



ធនាគារអភិវឌ្ឍន៍ជនបទ និងកសិកម្ម

AGRICULTURAL AND RURAL DEVELOPMENT BANK

ដើម្បីកសិករនិងអភិវឌ្ឍន៍សេដ្ឋកិច្ចសង្គម

# ANNUAL REPORT

# 2019



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## ABOUT AGRICULTURAL AND RURAL DEVELOPMENT BANK

Agricultural and Rural Development Bank (ARDB) was established by sub-decree No.124, dated August 27, 2019. ARDB is a public enterprise, registered and licensed as commercial bank. ARDB is an autonomous entity in guiding and managing its activities. The ARDB is under the technical and financial supervision of the Ministry of Economy and Finance and under the National Bank of Cambodia supervision.

### VISION

The vision of ARDB is to be a Leading Financial Institution focused on the development of the Agricultural and Rural sector in Cambodia.

### MISSION

The mission of ARDB is as followings:

- Being a policy bank with a commercial bank license;
- Financing and providing banking services; loan, payment, deposit, to key stakeholders of agricultural value chain and rural economy as target customer;
- Supporting as policy for finance and technical supports including coordination and resolution of agricultural value chain and rural economy issues through market coordination, consulting, and capacity building;
- Promoting technology and innovation to strengthen the efficiency of services and to improve customer's competitiveness;
- Syndicating loan with any local and international financial institutions to provide loan or to implement projects of agriculture sector and rural economy;
- Managing programme or intervention mechanism of the Government;
- Raising capital and finances in order to expand ARDB's activities;
- Providing other banking services related to effective financial resources management and allocation for target clients, with adhering to good corporate governance and social and environmental responsibility;
- Cooperating with other related Ministries- institutions to perform ARDB's roles and duties effectively.



# CEO'S STATEMENT



His Excellency Dr. KAO Thach  
Chief Executive Officer

As gaining more confidence from high honorable from **Samdech Akka Moha Sena Padei Techo HUN SEN**, Prime Minister of Royal Government of Cambodia, and through the Ministry of Economy and Finance, the Agricultural and Rural Development Bank of Cambodia has received the additional capital of 50 (Fifty) millions USD in order to transform from the “Rural Development Bank” to the “Agricultural and Rural Development Bank”, with its key role of full status of commercial bank and policy bank, which can fulfill lack of demand and supply of financial services.

Throughout the year of 2019, the Agricultural and Rural Development Bank has significantly achieved fruitful results in terms of business operation and financial statements.

The Agricultural and Rural Development Bank (ARDB) has achieved its transforming plan from the “Rural Development Bank” to the “Agricultural and Rural Development Bank” and undertake the roles of both commercial bank and policy bank in Cambodia and has received the additional capital of 50 (Fifty) millions USD from the Royal Government of Cambodia through the Ministry of Economy and Finance. With its key roles as both commercial and policy bank in Cambodia, ARDB can provide full banking services with efficiency and sustainability with the objective to support the government’s policy in Agricultural sector and to contribute to the national economic development.

As of end of December 2019, ARDB achieved total loans and advances with amount of 173 million USD. The total loans and advances contributed to the rice sector including rice infrastructure 76,41%, sub-sectors including rubber, pepper, coffee, sugarcane and maize 14,07% and supported Microfinance, livestock and others 9,52%. The bank business size also reflected by strong financial performances, in which the total asset increased 22%, net profit for the year highly increased 160%, and the increase in capital 121% comparing to 2018.



In addition to the significant improvement of business size, ARDB has been working actively with the sharp commitment to participate in addressing issues of Agricultural sector and rural economy, with framework of the government's national economic development policy through implementing number of special programs of the government including Government's Special Fund for Rice price stability and Special fund for rice infrastructure.

Along with the successful implementation of special program with total amount of 45 (forty-five) million USD for rice infrastructure; rice storage and drying facility, in Battambang, Kampong Thom, Prey Veng, and Takeo, this has contributed to the increase of storage and processing capacity of rice and paddy for exporting in crucial regions of the country. Also, ARDB has been implementing programs to promote paddy production and rice export, so-called "Climate Resilient Rice Commercialization Sector Development Program" under the Asian Development Bank's fund with the amount of 10, 500, 000 (Ten million and Five hundred thousand) USD to support the storage and drying facility building in three main provinces including Battambang, Kampong Thom, and Prey Veng province. These storage and drying facility construction projects will increase collecting capability from farmers in main rice producing regions, which further contributes to rice export in align with the government's policy.

Beside paddy and rice sectors, in the purpose to stimulate farmer's vegetable production to ensure healthy for people, market for farmer as well to reduce vegetable imports, ARDB has cooperated with private sectors, which are vegetable collector companies, and created safe vegetable market, called: "Khmer-safety vegetable market". Through this mechanism, ARDB provides finances with appropriate interest rate to farmers, agricultural cooperatives, as well the vegetable collector companies.

## Our Future Plan

For the next year strategy, ARDB will expand bank operation through establishing more branches and mobile units, also developing new and digital products and services in order to provide full and fast banking services to customer. Furthermore, ARDB will implement special programs of the government and any financing projects of development partners, as align with the government's policy in addressing issues of agricultural sector and rural economy and national development program.

ARDB has strong commitments and high hopes to pursue the bank's mission with clear direction to develop agricultural sector and rural economy in accordance with national economic development policy of the Royal Government of Cambodia; and with an optimistic view to highly achieve the 2020 goals.

On a final note, as always, I would like to express my sincere appreciation to the Board of Directors for their ongoing commitment and recommendation throughout the year, and thank all of our staffs for their dedication and continued efforts, as well thank our loyal customers and development partners for their cooperation with ARDB to contribute to the development of Agricultural sector in Cambodia.

Particularly, I would like to express my deepest appreciation to the Royal Government of Cambodia, Ministry of Economy and Finance, and National Bank of Cambodia for their ongoing support and trust.

Chief Executive Officer  
Agricultural and Rural Development Bank



KAO THACH

# FINANCIAL SNAPSHOT

Financial Indicators (US\$)	2019 (US\$)	2018 (US\$)	2017 (US\$)
Gross Revenue	11,258,799	9,391,151	6,587,783
Operating income before provision	7,608,986	4,889,002	2,799,915
Net Profit Before Tax	8,412,681	3,353,915	1,153,088
Net Profit After Tax	6,672,904	2,564,287	953,254
<b>Key Balance Sheet Items (US\$)</b>			
Total Asset	218,380,542	178,281,305	157,535,361
Total Capital	98,977,301	44,543,397	41,759,172
Total Gross Loan and advances	173,162,427	159,115,208	122,070,986
<b>Financial Ratios (%)</b>			
Return On Equity	6.74%	5.75	2.28
Return On Asset	3.06%	1.44	0.61
Non-Performing Loans to Total Loans	7.25%	3.58	3.16
Solvency Ratio	47.61%	28.41	34.10

# SIGNIFICANT EVETNS



The meeting to review and comment on legal perspective of intervention to address safety vegetable market

*Ministry of Economy and Finance:* on September 03, 2019 there is a meeting to review and comment on legal perspective of intervention to address safety vegetable market, presider over by **Lok Chumteav Nguon Sokha** secretary of state of Ministry of economy and finance, H.E. Ros Seilava, chairman of board director of ARDB, H.E. Kao Thach, CEO of ARDB, and the representative of general department of state property and non-fiscal income, the representative of H.E. Phan Phalla, secretary of state of Ministry of economy and finance, and officials of ARDB.





The Signing ceremony for 3-parties contract under loan and grant of ADB's fund to develop rice warehouse and drying facility

*Supreme National Economic Council:* On August 30, 2019, preside over by H.E. Ros Seilava, secretary of state of ministry of economy and finance and director of project Climate Resilient Rice Commercialization Sector Development Program, H.E. Kao Thach, CEO of ARDB, participated in Signing ceremony for 3-parties contract (Rice-SDP unit, ARDB, selected rice millers) under loan and grant of ADB's fund to develop rice warehouse and drying facility with the total amount of 10 millions USD, for 3 main areas including Battambang, Kampong Thom and Preyveng province.



Press conference on intervention for rice price stability during harvest season

Council of Ministers: December 19, 2019 H.E. Kao Thach, CEO of ARDB was a speaker of Press conference on intervention for rice price stability during harvest season.

The Objective of conference is to disseminate the intervention of the government in solving rice price stability during harvest season.

On that occasion, H.E. Kao Thach indicated the intervention of the Government in solving rice price stability during harvest season. As the intervention, the government has approved the continuous national budget in order to buy rice and for development of rice warehouse and drying facility. These intervening has made rice price increase to 1,00 riel per kg, in which previous rice price is low with price of 900 riel per kg.





The Aggregate meeting in 2019  
and Work Direction for 2020,

Ratanakiri: December 14, 2019 the Agricultural and Rural Development Bank conducted the aggregate meeting in 2019 and work direction for 2020 in Damnak Neak village, Mondokiri province.

After the presentation of work achievement in 2019 and work direction for 2020 by deputy ceo and director of department, H.E. Kao Thach highly evaluated for the achievement, in which all departments has been working hard and these achievement has reflected the remarkable growth of the bank from year to year, under leadership by board director and the management of ARDB.





Signing Ceremony of Rice Contract Farming Agreement between 16 Agricultural Cooperatives and Chhun Thom Rice Millers on the Production of Rice Seed, Fragrant Rice and Rumduol Rice.

Prey Veng: On 25 July 2020, H.E Kao Thach, Chief Executive Officer of the Agricultural and Rural Development Bank, and colleagues, joined the Rice Contract Farming between Agricultural Communities and Chhun Thom Rice Millers on the Production of Rice Seed, Fragrant Rice and Rumduol Rice. The contract covered 718 hectares of land supporting by Rice SDP project and by financing support for rice millers to buy from farmers by ARDB. In the occasion, H.E Kao Thach requested Rice Seed Production Cooperatives to produce rice seed with high quality and standard. H.E also requested for technical assistance from provincial department of agriculture to monitor the rice quality before supplying to the market and also requested for continuous support from both district and provincial authority. H.E strongly believed that the contract will brings positive impacts on farmers' rice production, reducing production cost, and increasing higher return in the agricultural production value chain.

# CORPORATE GOVERNANCE

## RISK MANAGEMENT AND INTERNAL CONTROL

### Board of Directors

The composition of Board of Director is as followings;

H.E ROS Seilava	(President)
H.E SAN Visal	(Member)
H.E KAO Thach	(Member and CEO)
Mr. SAR Chetra	(Member)
Mr. TEAN Soserey	(Member)
Mr. Om Sengbora	(Member)
Mr. CHAN Seyha	(Member as staff representative)

### Risk Management Committee

Risk Management Committee is directly under the Board of Director. It has full responsible for board of director in risk management, as followings:

- Review and give approval n strategy, policy, guideline, procedure and appropriate parameters for risk management for the bank and make it revise for necessary case
- Review and give approval n strategy, policy, guideline, procedure and appropriate parameters for risk management for the bank and make it revise for necessary case
- Give management and board of director any recommendation relating to problems finding in risk management in necessary case
- Give management and board of director any recommendation relating to problems finding in risk management in necessary case
- Ensure the appropriateness of risk management structure, infrastructure, system and other resources supporting risk management affairs.

### Audit Committee

The Audit Committee is an independent committee that is directly under the Board of Directors. The Audit Committee is responsible for strengthening corporate governance and risk management, as following responsibilities

- Ensure the efficiency of financial report and audit procedure.
- Ensure the efficiency of internal audit and risk management system
- Make approval on internal audit action plan and result of internal auditing for Board of Director for review and decision.
- Ensure the accuracy of annual report.

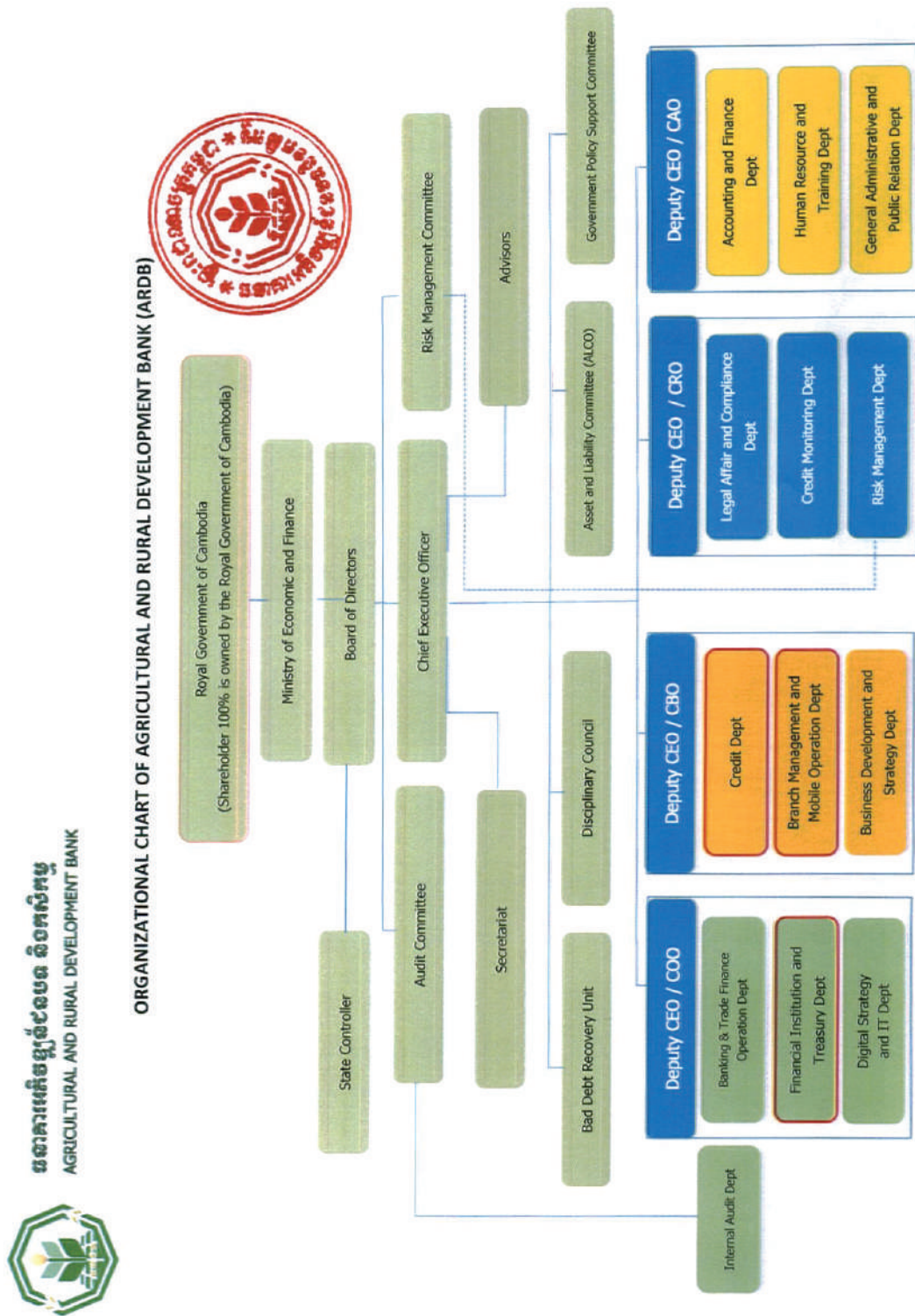
### Council Discipline

The Council discipline is the special committee, which is under the executive's management 'competence. The responsibilities of council discipline are as below:

- Review and appraise the application to appoint, and promote a rank, based on the merits.
- Review the appropriateness of staff's salary rank and remuneration.
- Review and evaluate staff's incentives and bonus offering is based on the performance of the staff
- Review and evaluate punishment for staff who does not comply with terms of staff statutes
- Review and observe the misconduct of staff for all level, for taking necessary measure.



# ORGANIZATIONAL CHART



## BOARD OF DIRECTOR'S PROFILE

### His Excellency ROS Seilava

Secretary of State of the Ministry of Economy and Finance  
Chairman of Board of Directors

His Excellency is presently Secretary of State of the Ministry of Economy and Finance and Member of the Supreme National Economic Council. He also serves as Chairman of the Board of Directors, Rural Development Bank of Cambodia.

Previously, he worked as Mechanical Technician and Laboratory Operator at Power Plant under the Ministry of Industry, Mines and Energy from 1985-1987. In 1993, he worked as Lecturer of the Phnom Penh Institute of Technology of the Ministry of Education, Youth and Sport. Since 1994, he joined the Ministry of Economy and Finance first as Financial Controller and then as Deputy Director of Economic and Financial Policy Planning and Monitoring Unit from 2002-2005, and as Director of Department of Economy and Public Finance Policy from 2005 to 2006. Later on, he was appointed as Deputy Secretary General on his return from the World Bank where he served as an Advisor to the Executive Director during 2006-2008. Finally, he was promoted as Undersecretary of State in 2013.

He is also a writer of many RGC's key policy publications and has been involved in key research works.

H.E. Ros Seilava obtained his Master of International Affairs (MIA) in Economic Policy Management in 2002 from Columbia University, New York, USA. He holds BA in Social Science from Penza's Institute of Pedagogy, the former USSR, in 1987-1992.

## His Excellency SAN Visal

Secretary of State of the Ministry of Rural Development

Member of Board of Directors

Is presently Secretary of State of the Ministry of Rural Development and member of Board of Directors, Rural Development Bank of Cambodia.

From 1990 to 2005 he worked as technical officer of Department of Agricultural Machinery, Department of Agronomy of Ministry of Agriculture. From 2005 to 2008 H.E was head of Mean Chey District, Phnom Penh. He did not only serves for government affairs but also private sector as well non-government; he has been as Secretary General of Student Federation of the democratic intellectuals since 1994.

H.E obtained his Master from Chamroeun University of Poly-Technology in 2005, as well as best equipped with lots of important trainings.



## His Excellency Dr. KAO Thach

Member of Board of Directors

Chief Executive Officer

His Excellency Dr. KAO Thach is Chief Executive Officer and Permanent Member of the Board of Directors. He was appointed by the Royal Government of Cambodia as Chief Executive Officer of the Agricultural and Rural Development Bank – ARDB (formerly Rural Development Bank) on July 4th, 2014 and a permanent member of the ARDB's Board on August 7th, 2014, the positions he continues to hold until today. H.E. Dr. Kao Thach has also been a member of the Supreme National Economic Council (SNEC) of Cambodia with the rank of Secretary of State, and an arbitrator of the Arbitration Council since 2003. He is a lawyer and has been a member of the Bar Association of Cambodia since 2016. Previously, he was Deputy Director General of the Securities and Exchange Commission of Cambodia with the rank of Under-secretary of State, and was Head of Financial Market Division, Financial Industry Department of the Ministry of Economy and Finance. Working in law field, he served as a legal officer at the Ministry of Justice and also in the courts of the Kingdom of Cambodia. In financial sector, he was one of the key persons working toward the successful establishment of the Securities and Exchange Commission and Cambodia Securities Exchange.

Since joining the Ministry of Economy and Finance in 2003, he undertook numerous assignments relating to financial sector development in Cambodia. These assignments included member of working groups responsible for drafting Law on Government Securities and Law on Issuance and Trading of Non-government Securities, and member of working group responsible for developing Financial Sector Development Strategy 2006-2015 and 2011-2020. Besides, as a representative of the Ministry of Economy and Finance, he was involved in various ASEAN working groups in relation to capital market development such as ABMI, ACMF, and Financial Services Liberalization.'

He holds Bachelor of Law (LLB) from the Royal University of Law and Economics (formerly Faculty of Law and Economics) in 1998 and 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. In 2019, he graduated with Doctor of Business Administration (DBA) from EU Business School. His doctoral thesis is on 'the Rural Development Bank's Transformation: The Case of Cambodia.

## Mr. SAR Chetra

Ministry of Agriculture Forestry and Fisheries

Member of Board of Directors

Presently Mr. SAR Chetra is Deputy Secretary General, Ministry of Agriculture Forestry and Fisheries, serves as member of Board of Director of the Rural Development Bank

He has various work experiences, Ministry of Agriculture Forestry and Fisheries since 2005, as following job history:

- an official of Department of Animal Health and Production from June 1995 to April 1999
- deputy-chief of animal production division, Department of Animal Health and Production
- chief of animal production division, Department of Animal Health and Production
- deputy-chief of Department of Animal Health and Production from June 2011 to March 2014
- deputy Secretary General in charge of Department of Planning and Statistics and Department of Administration Affairs

Mr. SAR Chetra obtained Doctor of Animal Science in 2005 and that of Master degree in 2002, from Iwate University of Japan.

## Mr. TEAN Soserey

Deputy Director, General Department of prevention and education  
National Land Authority “Council of Ministers”  
Member of Board of Directors

education, National Land Authority “Council of Ministers” and is the Assistant to Cabinet of H.E. BIN CHHIN Permanent Deputy Prime Minister, Office of the Council of Ministers, serves as member of Board of Director of the Rural Development Bank.

As well, he was Chief of administration and personnel office, Administration Department from 2007 to 2009 and Chief of education and human resources development office, Department of prevention and education in 2009, of National Land Authority “Council of Ministers”.

He currently has been pursuing Master Public Administration at Royal Academy of Cambodia.



## Mr. OM Sengbora

### Independent Board of Directors

Presently Mr. OM Sengbora is an Independent Board of Directors, serves as member, Rural Development Bank.

As well, he has currently been an independent board of directors of Phnom Penh Water Supply Authority and a member of Cambodia Chamber of Commerce.

He not only works for government affair also private sector as well non-government. From 2004 to 2009 he was Executive Director of Vision Fund Cambodia. He has been Chairman of Aplus Consulting and Aplus School for Professionals, Chairman of Cambodia Microfinance Institute since 2010, and Co-founder & Board of Director of Cambodia Investor Club and Board of Director of Start-up Business Network since 2013, and an independent Board of Director of Teuk Saat 1001 and Founder & Chairman of Cambodia Empire Group since 2014.

He completed Master degree of Business Administration, Preston University in Cambodia, an affiliate of Preston University in USA in 2008, and Bachelor degree of Management, Accounting Specialization, Maharishi Vedic University (MVU), Cambodia in 1998.

## Mr. CHAN Seyha

Member of Board of Directors and staff representative

Mr. CHAN Seyha is Deputy CEO and Staff Representative. Mr. CHAN Seyha joined ARDB in 1999 and have been in charge of Credit Department, Branch Management and Mobile Operation Department, and Business Development and Strategy Department.

He has also been elected as Staff Representative of the Bank. Mr. CHAN Seyha holds a Master degree in Finance in 2004 and Bachelor degree of Banking from the University of Banking, Vietnam, in 1991.

# MANAGEMENT'S PROFILE



## His Excellency Dr. KAO Thach

Member of Board of Directors

Chief Executive Officer

His Excellency Dr. KAO Thach is Chief Executive Officer and Permanent Member of the Board of Directors. He was appointed by the Royal Government of Cambodia as Chief Executive Officer of the Agricultural and Rural Development Bank – ARDB (formerly Rural Development Bank) on July 4th, 2014 and a permanent member of the ARDB's Board on August 7th, 2014, the positions he continues to hold until today. H.E. Dr. Kao Thach has also been a member of the Supreme National Economic Council (SNEC) of Cambodia with the rank of Secretary of State, and an arbitrator of the Arbitration Council since 2003. He is a lawyer and has been a member of the Bar Association of Cambodia since 2016. Previously, he was Deputy Director General of the Securities and Exchange Commission of Cambodia with the rank of Undersecretary of State, and was Head of Financial Market Division, Financial Industry Department of the Ministry of Economy and Finance. Working in law field, he served as a legal officer at the Ministry of Justice and also in the courts of the Kingdom of Cambodia. In financial sector, he was one of the key persons working toward the successful establishment of the Securities and Exchange Commission and Cambodia Securities Exchange.

Since joining the Ministry of Economy and Finance in 2003, he undertook numerous assignments relating to financial sector development in Cambodia. These assignments included member of working groups responsible for drafting Law on Government Securities and Law on Issuance and Trading of Non-government Securities, and



member of working group responsible for developing Financial Sector Development Strategy 2006-2015 and 2011-2020. Besides, as a representative of the Ministry of Economy and Finance, he was involved in various ASEAN working groups in relation to capital market development such as ABMI, ACMF, and Financial Services Liberalization.'

He holds Bachelor of Law (LLB) from the Royal University of Law and Economics (formerly Faculty of Law and Economics) in 1998 and 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. In 2019, he graduated with Doctor of Business Administration (DBA) from EU Business School. His doctoral thesis is on 'the Rural Development Bank's Transformation: The Case of Cambodia.



**His Excellency SOENG Reth, PhD** , is Deputy CEO and currently in charge of Banking and Trade Finance Operations Department, Finance Institution and Treasury Department, Digital Strategy and IT Department since June 2020.

He joined ARDB in 2019. Also, Dr. Soeng is currently Advisor to the Supreme National Economic Council of Cambodia (SNEC) with the rank of Secretary of State, and is affiliated with the Faculty of Business and Economics, University of Antwerp, Belgium and a research fellow at Centre for ASEAN Studies, Belgium. He was Fulbright scholar-in-residence (Professor of Economics), under the Fulbright Lecturing Program of the U.S Department of State, in Massachusetts, U.S.A, for one academic year 2016-2017. During his Fulbright grant, Dr. Soeng was frequent guest professor at the D'Amore-McKim School of Business, Northeastern University, Boston, Massachusetts, U.S.A. He has been adjunct professor of economics at the Royal School of Administration and a senior lecturer at Department of International Studies, Royal University of Phnom Penh. He served as a jury member for Master thesis defenses at University of Antwerp, Belgium, and a doctoral examination member for doctoral thesis defenses in Cambodia. From February 2009 to January 2011, Dr. SOENG Reth did his postdoctoral work at the Flemish Centre for International Policy, University of Antwerp, where he carried out a joint research project on the effects of globalization on labor market in Belgium, in collaboration with the National Bank of Belgium. He has served as a referee/reviewer for several scholarly journals-Journal of Asian Economics, International Trade Journal, Economics Bulletin and International Journal of Commerce and Management. His research work has been published in peer-reviewed scholarly journals, such as Journal of International Trade and Economic Development; Journal of Asian Economics, International Journal of Manpower and Journal of International Trade Law and Policy. Dr. SOENG Reth's research work was also accepted for presentations at International Conferences in the United States, China, the Philippines, Belgium, Korea, Indonesia, Singapore, and Thailand. He gave lectures in economics, applied statistics, and applied econometrics at a several other universities in Cambodia, where he taught courses in undergraduate, graduate and doctoral programs. Presently, Dr. SOENG Reth is a member of Editorial Board of Journal of Business and Management and a member of the Council of Fellows of East Asian Economic Association (EAEA). Soeng Reth holds B.S. in Mathematics, MBA with concentration in Finance, and PhD in Economics from the University of Antwerp, Belgium, under the Royal Government of Belgium's Scholarship Program. His doctoral dissertation is on "Foreign Direct Investment in Cambodia: Determinants and Impact on Domestic Labour Productivity and International Trade."



**Mr. CHAN Seyha** is Deputy CEO and Staff Representative. Mr. CHAN Seyha joined ARDB in 1999 and have been in charge of Credit Department, Branch Management and Mobile Operation Department, and Business Development and Strategy Department. He has also been elected as Staff Representative of the Bank. Mr. CHAN Seyha holds a Master degree in Finance in 2004 and Bachelor degree of Banking from the University of Banking, Vietnam, in 1991.



**Mr. MAK Sophal** is Deputy CEO, joining the Bank in 1999. He was Office Chief and then became a Department Head in Credit Department for about 10 years. With more than 20 years of experience in banking sector, Mr. Mak has become Deputy CEO of the bank and has been in charge of Legal Affair and Compliance Department, Credit Monitoring Department and Risk Management Department in early 2018. Mr. MAK Sophal obtained his Bachelor degree in Banking in Vietnam in 1993.





**Mr. PECH Sany** is Deputy CEO with more than a decade working for the Bank. Mr. PECH Sany is currently Deputy CEO in Charge of Accounting and Finance Department, Human Resource and Training Department and General Administrative and Public Relation Department. He has more than two decades of experience in banking sector. Prior to joining ARDB in 2001, Mr. Pech held various positions with NBC, and other commercial Banks. He holds a Master degree in Finance from the National University of Management in 2004 and Bachelor Degree of Banking from the University of Banking, Vietnam, in 1991.

**RURAL DEVELOPMENT BANK  
(now known as AGRICULTURAL AND RURAL  
DEVELOPMENT BANK)**

**Financial Statements  
for the year ended 31 December 2019  
and  
Report of the Independent Auditors**

## Corporate information

Bank	Rural Development Bank (now known as Agricultural and Rural Development Bank)	
Registration No.	Co.3942 et/1998	
Registered office	No 9-13, Street 7 Sangkat Chaktomuk Phnom Penh Kingdom of Cambodia	
Shareholder	Ministry of Economy and Finance	
Board of Directors	H.E. Ros Seilava H.E. San Visal H.E. Kao Thach Mr. Sar Chetra Mr. Tean Soserey Mr. Om Seng Bora Mr. Deth Veasna Mr. Chan Seyha	Chairman Member Member Member Member Member Member Member
Management team	H.E. Kao Thach H.E. Soeng Reth Mr. Chan Seyha Mr. Uch Chanthha Mr. Pech Sany Mr. Mak Sophal Mr. Nomg Thearith Mr. Net Panha  Mr. Khek Piseth Mrs. Ing Pisethnaline Mr. Mit Bun Mr. Ung Song Mrs. San Kimmouy  Mr. That Chanthakea Mr. Nhep Raty Mr. Chin Cheyabodh  Mr. Mech Samren Mr. Sokhom Dararith Mrs. Chhun Sokha Mrs. Soun Thary	Chief Executive Officer Deputy Chief Executive Officer Deputy Chief Executive Officer Head of Government Policy Support Committee Deputy Chief Executive Officer Deputy Chief Executive Officer Head of Internal Audit Head of Legal Affair and Compliance Department and Head of Secretariat Head of Banking Operation and Treasury Head of Human Resource and Training Department Head of Credit Department Head of Loan Usage and Debt Collection Monitoring Head of Business Development and Strategy Department Head of Risk Management Department Head of Trade Financing and Financial Institutions Head of General Administration and Public Relation and deputy head of secretariat Acting Head of Information Technology and Strategy Acting Head of Branch Management and Mobile Acting Head of Accounting and Finance Department Acting Head of Internal Audit
Auditors	KPMG Cambodia Ltd	



**Rural Development Bank**  
**(now known as Agricultural and Rural Development Bank)**

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ធនាគារកសិកម្ម និងសំបូរ  
AGRICULTURAL AND RURAL DEVELOPMENT BANK

លេខ / N° : ..... ធនាគារកសិកម្ម និងសំបូរ / ARDB

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 Rural Development Bank (now known as Agricultural and Rural Development Bank) ("the Bank") for the year ended 31 December 2019.

### Principal activities

The principal activities of the Bank is 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 micro finance 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 change to the principal activities is disclosed in Note 1 to the financial statements.

### Financial results

The financial results of the Bank for the year ended 31 December 2019 were as follows:

	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Profit before income tax	8,412,681	2,380,415	34,088,183	9,628,780
Income tax expense	(1,739,777)	(276,136)	(7,049,576)	(1,116,970)
Net profit for the year	6,672,904	2,104,279	27,038,607	8,511,810

### 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 change in share capital and shareholding structure is disclosed in Note 19 to the financial statements.

## **Rural Development Bank (now known as 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.

### **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 losses 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.

### **Current assets**

Before the financial statements of the Bank were prepared, the Board of Directors took reasonable steps to ensure that any current 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 Board of Directors is not aware of any circumstances, which would render the values attributed to the current 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.

## **Rural Development Bank (now known as Agricultural and Rural Development Bank)**

### **Contingent and other liabilities (continued)**

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

### **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.

### **Events since the reporting date**

The Expected Credit Loss ("ECL") at 31 December 2019 was estimated based on a range of forecast economic conditions as at that date. Subsequently, the coronavirus outbreak has spread across mainland China, Cambodia and beyond, causing disruption to business and economic activity. The impact on GDP and other key indicators will be considered when determining the severity and likelihood of downside economic scenarios that will be used to estimate ECL under CIFRS 9 in 2020.

### **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. Kao Thach	Member, Chief Executive Director (Executive Director)
Mr. Sar Chetra	Member (Non-Executive Director)
Mr. Tean Soserey	Member (Non-Executive Director)
Mr. Om Seng Bora	Member (Non-Executive Director)
Mr. Deth Veasna	Member (Non-Executive Director)
Mr. Chan Seyha	Member (Executive Director)



## **Rural Development Bank (now known as Agricultural and Rural Development Bank)**

### **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 2019, 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;
- (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 Board of Directors either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so; and
- (v) control and direct effectively the Bank in all material decisions affecting the operations and performance and ascertain that such have been properly reflected in the financial statements.

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

**Rural Development Bank  
(now known as Agricultural and Rural Development Bank)**

**Approval of the financial statements**

We hereby approve the accompanying financial statements together with the notes thereto which, in our opinion, present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, 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,*

  
\_\_\_\_\_  
**H.E Ros Seilava**  
*Chairman*

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

Phnom Penh, Kingdom of Cambodia

Date: 4 AUG 2020



KPMG Cambodia Ltd  
4<sup>th</sup> Floor, Delano Center  
No. 144, Street 169, Sangkat Veal Vong  
Khan 7 Makara, Phnom Penh  
Kingdom of Cambodia  
+855 23 216 899 | kpmg.com.kh

## **Report of the Independent Auditors**

### **To the shareholder of**

### **Rural Development Bank (now known as Agricultural and Rural Development Bank)**

#### ***Qualified Opinion***

We have audited the financial statements of Rural Development Bank (now known as Agricultural and Rural Development Bank) ("the Bank"), which comprise the statement of financial position as at 31 December 2019, 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 10 to 108 (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 2019, 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. We were unable to satisfy ourselves as to the completeness and accuracy of the ECL balances as at 31 December 2019, 31 December 2018 and as at 1 January 2018 respectively. As a result of these matters, we were unable to determine whether any adjustments might have been necessary to the amounts of ECL, net loans and advances to customers, regulatory reserves and elements making up the statements of comprehensive income, changes in equity and cash flows.





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.

#### ***Other matters - Comparative Information***

The financial statements of the Bank as at and for the year ended 31 December 2018, excluding the adjustments described in Note 33A to the financial statements, prepared in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia ("NBC") relating to the preparation and presentation of financial statements ("Cambodia GAAP"), were audited by another auditor who expressed a qualified opinion on the accuracy, completeness and valuation of interest in suspense balances dated 24 April 2019.

As part of our audit of the financial statements as at and for the year ended 31 December 2019, we audited the adjustments described in Note 33A that were applied to restate the comparative information presented as at and for the year ended 31 December 2018 and as at 1 January 2018. We were not engaged to audit, review, or apply any procedures to the financial statements for the year ended 31 December 2018, other than with respect to the adjustments described in Note 33A to the financial statements. Accordingly, we do not express an opinion or any other form of assurance on those respective financial statements taken as a whole. However, in our opinion, the adjustments described in Note 33A are appropriate and have been properly applied.

As stated in Note 33B to the financial statements, the Bank adopted CIFRSs on 1 January 2019 with a transition date of 1 January 2018. These standards were applied retrospectively to the comparative information in these financial statements, including the statements of financial position as at 31 December 2018 and 1 January 2018, and the statements of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows of the Bank for the year ended 31 December 2018 and related explanatory notes. We were not engaged to audit on the restated comparative information and it is unaudited. Our responsibilities in respect of this comparative information is to determine whether the financial statements include the comparative information required by CIFRSs and whether such information is appropriately classified.

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

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





### ***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

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

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

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

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

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

As part of an audit in accordance with CISAs, we exercise professional judgment and maintain professional 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



Nge Huy  
*Partner*

Phnom Penh, Kingdom of Cambodia

4 August 2020

**Rural Development Bank  
(now known as Agricultural and Rural Development Bank)**

**Statement of financial position  
as at 31 December 2019**

		31 December		31 December		31 December		1 January 2018	
	Note	2019	2018	2019	2018	2019	2018	US\$	KHR'000
		US\$	US\$	KHR'000	KHR'000	US\$	KHR'000		(Note 5)
<b>ASSETS</b>									
Cash and cash equivalents	6	38,508,757	15,396,610	156,923,185	61,863,579	35,083,748	141,633,091		
Statutory deposits	7	1,837,149	1,843,886	7,486,382	7,408,734	1,645,274	6,641,971		
Loans and advances to customers – net	8	170,054,443	154,506,423	692,971,855	620,806,808	119,132,563	480,938,157		
Foreclosed properties	9	3,881,678	2,875,934	15,817,839	11,555,503	1,158,384	4,676,396		
Other assets	10	1,058,277	378,635	4,312,479	1,521,355	117,892	475,930		
Property and equipment	11	2,783,665	2,872,030	11,343,434	11,539,817	956,392	3,860,955		
Intangible assets	12	256,573	11,964	1,045,535	48,071	18,785	75,835		
<b>Total assets</b>		<b>218,380,542</b>	<b>177,885,482</b>	<b>889,900,709</b>	<b>714,743,867</b>	<b>158,113,038</b>	<b>638,302,335</b>		
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>									
<b>Liabilities</b>									
Deposits from customers	13	2,628,873	3,465,625	10,712,657	13,924,881	2,325,113	9,386,481		
Deposits from other banks	14	2,871	24,769	11,700	99,522	50,462	203,715		
Borrowings	15	111,707,898	127,303,991	455,209,684	511,507,436	112,704,325	454,987,360		
Subordinated debt	16	1,044,084	1,044,084	4,254,642	4,195,130	1,044,084	4,214,967		
Other liabilities	17	1,007,488	2,239,138	4,105,514	8,996,856	558,642	2,255,238		
Deferred tax liabilities	18A	1,651,658	1,391,447	6,730,505	5,590,834	1,904,939	7,690,239		
Current income tax liability	18B	1,360,369	661,185	5,543,505	2,656,641	137,647	555,681		
<b>Total liabilities</b>		<b>119,403,241</b>	<b>136,130,239</b>	<b>486,568,207</b>	<b>546,971,300</b>	<b>118,725,212</b>	<b>479,293,681</b>		

**Rural Development Bank  
(now known as Agricultural and Rural Development Bank**

**Statement of financial position (continued)  
as at 31 December 2019**

	Note	31 December		31 December		1 January 2018	
		2019	2018	2019	2018	US\$	KHR'000
		US\$	US\$	KHR'000 (Note 5)	KHR'000 (Note 5)		(Note 5)
<b>Shareholder's equity</b>							
Share capital	19	96,504,646	46,504,646	390,627,000	187,177,680	46,504,646	187,177,680
Other capital	20	(13,258,222)	(13,586,841)	(53,493,531)	(54,825,095)	(13,767,881)	(55,557,402)
Capital reserve	21	1,119,607	899,072	4,525,839	3,632,231	816,974	3,300,145
Regulatory reserves	22	10,738,537	8,919,414	43,360,355	35,989,269	11,220,150	45,295,746
Retained earnings/(Accumulated losses)		3,872,733	(981,048)	15,712,246	(3,955,275)	(5,386,063)	(21,773,562)
Currency translation reserves		-	-	2,600,593	(246,243)	-	566,047
Total shareholder's equity		98,977,301	41,755,243	403,332,502	167,772,567	39,387,826	159,008,654
<b>Total liabilities and shareholder's equity</b>		<b>218,380,542</b>	<b>177,885,482</b>	<b>889,900,709</b>	<b>714,743,867</b>	<b>158,113,038</b>	<b>638,302,335</b>

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



**Rural Development Bank**  
**(now known as Agricultural and Rural Development Bank)**

**Statement of profit or loss and other comprehensive income**  
**for the year ended 31 December 2019**

	Note	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
<b>Operating income</b>					
Interest income	23	10,838,438	8,595,318	43,917,351	34,768,061
Interest expense	24	(589,427)	(619,100)	(2,388,358)	(2,504,259)
<b>Net interest income</b>		10,249,011	7,976,218	41,528,993	32,263,802
Other income	25	1,009,788	18,387	4,091,661	74,375
<b>Total operating income</b>		11,258,799	7,994,605	45,620,654	32,338,177
Personnel expenses	26	(1,853,269)	(1,710,228)	(7,509,446)	(6,917,872)
Other operating expenses	27	(1,796,544)	(2,172,773)	(7,279,596)	(8,788,866)
<b>Total operating expenses</b>		(3,649,813)	(3,883,001)	(14,789,042)	(15,706,738)
<b>Operating profit before impairment</b>		7,608,986	4,111,604	30,831,612	16,631,439
Reversal/(Impairment losses) on financial instruments	30B	803,695	(1,731,189)	3,256,571	(7,002,659)
<b>Profit before income tax</b>		8,412,681	2,380,415	34,088,183	9,628,780
Income tax expense	18C	(1,739,777)	(276,136)	(7,049,576)	(1,116,970)
<b>Net profit for the year</b>		6,672,904	2,104,279	27,038,607	8,511,810
<b>Other comprehensive income/(loss)</b>					
Currency translation difference		-	-	2,846,836	(812,290)
<b>Total comprehensive income for the year</b>		6,672,904	2,104,279	29,885,443	7,699,520

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

**Rural Development Bank**  
(now known as Agricultural and Rural Development Bank)

Statement of changes in equity  
for the year ended 31 December 2019

	Share capital	Other capital	Capital reserve	Regulatory reserves	(Accumulated losses)/	Currency	Total					
	US\$	US\$	US\$	US\$	Retained earnings	translation reserves	US\$					
	KHR'000	KHR'000	KHR'000	KHR'000	US\$	US\$	KHR'000					
	(Note 5)	(Note 5)	(Note 5)	(Note 5)	(Note 5)	(Note 5)	(Note 5)					
At 1 January 2018	46,504,646	187,177,680	816,974	3,300,145	11,220,150	45,295,746	(5,386,063)	(21,773,562)	-	566,047	39,387,826	159,008,654
<b>Transactions recognised directly in equity</b>												
Recoveries of principal of non-performing loans (Note 20)	-	-	-	-	-	-	-	-	-	-	181,040	732,307
Recoveries of interest income from non-performing loans (Note 21)	-	-	82,098	332,086	-	-	-	-	-	-	82,098	332,086
Transfers from regulatory reserves to retained earnings	-	-	-	-	(2,300,736)	(9,306,477)	2,300,736	9,306,477	-	-	-	-
<b>Total comprehensive income</b>	-	-	-	-	-	-	-	-	-	-	-	-
Net profit for the year	-	-	-	-	-	2,104,279	8,511,810	-	-	-	2,104,279	8,511,810
Currency translation difference	-	-	-	-	-	-	-	-	-	-	(812,290)	(812,290)
At 31 December 2018	46,504,646	187,177,680	899,072	3,632,231	8,919,414	35,989,269	(981,048)	(3,955,275)	-	-	41,755,243	167,772,567

**Rural Development Bank**  
(now known as Agricultural and Rural Development Bank)

**Statement of changes in equity (continued)**  
**for the year ended 31 December 2019**

	Share capital		Other capital		Capital reserve		Regulatory reserves		(Accumulated losses)/ Retained earnings		Currency translation reserves		Total	
	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000	US\$	KHR'000
		(Note 5)		(Note 5)		(Note 5)		(Note 5)		(Note 5)		(Note 5)		(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	-	-	-	-	-	-	1,819,123	7,371,086	(1,819,123)	(7,371,086)	-	-	-	-
<b>Total comprehensive income</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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

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

**Rural Development Bank**  
**(now known as Agricultural and Rural Development Bank)**

**Statement of cash flows**  
**for the year ended 31 December 2019**

	Note	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
<b>Cash flows from operating activities</b>					
Net profit for the year		6,672,904	2,104,279	27,038,607	8,511,810
<i>Adjustments for:</i>					
Income tax expense		1,739,777	276,136	7,049,576	1,116,970
Depreciation and amortisation		265,767	209,005	1,076,887	845,425
(Reversal)/Impairment losses on financial instruments		(803,695)	1,731,189	(3,256,571)	7,002,659
Net interest income		(10,249,011)	(7,976,218)	(41,528,993)	(32,263,802)
Gain on disposal of foreclosed properties		(2,400)	-	(9,725)	-
Gains/(losses) on exchange rate		(1,032,652)	347,457	(4,184,306)	1,405,464
		(3,409,310)	(3,308,152)	(13,814,525)	(13,381,474)
<i>Changes in:</i>					
Statutory deposits		6,737	(198,612)	27,298	(803,386)
Loans and advances		(22,327,468)	(38,653,745)	(90,470,900)	(156,354,399)
Other assets		(679,642)	(260,743)	(2,753,909)	(1,054,705)
Deposits from customers		(831,085)	1,135,576	(3,367,556)	4,593,405
Deposits from other banks		(21,898)	(25,693)	(88,731)	(103,928)
Other liabilities		(1,231,650)	1,680,496	(4,990,646)	6,797,606
Cash used in operations		(28,494,316)	(39,630,873)	(115,458,969)	(160,306,881)
Interest income received		17,441,836	8,385,319	70,674,319	33,918,615
Interest expense paid		(1,004,281)	(100,287)	(4,069,347)	(405,661)
Income tax paid	18	(780,382)	(266,090)	(3,162,108)	(1,076,334)
<b>Net cash used in operating activities</b>		<u>(12,837,143)</u>	<u>(31,611,931)</u>	<u>(52,016,105)</u>	<u>(127,870,261)</u>
<b>Cash flows from investing activities</b>					
Proceeds from disposals of foreclosed properties		14,400	-	58,349	-
Purchase of property and equipment		(168,241)	(2,114,475)	(681,713)	(8,553,051)
Purchase of intangible assets		(253,770)	(3,347)	(1,028,276)	(13,539)
<b>Net cash used in investing activities</b>		<u>(407,611)</u>	<u>(2,117,822)</u>	<u>(1,651,640)</u>	<u>(8,566,590)</u>



**Rural Development Bank**  
**(now known as Agricultural and Rural Development Bank)**

**Statement of cash flows (continued)**  
**for the year ended 31 December 2019**

	Note	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
<b>Cash flows from financing activities</b>					
Issuance of share capital		40,000,000	-	162,759,320	-
Repayment of borrowings		(7,954,254)	(2,061,668)	(32,230,637)	(8,339,447)
Proceeds from borrowings		3,800,000	15,800,000	15,397,600	63,911,000
Recoveries of interest from non-performing loans		220,535	82,098	893,608	332,086
Recoveries of principles of non-performing loans		328,619	181,040	1,331,564	732,307
<b>Net cash generated from financing activities</b>		<b>36,394,900</b>	<b>14,001,470</b>	<b>148,151,455</b>	<b>56,635,946</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>23,150,146</b>	<b>(19,728,283)</b>	<b>94,483,710</b>	<b>(79,800,905)</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>15,405,622</b>	<b>35,133,905</b>	<b>61,899,790</b>	<b>141,835,575</b>
Currency translation difference		-	-	731,255	(134,880)
<b>Cash and cash equivalents at end of the year</b>	6	<b>38,555,768</b>	<b>15,405,622</b>	<b>157,114,755</b>	<b>61,899,790</b>

**Significant non-cash transactions:**

During the year, the significant non-cash transaction is as follows:

		2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Transfer from borrowings to the share capital	19	10,000,000	-	40,690,000	-

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

## **Rural Development Bank (now known as Agricultural and Rural Development Bank)**

### **Notes to the financial statements for the year ended 31 December 2019**

#### **1. Reporting entity**

Rural Development Bank (now known as 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.

On 23 December 2019, the Bank has requested to increase its share capital by US\$50 million and change its name to Agricultural and Rural Development Bank following the Sub-Decree dated 27 August 2019 and 17 September 2019 respectively. This was approved by NBC on 19 February 2020. The change in share capital and shareholding structure are disclosed in Note 19.

The Bank is principally engaged in the specialised banking business and the provision of related financial services in the Kingdom of Cambodia.

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

As at 31 December 2019, the Bank had 109 employees (2018: 106 employees).

#### **2. Basis of accounting**

The financial statements of the Bank have been prepared in accordance with the Cambodian International Financial Reporting Standards ("CIFRSs"). These are the Bank's first financial statements prepared in accordance with CIFRSs and CIFRS 1 *First-time Adoption of Cambodian International Financial Reporting Standards* has been applied.

In the previous financial years, the financial statements were prepared in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia ("NBC") relating to the preparation and presentation of financial statements. An explanation of how the transition to CIFRSs have affected the reported financial position, financial performance and cash flows is provided in Note 33.

The accounting policies and methods of computation have been applied consistently to all periods presented in these financial statements.

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 4 August 2020.

## **Rural Development Bank (now known as Agricultural and Rural Development Bank)**

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

#### **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, except when otherwise indicated.

#### **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.

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 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 ECL and selection and approval of models used to measure ECL.

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 within the next financial year are included in the following notes:

- Note 32C(vii): impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information.
- Note 32C(vi): determination of the fair value of financial instruments with significant unobservable inputs.
- Note 32C(vii): impairment of financial instruments: key assumptions used in estimating recoverable cash flows.
- Note 34: subsequent events: Coronavirus and impact on ECL.



**Rural Development Bank**  
**(now known as Agricultural and Rural Development Bank)**

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

**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 guidelines of the National Bank of Cambodia relating to the preparation and presentation of financial statements.

Assets and liabilities are translated at the closing rate as at the reporting date and the Bank's capital accounts 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:

			<b>Closing rate</b>	<b>Average rate</b>
31 December 2019	US\$1	=	KHR 4,075	KHR 4,052
31 December 2018	US\$1	=	KHR 4,018	KHR 4,045
1 January 2018	US\$1	=	KHR 4,037	N/A

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.



**Rural Development Bank  
(now known as Agricultural and Rural Development Bank)**

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

**6. Cash and cash equivalents**

	31 December		31 December		1 January 2018	
	2019	2018	2019	2018	US\$	KHR'000
	US\$	US\$	KHR'000	KHR'000		(Note 5)
Cash on hand	1,786,502	1,767,588	7,279,996	7,102,169	2,181,446	8,806,498
Balances with other banks	4,706,096	910,279	19,177,341	3,657,501	5,023,347	20,279,252
Balances with NBC	32,063,170	12,727,755	130,657,418	51,140,120	27,929,112	112,749,825
	38,555,768	15,405,622	157,114,755	61,899,790	35,133,905	141,835,575
Less: Impairment loss	(47,011)	(9,012)	(191,570)	(36,211)	(50,157)	(202,484)
	38,508,757	15,396,610	156,923,185	61,863,579	35,083,748	141,633,091

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

The movement of impairment loss allowance for balances with other banks are as follows:

	31 December		31 December		1 January 2018	
	2019	2018	2019	2018	US\$	KHR'000
	US\$	US\$	KHR'000	KHR'000		(Note 5)
At 1 January	9,012	50,157	36,211	202,484		
Allowance/(reversal) for the year	37,999	(41,145)	153,972	(166,432)		
Currency translation difference	-	-	1,387	159		
At 31 December	47,011	9,012	191,570	36,211		

## Rural Development Bank (now known as Agricultural and Rural Development Bank)

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

### 7. Statutory deposits

	31 December		31 December		1 January 2018	
	2019	2018	2019	2018	US\$	KHR'000 (Note 5)
	US\$	US\$	KHR'000 (Note 5)	KHR'000 (Note 5)		
Statutory capital deposit	1,628,560	1,635,175	6,636,382	6,570,133	1,486,604	6,001,420
Reserve requirement	208,589	208,711	850,000	838,601	158,670	640,551
	<u>1,837,149</u>	<u>1,843,886</u>	<u>7,486,382</u>	<u>7,408,734</u>	<u>1,645,274</u>	<u>6,641,971</u>

#### A. Statutory capital deposit

Under Prakas No. B7-00-05 on the Licensing of Specialized Bank dated 11 January 2000, the Specialized Bank is required to maintain a capital guarantee deposit equivalent to 5% of registered capital with the National Bank of Cambodia. This deposit is not available for use in the Bank's day-to-day operations but is refundable when the Bank voluntarily ceases to operate the business in Cambodia. Subsequently, on 24 February 2020, the statutory deposit has been increased to KHR29,703,884,000 followed the requirement from NBC.

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

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

**Rural Development Bank  
(now known as Agricultural and Rural Development Bank)**

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

**7. Statutory deposits (continued)**

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

	2019	2018
Statutory capital deposit	0.32% - 0.36%	0.32% - 0.36%
Reserve requirements on customers' deposits	0%	0%

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

	31 December		31 December		1 January 2018	
	2019	2018	2019	2018	US\$	KH-R000
	US\$	US\$	KH-R000	KH-R000		(Note 5)
Long term loans and advances	105,262,145	102,863,320	428,943,241	413,304,820	85,917,320	346,848,221
Short term loans and advances	65,343,728	54,461,350	266,275,692	218,825,704	35,483,938	143,248,658
Staff loans	2,556,554	1,790,538	10,417,958	7,194,382	669,728	2,703,692
Gross loans and advances	173,162,427	159,115,208	705,636,891	639,324,906	122,070,986	492,800,571
Accrued interest receivables	1,774,984	1,222,250	7,233,060	4,911,001	1,012,257	4,086,482
Unearned income	(678,260)	(499,633)	(2,763,911)	(2,007,526)	(391,612)	(1,580,938)
Impairment allowance	(4,204,708)	(5,331,402)	(17,134,185)	(21,421,573)	(3,559,068)	(14,367,958)
Loans and advances to customers – net	170,054,443	154,506,423	692,971,855	620,806,808	119,132,563	480,938,157

**Rural Development Bank  
(now known as Agricultural and Rural Development Bank)**

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

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

The movements of impairment loss allowance were as follows:

	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
At 1 January (Reversal)/Allowance for the year Written off	5,331,402 (841,694)	3,559,068 1,772,334	21,421,573 (3,410,543)	14,367,958 7,169,091
Currency translation difference	-	-	(1,154,820)	-
	-	-	277,975	(115,476)
At 31 December	4,204,708	5,331,402	17,134,185	21,421,573

	31 December		31 December		1 January 2018	
	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
> 1 to 3 months	11,088,837	5,280,000	45,187,011	21,215,040	-	-
> 3 to 6 months	61,918,962	800,000	252,319,770	3,214,400	19,740,000	79,690,380
> 6 to 12 months	8,611,140	48,158,266	35,090,396	193,499,913	12,510,771	50,505,983
> 1 to 3 years	29,566,841	12,744,629	120,484,877	51,207,919	8,663,350	34,973,944
> 3 to 5 years	16,145,998	41,886,381	65,794,942	168,299,479	14,252,734	57,538,287
Over 5 years	45,830,649	50,245,932	186,759,895	201,888,155	66,904,131	270,091,977
	173,162,427	159,115,208	705,636,891	639,324,906	122,070,986	492,800,571

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



## Rural Development Bank (now known as Agricultural and Rural Development Bank)

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

#### 9. Foreclosed properties

Foreclosed properties consist of movable and immovable 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.

As of the date of the report, the Bank has not submitted a request letter to the NBC to delay the period of holding the properties.

2019	Land US\$	Buildings US\$	Equipment US\$	US\$	Total KHR'000 (Note 5)
<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	2,786,150	885,820	680,386	4,352,356	17,735,851
<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	-	44,291	426,387	470,678	1,918,012
<b>Carrying amounts</b>					
At 31 December 2019	2,786,150	841,529	253,999	3,881,678	15,817,839

**Rural Development Bank**  
**(now known as Agricultural and Rural Development Bank)**

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

**9. Foreclosed properties (continued)**

2018	Land US\$	Buildings US\$	Equipment US\$	Total US\$	Total KHR'000 (Note 5)
<b>Costs</b>					
At 1 January 2018	845,719	305,000	341,720	1,492,439	6,024,976
Additions	1,659,648	76,720	-	1,736,368	7,023,609
Disposals	(18,818)	-	-	(18,818)	(75,611)
Currency translation difference	-	-	-	-	(75,238)
At 31 December 2018	2,486,549	381,720	341,720	3,209,989	12,897,736
<b>Less: allowance for impairment</b>					
At 1 January 2018	-	-	334,055	334,055	1,348,580
Currency translation difference	-	-	-	-	(6,347)
At 31 December 2018	-	-	334,055	334,055	1,342,233
<b>Carrying amounts</b>					
At 31 December 2018	2,486,549	381,720	7,665	2,875,934	11,555,503
At 1 January 2018	845,719	305,000	7,665	1,158,384	4,676,396

**Rural Development Bank  
(now known as Agricultural and Rural Development Bank)**

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

**10. Other assets**

	31 December		31 December		1 January 2018	
	2019	2018	2019	2018	US\$	KHR'000 (Note 5)
	US\$	US\$	KHR'000 (Note 5)	KHR'000 (Note 5)		
Advance payment to supplier	61,950	304,190	252,446	1,222,235	32,015	129,245
Prepaid insurance	49,725	1,098	202,629	4,412	1,297	5,236
Advance for the Project's activities (*)	897,000	-	3,655,275	-	-	-
Others	49,602	73,347	202,129	294,708	84,580	341,449
	<u>1,058,277</u>	<u>378,635</u>	<u>4,312,479</u>	<u>1,521,355</u>	<u>117,892</u>	<u>475,930</u>

(\*): This represents the advance to a Joint Venture project that has been created by the Royal Government of Cambodia aimed to create a secured vegetable market supplies in Cambodia. Subsequently, the amount has been received on 20 May 2020.

**Rural Development Bank  
(now known as Agricultural and Rural Development Bank)**

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

**11. Property and equipment**

2019	Land US\$	Buildings US\$	Building improvements US\$	Motor vehicles US\$	IT equipment US\$	Office equipment and furniture US\$	Total US\$	KHR000 (Note 5)
<b>Cost</b>								
At 1 January	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	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	-	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	-	177,491	94,637	739,450	291,865	198,875	1,502,318	6,121,947
<b>Carrying amounts</b>								
At 31 December	2,006,671	151,853	82,585	331,276	87,917	123,363	2,783,665	11,343,434



**Rural Development Bank  
(now known as Agricultural and Rural Development Bank)**

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

**11. Property and equipment (continued)**

2018	Land US\$	Buildings US\$	Building improvements US\$	Motor vehicles US\$	IT equipment US\$	Office equipment and furniture US\$	Total US\$	KHR'000 (Note 5)
<b>Cost</b>								
At 1 January	241,500	329,344	61,436	894,418	243,344	233,225	2,003,267	8,087,189
Additions	1,765,171	-	105,355	147,510	59,952	36,487	2,114,475	8,553,051
Currency translation difference	-	-	-	-	-	-	-	(95,153)
At 31 December	2,006,671	329,344	166,791	1,041,928	303,296	269,712	4,117,742	16,545,087
<b>Less: Accumulated depreciation</b>								
At 1 January	-	144,555	40,468	532,260	204,024	125,568	1,046,875	4,226,234
Depreciation	-	16,513	24,452	91,449	31,312	35,111	198,837	804,295
Currency translation difference	-	-	-	-	-	-	-	(25,259)
At 31 December	-	161,068	64,920	623,709	235,336	160,679	1,245,712	5,005,270
<b>Carrying amounts</b>								
At 31 December	2,006,671	168,276	101,871	418,219	67,960	109,033	2,872,030	11,539,817
At 1 January 2018	241,500	184,789	20,968	362,158	39,320	107,657	956,392	3,860,955

**Rural Development Bank  
(now known as Agricultural and Rural Development Bank)**

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

**12. Intangible assets**

2019	Software US\$	Asset-in-progress US\$	Total US\$	KHR'000 (Note 5)
<b>Cost</b>				
At 1 January	172,904	-	172,904	694,728
Additions	-	253,770	253,770	1,028,276
Currency translation difference	-	-	-	15,693
At 31 December	172,904	253,770	426,674	1,738,697
<b>Less: Accumulated amortisation</b>				
At 1 January	160,940	-	160,940	646,657
Amortisation	9,161	-	9,161	37,120
Currency translation difference	-	-	-	9,385
At 31 December	170,101	-	170,101	693,162
<b>Carrying amounts</b>				
At 31 December	2,803	253,770	256,573	1,045,535

**Rural Development Bank**  
**(now known as Agricultural and Rural Development Bank)**

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

**12. Intangible assets (continued)**

2018	Software	
	US\$	KHR'000 (Note 5)
<b>Cost</b>		
At 1 January	169,557	684,502
Additions	3,347	13,539
Currency translation difference	-	(3,313)
At 31 December	172,904	694,728
<b>Less: Accumulated amortisation</b>		
At 1 January	150,772	608,667
Amortisation	10,168	41,130
Currency translation difference	-	(3,140)
At 31 December	160,940	646,657
<b>Carrying amounts</b>		
At 31 December	11,964	48,071
At 1 January 2018	18,785	75,835

**Rural Development Bank  
(now known as Agricultural and Rural Development Bank)**

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

**13. Deposits from customers**

	31 December		31 December		31 December		1 January 2018	
	2019	2018	2019	2018	2019	2018	US\$	KHR'000
	US\$	US\$	KHR'000	KHR'000	US\$	KHR'000	(Note 5)	(Note 5)
Demand deposits	1,344,714	1,880,633	5,479,710	7,556,383	735,828	2,970,538		
Saving accounts	595,539	580,462	2,426,821	2,332,296	944,611	3,813,395		
Fixed deposits	688,620	1,004,530	2,806,126	4,036,202	644,674	2,602,548		
	<u>2,628,873</u>	<u>3,465,625</u>	<u>10,712,657</u>	<u>13,924,881</u>	<u>2,325,113</u>	<u>9,386,481</u>		

Deposits from customers are analysed as follows:

**A. By maturity:**

	31 December		31 December		31 December		1 January 2018	
	2019	2018	2019	2018	2019	2018	US\$	KHR'000
	US\$	US\$	KHR'000	KHR'000	US\$	KHR'000	(Note 5)	(Note 5)
Within 1 month	1,957,284	2,540,249	7,975,932	10,206,720	1,884,791	7,608,901		
> 1 to 3 months	172,453	24,788	702,746	99,598	114,277	461,336		
> 3 to 6 months	33,185	8,247	135,229	33,136	7,949	32,090		
> over 6 months	465,951	892,341	1,898,750	3,585,427	318,096	1,284,154		
	<u>2,628,873</u>	<u>3,465,625</u>	<u>10,712,657</u>	<u>13,924,881</u>	<u>2,325,113</u>	<u>9,386,481</u>		



**Rural Development Bank  
(now known as Agricultural and Rural Development Bank)**

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

**13. Deposits from customers (continued)**

Deposits from customers are analysed as follows (continued):

**B. By customer type:**

	31 December		31 December		1 January 2018	
	2019	2018	2019	2018	US\$	KHR'000 (Note 5)
	US\$	US\$	KHR'000 (Note 5)	KHR'000 (Note 5)		
Domestic corporations (private sector)						
Individuals	1,277,477	1,890,667	5,205,719	7,596,700	761,473	3,074,067
	1,351,396	1,574,958	5,506,938	6,328,181	1,563,640	6,312,414
	2,628,873	3,465,625	10,712,657	13,924,881	2,325,113	9,386,481

**C. By residency status:**

	31 December		31 December		1 January 2018	
	2019	2018	2019	2018	US\$	KHR'000 (Note 5)
	US\$	US\$	KHR'000 (Note 5)	KHR'000 (Note 5)		
Residents	2,618,200	3,463,929	10,669,165	13,918,066	2,294,738	9,263,857
Non-residents	10,673	1,696	43,492	6,815	30,375	122,624
	2,628,873	3,465,625	10,712,657	13,924,881	2,325,113	9,386,481

**Rural Development Bank  
(now known as Agricultural and Rural Development Bank)**

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

**13. Deposits from customers (continued)**

Deposits from customers are analysed as follows (continued):

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

	2019	2018
Demand deposits		Nil
Saving accounts	1.00% - 1.50%	1.00% - 1.50%
Fixed deposits	3.00% - 6.00%	3.00% - 6.00%

**14. Deposits from other banks**

	31 December		31 December		1 January 2018	
	2019	2018	2019	2018	US\$	KHR'000
	US\$	US\$	KHR'000	KHR'000		(Note 5)
Demand deposits	2,190	24,074	8,925	96,729	2,706	10,924
Saving accounts	681	695	2,775	2,793	47,756	192,791
	<u>2,871</u>	<u>24,769</u>	<u>11,700</u>	<u>99,522</u>	<u>50,462</u>	<u>203,715</u>

**Rural Development Bank  
(now known as Agricultural and Rural Development Bank)**

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

**15. Borrowings**

	31 December		31 December		1 January 2018	
	2019	2018	2019	2018	US\$	KHR'000
	US\$	US\$	KHR'000	KHR'000		(Note 5)
Royal Government of Cambodia - Special fund	72,792,883	83,825,535	296,630,998	336,811,000	73,478,078	296,631,001
Ministry of Economy and Finance - ASDF	36,565,516	40,840,665	149,004,478	164,097,792	38,395,748	155,003,635
Asian Development Bank	96,107	389,330	391,636	1,564,328	582,038	2,349,687
Agence Française de Développement ("AFD")	248,461	248,461	1,012,478	998,316	248,461	1,003,037
International Fund for Agricultural Development ("IFAD")	2,004,931	2,000,000	8,170,094	8,036,000	-	-
	<u>111,707,898</u>	<u>127,303,991</u>	<u>455,209,684</u>	<u>511,507,436</u>	<u>112,704,325</u>	<u>454,987,360</u>

## Rural Development Bank (now known as Agricultural and Rural Development Bank)

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

### 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 the year end	KHR296,756,000,000 or equivalent to US\$72,792,883 (2018: KHR296,756,000,000 and US\$10,000,000 or equivalent to US\$83,825,535)	US\$36,565,516 (2018: US\$40,840,665)	KHR125,000,000 and US\$65,432 or equivalent to US\$96,107 (2018: KHR500,000,000 and US\$264,890 equivalent to US\$389,330)	US\$248,461 (2018: US\$248,461)	US\$2,004,931 (2018: US\$2,000,000)
Interest	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



## Rural Development Bank (now known as Agricultural and Rural Development Bank)

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

### 15. Borrowings (continued)

By interest rate (per annum)

	2019	2018
Royal Government of Cambodia - Special fund	Nil	Nil
Ministry of Economy and Finance - ASDF	2.00%	2.00%
Asian Development Bank	0.556%-2.556%	0.556%-2.556%
Agence Française de Développement ("AFD")	Nil	Nil
International Fund for Agricultural Development ("IFAD")	1.5%	1.5%

### 16. Subordinated debts

	31 December		31 December		1 January 2018	
	2019	2018	2019	2018	US\$	KHR'000
	US\$	US\$	KHR'000	KHR'000		(Note 5)
Subordinated debts	1,044,084	1,044,084	4,254,642	4,195,130	1,044,084	4,214,967

This represents a long-term unsecured borrowing from Agence Française de Développement ("AFD") outstanding as at 31 December 2019 of US\$1,044,084 (31 December 2018: 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 Rural Development Bank (now known as Agricultural and Rural Development Bank) ("RDB") on 14 November 2003 with the following terms and conditions:

## Rural Development Bank (now known as Agricultural and Rural Development Bank)

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

#### 16. Subordinated debts (continued)

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.

#### 17. Other liabilities

	31 December		31 December		1 January 2018	
	2019	2018	2019	2018	US\$	KHR'000
	US\$	US\$	KHR'000	KHR'000		(Note 5)
Other tax payables	7,366	49,207	30,016	197,714	8,844	35,703
Accruals and other payables	27,747	1,192,169	113,070	4,790,134	549,798	2,219,535
Deferred grant income (*)	972,375	997,762	3,962,428	4,009,008	-	-
	1,007,488	2,239,138	4,105,514	8,996,856	558,642	2,255,238

(\*) This represents the grant of US\$1 million received from the International Fund for Agricultural Development ("IFAD") - Value Chain Innovation Fund ("VCIIF"). Based on the subsidiary loan agreement between the Ministry of Economy and Finance ("MEF") and Rural Development Bank (now known as Agricultural and Rural Development Bank) ("RDB") dated 25 May 2018.

**Rural Development Bank  
(now known as Agricultural and Rural Development Bank)**

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

**18. Income tax**

**A. Deferred tax liabilities – net**

	31 December		31 December		1 January 2018	
	2019	2018	2019	2018	US\$	KHR'000
	US\$	US\$	KHR'000	KHR'000		(Note 5)
Deferred tax liabilities	1,651,658	1,391,447	6,730,505	5,590,834	1,904,939	7,690,239

Deferred tax liabilities is attributable to the following:

	31 December		31 December		1 January 2018	
	2019	2018	2019	2018	US\$	KHR'000
	US\$	US\$	KHR'000	KHR'000		(Note 5)
Depreciation and amortization	10,166	1,267	41,426	5,091	(26,386)	(106,520)
Impairment loss on financial instruments	1,777,144	1,490,107	7,241,861	5,987,250	2,009,647	8,112,945
Unearned processing fees	(135,652)	(99,927)	(552,782)	(401,507)	(78,322)	(316,186)
	1,651,658	1,391,447	6,730,505	5,590,834	1,904,939	7,690,239

**Rural Development Bank**  
**(now known as Agricultural and Rural Development Bank)**

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

**18. Income tax (continued)**

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

The movements of deferred tax are as follows:

	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
At 1 January	1,391,447	1,904,939	5,590,834	7,690,239
Recognised in profit or loss	260,211	(513,492)	1,054,375	(2,077,075)
Currency translation difference	-	-	85,296	(22,330)
At 31 December	<u>1,651,658</u>	<u>1,391,447</u>	<u>6,730,505</u>	<u>5,590,834</u>

**B. Current income tax liability**

	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
At 1 January	661,185	137,647	2,656,641	555,681
Income tax expense	1,479,566	789,628	5,995,201	3,194,045
Income tax paid	(780,382)	(266,090)	(3,162,108)	(1,076,334)
Currency translation difference	-	-	53,771	(16,751)
At 31 December	<u>1,360,369</u>	<u>661,185</u>	<u>5,543,505</u>	<u>2,656,641</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.

**C. Income tax expense**

	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Current income tax	1,479,566	789,628	5,995,201	3,194,045
Deferred tax	<u>260,211</u>	<u>(513,492)</u>	<u>1,054,375</u>	<u>(2,077,075)</u>
	<u>1,739,777</u>	<u>276,136</u>	<u>7,049,576</u>	<u>1,116,970</u>



**Rural Development Bank  
(now known as Agricultural and Rural Development Bank)**

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

**18. Income tax (continued)**

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

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

	2019		2018	
	US\$	KHR'000 (Note 5)	%	
				US\$
Profit before income tax	8,412,681	34,088,183		2,380,415
				9,628,780
Income tax using statutory rate at 20%	1,682,536	6,817,636	20	476,083
Non-deductible expenses	57,241	231,940	1	50,281
Over provision	-	-	-	(250,228)
Income tax expense	1,739,777	7,049,576	21	276,136
				1,116,970
				11

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

**Rural Development Bank  
(now known as Agricultural and Rural Development Bank)**

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

**19. Share capital**

Issued and fully paid 390,627 shares of KHR1,000,000 each (2018: 10,000 shares of KHR18,717,768 each)	31 December		31 December		1 January 2018 US\$ KHR'000 (Note 5)
	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)	
The Ministry of Economy and Finance	96,504,646	46,504,646	390,627,000	187,177,680	46,504,646
					187,177,680
The movements of the share capital of the Bank were as follows:					
	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)	
At 1 January	46,504,646	46,504,646	187,177,680	187,177,680	
Issuance of share capital	40,000,000	-	162,759,320	-	
Transfer from borrowings - Royal Government of Cambodia - Special Fund	10,000,000	-	40,630,000	-	
At 31 December	96,504,646	46,504,646	390,627,000	187,177,680	

## **Rural Development Bank (now known as Agricultural and Rural Development Bank)**

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

#### **19. Share capital (continued)**

The sub-decree dated 27 August 2019 and 17 September 2019 respectively have been issued by the Royal Government of Cambodia to increase in share capital of the Bank by US\$50,000,000 and convert to a commercial bank by changing its name to Agricultural and Rural Development Bank.

On 23 December 2019, the Bank has requested to the National Bank of Cambodia as followings:

- to increase share from KHR187,177,680,000 to KHR390,627,000,000.
- change the operating license from a Specialised Bank to a Commercial Bank, and
- change name to "Agricultural and Rural Development Bank".

The above requested has been approved by the National Bank of Cambodia with the license as commercial bank dated 19 February 2020.

The Memorandum and Articles of Association was amended to reflect the changes in shareholding structures above and approved by the Ministry of Commerce on 18 March 2020.

## Rural Development Bank (now known as Agricultural and Rural Development Bank)

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

#### 20. Other capital

	31 December		2018		2019		31 December		2018		2019		1 January 2018	
	US\$	US\$	US\$	US\$	US\$	US\$	US\$	US\$	KHR'000	KHR'000	KHR'000	KHR'000	US\$	KHR'000
Other capital	(13,258,222)	(13,586,841)	(13,586,841)	(13,586,841)	(53,493,531)	(53,493,531)	(54,825,095)	(54,825,095)	(Note 5)	(Note 5)	(Note 5)	(Note 5)	(13,767,881)	(55,557,402)

According to the letter No. 536 dated 3 February 2016 from the Ministry of Economy and Finance submitted to Samdech Akkakk Monha Sena Padei Techo Hun Sen, Prime Minister of the Kingdom of Cambodia with his annotation on 4 February 2016, RDB 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.



**Rural Development Bank  
(now known as Agricultural and Rural Development Bank)**

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

**20. Other capital (continued)**

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

	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
At 1 January	(13,586,841)	(13,767,881)	(54,825,095)	(55,557,402)
Add: recoveries of non-performing loans principal	328,619	181,040	1,331,564	732,307
At 31 December	<u>(13,258,222)</u>	<u>(13,586,841)</u>	<u>(53,493,531)</u>	<u>(54,825,095)</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.

**Rural Development Bank**  
**(now known as Agricultural and Rural Development Bank)**

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

**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.

**23. Interest income**

	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Loans and advances	10,811,827	8,552,247	43,809,523	34,593,839
Placements with other banks	26,611	43,071	107,828	174,222
	<u>10,838,438</u>	<u>8,595,318</u>	<u>43,917,351</u>	<u>34,768,061</u>

**24. Interest expense**

	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Saving deposits	7,451	4,987	30,191	20,172
Fixed deposits	38,981	37,967	157,951	153,577
Borrowings	542,995	576,146	2,200,216	2,330,510
	<u>589,427</u>	<u>619,100</u>	<u>2,388,358</u>	<u>2,504,259</u>

**25. Other income**

	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Gains on foreign exchange	968,460	-	3,924,200	-
Other income	41,328	18,387	167,461	74,375
	<u>1,009,788</u>	<u>18,387</u>	<u>4,091,661</u>	<u>74,375</u>

**Rural Development Bank**  
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**Notes to the financial statements (continued)**  
**for the year ended 31 December 2019**

**26. Personnel expense**

	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Salaries and wages	1,192,381	1,152,281	4,831,528	4,660,977
Bonuses	351,061	253,929	1,422,499	1,027,143
Other benefits	309,827	304,018	1,255,419	1,229,752
	<u>1,853,269</u>	<u>1,710,228</u>	<u>7,509,446</u>	<u>6,917,872</u>

**27. Other operating expenses**

	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
Depreciation and amortisation	265,767	209,005	1,076,887	845,425
Court and other legal fees	237,141	446,858	960,895	1,807,541
Director's remuneration	183,769	173,211	744,632	700,638
Mission, travelling and accommodation expenses	180,353	192,765	730,790	779,734
Professional fee	143,285	322,185	580,591	1,303,238
Gasoline and motor vehicles operating expenses	80,765	78,322	327,260	316,812
Social welfare	77,879	36,239	315,566	146,587
Training charges	69,556	16,711	281,841	67,596
Public relations expenses	68,702	65,419	278,381	264,620
Other consumables and office supplies	67,951	50,340	275,337	203,625
Donation and gifts	62,824	85,791	254,563	347,025
Advertising expenses	35,798	44,971	145,053	181,908
Utilities	32,754	29,891	132,719	120,909
Repairs and maintenance	23,631	19,517	95,753	78,946
License fee	17,178	17,423	69,605	70,476
Fire and hazard insurance expenses	12,282	5,610	49,767	22,692
Membership fee	11,870	14,293	48,097	57,815
Clearing house and other fees	8,752	7,838	35,463	31,705
Tax on transportation vehicles	4,804	4,920	19,466	19,901
Telecommunication and postage expenses	4,534	4,415	18,372	17,859
Foreign exchange loss	-	304,273	-	1,230,784
Other expenses	206,949	42,776	838,558	173,030
	<u>1,796,544</u>	<u>2,172,773</u>	<u>7,279,596</u>	<u>8,788,866</u>

## Rural Development Bank (now known as Agricultural and Rural Development Bank)

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

#### 28. Commitments and contingencies

##### A. Off balance sheet items

The following are 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.

	31 December 2019		31 December 2018		1 January 2018	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
Long term loans	6,821,786	27,798,800	7,150,405	28,730,300	8,779,944	35,444,634
Short term loans	6,495,000	26,467,100	6,495,000	26,096,900	5,020,000	20,265,740
	<u>13,316,786</u>	<u>54,265,900</u>	<u>13,645,405</u>	<u>54,827,200</u>	<u>13,799,944</u>	<u>55,710,374</u>

##### B. Tax contingencies

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

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



## Rural Development Bank (now known as Agricultural and Rural Development Bank)

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

#### 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

	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
<b>Interest expense</b>				
Borrowings	8,116	8,791	32,886	35,560
Deposit from customers	<u>198</u>	<u>181</u>	<u>807</u>	<u>727</u>
<b>Key management remuneration</b>				
Board of director's fees	<u>183,769</u>	<u>173,211</u>	<u>744,632</u>	<u>700,638</u>
<b>Shareholder – Ministry of Economic and Finance</b>				
Issuance of share capital	40,000,000	-	162,759,320	-
Transfer from borrowings to share capital	<u>10,000,000</u>	<u>-</u>	<u>40,690,000</u>	<u>-</u>
	<u>50,000,000</u>	<u>-</u>	<u>203,449,320</u>	<u>-</u>

**Rural Development Bank  
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Notes to the financial statements (continued)  
for the year ended 31 December 2019

**29. Related parties (continued)**

**C. Balances with related parties**

	31 December		31 December		1 January 2018	
	2019	2018	2019	2018	US\$	KH-R000
	US\$	US\$	KH-R000	KH-R000		(Note 5)
Deposits from key management	71,738	22,157	292,332	89,027	12,336	49,800
Borrowings	109,358,399	124,666,200	445,635,476	500,908,792	111,873,826	451,634,636

## **Rural Development Bank (now known as Agricultural and Rural Development Bank)**

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

#### **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.

##### **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.

**Rural Development Bank  
(now known as Agricultural and Rural Development Bank)**

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

**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 2019</b>					
<b>On-balance sheet items</b>					
Cash and cash equivalents, net	38,508,757	156,923,185	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>212,679,736</b>	<b>866,669,925</b>	<b>52%</b>	<b>0%</b>	<b>48%</b>



**Rural Development Bank  
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Notes to the financial statements (continued)  
for the year ended 31 December 2019

**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 2018</b>					
<b>On-balance sheet items</b>					
Cash and cash equivalents, net	15,396,610	61,863,579	0%	0%	100%
Loans and advances to customers, gross	159,115,208	639,324,906	69%	0%	31%
Other assets	377,537	1,516,944	0%	0%	100%
<b>Total</b>	<b>174,889,355</b>	<b>702,705,429</b>	<b>63%</b>	<b>0%</b>	<b>37%</b>

**Rural Development Bank**  
**(now known as Agricultural and Rural Development Bank)**

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

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

**B. Credit risk (continued)**

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

**Concentration risk by industrial sectors**

<b>31 December 2019</b>	<b>Cash and cash equivalents US\$</b>	<b>Loans to customers, gross US\$</b>	<b>Other assets US\$</b>	<b>Total US\$</b>
Financial institutions	38,508,757	657,142	-	39,165,899
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>38,508,757</b>	<b>173,162,427</b>	<b>1,008,552</b>	<b>212,679,736</b>
<b>Total (KHR'000 – Note 5)</b>	<b>156,923,185</b>	<b>705,636,891</b>	<b>4,109,849</b>	<b>866,669,925</b>
<b>31 December 2018</b>				
Financial institutions	15,396,610	1,344,086	-	16,740,696
Privates	-	154,607,277	-	154,607,277
Associates	-	927,510	-	927,510
Families rubber plantations	-	445,797	-	445,797
Staff loans	-	1,790,538	-	1,790,538
Others	-	-	377,537	377,537
<b>Total</b>	<b>15,396,610</b>	<b>159,115,208</b>	<b>377,537</b>	<b>174,889,355</b>
<b>Total (KHR'000 – Note 5)</b>	<b>61,863,579</b>	<b>639,324,906</b>	<b>1,516,944</b>	<b>702,705,429</b>

**Rural Development Bank  
(now known as Agricultural and Rural Development Bank)**

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

**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		1 January 2018	
	2019	2018	2019	2018	US\$	KHR'000
	US\$	US\$	KHR'000	KHR'000		(Note 5)
<b>By residency status:</b>						
Residents	173,162,427	159,115,208	705,636,891	639,324,906	122,070,986	492,800,571
<b>By relationship:</b>						
External customers	170,605,873	157,324,670	695,218,933	632,130,524	121,401,258	490,096,879
Staff loans	2,556,554	1,790,538	10,417,958	7,194,382	669,728	2,703,692
	173,162,427	159,115,208	705,636,891	639,324,906	122,070,986	492,800,571
<b>By exposure:</b>						
Large exposures (*)	53,949,809	71,605,294	219,845,472	287,710,071	60,051,220	242,426,775
Non-large exposures	119,212,618	87,509,914	485,791,419	351,614,835	62,019,766	250,373,796
	173,162,427	159,115,208	705,636,891	639,324,906	122,070,986	492,800,571

**Rural Development Bank  
(now known as Agricultural and Rural Development Bank)**

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

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

**B. Credit risk (continued)**

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

(\*) 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.

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

**Cash and cash equivalents, statutory deposits, 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.



**Rural Development Bank  
(now known as Agricultural and Rural Development Bank)**

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

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

**B. Credit risk (continued)**

**(iii). Collateral (continued)**

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 2019</b>			
Loans and advances to customers	<u>110,823,953</u>	<u>62,338,474</u>	<u>173,162,427</u>
<b>31 December 2018</b>			
Loans and advances to customers	<u>109,789,494</u>	<u>49,325,714</u>	<u>159,115,208</u>
	Collateral- properties KHR'000 (Note 5)	Unsecured credit exposure KHR'000 (Note 5)	Total KHR'000 (Note 5)
<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>
<b>31 December 2018</b>			
Loans and advances to customers	<u>441,134,187</u>	<u>198,190,719</u>	<u>639,324,906</u>

## **Rural Development Bank (now known as Agricultural and Rural Development Bank)**

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

#### **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 realization 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.

## Rural Development Bank (now known as Agricultural and Rural Development Bank)

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

#### 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.

**Rural Development Bank**  
**(now known as Agricultural and Rural Development Bank)**

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

**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.

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.



**Rural Development Bank**  
**(now known as Agricultural and Rural Development Bank)**

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

**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.

	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>

**Rural Development Bank**  
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**Notes to the financial statements (continued)**  
**for the year ended 31 December 2019**

**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 2018			
	Stage 1 US\$	Stage 2 US\$	Stage 3 US\$	Total US\$
<b>Loans and advances to customers at amortised cost - net</b>				
Normal	144,010,070	-	-	144,010,070
Special mention	-	9,305,759	-	9,305,759
Substandard	-	-	990,846	990,846
Doubtful	-	-	669,688	669,688
Loss	-	-	4,861,462	4,861,462
	<u>144,010,070</u>	<u>9,305,759</u>	<u>6,521,996</u>	<u>159,837,825</u>
Impairment loss	<u>(2,720,382)</u>	<u>(57,002)</u>	<u>(2,554,018)</u>	<u>(5,331,402)</u>
Carrying amount	<u>141,289,688</u>	<u>9,248,757</u>	<u>3,967,978</u>	<u>154,506,423</u>
Carrying amount (KHR'000- Note 5)	<u>567,701,966</u>	<u>37,161,506</u>	<u>15,943,336</u>	<u>620,806,808</u>

**Rural Development Bank  
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**Notes to the financial statements (continued)  
for the year ended 31 December 2019**

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

**B. Credit risk (continued)**

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

***Incorporation of forward-looking information***

The 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. 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.

**Rural Development Bank**  
**(now known as Agricultural and Rural Development Bank)**

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

**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.

	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	2,077,568	336,476	1,790,664	4,204,708
At 31 December (KHR'000- Note 5)	8,466,090	1,371,140	7,296,955	17,134,185

	2018			
	Stage 1 US\$	Stage 2 US\$	Stage 3 US\$	Total US\$
<b>Loans and advances to customers at amortised cost</b>				
At 1 January	2,628,830	125,283	804,955	3,559,068
- Transfer to stage 1	(1,043,917)	20,837	1,023,080	-
- Transfer to stage 2	20,745	(24,629)	3,884	-
- Transfer to stage 3	2,047	-	(2,047)	-
New financial assets originated	1,753,684	2,793	35,550	1,792,027
Financial assets that been derecognised	(641,007)	(67,282)	688,596	(19,693)
At 31 December	2,720,382	57,002	2,554,018	5,331,402
At 31 December (KHR'000- Note 5)	10,930,495	229,034	10,262,044	21,421,573



**Rural Development Bank  
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**Notes to the financial statements (continued)  
for the year ended 31 December 2019**

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

**B. Credit risk (continued)**

**(vi) 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:

	2019 US\$	2018 US\$	2019 KHR'000 (Note 5)	2018 KHR'000 (Note 5)
(Reversal)/ Allowance for loan losses (Note 8)	(841,694)	1,772,334	(3,410,543)	7,169,091
Allowance for deposits and placements with banks (Note 6)	37,999	(41,145)	153,972	(166,432)
	<u>(803,695)</u>	<u>1,731,189</u>	<u>(3,256,571)</u>	<u>7,002,659</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.

## Rural Development Bank (now known as Agricultural and Rural Development Bank)

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

#### 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	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\$	Interest rate %
<b>Financial assets</b>								
Cash and cash equivalents	-	-	-	-	-	38,508,757	38,508,757	0%
Loans and advances to customers - gross	6,642,002	4,446,835	70,530,102	45,712,839	45,830,649	-	173,162,427	5% - 12%
Other assets	-	-	-	-	-	1,008,552	1,008,552	0%
	6,642,002	4,446,835	70,530,102	45,712,839	45,830,649	39,517,309	212,679,736	
<b>Financial liabilities</b>								
Deposits from customers	1,957,284	172,453	499,136	-	-	-	2,628,873	1% - 6%
Deposit from banks	681	-	-	-	-	2,190	2,871	0%
Borrowings	-	-	-	344,568	111,363,330	-	111,707,898	0.556%-2.55%
Subordinated debts	-	-	-	-	-	1,044,084	1,044,084	0%
Other liabilities	-	-	-	-	-	1,000,122	1,000,122	0%
	1,957,965	172,453	499,136	344,568	111,363,330	2,046,396	116,383,848	
Interest sensitivity gap	4,684,037	4,274,382	70,030,966	45,368,271	(65,532,681)	37,470,913	96,295,888	
(KHR'000 equivalents - Note 5)	19,087,451	17,418,107	285,376,186	184,875,704	(267,045,675)	152,693,970	392,405,743	

**Rural Development Bank  
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Notes to the financial statements (continued)  
for the year ended 31 December 2019

**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 risks which includes assets and liabilities at carrying amounts.

31 December 2018	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\$	Interest rate %
<b>Financial assets</b>								
Cash and cash equivalents	-	-	-	-	-	15,396,610	15,396,610	0.24% - 1.43%
Loans and advances to customers - gross	-	5,280,000	48,958,266	54,631,010	50,245,932	-	159,115,208	5% - 12%
Other assets	-	-	-	-	-	377,537	377,537	0%
	-	5,280,000	48,958,266	54,631,010	50,245,932	15,774,147	174,889,355	
<b>Financial liabilities</b>								
Deposits from customers	2,540,249	24,788	900,588	-	-	-	3,465,625	1% - 6%
Deposit from banks	695	-	-	-	-	24,074	24,769	0%
Borrowings	-	-	-	637,791	126,666,200	-	127,303,991	0.556% - 2.556%
Subordinated debts	-	-	-	-	-	1,044,084	1,044,084	0%
Other liabilities	-	-	-	-	-	2,189,931	2,189,931	0%
	2,540,944	24,788	900,588	637,791	126,666,200	3,258,089	134,028,400	
Interest sensitivity gap	(2,540,944)	5,255,212	48,057,678	53,993,219	(76,420,268)	12,516,058	40,860,955	
(KHR'000 equivalents - Note 5)	(10,209,513)	21,115,442	193,095,750	216,944,754	(307,056,637)	50,289,521	164,179,317	

**Rural Development Bank**  
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**Notes to the financial statements (continued)**  
**for the year ended 31 December 2019**

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

**C. Market risk (continued)**

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

As of 31 December 2019, 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 2019	Denomination		Total
	KHR	US\$ equivalents	
<b>Financial assets</b>			
Cash and cash equivalents	897,443	37,611,314	38,508,757
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>208,445,449</u>	<u>212,679,736</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	38,884,182	111,707,898
Subordinated debts	-	1,044,084	1,044,084
Other liabilities	7,148	992,974	1,000,122
	<u>72,892,412</u>	<u>43,491,436</u>	<u>116,383,848</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 equivalents (Note 5)</b>	<u>(279,781,859)</u>	<u>672,187,603</u>	<u>392,405,743</u>



**Rural Development Bank**  
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**Notes to the financial statements (continued)**  
**for the year ended 31 December 2019**

**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 2018	KHR	Denomination US\$ equivalents	Total
		US\$	
<b>Financial assets</b>			
Cash and cash equivalents	1,432,107	13,964,503	15,396,610
Loans and advances to customers - gross	3,282,310	155,832,898	159,115,208
Other assets	1,771	375,766	377,537
	<u>4,716,188</u>	<u>170,173,167</u>	<u>174,889,355</u>
<b>Financial liabilities</b>			
Deposits from customers	8,158	3,457,467	3,465,625
Deposits from other banks	-	24,769	24,769
Borrowings	73,952,140	53,351,851	127,303,991
Subordinated debts	-	1,044,084	1,044,084
Other liabilities	541	2,189,390	2,189,931
	<u>73,960,839</u>	<u>60,067,561</u>	<u>134,028,400</u>
<b>Net (liability)/asset position</b>	<u>(69,244,651)</u>	<u>110,105,606</u>	<u>40,860,955</u>
<b>KHR'000 equivalents (Note 5)</b>	<u>(278,225,008)</u>	<u>442,404,325</u>	<u>164,179,317</u>

**Rural Development Bank**  
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**Notes to the financial statements (continued)**  
**for the year ended 31 December 2019**

**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'):

	<b>31 December 2019</b>		<b>31 December 2018</b>	
	<b>- 1%</b>	<b>+ 1%</b>	<b>- 1%</b>	<b>+ 1%</b>
	<b>Depreciation</b>	<b>Appreciation</b>	<b>Depreciation</b>	<b>Appreciation</b>
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
KHR	686,581	(686,581)	692,447	(692,447)
KHR'000 – Note 5	2,797,818	(2,797,818)	2,782,252	(2,782,252)

**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.

**Rural Development Bank  
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Notes to the financial statements (continued)  
for the year ended 31 December 2019

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

**D. Liquidity risk (continued)**

31 December 2019	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 liabilities</b>							
Deposits from customers	1,957,284	172,453	499,136	-	-	-	2,628,873
Deposits from other banks	681	-	-	-	-	2,190	2,871
Borrowings	-	-	-	344,568	111,363,330	-	111,707,898
Subordinated debts	-	-	-	-	-	1,044,084	1,044,084
Other liabilities	-	-	-	-	-	1,000,122	1,000,122
	<u>1,957,965</u>	<u>172,453</u>	<u>499,136</u>	<u>344,568</u>	<u>111,363,330</u>	<u>2,046,396</u>	<u>116,383,848</u>
(KHR'000 equivalents - Note 5)	<u>7,978,707</u>	<u>702,746</u>	<u>2,033,979</u>	<u>1,404,115</u>	<u>453,805,570</u>	<u>8,339,064</u>	<u>474,264,181</u>

**Rural Development Bank  
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Notes to the financial statements (continued)  
for the year ended 31 December 2019

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

**D. Liquidity risk (continued)**

31 December 2018	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 liabilities</b>							
Deposits from customers	2,540,249	24,788	900,588	-	-	-	3,465,625
Deposits from other banks	695	-	-	-	-	24,074	24,769
Borrowings	-	-	-	637,791	126,666,200	-	127,303,991
Subordinated debits	-	-	-	-	-	1,044,084	1,044,084
Other liabilities	-	-	-	-	-	2,189,931	2,189,931
	<u>2,540,944</u>	<u>24,788</u>	<u>900,588</u>	<u>637,791</u>	<u>126,666,200</u>	<u>3,258,089</u>	<u>134,028,400</u>
(KHR'000 equivalents - Note 5)	<u>10,209,513</u>	<u>99,598</u>	<u>3,618,563</u>	<u>2,562,644</u>	<u>508,944,792</u>	<u>13,091,002</u>	<u>538,526,112</u>



## **Rural Development Bank (now known as Agricultural and Rural Development Bank)**

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

#### **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 organizational structures, roles and control policies. Various internal control policies and measures have been implemented. These include the establishment of signing authorities, defining system parameters controls, 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.

## **Rural Development Bank (now known as Agricultural and Rural Development Bank)**

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

#### **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.

## **Rural Development Bank (now known as Agricultural and Rural Development Bank)**

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

#### **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 and in preparing the opening CIFRS statement of financial position at 1 January 2019 for the purposes of the transition to, unless otherwise indicated.

##### **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.



**Rural Development Bank  
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**Notes to the financial statements (continued)  
for the year ended 31 December 2019**

**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 recognized 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.



## **Rural Development Bank (now known as Agricultural and Rural Development Bank)**

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

#### **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

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

**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).

**Rural Development Bank  
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**Notes to the financial statements (continued)  
for the year ended 31 December 2019**

**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.



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

**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.



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

**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.

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

**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.

## **Rural Development Bank (now known as Agricultural and Rural Development Bank)**

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

#### **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.



**Rural Development Bank**  
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**Notes to the financial statements (continued)**  
**for the year ended 31 December 2019**

**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.



## **Rural Development Bank (now known as Agricultural and Rural Development Bank)**

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

#### **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 15 days past due for short-term facilities.

###### **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
- 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.

## **Rural Development Bank (now known as Agricultural and Rural Development Bank)**

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

#### **32. Significant accounting policies (continued)**

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

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

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

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

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

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

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

LGD is the magnitude of the likely loss if there is a default. The 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.

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

**32. Significant accounting policies (continued)**

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

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

***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.

***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.



**Rural Development Bank**  
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**Notes to the financial statements (continued)**  
**for the year ended 31 December 2019**

**32. Significant accounting policies (continued)**

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

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

***Credit-impaired financial assets (continued)***

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.

**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 when purchased, and that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.



**Rural Development Bank**  
**(now known as Agricultural and Rural Development Bank)**

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

**32. Significant accounting policies (continued)**

**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.

**(ii). Other capital**

Other capital 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, RDB 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 will be recognised directly into other capital account of 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 CIFRS and regulatory provision in accordance with National Bank of Cambodia's Prakas No. B7-017-344 dated 1 December 2017 and Circular No. B7-018-001 Sor Ror Chor Nor dated 16 February 2018 on credit risk classification and provision on impairment for 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 CIFRS; 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 CIFRS and transfer the difference from retained earnings or accumulated loss account into regulatory reserve in shareholders' equity of the statement of the financial position.

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

**Rural Development Bank**  
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**Notes to the financial statements (continued)**  
**for the year ended 31 December 2019**

**32. Significant accounting policies (continued)**

**G. Placements with banks**

Placements with banks are stated at cost less impairment for any uncollectable amounts.

**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' 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.

## **Rural Development Bank (now known as Agricultural and Rural Development Bank)**

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

#### **32. Significant accounting policies (continued)**

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

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

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.

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**

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.

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

Depreciation is recognised as an expense in profit or loss on a declining basis except for buildings and buildings improvements which is depreciated on a straight-line basis.

Depreciation is recognised from the date that the property, plant 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.

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

Buildings	5%
Building improvements	10%
Motor vehicle	12.5%
IT equipment	25%
Office equipment and furniture	12.5%

Land is not depreciated.

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



**Rural Development Bank  
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**Notes to the financial statements (continued)  
for the year ended 31 December 2019**

**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.



## **Rural Development Bank (now known as Agricultural and Rural Development Bank)**

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

#### **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 (or impairment allowance before 1 January 2018).

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

## **Rural Development Bank (now known as Agricultural and Rural Development Bank)**

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

#### **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.

## **Rural Development Bank (now known as Agricultural and Rural Development Bank)**

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

#### **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.

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'.



**Rural Development Bank**  
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**Notes to the financial statements (continued)**  
**for the year ended 31 December 2019**

**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 substantially 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.

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

**U. Contingent liabilities**

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



## **Rural Development Bank (now known as Agricultural and Rural Development Bank)**

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

#### **33. Comparative information**

##### **A. Restatement**

During the preparation of the financial statements for the year ended 31 December 2019, the Bank's management has identified certain errors in the prior years' financial statements that were not correctly presented. The errors related to the below instance:

- i. The Bank incorrectly classified the share capital and other capital amounting to US\$21,541,889 and US\$24,468,809, respectively, as at 31 December 2018 and 1 January 2018 when the Memorandum and Articles of Association has been amended since 2016.
- ii. The Bank incorrectly recorded the interest in suspense of US\$2,295,326 and US\$1,390,008 as at 31 December 2018 and 1 January 2018 respectively, resulted in interest income for year ended 31 December 2018 overstated by US\$905,318.
- iii. 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. The loans and advances to customers-net is overstated by US\$7,946,374 and US\$10,009,910 as at 31 December 2018 and 1 January 2018, respectively. These impacted to the loans provision under Cambodia GAAP for the year ended 31 December 2018 of US\$2,063,536.

The (ii) and (iii) have impacted to retained earnings as at 31 December 2018 and 1 January 2018 of US\$10,241,700 and US\$11,399,918 respectively.

The Bank's management decided to restate the comparative information for the year ended 31 December 2018 and 1 January 2018 to correct these errors.

##### **B. Explanation of transition to CIFRSs**

###### **Adoption of CIFRSs Framework**

The Bank has adopted the Cambodian International Financial Reporting Standards ("CIFRSs") from 1 January 2019. These financial statements of the Bank for the year ended 31 December 2019 are the first set of financial statements prepared in accordance with CIFRSs including the application of CIFRS 1 *First-time Adoption of Cambodian International Financial Reporting Standards*.

Accordingly, the Bank have prepared financial statements which comply with CIFRSs applicable for periods ending on or after 31 December 2019, together with the comparative period information as at and for the period ended 31 December 2018, as described in the significant accounting policies in Note 32.

In preparing these financial statements, the Bank's opening statement of financial position were prepared as at 1 January 2018, being the Bank's date of transition to CIFRSs. Principal adjustments made by the Bank in restating its statement of financial position as at 1 January 2018 and its previously published financial statements for the year ended 31 December 2018, both of which was prepared in accordance with the Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia ("NBC") relating to the preparation and presentation of financial statements ("Cambodia GAAP") are presented in below.

## **Rural Development Bank (now known as Agricultural and Rural Development Bank)**

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

#### **33. Comparative information (continued)**

##### **B. Explanation of transition to CIFRSs (continued)**

###### **Optional exemptions applied**

CIFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under CIFRSs. The Bank have applied the following exemptions:

###### **Fair value or revaluation as deemed cost - property and equipment**

The Bank has elected to measure individual items of property and equipment using previous GAAP that are broadly comparable to depreciated cost in accordance with CIFRSs as at the date of transition to CIFRSs.

###### **Mandatory exemptions**

###### ***Estimates***

The estimates at 1 January 2018 and at 31 December 2018 are consistent with those made for the same dates in accordance with Cambodian Accounting Standards and the guidelines of the National Bank of Cambodia ("NBC") relating to the preparation and presentation of financial statements. The estimates used by the Bank to present these amounts in accordance with CIFRSs reflect conditions at 1 January 2018, the date of transition to CIFRSs, and as at 31 December 2018.

###### ***Derecognition of financial assets and financial liabilities***

A first-time adopter shall apply the derecognition requirements of CIFRSs prospectively for transactions occurring on or after 1 January 2018, the date of transition to CIFRSs. However, an entity may apply the derecognition requirements of CIFRSs from a retrospective date of the entity's choosing provided that the information required to do this was obtained at the time of initially accounting for those transactions.

The Bank have applied the derecognition requirements of CIFRSs prospectively for transactions occurring on or after 1 January 2018.

The reconciliations contain two columns for each period as well as the Cambodia GAAP and CIFRSs results. The "reclassification" column includes reclassification and reanalysis of amounts from their Cambodia GAAP statement of financial position lines to the appropriate CIFRSs statement of financial position lines. The "effect of transition to CIFRSs" column sets out the effects of the recognition and measurement changes required by the transition to CIFRSs. The "effect of transition to CIFRSs" columns are further analysed into the type of adjustment.

An explanation of how the transition from previous Cambodia GAAP to CIFRSs and the adoption of CIFRS 9, CIFRS 15 and CIFRS 16 have affected the Bank's financial position, financial performance and cash flows, is set out under the summary of quantitative impact and the accompanying notes.

**Rural Development Bank**  
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**Notes to the financial statements (continued)**  
**for the year ended 31 December 2019**

**33. Comparative information (continued)**

**C. Financial assets and liabilities**

The impact arising from the change is summarised as follows:

	31 December 2018 US\$	1 January 2018 US\$
<b>Statement of financial position</b>		
Other assets	(2,295,326)	(1,390,008)
Loans and advances to customers - net	(7,946,374)	(10,009,910)
Share capital	21,541,889	24,468,809
Other capital	(21,541,889)	(24,468,809)
Retain earnings	<u>10,241,700</u>	<u>11,399,918</u>
	31 December 2018 US\$	
<b>Statement of profit or loss and other comprehensive income</b>		
Interest income	905,318	
Impairment losses on financial instruments	<u>(2,063,536)</u>	
Profit before income tax	<u>(1,158,218)</u>	
<b>Statement of cash flows</b>		
Profit before income tax	<u>(1,158,218)</u>	



## Rural Development Bank (now known as Agricultural and Rural Development Bank)

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

#### 33. Comparative information (continued)

##### Reconciliation of equity

The following reconciliations summarise the impacts on initial application of CIFRSs on the Bank's financial positions as at 31 December 2018 and 1 January 2018 and the Bank's profit or loss and other comprehensive income for the year ended 31 December 2018.

Note	1 January 2018				31 December 2018			
	Cambodia GAAP US\$	Effect of transition to CIFRSs Reclassification US\$	Remeasurement US\$	CIFRSs US\$	Cambodia GAAP US\$	Effect of transition to CIFRSs Reclassification US\$	Remeasurement US\$	CIFRSs US\$
<b>ASSETS</b>								
Cash on hand	2,181,446	(2,181,446)	-	-	1,767,588	(1,767,588)	-	-
Balances with the financial institutions	5,015,713	(5,015,713)	-	-	901,239	(901,239)	-	-
Balance with the NBC	29,570,190	(29,570,190)	-	-	14,568,845	(14,568,845)	-	-
Cash and cash equivalents	-	35,083,748	-	35,083,748	-	15,396,610	-	15,396,610
Statutory deposits	-	1,645,274	-	1,645,274	-	1,843,886	-	1,843,886
Loans and advances to customers, net	117,301,679	1,253,207	577,677	119,132,563	152,810,766	2,091,480	(395,823)	154,506,423
Foreclose properties	1,158,384	-	-	1,158,384	2,875,934	-	-	2,875,934
Other assets	1,332,772	(1,214,880)	-	117,892	2,472,939	(2,094,304)	-	378,635
Property and equipment	956,392	-	-	956,392	2,872,030	-	-	2,872,030
Intangible assets	18,785	-	-	18,785	11,964	-	-	11,964
<b>TOTAL ASSETS</b>	<b>157,535,361</b>	<b>-</b>	<b>577,677</b>	<b>158,113,038</b>	<b>178,281,305</b>	<b>-</b>	<b>(395,823)</b>	<b>177,885,482</b>
<b>Total assets (KHR'000 – Note 5)</b>	<b>635,970,252</b>	<b>-</b>	<b>2,332,083</b>	<b>638,302,335</b>	<b>716,334,283</b>	<b>-</b>	<b>(1,590,417)</b>	<b>714,743,867</b>



**Rural Development Bank  
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**Notes to the financial statements (continued)  
for the year ended 31 December 2019**

**33. Comparative information (continued)**

**Reconciliation of equity (continued)**

	Note	1 January 2018				31 December 2018			
		Cambodia GAAP US\$	Effect of transition to CIFRSs Reclassification US\$	Remeasurement US\$	CIFRSs US\$	Cambodia GAAP US\$	Effect of transition to CIFRSs Reclassification US\$	Remeasurement US\$	CIFRSs US\$
<b>LIABILITIES AND EQUITY</b>									
Deposits from customers	A(i)	2,310,999	14,114	-	2,325,113	3,446,575	19,050	-	3,465,625
Deposits from other banks	A(i)	50,462	-	-	50,462	24,769	-	-	24,769
Borrowings	B	111,758,308	946,017	-	112,704,325	125,844,097	1,459,894	-	127,303,991
Subordinated debts		1,044,084	-	-	1,044,084	1,044,084	-	-	1,044,084
Other liabilities	A(i)	1,518,773	(960,131)	-	558,642	3,718,082	(1,478,944)	-	2,239,138
Deferred tax liabilities		-	-	1,904,939	1,904,939	-	-	1,391,447	1,391,447
Current income tax liability		137,647	-	-	137,647	661,185	-	-	661,185
Total liabilities		116,820,273	-	1,904,939	118,725,212	134,738,792	-	1,391,447	136,130,239
<b>SHAREHOLDER'S EQUITY</b>									
Share capital		22,035,837	24,468,809	-	46,504,646	24,962,757	21,541,889	-	46,504,646
Other capital		10,700,928	(24,468,809)	-	(13,767,881)	7,955,048	(21,541,889)	-	(13,586,841)
Capital reserve		816,974	-	-	816,974	899,072	-	-	899,072
Regulatory reserves		-	-	11,220,150	11,220,150	-	-	8,919,414	8,919,414
Retained earnings/Accumulated losses A(i)		7,161,349	-	(12,547,412)	(5,386,063)	9,725,636	-	(10,706,684)	(981,048)
Total equity		40,715,088	-	(1,327,262)	39,387,826	43,542,513	-	(1,787,270)	41,755,243
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>		157,535,361	-	577,677	158,113,038	178,281,305	-	(395,823)	177,885,482
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY (KHR'000 – Note 5)</b>		635,970,252	-	2,332,083	638,302,335	716,334,283	-	(1,590,417)	714,743,867

**Rural Development Bank**  
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**Notes to the financial statements (continued)**  
**for the year ended 31 December 2019**

**33. Comparative information (continued)**

**Reconciliation of statement of profit or loss and other comprehensive income for the year ended 31 December 2018**

	Note	Cambodia GAAP US\$	Effect of transition to CIFRS s		CIFRSs US\$
			Reclassification US\$	Remeasurement US\$	
<b>Operating income</b>					
Interest income	A(iii)	8,317,964	277,354	-	8,595,318
Interest expense	B	(619,100)	-	-	(619,100)
<b>Net interest income</b>		7,698,864	277,354	-	7,976,218
Other income		1,073,187	(1,054,800)	-	18,387
<b>Total operating income</b>		8,772,051	(777,446)	-	7,994,605
Personnel expenses		(1,883,439)	173,211	-	(1,710,228)
Other operating expenses	B	(1,999,610)	(173,163)	-	(2,172,773)
<b>Total operating expenses</b>		(3,883,049)	48	-	(3,883,001)
<b>Operating profit before impairment</b>		4,889,002	(777,398)	-	4,111,604
Impairment losses on financial instruments		(1,535,087)	(767,161)	571,059	(1,731,189)
<b>Profit before income tax</b>		3,353,915	(1,544,559)	571,059	2,380,415
Income tax expense		(789,268)	-	513,132	(276,136)
<b>Net profit for the year/Total comprehensive income for the year</b>		2,564,647	(1,544,559)	1,084,191	2,104,279

## **Rural Development Bank (now known as Agricultural and Rural Development Bank)**

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

#### **33. Comparative information (continued)**

Summary of profit or loss and other comprehensive income reclassifications and key adjustments as a result of transition from Cambodia GAAP to CIFRSs.

Summary of balance sheet reclassifications and key adjustments as a result of transition from Cambodia GAAP to CIFRSs.

#### **C. Financial assets and liabilities**

CIFRS 9 financial instruments sets out requirements for recognising and measuring financial assets, financial liabilities. It also introduces a new 'expected credit loss' (ECL) model and a new general hedge accounting model. The Bank adopted CIFRS 9 from 1 January 2018.

Changes in accounting policies resulting from the adoption of CIFRS 9 have been generally applied by the Bank retrospectively, except as described below.

- The following assessments were made on the basis of facts and circumstances that existed at 1 January 2018.
  - The determination of the business model within which a financial asset is held;
  - The determination of whether the contractual terms of a financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding;
  - The designation of an equity investment that is not held-for-trading as at FVOCI; and
- If a debt investment has low credit risk at 1 January 2018, the Bank had assumed that the credit risk on the asset has not increased significantly since its initial recognition.

The impact upon adoption of CIFRS 9, including the corresponding tax effects, are described below.

##### **(i). Classification of financial assets and financial liabilities**

Under CIFRS 9, financial assets are classified in the following categories: measured at amortised cost, FVOCI – debt instrument, FVOCI – equity instrument; or FVTPL. The classification of financial assets under CIFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

For an explanation of how the Bank classifies and measures financial assets and related gains and losses under CIFRS 9, see Note 32C(ii).

The following table and the accompanying notes below explain the original measurement categories under Cambodia GAAP and the new measurement categories under CIFRS 9 for each class of the Bank's financial assets as at 1 January 2018.

**Rural Development Bank**  
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**Notes to the financial statements (continued)**  
**for the year ended 31 December 2019**

**33. Comparative information (continued)**

**C. Financial assets and liabilities (continued)**

**(i). Classification of financial assets and financial liabilities (continued)**

		1 January 2018		31 December 2018	
		Original classification under Cambodia GAAP	New classification under CIFRS 9	Original carrying amounts under Cambodia GAAP US\$	New carrying amounts under CIFRS 9 US\$
	Note				
<b>Financial assets</b>					
Cash on hand					
Balances with the financial institutions				-	-
Balance with the NBC				-	-
Cash and cash equivalents				2,181,446	1,767,588
(reclassified)				5,015,713	901,239
Loans and advances to customers - net				29,570,190	14,568,845
Other assets				-	-
	(a)	Cost	Amortised cost		15,396,610
	(b)	Carrying amounts	Amortised cost		154,506,423
		Cost	Amortised cost		377,537
<b>Total financial assets</b>				117,301,679	152,810,766
				1,332,772	2,872,030
<b>Total financial assets</b>				155,401,800	172,920,468
<b>Total financial assets</b>				627,357,067	694,794,440
(KHR' 000 - Note 5)					684,187,330



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

**33. Comparative information (continued)**

**C. Financial assets and liabilities (continued)**

*(i). Classification of financial assets and financial liabilities (continued)*

		1 January 2018		31 December 2018		
Note	Original classification under Cambodia GAAP	New classification under CIFRS 9	Original carrying amounts under Cambodia GAAP US\$	New carrying amounts under CIFRS 9 US\$	Original carrying amounts under Cambodia GAAP US\$	New carrying amounts under CIFRS 9 US\$
<b>Financial liabilities</b>						
(c)	Cost	Amortised cost	2,310,999	2,325,113	3,446,575	3,465,625
(c)	Cost	Amortised cost	50,462	50,462	24,769	24,769
			111,758,308	112,704,325	125,844,097	127,303,991
			1,044,084	1,044,084	1,044,084	1,044,084
(c)	Cost	Amortised cost	1,518,773	549,798	3,718,082	2,189,931
<b>Total financial liabilities</b>			<b>116,682,626</b>	<b>116,673,782</b>	<b>134,077,607</b>	<b>134,028,400</b>
<b>Total financial liabilities (KHR ' 000 – Note 5)</b>			<b>471,047,761</b>	<b>471,012,058</b>	<b>538,723,825</b>	<b>538,526,111</b>

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

**33. Comparative information (continued)**

**C. Financial assets and liabilities (continued)**

**(i). Classification of financial assets and financial liabilities (continued)**

- (a) Cash on hand, balances with the NBC and balances with other banks which are reclassified to cash and cash equivalents, and statutory deposits to confirm with the current year presentation, which were previously measured at cost are now measured at amortised cost.
- (b) Loans and advances to customers that were classified as loans and receivables under Cambodia GAAP are now classified at amortised cost. Refer to adjustments in A(ii) and A(iii) below.
- (c) Under Cambodia GAAP, these financial liabilities that were classified at cost are now classified at amortised cost. Refer to adjustments in A(iii) below.

**(ii). Impairment of financial assets**

CIFRS 9 replaces the 'incurred loss' model in Cambodia GAAP with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost.

The application of CIFRS 9 impairment requirements at 1 January 2018 results in reversal of allowances for impairment as follows:

	1 January 2018 US\$	31 December 2018 US\$
Loss allowance under Cambodia GAAP	4,769,308	6,304,442
Reversal of impairment recognised on previous GAAP:		
Loans and advances to customers	(1,646,827)	(1,535,087)
Remeasurement of impairment recognised on CIFRSs	486,744	571,059
Loss allowance under CIFRSs	<u>3,609,225</u>	<u>5,340,414</u>
Loss allowance under CIFRSs (KHR'000 – Note 5)	<u>14,570,441</u>	<u>21,559,251</u>

Additional information about how the Bank measure the allowance for impairment is described in Note 32C(vii) and 30B.

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

**33. Comparative information (continued)**

**C. Financial assets and liabilities (continued)**

**(iii). Interest**

Under Cambodia GAAP, fees integral to the financial assets and liabilities were not considered as effective interest and recognised on occurrence of transactions. In addition, recognition of interest income was suspended when loan become non-performing.

Under CIFRSs, 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. Interest is still recognised on the non-performing loan.

The impact arising from the change is summarised as follows:

	1 January 2018 US\$	31 December 2018 US\$
<b>Statement of financial position</b>		
Decrease in loans and advances	(391,612)	(499,633)
Related tax effect	78,322	99,927
<b>Adjustment to retained earnings</b>	<u>(313,290)</u>	<u>(399,706)</u>
<b>Adjustment to retained earnings</b> (KHR000 – Note 5)	<u>(1,264,752)</u>	<u>(1,606,019)</u>
<b>Statement of profit or loss and other comprehensive income</b>		2018 US\$
Increase in interest income		277,354
Decrease in other income		(1,054,800)
<b>Adjustment to profit before income tax</b>		<u>(777,446)</u>
<b>Adjustment to profit before income tax</b> (KHR000 – Note 5)		<u>(3,144,769)</u>

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

**33. Comparative information (continued)**

**C. Financial assets and liabilities (continued)**

*(iv). Transition impact on equity*

The following table summarises the impact, net of tax, of transition to CIFRS 9 on retained earnings at 1 January 2018.

	Impact of adopting CIFRS 9 at 1 January 2018	
	US\$	KHR'000
<b>Retained earnings</b>		
Closing balance under Cambodia GAAP (31 December 2017)	7,161,349	28,910,366
Effect of restatements (Note 33C)	(11,220,150)	(45,295,746)
Remeasurement of amortised costs under CIFRS 9	(582,406)	(2,351,173)
Recognition of expected credit losses under CIFRS 9	1,160,083	4,683,255
Related tax	(1,904,939)	(7,690,238)
Opening balance under CIFRS 9 (1 January 2018)	<u>(5,386,063)</u>	<u>(21,743,536)</u>

**D. Income tax**

The above changes (decreased)/increased the deferred tax assets as follows:

	1 January 2018 US\$	31 December 2018 US\$
Impairment allowance on loans and advances	2,009,647	1,490,107
Loan processing fees	<u>(78,322)</u>	<u>(99,927)</u>
Decrease in deferred tax liabilities	<u>1,931,325</u>	<u>1,390,180</u>
Decrease in deferred tax liabilities – KHR'000 – Note 5	<u>7,796,759</u>	<u>5,612,157</u>

**Material adjustments to the Statement of Cash Flow for 2018**

The statement of cash flows presented under CIFRSs is similar in all material respects to the statement of cash flows presented under Cambodia GAAP.



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

**34. Subsequent events**

**Coronavirus and impact on ECL**

The ECL at 31 December 2019 was estimated based on a range of forecast economic conditions as at that date. Subsequently, the coronavirus outbreak has spread across mainland China, Cambodia and beyond, causing disruption to business and economic activity. The impact on GDP and other key indicators will be considered when determining the severity and likelihood of downside economic scenarios that will be used to estimate ECL under CIFRS 9 in 2020.