

LOLC (CAMBODIA) PLC.

**Financial Statements
for the year ended 31 December 2017
and
Report of the Independent Auditors**

Corporate information

Company	LOLC (Cambodia) Plc.
Registration No	00012829
Registered office	Building No. 666B, Street 271 Sangkat Phsar Doeum Thkov, Khan Chamkarmon Phnom Penh, Kingdom of Cambodia
Shareholders	LOLC Micro Investments Ltd. DWM FUNDS S.C.A.-SICAV SIF TPC-ESOP CO., LTD.
Board of Directors	Mr. Brindley Chrisantha Gajanayake de Zylva, Chairman Mr. Ravindra Dhammika Tissera, Member Mrs. Fernanda Pecanha Lacerda de Lima, Member Mr. Indrajith Wijesiriwardana, Member Mr. Hans Michael Theodor Moormann, Member
Audit committee	Mr. Hans Michael Theodor Moormann, Chairman Mr. Brindley Chrisantha Gajanayake de Zylva, Member Mr. Indrajith Wijesiriwardana, Member
Risk committee	Mr. Hans Michael Theodor Moormann, Chairman Mrs. Fernanda Pecanha Lacerda de Lima, Member Mr. Brindley Chrisantha Gajanayake de Zylva, Member
Appointment and remuneration committee	Mr. Indrajith Wijesiriwardana, Chairman Mr. Ravindra Dhammika Tissera, Member Mrs. Fernanda Pecanha Lacerda de Lima, Member
Executive committee	Mr. Sok Voeun, Chief Executive Officer Mr. Sok Sophal, Chief Finance Officer Mr. Eng Bunthach, Chief Information Officer Mr. Tun Korng, Deputy Head of Credit Department Mrs. Leng Thavy, Head of Human Resources Department Ms. Svoeuy Sodyna, Head of Risk and Compliance Department Mr. Yun Sophal, Head of Finance Department Mrs. Try Sola, Head of Treasury Department Mrs. Chheang Kagna, Head of Deposit & Financial Services Department Mr. Hul Sovutha, Head of Information Technology Department Mr. Teng Pheap, Head of Internal Audit Department Mr. Ban Phalleng, Head of Social Performance Mr. Chhuon Sokcheth, Head of Marketing Department
Auditor	KPMG Cambodia Ltd

LOLC (Cambodia) Plc.

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Report of the Board of Directors

The Board of Directors has pleasure in submitting their report together with the audited financial statements of LOLC (Cambodia) Plc. ("the Company" or "LOLC") for the year ended 31 December 2017.

Principal activity

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

Financial results

The financial results of the Company for the year ended 31 December 2017 were as follows:

	Year ended 31 December 2017		Year ended 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Profit before income tax	76,700,350	18,999,343	68,931,021	17,074,813
Income tax expense	(15,509,521)	(3,841,843)	(13,936,083)	(3,452,089)
Net profit for the year	<u>61,190,829</u>	<u>15,157,500</u>	<u>54,994,938</u>	<u>13,622,724</u>

Dividends

During the year, the Company declared and paid dividends amounting to KHR5,499,472 thousand (equivalent to US\$1,362,267) in respect of the profit for the year ended 31 December 2016 (2016: KHR4,881,617 thousand in respect of the profit for the year ended 31 December 2015).

Share capital

On 3 November 2016, the Board of Directors resolved to increase the share capital of the Company from KHR23,368,200 thousand (equivalent to US\$5,788,506) to KHR120,000,000 thousand (equivalent to US\$29,725,043) by increasing the number of shares from 233,682 shares to 1,200,000 shares.

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

LOLC (Cambodia) Plc.

Share capital (continued)

On 13 March 2017, the Company made a request to the National Bank of Cambodia ("NBC") to increase the first tranche share capital amounting to KHR48,315,900 thousand (equivalent to US\$11,968,269) by converting the retained earnings into the registered capital according to the Company's prior notification to the NBC No. អកណ-2017/140 dated 28 February 2017. The share capital of the Company was increased from KHR23,368,200 thousand (equivalent to US\$5,788,506) to KHR71,684,100 thousand (equivalent to US\$17,756,775) following the approval from the NBC on 28 June 2017 and acknowledged by the Ministry of commerce ("MoC") on 24 July 2017.

On 2 March 2018, the Company sent the request to the NBC to increase the second tranche share capital amounting from KHR71,684,100 thousand (equivalent to US\$17,756,775) to KHR120,000,000 thousand (equivalent to US\$29,725,043). Up to the date of this report, the Company has not yet obtained the approval from the NBC.

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

Reserves and provisions

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

Bad and doubtful loans

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

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

Current assets

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

LOLC (Cambodia) Plc.

Valuation methods

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

Contingent and other liabilities

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

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

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

Change of circumstances

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

Items of an unusual nature

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

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

The Board of Directors

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

- | | |
|--|----------|
| • Mr. Brindley Chrishantha Gajanayake de Zylva | Chairman |
| • Mr. Ravindra Dhammika Tissera | Member |
| • Mrs. Fernanda Pecanha Lacerda de Lima | Member |
| • Mr. Indrajith Wijesiriwardana | Member |
| • Mr. Hans Michael Theodor Moormann | Member |

LOLC (Cambodia) Plc.

Audit committee

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

- Mr. Hans Michael Moormann Chairwoman
- Mr. Brindley Chrisantha Gajanayake de Zylva Member
- Mr. Indrajith Wijesiriwardana Member

Risk committee

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

- Mr. Hans Michael Moormann Chairman
- Mrs. Fernanda Pecanha Lacerda de Lima Member
- Mr. Brindley Chrisantha Gajanayake de Zylva Member

Appointment and remuneration committee

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

- Mr. Indrajith Wijesiriwardana Chairman
- Mr. Ravindra Dhammika Tissera Member
- Mrs. Fernanda Pecanha Lacerda de Lima Member

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

The Board of Directors is responsible for ascertaining that the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended. In preparing these financial statements, the Board of Directors ensures that the Company:

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

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

- assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so; and
- control and direct effectively the Company in all material decisions affecting the operations and performance and ascertain that such have been properly reflected in the financial statements.

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

Approval of the financial statements

We hereby approve the accompanying financial statements as set out on pages 9 to 60 which, in our opinion, present fairly, in all material respects, the financial position of LOLC (Cambodia) Plc. as at 31 December 2017, and its financial performance and its cash flows for the year then ended, in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements.

On behalf of the Board of Directors



Sok Voeun

Chief Executive Officer

Phnom Penh, Kingdom of Cambodia

Date: 15 MAR 2018



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Report of the independent auditors

To the shareholders

LOLC (Cambodia) Plc.

Opinion

We have audited the accompanying financial statements of LOLC (Cambodia) Plc. (“the Company”), which comprise the balance sheet as at 31 December 2017, and the income statement, the statements of changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out on pages 9 to 60.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements.

Basis for Opinion

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

Other Information

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

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

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

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

Other Matter

The financial statements of the Company as at 31 December 2016 was audited by another auditor who expressed an unmodified opinion on those financial statements on 5 April 2017.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

For KPMG Cambodia Ltd



Nge Huy
Partner

Phnom Penh, Kingdom of Cambodia

15 March 2018

LOLC (Cambodia) Plc.

Balance sheet as at 31 December 2017

	Note	As at 31 December 2017		As at 31 December 2016	
		KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
ASSETS					
Cash on hand	5	18,201,556	4,508,684	8,198,053	2,030,729
Balances with the National Bank of Cambodia	6	62,103,582	15,383,597	13,289,293	3,291,873
Balances with banks	7	95,936,028	23,764,188	89,398,093	22,144,685
Loans to customers – net	8	1,283,839,747	318,018,268	874,171,085	216,539,778
Other assets	9	23,979,171	5,939,849	20,564,216	5,093,935
Investment		60,555	15,000	60,555	15,000
Property and equipment	10	7,500,099	1,857,840	9,285,666	2,300,140
Intangible assets	11	3,389,764	839,674	2,351,921	582,592
Deferred tax assets, net	12(a)	4,404,379	1,091,003	3,444,234	853,167
TOTAL ASSETS		1,499,414,881	371,418,103	1,020,763,116	252,851,899
LIABILITIES AND EQUITY					
Liabilities					
Deposits from banks and other financial institutions	13	42,003,796	10,404,705	24,222,052	6,000,014
Deposits from customers	14	322,595,429	79,909,693	53,900,768	13,351,689
Other liabilities	15	38,400,976	9,512,255	24,490,968	6,066,625
Bank overdraft	16	963,916	238,770	-	-
Borrowings	17	830,007,983	205,600,195	708,288,413	175,449,198
Current income tax liability	12(b)	13,836,836	3,427,505	13,946,327	3,454,626
Total liabilities		1,247,808,936	309,093,123	824,848,528	204,322,152
Equity					
Share capital	18	71,684,100	17,756,775	23,368,200	5,788,506
Reserves		7,168,410	1,775,677	4,861,722	1,204,291
Retained earnings		172,753,435	42,792,528	167,684,666	41,536,950
Total equity		251,605,945	62,324,980	195,914,588	48,529,747
TOTAL LIABILITIES AND EQUITY		1,499,414,881	371,418,103	1,020,763,116	252,851,899

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

LOLC (Cambodia) Plc.

Income statement for the year ended 31 December 2017

	Note	Year ended 31 December 2017		Year ended 31 December 2016	
		KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Interest income	19	235,190,188	58,258,654	225,733,566	55,916,167
Interest expense	20	(85,834,577)	(21,261,971)	(71,261,995)	(17,652,216)
Net interest income		149,355,611	36,996,683	154,471,571	38,263,951
Other income	21	35,729,664	8,850,548	9,945,178	2,463,507
Commission expenses	22	(1,701,056)	(421,366)	(1,347,679)	(333,832)
Personnel expenses	23	(58,032,093)	(14,375,054)	(48,559,704)	(12,028,661)
Depreciation	10	(3,757,136)	(930,675)	(3,584,159)	(887,827)
Amortisation	11	(130,353)	(32,290)	(20,699)	(5,128)
General and administrative expenses	24	(30,224,374)	(7,486,840)	(27,458,553)	(6,801,722)
Gain on foreign exchange		1,335,467	330,807	474,778	117,607
Operating profit		92,575,730	22,931,813	83,920,733	20,787,895
Allowance for bad and doubtful loans	8	(15,875,380)	(3,932,470)	(14,989,712)	(3,713,082)
Profit before income tax		76,700,350	18,999,343	68,931,021	17,074,813
Income tax expense	12(c)	(15,509,521)	(3,841,843)	(13,936,083)	(3,452,089)
Net profit for the year		61,190,829	15,157,500	54,994,938	13,622,724

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

LOLC (Cambodia) Plc.

Statement of changes in equity for the year ended 31 December 2017

	Share capital KHR'000	Reserves KHR'000	Retained earnings KHR'000	Total KHR'000
At 1 January 2016	23,368,200	4,279,558	118,153,509	145,801,267
Dividends paid	-	-	(4,881,617)	(4,881,617)
Transfer to reserve	-	582,164	(582,164)	-
Net profit for the year	-	-	54,994,938	54,994,938
As at 31 December 2016	<u>23,368,200</u>	<u>4,861,722</u>	<u>167,684,666</u>	<u>195,914,588</u>
(US\$ equivalents – Note 4)	<u>5,788,506</u>	<u>1,204,291</u>	<u>41,536,950</u>	<u>48,529,747</u>
At 1 January 2017	23,368,200	4,861,722	167,684,666	195,914,588
Transfer from retained earnings	48,315,900	-	(48,315,900)	-
Dividends paid	-	-	(5,499,472)	(5,499,472)
Transfer to reserve	-	2,306,688	(2,306,688)	-
Net profit for the year	-	-	61,190,829	61,190,829
As at 31 December 2017	<u>71,684,100</u>	<u>7,168,410</u>	<u>172,753,435</u>	<u>251,605,945</u>
(US\$ equivalents – Note 4)	<u>17,756,775</u>	<u>1,775,677</u>	<u>42,792,528</u>	<u>62,324,980</u>

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

LOLC (Cambodia) Plc.

Statement of cash flows for the year ended 31 December 2017

	Note	Year ended 31 December 2017		Year ended 31 December 2016	
		KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Cash flows from operating activities					
Profit before income tax		76,700,350	18,999,343	68,931,021	17,074,813
<i>Adjustments for:</i>					
Depreciation	10	3,757,136	930,675	3,584,159	887,827
Amortisation	11	130,353	32,290	20,699	5,128
Allowance for bad and doubtful loans	7	15,875,380	3,932,470	14,989,712	3,713,082
Disposals and written-off of property and equipment		(53,255)	(13,192)	(50,391)	(12,482)
Other accruals		-	-	3,416,578	846,316
Net interest income		(149,355,611)	(36,996,683)	(154,471,571)	(38,263,951)
		(52,945,647)	(13,115,097)	(63,579,793)	(15,749,267)
Changes in:					
Reserve requirements with the NBC		(28,733,526)	(7,117,545)	2,450,051	606,899
Balances with banks		(4,844,400)	(1,200,000)	24,222,052	6,000,014
Loans to customers		(430,069,682)	(106,532,000)	(131,292,591)	(32,522,316)
Other receivables		(4,422,745)	(1,095,553)	2,476,652	613,488
Deposits from customers		268,694,661	66,558,004	52,786,132	13,075,584
Deposits from banks and other financial institutions		17,781,744	4,404,693	38,751,750	9,599,145
Other liabilities		12,734,188	3,154,369	695,915	172,384
Cash used in operations		(221,805,407)	(54,943,129)	(73,489,832)	(18,204,069)
Interest income received		236,197,978	58,508,293	225,476,321	55,852,445
Interest expense paid		(80,133,117)	(19,849,670)	(69,148,431)	(17,128,668)
Income tax paid		(16,579,157)	(4,106,800)	(12,889,230)	(3,192,774)
Net cash (used in)/generated from operating activities		(82,319,703)	(20,391,306)	69,948,828	17,326,934

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Statement of cash flows (continued) for the year ended 31 December 2017

	Note	Year ended 31 December 2017		Year ended 31 December 2016	
		KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Cash flows from investing activities					
Capital guaranteed deposit with the NBC		(4,831,590)	(1,196,827)	(7,865,169)	(1,948,271)
Acquisition of property and equipment		(1,985,018)	(491,706)	(6,554,761)	(1,623,671)
Acquisition of intangible assets		(1,168,196)	(289,373)	(2,298,578)	(569,378)
Proceeds from disposals of property and equipment		66,704	16,523	71,087	17,609
Net cash used in investing activities		(7,918,100)	(1,961,383)	(16,647,421)	(4,123,711)
Cash flows from financing activities					
Proceeds from borrowings		466,832,214	115,638,399	312,374,435	77,377,864
Repayments of borrowings		(345,112,644)	(85,487,402)	(321,231,436)	(79,571,820)
Dividend paid		(5,499,472)	(1,362,267)	(4,881,617)	(1,209,219)
Net cash generated from/ (used in) financing activities		116,220,098	28,788,730	(13,738,618)	(3,403,175)
Net increase in cash and cash equivalents		25,982,295	6,436,041	39,562,789	9,800,048
Cash and cash equivalents at 1 January		100,570,219	24,912,117	61,007,430	15,063,562
Currency translation differences		-	-	-	48,507
Cash and cash equivalents at 31 December	25	126,552,514	31,348,158	100,570,219	24,912,117

Significant non-cash transaction:

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

	Year ended 31 December 2017		Year ended 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Conversion of the retained earnings to the share capital	48,315,900	11,968,268	-	-

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

LOLC (Cambodia) Plc.

Notes to the financial statements for the year ended 31 December 2017

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

1. Reporting entity

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

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

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

The Company has 77 office locations (76 branches and a head office in Phnom Penh). The Company’s registered office is at Building No. 666B, Street 271, Sangkat Phsar Doeum Thkov, Khan Chamkarmon, Phnom Penh, Kingdom of Cambodia.

As at 31 December 2017, the Company had 2,065 employees (31 December 2016: 1,873 employees).

2. Basis of preparation

(a) Statement of compliance

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

The financial statements were approved by the Board of Directors and authorised for issue on 15 March 2018.

(b) Basis of measurement

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

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

2. Basis of preparation (continued)

(c) Functional and presentation currency

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

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

(d) Use of estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Key accounting estimates and judgments applied in the preparation of the financial statements include estimates of recoverable amounts for loans to customers which have a separate accounting policy stated in Note 3(e).

3. Significant accounting policies

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

(a) Financial instruments

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

(b) Basis of aggregation

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

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

3. Significant accounting policies (continued)

(c) Cash and cash equivalents

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

(d) Loans to customers

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

(e) Allowance for bad and doubtful loans

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

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

Classification	Number of days past due	Minimum allowance
Short term loans (one year or less):		
Sub-standard	30 days or more	10%
Doubtful	60 days or more	30%
Loss	90 days or more	100%
Long term loans (more than one year):		
Sub-standard	30 days or more	10%
Doubtful	180 days or more	30%
Loss	360 days or more	100%

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

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

3. Significant accounting policies (continued)

(e) Allowance for bad and doubtful loans (continued)

New NBC Credit Risk Grading and Provision on Impairment not yet adopted:

The NBC issued Prakas No. B7-017-344 dated 1 December 2017 on Credit Risk Grading and Provision on Impairment and Circular No. B7-018-001 dated 16 February 2018 on the Implementation of Prakas on Credit Risk Grading and Provision on Impairment, which require all banks and financial institutions ("Institution") to measure the impairment and provide sufficient allowance for bad and doubtful loans based on the new credit risk grading and provision as follows:

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

The change in the credit risk grading and provisioning is applied prospectively and the effect of this change resulted in an increase in allowance for bad and doubtful loans for the year ended 31 December 2017 of KHR4,374,391 thousand (equivalent to US\$1,083,575).

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

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

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

3. Significant accounting policies (continued)

(e) Allowance for bad and doubtful loans (continued)

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

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

(f) Interest in suspense

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

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

(g) Balances with the NBC and banks

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

(h) Statutory deposits

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

(i) Other assets

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

(j) Investment

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

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

3. Significant accounting policies (continued)

(k) Property and equipment

- (i) Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.
- (ii) Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of the individual assets as follows:

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

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

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

(l) Intangible assets

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

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

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

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

3. Significant accounting policies (continued)

(m) Impairment

(i) *Financial assets*

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

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

All impairment losses are recognised in the income statement.

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

(ii) *Non-financial assets*

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

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

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

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

(n) Deposits from customers

Deposits from customers are stated at cost.

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

3. Significant accounting policies (continued)

(o) Borrowings

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

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

(p) Subordinated debts

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

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

(q) Provisions

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

(r) Income and expense recognition

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

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

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

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

3. Significant accounting policies (continued)

(s) Fee and commission income

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

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

(t) Operating leases

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

(u) Income tax

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

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates expected to be applied to temporary differences when they reverse, based on the law that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they related to income taxes levied by the same tax authority on the same taxable entity.

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

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 (continued) for the year ended 31 December 2017

3. Significant accounting policies (continued)

(v) Reserves

The reserves are transferred from retaining earnings, according to the borrowing agreement between Instituto De Crédito Oficial (“ICO”) of the Kingdom of Spain and the Company, whereby the Company is required, during the life of the borrowing, to transfer each year to a separate reserves at 3.5% of the outstanding principal borrowing from ICO, under the Spanish Microfinance Program. These reserves are for Institutional Strengthening, and still retained in the other reserves account of the life of the loan, except otherwise to be agreed by ICO.

(w) Related parties

Parties are considered to be related to the Company if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions, or where the Company and the other party are subject to common control or significant influence. Related parties may be individuals or corporate entities and include close family members of any individual considered to be a related party.

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

4. Translation of Khmer Riels into United States Dollars

The financial statements are stated in the Khmer Riel. The translations of the Khmer Riel amounts into the United States Dollars are included solely for presentation purposes and have been made using the prescribed official exchange rate of US\$1: KHR4,037 published by the NBC on 31 December 2017 (31 December 2016: KHR4,037). These convenience translations should not be construed as representations that the Khmer Riel amounts have been, could have been, or could in the future be, converted into the United States Dollars at this or any other rate of exchange.

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

5. Cash on hand

	As at 31 December 2017		As at 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Head office	1,212,745	300,408	1,141,204	282,686
Branches	16,988,811	4,208,276	7,056,849	1,748,043
	<u>18,201,556</u>	<u>4,508,684</u>	<u>8,198,053</u>	<u>2,030,729</u>

The above amounts are analysed by currencies as follows:

	As at 31 December 2017		As at 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Khmer Riel	4,062,198	1,006,242	3,008,832	745,314
US Dollars	13,539,073	3,353,746	4,866,515	1,205,478
Thai Baht	600,285	148,696	322,706	79,937
	<u>18,201,556</u>	<u>4,508,684</u>	<u>8,198,053</u>	<u>2,030,729</u>

6. Balances with the National Bank of Cambodia

	Note	As at 31 December 2017		As at 31 December 2016	
		KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Current accounts		18,223,246	4,514,056	2,974,073	736,703
Capital guarantee	(a)	7,168,410	1,775,677	2,336,820	578,851
Reserve requirement	(b)	36,711,926	9,093,864	7,978,400	1,976,319
		<u>62,103,582</u>	<u>15,383,597</u>	<u>13,289,293</u>	<u>3,291,873</u>

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

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

(a) Capital guarantee

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

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

The statutory deposit on registered capital placed with NBC earns interest at the rate of 3% per annum (2016: 3% per annum).

(b) Reserve requirement

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

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

7. Balances with banks

	As at 31 December 2017		As at 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Current accounts	26,161,697	6,480,480	7,308,856	1,810,466
Savings accounts	64,929,931	16,083,708	73,207,837	18,134,219
Fixed term accounts	4,844,400	1,200,000	8,881,400	2,200,000
	<u>95,936,028</u>	<u>23,764,188</u>	<u>89,398,093</u>	<u>22,144,685</u>

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

7. Balances with banks (continued)

Balances with banks analysed as follows:

	As at 31 December 2017		As at 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
(a) By currency:				
Khmer Riel	39,956,002	9,897,449	51,545,111	12,768,172
US Dollars	54,103,347	13,401,869	25,747,071	6,377,774
Thai Baht	1,876,679	464,870	12,105,911	2,998,739
	<u>95,936,028</u>	<u>23,764,188</u>	<u>89,398,093</u>	<u>22,144,685</u>
(b) By maturity:				
Within 1 month	91,091,628	22,564,188	80,516,694	19,944,685
3 - 12 months	4,844,400	1,200,000	4,037,000	1,000,000
1 - 5 years	-	-	4,844,399	1,200,000
	<u>95,936,028</u>	<u>23,764,188</u>	<u>89,398,093</u>	<u>22,144,685</u>
(c) By interest rate (per annum):				
Current accounts		0%		0%
Savings accounts		0.25% – 1.50%		0.25% – 1.50%
Fixed deposits		1.75% – 4.75%		1.75% – 4.75%

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

8. Loans to customers – net

	As at 31 December 2017		As at 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Group loans:				
Fixed term	63,755,342	15,792,753	59,506,886	14,740,373
End of cycle	117,943,196	29,215,555	154,912,193	38,373,097
Individual loans:				
Fixed term	930,005,172	230,370,367	494,822,931	122,571,942
End of cycle	179,846,476	44,549,536	163,682,628	40,545,610
Staff loans	15,003,961	3,716,611	13,353,480	3,307,774
	<u>1,306,554,147</u>	<u>323,644,822</u>	<u>886,278,118</u>	<u>219,538,796</u>
Allowance for bad and doubtful loans:				
Specific allowance	(9,833,443)	(2,435,829)	(3,569,416)	(884,175)
General allowance	(12,880,957)	(3,190,725)	(8,537,617)	(2,114,843)
	<u>(22,714,400)</u>	<u>(5,626,554)</u>	<u>(12,107,033)</u>	<u>(2,999,018)</u>
	<u>1,283,839,747</u>	<u>318,018,268</u>	<u>874,171,085</u>	<u>216,539,778</u>

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

	Year ended 31 December 2017		Year ended 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
At 1 January	12,107,033	2,999,018	1,848,153	461,346
Allowance for the year	15,875,380	3,932,470	14,989,712	3,713,082
Written off during the year	(5,276,130)	(1,306,943)	(4,634,209)	(1,147,934)
Loss on foreign exchange	8,117	2,009	(96,623)	(23,934)
Currency translation differences	-	-	-	(3,542)
At 31 December	<u>22,714,400</u>	<u>5,626,554</u>	<u>12,107,033</u>	<u>2,999,018</u>

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

8. Loans to customers – net (continued)

Loans to customers are analysed as follows:

	As at 31 December 2017		As at 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
(a) By maturity:				
Within 1 month	44,575,745	11,041,800	47,706,912	11,817,417
2 to 3 months	91,336,485	22,624,841	107,265,587	26,570,619
4 - 12 months	420,516,609	104,165,620	343,536,139	85,096,889
Over 12 months	750,125,308	185,812,561	387,769,480	96,053,871
	<u>1,306,554,147</u>	<u>323,644,822</u>	<u>886,278,118</u>	<u>219,538,796</u>
(b) By currency:				
Khmer Riel	290,019,103	71,840,253	251,233,686	62,232,768
US Dollars	936,725,722	232,035,106	585,177,626	144,953,586
Thai Baht	79,809,322	19,769,463	49,866,806	12,352,442
	<u>1,306,554,147</u>	<u>323,644,822</u>	<u>886,278,118</u>	<u>219,538,796</u>
(c) By economic sector:				
Agriculture	613,277,623	151,914,199	459,485,171	113,818,472
Household/family	289,682,107	71,756,777	155,376,923	38,488,215
Trade and commerce	227,096,501	56,253,778	151,625,171	37,558,873
Services	144,212,153	35,722,604	89,540,568	22,179,977
Construction	21,548,802	5,337,826	15,683,005	3,884,817
Transportation	3,242,308	803,148	2,864,530	709,569
Other categories	7,494,653	1,856,490	11,702,750	2,898,873
	<u>1,306,554,147</u>	<u>323,644,822</u>	<u>886,278,118</u>	<u>219,538,796</u>
(d) By residency status:				
Residents	<u>1,306,554,147</u>	<u>323,644,822</u>	<u>886,278,118</u>	<u>219,538,796</u>

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

8. Loans to customers – net (continued)

Loans to customers are analysed as follows: (continued)

	As at 31 December 2017		As at 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
(e) By relationship:				
External customers	1,291,550,186	319,928,211	872,924,638	216,231,022
Staff loans	14,882,851	3,686,611	13,252,199	3,282,686
Related parties	121,110	30,000	101,281	25,088
	<u>1,306,554,147</u>	<u>323,644,822</u>	<u>886,278,118</u>	<u>219,538,796</u>
(f) By performance:				
Standard loans:				
Secured	1,112,478,312	275,570,550	663,911,466	164,456,643
Unsecured	175,671,301	43,515,309	210,259,620	52,083,136
Special mentioned:				
Secured	1,845,924	457,251	-	-
Unsecured	541,460	134,124	-	-
Sub-standard loans:				
Secured	2,592,043	642,072	6,060,797	1,501,312
Unsecured	871,490	215,876	1,454,879	360,386
Doubtful loans:				
Secured	4,434,643	1,098,500	1,566,050	387,924
Unsecured	2,537,591	628,583	967,534	239,667
Loss loans:				
Secured	3,504,687	868,141	320,726	79,447
Unsecured	2,076,696	514,416	1,737,046	430,281
	<u>1,306,554,147</u>	<u>323,644,822</u>	<u>886,278,118</u>	<u>219,538,796</u>

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

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

8. Loans to customers – net (continued)

Loans to customers are analysed as follows: (continued)

	As at 31 December 2017		As at 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
(g) By locations:				
Head office	2,617,474	648,371	2,193,849	543,435
Branches	1,303,936,673	322,996,451	884,084,269	218,995,361
	<u>1,306,554,147</u>	<u>323,644,822</u>	<u>886,278,118</u>	<u>219,538,796</u>

	As at 31 December 2017		As at 31 December 2016	
	(h) By interest rate (per month):			
Khmer Riel	1.00% - 3.50%		2.00% - 3.50%	
US Dollars	1.20% - 3.00%		1.30% - 3.50%	
Thai Baht	<u>1.00% - 3.50%</u>		<u>2.00% - 3.50%</u>	

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

9. Other assets

	As at 31 December 2017		As at 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Interest receivable	16,468,122	4,079,297	14,036,171	3,476,882
Interest in suspense	(2,626,489)	(650,604)	(1,202,328)	(297,828)
Net interest receivable	13,841,633	3,428,693	12,833,843	3,179,054
Prepayments	4,379,063	1,084,732	4,063,292	1,006,513
Unamortised borrowing fees	3,465,250	858,373	2,978,228	737,733
Others	2,293,225	568,051	688,853	170,635
	<u>23,979,171</u>	<u>5,939,849</u>	<u>20,564,216</u>	<u>5,093,935</u>

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Notes to the financial statements (continued) for the year ended 31 December 2017

10. Property and equipment

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

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

10. Property and equipment (continued)

	Office furniture and equipment KHR'000	Motor vehicles KHR'000	Computer equipment KHR'000	Leasehold improvements KHR'000	Work in progress KHR'000	Total KHR'000
31 December 2016						
Cost						
At 1 January 2016	1,429,120	9,673,334	3,011,890	676,955	-	14,791,299
Additions	945,842	2,226,203	1,038,873	353,380	1,990,463	6,554,761
Disposals	(19,259)	(210,316)	(154,064)	-	-	(383,639)
At 31 December 2016	<u>2,355,703</u>	<u>11,689,221</u>	<u>3,896,699</u>	<u>1,030,335</u>	<u>1,990,463</u>	<u>20,962,421</u>
Less: Accumulated depreciation						
At 1 January 2016	(739,868)	(5,540,705)	(2,056,045)	(119,103)	-	(8,455,721)
Depreciation for the year	(514,288)	(2,214,219)	(739,271)	(116,381)	-	(3,584,159)
Disposals	19,217	194,323	149,585	-	-	363,125
At 31 December 2016	<u>(1,234,939)</u>	<u>(7,560,601)</u>	<u>(2,645,731)</u>	<u>(235,484)</u>	<u>-</u>	<u>(11,676,755)</u>
Carrying amounts						
At 31 December 2016	<u>1,120,765</u>	<u>4,128,620</u>	<u>1,250,970</u>	<u>794,848</u>	<u>1,990,463</u>	<u>9,285,666</u>
US\$ equivalents – Note 4	<u>277,623</u>	<u>1,022,695</u>	<u>309,876</u>	<u>196,891</u>	<u>493,055</u>	<u>2,300,140</u>

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Notes to the financial statements (continued) for the year ended 31 December 2017

11. Intangible assets

	Work in progress KHR'000	Software and license KHR'000	Total KHR'000
31 December 2017			
Cost			
At 1 January 2017	2,298,578	282,014	2,580,592
Additions	406,560	761,636	1,168,196
Transfer	(2,705,138)	2,705,138	-
At 31 December 2017	-	3,748,788	3,748,788
Less: Accumulated amortisation			
At 1 January 2017	-	(228,671)	(228,671)
Amortisation for the year	-	(130,353)	(130,353)
At 31 December 2017	-	(359,024)	(359,024)
Carrying amounts			
At 31 December 2017	-	3,389,764	3,389,764
US\$ equivalents – Note 4	-	839,674	839,674
31 December 2016			
Cost			
At 1 January 2016	-	282,014	282,014
Additions	2,298,578	-	2,298,578
At 31 December 2016	2,298,578	282,014	2,580,592
Less: Accumulated amortisation			
At 1 January 2016	-	(207,972)	(207,972)
Amortisation for the year	-	(20,699)	(20,699)
At 31 December 2016	-	(228,671)	(228,671)
Carrying amounts			
At 31 December 2016	2,298,578	53,343	2,351,921
US\$ equivalents – Note 4	569,377	13,215	582,592

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Notes to the financial statements (continued) for the year ended 31 December 2017

12. Income tax

(a) Deferred tax assets, net

	As at 31 December 2017		As at 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Deferred tax assets, net	4,404,379	1,091,003	3,444,234	853,167

Movement in net deferred tax is as follows:

	Year ended 31 December 2017		Year ended 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
At 1 January	3,444,234	853,167	1,270,200	313,630
Credited to income statement	960,145	237,836	2,174,034	538,527
Currency translation differences	-	-	-	1,010
At 31 December	4,404,379	1,091,003	3,444,234	853,167

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

	Year ended 31 December 2017		Year ended 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Allowance for loan losses	787,626	195,102	1,619,903	401,264
Staff bonuses	42,199	10,453	289,063	71,603
Unrealised foreign exchange	267,093	66,161	73,241	18,142
Depreciation and amortisation	24,707	6,120	132,657	32,860
Other accruals	(161,480)	(40,000)	59,170	14,658
	960,145	237,836	2,174,034	538,527

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

12. Income tax (continued)

(b) Current income tax liability

	Year ended 31 December 2017		Year ended 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
At 1 January	13,946,327	3,454,626	10,725,440	2,647,794
Current income tax expense	16,469,666	4,079,679	16,110,117	3,990,616
Income tax paid	(16,579,157)	(4,106,800)	(12,889,230)	(3,192,774)
Currency translation differences	-	-	-	8,990
At 31 December	<u>13,836,836</u>	<u>3,427,505</u>	<u>13,946,327</u>	<u>3,454,626</u>

(c) Income tax expense

	Year ended 31 December 2017		Year ended 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Current income tax	16,469,666	4,079,679	16,110,117	3,990,616
Deferred tax	(960,145)	(237,836)	(2,174,034)	(538,527)
	<u>15,509,521</u>	<u>3,841,843</u>	<u>13,936,083</u>	<u>3,452,089</u>

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

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

12. Income tax (continued)

(c) Income tax expense (continued)

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

	Year ended 31 December 2017		Year ended 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Profit before income tax	76,700,350	18,999,343	68,931,021	17,074,813
Tax at applicable income tax rate at 20%	15,340,070	3,799,869	13,786,204	3,414,963
Non-deductible expenses	169,451	41,974	149,879	37,126
	15,509,521	3,841,843	13,936,083	3,452,089

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

13. Deposits from banks and other financial institutions

	As at 31 December 2017		As at 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Savings deposits	229,060	56,740	52	14
Term deposits	41,774,736	10,347,965	24,222,000	6,000,000
	42,003,796	10,404,705	24,222,052	6,000,014

The deposits from banks and other financial institutions are in US\$ and bear interest at rates of 5% per annum for savings deposits and term deposits ranging from 4.50% to 6.50% per annum (31 December 2016: 2.75% to 4.75% per annum).

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

14. Deposits from customers

	As at 31 December 2017		As at 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Savings deposits	36,963,674	9,156,224	7,143,410	1,769,485
Term deposits	285,631,755	70,753,469	46,757,358	11,582,204
	<u>322,595,429</u>	<u>79,909,693</u>	<u>53,900,768</u>	<u>13,351,689</u>

The above amounts are analysed as follows:

	As at 31 December 2017		As at 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
(a) By maturity:				
Within 1 month	54,964,756	13,615,248	3,167,297	784,567
2 to 3 months	58,679,318	14,535,377	15,152,775	3,753,474
4 to 12 months	126,544,648	31,346,210	22,617,444	5,602,538
1 - 5 years	77,934,496	19,305,052	5,819,840	1,441,625
Over 5 years	4,472,211	1,107,806	7,143,412	1,769,485
	<u>322,595,429</u>	<u>79,909,693</u>	<u>53,900,768</u>	<u>13,351,689</u>
(b) By currency:				
Khmer Riel	54,270,489	13,443,272	8,489,014	2,102,803
US Dollars	265,696,480	65,815,328	45,140,005	11,181,572
Thai Baht	2,628,460	651,093	271,749	67,314
	<u>322,595,429</u>	<u>79,909,693</u>	<u>53,900,768</u>	<u>13,351,689</u>
(c) By relationship:				
Third parties	315,647,751	78,188,692	51,111,754	12,660,826
Staff	3,944,118	976,993	1,967,329	487,324
Related parties	3,003,560	744,008	821,685	203,539
	<u>322,595,429</u>	<u>79,909,693</u>	<u>53,900,768</u>	<u>13,351,689</u>

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

14. Deposits from customers (continued)

The above amounts are analysed as follows: (continued)

	As at 31 December 2017	As at 31 December 2016
(d) By interest rate (per annum)		
Savings deposits	1.00% - 5.00%	1.00% - 5.00%
Fixed deposit	<u>5.25% - 10.50%</u>	<u>3.50% - 11.00%</u>

15. Other liabilities

	As at 31 December 2017		As at 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
External customers	16,388,898	4,059,672	10,845,968	2,686,640
Related parties	<u>306,298</u>	<u>75,873</u>	<u>147,768</u>	<u>36,604</u>
Interest payables	16,695,196	4,135,545	10,993,736	2,723,244
Staff bonuses and incentives	12,023,987	2,978,446	9,807,661	2,429,443
Withholding tax payable	947,097	234,604	942,338	233,425
Accrued other expenses	877,622	217,395	561,946	139,199
Other payables	<u>7,857,074</u>	<u>1,946,265</u>	<u>2,185,287</u>	<u>541,314</u>
	<u>38,400,976</u>	<u>9,512,255</u>	<u>24,490,968</u>	<u>6,066,625</u>

16. Bank overdrafts

This represents the overdraft at Vattanac Bank. The overdraft bears interest at the rate of 8.50% per annum and matured on 14 January 2018. It is unsecured facilities with approved limit of KHR4,037,000 thousand (equivalent to US\$1 million).

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Notes to the financial statements (continued) for the year ended 31 December 2017

17. Borrowings

	As at 31 December 2017		As at 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Local banks	144,314,272	35,747,900	60,574,525	15,004,837
Borrowings from overseas*	685,693,711	169,852,295	647,713,888	160,444,361
	<u>830,007,983</u>	<u>205,600,195</u>	<u>708,288,413</u>	<u>175,449,198</u>

* It included the subordinated debts of KHR 42 billion (equivalent to US\$10.4 million) approved by the NBC.

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

Movement of borrowings during the year are as follows:

	Year ended 31 December 2017		Year ended 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
At 1 January	708,288,413	175,449,198	717,145,414	177,072,942
Additional borrowings	466,832,214	115,638,399	312,374,435	77,377,864
Repayments	(345,112,644)	(85,487,402)	(321,231,436)	(79,571,820)
Currency translation differences	-	-	-	570,212
At 31 December	<u>830,007,983</u>	<u>205,600,195</u>	<u>708,288,413</u>	<u>175,449,198</u>

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

17. Borrowings (continued)

Borrowings are analysed as follows:

	As at 31 December 2017		As at 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
(a) By maturity:				
Within 1 month	3,320,804	822,592	8,116,437	2,010,512
2 to 3 months	19,401,773	4,805,988	65,785,924	16,295,745
4 to 12 months	264,665,534	65,559,954	257,772,576	63,852,508
1 - 5 years	542,619,872	134,411,661	373,841,268	92,603,733
Over 5 years	-	-	2,772,208	686,700
	<u>830,007,983</u>	<u>205,600,195</u>	<u>708,288,413</u>	<u>175,449,198</u>
(b) By currency:				
Khmer Riel	35,959,804	8,907,556	99,746,551	24,708,088
US Dollars	722,921,329	179,073,899	556,548,189	137,861,825
Thai Baht	71,126,850	17,618,740	51,993,673	12,879,285
	<u>830,007,983</u>	<u>205,600,195</u>	<u>708,288,413</u>	<u>175,449,198</u>
(c) By relationship:				
Third parties	807,582,730	200,045,264	700,930,461	173,626,569
Related parties	22,425,253	5,554,931	7,357,952	1,822,629
	<u>830,007,983</u>	<u>205,600,195</u>	<u>708,288,413</u>	<u>175,449,198</u>
		As at 31 December 2017		As at 31 December 2016
(d) By interest rate (in currency and per annum):				
Khmer Riel		6.00% - 12.20%		6.00% - 12.35%
US Dollars		2.55% - 10.50%		2.55% - 10.50%
Thai Baht		7.50% - 10.85%		9.00% - 10.50%

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

18. Share capital

	As at 31 December 2017		As at 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Registered, issued and fully paid share of KHR100,000 each 716,841 shares	71,684,100	17,756,775	23,368,200	5,788,506

As at 31 December 2017, the Company's shareholders and their respective interest are as follows:

	Number of shares	Amount KHR'000	US\$ (Note 4)	% of shareholding
LOLC Micro Investments Ltd.	430,107	43,010,700	10,654,124	60.00%
DWM FUNDS S.C.A.-SICAV SIF	265,015	26,501,500	6,564,652	36.97%
TPC-ESOP Co., Ltd. (*)	21,719	2,171,900	537,999	3.03%
	<u>716,841</u>	<u>71,684,100</u>	<u>17,756,775</u>	<u>100.00%</u>

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

On 3 November 2016, the Board of Directors resolved to increase the share capital of the Company from KHR23,368,200 thousand (equivalent to US\$5,788,506) to KHR120,000,000 thousand (equivalent to US\$29,725,043) by increasing the number of shares from 233,682 shares to 1,200,000 shares.

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

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

18. Share capital (continued)

On 13 March 2017, the Company made a request to the National Bank of Cambodia (“NBC”) to increase the first tranche share capital amounting to KHR48,315,900 thousand (equivalent to US\$11,968,269) by converting the retained earnings into the registered capital according to the Company’s prior notification to the NBC No. អណ្ត-2017/140 dated 28 February 2017. The share capital of the Company was increased from KHR23,368,200 thousand (equivalent to US\$5,788,506) to KHR71,684,100 thousand (equivalent to US\$17,756,775) following the approval from the NBC on 28 June 2017 and acknowledged by the Ministry of Commerce (“MoC”) on 24 July 2017.

On 2 March 2018, the Company sent the request to the NBC to increase the second tranche share capital amounting from KHR71,684,100 thousand (equivalent to US\$17,756,775) to KHR120,000,000 thousand (equivalent to US\$29,725,043). Up to the date of this report, the Company has not yet obtained the approval from the NBC.

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

19. Interest income

	Year ended 31 December 2017		Year ended 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Loans to customers	233,429,614	57,822,545	224,265,482	55,552,510
Placements with banks	1,760,574	436,109	1,468,084	363,657
	<u>235,190,188</u>	<u>58,258,654</u>	<u>225,733,566</u>	<u>55,916,167</u>

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

20. Interest expense

	Year ended 31 December 2017		Year ended 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Local borrowings	7,692,264	1,905,441	7,024,025	1,739,912
Overseas borrowings	63,471,478	15,722,437	61,338,795	15,194,153
Customers' deposits	14,670,835	3,634,093	2,899,175	718,151
	<u>85,834,577</u>	<u>21,261,971</u>	<u>71,261,995</u>	<u>17,652,216</u>

21. Other income

	Year ended 31 December 2017		Year ended 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Fees and commission on loans	32,258,204	7,990,638	9,198,331	2,278,507
Penalty income	2,333,731	578,085	141,705	35,102
Recovery from loans written off	651,884	161,477	333,467	82,603
Gains on disposals of property and equipment	53,255	13,192	50,391	12,482
Others	432,590	107,156	221,284	54,813
	<u>35,729,664</u>	<u>8,850,548</u>	<u>9,945,178</u>	<u>2,463,507</u>

22. Commission expenses

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

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

23. Personnel expenses

	Year ended 31 December 2017		Year ended 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Salaries and wages	52,306,024	12,956,657	43,873,867	10,867,938
Other short-term benefits	5,726,069	1,418,397	4,685,837	1,160,723
	<u>58,032,093</u>	<u>14,375,054</u>	<u>48,559,704</u>	<u>12,028,661</u>

24. General and administrative expenses

	Year ended 31 December 2017		Year ended 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Bank and service charges and other fees	5,066,018	1,254,897	3,769,906	933,838
Rental expenses	6,339,322	1,570,305	5,429,083	1,344,831
Travelling expenses	3,419,131	846,948	3,504,236	868,030
Office supplies and equipment	1,323,938	327,951	1,706,080	422,611
Marketing expenses	1,042,779	258,305	1,830,546	453,442
Utilities	1,295,463	320,897	1,089,260	269,819
Professional services	1,635,545	405,139	829,278	205,419
Communications	1,144,523	283,508	940,232	232,904
Security Expenses	1,025,534	254,034	899,957	222,927
Board of Directors' fees	502,503	124,474	440,010	108,994
Photocopies and printing	337,486	83,598	420,717	104,215
License fees	1,142,576	283,026	1,108,418	274,565
Other expenses	4,439,574	1,099,721	4,221,277	1,045,648
Other tax expenses	551,681	136,656	500,278	123,923
Other office expenses	577,437	143,036	558,936	138,453
Other insurance expenses	380,863	94,345	210,339	52,103
	<u>30,224,374</u>	<u>7,486,840</u>	<u>27,458,553</u>	<u>6,801,722</u>

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Notes to the financial statements (continued) for the year ended 31 December 2017

25. Cash and cash equivalents

		As at 31 December 2017		As at 31 December 2016	
		KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Bank overdrafts	16	(963,916)	(238,770)	-	-
Cash on hand	5	18,201,556	4,508,684	8,198,053	2,030,729
Balances with the National Bank of Cambodia	6	62,103,582	15,383,597	13,289,293	3,291,873
Balances with banks	7	95,936,028	23,764,188	89,398,093	22,144,685
		<u>175,277,250</u>	<u>43,417,699</u>	<u>110,885,439</u>	<u>27,467,287</u>
<i>Less: Balances with original maturity of 3 months or more</i>					
Balance with the National Bank of Cambodia	6	(43,880,336)	(10,869,541)	(10,315,220)	(2,555,170)
Balances with banks	7	(4,844,400)	(1,200,000)	-	-
		<u>(48,724,736)</u>	<u>(12,069,541)</u>	<u>(10,315,220)</u>	<u>(2,555,170)</u>
		<u>126,552,514</u>	<u>31,348,158</u>	<u>100,570,219</u>	<u>24,912,117</u>

26. Related party balances and transactions

(a) Board of Directors' fee

	Year ended 31 December 2017		Year ended 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Board fees	<u>502,503</u>	<u>124,474</u>	<u>440,010</u>	<u>108,994</u>

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

26. Related party balances and transactions (continued)

(b) Key management

	As at 31 December 2017		As at 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Salaries and short-term benefit payable	962,376	238,389	766,103	189,770
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	Year ended 31 December 2017		Year ended 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Salaries and short-term benefit expenses	2,185,389	541,340	2,026,568	501,999
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

(c) Loans to shareholders

	As at 31 December 2017		As at 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Loan outstanding	121,110	30,000	101,281	25,088
Accrued interest receivable	121	30	135	33
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	121,231	30,030	101,416	25,121
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

(d) Interest income from shareholders

	Year ended 31 December 2017		Year ended 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Interest income	11,417	2,828	11,422	2,829
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

26. Related party balances and transactions (continued)

(e) Deposits from related parties

	As at 31 December 2017		As at 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Shareholders:				
Deposit outstanding	1,959,477	485,379	169,259	41,927
Accrued interest payable	14,557	3,606	1,695	420
	<u>1,974,034</u>	<u>488,985</u>	<u>170,954</u>	<u>42,347</u>
Board of Directors:				
Deposit outstanding	299,506	74,190	230,750	57,159
Accrued interest payable	3,690	914	7,401	1,833
	<u>303,196</u>	<u>75,104</u>	<u>238,151</u>	<u>58,992</u>
Key management:				
Deposit outstanding	884,353	219,062	421,675	104,453
Accrued interest payable	20,191	5,001	24,784	6,139
	<u>904,544</u>	<u>224,063</u>	<u>446,459</u>	<u>110,592</u>
	Year ended 31 December 2017		Year ended 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Interest expenses in respect of deposit from related parties:				
Shareholders	167,782	41,561	935	232
Board of Directors	26,821	6,644	8,188	2,028
Key management	81,333	20,147	30,852	7,642
	<u>275,936</u>	<u>68,352</u>	<u>39,975</u>	<u>9,902</u>

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

26. Related party balances and transactions (continued)

(f) Borrowing from shareholders

	As at 31 December 2017		As at 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Outstanding borrowings	22,425,253	5,554,931	7,357,952	1,822,629
Accrued interest payable	267,861	66,351	115,447	28,597
	<u>22,693,114</u>	<u>5,621,282</u>	<u>7,473,399</u>	<u>1,851,226</u>
	Year ended 31 December 2017		Year ended 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Interest expense	<u>1,293,602</u>	<u>320,436</u>	<u>735,001</u>	<u>182,066</u>

27. Financial risk management

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

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

Financial liabilities are contractual obligations to deliver cash or another financial asset to another entity. It is classified as other liabilities and comprised of deposits from customers, bank overdrafts, borrowings and other liabilities.

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

27. Financial risk management (continued)

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

(a) Credit risk

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

(i) *Management of credit risk*

The lending activities are guided by the Company's credit policy to ensure that the overall objectives in the area of lending are achieved; i.e., that the loan portfolio is strong and healthy and credit risks are well diversified. The credit policy documents the lending policy, collateral policy and credit approval processes, including the Company's own internal grading system, and procedures implemented to ensure compliance with the NBC guidelines.

(ii) *Risk limit control and mitigation policies*

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

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

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

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

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

27. Financial risk management (continued)

(a) Credit risk (continued)

(iii) Exposure to credit risk

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

	As at 31 December 2017		As at 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Loans to customers				
Neither past due nor impaired	1,279,398,591	316,918,155	870,436,760	215,614,754
Past due but not impaired	4,441,156	1,100,113	3,734,325	925,024
Individually impaired	22,714,400	5,626,554	12,107,033	2,999,018
	<u>1,306,554,147</u>	<u>323,644,822</u>	<u>886,278,118</u>	<u>219,538,796</u>
Allowance for bad and doubtful loans	<u>(22,714,400)</u>	<u>(5,626,554)</u>	<u>(12,107,033)</u>	<u>(2,999,018)</u>
	<u>1,283,839,747</u>	<u>318,018,268</u>	<u>874,171,085</u>	<u>216,539,778</u>

Neither past due nor impaired

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

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

Past due but not impaired loans to customers

Past due but not impaired loans to customers are those for which contractual interest or principal payments are past due less than 30 days, unless other information is available to indicate otherwise.

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

27. Financial risk management (continued)

(a) Credit risk (continued)

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

Impaired loans to customers

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

Repossessed collateral

During the year ended 31 December 2017, the Company did not obtain any assets by taking possession of collateral held as security (31 December 2016: Nil).

(b) Operational risk

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

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

(c) Market risk

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

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

27. Financial risk management (continued)

(c) Market risk (continued)

(i) Foreign currency exchange risk

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

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

Concentration of currency risk

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

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

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

27. Financial risk management (continued)

(c) Market risk (continued)

(i) Foreign currency exchange risk (continued)

Concentration of currency risk (continued)

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

31 December 2016	KHR	Denomination		Total
		KHR'000	equivalents	
		US\$	THB	
Financial assets				
Cash on hand	3,008,832	4,866,515	322,706	8,198,053
Balances with the NBC	2,640,367	333,706	-	2,974,073
Balances with banks	51,545,111	25,747,071	12,105,911	89,398,093
Investment	-	60,555	-	60,555
Loans to customers	246,494,419	578,655,635	49,021,031	874,171,085
Other assets	5,027,757	7,360,941	883,660	13,272,358
	<u>308,716,486</u>	<u>617,024,423</u>	<u>62,333,308</u>	<u>988,074,217</u>
Financial liabilities				
Deposits from banks and other financial institutions	-	24,222,052	-	24,222,052
Deposits from customers	8,489,014	45,140,005	271,749	53,900,768
Borrowings	99,746,551	556,548,189	51,993,673	708,288,413
Other liabilities	11,859,294	9,341,599	1,473,462	22,674,355
	<u>120,094,859</u>	<u>635,251,845</u>	<u>53,738,884</u>	<u>809,085,588</u>
Net asset/(liability) position	<u>188,621,627</u>	<u>(18,227,422)</u>	<u>8,594,424</u>	<u>178,988,629</u>
US\$ equivalents (Note 4)	<u>46,723,217</u>	<u>(4,515,091)</u>	<u>2,128,914</u>	<u>44,337,040</u>

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

27. Financial risk management (continued)

(c) Market risk (continued)

(i) Foreign currency exchange risk (continued)

Sensitivity analysis

As at 31 December 2017, if the KHR had weakened/strengthened by 1% against US\$ with all other variables held constant, the recalculated net profit for the year would have been KHR144 million higher/lower, mainly as a result of foreign exchange gains/losses on translation of its financial assets and financial liabilities.

As at 31 December 2017, if the KHR had weakened/strengthened by 1% against THB with all other variables held constant, the recalculated net profit for the year would have been KHR84 million higher/lower, mainly as a result of foreign exchange gains/losses on translation of its financial assets and financial liabilities.

(ii) Interest rate risk

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

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

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

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

27. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

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

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

27. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

As at 31 December 2016	Up to 1 month KHR'000	> 1 – 3 months KHR'000	> 3 – 12 months KHR'000	> 1 – 5 years KHR'000	Over 5 Years KHR'000	Non-interest bearing KHR'000	Total KHR'000
Financial assets							
Cash on hand	-	-	-	-	-	8,198,053	8,198,053
Balance with the NBC	-	-	200,000	-	-	2,974,073	3,174,073
Balance with banks	73,207,838	-	4,037,000	4,844,399	-	7,108,856	89,198,093
Loans to customers							
- Performing loans	35,599,879	107,265,587	343,536,139	387,734,451	35,029	-	874,171,085
- Non-performing loans	-	-	-	-	-	12,107,033	12,107,033
- Allowance for bad and doubtful loans	-	-	-	-	-	(12,107,033)	(12,107,033)
Investment	-	-	-	-	-	60,555	60,555
Other assets	-	-	-	-	-	13,272,358	13,272,358
	<u>108,807,717</u>	<u>107,265,587</u>	<u>347,773,139</u>	<u>392,578,850</u>	<u>35,029</u>	<u>31,613,895</u>	<u>988,074,217</u>
Financial liabilities							
Deposits from banks and other financial institutions	8,074,000	4,037,000	12,111,000	-	52	-	24,222,052
Deposits from customers	3,167,297	15,152,775	22,617,444	5,819,841	7,143,411	-	53,900,768
Borrowings	56,560,437	69,822,924	279,797,476	299,156,769	2,772,208	178,599	708,288,413
Other liabilities	-	-	-	-	-	22,674,355	22,674,355
	<u>67,801,734</u>	<u>89,012,699</u>	<u>314,525,920</u>	<u>304,976,610</u>	<u>9,915,671</u>	<u>22,852,954</u>	<u>809,085,588</u>
Gaps – KHR'000	<u>41,005,983</u>	<u>18,252,888</u>	<u>33,247,219</u>	<u>87,602,240</u>	<u>(9,880,642)</u>	<u>8,760,941</u>	<u>178,988,629</u>
US\$ equivalents – (Note 4)	<u>10,157,539</u>	<u>4,521,399</u>	<u>8,235,625</u>	<u>21,699,837</u>	<u>(2,447,521)</u>	<u>2,170,161</u>	<u>44,337,040</u>

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

27. Financial risk management (continued)

(d) Liquidity risk

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

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

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

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

27. Financial risk management (continued)

(d) Liquidity risk (continued)

Non-derivative cash flows

	Up to 1 month KHR'000	> 1 – 3 months KHR'000	> 3 – 12 months KHR'000	> 1 – 5 years KHR'000	Over 5 years KHR'000	Total KHR'000
31 December 2017						
Financial liabilities						
Deposits from banks and other financial institutions	20,475,183	2,841,171	19,146,558	9,172	229,060	42,701,144
Deposits from customers	18,187,389	60,816,133	136,017,479	97,007,132	37,467,320	349,495,453
Bank overdrafts	963,916	-	-	-	-	963,916
Borrowings	8,376,145	29,591,576	305,556,576	588,781,809	-	932,306,106
Other liabilities	12,844,278	16,108,164	7,501,687	919,221	70,655	37,444,005
	<u>60,846,911</u>	<u>109,357,044</u>	<u>468,222,300</u>	<u>686,717,334</u>	<u>37,767,035</u>	<u>1,362,910,624</u>
US\$ equivalents – (Note 4)	<u>184,274,025</u>	<u>128,924,098</u>	<u>548,991,199</u>	<u>828,629,312</u>	<u>10,168,072</u>	<u>1,700,986,706</u>
31 December 2016						
Financial liabilities						
Deposits from banks and other financial institutions	8,097,282	4,103,610	12,569,062	2	52	24,770,008
Deposits from customers	3,255,573	15,519,026	24,011,453	7,137,634	27,483,868	77,407,554
Borrowings	12,386,196	73,920,568	296,156,676	418,539,851	2,848,235	803,851,526
Other liabilities	5,919,482	11,206,448	5,429,315	101,936	17,174	22,674,355
	<u>29,658,533</u>	<u>104,749,652</u>	<u>338,166,506</u>	<u>425,779,423</u>	<u>30,349,329</u>	<u>928,703,443</u>
US\$ equivalents – (Note 4)	<u>7,346,676</u>	<u>25,947,400</u>	<u>83,766,784</u>	<u>105,469,265</u>	<u>7,517,792</u>	<u>230,047,917</u>

LOLC (Cambodia) Plc.

Notes to the financial statements (continued) for the year ended 31 December 2017

27. Financial risk management (continued)

(e) Capital management

(i) *Regulatory capital*

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

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

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

(ii) *Capital allocation*

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

28. Commitments and contingencies

(a) Operating lease

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

	As at 31 December 2017		As at 31 December 2016	
	KHR'000	US\$ (Note 4)	KHR'000	US\$ (Note 4)
Within one year	4,143,521	1,026,386	3,754,417	930,002
2 to 5 years	7,916,674	1,961,029	10,990,283	2,722,389
Over five years	692,144	171,450	1,864,031	461,737
	<u>12,752,339</u>	<u>3,158,865</u>	<u>16,608,731</u>	<u>4,114,128</u>

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Notes to the financial statements (continued) for the year ended 31 December 2017

28. Commitments and contingencies (continued)

(b) Taxation contingencies

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

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

29. Fair values of assets and liabilities

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