

BORVOR FINANCE PLC.

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
AND
REPORT OF THE INDEPENDENT AUDITORS**

CORPORATE INFORMATION

COMPANY: Borvor Finance Plc.

REGISTERED OFFICE No. 99, Group 4, Romchek 5 Village
Ratanak Commune, Battambang City
Battambang Province, Kingdom of Cambodia

BOARD OF DIRECTORS: Mr. Ly Chan Ty, Chairman
Mr. Roeun Sao, Vice Chairman
Ms. Prom Mary, Member
Mr. Pheng Raksa, Member
Mr. Suos Sovann, Member

MANAGEMENT TEAM: Mr. Meas Thon, Chief Executive Officer
Ms. Chea Chanda, Chief Operation Officer
Ms. Nget Ny, Chief Finance and Administrative

PRINCIPAL BANKERS: ACLEDA Bank Plc.
Advance Bank of Asia Limited ("ABA")

AUDITORS: HRDP & ASSOCIATES CO., LTD.

BORVOR FINANCE PLC.

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DIRECTORS' REPORT

The Directors hereby submit their report and the audited financial statements of Borvor Finance Plc. ("the Company") for the year ended 31 December 2018.

Principal activity

The principal activity of the Company is in microfinance operation.

Results of operations

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

	Year ended 31 December 2018		Year ended 31 December 2017
	KHR'000	US\$	KHR'000
Net profit for the year	676,813	168,445	1,001,048

Dividends

The Directors do not recommend the payment of any dividend for the current financial year.

Reserves and provisions

There were no material transfers to or from reserves or provisions during the current financial year.

Bad and doubtful loans and advances

Before the income statement and balance sheet were made out, the Directors took reasonable steps to ascertain that proper 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 there were no known bad loans and that adequate allowance had been made for doubtful loans.

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

Current assets

Before the income statement and balance sheet were made out, the Directors took reasonable steps to ensure that for any current assets which were unlikely to be realised in the ordinary course of business, their values as shown in the accounting records of the Company have been written down to an amount expected if realised.

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.

Valuation methods

At the date of this report, the Directors are not aware of any circumstances, which have arisen and which may render adherence to the existing method of valuation of assets or liabilities of the Company misleading or inappropriate.

Contingent and other liabilities

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

- (a) any charge on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person, or
- (b) any contingent liability of the Company which has arisen since the end of the financial year.

No contingent or other liability has become enforceable, or is likely to become enforceable, within the period of 12 months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Company to meet its obligations when they fall due.

Change of circumstances

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

Items of unusual nature

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

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

Share capital

The Company has the share capital KHR 9,741,600,000 in 2018.

Directors

The Directors who have held for office are:

Mr. Ly Chan Ty, Chairman
Mr. Roeun Sao, Vice Chairman
Ms. Prom Mary, Member
Mr. Pheng Raksa, Member
Mr. Suos Sovann, Member

Directors' benefits

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

Since the end of previous financial year, the Directors have not received or become entitled to receive any benefit by reason of a contract made by the Company or a related corporation with the Director or with a firm of which the Director is a member, or with a the Company in which the Director has a substantial financial interest.

Directors' responsibility in respect of the financial statements

The Directors are responsible to ascertain that the financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and cash flows for the year ended 31 December 2018. In preparing these financial statements, the Directors are required to:

- (i) adopt appropriate accounting policies which are supported by reasonable judgements and estimates and then apply them consistently;
- (ii) comply with the disclosure requirements of the Cambodian Accounting Standards ("CASs") and the guidelines issued by the National Bank of Cambodia relating to the preparation and presentation of financial statements or, if there have been any departures in the interest of true and fair presentation, ensure that these have been appropriately disclosed, explained and quantified in the financial statements;
- (iii) maintain adequate accounting records and an effective system of internal controls;
- (iv) prepare the financial statements on a going concern basis unless it is inappropriate to assume that the Company will continue its operations in the foreseeable future; and
- (v) control and direct effectively the Company in all material decisions affecting its operations and performance and ascertain that such decisions and/or instructions have been properly reflected in the financial statements.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

Statement by the Directors

In the opinion of the Directors, the financial statements set out on pages 8 to 38 have been drawn up in accordance with Cambodian Accounting Standards and the guidelines issued by the National Bank of Cambodia so as to give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and cash flows for the year ended 31 December 2018.

Signed on behalf of the management,



Mr. Meas Thon
Chief Executive Officer

Battambang, Cambodia
Date: 28 June 2019

REPORT OF THE INDEPENDENT AUDITORS
To the Shareholders
BORVOR FINANCE PLC.

Opinion

We have audited the financial statements Borvor Finance Plc. ("the Company"), which comprise the balance sheet as at 31 December 2018, the income statement, statement of changes in fund balance and statement of cash flows for the year ended, and notes, comprising significant accounting policies and other explanatory information as set out on pages 8 to 39.

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

Basis for Opinion

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

Other Information

Director is responsible for the other information. The other information obtained at the date of this auditors' report is the report of the management on page 1 to 4, and the annual report, which is expected to be made available to us after that date.

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

In connection with our audit of financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other Matter

Borvor Finance Plc. ("the Company") was formerly known as Small Economic Activity Development ("SEAD" or "the Project"), a project operated under the umbrella of CARE International in Cambodia. The Company obtained its renewed 3 years license from the National Bank of Cambodia ("NBC") to operate as Rural Credit Operator on 17 November 2017. So, the supplementary information for year ended 31 December 2017 was not available and not disclose as a comparative information for the year ended 2018.

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

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

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

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 misstatements, 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 CISA, 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.
- 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 and on behalf of **HRDP and Associates Co., Ltd**



Peou Dara
Partner

Phnom Penh, Kingdom of Cambodia
Date: 28 June 2019

BOVOR FINANCE PLC.

**BALANCE SHEET
AS AT 31 DECEMBER 2018**

		2018		2017
	Notes	KHR'000	US\$	KHR'000
ASSETS				
Cash on hand	5	142,323	35,421	238,397
Balance with National Bank of Cambodia	6	487,080	121,224	-
Deposits and placement with banks	7	336,765	83,814	1,132,173
Loans to customers	8	29,861,589	7,431,953	33,447,543
Other assets	9	625,363	155,640	26,050
Property and equipment	10	1,234,124	307,149	1,484,611
TOTAL ASSETS		32,687,244	8,135,201	36,328,774
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Deposits from customers	12	4,757,436	1,184,031	8,968,864
Loan protection and life savings	13	3,933,643	979,005	3,825,136
Borrowings	14	7,058,100	1,756,620	7,136,881
Stability fund	15	2,461,265	612,560	3,139,064
Other liabilities	16	1,817,586	452,360	1,313,125
Deferred tax liabilities	11	74,751	18,604	74,751
Current income tax liabilities	11	231,742	57,676	195,045
		20,334,523	5,060,856	24,652,866
FUND BALANCE				
Project SEAD capital	17	949,821	236,391	949,821
Share capital	18	9,741,600	2,424,490	9,741,600
Retained earnings		1,661,300	413,464	984,487
		12,352,721	3,074,345	11,675,908
TOTAL LIABILITIES AND FUND BALANCE		32,687,244	8,135,201	36,328,774

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

BOVOR FINANCE PLC.**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018**

		2018		2017
	Notes	KHR'000	US\$	KHR'000
Interest income	19	5,649,887	1,406,144	7,184,631
Interest expense	20	(706,657)	(175,873)	(999,555)
Net interest income		4,943,230	1,230,271	6,185,076
Other income	21	526,763	131,101	375,279
Administrative and other expenses	22	(4,616,517)	(1,148,959)	(4,400,028)
Operating income		853,476	212,413	2,160,327
Reversal bad and doubtful loans and advances	8	135,416	33,702	(781,358)
Profit before income tax		988,892	246,115	1,378,969
Income tax expense	11	(312,079)	(77,670)	(377,921)
Net profit for the year		676,813	168,445	1,001,048

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

BOVOR FINANCE PLC.

**STATEMENT OF CHANGES IN FUND BALANCE
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Share capital KHR'000	Project SEAD capital KHR'000	Retained earnings KHR'000	Total KHR'000
2018				
Balance as at 1 January 2018	9,741,600	949,821	984,487	11,675,908
Net profit for the year	-	-	676,813	676,813
Balance as at 31 December 2018	9,741,600	949,821	1,661,300	12,352,721
Balance as at 31 December 2018 (US\$ equivalents – Note 4)	2,424,490	236,391	413,464	3,074,345
2017				
Balance as at 1 January 2017	86,720	949,821	11,521,379	12,557,920
Transfer to stability fund	(86,720)	-	(2,752,173)	(2,838,893)
Transfer to bonus	-	-	(82,487)	(82,487)
Transfer from/(to) severance & benefit	-	-	(104,471)	(104,471)
Retained earnings take over from CBMIFOs	-	-	925,591	925,591
Transfer from severance & benefit to share capital	210,700	-	-	210,700
Transfer from retained earnings to share capital	9,524,400	-	(9,524,400)	-
Additional share capital purchased	6,500	-	-	6,500
Net profit for the year	-	-	1,001,048	1,001,048
Balance as at 31 December 2017	9,741,600	949,821	984,487	11,675,908

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

BOVOR FINANCE PLC.
**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018**

		2018		2017
	Notes	KHR'000	US\$	KHR'000
Cash flows from operating activities				
Profit before income tax		988,892	246,115	1,378,969
Adjustments for:				
Depreciation	10	78,543	19,548	84,639
Property and equipment written-off	10	182,154	45,334	-
Allowance for bad and doubtful loans	8	(135,416)	(33,702)	781,358
1% placement with other bank	7	3,402	847	-
Foreign exchange gain		(199)	(50)	(98,960)
		1,117,376	278,092	2,146,006
Changes in:				
Loans to customers	8	3,721,569	926,224	(5,833,993)
Other assets	9	(599,313)	(149,157)	250,269
Deposits from customers	12	(4,211,428)	(1,048,140)	(347,771)
Loan protection and life savings	13	108,507	27,005	420,354
Amounts due to CBMIFO members		-	-	(270,294)
Stability fund	15	(677,799)	(168,691)	(410,043)
Other liabilities	16	504,461	125,550	(38,689)
Cash generated from operations		(36,627)	(9,117)	(4,084,161)
Income tax paid	11	(275,382)	(68,537)	(500,299)
Net cash used in operating activities		(312,009)	(77,654)	(4,584,460)
Cash flows from investing activities				
Acquisition of property and equipment	10	(10,210)	(2,541)	(1,404,524)
Proceeds from disposal of property and equipment		-	-	39
Net cash used in investing activities		(10,210)	(2,541)	(1,404,485)
Cash flows from financing activities				
Additional share capital purchase		-	-	6,500
Borrowings	14	(78,781)	(19,607)	1,181,011
Placement of statutory deposit	6	(487,080)	(121,224)	-
Net cash used in financing activities		(565,861)	(140,831)	1,187,511
Net increase in cash and cash equivalents		(888,080)	(221,026)	(4,801,434)
Cash and cash equivalents at beginning of the year		1,370,570	341,108	6,172,004
Cash and cash equivalents at end of the year		482,490	120,082	1,370,570

BOVOR FINANCE PLC.**STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

Cash and cash equivalents comprise the following:

		2018		2017
	Notes	KHR'000	US\$	KHR'000
Cash and cash equivalents comprise:				
Cash on hand	5	142,323	35,421	238,397
Balance deposits and placements with banks before regulatory deposit	7	340,167	84,661	1,132,173
		<u>482,490</u>	<u>120,082</u>	<u>1,370,570</u>

BOVOR FINANCE PLC.
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

1. BACKGROUND AND PRINCIPAL ACTIVITIES

Borvor Finance Plc. ("the Company") was formerly known as Small Economic Activity Development ("SEAD" or "the Project"), a project operated under the umbrella of CARE International in Cambodia. The Project's saving programme is a component of CARE Cambodia community saving programme in Battambang province. The Company obtained its renewed 3 years license from the National Bank of Cambodia ("NBC") to operate as Rural Credit Operator on 17 November 2017.

The Project was designed in 1998 with the aim to promote economic security of low income households through mobilisation of savings of the members. The Project is implemented through community-based micro-finance Company's by establishment of saving banks at community level.

On 5 September 2002, SEAD was registered as a non-political association under the name of Cambodian Savings and Credit Federation ("CSCF"). Subsequently on 1 October 2002, the CSCF requested to the Ministry of Interior to change its name to Cambodian Community Savings Federation.

On 6 December 2002, the Company obtained approval from the Ministry of Interior through its letter No.1248 SCN. In June 2007, the Company registered with the National Bank of Cambodia ("NBC") to operate as a rural credit operator with a term of three years. On 5 June 2010, the Company obtained a second renewed registration with a term of another three years ended on 8 June 2013. On 7 February 2013, the Company requested to NBC for an extension of the registration and obtained the renewal licence for another three years which is due to be ended on 14 October 2016. On 27 April 2016, the Company requested to NBC for another extension of the licence for another three years. On 13 June 2017, the Company requested to NBC to change its name from Cambodian Community Savings Federation to Borvor Finance Plc as per NBC requirement.

The Company is engaged in providing micro-financing services through 3 branches located in Battambang, Banteay Meanchey and Bavel. The registered office of the Company is located at No. 99, Group 4, Phum Romchek 5, Sangkat Ratanak, Krong Battambang, Battambang Province, Kingdom of Cambodia.

2. BASIS OF OPERATION

(a) Statement of compliance

The financial statements, which are expressed in KHR, have been prepared in accordance with Cambodian Accounting Standards ("CASs") as issued by the National Accounting Council of the Ministry of Economy and Finance and the guidelines issued by the NBC relating to the preparation and presentation of financial statements.

These financial statements were approved by the Company's management and authorised for issue on 28 June 2019.

**BOVOR FINANCE PLC.
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

2. BASIS OF OPERATION (CONTINUED)

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis in accordance with the accounting policies set out below.

(c) Going concern assumption

The Company's financial statements have been prepared on a going concern basis. On 12 June 2017 and 13 June 2017, the Company requested to the Ministry of Commerce and NBC, Respectively, to change its name from Cambodian Community Savings Federation to Borvor Finance Plc as per NBC requirement. It is approved on 17 November 2017.

(d) Functional and presentation currency

The Company transacts its business and maintains its accounting records in three currencies, Khmer Riel ("KHR"), United States Dollars ("US\$") and Thai Baht ("THB"). Management has determined the KHR to be the functional and presentation currency as it reflects the economic substance of the underlying events and circumstances of the Company as the majority of the loan and saving transactions are in KHR.

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

(e) Use of estimates and judgements

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below.

(a) Basis of aggregation

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

BOVOR FINANCE PLC.
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances, demand deposits and short-term highly liquid investments with 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.

(c) Deposits and placements with banks

Deposits and placements with banks are stated at cost.

(d) Loans to customers

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

(e) Allowance for bad and doubtful loans to customers

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

Classification	Number of days past due	Allowance
Short-term loans (less than one year):		
Standard	0 - 29 days	1%
Sub-standard	30 - 59 days	10%
Doubtful	60 - 89 days	30%
Loss	90 days or more	100%
Long-term loans (more than one year):		
Standard	0 - 29 days	1%
Sub-standard	30 - 179 days	10%
Doubtful	180 - 359 days	30%
Loss	360 days or more	100%

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

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

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

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

**BOVOR FINANCE PLC.
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Allowance for bad and doubtful loans to customers (Continued)

Credit Risk Grading and Provision on Impairment that the Company not yet adopted

According to Prakas No. B7-017-344 dated 1 December 2017 on Credit Risk Grading and Provision on Impairment and the Circular No. B7-018-001 dated 16 February 2018 to facilitate the adoption and implementation of this Prakas the allowance for loan losses has been revised 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	≥ 360 days	100%

The Company decided to adopt prospectively all requirements of Prakas No. B7-017-344 including the calculation of provision on impairment in its financial statements in the financial year 2018.

The management is evaluating the likely impact on the financial statements as the result from the adoption of this new credit risk grading and provision on impairment policy.

(f) Other assets

Other assets are carried at estimated realisable value.

BOVOR FINANCE PLC.
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Property and equipment

- (i) Items of property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.
- (ii) Depreciation of property and equipment is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets at the following rates:

Motor vehicles	50%
Office equipment	20%
IT and computer equipment	50%
Land is not depreciated	
- (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 year 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 the income statement on the date of retirement or disposal.
- (v) Fully depreciated property and equipment are retained in the financial statements until disposed of or written off.

(h) Impairment of assets

(i) Financial assets

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

An impairment loss in respect of a financial asset is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

**BOVOR FINANCE PLC.
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Impairment of assets (Continued)

(i) Financial assets (Continued)

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

All impairment losses are recognised in the income statement.

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

(ii) Non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

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

If an impairment loss subsequently reverses, the carrying amount of the asset or group of assets is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset or group of assets in prior periods. A reversal of an impairment loss is recognised immediately in income statement.

(i) Deposits from customers

Deposits from customers are stated at placement value.

(j) Loan protection and life savings

There was no LPLS being collected from CBMIFO's in 2018. However, Borvor allocates its income on monthly basis at rate 0.04% of the savings balance in the previous month plus previous month outstanding loan balance to support LPLS program.

**BOVOR FINANCE PLC.
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Loan protection and life savings (Continued)

The LPLS is stated at the placement value.

(k) Borrowings

Borrowings are stated at the amount of the principal outstanding.

(l) Amounts due to CBMIFO members

Amounts due to CBMIFO members are stated at placement value.

(m) Stability fund

Stability fund is collected from 5 main sources as below:

- i. First fund transferred from Loan protection and life savings which is complying base on the committee approval;
- ii. 5% from total LPLS premium service yearly;
- iii. 5% from each CMIFOs' yearly net profit and loss (not exceed KHR 10 million);
- iv. The Company contribution base on the yearly net profit and loss and the committee approval amount; and
- v. Remaining fund "deducted all liability" from each CBMIFOs which is bankruptcy.

(n) Provisions

Provisions are recognised in the balance sheet 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.

(o) Income and expense recognition

Interest income is recognised on cash basis.

Expenses are recognised on an accrual basis.

(p) Interest expense

Interest expense on deposits and borrowings is recognised on an accrual basis.

(q) Operating leases

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease commitments are not recognised as liabilities until the obligation to pay becomes due.

**BOVOR FINANCE PLC.
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Income tax

Income tax on the income statement for the year comprises current and deferred tax. It is recognised in the income statement except to the extent that it relates to items recognised directly to fund balance, in which case it is recognised in fund balance.

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

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

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

(s) Related parties

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

Related parties also include individuals who hold, directly or indirectly, a minimum of 10% of the capital of the Company or voting rights therefore, or who participates in the administration, direction, management, or the design and implementation of the internal controls of the Company.

4. TRANSLATION OF KHMER RIEL INTO UNITED STATES DOLLARS

The financial statements are stated in Khmer Riel ("KHR"). The translations of KHR amounts into United States Dollars ("US\$") are included solely for presentation purposes and have been made using the prescribed official exchange rate of KHR4,018 to US\$1 published by the NBC on 31 December 2018 (31 December 2017: KHR4,037: US\$1). These convenience translations should not be construed as representations that the Khmer Riel amounts have been, could have been, or could in the future be, converted into United States Dollars at this or any other rate of exchange.

BOVOR FINANCE PLC.
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

5. CASH ON HAND

	2018		2017
	KHR'000	US\$	KHR'000
Khmer Riel	111,263	27,691	182,532
Thai Baht	31,060	7,730	55,865
	<u>142,323</u>	<u>35,421</u>	<u>238,397</u>

6. BALANCE WITH NATIONAL BANK OF CAMBODIA

	2018		2017
	KHR'000	US\$	KHR'000
Capital guarantee	487,080	121,224	-
	<u>487,080</u>	<u>121,224</u>	<u>-</u>

7. DEPOSITS AND PLACEMENT WITH BANKS

	2018		2017
	KHR'000	US\$	KHR'000
Head office – Battambang	232,551	57,877	809,223
Branches			
Battambang	5,491	1,367	124,437
Banteay Meanchey	82,534	20,541	146,940
Bavel	19,591	4,876	51,573
	<u>340,167</u>	<u>84,661</u>	<u>1,132,173</u>
Regulatory provision	(3,402)	(847)	-
	<u>336,765</u>	<u>83,814</u>	<u>1,132,173</u>
	2018		2017
	KHR'000	US\$	KHR'000
(a) By maturity:			
Within 1 month	340,167	84,661	1,132,173
1 to 2 months	-	-	-
	<u>340,167</u>	<u>84,661</u>	<u>1,132,173</u>

BOVOR FINANCE PLC.
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

7. DEPOSITS AND PLACEMENT WITH BANKS (CONTINUED)

	2018		2017
	KHR'000	US\$	KHR'000
(b) By type:			
Saving accounts			
ACLEDA Bank Plc.	332,656	82,792	353,843
Advanced Bank of Asia Limited	7,511	1,869	774,283
	<u>340,167</u>	<u>84,661</u>	<u>1,128,126</u>
Fixed deposit accounts			
Advanced Bank of Asia Limited	-	-	4,047
	<u>340,167</u>	<u>84,661</u>	<u>1,132,173</u>
	2018		2017
	KHR'000	US\$	KHR'000
(c) By currency:			
Khmer Riel	62,132	15,464	35,905
US Dollars	93,569	23,287	910,619
Thai Baht	184,466	45,910	185,649
	<u>340,167</u>	<u>84,661</u>	<u>1,132,173</u>
	2018	2017	
(d) By interest rate (per annum):			
ACLEDA Bank Plc.	0.05%-0.50%	0.05%-1.25%	
Advanced Bank of Asia Limited	0.25%	0.75%-3.00%	

8. LOANS TO CUSTOMERS

	2018		2017
	KHR'000	US\$	KHR'000
Loans to CBMIFOs	5,228,405	1,301,246	2,243,877
Loans to SMEs	25,493,036	6,344,708	32,199,133
	<u>30,721,441</u>	<u>7,645,954</u>	<u>34,443,010</u>
Allowance for bad and doubtful loans	<u>(859,852)</u>	<u>(214,001)</u>	<u>(995,467)</u>
	<u>29,861,589</u>	<u>7,431,953</u>	<u>33,447,543</u>

BOVOR FINANCE PLC.
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

8. LOANS TO CUSTOMERS (CONTINUED)

The movement in the allowance for bad and doubtful loans is as follows:

	2018		2017
	KHR'000	US\$	KHR'000
At 1 January	995,467	247,753	306,517
Provision during the year	(135,416)	(33,702)	1,312,877
Reversal during the year	-	-	(76,956)
Written off during the year	-	-	(565,137)
Translation different	(199)	(50)	18,166
	<u>859,852</u>	<u>214,001</u>	<u>995,467</u>

The loans to customers are analyzed as follows:

	2018		2017
	KHR'000	US\$	KHR'000
(e) By maturity:			
Within 1 month	7,955	1,980	1,635,202
2 to 3 months	2,765	688	1,267,673
4 to 6 months	3,510	874	2,341,903
7 to 12 months	1,551,612	386,165	3,430,366
1 to 3 years	13,018,986	3,240,166	21,378,670
Over 3 years	16,136,613	4,016,081	4,389,196
	<u>30,721,441</u>	<u>7,645,954</u>	<u>34,443,010</u>

	2018		2017
	KHR'000	US\$	KHR'000
(f) By location:			
Battambang	14,689,563	3,655,940	24,935,570
Banteay Meanchey	9,276,294	2,308,684	9,507,440
Bavel	6,755,584	1,681,330	-
	<u>30,721,441</u>	<u>7,645,954</u>	<u>34,443,010</u>

	2018		2017
	KHR'000	US\$	KHR'000
(g) By industry:			
Agriculture	13,577,474	3,379,162	20,797,710
Services	1,628,180	405,222	1,854,960
Consumption	6,146,898	1,529,840	-
Construction	-	-	1,946,320
Trade	3,856,789	959,878	5,011,680
Others	5,512,100	1,371,852	4,832,340
	<u>30,721,441</u>	<u>7,645,954</u>	<u>34,443,010</u>

**BOVOR FINANCE PLC.
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

8. LOANS TO CUSTOMERS (CONTINUED)

	2018		2017
	KHR'000	US\$	KHR'000
(h) By currency:			
Khmer Riel	13,362,214	3,325,588	19,083,310
US Dollar	7,603,583	1,892,381	5,374,120
Thai Baht	9,755,644	2,427,985	9,985,580
	<u>30,721,441</u>	<u>7,645,954</u>	<u>34,443,010</u>
(i) By residency status:			
Residents	<u>30,721,441</u>	<u>7,645,954</u>	<u>34,443,010</u>
(j) By relationship:			
Non-related parties	<u>30,721,441</u>	<u>7,645,954</u>	<u>34,443,010</u>
(k) By performance:			
Standard loans			
Secured	30,084,915	7,487,535	32,393,410
Special mention loans			
Secured	11,033	2,747	-
Sub-standard loans			
Secured	29,369	7,309	980,520
Doubtful loans			
Secured	86,652	21,566	245,230
Loss loans			
Secured	509,472	126,797	823,850
	<u>30,721,441</u>	<u>7,645,954</u>	<u>34,443,010</u>
	2018	2017	
(l) By interest rate (per annum):			
Loans to CBMIFOs	15.60% - 18%	15.60% - 18%	
Loans to SMEs	10.80% - 36%	15.60% - 18%	

9. OTHER ASSETS

	2018		2017
	KHR'000	US\$	KHR'000
Interest receivable	568,703	141,539	-
Stock of office supplies	20,823	5,182	-
Prepaid expenses	25,434	6,330	17,960
Others	10,403	2,589	8,090
	<u>625,363</u>	<u>155,640</u>	<u>26,050</u>

BOVOR FINANCE PLC.
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

10. PROPERTY AND EQUIPMENT

<i>Cost</i>	Building KHR'000	Land KHR'000	Motor vehicles KHR'000	Office IT and computer equipment KHR'000	Total KHR'000
Balance as at 01.01.2018	639,854	779,485	200,544	140,807	1,854,655
Additions	-	-	-	6,920	10,210
Written-off	(100,571)	(74,567)	(1,120)	(7,621)	(184,266)
Balance as at 31.12.2018	539,283	704,918	199,424	140,106	1,680,599
Accumulated depreciation					
Balance as at 01.01.2018	(22,797)	-	(153,817)	(105,148)	(370,044)
Charge for the year	(25,207)	-	(33,710)	(14,027)	(78,543)
Written-off	226	-	883	561	2,112
Balance as at 31.12.2018	(47,778)	-	(186,644)	(118,614)	(446,475)
Carrying amounts					
Balance as at 31.12.2018	491,505	704,918	12,780	21,492	1,234,124
Balance as at 31.12.2018 (US\$ equivalents – Note 4)	122,326	175,440	3,181	5,349	307,150

BOVOR FINANCE PLC.
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

10. PROPERTY AND EQUIPMENT (CONTINUED)

<i>Cost</i>	Building KHR'000	Land KHR'000	Motor vehicles KHR'000	Office IT and computer equipment KHR'000	equipment KHR'000	Total KHR'000
Balance as at 01.01.2017	-	118,857	133,286	114,347	86,405	452,895
Additions	639,854	660,628	67,268	27,539	9,235	1,404,524
Disposals	-	-	(10)	(1,079)	(1,675)	(2,764)
Balance as at 31.12.2017	639,854	779,485	200,544	140,807	93,965	1,854,655
Accumulated depreciation						
Balance as at 01.01.2017	-	-	(119,834)	(82,799)	(85,497)	(288,130)
Charge for the year	(22,797)	-	(33,983)	(23,409)	(4,450)	(84,639)
Disposals	-	-	-	1,060	1,665	2,725
Balance as at 31.12.2017	(22,797)	-	(153,817)	(105,148)	(88,282)	(370,044)
Carrying amounts						
Balance as at 31.12.2017	617,057	779,485	46,727	35,659	5,683	1,484,611

BOVOR FINANCE PLC.
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

11. INCOME TAX

(a) Applicable tax rates

In accordance with Cambodian law, the Company has an obligation to pay corporate income tax of either the profit tax at the rate 20% of taxable profits or the minimum tax at 1% of annual turnover, whichever is higher.

(b) Current income tax liabilities

	2018		2017
	KHR'000	US\$	KHR'000
At 1 January	195,045	48,543	426,163
Charged to income statement	312,079	77,670	269,181
Income tax paid	(275,382)	(68,537)	(500,299)
Currency translation difference	-	-	-
At 31 December	231,742	57,676	195,045

(c) Deferred tax (liabilities)/assets

Movement of deferred tax (liabilities)/assets, net is as follows:

	2018		2017
	KHR'000	US\$	KHR'000
At 1 January	(74,751)	(18,604)	33,937
Charged to income statement	-	-	(108,740)
Currency translation difference	-	-	52
At 31 December	(74,751)	(18,604)	(74,751)

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

	2018		2017
	KHR'000	US\$	KHR'000
Unrealised exchange (gain)/loss	(2,299)	(572)	(89,483)
Depreciation	5,648	1,406	6,581
Provision severance pay and LPLS expenses	(78,100)	(19,4380)	8,151
At 31 December	(74,751)	(18,604)	(74,751)

BOVOR FINANCE PLC.
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

11. INCOME TAX (CONTINUED)

(d) Income tax expense

	2018		2017
	KHR'000	US\$	KHR'000
Current income tax	312,079	77,670	269,181
Deferred tax expense - Reversal of temporary differences	-	-	108,740
	<u>312,079</u>	<u>77,670</u>	<u>377,921</u>

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

	2018		2017
	KHR'000	US\$	KHR'000
Profit before income tax	988,892	246,115	1,378,969
Income tax using statutory rate at 20%	197,778	49,223	275,794
Effect of non-deductible expenses	24,737	6,157	33,062
Effect of temporary difference	89,564	22,290	69,065
Income tax expense	<u>312,079</u>	<u>77,670</u>	<u>377,921</u>

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

**BOVOR FINANCE PLC.
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

12. DEPOSIT FROM CUSTOMERS

	2018		2017
	KHR'000	US\$	KHR'000
Deposits from CBMIFOs:			
Compulsory savings	530,981	132,151	489,564
Demand savings	-	-	-
	<u>530,981</u>	<u>132,151</u>	<u>489,564</u>
Deposits from SMEs:			
Compulsory savings	2,607,653	648,993	6,389,259
Promissory notes	590,138	146,874	1,512,578
Dormant accounts	1,025,648	255,263	519,138
Voluntary savings	3,016	750	58,325
	<u>4,226,455</u>	<u>1,051,880</u>	<u>8,479,300</u>
	<u>4,757,436</u>	<u>1,184,031</u>	<u>8,968,864</u>

Deposits from customers are analysed as follows:

	2018		2017
	KHR'000	US\$	KHR'000
(a) By currency:			
Khmer Riel	3,169,515	788,829	6,179,652
Thai Baht	1,509,450	375,672	2,499,661
US Dollars	78,471	19,530	289,551
	<u>4,757,436</u>	<u>1,184,031</u>	<u>8,968,864</u>
(b) By location:			
Battambang	2,672,485	665,128	6,997,214
Banteay Meanchey	1,284,216	319,616	1,971,650
Bavel	800,735	199,287	-
	<u>4,757,436</u>	<u>1,184,031</u>	<u>8,968,864</u>

BOVOR FINANCE PLC.
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

12. DEPOSIT FROM CUSTOMERS (CONTINUED)

	2018	2017
(c) By interest rate (per annum):		
Deposit from CBMIFOs:		
Compulsory savings	9.00%	9.00%
Demand savings	1.50%	1.50%
Deposits from SMEs:		
Promissory notes	5.00% - 10.50%	5.00% - 10.50%
Compulsory savings	6.00%	8.00%
Voluntary savings	3.00%	3.00%

13. LOAN PROTECTION AND LIFE SAVINGS

	2018		2017
	KHR'000	US\$	KHR'000
Head office – Battambang	69,909	17,399	69,529
Branches			
Battambang	1,999,618	497,665	1,973,249
Banteay Meanchey	923,088	229,738	876,283
Bavel	941,028	234,203	906,075
	3,933,643	979,005	3,825,136

	2018		2017
	KHR'000	US\$	KHR'000
By currency:			
Khmer Riel	3,010,555	749,267	2,948,853
Thai Baht	923,088	229,738	876,283
	3,933,643	979,005	3,825,136

14. BORROWINGS

	2018		2017
	KHR'000	US\$	KHR'000
Stichting Rabo Bank Foundation	2,812,600	700,000	3,969,711
CARE International UK Micro funds	2,867,326	713,620	2,549,509
Individual	1,378,174	343,000	617,661
	7,058,100	1,756,620	7,136,881

BOVOR FINANCE PLC.
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

14. BORROWINGS (CONTINUED)

	2018		2017
	KHR'000	US\$	KHR'000
(a) By maturity			
Within 1 month	-	-	-
Within 2 to 3 months	-	-	-
3 to 12 months	642,880	160,000	1,224,551
1 to 5 years	6,415,220	1,596,620	5,912,330
	<u>7,058,100</u>	<u>1,756,620</u>	<u>7,136,881</u>
(b) By currency			
US Dollars	<u>7,058,100</u>	<u>1,756,620</u>	<u>7,136,881</u>
(c) By interest rate (per annum)			
US Dollars	<u>8.00% - 8.40%</u>		<u>6.00% - 12.00%</u>

15. STABILITY FUND

Stability fund is programmed to protect risk through the establishment of strong internal control and its community stability fund to ensure that its operation are operating effectively. This programme has been created and effective on 1 September 2015, in which the source of fund was transferred from loan protection and life savings amounting to KHR 2,461 million or equivalent to US\$612,560 as at 31 December 2018 (in 2017: KHR 3,139 million or equivalent to US\$777,573).

16. OTHER LIABILITIES

	2018		2017
	KHR'000	US\$	KHR'000
Severance benefits payable	1,149,000	285,963	289,320
Accrued expenses	247,830	61,680	111,312
Withholding tax payable	21,733	5,409	44,080
Interest in suspense	282,522	70,314	-
Salary tax payable	4,120	1,025	6,342
Interest payable on borrowings	48,216	12,000	50,854
Annual leave payable	-	-	-
Interest payables on savings	-	-	-
Unearned income	59,312	14,762	20,602
Others	4,853	1,207	790,615
	<u>1,817,586</u>	<u>452,360</u>	<u>1,313,125</u>

BOVOR FINANCE PLC.
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

17. PROJECT SEAD CAPITAL

	2018		2017
	KHR'000	US\$	KHR'000
Project SEAD capital under Credit Union Foundation Australia ("CUFA") funds	-	-	-
Project SEAD capital under AusAID funds	83,365	20,747	83,365
	<u>866,456</u>	<u>215,644</u>	<u>866,456</u>
	<u>949,821</u>	<u>236,391</u>	<u>949,821</u>

18. SHARE CAPITAL

	2018		2017
	KHR'000	US\$	KHR'000
At 1 January	9,741,600	2,424,490	86,720
Transfer to stability fund	-	-	(86,720)
Transferred during the period	-	-	9,735,100
Additional share capital purchased	-	-	6,500
	<u>9,741,600</u>	<u>2,424,490</u>	<u>9,741,600</u>

19. INTEREST INCOME

	2018		2017
	KHR'000	US\$	KHR'000
Loans to customers	5,646,849	1,405,388	7,153,072
Deposits and placement with banks	3,038	756	31,559
	<u>5,649,887</u>	<u>1,406,144</u>	<u>7,184,631</u>

20. INTEREST EXPENSE

	2018		2017
	KHR'000	US\$	KHR'000
Deposit from customers	354,913	88,331	726,357
Borrowings	351,744	87,542	273,198
	<u>706,657</u>	<u>175,873</u>	<u>999,555</u>

BOVOR FINANCE PLC.
NOTE TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

21. OTHER INCOME

	2018		2017
	KHR'000	US\$	KHR'000
Service fees income	-	-	45,637
Penalties	49,374	12,288	85,625
Loan fee	328,968	81,874	185,200
Member entrance fee	-	-	1,810
Other income	148,421	36,939	57,007
	<u>526,763</u>	<u>131,101</u>	<u>375,279</u>

22. ADMINISTRATIVE AND OTHER EXPENSES

	2018		2017
	KHR'000	US\$	KHR'000
Staff salaries & wages	2,655,412	660,879	2,633,058
Severance & benefits	548,376	136,480	474,299
LPLS expense	180,486	44,919	411,906
Publication	9,787	2,436	244,392
Rental	199,462	49,642	196,017
Professional fees	241,308	60,057	160,917
Medical expenses	146,149	36,374	135,923
Litigation fees	23,565	5,865	103,266
Office supplies	72,238	17,979	89,256
Depreciation	78,543	19,548	84,639
Utilities	49,281	12,265	49,254
Training & workshops	84,552	21,043	43,597
Fuel & gasoline	42,928	10,684	42,571
Travel & DSA	39,696	9,880	40,995
Promotion fees	27,354	6,808	30,244
Repairs and maintenance	21,272	5,294	25,509
Withholding tax	54,472	13,557	22,827
Communication	21,274	5,295	21,160
Bank charges	11,559	2,877	18,808
Insurance	60,808	15,134	16,223
Other expenses	6,557	1,630	8,340
Affiliation fees	7,468	1,859	7,267
Social service fees	780	194	4,398
License fees	11,280	2,807	2,402
Provision expenses to placement with other banks	3,402	847	-
Bank tax	117	29	1,266
Annual leave expense	6,894	1,716	(21,089)
Gain on exchange rate	11,497	2,861	(447,417)
	<u>4,616,517</u>	<u>1,148,959</u>	<u>4,400,028</u>

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23. LEASE COMMITMENTS

The Company has operating lease commitments in respect of its office rental as follows:

	2018		2017
	KHR'000	US\$	KHR'000
Within 1 year	38,340	9,542	196,017
Between 2 to 5 years	31,224	7,771	341,720
	<u>69,564</u>	<u>17,313</u>	<u>537,737</u>

24. RELATED PARTY BALANCES AND TRANSACTIONS

(a) Balances with related parties

	31 December 2018	
	KHR'000	US\$
		(Note 4)
Amount owing to shareholder	-	-

(b) Transactions with related parties

	Year ended	
	31 December 2018	
	KHR'000	US\$
Key management compensation (including salaries and benefits)	<u>272,911</u>	<u>67,922</u>

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's financial risk management objective is to optimise value creation for its shareholders whilst minimising the potential adverse impact arising from volatility of the financial markets.

The Directors are responsible for setting the objectives and underlying principles of financial risk management for the Company. The management then establishes the detailed policies such as authority levels, oversight responsibilities, risk identification and measurement and exposure limits in accordance with the objectives and underlying principles approved by the Directors.

Information on the management of the related exposures is detailed below:

BOVOR FINANCE PLC.
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25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(i) Credit risk

The Company assumes exposure to credit risk which is the risk that a counterparty will be unable to pay the amounts in full when due. The Company structures the levels of credit risk undertaken by placing limits on the amount of risk accepted in relation to one borrower, or the Company of borrowers, and the geographical and industry segments. Procedures of risk limit setting, monitoring, usage, control are governed by internal regulations. Such risks are monitored on a regular basis.

Exposure to credit risk is managed through regular analysis of the ability of the borrowers and potential borrowers to meet the interest and capital repayment obligations and reviewing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate or personal guarantees as well as by providing for loan losses.

(a) Risk limit control and mitigation policies

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

The Company employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security in the form of collateral for loans to customers, which is common practice. The Company implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types secured for loans to customers are collateral pledges over properties (land, building and other properties).

(b) Loans to customers

Loans to customers are summarised as follows:

	2018.	
	KHR'000	US\$
Loans to customers neither past due nor impaired	30,084,915	7,487,535
Loans to customers past due but not impaired	127,054	31,622
Loans to customers individually impaired	509,472	126,797
Gross loans	30,721,441	7,645,954
Allowance for doubtful loans	(859,852)	(214,001)
Net loans to customers	29,861,589	7,431,953

For the purpose of loan provisioning, the expected recovery from collateral (except cash) is not taken into consideration in accordance with the National Bank of Cambodia's requirements.

BOVOR FINANCE PLC.
NOTE TO THE FINANCIAL STATEMENTS
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25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(i) Credit risk (Continued)

(i) Loans to customers neither past due nor impaired

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

(ii) Loans to customers past due but not impaired

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

(iii) Loans to customers individually impaired

	2018	
	KHR'000	US\$
Standard	30,084,915	7,487,535
Special mention	11,033	2,747
Sub-standard	29,369	7,309
Doubtful	86,652	21,566
Loss	509,472	126,797
	<hr/>	
	30,721,441	7,645,954
	<hr/>	

In accordance with Prakas B7-02-186 Prokor dated 13 September 2002 on loan classification and provisioning, loans past due more than 29 days are considered impaired and a minimum level of specific provision for impairment is made depending on the classification concerned, unless other information is available to indicate the contrary.

(iv) Loans to customers renegotiated

There were no renegotiated loans to customers as at 31 December 2018.

(v) Repossessed collateral

During the financial year ended 31 December 2018, the Company did not obtain any assets by taking possession of collateral held as security.

(ii) Interest rate risk

Interest rate risk refers to the volatility in net interest income as a result of changes in the levels of interest rate and shifts in the composition of the assets and liabilities. Interest rate risk is managed through close monitoring of returns on investment, market pricing, and cost of funds and through interest rate sensitivity gap analysis. The potential reduction in net interest income from an unfavorable interest rate movement is monitored against the risk tolerance limits set. An analysis of the interest rate risk pertaining to the Company's assets and liabilities is disclosed below.

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NOTE TO THE FINANCIAL STATEMENTS
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25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(ii). Interest rate risk (Continued)

The table below summarizes the Company's exposure to interest rate risks. Included in the table are the Company's financial assets and liabilities at carrying amounts, categorized by the earlier of contractual re-pricing or maturity dates.

31 December 2018

	Up to 1 month KHR'000	> 1 – 3 months KHR'000	> 4 – 6 months KHR'000	> 7 – 12 months KHR'000	> 1 – 3 years KHR'000	> 3 years KHR'000	Non-interest Sensitive KHR'000	Total KHR'000	Weighted average interest %
Financial assets									
Cash on hand	-	-	-	-	-	-	142,323	142,323	
Balances with National Bank of Cambodia	-	-	-	-	-	-	487,080	487,080	
Deposits and placement with banks	340,167	-	-	-	-	-	-	340,167	
Loans to customers	7,955	2,765	3,510	1,551,612	13,018,986	16,136,613	-	30,721,441	17.26%
Other assets	-	-	-	-	-	-	625,363	625,363	
Total financial assets	348,122	2,765	3,510	1,551,612	13,018,986	16,136,613	1,254,766	32,316,374	
Financial liabilities									
Other liabilities	-	-	-	-	-	-	1,817,586	1,817,586	
Borrowings	-	-	-	642,880	735,294	5,679,926	-	7,058,100	9.07%
Total financial liabilities	-	-	-	642,880	735,294	5,679,926	1,817,586	8,875,686	
Interest sensitivity gap	348,122	2,765	3,510	908,732	12,283,692	10,456,687	(562,820)	23,440,688	
US\$ (Note 4)	86,641	688	874	226,165	3,057,166	2,602,461	(140,075)	5,833,920	

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25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(iii) Liquidity risk

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

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

	On demand or within one year KHR'000	One to three years KHR'000	Over three years KHR'000	Total KHR'000
31 December 2018				
Other liabilities	1,817,586	-	-	1,817,586
Borrowings	642,880	735,294	5,679,926	7,058,100
	<u>2,460,466</u>	<u>735,294</u>	<u>5,679,926</u>	<u>8,875,686</u>
(US\$ equivalent)	<u>612,361</u>	<u>183,000</u>	<u>1,413,620</u>	<u>2,208,981</u>

(iv) Foreign currency risk

Foreign currency risk is the risk that the value of financial assets and liabilities will fluctuate due to changes in foreign exchange rates.

(v) Capital management

The objectives of the Company on managing of capital are to meet the NBC's requirement, continue as a going concern and support the development of the business by maintain strong capital.

26. TAXATION CONTINGENCIES

The taxation system in Cambodia is relatively new and is characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges. These facts may create tax risks in Cambodia substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.