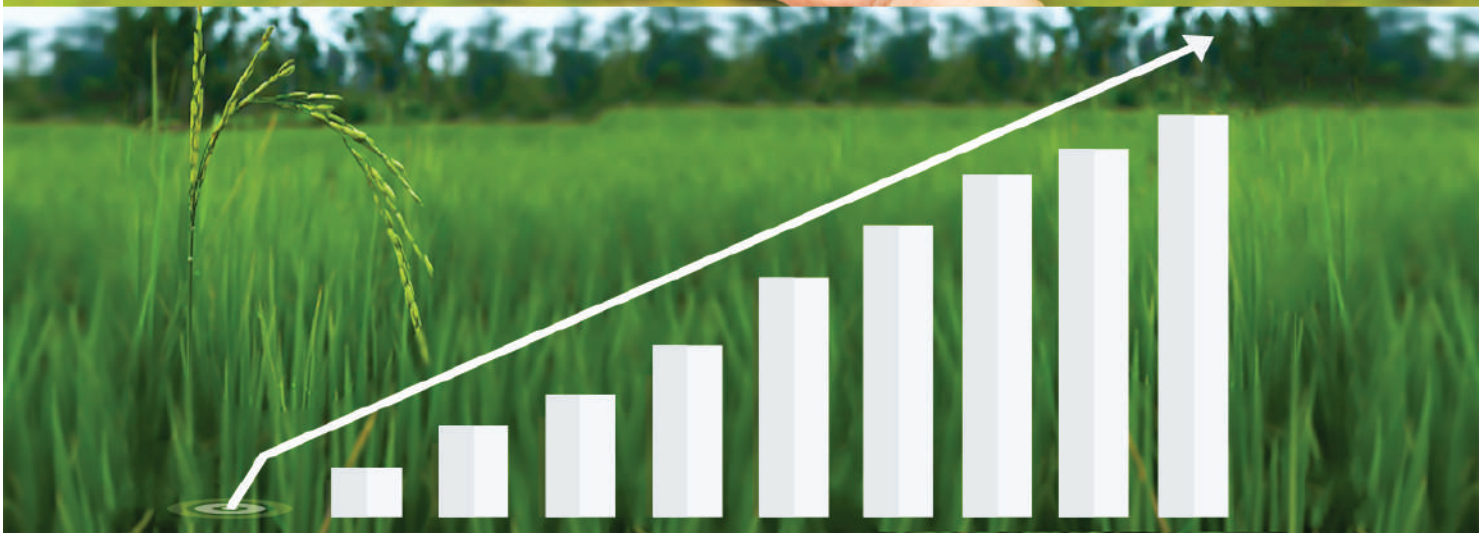




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AGRICULTURAL AND RURAL DEVELOPMENT BANK  
ដើម្បីកសិករនិងអភិវឌ្ឍន៍សេដ្ឋកិច្ចសង្គម

# Annual Report 2020



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## Chairman Speech



The global economy is confronting with Covid crisis in 2020. This crisis has not only claimed many lives but also puts more burden on health system and disrupts global economic activities particularly in service sector. In response to this crisis, some countries have imposed stringent measures in order to reduce number of infected cases.

International Monetary Fund (IMF) estimates that global economy growth is declined to -3.3% in 2020 but it is forecasted to recovery at 6% in 2021 and 4.4% in 2022 given that some countries can control the spread of infection and some measures will be gradually lifted which allow economic activities to function again. Advanced economies plummeted to -4.7% in 2020 but this growth is predicted to reach 5.1% in 2021 and 3.6% in 2022 while the growth of emerging and developing economies recorded -2.2% in 2020 but it will rebound to 6.7% in 2021 and 5% in 2022.

The rapid spread of pandemic has negative impact on Cambodia economy, witnessed by declining growth rate of -3.5% in 2020 due to severe impact on main sectors based on to Ministry of Economy and Finance data. Garment sector registered a negative growth rate of 8% due to less demand from

international market as global economy remains weak. Construction sector dropped to -3% while real estate activities declined to -4.3% due to fading of confidence in the market. Service sector sharply decreased to 7.9% owing to traveling restriction and the postpone of some flights aiming at reducing the spread of Covid-19. However, agriculture sector managed to have a positive growth rate of 0.3% (year-on-year) as a result of restricted imports by some countries. Amid the unprecedented growth in 2020, growth is forecasted to recovery to 4.3% in 2021 and 5.5% in 2022. Similarly, Asian Development Bank (ADB) estimated that Cambodia economy will improve in 2021 with the growth rate of 4% due to demand from Cambodia major trading partners. Industrial production will grow at 7.1% in 2021 and 7% in 2022 given the improvement in garment, footwear and travelling goods. Agriculture is expected to grow at 1.3% in 2021 and 1.2% in 2022 underpinned by higher crop plantation after affected from last year's flood, growth of aquaculture and demand of export of agricultural products to the Republic of China. Nevertheless, service sector is predicted to recovery with 3.3% growth rate in 2020 and 6.2% in 2022 due to lockdown measure and



travelling restriction against pandemic outbreak. Real estate sector which has the same trend with construction is expected to improve.

In response to the pandemic, the Royal Government of Cambodia under the leadership of Samdech Akka Moha Sena Padei Techo Hun Sen, Prime Minister of the Kingdom of Cambodia, has laid out fiscal policy including tax exemption on affected sectors, releasing social protection package to support lifeline of the poor family and vulnerable population by means of cash transferred, and providing special fund program to support agriculture sector. Moreover, the Royal Government requested banking and financial institutions to delay loan payment and allowed loan restructure upon customers request.

ARDB functioning as a commercial bank and a policy bank has actively engaged with development of agriculture sector and rural development under the framework of economic policy development of government agenda. In 2020, ARDB received 50 million USD as special fund from the Royal Government, which was a part of the intervention package from the government in response to Covid crisis. This fund aimed to support Small and Medium Enterprise (SMEs) in agriculture sector, agro-processing and agri-business for vegetable and fruit plantation, aquaculture, raising livestock by providing loan with low interest rate and this allows SMEs to expand their business and improve their value chain which contributes to job creation and strengthen local product. As of December 2020, ARDB disbursed loan of USD 245 million which is growth by 41.62% (year on year). This loan portfolio has been provided

to rice sector, and diversified to other sectors including vegetable-fruit plantation, aquaculture and other subsector (rubber, pepper, casava, cashew nut, coffee, mango, etc.).

In line with the Three-Year Business Plan Strategy, ARDB plans to provide loan amounting to 307 million USD in 2021, of which loan to rice sector will be accounted for 48% of total loan portfolio and diversify to other sub-sector besides rice (rubber, mango, cashew nut, casava and coffee etc) 23%, raising livestock 9%, vegetable and fruit 8%, aquaculture 4%, Microfinance institution 2% and other 6%.

In the face of this critical period, the infection arising from pandemic will continue to prolong as new waves of the outbreak persist. Therefore, adapting to new normal in line with health instruction and new technology is very important for banking and financial institution and other business entities to sustain business operation. In this context, developing digital product and services by offering low transaction cost, high security, fast speed, and accessible everywhere and every time becomes significant strategy to serve customers.

Taking this opportunity, as a Chairman, I would like to express my gratitude to Samdech Akka Moha Sena Padei Techo Hun Sen, Prime Minister of the Kingdom of Cambodia who laid out a lot of effective measures to fight against Covid-19 and my profound thanks you to management of ARDB who has put your tremendous to support agriculture sector in Cambodia during the pandemic.



**H.E Ros Seilava**

Secretary of State , Ministry of Economy and Finance  
and Chairman of Agricultural and Rural Development Bank

## Chief Executive Officer Speech



H.E. Dr. Kao Thach, Delegate of Royal Government in charge as CEO of ARDB

Cambodia economy has severely impacted by the COVID-19 pandemic in 2020. In these difficult times, the Agricultural and Rural Development Bank (ARDB), which is a commercial bank established to implement the policy of the Royal Government of Cambodia under the wise and ideal leadership of Samdech Akka Moha Sena Padei Techo Hun Sen, Prime Minister of the Kingdom of Cambodia, has been playing active roles in revitalizing and boosting agriculture sector as reflected in ARDB's achievements. By the end of December 2020, ARDB disbursed loan amounting to more than USD 245 million, equivalent to the growth of 41.62% (year-on-year). The loans are disbursed to the rice sector (58.69%), raising livestock (8.9%), vegetable and fruit (10.09%), aquaculture (4.43%), sub-sector (9.34%) , microfinance institutions (0.86%), and others (7.69%). It should be noted that the loan to the rice sector is larger than other sectors because ARDB has been implementing the special fund from government to support the rice sector by providing working loans to purchase paddy rice from farmers and/or investment capital loans. In 2020, Cambodia can produce 10 million tons of rice and export more

than 700,000 tons which is equivalent to USD 470 million in light of flood and disruption of logistics crisis in the globe.

To address the impacts of this crisis, the Royal Government of Cambodia has allocated a special fund of USD 50 million through ARDB to support small and medium enterprises (SMEs) in the agricultural processing, agro-industrial and agriculture sectors. As a result of the execution of this financing scheme, ARDB has disbursed loans to SMEs, particularly in raising livestock (44%), vegetable and fruit (29%), aquaculture (25%), and agricultural processing and agro-industrial sector (2%). In addition, the financing scheme has contributed significantly to the creation of many direct and indirect jobs in the agriculture sector.

With the support from the Ministry of Economy and Finance as a technical and financial guardian, ARDB has been firmly implementing the 10-year roadmap-- "Transformation Development Roadmap" (2019-2028), by focusing on the reforms of five key areas, including: (1) strategic plan, (2) products and services,

(3) information technology, (4) operations, and (5) human resource development. As a result, ARDB managed to achieve almost all goals in Phase 1 of the roadmap (2019-2020). A remarkable milestone is that ARDB has successfully become a commercial bank after receiving a license from the National Bank of Cambodia. With this transformation, ARDB can legally engage in banking activities and can offer full banking services to customers and can support all actors in the agricultural and agro-industrial value chains.

In line with Phase 2 (2021-2023) of the 10-year roadmap, the prioritized tasks of the bank include: (i) becoming a fully digital bank which the customer can utilize the services without the need to physically visit the bank, and reduce the use of paper, (ii) maximizing non-interest income, (iii) transforming

farmers into entrepreneurial farmers, (iv) supporting small and medium enterprises in order to promote agricultural processing business.

On this occasion, I would like to express my sincere respect and deepest appreciation to the Royal Government of Cambodia under the wise and ideal leadership of Samdech Akka Moha Sena Padei Techo Hun Sen, Prime Minister of the Kingdom of Cambodia; Ministry of Economy and Finance, for technical and financial guardian; and the National Bank of Cambodia for their ongoing support.

On a final note, I would like to express my profound thanks to the Board of Directors for their continued support and valuable advice, and thanks to our staff for their hard work and dedication, and last but not least, thanks to our loyal customers and development partners for their cooperation with ARDB.



**H.E. Dr. Kao Thach**

Delegate of Royal Government  
in charge as CEO of ARDB

The global economy is confronting with Covid crisis in 2020. This crisis has not only claimed many lives but also puts more burden on health system and disrupts global economic activities particularly in service sector. In response to this crisis, some countries have imposed stringent measures in order to reduce number of infected cases.

International Monetary Fund (IMF) estimates that global economy growth is declined to -3.3% in 2020 but it is forecasted to recovery at 6% in 2021 and 4.4% in 2022 given that some countries can control the spread of infection and some measures will be gradually lifted which allow economic activities to function again. Advanced economies plummeted to -4.7% in 2020 but this growth is predicted to reach 5.1% in 2021 and 3.6% in 2022 while the growth of emerging and developing economies recorded -2.2% in 2020 but it will rebound to 6.7% in 2021 and 5% in 2022.

Cambodia economy is also impacted from the wide spread of Covid-19, witnessed by the declining growth of -3.5% in 2020. However, economic growth is forecasted to rebound to 4.3% in 2021 due to the improvement in garment sector, hotel and transportation, agriculture sector and other sectors with the contribution to growth of 1.4%, 0.6%, 0.2% and 2.1% respectively. Similarly, growth is expected to reach 5.5% in 2022.

By the end of December 2020, ARDB disbursed loan amounting to more than USD 245 million, equivalent to the growth of 41.62% (year-on-year).

The loans are disbursed to the rice sector (58.69%), raising livestock (8.9%), vegetable and fruit (10.09%), aquaculture (4.43%), sub-sector (9.34%), microfinance institutions (0.86%), and others (7.69%). It should be noted that the loan to the rice sector is larger than other sectors because ARDB has been implementing the special fund of the government to support the rice sector by providing working capital loans to purchase paddy rice from farmers and/or investment loans. As a result, the rice sector has maintained a positive growth of 70 tonnes in exports equivalent to USD 470 million, despite disruption of COVID-19, the imposed tariffs on rice export from Cambodia by the EU and the flooding. To address the impacts of this crisis, the Royal Government of Cambodia has allocated a special fund of USD 50 million through ARDB to support small and medium enterprises (SMEs) in the agricultural processing, agro-industrial, and agriculture sectors. As a result of the execution of this financing scheme, ARDB has disbursed loans to many SMEs, particularly in raising livestock (44%), vegetable and fruit (29%), aquaculture (25%), and agricultural processing and agro-industrial sector (2%). In addition, the financing scheme has contributed significantly to the creation of many direct and indirect jobs in the agriculture sector.

In short, ARDB will strengthen our roles by implementing three-year business plan to achieve major goals in stage 2 (2021-2023) of the 10-year Road Map and will diversify loan portfolio to other sub-sector in agriculture to support all actors in agricultural value chain so as to further promote agriculture sector in Cambodia.

## Part1- Corporate Governance

### 1.1 About Agricultural and Rural Development Bank (ARDB)

The Rural Development Bank was established by the Royal Government of Cambodia through sub-decree No.1, dated January 21, 1998, which named as the Rural Development Bank and mandated as a specialized bank in agriculture. In 2004, the Royal Government of Cambodia amended the roles and structures of ARDB through sub-decree No. 199, dated June 11, 2014. Henceforth, the Rural Development Bank has changed the status from a specialized bank to a commercial bank, known as the Agricultural and Rural Development Bank, in accordance with sub-decree No.124, dated August 27, 2019.

ARDB is a public enterprise functioning in the form of state-owned commercial bank and is fully independent in leading and governing the bank's activities.

ARDB is under technical and financial supervision of the Ministry of Economy and Finance and supervisory of the National Bank of Cambodia.

#### Vission

ARDB is a state-owned bank serving the Royal Government's policies in order to be a leading financial institution focused on the development of the agricultural and rural sectors in Cambodia.

#### Mission

- Development of strong linkages across agricultural value chain actors and rural sector through inclusive end-to-end financial services;
- Identification, coordination, and resolution of market failure in the agricultural and rural sectors through strategic partnerships;
- Enhancement of diversified rural economy by providing financial services to small and medium enterprises (SMEs) in the rural sector; and
- Promotion of rural sector savings.

#### Roles and Duties

- To serve as both a commercial bank and a policy bank;
- To provide financing and banking related products ranging from loan, payment, and deposits to key stakeholders in the agricultural value chain and rural economy;
- To provide financing and technical supports including coordination and resolution to address issues in the agricultural value chain and rural economy by means of finding market, advising, and capacity building as instances;
- To promote adaptation of technology and innovation to improve efficiency in providing services and to enhance customers' competitiveness in the market;
- To collaborate and/or syndicate loan with any local and international financial institutions in providing financing or implementing projects related to agriculture sector and rural sector;
- To implement financing project or manage funds in form of partnership with development partners;
- To manage programs or intervention mechanisms of the Royal Government;
- To accumulate and provide financing to expand activities of ARDB;
- To provide other banking services related to financial resource management and allocation effectively with adherence to good corporate governance and social and environmental responsibilities;
- To collaborate with relevant Ministries and institutions in fulfilling the roles and duties of ARDB effectively.



## Product and Services

### Current Account

Payment through ARDB cheque is safe and saves time  
Repayment ARDB's Loan through Wing Agent



### Repayment ARDB's loan through Wing Agent

Repayment ARDB's loan through Wing Agent is very convenient



### Saving Account

Open saving account with ARDB is easy, fast and 100% safe



### Mobile Program

**ARDB Customer**  
is easy, fast and safe

ARDB Customer...



### Deposit

**Term deposit**

High Interest rate **4%**

Your money will gradually increase and 100% safe



## Loan

**ARDB provides loan with low interest rate and long-term maturity**

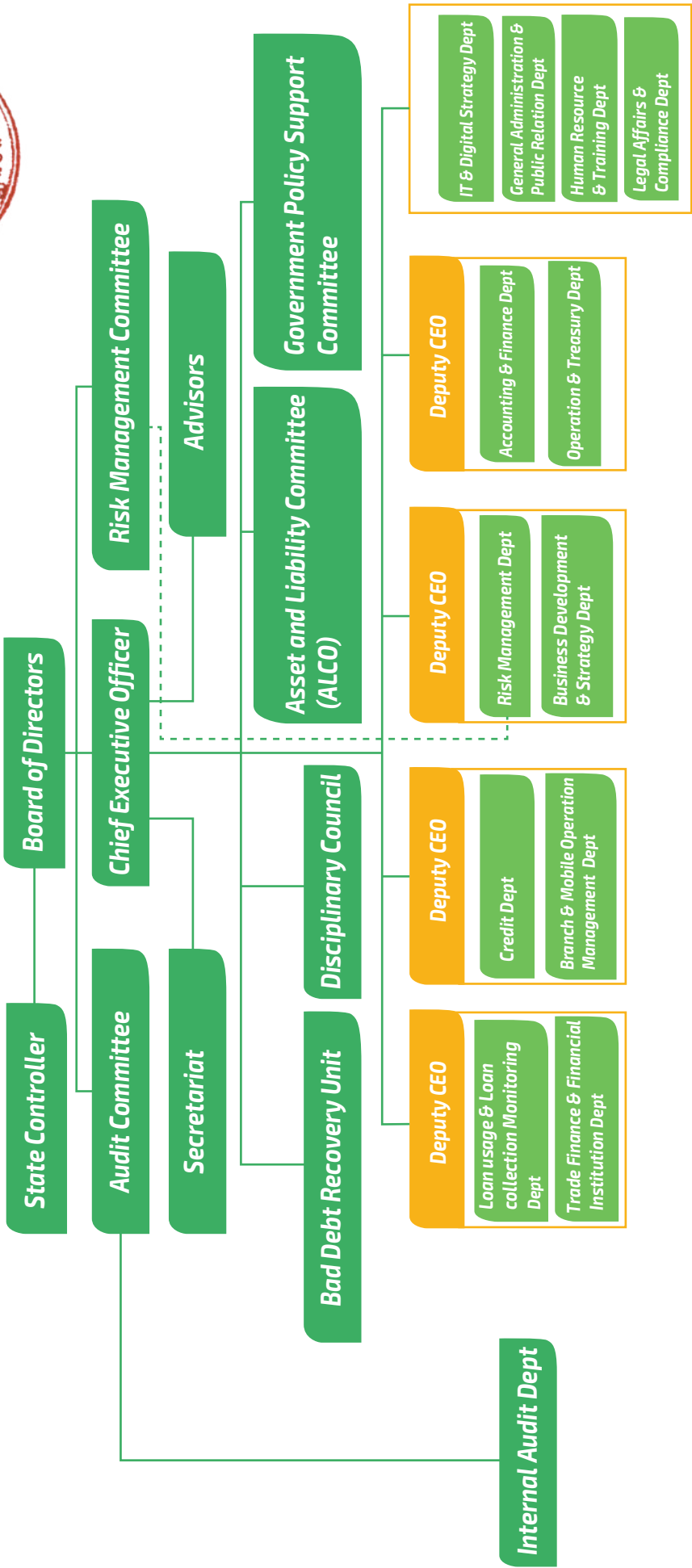


### Loan products

1. Agriculture Cooperative Loan (A/C)
2. Loan for supporting smallholders in agriculture
3. Wholesale lending for financial institutions
4. Loan for Agricultural Supporting and Development fund
5. Loan for accelerating inclusive markets for smallholder project
6. Government Special Fund Program (Small and Medium Agricultural Enterprises-SMAEs)
7. Loan for small-medium enterprise in agriculture sector
8. Government Special Fund Program to intervene on developing market mechanism and warehouse operation; building drying facilities, purchasing rice, corn and other agricultural products.



ORGANIZATIONAL CHART OF ARDB



### 1.3 Board's Member

The members of the Board of Directors in the 8th mandate were appointed by the Royal Government of Cambodia in accordance with Sub-Decree No. 664 dated July 15, 2020.

The Board of Directors consist of 7 members including 1 Chairman and 6 members as follows:

1.	H.E. ROS Seilava	Chairman	Representative from Ministry of Economy and Finance
2.	H.E. SAN Visal	Member	Representative from Ministry of Rural Development
3.	H.E. Dr. KAO Thach	Member	ARDB CEO
4.	H.E. TEAN Soserey	Member	Representative from Office of the Council of Ministers
5.	Mr. KHY Kosal	Member	Representative from Ministry of Agriculture, Forestry and Fisheries
6.	Mr. PAK Sereyvathana	Member	Representative from Independent Governance
7.	Mr. CHAN Seyha	Member	Representative of ARDB Staff



**H.E ROS Seilava**  
Secretary of State , Ministry of Economy and Finance  
and a Chairman of ARDB

**H.E ROS Seilava** is currently a Secretary of State of the Ministry of Economy and Finance, a member of Member of the Supreme National Economic Council and a Chairman of ARDB.

He began to serve the government from 1985 in Ministry of Industry, Mines and Energy. In 1994, he worked as a Financial Controller, Financial Affairs Department at Ministry of Economy and Finance. From 2002 to 2005, he was appointed as deputy director of national economic policy and finance department. From 2005 to 2006, he was appointed as Director, Department of Economic and Public Finance Policy

at Ministry of Economy and Finance. Additionally, he also worked as Advisor to Executive Director, WB Board of Executive Directors at The World Bank Group from 2006 to 2008. Upon his return from the World Bank Group, he was appointed as Under Secretary of State of in 2013. In 2020, he was appointed as Secretary of State of Ministry of Economy and Finance.

H.E Ros Seilava is one of the important policy makers for government's policy design and he also worked as a Lecturer at Phnom Penh Institute of Technology, Ministry of Education, Youth and Sports.

He obtained Bachelor Degree in Social Studies from Phnom Penh University and Penza's Institute of Pedagogy, former USS in 1992. He obtained Master of International Affairs (MIA) in Economic Policy Management, Columbia University, New York, U.S.A.



**H.E SAN Visal**  
Representative, Ministry of Rural Development

**H.E SAN Visal** is a Secretary of State at the Ministry of Rural Development and a member of Board of Director of ARDB. From 1990 to 2005, he started his career in agriculture sector by participating in various development activities. At the same time, he has obtained a wide range of experiences as technical Officers in various departments within the Ministry of Agriculture, Forestry and Fisheries, including the Department of Agricultural Machinery, the Department of Agronomy and the Department of Agricultural Standardization and Equipment. Later, from 2005 to 2008, he was appointed as a Chief of Meanchey District, Phnom Penh. Following his term as the Chief of Meanchey District, he was then appointed as an Under-Secretary of State at the

Ministry of Rural Development from 2008-2019. In addition to his service in public sector, he also had a lot of experiences in private sector as well as in non-governmental organizations.

H.E SAN Visal obtained his Master Degree from Chamroeun University of Poly-Technology in 2005 and has been pursuing his higher degree in the field of political science from Asia Europe University. Furthermore, he has also participated in various training programs during his career.





HE. Dr KAO Thach was appointed as the Chief Executive Officer of ARDB and also a member of Board Director on July 4, 2014. His Excellency was later appointed to be a Delegate of the Royal Government in Charge as Chief Executive officer of the Agricultural and Rural Development Bank in 2020. Since 2003, His Excellency has been a member of the Supreme National Economic Council of Cambodia (SNEC) with equivalent rank to Under Secretary of State, and used to work as an arbitrator of the Arbitration Council.

Before being appointed to as the CEO of ARDB, HE. Dr. KAO Thach was one of the Deputy Directors General

of the Securities and Exchange Commission of Cambodia, and also the Head of Financial Market Division, Financial Industry Department of the Ministry of Economy and Finance.

His impacts have made him one of the key persons who contributed to the establishment of the Securities and Exchange Commission of Cambodia. His excellency furthermore contributed his expertise to various assignments related to financial sector development in Cambodia such as participating in drafting the Law on Government Securities and the Law Issuance and Trading of Non-government Securities, and being one of members in a working group in charge of Financial Sector Development Strategy 2006-2015 and 2011-2020.

Being one of the representatives of the Ministry of Economy and Finance, His Excellency is also a member of ASEAN working groups, focusing on capital market development, including ACMF, ABMI, CMI, WG-FSL, WG-CAL.

HE. Dr. KAO Thach holds a Bachelor of Law from the Royal University of Law and Economics in 1998 and obtained a Master of Law from Bond University (Australia) in 2002, with concentration on International Trade Law System, WTO Legal Framework, Alternative Dispute Resolution, and Dispute System Design. Later in 2019, His Excellency obtained Doctor of Business Administration (DBA) from EU Business School with thesis titled “Rural Development Bank Transformation: The Case of Cambodia”.



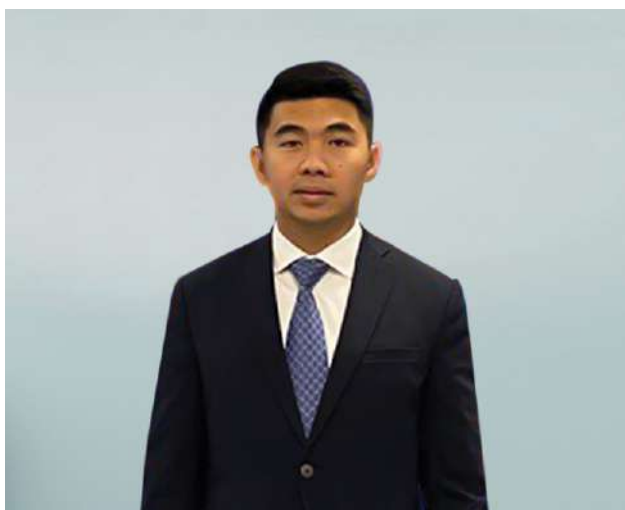
**H.E TEAN Soserey**  
Representative, Office of the Council of Ministers

**H.E TEAN Soserey** is an assistant to H.E BIN Chhin, Permanent Deputy Prime Minister in Charge of the Office of the Council of Ministers. Presently, His Excellency is also a Deputy Head of the Internal Affairs Department and a member of Board of Director of ARDB.

His Excellency has been working at the Office of the Council of Ministers since 2006. During his early years, His Excellency was a part of the National Land Authority where he occupied many roles starting from an Officer at the Administration and Personnel Department, and the Chief of Education and Human Resource Development Division, Prevention and Education Department between 2007 to 2009.

In the late 2009, His Excellency was appointed as the Deputy Head of the Prevention and Education Department, the National Land Authority. In 2013, he was appointed as an assistant to Cabinet of His Excellency BIN Chhin, Deputy Prime Minister, Acting Minister in Charge of the Office of the Council of Ministers in addition to his existing duties. Until 2018, he received his new appointment as a Deputy Head of the Internal Affairs Department, Office of the Council of Ministers, in addition to current responsibilities.

His Excellency TEAN Soserey graduated with two degrees in 2006, majoring in Public Administration from the Royal School of Administration and Computer Science from Norton University. Recently, he also holds a Master degree of Public Administration, from the Royal University of Law and Economics in 2021.



**Mr. KHY Kosal**  
Representative, the Ministry of Agriculture,  
Forestry and Fisheries

Currently, **Mr. KHY Kosal** is a Deputy Secretary General at the Ministry of Agriculture, Forestry and Fisheries and a member of the Board Director of ARDB. He has started his career as servant civil services since 2012 after his graduation from England. During these years, he has contributed his expertise and impacts in two Ministries-- Ministry of Water Resources and Meteorology and the Ministry of Agriculture, Forestry and Fisheries. With his outstanding, he has been continuously promoted for various roles starting from Administration and Human Resources Officer to his latest role as a Deputy Secretary General at the Ministry of Agriculture, Forestry and Fisheries.

Mr. KHY Kosal holds a Master Degree, majoring in Business Administration from UWIC University, London, where he graduated in 2012. Prior to pursuing his Master degree abroad, he graduated with two Bachelor Degrees in which Civil Engineering and Business Administration are his areas of concentration.



Mr. PAK Sereyvathana  
Representative, Independent Governance

Mr. PAK Sereyvathana is currently a consultant for Axis Investment Consulting, which is a consulting firm that has been supporting stakeholders from international and local private entities in various business development projects related to agriculture and financial sectors. In addition to his consulting work, he has experienced working with international firms, such as International Finance Corporation (IFC), and has more than 20-year working experience in financial sector. His key achievements can be highlighted through several projects and goals achieved for relevant institutions, such as Corporate Governance Projects both for the National Bank of Cambodia and the Securities and Exchange Commission of Cambodia, Agriculture Diversification Project in Cambodia,

Credit Bureau of Cambodia Development Project, and other IFC projects related to legal reforms and financial interventions. Additionally, Mr. PAK Sereyvathana also used to serve as a technical officer at the Ministry of Economy and other experiences in private companies.

Mr. Pak Sereyvathana holds his Master Degree in Financial Management from Central Queensland University, Australia, in 1997. Following his graduation, he has advanced his area of expertise in investment and financial analysis, feasibility assessment and business plan development, credit assessment, project development, and project management.



Mr. CHAN Seyha  
ARDB DCEO, Representative of ARDB's Staff

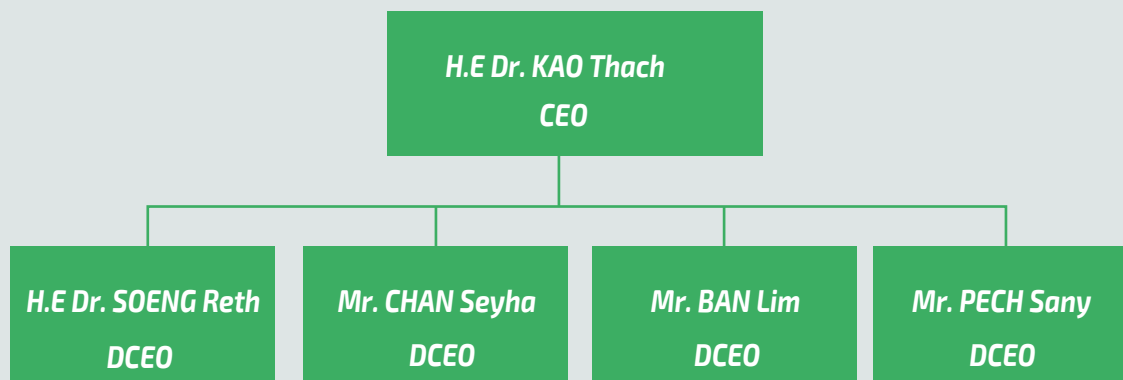
Mr. CHAN Seyha is one of the Deputy Directors and concurrently also a member of the Board Director of ARDB who represents ARDB staff. Mr. CHAN Seyha has been working with ARDB since January 1999. He started his career here as a Head of Credit Department and later was promoted to be the Deputy Director in charge of the Credit Department in July 2012.

Before joining ARDB, from 1991 to 1999, he worked at the National Bank of Cambodia where he earned his expertise in various roles and departments ranging from an Officer in the Accounting Department, the Head of Clearing House in the Operation Department, and a Deputy Head of Account Management Division.

Mr. Chan Seyha holds Master Degree in Finance from The National Management University in 2004 and obtained his Bachelor Degree in Banking from the University of Banking, Vietnam, in 1991.

## 1.4 Executive Management

Our Executive Management comprises of one Director and four Deputy Directors.



HE. Dr KAO Thach was appointed as the Chief Executive officer of ARDB and also a member of Board Director on July 4, 2014. His Excellency was later appointed to be a Delegate of the Royal Government in Charge as Chief Executive officer of the Agricultural and Rural Development Bank in 2020. Since 2003, His Excellency has been a member of the Supreme National Economic Council of Cambodia (SNEC) with equivalent rank to Under Secretary of State, and used to work as an arbitrator of the Arbitration Council. Before being appointed to as the CEO of ARDB, HE. Dr Kao Thach was one of the Deputy Directors General of the Securities and Exchange Commission of Cambodia, and also

the Head of Financial Market Division, Financial Industry Department of the Ministry of Economy and Finance.

His impacts have made him one of the key persons who contributed to the establishment of the Securities and Exchange Commission of Cambodia. His excellency furthermore contributed his expertise to various assignments related to financial sector development in Cambodia such as participating in drafting the Law on Government Securities and the Law Issuance and Trading of Non-government Securities, and being one of members in a working group in charge of Financial Sector Development Strategy 2006-2015 and 2011-2020.

Being one of the representatives of the Ministry of Economy and Finance, His Excellency is also a member of ASEAN working groups, focusing on capital market development, including ACMF, ABMI, CMI, WG-FSL, WG-CAL.

HE. Dr. Kao Thach holds a Bachelor of Law from the Royal University of Law and Economics where His Excellency obtained the degree in 1998 and a Master of Law from Bond University (Australia) in 2002, with concentration on International Trade Law System, WTO Legal Framework, Alternative Dispute Resolution, and Dispute System Design. Later in 2019, His Excellency obtained Doctor of Business Administration (DBA) from EU Business School with thesis titled “Rural Development Bank Transformation: The Case of Cambodia”.





HE. Dr. Soeng Reth, DCEO

H.E SOENG Reth, PHD, is one of the Deputy Directors of ARDB, appointed on June 2019.

His Excellency is a personal advisor to Samdech Techo Hun Sen, Prime Minister of the Kingdom of Cambodia and a member of the Supreme National Economic Council of Cambodia (SNEC) with the equivalent rank to Secretary of State. Furthermore, His Excellency is also a member of Faculty of Business and Economics, University of Antwerp, Belgium and a research fellow at Center of ASEAN Studies.

Under the Fulbright Lecturing Program of the U.S Department of State, His Excellency was an economics professor in Massachusetts. His Excellency was a frequent guest professor

at D'Amore-McKim School of Business, Northeastern University, Boston, Massachusetts. At the same time, Dr. Soeng Reth was frequently invited to deliver presentations on the success of Cambodia's economic development in many educational institutions and research institutions during his lecturing period in the U.S.A for the academic year 2016-2017. Currently, His excellency is also an economics professor at the Royal School of Administration and the Royal Academy of Cambodia. Recently, His Excellency was appointed as a reserve member of the Royal Academy of Cambodia on July 14, 2020.

His Excellency Soeng Reth, PHD, used to serve as a jury member for Master Thesis Defenses at University of Antwerp and a doctoral examination member in Cambodia. From February 2009 to January 2011, His Excellency did his postdoctoral work at the Flemish Center for International Policy institution, University of Antwerp, where he carried out a joint research project on "The Effect of Globalization on Labor Market in Belgium", in collaboration with the National Bank of Belgium. His Excellency has published a series of research paper on economics in scientific journals and has been a reviewer for publication in scientific journals including Journal of Asian Economics; International Trade Journal, Economics Bulletin, International Journal of Commerce and Management, Journal of International Trade and Economic Development, International Journal of Manpower, and Journal of International Trade Law and Policy. His research was also accepted and he was invited to give presentations in the United States, China, the Philippines, Belgium, Korea, Indonesia, Singapore, and Thailand. Presently, His Excellency is a member of Editorial Board of Journal of Business and Management and a member of the Council of Fellows of East Asian and Economic Association (EAEA). At the same time, His Excellency Soeng Reth, PHD, is also working as an international consultant of Economic Research Institution for ASEAN and East Asia (ERIA) on Digital Economy and Digital Revolution projects.



Mr. CHAN Seyha, DCEO

Mr. CHAN Seyha is one of the Deputy Directors and concurrently also a member of the Board Director of ARDB who represents ARDB staff. Mr. CHAN Seyha has been working with ARDB since January 1999. He started his career here as a Head of Credit Department and later was promoted to be the Deputy Director in charge of the Credit Department in July 2012.

Before joining ARDB, from 1991 to 1999, he worked at the National Bank of Cambodia where he earned his expertise in various roles and departments ranging from an Officer in the Accounting Department, the Head of Clearing House in the Operation Department, and a Deputy Head of Account Management Division.

Mr. Chan Seyha holds Master Degree in Finance from The National Management University in 2004 and obtained his Bachelor Degree in Banking from the University of Banking, Vietnam, in 1991.



Mr. PECH Sany, DCEO

Mr. PECH Sany is the Deputy Director of ARDB. He has more than 20 years working experiences in banking industry. He was appointed as a Deputy Director of ARDB in 2008. Prior to his role in ARDB in 2001, Mr. PECH Sany worked at the National Bank of Cambodia and commercial banks for many years.

Mr. Pech Sany holds his Master degree in Finance from the National University of Management in 2004 and his Bachelor Degree in Banking from the University of Banking, Vietnam, in 1991.



Mr. BAN Lim, DCEO

Mr. BAN Lim joins ARDB as a Deputy Director in 2021. He had been working as a legal adviser, an internal auditor and a banking supervisor in the National Bank of Cambodia for more than 20 years.

Mr. Ban Lim holds a Master of Business Administration from the National University of Management where he graduated in 2005 and a Bachelor of Law from the Royal University of Law and Economics in 1998. For many years, he was also a lecturer in the field of banking law and regulation at Center for Banking Studies of the National Bank of Cambodia and Institute of Banking and Finance.

## 1.5 Risk Management Committee

Risk Management Committee is a group of committees under the Board of Directors. This committee is responsible to the Board of Directors for risk management as follows:

- Review and approve risk management strategies, risk frameworks and risk identification
- Review and evaluate the appropriateness of risk policies and frameworks to identify, measure, monitor and manage risk developments.
- Ensure all processes, structure, resources, and risk management system.
- Check and monitor the development of both local and international financial markets as well as the political situation.
- Update the Bank's risk management policies and procedures
- Identify potential implementation challenges to the Board of Directors for guidance and decision.

## 1.6 Internal Audit Committee

The Audit Committee is an independent committee under the Board of Directors. The Committee plays very important roles in strengthening corporate governance and risk management as following:

- Verify the accuracy of the annual report of the Independent Accounting Firm, ensuring that the information provided to the public and the NBC is accurate and transparent.
- Verify and recommend to the Board of Directors meeting on the shortcomings found by the Accounting Firm and the inspection team of the regulator and the Guardian Ministry.
- Evaluate the appropriateness of the accounting methods used, to set up separate and combined accounts.
- Examine the effectiveness of the Bank's management and operation system through the financial statements and policies of the internal control system, particularly the evaluation of the measuring, monitoring procedures for identification, evaluation on reports, and operations to be consistent with the policies, plans, procedures, regulations that taken effectiveness.
- Approve on report of the Internal Audit to the Board of Directors.
- Evaluate the work efficiency, personality and independence of the internal auditor and review the annual plan of the internal audit to ensure the risk management of the bank.

## 1.7 Disciplinary Council

The Disciplinary Council is the special committee under the executive management. The responsibilities of Disciplinary Council are as follows:

- Review and evaluate the request for appointment, promotion and salary for all level of staff
- Review salary rate and other benefits
- Review and evaluate probation staff's performance
- Review and evaluate all level of staff to provide incentive and reward for those who have excellent performance based on the set criteria.
- Review and evaluate on punishment for those who do not comply with rules and conditions that have been set
- Review and search for mistakes of all level of staff
- Implement other tasks assigned by executive director

## Part2 - ARDB's Achievements 2020

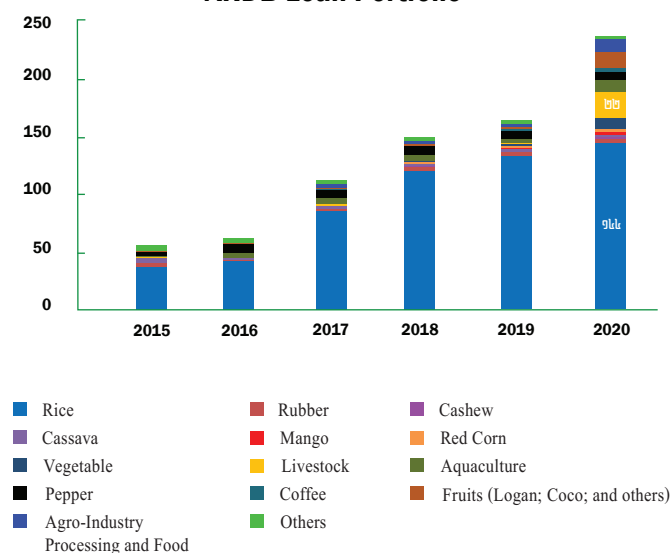
### 2.1 Loans and Other Banking Operations

In 2020, ARDB disbursed about USD 245 million, representing a 42% growth (year-on-year). The loan portfolios are disbursed to major sectors, such as the rice sector 58.69% (USD 143.7 million), raising livestock 8.90% (USD 21.8 million), fruit 6.10% (USD 15 million), sub-sectors 9.34% (USD 22.9 million), vegetable 3.99% (USD 9.8 million), aquaculture 4.43% (USD 10.8 million), and other sectors 7.69% (USD 18.8 million). However, ARDB has been diversifying its loan portfolios to other sectors beyond rice sector to support all actors in the agricultural value chain.

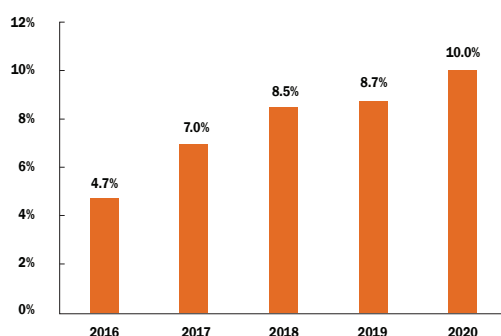
It's noteworthy that in March 2020, ARDB received a special fund of USD 50 million from the government to implement COVID-19 response measures. With this special fund, ARDB disbursed loans at a low interest rate to SMEs in agricultural sector. Those disbursements include 44% to livestock compared to total loans, 30% to vegetable and fruit, 22% to aquaculture, and 4% to agricultural processing and agro-industrial sector. These disbursements have contributed significantly to direct and indirect job creation.

in million USD

**ARDB Loan Portfolio**



**ARDB agriculture loan to agriculture loan in banking system**



In addition, ARDB has actively contributed the development of agriculture sector, reflecting in the gradual increase of ARDB's agricultural lending relative to the agricultural lending offered by other banks and financial institutions. In 2020, ARDB disbursed about USD 243 million in agricultural loans, which represent 10% of total agricultural loans provided by commercial banks and financial institutions in 2020 and 8.7% in 2019. Overall, over the last five years, ARDB's share of loans to agricultural sector has an upward trend with the average increase of 1.4% per annum.



## 2.2 Deposit

After obtaining a license as a commercial bank from the National Bank of Cambodia, ARDB received deposit in USD and Khmer amounting to 4,337,368.77 USD and 220,062,083 Riel respectively as of December 31, 2020.

## 2.3 Network of operation

In 2020, ARDB has expanded one network of operation in Stueng Treng. Presently, ARDB has 10 mobile units in Battambang, Batheymean Chey, Odar Meanchey, Pursat, Kompong Thom, Preah Vihear, Prey Veng, Tbong Kmom, Takeo and Streng Treng.



## 2.4 Transformation from a Specialized Bank to a Commercial Bank

The key objectives of ARDB, which are in line with the transformation phase of the 10-year roadmap, are to:

- a. transform the Rural Development Bank into the Agricultural and Rural Development Bank which enable the bank to address the market failures through providing financing and banking services to support the agricultural value chain;
- b. strengthen the role as a hybrid bank and enhance competitiveness;
- c. diversify the loan portfolios in order to support the processing and the export of agro-industrial products as well as the SMEs in agricultural value chain;
- d. increase the number of bank's branches and mobile units to reach twenty provinces, and provide the digital banking services as a way forward to expand services to target customers and promote financial inclusion in the country.
- e. diversify the bank's sources of funding through government funding, loans from financial institutions and/or development partners, customer deposit, other bank deposits, and credit line from agent banks.

## 2.5 Cooperation with Developing Partners

ARDB has cooperated with developing partners, association, and relevant ministries to implement some projects on agriculture as follows:

- 1. Accelerating Inclusive Markets for Smallholders project-AIMS 2017-2023:** this project is supported under International Fund for Agricultural Development (IFAD) which aims to promote inclusive market and support higher value chain product as well as develop product clustering in target areas which have mutual benefits for small and poor holders. In this project, ARDB has role as a fund administrator for (Value Chain Innovation Fund-VCIF), a lender to small holder farmers and a loan wholesaler to participating financial institutions (PFIs). Currently, this project is being implemented.
- 2. Cambodia Agricultural Sector Diversification Project-CASDP 2019-2025:** this project is funded by the World Bank , which has engaged with Ministry of Economy and Finance and Ministry of Agriculture Forestry and Fisheries. This project aims to facilitate development of agriculture value chain diversification in selected areas and provide emergency responses in case of crisis. In this project, ARDB has a role as loan wholesaler to PFIs. Presently, this project is at the preparing stage particular reaching the procedure of signing agreement between ARDB and PFIs.
- 3. Agricultural Value Chain Competitiveness and Safety Enhancement Project-ACSEP 2021-2027.** This project is under ADB fund and has involvement from Ministry of Economy and Finance and Ministry of Agriculture Forestry and Fisheries. This project aims to strengthen value chain production which is in component 1 of this project. Now, this project has reached the stage of signing subsidiary loan agreement between ARDB and Ministry of Economy and Finance. In this project, ARDB will provide loan directly to beneficiaries.
- 4. Empower project , women empower against climate change resilience.** This project is funded by SIDA (The Swedish International Development) which is facilitated by NCDD (National Committee for Sub-National Democratic Development) and relevant ministries. The objective of this project is to provide loan to targeted women which focus on renewable energy usage to increase productivity, processing product, reducing cost of production. In this project, ARDB will directly provide loan to targeted women. So far, both parties have already signed MoU (Memorandum of Understanding) and we are checking the detail term and condition to carry out this project.



## Part 3-Financial Highlight

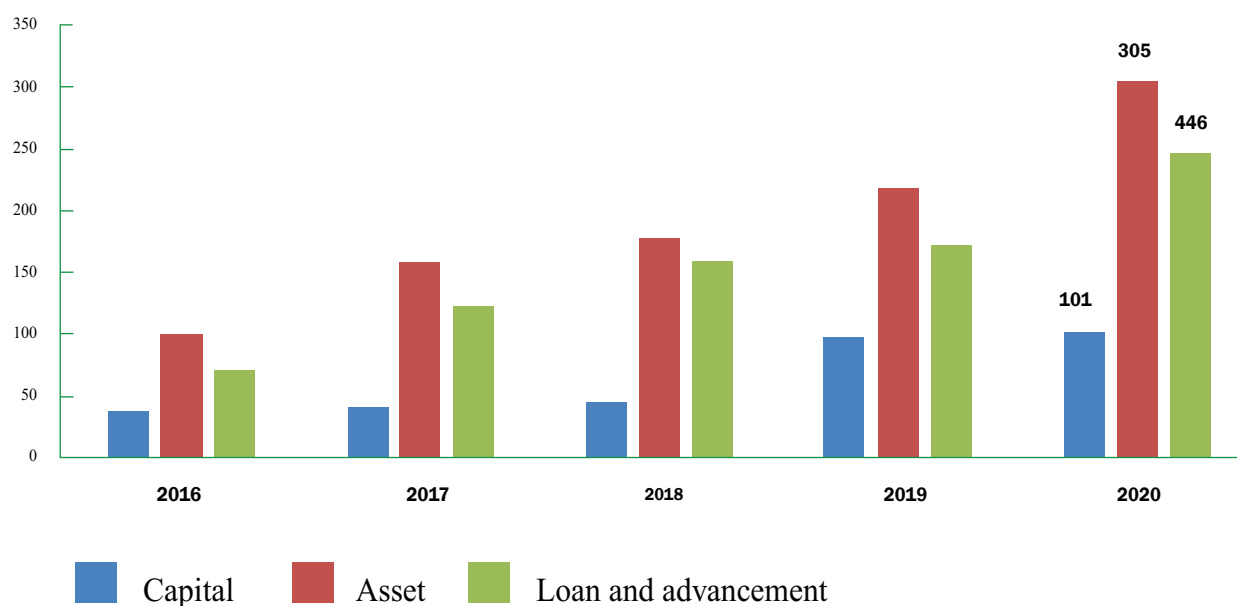
In USD

Financial Data	2020 (Audited)	2019 (Audited)	2018 (Audited)
Balance Sheet			
Total Asset	304,610,601	218,380,542	178,281,305
Total Loan	245,868,263	173,162,427	159,115,208
Total Deposit	5,305,747	2,631,744	3,471,344
Total Capital	101,179,306	98,977,301	44,586,597
Result			
Gross Revenue	12,875,679	11,848,226	9,391,151
Net Profit	141,193	6,672,904	2,564,287

Prudential Ratio	2020	2019	2018
ROE	0.14%	6.74%	5.75%
ROA	0.05%	3.06%	1.44%
Solvency	39.56%	47.61%	28.41%
NPL	10.61%	7.25%	3.58%

(in Million USD)

### Size of Capital, Asset and Loan and Advancement



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## Section 4: Target for 2021

Looking forward, ARDB will continue to support our missions to serve the government frameworks more effectively through the implementation of a 10-year Roadmap which reaches the second phase-business expansion (2021-2023).

### Business Expansion Phase 2021-2023

- Continue to develop digital infrastructures: developing core banking system; digital banking system; card management system; improvement on data management system; and developing payment services through ARDB App and Western Union.
- Continue to organize the operational process: evaluating technology system risk assessment; strengthening management skills of branch management department; building up the implementation of AML, CTF, and KYC programs; establishing a customer satisfaction survey; and setting operational risk indicators and major risks.
- Continue to develop the new products: establishing trade finance services; overdraft services; green finance and ARDB points.
- Continue to set up service providing networks: search for other loan collection partners and banking agent programs.
- Continue to develop the markets and brands: promoting Small and Medium Enterprises (SMEs) cluster programs, farmer entrepreneurship enhancement programs and contract framing promotion programs, as well as developing new product promotion projects.
- Continue to develop human resources: enhancing the business environment by integrating the three values-- integrity, collaboration and innovation to ARDB staff, improving the identification and monitoring of KPIs, as well as developing talent management program and frameworks.

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## Conclusion

Based on ARDB performance in 2020, despite the difficult circumstances, ARDB has played an active role in contributing to the economic recovery and fostering the affected sectors by providing special financing to support SMEs whose businesses are related to agro-processing industry, agro-industry and agricultural sector. In addition, in 2020, during the start of imposing tariff on Cambodia's rice exports by the European Union (EU), ARDB has played a critical role in supporting rice exports and maintaining export growth around 700,000 tonnes. Furthermore, ARDB has promoted the implementation of government special fund in which allows timely intervention for local supply and created many direct and indirect jobs in agriculture sector. Hence, this is an achievement that ARDB has contributed to lessen economic downturn.

Overall, in 2021, ARDB will expand our role through diversifying the loan portfolio to all actors in agricultural value chain. Moreover, the three-year strategic business plan will provide clear guideline on the key reforms in each phase in order to fulfill our role as a commercial bank and a policy bank. With these roles, ARDB will be able to support the agricultural sector and rural economy, which will further contribute to the national economic development in accordance with the government frameworks.



**1. Audited Financial Report**

**AGRICULTURAL AND  
RURAL DEVELOPMENT BANK**

**Financial Statements**

**for the year ended 31 December 2020**

**and**

**Report of the Independent Auditors**

## Corporate information

Bank	Agricultural and Rural Development Bank	
Registration No.	Co.3942 et/1998	
Registered office	No 9-13, Street 7 Sangkat Chaktomuk, Khan Daun Penh Phnom Penh, Kingdom of Cambodia	
Shareholder	Ministry of Economy and Finance	
Board of Directors	H.E. Ros Seilava	Chairman of the Board, Non-Executive Director
	H.E. San Visal	Member, Non-Executive Director
	H.E. Kao Thach	Member, Executive Director and Chief Executive Director
	H.E. Tean Soserey	Member, Non-Executive Director
	Mr. Deth Veasna	Member, Non-Executive Director
	Mr. Chan Seyha	Member, Executive Director
	Mr. Khy Kosal	Member, Non-Executive Director (appointed on 15 July 2020)
	Mr. Pak Sereivathana	Member, Non-Executive Director (appointed on 15 July 2020)
	Mr. Sar Chetra	Member, Non-Executive Director (ended term on 15 July 2020)
	Mr. Om Seng Bora	Member, Non-Executive Director (ended term on 15 July 2020)
Management team	H.E. Kao Thach	Chief Executive Officer
	H.E. Soeng Reth	Deputy Chief Executive Officer
	Mr. Chan Seyha	Deputy Chief Executive Officer
	Mr. Pech Sany	Deputy Chief Executive Officer
	Mr. Ban Lim	Deputy Chief Executive Officer (appointed on 3 January 2021)
	Mr. Mak Sophal	Deputy Chief Executive Officer (resigned on 28 February 2021)
	Mr. Uch Chantha	Head of Government Policy Support Committee
	Mr. Net Panha	Head of Legal Affair and Compliance Department and Head of Secretariat
	Mr. Khek Piseth	Head of Banking Operation and Treasury
	Mrs. Ing Pisethnaline	Head of Human Resource and Training Department
	Mr. Mit Bun	Head of Credit Department
	Mr. Ung Song	Head of Loan Usage and Debt Collection Monitoring
	Mrs. San Kimmouy	Head of Internal Audit (appointed on 24 December 2020)
	Mr. That Chanthakea	Head of Risk Management Department
	Mr. Nhep Raty	Head of Trade Financing and Financial Institutions

## Corporate information (continued)

Management team (continued)	Mr. Chin Cheyaboddh	Head of General Administration and Public Relation and deputy head of secretariat
	Mr. Mech Samren	Acting Head of Information Technology and Strategy
	Mr. Sokhom Dararith	Acting Head of Branch Management and Mobile
	Mrs. Chhun Sokha	Acting Head of Accounting and Finance Department
	Mr. E Seylo	Acting Head of Business Development and Strategy (appointed 7 September 2020)
	Mr. Nomg Thearith	Head of Internal Audit (resigned on 1 June 2020)
	Mrs. Soun Thary	Acting Head of Internal Audit (resigned on 24 December 2020)
Auditors	KPMG Cambodia Ltd	

# Agricultural and Rural Development Bank

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2. Report of the independent auditors	32 - 34
3. Statement of financial position	35
4. Statement of profit or loss and other comprehensive income	36
5. Statement of changes in equity	37
6. Statement of cash flows	38 - 39
7. Notes to the financial statements	40 - 114



**ធនាគារកសិកម្ម រុក្ខាប្រមាញ់ និងកសិកម្ម**  
**AGRICULTURAL AND RURAL DEVELOPMENT BANK**

លេខ/N° : ...013/..... ជ.អ.ជ.ក./ARDB  
 21

**ព្រះរាជាណាចក្រកម្ពុជា**

KINGDOM OF CAMBODIA

**ជាតិ សាសនា ព្រះមហាក្សត្រ**

Nation-Religion-King

## Report of the Board of Directors

The Board of Directors have pleasure in submitting their report together with the audited financial statements of Agricultural and Rural Development Bank ("the Bank") for the year ended 31 December 2020.

### Principal activities

The principal activities of the Bank are providing financial resources to commercial and specialised banks and MFIs involved in the provisions of credit and savings services for rural households and small businesses. Also include implementing development projects upon request from implementing partners where such development projects may not be implemented by a microfinance operator, funding the implementation of special development projects of the Royal Government, or other special development projects upon authorisation from the Ministry of Economy and Finance.

The Bank has obtained license from the NBC to operate as a commercial bank on 19 February 2020 from which the principal activities was changed to commercial banking services.

### Financial results

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

	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
Profit before income tax	47,480	8,412,681	193,576	34,088,183
Income tax benefits/(expense)	93,713	(1,739,777)	382,068	(7,049,576)
Net profit for the year	141,193	6,672,904	575,644	27,038,607

### Dividends

No dividend was declared or paid, and the Board of Directors does not recommend any dividend to be paid for the year under audit.

### Share capital

The share capital of the Bank as at 31 December 2020 is US\$96,504,646 (31 December 2019: US\$96,504,646).



# **Agricultural and Rural Development Bank**

## **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.

## **Losses loans and advances**

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

At the date of this report, the Board of 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 losses on 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 Board of 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 management 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 Board of Directors is not aware of any circumstances which have arisen which render adherence to the existing method of valuation of assets and liabilities in the financial statements of the 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; or
- (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; 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 Board of Directors, will or may substantially affect the ability of the Bank to meet its obligations as and when they fall due.

# Agricultural and Rural Development Bank

## Change of circumstances

At the date of this report, the Board of 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.

## Items of unusual nature

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

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

## Significant events including events since reporting date

### *Coronavirus and impact on Expected Credit Loss ("ECL")*

The Novel Coronavirus (COVID-19) outbreak has spread globally causing disruption to business and economic activity. For the purpose of preserving the financial stability and reduce the burden of the customers who are losing their primary incomes and facing difficulties in repayment during the impact of the COVID-19 pandemic, the Bank works constructively with affected customers and allows for loan payment restructuring. Loan payment restructuring is carried out by the Bank's credit department which regularly conducts a portfolio review of affected customers to measure the impact on their financial conditions during the pandemic.

The allowance for impairment loss on loans and advances to customers as at 31 December 2020 has been increased to US\$10,790,227 (31 December 2019: US\$4,204,708) following the payment behaviour of the borrowers and considering the facts and circumstances of the current economic conditions and supportable information that is available as at the assessment date. Management provides its best estimate on the possible outcomes of COVID-19 on the allowance for impairment loss.

Given the unprecedented and pervasive impact of changing circumstances surrounding the COVID-19 pandemic, there is inherently more uncertainty associated with the future operating assumptions and expectations. The estimate may move materially as events unfold. The Bank will keep continuous attention on the situation of the COVID-19 and react actively to its impact on the financial position and operating results of the Bank in future periods.



# Agricultural and Rural Development Bank

## The Board of Directors

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

H.E. Ros Seilava	Chairman of the Board, Non-Executive Director
H.E. San Visal	Member, Non-Executive Director
H.E. Tean Soserey	Member, Non-Executive Director
H.E. Kao Thach	Member, Executive Director and Chief Executive Director
Mr. Khy Kosal	Member, Non-Executive Director (appointed on 15 July 2020)
Mr. Pak Sereivathana	Member, Non-Executive Director (appointed on 15 July 2020)
Mr. Deth Veasna	Member, Non-Executive Director
Mr. Chan Seyha	Member, Executive Director
Mr. Sar Chetra	Member, Non-Executive Director (ended term on 15 July 2020)
Mr. Om Seng Bora	Member, Non-Executive Director (ended term on 15 July 2020)

## Board of Directors' interests

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

## Board of Directors' benefits

During and at the end of the financial year, no arrangements existed to which the Bank is a party with the object 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 financial 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.

## Board of Directors' responsibility in respect of the financial statements

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

- (i) adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- (ii) comply with Cambodian International Financial Reporting Standards ("CIFRSs") or, if there have been any departures in the interest of true and fair presentation, ensure that these have been appropriately disclosed, explained, and quantified in the financial statements;
- (iii) oversee the Bank's financial reporting process and maintain adequate accounting records and an effective system of internal controls;

# Agricultural and Rural Development Bank

## Board of Directors' responsibility in respect of the financial statements (continued)


- (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 Management 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 Board of 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 as set out on pages 9 to 88 which, in our opinion, present fairly, in all material respects, the financial position of the Bank as at 31 December 2020, and its financial performance and its cash flows for the year then ended, in accordance with Cambodian International Financial Reporting Standards ("CIFRSs").



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

**H.E. Ros Seilava**  
Chairman

Phnom Penh, Kingdom of Cambodia

15 June 2021

**H.E. Kao Thach**  
Chief Executive Officer





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Khan 7 Makara, Phnom Penh  
Kingdom of Cambodia  
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## **Report of the Independent Auditors To the shareholder of Agricultural and Rural Development Bank**

### ***Qualified Opinion***

We have audited the financial statements of Agricultural and Rural Development Bank ("the Bank"), which comprise the statement of financial position as at 31 December 2020, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out on pages 9 to 88 (hereafter referred to as "the financial statements").

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with Cambodian International Financial Reporting Standards ("CIFRSs").

### ***Basis for Qualified Opinion***

Loan aging report - due to the limitation of the Bank's loan system, day past due ("DPD") of loans and advances listing generated from the system are not captured correctly. DPD has been used by the Bank to incorporate into the measurement of Expected Credit Loss "ECL" of loans and advances. This matter existed in the preceding financial year and caused us to qualify our opinion on the financial statements relating to that year. It was impracticable for us to quantify the financial effect of the adjustments to the amounts of the impairment loss, net loans and advances to customers, regulatory reserves and related elements making up the statements of profit or loss and other comprehensive income, changes in equity and cash flows, which would have resulted from using the correct DPD.



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 qualified opinion.

### ***Emphasis of Matter – Comparative information***

We draw attention to Note 35 to the financial statements which indicates that the comparative information presented as at and for the year ended 31 December 2019 have been restated. Our Opinion is not modified in respect of this matter.

### ***Other Information***

Management is responsible for the other information. The other information comprises the information included in the Report of the Board of Directors on pages 1 to 5, and the annual report, which is expected to be made available to us after that date. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. 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 CSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

15 June 2021



# Agricultural and Rural Development Bank

## Statement of financial position as at 31 December 2020

		31 December		31 December	
	Note	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
			(Restated)		(Restated)
<b>ASSETS</b>					
Cash and cash equivalents	6	48,590,769	36,314,335	196,549,661	147,980,915
Statutory deposits	7	9,402,126	1,837,149	38,031,600	7,486,382
Loans and advances to customers – net	8	237,285,711	170,054,443	959,820,701	692,971,855
Foreclosed properties	9	3,773,887	3,881,678	15,265,373	15,817,839
Other assets	10	469,284	1,058,277	1,898,253	4,312,479
Property and equipment	11	4,105,178	2,783,665	16,605,445	11,343,434
Intangible assets	12	983,646	256,573	3,978,848	1,045,535
<b>Total assets</b>		<b>304,610,601</b>	<b>216,186,120</b>	<b>1,232,149,881</b>	<b>880,958,439</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>					
<b>Liabilities</b>					
Deposits from customers	13	5,301,086	2,628,873	21,442,893	10,712,657
Deposits from other banks	14	4,661	2,871	18,854	11,700
Borrowings	15	194,363,418	110,485,851	786,200,026	450,229,843
Subordinated debts	16	1,044,084	1,044,084	4,223,320	4,254,642
Other liabilities	17	763,502	35,113	3,088,365	143,085
Provision for financial guarantee contracts		14,904	-	60,286	-
Deferred tax liabilities – net	18A	1,923,903	1,651,658	7,782,188	6,730,505
Current income tax liability	18B	-	1,360,369	-	5,543,505
Minimum tax liability		15,737	-	63,656	-
<b>Total liabilities</b>		<b>203,431,295</b>	<b>117,208,819</b>	<b>822,879,588</b>	<b>477,625,937</b>
<b>Shareholder's equity</b>					
Share capital	19	96,504,646	96,504,646	390,627,000	390,627,000
Other capital	20	(11,280,227)	(13,258,222)	(45,429,245)	(53,493,531)
Capital reserve	21	1,202,424	1,119,607	4,863,484	4,525,839
Regulatory reserves	22	14,930,339	10,738,537	60,345,537	43,360,355
(Accumulated losses)/Retained earnings		(177,876)	3,872,733	(697,292)	15,712,246
Currency translation reserves		-	-	(439,191)	2,600,593
<b>Total shareholder's equity</b>		<b>101,179,306</b>	<b>98,977,301</b>	<b>409,270,293</b>	<b>403,332,502</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>		<b>304,610,601</b>	<b>216,186,120</b>	<b>1,232,149,881</b>	<b>880,958,439</b>

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

# Agricultural and Rural Development Bank

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

	Note	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
<b>Operating income</b>					
Interest income	23	12,842,131	10,838,438	52,357,368	43,917,351
Interest expense	24	(557,376)	(589,427)	(2,272,422)	(2,388,358)
<b>Net interest income</b>		12,284,755	10,249,011	50,084,946	41,528,993
Other income	25	33,548	1,009,788	136,775	4,091,661
<b>Total operating income</b>		12,318,303	11,258,799	50,221,721	45,620,654
Personnel expenses	26	(2,623,533)	(1,853,269)	(10,696,144)	(7,509,446)
Other operating expenses	27	(2,549,427)	(1,796,544)	(10,394,014)	(7,279,596)
Minimum tax expense	18C	(128,421)	-	(523,572)	-
<b>Total operating expenses</b>		(5,301,381)	(3,649,813)	(21,613,730)	(14,789,042)
<b>Operating profit before impairment</b>		7,016,922	7,608,986	28,607,991	30,831,612
(Allowance for)/Reversal of impairment losses on financial instruments	30B	(6,969,442)	803,695	(28,414,415)	3,256,571
<b>Profit before income tax</b>		47,480	8,412,681	193,576	34,088,183
Income tax benefits/(expense)	18C	93,713	(1,739,777)	382,068	(7,049,576)
<b>Net profit for the year</b>		141,193	6,672,904	575,644	27,038,607
<b>Other comprehensive (loss)/income</b>					
Currency translation difference		-	-	(3,039,784)	2,846,836
<b>Total comprehensive income for the year</b>		141,193	6,672,904	(2,464,140)	29,885,443

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

## Agricultural and Rural Development Bank

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

	Share capital		Other capital		Capital reserve		Regulatory reserves		(Accumulated losses)/ Retained earnings		Currency translation reserves		Total	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
At 1 January 2019	46,504,646	187,177,680	(13,586,841)	(54,825,095)	899,072	3,632,231	8,919,414	35,989,269	(981,048)	(3,955,275)	-	(246,243)	41,755,243	167,772,567
<b>Transactions recognised directly in equity</b>														
Share capital transfer from borrowings	10,000,000	40,690,000	-	-	-	-	-	-	-	-	-	-	10,000,000	40,690,000
Issuance of share capital (Note 19)	40,000,000	162,759,320	-	-	-	-	-	-	-	-	-	-	40,000,000	162,759,320
Recoveries of principal of non-performing loans (Note 20)	-	-	328,619	1,331,564	-	-	-	-	-	-	-	-	328,619	1,331,564
Recoveries of interest income from non-performing loans (Note 21)	-	-	-	-	220,535	893,608	-	-	-	-	-	-	220,535	893,608
Transfers from retained earnings to regulatory reserves (Note 22)	-	-	-	-	-	-	1,819,123	7,371,086	(1,819,123)	(7,371,086)	-	-	-	-
<b>Total comprehensive income</b>	50,000,000	203,449,320	328,619	1,331,564	220,535	893,608	1,819,123	7,371,086	(1,819,123)	(7,371,086)	-	-	50,549,154	205,674,492
Net profit for the year	-	-	-	-	-	-	-	-	6,672,904	27,038,607	-	-	6,672,904	27,038,607
Currency translation difference	-	-	-	-	-	-	-	-	-	-	-	2,846,836	-	2,846,836
At 31 December 2019	96,504,646	390,627,000	(13,258,222)	(53,493,531)	1,119,607	4,525,839	10,738,537	43,360,355	3,872,733	15,712,246	-	2,600,593	98,977,301	403,332,502
At 1 January 2020	96,504,646	390,627,000	(13,258,222)	(53,493,531)	1,119,607	4,525,839	10,738,537	43,360,355	3,872,733	15,712,246	-	2,600,593	98,977,301	403,332,502
<b>Transactions recognised directly in equity</b>														
Recoveries of principal of non-performing loans (Note 20)	-	-	53,985	220,097	-	-	-	-	-	-	-	-	53,985	220,097
Recoveries of interest income from non-performing loans (Note 21)	-	-	-	-	82,817	337,645	-	-	-	-	-	-	82,817	337,645
Transfers from retained earnings to regulatory reserves (Note 22)	-	-	-	-	-	-	4,191,802	16,985,182	(4,191,802)	(16,985,182)	-	-	-	-
Additional during the year (Note 20)	-	-	1,924,010	7,844,189	-	-	-	-	-	-	-	-	1,924,010	7,844,189
<b>Total comprehensive income</b>	-	-	1,977,995	8,064,286	82,817	337,645	4,191,802	16,985,182	(4,191,802)	(16,985,182)	-	-	2,060,812	8,401,931
Net profit for the year	-	-	-	-	-	-	-	-	141,193	575,644	-	-	141,193	575,644
Currency translation difference	-	-	-	-	-	-	-	-	-	-	-	(3,039,784)	-	(3,039,784)
At 31 December 2020	96,504,646	390,627,000	(11,280,227)	(45,429,245)	1,202,424	4,863,484	14,930,339	60,345,537	(177,876)	(697,292)	-	(439,191)	101,179,306	409,270,293

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



# Agricultural and Rural Development Bank

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

	Note	2020 US\$	2019 US\$ (Restated)	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5) (Restated)
<b>Cash flows from operating activities</b>					
Net profit for the year		141,193	6,672,904	575,644	27,038,607
<i>Adjustments for:</i>					
Income tax (benefits)/expense		(93,713)	1,739,777	(382,068)	7,049,576
Depreciation and amortisation		341,321	265,767	1,391,566	1,076,887
Impairment losses on foreclosed properties	9	107,791	136,623	439,464	553,596
Allowance for/(Reversal of) Impairment losses on financial instruments	30B	6,969,442	(803,695)	28,414,415	(3,256,571)
Net interest income		(12,284,755)	(10,249,011)	(50,084,946)	(41,528,993)
Gain on disposal of foreclosed properties		-	(2,400)	-	(9,725)
Losses/(Gains) on exchange rate		937,655	(1,032,652)	3,822,819	(4,184,306)
		(3,881,066)	(3,272,687)	(15,823,106)	(13,260,929)
<i>Changes in:</i>					
Statutory deposits		(7,571,914)	6,737	(30,870,693)	27,298
Loans and advances to customers		(70,587,877)	(15,312,858)	(287,786,775)	(62,047,701)
Other assets		437,188	(679,642)	1,782,415	(2,753,909)
Deposits from customers		2,677,354	(831,085)	10,915,572	(3,367,556)
Deposits from other banks		1,790	(21,898)	7,298	(88,731)
Other liabilities		744,126	(2,204,025)	3,033,802	(8,930,709)
Cash used in operations		(78,180,399)	(22,315,458)	(318,741,487)	(90,422,237)
Interest income received		11,544,168	10,290,603	47,065,573	41,697,523
Interest expense paid		(414,537)	(1,004,281)	(1,690,067)	(4,069,347)
Income tax paid	18B	(994,411)	(780,382)	(4,054,214)	(3,162,108)
<b>Net cash used in operating activities</b>		<b>(68,045,179)</b>	<b>(13,809,518)</b>	<b>(277,420,195)</b>	<b>(55,956,169)</b>
<b>Cash flows from investing activities</b>					
Proceeds from disposals of foreclosed properties		-	14,400	-	58,349
Purchase of property and equipment		(1,661,054)	(168,241)	(6,772,117)	(681,713)
Purchase of intangible assets		(728,853)	(253,770)	(2,971,534)	(1,028,276)
<b>Net cash used in investing activities</b>		<b>(2,389,907)</b>	<b>(407,611)</b>	<b>(9,743,651)</b>	<b>(1,651,640)</b>

# Agricultural and Rural Development Bank

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

	Note	2020 US\$	2019 US\$ (Restated)	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5) (Restated)
<b>Cash flows from financing activities</b>					
Issuance of share capital		-	40,000,000	-	162,759,320
Repayment of borrowings		(1,108,347)	(7,954,254)	(4,518,730)	(32,230,637)
Proceeds from borrowings		83,900,279	2,577,953	342,061,437	10,445,866
Recoveries of interest from non-performing loans		82,817	220,535	337,645	893,608
Recoveries of principles of non-performing loans		53,985	328,619	220,097	1,331,564
<b>Net cash generated from financing activities</b>		<u>82,928,734</u>	<u>35,172,853</u>	<u>338,100,449</u>	<u>143,199,721</u>
<b>Net increase in cash and cash equivalents</b>		12,493,648	20,955,724	50,936,603	85,591,912
<b>Cash and cash equivalents at beginning of the year</b>		36,361,346	15,405,622	148,172,485	61,899,790
Currency translation difference		-	-	(1,490,638)	680,783
<b>Cash and cash equivalents at end of the year</b>	6	<u>48,854,994</u>	<u>36,361,346</u>	<u>197,618,450</u>	<u>148,172,485</u>

### Significant non-cash transactions:

During the year, the significant non-cash transactions are as follows:

		2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
Transfer from borrowings to the share capital	19	<u>-</u>	<u>10,000,000</u>	<u>-</u>	<u>40,690,000</u>
Loans and advances to customers directly by MEF under other capital	20	<u>1,924,010</u>	<u>-</u>	<u>7,844,189</u>	<u>-</u>

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

# Agricultural and Rural Development Bank

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

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

### 1. Reporting entity

Agricultural and Rural Development Bank is a wholly state-owned entity established by Anukret (Sub-Decree) dated 21 January 1998 with the aim to promote agricultural and rural economic activities in order to alleviate poverty and to raise the standard of living of rural people.

The Bank commenced operations under the registration number Co.3942 et/1998 issued by the Ministry of Commerce dated 12 May 1998. The Bank obtained a license from the National Bank of Cambodia ("NBC") to operate as a specialized bank with permanent validity on 15 June 2007.

The Bank has obtained license from the NBC to operate as a commercial bank on 19 February 2020 from which the principal activities was changed to commercial banking services.

As at 31 December 2020, the Bank had 171 employees (31 December 2019: 109 employees).

### 2. Basis of accounting

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 32.

The financial statements were authorised for issue by the Board of Directors on 15 June 2021.

### 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 or thousand riels in accordance with Note 5, except when otherwise indicated.

# Agricultural and Rural Development Bank

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

### 4. Use of judgments and estimates

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

#### A. Judgements

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

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

#### B. Assumptions and estimation uncertainties

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

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

# Agricultural and Rural Development Bank

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

### 5. Translation of United States Dollars into Khmer Riel

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

Assets and liabilities are translated at the closing rate as at the reporting date and equity items are translated at historical rate. The statements of profit or loss and other comprehensive income and cash flows are translated into KHR using the average rate for the year. Exchange differences arising from the translation are recognised as “Currency Translation Reserves” in the other comprehensive income.

The Bank uses the following exchange rates:

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

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

### 6. Cash and cash equivalents

	31 December		31 December	
	2020	2019	2020	2019
	US\$	US\$	KHR'000	KHR'000
		(Restated)	(Note 5)	(Note 5)
				(Restated)
Cash on hand	807,786	1,786,502	3,267,494	7,279,996
Balances with other banks	27,337,166	4,706,096	110,578,836	19,177,341
Balances with NBC	20,710,042	29,868,748	83,772,120	121,715,148
	48,854,994	36,361,346	197,618,450	148,172,485
Less: Impairment loss	(264,225)	(47,011)	(1,068,789)	(191,570)
	48,590,769	36,314,335	196,549,661	147,980,915

Balance with other banks are current accounts and earned no interest.



# Agricultural and Rural Development Bank

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

### 6. Cash and cash equivalents (continued)

The movements of impairment loss allowance for balances with other banks were as follows:

	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
At 1 January	47,011	9,012	191,570	36,211
Allowance for the year	217,214	37,999	885,581	153,972
Currency translation difference	-	-	(8,362)	1,387
At 31 December	<u>264,225</u>	<u>47,011</u>	<u>1,068,789</u>	<u>191,570</u>

### 7. Statutory deposits

	31 December		31 December	
	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
Statutory capital deposit	8,975,377	1,628,560	36,305,400	6,636,382
Reserve requirement	<u>426,749</u>	<u>208,589</u>	<u>1,726,200</u>	<u>850,000</u>
	<u>9,402,126</u>	<u>1,837,149</u>	<u>38,031,600</u>	<u>7,486,382</u>

#### A. Statutory capital deposit

Under the NBC Prakas No. B7-01-136, dated 15 October 2001, the Bank is required to maintain a capital guarantee deposit of 10% of paid-up capital. This deposit is refundable should the Bank voluntarily cease its operations in Cambodia and it is not available for use in the Bank's day-to-day operations. The capital guarantee deposits earn interest at 1/4 of six-month LIBOR rate.

#### B. Reserve requirements on customers' deposits

Pursuant to the NBC's Prakas No. B7-020-230, bank and financial institutions are required to maintain the reserve requirements, which is calculated at 7% for both KHR and other currencies of the total daily average amount of deposits from customers, and borrowings from banks and financial institutions, at the NBC. In 2019, reserve requirement was required to maintain at the NBC at the minimum at 8% and 12.5% of daily average balances of deposits from non-bank customers in KHR and other currencies, respectively.

# Agricultural and Rural Development Bank

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

### 7. Statutory deposits (continued)

#### C. By interest rate (per annum):

	2020	2019
Statutory capital deposit	0.32% - 0.36%	0.32% - 0.36%
Reserve requirements on customers' deposits	<u>Nil</u>	<u>Nil</u>

### 8. Loans and advances to customers - net

	31 December		31 December	
	2020	2019	2020	2019
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
Long term loans and advances	171,001,558	105,262,145	691,701,302	428,943,241
Short term loans and advances	71,628,799	65,343,728	289,738,492	266,275,692
Staff loans	3,237,906	2,556,554	13,097,330	10,417,958
Gross loans and advances	245,868,263	173,162,427	994,537,124	705,636,891
Accrued interest receivables	3,079,884	1,774,984	12,458,130	7,233,060
Unearned income	(872,209)	(678,260)	(3,528,085)	(2,763,911)
Gross loans and advances before impairment loss allowance	248,075,938	174,259,151	1,003,467,169	710,106,040
Less: Impairment loss allowance	(10,790,227)	(4,204,708)	(43,646,468)	(17,134,185)
Loans and advances to customers – net	<u>237,285,711</u>	<u>170,054,443</u>	<u>959,820,701</u>	<u>692,971,855</u>

The movements of impairment loss allowance were as follows:

	2020	2019	2020	2019
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
At 1 January	4,204,708	5,331,402	17,134,185	21,421,573
Allowance/(Reversal) for the year	6,585,519	(841,694)	26,849,161	(3,410,543)
Write-off	-	(285,000)	-	(1,154,820)
Currency translation difference	-	-	(336,878)	277,975
At 31 December	<u>10,790,227</u>	<u>4,204,708</u>	<u>43,646,468</u>	<u>17,134,185</u>

# Agricultural and Rural Development Bank

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

### 8. Loans and advances to customers - net (continued)

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

	31 December		31 December	
	2020	2019	2020	2019
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
> 1 to 3 months	15,865,433	11,088,837	64,175,676	45,187,011
> 3 to 12 months	2,936,597	70,530,102	11,878,535	287,410,166
> 1 to 3 years	81,860,509	29,566,841	331,125,759	120,484,877
> 3 to 5 years	48,137,151	16,145,998	194,714,776	65,794,942
Over 5 years	97,068,573	45,830,649	392,642,378	186,759,895
	<u>245,868,263</u>	<u>173,162,427</u>	<u>994,537,124</u>	<u>705,636,891</u>

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

### 9. Foreclosed properties

Foreclosed properties consist of movable and immoveable properties acquired through foreclosure of collaterals from defaulting loans and advances to customers 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.

# Agricultural and Rural Development Bank

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

### 9. Foreclosed properties (continued)

As of the date of the report, the Bank has yet submitted a request letter to the NBC to delay the period of holding the properties.

	Land US\$	Buildings US\$	Equipment US\$	US\$	Total KHR'000 (Note 5)
<b>2020</b>					
<b>Costs</b>					
At 1 January 2020	2,786,150	885,820	680,386	4,352,356	17,735,851
Currency translation difference	-	-	-	-	(130,571)
At 31 December 2020	<u>2,786,150</u>	<u>885,820</u>	<u>680,386</u>	<u>4,352,356</u>	<u>17,605,280</u>
<b>Less: allowance for impairment</b>					
At 1 January 2020	-	44,291	426,387	470,678	1,918,012
Impairment loss during the year	-	44,291	63,500	107,791	439,464
Currency translation difference	-	-	-	-	(17,569)
At 31 December 2020	<u>-</u>	<u>88,582</u>	<u>489,887</u>	<u>578,469</u>	<u>2,339,907</u>
<b>Carrying amounts</b>					
At 31 December 2020	<u>2,786,150</u>	<u>797,238</u>	<u>190,499</u>	<u>3,773,887</u>	<u>15,265,373</u>
<b>2019</b>					
<b>Costs</b>					
At 1 January 2019	2,486,549	381,720	341,720	3,209,989	12,897,736
Additions	311,601	504,100	338,666	1,154,367	4,677,495
Disposals	(12,000)	-	-	(12,000)	(48,624)
Currency translation difference	-	-	-	-	209,244
At 31 December 2019	<u>2,786,150</u>	<u>885,820</u>	<u>680,386</u>	<u>4,352,356</u>	<u>17,735,851</u>
<b>Less: allowance for impairment</b>					
At 1 January 2019	-	-	334,055	334,055	1,342,233
Impairment loss during the year	-	44,291	92,332	136,623	553,596
Currency translation difference	-	-	-	-	22,183
At 31 December 2019	<u>-</u>	<u>44,291</u>	<u>426,387</u>	<u>470,678</u>	<u>1,918,012</u>
<b>Carrying amounts</b>					
At 31 December 2019	<u>2,786,150</u>	<u>841,529</u>	<u>253,999</u>	<u>3,881,678</u>	<u>15,817,839</u>

# Agricultural and Rural Development Bank

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

### 10. Other assets

	31 December		31 December	
	2020	2019	2020	2019
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
Advance payment to suppliers	94,551	61,950	382,459	252,446
Prepaid insurance	42,785	49,725	173,065	202,629
Investment in Joint Venture (*)	340,000	-	1,375,300	-
Advance for the Project's activities	-	897,000	-	3,655,275
Others	143,753	49,602	581,480	202,129
	<u>621,089</u>	<u>1,058,277</u>	<u>2,512,304</u>	<u>4,312,479</u>
Less: Impairment loss allowance	<u>(151,805)</u>	<u>-</u>	<u>(614,051)</u>	<u>-</u>
	<u>469,284</u>	<u>1,058,277</u>	<u>1,898,253</u>	<u>4,312,479</u>

(\*) This represents investment in Joint Venture, C.J Agro Business Co., Ltd, which aims to create a secured vegetable market supplies in Cambodia.

The movements of impairment loss allowance were as follows:

	2020	2019	2020	2019
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
At 1 January	-	-	-	-
Allowance for the year	151,805	-	618,909	-
Currency translation difference	-	-	(4,858)	-
At 31 December	<u>151,805</u>	<u>-</u>	<u>614,051</u>	<u>-</u>



## Agricultural and Rural Development Bank

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

#### 11. Property and equipment

2020	Land US\$	Buildings US\$	Building improvements US\$	Motor vehicles US\$	IT equipment US\$	Office equipment and furniture US\$	US\$	Total KHR000 (Note 5)
<b>Cost</b>								
At 1 January 2020	2,006,671	329,344	177,222	1,070,726	379,782	322,238	4,285,983	17,465,381
Additions	1,020,000	-	44,769	455,363	76,809	64,113	1,661,054	6,772,117
Write-off	-	-	-	(58,150)	-	-	(58,150)	(237,078)
Currency translation difference	-	-	-	-	-	-	-	(179,872)
At 31 December 2020	3,026,671	329,344	221,991	1,467,939	456,591	386,351	5,888,887	23,820,548
<b>Less: Accumulated depreciation</b>								
At 1 January 2020	-	177,491	94,637	739,450	291,865	198,875	1,502,318	6,121,947
Depreciation	-	16,558	27,684	184,348	58,960	51,991	339,541	1,384,309
Write-off	-	-	-	(58,150)	-	-	(58,150)	(237,078)
Currency translation difference	-	-	-	-	-	-	-	(54,075)
At 31 December 2020	-	194,049	122,321	865,648	350,825	250,866	1,783,709	7,215,103
<b>Carrying amounts</b>								
At 31 December 2020	3,026,671	135,295	99,670	602,291	105,766	135,485	4,105,178	16,605,445

# Agricultural and Rural Development Bank

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

### 11. Property and equipment (continued)

2019	Land US\$	Buildings US\$	Building improvements US\$	Motor vehicles US\$	IT equipment US\$	Office equipment and furniture US\$	US\$	Total KHR000 (Note 5)
<b>Cost</b>								
At 1 January 2019	2,006,671	329,344	166,791	1,041,928	303,296	269,712	4,117,742	16,545,087
Additions	-	-	10,431	28,798	76,486	52,526	168,241	681,713
Currency translation difference	-	-	-	-	-	-	-	238,581
At 31 December 2019	2,006,671	329,344	177,222	1,070,726	379,782	322,238	4,285,983	17,465,381
<b>Less: Accumulated depreciation</b>								
At 1 January 2019	-	161,068	64,920	623,709	235,336	160,679	1,245,712	5,005,270
Depreciation	-	16,423	29,717	115,741	56,529	38,196	256,606	1,039,767
Currency translation difference	-	-	-	-	-	-	-	76,910
At 31 December 2019	-	177,491	94,637	739,450	291,865	198,875	1,502,318	6,121,947
<b>Carrying amounts</b>								
At 31 December 2019	2,006,671	151,853	82,585	331,276	87,917	123,363	2,783,665	11,343,434

# Agricultural and Rural Development Bank

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

### 12. Intangible assets

	Software US\$	Asset-in- progress US\$	US\$	Total KHR'000 (Note 5)
<b>2020</b>				
<b>Cost</b>				
At 1 January 2020	172,904	253,770	426,674	1,738,697
Additions	-	728,853	728,853	2,971,534
Currency translation difference	-	-	-	(36,124)
At 31 December 2020	172,904	982,623	1,155,527	4,674,107
<b>Less: Accumulated amortisation</b>				
At 1 January 2020	170,101	-	170,101	693,162
Amortisation	1,780	-	1,780	7,257
Currency translation difference	-	-	-	(5,160)
At 31 December 2020	171,881	-	171,881	695,259
<b>Carrying amounts</b>				
At 31 December 2020	1,023	982,623	983,646	3,978,848
<b>2019</b>				
<b>Cost</b>				
At 1 January 2019	172,904	-	172,904	694,728
Additions	-	253,770	253,770	1,028,276
Currency translation difference	-	-	-	15,693
At 31 December 2019	172,904	253,770	426,674	1,738,697
<b>Less: Accumulated amortisation</b>				
At 1 January 2019	160,940	-	160,940	646,657
Amortisation	9,161	-	9,161	37,120
Currency translation difference	-	-	-	9,385
At 31 December 2019	170,101	-	170,101	693,162
<b>Carrying amounts</b>				
At 31 December	2,803	253,770	256,573	1,045,535

# Agricultural and Rural Development Bank

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

### 13. Deposits from customers

	31 December		31 December	
	2020	2019	2020	2019
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
Demand deposits	2,144,360	1,344,714	8,673,936	5,479,710
Saving accounts	2,370,205	595,539	9,587,479	2,426,821
Fixed deposits	786,521	688,620	3,181,478	2,806,126
	<u>5,301,086</u>	<u>2,628,873</u>	<u>21,442,893</u>	<u>10,712,657</u>

Deposits from customers are analysed as follows:

	2020	2019	2020	2019
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
<b>A. By maturity:</b>				
Within 1 month	4,514,585	1,957,284	18,261,497	7,975,932
> 1 to 3 months	488,629	172,453	1,976,504	702,746
> 3 to 6 months	-	33,185	-	135,229
> over 6 months	297,872	465,951	1,204,892	1,898,750
	<u>5,301,086</u>	<u>2,628,873</u>	<u>21,442,893</u>	<u>10,712,657</u>
<b>B. By customer type:</b>				
Domestic corporations (private sector)	2,245,414	1,277,477	9,082,700	5,205,719
Individuals	3,055,672	1,351,396	12,360,193	5,506,938
	<u>5,301,086</u>	<u>2,628,873</u>	<u>21,442,893</u>	<u>10,712,657</u>
<b>C. By residency status:</b>				
Residents	5,299,422	2,618,200	21,436,162	10,669,165
Non-residents	1,664	10,673	6,731	43,492
	<u>5,301,086</u>	<u>2,628,873</u>	<u>21,442,893</u>	<u>10,712,657</u>

# Agricultural and Rural Development Bank

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

### 13. Deposits from customers (continued)

Deposits from customers are analysed as follows (continued):

#### D. By interest rate (per annum)

	2020	2019
Demand deposits	Nil	Nil
Saving accounts	1.00% - 1.50%	1.00% - 1.50%
Fixed deposits	<u>3.00% - 6.00%</u>	<u>3.00% - 6.00%</u>

### 14. Deposits from other banks

	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
Demand deposits	3,985	2,190	16,119	8,925
Saving accounts	<u>676</u>	<u>681</u>	<u>2,735</u>	<u>2,775</u>
	<u>4,661</u>	<u>2,871</u>	<u>18,854</u>	<u>11,700</u>
<b>A. By maturity:</b>				
Within 1 month	<u>4,661</u>	<u>2,871</u>	<u>18,854</u>	<u>11,700</u>
<b>B. By residency status:</b>				
Residents	<u>4,661</u>	<u>2,871</u>	<u>18,854</u>	<u>11,700</u>
<b>C. By interest rate (per annum)</b>				
	2020	2019		
Demand deposits	Nil	Nil		
Saving accounts	<u>1.00% - 1.50%</u>	<u>1.00% - 1.50%</u>		



# Agricultural and Rural Development Bank

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

### 15. Borrowings

	31 December		31 December	
	2020	2019	2020	2019
	US\$	US\$	KHR'000	KHR'000
		(Restated)	(Note 5)	(Note 5)
			(Restated)	(Restated)
Royal Government of Cambodia - Special fund	154,012,608	72,792,883	622,980,999	296,630,998
Ministry of Economy and Finance - ASDF	38,143,338	36,565,516	154,289,803	149,004,478
Asian Development Bank	-	96,107	-	391,636
Agence Française de Développement ("AFD")	248,461	248,461	1,005,025	1,012,478
International Fund for Agricultural Development ("IFAD")	1,959,011	782,884	7,924,199	3,190,253
	<u>194,363,418</u>	<u>110,485,851</u>	<u>786,200,026</u>	<u>450,229,843</u>

## Agricultural and Rural Development Bank

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

#### 15. Borrowings (continued)

Borrowings are analysed as follows:

Loan terms	Royal Government of Cambodia - Special fund	Ministry of Economy and Finance - ASDF	Asian Development Bank	Agence Francaise De Development ("AFD")	International Fund for Agricultural Development ("IFAD")
Loan denomination and outstanding as at 31 December 2020	KHR501,631,000,000 and US\$30,000,000 or equivalent to US\$154,012,608 (2019: KHR296,756,000,000 or equivalent to US\$72,792,883).	US\$38,143,338 (2019: US\$36,565,516).	KHR Nil (2019: KHR125,000,000 and US\$65,432 or equivalent to US\$96,107).	US\$248,461 (2019: US\$248,461).	US\$1,959,011 (2019: US\$782,884).
Interest per annum	Nil	2%	0.556%-2.556%	Nil	1.5% annually based on outstanding borrowing amount
Repayment of principal	Repayments of principals are made upon requested by RGC.	Repayments of principals are made twice per year equal to the repayments of principal collected from the customers.	The repayments of principal is paid to MEF when the Bank collect the principal repayments from the customers.	The repayments of principal is paid to MEF when the Bank collect the principal repayments from the customers.	The repayments of principal is paid to MEF when the Bank collect the principal repayments from the customers.
Loan purposes	Support the agricultural and rural development	Support the agricultural and rural development	Support the agricultural and rural development	Support the agricultural and rural development	Support the agricultural and rural development

# Agricultural and Rural Development Bank

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

### 16. Subordinated debts

	31 December		31 December	
	2020	2019	2020	2019
	US\$	US\$	KHR'000 (Note 5)	KHR'000 (Note 5)
Subordinated debts	<u>1,044,084</u>	<u>1,044,084</u>	<u>4,223,320</u>	<u>4,254,642</u>

This represents a long-term unsecured borrowing from Agence Française de Développement (“AFD”) outstanding as at 31 December 2020 of US\$1,044,084 (31 December 2019: US\$1,044,084) based on agreement between the Ministry of Economy and Finance (“MEF”) and AFD on 7 May 1999, and between MEF and Agricultural and Rural Development Bank (“ARDB”) on 14 November 2003 with the following terms and conditions:

Total grant facilities	US\$1,044,084
Maturity	20 years starting from the date of signed of each contract.

The Bank obtained an approval from the NBC allowing to include the above subordinated debts in Tier II capital for the purpose of Net Worth calculation for both subordinated debts on 22 March 2007.

# Agricultural and Rural Development Bank

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

### 17. Other liabilities

	31 December		31 December	
	2020	2019	2020	2019
	US\$	US\$	KHR'000	KHR'000
		(Restated)	(Note 5)	(Note 5)
			(Restated)	(Restated)
Other tax payables	18,131	7,366	73,340	30,016
Accruals and other payables	107,798	27,747	436,043	113,069
Deferred grant income (*)	637,573	-	2,578,982	-
	<u>763,502</u>	<u>35,113</u>	<u>3,088,365</u>	<u>143,085</u>

- (\*) This represents the remaining balances of grant (total grant of US\$1 million) received from the International Fund for Agricultural Development ("IFAD") - Value Chain Innovation Fund ("VCIF") based on the subsidiary loan agreement between the MEF and the Bank dated 25 May 2018.

### 18. Income tax

#### A. Deferred tax liabilities – net

	31 December		31 December	
	2020	2019	2020	2019
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
Deferred tax liabilities – net	<u>1,923,903</u>	<u>1,651,658</u>	<u>7,782,188</u>	<u>6,730,505</u>

Deferred tax liabilities is attributable to the following:

	31 December		31 December	
	2020	2019	2020	2019
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
Depreciation and amortisation	63,039	10,166	254,993	41,426
Impairment loss on financial instruments	2,035,306	1,777,144	8,232,813	7,241,861
Unearned income	<u>(174,442)</u>	<u>(135,652)</u>	<u>(705,618)</u>	<u>(552,782)</u>
	<u>1,923,903</u>	<u>1,651,658</u>	<u>7,782,188</u>	<u>6,730,505</u>

# Agricultural and Rural Development Bank

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

### 18. Income tax (continued)

#### A. Deferred tax liabilities – net (continued)

The movements of deferred tax liabilities are as follows:

	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
At 1 January	1,651,658	1,391,447	6,730,505	5,590,834
Recognised in profit or loss	272,245	260,211	1,109,943	1,054,375
Currency translation difference	-	-	(58,260)	85,296
At 31 December	<u>1,923,903</u>	<u>1,651,658</u>	<u>7,782,188</u>	<u>6,730,505</u>

#### B. Current income tax liability

	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
At 1 January	1,360,369	661,185	5,543,505	2,656,641
Income tax expense	-	1,479,566	-	5,995,201
Income tax paid	(994,411)	(780,382)	(4,054,214)	(3,162,108)
Over provision in prior year	(365,958)	-	(1,492,011)	-
Currency translation difference	-	-	2,720	53,771
At 31 December	<u>-</u>	<u>1,360,369</u>	<u>-</u>	<u>5,543,505</u>

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



# Agricultural and Rural Development Bank

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

### 18. Income tax (continued)

#### C. Income tax expense/minimum tax expense

	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
<b><i>Current tax</i></b>				
Current income tax	-	1,479,566	-	5,995,201
Over provision in prior year	(365,958)	-	(1,492,011)	-
	<u>(365,958)</u>	<u>1,479,566</u>	<u>(1,492,011)</u>	<u>5,995,201</u>
<b><i>Deferred tax</i></b>				
Origination of temporary differences	272,245	260,211	1,109,943	1,054,375
	<u>(93,713)</u>	<u>1,739,777</u>	<u>(382,068)</u>	<u>7,049,576</u>
Minimum tax expense	<u>128,421</u>	<u>-</u>	<u>523,572</u>	<u>-</u>

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

**C. Income tax expense (continued)**

	2020			2019		
	US\$	KHR'000 (Note 5)	%	US\$	KHR'000 (Note 5)	%
Profit before income tax	<u>47,480</u>	<u>193,576</u>		<u>8,412,681</u>	<u>34,088,183</u>	
Income tax using statutory rate at 20%	9,496	38,715	20	1,682,536	6,817,636	20
Non-deductible expenses	262,749	1,071,228	553	57,241	231,940	1
Over provision in prior year	<u>(365,958)</u>	<u>(1,492,011)</u>	<u>-771</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income tax (benefits)/expense	(93,713)	(382,068)	-197	1,739,777	7,049,576	21

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# Agricultural and Rural Development Bank

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

### 19. Share capital

	31 December		31 December	
	2020	2019	2020	2019
	US\$	US\$	KHR'000 (Note 5)	KHR'000 (Note 5)
Issued and fully paid 390,627 shares of KHR1,000,000 each (2019: 390,627 shares of KHR1,000,000 each)				
The Ministry of Economy and Finance	<u>96,504,646</u>	<u>96,504,646</u>	<u>390,627,000</u>	<u>390,627,000</u>

### 20. Other capital

	31 December		31 December	
	2020	2019	2020	2019
	US\$	US\$	KHR'000 (Note 5)	KHR'000 (Note 5)
Other capital (*)	(13,204,237)	(13,258,222)	(53,273,434)	(53,493,531)
Other capital for Climate Resilient Rice Commercialization Sector Development Rice-SDP (**)	<u>1,924,010</u>	<u>-</u>	<u>7,844,189</u>	<u>-</u>
	<u>(11,280,227)</u>	<u>(13,258,222)</u>	<u>(45,429,245)</u>	<u>(53,493,531)</u>

(\*) According to the letter No. 536 dated 3 February 2016 from the Ministry of Economy and Finance submitted to Samdech Akkak Monha Sena Padei Techo Hun Sen, Prime Minister of the Kingdom of Cambodia with his annotation on 4 February 2016, ARDB is granted the approval upon request to take the following actions in respect of the 2015 financial statements:

- Transfer the non-performing loans and advances amounting to US\$18,269,567 from the balance sheet and monitor separately as an off-balance sheet items.
- Recognise the non-performing loans and advances amounting to US\$18,269,567 as a capital reduction.
- Recoverability of the non-performing loans and advances in the future will be recognised directly into capital accounts of the Bank as credit to other capital for the principal amounts received and credit to capital reserve for interest amounts received.

The above actions were approved by the National Bank of Cambodia on 31 March 2016.

# Agricultural and Rural Development Bank

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

### 20. Other capital (continued)

- (\*\*) This represents the fund received from the Ministry of Economy and Finance (“MEF”) for the establishment and operation of paddy drying and storage (“PDS”) facilities through the provision of concessionary loans to rice millers. The funds were disbursed from the MEF directly to the PDS facility’s construction contractors and equipment suppliers, and the Bank will manage the repayment and retain both the principal and interest for use in subsequent similar type of activities to ensure development of agriculture sector in the future.

The movements of other capital of the Bank were as follows:

	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
At 1 January	(13,258,222)	(13,586,841)	(53,493,531)	(54,825,095)
Add: recoveries of non-performing loans principal	53,985	328,619	220,097	1,331,564
Other capital for Climate Resilient Rice Commercialization Sector Development Rice-SDP	1,924,010	-	7,844,189	-
At 31 December	<u>(11,280,227)</u>	<u>(13,258,222)</u>	<u>(45,429,245)</u>	<u>(53,493,531)</u>

### 21. Capital reserve

This represents the recoveries of interest portion of non-performing loans and advances which were transferred to off balance sheet in 2015. This capital reserve will be transferred to paid-up capital in the future.

### 22. Regulatory reserves

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

# Agricultural and Rural Development Bank

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

### 23. Interest income

	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
Loans and advances	12,630,859	10,811,827	51,496,012	43,809,523
Balances with other banks	211,272	26,611	861,356	107,828
	<u>12,842,131</u>	<u>10,838,438</u>	<u>52,357,368</u>	<u>43,917,351</u>

### 24. Interest expense

	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
Saving deposits	13,073	7,451	53,299	30,191
Fixed deposits	28,540	38,981	116,357	157,951
Borrowings	515,763	542,995	2,102,766	2,200,216
	<u>557,376</u>	<u>589,427</u>	<u>2,272,422</u>	<u>2,388,358</u>

### 25. Other income

	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
Gains on foreign exchange	-	968,460	-	3,924,200
Other income	33,548	41,328	136,775	167,461
	<u>33,548</u>	<u>1,009,788</u>	<u>136,775</u>	<u>4,091,661</u>



# Agricultural and Rural Development Bank

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

### 26. Personnel expense

	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
Salaries and wages	1,608,401	1,192,381	6,557,451	4,831,528
Bonuses	451,664	351,061	1,841,434	1,422,499
Other benefits	563,468	309,827	2,297,259	1,255,419
	<u>2,623,533</u>	<u>1,853,269</u>	<u>10,696,144</u>	<u>7,509,446</u>

### 27. Other operating expenses

	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
Depreciation and amortisation	341,321	265,767	1,391,566	1,076,887
Director's remuneration	294,031	183,769	1,198,764	744,632
Advertising expenses	141,249	35,798	575,872	145,053
Gasoline and motor vehicles operating expenses	133,191	80,765	543,020	327,260
Court and other legal fees	117,304	237,141	478,248	960,895
Professional fee	110,268	143,285	449,563	580,591
Other consumables and office supplies	103,921	67,951	423,686	275,337
Mission, travelling and accommodation expenses	90,026	180,353	367,036	730,790
Public relations expenses	89,894	68,702	366,498	278,381
Social welfare	70,048	77,879	285,586	315,566
Donation and gifts	63,363	62,824	258,331	254,563
Repairs and maintenance	61,010	23,631	248,738	95,753
Utilities	40,846	32,754	166,529	132,719
Training charges	39,915	69,556	162,733	281,841
License fee	37,083	17,178	151,187	69,605
Clearing house and other fees	23,532	8,752	95,940	35,463
Membership fee	16,664	11,870	67,939	48,097
Tax on transportation vehicles	6,648	4,804	27,104	19,466
Telecommunication and postage expenses	5,312	4,534	21,657	18,372
Fire and hazard insurance expenses	3,632	12,282	14,808	49,767
Foreign exchange loss	579,323	-	2,361,900	-
Other expenses	180,846	206,949	737,309	838,558
	<u>2,549,427</u>	<u>1,796,544</u>	<u>10,394,014</u>	<u>7,279,596</u>

# Agricultural and Rural Development Bank

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

### 28. Commitments and contingencies

#### A. Off balance sheet items

	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
Bad and doubtful loans and advances to customers (*)	13,632,801	13,316,786	55,144,680	54,265,900
Unused portion of approved credit facilities (**)	4,482,000	-	18,129,690	-
	18,114,801	13,316,786	73,274,370	54,265,900
Less: Impairment loss allowance	(14,904)	-	(60,286)	-
	<u>18,099,897</u>	<u>13,316,786</u>	<u>73,214,084</u>	<u>54,265,900</u>

(\*) This represents bad and doubtful loans and advances transferred for monitoring as an off-balance sheet item which was approved by the National Bank of Cambodia on 31 March 2016.

(\*\*) In the normal course of business, the Bank makes commitments to its customers for the unused portion of loans. No material losses are anticipated from these transactions.

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

	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
At 1 January	-	-	-	-
Charge to profit or loss	14,904	60,764	-	-
Currency translation difference	-	(478)	-	-
At 31 December	<u>14,904</u>	<u>60,286</u>	<u>-</u>	<u>-</u>

#### B. Tax 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.

# Agricultural and Rural Development Bank

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

### 29. Related parties

#### A. Identity of related parties

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

The Bank have related party relationships with its subsidiaries, substantial shareholders, associates and key management personnel.

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

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

#### B. Transactions with related parties

	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
<b>Interest expense</b>				
Borrowings	1,438	8,116	5,863	32,886
Deposit	<u>3,710</u>	<u>198</u>	<u>15,007</u>	<u>807</u>
<b>Key management remuneration</b>				
Board of director's fees	<u>294,031</u>	<u>183,769</u>	<u>1,198,764</u>	<u>744,632</u>
<b>Shareholder – Ministry of Economy and Finance</b>				
Issuance of share capital	-	40,000,000	-	162,759,320
Transfer from borrowings to share capital	<u>-</u>	<u>10,000,000</u>	<u>-</u>	<u>40,690,000</u>

# Agricultural and Rural Development Bank

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

### 29. Related parties (continued)

#### B. Transactions with related parties (continued)

	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
Loans and advances to customers disbursed directly by MEF on behalf of the Bank (Note 20)	<u>1,924,010</u>	<u>-</u>	<u>7,844,189</u>	<u>-</u>

#### C. Balances with related parties

	31 December		31 December	
	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
		(Restated)		(Restated)
Deposits from key management	315,212	71,738	1,275,031	292,332
Borrowings (Note 15)	<u>192,155,946</u>	<u>109,358,399</u>	<u>777,270,802</u>	<u>445,635,476</u>

### 30. Financial risk management

#### A. Introduction and overview

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

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

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

# Agricultural and Rural Development Bank

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

### 30. Financial risk management (continued)

#### B. Credit risk

'Credit risk' is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks, and investment debt securities. 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.

##### (i). *Management of credit risk*

The lending activities are guided by the Bank's credit policy to ensure that the overall objectives in the area of lending are achieved; i.e., that the loan portfolio is strong and healthy and credit risks are well diversified. The credit policy documents the lending policy, collateral policy and credit approval processes, including the Bank's own internal grading system, and procedures implemented to ensure compliance with NBC Guidelines.



## Agricultural and Rural Development Bank

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

#### 30. Financial risk management (continued)

##### B. Credit risk (continued)

##### (ii). Concentration of risk

##### Type of credit exposure

	Maximum credit exposure US\$	Maximum credit exposure KHR'000 (Note 5)	Fully subject to collateral/credit enhancement %	Partially subject to collateral/ credit enhancement %	Unsecured and not subject to collateral/ credit enhancement %
<b>31 December 2020</b>					
<b>On-balance sheet items</b>					
Cash and cash equivalents	48,590,769	196,549,661	0%	0%	100%
Loans and advances to customers - gross	245,868,263	994,537,124	99.7%	0%	0.3%
Other assets	331,948	1,342,730	0%	0%	100%
<b>Total</b>	<b>294,790,980</b>	<b>1,192,429,515</b>			
<b>Off-balance sheet items</b>					
Commitments	4,482,000	18,129,690	78%	0%	22%
<b>Total</b>	<b>299,272,980</b>	<b>1,210,559,205</b>			

# Agricultural and Rural Development Bank

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

### 30. Financial risk management (continued)

#### B. Credit risk (continued)

##### (ii). Concentration of risk (continued)

##### Type of credit exposure (continued)

	Maximum credit exposure US\$	Maximum credit exposure KHR'000 (Note 5)	Fully subject to collateral/credit enhancement %	Partially subject to collateral/ credit enhancement %	Unsecured and not subject to collateral/ credit enhancement %
<b>31 December 2019 (Restated)</b>					
<b>On-balance sheet items</b>					
Cash and cash equivalents	36,314,335	147,980,915	0%	0%	100%
Loans and advances to customers - gross	173,162,427	705,636,891	64%	0%	36%
Other assets	1,008,552	4,109,849	0%	0%	100%
<b>Total</b>	<b>210,485,314</b>	<b>857,727,655</b>			

# Agricultural and Rural Development Bank

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

### 30. Financial risk management (continued)

#### B. Credit risk (continued)

##### (ii). Concentration of risk (continued)

##### Concentration risk by industrial sectors

<b>31 December 2020</b>	Cash and cash equivalents US\$	Loans and advance to customers, gross US\$	Other assets US\$	Total US\$
Financial institutions	48,590,769	1,906,254	-	50,497,023
Privates	-	239,189,648	-	239,189,648
Associates	-	1,298,847	-	1,298,847
Families rubber plantations	-	235,608	-	235,608
Staff loans	-	3,237,906	-	3,237,906
Others	-	-	331,948	331,948
<b>Total</b>	<b>48,590,769</b>	<b>245,868,263</b>	<b>331,948</b>	<b>294,790,980</b>
Total (KHR'000 – Note 5)	196,549,661	994,537,124	1,342,730	1,192,429,515
<b>31 December 2019 (Restated)</b>				
Financial institutions	36,314,335	657,142	-	36,971,477
Privates	-	168,850,990	-	168,850,990
Associates	-	769,230	-	769,230
Families rubber plantations	-	328,511	-	328,511
Staff loans	-	2,556,554	-	2,556,554
Others	-	-	1,008,552	1,008,552
<b>Total</b>	<b>36,314,335</b>	<b>173,162,427</b>	<b>1,008,552</b>	<b>210,485,314</b>
Total (KHR'000 – Note 5)	147,980,915	705,636,891	4,109,849	857,727,655

# Agricultural and Rural Development Bank

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

### 30. Financial risk management (continued)

#### B. Credit risk (continued)

##### (ii). Concentration of risk (continued)

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

	31 December		31 December	
	2020	2019	2020	2019
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
<b>By residency status:</b>				
Residents	<u>245,868,263</u>	<u>173,162,427</u>	<u>994,537,124</u>	<u>705,636,891</u>
<b>By relationship:</b>				
External customers	242,630,357	170,605,873	981,439,794	695,218,933
Staff loans	<u>3,237,906</u>	<u>2,556,554</u>	<u>13,097,330</u>	<u>10,417,958</u>
	<u>245,868,263</u>	<u>173,162,427</u>	<u>994,537,124</u>	<u>705,636,891</u>
<b>By exposure:</b>				
Large exposures (*)	54,325,770	53,949,809	219,747,740	219,845,472
Non-large exposures	<u>191,542,493</u>	<u>119,212,618</u>	<u>774,789,384</u>	<u>485,791,419</u>
	<u>245,868,263</u>	<u>173,162,427</u>	<u>994,537,124</u>	<u>705,636,891</u>

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

##### (iii). Collateral

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

# Agricultural and Rural Development Bank

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

### 30. Financial risk management (continued)

#### B. Credit risk (continued)

##### (iii). Collateral (continued)

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

#### Cash and cash equivalents, and other assets

Collateral is generally not sought for these assets.

#### Loans and advances to customers, contingent liabilities and commitments

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

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

	Collateral- properties US\$	Unsecured credit exposure US\$	Total US\$
<b>31 December 2020</b>			
Loans and advances to customers	245,234,930	633,333	245,868,263
Commitments	3,482,000	1,000,000	4,482,000
	<u>248,716,930</u>	<u>1,633,333</u>	<u>250,350,263</u>
<b>31 December 2019</b>			
Loans and advances to customers	<u>110,823,953</u>	<u>62,338,474</u>	<u>173,162,427</u>
	Collateral- properties KHR'000 (Note 5)	Unsecured credit exposure KHR'000 (Note 5)	Total KHR'000 (Note 5)
<b>31 December 2020</b>			
Loans and advances to customers	991,975,292	2,561,832	994,537,124
Commitments	14,084,690	4,045,000	18,129,690
	<u>1,006,059,982</u>	<u>6,606,832</u>	<u>1,012,666,814</u>
<b>31 December 2019</b>			
Loans and advances to customers	<u>451,607,608</u>	<u>254,029,283</u>	<u>705,636,891</u>



# Agricultural and Rural Development Bank

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

### 30. Financial risk management (continued)

#### B. Credit risk (continued)

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

Pursuant to the NBC guideline Prakas B7-017-344, it has defined each credit grading according to its credit quality as follows:

##### **Normal**

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

##### **Special mention**

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

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

##### **Substandard**

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

Factors leading to a substandard classification include:

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

# Agricultural and Rural Development Bank

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

### 30. Financial risk management (continued)

#### B. Credit risk (continued)

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

###### Doubtful

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

###### Loss

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

##### Recognition of ECL

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

3-Stage approach	Stage 1	Stage 2	Stage 3
	Performing	Underperforming	Nonperforming
Recognition of expected credit losses	12 months expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses
Criterion	No significant increase in credit risk	Credit risk increased significantly	Credit impaired assets
Basic of calculation of profit revenue	On gross carrying amount	On gross carrying amount	On net carrying amount

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

# Agricultural and Rural Development Bank

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

### 30. Financial risk management (continued)

#### B. Credit risk (continued)

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

##### Recognition of ECL (continued)

##### Long-term facilities (more than one year)

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

##### Short-term facilities (one year or less)

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

The Bank will use the day past due (DPD) information and NBC's classification for staging criteria. Also, the Bank will incorporate credit scoring or more forward looking elements in the future when information is more readily available. Upon the implementation of credit scoring system, if the risk level drops by two or more notches as compared to the risk level at origination, the accounts have to be classified under stage 2.

# Agricultural and Rural Development Bank

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

### 30. Financial risk management (continued)

#### B. Credit risk (continued)

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

##### *Recognition of ECL (continued)*

As for financial assets that are short term in nature, simplified approach will be adopted where no staging criteria is required. In this case, it will be either performing (stage1) or non-performing.

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

	31 December 2020			Total US\$
	Stage 1 US\$	Stage 2 US\$	Stage 3 US\$	
<b>Loans and advances to customers at amortised cost - net</b>				
Normal	216,727,123	-	-	216,727,123
Special mention	-	2,841,275	-	2,841,275
Substandard	-	-	3,845,239	3,845,239
Doubtful	-	-	3,747,642	3,747,642
Loss	-	-	20,914,659	20,914,659
	<u>216,727,123</u>	<u>2,841,275</u>	<u>28,507,540</u>	<u>248,075,938</u>
Impairment loss	<u>(7,236,633)</u>	<u>(299,278)</u>	<u>(3,254,316)</u>	<u>(10,790,227)</u>
Carrying amount	<u>209,490,490</u>	<u>2,541,997</u>	<u>25,253,224</u>	<u>237,285,711</u>
Carrying amount (KHR'000-Note 5)	<u>847,389,032</u>	<u>10,282,378</u>	<u>102,149,291</u>	<u>959,820,701</u>

# Agricultural and Rural Development Bank

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

### 30. Financial risk management (continued)

#### B. Credit risk (continued)

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

###### Recognition of ECL (continued)

The table below summarises the credit quality of the Bank's gross financing according to the above classifications (continued)

	31 December 2019			Total US\$
	Stage 1 US\$	Stage 2 US\$	Stage 3 US\$	
<b>Loans and advances to customers at amortised cost - net</b>				
Normal	146,617,395	-	-	146,617,395
Special mention	-	11,314,019	-	11,314,019
Substandard	-	-	2,028,871	2,028,871
Doubtful	-	-	561,963	561,963
Loss	-	-	13,736,903	13,736,903
	<u>146,617,395</u>	<u>11,314,019</u>	<u>16,327,737</u>	<u>174,259,151</u>
Impairment loss	<u>(2,077,568)</u>	<u>(336,476)</u>	<u>(1,790,664)</u>	<u>(4,204,708)</u>
Carrying amount	<u>144,539,827</u>	<u>10,977,543</u>	<u>14,537,073</u>	<u>170,054,443</u>
Carrying amount (KHR'000- Note 5)	<u>588,999,795</u>	<u>44,733,488</u>	<u>59,238,572</u>	<u>692,971,855</u>

###### Incorporation of forward-looking information

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

External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, supranational organisations such as the World Bank, and selected private-sector and academic forecasters.

The Bank used the macroeconomic historical data is being taken from the World Bank published data. In order to forecast the probability of default for future years, the known quarterly Observed Default Rates ("ODRs") are regressed against the quarterly macro-economic variables ("MEVs") values. The Bank has used a time weighted average methodology in order to forecast future MEVs.



# Agricultural and Rural Development Bank

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

### 30. Financial risk management (continued)

#### B. Credit risk (continued)

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

###### *Incorporation of forward-looking information (continued)*

A forward-looking scalar is computed as the ratio of the ODR based on the most recently known MEVs and the forecasted MEVs.

The MEVs are shocked in order to generate base, best- and worst-case scenarios. This has been done by computing the standard deviation of the known historical values of the MEVs and adjusting the base value by +/- 1 standard deviation to generate best- and worst-case scenarios.

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

The ECL was estimated based on a range of forecast economic conditions as at reporting date. The Novel Coronavirus (Covid-19) outbreak has spread across mainland China, Cambodia and beyond, causing disruption to business and economic activity. The impact on Gross Domestic Product ("GDP") and other key indicators will be considered when determining the severity and likelihood of downside economic scenarios that are used to estimate ECL.

Additionally, National Bank of Cambodia has issued a circular on loan restructuring during COVID-19 outbreak which requires the institutions to work constructively with affected borrowers and allows for loan restructuring for priority sectors.

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

# Agricultural and Rural Development Bank

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

### 30. Financial risk management (continued)

#### B. Credit risk (continued)

##### (v). Amounts arising from ECL

##### Loss allowance

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

	2020			
	Stage 1 US\$	Stage 2 US\$	Stage 3 US\$	Total US\$
<b>Loans and advances to customers at amortised cost</b>				
At 1 January	2,077,568	336,476	1,790,664	4,204,708
- Transfer to stage 1	(1,022,313)	807,480	214,833	-
- Transfer to stage 2	19,294	(178,286)	158,992	-
- Transfer to stage 3	13,252	-	(13,252)	-
Net remeasurement of loss allowance	6,133,405	(2,753,983)	(675,932)	2,703,490
New financial assets originated	850,745	2,087,591	1,779,011	4,717,347
Financial assets that been derecognised	(835,318)	-	-	(835,318)
At 31 December	<u>7,236,633</u>	<u>299,278</u>	<u>3,254,316</u>	<u>10,790,227</u>
At 31 December (KHR'000- Note 5)	<u>29,272,180</u>	<u>1,210,580</u>	<u>13,163,708</u>	<u>43,646,468</u>

	2019			
	Stage 1 US\$	Stage 2 US\$	Stage 3 US\$	Total US\$
<b>Loans and advances to customers at amortised cost</b>				
At 1 January	2,720,382	57,002	2,554,018	5,331,402
- Transfer to stage 1	(218,336)	60,070	158,266	-
- Transfer to stage 2	1,046	(58,515)	57,469	-
- Transfer to stage 3	32,674	118,216	(150,890)	-
New financial assets originated	1,031,148	-	-	1,031,148
Financial assets that been derecognised	(1,489,346)	159,703	(828,199)	(2,157,842)
At 31 December	<u>2,077,568</u>	<u>336,476</u>	<u>1,790,664</u>	<u>4,204,708</u>
At 31 December (KHR'000- Note 5)	<u>8,466,090</u>	<u>1,371,140</u>	<u>7,296,955</u>	<u>17,134,185</u>

# Agricultural and Rural Development Bank

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

### 30. Financial risk management (continued)

#### B. Credit risk (continued)

##### (v). Amounts arising from ECL (continued)

##### *Loss allowance (continued)*

Allowance for impairment losses recognised in statement of profit or loss and other comprehensive income are summarised as follows:

	2020 US\$	2019 US\$	2020 KHR'000 (Note 5)	2019 KHR'000 (Note 5)
Allowance for/(Reversal of) loan losses (Note 8)	6,585,519	(841,694)	26,849,161	(3,410,543)
Allowance for balances with other banks (Note 6)	217,214	37,999	885,581	153,972
Allowance for other assets (Note 10)	151,805	-	618,909	-
Allowance for financial guarantee contracts (Note 28)	14,904	-	60,764	-
	<u>6,969,442</u>	<u>(803,695)</u>	<u>28,414,415</u>	<u>(3,256,571)</u>

#### C. Market risk

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

##### (i). Interest rate risk

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

# Agricultural and Rural Development Bank

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

### 30. Financial risk management (continued)

#### C. Market risk (continued)

##### (i). Interest rate risk (continued)

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

31 December 2020	Up to 1 month US\$	> 1-3 months US\$	> 3-12 months US\$	> 1 to 5 years US\$	Over 5 years US\$	Non-interest bearing US\$	Total US\$
<b>Financial assets</b>							
Cash and cash equivalents	-	-	-	-	-	48,590,769	48,590,769
Loans and advances to customers - gross	15,865,433	2,936,597	81,860,509	48,137,151	97,068,573	-	245,868,263
Other assets	-	-	-	-	-	331,948	331,948
	<u>15,865,433</u>	<u>2,936,597</u>	<u>81,860,509</u>	<u>48,137,151</u>	<u>97,068,573</u>	<u>48,922,717</u>	<u>294,790,980</u>
<b>Financial liabilities</b>							
Deposits from customers	4,514,585	786,501	-	-	-	-	5,301,086
Deposit from banks	4,661	-	-	-	-	-	4,661
Borrowings	1,198,688	-	10,120,000	24,817,498	158,227,232	-	194,363,418
Subordinated debts	-	-	-	-	-	1,044,084	1,044,084
Other liabilities	-	-	-	-	-	107,798	107,798
	<u>5,717,934</u>	<u>786,501</u>	<u>10,120,000</u>	<u>24,817,498</u>	<u>158,227,232</u>	<u>1,151,882</u>	<u>200,821,047</u>
Interest sensitivity gap	<u>10,147,499</u>	<u>2,150,096</u>	<u>71,740,509</u>	<u>23,319,653</u>	<u>(61,158,659)</u>	<u>47,770,835</u>	<u>93,969,933</u>
(KHR'000 equivalents - Note 5)	<u>41,046,633</u>	<u>8,697,138</u>	<u>290,190,359</u>	<u>94,327,996</u>	<u>(247,386,776)</u>	<u>193,233,028</u>	<u>380,108,378</u>

## Agricultural and Rural Development Bank

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

#### 30. Financial risk management (continued)

##### C. Market risk (continued)

##### (i). Interest rate risk (continued)

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

31 December 2019 (Restated)	Up to 1 month US\$	> 1-3 months US\$	> 3-12 months US\$	> 1 to 5 years US\$	Over 5 years US\$	Non-interest bearing US\$	Total US\$
<b>Financial assets</b>							
Cash and cash equivalents	-	-	-	-	-	36,314,335	36,314,335
Loans and advances to customers - gross	6,642,002	4,446,835	70,530,102	45,712,839	45,830,649	-	173,162,427
Other assets	-	-	-	-	-	1,008,552	1,008,552
	<u>6,642,002</u>	<u>4,446,835</u>	<u>70,530,102</u>	<u>45,712,839</u>	<u>45,830,649</u>	<u>37,322,887</u>	<u>210,485,314</u>
<b>Financial liabilities</b>							
Deposits from customers	1,957,284	172,453	499,136	-	-	-	2,628,873
Deposit from banks	2,190	-	-	-	-	681	2,871
Borrowings	-	-	-	344,568	110,141,283	-	110,485,851
Subordinated debts	-	-	-	-	-	1,044,084	1,044,084
Other liabilities	-	-	-	-	-	27,747	27,747
	<u>1,959,474</u>	<u>172,453</u>	<u>499,136</u>	<u>344,568</u>	<u>110,141,283</u>	<u>1,072,512</u>	<u>114,189,426</u>
Interest sensitivity gap	<u>4,682,528</u>	<u>4,274,382</u>	<u>70,030,966</u>	<u>45,368,271</u>	<u>(64,310,634)</u>	<u>36,250,375</u>	<u>96,295,888</u>
(KHR'000 equivalents - Note 5)	<u>19,081,302</u>	<u>17,418,107</u>	<u>285,376,186</u>	<u>184,875,704</u>	<u>(262,065,834)</u>	<u>147,720,278</u>	<u>392,405,743</u>



# Agricultural and Rural Development Bank

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

### 30. Financial risk management (continued)

#### C. Market risk (continued)

##### (i). Interest rate risk (continued)

As of 31 December 2020, the Bank did not have financial instruments carried at fair value. The Bank does not use derivative financial instruments such as interest rate swaps to hold its risk exposures. Accordingly, no sensitivity analysis was prepared.

##### (ii). Foreign currency exchange risk

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

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

#### Concentration of currency risk

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

31 December 2020	Denomination		Total
	KHR	US\$ equivalents	
<b>Financial assets</b>			
Cash and cash equivalents	7,421,983	41,168,786	48,590,769
Loans and advances to customers - gross	38,231,039	207,637,224	245,868,263
Other assets	74,601	257,347	331,948
	<u>45,727,623</u>	<u>249,063,357</u>	<u>294,790,980</u>
<b>Financial liabilities</b>			
Deposits from customers	245,056	5,056,030	5,301,086
Deposits from other banks	-	4,661	4,661
Borrowings	124,012,608	70,350,810	194,363,418
Subordinated debts	-	1,044,084	1,044,084
Other liabilities	-	107,798	107,798
	<u>124,257,664</u>	<u>76,563,383</u>	<u>200,821,047</u>
<b>Net (liability)/asset position</b>	<u>(78,530,041)</u>	<u>172,499,974</u>	<u>93,969,933</u>
<b>(KHR'000 - Note 5)</b>	<u>(317,654,016)</u>	<u>697,762,394</u>	<u>380,108,378</u>

# Agricultural and Rural Development Bank

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

### 30. Financial risk management (continued)

#### C. Market risk (continued)

##### (ii). Foreign currency exchange risk (continued)

##### Concentration of currency risk (continued)

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

31 December 2019 (Restated)	Denomination		Total
	KHR	US\$ equivalents	
<b>Financial assets</b>			
Cash and cash equivalents	897,443	35,416,892	36,314,335
Loans and advances to customers - gross	3,332,444	169,829,983	173,162,427
Other assets	4,400	1,004,152	1,008,552
	<u>4,234,287</u>	<u>206,251,027</u>	<u>210,485,314</u>
<b>Financial liabilities</b>			
Deposits from customers	61,548	2,567,325	2,628,873
Deposits from other banks	-	2,871	2,871
Borrowings	72,823,716	37,662,135	110,485,851
Subordinated debts	-	1,044,084	1,044,084
Other liabilities	7,148	20,599	27,747
	<u>72,892,412</u>	<u>41,297,014</u>	<u>114,189,426</u>
<b>Net (liability)/asset position</b>	<u>(68,658,125)</u>	<u>164,954,013</u>	<u>96,295,888</u>
<b>(KHR'000 - Note 5)</b>	<u>(279,781,859)</u>	<u>672,187,602</u>	<u>392,405,743</u>

# Agricultural and Rural Development Bank

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

### 30. Financial risk management (continued)

#### C. Market risk (continued)

##### (ii). Foreign currency exchange risk (continued)

##### Sensitivity analysis

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

	31 December 2020		31 December 2019	
	- 1%	+ 1%	- 1%	+ 1%
	Depreciation US\$	Appreciation US\$	Depreciation US\$	Appreciation US\$
KHR	<u>785,300</u>	<u>(785,300)</u>	<u>686,581</u>	<u>(686,581)</u>
(KHR'000 – Note 5)	<u>3,176,539</u>	<u>(3,176,539)</u>	<u>2,797,818</u>	<u>(2,797,818)</u>

#### D. Liquidity risk

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

##### Management of liquidity risk

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

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

## Agricultural and Rural Development Bank

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

#### 30. Financial risk management (continued)

##### D. Liquidity risk (continued)

31 December 2020	Up to 1 month US\$	> 1-3 months US\$	> 3-12 months US\$	> 1 to 5 years US\$	Over 5 years US\$	Total US\$
<b>Financial liabilities</b>						
Deposits from customers	4,514,585	786,501	-	-	-	5,301,086
Deposits from other banks	4,661	-	-	-	-	4,661
Borrowings	1,198,688	-	10,120,000	24,817,498	158,227,232	194,363,418
Subordinated debts	-	-	-	-	1,044,084	1,044,084
Other liabilities	107,798	-	-	-	-	107,798
	<u>5,825,732</u>	<u>786,501</u>	<u>10,120,000</u>	<u>24,817,498</u>	<u>159,271,316</u>	<u>200,821,047</u>
(KHR'000 - Note 5)	<u>23,565,086</u>	<u>3,181,397</u>	<u>40,935,400</u>	<u>100,386,780</u>	<u>644,252,473</u>	<u>812,321,136</u>

# Agricultural and Rural Development Bank

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

### 30. Financial risk management (continued)

#### D. Liquidity risk (continued)

##### 31 December 2019 (Restated)

##### Financial liabilities

Deposits from customers	1,957,284	> 1-3 months US\$	> 3-12 months US\$	> 1 to 5 years US\$	Over 5 years US\$	Total US\$
Deposits from other banks	2,871	-	499,136	-	-	2,871
Borrowings	-	-	-	344,568	110,141,283	110,485,851
Subordinated debts	-	-	-	-	1,044,084	1,044,084
Other liabilities	27,747	-	-	-	-	27,747
	<u>1,987,902</u>	<u>172,453</u>	<u>499,136</u>	<u>344,568</u>	<u>111,185,367</u>	<u>114,189,426</u>
(KHR'000 - Note 5)	<u>8,100,701</u>	<u>702,746</u>	<u>2,033,979</u>	<u>1,404,115</u>	<u>453,080,370</u>	<u>465,321,911</u>

# Agricultural and Rural Development Bank

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

### 30. Financial risk management (continued)

#### E. Operational risk

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

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

#### F. Capital management

##### (i). *Regulatory capital*

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

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

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

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

##### (ii). *Capital allocation*

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



# Agricultural and Rural Development Bank

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

### 31. Fair values of financial assets and liabilities

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

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

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

The fair value of the Bank's financial instruments such as cash and cash equivalent, balance with NBC, deposits from customers and banks, other assets, and other liabilities are not materially sensitive to shifts in market profit rate because of the limited term to maturity of these instruments. As such, the carrying value of these financial assets and liabilities at financial position date approximate their fair values.

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

#### **Investments**

The estimated fair values are generally based on quoted and observable market prices. Where there is no ready market in certain securities, fair values have been estimated by reference to market indicative yields or net tangible asset backing of the investee.

#### **Financing, advances and others**

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

# Agricultural and Rural Development Bank

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

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

#### Fair value hierarchy

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

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

The Bank's financial assets and liability are not measured at fair value. As verifiable market prices are not available, market prices are not available for a significant proportion of the Company's financial assets and liabilities, the fair values, therefore, have been based on management assumptions according to the profile of the asset and liability base. In the opinion of the management, the carrying amounts of the financial assets and liabilities included in the balance sheet are a reasonable estimation of their fair values.

### 32. Significant accounting policies

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

#### A. Basis of measurement

The financial statements have been prepared on a historical cost.

#### B. Foreign currency

Transactions in foreign currencies are translated into US\$ at the spot exchange rates at the date of the transactions.

# Agricultural and Rural Development Bank

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

### 32. Significant accounting policies (continued)

#### B. Foreign currency (continued)

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

#### C. Financial assets and financial liabilities

##### (i). *Recognition and initial measurement*

The Bank initially recognises loans and advances, borrowings and subordinated debts on the date on which they are originated. All other financial instrument (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

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

##### (ii). *Classification*

###### **Financial assets**

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

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

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

# Agricultural and Rural Development Bank

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

### 32. Significant accounting policies (continued)

#### C. Financial assets and financial liabilities (continued)

##### (ii). *Classification (continued)*

###### **Financial assets (continued)**

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

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

On initial recognition of an equity investment that is not held for trading, the 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

# Agricultural and Rural Development Bank

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

### 32. Significant accounting policies (continued)

#### C. Financial assets and financial liabilities (continued)

##### (ii). *Classification (continued)*

###### Financial assets (continued)

###### *Business model assessment (continued)*

- 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.

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

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

In assessing whether the contractual cash flows are SPPI, the 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).

# Agricultural and Rural Development Bank

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

### 32. Significant accounting policies (continued)

#### C. Financial assets and financial liabilities (continued)

##### (ii). *Classification (continued)*

##### Financial assets (continued)

##### *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;
- 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.

##### **Reclassifications**

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.



# Agricultural and Rural Development Bank

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

### 32. Significant accounting policies (continued)

#### C. Financial assets and financial liabilities (continued)

##### (iii). *Derecognition*

###### **Financial assets**

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

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

###### **Financial liabilities**

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

##### (iv). *Modifications of financial assets and financial liabilities*

###### **Financial assets**

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

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

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit and loss as part of the gain or loss on derecognition.

# Agricultural and Rural Development Bank

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

### 32. Significant accounting policies (continued)

#### C. Financial assets and financial liabilities (continued)

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

###### **Financial assets (continued)**

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

###### **Financial liabilities**

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

# Agricultural and Rural Development Bank

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

### 32. Significant accounting policies (continued)

#### C. Financial assets and financial liabilities (continued)

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

###### **Financial liabilities (continued)**

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

##### (v). *Offsetting*

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

##### (vi). *Fair value measurement*

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

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

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

# Agricultural and Rural Development Bank

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

### 32. Significant accounting policies (continued)

#### C. Financial assets and financial liabilities (continued)

##### (vi). *Fair value measurement (continued)*

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

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

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

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

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

##### (vii). *Impairment*

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

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

No impairment loss is recognised on equity investments.

# Agricultural and Rural Development Bank

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

### 32. Significant accounting policies (continued)

#### C. Financial assets and financial liabilities (continued)

##### (vii). *Impairment (continued)*

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

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

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

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

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

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

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

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

# Agricultural and Rural Development Bank

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

### 32. Significant accounting policies (continued)

#### C. Financial assets and financial liabilities (continued)

##### (vii). *Impairment (continued)*

###### **Determining whether credit risk has increased significantly**

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region.

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

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

###### **Definition of default**

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

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than or equal to 30 days past due for long-term facilities or more than or equal to 14 days past due for short-term facilities; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

###### **Measurement of ECL**

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

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



# Agricultural and Rural Development Bank

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

### 32. Significant accounting policies (continued)

#### C. Financial assets and financial liabilities (continued)

##### (vii). Impairment (continued)

###### *Measurement of ECL (continued)*

- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive.
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

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

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

###### **Inputs, assumptions and techniques used for estimating impairment**

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

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

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

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

# Agricultural and Rural Development Bank

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

### 32. Significant accounting policies (continued)

#### C. Financial assets and financial liabilities (continued)

##### (vii). *Impairment (continued)*

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

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

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

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

###### ***Restructured financial assets***

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

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

# Agricultural and Rural Development Bank

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

### 32. Significant accounting policies (continued)

#### C. Financial assets and financial liabilities (continued)

##### (vii). *Impairment (continued)*

###### ***Credit-impaired financial assets***

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

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

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

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

###### **Presentation of allowance for ECL in the statement of financial position**

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

# Agricultural and Rural Development Bank

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

### 32. Significant accounting policies (continued)

#### C. Financial assets and financial liabilities (continued)

##### (vii). *Impairment (continued)*

###### **Write-off**

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

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

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

#### D. Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances, demand deposits and short-term highly liquid investments with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

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

#### E. Capital accounts

##### (i). *Share capital*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of the ordinary share are recognised as a deduction from equity, net of any tax effects. Other shares are classified as equity and/or liability according to the economic substance of the particular instrument. Distributions to holders of a financial instrument classified as an equity instrument are charged directly to equity.

# Agricultural and Rural Development Bank

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

### 32. Significant accounting policies (continued)

#### E. Capital accounts (continued)

##### (ii). *Other capital and capital reserve*

Other capital and capital reserve are classified as equity. According to the letter No.536 dated 3 February 2016 from the Ministry of Economy and Finance submitted to Prime Minister of the Kingdom of Cambodia and appended with his annotation dated 4 February 2016, ARDB is granted the approval upon request to take the actions in respect of the non-performing loans and advances amounting to US\$18,269,567 was deduct from equity by remove from balance sheet and monitor them separately. The subsequent recoverability of these non-performing loans and advances, and interest will be recognised directly into other capital and capital reserve account, respectively, by the Bank following the approval from NBC.

#### F. Regulatory reserves

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

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

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

#### G. Placements with other banks

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

# Agricultural and Rural Development Bank

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

### 32. Significant accounting policies (continued)

#### H. Statutory deposits

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

#### I. Loans and advances

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

#### J. Other assets

Other assets are carried at amortised cost using the effective interest rate method in the statement of financial position.

#### K. Property and equipment

##### (i). *Recognition and measurement*

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

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

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

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

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



# Agricultural and Rural Development Bank

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

### 32. Significant accounting policies (continued)

#### K. Property and equipment (continued)

##### (ii). *Subsequent costs*

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

##### (iii). *Depreciation*

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

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

Depreciation is recognised as an expense in profit or loss on a declining basis except for buildings which is depreciated on a straight-line basis at the following rates:

Buildings	5%	Straight-line basis
Building improvements	20%	Declining balance basis
Motor vehicle	25%	Declining balance basis
IT equipment	50%	Declining balance basis
Office equipment and furniture	20%	Declining balance basis

Land is not depreciated.

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

# Agricultural and Rural Development Bank

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

### 32. Significant accounting policies (continued)

#### L. Intangible assets

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

Intangible assets are amortised on a declining balance method at a rate of 20% per annum.

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

Asset-in-progress represents the payments for the installation of the computer software and system. Asset-in-progress starts to be amortised when it is ready to put in use.

#### M. Borrowings

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

#### N. Subordinated debts

Subordinated debts are treated as financial liabilities when there are contractual obligations to deliver cash or financial assets to the other entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity, if otherwise, it is treated as equity. The subordinated debts which are approved by the NBC are included as a Tier II line item in the calculation of the Bank's net worth in accordance with the guidelines of the NBC. Subordinated debts are stated at their amortised costs.

#### O. Foreclosed properties

Foreclosed properties consisting of immoveable and moveable properties are stated at cost less accumulated impairment losses, if any.

# Agricultural and Rural Development Bank

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

### 32. Significant accounting policies (continued)

#### P. Provisions

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

#### Q. Interest

##### *Effective interest rate*

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

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

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

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

##### *Amortised cost and gross carrying amount*

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

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

# Agricultural and Rural Development Bank

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

### 32. Significant accounting policies (continued)

#### Q. Interest (continued)

##### *Calculation of interest income and expense*

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

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

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

##### *Presentation*

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

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

#### R. Fee and commission

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

Other fee and commission income – 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.

# Agricultural and Rural Development Bank

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

### 32. Significant accounting policies (continued)

#### S. Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets (other than deferred tax assets) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

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

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

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

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### T. Income tax

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

The 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 expenses'.

# Agricultural and Rural Development Bank

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

### 32. Significant accounting policies (continued)

#### T. Income tax (continued)

##### (i). *Current tax*

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

##### (ii). *Deferred tax*

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

A deferred tax asset are recognised for unused tax losses and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

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

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

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

#### U. Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is not recognised in the 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.

#### V. Contingent assets

Where it is not possible that there is an inflow of economic benefits, or the amount cannot be estimated reliably, the asset is not recognised in the 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.

# Agricultural and Rural Development Bank

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

### 33. New standards, amendments and interpretations not yet adopted

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

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

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

### 34. Significant events including events since reporting date

The Novel Coronavirus (COVID-19) outbreak has spread globally causing disruption to business and economic activity. For the purpose of preserving the financial stability and reduce the burden of the customers who are losing their primary incomes and facing difficulties in repayment during the impact of the COVID-19 pandemic, the Bank works constructively with affected customers and allows for loan payment restructuring. loan payment restructuring is carried out by the Bank's credit department which regularly conducts a portfolio review of affected customers to measure the impact on their financial conditions during the pandemic.

The allowance for impairment loss on loans and advances to customers as at 31 December 2020 has been increased to US\$10,790,227 (31 December 2019: US\$4,204,708) following the payment behaviour of the borrowers and considering the facts and circumstances of the current economic conditions and supportable information that is available as at the assessment date. Management provides its best estimate on the possible outcomes of COVID-19 on the allowance for impairment loss.

Given the unprecedented and pervasive impact of changing circumstances surrounding the COVID-19 pandemic, there is inherently more uncertainty associated with the future operating assumptions and expectations. The estimate may move materially as events unfold. The Bank will keep continuous attention on the situation of the COVID-19 and react actively to its impact on the financial position and operating results of the Bank in future periods.



# Agricultural and Rural Development Bank

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

### 35. Restatement of comparative information

During the preparation of the financial statements for the year ended 31 December 2020, the management has identified an error in the prior year's financial statements relating to the recognition of the cash at banks that were in the bank accounts not under the ownership of the Bank. In prior year financial statements, it was recognised as cash and cash equivalent with corresponding balance of borrowings and other liabilities. The Bank's management decide to restate the comparative information as at 31 December 2019 to correct this error.

A summary of the line items affected by the restatements of the comparative information and correction of those errors is as follows:

	31 December 2019			
	As previously reported US\$	Adjustments US\$	As restated US\$	KHR'000 (Note 5)
<b>Statement of financial position</b>				
<b>ASSETS</b>				
Cash and cash equivalents	<u>38,508,757</u>	<u>(2,194,422)</u>	<u>36,314,335</u>	<u>147,980,915</u>
<b>LIABILITIES</b>				
Borrowings	111,707,898	(1,222,047)	110,485,851	450,229,843
Other liabilities	<u>1,007,488</u>	<u>(972,375)</u>	<u>35,113</u>	<u>143,085</u>
	<u>112,715,386</u>	<u>(2,194,422)</u>	<u>110,520,964</u>	<u>450,372,928</u>

## 2 Important Events at ARDB



H.E. KAO Thach, Delegate of the Royal Government in charge as Executive Chief Officer of ARDB, and staff disseminated information about Special Fund Program of 50 million USD to more than 3,000 participants. This fund aimed to support business expansion, raising livestock, aquaculture, vegetable and fruit planation, and agro-processing



On May 2, 2020, ARDB Signed a Memorandum of Understanding (MoU) Lucky Realty Co., Ltd. This MoU aims at expanding the real estate appraisal services, machinery and equipment for collateral of clients requesting a loan from ARDB, under the presidency of H.E KAO Thach, Delegate of the Royal Government in charge as CEO of ARDB.



On March 16, 2020, ARDB signed Memorandum of Understanding (MoU) with the Young Entrepreneurs Association of Cambodia (YEAC), Cambodian Women Entrepreneurs Association (CWEA) and Cambodian Investors Club Association (CIC) on Cooperation in the Implementation of the Royal Government's Special Financing Program to Support Small and Medium Enterprises in agriculture which focus on Agricultural Processing and Agro-Industry. This event is under the presidency of H.E ROS Seilava, Secretary of State of the Ministry of Economy and Finance and a Chairman of ARDB and H.E KAO Thach, Delegate of the Royal Government in charge as CEO of ARDB.



On May 27, 2020, ARDB signed a Memorandum of Understanding (MoU) between the with Wing Specialized Bank. This MoU aims to cooperate on principal and interest payment through Wing Agents, under the presidency of H.E KAO Thach, the Delegate of the Royal Government in charge as CEO of ARDB.

On July 30, 2020, H.E KAO Thach, Delegate of the Royal Government in charge as CEO of ARDB, was invited as a guest speaker at a conference on the process and procedures of SMEs financing program. This program aims to provide the public with a clear information about how to apply loan with low interest rate for their business expansion in order to enhance local product supply, as well as strengthen supply capacity more efficiently and contribute to the national economic growth.







On November 26, 2020, H.E KAO Thach, Delegate of the Royal Government in charge as CEO of ARDB, had a study tour at Safe Vegetable Farm in Kbal Damrey Leu Village, Kampong Kong Commune, Koh Thom District, Kandal Province. The owner of this farm is a model farmer who gets loan from ARDB. ARDB fully supports safe vegetable because: (1) the supply of safe vegetables in the market is still limited and cannot meet market demand (2) vegetable growing technique is inadequate and haven't had a mindset "farmers entrepreneurs" and (3) safety standards is our priority.



On October 18, 2020, H.E KAO Thach, Delegate of the Royal Government in charge as CEO of ARDB and Lok Chumteav SOUR Sok Kim, HE Dr. Oknha PHOU Puy, Member of Parliament for Battambang Province, Oknha Song Saran, President of the Cambodian Rice Federation together with the members of the Cambodian Rice Federation and their colleagues have brought some donations including rice, noodles, soy sauce, canned fish and money to 650 families affected by the flood in Otaki village, Otaki commune, Thmor Koul district Battambang province.



On October 19, 2020, H.E KAO Thach, Delegate of the Royal Government in charge as CEO of ARDB and staff donated 10 tons of rice and 10 large boxes of noodles to H.E KE Kim Yan, Deputy Prime Minister and Chairman of the Authority National Combat Drugs, to help affected population by floods in Banteay Meanchey Province.



**ធនាគារកសិកម្ម និងកសិកម្ម**  
**AGRICULTURAL AND RURAL DEVELOPMENT BANK**  
**ដើម្បីកសិករនិងអភិវឌ្ឍន៍សេដ្ឋកិច្ចសង្គម**