



ធនាគារ ARDB

ដើម្បីកសិករនិងអភិវឌ្ឍន៍សេដ្ឋកិច្ចសង្គម

Annual Report

2021



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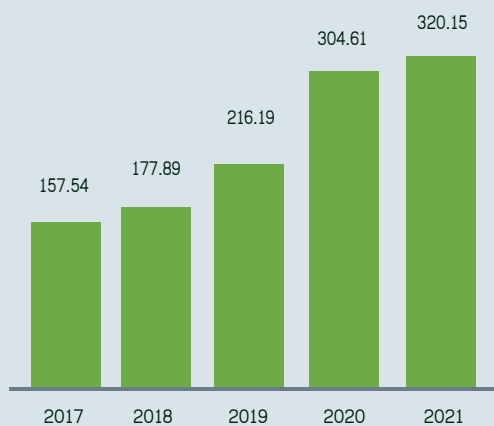
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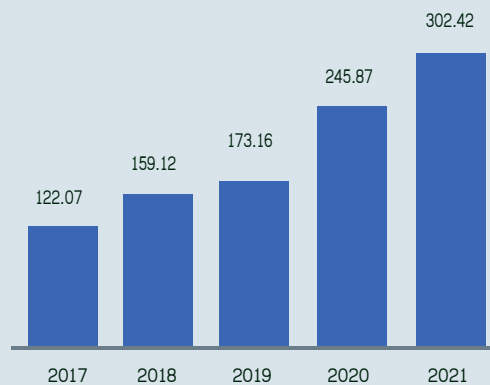
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Financial Highlight

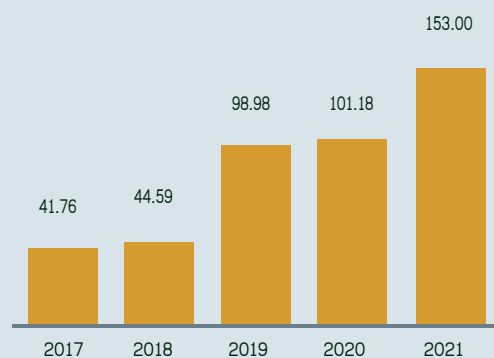
Total assets (in million USD)



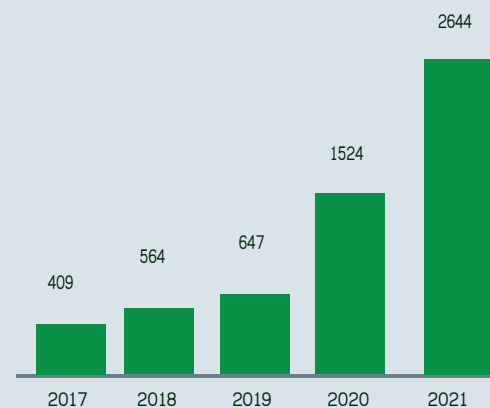
Loan and Advancement (in million USD)



Total capital (in million USD)



Total number of Account users



Chairman's Speech



"As a Policy Bank of the Royal Government of Cambodia, the Agricultural and Rural Development Bank (ARDB) has carefully continued to implement the government special financing programs in the agriculture sector to restore and promote economic growth".

2021 is the year that the whole world, as well as Cambodia, is striving to restore economic and to try to live in a new normality. Indeed, the Covid-19 crisis has had a negative impact on the economic and social situation of Cambodia, but this crisis has not hampered the Royal Government of Cambodia's efforts to promote agricultural development. On the contrary, the crisis has created opportunities for agricultural development in Cambodia, both in terms of investment in agricultural land and cultivation techniques. ARDB as a state-owned bank under advisory from the Ministry of Economy and Finance, is implementing the post-crisis economic recovery policy with the utmost care through the release of special financing. As a result, ARDB has disbursed this special financing fund, which covers the expansion of fruits and vegetables cultivation, aquaculture, animal husbandry, and processing of agricultural products. The implementation of the Royal Government's special financing policy in 2020 and 2021 has a solid support from farmers, agricultural cooperatives, and small and medium enterprises in the agriculture sector.

In line with the strategic framework and programs to restore and promote Cambodia's economic growth with Covid-19 in the new normality for 2021-2023, ARDB continues to implement the Royal Government's policy carefully and follows the three-year rolling business plan (2022-2024) to achieve the goals of the bank.

As the Chairman of the Board of Directors of ARDB, I would like to thank the Board of Director members, Executive Management, and all ARDB staffs for their active efforts in implementing the policies of the Royal Government and fulfilling its mission of the Bank to achieve the goal is for farmers and socio-economic development.

ROS Seilava

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

Chief Executive Officer's Speech



"ARDB continues to expand our scope of banking operations to provide financing to support all agriculture value chain stakeholders and agro-processing enterprises, despite the Covid-19 epidemic".

Achievements in 2021

Although in 2021, the Covid-19 crisis continue to have a negative impact on the global economy as well as the Cambodian economy, ARDB still continues to play a positive role in implementing government policies, especially the implementation of government special fund financing in restoring and maintaining the business balance of farmers, agricultural cooperatives, and small and medium enterprises in the agriculture sector. In 2021, ARDB has achieved significant achievements such as: (1) The total loan portfolio has increased to 302 million US dollars, increased to 21.75% compared to amount of the year 2020. (2) The number of deposit accounts increased by 73%, which was due to the increase in savings accounts and fixed deposits accounts, and the balances of fixed deposit accounts increased by 118.29%. (3) The launch of trade finance services, a service that facilitates and promotes the export of Cambodian agriculture products. (4) Expansion of ARDB mobile unit to 10 provinces such as Battambang, Banteay Meanchey, Oddar Meanchey, Pursat, Kampong Thom, Preah Vihear, Prey Veng, Tbong Khmum, Takeo, and Stung Treng. (5) Enhancing cooperation with local institutions and development partners in order to expand the scope of financing and contribute to achieving the sustainable development goals.

ARDB's Way Forwards for 2022

Based on ARDB 10-year roadmap and continuing implementation of the Royal Government policy to promote agriculture sector in order to improve people livelihoods and socio-economic development, in 2022 ARDB clearly defines its way forward in the main business plans, such as (1) promoting the effectiveness of the implementation of the Royal Government's Policy and exceed cooperation with local and international development partners, (2) transforming farmers to become agro-entrepreneur, (3) promoting transformation into a digital bank in terms of both

Chief Executive Officer's Speech

operations and customer service, (4) promoting diversification of the source of fund and implementation of green financing, (5) promoting deposits and increase the loan portfolio, as well as diversify the loan portfolio, and (6) promoting productivity through the development of human resource capacity.

Taking this opportunity, I would like to express my deep respect and gratitude to the Royal Government of Cambodia, the Ministry of Economy and Finance and the National Bank of Cambodia for their continued support and trust in ARDB. I would also like to thank the Board of Directors and the Executive Management for their continued support and good advice to ARDB as well as thank you to all the ARDB staff for their hard work and dedication to our clients and partners to promote agriculture development in Cambodia.



KAO Thach

Delegate of Royal Government of Cambodia
in charge as CEO of ARDB.

Board of Directors

ARDB Bank is governed by Board of Directors which consists of 7 members as following:



His Excellency ROS Seilava
Chairman of the Board

His Excellency ROS Seilava is currently a Secretary of State of the Ministry of Economy and Finance, a member of Supreme National Economic Council and a Chairman of ARDB Board of Directors.

He began to serve the government from 1985 in the Ministry of Industry, Mines and Energy. In 1994, he worked as a Financial Controller, Financial Affairs Department at Ministry of Economy and Finance. From 2002 to 2005, he was appointed as deputy director of national economic policy and finance department. From 2005 to 2006, he was appointed as Director, Department of Economic and Public Finance Policy at Ministry of Economy and Finance. Additionally, he also worked as Advisor to Executive Director, WB Board of Executive Directors at The World Bank Group from 2006 to 2008. Upon his return from the World Bank Group, he was appointed as Under Secretary of States in 2013. In 2020, he was appointed as Secretary of States of Ministry of Economy and Finance.

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

He obtained bachelor's degree in Social Studies from Phnom Penh eUniversity and Penza's Institute of Pedagogy, former USS in 1992. He obtained Master of International Affairs (MIA) in Economic Policy Management, Columbia University, New York, USA.

Board of Directors



His Excellency SAN Visal
Member

His Excellency SAN Visal is currently a Secretary of State at the Ministry of Rural Development and a member of Board of Director at ARDB. His excellency started his career in the agriculture sector by participating in various development activities from 1990 to 2003. At the same time, he has obtained a wide range of experiences as technical officer in various departments within the Ministry of Agriculture, Forestry and Fisheries, including the Department of Agriculture Machinery, the Department of Agronomy and the Department of Agricultural Standardization and Equipment. From 2003 to 2008, he was appointed as a Chief of Meanchey District, and from 2008 to 2019 he was then appointed as an Under-Secretary of states at Ministry of Rural Development.

Apart from that, he has other experience in private sector as well as in non-governmental organizations. From 1994 to the present, he is the Secretary General of Cambodia Democratic Students Intellectual Federation (Group 22). He obtained his master's degree from Chamroeun University of Poly-Technology in 2005 and has been pursuing his higher degree in the field of political science from the Asia-Europe University. Furthermore, he has also participated in various training programs during his career.



His Excellency Dr. KAO Thach
Member

His Excellency Dr. KAO Thach, Delegate of Royal Government of Cambodia, is the Chief Executive Officer and a member of the Board of Directors of ARDB. In addition to his current duties, he is a member of the Supreme National Economic Council, with equivalent rank to the Secretary of State, and an arbitrator of the Arbitration Council. Prior to joining ARDB,

Board of Directors

H.E was a Deputy Director General of the Securities and Exchange Commission of Cambodia with the equivalent rank as the Under-Secretary of State (in charge of the Department of Legal Affairs and the Intermediary Inspection Department), formerly the Chief of Office of the Financial Marketing at the Department of Financial Industry and Member of the Technical Working Group on Financial sector, representing the Ministry of Economy and Finance under the ASEAN Framework for Capital Market Development such as ABMI, ACMF and Financial Services Liberalization. He has been involved in drafting the Law on Public Securities and the Law on the Issuance and Trading of Non-government Securities, as well as being a member of the working group in charge of preparing the financial sector development strategy from 2006 to 2015 and 2011 to 2020. From 1999 to 2003 he was a legal officer at the Ministry of Justice and a clerk in Koh Kong province. For his academic background, H.E received his PhD in Public Policy from the University of Cambodia (Cambodia) in 2021, completed the dissertation in "The Role of Securities Regulators in Efficient Supervision and Regulation of the Securities Market in Cambodia" and his PhD in Administration. Business (DBA) from EU Business School (Switzerland) in 2018. He obtained a master's degree in Law from Bond University (Australia) in 2002, majoring in International Trade Law System, WTO Legal Framework, Dispute Resolution, and Dispute Design System and a Bachelor of Laws from Royal University of Law and Economics (LLB) in 1998.



His Excellency TEAN Sosery
Member

His Excellency TEAN Sosery, Assistant to His Excellency Dr. Bin Chhin, Permanent Deputy Prime Minister in charge of the Office of the Council of Ministers and Deputy-Chief Executive Officer of the Internal Affairs Coordination Department and a member of the Board of Directors of ARDB.

His Excellency has been working in the Office of the Council of Ministers since 2006. In 2006, he worked for the National Land Dispute Resolution Authority, starting as an officer of the Department of Administration and Personnel of the General Secretariat of the National Land Dispute Resolution Authority, as Chief of Office of Administration and Personnel of the

Board of Directors

Department of Administration and Personnel between 2007 and 2009 and Head of Education and Human Resource Development of the Department of Prevention and Education of the General Secretariat of the National Authority for Land Dispute Resolution in 2009. In the late 2009, he was appointed Deputy Head of the Department of Prevention and Education of the General Secretariat of the National Authority for Land Dispute Resolution. In 2013, he was appointed Assistant to Cabinet of His Excellency BIN Chhin, Deputy Prime Minister, Acting Minister in charge of the Office of the Council of Ministers in addition to his existing duties. In 2018, His Excellency was appointed Deputy-Chief Executive Officer of the General Department of Internal Affairs of the Office of the Council of Ministers.

In 2006, His Excellency graduated in Public Administration from the Royal School of Administration and Bachelor of Science in Computer Science from Norton University. In 2020, he graduated with a master's degree in Public Administration from the Royal University of Law and Economics, and in 2022, he graduated with a Bachelor of Public Law from the University of Indrawichea (UI).



His Excellency KHY Kosal
Member

His Excellency KHY Kosal is currently an Under-Secretary of State at the Ministry of Agriculture, Forestry and Fisheries and a member of Board of Directors of ARDB. He has started his career as a civil servant since 2012 after his graduation from England. During these years, he has contributed his expertise and impacts in two Ministries--Ministry of Water Resources and Meteorology and the Ministry of Agriculture, Forestry and Fisheries. With his outstanding performances, he has been continuously promoted for various roles starting from Administration and Human Resources Officer to his latest role as Under-Secretary of States at the Ministry of Agriculture, Forestry and Fisheries. He holds a master's degree class of 2012, majoring in Business Administration from Cardiff Metropolitan University or formerly University of Wales Institute, Cardiff (UWUIC) United Kingdom after he completed his bachelor's degree in Engineering and Business Administration.

Board of Directors



Mr. PAK Sereivathana
Independent member

Mr. PAK Sereivathana is currently a consultant for Axis Investment Consulting, which is a consulting firm that has been supporting stakeholders from international and local private entities in various business development projects related to agriculture and financial sectors. In addition to his consulting work, he has experienced working with international firms, such as International Finance Corporation (IFC), and has more than 20 years working experience in financial sector. His key achievements can be highlighted through several projects achievement for many institutions, such as Corporate Governance Projects both for the National Bank of Cambodia and the Securities and Exchange Commission of Cambodia, Agriculture Diversification Project in Cambodia, Credit Bureau of Cambodia Development Project (CBC), and other IFC projects related to legal reforms and financial interventions. Additionally, Mr. PAK Sereivathana also used to serve as a technical officer at the Ministry of Economy and Finance and other experiences in private companies.

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

Board of Directors



Mr. CHAN Seyha
Member and Staff representative

Mr. CHAN Seyha is one of the Deputy Chief Executive Officer and concurrently also a member of the Board of Directors of ARDB who represents ARDB staff. Mr. Chan Seyha has been working with ARDB since January 1999. He started his career here as Head of Credit Department and later was promoted to be the Deputy Director in charge of the Credit Department in July 2012. Before joining ARDB, from 1991 to 1999, he worked at the National Bank of Cambodia where he earned his expertise in various roles and departments ranging from an Officer in the Accounting Department, the Head of Clearing House in the Operation Department, and a Deputy Head of Account Management Division. Mr. Chan Seyha holds Master's Degree in Finance from the National Management University in 2004 and obtained his bachelor's degree from University of Banking, Vietnam, in 1991.

Executive Management

ARDB is governed by 5 executive management members as following:

- | | | |
|----|--------------------|-------------------------------|
| 1. | H.E Dr. KAO Thach | Chief Executive Officer (CEO) |
| 2. | H.E Dr. SOENG Reth | Deputy CEO |
| 3. | Mr. CHAN Seyha | Deputy CEO |
| 4. | Mr. PECH Sany | Deputy CEO |
| 5. | Mr. BAN Lim | Deputy CEO |



His Excellency Dr. SOENG Reth is one of the Deputy Chief Executive Officer of ARDB, appointed in June 2019. H.E is a personal advisor to **Samdech Techo Hun Sen, Prime Minister of the Kingdom of Cambodia**, and a member of the Supreme National Economic Council of Cambodia (SNEC) with the equivalent rank to the Secretary of State. Furthermore, H.E is also a member of Faculty of Business and Economics, University of Antwerp, Belgium and a research fellow at center of ASEAN Studies.

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

H.E used to serve as a jury member for Master Thesis Defenses at University of Antwerp and a doctoral examination member in Cambodia. From February 2009 to January 2011, H.E did his post-doctoral work at the Flemish Center for International Policy Institution, University of Antwerp, where he carried out a joint research project on "The Effect of Globalization on Labor Market in Belgium", in collaboration with the National Bank of Belgium. H.E has published a series of research paper on economics in scientific journals and has been a reviewer for publication in scientific journals including Journal of Asian Economics, International Trade Journal,

Executive Management

Economics Bulletin, International Journal of Commerce and Management, Journal of International Trade and Economic Development, International Journal of Manpower, and Journal of International Trade Law and Policy. His research was also accepted, and he was invited to give presentations in the United States, China, the Philippines, Belgium, Korea, Indonesia, Singapore, and Thailand. Presently, H.E is a member of Editorial Board of Journal of Business and Management and a member of the Council of Fellows of East Asian and Economic Association (EAEA). H.E is also working as an international consultant of Economic Research Institution for ASEAN and East Asia (ERIA) on Digital Economy and Digital Revolution projects.



Mr. PECH Sany is the Deputy Chief Executive Officer of ARDB. He has more than 20 years working experiences in banking industry. He was appointed as Deputy Chief Executive Officer of ARDB in 2008. Prior to his role in ARDB in 2001, Mr. PECH Sany worked at the National Bank of Cambodia and commercial banks for many years. Mr. Pech Sany holds his Master's Degree in Finance from the National University of Management in 2004 and his bachelor's degree in Banking from the University of Banking, Vietnam, in 1991.



Mr. BAN Lim joins ARDB as a Deputy Chief Executive Officer in 2021. He had been working as a legal adviser, an internal auditor, and a banking supervisor in the National Bank of Cambodia for more than 20 years. Mr. Ban Lim holds Master of Business Administration from the National University of Management where he graduated in 2005 and a Bachelor of Law from Royal University of Law and Economics in 1998. For many years, he was also a lecturer in the field of banking law and regulation at Center for Banking Studies of the National Bank of Cambodia and Institute of Banking and Finance.

About Agricultural and Rural Development Bank (ARDB)



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

ARDB is a public enterprise functioning in the form of state-owned commercial bank and is fully independent in leading and governing the bank's activities. ARDB is under technical and financial supervision of the Ministry of Economy and Finance and supervisory of the National Bank of Cambodia.

Vision

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

About Agricultural and Rural Development Bank (ARDB)

Mission

ARDB has a special mission to contribute to building and supporting the development in Cambodia with the main focuses placed on rural and agricultural development as detailed below:

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

Slogan

Agricultural and Rural Development Bank for Farmers and Socio-Economic Development.

Core Values



Integrity: We aspire to have the highest standards of honesty and individual conduct. We do not allow our reputation to be tarnished, and we always act for the benefits of farmers and socio-economic development.



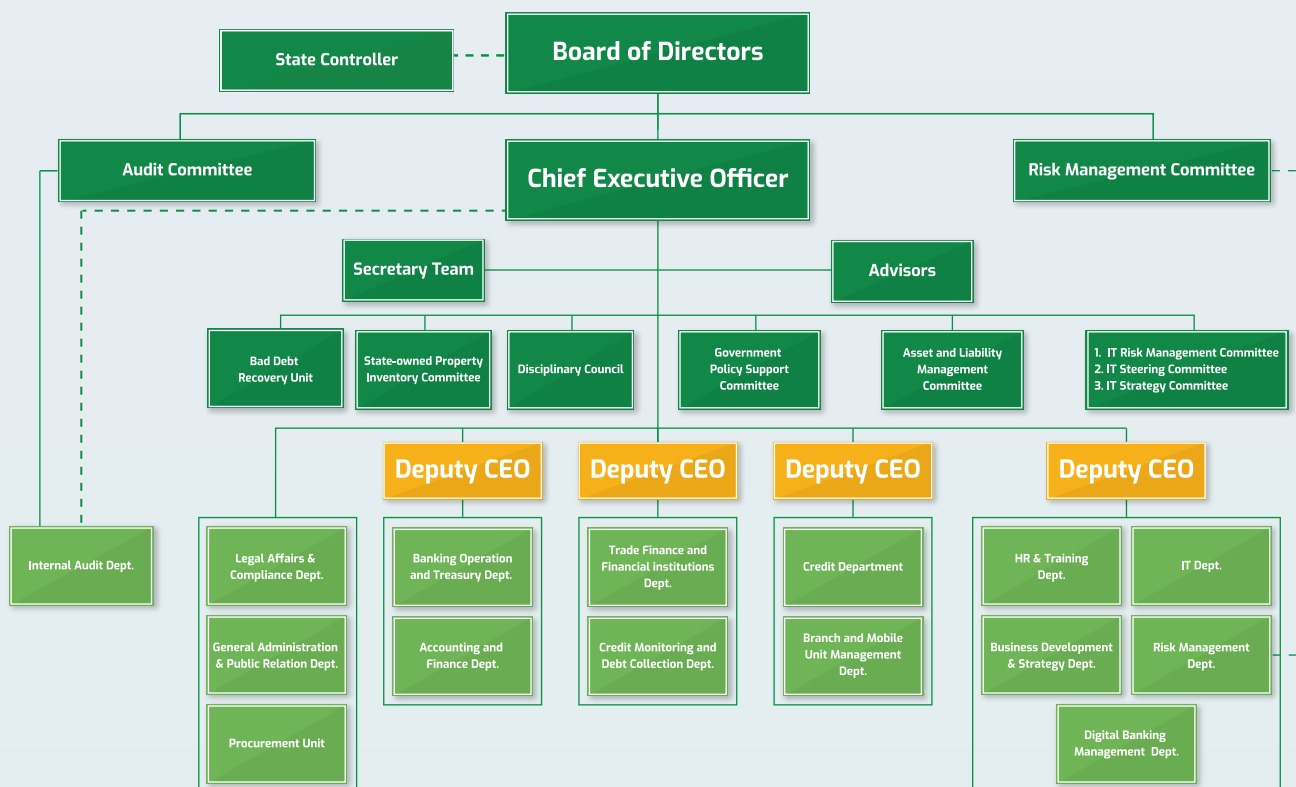
Collaboration: We respect and give value to each other, apply different skills and experiences and work with partners to mobilize our global strength to make a positive difference for our local businesses and the nation.



Innovation: We keep striving to determine the perfection in everything. Therefore, we are open to new ideas that can be standardized and bring creativity for the sustainability and growth of businesses and the nation.

PART 1- CORPORATE GOVERNANCE

PART 1.1- Organizational Chart



PART 1.2- Audit Committee

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

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

PART 1.3 - Risk Management Committee

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

- review and approve risk management strategies, risk frameworks, and risk identification.
- review and evaluate the appropriateness of risk policies and frameworks in identifying, measuring, monitoring, and managing risk developments.
- ensure all processes, structures, resources, and risk management system.
- check and monitor the development of both domestic and international financial markets, and the political situation.
- update the Bank's policies and risk management procedures.
- identify potential implementation challenges to the Board of Directors for guidance and decision.

PART 1.4 - State Property Inventory Committee

State Property Inventory Committee has the roles and responsibilities as follows:

- supervise and coordinate the preparation and recording of the inventory of ARDB
- check and monitor the preparation and completion of documents and procedures to obtain a certificate of ownership over immovable property or a Certificate of Immovable Property Possession
- consolidate and prepare the state property inventory for the Chief Executive Officer of ARDB to review and make decisions
- review and recommend on the request to clear the state property inventory of the utility unit to be submitted to the Chief Executive Officer of ARDB for review and decision-making
- review and request for sale, lease, transfer and exchange of lands and buildings, as well as clearing real property from the inventory of ARDB
- take practical measures to ensure the accuracy, comprehensiveness, and timeliness of the preparation and recording of the state property inventory, as well as the clearance of state property from the state property inventory
- manage, maintain, and monitor the use of all types of ARDB's vehicles
- review the report on the results of the preparation and recording of the annual state property inventory and propose solutions to any challenges related to accountability and integrity of preparing and recording the state property inventory, as well as clearing state property from the state property inventory for the Chief Executive Officer of ARDB to review and make decisions
- propose inspection and auditing of the management of the state property inventory of the utility unit as well as the clearing state property from the state property inventory for the Chief Executive Officer of ARDB to review and make decisions.

PART 1.5 - Disciplinary Council

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

- review and evaluate the request for appointment, promotion, and salary for all levels of staff who holds either a permanent or contractual position
- review the salary rate and other benefits
- review and evaluate the probation staff's performance to be included as permanent staff
- review and evaluate all levels of staff to provide incentives and rewards for those who have excellent performance based on the set criteria
- review and evaluate on punishment for those who do not comply with rules and conditions that have been set
- review and search for mistakes of all levels of staff

PART 1.6 - Government Policy Support Committee

Government Policy Support Committee of the Royal Government shall fulfill its roles and responsibilities in accordance with the principles of the roles and responsibilities of the Government Policy Support Committee as follows:

- liaise and cooperate with relevant ministries and institutions in implementing agricultural and rural economic development projects by providing financial and technical support.
- study the projects of the Royal Government that are related to the missions of ARDB.
- propose technical and/or financial support that ARDB can provide for project implementation.
- study the project's financial demand and determine the financial support and effective financing principles.
- prepare business development projects that can reduce production costs.
- evaluate the outcomes of ARDB's participation in various projects.
- monitor and analyze the use of finances provided by ARDB.
- liaise with relevant ministries and institutions of the Royal Government to analyze the effectiveness of financial support for project implementers.

PART 1.7 - Assets and Liabilities Management Committee

The Assets and Liabilities Management Committee has the following roles and responsibilities:

- develop policy frameworks and determine the authority surrounding the determination of level of financial risks and financial management related to ARDB's balance sheet for the review and approval by the Board of Directors
- review and monitor the risks level of ARDB that may affect the value of assets, liabilities and shareholders' equity in order to take appropriate measures
- review, monitor and analyze on any changes in business, economic and financial trends, especially on liquidity, interest rates and exchange rates which may impact on assets price, liabilities and shareholders' equity in order to take appropriate measures
- monitor and review on the regulations, norms, laws, policies and procedures, including reserve requirements, liquidity on assets and liabilities classification, and provision and disposal of assets, that may affect the management of assets, liabilities and shareholders' equity
- review and make investment proposals on subsidiaries and/or joint ventures with other business partners
- review and make proposal on the new annual budget plan in relations to the assets, liabilities and shareholders' equity in accordance with ARDB's strategic business plan.

PART 1.8 - Information Technology Risk Management Committee

The Information Technology Risk Management Committee has the following roles and responsibilities:

- improve the information technology risk management capacity of ARDB, including facilitating the development of information technology risk management skills within ARDB
- establish effective risk management and internal monitoring systems to ensure the confidentiality of data, cybersecurity and data restoration
- establish an integrated information technology risk management system that includes the measurement of risk level and impacts, and determine the types of risks by incorporating robust risk management systems and implementation procedures to manage risks
- implement and monitor ARDB's operation to reduce risks and regularly update and review risk assessments as planned to integrate and adapt to changes in information technology, environmental or operational conditions that could affect the risks analysis
- ensure the implementation of policies and procedures that are set by ARDB.

PART 1.9 - Information Technology Orientation Committee

The Information Technology Orientation Committee has the following roles and responsibilities:

- manage and lead the assigned work that is determined by the Information Technology Strategy Committee
- identify prioritized projects and re-evaluate strategies in accordance with the information technology plan
- review the implementation of information technology and identify the information technology techniques in response to the Bank's business activities
- assist in the management, identification, and reviewing of risks by monitoring the management process of key information technology techniques
- advise on the use of new information technology products and provide direction surrounding the correct application of information technology techniques and ensure that the adoption of new techniques is feasible and provides the least risks
- ensure the compliance to laws, regulations and guidelines surrounding technology standards.

PART 1.10 - Information Technology Strategy Committee

The Information Technology Strategy Committee has the following roles and responsibilities:

- operate in accordance with the decision of the Board of Directors
- supervise the activities of the Information Technology Orientation Committee
- update information technology strategies in response to demands or ARDB's business plans
- ensure the structure of the information technology unit in order to further fulfill the businesses' demands
- ensure adequate information technology for operations and information technology risk management.

PART 2 - PRODUCTS AND SERVICES

PART 2.1- Loans

SMAEs loans under the special financing program of the government: These loans support the expansion of cultivation or production among farm owners, agricultural cooperatives, handicrafts, small and medium-sized enterprises (SMEs) that need the capital for expanding their business in sectors, such as vegetables and fruits, Pailin longans, mangos, cashew, animal husbandry, aquaculture, agro-processing industry, and food.



Loans for Small, Medium, and Large Enterprises in the Agricultural Sector: These loans are provided to individuals or entities that are stakeholders in the production chain that is related to the agricultural sector, such as producing, processing, storing, distributing, and exporting of the agricultural products, especially in the rice and other sectors that link to the socio-economic development.



Agricultural Cooperative Loan: These loans are provided to support the strengthening and expansion of business activities of agricultural cooperatives, producer clusters, and other cooperatives, aiming to sustainably raise income for the members of cooperatives or producer clusters.



PART 2.1- Loans

Loans for Supporting Smallholders in the Agricultural Sector: These loans are provided to individuals whose businesses are related to the agricultural sector to expand farmers' capacities to grow, produce, process, supply, and stockpile in high quantity and quality to increase their maximum income.



Loans Supporting the Accelerating Inclusive Markets for Smallholders (AIMS) Project: These loans are provided to individuals or entities that are under the framework of the Accelerating Inclusive Markets for Smallholders (AIMS) project and have components or activities related to 5 agricultural production chains, including vegetables, backyard chickens, cassavas, high-quality rice, and raw silks.



Wholesale Loans: These loans are provided to microfinance institutions which support the agriculture sector. Those who can get these loans are deposits-taking microfinance institutions, microfinance institutions, and financial leasing companies that are licensed by the National Bank of Cambodia and fulfill the requirements as set by related authorities.



PART 2.1- Loans

Loans under the Special Program of the Royal Government Marketing Intervention On Operating Warehouse and Drying Facility and Collecting Rice, Corn, and Other Agricultural Products: is a rice-buying center, rice miller, rice inventory warehouse or rice bank, as well as the rice buyer, warehouse or drying facility, or agricultural Silo owner who have willingness and capacity to procure Neang Khon fragrant rice or other agricultural products from farmers at the price determined by ARDB as directed by the Royal Government.



PART 2.2- Deposits



Fixed Deposit is an account that has fixed term from 1 month to 24 months or at a certain period in order to obtain competitive interests.

Current account is an account that is convenient for payment using cheque.



Saving account is a safe and effective way to deposit and obtain interests.

PART 2.3- ARDB Mobile Banking Services

ARDB Mobile App is a mobile application that has various functions, including checking balances, money transfers, credit checking balances, bill payments, phone top-up, and allows users to find information related to the agriculture sector. ARDB Mobile App provides a convenient, fast, and secured way for money management and banking transactions.



PART 2.4- Trade Finance Services

The trade financing services of ARDB include:

- International Remittance
- Documentary Collection
- Documentary Letter of Credit
- Bank Guarantee



Presently, ARDB has 10 mobile units in Battambang, Banthey Meanchey, Oddar Meanchey, Pursat, Kompong Thom, Preah Vihear, Prey Veng, Tbong Khmom, Takeo, and Stung Treng. Each unit has enhanced its network of operation by promoting greater loans and in line with the transformation phase of the ARDB's 10-year roadmap that expands the bank's branches and mobile units to reach all provinces and cities with

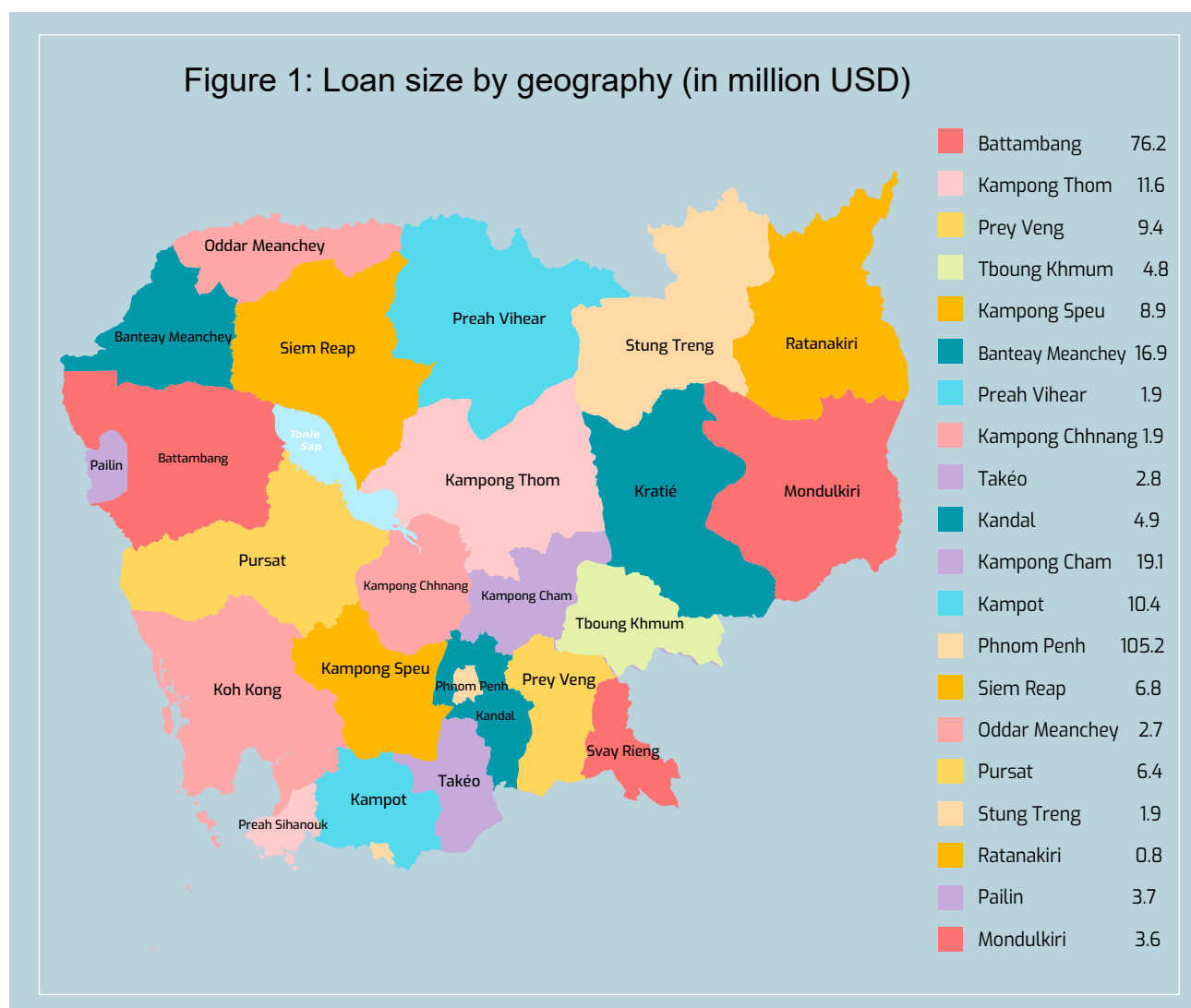


digital banking as a way forward to expand its services to target customers to contribute to improve financial inclusion environment in the country.

PART 3 - ACHIEVEMENTS IN 2021

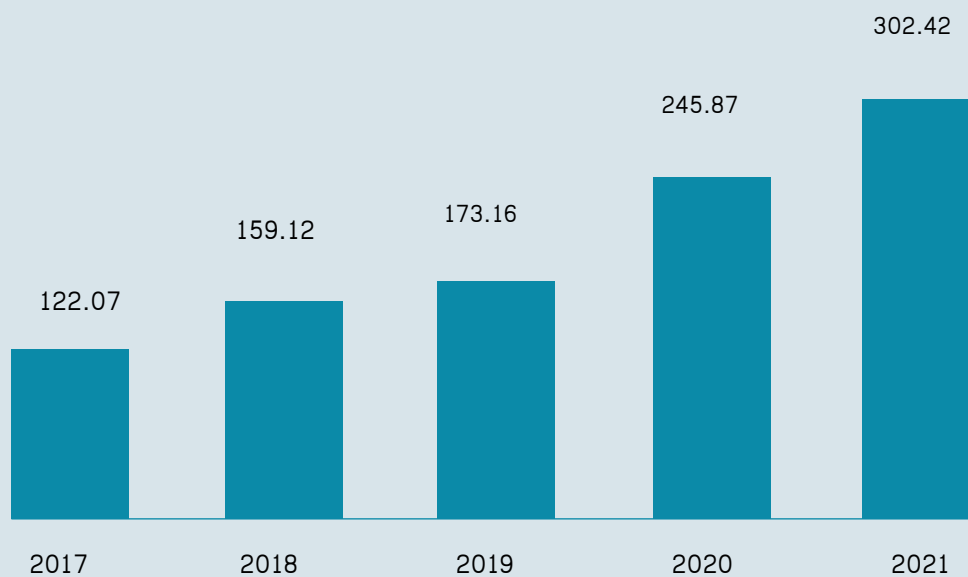
PART 3.1- Loans

As of December 2021, ARDB disbursed loans to nearly all provinces in Cambodia as illustrated below:



PART 3.1- Loans

Figure 2: Loan and Advancement (as million USD)



PART 3.2- Deposits

ARDB Bank has a total balance of 5 759 410.66 USD in all types of deposits, which has been steadily increasing as of December 31, 2021 due to its transformation into a commercial bank.

Figure 3: Total Deposit Balance (in million USD)

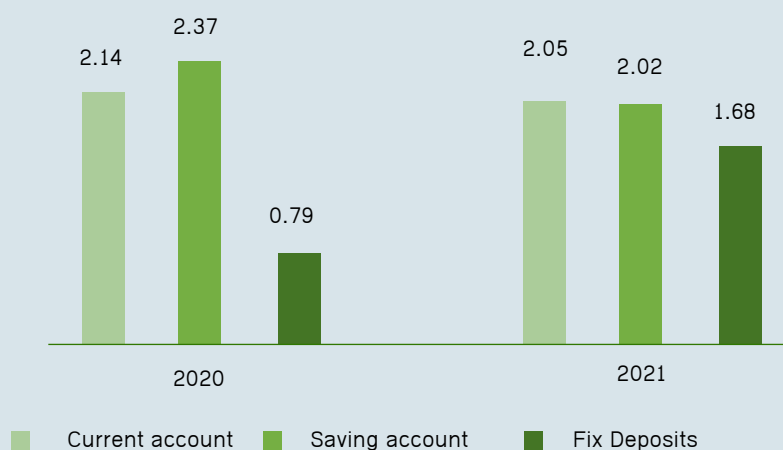
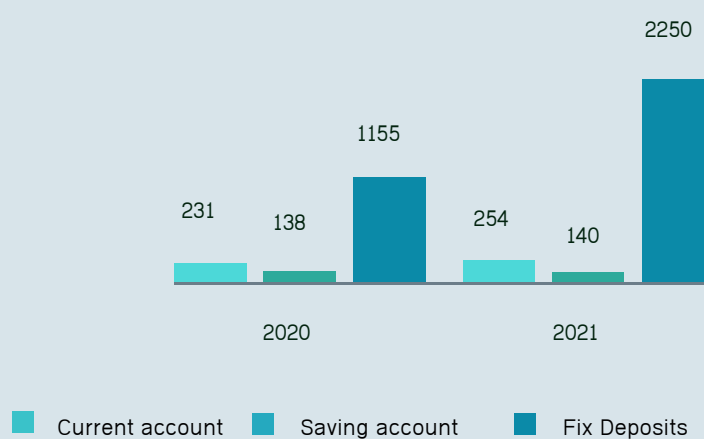


Figure 4: Total Deposit Accounts



PART 3.3- Business Expansion

ARDB's cooperation with local and foreign partners and business owners aiming to provide the convenience to all customers of ARDB to effectively and sustainably provide financing and banking services to the agriculture sector in an effort to contribute to the development of the agriculture sector and the economy as a whole under the framework that aligns with the government's national development policy. ARDB cooperated with partners as well as partnering businesses, including the Ministry of Agriculture, Forestry and Fisheries (MAFF), the Ministry of Economy and Finance (MEF), the Ministry of Commerce (MoC), the National Committee for Sub-National Democratic Development (NCDD), Wing Bank, Electricity of Cambodia (EDC), Canadia Bank, Cambodia Rice Federation (CRF), International Fund for Agricultural Development (IFAD), World Bank (WB), Asian Development Bank (ADB), and the Swedish International Development Cooperation Agency (SIDA).

PART 4 – CONTRIBUTION TO SUSTAINABLE DEVELOPMENT GOALS

In contributing to Sustainable Development Goals (SDGs) as a driving force in developing socio-economic and environment, ARDB strives to work with local and international partners to promote closely towards the sustainable development goals. The Bank has mainly contributed to 5 of SDGs, namely SDG1, SDG2, SDG8, SDG13 and SDG17.



SDG1 (No Poverty): ARDB Bank has been working collaboratively with development partners to achieve the goal of no poverty through improving the livelihoods of target customers, such as smallholder farmers in the rural areas, by providing loans, training, and financial literacy skills to help Cambodian rural farmers transforming from traditional farmers to entrepreneurial farmers, which would enable them to generate high incomes.



SDG2 (Zero Hunger): ARDB bank has been implementing projects that support small, medium and large producers in agriculture, aquaculture and agri-processing to increase both domestic production and export enhancement.

PART 4 – CONTRIBUTION TO SUSTAINABLE DEVELOPMENT GOALS

8 DECENT WORK AND ECONOMIC GROWTH



SDG8 (Decent Work and Economic Growth): ARDB Bank, a commercial bank serving the policy of the Royal Government, has been playing an active role in contributing to the rehabilitation and promotion of the agricultural sector through financial support to farmers and all actors in the agricultural value chain to ensure the economic growth with generating more employments, productivity, and decent work for all people.

13 CLIMATE ACTION



SDG13 (Climate Action): ARDB's Working Group has designed a green finance framework that is in line with the national policy framework and is currently working actively on the research about the green lending principle and standards.

17 PARTNERSHIPS FOR THE GOALS



SDG17 (Partnership for the Goals): ARDB Bank has cooperated with a number of international partners such as World Bank, ADB, AFD, and IFAD to contribute to the socio-economic development focusing on agriculture sector by offering financial support in the form of sustainable loans.

Part 5: ARDB's events

Part 5.1- Society contribution

Siem Reap Province: November 3, 2021 An ARDB team representing H.E Dr. KAO Thach delivered essential supplies to a young Cambodian student named Kong Seyha.



Wat Reach Bo Primary School, Siem Reap Province: On December 16, 2021, H.E Dr. KAO Thach and his team members delivered charitable donations to the students in Wat Reach Bo Primary School.

December 13, 2021 H.E Dr. KAO Thach had a discussion with the representatives of the Cambodian Rice Federation (CRF) and there was also a program of donating 500 packages rice which was donated by members of the Cambodian Rice Federation to ARDB bank for further distribution to the poor.



Part 5.1- Society contribution

Khmer Writers Association: February 10, 2021
H.E Dr. KAO Thach discussed with Khmer poets and Writers to donate some funds for supporting the Khmer Writers Association which is held on the 11th of Mekong River Literature Award Festival under the theme “Life and Sustainability of the Mekong River”.



Sangkat Ponhea Pun: In the afternoon of April 29, 2021 Mr. Ban Lim, Deputy Director of ARDB as representative H.E Dr. KAO Thach, presented the donations of H.E Dr. KAO Thach and Her Excellency delivered to Ponhea Pon District.



Khan Chbar Ampov: The morning of April 29, 2021 Mr. BAN Lim, Deputy Director of ARDB Bank as representative H.E Dr. KAO Thach, presented the gifts of H.E Dr. KAO Thach and Her Excellency to Chbar Ampov District.



Part 5.2- Loan Dissemination Under Special Program of the Royal Government

Kampong Chhnang Province: In the morning of October 14, 2021 H.E Dr. KAO Thach invited H.E Sun Sovannarith, Governor of Kampong Chhnang Province and H.E Long Chhun Lay, Chairman of the Provincial Council Kampong Chhnang Province to discuss on the cooperation of agricultural modernization development project between ARDB Bank and Kampong Chhnang Provincial Administration.



Battambang Province: In the morning of September 16, 2021 H.E Dr. KAO Thach monitored the effectiveness of the use of fund under the special financing scheme of the Royal Government, which was provided through ARDB Bank to Rice Bank and Green Company in Battambang Province in operating warehouse and rice drying mills.



Pailin Province: On the evening of September 16, 2021, H.E Dr. KAO Thach discussed with a group of people representatives of Pailin Longan Community, who are customers of ARDB Bank.

Part 5.2- Loan Dissemination Under Special Program of the Royal Government



Pursat Province: In the afternoon of September 15, 2021. H.E Dr. KAO Thach monitored the production line of Chang Kunmeng Rice Mill factory and Phu Kukki Rice Mill.



Kampong Thom Province: September 11, 2021 H.E Dr. KAO Thach was invited to join the official opening ceremony of Daily Fresh Food and also witnessed the signing of the Memorandum of Understanding on the rice market supply partnership between the Cambodian Agricultural Community and Daily Fresh Food.



Siem Reap Province: January 26, 2021 H.E Dr. KAO Thach was invited over the program to discuss and disseminate the credit policy to farmers who grow safe vegetables.

PART 6 - FINANCIAL STATEMENT

6.1. Financial Statements for the year ended December 31, 2021 and Report of the Independent Auditors

**AGRICULTURAL AND
RURAL DEVELOPMENT BANK**

**Financial Statements
for the year ended 31 December 2021
and
Report of the Independent Auditors**

Corporate information

Bank	Agricultural and Rural Development Bank	
Registration No.	Co.3942 et/1998	
Registered office	No 9-13, Street 7 Sangkat Chaktomuk, Khan Daun Penh Phnom Penh, Kingdom of Cambodia	
Shareholder	Ministry of Economy and Finance	
Board of Directors	H.E. Ros Seilava H.E. San Visal H.E. Kao Thach H.E. Tean Soserey H.E. Khy Kosal Mr. Chan Seyha Mr. Pak Sereivathana	Chairman of the Board, Non-Executive Director Member, Non-Executive Director Member, Executive Director and Chief Executive Officer Member, Non-Executive Director Member, Non-Executive Director Member, Executive Director Member, Non-Executive Director
State controller	Mr. Deth Veasna	State controller
Management team	H.E. Kao Thach H.E. Soeng Reth Mr. Chan Seyha Mr. Pech Sany Mr. Ban Lim Mr. Uch Chantha 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	Chief Executive Officer Deputy Chief Executive Officer Deputy Chief Executive Officer Deputy Chief Executive Officer Deputy Chief Executive Officer (appointed on 3 January 2021) Head of Government Policy Support Committee 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 (resigned on 4 January 2022) Head of Internal Audit Head of Risk Management Department Head of Trade Financing and Financial Institutions Head of General Administration and Public Relation and deputy head of secretariat Deputy Head of Information Technology and Strategy equivalent to Head of Department (appointed on 1 November 2021)

Corporate information (continued)

Management team (continued)	Mr. Sokhom Dararith	Head of Branch Management and Mobile Operation Department (appointed on 1 November 2021)
	Mrs. Chhun Sokha	Head of Accounting and Finance Department (appointed on 1 November 2021)
	Mr. Kuy Panha	Head of Business Development and Strategy (appointed 1 November 2021)
	Mr. E Seylo	Deputy Head of Business Development and Strategy (appointed 1 November 2021)
	Mr. Nem Lorn	Head of Credit Usage and Debt Collection monitoring Department (appointed on 4 January 2022)
Auditors	KPMG Cambodia Ltd	

Agricultural and Rural Development Bank

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3. Statement of financial position	9
4. Statement of profit or loss and other comprehensive income	10
5. Statement of changes in equity	11
6. Statement of cash flows	12 – 13
7. Notes to the financial statements	14 – 94



ធនាគារកសិកម្ម រុក្ខាប្រមាញ់ និងកសិកម្ម
AGRICULTURAL AND RURAL DEVELOPMENT BANK

លេខ/N° : ០៦៤/ ២២ ARDB ផ.អ.ជ.ក./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 Agricultural and Rural Development Bank ("the Bank") for the year ended 31 December 2021.

Principal activities

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

Financial results

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

	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Profit before income tax	6,540,082	47,480	26,605,053	193,576
Income tax (expense)/benefits	(1,337,269)	93,713	(5,440,010)	382,068
Net profit for the year	<u>5,202,813</u>	<u>141,193</u>	<u>21,165,043</u>	<u>575,644</u>

Dividends

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

Share capital

The share capital of the Bank as at 31 December 2021 is US\$96,504,646 equivalent to KHR390,627,000,000 (31 December 2020: US\$96,504,646 equivalent to KHR390,627,000,000).

Agricultural and Rural Development Bank

Other capital

On 14 July 2021, the shareholder resolved to increase share capital from KHR390,627,000,000 to KHR556,475,330,000, changing the par value from KHR1,000,000 per share to KHR10,000 per share. The increase in share capital are transfer from borrowings - Ministry of Economy and Finance - ASDF amounting to US\$36,937,500 and cash contributions from the MEF amounting to US\$3,791,460. The amount will be transferred to share capital upon the completion of the approval process.

On 18 March 2022, the Bank has submitted a letter to the NBC to request for the approval on the above changes in share capital, and obtained approval from the NBC on 9 May 2022.

Reserves and provisions

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

Losses loans and advances

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

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

Assets

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

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

Valuation methods

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

Agricultural and Rural Development Bank

Contingent and other liabilities

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

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

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

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

Coronavirus and impact on ECL

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

The allowance for impairment loss on loans and advances to customers as at 31 December 2021 has been increased to US\$15,640,327 (31 December 2020: US\$10,790,227) following the payment behaviour of the borrowers and considering the facts and circumstances of the current economic conditions and supportable information that is available as at the assessment date.

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

Agricultural and Rural Development Bank

The Board of Directors and State Controller

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, Executive Director and Chief Executive Officer
H.E. Tean Soserey	Member, Non-Executive Director
H.E. Khy Kosal	Member, Non-Executive Director
Mr. Chan Seyha	Member, Executive Director
Mr. Pak Sereivathana	Member, Non-Executive Director

State Controller is:

Mr. Deth Veasna	State Controller (Appointed by MEF with no voting right)
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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 2021, and its financial performance and its cash flows for the year then ended. In preparing these financial statements, the Board of Directors is required to:

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

Agricultural and Rural Development Bank

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

- (iv) assess the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so; and
- (v) control and direct effectively the Bank in all material decisions affecting the operations and performance and ascertain that such have been properly reflected in the financial statements.

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

Approval of the financial statements

We hereby approve the accompanying financial statements together with the notes thereto as set out on pages 9 to 94 which, in our opinion, present fairly, in all material respects, the financial position of the Bank as at 31 December 2021, and its financial performance and its cash flows for the year then ended, in accordance with CIFRSs.


Signed on behalf of the Board of Directors,

H.E. Ros Seilava
Chairman



H.E. Kao Thach
Chief Executive Officer

Phnom Penh, Kingdom of Cambodia

31 May 2022



KPMG Cambodia Ltd
GIA Tower, Sopheak Mongkul Street, Phum 14
Sangkat Tonle Bassac, Khan Chamkar Mon
Phnom Penh, Cambodia
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Report of the Independent Auditors To the shareholder of Agricultural and Rural Development Bank

Qualified Opinion

We have audited the financial statements of Agricultural and Rural Development Bank ("the Bank"), which comprise the statement of financial position as at 31 December 2021, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out on pages 9 to 94 (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 2021, 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 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 as at and for the year ended 31 December 2021. It was impracticable for us to quantify the financial effect of the adjustments to the amounts of the impairment loss, net loans and advances to customers, regulatory reserves and related elements making up the statements of profit or loss and other comprehensive income, changes in equity and cash flows, which would have resulted from using the correct DPD.

Our opinion expressed on the financial statements as at and for the years ended 31 December 2019 and 2020 were also qualified due to the above matter.



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 Information

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

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

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

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

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

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

Auditors’ Responsibilities for the Audit of the Financial Statements

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

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

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

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

For **KPMG Cambodia Ltd**



Guek Teav

Partner

Phnom Penh, Kingdom of Cambodia

31 May 2022

Agricultural and Rural Development Bank

Statement of financial position as at 31 December 2021

		31 December		31 December	
	Note	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
ASSETS					
Cash and cash equivalents	6	7,137,354	48,590,769	29,077,580	196,549,661
Placements with other banks	7	316,827	-	1,290,753	-
Statutory deposits	8	9,798,308	9,402,126	39,918,307	38,031,600
Loans and advances to customers - net	9	288,887,032	237,285,711	1,176,925,768	959,820,701
Foreclosed properties	10	3,748,234	3,773,887	15,270,305	15,265,373
Other assets	11	636,920	469,284	2,594,812	1,898,253
Property and equipment	12	8,671,698	4,105,178	35,328,498	16,605,445
Intangible assets	13	952,254	983,646	3,879,483	3,978,848
Total assets		320,148,627	304,610,601	1,304,285,506	1,232,149,881
LIABILITIES AND SHAREHOLDER'S EQUITY					
Liabilities					
Deposits from customers	14	5,753,657	5,301,086	23,440,399	21,442,893
Deposits from other banks and financial institutions	15	2,627	4,661	10,702	18,854
Borrowings	16	156,591,584	194,363,418	637,954,113	786,200,026
Subordinated debts	17	1,044,084	1,044,084	4,253,598	4,223,320
Other liabilities	18	997,050	763,502	4,061,982	3,088,365
Provision for financial guarantee contracts	29A	33,354	14,904	135,884	60,286
Current income tax liability	19B	1,519,836	-	6,191,812	-
Minimum tax liability		-	15,737	-	63,656
Deferred tax liabilities - net	19A	1,207,816	1,923,903	4,920,642	7,782,188
Total liabilities		167,150,008	203,431,295	680,969,132	822,879,588
Shareholder's equity					
Share capital	20	96,504,646	96,504,646	390,627,000	390,627,000
Other capital	21	35,132,533	(11,280,227)	143,574,886	(45,429,245)
Capital reserve	22	1,406,164	1,202,424	5,693,521	4,863,484
Regulatory reserves	23	12,020,407	14,930,339	48,507,934	60,345,537
Retained earnings/ (Accumulated losses)		7,934,869	(177,876)	32,305,354	(697,292)
Currency translation reserves		-	-	2,607,679	(439,191)
Total shareholder's equity		152,998,619	101,179,306	623,316,374	409,270,293
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		320,148,627	304,610,601	1,304,285,506	1,232,149,881

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

Agricultural and Rural Development Bank

Statement of profit or loss and other comprehensive income for the year ended 31 December 2021

	Note	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Operating income					
Interest income	24	17,623,973	12,842,131	71,694,322	52,357,368
Interest expense	25	(92,056)	(557,376)	(374,484)	(2,272,422)
Net interest income		17,531,917	12,284,755	71,319,838	50,084,946
Other income	26	547,385	33,548	2,226,762	136,775
Total operating income		18,079,302	12,318,303	73,546,600	50,221,721
Personnel expenses	27	(4,285,886)	(2,623,533)	(17,434,984)	(10,696,144)
Other operating expenses	28	(2,514,496)	(2,549,427)	(10,228,970)	(10,394,014)
Minimum tax expense	19C	-	(128,421)	-	(523,572)
Total operating expenses		(6,800,382)	(5,301,381)	(27,663,954)	(21,613,730)
Operating profit before impairment		11,278,920	7,016,922	45,882,646	28,607,991
Allowance for impairment losses on financial instruments	31B	(4,738,838)	(6,969,442)	(19,277,593)	(28,414,415)
Profit before income tax		6,540,082	47,480	26,605,053	193,576
Income tax (expense)/benefits	19C	(1,337,269)	93,713	(5,440,010)	382,068
Net profit for the year		5,202,813	141,193	21,165,043	575,644
Other comprehensive income/(loss)					
Currency translation difference		-	-	3,046,870	(3,039,784)
Total comprehensive income/(loss) for the year		5,202,813	141,193	24,211,913	(2,464,140)

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

Agricultural and Rural Development Bank

Statement of changes in equity for the year ended 31 December 2021

	Share capital		Other capital		Capital reserve		Regulatory reserves		Retained earnings/ (Accumulated losses)		Currency translation reserves		Total	
	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)	US\$	KHR'000 (Note 5)
At 1 January 2020	96,504,646	390,627,000	(13,258,222)	(53,493,531)	1,119,607	4,525,839	10,738,537	43,360,355	3,872,733	15,712,246	-	2,600,593	98,977,301	403,332,502
Transactions recognised directly in equity														
Recoveries of principal of non-performing loans (Note 21)	-	-	53,985	220,097	-	-	-	-	-	-	-	-	53,985	220,097
Recoveries of interest income from non-performing loans (Note 22)	-	-	-	-	82,817	337,645	-	-	-	-	-	-	82,817	337,645
Transfers from retained earnings to regulatory reserves (Note 23)	-	-	-	-	-	-	4,191,802	16,985,182	(4,191,802)	(16,985,182)	-	-	-	-
Additional during the year (Note 21)	-	-	1,924,010	7,844,189	-	-	-	-	-	-	-	-	1,924,010	7,844,189
	-	-	1,977,995	8,064,286	82,817	337,645	4,191,802	16,985,182	(4,191,802)	(16,985,182)	-	-	2,060,812	8,401,931
Total comprehensive income														
Net profit for the year	-	-	-	-	-	-	-	-	141,193	575,644	-	-	141,193	575,644
Currency translation difference	-	-	-	-	-	-	-	-	-	-	-	(3,039,784)	-	(3,039,784)
	-	-	-	-	-	-	-	-	141,193	575,644	-	(3,039,784)	141,193	(2,464,140)
At 31 December 2020	96,504,646	390,627,000	(11,280,227)	(45,429,245)	1,202,424	4,863,484	14,930,339	60,345,537	(177,876)	(697,292)	-	(439,191)	101,179,306	409,270,293
At 1 January 2021	96,504,646	390,627,000	(11,280,227)	(45,429,245)	1,202,424	4,863,484	14,930,339	60,345,537	(177,876)	(697,292)	-	(439,191)	101,179,306	409,270,293
Transactions recognised directly in equity														
Transfer from borrowings - Ministry of Economy and Finance - ASDF (Note 21)	-	-	36,937,500	150,409,500	-	-	-	-	-	-	-	-	36,937,500	150,409,500
Additional capital contribution during the year (Note 21)	-	-	3,791,460	15,438,830	-	-	-	-	-	-	-	-	3,791,460	15,438,830
Recoveries of principal of non-performing loans (Note 21)	-	-	158,700	646,544	-	-	-	-	-	-	-	-	158,700	646,544
Recoveries of interest income from non-performing loans (Note 22)	-	-	-	-	203,740	830,037	-	-	-	-	-	-	203,740	830,037
Transfers from regulatory reserves to retained earnings (Note 23)	-	-	-	-	-	-	(2,909,932)	(11,837,603)	2,909,932	11,837,603	-	-	-	-
Additional capital during the year (Note 21)	-	-	5,525,100	22,509,257	-	-	-	-	-	-	-	-	5,525,100	22,509,257
	-	-	46,412,760	189,004,131	203,740	830,037	(2,909,932)	(11,837,603)	2,909,932	11,837,603	-	-	46,616,500	189,834,168
Total comprehensive income														
Net profit for the year	-	-	-	-	-	-	-	-	5,202,813	21,165,043	-	-	5,202,813	21,165,043
Currency translation difference	-	-	-	-	-	-	-	-	-	-	-	3,046,870	-	3,046,870
	-	-	-	-	-	-	-	-	5,202,813	21,165,043	-	3,046,870	5,202,813	24,211,913
At 31 December 2021	96,504,646	390,627,000	35,132,533	143,574,886	1,406,164	5,693,521	12,020,407	48,507,934	7,934,869	32,305,354	-	2,607,679	152,998,619	623,316,374

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

Agricultural and Rural Development Bank

Statement of cash flows for the year ended 31 December 2021

	Note	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Cash flows from operating activities					
Net profit for the year		5,202,813	141,193	21,165,043	575,644
<i>Adjustments for:</i>					
Income tax expense/(benefits)		1,337,269	(93,713)	5,440,010	(382,068)
Depreciation and amortisation		492,246	341,321	2,002,457	1,391,566
Impairment losses on foreclosed properties	10	91,916	107,791	373,914	439,464
Allowance for impairment losses on financial instruments	31B	4,738,838	6,969,442	19,277,593	28,414,415
Net interest income		(17,531,917)	(12,284,755)	(71,319,838)	(50,084,946)
(Gains)/Losses on exchange rate		(882,760)	937,655	(3,591,068)	3,822,819
		(6,551,595)	(3,881,066)	(26,651,889)	(15,823,106)
<i>Changes in:</i>					
Statutory deposits		(396,182)	(7,571,914)	(1,611,668)	(30,870,693)
Loans and advances to customers		(50,892,418)	(70,587,877)	(207,030,356)	(287,786,775)
Other assets		(268,391)	437,188	(1,091,815)	1,782,415
Deposits from customers		451,207	2,677,354	1,835,510	10,915,572
Deposits from other banks		(2,034)	1,790	(8,274)	7,298
Other liabilities		233,548	744,126	950,073	3,033,802
Cash used in operations		(57,425,865)	(78,180,399)	(233,608,419)	(318,741,487)
Interest income received		17,590,070	11,544,168	71,556,405	47,065,573
Interest expense paid		(76,104)	(414,537)	(309,591)	(1,690,067)
Income tax paid	19B	(549,257)	(994,411)	(2,234,377)	(4,054,214)
Net cash used in operating activities		(40,461,156)	(68,045,179)	(164,595,982)	(277,420,195)
Cash flows from investing activities					
Purchase of property and equipment		(5,027,374)	(1,661,054)	(20,451,357)	(6,772,117)
Purchase of intangible assets		-	(728,853)	-	(2,971,534)
Placements with other banks		(320,000)	-	(1,301,760)	-
Net cash used in investing activities		(5,347,374)	(2,389,907)	(21,753,117)	(9,743,651)

Agricultural and Rural Development Bank

Statement of cash flows (continued) for the year ended 31 December 2021

	Note	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Cash flows from financing activities					
Additional capital during the year		3,791,460	-	15,423,659	-
Repayment of borrowings		-	(1,108,347)	-	(4,518,730)
Proceeds from borrowings		33,838	83,900,279	137,653	342,061,437
Recoveries of interest from non-performing loans		137,477	82,817	559,256	337,645
Recoveries of principles of non-performing loans		158,700	53,985	645,592	220,097
Net cash generated from financing activities		<u>4,121,475</u>	<u>82,928,734</u>	<u>16,766,160</u>	<u>338,100,449</u>
Net (decrease)/increase in cash and cash equivalents		(41,687,055)	12,493,648	(169,582,939)	50,936,603
Cash and cash equivalents at beginning of the year		48,854,994	36,361,346	197,618,450	148,172,485
Currency translation difference		-	-	1,166,673	(1,490,638)
Cash and cash equivalents at end of the year	6	<u>7,167,939</u>	<u>48,854,994</u>	<u>29,202,184</u>	<u>197,618,450</u>

Significant non-cash transactions:

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

		2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Transfer from borrowings - MEF - ASDF to other capital	21	36,937,500	-	150,261,750	-
Loans and advances to customers made directly by MEF under other capital	21	5,525,100	1,924,010	22,476,107	7,844,189
Recoveries of interest from non-performing loans through foreclosed properties	10	<u>66,263</u>	<u>-</u>	<u>269,558</u>	<u>-</u>

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

Agricultural and Rural Development Bank

Notes to the financial statements for the year ended 31 December 2021

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

1. Reporting entity

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

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

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

As at 31 December 2021, the Bank had 222 employees (31 December 2020: 171 employees).

2. Basis of accounting

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

Details of the Bank's accounting policies are included in Note 33.

The financial statements were authorised for issue by the Board of Directors on 31 May 2022.

3. Functional and presentation currency

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

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

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

4. Use of judgments and estimates

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

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

A. Judgements

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

- Note 33C(ii): classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest ("SPPI") on the principal amount outstanding.
- Note 33C(vii): establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of expected credit loss ("ECL") and selection and approval of models used to measure ECL.
- Note 31B(iv): credit quality of gross loans and advances to customers – incorporation of forward-looking information.

B. Assumptions and estimation uncertainties

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

- Note 33C(vi): determination of the fair value of financial instruments with significant unobservable inputs.
- Note 33C(vii): impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information.
- Note 33C(vii): impairment of financial instruments: key assumptions used in estimating recoverable cash flows.

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

5. Translation of United States Dollars into Khmer Riel

The financial statements are expressed in United States Dollars ("US\$") which is the Bank's functional currency. The translations of US\$ amounts into Khmer Riel ("KHR") meet the presentation requirements pursuant to Law on Accounting and Auditing and has been done in compliance with CIAS21-The Effects of Changes in Foreign Exchange Rates.

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

The Bank uses the following exchange rates:

			Closing rate	Average rate
31 December 2021	US\$1	=	KHR 4,074	KHR 4,068
31 December 2020	US\$1	=	<u>KHR 4,045</u>	<u>KHR 4,077</u>

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

6. Cash and cash equivalents

	31 December		31 December	
	2021	2020	2021	2020
	US\$	US\$	KHR'000 (Note 5)	KHR'000 (Note 5)
Cash on hand	3,085,267	807,786	12,569,378	3,267,494
Balances with other banks	3,731,104	27,337,166	15,200,518	110,578,836
Balances with NBC	<u>351,568</u>	<u>20,710,042</u>	<u>1,432,288</u>	<u>83,772,120</u>
	7,167,939	48,854,994	29,202,184	197,618,450
Less: Impairment loss	<u>(30,585)</u>	<u>(264,225)</u>	<u>(124,604)</u>	<u>(1,068,789)</u>
	<u>7,137,354</u>	<u>48,590,769</u>	<u>29,077,580</u>	<u>196,549,661</u>

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

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

6. Cash and cash equivalents (continued)

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

	31 December		31 December	
	2021	2020	2021	2020
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
At 1 January	264,225	47,011	1,068,789	191,570
(Reversal of)/Allowance for the year	(233,640)	217,214	(950,448)	885,581
Currency translation difference	-	-	6,263	(8,362)
At 31 December	<u>30,585</u>	<u>264,225</u>	<u>124,604</u>	<u>1,068,789</u>

7. Placements with other banks

	31 December		31 December	
	2021	2020	2021	2020
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
Other banks	320,000	-	1,303,680	-
Less: Impairment loss	<u>(3,173)</u>	<u>-</u>	<u>(12,927)</u>	<u>-</u>
	<u>316,827</u>	<u>-</u>	<u>1,290,753</u>	<u>-</u>

This represents restricted balance held in local bank, and earn no interest.

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

	31 December		31 December	
	2021	2020	2021	2020
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
At 1 January	-	-	-	-
Allowance for the year	3,173	-	12,908	-
Currency translation difference	-	-	19	-
At 31 December	<u>3,173</u>	<u>-</u>	<u>12,927</u>	<u>-</u>

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

8. Statutory deposits

	31 December		31 December	
	2021	2020	2021	2020
	US\$	US\$	KHR'000 (Note 5)	KHR'000 (Note 5)
Statutory capital deposit	8,919,761	8,975,377	36,339,106	36,305,400
Reserve requirement	878,547	426,749	3,579,201	1,726,200
	<u>9,798,308</u>	<u>9,402,126</u>	<u>39,918,307</u>	<u>38,031,600</u>

A. Statutory capital deposit

Under the NBC Prakas No. B7-01-136, dated 15 October 2001, the Bank is required to maintain a capital guarantee deposit of 10% of paid-up share capital. The above amount represents the 10% of paid-up share capital plus other capital on non-performing loans principals minus recoveries during the year (See Note 21 (i)). This deposit is refundable should the Bank voluntarily cease its operations in Cambodia and it is not available for use in the Bank's day-to-day operations. The capital guarantee deposits bear interest rate ranging from 0.04% - 3% (2020: 0.32% - 0.36%) per annum.

B. Reserve requirements on customers' deposits

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

C. By interest rate (per annum):

	2021	2020
Statutory capital deposit	0.04% - 3%	0.32% - 0.36%
Reserve requirements on customers' deposits	<u>Nil</u>	<u>Nil</u>

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

9. Loans and advances to customers - net

	31 December		31 December	
	2021	2020	2021	2020
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
Long-term loans and advances	202,346,721	171,001,558	824,360,541	691,701,302
Short-term loans and advances	83,655,937	71,628,799	340,814,287	289,738,492
Staff loans	16,415,464	3,237,906	66,876,600	13,097,330
Gross loans and advances	302,418,122	245,868,263	1,232,051,428	994,537,124
Accrued interest receivables	3,113,787	3,079,884	12,685,569	12,458,130
Unearned income	(1,004,550)	(872,209)	(4,092,537)	(3,528,085)
Gross loans and advances before impairment loss allowance	304,527,359	248,075,938	1,240,644,460	1,003,467,169
Less: Impairment loss allowance	(15,640,327)	(10,790,227)	(63,718,692)	(43,646,468)
Loans and advances to customers - net	<u>288,887,032</u>	<u>237,285,711</u>	<u>1,176,925,768</u>	<u>959,820,701</u>

The movements of impairment loss allowance were as follows:

	2021	2020	2021	2020
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
At 1 January	10,790,227	4,204,708	43,646,468	17,134,185
Allowance for the year	4,850,100	6,585,519	19,730,207	26,849,161
Currency translation difference	-	-	342,017	(336,878)
At 31 December	<u>15,640,327</u>	<u>10,790,227</u>	<u>63,718,692</u>	<u>43,646,468</u>

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

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

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

	31 December		31 December	
	2021	2020	2021	2020
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
> 1 to 3 months	15,899,291	15,865,433	64,773,712	64,175,676
> 3 to 12 months	2,514,877	2,936,597	10,245,609	11,878,535
> 1 to 3 years	77,444,069	81,860,509	315,507,137	331,125,759
> 3 to 5 years	58,791,381	48,137,151	239,516,086	194,714,776
Over 5 years	147,768,504	97,068,573	602,008,884	392,642,378
	<u>302,418,122</u>	<u>245,868,263</u>	<u>1,232,051,428</u>	<u>994,537,124</u>

For additional analysis of gross amount of loans and advances to customers, refer to Note 31B.

10. Foreclosed properties

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

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

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

10. Foreclosed properties (continued)

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

2021	Land US\$	Buildings US\$	Equipment US\$	US\$	Total KHR'000 (Note 5)
Costs					
At 1 January 2021	2,786,150	885,820	680,386	4,352,356	17,605,280
Additions (*)	66,263	-	-	66,263	269,558
Currency translation difference	-	-	-	-	126,616
At 31 December 2021	<u>2,852,413</u>	<u>885,820</u>	<u>680,386</u>	<u>4,418,619</u>	<u>18,001,454</u>
Less: allowance for impairment					
At 1 January 2021	-	88,582	489,887	578,469	2,339,907
Impairment loss during the year	-	44,291	47,625	91,916	373,914
Currency translation difference	-	-	-	-	17,328
At 31 December 2021	<u>-</u>	<u>132,873</u>	<u>537,512</u>	<u>670,385</u>	<u>2,731,149</u>
Carrying amounts					
At 31 December 2021	<u>2,852,413</u>	<u>752,947</u>	<u>142,874</u>	<u>3,748,234</u>	<u>15,270,305</u>
2020	Land US\$	Buildings US\$	Equipment US\$	US\$	Total KHR'000 (Note 5)
Costs					
At 1 January 2020	2,786,150	885,820	680,386	4,352,356	17,735,851
Currency translation difference	-	-	-	-	(130,571)
At 31 December 2020	<u>2,786,150</u>	<u>885,820</u>	<u>680,386</u>	<u>4,352,356</u>	<u>17,605,280</u>
Less: allowance for impairment					
At 1 January 2020	-	44,291	426,387	470,678	1,918,012
Impairment loss during the year	-	44,291	63,500	107,791	439,464
Currency translation difference	-	-	-	-	(17,569)
At 31 December 2020	<u>-</u>	<u>88,582</u>	<u>489,887</u>	<u>578,469</u>	<u>2,339,907</u>
Carrying amounts					
At 31 December 2020	<u>2,786,150</u>	<u>797,238</u>	<u>190,499</u>	<u>3,773,887</u>	<u>15,265,373</u>

(*) This represents the foreclosed properties from the recoveries of interest from non-performing loans.

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

11. Other assets

	31 December		31 December	
	2021	2020	2021	2020
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
Advance payment to suppliers	210,002	94,551	855,548	382,459
Prepaid insurance	121,236	42,785	493,915	173,065
Investment in Joint Venture (*)	340,000	340,000	1,385,160	1,375,300
Others	218,242	143,753	889,118	581,480
	<u>889,480</u>	<u>621,089</u>	<u>3,623,741</u>	<u>2,512,304</u>
Less: Impairment loss allowance	<u>(252,560)</u>	<u>(151,805)</u>	<u>(1,028,929)</u>	<u>(614,051)</u>
	<u>636,920</u>	<u>469,284</u>	<u>2,594,812</u>	<u>1,898,253</u>

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

The movements of impairment loss allowance were as follows:

	2021	2020	2021	2020
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
At 1 January	151,805	-	614,051	-
Allowance for the year	100,755	151,805	409,871	618,909
Currency translation difference	-	-	5,007	(4,858)
At 31 December	<u>252,560</u>	<u>151,805</u>	<u>1,028,929</u>	<u>614,051</u>

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

12. Property and equipment

2021	Land US\$	Buildings US\$	Building improvements US\$	Motor vehicles US\$	IT equipment US\$	Office equipment and furniture US\$	Construction in progress US\$	US\$	Total KHR'000 (Note 5)
Cost									
At 1 January 2021	3,026,671	329,344	221,991	1,467,939	456,591	386,351	-	5,888,887	23,820,548
Additions	1,617,860	-	445	270,199	1,208,018	82,936	1,847,916	5,027,374	20,451,357
Currency translation difference	-	-	-	-	-	-	-	-	200,942
At 31 December 2021	<u>4,644,531</u>	<u>329,344</u>	<u>222,436</u>	<u>1,738,138</u>	<u>1,664,609</u>	<u>469,287</u>	<u>1,847,916</u>	<u>10,916,261</u>	<u>44,472,847</u>
Less: Accumulated depreciation									
At 1 January 2021	-	194,049	122,321	865,648	350,825	250,866	-	1,783,709	7,215,103
Depreciation	-	16,570	26,288	171,414	187,368	59,214	-	460,854	1,874,754
Currency translation difference	-	-	-	-	-	-	-	-	54,492
At 31 December 2021	<u>-</u>	<u>210,619</u>	<u>148,609</u>	<u>1,037,062</u>	<u>538,193</u>	<u>310,080</u>	<u>-</u>	<u>2,244,563</u>	<u>9,144,349</u>
Carrying amounts									
At 31 December 2021	<u>4,644,531</u>	<u>118,725</u>	<u>73,827</u>	<u>701,076</u>	<u>1,126,416</u>	<u>159,207</u>	<u>1,847,916</u>	<u>8,671,698</u>	<u>35,328,498</u>

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Notes to the financial statements (continued) for the year ended 31 December 2021

12. Property and equipment (continued)

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

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Notes to the financial statements (continued) for the year ended 31 December 2021

13. Intangible assets

	Software US\$	Asset-in- progress US\$	US\$	Total KHR'000 (Note 5)
2021				
Cost				
At 1 January 2021	172,904	982,623	1,155,527	4,674,107
Transfer	58,623	(58,623)	-	-
Currency translation difference	-	-	-	33,510
At 31 December 2021	<u>231,527</u>	<u>924,000</u>	<u>1,155,527</u>	<u>4,707,617</u>
Less: Accumulated amortisation				
At 1 January 2021	171,881	-	171,881	695,259
Amortisation	31,392	-	31,392	127,703
Currency translation difference	-	-	-	5,172
At 31 December 2021	<u>203,273</u>	<u>-</u>	<u>203,273</u>	<u>828,134</u>
Carrying amounts				
At 31 December 2021	<u>28,254</u>	<u>924,000</u>	<u>952,254</u>	<u>3,879,483</u>
	Software US\$	Asset-in- progress US\$	US\$	Total KHR'000 (Note 5)
2020				
Cost				
At 1 January 2020	172,904	253,770	426,674	1,738,697
Additions	-	728,853	728,853	2,971,534
Currency translation difference	-	-	-	(36,124)
At 31 December 2020	<u>172,904</u>	<u>982,623</u>	<u>1,155,527</u>	<u>4,674,107</u>
Less: Accumulated amortisation				
At 1 January 2020	170,101	-	170,101	693,162
Amortisation	1,780	-	1,780	7,257
Currency translation difference	-	-	-	(5,160)
At 31 December 2020	<u>171,881</u>	<u>-</u>	<u>171,881</u>	<u>695,259</u>
Carrying amounts				
At 31 December 2020	<u>1,023</u>	<u>982,623</u>	<u>983,646</u>	<u>3,978,848</u>

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

14. Deposits from customers

	31 December		31 December	
	2021	2020	2021	2020
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
Demand deposits	2,055,897	2,144,360	8,375,724	8,673,936
Saving accounts	2,020,941	2,370,205	8,233,314	9,587,479
Fixed deposits	1,676,819	786,521	6,831,361	3,181,478
	<u>5,753,657</u>	<u>5,301,086</u>	<u>23,440,399</u>	<u>21,442,893</u>

Deposits from customers are analysed as follows:

	31 December		31 December	
	2021	2020	2021	2020
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
A. By maturity:				
Within 1 month	4,076,859	4,514,585	16,609,124	18,261,497
> 1 to 3 months	68,947	488,629	280,890	1,976,504
> 3 to 6 months	-	-	-	-
> 6 to 12 months	567,182	297,872	2,310,699	1,204,892
> 1 to 3 years	1,040,669	-	4,239,686	-
	<u>5,753,657</u>	<u>5,301,086</u>	<u>23,440,399</u>	<u>21,442,893</u>
B. By customer type:				
Corporations	2,079,265	2,245,414	8,470,926	9,082,700
Individuals	3,674,392	3,055,672	14,969,473	12,360,193
	<u>5,753,657</u>	<u>5,301,086</u>	<u>23,440,399</u>	<u>21,442,893</u>
C. By residency status:				
Residents	5,740,894	5,299,422	23,388,402	21,436,162
Non-residents	12,763	1,664	51,997	6,731
	<u>5,753,657</u>	<u>5,301,086</u>	<u>23,440,399</u>	<u>21,442,893</u>

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

14. Deposits from customers (continued)

Deposits from customers are analysed as follows (continued):

D. By interest rate (per annum)

	2021	2020
Demand deposits	Nil	Nil
Saving accounts	1.00% - 1.50%	1.00% - 1.50%
Fixed deposits	3.00% - 6.00%	3.00% - 6.00%

15. Deposits from other banks and financial institutions

	31 December		31 December	
	2021	2020	2021	2020
	US\$	US\$	KHR'000 (Note 5)	KHR'000 (Note 5)
Demand deposits	1,965	3,985	8,005	16,119
Saving accounts	662	676	2,697	2,735
	<u>2,627</u>	<u>4,661</u>	<u>10,702</u>	<u>18,854</u>
A. By maturity:				
Within 1 month	<u>2,627</u>	<u>4,661</u>	<u>10,702</u>	<u>18,854</u>
B. By residency status:				
Residents	<u>2,627</u>	<u>4,661</u>	<u>10,702</u>	<u>18,854</u>
C. By interest rate (per annum)				
	2021		2020	
Demand deposits	Nil		Nil	
Saving accounts	1.00% - 1.50%		1.00% - 1.50%	

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Notes to the financial statements (continued) for the year ended 31 December 2021

16. Borrowings

	31 December		31 December	
	2021	2020	2021	2020
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
Royal Government of Cambodia - Special fund	153,129,848	154,012,608	623,851,001	622,980,999
Ministry of Economy and Finance - ASDF	1,205,838	38,143,338	4,912,584	154,289,803
Agence Française de Développement ("AFD")	248,461	248,461	1,012,230	1,005,025
International Fund for Agricultural Development ("IFAD")	2,007,437	1,959,011	8,178,298	7,924,199
	<u>156,591,584</u>	<u>194,363,418</u>	<u>637,954,113</u>	<u>786,200,026</u>

The movements of borrowings are as follows:

	2021	2020	2021	2020
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
At 1 January	194,363,418	110,485,851	786,200,026	450,229,843
Proceeds from borrowings	33,838	83,900,279	137,653	342,061,437
Repayment of borrowings	-	(1,108,347)	-	(4,518,730)
Transfer from borrowings - Ministry of Economy and Finance - ASDF to other capital (*)	(36,937,500)	-	(150,261,750)	-
Interest expense	30,575	515,763	124,379	2,102,766
Interest paid	(15,987)	(367,783)	(65,035)	(1,499,451)
Foreign exchange (gain)/loss	(882,760)	937,655	(3,591,068)	3,822,819
Currency translation difference	-	-	5,402,673	(5,998,658)
At 31 December	<u>156,591,584</u>	<u>194,363,418</u>	<u>637,954,113</u>	<u>786,200,026</u>

(*) On 14 July 2021, the shareholder resolved to transfer from borrowings - Ministry of Economy and Finance - ASDF amounting to US\$36,937,500 to other capital. (See Note 21(iv) for details).

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Notes to the financial statements (continued) for the year ended 31 December 2021

16. Borrowings (continued)

Borrowings are analysed as follows:

Loan terms	Royal Government of Cambodia - Special fund	Ministry of Economy and Finance - ASDF	Agence Francaise De Development ("AFD")	International Fund for Agricultural Development ("IFAD")
Loan denomination and outstanding as at 31 December 2021	KHR501,631,000,000 and US\$30,000,000 or equivalent to US\$153,129,848 (2020: KHR501,631,000,000 and US\$30,000,000 or equivalent to US\$154,012,608).	US\$1,205,838 (2020: US\$38,143,338).	US\$248,461 (2020: US\$248,461).	US\$2,007,437 (2020: US\$1,959,011).
Interest per annum	Nil	2%	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 collects the principal repayments from the customers.	The repayments of principal is paid to MEF when the Bank collects 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

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Notes to the financial statements (continued) for the year ended 31 December 2021

17. Subordinated debts

	31 December		31 December	
	2021	2020	2021	2020
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
Subordinated debts	<u>1,044,084</u>	<u>1,044,084</u>	<u>4,253,598</u>	<u>4,223,320</u>

This represents a long-term unsecured borrowing from Agence Française de Développement (“AFD”) outstanding as at 31 December 2021 of US\$1,044,084 (31 December 2020: US\$1,044,084) based on agreement between the Ministry of Economy and Finance (“MEF”) and AFD on 7 May 1999, and between MEF and Agricultural and Rural Development Bank (“ARDB”) on 14 November 2003 with the following terms and conditions:

Total grant facilities	US\$1,044,084
Maturity	20 years starting from the signing date 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.

18. Other liabilities

	31 December		31 December	
	2021	2020	2021	2020
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
Other tax payables	89,094	18,131	362,969	73,340
Accruals and other payables	630,449	107,798	2,568,449	436,043
Deferred grant income (*)	<u>277,507</u>	<u>637,573</u>	<u>1,130,564</u>	<u>2,578,982</u>
	<u>997,050</u>	<u>763,502</u>	<u>4,061,982</u>	<u>3,088,365</u>

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

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Notes to the financial statements (continued) for the year ended 31 December 2021

19. Income tax

A. Deferred tax liabilities - net

	31 December		31 December	
	2021	2020	2021	2020
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
Deferred tax asset	200,910	174,442	818,507	705,618
Deferred tax liabilities	(1,408,726)	(2,098,345)	(5,739,149)	(8,487,806)
Deferred tax liabilities - net	<u>(1,207,816)</u>	<u>(1,923,903)</u>	<u>(4,920,642)</u>	<u>(7,782,188)</u>

Deferred tax are attributable to the following:

	31 December		31 December	
	2021	2020	2021	2020
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
Depreciation and amortisation	49,840	63,039	203,048	254,993
Impairment loss on financial instruments	1,358,886	2,035,306	5,536,101	8,232,813
Unearned income	(200,910)	(174,442)	(818,507)	(705,618)
	<u>1,207,816</u>	<u>1,923,903</u>	<u>4,920,642</u>	<u>7,782,188</u>

The movements of deferred tax were as follows:

	2021	2020	2021	2020
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
At 1 January	1,923,903	1,651,658	7,782,188	6,730,505
Recognised in profit or loss	(716,087)	272,245	(2,913,042)	1,109,943
Currency translation difference	-	-	51,496	(58,260)
At 31 December	<u>1,207,816</u>	<u>1,923,903</u>	<u>4,920,642</u>	<u>7,782,188</u>

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Notes to the financial statements (continued) for the year ended 31 December 2021

19. Income tax (continued)

B. Current income tax liability

	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
At 1 January	-	1,360,369	-	5,543,505
Income tax expense	2,053,356	-	8,353,052	-
Income tax paid	(533,520)	(994,411)	(2,170,359)	(4,054,214)
Over provision in prior year	-	(365,958)	-	(1,492,011)
Currency translation difference	-	-	9,119	2,720
At 31 December	<u>1,519,836</u>	<u>-</u>	<u>6,191,812</u>	<u>-</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/minimum tax expense

	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Current tax				
Current income tax	2,053,356	-	8,353,052	-
Over provision in prior year	<u>-</u>	<u>(365,958)</u>	<u>-</u>	<u>(1,492,011)</u>
	2,053,356	(365,958)	8,353,052	(1,492,011)
Deferred tax				
Origination of temporary differences	<u>(716,087)</u>	<u>272,245</u>	<u>(2,913,042)</u>	<u>1,109,943</u>
	<u>1,337,269</u>	<u>(93,713)</u>	<u>5,440,010</u>	<u>(382,068)</u>
Minimum tax expense	<u>-</u>	<u>128,421</u>	<u>-</u>	<u>523,572</u>

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Notes to the financial statements (continued) for the year ended 31 December 2021

19. Income tax (continued)

C. Income tax expense/minimum 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:

	2021			2020		
	US\$	KHR'000 (Note 5)	%	US\$	KHR'000 (Note 5)	%
Profit before income tax	<u>6,540,082</u>	<u>26,605,053</u>		<u>47,480</u>	<u>193,576</u>	
Income tax using statutory rate at 20%	1,308,016	5,321,011	20	9,496	38,715	20
Non-deductible expenses	29,253	118,999	0	262,749	1,071,228	553
Over provision in prior year	<u>-</u>	<u>-</u>	<u>0</u>	<u>(365,958)</u>	<u>(1,492,011)</u>	<u>-771</u>
Income tax expense/(benefits)	<u>1,337,269</u>	<u>5,440,010</u>	<u>20</u>	<u>(93,713)</u>	<u>(382,068)</u>	<u>-197</u>

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

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

20. Share capital

	31 December		31 December	
	2021	2020	2021	2020
	US\$	US\$	KHR'000 (Note 5)	KHR'000 (Note 5)
Issued and fully paid 390,627 shares of KHR1,000,000 each (2020: 390,627 shares of KHR1,000,000 each) The Ministry of Economy and Finance	<u>96,504,646</u>	<u>96,504,646</u>	<u>390,627,000</u>	<u>390,627,000</u>

21. Other capital

	31 December		31 December	
	2021	2020	2021	2020
	US\$	US\$	KHR'000 (Note 5)	KHR'000 (Note 5)
Other capital on non-performing loan principals (i)	(11,121,527)	(13,204,237)	(44,782,701)	(53,273,434)
Other capital for Climate Resilient Rice Commercialization Sector Development Rice-SDP (ii)	5,525,100	1,924,010	22,509,257	7,844,189
Transfer from borrowings - Ministry of Economy and Finance - ASDF (iii)	36,937,500	-	150,409,500	-
Additional capital contribution during the year (iii)	<u>3,791,460</u>	<u>-</u>	<u>15,438,830</u>	<u>-</u>
	<u>35,132,533</u>	<u>(11,280,227)</u>	<u>143,574,886</u>	<u>(45,429,245)</u>

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

21. Other capital (continued)

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

	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
At 1 January	(11,280,227)	(13,258,222)	(45,429,245)	(53,493,531)
Add: recoveries of non-performing loan principals (i)	158,700	53,985	646,544	220,097
Other capital for Climate Resilient Rice Commercialization Sector Development Rice- SDP (ii)	5,525,100	1,924,010	22,509,257	7,844,189
Transfer from borrowings - Ministry of Economy and Finance - ASDF (iii)	36,937,500	-	150,409,500	-
Additional capital contribution during the year (iii)	3,791,460	-	15,438,830	-
At 31 December	<u>35,132,533</u>	<u>(11,280,227)</u>	<u>143,574,886</u>	<u>(45,429,245)</u>

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

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

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

The Bank received recoveries of non-performing loans principal during the year amounting to US\$158,700 (2020: US\$53,985).

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Notes to the financial statements (continued) for the year ended 31 December 2021

21. Other capital (continued)

- (ii) This represents the fund received from the Ministry of Economy and Finance ("MEF") for the establishment and operation of paddy drying and storage ("PDS") facilities through the provision of concessionary loans to rice millers. The funds were disbursed from the MEF directly to the PDS facility's construction contractors and equipment suppliers, and the Bank will manage the repayment and retain both the principal and interest for the use in subsequent similar type of activities to ensure development of agriculture sector in the future.
- (iii) On 23 February 2021, the Bank received approval from the MEF, the shareholder, to transfer borrowings - Ministry of Economy and Finance - ASDF to share capital.

On 14 July 2021, the shareholder resolved to increase share capital from KHR390,627,000,000 to KHR556,475,330,000, changing the par value from KHR1,000,000 per share to KHR10,000 per share. The increase in share capital are transferred from the outstanding principal of above borrowings - Ministry of Economy and Finance - ASDF amounting to US\$36,937,500 and cash contributions from the MEF amounting to US\$3,791,460. The amount will be transferred to share capital upon the completion of the approval process.

On 18 March 2022, the Bank has submitted a letter to the NBC to request for the approval on the above changes in share capital, and obtained approval from the NBC on 9 May 2022.

22. 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.

	2021	2020	2021	2020
	US\$	US\$	KHR'000 (Note 5)	KHR'000 (Note 5)
At 1 January	1,202,424	1,119,607	4,863,484	4,525,839
Add: recoveries of non-performing loans interest	<u>203,740</u>	<u>82,817</u>	<u>830,037</u>	<u>337,645</u>
At 31 December	<u>1,406,164</u>	<u>1,202,424</u>	<u>5,693,521</u>	<u>4,863,484</u>

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

23. Regulatory reserves

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

As at 31 December 2021, the regulatory reserves balance is US\$12,020,407 (2020: US\$14,930,339).

24. Interest income

	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Loans and advances	17,287,421	12,630,859	70,325,229	51,496,012
Balances with other banks	336,552	211,272	1,369,093	861,356
	<u>17,623,973</u>	<u>12,842,131</u>	<u>71,694,322</u>	<u>52,357,368</u>

25. Interest expense

	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Saving deposits	22,666	13,073	92,205	53,299
Fixed deposits	24,802	28,540	100,895	116,357
Borrowings	44,588	515,763	181,384	2,102,766
	<u>92,056</u>	<u>557,376</u>	<u>374,484</u>	<u>2,272,422</u>

26. Other income

	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Gains on foreign exchange	479,361	-	1,950,040	-
Other income	68,024	33,548	276,722	136,775
	<u>547,385</u>	<u>33,548</u>	<u>2,226,762</u>	<u>136,775</u>

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

27. Personnel expense

	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Salaries and wages	2,363,103	1,518,284	9,613,103	6,190,044
Seniority payment	133,550	90,117.00	543,281	367,407
Bonuses	998,231	451,664	4,060,804	1,841,434
Other benefits	791,002	563,468	3,217,796	2,297,259
	<u>4,285,886</u>	<u>2,623,533</u>	<u>17,434,984</u>	<u>10,696,144</u>

28. Other operating expenses

	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Depreciation and amortisation	492,246	341,321	2,002,457	1,391,566
Advertising expenses	354,374	141,249	1,441,593	575,872
Directors' remuneration	321,422	294,031	1,307,545	1,198,764
Gasoline and motor vehicles operating expenses	181,124	133,191	736,812	543,020
Repairs and maintenance	177,556	61,010	722,298	248,738
Other consumables and office supplies	129,455	103,921	526,623	423,686
Social welfare	98,477	70,048	400,604	285,586
Professional fee	94,597	110,268	384,821	449,563
Public relations expenses	86,482	89,894	351,809	366,498
Donation and gifts	62,972	63,363	256,170	258,331
Court and other legal fees	45,869	117,304	186,595	478,248
Training expenses	40,000	39,915	162,720	162,733
Utilities	39,296	40,846	159,856	166,529
License fee	36,819	37,083	149,780	151,187
Mission, travelling and accommodation expenses	33,091	90,026	134,614	367,036
Membership fee	25,741	16,664	104,714	67,939
Clearing house and other fees	13,447	23,532	54,702	95,940
Telecommunication and postage expenses	12,019	5,312	48,893	21,657
Tax on transportation vehicles	6,592	6,648	26,816	27,104
Fire and hazard insurance expenses	2,856	3,632	11,618	14,808
Foreign exchange loss	-	579,323	-	2,361,900
Other expenses	260,061	180,846	1,057,930	737,309
	<u>2,514,496</u>	<u>2,549,427</u>	<u>10,228,970</u>	<u>10,394,014</u>

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

29. Commitments and contingencies

A. Off balance sheet items

	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Bad and doubtful loans and advances to customers (*)	13,104,101	13,632,801	53,386,107	55,144,680
Unused portion of approved credit facilities (**)	3,884,033	4,482,000	15,823,550	18,129,690
	16,988,134	18,114,801	69,209,657	73,274,370
Less: Impairment loss allowance	(33,354)	(14,904)	(135,884)	(60,286)
	<u>16,954,780</u>	<u>18,099,897</u>	<u>69,073,773</u>	<u>73,214,084</u>

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

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

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

	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
At 1 January	14,904	-	60,286	-
Charge to profit or loss	18,450	14,904	75,055	60,764
Currency translation difference	-	-	543	(478)
At 31 December	<u>33,354</u>	<u>14,904</u>	<u>135,884</u>	<u>60,286</u>

B. Tax contingencies

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

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

30. 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

	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Interest expense				
Borrowings	-	1,438	-	5,863
Deposits	<u>6,396</u>	<u>3,710</u>	<u>26,019</u>	<u>15,007</u>
Key management remuneration				
Board of directors' fees	<u>321,422</u>	<u>294,031</u>	<u>1,307,545</u>	<u>1,198,764</u>
Shareholder – Ministry of Economy and Finance				
Additional capital during the year	3,791,460	-	15,423,659	-
Transfer from borrowings - MEF - ASDF to other capital	<u>36,937,500</u>	<u>-</u>	<u>150,261,750</u>	<u>-</u>

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

30. Related parties (continued)

B. Transactions with related parties (continued)

	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Loans and advances to customers disbursed directly by MEF on behalf of the Bank (Note 21)	<u>5,525,100</u>	<u>1,924,010</u>	<u>22,509,257</u>	<u>7,844,189</u>

C. Balances with related parties

	31 December		31 December	
	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Deposits from key management	409,895	315,212	1,669,912	1,275,031
Borrowings (Note 16)	<u>154,335,686</u>	<u>192,155,946</u>	<u>628,763,585</u>	<u>777,270,802</u>

31. Financial risk management

A. Introduction and overview

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

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

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

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

31. Financial risk management (continued)

B. Credit risk

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

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

(i). *Management of credit risk*

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

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

31. 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 %
31 December 2021					
On-balance sheet items					
Cash and cash equivalents	7,137,354	29,077,580	0%	0%	100%
Placement with other banks	316,827	1,290,753	0%	0%	100%
Loans and advances to customers - gross	302,418,122	1,232,051,428	99.8%	0.2%	0%
Other assets	305,682	1,245,349	0%	0%	100%
Total	<u>310,177,985</u>	<u>1,263,665,110</u>			
Off-balance sheet items					
Commitments	<u>3,884,033</u>	<u>15,823,550</u>	<u>100%</u>	<u>0%</u>	<u>0%</u>
Total	<u>314,062,018</u>	<u>1,279,488,660</u>			

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

31. Financial risk management (continued)

B. Credit risk (continued)

(ii). Concentration of risk (continued)

Type of credit exposure (continued)

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

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

31. Financial risk management (continued)

B. Credit risk (continued)

(ii). Concentration of risk (continued)

Concentration risk by industrial sectors

31 December 2021	Cash and cash equivalents US\$	Placements with other banks US\$	Loans and advance to customers, gross US\$	Other assets US\$	Total US\$
Financial institutions	7,137,354	316,827	3,305,438	-	10,759,619
Privates	-	-	281,556,355	-	281,556,355
Associates	-	-	1,008,378	-	1,008,378
Families rubber plantations	-	-	149,154	-	149,154
Staff loans	-	-	16,398,797	-	16,398,797
Others	-	-	-	305,682	305,682
Total	<u>7,137,354</u>	<u>316,827</u>	<u>302,418,122</u>	<u>305,682</u>	<u>310,177,985</u>
Total (KHR'000 – Note 5)	<u>29,077,580</u>	<u>1,290,753</u>	<u>1,232,051,428</u>	<u>1,245,349</u>	<u>1,263,665,110</u>

31 December 2020	Cash and cash equivalents US\$	Loans and advance to customers, gross US\$	Other assets US\$	Total US\$
Financial institutions	48,590,769	1,906,254	-	50,497,023
Privates	-	239,189,648	-	239,189,648
Associates	-	1,298,847	-	1,298,847
Families rubber plantations	-	235,608	-	235,608
Staff loans	-	3,237,906	-	3,237,906
Others	-	-	331,948	331,948
Total	<u>48,590,769</u>	<u>245,868,263</u>	<u>331,948</u>	<u>294,790,980</u>
Total (KHR'000 – Note 5)	<u>196,549,661</u>	<u>994,537,124</u>	<u>1,342,730</u>	<u>1,192,429,515</u>

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

31. 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	
	2021	2020	2021	2020
	US\$	US\$	KHR'000	KHR'000
			(Note 5)	(Note 5)
By residency status:				
Residents	<u>302,418,122</u>	<u>245,868,263</u>	<u>1,232,051,428</u>	<u>994,537,124</u>
By relationship:				
External customers	286,002,658	242,630,357	1,165,174,828	981,439,794
Staff loans	<u>16,415,464</u>	<u>3,237,906</u>	<u>66,876,600</u>	<u>13,097,330</u>
	<u>302,418,122</u>	<u>245,868,263</u>	<u>1,232,051,428</u>	<u>994,537,124</u>
By exposure:				
Large exposures (*)	37,921,993	54,325,770	154,494,198	219,747,740
Non-large exposures	<u>264,496,129</u>	<u>191,542,493</u>	<u>1,077,557,230</u>	<u>774,789,384</u>
	<u>302,418,122</u>	<u>245,868,263</u>	<u>1,232,051,428</u>	<u>994,537,124</u>
By concession:				
Restructure (**)	4,956,036	4,786,441	20,190,891	19,361,154
Non-restructure	<u>297,462,086</u>	<u>241,081,822</u>	<u>1,211,860,537</u>	<u>975,175,970</u>
	<u>302,418,122</u>	<u>245,868,263</u>	<u>1,232,051,428</u>	<u>994,537,124</u>

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

(**) A "restructured loan" is a loan that original contractual terms have been modified to provide for concessions for the borrowers for reasons related to real temporary financial difficulties.

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

31. Financial risk management (continued)

B. Credit risk (continued)

(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, and other assets

Collateral is generally not sought for these assets.

Loans and advances to customers, contingent liabilities and commitments

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

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

	Collateral- properties US\$	Unsecured credit exposure US\$	Total US\$
31 December 2021			
Loans and advances to customers	301,779,122	639,000	302,418,122
Commitments	3,884,033	-	3,884,033
	<u>305,663,155</u>	<u>639,000</u>	<u>306,302,155</u>
31 December 2020			
Loans and advances to customers	245,234,930	633,333	245,868,263
Commitments	3,482,000	1,000,000	4,482,000
	<u>248,716,930</u>	<u>1,633,333</u>	<u>250,350,263</u>

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

31. Financial risk management (continued)

B. Credit risk (continued)

(iii). Collateral (continued)

	Collateral- properties KHR'000 (Note 5)	Unsecured credit exposure KHR'000 (Note 5)	Total KHR'000 (Note 5)
31 December 2021			
Loans and advances to customers	1,229,448,142	2,603,286	1,232,051,428
Commitments	15,823,550	-	15,823,550
	<u>1,245,271,692</u>	<u>2,603,286</u>	<u>1,247,874,978</u>
31 December 2020			
Loans and advances to customers	991,975,292	2,561,832	994,537,124
Commitments	14,084,690	4,045,000	18,129,690
	<u>1,006,059,982</u>	<u>6,606,832</u>	<u>1,012,666,814</u>

(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.

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

31. Financial risk management (continued)

B. Credit risk (continued)

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

Substandard

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

Factors leading to a substandard classification include:

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

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.

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

31. Financial risk management (continued)

B. Credit risk (continued)

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

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.

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	$\text{DPD} \geq 360$	

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

31. Financial risk management (continued)

B. Credit risk (continued)

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

Recognition of ECL (continued)

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 (Stage 1) or non-performing.

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

31. 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 2021			
	Stage 1 US\$	Stage 2 US\$	Stage 3 US\$	Total US\$
Loans and advances to customers at amortised cost - net				
Normal	255,489,133	-	-	255,489,133
Special mention	-	12,949,613	-	12,949,613
Substandard	-	-	7,900,856	7,900,856
Doubtful	-	-	5,375,110	5,375,110
Loss	-	-	22,812,647	22,812,647
	<u>255,489,133</u>	<u>12,949,613</u>	<u>36,088,613</u>	<u>304,527,359</u>
Impairment loss	<u>(9,421,769)</u>	<u>(981,487)</u>	<u>(5,237,071)</u>	<u>(15,640,327)</u>
Carrying amount	<u>246,067,364</u>	<u>11,968,126</u>	<u>30,851,542</u>	<u>288,887,032</u>
Carrying amount (KHR'000-Note 5)	<u>1,002,478,441</u>	<u>48,758,145</u>	<u>125,689,182</u>	<u>1,176,925,768</u>

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

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

Incorporation of forward-looking information

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

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

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

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

31. Financial risk management (continued)

B. Credit risk (continued)

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

Incorporation of forward-looking information (continued)

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

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

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

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

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

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

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

31. 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.

	2021			
	Stage 1 US\$	Stage 2 US\$	Stage 3 US\$	Total US\$
Loans and advances to customers at amortised cost				
At 1 January	7,236,633	299,278	3,254,316	10,790,227
- Transfer to Stage 1	(216,007)	18,000	198,007	-
- Transfer to Stage 2	190,844	(270,810)	79,966	-
- Transfer to Stage 3	52,689	931	(53,620)	-
Net remeasurement of loss allowance	(7,709,005)	226,745	1,446,452	(6,035,808)
New financial assets originated	5,773,397	668,149	129,365	6,570,911
Financial assets that been derecognised	4,093,218	39,194	182,585	4,314,997
At 31 December	<u>9,421,769</u>	<u>981,487</u>	<u>5,237,071</u>	<u>15,640,327</u>
At 31 December (KHR'000- Note 5)	<u>38,384,287</u>	<u>3,998,578</u>	<u>21,335,827</u>	<u>63,718,692</u>
	2020			
	Stage 1 US\$	Stage 2 US\$	Stage 3 US\$	Total US\$
Loans and advances to customers at amortised cost				
At 1 January	2,077,568	336,476	1,790,664	4,204,708
- Transfer to Stage 1	(1,022,313)	807,480	214,833	-
- Transfer to Stage 2	19,294	(178,286)	158,992	-
- Transfer to Stage 3	13,252	-	(13,252)	-
Net remeasurement of loss allowance	6,133,405	(2,753,983)	(675,932)	2,703,490
New financial assets originated	850,745	2,087,591	1,779,011	4,717,347
Financial assets that been derecognised	(835,318)	-	-	(835,318)
At 31 December	<u>7,236,633</u>	<u>299,278</u>	<u>3,254,316</u>	<u>10,790,227</u>
At 31 December (KHR'000- Note 5)	<u>29,272,180</u>	<u>1,210,580</u>	<u>13,163,708</u>	<u>43,646,468</u>

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

31. Financial risk management (continued)

B. Credit risk (continued)

(v). Amounts arising from ECL (continued)

Loss allowance (continued)

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

	2021			
	Stage 1 US\$	Stage 2 US\$	Stage 3 US\$	Total US\$
Cash and cash equivalents				
At 1 January	264,225	-	-	264,225
Net remeasurement of loss allowance	(233,640)	-	-	(233,640)
New financial assets originated	-	-	-	-
At 31 December - US\$	30,585	-	-	30,585
At 31 December - KHR'000 (Note 5)	124,604	-	-	124,604
	2020			
	Stage 1 US\$	Stage 2 US\$	Stage 3 US\$	Total US\$
Cash and cash equivalents				
At 1 January	47,011	-	-	47,011
Net remeasurement of loss allowance	217,214	-	-	217,214
New financial assets originated	-	-	-	-
At 31 December - US\$	264,225	-	-	264,225
At 31 December - KHR'000 (Note 5)	1,068,789	-	-	1,068,789

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

31. Financial risk management (continued)

B. Credit risk (continued)

(v). Amounts arising from ECL (continued)

Loss allowance (continued)

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

	2021			
	Stage 1 US\$	Stage 2 US\$	Stage 3 US\$	Total US\$
Placements with other banks				
At 1 January	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-
New financial assets originated	3,173	-	-	3,173
At 31 December - US\$	3,173	-	-	3,173
At 31 December - KHR'000 (Note 5)	12,927	-	-	12,927
	2020			
	Stage 1 US\$	Stage 2 US\$	Stage 3 US\$	Total US\$
Placements with other banks				
At 1 January	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-
New financial assets originated	-	-	-	-
At 31 December - US\$	-	-	-	-
At 31 December - KHR'000 (Note 5)	-	-	-	-

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

31. Financial risk management (continued)

B. Credit risk (continued)

(v). Amounts arising from ECL (continued)

Loss allowance (continued)

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

	2021			
	Stage 1 US\$	Stage 2 US\$	Stage 3 US\$	Total US\$
Other assets				
At 1 January	-	-	151,805	151,805
Net remeasurement of loss allowance	-	-	100,755	100,755
New financial assets originated	-	-	-	-
At 31 December - US\$	-	-	252,560	252,560
At 31 December - KHR'000 (Note 5)	-	-	1,028,929	1,028,929

	2020			
	Stage 1 US\$	Stage 2 US\$	Stage 3 US\$	Total US\$
Other assets				
At 1 January	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-
New financial assets originated	-	-	151,805	151,805
At 31 December - US\$	-	-	151,805	151,805
At 31 December - KHR'000 (Note 5)	-	-	614,051	614,051

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

31. Financial risk management (continued)

B. Credit risk (continued)

(v). Amounts arising from ECL (continued)

Loss allowance (continued)

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

	2021			
	Stage 1 US\$	Stage 2 US\$	Stage 3 US\$	Total US\$
Loan commitments and financial guarantee contracts				
At 1 January	14,904	-	-	14,904
Net remeasurement of loss allowance	18,450	-	-	18,450
New financial assets originated	-	-	-	-
At 31 December - US\$	<u>33,354</u>	<u>-</u>	<u>-</u>	<u>33,354</u>
At 31 December - KHR'000 (Note 5)	<u>135,884</u>	<u>-</u>	<u>-</u>	<u>135,884</u>
	2020			
	Stage 1 US\$	Stage 2 US\$	Stage 3 US\$	Total US\$
Loan commitments and financial guarantee contracts				
At 1 January	-	-	-	-
Net remeasurement of loss allowance	-	-	-	-
New financial assets originated	14,904	-	-	14,904
At 31 December - US\$	<u>14,904</u>	<u>-</u>	<u>-</u>	<u>14,904</u>
At 31 December - KHR'000 (Note 5)	<u>60,286</u>	<u>-</u>	<u>-</u>	<u>60,286</u>

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

31. Financial risk management (continued)

B. Credit risk (continued)

(v). Amounts arising from ECL (continued)

Loss allowance (continued)

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

	2021 US\$	2020 US\$	2021 KHR'000 (Note 5)	2020 KHR'000 (Note 5)
Allowance for loan losses (Note 9)	4,850,100	6,585,519	19,730,207	26,849,161
(Reversal of)/Allowance for cash and cash equivalents (Note 6)	(233,640)	217,214	(950,448)	885,581
Allowance for placements with other banks (Note 7)	3,173	-	12,908	-
Allowance for other assets (Note 11)	100,755	151,805	409,871	618,909
Allowance for loan commitments and financial guarantee contracts (Note 29)	18,450	14,904	75,055	60,764
	<u>4,738,838</u>	<u>6,969,442</u>	<u>19,277,593</u>	<u>28,414,415</u>

C. Market risk

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

(i). Interest rate risk

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

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

31. 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 2021	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\$
Financial assets							
Cash and cash equivalents	-	-	-	-	-	7,137,354	7,137,354
Placements with other banks	-	-	-	-	-	316,827	316,827
Loans and advances to customers - gross	15,899,291	2,514,877	77,444,069	58,791,381	147,768,504	-	302,418,122
Other assets	-	-	-	-	-	305,682	305,682
	<u>15,899,291</u>	<u>2,514,877</u>	<u>77,444,069</u>	<u>58,791,381</u>	<u>147,768,504</u>	<u>7,759,863</u>	<u>310,177,985</u>
Financial liabilities							
Deposits from customers	4,076,859	68,947	1,607,851	-	-	-	5,753,657
Deposit from banks and other financial institutions	2,627	-	-	-	-	-	2,627
Borrowings	-	-	-	248,461	156,343,123	-	156,591,584
Subordinated debts	-	-	-	-	-	1,044,084	1,044,084
Other liabilities	-	-	-	-	-	630,449	630,449
	<u>4,079,486</u>	<u>68,947</u>	<u>1,607,851</u>	<u>248,461</u>	<u>156,343,123</u>	<u>1,674,533</u>	<u>164,022,401</u>
Interest sensitivity gap	<u>11,819,805</u>	<u>2,445,930</u>	<u>75,836,218</u>	<u>58,542,920</u>	<u>(8,574,619)</u>	<u>6,085,330</u>	<u>146,155,584</u>
(KHR'000 equivalents - Note 5)	<u>48,153,886</u>	<u>9,964,719</u>	<u>308,956,752</u>	<u>238,503,856</u>	<u>(34,932,998)</u>	<u>24,791,634</u>	<u>595,437,849</u>

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

31. 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. (continued)

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

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

31. Financial risk management (continued)

C. Market risk (continued)

(i). Interest rate risk (continued)

As of 31 December 2021, 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 2021	Denomination		Total
	KHR	US\$ equivalents	
Financial assets			
Cash and cash equivalents	2,018,512	5,118,842	7,137,354
Placements with other banks	-	316,827	316,827
Loans and advances to customers - gross	36,285,034	266,133,088	302,418,122
Other assets	36,325	269,357	305,682
	<u>38,339,871</u>	<u>271,838,114</u>	<u>310,177,985</u>
Financial liabilities			
Deposits from customers	618,073	5,135,584	5,753,657
Deposit from banks and other financial institutions	-	2,627	2,627
Borrowings	123,129,848	33,461,736	156,591,584
Subordinated debts	-	1,044,084	1,044,084
Other liabilities	-	630,449	630,449
	<u>123,747,921</u>	<u>40,274,480</u>	<u>164,022,401</u>
Net (liability)/asset position	<u>(85,408,050)</u>	<u>231,563,634</u>	<u>146,155,584</u>
(KHR'000 - Note 5)	<u>(347,952,396)</u>	<u>943,390,245</u>	<u>595,437,849</u>

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

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

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

31. Financial risk management (continued)

C. Market risk (continued)

(ii). Foreign currency exchange risk (continued)

Sensitivity analysis

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

	31 December 2021		31 December 2020	
	- 1%	+ 1%	- 1%	+ 1%
	Depreciation US\$	Appreciation US\$	Depreciation US\$	Appreciation US\$
KHR	<u>854,081</u>	<u>(854,081)</u>	<u>785,300</u>	<u>(785,300)</u>
(KHR'000 – Note 5)	<u>3,479,526</u>	<u>(3,479,526)</u>	<u>3,176,539</u>	<u>(3,176,539)</u>

D. Liquidity risk

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

Management of liquidity risk

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

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

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

31. Financial risk management (continued)

D. Liquidity risk (continued)

As at 31 December 2021	Carrying amounts US\$	Gross nominal inflow/(outflow) US\$	Up to 1 month US\$	> 1-3 months US\$	> 3-12 months US\$	> 1 to 5 years US\$	Over 5 years US\$
Financial assets							
Cash and cash equivalents	7,137,354	7,137,354	7,137,354	-	-	-	-
Placements with other banks	316,827	316,827	316,827	-	-	-	-
Loans and advances to customers	302,418,122	381,617,039	17,591,203	2,551,479	79,648,256	70,839,820	210,986,281
Other assets	305,682	305,682	-	-	-	-	-
Total (US\$)	<u>310,177,985</u>	<u>389,376,902</u>	<u>25,045,384</u>	<u>2,551,479</u>	<u>79,648,256</u>	<u>70,839,820</u>	<u>210,986,281</u>
(KHR'000 equivalents - Note 5)	<u>1,263,665,111</u>	<u>1,586,321,499</u>	<u>102,034,894</u>	<u>10,394,725</u>	<u>324,486,995</u>	<u>288,601,427</u>	<u>859,558,109</u>
Financial liabilities							
Deposits from customers	5,753,657	(5,769,085)	(4,076,859)	(69,067)	(1,623,159)	-	-
Deposit from banks and other financial institutions	2,627	(2,627)	(2,627)	-	-	-	-
Borrowings	156,519,584	(157,641,584)	-	-	(30,000)	(368,461)	(157,243,123)
Subordinated debts	1,044,084	(1,044,084)	-	-	-	-	(1,044,084)
Other liabilities	630,449	(630,449)	(630,449)	-	-	-	-
	<u>164,022,401</u>	<u>(165,087,829)</u>	<u>(4,709,935)</u>	<u>(69,067)</u>	<u>(1,653,159)</u>	<u>(368,461)</u>	<u>(158,287,207)</u>
Loan commitment	3,884,033	(3,884,033)	(3,884,033)	-	-	-	-
Total (US\$)	<u>167,906,434</u>	<u>(168,971,862)</u>	<u>(8,593,968)</u>	<u>(69,067)</u>	<u>(1,653,159)</u>	<u>(368,461)</u>	<u>(158,287,207)</u>
(KHR'000 equivalents - Note 5)	<u>684,050,812</u>	<u>(688,391,366)</u>	<u>(35,011,826)</u>	<u>(281,379)</u>	<u>(6,734,970)</u>	<u>(1,501,110)</u>	<u>(644,862,081)</u>

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

31. Financial risk management (continued)

D. Liquidity risk (continued)

As at 31 December 2020	Carrying amounts US\$	Gross nominal inflow/(outflow) US\$	Up to 1 month US\$	> 1-3 months US\$	> 3-12 months US\$	> 1 to 5 years US\$	Over 5 years US\$
Financial assets							
Cash and cash equivalents	48,590,769	48,590,769	48,590,769	-	-	-	-
Placements with other banks	-	-	-	-	-	-	-
Loans and advances to customers	245,868,263	300,969,265	16,855,634	3,330,443	84,936,069	57,758,510	138,088,609
Other assets	331,948	331,948	331,948	-	-	-	-
Total (US\$)	<u>294,790,980</u>	<u>349,891,982</u>	<u>65,778,351</u>	<u>3,330,443</u>	<u>84,936,069</u>	<u>57,758,510</u>	<u>138,088,609</u>
(KHR'000 equivalents - Note 5)	<u>1,192,429,514</u>	<u>1,415,313,067</u>	<u>266,073,430</u>	<u>13,471,642</u>	<u>343,566,399</u>	<u>233,633,173</u>	<u>558,568,423</u>
Financial liabilities							
Deposits from customers	5,301,086	(5,310,687)	(4,514,585)	(490,925)	(305,177)	-	-
Deposit from banks and other financial institutions	4,661	(4,661)	(4,661)	-	-	-	-
Borrowings	194,363,418	(196,182,168)	(1,198,688)	-	(10,150,000)	(24,937,498)	(159,895,982)
Subordinated debts	1,044,084	(1,044,084)	-	-	-	-	(1,044,084)
Other liabilities	107,798	(107,798)	(107,798)	-	-	-	-
	<u>200,821,047</u>	<u>(202,649,398)</u>	<u>(5,825,732)</u>	<u>(490,925)</u>	<u>(10,455,177)</u>	<u>(24,937,498)</u>	<u>(160,940,066)</u>
Loan commitment	4,482,000	(4,482,000)	(4,482,000)	-	-	-	-
Total (US\$)	<u>205,303,047</u>	<u>(207,131,398)</u>	<u>(10,307,732)</u>	<u>(490,925)</u>	<u>(10,455,177)</u>	<u>(24,937,498)</u>	<u>(160,940,066)</u>
(KHR'000 equivalents - Note 5)	<u>830,450,825</u>	<u>(837,846,505)</u>	<u>(41,694,776)</u>	<u>(1,985,792)</u>	<u>(42,291,191)</u>	<u>(100,872,179)</u>	<u>(651,002,567)</u>

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

31. Financial risk management (continued)

E. Operational risk

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

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

F. Capital management

(i). *Regulatory capital*

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

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

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

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

(ii). *Capital allocation*

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

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

32. Fair values of financial assets and liabilities

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

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

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

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

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

Investments

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

Financing, advances and others

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

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

32. 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.

33. Significant accounting policies

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

A. Basis of measurement

The financial statements have been prepared on a historical cost.

B. Foreign currency

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

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Significant accounting policies (continued)

B. Foreign currency (continued)

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

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

C. Financial assets and financial liabilities

(i). *Recognition and initial measurement*

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

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

(ii). *Classification*

Financial assets

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

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

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

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(ii). *Classification (continued)*

Financial assets (continued)

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

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

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(ii). *Classification (continued)*

Financial assets (continued)

Business model assessment (continued)

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

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

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

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

In making the assessment, the Bank considers:

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

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(ii). *Classification (continued)*

Financial assets (continued)

Non-recourse loans

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

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Bank's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Bank will benefit from any upside from the underlying assets.

Reclassifications

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

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(iii). Derecognition

Financial assets

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

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

Financial liabilities

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

(iv). Modifications of financial assets and financial liabilities

Financial assets

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

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

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

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

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

Financial assets (continued)

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

Financial liabilities

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

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

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

Financial liabilities (continued)

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

(v). *Offsetting*

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

(vi). *Fair value measurement*

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

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

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

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

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

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

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

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

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

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

(vii). *Impairment*

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

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

No impairment loss is recognised on equity investments.

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(vii). *Impairment (continued)*

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

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

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

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

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

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

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

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

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(vii). *Impairment (continued)*

Determining whether credit risk has increased significantly

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

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

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

Definition of default

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

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

Measurement of ECL

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

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

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(vii). Impairment (continued)

Measurement of ECL (continued)

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

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

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

Inputs, assumptions and techniques used for estimating impairment

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

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

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

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

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(vii). *Impairment (continued)*

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

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

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

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

Restructured financial assets

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

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

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(vii). *Impairment (continued)*

Credit-impaired financial assets

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

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

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

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

Presentation of allowance for ECL in the statement of financial position

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

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(vii). Impairment (continued)

Write-off

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

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

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

(viii). Interest rate benchmark reform

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

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

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

D. Cash and cash equivalents

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

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

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

33. 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 and capital reserve*

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

F. Regulatory reserves

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

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

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Significant accounting policies (continued)

F. Regulatory reserves (continued)

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

On 28 December 2021, the NBC issued a new Circular, No. B7-021-2314 CL on Classification and Provisioning Requirement on Restructure Loans, which aims at phasing out the forbearance period for the existing restructured loans and phasing the classification and provisioning arrangements complying with the current regulation, Prakas No.B7-017-344 dated 01 December 2017 on Credit Risk Grading and Impairment Provisioning. In this regard, all restructured loans by 31 December 2021 shall be classified and provisioned based on the requirements under this circular. For loans that were still in the assessment period, they shall be kept at the same classification as before the restructured terms of contract.

Following the NBC's workshop on "the Circular on Classification and Provisioning Requirement for Restructured Loans" held on 18 January 2022, the NBC issued a communication on 4 February 2022 allowing banking and financial institutions ("BFIs") to defer the implementation of the new Circular until January 2022 onward though early adoption is encouraged. The Bank chose to defer the implementation of the new Circular in preparing the financial statements for the year ended 31 December 2021.

G. Placements with other banks

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

H. Statutory deposits

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

I. Loans and advances

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

J. Other assets

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

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Significant accounting policies (continued)

K. Property and equipment

(i). *Recognition and measurement*

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

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

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

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

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

(ii). *Subsequent costs*

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

(iii). *Depreciation*

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

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

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Significant accounting policies (continued)

K. Property and equipment (continued)

(iii). Depreciation (continued)

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

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

Land is not depreciated.

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

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.

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Significant accounting policies (continued)

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.

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.

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Significant accounting policies (continued)

Q. Interest (continued)

Effective interest rate (continued)

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

Amortised cost and gross carrying amount

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

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

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.

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Significant accounting policies (continued)

Q. Interest (continued)

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.

S. Impairment of non-financial assets

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

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

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

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Significant accounting policies (continued)

S. Impairment of non-financial assets (continued)

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'.

(i). Current tax

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

(ii). Deferred tax

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

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

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

33. Significant accounting policies (continued)

T. Income tax (continued)

(ii). *Deferred tax (continued)*

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

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

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

U. Contingent liabilities

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

V. Contingent assets

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

34. Changes in significant accounting policies

Interest Rate Benchmark Reform – Phase 2 (Amendments to CIFRS 9, CIAS 39, CIFRS 7, CIFRS 4 and CIFRS 16) (the Phase 2 amendments) became effective on 1 January 2021.

In accordance with the exceptions permitted in the Phase 2 amendments, the Bank has elected not to restate comparatives for the prior periods to reflect the application of these amendments. There is no impact on opening equity balances as a result of retrospective application.

Agricultural and Rural Development Bank

Notes to the financial statements (continued) for the year ended 31 December 2021

35. New standards, amendments and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted; however, the Bank has not early adopted the new or amended standards in preparing these financial statements.

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

- COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to CIFRS 16);
- Annual Improvements to CIFRS Standards 2018–2020;
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to CIAS 16);
- Reference to Conceptual Framework (Amendments to CIFRS 3);
- Classification of Liabilities as Current or Non-current (Amendments to CIAS 1);
- Disclosure of Accounting Policies (Amendments to CIAS 1 and CIFRS Practice Statement 2);
- Definition of Accounting Estimates (Amendments to CIAS 8);
- Onerous contracts – Cost of Fulfilling a Contract (Amendments to CIAS 37); and
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to CIAS 12).

36. Subsequent event

On 18 March 2022, the Bank has submitted a request letter to the NBC for the approval on the increase in share capital from KHR390,627,000,000 to KHR556,475,330,000, and changing the par value from KHR1,000,000 per share to KHR10,000 per share. The increase in share capital are transferred from borrowings - Ministry of Economy and Finance - ASDF amounting to US\$36,937,500 and cash contributions from the MEF amounting to US\$3,791,460. This request has been approved by the NBC on 9 May 2022.

As at the date of this report, the amendment to the Memorandum and Articles of Association was still in progress to be endorsed by the Ministry of Commerce.



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