HATTHA KAKSEKAR LIMITED
(Registration No. 00005355)

INTERIM FINANCIAL STATEMENTS FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2019

HATTHA KAKSEKAR LIMITED

INTERIM FIANCIAL STATEMENTS
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED 30 JUNE 2019

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STATEMENT OF THE BOARD OF DIRECTORS

In the opinion of the Board of Directors, the accompanying interim financial statements as set out on pages 3 to 88 are prepared, in all material respects, the financial position of Hattha Kaksekar Limited as at 30 June 2019, its financial performance for the three-month and six-month periods then ended, and its cash flows for the six-month period then ended in accordance with Cambodian International Accounting Standard 34, 'Interim Financial Reporting', and at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Board of Directors

ហត្ថាកសិករ លីមីតធីត
ការិយាល័យកណ្តាល
HKL
Head Office
HATTHA KAKSEKAR LIMITED

Mr. Hout Ieng Tong
President and Chief Executive Officer

Phnom Penh, Kingdom of Cambodia
Date: 14 August 2019

Deloitte.

Deloitte (Cambodia) Co., Ltd.
Vattanac Capital Tower
Floor 8, Unit 8, #66
Preah Monivong Blvd
Sangkat Wat Phnom
Khan Duan Penh
Phnom Penh, Cambodia

Tel: +855 (0) 23 963 777
Fax: +855 (0) 23 963 778
www.deloitte.com/kh

REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

To the shareholder of Hattha Kaksekar Limited

Introduction

We have reviewed the accompanying interim statement of financial position of Hattha Kaksekar Limited (the "Company") as at 30 June 2019 and the related interim statements of profit or loss and other comprehensive income for the three-month and six-month periods then ended, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim financial statements in accordance with Cambodian International Accounting Standard 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on these interim financial statements based on our review.

Scope of review

We conducted our review in accordance with Cambodian International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Cambodian International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements are not prepared, in all material respects, in accordance with Cambodian International Accounting Standard 34, 'Interim Financial Reporting'.

Other matters

We draw attention to the fact that the Company prepared and presented the interim statements of profit or loss and other comprehensive income for the three-month and six-month periods ended 30 June 2018, and statements of changes in equity and cash flows for the six-month period then ended for comparative purposes only. These statements including related notes were neither reviewed nor audited.

For Deloitte (Cambodia) Co., Ltd.

ក្រុមហ៊ុន ដ៊ីឡយធ៍ (ខេមបូឌា) ខូ លីមីធីត
Deloitte (Cambodia) Co., Ltd.
KINGDOM OF CAMBODIA

Ung Kimsopheaktra
Director

Phnom Penh, Kingdom of Cambodia
Date: 14 August 2019

HATTHA KAKSEKAR LIMITED

INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

	Notes	30 June 2019 US$	30 June 2019 KHR'000	31 December 2018 US$	31 December 2018 KHR'000	1 January 2018 US$	1 January 2018 KHR'000
ASSETS							
Cash on hand		26,268,257	106,806,733	37,211,155	149,514,421	9,923,604	40,061,589
Balances with the NBC	6	74,607,763	303,355,164	77,602,188	311,805,591	41,264,136	166,583,317
Balances with other banks	7	65,121,823	264,785,332	39,594,315	159,089,958	57,035,505	230,252,334
Loans to customers	8	865,400,890	3,518,720,019	741,839,028	2,980,709,215	564,202,315	2,277,684,746
Investment securities	9	20,000	81,320	20,000	80,360	20,000	80,740
Property and equipment	10	3,720,122	15,126,016	4,148,634	16,669,211	3,958,984	15,982,418
Right-of-use assets	11	12,258,007	49,841,056	12,788,265	51,383,249	13,225,717	53,392,220
Intangible assets	12	1,351,530	5,495,321	835,911	3,358,690	611,726	2,469,538
Deferred tax assets, net	13(a)	3,519,597	14,310,681	3,100,212	12,456,652	1,876,639	7,575,992
Other assets	14	9,181,635	37,332,528	7,938,877	31,898,408	7,477,818	30,187,951
TOTAL ASSETS		**1,061,449,624**	**4,315,854,170**	**925,078,585**	**3,716,965,755**	**699,596,444**	**2,824,270,845**
LIABILITIES							
Deposits from customers	15	574,045,523	2,334,069,097	491,353,390	1,974,257,921	375,822,867	1,517,196,914
Debt securities issued	16	29,122,787	118,413,252	29,325,252	117,828,863	-	-
Borrowings	17	241,369,509	981,408,424	191,725,158	770,351,685	175,448,992	708,287,581
Subordinated debts	18	15,548,256	63,219,209	23,236,296	93,363,437	25,258,299	101,967,753
Derivatives held for risk management	19	902,068	3,667,808	27,794	111,676	358,020	1,445,327
Current tax liabilities	13(b)	2,971,742	12,083,103	4,862,542	19,537,694	3,510,009	14,169,906
Lease liabilities	20	12,817,656	52,116,589	13,172,448	52,926,896	13,101,606	52,891,183
Provisions	21	26,422	107,432	3,599	14,461	4,731	19,099
Other liabilities	22	6,050,583	24,601,670	5,127,753	20,603,312	3,841,293	15,507,300
TOTAL LIABILITIES		**882,854,546**	**3,589,686,584**	**758,834,232**	**3,048,995,945**	**597,345,817**	**2,411,485,063**

HATTHA KAKSEKAR LIMITED

INTERIM STATEMENT OF FINANCIAL POSITION (continued)
AS AT 30 JUNE 2019

	Notes	30 June 2019 US$	30 June 2019 KHR'000	31 December 2018 US$	31 December 2018 KHR'000	1 January 2018 US$	1 January 2018 KHR'000
EQUITY							
Share capital	23	75,000,000	304,950,000	75,000,000	301,350,000	30,000,000	121,110,000
Share premium		19,082,502	77,589,453	19,082,502	76,673,493	19,082,502	77,036,061
Reserves	24	6,347,044	29,444,703	4,389,187	17,635,753	2,721,101	10,985,085
Retained earnings		78,165,532	314,183,430	67,772,664	272,310,564	50,447,024	203,654,636
TOTAL EQUITY		**178,595,078**	**726,167,586**	**166,244,353**	**667,969,810**	**102,250,627**	**412,785,782**
TOTAL LIABILITIES AND EQUITY		**1,061,449,624**	**4,315,854,170**	**925,078,585**	**3,716,965,755**	**699,596,444**	**2,824,270,845**

The accompanying notes from pages 10 to 88 form an integral part of these interim financial statements.

HATTHA KAKSEKAR LIMITED

INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE THREE-MONTH PERIOD ENDED 30 JUNE 2019

	Notes	Three-month period ended 30 June 2019 US$	Three-month period ended 30 June 2019 KHR'000	Three-month period ended 30 June 2018 US$	Three-month period ended 30 June 2018 KHR'000
				(Unreviewed and unaudited)	
Interest income	25	34,085,933	138,062,532	26,774,599	108,306,981
Interest expense	25	(14,674,605)	(59,434,932)	(11,498,688)	(46,502,876)
Net interest income		**19,411,328**	**78,627,600**	**15,275,911**	**61,804,105**
Fee and commission income	26	1,107,915	4,491,757	586,159	2,371,063
Fee and commission expense	26	(188,748)	(764,653)	(183,580)	(742,767)
Net fee and commission income		**919,167**	**3,727,104**	**402,579**	**1,628,296**
Net (loss)/income from other financial instruments at FVTPL	27	(433,407)	(1,755,149)	121,089	486,407
Other income	28	33,745	140,065	(423,705)	(1,702,987)
Net impairment losses on financial instruments	29	(223,681)	(904,813)	(889,704)	(3,597,050)
Personnel expenses	30	(8,338,720)	(33,779,335)	(6,197,545)	(25,084,147)
Depreciation and amortisation	31	(1,334,945)	(5,408,625)	(1,272,901)	(5,149,235)
Other expenses	32	(2,105,981)	(8,528,984)	(2,032,340)	(8,221,264)
Profit before tax		**7,927,506**	**32,117,863**	**4,983,384**	**20,164,125**
Income tax expense	13(c)	(1,592,514)	(6,455,816)	(1,011,180)	(4,091,604)
Profit for the period		**6,334,992**	**25,662,047**	**3,972,204**	**16,072,521**
Other comprehensive income		-	3,795,197	-	3,444,977
Total comprehensive income for the period		**6,334,992**	**29,457,244**	**3,972,204**	**19,517,498**
Profit attributable to shareholder		**6,334,992**	**25,662,047**	**3,972,204**	**16,072,521**
Total comprehensive income attributable to shareholder		**6,334,992**	**29,457,244**	**3,972,204**	**19,517,498**

The accompanying notes from pages 10 to 88 form an integral part of these interim financial statements.

HATTHA KAKSEKAR LIMITED

INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

		Six-month period ended 30 June 2019		Six-month period ended 30 June 2018	
	Notes	US$	KHR'000	US$	KHR'000
				(Unreviewed and unaudited)	
Interest income	25	65,838,464	265,263,171	52,193,528	210,287,724
Interest expense	25	(28,194,091)	(113,593,993)	(21,772,926)	(87,723,119)
Net interest income		**37,644,373**	**151,669,178**	**30,420,602**	**122,564,605**
Fee and commission income	26	2,323,894	9,362,969	1,140,751	4,596,086
Fee and commission expense	26	(370,808)	(1,493,985)	(367,313)	(1,479,904)
Net fee and commission income		**1,953,086**	**7,868,984**	**773,438**	**3,116,182**
Net (loss)/income from other financial instruments at FVTPL	27	(822,660)	(3,314,497)	35,177	141,728
Other income	28	212,260	855,196	(181,358)	(730,691)
Net impairment losses on financial instruments	29	(380,306)	(1,532,253)	(1,621,079)	(6,531,327)
Personnel expenses	30	(16,279,255)	(65,589,118)	(12,917,407)	(52,044,233)
Depreciation and amortisation	31	(2,645,034)	(10,656,842)	(2,491,560)	(10,038,495)
Other expenses	32	(4,018,449)	(16,190,331)	(3,971,511)	(16,001,218)
Profit before tax		**15,664,015**	**63,110,317**	**10,046,302**	**40,476,551**
Income tax expense	13(c)	(3,313,290)	(13,349,245)	(2,044,143)	(8,235,852)
Profit for the period		**12,350,725**	**49,761,072**	**8,002,159**	**32,240,699**
Other comprehensive income		-	3,637,622	-	1,542,237
Total comprehensive income for the period		**12,350,725**	**53,398,694**	**8,002,159**	**33,782,936**
Profit attributable to shareholder		**12,350,725**	**49,761,072**	**8,002,159**	**32,240,699**
Total comprehensive income attributable to shareholder		**12,350,725**	**53,398,694**	**8,002,159**	**33,782,936**

The accompanying notes from pages 10 to 88 form an integral part of these interim financial statements.

HATTHA KAKSEKAR LIMITED

INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

	Attributable to shareholder				
	Share capital	Share premium	Reserves	Retained earnings	Total
	US$	US$	US$	US$	US$
Six-month period ended 30 June 2018 (Unreviewed and unaudited)					
At 1 January 2018	30,000,000	19,082,502	2,721,101	50,447,024	102,250,627
Profit for the period	-	-	-	8,002,159	8,002,159
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period	-	-	-	**8,002,159**	**8,002,159**
Transfers from retained earnings to regulatory reserves	-	-	1,219,372	(1,219,372)	-
At 30 June 2018	**30,000,000**	**19,082,502**	**3,940,473**	**57,229,811**	**110,252,786**
In KHR'000 equivalents	**121,890,000**	**77,532,206**	**17,552,379**	**230,982,485**	**447,957,070**
Six-month period ended 30 June 2019					
At 1 January 2019	75,000,000	19,082,502	4,389,187	67,772,664	166,244,353
Profit for the period	-	-	-	12,350,725	12,350,725
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period	-	-	-	**12,350,725**	**12,350,725**
Transfers from retained earnings to regulatory reserves	-	-	1,957,857	(1,957,857)	-
At 30 June 2019	**75,000,000**	**19,082,502**	**6,347,044**	**78,165,532**	**178,595,078**
In KHR'000 equivalents	**304,950,000**	**77,589,453**	**29,444,703**	**314,183,430**	**726,167,586**

The accompanying notes from pages 10 to 88 form an integral part of these interim financial statements.

HATTHA KAKSEKAR LIMITED

INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

		Six-month period ended 30 June 2019		Six-month period ended 30 June 2018	
	Note	**US$**	**KHR'000**	**US$**	**KHR'000**
				(Unreviewed and unaudited)	
Cash flows from operating activities					
Profit for the period		12,350,725	49,761,072	8,002,159	32,240,699
Adjustments for:					
Net interest income	25	(37,644,373)	(151,669,178)	(30,420,602)	(122,564,605)
Net loss/(income) from other financial instruments at FVTPL		822,660	3,314,497	(35,177)	(141,728)
Net impairment losses on financial instruments		380,306	1,532,253	1,621,079	6,531,327
Depreciation and amortisation		2,645,034	10,656,842	2,491,560	10,038,495
Other personnel expenses		634,658	2,557,037	613,652	2,472,404
Loss/(gains) on disposals of property and equipment		450	1,813	(181)	(729)
Income tax expense		3,313,290	13,349,245	2,044,143	8,235,852
Effect of currency translation of monetary items		(11,588)	(46,688)	(143,220)	(581,903)
		(17,508,838)	**(70,543,107)**	**(15,826,587)**	**(63,770,188)**
Changes in:					
Balances with the NBC		(10,971,462)	(44,204,020)	(4,150,000)	(16,720,350)
Loans to customers		(125,465,320)	(505,499,774)	(86,550,154)	(348,710,570)
Other assets		(669,759)	(2,698,459)	(555,333)	(2,237,437)
Deposits from customers		82,256,481	331,411,362	41,406,458	166,826,619
Other liabilities		922,830	3,718,082	1,039,976	4,190,063
Cash used in operations		(71,436,068)	(287,815,916)	(64,635,640)	(260,421,863)
Interest received		66,273,358	267,015,359	53,348,004	214,939,108
Interest paid		(27,222,024)	(109,677,535)	(23,044,367)	(92,845,755)
Income tax paid		(5,623,475)	(22,656,981)	(3,981,910)	(16,043,115)
Net cash used in operating activities		**(38,008,209)**	**(153,135,073)**	**(38,313,913)**	**(154,371,625)**

INTERIM STATEMENT OF CASH FLOWS (continued)
FOR THE SIX-MONTH PERIOD ENDED 30 June 2019

		Six-month period ended 30 June 2019		Six-month period ended 30 June 2018	
	Note	**US$**	**KHR'000**	**US$**	**KHR'000**
				(Unreviewed and unaudited)	
Cash flows from investing activities					
Purchases of property and equipment		(684,696)	(2,758,640)	(855,517)	(3,446,878)
Purchases of intangible assets		(618,068)	(2,490,196)	(28,875)	(116,337)
Proceeds from disposals of property and equipment		732	2,949	183	737
Net cash used in investing activities		**(1,302,032)**	**(5,245,887)**	**(884,209)**	**(3,562,478)**
Cash flows from financing activities					
Proceeds from borrowings		85,326,978	343,782,394	103,915,971	418,677,447
Repayments of borrowings		(36,095,564)	(145,429,027)	(39,490,459)	(159,107,059)
Repayments of subordinated debts		(7,500,000)	(30,217,500)	(1,000,000)	(4,029,000)
Principal elements of lease payments		(1,735,890)	(6,993,901)	(1,466,653)	(5,909,145)
Net cash generated from financing activities		**39,995,524**	**161,141,966**	**61,958,859**	**249,632,243**
Net increase in cash and cash equivalents		685,283	2,761,006	22,760,737	91,698140
Cash and cash equivalents at the beginning of the period		106,976,320	429,830,854	75,177,800	303,492,778
Currency translation differences		-	5,160,218	-	2,733,358
Cash and cash equivalents at the end of the period	33	**107,661,603**	**437,752,078**	**97,938,537**	**397,924,276**

The accompanying notes from pages 10 to 88 form an integral part of these interim financial statements.

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.

The interim financial statements of the Company were authorised for issue by the Board of Directors on 14 August 2019.

2. BASIS OF ACCOUNTING

2.1 Basis of preparation

This is the first set of interim financial statements prepared by HKL in accordance with Cambodian International Financial Reporting Standards ("CIFRS") 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 CIFRS are given in Note 3.

2.2 Functional and presentation currency

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

Transactions in currencies other than US$ are translated into US$ at the exchange rate ruling at the dates of the transactions. Monetary assets and liabilities denominated in currencies other than US$ at the reporting date are translated into US$ at the rates of exchange ruling at that date. 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 interim financial statements to comply with the Law on Accounting and Auditing dated 11 April 2016 using the closing and average rates for the period, 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 interim financial statements presented in KHR are based on the following applicable exchange rates per US$1:

	Closing rate	*Average rate*
30 June 2019	4,066	4,029
31 December 2018	4,018	4,045
30 June 2018	4,063	4,029
1 January 2018	4,037	4,045

2.4 Basis of aggregation

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

2. BASIS OF ACCOUNTING (continued)

2.5 Rounding of amounts

Amounts in the interim 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 CIFRS

In the current period, HKL has applied CIFRS for the first time.

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

Restatement of comparative information is required following the transitional requirements of CIFRS1 for first-time adopter of CIFRS.

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 Company's accounting policies resulting from its adoption of CIFRS 9 are summarised below.

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 CFRS7 categories of held-to-maturity, loans and receivables and available-for-sale.

CIFRS 9 largely retains the existing requirements in CFRS7 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 CFRS7 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 CFRS7.

3. APPLICATIONS OF CIFRS (continued)

3.1 CIFRS 9 Financial instruments (continued)

Transition

At the date of transition to CIFRS (1 January 2018), 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:
  - The assets are held within a business model whose objective is to hold assets to collect contractual cash flow; and
  - 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 company became a party to the irrevocable commitment) and comparing that with the credit risk at the date of transition to CIFRS 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 Company applies (1) low credit risk exception, and (2) the rebuttable presumption for the contractual payments that are more than 30 days past due.

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 Company's accounting policies resulting from its adoption of CIFRS 16 are summarised below.

3. APPLICATIONS OF CIFRS (continued)

3.2 CIFRS 16 Leases (continued)

Accounting for leases

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

Applying CIFRS 16, 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 Company has opted to recognise a lease expense on a straight-line basis as permitted by CIFRS 16. This expense is presented within other expenses in profit or loss.

Transition

At the date of transition to CIFRS (1 January 2018), the Company has 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 CIFRS.
- Apply CIAS 36 to the right-of-use assets at the date of transition to CIFRS.
- 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 Company recognizes the lease payments associated with those leases as an expense on the straight-line basis over the lease term.

3. APPLICATIONS OF CIFRS (continued)

3.3 ***Financial impact of first-time adoption of CIFRS***

The tables below show the amounts of adjustments for each financial statement line item affected by the application of CIFRS for the current and prior period.

(i) Impact on profit or loss

	Three-month period ended 30 June 2019		Three-month period ended 30 June 2018	
	US$	**KHR'000**	**US$**	**KHR'000**
			(Unreviewed and unaudited)	
Decrease in interest income (a)	(254,239)	(1,037,495)	(380,538)	(1,547,776)
Increase in interest expense (d, e)	(240,709)	(975,645)	(309,597)	(1,251,352)
Increase/(decrease) in fee and commission income (j)	(686)	(2,739)	3,395	13,671
Decrease in fee and commission expense (j)	(299)	(1,207)	(1,432)	(5,769)
Increase/(decrease) in loss from other financial instruments at FVTPL (f)	(473,116)	(1,915,006)	315,569	1,272,678
Increase/(decrease) in other income (j)	30,065	120,244	(34,153)	(137,833)
Decrease in impairment losses on financial instruments (a)	979,519	3,967,293	169,150	694,338
Increase in personnel expenses (a)	(326,985)	(1,324,442)	(241,805)	(980,688)
Increase in depreciation and amortisation expenses (d)	(720,187)	(2,917,972)	(653,947)	(2,645,319)
Decrease in other expenses (d)	865,773	3,508,021	777,342	3,144,654
Decrease in profit before tax	**(140,864)**	**(578,948)**	**(356,016)**	**(1,443,396)**
Decrease in income tax expense (h)	28,172	115,786	71,203	288,678
Decrease in profit for the period	**(112,692)**	**(463,162)**	**(284,813)**	**(1,154,718)**

3. APPLICATIONS OF CIFRS (continued)

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

(i) Impact on profit or loss (continued)

	Six-month period ended 30 June 2019		Six-month period ended 30 June 2018	
	US$	**KHR'000**	**US$**	**KHR'000**
			(Unreviewed and unaudited)	
Decrease in interest income (a)	(826,645)	(3,330,553)	(1,238,647)	(4,990,509)
Increase in interest expense (d, e)	(494,098)	(1,990,721)	(544,058)	(2,192,010)
Increase in fee and commission income (j)	411	1,656	2,976	11,990
Decrease in fee and commission expense (j)	(401)	(1,616)	(1,364)	(5,496)
Increase/(decrease) in loss from other financial instruments at FVTPL (f)	(856,672)	(3,451,531)	389,140	1,567,845
Decrease in other income (j)	(8,508)	(34,279)	(47,684)	(192,119)
Decrease in impairment losses on financial instruments (a)	1,884,360	7,592,086	924,001	3,722,800
Increase in personnel expenses (a)	(632,170)	(2,547,013)	(621,539)	(2,504,181)
Increase in depreciation and amortisation expenses (d)	(1,430,559)	(5,763,722)	(1,275,529)	(5,139,106)
Decrease in other expenses (d)	1,727,595	6,960,480	1,526,942	6,152,049
Decrease in profit before tax	**(636,687)**	**(2,565,213)**	**(885,762)**	**(3,568,737)**
Decrease in income tax expense (h)	127,337	513,041	177,152	713,745
Decrease in profit for the period	**(509,350)**	**(2,052,172)**	**(708,610)**	**(2,854,992)**

3. APPLICATIONS OF CIFRS (continued)

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

(ii) Impact on assets, liabilities, and equity as at 1 January 2018

	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	607,221	1,876,639	7,575,992
Other assets (a, b, c, e)	9,349,971	(1,872,153)	7,477,818	30,187,951
Net impact on total assets		**8,588,872**		
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)	1,828,172	892,929	2,721,101	10,985,085
Retained earnings (i)	54,480,012	(4,032,988)	50,447,024	203,654,636
Net impact on equity		**(3,140,059)**		
Net impact on total liabilities and equity		**8,588,872**		

3. APPLICATIONS OF CIFRS (continued)

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

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

	Under previous GAAP	CIFRS adjustments	31 December 2018	
	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	2,413,973	4,389,187	17,635,753
Retained earnings (i)	75,102,399	(7,329,735)	67,772,664	272,310,564
Net impact on equity		**(4,915,762)**		
Net impact on total liabilities and equity		**5,325,076**		

3. APPLICATIONS OF CIFRS (continued)

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

(iv) Impact on assets, liabilities, and equity as at 30 June 2019

	Under previous GAAP	CIFRS adjustments	30 June 2019	
	US$	US$	US$	KHR'000
Balances with NBC (a)	74,562,206	45,557	74,607,763	303,355,164
Balances with other banks (a)	64,534,055	587,768	65,121,823	264,785,332
Loans to customers (a)	870,443,670	(5,042,780)	865,400,890	3,518,720,019
Amount due from related Party (b)	2,769	(2,769)	-	-
Investment securities (c)	-	20,000	20,000	81,320
Right-of-use assets (d)	-	12,258,007	12,258,007	49,841,056
Deferred tax assets (h)	2,163,319	1,356,278	3,519,597	14,310,681
Other assets (a, b, c, e)	12,878,392	(3,696,757)	9,181,635	37,332,528
Net impact on total assets		**5,525,304**		
Deposits from customers (e)	562,350,022	11,695,501	574,045,523	2,334,069,097
Debt securities issued (e)	29,513,035	(390,248)	29,122,787	118,413,252
Borrowings (e)	241,935,731	(566,222)	241,369,509	981,408,424
Subordinated debts (e)	15,229,319	318,937	15,548,256	63,219,209
Derivative liabilities held for risk management (f)	-	902,068	902,068	3,667,808
Lease liabilities (d)	-	12,817,656	12,817,656	52,116,589
Provisions (g)	12,391	14,031	26,422	107,432
Amounts due to related party (b)	107,480	(107,480)	-	-
Provident benefits (b)	614,592	(614,592)	-	-
Other liabilities (b, e, f)	19,169,817	(13,119,234)	6,050,583	24,601,670
Net impact on total liabilities		**10,950,417**		
Reserves (i)	1,975,214	4,371,830	6,347,044	29,444,703
Retained earnings (i)	87,962,475	(9,796,943)	78,165,532	314,183,430
Net impact on equity		**(5,425,113)**		
Net impact on total liabilities and equity		**5,525,304**		

3. APPLICATIONS OF CIFRS (continued)

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

(iv) **Impact on assets, liabilities, and equity as at 30 June 2019** (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 CAS). 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.

(e) CIFRS 9 resulted in recognition of financial liabilities measured at amortised cost. This resulted in decrease in other assets, other liabilities and interest expenses.

(f) CIFRS 9 resulted in recognition of derivative measured at FVTPL where changes in fair value are recognized 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.

3. APPLICATIONS OF CIFRS (continued)

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

(v) Impact on statement of cash flows

Under CIFRS 16, lessee must 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 Company has 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 CAS 17, 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$ 1,735,890 (30 June 2018: US$1,466,653) and net cash generated in financing activities decreased by the same amount.

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

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 Company estimates 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1 Interest (continued)

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.

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 expenses relate mainly to transaction and service fees, and are accounted as the services received.

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

Net income/loss 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. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.4 Employee benefits

Provident benefits

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

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

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

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 Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

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 Company has 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 period using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.5 Income tax (continued)

Deferred tax

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

Deferred tax assets are recognised for unused tax 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 Company expects, 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 Company initially recognises 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.

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 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6 Financial assets and financial liabilities (continued)

Business model assessment: The Company assesses 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 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 Company considers 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 Company classifies its financial liabilities as measured at amortised cost, except for derivatives held for risk management which are measured at FVTPL.

Modification and derecognition

Financial assets

The Company derecognises 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 Company evaluates 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:

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6 Financial assets and financial liabilities (continued)

Modification and derecognition (continued)

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

The Company derecognises 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.

Offsetting

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6 Financial assets and financial liabilities (continued)

Fair value measurement

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

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

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Company determines that the fair value 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.

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 Company determines 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 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 Company's procedures for recovery of amounts due.

4.7 Cash and cash equivalents

Cash and cash equivalents consist notes on hand, unrestricted balances held with central banks 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 Company in the management of its short-term commitments.

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

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 from other financial instruments at FVTPL'.

4.9 Loans to customers

Loans to customer captions 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 caption 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.

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 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 statements 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.12 Intangible assets (continued)

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.

4.13 Leases

The Company assesses whether a contract is or contains a lease, at inception of a contract.

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

Lease liability

The lease liability is 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 interest that 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 liability is presented as a separate line in the statement of financial position.

The lease liability is 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 Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever

- the lease term has changed in which case the lease liability is 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 liability is remeasured by discounting the revised lease payments using a revised discount rate.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.13 Leases (continued)

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.

4.14 Impairment of non-financial assets

The carrying amounts of 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 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 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 Company's net worth in accordance with the guidelines of the NBC.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.16 Provisions

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

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 Company is required to calculate the allowance for impaired facilities in accordance with the regulatory provision simultaneously with the calculation in accordance with CIFRS. The provision calculated in accordance with CIFRS is to be recognised and recorded. Excess amount of provision calculated in accordance with regulatory provision compared to the provision calculated under CIFRS 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 Company is 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:

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.17 Reserves (continued)

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

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of interim 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 interim 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 Company determines 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 Company monitors 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 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.

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 Company takes into account qualitative and quantitative reasonable and supportable forward-looking information. Please refer to Note 36 for more details.

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

5.1 Critical judgments in applying the accounting policies (continued)

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 Company monitors 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 Company uses 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 interim 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 Company uses 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.

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.

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

5.2 Key sources of estimation uncertainty (continued)

Allowance for impaired facilities

The Company is required to follow the mandatory credit risk grading and impairment provisioning in accordance with Prakas No. B7-017-344 dated 1 December 2017 of the NBC and Circular No. B7-018-001 dated 16 February 2018. The NBC requires microfinance institutions to classify their 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 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.

6. BALANCES WITH THE NBC

	30 June 2019		31 December 2018	
	US$	KHR'000	US$	KHR'000
Statutory deposits:				
Capital guarantee deposit	11,526,778	46,867,879	7,521,072	30,219,667
Reserve requirement	46,854,774	190,511,511	39,883,312	160,251,148
	58,381,552	237,379,390	47,404,384	190,470,815
Current account	6,858,243	27,885,616	25,878,687	103,980,564
Negotiable Certificate of Deposit (NCD)	9,367,968	38,090,158	4,319,117	17,354,212
	74,607,763	303,355,164	77,602,188	311,805,591

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.

	30 June 2019		31 December 2018	
	US$	**KHR'000**	**US$**	**KHR'000**
Balance with other banks at amortised cost	65,194,289	265,079,979	39,632,860	159,244,832
Impairment loss allowance	(72,466)	(294,647)	(38,545)	(154,874)
	65,121,823	264,785,332	39,594,315	159,089,958

The above amounts are analysed as follows:

As at 30 June 2019

	Gross carrying amount	ECL allowance	Carrying amount	
	US$	**US$**	**US$**	**KHR'000**
Current accounts	18,936,391	(8,991)	18,927,400	76,958,808
Savings accounts	46,257,898	(63,475)	46,194,423	187,826,524
	65,194,289	(72,466)	65,121,823	264,785,332

As at 31 December 2018

	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
	39,632,860	(38,545)	39,594,315	159,089,958

8. LOANS TO CUSTOMERS

	30 June 2019		31 December 2018	
	US$	**KHR'000**	**US$**	**KHR'000**
Loans to customers at amortised cost	872,341,461	3,546,940,381	750,111,956	3,013,949,840
Impairment loss allowance	(6,940,571)	(28,220,362)	(8,272,928)	(33,240,625)
	865,400,890	3,518,720,019	741,839,028	2,980,709,215

The above amounts are analysed as follows:

As at 30 June 2019

	Gross carrying amount	ECL allowance	Carrying amount	
	US$	**US$**	**US$**	**KHR'000**
Individual loans				
External customers:				
Mortgage lending	71,107,096	(469,185)	70,637,911	287,213,746
Personal lending	795,928,194	(6,460,801)	789,467,393	3,209,974,420
Staff loans	5,306,171	(10,585)	5,295,586	21,531,853
	872,341,461	(6,940,571)	865,400,890	3,518,720,019

As at 31 December 2018

	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
	750,111,956	(8,272,928)	741,839,028	2,980,709,215

9. INVESTMENT SECURITIES

The Company has designated investment in CMA Investment as equity instrument at FVTOCI as the Company holds this investment in the long term. The table below shows this investment as well as the dividends income recognised from this investment.

Fair value

	30 June 2019		31 December 2018	
	US$	**KHR'000**	**US$**	**KHR'000**
Investment in CMA Investment	20,000	81,320	20,000	80,360

Dividend income

	Three-month period ended 30 June 2019		Three-month period ended 30 June 2018	
	US$	**KHR'000**	**US$**	**KHR'000**
			(Unreviewed and unaudited)	
Investment in CMA Investment	7,915	32,070	-	-

	Six-month period ended 30 June 2019		Six-month period ended 30 June 2018	
	US$	**KHR'000**	**US$**	**KHR'000**
			(Unreviewed and unaudited)	
Investment in CMA Investment	15,750	63,457	-	-

10. PROPERTY AND EQUIPMENT

	Leasehold improvement	Motor Vehicles	Computer equipment	Equipment	Furniture and fixtures	Work in progress	Total	
	US$	US$	US$	US$	US$	US$	US$	KHR'000
Cost								
At 1 January 2019	2,028,458	2,817,715	5,192,431	5,538,063	705,237	38,632	16,320,536	65,575,913
Additions for the period from:	74,246	-	339,585	26,455	25,930	218,480	684,696	2,758,640
Disposals	(13,105)	-	(125,171)	(92,339)	(5,505)	-	(236,120)	(951,327)
Transfers	9,432	-	216,829	17,270	4,459	(247,990)	-	-
Currency translation differences	-	-	-	-	-	-	-	799,983
At 30 June 2019	2,099,031	2,817,715	5,623,674	5,489,449	730,121	9,122	16,769,112	68,183,209
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 for the period from:	139,872	192,839	379,460	368,213	31,642	-	1,112,026	4,480,353
Disposals	(13,105)	-	(124,865)	(91,462)	(5,506)	-	(234,938)	(946,565)
Currency translation differences	-	-	-	-	-	-	-	616,703
At 30 June 2019	1,713,527	2,124,768	4,057,653	4,530,638	622,404	-	13,048,990	53,057,193
Carrying amount								
At 30 June 2019	**385,504**	**692,947**	**1,566,021**	**958,811**	**107,717**	**9,122**	**3,720,122**	**15,126,016**

10. PROPERTY AND EQUIPMENT (continued)

	Leasehold improvement	Motor Vehicles	Computer equipment	Equipment	Furniture and fixtures	Work in progress	Total	
	US$	US$	US$	US$	US$	US$	US$	KHR'000
Cost								
At 1 January 2018	1,705,553	2,579,695	3,984,311	5,072,632	593,527	85,491	14,021,209	56,603,621
Additions for the period from:								
1 January to 30 June	205,998	7,920	338,301	57,018	49,419	196,861	855,517	3,446,878
1 July to 31 December	85,594	230,100	221,499	197,174	36,247	738,175	1,508,789	6,116,740
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	2,028,458	2,817,715	5,192,431	5,538,063	705,237	38,632	16,320,536	65,575,913
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 for the period from:								
1 January to 30 June	171,266	183,423	355,828	396,208	30,764	-	1,137,489	4,582,943
1 July to 31 December	160,632	196,193	270,862	381,698	27,715	-	1,037100	4,213,270
Disposals	(14,302)	-	(32,163)	(17,732)	(715)	-	(64,912)	(262,569)
Currency translation differences	-	-	-	-	-	-	-	(248,145)
At 31 December 2018	1,586,760	1,931,929	3,803,058	4,253,887	596,268	-	12,171,902	48,906,702
Carrying amount								
At 31 December 2018	**441,698**	**885,786**	**1,389,373**	**1,284,176**	**108,969**	**38,632**	**4,148,634**	**16,669,211**

11. RIGHT-OF-USE ASSETS

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

30 June 2019	**Buildings**	**ATM premises**	**Total**	
	US$	**US$**	**US$**	**KHR'000**
Cost				
At 1 January 2019	15,095,836	346,831	15,442,667	62,048,636
Additions	807,885	110,777	918,662	3,701,289
Reversal	(18,728)	(9,917)	(28,645)	(115,411)
Currency translation differences	-	-	-	774,179
At 30 June 2019	**15,884,993**	**447,691**	**16,332,684**	**66,408,693**
Less: **Accumulated amortisation**				
At 1 January 2019	2,540,403	113,999	2,654,402	10,665,387
Reversal	(4,058)	(6,226)	(10,284)	(41,434)
Amortisation	1,343,247	87,312	1,430,559	5,763,722
Currency translation differences	-	-	-	179,962
At 30 June 2019	**3,879,592**	**195,085**	**4,074,677**	**16,567,637**
Carrying amount				
At 30 June 2019	**12,005,401**	**252,606**	**12,258,007**	**49,841,056**
31 December 2018				
Cost				
At 1 January 2018	13,047,433	178,284	13,225,717	53,392,220
Additions				
1 January to 30 June	1,392,315	56,447	1,448,762	5,837,062
1 July to 31 December	656,088	112,100	768,188	3,130,501
Currency translation differences	-	-	-	(311,147)
At 31 December 2018	**15,095,836**	**346,831**	**15,442,667**	**62,048,636**
Less: **Accumulated amortisation**				
At 1 January 2018	-	-	-	-
Amortisation				
1 January to 30 June	1,230,620	44,909	1,275,529	5,139,106
1 July to 31 December	1,309,783	69,090	1,378,873	5,597,950
Currency translation differences	-	-	-	(71,669)
At 31 December 2018	**2,540,403**	**113,999**	**2,654,402**	**10,665,387**
Carrying amount				
At 31 December 2018	**12,555,433**	**232,832**	**12,788,265**	**51,383,249**

12. INTANGIBLE ASSETS

30 June 2019	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	78,390	539,678	618,068	2,490,196
Transfers	182,908	(182,908)	-	-
Currency translation differences	-	-	-	189,029
At 30 June 2019	**3,356,389**	**723,332**	**4,079,721**	**16,588,146**
Less: **Accumulated amortisation**				
At 1 January 2019	2,625,742	-	2,625,742	10,550,231
Amortisation	102,449		102,449	412,767
Currency translation differences	-	-	-	129,827
At 30 June 2019	**2,728,191**	**-**	**2,728,191**	**11,092,825**
Carrying amount				
At 30 June 2019	**628,198**	**723,332**	**1,351,530**	**5,495,321**

31 December 2018	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 for the period:				
1 January to 30 June	-	28,875	28,875	116,337
1 July to 31 December	54,630	302,384	357,014	1,444,584
Transfers	58,424	(58,424)	-	-
Currency translation differences	-	-	-	(68,859)
At 31 December 2018	**3,095,091**	**366,562**	**3,461,653**	**13,908,921**
Less: **Accumulated amortisation**				
At 1 January 2018	2,464,038	-	2,464,038	9,947,321
Amortisation for the period:				
1 January to 30 June	78,542	-	78,542	316,446
1 July to 31 December	83,162	-	83,162	337,647
Currency translation differences	-	-	-	(51,183)
At 31 December 2018	**2,625,742**	**-**	**2,625,742**	**10,550,231**
Carrying amount				
At 31 December 2018	**469,349**	**366,562**	**835,911**	**3,358,690**

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:

	30 June 2019		31 December 2018	
	US$	**KHR'000**	**US$**	**KHR'000**
Deferred tax assets	5,694,858	23,155,292	5,397,699	21,687,955
Deferred tax liabilities	(2,175,261)	(8,844,611)	(2,297,487)	(9,231,303)
Net deferred tax assets	3,519,597	14,310,681	3,100,212	12,456,652

The movement of net deferred tax assets was as follows:

	30 June 2019		31 December 2018	
	US$	**KHR'000**	**US$**	**KHR'000**
At beginning of period/year	3,100,212	12,456,652	1,876,639	7,575,992
Credited to income statement:				
1 Jan to 30 June	419,385	1,689,703	719,952	2,900,687
1 July to 31 December	-	-	503,621	2,048,666
Currency translation differences	-	164,326	-	(68,693)
At end of period/year	3,519,597	14,310,681	3,100,212	12,456,652

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

	30 June 2019		31 December 2018	
	US$	**KHR'000**	**US$**	**KHR'000**
Provident benefits	121,438	493,767	1,762	7,080
Bonuses and unused leaves	42,056	171,000	42,569	171,040
Unrealised exchange gains	(66,341)	(269,743)	(15,744)	(63,259)
Depreciation and amortisation	(2,108,920)	(8,574,869)	(2,281,743)	(9,168,043)
Impairment loss allowances	843,529	3,429,789	1,078,868	4,334,892
Deferred fee income/charges	1,929,075	7,843,619	1,616,115	6,493,550
Fair value losses	179,642	730,424	8,308	33,382
Lease liabilities	2,563,531	10,423,317	2,634,490	10,585,381
Unused tax credits	15,587	63,377	15,587	62,629
	3,519,597	14,310,681	3,100,212	12,456,652

13. INCOME TAX (continued)

(b) Current income tax liabilities

	30 June 2019		31 December 2018	
	US$	KHR'000	US$	KHR'000
Balance at beginning of period/year	4,862,542	19,537,694	3,510,009	14,169,906
Current income tax expense:				
1 January to 30 June	3,732,675	15,038,948	2,764,095	11,136,539
1 July to 31 December	-	-	3,125,016	12,684,915
Income tax paid:				
1 January to 30 June	(5,623,475)	(22,656,981)	(3,981,910)	(16,043,115)
1 July to 31 December	-	-	(554,668)	(2,234,758)
Currency translation differences	-	163,442	-	(175,793)
Balance at end of period/year	2,971,742	12,083,103	4,862,542	19,537,694

(c) Income tax expense

	Three-month period ended 30 June 2019		Three-month period ended 30 June 2018	
	US$	KHR'000	US$	KHR'000
			(Unreviewed and unaudited)	
Current income tax	1,780,774	7,219,632	1,337,785	5,414,183
Deferred tax	(188,260)	(763,816)	(326,605)	(1,322,579)
Income tax expense	1,592,514	6,455,816	1,011,180	4,091,604

	Six-month period ended 30 June 2019		Six-month period ended 30 June 2018	
	US$	KHR'000	US$	KHR'000
			(Unreviewed and unaudited)	
Current income tax	3,732,675	15,038,948	2,764,095	11,136,539
Deferred tax	(419,385)	(1,689,703)	(719,952)	(2,900,687)
Income tax expense	3,313,290	13,349,245	2,044,143	8,235,852

13. INCOME TAX (continued)

(c) Income tax expense (continued)

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

	Three-month period ended 30 June 2019		Three-month period ended 30 June 2018	
	US$	KHR'000	US$	KHR'000
			(Unreviewed and unaudited)	
Profit before tax	7,927,506	32,117,863	4,983,384	20,164,125
Income tax using statutory rate 20%	1,585,501	6,423,573	996,677	4,032,825
Non-deductible expenses	7,013	32,243	14,504	58,779
Under provision in prior period	-	-	-	-
Income tax expense based on 20% of taxable profit	1,592,514	6,455,816	1,011,180	4,091,604

	Six-month period ended 30 June 2019		Six-month period ended 30 June 2018	
	US$	KHR'000	US$	KHR'000
			(Unreviewed and unaudited)	
Profit before tax	15,664,015	63,110,317	10,046,302	40,476,551
Income tax using statutory rate 20%	3,132,803	12,622,063	2,009,260	8,095,309
Non-deductible expenses	15,693	63,227	33,385	134,508
Under provision in prior period	164,794	663,955	1,498	6,035
Income tax expense based on 20% of taxable profit	3,313,290	13,349,245	2,044,143	8,235,852

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.

14. OTHER ASSETS

	30 June 2019		31 December 2018	
	US$	KHR'000	US$	KHR'000
Deferred employee expense	6,302,782	25,627,112	5,729,783	23,022,268
Prepaid maintenance services	422,161	1,716,507	428,852	1,723,127
Deposits for leases of offices and ATM premises	1,337,179	5,436,970	1,298,844	5,218,755
Amounts due from related party (*)	1,890	7,685	945	3,797
Other receivables	1,117,623	4,544,254	480,453	1,930,461
	9,181,635	37,332,528	7,938,877	31,898,408

(*) 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

	30 June 2019		31 December 2018	
	US$	**KHR'000**	**US$**	**KHR'000**
At amortised cost:				
Savings deposits	123,129,750	500,645,564	89,038,151	357,755,291
Term deposits	450,915,773	1,833,423,533	402,315,239	1,616,502,630
	574,045,523	2,334,069,097	491,353,390	1,974,257,921

16. DEBT SECURITIES ISSUED

	30 June 2019		31 December 2018	
	US$	**KHR'000**	**US$**	**KHR'000**
Debt securities issued at amortised cost	29,122,787	118,413,252	29,325,252	117,828,863

On 1 August 2018, HKL obtained an approval letter from the National Bank of Cambodia 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 period.

17. BORROWINGS

	30 June 2019		31 December 2018	
	US$	**KHR'000**	**US$**	**KHR'000**
At amortised cost				
Floating rate	57,999,915	235,827,654	74,434,122	299,076,302
Fixed rate	183,369,594	745,580,770	117,291,036	471,275,383
	241,369,509	981,408,424	191,725,158	770,351,685

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

18. SUBORDINATED DEBTS

	30 June 2019		31 December 2018	
	US$	**KHR'000**	**US$**	**KHR'000**
At amortised cost				
Floating rate	7,576,493	30,806,021	10,104,516	40,599,945
Fixed rate	7,971,763	32,413,188	13,131,780	52,763,492
	15,548,256	63,219,209	23,236,296	93,363,437

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.

19. DERIVATIVES HELD FOR RISK MANAGEMENT

	30 June 2019		31 December 2018	
	US$	**KHR'000**	**US$**	**KHR'000**
At fair value				
Interest rate	907,996	3,691,912	27,794	111,676
Foreign exchange	(5,928)	(24,104)	-	-
	902,068	3,667,808	27,794	111,676

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

	30 June 2019		31 December 2018	
	US$	**KHR'000**	**US$**	**KHR'000**
No later than 1 year	2,412,996	9,811,242	2,354,436	9,460,124
Later than 1 year and no later than 5 years	7,354,768	29,904,487	7,305,029	29,351,607
Later than 5 years	3,049,892	12,400,860	3,512,983	14,115,165
	12,817,656	52,116,589	13,172,448	52,926,896

21. PROVISIONS

	30 June 2019		31 December 2018	
	US$	**KHR'000**	**US$**	**KHR'000**
Loan commitments	26,422	107,432	3,599	14,461

The amount in respect of loan commitments represents ECL provisions.

22. OTHER LIABILITIES

	30 June 2019		31 December 2018	
	US$	**KHR'000**	**US$**	**KHR'000**
Provident benefits	614,592	2,498,931	12,580	50,546
Amounts due to related party (*)	96,816	393,654	135,322	543,724
Short-term employee benefits	3,599,374	14,635,055	3,165,403	12,718,589
Creditors & accruals	462,037	1,878,642	674,450	2,709,940
Others	1,277,764	5,195,388	1,139,998	4,580,513
	6,050,583	24,601,670	5,127,753	20,603,312

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

23. SHARE CAPITAL

	30 June 2019		31 December 2018	
	US$	**KHR'000**	**US$**	**KHR'000**
Registered, issued and fully paid ordinary share of US$1 each	75,000,000	304,950,000	75,000,000	301,350,000

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 National Bank of Cambodia ("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.

24. RESERVES

	30 June 2019		31 December 2018	
	US$	**KHR'000**	**US$**	**KHR'000**
Legal reserves	682,459	2,774,878	682,459	2,742,120
Regulatory reserves	4,371,830	17,775,861	2,413,973	9,699,344
Other reserves	1,292,755	5,256,342	1,292,755	5,194,289
Currency translation differences	-	3,637,622	-	-
	6,347,044	29,444,703	4,389,187	17,635,753

25. NET INTEREST INCOME

	Three-month period ended 30 June 2019		Three-month period ended 30 June 2018	
	US$	**KHR'000**	**US$**	**KHR'000**
			(Unreviewed and unaudited)	
Interest income				
Balances with the NBC	36,111	146,185	24,316	98,094
Balances with other banks	17,867	73,215	10,356	42,146
Loans to customers	34,031,955	137,843,132	26,739,927	108,166,741
	34,085,933	138,062,532	26,774,599	108,306,981
Interest expense				
Deposits from customers	8,930,338	36,169,345	6,429,454	26,001,968
Debt securities issued	685,962	2,779,944	-	-
Borrowings	4,330,589	17,532,704	4,148,235	16,774,528
Subordinated debts	488,353	1,982,993	674,443	2,728,885
Lease liabilities	239,363	969,946	246,556	997,495
	14,674,605	59,434,932	11,498,688	46,502,876
Net interest income	19,411,328	78,627,600	15,275,911	61,804,105

	Six-month period ended 30 June 2019		Six-month period ended 30 June 2018	
	US$	**KHR'000**	**US$**	**KHR'000**
			(Unreviewed and unaudited)	
Interest income				
Balances with the NBC	66,274	267,018	31,653	127,530
Balances with other banks	71,306	287,292	35,062	141,265
Loans to customers	65,700,884	264,708,861	52,126,813	210,018,929
	65,838,464	265,263,171	52,193,528	210,287,724
Interest expense				
Deposits from customers	17,148,302	69,090,509	12,176,392	49,058,683
Debt securities issued	1,390,434	5,602,059	-	-
Borrowings	8,015,845	32,295,840	7,753,499	31,238,847
Subordinated debts	1,158,712	4,668,451	1,354,060	5,455,508
Lease liabilities	480,798	1,937,134	488,975	1,970,081
	28,194,091	113,593,993	21,772,926	87,723,119
Net interest income	37,644,373	151,669,178	30,420,602	122,564,605

The amounts reported above are interest income and interest expense calculated using the effective interest method that related to financial assets and financial liabilities measured at amortised cost.

26. NET FEE AND COMMISSION INCOME

	Three-month period ended 30 June 2019		Three-month period ended 30 June 2018	
	US$	KHR'000	US$	KHR'000
			(Unreviewed and unaudited)	
Fee and commission income				
Referral fees	309,179	1,253,896	35,598	143,424
Remittance fees	32,688	132,487	28,690	116,057
Service charges and fees on deposit accounts	59,779	242,285	74,277	300,746
Other fees and commissions on loans	673,256	2,729,278	380,772	1,540,620
Other fee income	33,013	133,811	66,822	270,216
	1,107,915	4,491,757	586,159	2,371,063
Fee and commission expenses				
Borrowing fees	106,627	432,042	98,038	396,844
Debt securities fees	4,503	18,245	-	-
Subordinated debts fees	1,306	5,291	1,306	5,284
Referral fees	13,803	55,953	10,659	43,163
Bank charges	62,509	253,122	73,577	297,476
	188,748	764,653	183,580	742,767
Net fee and commission income	919,167	3,727,104	402,579	1,628,296

26. NET FEE AND COMMISSION INCOME (continued)

	Six-month period ended 30 June 2019		Six-month period ended 30 June 2018	
	US$	**KHR'000**	**US$**	**KHR'000**
			(Unreviewed and unaudited)	
Fee and commission income				
Referral fees	666,307	2,684,551	35,598	143,424
Remittance fees	66,912	269,588	56,051	225,829
Service charges and fees on deposit accounts	122,180	492,263	161,569	650,962
Other fees and commissions on loans	1,400,606	5,643,042	762,565	3,072,374
Other fee income	67,889	273,525	124,968	503,497
	2,323,894	9,362,969	1,140,751	4,596,086
Fee and commission expenses				
Borrowing fees	212,780	857,291	206,835	833,338
Debt securities fees	8,957	36,088	-	-
Subordinated debts fees	2,598	10,467	2,570	10,355
Referral fees	28,605	115,250	23,493	94,653
Bank charges	117,868	474,889	134,415	541,558
	370,808	1,493,985	367,313	1,479,904
Net fee and commission income	1,953,086	7,868,984	773,438	3,116,182

The net fee and commission income includes expenses of US$224,335 related to financial liabilities measured at amortised costs. These figures exclude amounts incorporated in determining the EIR on such financial liabilities.

27. NET INCOME/(LOSS) FROM OTHER FINANCIAL INSTRUMENTS AT FVTPL

	Three-month period ended 30 June 2019		Three-month period ended 30 June 2018	
	US$	**KHR'000**	**US$**	**KHR'000**
			(Unreviewed and unaudited)	
Interest rate	471,438	1,907,638	(121,089)	(486,407)
Foreign exchange	(38,031)	(152,489)	-	-
	433,407	1,755,149	(121,089)	(486,407)

	Six-month period ended 30 June 2019		Six-month period ended 30 June 2018	
	US$	**KHR'000**	**US$**	**KHR'000**
			(Unreviewed and unaudited)	
Interest rate	828,588	3,338,381	(35,177)	(141,728)
Foreign exchange	(5,928)	(23,884)	-	-
	822,660	3,314,497	(35,177)	(141,728)

28. OTHER INCOME

	Three-month period ended 30 June 2019		Three-month period ended 30 June 2018	
	US$	KHR'000	US$	KHR'000
			(Unreviewed and unaudited)	
Dividend on equity securities measured at FVTOCI	7,915	32,070	-	-
Foreign exchange gains/(losses)	7,249	32,651	(443,184)	(1,781,764)
Other income	18,581	75,344	19,479	78,777
	33,745	140,065	(423,705)	(1,702,987)

	Six-month period ended 30 June 2019		Six-month period ended 30 June 2018	
	US$	KHR'000	US$	KHR'000
			(Unreviewed and unaudited)	
Dividend on equity securities measured at FVTOCI	15,750	63,457	-	-
Foreign exchange gains/(losses)	156,997	632,541	(218,231)	(879,253)
Other income	39,513	159,198	36,873	148,562
	212,260	855,196	(181,358)	(730,691)

29. NET IMPAIRMENT LOSSES ON FINANCIAL INSTRUMENTS

	Three-month period ended 30 June 2019		Three-month period ended 30 June 2018	
	US$	KHR'000	US$	KHR'000
			(Unreviewed and unaudited)	
Balances with other banks	4,350	18,204	5,114	20,750
Loans to customers (*)	196,650	795,224	888,354	3,591,448
Loan commitments	22,681	91,385	(3,764)	(15,148)
	223,681	904,813	889,704	3,597,050

	Six-month period ended 30 June 2019		Six-month period ended 30 June 2018	
	US$	KHR'000	US$	KHR'000
			(Unreviewed and unaudited)	
Balances with other banks	33,819	136,257	13,691	55,161
Loans to customers (*)	323,665	1,304,046	1,610,062	6,486,940
Loan commitments	22,822	91,950	(2,674)	(10,774)
	380,306	1,532,253	1,621,079	6,531,327

This includes the recoveries of loans previously written off amounting to US$359,824 (30 June 2018: US$122,219)

30. PERSONNEL EXPENSES

	Three-month period ended 30 June 2019		Three-month period ended 30 June 2018	
	US$	KHR'000	US$	KHR'000
			(Unreviewed and unaudited)	
Salaries and bonuses	7,003,316	28,368,379	5,390,925	21,817,742
Provident benefits	311,106	1,260,313	226,955	918,114
Seniority payments	324,799	1,317,215	-	-
Other personnel expenses	699,499	2,833,428	579,665	2,348,291
	8,338,720	33,779,335	6,197,545	25,084,147

	Six-month period ended 30 June 2019		Six-month period ended 30 June 2018	
	US$	KHR'000	US$	KHR'000
			(Unreviewed and unaudited)	
Salaries and bonuses	13,612,839	54,846,128	11,138,260	44,876,050
Provident benefits	609,704	2,456,497	445,355	1,794,335
Seniority payments	698,739	2,815,219	-	-
Other personnel expenses	1,357,973	5,471,274	1,333,792	5,373,848
	16,279,255	65,589,118	12,917,407	52,044,233

31. DEPRECIATION AND AMORTISATION

	Three-month period ended 30 June 2019		Three-month period ended 30 June 2018	
	US$	KHR'000	US$	KHR'000
			(Unreviewed and unaudited)	
Property and equipment	561,019	2,273,019	579,466	2,344,155
Right-of-use assets	720,187	2,917,972	653,947	2,645,319
Intangible assets	53,739	217,634	39,488	159,761
	1,334,945	5,408,625	1,272,901	5,149,235

	Six-month period ended 30 June 2019		Six-month period ended 30 June 2018	
	US$	KHR'000	US$	KHR'000
			(Unreviewed and unaudited)	
Property and equipment	1,112,026	4,480,353	1,137,489	4,582,943
Right-of-use assets	1,430,559	5,763,722	1,275,529	5,139,106
Intangible assets	102,449	412,767	78,542	316,446
	2,645,034	10,656,842	2,491,560	10,038,495

32. OTHER EXPENSES

	Three-month period ended 30 June 2019		Three-month period ended 30 June 2018	
	US$	KHR'000	US$	KHR'000
			(Unreviewed and unaudited)	
Travelling and transportation	507,136	2,054,422	443,205	1,792,925
Repairs and maintenance	315,419	1,277,240	257,591	1,043,038
Marketing and advertising	186,841	755,580	174,724	706,289
Security	173,826	704,349	172,602	698,268
Utilities	177,207	718,026	174,985	707,574
License fee, patent and other taxes	173,130	701,088	183,813	743,340
Office supplies and non-capitalised purchases	170,855	691,422	164,744	666,218
Communication	161,191	653,087	129,206	522,769
Professional services	57,092	231,293	62,595	252,840
Leases and rental	105,996	429,317	152,414	616,974
Board fees and meetings	31,651	127,905	25,729	103,933
Others	45,637	185,255	90,732	367,096
	2,105,981	8,528,984	2,032,340	8,221,264

	Six-month period ended 30 June 2019		Six-month period ended 30 June 2018	
	US$	KHR'000	US$	KHR'000
			(Unreviewed and unaudited)	
Travelling and transportation	992,812	4,000,040	869,831	3,504,549
Repairs and maintenance	594,423	2,394,930	563,731	2,271,272
Marketing and advertising	308,490	1,242,906	311,506	1,255,058
Security	347,900	1,401,689	340,522	1,371,963
Utilities	353,674	1,424,953	325,547	1,311,629
License fee, patent and other taxes	327,394	1,319,070	346,026	1,394,139
Office supplies and non-capitalised purchases	303,350	1,222,197	309,675	1,247,681
Communication	319,833	1,288,607	258,496	1,041,480
Professional services	112,277	452,364	100,507	404,943
Leases and rental	204,199	822,718	322,891	1,300,928
Board fees and meetings	48,303	194,613	41,693	167,981
Others	105,794	426,244	181,086	729,595
	4,018,449	16,190,331	3,971,511	16,001,218

33. CASH AND CASH EQUIVALENTS

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

	30 June 2019		30 June 2018	
	US$	KHR'000	US$	KHR'000
			(Unreviewed and unaudited)	
Cash on hand	26,268,257	106,806,733	13,356,106	54,265,859
Balances with the NBC	16,207,431	65,899,414	25,986,636	105,583,702
Balances with other banks	65,185,915	265,045,931	58,595,795	238,074,715
	107,661,603	437,752,078	97,938,537	397,924,276

34. RELATED PARTIES

(a) Related parties and relationships

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

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

(b) Directors and key management compensation

	Three-month period ended 30 June 2019		Three-month period ended 30 June 2018	
	US$	KHR'000	US$	KHR'000
			(Unreviewed and unaudited)	
Board of Directors				
Fees and related expenses	31,651	127,905	25,729	103,933
Key management				
Salaries and short-term benefits	429,139	1,745,408	440,319	1,787,170
Provident benefits	24,567	99,516	20,944	84,717
	453,706	1,844,924	461,263	1,871,887

34. RELATED PARTIES (continued)

(b) Directors and key management compensation (continued)

	Six-month period ended 30 June 2019		Six-month period ended 30 June 2018	
	US$	KHR'000	US$	KHR'000
			(Unreviewed and unaudited)	
Board of Directors				
Fees and related expenses	48,303	194,613	41,693	167,981
Key management				
Salaries and short-term benefits	1,142,486	4,603,076	1,212,358	4,884,590
Provident benefits	47,813	192,639	40,586	163,521
	1,190,299	4,795,715	1,252,944	5,048,111

	30 June 2019		31 December 2018	
	US$	KHR'000	US$	KHR'000
Provident benefits payable	47,813	192,639	-	-

(c) Loans to key management and interest income

	30 June 2019		31 December 2018	
	US$	KHR'000	US$	KHR'000
Loans outstanding to key management	566,203	2,302,181	678,673	2,726,908

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

	Three-month period ended 30 June 2019		Three-month period ended 30 June 2018	
	US$	KHR'000	US$	KHR'000
			(Unreviewed and unaudited)	
Interest income from key management	10,566	42,771	11,662	47,201

	Six-month period ended 30 June 2019		Six-month period ended 30 June 2018	
	US$	KHR'000	US$	KHR'000
			(Unreviewed and unaudited)	
Interest income from key management	19,288	77,711	24,261	97,748

34. RELATED PARTIES (continued)

(d) Deposits from and interest expense to key management

	30 June 2019		31 December 2018	
	US$	**KHR'000**	**US$**	**KHR'000**
Deposits from key management	1,006,374	4,091,917	1,193,205	4,794,298

Deposits from key management of 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.

	Three-month period ended 30 June 2019		Three-month period ended 30 June 2018	
	US$	**KHR'000**	**US$**	**KHR'000**
			(Unreviewed and unaudited)	
Interest expense to key management	18,505	74,919	30,747	124,334

	Six-month period ended 30 June 2019		Six-month period ended 30 June 2018	
	US$	**KHR'000**	**US$**	**KHR'000**
			(Unreviewed and unaudited)	
Interest expense to key management	34,259	138,030	57,447	231,454

(e) Deposits from and interest expense to Directors

	30 June 2019		31 December 2018	
	US$	**KHR'000**	**US$**	**KHR'000**
Deposits from Board of Directors	3,759,246	15,285,094	1,600,485	6,430,749

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

	Three-month period ended 30 June 2019		Three-month period ended 30 June 2018	
	US$	**KHR'000**	**US$**	**KHR'000**
			(Unreviewed and unaudited)	
Interest expense to Board of Directors	53,903	218,307	46,531	188,209

34. RELATED PARTIES (continued)

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

	Six-month period ended 30 June 2019		Six-month period ended 30 June 2018	
	US$	**KHR'000**	**US$**	**KHR'000**
			(Unreviewed and unaudited)	
Interest expense to Board of Directors	103,104	415,406	89,837	361,953

(f) Office rental from key management

	Three-month period ended 30 June 2019		Three-month period ended 30 June 2018	
	US$	**KHR'000**	**US$**	**KHR'000**
			(Unreviewed and unaudited)	
Office rental expenses	16,980	68,803	7,980	32,287

	Six-month period ended 30 June 2019		Six-month period ended 30 June 2018	
	US$	**KHR'000**	**US$**	**KHR'000**
			(Unreviewed and unaudited)	
Office rental expenses	33,960	136,825	15,960	64,303

(g) Transactions and balances with shareholder and affiliate

(i) Transactions with shareholder and affiliate

	Three-month period ended 30 June 2019		Three-month period ended 30 June 2018	
	US$	**KHR'000**	**US$**	**KHR'000**
Shareholder			(Unreviewed and unaudited)	
Repayments of borrowing via IFC (*)	(2,857,143)	(11,511,429)	(2,857,143)	(11,511,429)
Proceeds received for borrowings from Krungsri	-	-	8,000,000	32,232,000
Repayment of borrowings from Krungsri	-	-	(10,000,000)	(40,443,000)
Interest and fee expenses	407,997	1,652,416	681,139	2,758,375

	Six-month period ended 30 June 2019		Six-month period ended 30 June 2018	
	US$	**KHR'000**	**US$**	**KHR'000**
Shareholder			(Unreviewed and unaudited)	
Repayment of borrowings from Krungsri	(2,857,143)	(11,511,429)	(2,857,143)	(11,511,429)
Proceeds received for borrowings from Krungsri	-	-	8,000,000	32,232,000
Repayment of borrowings from Krungsri	-	-	(19,000,000)	(76,551,000)
Interest and fee expenses	781,727	3,149,578	1,508,547	6,077,936

34. RELATED PARTIES (continued)

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

(ii) Balances with shareholder and affiliate

	30 June 2019		31 December 2018	
	US$	**KHR'000**	**US$**	**KHR'000**
Shareholder:				
Interest receivable on interest rate SWAP	10,663	43,356	13,747	55,235
Amount payable on payment on behalf of HKL's expense	879	3,574	81,380	326,985
Borrowing via IFC (*)	41,060	166,950	14,285,714	57,399,999
Interest payable on borrowing via IFC	11,428,572	46,468,574	155,827	626,113
Commitment given on interest rate SWAP (**)	120,678	490,677	85,285,714	342,677,999
Commitment received on interest rate SWAP (**)	73,928,571	300,593,570	(85,285,714)	(342,677,999)
Interest and fee payable on borrowing	2,917	11,861	3,889	15,626
Amount receivable on payment on behalf of Krungsri's expense	1,890	7,685	945	3,797

	30 June 2019		31 December 2018	
	US$	**KHR'000**	**US$**	**KHR'000**
Affiliate:				
Amount payable on *Ngern Tid Lor Co., Ltd*'s payment on behalf of HKL's expense	52,840	214,847	50,054	201,117

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

(**) On 12 January 2017, 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 Company entered into another agreement with Krungsri for interest rate swap of US$ 55 million, effective from 23 February 2018. This is to manage the Company's exposure to interest rate risk on its floating interest rate borrowings.

35. CONTINGENCIES

On 19 March 2019, the General Department of Taxation ("GDT") issued a notice of tax reassessment to 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 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 KHR30,958,899,567 (approximately US$7.6 millions). The Company has not made provision at this stage as the Company believes that there are reasonable grounds to challenge the assessment as stated in the tax law and regulations mentioned in its objection letter.

At the date of this report, HKL has engaged tax advisor to help protest with GDT on this matter. The outcome of the ultimate tax liabilities for this assessment year is unknown.

36. FINANCIAL RISK MANAGEMENT

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

The Company's risk management policies are established to identify and analyse the risks faced by 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 Company's activities.

The policies and procedures adopted by 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 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 Company considers 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 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 CIFRS 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 Company's processes 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 Company in the management of credit risk.

36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

36.1.1 Credit risk management (continued)

Each Branch is required to implement credit policies and procedures, with credit approval authorities delegated from the Management Credit Committee. Some branches have an Independent Risk Champion who reports on all risk-related matters to Head Office. Each branch is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to Head Office's approval.

The internal audit function performs regular audits making sure that the established controls and procedures are adequately designed and implemented.

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.

	30 June 2019				
	Stage 1	Stage 2	Stage 3	Total	
	US$	US$	US$	US$	KHR'000
Balances with other banks:					
Normal	65,194,289	-	-	65,194,289	265,079,979
Loss allowance	(72,466)	-	-	(72,466)	(294,647)
Carrying amount	65,121,823	-	-	65,121,823	264,785,332
Loans to customers:					
Normal	867,656,136	-	14,640	867,670,776	3,527,949,375
Special mention	-	1,019,719	-	1,019,719	4,146,179
Substandard	-	-	1,052,126	1,052,126	4,277,944
Doubtful	-	-	1,407,885	1,407,885	5,724,460
Loss	-	-	1,190,955	1,190,955	4,842,423
	867,656,136	1,019,719	3,665,606	872,341,461	3,546,940,381
Loss allowance	(2,707,871)	(567,094)	(3,665,606)	(6,940,571)	(28,220,362)
Carrying amount	864,948,265	452,625	-	865,400,890	3,518,720,019
Loan commitments:					
Normal	1,199,052	-	-	1,199,052	4,875,345
Special mention	-	-	-	-	-
Substandard	-	-	-	-	-
Doubtful	-	-	800	800	3,253
Loss	-	-	-	-	-
	1,199,052	-	800	1,199,852	4,878,598
Loss allowance	(25,622)	-	(800)	(26,422)	(107,432)
Carrying amount	1,173,430	-	-	1,173,430	4,771,166

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**	
	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	39,594,315	-	-	39,594,315	159,089,958
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
	743,625,752	1,095,277	5,390,927	750,111,956	3,013,949,840
Loss allowance	(2,264,386)	(617,615)	(5,390,927)	(8,272,928)	(33,240,625)
Carrying amount	741,361,366	477,662	-	741,839,028	2,980,709,215
Loan commitments:					
Normal	1,113,830	-	-	1,113,830	4,475,369
Special mention	-	-	-	-	-
Substandard	-	-	800	800	3,214
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
	1,113,830	-	800	1,114,630	4,478,583
Loss allowance	(2,799)	-	(800)	(3,599)	(14,461)
Carrying amount	1,111,031	-	-	1,111,031	4,464,122

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.

	30 June 2019				
	Stage 1	Stage 2	Stage 3	Total	
	US$	US$	US$	US$	KHR'000
Loans to customers:					
Current	866,215,299	323,634	175,753	866,714,686	3,524,061,912
Overdue ≤ 30 days	1,440,837	26,868	23,427	1,491,132	6,062,943
Overdue > 30 days	-	669,217	3,466,426	4,135,643	16,815,526
Total	867,656,136	1,019,719	3,665,606	872,341,461	3,546,940,381

	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

36.1.3 Collateral held

Small and Medium Entity (SME) Retail Loans and Mortgage Loans (secured loans)

The Company holds residential properties as collaterals for majority of loans, and the collaterals include land, house, building and other movable assets. 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 Company recognises 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.

36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

36.1.4 Amounts arising from ECL (continued)

The Company measures 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 Company does 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 Company assesses 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 Company on terms that 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 Company's internal credit risk grading system.

Credit risk grades

The Company allocates 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

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 Company considers 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 qualitative and quantitative measures to determine whether a significant increase in credit risk has occurred are outlined below.

- 30 days past due (DPD) as backstop
- Use of quantitative indicators (change in PD at reporting date from the origination date)

The Company uses 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, 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.

The Company also applies 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.

36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

36.1.4 Amounts arising from ECL (continued)

(ii) Definition of default

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by 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 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

The Company analysed forward-looking information by using the statistical regression model for assessment to see whether the credit risk of an instrument has increased significantly to the measurement of ECL.

The Company formulates three economic scenarios: a base case, which is the median scenario assigned a 65.92% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 17.04% probability of occurring. The base case is aligned with information used by the Company for other purposes such as strategic planning and budgeting. External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Company operates, supranational organisations such as International Monetary Fund.

The Company has identified and documented the key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The key drivers for credit risk for retail portfolios are: Gross Domestic Product (GDP) per Capita in US$, Exchange Rate, and Consumer Price Index (CPI). Base on correlation analysis, the Company uses the GDP per Capita in US$ for including into model.

GDP Per Capita in US$	**2019**	**2020**	**2021**	**2022**	**2023**
Base	1520	1593	1667	1740	1814
Upside	1791	1877	1964	2051	2138
Downside	1482	1554	1626	1698	1769

Based on the forward-looking information analysis, the impact of macro-economic to ECL calculation is insignificant, so the Company decided to incorporate zero percentage (0%) adjustment of forward looking PD.

(iv) Modified financial assets

The Company renegotiates loans to customers in financial difficulties (referred to as restructure activities) to maximise collection opportunities and minimise the risk of default. Under 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.

36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

36.1.4 Amounts arising from ECL (continued)

(iv) <u>Modified financial assets</u> *(continued)*

For financial assets modified as part of the Company's restructure policy, the estimate of PD reflects whether the modification has improved or restored the Company's ability to collect interest and principal and the Company's previous experience. As part of this process, the Company evaluates 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) <u>Measurement of ECL</u>

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 Company in accordance with the contract and the cash flows that the Company expects 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 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 Company calculates 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 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:

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:

Implied PD = ECL amount / (EAD x 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 period/year end by class of exposure/assets.

	30 June 2019		31 December 2018	
	US$	KHR'000	US$	KHR'000
Loss allowance by classes:				
Balances with other banks	72,466	294,647	38,545	154,874
Loans to customers	6,940,571	28,220,362	8,272,928	33,240,625
Loan commitments	26,422	107,432	3,599	14,461
	7,039,459	28,622,441	8,315,072	33,409,960

The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity is US$1,961,179 at 30 June 2019.

Under 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.

36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

36.1.4 Amounts arising from ECL (continued)

(b) Loss allowance (continued)

	30 June 2019		31 December 2018	
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
	US$	US$	US$	US$
Loans to customers:				
0-29 days	868,205,818	3,102,170	744,924,987	3,245,387
30-59 days	411,250	235,205	129,561	81,559
60-89 days	275,532	162,187	351,872	240,446
90-180 days	933,684	925,832	995,317	995,317
More than 180 days	2,515,177	2,515,177	3,710,219	3,710,219
Total	872,341,461	6,940,571	750,111,956	8,272,928
In KHR'000 equivalents	3,546,940,381	28,220,362	3,013,949,840	33,240,625

36.1.5 Concentration of credit risk

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

	30 June 2019				
	Balances with other banks	Loans to customers	Loan commitments	Total	
	US$	US$	US$	US$	KHR'000
Carrying amount	65,121,824	865,400,890	(26,422)	930,496,292	3,783,397,923
Amount committed	-	-	1,199,852	-	-
Concentration by sector:					
External customers					
Mortgages loans	-	70,637,911	312,703	70,950,614	288,485,195
Personal loans	-	789,467,393	837,149	790,304,542	3,213,378,269
Staff loans	-	5,295,586	50,000	5,345,586	21,735,153
	-	865,400,890	1,199,852	866,600,742	3,523,598,617

36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

36.1.5 Concentration of credit risk (continued)

	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 Company's operations and investments.

36.2.1 Liquidity risk management

The Company's Board of Directors sets the Company's strategy for managing liquidity risk and oversight of the implementation is administered by ARBC. ARBC approves the Company's liquidity policies created by the Risk division and acknowledged by ALRMC. Treasury department manages 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 Company's approach to managing liquidity is 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 Company's reputation. The key elements of 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 Company's financial assets and financial liabilities, and the extent to which the Company's assets are encumbered and so not available as potential collateral for obtaining funding.
- Stress testing of the Company's liquidity position against various exposures and country-specific events.
- Minimize cost of foregone earnings on idle liquidity.

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 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 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 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).

	30 June 2019	31 December 2018
At end of period/year	144.80%	177.17%
Average for the period/year	128.83%	156.52%
Maximum for the period/year	144.80%	238.29%
Minimum for the period/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 Company's financial liabilities and financial assets.

36. FINANCIAL RISK MANAGEMENT (continued)

36.2 Liquidity risk (continued)

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

	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$
30 June 2019								
Financial liabilities by type								
Non-derivative liabilities								
Deposits from customers	574,045,523	(606,281,944)	(180,491,174)	(97,356,982)	(297,913,212)	(29,723,702)	(796,874)	-
Debt securities issued	29,122,787	(35,400,484)	-	-	(2,840,401)	(32,560,083)	-	-
Borrowings	241,369,509	(272,633,828)	(4,608,892)	(6,969,282)	(72,586,396)	(188,216,513)	-	(252,745)
Subordinated debts	15,548,256	(18,292,056)	(1,631,172)	(9,141)	(7,238,411)	(8,524,413)	(888,919)	-
Lease liabilities	12,817,656	(12,817,656)	(207,976)	(411,855)	(1,793,166)	(7,354,768)	(3,049,891)	-
Other liabilities	4,767,096	(4,767,096)	(74,885)	(872,250)	(3,789,278)	(30,683)	-	-
	877,670,827	(950,193,064)	(187,014,099)	(105,619,510)	(386,160,864)	(266,410,162)	(4,735,684)	(252,745)
Derivative liabilities								
Risk management								
Outflow		(504,538)	-	-	(268,376)	(236,162)	-	-
Inflow		5,928	-	-	5,928	-	-	-
	902,068	(498,610)	-	-	(262,448)	(236,162)	-	-
Loan commitments	-	(1,199,852)	-	-	(1,199,852)	-	-	-
In US$ equivalents	878,572,895	(951,891,526)	(187,014,099)	(105,619,510)	(387,623,164)	(266,646,324)	(4,735,684)	(252,745)
In KHR'000 equivalents	3,572,277,391	(3,870,390,945)	(760,399,327)	(429,448,928)	(1,576,075,785)	(1,084,183,953)	(19,255,291)	(1,027,661)

36. FINANCIAL RISK MANAGEMENT (continued)

36.2 Liquidity risk (continued)

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

	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$
30 June 2019								
Financial assets by type								
Non-derivative assets								
Cash on hand	26,268,257	26,268,257	26,268,257	-	-	-	-	-
Balances with the NBC	74,607,763	74,667,456	6,903,799	5,171,964	4,236,918	-	58,354,775	-
Balances with other banks	65,121,823	65,121,823	65,121,823	-	-	-	-	-
Loans to customers	865,400,890	1,145,086,716	27,880,725	62,902,518	273,997,997	731,787,889	45,085,686	3,431,901
Investment securities	20,000	20,000	-	-	-	-	-	20,000
Other assets	1,601,192	1,601,192	-	264,013	-	1,337,179	-	-
	1,033,019,925	1,312,765,444	126,174,604	68,338,495	278,234,915	733,125,068	103,440,461	3,451,901
Derivative assets								
Risk management								
Outflow		-	-	-	-	-	-	-
Inflow		7,654	-	-	6,203	1,451	-	-
	-	7,654	-	-	6,203	1,451	-	-
Borrowing commitments	-	55,049,188	-	5,049,188	15,000,000	-	35,000,000	-
In US$ equivalents	1,033,019,925	1,367,822,286	126,174,604	73,387,683	293,241,118	733,126,519	138,440,461	3,451,901
In KHR'000 equivalents	4,200,259,015	5,561,565,415	513,025,940	298,394,319	1,192,318,386	2,980,892,426	562,898,914	14,035,429

36. FINANCIAL RISK MANAGEMENT (continued)

36.2 Liquidity risk (continued)

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

	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)	-	-
	753,300,775	(810,446,693)	(123,256,764)	(104,325,836)	(346,221,530)	(230,669,994)	(5,679,746)	(292,823)
Derivative liabilities								
Risk management								
Outflow		-	-	-	-	-	-	-
Inflow		341,840	-	-	166,695	175,145	-	-
	27,794	341,840	-	-	166,695	175,145	-	-
Loan commitments	-	(1,114,630)	-	-	(1,114,630)	-	-	-
In US$ equivalents	753,328,569	(811,219,483)	(123,256,764)	(104,325,836)	(347,169,465)	(230,494,849)	(5,679,746)	(292,823)
In KHR'000 equivalents	3,024,614,203	(3,257,046,224)	(494,875,907)	(418,868,232)	(1,393,885,402)	(925,436,819)	(22,804,180)	(1,175,684)

36. FINANCIAL RISK MANAGEMENT (continued)

36.2 Liquidity risk (continued)

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

	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	-	-
	897,770,868	1,124,038,185	119,163,663	73,463,137	242,070,932	617,303,181	66,953,749	5,083,523
Derivative assets								
Risk management								
Outflow		-	-	-	-	-	-	-
Inflow		-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Borrowing commitments	-	35,000,000	-	-	-	-	35,000,000	-
In US$ equivalents	897,770,868	1,159,038,185	119,163,663	73,463,137	242,070,932	617,303,181	101,953,749	5,083,523
In KHR'000 equivalents	3,604,550,037	4,653,538,313	478,442,107	294,954,495	971,914,792	2,478,472,272	409,344,302	20,410,345

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 Company holds liquid assets comprising cash and cash equivalents, which can be readily to meet liquidity requirements. In addition, the Company maintains 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.

	30 June 2019		31 December 2018	
	US$	KHR'000	US$	KHR'000
Financial assets				
Cash on hand	26,268,257	106,806,733	37,211,155	149,402,787
Balances with the NBC	16,312,681	66,327,361	30,270,191	121,534,817
Balances with other banks	65,121,823	264,785,332	39,644,091	159,171,025
Loans to customers	364,781,240	1,483,200,522	327,366,957	1,314,378,332
Investment securities	-	-	-	-
Other assets	264,013	1,073,477	205,338	824,432
	472,748,014	1,922,193,425	434,697,732	1,745,311,393
Borrowing commitments	20,049,188	81,519,998	-	-
	492,797,202	2,003,713,423	434,697,732	1,745,311,393
Financial liabilities				
Deposits from customers	575,761,368	2,341,045,722	482,384,926	1,938,222,633
Debt securities issued	2,840,401	11,549,070	2,380,797	9,566,042
Borrowings	84,164,570	342,213,142	68,271,178	274,313,593
Subordinated debts	8,878,724	36,100,892	13,074,608	52,533,775
Lease liabilities	2,412,997	9,811,246	3,233,448	12,991,994
Other liabilities	4,736,413	19,258,255	4,459,173	17,916,957
	678,794,473	2,759,978,327	573,804,130	2,305,544,994
Loan commitments	1,199,852	4,878,598	1,114,630	4,478,583
	679,994,325	2,764,856,925	574,918,760	2,310,023,577

36. FINANCIAL RISK MANAGEMENT (continued)

36.2 Liquidity risk (continued)

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

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

	30 June 2019		31 December 2018	
	US$	KHR'000	US$	KHR'000
Financial assets				
Cash on hand	-	-	-	-
Balances with the NBC	58,354,775	237,270,515	47,383,312	190,243,998
Balances with other banks	-	-	-	-
Loans to customers	780,305,476	3,172,722,065	640,638,297	2,572,162,762
Investment securities	20,000	81,320	20,000	80,300
Other assets	1,337,179	5,436,970	1,298,844	5,214,859
	840,017,430	3,415,510,870	689,340,453	2,767,701,919
Borrowing commitments	35,000,000	142,310,000	35,000,000	140,525,000
	875,017,430	3,557,820,870	724,340,453	2,908,226,919
Financial liabilities				
Deposits from customers	30,520,576	124,096,662	25,429,996	102,101,434
Debt securities issued	32,560,083	132,389,297	34,633,721	139,054,390
Borrowings	188,469,258	766,316,003	149,608,090	600,676,481
Subordinated debts	9,413,332	38,274,608	13,658,198	54,837,665
Lease liabilities	10,404,659	42,305,343	13,283,500	53,333,253
Other liabilities	30,683	124,757	29,058	116,668
	271,398,591	1,103,506,670	236,642,563	950,119,891
Loan commitments	-	-	-	-
	271,398,591	1,103,506,670	236,642,563	950,119,891

36.2.4 Liquidity reserves

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

	30 June 2019		31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
	US$	US$	US$	US$
Cash on hand	26,268,257	26,268,257	37,211,155	37,211,155
Balances with the NBC	74,607,763	74,607,763	77,602,188	77,602,188
Balances with other banks	65,121,823	65,121,823	39,594,315	39,594,315
Undrawn credit lines	35,049,188	35,049,188	35,000,000	35,000,000
Total liquidity reserves	201,047,031	201,047,031	189,407,658	189,407,658
In KHR'000 equivalents	817,457,228	817,457,228	761,039,970	761,039,970

36. FINANCIAL RISK MANAGEMENT (continued)

36.2 Liquidity risk (continued)

36.2.5 Financial assets available to support future funding

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

	Encumbered		Unencumbered			
	Pledged as collateral	Other*	Available as collateral	Other**	Total	
	US$	US$	US$	US$	US$	KHR'000
30 June 2019						
Cash on hand	-	-	-	26,268,257	26,268,257	106,806,733
Balances with the NBC	9,367,966	58,381,552		6,917,938	74,667,456	303,597,876
Balances with other banks	-	-	-	65,121,823	65,121,823	264,785,332
Loans to customers	-	-	-	1,145,086,716	1,145,086,716	4,655,922,587
Investment securities	-	-	-	20,000	20,000	81,320
Other assets	-	-	-	1,601,192	1,601,192	6,510,447
	9,367,966	58,381,552		1,245,015,926	1,312,765,444	5,337,704,295
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	-	77,653,503	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
	4,319,117	47,404,384	-	1,124,038,185	1,124,038,185	4,516,385,428

* Represents assets that are not pledged but that the Company believes 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 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 Company's income or the value of its holdings of financial instruments. The objective of the Company's market risk management is to manage and control market risk exposures within acceptable parameters to ensure 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 Board of Directors). Treasury function implement and manage the day-to-day market risk in the daily operation.

36. FINANCIAL RISK MANAGEMENT (continued)

36.3 Market risk (continued)

36.3.1 Market risk management (continued)

The Company employs 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.

	30 June 2019		31 December 2018	
	US$	KHR'000	US$	KHR'000
Assets subject to market risk:				
Cash on hand	26,268,257	106,806,733	37,211,155	149,514,421
Balances with the NBC	74,607,763	303,355,164	77,602,188	311,805,591
Balances with other banks	65,121,823	264,785,332	39,594,315	159,089,958
Loans to customers	865,400,890	3,518,720,019	741,839,028	2,980,709,215
Investment securities	20,000	81,320	20,000	80,360
Other assets	1,601,192	6,510,447	1,504,182	6,043,803
	1,033,019,925	4,200,259,015	897,770,868	3,607,243,348
Liabilities subject to market risk:				
Deposits from customers	574,045,523	2,334,069,097	491,353,390	1,974,257,921
Debt securities issued	29,122,787	118,413,252	29,325,252	117,828,863
Borrowings	241,369,509	981,408,424	191,725,158	770,351,685
Subordinated debts	15,548,256	63,219,209	23,236,296	93,363,437
Lease liabilities	12,817,656	52,116,589	13,172,448	52,926,896
Other liabilities	4,767,096	19,383,012	4,488,231	18,033,712
Derivative liabilities held for risk management	902,068	3,667,808	27,794	111,676
	878,572,895	3,572,277,391	753,328,569	3,026,874,190

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 Company also enters 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 Company's interest rate exposures, which include the impact of the Company's outstanding or forecast debt obligations.

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

The following is a summary of the Company's interest rate gap position. The interest rate repricing gap table analyses the full-term structure of interest rate mismatches within 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.

36. FINANCIAL RISK MANAGEMENT (continued)

36.3 Market risk (continued)

36.3.2 Exposure to market risk (continued)

(i) Interest rate risk (continued)

	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$
30 June 2019							
Financial assets							
Cash on hand	26,268,257	-	-	-	-	-	26,268,257
Balances with the NBC	74,607,763	-	5,178,778	15,715,966	-	-	53,713,019
Balances with other banks	65,121,823	16,327,255	-	-	-	-	48,794,568
Loans to customers	865,400,890	374,254	1,039,085	22,239,917	616,276,066	237,829,488	(12,357,920)
Investment securities	20,000	-	-	-	-	-	20,000
Other assets	1,601,192	-	-	-	-	-	1,601,192
	1,033,019,925	16,701,509	6,217,863	37,955,883	616,276,066	237,829,488	118,039,116
Financial liabilities							
Deposits from customers	574,045,523	168,596,840	93,535,659	284,555,404	27,298,168	59,452	-
Debt securities issued	29,122,787	-	-	-	28,793,465	-	329,322
Borrowings	241,369,509	2,000,000	4,918,839	62,891,115	169,930,968	-	1,628,587
Subordinated debts	15,548,256	-	-	7,500,000	7,000,000	729,319	318,937
Lease liabilities	12,817,656	-	-	-	-	-	12,817,656
Other liabilities	4,767,096	-	-	-	-	-	4,767,096
	877,670,827	170,596,840	98,454,498	354,946,519	233,022,601	788,771	19,861,598
Derivative liabilities held for risk management	902,068	-	-	-	-	-	902,068
Total	154,447,030	(153,895,331)	(92,236,635)	(316,990,636)	383,253,465	237,040,717	97,275,450
In KHR'000 equivalents	627,981,624	(625,738,416)	(375,034,158)	(1,288,883,926)	1,558,308,589	963,807,555	395,521,980

36. FINANCIAL RISK MANAGEMENT (continued)

36.3 Market risk (continued)

36.3.2 Exposure to market risk (continued)

(i) Interest rate risk (continued)

	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	77,602,187	-	4,230,000	7,610,189	-	-	65,761,998
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
	897,770,867	5,333,576	14,026,857	27,586,551	636,605,601	93,310,571	120,907,711
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
	753,300,775	119,629,404	97,000,367	307,963,511	198,732,045	1,748,069	28,227,379
Derivative liabilities held for risk management	27,794	-	-	-	-	-	27,794
Total	144,442,298	(114,295,828)	(82,973,510)	(280,376,960)	437,873,556	91,562,502	92,652,538
In KHR'000 equivalents	580,369,154	(459,240,637)	(333,387,563)	(1,126,554,625)	1,759,375,948	367,898,133	372,277,898

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 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 Company's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement of interest rate.

	100bp parallel increase	100bp parallel decrease	50bp increase after 1 year	50bp decrease after 1 year
	US$	US$	US$	US$
Sensitivity of projected net interest income				
30 June 2019				
As at 30 June	(2,061,886)	2,061,886	(1,030,943)	1,030,943
Average for the period	(1,771,499)	1,771,499	(885,750)	885,750
Maximum for the period	(2,061,886)	2,061,886	(1,030,943)	1,030,943
Minimum for the period	(738,884)	738,884	(369,442)	369,442
30 June 2018				
As at 30 June	(1,217,401)	1,217,401	(608,700)	608,700
Average for the period	(1,245,406)	1,245,406	(622,703)	622,703
Maximum for the period	(1,380,073)	1,380,073	(690,037)	690,037
Minimum for the period	(1,104,211)	1,104,211	(552,105)	552,105
Sensitivity of reported equity to interest rate movements				
30 June 2019				
As at 30 June	(10,061,085)	10,061,085	(5,030,543)	5,030,543
Average for the period	(9,099,820)	9,099,820	(4,549,910)	4,549,910
Maximum for the period	(10,061,085)	10,061,085	(5,030,543)	5,030,543
Minimum for the period	(8,089,221)	8,089,221	(4,044,610)	4,044,610
30 June 2018				
As at 30 June	(5,172,001)	5,172,001	(2,586,000)	2,586,000
Average for the period	(4,959,196)	4,959,196	(2,479,598)	2,479,598
Maximum for the period	(5,349,952)	5,349,952	(2,674,976)	2,674,976
Minimum for the period	(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.

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 Company agrees to exchange the difference between fixed and floating rate interest amounts calculated on contracted notional principal amounts. Such contracts enable the Company to mitigate the risk of changing interest rates on the cash flow of floating rate debts issued. 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	
	30 June 2019	31 December 2018	30 June 2019	31 December 2018	30 June 2019	31 December 2018
	%	%	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
2 to 5 years	6.56838%-11.58763%	7.15088%-11.855%	66,072,000	85,000,000	(907,996)	(43,466)
5 years +			-	-	-	-
Total			66,072,000	109,000,000	(907,996)	(27,794)
In KHR'000 equivalents			268,648,752	437,962,000	(3,691,912)	(111,676)

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

(ii) Foreign exchange risk

The Company undertakes 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 Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

36. FINANCIAL RISK MANAGEMENT (continued)

36.3 Market risk (continued)

36.3.2 Exposure to market risk (continued)

(ii) Foreign exchange risk (continued)

	US$ equivalent			Total	
	US$	**KHR**	**THB**	**US$**	**KHR'000**
30 June 2019					
Financial assets					
Cash on hand	19,795,941	5,357,834	1,114,482	26,268,257	106,806,733
Balances with the NBC	69,319,814	5,287,949	-	74,607,763	303,355,164
Balances with other banks	58,967,562	6,140,235	14,026	65,121,823	264,785,332
Loans to customers	701,896,091	129,875,256	33,629,543	865,400,890	3,518,720,019
Investment securities	20,000	-	-	20,000	81,320
Other assets	1,467,663	133,529	-	1,601,192	6,510,447
	851,467,071	146,794,803	34,758,051	1,033,019,925	4,200,259,015
Financial liabilities					
Deposits from customers	530,288,605	34,113,997	9,642,921	574,045,523	2,334,069,097
Debt securities issued	-	29,122,787	-	29,122,787	118,413,252
Borrowings	152,438,817	73,084,605	15,846,087	241,369,509	981,408,424
Subordinated debts	15,548,256	-	-	15,548,256	63,219,209
Lease liabilities	12,817,656	-	-	12,817,656	52,116,589
Other liabilities	4,344,910	319,222	102,964	4,767,096	19,383,012
	715,438,244	136,640,611	25,591,972	877,670,827	3,568,609,583

	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
	760,860,348	105,397,580	31,512,940	897,770,868	3,607,243,348
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
	639,411,551	95,490,672	18,398,552	753,300,775	3,026,762,514

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 period, the Company enters into currency swap contract where the Company agrees 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 period-end:

	Exchange rate		Foreign currency		Notional value		Fair value	
	30 June 2019	31 December 2018	30 June 2019	31 December 2018	30 June 2019	31 December 2018	30 June 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	-	12,198,000,000	-	3,000,000	-	3,000,000	-
Sell								
Less than 3 months				-		-		-
3 to 6 months	4,066	-	12,173,898,000	-	2,994,072	-	2,994,072	-
			24,102,000	-	5,928	-	5,928	-

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 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 Company's operations.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and innovation. In all cases, Company's policy requires 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 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 Company has insufficient capital resources to meet the minimum regulatory requirements to support its credit rating and to support its growth and strategic options.

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

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

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 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 Company has complied with all externally imposed capital requirements throughout the year.

37. CURRENT AND NON-CURRENT

Management presents the interim 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.