

HATTHA KAKSEKAR LIMITED
(Registration No. 00005355)

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

FOR THE YEAR ENDED 31 DECEMBER 2019

HATTHA KAKSEKAR LIMITED

REPORT OF THE BOARD OF DIRECTORS AND AUDITED CONSOLIDATED AND SEPARATE FIANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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HATTHA KAKSEKAR LIMITED

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REPORT OF THE BOARD OF DIRECTORS

The Board of Directors ("BoD") is pleased to present its report together with the audited consolidated financial statements of Hattha Kaksekar Limited (the "Company" or "HKL") and its subsidiary (together referred to as the "Group") and separate financial statements of the Company (collectively referred to as the financial statements) for the year ended 31 December 2019.

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 Group and the Company for the year ended 31 December 2019 were set out in the consolidated and separate statements of profit or loss and other comprehensive income on page 11 and 17, respectively.

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 (2018: nil).

SHARE CAPITAL

On 07 October 2019, the National Bank of Cambodia ("NBC") approved the Company's request for increasing share capital by US\$40 million from US\$75 million to US\$115 million. The amendment of the Memorandum and Articles of Association was approved by the Ministry of Commerce ("MOC") on 11 February 2020.

WRITTEN OFF OF AND ALLOWANCE FOR FINANCIAL ASSETS

Before the financial statements were prepared, the BoD took reasonable steps to ascertain that action had been taken in relation to write off of financial assets that have no reasonable expectations of recovering the contractual cash flows in their entirety or a portion thereof and making of allowance for expected credit losses on financial assets, and satisfied themselves that all known financial assets that have no reasonable expectations of recovering the contractual cash flows were written off and that adequate allowance for expected credit losses on financial assets have been made.

At the date of this report and on the best of knowledge, the BoD is not aware of any circumstances which would render the amount of the allowance for expected credit losses on financial assets in the financial statements of the Group and the Company inadequate to any material extent. *(CW)*

ASSETS

Before the financial statements of the Group and the Company were prepared, the BoD 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 Group and the Company had been written down to amounts which they might be expected to realise.

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

VALUATION METHODS

At the date of this report, the BoD is 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 Group and 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 Group and 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 Group and 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 Group and 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 BoD, will or may substantially affect the ability of the Group and the Company to meet its obligations as and when they fall due.

CHANGE OF CIRCUMSTANCES

At the date of this report, the BoD are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Group and 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 Group and the Company for the year were not, in the opinion of the BoD, 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 BoD, to affect substantially the results of the operations of the Group and the Company for the current financial year in which this report is made.

EVENTS AFTER THE REPORTING DATE

No significant events occurred after the statement of financial position date requiring disclosures or adjustments other than those disclosed in the financial statements. *kw*

THE BOARD OF DIRECTORS

The members of the BoD 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. (resigned on 27 May 2019)
- Mr. Dy Davuth, Independent Director, Vice President of Build Bright University
- Mr. Lonh Hay, Independent Director
- Ms. Tal Nay Im, Independent Director (resigned on 27 May 2019)
- Mr. Hout Ieng Tong, Director, President and Chief Executive Officer of Hattha Kaksekar Limited
- Mr. Pak Sereivathana, Independent Director (appointed on 27 May 2019)

DIRECTORS' BENEFITS

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

Since the end of the previous financial year, no Director of the Group and 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 BoD as disclosed in the financial statements) by reason of a contract made by the Group and 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 BOARD OF DIRECTORS IN RESPECT OF THE FINANCIAL STATEMENTS

The BoD is responsible for ascertaining that the financial statements present fairly, in all material respects, the financial position of the Group and the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended. In preparing these financial statements, the BoD 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 International Financial Reporting Standards ("CIFRSs"), 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 Group and the Company will continue operations in the foreseeable future; and
- effectively control and direct the Group and 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 BoD confirms that the Group and the Company have complied with the above requirements in preparing the financial statements. *100%*

STATEMENT OF THE BOARD OF DIRECTORS

The accompanying financial statements present fairly, in all material respects, the consolidated and separate statements of financial position as at 31 December 2019, and their financial performance and cash flows for year then ended in accordance with Cambodian International Financial Reporting Standards, and at the date of this statement, there are reasonable grounds to believe that the Group and the Company will be able to pay its debts as and when they fall due. *low we*

On behalf of the Board of Directors



Mr. Hout Ieng Tong
President and Chief Executive Officer

Phnom Penh, Kingdom of Cambodia
Date: 27 March 2020

INDEPENDENT AUDITOR'S REPORT

To the shareholder of Hattha Kaksekar Limited

Opinion

We have audited the consolidated financial statements of Hattha Kaksekar Limited (the "Company") and its subsidiary (together referred to as the "Group") and the separate financial statements of the Company (collectively referred to as the "financial statements"), which comprise the consolidated statement of financial position of the Group and the separate statement of financial position of the Company as at 31 December 2019, and the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 9 to 120.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Group and the Company as at 31 December 2019, and their financial performance and cash flows for the year then ended in accordance with Cambodian International Financial Reporting Standards (CIFRSs).

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 Group and 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p data-bbox="197 248 708 309">Impairment loss allowance on loans to customers</p> <p data-bbox="197 344 708 797">The Group and the Company adopted CIFRS 9 – “Financial Instruments”, for their first-time adoption of CIFRSs with a date of transition of 1 January 2018. CIFRS 9 introduces an expected credit loss (“ECL”) impairment model, which requires the use of complex models and significant assumptions about credit characteristics and future economic conditions. This is a new and complex accounting standards as it requires considerable judgement and interpretation in its implementation.</p> <p data-bbox="197 819 708 947">The estimation process and significant judgements in applying the accounting requirements for measuring ECL include the following:</p> <ul data-bbox="197 965 708 1529" style="list-style-type: none"> • Applying the appropriate impairment models for collective assessment, which is inherently complex and judgmental; • The Group and the Company used judgment in determining loan portfolio with similar risk characteristics to leverage the Proxy Model developed by the immediate parent; and • The key elements and assumptions used in the ECL models, which include staging criteria, probability of default (PD), exposure at default (EAD), loss given default (LGD) and forward-looking information. 	<p data-bbox="730 248 1390 409">Our audit procedures comprise understanding and testing of the design and implementation and operating effectiveness of the relevant controls over impairment loss allowance, which include the following:</p> <ul data-bbox="730 427 1390 819" style="list-style-type: none"> • BoD approval of the impairment policy over development and validation of ECL models; • Management review and approval of key judgements, assumptions and forward-looking information used in ECL models; • Reconciliations of data from source system to the detailed ECL model analyses; • Management identification of the significant increase in credit risk; and • Review and approval process for the outputs of impairment models. <p data-bbox="730 842 1390 902">Our audit procedures to assess management’s allowance for ECL include the following:</p> <ul data-bbox="730 920 1390 1805" style="list-style-type: none"> • Obtained an understanding of the impairment policy and assessed the methodology applied in the development of ECL following the requirements of CIFRS 9; • Tested key assumptions in the ECL models such as PD, EAD, LGD, and forward-looking information built from Proxy Model by the involvement of our audit specialists; • Evaluated the appropriate definition of the significant increase in credit risk and loan grading through the processes for identifying loans with similar characteristics as modelled portfolio to leverage the Proxy Model; • Assessed the classification and credit worthiness of the samples with references from the relevant industries, including macroeconomic factor, customers’ financial circumstances and valuation of collaterals; • Test the accuracy and completeness of data in ECL models by comparing them with information obtained from the source system by selecting loan samples according to its total credit exposure and staging; and • Recalculated the impairment loss allowance for the collectively assessed loans at transition date and end of reporting periods. <p data-bbox="730 1827 1390 1921">We involved our audit specialists in the performance of these procedures where their specific expertise was required.</p> <p data-bbox="730 1944 1390 2094">We have also assessed and challenged the adequacy of the Group and the Company’s disclosures on the allowance for impairment of loans to customers and the related credit risk in the notes to the financial statements.</p>

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

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, 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 CIFRSs, 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 Group and 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 Group and the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Group and 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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and 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 Group and 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 Group and the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

For Deloitte (Cambodia) Co., Ltd.




Ung Kimsopheaktra
Director

Phnom Penh, Kingdom of Cambodia
Date: 27 March 2020

HATTHA KAKSEKAR LIMITED

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019**

	Notes	31 December 2019		31 December 2018		1 January 2018	
		US\$	KHR'000	US\$	KHR'000	US\$	KHR'000
ASSETS							
Cash on hand		34,190,445	139,326,063	37,211,155	149,514,421	9,923,604	40,061,589
Balances with the NBC	6	95,934,585	390,933,434	77,602,188	311,805,591	41,264,136	166,583,317
Balances with other banks	7	9,657,803	39,355,547	39,594,315	159,089,958	57,035,505	230,252,334
Loans to customers	8	1,036,272,930	4,222,812,190	741,839,028	2,980,709,215	564,202,315	2,277,684,746
Investment securities	9	20,000	81,500	20,000	80,360	20,000	80,740
Property and equipment	10	4,201,129	17,119,601	4,148,634	16,669,211	3,958,984	15,982,418
Right-of-use assets	11	12,281,257	50,046,122	12,788,265	51,383,249	13,225,717	53,392,220
Intangible assets	12	2,300,471	9,374,419	835,911	3,358,690	611,726	2,469,538
Deferred tax assets, net	13(a)	3,902,683	15,903,433	3,100,212	12,456,652	2,018,874	8,150,194
Other assets	14	28,066,516	114,371,054	7,938,877	31,898,408	7,477,821	30,187,964
TOTAL ASSETS		1,226,827,819	4,999,323,363	925,078,585	3,716,965,755	699,738,682	2,824,845,060
LIABILITIES							
Deposits from customers	15	610,098,327	2,486,150,683	491,353,390	1,974,257,921	375,822,867	1,517,196,914
Debt securities issued	16	29,196,072	118,973,993	29,325,252	117,828,863	-	-
Borrowings	17	311,485,982	1,269,305,377	191,725,158	770,351,685	175,448,992	708,287,581
Subordinated debts	18	11,974,921	48,797,803	23,236,296	93,363,437	25,258,299	101,967,753
Derivatives held for risk management	19	1,887,584	7,691,905	27,794	111,676	358,020	1,445,327
Current tax liabilities	13(b)	2,632,899	10,729,063	4,862,542	19,537,694	3,510,009	14,169,906
Lease liabilities	20	13,005,210	52,996,231	13,172,448	52,926,896	13,101,606	52,891,183
Provisions	21	2,717	11,072	3,599	14,461	4,731	19,099
Other liabilities	22	48,184,085	196,350,146	5,127,753	20,603,312	3,841,293	15,507,300
TOTAL LIABILITIES		1,028,467,797	4,191,006,273	758,834,232	3,048,995,945	597,345,817	2,411,485,063

HATTHA KAKSEKAR LIMITED

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019**

	Notes	31 December 2019		31 December 2018		1 January 2018	
		US\$	KHR'000	US\$	KHR'000	US\$	KHR'000
EQUITY							
Share capital	23	75,000,000	305,625,000	75,000,000	301,350,000	30,000,000	121,110,000
Share premium		19,082,502	77,761,196	19,082,502	76,673,493	19,082,502	77,036,061
Reserves	24	8,818,392	40,434,778	4,389,186	16,210,599	2,721,101	10,985,085
Retained earnings		95,459,128	384,496,116	67,772,665	273,735,718	50,589,262	204,228,851
TOTAL EQUITY		198,360,022	808,317,090	166,244,353	667,969,810	102,392,865	413,359,997
TOTAL LIABILITIES AND EQUITY		1,226,827,819	4,999,323,363	925,078,585	3,716,965,755	699,738,682	2,824,845,060

The accompanying notes from pages 21 to 120 form an integral part of these financial statements.

HATTHA KAKSEKAR LIMITED
**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Notes	Year ended 31 December 2019		Year ended 31 December 2018	
		US\$	KHR'000	US\$	KHR'000
Interest income	25	141,960,631	575,224,477	110,594,947	447,356,561
Interest expense	25	(59,497,470)	(241,083,748)	(46,897,077)	(189,698,676)
Net interest income		82,463,161	334,140,729	63,697,870	257,657,885
Fee and commission income	26	4,909,507	19,893,322	3,257,993	13,178,582
Fee and commission expense	26	(698,032)	(2,828,426)	(702,653)	(2,842,231)
Net fee and commission income		4,211,475	17,064,896	2,555,340	10,336,351
Net losses from other financial instruments at FVTPL	27	(1,965,310)	(7,963,436)	(190,166)	(769,221)
Other income	28	228,275	924,970	173,817	703,090
Net impairment gains/(losses) on financial instruments	29	105,224	426,368	(3,618,488)	(14,636,784)
Personnel expenses	30	(34,383,434)	(139,321,675)	(25,783,134)	(104,292,777)
Depreciation and amortisation	31	(5,328,403)	(21,590,689)	(4,990,693)	(20,187,353)
Other expenses	32	(9,838,831)	(39,866,943)	(8,185,285)	(33,109,478)
Profit before tax		35,492,157	143,814,220	23,659,261	95,701,713
Income tax expense	13(c)	(3,376,488)	(13,681,529)	(4,807,773)	(19,447,442)
Profit for the year		32,115,669	130,132,691	18,851,488	76,254,271
Other comprehensive income		-	4,499,831	-	(1,425,150)
Total comprehensive income for the year		32,115,669	134,632,522	18,851,488	74,829,121
Profit attributable to shareholder		32,115,669	130,132,691	18,851,488	76,254,271
Total comprehensive income attributable to shareholder		32,115,669	134,632,522	18,851,488	74,829,121

The accompanying notes from pages 21 to 120 form an integral part of these financial statements.

HATTHA KAKSEKAR LIMITED

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Attributable to shareholder				Total US\$
	Share capital	Share premium	Reserves	Retained earnings	
	US\$	US\$	US\$	US\$	
Year ended 31 December 2018					
At 1 January 2018	30,000,000	19,082,502	2,721,101	50,589,262	102,392,865
Issuance of share capital	45,000,000	-	-	-	45,000,000
Profit for the year	-	-	-	18,851,488	18,851,488
Total comprehensive income for the year	-	-	-	18,851,488	18,851,488
Transfers from retained earnings to regulatory reserves	-	-	1,521,044	(1,521,044)	-
Transfer to other reserves	-	-	147,041	(147,041)	-
At 31 December 2018	75,000,000	19,082,502	4,389,186	67,772,665	166,244,353
In KHR'000 equivalents	301,350,000	76,673,493	16,210,599	273,735,718	667,969,810
Year ended 31 December 2019					
At 1 January 2019	75,000,000	19,082,502	4,389,186	67,772,665	166,244,353
Profit for the year	-	-	-	32,115,669	32,115,669
Total comprehensive income for the year	-	-	-	32,115,669	32,115,669
Transfers from retained earnings to regulatory reserves	-	-	4,310,516	(4,310,516)	-
Transfer to other reserves	-	-	118,690	(118,690)	-
At 31 December 2019	75,000,000	19,082,502	8,818,392	95,459,128	198,360,022
In KHR'000 equivalents	305,625,000	77,761,196	40,434,778	384,496,116	808,317,090

The accompanying notes from pages 21 to 120 form an integral part of these financial statements.

HATTHA KAKSEKAR LIMITED
**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Notes	Year ended 31 December 2019		Year ended 31 December 2018	
		US\$	KHR'000	US\$	KHR'000
Cash flows from operating activities					
Profit before income tax		35,492,157	143,814,220	23,659,261	95,701,713
<i>Adjustments for:</i>					
Net interest income	25	(82,463,161)	(334,140,729)	(63,697,870)	(257,657,885)
Net losses from other financial instruments at FVTPL	27	1,965,310	7,963,436	190,166	769,221
Net impairment (gains) / losses on financial instruments	29	(105,224)	(426,368)	3,618,488	14,636,784
Depreciation and amortisation	31	5,328,403	21,590,689	4,990,693	20,187,353
Other personnel expenses		1,286,720	5,213,789	1,191,023	4,817,688
Losses/(gains) on disposals of property and equipment		2,333	9,453	(675)	(2,730)
Effect of currency translation of monetary items		110,023	445,813	58,664	237,296
		(38,383,439)	(155,529,697)	(29,990,250)	(121,310,560)
<i>Changes in:</i>					
Balances with the NBC		(13,641,631)	(55,275,889)	(14,279,841)	(57,761,957)
Loans to customers		(296,500,679)	(1,201,420,751)	(183,980,184)	(744,199,844)
Other assets		(18,843,729)	(76,354,790)	(191,427)	(774,322)
Deposits from customers		117,940,749	477,895,915	112,672,460	455,760,101
Other liabilities		43,056,332	174,464,257	1,286,460	5,203,731
Cash used in operations		(206,372,397)	(836,220,955)	(114,482,782)	(463,082,851)
Interest received		141,413,930	573,009,244	111,222,538	449,895,166
Interest paid		(57,457,328)	(232,817,093)	(44,346,260)	(179,380,622)
Income tax paid	13(b)	(6,408,602)	(25,967,655)	(4,536,578)	(18,350,458)
Net cash used in operating activities		(128,824,397)	(521,996,459)	(52,143,082)	(210,918,765)

HATTHA KAKSEKAR LIMITED

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Year ended 31 December 2019		Year ended 31 December 2018		
	Note	US\$	KHR'000	US\$	KHR'000
Cash flows from investing activities					
Purchases of property and equipment		(2,257,061)	(9,145,611)	(2,364,306)	(9,563,618)
Purchases of intangible assets		(1,695,188)	(6,868,902)	(385,889)	(1,560,921)
Proceeds from disposals of property and equipment		753	3,051	743	3,005
Net cash used in investing activities		(3,951,496)	(16,011,462)	(2,749,452)	(11,121,534)
Cash flows from financing activities					
Proceeds from borrowings		184,816,851	748,877,880	107,340,023	434,190,393
Proceeds from debt securities issued		-	-	29,865,605	120,806,372
Repayments of borrowings		(65,787,097)	(266,569,317)	(90,388,773)	(365,622,587)
Repayments of subordinated debts		(11,000,000)	(44,572,000)	(2,000,000)	(8,090,000)
Principal elements of lease payments		(3,529,551)	(14,301,741)	(3,125,801)	(12,643,865)
Issuance of share capital		-	-	45,000,000	182,025,000
Net cash from financing activities		104,500,203	423,434,822	86,691,054	350,665,313
Net (decrease)/increase in cash and cash equivalents		(28,275,690)	(114,573,099)	31,798,520	128,625,014
Cash and cash equivalents at the beginning of year		106,976,320	429,830,854	75,177,800	303,492,778
Currency translation differences		-	5,447,312	-	(2,286,938)
Cash and cash equivalents at the end of year	33	78,700,630	320,705,067	106,976,320	429,830,854

The accompanying notes from pages 21 to 120 form an integral part of these financial statements.

HATTHA KAKSEKAR LIMITED

**SEPARATE STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019**

	Notes	31 December 2019		31 December 2018		1 January 2018	
		US\$	KHR'000	US\$	KHR'000	US\$	KHR'000
ASSETS							
Cash on hand		34,190,445	139,326,063	37,211,155	149,514,421	9,923,604	40,061,589
Balances with the NBC	6	95,934,585	390,933,434	77,602,188	311,805,591	41,264,136	166,583,317
Balances with other banks	7	9,657,803	39,355,547	39,594,315	159,089,958	57,035,505	230,252,334
Loans to customers	8	1,036,272,930	4,222,812,190	741,839,028	2,980,709,215	564,202,315	2,277,684,746
Investment securities	9	20,000	81,500	20,000	80,360	20,000	80,740
Investment in subsidiary		490	1,997	-	-	-	-
Property and equipment	10	4,201,129	17,119,601	4,148,634	16,669,211	3,958,984	15,982,418
Right-of-use assets	11	12,281,257	50,046,122	12,788,265	51,383,249	13,225,717	53,392,220
Intangible assets	12	2,300,471	9,374,419	835,911	3,358,690	611,726	2,469,538
Deferred tax assets, net	13(a)	3,902,683	15,903,433	3,100,212	12,456,652	2,018,874	8,150,194
Other assets	14	28,071,676	114,392,081	7,938,877	31,898,408	7,477,821	30,187,964
TOTAL ASSETS		1,226,833,469	4,999,346,387	925,078,585	3,716,965,755	699,738,682	2,824,845,060
LIABILITIES							
Deposits from customers	15	610,099,327	2,486,154,758	491,353,390	1,974,257,921	375,822,867	1,517,196,914
Debt securities issued	16	29,196,072	118,973,993	29,325,252	117,828,863	-	-
Borrowings	17	311,485,982	1,269,305,377	191,725,158	770,351,685	175,448,992	708,287,581
Subordinated debts	18	11,974,921	48,797,803	23,236,296	93,363,437	25,258,299	101,967,753
Derivatives held for risk management	19	1,887,584	7,691,905	27,794	111,676	358,020	1,445,327
Current tax liabilities	13(b)	2,632,899	10,729,063	4,862,542	19,537,694	3,510,009	14,169,906
Lease liabilities	20	13,005,210	52,996,231	13,172,448	52,926,896	13,101,606	52,891,183
Provisions	21	2,717	11,072	3,599	14,461	4,731	19,099
Other liabilities	22	48,179,260	196,330,485	5,127,753	20,603,312	3,841,293	15,507,300
TOTAL LIABILITIES		1,028,463,972	4,190,990,687	758,834,232	3,048,995,945	597,345,817	2,411,485,063

HATTHA KAKSEKAR LIMITED

**SEPARATE STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019**

	Notes	31 December 2019		31 December 2018		1 January 2018	
		US\$	KHR'000	US\$	KHR'000	US\$	KHR'000
EQUITY							
Share capital	23	75,000,000	305,625,000	75,000,000	301,350,000	30,000,000	121,110,000
Share premium		19,082,502	77,761,196	19,082,502	76,673,493	19,082,502	77,036,061
Reserves	24	8,818,392	40,434,996	4,389,186	16,210,599	2,721,101	10,985,085
Retained earnings		95,468,603	384,534,508	67,772,665	273,735,718	50,589,262	204,228,851
TOTAL EQUITY		198,369,497	808,355,700	166,244,353	667,969,810	102,392,865	413,359,997
TOTAL LIABILITIES AND EQUITY		1,226,833,469	4,999,346,387	925,078,585	3,716,965,755	699,738,682	2,824,845,060

The accompanying notes from pages 21 to 120 form an integral part of these financial statements.

HATTHA KAKSEKAR LIMITED

**SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Notes	Year ended 31 December 2019		Year ended 31 December 2018	
		US\$	KHR'000	US\$	KHR'000
Interest income	25	141,960,631	575,224,477	110,594,947	447,356,561
Interest expense	25	(59,497,470)	(241,083,748)	(46,897,077)	(189,698,676)
Net interest income		82,463,161	334,140,729	63,697,870	257,657,885
Fee and commission income	26	4,909,507	19,893,322	3,257,993	13,178,582
Fee and commission expense	26	(698,032)	(2,828,426)	(702,653)	(2,842,231)
Net fee and commission income		4,211,475	17,064,896	2,555,340	10,336,351
Net losses from other financial instruments at FVTPL	27	(1,965,310)	(7,963,436)	(190,166)	(769,221)
Other income	28	228,275	924,970	173,817	703,090
Net impairment gains/(losses) on financial instruments	29	105,224	426,368	(3,618,488)	(14,636,784)
Personnel expenses	30	(34,383,434)	(139,321,675)	(25,783,134)	(104,292,777)
Depreciation and amortisation	31	(5,328,403)	(21,590,689)	(4,990,693)	(20,187,353)
Other expenses	32	(9,829,356)	(39,828,551)	(8,185,285)	(33,109,478)
Profit before tax		35,501,632	143,852,612	23,659,261	95,701,713
Income tax expense	13(c)	(3,376,488)	(13,681,529)	(4,807,773)	(19,447,442)
Profit for the year		32,125,144	130,171,083	18,851,488	76,254,271
Other comprehensive income		-	4,500,049	-	(1,425,150)
Total comprehensive income for the year		32,125,144	134,671,132	18,851,488	74,829,121
Profit attributable to shareholder		32,125,144	130,171,083	18,851,488	76,254,271
Total comprehensive income attributable to shareholder		32,125,144	134,671,132	18,851,488	74,829,121

The accompanying notes from pages 21 to 120 form an integral part of these financial statements.

HATTHA KAKSEKAR LIMITED

**SEPARATE STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Attributable to shareholder				Total US\$
	Share capital US\$	Share premium US\$	Reserves US\$	Retained earnings US\$	
	Year ended 31 December 2018				
At 1 January 2018	30,000,000	19,082,502	2,721,101	50,589,262	102,392,865
Issuance of share capital	45,000,000	-	-	-	45,000,000
Profit for the year	-	-	-	18,851,488	18,851,488
Total comprehensive income for the year	-	-	-	18,851,488	18,851,488
Transfers from retained earnings to regulatory reserves	-	-	1,521,044	(1,521,044)	-
Transfer to other reserves	-	-	147,041	(147,041)	-
At 31 December 2018	75,000,000	19,082,502	4,389,186	67,772,665	166,244,353
In KHR'000 equivalents	301,350,000	76,673,493	16,210,599	273,735,718	667,969,810
Year ended 31 December 2019					
At 1 January 2019	75,000,000	19,082,502	4,389,186	67,772,665	166,244,353
Profit for the year	-	-	-	32,125,144	32,125,144
Total comprehensive income for the year	-	-	-	32,125,144	32,125,144
Transfers from retained earnings to regulatory reserves	-	-	4,310,516	(4,310,516)	-
Transfer to other reserves	-	-	118,690	(118,690)	-
At 31 December 2019	75,000,000	19,082,502	8,818,392	95,468,603	198,369,497
In KHR'000 equivalents	305,625,000	77,761,196	40,434,996	384,534,508	808,355,700

The accompanying notes from pages 21 to 120 form an integral part of these financial statements.

HATTHA KAKSEKAR LIMITED

**SEPARATE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Notes	Year ended 31 December 2019		Year ended 31 December 2018	
		US\$	KHR'000	US\$	KHR'000
Cash flows from operating activities					
Profit before income tax		35,501,632	143,852,612	23,659,261	95,701,713
<i>Adjustments for:</i>					
Net interest income	25	(82,463,161)	(334,140,729)	(63,697,870)	(257,657,885)
Net losses from other financial instruments at FVTPL	27	1,965,310	7,963,436	190,166	769,221
Net impairment gains/(losses) on financial instruments	29	(105,224)	(426,368)	3,618,488	14,636,784
Depreciation and amortisation	31	5,328,403	21,590,689	4,990,693	20,187,353
Other personnel expenses		1,286,720	5,213,789	1,191,023	4,817,688
Losses/(gains) on disposals of property and equipment		2,333	9,453	(675)	(2,730)
Effect of currency translation of monetary items		110,023	445,813	58,664	237,296
		(38,373,964)	(155,491,305)	(29,990,250)	(121,310,560)
<i>Changes in:</i>					
Balances with the NBC		(13,641,631)	(55,275,889)	(14,279,841)	(57,761,957)
Loans to customers		(296,500,679)	(1,201,420,751)	(183,980,184)	(744,199,844)
Other assets		(18,848,889)	(76,375,698)	(191,427)	(774,322)
Deposits from customers		117,941,749	477,899,967	112,672,460	455,760,101
Other liabilities		43,051,507	174,444,706	1,286,460	5,203,731
Cash used in operations		(206,371,907)	(836,218,970)	(114,482,782)	(463,082,851)
Interest received		141,413,930	573,009,244	111,222,538	449,895,166
Interest paid		(57,457,328)	(232,817,093)	(44,346,260)	(179,380,622)
Income tax paid	13(b)	(6,408,602)	(25,967,655)	(4,536,578)	(18,350,458)
Net cash used in operating activities		(128,823,907)	(521,994,474)	(52,143,082)	(210,918,765)

HATTHA KAKSEKAR LIMITED

**SEPARATE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019**

	Year ended 31 December 2019		Year ended 31 December 2018		
	Note	US\$	KHR'000	US\$	KHR'000
Cash flows from investing activities					
Purchases of property and equipment		(2,257,061)	(9,145,611)	(2,364,306)	(9,563,618)
Purchases of intangible assets		(1,695,188)	(6,868,902)	(385,889)	(1,560,921)
Proceeds from disposals of property and equipment		753	3,051	743	3,005
Investment in subsidiary		(490)	(1,985)	-	-
Net cash used in investing activities		(3,951,986)	(16,013,447)	(2,749,452)	(11,121,534)
Cash flows from financing activities					
Proceeds from borrowings		184,816,851	748,877,880	107,340,023	434,190,393
Proceeds from debt securities issued		-	-	29,865,605	120,806,372
Repayments of borrowings		(65,787,097)	(266,569,317)	(90,388,773)	(365,622,587)
Repayments of subordinated debts		(11,000,000)	(44,572,000)	(2,000,000)	(8,090,000)
Principal elements of lease payments		(3,529,551)	(14,301,741)	(3,125,801)	(12,643,865)
Issuance of share capital		-	-	45,000,000	182,025,000
Net cash from financing activities		104,500,203	423,434,822	86,691,054	350,665,313
Net (decrease)/increase in cash and cash equivalents		(28,275,690)	(114,573,099)	31,798,520	128,625,014
Cash and cash equivalents at the beginning of year		106,976,320	429,830,854	75,177,800	303,492,778
Currency translation differences		-	5,447,312	-	(2,286,938)
Cash and cash equivalents at the end of year	33	78,700,630	320,705,067	106,976,320	429,830,854

The accompanying notes from pages 21 to 120 form an integral part of these financial statements.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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.

NBC approved HKL to be an Insurance Agent by acting as Referral for Prevoir Kampuchear Micro Life Insurance Plc. and Sovannaphum Life Assurance Plc. on 19 December 2014 and 29 December 2017, respectively.

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 178 offices (excluding Head Office) located in Phnom Penh and all provinces of the country 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.

Hattha Services Co., Ltd., the subsidiary, was incorporated on 8 October 2019 by the Company and Saray Holding Limited, a private limited company incorporated in Cambodia. The principal activity of the subsidiary is buying, selling, renting and operating of self-owned or leased real estate.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. REPORTING ENTITY (continued)

The financial statements of the Group and the Company were authorised for issue by the BoD on 27 March 2020.

2. BASIS OF ACCOUNTING

2.1 Basis of preparation

This is the first set of financial statements prepared by HKL in accordance with Cambodian International Financial Reporting Standards ("CIFRSs") published by the Ministry of Economy and Finance (Prakas No. 068-MEF-Pr dated 8 January 2009) and the National Accounting Council of Cambodia (letter dated 24 March 2016).

Transition date is on 1 January 2018 resulting in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. Reconciliation and descriptions of the effect of the transition to CIFRSs are given in Note 3.

2.2 Functional and presentation currency

The Group and the Company transact 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 Group and the Company's functional and presentation currency as it reflects the economic substance of the underlying events and circumstances of the Group and 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. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on translation are recognised in profit or loss.

2.3 Presentation in Khmer Riel

The translation of the US\$ amounts into Khmer Riel ("KHR") is presented in the financial statements to comply with the Law on Accounting and Auditing dated 11 April 2016 using the closing and average rates for the year, as announced by the National Bank of Cambodia.

Assets and liabilities for each statement of financial position presented are translated at the closing rate ruling at each reporting date whereas income and expense items for each statement of profit or loss and other comprehensive income and cash flow items presented are translated at the average rate for the year then ended. All resulting exchange differences are recognised in other comprehensive income ("OCI").

The financial statements presented in KHR are based on the following applicable exchange rates per US\$1:

	<i>Closing rate</i>	<i>Average rate</i>
31 December 2019	4,075	4,052
31 December 2018	4,018	4,045
1 January 2018	4,037	4,045

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2. BASIS OF ACCOUNTING (continued)

2.4 Basis of aggregation

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

2.5 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary made up to the end of each financial year. Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affects its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. When the Company has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiary acquired or disposed of during the year are included in profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiary to bring the accounting policies used into line with the Group's accounting policies.

Changes in the Group's ownership interests in subsidiary that do not result in the group losing control over the subsidiary are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

2. BASIS OF ACCOUNTING (continued)

2.5 Basis of consolidation (continued)

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable CIFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under CIFRS 9, or when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

In the Company's separate financial statements, investment in subsidiary is carried at cost less any impairment in net recoverable value that has been recognised in profit or loss.

HKL owns 49% of the share capital of Hattha Services Co., Ltd.; and other 51% is owned by Saray Holding Limited. Even though HKL owns 49% in the shareholding of Hattha Services Co., Ltd., the BoD believes that they have full control over this subsidiary because all operating and financial decisions are governed and directed by HKL.

2.6 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.

3. APPLICATIONS OF CIFRSs

In the current year, HKL has applied CIFRSs for the first time.

CIFRSs introduce new accounting standards of which two new standards (CIFRS 9 and CIFRS 16) have a significant impact on HKL's financial statements. A number of other new standards are also applicable; however, they do not have a material effect on HKL's financial statements.

Restatement of comparative information is required following the transitional requirements of CIFRS 1 for first-time adopter of CIFRSs.

3.1 CIFRS 9 Financial instruments

CIFRS 9 sets out requirements for recognising and measuring financial assets and financial liabilities. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities. The key changes to the Group and the Company's accounting policies resulting from its adoption of CIFRS 9 are summarised below.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. APPLICATIONS OF CIFRSs (continued)

Classification of financial assets and financial liabilities

CIFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). CIFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous GAAP categories of held-to-maturity, loans and receivables and available-for-sale.

CIFRS 9 largely retains the existing requirements in the previous GAAP for the classification of financial liabilities except for changes in the fair value of financial liabilities designated at FVTPL that are attributable to changes in the instrument's credit risk are presented in other comprehensive income.

Impairment of financial assets

CIFRS 9 replaces the 'incurred loss' model in the previous GAAP with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments but not to equity investments.

Under CIFRS 9, credit losses are recognised earlier than that under the previous GAAP.

Transition

At the date of transition to CIFRSs (1 January 2018), the Group and the Company:

- Classifies financial assets measured at amortised cost as the following conditions are met based on the facts and circumstances that exist at the date of transition:
 - o The assets are held within a business model whose objective is to hold assets to collect contractual cash flow; and
 - o The contractual terms of the financial asset give rise on specified date to cash flow that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.
- Classifies investment in equity instruments at FVOCI as it is not held for trading.
- Classifies financial liabilities measured at amortised cost as those liabilities do not fall into the FVTPL category.
- Applies effective interest rate retrospectively to financial assets and financial liabilities measured at amortised cost.
- Applies impairment requirement retrospectively by using reasonable and supportable information that is available without undue cost or effort to determine the credit risk at the date the financial instrument was initially recognised (for loan commitments, the date the Group and the Company became a party to the irrevocable commitment) and comparing that with the credit risk at the date of transition to CIFRSs to assess whether there has been a significant increase in credit risk since initial recognition. In determining whether there has been a significant increase in credit risk since initial recognition, the Group and the Company apply (1) low credit risk exception, and (2) the rebuttable presumption for the contractual payments that are more than 30 days past due.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. APPLICATIONS OF CIFRSs (continued)

3.1 CIFRS 9 Financial instruments (continued)

3.2 CIFRS 16 Leases

CIFRS 16 introduces new requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets.

The key changes to the Group and the Company's accounting policies resulting from its adoption of CIFRS 16 are summarised below.

Accounting for leases

CIFRS 16 changes how the Group and the Company account for leases previously classified as operating leases under CAS 17, which were off-balance-sheet.

Applying CIFRS 16, the Group and the Company:

- Recognises right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of future lease payments;
- Recognises depreciation of right-of-use assets and interest on lease liabilities in profit or loss; and
- Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in profit or loss.

Under CIFRS 16, right-of-use assets are tested for impairment in accordance with CIAS 36 Impairment of Assets.

For leases of low-value assets (such as photocopy machines and motor vehicles), the Group and the Company have opted to recognise a lease expense on a straight-line basis over the lease term as permitted by CIFRS 16. This expense is presented within other expenses in profit or loss.

Transition

At the date of transition to CIFRSs (1 January 2018), the Group and the Company have elected optional exemptions as followings:

- Reassess whether a contract is or contains a lease for contracts existing at the date of transition based on the facts and circumstances at that date.
- Measure the lease liabilities at the present value of the remaining lease payments, discounted using incremental borrowing rate available at the date of transition.
- Measure right-of-use assets at amount equal to the lease liabilities adjusted by the amount of any prepaid or accrued lease payments related to that lease recognised in the statement of financial position immediately before the date of transition to CIFRSs.
- Apply CIAS 36 to the right-of-use assets at the date of transition to CIFRSs.
- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Elect not to apply measurement requirements to leases for which the lease term ends within 12 months of the date of transition nor to the leases for which the underlying asset is of low value. Instead, the Group and the Company recognise the lease payments associated with those leases as an expense on the straight-line basis over the lease term.

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019****3. APPLICATIONS OF CIFRSs (continued)****3.3 Financial impact of first-time adoption of CIFRSs**

The tables below show the amounts of adjustments for each financial statement line item affected by the application of CIFRSs for the prior years.

(i) Impact on profit or loss

Company	Year ended 31 December 2018	
	US\$	KHR'000
Decrease in interest income (a)	(2,365,771)	(9,567,178)
Increase in interest expense (d, e)	(953,713)	(3,856,815)
Decrease in fee and commission income (j)	(1,229)	(4,970)
Decrease in fee and commission expense (j)	151	611
Decrease in net losses from other financial instruments at FVTPL (f)	264,137	1,068,170
Increase in other income (j)	2,868	11,598
Decrease/(increase) in impairment losses/(gains) on financial instruments (a)	1,293,593	5,231,290
Increase in personnel expenses (a)	(1,192,469)	(4,822,345)
Increase in depreciation and amortisation expenses (d)	(2,654,402)	(10,734,402)
Decrease in other expenses (d)	<u>3,209,409</u>	<u>12,978,850</u>
Decrease in profit before tax	(2,397,426)	(9,695,191)
Decrease in income tax expense (h)	<u>479,485</u>	<u>1,939,037</u>
Decrease in profit for the year	<u>(1,917,941)</u>	<u>(7,756,154)</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

3. APPLICATIONS OF CIFRSs (continued)

3.3 *Financial impact of first-time adoption of CIFRSs* (continued)

(ii) Impact on assets, liabilities, and equity

Company	Under previous GAAP	CIFRS adjustments	1 January 2018	
	US\$	US\$	US\$	KHR'000
Balances with the NBC (a)	41,260,115	4,021	41,264,136	166,583,317
Balances with other banks (a)	57,097,552	(62,047)	57,035,505	230,252,334
Loans to customers (a)	567,536,202	(3,333,887)	564,202,315	2,277,684,746
Investment securities (c)	-	20,000	20,000	80,740
Right-of-use assets (d)	-	13,225,717	13,225,717	53,392,220
Deferred tax assets (h)	1,269,418	749,456	2,018,874	8,150,194
Other assets (a, b, c, e)	9,349,972	(1,872,151)	7,477,821	30,187,964
Net impact on total assets		8,731,109		
Deposits from customers (e)	367,421,079	8,401,788	375,822,867	1,517,196,914
Borrowings (e)	156,384,184	19,064,808	175,448,992	708,287,581
Subordinated debts (e)	24,729,319	528,980	25,258,299	101,967,753
Derivative liabilities held for risk management (f)	-	358,020	358,020	1,445,327
Lease liabilities (d)	-	13,101,606	13,101,606	52,891,183
Provisions (g)	-	4,731	4,731	19,099
Amounts due to related party (b)	19,203,772	(19,203,772)	-	-
Provident benefits (b)	132,601	(132,601)	-	-
Other liabilities (b, e, f)	14,235,922	(10,394,629)	3,841,293	15,507,300
Net impact on total liabilities		11,728,931		
Reserves (i)	1,828,173	892,928	2,721,101	10,985,085
Retained earnings (i)	54,480,012	(3,890,750)	50,589,262	204,228,851
Net impact on total equity		(2,997,822)		
Net impact on total liabilities and equity		8,731,109		

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

3. APPLICATIONS OF CIFRSs (continued)

3.3 *Financial impact of first-time adoption of CIFRSs* (continued)

(ii) Impact on assets, liabilities, and equity (continued)

Company	Under previous	CIFRS	31 December 2018	
	GAAP	adjustments	US\$	KHR'000
	US\$	US\$	US\$	KHR'000
Balances with the NBC (a)	77,541,774	60,414	77,602,188	311,805,591
Balances with other banks (a)	39,210,636	383,679	39,594,315	159,089,958
Loans to customers (a)	747,005,064	(5,166,036)	741,839,028	2,980,709,215
Amount due from related Party (b)	14,692	(14,692)	-	-
Investment securities (c)	-	20,000	20,000	80,360
Right-of-use assets (d)	-	12,788,265	12,788,265	51,383,249
Deferred tax assets (h)	1,871,271	1,228,941	3,100,212	12,456,652
Other assets (a, b, c, e)	11,914,372	(3,975,495)	7,938,877	31,898,408
Net impact on total assets		5,325,076		
Deposits from customers (e)	480,093,541	11,259,849	491,353,390	1,974,257,921
Debt securities issued (e)	29,865,605	(540,353)	29,325,252	117,828,863
Borrowings (e)	192,384,932	(659,774)	191,725,158	770,351,685
Subordinated debts (e)	22,729,319	506,977	23,236,296	93,363,437
Derivative liabilities held for risk management (f)	-	27,794	27,794	111,676
Lease liabilities (d)	-	13,172,448	13,172,448	52,926,896
Provisions (g)	11,298	(7,699)	3,599	14,461
Amount due to related party (b)	135,322	(135,322)	-	-
Provident benefits (b)	12,580	(12,580)	-	-
Other liabilities (b, e, f)	18,498,255	(13,370,502)	5,127,753	20,603,312
Net impact on total liabilities		10,240,838		
Reserves (i)	1,975,214	2,413,972	4,389,186	16,210,599
Retained earnings (i)	75,102,399	(7,329,734)	67,772,665	273,735,718
Net impact on total equity		(4,915,762)		
Net impact on total liabilities and equity		5,325,076		

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

3. APPLICATIONS OF CIFRSs (continued)

3.3 Financial impact of first-time adoption of CIFRSs (continued)

- (a) CIFRS 9 resulted in recognition of financial assets measured at amortised cost. This resulted in decrease in other assets and impairment losses on financial instruments. For loans to customers measured at amortised cost resulted in decrease in interest income (loan fees which were fully recognised as part of interest income under previous GAAP). Loans provided to staff at below market rate resulted in increase in other assets, interest income and personnel expenses.
- (b) Amount due from related party is presented by inclusion in other assets. Amount due to related party and provident benefits are presented by inclusion in other liabilities.
- (c) CIFRS 9 resulted in recognition of financial assets measured at FVOCI. This resulted in decrease in other assets.
- (d) The application of CIFRS 16 to leases previously classified as operating leases under CAS 17 resulted in the recognition of right-of-use assets and leases liabilities. It resulted in a decrease in other expense and an increase in depreciation and amortisation expense and in interest expense.

On transition to CIFRS 16, the Group and the Company recognised right-of-use assets and lease liabilities. The impact on transition is summarised below:

	1 January 2018	
	US\$	KHR'000
Right-of-use assets	13,225,717	53,392,220
Prepayments	(124,111)	(501,037)
Lease liabilities	13,101,606	52,891,183

When measuring lease liabilities for leases that were classified as operating leases, the Group and the Company discounted lease payments using its incremental borrowing rate at 1 January 2018. The weighted average rate applied is 7.21% for rental buildings and 6.70% for ATM space.

	1 January 2018	
	US\$	KHR'000
Operating lease commitments as at 1 January 2018	19,032,370	76,833,678
Discounted using the lessee's incremental borrowing rate of at the date of initial application	15,287,830	61,716,970
Recognition exemption for leases with less than 12 months of lease term at transition	<u>(2,186,224)</u>	<u>(8,825,787)</u>
Lease liabilities recognised as at 1 January 2018	<u>13,101,606</u>	<u>52,891,183</u>
Of which are:		
Current lease liabilities	1,927,177	7,780,013
Non-current lease liabilities	<u>11,174,429</u>	<u>45,111,170</u>
	<u>13,101,606</u>	<u>52,891,183</u>

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

3. APPLICATIONS OF CIFRSs (continued)

3.3 Financial impact of first-time adoption of CIFRSs (continued)

(iii) Impact on assets, liabilities, and equity as at 31 December 2018 (continued)

- (e) CIFRS 9 resulted in recognition of financial liabilities measured at amortised cost. This resulted in decrease in other assets, other liabilities and Interest expense.
- (f) CIFRS 9 resulted in recognition of derivative measured at FVTPL where changes in fair value are recognised in net income from other financial instruments at FVTPL. It results in decrease in other liabilities.
- (g) CIFRS 9 resulted in recognition of expected credit loss for loan commitments. It resulted in increase in Impairment losses on financial instruments.
- (h) Application of CIAS12 resulted in recognition of deferred tax and decrease in income tax expense.
- (i) According to NBC's Prakas No. B7-017-344 on Credit Risk Grading and Impairment Provisioning, excess amount of impairment calculated in accordance with regulatory provision compared to the impairment calculated under CIFRS has to be transferred from retained earnings to regulatory reserve of shareholder's equity. This requirement resulted in increase in reserve and decrease in retained earnings.
- (j) Application of CIAS 21 resulted in change in value fee and commission income, fee and commission expense and other income.

(iii) Impact on statement of cash flows

Under CIFRS 16, lessee shall present:

- Short-term lease payments and payments for leases of low-value assets not included in the measurement of the lease liability as part of operating activities;
- Cash paid for the interest portion of lease liability as either operating activities or financing activities, as permitted by CIAS 7 (the Group and the Company have opted to include the interest paid as part of operating activities); and
- Cash payments for the principal portion for leases liability, as part of financing activities.

Under previous GAAP, all lease payments on operating leases were presented as part of cash flows from operating activities. Consequently, the net cash used in operating activities has decreased by US\$3,529,551 (31 December 2018: US\$3,125,801) and net cash generated in financing activities decreased by the same amount.

The adoption of CIFRSs did not have an impact on net cash flows.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 Interest

Effective interest rate (EIR)

Interest income and expense are recognised in profit or loss using the effective interest method. The "effective interest rate or EIR" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the EIR for financial instruments, the Group and the Company estimate future cash flows considering all contractual terms of the financial instrument, but not the expected credit losses (ECL).

The calculation of the EIR includes all fees paid or received between parties to the contract that are an integral part of the EIR, and transactions costs. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The "amortised cost" of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The "gross carrying amount of a financial asset" is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The EIR of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the EIR is applied to the gross carrying amount of the asset before adjusting for any expected credit loss allowance or to the amortised cost of the liability. The EIR is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted EIR to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation

Interest income calculated using the effective interest method presented in profit or loss includes interest on financial assets measured at amortised cost.

Interest expense presented in profit or loss includes financial liabilities measured at amortised cost.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.2 Fee and commission

Fee and commission income and expense include fees other than those that are an integral to the EIR on a financial asset or financial liability (Please refer to Note 4.1).

Fee and commission income, including referral fees, remittance fees, service charges and fees on deposit accounts, other fees and commissions on loans, and other fee income are recognised as the related services are performed.

Fee and commission expense relates mainly to transaction and service fees, and are accounted as the services received.

4.3 Net gains/losses from other financial instruments at fair value through profit or loss (FVTPL)

Net gains/losses from other financial instruments at FVTPL relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedging relationships, financial assets and financial liabilities designated as at FVTPL and also non-trading assets mandatorily measured at FVTPL. The line item includes fair value changes, interest, and foreign exchange differences.

4.4 Employee benefits

Provident benefits

The Group and the Company provide its employees upon completion of probationary period with provident benefits, being a defined contribution plan. The Group and the Company contribute 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 Group and the Company for three years or more is entitled to provident fund accumulated and interest earned in their saving accounts.

Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognised as personnel expenses in profit or loss.

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group and the Company have a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.5 Income tax

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

The Group and the Company have determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore has accounted for them under CIAS 37 Provisions, Contingent Liabilities and Contingent Assets and has recognised the related expenses in "other expenses".

Current tax

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognised for unused tax credits and deductible temporary differences 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.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group and the Company expect, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

4.6 Financial assets and financial liabilities

Recognition and initial measurement

The Group and the Company initially recognise balances with the NBC, balances with other banks, loans to customers, investment securities, deposits from customers, debt securities issued, derivatives held for risk management, borrowings, and subordinated debts on the date on which they are originated.

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

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6 Financial assets and financial liabilities (continued)

Classification and subsequent measurement

Financial assets

A financial asset is measured at amortised cost if it meets both of the following conditions:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

However, the Group and the Company may irrevocably elect to present subsequent changes in fair value in OCI at initial recognition of an equity investment that is not held for trading.

Business model assessment: The Group and the Company assess the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group and the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed; and
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected)

Assessment of whether contractual cash flows are solely payments of principal and interest: For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. In assessing whether the contractual cash flows that are SPPI, the Group and the Company consider the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Financial liabilities

The Group and the Company classify its financial liabilities as measured at amortised cost, except for derivatives held for risk management which are measured at FVTPL.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6 Financial assets and financial liabilities (continued)

Modification and derecognition

Financial assets

The Group and the Company derecognise a financial asset when the contractual rights to the cash flows from the financial asset expire. On derecognition of a financial asset, the difference between the carrying amount of the asset and the consideration received is recognised in profit or loss.

If the terms of a financial asset are modified, then the Group and the Company evaluate whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If the modification of a financial asset measured at amortised cost does not result in derecognition of the financial asset; then the Group and the Company first recalculate the gross carrying amount of the financial asset using the original EIR of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method.

Financial liabilities

The Group and the Company derecognise a financial liability when its contractual obligations are discharged or cancelled, or expire.

The Group and the Company derecognise a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original EIR and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original EIR used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the EIR on the instrument.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6 Financial assets and financial liabilities (continued)

Offsetting

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

Income and expenses are presented on a net basis only when permitted under CIFRS, or for gains and losses arising from a group of similar transactions.

Fair value measurement

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

When one is available, the Group and the Company measure the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as “active” if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then the Group and the Company use valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

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

Impairment

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets; and
- loan commitments: generally, as a provision.

For more details of impairment, refer to Note 36.1.4.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6 Financial assets and financial liabilities (continued)

Write-off

Loans are written off in full when there is no reasonable expectation of recovering a financial asset in its entirety thereof. This is generally the case when the Group and the Company determine that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in the 'Net impairment gains/(losses) on financial instruments' in profit or loss.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group and the Company's procedures for recovery of amounts due.

4.7 Cash and cash equivalents

Cash and cash equivalents consist cash on hand, unrestricted balances held with the NBC and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Group and the Company in the management of its short-term commitments.

4.8 Derivatives held for risk management

Derivatives held for risk management include all derivative assets and liabilities that are not classified as trading assets or liabilities and are not designated in a qualifying hedge relationship.

Derivatives held for risk management are measured at fair value in the statement of financial position at initial recognition. All changes in its fair value are recognised immediately in profit or loss as a component of 'Net income/loss from other financial instruments at FVTPL'.

4.9 Loans to customers

Loans to customers captioned in the statement of financial position represent loans measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

4.10 Investment securities

Investment securities captioned in the statement of financial position represents equity investment securities designated as at FVOCI. Changes in the fair value of investments in equity instruments are presented in OCI.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss in the 'Other income' line item, unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI (if any) are transferred to retained earnings on disposal of an investment.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.11 Property and equipment

Recognition and measurement

Items of property and equipment are measured 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.

Subsequent costs

Subsequent expenditure is capitalised only 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 Group and the Company. Ongoing repairs and maintenance are expensed as incurred.

Depreciation

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss.

The estimated useful lives of significant items of property and equipment are as follows:

	Useful lives
Leasehold improvement	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.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Fully depreciated items of property and equipment are retained in the statement of financial position until disposed of or written off.

4.12 Intangible assets

Intangible assets consist of software and licenses and are stated at cost less accumulated amortisation and accumulated impairment losses, if any.

Subsequent expenditure on software and licenses is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software and licenses are amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is five years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.13 Leases

The Group and the Company assess whether a contract is or contains a lease, at inception of a contract.

The Group and the Company recognise right-of-use assets and corresponding lease liabilities with respect to all lease agreements in which it is the lessee, except for leases of low value assets. For these leases, the Group and the Company recognise the lease payments as an operating expense on a straight-line basis over the term of the lease.

Lease liabilities

The lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using its incremental borrowing rate which is the rate of interest that the Group and the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use-asset in a similar economic environment.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments, less any lease incentives;
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liabilities are presented as a separate line in the statement of financial position.

The lease liabilities are subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group and the Company remeasure the lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever

- the lease term has changed in which case the lease liabilities are remeasured by discounting the revised lease payments using a revised discount rate.
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liabilities are remeasured by discounting the revised lease payments using a revised discount rate.

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and initial direct costs if any. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the statement of financial position.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.14 Impairment of non-financial assets

The carrying amounts of the Group and the Company's non-financial assets (other than deferred tax 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.

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").

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.

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

Impairment losses are recognised in profit and loss.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4.15 Deposits, debt securities issued, borrowings and subordinated debts

Deposits from customers, debt securities issued, borrowings and subordinated debts are the Group and the Company's sources of debt funding.

Deposits from customers, debt securities issued, borrowings and subordinated debts are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Subordinated debts are long-term debts that are junior in terms of principal repayment to other Group and the Company's debts. The subordinated debts which are approved by the NBC are included as a Tier II line item in the calculation of the Group and the Company's net worth in accordance with the guidelines of the NBC.

4.16 Provisions

Provisions are recognised if, as a result of a past event, the Group and the Company have 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 2019

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.17 Reserves

Legal reserves

Before acquisition by Krungsri, the Company's Articles of Incorporation required to transfer from retained earnings at 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.

Regulatory provisions and regulatory reserves

On 1 December 2017, NBC issued a Prakas No. B7-017-344 on Credit Risk Grading and Impairment Provisioning for ensuring appropriate recognition, measurement, provisioning and reporting of impaired facilities of the institutions.

Facilities under this Prakas is defined as all loans and other financial products, whether reported on balance sheet or off-balance sheet, provided by an Institution to a counterparty, which give rise to credit risk exposure on the Institution.

According to the Prakas, the Group and the Company are required to calculate the allowance for impaired facilities in accordance with the regulatory provision simultaneously with the calculation in accordance with 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.

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 Circular, the Group and the Company are required to calculate the allowance for impaired facilities in accordance with regulatory provision of which facilities are classified into five classes with provision rates as follows:

Classifications	Number of days past due	Allowance
<u>General allowance</u>		
<u>Short-term facilities (one year or less)</u>		
Normal	0-14 days	1%
<u>Long-term facilities (more than one year)</u>		
Normal	0-29 days	1%
<u>Specific allowance</u>		
<u>Short-term facilities (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 facilities (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%

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.17 Reserves (continued)

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

The allowance is calculated as a percentage of the facility amount outstanding at the time the facility is classified, excluding accrued interest.

Others reserves

From 9 December 2010, the Group and the Company are 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 Group and the Company to debit from that reserve account.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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 period in which the estimates are revised and in any future periods affected.

5.1 Critical judgments in applying the accounting policies

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements included the followings:

Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test (please see Note 4.6). The Group and the Company determine the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group and the Company monitor financial assets measured at amortised cost that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group and the Company's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

5.1 Critical judgments in applying the accounting policies (continued)

Significant increase of credit risk

As explained in Note 36.1.4, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. In assessing whether the credit risk of an asset has significantly increased the Group and the Company take into account qualitative and quantitative reasonable and supportable forward-looking information. Please refer to Note 36 for more details.

Establishing groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Group and the Company monitor the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used

The Group and the Company use various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

5.2 Key sources of estimation uncertainty

Information about key assumptions and estimation uncertainties that have the most significant effect on the amounts recognised in financial statements includes the followings:

Establishing the number and relative weightings of forward-looking scenarios for each type of product and determining the forward-looking information relevant to each scenario:

When measuring ECL the Group and the Company use reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Probability of default (PD)

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

5.2 Key sources of estimation uncertainty (continued)

Loss Given Default (LGD)

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Allowance for impaired facilities

The Group and the Company are 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 facilities 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.

Taxes

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 Group and 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.

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

6. BALANCES WITH THE NBC

Group and Company	31 December 2019		31 December 2018		1 January 2018	
	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000
Statutory deposits						
Capital guarantee deposit	11,531,305	46,990,068	7,521,072	30,219,667	3,003,502	12,125,138
Reserve requirement	49,524,943	201,814,143	39,883,312	160,251,148	30,103,471	121,527,712
	<u>61,056,248</u>	<u>248,804,211</u>	<u>47,404,384</u>	<u>190,470,815</u>	<u>33,106,973</u>	<u>133,652,850</u>
Current accounts	30,652,582	124,909,272	25,878,687	103,980,564	1,914,384	7,728,368
Negotiable Certificate of Deposit (NCD)	4,225,755	17,219,951	4,319,117	17,354,212	6,242,779	25,202,099
	<u>95,934,585</u>	<u>390,933,434</u>	<u>77,602,188</u>	<u>311,805,591</u>	<u>41,264,136</u>	<u>166,583,317</u>

7. BALANCES WITH OTHER BANKS

Balances with other banks are measured at amortised cost because these instruments meet the SPPI criterion and are held to collect the contractual cash flows.

Group and Company	31 December 2019		31 December 2018		1 January 2018	
	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000
Balance with other banks at amortised cost	9,672,795	39,416,639	39,632,860	159,244,832	57,100,131	230,513,229
Impairment loss allowance	(14,992)	(61,092)	(38,545)	(154,874)	(64,626)	(260,895)
	<u>9,657,803</u>	<u>39,355,547</u>	<u>39,594,315</u>	<u>159,089,958</u>	<u>57,035,505</u>	<u>230,252,334</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

7. BALANCES WITH OTHER BANKS (continued)

The above amounts are analysed as follows:

As at 31 December 2019

Group and Company	Gross carrying amount	ECL allowance	Carrying amount	
	US\$	US\$	US\$	KHR'000
Current accounts	4,505,799	(9,138)	4,496,661	18,323,893
Savings accounts	5,166,996	(5,854)	5,161,142	21,031,654
	<u>9,672,795</u>	<u>(14,992)</u>	<u>9,657,803</u>	<u>39,355,547</u>

As at 31 December 2018

Group and Company	Gross carrying amount	ECL allowance	Carrying amount	
	US\$	US\$	US\$	KHR'000
Current accounts	11,982,271	(3,123)	11,979,148	48,132,217
Savings accounts	19,669,518	(34,624)	19,634,894	78,893,004
Term deposits	7,981,071	(798)	7,980,273	32,064,737
	<u>39,632,860</u>	<u>(38,545)</u>	<u>39,594,315</u>	<u>159,089,958</u>

As at 1 January 2018

Group and Company	Gross carrying amount	ECL allowance	Carrying amount	
	US\$	US\$	US\$	KHR'000
Current accounts	20,635,240	(800)	20,634,440	83,301,234
Savings accounts	36,464,891	(63,826)	36,401,065	146,951,100
	<u>57,100,131</u>	<u>(64,626)</u>	<u>57,035,505</u>	<u>230,252,334</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

8. LOANS TO CUSTOMERS

Group and Company	31 December 2019		31 December 2018		1 January 2018	
	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000
Loans to customers at amortised cost	1,041,441,228	4,243,873,004	750,111,956	3,013,949,840	572,653,341	2,311,801,538
Impairment loss allowance	(5,168,298)	(21,060,814)	(8,272,928)	(33,240,625)	(8,451,026)	(34,116,792)
	<u>1,036,272,930</u>	<u>4,222,812,190</u>	<u>741,839,028</u>	<u>2,980,709,215</u>	<u>564,202,315</u>	<u>2,277,684,746</u>

The above amounts are analysed as follows:

As at 31 December 2019

Group and Company	Gross carrying amount	ECL allowance	Carrying amount	
	US\$	US\$	US\$	KHR'000
Individual loans				
External customers				
Mortgage lending	70,231,258	(408,332)	69,822,926	284,528,424
Personal lending	965,340,346	(4,755,800)	960,584,546	3,914,382,025
Staff loans	5,869,624	(4,166)	5,865,458	23,901,741
	<u>1,041,441,228</u>	<u>(5,168,298)</u>	<u>1,036,272,930</u>	<u>4,222,812,190</u>

As at 31 December 2018

Group and Company	Gross carrying amount	ECL allowance	Carrying amount	
	US\$	US\$	US\$	KHR'000
Individual loans				
External customers				
Mortgage lending	71,236,709	(399,158)	70,837,551	284,625,280
Personal lending	674,077,142	(7,864,504)	666,212,638	2,676,842,379
Staff loans	4,798,105	(9,266)	4,788,839	19,241,556
	<u>750,111,956</u>	<u>(8,272,928)</u>	<u>741,839,028</u>	<u>2,980,709,215</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

8. LOANS TO CUSTOMERS (continued)

As at 1 January 2018

Group and Company	Gross carrying amount	ECL allowance	Carrying amount	
	US\$	US\$	US\$	KHR'000
Individual loans				
External customers				
Mortgage lending	54,757,932	(264,788)	54,493,144	219,988,823
Personal lending	513,632,799	(8,178,008)	505,454,791	2,040,520,991
Staff loans	4,262,610	(8,230)	4,254,380	17,174,932
	<u>572,653,341</u>	<u>(8,451,026)</u>	<u>564,202,315</u>	<u>2,277,684,746</u>

9. INVESTMENT SECURITIES

The Group and the Company have designated investment in CMA as equity instrument at FVTOCI as the Group and the Company hold this investment in the long term. The table below shows this investment as well as dividend income recognised from the investment.

Fair value

Group and Company	31 December 2019		31 December 2018		1 January 2018	
	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000
Investment in CMA Investment	<u>20,000</u>	<u>81,500</u>	<u>20,000</u>	<u>80,360</u>	<u>20,000</u>	<u>80,740</u>

Dividend income

Group and Company	Year ended 31 December 2019		Year ended 31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Investment in CMA Investment	<u>23,576</u>	<u>95,436</u>	-	-

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

10. PROPERTY AND EQUIPMENT

Group and Company	Leasehold improvement US\$	Motor Vehicles US\$	Computer equipment US\$	Equipment US\$	Furniture and fixtures US\$	Work in progress US\$	Total	
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	KHR'000
Cost								
At 1 January 2019	2,028,458	2,817,715	5,192,431	5,538,063	705,237	38,632	16,320,536	65,575,913
Additions	233,124	351,040	603,404	394,017	101,628	573,848	2,257,061	9,145,611
Disposals	(37,171)	-	(126,144)	(92,338)	(5,505)	-	(261,158)	(1,058,212)
Transfers	18,851	-	371,178	185,479	4,458	(584,748)	(4,782)	(19,377)
Currency translation differences	-	-	-	-	-	-	-	976,068
At 31 December 2019	<u>2,243,262</u>	<u>3,168,755</u>	<u>6,040,869</u>	<u>6,025,221</u>	<u>805,818</u>	<u>27,732</u>	<u>18,311,657</u>	<u>74,620,003</u>
Less: Accumulated depreciation								
At 1 January 2019	1,586,760	1,931,929	3,803,058	4,253,887	596,268	-	12,171,902	48,906,702
Depreciation	280,260	376,552	796,535	675,116	68,236	-	2,196,699	8,901,024
Disposals	(35,427)	-	(125,677)	(91,464)	(5,505)	-	(258,073)	(1,045,712)
Currency translation differences	-	-	-	-	-	-	-	738,388
At 31 December 2019	<u>1,831,593</u>	<u>2,308,481</u>	<u>4,473,916</u>	<u>4,837,539</u>	<u>658,999</u>	<u>-</u>	<u>14,110,528</u>	<u>57,500,402</u>
Carrying amount								
At 31 December 2019	<u>411,669</u>	<u>860,274</u>	<u>1,566,953</u>	<u>1,187,682</u>	<u>146,819</u>	<u>27,732</u>	<u>4,201,129</u>	<u>17,119,601</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

10. PROPERTY AND EQUIPMENT (continued)

Group and Company	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 2018	1,705,553	2,579,695	3,984,311	5,072,632	593,527	85,491	14,021,209	56,603,621
Additions	291,592	238,020	559,800	254,192	85,666	935,036	2,364,306	9,563,618
Disposals	(14,302)	-	(32,230)	(17,732)	(715)	-	(64,979)	(262,840)
Transfers	45,615	-	680,550	228,971	26,759	(981,895)	-	-
Currency translation differences	-	-	-	-	-	-	-	(328,486)
At 31 December 2018	<u>2,028,458</u>	<u>2,817,715</u>	<u>5,192,431</u>	<u>5,538,063</u>	<u>705,237</u>	<u>38,632</u>	<u>16,320,536</u>	<u>65,575,913</u>
Less: Accumulated depreciation								
At 1 January 2018	1,269,164	1,552,313	3,208,531	3,493,713	538,504	-	10,062,225	40,621,203
Depreciation	331,898	379,616	626,690	777,906	58,479	-	2,174,589	8,796,213
Disposals	(14,302)	-	(32,163)	(17,732)	(715)	-	(64,912)	(262,569)
Currency translation differences	-	-	-	-	-	-	-	(248,145)
At 31 December 2018	<u>1,586,760</u>	<u>1,931,929</u>	<u>3,803,058</u>	<u>4,253,887</u>	<u>596,268</u>	<u>-</u>	<u>12,171,902</u>	<u>48,906,702</u>
Carrying amount								
At 31 December 2018	<u>441,698</u>	<u>885,786</u>	<u>1,389,373</u>	<u>1,284,176</u>	<u>108,969</u>	<u>38,632</u>	<u>4,148,634</u>	<u>16,669,211</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

11. RIGHT-OF-USE ASSETS

The Group and the Company lease its headquarters, branch offices and premises for public Automated Teller Machine (ATM).

31 December 2019

Group and Company	Buildings	ATM premises	Total	
	US\$	US\$	US\$	KHR'000
Cost				
At 1 January 2019	15,095,835	346,830	15,442,665	62,048,628
Additions	2,234,115	185,708	2,419,823	9,805,123
Reversals	(35,670)	(27,813)	(63,483)	(257,233)
Currency translation differences	-	-	-	934,427
At 31 December 2019	<u>17,294,280</u>	<u>504,725</u>	<u>17,799,005</u>	<u>72,530,945</u>
Less: Accumulated amortisation				
At 1 January 2019	2,540,401	113,999	2,654,400	10,665,379
Amortisation	2,718,626	177,668	2,896,294	11,735,783
Reversals	(12,974)	(19,972)	(32,946)	(133,497)
Currency translation differences	-	-	-	217,158
At 31 December 2019	<u>5,246,053</u>	<u>271,695</u>	<u>5,517,748</u>	<u>22,484,823</u>
Carrying amount				
At 31 December 2019	<u>12,048,227</u>	<u>233,030</u>	<u>12,281,257</u>	<u>50,046,122</u>

31 December 2018

	Buildings	ATM premises	Total	
	US\$	US\$	US\$	KHR'000
Cost				
At 1 January 2018	13,047,433	178,284	13,225,717	53,392,220
Additions	2,048,402	168,546	2,216,948	8,967,555
Currency translation differences	-	-	-	(311,147)
At 31 December 2018	<u>15,095,835</u>	<u>346,830</u>	<u>15,442,665</u>	<u>62,048,628</u>
Less: Accumulated amortisation				
At 1 January 2018	-	-	-	-
Amortisation	2,540,401	113,999	2,654,400	10,737,047
Currency translation differences	-	-	-	(71,668)
At 31 December 2018	<u>2,540,401</u>	<u>113,999</u>	<u>2,654,400</u>	<u>10,665,379</u>
Carrying amount				
At 31 December 2018	<u>12,555,434</u>	<u>232,831</u>	<u>12,788,265</u>	<u>51,383,249</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

12. INTANGIBLE ASSETS

31 December 2019

Group and Company	Software and licenses	Work in progress	Total	
	US\$	US\$	US\$	KHR'000
Cost				
At 1 January 2019	3,095,091	366,562	3,461,653	13,908,921
Additions	182,742	1,512,446	1,695,188	6,868,902
Disposals	(4,096)	-	(4,096)	(16,597)
Transfers	506,431	(501,649)	4,782	19,377
Currency translation differences	-	-	-	236,320
At 31 December 2019	<u>3,780,168</u>	<u>1,377,359</u>	<u>5,157,527</u>	<u>21,016,923</u>
Less: Accumulated amortisation				
At 1 January 2019	2,625,742	-	2,625,742	10,550,231
Amortisation	235,410	-	235,410	953,882
Disposals	(4,096)	-	(4,096)	(16,597)
Currency translation differences	-	-	-	154,988
At 31 December 2019	<u>2,857,056</u>	<u>-</u>	<u>2,857,056</u>	<u>11,642,504</u>
Carrying amount				
At 31 December 2019	<u>923,112</u>	<u>1,377,359</u>	<u>2,300,471</u>	<u>9,374,419</u>

31 December 2018

Group and Company	Software and licenses	Work in progress	Total	
	US\$	US\$	US\$	KHR'000
Cost				
At 1 January 2018	2,982,037	93,727	3,075,764	12,416,859
Additions	54,630	331,259	385,889	1,560,921
Transfers	58,424	(58,424)	-	-
Currency translation differences	-	-	-	(68,859)
At 31 December 2018	<u>3,095,091</u>	<u>366,562</u>	<u>3,461,653</u>	<u>13,908,921</u>
Less: Accumulated amortisation				
At 1 January 2018	2,464,038	-	2,464,038	9,947,321
Amortisation	161,704	-	161,704	654,093
Currency translation differences	-	-	-	(51,183)
At 31 December 2018	<u>2,625,742</u>	<u>-</u>	<u>2,625,742</u>	<u>10,550,231</u>
Carrying amount				
At 31 December 2018	<u>469,349</u>	<u>366,562</u>	<u>835,911</u>	<u>3,358,690</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

13. 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:

Group and Company	31 December 2019		31 December 2018		1 January 2018	
	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000
Deferred tax assets	6,141,196	25,025,373	5,397,699	21,687,955	4,556,262	18,393,630
Deferred tax liabilities	(2,238,513)	(9,121,940)	(2,297,487)	(9,231,303)	(2,537,388)	(10,243,436)
Net deferred tax assets	<u>3,902,683</u>	<u>15,903,433</u>	<u>3,100,212</u>	<u>12,456,652</u>	<u>2,018,874</u>	<u>8,150,194</u>

The movement of net deferred tax assets was as follows:

Group and Company	31 December 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
At the beginning of year	3,100,212	12,456,652	2,018,874	8,150,194
Credited to profit or loss	802,471	3,251,613	1,081,338	4,374,012
Currency translation differences	-	195,168	-	(67,554)
At the end of year	<u>3,902,683</u>	<u>15,903,433</u>	<u>3,100,212</u>	<u>12,456,652</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

13. INCOME TAX (continued)

(a) Deferred tax assets, net (continued)

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

Group and Company	31 December 2019		31 December 2018		1 January 2018	
	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000
Depreciation and amortisation	(2,174,955)	(8,862,942)	(2,281,743)	(9,168,043)	(2,408,063)	(9,721,350)
Unrealised exchange gains	(63,558)	(258,999)	(15,744)	(63,259)	(129,325)	(522,085)
Lease liabilities	2,601,042	10,599,246	2,634,490	10,585,381	2,620,321	10,578,236
Deferred fee income	2,153,719	8,776,405	1,616,115	6,493,550	853,035	3,443,702
Impairment loss allowances	712,214	2,902,272	1,078,868	4,334,892	949,088	3,831,468
Fair value losses	367,867	1,499,058	8,308	33,382	61,136	246,806
Provident benefits	251,183	1,023,571	1,762	7,080	26,479	106,896
Bonuses and unused leaves	39,584	161,305	42,569	171,040	30,616	123,596
Unused tax credits	15,587	63,517	15,587	62,629	15,587	62,925
	<u>3,902,683</u>	<u>15,903,433</u>	<u>3,100,212</u>	<u>12,456,652</u>	<u>2,018,874</u>	<u>8,150,194</u>

(b) Current income tax liabilities

Group and Company	31 December 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
At the beginning of year	4,862,542	19,537,694	3,510,009	14,169,906
Current income tax expense	4,178,959	16,933,142	5,889,111	23,821,454
Current income tax paid	(6,408,602)	(25,967,655)	(4,536,578)	(18,350,458)
Currency translation differences	-	225,882	-	(103,208)
At the end of year	<u>2,632,899</u>	<u>10,729,063</u>	<u>4,862,542</u>	<u>19,537,694</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

13. INCOME TAX (continued)

(c) Income tax expense

Group and Company	Year ended 31 December 2019		Year ended 31 December 2018	
	US\$	KHR'000	US\$	KHR'000
	Current income tax	4,178,959	16,933,142	5,889,111
Deferred tax	(802,471)	(3,251,613)	(1,081,338)	(4,374,012)
Income tax expense	<u>3,376,488</u>	<u>13,681,529</u>	<u>4,807,773</u>	<u>19,447,442</u>

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

Group	Year ended 31 December 2019		Year ended 31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Profit before income tax	35,492,157	143,814,220	23,659,261	95,701,713
Income tax using statutory rate 20%	7,098,431	28,762,842	4,731,852	19,140,341
Tax effect of:				
Non-deductible expenses	125,532	508,656	74,423	301,042
Taxable losses of subsidiary	1,895	7,679	-	-
Under provision in prior year	164,794	667,745	1,498	6,059
Impact of tax incentive	(4,014,164)	(16,265,393)	-	-
Income tax expense	<u>3,376,488</u>	<u>13,681,529</u>	<u>4,807,773</u>	<u>19,447,442</u>

Company	Year ended 31 December 2019		Year ended 31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Profit before income tax	35,501,632	143,852,612	23,659,261	95,701,713
Income tax using statutory rate 20%	7,100,326	28,770,521	4,731,852	19,140,341
Tax effect of on-deductible expenses	125,532	508,656	74,423	301,042
Under provision in prior year	164,794	667,745	1,498	6,059
Impact of tax incentive	(4,014,164)	(16,265,393)	-	-
Income tax expense	<u>3,376,488</u>	<u>13,681,529</u>	<u>4,807,773</u>	<u>19,447,442</u>

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

13. INCOME TAX (continued)

(c) Income tax expense (continued)

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.

Based on ANUKRET on Tax Incentive in CSX, HKL is entitled to reduce half amount of its tax on income within the duration of tax incentive period. In order to get the incentives, HKL needs to submit the request to the General Department of Taxation (GDT) through the Securities and Exchange Commission of Cambodia (SECC). On 20 December 2019, the Company received the letter from SECC informing that the request was submitted to GDT. The Company has issued a clarification letter to GDT regarding the approval on tax incentive. On 23 March 2020, the Company received the approval from the GDT on the tax incentives and thus reduced half of its tax on income for the fiscal year 2019.

For fiscal years 2020 and 2021, the Company shall implement new Prakas No. 183 on Implementation Guidelines on Tax Incentives on Tax on Income to New Securities Issuing Enterprises issued by the Ministry of Economy and Finance, please see Note 40.

14. OTHER ASSETS

Group	31 December 2019		31 December 2018		1 January 2018	
	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000
Deposits for purchase of land	17,661,416	71,970,270	-	-	-	-
Amounts due from related party (*)	-	-	945	3,797	5,460,151	22,042,630
Deferred employee expense	7,013,693	28,580,799	5,729,783	23,022,268	1,226,993	4,953,371
Deposits for leases of offices and ATM premises	1,356,808	5,528,993	1,298,844	5,218,755	473,956	1,913,360
Prepaid maintenance services	381,799	1,555,831	428,852	1,723,127	316,721	1,278,603
Other receivables	1,652,800	6,735,161	480,453	1,930,461	-	-
	<u>28,066,516</u>	<u>114,371,054</u>	<u>7,938,877</u>	<u>31,898,408</u>	<u>7,477,821</u>	<u>30,187,964</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

14. OTHER ASSETS (continued)

Company	31 December 2019		31 December 2018		1 January 2018	
	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000
Amounts due from related party (*)	17,666,066	71,989,219	945	3,797	5,460,151	22,042,630
Deferred employee expense	7,013,693	28,580,799	5,729,783	23,022,268	1,226,993	4,953,371
Deposits for leases of offices and ATM premises	1,356,808	5,528,993	1,298,844	5,218,755	473,956	1,913,360
Prepaid maintenance services	381,799	1,555,831	428,852	1,723,127	316,721	1,278,603
Other receivables	1,653,310	6,737,239	480,453	1,930,461	-	-
	<u>28,071,676</u>	<u>114,392,081</u>	<u>7,938,877</u>	<u>31,898,408</u>	<u>7,477,821</u>	<u>30,187,964</u>

(*) The related party transactions resulted in the amount due from related parties were carried out on negotiated commercial terms and conditions.

15. DEPOSITS FROM CUSTOMERS

Group	31 December 2019		31 December 2018		1 January 2018	
	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000
At amortised cost:						
Savings deposits	142,895,495	582,299,143	89,038,151	357,755,291	45,676,180	184,394,739
Term deposits	467,202,832	1,903,851,540	402,315,239	1,616,502,630	330,146,687	1,332,802,175
	<u>610,098,327</u>	<u>2,486,150,683</u>	<u>491,353,390</u>	<u>1,974,257,921</u>	<u>375,822,867</u>	<u>1,517,196,914</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

15. DEPOSITS FROM CUSTOMERS (continued)

Company	31 December 2019		31 December 2018		1 January 2018	
	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000
At amortised cost:						
Savings deposits	142,896,495	582,303,218	89,038,151	357,755,291	45,676,180	184,394,739
Term deposits	467,202,832	1,903,851,540	402,315,239	1,616,502,630	330,146,687	1,332,802,175
	<u>610,099,327</u>	<u>2,486,154,758</u>	<u>491,353,390</u>	<u>1,974,257,921</u>	<u>375,822,867</u>	<u>1,517,196,914</u>

16. DEBT SECURITIES ISSUED

Group and Company	31 December 2019		31 December 2018		1 January 2018	
	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000
Debt securities issued at amortised cost	<u>29,196,072</u>	<u>118,973,993</u>	<u>29,325,252</u>	<u>117,828,863</u>	-	-

On 1 August 2018, HKL obtained an approval letter from the NBC on the corporate bond issuance.

On 1 November 2018, HKL received a final approval and registration from the Securities and Exchange Commission of Cambodia ("SECC") on the Single Submission Form and the Disclosure Document for its Public Offering of HKL's Corporate Bond. The Bond was issued to the investors on 14 November 2018.

On 5 December 2018, HKL was successfully listed on the Cambodia Securities Exchange ("CSX"). It is the first company to list its corporate bond on the CSX.

The First Cambodian Corporate Bond issued by HKL offers in an aggregate total principal amount of KHR 120 billion. The Bonds have a tenor of 3 years with the coupon rate of 8.50% per annum.

HKL did not have any defaults of principal or interest or other breaches with respect to its debt securities during the year.

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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17. BORROWINGS

Group and Company	31 December 2019		31 December 2018		1 January 2018	
	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000
At amortised cost						
Floating rate	47,403,299	193,168,443	74,434,122	299,076,302	38,339,820	154,777,853
Fixed rate	264,082,683	1,076,136,934	117,291,036	471,275,383	137,109,172	553,509,728
	<u>311,485,982</u>	<u>1,269,305,377</u>	<u>191,725,158</u>	<u>770,351,685</u>	<u>175,448,992</u>	<u>708,287,581</u>

HKL did not have any defaults of principal or interest or other breaches with respect to its borrowings during the year.

18. SUBORDINATED DEBTS

Group and Company	31 December 2019		31 December 2018		1 January 2018	
	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000
At amortised cost						
Floating rate	5,047,841	20,569,952	10,104,516	40,599,945	10,135,651	40,917,623
Fixed rate	6,927,080	28,227,851	13,131,780	52,763,492	15,122,648	61,050,130
	<u>11,974,921</u>	<u>48,797,803</u>	<u>23,236,296</u>	<u>93,363,437</u>	<u>25,258,299</u>	<u>101,967,753</u>

Repayment of subordinated debts shall be subordinate and junior to other senior obligations of the HKL and be subject to prior approval from the National Bank of Cambodia.

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

19. DERIVATIVES HELD FOR RISK MANAGEMENT

Group and Company	31 December 2019		31 December 2018		1 January 2018	
	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000
At fair value						
Interest rate	1,868,132	7,612,638	27,794	111,676	358,020	1,445,327
Foreign exchange	19,452	79,267	-	-	-	-
	<u>1,887,584</u>	<u>7,691,905</u>	<u>27,794</u>	<u>111,676</u>	<u>358,020</u>	<u>1,445,327</u>

HKL uses the above derivatives to manage its exposure to foreign currency and interest rate risk. The instruments used principally include interest rate swaps and currency swaps.

20. LEASE LIABILITIES

Maturity analysis:

Group and Company	31 December 2019		31 December 2018		1 January 2018	
	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000
No later than 1 year	3,427,479	13,966,977	3,233,448	12,991,994	2,809,522	11,342,040
Later than 1 year and no later than 5 years	9,581,177	39,043,296	9,314,922	37,427,357	9,054,644	36,553,598
Later than 5 years	<u>3,112,002</u>	<u>12,681,409</u>	<u>3,968,578</u>	<u>15,945,745</u>	<u>4,945,100</u>	<u>19,963,368</u>
	16,120,658	65,691,682	16,516,948	66,365,096	16,809,266	67,859,006
Less: unearned interest	<u>(3,115,448)</u>	<u>(12,695,451)</u>	<u>(3,344,500)</u>	<u>(13,438,200)</u>	<u>(3,707,660)</u>	<u>(14,967,823)</u>
	<u>13,005,210</u>	<u>52,996,231</u>	<u>13,172,448</u>	<u>52,926,896</u>	<u>13,101,606</u>	<u>52,891,183</u>

Analysed as:

Group and Company	31 December 2019		31 December 2018		1 January 2018	
	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000
Current	2,543,796	10,365,969	2,354,436	9,460,124	1,927,177	7,780,014
Non-current	<u>10,461,414</u>	<u>42,630,262</u>	<u>10,818,012</u>	<u>43,466,772</u>	<u>11,174,429</u>	<u>45,111,169</u>
	<u>13,005,210</u>	<u>52,996,231</u>	<u>13,172,448</u>	<u>52,926,896</u>	<u>13,101,606</u>	<u>52,891,183</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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21. PROVISIONS

Group and Company	31 December 2019		31 December 2018		1 January 2018	
	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000
Loan commitments	2,717	11,072	3,599	14,461	4,731	19,099

The amount in respect of loan commitments represents ECL provisions.

22. OTHER LIABILITIES

Group	31 December 2019		31 December 2018		1 January 2018	
	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000
Amounts due to related party (*)	40,080,966	163,329,936	135,322	543,724	139,466	563,024
Short-term employee benefits	4,767,591	19,427,933	3,165,403	12,718,589	2,463,382	9,944,673
Provident benefits	1,266,489	5,160,943	12,580	50,546	132,601	535,310
Creditors and accruals	526,472	2,145,373	674,450	2,709,940	592,014	2,389,961
Others	1,542,567	6,285,961	1,139,998	4,580,513	513,830	2,074,332
	48,184,085	196,350,146	5,127,753	20,603,312	3,841,293	15,507,300

Company	31 December 2019		31 December 2018		1 January 2018	
	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000
Amounts due to related party (*)	40,080,966	163,329,936	135,322	543,724	139,466	563,024
Short-term employee benefits	4,767,591	19,427,933	3,165,403	12,718,589	2,463,382	9,944,673
Provident benefits	1,266,489	5,160,943	12,580	50,546	132,601	535,310
Creditors and accruals	521,647	2,125,712	674,450	2,709,940	592,014	2,389,961
Others	1,542,567	6,285,961	1,139,998	4,580,513	513,830	2,074,332
	48,179,260	196,330,485	5,127,753	20,603,312	3,841,293	15,507,300

(*) The related party transactions resulted in the amounts due to related parties were carried out on negotiated commercial terms and conditions. This includes the amount of US\$40 million for capital injection by the parent company in order to increase the Company's share capital to US\$115 million, which was subsequently approved by the Ministry of Commerce on 11 February 2020.

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

23. SHARE CAPITAL

Group and Company	31 December 2019		31 December 2018		1 January 2018	
	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000
Registered, issued and fully paid ordinary share of US\$1 each	75,000,000	305,625,000	75,000,000	301,350,000	30,000,000	121,110,000

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

On 10 May 2019, HKL requested for approval from the NBC for increasing share capital by US\$40 million from US\$75 million to US\$115 million by converting from retained earnings. The request was approved by the NBC on 19 June 2019.

However, the BoD decided and approved to inject fresh capital amount US\$40 million rather than to convert it from retained earnings in order to benefit from strong capital base for future growth of HKL. This request was approved by the NBC on 7 October 2019.

On 11 February 2020, the Ministry of Commerce approved the amended Memorandum of Articles of Incorporation of the Company with share capital of US\$115 million.

24. RESERVES

Group	31 December 2019		31 December 2018		1 January 2018	
	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000
Legal reserves	682,459	2,781,020	682,459	2,742,120	682,459	2,755,087
Regulatory reserves	6,724,489	27,402,293	2,413,972	9,699,339	892,928	3,604,750
Other reserves	1,411,444	5,751,634	1,292,755	5,194,290	1,145,714	4,625,248
Currency translation differences	-	4,499,831	-	(1,425,150)	-	-
	<u>8,818,392</u>	<u>40,434,778</u>	<u>4,389,186</u>	<u>16,210,599</u>	<u>2,721,101</u>	<u>10,985,085</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

24. RESERVES (continued)

Company	31 December 2019		31 December 2018		1 January 2018	
	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000
Legal reserves	682,459	2,781,020	682,459	2,742,120	682,459	2,755,087
Regulatory reserves	6,724,489	27,402,293	2,413,972	9,699,339	892,928	3,604,750
Other reserves	1,411,444	5,751,634	1,292,755	5,194,290	1,145,714	4,625,248
Currency translation differences	-	4,500,049	-	(1,425,150)	-	-
	<u>8,818,392</u>	<u>40,434,996</u>	<u>4,389,186</u>	<u>16,210,599</u>	<u>2,721,101</u>	<u>10,985,085</u>

25. NET INTEREST INCOME

Group and Company	Year ended 31 December 2019		Year ended 31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Interest income				
Balances with the NBC	129,014	522,765	106,246	429,765
Balances with other banks	160,269	649,410	107,078	433,131
Loans to customers	<u>141,671,348</u>	<u>574,052,302</u>	<u>110,381,623</u>	<u>446,493,665</u>
	<u>141,960,631</u>	<u>575,224,477</u>	<u>110,594,947</u>	<u>447,356,561</u>
Interest expense				
Deposits from customers	35,704,793	144,675,821	27,079,948	109,538,390
Borrowings	18,069,068	73,215,864	15,787,796	63,861,635
Debt securities issued	2,791,510	11,311,199	356,960	1,443,903
Subordinated debts	1,959,072	7,938,160	2,692,680	10,891,891
Lease liabilities	<u>973,027</u>	<u>3,942,704</u>	<u>979,693</u>	<u>3,962,857</u>
	<u>59,497,470</u>	<u>241,083,748</u>	<u>46,897,077</u>	<u>189,698,676</u>
Net interest income	<u>82,463,161</u>	<u>334,140,729</u>	<u>63,697,870</u>	<u>257,657,885</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

26. NET FEE AND COMMISSION INCOME

Group and Company	Year ended 31 December 2019		Year ended 31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Fee and commission income				
Loan servicing fees	2,911,328	11,796,701	2,009,337	8,127,768
Referral fees	1,493,578	6,051,978	587,819	2,377,728
Service charges on deposit accounts	240,054	972,699	291,863	1,180,586
Remittance fees	124,569	504,754	118,848	480,740
Other fee income	139,978	567,190	250,126	1,011,760
	<u>4,909,507</u>	<u>19,893,322</u>	<u>3,257,993</u>	<u>13,178,582</u>
Fee and commission expense				
Bank charges	234,585	950,539	228,508	924,316
Borrowing fees	384,481	1,557,917	416,072	1,683,011
Referral fees	55,556	225,113	50,476	204,175
Debt securities fees	18,172	73,633	2,386	9,651
Subordinated debts fees	5,238	21,224	5,211	21,078
	<u>698,032</u>	<u>2,828,426</u>	<u>702,653</u>	<u>2,842,231</u>
Net fee and commission income	<u>4,211,475</u>	<u>17,064,896</u>	<u>2,555,340</u>	<u>10,336,351</u>

27. NET LOSSES/(GAINS) FROM OTHER FINANCIAL INSTRUMENTS AT FVTPL

Group and Company	Year ended 31 December 2019		Year ended 31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Interest rate	1,945,858	7,884,617	190,166	769,221
Foreign exchange	19,452	78,819	-	-
	<u>1,965,310</u>	<u>7,963,436</u>	<u>190,166</u>	<u>769,221</u>

28. OTHER INCOME

Group and Company	Year ended 31 December 2019		Year ended 31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Dividend on equity securities measured at FVTOCI	23,576	95,530	-	-
Foreign exchange gains	113,151	458,488	106,023	428,863
Other income	91,548	370,952	67,794	274,227
	<u>228,275</u>	<u>924,970</u>	<u>173,817</u>	<u>703,090</u>

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019****29. NET IMPAIRMENT (GAINS)/LOSSES ON FINANCIAL INSTRUMENTS**

Group and Company	Year ended 31 December 2019		Year ended 31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Balances with other banks	(23,725)	(96,134)	(26,108)	(105,607)
Loans to customers (*)	(80,627)	(326,701)	3,645,732	14,746,986
Loan commitments	(872)	(3,533)	(1,136)	(4,595)
	<u>(105,224)</u>	<u>(426,368)</u>	<u>3,618,488</u>	<u>14,636,784</u>

(*) This includes the recoveries of loans previously written off amounting to US\$1,024,481 (31 December 2018: US\$532,050)

30. PERSONNEL EXPENSES

Group and Company	Year ended 31 December 2019		Year ended 31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Salaries and bonuses	28,961,411	117,351,637	22,217,354	89,869,197
Provident benefits	1,272,460	5,156,008	917,013	3,709,318
Seniority payments	1,302,260	5,276,758	11,836	47,877
Other personnel expenses	2,847,303	11,537,272	2,636,931	10,666,385
	<u>34,383,434</u>	<u>139,321,675</u>	<u>25,783,134</u>	<u>104,292,777</u>

31. DEPRECIATION AND AMORTISATION

Group and Company	Year ended 31 December 2019		Year ended 31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Property and equipment	2,196,699	8,901,024	2,174,589	8,796,213
Right-of-use assets	2,896,294	11,735,783	2,654,400	10,737,047
Intangible assets	235,410	953,882	161,704	654,093
	<u>5,328,403</u>	<u>21,590,689</u>	<u>4,990,693</u>	<u>20,187,353</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

32. OTHER EXPENSES

Group	Year ended 31 December 2019		Year ended 31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Travelling and transportation	2,155,905	8,735,727	1,817,535	7,351,929
Repairs and maintenance	1,435,331	5,815,961	1,156,365	4,677,496
Marketing and advertising	1,072,202	4,344,563	713,064	2,884,344
Professional services	815,432	3,304,130	202,005	817,110
Utilities	743,146	3,011,228	681,436	2,756,409
License fee, patent and other taxes	733,713	2,973,005	753,679	3,048,632
Office supplies and non- capitalised purchases	724,438	2,935,423	627,705	2,539,067
Security	719,341	2,914,770	687,980	2,782,879
Communication	664,551	2,692,761	543,226	2,197,349
Leases and rental	426,345	1,727,550	569,081	2,301,933
Board fees and meetings	98,967	401,014	107,313	434,081
Others	249,460	1,010,811	325,896	1,318,249
	<u>9,838,831</u>	<u>39,866,943</u>	<u>8,185,285</u>	<u>33,109,478</u>

Company	Year ended 31 December 2019		Year ended 31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Travelling and transportation	2,155,905	8,735,727	1,817,535	7,351,929
Repairs and maintenance	1,435,331	5,815,961	1,156,365	4,677,496
Marketing and advertising	1,072,202	4,344,563	713,064	2,884,344
Professional services	808,344	3,275,410	202,005	817,110
Utilities	743,146	3,011,228	681,436	2,756,409
License fee, patent and other taxes	733,713	2,973,005	753,679	3,048,632
Office supplies and non- capitalised purchases	724,438	2,935,423	627,705	2,539,067
Security	719,341	2,914,770	687,980	2,782,879
Communication	664,551	2,692,761	543,226	2,197,349
Leases and rental	426,345	1,727,550	569,081	2,301,933
Board fees and meetings	98,967	401,014	107,313	434,081
Others	247,073	1,001,139	325,896	1,318,249
	<u>9,829,356</u>	<u>39,828,551</u>	<u>8,185,285</u>	<u>33,109,478</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

33. ADDITIONAL INFORMATION FOR STATEMENT OF CASH FLOWS

(a) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise:

Group and Company	31 December 2019		31 December 2018		1 January 2018	
	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000
Cash on hand	34,190,445	139,326,063	37,211,155	149,514,421	9,923,604	40,061,589
Balances with the NBC	34,841,661	141,979,769	30,158,462	121,176,700	8,156,644	32,928,372
Balances with other banks	9,668,524	39,399,235	39,606,703	159,139,733	57,097,552	230,502,817
	<u>78,700,630</u>	<u>320,705,067</u>	<u>106,976,320</u>	<u>429,830,854</u>	<u>75,177,800</u>	<u>303,492,778</u>

(b) Changes in liabilities arising from financing activities

Group and Company	At the beginning of the year	Proceeds from issuance	Repayments	Accrued interest	Interest paid	Other non-cash items	At the end of the year
At 31 Dec 2019							
Debt securities issued	29,325,252	-	-	2,791,510	(2,502,938)	(417,752)	29,196,072
Borrowings	191,725,158	184,816,851	(65,787,097)	18,069,068	(17,833,338)	495,340	311,485,982
Subordinated debts	23,236,296	-	(11,000,000)	1,959,072	(2,220,447)	-	11,974,921
Lease liabilities	13,172,448	-	(3,556,570)	-	-	3,389,332	13,005,210
Total	<u>257,459,154</u>	<u>184,816,851</u>	<u>(80,343,667)</u>	<u>22,819,650</u>	<u>(22,556,723)</u>	<u>3,466,920</u>	<u>365,662,185</u>
In KHR'000 equivalents	<u>1,049,146,053</u>	<u>753,128,668</u>	<u>(327,400,443)</u>	<u>92,990,074</u>	<u>(91,918,646)</u>	<u>14,127,699</u>	<u>1,490,073,404</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

33. ADDITIONAL INFORMATION FOR STATEMENT OF CASH FLOWS (continued)

(b) Changes in liabilities arising from financing activities (continued)

Group and Company	At the beginning of the year	Proceeds from issuance	Repayments	Accrued interest	Interest paid	Other non-cash items	At the end of the year
At 31 Dec 2018							
Debt securities issued	-	29,865,605	-	356,960	(897,313)	-	29,325,252
Borrowings	175,448,992	107,340,023	(90,388,773)	15,787,796	(16,512,378)	49,498	191,725,158
Subordinated debts	25,258,299	-	(2,000,000)	2,692,680	(2,714,683)	-	23,236,296
Lease liabilities	13,101,606	-	(3,122,468)	-	-	3,193,310	13,172,448
Total	213,808,897	137,205,628	(95,511,241)	18,837,436	(20,124,374)	3,242,808	257,459,154
In KHR'000 equivalents	859,084,148	551,292,213	(383,764,166)	75,688,818	(80,859,735)	13,029,603	1,034,470,881

(c) Realised and unrealised gains/(losses) on foreign exchanges

In preparing the statement of cash flows, realised gains/(losses) on foreign exchanges are based on a cash basis. Unrealised gains/(losses) on foreign exchanges are based on the translation differences of assets and liabilities in foreign currencies as described in the accounting policies. It is presented as an adjustment to reconcile the profit before tax to cash received/(paid) from operating activities.

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

34. RELATED PARTIES

(a) Related parties and relationships

The related parties of and their relationships with the Group and 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
Hattha Services Co., Ltd.	Subsidiary of HKL
Affiliates	All entities under the same ultimate parent company
Board of Directors	Persons overseeing the activities of the Group and the Company.
Key management personnel	The key management personnel are those participating in the administration, direction, management or the design and implementation of the internal controls of the Group and the Company. The key management personnel of the Group and the Company include all EXCOM members appointed by the BoD.

(b) Directors and key management compensation

Group and Company	Year ended 31 December 2019		Year ended 31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Board of Directors				
Fees and related expenses	<u>98,967</u>	<u>401,014</u>	<u>107,313</u>	<u>434,081</u>
Key management				
Salaries and short-term benefits	1,912,610	7,749,896	2,041,874	8,259,380
Provident benefits	<u>94,467</u>	<u>382,780</u>	<u>96,311</u>	<u>389,578</u>
	<u>2,007,077</u>	<u>8,132,676</u>	<u>2,138,185</u>	<u>8,648,958</u>
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
	US\$	KHR'000	US\$	KHR'000
Provident benefits payable	<u>94,190</u>	<u>383,824</u>	<u>-</u>	<u>-</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

34. RELATED PARTIES (continued)

(c) Loans to key management and interest income

Group and Company	31 December 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Loans outstanding to key management	470,249	1,916,265	678,673	2,726,908

Loans are provided to key management of the Group and the Company with interest rate at 8% per annum (2018: 8% per annum).

Group and Company	Year ended 31 December 2019		Year ended 31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Interest income from key management	43,714	177,129	48,305	195,394

(d) Deposits from and interest expense to key management

Group and Company	31 December 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Deposits from key management	2,054,009	8,370,087	1,193,205	4,794,298

Deposits from key management of the Group and the Company bear interest rates ranging from 2.5% to 10% per annum (2018: 2.5% to 10% per annum) depending on the terms and currency of the deposits.

Group and Company	Year ended 31 December 2019		Year ended 31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Interest expense to key management	71,457	289,544	106,989	432,771

(e) Deposits from and interest expense to Directors

Group and Company	31 December 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Deposits from BoD	4,607,061	18,773,774	1,600,485	6,430,749

Deposits from the BoD of the Group and the Company bear interest rates ranging from 2.5% to 8.7% per annum (2018: from 2.5% to 9.7% per annum) depending on the terms and currency of deposits.

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

34. RELATED PARTIES (continued)

(e) Deposits from and interest expense to Directors (continued)

Group and Company	Year ended 31 December 2019		Year ended 31 December 2018	
	US\$	KHR'000	US\$	KHR'000
	Interest expense to the Board of Directors	129,129	523,231	183,979

(f) Office rental from key management

Group and Company	Year ended 31 December 2019		Year ended 31 December 2018	
	US\$	KHR'000	US\$	KHR'000
	Office rental expenses	67,920	275,212	46,920

(g) Transactions and balances with shareholder and affiliate

(i) Transactions with shareholder and affiliate

Group and Company	Year ended 31 December 2019		Year ended 31 December 2018	
	US\$	KHR'000	US\$	KHR'000
	<i>Shareholder</i>			
Proceeds received for capital injection	40,000,000	162,080,000	45,000,000	182,025,000
Repayment of borrowings via IFC (*)	(5,714,286)	(23,154,287)	(5,714,286)	(23,114,287)
Proceeds received for borrowings from Krungsri	30,000,000	121,560,000	8,000,000	32,360,000
Repayment of borrowings from Krungsri	(10,000,000)	(40,520,000)	(27,000,000)	(109,215,000)
Interest and fee expenses	(1,855,750)	(7,519,499)	(2,480,360)	(10,033,056)

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

34. RELATED PARTIES (continued)

(g) Transactions and balances with shareholder and affiliate (continued)

(ii) *Balances with shareholder and affiliate*

Group and Company	31 December 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
<i>Shareholder</i>				
Interest payable on interest rate SWAP	28,868	117,637	-	-
Interest receivable on interest rate SWAP	74	302	13,747	55,235
Amount payable on payment on behalf of HKL's expense	80,132	326,538	81,380	326,985
Borrowing via IFC (*)	8,571,429	34,928,573	14,285,714	57,399,999
Interest payable on borrowing via IFC	83,067	338,498	155,827	626,113
Commitment given on interest rate SWAP (**)	132,857,429	541,394,023	85,285,714	342,677,999
Commitment received on interest rate SWAP (**)	(132,857,429)	(541,394,023)	(85,285,714)	(342,677,999)
Interest and fee payable on borrowing	20,000,000	81,500,000	3,889	15,626
Amount receivable on payment on behalf of Krungsri's expense	833	3,394	945	3,797

Group and Company	31 December 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
<i>Affiliate:</i>				
Amount payable on <i>Ngern Tid Lor Co., Ltd's</i> payment on behalf of HKL's expense	-	-	50,054	201,117
Amount receivable from Hattha Services Co., Ltd	17,666,066	71,989,219	-	-

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

(**) On 12 January 2017, the Group and the Company entered into agreements with Krungsri for interest rate swap totalling US\$54 million, effective from 15 May 2017. On 7 February 2018, the Group and the Company entered into another agreement with Krungsri for interest rate swap of US\$55 million, effective from 23 February 2018. On 24 December 2019, the Group and the Company entered into another agreement with Krungsri for interest swap of US\$80 million, effective from 27 December 2019. This is to manage the Group and the Company's exposure to interest rate risk on its floating interest rate borrowings and to keep Book Value to Equity (BVE) within the acceptable limits as required by the BoD.

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019****35. COMMITMENTS AND CONTINGENCIES*****Commitments***

Group	31 December 2019		31 December 2018		1 January 2018	
	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000
Capital	12,417,033	50,599,409	1,020,131	4,098,886	774,040	3,124,799
Others	55,323	225,441	334,098	1,342,406	86,208	348,022
	<u>12,472,356</u>	<u>50,824,850</u>	<u>1,354,229</u>	<u>5,441,292</u>	<u>860,248</u>	<u>3,472,821</u>
Company	31 December 2019		31 December 2018		1 January 2018	
	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000
Capital	646,089	2,632,813	1,020,131	4,098,886	774,040	3,124,799
Others	55,323	225,441	334,098	1,342,406	86,208	348,022
	<u>701,412</u>	<u>2,858,254</u>	<u>1,354,229</u>	<u>5,441,292</u>	<u>860,248</u>	<u>3,472,821</u>

Contingencies

On 19 March 2019, the General Department of Taxation ("GDT") issued a notice of tax reassessment to the Group and the Company to pay reassessed taxes of KHR 31,255,677,651 (approximately US\$7.7 millions) for the fiscal year 2016.

On 11 April 2019, the Group and the Company filed a tax objection letter to the GDT protesting to the reassessed taxes. As a result, HKL received the 2nd Notice of Tax Reassessment from the GDT dated 9 July 2019 re-imposing taxes in total amount of KHR 30,958,899,567 (approximately US\$7.6 millions). The Group and the Company have not made provision at this stage as the Group and the Company believe that there are reasonable grounds to challenge the assessment as stated in the tax law and regulations mentioned in its objection letter.

The Group and the Company have engaged tax advisor to help on this matter and filed 2nd protest letter to the GDT on 30 July 2019. On 8 January 2020, the Group and the Company have received a response to the 2nd protest letter from the GDT. There is no change in the reassessment amount. However, the Group and the Company have consulted with the tax advisor and it is believed that the Group and the Company would have reasonable grounds to challenge the case. Therefore, the Group and the Company decided to move on with 3rd protest requesting the GDT to transfer the case to the litigation department. The letter was signed on 23 January 2020 and submitted to the tax agent for further process to the GDT. The Group and the Company have not recorded any contingent tax liability as at 31 December 2019. The outcome of the ultimate tax liabilities for this assessment is unknown.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

36. FINANCIAL RISK MANAGEMENT

The Group and the Company's BoD have overall responsibility for the establishment and oversight of the Group and the Company's risk management framework. The BoD has established the Asset and Liability Management Committee and Risk Board Committee (ARBC), which is responsible for approving and monitoring Group and Company risk management policies.

The Group and the Company's risk management policies are established to identify and analyse the risks faced by the Group and the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and procedures are reviewed regularly to reflect changes in market conditions and the Group and the Company's activities.

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

36.1 Credit risk

Credit risk refers to risk of financial loss to the Group and the Company if a counterparty to a financial instrument fail to meet its obligations in accordance with the agreed terms and arises from deposits with other banks and loans to customers (including commitment to lend such loans). The Group and the Company consider all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk, product risk and business type risk for risk management purposes.

36.1.1 Credit risk management

Credit and Market Risk Department is responsible for managing the Group and the Company's credit risk by:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, in accordance with CIFRSs and relevant NBC's guidance.
- Establishing the authorisation structure for the approval and renewal of credit facilities. The holders of credit approval discretion, i.e. Board Credit Committee, Management Credit Committee, Credit Underwriting Director, and Branch Managers are responsible for approving loans to customers.
- Reviewing and assessing credit risk by setting the limit and monitoring all credit exposures in excess of designated.
- Limiting concentrations of exposure to counterparties, geographies, industries, purposes, sectors (for loans to customers and similar exposures).
- Developing and maintaining the Group and the Company's process for measuring ECL that includes the processes for:
 - initial approval, regular validation and back-testing of the models used;
 - determining and monitoring significant increase in credit risk; and
 - incorporation of forward-looking information.
- Reviewing compliance of branches with agreed exposure limits, including those for selected industries and product types. Regular reports on the credit quality of portfolios may require appropriate corrective action to be taken. These include reports containing estimates of ECL allowances.
- Providing advice, guidance and specialist skills to branches to promote best practice throughout the Group and the Company in the management of credit risk.

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

36.1.2 Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments, the amounts in the table represent the amounts committed.

Group and Company	31 December 2019				
	Stage 1	Stage 2	Stage 3	Total	
	US\$	US\$	US\$	US\$	KHR'000
Balances with other banks					
Normal	9,672,795	-	-	9,672,795	39,416,639
Loss allowance	(14,992)	-	-	(14,992)	(61,092)
Carrying amount	<u>9,657,803</u>	<u>-</u>	<u>-</u>	<u>9,657,803</u>	<u>39,355,547</u>
Loans to customers					
Normal	1,036,773,314	-	-	1,036,773,314	4,224,851,255
Special mention	589	1,337,059	-	1,337,648	5,450,916
Substandard	-	241	1,263,955	1,264,196	5,151,599
Doubtful	-	4,814	1,886,674	1,891,488	7,707,813
Loss	-	-	174,582	174,582	711,421
	<u>1,036,773,903</u>	<u>1,342,114</u>	<u>3,325,211</u>	<u>1,041,441,228</u>	<u>4,243,873,004</u>
Loss allowance	<u>(911,026)</u>	<u>(932,061)</u>	<u>(3,325,211)</u>	<u>(5,168,298)</u>	<u>(21,060,814)</u>
Carrying amount	<u>1,035,862,877</u>	<u>410,053</u>	<u>-</u>	<u>1,036,272,930</u>	<u>4,222,812,190</u>
Loan commitments					
Normal	1,213,838	-	-	1,213,838	4,946,390
Special mention	-	-	-	-	-
Substandard	-	-	1,681	1,681	6,850
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
	<u>1,213,838</u>	<u>-</u>	<u>1,681</u>	<u>1,215,519</u>	<u>4,953,240</u>
Loss allowance	<u>(1,036)</u>	<u>-</u>	<u>(1,681)</u>	<u>(2,717)</u>	<u>(11,072)</u>
Carrying amount	<u>1,212,802</u>	<u>-</u>	<u>-</u>	<u>1,212,802</u>	<u>4,942,168</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

36.1.2 Credit quality analysis (continued)

Group and Company	31 December 2018				
	Stage 1	Stage 2	Stage 3	Total	
	US\$	US\$	US\$	US\$	KHR'000
Balances with other banks					
Normal	39,632,860	-	-	39,632,860	159,244,832
Loss allowance	(38,545)	-	-	(38,545)	(154,874)
Carrying amount	<u>39,594,315</u>	<u>-</u>	<u>-</u>	<u>39,594,315</u>	<u>159,089,958</u>
Loans to customers					
Normal	743,625,752	-	15,247	743,640,999	2,987,949,534
Special mention	-	1,095,277	-	1,095,277	4,400,824
Substandard	-	-	1,540,099	1,540,099	6,188,118
Doubtful	-	-	2,329,353	2,329,353	9,359,340
Loss	-	-	1,506,228	1,506,228	6,052,024
	<u>743,625,752</u>	<u>1,095,277</u>	<u>5,390,927</u>	<u>750,111,956</u>	<u>3,013,949,840</u>
Loss allowance	<u>(2,264,386)</u>	<u>(617,615)</u>	<u>(5,390,927)</u>	<u>(8,272,928)</u>	<u>(33,240,625)</u>
Carrying amount	<u>741,361,366</u>	<u>477,662</u>	<u>-</u>	<u>741,839,028</u>	<u>2,980,709,215</u>
Loan commitments					
Normal	1,113,830	-	-	1,113,830	4,475,369
Special mention	-	-	-	-	-
Substandard	-	-	800	800	3,214
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
	<u>1,113,830</u>	<u>-</u>	<u>800</u>	<u>1,114,630</u>	<u>4,478,583</u>
Loss allowance	<u>(2,799)</u>	<u>-</u>	<u>(800)</u>	<u>(3,599)</u>	<u>(14,461)</u>
Carrying amount	<u>1,111,031</u>	<u>-</u>	<u>-</u>	<u>1,111,031</u>	<u>4,464,122</u>

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**NOTES TO THE FINANCIAL STATEMENTS
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36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

36.1.2 Credit quality analysis (continued)

The below table sets out information about the overdue status of loans to customers in Stage 1, 2 and 3.

Group and Company	31 December 2019				
	Stage 1	Stage 2	Stage 3	Total	
	US\$	US\$	US\$	US\$	KHR'000
Loans to customers					
Current	1,036,407,510	664,633	566,285	1,037,638,428	4,228,376,594
Overdue ≤ 30 days	366,393	57,439	7,666	431,498	1,758,354
Overdue > 30 days	-	620,042	2,751,260	3,371,302	13,738,056
Total	1,036,773,903	1,342,114	3,325,211	1,041,441,228	4,243,873,004
	31 December 2018				
	Stage 1	Stage 2	Stage 3	Total	
	US\$	US\$	US\$	US\$	KHR'000
Loans to customers					
Current	743,309,047	724,925	561,895	744,595,867	2,991,786,194
Overdue ≤ 30 days	316,705	5,089	7,326	329,120	1,322,405
Overdue > 30 days	-	365,263	4,821,706	5,186,969	20,841,241
Total	743,625,752	1,095,277	5,390,927	750,111,956	3,013,949,840

The tables below analyse the movement of the loss allowance during the year per class of assets.

Loss allowance – Balances with other banks at amortised cost:

	31 December 2019				
	Stage 1	Stage 2	Stage 3	Total	
	12-month	Lifetime	Lifetime		
	ECL	ECL	ECL	US\$	KHR'000
	US\$	US\$	US\$	US\$	KHR'000
Expected credit loss					
At 1 January 2019	38,545	-	-	38,545	154,874
<i>Change in the expected credit loss</i>					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Net remeasurement of loss allowance and other movements	(29,781)	-	-	(29,781)	(120,673)
New financial assets originated	6,056	-	-	6,056	24,539
Foreign exchange	172	-	-	172	2,352
Expected credit loss					
At 31 December 2019	14,992	-	-	14,992	61,092

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**NOTES TO THE FINANCIAL STATEMENTS
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36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

36.1.2 Credit quality analysis (continued)

	31 December 2018				
	Stage 1	Stage 2	Stage 3	Total	
	12-month	Lifetime	Lifetime		
	ECL	ECL	ECL	US\$	KHR'000
	US\$	US\$	US\$	US\$	KHR'000
Expected credit loss					
At 1 January 2018	64,626	-	-	64,626	260,895
<i>Change in the expected credit loss</i>					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	(27,244)	-	-	(27,244)	(110,202)
Net remeasurement of loss allowance and other movements	1,134	-	-	1,134	4,587
New financial assets originated	-	-	-	-	-
Foreign exchange	29	-	-	29	(406)
Expected credit loss					
At 31 December 2018	38,545	-	-	38,545	154,874

Loss allowance - Loans and advances to customers at amortised cost:

	31 December 2019				
	Stage 1	Stage 2	Stage 3	Total	
	12-month	Lifetime	Lifetime		
	ECL	ECL	ECL	US\$	KHR'000
	US\$	US\$	US\$	US\$	KHR'000
Expected credit loss					
At 1 January 2019	2,264,386	617,615	5,390,927	8,272,928	33,240,625
<i>Change in the expected credit loss</i>					
Transfer to stage 1	166,931	(57,956)	(108,975)	-	-
Transfer to stage 2	(3,307)	30,394	(27,087)	-	-
Transfer to stage 3	(7,464)	(150,639)	158,103	-	-
Net remeasurement of loss allowance and other movements	(1,226,425)	533,105	2,396,309	1,702,989	6,900,941
New financial assets originated	646,086	214,760	320,561	1,181,407	4,787,359
Financial assets that have been derecognised	(825,982)	(128,393)	(986,168)	(1,940,543)	(7,863,570)
Write-offs	(105,713)	(130,572)	(3,686,780)	(3,923,065)	(15,897,249)
Unwinds	-	-	(157,641)	(157,641)	(638,801)
Foreign exchange	2,514	3,747	25,962	32,223	531,509
Expected credit loss					
At 31 December 2019	911,026	932,061	3,325,211	5,168,298	21,060,814

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

36.1.2 Credit quality analysis (continued)

	31 December 2018				
	Stage 1	Stage 2	Stage 3	Total	
	12-month	Lifetime	Lifetime		
	ECL	ECL	ECL	US\$	KHR'000
	US\$	US\$	US\$	US\$	KHR'000
Expected credit loss					
At 1 January 2018	1,720,273	380,210	6,350,542	8,451,025	34,116,788
<i>Change in the expected credit loss</i>					
Transfer to stage 1	20,478	(20,478)	-	-	-
Transfer to stage 2	(3,595)	3,595	-	-	-
Transfer to stage 3	(11,792)	(218,247)	230,039	-	-
Net remeasurement of loss allowance and other movements	(322,135)	444,025	3,216,877	3,338,767	13,505,313
New financial assets originated	1,599,532	162,241	739,496	2,501,269	10,117,633
Financial assets that have been derecognised	(720,949)	(7,953)	(933,352)	(1,662,254)	(6,723,817)
Write-offs	(18,981)	(126,073)	(3,920,592)	(4,065,646)	(16,445,538)
Unwinds	-	-	(299,361)	(299,361)	(1,210,915)
Foreign exchange	1,555	295	7,278	9,128	(118,839)
Expected credit loss					
At 31 December 2018	<u>2,264,386</u>	<u>617,615</u>	<u>5,390,927</u>	<u>8,272,928</u>	<u>33,240,625</u>

Loss allowance – Loan commitments:

	31 December 2019				
	Stage 1	Stage 2	Stage 3	Total	
	12-month	Lifetime	Lifetime		
	ECL	ECL	ECL	US\$	KHR'000
	US\$	US\$	US\$	US\$	KHR'000
Expected credit loss					
At 1 January 2019	2,799	-	800	3,599	14,461
<i>Change in the expected credit loss</i>					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	800	-	(800)	-	-
Net remeasurement of loss allowance and other movements	(912)	-	-	(912)	(3,695)
Loan commitments transferred to loans to customers	(2,026)	-	-	(2,026)	(8,209)
New loan commitments issued	984	-	1,690	2,674	10,835
Write-offs	(609)	-	-	(609)	(2,468)
Foreign exchange	-	-	(9)	(9)	148
Expected credit loss					
At 31 December 2019	<u>1,036</u>	<u>-</u>	<u>1,681</u>	<u>2,717</u>	<u>11,072</u>

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**NOTES TO THE FINANCIAL STATEMENTS
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36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

36.1.2 Credit quality analysis (continued)

	31 December 2018				
	Stage 1	Stage 2	Stage 3	Total	
	12-month	Lifetime	Lifetime		
	ECL	ECL	ECL	US\$	KHR'000
	US\$	US\$	US\$	US\$	KHR'000
Expected credit loss					
At 1 January 2018	2,731	-	2,000	4,731	19,099
<i>Change in the expected credit loss</i>					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Net remeasurement of loss allowance and other movements	(26)	-	-	(26)	(105)
Loan commitments transferred to loans to customers	(2,356)	-	-	(2,356)	(9,530)
New loan commitments issued	2,499	-	800	3,299	13,344
Write-offs	(53)	-	(2,000)	(2,053)	(8,304)
Foreign exchange	4	-	-	4	(43)
Expected credit loss					
At 31 December 2018	<u>2,799</u>	<u>-</u>	<u>800</u>	<u>3,599</u>	<u>14,461</u>

The tables below analyse the movement of the gross carrying amount of financial assets during the year that contributed to changes in the loss allowance.

Balances with other banks at amortised cost:

	31 December 2019				
	Stage 1	Stage 2	Stage 3	Total	
	12-month	Lifetime	Lifetime		
	ECL	ECL	ECL	US\$	KHR'000
	US\$	US\$	US\$	US\$	KHR'000
Gross carrying amount					
At 1 January 2019	39,632,860	-	-	39,632,860	159,244,831
<i>Change in the gross carrying amount</i>					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Net movements	(31,225,073)	-	-	(31,225,073)	(126,523,996)
New financial assets originated	1,247,555	-	-	1,247,555	5,055,093
Foreign exchange	17,453	-	-	17,453	1,640,711
Gross carrying amount					
At 31 December 2019	<u>9,672,795</u>	<u>-</u>	<u>-</u>	<u>9,672,795</u>	<u>39,416,639</u>

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**NOTES TO THE FINANCIAL STATEMENTS
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36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

36.1.2 Credit quality analysis (continued)

	31 December 2018				
	Stage 1	Stage 2	Stage 3	Total	
	12-month	Lifetime	Lifetime		
	ECL	ECL	ECL	US\$	KHR'000
	US\$	US\$	US\$	US\$	KHR'000
Gross carrying amount					
At 1 January 2018	57,100,131	-	-	57,100,131	230,513,229
<i>Change in the gross carrying amount</i>					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Net movements	(28,685,601)	-	-	(28,685,601)	(116,033,256)
New financial assets originated	11,137,514	-	-	11,137,514	45,051,244
Foreign exchange	80,816	-	-	80,816	(286,385)
Gross carrying amount					
At 31 December 2018	<u>39,632,860</u>	<u>-</u>	<u>-</u>	<u>39,632,860</u>	<u>159,244,832</u>

Loans and advances to customers at amortised cost:

	31 December 2019				
	Stage 1	Stage 2	Stage 3	Total	
	12-month	Lifetime	Lifetime		
	ECL	ECL	ECL	US\$	KHR'000
	US\$	US\$	US\$	US\$	KHR'000
Gross carrying amount					
At 1 January 2019	743,625,752	1,095,277	5,390,927	750,111,956	3,013,949,840
<i>Change in the gross carrying amount</i>					
Transfer to stage 1	211,906	(102,931)	(108,975)	-	-
Transfer to stage 2	(1,076,221)	1,103,308	(27,087)	-	-
Transfer to stage 3	(2,452,268)	(267,540)	2,719,808	-	-
Net movements	(435,179,104)	(676,232)	(1,314,203)	(437,169,539)	(1,771,521,223)
New financial assets originated	730,811,894	314,614	325,560	731,452,068	2,964,028,246
Write-offs	(105,713)	(130,572)	(3,686,780)	(3,923,065)	(15,897,249)
Foreign exchange	937,657	6,190	25,961	969,808	53,313,390
Gross carrying amount					
At 31 December 2019	<u>1,036,773,903</u>	<u>1,342,114</u>	<u>3,325,211</u>	<u>1,041,441,228</u>	<u>4,243,873,004</u>

HATTHA KAKSEKAR LIMITED

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36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

36.1.2 Credit quality analysis (continued)

	31 December 2018				
	Stage 1	Stage 2	Stage 3	Total	
	12-month	Lifetime	Lifetime		
	ECL	ECL	ECL	US\$	KHR'000
	US\$	US\$	US\$	US\$	KHR'000
Gross carrying amount					
At 1 January 2018	565,628,029	674,771	6,350,542	572,653,342	2,311,801,542
<i>Change in the gross carrying amount</i>					
Transfer to stage 1	36,370	(36,370)	-	-	-
Transfer to stage 2	(1,134,820)	1,134,820	-	-	-
Transfer to stage 3	(3,735,484)	(387,489)	4,122,973	-	-
Net movements	(339,640,035)	(452,835)	(1,540,787)	(341,633,657)	(1,381,908,143)
New financial assets originated	522,001,396	287,932	371,513	522,660,841	2,114,163,102
Write-offs	(18,981)	(126,073)	(3,920,592)	(4,065,646)	(16,445,538)
Foreign exchange	489,277	521	7,278	497,076	(13,661,123)
Gross carrying amount					
At 31 December 2018	<u>743,625,752</u>	<u>1,095,277</u>	<u>5,390,927</u>	<u>750,111,956</u>	<u>3,013,949,840</u>

Loan commitments:

	31 December 2019				
	Stage 1	Stage 2	Stage 3	Total	
	12-month	Lifetime	Lifetime		
	ECL	ECL	ECL	US\$	KHR'000
	US\$	US\$	US\$	US\$	KHR'000
Gross carrying amount					
At 1 January 2019	1,113,830	-	800	1,114,630	4,478,583
<i>Change in the gross carrying amount</i>					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	800	-	(800)	-	-
Loan commitments transferred					
to loans to customers	(794,839)	-	-	(794,839)	(3,220,688)
New loan commitments					
issued	1,150,444	-	1,690	1,152,134	4,668,447
Write-offs	(255,851)	-	-	(255,851)	(1,036,708)
Foreign exchange	(546)	-	(9)	(555)	63,606
Gross carrying amount					
At 31 December 2019	<u>1,213,838</u>	<u>-</u>	<u>1,681</u>	<u>1,215,519</u>	<u>4,953,240</u>

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019****36. FINANCIAL RISK MANAGEMENT** (continued)**36.1 Credit risk** (continued)**36.1.2 Credit quality analysis** (continued)

	31 December 2018				
	Stage 1	Stage 2	Stage 3	Total	
	12-month	Lifetime	Lifetime		
	ECL	ECL	ECL	US\$	KHR'000
	US\$	US\$	US\$	US\$	KHR'000
Gross carrying amount					
At 1 January 2018	715,240	-	3,500	718,740	2,901,553
<i>Change in the gross carrying amount</i>					
Transfer to stage 1	-	-	-	-	-
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Loan commitments transferred to loans to customers	(570,102)	-	-	(570,102)	(2,306,063)
New loan commitments issued	987,598	-	800	988,398	3,998,070
Write-offs	(20,466)	-	(3,500)	(23,966)	(96,942)
Foreign exchange	1,560	-	-	1,560	(18,035)
Gross carrying amount					
At 31 December 2018	<u>1,113,830</u>	<u>-</u>	<u>800</u>	<u>1,114,630</u>	<u>4,478,583</u>

36.1.3 Collateral held**Small and Medium Entity (SME) Retail Loans and Mortgage Loans (secured loans)**

The Group and the Company hold residential properties as collaterals for majority of loans, and the collaterals include land, house, building and other movable assets. The Group and the Company set Loan To Collateral Value (LTV) > 67% as the minimum eligible ratio for loan disbursement to customers.

36.1.4 Amounts arising from ECL**(a) Inputs, assumptions and techniques used for estimating impairment**

The Group and the Company recognise loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- balances with other banks,
- financial assets that are debt instruments; and
- loan commitments.

No impairment loss is recognised on equity investments.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

36.1.4 Amounts arising from ECL (continued)

The Group and the Company measure loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- balances with the NBC that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Group and the Company do not apply the low credit risk exemption to any other financial instruments.

12-month ECL is the portion of ECL that results from default events on a financial instrument that is possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL is the ECL that results from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Credit-impaired financial assets

At each reporting date, the Group and the Company assess whether financial assets carried at amortised cost are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan by the Group and the Company on terms that the Group and the Company would not consider otherwise; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue more than 90 days per CIFRS rebuttable assumption is considered credit-impaired even when the regulatory definition of default is different.

Credit-impaired loans to customers are graded as substandard, doubtful and loss in the Group and the Company's internal credit risk grading system.

Credit risk grades

The Group and the Company allocate each exposure to a credit risk grade based on the prudential definition of NBC which applies the number of days past due as the grading criteria. The grades are:

1. Normal
2. Special mention
3. Substandard
4. Doubtful
5. Loss

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

36.1.4 Amounts arising from ECL (continued)

Credit risk grades (continued)

Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves the use of following data.

- Past repayment history;
- Financial conditions of counterparty;
- Business prospective and cash projection;
- Ability and willingness to pay;
- Economic environment; and
- Quality of documentation.

(i) **Significant increase in credit risk**

The Group and the Company consider the significant increase in credit risk into two stages as below:

Significant increases in credit risk in Stage 2

The change in levels of credit risk over the expected life of a financial instrument is assessed by comparing credit risk at each reporting date with the associated instrument's credit risk at initial recognition. The Group and the Company use 30 DPD as a backstop and applies the rebuttable assumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 DPD. Moreover, The Group and the Company have also considered qualitative factors including:

- 30 DPD as backstop for long-term loans and 15 DPD for short-term loans (counting from 30 DPD upward for long-term and from 15 DPD for short-term loans),
- Use of quantitative indicators (change in PD at reporting date from the origination date),
- Change in cumulative residual unbiased PD,
- Change in unbiased 12-month PD comparing origination unbiased 12-month PD expected at the reporting date with the current 12-month PD at reporting use of qualitative indicators defined; or
- Restructured loans with special mentioned classification (loans which are restructured and classified as special mention will be changed from Stage 1 to Stage 2).

Significant increases in credit risk in Stage 3

A financial instrument that has been credit-impaired since origination or purchase is automatically classified as a Stage 3 financial instrument. Evidence that a financial asset is credit-impaired includes observable data related to the following events:

- Significant financial difficulty of the issuer or the borrower;
- A breach of contract, such as a default or past due event;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for the financial asset because of financial difficulties for example debtor's business status, debtor during litigation process, frequency of entering debt restructuring etc.
- Fraudulent debtors
- Partially NPL sales or partially write off
- Deceased
- Trouble debt restructuring (DTR) unsuccessful.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

36.1.4 Amounts arising from ECL (continued)

(i) **Significant increase in credit risk**

The Group and the Company also apply 90 DPD as a backstop in moving a facility from Stage 2 to Stage 3 and consider a facility as credit-impaired. Moreover, loans which are restructured and classified as substandard, doubtful or loss will be changed from Stage 2 to Stage 3.

(ii) **Definition of default**

The Group and the Company consider a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group and the Company in full, without recourse by the Group and the Company to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Group and the Company; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

(iii) **Incorporation of forward-looking information**

HKL analyses forward-looking information by using the statistical regression model to assess whether the credit risk of an instrument has increased significantly to measure ECL.

The Group and the Company formulate three economic scenarios: a base case, which is the median scenario assigned a 35% probability of occurring, and two less likely scenarios, one upside 25% and one downside assigned a 40% probability of occurring. The base case is aligned with information used by the Group and the Company for other purposes such as strategic planning and budgeting. External information considered includes economic data and forecasts published by governmental bodies (National Bank of Cambodia) and international bodies such as World Bank and Bloomberg.

Weightage scenario	Base	Bad	Good
	35%	40%	25%

Based on the forward-looking analysis, HKL applied the forward-looking scalar in year one (1.42) for 12-month and lifetime ECL.

(iv) **Modified financial assets**

The Group and the Company renegotiate loans to customers in financial difficulties (referred to as restructure activities) to maximise collection opportunities and minimise the risk of default. Under the Group and the Company's restructure policy, loan is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms. The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

36.1.4 Amounts arising from ECL (continued)

(iv) Modified financial assets (continued)

For financial assets modified as part of the Group and the Company's restructure policy, the estimate of PD reflects whether the modification has improved or restored the Group and the Company's ability to collect interest and principal and the Group and the Company's previous experience. As part of this process, the Group and the Company evaluate the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, restructure is a qualitative indicator of a significant increase in credit risk and an expectation of restructure may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

(v) Measurement of ECL

ECL is a probability-weighted estimate of credit losses. It is measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group and the Company in accordance with the contract and the cash flows that the Group and the Company expect to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows; and
- Undrawn loan commitments: a credit loss is the present value of the difference between the contractual cash flows that are due to the Group and the Company if the holder of the loan commitment draws down the loan and the cash flows that the entity expects to receive if the loan is drawn down.

The Group and the Company calculate the ECL by taking the gross carrying amount of financial assets multiplying by the consolidated probability of default (PD) ratio of each stage from the Proxy Model with risk adjustment factors.

- Expected credit loss, ECL is the present value of all cash shortfalls over the remaining life, discounted at the EIR. For each year throughout the financial instrument's life, a forward-looking PD, LGD and EAD are estimated. The estimates are multiplied with each other to estimate the losses for each of the years. Then the estimates are discounted back to the reporting date using the EIR as the discount rate.
- The Group and the Company used the SME retail and mortgage loan as modelled portfolio to leverage on because they shared several characteristics in common. They all are term loans with predetermined maturity date and stipulated repayment schedule of both principle and interest.
- The Proxy ECL is calculated by using the formula below:

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

36.1.4 Amounts arising from ECL (continued)

(v) Measurement of ECL (continued)

Stage	Proxy ECL Calculation
1	$Gross\ Carrying\ Amount_{stage1} \times Coverage\ Ratio_{stage1} \times Risk\ Adjustment_{stage1}$
2	$Gross\ Carrying\ Amount_{stage2} \times Coverage\ Ratio_{stage2} \times Risk\ Adjustment_{stage2}$
3	$Gross\ Carrying\ Amount_{stage3} \times Coverage\ Ratio_{stage3} \times Risk\ Adjustment_{stage3}$

The coverage ratio which consists of PD and LGD, the implied PD is derived based on the %ECL back from parent company. It is computed by using the formula below:

$$\text{Implied PD} = \text{ECL amount} / (\text{EAD} \times \text{LGD}\%)$$

Where the ECL amount was computed by the parent company with consideration of time value of money.

(b) Loss allowance

This table summarises the loss allowance as of the year-end by class of exposure/assets.

Group and Company	31 December 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Loss allowance by classes				
Balances with other banks	14,992	61,092	38,545	154,874
Loans to customers	5,168,298	21,060,814	8,272,928	33,240,625
Loan commitments	2,717	11,072	3,599	14,461
	<u>5,186,007</u>	<u>21,132,978</u>	<u>8,315,072</u>	<u>33,409,960</u>

The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity is US\$3,923,066 at 31 December 2019.

Under the Group and the Company's monitoring procedures, a significant increase in credit risk is identified before the exposure has defaulted, and at the latest when the exposure becomes 30 days past due. This is the case mainly for loans to customers. The table below provides an analysis of the gross carrying amount of loans to customers by past due status.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

36.1.4 Amounts arising from ECL (continued)

(b) Loss allowance (continued)

Group and Company	31 December 2019		31 December 2018	
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
	US\$	US\$	US\$	US\$
Loans to customers				
0-29 days	1,038,025,227	1,952,803	744,924,987	3,245,387
30-59 days	370,050	256,832	129,561	81,559
60-89 days	344,079	256,791	351,872	240,446
90-180 days	876,674	876,674	995,317	995,317
More than 180 days	1,825,198	1,825,198	3,710,219	3,710,219
Total	<u>1,041,441,228</u>	<u>5,168,298</u>	<u>750,111,956</u>	<u>8,272,928</u>
In KHR'000 equivalents	<u>4,243,873,004</u>	<u>21,060,814</u>	<u>3,013,949,840</u>	<u>33,240,625</u>

36.1.5 Concentration of credit risk

The Group and the Company monitor concentrations of credit risk by sector. An analysis of concentrations of credit risk from loans to customers and loan commitments is shown below.

Group and Company	31 December 2019				
	Balances with other banks	Loans to customers	Loan commitments	Total	
	US\$	US\$	US\$	US\$	KHR'000
Carrying amount	9,657,803	1,036,272,930	(2,717)	1,045,928,016	4,262,156,665
Amount committed	-	-	1,215,519	1,215,519	4,953,240
Concentration by sector					
External customers					
Mortgages loans	-	70,231,258	192,537	70,423,795	286,976,965
Personal loans	-	965,340,346	1,021,982	966,362,328	3,937,926,487
Staff loans	-	5,869,624	1,000	5,870,624	23,922,793
	<u>-</u>	<u>1,041,441,228</u>	<u>1,215,519</u>	<u>1,042,656,747</u>	<u>4,248,826,245</u>

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

36.1.5 Concentration of credit risk (continued)

Group and Company	31 December 2018				
	Balances with other banks	Loans to customers	Loan commitments	Total	
	US\$	US\$	US\$	US\$	KHR'000
Carrying amount	39,594,315	741,839,028	(3,599)	781,429,744	3,139,784,711
Amount committed	-	-	1,114,630	1,114,630	4,478,583
Concentration by sector					
External customers					
Mortgages loans	-	70,837,551	318,751	71,156,302	285,906,021
Personal loans	-	666,212,638	718,239	666,930,877	2,679,728,264
Staff loans	-	4,788,839	77,640	4,866,479	19,553,513
	-	741,839,028	1,114,630	742,953,658	2,985,187,798

36.2 Liquidity risk

Liquidity risk refer to risk which the institution cannot meet the obligation or cannot settle debt obligation or settle position in the specific economic and financial situation and market situation. Liquidity risk arises from mismatches in the timing and amounts of cash flows, which is inherent to the Group and the Company's operations and investments.

36.2.1 Liquidity risk management

The Group and the Company's BoD set the Group and the Company's strategy for managing liquidity risk and oversight of the implementation is administered by ARBC. ARBC approves the Group and the Company's liquidity policies created by the Risk division and acknowledged by ALRMC. Treasury department manages the Group and the Company's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of Head office and branches. A summary report, including any exceptions and remedial action taken, is submitted regularly to ARBC.

The Group and the Company's approach to managing liquidity are to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group and the Company's reputation. The key elements of the Group and the Company's liquidity strategy are as follows.

- Maintaining a diversified funding base consisting of customer deposits (both individual and corporate) and maintaining contingency facilities.
- Carrying a portfolio of highly liquid assets, diversified by currency and maturity.
- Monitoring maturity mismatches, behavioral characteristics of the Group and the Company's financial assets and financial liabilities, and the extent to which the Group and the Company's assets are encumbered and so not available as potential collateral for obtaining funding.
- Stress testing of the Group and the Company's liquidity position against various exposures and country-specific events.
- Minimise cost of foregone earnings on idle liquidity.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

36. FINANCIAL RISK MANAGEMENT (continued)

36.2 Liquidity risk (continued)

36.2.1 Liquidity risk management (continued)

Treasury department receives information from other business units regarding the liquidity profile of their financial assets and financial liabilities and details of other projected cash flows arising from projected future business. Treasury department then maintains a portfolio of short-term liquid assets, largely made up of inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group and the Company as a whole. The liquidity requirements of branches are met through funds from Treasury department to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements.

Treasury department monitors compliance with local regulatory limits on a monthly basis.

Regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. The scenarios are developed taking into account both Company-specific events (e.g. a rating downgrade) and market-related events (e.g. prolonged market illiquidity, reduced fungibility of currencies, natural disasters or other catastrophes). Moreover, stress scenarios may be based on past events (historical scenario) observed within the own institution, or more commonly, on crisis situations witnessed by other institutions of similar size, business model and regional footprint. Often, the Group and the Company also combines crisis elements from various historical situations to develop a hypothetical but plausible crisis scenario that might be more relevant to their current business model and exposure profile.

36.2.2 Exposure to liquidity risk

The key measure used by the Group and the Company for managing liquidity risk is Liquidity Risk Coverage Ratio. This ratio reflects the available cash inflows (including loans to be collected and balances with other banks); cash outflows matured within 30days (including amount to be paid to lenders, deposits from financial institutions and corporates); and adjusted retail saving deposit as well as stock of eligible liquid assets (cash on hand, all current accounts and reserve requirements with the NBC).

Group and Company	<u>31 December 2019</u>	<u>31 December 2018</u>
At end of year	113.92%	177.17%
Average for the year	132.45%	156.52%
Maximum for the year	162.01%	238.29%
Minimum for the year	100.49%	115.04%

36.2.3 Maturity analysis for financial liabilities and financial assets

The following tables set out the remaining contractual maturities of the Group and the Company's financial liabilities and financial assets.

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**NOTES TO THE FINANCIAL STATEMENTS
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36. FINANCIAL RISK MANAGEMENT (continued)

36.2 Liquidity risk (continued)

36.2.3 Maturity analysis for financial liabilities and financial assets (continued)

Group	Carrying amount	Gross nominal inflow/ (outflow)	Up to 1 month	> 1 – 3 months	> 3 – 12 months	> 1 – 5 years	Over 5 years	No maturity
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
31 December 2019								
Financial liabilities by type								
Non-derivative liabilities								
Deposits from customers	610,098,327	(642,942,089)	(202,482,490)	(103,474,072)	(271,246,173)	(65,637,367)	(101,987)	-
Debt securities issued	29,196,072	(34,200,292)	(328,594)	-	(2,505,533)	(31,366,165)	-	-
Borrowings	311,485,982	(347,845,468)	(12,655,103)	(22,382,970)	(89,802,489)	(222,617,274)	-	(387,632)
Subordinated debts	11,974,921	(13,868,238)	(642,952)	(1,008,992)	(6,715,037)	(4,639,913)	(861,344)	-
Lease liabilities	13,005,210	(16,120,658)	(297,504)	(590,902)	(2,539,073)	(9,581,177)	(3,112,002)	-
Other liabilities	45,870,654	(45,870,654)	(99,889)	(40,750,511)	(4,988,180)	(32,074)	-	-
	<u>1,021,631,166</u>	<u>(1,100,847,399)</u>	<u>(216,506,532)</u>	<u>(168,207,447)</u>	<u>(377,796,485)</u>	<u>(333,873,970)</u>	<u>(4,075,333)</u>	<u>(387,632)</u>
Derivative liabilities								
Risk management								
Outflow		(5,424,894)	-	-	(3,601,829)	(1,823,065)	-	-
Inflow		4,726,039	-	-	3,154,169	1,571,870	-	-
	<u>1,887,584</u>	<u>(698,855)</u>	<u>-</u>	<u>-</u>	<u>(447,660)</u>	<u>(251,195)</u>	<u>-</u>	<u>-</u>
Loan commitments	-	(1,916,931)	-	(701,412)	(1,215,519)	-	-	-
In US\$ equivalents	<u>1,023,518,750</u>	<u>(1,103,463,185)</u>	<u>(216,506,532)</u>	<u>(168,908,859)</u>	<u>(379,459,664)</u>	<u>(334,125,165)</u>	<u>(4,075,333)</u>	<u>(387,632)</u>
In KHR'000 equivalents	<u>4,170,838,907</u>	<u>(4,496,612,478)</u>	<u>(882,264,118)</u>	<u>(688,303,600)</u>	<u>(1,546,298,131)</u>	<u>(1,361,560,047)</u>	<u>(16,606,982)</u>	<u>(1,579,600)</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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36. FINANCIAL RISK MANAGEMENT (continued)

36.2 Liquidity risk (continued)

36.2.3 Maturity analysis for financial liabilities and financial assets (continued)

Group	Carrying amount	Gross nominal inflow/ (outflow)	Up to 1 month	> 1 – 3 months	> 3 – 12 months	> 1 – 5 years	Over 5 years	No maturity
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
31 December 2019								
Financial assets by type								
Non-derivative assets								
Cash on hand	34,190,445	34,190,445	34,190,445	-	-	-	-	-
Balances with the NBC	95,934,585	95,982,310	30,720,562	4,186,627	50,178	-	61,024,943	-
Balances with other banks	9,657,803	9,657,803	9,657,803	-	-	-	-	-
Loans to customers	1,036,272,930	1,386,931,637	34,128,574	74,878,802	301,554,736	896,220,083	76,976,776	3,172,666
Investment securities	20,000	20,000	-	-	-	-	-	20,000
Other assets	19,281,314	19,281,314	-	17,924,506	-	1,356,808	-	-
	<u>1,195,357,077</u>	<u>1,546,063,509</u>	<u>108,697,384</u>	<u>96,989,935</u>	<u>301,604,914</u>	<u>897,576,891</u>	<u>138,001,719</u>	<u>3,192,666</u>
Derivative assets								
Risk management								
Outflow		(11,027,823)	-	-	(1,577,867)	(7,872,089)	(1,577,867)	-
Inflow		11,065,510	-	-	1,583,259	7,898,992	1,583,259	-
	<u>-</u>	<u>37,687</u>	<u>-</u>	<u>-</u>	<u>5,392</u>	<u>26,903</u>	<u>5,392</u>	<u>-</u>
Borrowing commitments	-	34,957,055	4,907,975	49,080	15,000,000	-	15,000,000	-
In US\$ equivalents	<u>1,195,357,077</u>	<u>1,581,058,251</u>	<u>113,605,359</u>	<u>97,039,015</u>	<u>316,610,306</u>	<u>897,603,794</u>	<u>153,007,111</u>	<u>3,192,666</u>
In KHR'000 equivalents	<u>4,871,080,089</u>	<u>6,442,812,373</u>	<u>462,941,838</u>	<u>395,433,986</u>	<u>1,290,186,997</u>	<u>3,657,735,461</u>	<u>623,503,977</u>	<u>13,010,114</u>

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**NOTES TO THE FINANCIAL STATEMENTS
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36. FINANCIAL RISK MANAGEMENT (continued)

36.2 Liquidity risk (continued)

36.2.3 Maturity analysis for financial liabilities and financial assets (continued)

Group	Carrying amount	Gross nominal inflow/ (outflow)	Up to 1 month	> 1 – 3 months	> 3 – 12 months	> 1 – 5 years	Over 5 years	No maturity
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
31 December 2018								
Financial liabilities by type								
Non-derivative liabilities								
Deposits from customers	491,353,390	(507,814,922)	(121,805,764)	(93,919,082)	(266,660,080)	(24,635,022)	(794,974)	-
Debt securities issued	29,325,252	(37,014,518)	-	-	(2,380,797)	(34,633,721)	-	-
Borrowings	191,725,158	(217,879,268)	(507,657)	(8,058,955)	(59,704,566)	(149,315,267)	-	(292,823)
Subordinated debts	23,236,296	(26,732,806)	(401,311)	(1,008,842)	(11,664,455)	(12,742,004)	(916,194)	-
Lease liabilities	13,172,448	(16,516,948)	(281,810)	(557,744)	(2,393,894)	(9,314,922)	(3,968,578)	-
Other liabilities	4,488,231	(4,488,231)	(260,222)	(781,213)	(3,417,738)	(29,058)	-	-
	<u>753,300,775</u>	<u>(810,446,693)</u>	<u>(123,256,764)</u>	<u>(104,325,836)</u>	<u>(346,221,530)</u>	<u>(230,669,994)</u>	<u>(5,679,746)</u>	<u>(292,823)</u>
Derivative liabilities								
Risk management								
Outflow		-	-	-	-	-	-	-
Inflow		341,840	-	-	166,695	175,145	-	-
	<u>27,794</u>	<u>341,840</u>	<u>-</u>	<u>-</u>	<u>166,695</u>	<u>175,145</u>	<u>-</u>	<u>-</u>
Loan commitments	-	(1,114,630)	-	-	(1,114,630)	-	-	-
In US\$ equivalents	<u>753,328,569</u>	<u>(811,219,483)</u>	<u>(123,256,764)</u>	<u>(104,325,836)</u>	<u>(347,169,465)</u>	<u>(230,494,849)</u>	<u>(5,679,746)</u>	<u>(292,823)</u>
In KHR'000 equivalents	<u>3,024,614,203</u>	<u>(3,257,046,224)</u>	<u>(494,875,907)</u>	<u>(418,868,232)</u>	<u>(1,393,885,402)</u>	<u>(925,436,819)</u>	<u>(22,804,180)</u>	<u>(1,175,684)</u>

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**NOTES TO THE FINANCIAL STATEMENTS
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36. FINANCIAL RISK MANAGEMENT (continued)

36.2 Liquidity risk (continued)

36.2.3 Maturity analysis for financial liabilities and financial assets (continued)

Group	Carrying amount	Gross nominal inflow/ (outflow)	Up to 1 month	> 1 – 3 months	> 3 – 12 months	> 1 – 5 years	Over 5 years	No maturity
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
31 December 2018								
Financial assets by type								
Non-derivative assets								
Cash on hand	37,211,155	37,211,155	37,211,155	-	-	-	-	-
Balances with the NBC	77,602,188	77,653,503	25,808,687	4,350,199	111,305	-	47,383,312	-
Balances with other banks	39,594,315	39,644,091	31,630,154	8,013,937	-	-	-	-
Loans to customers	741,839,028	968,005,254	24,513,667	60,893,663	241,959,627	616,004,337	19,570,437	5,063,523
Investment securities	20,000	20,000	-	-	-	-	-	20,000
Other assets	1,504,182	1,504,182	-	205,338	-	1,298,844	-	-
	<u>897,770,868</u>	<u>1,124,038,185</u>	<u>119,163,663</u>	<u>73,463,137</u>	<u>242,070,932</u>	<u>617,303,181</u>	<u>66,953,749</u>	<u>5,083,523</u>
Derivative assets								
Risk management								
Outflow	-	-	-	-	-	-	-	-
Inflow	-	-	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Borrowing commitments	-	35,000,000	-	-	-	-	35,000,000	-
In US\$ equivalents	<u>897,770,868</u>	<u>1,159,038,185</u>	<u>119,163,663</u>	<u>73,463,137</u>	<u>242,070,932</u>	<u>617,303,181</u>	<u>101,953,749</u>	<u>5,083,523</u>
In KHR'000 equivalents	<u>3,604,550,037</u>	<u>4,653,538,313</u>	<u>478,442,107</u>	<u>294,954,495</u>	<u>971,914,792</u>	<u>2,478,472,272</u>	<u>409,344,302</u>	<u>20,410,345</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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36. FINANCIAL RISK MANAGEMENT (continued)

36.2 Liquidity risk (continued)

36.2.3 Maturity analysis for financial liabilities and financial assets (continued)

Company	Carrying amount	Gross nominal inflow/ (outflow)	Up to 1 month	> 1 – 3 months	> 3 – 12 months	> 1 – 5 years	Over 5 years	No maturity
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
31 December 2019								
Financial liabilities by type								
Non-derivative liabilities								
Deposits from customers	610,099,327	(642,943,089)	(202,483,490)	(103,474,072)	(271,246,173)	(65,637,367)	(101,987)	-
Debt securities issued	29,196,072	(34,200,292)	(328,594)	-	(2,505,533)	(31,366,165)	-	-
Borrowings	311,485,982	(347,845,468)	(12,655,103)	(22,382,970)	(89,802,489)	(222,617,274)	-	(387,632)
Subordinated debts	11,974,921	(13,868,238)	(642,952)	(1,008,992)	(6,715,037)	(4,639,913)	(861,344)	-
Lease liabilities	13,005,210	(16,120,658)	(297,504)	(590,902)	(2,539,073)	(9,581,177)	(3,112,002)	-
Other liabilities	45,865,829	(45,865,829)	(99,889)	(40,750,511)	(4,983,355)	(32,074)	-	-
	<u>1,021,627,341</u>	<u>(1,100,843,574)</u>	<u>(216,507,532)</u>	<u>(168,207,447)</u>	<u>(377,791,660)</u>	<u>(333,873,970)</u>	<u>(4,075,333)</u>	<u>(387,632)</u>
Derivative liabilities								
Risk management								
Outflow		(5,424,894)	-	-	(3,601,829)	(1,823,065)	-	-
Inflow		4,726,039	-	-	3,154,169	1,571,870	-	-
	<u>1,887,584</u>	<u>(698,855)</u>	<u>-</u>	<u>-</u>	<u>(447,660)</u>	<u>(251,195)</u>	<u>-</u>	<u>-</u>
Loan commitments	-	(1,916,931)	-	(701,412)	(1,215,519)	-	-	-
In US\$ equivalents	<u>1,023,514,925</u>	<u>(1,103,459,360)</u>	<u>(216,507,532)</u>	<u>(168,908,859)</u>	<u>(379,454,839)</u>	<u>(334,125,165)</u>	<u>(4,075,333)</u>	<u>(387,632)</u>
In KHR'000 equivalents	<u>4,170,823,320</u>	<u>(4,496,596,891)</u>	<u>(882,268,193)</u>	<u>(688,303,600)</u>	<u>(1,546,278,469)</u>	<u>(1,361,560,047)</u>	<u>(16,606,982)</u>	<u>(1,579,600)</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

36. FINANCIAL RISK MANAGEMENT (continued)

36.2 Liquidity risk (continued)

36.2.3 Maturity analysis for financial liabilities and financial assets (continued)

Company	Carrying amount	Gross nominal inflow/ (outflow)	Up to 1 month	> 1 – 3 months	> 3 – 12 months	> 1 – 5 years	Over 5 years	No maturity
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
31 December 2019								
Financial assets by type								
Non-derivative assets								
Cash on hand	34,190,445	34,190,445	34,190,445	-	-	-	-	-
Balances with the NBC	95,934,585	95,982,310	30,720,562	4,186,627	50,178	-	61,024,943	-
Balances with other banks	9,657,803	9,657,803	9,657,803	-	-	-	-	-
Loans to customers	1,036,272,930	1,386,931,637	34,128,574	74,878,802	301,554,736	896,220,083	76,976,776	3,172,666
Investment securities	20,000	20,000	-	-	-	-	-	20,000
Investment in subsidiary	490	490	-	-	-	-	-	490
Other assets	19,286,474	19,286,474	-	17,929,666	-	1,356,808	-	-
	<u>1,195,362,727</u>	<u>1,546,069,159</u>	<u>108,697,384</u>	<u>96,995,095</u>	<u>301,604,914</u>	<u>897,576,891</u>	<u>138,001,719</u>	<u>3,193,156</u>
Derivative assets								
Risk management								
Outflow	-	(11,027,823)	-	-	(1,577,867)	(7,872,089)	(1,577,867)	-
Inflow	-	11,065,510	-	-	1,583,259	7,898,992	1,583,259	-
	-	37,687	-	-	5,392	26,903	5,392	-
Borrowing commitments	-	34,957,055	4,907,975	49,080	15,000,000	-	15,000,000	-
In US\$ equivalents	<u>1,195,362,727</u>	<u>1,581,063,901</u>	<u>113,605,359</u>	<u>97,044,175</u>	<u>316,610,306</u>	<u>897,603,794</u>	<u>153,007,111</u>	<u>3,193,156</u>
In KHR'000 equivalents	<u>4,871,103,113</u>	<u>6,442,835,397</u>	<u>462,941,838</u>	<u>395,455,013</u>	<u>1,290,186,997</u>	<u>3,657,735,461</u>	<u>623,503,977</u>	<u>13,012,111</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

36. FINANCIAL RISK MANAGEMENT (continued)

36.2 Liquidity risk (continued)

36.2.3 Maturity analysis for financial liabilities and financial assets (continued)

Company	Carrying amount	Gross nominal inflow/ (outflow)	Up to 1 month	> 1 – 3 months	> 3 – 12 months	> 1 – 5 years	Over 5 years	No maturity
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
31 December 2018								
Financial liabilities by type								
Non-derivative liabilities								
Deposits from customers	491,353,390	(507,814,922)	(121,805,764)	(93,919,082)	(266,660,080)	(24,635,022)	(794,974)	-
Debt securities issued	29,325,252	(37,014,518)	-	-	(2,380,797)	(34,633,721)	-	-
Borrowings	191,725,158	(217,879,268)	(507,657)	(8,058,955)	(59,704,566)	(149,315,267)	-	(292,823)
Subordinated debts	23,236,296	(26,732,806)	(401,311)	(1,008,842)	(11,664,455)	(12,742,004)	(916,194)	-
Lease liabilities	13,172,448	(16,516,948)	(281,810)	(557,744)	(2,393,894)	(9,314,922)	(3,968,578)	-
Other liabilities	4,488,231	(4,488,231)	(260,222)	(781,213)	(3,417,738)	(29,058)	-	-
	<u>753,300,775</u>	<u>(810,446,693)</u>	<u>(123,256,764)</u>	<u>(104,325,836)</u>	<u>(346,221,530)</u>	<u>(230,669,994)</u>	<u>(5,679,746)</u>	<u>(292,823)</u>
Derivative liabilities								
Risk management								
Outflow		-	-	-	-	-	-	-
Inflow		341,840	-	-	166,695	175,145	-	-
	<u>27,794</u>	<u>341,840</u>	<u>-</u>	<u>-</u>	<u>166,695</u>	<u>175,145</u>	<u>-</u>	<u>-</u>
Loan commitments	-	(1,114,630)	-	-	(1,114,630)	-	-	-
In US\$ equivalents	<u>753,328,569</u>	<u>(811,219,483)</u>	<u>(123,256,764)</u>	<u>(104,325,836)</u>	<u>(347,169,465)</u>	<u>(230,494,849)</u>	<u>(5,679,746)</u>	<u>(292,823)</u>
In KHR'000 equivalents	<u>3,024,614,203</u>	<u>(3,257,046,224)</u>	<u>(494,875,907)</u>	<u>(418,868,232)</u>	<u>(1,393,885,402)</u>	<u>(925,436,819)</u>	<u>(22,804,180)</u>	<u>(1,175,684)</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

36. FINANCIAL RISK MANAGEMENT (continued)

36.2 Liquidity risk (continued)

36.2.3 Maturity analysis for financial liabilities and financial assets (continued)

Company	Carrying amount	Gross nominal inflow/ (outflow)	Up to 1 month	> 1 – 3 months	> 3 – 12 months	> 1 – 5 years	Over 5 years	No maturity
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$
31 December 2018								
Financial assets by type								
Non-derivative assets								
Cash on hand	37,211,155	37,211,155	37,211,155	-	-	-	-	-
Balances with the NBC	77,602,188	77,653,503	25,808,687	4,350,199	111,305	-	47,383,312	-
Balances with other banks	39,594,315	39,644,091	31,630,154	8,013,937	-	-	-	-
Loans to customers	741,839,028	968,005,254	24,513,667	60,893,663	241,959,627	616,004,337	19,570,437	5,063,523
Investment securities	20,000	20,000	-	-	-	-	-	20,000
Other assets	1,504,182	1,504,182	-	205,338	-	1,298,844	-	-
	<u>897,770,868</u>	<u>1,124,038,185</u>	<u>119,163,663</u>	<u>73,463,137</u>	<u>242,070,932</u>	<u>617,303,181</u>	<u>66,953,749</u>	<u>5,083,523</u>
Derivative assets								
Risk management								
Outflow		-	-	-	-	-	-	-
Inflow		-	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Borrowing commitments	-	35,000,000	-	-	-	-	35,000,000	-
In US\$ equivalents	<u>897,770,868</u>	<u>1,159,038,185</u>	<u>119,163,663</u>	<u>73,463,137</u>	<u>242,070,932</u>	<u>617,303,181</u>	<u>101,953,749</u>	<u>5,083,523</u>
In KHR'000 equivalents	<u>3,604,550,037</u>	<u>4,653,538,313</u>	<u>478,442,107</u>	<u>294,954,495</u>	<u>971,914,792</u>	<u>2,478,472,272</u>	<u>409,344,302</u>	<u>20,410,345</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

36. FINANCIAL RISK MANAGEMENT (continued)

36.2 Liquidity risk (continued)

36.2.3 Maturity analysis for financial liabilities and financial assets (continued)

The amounts in the table above have been compiled as follows.

Type of financial instrument	Basis on which amounts are compiled
Non-derivative financial liabilities and financial assets	Undiscounted cash flows, which include estimated interest payments.
Loan commitments	Earliest possible contractual maturity
Derivative financial liabilities and financial assets held for risk management purposes	Contractual undiscounted cash flows. The amounts shown are the gross nominal inflows and outflows for derivatives that have simultaneous gross settlement (e.g. interest rate swap and currency swaps) and the net amounts for derivatives that are net settled.

As part of the management of liquidity risk arising from financial liabilities, the Group and the Company hold liquid assets comprising cash and cash equivalents, which can be readily to meet liquidity requirements. In addition, the Group and the Company maintain agreed lines of credit with other banks.

The following table sets out the contractual amounts of non-derivative financial assets and financial liabilities expected to be recovered or settled less than 12 months after the reporting date.

Group	31 December 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Financial assets				
Cash on hand	34,190,445	139,326,063	37,211,155	149,514,421
Balances with the NBC	34,957,367	142,451,271	30,270,191	121,625,627
Balances with other banks	9,657,803	39,355,547	39,644,091	159,289,958
Loans to customers	410,562,112	1,673,040,606	327,366,957	1,315,360,433
Other assets	17,924,506	73,042,362	205,338	825,048
	<u>507,292,233</u>	<u>2,067,215,849</u>	<u>434,697,732</u>	<u>1,746,615,487</u>
Borrowing commitments	19,957,055	81,325,000	-	-
	<u>527,249,288</u>	<u>2,148,540,849</u>	<u>434,697,732</u>	<u>1,746,615,487</u>
Financial liabilities				
Deposits from customers	577,202,735	2,352,101,145	482,384,926	1,938,222,633
Debt securities issued	2,834,127	11,549,068	2,380,797	9,566,042
Borrowings	124,840,562	508,725,290	68,271,178	274,313,593
Subordinated debts	8,366,981	34,095,448	13,074,608	52,533,775
Lease liabilities	3,427,479	13,966,977	3,233,448	12,991,994
Other liabilities	45,838,580	186,792,214	4,459,173	17,916,957
	<u>762,510,464</u>	<u>3,107,230,142</u>	<u>573,804,130</u>	<u>2,305,544,994</u>
Loan commitments	1,916,931	7,811,494	1,114,630	4,478,583
	<u>764,427,395</u>	<u>3,115,041,636</u>	<u>574,918,760</u>	<u>2,310,023,577</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

36. FINANCIAL RISK MANAGEMENT (continued)

36.2 Liquidity risk (continued)

36.2.3 Maturity analysis for financial liabilities and financial assets (continued)

Company	31 December 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Financial assets				
Cash on hand	34,190,445	139,326,063	37,211,155	149,514,421
Balances with the NBC	34,957,367	142,451,271	30,270,191	121,625,627
Balances with other banks	9,657,803	39,355,547	39,644,091	159,289,958
Loans to customers	410,562,112	1,673,040,606	327,366,957	1,315,360,433
Other assets	17,929,666	73,063,389	205,338	825,048
	<u>507,297,393</u>	<u>2,067,236,876</u>	<u>434,697,732</u>	<u>1,746,615,487</u>
Borrowing commitments	19,957,055	81,325,000	-	-
	<u>527,254,448</u>	<u>2,148,561,876</u>	<u>434,697,732</u>	<u>1,746,615,487</u>
Financial liabilities				
Deposits from customers	577,203,735	2,352,105,220	482,384,926	1,938,222,633
Debt securities issued	2,834,127	11,549,068	2,380,797	9,566,042
Borrowings	124,840,562	508,725,290	68,271,178	274,313,593
Subordinated debts	8,366,981	34,095,448	13,074,608	52,533,775
Lease liabilities	3,427,479	13,966,977	3,233,448	12,991,994
Other liabilities	45,833,755	186,772,552	4,459,173	17,916,957
	<u>762,506,639</u>	<u>3,107,214,555</u>	<u>573,804,130</u>	<u>2,305,544,994</u>
Loan commitments	1,916,931	7,811,494	1,114,630	4,478,583
	<u>764,423,570</u>	<u>3,115,026,049</u>	<u>574,918,760</u>	<u>2,310,023,577</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

36. FINANCIAL RISK MANAGEMENT (continued)

36.2.3 Maturity analysis for financial liabilities and financial assets (continued)

36.2.4 Liquidity reserves

The following table sets out the components of the Group and the Company's liquidity reserves.

Group and Company	31 December 2019		31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
	US\$	US\$	US\$	US\$
Cash on hand	34,190,445	34,190,445	37,211,155	37,211,155
Balances with the NBC	95,934,585	95,934,585	77,602,188	77,602,188
Balances with other banks	9,657,803	9,657,803	39,594,315	39,594,315
Undrawn credit lines	15,049,080	15,049,080	35,000,000	35,000,000
Total liquidity reserves	<u>154,831,913</u>	<u>154,831,913</u>	<u>189,407,658</u>	<u>189,407,658</u>
In KHR'000 equivalents	<u>630,940,044</u>	<u>630,940,044</u>	<u>771,836,206</u>	<u>771,836,206</u>

36.2.5 Financial assets available to support future funding

The following table sets out the availability of the Group and the Company's financial assets to support future funding.

Group	Encumbered		Unencumbered		Total	
	Pledged as collateral	Other*	Available as collateral	Other**	US\$	KHR'000
	US\$	US\$	US\$	US\$		
31 December 2019						
Cash on hand	-	-	-	34,190,445	34,190,445	139,326,063
Balances with the NBC	4,225,754	11,531,305	-	80,225,251	95,982,310	391,127,913
Balances with other banks	-	-	-	9,657,803	9,657,803	39,355,547
Loans to customers	-	-	-	1,386,931,637	1,386,931,637	5,651,746,421
Investment securities	-	-	-	20,000	20,000	81,500
Other assets	-	-	-	19,281,314	19,281,314	78,571,356
	<u>4,225,754</u>	<u>11,531,305</u>	<u>-</u>	<u>1,530,306,450</u>	<u>1,546,063,509</u>	<u>6,300,208,800</u>
31 December 2018						
Cash on hand	-	-	-	37,211,155	37,211,155	149,514,421
Balances with the NBC	4,319,117	47,404,384	-	25,930,002	77,653,503	312,011,775
Balances with other banks	-	-	-	39,644,091	39,644,091	159,289,958
Loans to customers	-	-	-	968,005,254	968,005,254	3,889,445,111
Investment securities	-	-	-	20,000	20,000	80,360
Other assets	-	-	-	1,504,182	1,504,182	6,043,803
	<u>4,319,117</u>	<u>47,404,384</u>	<u>-</u>	<u>1,072,314,684</u>	<u>1,124,038,185</u>	<u>4,516,385,428</u>

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

36. FINANCIAL RISK MANAGEMENT (continued)

36.2 Liquidity risk (continued)

36.2.5 Financial assets available to support future funding (continued)

Company	Encumbered		Unencumbered		Total	
	Pledged as collateral	Other*	Available as collateral	Other**	US\$	KHR'000
	US\$	US\$	US\$	US\$		
31 December 2019						
Cash on hand	-	-	-	34,190,445	34,190,445	139,326,063
Balances with the NBC	4,225,754	11,531,305	-	80,225,251	95,982,310	391,127,913
Balances with other banks	-	-	-	9,657,803	9,657,803	39,355,547
Loans to customers	-	-	-	1,386,931,637	1,386,931,637	5,651,746,421
Investment securities	-	-	-	20,000	20,000	81,500
Investment in subsidiary	-	-	-	490	490	1,997
Other assets	-	-	-	19,286,474	19,286,474	78,592,382
	<u>4,225,754</u>	<u>11,531,305</u>	<u>-</u>	<u>1,530,312,100</u>	<u>1,546,069,159</u>	<u>6,300,231,823</u>
31 December 2018						
Cash on hand	-	-	-	37,211,155	37,211,155	149,514,421
Balances with the NBC	4,319,117	47,404,384	-	25,930,002	77,653,503	312,011,775
Balances with other banks	-	-	-	39,644,091	39,644,091	159,289,958
Loans to customers	-	-	-	968,005,254	968,005,254	3,889,445,111
Investment securities	-	-	-	20,000	20,000	80,360
Other assets	-	-	-	1,504,182	1,504,182	6,043,803
	<u>4,319,117</u>	<u>47,404,384</u>	<u>-</u>	<u>1,072,314,684</u>	<u>1,124,038,185</u>	<u>4,516,385,428</u>

* Represents assets that are not pledged but that the Group and the Company believe it is restricted from using to secure funding, for legal or other reasons.

** Represents assets that are not restricted for use as collateral, but that the Group and the Company would not consider readily available to secure funding in the normal course of business.

36.3 Market risk

'Market risk' is the risk that changes in market prices – e.g. interest rates and foreign exchange rates – will affect the Group and the Company's income or the value of its holdings of financial instruments. The objective of the Group and the Company's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Group and the Company's solvency while optimising the return on risk.

36.3.1 Market risk management

Overall authority for market risk is vested in ARBC at Board level and ALRMC at management level. ARBC sets up limits for each type of risk in aggregate and for portfolios (all portfolios are non-trading). The Credit and Market Risk Department at Risk Division is responsible for the development of detailed risk management policies (subject to review by ARBC and approval by BoD). Treasury function implement and manage the day-to-day market risk in the daily operation.

The Group and the Company employ a range of tools to monitor and limit market risk exposures.

The following table sets out the allocation of assets and liabilities subject to market risk.

HATTHA KAKSEKAR LIMITED

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36. FINANCIAL RISK MANAGEMENT (continued)

36.3 Market risk (continued)

36.3.1 Market risk management (continued)

Group	31 December 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Assets subject to market risk				
Cash on hand	34,190,445	139,326,063	37,211,155	149,514,421
Balances with the NBC	95,934,585	390,933,434	77,602,188	311,805,591
Balances with other banks	9,657,803	39,355,547	39,594,315	159,089,958
Loans to customers	1,036,272,930	4,222,812,190	741,839,028	2,980,709,215
Investment securities	20,000	81,500	20,000	80,360
Other assets	19,281,314	78,571,356	1,504,182	6,043,803
	<u>1,195,357,077</u>	<u>4,871,080,090</u>	<u>897,770,868</u>	<u>3,607,243,348</u>
Liabilities subject to market risk				
Deposits from customers	610,098,327	2,486,150,683	491,353,390	1,974,257,921
Debt securities issued	29,196,072	118,973,993	29,325,252	117,828,863
Borrowings	311,485,982	1,269,305,377	191,725,158	770,351,685
Subordinated debts	11,974,921	48,797,803	23,236,296	93,363,437
Lease liabilities	13,005,210	52,996,231	13,172,448	52,926,896
Other liabilities	45,870,654	186,922,915	4,488,231	18,033,712
Derivative liabilities held for risk management	1,887,584	7,691,905	27,794	111,676
	<u>1,023,518,750</u>	<u>4,170,838,907</u>	<u>753,328,569</u>	<u>3,026,874,190</u>
Company				
Company	31 December 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Assets subject to market risk				
Cash on hand	34,190,445	139,326,063	37,211,155	149,514,421
Balances with the NBC	95,934,585	390,933,434	77,602,188	311,805,591
Balances with other banks	9,657,803	39,355,547	39,594,315	159,089,958
Loans to customers	1,036,272,930	4,222,812,190	741,839,028	2,980,709,215
Investment securities	20,000	81,500	20,000	80,360
Investment in subsidiary	490	1,997	-	-
Other assets	19,286,474	78,592,382	1,504,182	6,043,803
	<u>1,195,362,727</u>	<u>4,871,103,113</u>	<u>897,770,868</u>	<u>3,607,243,348</u>
Liabilities subject to market risk				
Deposits from customers	610,099,327	2,486,154,758	491,353,390	1,974,257,921
Debt securities issued	29,196,072	118,973,993	29,325,252	117,828,863
Borrowings	311,485,982	1,269,305,377	191,725,158	770,351,685
Subordinated debts	11,974,921	48,797,803	23,236,296	93,363,437
Lease liabilities	13,005,210	52,996,231	13,172,448	52,926,896
Other liabilities	45,865,829	186,903,253	4,488,231	18,033,712
Derivative liabilities held for risk management	1,887,584	7,691,905	27,794	111,676
	<u>1,023,514,925</u>	<u>4,170,823,320</u>	<u>753,328,569</u>	<u>3,026,874,190</u>

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

36. FINANCIAL RISK MANAGEMENT (continued)

36.3 Market risk (continued)

36.3.2 Exposure to market risk

(i) Interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments or economic value of equity of HKL because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The Group and the Company also enter into Interest Rate Swap and Long-Term Funding to manage its interest rate risk exposures. ALMRC is the monitoring body for compliance with these limits and is assisted by Treasury Department in its day-to-day monitoring activities. These day-to-day activities include monitoring changes in the Group and the Company's interest rate exposures, which include the impact of the Group and the Company's outstanding or forecast debt obligations.

ARBC and ALMRC is responsible for setting the overall hedging strategy of the Group and the Company. Treasury is responsible for implementing that strategy by putting in place the individual hedge arrangements.

The following is a summary of the Group and the Company's interest rate gap position. The interest rate repricing gap table analyses the full-term structure of interest rate mismatches within the Group and the Company's balance sheet based on either (i) the next repricing date or the maturity date if floating rate or (ii) the maturity date if fixed rate.

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**NOTES TO THE FINANCIAL STATEMENTS
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36. FINANCIAL RISK MANAGEMENT (continued)

36.3 Market risk (continued)

36.3.2 Exposure to market risk (continued)

(i) *Interest rate risk* (continued)

Group	Carrying amount	Up to 3 months	> 3 – 6 months	> 6 – 12 months	> 1 – 5 years	Over 5 years	Non-interest sensitive
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
31 December 2019							
Financial assets							
Cash on hand	34,190,445	-	-	-	-	-	34,190,445
Balances with the NBC	95,934,585	-	4,140,000	11,549,080	-	-	80,245,505
Balances with other banks	9,657,803	4,347,746	-	-	-	-	5,310,057
Loans to customers	1,036,272,930	546,355	2,048,746	21,834,377	624,811,572	398,515,121	(11,483,241)
Investment securities	20,000	-	-	-	-	-	20,000
Other assets	19,281,314	-	-	-	-	-	19,281,314
	<u>1,195,357,077</u>	<u>4,894,101</u>	<u>6,188,746</u>	<u>33,383,457</u>	<u>624,811,572</u>	<u>398,515,121</u>	<u>127,564,080</u>
Financial liabilities							
Deposits from customers	610,098,327	191,452,154	99,754,345	259,585,149	59,266,167	40,512	-
Debt securities issued	29,196,072	-	-	-	29,447,853	-	(251,781)
Borrowings	311,485,982	10,000,000	13,926,380	20,000,000	267,596,014	-	(36,412)
Subordinated debts	11,974,921	-	5,000,000	-	6,000,000	729,319	245,602
Lease liabilities	13,005,210	-	-	-	-	-	13,005,210
Other liabilities	45,870,654	-	-	-	-	-	45,870,654
	<u>1,021,631,166</u>	<u>201,452,154</u>	<u>118,680,725</u>	<u>279,585,149</u>	<u>362,310,034</u>	<u>769,831</u>	<u>58,833,273</u>
Derivative liabilities held for risk management	<u>1,887,584</u>	-	-	-	-	-	<u>1,887,584</u>
Total	<u>171,838,327</u>	<u>(196,558,053)</u>	<u>(112,491,979)</u>	<u>(246,201,692)</u>	<u>262,501,538</u>	<u>397,745,290</u>	<u>66,843,223</u>
In KHR'000 equivalents	<u>700,241,183</u>	<u>(800,974,066)</u>	<u>(458,404,814)</u>	<u>(1,003,271,895)</u>	<u>1,069,693,767</u>	<u>1,620,812,057</u>	<u>272,386,134</u>

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**NOTES TO THE FINANCIAL STATEMENTS
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36. FINANCIAL RISK MANAGEMENT (continued)

36.3 Market risk (continued)

36.3.2 Exposure to market risk (continued)

(i) *Interest rate risk* (continued)

Group	Carrying amount	Up to 3 months	> 3 – 6 months	> 6 – 12 months	> 1 – 5 years	Over 5 years	Non-interest sensitive
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
31 December 2018							
Financial assets							
Cash on hand	37,211,155	-	-	-	-	-	37,211,155
Balances with the NBC	77,602,188	-	4,230,000	7,610,189	-	-	65,761,999
Balances with other banks	39,594,315	4,795,586	7,964,161	-	-	-	26,834,568
Loans to customers	741,839,028	537,990	1,832,696	19,976,362	636,605,601	93,310,571	(10,424,192)
Investment securities	20,000	-	-	-	-	-	20,000
Other assets	1,504,182	-	-	-	-	-	1,504,182
	<u>897,770,868</u>	<u>5,333,576</u>	<u>14,026,857</u>	<u>27,586,551</u>	<u>636,605,601</u>	<u>93,310,571</u>	<u>120,907,712</u>
Financial liabilities							
Deposits from customers	491,353,390	119,629,404	88,808,236	249,241,903	21,688,070	725,927	11,259,850
Debt securities issued	29,325,252	-	-	-	29,865,605	-	(540,353)
Borrowings	191,725,158	-	7,192,131	48,721,608	136,178,370	292,823	(659,774)
Subordinated debts	23,236,296	-	1,000,000	10,000,000	11,000,000	729,319	506,977
Lease liabilities	13,172,448	-	-	-	-	-	13,172,448
Other liabilities	4,488,231	-	-	-	-	-	4,488,231
	<u>753,300,775</u>	<u>119,629,404</u>	<u>97,000,367</u>	<u>307,963,511</u>	<u>198,732,045</u>	<u>1,748,069</u>	<u>28,227,379</u>
Derivative liabilities held for risk management	27,794	-	-	-	-	-	27,794
Total	<u>144,442,299</u>	<u>(114,295,828)</u>	<u>(82,973,510)</u>	<u>(280,376,960)</u>	<u>437,873,556</u>	<u>91,562,502</u>	<u>92,652,539</u>
In KHR'000 equivalents	<u>580,369,158</u>	<u>(459,240,637)</u>	<u>(333,387,563)</u>	<u>(1,126,554,625)</u>	<u>1,759,375,948</u>	<u>367,898,133</u>	<u>372,277,902</u>

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**NOTES TO THE FINANCIAL STATEMENTS
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36. FINANCIAL RISK MANAGEMENT (continued)

36.3 Market risk (continued)

36.3.2 Exposure to market risk (continued)

(i) *Interest rate risk* (continued)

Company	Carrying amount	Up to 3 months	> 3 – 6 months	> 6 – 12 months	> 1 – 5 years	Over 5 years	Non-interest sensitive
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
31 December 2019							
Financial assets							
Cash on hand	34,190,445	-	-	-	-	-	34,190,445
Balances with the NBC	95,934,585	-	4,140,000	11,549,080	-	-	80,245,505
Balances with other banks	9,657,803	4,347,746	-	-	-	-	5,310,057
Loans to customers	1,036,272,930	546,355	2,048,746	21,834,377	624,811,572	398,515,121	(11,483,241)
Investment securities	20,000	-	-	-	-	-	20,000
Investment in subsidiary	490	-	-	-	-	-	490
Other assets	19,286,474	-	-	-	-	-	19,286,474
	<u>1,195,362,727</u>	<u>4,894,101</u>	<u>6,188,746</u>	<u>33,383,457</u>	<u>624,811,572</u>	<u>398,515,121</u>	<u>127,569,730</u>
Financial liabilities							
Deposits from customers	610,099,327	191,453,154	99,754,345	259,585,149	59,266,167	40,512	-
Debt securities issued	29,196,072	-	-	-	29,447,853	-	(251,781)
Borrowings	311,485,982	10,000,000	13,926,380	20,000,000	267,596,014	-	(36,412)
Subordinated debts	11,974,921	-	5,000,000	-	6,000,000	729,319	245,602
Lease liabilities	13,005,210	-	-	-	-	-	13,005,210
Other liabilities	45,865,829	-	-	-	-	-	45,865,829
	<u>1,021,627,341</u>	<u>201,453,154</u>	<u>118,680,725</u>	<u>279,585,149</u>	<u>362,310,034</u>	<u>769,831</u>	<u>58,828,448</u>
Derivative liabilities held for risk management	1,887,584	-	-	-	-	-	1,887,584
Total	<u>171,847,802</u>	<u>(196,559,053)</u>	<u>(112,491,979)</u>	<u>(246,201,692)</u>	<u>262,501,538</u>	<u>397,745,290</u>	<u>66,853,698</u>
In KHR'000 equivalents	<u>700,279,793</u>	<u>(800,978,141)</u>	<u>(458,404,814)</u>	<u>(1,003,271,895)</u>	<u>1,069,693,767</u>	<u>1,620,812,057</u>	<u>272,428,819</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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36. FINANCIAL RISK MANAGEMENT (continued)

36.3 Market risk (continued)

36.3.2 Exposure to market risk (continued)

(i) *Interest rate risk* (continued)

Company	Carrying amount	Up to 3 months	> 3 – 6 months	> 6 – 12 months	> 1 – 5 years	Over 5 years	Non-interest sensitive
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
31 December 2018							
Financial assets							
Cash on hand	37,211,155	-	-	-	-	-	37,211,155
Balances with the NBC	77,602,188	-	4,230,000	7,610,189	-	-	65,761,999
Balances with other banks	39,594,315	4,795,586	7,964,161	-	-	-	26,834,568
Loans to customers	741,839,028	537,990	1,832,696	19,976,362	636,605,601	93,310,571	(10,424,192)
Investment securities	20,000	-	-	-	-	-	20,000
Other assets	1,504,182	-	-	-	-	-	1,504,182
	<u>897,770,868</u>	<u>5,333,576</u>	<u>14,026,857</u>	<u>27,586,551</u>	<u>636,605,601</u>	<u>93,310,571</u>	<u>120,907,712</u>
Financial liabilities							
Deposits from customers	491,353,390	119,629,404	88,808,236	249,241,903	21,688,070	725,927	11,259,850
Debt securities issued	29,325,252	-	-	-	29,865,605	-	(540,353)
Borrowings	191,725,158	-	7,192,131	48,721,608	136,178,370	292,823	(659,774)
Subordinated debts	23,236,296	-	1,000,000	10,000,000	11,000,000	729,319	506,977
Lease liabilities	13,172,448	-	-	-	-	-	13,172,448
Other liabilities	4,488,231	-	-	-	-	-	4,488,231
	<u>753,300,775</u>	<u>119,629,404</u>	<u>97,000,367</u>	<u>307,963,511</u>	<u>198,732,045</u>	<u>1,748,069</u>	<u>28,227,379</u>
Derivative liabilities held for risk management	27,794	-	-	-	-	-	27,794
Total	<u>144,442,299</u>	<u>(114,295,828)</u>	<u>(82,973,510)</u>	<u>(280,376,960)</u>	<u>437,873,556</u>	<u>91,562,502</u>	<u>92,652,539</u>
In KHR'000 equivalents	<u>580,369,158</u>	<u>(459,240,637)</u>	<u>(333,387,563)</u>	<u>(1,126,554,625)</u>	<u>1,759,375,948</u>	<u>367,898,133</u>	<u>372,277,902</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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36. FINANCIAL RISK MANAGEMENT (continued)

36.3 Market risk (continued)

36.3.2 Exposure to market risk (continued)

(i) *Interest rate risk* (continued)

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group and the Company's financial assets and financial liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 and 50 basis point (bp) parallel fall or rise to see the impact of Net Interest Income (NII) within 12 months and a 100bp and 50 basis point (BP) parallel fall or rise to all portions to see the impact on Book Value to Equity.

The following is an analysis of the Group and the Company's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement of interest rate.

Group and Company	100bp parallel increase US\$	100bp parallel decrease US\$	50bp increase after 1 year US\$	50bp decrease after 1 year US\$
Sensitivity of projected net interest income				
31 December 2019				
As at 31 December	(1,828,035)	1,828,035	(914,017)	914,017
Average for the year	(1,778,313)	1,778,313	(889,156)	889,156
Maximum for the year	(2,061,886)	2,061,886	(1,030,943)	1,030,943
Minimum for the year	(738,884)	738,884	(369,442)	369,442
31 December 2018				
As at 31 December	(1,796,075)	1,796,075	(898,038)	898,038
Average for the year	(1,189,535)	1,189,535	(594,768)	594,768
Maximum for the year	(1,796,075)	1,796,075	(898,038)	898,038
Minimum for the year	(701,151)	701,151	(350,575)	350,575
Sensitivity of reported equity to interest rate movements				
31 December 2019				
As at 31 December	(9,623,892)	9,623,892	(4,811,946)	4,811,946
Average for the year	(9,818,207)	9,818,207	(4,909,104)	4,909,104
Maximum for the year	(12,848,027)	12,848,027	(6,424,014)	6,424,014
Minimum for the year	(7,523,313)	7,523,313	(3,761,656)	3,761,656
31 December 2018				
As at 31 December	(7,523,313)	7,523,313	(3,761,656)	3,761,656
Average for the year	(5,582,434)	5,582,434	(2,791,217)	2,791,217
Maximum for the year	(7,523,313)	7,523,313	(3,761,656)	3,761,656
Minimum for the year	(4,683,247)	4,683,247	(2,341,623)	2,341,623

Aggregate interest rate risk positions are managed by Treasury, which uses balances with other banks, deposits from banks and derivative instruments to manage the positions.

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

36. FINANCIAL RISK MANAGEMENT (continued)

36.3 Market risk (continued)

36.3.2 Exposure to market risk (continued)

(i) *Interest rate risk* (continued)

Interest rate swap contracts

Under interest rate swap contracts, the Group and the Company agree to exchange the difference between fixed and floating rate interest amounts calculated on contracted notional principal amounts. Such contracts enable the Group and the Company to mitigate the risk of changing interest rates on the cash flow of floating rate debts issued and the risk of violating the gap of BVE. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using the interest rate curves at the reporting date adjusted for the credit risk inherent in the contract, and is disclosed below.

	Contract floating interest rate		Notional principal value		Fair value	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Group and Company	%	%	US\$	US\$	US\$	US\$
Outstanding receive floating pay fixed contracts						
Less than 1 year	-	-	-	-	-	-
1 to 2 years	-	8.1050%	-	24,000,000	-	15,672
	6.13638%-	7.15088%-				
2 to 5 years	10.92225%	11.855%	52,857,429	85,000,000	(761,271)	(43,466)
5 years +	1.9466%	-	80,000,000	-	(1,106,860)	-
Total			<u>132,857,429</u>	<u>109,000,000</u>	<u>(1,868,131)</u>	<u>(27,794)</u>
In KHR'000 equivalents			<u>541,394,023</u>	<u>437,962,000</u>	<u>(7,612,634)</u>	<u>(111,676)</u>

The interest rate swaps typically settle on a semi-annual basis. The floating rate on the interest rate swaps is typically 6-month LIBOR.

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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36. FINANCIAL RISK MANAGEMENT (continued)

36.3 Market risk (continued)

36.3.2 Exposure to market risk (continued)

(ii) *Foreign exchange risk* (continued)

The Group and the Company undertake transactions denominated in foreign currencies resulting in exposures to exchange rate fluctuations. Exchange rate exposures are managed within approved policy parameters using cross currency swaps.

The carrying amounts of the Group and the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

Group	US\$ equivalent			Total	
	US\$	KHR	THB	US\$	KHR'000
31 December 2019					
Financial assets					
Cash on hand	25,454,681	7,538,214	1,197,550	34,190,445	139,326,063
Balances with the NBC	67,278,371	28,656,214	-	95,934,585	390,933,434
Balances with other banks	6,362,282	3,281,150	14,371	9,657,803	39,355,547
Loans to customers	837,970,741	160,116,317	38,185,872	1,036,272,930	4,222,812,190
Investment securities	20,000	-	-	20,000	81,500
Other assets	19,099,799	181,515	-	19,281,314	78,571,355
	<u>956,185,874</u>	<u>199,773,410</u>	<u>39,397,793</u>	<u>1,195,357,077</u>	<u>4,871,080,089</u>
Financial liabilities					
Deposits from customers	531,240,837	69,100,179	9,757,311	610,098,327	2,486,150,683
Debt securities issued	-	29,196,072	-	29,196,072	118,973,993
Borrowings	165,042,369	113,854,465	32,589,148	311,485,982	1,269,305,377
Subordinated debts	11,974,921	-	-	11,974,921	48,797,803
Lease liabilities	13,005,210	-	-	13,005,210	52,996,231
Other liabilities	45,490,759	287,765	92,130	45,870,654	186,922,915
	<u>766,754,096</u>	<u>212,438,481</u>	<u>42,438,589</u>	<u>1,021,631,166</u>	<u>4,163,147,002</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

36. FINANCIAL RISK MANAGEMENT (continued)

36.3 Market risk (continued)

36.3.2 Exposure to market risk (continued)

(ii) *Foreign exchange risk (continued)*

Group	US\$ equivalent			Total	
	US\$	KHR	THB	US\$	KHR'000
31 December 2018					
Financial assets					
Cash on hand	30,607,038	5,376,438	1,227,679	37,211,155	149,514,421
Balances with the NBC	63,770,817	13,831,371	-	77,602,188	311,805,591
Balances with other banks	22,605,136	13,882,733	3,106,446	39,594,315	159,089,958
Loans to customers	642,453,228	72,206,985	27,178,815	741,839,028	2,980,709,215
Investment securities	20,000	-	-	20,000	80,360
Other assets	1,404,129	100,053	-	1,504,182	6,043,803
	<u>760,860,348</u>	<u>105,397,580</u>	<u>31,512,940</u>	<u>897,770,868</u>	<u>3,607,243,348</u>
Financial liabilities					
Deposits from customers	424,678,594	56,329,958	10,344,838	491,353,390	1,974,257,921
Debt securities issued	-	29,325,252	-	29,325,252	117,828,863
Borrowings	174,257,807	9,557,817	7,909,534	191,725,158	770,351,685
Subordinated debts	23,236,296	-	-	23,236,296	93,363,437
Lease liabilities	13,172,448	-	-	13,172,448	52,926,896
Other liabilities	4,066,406	277,645	144,180	4,488,231	18,033,712
	<u>639,411,551</u>	<u>95,490,672</u>	<u>18,398,552</u>	<u>753,300,775</u>	<u>3,026,762,514</u>
Company					
	US\$ equivalent			Total	
	US\$	KHR	THB	US\$	KHR'000
31 December 2019					
Financial assets					
Cash on hand	25,454,681	7,538,214	1,197,550	34,190,445	139,326,063
Balances with the NBC	67,278,371	28,656,214	-	95,934,585	390,933,434
Balances with other banks	6,362,282	3,281,150	14,371	9,657,803	39,355,547
Loans to customers	837,970,741	160,116,317	38,185,872	1,036,272,930	4,222,812,190
Investment securities	20,000	-	-	20,000	81,500
Investment in subsidiary	490	-	-	490	1,997
Other assets	19,104,959	181,515	-	19,286,474	78,592,382
	<u>956,191,524</u>	<u>199,773,410</u>	<u>39,397,793</u>	<u>1,195,362,727</u>	<u>4,871,103,113</u>
Financial liabilities					
Deposits from customers	531,241,837	69,100,179	9,757,311	610,099,327	2,486,154,758
Debt securities issued	-	29,196,072	-	29,196,072	118,973,993
Borrowings	165,042,369	113,854,465	32,589,148	311,485,982	1,269,305,377
Subordinated debts	11,974,921	-	-	11,974,921	48,797,803
Lease liabilities	13,005,210	-	-	13,005,210	52,996,231
Other liabilities	45,485,934	287,765	92,130	45,865,829	186,903,253
	<u>766,750,271</u>	<u>212,438,481</u>	<u>42,438,589</u>	<u>1,021,627,341</u>	<u>4,163,131,415</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

36. FINANCIAL RISK MANAGEMENT (continued)

36.3 Market risk (continued)

36.3.2 Exposure to market risk (continued)

(ii) *Foreign exchange risk* (continued)

Company	US\$ equivalent			Total	
	US\$	KHR	THB	US\$	KHR'000
31 December 2018					
Financial assets					
Cash on hand	30,607,038	5,376,438	1,227,679	37,211,155	149,514,421
Balances with the NBC	63,770,817	13,831,371	-	77,602,188	311,805,591
Balances with other banks	22,605,136	13,882,733	3,106,446	39,594,315	159,089,958
Loans to customers	642,453,228	72,206,985	27,178,815	741,839,028	2,980,709,215
Investment securities	20,000	-	-	20,000	80,360
Other assets	1,404,129	100,053	-	1,504,182	6,043,803
	<u>760,860,348</u>	<u>105,397,580</u>	<u>31,512,940</u>	<u>897,770,868</u>	<u>3,607,243,348</u>
Financial liabilities					
Deposits from customers	424,678,594	56,329,958	10,344,838	491,353,390	1,974,257,921
Debt securities issued	-	29,325,252	-	29,325,252	117,828,863
Borrowings	174,257,807	9,557,817	7,909,534	191,725,158	770,351,685
Subordinated debts	23,236,296	-	-	23,236,296	93,363,437
Lease liabilities	13,172,448	-	-	13,172,448	52,926,896
Other liabilities	4,066,406	277,645	144,180	4,488,231	18,033,712
	<u>639,411,551</u>	<u>95,490,672</u>	<u>18,398,552</u>	<u>753,300,775</u>	<u>3,026,762,514</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

36. FINANCIAL RISK MANAGEMENT (continued)

36.3 Market risk (continued)

36.3.2 Exposure to market risk (continued)

(ii) *Foreign exchange risk (continued)*

Currency swap contract

In the current year, the Group and the Company enter into currency swap contract where the Group and the Company agree to exchange KHR currency with US\$ currency in order to manage foreign currency position.

The following table details the currency swap contract outstanding as at the year-end:

Group and Company	Exchange rate		Foreign currency		Notional value		Fair value	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018	31 December 2019	31 December 2018
	[rate]	[rate]	KHR'000	KHR'000	US\$	US\$	US\$	US\$
Outstanding contract								
Buy								
Less than 3 months				-		-		-
3 to 6 months	4,066 - 4,068	-	40,340,000	-	9,899,387	-	9,918,839	-
Sell								
Less than 3 months			-	-	-	-	-	-
3 to 6 months			-	40,340,000	-	9,899,387	-	9,899,387
				-		-	19,452	-

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 DECEMBER 2019

36. FINANCIAL RISK MANAGEMENT (continued)

36.4 Operational risk

36.4.1 Operational risk management

'Operational risk' is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group and the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks – e.g. those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group and the Company's operations.

The Group and the Company's objective are to manage operational risk so as to balance the avoidance of financial losses and damage to the Group and the Company's reputation with overall cost effectiveness and innovation. In all cases, the Group and the Company's policy require compliance with all applicable legal and regulatory requirements.

Risk Division is responsible for the development and implementation of controls to address operational risk. This responsibility is supported by the development of overall Group and Company standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- information technology and cyber risks; and
- risk mitigation, including insurance where this is cost-effective.

36.5 Capital risk

Capital risk is the risk that the Group and the Company have insufficient capital resources to meet the minimum regulatory requirements to support its credit rating and to support its growth and strategic options.

The Group and the Company's strategy are 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' return is also recognised and the Group 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 Group and the Company's lead regulator, the NBC, set and monitor capital requirements for the Group and the Company as a whole.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 DECEMBER 2019

36. FINANCIAL RISK MANAGEMENT (continued)

36.5 Capital risk (continued)

36.5.1 Capital risk management

As with liquidity and market risks, ARBC and ALRMC is responsible for ensuring the effective management of capital risk throughout the Group and the Company.

Capital risk is measured and monitored using limits set calculated in accordance with NBC's requirements.

On 22 February 2018, the NBC issued a Prakas on Capital Buffer in Banking and Financial Institutions. According to Article 22 of this Prakas, the institution shall comply with the provisions related to the capital conservation buffer at least 50% of the conservation buffer by 1 January 2019 and fully comply by 1 January 2020.

On 7 March 2018, the NBC issued a circular on the implementation of Prakas on Capital Buffer in Banking and Financial Institutions, which determines the countercyclical capital buffer at a level of 0% until a new announcement is released.

The Group and the Company have complied with all externally imposed capital requirements throughout the year.

37. CURRENT AND NON-CURRENT

Management presents the financial statements based on liquidity. Information about short-term and long-term of financial assets and financial liabilities are disclosed in the financial risk management section. Property and equipment, right-of-use assets, intangible assets and deferred tax assets are non-current assets. Provisions are non-current liability.

38. SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources and assesses the performance of the operating segments of an entity. The Group and the Company have determined the BoD as the collective body of chief operating decision makers. Segment reporting is not required for the Group and the Company as the majority of the income is from the same business segment, which is credit and lending. All activities are carried out in the Kingdom of Cambodia.

39. NEW AND REVISED CIFRS STANDARDS IN ISSUE BUT NOT YET EFFECTIVE

At the date of authorisation of these financial statements, the Group and the Company have not applied the following new and revised CIFRS Standards that have been issued but are not yet effective:

- a. CIFRS 17 Insurance Contracts
- b. CIFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- c. Amendments to CIFRS 3 Definition of a business
- d. Amendments to IAS 1 and IAS 8 Definition of material
- e. Amendments to References to the Conceptual Framework in CIFRS Standards

The management does not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group and the Company in future periods.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 DECEMBER 2019

40. EVENTS AFTER THE REPORTING DATE

Tax incentives

On 25 February 2020, the Ministry of Economy and Finance issued a Prakas No. 183 on Implementation Guidelines on Tax Incentives on Tax on Income to New Public Securities Issuing Enterprises.

- The enterprise issuing debt securities more than 20% of its total assets with the maturity of at least 7 years is granted tax incentives by reducing 50% of tax on income over 3 years upon being granted approval from the Securities and Exchange Commission of Cambodia ("SECC") and listed on permitted Securities Market.
- The enterprise issuing debt securities equal to or less than 20% of its total assets is granted tax incentives on tax on income over 3 years by reducing the amount of tax on income based on the pro-rata percentage of value of debt securities over total assets, dividing by base 20.001% and multiplying by 50%. In addition, the granted tax incentives shall not exceed approximately US\$2,000,000 (equivalent to KHR 8 billion).

Covid-19 outbreak and EBA

With the Covid-19 outbreak and a potential partial suspension of everything but arms (EBA) tax relief by the European Union, the management has assessed the impact on the financial statements of the Bank and concluded that these are non-adjusting events and there is minimal impact to the Group and the Company's financial statements given the size of the related portfolios at the year end.