

HATTHA KAKSEKAR LIMITED
(Registration No. 00005355)

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

FOR THE YEAR ENDED 31 DECEMBER 2018

HATTHA KAKSEKAR LIMITED

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CONTENTS

	Page
1. Corporate information	1
2. Report of the Board of Directors	2
3. Independent auditor's report	6
4. Balance sheet	9
5. Income statement	10
6. Statement of changes in equity	11
7. Statement of cash flows	12
8. Notes to the financial statements	14

CORPORATE INFORMATION

Company	Hattha Kaksekar Limited
Registration No	00005355
Registered office	No. 606, Street 271, Sansam Kosal 3 Village, Sangkat Boeng Tumpun I, Khan Mean Chey, Phnom Penh, Kingdom of Cambodia
Shareholder	Bank of Ayudhya Public Company Limited ("Krungsri")
Board of Directors	Mr. Sudargo Harsono, Chairperson, Head of Retail and Consumer Banking of Krungsri Mr. Rohit Khanna, Director, Head of Corporate Strategy and Planning Group of Krungsri Ms. Duangdao Wongpanitkrit, Director, Chief Financial Officer of Krungsri Mr. Chandrashekar Subramanian Krishoolndmangalam, Director, Chief Risk Officer of Krungsri Mr. Piyasak Ukritnukun, Director, Managing Director of Ngern Tid Lor Co., Ltd. Mr. Dy Davuth, Independent Director, Vice President of Build Bright University Mr. Lonh Hay, Independent Director Ms. Tal Nay Im, Independent Director Mr. Hout Ieng Tong, Director, President and Chief Executive Officer of Hattha Kaksekar Limited
Executive Committee ("EXCOM")	Mr. Hout Ieng Tong, President & Chief Executive Officer Mr. Wanchairabin Jitwattanatham, Deputy Chief Executive Officer Ms. Im Vandith, Executive Vice President & Chief Administration Officer Mr. Rath Sarun, Executive Vice President & Chief Distribution Officer (resigned on 1 January 2019) Mr. Charnrit Sookplang, Executive Vice President & Chief Finance Officer-Acting (resigned on 1 October 2018) Mr. Him Vibol, Executive Vice President & Chief Finance Officer (appointed on 4 June 2018) Mr. Touch Lina, Executive Vice President & Chief Operation and Underwriting Officer Mr. Mech Sokmetrey, Executive Vice President & Chief Business Officer Mr. Ros Vol, Chief Internal Audit Mr. Yim Tithya, Executive Vice President & Chief IT Officer Mr. Chen Boranchanborath, Executive Vice President & Chief Legal Officer Ms. Chheng Sokun, Vice President & Director of Credit & Market Risk Department Ms. Heng Sreypoch, Vice President & Director of Compliance Department Mr. Duong Chansovichea, Vice President & Director of Operational Risk & Fraud Management Department (resigned on 20 August 2018) Mr. Nin Touch, Vice President & Director of Operational Risk & Fraud Management Department (appointed on 9 September 2018)
Principal bankers	ACLEDA Bank Plc. Advanced Bank of Asia Limited ANZ Royal Bank (Cambodia) Ltd. Maybank (Cambodia) Plc. National Bank of Cambodia
Auditors	Deloitte (Cambodia) Co., Ltd.



REPORT OF THE BOARD OF DIRECTORS

The Board of Directors ("BOD" or "Directors") has pleasure in submitting their report together with the audited financial statements of Hattha Kaksekar Limited ("the Company" or "HKL") for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

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

FINANCIAL RESULTS

The financial results of the Company for the year ended 31 December 2018 were as follows:

	Year ended 31 December 2018		Year ended 31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Profit before income tax	26,056,686	104,695,765	19,470,389	78,601,960
Income tax expense	(5,287,258)	(21,244,203)	(4,114,230)	(16,609,147)
Net profit for the year	20,769,428	83,451,562	15,356,159	61,992,813

RESERVES AND PROVISIONS

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

DIVIDENDS

There was no dividend declared during the year (2017: nil).

SHARE CAPITAL

On 16 July 2018, the National Bank of Cambodia ("NBC") approved the Company's request for increasing share capital by US\$45 million from US\$30 million to US\$75 million. The amendment of the Memorandum and Articles of Association was approved by the NBC and the Ministry of Commerce ("MOC") on 9 August 2018 and 30 August 2018 respectively.

BAD AND DOUBTFUL LOANS

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

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ASSETS

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

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

VALUATION METHODS

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

CONTINGENT AND OTHER LIABILITIES

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

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

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

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

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

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

EVENTS AFTER THE REPORTING DATE

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

THE BOARD OF DIRECTORS

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

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

DIRECTORS' BENEFITS

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

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

RESPONSIBILITIES OF THE DIRECTORS IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors are responsible for ascertaining that the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended. In preparing these financial statements, the Directors are required to:

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

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

STATEMENT OF THE BOARD OF DIRECTORS

The accompanying financial statements as set out on pages 9 to 63 present fairly, in all material respects, the financial position of Hattha Kaksekar Limited as at 31 December 2018, and its financial performance and its cash flows for year then ended in accordance with Cambodian Accounting Standards and relevant accounting regulations and guidelines issued by the National Bank of Cambodia, and at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Board of Directors



Mr. Hout Ieng Tong
President and Chief Executive Officer

Phnom Penh, Kingdom of Cambodia
Date: 29 March 2019

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INDEPENDENT AUDITOR'S REPORT

To the shareholder of Hattha Kaksekar Limited

Opinion

We have audited the financial statements of Hattha Kaksekar Limited (the "Company"), which comprise the balance sheet as at 31 December 2018, the income statement, statement of changes in equity and statement of cash flows for year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 9 to 63.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with Cambodian Accounting Standards and relevant accounting regulations and guidelines issued by the National Bank of Cambodia.

Basis for Opinion

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

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

Management is responsible for the other information. The other information comprises the Report of the Board of Directors as set out on pages 2 to 5, but does not include the financial statements and our auditor's report thereon.

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

For Deloitte (Cambodia) Co., Ltd.



Khoy Kimleng
Partner

Phnom Penh, Kingdom of Cambodia

Date: 29 MAR 2019

HATTHA KAKSEKAR LIMITED**BALANCE SHEET
AS AT 31 DECEMBER 2018**

	Notes	31 December 2018		31 December 2017	
		US\$	KHR'000	US\$	KHR'000
ASSETS					
Cash on hand	4	37,211,155	149,514,421	9,923,604	40,061,589
Balances with the NBC	5	77,541,774	311,562,848	41,260,115	166,567,084
Balances with other banks, net	6	39,210,636	157,548,335	57,097,552	230,502,817
Loans to customers, net	7	747,005,064	3,001,466,347	567,536,202	2,291,143,647
Amounts due from related parties	8(a)	14,692	59,032	-	-
Other assets	9	11,914,372	47,871,947	9,349,972	37,745,837
Property and equipment	10	4,148,634	16,669,211	3,958,984	15,982,418
Intangible assets	11	835,911	3,358,690	611,726	2,469,538
Deferred tax assets, net	12(a)	1,871,271	7,518,767	1,269,418	5,124,640
TOTAL ASSETS		<u>919,753,509</u>	<u>3,695,569,598</u>	<u>691,007,573</u>	<u>2,789,597,570</u>
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits from customers	13	480,093,541	1,929,015,848	367,421,079	1,483,278,896
Debt securities issued	14	29,865,605	120,000,000	-	-
Borrowings	15	192,384,932	773,002,657	156,384,184	631,322,951
Amounts due to related parties	8(b)	135,322	543,724	19,204,661	77,529,216
Subordinated debts	16	22,729,319	91,326,404	24,729,319	99,832,261
Provident benefits	17	12,580	50,546	132,601	535,310
Other liabilities	18	18,498,255	74,325,989	14,235,033	57,466,827
Current income tax payable	12(b)	4,862,542	19,537,694	3,510,009	14,169,906
Allowance for impaired off-balance sheet	19	11,298	45,394	-	-
TOTAL LIABILITIES		<u>748,593,394</u>	<u>3,007,848,256</u>	<u>585,616,886</u>	<u>2,364,135,367</u>
EQUITY					
Share capital	20	75,000,000	301,350,000	30,000,000	121,110,000
Share premium		19,082,502	76,673,493	19,082,502	77,036,061
Legal reserves		682,459	2,742,120	682,459	2,755,087
Other reserves		1,292,755	5,194,290	1,145,714	4,625,247
Retained earnings		75,102,399	301,761,439	54,480,012	219,935,808
TOTAL EQUITY		<u>171,160,115</u>	<u>687,721,342</u>	<u>105,390,687</u>	<u>425,462,203</u>
TOTAL LIABILITIES AND EQUITY		<u>919,753,509</u>	<u>3,695,569,598</u>	<u>691,007,573</u>	<u>2,789,597,570</u>

The accompanying notes from pages 14 to 63 form an integral part of these financial statements.

HATTHA KAKSEKAR LIMITED

**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Notes	Year ended 31 December 2018		Year ended 31 December 2017	
		US\$	KHR'000	US\$	KHR'000
Interest income	21	114,970,543	461,951,642	94,996,654	383,501,492
Interest expense	22	<u>(46,821,348)</u>	<u>(188,128,176)</u>	<u>(38,555,784)</u>	<u>(155,649,700)</u>
Net interest income		68,149,195	273,823,466	56,440,870	227,851,792
Other income	23	1,952,214	7,843,996	1,307,423	5,278,067
General and administrative expenses	24	<u>(38,600,709)</u>	<u>(155,097,649)</u>	<u>(31,374,510)</u>	<u>(126,658,897)</u>
Operating profit		31,500,700	126,569,813	26,373,783	106,470,962
Allowance for impaired facilities	25	<u>(5,444,014)</u>	<u>(21,874,048)</u>	<u>(6,903,394)</u>	<u>(27,869,002)</u>
Profit before income tax		26,056,686	104,695,765	19,470,389	78,601,960
Income tax expense	12(c)	<u>(5,287,258)</u>	<u>(21,244,203)</u>	<u>(4,114,230)</u>	<u>(16,609,147)</u>
Net profit for the year		<u>20,769,428</u>	<u>83,451,562</u>	<u>15,356,159</u>	<u>61,992,813</u>

The accompanying notes from pages 14 to 63 form an integral part of these financial statements.

HATTHA KAKSEKAR LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Share capital US\$	Share Premium US\$	Legal reserve US\$	Other reserves US\$	Retained earnings US\$	Total US\$
At 1 January 2017	6,824,594	19,082,502	682,459	975,604	39,293,963	66,859,122
Additional capital (Note 20 & Note 28(f))	23,175,406	-	-	-	-	23,175,406
Net profit for the year	-	-	-	-	15,356,159	15,356,159
Transfer to other reserves	-	-	-	170,110	(170,110)	-
At 31 December 2017	<u>30,000,000</u>	<u>19,082,502</u>	<u>682,459</u>	<u>1,145,714</u>	<u>54,480,012</u>	<u>105,390,687</u>
KHR'000 equivalents						
At 31 December 2017	<u>121,110,000</u>	<u>77,036,061</u>	<u>2,755,087</u>	<u>4,625,247</u>	<u>219,935,808</u>	<u>425,462,203</u>
At 1 January 2018	30,000,000	19,082,502	682,459	1,145,714	54,480,012	105,390,687
Additional capital (note 20 & note 28(f))	45,000,000	-	-	-	-	45,000,000
Net profit for the year	-	-	-	-	20,769,428	20,769,428
Transfer to other reserves	-	-	-	147,041	(147,041)	-
At 31 December 2018	<u>75,000,000</u>	<u>19,082,502</u>	<u>682,459</u>	<u>1,292,755</u>	<u>75,102,399</u>	<u>171,160,115</u>
KHR'000 equivalents						
At 31 December 2018	<u>301,350,000</u>	<u>76,673,493</u>	<u>2,742,120</u>	<u>5,194,290</u>	<u>301,761,439</u>	<u>687,721,342</u>

The accompanying notes from pages 14 to 63 form an integral part of these financial statements.

HATTHA KAKSEKAR LIMITED

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Notes	Year ended 31 December 2018		Year ended 31 December 2017	
		US\$	KHR'000	US\$	KHR'000
Cash flows from operating activities					
Profit before income tax		26,056,686	104,695,765	19,470,389	78,601,960
<i>Adjustments for non-cash income and expense</i>					
Depreciation and amortisation	24	2,336,292	9,387,221	2,559,547	10,332,891
Allowance for impaired facilities	25	5,444,014	21,874,048	6,903,394	27,869,002
Provident benefits	17	919,245	3,693,526	698,573	2,820,139
Gains on disposal of property and equipment		(675)	(2,712)	(521)	(2,104)
Net interest income		(68,149,195)	(273,823,466)	(56,440,870)	(227,851,792)
<i>Effect of currency translation differences:</i>					
Borrowings		49,498	198,883	964,256	3,892,703
		<u>(33,344,135)</u>	<u>(133,976,735)</u>	<u>(25,845,232)</u>	<u>(104,337,201)</u>
<i>Changes in:</i>					
Balances with the NBC		(14,279,841)	(57,376,401)	(2,837,539)	(11,455,145)
Loans to customers		(184,505,511)	(741,343,143)	(132,162,072)	(533,538,285)
Amounts due from related party		(14,692)	(59,032)	-	-
Other assets		(1,683,178)	(6,763,009)	70,684	285,351
Deposits from customers		112,672,462	452,717,952	9,648,614	38,951,455
Amount due to related parties		(69,339)	(278,604)	159,911	645,561
Other liabilities		1,411,513	5,671,459	(618,366)	(2,496,344)
Cash used in operations		<u>(119,812,721)</u>	<u>(481,407,513)</u>	<u>(151,584,000)</u>	<u>(611,944,608)</u>
Interest received		114,089,321	458,410,892	94,011,867	379,525,907
Interest paid		(43,951,414)	(176,596,782)	(38,619,615)	(155,907,386)
Income tax paid	12(b)	(4,536,578)	(18,227,970)	(3,968,708)	(16,021,674)
Provident benefits paid	17	(1,057,491)	(4,248,999)	(2,955,781)	(11,932,488)
Net cash used in operating activities		<u>(55,268,883)</u>	<u>(222,070,372)</u>	<u>(103,116,237)</u>	<u>(416,280,249)</u>
Cash flows from investing activities					
Purchases of property and equipment	10	(2,364,306)	(9,499,782)	(1,523,935)	(6,152,126)
Purchases of intangible assets	11	(385,889)	(1,550,502)	(349,305)	(1,410,144)
Proceeds from disposal of property and equipment		743	2,985	2,544	10,270
Net cash used in investing activities		<u>(2,749,452)</u>	<u>(11,047,299)</u>	<u>(1,870,696)</u>	<u>(7,552,000)</u>

HATTHA KAKSEKAR LIMITED

**STATEMENT OF CASH FLOWS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Note	Year ended 31 December 2018		Year ended 31 December 2017	
		US\$	KHR'000	US\$	KHR'000
Cash flows from financing activities					
Proceeds from borrowings		107,340,023	431,292,212	105,508,182	425,936,531
Repayments of borrowings		(71,388,773)	(286,840,090)	(66,839,203)	(269,829,863)
Proceeds from amounts due to related parties		8,000,000	32,144,000	19,200,000	77,510,400
Repayments of amounts due to related parties		(27,000,000)	(108,486,000)	(200,000)	(807,400)
Repayments of subordinated debts		(2,000,000)	(8,036,000)	-	-
Proceeds from debt securities issued		29,865,605	120,000,000	-	-
Proceeds from capital injections		45,000,000	180,810,000	23,175,406	93,559,114
Net cash generated from financing activities		89,816,855	360,884,122	80,844,385	326,368,782
Net increase/(decrease) in cash and cash equivalents		31,798,520	127,766,451	(24,142,548)	(97,463,467)
Cash and cash equivalents at the beginning of the year		75,177,800	303,492,778	99,320,348	400,956,245
Currency translation differences		-	(1,428,375)	-	-
Cash and cash equivalents at the end of the year	26	106,976,320	429,830,854	75,177,800	303,492,778

The accompanying notes from pages 14 to 63 form an integral part of these financial statements.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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 financial statements of the Company were authorised for issue by the Board of Directors on 27 March 2019.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

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

(d) Presentation in Khmer Riel

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

Translations of US\$ into Khmer Riel are included in the financial statements solely for compliance with the Prakas No. B7-07-164 dated 13 December 2007 of the National Bank of Cambodia relating to the preparation and presentation of financial statements and have been made using the prescribed official exchange rate of US\$ 1 to KHR 4,018 as at 31 December 2018 (2017: US\$1 to KHR 4,037) published by the National Bank of Cambodia.

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

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Use of estimates and judgments

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

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

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

(f) Financial instruments

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

(g) Basis of aggregation

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

(h) Cash and cash equivalents

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

(i) Deposits with other banks

Deposits with other banks are stated in the balance sheet at the amount of principal outstanding less specific and general allowances for impaired amount.

(j) Loans to customers

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

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Allowances for impaired facilities

On 1 December 2017, NBC issued a new 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 new 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 Cambodian International Financial Reporting Standards ("CIFRSs"). The provision calculated in accordance with CIFRSs is to be recognised and recorded. Excess amount of provision calculated in accordance with regulatory provision compared to the provision calculated under CIFRSs has to be transferred from retained earnings to regulatory reserve of shareholder's equity. This requirement is to be applied when the Company fully implements CIFRSs which will be starting from 1 January 2019.

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

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

Classifications	Number of days past due	Provision
1. <u>General allowance</u>		
<u>Short-term 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%
2. <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 loans with repayment as quarterly, semi-annually or longer, such loans shall be classified as substandard if their repayments are past due from 5 working days.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Allowances for impaired facilities (continued)

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

Facilities are written off to the income statement when the facilities are provisioned in full and remain unpaid after maturity date or when the certainty of being uncollectable facility is proven whichever is earlier. Facilities written off are taken out of the outstanding facility portfolio and deducted from the allowance for impaired facilities.

Recoveries on facilities previously written off are recognised as other operating income in the income statement. Reversal of previous allowance is presented in allowance for impaired facilities in the income statement.

(l) Interest in suspense

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

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

(m) Other assets

Other assets are carried at cost.

(n) Amount due from/(to) related parties

Amount due from/(to) related parties are carried at cost.

(o) Property and equipment

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

	Useful lives
Leasehold 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.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Property and equipment (continued)

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

(p) Intangible assets

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

(q) Impairment

(i) Financial assets

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

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

All impairment losses are recognised in the income statement.

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

(ii) Non-financial assets

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

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Impairment (continued)

(ii) *Non-financial assets (continued)*

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

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

(r) Deposits from customers

Deposits from customers are stated at cost.

(s) Debt securities issued and borrowings

Debt securities issued and borrowings are recognised initially at cost and subsequently stated at the outstanding principal amount. Fees paid on the establishment of debt securities and borrowing facilities are capitalised and amortised over the period of the debt securities and borrowings using the straight-line method.

(t) Subordinated debts

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

Subordinated debts are stated at cost.

(u) Provisions

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

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Provident benefits

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

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

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

(w) 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.

(x) Other reserves

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

(y) Dividends

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

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

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) Income and expense recognition

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

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

Expenses are recognised on an accrual basis.

(aa) Operating leases

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

(ab) Income tax and deferred tax

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

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

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

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

(ac) Rounding of amounts

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

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(ad) New standards and interpretations not yet adopted

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

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

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

The current accounting standard used is different to the CIFRS in many areas. Hence, the adoption of the CIFRS may have a significant impact on the financial statements of the Company.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

3.1 Key sources of estimation uncertainty

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

(a) Allowance for 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.

(b) Income tax

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

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

3.2 Critical judgments in applying accounting policies

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

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018****4. CASH ON HAND**

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Head office	2,977,325	11,962,892	2,236,858	9,030,196
Branches	34,233,830	137,551,529	7,686,746	31,031,393
	<u>37,211,155</u>	<u>149,514,421</u>	<u>9,923,604</u>	<u>40,061,589</u>

The above amounts are analysed by currency as follows:

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
US Dollars	30,607,038	122,979,079	7,575,748	30,583,295
Khmer Riel	5,376,438	21,602,528	2,044,548	8,253,840
Thai Baht	1,227,679	4,932,814	303,308	1,224,454
	<u>37,211,155</u>	<u>149,514,421</u>	<u>9,923,604</u>	<u>40,061,589</u>

5. BALANCES WITH THE NBC

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Statutory deposits:				
Capital guarantee deposit	7,500,000	30,135,000	3,000,000	12,111,000
Reserve requirement	39,883,312	160,251,148	30,103,471	121,527,712
	<u>47,383,312</u>	<u>190,386,148</u>	<u>33,103,471</u>	<u>133,638,712</u>
Current account	25,878,687	103,980,564	1,914,384	7,728,368
Negotiable Certificate of Deposit (NCD) *	4,279,775	17,196,136	6,242,260	25,200,004
	<u>77,541,774</u>	<u>311,562,848</u>	<u>41,260,115</u>	<u>166,567,084</u>

* A Negotiable Certificate of Deposit (NCD) is a short-term interest bearing debt issued by the NBC. It is issued in Khmer Riel and US Dollars in order to help commercial banks and microfinance institutions invest their short term liquidity. The interest rate of NCD is determined by the NBC and varies upon the market conditions. The above NCD earned interest ranging from 1.19% to 2.30% per annum (2017: from 0.92% to 2.5% per annum).

Capital guarantee deposit

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

The statutory deposit on registered capital placed with the NBC earns interest at the rate of 0.46%-0.62% (2017: 0.36%) per annum.

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

5. BALANCES WITH THE NBC (continued)

Reserve requirement

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

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

6. BALANCES WITH OTHER BANKS, NET

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Current accounts	11,982,271	48,144,765	20,635,240	83,304,464
Saving accounts	19,660,271	78,994,969	36,462,312	147,198,353
Term deposit accounts	7,964,161	31,999,999	-	-
	<u>39,606,703</u>	<u>159,139,733</u>	<u>57,097,552</u>	<u>230,502,817</u>
Allowance for impaired facilities:				
General allowance	(396,067)	(1,591,398)	-	-
Balance with other banks, net	<u>39,210,636</u>	<u>157,548,335</u>	<u>57,097,552</u>	<u>230,502,817</u>

The movements in allowance for impaired facilities (balances with other banks) were as follows:

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
At the beginning of year	-	-	-	-
Allowance during the year	396,067	1,591,398	-	-
At end of year	<u>396,067</u>	<u>1,591,398</u>	<u>-</u>	<u>-</u>

Balances with other banks are analysed as follows:

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
(a) By currency:				
US Dollars	22,463,432	90,258,070	46,711,238	188,573,268
Khmer Riel	14,005,480	56,274,019	8,428,047	34,024,026
Thai Baht	3,137,791	12,607,644	1,958,267	7,905,523
	<u>39,606,703</u>	<u>159,139,733</u>	<u>57,097,552</u>	<u>230,502,817</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

6. BALANCES WITH OTHER BANKS, NET (continued)

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
(b) By maturity:				
Within 1 month	31,642,542	127,139,734	57,097,552	230,502,817
> 1 to 3 months	7,964,161	31,999,999	-	-
	<u>39,606,703</u>	<u>159,139,733</u>	<u>57,097,552</u>	<u>230,502,817</u>

	31 December 2018	31 December 2017
(c) By interest rate (per annum):		
Current accounts	0% - 1.25%	0% - 0.50%
Saving accounts	0% - 0.75%	0% - 0.75%
Term deposit accounts	0.41% - 2.25%	-

7. LOANS TO CUSTOMERS, NET

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Individual loans	757,326,744	3,042,938,857	576,880,156	2,328,865,190
Allowance for impaired facilities:				
Specific	(2,809,885)	(11,290,118)	(3,641,361)	(14,700,174)
General	(7,511,795)	(30,182,392)	(5,702,593)	(23,021,369)
	<u>(10,321,680)</u>	<u>(41,472,510)</u>	<u>(9,343,954)</u>	<u>(37,721,543)</u>
Loans to customers, net	<u>747,005,064</u>	<u>3,001,466,347</u>	<u>567,536,202</u>	<u>2,291,143,647</u>

The movements in allowance for impaired facilities (loans to customers) were as follows:

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
At the beginning of year	9,343,954	37,721,543	2,966,140	11,974,308
Allowance during the year	5,036,649	20,237,256	6,903,394	27,869,002
Written off during the year	(4,065,853)	(16,336,597)	(539,433)	(2,177,691)
Currency translation difference	6,930	(149,692)	13,853	55,924
At end of year	<u>10,321,680</u>	<u>41,472,510</u>	<u>9,343,954</u>	<u>37,721,543</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

7. LOANS TO CUSTOMERS, NET (continued)

Loans to customers are analysed as follows:

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
(a) By maturity:				
Within 1 month	19,886,767	79,905,030	16,439,758	66,367,303
> 1 to 3 months	43,105,862	173,199,354	35,893,063	144,900,295
> 3 to 12 months	172,359,876	692,541,982	142,122,144	573,747,095
More than 12 months	521,974,239	2,097,292,491	382,425,191	1,543,850,497
	<u>757,326,744</u>	<u>3,042,938,857</u>	<u>576,880,156</u>	<u>2,328,865,190</u>
(b) By currency:				
US Dollars	657,518,847	2,641,910,727	519,706,144	2,098,053,703
Khmer Riel	72,363,197	290,755,326	34,752,977	140,297,768
Thai Baht	27,444,700	110,272,804	22,421,035	90,513,719
	<u>757,326,744</u>	<u>3,042,938,857</u>	<u>576,880,156</u>	<u>2,328,865,190</u>

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

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
(c) By economic sector:				
Agriculture	129,913,559	521,992,680	120,337,380	485,802,003
Trade and commerce	132,070,901	530,660,880	118,281,337	477,501,757
Household/family	102,299,314	411,038,644	65,861,602	265,883,287
Construction	28,776,653	115,624,592	22,933,635	92,583,084
Services	66,842,266	268,572,225	56,689,014	228,853,550
Transportation	31,975,045	128,475,731	27,990,654	112,998,270
Production	7,890,838	31,705,387	7,296,166	29,454,622
Land/house	257,558,168	1,034,868,718	157,490,368	635,788,617
	<u>757,326,744</u>	<u>3,042,938,857</u>	<u>576,880,156</u>	<u>2,328,865,190</u>
(d) By residency status:				
Residents	<u>757,326,744</u>	<u>3,042,938,857</u>	<u>576,880,156</u>	<u>2,328,865,190</u>
(e) By relationship:				
External customers	746,814,456	3,000,700,484	567,172,797	2,289,676,581
Management and staff loans	10,512,288	42,238,373	9,707,359	39,188,609
	<u>757,326,744</u>	<u>3,042,938,857</u>	<u>576,880,156</u>	<u>2,328,865,190</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

7. LOANS TO CUSTOMERS, NET (continued)

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
(f) By location:				
Operational Office – Phnom Penh	11,097,678	44,590,470	9,820,129	39,643,861
<i>Phnom Penh branches :</i>				
Phnom Penh	23,952,664	96,241,804	18,643,406	75,263,430
Dangkor	23,610,528	94,867,102	17,174,968	69,335,346
Daun Penh	16,244,081	65,268,717	11,912,210	48,089,592
Boeng Trabek	16,047,475	64,478,755	11,867,770	47,910,187
Russey Keo	9,936,638	39,925,411	7,905,425	31,914,201
Prek Lieb	8,881,912	35,687,522	7,076,366	28,567,290
<i>Provincial branches :</i>				
Kandal	85,597,265	343,929,811	59,437,046	239,947,355
Siem Reap	79,240,063	318,386,573	58,116,055	234,614,514
Battambang	55,487,877	222,950,290	46,399,807	187,316,021
Kampong Thom	46,510,090	186,877,542	37,608,322	151,824,796
Prey Veng	41,828,309	168,066,146	29,208,607	117,915,146
Banteay Meanchey	40,338,694	162,080,872	33,137,780	133,777,218
Kampong Cham	38,737,228	155,646,182	30,176,892	121,824,113
Pursat	35,291,798	141,802,444	28,507,770	115,085,867
Takeo	33,363,266	134,053,603	23,811,042	96,125,177
Kampong Speu	33,175,371	133,298,641	20,003,751	80,755,143
Tbong Khmum	26,767,491	107,551,779	24,973,138	100,816,558
Kampong Speu	24,289,868	97,596,690	15,448,951	62,367,415
Svay Rieng	19,173,983	77,041,064	16,180,660	65,321,324
Koh Kong	14,156,451	56,880,620	9,642,447	38,926,559
Kampong Chhnang	13,095,767	52,618,792	10,564,746	42,649,880
Kampong Som	11,835,977	47,556,956	8,446,963	34,100,390
Odor Meanchey	11,333,321	45,537,284	10,204,675	41,196,273
Preah Vihea	7,814,957	31,400,497	6,246,338	25,216,467
Steung Treng	7,707,270	30,967,811	6,186,083	24,973,217
Kratie	6,739,688	27,080,066	5,420,247	21,881,537
Pailin	6,317,155	25,382,327	5,009,348	20,222,736
Ratanakiri	4,636,062	18,627,697	4,244,695	17,135,834
Mondulakiri	4,117,817	16,545,389	3,504,519	14,147,743
	757,326,744	3,042,938,857	576,880,156	2,328,865,190

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

7. LOANS TO CUSTOMERS, NET (continued)

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
(g) By performance:				
Standard loans				
Secured	420,671,742	1,690,259,059	315,585,797	1,274,019,862
Unsecured*	330,507,796	1,327,980,324	254,673,508	1,028,116,952
Special mention loans				
Secured	556,511	2,236,061	200,074	807,699
Unsecured*	527,171	2,118,173	223,849	903,678
Sub-standard loans				
Secured	618,697	2,485,925	662,526	2,674,617
Unsecured*	877,601	3,526,201	819,058	3,306,537
Doubtful loans				
Secured	1,032,723	4,149,481	1,364,303	5,507,691
Unsecured*	1,145,499	4,602,615	1,401,732	5,658,792
Loss loans				
Secured	654,379	2,629,295	902,128	3,641,891
Unsecured*	734,625	2,951,723	1,047,181	4,227,471
	<u>757,326,744</u>	<u>3,042,938,857</u>	<u>576,880,156</u>	<u>2,328,865,190</u>

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

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
(h) By type of loans:				
Micro loans	144,748,231	581,598,392	140,380,010	566,714,100
Small loans	160,901,821	646,503,517	141,144,037	569,798,477
Medium loans	349,420,972	1,403,973,465	215,837,962	871,337,853
Large loans	60,718,551	243,967,138	40,334,290	162,829,529
SME loans	41,537,169	166,896,345	39,183,857	158,185,231
	<u>757,326,744</u>	<u>3,042,938,857</u>	<u>576,880,156</u>	<u>2,328,865,190</u>

	31 December 2018	31 December 2017
(i) By interest rate (per month):		
Micro loans	1.10% - 2.90%	1.20% - 3.13%
Small loans	1.00% - 2.20%	1.10% - 2.30%
Medium loans	1.00% - 1.90%	1.00% - 2.00%
Large loans	0.96% - 1.45%	1.00% - 1.45%
SME loans	0.93% - 1.50%	1.00% - 1.50%

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

7. LOANS TO CUSTOMERS, NET (continued)

(i) By interest rate (continued)

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

The higher than statutory interest rate ceiling limits as of 31 December 2018 represent interest rates of loans disbursed prior to the effective date of the new regulation on 01 April 2017.

All loans to customers are with fixed interest rates.

8. AMOUNTS DUE FROM/(TO) RELATED PARTIES

(a) Amount due from related party

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
<i>Shareholder:</i>				
Krungsri	14,692	59,032	-	-

The above amounts are analysed as follows:

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
(i) By maturity:				
Within 1 month	945	3,797	-	-
> 1 to 3 months	-	-	-	-
> 3 to 12 months	13,747	55,235	-	-
	<u>14,692</u>	<u>59,032</u>	<u>-</u>	<u>-</u>
(ii) By currency:				
US Dollars	14,692	59,032	-	-

(b) Amount due to related parties

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
<i>Shareholder:</i>				
Krungsri	85,268	342,607	19,133,907	77,243,582
<i>Affiliate:</i>				
Ngern Tid Lor Co., Ltd.	50,054	201,117	70,754	285,634
	<u>135,322</u>	<u>543,724</u>	<u>19,204,661</u>	<u>77,529,216</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

8. AMOUNTS DUE FROM/(TO) RELATED PARTIES (continued)

(b) Amount due to related parties (continued)

The above amounts are analysed as follows:

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
(a) By maturity:				
Within 1 month	-	-	68,712	277,390
> 1 to 3 months	135,322	543,724	9,083,607	36,670,521
> 3 to 12 months	-	-	10,052,342	40,581,305
	<u>135,322</u>	<u>543,724</u>	<u>19,204,661</u>	<u>77,529,216</u>
(b) By currency:				
US Dollars	3,888	15,622	19,065,195	76,966,192
Thai Baht	131,434	528,102	139,466	563,024
	<u>135,322</u>	<u>543,724</u>	<u>19,204,661</u>	<u>77,529,216</u>
			31 December 2018	31 December 2017
(c) By interest rate (per annum):				
US Dollars		-	5.63%	5.69%
Thai Baht		-	-	-

The related party transactions resulted in the amounts due from/to related parties described above were carried out on negotiated commercial terms and conditions.

9. OTHER ASSETS

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Interest receivable	7,022,293	28,215,573	6,141,071	24,791,504
Interest in suspense	(335,142)	(1,346,601)	(635,962)	(2,567,379)
Net interest receivable	<u>6,687,151</u>	<u>26,868,972</u>	<u>5,505,109</u>	<u>22,224,125</u>
Fees on borrowings	2,985,393	11,995,309	1,703,111	6,875,459
Prepaid and deposits for office and ATM booth rentals	1,356,937	5,452,173	1,375,732	5,553,830
Prepaid maintenance services	428,852	1,723,127	473,956	1,913,360
Other receivables	456,039	1,832,366	292,064	1,179,063
	<u>11,914,372</u>	<u>47,871,947</u>	<u>9,349,972</u>	<u>37,745,837</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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 2018	1,705,553	2,579,695	3,984,311	5,072,632	593,527	85,491	14,021,209	56,603,621
Additions	291,592	238,020	559,800	254,192	85,666	935,036	2,364,306	9,499,782
Disposals	(14,302)	-	(32,230)	(17,732)	(715)	-	(64,979)	(261,086)
Transfers	45,615	-	680,550	228,971	26,759	(981,895)	-	-
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>65,842,317</u>
Less: Accumulated depreciation								
At 1 January 2018	1,269,164	1,552,313	3,208,531	3,493,713	538,504	-	10,062,225	40,621,203
Depreciation	331,898	379,616	626,689	777,906	58,479	-	2,174,588	8,737,495
Disposals	(14,302)	-	(32,162)	(17,732)	(715)	-	(64,911)	(260,812)
Currency translation difference	-	-	-	-	-	-	-	75,220
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>49,173,106</u>
Carrying amounts								
At 31 December 2018	<u>441,698</u>	<u>885,786</u>	<u>1,389,373</u>	<u>1,284,176</u>	<u>108,969</u>	<u>38,632</u>	<u>4,148,634</u>	<u>16,669,211</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

11. INTANGIBLE ASSETS

31 December 2018	Software and licenses	Work in progress	Total	
	US\$	US\$	US\$	KHR'000
Cost				
At 1 January 2018	2,982,037	93,727	3,075,764	12,416,859
Additions	54,630	331,259	385,889	1,550,502
Transfers	58,424	(58,424)	-	-
At 31 December 2018	<u>3,095,091</u>	<u>366,562</u>	<u>3,461,653</u>	<u>13,967,361</u>
Less: Accumulated amortisation				
At 1 January 2018	2,464,038	-	2,464,038	9,947,321
Amortisation	161,704	-	161,704	649,727
Currency translation difference	-	-	-	11,623
At 31 December 2018	<u>2,625,742</u>	<u>-</u>	<u>2,625,742</u>	<u>10,608,671</u>
Carrying amounts				
At 31 December 2018	<u>469,349</u>	<u>366,562</u>	<u>835,911</u>	<u>3,358,690</u>
31 December 2017				
Cost				
At 1 January 2017	2,673,654	52,805	2,726,459	11,006,715
Additions	139,063	210,242	349,305	1,410,144
Transfers	169,320	(169,320)	-	-
As at 31 December 2017	<u>2,982,037</u>	<u>93,727</u>	<u>3,075,764</u>	<u>12,416,859</u>
Less: Accumulated amortisation				
At 1 January 2017	2,180,633	-	2,180,633	8,803,215
Amortisation	283,405	-	283,405	1,144,106
At 31 December 2017	<u>2,464,038</u>	<u>-</u>	<u>2,464,038</u>	<u>9,947,321</u>
Carrying amounts				
At 31 December 2017	<u>517,999</u>	<u>93,727</u>	<u>611,726</u>	<u>2,469,538</u>

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018****12. INCOME TAX****(a) Deferred tax assets, net**

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

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Deferred tax assets	1,887,015	7,582,026	1,398,743	5,646,725
Deferred tax liabilities	(15,744)	(63,259)	(129,325)	(522,085)
Net deferred tax assets	<u>1,871,271</u>	<u>7,518,767</u>	<u>1,269,418</u>	<u>5,124,640</u>

The movement of net deferred tax assets was as follows:

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
At beginning of year	1,269,418	5,124,640	948,969	3,830,988
Credited to income statement	601,853	2,418,245	320,449	1,293,652
Currency translation difference	-	(24,118)	-	-
At end of year	<u>1,871,271</u>	<u>7,518,767</u>	<u>1,269,418</u>	<u>5,124,640</u>

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

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Provident benefits	1,762	7,080	26,479	106,896
Bonuses and unused leave	42,568	171,038	30,616	123,597
Unrealised exchange gains	(15,744)	(63,259)	(129,325)	(522,085)
Depreciation and amortisation	265,434	1,066,514	212,259	856,890
General allowance for impaired facilities	1,561,664	6,274,765	1,113,802	4,496,418
Unused tax credit	15,587	62,629	15,587	62,924
	<u>1,871,271</u>	<u>7,518,767</u>	<u>1,269,418</u>	<u>5,124,640</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

12. INCOME TAX (continued)

(b) Current income tax payable

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Balance at beginning of year	3,510,009	14,169,906	3,044,038	12,288,781
Current income tax expense	5,889,111	23,662,448	4,434,679	17,902,799
Income tax paid	(4,536,578)	(18,227,970)	(3,968,708)	(16,021,674)
Currency translation difference	-	(66,690)	-	-
Balance at end of year	<u>4,862,542</u>	<u>19,537,694</u>	<u>3,510,009</u>	<u>14,169,906</u>

(c) Income tax expense

	Year ended 31 December 2018		Year ended 31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Current income tax	5,889,111	23,662,448	4,434,679	17,902,799
Deferred tax	(601,853)	(2,418,245)	(320,449)	(1,293,652)
Income tax expense	<u>5,287,258</u>	<u>21,244,203</u>	<u>4,114,230</u>	<u>16,609,147</u>

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

	Year ended 31 December 2018		Year ended 31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Profit before income tax	<u>26,056,686</u>	<u>104,695,765</u>	<u>19,470,389</u>	<u>78,601,960</u>
Income tax using statutory rate 20%	5,211,338	20,939,156	3,894,078	15,720,393
Non-deductible expenses	74,422	299,028	122,383	494,060
Prior year tax reassessment	1,282	5,151	94,090	379,841
Under provision in prior year	216	868	3,679	14,853
Income tax expense based on 20% of taxable profit	<u>5,287,258</u>	<u>21,244,203</u>	<u>4,114,230</u>	<u>16,609,147</u>
Minimum tax	<u>1,169,228</u>	<u>4,697,956</u>	<u>963,041</u>	<u>3,887,796</u>
Income tax expense	<u>5,287,258</u>	<u>21,244,203</u>	<u>4,114,230</u>	<u>16,609,147</u>

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

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

13. DEPOSITS FROM CUSTOMERS

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Savings deposits	89,038,151	357,755,291	45,676,179	184,394,735
Term deposits	391,055,390	1,571,260,557	321,744,900	1,298,884,161
	<u>480,093,541</u>	<u>1,929,015,848</u>	<u>367,421,079</u>	<u>1,483,278,896</u>

The deposits from customers are analysed as follows:

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
(a) By currency:				
US Dollars	414,946,359	1,667,254,470	311,129,147	1,256,028,366
Khmer Riel	55,056,340	221,216,374	46,182,836	186,440,109
Thai Baht	10,090,842	40,545,004	10,109,096	40,810,421
	<u>480,093,541</u>	<u>1,929,015,848</u>	<u>367,421,079</u>	<u>1,483,278,896</u>
(b) By maturity:				
Within 1 month	119,629,404	480,670,945	93,548,998	377,657,305
> 1 to 3 months	88,808,236	356,831,492	80,655,217	325,605,111
> 3 to 12 months	249,241,904	1,001,453,970	183,167,338	739,446,544
More than 12 months	22,413,997	90,059,441	10,049,526	40,569,936
	<u>480,093,541</u>	<u>1,929,015,848</u>	<u>367,421,079</u>	<u>1,483,278,896</u>
(c) By relationship:				
External customers	469,153,896	1,885,060,354	356,425,445	1,438,889,521
Management and staff deposits	10,939,645	43,955,494	10,995,634	44,389,375
	<u>480,093,541</u>	<u>1,929,015,848</u>	<u>367,421,079</u>	<u>1,483,278,896</u>

	31 December 2018	31 December 2017
(d) By interest rate (per annum):		
US Dollars	0.00% - 9.00%	0.00% - 9.00%
Khmer Riel	0.00% - 11.50%	0.00% - 11.50%
Thai Baht	0.00% - 10.00%	0.00% - 11.00%

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

14. DEBT SECURITIES ISSUED

On 1 August 2018, HKL obtained an approval letter from the National Bank of Cambodia on the corporate bond issuance.

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

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
International Finance Corporation	19,910,403	80,000,000	-	-
Vattanac Bank	4,977,601	20,000,000	-	-
Active People's Microfinance Institution PCL	3,285,217	13,200,000	-	-
Cambodia Commercial Bank Ltd	995,520	4,000,000	-	-
Cambodian Reinsurance Company "CAMBODIARE"	696,864	2,800,000	-	-
	<u>29,865,605</u>	<u>120,000,000</u>	<u>-</u>	<u>-</u>

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.

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

15. BORROWINGS

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
International Finance Corporation "IFC" (*)	94,571,429	379,988,002	63,000,000	254,331,000
Industrial and Commercial Bank of China	35,000,000	140,630,000	19,000,000	76,703,000
BlueOrchard Finance S.A	23,743,757	95,402,416	21,066,647	85,046,054
Proparco	8,769,231	35,234,770	9,538,462	38,506,771
Oikocredit	7,500,000	30,135,000	10,000,000	40,370,000
Instituto De Crédito Oficial	4,050,250	16,273,905	4,860,300	19,621,031
ASN-Novib Mikrokredietfonds (through Triple Jump)	4,000,000	16,072,000	4,000,000	16,148,000
National Bank of Cambodia	3,982,081	16,000,001	-	-
Advanced Bank of Asia Limited	2,986,560	11,999,998	516,667	2,085,785
Vattanac Bank	2,488,801	10,000,002	-	-
Hatton National Bank PLC	2,000,000	8,036,000	3,000,000	12,111,000
Chailease International Financial Service Co.,Ltd	1,500,000	6,027,000	2,100,000	8,477,700
Alterfin	1,500,000	6,027,000	-	-
KIVA Microfunds	292,823	1,176,563	251,167	1,013,961
Incofin	-	-	6,500,000	26,240,500
Symbiotics	-	-	7,550,941	30,483,149
responsAbility	-	-	5,000,000	20,185,000
	<u>192,384,932</u>	<u>773,002,657</u>	<u>156,384,184</u>	<u>631,322,951</u>

(*) This includes syndicated loan of US\$14,285,714 (2017: US\$20 million) of which Krungsri is the lender who provides funding to IFC (Note 28(f)).

The above amounts are analysed as follows:

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
(a) By maturity:				
Within 1 month	-	-	-	-
> 1 to 3 months	7,192,131	28,897,982	3,976,717	16,054,007
> 3 to 12 months	48,721,608	195,763,421	54,765,391	221,087,883
More than 12 months	136,471,193	548,341,254	97,642,076	394,181,061
	<u>192,384,932</u>	<u>773,002,657</u>	<u>156,384,184</u>	<u>631,322,951</u>
(b) By currency:				
US Dollars	175,183,733	703,888,239	145,916,596	589,065,298
Khmer Riel	9,457,442	38,000,002	2,011,642	8,120,999
Thai Baht	7,743,757	31,114,416	8,455,946	34,136,654
	<u>192,384,932</u>	<u>773,002,657</u>	<u>156,384,184</u>	<u>631,322,951</u>

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

15. BORROWINGS (continued)

	<u>31 December 2018</u>	<u>31 December 2017</u>
(c) By interest rate (per annum):		
US Dollars	0% - 8.36%	0% - 8.06%
Khmer Riel	3.03% - 8.00%	11.92% - 12.21%
Thai Baht	8.31%	10.29% - 10.47%

16. SUBORDINATED DEBTS

	<u>31 December 2018</u>		<u>31 December 2017</u>	
	<u>US\$</u>	<u>KHR'000</u>	<u>US\$</u>	<u>KHR'000</u>
DEG-Deutsche Investitions – UNDEntwicklungsgesellschaft MBH	(i) 10,000,000	40,180,000	10,000,000	40,370,000
BlueOrchard Finance S.A	(ii) 4,000,000	16,072,000	4,000,000	16,148,000
DWM ASSET MANAGEMENT	(iii) 4,000,000	16,072,000	5,000,000	20,185,000
Incofin	(iv) 4,000,000	16,072,000	5,000,000	20,185,000
Trust Committee of Hattha Kaksekar	(v) 729,319	2,930,404	729,319	2,944,261
	<u>22,729,319</u>	<u>91,326,404</u>	<u>24,729,319</u>	<u>99,832,261</u>

- (i) On 17 December 2013, HKL entered into loan agreement with DEG – Deutsche Investitions – UNDEntwicklungsgesellschaft MBH for the sum of US\$10 million to finance the expansion of the HKL's loan portfolio. The repayment should be no later than 15 November 2020.
- (ii) On 2 April 2013, HKL entered into loan agreement with BlueOrchard Finance S.A for the sum of US\$4 million to finance the expansion of the HKL's loan portfolio. The repayment should be no later than 4 April 2019.
- (iii) On 13 March 2015, HKL entered into loan agreement with DWM Asset Management for the sum of US\$5 million for the period of 7 years for financing the expansion of the HKL's loan portfolio.
- (iv) On 7 March 2016, HKL entered into another loan agreement with Incofin for the sum of US\$5 million for the period of 72 months for financing the expansion of the HKL's loan portfolio.
- (v) Hattha Kaksekar Financial Trust agreed to lend trust fund (US\$729,319) as subordinated loan to the Company for strengthening the financial condition and the provision of financial services to HKL's customers; such agreement was made on 23 June 2017. The loan was provided for the period of 10 years effective from 1 June 2017.

Trust fund refers to fund registered at the Ministry of Economy and Finance ("MEF") on 7 September 2015 via certificate No.313 MoEF.GDFI according to Sub-decree No.476 dated 26 August 2013 of MEF on financial trust and Prakas No. 1041 dated 26 September 2014 of the MEF on the management and monitoring the financial trust. The trust fund is managed by Trust Committee of Hattha Kaksekar Financial Trust.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

16. SUBORDINATED DEBTS (continued)

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

Repayment of the debt by the HKL to BlueOrchard Finance S.A, DEG, DWM, Incofin, and Trust Committee of Hattha Kaksekar Financial Trust shall be subordinate and junior to other senior obligations of the HKL and be subject to prior approval from the National Bank of Cambodia.

(a) Interest rates

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

	<u>31 December 2018</u>	<u>31 December 2017</u>
US Dollars	7.50% - 12.62%	7.50% - 12.62%

17. PROVIDENT BENEFITS

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

	<u>31 December 2018</u>		<u>31 December 2017</u>	
	<u>US\$</u>	<u>KHR'000</u>	<u>US\$</u>	<u>KHR'000</u>
Balance at beginning of year	132,601	535,310	2,318,590	9,360,148
Charge during the year	919,245	3,693,526	698,573	2,820,139
Interest on savings	18,225	73,228	71,219	287,511
Payments during the year (*)	(1,057,491)	(4,248,999)	(2,955,781)	(11,932,488)
Currency translation difference	-	(2,519)	-	-
Balance at end of year	<u>12,580</u>	<u>50,546</u>	<u>132,601</u>	<u>535,310</u>

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

On 21 Sep 2018, the Ministry of Labour and Vocational Training released the Prakas No. 443 on Work Seniority Payment. This Prakas instructs all employers to settle the seniority payment to their employees with undetermined duration contract ("UDC") starting from 2019 onward.

On 27 November 2018, the Board of Directors approved to pay out back pay seniority payment to all employees ("UDC") by using provident fund balance as of December 2018 adjusted for the shortfall for amount calculated based on the formula mentioned in the Prakas.

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018****18. OTHER LIABILITIES**

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Interest payable	13,518,404	54,316,947	10,666,695	43,061,448
Accrued annual bonus (*)	2,700,026	10,848,704	2,352,098	9,495,420
Other tax payable	615,375	2,472,577	426,400	1,721,377
Accrued other staff benefits	465,377	1,869,885	111,284	449,254
Supplier payable	285,852	1,148,553	243,956	984,850
Other accrual & payables	913,221	3,669,323	434,600	1,754,478
	<u>18,498,255</u>	<u>74,325,989</u>	<u>14,235,033</u>	<u>57,466,827</u>

* HKL's staff are entitled to annual bonus. The annual bonus is planned to be paid in January and February 2019 equally with the maximum up to 13% of net profit of year 2018 based on approval of the Board of Directors.

19. ALLOWANCE FOR IMPAIRED OFF-BALANCE SHEET

The movements of allowance for off-balance sheet during the year are as follows:

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Balance at beginning of year	-	-	-	-
Charge during the year	11,298	45,394	-	-
Balance at end of year	<u>11,298</u>	<u>45,394</u>	<u>-</u>	<u>-</u>

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

20. SHARE CAPITAL

As at 31 December 2018, the authorised share capital comprised 75,000,000 ordinary shares (2017: 30,000,000) at par value of US\$1 each. All issued shares are fully paid.

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Registered, issued and fully paid ordinary share of US\$1 each	75,000,000	301,350,000	30,000,000	121,110,000

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

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

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

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

On 16 July 2018, the National Bank of Cambodia ("NBC") approved the Company's request for increasing share capital by US\$45 million from US\$30 million to US\$75 million. The amendment of the Memorandum and Articles of Association was approved by the NBC and the MOC on 9 August 2018 and 30 August 2018, respectively.

21. INTEREST INCOME

	Year ended 31 December 2018		Year ended 31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Loans to customers	114,756,897	461,093,212	94,788,909	382,662,826
Deposits with banks	213,646	858,430	207,745	838,666
	<u>114,970,543</u>	<u>461,951,642</u>	<u>94,996,654</u>	<u>383,501,492</u>

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018****22. INTEREST EXPENSE**

	Year ended 31 December 2018		Year ended 31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Deposits from customers	27,077,342	108,796,760	25,321,080	102,221,200
Borrowings	19,346,490	77,734,197	13,163,485	53,140,989
Debt securities issued	379,291	1,523,991	-	-
Provident funds	18,225	73,228	71,219	287,511
	<u>46,821,348</u>	<u>188,128,176</u>	<u>38,555,784</u>	<u>155,649,700</u>

23. OTHER INCOME

	Year ended 31 December 2018		Year ended 31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Referral fees	715,661	2,875,526	46,946	189,521
Remittance fees	118,917	477,809	116,852	471,732
Other fee income	414,820	1,666,747	315,594	1,274,053
Recovery on loans previously written off	531,933	2,137,307	118,526	478,489
Foreign exchange gain	103,107	414,284	644,279	2,600,954
Other income	67,776	272,323	65,226	263,318
	<u>1,952,214</u>	<u>7,843,996</u>	<u>1,307,423</u>	<u>5,278,067</u>

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018****24. GENERAL AND ADMINSTRATIVE EXPENSES**

	Year ended 31 December 2018		Year ended 31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Personnel expenses (*)	24,590,664	98,805,288	18,923,233	76,393,092
Rental expenses	3,766,616	15,134,263	3,204,660	12,937,212
Depreciation and amortisation (Notes 10 and 11)	2,336,292	9,387,221	2,559,547	10,332,891
Travelling and transportation	1,828,541	7,347,078	1,449,064	5,849,871
Repairs and maintenance	1,156,563	4,647,070	868,092	3,504,487
Marketing and advertising	749,452	3,011,298	449,499	1,814,627
Security expenses	687,980	2,764,304	627,335	2,532,551
Utilities	685,567	2,754,608	666,616	2,691,129
License fees	603,785	2,426,008	548,233	2,213,217
Office supplies and equipment	592,819	2,381,947	562,515	2,270,873
Communication	543,402	2,183,389	461,686	1,863,826
Consultancy and professional fees	121,901	489,798	199,194	804,146
Bank charges	228,595	918,495	163,924	661,761
Board and shareholder meetings	107,313	431,184	96,089	387,911
Others	601,219	2,415,698	594,823	2,401,303
	<u>38,600,709</u>	<u>155,097,649</u>	<u>31,374,510</u>	<u>126,658,897</u>

(*) Personnel expenses are analysed as follows

	Year ended 31 December 2018		Year ended 31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Salaries and wages	22,215,907	89,263,514	17,214,450	69,494,735
Provident benefits (Note 17)	919,245	3,693,526	698,573	2,820,139
Medical benefits	553,982	2,225,900	262,916	1,061,392
Training costs	236,786	951,406	206,783	834,783
Staff uniforms	213,072	856,123	171,045	690,509
Other staff benefits	451,672	1,814,819	369,466	1,491,534
	<u>24,590,664</u>	<u>98,805,288</u>	<u>18,923,233</u>	<u>76,393,092</u>

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018****25. ALLOWANCE FOR IMPAIRED FACILITIES**

	Year ended 31 December 2018		Year ended 31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Allowance for loans to customers (Note 7)	5,036,649	20,237,256	6,903,394	27,869,002
Allowance for balances with other banks (Note 6)	396,067	1,591,398	-	-
Allowance for off-balance sheet (Note 19)	11,298	45,394	-	-
Allowance for impaired facilities	<u>5,444,014</u>	<u>21,874,048</u>	<u>6,903,394</u>	<u>27,869,002</u>

26. CASH AND CASH EQUIVALENTS

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

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Cash on hand	37,211,155	149,514,421	9,923,604	40,061,589
Balances with the NBC	30,158,462	121,176,700	8,156,644	32,928,372
Balances with other banks	39,606,703	159,139,733	57,097,552	230,502,817
	<u>106,976,320</u>	<u>429,830,854</u>	<u>75,177,800</u>	<u>303,492,778</u>

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

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

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
No later than 1 year	3,406,273	13,686,405	3,265,992	13,184,810
Later than 1 year and no later than 5 years	10,451,120	41,992,600	10,643,789	42,968,976
Later than 5 years	3,944,630	15,849,523	5,122,589	20,679,892
	<u>17,802,023</u>	<u>71,528,528</u>	<u>19,032,370</u>	<u>76,833,678</u>

HATTHA KAKSEKAR LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018****27. COMMITMENTS AND CONTINGENCIES (continued)****(b) Other commitments**

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Unused portion of loans	1,114,630	4,478,583	718,740	2,901,553
Capital expenditure	1,020,131	4,098,886	774,040	3,124,799
Other commitment	334,098	1,342,406	86,208	348,022
	<u>2,468,859</u>	<u>9,919,875</u>	<u>1,578,988</u>	<u>6,374,374</u>

28. RELATED PARTY TRANSACTIONS AND BALANCES**(a) Related parties and relationships**

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

Related parties	Relationship
Mitsubishi UFJ Financial Group, Inc.,	Ultimate parent company
Bank of Ayudhya Public Company Limited ("Krungsri")	Immediate parent company/shareholder
Affiliates	All entities under the same ultimate parent company
Board of Directors	The Board of Directors are those person overseeing the activities of the Company.
Key management personnel	The key management personnel are those 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.

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

28. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(b) Directors and key management compensation

	Year ended 31 December 2018		Year ended 31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Board of Directors				
Fees and related expenses	<u>107,313</u>	<u>431,184</u>	<u>96,089</u>	<u>387,911</u>
Key management				
Salaries and short-term benefits	<u>2,041,874</u>	<u>8,204,250</u>	<u>1,818,793</u>	<u>7,342,467</u>
Provident benefits	<u>84,059</u>	<u>337,749</u>	<u>67,325</u>	<u>271,791</u>
	<u>2,125,933</u>	<u>8,541,999</u>	<u>1,886,118</u>	<u>7,614,258</u>
	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Provident benefit payable	<u>-</u>	<u>-</u>	<u>12,253</u>	<u>49,465</u>

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

(c) Loans to key management and interest income

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
Loans to key management as at 31 December	<u>678,673</u>	<u>2,726,908</u>	<u>730,191</u>	<u>2,947,781</u>
Interest income from key management for the year	<u>48,305</u>	<u>194,089</u>	<u>97,064</u>	<u>391,847</u>

Loans are provided to key management of the Company with interest rate at 8% per annum (2017: 8% per annum).

(d) Deposits from and interest expense to key management and Directors

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
Deposits from key management as at 31 December	<u>1,193,205</u>	<u>4,794,298</u>	<u>2,149,265</u>	<u>8,676,583</u>
Interest expense to key management for the year	<u>106,989</u>	<u>429,882</u>	<u>427,865</u>	<u>1,727,291</u>

Deposits from key management of the Company bear interest rates ranging from 2.5% to 10% per annum (2017: 3.5% to 11.3% per annum) depending on the terms and currency of the deposits.

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

28. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(d) Deposits from and interest expense to key management and Directors (continued)

	2018		2017	
	US\$	KHR'000	US\$	KHR'000
Deposits from the Board of Directors as at 31 December	1,600,485	6,430,749	2,351,335	9,492,339
Interest expense to the Board of Directors for the year	183,979	739,228	151,819	612,893

Deposits from the Board of Directors of the Company bear interest rates ranging from 2.5% to 9.7% per annum (2017: 3% to 9.7% per annum) depending on the terms and currency of deposits.

(e) Office rental from key management

	Year ended 31 December 2018		Year ended 31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Office rental expenses	43,920	176,471	31,920	128,861

(f) Transactions and balances with shareholder and affiliate

(i) Transactions with shareholder and affiliate

	Year ended 31 December 2018		Year ended 31 December 2017	
	US\$	KHR'000	US\$	KHR'000
<i>Shareholder</i>				
Proceeds received for capital injection	45,000,000	180,810,000	23,175,406	93,559,114
Proceeds received from borrowing via IFC (*)	-	-	15,000,000	60,555,000
Repayments of borrowing via IFC (*)	(5,714,286)	(22,960,001)	-	-
Proceeds received for borrowings from Krungsri	8,000,000	32,144,000	19,200,000	77,510,400
Repayment of borrowings from Krungsri	(27,000,000)	(108,486,000)	(200,000)	(807,400)
Interest and fee expenses	2,480,360	9,966,086	1,443,602	5,827,821

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

28. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

(ii) *Balances with shareholder and affiliate*

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
<i>Shareholder:</i>				
Interest payable on interest rate SWAP	-	-	52,342	211,305
Interest receivable on interest rate SWAP	13,747	55,235	-	-
Amount payable on payment on behalf of HKL's expense	81,380	326,985	68,712	277,390
Borrowing via IFC (*)	14,285,714	57,399,999	20,000,000	80,740,000
Interest payable on borrowing via IFC	155,827	626,113	181,879	734,246
Commitment given on interest rate SWAP (**)	85,285,714	342,677,999	48,000,000	193,776,000
Commitment received on interest rate SWAP (**)	(85,285,714)	(342,677,999)	(48,000,000)	(193,776,000)
Borrowing	-	-	19,000,000	76,703,000
Interest and fee payable on borrowing	3,888	15,622	12,853	51,888
Amount receivable on payment on behalf of Krungsri's expense	945	3,797	-	-
<i>Affiliate:</i>				
Amount payable on <i>Ngern Tid Lor Co., Ltd's</i> payment on behalf of HKL	50,054	201,117	70,754	285,634

(*) This represents syndicated loan from IFC of which Krungsri is the lender who provides funding to IFC (Note 15).

(**) 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.

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

29. FINANCIAL RISK MANAGEMENT

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

(a) Credit risk

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

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

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

Other credit risks pertain to balances with other banks. The Company has Partner Bank Selection Framework; however, opening accounts with other banks is subject to approval from Board of Directors and they only select to open bank accounts with reputational banks.

(i) Credit risk measurement

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

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

(ii) Risk limit control and mitigation policies

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

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

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

29. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

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

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

(iii) Impairment and provisioning policies

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

(iv) Exposure to credit risk

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Credit risks exposures relating to on-balance sheet assets:				
Balances with other banks	39,606,703	159,139,733	57,097,552	230,502,817
Loans to customers	757,326,744	3,042,938,857	576,880,156	2,328,865,190
Credit risk exposures relating to off-balance sheet items:				
Unused portion of loans	1,114,630	4,478,583	718,740	2,901,553
	<u>798,048,077</u>	<u>3,206,557,173</u>	<u>634,696,448</u>	<u>2,562,269,560</u>

The above table represents a worst case scenario of credit risk exposure to the Company as at 31 December 2018, without taking account of any collateral held or other credit enhancement attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts excluding allowance.

As shown above, 95% of total maximum exposure is derived from loans to customers.

Loans to customers are summarises as follows:

	31 December 2018		31 December 2017	
	US\$	KHR'000	US\$	KHR'000
Loans to customers:				
Neither past due nor impaired	751,573,619	3,019,822,801	569,983,624	2,301,023,890
Past due but not impaired	689,601	2,770,817	699,604	2,824,301
Individually impaired	5,063,524	20,345,239	6,196,928	25,016,999
Less: Allowance for impairment	(10,321,680)	(41,472,510)	(9,343,954)	(37,721,543)
Loans to customers, net	<u>747,005,064</u>	<u>3,001,466,347</u>	<u>567,536,202</u>	<u>2,291,143,647</u>

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

29. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(iv) Exposure to credit risk (continued)

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

Neither past due nor impaired loans to customers

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

Past due but not impaired loans to customers

Past due but not impaired loans to customers are those for which contractual interest or principal payments are past due less than 90 days for long-term loans and less than 31 days for short-term loans, unless other information is available to indicate otherwise.

Impaired loans to customers

Individually impaired loans to customers are loans to customers for which the Company determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loans to customers.

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

A restructured facility refer to a facility that original contractual terms have been modified to provide for concessions for the counterparty for reasons related to temporary financial difficulties.

According to the Article 81 of new Prakas No. B7-017-344, once the loan is restructured it remains in the same classification regardless of satisfactory performance after restructuring. The classification is not improved unless the counterparty has fully complied with the restructured terms of agreement and there are no arrears in repayments of principal and interest within 6 months for loans with monthly instalments and within a year for loans with quarterly, semi-annually or longer basis.

(b) Operational risk

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

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

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

29. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk

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

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

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

(i) Foreign currency exchange risk

Concentration of currency risk

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

	US\$ equivalent			Total
	US\$	KHR	THB	US\$
31 December 2018				
Assets				
Cash on hand	30,607,038	5,376,438	1,227,679	37,211,155
Balances with the NBC	63,710,441	13,831,333	-	77,541,774
Balances with other banks, net	22,238,798	13,865,425	3,106,413	39,210,636
Loans to customers, net	648,647,769	71,496,649	26,860,646	747,005,064
Amounts due from related party	14,692	-	-	14,692
Other assets	7,064,453	827,735	318,200	8,210,388
Total financial assets	772,283,191	105,397,580	31,512,938	909,193,709
Liabilities				
Deposits from customers	414,946,359	55,056,340	10,090,842	480,093,541
Debt securities issued	-	29,865,605	-	29,865,605
Borrowings	175,183,733	9,457,442	7,743,757	192,384,932
Amount due to related parties	3,888	-	131,434	135,322
Subordinated debts	22,729,319	-	-	22,729,319
Other liabilities	15,475,513	1,964,730	432,519	17,872,762
Total financial liabilities	628,338,812	96,344,117	18,398,552	743,081,481
Net financial asset position	143,944,379	9,053,463	13,114,386	166,112,228

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

29. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Foreign currency exchange risk (continued)

Concentration of currency risk (continued)

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

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

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

(ii) Interest rate risk

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

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

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

29. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

The table below is presented based on the contractual maturity.

	Up to 1 month	> 1 – 3 months	> 3 – 12 months	1 – 5 years	Over 5 Years	Non-interest sensitive	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
31 December 2018							
Assets							
Cash on hand	-	-	-	-	-	37,211,155	37,211,155
Balances with the NBC	-	4,230,000	7,549,776	-	-	65,761,998	77,541,774
Balances with other banks							
- Performing	4,807,974	7,964,161	-	-	-	26,834,568	39,606,703
- Allowance	-	-	-	-	-	(396,067)	(396,067)
Loans to customers							
- Performing	537,990	1,832,697	19,976,362	636,605,601	93,310,570	-	752,263,220
- Non-performing	-	-	-	-	-	5,063,524	5,063,524
- Allowance	-	-	-	-	-	(10,321,680)	(10,321,680)
Amounts due from related party	-	-	-	-	-	14,692	14,692
Other assets	-	-	-	-	-	8,210,388	8,210,388
	<u>5,345,964</u>	<u>14,026,858</u>	<u>27,526,138</u>	<u>636,605,601</u>	<u>93,310,570</u>	<u>132,378,578</u>	<u>909,193,709</u>
Liabilities							
Deposits from customers	119,629,404	88,808,236	249,241,904	21,688,070	725,927	-	480,093,541
Debt securities issued	-	-	-	29,865,605	-	-	29,865,605
Borrowings	-	5,982,081	79,554,945	106,555,083	-	292,823	192,384,932
Amounts due to related parties	-	-	-	-	-	135,322	135,322
Subordinated debts	-	-	14,000,000	8,000,000	729,319	-	22,729,319
Other liabilities	-	-	-	-	-	17,872,762	17,872,762
	<u>119,629,404</u>	<u>94,790,317</u>	<u>342,796,849</u>	<u>166,108,758</u>	<u>1,455,246</u>	<u>18,300,907</u>	<u>743,081,481</u>
Maturity gap	<u>(114,283,440)</u>	<u>(80,763,459)</u>	<u>(315,270,711)</u>	<u>470,496,843</u>	<u>91,855,324</u>	<u>114,077,671</u>	<u>166,112,228</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

29. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

The table below is presented based on the contractual maturity.

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

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

29. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk

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

In addition to full compliance of all liquidity requirements, the management of the Company closely monitors all inflows and outflows and the maturity gaps through periodical reporting. Movements in loans and customers' deposits are monitored and liquidity requirements adjusted to ensure sufficient liquid assets to meet its financial commitments and obligations as and when they fall due. This is commonly known as "Behavioral Adjustment on Loans and Deposits". The Company performs back-testing regularly to ensure the applicability of behaviour assumption methodology.

Deposits from customers consisted mainly of term deposits, which was at 81.45% of the total deposit outstanding (2017: 87.57%). The term deposit roll-rate in term of amount showed approximately half of the term deposits keep rolling from one cycle to another. Therefore, management believes that underlying liquidity risk is manageable.

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

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

29. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

	Up to 1 month	> 1 – 3 months	> 3 – 12 months	1 – 5 years	Over 5 years	No fixed terms	Total
	US\$	US\$	US\$	US\$	US\$	US\$	US\$
31 December 2018							
Assets							
Cash on hand	37,211,155	-	-	-	-	-	37,211,155
Balances with the NBC	25,878,687	4,280,200	71,963	-	-	47,383,311	77,614,161
Balances with other banks	31,335,270	7,928,870	-	-	-	-	39,264,140
Loans to customers	29,792,616	61,250,125	243,057,579	619,293,927	30,098,722	-	983,492,969
Amounts due from related party	945	-	13,747	-	-	-	14,692
Other assets	-	204,393	-	1,298,844	-	20,000	1,523,237
	<u>124,218,673</u>	<u>73,663,588</u>	<u>243,143,289</u>	<u>620,592,771</u>	<u>30,098,722</u>	<u>47,403,311</u>	<u>1,139,120,354</u>
Liabilities							
Deposits from customers	121,805,764	93,919,082	266,660,080	24,635,022	794,974	-	507,814,922
Debt securities issued	-	-	2,380,797	34,633,721	-	-	37,014,518
Borrowings	507,657	8,058,955	59,704,566	149,315,267	-	292,823	217,879,268
Amounts due to related parties	-	135,322	-	-	-	-	135,322
Subordinated debts	401,311	1,008,842	11,664,455	12,742,004	916,194	-	26,732,806
Other liabilities	439,196	3,789,895	100,099	25,170	-	-	4,354,360
	<u>123,153,928</u>	<u>106,912,096</u>	<u>340,509,997</u>	<u>221,351,184</u>	<u>1,711,168</u>	<u>292,823</u>	<u>793,931,196</u>
Maturity gap	<u>1,064,745</u>	<u>(33,248,508)</u>	<u>(97,366,708)</u>	<u>399,241,587</u>	<u>28,387,554</u>	<u>47,110,488</u>	<u>345,189,158</u>

HATTHA KAKSEKAR LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

29. FINANCIAL RISK MANAGEMENT (continued)

(d) Liquidity risk (continued)

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

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

29. FINANCIAL RISK MANAGEMENT (continued)

(e) Capital management

(i) *Regulatory capital*

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

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

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.

(ii) *Capital allocation*

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

HATTHA KAKSEKAR LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

30. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

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

31. CURRENT AND NON-CURRENT

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

32. EVENT AFTER REPORTING PERIOD

On 4 January 2019, Royal Government of Cambodia issued Anukret on Tax Incentives in Securities Sector. According to Article 3, the scope of Anukret shall be applicable in the Kingdom of Cambodia to:

- Equity and/or debt securities issuing companies granted approval from the SECC and listed on permitted Securities Market.
- Public investors holding and/or buying-selling of government securities, equity and/or debt securities which are issued and listed on the permitted Securities Market. For the purpose of this Anukret, the public investors are also included both resident and non-resident investors.