

HATTHA KAKSEKAR LIMITED
(Registration No. 00005355)

**REPORT OF THE BOARD OF DIRECTORS
AND AUDITED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2017

HATTHA KAKSEKAR LIMITED

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FOR THE YEAR ENDED 31 DECEMBER 2017**

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CORPORATE INFORMATION

Company	Hattha Kaksekar Limited
Registration No	00005355
Registered office	No. 606, Street 271, Sansam Kosal 3 Village, Sangkat Boeng Tumpun I, Khan Mean Chey, Phnom Penh, Kingdom of Cambodia
Shareholder	Bank of Ayudhya Public Company Limited ("Krungsri")
Board of Directors	Mr. Sudargo Harsono, Chairperson, Head of Retail and Consumer Banking of Krungsri Mr. Rohit Khanna, Director, Head of Corporate Strategy and Planning Group of Krungsri Ms. Duangdao Wongpanitkrit, Director, Chief Financial Officer of Krungsri Mr. Chandrashekar Subramanian Krishoolndmangalam, Director, Chief Risk Officer of Krungsri Mr. Piyasak Ukritnukun, Director, Managing Director of Ngern Tid Lor Co., Ltd. Mr. Dy Davuth, Independent Director, Vice President of Build Bright University Mr. Lonh Hay, Independent Director Ms. Tal Nay Im, Independent Director Mr. Hout Ieng Tong, Director, President and Chief Executive Officer of Hattha Kaksekar Limited
Executive Committee ("EXCOM")	Mr. Hout Ieng Tong, President & Chief Executive Officer Mr. Wanchairabin Jitwattanatam, Deputy Chief Executive Officer Ms. Im Vandith, Executive Vice President & Chief Administration Officer Mr. Rath Sarun, Executive Vice President & Chief Distribution Officer Mr. Charnrit Sookplang, Executive Vice President & Chief Finance Officer-Acting Mr. Touch Lina, Executive Vice President & Chief Operation and Underwriting Officer Mr. Mech Sokmetrey, Executive Vice President & Chief Business Officer Mr. Ros Vol, Executive Vice President & Chief Internal Audit Mr. Yim Tithya, Vice President & Senior Director of IT Strategic Planning Mr. Chen Boranchanborath, Vice President & Director of Legal and Secretary Department Ms. Chheng Sokun, Vice President & Director of Credit & Market Risk Department Ms. Heng Sreypoch, Vice President & Director of Compliance Department Mr. Duong Chansovichea, Vice President & Director of Operational Risk & Fraud Management Department
Principal bankers	ACLEDA Bank Plc. Advanced Bank of Asia Limited ANZ Royal Bank (Cambodia) Ltd. Maybank (Cambodia) Plc. National Bank of Cambodia
Auditors	Deloitte (Cambodia) Co., Ltd.



REPORT OF THE BOARD OF DIRECTORS

The Board of Directors ("BOD" or "Directors") has pleasure in submitting their report together with the audited financial statements of Hattha Kaksekar Limited ("the Company" or "HKL") for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is to provide loans, savings and other financial services particularly to women and low income families through its head office in Phnom Penh and its various offices in the Kingdom of Cambodia.

FINANCIAL RESULTS

The financial results of the Company for the year ended 31 December 2017 were as follows:

	Year ended 31 December 2017		Year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Profit before income tax	19,470,389	78,601,960	16,235,228	65,541,616
Income tax expense	(4,114,230)	(16,609,147)	(3,416,171)	(13,791,082)
Net profit for the year	15,356,159	61,992,813	12,819,057	51,750,534

RESERVES AND PROVISIONS

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

DIVIDENDS

There was no dividend declared during the year (2016: nil).

SHARE CAPITAL

On 16 March 2017, the National Bank of Cambodia ("NBC") approved in principle on the Company's request for increasing share capital by US\$15 million from US\$6,824,594 to US\$21,824,594. The amendment of the Memorandum and Articles of Association was approved by the NBC and the MOC on 28 June 2017 and 4 July 2017 respectively.

On 28 September 2017, the NBC approved in principle on the Company's request for increasing additional share capital by US\$8,175,406 from US\$21,824,594 to US\$30 million. The amendment of the Memorandum and Articles of Association was approved by the NBC and the MOC on 7 November 2017 and 18 December 2017 respectively.

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BAD AND DOUBTFUL LOANS

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

ASSETS

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

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

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

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

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

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

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

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

EVENTS AFTER THE REPORTING DATE

No significant events occurred after the balance sheet date requiring disclosures or adjustments other than those disclosed in the financial statements.

THE BOARD OF DIRECTORS

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

- Mr. Sudargo Harsono, Chairperson, Head of Retail and Consumer Banking of Krungsri
- Mr. Rohit Khanna, Director, Head of Corporate Strategy and Planning Group of Krungsri
- Ms. Duangdao Wongpanitkrit, Director, Chief Financial Officer of Krungsri
- Mr. Chandrashekar Subramanian Krishoolndmangalam, Director, Chief Risk Officer of Krungsri
- Mr. Piyasak Ukritnukun, Director, Managing Director of Ngern Tid Lor Co., Ltd.
- Mr. Dy Davuth, Independent Director, Vice President of Build Bright University
- Mr. Lonh Hay, Independent Director
- Ms. Tal Nay Im, Independent Director
- Mr. Hout Ieng Tong, Director, President and Chief Executive Officer of Hattha Kaksekar Limited

DIRECTORS' BENEFITS

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

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

RESPONSIBILITIES OF THE DIRECTORS IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for ascertaining that the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended. In preparing these financial statements, the Directors are required to:

- adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- comply with the requirements of Cambodian Accounting Standards and relevant accounting regulations and guidelines issued by the National Bank of Cambodia, or, if there have been any departures in the interests of fair presentation, these have been appropriately disclosed, explained and quantified in the financial statements;
- maintain adequate accounting records and an effective system of internal controls;
- prepare the financial statements on a going concern basis unless it is inappropriate to assume that the Company will continue operations in the foreseeable future; and
- effectively control and direct the Company and is involved in all material decisions affecting the operations and performance and ascertain that such have been properly reflected in the financial statements.

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

STATEMENT OF THE BOARD OF DIRECTORS

The accompanying financial statements as set out on pages 9 to 61 present fairly, in all material respects, the financial position of Hattha Kaksekar Limited as at 31 December 2017, and its financial performance and its cash flows for year then ended in accordance with Cambodian Accounting Standards and relevant accounting regulations and guidelines issued by the National Bank of Cambodia, and at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

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On behalf of the Board of Directors



Mr. Hout Ieng Tong
President and Chief Executive Officer

Phnom Penh, Kingdom of Cambodia
Date: 21 March 2018

INDEPENDENT AUDITOR'S REPORT

To the shareholder of Hattha Kaksekar Limited

Opinion

We have audited the financial statements of Hattha Kaksekar Limited ("the Company"), which comprise the balance sheet as at 31 December 2017, the income statement, statement of changes in equity and statement of cash flows for year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 9 to 61.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and cash flows for the year then ended in accordance with Cambodian Accounting Standards and relevant accounting regulations and guidelines issued by the National Bank of Cambodia.

Basis for Opinion

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

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

Management is responsible for the other information. The other information comprises Corporate Information and Report of the Board of Directors as set out on page 1 and pages 2 to 6 respectively, but does not include the financial statements and our auditor's report thereon.

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

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

Responsibilities of Management and the Board of Directors for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

For Deloitte (Cambodia) Co., Ltd.



Khoy Kimleng
Director

Phnom Penh, Kingdom of Cambodia
Date: 21 March 2018

HATTHA KAKSEKAR LIMITED**BALANCE SHEET
AS AT 31 DECEMBER 2017**

	Note	31 December 2017		31 December 2016	
		US\$	KHR'000	US\$	KHR'000
ASSETS					
Cash on hand	4	9,923,604	40,061,589	9,317,664	37,615,410
Balances with the NBC	5	41,260,115	166,567,084	45,996,092	185,686,223
Balances with other banks	6	57,097,552	230,502,817	74,272,524	299,838,179
Loans to customers, net	7	567,536,202	2,291,143,647	442,277,524	1,785,474,364
Other assets	8	9,349,972	37,745,837	8,435,869	34,055,603
Property and equipment	9	3,958,984	15,982,418	4,713,214	19,027,245
Intangible assets	10	611,726	2,469,538	545,826	2,203,500
Deferred tax assets, net	17(a)	1,269,418	5,124,640	948,969	3,830,988
TOTAL ASSETS		<u>691,007,573</u>	<u>2,789,597,570</u>	<u>586,507,682</u>	<u>2,367,731,512</u>
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits from customers	11	367,421,079	1,483,278,896	357,772,465	1,444,327,441
Borrowings	12	156,384,184	631,322,951	116,750,949	471,323,581
Amounts due to related parties	13	19,204,661	77,529,216	44,750	180,655
Subordinated debts	14	24,729,319	99,832,261	24,729,319	99,832,261
Provident benefits	15	132,601	535,310	2,318,590	9,360,148
Other liabilities	16	14,235,033	57,466,827	14,988,449	60,508,369
Current income tax payable	17(b)	3,510,009	14,169,906	3,044,038	12,288,781
TOTAL LIABILITIES		<u>585,616,886</u>	<u>2,364,135,367</u>	<u>519,648,560</u>	<u>2,097,821,236</u>
EQUITY					
Share capital	18	30,000,000	121,110,000	6,824,594	27,550,886
Share premium		19,082,502	77,036,061	19,082,502	77,036,061
Legal reserves		682,459	2,755,087	682,459	2,755,087
Other reserves		1,145,714	4,625,247	975,604	3,938,513
Retained earnings		54,480,012	219,935,808	39,293,963	158,629,729
TOTAL EQUITY		<u>105,390,687</u>	<u>425,462,203</u>	<u>66,859,122</u>	<u>269,910,276</u>
TOTAL LIABILITIES AND EQUITY		<u>691,007,573</u>	<u>2,789,597,570</u>	<u>586,507,682</u>	<u>2,367,731,512</u>

The accompanying notes from pages 14 to 61 form an integral part of these financial statements.

HATTHA KAKSEKAR LIMITED**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Note	Year ended 31 December 2017		Year ended 31 December 2016	
		US\$	KHR'000	US\$	KHR'000
Interest income	19	94,996,654	383,501,492	81,568,073	329,290,311
Interest expense	20	(38,555,784)	(155,649,700)	(35,502,532)	(143,323,722)
Net interest income		56,440,870	227,851,792	46,065,541	185,966,589
Other income	21	1,307,423	5,278,067	877,402	3,542,072
General and administrative expenses	22	(31,374,510)	(126,658,897)	(28,992,784)	(117,043,869)
Operating profit		26,373,783	106,470,962	17,950,159	72,464,792
Allowance for bad and doubtful loans	7	(6,903,394)	(27,869,002)	(1,714,931)	(6,923,176)
Profit before income tax		19,470,389	78,601,960	16,235,228	65,541,616
Income tax expense	17(c)	(4,114,230)	(16,609,147)	(3,416,171)	(13,791,082)
Net profit for the year		<u>15,356,159</u>	<u>61,992,813</u>	<u>12,819,057</u>	<u>51,750,534</u>

The accompanying notes from pages 14 to 61 form an integral part of these financial statements.

HATTHA KAKSEKAR LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Share capital	Share Premium	Legal reserve	Other reserves	MEP/Equity- settled share- based Payment*	Retained earnings	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
At 1 January 2016	6,824,594	19,052,319	682,459	805,493	30,183	30,275,924	57,670,972
Net profit for the year	-	-	-	-	-	12,819,057	12,819,057
Transfer to other reserves	-	-	-	170,111	-	(170,111)	-
MEP/Equity-settled share-based payment	-	30,183	-	-	(30,183)	-	-
Settlement of MEP shares	-	-	-	-	-	(3,630,907)	(3,630,907)
At 31 December 2016	<u>6,824,594</u>	<u>19,082,502</u>	<u>682,459</u>	<u>975,604</u>	<u>-</u>	<u>39,293,963</u>	<u>66,859,122</u>
KHR'000 equivalents							
At 31 December 2016	<u>27,550,886</u>	<u>77,036,061</u>	<u>2,755,087</u>	<u>3,938,513</u>	<u>-</u>	<u>158,629,729</u>	<u>269,910,276</u>
At 1 January 2017	6,824,594	19,082,502	682,459	975,604	-	39,293,963	66,859,122
Additional capital (note 18 & note 25(f))	23,175,406	-	-	-	-	-	23,175,406
Net profit for the year	-	-	-	-	-	15,356,159	15,356,159
Transfer to other reserves	-	-	-	170,110	-	(170,110)	-
At 31 December 2017	<u>30,000,000</u>	<u>19,082,502</u>	<u>682,459</u>	<u>1,145,714</u>	<u>-</u>	<u>54,480,012</u>	<u>105,390,687</u>
KHR'000 equivalents							
At 31 December 2017	<u>121,110,000</u>	<u>77,036,061</u>	<u>2,755,087</u>	<u>4,625,247</u>	<u>-</u>	<u>219,935,808</u>	<u>425,462,203</u>

*After the effective change of control dated 12 September 2016, the Company has no longer MEP scheme.

The accompanying notes from pages 14 to 61 form an integral part of these financial statements.

HATTHA KAKSEKAR LIMITED
**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Note	Year ended 31 December 2017		Year ended 31 December 2016	
		US\$	KHR'000	US\$	KHR'000
Cash flows from operating activities					
Profit before income tax		19,470,389	78,601,960	16,235,228	65,541,616
<i>Adjustments for non-cash income and expense</i>					
Depreciation and amortisation	22	2,559,547	10,332,891	2,808,229	11,336,820
Allowance for bad and doubtful loans	7	6,903,394	27,869,002	1,714,931	6,923,176
Provident benefits	15	698,573	2,820,139	588,977	2,377,700
(Gains)/losses on disposal of property and equipment		(521)	(2,104)	2,979	12,026
Net interest income		(56,440,870)	(227,851,792)	(46,065,541)	(185,966,589)
<i>Effect of currency translation differences:</i>					
Borrowings		964,256	3,892,703	97,662	394,262
		(25,845,232)	(104,337,201)	(24,617,535)	(99,380,989)
<i>Changes in:</i>					
Balances with the NBC		(2,837,539)	(11,455,145)	(9,960,000)	(40,208,520)
Loans to customers		(132,162,072)	(533,538,285)	(82,173,738)	(331,735,380)
Other assets		70,684	285,351	(947,211)	(3,823,891)
Deposits from customers		9,648,614	38,951,455	121,358,195	489,923,033
Other liabilities		(618,366)	(2,496,344)	919,696	3,712,813
Amount due to related parties		159,911	645,561	44,750	180,656
Cash (used in)/ generated from operations		(151,584,000)	(611,944,608)	4,624,157	18,667,722
Interest received		94,011,867	379,525,907	80,964,692	326,854,462
Interest paid		(38,619,615)	(155,907,386)	(31,439,708)	(126,922,101)
Income tax paid	17(b)	(3,968,708)	(16,021,674)	(3,489,046)	(14,085,279)
Provident benefits paid	15	(2,955,781)	(11,932,488)	(88,317)	(356,536)
Settlement of MEP shares		-	-	(3,630,907)	(14,657,972)
Net cash (used in)/ generated from operating activities		(103,116,237)	(416,280,249)	46,940,871	189,500,296
Cash flows from investing activities					
Purchases of property and equipment	9	(1,523,935)	(6,152,126)	(1,693,914)	(6,838,331)
Purchases of intangible assets	10	(349,305)	(1,410,144)	(229,183)	(925,212)
Proceeds from disposal of property and equipment		2,544	10,270	1,327	5,357
Net cash used in investing activities		(1,870,696)	(7,552,000)	(1,921,770)	(7,758,186)

HATTHA KAKSEKAR LIMITED

**STATEMENT OF CASH FLOWS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Note	Year ended 31 December 2017		Year ended 31 December 2016	
		US\$	KHR'000	US\$	KHR'000
Cash flows from financing activities					
Proceeds from borrowings		105,508,182	425,936,531	36,101,743	145,742,736
Repayments of borrowings		(66,839,203)	(269,829,863)	(29,168,269)	(117,752,302)
Proceeds from amounts due to related party		19,200,000	77,510,400	-	-
Repayments of amounts due to related party		(200,000)	(807,400)	(8,000,000)	(32,296,000)
Proceeds from subordinated debts		-	-	5,000,000	20,185,000
Proceeds from capital injections		23,175,406	93,559,114	-	-
Net cash generated from financing activities		80,844,385	326,368,782	3,933,474	15,879,434
Net (decrease)/increase in cash and cash equivalents		(24,142,548)	(97,463,467)	48,952,575	197,621,545
Cash and cash equivalents at the beginning of the year		99,320,348	400,956,245	50,367,773	203,989,480
Currency translation differences		-	-	-	(654,780)
Cash and cash equivalents at the end of the year	23	75,177,800	303,492,778	99,320,348	400,956,245

Significant non-cash transactions

During the year, there were the following significant non-cash transactions:

	Year ended 31 December 2017		Year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Increase in other reserves as a result of transfer from the retained earnings	170,110	686,734	170,111	686,738
Transfer amounts due to shareholders to borrowings	-	-	25,799,995	104,154,580
Increase in share premium as a result of transfer from MEP/Equity-settled share-based payment	-	-	30,183	121,849

The accompanying notes from pages 14 to 61 form an integral part of these financial statements.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. REPORTING ENTITY

Hattha Kaksekar, a non-governmental organisation ("NGO") established in November 1996, has created Hattha Kaksekar Limited ("HKL" or the "Company") in order to comply with the Prakas No. B7-00-06 dated 11 January 2000 of the National Bank of Cambodia ("NBC" or "the Central Bank") on the licensing of micro-finance institutions. The creation of HKL converted the NGO's micro-lending operations into a licensed and commercially oriented micro-finance institution. HKL aims to continue the NGO's micro-finance activities and conduct banking operations as defined in the Law on Banking and Financial Institution. The conversion was achieved by transferring and assigning all the assets and liabilities of the NGO as at 27 April 2001, the effective date of transfer, to HKL including all grant contracts and the outstanding receivables arising from these contracts as at the date of transfer, conditions and obligations relating to borrowings, all employment contracts, conditions, obligations and benefits, leases on premises or houses for office branches or headquarters, and all other related to the micro-lending operations of the NGO. The transfer and assignment of all these were put into effect through an agreement to transfer assets and liabilities, and the subordinated loan agreement between the NGO and HKL, both dated 27 April 2001.

On 27 April 2001, the Ministry of Commerce issued a business license dated 3 April 2001 to HKL to operate as a limited company with the aim of providing credit and saving services for the lower segments of the market. On 19 October 2001, under license number 2, the NBC issued a license to HKL to conduct micro-finance operations for a three-year period which expired on 19 October 2004. On 12 July 2004, HKL obtained a new license for a three-year period which expired on 19 October 2007. The NBC granted an indefinite micro-finance license to the Company effective from 8 August 2007.

On 29 January 2010, the NBC issued a license to HKL to conduct the deposit taking business.

On 9 October 2013, HKL obtained approval from NBC for operating Mobile Banking exclusively covering the services namely (1) balance inquiry, (2) account statement summary, (3) search ATM location, (4) fund transfers, (5) mobile top-up, (6) loan repayment, (7) check interest rate, (8) check exchange rate, (9) loan repayment alert, (10) advertising through mobile device and (11) SMS notification.

On 19 December 2014, NBC approved HKL to be an Insurance Agent by acting as Referral for Prevoir Kampuchear Micro Life Insurance Plc.

The principal activity of HKL is to provide loans, savings and other financial services particularly to women and low income families through its head office in Phnom Penh and its various offices in the Kingdom of Cambodia.

HKL operates in 169 offices (including Head Office) located in Phnom Penh and 24 provinces, namely, Siem Reap, Banteay Meanchey, Kampong Thom, Kampong Cham, Kratie, Kampong Chhnang, Pursat, Battambang, Takeo, Prey Veng, Kandal, Kampong Speu, Svay Rieng, Kampot, Koh Kong, Sihanouk Ville, Preah Vihea, Steung Treng, Oddar Meanchey, Mondulkiri, Ratanakiri, Kep, Pailin, and Tbong Khmum with the primary source of income being interest income earned on providing loans to customers.

The Company's registered office is located at No. 606, Street 271, Sansam Kosal 3 Village, Sangkat Boeng Tumpun I, Khan Mean Chey, Phnom Penh, Kingdom of Cambodia.

The financial statements of the Company were authorised for issue by the Board of Directors on 20 March 2018.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements have been prepared in accordance with Cambodian Accounting Standards ("CAS") and relevant accounting regulations and guidelines issued by the National Bank of Cambodia.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

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

(d) Presentation in Khmer Riel

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

Translations of US\$ into Khmer Riel are included in the financial statements solely for compliance with the Prakas No. B7-07-164 dated 13 December 2007 of the National Bank of Cambodia relating to the preparation and presentation of financial statements and have been made using the prescribed official exchange rate of US\$ 1 to KHR 4,037 as at 31 December 2017 (2016: US\$1 to KHR 4,037) published by the National Bank of Cambodia.

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

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Use of estimates and judgments

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

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

For critical accounting estimates, assumptions and judgment, please refer to Note 3.

(f) Financial instruments

The Company's financial assets and liabilities include cash on hand, balances with the NBC, balances with other banks, loans to customers, other receivables, deposits from customers, borrowings, amounts due to related parties, subordinated debts and other payables. The accounting policies for the recognition and measurement of these items are disclosed in the respective accounting policies.

(g) Basis of aggregation

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

(h) Cash and cash equivalents

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

(i) Loans to customers

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

(j) Allowances for bad and doubtful loans and loan written off

Prior to December 2017, a specific allowance for bad and doubtful loans was made on loans that were identified as non-performing in compliance with the NBC guidelines as follows:

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

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Allowances for bad and doubtful loans and loan written off (continued)

An additional general allowance for bad and doubtful loans was set at the rate of 1% of standard loan growths during the period.

Where required by the lenders' financial covenants, additional allowances for bad and doubtful loans were provided in addition to the required allowance computed above.

On 1 December 2017, NBC issued a new Prakas No. B7-017-344 on Credit Risk Grading and Impairment Provisioning.

According to the new Prakas, the Company is required to calculate the allowance for bad and doubtful loans in accordance with the regulatory provision simultaneously with the calculation in accordance with Cambodian International Financial Reporting Standards ("CIFRSs"). The provision calculated in accordance with CIFRSs is to be recognised and recorded. Excess amount of provision calculated in accordance with regulatory provision compared to the provision calculated under CIFRSs has to be transferred from retained earnings to regulatory reserve of shareholder's equity. This requirement is to be applied when the Company fully implements CIFRSs which will be starting from 1 January 2019.

On 16 February 2018, NBC issued Circular No. B7-018-001 clarifying on Implementation of Prakas on Credit Risk Grading and Impairment Provisioning.

According to the new Circular and during the transitional period (from 1 December 2017 to 31 December 2018), the Company is required to calculate the allowance for bad and doubtful loans in accordance with regulatory provision of which loans are classified into 5 classes with provision rates as follows:

Classifications	Number of days past due	Provision
1. <u>General allowance</u>		
<u>Short-term loans (one year or less):</u>		
Normal loans	0-14 days	1%
<u>Long-term loans (more than one year):</u>		
Normal loans	0-29 days	1%
2. <u>Specific allowance</u>		
<u>Short-term loans (one year or less):</u>		
Special mention	15-30 days	3%
Sub-standard	31-60 days	20%
Doubtful	61-90 days	50%
Loss	91 days & above	100%
<u>Long-term loans (more than one year):</u>		
Special mention	30-89 days	3%
Sub-standard	90-179 days	20%
Doubtful	180-359 days	50%
Loss	360 days & above	100%

For loans with repayment as quarterly, semi-annually or longer, such loans shall be classified as substandard if their repayments are past due from 5 working days.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Allowances for bad and doubtful loans and loan written off (continued)

The above regulatory changes in loan classifications and provisions were applied prospectively from 1 December 2017 and the effect of these changes resulted in increase in allowance for bad and doubtful loan expenses for the year ended 31 December 2017 of \$1,390,048.

The allowance is calculated as a percentage of the loan amount outstanding at the time the loan is classified, excluding accrued interest. The allowance is recorded in the Company's accounts and charged to the income statement for the month during which the corresponding loan has been classified.

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

Recoveries on loans previously written off are recognised as other operating income in the income statement. Reversal of previous allowance is presented in Allowance for bad and doubtful loans in the income statement.

(k) Interest in suspense

This represents interest on non-performing loans, that is recorded as interest in suspense rather than interest income until it is realised on a cash basis. Non-performing loans are loans classified as substandard, doubtful and loss.

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

(l) Other assets

Other assets are carried at cost.

(m) Property and equipment

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

	Useful lives
Leasehold improvements	3 years
Motor vehicles	3 - 5 years
Computer equipment	3 years
Equipment	3 - 5 years
Furniture and fixtures	3 years

Work in progress is not depreciated until such time as the relevant assets are completed and put into operational use.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Property and equipment (continued)

- (iii) Subsequent expenditure relating to an item of property and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Company. All other subsequent expenditure is recognised as an expense in the year in which it is incurred.
- (iv) Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the assets and are recognised in the income statement on the date of retirement or disposal.
- (v) Fully depreciated items of property and equipment are retained in the financial statements until disposed of or written off.

(n) Intangible assets

Intangible assets consist of computer software license and are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Acquired computer software license is capitalised on the basis of the cost incurred to acquire the specific software and bring it into use. Intangible assets are amortised on a straight-line basis at the rate of 20% per annum. If there is an indication that there has been a significant change in amortisation rate, useful life or residual value of an intangible asset, the amortisation is revised prospectively to reflect the new expectations.

(o) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset (excluding collateral). This does not apply to loans to customers which has a separate accounting policy stated in Note 2(i).

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

All impairment losses are recognised in the income statement.

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

(ii) Non-financial assets

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

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Impairment (continued)

(ii) Non-financial assets (continued)

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

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

(p) Deposits from customers

Deposits from customers are stated at cost.

(q) Borrowings

Borrowings are stated at cost. Fees paid on the establishment of borrowing facilities are capitalised and amortised over the period of the borrowings using the straight-line method.

(r) Subordinated debts

Subordinated debts are long-term debts that are junior in terms of principal repayment to other Company's debts and treated as financial liabilities when there are contractual obligations to deliver cash or financial assets to the other entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity. The subordinated debts which are approved by the NBC are included as a Tier II line item in the calculation of the Company's net worth in accordance with the guidelines of the NBC.

Subordinated debts are stated at cost.

(s) Provisions

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

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Provident benefits

The Company provides its employees upon completion of probationary period with provident benefits, being a defined contribution plan. The Company contributes fund to each individual employee on a monthly basis at a percentage of the employees' monthly salaries based on their years of service, as follows:

Number of working year	Monthly rate
Up to 5 years	6%
More than 5 years to 10 years	8%
More than 10 years	10%

The provident funds are maintained at saving accounts under the name of each employee with the Company and the withdrawal can only be made upon resignation, dead or retirement. Upon resignation or retirement, an employee who has worked for the Company for three years or more is entitled to provident fund accumulated and interest earned in their saving accounts. Provident funds are stated at cost.

(u) Legal reserves

Based on the Articles of Incorporation, the Company is required to transfer from retained earnings based on the rate of 5% of its prior year net profit to these legal reserves. The transfer to this reserve fund shall cease when the reserve fund is equal to 10% of the Company's registered capital. According to the new Memorandum and Articles of Association approved by the MoC on 12 September 2016, the legal reserves are no longer required after the Company becomes solely-owned by Krungsri.

(v) Other reserves

From 9 December 2010, the Company is required to set up a reserve by a lender, Instituto de Credito Oficial ("ICO") of the Kingdom of Spain, in accordance with the requirement set out in the loan agreement under Spanish Microfinance Program. The reserve is transferred annually from the retained earnings based on the rate of 3.5% of the outstanding loan from ICO at the end of each year until 9 March 2023. The other reserves are for Institutional Strengthening and still retained in other reserved accounts during the life of the loan, except otherwise agreed by ICO and Agencia Española de Cooperación Internacional para el Desarrollo ("AECID"). Based on the loan agreement, the "other reserve" from that loan cannot be distributed for the life of loan, unless allowed by the lender with a request from the Company to debit from that reserve account.

(w) Dividends

Dividends declared and approved by the Company's shareholder before the end of reporting date are recognised as a liability and accounted for as a deduction from the retained earnings in the financial statements.

Dividends declared and approved by the Company's shareholder after the end of reporting date are not recognised as a liability but disclosed in a note as the subsequent events in the financial statements.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Income and expense recognition

Interest income on loans is recognised on an accrual basis. Where a loan becomes non-performing, the recording of interest as income is suspended until it is realised on a cash basis. Interest on loans is calculated using the declining balance method on monthly balances of the principal amount outstanding.

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

Expenses are recognised on an accrual basis.

(y) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

(z) Income tax and deferred tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement.

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

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

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

(aa) Rounding of amounts

Amounts in the financial statements have been rounded off to the nearest dollar and thousand Khmer Riel ("KHR'000") for US\$ and Riel amounts, respectively.

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(ab) New standards and interpretations not yet adopted

The National Accounting Council of Cambodia ("NAC"), as mandated by Prakas (Circular) No. 068-MEF-Pr dated 8 January 2009 issued by the Ministry of Economy and Finance of Cambodia on the adoption of Cambodian Financial Reporting Standards, has decided to adopt International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") effective for financial statements with periods beginning on or after 1 January 2012. The new standards will be referred to as Cambodian International Financial Reporting Standards ("CIFRSs").

On 30 July 2012, the Ministry of Economy and Finance through NAC issued a Notification on delaying of adopting the CIFRSs until periods beginning on 1 January 2016.

On 16 November 2015, the National Bank of Cambodia submitted a request for extension of adopting the CIFRSs for bank and financial institution until 2019 to NAC. On 24 March 2016, NAC approved the delay on adopting the CIFRSs for bank and financial institution until end of 2018. Bank and financial institution is required to implement CIFRSs from 1 January 2019.

The Company is assessing the potential impact on its financial statements resulting from the application of CIFRSs for the financial year end, but they consider that it may not be practicable to assess the full impact as of the date of the financial statements.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

3.1 Key sources of estimation uncertainty

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Allowance for bad and doubtful loans

The Company is required to follow the mandatory credit risk grading and impairment provisioning in accordance with Prakas No. B7-017-344 dated 1 December 2017 of the NBC and Circular No. B7-018-001 dated 16 February 2018. The NBC requires microfinance institutions to classify their loan portfolios into five classes, and a minimum mandatory level of provision is made depending on the classification concerned. The actual amount could be significantly different from the amount provided in the events that have not been anticipated or when the doubtful amount could be recovered through realisation of the collaterals.

(b) Income tax

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

These factors may create potential tax exposures for the Company. Directors believe that they have understood relevant tax regulations and adequately provided for tax liabilities based on their interpretation of the current tax legislation. However, the relevant authorities may have different interpretations and the effects could be significant.

3.2 Critical judgments in applying accounting policies

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

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****4. CASH ON HAND**

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Head office	2,236,858	9,030,196	1,965,011	7,932,749
Branches	7,686,746	31,031,393	7,352,653	29,682,661
	<u>9,923,604</u>	<u>40,061,589</u>	<u>9,317,664</u>	<u>37,615,410</u>

The above amounts are analysed by currency as follows:

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
US Dollars	7,575,748	30,583,295	7,076,387	28,567,375
Khmer Riel	2,044,548	8,253,840	1,928,789	7,786,521
Thai Baht	303,308	1,224,454	312,488	1,261,514
	<u>9,923,604</u>	<u>40,061,589</u>	<u>9,317,664</u>	<u>37,615,410</u>

5. BALANCES WITH THE NBC

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Statutory deposits:				
Capital guarantee deposit	3,000,000	12,111,000	682,461	2,755,095
Reserve requirement	<u>30,103,471</u>	<u>121,527,712</u>	<u>29,583,471</u>	<u>119,428,472</u>
	33,103,471	133,638,712	30,265,932	122,183,567
Current account	1,914,384	7,728,368	1,957,557	7,902,658
Negotiable Certificate of Deposit (NCD) *	<u>6,242,260</u>	<u>25,200,004</u>	<u>13,772,603</u>	<u>55,599,998</u>
	<u>41,260,115</u>	<u>166,567,084</u>	<u>45,996,092</u>	<u>185,686,223</u>

* A Negotiable Certificate of Deposit (NCD) is a short-term interest bearing debt issued by the NBC. It is issued in Khmer Riel and US Dollars in order to help commercial banks and microfinance institutions invest their short term liquidity. The interest rate of NCD is determined by the NBC and varies upon the market conditions. The above NCD earned interest ranging from 0.92% to 2.5% per annum (2016: from 1.28% to 3% per annum).

Capital guarantee deposits

The capital guarantee deposit is maintained with the NBC in compliance with Prakas No. B7-07-163 on the Licensing of Micro-Finance Institutions, the amounts of which are determined at 10% of the Company's registered share capital. This deposit is refundable when the Company voluntarily liquidates and has no deposit liabilities.

The statutory deposit on registered capital placed with the NBC earns interest at the rate of 0.36% (2016: 0.22%) per annum.

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

5. BALANCES WITH THE NBC (continued)

Reserve requirement

The reserve requirement represents the minimum reserve which is calculated at 8% of the total deposits from customers as required by Prakas B7-07-163 on Licensing of Micro-finance Deposit Taking Institutions. The statutory deposit on customers' deposits fluctuates depending on the level of the customers' deposits.

The statutory deposit relating to customers' deposits does not earn interest.

6. BALANCES WITH OTHER BANKS

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Current accounts	20,635,240	83,304,464	25,878,640	104,472,070
Saving accounts	36,462,312	147,198,353	48,393,884	195,366,109
	<u>57,097,552</u>	<u>230,502,817</u>	<u>74,272,524</u>	<u>299,838,179</u>

Balances with other banks are analysed as follows:

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
(a) By currency:				
US Dollars	46,711,238	188,573,268	56,890,874	229,668,458
Khmer Riel	8,428,047	34,024,026	12,039,926	48,605,181
Thai Baht	1,958,267	7,905,523	5,341,724	21,564,540
	<u>57,097,552</u>	<u>230,502,817</u>	<u>74,272,524</u>	<u>299,838,179</u>

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
(b) By maturity:				
Within 1 month	<u>57,097,552</u>	<u>230,502,817</u>	<u>74,272,524</u>	<u>299,838,179</u>

	31 December 2017		31 December 2016	
(c) By interest rate (per annum):				
Current accounts	0%-0.5%		0%-0.5%	
Saving accounts	0%-0.75%		0.05%-1%	

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

7. LOANS TO CUSTOMERS, NET

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Individual loans	576,880,156	2,328,865,190	445,243,664	1,797,448,672
Allowance for bad and doubtful loans:				
Specific	(3,641,361)	(14,700,174)	(532,335)	(2,149,036)
General	(5,702,593)	(23,021,369)	(2,433,805)	(9,825,272)
	<u>(9,343,954)</u>	<u>(37,721,543)</u>	<u>(2,966,140)</u>	<u>(11,974,308)</u>
Loans to customers, net	<u>567,536,202</u>	<u>2,291,143,647</u>	<u>442,277,524</u>	<u>1,785,474,364</u>

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

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
At the beginning of year	2,966,140	11,974,308	1,685,289	6,825,420
Allowance during the year	6,903,394	27,869,002	1,714,931	6,923,176
Written off during the year	(539,433)	(2,177,691)	(435,093)	(1,756,470)
Currency translation difference	13,853	55,924	1,013	(17,818)
At end of year	<u>9,343,954</u>	<u>37,721,543</u>	<u>2,966,140</u>	<u>11,974,308</u>

Loans to customers are analysed as follows:

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
(a) By maturity:				
Within 1 month	16,439,758	66,367,303	15,801,432	63,790,381
> 1 to 3 months	35,893,063	144,900,295	33,471,990	135,126,424
> 3 to 12 months	142,122,144	573,747,095	125,131,080	505,154,170
More than 12 months	382,425,191	1,543,850,497	270,839,162	1,093,377,697
	<u>576,880,156</u>	<u>2,328,865,190</u>	<u>445,243,664</u>	<u>1,797,448,672</u>
(b) By currency:				
US Dollars	519,706,144	2,098,053,703	396,208,897	1,599,495,317
Khmer Riel	34,752,977	140,297,768	28,803,103	116,278,127
Thai Baht	22,421,035	90,513,719	20,231,664	81,675,228
	<u>576,880,156</u>	<u>2,328,865,190</u>	<u>445,243,664</u>	<u>1,797,448,672</u>

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

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****7. LOANS TO CUSTOMERS, NET (continued)**

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
(c) By economic sector:				
Agriculture	120,337,380	485,802,003	112,874,346	455,673,735
Trade and commerce	118,281,337	477,501,757	98,376,676	397,146,641
Household/family	65,861,602	265,883,287	49,035,552	197,956,523
Construction	22,933,635	92,583,084	17,568,679	70,924,757
Services	56,689,014	228,853,550	49,908,396	201,480,195
Transportation	27,990,654	112,998,270	23,273,529	93,955,237
Production	7,296,166	29,454,622	6,837,266	27,602,043
Land/house	157,490,368	635,788,617	87,369,220	352,709,541
	<u>576,880,156</u>	<u>2,328,865,190</u>	<u>445,243,664</u>	<u>1,797,448,672</u>
(d) By residency status:				
Residents	<u>576,880,156</u>	<u>2,328,865,190</u>	<u>445,243,664</u>	<u>1,797,448,672</u>
(e) By relationship:				
External customers	567,172,797	2,289,676,581	436,914,738	1,763,824,797
Management and staff loans	<u>9,707,359</u>	<u>39,188,609</u>	<u>8,328,926</u>	<u>33,623,875</u>
	<u>576,880,156</u>	<u>2,328,865,190</u>	<u>445,243,664</u>	<u>1,797,448,672</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

7. LOANS TO CUSTOMERS, NET (continued)

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
(f) By location:				
Operational Office –				
Phnom Penh	9,820,129	39,643,861	7,952,827	32,105,563
<i>Phnom Penh branches :</i>				
Phnom Penh	18,643,406	75,263,430	12,054,383	48,663,545
Dangkor	17,174,968	69,335,346	12,012,702	48,495,278
Daun Penh	11,912,210	48,089,592	11,455,059	46,244,074
Russey Keo	7,905,425	31,914,201	5,845,700	23,599,091
Boeng Trabek	11,867,770	47,910,187	8,260,040	33,345,783
Prek Lieb	7,076,366	28,567,290	3,536,409	14,276,482
<i>Provincial branches :</i>				
Pursat	28,507,770	115,085,867	20,781,306	83,894,132
Kampong Thom	37,608,322	151,824,796	31,927,163	128,889,957
Siem Reap	58,116,055	234,614,514	45,437,494	183,431,163
Banteay Meanchey	33,137,780	133,777,218	31,558,477	127,401,572
Kampong Cham	30,176,892	121,824,113	22,421,399	90,515,188
Tbong Khmum	24,973,138	100,816,558	23,110,072	93,295,361
Battambang	46,399,807	187,316,021	39,611,533	159,911,759
Kampong Chhnang	10,564,746	42,649,880	7,863,432	31,744,675
Takeo	23,811,042	96,125,177	16,107,416	65,025,638
Prey Veng	29,208,607	117,915,146	21,607,369	87,228,949
Kandal	59,437,046	239,947,355	40,390,909	163,058,100
Svay Rieng	16,180,660	65,321,324	11,256,025	45,440,573
Kampong Speu	20,003,751	80,755,143	11,410,602	46,064,600
Kampot	15,448,951	62,367,415	8,814,415	35,583,793
Koh Kong	9,642,447	38,926,559	6,215,375	25,091,469
Kampong Som	8,446,963	34,100,390	6,172,042	24,916,534
Kratie	5,420,247	21,881,537	4,761,426	19,221,877
Preah Vihea	6,246,338	25,216,467	6,042,681	24,394,303
Steung Treng	6,186,083	24,973,217	4,452,129	17,973,245
Odor Meanchey	10,204,675	41,196,273	10,328,623	41,696,651
Mondulkiri	3,504,519	14,147,743	4,013,527	16,202,608
Ratanakiri	4,244,695	17,135,834	4,649,050	18,768,215
Pailin	5,009,348	20,222,736	5,194,079	20,968,494
	<u>576,880,156</u>	<u>2,328,865,190</u>	<u>445,243,664</u>	<u>1,797,448,672</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

7. LOANS TO CUSTOMERS, NET (continued)

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
(g) By performance:				
Standard loans				
Secured	315,585,797	1,274,019,862	235,353,870	950,123,573
Unsecured*	254,673,508	1,028,116,952	207,125,899	836,167,254
Special mention loans				
Secured	200,074	807,699	-	-
Unsecured*	223,849	903,678	-	-
Sub-standard loans				
Secured	662,526	2,674,617	833,017	3,362,890
Unsecured*	819,058	3,306,537	994,613	4,015,253
Doubtful loans				
Secured	1,364,303	5,507,691	442,469	1,786,247
Unsecured*	1,401,732	5,658,792	395,661	1,597,283
Loss loans				
Secured	902,128	3,641,891	70,523	284,702
Unsecured*	1,047,181	4,227,471	27,612	111,470
	<u>576,880,156</u>	<u>2,328,865,190</u>	<u>445,243,664</u>	<u>1,797,448,672</u>

* These loans are secured by property soft title deed. The soft title deed refers to the deed which is not issued by cadastral departments.

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
(h) By type of loans:				
Micro loans	140,380,010	566,714,100	149,229,865	602,440,965
Small loans	141,144,037	569,798,477	116,559,335	470,550,035
Medium loans	215,837,962	871,337,853	126,862,915	512,145,588
Large loans	40,334,290	162,829,529	21,057,770	85,010,217
SME loans	39,183,857	158,185,231	31,533,779	127,301,867
	<u>576,880,156</u>	<u>2,328,865,190</u>	<u>445,243,664</u>	<u>1,797,448,672</u>

	31 December 2017		31 December 2016	
(i) By interest rate (per month):				
Micro loans	1.20% - 3.13%		1.20% - 3.50%	
Small loans	1.10% - 2.30%		1.20% - 2.30%	
Medium loans	1.00% - 2.00%		1.10% - 2.00%	
Large loans	1.00% - 1.45%		1.00% - 1.60%	
SME loans	1.00% - 1.50%		1.00% - 1.40%	

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****7. LOANS TO CUSTOMERS, NET** (continued)

(i) By interest rate (continued)

On 13 March 2017, the NBC issued a Prakas No. B7-017-109 on "Interest rate ceiling for all microfinance institutions (MFIs)". It requires that MFIs must set interest rate no higher than 18% per annum for new loans, restructured loans and refinancing loans signed from 01 April 2017 thereon.

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

All loans to customers are with fixed interest rate.

8. OTHER ASSETS

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Interest receivable	6,141,071	24,791,504	5,156,284	20,815,919
Interest in suspense	(635,962)	(2,567,379)	(199,696)	(806,173)
Net interest receivable	5,505,109	22,224,125	4,956,588	20,009,746
Prepaid and deposits for office and ATM booth rentals	1,375,732	5,553,830	1,109,294	4,478,220
Fees on borrowings	1,703,111	6,875,459	1,917,041	7,739,095
Prepaid maintenance services	473,956	1,913,360	175,001	706,479
Other receivables	292,064	1,179,063	277,945	1,122,063
	<u>9,349,972</u>	<u>37,745,837</u>	<u>8,435,869</u>	<u>34,055,603</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

9. PROPERTY AND EQUIPMENT

	Leasehold improvement	Motor Vehicles	Computer equipment	Equipment	Furniture and fixtures	Work in progress	Total	
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	KHR'000
Cost								
At 1 January 2017	1,446,493	2,339,845	3,469,043	4,695,054	568,435	29,939	12,548,809	50,659,542
Additions	258,136	193,050	312,621	53,262	25,209	681,657	1,523,935	6,152,126
Disposals	(29,295)	-	(12,221)	(9,402)	(617)	-	(51,535)	(208,047)
Transfers	30,219	46,800	214,868	333,718	500	(626,105)	-	-
At 31 December 2017	<u>1,705,553</u>	<u>2,579,695</u>	<u>3,984,311</u>	<u>5,072,632</u>	<u>593,527</u>	<u>85,491</u>	<u>14,021,209</u>	<u>56,603,621</u>
Less: Accumulated depreciation								
At 1 January 2017	938,994	1,198,924	2,578,304	2,624,553	494,820	-	7,835,595	31,632,297
Depreciation	357,442	353,389	642,448	878,562	44,301	-	2,276,142	9,188,785
Disposals	(27,272)	-	(12,221)	(9,402)	(617)	-	(49,512)	(199,879)
At 31 December 2017	<u>1,269,164</u>	<u>1,552,313</u>	<u>3,208,531</u>	<u>3,493,713</u>	<u>538,504</u>	<u>-</u>	<u>10,062,225</u>	<u>40,621,203</u>
Carrying amounts								
At 31 December 2017	<u>436,389</u>	<u>1,027,382</u>	<u>775,780</u>	<u>1,578,919</u>	<u>55,023</u>	<u>85,491</u>	<u>3,958,984</u>	<u>15,982,418</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

9. PROPERTY AND EQUIPMENT (continued)

	Leasehold improvement	Motor vehicles	Computer equipment	Equipment	Furniture and fixtures	Work in progress	Total	
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	KHR'000
Cost								
At 1 January 2016	1,203,899	1,853,365	3,186,080	4,075,678	531,522	63,278	10,913,822	44,200,979
Additions	234,743	445,220	243,956	97,540	35,309	637,146	1,693,914	6,838,331
Disposals	(25,005)	-	(31,771)	(1,651)	(500)	-	(58,927)	(237,888)
Transfers	32,856	41,260	70,778	523,487	2,104	(670,485)	-	-
Currency translation difference	-	-	-	-	-	-	-	(141,880)
At 31 December 2016	<u>1,446,493</u>	<u>2,339,845</u>	<u>3,469,043</u>	<u>4,695,054</u>	<u>568,435</u>	<u>29,939</u>	<u>12,548,809</u>	<u>50,659,542</u>
Less: Accumulated depreciation								
At 1 January 2016	626,912	877,589	1,909,166	1,747,883	452,042	-	5,613,592	22,735,047
Depreciation	334,994	321,335	699,017	878,000	43,278	-	2,276,624	9,190,731
Disposals	(22,912)	-	(29,879)	(1,330)	(500)	-	(54,621)	(220,505)
Currency translation difference	-	-	-	-	-	-	-	(72,976)
At 31 December 2016	<u>938,994</u>	<u>1,198,924</u>	<u>2,578,304</u>	<u>2,624,553</u>	<u>494,820</u>	<u>-</u>	<u>7,835,595</u>	<u>31,632,297</u>
Carrying amounts								
At 31 December 2016	<u>507,499</u>	<u>1,140,921</u>	<u>890,739</u>	<u>2,070,501</u>	<u>73,615</u>	<u>29,939</u>	<u>4,713,214</u>	<u>19,027,245</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

10. INTANGIBLE ASSETS

31 December 2017	Software and licenses	Work in progress	Total	
	US\$	US\$	US\$	KHR'000
Cost				
At 1 January 2017	2,673,654	52,805	2,726,459	11,006,715
Additions	139,063	210,242	349,305	1,410,144
Transfers	169,320	(169,320)	-	-
At 31 December 2017	<u>2,982,037</u>	<u>93,727</u>	<u>3,075,764</u>	<u>12,416,859</u>
Less: Accumulated amortisation				
At 1 January 2017	2,180,633	-	2,180,633	8,803,215
Amortisation	283,405	-	283,405	1,144,106
At 31 December 2017	<u>2,464,038</u>	<u>-</u>	<u>2,464,038</u>	<u>9,947,321</u>
Carrying amounts				
At 31 December 2017	<u>517,999</u>	<u>93,727</u>	<u>611,726</u>	<u>2,469,538</u>
31 December 2016				
Cost				
At 1 January 2016	2,525,481	14,295	2,539,776	10,286,093
Additions	83,423	145,760	229,183	925,212
Disposal	(42,500)	-	(42,500)	(171,573)
Transfers	107,250	(107,250)	-	-
Currency translation difference	-	-	-	(33,017)
As at 31 December 2016	<u>2,673,654</u>	<u>52,805</u>	<u>2,726,459</u>	<u>11,006,715</u>
Less: Accumulated amortisation				
At 1 January 2016	1,691,528	-	1,691,528	6,850,689
Amortisation	531,605	-	531,605	2,146,089
Disposal	(42,500)	-	(42,500)	(171,573)
Currency translation difference	-	-	-	(21,990)
At 31 December 2016	<u>2,180,633</u>	<u>-</u>	<u>2,180,633</u>	<u>8,803,215</u>
Carrying amounts				
At 31 December 2016	<u>493,021</u>	<u>52,805</u>	<u>545,826</u>	<u>2,203,500</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

11. DEPOSITS FROM CUSTOMERS

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Savings deposits	45,676,179	184,394,735	36,049,729	145,532,756
Term deposits	321,744,900	1,298,884,161	321,722,736	1,298,794,685
	<u>367,421,079</u>	<u>1,483,278,896</u>	<u>357,772,465</u>	<u>1,444,327,441</u>

The deposits from customers are analysed as follows:

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
(a) By currency:				
US Dollars	311,129,147	1,256,028,366	299,146,307	1,207,653,641
Khmer Riel	46,182,836	186,440,109	48,721,653	196,689,313
Thai Baht	10,109,096	40,810,421	9,904,505	39,984,487
	<u>367,421,079</u>	<u>1,483,278,896</u>	<u>357,772,465</u>	<u>1,444,327,441</u>
(b) By maturity:				
Within 1 month	93,548,998	377,657,305	67,353,215	271,904,929
> 1 to 3 months	80,655,217	325,605,111	65,322,944	263,708,725
> 3 to 12 months	183,167,338	739,446,544	214,226,584	864,832,720
More than 12 months	10,049,526	40,569,936	10,869,722	43,881,067
	<u>367,421,079</u>	<u>1,483,278,896</u>	<u>357,772,465</u>	<u>1,444,327,441</u>
(c) By relationship:				
External customers	356,425,445	1,438,889,521	334,167,383	1,349,033,725
Management and staff deposits	10,995,634	44,389,375	23,605,082	95,293,716
	<u>367,421,079</u>	<u>1,483,278,896</u>	<u>357,772,465</u>	<u>1,444,327,441</u>
(d) By interest rate (per annum):				
US Dollars		0.00% - 9.00%		2.50% - 9.3%
Khmer Riel		0.00% - 11.50%		3.00% - 12.00%
Thai Baht		0.00% - 11.00%		3.00% - 11.00%

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

12. BORROWINGS

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
International Finance Corporation (*)	63,000,000	254,331,000	22,500,000	90,832,500
BlueOrchard Finance S.A	21,066,647	85,046,054	20,531,575	82,885,968
Industrial and Commercial Bank of China	19,000,000	76,703,000	10,000,000	40,370,000
Oikocredit	10,000,000	40,370,000	-	-
Proparco	9,538,462	38,506,771	2,307,692	9,316,153
Symbiotics	7,550,941	30,483,149	9,454,942	38,169,601
Incofin	6,500,000	26,240,500	9,000,000	36,333,000
responsAbility	5,000,000	20,185,000	16,799,995	67,821,580
Instituto De Crédito Oficial	4,860,300	19,621,031	4,860,300	19,621,031
ASN-Novib Microkredietfonds (through Triple Jump)	4,000,000	16,148,000	2,000,000	8,074,000
Hatton National Bank PLC	3,000,000	12,111,000	4,000,000	16,148,000
Chailease International Financial Service Co.,ltd	2,100,000	8,477,700	2,700,000	10,899,900
Advanced Bank of Asia Limited	516,667	2,085,785	5,800,000	23,414,600
KIVA Microfunds	251,167	1,013,961	384,143	1,550,785
Norfund	-	-	5,250,000	21,194,250
GRAMEEN CREDIT AGRICOLE	-	-	782,759	3,159,998
Alterfin	-	-	330,000	1,332,210
National Bank of Cambodia	-	-	49,543	200,005
	<u>156,384,184</u>	<u>631,322,951</u>	<u>116,750,949</u>	<u>471,323,581</u>

(*) This includes syndicated loan of US\$20 million (2016: US\$5 million) of which Krungsri is the lender who provides funding to IFC (note 26(e)).

The above amounts are analysed as follows:

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
(a) By maturity:				
Within 1 month	-	-	7,500,000	30,277,500
> 1 to 3 months	3,976,717	16,054,007	11,546,208	46,612,042
> 3 to 12 months	54,765,391	221,087,883	28,218,651	113,918,694
More than 12 months	97,642,076	394,181,061	69,486,090	280,515,345
	<u>156,384,184</u>	<u>631,322,951</u>	<u>116,750,949</u>	<u>471,323,581</u>
(b) By currency:				
US Dollars	145,916,596	589,065,298	104,432,135	421,592,529
Khmer Riel	2,011,642	8,120,999	2,843,945	11,481,006
Thai Baht	8,455,946	34,136,654	9,474,869	38,250,046
	<u>156,384,184</u>	<u>631,322,951</u>	<u>116,750,949</u>	<u>471,323,581</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

12. BORROWINGS (continued)

	<u>31 December 2017</u>	<u>31 December 2016</u>
(c) By interest rate (per annum):		
US Dollars	0%-8.00%	0%-8.50%
Khmer Riel	10.25%-10.50%	3.00%-11.80%
Thai Baht	8.85%-9.00%	8.85%-9.30%

13. AMOUNTS DUE TO RELATED PARTIES

	<u>31 December 2017</u>		<u>31 December 2016</u>	
	<u>US\$</u>	<u>KHR'000</u>	<u>US\$</u>	<u>KHR'000</u>
<i>Shareholder:</i>				
Krungsri	19,133,907	77,243,582	14,281	57,652
<i>Affiliate:</i>				
Ngern Tid Lor Co., Ltd	70,754	285,634	30,469	123,003
	<u>19,204,661</u>	<u>77,529,216</u>	<u>44,750</u>	<u>180,655</u>

The above amounts are analysed as follows:

	<u>31 December 2017</u>		<u>31 December 2016</u>	
	<u>US\$</u>	<u>KHR'000</u>	<u>US\$</u>	<u>KHR'000</u>
(a) By maturity:				
Within 1 month	68,712	277,390	-	-
> 1 to 3 months	9,083,607	36,670,521	-	-
> 3 to 12 months	10,052,342	40,581,305	44,750	180,655
	<u>19,204,661</u>	<u>77,529,216</u>	<u>44,750</u>	<u>180,655</u>
(b) By currency:				
US Dollars	19,065,195	76,966,192	-	-
Thai Baht	139,466	563,024	44,750	180,655
	<u>19,204,661</u>	<u>77,529,216</u>	<u>44,750</u>	<u>180,655</u>
(c) By interest rate (per annum):				
US Dollars		5.63%-5.69%	-	-
Thai Baht		-	-	-

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

14. SUBORDINATED DEBTS

		31 December 2017		31 December 2016	
		US\$	KHR'000	US\$	KHR'000
DEG-Deutsche Investitions – UNDEntwicklungsgesellschaft MBH	(i)	10,000,000	40,370,000	10,000,000	40,370,000
BlueOrchard Finance S.A	(ii)	4,000,000	16,148,000	4,000,000	16,148,000
DWM ASSET MANAGEMENT	(iii)	5,000,000	20,185,000	5,000,000	20,185,000
Incofin	(iv)	5,000,000	20,185,000	5,000,000	20,185,000
Hattha Kaksekar Non-Government Organisation("HKNGO")	(v)	-	-	415,743	1,678,354
Ministry of Economy and Finance - Agence Francaise de Development ("AFD")	(vi)	-	-	313,576	1,265,907
Trust Committee of Hattha Kaksekar	(vii)	729,319	2,944,261	-	-
		<u>24,729,319</u>	<u>99,832,261</u>	<u>24,729,319</u>	<u>99,832,261</u>

- (i) On 17 December 2013, HKL entered into loan agreement with DEG – Deutsche Investitions – UND Entwicklungsgesellschaft MBH for the sum of US\$10 million to finance the expansion of the HKL’s loan portfolio. The repayment should be no later than 15 November 2020.
- (ii) On 2 April 2013, HKL entered into loan agreement with BlueOrchard Finance S.A for the sum of US\$4 million to finance the expansion of the HKL’s loan portfolio. The repayment should be no later than 4 April 2019.
- (iii) On 13 March 2015, HKL entered into loan agreement with DWM Asset Management for the sum of US\$5 million for the period of 7 years for financing the expansion of the HKL’s loan portfolio.
- (iv) On 7 March 2016, HKL entered into another loan agreement with Incofin for the sum of US\$5 million for the period of 72 months for financing the expansion of the HKL’s loan portfolio.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

14. SUBORDINATED DEBTS (continued)

- (v) Hattha Kaksekar Non-Government Organisation (“HKNGO”) made the subordinated debt to HKL, following the transfer and assignment of all micro-finance related assets, liabilities and operations of the NGO to the HKL with the terms and conditions of the subordinated loan agreement dated 27 April 2001 as follows:
- 1) The subordinated debt will not be repayable to HKNGO unless HKL ceases to provide credit to the rural population of Cambodia or unless HKL decides to repay all or part of the debt;
 - 2) The debt is a non-distributable fund; and
 - 3) Being a public grant, it is treated as “Tier II Capital” in the context of Article 15 of Prakas No. B7-00-06 issued by the Central Bank, and shall be included in computing HKL’s capital adequacy ratio.
- (vi) HKL also accepts liability for repaying the total value of the debt to the Ministry of Economy and Finance (“MEF”) of the Royal Government of Cambodia (“RGC”) under the terms and conditions of the subordinated debt agreement dated 27 December 2000, most notably, that the debt will not be repayable to the RGC unless HKL ceases to provide credit to the rural population of Cambodia or unless it decides to repay all or part of the debt.
- (vii) According to Sub-decree No.476 dated 26 August 2013 of MEF on financial trust and Prakas No. 1041 dated 26 September 2014 of the MEF on the management and monitoring the financial trust, the subordinated debts as mentioned in (v) and (vi) were registered as trust fund with the MEF on 7 September 2015 via certificate No.313 MoEF.GDFI. The trust fund is managed by Trust Committee of Hattha Kaksekar.

The Trust Committee of Hattha Kaksekar agreed to lend such trust fund (US\$729,319) as subordinated loan to the Company for strengthening the financial condition and the provision of financial services to HKL’s customers; such agreement was made on 23 June 2017. The loan was provided for the period of 10 years effective from 1 June 2017.

According to sub-decree on financial trust, article 4, the MEF can i) take legal action to seize the trust fund and put it under the state supervision or to replace a trustee who violates the trust instrument and applicable provisions; ii) terminate the financial trust upon trustor’s request after the liquidation is successfully completed; and iii) take a legal action against those who manage the unregistered trust fund.

Repayment of the debt by the HKL to BlueOrchard Finance S.A, DEG, DWM, Incofin, and Trust Committee of Hattha Kaksekar shall be subordinate and junior to other senior obligations of the HKL to the extent required by the National Bank of Cambodia because these loans had been approved by the National Bank of Cambodia for inclusion in Net Worth calculation.

(a) Interest rates

The amounts of subordinated debts bear interest rates per annum as set out below:

	<u>31 December 2017</u>	<u>31 December 2016</u>
US Dollars	7.50%-10.85%	0.00%-10.85%

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****15. PROVIDENT BENEFITS**

The movements of provident benefits during the year are as follows:

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Balance at beginning of year	2,318,590	9,360,148	1,748,508	7,081,457
Charge during the year	698,573	2,820,139	588,977	2,377,700
Interest on savings	71,219	287,511	69,422	280,257
Payments during the year (*)	(2,955,781)	(11,932,488)	(88,317)	(356,536)
Currency translation difference	-	-	-	(22,730)
Balance at end of year	<u>132,601</u>	<u>535,310</u>	<u>2,318,590</u>	<u>9,360,148</u>

(*) On 25 August 2017, the Board of Directors approved to pay out provident fund to all employees who have provident fund balance as of October 2017. Thereafter, the Company still continue contributing fund to each individual employee as usual.

16. OTHER LIABILITIES

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Interest payable	10,666,695	43,061,448	10,801,745	43,606,645
Accrued annual bonus (*)	2,352,098	9,495,420	1,667,686	6,732,448
Unused annual leave	23,647	95,463	397,985	1,606,665
Accrued Pchum Ben bonus	-	-	242,068	977,229
Accrued Water Festival bonus	-	-	122,657	495,166
Accrued other staff benefits	87,637	353,791	87,987	355,204
Other tax payable	426,400	1,721,377	1,192,508	4,814,155
Supplier payable	243,956	984,850	119,884	483,972
Other accrual & payables	434,600	1,754,478	355,929	1,436,885
	<u>14,235,033</u>	<u>57,466,827</u>	<u>14,988,449</u>	<u>60,508,369</u>

* HKL's staff are entitled to annual bonus. The annual bonus is planned be paid in January and February 2018 (2016: January and February 2017) with the maximum up to 13% of net profit of year 2017 based on approval of the Board of Directors.

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****17. INCOME TAX****(a) Deferred tax assets, net**

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when deferred taxes relate to the same fiscal authority. The offset amounts were as follows:

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Deferred tax assets	1,398,743	5,646,725	1,016,428	4,103,320
Deferred tax liabilities	(129,325)	(522,085)	(67,459)	(272,332)
Net deferred tax assets	<u>1,269,418</u>	<u>5,124,640</u>	<u>948,969</u>	<u>3,830,988</u>

The movement of net deferred tax assets was as follows:

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
At beginning of year	948,969	3,830,988	590,120	2,389,986
Credited to income statement	320,449	1,293,652	358,849	1,448,674
Currency translation difference	-	-	-	(7,672)
At end of year	<u>1,269,418</u>	<u>5,124,640</u>	<u>948,969</u>	<u>3,830,988</u>

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

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Provident benefits	26,479	106,896	432,052	1,744,194
Pchum Ben bonuses, Water Festival bonus and other staff benefits	30,616	123,597	72,945	294,479
Unrealised exchange gains	(129,325)	(522,085)	(67,459)	(272,332)
Depreciation and amortisation	212,259	856,890	59,448	239,992
Allowance for bad and doubtful loans	1,113,802	4,496,418	436,396	1,761,731
Unused tax credit	15,587	62,924	15,587	62,924
	<u>1,269,418</u>	<u>5,124,640</u>	<u>948,969</u>	<u>3,830,988</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

17. INCOME TAX (continued)

(b) Current income tax payable

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Balance at beginning of year	3,044,038	12,288,781	2,758,064	11,170,159
Current income tax expense	4,434,679	17,902,799	3,775,020	15,239,756
Income tax paid	(3,968,708)	(16,021,674)	(3,489,046)	(14,085,279)
Currency translation difference			-	(35,855)
Balance at end of year	<u>3,510,009</u>	<u>14,169,906</u>	<u>3,044,038</u>	<u>12,288,781</u>

(c) Income tax expense

	Year ended 31 December 2017		Year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Current income tax	4,434,679	17,902,799	3,775,020	15,239,756
Deferred tax	(320,449)	(1,293,652)	(358,849)	(1,448,674)
Income tax expense	<u>4,114,230</u>	<u>16,609,147</u>	<u>3,416,171</u>	<u>13,791,082</u>

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

	Year ended 31 December 2017		Year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Profit before income tax	<u>19,470,389</u>	<u>78,601,960</u>	<u>16,235,228</u>	<u>65,541,616</u>
Income tax using statutory rate 20%	3,894,078	15,720,393	3,247,046	13,108,325
Non-deductible expenses	122,383	494,060	80,116	323,428
Prior year tax reassessment	94,090	379,841	107,617	434,450
Unused tax credit	-	-	(15,587)	(62,925)
Under/(over) provision in prior year	3,679	14,853	(3,021)	(12,196)
Income tax expense based on 20% of taxable profit	<u>4,114,230</u>	<u>16,609,147</u>	<u>3,416,171</u>	<u>13,791,082</u>
Minimum tax	<u>963,041</u>	<u>3,887,796</u>	<u>824,455</u>	<u>3,328,324</u>
Income tax expense	<u>4,114,230</u>	<u>16,609,147</u>	<u>3,416,171</u>	<u>13,791,082</u>

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

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

18. SHARE CAPITAL

As at 31 December 2017, the authorised share capital comprised 30,000,000 ordinary shares (2016: 6,824,594) at par value of US\$1 each. All issued shares are fully paid.

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Registered, issued and fully paid ordinary share of US\$1 each	30,000,000	121,110,000	6,824,594	27,550,886

The Company is wholly owned by Bank of Ayudhya PCL ("Krungsri"), a company incorporated in Thailand, with effective control from 12 September 2016.

On 22 March 2016, NBC issue a Prakas No. B7-016-117 on the Minimum Registered Capital of the Bank and Financial Institution, in which Licensed Micro-financed Deposit-Taking Institutions ("MDFI") are required to increase its minimum registered capital up to KHR 120 billion (approximately US\$30 million). MDFI is required to fulfil this requirement within 2 years from the date of this Prakas.

On 16 June 2016, the NBC issued a Circular No. B7-016-003 on implementation of Prakas on minimum registered capital of Banking and Financial Institutions, requiring the Company:

- To increase the minimum registered capital by at least half of the required additional capital (approximately US\$11,587,703) by the end of March 2017; and
- To increase capital to fulfil the requirement of the minimum registered capital (approximately US\$30 million) by 22 March 2018.

On 16 March 2017, the NBC approved in principal to the Company's request for increasing share capital by US\$15 million from US\$6,824,594 to US\$21,824,594. The amendment of the Memorandum and Articles of Association was approved by the NBC and the MOC on 28 June 2017 and 4 July 2017 respectively.

On 28 September 2017, the NBC approved in principal to the Company's request for increasing additional share capital by US\$8,175,406 from US\$21,824,594 to US\$30million. The amendment of the Memorandum and Articles of Association was approved by the NBC and the MOC on 7 November 2017 and 18 December 2017 respectively.

19. INTEREST INCOME

	Year ended 31 December 2017		Year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Loans to customers	94,788,909	382,662,826	81,272,863	328,098,548
Deposits with banks	207,745	838,666	295,210	1,191,763
	<u>94,996,654</u>	<u>383,501,492</u>	<u>81,568,073</u>	<u>329,290,311</u>

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****20. INTEREST EXPENSE**

	Year ended 31 December 2017		Year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Borrowings	13,163,485	53,140,989	13,042,917	52,654,256
Deposits from customers	25,321,080	102,221,200	22,390,193	90,389,209
Provident funds	71,219	287,511	69,422	280,257
	<u>38,555,784</u>	<u>155,649,700</u>	<u>35,502,532</u>	<u>143,323,722</u>

21. OTHER INCOME

	Year ended 31 December 2017		Year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Foreign exchange gain	644,279	2,600,954	201,586	813,803
Recovery on loans previously written off	118,526	478,489	59,993	242,192
Remittance fees	116,852	471,732	102,843	415,177
Commission fees	362,540	1,463,574	338,208	1,365,346
Other income	65,226	263,318	174,772	705,554
	<u>1,307,423</u>	<u>5,278,067</u>	<u>877,402</u>	<u>3,542,072</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

22. GENERAL AND ADMINSTRATIVE EXPENSES

	Year ended 31 December 2017		Year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Personnel expenses (*)	18,923,233	76,393,092	16,414,379	66,264,848
Rental expenses	3,204,660	12,937,212	2,810,154	11,344,592
Travelling and transportation	1,449,064	5,849,871	1,410,902	5,695,811
Depreciation and amortisation (Notes 9 and 10)	2,559,547	10,332,891	2,808,229	11,336,820
Marketing and advertising	449,499	1,814,627	859,044	3,467,961
Security expenses	627,335	2,532,551	563,401	2,274,450
Office supplies and equipment	562,515	2,270,873	426,722	1,722,677
Utilities	666,616	2,691,129	602,044	2,430,452
Consultancy and professional fees	199,194	804,146	511,992	2,066,912
Communication	461,686	1,863,826	429,834	1,735,240
Bank charges	163,924	661,761	88,547	357,464
Repairs and maintenance	868,092	3,504,487	879,839	3,551,910
License fees	548,233	2,213,217	575,463	2,323,144
Board and shareholder meetings	96,089	387,911	122,894	496,123
Others	594,823	2,401,303	489,340	1,975,465
	<u>31,374,510</u>	<u>126,658,897</u>	<u>28,992,784</u>	<u>117,043,869</u>

(*) Personnel expenses are analysed as follows

	Year ended 31 December 2017		Year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Salaries and wages	17,214,450	69,494,735	14,464,409	58,392,819
Unused annual leave	24,549	99,104	401,789	1,622,022
Provident benefits (Note 15)	698,573	2,820,139	588,977	2,377,700
Training costs	206,783	834,783	154,676	624,427
Staff uniforms	171,045	690,509	155,276	626,849
Medical benefits	262,916	1,061,392	235,577	951,024
Other staff benefits	344,917	1,392,430	413,675	1,670,007
	<u>18,923,233</u>	<u>76,393,092</u>	<u>16,414,379</u>	<u>66,264,848</u>

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****23. CASH AND CASH EQUIVALENTS**

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Cash on hand	9,923,604	40,061,589	9,317,664	37,615,410
Balances with the NBC	8,156,644	32,928,372	15,730,160	63,502,656
Balances with other banks	57,097,552	230,502,817	74,272,524	299,838,179
	<u>75,177,800</u>	<u>303,492,778</u>	<u>99,320,348</u>	<u>400,956,245</u>

24. COMMITMENTS AND CONTINGENCIES**(a) Operating lease commitments**

The Company has operating lease commitments for the lease of its headquarters, provincial offices and public Automated Teller Machine (ATM) as follows:

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
No later than 1 year	3,265,992	13,184,810	2,698,935	10,895,601
Later than 1 year and no later than 5 years	10,643,789	42,968,976	8,773,416	35,418,280
Later than 5 years	5,122,589	20,679,892	5,431,593	21,927,341
	<u>19,032,370</u>	<u>76,833,678</u>	<u>16,903,944</u>	<u>68,241,222</u>

(b) Other commitments

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Unused portion of loans	718,740	2,901,553	159,992	645,888
Capital expenditure	774,040	3,124,799	395,254	1,595,640
Other commitment	86,208	348,022	101,169	408,419
	<u>1,578,988</u>	<u>6,374,374</u>	<u>656,415</u>	<u>2,649,947</u>

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****25. RELATED PARTY TRANSACTIONS AND BALANCES****(a) Related parties and relationships**

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

Related parties	Relationship
Mitsubishi UFJ Financial Group, Inc.,	Ultimate parent company
Bank of Ayudhya Public Company Limited (“Krungsri”)	Immediate parent company / shareholder
Affiliates	All entities under the same ultimate parent company
Board of Directors	The Board of Directors are those person overseeing the activities of the Company.
Key management personnel	The key management personnel are those person participating in the administration, direction, management or the design and implementation of the internal controls of the Company. The key management personnel of the Company include all EXCOM members appointed by the Board of Directors.

(b) Directors and key management compensation

	Year ended 31 December 2017		Year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Board of Directors				
Fees and related expenses	96,089	387,911	122,894	496,123
Key management				
Salaries and short-term benefits	1,818,793	7,342,467	1,351,317	5,455,267
Provident benefits	67,325	271,791	58,702	236,980
	<u>1,886,118</u>	<u>7,614,258</u>	<u>1,410,019</u>	<u>5,692,247</u>
	31 December 2017	31 December 2016	US\$	KHR'000
	US\$	KHR'000	US\$	KHR'000
Provident benefit payable	<u>12,253</u>	<u>49,465</u>	<u>301,842</u>	<u>1,218,536</u>

The Executive Committee (“EXCOM”) was appointed by the Board of Directors for dealing with strategic issues of the Company. EXCOM is considered to be key management personnel.

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017****25. RELATED PARTY TRANSACTIONS AND BALANCES (continued)****(c) Loans to key management**

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
Loans to key management as at 31 December	730,191	2,947,781	315,190	1,272,422
Interest income from key management for the year	97,064	391,847	75,927	306,517

Loans are provided to key management of the Company with interest rate at 8% per annum (2016: 8% per annum).

(d) Deposits from key management and Directors

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
Deposits from key management as at 31 December	2,149,265	8,676,583	8,116,894	32,767,902
Interest expense to key management for the year	427,865	1,727,291	171,698	693,145

Deposits from key management of the Company bear interest rates ranging from 2.5% to 10% per annum (2016: 3.5% to 11.3% per annum) depending on the terms and currency of the deposits.

	2017		2016	
	US\$	KHR'000	US\$	KHR'000
Deposits from the Board of Directors as at 31 December	2,351,335	9,492,339	1,698,679	6,857,567
Interest expense to the Board of Directors for the year	151,819	612,893	127,305	513,930

Deposits from the Board of Directors of the Company bear interest rates ranging from 3% to 9.7% per annum (2016: 3.5% to 11.2% per annum) depending on the terms and currency of deposits.

(e) Office rental from key management

	Year ended 31 December 2017		Year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Office rental expenses	31,920	128,861	31,920	128,861

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

25. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(f) Transactions and balances with shareholder and affiliate

(i) *Transactions with shareholder and affiliate*

	Year ended 31 December 2017		Year ended 31 December 2016	
	US\$	KHR'000	US\$	KHR'000
<i>Shareholder</i>				
Proceeds received for capital injection	23,175,406	93,559,114	-	-
Proceeds received from borrowing via IFC (*)	15,000,000	60,555,000	-	-
Proceeds received for borrowing from Krungsri	19,200,000	77,510,400	-	-
Payment of borrowing from Krungsri	(200,000)	(807,400)	-	-
Interest expenses	1,443,602	5,827,821	-	-

(ii) *Balances with shareholder and affiliate*

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
<i>Shareholder:</i>				
Interest payable on interest rate SWAP	52,342	211,305	-	-
Amount payable on payment on behalf of HKL's expense	68,712	277,390	14,281	57,652
Borrowing via IFC (*)	20,000,000	80,740,000	5,000,000	20,185,000
Interest payable on borrowing via IFC	181,879	734,246	48,952	197,619
Commitment given on interest rate SWAP (**)	48,000,000	193,776,000	-	-
Commitment received on interest rate SWAP (**)	(48,000,000)	(193,776,000)	-	-
Borrowing	19,000,000	76,703,000	-	-
Interest payable on borrowing	12,853	51,888	-	-
<i>Affiliate:</i>				
Amount payable on <i>Ngern Tid Lor Co., Ltd's</i> payment on behalf of HKL	70,754	285,634	30,469	123,004

(*) This represents syndicated loan from IFC of which Krungsri is the lender who provides funding to IFC (Note 12).

(**) On 10 January 2017, the Company entered into agreements with Krungsri for interest rate swap totalling US\$ 54 million, effective from 15 May 2017. This is to manage the Company's exposure to interest rate risk on its floating interest rate borrowings.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

26. FINANCIAL RISK MANAGEMENT

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

(a) Credit risk

Credit risk refers to the potential that a counterparty would fail to meet its obligations in accordance with the agreed terms. Other than loans, the credit risk may happen in other various financial instruments such as interbank transactions, commitments and settlement transaction.

The primary exposure to credit risk arises through its loans to customers. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. The lending activities are guided by the Company's credit policy to ensure that the overall objectives in the area of lending are achieved; i.e., that the loans portfolio is strong and healthy and credit risks are well diversified. The credit policy documents the lending policy, collateral policy, credit approval processes and procedures implemented to mitigate credit risks and to ensure compliance with NBC guidelines.

The Company holds collateral against loans to customers in the form of mortgage interests over the property and guarantees. Estimates of fair value of these properties are based on the value of collateral assessed at the time of borrowing, and generally are not updated unless there is any significant event affecting the area and/or the status of the property.

Other credit risks pertain to balances with other banks. The Company has no specific credit risk policy; however, opening accounts with other banks subject to approval from Board of Directors and they only select to open bank accounts with reputational banks.

(i) Credit risk measurement

The Company applies guidelines for selecting a bank partner for its credit and liquidity risk management.

The Company assesses the probability of default of individual counterparties using an internally-developed analytical framework, focusing on borrowers' characters, repayment capacity (profitability and cash flow position), loan purpose(s) and size, and associated risks. The holders of credit approval discretion; i.e. Board Credit Committee, Management Credit Committee, Credit Underwriting Director, Branch/Sub-branch Managers, and Branch/Sub-branch Chief Credit Unit; are responsible for approving loans to customers.

(ii) Risk limit control and mitigation policies

The Company manages limits and controls the concentration of credit risk whenever it is identified. The threshold of such concentration is set by the Board of Directors on annual basis.

The Company employs a range of policies and practices to mitigate credit risk. The main policy is the "Credit Risk Management Policy" which set out all the necessary limits to ensure the risk diversification and risk mitigation. The primary practice is to assess credit risks, and the procedures of which are mentioned earlier in "credit risk measurement". In addition to these practices, credit risks can be further mitigated through the securitization of loans by collateral and/or limited personal guarantee.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

26. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(ii) Risk limit control and mitigation policies (continued)

Management believes that the Company's maximum exposure to credit risk is limited to the carrying amount of loans less allowance for doubtful loans. Loans are also provided to those borrowers that are deemed profitable.

(iii) Impairment and provisioning policies

The Company is required to follow the mandatory credit classification and provisioning in accordance with Prakas No. B7-017-344 and Circular No. B7-018-001 on Credit Risk Grading and Impairment Provisioning. Refer to Note 2(j) for detail.

(iv) Exposure to credit risk

	31 December 2017		31 December 2016	
	US\$	KHR'000	US\$	KHR'000
Loans to customers				
Neither past due nor impaired	569,983,624	2,301,023,890	442,022,879	1,784,446,363
Past due but not impaired	699,604	2,824,301	456,890	1,844,465
Individually impaired	6,196,928	25,016,999	2,763,895	11,157,844
	<u>576,880,156</u>	<u>2,328,865,190</u>	<u>445,243,664</u>	<u>1,797,448,672</u>

It is not practical to obtain fair value of collateral due to costs of obtaining such information outweigh the potential benefits. The Company's policy is to fund up to 67% of the collateral value. The value of collateral is not taken into account when determining the allowance for bad and doubtful loans in accordance with regulatory provision.

Neither past due nor impaired

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

Past due but not impaired loans to customers

Past due but not impaired loans to customers are those for which contractual interest or principal payments are past due less than 90 days for long-term loans and less than 60 days for short-term loans, unless other information is available to indicate otherwise.

Impaired loans to customers

Individually impaired loans to customers are loans to customers for which the Company determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loans to customers. For loans with repayment as quarterly or longer, such loans are considered as impaired if the repayments are past due from 5 working days.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

26. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(iv) Exposure to credit risk (continued)

In compliance with the guidelines issued by the NBC, a minimum level of specific provision and general provision is made depending on the classification concerned, unless other information is available to substantiate the repayment capacity of the counterparty. Refer to separate accounting policy stated in Note 2(j).

Restructuring activities include extended payment arrangements, modification and deferral of payment. Following restructuring, the loan is still kept in its current classification.

According to the new Prakas issued by NBC No. B7-017-344 on Credit Risk Grading and Impairment Provisioning in Article 81, once the loan is restructured it remains in the same category regardless of satisfactory performance after restructuring. The classification is not improved unless there are no arrears in repayment of principal and interest within 6 instalments periods and within a period of not less than 6 months.

(b) Operational risk

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

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

(c) Market risk

Market risk is the risk of loss arising from adverse movement in the level of market prices or rates which may arise from the exposures in, both on and off-balance-sheet, the trading book and/or non-trading book, the two key components being foreign currency exchange risk and interest rate risk. However, HKL do not have its exposure in the trading book.

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Khmer Riel and Thai Baht. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

The Company has maintained a minimum foreign currency exposure ratio with the internal limit of the net open position for individual currency which was set by the Board of Directors and in accordance with guidelines issued by the NBC.

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

26. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) *Foreign currency exchange risk*

Concentration of currency risk

The aggregate amounts of financial assets and financial liabilities, by currency denomination, were as follows:

	US\$ equivalent			Total
	US\$	KHR	THB	US\$
31 December 2017				
Assets				
Cash on hand	7,575,748	2,044,548	303,308	9,923,604
Balances with the NBC	34,142,231	7,117,884	-	41,260,115
Balances with other banks	46,711,238	8,428,047	1,958,267	57,097,552
Loans to customers, net	511,827,920	34,038,260	21,670,022	567,536,202
Other assets	6,067,755	443,114	290,390	6,801,259
Total financial assets	<u>606,324,892</u>	<u>52,071,853</u>	<u>24,221,987</u>	<u>682,618,732</u>
Liabilities				
Deposits from customers	311,129,147	46,182,836	10,109,096	367,421,079
Borrowings	145,916,596	2,011,642	8,455,946	156,384,184
Other liabilities	11,898,077	1,286,925	608,050	13,793,052
Subordinated debts	24,729,319	-	-	24,729,319
Amount due to related parties	19,065,195	-	139,466	19,204,661
Total financial liabilities	<u>512,738,334</u>	<u>49,481,403</u>	<u>19,312,558</u>	<u>581,532,295</u>
Net financial asset position	<u>93,586,558</u>	<u>2,590,450</u>	<u>4,909,429</u>	<u>101,086,437</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

26. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Foreign currency exchange risk (continued)

Concentration of currency risk (continued)

	US\$ equivalent			Total
	US\$	KHR	THB	US\$
31 December 2016				
Assets				
Cash on hand	7,076,387	1,928,789	312,488	9,317,664
Balances with the NBC	31,506,624	14,489,468	-	45,996,092
Balances with other banks	56,890,874	12,039,926	5,341,724	74,272,524
Loans to customers, net	393,584,058	28,597,924	20,095,542	442,277,524
Other assets	5,375,781	479,631	343,810	6,199,222
Total financial assets	<u>494,433,724</u>	<u>57,535,738</u>	<u>26,093,564</u>	<u>578,063,026</u>
Liabilities				
Deposits from customers	299,146,307	48,721,653	9,904,505	357,772,465
Borrowings	104,432,135	2,843,945	9,474,869	116,750,949
Other liabilities	11,527,812	1,618,213	640,553	13,786,578
Subordinated debts	24,729,319	-	-	24,729,319
Amount due to related parties	-	-	44,750	44,750
Total financial liabilities	<u>439,835,573</u>	<u>53,183,811</u>	<u>20,064,677</u>	<u>513,084,061</u>
Net financial asset position	<u>54,598,151</u>	<u>4,351,927</u>	<u>6,028,887</u>	<u>64,978,965</u>

Management monitor current and forecast adhering to the limits of foreign exchange open position and will determine appropriate counter balancing measures should the actual position threaten to breach thresholds of the internal limit and by the NBC and lenders. Acceptable foreign exchange risk management instruments might be used so that it may serve to reduce the net long or short foreign exchange position in certain currencies.

No sensitivity analysis is presented for foreign currency exchange risk as management believes that the impact of foreign currency fluctuation is not significant.

(ii) Interest rate risk

Interest Rate Risk is commonly as the possibility that change in the prevailing market Interest rate levels produce an adverse impact on net income and on the value of assets and liabilities and consequentially on the economic value of equity of HKL. The exposure to interest rate risk relates primarily to its loans, bank deposits and borrowings.

Since some of the borrowings bear interest rates which are subject to change with the market rates, the Company use interest rate SWAP with Krungsri to hedge such risk.

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

26. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

The table below is presented based on the contractual maturity.

	Up to 1 month	> 1 – 3 months	> 3 – 12 months	1 – 5 years	Over 5 Years	Non-interest sensitive	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
31 December 2017							
Assets							
Cash on hand	-	-	-	-	-	9,923,604	9,923,604
Balances with the NBC	6,192,717	-	3,049,542	-	-	32,017,856	41,260,115
Balances with other banks	37,584,864	-	-	-	-	19,512,688	57,097,552
Loans to customers							
- Performing	403,682	1,630,710	19,011,414	500,286,220	49,351,202	-	570,683,228
- Non-performing	-	-	-	-	-	6,196,928	6,196,928
- Allowance	-	-	-	-	-	(9,343,954)	(9,343,954)
Other assets	-	-	-	-	-	6,801,259	6,801,259
	<u>44,181,263</u>	<u>1,630,710</u>	<u>22,060,956</u>	<u>500,286,220</u>	<u>49,351,202</u>	<u>65,108,381</u>	<u>682,618,732</u>
Liabilities							
Deposits from customers	93,548,998	80,655,217	183,167,338	9,925,409	124,117	-	367,421,079
Borrowings	-	2,016,667	27,617,589	121,638,462	4,860,300	251,166	156,384,184
Other liabilities	-	-	-	-	-	13,793,052	13,793,052
Subordinated debts	-	-	-	24,000,000	729,319	-	24,729,319
Amounts due to related parties	-	9,000,000	10,000,000	-	-	204,661	19,204,661
	<u>93,548,998</u>	<u>91,671,884</u>	<u>220,784,927</u>	<u>155,563,871</u>	<u>5,713,736</u>	<u>14,248,879</u>	<u>581,532,295</u>
Maturity gap	<u>(49,367,735)</u>	<u>(90,041,174)</u>	<u>(198,723,971)</u>	<u>344,722,349</u>	<u>43,637,466</u>	<u>50,859,502</u>	<u>101,086,437</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

26. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

The table below is presented based on the contractual maturity.

	Up to 1 month	> 1 – 3 months	> 3 – 12 months	1 – 5 years	Over 5 years	Non-interest sensitive	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
31 December 2016							
Assets							
Cash on hand	-	-	-	-	-	9,317,664	9,317,664
Balances with the NBC	13,673,520	732,003	49,542	-	-	31,541,027	45,996,092
Balances with other banks	72,155,552	-	-	-	-	2,116,972	74,272,524
Loans to customers							
- Performing	504,594	2,093,945	24,234,101	384,195,698	31,451,431	-	442,479,769
- Non-performing	-	-	-	-	-	2,763,895	2,763,895
- Allowance	-	-	-	-	-	(2,966,140)	(2,966,140)
Other assets	-	-	-	-	-	6,199,222	6,199,222
	<u>86,333,666</u>	<u>2,825,948</u>	<u>24,283,643</u>	<u>384,195,698</u>	<u>31,451,431</u>	<u>48,972,640</u>	<u>578,063,026</u>
Liabilities							
Deposits from customers	67,353,215	65,322,944	214,226,584	7,861,427	3,008,295	-	357,772,465
Borrowings	7,500,000	14,129,542	29,832,754	60,044,210	4,860,300	384,143	116,750,949
Other liabilities	-	-	-	-	-	13,786,578	13,786,578
Subordinated debts	-	-	10,000,000	4,000,000	10,000,000	729,319	24,729,319
Amounts due to related parties	-	-	-	-	-	44,750	44,750
	<u>74,853,215</u>	<u>79,452,486</u>	<u>254,059,338</u>	<u>71,905,637</u>	<u>17,868,595</u>	<u>14,944,790</u>	<u>513,084,061</u>
Interest repricing gap	<u>11,480,451</u>	<u>(76,626,538)</u>	<u>(229,775,695)</u>	<u>312,290,061</u>	<u>13,582,836</u>	<u>34,027,850</u>	<u>64,978,965</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

26. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate liabilities at fair value through profit or loss, and the Company does not have derivatives as at the year end. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

(d) Liquidity risk

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

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

Deposits from customers consisted mainly of term deposits, which was at 87.57% of the total deposit outstanding (2016: 89.92%). The term deposit roll-rate in term of amount showed approximately half of the term deposits keep rolling from one cycle to another. Therefore, management believes that underlying liquidity risk is manageable.

The following table provides an analysis of the financial assets and liabilities of the Company into relevant maturity groupings, including instalment due.

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

26. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

	Up to 1 month	> 1 – 3 months	> 3 – 12 months	1 – 5 years	Over 5 years	No fixed terms	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
31 December 2017							
Assets							
Cash on hand	9,923,604	-	-	-	-	-	9,923,604
Balances with the NBC	8,107,102	-	49,542	-	-	33,103,471	41,260,115
Balances with other banks	57,097,552	-	-	-	-	-	57,097,552
Loans to customers	24,481,146	50,715,867	198,233,778	455,263,157	17,200,715	-	745,894,663
Other assets	14,740	21,026	519	1,246,466	-	20,000	1,302,751
	<u>99,624,144</u>	<u>50,736,893</u>	<u>198,283,839</u>	<u>456,509,623</u>	<u>17,200,715</u>	<u>33,123,471</u>	<u>855,478,685</u>
Liabilities							
Deposits from customers	95,760,051	84,503,527	194,523,660	11,280,487	209,057	-	386,276,782
Borrowings	486,968	4,960,119	63,350,063	107,318,362	821,036	251,167	177,187,715
Other liabilities	303,787	234,672	2,556,204	31,694	-	-	3,126,357
Subordinated debts	500,477	1,008,842	3,008,499	25,604,909	970,893	-	31,093,620
Amounts due to related parties	68,712	9,167,906	10,484,031	343,495	-	-	20,064,144
	<u>97,119,995</u>	<u>99,875,066</u>	<u>273,922,457</u>	<u>144,578,947</u>	<u>2,000,986</u>	<u>251,167</u>	<u>617,748,618</u>
Maturity gap	<u>2,504,149</u>	<u>(49,138,173)</u>	<u>(75,638,618)</u>	<u>311,930,676</u>	<u>15,199,729</u>	<u>32,872,304</u>	<u>237,730,067</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

26. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

	Up to 1 month US\$	> 1 – 3 months US\$	> 3 – 12 months US\$	1 – 5 years US\$	Over 5 Years US\$	No fixed terms US\$	Total US\$
31 December 2016							
Assets							
Cash on hand	9,317,664	-	-	-	-	-	9,317,664
Balances with the NBC	15,631,077	49,542	49,542	-	-	30,265,931	45,996,092
Balances with other banks	74,272,524	-	-	-	-	-	74,272,524
Loans to customers	25,819,486	46,647,628	172,909,866	322,284,868	11,157,483	-	578,819,331
Other assets	21,066	33,805	-	990,865	-	20,000	1,065,736
	<u>125,061,817</u>	<u>46,730,975</u>	<u>172,959,408</u>	<u>323,275,733</u>	<u>11,157,483</u>	<u>30,285,931</u>	<u>709,471,347</u>
Liabilities							
Deposits from customers	69,051,072	69,076,963	229,205,287	9,021,199	3,081,128	-	379,435,649
Borrowings	8,152,233	12,960,564	32,950,177	73,435,680	1,686,624	384,143	129,569,421
Other liabilities	790,371	1,781,306	413,156	-	-	-	2,984,833
Subordinated debts	500,980	4,717	1,954,211	27,527,413	2,159,866	729,319	32,876,506
Amounts due to related parties	-	-	44,750	-	-	-	44,750
	<u>78,494,656</u>	<u>83,823,550</u>	<u>264,567,581</u>	<u>109,984,292</u>	<u>6,927,618</u>	<u>1,113,462</u>	<u>544,911,159</u>
Maturity gap	<u>46,567,161</u>	<u>(37,092,575)</u>	<u>(91,608,173)</u>	<u>213,291,441</u>	<u>4,229,865</u>	<u>29,172,469</u>	<u>164,560,188</u>

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

26. FINANCIAL RISK MANAGEMENT (continued)

(e) Capital management

(i) Regulatory capital

The Company's lead regulator, the NBC, sets and monitors capital requirements for the Company as a whole.

The Company's policy is to maintain a strong capital base so as to maintain market confidence and to sustain further development of the business. The impact of the level of capital on shareholder's return is also recognised and the Company recognised the need to maintain a balance between the higher returns that might be possible with greater gearing and advantages and security afforded by a sound capital position.

The Company and its individually regulated operations have complied with all externally imposed capital requirements throughout the year.

(ii) Capital allocation

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

27. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

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

28. CURRENT AND NON-CURRENT

Management presents the financial statements based on liquidity. Information about short-term and long-term of assets and liabilities are disclosed in the financial risk management section. Property and equipment, intangible assets and deferred tax assets are non-current assets. Current income tax payable is current liability and provident benefits is non-current liability.

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

29. EVENT AFTER REPORTING PERIOD

On 16 February 2018, NBC issued Circular No. B7-018-001 on Implementation of Prakas on Credit Risk Grading and Impairment Provisioning, which clarifies the classification and impairment provisioning for short-term credit facilities as follows, among other clarifications:

Classification	Number of past due days	Allowance
Normal	14 days or less	1%
Special mention	15 days - 30 days	3%
Substandard	31 days - 60 days	20%
Doubtful	61 days - 90 days	50%
Loss	91 days or more	100%