



ANNUAL REPORT 2019

គ្រឹះស្ថានមីក្រូហិរញ្ញវត្ថុ សហការ ភីអិលស៊ី

SAHAKA MICROFINANCE INSTITUTION PLC



SAHAKA MFI
together for prosperity



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ផ្ទះលេខ ២០៦ អី០អី១, ផ្លូវ ១៥៥, ក្រុមទី៥, ភូមិ១, សង្កាត់ ទួលទំពូងមួយ ខណ្ឌចំការមន រាជធានីភ្នំពេញ

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Message from Chairman and CEO

MESSAGE FROM CHAIRMAN AND CEO

On behalf of the Board of Directors and Management Team of SAHAKA Microfinance Institution Plc., I am pleased to present the 2019 Annual Report and Audited Financial Statement for the year ended on the 31st December, 2019 to the Shareholders and Stakeholders of SAHAKA Microfinance Institution Plc.



Mr. Bol Vanneat
Chairman and CEO

2019 is our year focus of change. There was a different place that it has been during the high market competition, and with significant restructuring done.

The Board of Directors

There was a change of Board in 2019. Mr. Toshihiro Miyauchi was appointed as a new Independent Board of Director of the Company since 1st August 2019. On behalf of the Board of Directors and Management Team, we would warmly welcome to him for being a part of our company's governance.

The Growth of Financial Sector in Cambodia

Because of peace, stabilization and sustainable economic growth, there has been significant increase and expansion in the financial institutions which now includes 45 Commercial Banks, 15 Specialized Banks, 7 Microfinance Deposit-Taking Institutions, 75 Microfinance Institutions, and 15 Leasing Companies.

The Company

Continue to maintain its quality of service to the customers, we also take serious action on the quality of loans, outstanding, financial performance, and social results during 2019. With Cambodia's transition to a lower middle-income country, the demand for larger loans from Small and Medium Business and middle income households grew, resulting in the average loan size increasing to around USD 5,200.

Finally, a big thank you to all of our stakeholders including our customers, investors, regulators, banking and funding partners-both local and foreign-for their trust, confidence and cooperation in supporting our growth over the years. Once again, I extend my appreciation to my colleagues on the board, for their advice and guidance, and to the entire team at SAHAKA, led by a very capable and committed management team, for their commendable performance.

The Outlook for 2020

According to the National Bank of Cambodia, Cambodia's economic growth was expected to reach around 7% in 2020 due to growth in exports, foreign investment inflows, tourism, and construction and real estate, sectors which are expected to enjoy continued growth.

However, there are some potential risks for economic growth in 2020. External risks include a faster-than-expected slowdown in China's economy, which could have a negative impact on Cambodia's economy as it has a close relationship with that of China. Moreover, the implementation of protectionist policies could affect the country's exports. Finally, the COVID-19 virus is spreading globally and will impact short-term economic growth due to a drop in tourism, a reduction

in the supply of raw materials to the garment sector, and contractions in the service and hospitality industries. At this stage, it is difficult to predict the ultimate impact on short and long-term growth.



BOL Vanneat
Chairman and CEO
12 August 2020

ANNOUNCEMENT

SAHAKA Microfinance Institution Plc. would like to inform to all valued customers and all relevant stakeholders that SAHAKA Microfinance Institution Plc. is a PRIVATE INSTITUTION.

Thank you!



Like us on facebook page.

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About SAHAKA

WHO WE ARE

SAHAKA Micro-finance Institution Plc is a public limited company incorporated in Cambodia established in December 2015 by two shareholders from Khmer and Japanese and received a license from the National Bank of Cambodia (NBC) in April 2016 and fully operates in Cambodia to provide sustainable financial service through loan products to customers.

For almost four years of our business operations SAHAKA has served to a large amount of clients in Phnom Penh and also in some provinces.

In 2019, SAHAKA has committed to comply with the National Bank of Cambodia's requirement in applying the new standard of Cambodian-International Financial Reporting Standard for Small and Medium Enterprise (CIFRS for SME).

Headquarter:

#206E0E1, Street 155 & 470, Sangkat Toul Tompoung I,
Khan Chamkarmorn, Phnom Penh, Kingdom of Cambodia

Tel: +855 (0)23 967 779

E-mail: SAHAKAmfi@SAHAKAmfi.com

Website: www.SAHAKAmfi.com

Facebook: SAHAKA MFI

Call Center: +855 (0)61 500 979 | +855 (0)93 500 979

E-mail: info@SAHAKAmfi.com

VISION, MISSION AND VALUE

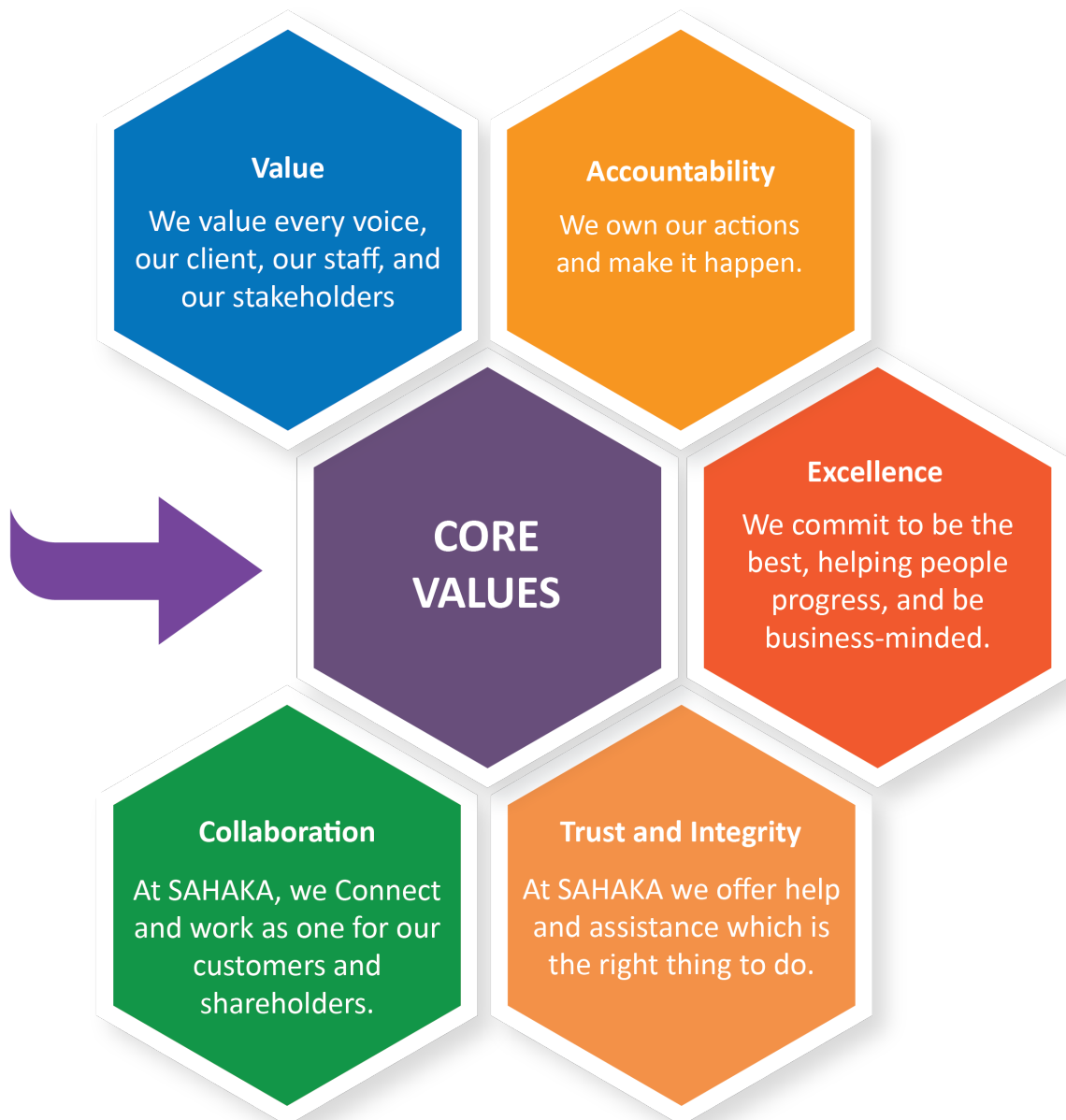
Our Vision:

To be an outstanding institution that improves the living standards of the population and contributes to the economic and social development of Cambodia by instilling Human Resources through Education and Economic growth with retaining of Goodwill (HEEG).

Our Mission:

Our business idea supports this vision by providing financial services at reasonable interest rate so that many people as possible will be able to utilize our services to improve their income and society's living standard.

Our Values:



OUR PRODUCTS:



Loans granted to a small businesses for specific business purposes.



Loans provided to borrower who buy or construct their houses for their own needs.



Loans granted to borrower for buying cars and vehicles.



Loans offered to students for paying off education related expenses such as college tuition or school fee, room and board or materials.



Loans granted to a small businesses for specific business purposes.



FINANCIAL HIGHLIGHT



FINANCIAL YEAR ENDED 31 DECEMBER	2019	2018
Balance Sheet (US\$)	(audited)	(audited)
Gross Loan to Customers	3,891,139	5,680,731
Equity	392,307	1,291,217
Total Assets	4,413,602	7,065,895
P&L Account (US\$)		
Net Interest Income	364,708	573,288
Net Fee and other Income	67,807	54,770
Net Profit	(1,398,910)	(335,885)
Minimum Tax Expenses	(8,320)	(10,170)
Income Tax Credit	31,086	41,090

OPERATIONAL HIGHLIGHT



OPERATIONAL YEAR ENDED 31 DECEMBER	2019 (audited)	2018 (restated)
Operating Province	24	17
Operating Districts	138	68
Operating Communes	430	159
Operating Villages	792	310
Total Branch	1	1
Total Staff	39	34
Total Borrower	729	591
Customer Retention Rate	30%	50%
Loan Outstanding	3,891,139	5,680,731
Loan Outstanding/CO	648,523	710,091
Loan Outstanding/Staff	105,166	167,080
Average Loan Size (USD)	5,338	9,612
Portfolio at Risk (PAR%)	1%	6%

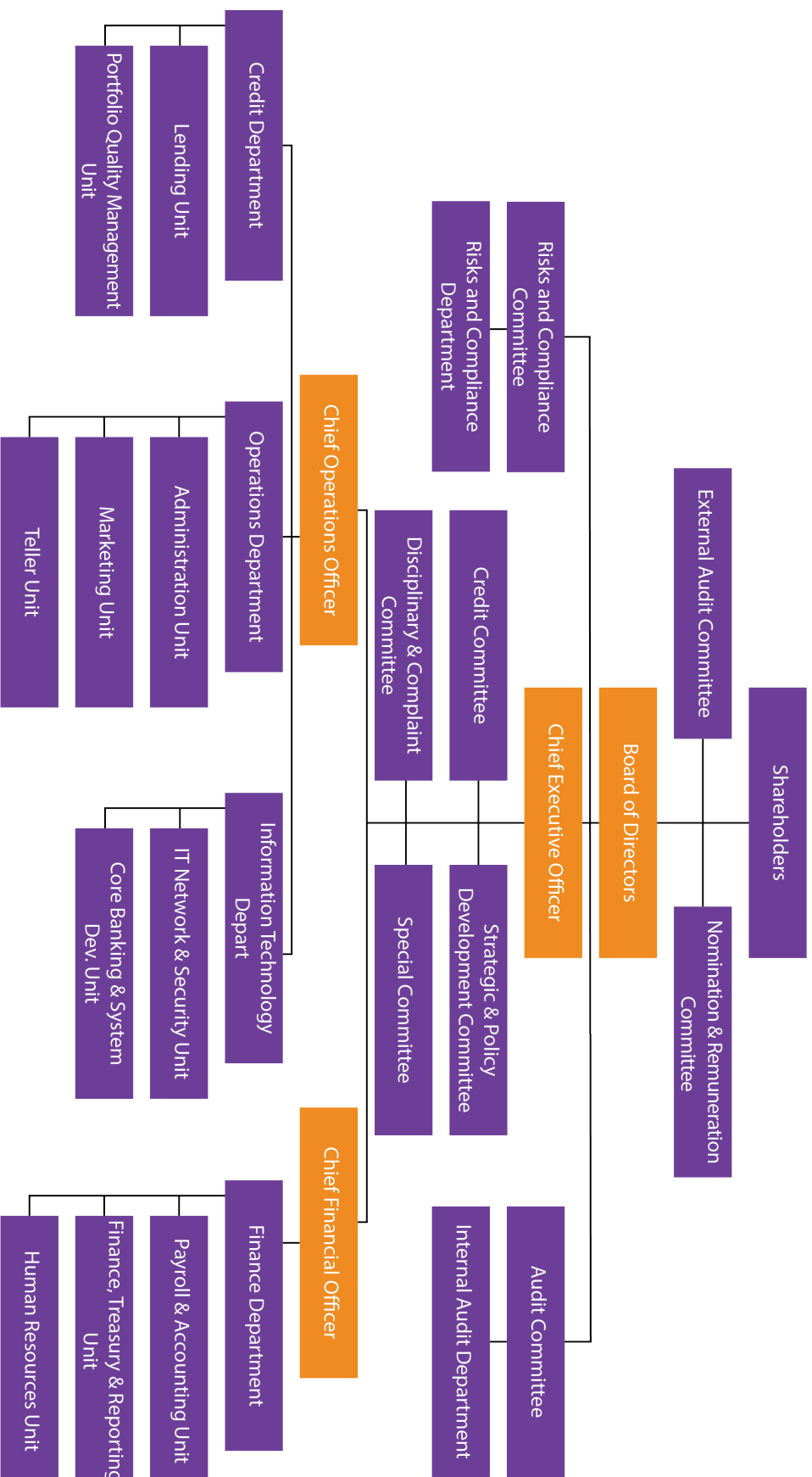
GENERAL INFORMATION

INSTITUTION	SAHAKA Microfinance Institution Plc.
REGISTRATION NUMBER	00005854 (Co. 4361 E/2015)
REGISTRATION ADDRESS	Head Office: #206 E0E1, Street 155 & 470, Sangkat Toul Tompoung I, Khan Chamkamorn, Phnom Penh, Kingdom of Cambodia
APPROVAL DATE	8th April, 2016
NBC LICENSE NUMBER	M.F-67
PHONE NUMBER	(+855) 23 967 779
HOT-LINE	(+855) 61 500 779 (+855) 93 500 779
WEBSITE	www.SAHAKAmfi.com
EMAIL	info@SAHAKAmfi.com



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SAHAKA MICROFINANCE INSTITUTION PLC



ORGANIZATION CHART

GENERAL INFORMATION



Mr. BOL VANNEAT
Chairman and CEO

Mr. Bol Vanneat, Chief Executive Officer, obtained a bachelor Degree of Art in Education from IFL and completing the Exchange Study Program in Education from Japan, he worked for the Bank of Tokyo-Mitsubishi UFJ Ltd (BTMU).

He is also a CEO of Neat Education Information Center Co., Ltd (NEiC) and NiCam Co., Ltd (NiCam).



Mr. TAKAHIRO YAMASHITA
Board Member and CFO

Mr. Takahiro Yamashita is a Chief Financial Officer, and is also a CFO of Neat Education Information Center Co., Ltd (NEiC) and NiCam Co., Ltd (NiCam). He is also a CEO of CPOD Financial Consultation Co., Ltd. In Singapore.

Mr. Hiro has more than 15 years' experiences in Financial Consultation Services and Advisor.



Mr. TOSHIHIRO MIYAUCHI
Independent Board Member

Mr. Toshihiro Miyauchi, an Independent Board of Director of SAHAKA Microfinance Institution Plc. He is also a CEO of TM Pte. Ltd (Private Asset Management and Investment Company) and Miyauchi Electric Engineering Co., LTD.

Mr. Toshihiro has many year-experiences in managing business and finance of many companies in Japan.

MANAGEMENT TEAM



Mr. SUM SINATH
Chief Operations Officer

Mr. Sum Sinath, Chief Operations Officer, obtained a Master's Degree of Business Administration, majoring in Business Management in 2007. He received Bachelor's Degree of Business Management and High Diploma Degree of Accounting in 2005.

He has more than 16 years' experiences in Microfinance Sector including MDIs and MFIs in Cambodia.



Mr. POL VUTHY RIRTH
Credit Manager

Mr. Pol Vuthy Rirth, Credit Manager, pursuing a Bachelor's Degree of Law. He graduated a Bachelor's Degree of Business Administration in major Accounting in 2006.

Mr. Vuthy Rirth has more than 14 years' experiences in Financial Sector including MDIs and Banks in Cambodia.



Mr. SENG CHANTHOEUN
Finance Manager

Mr. Seng Chanthoeun, Finance Manager, pursuing Certified Public Accountant (PCA), ACCA Program. He graduated a Bachelor's Degree of Business Administration in major Accounting in 2004 and the Diploma Degree of Sales and Marketing in 2001.

Mr. Chanthoeun has more than 15 years' experiences in Finance field including International NGOs and MFI.



Miss. PHEUK SAMPHORS
HR & Administration Manager

Miss. Pheuk Samphors, Human Resources and Administration Unit Manager, obtained Bachelor's Degree of Accounting in 2011. She has more than 7 years' experiences in Accounting and Administration in Private Companies including Merchandising, Hotel, and MFI.



Mr. CHY LONGHENG
Internal Audit Manager

Mr. Chy Longheng, Internal Audit Manager, obtained Master's Degree of Finance in 2019 and Bachelor's Degree of Accounting in 2012. He has more than 6 years' experiences in Finance and Accounting, and Auditing with Financial Sector including MDI, Leasing Company, and MFI.



Mr. NOV VICHKA
Sr. Risk & Compliance Officer

Mr. Nov Vichika, Senior Risk & Compliance Officer, obtained a Bachelor's Degree in Economics in 2010 and a Master's Degree in General Management in 2015. He has more than 9 years' experiences. He worked as Marketing Coordinator for 4 years and has changed to the Banking and Finance sector since 2014.

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Continuous Improvement

CUSTOMER SERVICE ENHANCEMENT



Miss. Kong Sreykhuoch

Chief Teller

Our strong commitment is to provide the customers with better and efficient financial services. We at SAHAKA made a significant step in expanding our core activities, such as enhancement of loan repayment through bank transfer and Wing transfer.

In 2019, we kept our promise to serve more customers who come to the office and having questions through our communication channels such as facebook page and customer service center.

Beside the settlement service in our counter, we have enhanced our settlement through bank and Wing transfer service for our customer. The customer enjoy paying their loan payback through Wing money transfer at their nearest agent and location at any time available.

Lastly, we never forget to deal with our customer's complaints and feedback. Our hotline service and customer Complaint Resolution Committee (CRC) has continuously improved their procedures and standard of service to cope with the new demand of the customer. The committee has been working closely with both internal and external stakeholders to find the best solution for our valued clients.

HUMAN RESOURCES DEVELOPMENT

Our staff is our asset; without which we cannot deliver the best quality of services to our customers. SAHAKA has put a lot of efforts and time this year to improve the knowledge and expertise of our staff on our products and services.

In 2019, we actively develop systemized capacity enhancements, including a range of training program and assignment system. We have also created employee-friendly working environments that correspond to the diversity of our employees while promoting diversity management.

We aim for sustainable growth by strengthening human resource development as a key management issue.



Miss. Pheuk Samphors

Human Resources & Administration Manager

INTERNAL AUDIT PROGRESS



Mr. Chy Longheng

Internal Audit Manager

Recognized by the National Bank of Cambodia

On top of the compliance obligations, SAHAKA's Internal Audit Department conducted 4 times audit schedule in 2019 to survey the quality of financial services. This is minimum standard and procedure to ensure the integrity of the operations on the institutional level as well as on the staff level.

The Internal Audit Department updated the procedure to accustom with the change in the institution, and develops guidelines as follows: detail assessment of business process description, flow-chart, risk analysis, and control design evaluation to ensure proper determining of audit objectives and scope relative to the risk level. Various audit techniques, trend analysis, and data mining were also used in preparing of audit planning phase.

COMPLIANCE & RISK MANAGEMENT IMPROVEMENT

It is our commitment to always take high attention to comply with the regulatory requirement including regulation on the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT), as well as applicable laws and other prescribed practice.

The management of SAHAKA has dedicated and commit the sound of compliance and invest further in human resources and education for Compliance Department to proactively develop, implement and maintain the appropriate policies, frameworks and procedures to be on track with evolving regulatory obligations.

As required by law and NBC's Prakas, SAHAKA committed to comply the Cambodia-International Financial Reporting Standard for Small and Medium Enterprise (CIFRS for SME). From late of 2018 till early of 2019, we have been inspected by the National Bank of Cambodia (NBC) and in overall the result would be highly acceptable. It is our new benchmark for the future improvement.

During the course of our business operations, we continue to implement and improve our risk management system following the Risk and Compliance Standard set forth by our management team.

In 2019, we have implement the risk management activities in the following areas:

- Improve risk policies and risk appetite metrics framework
- Introduced a new risk self-assessment procedure for all departments

The continuous development and modernization of the risk management system enable SAHAKA to reach sustainable robust growth while balancing the risks.



Mr. Nov Vichika

Senior Risk & Compliance Officer

Recognized by the National Bank of Cambodia

CORPORATE GOVERNANCE

Along with our commitment to growth in the near future, SAHAKA establishes its corporate governance system in order to implement rapid decision-making and to increase management transparency. Accordingly, the Institution has established two statutory committees, the Risk & Compliance Committee, and the Audit Committee. In this way, the Institution has a system under which the Board of Directors and the two statutory committees can provide appropriate oversight of management.

Credit Committee

The committee established to review and receive reports as it deems necessary from the Corporation's management and the various corporate management committees established to assess and manage the Corporation's credit risks. The Committee shall oversee the administration and effectiveness of, and compliance with the Corporation's credit policies through the review of such processes, reports and other information as it deems appropriate, including the loan-quality grading and examination process, internal and external audits and examinations of the Corporation's credit processes, the incidence of new problem assets, the frequency and reasons for credit policy exceptions, the loan review functions and the asset classification process. The Committee will also monitor the performance and quality of the Corporation's credit portfolio through the review of selected measures of credit quality and trends and such other information as it deems appropriate, including criticized/classified and non-performing assets, consumer loan delinquencies and net charge-offs.

Risk & Compliance Committee

This committee formulates risk management systems and operational policies and also formulates the compliance systems and basic AML plans and holds discussions and provides reports regarding programs in these matters.

Audit Committee

This committee prepares audits and audit reports on the execution of the duties of executive officers and directors. In addition, it decides the content of proposals regarding the appointment, dismissal and non-reappointment of the accounting auditor that are submitted to general meetings of shareholders.

Nomination & Remuneration Committee

This committee determines the criteria regarding the appointment and dismissal of directors. In addition, it determines the content of proposals regarding the appointment and dismissal of directors that are submitted to general meetings of shareholders.

Board of Directors

The SAHAKA Board of Directors has 3 members. Two of them also serve as Executive Officers, and another member is Independent Director.

Special Committee

The special committee assists the Executive Committee in matters requiring specialized discussion.

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Audited Financial Statements

REPORT OF THE DIRECTORS

The Directors hereby submit their report and the audited financial statements of SAHAKA Microfinance Institution Plc. (“the Company”) for the year ended 31 December 2019.

Special Committee

The principal activity of the Company is engaged in providing microfinance services and other related financial services within the scope of microfinance license in Cambodia. There have been no significant changes in the nature of principal activities during the financial year.

Financial results

The financial results of the Company for the year ended 31 December 2019 were as follows:

	2019		2018	
	US\$	KHR'000 (Note 2.4)	US\$	KHR'000 (Note 2.4)
Loss before income tax	(1,429,996)	(5,794,344)	(376,975)	(1,524,863)
Income tax credit	31,086	125,960	41,090	166,209
Net loss for the year	(1,398,910)	(5,668,384)	(335,885)	(1,358,654)

Dividends

No dividend was declared or paid and the Directors do not recommend any dividend to be paid during the financial year.

Share capital

The paid-up capital of the Company as at 31 December 2019 was US\$1,800,000 (2018: US\$1,800,000) with a par value US\$1 per share

On 17 February 2020, the Ministry of Commerce approved to the Company’s request dated 18 October 2019 to increase the Company’s share capital from US\$1,800,000 to US\$2,300,000 through the issuance of additional 500,000 shares with par value of US\$1 per share.

The share structure will also change as a result of the share subscription 500,000 shares.

The revised Memorandum and Articles of Association (“MAA”) to reflect the above changes was approved by the Ministry of Commerce on 17 February 2020.

Reserves and provisions

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

Bad and doubtful loans to customers

Before the financial statements of the Company were prepared, the Directors took reasonable steps to ascertain that action has been taken in relation to the write off of bad debts and the making of

allowance for doubtful debts, and satisfied themselves that there were no known bad debts and that allowance need not be made for doubtful debts.

At the date of this report, the Directors are not aware of any circumstances which would render it necessary to write off bad debts or to make allowance for doubtful debts in the financial statements of the Company, inadequate to any material extent.

Current assets

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

At the date of this report, the Directors are not aware of any circumstances that have arisen the value attributed to the current assets in the financial statements of the Company misleading.

Items of unusual nature

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

Events since the reporting date

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

The Board of Directors

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

- | | | |
|----|------------------------|--------------------------------------|
| 1. | Mr. Bol Vanneat | Chairman and Chief Executive Officer |
| 2. | Mr. Yamashita Takahiro | Director |
| 3. | Mr. Miyauchi Toshihiro | Independent Director |

Directors' benefits

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other corporate body. Since the end of previous financial year, the Directors have not received or become entitled to receive any benefit by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a Company in which the Director has a substantial financial interest.

Directors' responsibility in respect of the financial statements

The Board of Directors has the duty to certify and implement the following:

- (i) adopt appropriate accounting policies which are supported by reasonable judgements and estimates and then apply them consistently;
- (ii) oversee the Company's financial reporting process and maintain adequate accounting records and effective system of internal control;
- (iii) comply with Cambodian International Financial Reporting Standard for Small and Medium-sized Entities ("CIFRS for SMEs"), 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;
- (iv) assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so; and
- (v) effectively control and direct the Company in all material decisions affecting the operations and performance and ascertain that such has been properly reflected in the financial statements.

Approval of the financial statements

The Board of Directors hereby approve the accompanying financial statements as set out on pages 8 to 47 then ended, in accordance with Cambodian International Financial Reporting Standard for Small and Medium-sized Entities (“CIFRS for SMEs”).

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



Mr. Bol Vanneat

Chairman

Phnom Penh, Kingdom of Cambodia

25 August 2020

REPORT OF THE INDEPENDENT AUDITORS

To the Shareholders

SAHAKA Microfinance Institution Plc.

Opinion

We have audited the financial statements of SAHAKA Microfinance Institution Plc. (“the Company”), which comprise the statement of financial position as at 31 December 2019, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out on pages 8 to 47.

In our opinion, the accompany financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with the Cambodian International Financial Reporting Standards for Small and Medium-sized Entities (“CIFRS for SMEs”).

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 International Ethics Standards Board for Accountants’ Code of Ethics for professional Accountants (“IESBA Code”), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The financial statements of the Company as at and for the year ended 31 December 2018, were audited by another auditor who expressed an unmodified opinion on those statements on 29 May 2019.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditors’ report is the information included in the Report of the Directors as set out on pages 1 to 4, and the annual report, which is expected to be made available to us after that date.

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

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

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

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with CIFRS for SMEs, 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 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 reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosure, 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 **HRDP and Associates Co., Ltd.**



Peou Dara
Audit Partner
Phnom Penh, Kingdom of Cambodia
25 August 2020

STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	2019		2018	
		US\$	KHR'000 (Note 2.4)	US\$	KHR'000 (Note 2.4)
Assets					
Cash on hand	6	49,956	203,571	99,748	400,787
Deposits and placements with National Bank of Cambodia	7	121,372	494,591	100,805	405,034
Deposits and placements with other banks	8	432,097	1,760,795	1,323,486	5,317,767
Loans to customers - net	9	3,336,883	13,597,798	5,318,144	21,368,303
Other assets	10	38,197	155,653	23,594	94,801
Property and equipment	11	120,781	492,183	157,551	633,040
Intangible assets	12	201	819	1,477	5,935
Deferred tax assets	13(a)	72,176	294,117	41,090	165,100
Total assets		4,171,663	16,999,527	7,065,895	28,390,767
Liabilities and equity					
Liabilities					
Other liabilities	14	64,851	264,268	62,291	250,284
Borrowings	15	3,713,535	15,132,655	5,711,943	22,950,587
Minimum tax liability	13(b)	970	3,953	444	1,784
Total liabilities		3,779,356	15,400,876	5,774,678	23,202,655
Equity					
Share capital	16(a)	1,800,000	7,200,000	1,800,000	7,200,000
Additional capital contribution	16(b)	500,000	2,000,000	-	-
Regulatory reserves	17	7,636	30,681	7,636	30,681
Accumulated losses		(1,915,329)	(7,804,966)	(516,419)	(2,074,972)
Currency translation differences		-	172,936	-	32,403
Total equity		392,307	1,598,651	1,291,217	5,188,112
Total liabilities and equity		4,171,663	16,999,527	7,065,895	28,390,767

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	2019		2018	
		US\$	KHR'000 (Note 2.4)	US\$	KHR'000 (Note 2.4)
Interest income	18	750,582	3,041,358	962,574	3,893,612
Interest expense	19	(385,874)	(1,563,561)	(389,286)	(1,574,662)
Net interest income		364,708	1,477,797	573,288	2,318,950
Fees and commission income		11,482	46,525	9,222	37,303
Other operating income	20	56,325	228,229	45,548	184,242
Total operating income		67,807	274,754	54,770	221,545
General and administrative expenses	21	(720,442)	(2,919,231)	(648,008)	(2,621,192)
Net impairment loss on financial assets	9	(1,133,749)	(4,593,951)	(346,855)	(1,403,028)
Minimum tax expense		(8,320)	(33,713)	(10,170)	(41,138)
Loss before income tax		(1,429,996)	(5,794,344)	(376,975)	(1,524,863)
Income tax credit	13(c)	31,086	125,960	41,090	166,209
Net loss for the year		(1,398,910)	(5,668,384)	(335,885)	(1,358,654)
Other comprehensive income					
Currency translation difference		-	78,923	-	(21,843)
Total comprehensive loss for the year		(1,398,910)	(5,589,461)	(335,885)	(1,380,497)

For the year ended 31 December 2019

STATEMENT OF CHANGES IN EQUITY

	Share capital		Additional capital contribution		Regulatory reserves		Accumulated losses		Currency translation differences		Total
	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000	
Balance as at 1 January 2018	1,800,000	7,200,000	-	-	-	(172,898)	(697,989)	-	66,598	1,627,102	6,568,609
Comprehensive (loss)/income for the year											
Net loss for the year	-	-	-	-	-	(335,885)	(1,358,654)	-	-	(335,885)	(1,358,654)
Transfer	-	-	-	7,636	30,888	(7,636)	(30,888)	-	-	-	-
Other comprehensive income											
Currency translation difference	-	-	-	-	(207)	-	12,559	-	(34,195)	-	(21,843)
Total comprehensive loss for the year	-	-	-	7,636	30,681	(343,521)	(1,376,983)	-	(34,195)	(335,885)	(1,380,497)
Balance as at 31 December 2018	1,800,000	7,200,000	-	7,636	30,681	(516,419)	(2,074,972)	-	32,403	1,291,217	5,188,112

STATEMENT OF CHANGES IN EQUITY (continued)

For the year ended 31 December 2019

	Share capital		Additional capital contribution		Regulatory reserves		Accumulated losses		Currency translation differences		Total	
	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000
Balance as at 1 January 2019	1,800,000	7,200,000	-	-	7,636	30,681	(516,419)	(2,074,972)	-	32,403	1,291,217	5,188,112
Additional capital	-	-	-500,000	2,000,000	-	-	-	-	-	-	500,000	2,000,000
Comprehensive (loss)/ income for the year												
Net loss for the year	-	-	-	-	-	-	(1,398,910)	(5,668,384)	-	-	(1,398,910)	(5,668,384)
Other comprehensive (loss)/ income												
Currency translation difference	-	-	-	-	-	-	-	(61,610)	-	140,533	-	78,923
Total comprehensive loss for the year	-	-	-	-	-	-	(1,398,910)	(5,729,994)	-	140,533	(1,398,910)	(5,589,461)
Balance as at 31 December 2019	1,800,000	7,200,000	500,000	2,000,000	7,636	30,681	(1,915,329)	(7,804,966)	-	172,936	392,307	1,598,651

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	2019		2018	
		US\$	KHR'000	US\$	KHR'000
Cash flows from operating activities			(Note 2.4)		(Note 2.4)
Net loss for the year		(1,398,910)	(5,668,384)	(335,885)	(1,358,654)
<i>Adjustments for:</i>					
Minimum tax expense		8,320	33,713	10,170	41,138
Income tax credit		(31,086)	(125,960)	(41,090)	(166,209)
Depreciation and amortisation	11&12	61,494	249,174	71,099	287,596
Seniority expense		46,542	188,589	-	-
Gain on disposals of property and equipment		(2,045)	(8,288)	-	-
Property, and equipment written off		-	-	6,342	25,653
Net impairment loss on financial assets	9	1,133,749	4,593,951	346,855	1,403,028
		(181,936)	(737,205)	57,491	232,552
<i>Changes in:</i>					
Loans to customers		847,512	3,434,119	(403,344)	(1,631,526)
Other assets		(14,603)	(59,171)	(946)	(3,827)
Other liabilities		4,662	18,890	10,288	41,615
Cash generated from operations		655,635	2,656,633	(336,511)	(1,361,186)
Seniority payment		(22,346)	(90,547)	-	-
Minimum tax paid		(7,794)	(31,581)	(9,726)	(39,342)
Net cash generated from/(used in) operating activities		625,495	2,534,505	(346,237)	(1,400,528)
Cash flows from investing activities					
Purchases of property and equipment, and intangible assets	11&12	(66,723)	(270,361)	(15,921)	(64,401)
Proceeds from disposal of property and equipment		45,320	183,637	-	-
Net cash used in investing activities		(21,403)	(86,724)	(15,921)	(64,401)
Cash flows from financing activities					
Additional capital received in advance (Repayment of)/proceeds from borrowings		500,000	2,026,000	-	-
Net cash (used in)/generated from financing activities		(1,549,706)	(6,279,408)	750,225	3,034,660
Net (decrease)/increase in cash and cash equivalents		(945,614)	(3,831,627)	388,067	1,569,731
Cash and cash equivalents at beginning of year		1,434,039	5,761,968	1,045,972	4,222,589
Currency translation difference		-	59,991	-	(30,352)
Cash and cash equivalents at end of year	22	488,425	1,990,332	1,434,039	5,761,968

NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. Reporting entity

SAHAKA Microfinance Institution Plc (“the Company”) is a private limited company incorporated in Cambodia on 8 December 2015 under registration number Co. 4361 E/2015 (subsequently changed to 00005448) issued by the Ministry of Commerce.

The Company obtained its license from the National Bank of Cambodia (“NBC”) to operate as a microfinance institution on 8 April 2016 and renewed license on 5 July 2019.

The principal activity of the Company is engaged in providing microfinance services and other related financial services within the scope of microfinances license in Cambodia. There have been no significant changes in the nature of this activity during the financial year.

The registered office and principal place of business of the Company is located at No. 206, Street 155, Sangkat Tuol Tompoung I, Khan Chamkarmorn, Phnom Penh, Kingdom of Cambodia.

As at 31 December 2019, the Company had 37 employees (2018: 34 employees).

2. Reporting entity

2.1 Statement of compliance

These financial statements have been prepared in accordance with Cambodian International Financial Reporting Standards for Small and Medium-sized Entities (“CIFRS for SMEs”).

This complete set of financial statements (for the year ended 31 December 2019) is the Company’s first financial statements that conform to CIFRS for SMEs. Before 2019, the financial statements were prepared in accordance with the Cambodian Accounting Standards (“CAS”) and the guidelines of the National Bank of Cambodia (“NBC”).

The Company has applied consistently to all periods presented in these financial statements and in preparing the opening CIFRS for SMEs statement of financial position at 1 January 2018 for the purposes of the transitions to CIFRS for SMEs.

The financial effects of the transition to CIFRS for SMEs are set out in Note 4 below.

These financial statements were approved by the Board of Directors and authorized for issue on 25 August 2020.

2.2 Fiscal year and reporting period

The Company’s fiscal year starts on 1 January and ends on 31 December.

2.3 Basis of accounting

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

2.4 Functional and presentation currency

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

The financial statements are stated in US\$, which is the Company’s functional currency. All amounts have been rounded to the nearest dollars, unless otherwise indicated.

The translations of United States Dollars amount into KHR are included solely for the compliance with the guideline issued by the NBC regarding the preparation and presentation of financial statements.

Assets and liabilities are translated at the closing rate as at the reporting date, and the equity accounts are translated at the historical rate. The statements of comprehensive income and cash flows are translated into KHR using the average rate for the year. Exchange differences arising from the translation are recognized as “Currency translation difference” in the other comprehensive income. The accumulative currency translation differences are recognized as a separate component of equity. All values in KHR are rounded to the nearest thousand (“KHR’000”), except if otherwise indicated.

The Company uses the following exchange rates:

Financial year end	Closing rate	Average rate
31 December 2019	US\$1 = KHR4,075	KHR4,052
31 December 2018	US\$1 = KHR4,018	KHR4,045
1 January 2018	US\$1 = KHR4,037	Not used

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

2.5 Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, and 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 recognized in the year in which the estimates are revised and in any future periods affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment for the year ended 31 December 2019 is set out below in relation to the impairment of financial instruments in 3.18(vii) – Identification and measurement of impairment and Note 5.

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 years presented, unless otherwise stated.

3.1 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.

3.2 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits with banks and other highly liquid investments with original maturities of three months or less and that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried at amortized cost in the statement of financial position.

3.3 Deposits and placements with other banks

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

3.4 Deposits and placements with NBC

Deposits and placements with the NBC, including capital guarantee deposit. Capital guarantee deposit is maintained in compliance with the Cambodian Law on Banking and Financial Institutions and are determined by defined percentages of minimum share capital as required by the NBC.

Capital guarantee is not available to finance the Company's day-to-day operations hence are not considered as part of cash and cash equivalents for the purpose of the statement of cash flows.

Balance with National Bank of Cambodia are carried at amortized cost using the effective interest method in the statement of financial position.

3.5 Loans to customers

Loans to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Company does not intend to sell immediately or in the near term.

Loans to customers are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

3.6 Other assets

Other assets are carried at amortize cost using the effective interest method in the statement of financial position.

3.7 Property and equipment

(i) Recognition and measurement

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.

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 recognized net within other income in profit or loss.

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation of property and equipment is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets as follows:

Leasehold improvements	50%
Furniture and fixtures	50%
Office equipment	50%
Computer equipment	50%
Motor vehicles	25%
Other assets	50%

(iv) Depreciation (continued)

If there is an indication that there has been a significant change in depreciation rate, useful life or residual value of an asset, the depreciation of that asset is revised prospectively to reflect the new expectations.

Fully depreciated property and equipment are retained in the financial statements until disposed of or written off.

3.8 Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and any accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting year, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any accumulated impairment losses.

3.9 Impairment

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 recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any accumulated impairment losses.

3.10 Borrowing and other liabilities

Borrowing and other liabilities are carried at amortized cost using the effective interest method in the statement of financial position.

3.11 Provisions

Provisions are recognized in the statement of financial provision when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as finance cost.

3.12 Employee benefits

(i) Short-term employee benefits

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

(ii) Termination benefits

Termination benefits are payments due to employees as a result of the termination of employment before the normal retirement date or an employee's decision to accept voluntary redundancy in exchange for those benefits. They are recognized as a liability and an expense when the Company has a detailed formal plan for termination with no realistic possibility of withdrawal. In the case of

voluntary redundancy, the benefits are accounted for based on the number of employees expected to accept the offer. Where termination benefits fall due more than 12 months after the end of reporting period, they are discounted to present value based on market yields at the end of reporting period.

(iii) Seniority payment

The Minister of Labor and Vocational Training (“MoLVT”) issued a Prakas No. 443 on Seniority Payment dated 21 September 2018 and Directive No. 042/19 on the Back Pay of Seniority Payment Before 2019 for the Enterprise and Institution Beside Textile, Garment and Footwear Sector dated 22 March 2019, requiring the Company to pay past seniority payment to employees with undetermined duration contract. All employees who have been working before 1 January 2019 and continue to work are entitled to a payment of six (6) days of their average wages of each year of service, totaling not exceeding 6 months, and shall be paid every year starting December 2021 as follows:

- 3 days shall be made in June; and
- 3 days shall be made in December of each year.

Employees are not entitled to the remaining past seniority payment upon resignation or termination due to serious misconduct.

The past seniority payment benefit is measured at the present value of the estimated future cash outflows expected to be made by the Company in respect of services provided by employees up to 31 December 2018.

This Prakas also requires the Company to pay its employees the seniority for the employment service from 2019 amounting to 15 days per annum of their wages and other benefits, 7.5 days of which shall be paid in June and in December of each year. This seniority was recognized during the employees’ periods of service on accrual basis.

3.13 Dividends

Dividends declared and approved by the Company’s shareholders before the end of reporting date are recognized as a liability and accounted for as a deduction from the retained earnings in the financial statements.

Dividends declared and approved by the Company’s shareholders after the reporting date are not recognized as a liability but disclosed as the subsequent events note in the financial statements.

3.14 Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The ‘effective interest rate’ is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

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

3.15 Fees and commission

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

Other fees and commission income are recognized as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognized on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

3.16 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased asset to the Company. All other leases are classified as operating leases.

Rights to assets held under finance leases are recognized as assets of the Company at the fair value of the leased property (or, if lower, the present value of minimum lease payments) at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are deducted in measuring profit or loss. Assets held under finance leases are included in property and equipment, and depreciated and assessed for impairment losses in the same way as owned assets.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

3.17 Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates items recognized in other comprehensive income.

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 years.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases (known as temporary differences).

Deferred tax liabilities are recognized for all temporary differences that are expected to increase taxable profit in the future. Deferred tax assets are recognized for all temporary differences that are expected to reduce taxable profit in the future, and any unused tax losses or unused tax credits. Deferred tax assets are measured at the highest amount that, on the basis of current or estimated future taxable profit, is more likely than not to be recovered.

The net carrying amount of deferred tax assets is reviewed at each reporting date and is adjusted to

reflect the current assessment of future taxable profits. Any adjustments are recognized in profit or loss, except that an adjustment attributable to an item of income or expense recognized in other comprehensive income shall also be recognized in other comprehensive income.

Deferred tax is calculated at the tax rates that are expected to apply to the taxable profit (tax loss) of the periods in which it expects the deferred tax asset to be realized or the deferred tax liability to be settled, on the basis of tax rates that have been enacted or substantively enacted by the end of the reporting period.

3.18 Financial assets and financial liabilities

(i) Recognition

The Company initially recognizes a financial asset or a financial liability when the Company becomes a party to the contractual provisions of the instrument.

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

(ii) Classification

The Company classifies its financial assets and liabilities as basic financial instruments in accordance with Section 11 Basic Financial Instruments.

(iii) Derecognition

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

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

(iv) Offsetting

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

(v) Amortised cost measurement

The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(vi) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in

its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

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

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

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

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

(vii) Identification and measurement of impairment

Objective evidence of impairment

At each reporting date, the Company assesses whether there is objective evidence that financial assets that are measured at cost or amortized cost. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets and that the loss event has an impact on the future cash flows of the assets that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- indications that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

Individual and collective assessment

All individually significant assets are individually assessed for impairment.

Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

The individual component of the total allowance for impairment applies to financial assets evaluated individually for impairment, and found to be individually impaired, and is based on management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the management.

A collective component of the total allowance is established for:

- groups of homogeneous loans that are not considered individually significant; and
- groups of assets that are individually significant but that were not found to be individually impaired.

The collective allowance for groups of homogeneous loans is established using statistical methods such as roll rate methodology or, for small portfolios with insufficient information, a formula approach based on historical loss rate experience.

In assessing the collective loss allowance, management considers factors such as credit quality, portfolio size, concentrations and economic factors. To estimate the required allowance, assumptions are made to define how inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowance depends on the model assumptions and parameters used in determining the collective allowance.

Measurement

Impairment losses on assets measured at amortized cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Reversal of impairment and write off

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the entity shall reverse the previously recognized impairment loss either directly or by adjusting an allowance account.

The reversal shall not result in a carrying amount of the financial asset (net of any allowance account) that exceeds what the carrying amount would have been had the impairment not previously been recognized. The entity shall recognise the amount of the reversal in profit or loss immediately.

The Company writes off a loan or an investment debt security, either partially or in full, and any related allowance for impairment losses, when the management determines that there is no realistic prospect of recovery.

3.19 Regulatory reserves

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 one year):		
Standard	0 - 14 days	1%
Special mention	15 - 29 days	3%
Sub-standard	30 - 59days	20%
Doubtful	60 - 89 days	50%
Loss	90 days or more	100%
Long-term loans (more than one year):		
Standard	0 - 29 days	1%
Special mention	30 - 89 days	3%
Sub-standard	90 - 179 days	20%
Doubtful	180 - 359 days	50%
Loss	360 days or more	100%

In accordance with Article 73, the entity is shall compare the provision calculated in accordance with above requirements, and the Company’s record which is under CIFRS for SMEs:

- (i) If the regulatory provision is lower, the entity records the provision calculated in accordance with CIFRS for SMEs; and
- (ii) If the regulatory provision is higher, the entity records the provision calculated in accordance with CIFRS for SMEs and transfer the difference from retained earnings into regulatory reserves in equity account.

3.20 Related parties

Enterprises and individual that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Company, including the holding companies, subsidiaries and fellow subsidiaries, are related parties of the Company. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the enterprise, key management personnel, including Directors and officers of the Company and close members of the family of these individuals and companies associated with these individuals, also constitute related parties.

4. Transition to CIFRS for SMEs

On 28 August 2009, the National Accounting Council of the Ministry of Economy and Finance (“the National Accounting Council”) announced the adoption of Cambodian International Financial Reporting Standards (“CIFRS”) which are based on all standards published by the International Financial Reporting Standards Board (“IASB”), including the related interpretations and amendments. Public accountable entities are required to prepare their financial statements in accordance with CIFRS for accounting period beginning on or after 1 January 2012.

Circular 058 MEF. NAC dated 24 March 2016 issued by the National Accounting Council of the Ministry of Economy and Finance allowed banks and financial institutions to further delay adoption of CIFRS until period beginning on or after 1 January 2019.

On 3 January 2019, NAC through circular No. 004 on the implementation of “the notification on the implementation of accounting standards for financial institution” provides the options to non-public accountability entities to choose either adopting CIFRS or CIFRS for SMEs.

The financial statements for the year ended 31 December 2019 are the Company’s first complete set of financial statements that comply with CIFRS for SMEs. The Company’s date of transition to CIFRS for SMEs is 1 January 2018. Its last financial statements prepared in accordance with the CAS were for the year ended 31 December 2018.

The transition to CIFRS for SMEs has resulted in a number of changes in the Company’s accounting policies compared to those used when applying CAS.

This explanatory note to the financial statements describes the differences between the profit or loss presented under CAS and the newly presented amounts under CIFRS for SMEs for the reporting period ended 31 December 2018 (i.e. comparative information), as well as the differences between the equity presented under CAS and the newly presented amounts under CIFRS for SMEs at the date of transition (1 January 2018) and at 31 December 2018. It also describes all the required changes in accounting policies made on first-time adoption of CIFRS for SMEs.

In the table below, equity determined in accordance with CIFRS for SMEs is reconciled to equity determined in accordance with CAS at both 1 January 2018 (the date of transition to CIFRS for SMEs) and 31 December 2018 (the end of the latest period presented in the most recent financial statements prepared in accordance with CAS).

(i) Reconciliation of equity as at 1 January 2018

		As at 1 January 2018			
		CAS	Effect of	CIFRS for SMEs	
		US\$	transition	US\$	KHR’000
			US\$		(Note 2.4)
Assets					
		11,735	-	11,735	47,374
		100,318	-	100,318	404,984
		1,023,919	-	1,023,919	4,133,561
	4.1	5,251,486	10,169	5,261,655	21,241,301
	4.2	73,219	(50,571)	22,648	91,430
		219,273	-	219,273	885,205
		1,275	-	1,275	5,147
Total assets		6,681,225	(40,402)	6,640,823	26,809,002
Liabilities					
Other liabilities	4.3	42,554	1,167	43,721	176,503
Borrowings	4.3	4,970,000	-	4,970,000	20,063,890
Total liabilities		5,012,554	1,167	5,013,721	20,240,393

(ii) Reconciliation of equity as at 1 January 2018 (Continued)

Equity					
Share capital		1,800,000	-	1,800,000	7,200,000
Regulatory reserves	4.4	-	-	-	-
Accumulated losses		(131,329)	(41,569)	(172,898)	(697,989)
Currency translation differences		-	-	-	66,598
Total equity		1,668,671	(41,569)	1,627,102	6,568,609
Total liabilities and equity		6,681,225	(40,402)	6,640,823	26,809,002

(ii) Reconciliation of equity as at 31 December 2018

As at 31 December 2018					
	Note	CAS US\$	Effect of transition US\$	CIFRS for SMEs US\$	KHR'000 (Note 2.4)
Assets					
Cash on hand		99,748	-	99,748	400,787
Deposits and placements with National Bank of Cambodia		100,805	-	100,805	405,034
Deposits and placements with other banks		1,323,486	-	1,323,486	5,317,767
Loans to customers - net	4.1	5,264,900	53,244	5,318,144	21,368,303
Other assets	4.2	110,169	(86,575)	23,594	94,801
Property and equipment		157,551	-	157,551	633,040
Intangible assets		1,477	-	1,477	5,935
Deferred tax assets	4.5	-	41,090	41,090	165,100
Total assets		7,058,136	7,759	7,065,895	28,390,767
Liabilities					
Other liabilities	4.3	97,137	(34,846)	62,291	250,284
Borrowings	4.3	5,720,000	(8,057)	5,711,943	22,950,587
Minimum tax liability		-	444	444	1,784
Total liabilities		5,817,137	(42,459)	5,774,678	23,202,655
Equity					
Share capital		1,800,000	-	1,800,000	7,200,000
Regulatory reserve	4.4	-	7,636	7,636	30,681
Accumulated losses		(559,001)	42,582	(516,419)	(2,074,972)
Currency translation differences		-	-	-	32,403
Total equity		1,240,999	50,218	1,291,217	5,188,112
Total liabilities and equity		7,058,136	7,759	7,065,895	28,390,767

(iii) Reconciliation of the statement of comprehensive income for the year ended 31 December 2018

	Note	Year ended 31 December 2018			
		CAS US\$	Effect of transition US\$	CIFRS for SMEs	
				US\$	KHR'000 (Note 2.4)
Interest income	4.1	878,544	84,030	962,574	3,893,612
Interest expense	4.1	(387,343)	(1,943)	(389,286)	(1,574,662)
Net interest income		491,201	82,087	573,288	2,318,950
Fees and commission income	4.1	48,521	(39,299)	9,222	37,303
Other operating income		45,548	-	45,548	184,242
Total operating income		94,069	(39,299)	54,770	221,545
General and administrative expenses	4.3	(646,228)	(1,780)	(648,008)	(2,621,192)
Net impairment loss on financial assets	4.1	(356,988)	10,133	(346,855)	(1,403,028)
Minimum tax expense		(9,726)	(444)	(10,170)	(41,138)
Loss before income tax		(427,672)	50,697	(376,975)	(1,524,863)
Income tax credit	4.5	-	41,090	41,090	166,209
Net loss for the year		(427,672)	91,787	(335,885)	(1,358,654)

(iv) Reconciliation of the statement of cash flows for the year ended 31 December 2018

Certain reclassifications have been made to the presentation of the Company's statement of cash flows to conform to the current year's presentation following the adoption of CIFRS for SMEs.

4.1. Financial assets and liabilities

(a) Financial assets and liabilities measured at amortized cost

Under the previous accounting framework, CAS, financial assets including balances with the NBC and loans to customers and financial liabilities including borrowings and other liabilities, were stated at principal outstanding, and the accrued interest receivables and accrued interest payables were presented in other assets and other liabilities, respectively.

On the adoption of CIFRS for SMEs, these financial assets and financial liabilities are measured at amortized cost, resulting in the increase of financial assets and financial liabilities, and the decrease of other assets and other liabilities.

Accrued interest receivable - net is now included in the amortized cost of loans.

Consequently, in the statement of comprehensive income for the year ended 31 December 2018, net impairment loss on loans to customers were US\$10,133 lower when applying CIFRS for SMEs.

At 1 January 2018 (the date of transition) the carrying amount of loans to customers was increased by US\$10,169 when applying CIFRS for SMEs; at 31 December 2018, loans to customers was increased by US\$53,244.

(b) Interest income at amortized cost

Under CAS, interest income on loans to customers and balances with the NBC was recognized on an accrual basis based on declining balances of the principal amount outstanding, except for loans to customers that have been classified as sub-standard, doubtful or loss. Interest accruing to these loans was credited to an interest in suspense account. Subsequently, interest income from these loans is recognized on a cash receipt basis.

On adoption of CIFRS for SMEs, interest income is recognized using the effective interest method. Under the effective interest method by applying the effective interest rate ("EIR"). The effective interest rate is determined on the basis of the carrying amount of the financial assets or liability at initial recognition. This adoption results in additional interest income to be recognized.

(c) Impairment of financial assets

Under CAS, allowances for bad and doubtful loans and balance with banks were measured based on the Prakas No. B7-017-344, dated on 1 December 2017, on Credit Risk Grading and Impairment Provisioning, and Circular No. B7-018-001, dated 16 February 2018 on the Implementation of Prakas on Credit Risk Grading and Impairment Provisioning issued by the NBC. On adoption of CIFRS for SMEs, the impairment of loan is measured through a loss allowance for incurred credit loss model impacting loss allowance as at 1 January 2018 and as at and for the year ended 31 December 2018.

Deposits and placements with banks and loan to customers which are individually significant is assessed for impairment individually.

If the regulatory allowance is greater than the impairment under Section 11 of CIFRS for SMEs, the excess is recognized as regulatory reserves by transferring from accumulated losses to reserves as per NBC Prakas No. B7-017-344.

4.2. Other assets

Under the previous accounting framework, CAS, refundable deposits are recorded at cost. On the adoption of CIFRS for SMEs, refundable deposits are measured at the present value of the future cash inflow using market rate for discounting.

4.3. Borrowings

Under the previous accounting framework, CAS, borrowings are stated at the amount of the principal outstanding. Under CIFRS for SMEs, borrowings are carried at amortized cost using the effective interest method in the statement of financial position.

4.4 Regulatory reserves

According to NBC's Prakas No. B7-017-344 on Credit Risk Grading and Impairment Provisioning, excess amount of impairment calculated in accordance with regulatory provision compared to the impairment calculated under CIFRS for SMEs has to be transferred from accumulated losses to regulatory reserve within shareholder's equity. This requirement resulted in increase in reserve and decrease in retained earnings but no impact on the profit or loss of the Company.

4.5. Income tax

The application of CIFRS for SMEs resulted in changes in deferred tax arising from the temporary differences in respect of the impairment of financial assets.

5. Critical accounting estimates and judgements

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of failure events that are believed to be reasonable under the circumstances. The estimates, assumptions and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Income and other taxes

Taxes are calculated on the basis of current interpretation of the tax obligations. However, these regulations are subject to periodic variation and different interpretation following inspection by the tax authorities. These may result in tax increase and other retroactive tax claims. It is difficult to predict the timing and severity of these occurrences or their potential effect.

(ii) Property and equipment

Accounting for property and equipment involves the use of estimates for determining the expected useful lives of these assets. The determination of useful lives of the assets is based on Management's judgement.

(iii) Allowance for doubtful debts

Management establishes allowance for doubtful debts on a case-by-case basis when they believe collection of amounts owed is unlikely to occur. In establishing these allowances, the management considers its historical experience and changes to its customers' financial position. If the financial condition of customer were deteriorating, resulting in impairment of inability to make the required payments, allowance may be required to be made for such receivable.

6. Cash on hand

	2019		2018	
	US\$	KHR'000 (Note 2.4)	US\$	KHR'000 (Note 2.4)
US Dollars	44,984	183,310	94,690	380,464
Khmer Riels	4,972	20,261	5,058	20,323
	49,956	203,571	99,748	400,787

7. Deposits and placements with National Bank of Cambodia

	2019		2018	
	US\$	KHR'000 (Note 2.4)	US\$	KHR'000 (Note 2.4)
Capital guarantee deposit (*)	115,000	468,625	90,000	361,620
Current account (**)	6,372	25,966	10,805	43,414
	121,372	494,591	100,805	405,034

(i) The capital guarantee deposit is maintained with the NBC in compliance with Prakas No. B7-00-006 on the Licensing of Microfinance Institutions, the amount of which are determined at 5% of the Company's registered share capital. The guarantee deposit is refundable when the Company voluntarily liquidates and has no deposit liabilities.

The capital guarantee deposit earns interest at the rate of 0.48% - 0.72% per annum.

(ii) Current account earns no interest.

8. Deposits and placements with other banks

	2019		2018	
	US\$	KHR'000 (Note 2.4)	US\$	KHR'000 (Note 2.4)
Current accounts	420,613	1,713,998	572,976	2,302,218
Saving accounts	11,484	46,797	750,510	3,015,549
	432,097	1,760,795	1,323,486	5,317,767

Deposits and placements with banks are analysed as follows:

	2019		2018	
	US\$	KHR'000 (Note 2.4)	US\$	KHR'000 (Note 2.4)
(a) By maturity:				
Within 1 month	432,097	1,760,795	1,323,486	5,317,767

(b) By interest rate (per annum):

	2019	2018
Current accounts	0%	0%
Saving accounts	0% - 1%	3% - 3.25%

9. Loans to customers

	2019		2018	
	US\$	KHR'000 (Note 2.4)	US\$	KHR'000 (Note 2.4)
Individual loans	3,891,139	15,856,391	5,680,731	22,825,177
Less: impairment loss allowance	(554,256)	(2,258,593)	(362,587)	(1,456,874)
	3,336,883	13,597,798	5,318,144	21,368,303

The movements of impairment loss allowance are as follows:

	2019		2018	
	US\$	KHR'000 (Note 2.4)	US\$	KHR'000 (Note 2.4)
Balance at beginning of the year	362,587	1,456,874	15,982	64,519
Allowance for the year	1,133,749	4,593,951	346,855	1,403,028
Written off for the year	(942,080)	(3,817,308)	(250)	(1,011)
Currency translation difference	-	25,076	-	(9,662)
Balance at end of the year	554,256	2,258,593	362,587	1,456,874

Gross loans to customers are analysed as follows:

	2019		2018	
	US\$	KHR'000 (Note 2.4)	US\$	KHR'000 (Note 2.4)
(a) By maturity:				
Within one year	127,040	517,687	592,335	2,380,002
From one to five years	1,481,649	6,037,720	1,595,942	6,412,495
More than 5 years	2,282,450	9,300,984	3,492,454	14,032,680
	3,891,139	15,856,391	5,680,731	22,825,177

	2019		2018	
	US\$	KHR'000 (Note 2.4)	US\$	KHR'000 (Note 2.4)
(b) By currency:				
US Dollars	3,680,247	14,997,006	5,649,505	22,699,711
Khmer Riel	210,892	859,385	31,226	125,466
	3,891,139	15,856,391	5,680,731	22,825,177

9. Loans to customers (Continued)

	2019		2018	
	US\$	KHR'000 (Note 2.4)	US\$	KHR'000 (Note 2.4)
(c) By economic sector:				
Trade and commerce	1,304,947	5,317,659	2,517,534	10,115,452
Agriculture	2,586,192	10,538,732	3,163,194	12,709,713
Others	-	-	3	12
	3,891,139	15,856,391	5,680,731	22,825,177
(d) By relationship:				
External customers	US\$	KHR'000 (Note 2.4)	US\$	KHR'000 (Note 2.4)
Staff loans				
	3,601,325	14,675,399	5,176,057	20,797,397
	289,814	1,180,992	504,674	2,027,780
	3,891,139	15,856,391	5,680,731	22,825,177
(e) By exposure:				
Large exposures	US\$	KHR'000 (Note 2.4)	US\$	KHR'000 (Note 2.4)
Non-large exposures				
	1,107,264	4,512,101	2,276,696	9,147,766
	2,783,875	11,344,290	3,404,035	13,677,411
	3,891,139	15,856,391	5,680,731	22,825,177
(f) By interest rate (per annum):				
Short-term loans	US\$	KHR'000 (Note 2.4)	US\$	KHR'000 (Note 2.4)
Long-term loans				
	8% - 18%		8% - 18%	
	8% - 18%		8% - 18%	

10. Other assets

	2019		2018	
	US\$	KHR'000 (Note 2.4)	US\$	KHR'000 (Note 2.4)
Rental deposits	16,333	66,557	17,200	69,110
Advances	21,864	89,096	6,394	25,691
	38,197	155,653	23,594	94,801

11. Property and equipment (continued)

2018	Leasehold	Furniture	Office	Computer	Motor	Other	Total	US\$	KHR'000
	improvements	and fixtures	equipment	equipment	vehicle	assets			
	US\$	US\$	US\$	US\$	US\$	US\$	US\$		
Cost									(Note 2.4)
Balance as at 1 January 2018	43,730	2,287	17,011	20,705	178,146	14,347	276,226	1,115,124	
Additions	2,265	10	6,242	2,775	1,250	425	12,967	52,452	
Written-off	-	-	-	-	-	(8,757)	(8,757)	(35,422)	
Currency translation difference	-	-	-	-	-	-	-	(5,362)	
Balance as at 31 December 2018	45,995	2,297	23,253	23,480	179,396	6,015	280,436	1,126,792	
Accumulated depreciation									
Balance as at 1 January 2018	2,972	1,085	9,101	8,762	27,725	7,308	56,953	229,919	
Charge for the year	7,477	730	3,844	7,319	44,814	4,163	68,347	276,464	
Written-off	-	-	-	-	-	(2,415)	(2,415)	(9,769)	
Currency translation difference	-	-	-	-	-	-	-	(2,862)	
Balance as at 31 December 2018	10,449	1,815	12,945	16,081	72,539	9,056	122,885	493,752	
Carrying amounts									
Balance as at 31 December 2018	35,546	482	10,308	7,399	106,857	(3,041)	157,551	633,040	

12. Intangible assets

Software license	2019		2018	
	US\$	KHR'000 (Note 2.4)	US\$	KHR'000 (Note 2.4)
Cost				
Balance as at 1 January	7,454	29,950	4,500	18,167
Additions	100	405	2,954	11,949
Currency translation difference	-	428	-	(166)
Balance as at 31 December	7,554	30,783	7,454	29,950
Accumulated depreciation				
Balance as at 1 January	5,977	24,015	3,225	13,019
Charge for the year	1,376	5,576	2,752	11,132
Currency translation difference	-	373	-	(136)
Balance as at 31 December	7,353	29,964	5,977	24,015
Carrying amounts				
Balance as at 31 December	201	819	1,477	5,935

13. Income tax

(a). Deferred tax assets

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the statement of financial position:

	2019		2018	
	US\$	KHR'000 (Note 2.4)	US\$	KHR'000 (Note 2.4)
Deferred tax assets	77,023	313,869	41,090	165,100
Deferred tax liabilities	(4,847)	(19,752)	-	-
	72,176	294,117	41,090	165,100

(i) Deferred tax assets are attributable to the following:

	2019		2018	
	US\$	KHR'000 (Note 2.4)	US\$	KHR'000 (Note 2.4)
Depreciation and amortisation	(4,847)	(19,752)	2,970	11,933
Impairment loss allowance	72,184	294,150	38,120	153,167
Employee benefits	4,839	19,719	-	-
	72,176	294,117	41,090	165,100

(ii) Movements of deferred tax assets during the year are as follows:

	2019		2018	
	US\$	KHR'000 (Note 2.4)	US\$	KHR'000 (Note 2.4)
At beginning of the year	41,090	165,100	165,100	-
Recognized in profit or loss	31,086	125,960	125,960	166,209
Currency translation difference	-	3,057	3,057	(1,109)
At end of the year	72,176	294,117	294,117	165,100

(b). Minimum tax liability

	2019		2018	
	US\$	KHR'000 (Note 2.4)	US\$	KHR'000 (Note 2.4)
At beginning of the year	444	1,784	-	-
Charge to profit and loss	8,320	33,713	10,170	41,138
Minimum tax paid	(7,794)	(31,581)	(9,726)	(39,342)
Currency translation difference	-	37	-	(12)
At end of the year	970	3,953	444	1,784

(c). Income tax credit

In accordance with Cambodian Law on Taxation, the Company has an obligation to pay corporate income tax of either the profit tax at the rate of 20% of taxable profits or the minimum tax at 1% of gross revenues, whichever is higher.

	2019		2018	
	US\$	KHR'000 (Note 2.4)	US\$	KHR'000 (Note 2.4)
Current income tax	-	-	-	-
Deferred tax	(31,086)	(125,960)	(41,090)	(166,209)
	(31,086)	(125,960)	(41,090)	(166,209)

The reconciliation of income tax (credit)/expense computed at the statutory tax rate to the income tax expense show in the comprehensive income is as follow:

	2019		2018	
	US\$	KHR'000 (Note 2.4)	US\$	KHR'000 (Note 2.4)
Profit before income tax	(1,429,996)	(5,794,344)	(376,975)	(1,524,864)
Income tax using applicable tax rate 20%	(285,999)	(1,158,869)	(75,395)	(304,973)
Non-deductible expense	1,086	4,400	1,166	4,716
Unrecognized tax loss	239,595	970,840	35,675	144,305
Others	14,232	57,669	(2,536)	(10,257)
	(31,086)	(125,960)	(41,090)	(166,209)

14. Other liabilities

	2019		2018	
	US\$	KHR'000 (Note 2.4)	US\$	KHR'000 (Note 2.4)
Accrued seniority payments	24,196	98,599	-	-
Tax payables	9,453	38,521	9,949	39,975
Rental liabilities	5,167	21,056	3,167	12,725
Accrued interest payable	2,508	10,220	28,806	115,743
Other payables	23,527	95,872	20,369	81,841
	64,851	264,268	62,291	250,284

15. Borrowings

	2019		2018	
	US\$	KHR'000 (Note 2.4)	US\$	KHR'000 (Note 2.4)
	3,713,535	15,132,655	5,711,943	22,950,587

16. Share capital and additional capital contribution

a) Share capital

	2019			2018		
	Number	US\$	KHR'000 (Note 2.4)	Number	US\$	KHR'000 (Note 2.4)
Registered:						
Ordinary shares of US\$1 each	1,800,000	1,800,000	7,200,000	1,800,000	1,800,000	7,200,000
Paid up:						
Ordinary shares of US\$1 each	1,800,000	1,800,000	7,200,000	1,800,000	1,800,000	7,200,000

b) Additional capital contribution

On 17 February 2020, the Ministry of Commerce approved to the Company's request dated 18 October 2019 to increase the Company's share capital from US\$1,800,000 to US\$2,300,000 through the issuance of additional 500,000 shares with par value of US\$1 per share.

The share structure will also change as a result of the share subscription 500,000 shares.

The revised Memorandum and Articles of Association ("MAA") to reflect the above changes was approved by the Ministry of Commerce on 17 February 2020.

17. Regulatory reserves

	2019		2018	
	US\$	KHR'000 (Note 2.4)	US\$	KHR'000 (Note 2.4)
Regulatory reserve (*)	7,636	30,681	7,636	30,681

(*) Regulatory reserve:

	2019		2018	
	US\$	KHR'000 (Note 2.4)	US\$	KHR'000 (Note 2.4)
At the beginning of the year:	7,636	30,681	-	-
Add: transfer from retained earnings to reserve pertaining to impairment during the year (**)	-	-	7,636	30,681
At the end of year	7,636	30,681	7,636	30,681

(**) Transfer from retained earnings to reserve pertaining to impairment during the year when the provision under NBC requirement is higher than CIFRS for SMEs:

	2019		2018	
	US\$	KHR'000 (Note 2.4)	US\$	KHR'000 (Note 2.4)
Impairment on credit facilities required by the NBC				-
- Deposits and placements with other banks	4,321	17,608	13,235	53,177
- Loans to customers	263,430	1,073,475	356,988	1,434,378
Impairment loss on financial assets under the NBC	267,751	1,091,083	370,223	1,487,555
Impairment loss on financial assets under CIFRS for SMEs (Note 9)	434,999	1,772,620	362,587	1,456,874
	-	-	7,636	30,681

18. Interest income

	2019		2018	
	US\$	KHR'000 (Note 2.4)	US\$	KHR'000 (Note 2.4)
Loans to customers	656,487	2,660,085	872,165	3,527,907
Deposits and placements with other banks	28,562	115,733	6,379	25,803
Other interest incomes	65,533	265,540	84,030	339,902
	750,582	3,041,358	962,574	3,893,612

19. Interest expense

	2019		2018	
	US\$	KHR'000 (Note 2.4)	US\$	KHR'000 (Note 2.4)
Interest on term loans	385,874	1,563,561	389,286	1,574,662

20. Other operating income

	2019		2018	
	US\$	KHR'000 (Note 2.4)	US\$	KHR'000 (Note 2.4)
Penalty income	54,218	219,691	45,402	183,651
Gains on disposals of property and equipment	2,045	8,286	-	-
Other income	62	252	146	591
	56,325	228,229	45,548	184,242

21. General and administrative expenses

	2019		2018	
	US\$	KHR'000 (Note 2.4)	US\$	KHR'000 (Note 2.4)
Personnel expenses	483,974	1,961,063	458,000	1,852,610
Depreciation and amortisation	61,494	249,174	71,099	287,596
Rental fee	43,921	177,968	43,019	174,012
Seniority payment	46,542	188,588	-	-
Travel expenses	17,020	68,965	13,988	56,581
Professional fee	9,040	36,630	8,654	35,005
Utilities expenses	7,896	31,995	6,730	27,223
Communication expenses	7,329	29,697	6,451	26,094
Stationary expenses	7,217	29,243	5,306	21,463
License fee	6,373	25,823	5,537	22,397
Meal and entertainment	6,366	25,795	8,792	35,564
Membership and service fees	3,415	13,838	3,749	15,165
Rental expense (Straight-line)	2,000	8,104	2,000	8,090
Lease expense	1,121	4,542	1,114	4,506
Repairs and maintenance	41	166	125	506
Other expenses	16,693	67,640	13,444	54,380
	720,442	2,919,231	648,008	2,621,192

22. Cash and cash equivalents

	2019		2018	
	US\$	KHR'000 (Note 2.4)	US\$	KHR'000 (Note 2.4)
	49,956	203,571	99,748	400,787
	6,372	25,966	10,805	43,414
Cash on hand (Note 6)				
Deposits and placements with NBC (Note 7)	432,097	1,760,795	1,323,486	5,317,767
Deposits and placements with other banks (with maturities of 3 months or less) (Note 8)	488,425	1,990,332	1,434,039	5,761,968

23. Related party transactions

The Company had the following transactions with related parties during the financial year.

Related parties	2019		2018	
	US\$	KHR'000 (Note 2.4)	US\$	KHR'000 (Note 2.4)
Mrs. Mom Rata				
Interest income	5,438	22,035	7,917	32,024
Ms. Ouk Savy				
Loan provided	-	-	35,000	141,575
Repayments received	3,403	13,789	486	1,966
Interest income	5,032	20,390	668	2,702
<i>Directors</i>				
Mr. Yamashita Tetsuo				
Repayments received	74,605	302,299	6,820	27,587
Interest income	12,204	49,451	15,567	62,969
Interest charges	93,023	376,929	139,535	564,419
Mr. Bol Vanneat				
Repayments received	75,860	307,385	6,814	27,563
Interest income	13,256	53,713	15,583	63,033
<i>Key management personnel</i>				
Mr. Mak Chansopheara				
Repayments received	60,000	243,120	-	-
Interest income	2,702	10,949	8,385	33,917
<i>Key management remuneration</i>				
	316,995	1,284,464	266,133	1,076,508

Balances with a related party at the end of the reporting period are disclosed in Note 15 to the financial statements.

24. Lease commitments

The Company had entered into non-cancellable lease agreements for office space, resulting in future rental commitments which can, subject to certain terms in the agreements, be revised annually based on prevailing market rates. At period-end, the Company has outstanding commitments under non-cancellable operating leases that fall due, as follows:

	2019		2018	
	US\$	KHR'000 (Note 2.4)	US\$	KHR'000 (Note 2.4)
Within 1 year	42,800	174,410	42,000	168,756
1 to 5 years	216,000	880,200	126,000	506,268
	258,800	1,054,610	168,000	675,024

25. Subsequent events

25.1 Capital increase

On 23 June 2020, the National Bank of Cambodia approved to the Company's request dated 21 May 2020 to increase the Company's registered share capital from US\$2,300,000 to US\$3,300,000 through the issuance of additional share of 1,000,000 shares with par value of US\$1 per share.

25.2 Impact of Novel Coronavirus Outbreak to the Company

Since January 2020, the outbreak of Novel Coronavirus ("COVID-19") has impact on the global as well as Cambodia business environment. Up to the date of this report, COVID-19 has resulted in material impact to a number of customers. Pending on the development and spread of COVID-19 subsequent to the date of this report, further changes in economic conditions for the Company arising thereof may have impact on the financial results of the Company, the extent of which could not be estimated as at the date of this report. The Company will keep continuous attention on the situation of the COVID-19 and react actively to its impact on the financial position and operating results of the Company.



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