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富南小額信貸公司 FUNAN Microfinance Plc.

ANNUAL REPORT

2019



FUNAN gives Loan and Hope

- ★ Fulfill the Needs
- ★ Flexible Terms and Payment Modes
- ★ Flexible Pricing
- ★ Credit Life Protection
- ★ Care and Convenience



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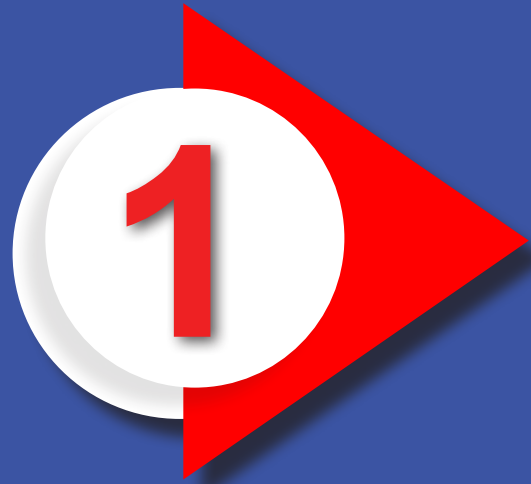
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CORPORATE PROFILE

- ▶ FUNAN History
- ▶ Vision, Mission and Core Values
- ▶ Corporate Governance
- ▶ Risk Management & Compliance
- ▶ Code of Conduct



FUNAN HISTORY



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As an NGO named
Cambodian Association
Development (CAD)

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Transformed to
Microfinance Institution

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100% of shares acquired by
Cambodia Post Bank Plc.

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FUNAN has grown
51 branches,
5 branchless areas,
637 employees,
USD58 Million of
loan outstanding



License as Non-Government Organization (NGO)

Established in July 2011 as an NGO named Cambodian Association Development (CAD) legally registered with Ministry of Interior to provide the quality micro-loan to the poor for developing their community. By the end of 2014, CAD had 49 branches, 821 staffs, more than 30,000 clients with loan outstanding around USD4 Million.



Transforming to Microfinance Institution

In August 11, 2015 Cambodian Association Development (CAD) received the microfinance license from National Bank of Cambodia (NBC) named Funan Microfinance Plc; and legally registered with other government authorities such as Ministry of Commerce in June 2015 and General Department of Taxation in July 2015. All assets and liabilities of the CAD had been transferred and received officially approval by the National Bank of Cambodia in August 11, 2015. In 2016, Funan Microfinance Plc had 49 branches, 733 employees, more than 30,311 clients and loan outstanding around USD 10 Million.

On 30th November 2016, Cambodia Post Bank Plc. entered into a sale and purchase agreement (SPA) with the Company's shareholders to acquire 100% shares of the Company.



The year of 2017/ Business Transformation

The change of shareholders was approved by the National Bank of Cambodia (NBC) on 4th April 2017 and approved by the Ministry of Commerce on 11 April 2017. In May 12, 2017, Funan organized an official shares transfer event attended from new and existing shareholders, authorities, staff and management, other national and international distinguished. Funan Microfinance Plc. has been transformed and defined new target market segment complement to the segment of its parents company, the Cambodia Post Bank Plc.

To reduce loan collection at field by Credit Officer while almost 100% of loans were conducted at field, In June 2017, FUNAN entered into agreement with WING, the biggest Payment Service Processor (PSP) in Cambodia, to enlarge loan repayment channels and started transforming clients to pay at officer counters and WING agents nearby them. Then, in December 2017, FUNAN joined another cooperation with Darapay (PSP) on loan repayment.

The year of 2018/ Growth and Franchises Development

In June 2018, we started to implement the loan disbursement through Darapay (PSP) in the branchless operational areas then rolled out to all coverage areas as the choice for customer. In 2018, FUNAN expanded two Branchless areas.

In July 2018, FUNAN signed business cooperation with Sovannaphum Life Assurance for Group Credit Life Protection.

And others business cooperation with Darapay, Cambodia Post Bank Plc., and the local shops as merchants for the loan referrals.

By this year, Funan was having 51 branches, 2 branchless areas (Business hubs), 646 employees, 19,856 clients, and the loan outstanding was increased to USD47 Million.



The year of 2019/ Business Sustainability

By 2019, FUNAN is having 51 branches, 5 branchless areas (Business hubs), 637 employees, and total loan portfolio is USD58 Million. For this year, FUNAN receives a break record in profitability.

VISION, MISSION, CORE VALUES

To be the best Microfinance Institution (MFI) that enables success and enriches lives of Cambodian people.

To provide innovative financial products and services, that are simple, convenient, and fast; and comply with regulations.



TRUST

A trusted partner in our stakeholder's success. Within Funan, we have the utmost confidence in our colleagues to play their part in achieving our common goals.

ENTREPRENEURSHIP

We encourage empowerment, initiative, and transparency among employees to continue to reinvent and improve our products, services, and operational processes.

ACCOUNTABILITY

Own our actions, make it happen with diligence and honesty.

MORALITY

We take our social responsibility seriously. We apply the highest moral and ethical standards to each and everything that we do – inside and outside the Company.



Funan Microfinance Plc creates a corporate governance to provide greater confidence to all stakeholders including partners, investors, suppliers, creditors, customers and compliance with the regulations stated in B7-08-211 Prakas of governance in Banks and Microfinance Institutions. In addition, good Corporate Governance ensures sustainable business operations, managing and addressing key business risks on time.

The established Corporate Governance Structure comprising the following parties, provides a comprehensive framework to (i) independent internal auditor who reports to the Chairman of the Audit Committee and not to the management (ii) independent external auditor who is appointed by the board and gotten approval from National Bank of Cambodia (NBC), the central bank, on this appointment; and this party submits direct report to the board (iii) Risk Management function is reporting directly to Risk Oversight Committee of Board level (iv) management committees which are responsible for various day to day running aspects of the Institution (v) various codes of conduct, whistle blower policies that are in place. (vi) Board / committees have oversight and approve important aspects such as yearly budget for expenses and manpower, audit plan, credit risk policies etc. with the execution of these policies and plans being the responsibility of the management.

The role of the Board is defined by taking into account prevailing international best practices while ensuring compliance with local legal and regulatory framework. The current corporate governance structure includes the Board of Directors (BOD) and under BOD we have professional board committees and executive committees.

BOARD COMMITTEES

Further the Company believes that an active, well-informed and Independent Board is necessary to ensure the highest standards of Corporate Governance. Funan's Board of Directors is appointed by National Bank of Cambodia consist of five members, two independents Board members. The Board is responsible for overall compliance with the corporate governance and oversees the performance of the company and ensures shareholders protection and maximization of their long term values. There is also

an active participation of Independent Directors in the Company.

In order to focus on the critical functions of the company, the Board may constituted such Committees as and when required to ensure smooth functioning of the Company.

The Board has constituted three Committees namely:

1. **Audit Committee**
2. **Risk Oversight Committee**
3. **Remuneration and Nomination Committee**

1. Audit Committee

This committee is constituted to ensure safe and sound corporate governance and it is vested with necessary powers as defined in its Charter to achieve its objectives. The powers and terms of reference of the Audit Committee are comprehensive and comply with the requirements as set out by Article 131 of the Law of Commercial Enterprise, as well as Article 8 of the National Bank of Cambodia's Prakas B7-08-211 on Governance in Bank and Financial Institutions. The Chairperson of this committee is a Non-Executive Independent Director who also answers all queries from shareholders at Annual General Meeting.

Members:

The AC consist of not less than 3 members.

The Chairman of the AC is a non-executive, independent Director of the Bank. All the members of the AC are independent of the management of the Company.

- **Mr. Giang Sovann** Chairman
- **Mr. Teo Meng Poh Philip** Member
- **Mr. Toch Chaochek** Member

Meeting:

The AC meets as frequently as required, but no less than 4 times a year.

2. Risk Oversight Committee (ROC)

This committee includes three members decided by the Board. It is chaired by a person with expertise in finance and banking risk management. The committee undertakes key duties as decided by the Board of Directors and documented in its Terms of Reference, and any such duties delegated to it. The committee is

also responsible for monitoring the implementation of risk management policies as defined by the Board. It also plays a key role in giving professional advice to the risk function of the Institution with best international practice.

Members:

The Board appoints the ROC Chairperson and the term of office is for three years from the date of appointment. The ROC can be composed of non-executive directors and experts who are not directors of the Company of whom are considered by the board to be independent of management and free from any business or other relationship which could interfere with the exercise of their independent judgment.

Members:

- **Mr. Teo Meng Poh Philip** Chairman
- **Mr. Giang Sovann** Member
- **Mr. Toch Chaochek** Member

Meeting:

Meetings are held as and when deemed appropriate, but at least four times a year. The Chairperson of the ROC may convene additional meetings if deemed necessary.

3. Remuneration and Nomination

Committee (RNC)

This committee is constituted by the Board to meet requirements of Governance to deliver best practice for the company. The Chairperson of this committee is an Independent Director. The committee is responsible for implementing a very good remuneration policy to be consistent with the long-term objectives and corporate values of the company. It also recommends some procedures to select and replace board members and independent individuals who will potentially become committee members. The committee approves the nomination of senior management.

The Committee is appointed by the Board and consists of not less than 3 members and a Secretary of the Committee. The Board shall have the power at any time to remove any members from the Committee and to fill any vacancies created by such removal.

Members:

- **Mr. Neo Poh Kiat** Chairman
- **Mr. Teo Meng Poh Philip** Member
- **Mr. Toch Chaochek** Member

Meeting:

Meetings shall be held as and when appropriate, but at least twice a year. The Chairperson of the Committee may convene additional meetings if deemed necessary.

MANAGEMENT COMMITTEES

Seven Management Committees will assist the Chief Executive Officer (CEO) in focusing on specific matters, monitoring and tracking an overall company's operation performance and also fulfil their roles and responsibilities delegated by the CEO, report to the CEO on decisions and actions taken, monitor the Company's performance, and make any necessary recommendations on general matters arise in daily business operations.

1. **Executive Committee (EXCO)**
2. **Assets and Liabilities Committee (ALCO)**
3. **Credit Committee (CC)**
4. **Procurement Committee (PROCO)**
5. **Human Resource Committee (HRC)**
6. **Operational Risk Management Committee (ORMC)**
7. **Customer Complaint Handling Committee (CCHC)**

1. Executive Committee (EXCO)

This committee includes seven members will be permanently invited to every EXCO meeting. This committee is chaired by Chief Executive Officer. The purpose of the Executive Committee is to support the Chief Executive Officer (CEO), in monitoring and tracking an overall company's operations performance and to report progress of day-to-day work activities from each business unit to CEO and as well as giving advice and approval on general matters arise in daily business operations.

Members:

The EXCO member shall comprise all one-level down from CEO (CEO's direct reports), including:

1. Chief Executive Officer (CEO)
2. Chief Business Officer (CBO)
3. Head of Risk Management(HRM)
4. Head of Internal Audit (HIA)
5. Head of Finance (HOF)
6. Head of IT (HIT)
7. Head of Human Resources & Admin (HHA)

Meeting:

Meetings shall be held as and when appropriate, but at least once a week. The Chairperson of the Committee may convene additional meetings if deemed necessary.

2. Assets and Liabilities Committee (ALCO)

The purpose of the Committee is to monitor all elements of Assets and Liability Management, and of major concern like liquidity, limits on maximum and minimum maturities for assets & liabilities and sensitivity of interest rates. The Company's interest is to ensure that all elements of assets and liability management are properly disclosed and managed transparently and accurately.

Members:

The ROC will appoint the ALCO Chairperson and the term of office is for three years from the date of appointment. The ALCO will comprise of the following

Members:

1. Chief Executive Officer (CEO) Chairman
2. Chief Business Officer (CBO) Member

3. Head of Finance (HoF) Member
4. Head of Risk Management (HRM) Member

Meeting:

Meeting shall be held as and when appropriate, but at least a time per month. The Chairperson of the ALCO may convene additional meetings if deemed necessary.

3. Credit Committee (CC)

The purpose of the Credit Committee is to approve credit guidelines allowed under the Program Governance Framework and credit limit granted for a customers or a group of related customers beyond the signing approving authority limit. In addition, CC is responsible for implementation and monitoring of the credit risk management frameworks and policies in concerning with the company business as whole and ensure the compliance with the Program Governance and Monitoring Framework.

Members:

The CC will comprise of the following members:

1. Head of Risk Management Chairperson
2. Chief Executive Officer (CEO) Member
3. Chief Business Officer (CBO) Member
4. Head of Finance (HOF) Member

Members:

Meeting should be held as and when appropriate, but at least one time per month. The Chairperson of the CC may convene additional meetings if deemed necessary.

4. Procurement Committee (PROCO)

The purpose of the PROCO Committee is to seek value for money in all procurement. Value for money is achieved in an open competitive environment in which suppliers can be confident that their proposals will be assessed on merit. It does not automatically mean "lowest prices"; it incorporates and considers fitness for purpose; fair market price; return on investment; whole-of-life costs; timely delivery; post-delivery support; environment sustainability; social

responsibility; evidence of previous performance of experience, effective warranty and conformity to law.

Members:

The PROCO Committee will comprise of the following members:

1. Head of Finance (HoF) Chairperson
2. Chief Executive Officer (CEO) Member
3. Chief Business Officer (CBO) Member
4. Head of Risk Management(HRM) Member
5. Head of Human Resources & Admin (HHA) Member

Meeting:

Meeting shall be held as and when appropriate, but at least a time per month. The Chairperson of the PROCO may convene additional meetings if deemed necessary.

5. Human Resource Committee (HRC)

The purpose of the HRC is to ensure that the decision making process of internal staff appointment / recruitment, promotion, transfer, and salary increment are transparent and fair and advice on staff disciplinary action.

Members:

The committee members should be careful to avoid conflicts of interest that would compromise their judgment, and should excuse themselves from any decision in which there may be conflicts of interest, whether actual, potential or apparent. The permanent members consist of:

1. Head of Human Resources & Admin Chairperson
2. Chief Business Officer (CBO) Member
3. Head of Finance (HOF) Member
4. Head of Risk Management (HRM) Member
5. Senior HR Officer Secretary

Meeting:

Meeting shall be held as and when appropriate. The Chairperson of the committee may convene additional meetings if deemed necessary.

6. Operational Risk Management Committee (ORMC)

The Operational Risk Management Committee (ORMC) is chaired by Head of Risk Management. The purposes of this committee is to Implement and maintaining a robust operational risk management for the Company. Regularly, monitoring and assessing Business or Function level operational risk profile and provide summary or associated mitigation actions to ORMC. Reviewing and improving Risk Control Self-Assessment (RCSA) programs to ensure an effective Operational Risk Management (ORM) framework.

Members:

The permanent committee members consist of:

1. Head of Risk Management (HRM) Chairperson
2. Chief Executive Officer (CEO) Member
3. Chief Business Officer (CBO) Member
4. Head of Finance (HOF) Member
5. Head of Human Resources & Admin (HHA) Member
6. Head of Internal Audit (HIA) Member
7. Head of Information & Technology (HIT) Member

7. Customer Compliance Handling Committee (CCHC)

The Customer compliance handling committee (CCHC) is created to implement and maintain an effective Complaint Handling Policy for the Company. To oversee, monitor, evaluate and recommend all aspects of customer perceptions, complaint and customer satisfaction as well as service provided to customers.

Members:

The permanent committee members consist of:

1. Head of Risk Management (HRM) Chairperson
2. Chief Executive Officer (CEO) Member
3. Chief Business Officer (CBO) Member
4. Head of Human Resource And Admin Member
5. Legal Officer and Compliance Secretary

In 2017, 100 percent of Funan's shares has been transferred to Cambodia Post Bank Plc. With the technical supports from Cambodia Post Bank Plc., Funan has been reformed the corporate governance in accordance with regulation; developed Risk Management Framework, created new policies. These have been monitored the implementations frequently by senior management team and Board of Directors to ensure the sustainable transformational process and development of company. After Risk Management Framework and policies have been placed in to implementation, especially in 2018, the senior management team was taking more efforts on internal control enforcement through implementing of Risk Control Self-Assessment (RCSA), building risk culture across the company, providing regular refreshment and training all staffs to ensure the well awareness and compliancy.

In 2018, we hosted the regulator on-site visit from National Bank of Cambodia to review FUNAN's daily operation, the prudential policies and other compliances; we received few recommendations for the enhancement.

The external audit report certifies our reliable financial report, compliancy with law and regulation and the acceptable level of risk management for FUNAN.

CREDIT RISK MANAGEMENT

To assure well-managed on credit risk in a satisfactory level and enhancing market target segment of Funan Microfinance Plc., the renewal credit program has been reviewed and approved by the Board of Directors annually. This credit program is developed to reflect to law & regulatory aspects, risk acceptant level, and introducing cap for portfolio diversification to manage credit exposure. Funan functions credit underwriter team to review and screening loan proposals to follow with risk acceptant criteria of credit policy. We

conducted regular trainings and timely take corrective action the misconduct of staff through the finding report by credit control team. Robust MIS for credit product and customer segments are regularly monitored to determine credit risk management strategies such as credit stress test, Measurement of concentration of risk by customer segment and Risk transition measurement by customer segment, etc. Loan portfolio prevention methods are also being developed to apply across institutions.

OPERATIONAL RISK MANAGEMENT

Funan Microfinance Plc. has been building a robust Operational Risk Framework including an Operational Risk Management policy, a loss data collection system, and key risk indicators (KRIs) to monitor risk exposures. In addition, the company has implemented risk and control self-assessment (RCSAs) activities to help constitute a risk culture in operational risk control across Funan. There are on-going RCSA workshops delivered to all functions and branches to enhance Operational Risk Management practices. Loan Origination System (LOS) is in developing process in other to operationalize more efficient and effective.

LIQUIDITY RISK MANAGEMENT

Funan fully monitors its liquidity position with monitoring metrics such as cash flow analysis, maximum cash outflows, and liquidity stress tests. These practices have been supporting the company in forecasting and reacting smoothly and effectively in normal and stressed scenarios and also help the company maintain a sound liquidity position.

COMPLIANCE

Funan Microfinance Plc. is committed to follow best practices and market standards in areas of accountability, transparency and business ethics in order to promote sustainability. Good governance and corporate social responsibility form an integral part

of market standards. At the core of these efforts are integrity issues and the reputation risk the company faces in its activities. The independent unit has been appointed and gotten approval from BoD and NBC respectively to monitor and implement the compliance program of the company.

The compliance program of the company has the following:

a). Legal compliance: Funan Microfinance Plc. has fully adhered to relevant laws and regulation. Funan Microfinance Plc. has created the compliance checklist to evaluate the performance of the company. Independent function of legal and compliance is the main facilitator and monitoring the implementation of the whole company in term of legal/ regulatory compliance.

b). Whistleblowing: The Company is committed to achieving and maintaining the highest standards of openness, probity and accountability. Either stakeholders or employees at all levels are expected to conduct themselves with integrity, impartiality and honesty. The implementation has been enforce within the whole company to encourage the company staff to report the significant matters which may include but are not confined to:

- Breach of legal or regulatory requirements;
- Malpractice, impropriety or fraud relating to internal miscarriage of justice; controls, accounting, auditing and Tinfancial matters;
- Potential conflict of interest situation;
- Endangerment of the health and safety of an individual;
- Damage caused to the environment;
- Violation of rules of conducts applicable within the Company;
- Improper conduct or unethical behavior;
- Deliberate concealment of any of the above likely to prejudice the standing of the company.

This Code of Conduct sets ethical standard for Funan Microfinance Plc. and our employees to embrace and promote aligned to Funan's core values. The principle contained in this Code of Conduct govern employee behavior to act professionally, transparency, integrity, conflict of interest, confidentiality of information, secret commission and bribery/thief, discrimination, money laundry. This Code also provides guideline to assist employees in understanding their obligation and creates the company culture while they are coming from the cross culture.



2

LEADERSHIP

- ▶ Organizational Structure
- ▶ Chairman's Message
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- ▶ Executive Management

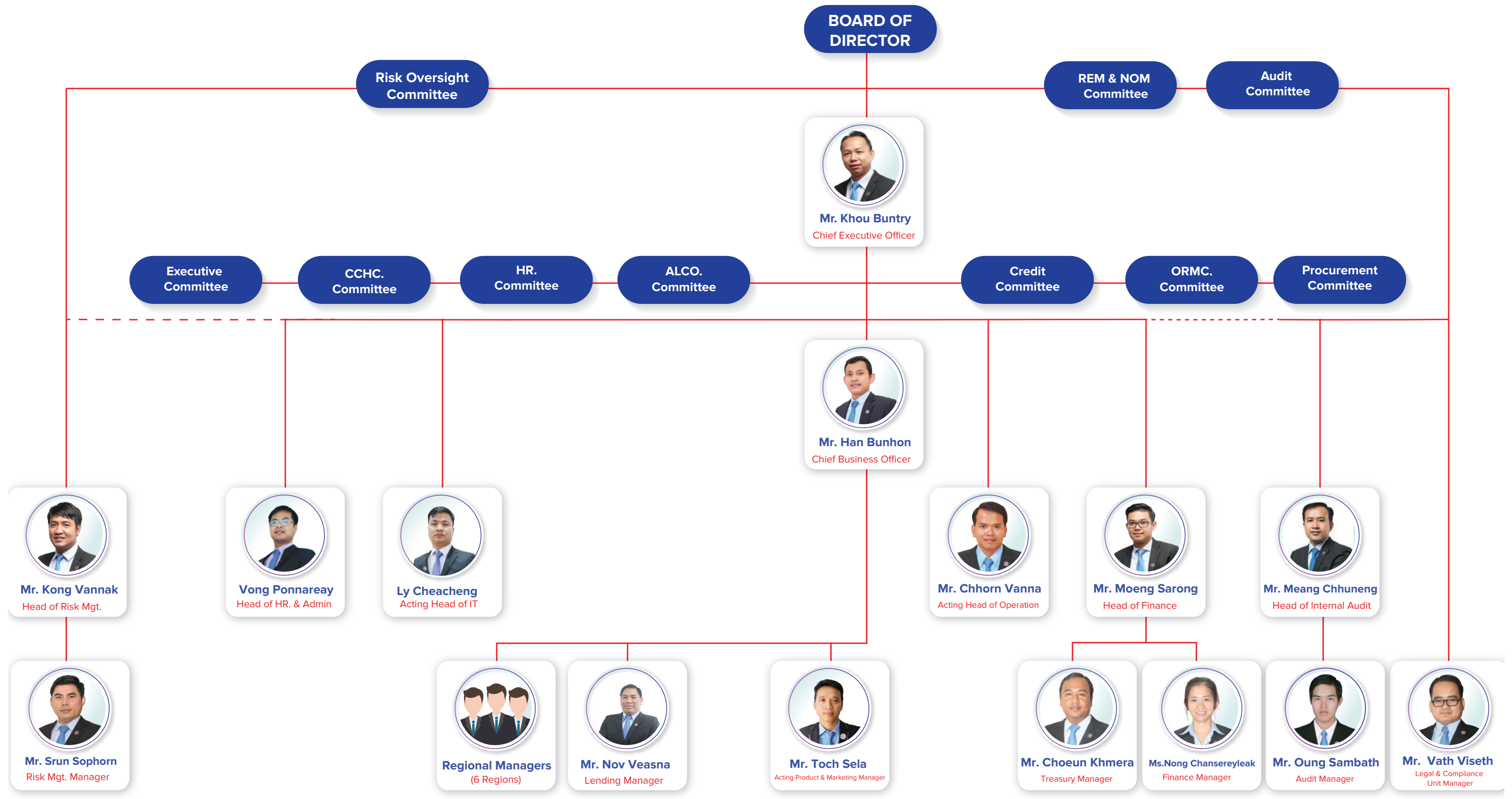
Consumption Loan

Business Loan

Agriculture Loan



ORGANIZATIONAL STRUCTURE



MESSAGE FROM CHAIRMAN

To reach the poor, promoting access to microfinance has been regarded as the significant mechanism in improving socio-economic environments in Cambodia's post war reconstruction and rehabilitation. The microfinance sector got its start in Cambodia in the early 1990s. Since then, the sector has grown very impressively. The expansion of the microfinance sector in Cambodia has made it possible for borrowers to shift from informal to formal sources of credit, especially among the poor and receiving the protections properly while all formal institutions are well-managed under the supervision of National Bank of Cambodia, adopting the Client Protection Principles (CPP).

As the subsidiary of the Cambodia Post Bank Plc, FUNAN Microfinance has played its role to complement to mass-market segment of low income and rural people contributing to reduce the poverty in Cambodia through its mission. With 51 branches and Other branchless operation areas and the business cooperation with local Payment Service Institution (PSI) FUNAN is reaching where is underserved especially rural area across the country. For the past three years after the acquisition, the asset size of FUNAN have been increasing of 69% (Y-o-Y) in line with the right demand of the segment and a proper screening to assure loans have been provided with positive impact.

The growth of sector supported by economic growth, approximately around 7% in the last decades in which per capita increasing from USD786 in 2010 to USD1,621 in 2019, more than hundred percent increment, resulting from the country peace and stability attracting lots of the tourists and investors. For instance in 2019, the Foreign Direct Investment (FDI) was increasing to USD3,592M, 45% growth comparing to the last 3 year. The growth of tourists was around 9% increase, 39% and 61% was Chinese and non-Chinese respectively. Increasing of investment in Cambodia is the key factor for reducing the unemployment rate and stabilize people income. Inflation of 1.9% in 2019 contributed to the economic stability.

Due to the new coronavirus disease (COVID-19) pandemic, the resulting economic slowdown in the major advanced economies and the People's Republic of China, and the country's reduced access to export markets, Cambodia's economic growth is expected to drop from 7.1% in 2019 to 2.3% in 2020. Many of garment and footwear factories file for the operational suspension since the beginning of 2020, effecting job suspension of thousand workers across the country. Even if the less infected cases found in Cambodia, but demand and supply shock are the key challenges in the globalization. The purchase orders from the EU and US have been cancelled; and the raw materials import is delayed that are the reasons of all factories asking for suspension. The sectors are defined with serious affect by the COVID-19 including— garment and footwear industry, tourism, construction and other services.

As a Microfinance, FUNAN is ready to support our clients recovering from the Crisis of new coronavirus disease pandemic affect through provide loan restructuring to ensure our clients be sustainable their businesses. With great support from the shareholders both in funding source and technical assistance, FUNAN still would be able to turn this challenges to opportunities gaining more trust from stakeholders including clients, regulators, lenders for the progress of FUNAN in the coming year.

We thank to the Government of Cambodia taking the right steps to respond to the crisis, including providing wage support for garment workers and tax and credit relief for businesses. The government has also created the fiscal space to minimize the economic impact of this crisis, especially on the most vulnerable people.

We thank to National Bank of Cambodia, the central bank, for placing into action of all banks and financial institutions under its supervision to settle all challenges responding to the crisis benefiting to all users. Dealing with this experience, we are optimistic on banking and

financial system in Cambodia be stronger and stronger.

For the performance record 2019, it was very appreciated with the financial aspects including, gross loan portfolio growth of 23% from USD46.9 Million in 2018 to USD58 Million in 2019. The year to date total asset is USD59.38 Million, 25% growth. The current year net profit after payable tax is USD2.96 Million.

Last but not least, I would like to thank our dedicated FUNAN team, clients, business partners, regulators, lenders and shareholders for their best effort, cooperating, trusting and support FUNAN Microfinance achieving a fruitful result in 2019.

Yours Sincerely,



NEAK OKNHA DR. PUNG KHEAV SE
Chairman of the Board of Director.



CHIEF EXECUTIVE OFFICER'S MESSAGE

The Bank and financial sector is healthy and have actively contributed to financial inclusion, supported economic growth, and reduced the poverty in Cambodia. In the last five years, Bank and Financial Institutions have been actively merged, acquired and new invested by commercial investors. For instance—in 2019, 33% of total foreign direct investment (FDI) inflow to Cambodia was in financial sector. The Credit growth has accelerated after slowing down over the past three years. In 2019, the credit growth rate was 24% as whole sector that was equivalent to Compound Annual Growth Rate (CAGR) of the last three years. The growth was driven by an increase in credit to construction and real-estate, consumption and trade due to the surge of the people income. The Non-performing loan in Banking and Microfinance sector was 2% and 1% respectively. It was slightly lower than 2018.

FUNAN Microfinance got a break record for its financial performances of the year 2019.

Comparing to last year performance, the profitability was 71% increase. FUNAN asset size reached to USD59 million with the CAGR of 69% for the last four years. The ROE and ROA was increased from 19.9% to 26.2% and 4.1% to 5.5% respectively, from 2018 to 2019. The Non-Performing Loan (NPL) was 1.16% comparable to the Microfinance market as whole.

To welcome 2020, the new pandemic originated in the Wuhan City of China was declared for the outbreak and named as the new coronavirus disease (COVID-19) by the World Health Organization (WHO). The COVID-19 pandemic is defining as global health crisis of our time and the greatest challenge, stressing every one of the countries. It has the potential to create devastating social, economic and political crises that will leave deep scars. Cambodia was also announced the first case in January 2020 and then found other cases, 122 cases in total (By May 2020). All cases have been confirmed by Ministry of Health (Cambodia) for the recovery. Almost of the sectors are correlatively

affected by this pandemic. The National Bank of Cambodia (NBC) required the Financial Institutions to take care of the affected customers and instructed on loan restructuring with priority sectors including hotels and guesthouses, restaurants, food and beverages, garment and textile, construction, transportation and other services. The main areas of businesses that have been adversely affected by COVID-19 such as—First, financial impact: the cash flow problem, inability to repay or renegotiate debt refinancing/ restructuring obligation. Second, decrease in consumption, the people have no willing to spend; except on the main basic needs. Third, the decrease of employee productivity due to the social distancing, working from home, team splitting, reducing business dealing etc. and Forth, the supply chain issue. These business affects would lead to freeze the business operation, suspension or bankruptcy.

To response this crisis, FUNAN have been placing the Business Contingency Plan (BCP) in to implementation to ensure business operation still be usual and support to its clients without any disruption and ensuring the staff well-being. Staff and clients are introducing to conduct temperature scan, hand sanitizing before access to FUNAN offices. 14days quarantine have been introduced to high-risk employee who joined big gathering of any religious or social events through the working from home. FUNAN have been implementing strictly to the authority instructions on the COVID-19 fighting campaign. Through our social media, hygiene or basic methods of self-protection from COVID-19 have been posting and sharing by our staff and FUNAN fans. While FUNAN's segment is targeting to low-income people for both self-employed person and salaried person, freezing their income as mentioned above affects would be challenging our clients to follow their loan obligation. To ensure the sustainable of our clients who were affected by the crisis—our Boards have approved procedures to support affected clients through loan restructuring. Now, some clients obtained approval and new obligations have been releasing.

For the year of 2020, FUNAN projected to accelerate its growth rate, around 11%. In this meant time, we are focusing on staff capacity building, internal control management, developing the Loan Origination System (LOS), pursuing Bancassurance license and other franchises development for the readiness of business resilience after the crisis.

To the end, we are grateful to thank and wish our customers, shareholders, regulators, staff and their family with happiness, prosperity and successfulness.

Stay safe and healthy.

Yours Sincerely,



Chief Executive Officer





Neak Oknha Dr. Pung Kheav Se
Chairman of the Board of Director

Serves as Chairman of Canadia Bank and the Overseas Cambodian Investment Corporation, and is actively involved in the investment and development activities of both companies. A distinguished entrepreneur and respected business leader in Cambodia and Canada, Mr. Pung has served as Chairman, President, CEO and Board Member of several companies, including Oriental Ship Supplies, Oriental Commercial Inc, and has led Canadia Bank's growth since 1991. He used to be a Chairman of the Association of Banks in Cambodia and also serves as President of Cambodia Constructors Association, working closely with industry leaders to guide the development of the banking and construction sectors in Cambodia.

Among the honors and awards Mr. Pung holds a Mahasereyvattanac Award presented by His Majesty, Norodom Sihanouk, King-Father of Cambodia in 2002; and "The Highest National Contribution" medal awarded by Prime Minister Hun Sen, presented by His Majesty, Norodom Sihamoni King of Cambodia in 2012, for the significant contributions he has made and continues to make toward the development of Cambodia.



Mr. Teo Meng Poh Philip
Vice Chairman of the Board of Director

Philip has more than 27 years of banking and financial services experience of which more than 18 years were with both Singapore and International banks. Area of experience spans across corporate and institutional lending, audit and credit risk review as well as risk management (credit & operational risks).

Philip has extensive experience in the international and regional markets having spent 7 years in China and Thailand responsible for corporate lending businesses and more than 15 years covering international and regional markets in the area of audit and credit risk review as well as risk management.



Mr. Neo Poh Kiat
Independent Director

Poh Kiat is currently Managing Director for Advisory Services of Octagon Advisors. Poh Kiat was actively involved in several of our clients' major M & A transactions in the region. Based in Beijing and as Managing Director of Octagon Advisors Shanghai Limited, Poh Kiat has oversight responsibility for the company's consultancy projects in China.

Prior to joining Octagon Advisors, Poh Kiat was the Senior Vice President and the China Country Officer for Singapore's United Overseas Bank, the country's leading banking group. Based in Hong Kong, Poh Kiat was responsible for UOB's corporate banking relationships in the Greater China region.

Before joining UOB, Poh Kiat held various appointments in Singapore's DBS Bank, with his last held appointment being that of Managing Director and General Manager of DBS Bank's Hong Kong branch. Concurrently, Poh Kiat was also an Executive Director and a member

of the Executive Committee of DBS Kwong On Bank, the Supervisory Director of DBS Asia Capital Limited which is the investment banking subsidiary of DBS Bank in Hong Kong. He was instrumental in the setting up of DBS Securities Hong Kong and had served as its Executive Director in the early 90's. Poh Kiat holds a Bachelor of Commerce (Honors) degree from the former Nanyang University, Singapore.



Mr. Giang Sovann
Independent Director

Giang Sovann is the Founder and CEO of Corporate Governance Academy and a Member of the Complaints & Disciplinary Panel, the Public Accountants Oversight Committee, Accounting & Corporate Regulatory Authority (ACRA), and Singapore. He is also a Director of a company listed on the Singapore Exchange.

Mr. Giang was the Executive Director of the Singapore Institute of Directors where he also sat on the Organizing Committee of the Singapore Corporate Awards and co-managed the Best Managed Board Award for Singapore listed companies. He is an instructor on the subjects of Director's Duties & Responsibilities, Singapore Exchange Listing Manual and Code of Corporate Governance. He has written many articles on the subject of independent director, internal control and audit, and had served as lead independent director, chairman of audit committee, chairman of board risk committee, member of nominating committee and remuneration committee of listed company.

Mr. Giang graduated with a Bachelor of Administration degree with Great Distinction from University of Regina, Canada, and qualified as a Chartered Accountant with

the Canadian Institute of Chartered Accountants. He is also a Chartered Accountant, Singapore and member of the Singapore Institute of Directors.

Mr. Giang has over 30 years of business and financial management experience in many industries & products including aerospace, Oil & Gas, petrochemical, power generation, cement, coal, computer, CPO, flexible packaging, fresh fruits, real estate, sports facility and F&B, timber, telecommunication, etc. He started his career as a public accountant in Canada and had extensive audit & tax practice experience with a big-4 firm in both Canada and Singapore. After leaving public accounting practice, he served as senior executives of MNC Company, regional conglomerate and Singapore listed companies.



Mr. Toch Chaochek
Director

Mr. Toch has more than 20 years' working experience in Banking and Financial Sector in Cambodia. He served several senior management levels such as Senior Staff and Manager at Credit Division of ACLEDA Bank Plc. before moving to be Head of Credit Department, Head of Operation Department and EVP & Chief Operation Officer of Hatha Kaksekar Micro Finance in charge of Company Business's Strategies, Loan Operational Processes, Loan Portfolio Management, Credit Underwriting, Deposit Mobilization, Products Development and also Branch Channels Supervision. Beside the Banking and Finance experience, he also had 2 years in his first career started with Manufacturing Industry as Marketing Manager.

He is currently also a Board of Director of Funan Micro Finance Plc. since the date of acquisition. He graduated MBA in Finance and Banking in 2006 from University Of Cambodia, BBA in Marketing in 1999 from National University of Management, Bachelor Degree in Public Law in 1999 and also Associated Degree in Professional Law in 1996 from Faculty of

Law and Economic Science.

Mr. Toch has also attended numerous executive training courses locally and abroad in the field of Banking and Finance which are most related to Leadership, Performance Management, Risk Management...etc.



Mr. Khou Buntry

Chief Executive Officer

He has 20 years of track record as finance professional and as a senior management for , Banking, Microfinance Institution and International NGOs. Prior to join Funan, Mr. Buntry was Chief Financial Officer for Cambodia Post Bank for 4 years. Mr. Buntry was EVP & Finance Director with Hattha Kaksekar Ltd. MFI for 5 years, responsible for all finance & treasury related activities. Prior to Hattha Kaksekar, he spent 2 years as Finance Manager for Room to Read Cambodia, 4 years as Finance Manager for Marie Stopes Cambodia and 2 years as Accountant for Canadia Bank.

He graduated MBA in Finance, Charles Sturt University, Australia and BBA in Accounting, National University of Management (Former Faculty of Business).



Mr. Han Bunhon

Chief Business Officer

He has 15 years' experience in Financial Sectors before joining funan as Chief Business Officer in June 2017, he was 4 years with CP-Bank with various positions as Sales Manager, Branch Manager (Head Office Branch). Prior to join Cambodia Post-Bank, his career started with Vision Fund Cambodia (MDI) from the front line staff as Credit Officer, then promoted to be District Branch Manager, Provincial Branch Manager (Regional Manager) and Senior Provincial Branch Manager (Regional Manager) supervising 10 District Branches underneath.

He is holding Master Degree in Business Administration and obtained BBA in Accounting and Finance.



Mr. Kong Vannak

Head of Risk Management

He has 12 years' experience in financial sectors with holding several positions and with FUNAN, he is Head of Risk Management. Prior to joint Funan MFI, he worked 1 year as Credit Manager with CP-bank, 2 years as Head of Credit Department with Ly Hour Leasing Plc, 2 years as Sub Branch Manager with HKL MFI.

He graduated Bachelor Degree in Accounting and English Literature.



Mr. Moeng Sarong

Head of Finance

Joined Funan Microfinance Plc. as Head of Finance in July 2018. Prior to this, he worked at Lyhour Microfinance as Deputy Head of Finance. He has 9 years of experience in Accounting/Finance, mostly with FIs, which grant him with extensive experiences in financial reporting, financial planning and management, budgeting and treasury management. He is holding bachelor degree in Accounting and bachelor degree in English and recently, become an ACCA affiliate from CamEd Business School.



Mr. Meang Chhun Eng

Head of Internal Audit

He has 14 years' experience with holding several positions including 6 years as an Internal Audit Department Manager with Funan. Prior to joint Funan, He worked for 5 years as an Internal Auditor and 3 years as a Credit Officer with PRASAC.

He graduated Master Degree in Finance and Bachelor Degree in Accounting and Finance.



Mr. Vong Ponnreay

Head of Human Resources & Administration

He has experience in human resources management and administration for 11 years by starting from the Human Resources Officer role. During this 11 years experience, he has been performing and earning such professional experiences from 05 different companies such as Hagar International Organization for 03 years as Senior Recruitment & Employee Relations Officer, Huawei Technologies (Cambodia) for 02 years as Senior Recruitment, Employee Relations and Training Specialist, Tan Chong Motor (Cambodia) for 02 years as Deputy HR Manager, British American Tobacco (Cambodia) for 02 years as Employee Services Manager and HR Ops Lead, and Newa Insurance (Cambodia) for almost two years as HR & General Affairs Manager.

He graduated Bachelor & Master degree in Business Administration.



3

CORPORATE SOCIAL RESPONSIBILITY

- ▶ Corporate Social Responsibility
- ▶ Financial Education





CORPORATE SOCIAL RESPONSIBILITY

In line with the Vision and Mission of Funan Microfinance PLC to improve the living conditions of Cambodian people, the business strategy is integrated into social responsibility activities.

CLEAN CITY

To support the local authority announcement to

turn Preah Sihanuk province to be an attractive tourist destination again especially among Cambodian people. FUNAN initiated one program named “The Blue Sea Campaign” to engage all people especially local people in the city and Village & Commune authorities to join with FUNAN team of Kampot Region. Everyone was equipped with big plastic bag, glove; went down from one to another village then moved along the beach

to clean the city. The local authority provided his impressive remarks to everyone joining this campaign and regarded as model for his villagers to stay clean and well-managed their rubbish.



មានហ្វុណាន មានសង្ឃឹម

“With FUNAN With Hope”.



CORPORATE SOCIAL RESPONSIBILITY

KHUNTHEAK-BOPHA DONATION

Khuntheak Bopha Donation was initiated by Neak Oknha Dr. Pung Kheav se, and has been contributing for 2 years, since 2018.

FUNAN Microfinance and other companies under Canadia Group contribute for Khuntheak-Bopha donation on monthly basis. The contribution is a part to help Khuntheak-Bopha to continue its mission in saving Cambodian children. USD1.25 with total number of staffs, is calculated for the monthly contribution. FUNAN's staffs are also a part of the donation while they contribute willingly with 40 percent.



BLOOD DONATION

To see the traffic accident still be the key issues cause to many people death and injures—blood donation program under our slogan “with FUNAN, with hope” has been done for three consecutive years. Many people from our staffs and management team were participated in the program.

We are a part of our beautiful society.

“With FUNAN With Hope”.



មានហ្វុណាន មានសង្ឃឹម



FINANCIAL EDUCATION

FINANCIAL EDUCATION

Funan Microfinance Plc. believes that customer succeeds, Funan succeed. Therefore, financial education has been promoted frequently by Funan’s staffs. The topic consists of financial literacy, how to diversify sources of income and reducing expense, saving for emergency case. That is the kind of cooperate social responsibility helping people to improve their financial health. Our activities are reflected in Funan’s Vision statement— to be the best Microfinance Institution (MFI) that enable success and enriches lives of Cambodian people.



CLIENT SUCCESS

In line with the Vision and Mission of Funan Microfinance Plc to improve the living conditions of Cambodian people, the business strategy is integrated into social responsibility activities. And the Credit Program is strictly implemented to ensure Funan’s clients are not in over-indebtedness and guarantee their success. We strive to continue our sustainable community development through the evaluation and management of business operations in order to have a positive impact on the whole society. We support initiatives that generate long-term benefits and benefits for the community.

STAFF ACTIVITIES AND WELFARES



▶ Sports



▶ 2019 Annual Assembly



▶ Staffs Welfares

STAFF ACTIVITIES AND WELFARES(CONTINUED)



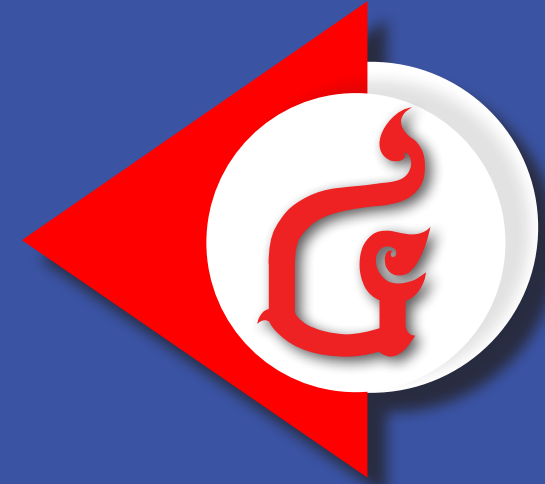
▶ Leaflet Promotion



▶ Leadership Training



▶ Clean City



AUDITED FINANCIAL STATEMENTS

- ▶ Report of the Board of Directors
- ▶ Report of the independent auditors
- ▶ Statement of financial position
- ▶ Statement of comprehensive income
- ▶ Statement of changes in equity
- ▶ Statement of cash flows
- ▶ Notes to the financial statements



The Board of Directors (“the Directors”) has pleasure in submitting their report together with the audited financial statements of Funan Microfinance Plc. (“the Company”) for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activity of the Company is to provide loans and other financial services to local customers through its head office in Phnom Penh and its various provincial and district offices in the Kingdom of Cambodia.

FINANCIAL RESULTS

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

	2019 US\$	2018 US\$
Profit before income tax	3,710,162	2,495,986
Income tax expense	(749,514)	(445,861)
NET PROFIT OF THE YEAR	2,960,648	2,050,125

	2019 KHR'000 (NOTE 5)	2018 KHR'000 (NOTE 5)
Profit before income tax	15,033,577	10,096,265
Income tax expense	(3,037,031)	(1,803,508)
NET PROFIT OF THE YEAR	11,996,546	8,292,757

SHARE CAPITAL

There is no change in the shareholding structure during the year. Refer to Note 16 for details.

DIVIDENDS

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

RESERVES AND PROVISIONS

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

BAD AND DOUBTFUL LOANS

Before the financial statements of the Company were prepared, the Board of Directors took reasonable steps to ascertain that action 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 Directors are not aware of any circumstances, which would render the amount written off for bad loans, or the amount of allowance for doubtful loans in the financial statements of the Company, inadequate to any material extent.

CURRENT ASSETS

Before the financial statements of the Company were prepared, the Directors took reasonable steps to ensure that any current assets, other than loans, 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 Directors are not aware of any circumstances, which would render the values attributed to the current assets in the financial statements of the Company misleading.

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.

EVENTS SINCE THE REPORTING DATE

At the date of this report, except as disclosed in the Note 29 to 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:

- **Neak Oknha Pung Kheav Se**
Chairman
- **Mr. Teo Meng Poh Philip**
Vice Chairman (appointed on 11 January 2019)
- **Mr. Lee Meng Teck Victor**
Vice Chairman (resigned on 13 December 2018)
- **Mr. Neo Poh Kiat**
Independent Director
- **Mr. Giang Sovann**
Independent Director
- **Mr. Toch Chaochek**
Director

ITEMS OF AN UNUSUAL NATURE

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

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

DIRECTORS' INTERESTS

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

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 Directors of the Company to acquire benefits by means of 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 (other than a benefit included in the aggregate amount of emoluments received or due and 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 DIRECTORS IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for ascertaining that the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended. In preparing these financial statements, the Directors are required to:

- adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- comply with Cambodian International Financial Reporting Standards for Small and Medium-sized Entities (“CIFRS for SMEs”) 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;
- maintain adequate accounting records and an effective system of internal controls;
- 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
- control and direct the Company effectively 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 8 to 48 which, in our opinion, present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with CIFRS for SMEs.

On behalf of the Board of Directors,



Neak Oknha Dr. Pung Kheav Se
Chairman of the Board of Directors

Mr. Khou Buntry
Chief Executive Officer

Phnom Penh, Kingdom of Cambodia

25 March 2020

OPINION

We have audited the financial statements of Funan Microfinance Plc. ("the Company"), which comprise the statement of financial position as at 31 December 2019, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out on pages 8 to 48 (hereafter referred as "the financial statements").

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

BASIS FOR OPINION

We conducted our audit in accordance with Cambodian International Standards on Auditing ("CISAs"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the 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 MATTER

As stated in Note 28 to the financial statements, the Company adopted CIFRS for SMEs on 1 January 2019 with a transition date of 1 January 2018. These standards were applied retrospectively to the comparative information in these financial statements, including the statements of financial position as at 31 December 2018 and 1 January 2018, and the statements of comprehensive income, changes in equity and cash flows of the Company for the year ended 31 December 2018 and related explanatory notes.

We were not engaged to audit on the restated comparative information and it is unaudited. Our responsibilities in respect of this comparative information is to determine whether the financial statements include the comparative information required by CIFRS for SMEs and whether such information is appropriately classified.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the Report of the Board of Directors as set out on pages 1 to 4, but does not include the financial statements and our auditor's report thereon.

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 CIFRS for SMEs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using 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
25 March 2020

STATEMENT OF FINANCIAL POSITION

as at 31 December 2019

		2019	2018	2019	2018
		US\$	US\$	KHR'000 (NOTE 5)	KHR'000 (NOTE 5)
ASSETS	NOTE				
	6	1,634,897	619,601	6,662,205	2,489,557
Statutory deposits	7	400,000	400,000	1,630,000	1,607,200
Loans to customers	8	55,779,023	46,263,849	227,299,519	185,888,145
Other assets	9	382,782	316,768	1,559,837	1,272,774
Property and equipment	10	599,106	229,538	2,441,357	922,284
Intangible assets	11	105,545	142,254	430,096	571,577
Deferred tax assets	15	441,779	355,656	1,800,249	1,429,026
TOTAL ASSETS		59,343,132	48,327,666	241,823,263	194,180,563
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities					
Borrowings	12	44,789,889	36,820,765	182,518,798	147,945,834
Other liabilities	13	692,215	650,843	2,820,772	2,615,087
Provision for employee benefits	14	53,524	166,729	218,110	669,917
Current income tax liability	15	716,875	559,348	2,921,266	2,247,429
Total liabilities		46,252,503	38,197,685	188,478,946	153,478,267
Shareholders' equity					
Share capital	16	8,000,000	8,000,000	32,296,000	32,296,000
Regulatory reserves	17	251,959	279,453	1,016,114	1,128,152
Retained earnings		4,838,670	1,850,528	19,595,568	7,486,984
Currency translation reserves		-	-	436,635	(208,840)
Total shareholders' equity		13,090,629	10,129,981	53,344,317	40,702,296
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		59,343,132	48,327,666	241,823,263	194,180,563

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

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2019

		2019	2018	2019	2018
ASSETS	NOTE	US\$	US\$	KHR'000 (NOTE 5)	KHR'000 (NOTE 5)
Operating income					
Interest income	18	12,191,072	10,114,945	49,398,224	40,914,953
Interest expense	19	(3,125,915)	(2,498,234)	(12,666,208)	(10,105,357)
Net interest income		9,065,157	7,616,711	36,732,016	30,809,596
Other operating income	20	374,989	298,745	1,519,455	1,208,424
Net operating income		9,440,146	7,915,456	38,251,471	32,018,020
Net impairment losses on financial assets	21	(367,504)	(298,076)	(1,489,126)	(1,205,717)
Personnel expenses	22	(3,131,197)	(3,350,981)	(12,687,610)	(13,554,718)
Other expenses	23	(2,231,283)	(1,770,413)	(9,041,158)	(7,161,320)
Profit before income tax		3,710,162	2,495,986	15,033,577	10,096,265
Income tax expense	15	(749,514)	(445,861)	(3,037,031)	(1,803,508)
Net profit for the year		2,960,648	2,050,125	11,996,546	8,292,757
Other comprehensive income/(loss)					
Currency translation differences		-	-	645,475	(16,402)
Total comprehensive income for the year		2,960,648	2,050,125	12,642,021	8,276,355

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

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019

	Share capital		Regulatory reserves		Retained earnings		Currency translation reserves		Total		
	2019	2018	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	
At 1 January 2018	8,000,000	8,000,000	8,000,000	32,296,000	-	-	79,856	322,379	(192,438)	8,079,856	32,425,941
Total comprehensive income											
Net profit for the year	-	-	-	-	2,050,125	8,292,757	-	-	-	2,050,125	8,292,757
Transfer to regulatory reserves	-	-	-	-	(279,453)	(1,128,152)	-	-	-	-	-
Other comprehensive income											
Currency translation differences	-	-	-	-	-	-	-	-	(16,402)	-	(16,402)
At 31 December 2018	8,000,000	8,000,000	8,000,000	32,296,000	279,453	1,128,152	1,850,528	7,486,984	(208,840)	10,129,981	40,702,296
At 1 January 2019	8,000,000	8,000,000	8,000,000	32,296,000	279,453	1,128,152	1,850,528	7,486,984	(208,840)	10,129,981	40,702,296
Total comprehensive income											
Net profit for the year	-	-	-	-	2,960,648	11,996,546	-	-	-	2,960,648	11,996,546
Transfer to regulatory reserves	-	-	-	-	(27,494)	(112,038)	27,494	112,038	-	-	-
Other comprehensive income											
Currency translation differences	-	-	-	-	-	-	-	-	645,475	-	645,475
At 31 December 2019	8,000,000	8,000,000	8,000,000	32,296,000	251,959	1,016,114	4,838,670	19,595,568	436,635	13,090,629	53,344,317

STATEMENT OF CASH FLOWS

for the year ended 31 December 2019

	2019	2018	2019	2018
	US\$	US\$	KHR'000 (NOTE 5)	KHR'000 (NOTE 5)
Cash flow from operating activities				
Net profit for the year	2,960,648	2,050,125	11,996,546	8,292,757
Adjustments for:				
Net interest income	(9,065,157)	(7,616,711)	(36,732,016)	(30,809,596)
Net impairment losses on financial assets	367,504	298,076	1,489,126	1,205,717
Depreciation and amortisation	203,119	191,544	823,038	774,795
Income tax expense	749,514	445,861	3,037,031	1,803,508
Provision for employee benefits	22,079	166,729	89,464	674,419
Pension fund expense	-	(31,545)	-	(127,600)
Gain on disposal of property and equipment	-	(10,706)	-	(43,306)
	(4,762,293)	(4,506,627)	(19,296,811)	(18,229,306)
Changes in:				
Loans to customers	(9,860,164)	(18,085,723)	(39,953,384)	(73,156,750)
Other assets	(66,014)	(39,902)	(267,489)	(161,404)
Other liabilities	41,372	322,482	167,639	1,304,439
Cash used in operations	(14,647,099)	(22,309,770)	(59,350,045)	(90,243,021)
Net interest received	9,049,520	7,482,593	36,668,654	30,267,089
Employee benefits paid	(135,284)	(80,329)	(548,171)	(324,931)
Income tax paid	(684,987)	(153,927)	(2,775,567)	(622,635)
Net cash used in operating activities	(6,417,850)	(15,061,433)	(26,005,129)	(60,923,498)
Cash flows from investing activities				
Acquisition of property and equipment	(497,478)	(170,300)	(2,015,781)	(688,864)
Acquisition of intangible assets	(38,500)	(34,979)	(156,002)	(141,490)
Proceed from disposal of equipment	-	14,643	-	59,231

STATEMENT OF CASH FLOWS (CONTINUED)

for the year ended 31 December 2019

	2019	2018	2019	2018
	US\$	US\$	KHR'000 (NOTE 5)	KHR'000 (NOTE 5)
Net cash used in investing activities	(535,978)	(190,636)	(2,171,783)	(771,123)
Cash flows from financing activities				
Repayments of borrowings	(995,520)	(995,520)	(4,033,847)	(4,026,878)
Proceeds from borrowings	8,964,644	14,816,535	36,324,737	59,932,885
Net cash generated from financing activities	7,969,124	13,821,015	32,290,890	55,906,007
Net increase/ (decrease) in cash and cash equivalents	1,015,296	(1,431,054)	4,113,978	(5,788,614)
Cash and cash equivalents at 1 January	619,601	2,050,655	2,489,557	8,278,494
Currency translation difference	-	-	58,670	(323)
Cash and cash equivalents at 31 December (Note 6)	1,634,897	619,601	6,662,205	2,489,557

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2019

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

1. REPORTING ENTITY

Funan Microfinance Plc. ("the Company"), a licensed micro-finance institution, was incorporated in the Kingdom of Cambodia and registered with the Ministry of Commerce as a public limited liability company under registration number Co. 2133 KH/2015 dated 17 June 2015. The Company obtained its license to operate as a micro-finance institution from the National Bank of Cambodia ("NBC") on 11 August 2015.

The Company operates in 51 offices located in Phnom Penh and 18 provinces, namely, Takeo, Prey Veng, Pursat, Kampong Cham, Kampot, Siem Reap, Svay Rieng, Monduliri, Kampong Speu, Kampong Chhnang, Kampong Thom, Banteay Meanchey, Battambang, Preah Vichea, Kratie, Stung Treng, Ratanak Kiri, and Preah Sihanouk.

The principal activity of the Company is to provide loan to improve living standards in term of rural development through its head office in Phnom Penh and its various offices in the Kingdom of Cambodia.

The Company's head office is located at No. 95, Preah Monivong Blvd, Corner of Street 118, Sangkat Monorom, Khan 7 Makara, Phnom Penh, Kingdom of Cambodia.

As at 31 December 2019, the Company had 622 employees (2018: 646 employees).

2. BASIS OF ACCOUNTING

The financial statements have been prepared in accordance with Cambodian International Financial Reporting Standards ("CIFRS for SMEs"). These are the first financial statements prepared in accordance with CIFRS for SMEs and Section 35 Transition to the CIFRS for SMEs has been applied.

In the previous financial years, the financial statements were 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 the financial statements ("Cambodia GAAP").

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

An explanation of how the transition to CIFRS for SMEs has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 28.

The financial statements of the Company were authorised for issue by the Board of Directors on 25 March 2020.

Details of the Company's accounting policies are included in Note 27.

3. FUNCTIONAL AND PRESENTATION CURRENCY

The Company transacts its business and maintains its accounting records in two currencies, Khmer Riel ("KHR") and United States Dollars ("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.

These financial statements are presented in US\$, which is the Company's functional currency. All amounts have been rounded to the nearest dollar, except when otherwise indicated.

4. USE OF ESTIMATES AND JUDGEMENTS

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2019 is set out below in relation to the impairment of financial instruments and in the following notes in relation to other areas:

- 27G(vii) – identification and measurement of impairment.

5. TRANSLATION OF UNITED STATES DOLLARS INTO KHMER RIEL

The financial statements are expressed in United States Dollars. The translations of United States Dollars amounts into Khmer Riel are included solely for compliance with the guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements.

Assets and liabilities are translated at the closing rate as at the reporting date. The statements of comprehensive income and cash flows are translated into KHR using the average rate for the year. Exchange differences arising from the translation are recognised as "Currency translation difference" in the other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Company uses the following exchange rates:

			Closing rate	Average rate
31 December 2019	US\$1	=	KHR 4,075	KHR 4,052
31 December 2018	US\$1	=	KHR 4,018	KHR 4,045
1 January 2018	US\$1	=	KHR 4,037	N/A

6. CASH AND CASH EQUIVALENTS

	2019	2018	2019	2018
	US\$	US\$	KHR'000 (NOTE 5)	KHR'000 (NOTE 5)
A. Cash on hand				
Head office	10,526	7,025	42,893	28,226
Branches	335,072	282,473	1,365,419	1,134,977
	345,598	289,498	1,408,312	1,163,203
B.Placements with banks				
Savings accounts	1,100,261	260,892	4,483,564	1,048,264
Current accounts	189,038	69,211	770,329	278,090
	1,289,299	330,103	5,253,893	1,326,354
Cash and cash equivalents- gross	1,634,897	619,601	6,662,205	2,489,557

	2019	2018	2019	2018
	US\$	US\$	KHR'000 (NOTE 5)	KHR'000 (NOTE 5)
(i) By maturity:				
Within 1 month	1,289,299	330,103	5,253,893	1,326,354
(ii) By relationship:				
Related party	663,053	108,800	2,701,941	437,159
Non-related party	626,246	221,303	2,551,952	889,195
	1,289,299	330,103	5,253,893	1,326,354

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. CASH AND CASH EQUIVALENTS (CONTINUED)

(iii) By interest rate (per annum):

	2019	2018
Savings accounts	0.00% - 0.80%	0.00% - 2.00%
Current accounts	0.0% - 2.00%	0.015% - 2.50%

7. STATUTORY DEPOSITS

Under NBC Prakas B7-01-136 dated 15 October 2001, micro-finance institutions are required to maintain a statutory deposit of 5% of registered capital with the NBC. This deposit is not available for use in the Company's day-to-day operations but is refundable when the Company voluntarily ceases to operate the business in Cambodia.

The statutory deposit maintained with the NBC in US\$ bears interest at 0.5% per annum.

8. LOANS TO CUSTOMERS

	2019	2018	2019	2018
	US\$	US\$	KHR'000 (NOTE 5)	KHR'000 (NOTE 5)
Individual loans	56,275,807	46,719,633	229,323,914	187,719,485
Staff loans	265,424	235,322	1,081,603	945,524
Group loans	-	14,190	-	57,015
	56,541,231	46,969,145	230,405,517	188,722,024
Unearned processing fee	(787,344)	(714,868)	(3,208,427)	(2,872,340)
Accrued interest receivable	622,650	525,882	2,537,299	2,112,994
Unwinding interest	(82,805)	(66,770)	(337,431)	(268,281)
Loans to customers-gross	56,293,732	56,293,732	229,396,958	187,694,397
Less: Allowance for impairment losses	(514,709)	(449,540)	(2,097,439)	(1,806,252)
Loans to customers-net	55,779,023	46,713,389	227,299,519	185,888,145

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. LOANS TO CUSTOMERS (CONTINUED)

The movements in allowance for impairment losses of loans to customers were as follows:

	2019	2018	2019	2018
	US\$	US\$	KHR'000 (NOTE 5)	KHR'000 (NOTE 5)
Collective impairment				
At 1 January	449,540	270,395	1,806,252	1,093,748
Allowance for the year (Note 21)	443,774	391,559	1,798,172	1,583,856
Written off during the year	(378,605)	(212,414)	(1,534,107)	(853,479)
Currency translation difference	-	-	27,122	(17,873)
At 31 December	514,709	449,540	2,097,439	1,806,252

The movements in allowance for impairment losses of loans to customers were as follows:

	2019	2018	2019	2018
	US\$	US\$	KHR'000 (NOTE 5)	KHR'000 (NOTE 5)
A. By maturity:				
Within 1 month	121,312	124,172	494,346	498,923
2 to 3 months	212,225	181,370	864,817	728,745
4 to 12 months	2,509,502	3,230,039	10,226,221	12,978,297
Over 12 months	53,450,693	43,177,808	217,811,574	173,488,432
	56,293,732	46,713,389	229,396,958	187,694,397
B. By economic sector:				
Agriculture	12,699,376	8,576,023	51,749,957	34,458,460
Trade and Commerce	9,071,476	7,068,651	36,966,265	28,401,840
Services	2,391,421	2,028,205	9,745,041	8,149,328
Transportation	1,818,050	1,180,861	7,408,554	4,744,699
Construction	2,143,496	2,820,884	8,734,746	11,334,312
Household/Family	28,019,019	24,740,283	114,177,502	99,406,457
Others	150,894	298,482	614,893	1,199,301
	56,293,732	46,713,389	229,396,958	187,694,397

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. LOANS TO CUSTOMERS (CONTINUED)

Loans to customers-gross are analysed as follows: (continued)

	2019	2018	2019	2018
	US\$	US\$	KHR'000 (NOTE 5)	KHR'000 (NOTE 5)
C. By relationship:				
External customers	56,028,308	46,478,067	228,315,355	186,748,873
Staff loans	265,424	235,322	1,081,603	945,524
	56,293,732	46,713,389	229,396,958	187,694,397

D. By interest rate (per annum)

	2019	2018
External customers	13.20% -18.00%	13.2% - 60.00%
Staff loans	10.00%	10.00% - 15.60%

9. OTHER ASSETS

	2019	2018	2019	2018
	US\$	US\$	KHR'000 (NOTE 5)	KHR'000 (NOTE 5)
Deposits and prepayments	368,071	299,229	1,499,890	1,202,302
Others	14,711	17,539	59,947	70,472
	382,782	316,768	1,559,837	1,272,774

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. PROPERTY AND EQUIPMENT

2019	Leasehold Improvements US\$	Motor vehicles US\$	Office Equipment US\$	Computers US\$	Furniture and fixtures US\$	Work in Progress US\$	Total	
							US\$	KHR'000 (Note 5)
Cost								
At 1 January 2019	31,651	165,786	80,460	343,909	72,551	12,725	707,082	2,841,055
Additions	35,996	35,535	13,536	407,337	5,074	-	497,478	2,015,781
Transfer	-	-	-	12,725	-	(12,725)	-	-
Written off	-	-	(4,200)	(2,025)	(1,315)	-	(7,540)	(30,552)
Currency translation difference	-	-	-	-	-	-	-	51,573
At 31 December 2019	67,647	201,321	89,796	761,946	76,310	-	1,197,020	4,877,857
Less: Accumulated depreciation								
At 1 January 2019	8,332	128,080	49,533	240,124	51,475	-	477,544	1,918,771
Depreciation for the year	12,631	25,185	15,805	62,129	12,160	-	127,910	518,291
Written off	-	-	(4,200)	(2,025)	(1,315)	-	(7,540)	(30,552)
Currency translation difference	-	-	-	-	-	-	-	29,990
At 31 December 2019	20,963	153,265	61,138	300,228	62,320	-	597,914	2,436,500
Carrying amounts								
At 31 December 2019	46,684	48,056	28,658	461,718	13,990	-	599,106	2,441,357

10. PROPERTY AND EQUIPMENT (CONTINUED)

2019	Leasehold Improvements US\$	Motor vehicles US\$	Office Equipment	Computers US\$	Furniture and fixtures US\$	Work in Progress US\$	Total	
							US\$	KHR'000 (Note 5)
Cost								
At 1 January 2018	11,632	146,439	75,676	290,528	68,166	-	592,441	2,380,428
Additions	20,019	50,000	15,601	67,570	4,385	12,725	170,300	688,864
Disposal	-	(30,653)	-	-	-	-	(30,653)	(123,991)
Written off	-	-	(10,817)	(14,189)	-	-	(25,006)	(101,149)
Currency translation difference	-	-	-	-	-	-	-	(3,097)
At 31 December 2018	31,651	165,786	80,460	343,909	72,551	12,725	707,082	2,841,055
Less: Accumulated depreciation								
At 1 January 2018	2,900	122,029	41,511	199,195	36,368	-	402,003	1,615,248
Depreciation for the year	5,432	34,066	18,118	54,540	15,107	-	127,263	514,779
Disposal	-	(28,015)	-	-	-	-	(28,015)	(113,321)
Written off	-	-	(10,096)	(13,611)	-	-	(23,707)	(95,895)
Currency translation difference	-	-	-	-	-	-	-	(2,040)
At 31 December 2018	8,332	128,080	49,533	240,124	51,475	-	477,544	1,918,771
Carrying amounts								
At 31 December 2018	23,319	37,706	30,927	103,785	21,076	12,725	229,538	922,284

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. INTANGIBLE ASSETS

Cost	2019		2018	
	US\$	KHR'000 (NOTE 5)	US\$	KHR'000 (NOTE 5)
At 1 January	345,576	1,388,524	310,597	1,253,880
Additions	38,500	156,002	34,979	141,490
Currency translation difference	-	20,584	-	(6,846)
At 31 December	384,076	1,565,110	345,576	1,388,524
Less: Accumulated amortisation				
At 1 January	203,322	816,948	139,041	561,309
Amortisation for the year	75,209	304,747	64,281	260,017
Currency translation difference	-	13,319	-	(4,379)
At 31 December	278,531	1,135,014	203,322	816,947
Carrying amounts				
At 31 December	105,545	430,096	142,254	571,577

12. BORROWINGS

	2019		2018	
	US\$	US\$	KHR'000 (NOTE 5)	KHR'000 (NOTE 5)
Related parties (Note 24B)	33,774,541	29,949,602	137,631,254	120,337,501
Non-related parties	10,805,214	6,742,160	44,031,248	27,089,999
	44,579,755	36,691,762	181,662,502	147,427,500
Accrued interest payable	210,134	129,003	856,296	518,334
	44,789,889	36,820,765	182,518,798	147,945,834

The Company entered into loan agreements with various lenders which are all unsecured. The principal and interest repayments are made either on a semi-annual or quarterly basis based on the respective payment schedule in the loan agreement.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. BORROWINGS (CONTINUED)

Borrowings are analysed as follows:

	2019	2018	2019	2018
	US\$	US\$	KHR'000 (NOTE 5)	KHR'000 (NOTE 5)
A. By maturity:				
1 to 3 months	-	995,520	-	3,999,999
3 to 12 months	22,866,565	995,520	93,181,252	3,999,999
1 to 5 years	17,731,595	34,700,722	72,256,250	139,427,502
Over 5 years	3,981,595	-	16,225,000	-
	44,579,755	36,691,762	181,662,502	147,427,500

B. By type:

Senior debts	40,598,159	36,691,762	165,437,498	147,427,500
Subordinated debts	3,981,596	-	16,225,004	-
	44,579,755	36,691,762	181,662,502	147,427,500

	2019	2018
--	------	------

US Dollars	7.00% - 8.82%	7.00% - 8.50%
Khmer Riels	8.00% - 8.50%	8.00% - 8.50%

	2019	2018	2019	2018
	US\$	US\$	KHR'000 (NOTE 5)	KHR'000 (NOTE 5)
D. By currency:				
USD	27,500,000	14,941,762	112,062,500	60,036,000
KHR	17,079,755	21,750,000	69,600,002	87,391,500
	44,579,755	36,691,762	181,662,502	147,427,500

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. OTHER LIABILITIES

	2019	2018	2019	2018
	US\$	US\$	KHR'000 (NOTE 5)	KHR'000 (NOTE 5)
Account payable	40,176	43,352	163,717	174,188
Accrued expenses	445,791	454,572	1,816,598	1,826,470
Other tax payables	18,325	9,026	74,674	36,266
Other payables	187,923	143,893	765,783	578,163
	692,215	650,843	2,820,772	2,615,087

14. PROVISION FOR EMPLOYEE BENEFITS

	2019	2018	2019	2018
	US\$	US\$	KHR'000 (NOTE 5)	KHR'000 (NOTE 5)
Seniority indemnity	53,524	166,729	218,110	669,917

This represents provision for seniority indemnity in accordance with the Prakas No. 443 issued by the Ministry of Labour and Vocational Training ("MoLVT") on 21 September 2018, and subsequently amended by the Instruction No. 042/19 dated 22 March 2019.

It requires all employers to settle the seniority indemnity to their employee as follows:

- Current pay: starting from 2019 onwards at the amounts equal to 15 days of wages and other benefits per year.
- Retrospective (back-pay): starting from end of 2021 onwards at the amounts equal to 6 days of net wages per year. The provision of back-pay seniority indemnity is calculated at a maximum amount of 6 months net wages (depends on the length of the service employee served) to the employee who has seniority before 2019.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. PROVISION FOR EMPLOYEE BENEFITS (CONTINUED)

	2019	2018	2019	2018
	US\$	US\$	KHR'000 (NOTE 5)	KHR'000 (NOTE 5)
At 1 January	166,729	-	669,917	-
Additions during the year	22,079	166,729	89,464	674,419
Paid during the year	(135,284)	-	(548,171)	-
Currency translation difference	-	-	6,900	(4,502)
At 31 December	53,524	166,729	218,110	669,917

15. INCOME TAX

A. Deferred tax, net

	2019	2018	2019	2018
	US\$	US\$	KHR'000 (NOTE 5)	KHR'000 (NOTE 5)
Deferred tax assets	441,779	355,656	1,800,249	1,429,026

Deferred tax assets are attributable to the following:

	2019	2018	2019	2018
	US\$	US\$	KHR'000 (NOTE 5)	KHR'000 (NOTE 5)
Property and equipment	(18,699)	18,250	(76,198)	73,329
Provision for employee benefits	69,341	100,674	282,565	404,508
Allowance for impairment loss	102,942	100,301	419,489	403,009
Unearned processing fee	157,469	142,974	641,686	574,470
Unrealised exchange gain/loss	9,048	(6,543)	36,869	(26,290)
Others	121,678	-	495,838	-
	441,779	355,656	1,800,249	1,429,026

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. INCOME TAX (CONTINUED)

A. Deferred tax, net (continued)

Movement of net deferred tax assets is as follows:

	2019	2018	2019	2018
	US\$	US\$	KHR'000 (NOTE 5)	KHR'000 (NOTE 5)
As at 1 January	355,656	149,852	1,429,026	604,953
Recognised in profit or loss	86,123	205,804	348,970	832,477
Currency translation difference	-	-	22,253	(8,404)
As at 31 December	441,779	355,656	1,800,249	1,429,026

B. Current income tax liability

	2019	2018	2019	2018
	US\$	US\$	KHR'000 (NOTE 5)	KHR'000 (NOTE 5)
As at 1 January	559,348	61,610	2,247,429	248,720
Recognised in profit or loss	835,637	651,665	3,386,001	2,635,985
Income tax paid	(684,987)	(153,927)	(2,775,567)	(622,635)
Others	6,877	-	27,866	-
Currency translation difference	-	-	35,537	(14,641)
As at 31 December	716,875	559,348	2,921,266	2,247,429

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

	2019	2018	2019	2018
	US\$	US\$	KHR'000 (NOTE 5)	KHR'000 (NOTE 5)
Current income tax	835,637	651,665	3,386,001	2,635,985
Deferred tax income	(86,123)	(205,804)	(348,970)	(832,477)
Income tax expense	749,514	445,861	3,037,031	1,803,508

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. INCOME TAX (CONTINUED)

C. Income tax expense (continued)

The reconciliation of income tax expense computed at the statutory tax rate of 20% to the income tax expense shown in profit or loss is as follows:

	2019		2018	
	US\$	KHR'000 (NOTE 5)	US\$	KHR'000 (NOTE 5)
Profit before income tax	3,710,162	15,033,577	2,495,986	10,096,265
Income tax using statutory rate at 20%	742,032	3,006,714	499,197	2,019,253
Non-deductible expenses	7,482	30,317	9,863	39,896
Effect of restatement	-	-	(63,199)	(255,640)
Income tax expense	749,514	3,037,031	445,861	1,803,508
		22.20%		20.45%

The calculation of taxable income is subject to the final review and approval of the tax authorities.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. SHARE CAPITAL

	2019		2018	
	US\$	US\$	KHR'000 (NOTE 5)	KHR'000 (NOTE 5)
Registered, issued and fully paid ordinary share of US\$1 each	8,000,000	8,000,000	32,296,000	32,296,000

As at 31 December 2019, the Company's shareholder and their respective interest are as follows:

	2019		2018	
	% OF OWNERSHIP	NUMBER OF SHARES	% OF OWNERSHIP	NUMBER OF SHARES
Cambodia Post Bank Plc.	100%	8,000,000	100%	8,000,000
Equivalent in KHR'000 (Note 5)		32,296,000		32,296,000

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. REGULATORY RESERVES

Regulatory reserves represented the variance of provision between loan impairment in accordance with CIFRS for SMEs and regulatory provision in accordance with National Bank of Cambodia.

18. INTEREST INCOME

	2019	2018	2019	2018
	US\$	US\$	KHR'000 (NOTE 5)	KHR'000 (NOTE 5)
Loans to customers	12,178,253	10,101,856	49,346,281	40,862,008
Placement with banks	12,819	13,089	51,943	52,945
	12,191,072	10,114,945	49,398,224	40,914,953

19. INTEREST EXPENSE

	2019	2018	2019	2018
	US\$	US\$	KHR'000 (NOTE 5)	KHR'000 (NOTE 5)
Borrowings	3,125,915	2,498,234	12,666,208	10,105,357

20. OTHER OPERATING INCOME

	2019	2018	2019	2018
	US\$	US\$	KHR'000 (NOTE 5)	KHR'000 (NOTE 5)
Loans penalty	343,357	254,334	1,391,283	1,028,781
Gain on disposal of property and equipment	-	10,706	-	43,306
Exchange gains	-	(32)	-	(129)
Other income	31,632	33,737	128,172	136,466
	374,989	298,745	1,519,455	1,208,424

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21. NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS

	2019	2018	2019	2018
	US\$	US\$	KHR'000 (NOTE 5)	KHR'000 (NOTE 5)
Allowance for impairment loss (Note 8)	443,774	391,559	1,798,172	1,583,856
Recovered for loan written off from previous year	(76,270)	(93,483)	(309,046)	(378,139)
	367,504	298,076	1,489,126	1,205,717

22. PERSONNEL EXPENSES

	2019	2018	2019	2018
	US\$	US\$	KHR'000 (NOTE 5)	KHR'000 (NOTE 5)
Salaries	2,939,811	3,061,040	11,912,114	12,381,907
Provident fund	-	(31,545)	-	(127,600)
Seniority indemnity	22,079	166,729	89,464	674,419
Employee training	55,613	40,677	225,344	164,538
Others	113,694	114,080	460,688	461,454
	3,131,197	3,350,981	12,687,610	13,554,718

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. OTHER EXPENSES

	2019	2018	2019	2018
	US\$	US\$	KHR'000 (NOTE 5)	KHR'000 (NOTE 5)
Rental expense	651,406	551,415	2,639,497	2,230,474
Depreciation and amortisation	203,119	191,544	823,038	774,795
Fuel	182,445	203,254	739,267	822,162
Repairs and maintenance	161,729	145,914	655,326	590,222
Professional services and license	117,574	93,848	476,410	379,615
Bank charge	101,496	82,694	411,262	334,497
Office supplies and equipment	96,237	80,151	389,952	324,211
Utilities expenses	83,817	69,426	339,626	280,828
Telecommunication charges	91,791	81,796	371,937	330,865
Transportation	85,306	79,530	345,660	321,699
Other tax expense	72,529	58,573	293,888	236,928
Conferences/convention expense	16,589	13,804	67,219	55,837
Printing & forms expenses	11,815	10,666	47,874	43,144
Publicity expenses	8,217	13,795	33,295	55,801
Board of Directors' fee	6,070	1,793	24,596	7,253
Other expense	341,143	92,210	1,382,311	372,989
	2,231,283	1,770,413	9,041,158	7,161,320

24. RELATED PARTIES

A. IDENTITY OF RELATED PARTIES

The related parties of, and their relationship with the Company are as follows:

Relationship	Related party
Immediate parent entity	Refer to Note 16
Key management personnel	All directors of the Company who make critical decisions in relation to the strategic direction of the Company and senior management staff (including their close family members)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. RELATED PARTIES (CONTINUED)

A. Identity of related parties (continued)

	2019	2018	2019	2018
	US\$	US\$	KHR'000 (NOTE 5)	KHR'000 (NOTE 5)
Short-term employee benefits	274,582	273,648	1,118,921	1,099,518
Board of Directors fees	6,070	1,793	24,596	7,253

B. Borrowings from related parties (Note 12)

	2019	2018	2019	2018
	US\$	US\$	KHR'000 (NOTE 5)	KHR'000 (NOTE 5)
Borrowings from shareholder	981,596	-	4,000,003	-
Borrowings from related parties	32,792,945	29,949,602	133,631,251	120,337,501
	33,774,541	29,949,602	137,631,254	120,337,501
Interest expense on borrowings	2,291,457	2,117,507	9,337,689	8,508,144

C. Transactions with the related parties

	2019	2018	2019	2018
	US\$	US\$	KHR'000 (NOTE 5)	KHR'000 (NOTE 5)
Rental expenses	191,110	133,332	778,774	535,728
Placement at banks	663,053	171,017	2,701,942	687,146

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. COMMITMENTS AND CONTINGENCIES

A. Lease commitments

The Company has commitments for the lease of its headquarters and branch offices under an operating lease arrangement, with future minimum lease amounts due as follows:

	2019	2018	2019	2018
	US\$	US\$	KHR'000 (NOTE 5)	KHR'000 (NOTE 5)
Less than 1 year	614,285	411,977	2,503,213	1,655,324
2 to 5 years	922,565	558,277	3,759,454	2,243,157
Over 5 years	-	20,341	-	81,730
	1,536,850	990,595	6,262,667	3,980,211

B. Taxation contingencies

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

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

26. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's 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 statement of financial position are a reasonable estimation of their fair values.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27. SIGNIFICANT ACCOUNTING POLICIES

A. Basis of measurement

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

B. Foreign currency transactions

Transaction 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 reporting date are translated into US\$ at the rates of exchange ruling at that date. Foreign currency differences are generally recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in other currency are translated using the exchange rates as at the respective dates of the initial transactions.

C. Interest

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

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

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

D. Fees and commission

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

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

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

E. Leases

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

F. Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in OCI.

(i). Current tax

'Current tax' comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

(ii). Deferred tax

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.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans for the Company and the reversal of temporary differences. 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.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

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.

G. Financial assets and financial liabilities

(i). Recognition

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

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

(ii). Classification

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

(iii). Derecognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or settled, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of

ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of th

risks and rewards of ownership and it does not retain control of the financial asset.

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

(iv). Offsetting

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

(v). Amortised cost measurement

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

(vi). Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

(vii). Identification and measurement of impairment

Objective evidence of impairment

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

Objective evidence that financial assets are impaired

includes:

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

All individually significant assets are individually assessed for impairment.

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

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

A collective component of the total allowance is established for:

- groups of homogeneous loans that are not considered individually significant; and

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- groups of assets that are individually significant but that were not found to be individually impaired.

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

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

Objective evidence of impairment

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

(vii). Identification and measurement of impairment (continued)

Reversal of impairment and write offs

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

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

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

H. Cash and cash equivalents

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

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

I. Statutory deposits

Statutory deposits represent mandatory reserve deposits and cash maintained with the National Bank of Cambodia in compliance with the Law on Banking and Financial Institutions ("LBF"). Statutory deposits are not available to finance the Company's day-to-day operations hence are not considered as part of cash and cash equivalents for the purpose of the statement of cash flows.

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

J. Loans to customers

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

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest rate method.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Other assets

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

L. Property and equipment

(ii) 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 of property and equipment is charged to statement of comprehensive income over the estimated useful lives of the individual assets at the following rates per annum and method:

	Useful	lifeMethod
Leasehold improvements	4 years	Straight-line method
Motor vehicles	4 years	Straight-line method
Office equipment	4 years	Straight-line method
Computer	4 years	Straight-line method
Furniture and fixtures	4 years	Straight-line method

(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 arising from the retirement or disposal of an item of property and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the assets and are recognised in profit or loss on the date of retirement or disposal.

(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 comprise of software including costs incurred in acquiring and building software, which is not integral to the operation of hardware, and is carried at cost less accumulated amortisation and accumulated impairment losses, if any. Software costs are amortised on a straight-line basis over the expected useful lives of 4 years.

Costs incurred in planning or evaluating software proposals, or in maintaining systems after implementation, are not capitalised.

N. Impairment of 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit”).

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

O. Provisions

Provisions are recognised in the statement of financial position when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of 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. The unwinding of the discount is recognised as finance cost.

P. Borrowing and other liabilities

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

Q. Employee benefits

(i). Short-term employee benefits

Short-term employee benefits are expensed 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.

R. Share capital

Incremental costs that are directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

S. Regulatory reserves

Regulatory reserves are set up for the variance of provision between loan impairment in accordance with CIFRS for SMEs and regulatory provision in accordance with National Bank of Cambodia’s Prakas No. B7-017-344 dated 1 December 2017 and Circular No. B7-018-001 Sor Ror Chor Nor dated 16 February 2018 on credit risk classification and provision on impairment for banks and financial institutions.

Based on these NBC Guidelines, all loans to customers are classified according to the repayment capacity of the counterparty and the number of days past due is taken into account as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Based on these NBC Guidelines, all loans to customers are classified according to the repayment capacity of the counterparty and the number of days past due is taken into account as follows:

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

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

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

28. EXPLANATION OF TRANSITION TO CIFRS FOR SMES

As stated in Note 2, these are the Company’s first set of financial statements prepared in accordance with CIFRS for SMEs.

The accounting policies set out in Note 27 have been applied in preparing the financial statements for the year ended 31 December 2019, the comparative information presented in these financial statements for the year ended 31 December 2018 and in the preparation of an opening CIFRS for SMEs statement of financial position at 1 January 2018 (the Company’s date of transition).

In preparing its opening CIFRS for SMEs statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia (“NBC”) relating to the preparation and presentation of the financial statements (“Cambodia GAAP”).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28. EXPLANATION OF TRANSITION TO CIFRS FOR SMES (CONTINUED)

Reconciliation of equity

Note	1 January 2018		31 December 2018			
	Cambodia GAAP US\$	Effect of transition to CIFRS for SMEs US\$	CIFRS for SMEs US\$	Cambodia GAAP US\$	Effect of transition to CIFRS for SMEs US\$	CIFRS for SMEs US\$
ASSETS						
Cash on hand	C 168,143	(168,143)	-	289,498	(289,498)	-
Deposits and placements with NBC	C 404,763	(404,763)	-	406,915	(406,915)	-
Deposits and placements with banks	C 1,877,749	(1,877,749)	-	319,956	(319,956)	-
Cash and cash equivalents	C -	2,050,655	2,050,655	-	619,601	619,601
Statutory deposits	C -	400,000	400,000	-	400,000	400,000
Loans to customers	A (i) 28,548,091	(206,007)	28,342,084	46,240,110	23,739	46,263,849
Other assets	A (ii) 571,661	(294,795)	276,866	780,447	(463,679)	316,768
Property and equipment	190,438	-	190,438	229,538	-	229,538
Intangible assets	171,556	-	171,556	142,254	-	142,254
Deferred tax assets	149,852	-	149,852	355,656	-	355,656
Total assets	32,082,253	(500,802)	31,581,451	48,764,374	(436,708)	48,327,666

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28. EXPLANATION OF TRANSITION TO CIFRS FOR SMES (CONTINUED)

Reconciliation of equity (continued)

Note	1 January 2018		31 December 2018			
	Cambodia GAAP US\$	Effect of transition to CIFRS for SMEs US\$	CIFRS for SMEs US\$	Cambodia GAAP US\$	Effect of transition to CIFRS for SMEs US\$	CIFRS for SMEs US\$
LIABILITIES						
Borrowings	A (ii) 22,915,222	-	22,915,222	36,691,762	129,003	36,820,765
Other liabilities	A (ii) 875,856	(462,967)	412,889	1,494,714	(843,871)	650,843
Provision for employee benefits	111,874	-	111,874	166,729	-	166,729
Current income tax liability	61,610	-	61,610	559,348	-	559,348
Total liabilities	23,964,562	(462,967)	23,501,595	38,912,553	(714,868)	38,197,685
EQUITY						
Share capital	8,000,000	-	8,000,000	8,000,000	-	8,000,000
Regulatory reserves	-	-	-	-	279,453	279,453
Retained earnings	117,691	(37,835)	79,856	1,851,821	(1,293)	1,850,528
Total equity	8,117,691	(37,835)	8,079,856	9,851,821	278,160	10,129,981
Total liabilities and equity	32,082,253	(500,802)	31,581,451	48,764,374	(436,708)	48,327,666

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28. EXPLANATION OF TRANSITION TO CIFRS FOR SMES (CONTINUED)

Reconciliation of comprehensive income for the year ended 31 December 2018

		2018		
	NOTE	CAMBODIA GAAP US\$	EFFECT OF TRANSITION TO CIFRS FOR SMES US\$	CIFRS FOR SMES US\$
Interest income	A (ii)	7,078,911	3,036,034	10,114,945
Interest expense		(2,498,234)	-	(2,498,234)
Net interest income		4,580,677	3,036,034	7,616,711
Other operating income	A (ii)	3,485,281	(3,186,536)	298,745
Net operating income		8,065,958	(150,502)	7,915,456
Net impairment loss on financial assets		(764,573)	466,497	(298,076)
Personnel expenses	A (ii)	(3,350,981)	-	(3,350,981)
General and administrative expenses		(1,770,413)	-	(1,770,413)
Profit before income tax		2,179,991	315,995	2,495,986
Income tax expense		(445,861)	-	(445,861)
Net profit for the year		1,734,130	315,995	2,050,125
Other comprehensive income		-	-	-
Currency translation differences		-	-	-
Total comprehensive income for the year		1,734,130	315,995	2,050,125

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28. EXPLANATION OF TRANSITION TO CIFRS FOR SMES (CONTINUED)

A. Financial assets and liabilities

(i). Restatement of allowance for impairment

Under Cambodia GAAP, the Company's recognised impairment losses on financial assets based on overdue days. On adoption of CIFRS for SMEs, the impairment losses are adjusted retrospectively to reflect the incurred loss model.

	1 JANUARY 2018 US\$	31 DECEMBER 2018 US\$
Statement of financial position	90,329	279,453
Decrease in loans to customers		
Related tax effect	-	-
Adjustment to retained earnings- US\$	90,329	279,453
Adjustment to retained earnings (KHR'000 – Note 5)	362,942	1,128,152
Statement of comprehensive income		
Increase in impairment losses on loan to customers		466,497
Decrease in impairment loss on placements with banks		(3,232)
Adjustment to profit before income tax -US\$		463,265
Adjustment to retained earnings (KHR'000 – Note 5)		1,870,201

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28. EXPLANATION OF TRANSITION TO CIFRS FOR SMES (CONTINUED)

(ii). Restatement of amortised cost – financial asset and liability, transaction costs and interest

Under Cambodia GAAP, transaction costs, including fees and commission, integral to the financial asset or liability were not considered as effective interest rate and recognised as expense on occurrence of transactions. Recognition of interest income was suspended when loan become non-performing. In addition, interest receivables/payables are recorded as other assets and other liabilities.

Under CIFRS for SMEs, a financial asset or financial liability is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue and subsequently measured at their amortised cost using the effective interest method. Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate.

The impact arising from the change is summarised as follows:

	1 JANUARY 2018 US\$	31 DECEMBER 2018 US\$
Statement of financial position		
Increase in loans to customers	347,289	525,882
Decrease in other assets	(347,289)	(525,882)
Decrease in other liabilities	(547,495)	(843,871)
Placements with banks	-	3,232
Adjustment to retained earnings- US\$	(547,495)	(840,639)
Adjustment to retained earnings (KHR'000 – Note 5)	(2,199,834)	(3,393,660)
Statement of comprehensive income		
Increase in interest income		3,036,034
Decrease in fees and commission income		(3,186,536)
		(150,502)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28. EXPLANATION OF TRANSITION TO CIFRS FOR SMES (CONTINUED)

B. Income tax

There was no impact on deferred tax as the Company accounted for both CIFRS for SME and impairment per Cambodia GAAP.

C. Reclassification

In addition to above adjustments, the Company made certain reclassification to conform with the current year presentation.

29. SUBSEQUENT EVENT

IMPACT OF NOVEL CORONAVIRUS OUTBREAK TO THE COMPANY

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





BRANCH NETWORK AND CONTACT

- ▶ Top Branches & Staff Performance
- ▶ Product and Service
- ▶ Branch Network and Contact



TOP PERFORMANCE BRANCHES



2

Kampong Tralach



1

Barsedth



3

Soutr Nikom



4

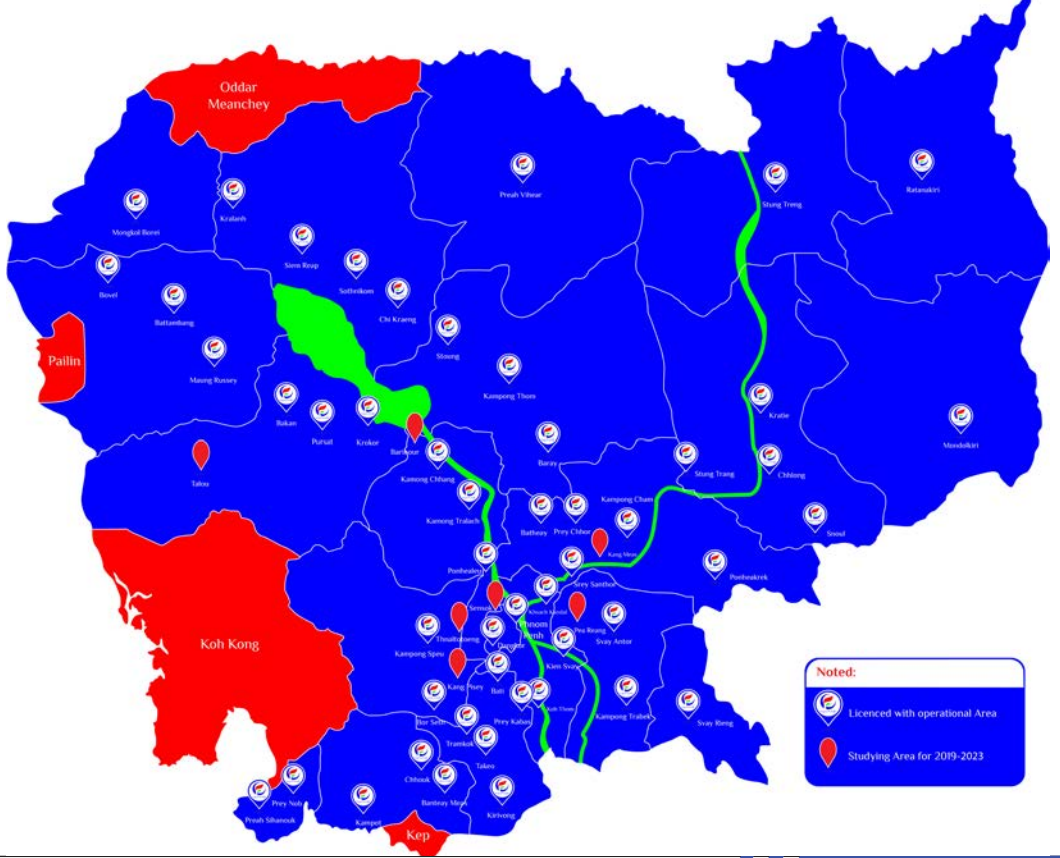
Kampong Chhnang



5

Chi Kraeng

**OUT PERFORMED
BRANCHE 2019**



Products and Services

Business Loan



Car Loan



Agriculture Loan



Motorbike Loan



Consumption Loan



Home Improvement Loan



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