



គ្រឹះស្ថានមីក្រូហិរញ្ញវត្ថុ ធីប៊ីប៊ី (ខេមបូឌា) ភីអិលស៊ី
臺灣企銀微型財務公司
TBB (CAMBODIA) MICROFINANCE INSTITUTION PLC.

Annual Report 2018

TBBMFI Help Your Life Convenient!

Address: # 2E-2F, Street 315, Sangkat Boeung Kok 1, Khan Toul Kork, Phnom Penh
Tel: +855(0) 23 88 71 71 / Fax: +855 (0) 23 88 24 69 / Email: tbbmfi@gmail.com

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Background, Vision and Mission

Background

TBB (CAMBODIA) MICROFINANCE INSTITUTION PLC. (Hereinafter referred to as TBBMFI) is a public limited company and a subsidiary of TAIWAN BUSINESS BANK which is a specialized bank in Taiwan charged with providing financial assistance and guidance to SMEs and has developed the field of SME financial services for more than 40 years.

TBBMFI is licensed by the National Bank of Cambodia as a MFI in June 2015 to provide funding to commercial or individual purposes of Cambodian people as well as customers from Taiwan and support the monetary and economic environment of Cambodia.

Vision

To be the most people-centric company in Cambodia and build up a place where customers can seek and utilize the products with facility.

Mission

TBBMFI seeks to be one of the providers of ethical credit products in Cambodia and develops new products as appropriate to support Cambodian people to grow up the economic scale. In doing so, TBBMFI will observe the highest principles of morality and best international banking practice to conduct its business in line with the laws and regulations of the Kingdom of Cambodia.

Message from the Chief Executive Officer (CEO)



As the Chief Executive Officer (CEO) of TBB (Cambodia) Microfinance Plc., I am grateful that TBBMFI has operated the microfinance services successfully for 4 years in its history. The operation of TBBMFI has participated actively in the family economic development because TBBMFI is a real microfinance institution that serves in providing loan with low interest, high ethic and professionalism to achieve its statement of vision and mission.

TBBMFI has been trying its best to provide the loan products with good conditions to encourage customers who are not able to access microfinance services from other MFIs can get microfinance services from TBBMFI to improve their living quality.

In conclusion, being the CEO of TBBMFI, I would like to show my gratitude once again to customers, Board of Directors, managers and staffs who give the best support to TBBMFI to make it perform well from the beginning and hope TBBMFI can make its influence on people in Cambodia in a good way permanently.

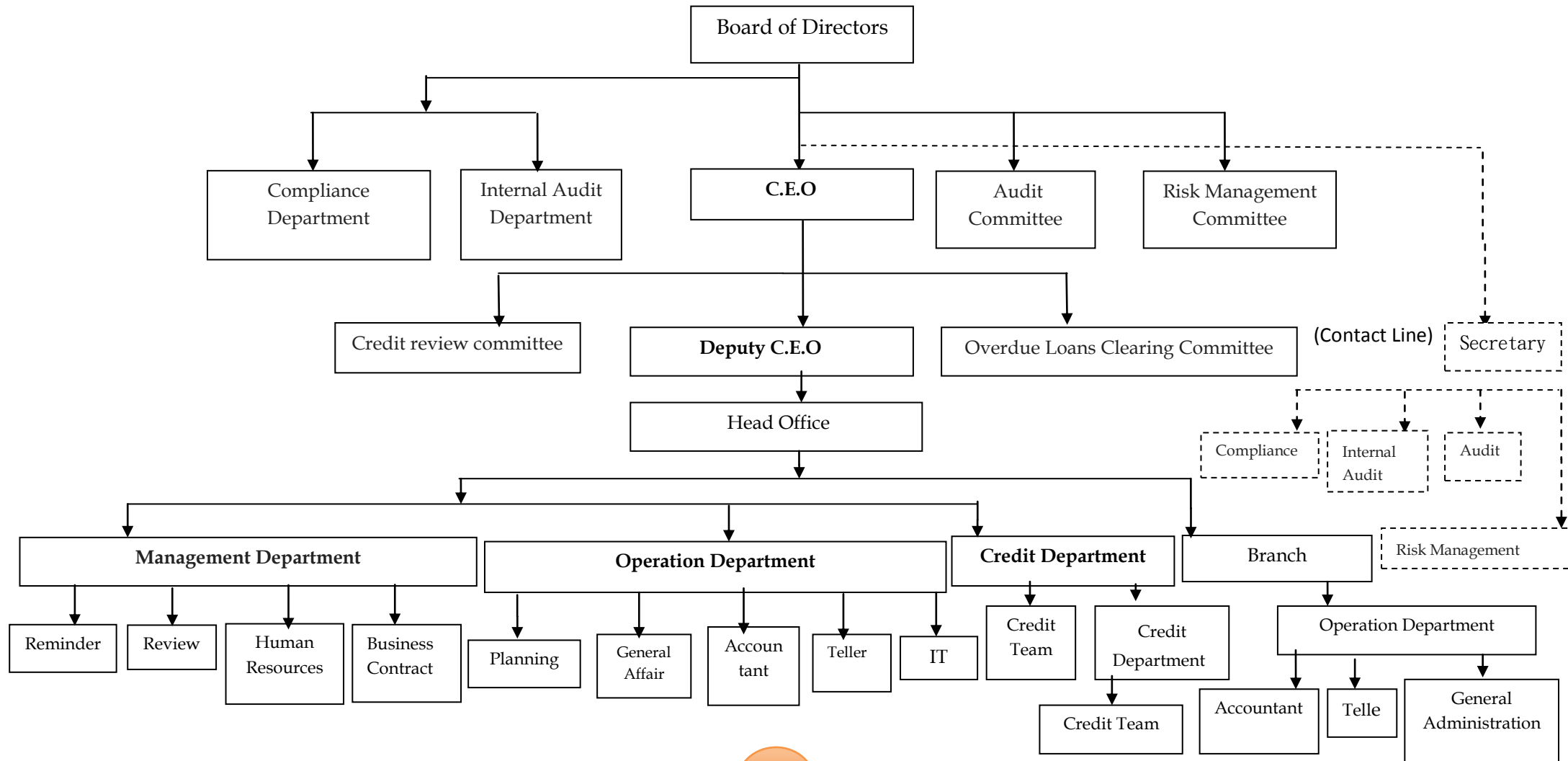
Phnom Penh, 31 May, 2019

Chief Executive Officer (CEO)



HUANG JUNG PIN

Organizational Chart of TBB (Cambodia) Microfinance Institution Plc (TBBMFI)



Shareholders and Board of Directors

TAIWAN BUSINESS BANK Ltd. has solely assumed the total capital contribution of USD 20,000,000 (United States Dollars Twenty Million, equivalent to Riel 80,000,000,000) which is divided into 20,000 (Twenty Thousand) ordinary shares, each share with a par value of USD 1,000 (United States Dollars One Thousand, equivalent to Riel 4,000,000).

TBBMFI's Board of Directors (BOD) comprises 4 members as namely:

- | | |
|------------------|-------------------------------------|
| ▪ Chang-Yi CHEN | Chairman of the Board |
| ▪ Huang Jung-Pin | Board Member |
| ▪ Chang-Yu LIN | Board Member |
| ▪ Tien-Liang HSU | Board Member (Independent Director) |

Products and Services

Commercial Loan (CL)

TBBMFI provides a Commercial Loan product to meet the demand and the interest of clients who wish to increase their income.

Personal Loan (PL)

TBBMFI provides a Personal Loan product to satisfy customers' personal needs such as home improvement, consumption goods, housework facilities; transport means (Motorbike, automobile...)

Mortgage Loan (ML)

TBBMFI provides a Mortgage Loan product to satisfy customers' needs to buy real estate property such as land, house.

Loan Performance

To achieve the mission and vision, TBBMFI tries to provide loan to all kinds of customers and sectors to use for their own business. TBBMFI sets its own target customers by focusing on those with low and medium standards of living as well as small and medium business who wish to extend their business activities. At the end of 2018, loan disbursement increase constantly and lead to loan portfolio increase remarkably. In 2017, the loan disbursement was USD 14,363,600 and up to USD 31,056,500 / KHR 2,413,750,000 at the end of 2018. Regarding loan outstanding in 2017, it was USD 13,481,217 and up to USD 28,939,762 / KHR 2,409,681,000 in 2018.

Company Activities

Company Party and Meals



Annual Trip



External Training and Seminars



Internal Training



Official workshop



KINGDOM OF CAMBODIA Nation Religion King

Letter of Thanks

To

TBB (Cambodia) Microfinance Institution Plc

The National Bank of Cambodia thank you very much to **TBB (Cambodia) Microfinance Institution Plc** for co-organized the promotional program on “**Financial Literacy in Cambodia**” which is held on Tuesday 23rd of April, 2019 at Aeon Mall Sen Sok city’s meeting hall.

I would like to wish to leaders and staff of **TBB (Cambodia) Microfinance Institution Plc** with good luck, good health and successful.

Phnom Penh, 23rd of April, 2019

Responded to The Governor’s advice

Director General of Banking Supervision of the NBC

H E Rath Sovannorak





Financial Report and Report of the Independent Auditor

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors hereby submit their report together with the audited financial statements of TBB (Cambodia) Microfinance Institution Plc. (“the Company”) for the year ended 31 December 2018.

Principal activities

The principal activity of the Company is to provide loans and other financial services to local customers through its head office and branch in Phnom Penh.

Financial results

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

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loss before income tax	(1,042,142)	(4,187,326)	(341,002)	(1,376,625)
Income tax expense	(19,848)	(79,749)	(11,294)	(45,594)
Net loss for the year	<u>(1,061,990)</u>	<u>(4,267,075)</u>	<u>(352,296)</u>	<u>(1,422,219)</u>

Dividends

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

Share capital

On 26 February 2018, the Company transferred from additional capital account of US\$ 10,000,000 for 10,000 ordinary shares to share capital upon the completion of the amendment of the Memorandum and Articles of Association. The revised share capital is as below:

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Registered, issued and fully paid: 20,000 ordinary shares of US\$1,000 each	<u>20,000,000</u>	<u>80,360,000</u>	<u>10,000,000</u>	<u>40,370,000</u>

Bad and doubtful loans

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

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

Assets

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

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

Valuation methods

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

Contingent and other liabilities

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

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

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

Change of circumstances

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

Items of unusual nature

The results of the operations of the Company for the financial period were not, in the opinion of the Board of Directors, materially 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 period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Board of Directors, to affect materially the results of the operations of the Company for the current financial period in which this report is made.

Events since the reporting date

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

The Board of Directors

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

- | | |
|-----------------------|---|
| • Mr. Chang-Yi Chen | Chairman |
| • Mr. Jung-Pin Huang | Director (appointed on 25 January 2019) |
| • Mr. Ho- Wen Yang | Director (retired on 25 January 2019) |
| • Mr. Chang- Yu Lin | Director |
| • Mr. Tien- Liang Hsu | Independent Director |

Board of Directors' interests

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

Board of Directors' benefits

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

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

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

The Board of Directors is responsible for ascertaining that the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended. In preparing these financial statements, the Board of Directors is required to:

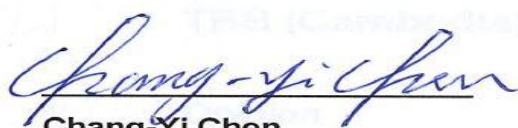
- (i) adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- (ii) comply with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia (“NBC”) relating to the preparation and presentation of financial statements or, if there have been any departures in the interest of true and fair presentation, ensure that these have been appropriately disclosed, explained and quantified in the financial statements;
- (iii) oversee the Company’s financial reporting process and maintain adequate accounting records and an effective system of internal controls;
- (iv) assess the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so;
- (v) control and direct effectively the Company in all material decisions affecting the operations and performance and ascertain that such have been properly reflected in the financial statements.

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

Approval of the financial statements

We hereby approve the accompanying financial statements as set out on pages 9 to 45 which present fairly, in all material respects, the financial position of TBB (Cambodia) Microfinance Institution Plc. as at 31 December 2018, and its financial performance and its cash flows for the year then ended, in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements.

On behalf of the Board of Directors


Chang-Yi Chen
Chairman

Phnom Penh, Kingdom of Cambodia

30 May 2019

Report of the Independent Auditors

To the shareholders of TBB (Cambodia) Microfinance Institution Plc

Opinion

We have audited the financial statements of TBB (Cambodia) Microfinance Institution Plc (“the Company”), which comprise the balance sheet as at 31 December 2018, the income statement, the statements of changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out on pages 9 to 45.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with Cambodian Accounting Standards and the guidelines of National Bank of Cambodia relating to the preparation and presentation of financial statements.

Basis for Opinion

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

Other information

Management is responsible for the other information. The other information obtained at the date of this auditors’ report is the Report of the Board of Directors as set out on pages 1 to 5, and the annual report, which is expected to be made available to us after that date.

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

For KPMG Cambodia Ltd


Taing YoukFong
Partner



Phnom Penh, Kingdom of Cambodia

30 May 2019

Balance sheet as at 31 December 2018

		2018		2017	
	Note	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
ASSETS					
Cash on hand		4,829	19,403	3,349	13,520
Deposits and placements with the NBC	5	1,006,071	4,042,393	1,003,789	4,052,296
Deposits and placements with banks	6	6,049,672	24,307,582	5,077,736	20,498,820
Loans to customers - net	7	27,914,733	112,161,397	12,955,997	52,303,360
Other assets	8	507,759	2,040,177	293,275	1,183,951
Property and equipment	9	179,012	719,270	223,543	902,443
Intangible assets	10	6,680	26,840	8,914	35,986
TOTAL ASSETS		35,668,756	143,317,062	19,566,603	78,990,376
LIABILITIES AND EQUITY					
Liabilities					
Other liabilities	11	212,374	853,319	48,879	197,324
Current income tax liability	19	2,268	9,113	1,620	6,540
Borrowings	12	17,000,000	68,306,000	-	-
Total liabilities		17,214,642	69,168,432	50,499	203,864
Equity					
Share capital	13	20,000,000	80,360,000	10,000,000	40,370,000
Additional capital		-	-	10,000,000	40,370,000
Accumulated losses		(1,545,886)	(6,211,370)	(483,896)	(1,953,488)
Total equity		18,454,114	74,148,630	19,516,104	78,786,512
TOTAL LIABILITIES AND EQUITY		35,668,756	143,317,062	19,566,603	78,990,376

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

		2018		2017	
	Note	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Interest income	14	1,706,338	6,856,066	996,870	4,024,364
Interest expense	15	(266,100)	(1,069,190)	-	-
Net interest income		<u>1,440,238</u>	<u>5,786,876</u>	<u>996,870</u>	<u>4,024,364</u>
Provision for impairment losses	7(i)	(1,106,229)	(4,444,828)	(453,174)	(1,829,463)
Regulatory provision for balance with other banks	6	(61,108)	(245,532)	-	-
Net interest income after provision		<u>272,901</u>	<u>1,096,516</u>	<u>543,696</u>	<u>2,194,901</u>
Other income		233,048	936,387	96,113	388,008
Personnel expenses	16	(1,000,720)	(4,020,893)	(572,253)	(2,310,185)
Depreciation and amortisation	17	(78,190)	(314,167)	(59,874)	(241,711)
General and administrative expenses	18	(469,181)	(1,885,169)	(348,684)	(1,407,638)
Loss before income tax		<u>(1,042,142)</u>	<u>(4,187,326)</u>	<u>(341,002)</u>	<u>(1,376,625)</u>
Income tax expense	19	(19,848)	(79,749)	(11,294)	(45,594)
Net loss for the year		<u><u>(1,061,990)</u></u>	<u><u>(4,267,075)</u></u>	<u><u>(352,296)</u></u>	<u><u>(1,422,219)</u></u>

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

	Share Capital US\$	Additional capital US\$	Accumulated losses US\$	Total US\$
At 1 January 2017	10,000,000	-	(131,600)	9,868,400
Capital contribution	-	10,000,000	-	10,000,000
Net loss for the year	-	-	(352,296)	(352,296)
At 31 December 2017	<u>10,000,000</u>	<u>10,000,000</u>	<u>(483,896)</u>	<u>19,516,104</u>
(KHR'000 equivalents – Note 4)	<u>40,370,000</u>	<u>40,370,000</u>	<u>(1,953,488)</u>	<u>78,786,512</u>
At 1 January 2018	10,000,000	10,000,000	(483,896)	19,516,104
Transfer capital	10,000,000	(10,000,000)	-	-
Net loss for the year	-	-	(1,061,990)	(1,061,990)
At 31 December 2018	<u>20,000,000</u>	<u>-</u>	<u>(1,545,886)</u>	<u>18,454,114</u>
(KHR'000 equivalents – Note 4)	<u>80,360,000</u>	<u>-</u>	<u>(6,211,370)</u>	<u>74,148,630</u>

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

		2018		2017	
	Note	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Net cash used in operating activities	20	(14,928,571)	(59,982,999)	(10,318,841)	(41,657,162)
Cash flows from investing activities					
Statutory deposits with the NBC		-	-	(500,000)	(2,018,500)
Purchase of property and equipment		(30,823)	(123,847)	(169,720)	(685,159)
Purchase of intangible assets		(3,800)	(15,268)	(9,280)	(37,463)
Net cash used in investing activities		(34,623)	(139,115)	(679,000)	(2,741,122)
Cash flows from financing activities					
Proceeds from borrowings		17,000,000	68,306,000	-	-
Proceeds from additional capital contribution		-	-	10,000,000	40,370,000
Net cash generated from financing activities		17,000,000	68,306,000	10,000,000	40,370,000
Net increase/(decrease) in cash and cash equivalents		2,036,806	8,183,887	(997,841)	(4,028,284)
Cash and cash equivalents at beginning of the year		1,084,874	4,379,636	2,082,715	8,407,920
Currency translation difference		-	(20,612)	-	-
Cash and cash equivalents at end of the year	21	3,121,680	12,542,910	1,084,874	4,379,636

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

1. Reporting entity

TBB (Cambodia) Microfinance Institution Plc. (“the Company”) is a public limited company incorporated in the Kingdom of Cambodia under the Registration No. Co. 1506 E/2015 dated 28 April 2015 issued by the Ministry of Commerce. On 13 December 2017, the Company obtained Re-Registration No. 00029793 from the Ministry of Commerce. The Company obtained its licence from the National Bank of Cambodia to operate as a micro finance institution on 12 June 2015.

The Company is a wholly owned subsidiary of Taiwan Business Bank Ltd., a public company listed in Taiwan Stock Exchange.

The principal activities of the Company are to provide loans and other financial services to local customers through its head office and branch in Phnom Penh.

As at 31 December 2018, the Company had 36 employees (31 December 2017: 31 employees).

2. Basis of preparation

(a) Statement of compliance

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

The financial statements of the Company were authorised for issue by the Board of Directors on 30 May 2019.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

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

2. Basis of preparation (continued)

(d) Use of estimates and judgments

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 on-going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Key accounting estimates and judgements applied in the preparation of the financial statements include estimates of recoverable amount for loans which have a separate accounting policy stated in Note 3(h).

(e) New financial reporting framework

On 28 August 2009, the National Accounting Council (“NAC”) of the Ministry of Economy and Finance announced the adoption of Cambodian International Financial Reporting Standards (“CIFRS”) which are based on all standards published by the International Financial Reporting Standards Board, 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 allowed banks and financial institutions to further delay adoption of CIFRS until period on or after 1 January 2019.

On 3 January 2019, NAC through Circular No.004 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.

As at the authorisation date of these financial statements, the Company is evaluating the potential impact of the implementation of these new and amendment accounting standards to its financial statements.

3. Significant accounting policies

The accounting policies set out below have been applied consistently in these financial statements.

(a) Foreign currency transactions

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

(b) Financial instruments

The Company's financial assets and liabilities include cash and cash equivalents, loans and receivables, deposits, other receivables and payables. The accounting policies for the recognition and measurement of these items are disclosed in the respective accounting policies.

(c) 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.

(d) Cash and cash equivalents

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

(e) Deposits and placements with the NBC

Deposits and placements with the NBC, including capital guarantee deposit, are carried at cost. 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.

3. Significant accounting policies (continued)

(f) Deposits and placements with banks

Deposits and placements with other banks are stated at cost less allowance for any uncollectable amounts.

(g) Loans to customers

Loans to customers are stated in the balance sheet at the amount of principal outstanding less any amounts written off and provision for specific and general allowances.

(h) Provision for bad and doubtful loans

In compliance with the NBC guidelines, a specific provision for bad and doubtful loans that are identified as non-performing is made as follows:

Prior to 1 January 2018

Classification	Number of days past due	Provision
Short term loans (less than one year):		
Normal/standard	<30 days	1%
Sub-standard	30 days or more	10%
Doubtful	60 days or more	30%
Loss	90 days or more	100%
Long term loans (more than one year):		
Normal/standard	<30 days	1%
Sub-standard	30 days or more	10%
Doubtful	180 days or more	30%
Loss	360 days or more	100%

3. Significant accounting policies (continued)

(h) Provision for bad and doubtful loans (continued)

From 1 January 2018

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 provision for bad and doubtful loans based on the new credit risk grading and provision as follows:

Classification	Number of days past due	Provision
Short-term loans (less than or equal one year):		
Normal/standard	≤14 days	1%
Special mention	15 days – 30 days	3%
Substandard	31 days – 60 days	20%
Doubtful	61 days – 90 days	50%
Loss	≥ 91 days	100%
Long-term loans (more than one year):		
Normal/standard	<30 days	1%
Special mention	≥ 30 days – 89 days	3%
Substandard	≥ 90 days – 179 days	20%
Doubtful	≥ 180 days – 359 days	50%
Loss	More than 359 days	100%

The change in the credit risk grading and provisioning is applied prospectively and the effect of this change resulted in an increase in provision for bad and doubtful loans for the period from 1 January 2018 to 31 December 2018 of US\$1,102,229.

The specific provision is calculated as a percentage of the loans outstanding at the time the loan is classified and is charged as an expense.

Loans are written off to the income statement when the loans are provisioned in full and remain unpaid after maturity date or when the proven certainty of being uncollectable loans is proven. Loans written off are taken out of the outstanding loan portfolio and deducted from the provision for bad and doubtful loans.

Recoveries on loans previously written off are disclosed as other operating income in the income statement. Reversal of previous provision is presented in provision expense in the income statement.

(i) Other credit related commitments

In the normal course of business, the Company enters into other credit related commitments including loan commitments. The accounting policy and regulatory provision followed the National Bank of Cambodia's Prakas No. B7-017-344 and Circular No. B7-018-001 Sor Ror Chor Nor in Note 3(h) above.

Provision for off balance sheet commitments are presented as a separate liability line item.

3. Significant accounting policies (continued)

(j) Interest in suspense

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

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

(k) Other assets

Other assets are carried at costs less impairment losses, if any. An estimate is made for doubtful receivables based on a review of outstanding amounts at the reporting date.

(l) Property and equipment

- (i) Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.
- (ii) Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation of property and equipment is charged to the income statement on a straight line method over their estimated useful life as follow:

Leasehold improvements	5 years
Office equipment	4 years
Information technology (IT) equipment	2 years
Furniture and fittings	4 years
Motor vehicles	4 years

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.

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

3. Significant accounting policies (continued)

(l) Property and equipment (continued)

- (v) Fully depreciated items of property and equipment are retained in the financial statements until disposed of or written off.

(m) Intangible assets

Intangible assets consist of computer software and are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Acquired computer software is capitalised on the basis of the cost incurred to acquire the specific software and bring it into use. Intangible assets are amortised on the straight-line method over 2 years.

(n) Impairment

(i) *Financial assets*

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

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

All impairment losses are recognized in the income statement.

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

(ii) *Non-financial assets*

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

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

3. Significant accounting policies (continued)

(n) Impairment (continued)

(ii) Non-financial assets (continued)

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

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

(o) Other liabilities

Other liabilities are stated at their cost.

(p) Borrowings

Borrowings are stated at the principal outstanding.

(q) Provisions

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

(r) Employee benefits

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

(ii) Other long-term employee benefits

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

3. Significant accounting policies (continued)

(s) Income and expense recognition

Interest income on loans, balances with the NBC and balances with banks are recognised on an accruals basis. Where a loan becomes non-performing, the recording of interest as income is suspended until it is realised on a cash basis. Interest on loans is calculated on daily accrual basis.

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

Expenses are recognised on an accrual basis.

(t) Operating leases

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

(u) Income tax

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

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

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

A deferred tax assets are recognised for unused tax losses and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

3. Significant accounting policies (continued)

(v) Related parties

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

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

4. Translation of US\$ into KHR

The financial statements are stated in United States Dollars ("US\$"). The translations of United States Dollars amounts into Khmer Riel ("KHR") are included solely for compliance with guidelines issued by the NBC regarding the preparation and presentation of financial statements and have been made using the prescribed official exchange rate of US\$1 to KHR4,018 (2017: KHR4,037) published by the NBC on 31 December 2018. 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 rates of exchange.

5. Deposits and placements with the NBC

		2018		2017	
		US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Capital guarantee deposit	(i)	1,000,000	4,018,000	1,000,000	4,037,000
Current account	(ii)	6,071	24,393	3,789	15,296
		<u>1,006,071</u>	<u>4,042,393</u>	<u>1,003,789</u>	<u>4,052,296</u>

- (i) The capital guarantee deposit is maintained with the NBC in compliance with Prakas No. B7-00-06 on the Licensing of Micro-Finance Institutions, the amounts of which are determined at 5% of the Company's registered share capital. The capital guarantee deposit is refundable when the Company voluntarily liquidates and has no deposit liabilities.

The capital guarantee deposit earns interest at the rate of 0.62% (2017: 0.11%) per annum.

- (ii) Current account earns no interest.

6. Deposits and placements with banks

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Fixed deposits	3,000,000	12,054,000	4,000,000	16,148,000
Savings accounts	2,005,360	8,057,536	448,135	1,809,121
Current accounts	1,105,420	4,441,578	629,601	2,541,699
	<u>6,110,780</u>	<u>24,553,114</u>	<u>5,077,736</u>	<u>20,498,820</u>
Regulatory provision for balances with other banks	(61,108)	(245,532)	-	-
	<u>6,049,672</u>	<u>24,307,582</u>	<u>5,077,736</u>	<u>20,498,820</u>

Deposits and placements with banks are analysed as follows:

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(a) By maturity:				
Within 1 month	3,110,780	12,499,114	1,077,736	4,350,820
4 to 12 months	3,000,000	12,054,000	4,000,000	16,148,000
	<u>6,110,780</u>	<u>24,553,114</u>	<u>5,077,736</u>	<u>20,498,820</u>
(b) By currency:				
US Dollars	6,103,644	24,524,442	5,077,736	20,498,820
Khmer Riel	7,136	28,672	-	-
	<u>6,110,780</u>	<u>24,553,114</u>	<u>5,077,736</u>	<u>20,498,820</u>

(c) By interest rate (per annum):

	2018	2017
Fixed deposits	5.00%- 5.50%	0.40% - 5.00%
Savings accounts	0.02%-2.75%	0.02% - 1.00%

7. Loans to customers - net

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Commercial loans	19,511,746	78,398,195	9,143,530	36,912,431
Mortgage loans	5,241,651	21,060,954	4,094,551	16,529,702
Personal loans	4,788,785	19,241,338	243,136	981,540
	<u>29,542,182</u>	<u>118,700,487</u>	<u>13,481,217</u>	<u>54,423,673</u>
Provision for bad and doubtful loans:				
General	(274,158)	(1,101,567)	(126,761)	(511,734)
Specific	(1,353,291)	(5,437,523)	(398,459)	(1,608,579)
	<u>(1,627,449)</u>	<u>(6,539,090)</u>	<u>(525,220)</u>	<u>(2,120,313)</u>
Loans to customers – net	<u>27,914,733</u>	<u>112,161,397</u>	<u>12,955,997</u>	<u>52,303,360</u>

(i) Movements of provision for bad and doubtful loans were as follow:

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At beginning of the year	525,220	2,120,313	72,046	290,850
Allowance for the year	1,102,229	4,428,756	453,174	1,829,463
Currency translation difference	-	(9,979)	-	-
At end of the year	<u>1,627,449</u>	<u>6,539,090</u>	<u>525,220</u>	<u>2,120,313</u>

7. Loans to customers – net (continued)

(ii) Provision for loan losses recognised in the income statement:

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Provision for bad and doubtful loans	1,102,229	4,428,756	453,174	1,829,463
Provision for off-balance sheet items (Note 11)	4,000	16,072	-	-
Provision for impairment losses	<u>1,106,229</u>	<u>4,444,828</u>	<u>453,174</u>	<u>1,829,463</u>

(iii) Gross loans to customers are analysed as follows:

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(a) By classification				
Short-term loans	9,790,656	39,338,856	2,744,000	11,077,528
Long-term loans	19,751,526	79,361,631	10,737,217	43,346,145
	<u>29,542,182</u>	<u>118,700,487</u>	<u>13,481,217</u>	<u>54,423,673</u>
(b) By maturity:				
Within 1 month	220,000	883,960	36,000	145,332
2 to 3 months	1,535,700	6,170,443	895,000	3,613,115
4 to 12 months	8,034,956	32,284,453	1,813,000	7,319,081
Over 12 months	19,751,526	79,361,631	10,737,217	43,346,145
	<u>29,542,182</u>	<u>118,700,487</u>	<u>13,481,217</u>	<u>54,423,673</u>
(c) By currency:				
US Dollars	28,939,762	116,279,964	13,481,217	54,423,673
KHR Riels	602,420	2,420,523	-	-
	<u>29,542,182</u>	<u>118,700,487</u>	<u>13,481,217</u>	<u>54,423,673</u>

7. Loans to customers – net (continued)

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(d) By residency status:				
Residents	29,542,182	118,700,487	13,481,217	54,423,673
(e) By relationship:				
External customers	29,542,182	118,700,487	13,481,217	54,423,673
(f) By performance				
Standard loans				
Secured	25,015,764	100,513,340	12,176,133	49,155,049
Unsecured	2,400,000	9,643,200	500,000	2,018,500
Special mention loans				
Secured	94,375	379,199	-	-
Sub-standard loans				
Secured	586,679	2,357,276	259,500	1,047,602
Doubtful loans				
Secured	424,480	1,705,560	247,250	998,148
Loss loans				
Secured	1,020,884	4,101,912	298,334	1,204,374
	29,542,182	118,700,487	13,481,217	54,423,673
(g) By economic sector:				
Services	14,613,582	58,717,372	2,267,005	9,151,899
Household and family	4,708,699	18,919,553	4,892,928	19,752,750
Financial Institutions	2,400,000	9,643,200	-	-
Trade and commerce	2,065,006	8,297,194	744,585	3,005,890
Construction	824,549	3,313,037	488,220	1,970,944
Agriculture	400,000	1,607,200	270,000	1,089,990
Transportation	391,141	1,571,605	48,439	195,548
Other categories	4,139,205	16,631,326	4,770,040	19,256,652
	29,542,182	118,700,487	13,481,217	54,423,673

7. Loans to customers – net (continued)

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
(h) By exposure:				
Non-large exposure	29,542,182	118,700,487	13,481,217	54,423,673

A “large exposure” is defined under NBC Prakas as the overall gross exposure of the aggregate balance of loans and advances with one single beneficiary, which exceeds 10% of the institution’s net worth. The gross exposure is the higher of the outstanding loans or commitments and the authorised loans or commitments. As at 31 December 2018, there is no large exposure to be disclosed in the financial statements.

(i) By interest rate (per annum):

	2018	2017
Commercial loans	6.05% - 10.92%	6.00% - 10.80%
Mortgage loans	6.96% - 10.80%	7.00% - 10.80%
Personal loans	6.96% - 11.40%	8.52% - 9.72%

With effective from 1 April 2017, the annual interest rate charge of all new loans and restructured loans are capped at 18% as required by the NBC Prakas B7-017-109.

8. Other assets

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Accrued interest receivables	206,486	829,661	199,154	803,985
Rental deposit	71,336	286,629	62,400	251,909
Cash deposit (Note 12(i))	180,301	724,449	-	-
Others	49,636	199,438	31,721	128,057
	507,759	2,040,177	293,275	1,183,951

9. Property and equipment

	Leasehold improvements	Office equipment	IT equipment	Furniture and fittings	Motor vehicles	Total	
2018	US\$	US\$	US\$	US\$	US\$	US\$	KHR'000
							(Note 4)
Cost							
At 1 January 2018	224,345	26,386	65,336	32,619	7,037	355,723	1,436,054
Additions	11,949	3,080	9,954	3,555	2,285	30,823	123,847
Written off	-	(389)	(6,325)	(8,293)	-	(15,007)	(60,298)
Currency translation difference	-	-	-	-	-	-	(6,759)
At 31 December 2018	236,294	29,077	68,965	27,881	9,322	371,539	1,492,844
Less: Accumulated depreciation							
At 1 January 2018	49,977	11,289	50,553	18,353	2,008	132,180	533,611
Charge for the year	45,686	6,707	10,766	7,048	1,949	72,156	289,923
Written off	-	(259)	(6,325)	(5,225)	-	(11,809)	(47,449)
Currency translation difference	-	-	-	-	-	-	(2,511)

At 31 December 2018	95,663	17,737	54,994	20,176	3,957	192,527	773,574
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Carrying amounts							
At 31 December 2018	140,631	11,340	13,971	7,705	5,365	179,012	719,270
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

9. Property and equipment (continued)

	Leasehold improvements	Office equipment	IT equipment	Furniture and fittings	Motor vehicles	Total	
2017	US\$	US\$	US\$	US\$ (Note 4)	US\$	US\$	KHR'000
Cost							
At 1 January 2017	87,545	18,587	47,546	28,843	3,482	186,003	750,895
Additions	136,800	7,799	17,790	3,776	3,555	169,720	685,159
At 31 December 2017	224,345	26,386	65,336	32,619	7,037	355,723	1,436,054
Less: Accumulated depreciation							
At 1 January 2017	25,748	6,212	34,873	10,785	841	78,459	316,739
Charge for the year	24,229	5,077	15,680	7,568	1,167	53,721	216,872
At 31 December 2017	49,977	11,289	50,553	18,353	2,008	132,180	533,611
Carrying amounts							
At 31 December 2017	174,368	15,097	14,783	14,266	5,029	223,543	902,443

10. Intangible assets

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Computer Software				
Cost				
At 1 January	20,815	84,030	11,535	46,567
Additions	3,800	15,268	9,280	37,463
Currency translation difference	-	(395)	-	-
At 31 December	24,615	98,903	20,815	84,030
Less: Accumulated amortisation				
At 1 January	11,901	48,044	5,748	23,205
Amortisation for the year	6,034	24,244	6,153	24,839
Currency translation difference	-	(225)	-	-
At 31 December	17,935	72,063	11,901	48,044
Carrying amounts				
At 31 December	6,680	26,840	8,914	35,986

11. Other liabilities

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Provision for off-balance sheet items	4,000	16,072	-	-
Accrued interest payables	42,312	170,010	-	-
Accrued expenses	37,247	149,659	12,445	50,240
Salary and withholding taxes payable	28,738	115,469	20,762	83,816
Accrued employee benefits- seniority indemnity	24,738	99,397	-	-
Salary payables	75,339	302,712	15,672	63,268
	212,374	853,319	48,879	197,324

12. Borrowings

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Taichung Commercial Bank (i)	15,000,000	60,270,000	-	-
First Commercial Bank, (ii) Yongchun Branch	1,000,000	4,018,000	-	-
Sunny Bank Ltd, OBU Branch (iii)	1,000,000	4,018,000	-	-
	<u>17,000,000</u>	<u>68,306,000</u>	<u>-</u>	<u>-</u>

- (i) The borrowings from Taichung Commercial Bank, a bank incorporated in Taiwan, are unsecured with a maximum credit limit of US\$15,000,000 and bear the interest rate at a 3 months LIBOR Rate, approximately ranging from 4.58% to 4.63% per annum during 2018. The borrowings were disbursed on 28 May 2018, 8 August 2018, 6 November 2018, 13 November 2018 and 19 November 2018 with the amount US\$ 6,000,000, US\$4,000,000, US\$2,000,000, US\$2,000,000 and US\$1,000,000 respectively. All of these borrowings will be matured on 28 May 2021. The Company is required to place a cash deposit of US\$180,301 which is equal to the repayment of the three month interest expenses.
- (ii) The borrowing from First Commercial Bank - Yongchun Branch, a bank incorporated in Taiwan, is unsecured, and bears interest rate of 4.7% per annum. The borrowing was disbursed on 4 December 2018 and will be matured on 4 December 2019.
- (iii) The borrowing from Sunny Bank Ltd - OBU Branch, a bank incorporated in Taiwan, is unsecured, and bears interest rate of 4.01% per annum. The borrowing was disbursed on 25 December 2018 and matured on 25 January 2019. This borrowing has subsequently rollover to be matured on 25 January 2020 with the same annual interest rate.

13. Share capital

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Registered, issued and fully paid:				
20,000 ordinary shares of				
US\$1,000 each	<u>20,000,000</u>	<u>80,360,000</u>	<u>10,000,000</u>	<u>40,370,000</u>

On 26 February 2018, the Company transferred from additional capital account of US\$ 10,000,000 for 10,000 ordinary shares to share capital upon the completion of the amendment of the Memorandum and Articles of Association. The Company is 100% owned by Taiwan Business Bank Ltd, which is also the Company's ultimate parent company.

14. Interest income

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loans to customers	1,617,920	6,500,803	802,392	3,239,257
Deposits with banks and NBC	88,418	355,263	194,478	785,107
	<u>1,706,338</u>	<u>6,856,066</u>	<u>996,870</u>	<u>4,024,364</u>

15. Interest expense

These represent interest expense charged on the borrowings as described in Notes 12.

16. Personnel expenses

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Salaries and bonuses	541,220	2,174,622	259,091	1,045,950
Seniority indemnity	27,298	109,683	-	-
Other benefits	432,202	1,736,588	313,162	1,264,235
	<u>1,000,720</u>	<u>4,020,893</u>	<u>572,253</u>	<u>2,310,185</u>

17. Depreciation and amortisation

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Depreciation (Note 9)	72,156	289,923	53,721	216,872
Amortisation (Note 10)	6,034	24,244	6,153	24,839
	<u>78,190</u>	<u>314,167</u>	<u>59,874</u>	<u>241,711</u>

18. General and administrative expenses

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Rental expenses	150,290	603,865	122,200	493,321
Professional fees	36,815	147,923	30,143	121,687
Stationery and utility expenses	22,632	90,935	15,694	63,357
Party and entertainment expenses	11,970	48,095	12,887	52,025
Marketing and advertising	13,338	53,592	6,628	26,757
Membership expenses	2,438	9,796	2,531	10,218
Travel expenses	2,240	9,000	1,749	7,061
Foreign exchange loss	680	2,732	348	1,405
Other tax expense	142,579	572,882	85,409	344,796
Others	86,199	346,349	71,095	287,011
	<u>469,181</u>	<u>1,885,169</u>	<u>348,684</u>	<u>1,407,638</u>

19. Income tax

(a) Applicable tax rates

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 annual turnover, whichever is higher.

According to Prakas 638 issued on 4 July 2017, an entity is eligible to be exempted from payment of minimum tax if it meets the criteria as stipulated in the Prakas.

(b) Current income tax liability

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
At beginning of the year	1,620	6,540	441	1,780
Minimum tax expense	19,848	79,749	11,294	45,594
Prepayment for profit tax	(19,200)	(77,146)	(10,115)	(40,834)
Currency translation differences	-	(30)	-	-
At end of the year	<u>2,268</u>	<u>9,113</u>	<u>1,620</u>	<u>6,540</u>

19. Income tax (continued)

(c) Income tax expense

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

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loss before income tax	(1,042,142)	(4,187,326)	(341,002)	(1,376,625)
Income tax using statutory tax rate at 20%	(208,428)	(837,464)	(68,200)	(275,325)
Non-deductible expenses	55,884	224,542	19,787	79,880
Tax losses not recognised as deferred tax assets	152,544	612,922	48,413	195,445
Minimum tax	19,848	79,749	11,294	45,594
	19,848	79,749	11,294	45,594

(d) Unrecognised deferred tax

Tax losses incurred in any tax year can be carried forward to offset against profit realised in the following five tax years subject to the following conditions:

- The loss must be recorded in the Tax on Income return and submitted to the General Department of Taxation on time;
- The business objective of the Company must not have changed;
- The ownership of the Company must not have changed; or
- The Company must not have received a unilateral tax re-assessment.

Deferred tax assets in respect of the tax losses, depreciation, allowance for loan losses are not recognised in the financial statements because it is not probable that future taxable profits will be available against which the Company can use the benefits therefrom.

20. Net cash used in operating activities

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Loss before income tax	(1,042,142)	(4,187,326)	(341,002)	(1,376,625)
<i>Adjustments for:</i>				
Provision for loan losses	1,106,229	4,444,828	453,174	1,829,463
Regulatory provision for balances with other banks	61,108	245,532	-	-
Depreciation and amortisation	78,190	314,167	59,874	241,711
Loss on disposals of property and equipment	3,198	12,849	-	-
Interest income	(1,706,338)	(6,856,066)	(996,870)	(4,024,364)
Interest expense	266,100	1,069,190	-	-
	<u>(1,233,655)</u>	<u>(4,956,826)</u>	<u>(824,824)</u>	<u>(3,329,815)</u>
<i>Changes in:</i>				
Deposit and placements with other banks	1,000,000	4,018,000	(4,000,000)	(16,148,000)
Loans to customers	(16,060,965)	(64,532,957)	(6,276,628)	(25,338,747)
Other assets	(207,152)	(832,337)	(66,113)	(266,898)
Other liabilities	117,183	470,841	29,536	119,236
	<u>(16,384,589)</u>	<u>(65,833,279)</u>	<u>(11,138,029)</u>	<u>(44,964,224)</u>
Cash used in operations	(16,384,589)	(65,833,279)	(11,138,029)	(44,964,224)
Interest received	1,699,006	6,826,606	829,303	3,347,896
Interest paid	(223,788)	(899,180)	-	-
Income tax paid	(19,200)	(77,146)	(10,115)	(40,834)
	<u>(14,928,571)</u>	<u>(59,982,999)</u>	<u>(10,318,841)</u>	<u>(41,657,162)</u>
Net cash used in operating activities	<u>(14,928,571)</u>	<u>(59,982,999)</u>	<u>(10,318,841)</u>	<u>(41,657,162)</u>

21. Cash and cash equivalents

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Cash on hand	4,829	19,403	3,349	13,520
Deposits and placements with the NBC (Note 5)	6,071	24,393	3,789	15,296
Deposits and placements with banks, with original maturity less than 3 months (Note 6)	3,110,780	12,499,114	1,077,736	4,350,820
	<u>3,121,680</u>	<u>12,542,910</u>	<u>1,084,874</u>	<u>4,379,636</u>

22. Related party transactions

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Taiwan Business Bank Ltd.				
Capital contribution	-	-	10,000,000	40,370,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Key management remuneration				
Salary and related expenses	790,332	3,175,553	339,955	1,372,398
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

23. Commitments and contingencies

(a) Operations

As at 31 December 2018, the Company's commitment in respect of lease agreement for office and motor vehicles are as follows:

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Within 1 year	289,866	1,164,683	141,000	569,217
From 1 to 5 years	347,182	1,394,977	444,000	1,792,428
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	637,048	2,559,660	585,000	2,361,645
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

(b) Lend commitments

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Unused portion of loans	400,000	1,607,200	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The Company has provided provision for this balance according to the NBC's Prakas No. B7-017-344 and Circular No. B7-018-001 dated 16 February 2018 on the implementation of Prakas on Credit Risk Grading and Impairment Provision. See Note 3 (i) and Note 11 to the financial statements.

23. Commitments and contingencies

(c) Tax contingencies

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

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

24. Financial risk management

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

(a) Credit risk

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

The lending activities are guided by the Company's credit policy to ensure that the overall objectives in the area of lending are achieved; i.e., that the loan portfolio is strong and healthy and credit risks are well diversified. The credit policy documents the lending policy, collateral policy and credit approval processes and procedures implemented to ensure compliance with the NBC Guidelines. Customer with more than one account is subject to stringent and careful review and assessment. The Company closely monitors concentration of credit risk by industries. Additional criteria for loan disbursement are also imposed for some specific risk areas.

(i) *Credit risk measurement*

The Company assesses the probability of default of individual counterparties by focusing on borrowers' forecast profit and cash flow. The credit committee is responsible for approving loans to customers.

24. Financial risk management (continued)

(a) Credit risk (continued)

(ii) Risk limit control and mitigation policies

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

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

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

(iii) Impairment and allowance policies

The Company is required to follow the mandatory credit classification and provision in accordance with the NBC's regulation. Refer to Note 3(h) for detail.

(iv) Exposure to credit risk

Maximum exposure to credit risk before collateral held or other credit enhancements.

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Credit exposure relating to on-balance sheet assets:				
Loans to customers (Note 7)	29,542,182	118,700,487	13,481,217	54,423,673
Deposits and placements				
with the NBC (Note 5)	6,071	24,393	3,789	15,296
Deposits and placements				
with banks (Note 6)	6,110,780	24,553,114	5,077,736	20,498,820
Other assets	436,423	1,753,547	230,875	932,042
	<u>36,095,456</u>	<u>145,031,541</u>	<u>18,793,617</u>	<u>75,869,831</u>

Credit exposure relating to off-balance sheet assets:

Unused portion of loans	400,000	1,607,200	-	-
	<u>36,495,456</u>	<u>146,638,741</u>	<u>18,793,617</u>	<u>75,869,831</u>
	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>

24. Financial risk management (continued)

(a) Credit risk (continued)

(iv) Exposure to credit risk (continued)

The above table represents a worst case scenario for credit risk exposure to the Company as at 31 December 2018, without taking into account any collateral held or other credit enhancement attached.

Loans to customers

	2018		2017	
	US\$	KHR'000 (Note 4)	US\$	KHR'000 (Note 4)
Neither past due nor impaired	27,415,764	110,156,540	12,676,133	51,173,549
Past due but not impaired	94,375	379,199	506,750	2,045,750
Individually impaired	2,032,043	8,164,748	298,334	1,204,374
	<u>29,542,182</u>	<u>118,700,487</u>	<u>13,481,217</u>	<u>54,423,673</u>

Neither past due nor impaired

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

Past due but not impaired loans to customers

Loans past due up to special mention are not considered impaired, unless other information is available to indicate the contrary.

Individually impaired

Individually impaired loans to customers are loans to customers for which the Company determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loans to customers.

In compliance with the NBC guidelines, an allowance for doubtful loans to customers is made for loans to customers with payment overdue more than 30 days for short-term loans and 89 days for long-term loans. A minimum level of specific allowance for impairment is made depending on the classification concerned, unless other information is available to substantiate the repayment capacity of the counterparty. Refer to separate accounting policy stated in Note 3(h).

24. Financial risk management (continued)

(a) Credit risk (continued)

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

Deposits and placements with National Bank of Cambodia and banks

The Company deposits short-term excess liquidity with NBC and other banks leading to counter party risk exposure. The Company manages counter party risk exposure by performing due diligence on individual counter parties, having counterparty limits.

(v) **Reposessed collateral**

During the year, the Company did not obtain any assets by taking possession of collateral held as security (2017: nil).

(b) Operational risk

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

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

(c) Market risk

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

(i) *Foreign currency exchange risk*

The Company's operates in Cambodia and transacts primarily in US\$. Monetary assets and liability are significantly dominated in US\$. The Company does not therefore have significant exposure to foreign currency risk.

24. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk

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

2018	Up to 1 month US\$	1 – 3 months US\$	3 – 12 months US\$	1 – 5 years US\$	Over 5 years US\$	Non-interest sensitive US\$	Total US\$
Financial assets							
Cash on hand	-	-	-	-	-	4,829	4,829
Deposits and placements with the NBC (*)	-	-	-	-	-	6,071	6,071
Deposits and placements with banks	2,005,360	-	3,000,000	-	-	1,105,420	6,110,780
Loans to customers	220,000	1,535,700	8,034,956	2,188,762	17,562,764	-	29,542,182
Other assets (**)	-	-	-	-	-	436,423	436,423
	<u>2,225,360</u>	<u>1,535,700</u>	<u>11,034,956</u>	<u>2,188,762</u>	<u>17,562,764</u>	<u>1,552,743</u>	<u>36,100,285</u>
Financial liabilities							
Other liabilities (**)	-	-	-	-	-	179,636	179,636
Borrowing	-	-	1,000,000	16,000,000	-	-	17,000,000
	<u>2,225,360</u>	<u>1,535,700</u>	<u>10,034,956</u>	<u>(13,811,238)</u>	<u>17,562,764</u>	<u>1,373,107</u>	<u>19,026,649</u>
Maturity gap	<u>2,225,360</u>	<u>1,535,700</u>	<u>10,034,956</u>	<u>(13,811,238)</u>	<u>17,562,764</u>	<u>1,373,107</u>	<u>19,026,649</u>
Maturity gap (KHR'000 – Note 4)	<u>8,941,496</u>	<u>6,170,443</u>	<u>39,894,545</u>	<u>(55,067,646)</u>	<u>70,567,186</u>	<u>5,517,144</u>	<u>76,449,076</u>

(*) Exclude statutory deposits. (**) exclude non-financial assets and liabilities.

24. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

2017	Up to 1 month US\$	1 – 3 months US\$	3 – 12 months US\$	1 – 5 years US\$	Over 5 years US\$	Non-interest sensitive US\$	Total US\$
Financial assets							
Cash on hand	-	-	-	-	-	3,349	3,349
Deposits and placements with the NBC (*)	-	-	-	-	-	1,374	1,374
Deposits and placements with banks	448,135	-	4,000,000	-	-	629,601	5,077,736
Loans to customers	36,000	895,000	1,813,000	274,309	10,462,908	-	13,481,217
Other assets (**)	-	-	-	-	-	199,154	199,154
	<u>484,135</u>	<u>895,000</u>	<u>5,813,000</u>	<u>274,309</u>	<u>10,462,908</u>	<u>833,478</u>	<u>18,762,830</u>
Financial liabilities							
Other liabilities (**)	-	-	-	-	-	28,117	28,117
Maturity gap	<u>484,135</u>	<u>895,000</u>	<u>5,813,000</u>	<u>274,309</u>	<u>10,462,908</u>	<u>805,361</u>	<u>18,734,713</u>
Maturity gap (KHR'000 – Note 4)	<u>1,954,453</u>	<u>3,613,115</u>	<u>23,467,081</u>	<u>1,107,385</u>	<u>42,238,760</u>	<u>3,251,242</u>	<u>75,632,036</u>

(*) Exclude statutory deposits. (**) exclude non-financial assets and liabilities.

24. Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

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

Since the majority of financial assets are short-term and the interest rates are subject to change with the market rates, the Company does not use derivative financial instruments to hedge such risk.

Fair value sensitivity analysis for fixed-rate instruments

The Company does not account for any fixed-rate financial assets or financial liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable-rate instruments

The Company does not have variable-rate instruments. Therefore, cash flow sensitivity analysis is not prepared.

(d) Liquidity risk

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

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

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

24. Financial risk management (continued)

(d) Liquidity risk (continued)

	Up to 1 months US\$	1 to 3 months US\$	3 to 12 months US\$	1 to 5 years US\$	Over 5 years US\$	No maturity US\$	Total US\$
31 December 2018							
Financial liabilities							
Other liabilities	85,129	23,631	70,876	-	-	-	179,636
Borrowings	-	-	1,000,000	16,000,000	-	-	17,000,000
Total financial liabilities	85,129	23,631	1,070,876	16,000,000	-	-	17,179,636
In KHR'000 equivalents (Note 4)	342,048	94,949	4,302,780	64,288,000	-	-	69,027,777
31 December 2017							
Financial liabilities							
Other liabilities/ Total Financial liabilities	28,117	-	-	-	-	-	28,117
In KHR'000 equivalents (Note 4)	113,508	-	-	-	-	-	113,508

24. Financial risk management (continued)

(e) Capital management

(i) *Regulatory capital*

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

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

The NBC requires all licensed deposit-taking micro-finance institutions to (i) fulfil the minimum capital requirements, and (ii) comply with solvency, liquidity and other requirements.

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

(ii) *Capital allocation*

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

25. Fair values of assets and liabilities

The Company has not disclosed the fair value information for the financial assets and financial liabilities because their carrying amounts are a reasonable approximation of the fair value.

Company Contact Information



Head Office

#2E-2F, Street 315, Sangkat Boeung Kok1, Khan Toul Kork, Phnom Penh

Tel: 023 88 71 71

Fax: 023 88 24 69

Email: tbbmfi@gmail.com

Website: www.tbbmfi.com

Khan Chamkar Mon Branch

#249-251, Sangkat Tuol Svay Prey Ti Mouy, Khan Chamkar Mon, Phnom Penh

Tel: 023 21 71 71

Fax: 023 22 12 37

Email: tbbmfi@gmail.com

Website: www.tbbmfi.com



Head Office

#2E-2F, Street 315, Sangkat Boeung Kok1, Khan Toul Kork, Phnom Penh

Tel: 023 88 71 71

Fax: 023 88 24 69

Email: tbbmfi@gmail.com

Website: www.tbbmfi.com

Khan Chamkar Mon Branch

#249-251, Sangkat Tuol Svay Prey Ti Mouy, Khan Chamkar Mon, Phnom Penh

Tel: 023 21 71 71

Fax: 023 22 12 37

Email: tbbmfi@gmail.com

Website: www.tbbmfi.com