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开泰银行 KASIKORNBANK

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BRANCH OF KASIKORNBANK
PUBLIC COMPANY LIMITED
(PHNOM PENH)
ANNUAL REPORT 2020



January - December 2020



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KASIKORNBANK PUBLIC COMPANY LIMITED: Vision and Guiding Foundation

Vision

KASIKORNBANK aims to be the most innovative, proactive, and customer centric financial institution, delivering world class financial services and sustainable value for all stakeholders by harmoniously combining technology and talent.

Guiding Foundation

- Remain a top tier size with strong brand, distribution, and capital base
- Acquire enduring customers and ensure excellent customer experience across all segments
- Be a digital-oriented AEC+3 Bank
- Be a data-driven bank and ensure data confidentiality
- Be a cost competitive operator
- Be a Bank of Sustainability



General Manager's Message

The COVID-19 pandemic undoubtedly offered us a challenging test in 2020. It is obvious that its impact has the potential to linger for years to come. On the global level, we have seen economic contractions, sharp declines in international trade, and plunging tourist numbers, among other effects. All of this was also seen in Cambodia, where businesses were closed and factories halted, and people lost their jobs. All in all, we have learned that it is most important to remain resilient in the face of such challenges amidst difficult times. Despite disruptions in domestic activities due to the pandemic, we still believe in the prospects for recovery of the Cambodian economy in 2021 and accelerated growth in 2022. According to the forecasts of various leading international organizations, the economy is forecast to return to growth of nearly 4.0 percent this year and around 5.5 percent in 2022, as economic recovery in major trading partners boosts demand and opportunities for Cambodia's exports.

This pandemic has given us an opportunity to demonstrate our resilience. Following the guidelines of the Royal Government and the National Bank of Cambodia, we have launched various measures aiming to provide much-needed support to our customers, particularly those who have been adversely impacted by COVID-19. We stand firm in our commitment to provide continued support to our customers through additional initiatives to safeguard the sustainability of their businesses during this turbulent period.

Throughout the year, the Branch of KASIKORNBANK Public Company Limited (Phnom Penh) celebrated its fifth year of operations. At the end of 2020, the Branch had maintained a high level of asset quality with zero Non-Performing Loans (NPLs), reflecting our rigorous risk control and management while growing business volume in all areas and segments. By taking a prudent approach, the Branch has also achieved its targeted profitability. Moreover, the Branch has grown partnerships with new alliances for accessing new groups of customers and enhancing financial inclusion in the country. In terms of operations, an adaptive business continuity plan has been put in place, addressing related risks and mitigations in order to ensure our ongoing operations in accordance with the laws and regulations. Going forward, even with the persisting pandemic situation, the Branch remains committed to improving our capabilities to meet diverse business needs, uplifting service quality to deliver a best-in-class customer experience, and contributing to Cambodia's banking sector.



On behalf of the Branch of KASIKORNBANK Public Company Limited (Phnom Penh), I would like to extend our gratitude towards the National Bank of Cambodia and regulators from relevant departments. In addition, we would like to thank our partner banks, business alliances, customers, and all staff members for their support, which has helped us to adhere to the sustainable path through the years.

Mr. Ritthiwut Watthanachai
General Manager

PART I Corporate Background

1.1 Corporate Information

KASIKORNBANK at a Glance

- Established on June 8, 1945 with registered capital of Bt5mn (USD0.17mn)
- Listed on the Stock Exchange of Thailand (SET) since 1976

Consolidated (as of December 2020)

Assets	Bt3,659bn (USD121.8bn) Ranked #4 with 15.5% market share**
Loans*	Bt2,245bn (USD74.7bn) Ranked #3 with 16.4% market share**
Deposits	Bt2,345bn (USD78.1bn) Ranked #4 with 16.2% market share**
CAR	18.80% ***
ROE	7.10% ****
ROA	0.85%
Number of Branches	860
Number of E-Machine (ATM/RCM)	10,981
Number of K PLUS Users	14.4mn
Number of Employees	19,862



Share Information

SET Symbol	KBANK, KBANK-F
Share Capital :	
Authorized	Bt30.2bn (USD1.0bn)
Issued and Paid-up	Bt23.7bn (USD0.8bn)
Number of shares	2.4bn shares
Market Capitalization	Bt268bn (USD8.9bn) Ranked #2 in Thai banking sector
4Q20 Avg. Share Price:	
KBANK	Bt94.89 (USD3.16)
KBANK-F	Bt95.10 (USD3.17)
EPS	Bt5.60 (USD0.19)
BVPS	Bt179.00 (USD5.96)



Notes:

* Loans = Loans to customers less deferred revenue

** Assets, loans and deposits market share is based on C.B.1.1 (Monthly statement of assets and liabilities) of 14 Thai commercial banks as of December 2020

*** Capital Adequacy Ratio (CAR) has been reported in accordance with Basel III Capital Requirement from 1 January 2013 onwards. CAR is based on KASIKORNBANK FINANCIAL CONGLOMERATE. KASIKORNBANK FINANCIAL CONGLOMERATE means the company under the Notification of the Bank of Thailand re: Consolidated Supervision, consisted of KBank, K Companies and subsidiaries operating in supporting KBank, Phethai Asset Management Co., Ltd. and other subsidiaries within the permitted scope from the BOT's to be financial conglomerate

**** ROE = Net profit deducted Additional Tier 1 dividend after tax/Average total equity excluded Additional Tier 1
Exchange rate at the end of December 2020 (Mid Rate) was Bt30.04 per USD (Source: Bank of Thailand)

1.2 Overview of KASIKORNBANK PUBLIC COMPANY LIMITED

KASIKORNBANK Public Company Limited ("KBank") was established on June 8, 1945, and has been listed on the Stock Exchange of Thailand since 1976. For over 75 years, our main focus has been to deliver impressive services and innovative products that best respond to customer needs. KBank prioritizes both domestic and regional dimensions in line with changing global economic trends, consumer behavior, government policies, and market competition. These factors are thoroughly assessed to define new strategies for KBank in order to enhance our business operations and adjust to upcoming changes in a timely manner, while sustainably maintaining our competitive advantages and relevance to customers' lives.

Furthermore, to better serve customers in all dimensions, KBank leverages synergies among wholly-owned subsidiaries which specialize in different fields:

- KASIKORN ASSET MANAGEMENT CO., LTD. (KAsset)
- KASIKORN RESEARCH CENTER CO., LTD. (KResearch)
- KASIKORN SECURITIES PCL. (KSecurities)
- KASIKORN LEASING CO., LTD. (KLeasing)
- KASIKORN FACTORY & EQUIPMENT CO., LTD. (KF&E)
- KASIKORN BUSINESS-TECHNOLOGY GROUP (KBTG)
- KASIKORN VISION CO., LTD. (KVision)

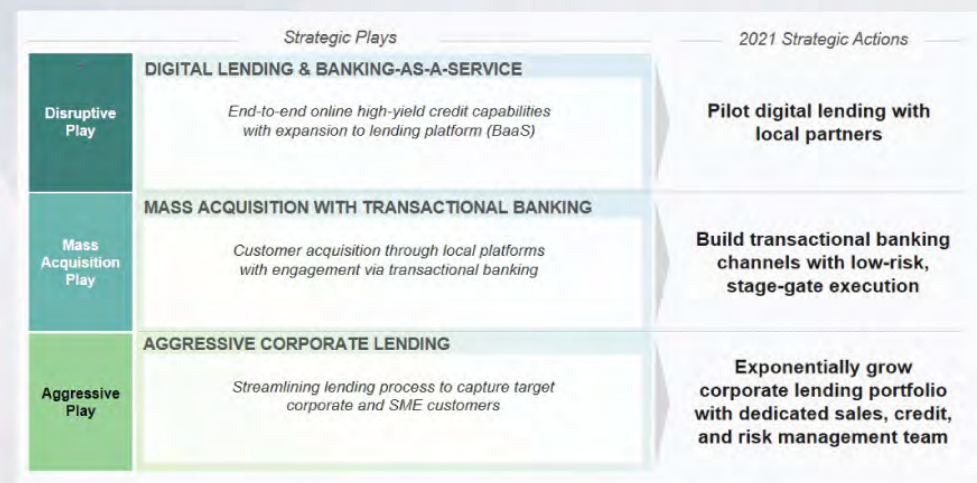
Additionally, KBank has service networks and strategic business partners across Thailand and AEC+3. With the core strategy to be "The Bank of AEC+3", KBank has implemented "Three-Track Regional Digital Expansion"



In the first Classical Expansion track, we extend and develop the banking business network in AEC+3. In the second Digital Expansion track, KBank develops issuing and acquiring business systems for electronic payments plus infrastructure for enhancing international payment/remittance across the region for all customer segments, under the business strategic area, "Borderless Payment for All". In the third Industry Solution and Ecosystem Expansion track, we acquire customers in the "beyond banking" realm by delivering customer-centric solutions, enabled by asset-light investments to anticipate our customers' needs.

KBank's Regional Digital Expansion via Three Strategic Plays

To achieve rapid regional digital expansion in AEC, KBank will use three strategic plays whereby each play leverages another to build growth momentum and accelerate customer base & financial returns.



KASIKORNBANK's Regional Digital Expansion Strategy

With the ambition of becoming a regional bank, KBank has taken solid steps forward not only in traditional banking business, but also in digital space in Cambodia, Lao PDR, Myanmar, Vietnam, and Indonesia (CLMVI). This determination has prompted KBank to employ three business strategies from our playbook to achieve our goal: aggressive play, mass acquisition play, and disruptive play. Aggressive play: KBank targets growth of banking business with both local and multinational companies including, but not limited to, Thai-related companies and AEC+3, including China, Japan, and Korea. Exclusive teams of dedicated relationship managers and underwriters are in charge to work towards regional business expansion. Mass acquisition play: Acquiring business and retail customers via transactional banking products is key to enlarging the regional customer base. Disruptive play: By partnering with credit technology firms and local lending platforms, KBank has ventured into the digital lending space to explore new frontiers in CLMVI.

The Branch of KASIKORNBANK PCL (Phnom Penh) commenced operations in November 2016. As we enter our fifth year of healthy business growth in 2021, the Branch will further develop products and services to meet the diverse needs of local businesses. We will continue to deliver great customer experiences in Cambodia to match our slogan, "Towards Service Excellence".

1.3 BRANCH OF KASIKORNBANK PUBLIC COMPANY LIMITED (PHNOM PENH)

Registered Name	Branch of KASIKORNBANK PUBLIC COMPANY LIMITED (Phnom Penh)
Registration No.	00008267
Established Date	25 October 2016
Registered Capital	USD 60,000,000
Registered Office	No. 45, Preah Sihanouk Boulevard, Khan Daun Penh Phnom Penh, Cambodia
Head Office	KASIKORNBANK PUBLIC COMPANY LIMITED
Management Team	Mr. Ritthiwut Watthanachai General Manager Mr. Pitchayuth Techapichetvanich Deputy General Manager - Finance and Accounting Department Mr. Vandore Dan Deputy General Manager - Branch Sales and Services Department Mr. Kanatis Hoontrakul Deputy General Manager - Banking Operations Department
Telephone No.	(+855) 23 214 998, 999
Website	www.kasikornbank.com.kh
E-mail	KH_PhnomPenh@kasikornbank.com

Organization Structure



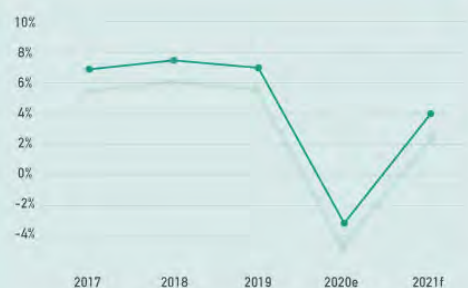
Part II Management Discussion and Analysis

2.1 Cambodia's Economic Overview

The COVID pandemic had significantly impacted Cambodia's economy in 2020 via a sharp deceleration in most of the country's main engines of growth, which were tourism and the garment industry. An 80 percent decline in international tourist arrivals caused the hospitality-related sectors to come to a grinding halt. Also, partial EBA suspension exacerbated the COVID impact on the garment and apparel exports, which experienced a 20 percent decline in 2020. The combined impact of these two abovementioned factors posed a grave risk toward household consumption and caused havoc to related economic activities. More than 40 percent of paid workers in Cambodia were in these vulnerable sectors and experienced income loss. Also, the rise in food prices due to an African swine fever (ASF) outbreak and transport disruptions worsened the overall consumption in 2020. However, exports had a tailwind from solid demand in agriculture and non-garment manufacturing exports. These offset a 20 percent decline in garment and apparel exports and brought the overall exports into positive territory. Although the government's large scale economic stimulus package and good export performance would alleviate some economic hiccups, they had little discernible overall impact on COVID and partial EBA suspensions. All in all, Cambodia economy was estimated to contract 3.2 percent in 2020.

Cambodia economy is projected to recover to its pre-COVID level in 2021. KResearch expects that the economy will see a moderate recovery of 3.8-4.2 percent, depending on COVID situation. Strong global recovery, especially for the US, EU and China, will lead to a rise in external demand. As a result, Cambodia will jumpstart export and manufacturing sectors. In addition, a strong trade tie with China and encouraging regional economic cooperation from RCEP will induce the FDIs in the coming years. However, a resurgence of COVID outbreak could limit the economic recovery to a moderate pace because the recent lockdown could pose risk toward manufacturing and export performance as well as private consumption.

Cambodia economy will grow 3.3-3.7% in 2021



Source: The Ministry of Economy and Finance, ADB Forecasted by KResearch

The number of tourism arrivals declined 80% in 2020



Source: The National Bank of Cambodia, Estimated by KResearch

Cambodia economy faces headwind in the near term. The February 2021 COVID cluster has caused severe havoc on economic activities as the government impose strict containment measures. Businesses closed, markets were ordered to shut and some activities were banned. Also, some garment factories halt production due to COVID lockdown restrictions and logistic disruptions. These could affect to the overall export and consumption recovery.

Fiscal stimulus is expected to decline as the government needs to mobilize some fiscal resources for COVID vaccines. Although the Cambodian government received million doses of vaccine donation in 2021, it is expected that Cambodia would need to purchase additional doses of vaccine worth USD 200 million to reach herd community in 2022. Meanwhile, fiscal prospects have deteriorated since the government unveiled the economic stimulus package of around 5% of the nation's GDP in 2020, the largest size compared to CLMV peers. As a result, the opportunity that the Cambodian government will unveil another large-scale economic stimulus is quite limited due to the budget constraints.

Tourism is expected to contract in 2021. The new outbreak in many countries around the world could threaten tourism re-opening plan as many countries adapt vigilant stance about allowing people to travel across borders, especially for non-essential travel. China has vaccinated around 30 percent of total population as of May 25, 2021 and expects to achieve herd immunity by early 2022. Meanwhile, ASEAN countries have administered COVID vaccine at much slower pace. Many countries have less than 5% of vaccination rate as of May 25, 2021. Also, the vaccine shortage will delay the timeline to reach herd immunity in these countries. Although Cambodia performs rather well than its ASEAN peers, the country will not likely to achieve herd immunity within 2021. Therefore, there is little hope of quick tourism recovery in 2021. Without herd immunity, tourists may visit the country under special measures and are limited to designated areas. The limitation of tourism recovery will prevent the economy from its pre-pandemic potential growth because a large number of workers in tourism and related sectors still experience a decline in their income.

Encouraging global demand will foster economic recovery Cambodia will benefit from western recovery as its export lean on these markets. It is widely believe that EU and the US will achieve herd immunity in 2H21. This will warrant reopening of economy and consumer demand. Garment and apparel, which commands around 80 percent of the country exports, could see a material recovery in 2H21. This will help to support overall export growth and rejuvenate the country's main manufacturing sector.

FDI will be the main growth contribution for the Cambodian economy in 2021. The closer cooperation between Cambodia and China under a bilateral FTA will reinforce the FDI inflows from China in the real estate and construction sector, supported by infrastructure projects under the Belt and Road Initiative. China is expected to invest in several motorways in Cambodia to facilitate regional trade connectivity as well as logistics efficiency in the country. However, the spillover effects from FDI on the real economy will be felt to a lesser degree as most of the FDIs are Government-to-Government projects and domestic participation is rather limited.

Going forward, Cambodia will pursue a deeper regional economic integration to booster its competitiveness and economic diversification. The RCEP and Cambodia-Korea comprehensive FTA will open investment opportunities in the future. The cumulation rule under the RCEP's rules of origin will allow cross-sharing of resources among the member countries. This will assert opportunity for Cambodia to utilize its pool of cheap labour in labour intensive industries. South Korea is one of the large players in the FDI arena in the RCEP countries with an average of USD 30 billion of ODI annually and around one-third was invested in the region, and it ranked as the second largest FDI investor in Cambodia after China. Investment from South Korea was rather diversified from modern agriculture businesses to manufacturing products. Also, South Korea is one of the potential markets for clothes and shoes.

Regarding the outlook for inflation, tepid domestic demand and high dollarization will help the authorities to keep inflation under control. Also, the better control over AFS outbreak will ease pressure over food inflation. Therefore, we expect that Cambodian inflation will decline to 2.4 percent in 2021, compared to a 2.9 percent rise in 2020.

Cambodian Banking Situation

The Cambodian banking sector is relatively resilient, when compared to its peers in the CLMV. Bank credit is mainly available in urban areas and main economic sectors, while rural area and SMEs are underserved. Most banks have done business with an upscale market segment, which have deep pockets. This provides some cushions against unfavorable conditions during the pandemic. In response to COVID, the National Bank of Cambodia (NBC) unveiled a number of policies to help banks and local businesses stay afloat during the pandemic via a liquidity injection and loan restructuring scheme.[The NBC is extending loan restructuring to all sectors impacted by the pandemic until mid-2021. There are 4 focus sectors: namely, tourism, garment, transportation and construction.] As a result, the quality of debt remained under control. According to IMF, the NPL of Cambodian bank stood at 1.8 percent in 2020, rising from 1.6 percent in 2019. Meanwhile, Banks' capital adequacy ratio and tier 1 ratio were 22.7 and 19.6 percent in 2020, respectively.

Loans growth in 2020 eased to 22.2% from the end of 2019, compared to 27.0% growth seen in 2019, supported by the easing monetary condition as well as the stimulus program from the NBC. Loans in agriculture, mining & quarrying and transportation have seen rapid growth during the pandemic. Loan growth in mining & quarrying recorded the highest growth due to the opening of the first oil refinery in Cambodia. Meanwhile, the loan restructuring program contributed to strong growth in transportation and agriculture loans.

Unlike banks, COVID hit the Cambodian microfinance institutions (MFIs) rather hard. MFIs faced both demand and supply shocks. Millions of workers in Cambodia struggled to pay their debt as they had experienced job and wage losses due to COVID. Also, the broad-based deterioration of economic activities caused funding pressures for MFIs. 2020 was the first time in the history that MFIs experienced a decline in loans outstanding. The MFI's loans outstanding declined by 6.2 percent in 2020 from KHR 29.4 trillion in the end 2019 to KHR 27.5 trillion at the end of 2020. As a result, three of eighty-one MFIs were out of business in 2020.

The uptake of the digital economy will provide an opportunity for fintech to expand their market. Cambodia is on the cusp of a digital payment revolution and COVID has become a catalyst for digital adoption. During the COVID pandemic, consumers and businesses are willing to adopt cashless payment instead of physical transactions. Many of these advancements are prominently seen in the payments space, which has experienced dramatic changes as more sophisticated digital solutions have become more mainstream. Recently, some entrepreneurs started to pay employees' salary via e-wallet. The number of active e-wallet accounts in Cambodia is expected to grow at a rapid pace in 2020 after it had reported a skyrocket growth of 64 percent in 2019 with 5.22 million users. Going forward, the use of digital payment is also supported by the demographic change. Around one-third of its population are aged below 18, of which around a half of million people are expected to enter the legal age (18 years old) in the coming years. This creates a growing demand for financial services for Cambodian first-jobbers. Meanwhile, the country has a large unbanked population. This will support the growth of digital wallet accounts and related services, especially QR payments, money transfers, cross-border remittances and financial services.

Also, the COVID pandemic is intensifying the Cambodian authorities' push towards a digital economy. The National Bank of Cambodia (NBC) launched the Bakong payment system, a blockchain-based payment platform, on 28 October 2020. The new payment system could be a significant milestone for the national financial development by establishing a common payment infrastructure. It will foster a new competition landscape among banks and payment service providers to provide affordable and inclusive financial services to the country's large unbanked population. Apart from the NBC payment initiative, the government is also drafting a 2021-2035 policy framework for Cambodia's evolving digital socioeconomic environment. This will create an ecosystem for a digital economy and a more level regulatory playing field for fintech.

¹ The NBC is extending loan restructuring to all sectors impacted by the pandemic until mid-2021. There are 4 focus sectors: namely, tourism, garment, transportation and construction.



2.2 BUSINESS PERFORMANCE AND DIRECTION

Amidst the COVID-19 pandemic in 2020, the Cambodian government maintained control of the situation with much fewer infections compared to other countries in the region. Nonetheless, the pandemic still affected investment momentum in general as business sectors opted for a “wait and see” strategy before proceeding with further expansion or investment plans.

Given the challenging situation, the Branch of KASIKORNBANK Public Company Limited (Phnom Penh) proactively engaged and collaborated with our customers to ensure that we still provided support in protecting their interests and value. At the same time, we were successful in gaining further trust from customers to be their financial partner as our loan portfolio grew 41 percent from 2019, with zero NPLs. Likewise, our transactional business increased 50 percent from the previous year.

For 2021, the Branch of KASIKORNBANK Public Company Limited (Phnom Penh) aims to diversify its portfolio by expanding into different segments:

Corporate segment: the Branch will focus on providing total solutions to cater to customers’ diverse and sophisticated financial requirements along their value chains. Not only will we focus on serving Thai and large local corporates in Cambodia, but we will also aim to serve other groups such as foreign corporates that are expanding their investments in Cambodia.

SME segment: As SMEs account for more than 90 percent of all business enterprises nationwide, the Branch will endeavor to extend our services to SME customers with the purpose of providing easier access to financial support in order to help them grow their businesses.

Retail segment: the Branch has developed partnership models with our business alliances for the retail customer base. New products will be launched not only to tap into this segment, but also to gain a better understanding of customers’ behaviors in order to improve our products and services in the future.

In addition, the Branch will enhance its digital capabilities to improve the customer experience and convenience.

Part III Report of Independent Auditors

Corporate Information

Branch	Branch of KASIKORNBANK Public Company Limited (Phnom Penh)	
Registration No.	00008267	
Registered office	No. 45, Preah Sihanouk Boulevard Khan Daun Penh, Phnom Penh Kingdom of Cambodia	
Head office	KASIKORNBANK PCL.	
Management team	Mr. Ritthiwut Watthanachai	General Manager
	Mr. Pitchayuth Techapichetvanich	Deputy General Manager – Finance and Accounting Department
	Mr. Vandore Dan	Deputy General Manager – Branch Sales and Services Department
	Mr. Kanatis Hoontakul	Deputy General Manager – Banking Operations Department
Auditors	KPMG Cambodia Ltd	

Report of the Management

The Management has pleasure in submitting their report together with the audited financial statements of Branch of KASIKORNBANK Public Company Limited (Phnom Penh) ("the Branch") for the year ended 31 December 2020.

Principal activities

The Branch is principally engaged in all aspects of banking business and the provision of related financial services.

There were no significant changes to these principal activities during the financial year.

Financial results

The financial results of the Branch for the year ended 31 December 2020 were as follows:

	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
Profit before income tax	1,504,796	908,166	6,135,054	3,679,889
Income tax expense	(305,725)	(194,244)	(1,246,441)	(787,077)
Net profit for the year	<u>1,199,071</u>	<u>713,922</u>	<u>4,888,613</u>	<u>2,892,812</u>

Dividends

No dividend was declared or paid and the Management does not recommend any dividend to be paid for the year under review.

Branch capital

As at 31 December 2020, the Branch's paid up capital is US\$60,000,000 (31 December 2019: US\$60,000,000).

Reserves and provisions

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

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Losses loans and advances

Before the financial statements of the Branch were prepared, the Management took reasonable steps to ascertain that actions had been taken in relation to the writing off of any bad loans and advances and the making of allowance for doubtful loans and advances, and satisfied themselves that all known bad loans and advances had been written off and adequate allowance had been made for doubtful loans and advances.

At the date of this report, the Management are not aware of any circumstances, which would render the amount written off for bad loans and advances, or the amount of allowance for losses on loans and advances in the financial statements of the Branch, inadequate to any material extent.

Assets

Before the financial statements of the Branch were prepared, the Management took reasonable steps to ensure that any assets, other than loans and advances, which were unlikely to be realised in the ordinary course of business at their value as shown in the accounting records of the Branch had been written down to an amount which they might be expected to realise.

At the date of this report, the Management is not aware of any circumstances, which would render the values attributed to the assets in the financial statements of the Branch misleading.

Valuation methods

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

Contingent and other liabilities

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

- any charge on the assets of the Branch which has arisen since the end of the financial year which secures the liabilities of any other person; or
- any contingent liability in respect of the Branch that has arisen since the end of the financial year other than in the ordinary course of banking business.

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

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Change of circumstances

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

Items of unusual nature

The results of the operations of the Branch for the financial year were not, in the opinion of the Management, substantially affected by any item, transaction or event of a material and unusual nature, except for:

Coronavirus and impact on ECL

The ECL was estimated based on a range of forecast economic conditions as at reporting date. The Novel Coronavirus (Covid-19) outbreak has spread across mainland China, Cambodia and beyond, causing disruption to business and economic activity. The impact on GDP and other key indicators has been considered when determining the severity and likelihood of downside economic scenarios that are used to estimate ECL in which the calculation of the ECL in this current environment is subject to significant uncertainty. Management provides its best estimate on the possible outcomes of Covid-19 on the Branch, however, this estimate may move materially as events unfold.

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 Management, to affect substantially the results of the operations of the Branch for the current period in which this report is made.

Management

The Management who served during the year and at the date of this report are:

Mr. Ritthiwut Watthanachai	General Manager
Mr. Pitchayuth Techapichetvanich	Deputy General Manager – Finance and Accounting Department
Mr. Vandore Dan	Deputy General Manager – Branch Sale and Service
Mr. Kanatis Hoontakul	Deputy General Manager – Operation Department

Management's interests

None of the Management held or dealt directly in the shares of the Branch during the financial year.

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Management's benefits

During and at the end of the financial year, no arrangements existed to which the Branch is a party with the objective of enabling Management of the Branch to acquire benefits by means of the acquisition of shares in or debentures of the Branch or any other body corporate.

During the financial year, no Management of the Branch 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 Management as disclosed in the financial statements) by reason of a contract made by the Branch or a related corporation with a firm of which the Management is a member, or with a company in which the Management has a substantial financial interest other than as disclosed in the financial statements.

Management's responsibility in respect of the financial statements

The Management is responsible for ascertaining that the financial statements present fairly, in all material respects, the financial position of the Branch as at 31 December 2020, and its financial performance and its cash flows for the year then ended. In preparing these financial statements, the Management is required to:

- (i) adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- (ii) comply with Cambodian International Financial Reporting Standards ("CIFRSs") or, if there have been any departures in the interest of true and fair presentation, ensure that these have been appropriately disclosed, explained and quantified in the financial statements;
- (iii) oversee the Branch's financial reporting process and maintain adequate accounting records and an effective system of internal controls;
- (iv) assess the Branch'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 the Management either intends to liquidate the Branch or to cease operations, or has no realistic alternative but to do so; and
- (v) control and direct effectively the Branch in all material decisions affecting the operations and performance and ascertain that such have been properly reflected in the financial statements.

The Management confirms that they have complied with the above requirements in preparing the financial statements.

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Approval of the financial statements

I hereby approve the accompanying financial statements together with the notes thereto as set out on pages 9 to 89 which in our opinion, present fairly, in all material respects, the financial position of the Branch as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with CIFRSs.

Signed on behalf of the Branch,



Mr. Ritthiwut Watthanachai
General Manager

Phnom Penh, Kingdom of Cambodia

Date: 26 MAR 2021



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Report of the Independent Auditors

To Head Office of
Branch of KASIKORNBANK Public Company Limited
(Phnom Penh)

Opinion

We have audited the financial statements of Branch of KASIKORNBANK Public Company Limited (Phnom Penh) ("the Branch"), which comprise the statement of financial position as at 31 December 2020, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out on pages 9 to 89.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Branch as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with Cambodian International Financial Reporting Standards ("CIFRSs").

Basis for Opinion

We conducted our audit in accordance with Cambodian International Standards on Auditing ("CISAs"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Branch 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.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditors' report is the Report of the Management on pages 1 to 5, and the annual report, which is expected to be made available to us after that date. 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.

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If, based on the work we have performed on the other information obtained prior to the date of this auditors' report, 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 Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with CIFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Branch'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 Branch or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Branch's financial reporting process.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch'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 Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Branch 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 KPMG Cambodia Ltd



Lim Chew Teng
Partner

Phnom Penh, Kingdom of Cambodia

26 March 2021

**Branch of KASIKORNBANK Public Company Limited
(Phnom Penh)**

**Statement of financial position
as at 31 December 2020**

		31 December		31 December	
	Note	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
ASSETS					
Cash and cash equivalents	6	12,314,899	20,202,678	49,813,766	82,325,913
Placements with other banks	7	10,779,951	100,027	43,604,902	407,610
Statutory deposits	8	8,814,499	8,325,688	35,654,648	33,927,179
Loans and advances to customers – net	9	76,141,875	54,067,976	307,993,884	220,327,002
Other assets	10	169,111	185,543	684,054	756,087
Intangible assets	11	689,459	606,148	2,788,862	2,470,053
Property and equipment	12	719,580	879,603	2,910,701	3,584,382
Right-of-use assets	13	988,423	1,173,752	3,998,171	4,783,039
Deferred tax assets – net	20A	50,563	59,607	204,527	242,899
Total assets		110,668,360	85,601,022	447,653,515	348,824,164
LIABILITIES AND HEAD OFFICE'S ACCOUNTS					
Liabilities					
Deposits from customers	14	8,705,837	11,477,727	35,215,111	46,771,738
Deposit from other banks	15	28,152,579	12,007,915	113,877,182	48,932,254
Borrowings	16	10,636,266	-	43,023,696	-
Provision for off-balance sheet commitment	28A	35,908	73,002	145,248	297,483
Lease liabilities	17	924,116	1,101,352	3,738,049	4,488,009
Other liabilities	18	123,807	68,506	500,798	279,161
Provision for employee benefits	19	13,643	26,695	55,186	108,782
Current income tax liabilities	20B	263,595	232,287	1,066,242	946,570
Total liabilities		48,855,751	24,987,484	197,621,512	101,823,997
Head Office's accounts					
Head Office's capital contribution	21	60,000,000	60,000,000	242,220,000	242,220,000
Regulatory reserves	22	683,346	450,630	2,765,297	1,822,332
Retained earnings		1,129,263	162,908	4,611,101	665,453
Currency translation reserves		-	-	435,605	2,292,382
Total Head Office's accounts		61,812,609	60,613,538	250,032,003	247,000,167
Total liabilities and Head Office's accounts		110,668,360	85,601,022	447,653,515	348,824,164

The accompanying notes form an integral part of these financial statements.

**Branch of KASIKORNBANK Public Company Limited
(Phnom Penh)**

**Statement of profit or loss and other comprehensive income
for the year ended 31 December 2020**

	Note	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
Operating income					
Interest income	23	3,223,113	2,266,054	13,140,632	9,182,051
Interest expense	24	(510,124)	(34,724)	(2,079,776)	(140,702)
Net interest income		2,712,989	2,231,330	11,060,856	9,041,349
Net fee and commission income	25	270,696	254,337	1,103,628	1,030,574
Other income		(783)	10,632	(3,192)	43,081
Total operating income		2,982,902	2,496,299	12,161,292	10,115,004
Personnel expenses	26	(755,905)	(581,916)	(3,081,825)	(2,357,924)
Other operating expenses	27	(829,975)	(740,693)	(3,383,807)	(3,001,288)
Total operating expenses		(1,585,880)	(1,322,609)	(6,465,632)	(5,359,212)
Operating profit before impairment		1,397,022	1,173,690	5,695,660	4,755,792
Impairment gains/(losses) on financial instruments	9	107,774	(265,524)	439,394	(1,075,903)
Profit before income tax		1,504,796	908,166	6,135,054	3,679,889
Income tax expense	20C	(305,725)	(194,244)	(1,246,441)	(787,077)
Net profit for the year		1,199,071	713,922	4,888,613	2,892,812
Other comprehensive (loss)/income					
Currency translation difference		-	-	(1,856,777)	3,430,698
Total comprehensive income for the year		1,199,071	713,922	3,031,836	6,323,510

The accompanying notes form an integral part of these financial statements.

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Statement of changes in equity for the year ended 31 December 2020

	Head Office's capital contribution		Regulatory reserves		Retained earnings		Currency translation reserves		Total	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
At 1 January 2020	60,000,000	242,220,000	450,630	1,822,332	162,908	665,453	-	2,292,382	60,613,538	247,000,167
Transactions recognised directly in equity										
Transfers	-	-	232,716	942,965	(232,716)	(942,965)	-	-	-	-
Total comprehensive income	-	-	-	-	1,199,071	4,888,613	-	-	1,199,071	4,888,613
Net profit for the year	-	-	-	-	-	-	-	(1,856,777)	-	(1,856,777)
Currency translation difference	-	-	-	-	1,199,071	4,888,613	-	(1,856,777)	1,199,071	3,031,836
At 31 December 2020	60,000,000	242,220,000	683,346	2,765,297	1,129,263	4,611,101	-	435,605	61,812,609	250,032,003

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Statement of changes in equity (continued) for the year ended 31 December 2020

	Head Office's capital contribution		Regulatory reserves		Retained earnings		Currency translation reserves		Total	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
At 1 January 2019	60,000,000	242,220,000	517,270	2,092,357	(617,654)	(2,497,384)	-	(1,138,316)	59,889,616	240,676,657
Transactions recognised directly in equity										
Transfers	-	-	(66,640)	(270,025)	66,640	270,025	-	-	-	-
Total comprehensive income	-	-	-	-	713,922	2,892,812	-	-	713,922	2,892,812
Net profit for the year	-	-	-	-	-	-	-	3,430,698	-	3,430,698
Currency translation difference	-	-	-	-	713,922	2,892,812	-	3,430,698	713,922	6,323,510
At 31 December 2019	60,000,000	242,220,000	450,630	1,822,332	162,908	665,453	-	2,292,382	60,613,538	247,000,167

The accompanying notes form an integral part of these financial statements.

**Branch of KASIKORNBANK Public Company Limited
(Phnom Penh)**

**Statement of cash flows
for the year ended 31 December 2020**

	Note	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
Cash flows from operating activities					
Net profit for the year		1,199,071	713,922	4,888,613	2,892,812
<i>Adjustment for:</i>					
Depreciation and amortisation	27	417,183	404,702	1,700,855	1,639,853
Net interest income		(2,712,989)	(2,231,330)	(11,060,856)	(9,041,349)
Interest expense on lease liabilities	27	26,764	31,273	109,117	126,718
Income tax expense	20C	305,725	194,244	1,246,441	787,077
Impairment (gains)/losses on financial instruments	9	(107,774)	265,524	(439,394)	1,075,903
Provision for employee benefits	19	(6,124)	(7,599)	(24,968)	(30,791)
		(878,144)	(629,264)	(3,580,192)	(2,549,777)
<i>Changes in:</i>					
Placements with other banks		(10,669,729)	9,380,407	(43,500,485)	38,009,409
Statutory deposits		(488,811)	(1,325,440)	(1,992,882)	(5,370,683)
Loans and advances to customers		(21,983,709)	(30,626,804)	(89,627,582)	(124,099,810)
Other assets		16,432	(38,360)	66,993	(155,435)
Deposits from customers		(2,765,440)	2,854,899	(11,274,699)	11,568,050
Deposits from other banks		16,111,439	12,007,915	65,686,337	48,656,072
Other liabilities		55,301	52,551	225,458	212,937
Cash used in operations		(20,602,661)	(8,324,096)	(83,997,052)	(33,729,237)
Employee benefit paid	19	(6,928)	-	(28,245)	-
Interest received		3,192,526	2,208,168	13,015,929	8,947,497
Interest paid		(397,401)	(34,724)	(1,620,204)	(140,702)
Income tax paid	20B	(265,373)	(26,373)	(1,081,926)	(106,863)
Net cash used in operating activities		(18,079,837)	(6,177,025)	(73,711,498)	(25,029,305)
Cash flows from investing activities					
Purchase of property and equipment and intangible assets	11&12	(155,142)	(261,183)	(632,514)	(1,058,313)
Net cash used in investing activities		(155,142)	(261,183)	(632,514)	(1,058,313)

**Branch of KASIKORNBANK Public Company Limited
(Phnom Penh)**

**Statement of cash flows (continued)
for the year ended 31 December 2020**

	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
Cash flows from financing activities				
Proceed from borrowings	13,516,934	-	55,108,540	-
Repayment on borrowings	(2,966,616)	-	(12,094,893)	-
Payments for lease liabilities	(204,000)	(204,000)	(831,708)	(826,608)
Net cash generated from/(used in) financing activities	10,346,318	(204,000)	42,181,939	(826,608)
Net decrease in cash and cash equivalents	(7,888,661)	(6,642,208)	(32,162,073)	(26,914,226)
Cash and cash equivalents at beginning of the year	20,203,763	26,845,971	82,330,334	107,867,112
Currency translation difference	-	-	(353,674)	1,377,448
Cash and cash equivalents at end of the year (Note 6)	12,315,102	20,203,763	49,814,587	82,330,334

The accompanying notes form an integral part of these financial statements.

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements for the year ended 31 December 2020

These notes form an integral part and should be read in conjunction with the accompanying financial statements.

1. Reporting entity

Branch of KASIKORNBANK Public Company Limited (Phnom Penh) ("the Branch") was incorporated in Cambodia on 12 November 2015 under Registration No. Co. 0074/2015. On 6 June 2016, the Branch re-registered with the Ministry of Commerce and obtained the new Registration No. 00008267. On 25 October 2016, the National Bank of Cambodia ("NBC") granted a license to the Branch to conduct the banking business for an indefinite period.

The Branch is wholly owned by KASIKORNBANK PCL., which was incorporated in Thailand.

The Branch is principally engaged in general banking business and the provision of related financial services.

The registered office of the Branch is currently located at No.45, Preah Sihanouk Boulevard, Khan Daun Penh, Phnom Penh, Kingdom of Cambodia.

The Branch had 26 employees as at 31 December 2020 (31 December 2019: 20 employees).

2. Basis of accounting

The financial statements of the Branch have been prepared in accordance with the Cambodian International Financial Reporting Standards ("CIFRSs").

Details of the Branch's accounting policies are included in Note 32.

The financial statements were authorised for issued by the Branch's Management on xxx.

3. Functional and presentation currency

The Branch transacts its business and maintains its accounting records in United States Dollars ("US\$"). Management has determined the US\$ to be the Branch's functional and presentation currency as it reflects the economic substance of the underlying events and circumstances of the Branch.

These financial statements are presented in US\$, which is the Branch's functional currency. All US\$ amounts have been rounded to the nearest dollar and translated to thousand Khmer Riel in accordance with Note 5, except when otherwise indicated.

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued) for the year ended 31 December 2020

4. Use of judgments and estimates

In preparing these financial statements, Management has made judgements, estimates and assumptions that affect the application of the Branch's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

A. Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes.

- Note 32C(ii): classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest ("SPPI") on the principal amount outstanding.
- Note 32C(vii): establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of expected credit loss ("ECL") and selection and approval of models used to measure ECL.
- Note 30B(iv): credit quality of gross loans and advances to customers – incorporation of forward-looking information.

B. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities are included in the following notes:

- Note 32C(vi): determination of the fair value of financial instruments with significant unobservable inputs.
- Note 32C(vii): impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information.
- Note 32C(vii): impairment of financial instruments: key assumptions used in estimating recoverable cash flows.

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued) for the year ended 31 December 2020

5. Translation of United States Dollars into Khmer Riel

The financial statements are expressed in United States Dollars. The translations of United States Dollars amount into Khmer Riel are included solely for compliance with the Law of Accounting and Auditing.

Assets and liabilities are translated at the closing rate as at the reporting date and Head Office's capital contribution accounts at historical rate. The statements of profit or loss and other comprehensive income and cash flows are translated into KHR using the average rate for the year. Exchange differences arising from the translation are recognised as "Currency Translation Reserves" in the other comprehensive income.

The Branch uses the following exchange rates:

		Closing rate	Average rate
31 December 2020	US\$1 =	KHR 4,045	KHR 4,077
31 December 2019	US\$1 =	KHR 4,075	KHR 4,052

These convenience translations should not be construed as representations that the United States Dollars amounts have been, could have been, or could in the future be, converted into Khmer Riels at this or any other rate of exchange.

6. Cash and cash equivalents

	31 December		31 December	
	2020	2019	2020	2019
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
Cash on hand	1,338,446	2,124,642	5,414,014	8,657,916
Cash equivalents with other banks	10,976,656	18,079,121	44,400,573	73,672,418
Cash and cash equivalents in the statement of cash flows	12,315,102	20,203,763	49,814,587	82,330,334
Less: Impairment loss allowance	(203)	(1,085)	(821)	(4,421)
	<u>12,314,899</u>	<u>20,202,678</u>	<u>49,813,766</u>	<u>82,325,913</u>

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued) for the year ended 31 December 2020

6. Cash and cash equivalents (continued)

The movements of impairment loss allowance on cash and cash equivalents were analysed as follows:

	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
At 1 January	1,085	15,945	4,421	64,068
Reversal for the year (Note 9(a)(ii))	(882)	(14,860)	(3,596)	(60,213)
Currency translation difference	-	-	(4)	566
At 31 December	<u>203</u>	<u>1,085</u>	<u>821</u>	<u>4,421</u>

7. Placements with other banks

	31 December		31 December	
	2020	2019	2020	2019
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
Term deposits (non-cash equivalents)	10,779,951	100,027	43,604,902	407,610
Less: Impairment loss allowance	-	-	-	-
	<u>10,779,951</u>	<u>100,027</u>	<u>43,604,902</u>	<u>407,610</u>

These refer to placements with NBC that have maturity ranging from 3 to 12 months (31 December 2019: 3 to 12 months) and earned interest ranging from 0.13% to 0.44% (2019: 2.50% to 2.55%) per annum.

During the year, the Branch has pledged the above Negotiable Certificate of Deposits ("NCD") with the NBC as collateral for Liquidity Providing Collateralised Operation ("LPCO") (Note 16).

The movements of impairment loss allowance on placements with other banks were analysed as follows:

	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
At 1 January	-	9,198	-	36,957
Reversal for the year (Note 9(a)(ii))	-	(9,198)	-	(37,270)
Currency translation difference	-	-	-	313
At 31 December	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

**Branch of KASIKORNBANK Public Company Limited
(Phnom Penh)**

**Notes to the financial statements (continued)
for the year ended 31 December 2020**

8. Statutory deposits

		31 December		31 December	
		2020	2019	2020	2019
		US\$	US\$	KHR'000	KHR'000
				(Note 5)	(Note 5)
Statutory capital deposit	A	6,000,000	6,000,000	24,270,000	24,450,000
Reserve requirements on customers' and other banks' deposits	B	2,814,499	2,325,688	11,384,648	9,477,179
		<u>8,814,499</u>	<u>8,325,688</u>	<u>35,654,648</u>	<u>33,927,179</u>

A. Statutory capital deposit

Under the NBC's Prakas No. B7-01-136 dated 15 October 2001, the Branch is required to maintain a statutory deposit 10% of its registered capital. This deposit is not available for use in the Branch's day-to-day operations and is refundable should the Branch voluntarily cease its operations in Cambodia.

B. Reserve requirements on customers' and other banks' deposits

The reserve requirements represent the minimum reserve which is calculated at 8% for KHR and 12.50% for other currencies of the total amount of deposits from customers, non-residential banks and other financial institutions; and non-residential borrowings. Pursuant to the National Bank of Cambodia's Prakas No. B7-018-282 on the maintenance of reserve requirements against commercial banks' deposits and borrowings, reserve requirements both in KHR and in other currencies bear no interest effective from 29 August 2018.

The National Bank of Cambodia ("NBC") issued a press release dated 17 March 2020 announcing the reduction of the Reserve Requirements Rate ("RRR") on KHR from 8% to 7%. For foreign currencies, the RRR is reduced from 12.50% to 7% effective until first quarter of 2021 in order to help mitigate the impact of the Covid-19 pandemic on Cambodia's economy.

C. By interest rate (per annum):

	2020	2019
Statutory capital deposit	0.09%	0.54%
Reserve requirements on customers' and other banks' deposits	<u>N/A</u>	<u>N/A</u>

**Branch of KASIKORNBANK Public Company Limited
(Phnom Penh)**

**Notes to the financial statements (continued)
for the year ended 31 December 2020**

9. Loans and advances to customers – net

(a) Analysis by type of loans

	31 December		31 December	
	2020	2019	2020	2019
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
Corporate loans:				
Short-term loans	33,293,988	18,564,615	134,674,181	75,650,806
Long-term loans	43,138,891	35,864,163	174,496,814	146,146,464
Gross loans and advances	76,432,879	54,428,778	309,170,995	221,797,270
Less: Impairment loss allowance	(291,004)	(360,802)	(1,177,111)	(1,470,268)
Loans and advances – net	<u>76,141,875</u>	<u>54,067,976</u>	<u>307,993,884</u>	<u>220,327,002</u>

(i) The movements of impairment loss allowance on loans and advances to customers are as follows:

	2020	2019	2020	2019
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
At 1 January	360,802	136,506	1,470,268	548,481
(Reversal)/Allowance for the year (Note 9(a)(ii))	(69,798)	224,296	(284,566)	908,847
Currency translation difference	-	-	(8,591)	12,940
At 31 December	<u>291,004</u>	<u>360,802</u>	<u>1,177,111</u>	<u>1,470,268</u>

(ii) Impairment (gains)/losses on financial instruments that recognised in profit or loss were summarised as follows:

	2020	2019	2020	2019
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
Net impairment (gain)/loss on cash and cash equivalent and placement with other banks (Note 6 and 7)	(882)	(24,058)	(3,596)	(97,483)
Net impairment (gain)/loss on loans and advances (Note 9(a)(i))	(69,798)	224,296	(284,566)	908,847
Net impairment (gain)/loss on off-balance sheet commitment (Note 28)	(37,094)	65,286	(151,232)	264,539
	<u>(107,774)</u>	<u>265,524</u>	<u>(439,394)</u>	<u>1,075,903</u>

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued)
for the year ended 31 December 2020

9. Loans and advances to customers – net (continued)

(b) Analysis by type of maturity

Gross amounts of loans and advances to customers by maturity are as follows:

	31 December		31 December	
	2020	2019	2020	2019
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
Within 1 month	1,759,173	47,733	7,115,855	194,512
> 1 to 3 months	4,324,289	5,118,851	17,491,749	20,859,318
> 3 to 6 months	27,210,526	12,944,322	110,066,578	52,748,112
> 6 to 12 months	-	453,708	-	1,848,860
> 1 to 3 years	7,011,103	7,091,472	28,359,912	28,897,748
> 3 to 5 years	10,857,329	13,332,876	43,917,896	54,331,470
Over 5 years	25,270,459	15,439,816	102,219,005	62,917,250
	<u>76,432,879</u>	<u>54,428,778</u>	<u>309,170,995</u>	<u>221,797,270</u>

For additional analysis of loans and advances to customers, refer to Note 30B.

10. Other assets

	31 December		31 December	
	2020	2019	2020	2019
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
Guarantee deposits	112,550	111,600	455,265	454,770
Prepayments	56,561	40,943	228,789	166,843
Others	-	33,000	-	134,474
	<u>169,111</u>	<u>185,543</u>	<u>684,054</u>	<u>756,087</u>

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued)
for the year ended 31 December 2020

11. Intangible assets

	2020			2019		
	Computer software US\$	Work in progress US\$	Total US\$	Computer software US\$	Work in progress US\$	Total US\$
			KHR'000 (Note 5)			KHR'000 (Note 5)
Cost						
At 1 January	662,802	110,000	772,802	525,300	-	525,300
Additions	51,517	99,933	151,450	137,502	110,000	247,502
Currency translation difference	-	-	-	-	-	-
At 31 December	714,319	209,933	924,252	662,802	110,000	772,802
Less: Accumulated amortisation						
At 1 January	166,654	-	166,654	108,466	-	108,466
Amortisation	68,139	-	68,139	58,188	-	58,188
Currency translation difference	-	-	-	-	-	-
At 31 December	234,793	-	234,793	166,654	-	166,654
Carrying amounts						
At 31 December	479,526	209,933	689,459	496,148	110,000	606,148
			2,788,862			2,470,053

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Notes to the financial statements (continued) for the year ended 31 December 2020

12. Property and equipment

2020	Leasehold improvements US\$	Furniture and fittings US\$	Office equipment US\$	Computer equipment US\$	Other equipment US\$	Total US\$	KHR'000 (Note 5)
Cost							
At 1 January 2020	1,041,467	102,060	106,431	25,383	12,706	1,288,047	5,248,792
Additions	-	-	315	2,992	385	3,692	15,052
Currency translation difference	-	-	-	-	-	-	(38,760)
At 31 December 2020	1,041,467	102,060	106,746	28,375	13,091	1,291,739	5,225,084
Less: Accumulated depreciation							
At 1 January 2020	301,769	44,508	47,073	13,458	1,636	408,444	1,664,410
Depreciation	104,375	26,570	25,898	5,463	1,409	163,715	667,466
Currency translation difference	-	-	-	-	-	-	(17,493)
At 31 December 2020	406,144	71,078	72,971	18,921	3,045	572,159	2,314,383
Carrying amounts							
At 31 December 2020	635,323	30,982	33,775	9,454	10,046	719,580	2,910,701

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Notes to the financial statements (continued) for the year ended 31 December 2019

12. Property and equipment (continued)

2019	Leasehold improvements US\$	Furniture and fittings US\$	Office equipment US\$	Computer equipment US\$	Other equipment US\$	Total US\$	KHR'000 (Note 5)
Cost							
At 1 January 2019	1,037,642	97,893	105,545	21,786	11,500	1,274,366	5,120,403
Additions	3,825	4,167	886	3,597	1,206	13,681	55,435
Currency translation difference	-	-	-	-	-	-	72,954
At 31 December 2019	1,041,467	102,060	106,431	25,383	12,706	1,288,047	5,248,792
Less: Accumulated depreciation							
At 1 January 2019	197,922	18,683	21,393	8,853	409	247,260	993,491
Depreciation	103,847	25,825	25,680	4,605	1,227	161,184	653,118
Currency translation difference	-	-	-	-	-	-	17,801
At 31 December 2019	301,769	44,508	47,073	13,458	1,636	408,444	1,664,410
Carrying amounts							
At 31 December 2019	739,698	57,552	59,358	11,925	11,070	879,603	3,584,382

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Notes to the financial statements (continued)
for the year ended 31 December 2020

13. Right-of-use assets

	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
Office spaces				
Cost				
At 1 January	1,544,411	1,544,411	6,293,475	6,205,443
Currency translation difference	-	-	(46,333)	88,032
At 31 December	1,544,411	1,544,411	6,247,142	6,293,475
Less: Accumulated amortisation				
At 1 January	370,659	185,329	1,510,436	744,652
Amortisation	185,329	185,330	755,586	750,957
Currency translation difference	-	-	(17,051)	14,827
At 31 December	555,988	370,659	2,248,971	1,510,436
Carrying amounts				
At 31 December	988,423	1,173,752	3,998,171	4,783,039

14. Deposits from customers

	31 December		31 December	
	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
Demand deposits	6,213,519	3,758,391	25,133,684	15,315,444
Saving accounts	2,329,413	7,593,463	9,422,476	30,943,362
Fixed deposits	162,905	125,873	658,951	512,932
	8,705,837	11,477,727	35,215,111	46,771,738

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Notes to the financial statements (continued)
for the year ended 31 December 2020

14. Deposits from customers (continued)

Deposits from customers are analysed as follows:

	31 December		31 December	
	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
A. By maturity:				
Within 1 month	8,542,932	11,360,409	34,556,160	46,293,667
> 1 to 3 months	50,543	4,718	204,446	19,226
> 3 to 6 months	-	2,600	-	10,595
> 6 to 12 months	112,362	110,000	454,505	448,250
	8,705,837	11,477,727	35,215,111	46,771,738
B. By customer type:				
Individuals	1,790,021	876,173	7,240,635	3,570,405
Business enterprises	6,915,816	10,601,554	27,974,476	43,201,333
	8,705,837	11,477,727	35,215,111	46,771,738
C. By residency status:				
Residents	8,593,706	11,273,157	34,761,541	45,938,115
Non-residents	112,131	204,570	453,570	833,623
	8,705,837	11,477,727	35,215,111	46,771,738
D. By currency:				
US\$	8,635,208	11,330,428	34,929,416	46,171,494
KHR	21,664	26,319	87,632	107,250
THB	48,965	120,980	198,063	492,994
	8,705,837	11,477,727	35,215,111	46,771,738
E. By interest rate (per annum):				
	2020	2019		
Saving accounts	0.00% - 1.00%	0.00% - 0.25%		
Fixed deposits	1.00% - 2.52%	1.75% - 2.52%		
Demand deposits	Nil	Nil		

Notes to the financial statements (continued)
for the year ended 31 December 2020

	31 December		31 December	
	2020	2019	2020	2019
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
Fixed deposits	28,041,140	12,007,915	113,426,411	48,932,254
Demand deposits	60,475	-	244,622	-
Saving accounts	50,964	-	206,149	-
	<u>28,152,579</u>	<u>12,007,915</u>	<u>113,877,182</u>	<u>48,932,254</u>

	31 December		31 December	
	2020	2019	2020	2019
	US\$	US\$	KHR'000 (Note 5)	KHR'000 (Note 5)
A. By maturity:				
Within 1 month	111,439	-	450,771	-
> 1 to 3 months	-	2,000,000	-	8,150,000
> 3 to 6 months	13,003,613	-	52,599,615	-
> 6 to 12 months	15,037,527	10,007,915	60,826,796	40,782,254
	<u>28,152,579</u>	<u>12,007,915</u>	<u>113,877,182</u>	<u>48,932,254</u>
B. By relationship:				
Related parties	28,041,140	10,007,915	113,426,411	40,782,254
Non-related parties	111,439	2,000,000	450,771	8,150,000
	<u>28,152,579</u>	<u>12,007,915</u>	<u>113,877,182</u>	<u>48,932,254</u>
C. By residency status:				
Residents	111,439	2,000,000	450,771	8,150,000
Non-residents	28,041,140	10,007,915	113,426,411	40,782,254
	<u>28,152,579</u>	<u>12,007,915</u>	<u>113,877,182</u>	<u>48,932,254</u>

Notes to the financial statements (continued)
for the year ended 31 December 2020

	31 December		31 December	
	2020	2019	2020	2019
	US\$	US\$	KHR'000 (Note 5)	KHR'000 (Note 5)
D. By currency:				
US\$	28,101,615	12,007,915	113,671,033	48,932,254
KHR	50,964	-	206,149	-
	<u>28,152,579</u>	<u>12,007,915</u>	<u>113,877,182</u>	<u>48,932,254</u>

	2020	2019
Fixed deposits	0.31% - 2.37%	2.10% - 2.37%

	31 December		31 December	
	2020	2019	2020	2019
	US\$	US\$	KHR'000 (Note 5)	KHR'000 (Note 5)
Borrowings – Liquidity Providing Collateralised Operation ("LPCO")	10,636,266	-	43,023,696	-
	31 December		31 December	
	2020	2019	2020	2019
	US\$	US\$	KHR'000 (Note 5)	KHR'000 (Note 5)
> 3 to 6 months	2,980,769	-	12,057,211	-
> 6 to 12 months	7,655,497	-	30,966,485	-
	10,636,266	-	43,023,696	-

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**Notes to the financial statements (continued)
for the year ended 31 December 2020**

17. Lease liabilities

	31 December		31 December	
	2020	2019	2020	2019
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
Present value of lease liabilities				
Current	181,863	177,236	735,636	722,236
Non-current	742,253	924,116	3,002,413	3,765,773
Total present value of lease liabilities	924,116	1,101,352	3,738,049	4,488,009

**Maturity analysis – contractual
undiscounted cash flows**

Less than one year	204,000	204,000	825,180	831,300
One to five years	782,000	1,020,000	3,163,190	4,156,500
More than five years	-	68,000	-	277,099
Total undiscounted lease liabilities	986,000	1,292,000	3,988,370	5,264,899

Amounts recognised in profit or loss

	2020	2019	2020	2019
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
Interest on lease liabilities	26,764	31,273	109,117	126,718
Expenses relating to short-term leases (Note 27)	15,850	11,550	64,620	46,801
	42,614	42,823	173,737	173,519

Amounts recognised in the statement of cash flows

	2020	2019	2020	2019
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
Total cash outflow for leases	204,000	204,000	831,708	826,608

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**Notes to the financial statements (continued)
for the year ended 31 December 2020**

18. Other liabilities

	31 December		31 December	
	2020	2019	2020	2019
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
Other tax payables	35,890	25,209	145,175	102,727
Accruals and other payables	87,917	43,297	355,623	176,434
	123,807	68,506	500,798	279,161

19. Provision for employee benefits

	31 December		31 December	
	2020	2019	2020	2019
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
Provision for seniority indemnity				
- Current	2,677	13,052	10,828	53,187
- Non-current	10,966	13,643	44,358	55,595
	13,643	26,695	55,186	108,782

This represents provision for seniority indemnity payments required by Prakas No. 443 issued by the Ministry of Labour and Vocational Training ("MoLVT") on 21 September 2018, and subsequently amended by the Instruction No. 042/19 dated 22 March 2019. It requires all employers, except for garment and footwear sector, to settle the seniority indemnity to their employee as follows:

- *Current pay:* starting from 2019 onwards at the amounts equal to 15 days of wages and other benefits per year.
- *Retrospective (back-pay):* starting from the end of December 2021 onwards at the amounts equal to 6 days of net wages per year. The provision of back-pay seniority indemnity is calculated at a maximum amount of 6 months net wages (depends on the length of the service employee served) to the employee who has seniority before 2019.

Payments will be made twice a year, in June and December respectively. Employee does not entitle to the remaining back-pay seniority indemnity which is not yet due, if he/she resigns from the Branch.

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**Notes to the financial statements (continued)
for the year ended 31 December 2020**

19. Provision for employee benefits (continued)

Movements of provision for employee benefits were as follows:

	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
At 1 January	26,695	34,294	108,782	137,793
Payments	(6,928)	-	(28,245)	-
Reversal	(6,124)	(7,599)	(24,968)	(30,791)
Currency translation difference	-	-	(383)	1,780
At 31 December	13,643	26,695	55,186	108,782

20. Income tax

A. Deferred tax – net

	31 December		31 December	
	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
Deferred tax assets	294,656	346,221	1,191,883	1,410,851
Deferred tax liabilities	(244,093)	(286,614)	(987,356)	(1,167,952)
Deferred tax assets – net	50,563	59,607	204,527	242,899

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

	31 December		31 December	
	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
Impairment loss allowance on financial instruments	65,383	86,760	264,474	353,548
Provision for employee benefits	2,729	5,339	11,039	21,756
Regulatory reserves	41	217	166	884
Lease liabilities	184,823	220,270	747,609	897,600
Deferred income	40,801	33,635	165,040	137,063
Rights-of-use of assets	(197,685)	(234,750)	(799,636)	(956,606)
Depreciation and amortisation	(46,408)	(51,864)	(187,720)	(211,346)
Unrealised exchange loss	879	-	3,555	-
	50,563	59,607	204,527	242,899

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**Notes to the financial statements (continued)
for the year ended 31 December 2020**

20. Income tax (continued)

A. Deferred tax – net (continued)

The movements of deferred tax were as follows:

	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
At 1 January	59,607	(2,972)	242,899	(11,942)
Recognised in profit or loss	(9,044)	62,579	(36,873)	253,570
Currency translation difference	-	-	(1,499)	1,271
At 31 December	50,563	59,607	204,527	242,899

B. Current income tax liabilities

	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
At 1 January	232,287	1,829	946,570	7,349
Recognised in profit or loss	296,681	256,823	1,209,568	1,040,647
Income tax paid	(265,373)	(26,373)	(1,081,926)	(106,863)
Income credit brought forward	-	8	-	32
Currency translation difference	-	-	(7,970)	5,405
At 31 December	263,595	232,287	1,066,242	946,570

In accordance with Cambodian Law on Taxation, the Branch has an obligation to pay corporate income tax of either the income tax at the rate of 20% of taxable income or the minimum tax at 1% of gross revenues, whichever is higher.

C. Income tax expense

	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
Current income tax	296,681	256,823	1,209,568	1,040,647
Deferred tax expense/(income)	9,044	(62,579)	36,873	(253,570)
	305,725	194,244	1,246,441	787,077

Notes to the financial statements (continued)
for the year ended 31 December 2020

C. Income tax expense (continued)

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

	2020			2019		
	US\$	KHR'000 (Note 5)	%	US\$	KHR'000 (Note 5)	%
Profit before income tax	1,504,796	6,135,054		908,166	3,679,889	
Income tax using statutory rate at 20%	300,959	1,227,010	20%	181,633	735,977	20%
Non-deductible expenses	4,766	19,431	0%	12,611	51,100	1%
Income tax expense	305,725	1,246,441		194,244	787,077	

The calculation of taxable income is subject to the final review and approval of the tax authorities.

Notes to the financial statements (continued)
for the year ended 31 December 2020

	31 December		31 December	
	2020	2019	2020	2019
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
Contributed capital	60,000,000	60,000,000	242,220,000	242,220,000

On 21 March 2018, the Branch requested to the National Bank of Cambodia to increase additional share capital amounting to US\$10 million to comply with the minimum requirement on the Branch's net worth. On 20 July 2018, the NBC issued a letter of approval on the request.

- Baa1 by Moody's Investors service;
- BBB+ by Standard and Poor's; and
- BBB+ by Fitch.

On 12 January 2021, the Branch notified to the NBC on the investment grade that rated BBB+ of its Head Office rating by S&P's, Baa1 by Moody's and BBB by Fitch's on 24 August 2020, 22 April 2020 and 2 April 2020 respectively.

Regulatory reserves represented the variance of provision between loan impairment in accordance with CIFRSs and regulatory provision in accordance with National Bank of Cambodia ("NBC").

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23. Interest income

	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
Loans and advances to customers	3,042,871	1,702,699	12,405,785	6,899,336
Placements with other banks	145,426	517,235	592,902	2,095,837
Placements with the NBC	34,816	46,120	141,945	186,878
	<u>3,223,113</u>	<u>2,266,054</u>	<u>13,140,632</u>	<u>9,182,051</u>

24. Interest expense

	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
Fixed deposits	384,952	17,755	1,569,449	71,944
Borrowings	120,165	-	489,913	-
Saving accounts	5,007	16,969	20,414	68,758
	<u>510,124</u>	<u>34,724</u>	<u>2,079,776</u>	<u>140,702</u>

25. Net fee and commission income

	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
<i>Fee and commission income:</i>				
Inward and outward remittance	186,099	140,628	758,726	569,825
Credit related fees	37,006	14,589	150,873	59,115
Other fees and commissions	88,265	112,395	359,856	455,424
	<u>311,370</u>	<u>267,612</u>	<u>1,269,455</u>	<u>1,084,364</u>
<i>Fee and commission expense:</i>				
Fee and commission paid to banks	28,034	5,591	114,295	22,655
SWIFT expense	12,640	7,684	51,532	31,135
	<u>40,674</u>	<u>13,275</u>	<u>165,827</u>	<u>53,790</u>
	<u>270,696</u>	<u>254,337</u>	<u>1,103,628</u>	<u>1,030,574</u>

**Branch of KASIKORNBANK Public Company Limited
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**Notes to the financial statements (continued)
for the year ended 31 December 2020**

26. Personnel expenses

	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
Salaries and wages	567,221	463,985	2,312,560	1,880,067
Fringe benefits – Management (Note 29B)	93,105	76,002	379,589	307,960
Other benefits	95,579	41,929	389,676	169,897
	<u>755,905</u>	<u>581,916</u>	<u>3,081,825</u>	<u>2,357,924</u>

27. Other operating expenses

	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
Depreciation and amortisation	417,183	404,702	1,700,855	1,639,853
Repairs and maintenance	151,152	116,276	616,247	471,150
License fees and other professional expenses	79,351	74,731	323,514	302,810
Insurance expense	40,229	36,979	164,014	149,839
Interest expense on lease liabilities	26,764	31,273	109,117	126,718
Other tax expenses	36,183	21,219	147,518	85,979
Utilities expenses	14,870	14,377	60,625	58,256
Other rental expenses (Note 17)	15,850	11,550	64,620	46,801
Communication	7,573	5,887	30,875	23,854
Travelling and entertainment	4,224	4,824	17,221	19,547
Office supplies	6,231	3,152	25,404	12,772
Public relations, marketing and advertising	1,361	1,309	5,549	5,304
Other expenses	29,004	14,414	118,248	58,405
	<u>829,975</u>	<u>740,693</u>	<u>3,383,807</u>	<u>3,001,288</u>

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Notes to the financial statements (continued) for the year ended 31 December 2020

28. Commitments and contingencies

A. Operations

- (i) In the normal course of business, the Branch makes various commitments and incurs certain contingencies with legal recourse to its customers. No material losses are anticipated from these transactions, which consist of:

	31 December		31 December	
	2020	2019	2020	2019
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
Unused portion of credit facilities	20,133,904	14,615,529	81,441,642	59,558,281
Banker's guarantees	1,020,000	-	4,125,900	-
Letters of credits	594,666	1,945,289	2,405,424	7,927,053
	<u>21,748,570</u>	<u>16,560,818</u>	<u>87,972,966</u>	<u>67,485,334</u>

The movements of impairment loss allowance for off-balance sheet are analysed as follows:

	2020	2019	2020	2019
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
At 1 January	73,002	7,716	297,483	31,003
(Reversal)/Allowance for the year (Note 9 (a)(ii))	(37,094)	65,286	(151,232)	264,539
Currency translation difference	-	-	(1,003)	1,941
At 31 December	<u>35,908</u>	<u>73,002</u>	<u>145,248</u>	<u>297,483</u>

- (ii) The Branch has the following outstanding capital commitments:

	31 December		31 December	
	2020	2019	2020	2019
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
Central Share Switch – Acleda Project	90,000	-	364,050	-
Central Share Switch – Just-In- Time Solutions	33,000	-	133,485	-
	<u>123,000</u>	<u>-</u>	<u>497,535</u>	<u>-</u>

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued) for the year ended 31 December 2020

28. Commitments and contingencies (continued)

B. Tax contingencies

Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges. The application of tax laws and regulations to many types of transactions are susceptible to varying interpretations.

These facts may create tax risks in Cambodia substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects on the Branch could be significant.

On 19 May 2020, the General Department of Taxation ("GDT") has issued a Notice of Tax Reassessment ("NTR") for comprehensive tax audit for the periods from 1 January 2017 to 31 December 2019. As of to date, there has not been any official response from the GDT yet.

29. Related parties

A. Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Branch if the Branch has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Branch and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

The Branch have related party relationships with its Head Office, the Head Office's substantial shareholders and their associates, and key management personnel.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Branch either directly or indirectly. The key management personnel include all the Management of the Branch.

Key management have banking relationships with the Branch entities which are entered into in the normal course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with other persons of a similar standing or, where applicable, with other employees. These transactions did not involve more than the normal risk of repayment or present other unfavourable features.

**Branch of KASIKORNBANK Public Company Limited
(Phnom Penh)**

**Notes to the financial statements (continued)
for the year ended 31 December 2020**

29. Related parties (continued)

B. Transactions with related parties

	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
Head Office				
- Interest income	1,564	215,372	6,375	872,687
- Interest expense	<u>292,061</u>	<u>7,915</u>	<u>1,190,731</u>	<u>32,072</u>
IT service from				
- Kasikom Soft Company Limited	126,415	14,506	515,394	58,778
- Kasikom Pro Company Limited	19,748	19,669	80,513	79,699
- Kasikom Serve Company Limited	<u>-</u>	<u>9,274</u>	<u>-</u>	<u>37,578</u>
Management remuneration				
- Salary for management	236,940	197,099	966,004	798,643
- Fringe benefits for management (Note 26)	<u>93,105</u>	<u>76,002</u>	<u>379,589</u>	<u>307,960</u>
	<u>330,045</u>	<u>273,101</u>	<u>1,345,593</u>	<u>1,106,603</u>

C. Balances with related party

	31 December 2020 US\$	2019 US\$	31 December 2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
Deposit and placement with Head Office				
- Saving account	1,932,945	9,473,959	7,818,763	38,606,381
- Current account	<u>142,711</u>	<u>123,045</u>	<u>577,266</u>	<u>501,408</u>
	<u>2,075,656</u>	<u>9,597,004</u>	<u>8,396,029</u>	<u>39,107,789</u>
Deposit and placement from Head Office				
- Fixed deposits	<u>28,041,140</u>	<u>10,007,915</u>	<u>113,426,411</u>	<u>40,782,254</u>

**Branch of KASIKORNBANK Public Company Limited
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**Notes to the financial statements (continued)
for the year ended 31 December 2020**

30. Financial risk management

A. Introduction and overview

The Branch has exposure to the following risks from financial instruments:

- credit risk;
- market risk;
- liquidity risk; and
- operational risk.

This note presents information about the Branch's exposure to each of the above risks, the Branch's objectives, policies and processes for measuring and managing risk, and the Branch's management of capital.

B. Credit risk

'Credit risk' is the risk of financial loss to the Branch if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Branch's loans and advances to customers and other banks, and investment debt securities. For risk management reporting purposes, the Branch considers and consolidates all elements of credit risk exposure – e.g. individual obligor default risk, country and sector risk.

Credit risk is the potential loss of revenue and principal losses arising mainly from loans and advances and loan commitments as a result of default by the borrowers or counterparties through its lending activities.

(i). Management of credit risk

The Branch conducted the credit risk management process as follows:

- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Establishing the authorisation structure* for the approval and renewal of credit facilities. To achieve standardised quality control that is in line with KASIKORNBANK's strategy, the approval process has been centralised at the Head Office in Thailand. It will be carried out with prudent and efficient underwriting approach under delegated lending authority.
- *Reviewing and assessing credit risk* Branch Credit assesses all credit exposures in excess of designated limits, before facilities are committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- *Limiting concentrations of exposure* to counterparties, geographies and industries (for loans and advances, financial guarantees and similar exposures).

**Branch of KASIKORNBANK Public Company Limited
(Phnom Penh)**

**Notes to the financial statements (continued)
for the year ended 31 December 2020**

30. Financial risk management (continued)

B. Credit risk (continued)

(i). Management of credit risk (continued)

- *Developing and maintaining the Branch's risk gradings to categorise exposures according to the degree of risk of default. The responsibility for setting risk grades lies with the final approving executive or committee, as appropriate. Risk grades are subject to regular reviews by Branch Risk.*
- *Developing and maintaining the Branch's processes for measuring ECL: This includes processes for:*
 - *initial approval, regular validation and back-testing of the models used;*
 - *determining and monitoring significant increase in credit risk; and*
 - *incorporation of forward-looking information.*
- *Reviewing compliance of business units with agreed exposure limits, including those for selected industries and product types. Regular reports on the credit quality of local portfolios are provided to Branch Credit, which may require appropriate corrective action to be taken. These include reports containing estimates of ECL allowances.*
- *Providing advice, guidance and specialist skills to business units to promote best practice throughout the Branch in the management of credit risk.*

Each business unit is required to implement Branch credit policies and procedures, and procedures. For effective credit risk measurement and control for oversea branches, the Branch reports risk status in all aspects to the head quarter in Thailand regularly. The proactive actions are desired and timely managed. The measurement indicator is designed according to the local regulatory requirement and portfolio complication. The examples of measurement and reporting are portfolio status, Credit Risk Concentration, Risk Adjusted Return on Capital (RAROC), NPL Ratio.

Regular audits of business units and Branch Credit processes are undertaken by Internal Audit.

**Branch of KASIKORNBANK Public Company Limited
(Phnom Penh)**

**Notes to the financial statements (continued)
for the year ended 31 December 2020**

30. Financial risk management (continued)

B. Credit risk (continued)

(i). Management of credit risk (continued)

(ii). Concentration of risk

Concentration arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features and would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration indicates the relative sensitivity of the Branch's performance to developments affecting a particular industry or geographic location.

The following table presents the Branch's maximum exposure to credit risk of on-balance sheet and off-balance sheet financial instruments, without taking into account of any collateral held or other credit enhancements. For on-balance sheet assets, the exposure to credit risk equals their carrying amount. For contingent liabilities, the maximum exposure to credit risk is the maximum amount that the Branch would have to pay if the obligations of the instruments issued are called upon. For credit commitments, the maximum exposure to credit risk is the full amount of the undrawn credit facilities granted to customers.

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued) for the year ended 31 December 2020

30. Financial risk management (continued)

B. Credit risk (continued)

(ii). Concentration of risk (continued)

Type of credit exposure

	Maximum credit exposure US\$	Maximum credit exposure KHR'000 (Note 5)	Fully subject to collateral/credit enhancement %	Partially subject to collateral/ credit enhancement %	Unsecured and not subject to collateral/ credit enhancement %
31 December 2020					
On-balance sheet					
Cash and cash equivalents	10,976,656	44,400,573	-	-	100%
Loans and advances to customers	76,432,879	309,170,995	69%	-	31%
Other assets	112,550	455,265	-	-	100%
Total	87,522,085	354,026,833			
Off-balance sheet					
Contingent liabilities	1,614,666	6,531,324	100%	-	-
Commitments	20,133,904	81,441,642	84%	-	16%
Total	21,748,570	87,972,966			

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued) for the year ended 31 December 2020

30. Financial risk management (continued)

B. Credit risk (continued)

(ii). Concentration of risk (continued)

Type of credit exposure (continued)

	Maximum credit exposure US\$	Maximum credit exposure KHR'000 (Note 5)	Fully subject to collateral/credit enhancement %	Partially subject to collateral/ credit enhancement %	Unsecured and not subject to collateral/ credit enhancement %
31 December 2019					
On-balance sheet					
Cash and cash equivalents	18,079,121	73,672,418	-	-	100%
Placements with other banks	100,027	407,610	-	-	100%
Loans and advances to customers	54,428,778	221,797,270	55%	-	45%
Other assets	144,600	589,244	-	-	100%
Total	72,752,526	296,466,542			
Off-balance sheet					
Contingent liabilities	1,945,289	7,927,053	100%	-	-
Commitments	14,615,529	59,568,281	44%	-	56%
Total	16,560,818	67,485,334			

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued) for the year ended 31 December 2020

30. Financial risk management (continued)

B. Credit risk (continued)

(ii). Concentration of risk (continued)

Concentration risk by industrial sectors

31 December 2020	Cash and cash equivalents US\$	Loans and advances to customers US\$	Other assets US\$	Total US\$
Financial institutions	10,976,656	15,652,532	-	26,629,188
Manufacturing	-	24,053,632	-	24,053,632
Services	-	18,662,002	-	18,662,002
Agriculture	-	10,875,872	-	10,875,872
Others	-	7,188,841	112,550	7,301,391
Total	10,976,656	76,432,879	112,550	87,522,085
Total (KHR000 – Note 5)	44,400,573	309,170,995	455,265	354,026,833

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued) for the year ended 31 December 2020

30. Financial risk management (continued)

B. Credit risk (continued)

(ii). Concentration of risk (continued)

Concentration risk by industrial sectors (continued)

31 December 2019	Cash and cash equivalents US\$	Placements with other banks US\$	Loans and advances to customers US\$	Other assets US\$	Total US\$
Financial institutions	18,079,121	100,027	17,115,469	-	35,294,617
Manufacturing	-	-	20,249,687	-	20,249,687
Services	-	-	16,110,062	-	16,110,062
Export	-	-	953,560	-	953,560
Others	-	-	-	144,600	144,600
Total	18,079,121	100,027	54,428,778	144,600	72,752,526
Total (KHR000 – Note 5)	73,672,418	407,610	221,797,270	589,244	296,466,542

**Branch of KASIKORNBANK Public Company Limited
(Phnom Penh)**

**Notes to the financial statements (continued)
for the year ended 31 December 2020**

30. Financial risk management (continued)

B. Credit risk (continued)

(ii). Concentration of risk (continued)

Concentration risk by residency and relationship, and large-exposures for gross amount of loans and advances:

	31 December		31 December	
	2020	2019	2020	2019
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
By residency status:				
Residents	<u>76,432,879</u>	<u>54,428,778</u>	<u>309,170,995</u>	<u>221,797,270</u>
By relationship:				
External customers	<u>76,432,879</u>	<u>54,428,778</u>	<u>309,170,995</u>	<u>221,797,270</u>
By exposure:				
Large exposures (*)	<u>33,331,690</u>	<u>26,883,815</u>	<u>134,826,686</u>	<u>109,551,546</u>
Non-large exposures	<u>43,101,189</u>	<u>27,544,963</u>	<u>174,344,309</u>	<u>112,245,724</u>
	<u>76,432,879</u>	<u>54,428,778</u>	<u>309,170,995</u>	<u>221,797,270</u>

(*) A "large exposure" is defined under the NBC's Prakas as the overall gross exposure of the aggregate balance of loans and advances with one single beneficiary, which exceeds 10% of the Branch's net worth. The exposure is the higher of the outstanding loans or commitments and the authorised loans or commitments.

(iii). Collateral

Whilst the Branch's maximum exposure to credit risk is the carrying amount of the assets or, in the case of off-balance sheet instruments, the amount guaranteed, committed, accepted or endorsed, the likely exposure may be lower due to offsetting collateral, credit guarantees and other actions taken to mitigate the Branch's exposure.

The description of collateral for each class of financial asset is set out below.

**Branch of KASIKORNBANK Public Company Limited
(Phnom Penh)**

**Notes to the financial statements (continued)
for the year ended 31 December 2020**

30. Financial risk management (continued)

B. Credit risk (continued)

(iii). Collateral (continued)

Cash and cash equivalents, balances with NBC, placements with other banks and other assets

Collateral is generally not sought for these assets.

Loans and advances to customers, contingent liabilities and commitments

Certain Loans and advances to customers, contingent liabilities and commitments are typically collateralised to a substantial extent. In particular, residential mortgage exposures are generally fully secured by residential properties.

The table below summarises the Branch's security coverage of its financial assets:

	Collateral credit enhancement		Unsecured	
	Properties	Others	credit exposure	Total
	US\$	US\$	US\$	US\$
31 December 2020				
Loan and advances to customers	27,231,182	25,158,647	24,043,050	76,432,879
Contingent liabilities	1,614,666	-	-	1,614,666
Commitments	<u>1,663,640</u>	<u>15,344,808</u>	<u>3,125,456</u>	<u>20,133,904</u>
	<u>30,509,488</u>	<u>40,503,455</u>	<u>27,168,506</u>	<u>98,181,449</u>
31 December 2019				
Loan and advances to customers	13,587,250	16,480,334	24,361,194	54,428,778
Contingent liabilities	700,000	1,245,289	-	1,945,289
Commitments	<u>1,386,524</u>	<u>5,018,348</u>	<u>8,210,657</u>	<u>14,615,529</u>
	<u>15,673,774</u>	<u>22,743,971</u>	<u>32,571,851</u>	<u>70,989,596</u>

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued) for the year ended 31 December 2020

30. Financial risk management (continued)

B. Credit risk (continued)

(iv). Credit quality of gross loans and advances to customers

Pursuant to the NBC guideline Prakas B7.017.344, it has defined each credit grading according to its credit quality as follows:

Normal

Outstanding facility is repaid on timely manner and is not in doubt for the future repayment. Repayment is steadily made according with the contractual terms and the facility does not exhibit any potential weakness in repayment capability, business, cash flow and financial position of the counterparty.

Special mention

A facility in this class is currently protected and may not be past due but it exhibits potential weaknesses that may adversely affect repayment of the counterparty at the future date, if not corrected in a timely manner, and close attention by the Institution.

Weaknesses include but are not limited to a declining trend in the business operations of the counterparty or in its financial position, and adverse economic and market conditions that all might affect its profitability and its future repayment capacity, or deteriorating conditions on the collateral. This class has clearly its own rational and should not be used as a compromise between Normal and Substandard.

Substandard

A facility ranked in this class exhibits noticeable weakness and is not adequately protected by the current business or financial position and repayment capacity of the counterparty. In essence, the primary source of repayment is not sufficient to service the debt, not taking into account the income from secondary sources such as the realisation of the collateral.

Factors leading to a substandard classification include:

- Inability of the counterparty to meet the contractual repayments' terms,
- Unfavourable economic and market conditions that would adversely affect the business and profitability of the counterparty in the future,
- Weakened financial condition and/or inability of the counterparty to generate enough cash flow to service the payments,
- Difficulties experienced by the counterparty in repaying other facilities granted by the Institution or by other institutions when the information is available, and
- Breach of financial covenants by the counterparty,

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued) for the year ended 31 December 2020

30. Financial risk management (continued)

B. Credit risk (continued)

(iv). Credit quality of gross loans and advances to customers (continued)

Doubtful

A facility classified in this category exhibits more severe weaknesses than one classified as Substandard such that its full collection on the basis of existing facts, conditions or collateral value is highly questionable or improbable. The prospect of loss is high, even if the exact amount remains undetermined for now.

Loss

A facility is classified Loss when it is not collectable, and little or nothing can be done to recover the outstanding amount from the counterparty.

Recognition of ECL

The Branch apply a three-stage approach based on the change in credit quality since initial recognition:

3-Stage approach	Stage 1	Stage 2	Stage 3
	Performing	Under-performing	Non-performing
Recognition of expected credit losses	12 months expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses
Criterion	No significant increase in credit risk	Credit risk increased significantly	Credit impaired assets
Basic of calculation of interest income	On gross carrying amount	On gross carrying amount	On net carrying amount

The Branch measures ECL by using the general approach. The general approach consists of segregating the customers into three different stages according to the staging criteria by assessing the credit risk. 12-month ECL will be computed for stage 1, while lifetime ECL will be computed for stage 2 and stage 3. At each reporting date, the Branch will assess credit risk of each account as compared to the risk level at origination date.

**Branch of KASIKORNBANK Public Company Limited
(Phnom Penh)**

**Notes to the financial statements (continued)
for the year ended 31 December 2020**

30. Financial risk management (continued)

B. Credit risk (continued)

(iv). Credit quality of gross loans and advances to customers (continued)

Recognition of ECL (continued)

Long-term facilities (more than one year)

Stages	Credit Risk Status	Grades	DPD	Default Indicator
1	No significant increase in credit risk	Normal	$0 \leq \text{DPD} < 30$	Performing
2	Credit risk increased significantly	Special Mention	$30 \leq \text{DPD} < 90$	Underperforming
3	Credit impaired assets	Substandard	$90 \leq \text{DPD} < 180$	Non-performing
		Doubtful	$180 \leq \text{DPD} < 360$	
		Loss	$\text{DPD} \geq 360$	

Short-term facilities (one year or less)

Stages	Credit Risk Status	Grades	DPD	Default Indicator
1	No significant increase in credit risk	Normal	$0 \leq \text{DPD} \leq 14$	Performing
2	Credit risk increased significantly	Special Mention	$15 \leq \text{DPD} \leq 30$	Under-performing
3	Credit impaired assets	Substandard	$31 \leq \text{DPD} \leq 60$	Non-performing
		Doubtful	$61 \leq \text{DPD} \leq 90$	
		Loss	$\text{DPD} \geq 91$	

The Branch will use the Day Past Due ("DPD") information for staging criteria. Also, the Branch will incorporate credit scoring or more forward-looking elements in the future when information is more readily available. Upon the implementation of credit scoring system, the value of notches changes serves as the quantitative figures that will be used in consideration of stage allocation.

**Branch of KASIKORNBANK Public Company Limited
(Phnom Penh)**

**Notes to the financial statements (continued)
for the year ended 31 December 2020**

30. Financial risk management (continued)

B. Credit risk (continued)

(iv). Credit quality of gross loans and advances to customers (continued)

Recognition of ECL (continued)

The table below summarises the credit quality of the Branch's gross financing according to the above classifications.

	31 December 2020			
	Stage 1 US\$	Stage 2 US\$	Stage 3 US\$	Total US\$
Loans and advances to customers at amortised cost				
Normal	75,479,612	-	-	75,479,612
Special Mention	-	953,267	-	953,267
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	-	-
Loss allowance	(270,318)	(20,686)	-	(291,004)
Carrying amount	75,209,294	932,581	-	76,141,875
Carrying amount (KHR'000 – Note 5)	304,221,594	3,772,290	-	307,993,884
	31 December 2019			
	Stage 1 US\$	Stage 2 US\$	Stage 3 US\$	Total US\$
Loans and advances to customers at amortised cost				
Normal	54,428,778	-	-	54,428,778
Special Mention	-	-	-	-
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	-	-
Loss allowance	(360,802)	-	-	(360,802)
Carrying amount	54,067,976	-	-	54,067,976
Carrying amount (KHR'000 – Note 5)	220,327,002	-	-	220,327,002

**Branch of KASIKORNBANK Public Company Limited
(Phnom Penh)**

**Notes to the financial statements (continued)
for the year ended 31 December 2020**

30. Financial risk management (continued)

B. Credit risk (continued)

(iv). Credit quality of gross loans and advances to customers (continued)

Incorporation of forward-looking information

The Branch incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

External information considered includes economic data and forecasts published by governmental bodies and monetary authorities, supranational organisations such as the International Monetary Fund, and selected private-sector and academic forecasters.

The Branch uses an analysis of historical data, estimates relationships between macro-economic variables and credit risk and credit losses.

The ECL was estimated based on a range of forecast economic conditions as at reporting date. The Novel Coronavirus (Covid-19) outbreak has spread across mainland China, Cambodia and beyond, causing disruption to business and economic activity. The impact on Gross Domestic Product ("GDP") and other key indicators will be considered when determining the severity and likelihood of downside economic scenarios that are used to estimate ECL. While Covid-19 outbreak is an important factor leading to increase in ECL, the Branch's ECL decreased as a result of strengthening credit risk management process for new customers during the year (causing a drop down of risk level from 89% in previous year to 87% in the current year) and change in portion of loan outstanding that backed by the fixed assets as collateral from 25% in previous year to 35% in the current year.

Additionally, National Bank of Cambodia has issued a circular on loan restructuring during Covid-19 outbreak which requires the institutions to work constructively with affected borrowers and allows for loan restructuring for priority sectors. As a result, the Branch has provided a restructuring loan amounting to US\$4,830,000 and the restructured loan should be downgraded the staging if the borrower restructure more than once which might result in higher credit impairment expenses being recognised during the period.

The calculation of the ECL in this current environment is subject to significant uncertainty. Management provides its best estimate on the possible outcomes of Covid-19 on the Branch; however, this estimate may move materially as events unfold. Consequently, this number should not be seen as firm guidance or a forecast as to the final financial impacts expected. In the event the impacts are more severe or prolonged than anticipated in the scenarios, this will have a corresponding impact on the ECL, the financial position and performance of the Branch.

**Branch of KASIKORNBANK Public Company Limited
(Phnom Penh)**

**Notes to the financial statements (continued)
for the year ended 31 December 2020**

30. Financial risk management (continued)

B. Credit risk (continued)

(v). Amounts arising from ECL

Loss allowance

The following tables show reconciliation from the opening to the closing balance of the loss allowance by class of financial instrument.

	2020			Total US\$
	Stage 1 US\$	Stage 2 US\$	Stage 3 US\$	
Loans and advances to customers at amortised cost				
Balance at 1 January	360,802	-	-	360,802
- Transfer to Stage 1	-	-	-	-
- Transfer to Stage 2	-	-	-	-
- Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	(156,417)	-	-	(156,417)
New financial assets originated or purchased	100,309	20,686	-	120,995
Financial assets that been derecognised	(34,376)	-	-	(34,376)
Write-offs	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-
Changes in models/risk parameters	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Balance at 31 December	270,318	20,686	-	291,004
Balance at 31 December (KHR'000 – Note 5)	1,093,436	83,675	-	1,177,111

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued) for the year ended 31 December 2020

30. Financial risk management (continued)

B. Credit risk (continued)

(v). Amounts arising from ECL (continued)

Loss allowance (continued)

	2019			
	Stage 1 US\$	Stage 2 US\$	Stage 3 US\$	Total US\$
Loans and advances to customers at amortised cost				
Balance at 1 January	136,506	-	-	136,506
- Transfer to Stage 1	-	-	-	-
- Transfer to Stage 2	-	-	-	-
- Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	(82,174)	-	-	(82,174)
New financial assets originated or purchased	306,470	-	-	306,470
Financial assets that been derecognised	-	-	-	-
Write-offs	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-
Changes in models/risk parameters	-	-	-	-
Foreign exchange and other movements	-	-	-	-
Balance at 31 December	360,802	-	-	360,802
Balance at 31 December (KHR'000 – Note 5)	1,470,268	-	-	1,470,268

C. Market risk

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

(i). Interest rate risk

Interest rate risk refers to the volatility in net interest income as a result of changes in the levels of interest rate and shifts in the composition of the assets and liabilities. Interest rate risk is managed through close monitoring of returns on investment, market pricing and cost of funds. The potential reduction in net interest income from an unfavourable interest rate movement is regularly monitored against the risk tolerance limits set.

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued) for the year ended 31 December 2020

30. Financial risk management (continued)

C. Market risk (continued)

(i). Interest rate risk (continued)

The table below summarises the Branch's exposure to interest rate risk. The table indicates the periods in which the financial instruments reprice or mature, whichever is earlier.

As at 31 December 2020	Up to 1 month US\$	> 1-3 months US\$	> 3-6 months US\$	> 6-12 months US\$	> 1 to 5 years US\$	Over 5 years US\$	Non-interest bearing US\$	Total US\$	Interest rate %
Financial assets									
Cash and cash equivalents	-	1,370,006	-	-	-	-	10,945,096	12,315,102	nil - 0.08%
Placements with other banks	-	-	5,054,034	5,725,917	-	-	-	10,779,951	0.08% - 0.44%
Loans and advances to customers	9,564,225	13,084,139	10,896,754	1,780,743	27,982,074	13,124,944	-	76,432,879	2.64% - 7.00%
Other assets	-	-	-	-	-	-	112,550	112,550	nil
	9,564,225	14,454,145	15,950,788	7,506,660	27,982,074	13,124,944	11,057,646	99,640,482	
Financial liabilities									
Deposits from customers	-	152,681	-	10,224	-	-	8,542,932	8,705,837	nil - 2.52%
Deposits from other banks	-	-	13,003,613	15,037,527	-	-	111,439	28,152,579	0.31% - 2.37%
Borrowings	-	-	4,992,699	5,643,567	-	-	-	10,636,266	2.40% - 2.50%
Lease liabilities	15,010	30,018	45,316	91,517	742,253	-	-	924,116	2.59%
Employee benefits	-	-	-	-	-	-	13,643	13,643	nil
Other liabilities	-	-	-	-	-	-	87,917	87,917	nil
	15,010	182,699	18,041,630	20,762,835	742,253	-	8,755,931	48,620,358	
Interest sensitivity gap	9,549,215	14,271,446	(2,090,842)	(13,276,175)	27,239,821	13,124,944	2,301,715	51,120,124	
(KHR'000 equivalents - Note 5)	38,626,575	57,727,999	(8,457,456)	(53,702,129)	110,185,076	53,090,388	9,310,437	205,780,901	

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued) for the year ended 31 December 2020

30. Financial risk management (continued)

C. Market risk (continued)

(i). Interest rate risk (continued)

The table below summarises the Branch's exposure to interest rate risk. The table indicates the periods in which the financial instruments repriced or mature, whichever is earlier. (continued)

As at 31 December 2019	Up to 1 month US\$	> 1-3 months US\$	> 3-6 months US\$	> 6-12 months US\$	> 1 to 5 years US\$	Over 5 years US\$	Non-interest bearing US\$	Total US\$	Interest rate %
Financial assets									
Cash and cash equivalents	2,010,274	4,012,474	-	-	-	-	14,155,271	20,181,019	nil - 2.67%
Placements with other banks	-	-	100,027	-	-	-	-	100,027	2.50% - 2.55%
Loans and advances to customers	953,339	10,347,268	7,414,278	2,490,390	22,764,246	10,439,267	-	54,428,778	4.50% - 6.80%
Other assets	2,953,613	14,359,742	7,514,305	2,490,390	22,764,246	10,439,267	144,600	144,600	nil
Financial liabilities									
Deposits from customers	-	126,014	-	-	-	-	11,351,713	11,477,727	nil - 2.52%
Deposits from other banks	-	2,000,000	-	10,007,915	-	-	-	12,007,915	2.10% - 2.37%
Lease liabilities	14,628	29,254	44,165	89,189	924,116	-	26,695	1,101,352	2.59%
Employee benefits	-	-	-	-	-	-	43,297	43,297	nil
Other liabilities	14,628	2,155,268	44,165	10,097,104	924,116	-	11,421,705	24,656,986	nil
Interest sensitivity gap	2,948,985	12,204,474	7,470,140	(7,606,724)	21,860,130	10,439,267	2,881,166	50,197,438	
(KHR'000 equivalents - Note 5)	12,017,114	49,733,232	30,440,821	(30,997,400)	89,090,030	42,540,013	11,740,750	204,554,560	

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued) for the year ended 31 December 2020

30. Financial risk management (continued)

C. Market risk (continued)

(i). Interest rate risk (continued)

A change of 100 basis points in interest rates at the reporting date would have increased/ (decreased) equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or loss		Equity	
	100 bp Increase US\$	100 bp Decrease US\$	100 bp Increase US\$	100 bp Decrease US\$
31 December 2020				
Variable rate instruments	64,250	(64,250)	64,250	(64,250)
KHR'000 – Note 5	261,947	(261,947)	261,947	(261,947)
31 December 2019				
Variable rate instruments	21,845	(21,845)	467,605	(467,605)
KHR'000 – Note 5	88,515	(88,515)	1,894,737	(1,894,737)

(ii). Foreign currency exchange risk

Foreign currency exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

The Branch has no material exposures to foreign currency exchange risk as it transacts essentially in US Dollars. Therefore, no sensitivity analysis for foreign currency exchange risk was presented.

**Branch of KASIKORNBANK Public Company Limited
(Phnom Penh)**

Notes to the financial statements (continued)
for the year ended 31 December 2020

30. Financial risk management (continued)

C. Market risk (continued)

(ii). Foreign currency exchange risk (continued)

Concentration of currency risk

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

31 December 2020	Denomination US\$ equivalents			Total
	KHR	US\$	THB	
Financial assets				
Cash and cash equivalents	275,089	11,897,302	142,711	12,315,102
Placements with other banks	-	10,779,951	-	10,779,951
Loans and advances to customers	10,924,205	65,508,674	-	76,432,879
Other assets	-	112,550	-	112,550
	<u>11,199,294</u>	<u>88,298,477</u>	<u>142,711</u>	<u>99,640,482</u>
Financial liabilities				
Deposits from customers	21,664	8,635,208	48,965	8,705,837
Deposits from other banks	50,964	28,101,615	-	28,152,579
Borrowings	10,636,266	-	-	10,636,266
Lease liabilities	-	924,116	-	924,116
Employee benefits	-	13,643	-	13,643
Other liabilities	1,494	8,859	77,564	87,917
	<u>10,710,388</u>	<u>37,683,441</u>	<u>126,529</u>	<u>48,520,358</u>
Net asset position	<u>488,906</u>	<u>50,615,036</u>	<u>16,182</u>	<u>51,120,124</u>
KHR'000 equivalents (Note 5)	<u>1,977,625</u>	<u>204,737,821</u>	<u>65,455</u>	<u>206,780,901</u>

**Branch of KASIKORNBANK Public Company Limited
(Phnom Penh)**

Notes to the financial statements (continued)
for the year ended 31 December 2020

30. Financial risk management (continued)

C. Market risk (continued)

(ii). Foreign currency exchange risk (continued)

Concentration of currency risk (continued)

The amounts of financial assets and liabilities, by currency denomination, are as follows:
(continued)

31 December 2019	Denomination US\$ equivalents			Total
	KHR	US\$	THB	
Financial assets				
Cash and cash equivalents	208,367	19,872,351	123,045	20,203,763
Placements with other banks	-	100,027	-	100,027
Loans and advances to customers	8,564,187	45,864,591	-	54,428,778
Other assets	-	144,600	-	144,600
	<u>8,772,554</u>	<u>65,981,569</u>	<u>123,045</u>	<u>74,877,168</u>
Financial liabilities				
Deposits from customers	26,319	11,330,428	120,980	11,477,727
Deposits from other banks	-	12,007,915	-	12,007,915
Lease liabilities	-	1,101,352	-	1,101,352
Employee benefits	-	26,695	-	26,695
Other liabilities	-	43,297	-	43,297
	<u>26,319</u>	<u>24,509,687</u>	<u>120,980</u>	<u>24,656,986</u>
Net asset position	<u>8,746,235</u>	<u>41,471,882</u>	<u>2,065</u>	<u>50,220,182</u>
KHR'000 equivalents (Note 5)	<u>35,640,908</u>	<u>168,997,919</u>	<u>8,415</u>	<u>204,647,242</u>

**Branch of KASIKORNBANK Public Company Limited
(Phnom Penh)**

**Notes to the financial statements (continued)
for the year ended 31 December 2020**

30. Financial risk management (continued)

C. Market risk (continued)

(ii). Foreign currency exchange risk (continued)

Sensitivity analysis

Considering that other risk variables remain constant, the foreign currency revaluation sensitivity for the Branch as at reporting date is summarised as follows (only exposures in currencies that accounts for more than 5 percent of the net open positions are shown in its specific currency in the table below. For other currencies, these exposures are grouped as 'Others'):

	31 December 2020		31 December 2019	
	- 1%	+ 1%	- 1%	+ 1%
	Depreciation US\$	Appreciation US\$	Depreciation US\$	Appreciation US\$
KHR	(4,889)	4,889	(87,462)	87,462
THB	(162)	162	(21)	21
	<u>(5,051)</u>	<u>5,051</u>	<u>(87,483)</u>	<u>87,483</u>
KHR'000 – Note 5	<u>(20,431)</u>	<u>20,431</u>	<u>(356,493)</u>	<u>356,493</u>

D. Liquidity risk

'Liquidity risk' is the risk that the Branch will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises from mismatches in the timing and amounts of cash flows, which is inherent to the Branch's operations and investments.

Management of liquidity risk

The Branch manages its liquidity by establishing the liquidity policy as well as monitoring liquidity on an ongoing basis. A Minimum Liquid Asset requirement has been established to ensure that the ratio of liquid assets to qualifying liabilities is subject to a minimum threshold at all times.

The table below summarises the Branch's liabilities based on remaining contractual maturities. The expected cash flows of these liabilities could vary significantly from what is shown in the table. For example, deposits from customers are not all expected to be withdrawn immediately.

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

**Notes to the financial statements (continued)
for the year ended 31 December 2020**

30. Financial risk management (continued)

D. Liquidity risk (continued)

As at 31 December 2020	Up to 1 month US\$	> 1-3 months US\$	> 3-6 months US\$	> 6-12 months US\$	> 1 to 5 months US\$	Over 5 years US\$	Total US\$
Financial liabilities							
Deposits from customers	8,542,932	152,681	-	10,224	-	-	8,705,837
Deposits from other banks	111,439	-	13,003,613	15,037,527	-	-	28,152,579
Borrowings	-	-	4,992,699	5,643,567	-	-	10,636,266
Lease liabilities	15,010	30,018	45,318	91,517	742,253	-	924,116
Employee benefits	-	-	-	2,677	9,835	1,131	13,643
Other liabilities	87,917	-	-	-	-	-	87,917
	<u>8,757,298</u>	<u>182,699</u>	<u>18,041,630</u>	<u>20,785,512</u>	<u>752,088</u>	<u>1,131</u>	<u>48,520,358</u>
(KHR'000 equivalents - Note 5)	<u>35,423,270</u>	<u>739,018</u>	<u>72,978,393</u>	<u>84,077,397</u>	<u>3,042,196</u>	<u>4,575</u>	<u>196,264,849</u>

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued) for the year ended 31 December 2020

30. Financial risk management (continued)

D. Liquidity risk (continued)

As at 31 December 2019	Up to 1 month US\$	> 1-3 months US\$	> 3-6 months US\$	> 6-12 months US\$	> 1 to 5 months US\$	Over 5 years US\$	Total US\$
Financial liabilities							
Deposits from customers	11,360,409	117,318	-	-	-	-	11,477,727
Deposits from other banks	-	2,000,000	-	10,007,915	-	-	12,007,915
Lease liabilities	14,628	29,254	44,165	89,189	924,116	-	1,101,352
Employee benefits	-	-	13,052	-	8,785	4,858	26,695
Other liabilities	43,297	-	-	-	-	-	43,297
	11,418,334	2,146,572	57,217	10,097,104	932,901	4,858	24,656,986
(KHR'000 equivalents - Note 5)	46,529,711	8,747,281	233,159	41,145,699	3,801,572	19,796	100,477,218

E. Operational risk

The operational risk is the risk of losses arising from inadequate or failed internal processes, people or systems or from external factors. This risk is managed through established operational risk management processes, proper monitoring and reporting of the business activities by control and oversight provided by the senior Management.

The operational risk management entails the establishment of clear organizational structures, roles and control policies. Various internal control policies and measures have been implemented. These include the establishment of signing authorities, defining system parameters controls, monitoring control efficiency indicator, streamlining procedures and documentation ensuring compliance with regulatory, requirements and Branch wide internal policies. These are reviewed continually to address the operational risks of its banking business.

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued) for the year ended 31 December 2020

30. Financial risk management (continued)

F. Capital management

(i). Regulatory capital

The Branch's objectives when managing capital, which is a broader concept than the "equity" on the face of the statement of financial position, are:

- To comply with the capital requirements set by the NBC;
- To safeguard the Branch's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of the business.

The Branch'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 shareholders' return is also recognised and the Branch recognised the need to maintain a balance between the higher returns that might be possible with greater gearing and advantages and security afforded by a sound capital position.

The above regulated capital is calculated in accordance with the guidance issued by the NBC which may be different in some material respects compared to generally accepted principles applied by financial institutions in other jurisdiction. The above regulated capital information is therefore not intended for users who are not informed about the guidance issued by the NBC.

(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.

31. Fair values of financial assets and liabilities

Financial instruments comprise financial assets, financial liabilities and off-statement of financial position instruments. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Branch has access at that date. The information presented herein represents the estimates of fair values as at the financial position date.

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued) for the year ended 31 December 2020

31. Fair values of financial assets and liabilities (continued)

Quoted and observable market prices, where available, are used as the measure of fair values of the financial instruments. Where such quoted and observable market prices are not available, fair values are estimated based on a range of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors.

Fair value information for non-financial assets and liabilities are excluded as they do not fall within the scope of CIFRS 7: *Financial Instruments Disclosures* which requires the fair value information to be disclosed. These include investment in subsidiaries and property and equipment.

The fair value of the Branch's financial instruments such as cash and short-term funds, balances with Prakash, deposits and placements with banks and other financial institutions, deposits from customers and banks, other assets, other liabilities and short-term borrowings are not materially sensitive to shifts in market profit rate because of the limited term to maturity of these instruments. As such, the carrying value of these financial assets and liabilities at financial position date approximate their fair values.

The fair values are based on the following methodologies and assumptions:

Financing, advances and others

The fair value is estimated by discounting the estimated future cash flows using the prevailing market rates of financing with similar credit risks and maturities.

Fair value hierarchy

CIFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources and unobservable inputs reflect the Branch's market assumptions. The fair value hierarchy is as follows:

- Level 1 – Quoted price (unadjusted) in active markets for the identical assets or liabilities. This level includes listed equity securities and debt instruments.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3 – Inputs for asset or liability that are not based on observable market data (unobservable inputs). This level includes equity instruments and debt instruments with significant unobservable components.

The Branch's financial assets and liability are not measured at fair value. As verifiable market prices are not available, market prices are not available for a significant proportion of the Branch's financial assets and liabilities, the 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 statement of financial position are a reasonable estimation of their fair values.

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued) for the year ended 31 December 2020

32. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

A. Basis of measurement

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

B. Foreign currency

Transactions in foreign currencies are translated into the functional currency of at the exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

C. Financial assets and financial liabilities

(i). Recognition and initial measurement

The Branch initially recognises loans and advances, investment and borrowings on the date on which they are originated. All other financial instruments are recognised on the trade date, which is the date on which the Branch becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

(ii). Classification

Financial assets

On initial recognition, a financial asset is classified as measured at amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued)
for the year ended 31 December 2020

32. Significant accounting policies (continued)

C. Financial assets and financial liabilities

(ii). Classification (continued)

Financial assets (continued)

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Branch may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Branch may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Branch's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Branch's stated objective for managing the financial assets is achieved and how cash flows are realised.

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued)
for the year ended 31 December 2020

32. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(ii). Classification (continued)

Financial assets (continued)

Business model assessment (continued)

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Branch considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Branch considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Branch's claim to cash flows from specified assets (e.g. non-recourse loans); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Non-recourse loans

The Branch typically considers the following information when making this judgement:

- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Branch's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Branch will benefit from any upside from the underlying assets.

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued)
for the year ended 31 December 2020

32. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(ii). Classification (continued)

Financial assets (continued)

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Branch changes its business model for managing financial assets.

(iii). Derecognition

Financial assets

The Branch derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Branch neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit and loss.

Financial liabilities

The Branch derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

(iv). Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, then the Branch evaluates whether the cash flows of the modified asset are substantially different.

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued)
for the year ended 31 December 2020

32. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(iv). Modifications of financial assets and financial liabilities (continued)

Financial assets (continued)

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

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.
- If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Branch plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.
- If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Branch first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit and loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.
- If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

**Branch of KASIKORNBANK Public Company Limited
(Phnom Penh)**

**Notes to the financial statements (continued)
for the year ended 31 December 2020**

32. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(iv). Modifications of financial assets and financial liabilities (continued)

Financial liabilities

The Branch derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

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

(v). Offsetting

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

(vi). Fair value measurement

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

When one is available, the Branch measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

**Branch of KASIKORNBANK Public Company Limited
(Phnom Penh)**

**Notes to the financial statements (continued)
for the year ended 31 December 2020**

32. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(vi). Fair value measurement (continued)

If there is no quoted price in an active market, then the Branch uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

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

If an asset or a liability measured at fair value has a bid price and an ask price, then the Branch measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Branch on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments – e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Branch recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued) for the year ended 31 December 2020

32. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(vii). Impairment

The Branch recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- financial guarantee contracts issued; and
- loan commitments issued.

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

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

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

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

At each reporting date, the Branch assesses whether the credit risk of a financial instrument has increased significantly since initial recognition. When credit risk has increased significantly since initial recognition, loss allowance is measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Branch considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Branch's historical experience and informed credit assessment and includes forward-looking information.

If credit risk has not increased significantly since initial recognition or if the credit quality of the financial instruments improves such that there is no longer a significant increase in credit risk since initial recognition, loss allowance is measured at an amount equal to 12-month ECLs.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Branch is exposed to credit risk.

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued) for the year ended 31 December 2020

32. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(vii). Impairment (continued)

Determining whether credit risk has increased significantly

The Branch assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument, borrower's credit risk rating, borrower's financial condition and credit obligation fulfillment.

The Branch considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due for long-term facility or 15 days past due for short-term facility. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Branch in full, without recourse by the Branch to actions such as realising security (if any is held); or
- the borrower is more than or equal to 30 days past due for long-term facilities or more than or equal to 14 days past due for short-term facilities on any material obligation to the Branch; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

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

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued)
for the year ended 31 December 2020

32. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(vii). Impairment (continued)

Measurement of ECL (continued)

- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Branch expects to recover.

When discounting future cash flows, the following discount rates are used:

- financial assets other than purchased or originated credit-impaired ("POCI") financial assets and lease receivables: the original effective interest rate or an approximation thereof;
- POCI assets: a credit-adjusted effective interest rate;
- lease receivables: the discount rate used in measuring the lease receivable;
- undrawn loan commitments: the effective interest rate, or an approximation thereof, that will be applied to the financial asset resulting from the loan commitment; and
- financial guarantee contracts issued: the rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows.

Inputs, assumptions and techniques used for estimating impairment

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default ("PD");
- Loss given default ("LGD"); and
- Exposure at default ("EAD").

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The statistical model has been employed to analyse data collected and generate estimate of remaining lifetime PD of exposure and how these are expected to change as result of passage of time.

LGD is the magnitude of the likely loss if there is a default. The Branch estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued)
for the year ended 31 December 2020

32. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(vii). Impairment (continued)

Measurement of ECL (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

EAD represents the expected exposure in the event of a default. The Branch derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Branch measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Branch considers a longer period. The maximum contractual period extends to the date at which the Branch has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued)
for the year ended 31 December 2020

32. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(vii). Impairment (continued)

Credit-impaired financial assets

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

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Branch on terms that the Branch would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

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

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position for financial assets measured at amortised cost as a deduction from the gross carrying amount of the assets.

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued)
for the year ended 31 December 2020

32. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(vii). Impairment (continued)

Write-off

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

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit and loss and OCI.

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

D. 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 from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Branch in the management of its short-term commitments.

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

E. Head Office's capital contribution

Head Office's capital contribution is classified as equity. Incremental costs directly attributable to the capital contribution is recognised as a deduction from equity, net of any tax effects. Other capital contribution are classified as equity and/or liability according to the economic substance of the particular instrument. Distributions to holders of a financial instrument classified as an equity instrument are charged directly to equity.

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued)
for the year ended 31 December 2020

32. Significant accounting policies (continued)

F. Regulatory reserves

Regulatory reserves are set up for the variance of provision between loan impairment in accordance with CIFRSs and regulatory provision in accordance with National Bank of Cambodia's Prakas No. B7-017-344 dated 1 December 2017 and Circular No. B7-018-001 Sor Ror Chor Nor dated 16 February 2018 on credit risk classification and provision on impairment for banks and financial institutions. In accordance with Article 73, the entity is shall compare the provision calculated in accordance with Article 49 to 71 and the provision calculated in accordance with Article 72, and the record:

- (i) In case that the regulatory provision calculated in accordance with Article 72 is lower than provision calculated in accordance with Article 49 to 71, the entity records the provision calculated in accordance with CIFRSs; and
- (ii) In case that the regulatory provision calculated in accordance with Article 72 is higher than provision calculated in accordance with Article 49 to 71, the entity records the provision calculated in accordance with CIFRSs and transfer the difference from retained earnings or accumulated losses account into regulatory reserves in the equity account.

The regulatory reserves are not an item to be included in the calculated of the Branch's net worth.

G. Placements with other banks

Deposits and placements with banks and debt investment are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

H. Statutory deposits

Statutory deposits included in balances with the NBC are maintained in compliance with the Cambodian Law on Banking and Financial Institutions and are determined by the defined percentage of the minimum share capital and the customers'/other banks' deposits as required by NBC.

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued)
for the year ended 31 December 2020

32. Significant accounting policies (continued)

I. Loans and advances to customers

'Loans and advances' captions in the statement of financial position include loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest rate method.

J. Other assets

Other assets are carried at amortised cost using the effective interest rate method.

K. Intangible assets

Intangible assets, which comprise acquired computer software licenses and related costs, are stated at cost less accumulated amortisation and impairment loss. Acquired computer software licenses are capitalised on the basis of the cost incurred to acquire the specific software and bring it to use.

Intangible assets are amortised over their estimated useful lives of 10 years using the straight-line method.

Costs associated with the development or maintenance of computer software are recognised as expenses when incurred.

L. Property and equipment

(i) Recognition and measurement

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

Cost includes expenditures that are directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the asset to working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. The cost of self-constructed assets also includes the cost of materials and direct labour. For qualifying assets, borrowing costs are capitalised in accordance with the accounting policy on borrowing costs. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property and equipment.

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued)
for the year ended 31 December 2020

32. Significant accounting policies (continued)

L. Property and equipment (continued)

(i). Recognition and measurement (continued)

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of property and equipment and is recognised net within "other income" and "other expenses" respectively in profit or loss.

(ii). Subsequent costs

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Branch, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised to profit or loss. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii). Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

Depreciation is recognised as an expense in profit or loss on a straight-line over the estimated useful lives of each component of an item of property and equipment.

Depreciation is recognised from the date that the property and equipment are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued)
for the year ended 31 December 2020

32. Significant accounting policies (continued)

L. Property and equipment (continued)

The estimated useful lives for the year are as follows:

	Years
Leasehold improvements	10
Furniture and fittings	5 - 10
Office equipment	5 - 10
Computer equipment	5
Other equipment	5 - 10

Depreciation methods, useful lives and residual values are reassessed at end of the reporting period and adjusted if appropriate.

M. Leases

At inception of a contract, the Branch assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for period of time in exchange for consideration.

To assess whether a contract conveys the right to control the use of an identified asset, the Branch assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right throughout the period of use, then the asset is not identified;
- the Branch has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Branch has the right to direct the use of the asset. The Branch has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In cases where all the decisions about how and for what purpose the asset is used are predetermined, the Branch has the right to direct the use of the asset if either:
 - the Branch has the right to operate the asset; or
 - the Branch designed the asset in a way that predetermines how and for what purpose it will be used.

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued)
for the year ended 31 December 2020

32. Significant accounting policies (continued)

M. Leases (continued)

Leases in which the Branch is a lessee

At commencement or on modification of a contract that contains a lease component, the Branch allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of branches and office premises the Branch has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Branch recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The estimated useful lives for the current period are as follows:

- Building and office branches 10 years

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, to the lessee's incremental borrowing rate. Generally, the Branch uses its incremental borrowing rate as the discount rate.

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Branch is reasonably certain to exercise, lease payments in an optional renewal period if the Branch is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Branch is reasonably certain not to terminate early.

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued)
for the year ended 31 December 2020

32. Significant accounting policies (continued)

M. Leases (continued)

Leases in which the Branch is a lessee (continued)

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in the lease term, a change in the assessment of the option to purchase the underlying asset, a change in future lease payments arising from a change in an index or rate, or if there is a change in the Branch's estimate of the amount expected to be payable under a residual value guarantee.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit and loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Branch has elected not to recognise right-of-use assets and lease liabilities for short-term leases of vehicle that have a lease term of 12 months or less and leases of low-value assets. The Branch recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

N. Borrowings

Borrowings are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at amortised cost using effective interest method.

O. Employee benefits

(i). Short-term employee benefits

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

(ii). Other long-term employee benefits

The Branch's net obligation in respect of long-term employee benefits is the amount of the benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit and loss in the period in which they arise.

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued) for the year ended 31 December 2020

32. Significant accounting policies (continued)

P. Provisions

Provisions are recognised in the statement of financial position when the Branch has a legal or constructive obligation as a result of a past event, 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. The unwinding of the discount is recognised as finance cost.

Q. Interest

Effective interest rate

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

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

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Branch estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

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

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued) for the year ended 31 December 2020

32. Significant accounting policies (continued)

Q. Interest (continued)

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

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

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

Presentation

Interest income calculated using the effective interest method presented in the statement of profit and loss and OCI includes interest on financial assets and financial liabilities measured at amortised cost.

Interest expense presented in the statement of profit and loss and OCI includes financial liabilities measured at amortised cost.

R. Fee and commission

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Other fee and commission income are recognised as the related services are performed.

A contract with a customer that results in a recognised financial instrument in the Branch's financial statements may be partially in the scope of CIFRS 9 and partially in the scope of CIFRS 15. If this is the case, then the Branch first applies CIFRS 9 to separate and measure the part of the contract that is in the scope of CIFRS 9 and then applies CIFRS 15 to the residual.

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued) for the year ended 31 December 2020

32. Significant accounting policies (continued)

S. Impairment of non-financial assets

At each reporting date, the Branch reviews the carrying amounts of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs 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 or CGU.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

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

T. Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit and loss except items recognised directly in equity or in other comprehensive income.

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

(i). Current tax

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

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued) for the year ended 31 December 2020

32. Significant accounting policies (continued)

T. Income tax (continued)

(ii). Deferred tax

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

A deferred tax asset are recognised for unused tax losses and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used. 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; such reductions are reversed when the probability of future taxable profits improves.

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

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

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

U. Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is not recognised in the statement of financial position and is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

V. Contingent assets

Where it is not possible that there is an inflow of economic benefits, or the amount cannot be estimated reliably, the asset is not recognised in the statement of financial position and is disclosed as a contingent asset, unless the probability of inflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent assets unless the probability of inflow of economic benefits is remote.

Branch of KASIKORNBANK Public Company Limited (Phnom Penh)

Notes to the financial statements (continued)
for the year ended 31 December 2020

33. Standards issued but not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Branch has not early adopted them in preparing these financial statements.

The following amended standards are not expected to have a significant impact on the Branch's financial statements.

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to CIAS 37).
- Covid-19-Related Rent Concessions (Amendment to CIFRS 16).
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to CIAS 16).
- Reference to Conceptual Framework (Amendments to CIFRS 3).
- Classification of Liabilities as Current or Non-current (Amendments to CIAS 1).
- CIFRS 17 Insurance Contracts and amendments to CIFRS 17 Insurance Contracts.

KBank x Wing: Financial Inclusion through Collaboration

Lending our support to tackle the financial inclusion issue in Cambodia, the Branch of KASIKORNBANK Public Company Limited (Phnom Penh) ("KBank") teamed up with Wing (Cambodia) Limited Specialised Bank to launch the "Salary Advance" product for daily salary earners, who typically have limited access to financial services from banks or must opt for other channels at very high cost. The product aims to provide affordable, unsecured, short-term loan with easy access for customers. Under the scheme, eligible customers can request and receive loans from KBank via the Wing mobile application platform. The product was launched in August 2020 and met with positive customer responses.

កម្ចីប្រាក់បៀវត្សពី ធនាគារកសិករ

ធនាគារកសិករ KASIKORNBANK

Wing

ងាយស្រួលក្នុងការ ស្នើសុំឥណទាន (ប្រាក់កម្ចី) ២៤/៧

មិនចាំបាច់មានទ្រព្យបញ្ចាំ

ផ្ទេរប្រាក់ដោយផ្ទាល់ទៅកាន់ គណនីវីងបេស៊ីអ៊ីត (Wing account)