

HATTHA KAKSEKAR LIMITED
(Registration No. 00005355)

**INTERIM FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND NINE-MONTH
PERIODS ENDED 30 SEPTEMBER 2019**

HATTHA KAKSEKAR LIMITED

**INTERIM FIANCIAL STATEMENTS
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019**

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HATTHA KAKSEKAR LIMITED

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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 September 2019, its financial performance for the three-month and nine-month periods then ended, and its cash flows for the nine-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. *ccw*

On behalf of the Board of Directors




Mr. Hout Jeng Tong
President and Chief Executive Officer

Phnom Penh, Kingdom of Cambodia
Date: 14 November 2019

Subsidiary of krungsri bank
A member of MUFG, a global financial group

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 September 2019 and the related interim statements of profit or loss and other comprehensive income for the three-month and nine-month periods then ended, changes in equity and cash flows for the nine-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 nine-month periods ended 30 September 2018, and statements of changes in equity and cash flows for the nine-month period then ended for comparative purposes only. These statements including related notes were neither reviewed nor audited.

For Deloitte (Cambodia) Co., Ltd.



Ung Kimsopheaktra
Director

Phnom Penh, Kingdom of Cambodia
Date: 14 November 2019

HATTHA KAKSEKAR LIMITED

**INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2019**

	Notes	30 September 2019		31 December 2018		1 January 2018	
		US\$	KHR'000	US\$	KHR'000	US\$	KHR'000
ASSETS							
Cash on hand		20,510,085	83,988,798	37,211,155	149,514,421	9,923,604	40,061,589
Balances with the NBC	6	67,103,697	274,789,639	77,602,188	311,805,591	41,264,136	166,583,317
Balances with other banks	7	61,864,043	253,333,256	39,594,315	159,089,958	57,035,505	230,252,334
Loans to customers	8	931,303,259	3,813,686,846	741,839,028	2,980,709,215	564,202,315	2,277,684,746
Investment securities	9	20,000	81,900	20,000	80,360	20,000	80,740
Property and equipment	10	3,746,111	15,340,325	4,148,634	16,669,211	3,958,984	15,982,418
Right-of-use assets	11	12,285,603	50,309,544	12,788,265	51,383,249	13,225,717	53,392,220
Intangible assets	12	2,031,666	8,319,672	835,911	3,358,690	611,726	2,469,538
Deferred tax assets, net	13(a)	3,651,611	14,953,347	3,100,212	12,456,652	1,876,639	7,575,992
Other assets	14	11,147,956	45,650,880	7,938,877	31,898,408	7,477,818	30,187,951
TOTAL ASSETS		1,113,664,031	4,560,454,207	925,078,585	3,716,965,755	699,596,444	2,824,270,845
LIABILITIES							
Deposits from customers	15	594,156,254	2,433,069,860	491,353,390	1,974,257,921	375,822,867	1,517,196,914
Debt securities issued	16	29,609,816	121,252,197	29,325,252	117,828,863	-	-
Borrowings	17	262,897,408	1,076,564,886	191,725,158	770,351,685	175,448,992	708,287,581
Subordinated debts	18	14,578,493	59,698,929	23,236,296	93,363,437	25,258,299	101,967,753
Derivatives held for risk management	19	905,699	3,708,837	27,794	111,676	358,020	1,445,327
Current tax liabilities	13(b)	4,690,185	19,206,308	4,862,542	19,537,694	3,510,009	14,169,906
Lease liabilities	20	12,928,638	52,942,773	13,172,448	52,926,896	13,101,606	52,891,183
Provisions	21	3,358	13,751	3,599	14,461	4,731	19,099
Other liabilities	22	7,389,146	30,258,553	5,127,753	20,603,312	3,841,293	15,507,300
TOTAL LIABILITIES		927,158,997	3,796,716,094	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 SEPTEMBER 2019

	Notes	30 September 2019		31 December 2018		1 January 2018	
		US\$	KHR'000	US\$	KHR'000	US\$	KHR'000
EQUITY							
Share capital	23	75,000,000	307,125,000	75,000,000	301,350,000	30,000,000	121,110,000
Share premium		19,082,502	78,142,846	19,082,502	76,673,493	19,082,502	77,036,061
Reserves	24	7,264,261	35,782,766	4,389,187	17,635,753	2,721,101	10,985,085
Retained earnings		85,158,271	342,687,501	67,772,664	272,310,564	50,447,024	203,654,636
TOTAL EQUITY		186,505,034	763,738,113	166,244,353	667,969,810	102,250,627	412,785,782
TOTAL LIABILITIES AND EQUITY		1,113,664,031	4,560,454,207	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 SEPTEMBER 2019**

	Notes	Three-month period ended 30 September 2019		Three-month period ended 30 September 2018	
		US\$	KHR'000	US\$	KHR'000
				(Unreviewed and unaudited)	
Interest income	25	36,599,661	149,406,359	28,390,153	115,592,682
Interest expense	25	(15,436,534)	(63,022,777)	(12,126,067)	(49,364,409)
Net interest income		21,163,127	86,383,582	16,264,086	66,228,273
Fee and commission income	26	1,430,042	5,832,964	1,062,964	4,315,737
Fee and commission expense	26	(174,632)	(713,956)	(159,131)	(649,036)
Net fee and commission income		1,255,410	5,119,008	903,833	3,666,701
Net loss from other financial instruments at FVTPL	27	(13,440)	(70,036)	(339,313)	(1,371,654)
Other income	28	50,363	207,902	235,915	951,320
Net impairment losses on financial instruments	29	(147,338)	(603,650)	(457,700)	(1,875,255)
Personnel expenses	30	(8,674,436)	(35,423,423)	(6,474,068)	(26,374,892)
Depreciation and amortisation	31	(1,330,787)	(5,437,281)	(1,237,729)	(5,042,750)
Other expenses	32	(2,406,044)	(9,816,017)	(2,017,007)	(8,216,349)
Profit before tax		9,896,855	40,360,085	6,878,017	27,965,394
Income tax expense	13(c)	(1,986,899)	(8,105,920)	(1,393,599)	(5,666,377)
Profit for the period		7,909,956	32,254,165	5,484,418	22,299,017
Other comprehensive income		-	2,397,995	-	2,526,504
Total comprehensive income for the period		7,909,956	34,652,160	5,484,418	24,825,521
Profit attributable to shareholder		7,909,956	32,254,165	5,484,418	22,299,017
Total comprehensive income attributable to shareholder		7,909,956	34,652,160	5,484,418	24,825,521

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 NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2019**

	Notes	Nine-month period ended 30 September 2019		Nine-month period ended 30 September 2018	
		US\$	KHR'000	US\$	KHR'000
				(Unreviewed and unaudited)	
Interest income	25	102,438,125	414,669,530	80,583,681	325,880,406
Interest expense	25	(43,630,625)	(176,616,770)	(33,898,993)	(137,087,528)
Net interest income		58,807,500	238,052,760	46,684,688	188,792,878
Fee and commission income	26	3,753,936	15,195,933	2,203,715	8,911,823
Fee and commission expense	26	(545,440)	(2,207,941)	(526,444)	(2,128,940)
Net fee and commission income		3,208,496	12,987,992	1,677,271	6,782,883
Net loss from other financial instruments at FVTPL	27	(836,100)	(3,384,533)	(304,136)	(1,229,926)
Other income	28	262,623	1,063,098	54,557	220,629
Net impairment losses on financial instruments	29	(527,644)	(2,135,903)	(2,078,779)	(8,406,582)
Personnel expenses	30	(24,953,691)	(101,012,541)	(19,391,475)	(78,419,125)
Depreciation and amortisation	31	(3,975,821)	(16,094,123)	(3,729,289)	(15,081,245)
Other expenses	32	(6,424,493)	(26,006,348)	(5,988,518)	(24,217,567)
Profit before tax		25,560,870	103,470,402	16,924,319	68,441,945
Income tax expense	13(c)	(5,300,189)	(21,455,165)	(3,437,742)	(13,902,229)
Profit for the period		20,260,681	82,015,237	13,486,577	54,539,716
Other comprehensive income		-	6,035,617	-	4,068,741
Total comprehensive income for the period		20,260,681	88,050,854	13,486,577	58,608,457
Profit attributable to shareholder		20,260,681	82,015,237	13,486,577	54,539,716
Total comprehensive income attributable to shareholder		20,260,681	88,050,854	13,486,577	58,608,457

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 NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2019**

	Attributable to shareholder				
	Share capital	Share premium	Reserves	Retained earnings	Total
	US\$	US\$	US\$	US\$	US\$
Nine-month period ended 30 September 2018 (Unreviewed and unaudited)					
At 1 January 2018	30,000,000	19,082,502	2,721,101	50,447,024	102,250,627
Issuance of share capital	45,000,000	-	-	-	45,000,000
Profit for the period	-	-	-	13,486,577	13,486,577
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period	-	-	-	13,486,577	13,486,577
Transfers from retained earnings to regulatory reserves	-	-	1,680,692	(1,680,692)	-
At 30 September 2018	75,000,000	19,082,502	4,401,793	62,252,909	160,737,204
In KHR'000 equivalents	304,800,000	77,894,773	22,036,860	251,397,634	656,129,267
Nine-month period ended 30 September 2019					
At 1 January 2019	75,000,000	19,082,502	4,389,187	67,772,664	166,244,353
Profit for the period	-	-	-	20,260,681	20,260,681
Other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period	-	-	-	20,260,681	20,260,681
Transfers from retained earnings to regulatory reserves	-	-	2,875,074	(2,875,074)	-
At 30 September 2019	75,000,000	19,082,502	7,264,261	85,158,271	186,505,034
In KHR'000 equivalents	307,125,000	78,142,846	35,782,766	342,687,501	763,738,113

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 NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2019**

	Note	Nine-month period ended 30 September 2019		Nine-month period ended 30 September 2018	
		US\$	KHR'000	US\$	KHR'000
(Unreviewed and unaudited)					
Cash flows from operating activities					
Profit for the period		20,260,681	82,015,237	13,486,577	54,539,716
<i>Adjustments for:</i>					
Net interest income	25	(58,807,500)	(238,052,760)	(46,684,688)	(188,792,878)
Net loss from other financial instruments at FVTPL		836,100	3,384,533	304,136	1,229,926
Net impairment losses on financial instruments		527,644	2,135,903	2,078,779	8,406,582
Depreciation and amortisation		3,975,821	16,094,123	3,729,289	15,081,245
Other personnel expenses		917,706	3,714,874	898,216	3,632,386
Losses/(gains) on disposals of property and equipment		613	2,481	(272)	(1,100)
Income tax expense		5,300,189	21,455,165	3,437,742	13,902,229
Effect of currency translation of monetary items		(253,400)	(1,025,763)	22,519	91,923
		(27,242,146)	(110,276,207)	(22,727,702)	(91,909,971)
<i>Changes in:</i>					
Balances with the NBC		(12,705,263)	(51,430,905)	(11,012,837)	(44,535,913)
Loans to customers		(191,860,867)	(776,652,790)	(122,693,898)	(496,174,124)
Other assets		(2,267,954)	(9,180,678)	(570,940)	(2,308,881)
Deposits from customers		103,446,305	418,750,643	71,768,428	290,231,523
Other liabilities		2,261,393	9,154,119	4,029,029	16,293,393
Cash used in operations		(128,368,532)	(519,635,818)	(81,207,920)	(328,403,973)
Interest received		102,576,789	415,230,842	81,843,016	330,973,157
Interest paid		(40,891,417)	(165,528,456)	(32,369,824)	(130,903,568)
Income tax paid		(6,023,945)	(24,384,929)	(4,288,257)	(17,341,736)
Net cash used in operating activities		(72,707,105)	(294,318,361)	(36,022,985)	(145,676,120)

HATTHA KAKSEKAR LIMITED

**INTERIM STATEMENT OF CASH FLOWS (continued)
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2019**

	Nine-month period ended 30 September 2019		Nine-month period ended 30 September 2018		
	Note	US\$	KHR'000	US\$	KHR'000
					(Unreviewed and unaudited)
Cash flows from investing activities					
Purchases of property and equipment		(1,255,428)	(5,081,973)	(1,271,114)	(5,140,385)
Purchases of intangible assets		(1,353,616)	(5,479,438)	(63,285)	(255,925)
Proceeds from disposals of property and equipment		729	2,951	273	1,104
Net cash used in investing activities		(2,608,315)	(10,558,460)	(1,334,126)	(5,395,206)
Cash flows from financing activities					
Proceeds from borrowings		113,329,180	458,756,521	107,094,781	433,091,294
Repayments of borrowings		(44,413,384)	(179,785,378)	(67,665,365)	(273,638,736)
Repayments of subordinated debts		(8,500,000)	(34,408,000)	(2,000,000)	(8,088,000)
Principal elements of lease payments		(2,627,209)	(10,634,942)	(2,285,783)	(9,243,706)
Issuance of share capital		-	-	45,000,000	181,980,000
Net cash from financing activities		57,788,587	233,928,201	80,143,633	324,100,852
Net (decrease)/increase in cash and cash equivalents		(17,526,833)	(70,948,620)	42,786,522	173,029,526
Cash and cash equivalents at the beginning of period		106,976,320	429,830,854	75,177,800	303,492,778
Currency translation differences		-	7,413,415	-	5,008,058
Cash and cash equivalents at the end of period	33	89,449,487	366,295,649	117,964,322	481,530,362

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

HATTHA KAKSEKAR LIMITED

NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019

1. REPORTING ENTITY

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

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

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

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

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

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

HKL operates in 178 offices (excluding Head Office) located in Phnom Penh and all provinces of the country with the primary source of income being interest income earned on providing loans to customers.

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

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

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 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 ("CIFRSs") published by the Ministry of Economy and Finance (Prakas No. 068-MEF-Pr dated 8 January 2009) and the National Accounting Council of Cambodia (letter dated 24 March 2016).

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

2.2 Functional and presentation currency

The 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 period 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:

	<i>Closing rate</i>	<i>Average rate</i>
30 September 2019	4,095	4,048
31 December 2018	4,018	4,045
30 September 2018	4,082	4,044
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.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019

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 CIFRSs

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

CIFRSs introduce new accounting standards of which two new standards (CIFRS 9 and CIFRS 16) have a significant impact on HKL's 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 CIFRS 1 for first-time adopter of CIFRSs.

3.1 CIFRS 9 Financial instruments

CIFRS 9 sets out requirements for recognising and measuring financial assets and financial liabilities. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities. The key changes to the 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 CFRS 7 categories of held-to-maturity, loans and receivables and available-for-sale.

CIFRS 9 largely retains the existing requirements in CFRS 7 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 CFRS 7 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 CFRS 7.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019

3. APPLICATIONS OF CIFRSs (continued)

3.1 CIFRS 9 Financial instruments (continued)

Transition

At the date of transition to CIFRSs (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:
 - o The assets are held within a business model whose objective is to hold assets to collect contractual cash flow; and
 - o The contractual terms of the financial asset give rise on specified date to cash flow that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.
- Classifies investment in equity instruments at FVOCI as it is not held for trading.
- Classifies financial liabilities measured at amortised cost as those liabilities do not fall into the FVTPL category.
- Applies effective interest rate retrospectively to financial assets and financial liabilities measured at amortised cost.
- Applies impairment requirement retrospectively by using reasonable and supportable information that is available without undue cost or effort to determine the credit risk at the date the financial instrument was initially recognised (for loan commitments, the date the 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.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019

3. APPLICATIONS OF CIFRSs (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 over the lease term as permitted by CIFRS 16. This expense is presented within other expenses in profit or loss.

Transition

At the date of transition to CIFRSs (1 January 2018), the 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 CIFRSs.
- Apply CIAS 36 to the right-of-use assets at the date of transition to CIFRSs.
- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics.
- Elect not to apply measurement requirements to leases for which the lease term ends within 12 months of the date of transition nor to the leases for which the underlying asset is of low value. Instead, the Company recognises the lease payments associated with those leases as an expense on the straight-line basis over the lease term.

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019**

3. APPLICATIONS OF CIFRSs (continued)

3.3 Financial impact of first-time adoption of CIFRSs

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

(i) Impact on profit or loss

	Three-month period ended 30 September 2019		Three-month period ended 30 September 2018	
	US\$	KHR'000	US\$	KHR'000
			(Unreviewed and unaudited)	
Decrease in interest income (a)	(182,693)	(755,247)	(456,286)	(1,863,800)
Increase in interest expense (d, e)	(272,265)	(1,111,516)	(233,104)	(950,833)
Increase/(decrease) in fee and commission income (j)	2,306	9,342	(602)	(2,390)
Increase/(decrease) in fee and commission expense (j)	(385)	(1,566)	854	3,434
Increase/(decrease) in net income/(loss) from other financial instruments at FVTPL (f)	42,793	156,949	(278,733)	(1,121,359)
Increase/(decrease) in other income (j)	(21,251)	(86,185)	10,742	42,726
Decrease in impairment losses on financial instruments (a)	889,612	3,636,953	433,547	1,767,124
Increase in personnel expenses (a)	(282,838)	(1,156,939)	(279,178)	(1,138,319)
Increase in depreciation and amortisation expenses (d)	(730,792)	(2,985,427)	(680,193)	(2,769,834)
Decrease in other expenses (d)	883,092	3,607,581	815,381	3,320,305
Increase/(decrease) in profit before tax	327,579	1,313,945	(667,572)	(2,712,946)
Increase/(decrease) in income tax expense (h)	(65,516)	(262,790)	133,515	542,592
Increase/(decrease) in profit for the period	262,063	1,051,155	(534,057)	(2,170,354)

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019

3. APPLICATIONS OF CIFRSs (continued)

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

(i) Impact on profit or loss (continued)

	Nine-month period ended 30 September 2019		Nine-month period ended 30 September 2018	
	US\$	KHR'000	US\$	KHR'000
	(Unreviewed and unaudited)			
Decrease in interest income (a)	(1,009,338)	(4,085,800)	(1,694,933)	(6,854,309)
Increase in interest expense (d, e)	(766,363)	(3,102,237)	(777,162)	(3,142,843)
Increase in fee and commission income (j)	2,717	10,998	2,374	9,600
Decrease in fee and commission expense (j)	(786)	(3,182)	(510)	(2,062)
Increase/(decrease) in net income/(loss) from other financial instruments at FVTPL (f)	(813,879)	(3,294,582)	110,407	446,486
Decrease in other income (j)	(29,759)	(120,464)	(36,942)	(149,393)
Decrease in impairment losses on financial instruments (a)	2,773,972	11,229,039	1,357,548	5,489,924
Increase in personnel expenses (a)	(915,008)	(3,703,952)	(900,717)	(3,642,500)
Increase in depreciation and amortisation expenses (d)	(2,161,351)	(8,749,149)	(1,955,722)	(7,908,940)
Decrease in other expenses (d)	2,610,687	10,568,061	2,342,323	9,472,354
Decrease in profit before tax	(309,108)	(1,251,268)	(1,553,334)	(6,281,683)
Decrease in income tax expense (h)	61,821	250,251	310,667	1,256,337
Decrease in profit for the period	<u>(247,287)</u>	<u>(1,001,017)</u>	<u>(1,242,667)</u>	<u>(5,025,346)</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019**

3. APPLICATIONS OF CIFRSs (continued)

3.3 Financial impact of first-time adoption of CIFRSs (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		

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019**

3. APPLICATIONS OF CIFRSs (continued)

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

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

	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		<u>5,325,076</u>		
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		<u>10,240,838</u>		
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		<u>(4,915,762)</u>		
Net impact on total liabilities and equity		<u>5,325,076</u>		

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019**

3. APPLICATIONS OF CIFRSs (continued)

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

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

	Under previous GAAP	CIFRS adjustments	30 September 2019	
	US\$	US\$	US\$	KHR'000
Balances with NBC (a)	67,062,336	41,361	67,103,697	274,789,639
Balances with other banks (a)	61,345,985	518,058	61,864,043	253,333,256
Loans to customers (a)	935,773,499	(4,470,240)	931,303,259	3,813,686,846
Amount due from related Party (b)	4,489	(4,489)	-	-
Investment securities (c)	-	20,000	20,000	81,900
Right-of-use assets (d)	-	12,285,603	12,285,603	50,309,544
Deferred tax assets (h)	2,360,849	1,290,762	3,651,611	14,953,347
Other assets (a, b, c, e)	14,808,358	(3,660,402)	11,147,956	45,650,880
Net impact on total assets		6,020,653		
Deposits from customers (e)	583,539,846	10,616,408	594,156,254	2,433,069,860
Debt securities issued (e)	29,304,029	305,787	29,609,816	121,252,197
Borrowings (e)	261,587,580	1,309,828	262,897,408	1,076,564,886
Subordinated debts (e)	14,229,319	349,174	14,578,493	59,698,929
Derivative liabilities held for risk management (f)	-	905,699	905,699	3,708,837
Lease liabilities (d)	-	12,928,638	12,928,638	52,942,773
Provisions (g)	12,823	(9,465)	3,358	13,751
Amounts due to related party (b)	135,384	(135,384)	-	-
Provident benefits (b)	940,238	(940,238)	-	-
Other liabilities (b, e, f)	21,535,890	(14,146,744)	7,389,146	30,258,553
Net impact on total liabilities		11,183,703		
Reserves (i)	1,975,214	5,289,047	7,264,261	35,782,766
Retained earnings (i)	95,610,368	(10,452,097)	85,158,271	342,687,501
Net impact on equity		(5,163,050)		
Net impact on total liabilities and equity		6,020,653		

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019

3. APPLICATIONS OF CIFRSs (continued)

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

(iv) Impact on assets, liabilities, and equity as at 30 September 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 previous GAAP). Loans provided to staff at below market rate resulted in increase in other assets, interest income and personnel expenses.
- (b) Amount due from related party is presented by inclusion in other assets. Amount due to related party and provident benefits are presented by inclusion in other liabilities.
- (c) CIFRS 9 resulted in recognition of financial assets measured at FVOCI. This resulted in decrease in other assets.
- (d) The application of CIFRS 16 to leases previously classified as operating leases under CAS 17 resulted in the recognition of right-of-use assets and leases liabilities. It resulted in a decrease in other expense and an increase in depreciation and amortisation expense and in interest expense.
- (e) CIFRS 9 resulted in recognition of financial liabilities measured at amortised cost. This resulted in decrease in other assets, other liabilities and Interest expense.
- (f) CIFRS 9 resulted in recognition of derivative measured at FVTPL where changes in fair value are 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.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019

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 shall present:

- Short-term lease payments and payments for leases of low-value assets not included in the measurement of the lease liability as part of operating activities;
- Cash paid for the interest portion of lease liability as either operating activities or financing activities, as permitted by CIAS 7 (the 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\$2,627,209 (30 September 2018: US\$2,285,783) and net cash generated in financing activities decreased by the same amount.

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

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.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019

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 expense relates 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.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019

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.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019

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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019

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:

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019

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.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019

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.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6 Financial assets and financial liabilities (continued)

Write-off

Loans are written off in full when there is no reasonable expectation of recovering a financial asset in its entirety thereof. This is generally the case when the 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 the NBC and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

4.8 Derivatives held for risk management

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

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

4.9 Loans to customers

Loans to 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.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.11 Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any.

Where an item of property and equipment comprises major components having different useful lives, the components are accounted for as separate items of property and equipment.

Subsequent costs

Subsequent expenditure is capitalised only when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the 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.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019

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 the rate of 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.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019

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.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019

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 CIFRSs. The provision calculated in accordance with CIFRSs is to be recognised and recorded. Excess amount of provision calculated in accordance with regulatory provision compared to the provision calculated under CIFRSs has to be transferred from retained earnings to regulatory reserve of shareholder's equity.

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

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.17 Reserves (continued)

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

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.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019

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.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019

5. CRITICAL 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.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019

5. CRITICAL 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 September 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Statutory deposits:				
Capital guarantee deposit	11,515,653	47,156,599	7,521,072	30,219,667
Reserve requirement	48,588,575	198,970,215	39,883,312	160,251,148
	<u>60,104,228</u>	<u>246,126,814</u>	<u>47,404,384</u>	<u>190,470,815</u>
Current accounts	2,784,921	11,404,251	25,878,687	103,980,564
Negotiable Certificate of Deposit (NCD)	<u>4,214,548</u>	<u>17,258,574</u>	<u>4,319,117</u>	<u>17,354,212</u>
	<u>67,103,697</u>	<u>274,789,639</u>	<u>77,602,188</u>	<u>311,805,591</u>

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019****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 September 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Balance with other banks at amortised cost	61,978,346	253,801,327	39,632,860	159,244,832
Impairment loss allowance	(114,303)	(468,071)	(38,545)	(154,874)
	<u>61,864,043</u>	<u>253,333,256</u>	<u>39,594,315</u>	<u>159,089,958</u>

The above amounts are analysed as follows:

As at 30 September 2019

	Gross carrying amount	ECL allowance	Carrying amount	
	US\$	US\$	US\$	KHR'000
Current accounts	18,975,079	(55,553)	18,919,526	77,475,459
Savings accounts	35,178,556	(57,968)	35,120,588	143,818,808
Term deposits	7,824,711	(782)	7,823,929	32,038,989
	<u>61,978,346</u>	<u>(114,303)</u>	<u>61,864,043</u>	<u>253,333,256</u>

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
	<u>39,632,860</u>	<u>(38,545)</u>	<u>39,594,315</u>	<u>159,089,958</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019**

8. LOANS TO CUSTOMERS

	30 September 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Loans to customers at amortised cost	937,670,340	3,839,760,043	750,111,956	3,013,949,840
Impairment loss allowance	(6,367,081)	(26,073,197)	(8,272,928)	(33,240,625)
	<u>931,303,259</u>	<u>3,813,686,846</u>	<u>741,839,028</u>	<u>2,980,709,215</u>

The above amounts are analysed as follows:

As at 30 September 2019

	Gross carrying amount	ECL allowance	Carrying amount	
	US\$	US\$	US\$	KHR'000
Individual loans				
External customers:				
Mortgage lending	70,026,573	(442,988)	69,583,585	284,944,781
Personal lending	862,046,676	(5,915,567)	856,131,109	3,505,856,891
Staff loans	5,597,091	(8,526)	5,588,565	22,885,174
	<u>937,670,340</u>	<u>(6,367,081)</u>	<u>931,303,259</u>	<u>3,813,686,846</u>

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

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS****FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019****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 September 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Investment in CMA Investment	20,000	81,900	20,000	80,360

Dividend income

	Three-month period ended 30 September 2019		Three-month period ended 30 September 2018	
	US\$	KHR'000	US\$	KHR'000
			(Unreviewed and unaudited)	
Investment in CMA Investment	(59)	60	-	-

	Nine-month period ended 30 September 2019		Nine-month period ended 30 September 2018	
	US\$	KHR'000	US\$	KHR'000
			(Unreviewed and unaudited)	
Investment in CMA Investment	15,691	63,517	-	-

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019**

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	157,102	-	470,296	79,747	63,472	484,811	1,255,428	5,081,973
Disposals	(29,152)	-	(126,144)	(92,339)	(5,505)	-	(253,140)	(1,024,711)
Transfers	9,432	-	212,047	23,251	4,459	(253,971)	(4,782)	(19,358)
Currency translation differences	-	-	-	-	-	-	-	1,303,565
At 30 September 2019	<u>2,165,840</u>	<u>2,817,715</u>	<u>5,748,630</u>	<u>5,548,722</u>	<u>767,663</u>	<u>269,472</u>	<u>17,318,042</u>	<u>70,917,382</u>
Less: Accumulated depreciation								
At 1 January 2019	1,586,760	1,931,929	3,803,058	4,253,887	596,268	-	12,171,902	48,906,702
Depreciation	208,693	289,731	582,724	522,135	48,544	-	1,651,827	6,686,596
Disposals	(29,152)	-	(125,677)	(91,464)	(5,505)	-	(251,798)	(1,019,278)
Currency translation differences	-	-	-	-	-	-	-	1,003,037
At 30 September 2019	<u>1,766,301</u>	<u>2,221,660</u>	<u>4,260,105</u>	<u>4,684,558</u>	<u>639,307</u>	<u>-</u>	<u>13,571,931</u>	<u>55,577,057</u>
Carrying amount								
At 30 September 2019	<u>399,539</u>	<u>596,055</u>	<u>1,488,525</u>	<u>864,164</u>	<u>128,356</u>	<u>269,472</u>	<u>3,746,111</u>	<u>15,340,325</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019**

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 September	264,987	46,920	327,583	103,542	59,120	468,962	1,271,114	5,140,385
1 October to 31 December	26,605	191,100	232,217	150,650	26,546	466,074	1,093,192	4,423,233
Disposals	(14,302)	-	(32,230)	(17,732)	(715)	-	(64,979)	(262,840)
Transfers	45,615	-	680,550	228,971	26,759	(981,895)	-	-
Currency translation differences	-	-	-	-	-	-	-	(328,486)
At 31 December 2018	<u>2,028,458</u>	<u>2,817,715</u>	<u>5,192,431</u>	<u>5,538,063</u>	<u>705,237</u>	<u>38,632</u>	<u>16,320,536</u>	<u>65,575,913</u>
Less: Accumulated depreciation								
At 1 January 2018	1,269,164	1,552,313	3,208,531	3,493,713	538,504	-	10,062,225	40,621,203
Depreciation for the period from:								
1 January to 30 September	256,011	275,812	484,504	592,485	44,941	-	1,653,753	6,687,777
1 October to 31 December	75,887	103,804	142,186	185,421	13,538	-	520,836	2,108,436
Disposals	(14,302)	-	(32,163)	(17,732)	(715)	-	(64,912)	(262,569)
Currency translation differences	-	-	-	-	-	-	-	(248,145)
At 31 December 2018	<u>1,586,760</u>	<u>1,931,929</u>	<u>3,803,058</u>	<u>4,253,887</u>	<u>596,268</u>	<u>-</u>	<u>12,171,902</u>	<u>48,906,702</u>
Carrying amount								
At 31 December 2018	<u>441,698</u>	<u>885,786</u>	<u>1,389,373</u>	<u>1,284,176</u>	<u>108,969</u>	<u>38,632</u>	<u>4,148,634</u>	<u>16,669,211</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019**

11. RIGHT-OF-USE ASSETS

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

30 September 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	1,513,253	175,973	1,689,226	6,837,987
Reversals	(35,670)	(27,813)	(63,483)	(256,979)
Currency translation differences	-	-	-	1,265,495
At 30 September 2019	<u>16,573,419</u>	<u>494,991</u>	<u>17,068,410</u>	<u>69,895,139</u>
Less: Accumulated amortisation				
At 1 January 2019	2,540,403	113,999	2,654,402	10,665,387
Amortisation	2,026,894	134,457	2,161,351	8,749,149
Reversals	(12,974)	(19,972)	(32,946)	(133,365)
Currency translation differences	-	-	-	304,424
At 30 September 2019	<u>4,554,323</u>	<u>228,484</u>	<u>4,782,807</u>	<u>19,585,595</u>
Carrying amount				
At 30 September 2019	<u>12,019,096</u>	<u>266,507</u>	<u>12,285,603</u>	<u>50,309,544</u>
31 December 2018				
Cost				
At 1 January 2018	13,047,433	178,284	13,225,717	53,392,220
Additions for the period from:				
1 January to 30 September	1,812,023	144,733	1,956,756	7,913,121
1 October to 31 December	236,380	23,814	260,194	1,054,442
Currency translation differences	-	-	-	(311,147)
At 31 December 2018	<u>15,095,836</u>	<u>346,831</u>	<u>15,442,667</u>	<u>62,048,636</u>
Less: Accumulated amortisation				
At 1 January 2018	-	-	-	-
Amortisation for the period from:				
1 January to 30 September	1,879,839	75,883	1,955,722	7,908,940
1 October to 31 December	660,564	38,116	698,680	2,828,116
Currency translation differences	-	-	-	(71,669)
At 31 December 2018	<u>2,540,403</u>	<u>113,999</u>	<u>2,654,402</u>	<u>10,665,387</u>
Carrying amount				
At 31 December 2018	<u>12,555,433</u>	<u>232,832</u>	<u>12,788,265</u>	<u>51,383,249</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019**

12. INTANGIBLE ASSETS

30 September 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	122,860	1,230,756	1,353,616	5,479,438
Transfers	335,206	(330,424)	4,782	19,358
Disposals	(4,096)	-	(4,096)	(16,581)
Currency translation differences	-	-	-	330,200
At 30 September 2019	<u>3,549,061</u>	<u>1,266,894</u>	<u>4,815,955</u>	<u>19,721,336</u>
Less: Accumulated amortisation				
At 1 January 2019	2,625,742	-	2,625,742	10,550,231
Amortisation	162,643	-	162,643	658,378
Disposals	(4,096)	-	(4,096)	(16,581)
Currency translation differences	-	-	-	209,636
At 30 September 2019	<u>2,784,289</u>	<u>-</u>	<u>2,784,289</u>	<u>11,401,664</u>
Carrying amount				
At 30 September 2019	<u>764,772</u>	<u>1,266,894</u>	<u>2,031,666</u>	<u>8,319,672</u>
31 December 2018				
Cost				
At 1 January 2018	2,982,037	93,727	3,075,764	12,416,859
Additions for the period from:				
1 January to 30 September	15,326	47,959	63,285	255,925
1 October to 31 December	39,304	283,300	322,604	1,304,996
Transfers	58,424	(58,424)	-	-
Currency translation differences	-	-	-	(68,859)
At 31 December 2018	<u>3,095,091</u>	<u>366,562</u>	<u>3,461,653</u>	<u>13,908,921</u>
Less: Accumulated amortisation				
At 1 January 2018	2,464,038	-	2,464,038	9,947,321
Amortisation for the period from:				
1 January to 30 September	119,814	-	119,814	484,528
1 October to 31 December	41,890	-	41,890	169,565
Currency translation differences	-	-	-	(51,183)
At 31 December 2018	<u>2,625,742</u>	<u>-</u>	<u>2,625,742</u>	<u>10,550,231</u>
Carrying amount				
At 31 December 2018	<u>469,349</u>	<u>366,562</u>	<u>835,911</u>	<u>3,358,690</u>

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019****13. INCOME TAX****(a) Deferred tax assets, net**

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

	30 September 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Deferred tax assets	5,837,787	23,905,738	5,397,699	21,687,955
Deferred tax liabilities	(2,186,176)	(8,952,391)	(2,297,487)	(9,231,303)
Net deferred tax assets	<u>3,651,611</u>	<u>14,953,347</u>	<u>3,100,212</u>	<u>12,456,652</u>

The movement of net deferred tax assets was as follows:

	30 September 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
At the beginning of period/year	3,100,212	12,456,652	1,876,639	7,575,992
Credited to profit or loss:				
1 Jan to 30 September	551,399	2,232,064	922,231	3,729,502
1 October to 31 December	-	-	301,342	1,219,851
Currency translation differences	-	264,631	-	(68,693)
At the end of period/year	<u>3,651,611</u>	<u>14,953,347</u>	<u>3,100,212</u>	<u>12,456,652</u>

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

	30 September 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Provident benefits	185,520	759,704	1,762	7,080
Bonuses and unused leaves	41,879	171,495	42,569	171,040
Unrealised exchange gains	(75,641)	(309,750)	(15,744)	(63,259)
Depreciation and amortisation	(2,110,535)	(8,642,641)	(2,281,743)	(9,168,043)
Impairment loss allowances	799,214	3,272,781	1,078,868	4,334,892
Deferred fee income	2,038,775	8,348,784	1,616,115	6,493,550
Fair value losses	171,084	700,589	8,308	33,382
Lease liabilities	2,585,728	10,588,556	2,634,490	10,585,381
Unused tax credits	15,587	63,829	15,587	62,629
	<u>3,651,611</u>	<u>14,953,347</u>	<u>3,100,212</u>	<u>12,456,652</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019**

13. INCOME TAX (continued)

(b) Current income tax liabilities

	30 September 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
At the beginning of period/year	4,862,542	19,537,694	3,510,009	14,169,906
Current income tax expense:				
1 January to 30 September	5,851,588	23,687,229	4,359,973	17,631,731
1 October to 31 December	-	-	1,529,138	6,189,723
Current income tax paid:				
1 January to 30 September	(6,023,945)	(24,384,929)	(4,288,263)	(17,341,736)
1 October to 31 December	-	-	(248,315)	(1,004,185)
Currency translation differences	-	366,314	-	(107,745)
At the end of period/year	<u>4,690,185</u>	<u>19,206,308</u>	<u>4,862,542</u>	<u>19,537,694</u>

(c) Income tax expense

	Three-month period ended 30 September 2019		Three-month period ended 30 September 2018	
	US\$	KHR'000	US\$	KHR'000
				(Unreviewed and unaudited)
Current income tax	2,118,913	8,648,281	1,595,878	6,495,192
Deferred tax	(132,014)	(542,361)	(202,279)	(828,815)
Income tax expense	<u>1,986,899</u>	<u>8,105,920</u>	<u>1,393,599</u>	<u>5,666,377</u>

	Nine-month period ended 30 September 2019		Nine-month period ended 30 September 2018	
	US\$	KHR'000	US\$	KHR'000
				(Unreviewed and unaudited)
Current income tax	5,851,588	23,687,229	4,359,973	17,631,731
Deferred tax	(551,399)	(2,232,064)	(922,231)	(3,729,502)
Income tax expense	<u>5,300,189</u>	<u>21,455,165</u>	<u>3,437,742</u>	<u>13,902,229</u>

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019****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 statement of profit or loss and other comprehensive income is as follows:

	Three-month period ended 30 September 2019		Three-month period ended 30 September 2018	
	US\$	KHR'000	US\$	KHR'000
			(Unreviewed and unaudited)	
Profit before tax	9,896,855	40,360,085	6,878,017	27,965,394
Income tax using statutory rate 20%	1,979,371	8,072,017	1,375,603	5,593,079
Non-deductible expenses	7,528	33,903	17,996	73,298
Under provision in prior period	-	-	-	-
Income tax expense based on 20% of taxable profit	<u>1,986,899</u>	<u>8,105,920</u>	<u>1,393,599</u>	<u>5,666,377</u>
			Nine-month period ended 30 September 2018	
	Nine-month period ended 30 September 2019		Nine-month period ended 30 September 2018	
	US\$	KHR'000	US\$	KHR'000
			(Unreviewed and unaudited)	
Profit before tax	25,560,870	103,470,402	16,924,319	68,441,945
Income tax using statutory rate 20%	5,112,174	20,694,080	3,384,864	13,688,390
Non-deductible expenses	23,221	93,999	51,380	207,781
Under provision in prior period	164,794	667,086	1,498	6,058
Income tax expense based on 20% of taxable profit	<u>5,300,189</u>	<u>21,455,165</u>	<u>3,437,742</u>	<u>13,902,229</u>

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

14. OTHER ASSETS

	30 September 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Deferred employee expense	6,670,908	27,317,368	5,729,783	23,022,268
Prepaid maintenance services	372,624	1,525,895	428,852	1,723,127
Deposits for leases of offices and ATM premises	1,358,533	5,563,193	1,298,844	5,218,755
Amounts due from related party (*)	1,890	7,740	945	3,797
Other receivables	2,744,001	11,236,684	480,453	1,930,461
	<u>11,147,956</u>	<u>45,650,880</u>	<u>7,938,877</u>	<u>31,898,408</u>

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

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019****15. DEPOSITS FROM CUSTOMERS**

	30 September 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
At amortised cost:				
Savings deposits	143,988,028	589,630,975	89,038,151	357,755,291
Term deposits	450,168,226	1,843,438,885	402,315,239	1,616,502,630
	<u>594,156,254</u>	<u>2,433,069,860</u>	<u>491,353,390</u>	<u>1,974,257,921</u>

16. DEBT SECURITIES ISSUED

	30 September 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Debt securities issued at amortised cost	<u>29,609,816</u>	<u>121,252,197</u>	<u>29,325,252</u>	<u>117,828,863</u>

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

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

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

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

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

17. BORROWINGS

	30 September 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
At amortised cost				
Floating rate	59,110,871	242,059,017	74,434,122	299,076,302
Fixed rate	203,786,537	834,505,869	117,291,036	471,275,383
	<u>262,897,408</u>	<u>1,076,564,886</u>	<u>191,725,158</u>	<u>770,351,685</u>

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

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019****18. SUBORDINATED DEBTS**

	30 September 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
At amortised cost				
Floating rate	7,804,897	31,961,053	10,104,516	40,599,945
Fixed rate	6,773,596	27,737,876	13,131,780	52,763,492
	<u>14,578,493</u>	<u>59,698,929</u>	<u>23,236,296</u>	<u>93,363,437</u>

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

19. DERIVATIVES HELD FOR RISK MANAGEMENT

	30 September 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
At fair value				
Interest rate	933,556	3,822,912	27,794	111,676
Foreign exchange	(27,857)	(114,075)	-	-
	<u>905,699</u>	<u>3,708,837</u>	<u>27,794</u>	<u>111,676</u>

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

20. LEASE LIABILITIES

	30 September 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
No later than 1 year	2,493,257	10,209,887	2,354,436	9,460,124
Later than 1 year and no later than 5 years	7,561,423	30,964,027	7,305,029	29,351,607
Later than 5 years	2,873,958	11,768,859	3,512,983	14,115,165
	<u>12,928,638</u>	<u>52,942,773</u>	<u>13,172,448</u>	<u>52,926,896</u>

21. PROVISIONS

	30 September 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Loan commitments	<u>3,358</u>	<u>13,751</u>	<u>3,599</u>	<u>14,461</u>

The amount in respect of loan commitments represents ECL provisions.

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019****22. OTHER LIABILITIES**

	30 September 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Provident benefits	940,238	3,850,275	12,580	50,546
Amounts due to related party (*)	54,649	223,788	135,322	543,724
Short-term employee benefits	4,389,647	17,975,604	3,165,403	12,718,589
Creditors & accruals	642,657	2,631,680	674,450	2,709,940
Others	1,361,955	5,577,206	1,139,998	4,580,513
	<u>7,389,146</u>	<u>30,258,553</u>	<u>5,127,753</u>	<u>20,603,312</u>

(*) 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 September 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Registered, issued and fully paid ordinary share of US\$1 each	<u>75,000,000</u>	<u>307,125,000</u>	<u>75,000,000</u>	<u>301,350,000</u>

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

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

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

24. RESERVES

	30 September 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Legal reserves	682,459	2,794,670	682,459	2,742,120
Regulatory reserves	5,289,047	21,658,647	2,413,973	9,699,344
Other reserves	1,292,755	5,293,832	1,292,755	5,194,289
Currency translation differences	-	6,035,617	-	-
	<u>7,264,261</u>	<u>35,782,766</u>	<u>4,389,187</u>	<u>17,635,753</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019**

25. NET INTEREST INCOME

	Three-month period ended 30 September 2019		Three-month period ended 30 September 2018	
	US\$	KHR'000	US\$	KHR'000
			(Unreviewed and unaudited)	
Interest income				
Balances with the NBC	35,024	143,036	36,728	149,003
Balances with other banks	16,022	66,212	25,546	103,834
Loans to customers	36,548,615	149,197,111	28,327,879	115,339,845
	<u>36,599,661</u>	<u>149,406,359</u>	<u>28,390,153</u>	<u>115,592,682</u>
Interest expense				
Deposits from customers	9,327,244	38,082,501	6,997,130	28,479,040
Debt securities issued	700,827	2,863,366	-	-
Borrowings	4,742,663	19,350,600	4,214,280	17,158,851
Subordinated debts	421,888	1,729,818	668,169	2,722,386
Lease liabilities	243,912	996,492	246,488	1,004,132
	<u>15,436,534</u>	<u>63,022,777</u>	<u>12,126,067</u>	<u>49,364,409</u>
Net interest income	<u>21,163,127</u>	<u>86,383,582</u>	<u>16,264,086</u>	<u>66,228,273</u>
	Nine-month period ended 30 September 2019		Nine-month period ended 30 September 2018	
	US\$	KHR'000	US\$	KHR'000
			(Unreviewed and unaudited)	
Interest income				
Balances with the NBC	101,298	410,054	68,381	276,533
Balances with other banks	87,328	353,504	60,608	245,099
Loans to customers	102,249,499	413,905,972	80,454,692	325,358,774
	<u>102,438,125</u>	<u>414,669,530</u>	<u>80,583,681</u>	<u>325,880,406</u>
Interest expense				
Deposits from customers	26,475,546	107,173,010	19,173,522	77,537,723
Debt securities issued	2,091,261	8,465,425	-	-
Borrowings	12,758,508	51,646,440	11,967,779	48,397,698
Subordinated debts	1,580,600	6,398,269	2,022,229	8,177,894
Lease liabilities	724,710	2,933,626	735,463	2,974,213
	<u>43,630,625</u>	<u>176,616,770</u>	<u>33,898,993</u>	<u>137,087,528</u>
Net interest income	<u>58,807,500</u>	<u>238,052,760</u>	<u>46,684,688</u>	<u>188,792,878</u>

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.

HATTHA KAKSEKAR LIMITED

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26. NET FEE AND COMMISSION INCOME

	Three-month period ended 30 September 2019		Three-month period ended 30 September 2018	
	US\$	KHR'000	US\$	KHR'000
			(Unreviewed and unaudited)	
Fee and commission income				
Referral fees	463,578	1,889,223	231,901	938,342
Remittance fees	30,424	124,428	31,355	127,641
Service charges and fees on deposit accounts	57,938	236,855	67,724	276,299
Other fees and commissions on loans	837,206	3,415,621	667,160	2,709,434
Other fee income	40,896	166,837	64,824	264,021
	<u>1,430,042</u>	<u>5,832,964</u>	<u>1,062,964</u>	<u>4,315,737</u>
Fee and commission expense				
Borrowing fees	117,783	480,828	100,492	409,492
Debt securities fees	4,554	18,605	-	-
Subordinated debts fees	1,320	5,393	1,321	5,380
Referral fees	11,819	48,386	13,619	55,428
Bank charges	39,156	160,744	43,699	178,736
	<u>174,632</u>	<u>713,956</u>	<u>159,131</u>	<u>649,036</u>
Net fee and commission income	<u>1,255,410</u>	<u>5,119,008</u>	<u>903,833</u>	<u>3,666,701</u>

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26. NET FEE AND COMMISSION INCOME (continued)

	Nine-month period ended 30 September 2019		Nine-month period ended 30 September 2018	
	US\$	KHR'000	US\$	KHR'000
			(Unreviewed and unaudited)	
Fee and commission income				
Referral fees	1,129,885	4,573,774	267,499	1,081,766
Remittance fees	97,336	394,016	87,406	353,470
Service charges and fees on deposit accounts	180,118	729,118	229,293	927,261
Other fees and commissions on loans	2,237,812	9,058,663	1,429,725	5,781,808
Other fee income	108,785	440,362	189,792	767,518
	<u>3,753,936</u>	<u>15,195,933</u>	<u>2,203,715</u>	<u>8,911,823</u>
Fee and commission expense				
Borrowing fees	330,563	1,338,119	307,327	1,242,830
Debt securities fees	13,511	54,693	-	-
Subordinated debts fees	3,918	15,860	3,891	15,735
Referral fees	40,424	163,636	37,112	150,081
Bank charges	157,024	635,633	178,114	720,294
	<u>545,440</u>	<u>2,207,941</u>	<u>526,444</u>	<u>2,128,940</u>
Net fee and commission income	<u>3,208,496</u>	<u>12,987,992</u>	<u>1,677,271</u>	<u>6,782,883</u>

The net fee and commission income includes expenses of US\$347,992 related to financial liabilities measured at amortised costs. These figures exclude amounts incorporated in determining the EIR on such financial liabilities.

27. NET LOSS FROM OTHER FINANCIAL INSTRUMENTS AT FVTPL

	Three-month period ended 30 September 2019		Three-month period ended 30 September 2018	
	US\$	KHR'000	US\$	KHR'000
			(Unreviewed and unaudited)	
Interest rate	35,370	158,921	339,313	1,371,654
Foreign exchange	(21,930)	(88,885)	-	-
	<u>13,440</u>	<u>70,036</u>	<u>339,313</u>	<u>1,371,654</u>
	Nine-month period ended 30 September 2019		Nine-month period ended 30 September 2018	
	US\$	KHR'000	US\$	KHR'000
			(Unreviewed and unaudited)	
Interest rate	863,958	3,497,302	304,136	1,229,926
Foreign exchange	(27,858)	(112,769)	-	-
	<u>836,100</u>	<u>3,384,533</u>	<u>304,136</u>	<u>1,229,926</u>

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**NOTES TO THE FINANCIAL STATEMENTS
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28. OTHER INCOME

	Three-month period ended 30 September 2019		Three-month period ended 30 September 2018	
	US\$	KHR'000	US\$	KHR'000
			(Unreviewed and unaudited)	
Dividend on equity securities measured at FVTOCI	(59)	60	-	-
Foreign exchange gains/(losses)	17,875	75,341	219,426	884,086
Other income	32,547	132,501	16,489	67,234
	<u>50,363</u>	<u>207,902</u>	<u>235,915</u>	<u>951,320</u>
	Nine-month period ended 30 September 2019		Nine-month period ended 30 September 2018	
	US\$	KHR'000	US\$	KHR'000
			(Unreviewed and unaudited)	
Dividend on equity securities measured at FVTOCI	15,691	63,517	-	-
Foreign exchange gains/(losses)	174,872	707,882	1,195	4,833
Other income	72,060	291,699	53,362	215,796
	<u>262,623</u>	<u>1,063,098</u>	<u>54,557</u>	<u>220,629</u>

29. NET IMPAIRMENT LOSSES ON FINANCIAL INSTRUMENTS

	Three-month period ended 30 September 2019		Three-month period ended 30 September 2018	
	US\$	KHR'000	US\$	KHR'000
			(Unreviewed and unaudited)	
Balances with other banks	42,590	173,046	29,447	119,289
Loans to customers (*)	127,808	523,517	427,963	1,754,833
Loan commitments	(23,060)	(92,913)	290	1,133
	<u>147,338</u>	<u>603,650</u>	<u>457,700</u>	<u>1,875,255</u>
	Nine-month period ended 30 September 2019		Nine-month period ended 30 September 2018	
	US\$	KHR'000	US\$	KHR'000
			(Unreviewed and unaudited)	
Balances with other banks	76,409	309,303	43,138	174,450
Loans to customers (*)	451,473	1,827,563	2,038,025	8,241,773
Loan commitments	(238)	(963)	(2,384)	(9,641)
	<u>527,644</u>	<u>2,135,903</u>	<u>2,078,779</u>	<u>8,406,582</u>

This includes the recoveries of loans previously written off amounting to US\$633,672 (30 September 2018: US\$305,251)

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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32. OTHER EXPENSES

	Three-month period ended 30 September 2019		Three-month period ended 30 September 2018	
	US\$	KHR'000	US\$	KHR'000
			(Unreviewed and unaudited)	
Travelling and transportation	594,863	2,426,868	475,012	1,933,996
Marketing and advertising	319,324	1,298,485	51,952	214,766
Repairs and maintenance	310,284	1,267,324	288,598	1,175,546
Utilities	210,094	857,180	187,246	762,106
Office supplies and non-capitalised purchases	189,160	771,483	166,524	678,068
Security	183,415	749,074	173,773	707,846
License fee, patent and other taxes	174,095	710,957	209,446	852,190
Communication	165,703	676,843	139,515	568,076
Leases and rental	108,890	444,666	134,991	550,747
Professional services	63,397	258,764	68,775	279,633
Board fees and meetings	23,015	94,082	27,402	111,439
Others	63,804	260,291	93,773	381,936
	<u>2,406,044</u>	<u>9,816,017</u>	<u>2,017,007</u>	<u>8,216,349</u>
	Nine-month period ended 30 September 2019		Nine-month period ended 30 September 2018	
	US\$	KHR'000	US\$	KHR'000
			(Unreviewed and unaudited)	
Travelling and transportation	1,587,675	6,426,908	1,344,843	5,438,545
Repairs and maintenance	904,707	3,662,254	852,329	3,446,818
Marketing and advertising	627,814	2,541,391	363,458	1,469,824
Utilities	563,768	2,282,133	512,793	2,073,735
Security	531,315	2,150,763	514,295	2,079,809
License fee, patent and other taxes	501,489	2,030,027	555,472	2,246,329
Office supplies and non-capitalised purchases	492,510	1,993,680	476,199	1,925,749
Communication	485,536	1,965,450	398,011	1,609,556
Leases and rental	313,089	1,267,384	457,882	1,851,675
Professional services	175,674	711,128	169,282	684,576
Board fees and meetings	71,318	288,695	69,095	279,420
Others	169,598	686,535	274,859	1,111,531
	<u>6,424,493</u>	<u>26,006,348</u>	<u>5,988,518</u>	<u>24,217,567</u>

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019****33. CASH AND CASH EQUIVALENTS**

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

	30 September 2019		30 September 2018	
	US\$	KHR'000	US\$	KHR'000
			(Unreviewed and unaudited)	
Cash on hand	20,510,085	83,988,798	14,987,163	61,177,599
Balances with the NBC	6,973,760	28,557,547	27,879,477	113,804,025
Balances with other banks	61,965,642	253,749,304	75,097,682	306,548,738
	<u>89,449,487</u>	<u>366,295,649</u>	<u>117,964,322</u>	<u>481,530,362</u>

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 September 2019		Three-month period ended 30 September 2018	
	US\$	KHR'000	US\$	KHR'000
			(Unreviewed and unaudited)	
Board of Directors				
Fees and related expenses	<u>23,015</u>	<u>94,082</u>	<u>27,402</u>	<u>111,439</u>
Key management				
Salaries and short-term benefits	<u>376,806</u>	<u>1,547,018</u>	<u>458,515</u>	<u>1,872,420</u>
Provident benefits	<u>22,264</u>	<u>91,033</u>	<u>21,135</u>	<u>86,079</u>
	<u>399,070</u>	<u>1,638,051</u>	<u>479,650</u>	<u>1,958,499</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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34. RELATED PARTIES (continued)

(b) Directors and key management compensation (continued)

	Nine-month period ended 30 September 2019		Nine-month period ended 30 September 2018	
	US\$	KHR'000	US\$	KHR'000
			(Unreviewed and unaudited)	
Board of Directors				
Fees and related expenses	71,318	288,695	69,095	279,420
Key management				
Salaries and short-term benefits	1,519,292	6,150,094	1,670,873	6,757,010
Provident benefits	70,077	283,672	61,721	249,600
	<u>1,589,369</u>	<u>6,433,766</u>	<u>1,732,594</u>	<u>7,006,610</u>
	30 September 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Provident benefits payable	70,077	283,672	-	-

(c) Loans to key management and interest income

	30 September 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Loans outstanding to key management	538,405	2,204,768	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 September 2019		Three-month period ended 30 September 2018	
	US\$	KHR'000	US\$	KHR'000
			(Unreviewed and unaudited)	
Interest income from key management	14,087	57,391	11,252	45,867
	Nine-month period ended 30 September 2019		Nine-month period ended 30 September 2018	
	US\$	KHR'000	US\$	KHR'000
			(Unreviewed and unaudited)	
Interest income from key management	33,375	135,102	35,513	143,615

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34. RELATED PARTIES (continued)

(d) Deposits from and interest expense to key management

	30 September 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Deposits from key management	<u>1,117,980</u>	<u>4,578,128</u>	<u>1,193,205</u>	<u>4,794,298</u>

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 September 2019		Three-month period ended 30 September 2018	
	US\$	KHR'000	US\$	KHR'000
Interest expense to key management	<u>16,462</u>	<u>67,289</u>	<u>25,642</u>	<u>104,558</u>

(Unreviewed and unaudited)

	Nine-month period ended 30 September 2019		Nine-month period ended 30 September 2018	
	US\$	KHR'000	US\$	KHR'000
Interest expense to key management	<u>50,721</u>	<u>205,319</u>	<u>83,089</u>	<u>336,012</u>

(Unreviewed and unaudited)

(e) Deposits from and interest expense to Directors

	30 September 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Deposits from Board of Directors	<u>5,162,479</u>	<u>21,140,352</u>	<u>1,600,485</u>	<u>6,430,749</u>

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

	Three-month period ended 30 September 2019		Three-month period ended 30 September 2018	
	US\$	KHR'000	US\$	KHR'000
Interest expense to Board of Directors	<u>13,929</u>	<u>58,344</u>	<u>48,945</u>	<u>199,281</u>

(Unreviewed and unaudited)

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**NOTES TO THE FINANCIAL STATEMENTS
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34. RELATED PARTIES (continued)

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

	Nine-month period ended 30 September 2019		Nine-month period ended 30 September 2018	
	US\$	KHR'000	US\$	KHR'000
				(Unreviewed and unaudited)
Interest expense to Board of Directors	117,033	473,750	138,782	561,234

(f) Office rental from key management

	Three-month period ended 30 September 2019		Three-month period ended 30 September 2018	
	US\$	KHR'000	US\$	KHR'000
				(Unreviewed and unaudited)
Office rental expenses	16,980	69,380	10,980	44,642

	Nine-month period ended 30 September 2019		Nine-month period ended 30 September 2018	
	US\$	KHR'000	US\$	KHR'000
				(Unreviewed and unaudited)
Office rental expenses	50,940	206,205	26,940	108,945

(g) Transactions and balances with shareholder and affiliate

(i) Transactions with shareholder and affiliate

	Three-month period ended 30 September 2019		Three-month period ended 30 September 2018	
	US\$	KHR'000	US\$	KHR'000
				(Unreviewed and unaudited)
<i>Shareholder</i>				
Proceeds received for capital injection	-	-	45,000,000	181,980,000
Repayments of borrowing via IFC (*)	-	(54,286)	(5,714,286)	(23,065,715)
Proceeds received for borrowings from Krungsri	-	-	-	120,000
Repayment of borrowings from Krungsri	-	-	(46,000,000)	(185,739,000)
Interest and fee expenses	(1,983,561)	(8,014,602)	(559,344)	(2,284,615)

	Nine-month period ended 30 September 2019		Nine-month period ended 30 September 2018	
	US\$	KHR'000	US\$	KHR'000
				(Unreviewed and unaudited)
<i>Shareholder</i>				
Proceeds received for capital injection	-	-	45,000,000	181,980,000
Repayment of borrowings via IFC (*)	(2,857,143)	(11,565,715)	(2,857,143)	(11,554,286)
Proceeds received for borrowings from Krungsri	-	-	8,000,000	32,352,000
Repayment of borrowings from Krungsri	-	-	(27,000,000)	(109,188,000)
Interest and fee expenses	(1,201,834)	(4,865,024)	(2,067,891)	(8,362,551)

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34. RELATED PARTIES (continued)

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

(ii) Balances with shareholder and affiliate

	30 September 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
<i>Shareholder:</i>				
Interest payable on interest rate SWAP	80,735	330,610	-	-
Interest receivable on interest rate SWAP	2,599	10,643	13,747	55,235
Amount payable on payment on behalf of HKL's expense	53,677	219,807	81,380	326,985
Borrowing via IFC (*)	11,428,572	46,800,002	14,285,714	57,399,999
Interest payable on borrowing via IFC	356,899	1,461,501	155,827	626,113
Commitment given on interest rate SWAP (**)	66,071,571	270,563,083	85,285,714	342,677,999
Commitment received on interest rate SWAP (**)	(66,071,571)	(270,563,083)	(85,285,714)	(342,677,999)
Interest and fee payable on borrowing	972	3,980	3,889	15,626
Amount receivable on payment on behalf of Krungsri's expense	1,890	7,740	945	3,797
	30 September 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
<i>Affiliate:</i>				
Amount payable on <i>Ngern Tid Lor Co., Ltd's</i> payment on behalf of HKL's expense	-	-	50,054	201,117

(*) 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.

HKL has engaged tax advisor to help on this matter and filed 2nd protest letter to GDT on 30 Jul 2019. At the date of this report, the outcome of the ultimate tax liabilities for this assessment year is unknown.

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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.

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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 September 2019				
	Stage 1	Stage 2	Stage 3	Total	
	US\$	US\$	US\$	US\$	KHR'000
Balances with other banks:					
Normal	61,978,346	-	-	61,978,346	253,801,327
Loss allowance	(114,303)	-	-	(114,303)	(468,071)
Carrying amount	<u>61,864,043</u>	<u>-</u>	<u>-</u>	<u>61,864,043</u>	<u>253,333,256</u>
Loans to customers:					
Normal	932,835,928	47,142	11,346	932,894,416	3,820,202,634
Special mention	511	1,156,782	95,673	1,252,966	5,130,896
Substandard	-	31,582	1,302,438	1,334,020	5,462,812
Doubtful	-	-	1,287,964	1,287,964	5,274,213
Loss	-	-	900,974	900,974	3,689,488
	<u>932,836,439</u>	<u>1,235,506</u>	<u>3,598,395</u>	<u>937,670,340</u>	<u>3,839,760,043</u>
Loss allowance	<u>(2,147,199)</u>	<u>(621,487)</u>	<u>(3,598,395)</u>	<u>(6,367,081)</u>	<u>(26,073,197)</u>
Carrying amount	<u>930,689,240</u>	<u>614,019</u>	<u>-</u>	<u>931,303,259</u>	<u>3,813,686,846</u>
Loan commitments:					
Normal	1,202,320	-	-	1,202,320	4,923,500
Special mention	-	-	-	-	-
Substandard	-	-	-	-	-
Doubtful	-	-	-	-	-
Loss	-	-	800	800	3,276
	<u>1,202,320</u>	<u>-</u>	<u>800</u>	<u>1,203,120</u>	<u>4,926,776</u>
Loss allowance	<u>(2,558)</u>	<u>-</u>	<u>(800)</u>	<u>(3,358)</u>	<u>(13,751)</u>
Carrying amount	<u>1,199,762</u>	<u>-</u>	<u>-</u>	<u>1,199,762</u>	<u>4,913,025</u>

HATTHA KAKSEKAR LIMITED

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

36.1 Credit risk (continued)

36.1.2 Credit quality analysis (continued)

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

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019****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 September 2019				
	Stage 1	Stage 2	Stage 3	Total	
	US\$	US\$	US\$	US\$	KHR'000
Loans to customers:					
Current	930,932,986	296,380	219,154	931,448,520	3,814,281,689
Overdue ≤ 30 days	1,903,453	21,133	54,877	1,979,463	8,105,902
Overdue > 30 days	-	917,993	3,324,364	4,242,357	17,372,452
Total	932,836,439	1,235,506	3,598,395	937,670,340	3,839,760,043
	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.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019

36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

36.1.4 Amounts arising from ECL (continued)

Credit risk grades (continued)

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

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

(i) Significant increase in credit risk

The 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.

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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.

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36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

36.1.4 Amounts arising from ECL (continued)

(iv) **Modified financial assets** (continued)

For financial assets modified as part of the 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) **Measurement of ECL**

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

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the 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:

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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	<i>Gross Carrying Amount</i> _{stage1} × <i>Coverage Ratio</i> _{stage1} × <i>Risk Adjustment</i> _{stage1}
2	<i>Gross Carrying Amount</i> _{stage2} × <i>Coverage Ratio</i> _{stage2} × <i>Risk Adjustment</i> _{stage2}
3	<i>Gross Carrying Amount</i> _{stage3} × <i>Coverage Ratio</i> _{stage3} × <i>Risk Adjustment</i> _{stage3}

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

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

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

(b) Loss allowance

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

	30 September 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Loss allowance by classes:				
Balances with other banks	114,303	468,071	38,545	154,874
Loans to customers	6,367,081	26,073,197	8,272,928	33,240,625
Loan commitments	3,358	13,751	3,599	14,461
	<u>6,484,742</u>	<u>26,555,019</u>	<u>8,315,072</u>	<u>33,409,960</u>

The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity is US\$2,906,473 at 30 September 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.

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36. FINANCIAL RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

36.1.4 Amounts arising from ECL (continued)

(b) Loss allowance (continued)

	30 September 2019		31 December 2018	
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
	US\$	US\$	US\$	US\$
Loans to customers:				
0-29 days	933,427,983	2,581,034	744,924,987	3,245,387
30-59 days	353,091	177,353	129,561	81,559
60-89 days	549,328	284,398	351,872	240,446
90-180 days	1,220,485	1,204,844	995,317	995,317
More than 180 days	2,119,453	2,119,452	3,710,219	3,710,219
Total	<u>937,670,340</u>	<u>6,367,081</u>	<u>750,111,956</u>	<u>8,272,928</u>
In KHR'000 equivalents	<u>3,839,760,043</u>	<u>26,073,197</u>	<u>3,013,949,840</u>	<u>33,240,625</u>

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 September 2019				
	Balances with other banks	Loans to customers	Loan commitments	Total	
	US\$	US\$	US\$	US\$	KHR'000
Carrying amount	61,864,043	931,303,259	(3,358)	993,163,944	4,067,006,351
Amount committed	-	-	1,203,120	1,203,120	4,926,776
Concentration by sector:					
External customers					
Mortgages loans	-	69,583,585	243,090	69,826,675	285,940,234
Personal loans	-	856,131,109	960,030	857,091,139	3,509,788,214
Staff loans	-	5,588,565	-	5,588,565	22,885,174
	<u>-</u>	<u>931,303,259</u>	<u>1,203,120</u>	<u>932,506,379</u>	<u>3,818,613,622</u>

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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.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019

36. FINANCIAL RISK MANAGEMENT (continued)

36.2 Liquidity risk (continued)

36.2.1 Liquidity risk management (continued)

Treasury department receives information from other business units regarding the liquidity profile of their financial assets and financial liabilities and details of other projected cash flows arising from projected future business. Treasury department then maintains a portfolio of short-term liquid assets, largely made up of inter-bank facilities, to ensure that sufficient liquidity is maintained within the 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).

	<u>30 September 2019</u>	<u>31 December 2018</u>
At end of period/year	146.87%	177.17%
Average for the period/year	136.78%	156.52%
Maximum for the period/year	162.01%	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.

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36. FINANCIAL RISK MANAGEMENT (continued)

36.2 Liquidity risk (continued)

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

	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 September 2019								
Financial liabilities by type								
Non-derivative liabilities								
Deposits from customers	594,156,254	(626,381,302)	(188,887,614)	(54,038,365)	(337,420,522)	(45,248,244)	(786,557)	-
Debt securities issued	29,609,816	(35,843,055)	(953,719)	(1,253,460)	(1,239,836)	(32,396,040)	-	-
Borrowings	262,897,408	(296,809,455)	(5,900,013)	(24,719,546)	(52,914,742)	(212,908,177)	-	(366,977)
Subordinated debts	14,578,493	(16,955,158)	(459,917)	(2,953,334)	(5,388,885)	(7,277,890)	(875,132)	-
Lease liabilities	12,928,638	(16,028,311)	(292,959)	(580,036)	(2,493,292)	(9,447,324)	(3,214,700)	-
Other liabilities	5,241,819	(5,241,819)	(201,493)	(745,442)	(4,265,797)	(29,087)	-	-
	<u>919,412,428</u>	<u>(997,259,100)</u>	<u>(196,695,715)</u>	<u>(84,290,183)</u>	<u>(403,723,074)</u>	<u>(307,306,762)</u>	<u>(4,876,389)</u>	<u>(366,977)</u>
Derivative liabilities								
Risk management								
Outflow		(485,811)	-	-	(308,849)	(176,962)	-	-
Inflow		27,857	-	-	27,857	-	-	-
	<u>905,699</u>	<u>(457,954)</u>	<u>-</u>	<u>-</u>	<u>(280,992)</u>	<u>(176,962)</u>	<u>-</u>	<u>-</u>
Loan commitments	-	(1,199,852)	-	-	(1,199,852)	-	-	-
In US\$ equivalents	<u>920,318,127</u>	<u>(998,916,906)</u>	<u>(196,695,715)</u>	<u>(84,290,183)</u>	<u>(405,203,918)</u>	<u>(307,483,724)</u>	<u>(4,876,389)</u>	<u>(366,977)</u>
In KHR'000 equivalents	<u>3,768,702,730</u>	<u>(4,090,564,730)</u>	<u>(805,468,953)</u>	<u>(345,168,299)</u>	<u>(1,659,310,044)</u>	<u>(1,259,145,850)</u>	<u>(19,968,813)</u>	<u>(1,502,771)</u>

HATTHA KAKSEKAR LIMITED

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

36.2 Liquidity risk (continued)

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

	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 September 2019								
Financial assets by type								
Non-derivative assets								
Cash on hand	20,510,085	20,510,085	20,510,085	-	-	-	-	-
Balances with the NBC	67,103,697	67,151,419	2,826,281	49,936	4,186,627	-	60,088,575	-
Balances with other banks	61,864,043	61,864,043	58,933,640	2,930,403	-	-	-	-
Loans to customers	931,303,259	1,238,749,399	29,632,786	65,811,013	284,276,911	795,381,694	60,326,429	3,320,566
Investment securities	20,000	20,000	-	-	-	-	-	20,000
Other assets	1,669,464	1,669,464	-	310,931	-	1,358,533	-	-
	<u>1,082,470,548</u>	<u>1,389,964,410</u>	<u>111,902,792</u>	<u>69,102,283</u>	<u>288,463,538</u>	<u>796,740,227</u>	<u>120,415,004</u>	<u>3,340,566</u>
Derivative assets								
Risk management								
Outflow	-	-	-	-	-	-	-	-
Inflow	-	7,653	-	-	6,910	743	-	-
	<u>-</u>	<u>7,653</u>	<u>-</u>	<u>-</u>	<u>6,910</u>	<u>743</u>	<u>-</u>	<u>-</u>
Borrowing commitments	-	54,932,845	-	4,932,845	15,000,000	-	35,000,000	-
In US\$ equivalents	<u>1,082,470,548</u>	<u>1,444,904,908</u>	<u>111,902,792</u>	<u>74,035,128</u>	<u>303,470,448</u>	<u>796,740,970</u>	<u>155,415,004</u>	<u>3,340,566</u>
In KHR'000 equivalents	<u>4,432,716,894</u>	<u>5,916,885,598</u>	<u>458,241,933</u>	<u>303,173,849</u>	<u>1,242,711,485</u>	<u>3,262,654,272</u>	<u>636,424,441</u>	<u>13,679,618</u>

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

36.2 Liquidity risk (continued)

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

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

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 30 SEPTEMBER 2019**

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

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE-MONTH PERIOD ENDED 30 SEPTEMBER 2019

36. FINANCIAL RISK MANAGEMENT (continued)

36.2 Liquidity risk (continued)

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

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

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

As part of the management of liquidity risk arising from financial liabilities, the 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 September 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Financial assets				
Cash on hand	20,510,085	83,988,798	37,211,155	149,514,421
Balances with the NBC	7,062,844	28,922,346	30,270,191	121,625,627
Balances with other banks	61,864,043	253,333,256	39,644,091	159,289,958
Loans to customers	379,720,710	1,554,956,307	327,366,957	1,315,360,433
Other assets	310,931	1,273,262	205,338	825,048
	<u>469,468,613</u>	<u>1,922,473,969</u>	<u>434,697,732</u>	<u>1,746,615,487</u>
Borrowing commitments	19,932,845	81,625,000	-	-
	<u>489,401,458</u>	<u>2,004,098,969</u>	<u>434,697,732</u>	<u>1,746,615,487</u>
Financial liabilities				
Deposits from customers	580,346,501	2,376,518,922	482,384,926	1,938,222,633
Debt securities issued	3,447,015	14,115,526	2,380,797	9,566,042
Borrowings	83,534,301	342,072,963	68,271,178	274,313,593
Subordinated debts	8,802,136	36,044,747	13,074,608	52,533,775
Lease liabilities	3,366,287	13,784,945	3,233,448	12,991,994
Other liabilities	5,212,732	21,346,138	4,459,173	17,916,957
	<u>684,708,972</u>	<u>2,803,883,241</u>	<u>573,804,130</u>	<u>2,305,544,994</u>
Loan commitments	1,199,852	4,913,394	1,114,630	4,478,583
	<u>685,908,824</u>	<u>2,808,796,635</u>	<u>574,918,760</u>	<u>2,310,023,577</u>

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

36.2 Liquidity risk (continued)

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

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 September 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Financial assets				
Balances with the NBC	60,088,575	246,062,715	47,383,312	190,386,148
Loans to customers	859,028,689	3,517,722,481	640,638,297	2,574,084,677
Investment securities	20,000	81,900	20,000	80,360
Other assets	1,358,533	5,563,193	1,298,844	5,218,755
	<u>920,495,797</u>	<u>3,769,430,289</u>	<u>689,340,453</u>	<u>2,769,769,940</u>
Borrowing commitments	35,000,000	143,325,000	35,000,000	140,630,000
	<u>955,495,797</u>	<u>3,912,755,289</u>	<u>724,340,453</u>	<u>2,910,399,940</u>
Financial liabilities				
Deposits from customers	46,034,801	188,512,510	25,429,996	102,177,724
Debt securities issued	32,396,040	132,661,784	34,633,721	139,158,291
Borrowings	213,275,154	873,361,756	149,608,090	601,125,306
Subordinated debts	8,153,022	33,386,625	13,658,198	54,878,640
Lease liabilities	12,662,024	51,850,988	13,283,500	53,373,103
Other liabilities	29,087	119,111	29,058	116,755
	<u>312,550,128</u>	<u>1,279,892,774</u>	<u>236,642,563</u>	<u>950,829,819</u>
Loan commitments	-	-	-	-
	<u>312,550,128</u>	<u>1,279,892,774</u>	<u>236,642,563</u>	<u>950,829,819</u>

36.2.4 Liquidity reserves

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

	30 September 2019		31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
	US\$	US\$	US\$	US\$
Cash on hand	20,510,085	20,510,085	37,211,155	37,211,155
Balances with the NBC	67,103,697	67,103,697	77,602,188	77,602,188
Balances with other banks	61,864,043	61,864,043	39,594,315	39,594,315
Undrawn credit lines	35,048,840	35,048,840	35,000,000	35,000,000
	<u>184,526,665</u>	<u>184,526,665</u>	<u>189,407,658</u>	<u>189,407,658</u>
Total liquidity reserves	<u>184,526,665</u>	<u>184,526,665</u>	<u>189,407,658</u>	<u>189,407,658</u>
In KHR'000 equivalents	<u>755,636,693</u>	<u>755,636,693</u>	<u>761,039,970</u>	<u>761,039,970</u>

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE-MONTH PERIOD ENDED 30 SEPTEMBER 2019

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		Total	
	Pledged as collateral	Other*	Available as collateral	Other**	US\$	KHR'000
	US\$	US\$	US\$	US\$		
30 September 2019						
Cash on hand	-	-	-	20,510,085	20,510,085	83,988,798
Balances with the NBC	4,214,549	60,104,227	-	67,151,419	67,151,419	274,985,061
Balances with other banks	-	-	-	61,864,043	61,864,043	253,333,256
Loans to customers	-	-	-	1,238,749,399	1,238,749,399	5,072,678,789
Investment securities	-	-	-	20,000	20,000	81,900
Other assets	-	-	-	1,669,464	1,669,464	6,836,455
	<u>4,214,549</u>	<u>60,104,227</u>	<u>-</u>	<u>1,389,964,410</u>	<u>1,389,964,410</u>	<u>5,691,904,259</u>
31 December 2018						
Cash on hand	-	-	-	37,211,155	37,211,155	149,514,421
Balances with the NBC	4,319,117	47,404,384	-	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
	<u>4,319,117</u>	<u>47,404,384</u>	<u>-</u>	<u>1,124,038,185</u>	<u>1,124,038,185</u>	<u>4,516,385,428</u>

* 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.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE-MONTH PERIOD ENDED 30 SEPTEMBER 2019

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 September 2019		31 December 2018	
	US\$	KHR'000	US\$	KHR'000
Assets subject to market risk:				
Cash on hand	20,510,085	83,988,798	37,211,155	149,514,421
Balances with the NBC	67,103,697	274,789,639	77,602,188	311,805,591
Balances with other banks	61,864,043	253,333,256	39,594,315	159,089,958
Loans to customers	931,303,259	3,813,686,846	741,839,028	2,980,709,215
Investment securities	20,000	81,900	20,000	80,360
Other assets	1,669,464	6,836,455	1,504,182	6,043,803
	<u>1,082,470,548</u>	<u>4,432,716,894</u>	<u>897,770,868</u>	<u>3,607,243,348</u>
Liabilities subject to market risk:				
Deposits from customers	594,156,254	2,433,069,860	491,353,390	1,974,257,921
Debt securities issued	29,609,816	121,252,197	29,325,252	117,828,863
Borrowings	262,897,408	1,076,564,886	191,725,158	770,351,685
Subordinated debts	14,578,493	59,698,929	23,236,296	93,363,437
Lease liabilities	12,928,638	52,942,773	13,172,448	52,926,896
Other liabilities	5,241,819	21,465,249	4,488,231	18,033,712
Derivative liabilities held for risk management	905,699	3,708,837	27,794	111,676
	<u>920,318,127</u>	<u>3,768,702,731</u>	<u>753,328,569</u>	<u>3,026,874,190</u>

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.

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

36.3 Market risk (continued)

36.3.2 Exposure to market risk (continued)

(i) *Interest rate risk* (continued)

	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 September 2019							
Financial assets							
Cash on hand	20,510,085	-	-	-	-	-	20,510,085
Balances with the NBC	67,103,697	-	11,574,548	4,155,653	-	-	51,373,496
Balances with other banks	61,864,043	31,397,927	2,930,403	-	-	-	27,535,713
Loans to customers	931,303,259	335,176	1,338,003	22,419,357	596,417,012	323,084,696	(12,290,985)
Investment securities	20,000	-	-	-	-	-	20,000
Other assets	1,669,464	-	-	-	-	-	1,669,464
	<u>1,082,470,548</u>	<u>31,733,103</u>	<u>15,842,954</u>	<u>26,575,010</u>	<u>596,417,012</u>	<u>323,084,696</u>	<u>88,817,773</u>
Financial liabilities							
Deposits from customers	594,156,254	179,538,728	51,180,745	323,196,948	40,186,728	53,105	-
Debt securities issued	29,609,816	-	-	-	28,656,096	-	953,720
Borrowings	262,897,408	-	58,956,044	3,907,204	196,523,088	-	3,511,072
Subordinated debts	14,578,493	-	7,500,000	-	6,000,000	729,319	349,174
Lease liabilities	12,928,638	-	-	-	-	-	12,928,638
Other liabilities	5,241,819	-	-	-	-	-	5,241,819
	<u>919,412,428</u>	<u>179,538,728</u>	<u>117,636,789</u>	<u>327,104,152</u>	<u>271,365,912</u>	<u>782,424</u>	<u>22,984,423</u>
Derivative liabilities held for risk management	905,699	-	-	-	-	-	905,699
Total	<u>162,152,421</u>	<u>(147,805,625)</u>	<u>(101,793,835)</u>	<u>(300,529,142)</u>	<u>325,051,100</u>	<u>322,302,272</u>	<u>64,927,651</u>
In KHR'000 equivalents	<u>664,014,166</u>	<u>(605,264,034)</u>	<u>(416,845,754)</u>	<u>(1,230,666,836)</u>	<u>1,331,084,255</u>	<u>1,319,827,804</u>	<u>265,878,731</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 30 SEPTEMBER 2019**

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 US\$	Up to 3 months US\$	> 3 – 6 months US\$	> 6 – 12 months US\$	> 1 – 5 years US\$	Over 5 years US\$	Non-interest sensitive US\$
31 December 2018							
Financial assets							
Cash on hand	37,211,155	-	-	-	-	-	37,211,155
Balances with the NBC	77,602,188	-	4,230,000	7,610,189	-	-	65,761,998
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
	<u>897,770,868</u>	<u>5,333,576</u>	<u>14,026,857</u>	<u>27,586,551</u>	<u>636,605,601</u>	<u>93,310,571</u>	<u>120,907,711</u>
Financial liabilities							
Deposits from customers	491,353,390	119,629,404	88,808,236	249,241,903	21,688,070	725,927	11,259,850
Debt securities issued	29,325,252	-	-	-	29,865,605	-	(540,353)
Borrowings	191,725,158	-	7,192,131	48,721,608	136,178,370	292,823	(659,774)
Subordinated debts	23,236,296	-	1,000,000	10,000,000	11,000,000	729,319	506,977
Lease liabilities	13,172,448	-	-	-	-	-	13,172,448
Other liabilities	4,488,231	-	-	-	-	-	4,488,231
	<u>753,300,775</u>	<u>119,629,404</u>	<u>97,000,367</u>	<u>307,963,511</u>	<u>198,732,045</u>	<u>1,748,069</u>	<u>28,227,379</u>
Derivative liabilities held for risk management	27,794	-	-	-	-	-	27,794
Total	<u>144,442,299</u>	<u>(114,295,828)</u>	<u>(82,973,510)</u>	<u>(280,376,960)</u>	<u>437,873,556</u>	<u>91,562,502</u>	<u>92,652,538</u>
In KHR'000 equivalents	<u>580,369,158</u>	<u>(459,240,637)</u>	<u>(333,387,563)</u>	<u>(1,126,554,625)</u>	<u>1,759,375,948</u>	<u>367,898,133</u>	<u>372,277,898</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 30 SEPTEMBER 2019**

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 September 2019				
As at 30 September	(1,669,013)	1,669,013	(834,506)	834,506
Average for the period	(1,752,372)	1,752,372	(876,186)	876,186
Maximum for the period	(2,061,886)	738,884	(1,030,943)	369,442
Minimum for the period	(738,884)	2,061,886	(369,442)	1,030,943
30 September 2018				
As at 30 September	(701,151)	701,151	(350,575)	350,575
Average for the period	(1,104,447)	1,104,447	(552,224)	552,224
Maximum for the period	(1,380,073)	701,151	(690,037)	350,575
Minimum for the period	(701,151)	1,380,073	(350,575)	690,037
Sensitivity of reported equity to interest rate movements				
30 September 2019				
As at 30 September	(10,818,265)	10,818,265	(5,409,132)	5,409,132
Average for the period	(9,531,336)	9,531,336	(4,765,668)	4,765,668
Maximum for the period	(10,818,265)	8,089,221	(5,409,132)	4,044,610
Minimum for the period	(8,089,221)	10,818,265	(4,044,610)	5,409,132
30 September 2018				
As at 30 September	(5,841,418)	5,841,418	(2,920,709)	2,920,709
Average for the period	(5,166,712)	5,166,712	(2,583,356)	2,583,356
Maximum for the period	(5,841,418)	4,683,247	(2,920,709)	2,341,623
Minimum for the period	(4,683,247)	5,841,418	(2,341,623)	2,920,709

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

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE-MONTH PERIOD ENDED 30 SEPTEMBER 2019

36. FINANCIAL RISK MANAGEMENT (continued)

36.3 Market risk (continued)

36.3.2 Exposure to market risk (continued)

(i) Interest rate risk (continued)

Interest rate swap contracts

Under interest rate swap contracts, the 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 September 2019	31 December 2018	30 September 2019	31 December 2018	30 September 2019	31 December 2018
	%	%	US\$	US\$	US\$	US\$
Outstanding receive floating pay fixed contracts						
Less than 1 year	-	-	-	-	-	-
1 to 2 years	8.08763%- 11.58763%	8.1050% 7.15088%-	18,929,000	24,000,000	-	15,672
2 to 5 years	6.5684%	11.855%	47,143,000	85,000,000	(907,996)	(43,466)
5 years +	-	-	-	-	-	-
		Total	<u>66,072,000</u>	<u>109,000,000</u>	<u>(907,996)</u>	<u>(27,794)</u>
In KHR'000 equivalents			<u>270,564,840</u>	<u>437,962,000</u>	<u>(3,718,244)</u>	<u>(111,676)</u>

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

(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:

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 30 SEPTEMBER 2019**

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 September 2019					
Financial assets					
Cash on hand	13,058,927	5,915,806	1,535,352	20,510,085	83,988,798
Balances with the NBC	61,352,304	5,751,393	-	67,103,697	274,789,639
Balances with other banks	27,292,919	34,557,036	14,088	61,864,043	253,333,256
Loans to customers	757,119,464	139,328,174	34,855,621	931,303,259	3,813,686,846
Investment securities	20,000	-	-	20,000	81,900
Other assets	1,498,097	171,367	-	1,669,464	6,836,455
	<u>860,341,711</u>	<u>185,723,776</u>	<u>36,405,061</u>	<u>1,082,470,548</u>	<u>4,432,716,894</u>
Financial liabilities					
Deposits from customers	521,000,442	63,473,367	9,682,445	594,156,254	2,433,069,860
Debt securities issued	-	29,609,816	-	29,609,816	121,252,197
Borrowings	152,741,509	94,154,442	16,001,457	262,897,408	1,076,564,886
Subordinated debts	14,578,493	-	-	14,578,493	59,698,929
Lease liabilities	12,928,638	-	-	12,928,638	52,942,773
Other liabilities	4,929,526	247,789	64,504	5,241,819	21,465,249
	<u>706,178,608</u>	<u>187,485,414</u>	<u>25,748,406</u>	<u>919,412,428</u>	<u>3,764,993,894</u>
31 December 2018					
Financial assets					
Cash on hand	30,607,038	5,376,438	1,227,679	37,211,155	149,514,421
Balances with the NBC	63,770,817	13,831,371	-	77,602,188	311,805,591
Balances with other banks	22,605,136	13,882,733	3,106,446	39,594,315	159,089,958
Loans to customers	642,453,228	72,206,985	27,178,815	741,839,028	2,980,709,215
Investment securities	20,000	-	-	20,000	80,360
Other assets	1,404,129	100,053	-	1,504,182	6,043,803
	<u>760,860,348</u>	<u>105,397,580</u>	<u>31,512,940</u>	<u>897,770,868</u>	<u>3,607,243,348</u>
Financial liabilities					
Deposits from customers	424,678,594	56,329,958	10,344,838	491,353,390	1,974,257,921
Debt securities issued	-	29,325,252	-	29,325,252	117,828,863
Borrowings	174,257,807	9,557,817	7,909,534	191,725,158	770,351,685
Subordinated debts	23,236,296	-	-	23,236,296	93,363,437
Lease liabilities	13,172,448	-	-	13,172,448	52,926,896
Other liabilities	4,066,406	277,645	144,180	4,488,231	18,033,712
	<u>639,411,551</u>	<u>95,490,672</u>	<u>18,398,552</u>	<u>753,300,775</u>	<u>3,026,762,514</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE THREE-MONTH PERIOD ENDED 30 SEPTEMBER 2019**

36. FINANCIAL RISK MANAGEMENT (continued)

36.3 Market risk (continued)

36.3.2 Exposure to market risk (continued)

(ii) *Foreign exchange risk (continued)*

Currency swap contract

In the current 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 September 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	4,095	-	12,285,000	-	3,000,000	-	3,000,000	-
Sell								
Less than 3 months	-	-	-	-	-	-	-	-
3 to 6 months	4,095	-	12,173,898	-	2,972,869	-	2,972,869	-
			<u>111,102</u>	<u>-</u>	<u>27,131</u>	<u>-</u>	<u>27,131</u>	<u>-</u>

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019

36. FINANCIAL RISK MANAGEMENT (continued)

36.4 Operational risk

36.4.1 Operational risk management

'Operational risk' is the risk of direct or indirect loss arising from a wide variety of causes associated with the 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.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2019

36. FINANCIAL RISK MANAGEMENT (continued)

36.5 Capital risk (continued)

36.5.1 Capital risk management

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

38. EVENTS AFTER THE REPORTING PERIOD

HKL has joined with Saray Holding Company, a private limited company incorporated in Cambodia, to set up a company namely Hattha Services Co., Ltd. for the purposes to engage in real estate activities with own or leased property. On 8 October 2019, the MoC issued the Certificate of Incorporation with the registration no. 00048228 to Hattha Service Co., Ltd., as a private limited company with the registered capital of US\$ 1,000 in which 49% and 51% of the total shares are owned by HKL and Saray Holding Company respectively. The registered capital was fully paid-up on 1 November 2019 and HKL recorded the investment in Hattha Service Co., Ltd. in November 2019.