

ANNUAL REPORT

2022



Part 1:
Introduction



Part 2:
Highlights
of 2022



Part 3:
Audited Financial
Statements



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ជាមួយប័ណ្ណសំណាង
តំណទាន KDSB



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*Let's drive on
"Your New Highway in Finance"
with KB Daehan Specialized Bank Plc.!*

PART 1: Introduction



Message from the CEO

Dear shareholders, clients, partners and everyone who supports KDSB, I wish you a magnificent 2023!

First and foremost, I wish to express my deepest admiration to all of you for your endless support and dedication to KDSB.

As the new year begins, I am proud to reflect on the achievements and successes of the previous year. Despite the fact that the 2022 was filled with challenges and uncertainties to business environments posed by rising inflation, the key financial performance indicators have shown to be well managed and exhibited a positive outcome, including total assets, loan assets and net profit. In 2022, KDSB had USD293.5 million in loan assets, and posted USD7.4 million in net profit which represents 50.69% growth from the previous year. This outcome shows that we have achieved yet another impressive accomplishment. Our collective efforts have once again paid off, and we have much to be proud of.

As we move forward throughout the next year, our commitment to support the future of Cambodia remains steadfast. We will continue to provide fast and flexible financial assistance with competitive interest rates, with the goal of offering our customers the highest level of convenience and satisfaction. We remain clearly aligned with our vision to help the people of Cambodia achieve their dreams and acquire their desired assets. We are grateful for the opportunity to serve this community, and we look forward to the continued progress we can make together in the years to come.

What tends to be our top external concern for the year ahead is recession. Economies around the world have been affected by the rise of inflation, leading to trade tensions, reduced consumer spending, and a slowdown in economic growth. These are all warning signs that a downturn may be coming. The outlook for 2023 remains uncertain, governments and central banks are expected to continue their efforts to fight high inflation and recession. Regardless, this has significant implications for the banking industry, as the new borrowing costs could directly impact us in various ways. Therefore, considering these external concerns, it is important for us to remain agile and proactive, as remaining vigilant is the key to mitigating potential losses in the event of a recession.

Heading into the year ahead, there are a few key priorities that we need to acknowledge. Fully expanding our locations to the greatest extent possible, to increase market size, sales and revenues. Preparing ourselves to effectively utilize leverage finance will help us remain competitive and capitalize on opportunities. And increasing the market for our General Loan and Agriculture Equipment Loan products will help us continue to stay ahead of the curve. All of these priorities involve optimizing our operations to best position ourselves for success in the coming year.

I am positive that with our continued focus on our goals, vision and mission, we will have another successful year in 2023. We are poised to thrive in the coming years and look forward to leading our team to even greater heights.

We want to take this opportunity to express our gratitude to our shareholders. Thank you for your continued support of KDSB. It's been a great year, and you've been a big part of that.

I also wish to express my deepest appreciation to all KDSB staff. Thank you for your high energies, great ideas, amazing dedication and unquestionable loyalty that have been truly impressive and invincible. Great expectations have always been hard to meet, but you have gone beyond these expectations in the most spectacular way. You are a great asset to KDSB, and your contributions cannot be overstated.

Finally, I sincerely thank to the National Bank of Cambodia for your kind assistance and support.

Let's drive on *"Your New Highway in Finance"* with KDSB.

Thank you.

Sincerely,

Lee Sangin

Chief Executive Officer



BANK PROFILE

KB Daehan Specialized Bank Plc. (“KDSB”) is a joint venture between KB Kookmin Card and Indochina Bank. KB Kookmin Card is a subsidiary of KB Financial Group, the leading financial group with the largest customer base and the most extensive branch network in South Korea, which is a member of the Dow Jones sustainability indices of NYSE.

Indochina Bank has had a great successful experience in Auto Finance in Lao PDR.

Based on its parent companies’ successful and long experience in finance and its new innovation, there is no doubt that KDSB is a trusted bank that is able to provide fast and flexible service to the Cambodian credit market and make a better financial society of Cambodia.

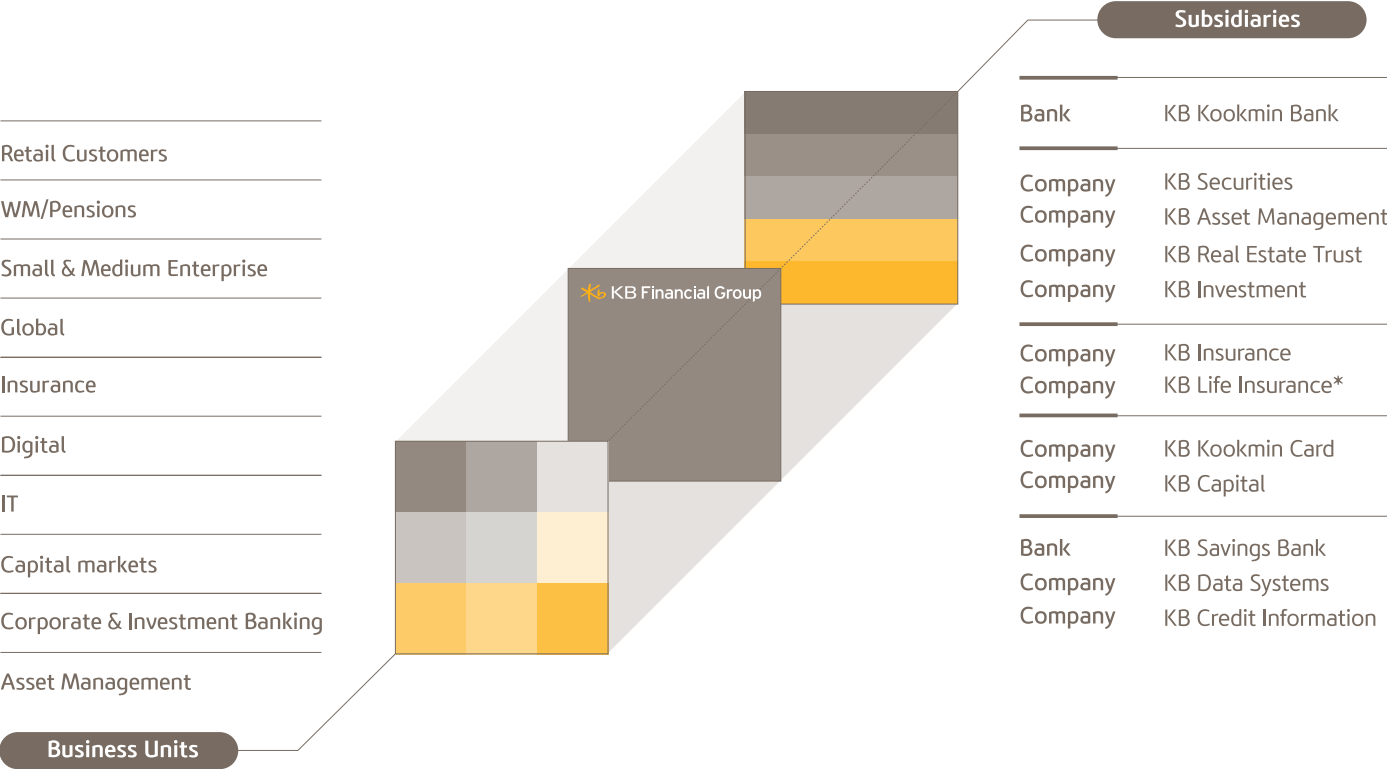
In order to meet the customer’s needs, the bank has continuously expanded its branches. Currently, KDSB has a Head Office and four branches – Saensokh Branch, Chbar Ampov Branch, Dangkao Branch and Tuek Thla Branch – located in Phnom Penh Capital City. KDSB is full of hope to further expand our operation nationwide in the near future.

Bank Name	KB Daehan Specialized Bank Plc. (“KDSB”)
Registered Capital	USD 73,650,000 (As of January 2023)
Shareholders	KB Kookmin Card Co., Ltd. 97.50% Indochina Bank Ltd. 2.50%
History	July 2008: Founded as Tomato Specialized Bank March 2018: Changed into KB Daehan Specialized Bank Plc.
Business Sector	Specializing in Auto Finance, General Loan, Agriculture Equipment Loan and Card Business
No. of employees	396
External Auditor	KPMG Cambodia Ltd.
Head Office	Building No.1, 7th, 20th 21st and 22nd Floor, Street No.360, Phum 8, Sangkat Boeng Keng Kang Ti Muoy, Khan Boeng Keng Kang, Phnom Penh, Cambodia
Contact Information	Tel: +855 23 991 555 E-mail: info@kdsb.com.kh Website: www.kdsb.com.kh

Shareholder’s Profile (KB Financial Group)

KB Financial Group provides leading financial services through advanced financial services and products offered by its 12 fully owned subsidiaries in 10 business units – retail customers, wealth management/pensions, SME finance, global operations, insurance, digital finance, IT, capital markets, and corporate & investment banking (CIB) and asset management (AM)

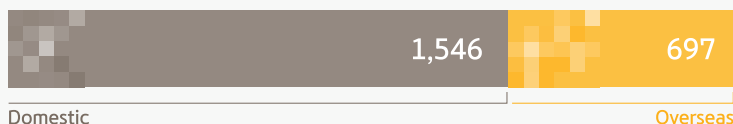
KB Financial Group, as the holding company, holds 100 percent of the shares in each subsidiary.



Shareholder's Profile (KB Financial Group) (continued)

Group Network

Total **2,243**



Group Customers

37.1 million



Group Employees

24,462



Credit Ratings



ESG



Morgan Stanley Capital International (MSCI)

First and only Korean financial company to earn the top AAA rating in 2022 MSCI ESG Evaluation



DJSI

Listed on the DJSI World Index for a seventh straight year (2016~2022)



KCGS

Only Korean financial company to receive all A+ grades for three straight years



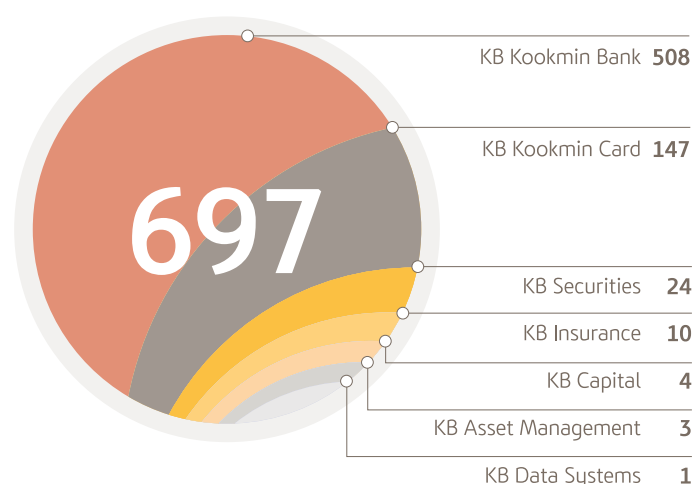
Bloomberg Gender-Equality Index

First Korean company to be listed for four straight years (2019~2022)



Carbon Disclosure Project (CDP)

CDP's A List leader in addressing climate change



Global Expansion Milestones

2019	2020	2021	2022
Vietnam <ul style="list-style-type: none"> KB Securities Vietnam raised KRW 70 billion of capital and ranked 10th largest securities company in Vietnam KB Kookmin Bank Established Hanoi branch 	Cambodia <ul style="list-style-type: none"> Acquired a 70% stake in Prasac, the largest local MDI 	Singapore <ul style="list-style-type: none"> KB Kookmin Bank obtained preliminary approval to open a branch in Singapore 	Indonesia <ul style="list-style-type: none"> KB Securities established PT KB Valbury Securitاس, with an 65% equity stake
India <ul style="list-style-type: none"> KB Kookmin Bank established Gurugram Branch 	Vietnam <ul style="list-style-type: none"> KB Securities launched KB FINA in partnership with G-Group which has vast captive bases in the financial services, media, fintech businesses in Vietnam 	Indonesia <ul style="list-style-type: none"> KB Kookmin Bank secured management control with the appointment of an executive member at PT Bank KB Bukopin, followed by a capital raising KB Securities signed a shareholders' agreement to acquire Valbury Securities 	Cambodia <ul style="list-style-type: none"> KB Kookmin Card acquired KB i-Finance Leasing, with an 99.99% equity stake
	Myanmar <ul style="list-style-type: none"> KB Kookmin Bank established the first foreign bank in Myanmar 		
	Indonesia <ul style="list-style-type: none"> Kookmin Bank became the largest shareholder of PT Bank Bukopin with a 67% equity stake KB Kookmin Card established KB Finansia Multi Finance, with an 80% equity stake KB Capital launched PT Sunindo Kookmin Best Finance, a local subsidiary 	Cambodia <ul style="list-style-type: none"> KB Kookmin Bank acquired the remaining 30% stake in Prasac, securing 100% ownership 	
		Thailand <ul style="list-style-type: none"> KB Kookmin Card acquired a 50% stake in the local credit finance company, KB J Capital 	

Shareholder's Profile



KB Kookmin Card is a **top-tier credit card** company having a customer base of over 20 million people in South Korea.

We aspire to be a **“Your Happy Life Partner”** offering better financial products for customers. Driven by world-class talents and bold innovation, to become your trusted **happy life partner**.

Establishment Date	September, 1987
Business Sector	Credit Card and related business, Tele-Sales, Tourism, Insurance Sales, Lease, Instalment financing, and New technology financing
Employees	1,575
Cardholders	20.8 million (40.20% of South Korea population)
Merchants	2.9 million
Transaction Volume	KRW 173.4 trillion (USD 134.0 billion)
Total Assets	KRW 29.7 trillion (USD 23.0 billion)
Net Profit	KRW 379.0 billion (USD 292.8 million)

Note: As of 31 December 2022, Exchange Rate: USD 1.00 = KRW 1,294.20

No. 1 in Debit Card Category 7 consecutive years

2021 Korean Consumer Satisfaction Index (KCIS)
Korean Standard Service Quality Index (KS-SQI)

ESG Rating A+

2 Consecutive Years
By KCGS

Grand Prize for the Best Credit Finance Category

2021 Korea Best Banker Grand Awards
By Credit Finance Association

Grand Prize

2021 Korea Job Awards
By Ministry of Employment and Labour

2021 Venture Start-up Promotion Awards

For its contribution to increasing start-up sales, infrastructure connection, and supporting investment in business growth.
By the Minister of Small and Medium-sized Enterprises.

Indochina Bank Ltd (“the Bank”) is a foreign owned locally incorporated commercial bank. The Bank was incorporated in Lao People’s Democratic Republic (“Lao PDR”) on 26 May 2008, under a Foreign Investment License No.070-08/PI granted by the Ministry of Planning and Investment and under Banking Business License No.53/BOL granted by the Bank of the Lao PDR (“BOL”) on 28 November 2008.

Indochina Bank (IB Bank) officially commenced its business on the 6th February 2009 in Vientiane Capital. The Bank’s shareholders comprise of reputable individuals with strong and stable financial backgrounds. The bank was one of the very first bank in Laos that introduced automobile loans in the market and hence enjoyed its first mover advantage which reflects on its success today. Over the last 13 years, in pursuit of sustainable success and highest customer satisfaction, IB Bank has already established an extensive service coverage network in key provinces from the north to south of Laos namely Vientiane Capital, Luangnamtha, Oudomxay, Savannakhet and Champasack.

The Bank has 3 branches & 9 service units networks covering most provinces. This bank’s experience and know-how will be spread to KDSB.

Shareholder’s Profile



Establishment Date	28 November 2008
Business Sector	Commercial bank, Deposits, Loans, Card, and Remittance.
Employees	217
Shareholders	Mr. Oh Sei Young (Korean): 78.57% LVMC Investment Ltd. of Hong Kong: 11.43% Ms. Thavone Vongsombath: 10.00%
Total Assets	USD 774.0 million
Loans to customers	USD 521.0 million
Balances of customer deposits	USD 691.0 million
Net Operating Profit	USD 1.8 million

Vision of the Bank

Indochina Bank is moving forward to establish a strong foothold in the country by taking advantage of the steady economic growth of Lao People’s Democratic Republic. The vision of the bank is; “To be the No.1 private bank in Laos, in terms of business growth, customer service, products, profit as well as branding, and continually enhancing its service to meet customer’s highest level of satisfaction.”

Main Branch

Address: 1st –3rd Floor, KOLAO Tower I, 23 Singha Road, Vientiane Capital, Lao PDR
Tel: +856 21 455 000 / Fax: +856 21 455 111 / Website: www.indochinabank.com

Vision, Mission & Core Values

KDSB's Vision is to be the specialized bank by successful experience from South Korea. KDSB's Mission is to make people feel excited by providing fast and flexible services such as being able to drive supercars on the highway.

Vision

Driven by world-class talents and bold innovation, to become your trusted happy life partner

Our goal is to become a lifelong financial group by leading innovation that shifts the financial paradigm with our best professionals.

Mission

Financial services delivering changes – happier life and better world

We aim to deliver financial services that bring happiness and well-being to our customers and society.

Slogan

“Your New Highway in Finance”

Core Values:



Customer-centricity

Benefits to our customers and prioritizing them in our decision making.



Expertise

We relentlessly strive to develop industry-leading competencies.



Innovation

We foster creative thinking and drive first-mover initiatives to reshape the future of the financial services industry.



Trust & Integrity

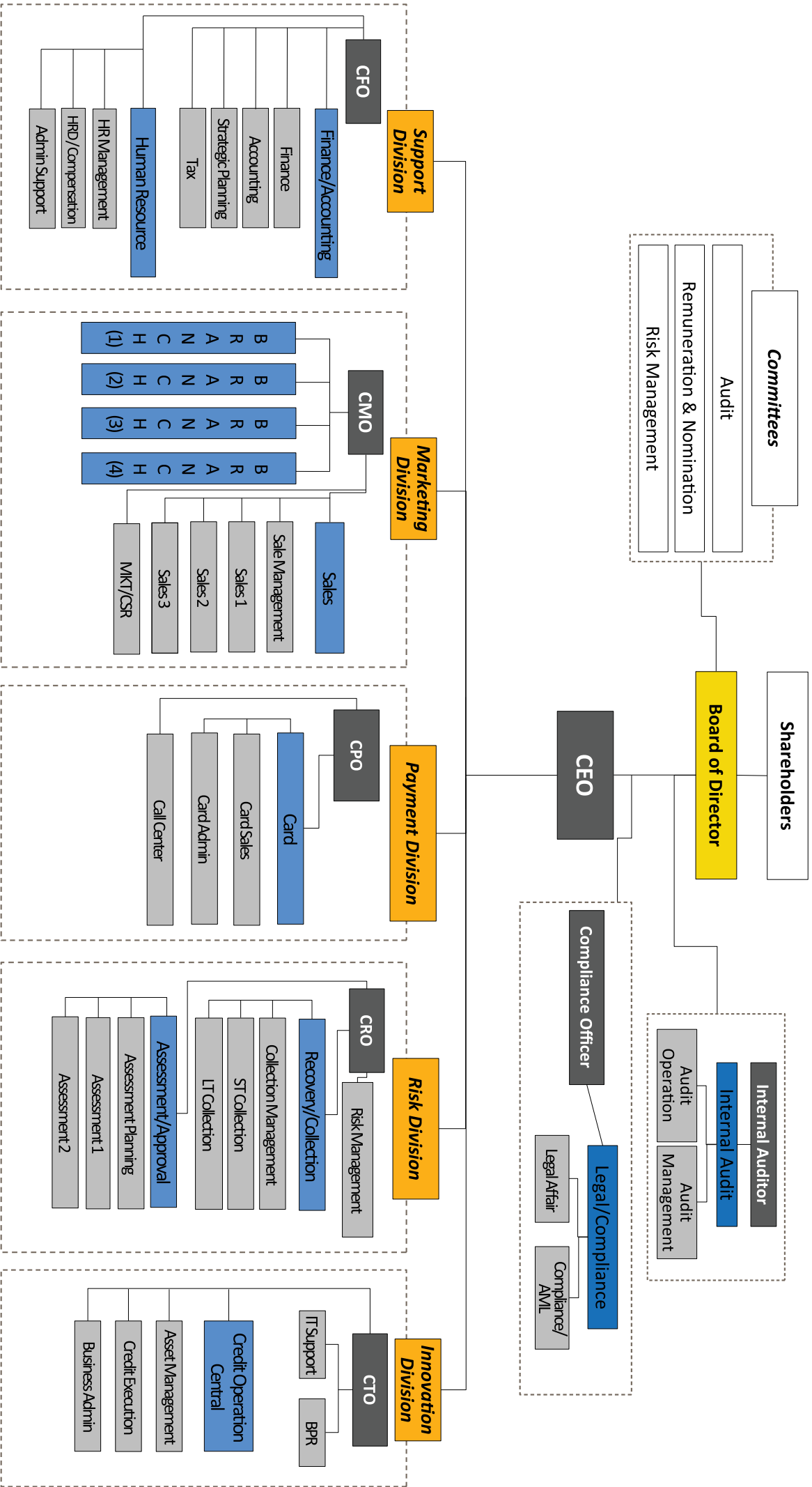
As a financial services provider, we adhere to the highest standards of ethical conduct, always acting in good faith and with integrity.



Shared growth

By growing together with our customers we aim to contribute to the advancement of society.

Organization Chart



CORPORATE GOVERNANCE

Board Structure and Composition

The Board of Directors (BOD) of KDSB is comprised of four members, including one independent director. All were appointed at the general shareholder's meeting.

All directors are professionals in their respective fields with extensive experience in areas such as banking, business, management, and accounting. The chair is elected by the Board of Directors.

Board of Directors

Mr Joo Sung Soo	Chairman of BOD
Mr Lee Sangin	Member (Executive Director)
Mr Bounheng Souphida	Member (Non-executive Director)
Mr Kim Kwang Hwan	Member (Independent Director)

Committees

Audit Committee

The Audit Committee was established to assist the Board in the execution of its governance and oversight responsibilities.

Mr Kim Kwang Hwan	Chair of Committee (Independent Director)
Mr Yang Tae Wook	Member
Mr Um Chanthan	Member

Remuneration & Nomination Committee

The Committee shall establish a fair evaluation and compensation system in accordance with the performance of the management and staff and general environment of the remuneration.

Mr Kim Kwang Hwan	Chair of Committee (Independent Director)
Mr Lee Sangin	Member
Mr Yang Tae Wook	Member

Risk Management Committee

The Committee acts as the highest decision-making body. It establishes and approves risk management strategies and guidelines to recognise, measure, monitor, and control all the risks that arise from various transactions of banks in a timely manner.

Mr Kim Kwang Hwan	Chair of Committee (Independent Director)
Mr Lee Sangin	Member
Mr Yang Tae Wook	Member



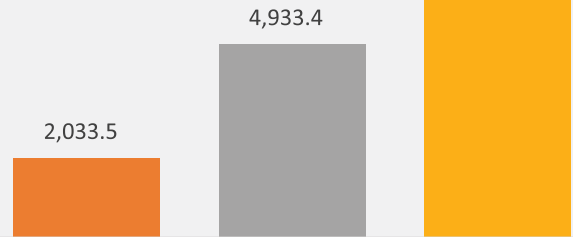
Part 2 HIGHLIGHTS of 2022

2022 Financial Highlights

In 2022, KDSB showed a growth of 50.69% in net profit and 34.06% in total asset. Even though the COVID-19 pandemic impacted Cambodian and the world economics, KDSB was still able to manage the risk well based on the advanced knowledge and experiences of risk management gained in South Korea.

Net Profit

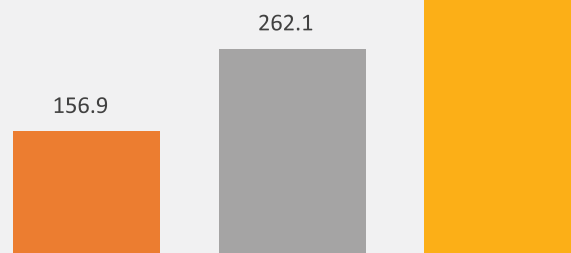
Unit: USD Thousand
7,434.0



2020 2021 2022

Total Assets

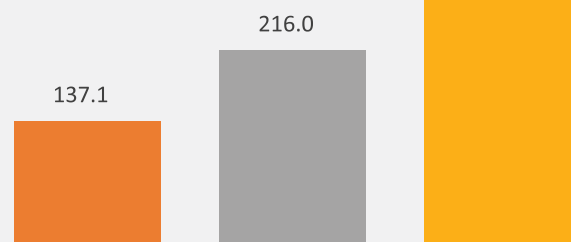
Unit: USD Million
351.4



2020 2021 2022

Loan Assets

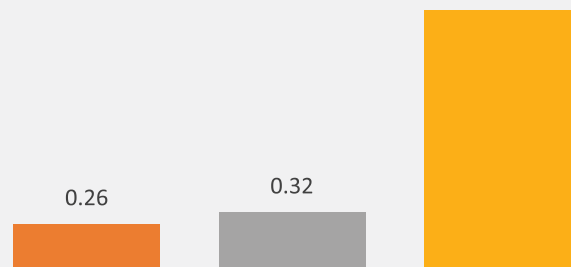
Unit: USD Million
293.5



2020 2021 2022

NPL Ratio

Unit: %
1.35



2020 2021 2022

Auto Finance

Products

Auto Finance is a loan product designed to finance a customer's purchase of their dream car with a fast and flexible service, including a competitive interest rate and long-term loan, plus fast approval service, available for both new and used cars. In cooperation with many leading local Automobile Distributor and Authorized Dealer partners in Cambodia and our exceptional experience, KDSB provides the best auto finance solution to customers.



General Loan

KDSB is a finance solution partner that provides general loans, consisting of financing houses, land, starting or enhancing businesses, refinancing, and aiding families, with appropriately valuable property titles being used as collateral. In addition, KDSB also provides Financial Institutions (FI) loans to partners based on its good credit rating.



Card

KDSB Lucky Card emerged as the first vertical card design in the Cambodia market under VISA card, and is specifically designed to help bring good luck to cardholders through its various benefits, consisting of debit and credit cards with levels 1, 10, 20, and 30. Additionally, the KDSB Lucky Card has a robust security system acknowledged by the Payment Card Industry Data Security Standard (PCI DSS), which leads to reliable and convenient experiences for cardholders.



Agriculture Equipment Loan

The Agriculture Equipment Loan is the new loan product of KDSB, which was officially launched in April 2022. It is finely designed to help customers who wish to engage in agriculture-related business, by providing financial assistance to acquire agricultural equipment assets.



Traffic Mirrors Installation

To help reduce traffic accidents, KDSB has developed a project to install traffic mirrors on narrow roads in Phnom Penh. This project has been carried out from 2018 to the present. In 2022, KDSB installed 22 more traffic mirrors on narrow roads in Phnom Penh. Currently, there are 56 traffic mirrors and 2 school crossing signs installed in Khan Chamkarmorn, Khan Saensokh, Khan Pur Senchey, Khan Chbar Ampov, Khan Mean Chey & Khan Toul Kork.

Since this project has contributed to reducing traffic accidents and has received satisfaction from the people and public authorities in Phnom Penh, KDSB has been committed to continuing to install more traffic mirrors on dangerous roads, especially narrow and curved roads where it is difficult to see other vehicles, for the safety of our people.



Book Donation

Book Donation is one of the effective charitable activities for improving education at all levels, with the aim of improving children's education for better lives and society. Thus, strengthening the reading habits of Cambodian children, who are the bamboo shoots of the nation, in 2022, KDSB made two book donations. The first donation in 2022 was made in May to Koh Reah Leu Primary School and Koh Reah Secondary School located in Koh Reah Leu village, Koh Reah commune, Lvea Em district, Kandal province. In November, KDSB donated more books/reading materials, brain improvement games, bookshelves, desks, and chairs to the library at Ampov Prey Primary School, located in Ampov Prey Ti 3 village, Ampov Prey commune, Kandal Stueng district, Kandal province.

A large number of books were donated using the funds of philanthropists who purchased items and donated their own money through the donation boxes at the KDSB Gallery. Many financial pop-up books have been sponsored with the help of the KB Kookmin Card, the parent company of KDSB. These books were donated after being compiled by KB Kookmin Card staff; other books were also donated by KDSB staff.

In the future, to continue supporting the education sector in Cambodia and to encourage Cambodian children to be interested in and read books, KDSB plans to donate books in every quarter/year to primary schools in rural areas.



Recycled Product Support Program (Collaboration with Smart Craft)

Smart Craft is a social and environmental enterprise providing employment opportunities to persons with disabilities, helping to make the environment clean, and responding to climate change. **KDSB** has always cared about society and the environment. Thus, **KDSB** has collaborated with Smart Craft by purchasing a wide range of recycled products from this enterprise to reduce the waste that pollutes the environment.

KDSB has collaborated with Smart Craft since 2019 and has agreed to continue supporting and purchasing recycled products from Smart Craft over a designated period. To further support and promote recycled products, **KDSB** has agreed to continue purchasing more innovative products from Smart Craft to help the environment and society. Those products are displayed and sold at the KDSB Gallery for customers or the public who wish to purchase the items and who want to contribute to society with KDSB.



KDSB Gallery

KDSB Galleries are part of the KDSB's bank culture. These galleries were created to exhibit all materials produced as gifts for stakeholders on various occasions. KDSB galleries are now available at the head office and at the other four branches of the bank.

At the same time, customers or any members of the public who visit KDSB can buy those materials as souvenirs or for any other purpose at the original supplier's price. The funds generated as a result are kept in KDSB's donation box to be used for more KDSB CSR activities. Or if customers or members of the public want to contribute to society without purchasing items, they can also donate money through the KDSB donation box located at KDSB Galleries. KDSB will use those funds to undertake various charity programs to help society, in particular the book donation program for primary school libraries that lack books.



Provincial Project School Building Construction

Education is critically important to Cambodia's development. When students are educated, they can significantly contribute to their families and society in multiple ways.

Kampong Thom province has a high population with a large number of students, which means that school buildings are in high demand. School buildings are a significant asset and contribute to the quality of education by providing a comfortable learning environment and facilities for student activities and lectures.

Thus, to promote education in Cambodia, KDSB has donated USD100,000 to build a two-storey, 12-room school building for Tang Krasang High School in Santuk district, Kampong Thom province. KDSB hopes that this new building will help to improve the study environment in new classrooms by reducing the number of students in each class.



KiDSBank

KiDSBank is a combination of the words "KiDS" and "Bank" from KDSB (KB Daehan Specialized Bank Plc.). KiDSBank is a small library, located on the 22nd floor of KDSB's head office that allows kids to read books, draw or paint pictures and play with IQ improving materials.

Moreover, children who visit and read books at KiDSBank can drink fresh milk for free. Furthermore, not only children, but also for all KDSB visitors can come to read and borrow books to read at their home for free.

KDSB believes that KiDSBank will be the starting point for all children to start their reading habits in their spare time to gain more knowledge for personal and social development.



Employee Welfare and Motivation Programs

Training



KDSB believes it is important to invest in its employees. This is why it has created comprehensive training courses to help its employees improve on their existing hard and soft skills and achieve their career goals. The training courses are finely designed to provide our employees with the knowledge, skills, and tools necessary to be successful in their current and future roles.

Each of the training courses are designed to fit the needs of the individual and focus on unlocking their true potential. The soft skills courses are designed to help employees develop their communication, leadership, time management, problem-solving, and interpersonal skills. The hard skills courses focus on industry-specific topics: Project Management, Management and Leadership and Effective Team Building.

The courses are developed and delivered by both KDSB trainers and external mentors. The KDSB team is composed of experienced professionals and qualified educators who provide the best possible learning experience. Through its rigorous and detailed training, it ensures that learners can gain the necessary skills and knowledge that are needed to progress in their chosen course.

By investing in employees and providing them with professional development opportunities, KDSB is empowering its employees to reach their career goals and create a working environment that is productive and rewarding.



Overseas Workshops

KDSB cherishes a positive work culture and encourages employees to reach their full potential. Consequently, KDSB provides bench-marked training programs and overseas workshops to employees who consistently perform excellent work, given them the best opportunity to experience learning the different aspects of foreign countries.

These bench-marked learning and overseas workshops focus on providing outstanding employees with the knowledge and resources they need to learn from top experts and increase their skill set through seminars, monument site visits, and hands-on activities. They also have the opportunity to network with others in the same field and make connections with team members of KB Financial Group from all over the world, and the opportunities to learn foreign cultures and lifestyles.

In 2022, there were two overseas workshops conducted in different countries – Singapore and South Korea.





Singapore Workshops

A weeklong business trip and workshop for the Best Performing Staff of 2020 to Singapore created an indelible experience with the chance to explore the country and all its wonders. From the start to the very end of the adventure, the trip was an incredible learning and travel experience.

Visiting many remarkable places such as Asian Civilizations Museum Guided Tour, visiting Sentosa Island, Universal Studios, KSC (K Startup Center), Mastercard Singapore Branch, Singapore National Gallery, Visa Innovation Center, Korea Development Bank Singapore Branch and other incredible places, were the highlights of the trip. It was a fascinating experience to learn about the different aspects of the city and its history, from the traditional architecture to the vibrant culture, which gave us an insight into the day-to-day lives of the people living there.

Overall, the entire experience of the business trip and workshop in Singapore were unforgettable. Employees had the chance to learn more about the culture of the country, and this trip is certain to leave employees looking back on it with fond memories for many years to come.



Korea Workshops

The business trip and workshops for the Best Performing Staff of 2021 were another unforgettable and incredible experience for employees to visit Korea, where our parent company is located. The best performing staff had the chance to visit cultural places and engage in many fun activities.

The trip included many outdoor activities, such as a visit to the N Seoul Tower, the National Museum of Korea, Gyeongbokgung Palace and many more popular attractions in Korea. Additionally, the best performing staff also got the chance to visit and have a guided tour of the Kookmin Card headquarters to meet and greet the team members from our parent company.

The best performing staff were all overwhelmed by all the amazing things they saw and experienced on this trip.





Athletic Program

The Athletic Program at KDSB is an outdoor program created in conjunction with the 1st Quarterly Awards of the year. This program is designed to allow employees to take a break from their hectic daily lives and enjoy some outdoor fun activities, knowing how important it is for our employees to be healthy and active, both mentally and physically.

This program consists of various outdoor activities to challenge and inspire employees, such as Warm-Up Exercises, Reversing Panel Game, Red-Light Green-Light Game and a Singing Competition. Each activity was carefully chosen to ensure the best experiences was delivered to employees.

The Athletic Program at KDSB is more than just physical exercises. KDSB also values the mental and emotional aspects of staying active, which is why it encourages employees to engage in activities that will also challenge their minds. KDSB is excited to be able to offer the KDSB Athletic Program again the following year, and they know that it will be an invaluable resource for our employees. With the help of this program, employees can take advantage and get out of their comfort zones to experience something new.



Quarterly Best Staff Awards

KDSB believes that hard work and dedication should be celebrated. Which is why it creating a cooperative reward program called the KDSB Quarterly Best Staff Awards. This quarterly celebration is designed to recognize the efforts of our employees and show them how much their hard work is noticed and appreciated.

The KDSB Quarterly Best Staff Awards program features unique and highly sought-after awards, such as best-staff-of-the-quarter trophies, special certificates, and gift prizes. In addition, each award recipient receives special recognition from their peers and supervisors.

KDSB is proud to have some of the most talented and dedicated people in the industry. The KDSB Quarterly Awards are our way of recognizing them for their hard work, creativity, and dedication to achieving the highest standards of excellence.

Annual Best Staff Awards

KDSB values the hard work and dedication of its employees every day. Accordingly, it organizes an annual corporate program called the KDSB Annual Best Staff Awards to honor the best performing staff of the year for their achievements and contributions. It's our way of saying thank you for all their hard work and dedication.

The best performing staff are awarded special certificates, trophies and other rewards, to show our appreciation and to encourage further excellence in the future. Additionally, every member of KDSB engaged in this celebration also enjoy a sumptuous dinner along with an entertainment agenda as this is the year-end party.

KDSB hopes that all our staff will be inspired to continue giving their all and strive towards achieving their full potential. KDSB is proud to have such a dedicated staff and looks forward to seeing who will be selected for the awards next year.




Other Activities

KDSB 4th Anniversary and Thank You Party

KDSB celebrated its 4th anniversary in 2022 under the KDSB 4th Anniversary and Thank You Party. This spectacular event was organized to celebrate four years of service in the community, and to express our earnest thanks to business partners, stakeholders and each member of KDSB for being part of our growth and success.

KDSB started out with a small team working in a small building in Phnom Penh and today has grown into being the number one specialized bank in Cambodia with a multitude of amazing team members, business partners, stakeholders, and loyal customers.

From a modest beginning to massive growth, KDSB has reflected on major milestones and considerable achievements, and has built a significant historic outcome. KDSB will continue to build on these accomplishments and move forward with the same enthusiasm it had when it started on this journey four years ago.  2018



Gift Sharing to Partners

KDSB knows that its business partners and stakeholders are vital to success. KDSB acknowledges and appreciates the value that its partners and stakeholders have brought. Wherefore, on the occasions of the Khmer New Year and Pchum Ben Festival, KDSB has prepared special corporate gifts for sharing with its partners and stakeholders as a means of expressing our thanks for the partnership and endless support thus far, as well as to further strengthen our relationships for mutually beneficial partnerships.

The gifts are prepared explicitly in accordance with the occasions of the Khmer New Year with a perfect combination of traditional decoration and thoughtful presents. KDSB hopes this gesture shows how much it values and cares about its partners and stakeholders.

The success of any partnership requires deep mutual trust and respect, and at KDSB, we strive to maintain that trust so that together, they can have a more prosperous future.



September 02, 2022, marked the official grand opening celebration of the new branch of KDSB in Tuek Thla District. From the headquarters to the fourth branch, KDSB has shown remarkably significant growth and has successfully provided customers with the highest quality banking experience.

**TUEK
Branch Opening
THLA**

KB DAEHAN SPECIALIZED BANK PLC.

The opening of Tuek Thla District branch presented a progressive milestone for KDSB as it is actively expanding our presence in the capital and across the regions and providing further convenient services with our ever-growing network bringing our customers closer and closer.

Our commitment to serving customers with the highest standards of excellence and a fast and flexible service remains our greatest priority. KDSB continues to be committed to expanding our reach and providing the best banking experience possible.



Bancassurance

KDSB and Forte Insurance have partnered up to offer automobile insurance to KDSB Auto Loan's customers with a convenient service at a competitive price. This cooperation is designed to ensure that customers have the security, a confident experience, and the financial coverage they need.

Customers who finance an automobile with KDSB receive excellent care in helping them with their vehicle insurance needs. Customers will be worry-free knowing their car is insured with a car insurance coverage plan designed to meet drivers' needs.

Forte Insurance's team of experts is stationed at KDSB headquarters to assist customers with a full range of services, including selecting the suitable package that fit their budget, helping customers file a claim, and providing exceptional customer service at their convenience.



Acquisition of i-Finance Leasing by KB Kookmin Card

In November 2022, KB Kookmin Card and KDSB reached a major milestone this year by acquiring a new subsidiary, i-Finance Leasing. This acquisition marks an important step as it drives us towards further improving our financial services and by offering customers an even more comprehensive range of products and services to help them reach their financial goals.



KB Kookmin Card and **KDSB** entrusted the new subsidiary of **KB Kookmin Card**, **i-Finance Leasing**, with building dependable and innovative financial solutions for all customers. With our commitment to innovation and excellence, KDSB is confident that i-Finance Leasing will be a major success.



PART 3:

**Audited Financial Statements
for the year ended 31 December 2022
and
Report of the Independent Auditors**

CORPORATE INFORMATION

Bank	KB Daehan Specialized Bank Plc.	
Registration No.	00020218	
Registered office	7 th , 20 th , 21 st and 22 nd Floor, Building No.1, Street 360 Sangkat Boeung Keng Kang Ti Muoy, Khan Boeung Keng Kang Phnom Penh, Kingdom of Cambodia.	
Shareholders	KB Kookmin Card Co., Ltd. Indochina Bank Ltd.	
Board of Directors	Joo Sung Soo	Chairman
	Lee Sangin	Member and Executive Director
	Bounheng Souphida	Member and Non-Executive Director
	Kim Kwang Hwan	Member and Independent Director
Management team	Lee Sangin	Chief Executive Officer
	Yang Tae Wook	Chief Financial Officer
	Min Kyeong Ho	Deputy Chief Executive Officer
	Pak Duho	Deputy Chief Executive Officer
	Shin Jae Min	Chief Risk Officer
	Shin Solji	Chief Marketing Officer
	Jeon Yong Sun	CTO/CISO
Legal and Compliance	Mey Ponlok	Compliance Officer
Auditors	KPMG Cambodia Ltd	

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Report of the Board of Directors

The Board of Director ("the Directors") have pleasure in submitting their report together with the audited financial statements of KB Daehan Specialized Bank Plc. ("the Bank") for the year ended 31 December 2022.

Principal activities

The principal activity of the Bank is to provide the car loans and general loans to residents and small and medium enterprises operating in the Kingdom of Cambodia.

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

Financial results

The financial results of the Bank for the year ended 31 December 2022 and 31 December 2021 were as follows:

	2022		2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Profit before income tax	9,620,731	39,319,927	6,348,994	25,827,708
Income tax expense	<u>(2,186,753)</u>	<u>(8,937,260)</u>	<u>(1,415,609)</u>	<u>(5,758,697)</u>
Net profit for the year	<u>7,433,978</u>	<u>30,382,667</u>	<u>4,933,385</u>	<u>20,069,011</u>

Dividend

On 27 March 2023, the Board of Directors agreed to propose a dividend amounting to US\$1,500,000 to shareholders and convene General Meeting of shareholders on 28 March 2023 to approve and this subject to obtain prior approval from the National Bank of Cambodia ("NBC").

Share capital

On 10 November 2022, The Bank requested to the National Bank of Cambodia ("NBC") to increase the share capital from US\$43,750,000 to US\$73,650,000 and this has been approved by the NBC on 13 January 2023. The amendment to the Memorandum and Articles of Association ("M&AA") is endorsed by the Ministry of Commerce on 17 March 2023.

KB Daehan Specialized Bank Plc.

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.

Loans and advances

Before the financial statements of the Bank were prepared, the Directors took reasonable steps to ascertain that action had been taken in relation to the writing off of any bad loans and advances and 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 Directors are not aware of any circumstances, which would render the amount written off for bad loans and advances, or the amount of allowance for doubtful loans and advances in the financial statements of the Bank, inadequate to any material extent.

Assets

Before the financial statements of the Bank were prepared, the Directors 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 Bank had been written down to an amount which they might be expected to realise.

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

Valuation methods

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

Contingent and other liabilities

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

- (a) any charge on the assets of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person, and
- (b) any contingent liability in respect of the Bank 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 Bank 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 Directors, will or may substantially affect the ability of the Bank to meet its obligations as and when they fall due.

KB Daehan Specialized Bank Plc.

Change of circumstances

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

Items of an unusual nature

The financial performance of the Bank for the financial year were not, in the opinion of the Directors, materially affected by any items, transactions or events of a material and unusual nature.

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

The Directors

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

Joo Sung Soo	Chairman
Lee Sangin	Member and Executive Director
Bounheng Souphida	Member and Non-Executive Director
Kim Kwang Hwan	Member and Independent Director

Directors' interests

None of the Directors held or dealt directly or indirectly in the shares of the Bank during the financial year.

Directors' benefits

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

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

KB Daehan Specialized Bank Plc.

Directors' responsibilities in respect of the financial statements

The Directors are responsible for ascertaining that the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2022, and its financial performance and its cash flows for the year then ended. In preparing these financial statements, the Directors are 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 Bank's financial reporting process and maintain adequate accounting records and an effective system of internal controls;
- (iv) assess the Bank'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 Directors either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so; and
- (v) control and direct effectively the Bank in all material decisions affecting the operations and performance and ascertain that such have been properly reflected in the financial statements.

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

Approval of the financial statements

We, hereby approve the accompanying financial statements together with the notes thereto as set out on pages 8 to 95 which, in our opinion, present fairly, in all material respects, the financial position of the Bank as at 31 December 2022, and its financial performance and its cash flows for the year then ended, in accordance with CIFRSs.

Signed on behalf of the Board of Directors in accordance with a resolution of the Board of Directors,



Lee Sangin
Chief Executive Officer

Phnom Penh, Kingdom of Cambodia

27 March 2023



KPMG Cambodia Ltd
GIA Tower, Sopheap Mongkul Street, Phum 14
Sangkat Tonle Bassac, Khan Chamkar Mon
Phnom Penh, Cambodia
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Report of the Independent Auditors

To the shareholders of KB Daehan Specialized Bank Plc.

Opinion

We have audited the financial statements of KB Daehan Specialized Bank Plc. ("the Bank"), which comprise the statement of financial position as at 31 December 2022, the statement 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 8 to 95 (hereafter referred to as "the financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2022, 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 Bank 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 comprises the Report of the Board of Directors on pages 1 to 4, and the annual report, which is expected to be made available to us after the date of auditors' report. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

Those charged with governance are responsible for overseeing the Bank'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 scepticism throughout the audit. We also:

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



Guek Teav
Partner

Phnom Penh, Kingdom of Cambodia

27 March 2023

KB Daehan Specialized Bank Plc.

Statement of financial position as at 31 December 2022

	Note	31 December 2022		31 December 2021	
		US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
ASSETS					
Cash on hand	7	266,779	1,098,329	277,855	1,131,981
Deposits and placements with National Bank of Cambodia	8	30,046,285	123,700,555	136,351	555,494
Deposits and placements with other banks	9	17,716,026	72,936,879	35,557,049	144,859,418
Financial assets at fair value through other comprehensive income	10	12,501	51,467	12,500	50,925
Loans and advances at amortised cost	11	288,562,400	1,188,011,401	211,562,138	861,904,150
Other financial assets at amortised cost	12	-	-	2,680,948	10,922,182
Statutory deposits	13	2,187,500	9,005,938	2,187,500	8,911,875
Other assets	14	6,506,011	26,785,247	4,434,524	18,066,250
Property and equipment	15	2,006,437	8,260,501	1,806,770	7,360,781
Intangible assets	16	370,114	1,523,759	4,792	19,523
Right-of-use assets	17	2,578,707	10,616,537	2,002,400	8,157,778
Deferred tax assets - net	22C	1,139,714	4,692,203	1,227,941	5,002,632
Foreclosed assets	18	-	-	220,000	896,280
TOAL ASSETS		<u>351,392,474</u>	<u>1,446,682,816</u>	<u>262,110,768</u>	<u>1,067,839,269</u>
LIABILITIES AND EQUITY					
LIABILITIES					
Borrowings	19	256,278,631	1,055,099,124	205,301,330	836,397,618
Other liabilities	20	2,360,638	9,718,747	1,836,774	7,483,018
Lease liabilities	21	2,191,572	9,022,702	1,646,907	6,709,499
Current income tax liabilities	22B	1,699,385	6,996,368	1,811,887	7,381,628
Provision for impairment of off-balance sheet items	34A	18,751	77,198	4,351	17,726
TOTAL LIABILITIES		<u>262,548,977</u>	<u>1,080,914,139</u>	<u>210,601,249</u>	<u>857,989,489</u>
EQUITY					
Share capital	23	43,750,000	178,281,250	43,750,000	178,281,250
Other capital	23A	29,900,000	119,600,000	-	-
Regulatory reserves	24	479,965	1,976,016	-	-
Retained earnings		14,713,532	59,965,285	7,759,519	31,558,634
Currency translation reserves		-	5,946,126	-	9,896
TOTAL EQUITY		<u>88,843,497</u>	<u>365,768,677</u>	<u>51,509,519</u>	<u>209,849,780</u>
TOTAL LIABILITIES AND EQUITY		<u>351,392,474</u>	<u>1,446,682,816</u>	<u>262,110,768</u>	<u>1,067,839,269</u>

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

KB Daehan Specialized Bank Plc.

Statement of profit or loss and other comprehensive income for the year ended 31 December 2022

		2022		2021	
	Note	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Interest income	25	31,079,256	127,020,919	20,257,392	82,407,071
Interest expense	25	(6,952,356)	(28,414,279)	(2,879,542)	(11,713,977)
Net interest income		24,126,900	98,606,640	17,377,850	70,693,094
Fee and commission income	26	1,920,862	7,850,563	1,163,788	4,734,290
Fee and commission expense	26	(616,471)	(2,519,517)	(715,538)	(2,910,809)
Net fee and commission income		1,304,391	5,331,046	448,250	1,823,481
Impairment losses on financial instruments	27	(549,998)	(2,247,842)	(2,156,162)	(8,771,267)
Net losses on derecognition of financial assets measured at amortised cost		(4,252,500)	(17,379,968)	(1,106,486)	(4,501,185)
Other losses		(306,265)	(1,251,705)	(118,484)	(481,993)
Other operating income	28	418,556	1,710,638	80,988	329,459
Personnel expenses	29	(5,975,695)	(24,422,665)	(4,720,692)	(19,203,775)
Depreciation and amortisation	30	(1,418,791)	(5,798,599)	(1,169,954)	(4,759,373)
Other operating expenses	31	(3,725,867)	(15,227,618)	(2,286,316)	(9,300,733)
Profit before income tax		9,620,731	39,319,927	6,348,994	25,827,708
Income tax expense	22A	(2,186,753)	(8,937,260)	(1,415,609)	(5,758,697)
Profit for the year		7,433,978	30,382,667	4,933,385	20,069,011
Other comprehensive income					
<i>Item that will not be reclassified to profit or loss</i>					
Currency translation difference		-	5,936,230	-	1,380,307
Total comprehensive income for the year		<u>7,433,978</u>	<u>36,318,897</u>	<u>4,933,385</u>	<u>21,449,318</u>

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

KB Daehan Specialized Bank Plc.

Statement of cash flows for the year ended 31 December 2022

	Note	2022 US\$	2022 KHR'000 (Note 6)	2021 US\$	2021 KHR'000 (Note 6)
Cash flows from operating activities					
Cash used in operations	32	(90,744,258)	(370,871,782)	(81,354,853)	(330,951,542)
Interest received		30,163,560	123,278,470	12,826,647	52,178,800
Interest paid	19C	(5,911,301)	(24,159,487)	(2,690,558)	(10,945,190)
Income tax paid	22B	(2,211,028)	(9,036,471)	(953,396)	(3,878,415)
Net cash used in operating activities		<u>(68,703,027)</u>	<u>(280,789,270)</u>	<u>(72,172,160)</u>	<u>(293,596,347)</u>
Cash flows from investing activities					
Purchases of property and equipment		(1,056,745)	(4,318,917)	(969,014)	(3,941,949)
Purchases of intangible assets		(368,478)	(1,505,970)	-	-
Purchases of financial assets a fair value through other comprehensive income		(1)	(4)	-	-
Balances with other banks and financial institutions		(7,000,000)	(28,609,000)	-	-
Other financial assets at amortised cost		2,757,955	11,271,762	19,006	77,316
Net cash used in investing activities		<u>(5,667,269)</u>	<u>(23,162,129)</u>	<u>(950,008)</u>	<u>(3,864,633)</u>
Cash flows from financing activities					
Proceed from issuance of other capital	23A	29,900,000	119,600,000	-	-
Proceeds from borrowings	19	125,000,518	510,877,117	140,006,759	569,547,496
Repayments of borrowings	19	(75,000,000)	(306,525,000)	(41,700,000)	(169,635,600)
Principal elements of lease payments	21	(466,969)	(1,908,502)	(630,720)	(2,565,769)
Net cash generated from financing activities		<u>79,433,549</u>	<u>322,043,615</u>	<u>97,676,039</u>	<u>397,346,127</u>
Net increase in cash and cash equivalents		5,063,253	18,092,216	24,553,871	99,885,147
Cash and cash equivalents at 1 January		35,995,282	146,644,779	11,441,411	46,280,507
Currency translation difference		-	4,300,993	-	479,125
Cash and cash equivalents at 31 December	33	<u>41,058,535</u>	<u>169,037,988</u>	<u>35,995,282</u>	<u>146,644,779</u>

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

KB Daehan Specialized Bank Plc.

Notes to the financial statements for the year ended 31 December 2022

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

1. Reporting entity

The Bank was incorporated in Cambodia on 24 June 2008 under the registration number 00020218 issued by the Ministry of Commerce (“MOC”). The Bank obtained its specialised banking license from the National Bank of Cambodia (“the NBC”) on 10 July 2008 to operate as a specialised bank with indefinite term.

On 22 March 2018 with the approval from the NBC, the Bank has changed its name from “Tomato Specialized Bank” to “KB Daehan Specialized Bank Plc.”. The Bank also obtained a new banking license with the its new name which was approved by the NBC on 22 March 2018.

The principal activity of the Bank is to provide the auto loans and general loans to residents and small and medium enterprises operating in the Kingdom of Cambodia.

The Bank’s registered office is located at 7th, 20th, 21st and 22nd Floor, Building No.1, Street 360, Sangkat Boeung Keng Kang TiMuoy, Khan Boeung Keng Kang, Phnom Penh, Kingdom of Cambodia.

As at 31 December 2022, the Bank has 396 employees (31 December 2021: 271 employees).

2. Statement of compliance

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

Details of the Bank’s accounting policies are included in Note 5.

The financial statements were approved and authorised for issue by the Board of Directors on 27 March 2023.

3. Functional and presentation currency

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

These financial statements are presented in US\$, which is the Bank’s functional currency. All amounts have been rounded to the nearest dollar, except when otherwise indicated.

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

4. Use of judgements and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank'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.

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

- Note 5C(i) – 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 SPPI on the principal amount outstanding.
- Note 36A(iii) – establishing the criteria for determining whether credit risk on the financial asset has increased significantly since its initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

Information about assumptions and estimation uncertainties at the reporting date that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within next financial year are included in the following notes:

- Note 36A(iii) – impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information.
- Note 36A(iii) – impairment of financial instruments: key assumptions used in estimating recoverable cash flows.
- Note 37 – determination of the fair value of financial instruments with significant unobservable inputs.

5. Significant accounting policies

A. Basis of measurement

The financial statements have been prepared under the historical cost convention except for equity instrument that measured at fair value through other comprehensive income ("FVOCI").

B. Foreign currency transactions

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

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

5. Significant accounting policies (continued)

B. Foreign currency transactions (continued)

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 impairment and payments during the year, and the amortised cost in the foreign currency translated at the spot 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 spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss.

C. Financial instruments

(i). *Financial assets*

Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("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 solely payments of principal and interest ("SPPI").

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.

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

5. Significant accounting policies (continued)

C. Financial instruments (continued)

(i). *Financial assets (continued)*

Classification (continued)

On initial recognition of an equity investment that is not held for trading, the Bank 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 Bank 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 Bank 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 Bank'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 Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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.

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

5. Significant accounting policies (continued)

C. Financial instruments (continued)

(i). *Financial assets (continued)*

Classification (continued)

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

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 Bank 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 Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank'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

In some cases, loans made by the Bank that are secured by collateral of the borrower limit the Bank's claim to cash flows of the underlying collateral (non-recourse loans). The Bank applies judgment in assessing whether the non-recourse loans meet the SPPI criterion.

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

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

5. Significant accounting policies (continued)

C. Financial instruments (continued)

(i). *Financial assets (continued)*

Classification (continued)

Non-recourse loans (continued)

The Bank typically considers the following information when making this judgement: (continued)

- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Bank'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 Bank will benefit from any upside from the underlying assets.

Reclassification

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

Recognition and derecognition

Financial assets are recognised when the Bank becomes a party to the contractual provision of the instruments. Regular way purchases and sales of financial assets are recognised on trade date, being the date on which the Bank commits to purchase or sell the assets.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Bank has transferred substantially all the risks and rewards of ownership. A gain or loss on derecognition of a financial asset measured at amortised cost is recognised in profit or loss when the financial asset is derecognised.

Measurement

At initial recognition, the Bank measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

5. Significant accounting policies (continued)

C. Financial instruments (continued)

(i). *Financial assets (continued)*

Measurement (continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Bank's business model for managing the assets and the cash flow characteristics of the assets. Based on these factors, the Bank classifies its debt instruments as financial assets measured at amortised cost.

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Equity instruments

The Bank subsequently measures all equity investments at fair value. Where the Bank's management has elected to present fair value gains or losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss allowing the derecognition of the investment. The Bank has elected to irrevocably designate all non-trading equity investments at fair value through other comprehensive income ("FVOCI"). Any changes in fair value of such instruments will be recognised in OCI and will not be subsequently reclassified to profit or loss when they are disposed off. Dividends from such investments continue to be recognised in profit or loss as other income when the Bank's right to receive payments is established. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment

The Bank assesses on a forward-looking basis the expected credit losses ("ECL") associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from credit commitments (including revolving facilities). The Bank recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

5. Significant accounting policies (continued)

C. Financial instruments (continued)

(i). *Financial assets (continued)*

Impairment (continued)

The Bank applies a three-stage approach to measuring expected credit losses (“ECLs”) for the following categories:

- debt instruments measured at amortised cost; and
- credit commitments (undrawn loans and advances).

The three-stage approach is based on the change in credit risk since initial recognition:

Stage 1: 12-month ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Stage 2: Lifetime ECL – not credit impaired

For exposures where there has been a significant increase in credit risk since initial recognition but are not credit impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset) is recognised.

Stage 3: Lifetime ECL – credit impaired

Exposures are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of provision) rather than the gross carrying amount.

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.

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

5. Significant accounting policies (continued)

C. Financial instruments (continued)

(i). *Financial assets (continued)*

Impairment (continued)

Restructured financial assets (continued)

- 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

Presentation of allowance for ECL in the statement of financial position

Impairment loss allowances for ECL are presented in the statement of financial position as follow:

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets.
- loan commitments: generally, as a provision.
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

(ii). *Financial liabilities*

Financial liabilities are recognised when the Bank becomes a party to the contractual provision of the instruments. Financial liabilities of the Bank include borrowings and other liabilities.

Financial liabilities are initially recognised at fair value less transaction costs for all financial liabilities not carried at fair value through profit or loss. The financial liabilities measured at amortised cost are borrowings and other liabilities.

Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

5. Significant accounting policies (continued)

C. Financial instruments (continued)

(iii). Interest rate benchmark reform

If the basis of determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changes as a result of interest rate benchmark reform, then the Bank updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e. the basis immediately before the change.

If changes are made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, then the Bank first updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Bank applies the policies on accounting for modifications set out above to the additional charges.

(iv). Credit commitments (undrawn loans and advances)

Credit commitments (undrawn loans and advances) provided by the Bank are measured as the amount of the loss allowance. The Bank has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For credit commitments (undrawn loans and advances), the expected credit losses are recognised as provisions (presented with other liabilities). However, for contracts that include both a loan and an undrawn commitment and that the Bank cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

D. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

5. Significant accounting policies (continued)

D. Offsetting financial instruments (continued)

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

E. Cash and cash equivalents

For the purpose of presentation of statement of cash flows, cash and cash equivalents include cash on hand, unrestricted balances with the NBC, deposits and placements with other banks, and other short-term highly liquid investments with original maturities of three months or less where the Bank has full ability to withdraw for general purpose whenever needed and subject to an insignificant risk of changes in value.

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

F. Deposits and placements with banks

Deposits and placements with banks are stated at amortised cost less allowance for impairment for any uncollectable amounts.

G. 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 the defined percentage of the minimum share capital as required by NBC.

H. Other assets

Other assets are carried at cost less impairment if any.

I. Property and equipment

Property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditure relating to an item of property and equipment are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the year in which they are incurred.

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

5. Significant accounting policies (continued)

I. Property and equipment (continued)

Work-in-progress is not depreciated. Depreciation is calculated on a declining balance method, except for leasehold improvements which are depreciated on a straight-line method, over the respective estimated useful lives of the assets determined as follows:

Leasehold improvements	5 years
Furniture, fixtures and fittings	4 – 5 years
Office equipment	4 – 5 years
Computer equipment	2 years
Motor vehicles	5 years

Depreciation on capital work-in-progress commences when the assets are ready for their intended use. The assets' useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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.

J. Intangible assets

Intangible assets comprise acquired computer software licences and related costs for the core banking system. They are stated at cost less accumulated amortisation and impairment loss, if any. Acquired computer software licences are capitalised on the basis of the cost incurred to acquire the specific software and bring it into use. These costs are amortised over their estimated useful lives of 10 years using the straight-line method.

K. Foreclosed assets

Foreclosed assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

Foreclosed assets are not depreciated or amortised while they are classified as held for sale.

Foreclosed assets are presented separately from the other assets in the statement of financial position.

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

5. Significant accounting policies (continued)

L. Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Any impairment loss is charged to profit or loss in the period in which it arises. Reversal of impairment losses is recognised in profit or loss 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, had no impairment loss been recognised.

M. Leases

The Bank as a lessee

As inception of contract, the Bank assesses whether the 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 a period of time in exchange for consideration.

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

Lease terms are negotiated on an individual basis and contain a wide range of different term and conditions. The lease agreements do not impose any covenants other than the security interests in the lease assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use.

Assets and liabilities arising from a lease are initially measured on a present value basis.

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

5. Significant accounting policies (continued)

M. Leases (continued)

Lease liabilities

Lease liabilities include the net present value of the lease payments from fixed payments (including in-substance fixed payments), less any lease incentives receivable.

Lease payments to be made under reasonably certain extension options are not included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Bank uses its recent borrowing rate as a starting point, making specific adjustments to the lease.

Lease payments are allocated between principal and interest expense. The interest expense is charge to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets

Right-of-use asset is initially measured at cost comprising the following:

- the amount the initial measurement of lease liability
- restoration cost
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct cost

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Bank is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

The estimated useful lives for the right-of-use assets were as follows:

- | | |
|-----------------------------------|--------------|
| • Buildings and branches' offices | 2 – 10 years |
| • Logo (advertisement space) | 5 years |

Subsequently the right-of-use asset is measured at cost less depreciation and any accumulated impairment losses.

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

5. Significant accounting policies (continued)

M. Leases (continued)

Recognition exemptions

Payments associated with short-term leases of assets and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of office furniture.

N. Provisions

Provisions are recognised in the statement of financial position when the Bank 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.

O. 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 Bank 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 operating 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. It is measured using tax rates enacted or substantively enacted at the reporting date.

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

(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.

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

5. Significant accounting policies (continued)

O. Income tax (continued)

(ii). Deferred tax (continued)

A deferred tax asset is 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.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

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 Bank 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.

P. Share capital

Share capital is classified as equity. Incremental costs directly attributable to the issue of new share are shown in equity as a deduction, net of tax, from the proceeds.

Q. Regulatory reserves

Regulatory reserves are set up for the variance of provision between loan impairment in accordance with CIFRS 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 bank 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 CIFRS; and

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

5. Significant accounting policies (continued)

Q. Regulatory reserves (continued)

- (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 CIFRS and transfer the difference from retained earnings or accumulated loss account into regulatory reserve in shareholders' equity of the statement of financial position.

The regulatory reserve is not an item to be included in the calculated of the Bank's net worth.

R. Borrowings

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

S. Employee benefits

(i). Short-term employee benefits

Short-term employee benefits are accrued in the year in which the associated services are rendered by the employees of the Bank.

(ii). Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognised as personnel expenses in profit or loss. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

T. Interest income and expense

Interest income and expense from financial instruments at amortised cost are recognised within "interest income" and "interest expense" respectively in the statement of profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instruments or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

5. Significant accounting policies (continued)

T. Interest income and expense (continued)

Interest income is calculated by applying effective interest rate to the gross carrying amount of a financial asset except for:

- Purchased or originated credit-impaired financial assets ("POCI"), for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial assets.
- Financial assets that are not POCI but have subsequently become credit-impaired (or 'Stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

U. Fee and commission income

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 measurement of the effective interest rate.

Other fee and commission income – including account servicing fees is recognised as the related services are performed.

A contract with a customer that results in a recognised financial instrument in the Bank'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 Bank 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.

V. 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 statements 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.

W. 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 statements 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.

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

5. Significant accounting policies (continued)

X. Changes in significant accounting policies

The Bank has adopted Onerous Contracts – Costs of Fulfilling a Contract (Amendments to IAS 37) from 1 January 2022. This resulted in a change in accounting policy for performing an onerous contracts assessment. Previously, the Bank included only incremental costs to fulfil a contract when determining whether that contract was onerous. The revised policy is to include both incremental costs and an allocation of other direct costs.

The Bank has analysed all contracts exists as at 1 January 2022 and determined that none of them would be identified as onerous applying the revised accounting policy – i.e. there is no impact on the opening equity balances as at 1 January 2022 as a result of the change.

Y. New standards, amendments and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; however, the Bank has not early adopted the new or amended standards in preparing these financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Bank's financial statements:

- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to IAS 8);
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12);
- Lease liability in a sale and lease back (Amendments to IFRS 16); and
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).

6. Translation of United States Dollars into Khmer Riel

The financial statements are expressed in United States Dollars ("US\$") which is the Bank's functional currency. The translations of US\$ amounts into Khmer Riel ("KHR") meets the presentation requirements pursuant to Law on Accounting and Auditing and has been done in compliance with IAS21 – *The Effects of Changes in Foreign Exchange Rates*.

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

6. Translation of United States Dollars into Khmer Riel (continued)

Assets and liabilities are translated at the closing rate as at the reporting date and share capital and other equity accounts are translated at the historical rate. The statements of profit or loss and other comprehensive income and cash flows are translated into KHR at the average rate for the year, which has been deemed to approximate the exchange rate at the date of transaction as exchange rates have not fluctuated significantly during the period. Exchange differences arising from the translation are recognised as “Currency Translation Reserves” in other comprehensive income.

The Bank uses the following exchange rates:

Financial year end		Closing rate	Average rate
31 December 2022	US\$1 =	KHR 4,117	KHR 4,087
31 December 2021	US\$1 =	<u>KHR 4,074</u>	<u>KHR 4,068</u>

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.

7. Cash on hand

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
US Dollars	239,227	984,897	249,180	1,015,159
Khmer Riel	<u>27,552</u>	<u>113,432</u>	<u>28,675</u>	<u>116,822</u>
	<u>266,779</u>	<u>1,098,329</u>	<u>277,855</u>	<u>1,131,981</u>

8. Deposits and placements with National Bank of Cambodia

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Current accounts (*)	<u>30,046,285</u>	<u>123,700,555</u>	<u>136,351</u>	<u>555,494</u>

(*) Current accounts held at the National Bank of Cambodia earns no interest.

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

9. Deposits and placements with other banks

A. Residency status

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Deposits and placements with local banks	17,691,031	72,833,975	35,548,167	144,823,233
Deposits and placements with overseas bank	67,787	279,079	32,909	134,071
	17,758,818	73,113,054	35,581,076	144,957,304
Less: Impairment loss allowance	(42,792)	(176,175)	(24,027)	(97,886)
	<u>17,716,026</u>	<u>72,936,879</u>	<u>35,557,049</u>	<u>144,859,418</u>

B. Account types

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Deposits and placements with local banks:				
Current accounts	6,549,546	26,964,481	24,618,923	100,297,493
Savings accounts	4,128,138	16,995,544	10,929,244	44,525,740
Fixed deposits > three months	7,000,000	28,819,000	-	-
	17,677,684	72,779,025	35,548,167	144,823,233
Interest receivables	13,347	54,950	-	-
Less: Impairment loss allowance	(42,792)	(176,175)	(24,027)	(97,886)
	<u>17,648,239</u>	<u>72,657,800</u>	<u>35,524,140</u>	<u>144,725,347</u>
Deposits and placements with overseas bank:				
Current account	67,787	279,079	32,909	134,071
	<u>17,716,026</u>	<u>72,936,879</u>	<u>35,557,049</u>	<u>144,859,418</u>

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

9. Deposits and placements with other banks (Continued)

C. Impairment loss allowance

The movement of impairment loss allowance during the year was as follow:

	2022		2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
At 1 January	24,027	97,886	13,422	54,292
Allowance for the year (Note 27)	18,765	76,693	10,605	43,141
Currency translation difference	-	1,596	-	453
At 31 December	<u>42,792</u>	<u>176,175</u>	<u>24,027</u>	<u>97,886</u>

D. Interest rates (per annum)

Annual interest rates applicable to deposits and placements with other banks at the year ended were as follows:

	31 December 2022	31 December 2021
Current accounts	0.00% - 2.00%	Nil
Savings accounts	0.00% - 2.00%	0.00% - 1.90%
Fixed deposits	<u>5.80%</u>	<u>3.00%</u>

10. Financial assets at fair value through other comprehensive income

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Investment in CBC	12,500	51,463	12,500	50,925
Investment in i-Finance Leasing Plc.	<u>1</u>	<u>4</u>	<u>-</u>	<u>-</u>
	<u>12,501</u>	<u>51,467</u>	<u>12,500</u>	<u>50,925</u>

The Bank has invested in i-Finance Leasing Plc. by taking part in 1 share (US\$1) and was approved by National Bank of Cambodia ("NBC") on 30 November 2022.

The Bank designated investment in Credit Bureau Cambodia (CBC) and i-Finance Leasing Plc. to be measured at fair value through other comprehensive income ("FVOCI") as they are not held for trading and the Bank has irrevocably elected at initial recognition to recognise as the financial assets at FVOCI. These are the strategic investments and the Bank considers this classification to be more relevant.

Dividend during the year was US\$9,802 (2021: US\$9,711). There is no gain/loss recognised in other comprehensive income because its fair value approximates the carrying amount at 31 December 2022.

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

11. Loans and advances at amortised cost

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Car loans	230,845,225	950,389,791	156,913,107	639,263,998
General loans	62,114,297	255,724,561	58,955,771	240,185,811
Credit card loans	569,505	2,344,652	164,725	671,089
	<u>293,529,027</u>	<u>1,208,459,004</u>	<u>216,033,603</u>	<u>880,120,898</u>
Less: Impairment loss allowance	<u>(4,966,627)</u>	<u>(20,447,603)</u>	<u>(4,471,465)</u>	<u>(18,216,748)</u>
Loans and advances – net	<u>288,562,400</u>	<u>1,188,011,401</u>	<u>211,562,138</u>	<u>861,904,150</u>

A. Impairment loss allowance

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
12 – month ECL (Stage 1)	2,358,187	9,708,656	1,549,255	6,311,665
Lifetime ECL – increase in credit risk (Stage 2)	1,195,651	4,922,495	2,115,113	8,616,970
Lifetime ECL – credit impaired (Stage 3)	<u>1,412,789</u>	<u>5,816,452</u>	<u>807,097</u>	<u>3,288,113</u>
	<u>4,966,627</u>	<u>20,447,603</u>	<u>4,471,465</u>	<u>18,216,748</u>

The movement of impairment loss allowance of loans and advances during the year is as follow:

	2022		2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
At 1 January	4,471,465	18,216,748	2,320,071	9,384,687
Allowance for the year (Note 27)	495,162	2,023,728	2,151,394	8,751,871
Currency translation difference	<u>-</u>	<u>207,127</u>	<u>-</u>	<u>80,190</u>
At 31 December	<u>4,966,627</u>	<u>20,447,603</u>	<u>4,471,465</u>	<u>18,216,748</u>

For additional analysis of impairment loss allowance of loans and advances, refer to Note 36A.

Gross amounts of loans and advances at amortised cost are analysed as follows:

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

11. Loans and advances at amortised cost (continued)

B. By industry

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Automotive	229,369,511	944,314,277	159,374,142	649,290,255
Building and constructions	33,775,423	139,053,416	41,079,742	167,358,869
Financial institutions	27,056,113	111,390,017	14,285,841	58,200,516
Wholesale and retail	70,054	288,412	416,306	1,696,031
Agriculture	2,219,765	9,138,773	247,539	1,008,474
Manufacturing	225,360	927,807	240,878	981,337
Hotel and restaurant	-	-	78,123	318,273
Others	812,801	3,346,302	311,032	1,267,143
	<u>293,529,027</u>	<u>1,208,459,004</u>	<u>216,033,603</u>	<u>880,120,898</u>

C. By maturity

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Within 1 year	6,121,956	25,204,093	6,306,844	25,694,082
> 1 to 3 years	52,945,736	217,977,595	31,633,511	128,874,924
> 3 to 5 years	104,769,096	431,334,368	61,069,990	248,799,139
> 5 years	129,692,239	533,942,948	117,023,258	476,752,753
	<u>293,529,027</u>	<u>1,208,459,004</u>	<u>216,033,603</u>	<u>880,120,898</u>

D. By large exposure

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Non-Large exposure	293,529,027	1,208,459,004	216,033,603	880,120,898
Large exposure	-	-	-	-
	<u>293,529,027</u>	<u>1,208,459,004</u>	<u>216,033,603</u>	<u>880,120,898</u>

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

11. Loans and advances at amortised cost (continued)

Gross amounts of loans and advances at amortised cost are analysed as follows: (continued)

E. By related parties

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Non-related parties	290,605,749	1,196,423,868	213,079,471	868,085,765
Related parties (Note 35C)	2,923,278	12,035,136	2,954,132	12,035,133
	<u>293,529,027</u>	<u>1,208,459,004</u>	<u>216,033,603</u>	<u>880,120,898</u>

F. By residency

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Residents	293,529,027	1,208,459,004	216,033,603	880,120,898
Non-residents	-	-	-	-
	<u>293,529,027</u>	<u>1,208,459,004</u>	<u>216,033,603</u>	<u>880,120,898</u>

G. By interest rates – per annum

Annual interest rates applicable to loans and advances at the year ended were as follows:

	31 December 2022	31 December 2021
General loans	6.00% - 18.00%	6.00% - 16.80%
Car loans	4.80% - 18.00%	5.91% - 18.00%
Staff loans	3.80% - 7.10%	4.00% - 7.40%
Related party loans	<u>6.20%</u>	<u>6.20%</u>

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

12. Other financial assets at amortised cost

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Current				
Bonds	-	-	2,689,305	10,956,229
Less: Impairment loss allowance	-	-	(8,357)	(34,047)
	<u>-</u>	<u>-</u>	<u>2,680,948</u>	<u>10,922,182</u>

Represents the bonds issued by LOLC on 25th April 2019 with maturity date on 26 April 2022 with par value of KHR 10,800,000,000. Its coupon rate is 8% per annum. These bonds have been fully repaid on 26 April 2022.

The movement of impairment loss allowance on bonds during the year is as follow:

	2022		2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
At 1 January	8,357	34,047	34,310	138,784
Reversal during the year (Note 27)	(8,357)	(34,155)	(25,953)	(105,577)
Currency translation difference	-	108	-	840
At 31 December	<u>-</u>	<u>-</u>	<u>8,357</u>	<u>34,047</u>

13. Statutory deposits

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Non-current				
Capital guarantee deposits	<u>2,187,500</u>	<u>9,005,938</u>	<u>2,187,500</u>	<u>8,911,875</u>

Under the National Bank of Cambodia's Prakas No. B7-00-05 dated 11 January 2000 on licensing of specialised banks, and Prakas No. B7-06-208 dated 13 September 2006 on the amendment to Article 9 and Article 13 of Prakas No. B7-00-05, the specialised banks are required to maintain an amount equal to 5% of its paid-up share capital in a permanent account with the National Bank of Cambodia.

This deposit is refundable should the Bank voluntarily ceases its operations in Cambodia and it is not available for use in the Bank's day-to-day operations.

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

14. Other assets

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Prepayments of employee benefit	2,358,735	9,710,912	1,934,727	7,882,078
Other prepayment	2,763,589	11,377,696	2,057,536	8,382,400
Deposits	190,157	782,876	183,353	746,981
Others	1,240,291	5,106,278	275,641	1,122,961
	<u>6,552,772</u>	<u>26,977,762</u>	<u>4,451,257</u>	<u>18,134,420</u>
Less: Impairment loss allowance	<u>(46,761)</u>	<u>(192,515)</u>	<u>(16,733)</u>	<u>(68,170)</u>
	<u>6,506,011</u>	<u>26,785,247</u>	<u>4,434,524</u>	<u>18,066,250</u>

The movement of impairment loss allowance on other assets during the year was as follow:

	2022		2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
At 1 January	16,733	68,170	-	-
Allowance for the year (Note 27)	30,028	122,723	16,733	68,070
Currency translation difference	-	1,622	-	100
At 31 December	<u>46,761</u>	<u>192,515</u>	<u>16,733</u>	<u>68,170</u>

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

15. Property and equipment

	Leasehold improvements US\$	Furniture, fixtures and fittings US\$	Office equipment US\$	Computer equipment US\$	Motor vehicles US\$	Work-in- progress US\$	Total US\$	KHR'000 (Note 6)
2022								
Cost								
At 1 January 2022	2,060,278	286,575	378,716	494,026	289,416	-	3,509,011	14,295,711
Additions	7,630	14,127	3,545	42,511	164,214	824,718	1,056,745	4,318,917
Transfers	581,389	180,642	9,047	53,640	-	(824,718)	-	-
Currency translation difference	-	-	-	-	-	-	-	182,589
At 31 December 2022	2,649,297	481,344	391,308	590,177	453,630	-	4,565,756	18,797,217
Less: Accumulated depreciation								
At 1 January 2022	694,234	189,442	180,225	433,640	204,700	-	1,702,241	6,934,930
Depreciation for the year	515,202	50,628	119,466	72,143	99,639	-	857,078	3,502,878
Currency translation difference	-	-	-	-	-	-	-	98,908
At 31 December 2022	1,209,436	240,070	299,691	505,783	304,339	-	2,559,319	10,536,716
Carrying amounts								
At 31 December 2022	1,439,861	241,274	91,617	84,394	149,291	-	2,006,437	8,260,501

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

15. Property and equipment (continued)

	Leasehold improvements US\$	Furniture, fixtures and fittings US\$	Office equipment US\$	Computer equipment US\$	Motor vehicles US\$	Work-in- progress US\$	Total US\$	Total KHR'000 (Note 6)
2021								
Cost								
At 1 January 2021	1,352,047	75,184	106,292	344,643	253,416	408,415	2,539,997	10,274,288
Additions	9,429	1,278	5,063	70,552	36,000	846,692	969,014	3,941,949
Transfers	948,616	106,889	172,515	27,087	-	(1,255,107)	-	-
Reclassification	(249,814)	103,224	94,846	51,744	-	-	-	-
Currency translation difference	-	-	-	-	-	-	-	79,474
At 31 December 2021	2,060,278	286,575	378,716	494,026	289,416	-	3,509,011	14,295,711
Less: Accumulated depreciation								
At 1 January 2021	540,041	35,518	53,223	245,120	142,500	-	1,016,402	4,111,346
Depreciation for the year	352,493	77,546	56,824	136,776	62,200	-	685,839	2,789,993
Reclassification	(198,300)	76,378	70,178	51,744	-	-	-	-
Currency translation difference	-	-	-	-	-	-	-	33,591
At 31 December 2021	694,234	189,442	180,225	433,640	204,700	-	1,702,241	6,934,930
Carrying amounts								
At 31 December 2021	1,366,044	97,133	198,491	60,386	84,716	-	1,806,770	7,360,781

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

16. Intangible assets

	2022			2021		
	Computer Software US\$	Work-in- progress US\$	Total US\$	Total KHR'000 (Note 6)	Computer Software US\$	Work-in- progress US\$
Cost						
At 1 January	48,124	-	48,124	196,057	48,124	-
Additions	57,002	311,476	368,478	1,505,970	-	-
Currency translation difference	-	-	-	13,123	-	-
At 31 December	105,126	311,476	416,602	1,715,150	48,124	-
Less: Accumulated amortization						
At 1 January	43,332	-	43,332	176,534	41,777	-
Amortisation for the year	3,156	-	3,156	12,899	1,555	-
Currency translation difference	-	-	-	1,958	-	-
At 31 December	46,488	-	46,488	191,391	43,332	-
Carrying amounts						
At 31 December	58,638	311,476	370,114	1,523,759	4,792	-
					4,792	-
					48,124	-
					196,057	-
					194,662	-
					1,395	-
					196,057	-
					168,988	-
					6,326	-
					1,220	-
					176,534	-
					4,792	-
					4,792	-
					19,523	-

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

17. Right-of-use assets

The Bank leases various buildings for branch operation, and logo (advertisement space). Rental contracts are typically made for fixed periods of 2 years to 10 years.

The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

	Buildings US\$	Logo US\$	US\$	Total KHR'000 (Note 6)
2022				
Cost				
At 1 January 2022	3,149,914	57,462	3,207,376	13,066,850
Additions	983,096	153,123	1,136,219	4,643,727
Write-off	(43,205)	-	(43,205)	(176,579)
Currency translation difference	-	-	-	170,708
At 31 December 2022	4,089,805	210,585	4,300,390	17,704,706
Less: Accumulated amortisation				
At 1 January 2022	1,164,740	40,236	1,204,976	4,909,072
Depreciation for the year	537,109	21,448	558,557	2,282,822
Write-off	(41,850)	-	(41,850)	(171,041)
Currency translation difference	-	-	-	67,316
At 31 December 2022	1,659,999	61,684	1,721,683	7,088,169
Carrying amounts				
At 31 December 2022	2,429,806	148,901	2,578,707	10,616,537
2021				
Cost				
At 1 January 2021	2,488,854	57,462	2,546,316	10,299,848
Additions	669,578	-	669,578	2,723,843
Write-off	(8,518)	-	(8,518)	(34,651)
Currency translation difference	-	-	-	77,810
At 31 December 2021	3,149,914	57,462	3,207,376	13,066,850
Less: Accumulated amortisation				
At 1 January 2021	697,080	28,740	725,820	2,935,942
Depreciation for the year	471,064	11,496	482,560	1,963,054
Write-off	(3,404)	-	(3,404)	(13,847)
Currency translation difference	-	-	-	23,923
At 31 December 2021	1,164,740	40,236	1,204,976	4,909,072
Carrying amounts				
At 31 December 2021	1,985,174	17,226	2,002,400	8,157,778

Information about lease liabilities is disclosed within this note and Note 21.

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

18. Foreclosed assets

Foreclosed assets consist of movable and immoveable properties acquired through foreclosure of collaterals from defaulting loans and advances that have devolved to the Bank as part of settlement of debts.

These assets are not held for operational purposes and have to be disposed of in order to recover the outstanding amount within the maximum allowable period of twelve months as per the guidelines No. B-7-01-186 Prakas issued by the National Bank of Cambodia.

The movement of the non-current assets held for sale during the year is as follow:

	2022		2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
At 1 January	220,000	896,280	401,944	1,625,863
Settlements	-	-	(79,400)	(322,999)
Write-off	(220,000)	(899,140)	(102,544)	(417,149)
Currency translation difference	-	2,860	-	10,565
At 31 December	-	-	220,000	896,280

19. Borrowings

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Current				
The Korea Development Bank	85,210,985	350,813,625	25,059,768	102,093,495
Sumitomo Mitsui				
Banking Corporation	30,073,142	123,811,126	20,057,818	81,715,551
Kookmin Bank Hongkong				
Branch (Note 35C)	40,994,504	168,774,373	20,179,818	82,212,579
Industrial Bank of Korea	-	-	10,003,926	40,755,993
Total current borrowings	156,278,631	643,399,124	75,301,330	306,777,618
Non-current				
The Korea Development Bank	-	-	60,000,000	244,440,000
Kookmin Bank Hongkong				
Branch (Note 35C)	100,000,000	411,700,000	40,000,000	162,960,000
Sumitomo Mitsui				
Banking Corporation	-	-	30,000,000	122,220,000
Total non-current borrowings	100,000,000	411,700,000	130,000,000	529,620,000
Total borrowings	256,278,631	1,055,099,124	205,301,330	836,397,618

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

19. Borrowings (continued)

The borrowings are guaranteed by the Shareholder's comfort letter. The principal is payable at maturity date.

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Principal amount	255,000,000	1,049,835,000	204,999,482	835,167,890
Interest payables	1,278,631	5,264,124	301,848	1,229,728
	<u>256,278,631</u>	<u>1,055,099,124</u>	<u>205,301,330</u>	<u>836,397,618</u>

A. By maturity

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Within 1 year	156,278,631	643,399,124	75,301,330	306,777,618
> 1 to 2 years	100,000,000	411,700,000	130,000,000	529,620,000
	<u>256,278,631</u>	<u>1,055,099,124</u>	<u>205,301,330</u>	<u>836,397,618</u>

B. By interest rate (per annum)

	31 December 2022	31 December 2021
Variable rate	3 months Libor + 0.94% to 1.65% 3 months SOFR + 2% Margin	3 months Libor + 0.94% to 1.75%
Fixed rate	2 years swap rate + 1.04%	4.00%

C. Reconciliation of movements of liabilities to cash flows arising from financing and operating activities

	2022		2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Principal amount				
At 1 January	204,999,482	835,167,890	106,692,723	431,572,065
Additions	125,000,518	510,877,117	140,006,759	569,547,496
Repayments	(75,000,000)	(306,525,000)	(41,700,000)	(169,635,600)
Currency translation difference	-	10,314,993	-	3,683,929
At 31 December	<u>255,000,000</u>	<u>1,049,835,000</u>	<u>204,999,482</u>	<u>835,167,890</u>

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

19. Borrowings (continued)

C. Reconciliation of movements of liabilities to cash flows arising from financing and operating activities (continued)

	2022		2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Interest payables				
At 1 January	301,848	1,229,728	171,389	693,268
Charge during the year	6,888,084	28,151,599	2,821,017	11,475,897
Interest payments	(5,911,301)	(24,159,487)	(2,690,558)	(10,945,190)
Currency translation difference	-	42,284	-	5,753
At 31 December	<u>1,278,631</u>	<u>5,264,124</u>	<u>301,848</u>	<u>1,229,728</u>

20. Other liabilities

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Current				
Advances from customers	616,803	2,539,378	410,459	1,672,210
Payable to a related party (Note 35C)	450,683	1,855,463	476,101	1,939,636
Provision for restoration	340,083	1,400,122	318,419	1,297,239
Accrued bonus	323,228	1,330,729	177,628	723,657
Other tax payables	291,961	1,202,003	86,714	353,273
Other payables	337,880	1,391,052	367,453	1,497,003
	<u>2,360,638</u>	<u>9,718,747</u>	<u>1,836,774</u>	<u>7,483,018</u>

21. Lease liabilities

The Bank leases the office spaces and logo (advertisement space). Information about leases for which the Bank is a lessee is presented below:

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Maturity analysis – contractual undiscounted cash flows				
Less than one year	308,198	1,268,851	460,115	1,874,509
One to five years	1,352,715	5,569,128	712,257	2,901,735
More than five years	751,242	3,092,863	646,527	2,633,951
Total undiscounted lease payments	<u>2,412,155</u>	<u>9,930,842</u>	<u>1,818,899</u>	<u>7,410,195</u>

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Notes to the financial statements (continued) for the year ended 31 December 2022

21. Lease liabilities (continued)

The Bank leases the office spaces and logo (advertisement space). Information about leases for which the Bank is a lessee is presented below: (continued)

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Present value of lease payments				
Current	254,713	1,048,653	419,336	1,708,375
Non-current	<u>1,936,859</u>	<u>7,974,049</u>	<u>1,227,571</u>	<u>5,001,124</u>
	<u>2,191,572</u>	<u>9,022,702</u>	<u>1,646,907</u>	<u>6,709,499</u>

Amounts recognised in the statement of profit or loss were as follow:

	2022		2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Interest expense (Note 25)	<u>64,272</u>	<u>262,680</u>	<u>58,525</u>	<u>238,080</u>
Expense relating to short-term leases	<u>206,843</u>	<u>841,437</u>	<u>173,628</u>	<u>706,319</u>

Amounts recognised in the statement of cash flows:

	2022		2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
<i>Cash flows from financing activity</i>				
Cash payments for the principal element of lease liabilities	<u>466,969</u>	<u>1,908,502</u>	<u>630,720</u>	<u>2,565,769</u>
<i>Cash flows from operating activity</i>				
Cash payments for the interest portion of lease liabilities	<u>64,272</u>	<u>262,680</u>	<u>58,525</u>	<u>238,080</u>

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Notes to the financial statements (continued) for the year ended 31 December 2022

22. Income tax

A. Income tax expense

	2022		2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Current income tax expense:				
Current tax	2,098,526	8,576,676	2,012,210	8,185,670
Over provision in prior year	-	-	(10,926)	(44,447)
	<u>2,098,526</u>	<u>8,576,676</u>	<u>2,001,284</u>	<u>8,141,223</u>
Deferred tax expenses:				
Deferred tax expenses/(benefits)	<u>88,227</u>	<u>360,584</u>	<u>(585,675)</u>	<u>(2,382,526)</u>
	<u>2,186,753</u>	<u>8,937,260</u>	<u>1,415,609</u>	<u>5,758,697</u>

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

The reconciliation of income tax computed at the statutory tax rate of 20% to taxation as disclosed in the profit or loss was as follows:

	2022			2021		
	US\$	KHR'000 (Note 6)	%	US\$	KHR'000 (Note 6)	%
Profit before income tax	<u>9,620,731</u>	<u>39,319,927</u>		<u>6,348,994</u>	<u>25,827,708</u>	
Income tax using statutory rate at 20%	1,924,146	7,863,985	20.00%	1,269,799	5,165,542	20.00%
Over provision in prior year	-	-	-	(10,926)	(44,447)	(0.17%)
Non-deductible expenses	<u>262,607</u>	<u>1,073,275</u>	<u>2.73%</u>	<u>156,736</u>	<u>637,602</u>	<u>2.47%</u>
Income tax expense	<u>2,186,753</u>	<u>8,937,260</u>	<u>22.73%</u>	<u>1,415,609</u>	<u>5,758,697</u>	<u>22.30%</u>

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Notes to the financial statements (continued) for the year ended 31 December 2022

22. Income tax (continued)

B. Current income tax liabilities

	2022		2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
At 1 January	1,811,887	7,381,628	763,999	3,090,376
Current income tax expense	2,098,526	8,576,676	2,012,210	8,185,670
Over provision in prior year	-	-	(10,926)	(44,447)
Income tax paid	(2,211,028)	(9,036,471)	(953,396)	(3,878,415)
Currency translation difference	-	74,535	-	28,444
At 31 December	<u>1,699,385</u>	<u>6,996,368</u>	<u>1,811,887</u>	<u>7,381,628</u>

C. Deferred tax assets – net

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Deferred tax assets	1,217,141	5,010,970	1,299,040	5,292,289
Deferred tax liabilities	<u>(77,427)</u>	<u>(318,767)</u>	<u>(71,099)</u>	<u>(289,657)</u>
Deferred tax assets – net	<u>1,139,714</u>	<u>4,692,203</u>	<u>1,227,941</u>	<u>5,002,632</u>

The movement of net deferred tax assets was as follows:

	2022		2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
At 1 January	1,227,941	5,002,632	642,266	2,597,966
Recognised in profit or loss	(88,227)	(360,584)	585,675	2,382,526
Currency translation difference	-	50,155	-	22,140
At 31 December	<u>1,139,714</u>	<u>4,692,203</u>	<u>1,227,941</u>	<u>5,002,632</u>

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

22. Income tax (continued)

C. Deferred tax assets – net (continued)

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

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Allowance for impairment losses	609,611	2,509,769	862,147	3,512,387
Unamortised processing fee	396,657	1,633,037	301,635	1,228,861
Leases	(77,427)	(318,767)	(71,099)	(289,657)
Accelerated depreciation and amortisation	210,873	868,164	135,258	551,041
Net deferred tax assets	<u>1,139,714</u>	<u>4,692,203</u>	<u>1,227,941</u>	<u>5,002,632</u>

23. Share capital

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Registered, issued and fully paid 43,750,000 ordinary shares of US\$1 each (31 December 2021: 43,750,000 shares of US\$1 each)	<u>43,750,000</u>	<u>178,281,250</u>	<u>43,750,000</u>	<u>178,281,250</u>

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

23. Share capital (continued)

The Bank's shareholders and their respective interest are as follows:

	31 December 2022			31 December 2021		
	% of Ownership	Number of shares	Amount US\$	% of Ownership	Number of shares	Amount US\$
KB Kookmin Card Co., Ltd.	95.7%	41,875,000	41,875,000	95.7%	41,875,000	41,875,000
Indochina Bank Ltd.	4.3%	1,875,000	1,875,000	4.3%	1,875,000	1,875,000
	<u>100%</u>	<u>43,750,000</u>	<u>43,750,000</u>	<u>100%</u>	<u>43,750,000</u>	<u>43,750,000</u>
Equivalent in KHR'000 (Note 6)			<u>178,281,250</u>			<u>178,281,250</u>

There were no changes in the shareholders and the shareholding structure of the Bank during the period under audit.

A. Other capital

On 10 November 2022, The Bank requested to the National Bank of Cambodia ("NBC") to increase the share capital from US\$43,750,000 to US\$73,650,000 and this has been approved by NBC on 13 January 2023. The amendment to the Memorandum and Articles of Association ("M&A") is endorsed by the Ministry of Commerce on 17 March 2023.

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

24. Regulatory reserves

Regulatory reserves represented the variance between the impairment loss on financial instruments in accordance with CIFRSs and the regulatory provision in accordance with the National Bank of Cambodia.

As at 31 December 2022, the Bank transferred from retained earnings to regulatory reserves of US\$479,965 (2021: nil).

	Balances with other banks US\$	Loans and advances US\$	Other financial assets at amortised cost	Other assets US\$	Off-balance sheet items US\$	Total US\$	KHR'000 (Note 5)
31 December 2022							
Allowance per NBC	178,136	5,323,265	-	38,665	14,830	5,554,896	22,869,507
Less: Allowance per CIFRS 9	42,792	4,966,627	-	46,761	18,751	5,074,931	20,893,491
Regulatory reserves (A)	<u>135,344</u>	<u>356,638</u>	<u>-</u>	<u>(8,096)</u>	<u>(3,921)</u>	<u>479,965</u>	<u>1,976,016</u>
31 December 2021							
Allowance per NBC	356,550	2,600,754	-	26,510	3,769	2,987,583	12,171,413
Less: Allowance per CIFRS 9	24,027	4,471,465	8,357	16,733	4,351	4,524,933	18,434,577
Differences	<u>332,523</u>	<u>(1,870,711)</u>	<u>(8,357)</u>	<u>9,777</u>	<u>(582)</u>	<u>(1,537,350)</u>	<u>(6,263,164)</u>
Regulatory reserves (B)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
			Transfer from retained earnings to regulatory reserves (A - B)			<u>479,965</u>	<u>1,976,016</u>

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

25. Net interest income

	2022		2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Interest income from financial assets measured at amortised cost:				
- Loans and advances	30,737,298	125,623,337	19,807,545	80,577,094
- Balances with the National bank of Cambodia	1,309	5,350	1,641	6,676
- Balances with other banks	118,399	483,897	107,701	438,127
- Investment in debt securities	68,650	280,572	215,705	877,488
- Loan processing fees	153,600	627,763	124,800	507,686
Total interest income	<u>31,079,256</u>	<u>127,020,919</u>	<u>20,257,392</u>	<u>82,407,071</u>
Interest expense to financial liabilities measured at amortised cost:				
- Borrowings	6,888,084	28,151,599	2,821,017	11,475,897
- Lease liabilities	64,272	262,680	58,525	238,080
Total interest expense	<u>6,952,356</u>	<u>28,414,279</u>	<u>2,879,542</u>	<u>11,713,977</u>
Net interest income	<u>24,126,900</u>	<u>98,606,640</u>	<u>17,377,850</u>	<u>70,693,094</u>

26. Net fee and commission income

	2022		2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Fee and commission income:				
Penalty fees on late payments of loans and advances	1,158,723	4,735,701	715,773	2,911,765
Referral fee	647,433	2,646,059	413,646	1,682,712
Others	114,706	468,803	34,369	139,813
Total fee and commission income	<u>1,920,862</u>	<u>7,850,563</u>	<u>1,163,788</u>	<u>4,734,290</u>
Fee and commission expense	<u>616,471</u>	<u>2,519,517</u>	<u>715,538</u>	<u>2,910,809</u>
Net fee and commission income	<u>1,304,391</u>	<u>5,331,046</u>	<u>448,250</u>	<u>1,823,481</u>

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

27. Impairment losses on financial instruments

	2022		2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Deposits and placements with other banks (Note 9C)	18,765	76,693	10,605	43,141
Loans and advances (Note 11A)	495,162	2,023,728	2,151,394	8,751,871
Other financial assets at amortised cost (Note 12)	(8,357)	(34,155)	(25,953)	(105,577)
Credit commitment (Note 34A)	14,400	58,853	3,383	13,762
Others (Note 14)	30,028	122,723	16,733	68,070
	<u>549,998</u>	<u>2,247,842</u>	<u>2,156,162</u>	<u>8,771,267</u>

For additional analysis of impairment loss on financial instruments, refer to Note 36A.

28. Other operating income

	2022		2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Dividend income	9,802	40,061	9,711	39,504
Other income	408,754	1,670,577	71,277	289,955
	<u>418,556</u>	<u>1,710,638</u>	<u>80,988</u>	<u>329,459</u>

29. Personnel expenses

	2022		2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Salaries	3,373,055	13,785,676	2,521,396	10,257,039
Bonuses	1,251,099	5,113,242	1,119,759	4,555,180
Others	1,115,267	4,558,095	907,099	3,690,078
Seniority indemnity	229,300	937,149	172,438	701,478
Pension fund	6,974	28,503	-	-
	<u>5,975,695</u>	<u>24,422,665</u>	<u>4,720,692</u>	<u>19,203,775</u>

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

30. Depreciation and amortisation

	2022		2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Property and equipment	857,078	3,502,878	685,839	2,789,993
Right-of-use assets	558,557	2,282,822	482,560	1,963,054
Intangible assets	3,156	12,899	1,555	6,326
	<u>1,418,791</u>	<u>5,798,599</u>	<u>1,169,954</u>	<u>4,759,373</u>

31. Other operating expenses

	2022		2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Royalty fee and				
IT software direct cost	982,631	4,016,013	730,491	2,971,637
Legal and professional fees	471,653	1,927,646	536,377	2,181,982
Other tax expense	366,286	1,497,011	104,642	425,684
Foreclosed assets written-off	220,000	899,140	102,544	417,149
Advertising expense	199,124	813,820	129,333	526,127
Penalty expense	191,748	783,674	-	-
License fees	139,628	570,660	68,118	277,104
Entertainment	123,100	503,110	37,563	152,806
Utilities	117,327	479,515	85,644	348,400
Office supplies	95,542	390,480	90,468	368,024
Rental expense	74,713	305,352	42,757	173,935
Communication and public relation	58,903	240,737	42,790	174,070
Membership fee	51,526	210,587	38,835	157,981
Travelling	48,649	198,828	17,567	71,463
Security	34,568	141,279	24,175	98,344
Others	550,469	2,249,766	235,012	956,027
	<u>3,725,867</u>	<u>15,227,618</u>	<u>2,286,316</u>	<u>9,300,733</u>

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Notes to the financial statements (continued) for the year ended 31 December 2022

32. Cash used in operations

	2022		2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Profit for the year	7,433,978	30,382,667	4,933,385	20,069,011
<i>Adjustments for:</i>				
Income tax expense	2,186,753	8,937,260	1,415,609	5,758,697
Depreciation and amortisation	1,418,791	5,798,599	1,169,954	4,759,373
Impairment losses on financial instruments	549,998	2,247,842	2,156,162	8,771,267
Net interest income	(24,126,900)	(98,606,640)	(17,377,850)	(70,693,094)
<i>Changes in:</i>				
Loans and advances	(76,661,725)	(313,316,470)	(71,492,841)	(290,832,877)
Other assets	(2,101,515)	(8,588,892)	(3,037,931)	(12,358,303)
Foreclosed assets	220,000	899,140	181,944	740,148
Other liabilities	336,362	1,374,712	696,715	2,834,236
Cash used in operations	<u>(90,744,258)</u>	<u>(370,871,782)</u>	<u>(81,354,853)</u>	<u>(330,951,542)</u>

33. Cash and cash equivalents

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Cash on hand (Note 7)	266,779	1,098,329	277,855	1,131,981
Deposits and placements with National Bank of Cambodia:				
Current accounts (Note 8)	30,046,285	123,700,555	136,351	555,494
Deposits and placements with other banks: (Note 9)				
Current accounts	6,617,333	27,243,560	24,651,832	100,431,564
Savings accounts	4,128,138	16,995,544	10,929,244	44,525,740
	<u>41,058,535</u>	<u>169,037,988</u>	<u>35,995,282</u>	<u>146,644,779</u>

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

34. Commitments and contingencies

A. Credit commitments

Contractual amounts arising from off-balance sheet financial instruments that the Bank committed to extend credit to customers, guarantees and other facilities were as follows:

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Unused portion of approved credit facilities	1,434,371	5,905,305	376,871	1,535,372
Less: Impairment loss allowance	(18,751)	(77,198)	(4,351)	(17,726)
	<u>1,415,620</u>	<u>5,828,107</u>	<u>372,520</u>	<u>1,517,646</u>

Movements of impairment loss allowance for unused portion of approved credit facilities were as follows:

	2022		2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
At 1 January	4,351	17,726	968	3,916
Allowance for the year (Note 27)	14,400	58,853	3,383	13,762
Currency translation difference	-	619	-	48
At 31 December	<u>18,751</u>	<u>77,198</u>	<u>4,351</u>	<u>17,726</u>

B. Taxation contingencies

The tax returns of the Bank are subject to periodic examination by the tax authorities. As the application of tax laws and regulations to various types of transactions is susceptible to varying interpretations, amounts reported in the financial statements of the Bank could be changed at a later date, upon final determination by the tax authorities.

On 24 March 2021, the General Department of Taxation ("GDT") has issued a Notice of Tax Reassessment ("NTR") for comprehensive tax audit for the periods from 1 January 2018 to 31 December 2019. Subsequently on 20 May 2022, the GDT has finalised the penalty which the Bank has to pay amounting to KHR1,101,367,026 (approximately US\$191,748). On 3 June 2022, the Bank has fully paid this amount to the GDT.

On 26 April 2022, the General Department of Taxation ("GDT") has issued a Notice of Tax Reassessment ("NTR") for comprehensive tax audit for the periods from 1 January 2020 to 31 December 2021. As the results of the meeting dated 16 March 2023 between the GDT's officers, the Bank's management team and the representative of the Bank's tax advisor, the Bank has provided provision amounting US\$100,000 on the tax reassessment in the financial statements. The management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation.

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

35. Related party transactions and balances

A. Related parties and relationship

Related parties of, and their relationship with the Bank are as follows:

Related party	Relationship
KB Kookmin Card Co., Ltd.	Parent Company
Kookmin Bank Cambodia Plc.	Sister Company
Kookmin Bank Hongkong Branch	Sister Company
PRASAC Microfinance Institution Plc.	Sister Company
i-Finance Leasing Plc.	Sister Company
Key management personnel	The key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Bank either directly or indirectly. The key management personnel of the Bank include all Directors of the Bank.

B. Transactions with related parties

	2022		2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
KB Kookmin Card Co., Ltd.				
Guarantee fee expenses	436,042	1,782,104	569,508	2,316,759
IT and royalty fee expense	<u>982,631</u>	<u>4,016,013</u>	<u>730,491</u>	<u>2,971,637</u>
Kookmin Bank Cambodia Plc.				
Interest expense – borrowing	<u>-</u>	<u>-</u>	<u>35,726</u>	<u>145,333</u>
Kookmin Bank – Hong Kong Branch				
Interest expense – Borrowing	<u>3,992,388</u>	<u>16,316,890</u>	<u>701,708</u>	<u>2,854,548</u>
PRASAC Microfinance Institution Plc.				
Interest income	<u>184,557</u>	<u>754,284</u>	<u>169,648</u>	<u>690,128</u>

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

35. Related party transactions and balances (continued)

C. Balance with related parties

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
KB Kookmin Card Co.,Ltd. (Note 20)	<u>450,683</u>	<u>1,855,463</u>	<u>476,101</u>	<u>1,939,636</u>
i-Finance Leasing Plc.	<u>1</u>	<u>4</u>	<u>-</u>	<u>-</u>
Kookmin Bank-Hong Kong Branch – Borrowings (Note 19)	<u>140,994,504</u>	<u>580,474,373</u>	<u>60,179,818</u>	<u>245,172,579</u>
Kookmin Bank Cambodia Plc Current account	<u>334,902</u>	<u>1,378,792</u>	<u>4,112,296</u>	<u>16,753,494</u>
PRASAC Microfinance Institution Plc. Savings account	970	3,993	4,001,000	16,300,075
Loans and advances (Note 11E)	<u>2,923,278</u>	<u>12,035,136</u>	<u>2,954,132</u>	<u>12,035,133</u>

D. Key management personnel compensation

	2022		2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Salaries and short-term benefits	<u>724,697</u>	<u>2,961,837</u>	<u>746,626</u>	<u>3,037,275</u>

36. Financial risk management

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

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

Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business.

The Bank do not use derivative financial instruments such as foreign exchange contract and interest rate swaps to manage their risk exposure.

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

36. Financial risk management (continued)

The Bank holds the following financial assets and liabilities:

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Financial assets				
<i>Financial assets at amortised costs</i>				
Cash on hand	266,779	1,098,329	277,855	1,131,981
Deposits and placements with National Bank of Cambodia	30,046,285	123,700,555	136,351	555,494
Deposits and placements with other banks	17,716,026	72,936,879	35,557,049	144,859,418
Other financial assets at amortised cost	-	-	2,680,948	10,922,182
Loans and advances at amortised cost	288,562,400	1,188,011,401	211,562,138	861,904,150
Other financial assets	1,430,448	5,889,154	458,994	1,869,942
	<u>338,021,938</u>	<u>1,391,636,318</u>	<u>250,673,335</u>	<u>1,021,243,167</u>
<i>Financial assets at fair value through other comprehensive income</i>	<u>12,501</u>	<u>51,467</u>	<u>12,500</u>	<u>50,925</u>
Total financial assets	<u>338,034,439</u>	<u>1,391,687,785</u>	<u>250,685,835</u>	<u>1,021,294,092</u>
Financial liabilities				
<i>Liabilities at amortised cost</i>				
Borrowings	256,278,631	1,055,099,124	205,301,330	836,397,618
Lease liabilities	2,191,572	9,022,702	1,646,907	6,709,499
Other financial liabilities	1,106,132	4,553,945	1,018,594	4,149,752
Total financial liabilities	<u>259,576,335</u>	<u>1,068,675,771</u>	<u>207,966,831</u>	<u>847,256,869</u>
Credit commitments	<u>1,415,620</u>	<u>5,828,107</u>	<u>372,520</u>	<u>1,517,646</u>

A. Credit risk

“Credit risk” is the risk of suffering financial loss, should any of the Bank’s customers, clients or market counterparties fail to fulfil their contractual obligations to the Bank. Credit risk arises from deposits and placements with NBC and other bank, loans and advances, other financial assets at amortised cost, and credit commitments. For risk management reporting purposes, the Bank 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.

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

36. Financial risk management (continued)

A. Credit risk (continued)

(i). *Credit risk measurement*

Credit risk is managed on a group basis.

Deposits and placements with NBC and other banks of the Bank are considered to be low credit risk. The credit ratings of these assets are monitored for credit deterioration. Measurement for impairment is limited to 12-month expected credit loss ("ECL"). Other financial assets at amortised cost are monitored for its credit rating deterioration, and the measurement of impairment follows three-stage approach.

For loans and advances and credit commitments, the estimation of credit exposure for risk management purposes requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of default occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD") for the purposes of measuring Expected Credit Loss ("ECL") under CIFRS 9.

(ii). *Risk limit control and mitigation policies*

The Bank operates and provides loans and advances to individuals or enterprises within the Kingdom of Cambodia. The Bank manages limits and controls the concentration of credit risk whenever it is identified.

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security in the form of collateral for loans and advances. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types as security for loans and advances are:

- mortgages over residential properties (land, building, vehicles);
- charges over business assets such as land and buildings.

(iii). *Impairment (expected credit loss) policies*

The measurement of expected credit loss allowance under the CIFRS9's three-stage approach is to recognise lifetime expected credit loss allowance for financial instrument for which there has been a significant increase in credit risk since initial origination or is credit-impaired as at the reporting date. The financial instrument which has not undergone any significant deterioration in credit risk shall be recognised with 12-month expected credit loss allowance.

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

36. Financial risk management (continued)

A. Credit risk (continued)

(iii). *Impairment (expected credit loss) policies (continued)*

Under the three-stage approach, the financial instrument is allocated into three stages based on the relative movement in the credit risk.

- Stage 1 includes financial instruments that neither have a significant increase in credit risk since initial recognition nor credit-impaired as at reporting date. For these assets, 12-month expected credit loss allowance are recognised.
- Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition but do not have objective evidence of impairment. For these assets, lifetime expected credit loss allowance are recognised.
- Stage 3 includes financial instruments that have objective evidence of impairment at the reporting date. For these assets, lifetime expected credit loss allowance are recognised.

The key judgements and assumptions adopted by the Bank in addressing the requirements of the standard on the measurement of allowances are:

Significant increase in credit risk (“SICR”)

The Bank considers a financial instrument to have experienced a significant increase in credit risk when it has been past due 30 days for long term facilities or more than or equal to 15 days past due for short term facilities on its contractual payment. In addition to the past due status, the Bank also considers loans that classified as “special mention” under regulatory provision guideline from NBC as SICR.

Definition of default and credit-impaired

The Bank defines a financial instrument as in default which is also credit-impaired when it meets one of the following criteria:

- The principal or interest or both of the loan is past due 90 days for long term facilities or more than or equal to 60 days past due for short term facilities. For the purpose of ascertaining the period in arrears:
 - Repayment on each of the instalment amount must be made in full. A partial repayment made on an instalment amount shall be deemed to be in arrears.
 - Where a moratorium on loan repayment is granted in relation to the rescheduling and restructuring, the determination of period in arrears shall exclude the moratorium period granted. The moratorium shall be for a period of not more than 6 months from the date of the obligor's/counterparty's application for the moratorium.
 - Where repayments are scheduled on interval of 90 days for long term facilities or more than or equal to 60 days past due for short term facilities, the loan is classified as impaired as soon as a default occurs, unless it does not exhibit any weakness that would render it classified according to the credit risk grading policy.

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

36. Financial risk management (continued)

A. Credit risk (continued)

(iii). *Impairment (expected credit loss) policies (continued)*

Definition of default and credit-impaired (continued)

The Bank defines a financial instrument as in default which is also credit-impaired when it meets one of the following criteria: (continued)

- The loan is forced impaired due to various reasons, such as bankruptcy, significant financial difficulty, etc. In the event where a loan is not in default or past due but force impaired, the loan shall be classified as impaired upon approval by Credit Committee.
- Restructuring and rescheduling of a loan facility involves any modification made to the original repayment terms and conditions of the loan facility following an increase in the credit risk of an obligor/counterparty.
- When an obligor/counterparty has multiple loans with the Bank and cross default obligation applies, an assessment of provision is required under which default of one debt obligation triggers default on another debt obligation (cross default). Where there is no right to set off clause is available, assessment of provision needs to be performed on individual loan level instead of consolidated obligor/counterparty level.
- Write-off/charged-off accounts.

Measuring ECL

The Expected Credit Loss ("ECL") is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default ("PD"), Loss Given Default ("LGD"), and Exposure at Default ("EAD").

The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. The ECL is assessed and measured on collective basis.

For collective assessment, the ECL is determined by projecting the PD, LGD and EAD for each future month and for collective segment. The three components are multiplied together to calculate an ECL for each future year, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

36. Financial risk management (continued)

A. Credit risk (continued)

(iii). *Impairment (expected credit loss) policies (continued)*

Measuring ECL (continued)

Probability of Default (“PD”), Loss Given Default (“LGD”), and Exposure at Default (“EAD”) are defined as follows:

Probability of Default (“PD”)

The PD represents the likelihood of a borrower will be unable to meet its financial obligation either over the next 12 months (12-month PD) or over the remaining lifetime (Lifetime PD) of the obligation.

The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition through the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio. This is supported by historical analysis.

Loss Given Default (“LGD”)

LGD represents the Bank’s expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default. LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

Because there is no sufficient historical data for LGD study and no market observable data in Cambodia, the Bank proxies Basel II’s (published by Basel Committee on Banking Supervision) LGD under the foundation internal ratings-based approach for non-recognised collateral. Due to low historical default, the Bank assesses that it is appropriate to assign 35%, 40% and 45% LGD to secured with movable properties, secured with immovable properties and unsecured facilities, respectively.

The assumptions underlying the ECL calculation are monitored and reviewed periodically. There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Exposure at Default (“EAD”)

EAD is the total amount that the Bank is exposed to at the time the borrower defaults.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12-month or remaining maturity.

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

36. Financial risk management (continued)

A. Credit risk (continued)

(iii). *Impairment (expected credit loss) policies (continued)*

Forward-looking information incorporated into the ECL models

The estimation of ECL incorporates forward-looking information. The Bank has performed statistical analysis based on historical experience to identify the key economic variables impacting credit risk and expected credit losses for each portfolio.

The analysis is performed on PD to understand the impact changes in these variables have had historically on default rate. Historical economic variables for analysis are sourced from external research houses. The statistical regression analysis shows relationships of these economic variables on historical default rate.

These economic variables and their associated impact on the PD vary by financial instrument. Expert judgement has also been applied in this process. The historical and forecasts of these economic variables are sourced from external research house. The impact of these economic variables on the PD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates (PD).

In addition, the Bank considers other possible scenarios along with scenario weightings. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of the complete distribution, the total of the weighting applied should be 100%. Previously, the Bank determined the weighting of each macro-economic variable, including GDP, Domestic Credit to Private Sector ("DCPS") and Short-term interest rates as 80%, 10% and 10%, respectively. However, after re-performing the analysis in the correlation of PD and macro-economic variables above, the result of analysis clearly indicated that DCPS and short-term interest rate does not have strong correlation with the NPL ratio of Cambodia and only GDP growth rate showed the reasonably strong correlation with the NPL ratio. Therefore, the Bank decides to use GDP is the single independent macro-economic variable for the forward-looking PD estimation.

As with any economic forecasts, the projects and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Bank's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

The Bank is to periodically perform statistical analysis and monitor on its portfolio's circumstances.

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

36. Financial risk management (continued)

A. Credit risk (continued)

(iii). Impairment (expected credit loss) policies (continued)

Grouping of exposure for ECL measured on collective basis

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Bank has considered benchmarking internal/external supplementary data to use for modelling purposes.

The appropriateness of groupings is monitored and reviewed on a periodic basis by the Credit Risk.

Macroeconomic variable assumptions

The most significant period-end assumptions used for the ECL estimate as at 31 December 2022 are set out below. The scenario “base”, “best”, and “worst” were used for all portfolios.

	31 December 2022		31 December 2021	
	2023	2024	2022	2023
GDP	6.20%	6.20%	5.50%	5.50%
DCPS	N/A	N/A	N/A	N/A
IR	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

The weightings assigned to each economic scenario as at 31 December 2022, and 31 December 2021 were as follows:

	31 December 2022	31 December 2021
	All portfolios weightings	All portfolios weightings
GDP	100%	100%
DCPS	N/A	N/A
IR	<u>N/A</u>	<u>N/A</u>
	<u>100%</u>	<u>100%</u>

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This reviewed and monitored for appropriateness periodically.

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

36. Financial risk management (continued)

A. Credit risk (continued)

(iii). Impairment (expected credit loss) policies (continued)

Grouping of exposure for ECL measured on collective basis (continued)

Sensitivity analysis

The most significant assumptions affecting the ECL allowance is GDP, given the significant impact on obligors' ability to meet contractual repayments, business performance, and collateral valuation.

Set out below are the changes to the ECL as at 31 December 2022 and 31 December 2021 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Bank's economic variable assumptions:

	31 December 2022	31 December 2021
	ECL	ECL
	US\$	US\$
GDP		
Annual growth rate increase by 1%	5,016,293	4,516,180
No change	4,966,627	4,471,465
Annual growth rate decrease by 1%	<u>4,916,961</u>	<u>4,426,750</u>

Write off policy

Write-off is usually taken when relevant recovery actions have been exhausted or further recovery is not economically feasible or justifiable. When a loan or debt instrument is deemed uncollectible, it is written off against the related allowance for impairment. Such loans are either written off in full or partially after taking into consideration the realisable value of collateral (if any) and when in the judgement of the management, there is no prospect of recovery. All write-offs must be approved by the Board or its delegated authorities.

Modification of loans

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Bank assess whether or not the new terms are substantially different to the original terms. The Bank do this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

36. Financial risk management (continued)

A. Credit risk (continued)

(iv). Collateral held

Maximum exposures to credit risk before collateral held or other credit enhancements of the Bank were as follows:

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Deposits and placements				
with other banks	17,758,818	73,113,054	35,581,076	144,957,304
Other financial assets				
at amortised cost	-	-	2,689,305	10,956,229
Loans and advances	293,529,027	1,208,459,004	216,033,603	880,120,898
Other financial assets	1,430,448	5,889,154	458,994	1,869,942
<i>Credit risk exposure related to off-balance sheet items:</i>				
Credit commitments	1,434,371	5,905,305	376,871	1,535,372
Total gross credit exposure	314,152,664	1,293,366,517	255,139,849	1,039,439,745
Impairment loss allowance (ECL)	(5,074,931)	(20,893,491)	(4,524,933)	(18,434,577)
Total net credit exposure	309,077,733	1,272,473,026	250,614,916	1,021,005,168

The above table represents a worst case scenario of credit risk exposure to the Bank, since collateral held and/or other credit enhancement attached were not taken into account. For on-balance sheet assets, the exposures set out above are based on net carrying amounts. As shown above, 92% for the Bank (2021: 86%) of total maximum exposure is derived from loans and advances. Management is confident of its ability to continue to control and sustain minimal exposure on credit risk resulting from the Bank's loans and advances due to the following:

- Almost all loans and advances are collateralised and loans to collateral value range from 50% to 80%.
- The Bank has a proper credit evaluation process in place for granting of loans and advances.
- The Deposits and placements with other banks were held with local banks and oversea banks and management has done proper risk assessment and believe there will be no material loss from these local banks.

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

36. Financial risk management (continued)

A. Credit risk (continued)

(v). Credit quality of financial assets

The Bank assess credit quality of loans, advances and financing using internal rating techniques tailored to the various categories of products and counterparties. These techniques have been developed internally and combine statistical analysis with credit officers' judgement.

Credit quality description is summarised as follows:

Credit Quality	Description
Standard monitoring	Obligors in this category exhibit strong capacity to meet financial commitment. The Bank monitors obligors in this category by delinquency status. Obligors that are less than 30 days past due on its contractual payments are in standard monitoring.
Special monitoring	Obligors in this category have a fairly acceptable capacity to meet financial commitments. The Bank monitors obligors in this category by delinquency status. Obligors that are more than 30 days past due on its contractual payments are included in special monitoring.
Default/Credit impaired	Obligors are assessed to be impaired.

The credit quality of financial instruments other than loans, advances and financing are determined based on the ratings of counterparties as defined equivalent ratings of other international rating agencies as defined below:

Credit Quality	Description
Sovereign	Refer to financial asset issued by the National Bank of Cambodia or guarantee by the National Bank of Cambodia.
Investment grade	Refers to the credit quality of the financial asset that the issuer is able to meet payment obligation and exposure bondholder to low credit risk of default.
Non-investment grade	Refers to low credit quality of the financial asset that is highly expose to default risk.
No rating	Refers to financial asset which are currently not assigned with ratings due to unavailability of ratings models.
Credit impaired	Refers to the asset that is being impaired.

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

36. Financial risk management (continued)

A. Credit risk (continued)

(v). Credit quality of financial assets (continued)

The following table shows an analysis of the credit exposure by credit quality and stages, together with the ECL allowance provision:

	31 December 2022				31 December 2021			
	12-month ECL US\$	Lifetime ECL not Credit- Impaired US\$	Lifetime ECL Credit- Impaired US\$	Total US\$	12-month ECL US\$	Lifetime ECL not Credit- Impaired US\$	Lifetime ECL Credit- Impaired US\$	Total US\$
Deposits and placements with other banks								
Investment grade	1,582,820	-	-	1,582,820	6,174,967	-	-	6,174,967
Non-investment grade	1,515,033	-	-	1,515,033	-	-	-	-
No rating	14,660,965	-	-	14,660,965	29,406,109	-	-	29,406,109
Gross carrying amounts	17,758,818	-	-	17,758,818	35,581,076	-	-	35,581,076
Impairment loss allowance (ECL)	(42,792)	-	-	(42,792)	(24,027)	-	-	(24,027)
Net carrying amounts	17,716,026	-	-	17,716,026	35,557,049	-	-	35,557,049
In KHR'000 equivalent (Note 6)	72,936,879	-	-	72,936,879	144,859,418	-	-	144,859,418

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

36. Financial risk management (continued)

A. Credit risk (continued)

(V). Credit quality of financial assets (continued)

The following table shows an analysis of the credit exposure by credit quality and stages, together with the ECL allowance provision: (continued)

	31 December 2022				31 December 2021			
	12-month ECL US\$	Lifetime ECL not Credit- Impaired US\$	Lifetime ECL Credit- Impaired US\$	Total US\$	12-month ECL US\$	Lifetime ECL not Credit- Impaired US\$	Lifetime ECL Credit- Impaired US\$	Total US\$
Loans and advances at amortised cost								
Standard monitoring	280,537,752	-	-	280,537,752	188,677,007	-	-	188,677,007
Special monitoring	-	9,319,952	-	9,319,952	-	25,121,227	-	25,121,227
Default	-	-	3,671,323	3,671,323	-	-	2,235,369	2,235,369
Gross carrying amounts	280,537,752	9,319,952	3,671,323	293,529,027	188,677,007	25,121,227	2,235,369	216,033,603
Impairment loss allowance (ECL)	(2,358,187)	(1,195,651)	(1,412,789)	(4,966,627)	(1,549,255)	(2,115,113)	(807,097)	(4,471,465)
Net carrying amounts	278,179,565	8,124,301	2,258,534	288,562,400	187,127,752	23,006,114	1,428,272	211,562,138
In KHR'000 equivalent (Note 6)	1,145,265,269	33,447,747	9,298,384	1,188,011,401	762,358,462	93,726,908	5,818,780	861,904,150

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

36. Financial risk management (continued)

A. Credit risk (continued)

(v). Credit quality of financial assets (continued)

The following table shows an analysis of the credit exposure by credit quality and stages, together with the ECL allowance provision: (continued)

	31 December 2022				31 December 2021			
	12-month ECL US\$	Lifetime ECL not Credit- Impaired US\$	Lifetime ECL Credit- Impaired US\$	Total US\$	12-month ECL US\$	Lifetime ECL not Credit- Impaired US\$	Lifetime ECL Credit- Impaired US\$	Total US\$
Other financial assets at amortised cost								
Non-investment grade	-	-	-	-	2,689,305	-	-	2,689,305
Gross carrying amounts	-	-	-	-	2,689,305	-	-	2,689,305
Impairment loss allowance (ECL)	-	-	-	-	(8,357)	-	-	(8,357)
Net carrying amounts	-	-	-	-	2,680,948	-	-	2,680,948
In KHR'000 equivalent (Note 6)	-	-	-	-	10,922,182	-	-	10,922,182

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

36. Financial risk management (continued)

A. Credit risk (continued)

(V). Credit quality of financial assets (continued)

The following table shows an analysis of the credit exposure by credit quality and stages, together with the ECL allowance provision: (continued)

	31 December 2022				31 December 2021			
	12-month ECL US\$	Lifetime ECL not Credit- Impaired US\$	Lifetime ECL Credit- Impaired US\$	Total US\$	12-month ECL US\$	Lifetime ECL not Credit- Impaired US\$	Lifetime ECL Credit- Impaired US\$	Total US\$
Credit commitments								
Standard monitoring	1,431,314	-	-	1,431,314	376,871	-	-	376,871
Special monitoring	-	557	-	557	-	-	-	-
Default	-	-	2,500	2,500	-	-	-	-
Gross exposure	1,431,314	557	2,500	1,434,371	376,871	-	-	376,871
Impairment loss allowance (ECL)	(18,139)	(49)	(563)	(18,751)	(4,351)	-	-	(4,351)
Net exposure	1,413,175	508	1,937	1,415,620	372,520	-	-	372,520
In KHR000 equivalent (Note 6)	5,818,041	2,091	7,975	5,828,107	1,517,646	-	-	1,517,646

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Notes to the financial statements (continued) for the year ended 31 December 2022

36. Financial risk management (continued)

A. Credit risk (continued)

(v). Credit quality of financial assets (continued)

The following table shows an analysis of the credit exposure by credit quality and stages, together with the ECL allowance provision: (continued)

	31 December 2022				31 December 2021			
	12-month ECL US\$	Lifetime ECL not Credit- Impaired US\$	Lifetime ECL Credit- Impaired US\$	Total US\$	12-month ECL US\$	Lifetime ECL not Credit- Impaired US\$	Lifetime ECL Credit- Impaired US\$	Total US\$
Other assets								
Standard monitoring	2,763,589	-	-	2,763,589	2,057,536	-	-	2,057,536
Gross exposure	2,763,589			2,763,589	2,057,536			2,057,536
Impairment loss allowance (ECL)	(46,761)	-	-	(46,761)	(16,733)	-	-	(16,733)
Net exposure	2,716,828	-	-	2,716,828	2,040,803	-	-	2,040,803
In KHR'000 equivalent (Note 6)	11,185,181	-	-	11,185,181	8,314,231	-	-	8,314,231

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Notes to the financial statements (continued) for the year ended 31 December 2022

36. Financial risk management (continued)

A. Credit risk (continued)

(vi). Repossessed properties

During the year, the Bank did not obtain assets by taking possession of collateral held as security (2021: None).

Reposessed property is classified in statement of financial position as non-current assets held for sale.

(vii). Impairment loss allowance

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

Expected credit losses

	2022			Total US\$
	Stage 1 12-month ECL US\$	Stage 2 Lifetime ECL not Credit- Impaired US\$	Stage 3 Lifetime ECL Credit- Impaired US\$	
Loans and advances at amortised cost				
At 1 January 2022	1,549,255	2,115,113	807,097	4,471,465
Changes due to financial instruments recognised as at 1 January:				
Transfer to Stage 1	509,552	(509,552)	-	-
Transfer to Stage 2	(32,251)	32,251	-	-
Transfer to Stage 3	(14,459)	(162,165)	176,624	-
Net remeasurement of loss allowance (*)	(499,244)	258,126	1,683,187	1,442,069
New financial assets originated or purchased	1,309,135	149,628	269,588	1,728,351
Financial assets derecognised during the period other than write off	(463,801)	(687,750)	(172,389)	(1,323,940)
Write-offs	-	-	(1,351,318)	(1,351,318)
At 31 December 2022	<u>2,358,187</u>	<u>1,195,651</u>	<u>1,412,789</u>	<u>4,966,627</u>
In KHR'000 equivalent (Note 6)	<u>9,708,656</u>	<u>4,922,495</u>	<u>5,816,452</u>	<u>20,447,603</u>

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

36. Financial risk management (continued)

A. Credit risk (continued)

(vii). Impairment loss allowance (continued)

Expected credit losses (continued)

	2021			Total US\$
	Stage 1	Stage 2	Stage 3	
	12-month ECL US\$	Lifetime ECL not Credit- Impaired US\$	Lifetime ECL Credit- Impaired US\$	
Loans and advances at amortised cost				
At 1 January 2021	1,372,505	722,248	225,318	2,320,071
Changes due to financial instruments recognised as at 1 January:				
Transfer to Stage 1	8,261	(8,261)	-	-
Transfer to Stage 2	(278,123)	278,123	-	-
Transfer to Stage 3	(26,339)	(236,917)	263,256	-
Net remeasurement of loss allowance (*)	(195,363)	1,254,974	575,532	1,635,143
New financial assets originated or purchased	1,035,046	239,296	73,161	1,347,503
Financial assets derecognised during the period other than write off	(366,732)	(134,350)	(81,764)	(582,846)
Write-offs	-	-	(248,406)	(248,406)
At 31 December 2021	<u>1,549,255</u>	<u>2,115,113</u>	<u>807,097</u>	<u>4,471,465</u>
In KHR'000 equivalent (Note 6)	<u>6,311,665</u>	<u>8,616,970</u>	<u>3,288,113</u>	<u>18,216,748</u>

(*) This is the impact of the measurement of ECL due to changes in LGD and PD during the year arising from regular refreshing of inputs to models.

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Notes to the financial statements (continued) for the year ended 31 December 2022

36. Financial risk management (continued)

A. Credit risk (continued)

(vii). Impairment loss allowance (continued)

Expected credit losses (continued)

	2022			Total US\$
	Stage 1	Stage 2	Stage 3	
	12-month ECL US\$	Lifetime ECL not Credit- Impaired US\$	Lifetime ECL Credit- Impaired US\$	
Credit commitments				
At 1 January 2022	4,351	-	-	4,351
Changes due to exposure as at 1 January:				
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-
New exposure	62,758	1,587	563	64,908
Exposure derecognised or expired	(48,970)	(1,538)	-	(50,508)
At 31 December 2022	18,139	49	563	18,751
In KHR'000 equivalent (Note 6)	74,678	202	2,318	77,198
	2021			Total US\$
	Stage 1	Stage 2	Stage 3	
	12-month ECL US\$	Lifetime ECL not Credit- Impaired US\$	Lifetime ECL Credit- Impaired US\$	
Credit commitments				
At 1 January 2021	968	-	-	968
Changes due to exposure as at 1 January:				
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-
New exposure	27,118	-	-	27,118
Exposure derecognised or expired	(23,735)	-	-	(23,735)
At 31 December 2021	4,351	-	-	4,351
In KHR'000 equivalent (Note 6)	17,726	-	-	17,726

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

36. Financial risk management (continued)

A. Credit risk (continued)

(vii). Impairment loss allowance (continued)

Expected credit losses (continued)

	2022		2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Deposits and placements with other banks				
At 1 January	24,027	97,886	13,422	54,292
Net remeasurement of loss allowance	-	-	-	-
New financial assets originated or purchased	18,765	76,693	10,605	43,141
Currency translation difference	-	1,596	-	453
At 31 December	<u>42,792</u>	<u>176,175</u>	<u>24,027</u>	<u>97,886</u>
Other financial assets at amortised cost				
At 1 January	8,357	34,047	34,310	138,784
Net remeasurement of loss allowance	-	-	(25,953)	(105,577)
New financial assets originated or purchased	-	-	-	-
Exposure derecognised or expired	(8,357)	(34,155)	-	-
Currency translation difference	-	108	-	840
At 31 December	<u>-</u>	<u>-</u>	<u>8,357</u>	<u>34,047</u>
Other assets				
At 1 January	16,733	68,170	-	-
Net remeasurement of loss allowance	-	-	-	-
New financial assets originated or purchased	30,028	122,723	16,733	68,070
Currency translation difference	-	1,622	-	100
At 31 December	<u>46,761</u>	<u>192,515</u>	<u>16,733</u>	<u>68,170</u>

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

36. Financial risk management (continued)

A. Credit risk (continued)

(viii). Concentration of financial assets with credit risk exposure

Geographical sector

The following table provides a breakdown of the Bank's main credit exposure at their carrying amount, as categorised by geographical region. The Bank allocated exposure to regions based on the country of domicile of the counterparties.

	Cambodia US\$	Singapore US\$	Total US\$
At 31 December 2022			
Deposits and placements with other banks	17,648,239	67,787	17,716,026
Loans and advances at amortised cost	288,562,400	-	288,562,400
Other financial assets	1,430,448	-	1,430,448
Credit commitments	1,415,620	-	1,415,620
Total credit exposure	<u>309,056,707</u>	<u>67,787</u>	<u>309,124,494</u>
KHR'000 equivalent (Note 6)	<u>1,272,386,463</u>	<u>279,079</u>	<u>1,272,665,542</u>
At 31 December 2021			
Deposits and placements with other banks	35,524,140	32,909	35,557,049
Loans and advances at amortised cost	211,562,138	-	211,562,138
Other financial assets at amortised cost	2,680,948	-	2,680,948
Other financial assets	458,994	-	458,994
Credit commitments	372,520	-	372,520
Total credit exposure	<u>250,598,740</u>	<u>32,909</u>	<u>250,631,649</u>
KHR'000 equivalent (Note 6)	<u>1,020,939,267</u>	<u>134,071</u>	<u>1,021,073,338</u>

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

36. Financial risk management (continued)

A. Credit risk (continued)

(viii). Concentration of financial assets with credit risk exposure (continued)

Industry sector

The following table provides a breakdown of the Bank's main credit exposure at their carrying amounts, as categorised by industry sector.

At 31 December 2022

	Financial institutions US\$	Building and construction US\$	Hotel and restaurant US\$	Wholesale and retail US\$	Automotive US\$	Agriculture US\$	Manufacturing US\$	Others US\$	Total US\$
Deposits and placements with other banks	17,716,026	-	-	-	-	-	-	-	17,716,026
Loans and advances at amortised cost	26,828,372	32,683,271	-	69,541	227,825,069	140,646	223,869	791,632	288,562,400
Other financial assets	-	-	-	-	-	-	-	1,430,448	1,430,448
Credit commitments	-	-	-	-	-	-	-	1,415,620	1,415,620
Total credit exposure	44,544,398	32,683,271	-	69,541	227,825,069	140,646	223,869	3,637,700	309,124,494
KHR'000 equivalent (Note 6)	183,389,287	134,557,027	-	286,300	937,955,809	579,040	921,669	14,976,411	1,272,665,542

At 31 December 2021

Deposits and placements with other banks	35,557,049	-	-	-	-	-	-	-	35,557,049
Loans and advances at amortised cost	14,160,660	39,299,974	77,593	324,222	156,955,667	203,848	234,865	305,309	211,562,138
Other financial assets at amortised cost	2,680,948	-	-	-	-	-	-	-	2,680,948
Other financial assets	-	-	-	-	-	-	-	458,994	458,994
Credit commitments	-	-	-	-	-	-	-	372,520	372,520
Total credit exposure	52,398,657	39,299,974	77,593	324,222	156,955,667	203,848	234,865	1,136,823	250,631,649
KHR'000 equivalent (Note 6)	213,472,129	160,108,094	316,114	1,320,880	639,437,387	830,477	956,840	4,631,417	1,021,073,338

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

36. Financial risk management (continued)

B. Market risk

The Bank takes exposure to market risk, which is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market prices. Market risk arises from open positions in interest rates, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

The Bank do not use derivative financial instruments such as foreign exchange contract and interest rate swaps to hedge its risk exposure.

(i). Foreign exchange risk

The Bank operate in Cambodia and transacts in two currencies, and is exposed to currency risks, primarily with respect to Khmer Riel.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the Bank's functional currency.

Management monitors foreign exchange risk against the Bank's functional currency. However, the Bank do not hedge its foreign exchange risk exposure arising from future commercial transactions and recognised assets and liabilities using forward contracts.

The Bank's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines.

The table below summarises the Bank's exposure to foreign currency exchange rate risk. Included in the table are and Bank's financial instruments at their carrying amounts by currency in US\$ equivalent.

	US\$ equivalents		
	US\$	KHR	Total
At 31 December 2022			
Financial assets			
Cash on hand	239,227	27,552	266,779
Deposits and placements with National Bank of Cambodia	30,000,187	46,098	30,046,285
Deposits and placements with other banks	17,301,013	415,013	17,716,026
Financial assets at fair value through other comprehensive income	12,501	-	12,501
Loans and advances at amortised cost	258,091,756	30,470,644	288,562,400
Other financial assets	1,417,535	12,913	1,430,448
Total financial assets	307,062,219	30,972,220	338,034,439

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

36. Financial risk management (continued)

B. Market risk (continued)

(i). Foreign exchange risk (continued)

	US\$ equivalents		
	US\$	KHR	Total
At 31 December 2022			
Financial liabilities			
Borrowings	256,278,631	-	256,278,631
Lease liabilities	2,191,572	-	2,191,572
Other financial liabilities	1,106,086	46	1,106,132
Total financial liabilities	259,576,289	46	259,576,335
Net position	47,485,930	30,972,174	78,458,104
KHR'000 equivalent (Note 6)	195,499,574	127,512,440	323,012,014
Off-balance sheet			
Credit commitments	1,415,620	-	1,415,620
KHR'000 equivalent (Note 6)	5,828,107	-	5,828,107
At 31 December 2021			
Financial assets			
Cash on hand	249,180	28,675	277,855
Deposits and placements with National Bank of Cambodia	98,878	37,473	136,351
Deposits and placements with other banks	34,401,679	1,155,370	35,557,049
Financial assets at fair value through other comprehensive income	12,500	-	12,500
Loans and advances at amortised cost	190,172,663	21,389,475	211,562,138
Other financial assets at amortised cost	-	2,680,948	2,680,948
Other financial assets	435,676	23,318	458,994
Total financial assets	225,370,576	25,315,259	250,685,835
Financial liabilities			
Borrowings	205,301,330	-	205,301,330
Lease liabilities	1,646,907	-	1,646,907
Other financial liabilities	1,018,463	131	1,018,594
Total financial liabilities	207,966,700	131	207,966,831
Net position	17,403,876	25,315,128	42,719,004
KHR'000 equivalent (Note 6)	70,902,392	103,133,831	174,037,223
Off-balance sheet			
Credit commitments	372,520	-	372,520
KHR'000 equivalent (Note 6)	1,517,646	-	1,517,646

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

36. Financial risk management (continued)

B. Market risk (continued)

(i). Foreign exchange risk (continued)

Sensitivity analysis

As shown in the table above, the group is primarily exposed to changes in USD/Riel exchange rates. The sensitivity of profit or loss to changes in the exchange rates arises mainly from US-dollar denominated financial instruments.

	Impact on profit or loss		Impact on other component of equity	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
2022				
USD/KHR exchange rate – increase by 5%	1,474,863	6,027,766	N/A	N/A
USD/KHR exchange rate – decrease by 5%	<u>(1,630,112)</u>	<u>(6,662,268)</u>	<u>N/A</u>	<u>N/A</u>
2021				
USD/KHR exchange rate – increase by 5%	1,205,501	4,903,978	N/A	N/A
USD/KHR exchange rate – decrease by 5%	<u>(1,332,396)</u>	<u>(5,420,187)</u>	<u>N/A</u>	<u>N/A</u>

(ii). Securities price risk

Securities price risk is the risk that changes in the market prices of securities will results in fluctuations in revenues or in the values of financial assets. The maximum amount of securities price risk exposure is the carrying amount of investments as stated in the statement of financial position.

(iii). Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Interest margins may increase as a result of changes but may reduce losses in the event that unexpected movements arise. At this stage, the management of the Bank do not have a policy to set limits on the level of mismatch of interest rate repricing.

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

36. Financial risk management (continued)

B. Market risk (continued)

(iii). Interest rate risk (continued)

The table below summarises the exposures of the Bank to interest rate risk. The assets and liabilities at carrying amount are categorised by the earlier of contractual repricing or maturity dates.

As at 31 December 2022 and 31 December 2021, financial assets and liabilities classified by type of interest rate are as follows:

	Floating interest rates US\$	Fixed interest rates US\$	Non-interest bearing US\$	Total US\$
31 December 2022				
Financial assets				
Cash on hand	-	-	266,779	266,779
Deposits and placements with National Bank of Cambodia	-	-	30,046,285	30,046,285
Deposits and placements with other banks	-	14,899,156	2,816,870	17,716,026
Financial assets at fair value through other comprehensive income	-	-	12,501	12,501
Loans and advances at amortised cost	-	288,562,400	-	288,562,400
Other financial assets	-	-	1,430,448	1,430,448
	<u>-</u>	<u>303,461,556</u>	<u>34,572,883</u>	<u>338,034,439</u>
Financial liabilities				
Borrowings	226,263,562	30,015,069	-	256,278,631
Lease liabilities	-	2,191,572	-	2,191,572
Other financial liabilities	-	-	1,106,132	1,106,132
	<u>226,263,562</u>	<u>32,206,641</u>	<u>1,106,132</u>	<u>259,576,335</u>
Total interest rate re-pricing gap	<u>(226,263,562)</u>	<u>271,254,915</u>	<u>33,466,751</u>	<u>78,458,104</u>
KHR'000 equivalent	<u>(931,527,085)</u>	<u>1,116,756,485</u>	<u>137,782,614</u>	<u>323,012,014</u>
Off-balance sheet				
Credit commitments	-	-	1,415,620	1,415,620
KHR'000 equivalent (Note 6)	-	-	5,828,107	5,828,107

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

36. Financial risk management (continued)

B. Market risk (continued)

(iii). Interest rate risk (continued)

As at 31 December 2022 and 31 December 2021, financial assets and liabilities classified by type of interest rate are as follows: (continued)

	Floating interest rates US\$	Fixed interest rates US\$	Non-interest bearing US\$	Total US\$
31 December 2021				
Financial assets				
Cash on hand	-	-	277,855	277,855
Deposits and placements with National Bank of Cambodia	-	-	136,351	136,351
Deposits and placements with other banks	-	10,929,193	24,627,856	35,557,049
Financial assets at fair value through other comprehensive income	-	-	12,500	12,500
Loans and advances at amortised cost	-	211,562,138	-	211,562,138
Other financial assets at amortised cost	-	2,680,948	-	2,680,948
Other financial assets	-	-	458,994	458,994
	-	225,172,279	25,513,556	250,685,835
Financial liabilities				
Borrowings	140,262,729	65,038,601	-	205,301,330
Lease liabilities	-	1,646,907	-	1,646,907
Other financial liabilities	-	-	1,018,594	1,018,594
	140,262,729	66,685,508	1,018,594	207,966,831
Total interest rate re-pricing gap	(140,262,729)	158,486,771	24,494,962	42,719,004
KHR'000 equivalent	(571,430,358)	645,675,105	99,792,476	174,037,221
Off-balance sheet				
Credit commitments	-	-	372,520	372,520
KHR'000 equivalent (Note 6)	-	-	1,517,646	1,517,646

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

36. Financial risk management (continued)

B. Market risk (continued)

(iii). Interest rate risk (continued)

As at 31 December 2022 and 31 December 2021, financial assets and liabilities classified by type of interest rate are as follows: (continued)

31 December 2022	Up to 1 month US\$	1 to 3 months US\$	4 to 12 months US\$	1 to 5 years US\$	Over 5 years US\$	Non-interest bearing US\$	Total US\$
Financial assets							
Cash on hand	-	-	-	-	-	266,779	266,779
Deposits and placements with National Bank of Cambodia	-	-	-	-	-	30,046,285	30,046,285
Deposits and placements with other banks	7,899,156	-	7,000,000	-	-	2,816,870	17,716,026
Financial assets at fair value through other comprehensive income	-	-	-	-	-	12,501	12,501
Loans and advances at amortised cost	549,073	3,095,213	2,389,567	155,385,386	127,143,161	-	288,562,400
Other financial assets	-	-	-	-	-	1,430,448	1,430,448
	8,448,229	3,095,213	9,389,567	155,385,386	127,143,161	34,572,883	338,034,439
Financial liabilities							
Borrowings	10,643,840	20,634,791	125,000,000	100,000,000	-	-	256,278,631
Lease liabilities	-	-	-	-	-	2,191,572	2,191,572
Other financial liabilities	-	-	-	-	-	1,106,132	1,106,132
	10,643,840	20,634,791	125,000,000	100,000,000	-	3,297,704	259,576,335
	(2,195,611)	(17,539,578)	(115,610,433)	55,385,386	127,143,161	31,275,179	78,458,104
Total interest rate re-pricing gap	(9,039,330)	(72,210,443)	(475,968,153)	228,021,634	523,448,394	128,759,912	323,012,014
KHR'000 equivalent (Note 6)							

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

36. Financial risk management (continued)

B. Market risk (continued)

(iii). Interest rate risk (continued)

As at 31 December 2022 and 31 December 2021, financial assets and liabilities classified by type of interest rate are as follows: (continued)

31 December 2021	Up to 1 month US\$	1 to 3 months US\$	4 to 12 months US\$	1 to 5 years US\$	Over 5 years US\$	Non-interest bearing US\$	Total US\$
Financial assets							
Cash on hand	-	-	-	-	-	277,855	277,855
Deposits and placements with National Bank of Cambodia	-	-	-	-	-	136,351	136,351
Deposits and placements with other banks	10,929,193	-	-	-	-	24,627,856	35,557,049
Financial assets at fair value through other comprehensive income	-	-	-	-	-	12,500	12,500
Loans and advances at amortised cost	134,552	4,262,475	1,832,715	91,200,475	114,131,921	-	211,562,138
Other financial assets at amortised cost	-	-	2,680,948	-	-	-	2,680,948
Other financial assets	-	-	-	-	-	458,994	458,994
	11,063,745	4,262,475	4,513,663	91,200,475	114,131,921	25,513,556	250,685,835
Financial liabilities							
Borrowings	10,219,456	10,081,874	55,000,000	130,000,000	-	-	205,301,330
Lease liabilities	-	-	-	-	-	1,646,907	1,646,907
Other financial liabilities	-	-	-	-	-	1,018,594	1,018,594
	10,219,456	10,081,874	55,000,000	130,000,000	-	2,665,501	207,966,831
Total interest rate re-pricing gap	844,289	(5,819,399)	(50,486,337)	(38,799,525)	114,131,921	22,848,055	42,719,004
KHR000 equivalent (Note 6)	3,439,633	(23,708,232)	(205,681,337)	(158,069,265)	464,973,446	93,082,976	174,037,221

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

36. Financial risk management (continued)

B. Market risk (continued)

(iii). Interest rate risk (continued)

Sensitivity

Profit or loss is sensitive to higher/lower interest income from financial instruments as a result of changes in interest rates.

	Impact on Profit or loss		Impact on other component of equity	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
2022				
Interest rate increase by 100 basis point	(2,262,636)	(9,247,393)	N/A	N/A
Interest rate decrease by 100 basis point	<u>2,262,636</u>	<u>9,247,393</u>	<u>N/A</u>	<u>N/A</u>
2021				
Interest rate increase by 100 basis point	(1,402,627)	(5,705,887)	N/A	N/A
Interest rate decrease by 100 basis point	<u>1,402,627</u>	<u>5,705,887</u>	<u>N/A</u>	<u>N/A</u>

C. Liquidity risk

Liquidity risk is the risk that the Bank are unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence of this may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

(i). Liquidity risk management process

Management monitors balance sheet liquidity and manage the concentration and profile of debt maturities. Monitoring and reporting, taking the form of daily cash position and projection for the next day, week and month respectively, are key periods for liquidity management. In addition, management monitors the movement of main depositors and projection of their withdrawals.

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

36. Financial risk management (continued)

C. Liquidity risk (continued)

(ii). *Funding approach*

The Bank's main sources of liquidity arise from shareholder's share capital and borrowings. The sources of liquidity are regularly reviewed by management through review of maturity of term deposits and the key depositors.

(iii). *Non-derivative cash flows*

The table below presents the cash flows of the financial instruments by the Bank by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manage the inherent liquidity risk based on expected undiscounted cash flows.

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Notes to the financial statements (continued) for the year ended 31 December 2022

36. Financial risk management (continued)

C. Liquidity risk (continued)

(iii). Non-derivative cash flows (continued)

31 December 2022

	Up to 1 month US\$	1 to 3 months US\$	4 to 12 months US\$	1 to 5 years US\$	Over 5 years US\$	Total contractual cash flows US\$	Carrying amounts US\$
Financial assets							
Cash on hand	266,779	-	-	-	-	266,779	266,779
Deposits and placements with National Bank of Cambodia	23,046,285	-	7,000,000	-	-	30,046,285	30,046,285
Deposits and placements with other banks	17,716,026	-	-	-	-	17,716,026	17,716,026
Loans and advances at amortised cost	8,079,883	16,491,773	59,662,952	163,481,404	152,644,714	400,360,726	288,562,400
Financial assets at fair value through other comprehensive income	12,501	-	-	-	-	12,501	12,501
Other financial assets	56,863	-	1,373,585	-	-	1,430,448	1,430,448
Total financial assets by remaining contractual maturities	49,178,337	16,491,773	68,036,537	163,481,404	152,644,714	449,832,765	338,034,439
Financial liabilities							
Borrowings	21,158,799	22,089,227	122,890,968	102,170,697	-	268,309,691	256,278,631
Lease liabilities	1,726	2,914	303,558	1,352,715	751,242	2,412,155	2,191,572
Other financial liabilities	205,260	512,606	388,266	-	-	1,106,132	1,106,132
Total financial liabilities by remaining contractual maturities	21,365,785	22,604,747	123,582,792	103,523,412	751,242	271,827,978	259,576,335
Net liquidity surplus/(gap)	27,812,552	(6,112,974)	(55,546,255)	59,957,992	151,893,472	178,004,787	78,458,104
KHR'000 equivalent	114,504,277	(25,167,114)	(228,683,932)	246,847,053	625,345,424	732,845,708	323,012,014
Off-balance sheet							
Credit commitments	1,415,620	-	-	-	-	1,415,620	1,415,620
Net liquidity – gap	1,415,620	-	-	-	-	1,415,620	1,415,620
KHR'000 equivalent (Note 6)	5,828,108	-	-	-	-	5,828,108	5,828,108

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

36. Financial risk management (continued)

C. Liquidity risk (continued)

(iii). Non-derivative cash flows (continued)

31 December 2021	Up to 1 month US\$	1 to 3 months US\$	4 to 12 months US\$	1 to 5 years US\$	Over 5 years US\$	Total contractual cash flows US\$	Carrying amounts US\$
Financial assets							
Cash on hand	277,855	-	-	-	-	277,855	277,855
Deposits and placements with National Bank of Cambodia	136,351	-	-	-	-	136,351	136,351
Deposits and placements with other banks	35,557,049	-	-	-	-	35,557,049	35,557,049
Loans and advances at amortised cost	6,560,156	13,622,655	41,870,079	111,087,131	133,651,065	306,791,086	211,562,138
Other financial assets at amortised costs	-	-	2,680,948	-	-	2,680,948	2,680,948
Financial assets at fair value through other comprehensive income	12,500	-	-	-	-	12,500	12,500
Other financial assets	85,088	-	373,906	-	-	458,994	458,994
Total financial assets by remaining contractual maturities	42,628,999	13,622,655	44,924,933	111,087,131	133,651,065	345,914,783	250,685,835
Financial liabilities							
Borrowings	10,283,162	20,498,718	46,879,931	131,102,795	-	208,764,606	205,301,330
Lease liabilities	1,677	3,354	393,585	697,080	-	1,095,696	1,646,907
Other financial liabilities	169,576	295,474	553,544	-	-	1,018,594	1,018,594
Total financial liabilities by remaining contractual maturities	10,454,415	20,797,546	47,827,060	131,799,875	-	210,878,896	207,966,831
Net liquidity surplus/(gap)	<u>32,174,584</u>	<u>(7,174,891)</u>	<u>(2,902,127)</u>	<u>(20,712,744)</u>	<u>133,651,065</u>	<u>135,035,887</u>	<u>42,719,004</u>
KHR'000 equivalent	131,079,256	(29,230,506)	(11,823,266)	(84,383,717)	544,494,439	550,136,206	174,037,221
Off-balance sheet							
Credit commitments	372,520	-	-	-	-	372,520	372,520
Net liquidity - gap	<u>372,520</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>372,520</u>	<u>372,520</u>
KHR'000 equivalent (Note 6)	1,517,646	-	-	-	-	1,517,646	1,517,646

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

36. Financial risk management (continued)

D. Operational risk

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

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

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

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

E. Capital management

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

The Bank's strategy is to maintain a strong capital base so as to maintain market confidence and to sustain further development of the business. The impact of the level of capital on shareholder's return is also recognised and the Bank 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.

KB Daehan Specialized Bank Plc.

Notes to the financial statements (continued) for the year ended 31 December 2022

36. Financial risk management (continued)

E. Capital management (continued)

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

Capital risk management

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

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

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

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

The below table summarises the composition of the regulatory capital:

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Tier 1 capital				
Share capital	43,750,000	178,281,250	43,750,000	178,281,250
Prior year retained earnings	7,759,519	31,558,634	2,826,134	11,489,623
Audited net profit for the last financial year	7,433,978	30,382,667	4,933,385	20,069,011
Less: Intangible assets	(370,114)	(1,523,759)	(4,792)	(19,523)
Less: Loans to a related party	(2,923,278)	(12,035,136)	(2,954,132)	(12,035,133)
	<u>55,650,105</u>	<u>226,663,656</u>	<u>48,550,595</u>	<u>197,785,228</u>
Tier 2 complementary capital				
General provision	2,998,821	12,346,146	2,451,911	9,989,085
Subordinated debts approved by the National Bank of Cambodia	-	-	-	-
Less: Equity participation in banking or financial institutions	(12,501)	(51,467)	(12,500)	(50,925)
	<u>2,986,320</u>	<u>12,294,679</u>	<u>2,439,411</u>	<u>9,938,160</u>
	<u>58,636,425</u>	<u>238,958,335</u>	<u>50,990,006</u>	<u>207,723,388</u>

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Notes to the financial statements (continued) for the year ended 31 December 2022

36. Financial risk management (continued)

F. Interest rate benchmark reform

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Bank has several exposure to IBORs on its financial assets instruments that will be reformed as part of this market-wide initiative. However, although sterling LIBOR and US dollar LIBOR were planned to be discontinued by the end of 2021, consultations and possible regulatory changes are in progress. This may mean that some LIBOR continue to be published beyond that date. The Bank is in the process of amending or preparing to amend contractual terms in response to IBOR reform, and there is still uncertainty over the timing and the methods of transition in some jurisdictions that the Bank operates in.

The main risks to which the Bank is exposed as a result of IBORs reform are operational. For example, the renegotiation of borrowing contracts through bilateral negotiation with the lenders, updating of contractual terms, updating of systems that use IBORs curves and revision of operational controls related to the reform. Financial risk is predominantly limited to interest rate risk.

For existing contracts that are indexed to an IBORs and mature after the expected cessation of the IBORs rate, the Bank's finance department has renegotiated with the lenders to amend the contractual terms of affected contracts and the determination of alternative rates.

The alternative reference rate for US Dollar LIBOR is the Secured Overnight Financing Rate (SOFR). Changes to the contractual terms of financial assets of the Bank indexed to US Dollar LIBOR to incorporate new benchmark rates are not yet completed in the financial statement for the year ended 31 December 2022 and 31 December 2021.

The following table contains details of non-derivative financial instruments held by the Bank at 31 December 2022 and 31 December 2021 which are subject to the reform and have not transitioned to an alternative benchmark interest rate:

	31 December 2022		31 December 2021	
	US\$	KHR'000 (Note 6)	US\$	KHR'000 (Note 6)
Financial liabilities that reference USD LIBOR				
Borrowings	<u>100,000,000</u>	<u>411,700,000</u>	<u>140,000,000</u>	<u>570,360,000</u>

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Notes to the financial statements (continued) for the year ended 31 December 2022

37. Fair value of financial assets and liabilities

Fair value of financial assets and liabilities might be measured following three fair value hierarchy levels as at the reporting date.

Level 1: The fair value of the financial instruments that are not traded in active markets is based on quoted market prices at the end of reporting period.

Level 2: The fair value of the financial instruments traded in active markets is determined using valuation techniques using observable market data.

Level 3: If one or more of the significant inputs is not based on the observable market data, the instrument is included in level 3 in which unobservable inputs will be used.

Assets and liabilities are classified as Level 1 when the valuation is based on quoted prices for identical assets or liabilities in active markets. Assets and liabilities are regarded as being quoted in an active market if the prices are readily available from a published and reliable source and those prices represent actual and regularly occurring market transactions on an arm's length basis.

When fair value is determined using quoted prices of similar assets and liabilities in active markets or quoted prices of identical or similar assets and liabilities in non-active markets, such assets and liabilities are classified as Level 2.

Assets and liabilities are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data. Such inputs are determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

(i). *Financial instruments measured at fair value*

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Bank uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

Resulting from making fair value assessments and use of assumptions, the fair values of these investments are not materially different from their carrying amounts because the investment in CBC and i-Finance Plc. as at 31 December 2022 is immaterial to the financial statements.

As at the balance sheet date, the fair values of financial instruments of the Bank approximate their carrying amounts.

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Notes to the financial statements (continued) for the year ended 31 December 2022

37. Fair value of financial assets and liabilities (continued)

(ii). *Financial instruments not measured at fair value*

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

Deposits and placements with National Bank of Cambodia and other banks

The carrying amounts of deposits and placements with National Bank of Cambodia and other banks approximate their fair values, since these accounts consist mostly of current, savings and short-term deposits.

Loans and advances

For fixed rate loans with remaining period to maturity of less than one year, the carrying amounts are generally reasonable estimates of their fair values.

For fixed rate loans with remaining period to maturity of one year and above, fair values are estimated by discounting the estimated future cash flows using a current lending rate as the prevailing market rates of loans with similar credit risks and maturities have been assessed as insignificantly different to the contractual lending rates. As a result, the fair value of non-current loan and advances to customers might approximate to their carrying value as reporting date.

Borrowings

Borrowings are not quoted in active market and their fair value approximates their carrying amount.

Other financial assets and liabilities

The carrying amounts of other financial assets and liabilities are assumed to approximate their fair values as these items are not materially sensitive to the shift in market interest rates.

38. Events after reporting date

On 13 January 2023 the National Bank of Cambodia ("NBC") has approved the Bank's request to increase the share capital from US\$43,750,000 to US\$73,650,000. The amendment to the Memorandum and Articles of Association ("M&AA") is endorsed by the Ministry of Commerce on 17 March 2023.

On 27 March 2023, the Board of Directors agreed to propose a dividend amounting to US\$1,500,000 to shareholders and convene General Meeting of shareholders on 28 March 2023 to approve and this subject to obtain prior approval from the National Bank of Cambodia ("NBC").