INTEAN POALROATH RONGROEURNG LTD.
(Registration No.00017643)

REPORT OF THE BOARD OF DIRECTORS AND AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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INTEAN POALROATH RONGROEURNG LTD

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REPORT OF THE BOARD OF DIRECTORS

The Board of Directors presents its report together with the audited financial statements of Intean Poalroath Rongroeurng Ltd. (the "Company") for the year ended 31 December 2018.

PRINCIPAL ACTIVITY

The Company is principally engaged in the provision of micro-finance services. Those services comprise granting credit for poor and low income households and small enterprise operating in the Kingdom of Cambodia.

RESULTS AND DIVIDENDS

The financial performance of the Company for the year ended 31 December 2018 was set out in the income statement on page 9 of the financial statements.

No dividend was declared or paid during the year (2017: Nil).

RESERVES AND PROVISIONS

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

SHARE CAPITAL

During the year, there was no changes in the registered and paid-up capital of the Company.

BAD AND DOUBTFUL LOANS

Before the Company's financial statements was drawn up, the Board of Directors took reasonable steps to ascertain that appropriate action had been taken in relation to the writing off of bad loans or making allowance for bad and doubtful loans. The Board of Directors has satisfied itself that all known bad loans have been written off and that adequate allowance has been made for bad and doubtful loans.

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

ASSETS

Before the Company's financial statements was drawn up, 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 value as shown in the accounting records of the Company, had been written down to an amount which they might be expected to realise.

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

VALUATION METHODS

At the date of this report and based on the best of knowledge, the Board of Directors is not aware of any circumstances that have arisen which would render adherence to the existing method of valuation of assets and liabilities in the Company's financial statements misleading or inappropriate in any material respect.

CONTINGENT AND OTHER LIABILITIES

At the date of this report, there is:

i) no charge on the assets of the Company which has arisen since the end of the year which secures the liabilities of any other person; and
ii) no contingent liability in respect of the Company that has arisen since the end of the 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 after the end of the year which, in the opinion of the Board of Directors, will or may have a material effect on the ability of the Company to meet its obligations as and when they become 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 in any material respect.

ITEMS OF AN UNUSUAL NATURE

The Company's financial performance for the year ended 31 December 2018 was not, in the opinion of the Board of Directors, materially affected by any items, transactions or events of a material and unusual nature.

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

SIGNIFICANT EVENTS

No significant events occurred after the balance sheet date requiring disclosure or adjustment other than those disclosed in the accompanying notes to the financial statements if any.

THE BOARD OF DIRECTORS

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

- Oknha Phou Puy — Chairman
- Mr. Hsu Ming Yee — Independent director
- Mr. Mao Savin — Independent director
- Mrs. Pok Nivilay — Independent director

DIRECTORS' INTERESTS

The Directors who held office at the end of the year and their interests in the shares of the Company were as follows:

	31 December 2018		31 December 2017	
	Holding %	**Number of shares of US$119 each**	**Holding %**	**Number of shares of US$119 each**
Oknha Phou Puy	100%	25,955	100%	25,955

DIRECTORS' BENEFITS

During and at the end of the year, no arrangement existed to which the Company is a party with the objective of enabling Directors of the Company to acquire benefits by means of the share purchase option.

Since the end of the previous financial year, no Director of the Company has received or become entitled to receive any benefit by reason of a contract made by the Company other than as disclosed in the financial statements.

BOARD OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The Board of Directors is responsible to ascertain that the financial statements are properly drawn up, so as to 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 judgements and estimates and then apply them consistently;
ii) comply with the disclosure requirements of Cambodian Accounting Standards and relevant accounting regulations and guidelines issued by the National Bank of Cambodia ("NBC") or if there have been any departures in the interests of fair presentation, these have been appropriately disclosed, explained and quantified in the financial statements;
iii) maintain adequate accounting records and an effective system of internal controls;
iv) prepare the financial statements on a going concern basis unless it is inappropriate to assume that the Company will continue operations in the foreseeable future; and
v) effectively control and direct the Company and is involved 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 the Company has complied with the above requirements in preparing the financial statements.

STATEMENT OF THE BOARD OF DIRECTORS

The accompanying financial statements, which 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 relevant accounting regulations and guidelines issued by the National Bank of Cambodia, and at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Board of Directors,

Oknha Phou Puy
Chairman

Phnom Penh, Kingdom of Cambodia
Date: 30 APR 2019

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Intean Poalroath Rongroeurng Ltd.

Opinion

We have audited the financial statements of Intean Poalroath Rongroeurng Ltd. (the "Company"), which comprise the balance sheet as at 31 December 2018, and the income statement, the statement of changes in shareholder's equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 8 to 49.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Intean Poalroath Rongroeurng Ltd. 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 relevant accounting regulations and guidelines issued by the National Bank of Cambodia.

Basis for opinion

We conducted our audit in accordance with Cambodian International Standards on Auditing ("CIASs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We 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.

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the Report of the Board of Directors set out on pages 1 to 4.

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, 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 the Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Cambodian Accounting Standards and relevant accounting regulations and guidelines issued by the National Bank of Cambodia, 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.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 judgement 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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- 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 Deloitte (Cambodia) Co., Ltd.

Deloitte (Cambodia) Co., Ltd.
KINGDOM OF CAMBODIA

Ung Kimsopheaktra
Director

Phnom Penh, Kingdom of Cambodia
Date: 30 April 2019

BALANCE SHEET
AS AT 31 DECEMBER 2018

		31 December 2018		31 December 2017	
	Note	**US$**	**Riel'000**	**US$**	**Riel'000**
ASSETS					
Cash on hand	4	71,790	288,452	106,956	431,781
Balances with the NBC	5	157,028	630,939	156,193	630,551
Balances with other banks	6	925,385	3,718,197	1,064,544	4,297,564
Loans to customers	7	6,286,935	25,260,905	8,774,571	35,422,943
Other assets	8	190,416	765,091	253,569	1,023,658
Property and equipment	9	45,655	183,442	72,987	294,649
Intangible assets	10	404	1,623	2,091	8,441
Profit tax credit	21(a)	22,332	89,730	22,227	89,730
Deferred tax assets	21(b)	55,597	223,389	53,171	214,651
Total assets		7,755,542	31,161,768	10,506,309	42,413,968
LIABILITIES AND SHAREHOLDER'S EQUITY					
LIABILITIES					
Other liabilities	11	70,119	281,738	126,022	508,751
Current income tax liabilities	21(c)	5,856	23,529	46,668	188,397
Borrowings	12	583,335	2,343,840	3,188,755	12,873,004
Provision for severance pay	13	-	-	150,363	607,015
Total liabilities		659,310	2,649,107	3,511,808	14,177,167
SHAREHOLDER'S EQUITY					
Share capital	14	3,088,645	12,410,176	3,088,645	12,468,860
Retained earnings		4,007,587	16,102,485	3,905,856	15,767,941
Total shareholder's equity		7,096,232	28,512,661	6,994,501	28,236,801
Total liabilities and shareholder's equity		7,755,542	31,161,768	10,506,309	42,413,968

The accompanying notes on pages 12 to 49 form an integral part of these financial statements.

INTEAN POALROATH RONGROEURNG LTD.

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

		Year ended 31 December 2018		Year ended 31 December 2017	
	Note	**US$**	**Riel'000**	**US$**	**Riel'000**
Interest income	15	1,426,207	5,730,500	2,267,048	9,152,073
Interest expense	16	(171,617)	(689,557)	(564,748)	(2,279,888)
Net interest income		1,254,590	5,040,943	1,702,300	6,872,185
Other operating income	17	309,850	1,244,977	330,071	1,332,497
Operating income		1,564,440	6,285,920	2,032,371	8,204,682
Personnel expenses	18	(528,203)	(2,122,320)	(674,684)	(2,723,699)
Depreciation and amortisation		(35,640)	(143,202)	(52,116)	(210,392)
Other operating expenses	19	(376,642)	(1,513,348)	(560,143)	(2,261,297)
Allowance for credit facilities	20	(486,824)	(1,956,059)	(322,139)	(1,300,475)
Profit before income tax		137,131	550,991	423,289	1,708,819
Income tax expense	21(d)	(35,400)	(142,237)	(89,515)	(361,372)
Profit for the year		101,731	408,754	333,774	1,347,447

The accompanying notes on pages 12 to 49 form an integral part of these financial statements.

INTEAN POALROATH RONGROEURNG LTD.

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital US$	Retained earnings US$	Total US$
Balance as at 1 January 2017	3,088,645	3,572,082	6,660,727
Profit for the year	-	333,774	333,774
Balance as at 31 December 2017	3,088,645	3,905,856	6,994,501
In Riel'000 equivalent	12,468,860	15,767,941	28,236,801
Balance as at 1 January 2018	3,088,645	3,905,856	6,994,501
Profit for the year	-	101,731	101,731
Balance as at 31 December 2018	3,088,645	4,007,587	7,096,232
In Riel'000 equivalent	12,410,176	16,102,485	28,512,661

The accompanying notes on pages 12 to 49 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Year ended 31 December 2018 US$	Year ended 31 December 2018 Riel'000	Year ended 31 December 2017 US$	Year ended 31 December 2017 Riel'000
Cash flows from operating activities					
Profit before income tax		137,131	550,991	423,289	1,708,819
Adjustments for:					
Interest income	15	(1,426,207)	(5,730,500)	(2,267,048)	(9,152,073)
Interest expense	16	171,617	689,557	564,748	2,279,888
Depreciation and amortisation		35,640	143,202	52,116	210,392
Loss on assets written off		485	1,949	545	2,200
Exchange difference on borrowings		3,323	13,352	71,624	289,144
Allowance for credit facilities	20	486,824	1,956,059	322,139	1,300,475
Provision for severance pay	13	(5,781)	(23,228)	30,666	123,799
Changes in working capital					
Loans to customers		2,010,159	8,076,819	2,019,158	8,151,341
Other assets		(36,219)	(145,528)	(28,585)	(115,398)
Other liabilities		(3,503)	(14,075)	(73,715)	(297,587)
		1,373,469	5,518,598	1,114,937	4,501,000
Interest received		1,525,579	6,129,776	2,450,206	9,891,482
Interest paid		(224,017)	(900,100)	(627,009)	(2,531,235)
Income tax paid	21	(78,743)	(316,389)	(188,321)	(760,252)
Severance paid	13	(144,582)	(580,930)	(21,011)	(84,822)
Net cash generated from operating activities		2,451,706	9,850,955	2,728,802	11,016,173
Cash flows from investing activities					
Purchases of property and equipment	9	(7,106)	(28,552)	(44,117)	(178,100)
Net cash used in investing activities		(7,106)	(28,552)	(44,117)	(178,100)
Cash flows from financing activities					
Proceeds from borrowings		200,000	803,600	-	-
Repayments of borrowings		(2,808,743)	(11,285,531)	(3,180,019)	(12,837,737)
Net cash used in financing activities		(2,608,743)	(10,481,931)	(3,180,019)	(12,837,737)
Net decrease in cash and cash equivalents		(164,143)	(659,528)	(495,334)	(1,999,664)
Cash and cash equivalents at beginning of the year		1,160,761	4,685,992	1,656,095	6,685,656
Currency translation differences		-	(22,053)	-	-
Cash and cash equivalents at end of the year	22	996,618	4,004,411	1,160,761	4,685,992

The accompanying notes on pages 12 to 49 form an integral part of these financial statements.

1. BACKGROUND INFORMATION

Intean Poalroath Rongroeurng Ltd. ("IPR" or the "Company"), formerly known as a credit unit of the Federation of the Cambodian Rice Millers Association, is engaged in the provision of micro financing activities in Cambodia.

The Company was incorporated with the Ministry of Commerce on 19 July 2005. The Company obtained its licence from the National Bank of Cambodia (the "NBC") to operate as a microfinance institution on 18 August 2005. The Company obtained a permanent microfinance licence from the NBC on 24 June 2008.

The principal activity of the Company is to provide credit services to improve the living standard in terms of rural development through its head office in Phnom Penh and its branches in 4 provinces of Takeo, Pursat, Battambang and Banteay Meanchey.

The Company's registered office is located at No. 779A, St. Kampuchea Krom (128), Sangkat Teuk Laak I, Khan Toul Kork, Phnom Penh, Kingdom of Cambodia.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The financial statements of the Company, which are expressed in United States dollars ("US$"), are prepared under the historical cost convention and drawn up in accordance with Cambodian Accounting Standards ("CAS") and relevant accounting regulations and guidelines issued by the NBC.

The accounting principles applied may differ from generally accepted accounting principles adopted in other countries and jurisdictions. The accompanying financial statements are therefore not intended to present the financial position, financial performance and cash flows in accordance with jurisdictions other than the Kingdom of Cambodia. Consequently, these financial statements are only addressed to those who are informed about Cambodian accounting principles, procedures and practices.

The preparation of financial statements in accordance with CAS and relevant accounting regulations and guidelines issued by the NBC requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Financial reporting framework

On 28 August 2009, the National Accounting Council ("NAC") of the Ministry of Economy and Finance ("MoEF") announced the adoption of Cambodian International Financial Reporting Standards ("CIFRS") which are based on all standards published by International Accounting Standard Board including other interpretation and amendment. Public accountable entities shall prepare their financial statements in accordance with CIFRS for accounting periods beginning on or after 1 January 2012.

The NAC of the MoEF through Circular No. 086 MoEF.NAC dated 30 July 2012 approves banks and financial institutions to delay adoption of CIFRS until the periods beginning on or after 1 January 2016. On 24 March 2016, the NAC issued a Notification No. 058 MoEF.NAC to banks and financial institutions on the delay in adoption of CIFRS until the periods beginning on or after 1 January 2019, following the request of the NBC dated 16 November 2015.

On 3 January 2019, the NAC issued a Circular No. 004 MoEF.NAC to banks and financial institutions on the implementation of the accounting standards for banks and financial institutions, allowing an option to microfinance institutions to adopt either CIFRS or Cambodian International Financial Reporting Standards for Small and Medium-sized Entities ("CIFRS for SMEs") for periods beginning 1 January 2019. Management opts to adopt CIFRS for SMEs in the preparation of the financial statements for periods beginning 1 January 2019.

The current accounting standard used is different to the CIFRS for SMEs in many areas. Hence, the adoption of the CIFRS may have significant impact on the financial statements of the Company. Management is assessing the impact of the change of the accounting framework but not fully completed at the date of this report.

2.3 Basis of aggregation

The financial statements include the financial statements of the head office and its branches within the Kingdom of Cambodia. On aggregation, all significant inter-branch balances and transactions are eliminated in full.

2.4 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The management has determined the US$ to be the Company's functional currency owing to the significant influence of the US$ on its operations. The financial statements are presented in US$, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Transactions in currencies other than US$, the functional and presentation currency, are translated into US$ at the exchange rates prevailing at the dates of transactions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currency translation (continued)

(ii) Transactions and balances (continued)

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than US$, are recognised in the income statement.

(iii) Presentation in Khmer Riel

In compliance with the Law on Accounting and Auditing date 11 April 2016, a translation of the financial statements from US$ to Khmer Riel ("Riel") is required.

Translations of US$ into Riel are included in the financial statements solely for compliance with the Prakas No. B7-07-164 dated 13 December 2007 of the NBC relating to the preparation and presentation of financial statements and have been made using the prescribed official exchange rate of US$ 1 to Riel 4,018 (2017: US$ 1 to Riel 4,037) published by the NBC.

The financial statements expressed in Riel are unaudited and should not be construed as representation that the US$ amounts have been, could have been, or could in the future be, converted into Riel at this or any other exchange rate.

2.5 Cash and cash equivalents

Cash and cash equivalents includes cash on hand, unrestricted balances with the NBC, and balances with other banks, and other short-term highly liquid investments with original maturities of three months or less where the Company has full ability to withdraw for general purpose whenever needed and is subject to insignificant change in value.

2.6 Loans to customers

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

Loans are written off when there is no realistic prospect of recovery. Recoveries of loans previously written off, or provided for, decrease the amount of the allowance for loan losses in the income statement.

2.7 Allowance for credit facilities

The adequacy of the allowance for bad and doubtful loans is evaluated monthly by management.

Prior to 1 January 2018, the Company follows the mandatory credit classification and provisioning as required by Prakas B7-02-186 dated 13 September 2002 of the NBC. The Prakas requires microfinance institutions to classify their loan portfolio into the following four classes based on number of days past due of principal and/or interest repayment and the minimum mandatory level of specific provision is provided depending on loan classification, regardless of the assets (except cash) pledged as collateral, as follows:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Allowance for credit facilities (continued)

Classification	**Number of days past due**	**Allowance**
Short-term loans (less than one year):		
Standard	Less than 30 days	0%
Sub-standard	30 days to 59 days	10%
Doubtful	60 days to 89 days	30%
Loss	90 days or more	100%
Long-term loan (more than one year):		
Standard	Less than 30 days	0%
Sub-standard	30 days to 179 days	10%
Doubtful	180 days to 359 days	30%
Loss	360 days or more	100%

In addition to the specific provisions above, an additional general provision is made at the rate of 1% of outstanding standard loans which is based on the Company's experience and industry prospects. Management believes that this more reasonably reflects the allowance necessary to absorb risks relating to problems in the macroeconomic environment, natural disasters, and widespread deterioration in rural household income, which would render customers incapable of reimbursing their outstanding loans.

On 1 December 2017, The NBC issued a Prakas No. B7-017-344 on Credit Risk Grading and Impairment Provisioning, and clarified by a Circular No. B7-018-001 dated 16 February 2018, which requires banks and financial institutions to provide impairment provisioning for short-term and long-term facilities as follows:

Classification	**Number of past due days**		**Allowance**
	Short-term loans *(one year or less)*	**Long-term loans** *(more than one year)*	
Normal	14 days or less	29 days or less	1%
Special mention	15 days – 30 days	30 days – 89 days	3%
Substandard	31 days – 60 days	90 days – 179 days	20%
Doubtful	61 days – 90 days	180 days – 359 days	50%
Loss	91 days or more	360 days or more	100%

In addition, the Prakas also requires banks and financial institutions to provide allowance on other financial products, whether reported on balance sheet or off-balance sheet which give rise to credit risk exposure.

The minimum mandatory allowance for credit facilities is made depending on the classification concerned, unless other information is available to indicate worsening. Both past due and qualitative factors is taken into account for loan classification and provisioning.

Loans are written off when they are considered uncollectible. Recoveries of loans previously written off or provided for decrease the amount of the allowance for bad and doubtful loans in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Property and equipment

Items of property and equipment are recorded at cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by management.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

Depreciation of property and equipment is charged to the income statement based on the straight-line method. The estimated useful lives range as follows:

	Years
Leasehold improvements	4
Computers and office equipment	4
Furniture and fixtures	4
Motor vehicles	5

The assets' residual values and useful lives are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

2.9 Intangible assets

Intangible assets, which comprise acquired computer software licenses and related costs, are stated at cost less accumulated amortisation and impairment loss. Acquired computer software licenses are capitalised on the basis of the cost incurred to acquire the specific software and bring it to use. These costs are amortised at 25% per annum using straight-line method.

Costs associated with maintaining computer software are recognised as an expense when incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Impairment of non-financial assets

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identified cash flows (cash-generating units).

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

2.11 Current and deferred income tax

The current income tax, recognised in the income statement, is calculated on the basis of the tax laws enacted or substantively enacted by the reporting date in the Kingdom of Cambodia where the Company operates and generates taxable income.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, based on laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity.

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

2.12 Borrowings

Borrowings are recognised initially at cost and subsequently stated at the amount of the principal outstanding. Fees paid on the establishment of borrowing facilities are charged to income statement.

2.13 Provisions

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Provision for severance pay

The Company provides its employees with benefits under severance pay which is calculated on a pro-rata basis at the rate of one-month salary for every year worked.

Upon resignation or retirement, an employee who has worked for the Company for three years or more is entitled to a lump sum payment of the amount accrued for the individual employee.

The severance funds are maintained in current accounts under the name of the Company and the withdrawal can only be made upon resignation or retirement.

2.15 Interest income and expense recognition

Interest income earned on loans is recognised on an accrual basis taking into consideration the principal amount of loans outstanding. When a loan becomes non-performing (including sub-standard, doubtful and loss loans), the recording of interest as income is suspended until it is realised on a cash basis.

Interest expenses on borrowings are recognised on an accrual basis.

2.16 Other operating income

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

2.17 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.18 Rounding of amounts

Amounts in the financial statements have been rounded off to the nearest dollar and thousand Riel (“Riel’000”) for US$ and Riel amounts, respectively.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates, assumptions and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. 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) Key sources of estimation uncertainty

a) Allowance for credit facilities

The Company is required to follow the mandatory credit risk grading and impairment provisioning in accordance with Prakas No. B7-017-344 on Credit Risk Grading and Impairment Provisioning dated 1 December 2017 and Circular No. B7-018-001 on Implementation of Prakas on Credit on Credit Risk Grading and Impairment Provisioning dated 16 February 2018 issued by the NBC. The NBC requires banks and financial institutions to classify their short-term and long-term loans and similar assets into five classes and the minimum mandatory level of provisioning is provided, depending on the classification concerned and terms, regardless of the assets pledged as collateral. For the purpose of facilities classification, the Company takes into account all relevant factors which may affect the counterparties' repayment abilities.

In addition, the Prakas also requires banks and financial institutions to provide allowance on other financial products, whether reported on balance sheet or off-balance sheet which give rise to credit risk exposure. The actual amount could be significantly different from the amount provided in the events that have not been anticipated or when the doubtful amount could be recovered through realisation of the collaterals.

b) Income tax

The taxation system in Cambodia is characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory and subject to interpretation. Taxes are subject to review and investigation by a number of authorities, which are empowered by law to impose fines, penalties and interest charges.

These factors may create potential tax exposures for the Company. Directors believe that they have understood relevant tax regulations and adequately provided for tax liabilities based on their interpretation of the current tax legislation. However, where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(ii) Critical judgments in applying accounting policies

There are no critical judgements made by the Management in the process of applying the Company's accounting policies that have the most significant effect on the amount recognised in these financial statements apart from those involving estimates, which are dealt with above.

4. CASH ON HAND

	31 December 2018		31 December 2017	
	US$	**Riel'000**	**US$**	**Riel'000**
Head office (Phnom Penh)	6,198	24,904	29,908	120,739
Provincial branches				
Phnom Proek	18,515	74,393	10,642	42,962
Pursat	16,080	64,609	12,369	49,934
Banteay Meanchey	15,251	61,279	8,710	35,161
Battambang	7,795	31,320	37,707	152,223
Samlout	6,728	27,033	-	-
Takeo	1,223	4,914	7,620	30,762
	71,790	288,452	106,956	431,781

5. BALANCES WITH THE NBC

	31 December 2018		31 December 2017	
	US$	**Riel'000**	**US$**	**Riel'000**
Current account	2,596	10,431	1,761	7,109
Statutory capital deposit*	154,432	620,508	154,432	623,442
	157,028	630,939	156,193	630,551

* In compliance with Prakas B7-06-209 dated 13 September 2006 on the Licensed Microfinance Institutions, the Company is required to maintain a statutory capital deposit with the NBC of 5% of registered capital. This deposit is refundable should the Company voluntarily liquidate.

The statutory capital deposit in US$ earns interest from 0.46% to 0.62% per annum (2017: 0.32% to 0.36%). The interest payment is settled semi-annually.

6. BALANCES WITH OTHER BANKS

	31 December 2018		31 December 2017	
	US$	**Riel'000**	**US$**	**Riel'000**
Local banks:				
Current accounts	922,232	3,705,528	1,052,044	4,247,102
Term deposits	12,500	50,225	12,500	50,462
	934,732	3,755,753	1,064,544	4,297,564
Less:				
Allowance for balance with other banks	(9,347)	(37,556)	-	-
	925,385	3,718,197	1,064,544	4,297,564

6. BALANCES WITH OTHER BANKS (continued)

The movements in allowance for balance with other banks were as follows:

	31 December 2018		31 December 2017	
	US$	Riel'000	US$	Riel'000
At the beginning of year	-	-	-	-
Allowance during the year	9,347	37,556	-	-
Currency translation differences	-	-	-	-
At the end of year	9,347	37,556	-	-

Annual interest rates on the balances with other banks are summarised as follows:

	31 December 2018	31 December 2017
Current accounts	0% - 0.50%	0% - 0.50%
Term deposits	2.50%	2.50%

7. LOANS TO CUSTOMERS

	31 December 2018		31 December 2017	
	US$	Riel'000	US$	Riel'000
Individual loans	6,686,033	26,864,481	9,042,029	36,502,671
Allowance for bad and doubtful loans				
Specific	(338,530)	(1,360,214)	(181,495)	(732,695)
General	(60,568)	(243,362)	(85,963)	(347,033)
	(399,098)	(1,603,576)	(267,458)	(1,079,728)
Loans to customers - net	6,286,935	25,260,905	8,774,571	35,422,943

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

	31 December 2018		31 December 2017	
	US$	Riel'000	US$	Riel'000
At the beginning of year	267,458	1,079,728	186,353	752,307
Allowance during the year	477,477	1,918,503	322,139	1,300,475
Written off during the year	(340,871)	(1,369,619)	(239,963)	(968,731)
Currency translation differences	(4,966)	(25,036)	(1,071)	(4,323)
At the end of year	399,098	1,603,576	267,458	1,079,728

7. LOANS TO CUSTOMERS (continued)

Loans to customers are analysed as follows:

(a) By maturity:

	31 December 2018		31 December 2017	
	US$	Riel'000	US$	Riel'000
No later than 1 month	168,451	676,836	165,882	669,666
Later than 1 month and no later than 3 months	110,503	444,002	94,907	383,140
Later than 3 months and no later than 12 months	1,474,998	5,926,542	1,530,767	6,179,706
Later than 12 months	4,932,081	19,817,101	7,250,473	29,270,159
	6,686,033	26,864,481	9,042,029	36,502,671

(b) By currency:

	31 December 2018		31 December 2017	
	US$	Riel'000	US$	Riel'000
US Dollars	5,073,283	20,384,451	7,291,199	29,434,570
Thai Baht	947,386	3,806,597	1,076,315	4,345,084
Khmer Riel	665,364	2,673,433	674,515	2,723,017
	6,686,033	26,864,481	9,042,029	36,502,671

On 1 December 2016, the NBC issued a Prakas No. B7-016-334 on Provision of Credit in National Currency of Banking and Financial Institutions, required all institutions to have loans in national currency (Riel) at least 10% of the total loan portfolio. The Company is required to fully implement this requirement by 31 December 2019.

(c) By economic sector:

	31 December 2018		31 December 2017	
	US$	Riel'000	US$	Riel'000
Agriculture	4,388,186	17,631,731	6,669,854	26,926,201
Service	114,285	459,197	210,270	848,860
Others	2,183,562	8,773,553	2,161,905	8,727,610
	6,686,033	26,864,481	9,042,029	36,502,671

(d) By residents:

	31 December 2018		31 December 2017	
	US$	Riel'000	US$	Riel'000
Residents	6,686,033	26,864,481	9,042,029	36,502,671

7. LOANS TO CUSTOMERS (continued)

(e) By relationship:

	31 December 2018		31 December 2017	
	US$	Riel'000	US$	Riel'000
External customers	6,075,774	24,412,460	8,980,511	36,254,323
Related parties	604,386	2,428,423	10,094	40,749
Staff loans	5,873	23,598	51,424	207,599
	6,686,033	26,864,481	9,042,029	36,502,671

(f) By performance:

	31 December 2018		31 December 2017	
	US$	Riel'000	US$	Riel'000
*Unsecured loans**				
Standard loans	6,056,792	24,336,190	8,599,620	34,716,665
Special mentioned loans	51,173	205,614	-	-
Sub-standard loans	71,890	288,854	128,582	519,086
Doubtful loans	367,136	1,475,152	200,940	811,195
Loss loans	139,042	558,671	112,887	455,725
	6,686,033	26,864,481	9,042,029	36,502,671

* Unsecured loans represent the uncollateralised loans and loans secured by soft title deeds which are not issued by cadastral department.

(g) By location:

	31 December 2018		31 December 2017	
	US$	Riel'000	US$	Riel'000
Battambang	2,598,886	10,442,324	3,739,564	15,096,620
Pursat	1,121,503	4,506,199	1,496,283	6,040,494
Phnom Proek	823,039	3,306,971	1,747,902	7,056,280
Takeo	779,968	3,133,911	1,212,028	4,892,957
Banteay Meanchey	752,379	3,023,059	784,734	3,167,972
Head office (Phnom Penh)	610,258	2,452,017	61,518	248,348
	6,686,033	26,864,481	9,042,029	36,502,671

7. LOANS TO CUSTOMERS (continued)

(h) By interest rate (per annum)

(i) By relationship

	31 December 2018	31 December 2017
External customers	17.40%-33.60%	17.40% - 36.00%
Related parties	12.00%	12.00%
Staff loans	12.00%	12.00%

(ii) By currencies

	31 December 2018	31 December 2017
US Dollars	12% - 31.20%	12.00% - 33.60%
Thai Baht	17.40% - 33.60%	17.40% - 33.60%
Khmer Riel	18% - 33.60%	17.40% - 36.00%

Interest rates which are higher than statutory interest rate ceiling limits as of 31 December 2018 represent interest rates on loans disbursed prior to the effective date of the new regulation on 1 April 2017.

8. OTHER ASSETS

	31 December 2018		31 December 2017	
	US$	Riel'000	US$	Riel'000
Accrued interest receivable	90,896	365,220	190,268	768,112
Advances to key management	60,300	242,285	30,100	121,514
Prepayments	26,988	108,438	30,474	123,024
Other receivables	12,232	49,148	2,727	11,008
	190,416	765,091	253,569	1,023,658

9. PROPERTY AND EQUIPMENT

	Leasehold improvements US$	Computers and office equipment US$	Furniture and fixtures US$	Motor vehicles US$	Total US$
Cost					
At 1 January 2018	9,093	100,883	64,047	23,248	197,271
Additions	-	6,807	299	-	7,106
Write-off	-	(12,787)	(17,766)	(9,125)	(39,678)
At 31 December 2018	9,093	94,903	46,580	14,123	164,699
Accumulated depreciation					
At 1 January 2018	(5,536)	(64,198)	(43,596)	(10,954)	(124,284)
Depreciation charge	(2,165)	(17,277)	(10,926)	(3,585)	(33,953)
Written-off	-	12,619	9,125	17,449	39,193
At 31 December 2018	(7,701)	(68,856)	(45,397)	2,910	(119,044)
Net book value	1,392	26,047	1,183	17,033	45,655
In Riel'000 equivalent	5,593	104,657	4,753	68,439	183,442

9. PROPERTY AND EQUIPMENT (continued)

	Leasehold improvements US$	Computers and office equipment US$	Furniture and fixtures US$	Motor vehicles US$	Total US$
Cost					
At 1 January 2017	9,093	89,988	62,780	9,125	170,986
Additions	-	23,558	6,436	14,123	44,117
Write-off	-	(12,663)	(5,169)	-	(17,832)
At 31 December 2017	9,093	100,883	64,047	23,248	197,271
Accumulated depreciation					
At 1 January 2017	(3,400)	(58,419)	(35,569)	(6,540)	(103,928)
Depreciation charge	(2,136)	(18,575)	(12,518)	(4,414)	(37,643)
Written-off	-	12,796	4,491	-	17,287
At 31 December 2017	(5,536)	(64,198)	(43,596)	(10,954)	(124,284)
Net book value	3,557	36,685	20,451	12,294	72,987
In Riel'000 equivalent	14,360	148,097	82,561	49,631	294,649

10. INTANGIBLE ASSETS

	Computer software US$	Total US$
Cost		
At 1 January 2018	6,750	6,750
At 31 December 2018	6,750	6,750
Accumulated amortisation		
At 1 January 2018	(4,659)	(4,659)
Amortisation charge	(1,687)	(1,687)
At 31 December 2018	(6,346)	(6,346)
Net book value	404	404
In Riel'000 equivalent	1,623	1,623
Cost		
At 1 January 2017	94,422	94,422
Additions	(87,672)	(87,672)
At 31 December 2017	6,750	6,750
Accumulated amortisation		
At 1 January 2017	(77,858)	(77,858)
Amortisation charge	(14,473)	(14,473)
Written-off	87,672	87,672
At 31 December 2017	(4,659)	(4,659)
Net book value	2,091	2,091
In Riel'000 equivalent	8,441	8,441

11. OTHER LIABILITIES

	31 December 2018		31 December 2017	
	US$	Riel'000	US$	Riel'000
Deferred interest income	53,274	214,055	53,218	214,841
Accrued interest payable	2,157	8,667	54,557	220,247
Other tax payables	5,701	22,907	9,139	36,894
Other payables	8,987	36,109	9,108	36,767
	70,119	281,738	126,022	508,749

12. BORROWINGS

	31 December 2018		31 December 2017	
	US$	Riel'000	US$	Riel'000
Hivos-Triodos Fonds	-	-	850,000	3,431,450
Luxembourg Microfinance Development Fund	-	-	664,479	2,682,502
Triple Jump B.V	-	-	524,275	2,116,498
Mr. Hsu Ming-Yee (note 23b)	300,000	1,205,400	500,000	2,018,500
OikoCredit	200,000	803,600	400,000	1,614,800
Phillip Bank	83,335	334,840	250,001	1,009,254
	583,335	2,343,840	3,188,755	12,873,004

The above borrowings are analysed as follows:

(a) By maturity:

	31 December 2018		31 December 2017	
	US$	Riel'000	US$	Riel'000
No later than 1 year	83,335	334,840	2,014,479	8,132,452
Later than 1 year and no later than 5 years	500,000	2,009,000	1,174,276	4,740,552
	583,335	2,343,840	3,188,755	12,873,004

(b) By currency:

	31 December 2018		31 December 2017	
	US$	Riel'000	US$	Riel'000
US Dollars	583,335	2,343,840	2,500,001	10,092,504
Thai Baht	-	-	688,754	2,780,500
	583,335	2,343,840	3,188,755	12,873,004

12. BORROWINGS (continued)

(c) By interest rate (per annum):

	31 December 2018	31 December 2017
US Dollars	9.41% - 11.05%	9.30% - 11.05%
Thai Baht	-	13.37% - 13.95%

13. PROVISION FOR SEVERANCE PAY

	31 December 2018		31 December 2017	
	US$	Riel'000	US$	Riel'000
At the beginning of year	150,363	607,015	140,708	568,038
(Credited)/charged to income statement	(5,781)	(23,228)	30,666	123,799
Payments made during the year	(144,582)	(580,930)	(21,011)	(84,822)
Translation difference	-	(2,857)	-	-
At the end of year	-	-	150,363	607,015

The Minister of Labour 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. Since the Company has fully settled the severance pay to all the entitled employees as approved by the Board of Directors on 20 December 2018, the Board of Directors believes that the Company has no further obligation pertaining to the back pay of seniority prior to 2019.

14. SHARE CAPITAL

	31 December 2018		31 December 2017	
	US$	Riel'000	US$	Riel'000
Registered, issued and fully paid				
25,955 shares of US$119 each				
Oknha Phou Puy (100%)	3,088,645	12,410,176	3,088,645	12,468,860

15. INTEREST INCOME

	Year ended 31 December 2018		Year ended 31 December 2017	
	US$	Riel'000	US$	Riel'000
Interest income from:				
Loans to customers	1,424,581	5,723,966	2,250,751	9,086,282
Balances with other banks	1,626	6,534	16,297	65,791
	1,426,207	5,730,500	2,267,048	9,152,073

16. INTEREST EXPENSE

	Year ended 31 December 2018		Year ended 31 December 2017	
	US$	**Riel'000**	**US$**	**Riel'000**
Interest on borrowings	171,617	689,557	564,748	2,279,888

17. OTHER OPERATING INCOME

	Year ended 31 December 2018		Year ended 31 December 2017	
	US$	**Riel'000**	**US$**	**Riel'000**
Fees and commissions on loans	137,061	550,711	-	-
Recovery of loans written off	57,299	230,227	32,250	130,193
Other income	115,490	464,039	240,009	968,916
Foreign exchange gains	-	-	57,812	233,388
	309,850	1,244,977	330,071	1,332,497

18. PERSONNEL EXPENSES

	Year ended 31 December 2018		Year ended 31 December 2017	
	US$	**Riel'000**	**US$**	**Riel'000**
Salaries and wages	520,614	2,091,827	627,110	2,531,643
Severance pay	(5,781)	(23,228)	30,666	123,799
Training expenses	2,411	9,687	1,443	5,825
Other employee benefits	10,959	44,034	15,465	62,432
	528,203	2,122,320	674,684	2,723,699

19. OTHER OPERATING EXPENSES

	Year ended 31 December 2018		Year ended 31 December 2017	
	US$	Riel'000	US$	Riel'000
Rental expenses	92,533	371,798	101,095	408,121
Director fees	50,600	203,311	150,812	608,828
Professional fee	42,926	172,477	66,878	269,986
Fuel and vehicle operating expenses	40,497	162,717	52,376	211,442
Travel and transportation expenses	24,613	98,895	28,273	114,138
Printing and stationery expenses	12,223	49,112	26,001	104,966
Communication expenses	18,828	75,651	21,205	85,605
Utility expenses	16,610	66,739	18,164	73,328
Insurance expenses	11,009	44,234	5,361	21,642
Bank charges	7,472	30,022	10,825	43,701
Entertainment expenses	5,045	20,271	8,875	35,828
Foreign exchange losses	4,603	18,494	-	-
Low value assets	4,220	16,956	6,738	27,201
Subscription fees	3,315	13,320	4,000	16,148
Fees and commission on borrowing	2,351	9,446	-	-
Marketing and advertisement expenses	1,869	7,510	2,718	10,973
Penalties	1,835	7,373	15,999	64,588
Repairs and maintenance expenses	938	3,769	1,380	5,571
Loss on assets written-off	485	1,949	545	2,200
Other expenses	34,670	139,304	38,898	157,031
	376,642	1,513,348	560,143	2,261,297

20. ALLOWANCE FOR CREDIT FACILITIES

	Year ended 31 December 2018		Year ended 31 December 2017	
	US$	KHR'000	US$	KHR'000
Allowance for bad and doubtful loans (7)	477,477	1,918,503	322,139	1,300,475
Allowance for balances with other banks (6)	9,347	37,556	-	-
	486,824	1,956,059	322,139	1,300,475

21. TAXATION

(a) Profit tax credit

Profit tax credit represents the overpayment of income tax expense. The amount will be utilised against future tax payable upon approval from the General Department of Taxation. The management believes that they are able to recover it.

(b) Deferred tax assets, net

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 deferred taxes relate to the same fiscal authority. The offset amounts were as follows:

	31 December 2018		31 December 2017	
	US$	Riel'000	US$	Riel'000
Deferred tax assets	55,597	223,389	61,978	250,205
Deferred tax liabilities	-	-	(8,807)	(35,554)
	55,597	223,389	53,171	214,651

The movement in deferred tax assets was as follows:

	31 December 2018		31 December 2017	
	US$	Riel'000	US$	Riel'000
Balance at beginning of year	61,978	250,205	73,878	298,245
Charged to income statement	(6,381)	(25,638)	(11,900)	(48,040)
Translation difference	-	(1,178)	-	-
Balance at end of year	55,597	223,389	61,978	250,205

The movement in deferred tax liabilities was as follow:

	31 December 2018		31 December 2017	
	US$	Riel'000	US$	Riel'000
Balance at beginning of year	(8,807)	(35,554)	(918)	(3,706)
Credited/(charged) to income statement	8,807	35,387	(7,889)	(31,848)
Translation difference	-	167	-	-
Balance at end of year	-	-	(8,807)	(35,554)

21. TAXATION (continued)

(b) Deferred tax assets, net (continued)

The movement in net deferred tax assets is as follow:

	31 December 2018		31 December 2017	
	US$	Riel'000	US$	Riel'000
Balance at beginning of year	53,171	214,651	72,960	294,540
Credited/(charged) to income statement	2,426	9,748	(19,789)	(79,889)
Currency translation differences	-	(1,010)	-	-
Balance at end of year	55,597	223,389	53,171	214,651

Deferred tax assets/(liabilities) are attributable to the following:

	31 December 2018		31 December 2017	
	US$	Riel'000	US$	Riel'000
Severance pay	-	-	30,073	121,405
Deferred interest income	10,655	42,812	10,644	42,970
Allowance for credit facilities	31,851	127,977	19,764	79,787
Unrealised exchange loss/(gain)	9,727	39,083	(8,807)	(35,554)
Property and equipment and intangible assets	3,364	13,517	1,497	6,043
	55,597	223,389	53,171	214,651

(c) Current income tax liabilities

	31 December 2018		31 December 2017	
	US$	Riel'000	US$	Riel'000
Balance at beginning of year	46,668	188,399	165,263	667,167
Income tax expense (note 21 (d))	23,195	93,198	68,751	277,548
Income tax paid	(78,743)	(316,389)	(188,321)	(760,252)
Under provision in respect of prior year	14,736	59,208	-	-
Translation difference	-	(887)	-	-
Balance at end of year	5,856	23,529	45,693	184,463

21. TAXATION (continued)

(d) Income tax expense

	Year ended 31 December 2018		Year ended 31 December 2017	
	US$	Riel'000	US$	Riel'000
Current tax:				
Current tax on profit for the year	23,195	93,198	69,726	281,484
Additional profit credit tax during the year	(105)	(422)	-	-
Adjustment in respect of prior year	14,736	59,209	-	-
	37,826	151,985	69,726	281,484
Deferred tax:				
Deferred tax	(2,426)	(9,748)	19,789	79,888
	35,400	142,237	89,515	361,372

Reconciliation between income tax expense and accounting profit:

	Year ended 31 December 2018		Year ended 31 December 2017	
	US$	Riel'000	US$	Riel'000
Profit before income tax	137,131	550,991	423,289	1,708,819
Tax calculated at a rate of 20%	27,426	110,198	84,658	341,764
Expenses not deductible for tax purpose	2,384	9,579	6,409	25,873
Additional profit credit tax during the year	(105)	(422)	-	-
Recognition of previously unrecognised deductible temporary difference	(9,041)	(36,327)	(2,527)	(10,201)
Adjustment in respect of prior year	14,736	59,209	-	-
	35,400	142,237	88,540	357,436

22. CASH AND CASH EQUIVALENTS

	31 December 2018		31 December 2017	
	US$	Riel'000	US$	Riel'000
Cash on hand	71,790	288,452	106,956	431,781
Balances with NBC - current account	2,596	10,431	1,761	7,109
Balances with banks matured not later than 3 months	922,232	3,705,528	1,052,044	4,247,102
	996,618	4,004,411	1,160,761	4,685,992

23. RELATED PARTY TRANSACTIONS AND TRANSACTIONS

Significant transactions and balances with related parties are as follows:

(a) Transactions with related parties

	Year ended 31 December 2018		Year ended 31 December 2017	
	US$	**Riel'000**	**US$**	**Riel'000**
Borrowing received from key management	500,000	2,009,000	-	-
Repayment of borrowing from key management	700,000	2,812,600	-	-
Interest paid to key management during the year (note 23b)	48,113	193,318	49,328	199,137
Interest income from key management during the year	679	2,728	11,760	47,475

(b) Balances with related parties

	31 December 2018		31 December 2017	
	US$	**Riel'000**	**US$**	**Riel'000**
Borrowing from key management (*)	300,000	1,205,400	500,000	2,018,500
Loans to key management	604,386	2,428,423	10,094	40,749
Advances to key management	60,300	242,285	30,100	121,514

* This represents the borrowing from Mr. Hsu Ming-Yee who is the independent director of the Company. The loan amounting to US$300,000 was obtained on 01 September 2018 with interest rate of 9.41% per annum. The interest is repayable monthly and the principal is payable on maturities which are three years from the disbursement dates.

(c) Key management compensation

Key management refer to those who make critical decisions in relation to the strategic direction of the Company (including their close family members).

For the year ended 31 December 2018, the amount of US$50,600 (2017: US$150,812) was paid to Board of Directors as remuneration for their roles of the Company.

The total salary and other benefits paid to key management personnel during the year 2018 amounted to US$188,174 (2017: US$197,746).

24. COMMITMENTS AND CONTINGENCIES

Operating lease commitments

The Company leases various offices under cancellable operating lease agreements. The Company is required to give a three-month notice for the termination of these agreements. The lease expenses are charged as rental expenses in the income statement during the year.

25. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: credit risk, market risk (including currency risk, interest rate risk and price risk), and liquidity risk. Taking risks is the core of the financial business, and the operational risks are an inevitable consequence of being in business.

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

The financial assets and liabilities held by the Company were as follows:

	31 December 2018		31 December 2017	
	US$	**Riel'000**	**US$**	**Riel'000**
Financial assets				
Cash on hand	71,790	288,452	106,956	431,781
Balances with the NBC	157,028	630,939	156,193	630,551
Balances with other banks	925,385	3,718,197	1,064,544	4,297,564
Loans to customers	6,286,935	25,260,905	8,774,571	35,422,943
Other assets	90,896	365,220	190,268	768,112
Total financial assets	7,532,034	30,263,713	10,292,532	41,550,951
Financial liabilities				
Borrowings	583,335	2,343,840	3,188,755	12,873,004
Other liabilities	11,144	44,776	63,665	257,014
Total financial liabilities	594,479	2,388,616	3,252,420	13,130,018
Net financial assets	6,937,555	27,875,097	7,040,112	28,420,933

25. FINANCIAL RISK MANAGEMENT (continued)

25.1 Credit risk

The Company takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss to the Company by failing to discharge an obligation. Credit risk is the most important risk for the Company's business. Credit exposures arise principally in lending activities that lead to loans to customers. Credit risks are managed and studied by the credit assessment team before loans are disbursed 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's guidelines.

(a) Credit risk management

The Company is exposed to credit risk primarily with respect to loans and balances with banks. Such risks are monitored on a revolving basis and subject to annual follow-up visits. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Loans are also provided to those borrowers that are deemed profitable.

The Board of Directors approves accounts opening with banks that are financially sound.

(b) Risk limit control and mitigation policies

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 soft title deed collateral for loans to customers, which is common practice. The Company implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral type to secure for loans to customers is soft title deed collateral over residential properties (land, buildings and other properties).

(c) Impairment and provisioning policies

The Company is required to follow the mandatory classification and provisioning of facilities in accordance with the relevant Prakas and Circular, as stated in Note 2.7. Loans less than 31 days past due and 90 days past due for short-term loans and long-term loans, respectively are not considered impaired, unless other information available indicates otherwise.

25. FINANCIAL RISK MANAGEMENT (continued)

25.1 Credit risk (continued)

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

Management believes that the Company's maximum exposure to credit risk is limited to the carrying amount of the followings less allowance for bad and doubtful loans.

	31 December 2018		31 December 2017	
	US$	**Riel'000**	**US$**	**Riel'000**
Credit exposure relating to on-balance sheet assets:				
Balances with other banks - net	925,385	3,718,197	1,064,544	4,297,564
Loans to customers - net	6,286,935	25,260,905	8,774,571	35,422,943
Other assets	90,896	365,220	190,268	768,112
	7,303,216	29,344,322	10,029,383	40,488,619

The above table represents a worst case scenario of credit risk exposure to the Company at 31 December 2018 and 31 December 2017, without taking account of any collateral held or other credit enhancement attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts.

As shown above, 86% of total maximum exposure is derived from loans to customers (2017: 87%).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Company resulting from its loans to customers on the following basis:

- 90% of the loans to customers are considered to be neither past due nor impaired (2017: 92%); and
- The Company has introduced a strict selection and collection process for granting loans to customers.

25. FINANCIAL RISK MANAGEMENT (continued)

25.1 Credit risk (continued)

(e) Loans to customers

	31 December 2018		31 December 2017	
	US$	**Riel'000**	**US$**	**Riel'000**
Loans to customers neither past due nor impaired (i)	5,996,819	24,095,219	8,315,606	33,570,101
Loans to customers past due but not impaired (ii)	111,146	446,585	275,373	1,111,681
Loans to customers individually impaired (iii)	578,068	2,322,677	451,050	1,820,889
Gross amount	6,686,033	26,864,481	9,042,029	36,502,671
Less:				
Specific allowance	(338,530)	(1,360,214)	(181,495)	(732,695)
General allowance	(60,568)	(243,362)	(85,963)	(347,033)
Net loans to customers	6,286,935	25,260,905	8,774,571	35,422,943

For the purpose of loan provisioning, expected recovery from collaterals (except cash) is not taken into consideration. This is in accordance with the NBC's requirement. The total allowance for bad and doubtful loans is US$399,098 which represents allowance as required by Prakas B7-017-344 dated 1 December 2017.

It is not practical to obtain fair value of collateral due to costs of obtaining such information outweigh the potential benefits. The Company's policy is to fund up to 50% of the collateral value.

(i) Loans to customers neither past due nor impaired

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

(ii) Loans to customers past due but not impaired

Loans less than 31 days past due and 90 days past due for short-term loans and long-term loans, respectively are not considered impaired, unless other information is available to indicate the contrary.

25. FINANCIAL RISK MANAGEMENT (continued)

25.1 Credit risk (continued)

(e) Loans to customers (continued)

(iii) Loans to customers individually impaired

In accordance with Prakas No. B7-017-344 dated 1 December 2017 on the classification and provisioning for loan losses and Circular No. B7-018-001 dated 16 February 2018 on the Implementation of Prakas on Credit Risk Grading and Impairment Provisioning, loans and advances more than 30 days and 89 days past due for short-term loans and long-term loans respectively are considered impaired and a minimum level of specific provision for impairment is made depending on the classification concerned, unless other information is available to indicate the contrary.

(iv) Loans to customers renegotiated

Restructuring activities include extended payment arrangements, modification and deferral of payments. Following restructuring, the loan is still kept in its current classification unless there is strong evidence of improvement in the customer's financial condition.

In accordance with Prakas issued by NBC No. B7-017-344 on Credit Risk Grading and Impairment Provisioning in Article 81, once the loan is restructured it remains in the same category regardless of satisfactory performance after restructuring. The classification is not improved unless there are no arrears in repayment of principal and interest within six instalments periods and within a period of not less than six months.

There were no renegotiated loans to customers at 31 December 2018 (2017: nil).

(f) Repossessed collateral

The Company did not obtain any assets by taking possession of collateral held as security during the year ended 31 December 2018 (2017: nil).

25. FINANCIAL RISK MANAGEMENT (continued)

25.1 Credit risk (continued)

(g) Concentration of financial assets with credit risk exposure

(i) Geographical sector

All loans provided and all other assets are located in Cambodia only.

(ii) Industry sector

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

	Financial institutions US$	Agriculture US$	Services US$	Others US$	Total US$	Total Riel'000
As at 31 December 2018						
Balances with other banks(*)	934,732	-	-	-	934,732	3,755,753
Loans to customers (*)	-	4,388,186	114,285	2,183,562	6,686,033	26,864,481
Other assets	-	66,330	1,113	23,453	90,896	365,220
	934,732	4,454,516	115,398	2,207,015	7,711,661	30,985,454
As at 31 December 2017						
Balances with other banks	1,064,544	-	-	-	1,064,544	4,297,564
Loans to customers (*)	-	6,669,854	210,270	2,161,905	9,042,029	36,502,671
Other assets	-	156,111	1,780	32,377	190,268	768,112
	1,064,544	6,825,965	212,050	2,194,282	10,296,841	41,568,347

(*) Excluding allowance for credit facilities

25. FINANCIAL RISK MANAGEMENT (continued)

25.2 Market risk

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

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

(i) Foreign exchange risk

The Company operates in Cambodia and transacts in US$, Khmer Riel, and Thai Baht and is exposed to currency risks, primarily with respect to Khmer Riel and Thai Baht.

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

Management monitors its foreign exchange risk against functional currency. However, the Company does not hedge its foreign exchange risk exposure arising from future commercial transactions and recognised assets and liabilities by using forward contracts as they considered that the foreign exchange risk was not significant.

The table below summarises the Company's exposure to foreign currency exchange rate risk at 31 December 2018 and 31 December 2017. Included in the table are the Company's financial instruments at carrying amount by currency in US$ equivalent.

No sensitivity analysis is presented for foreign currency Riel and Baht as the impact is insignificant.

	(US$ equivalent)			Total
	US$	**THB**	**Riel**	**US$**
31 December 2018				
Financial assets				
Cash on hand	41,323	14,431	16,036	71,790
Balances with the NBC	157,028	-	-	157,028
Balances with other banks	386,122	244,392	294,871	925,385
Loans to customers	4,710,752	920,168	656,015	6,286,935
Other assets	62,269	20,302	8,325	90,896
Total financial assets	5,357,494	1,199,293	975,247	7,532,034
Financial liabilities				
Borrowings	583,335	-	-	583,335
Accruals and other liabilities	11,107	-	37	11,144
Total financial liabilities	594,442	-	37	594,479
Net financial asset position	4,763,052	1,199,293	975,210	6,937,555
In Riel'000 equivalent	19,137,943	4,818,759	3,918,395	27,875,097

25. FINANCIAL RISK MANAGEMENT (continued)

25.2 Market risk (continued)

(i) Foreign exchange risk (continued)

	(US$ equivalent)			Total
	US$	THB	Riel	US$
31 December 2017				
Financial assets				
Cash on hand	71,110	5,513	30,333	106,956
Balances with the NBC	156,193	-	-	156,193
Balances with other banks	810,562	81,160	172,822	1,064,544
Loans to customers	7,053,482	1,059,692	661,397	8,774,571
Other assets	140,613	36,744	12,911	190,268
Total financial assets	8,231,960	1,183,109	877,463	10,292,532
Financial liabilities				
Borrowings	2,500,001	688,754	-	3,188,755
Accruals and other liabilities	32,512	31,073	80	63,665
Total financial liabilities	2,532,513	719,827	80	3,252,420
Net financial asset position	5,699,447	463,282	877,383	7,040,112
Riel'000 equivalent	23,008,668	1,870,269	3,541,996	28,420,933

(ii) Price risk

The Company is not exposed to securities price risk because it does not hold any investments classified on the balance sheet either as available for sale or at fair value through profit or loss. The Company currently does not have a policy to manage its price risk.

(iii) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Interest margins may increase as a result of changes but may reduce losses in the event that unexpected movements arise. The management of the Company at this stage does not have a policy to set limits on the level of mismatch of interest rate reprising that may be undertaken; however, the management regularly monitors the mismatch.

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

No sensitivity analysis is presented for interest rate risk as the fluctuation of interest rates of loan to customers and borrowings are fixed as agreed in contracts.

25. FINANCIAL RISK MANAGEMENT (continued)

25.2 Market risk (continued)

(iii) Interest rate risk (continued)

The interest rate risk exposure of financial assets and financial liabilities are as follows:

	Less than 1 month US$	1 month to 3 months US$	3 months to 1 year US$	1 year to 5 years US$	Over 5 years US$	Non-interest bearing US$	Total US$
As at 31 December 2018							
Assets							
Cash on hand	-	-	-	-	-	71,790	71,790
Balances with the NBC	-	-	154,432	-	-	2,596	157,028
Balances with other banks (*)	319	-	12,500	-	-	921,913	934,732
Loans to customers (*)	168,451	110,503	1,474,998	4,932,081	-	-	6,686,033
Other assets	90,896	-	-	-	-	-	90,896
Total financial assets	259,666	110,503	1,641,930	4,932,081	-	996,299	7,940,479
Liabilities							
Borrowings	-	-	83,335	500,000	-	-	583,335
Other liabilities	2,157	-	-	-	-	8,987	11,144
Total financial liabilities	2,157	-	83,335	500,000	-	8,987	594,479
Total interest re-pricing gap	257,509	110,503	1,558,595	4,432,081	-	987,312	7,346,000
In Riel'000 equivalent	1,034,671	444,001	6,262,435	17,808,101	-	3,967,020	29,516,228

25. FINANCIAL RISK MANAGEMENT (continued)

25.2 Market risk (continued)

(iii) Interest rate risk (continued)

	Less than 1 month US$	1 month to 3 months US$	3 months to 1 year US$	1 year to 5 years US$	Over 5 years US$	Non-interest bearing US$	Total US$
As at 31 December 2017							
Assets							
Cash on hand	-	-	-	-	-	106,956	106,956
Balances with the NBC	-	-	154,432	-	-	1,761	156,193
Balances with other banks (*)	218	-	12,500	-	-	1,051,826	1,064,544
Loans to customers (*)	165,882	94,907	1,530,767	7,250,473	-	-	9,042,029
Other assets	190,268	-	-	-	-	-	190,268
Total financial assets	356,368	94,907	1,697,699	7,250,473	-	1,160,543	10,559,990
Liabilities							
Borrowings	425,000	589,479	1,000,000	1,174,276	-	-	3,188,755
Other liabilities	54,557	-	-	-	-	9,108	63,665
Total financial liabilities	479,557	589,479	1,000,000	1,174,276	-	9,108	3,252,420
Total interest re-pricing gap	(123,189)	(494,572)	697,699	6,076,197	-	1,151,435	7,307,570
In Riel'000 equivalent	(497,314)	(1,996,587)	2,816,611	24,529,607	-	4,648,343	29,500,660

(*) Excluding allowance for credit facilities

25. FINANCIAL RISK MANAGEMENT (continued)

25.3 Liquidity risk

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

(a) Liquidity risk management process

The management monitors balance sheet liquidity and manages the concentration and profile of debt maturities. Monitoring and reporting takes the form of the reviewing of the daily cash position and projections for the next week and month, as these are key periods for liquidity management. The management monitors the amount of cash collected and the projection of its disbursement.

(b) Funding approach

The Company's main sources of liquidity arise from the shareholder's paid-up capital and borrowings. The sources of liquidity are reviewed regularly through management's review of the maturity of borrowings.

(c) Non-derivative cash flows

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

25. FINANCIAL RISK MANAGEMENT (continued)

25.3 Liquidity risk (continued)

(c) Non-derivative cash flows (continued)

	Less than 1 month US$	1 to 3 months US$	3 to 12 months US$	1 to 5 years US$	Over 5 years US$	Total US$
As at 31 December 2018						
Financial liabilities						
Borrowings	7,082	14,813	362,841	300,000	-	684,736
Other liabilities	8,987	-	-	-	-	8,987
Total financial liabilities by remaining contractual maturities	16,069	14,813	362,841	300,000	-	693,723
In Riel'000 equivalent	64,565	59,519	1,457,895	1,205,400	-	2,787,379
As at 31 December 2017						
Financial liabilities						
Borrowings	431,382	636,269	1,484,908	912,275	-	3,464,834
Other liabilities	9,108	-	-	-	-	9,108
Total financial liabilities by remaining contractual maturities	440,490	636,269	1,484,908	912,275	-	3,473,942
In Riel'000 equivalent	1,778,258	2,568,618	5,994,574	3,682,854	-	14,024,304

The Company performs maturity analysis for financial liabilities that shows the remaining contractual maturities. However, the Company monitors the assets held to manage liquidity risk by performing weekly cash flows projection at all branches and monthly cash flows projection at head office. Where there is an anticipated shortage of cash flow, the management will consider below actions:

- Negotiate with lenders to renew the borrowing;
- Delay disbursing loans to customers temporarily;
- Seek for new borrowing; and/or
- Inject more capital from shareholder.

25. FINANCIAL RISK MANAGEMENT (continued)

25.4 Fair value of financial assets and liabilities

(a) Financial instruments measured at fair value

The Company did not have financial instruments measured at fair value.

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

(b) Financial instruments not measured at fair value

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

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

i. Balances with the NBC

Balances with the NBC include non-interest bearing current accounts and term deposits. The fair value of balances with NBC approximates the carrying amount.

ii. Balances with other banks

Balances with other banks include non-interest bearing current accounts, savings deposits and short-term deposits. The fair value of balances with banks approximates the carrying amount. The general allowance for balances with other banks is made under the requirements of the NBC's Prakas on credit facilities.

iii. Loans to customers

Loans to customers are net of allowance for bad and doubtful loans and their carrying value approximates fair value. The allowance for bad and doubtful loans is made under the requirements of the NBC's Prakas and the Company's loan provisioning policy.

iv. Borrowings

The fair value of fixed interest-bearing borrowings is not quoted in an active market. Their value approximates the carrying amount.

v. Other assets and liabilities

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

25. FINANCIAL RISK MANAGEMENT (continued)

25.5 Capital risk management

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

On 22 March 2016, the NBC issued a new Prakas No. B7-16-117, requiring microfinance institutions to have a minimum registered capital of at least Riel 6 billion (approximately US$1.5 million). The microfinance institutions are required to fulfil this requirement within two years from the date of this Prakas.

The NBC requires all banks and financial institutions to: i) adhere to the minimum capital requirement; ii) maintain net worth at least equal to the minimum capital amount; and iii) comply with solvency and liquidity ratios.

As at 31 December 2018, the Company has the registered capital amounting to US$3,088,645 (approximately equivalent to Riel 12 billion).

26. CURRENT AND NON-CURRENT

Management presents the financial statements based on liquidity. Information about short-term and long-term of financial assets and liabilities are disclosed in the financial risk management section. Property and equipment, intangible assets, profit tax credit and deferred tax assets are non-current assets. Current income tax liabilities and provision for severance pay are current liabilities.