025,311	44,052,535	1,621,177	158,970,096
Debt securities	-	-	6,696,994	90,535,189	-	97,232,183
Lease liabilities	502,786	985,852	985,852	4,266,553	12,340,343	19,081,386
Other financial liabilities	1,742,626	-	-	-	-	1,742,626
Total financial liabilities by remaining contractual maturities	433,988,476	590,162,383	1,430,745,386	1,355,824,500	13,961,520	3,824,682,265
Net liquidity (gap)/surplus	508,784,116	(326,580,503)	(292,070,724)	1,137,626,092	13,179,612	1,040,938,593
In US\$ equivalent	124,854,998	(80,142,455)	(71,673,797)	279,172,047	3,234,261	255,445,054

As at 31 December 2019, the Company has undrawn overdraft facilities amounting to KHR 37,166,201 thousands (US\$ 9,120,540) from local financial institutions.

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**NOTES TO THE FINANCIAL STATEMENTS
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36. FINANCIAL RISK MANAGEMENT (continued)

36.4 Fair value of financial assets and liabilities

Financial instruments comprise of financial assets and financial liabilities. 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. The information presented herein represents the estimates of fair values as at the statements of financial position date.

(a) Financial instruments measured at fair value

i) Determination of fair value and fair value hierarchy

The following table presents the Company's financial assets measured and recognised at fair value at 31 December 2020 and 31 December 2019 on a recurring basis:

	<u>Level 1</u> <u>KHR'000</u>	<u>Level 2</u> <u>KHR'000</u>	<u>Level 3</u> <u>KHR'000</u>	<u>Total</u> <u>KHR'000</u>
As at 31 December 2020				
Financial assets				
<i>Financial assets at fair value through other comprehensive income</i>				
Equity securities	-	-	60,675	60,675
Total financial assets	-	-	60,675	60,675
In US\$ equivalent	-	-	15,000	15,000
As at 31 December 2019				
Financial assets				
<i>Financial assets at fair value through other comprehensive income</i>				
Equity securities	-	-	61,125	61,125
Total financial assets	-	-	61,125	61,125
In US\$ equivalent	-	-	15,000	15,000

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

36. FINANCIAL RISK MANAGEMENT (continued)

36.4 Fair value of financial assets and liabilities (continued)

(a) Financial instruments measured at fair value (continued)

ii) Valuation techniques

The Company's financial asset at FVOCI is investment in unlisted equity securities where the fair values have been determined based on present values and the discount rate used were adjusted for counterparty or own credit risk.

(b) Financial instruments not measured at fair value

As at the balance sheet date, the fair values of financial instruments of the Company approximate their carrying amounts.

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

i) Deposits and placements with the central bank and banks

The carrying amounts of deposits and placements with the central bank and banks approximate their fair values, since these accounts consist mostly of current, savings and short-term deposits.

ii) Loans and advances to customers

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

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

iii) Deposits from banks, other financial institutions and customers

The fair value of deposits from banks, other financial institutions and customers with maturities of less than one year approximate their carrying amount due to the relatively short maturity of these instruments. The fair value of deposits from banks and customers with remaining maturities of more than one year are expected to approximate their carrying amount due to the Company offered similar interest rate of the instrument with similar maturities and terms.

iv) Lease liabilities

The estimated fair value of lease liabilities with maturities of less than one year approximate the carrying values. For other lease liabilities with maturities of one year or more, the fair values are estimated based on discounted cash flows using prevailing market rates of incremental borrowings.

v) Other financial assets and other financial liabilities

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

36. FINANCIAL RISK MANAGEMENT (continued)

36.4 Fair value of financial assets and liabilities (continued)

(b) Financial instruments not measured at fair value (continued)

vi) Borrowings and subordinated debts

Borrowings and subordinated debts are not quoted in active market and their fair value approximates their carrying amount.

vii) Debt securities

The estimated fair value of debt securities is generally based on quoted and observable market prices at the date of statement of financial position. They are not presently traded. The estimated fair values of debt securities are approximate their carrying values based on estimated future cash flows using prevailing market rates.

36.5 Capital management

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

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

The central bank requires all micro-finance deposits taking institutions to i) hold the minimum capital requirement, ii) maintain the Company's net worth at least equal to the minimum capital and iii) comply with solvency and liquidity ratios.

The table below summarises the composition of regulatory capital:

	2020 KHR'000	2019 KHR'000	2020 US\$	2019 US\$
Tier I capital				
Share capital	224,377,400	224,377,400	55,460,850	55,460,850
Retained earnings	298,065,276	107,919,895	73,379,198	26,740,647
Other reserves	210,415,116	210,415,116	51,979,374	51,979,374
Less: Loans to related parties	<u>(2,618,151)</u>	<u>(255,891)</u>	<u>(647,256)</u>	<u>(62,795)</u>
	<u>730,239,641</u>	<u>542,456,520</u>	<u>180,172,166</u>	<u>134,118,076</u>
Tier II complementary capital				
Subordinated debts	<u>157,755,000</u>	<u>109,210,000</u>	<u>39,000,000</u>	<u>26,800,000</u>
	<u>157,755,000</u>	<u>109,210,000</u>	<u>39,000,000</u>	<u>26,800,000</u>
Total Capital Tier I + Tier II	<u>887,994,641</u>	<u>651,666,520</u>	<u>219,172,166</u>	<u>160,918,076</u>