

គ្រឹះស្ថានមីក្រូហិរញ្ញវត្ថុ



អិលឡូអិលស៊ី (ខេមបូឌា) ភីអិលស៊ី
LOLC (Cambodia) Plc.

Annual Report 2019

31st December 2019

LOLC (Cambodia) Plc.

Annual SECC Report – For Investors

Vision and Mission

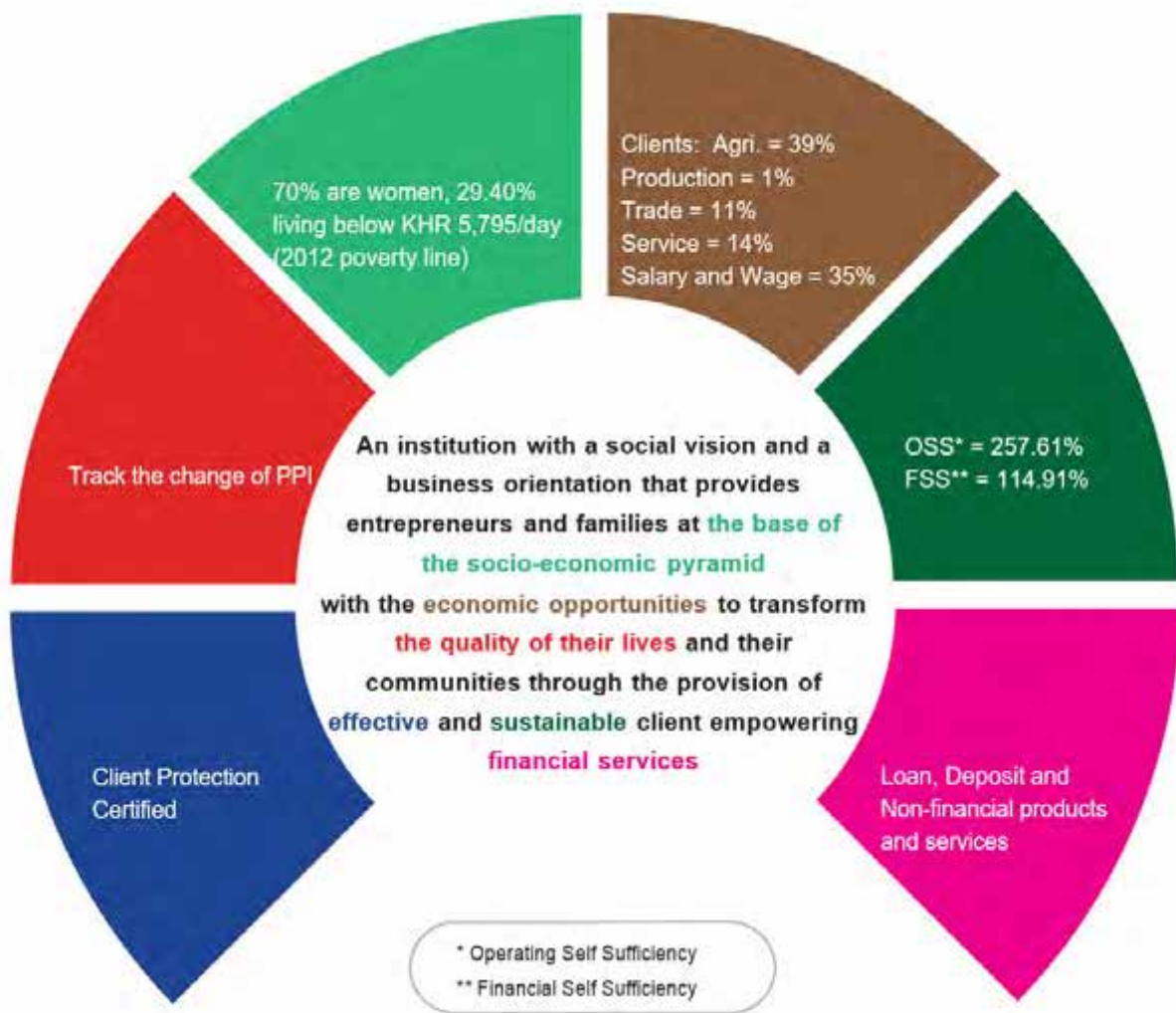
Vision Statement

Families at the base of the socio-economic pyramid are empowered to live their lives with dignity, social and economic security and justice.

Mission Statement

LOLC (Cambodia) Plc. (“LOLC”) is a microfinance institution with a social vision and a business orientation that provides entrepreneurs and families at the base of the socio-economic pyramid with the economic opportunities to transform the quality of their lives and their communities through the provision of effective and sustainable client empowering financial services.

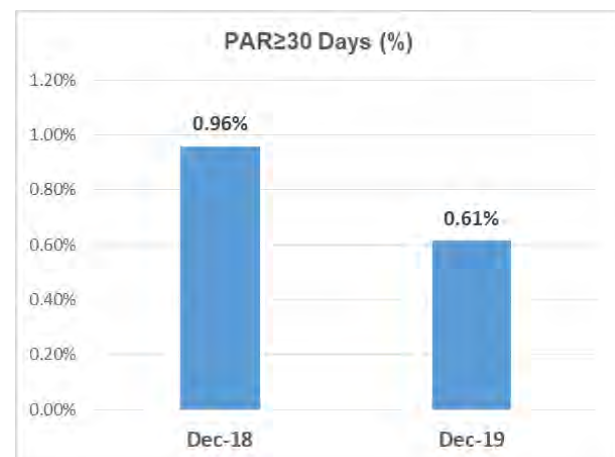
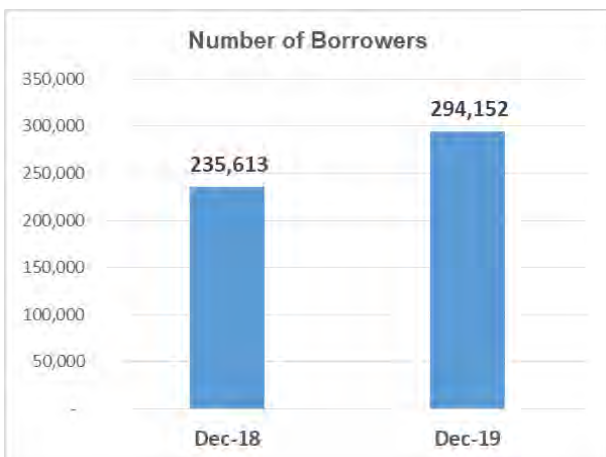
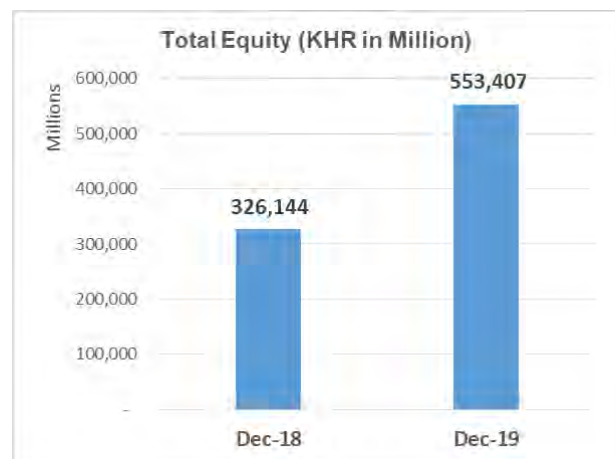
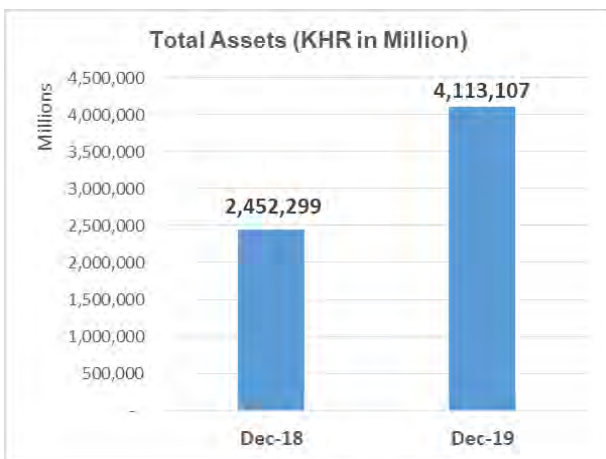
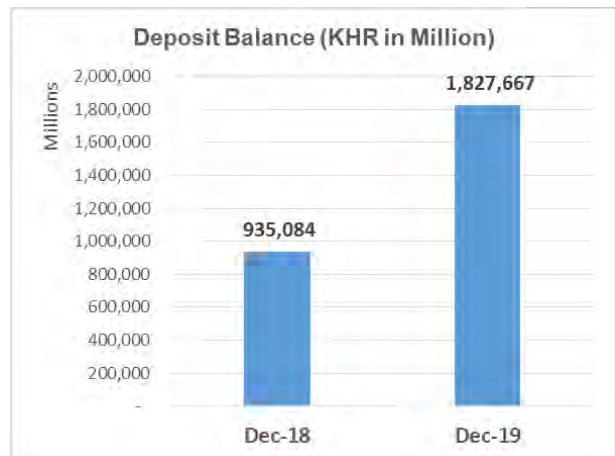
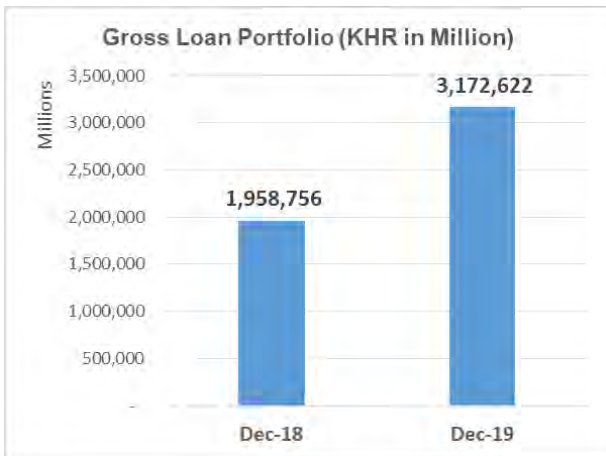
How Do We Translate Our Mission as of December 2019?



Financial Highlight

Description	2019	2018
Financial Situation		
Total assets (KHR million)	4,113,107	2,452,299
Total liabilities (KHR million)	3,559,700	2,126,156
Total equities (KHR million)	553,407	326,144
Profit / (Loss)		
Interest Income (KHR million)	471,493	314,855
Profit/(Loss) before Tax (KHR million)	160,999	82,294
Profit/(Loss) during the period (KHR million)	143,733	61,546
Financial Ratio		
Solvency Ratio	16.57%	15.63%
Debt to Equity Ratio	6.43	6.52
Liquidity Ratio	281.90%	234.00%
Non-Performing Loan Ratio	0.61%	0.96%
Deposit to Gross Loan Portfolio Ratio	57.61%	47.74%
Return on Assets	4.38%	3.11%
Return on Equity	32.68%	21.60%
Interest Coverage Ratio	174.71%	159.39%
Earnings per Share (for equity listed entity)	N/A	N/A
Dividend per Share (for equity listed entity)	N/A	N/A
Other Important Ratio (If any)	N/A	N/A

Graphs of Financial Summary



Key Statistics of Annual Operational Results

Metric	2019	2018
Total Assets (KHR in Million)	4,113,107	2,452,299
Gross Loan Portfolio (KHR in Million)	3,172,622	1,958,756
Equity (KHR in Million)	553,407	326,144
Net Income (KHR in Million)	143,733	61,546
Number Active Borrowers	294,152	235,613
Deposit Balance (KHR in Million)	1,827,667	935,084
Depositors	336,002	180,305
Number Offices (include HO)	79	77
Number Personnel	2,757	2,327
PAR \geq 30 days	0.61%	0.96%
Gross Write-offs	0.27%	0.44%
Capital Adequacy Ratio (CAR)	16.57%	15.63%
Return On Assets	4.38%	3.11%
Return On Equity	32.68%	21.60%

Composition of the Board of Directors



Mr. Brindley de Zylva
Chairman



Mr. Conrad Dias
Director



Dulip Rasika Samaraweera
Director



Mr. Indrajith Wijesiriwardana
Independent Director



Mr. Michael Moormann
Independent Director

Chairman Statement

I take pleasure in presenting to you the Annual Report and Audited Financial Statements for the year ended 31st December 2019 to investors. LOLC Cambodia is the second Microfinance Deposit Taking Institution (MDI) in the country to issue a corporate bond (KHR 80 billion - equivalent to USD 20 million) and LOLC Cambodia is committed to offer new financial products while promoting the use of Khmer Riel currency.

LOLC Cambodia has consolidated the fiscal year 2019 with outstanding financial performance and social results. With effective strategic policies and internal control, LOLC Cambodia achieved quality growth with social responsibility. With fast growth and client's trustworthiness on LOLC's products and services, LOLC Cambodia has consolidated its position as the country's 4th largest MDI in terms of deposit balance and gross loan portfolio (GLP) and the 3rd largest MDI in terms of number of borrowers, while ROA was the highest among the top 7 MDIs and ROE ranked 2nd both in 2017 and 2018 and ROA and ROE were the leading in 2019.

During 2019 we have expanded our business and outreach with products designed to cater for the fast growing middle income sector. The Medium Business Enterprises demand sophisticated products. With Technical Support from the LOLC Group, the Company keeps modifying existing products and services to fit client's needs. Further, LOLC Cambodia has been strengthening its customer service and will continue to develop new and diversified products to meet market needs, including planned savings accounts, children savings schemes and Utility Bill payment services. Moreover, during 2019 LOLC Cambodia has been focusing on digital financial services. As a result, LOLC Cambodia rolled out its iPay Mobile Banking Application which allows customers to do transactions via their mobile phone and joined to be a member of FAST system under project of the National Bank of Cambodia. LOLC also issued ATM cards to its staff members which allows them to use LOLC ATM cards across the ATM shared switch members (Cambodia Share Switch - CSS), and plan to issue ATM card to all customers in Q1 2020.

The Management and Staff of the Company have shown resilience and the ability to adjust to macroeconomic changes in Cambodia whilst ensuring compliance with all laws and regulations.

We will look forward to 2020 as the year for strengthening Digital Financial Services (DFS), which will improve customer service and increase efficiency such as tablet banking, ATM and third-party connection.

Finally, a big thank to all our stakeholders including our customers, investors, regulators, banking and funding partners - both local and foreign for placing their trust, confidence by supporting our growth over the years. Once again, I extend my appreciation to my colleagues on the Board, for their advice and guidance, and the entire team at LOLC Cambodia led by a very capable and committed management team for their commendable performance. With LOLC Cambodia consolidating its position as one of Cambodia's leading deposit taking microfinance institutions, I look forward to being an integral part in its quest to provide endless opportunities to its clients in particular and all Cambodians in general.

We reaffirm our commitment to all our customers and shareholders that in 2020 we will continue to focus on areas that represent the best opportunities for LOLC Cambodia, to dedicate all our efforts to achieving a strong and sustainable growth rate, and to deliver on our strategic goals to enhance future returns as well as strengthening the position of LOLC in the Kingdom of Cambodia.

Phnom Penh ..30th March 2020.....

Signature, Stamp and Name of Chairman



Mr. Brindley de Zylva
Chairman

CEO Statement

LOLC maintained its loan portfolio growth with quality and strong internal control and achieved a better performance than the industry average. LOLC's Board of Directors and management team have worked together closely to strengthen credit risk management and internal control. As of end of 2019, LOLC's portfolio reached KHR 3,172 billion with a growth of 62% compared to end of 2018. Number of borrowers reached 294,152, a growth of 25%, while portfolio at risk was only 0.61%. The deposit base reached an impressive of over KHR 1,827 billion, with depositors more than 336 thousand. The fast growth of portfolio and deposit balance indicates that LOLC is a trustworthy microfinance institution offering excellent customer service, guaranteeing client protection and providing competitive and innovative deposit and loan products.

In order to support the business and new products development, LOLC Cambodia has been investing in digital banking projects which will improve customer services and increase efficiency such as tablet, ATM, mobile banking application and third-party connection. As a result, LOLC has rolled out its iPay mobile banking application which allows our customers to view their banking accounts, do transactions (balance enquiry, mini-statement, transfer, payments, phone top up, open FD, standing order, deposit calculator, loan calculator, view office location, news, etc.) from their mobile. Furthermore, LOLC has issued ATM Card for its staff members in Q4 2019 and will issue for all customers in Q1 2020, which allows clients to use LOLC ATM card across the ATM shared switch members (Cambodia Share Switch - CSS). Moreover, in 2020 LOLC will deploy the tablet banking which will enable our officers to operate their tasks (loan origination, loan late collection, open savings account) from the tablet devices, which improve the productivity, efficiency and effectiveness.

We see 2020 as the year of new opportunities and challenges for LOLC.

On the lending side, we will continue to follow our existing strategy and keep focusing on micro, small and medium business loan and asset backed lending/leasing, which are the core business of LOLC.

On the deposit side, we will keep strengthening our customer services and provide new and diversified products and services to meet client's needs, including plan savings account, kid savings account and bill payment services.

On the digital side, LOLC will launch technology-oriented delivery channels which will improve customer services and increase efficiency such as tablet, ATM and third-party connection.

On the funding side, LOLC will diversify sources of fund to ensure sufficiency of funding requirements to support LOLC's growth. Besides sources of fund from shareholder paid-up capital, borrowings and deposit, LOLC has issued corporate bond to support LOLC's long-term growth.

On the social performance side, LOLC will continue focusing on social activities to meet LOLC's core values: "LOLC values the vision of a balanced social and profit organizational agenda."

In short, we will try to make the most out of the opportunities that our current successes open for us. And, we are confident that LOLC is well positioned to bring further value to its customers, investors and shareholders.

Finally, I would like to express my sincere thanks to our shareholders, Board of Directors and committee's members for their leadership, support, and guidance throughout the year. I would also like to express my sincere gratitude to all LOLC staff who have been working very hard/smart and highly committed to perform their work with integrity, ethics, profession and high responsibilities. Additionally, I would like to express my sincere thanks to all of LOLC's clients, investors and business partners for supporting LOLC to be a part of its achievements. To the Royal Government and the National Bank of Cambodia, I offer my sincerest thanks — both for your support in 2019 and in anticipation of happy and prosperous coming years.

Phnom Penh, ... 30th March 2020

Signature, Stamp and Name



Mr. Sok Voeun
Chief Executive Officer

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Section 1: General Information of the Listed Entity

A. Identify of the Listed Entity

- Name of Company in Khmer: អិលអូអិលស៊ី (ខេមបូឌា) ភីអិលស៊ី in Latin: LOLC (Cambodia) Plc.
- Standard Code: KH2000081953 (FX-Indexed Bond) និង KH2000082951 (Plain Bond)
- Address: #666B, Street 271, Sangkat Boeng Tumpun 2, Khan Mean Chey, Phnom Penh
- Telephone: (855) 23 991 991, Fax: (855) 23 220 642
- Website: www.lolc.com.kh, Email: info@lolc.com.kh
- Registration Number: 00012829 dated 28th September 2015
- License Number: M.F 04 issued by the National Bank of Cambodia dated 11th September 2018.
- Disclosure document registration number: 084/19 គ.ម ក/ស.ស.វ. dated 22nd April 2019.
- Representative: Mr. Sok Voeun

B. Nature of Business

LOLC (Cambodia) Plc. is one of the largest microfinance deposit taking institutions in Cambodia, regulated by the National Bank of Cambodia and has been operating for more than 25 years. LOLC has been providing diversified financial products and services to customers such as loan, deposit, finance lease and local fund transfer throughout its network of 79 branches in the nationwide. As of December 2019, LOLC's deposit balance reached to more than KHR 1,827 billion with more than 336 thousand depositors. Total loan portfolio increased to more than KHR 3,172 billion with a total of more than 294 thousand loan customers.

C. Group Structure of the Listed Entity

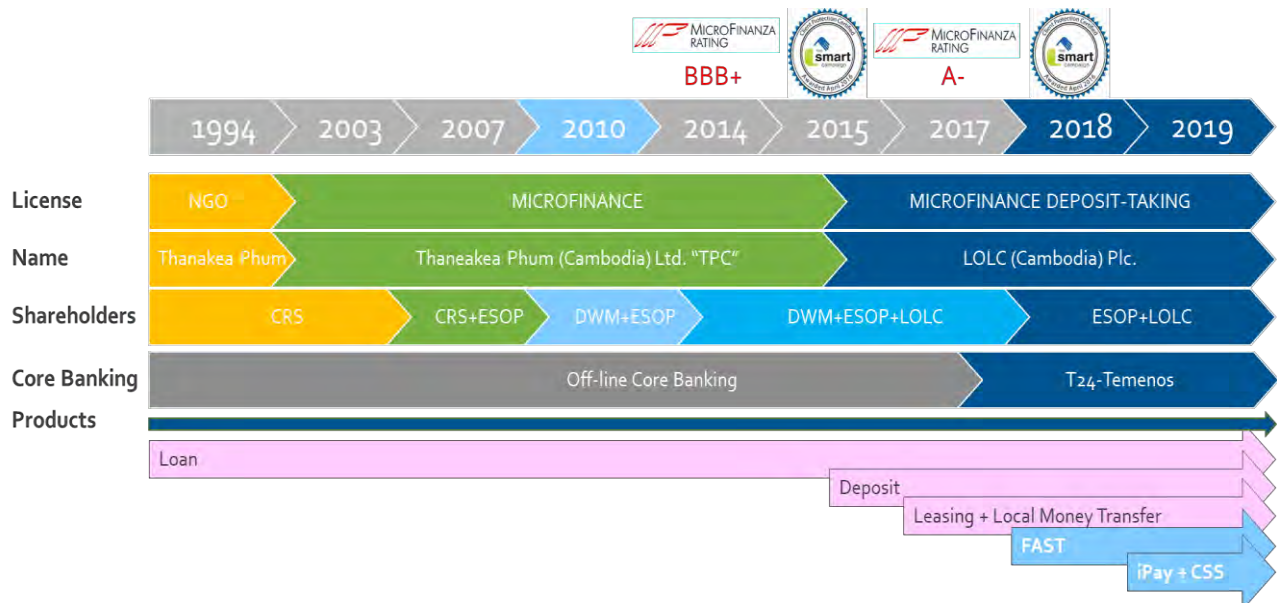
(Affiliate refers to subsidiary company, subsidiary of subsidiary company, holding company or other related companies.)

No.	Company Name	Type of Relation	% of share holding	Core Business	Date of Registration	Business Location
1	LOLC Private Limited	Shareholder	96.97%	Investment Services	01 November 2016	Singapore

Additional Information



D. Key Milestones



E. Market Situation

Cambodia microfinance industry witnessed 33% portfolio growth compared to year-end 2018, reaching more than KHR 29,916 billion in December 2019, having more than 2.2 million borrowers and PAR \geq 30 days of 0.81%. Number of depositors reached to more than 2.8 million with deposit balance almost KHR 15,406 billion. Microfinance providers in Cambodia operate nationwide and have innovative products such as unsecured lending, leasing, asset-backed lending, SME, agriculture lending etc. Moreover, fin-tech solutions are also popular across mobile, online payments and digital lending.

Currently, there are more than 70 licensed providers in the country while the top 7 MDIs take up 85% of portfolio market size.

F. Competitive Situation

LOLC (Cambodia) Plc. is the fourth-largest microfinance institution in Cambodia in terms of loan outstanding and deposit balance, and the third-largest in terms of number of borrowers. The company has competitive advantages on its diversified products, network outreach, diversified sources of fund, and technical capacities and resources.

As of end of 2019, LOLC (Cambodia) PLC recorded growth of 62% in portfolio and 95% in deposit balance while number of borrowers have grown 25% and depositors grown 86%. LOLC gains 10.6% of market share and has potential to grow more since its main strategy is to improve client retention rate, expand number of borrowers focusing on both rural and urban, and improve quality of loan by focusing on repayment capacity.

Microfinance market situation is known as matured market where the new entrants have to possess very strong capital.

G. Business Plan

<i>Unit in Million Riels</i>	Actual	Financial Projection				
Statement of Financial Position	2019	2020	2021	2022	2023	2024
Cash and cash equivalents	753,197	564,987	678,915	940,016	1,245,428	1,579,716
Statutory deposits	187,099	281,181	430,680	611,283	822,183	1,066,802
Placements with other banks	200	600	600	600	600	600
Loan to customers	3,104,787	4,841,973	7,017,382	9,751,638	12,933,939	16,442,340
Investment	61	61	60	60	61	61
Other assets	15,332	105,862	132,479	163,741	199,756	223,419
Property and equipment	7,841	18,305	19,979	21,742	21,889	22,411
Intangible assets	5,100	18,202	28,689	36,701	45,484	54,043
Right-of-use assets	19,668	28,822	47,173	52,480	57,728	63,500
Deferred tax assets	9,127	12,840	19,534	56,328	78,739	111,700
Total assets	4,102,413	5,872,834	8,375,492	11,634,588	15,405,805	19,564,592
Deposits	1,864,970	2,923,894	4,586,893	6,616,759	9,097,933	11,975,804
Provision for employee benefits	2,851	32,235	65,245	71,692	78,984	87,035
Borrowings	1,547,047	1,719,730	2,055,619	2,571,810	3,019,399	3,205,790
Debt Securities Issued	81,756	81,993	83,481	83,606	83,732	83,857
Lease liabilities	18,602	21,267	26,905	21,377	23,514	25,866
Other payables	30,853	169,095	192,815	288,978	433,201	552,647
Income tax payables	13,621	25,860	39,342	113,450	158,586	224,975
Total liabilities	3,559,700	4,974,074	7,050,300	9,767,671	12,895,349	16,155,974
Share capital	224,377	326,502	407,942	488,582	488,582	488,582
General Reserves	210,415	210,415	210,415	210,415	210,415	210,415
Regulatory reserves	10,695	20,633	39,782	64,829	98,774	126,208
Retained earnings	97,225	341,209	667,052	1,103,089	1,712,685	2,583,413
Total equity	542,712	898,760	1,325,192	1,866,916	2,510,456	3,408,619
Total liabilities and equity	4,102,413	5,872,834	8,375,492	11,634,588	15,405,805	19,564,592
Check	-	-	-	-	-	-
<i>Unit in Million Riels</i>	Actual	Financial Projection				
Statement of profit or loss and comprehensive income	2019	2020	2021	2022	2023	2024
Interest incomes	471,493	724,807	1,051,138	1,491,524	1,976,875	2,479,280
Interest expenses	(215,486)	(301,134)	(420,945)	(609,833)	(804,041)	(959,103)
Net interest margin	256,007	423,673	630,194	881,691	1,172,834	1,520,177
Non interest income (net)	68,763	64,503	66,909	93,689	127,772	162,228
Operating incomes	324,770	488,176	697,103	975,379	1,300,606	1,682,405
Operating expenses	(146,535)	(192,341)	(236,689)	(291,303)	(352,368)	(412,219)
Loan loss expenses	(19,547)	(61,294)	(95,228)	(134,589)	(180,057)	(174,483)
Pre-tax incomes	158,689	234,541	365,185	549,487	768,182	1,095,703
Tax expenses	(17,266)	(25,860)	(39,342)	(113,450)	(158,586)	(224,975)
Net profit after taxes	141,423	208,681	325,843	436,037	609,595	870,729

H. Risk Factors

1. Analysis

While the types and degree of risks the company may be exposed to depend upon several factors such as its size, complexity of business activities, volume etc., we believe that LOLC generally faces the following types of risk on a continuous basis:

Credit risk is the financial loss to LOLC if a borrower fails to meet its contractual loan obligations.

Market risk is the risk that the value of on- and off-balance sheet positions of a financial institution will be adversely affected by movements in market rates or prices such as interest rates, foreign exchange rates and commodity prices resulting in a loss to earnings and capital.

Liquidity risk is the potential for loss to an institution arising from either its inability to meet its obligations or fund increases in assets without incurring unacceptable cost or losses.

Operational risk is the risk of loss resulting from people, inadequate or failed internal processes, systems and/or from external events such as disasters.

Legal and Compliance Risk is the risk from changes or violations or non-conformance with laws, rules, policies and ethical standards (regulatory, lender and/or internal) that may result in loss to LOLC.

Environmental Risk refers to the inherent risks of LOLC's business activity associated with geographic, seasonal/weather and demographic (illness and death, mobility of population, local authorities' willingness to support, corruption, political tensions, etc.).

2. Management's Opinion and Risk Mitigation

LOLC is committed to mitigate the above risks to acceptable level by taking all of the necessary steps of the effectiveness of internal controls and the best practice of corporate governance.

LOLC's approach to governance is predicated on the belief that there is a link between high quality governance and the creation of long-term stakeholder value. In pursuing our corporate objectives, we have committed ourselves to the highest level of governance and strive to foster a culture that values and rewards exemplary ethical standards, personal and corporate integrity, and mutual respect.

Section 2: Information on Business Operation Performance

A. Business Operation Performance Including Business Segment

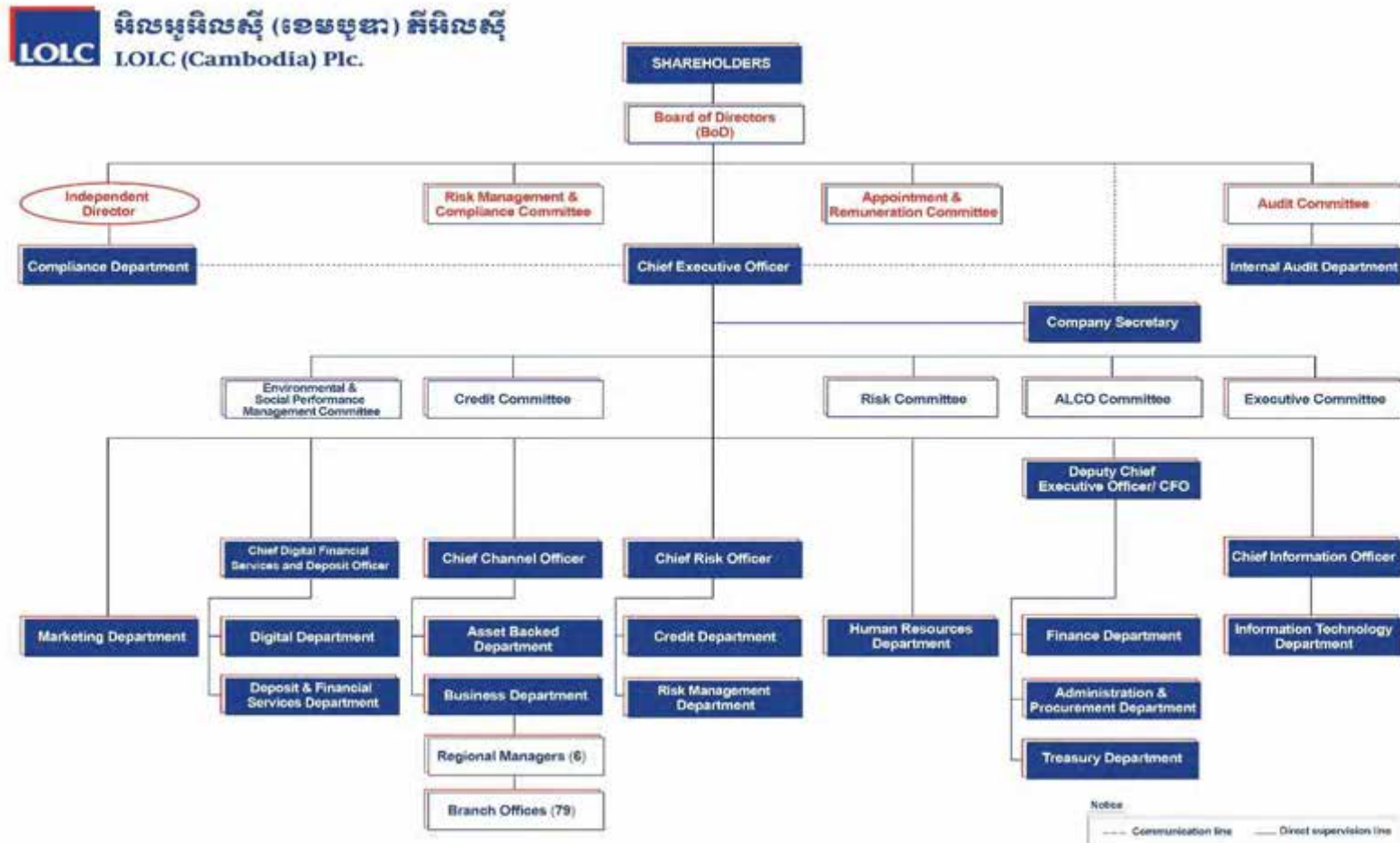
Key Achievement	Plan	Actual Achievement
Loan		
Loan customers	280,514	294,152
Gross loan portfolio (KHR million)	3,035,787	3,172,622
Deposit		
Deposit customers	233,097	336,002
Savings balance (KHR million)	1,699,740	1,827,667
Others		
Number of offices	79	79
Number staff	2,620	2,757

B. Income Structure

No.	Source of Income	2019		2018	
		Amount (KHR million)	%	Amount (KHR million)	%
1	Interest Income	471,493	86.95%	314,855	88.57%
2	Other Income	70,737	13.05%	40,631	11.43%
Total Income		542,230	100%	355,486	100%

Section 3: Information on Corporate Governance

A. Organizational Structure



B. Board of Directors

Composition of Board of Directors

No.	Name of Directors	Position	Start Date in Position	End Date in Position
1	Mr. Brindley de Zylva	Chairman	15 October 2015	No Limit
2	Mr. Conrad Dias	Director	12 February 2018	No Limit
3	Mr. Dulip Samaraweera	Director	02 July 2018	No Limit
4	Mr. Indrajith Wijesiriwardana	Independent Director	01 January 2015	01 January 2024
5	Mr. Michael Moormann	Independent Director	01 February 2013	01 February 2022

Name of Company Secretary: **Ms. Kheng Navy.**

C. Senior Officers

Composition of senior officers:

No.	Name	Gender	Position
1	Mr. Sok Voeun	M	Chief Executive Officer
2	Mr. Sok Sophal	M	Deputy Chief Executive Officer/Chief of Finance
3	Mr. Romesh Perera	M	Chief Channel Officer
4	Mr. Duleep Liyanage	M	Chief Information Officer
5	Mrs. Chheang Kagna	F	Chief Digital Financial Services and Deposit Officer
6	Mrs. Svoeuy Sodyna	F	Chief Risk Officer
7	Mrs. Leng Thavy	F	Head of Human Resources Department
8	Mrs. Keo Taraty	F	Head of Finance Department
9	Mrs. Try Sola	F	Head of Treasury Department
10	Mr. Teng Pheap	M	Head of Internal Audit Department
11	Mr. Chhuon Sokcheth	M	Head of Marketing Department
12	Mr. Seam Hak	M	Head of Administration and Procurement Department
13	Mr. Nuth Theng	M	Head of Business Department
14	Mr. Muth Pisey	M	Head of Credit Department
15	Mr. Ban Phalleng	M	Head of Compliance Department
16	Mr. Hul Sovutha	M	Head of Information Technology Department
17	Mr. Yin Pholy	M	Head of Asset Backed Department
18	Mrs. Kheng Navy	F	Company Secretary

Note: Detail information on corporate governance is attached as Appendix.

Section 4: Information on the Securities' Trading and Shareholders of the Listed Entity

A. Information on Securities

1. Information on Equity Security

As of reporting date, the Institution has not issued equity security.

2. Information on Debt Securities

Information	LOLC's FX-Indexed Bond 2019-202 No. 1	LOLC's Plain Bond 2019-202 No. 2
Type of Debt Securities	FX-Indexed Bond	Plain Bond
Symbol	LOLC22A	LOLC22B
Date of Issuance	26 April 2019	26 April 2019
Total amount of debt securities	KHR 53,600,000,000	KHR 26,400,000,000
Total amount of outstanding debt securities	KHR 53,600,000,000	KHR 26,400,000,000
Maturity	26 April 2022	26 April 2022
Coupon Payment Date	26 April and 26 October	26 April and 26 October
Coupon Rate (%)	8.00% per annum	9.00% per annum
Total Coupon Payment	KHR 2,172,784,650	KHR 1,191,254,794
Credit ratings (if any)	None	None

3. Other Securities

None

B. Securities' Price and Trading Volume

As of the reporting date, there was no trading on LOLC's corporate bonds by maintaining the same price at KHR 100,000 per debt security.

C. Controlling Shareholder (s) (30% or more)

No.	Name	Nationality	Number of Shares	Percentage
1	LOLC Private Limited	Singapore	2,175,792	96.97%
Total			2,175,792	96.97%

D. Substantial Shareholder (s) (5% or more)

No.	Name	Nationality	Number of Shares	Percentage
1	None	None	None	None
Total			None	None

E. Information on Dividend Distribution in the Last 3 (three) Years (for Equity Listed Entity)

As of reporting date, the Institution has not issued equity security.

Details of Dividend Distribution	2018	2017	2016
Net Profit	-	-	-
Total Dividend in Cash	-	-	-
Total Dividend in Shares	-	-	-
Other Dividend	-	-	-
Dividend Payout Ratio (%)	-	-	-
Yield on Dividend (%)	-	-	-
Dividend Per Share	-	-	-

Section 5: Executive summary on Internal Audit

The Internal Audit Department (IAD) at LOLC (Cambodia) Plc. ("LOLC") performs regular reviews of the business operations of the company to ensure that:

- Financial and operating information is accurate and reliable;
- Risks to the company are identified and minimized;
- Internal policies and procedure, laws and regulations are followed;
- Resources are used efficiently and economically;
- Strong internal control systems and risk management systems are in place;
- The objectives of the company are effectively achieved.

The IAD consists of 35 experienced staff led by the Head of Internal Audit Department. Every quarter the Head of the IAD prepares a report for the Board Audit Committee which is discussed at the meeting of the Board Audit Committee. The reports are directly submitted to the Chairman of the Audit Committee of the Board of Directors of LOLC

Scope of work performed:

The scope of work of IAD is as follows:

- Assess the company's internal control to ensure operational effectiveness and efficiency;
- Assess the effectiveness of risk management;
- Review and assess to ensure that company's assets are protected from misappropriation;
- Encourage legal and regulatory compliance;
- Review, test and evaluate the effectiveness of resources utilized;
- The adequacy and effectiveness of the internal control system;
- Evaluate the achieved results of the company.

Consulting Activities:

The internal auditors have good knowledge of the business of LOLC, the necessary knowledge of internal control systems and skills and experience to provide added value to the company through the provision of consultation and recommendations. To improve the quality of the internal control system and productivity, internal auditors are continuously trained.

Summary report for 2019

From January 1st to December 31st 2019, the Internal Audit Department has conducted 144 branch audits and 1 head office audit which resulted in a number of findings in all the auditable areas such as operations, finance, deposit, treasury, human resources, IT and administration. These findings are summarized below.

Operation Observation

Findings under the operation area: there are some issues such as miss-recording of information in the some loan documents, monitoring after loan disbursement not fully performed, some weakness in gathering information for loan assessment, some loan files were not properly organized, limited client awareness of the product types.

Finance Observation

Findings under the finance area: there are some issues such as some expenditures are not properly classified, some lacks of control on official receipts and late updating of fixed asset.

Information Technology Observation

Findings under the Information Technology area: there are some identified issues such as access control (Password Management), anti-virus definition update for some computers, and blocking USB port.

Human Resources Observation

Findings under the human resource area: there are some identified issues such as some weakness in new staff capacity development, code of conduct and some delay in processing employment cards, and some delay in declaration of staff movement.

Conclusion

All these issues are of a minor nature and do not have any negative impact on the financial position and/or results of the company. All issues identified have been reported in writing and been discussed with managers at various levels, recommendations have been accepted by management and timely implemented. LOLC has a strong internal control system to manage and minimize risk and has carried out its day to day operations in accordance to the internal policies and procedures, laws and regulations.

Audit Committee



Mr. Michael Moormann

Chair of Audit Committee

Date: 05/02/2020

Head of Internal Audit Department



Mr. Teng Pheap

Head of Internal Audit Department

Date: 05/02/2020

Section 6: Financial Statement Audited by the External Auditor

Please refer to the Appendix for detail information.

Section 7: Information on Related Party Transactions and Conflict of Interest

The listed entity shall disclose information on significant transactions with related parties in the last two (2) years by specifying name, relationship between the listed entity and related parties, size of transactions and type of interest which arise from that relationship as follows:

A. Material transactions with shareholder who hold at least 5% or more shares of outstanding equity securities.

Please refer to the attached external audit report.

B. Material transactions with directors and senior officers

Please refer to the attached external audit report.

C. Material transactions with directors and shareholders related to purchase-sell of assets and services

Please refer to the attached external audit report.

D. Material transactions with immediate family members of directors, senior officers and shareholders holding at least 5% or more shares

Please refer to the attached external audit report.

E. Materials transactions with the person who associated with directors of the listed entity, its subsidiary or holding company whose relationship has occurred in any transactions or have been made by the listed entity

Please refer to the attached external audit report.

F. Material transactions with former director or person who involved with former director

None

G. Material transactions with directors who is holding any position in a non-profit organization or in any other company other than the listed entity

None

H. Material transactions with directors who get benefit either finance or non-financial from the listed entity

None

Section 8: Management's Discussion and Analysis

The following discussion and analysis is the discussion of LOLC management team on the operational results and financial situation based on Financial Statement as of 31st December 2019, which is reviewed by Independent Auditors. LOLC's Financial Statement is prepared in accordance with Cambodian International Financial Reporting Standards (CIFRS). The management team discussed and analysed only the key components of the Financial Statement and key factors that affect LOLC's profitability.

A. Operational Overview

1. Income Analysis

LOLC has two major types of income, i.e. interest income and other income.

- **Interest Income includes** fees from loans, net interest income from loans to customers and deposits at banks, which are recognized monthly.
- **Other Income includes** income from penalty, income from write-off collection, profit from exchange rate, other fees, etc.

2. Income Analysis by Segment

No.	Source of Income	2019		2018	
		Amount (KHR million)	%	Amount (KHR million)	%
1	Interest Income	471,493	86.95%	314,855	88.57%
2	Other Income	70,737	13.05%	40,631	11.43%
Total Income		542,230	100%	355,486	100%

Interest income is the largest and most significant for LOLC, which is 86.95% of total income.

3. Gross Profit Margin Analysis

LOLC prepares its income statement in the format which do not show gross profit margin. However, this report format allows us to discuss and analyse operating profit, which resulted from total income less operating expense. Operating expense will be discussed and analysed in point 4. Analysis on Profit/Loss before Tax.

4. Analysis on Profit/Loss before Tax

Summary Income Statement (KHR in Million)	2019	2018	Variance (KHR in Million)	Variance (%)
Interest Income	471,493	314,855	156,638	49.75%
Interest Expense	(215,486)	(138,562)	(76,924)	55.52%
Net Interest Income	256,007	176,293	79,714	45.22%
Other Income	70,737	40,631	30,106	74.10%
Personnel Expense	(100,061)	(76,035)	(24,026)	31.60%
Depreciation on Tangible and Intangible Assets	(10,307)	(9,034)	(1,273)	14.09%
Administrative and Other Expense	(38,140)	(36,154)	(1,986)	5.49%
Profit from Operations	178,236	95,701	82,535	86.24%
Provision on Financial Instruments	(17,237)	(13,407)	(3,830)	28.57%
Profit before Tax	160,999	82,294	78,705	95.64%

In 2019, LOLC's profit before tax was KHR 160,999 million while it was KHR 82,294 million in 2018, which increased KHR 78,705 million, equivalent to 95.64%. This increment was mainly due to the increase in interest income with the amount of KHR 156,638 million in proportion to the increase of loan portfolio.

5. Analysis on Profit/Loss after Tax

Summary Profit (KHR in Million)	2019	2018	Variance (KHR in Million)	Variance (%)
Profit before Tax	160,999	82,294	78,705	95.64%
Income Tax Expense	(17,266)	(20,748)	3,482	16.78%
Profit after Tax	143,733	61,546	82,187	133.54%

In 2019, LOLC's net profit was KHR 143,733 million, increased 133.54% compared to 2018. This increment was mainly due to the increase of interest income and other income.

6. Analysis of Factors and Trends Affecting Financial Situation and Results

As of 31st December 2019, management acknowledged that LOLC did not have any significant factors and trends that would affect LOLC's financial situation and results.

B. Significant Factors Affecting Profit

1. Analysis on Demand and Supply Conditions

LOLC is one of the largest financial institutions in Cambodia which always focuses on quality of service to make it convenient for customers in using LOLC's products and services. LOLC has received strong support from loan customers, finance lease customers and depositors, which make us grow rapidly during the last few years.

2. Analysis on Fluctuation in Prices of Raw Materials

As of 31st December 2019, management acknowledged that LOLC did not have any unusual elements.

3. Tax Analysis

LOLC is under the governance of Commercial Law on Taxation, so LOLC has obligation to pay taxes according to the applicable laws and regulations. LOLC has obligation to pay value added tax in accordance to real regime and large tax payer enterprise as determined by the General Department of Taxation.

4. Analysis on Exceptional and Extraordinary Items

As of 31st December 2019, management acknowledged that LOLC did not have any unusual or extraordinary elements.

C. Materials Changes in Sales and Revenue

As of 31st December 2019, management acknowledged that LOLC did not have any significant changes in sales or revenue.

D. Impact of Foreign Exchange, Interest Rate and Commodity Price

LOLC maintains its accounting record using KHR as functional currency. Transactions in USD and THB are translated into KHR at the exchange rate 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 recognized in the income statement.

E. Impact of Inflation

LOLC does not adjust interest rate based on inflation. Instead, LOLC adjusts the interest rate based on real competitive situation in the market, while maintaining excellent financial sustainability.

F. Economy, Fiscal and Monetary Policies of the Royal Government

As of 31st December 2019, management acknowledged that LOLC was not adversely affected by the Economy, fiscal and monetary policies of the government.

Section 9: Other Necessary Information for Investors Protection (If Any)

The Institution does not have any significant information other than disclosing in this report and external audit report.

Signatures of Directors of Issuer

Date: 30th March 2020
Having read and approved



Mr. Brindley de Zylva
Chairman

Date: 30th March 2020
Having read and approved



Mr. Conrad Dias
Director

Date: 30th March 2020
Having read and approved



Mr. Dulip Rasika Samaraweera
Director

Date: 30th March 2020
Having read and approved



Mr. Indrajith Wijesiriwardana
Independent Director

Date: 30th March 2020
Having read and approved



Mr. Michael Moormann
Independent Director

Appendix of Annual Report 2019

LOLC (Cambodia) Plc.

Annual Corporate Governance Report

Appendix of Annual Report 2019
LOLC (Cambodia) Plc.
Annual Corporate Governance Report

Section 1: Shareholders

A. Shareholding Structure (as of 31st December 2019)

1. Shareholder Information

Description	Nationality	Type of Shareholders	Number of Shareholders	Number of Shares	Percentage
Less than 5%	Cambodian	Individual	None	None	None
		Legal Person	1	67,982	3.03%
	Non-Cambodian	Individual	None	None	None
		Legal Person	None	None	None
From 5% up to 30%	Cambodian	Individual	None	None	None
		Legal Person	None	None	None
	Non-Cambodian	Individual	None	None	None
		Legal Person	None	None	None
From 30%	Cambodian	Individual	None	None	None
		Legal Person	None	None	None
	Non-Cambodian	Individual	None	None	None
		Legal Person	1	2,175,792	96.97%

2. Shareholders Who Are Directors, Senior Officers and Employees of Listed Company

Shareholders	Number of Shareholders	Number of Shares	Percentage
Directors	-	-	-
Senior Officers	2	45,548	2.03%
Employees	-	-	-
Total	2	45,548	2.03%

B. Shareholders' and Protection of Shareholders' Rights

1. Rights of Shareholders

All shareholders have full rights to make decisions at the meeting regardless of their status and number of shares. A decision adopted at the Shareholders meeting may be made without meeting if all shareholders approve in writing to make such decision.

2. Protection of Shareholder's Right and the Company's Practice of the Protection of Shareholders' Rights

Shareholders select and nominate the Board of Directors. Shareholders are protected by the Board of Directors.

3. Protection of Minority Shareholders' Rights and the Company's Practice of the Protection of Shareholders' Rights

Shareholders have the rights equivalent to number of their shares to vote without any restriction.

C. General Shareholder Meeting

1. Procedure of General Shareholder Meeting and Voting

The General Meetings of the Shareholders shall be held at least once a year but no later than 15 months after the previous General Meeting. The Board of Directors shall fix the date for General Meeting. An extraordinary meeting may be convened at any time if it is proposed in writing by the Shareholders holding at least 51 percent shares. The Chairman of the Board, a majority vote of the Board or the Company's auditor may also convene an extraordinary meeting.

2. Information on General Shareholder Meeting

No.	Date	Type of Meeting	Quorum of Meeting	Agenda	Resolution																		
1	05 February 2019	Extraordinary	Full	<ul style="list-style-type: none"> i. Reimburse Expenses on Accommodation and Airfare for Dependent Directors ii. Gross Up Withholding Tax of the Board Fee for All Directors 	<ul style="list-style-type: none"> i. Resolve to reimburse expenses on accommodation and airfare (business class) to all dependent directors, while the board fee is kept the same. This resolution will be effective starting from 1st quarter meeting in 2019 onward. ii. Resolve board fee to include 14% withholding tax. 																		
2	18 February 2019	Ordinary	Full	<ul style="list-style-type: none"> i. Business Achievement 2018 ii. Business Plan and Capital Structure 2019 iii. Board Evaluation Performance 2018 	<ul style="list-style-type: none"> i. Resolve proposal from management to increase registered capital. Shareholders will discuss and make decision later on the exact amount of capital injection. ii. Resolve to maintain the composition of the Board of Directors as follows: <table border="1" data-bbox="1406 651 2056 938"> <thead> <tr> <th>No.</th> <th>Name</th> <th>Position</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>Brindley de Zylva</td> <td>Chairman</td> </tr> <tr> <td>2</td> <td>Conrad Dias</td> <td>Director</td> </tr> <tr> <td>3</td> <td>Dulip Rasika Samaraweera</td> <td>Director</td> </tr> <tr> <td>4</td> <td>Michael Moormann</td> <td>Independent Director</td> </tr> <tr> <td>5</td> <td>Indrajith Wijesiriwardana</td> <td>Independent Director</td> </tr> </tbody> </table> 	No.	Name	Position	1	Brindley de Zylva	Chairman	2	Conrad Dias	Director	3	Dulip Rasika Samaraweera	Director	4	Michael Moormann	Independent Director	5	Indrajith Wijesiriwardana	Independent Director
No.	Name	Position																					
1	Brindley de Zylva	Chairman																					
2	Conrad Dias	Director																					
3	Dulip Rasika Samaraweera	Director																					
4	Michael Moormann	Independent Director																					
5	Indrajith Wijesiriwardana	Independent Director																					
3	15 March 2019	Extraordinary	Full	Audited Financial Statements (CAS) for the Year Ended 31 December 2018	Resolve to approve audited financial statements (CAS) for the year ended 31 December 2018																		
4	03 June 2019	Extraordinary	Full	Capital Injection and MOA Amendment	<ul style="list-style-type: none"> i. Resolve to inject more registered capital at KHR 41,765,400,000, which brought up the total registered capital to KHR 182,612,000,000. ii. Approved to amend Memorandum and Articles of Association (MoA) on the Articles that are related to and affected by capital injection as mentioned above. iii. Authorized Chief Executive Officer or Deputy Chief Executive Officer/Chief Finance Officer (in case Chief Executive officer is absent) to sign documents related to the above capital injection and amendment of Memorandum and Articles of Association. 																		

No.	Date	Type of Meeting	Quorum of Meeting	Agenda	Resolution
5	02 August 2019	Ordinary	Full	<ul style="list-style-type: none"> i. LOLC Cambodia's mid-year performance achievement ii. Self-assessment on transformation from MDI to commercial bank in case of regulatory requirement. 	No resolution
6	02 August 2019	Extraordinary	Full	Special Bonus for Management after successfully issue corporate bond.	Resolve to provide special bonus for management after successfully issue corporate bond.
7	02 August 2019	Extraordinary	Full	Capital Injection and Amendment of Memorandum and Articles of Association	<ul style="list-style-type: none"> i. Resolve to inject more registered capital at KHR 41,765,400,000, which brought up the total registered capital to KHR 224,377,400,000. ii. Approved to amend Memorandum and Articles of Association (MoA) on the Articles that are related to and affected by capital injection as mentioned above. iii. Authorized Chief Executive Officer or Deputy Chief Executive Officer/Chief Finance Officer (in case Chief Executive officer is absent) to sign documents related to the above capital injection and amendment of Memorandum and Articles of Association.
8	13 August 2019	Extraordinary	Full	Audited Financial Statements (CAS) for the period from 01 January 2019 to 30 June 2019.	Resolve to approve audited financial statements (CAS) for the period from 01 January 2019 to 30 June 2019.
9	20 November 2019	Extraordinary	Full	Transfer Retained Earnings to Reserves Account	Resolve to transfer retained earnings as of October 2019 at the amount of KHR 100,000,000,000 to reserves account
10	28 November 2019	Extraordinary	Full	Approve interim Financial Statement (CIFRS)	Resolve to approve interim financial statements (CIFRS) for the six-month period ended 30 June 2019 and for the nine-month period ended 30 September 2019

D. Dividend Distribution

1. Dividend Policy

Dividend policy of LOLC Cambodia is that total net profit is maintained in the retained earning account.

2. Historical Information on Dividend Distribution for the Last Three Years

No	Detail of Dividend Distribution	2018	2017	2016
1	Announcement date of dividend distribution (Approved by Shareholders)	None	04 May 2017	04 May 2016
2	Date of approval from NBC	None	28 June 2017	16 June 2016
3	Date of dividend Payment	None	30 June 2017	20 June 2016

Section 2: Board of Directors

A. Board of Directors

1. Composition of Board of Directors

No.	Name of Directors	Position	Start Date in Position	End Date in Position
1	Mr. Brindley de Zylva	Chairman	15 October 2015	No Limit
2	Mr. Conrad Dias	Director	12 February 2018	No Limit
3	Mr. Dulip Samaraweera	Director	02 July 2018	No Limit
4	Mr. Indrajith Wijesiriwardana	Independent Director	01 January 2015	01 January 2024
5	Mr. Michael Moormann	Independent Director	01 February 2013	01 February 2022

2. Biography of Directors

❖ Mr. Brindley de Zylva, Chairman

Mr. Brindley de Zylva is the Chairman of the Board of LOLC (Cambodia) Plc. He is also a managing director of LOLC Myanmar Microfinance Ltd. Prior to joining the company, he served as the Managing Director and Chief Executive Officer of LOLC Finance Plc. (LOFC), Sri Lanka. He has served the Non-Bank Financial Services Industry (NBFIs) during the past 33 years in both Licensed Finance Companies and Specialized Leasing Companies holding Board & General Management positions prior to taking over as the Chairman of LOLC (Cambodia) Plc. He has a wide range of expertise and experience in the NBFIs sector; covering Marketing & Sales, Credit & Recovery Management, and Finance. Mr. de Zylva, who is a Fellow of the Sri Lanka Institute of Credit Management; was elected as its Honorary Secretary in 2010. He also served as a Member of the Council of Management of the Finance Houses Association of Sri Lanka for nine years, Four of which as one of its Vice Chairmen, and as a Director of the Financial Ombudsman Sri Lanka (Guarantee) Limited, he provided guidance for the benefit of the NBFIs in Sri Lanka. These positions were relinquished in 2015 to take over a regional assignment for the LOLC Group in Myanmar & Cambodia. He also served (2006-2015) in an honorary capacity as a Non-Executive Director of Navajeevana Rehabilitation – Tangalle, Sri Lanka which is a Non-Governmental Organization serving the disabled.

❖ **Mr. Conrad Dias, Director**

Conrad Dias is the CIO of the LOLC Group and the Co-founder/ Director of iPay. He holds a Master of Business Administration from the University of Leicester and is a Fellow of the Chartered Institute of Management Accountant, a Chartered Global Management Accountant and a Fellow of British Computer Society and Fellow Member of Certified Management Accountant of Sri Lanka. Mr. Dias counts over 25 years of experience and processes domain expertise in sectors such as Trading, Banking and Finance, Assets Management and Manufacturing. In recognition of his contributions to the LOLC Group, and the local IT Industry as a whole, Conrad was awarded the CSSL CIO of the year in 2016. He was also awarded the professional Excellence Award 2017 at the event organized by Institute of Certified Management of Accountant of Sri Lanka.

❖ **Dulip Rasika Samaraweera, Director**

Dulip Rasika Samaraweera is a Director of LOLC (Cambodia) Plc. Dulip Samaraweera is a graduate of the University of Sri Jayawardenepura, with a Degree in Physical Sciences specializing in Statistics and is a passed finalist of the Chartered Institute of Management Accountants (UK). He started his career in investment research in 2004 and joined the LOLC Group in 2007. He serves as a director of LOLC Myanmar Microfinance Limited. He is an experienced professional in financial management, process improvement, strategic planning, investments and acquisitions.

❖ **Mr. Michael Moormann, Independent Director**

Mr. Michael Moormann is an Independent BOD Member of LOLC (Cambodia) Plc. He started his career in the Netherlands within the foreign division of ABN AMRO Bank in 1971 and was transferred to Indonesia in 1973. He gained much experience serving in a variety of positions and working in many different countries before taking up senior management positions. In 1992 he became the Regional Manager of private banking in Latin America for AB AMRO and starting in 1994 served as Country Manager for the same bank in several countries including the Philippines, Sri Lanka and Vietnam. Since 2005 Mr Moormann completed several consulting assignments in microfinance and presently serves as a director on the board of two microfinance institutions. His professional strengths include internal audit, human resource management and change management. Mr. Michael joined LOLC (Cambodia) Plc. in February 2013.

❖ **Mr. Indrajith Wijesiriwardana, Independent Director**

Mr. Indrajith Wijesiriwardana is currently an Independent BOD member of LOLC (Cambodia) Plc. Indrajith is a highly skilled consultant in international development finance with over 20 year's international experience from nearly 30 countries. His key areas of experience include Microfinance and SME Finance (MSME) and Capacity Building in the financial sector. He is skilled and experienced in strategy and business design developing inclusive financial systems, developing capacity in financial institutions focusing on MSME, institutional transformations and product design and process improvements. During his career in the banking sector, prior to consulting, he prepared and evaluated project proposals and monitored projects. His responsibilities included; loan financing for small, medium and large enterprises, trade financing, equity financing, restructuring, loan syndication, leasing. He developed and managed financial support services such as planning, budgeting and monitoring, accounting, financial administration and MIS. Mr. Indrajith Wijesiriwardana joined LOLC (Cambodia) Plc. in 1st January 2015.

3. If any Directors serve as Directors, Shareholders or Co-Owner of other Companies

No	Name of Directors	Name of Companies	Director, Shareholder or Co-Owner
1	Mr. Brindley de Zylva	▪ Browns Machinery (Cambodia) Co., Ltd.	▪ Chairman
2	Mr. Dulip Rasika Samaraweera	▪ LOLC Myanmar Microfinance Limited. ▪ Browns Machinery (Cambodia) Co., Ltd.	▪ Director ▪ Director
3	Mr. Conrad Dias	▪ LOLC Technologies Limited	▪ Managing Director/CEO
4	Mr. Michael Moormann	▪ RIEEF BV, Netherlands	▪ Managing Director
5	Mr. Indrajith Wijesiriwardana	▪ UVADES Consulting Ltd	▪ Owner and Manager of UVADES

4. Roles, Duties and Responsibilities of the Board of Directors

- ☞ Approve business plan and business strategies of the company;
- ☞ Approve on annual audited financial statement;
- ☞ Approve on loan that LOLC borrows from lenders;
- ☞ Propose to shareholders to increase or decrease capital;
- ☞ Propose to shareholders to select and appoint external auditor;
- ☞ Approve on remuneration policy for management and employees.

5. Board of Directors Meeting

No.	Date	Type of Meeting	Participated Directors
1	18 February 2019	Ordinary	Brindley de Zylva Conrad Dias Dulip Rasika Samaraweera Michael Moormann Indrajith Wijesiriwardana
2	09 May 2019	Ordinary	Brindley de Zylva Conrad Dias Michael Moormann Indrajith Wijesiriwardana
3	01 August 2019	Ordinary	Brindley de Zylva Conrad Dias Dulip Rasika Samaraweera Michael Moormann Indrajith Wijesiriwardana
4	20 November 2019	Ordinary	Brindley de Zylva Conrad Dias Dulip Rasika Samaraweera Michael Moormann Indrajith Wijesiriwardana

B. Board Committees

1. Structure of Board Committees

1.1 Audit Committee

No.	Name	Position	Date of Appointment	Number of Attended Meeting	Total Number of Meeting
1	Michael Moormann	Chair	17 th July 2013	4	4
2	Brindley de Zylva	Member	15 th October 2015	4	4
3	Indrajith Wijesiriwardana	Member	01 st January 2015	4	4

Roles and Responsibilities of Audit Committee

1. Financial reporting

The committee shall review and challenge where necessary:

- a) The consistency of, and any changes to, accounting policies on a year by year basis;
- b) That the information provided to the public, to NBC, regulators and stakeholders is clear, accurate and reliable;
- c) Ensure that the financial and risk-related information is clear and assess the relevance of the accounting and valuation methods used for the establishment of the individual and, where applicable, consolidated accounts, and financial statements;
- d) Whether the company has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account;
- e) The views of the external auditor;
- f) The clarity of disclosure in the company's financial reports and the context in which statements are made; and
- g) All material information presented with the financial statements, such as the business review/operating and financial review and the corporate governance statement (as it relates to the audit and risk management).

2. Internal controls and risk management systems

The committee shall

- a) Review and approve the statements to be included in the directors' annual report about internal controls and risk management;
- b) Assess the quality of internal control procedures, in particular whether the systems for measuring, monitoring and controlling risks are consistent, and recommending further action when appropriate;

3. Compliance, whistleblowing and fraud

The committee shall

- a) Review the adequacy and security of the company's arrangements for its employees and its contractors to raise concerns, in confidence, about possible wrong doing in financial reporting or other matters. The committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;

- b) Review the company's procedures for detecting fraud;
- c) Review the company's systems and controls for the prevention of bribery and receive reports on non-compliance.

4. Internal audit

The committee shall

- a) Monitor and review the effectiveness of the company's internal audit function in the context of its overall risk management system;
- b) Approve the appointment and removal of the internal auditor;
- c) Review and assess the annual internal audit plan, the training and staffing plan;
- d) Review reports from the internal auditor to the committee;
- e) Follow up on effective corrective actions' implementation, notably by tracking pending and outstanding recommendations issued by Internal Audit and further supporting the work of Internal Audit.
- f) Meet the internal auditor partner at least four times a year and at least at once a year without the executive being present to discuss the remit and any issues arising from the internal audits carried out;
- g) The internal auditor shall report to the committee and shall have direct access to the chairman of the committee and to the chairman of the board;

5. External audit

The committee shall

- a) Consider and make recommendations to the board in relation to the appointment, re-appointment and removal of the company's external auditor. The committee shall oversee the selection process for a new auditor and, if an auditor resigns the committee shall investigate the issues leading up to this and decide whether any action is required;
- b) Review and monitor the external auditor's independence, objectivity and the effectiveness of the audit process, which shall include a report from the external auditor on their own internal quality procedures;
- c) Oversee the relationship with the external auditor including (but not limited to):
 - i. Recommendations on their remuneration whether fees for audit or non-audit services, and that the level of fees is appropriate to enable an adequate audit to be conducted;
 - ii. Approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - iii. Satisfying itself that there are no relationships (such as family, employment, investment, financial or business) between the auditor and the company (other than in the ordinary course of business);
 - iv. Monitoring the auditor's compliance with relevant ethical and professional guidance on the rotation of audit partner, the level of fees paid by the company compared to the overall fee income of the firm, office and partner and other related requirements;
 - v. Seeking to ensure co-ordination with activities of the internal auditor.
- d) Meet regularly with the external auditor, including once at the planning stage before the audit and once after the audit at the reporting stage. The committee shall meet the external auditor at least once a year, without the executive being present, to discuss the auditor's remit and any issues arising from the audit;

- e) Review and approve the annual audit and ensure that it is consistent with the scope of the audit engagement;
- f) Review the findings of the audit with the external auditor. This shall include:
 - i. A discussion of any major issues which arose during the audit;
 - ii. Any accounting and audit judgements;
 - iii. Levels of errors identified during the audit;
 - iv. The effectiveness of the audit;
- g) Review the management letter and management's response to the auditor's findings and recommendations;
- h) Develop and implement a policy on the supply of non-audit services by the external auditor, taking into account any relevant ethical guidance on the matter.

6. Other matters

The committee shall

- a) Have access to sufficient resources to carry out its duties,
- b) Be provided with appropriate and timely training, both in the form of an induction program for new members and on an ongoing basis for all members
- c) Be responsible for co-ordination of the internal and external auditors
- d) Oversee any investigation of activities which are within its terms of reference
- e) Arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the board for approval.

7. Reporting Procedures

- a) The committee shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed.
- b) The committee shall produce, if required by the board, a report on its activities for inclusion in the directors' annual report.

Results of Audit Committee

In 2019, Audit Committee convened 4 meetings (the meeting is convened quarterly), which discussed and approved the following:

- ☞ Reviewed management's implementation following recommendation from internal audit and Audit Committee
- ☞ Discussed and resolved internal audit findings
- ☞ Reviewed and discussed fraud case report in 2018
- ☞ Approved annual report of "Organization and Effectiveness of the Internal Control for the year ended 2018
- ☞ Reviewed and approved annual report 2018
- ☞ Reviewed the progress of ACL software
- ☞ Reviewed training report for internal auditors
- ☞ Evaluated annual performance of Head of Internal Audit Department
- ☞ Conducted quarterly meeting with external auditors
- ☞ Approved the budget (additional cost) for CIFRS report Q2 2019
- ☞ Approved internal control report Q2 2019 for SECC
- ☞ Approved audit work plan 2020
- ☞ Approved training budget and plan for internal auditors
- ☞ Approved on the appointment of external auditors for 3 years period 2020
- ☞ Reviewed and approved audit work plan for 2020
- ☞ Reviewed and approved TOR of Appointment and Remuneration Committee
- ☞ Reviewed and discussed staff turnover rate and salary scale of internal auditors

1.2 Appointment and Remuneration Committee

No.	Name	Position	Date of Appointment	Number of Attended	Total Number of Meeting
1	Indrajith Wijesiriwardana	Chair	02 nd November 2016	4	4
2	Dulip Rasika Samaraweera	Member	02 nd July 2018	3	4
3	Conrad Dias	Member	12 th February 2018	4	4

Roles and Responsibilities of Appointment and Remuneration Committee

1. Policy and Procedure

- a) Ensure that the remuneration policy is consistent with the long-term objectives and corporate values of the institution;
- b) Review any external evaluations of the institution's human resources strategy and policies, and report to the Board on its findings and recommendations;
- c) Review and recommend to the Board of Directors on the human resources strategy and policies covering but not limit to recruitment, staffing, development, retention, compensation, and benefits;

2. Appointment and Review Process

- a) Recommend procedures to select and replace board members;
- b) Recommend independent persons who will become committee members;
- c) Approve the nomination of senior management;

3. Remuneration

- a) Review and recommend remuneration arrangements for the Executive Directors including but not limited to contract terms, annual remuneration and participation in the Company's short and long term incentive plans.
- b) Review major changes and developments in the Company's remuneration, recruitment, retention and termination policies and procedures for Senior Management;
- c) Review and approve short term incentive strategy, performance targets and bonus payments.

4. Reporting Procedure

- a) The committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- b) The committee shall produce, if required by the Board, a report on its activities for inclusion in the directors' annual report.

Results of Appointment and Remuneration Committee

In 2019, Appointment and Remuneration Committee convened 4 meetings (the meeting is convened quarterly), which discussed and approved the following:

- ☞ Reviewed HR and training report every quarter
- ☞ Reviewed management's capacity building plan
- ☞ Discussed the staff's promotion and revised institution's organizational chart
- ☞ Reviewed staff satisfaction survey
- ☞ Reviewed survey conducted by Mercer on salary and benefit for staff of the 5 biggest MDIs in Cambodia

- ☞ Approved on function allowance
- ☞ Approved annual bonus 2018 and salary increment 2018
- ☞ Evaluated CEO and CFO's performance in 2018 and goal for 2019
- ☞ Discussed and approved HRIS system
- ☞ Discussed the compliance to Prakas from Ministry of Labour and Vocational Training on Seniority Payment
- ☞ Discussed the request from management to rename position of credit officer, head credit officer, and accountant
- ☞ Reviewed and approved internship program
- ☞ Approved training budget for 2020
- ☞ Approved to increase medical allowance to all staff
- ☞ Approved to buy medical insurance for management team
- ☞ Authorized management to increase minimum salary scale to drivers, cleaners, and guards in accordance with government's Prakas.
- ☞ Approved to increase salary scale both for field staff and support staff.
- ☞ Reviewed and approved goal 2020 of CEO and staff under his direct supervision.
- ☞ Reviewed and approved on Term of Reference of Appointment and Remuneration Committee.

1.3 Risk Management Committee

No.	Name	Position	Date of Appointment	Number of Attended	Total Number of Meeting
1	Mr. Michael Moormann	Chair	02 November 2016	4	4
2	Mr. Brindley de Zylva	Member	06 February 2016	4	4
3	Mr. Conrad Dias	Member	12 February 2018	4	4

Roles and Responsibilities of Risk Management Committee

1. Risk Management Framework

- a) Make recommendations to the Board concerning the current and future risk appetite, risk management strategy and particular risks or risk management practices;
- b) Manage the identification, assessment and prioritization of risks to the institution;
- c) Discuss any risk of fraud brought to the committee's attention by the independent auditors and the auditors' recommendation for timely action;
- d) Review the risk philosophy, strategy and policies as recommended by management, and ensure compliance with such policies and with the overall risk profile of the Company. Risk in the widest sense includes market risk, credit portfolio risk, liquidity risk, operational risk and commercial risk which together cover detailed, combined risks such as:
 - Interest rate risk
 - Currency and foreign exchange risk
 - Technology risk
 - Disaster recovery risk
 - Operational risk
 - Reputational risk
 - Competitive risk
 - Legal risk

- Compliance and control risks
- Safety, health and environment risk
- Investment risk
- Asset valuation risk
- Other risks appropriate to the business, which may be identified from time to time.

2. Policy and Report

- a) Monitor the implementation of risk management policies, as defined by the Board.
- b) Review the asset/liability policy of the company annually or more frequently if circumstances require and monitor that the company's funds are managed in accordance with the policy.
- c) Review guidelines on the company's tolerance for financial related risk and review performance against limits.
- d) Review management reports detailing the adequacy and overall effectiveness of the Company's risk management functions and its implementation by management, and reports on internal control, any recommendations, and confirm that appropriate action has been taken.
- e) Review and monitor the impact on the balance sheet, the profit and loss account and on liquidity caused by changes in volumes and pricing of products, costs, growth of loans and borrowed funds/deposits, also including effects caused by changes in investment strategy and customer behaviour.

3. Insurance and Compliance

- a) Oversee and review the scope, cover, and cost of the insurance program for the institution.
- b) Monitor that company is meeting public regulators requirement and covenants set by lenders in the loan agreements.

4. Other Matters

- a) Review the detail items that should be published in the Company's Annual Report relating to the activities of the committee.
- b) Conduct an annual review of its performance and ensure that it is provided with sufficient resources to undertake its duties and that necessary training is provided to RC members on appointment and on an ongoing basis. The RC may recommend any changes that it considers necessary, to the Board for approval.
- c) Review terms of reference of the committee at least once a year, and/or where necessary updated.

5. Reporting Procedures

- a) The committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- b) The committee shall produce, if required by the Board, a report on its activities for inclusion in the directors' annual report.

Results of Risk Management Committee

In 2019, Risk Management Committee convened 4 meetings (the meeting is convened quarterly), which discussed and approved the following:

- ☞ Reviewed Risk Report every quarter
- ☞ Analyzed impact of EBA withdrawal and drop down of agriculture commodity price
- ☞ Reviewed compliance to CMA Lending Guideline

- ☞ Analyzed risk of key person's resignation and defined strategy to prevent risk
- ☞ Reviewed compliance report every quarter
- ☞ Reviewed progress report responding to NBC's onsite visit report
- ☞ Reviewed progress of IFRS implementation
- ☞ Approved Transfer Pricing Policy
- ☞ Approved Scenario and Liquidity Stress Test Result in 2018 and 2019
- ☞ Approved budget for report of CBC Portfolio Review
- ☞ Reviewed and discussed FinTech Risk
- ☞ Reviewed and discussed FX Risk related to bond issuance
- ☞ Reviewed and discussed percentage of group loan clients graduated to individual loan
- ☞ Reviewed loan growth report at Phnom Penh branches
- ☞ Reviewed and discussed strategy to maintain GLP in KHR more than 20%
- ☞ Analyzed treat from competitors' business
- ☞ Approved ECL tools (CIFRS 9)
- ☞ Analyzed survey on three-wheelers' income
- ☞ Discussed and defined who engaged as related parties

2. Changes of Committee Members

No.	Committees	Name	Reasons
1	Audit	None	None
2	Appointment and Remuneration	None	None
3	Risk Management	None	None

C. Indemnity or Remuneration

1. Summary Policy on Indemnity or Remuneration for Directors and Senior Staff

a. Indemnity or Remuneration for Directors

Directors will receive Board of Directors fee, accommodation and airfare to attend the board meeting.

b. Indemnity or Remuneration for Senior Staff

Senior Staff will receive indemnity or remuneration as below:

- ☞ Function Allowance
- ☞ Savings Scheme
- ☞ Khmer New Year Bonus
- ☞ Pchum Ben Bonus
- ☞ Year-End Bonus
- ☞ Seniority Payment

2. Persons Who Receive Indemnity or Remuneration

No.	Persons Who Receive Indemnity or Remuneration	Indemnity or Remuneration Amount	Others
1	Directors	USD 118,289	
2	Executive Directors	N/A	
3	Senior Officers	USD 604,130	
4	Top 5 employees receiving indemnity or remuneration	USD 33,000 - USD 150,000	

D. Annual Performance Evaluation of Board of Directors, Individual Director, Board Committees and Chief Executive Officer

No.	Description	Evaluation Procedure	Criteria
1	Board of Directors	Each director shall evaluate performance of Board of Directors by giving scores (1 – 5) to each criteria and sign on evaluation form. After the evaluation, Company Secretary will consolidate the result of all evaluation to discuss during board meeting.	<ol style="list-style-type: none"> 1. Composition of Board of Directors 2. Oversight of Management 3. Understanding the company and its business 4. Conduct of Board meeting
2	Directors	Individual director shall conduct self-evaluation by giving scores (1 – 5) to each criteria and sign on evaluation form. After self-evaluation, any other 2 directors will conduct peer review. After the peer review, all evaluation forms will be handed to Company Secretary to consolidate result to discuss during board meeting.	Director performance quality
3	Committees	Each member in committee evaluates the performance of his/her own board committee by giving scores (1 – 5) to each criteria and sign the evaluation form. After the evaluation, Company Secretary will consolidate result to discuss during each board committee meeting.	<ol style="list-style-type: none"> 1. Authority of board committee 2. Resources and organizing 3. Duty quality
4	CEO	CEO conducts self-evaluation by giving scores (1 – 5) to each criteria and his own goal. After self-evaluation, the evaluation form will be passed to ARC to review and evaluate CEO's performance with the present of CEO himself. After that, Chair of ARC will pass the evaluation form to Chairman of the Board of Directors to approve and sign together with acknowledgement from CEO.	<ol style="list-style-type: none"> 1. Performance expectation (quality and goal) 2. Core competency

E. Training for Directors and Senior Officers

Directors and senior staff are trained in order to update their knowledge on leadership skills and company management.

No.	Name	Position	Training Courses in 2019
1	Mr. Brindley De Zylva	Chairperson	- GBA Annual Summit
2	Mr. Sok Voeun	Chief Executive Officer	- Enterprise Risk Analysis - Asia Pacific Microfinance Forum in Singapore - The ASEAN Banking Council - Leadership and Diversity for Innovation Program - Corporate governance by SECC
3	Mr. Sok Sophal	Deputy Chief Executive Officer/Chief Finance Officer	- Enterprise Risk Analysis - 25th Anniversary Boulder Microfinance - Asia Pacific Microfinance Forum in Singapore - The ASEAN Banking Council - Corporate governance by SECC
4	Mrs. Chheang Kagna	Chief Digital Financial Services and Deposit Officer	- Digital Transformation of Microfinance Institution Program
5	Mrs. Svoeuy Sodyna	Chief Risk Officer	- Impact Insurance Academy 2019 - Credit Scorecard Workshop - Corporate governance by SECC
6	Mr. Romesh Perera	Chief Channel Officer	- Strategic Planning and Business Development
7	Mrs. Leng Thavy	Head of Human Resources Department	- Corporate governance by SECC
8	Mr. Chhuon Sokcheth	Head of Marketing Department	- Emerging Technology implementation in Digital Financial Service - Developing Effective Marketing Strategies
9	Mr. Hul Sovutha	Head of Information Technology Department	- Temenos Regional Forum - System T24
10	Mr. Teng Pheap	Head of Internal Audit Department	- Annual Tax on Income - Internal Audit Report Writing "8 key aspect for improved communication, Impact and assurance" - Root cause analysis Reporting
11	Mr. Ban Phalleng	Head of Compliance Department	- Regulatory Compliance Certification course - Introduction to New Consumer Protection and E-Commerce Laws - Corporate governance by SECC
12	Mrs. Try Sola	Head of Treasury Department	- Cutting-Edge Stress Testing - Leadership and Diversity for Innovation Program - Corporate governance by SECC
13	Mr. Tun Korng	Deputy Head of Credit Department	- Credit Risk and Delinquency Management
14	Mrs. Keo Taraty	Head of Finance Department	- Leadership and soft skills
15	Mr. Muth Pisey	Head of Credit Department	- Credit Scorecard Workshop
16	Mrs. Kheng Navy	Company Secretary	- Corporate governance by SECC

Section 3: Code of Conducts Practices

A. Policies related to Code of Conduct applicable to Directors, Senior Staff and Employees:

❖ Conflict of Interest

Unless prior written approval of LOLC is granted, employees are not allowed to participate in any kind of paid activities outside LOLC including work in another company, do freelance work for another company, participate as board of directors, or in the management of other companies. A conflict of interest is deemed to exist in the following cases and employees shall not be involved in such activities.

1. The service of employee

Participation in any business activity outside the institution and demands excessive time and attention from the member of staff, thereby depriving LOLC of employee best efforts on job.

Engage directly or indirectly in any business activity that competes or conflicts with the LOLC's interest.

If staff personal/ financial interests or those of his/her spouse or children are in conflict with the interest of LOLC, staff must declare such an interest to manager and disassociate from the activity where the conflict arises.

2. Purchasing assets from clients

Client assets and collateral: staff, and their relatives, involved in the seizing process are prohibited from bidding process/ buying client collateral or assets. Information about the process and date of seizing client's collateral shall be kept confidential.

Product and services: Staff are prohibited to buy client's product/ service at a very cheap price (compared to the market price) in exchange for his/her service with LOLC.

❖ Fair Competition

☞ LOLC (Cambodia) has been investing considerably to study the evolution of the sectors they finance: clients' preference changes, changes with competitors, service impact on clients, ideas about new products, etc. This allows LOLC to design, develop and improve products and services to satisfy clients and to be competitive in the market.

☞ LOLC have also been investing much money to initiate new ideas of products and services creation possibility to entrance new market share as well as growth existing marketing share. There are many related fields to generate all these ideas or sources to take from such as board of directors or regulation requirements, management team concept, market conductive research and competitors etc.

☞ The primary competitive advantages in the current situation MFIs businesses in Cambodia are new products and services development while other institutions are aggressing to increase, expand their market shares as well as maintained existing customers by own strategies.

❖ Confidentiality of Information

☞ Employee must take every precaution to protect the confidentiality of company's information and its transactions.

☞ During employment with LOLC, or upon and after termination of employment, employees are not allowed to disclose any information about LOLC's business deals, negotiations,

customers, correspondence, structure, policies, procedures, etc., to third party without written consent from LOLC or when law require.

- ☞ Employees are strictly prohibited from accessing the accounts and personal files of other staff members.

❖ **Using Institution's Assets**

- ☞ Do not use any of LOLC's computers, telecommunications, buildings, supplies or other assets/equipment for personal or third party's business.
- ☞ Do not access, reproduce, display, distribute, or store any materials that are sexually explicit, obscene, defamatory, harassing, illegal or otherwise inappropriate when using LOLC assets, or when performing the job, especially over the internet and by electronic materials.
- ☞ When asset is lost, LOLC will investigate theft or loss of its assets and take appropriate action.

❖ **Laws and Regulations related to the labor and relevant sectors**

- ☞ No discrimination on the basis of race, color, religion, ethnic, age, gender, national origin, citizenship, disability, marital status, political tendency, union status, pregnancy, veteran status, genetic information, or any other characteristic protected by law.
- ☞ Obey safety and security rules and guidelines at all times. Whenever travelling by car or motor bike, wear seatbelts and helmet accordingly.
- ☞ Must comply with all Cambodian laws, rules and regulations.
- ☞ Must not consume prohibited drugs or substance either during or outside office hours.
- ☞ Must not bring weapons or any item that is considered illegal under the law like prohibited drugs or substances into the premises of the LOLC or while on official LOLC business.
- ☞ Do not access, reproduce, display, distribute, or store any materials that are sexually explicit, obscene, defamatory, harassing, illegal or otherwise inappropriate when using LOLC assets, or when performing the job, especially over the internet and by electronic materials.
- ☞ LOLC evaluates and minimize the potential negative effects of its activities, including impact on the environment (e.g., air, water, and land), health and safety, and labor (e.g., child labor). Credit staff shall assess the compliance of every loan with Cambodian environmental laws, exclusion lists, and child labor, health, safety, and other regulations.

❖ **Work Discipline and Regulations**

I. Regulations on Work Discipline

Article 1: Requirements for employee recruitment

Candidates of both genders who have the age from 18 years old with good health and have enough skills to meet the Company's requirements can apply for the job.

Article 2: Work Procedure and Implementation

All employees shall comply with the following:

- Respect working hours set forth by the company.
- Wear appropriate clothing.
- Be committed to achieving the work assigned by the company.

- Shall wear ID card during working hours in the company.
- Shall not disclose any confidential information of the company.
- Shall not defame the company.
- Shall not work on personal tasks during working hours without permission.
- Shall not serve own customer during working hours without permission.

Article 3: Physical check-up

Before starting work, all employees shall go to do Physical Check-up at the Department of Occupational Health and Safety of the Ministry of Labour and Vocational Training.

Article 4: Working Hours and Holidays

All employees shall be required to work as set the following:

- Morning: from 7:30 to 12:00
- Afternoon: from 13:30 to 17:00

All employees shall be entitled to get paid leave as the following:

- **Public holidays:** Subject to the announcement of the Ministry in charge of Labour.
- **Annual leave:** 18 days/year. One more regular working day shall be added to this leave after three years of service.
- **Special leave:** Subject to the announcement of the Ministry in charge of Labour.
- **Maternity leave:** shall be granted 90 days of maternal leave for female employees before and after delivery date.
- **Sick leave:** For employees who have medical certificates, company provides full salary payment for the 1st month. In the 2nd and 3rd month, company provides only 60%. From the 4th to 6th month, company does not provide the salary but the employment shall be maintained. If it is over 6months, company will consider terminating the employment in accordance with the Law on Labour.
- **Leave due to occupation accident:** Subject to the announcement of the Ministry in charge of Labour.

Article 5: Salary, Bonus, and Other allowances

The company provides the salary based on performance ability and work result of each employee. The company reviews the salary increment of each employee at the end of each year based on performance, comply with the rules and regulations, and individual achievements as well as the ability of the company. Any urgent, the company will request employees to work overtime by voluntary basis by offering overtime rate as mentioned in the Law on Labour. Employees who intentionally damage the properties of the company shall pay back to the company based on actual damage. In case, no ability to pay for the damage, the company will deduct his/her salary in accordance with the procedures and levels set forth in the Law on Labour.

Article 6: Authorized leave and unauthorized leave

Employee who wishes to request leave for any reasons shall obtain prior written permission at least 2 days in advance. In case of serious illness, employee is unable to work or other urgencies, employee may request leave permission through own representative by phone. However, employee shall submit leave form within no longer than two days after come back to work. For sick leave, shall attach with official medical certificate by doctor.

Unauthorized absence is considered as the mistake which is set as below:

- Unauthorized leave less than 2days per month are considered as minor offence.
- Unauthorized leave from 2days to less than 6days per month are considered as significant offence.
- Unauthorized leave from 6days per month or 6 consecutive days up are considered as giving up the job.

Employee who takes unauthorized leave, company will not provide the salary based on the amount of unauthorized leave days.

Article 7: Using the company's building

Employees shall take care the company's building and hygiene. Shall not draw or beat on the wall or any parts of the building. All employees shall not make unhygienic such as: Defecate, throw the garbage and cigarettes and other wastes with the wrong place that is allowed. Shall not stay in the office out of working hour without permission.

Article 8: Exiting and entering the company

Employee shall exit and enter the company through the door that company set and shall no bring weapons and explosives into the company. Employee shall obtain prior approval from the company before exiting the company during working hours. Employee shall sign on attendance list regularly. It is considered as absence if no signature. Employee shall not sign instead of each other.

II. Disciplinary and Rights to Self-Defence of Employee

Article 9: Disciplinary

Employee who commits an intentional misconduct and also have the actual evidence, company will discipline based on the level of misconduct as following:

- **Minor Offence:** For the first time, shall receive verbal warning and keep in personal file. If the mistake is repeated in the second time, shall receive written warning. For the third time, in case it is still repeated, shall be dismissed from the company.
- **Significant Offence:** For the first time, shall receive written warning and keep in personal file. For the second time, shall suspend the employment with without pay (Not more than 7days). For the third time, in case it is still repeated, shall be dismissed from the company.
- **Serious Offence:** As mentioned in the Law on Labour, will be dismissed from the company. For necessary case, company will transfer this case to the police.

Article 10: Rights to Self-Defence of Employee

Employees shall have the rights to respond to and argue against the accusation of the company by him/herself or through the shop steward if he/she considers that the accusation is not proper. If no agreement is reached, the employee may file a complaint to Ministry of Labour and Vocational Training or complain to the court to solve.

III. Occupational Hygiene and Safety

Article 11: Occupational Hygiene and Safety

Employee shall keep own body hygiene while working and keep the workplace is clean. Do not perform the wrong tasks to avoid work-related accidents and disasters. Shall follow the technical procedures recommended by the company and regularly use the labour equipment provided by the company.

When a company's equipment is found to be malfunctioning that it may occurs as the accident, employee shall report to the company immediately for corrective action.

Employee shall adhere to the rules of hygiene and safety of the company trained.

❖ Whistle Blowing

As soon as an employee becomes reasonably concerned about a matter, they should raise the issue to Compliance Officer or Chief Executive Officer through phone call, email or face-to-face meeting. If the matter relates to CEO, the reporting staff can log the issue to independent director through email or face-to-face meeting.

❖ Conflict Resolution

All concerned officials and staff shall be guided by the following in observance of LOLC (CAMBODIA) PLC's policy on Grievance Handling:

1. Any issue that the staff feels strongly about can be raised to the grievance committee.
2. The issue shall be settled at the lowest possible level in the organization. If any member of the grievance committee is the subject of the complaint, s/he shall be required to abstain in the handling of the case.
3. All parties involved in the issue shall be properly informed and given an opportunity to present their side and the first opportunity to solve/adjust the complaint.
4. The issue shall be adjusted/solved within a maximum period of fifteen (15) days from date of presentation.
5. Any employee raising the issue shall not be subject to disciplinary action by LOLC (CAMBODIA) PLC for raising the issue. However, a co-employee or supervisor may raise an action against the employee under the grievance handling policy, or any other policy recognized by the Board of LOLC (CAMBODIA) PLC as official as a counter-action. This, however, will be handled as a separate issue.
6. An employee has four (4) options in presenting his/her complaint. S/He may go to
 - ☞ His/her supervisor or manager.
 - ☞ Request Branch Grievance committee to help in resolving his/her complaint.
 - ☞ Request Head Office Grievance committee to help in resolving his/her complaint through Head of HR via phone 081 800 717.
 - ☞ E-complaint.

B. Dissemination of Code of Conduct to Directors, Senior Staff and Employees

All Directors, Senior Staffs and all employees must read, understand and comply with Company's Code of Conduct as summary below:

I. Principal of Code of Conduct

1. Behavior toward other employees

- ☞ Value life and uphold every people's rights;
- ☞ Observe courtesy and respect in dealing with others;
- ☞ Must not use abusive language. "Abusive" refers to verbal/ oral speech which is characterized by bullying, criticizing, threatening, attacking on self-esteem, and undermining towards receptor.
- ☞ Must not use physical violence such as physical hitting, pushing, biting, punching, limit physical freedom and throwing things at someone, etc.
- ☞ Must not commit any form of general or sexual harassment towards other people. General harassment refers to any continued unwanted or annoying actions of one party towards others while sexual harassment refers to any unwelcome sexual advances, requests for sexual favors, and other verbal or physical conduct of a sexual nature that tends to create a hostile or offensive work environment.
- ☞ No discrimination on the basis of race, colour, religion, ethnic, age, gender, national origin, citizenship, disability, marital status, political tendency, union status, pregnancy, veteran status, genetic information, or any other characteristic protected by law.

2. Professional Conduct

- ☞ Work in a manner that is consistent with LOLC core values;
- ☞ Perform duties competently, faithfully, and diligently;
- ☞ Dress in LOLC uniform while working;
- ☞ Keep the office and premises clean and refrain from untidy habits;
- ☞ Punctual and secure approved office pass from supervisor when leaving the office premises during office hours whether on official or personal business;
- ☞ Obey safety and security rules and guidelines at all times. Whenever travelling by car or motor bike, wear seatbelts and helmet accordingly;
- ☞ Must carefully manage personal financial situation to avoid circumstance that could lead to financial embarrassment. If such a difficulty were to arise, the problem should be discussed with immediate manager;
- ☞ Comply with all LOLC rules and regulations, policies and procedures and generally with all the tasks given by supervisor;
- ☞ If a case arises where the tasks given oppose LOLC's interests or are illegal, staff should either make opinion known to supervisor or, if necessary, report this to the department head, Head of Human Resources Department or the CEO. Even though tasks should normally be followed at all times, in such extreme cases, staff are expected to act so as to protect LOLC's interests;
- ☞ Must comply with all Cambodian law, rules and regulations;

- ☞ Committed to saving energy and the environment such as the appropriate use of paper, electricity, and water;
- ☞ Must not seek any benefit from money lending within LOLC include playing TONTINES in LOLC;
- ☞ Must not make false or misleading reports, illegally alter documents, or conceal information of benefit or cause potential harm to LOLC;
- ☞ Must not gamble, drink liquor within the office premises or while on official duty;
- ☞ Must not consume prohibited drugs or substance either during or outside office hours;
- ☞ Must not bring weapons or any item that is considered illegal under the law like prohibited drugs or substances into the premises of the LOLC or while on official LOLC business;
- ☞ Must not deliberately expose oneself to unnecessary harm or untoward occasions that could endanger staff while on duty.

3. Fraud

- ☞ LOLC has a zero-tolerance for fraud. Cases of suspected fraud will be seriously investigated and if found to exist, those responsible will be subject to disciplinary action, which includes dismissal.
- ☞ Staff are required to report any cases of fraud or suspected fraud. This may be reported to either direct supervisor, Regional Manager, Chief Operation Officer (COO) or Chief Executive Officer (CEO).

4. Misuse of Position

- ☞ Must not misuse position for personal or third party's benefit;
- ☞ Must not seek out or accept any loan or inducement of any kind in order to influence, assist in, or procure: the employment of any person(s) or awarding of the contract for the supply of goods or services. Any such offers should be reported to immediate manager;
- ☞ Must not solicit inducement, either directly or indirectly, whether in cash or in kind in order to provide any favors to a customer in the provision of loans, acceptance of deposits or any other business activity.

5. Use of LOLC's Facilities and Assets

- ☞ Do not use any of LOLC's computers, telecommunications, buildings, supplies or other assets/equipment on personal or third party's business.
- ☞ Do not access, reproduce, display, distribute, or store any materials that are sexually explicit, obscene, defamatory, harassing, illegal or otherwise inappropriate when using LOLC assets, or when performing the job, especially over the internet and by electronic materials.
- ☞ When asset is lost, LOLC will investigate theft or loss of its assets and take appropriate action.

6. “Back-scratching” Exercises

Staff are not allowed to engage in “back-scratching” (i.e. when staff agrees to do something or requests someone to do for him/her a favour in return for some present or future benefit).

7. Public Representation (Safeguarding the Company Reputation)

If LOLC wishes to make public statements, an officially delegated person will be nominated. Unless nominated, and with formal approval from the CEO, the employee is not allowed to make oral or written public statements about national, local, legal or other matters as LOLC’s representative. If the employee wishes to make such statements he/she should make it clear that he/she is expressing his/her personal views, and not those of LOLC.

8. Confidentiality of Information

- ☞ Employee must take every precaution to protect the confidentiality of company’s information and its transactions.
- ☞ During employment with LOLC, or upon and after termination of employment, employees are not allowed to disclose any information about LOLC’s business deals, negotiations, customers, correspondence, structure, policies, procedures, etc., to third party without written consent from LOLC or when law require.
- ☞ Employees are strictly prohibited from accessing the accounts and personal files of other staff members.

9. Behavior toward clients

- ☞ Must not use abusive language
- ☞ Must not use physical force;
- ☞ Must not limit physical freedom;
- ☞ Must not shout at the client or enter in the client’s home uninvited;
- ☞ Must not publicly humiliate the client;
- ☞ Must not violate the client’s right to privacy;
- ☞ Must not discriminate clients based on ethnicity, gender, sexual orientation, religious belief, political opinions, disability;
- ☞ Must not participate in corruption, kickbacks, theft;
- ☞ Must not participate in sexual or moral harassment toward clients.

10. Behavior toward the community and the environment

LOLC evaluates and minimize the potential negative effects of its activities, including impact on the environment (e.g., air, water, and land), health and safety, and labor (e.g., child labor). Credit staff shall assess the compliance of every loan with Cambodian environmental laws, exclusion lists, and child labor, health, safety, and other regulations.

II. Implementation of Code of Conducts

This code of conduct forms part of the terms and conditions of employment and governs staff activities at LOLC. Staff are required to read, understand and abide by the code of conduct. Staff are subjected to the full range of disciplinary sanctions which include warning or termination for not abiding by the code of conduct.

C. Mechanisms and Procedures for the Implementation of Code of Conduct

This code of conduct forms part of the terms and conditions of employment and governs staff activities at LOLC. Staff are required to read, understand and abide by the code of conduct. Staff are subjected to the full range of disciplinary sanctions which include warning or termination for not abiding by the code of conduct. LOLC Executive Committee members will function as the Code of Conduct Committee, and the committee will oversee staff knowledge, understanding, implementation of code of conduct, and sanction for code violation.

D. Transactions with Related Parties

Please refer to attached Financial Statement reviewed by Independent Auditor for detail information.

1. Policy for Managing Transactions with Related Parties

No.	Related Parties	Policies
1	Holding Company	Transfer Pricing Policy
2	Joint Venture	None
3	Subsidiary Company	Transfer Pricing Policy
4	Majority Shareholders and Controlling Shareholders	Transfer Pricing Policy
5	Directors and their family	Guideline on Related Parties Transactions
6	Employees and their family	Guideline on Related Parties Transactions
7	Other	None

2. Significant transactions with Related Parties

Please refer to attached Financial Statement reviewed by Independent Auditor for detail information.

Section 4: Risk Management, Internal Control and Auditing

A. Summary of Risk Management System or Risk Management Policy

The board has approved Risk Management Policy and Procedure for detecting and managing risks which including the following steps:

- **Identifying:** the risks facing the organization and assessing their severity;
- **Measuring:** the risks appropriately and evaluating the acceptable limits for those risks;
- **Monitoring:** the risks on a routine basis, ensuring that the right people receive accurate and relevant information for corrective action if necessary;
- **Controlling:** the risks through close examination and evaluation of performance.

In LOLC, risk management activities broadly take place simultaneously following different hierarchy levels:

- **Strategic level:** This encompasses risk management functions performed by senior management and the Board. For instance, defining of risks; ascertaining institutions' risk appetites; formulating strategies and policies for managing risks; establishing adequate systems and controls to ensure that overall risks remain within an acceptable level; and rewarding compensation for the risk taken.
- **Macro Level:** This encompasses risk management within a business area or across business lines. Generally, the risk management activities performed by middle management or units devoted to risk reviews fall into this category.
- **Micro Level:** This involves 'on-the-line' risk management where risks are created. These are the risk management activities performed by individuals who take risks on the organization's behalf, such as front office and loan origination functions. The risk management in those areas is confined to following operational procedures and guidelines set by management.

B. Summary of Internal Control

Components of control system include permanent control system and periodic control. The permanent control consists of:

1. Organizational chart and manager/staff job's description to perform the jobs like unit and department
2. Level of authorities
3. Dual control of transactions and
4. Implementation of policies, procedures or manuals.

Periodic control is the control of internal audit used sampling methodology and subjected to risks, objectives, and annual plan approved by audit committee.

The internal audit department is independent, and it reports directly to the Audit Committee of the Board of Directors. The internal auditors provide assurance and advisory services to the organization. The head of internal audits is responsible for leading his internal auditors to evaluate and assess the internal control to ensure compliance effectively, without conflict of interest.

The internal auditors have full access to all departments, branch offices, field areas, activities, information, properties, accounts, policies, documents, and reports that are relevant to the performance of auditing.

C. Auditing

1. Internal Audit

1.1 Roles and Responsibility of Internal Auditors

The Internal Audit Department performs regular reviews of the business operations of the company to ensure that:

- Financial and operating information is accurate and reliable;
- Risks to the company are identified and minimized;
- Internal policies and procedure, laws and regulations are followed;
- Resources are used efficiently and economically;
- Strong internal control systems and risk management systems are in place;
- The objectives of the company are effectively achieved.

1.2 Appointment and Removal/Resignation of Head and/or Deputy Head of Internal Audit

No.	Name	Date of Appointment	Date of Dismiss/Resignation	Reason
1	None			

1.3 New Appointment of Head and/or Deputy Head of Internal Audit

No.	Name	Date of Appointment	Reason
1	None		

2. External Auditor

No.	Name of Company	Date of Engagement	Audit Fee	Non-Audit Fee
1	KPMG Cambodia Ltd	25 April 2017	Around USD 120 thousand	None

Reasons for change, suspension and termination of Audit Company

As of reporting date, LOLC does not change external auditor.

Section 5: Stakeholders

A. Identifying policies and activities related to the following:

No.	Description	Policies	Activities
1	Customer welfare	<ul style="list-style-type: none"> - Code of Conduct - Mechanisms for Complaint Resolution Guideline 	LOLC employees shall implement the code of conducts which include customer welfare such as client's rights, behaviors toward clients, implementation of loan collection and use of client's information. Mechanism for Complaint Resolution Guideline is being implemented and used by clients and it is mandatory required by regulator.
2	Selection of Suppliers/ Contractors	Administration and Procurement Policy	By policy, any purchase of USD 1,000 up requires quotation from at least three suppliers/contractors and it shall must selected by the committee. Selection of suppliers/contractors is taken into account if affecting child labour, environment and society.
3	Management and protection of employees	Human Resources Policy	Management and protection of employees is implemented following laws and related Prakas such as Labor Law and Employee Safety Act, etc.
4	Environmental protection	<ul style="list-style-type: none"> - Environmental and Social Guideline - Environmental and Social Protection Policy for SME products 	Clients are rejected for the purpose of using loan for doing businesses as listed in the rejection list (businesses that are prohibited by laws and businesses that have negative impacts on child labor, environment and society). For SME clients with loan size of USD 30,000 up, the environmental and social impact assessment must be conducted.
5	Interaction with Community	<ul style="list-style-type: none"> - Environmental and Social Guideline 	Social activities such as community events including repairing roads, providing benches in public places, school activities, planting trees, providing books to library, cleaning public places, providing financial literacy to both clients and non-clients in the community and some partners. Distribution to customers affected by fire, flood, etc., and to contribute to environmental and social programs.
6	Protection of the rights of creditors	Bondholders Representative Agreement	Stipulates the rights and obligations of bondholders on bonds that comply with SECC regulations on the settlement date, including any other modifications that are in accordance with this Agreement. If there is a discrepancy between the terms of the bond and the Bondholders Representative Agreement, the Bondholders Representative Agreement will be implemented.
7	Anti-Corruption Programs	Anti-Money Laundering (AML)/Combating Financial Terrorism and Know Your Customer Policy	Anti-Money Laundering (AML)/Combating Financial Terrorism and Know Your Customer Policy shows significant principles for anti-money laundering and combating financial terrorism (AML/CFT), Know Your Customer (KYC), Customer Due Diligence (CDD,EDD), procedures for reporting cash transactions (CTR), suspicious transactions (STR), reporting of financial terrorism, keeping confidentiality, compliance and training.

B. Describe the Social Responsibility of the Listed Entity

LOLC has contributed to social activities as follows:

- ☞ Sponsored the leaflets and supporting drugs campaign activities;
- ☞ Contributed to the Music Festival and Children’s Music Festival to encourage children in art;
- ☞ Supported “Fresh Milk Nutrition Program” for children;
- ☞ Sponsored the refreshment and provided training on “Financial Management” to promote the movement of one village one product;
- ☞ Provided training course on “Financial Management” to university students and self-preparation to get a job;
- ☞ Sponsor to encourage authors, institutes, organizations, publishing houses and printing houses to showcase their achievements to students and officials to see and buy those publications as well as to encourage boys and girls, students, teenagers and all officials to turn their interest to reading.
- ☞ Contributed to the Cambodian Red Cross for the social contribution in charity activities of the Cambodian Red Cross.

Section 6: Disclosure and Transparency

A. The following information has been disclosed in this Annual Report:

No.	Information	Yes/No
1	Vision/Mission/Business Objectives	Yes
2	Financial Indicators	Yes
3	Non-financial Indicators	Yes
4	Key Risk Factors	Yes
5	Dividend Policy	Yes
6	Biography of Directors	Yes
7	Training for Directors	Yes
8	Number of Board of Directors Meeting	Yes
9	Attendant of Directors in Board of Directors Meeting	Yes
10	Remuneration or Indemnity for Directors and Senior Management	Yes

**The listed entity shall indicate the reasons if above information is not disclosed.*

B. Describe the mechanism of disclosure by describing the means, procedures and responsible person in charge of disclosure

The disclosure of information of the Disclosure Personnel is made using the following procedure:

- Sending Email, written letters and phone call to SECC.
- Sending Email, written letters, phone call and disclosure of information in **E Disclosure System** to CSX.
- Disclosure of information on LOLC's website, including Investor Relations section, with email address of the Disclosure Personnel and Question-Answer box.
- Disclosure of information in LOLC’s social media, etc.

Responsible persons in charge of disclosure:

➤ **Mr. Sok Sophal**

Position: Deputy Chief Executive Officer/Chief Finance Officer

Address: #666B, Street 271, Phum Kbal Tumnuh Muoy, Sangkat Boeng Tumpun 2, Khan Mean Cheay, Phnom Penh, Kingdom of Cambodia

Phone: (+855) 23 991 991 / 81 800 003 / 12 973 647

Email: soksophal@lolc.com.kh

➤ **Ms. Try Sola**

Position: Head of Treasury Department

Address: #666B, Street 271, Phum Kbal Tumnuh Muoy, Sangkat Boeng Tumpun 2, Khan Mean Cheay, Phnom Penh, Kingdom of Cambodia

Phone: (+855) 23 991 991 / 81 800 003 / 12 973 647

Email: trysola@lolc.com.kh

C. Communication with Investors

1. Demonstrate the mechanisms and procedures of communication with investors

Communication with investors is made using the following procedures:

- Disclosure of information on LOLC's website, including Investor Relations section, with email address of the Disclosure Personnel and Question-Answer box.
- Disclosure of information in LOLC's social media, etc.
- Website of SECC and CSX which contains information of LOLC.
- Sending email, written letters and phone call to investors.
- Bondholder Representative of LOLC who play an important role in providing information to investors.

2. Brief description on communication with investors in the last one year

LOLC has disclosed information to investors as the following:

- On 28th June 2019, press release on disclosure of Annual Report 2018 of LOLC (Cambodia) Plc.
- On 14th August 2019, press release on LOLC volunteered to disclose its financial report as of quarter 2 of 2019 in Cambodian Accounting Standard (CAS).
- On 25th October 2019, announcement to investors on coupon payment of LOLC's corporate bond.
- On 18th November 2019, press release on delay of disclosure of financial report as of quarter 2 and quarter 3 of 2019 in compliance with Cambodian International Financial Accounting Standards (CIFRS) to 29th November 2019.
- On 29th November 2019, press release on disclosure of financial report as of quarter 2 and quarter 3 of 2019 in compliance with Cambodian International Financial Accounting Standards (CIFRS).

គំនិតដ៏ល្អគឺជាគ្រឹះ *Ideas for Growth*

666B | Street 271 | Phum Kbal Tumnuh Muoy | Sangkat Boeng Tumpun 2 | Khan Mean Chey | Phnom Penh | Cambodia
P (+855) 23 991 991 | info@lolic.com.kh | Facebook: facebook.com/lolccambodia

Website : www.lolic.com.kh

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