

**PRASAC MICROFINANCE INSTITUTION PLC.**

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

## Corporate Information

Company	PRASAC Microfinance Institution Plc.	
Registration No.	00001157	
Registered office	Building 212, Street 271, Sangkat Tuol Tumpung 2, Khan Chamkarmon Phnom Penh Kingdom of Cambodia	
Shareholders	Kookmin Bank Co., Ltd. Kookmin Bank Cambodia Plc	
Board of Directors	Mr. JUN Kwi Sang Mr. CHUNG Hui Tae Mr. OUM Sam Oeun Dr. CHOI Dong Hyun Mr. LEE Kyung Cheon Mr. PAK Jaehong Mr. CHAN Sophal Mr. JANG Ji Kyu	Chairman Director (appointed on 23 February 2022) Director (appointed on 23 February 2022) Director Independent Director Independent Director Independent Director Director (resigned on 18 January 2022)
Executive Committee	Mr. OUM Sam Oeun Mr. KIM Hyeun Jong  Mr. CHOI KiHyun  Mr. YI JuHwan  Mr. WON Soo Yeon  Mr. PHOK Vandy  Mr. KONG Sean Mr. RY Vanna Mr. PEN Sovannsoksitha Mr. HOEUN Honey Mr. SIM Senacheert  Mr. OUM Sophan  Mr. NEANG Sokhim  Mr. SAY Sony  Mr. CHOUB Veasna  Mr. CHEA Hang	President & Chief Executive Officer EVP & Deputy Chief Executive Officer (appointed on 16 February 2022) EVP & Chief Digital Officer (appointed on 1 November 2022) EVP & Chief Risk Officer (appointed on 14 January 2022) EVP & Chief Finance Officer (appointed on 14 January 2022) EVP & Chief IT Officer (appointed on 1 November 2022) EVP & Chief Operation Officer EVP & Chief Business Officer EVP & Chief Marketing Officer EVP & Chief Human Resource Officer President & Chief Executive Officer (resigned on 21 January 2022) EVP & Chief Finance Officer (retired on 24 January 2022) EVP & Chief Business Officer (resigned on 28 February 2022) EVP & Chief Marketing Officer (resigned on 28 January 2022) EVP & Chief Human Resource Officer (resigned on 28 January 2022) EVP & Chief Corporate Strategy and Business Plan Officer (resigned on 26 January 2022)
Auditors	KPMG Cambodia Ltd	

# **PRASAC Microfinance Institution Plc.**

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## Report of the Board of Directors

The Board of Directors (“Board” or “the Directors”) of PRASAC Microfinance Institution Plc. (“the Company”) have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2022.

### The Company

The Company is a licensed micro-finance institution (“MFI”) incorporated and registered in the Kingdom of Cambodia.

The Company was incorporated in the Kingdom of Cambodia and registered with the Ministry of Commerce (“MoC”) as a public limited liability company under registration number 00001157 dated 19 September 2011 with the latest renewal on 28 April 2016.

The National Bank of Cambodia (“NBC”) granted a microfinance license to the Company on 14 December 2007. In addition, the Company received the license from the NBC to conduct a deposit-taking business on 27 August 2010 and permission to conduct automated teller machine and point-of-sale services on 1 December 2011.

On 30 November 2022, the Company obtained the approval in principle from the NBC to proceed the merger with Kookmin Bank Cambodia Plc. (“KBC”). At the date of this report, the Company is still in the process of finalising their merging process and updating the Memorandum and Articles of Association for further approval from MoC.

The Company’s head office is at Building 212, Street 271, Sangkat Tuol Tumpung 2, Khan Chamkarmon, Phnom Penh, Kingdom of Cambodia.

### Principal activities

The Company operates under regulations by NBC with special focus on providing lending and other financial services to the citizenry and small and medium size enterprises, and to engage in all other activities which the Directors believe support these objectives.

### Financial results

The financial results of the Company for the year ended 31 December 2022 were disclosed in the statement of profit or loss and other comprehensive income.

### Dividends

No dividends were declared or paid during the year and the Directors do not recommend any dividends to be paid as at the reporting date.

# **PRASAC Microfinance Institution Plc.**

## **Share capital**

On 11 March 2022, the Company requested to the National Bank of Cambodia (“NBC”) to increase its share capital from USD300,000,000 to USD400,000,000 by way of capitalising the retained earnings. This request was approved by the NBC on 25 April 2022. The Memorandum and Articles of Association of the Company had been updated to reflect this change and was endorsed by the MoC on 28 April 2022.

## **Reserves and provisions**

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

## **Expected credit losses on loans to customers**

Before the financial statements of the Company were drawn up, the Directors took reasonable steps to ascertain that action had been taken and satisfied themselves that all known bad loans had been written off and that adequate allowance for expected credit losses on loans to customers had been made.

At the date of this report, the Directors are not aware of any circumstances which would render the amount written off for bad loans or the amount of allowance for expected credit losses on loans to customers in the financial statements of the Company inadequate in any material respects.

## **Assets**

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

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

## **Valuation methods**

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

## **Contingent and other liabilities**

At the date of this report, there is:

- No change on the assets of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; and
- No contingent liability in respect of the Company that has arisen since the end of the financial year other than in the ordinary course of business.

# **PRASAC Microfinance Institution Plc.**

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

No contingent or other liability of the Company has become enforceable, or is likely to become enforceable within the period after the end of the reporting period which, in the opinion of the Directors, will or may have a material effect on the ability of the Company to meet its obligations as and when they become due.

## **Change of circumstances**

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

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

Nothing has arisen during in the interval between the end of the reporting period 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 Company for the current reporting period in which this report is made.

## **Event since the reporting date**

### **(i). Borrowing covenants**

As at 31 December 2022, the Company is in breach of one of the covenants on a borrowing with carrying amount of USD17,142,857 and bond guarantor agreement over its bond payables. The covenant states that at the end of each reporting period, the Company's available stable funding cannot be lower than 85% of the required stable funding, otherwise the borrowing will be payable on demand. However, as at 31 December 2022, the Company's available stable funding was at only 83.63% of the required stable funding.

The Company received email correspondences on 8 February 2023 and 13 February 2023 from guarantor and lender, respectively, with approval to revise the above ratio from 85% to 80% for the reporting period starting from December 2022 to 31 March 2023. On the basis of the new covenant and its forecasts, the management believes that the risk of new covenant being breached is low. The Company is working on processing the official waiver letter following the above emails.

### **(ii). Amendment to reserve requirement**

On 9 January 2023, the NBC announced, through Prakas No.B7-023-005, the increase of the Reserve Requirements Rate ("RRR") to 9% and 12.5% for foreign currencies deposits and borrowings, which is effective from 1 January 2023 to 31 December 2023, and from 1 January 2024 onward, respectively. While, the RRR for local currency deposits and borrowings will remain at 7%.

# PRASAC Microfinance Institution Plc.

## Event since the reporting date (continued)

### (ii). Amendment to reserve requirement (continued)

The Company is a deposit-taking microfinance institution, therefore, the RRR for local currency deposits and borrowings will be changed from 8% to 7% starting from 1 January 2023 as a result of the above regulation.

On 30 January 2023, the Company submitted a request letter to NBC to top up the additional reserve in four instalments with the latest instalment by 30 November 2023. As of the date of this report, the Company has not yet received any response from the NBC.

## The Board of Directors

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

<i>Name</i>	<i>Position</i>
Mr. JUN Kwi Sang	Chairman
Mr. CHUNG Hui Tae	Director (appointed on 23 February 2022)
Mr. OUM Sam Oeun	Director (appointed on 23 February 2022)
Dr. CHOI Dong Hyun	Director
Mr. LEE Kyung Cheon	Independent Director
Mr. PAK Jaehong	Independent Director
Mr. CHAN Sophal	Independent Director
Mr. JANG Ji Kyu	Director (resigned on 18 January 2022)

## Executive Management

Members of the executive management during the year and at the date of this report are:

<i>Name</i>	<i>Position</i>
Mr. OUM Sam Oeun	President & Chief Executive Officer
Mr. KIM Hyeun Jong	EVP & Deputy Chief Executive Officer (appointed on 16 February 2022)
Mr. CHOI KiHyun	EVP & Chief Digital Officer (appointed on 1 November 2022)
Mr. YI JuHwan	EVP & Chief Risk Officer (appointed on 14 January 2022)
Mr. WON Soo Yeon	EVP & Chief Finance Officer (appointed on 14 January 2022)
Mr. PHOK Vandy	EVP & Chief IT Officer (appointed on 1 November 2022)
Mr. KONG Sean	EVP & Chief Operation Officer
Mr. RY Vanna	EVP & Chief Business Officer
Mr. PEN Sovannsoksitha	EVP & Chief Marketing Officer
Mr. HOEUN Honey	EVP & Chief Human Resource Officer
Mr. SIM Senacheert	President & Chief Executive Officer (resigned on 21 January 2022)

# PRASAC Microfinance Institution Plc.

## Executive Management (continued)

Members of the executive management during the year and at the date of this report are: (continued)

<i>Name</i>	<i>Position</i>
Mr. OUM Sophan	EVP & Chief Finance Officer (retired on 24 January 2022)
Mr. NEANG Sokhim	EVP & Chief Business Officer (resigned on 28 February 2022)
Mr. SAY Sony	EVP & Chief Marketing Officer (resigned on 28 January 2022)
Mr. CHOUB Veasna	EVP & Chief Human Resource Officer (resigned on 28 January 2022)
Mr. CHEA Hang	EVP & Chief Corporate Strategy and Business Plan Officer (resigned on 26 January 2022)

## Directors' interest

No member of the Directors holds a direct interest in the equity of the Company.

## Directors' benefits

During and at the end of the year, no arrangement existed to which the Company was a party, whose objective was to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other corporate entity.

No director of the Company has received or become entitled to receive any benefit by reason of a contract made by the Company or with a firm in which the director is a member, or with a company which the director has a material financial interest other than those disclosed in the financial statements.

## Board of Directors' responsibility in respect to 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 Company as at 31 December 2022, 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:

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



# PRASAC Microfinance Institution Plc.

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

- prepare the financial statements on a going concern basis unless it is inappropriate to assume that the Company will continue operations in the foreseeable future; and
- set overall policies for the Company, ratify all decisions and actions by management that have a material effect on the operations and performance of the Company, and ensure they have been properly reflected in the financial statements.

Management is responsible for ensuring that proper accounting records are kept which disclose, with reasonable accuracy at any time, the financial position of the Company and to ensure that the accounting records comply with the registered accounting system. It is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

## Approval of the financial statements

We hereby approved the accompanying financial statements together with the notes thereto as set out on pages 11 to 98 which, in our opinion, present fairly, in all material respects, the financial position of the Company as at 31 December 2022, and its financial performance and its cash flows for the year then ended, in accordance with Cambodian International Financial Reporting Standards ("CIFRSs").

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



Mr. JUN Kwi Sang  
Chairman

Phnom Penh, Kingdom of Cambodia

22 February 2023



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## **Report of the Independent Auditors To the shareholders of PRASAC Microfinance Institution Plc.**

### ***Opinion***

We have audited the financial statements of PRASAC Microfinance Institution Plc. (“the Company”), which comprise the statement of financial position as at 31 December 2022, 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 11 to 98 (hereafter referred to as “the financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with Cambodian International Financial Reporting Standards (“CIFRSs”).

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

We conducted our audit in accordance with Cambodian International Standards on Auditing (“CISAs”). Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the *Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the Kingdom of Cambodia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### ***Key Audit Matters***

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Impairment of loans to customers	
The key audit matter	How the matter was addressed in our audit
<p>As discussed in Note 8 to the financial statements, as at 31 December 2022, the Company recognised the allowance for impairment losses on loans to customers amounting to USD53,963,378, which represent 1.24% of the gross loans to customers.</p> <p>The estimation of the allowances for impairment losses, required the Company to apply significant judgements in developing the expected credit losses (“ECL”) model and in determining the relevant inputs and applicable assumptions in areas including:</p> <ul style="list-style-type: none"> <li>• Development of ECL model parameters, including the probability of default (“PD”), loss given default (“LGD”) and exposure at default (“EAD”) with the timing of the loss;</li> <li>• Macroeconomic information (including forward-looking information and COVID-19 consideration) to the estimation; and</li> <li>• Selection of criteria to determine whether a credit exposure has exhibited significant increase in credit risk (“SICR”).</li> </ul> <p>The Company measure the allowance for ECL for its loan portfolio using collective assessment basis based on industrial sectors. Under the model, a 12-month ECL is recognised for those loans that are neither experiencing a SICR since initial recognition nor becoming credit-impaired, otherwise a lifetime ECL is recognised.</p> <p>Giving the high level of uncertainty, complexity and judgement involved in measuring the allowance for ECL, we identified this area to be a key audit matter.</p>	<p>Our primary audit procedure in this area included, among other:</p> <ul style="list-style-type: none"> <li>- Performing walkthroughs to obtain understanding of the relevant processes surrounding the ECL’s model as well as the determination of the relevant assumptions and data elements;</li> <li>- Involving our own Information Technology (“IT”) specialist to evaluate the design and test the operating effectiveness of the relevant controls relating to the accuracy of the computation of the day past due, which is used in determining the loan’s staging;</li> <li>- Involving our own financial risk specialist to assist in evaluating the appropriateness of the ECL model as well as the appropriateness of the key assumptions used in PD, LGD and EAD. For the selected samples of loans, with the assistance from the financial risk specialist, we recalculated the ECL allowance to test the mathematical accuracy of the model. Moreover, the specialist evaluates the reasonableness of the criteria used for determination of SICR;</li> <li>- Testing the reliability of the relevant data elements, using sampling approach, relating to historical loan recovery, macroeconomic information and historical loan data;</li> <li>- Testing loan written-off during the year; and</li> <li>- Evaluating the adequacy of the financial statement disclosures, including disclosures of key inputs, assumptions and judgements.</li> </ul>



### ***Other Information***

Management is responsible for the other information. The other information obtained at the date of this auditors' report is the information included in the Report of the Board of Directors as set out on pages 1 to 6, and annual report, which is expected to be made available to us after that date.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

Those charged with governance are responsible for overseeing the Company'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.



**Auditors' Responsibilities for the Audit of the Financial Statements (continued)**

- 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 Company'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 Company'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 Company 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

For **KPMG Cambodia Ltd**

  


Nge Huy  
Engagement Partner

Phnom Penh, Kingdom of Cambodia

22 February 2023

# PRASAC Microfinance Institution Plc.

## Statement of financial position As at 31 December 2022

	Notes	31 December 2022		31 December 2021	
		USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
<b>ASSETS</b>					
Cash on hand	5	127,423,827	524,603,896	222,365,399	905,916,636
Balances with the National Bank of Cambodia	6	326,284,541	1,343,313,455	368,419,366	1,500,940,497
Balances with other banks	7	5,946,137	24,480,246	2,308,097	9,403,187
Loans to customers	8	4,296,121,785	17,687,133,389	3,691,567,993	15,039,448,003
Other assets	9	4,374,308	18,009,026	1,815,969	7,398,258
Property and equipment	10	4,786,735	19,706,988	4,861,518	19,805,825
Right-of-use assets	11	18,483,310	76,095,787	16,097,643	65,581,798
Intangible assets	12	1,079,327	4,443,589	1,354,529	5,518,351
Deferred tax assets, net	19(c)	14,516,880	59,765,995	11,727,635	47,778,385
<b>TOTAL ASSETS</b>		<b>4,799,016,850</b>	<b>19,757,552,371</b>	<b>4,320,518,149</b>	<b>17,601,790,940</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>LIABILITIES</b>					
Deposits from banks and other financial institutions	13	50,037,118	206,002,815	81,881,578	333,585,549
Deposits from customers	14	2,727,207,862	11,227,914,768	2,533,330,855	10,320,789,903
Borrowings	15	971,259,425	3,998,675,053	829,821,864	3,380,694,274
Bonds payable	16	31,168,428	128,320,418	31,342,099	127,687,711
Subordinated debts	17	89,677,427	369,201,967	105,191,790	428,551,352
Lease liabilities	18	18,973,227	78,112,776	15,591,438	63,519,518
Income tax payable	19(b)	41,048,919	168,998,400	34,153,679	139,142,088
Provision for employee benefits	20	1,031,425	4,246,377	237,906	969,229
Other liabilities	21	12,998,586	53,515,176	14,627,852	59,593,871
<b>Total liabilities</b>		<b>3,943,402,417</b>	<b>16,234,987,750</b>	<b>3,646,179,061</b>	<b>14,854,533,495</b>
<b>SHAREHOLDERS' EQUITY</b>					
Share capital	22(a)	400,000,000	1,600,000,000	300,000,000	1,200,000,000
Retained earnings		423,741,506	1,742,202,594	349,600,939	1,430,490,098
Regulatory reserve	22(b)	31,872,927	129,696,057	24,738,149	100,536,219
Currency translation reserves		-	50,665,970	-	16,231,128
<b>Total shareholders' equity</b>		<b>855,614,433</b>	<b>3,522,564,621</b>	<b>674,339,088</b>	<b>2,747,257,445</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>4,799,016,850</b>	<b>19,757,552,371</b>	<b>4,320,518,149</b>	<b>17,601,790,940</b>

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

## PRASAC Microfinance Institution Plc.

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

	Notes	2022		2021	
		USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Interest income	23	593,225,622	2,424,513,117	505,592,378	2,056,749,794
Interest expense	24	(245,638,068)	(1,003,922,784)	(210,148,674)	(854,884,806)
<b>Net interest income</b>		<u>347,587,554</u>	<u>1,420,590,333</u>	<u>295,443,704</u>	<u>1,201,864,988</u>
Fees and commission income	25	9,678,144	39,554,575	8,617,690	35,056,763
Fees and commission expense	25	(1,516,730)	(6,198,876)	(118,009)	(480,061)
<b>Net fees and commission income</b>	25	<u>8,161,414</u>	<u>33,355,699</u>	<u>8,499,681</u>	<u>34,576,702</u>
Other income	26	9,738,461	39,801,090	9,798,130	39,858,793
Grant income		933,070	3,813,457	1,678,842	6,829,529
Net foreign exchange loss		(3,133,423)	(12,806,300)	(1,587,373)	(6,457,433)
<b>Total other income</b>		<u>7,538,108</u>	<u>30,808,247</u>	<u>9,889,599</u>	<u>40,230,889</u>
<b>Total interest, fees, commission and other income</b>		<u>363,287,076</u>	<u>1,484,754,279</u>	<u>313,832,984</u>	<u>1,276,672,579</u>
Personnel expenses	27	(92,965,159)	(379,948,605)	(84,578,929)	(344,067,083)
Allowance for impairment losses	34.1(g)	(19,058,514)	(77,892,147)	(14,707,859)	(59,831,570)
General and administrative expenses	28	(18,387,563)	(75,149,970)	(14,530,115)	(59,108,508)
Depreciation and amortisation	29	(6,781,962)	(27,717,879)	(6,378,059)	(25,945,944)
<b>Profit before income tax</b>		<u>226,093,878</u>	<u>924,045,678</u>	<u>193,638,022</u>	<u>787,719,474</u>
Income tax expense	19(a)	(44,818,533)	(183,173,344)	(38,137,058)	(155,141,552)
<b>Net profit for the year</b>		<u>181,275,345</u>	<u>740,872,334</u>	<u>155,500,964</u>	<u>632,577,922</u>
<b>Other comprehensive income</b>					
<i>Items that will not be reclassified to profit or loss</i>					
Currency translation differences		-	34,434,842	-	15,979,311
<b>Total comprehensive income for the year</b>		<u>181,275,345</u>	<u>775,307,176</u>	<u>155,500,964</u>	<u>648,557,233</u>

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

## PRASAC Microfinance Institution Plc.

### Statement of changes in equity for the year ended 31 December 2022

	Share capital		Retained earnings		Reserve fund		Regulatory reserve		Currency translation reserves		Total	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Balance at 1 January 2022	300,000,000	1,200,000,000	349,600,939	1,430,490,098	-	-	24,738,149	100,536,219	-	16,231,128	674,339,088	2,747,257,445
Capitalisation of retained earnings	100,000,000	400,000,000	(100,000,000)	(400,000,000)	-	-	-	-	-	-	-	-
Net profit for the year	-	-	181,275,345	740,872,334	-	-	-	-	-	-	181,275,345	740,872,334
Transfer to regulatory reserve	-	-	(7,134,778)	(29,159,838)	-	-	7,134,778	29,159,838	-	-	-	-
Currency translation differences	-	-	-	-	-	-	-	-	-	34,434,842	-	34,434,842
<b>Balance at 31 December 2022</b>	<b>400,000,000</b>	<b>1,600,000,000</b>	<b>423,741,506</b>	<b>1,742,202,594</b>	<b>-</b>	<b>-</b>	<b>31,872,927</b>	<b>129,696,057</b>	<b>-</b>	<b>50,665,970</b>	<b>855,614,433</b>	<b>3,522,564,621</b>
Balance at 1 January 2021	230,000,000	920,000,000	285,224,840	1,163,897,093	3,151,952	12,773,175	461,332	1,778,127	-	251,817	518,838,124	2,098,700,212
Capitalisation of retained earnings	70,000,000	280,000,000	(70,000,000)	(280,000,000)	-	-	-	-	-	-	-	-
Net profit for the year	-	-	155,500,964	632,577,922	-	-	-	-	-	-	155,500,964	632,577,922
Transfer to regulatory reserve	-	-	(24,276,817)	(98,758,092)	-	-	24,276,817	98,758,092	-	-	-	-
Transfer from reserve fund	-	-	3,151,952	12,773,175	(3,151,952)	(12,773,175)	-	-	-	-	-	-
Currency translation differences	-	-	-	-	-	-	-	-	-	15,979,311	-	15,979,311
<b>Balance at 31 December 2021</b>	<b>300,000,000</b>	<b>1,200,000,000</b>	<b>349,600,939</b>	<b>1,430,490,098</b>	<b>-</b>	<b>-</b>	<b>24,738,149</b>	<b>100,536,219</b>	<b>-</b>	<b>16,231,128</b>	<b>674,339,088</b>	<b>2,747,257,445</b>

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



# PRASAC Microfinance Institution Plc.

## Statement of cash flows for the year ended 31 December 2022

	Notes	2022		2021	
		USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
<b>Net cash used in operating activities</b>	30	<u>(278,312,753)</u>	<u>(1,137,464,223)</u>	<u>(71,081,858)</u>	<u>(289,161,001)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of property and equipment		(2,042,693)	(8,348,486)	(1,282,372)	(5,216,689)
Purchase of intangible assets		(16,800)	(68,662)	(43,735)	(177,914)
Investment in negotiable certificates of deposit		(919,122)	(3,756,452)	(147,430)	(599,745)
Proceed from investment in negotiable certificates of deposit		521,990	2,133,373	148,377	603,598
Proceeds from disposal of property and equipment		110,688	452,382	111,776	454,705
Placements of capital guarantee		<u>(10,000,000)</u>	<u>(40,870,000)</u>	<u>(7,000,000)</u>	<u>(28,476,000)</u>
<b>Net cash used in investing activities</b>		<u>(12,345,937)</u>	<u>(50,457,845)</u>	<u>(8,213,384)</u>	<u>(33,412,045)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from borrowings		468,079,917	1,913,042,621	335,239,090	1,363,752,618
Repayments of borrowings		(324,659,857)	(1,326,884,836)	(295,976,678)	(1,204,033,126)
Proceeds from subordinated debts		-	-	17,296,512	70,362,211
Repayments of subordinated debts		(15,321,929)	(62,620,724)	(25,784,186)	(104,890,069)
Payments of lease liabilities		<u>(3,973,113)</u>	<u>(16,238,113)</u>	<u>(3,618,098)</u>	<u>(14,718,423)</u>
<b>Net cash generated from financing activities</b>		<u>124,125,018</u>	<u>507,298,948</u>	<u>27,156,640</u>	<u>110,473,211</u>
<b>Net decrease in cash and cash equivalents</b>		<u>(166,533,672)</u>	<u>(680,623,120)</u>	<u>(52,138,602)</u>	<u>(212,099,835)</u>
Cash and cash equivalents at the beginning of the year		364,927,185	1,486,713,352	417,065,787	1,687,031,108
Currency translation differences		-	10,695,862	-	11,782,079
<b>Cash and cash equivalents at end of the year</b>	33	<u><b>198,393,513</b></u>	<u><b>816,786,094</b></u>	<u><b>364,927,185</b></u>	<u><b>1,486,713,352</b></u>
<b>Significant non-cash transaction from financing activities</b>					
Conversion of retained earnings to share capital		<u>100,000,000</u>	<u>400,000,000</u>	<u>70,000,000</u>	<u>280,000,000</u>

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

# **PRASAC Microfinance Institution Plc.**

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

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

### **1. Corporate information**

PRASAC Microfinance Institution Plc. (“the Company”) is a licensed micro-finance institution (“MFI”) incorporated and registered in the Kingdom of Cambodia.

The Company was incorporated in Cambodia and registered with the Ministry of Commerce (“MoC”) as a public limited company under registration number 00001157 dated 19 September 2011 with the latest renewal on 28 April 2016.

The National Bank of Cambodia (“NBC”) granted a microfinance license to the Company effective 14 December 2007. In addition, the Company received the license from the NBC to conduct a deposit-taking business on 27 August 2010 and permission to conduct automated teller machine and point-of-sale services on 1 December 2011.

The principal activity of the Company is to provide financial services to rural communities and micro-enterprises of Cambodia through its head office in Phnom Penh and various branches in Phnom Penh and provinces in the Kingdom of Cambodia.

On 30 November 2022, the Company obtained the approval in principle from the NBC to proceed the merger with Kookmin Bank Cambodia Plc. (“KBC”). At the date of this report, the Company is still in the process of finalising their merging process and updating the Memorandum and Articles of Association for further approval from MoC.

The registered office of the Company is at Building 212, Street 271, Sangkat Tuol Tumpung 2, Khan Chamkarmon, Phnom Penh, Kingdom of Cambodia.

As at 31 December 2022, the Company had 9,573 employees (31 December 2021: 9,330 employees).

### **2. Basis of preparation**

#### **(a) Statement of compliance**

These financial statements have been prepared in accordance with Cambodian International Financial Reporting Standards (“CIFRSs”).

Details of the Company’s significant accounting policies are included in Note 3.

These financial statements were authorised for issue by the Company’s Board of Directors on 22 February 2023.

# PRASAC Microfinance Institution Plc.

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

### 2. Basis of preparation (continued)

#### (b) Functional and presentation currency

The national currency of Cambodia is the Khmer Riel (“KHR”). However, as the Company transacts and maintains its accounting records primarily in United States Dollars (“USD”), management have determined the USD to be the Company’s functional and presentation currency as it reflects the economic substance of the underlying events and circumstances of the Company.

The financial statements are presented in USD, which is the Company’s functional currency. All amounts have been rounded to the nearest dollars, unless otherwise indicated.

#### (c) Use of judgements and estimates

The Company makes judgements, estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. To enhance the information content of the estimates, certain key variables that are anticipated to have material impact to the Company’s results and financial position are tested for sensitivity to changes in the underlying parameters. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are outlined below:

##### (i) 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 3C (ii): classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.
- Note 3C (vii): significant increase in credit risk: establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of ECL and selection and approval of models used to measure ECL.

##### (ii) Assumptions and estimation uncertainties

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

- Note 3C (vii): Impairment of financial instruments: determining inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows, and incorporation of forward-looking information.
- Note 3C (vi): Determination of the fair value of financial instruments with significant unobservable inputs.
- Note 36: Recognition and measurement of contingencies: key assumptions about the likelihood and magnitude of outflow of resources.

# **PRASAC Microfinance Institution Plc.**

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

### **2. Basis of preparation (continued)**

#### **(c) Use of judgements and estimates (continued)**

##### **(ii) Assumptions and estimation uncertainties (continued)**

###### **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 globe (including mainland China, Cambodia and beyond), causing disruption to business and economic activity. The impact on GDP and other key indicators will be considered when determining the severity and likelihood of downside economic scenarios that are used to estimate ECL in which the calculation of the ECL in this current environment is subject to significant uncertainty. Management estimates have been determined based on possible forward-looking scenarios, considering the facts, circumstances and forecast of the future economic conditions and supportable information that is available as at the reporting date.

### **3. Significant accounting policies**

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

#### **A. Basis of measurement**

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

#### **B. Foreign currency transactions**

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

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency 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.

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

# PRASAC Microfinance Institution Plc.

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

### 3. Significant accounting policies (continued)

#### C. Financial assets and financial liabilities

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

The Company initially recognises loans to customers, deposits, debt securities issued, borrowings and subordinated liabilities on the date on which they are originated. All other financial instruments are recognised on the trade date, which is the date on which the Company 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. The fair value of a financial instrument at initial recognition is generally its transaction price. See Note 35 for a description of the policy if the fair value of a financial instrument at initial recognition differs from the transaction price.

##### (ii) *Classification*

###### *Financial assets*

On initial recognition, a financial asset is classified as measured at: amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL").

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

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

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

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

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Company 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.

# PRASAC Microfinance Institution Plc.

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

### 3. Significant accounting policies (continued)

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

##### (ii) Classification (continued)

###### ***Business model assessment***

The Company 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 Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior years, 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 Company'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 ("SPPI")***

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular year 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 Company 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.

# PRASAC Microfinance Institution Plc.

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

### 3. Significant accounting policies (continued)

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

##### (ii) Classification (continued)

##### ***Assessment of whether contractual cash flows are solely payments of principal and interest ("SPPI") (continued)***

In making the assessment, the Company considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Company'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. yearical reset of interest rates).

##### ***Non-recourse loans***

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

##### ***Reclassifications***

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

# PRASAC Microfinance Institution Plc.

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

### 3. Significant accounting policies (continued)

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

##### (iii) *Derecognition*

###### *Financial assets*

The Company 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 Company 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 Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expired.

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

###### *Financial assets*

If the terms of a financial asset are modified, then the Company 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.

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 Company 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.



# PRASAC Microfinance Institution Plc.

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

### 3. Significant accounting policies (continued)

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

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

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

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Company 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.

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 Company 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.

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.

###### **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 Company 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.

# PRASAC Microfinance Institution Plc.

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

### 3. Significant accounting policies (continued)

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

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

###### **Interest rate benchmark reform (continued)**

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 Company 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 Company applies the policies on accounting for modifications set out above to the additional charges.

##### (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 Company 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 Company has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Company 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 Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Company 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.

# PRASAC Microfinance Institution Plc.

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

### 3. Significant accounting policies (continued)

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

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

If an asset or a liability measured at fair value has a bid price and an ask price, then the Company 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 Company 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.

##### (vii) Impairment of financial assets

The Company records the allowance for expected credit losses (“ECLs”) for all loans and receivables and other debt financial assets not held at FVTPL all referred to as ‘financial instruments’. Equity instruments are not subject to impairment under CIFRS 9.

ECL represents credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. ECL allowances are measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of a financial instrument.

##### **Staging assessment**

A three-stage approach for impairment of financial assets is used, based on whether there has been a significant deterioration in the credit risk of a financial asset. These three stages then determine the amount of impairment to be recognised.

# PRASAC Microfinance Institution Plc.

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

### 3. Significant accounting policies (continued)

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

##### (vii) *Impairment of financial assets (continued)*

###### ***Staging assessment (continued)***

For non-credit-impaired financial instruments:

- Stage 1 comprises all financial instruments which have not experienced a SICR since initial recognition or is considered of low credit risk as of the reporting date. The criteria for determining whether an account should be assessed under Stage 1 is based on day past due which is current or past due up to 29 days. The Company recognises a 12-month ECL for Stage 1 financial instruments.
- Stage 2 comprises all financial instruments which have experienced a SICR as of reporting date compared to initial recognition. A SICR is generally deemed present in accounts with the day past due is more than 29 days up to 89 days. The Company recognises a lifetime ECL for Stage 2 financial instruments.

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

At each reporting date, the Company 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 loans to customers by the Company on terms that the Company 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.

# PRASAC Microfinance Institution Plc.

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

### 3. Significant accounting policies (continued)

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

##### (vii) *Impairment of financial assets (continued)*

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

- Stage 3 comprises all financial assets that have objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The Company's criteria for Stage 3 accounts are generally aligned with the definition of "default" which is explained in the next paragraph. The Company recognises a lifetime ECL for Stage 3 financial instruments.

###### ***Establishing groups of assets with similar credit risk characteristics***

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Company monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differs.

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

The Company classifies loans, receivables, or any financial asset as in default when it is credit impaired. Financial assets are "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. A loan in a condition that borrower has no capacity to pay back 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 more than 89 days is considered credit-impaired.

###### ***Credit risk at initial recognition***

At each reporting date, the Company 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.

# PRASAC Microfinance Institution Plc.

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

### 3. Significant accounting policies (continued)

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

##### (vii) *Impairment of financial assets (continued)*

###### ***Credit risk at initial recognition (continued)***

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available including both quantitative and qualitative information and analysis, based on the Company'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 year considered when estimating ECLs is the maximum contractual year over which the Company is exposed to credit risk.

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

ECL is a function of the probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment.

PD is defined as an estimate of the likelihood that a customer will be unable to meet its debt obligation or default over a particular time horizon, usually in the course of 1 year. The estimation of ECL requires a 12-month PD for stage 1 exposures as well as lifetime ECL for exposures in stage 2 and stage 3. Hence, a lifetime PD table is required to be computed based on the Company's past historical data. PD estimation also requires the application of forward-looking adjustments to reflect the future macroeconomic scenarios. A term structure will be constructed using a statistical approach depending on data availability for the lifetime PD estimation.

LGD is the estimate of full economic loss in the event of default. The total cash recoveries were considered in the calculation of LGD.

EAD is defined as an estimation of the extent to which the Company may expose to a counterparty in the event of, and at the time of, the counterparty's default. Hence, the purpose of the EAD model is to estimate the exposure for the Company or the outstanding balance for the accounts that may default in any given reporting year.

# **PRASAC Microfinance Institution Plc.**

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

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

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

##### **(vii) Impairment of financial assets (continued)**

###### ***Forward-looking information***

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Macroeconomic variables “MEVs” have to be incorporated for the model of forward-looking and probability-weighting. Analysis between the historical default experience and the macroeconomic conditions is required to perform in order to identify the relationship. From there on, using the related macroeconomic variables, the Company can assign an appropriate amount of ECL according to the changes in the relevant economic condition.

The key forward-looking macroeconomic variables used in each of the economic scenarios for the ECL calculations are gross domestic product, unemployment rate, consumer price index and average interest loan for twelve months.

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

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

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

Loans to customers 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 Company 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 ‘other income’ in the statement of profit or loss and OCI.

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

###### ***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.

# **PRASAC Microfinance Institution Plc.**

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

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

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

##### **(vii) Impairment of financial assets (continued)**

###### ***Restructured financial assets (continued)***

- 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.

#### **D. Cash and cash equivalents**

For the purpose of presenting statement of cash flows, cash and cash equivalents consist of cash and bank balances, demand deposits, and short-term highly liquid investments with original maturities of three months or less when purchased, and that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

#### **E. Balances with the National Bank of Cambodia**

Capital guarantee deposit and reserve balances are maintained with the NBC in compliance with the Cambodian Law on Banking and Financial Institutions determined at defined percentages of minimum share capital and total deposits from customers, respectively. This account also includes current account carried at cost and interest-bearing term deposits.

#### **F. Balances with other banks**

Balances with other banks are carried at cost less ECL.

#### **G. Loans to customers**

Loans to customers are measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest rate method.



# PRASAC Microfinance Institution Plc.

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

### 3. Significant accounting policies (continued)

#### H. 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.

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

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

The cost of replacing a component of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company, 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. Significant components of individual assets are assessed, and if a component has a useful life that is different from the remainder of that asset, then that component is depreciated separately.

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

# PRASAC Microfinance Institution Plc.

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

### 3. Significant accounting policies (continued)

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

##### (iii) Depreciation (continued)

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

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

	<b>Useful life</b>
Office furniture	5 years
Vehicles	5 years
Motorcycles	4 years
Computer and peripherals	4 years
Communication equipment	4 years
Leasehold improvements	
Office	Lease term: from 1 to 10 years
ATM	Lease term: from 1 to 5 years

Fully depreciated assets are retained in the financial statements until they are no longer in use or no further charge for depreciation is made in respect of these assets.

#### I. Intangible assets

Intangible assets comprising mainly software are stated at cost less accumulated amortisation and accumulated impairment losses, if any. Software is amortised on a straight-line basis at the rate of 10% per annum.

If there is an indication that there has been a significant change in amortisation rate, useful life or residual value of software, the amortisation is revised prospectively to reflect the new expectations. Work in progress is not amortised until such time as the relevant assets are completed and put into operational use.

#### J. Leases

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

# PRASAC Microfinance Institution Plc.

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

### 3. Significant accounting policies (continued)

#### J. Leases (continued)

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

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

The estimated useful lives of right-of-use assets comprising office and ATM range from over 1 to 10 years.

#### *The Company acting as a lessee*

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

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

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

#### **Short-term leases and leases of low-value assets**

The Company applies short-term lease that have a lease term of 12 months or less from the commencement date. It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below USD 5,000). Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

# PRASAC Microfinance Institution Plc.

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

### 3. Significant accounting policies (continued)

#### K. Other assets

Other assets are carried at cost less impairment if any.

#### L. Deposits from banks and other financial institutions and deposits from customers

Deposits from banks and other financial institutions and deposits from customers are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at amortised cost using effective interest method.

#### M. Borrowings

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

#### N. Subordinated debts

Subordinated debts are long-term debts that are subordinated to all other liabilities of the Company. These are treated as part of the Company's liabilities and included in the Company's net worth computation under the NBC's guidelines as Tier 2 Capital. Foreign exchange differences on subordinated debts are taken through the profit or loss.

#### O. Employee benefits

##### (i) Short-term employee benefits

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

##### (ii) Other long-term employee benefits

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

# PRASAC Microfinance Institution Plc.

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

### 3. Significant accounting policies (continued)

#### P. Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made on the amount of 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. Share capital – share issue costs

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognised as a deduction from equity.

#### R. Regulatory reserve

Regulatory reserve is set up to account for the difference in provision between ECLs determined in accordance with CIFRS 9 and the regulatory provision computed in accordance with NBC Prakas No B7-017-344 dated 1 December 2017 and Circular No B7-018-001 dated 16 February 2018 on credit risk classification and provision on impairment for banks and financial institutions.

The regulatory provision requires banks and financial institutions to classify their loan portfolio into five classes and provide general and specific allowance based on the loan classification as follows:

<i>Classification</i>	<i>Number of days past due</i>	<i>Allowance rate</i>
Standard	0 to 14 days (short-term)	1%
	0 to 29 days (long-term)	
Special mention	15 days to 30 days (short-term)	3%
	30 days to 89 days (long-term)	
Substandard	31 days to 60 days (short-term)	20%
	90 days to 179 days (long-term)	
Doubtful	61 days to 90 days (short-term)	50%
	180 days to 359 days (long-term)	
Loss	From 91 days (short-term)	100%
	360 days or more (long-term)	

The Company shall compare the provision calculated in accordance with CIFRS 9 and the regulatory provision, and:

- In case the regulatory provision is lower than provision calculated in accordance with CIFRS 9, the Company records the provision calculated in accordance with CIFRS 9; and

# PRASAC Microfinance Institution Plc.

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

### 3. Significant accounting policies (continued)

#### R. Regulatory reserve (continued)

- In case the regulatory provision is higher than provision calculated in accordance with CIFRS 9, the Company records the provision calculated in accordance with CIFRS 9 and transfers the difference from retained earnings to the regulatory reserve in the shareholders' equity account.

In 2021, the number of restructured loans has increased due to the impact from Covid-19 pandemic. 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 and those that are still carrying to 31 December 2022 shall be classified and provisioned based on the requirements under this circular. For loans that were still in the assessment and grace period, they shall be kept at the same classification as before the restructured terms of contract.

The Company has reviewed this Circular and in the view that the Company's existing assessment on credit risk is aligned with the requirement mentioned in the above circular in preparing these financial statements.

The regulatory reserves are not an item to be included in the calculation of the banks' and financial institutions' net worth.

#### S. Interest income and expenses

##### (i) *Effective interest rate*

Interest income and expense are recognised in profit and loss using the effective interest rate 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 Company estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

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

# PRASAC Microfinance Institution Plc.

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

### 3. Significant accounting policies (continued)

#### S. Interest income and expenses (continued)

##### (ii) *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 rate 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 ECL allowance.

##### (iii) *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.

##### (iv) *Presentation*

Interest income and interest expense on financial assets and financial liability measured at amortised cost determined using the effective interest rate method are presented in the statement of profit or loss and other comprehensive income.

#### T. Fee and commission

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

Other fees and commission income, including account service fees, are recognised as the related services are performed.

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

# PRASAC Microfinance Institution Plc.

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

### 3. Significant accounting policies (continued)

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

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit ("CGU") exceeds its estimated recoverable amount.

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

For the purpose of impairment testing, assets that cannot be tested individually are grouped together with 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 or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs, and then to reduce the carrying amounts of the other assets in the CGUs on a pro-rata basis.

Impairment losses recognised in prior years 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.

#### V. Grants

The Company recognises an unconditional government grant related to reduction of withholding tax on interest with respect to the debt securities in profit or loss as other income on a systematic basis in the periods in which the expenses are recognised.

#### W. Income tax

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

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



# PRASAC Microfinance Institution Plc.

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

### 3. Significant accounting policies (continued)

#### W. Income tax (continued)

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

Current tax comprises the expected tax payable or receivable on the taxable income for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantially enacted at the reporting date.

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

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

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

Temporary differences in relation to a right-of-use asset and a lease liability for a specific lease are regarded as a net package (the lease) for the purpose of recognising deferred tax.

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

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if there is any.

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

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

#### X. 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.

# PRASAC Microfinance Institution Plc.

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

### 3. Significant accounting policies (continued)

#### Y. New standards or amendments and forthcoming requirements

The following amendments and interpretations to standards that are effective for annual periods beginning from 1 January 2022 do not have a significant impact on the Company's financial statements:

##### New currently effective requirements

- 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; and
- Reference to Conceptual Framework – Amendments to CIFRS 3.

In addition, a number of new standards and amendments to standards are effective for annual periods beginning on or after 1 January 2022 and earlier application is permitted; however, the Company has not early adopted any of the new or amended standards in preparing these financial statements.

##### Forthcoming requirements

#### (i) **Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to CIAS 12)**

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences - e.g. leases. The amendments apply for annual reporting periods beginning on or after 1 January 2023. For leases, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

The Company's accounts for deferred tax on leases applying the 'integrally linked' approach, resulting in a similar outcome to the amendments, except that the deferred tax impacts are presented net in the statement of financial position. Under the amendments, the Company will recognise a separate deferred tax asset and a deferred tax liability.

As at 31 December 2022, the taxable temporary difference in relation to the right-of-use asset is USD18,010,660 and the deductible temporary difference in relation to the lease liability is USD18,973,227 resulting in a net deferred tax asset of USD192,513 (Note 19). Under the amendments, the Company will present a separate deferred tax liability of USD3,602,132 and a deferred tax asset of USD3,794,645. There will be no impact on retained earnings on adoption of the amendments.

# PRASAC Microfinance Institution Plc.

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

### 3. Significant accounting policies (continued)

#### Y. New standards or amendments and forthcoming requirements (continued)

##### *Forthcoming requirements (continued)*

##### (ii) **Other standards**

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

- Classification of liabilities as Current or Non-Current (Amendments to CIAS1),
- CIFR 17 *Insurance contracts* and amendment to CIFRS 17 *Insurance contracts*,
- Disclosure of Accounting Policies – Amendments to CIAS 1 and CIFRS Practice Statement 2; and
- Definition of Accounting Estimate – Amendments to CIAS 8.

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

The financial statements are expressed in United States Dollars (“USD”) which is the Company’s functional currency. The translations of USD amounts into Khmer Riel (“KHR”) meets 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 Rate*.

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

The Company uses the following exchange rates:

Financial year end		Closing rate	Average rate
31 December 2022	USD1 =	KHR 4,117	KHR 4,087
31 December 2021	USD1 =	KHR 4,074	KHR 4,068

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

## PRASAC Microfinance Institution Plc.

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

#### 5. Cash on hand

	31 December 2022		31 December 2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Branches	39,956,575	164,501,220	37,795,735	153,979,824
Head office	87,467,252	360,102,676	184,569,664	751,936,812
	<u>127,423,827</u>	<u>524,603,896</u>	<u>222,365,399</u>	<u>905,916,636</u>

Cash on hand by currency comprises the following:

	31 December 2022		31 December 2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
USD	114,419,602	471,065,502	184,320,172	750,920,382
KHR	12,736,052	52,434,326	34,859,816	142,018,890
THB	268,173	1,104,068	3,185,411	12,977,364
	<u>127,423,827</u>	<u>524,603,896</u>	<u>222,365,399</u>	<u>905,916,636</u>

#### 6. Balances with the National Bank of Cambodia

	Note	31 December 2022		31 December 2021	
		USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Current accounts	(a)	64,590,618	265,919,574	139,856,737	569,776,347
Term deposits (original maturity up to three months)	(a)	372,869	1,535,102	373,638	1,522,201
Term deposits (original maturity of more than three months)	(a)	545,316	2,245,066	148,184	603,702
Capital guarantee	(b)	40,000,000	164,680,000	30,000,000	122,220,000
Reserve requirement	(c)	220,775,738	908,933,713	198,040,807	806,818,247
		<u>326,284,541</u>	<u>1,343,313,455</u>	<u>368,419,366</u>	<u>1,500,940,497</u>

# PRASAC Microfinance Institution Plc.

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

### 6. Balances with the National Bank of Cambodia (continued)

#### (a) Current accounts and term deposits

Current accounts earn no interest.

Term deposits with original maturity up to three months earn annual interest rates ranging from 1.54% to 3.37% (31 December 2021: from 0.04% to 1.63%) and those with original maturity of more than three months earns annual interest rates ranging from 0.83% to 3.65% (31 December 2021: from 0.13% to 1.91%) during the year.

Included in the above term deposits with original maturity of more than three months is the pledged Negotiable Certificate of Deposit (“NCD”) with the Central Bank amounting to USD251,000 as collateral for the Liquidity-Providing Collateralized Operation (“LPCO”). The term of the NCD pledged as collateral for LPCO is for the period of 6 months as following to the term of the LPCO, and it earns annual interest rate at 3.53% (31 December 2021: Nil).

#### (b) Capital guarantee

Under Prakas No. B7-07-163 dated 13 December 2007 on Licensing of Deposit-Taking Microfinance Institutions, the Company is required to maintain a capital guarantee deposit equivalent to 10% of registered capital with the NBC. On 27 April 2022, the Company increased the capital guarantee to USD40 million, following the increase in share capital, which was approved by the NBC on 25 April 2022. This deposit is not available for use in the Company’s day-to-day operations but is refundable when the Company voluntarily ceases to operate the business in Cambodia. The capital guarantee deposit earns annual interest rate at 1.19% (31 December 2021: 0.04%) during the year.

#### (c) Reserve requirement

This represents the minimum reserve requirement which is calculated at 8.00% of the total deposits from customers as required by Prakas No. B7-07-163. The reserve requirement fluctuates depending on the level of deposits from customers and does not earn interest.

As of the reporting date, the Company has maintained sufficient minimum reserve requirement balance with NBC as per compliance with the above Prakas.

Subsequently, on 9 January 2023, the NBC announced, through Prakas No.B7-023-005, the increase of the Reserve Requirements Rate (“RRR”) to 9% and 12.5% for foreign currencies deposits and borrowings, which is effective from 1 January 2023 to 31 December 2023, and from 1 January 2024 onward, respectively. While, the RRR for local currency deposits and borrowings will remain at 7%.

The Company is a Deposit-taking microfinance institution, therefore, the RRR for local currency deposits and borrowings will be changed from 8% to 7% starting from 1 January 2023 as a result of the above regulation.

On 30 January 2023, the Company submitted a request letter to NBC to top up the additional reserve in four instalments with the latest instalment by 30 November 2023. As of the date of this report, the Company has not yet received any response from the NBC.

# PRASAC Microfinance Institution Plc.

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

### 7. Balances with other banks

	31 December 2022		31 December 2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Current accounts	2,858,502	11,768,453	2,240,993	9,129,805
Savings accounts	147,697	608,069	90,418	368,363
Term deposit (original maturity up to three months)	3,000,000	12,351,000	-	-
Gross balances with other banks	6,006,199	24,727,522	2,331,411	9,498,168
Allowance for impairment losses	(60,062)	(247,276)	(23,314)	(94,981)
	<u>5,946,137</u>	<u>24,480,246</u>	<u>2,308,097</u>	<u>9,403,187</u>

Current accounts earn annual interest rate up to 0.75% (31 December 2021: 0.00% to 0.75%); savings accounts earn annual interest rates ranging from 0.00% to 0.50% (31 December 2021: 0.00% to 0.20%) and term deposit earns annual interest rate at 3% (31 December 2021: Nil) during the year.

Balances with other banks by currency are as follows:

	31 December 2022		31 December 2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
USD	4,209,211	17,329,322	1,759,006	7,166,190
KHR	1,796,988	7,398,200	572,405	2,331,978
	<u>6,006,199</u>	<u>24,727,522</u>	<u>2,331,411</u>	<u>9,498,168</u>

The movements of allowance for impairment losses on balances with other banks during the year were as follows:

	2022		2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Balance at 1 January	23,314	94,981	40,151	162,411
Recognised in profit or loss	36,748	150,189	(16,837)	(68,493)
Currency translation differences	-	2,106	-	1,063
Balance at 31 December	<u>60,062</u>	<u>247,276</u>	<u>23,314</u>	<u>94,981</u>

# PRASAC Microfinance Institution Plc.

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

### 8. Loans to customers

Loans to customers are categorised as follows:

	31 December 2022		31 December 2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Individual loans	4,281,876,057	17,628,483,727	3,683,632,514	15,007,118,862
Small and medium enterprises	67,871,319	279,426,220	61,901,154	252,185,301
Staff loans	5,719,847	23,548,610	7,300,898	29,743,858
Group loans	100,509	413,796	176,926	720,797
	<u>4,355,567,732</u>	<u>17,931,872,353</u>	<u>3,753,011,492</u>	<u>15,289,768,818</u>
Unamortised loan processing fees	<u>(40,070,973)</u>	<u>(164,972,196)</u>	<u>(34,840,611)</u>	<u>(141,940,649)</u>
	4,315,496,759	17,766,900,157	3,718,170,881	15,147,828,169
Accrued interest receivable	34,588,404	142,400,459	30,187,544	122,984,054
	<u>4,350,085,163</u>	<u>17,909,300,616</u>	<u>3,748,358,425</u>	<u>15,270,812,223</u>
Allowance for impairment losses	<u>(53,963,378)</u>	<u>(222,167,227)</u>	<u>(56,790,432)</u>	<u>(231,364,220)</u>
	<u><u>4,296,121,785</u></u>	<u><u>17,687,133,389</u></u>	<u><u>3,691,567,993</u></u>	<u><u>15,039,448,003</u></u>

The movements of allowance for impairment losses on loans to customers during the year were as follows:

	2022		2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Balance at 1 January	56,790,432	231,364,220	49,613,493	200,686,579
Recognised in profit or loss	19,014,983	77,714,236	14,722,763	59,892,200
Written-off during the year	(21,842,037)	(89,268,406)	(7,545,824)	(30,696,412)
Currency translation differences	-	2,357,177	-	1,481,853
Balance at 31 December	<u><u>53,963,378</u></u>	<u><u>222,167,227</u></u>	<u><u>56,790,432</u></u>	<u><u>231,364,220</u></u>

# PRASAC Microfinance Institution Plc.

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

### 8. Loans to customers (continued)

The annual interest rates of loans to customers at the year end are as follows:

	2022	2021
Group loans	16.20% - 18.00%	16.20% - 18.00%
Individual loans	12% - 25.20% (before April 2017) 6.48% - 18.00% (after April 2017)	6.50% - 27.60%(before April 2017) 7.00% - 18.00% (after April 2017)
Biogas loans	N/A	18%
Staff loans	8.00% - 10.00%	8.00% - 10.00%

Effective 1 April 2017, the annual interest rate of all new loans and restructured loans is capped at 18% as required by Prakas B7-017-109 on interest rate ceiling on loans. Loans to customers outstanding with annual interest rate more than 18% were for those loans disbursed prior to the issuance of this Prakas and which remain outstanding at the reporting date.

For additional analysis of gross amount of loans to customers, refer to Note 34.1.

### 9. Other assets

	31 December 2022		31 December 2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Prepayments	3,413,531	14,053,507	1,188,294	4,841,110
Deposits	950,824	3,914,542	611,637	2,491,809
Long-term investment	28,167	115,964	28,167	114,752
Others	802	3,302	104	424
	4,393,324	18,087,315	1,828,202	7,448,095
Allowance for impairment losses	(19,016)	(78,289)	(12,233)	(49,837)
	4,374,308	18,009,026	1,815,969	7,398,258

The movements of allowance for impairment losses on refundable deposits during the year were as follows:

	2022		2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Balance at 1 January	12,233	49,837	10,300	41,664
Recognised in profit or loss	6,783	27,722	1,933	7,863
Currency translation differences	-	730	-	310
Balance at 31 December	19,016	78,289	12,233	49,837



# PRASAC Microfinance Institution Plc.

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

### 10. Property and equipment

	2022								
	Office furniture USD	Vehicles USD	Motorcycles USD	Computer and peripherals USD	Leasehold improvements USD	Communication equipment USD	Work in progress USD	Total USD	KHR'000 equivalent (Note 4)
<b>Cost</b>									
Balance at 1 January	5,517,131	2,851,723	360,678	9,797,701	2,419,207	344,072	288,696	21,579,208	87,913,693
Additions	453,373	308,500	-	475,794	23,570	3,277	778,179	2,042,693	8,348,486
Disposals/write-offs	(131,500)	(240,500)	-	(529,968)	(73,230)	(924)	-	(976,122)	(3,989,411)
Transfers	203,960	-	-	763,003	46,309	-	(1,013,272)	-	-
Currency translation differences	-	-	-	-	-	-	-	-	959,904
Balance at 31 December	<u>6,042,964</u>	<u>2,919,723</u>	<u>360,678</u>	<u>10,506,530</u>	<u>2,415,856</u>	<u>346,425</u>	<u>53,603</u>	<u>22,645,779</u>	<u>93,232,672</u>
<b>Less: Accumulated depreciation</b>									
Balance at 1 January	4,582,179	2,313,720	353,407	7,235,877	1,952,147	280,360	-	16,717,690	68,107,868
Depreciation for the year	380,665	270,708	3,588	1,278,298	141,300	31,464	-	2,106,023	8,607,316
Disposals/write-offs	(130,619)	(240,500)	-	(519,923)	(72,703)	(924)	-	(964,669)	(3,942,602)
Currency translation differences	-	-	-	-	-	-	-	-	753,102
Balance at 31 December	<u>4,832,225</u>	<u>2,343,928</u>	<u>356,995</u>	<u>7,994,252</u>	<u>2,020,744</u>	<u>310,900</u>	<u>-</u>	<u>17,859,044</u>	<u>73,525,684</u>
<b>Carrying amounts</b>									
Balance at 31 December	<u>1,210,739</u>	<u>575,795</u>	<u>3,683</u>	<u>2,512,278</u>	<u>395,112</u>	<u>35,525</u>	<u>53,603</u>	<u>4,786,735</u>	<u>19,706,988</u>

# PRASAC Microfinance Institution Plc.

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

### 10. Property and equipment (continued)

	2021								
	Office furniture USD	Vehicles USD	Motorcycles USD	Computer and peripherals USD	Leasehold improvements USD	Communication equipment USD	Work in progress USD	Total USD	KHR'000 equivalent (Note 4)
<b>Cost</b>									
Balance at 1 January	5,355,637	3,037,394	360,678	9,030,420	2,401,455	326,356	295,714	20,807,654	84,166,960
Additions	190,187	97,500	-	365,373	5,674	17,716	605,922	1,282,372	5,216,689
Disposals/write-offs	(55,778)	(283,171)	-	(165,606)	(6,263)	-	-	(510,818)	(2,078,008)
Transfers	27,085	-	-	567,514	18,341	-	(612,940)	-	-
Currency translation differences	-	-	-	-	-	-	-	-	608,052
Balance at 31 December	5,517,131	2,851,723	360,678	9,797,701	2,419,207	344,072	288,696	21,579,208	87,913,693
<b>Less: Accumulated depreciation</b>									
Balance at 1 January	4,222,332	2,315,084	349,819	6,215,744	1,788,910	252,962	-	15,144,851	61,260,921
Depreciation for the year	413,709	273,348	3,588	1,184,888	169,500	27,398	-	2,072,431	8,430,649
Disposals/write-offs	(53,862)	(274,712)	-	(164,755)	(6,263)	-	-	(499,592)	(2,032,340)
Currency translation differences	-	-	-	-	-	-	-	-	448,638
Balance at 31 December	4,582,179	2,313,720	353,407	7,235,877	1,952,147	280,360	-	16,717,690	68,107,868
<b>Carrying amounts</b>									
Balance at 31 December	934,952	538,003	7,271	2,561,824	467,060	63,712	288,696	4,861,518	19,805,825

# PRASAC Microfinance Institution Plc.

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

### 11. Right-of-use assets

Information about the Company's leases is disclosed within this note and Note 18.

The Company leases office space, including its head office, branches and ATM locations. Information about leases for which the Company is a lessee is presented as below.

	2022			KHR'000 equivalent (Note 4)
	Office space USD	ATM space USD	Total USD	
<b>Cost</b>				
Balance at 1 January	30,328,390	811,909	31,140,299	126,865,578
Additions	6,458,024	313,816	6,771,840	27,676,510
Terminations	(41,539)	-	(41,539)	(169,770)
Expirations	(3,146,559)	(448,088)	(3,594,647)	(14,691,322)
Currency translation differences	-	-	-	1,433,103
Balance at 31 December	<u>33,598,316</u>	<u>677,637</u>	<u>34,275,953</u>	<u>141,114,099</u>
<b>Less: Accumulated depreciation</b>				
Balance at 1 January	14,414,971	627,685	15,042,656	61,283,780
Depreciation for the year	4,202,112	181,825	4,383,937	17,917,151
Terminations	(39,303)	-	(39,303)	(160,630)
Expirations	(3,146,559)	(448,088)	(3,594,647)	(14,691,322)
Currency translation differences	-	-	-	669,333
Balance at 31 December	<u>15,431,221</u>	<u>361,422</u>	<u>15,792,643</u>	<u>65,018,312</u>
<b>Carrying amounts</b>				
Balance at 31 December	<u>18,167,095</u>	<u>316,215</u>	<u>18,483,310</u>	<u>76,095,787</u>

## PRASAC Microfinance Institution Plc.

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

#### 11. Right-of-use assets (continued)

	2021			KHR'000 equivalent (Note 4)
	Office space USD	ATM space USD	Total USD	
<b>Cost</b>				
Balance at 1 January	25,638,528	717,053	26,355,581	106,608,325
Additions	4,689,862	94,856	4,784,718	19,464,233
Currency translation differences	-	-	-	793,020
Balance at 31 December	<u>30,328,390</u>	<u>811,909</u>	<u>31,140,299</u>	<u>126,865,578</u>
<b>Less: Accumulated depreciation</b>				
Balance at 1 January	10,579,042	454,360	11,033,402	44,630,111
Depreciation for the year	3,835,929	173,325	4,009,254	16,309,647
Currency translation differences	-	-	-	344,022
Balance at 31 December	<u>14,414,971</u>	<u>627,685</u>	<u>15,042,656</u>	<u>61,283,780</u>
<b>Carrying amounts</b>				
Balance at 31 December	<u>15,913,419</u>	<u>184,224</u>	<u>16,097,643</u>	<u>65,581,798</u>

# PRASAC Microfinance Institution Plc.

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

### 12. Intangible assets

	2022				
	Computer software USD	Core banking system license USD	Work in progress USD	USD	Total KHR'000 equivalent (Note 4)
<b>Cost</b>					
Balance at 1 January	1,264,054	2,891,587	-	4,155,641	16,930,081
Additions	-	-	16,800	16,800	68,662
Currency translation differences	-	-	-	-	179,197
Balance at 31 December	<u>1,264,054</u>	<u>2,891,587</u>	<u>16,800</u>	<u>4,172,441</u>	<u>17,177,940</u>
<b>Less: Accumulated amortisation</b>					
Balance at 1 January	925,837	1,875,275	-	2,801,112	11,411,732
Amortisation for the year	103,650	188,352	-	292,002	1,193,412
Currency translation differences	-	-	-	-	129,207
Balance at 31 December	<u>1,029,487</u>	<u>2,063,627</u>	<u>-</u>	<u>3,093,114</u>	<u>12,734,351</u>
<b>Carrying amounts</b>					
Balance at 31 December	<u>234,567</u>	<u>827,960</u>	<u>16,800</u>	<u>1,079,327</u>	<u>4,443,589</u>
	2021				
	Computer software USD	Core banking system license USD		Total USD	KHR'000 equivalent (Note 4)
<b>Cost</b>					
Balance at 1 January		1,220,319	2,891,587	4,111,906	16,632,661
Additions		43,735	-	43,735	177,914
Currency translation differences		-	-	-	119,506
Balance at 31 December		<u>1,264,054</u>	<u>2,891,587</u>	<u>4,155,641</u>	<u>16,930,081</u>
<b>Less: Accumulated amortisation</b>					
Balance at 1 January		817,815	1,686,923	2,504,738	10,131,666
Amortisation for the year		108,022	188,352	296,374	1,205,648
Currency translation differences		-	-	-	74,416
Balance at the end of the period		<u>925,837</u>	<u>1,875,275</u>	<u>2,801,112</u>	<u>11,411,730</u>
<b>Carrying amounts</b>					
Balance at 31 December		<u>338,217</u>	<u>1,016,312</u>	<u>1,354,529</u>	<u>5,518,351</u>

# PRASAC Microfinance Institution Plc.

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

### 13. Deposits from banks and other financial institutions

	31 December 2022		31 December 2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Term deposits	49,856,431	205,258,927	77,619,435	316,221,578
Savings deposits	180,687	743,888	4,262,143	17,363,971
	<u>50,037,118</u>	<u>206,002,815</u>	<u>81,881,578</u>	<u>333,585,549</u>

Deposits from banks and other financial institutions are further analysed as follows:

**(a) By maturity**

Refer to Note 34.3 (ii) interest rate risk.

**(b) By currency**

	31 December 2022		31 December 2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
USD	50,013,944	205,907,408	81,823,935	333,350,711
KHR	23,174	95,407	57,643	234,838
	<u>50,037,118</u>	<u>206,002,815</u>	<u>81,881,578</u>	<u>333,585,549</u>

**(c) By relationship**

	31 December 2022		31 December 2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Non-related parties	27,277,134	112,299,961	62,727,192	255,550,580
Related parties	22,759,984	93,702,854	19,154,386	78,034,969
	<u>50,037,118</u>	<u>206,002,815</u>	<u>81,881,578</u>	<u>333,585,549</u>

# PRASAC Microfinance Institution Plc.

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

### 13. Deposits from banks and other financial institutions (continued)

Deposits from banks and other financial institutions are further analysed as follows: (continued)

#### (d) By range of annual interest rates

Annual interest rates applicable to deposits from banks and other financial institutions at the year end were as follows:

	2022	2021
Term deposits		
USD	3.00% - 6.50%	2.00% - 5.25%
KHR	N/A	N/A
Savings deposits		
USD	0.00%	0.00%
KHR	0.00%	0.00%

### 14. Deposits from customers

	31 December 2022		31 December 2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Term deposits	2,576,555,725	10,607,679,920	2,397,228,295	9,766,308,074
Savings deposits	150,652,137	620,234,848	136,102,560	554,481,829
	<u>2,727,207,862</u>	<u>11,227,914,768</u>	<u>2,533,330,855</u>	<u>10,320,789,903</u>

Deposits from customers are further analysed as follows:

#### (a) By maturity

Refer to Note 34.3 (ii) interest rate risk.

#### (b) By currency

	31 December 2022		31 December 2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
USD	2,546,046,345	10,482,072,803	2,338,356,190	9,526,463,118
KHR	181,026,036	745,284,190	193,497,517	788,308,884
THB	135,481	557,775	1,477,148	6,017,901
	<u>2,727,207,862</u>	<u>11,227,914,768</u>	<u>2,533,330,855</u>	<u>10,320,789,903</u>

# PRASAC Microfinance Institution Plc.

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

### 14. Deposits from customers (continued)

Deposits from customers are further analysed as follows: (continued)

#### (c) By relationship

	31 December 2022		31 December 2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Non-related parties	2,710,332,854	11,158,440,360	2,481,756,245	10,110,674,942
Related parties	16,875,008	69,474,408	51,574,610	210,114,961
	<u>2,727,207,862</u>	<u>11,227,914,768</u>	<u>2,533,330,855</u>	<u>10,320,789,903</u>

#### (d) By range of annual interest rates

Annual interest rates applicable to deposits from customers at the year end were as follows:

	2022	2021
Term deposits		
USD	2.75% - 8.50%	0.75% - 8.25%
KHR	2.00% - 10.15%	2.00% - 10.15%
THB	0.10% - 7.25%	0.10% - 8.00%
Savings deposits		
USD	0.00% - 3.00%	0.00% - 3.00%
KHR	0.00% - 3.00%	0.00% - 3.00%
THB	0.00% - 0.10%	0.00% - 0.10%

### 15. Borrowings

The Company has entered into borrowing agreements with various lenders, including both related and non-related parties. Borrowings are unsecured and the repayments of principal and interest are made either on quarterly, semi-annual or annual basis based on the repayment schedule for each of the borrowing agreements.

As at 31 December 2022, the Company is in breach of one of the covenants on a borrowing with carrying amount of USD17,142,857 and bond guarantor agreement over its bond payables. The covenant states that at the end of each reporting period, the Company's available stable funding cannot be lower than 85% of the required stable funding, otherwise the borrowing will be payable on demand. However, as at 31 December 2022, the Company's available stable funding was at only 83.63% of the required stable funding.



# PRASAC Microfinance Institution Plc.

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

### 15. Borrowings (continued)

The Company received email correspondences on 8 February 2023 and 13 February 2023 from guarantor and lender, respectively, with approval to revise the above ratio from 85% to 80% for the reporting period starting from December 2022 to 31 March 2023. On the basis of the new covenant and its forecasts, the management believes that the risk of new covenant being breached is low. The Company is working on processing the official waiver letter following the above emails.

Borrowings are further analysed as follows:

#### (a) By maturity

Refer to Note 34.3 (ii) interest rate risk.

#### (b) By currency

	31 December 2022		31 December 2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
USD	798,375,467	3,286,911,798	670,477,767	2,731,526,422
KHR	172,883,958	711,763,255	143,249,534	583,598,602
THB	-	-	16,094,563	65,569,250
	<u>971,259,425</u>	<u>3,998,675,053</u>	<u>829,821,864</u>	<u>3,380,694,274</u>

#### (c) By relationship

	31 December 2022		31 December 2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Non-related parties	689,092,420	2,836,993,493	715,840,327	2,916,333,492
Related parties	282,167,005	1,161,681,560	113,981,537	464,360,782
	<u>971,259,425</u>	<u>3,998,675,053</u>	<u>829,821,864</u>	<u>3,380,694,274</u>

#### (d) By range of annual interest rates

Annual interest rates applicable to borrowings at the year end were as follows:

	2022	2021
USD	2.00% - 10.21%	2.00% - 6.98%
KHR	2.00% - 7.40%	2.00% - 7.50%
THB	N/A	8.37% - 8.84%

# PRASAC Microfinance Institution Plc.

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

### 15. Borrowings (continued)

#### Reconciliation of movements of liabilities to cash flows arising from financing and operating activities:

2022	Borrowings	Bonds payable (Note 16)	Subordinated debts (Note 17)	Lease liabilities (Note 18)	Total	
	USD	USD	USD	USD	USD	KHR'000 equivalent (Note 4)
Balance at 1 January 2022	829,821,864	31,342,099	105,191,790	15,591,438	981,947,191	4,000,452,855
<b>Changes from financing cash flows</b>						
Proceeds from borrowings	468,079,917	-	-	-	468,079,917	1,913,042,621
Repayments of borrowings/ subordinated debt	(324,659,857)	-	(15,321,929)	-	(339,981,786)	(1,389,505,560)
Payment of lease liabilities	-	-	-	(3,973,113)	(3,973,113)	(16,238,113)
	143,420,060	-	(15,321,929)	(3,973,113)	124,125,018	507,298,948
<b>Changes from operating cash flows</b>						
Interest expense	58,914,368	2,510,158	9,397,981	1,898,088	72,720,595	297,209,072
Interest paid	(58,842,560)	(2,508,885)	(9,590,415)	(1,325,325)	(72,267,185)	(295,355,985)
Unrealised exchange gain	(2,054,307)	(174,944)	-	-	(2,229,251)	(9,110,949)
	(1,982,499)	(173,671)	(192,434)	572,763	(1,775,841)	(7,257,862)
<b>Other changes (Non-cash)</b>						
New leases	-	-	-	6,782,139	6,782,139	27,718,602
Currency translation differences	-	-	-	-	-	46,097,671
	-	-	-	6,782,139	6,782,139	73,816,273
Balance at 31 December 2022	971,259,425	31,168,428	89,677,427	18,973,227	1,111,078,507	4,574,310,214

# PRASAC Microfinance Institution Plc.

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

### 15. Borrowings (continued)

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

2021	Borrowings	Bonds payable (Note 16)	Subordinated debts (Note 17)	Lease liabilities (Note 18)	Total	
	USD	USD	USD	USD	USD	KHR'000 equivalent (Note 4)
Balance at 1 January 2021	794,430,317	30,666,038	113,667,817	14,424,818	953,188,990	3,855,649,465
<b>Changes from financing cash flows</b>						
Proceeds from borrowings/subordinated debt	335,239,090	-	17,296,512	-	352,535,602	1,434,114,829
Repayments of borrowings/subordinated debt	(295,976,678)	-	(25,784,186)	-	(321,760,864)	(1,308,923,195)
Payment of lease liabilities	-	-	-	(3,618,098)	(3,618,098)	(14,718,423)
	<u>39,262,412</u>	<u>-</u>	<u>(8,487,674)</u>	<u>(3,618,098)</u>	<u>27,156,640</u>	<u>110,473,211</u>
<b>Changes from operating cash flows</b>						
Interest expense	47,986,130	2,601,274	11,255,052	1,703,815	63,546,271	258,506,230
Interest paid	(47,454,899)	(2,612,660)	(11,243,405)	(1,703,815)	(63,014,779)	(256,344,121)
Unrealised exchange (gain)/loss	(4,402,096)	687,447	-	-	(3,714,649)	(15,111,192)
	<u>(3,870,865)</u>	<u>676,061</u>	<u>11,647</u>	<u>-</u>	<u>(3,183,157)</u>	<u>(12,949,083)</u>
<b>Other changes (Non-cash)</b>						
New leases	-	-	-	4,784,718	4,784,718	19,464,233
Currency translation differences	-	-	-	-	-	27,815,029
	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,784,718</u>	<u>4,784,718</u>	<u>47,279,262</u>
Balance at 31 December 2021	<u>829,821,864</u>	<u>31,342,099</u>	<u>105,191,790</u>	<u>15,591,438</u>	<u>981,947,191</u>	<u>4,000,452,855</u>

# PRASAC Microfinance Institution Plc.

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

### 16. Bonds payable

In April 2020, the Company issued KHR127.2 billion (equivalent to USD31.17 million) fixed rate guaranteed bonds due on 23 April 2023. The bonds are guaranteed by the Credit Guarantee and Investment Facility, a trust fund of Asian Development Bank (“ADB”). The bonds are listed on the Cambodia Securities Exchange (“CSX”) and were priced at KHR100,000 per bond with a coupon rate of 7.50% per annum and are payable on a semi-annual basis commencing on 23 October 2020. The Company incurred debt’s issuance costs amounting to KHR6.21 billion (equivalent to USD1.52 million).

### 17. Subordinated debts

	31 December 2022		31 December 2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Subordinated debts	89,677,427	369,201,967	105,191,790	428,551,352

These are subordinated debts from foreign lenders, non-related parties, amounting to USD39,402,454 (equivalent to KHR162.22 billion) (31 December 2021: USD54,999,653 equivalent to KHR224.1 billion) and shareholder amounting to USD50,274,973 (equivalent to KHR206.98 billion) (31 December 2021: USD50,192,137 equivalent to KHR204.5 billion), which are repayable based on the agreed schedules stated in each loan agreements. The subordinated debt from shareholder was approved by the NBC such that it can be included as Tier 2 Capital for purpose of net worth calculation. The subordinated debts were charged with the annual interest rates ranging from 6.98% to 10.47% (2021: 6.98% to 10.47%) during the year.

### 18. Lease liabilities

	31 December 2022		31 December 2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
<b>Maturity analysis – contractual undiscounted cash flows</b>				
Less than one year	5,293,989	21,795,353	4,494,357	18,310,009
One to five years	13,801,905	56,822,442	11,814,043	48,130,411
More than five years	4,326,301	17,811,381	2,713,396	11,054,377
<b>Total undiscounted lease liabilities</b>	<b>23,422,195</b>	<b>96,429,176</b>	<b>19,021,796</b>	<b>77,494,797</b>
<b>Present value of lease liabilities</b>				
Current	3,998,954	16,463,692	3,407,054	13,880,338
Non-current	14,974,273	61,649,084	12,184,384	49,639,180
	<b>18,973,227</b>	<b>78,112,776</b>	<b>15,591,438</b>	<b>63,519,518</b>

# PRASAC Microfinance Institution Plc.

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

### 18. Lease liabilities (continued)

Amounts recognised in statement of profit or loss are as follows:

	2022		2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Expenses relating to short-term leases and lower-value assets	726,076	2,967,473	815,242	3,316,404
Interest on lease liabilities	1,898,088	7,757,486	1,703,815	6,931,119
	<u>2,624,164</u>	<u>10,724,959</u>	<u>2,519,057</u>	<u>10,247,523</u>

### 19. Income tax

The Company's tax returns are subject to examination by the General Department of Taxation ("GDT"). Because the application of tax laws and regulations to many types of transactions is susceptible to varying interpretations, the amounts reported in the financial statements could change at a later date upon final determination by the GDT.

#### (a) Income tax expense

##### *Applicable tax rates*

In accordance with Cambodian tax law, the Company has the obligation to pay tax on income ("TOI") at the rate of 20% of taxable income or minimum tax at 1% of turnover inclusive of all taxes except value-added tax, whichever is higher.

Based on ANUKRET on Tax Incentive in CSX, the Company is entitled to reduce half amount of its tax on income within the duration of tax incentive year. In order to get the incentives, the Company needs to submit the request to the General Department of Taxation ("GDT") through the Securities and Exchange Regulator of Cambodia ("SERC") (formerly known as Securities and Exchange Commission of Cambodia ("SECC") until 8 April 2021) before the end of each fiscal year.

On 4 February 2021, the Company received the letter from SERC informing that the request was submitted to GDT. The Company has submitted a clarification letter to GDT regarding the approval on tax incentive. On 11 March 2021, the Company received the approval from the GDT on the tax incentives for the fiscal year 2020 and 2021 following the Prakas No. 183 dated 25 January 2020 on the implementation guidance on the incentive on tax on profit for the IPO enterprise.

On 17 December 2021, the Company received the letter from SERC informing the Company to submit the clarification letter to GDT on the tax incentive for fiscal year 2021. On 30 December 2021 the Company has submitted a clarification letter to GDT regarding the tax incentive for the fiscal year 2021. On 3 February 2022, the Company received the confirmation letter from the GDT on the tax incentives for the fiscal 2021 and 2022 following the Prakas No. 183 dated 25 January 2020 on the implementation guidance on the incentive on tax on profit for the IPO enterprise.

# PRASAC Microfinance Institution Plc.

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

### 19. Income tax (continued)

#### (a) Income tax expense (continued)

On 6 January 2023, the Company received the letter from SERC informing the Company to submit the clarification letter to GDT on the tax incentive for fiscal year 2022. On 12 January 2023 the Company submitted a clarification letter to GDT regarding the tax incentive for the fiscal year 2022. On 10 February 2023, the Company received the confirmation letter from the GDT on the tax incentives for the fiscal year 2022 following the Prakas No. 183 dated 25 January 2020 on the implementation guidance on the incentive on tax on profit for the IPO enterprise.

Income tax expense comprises:

	2022		2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Current tax at applicable tax rate	47,234,851	193,048,836	39,678,014	161,410,161
Under provision from prior year	1,156,005	4,724,592	-	-
Tax incentive on bond listing	(783,078)	(3,200,440)	(718,172)	(2,921,524)
Current tax	47,607,778	194,572,988	38,959,842	158,488,637
Deferred tax	(2,789,245)	(11,399,644)	(822,784)	(3,347,085)
	<u>44,818,533</u>	<u>183,173,344</u>	<u>38,137,058</u>	<u>155,141,552</u>

The reconciliation of income tax expense shown in the statement of profit or loss and other comprehensive income were as follows:

	2022		2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Profit before income tax	<u>226,093,878</u>	<u>924,045,678</u>	<u>193,638,022</u>	<u>787,719,474</u>
Income tax expense at applicable tax rate of 20%	45,218,776	184,809,138	38,727,604	157,543,893
Non-deductible expenses	382,835	1,564,646	127,626	519,183
Tax incentive on bond listing	(783,078)	(3,200,440)	(718,172)	(2,921,524)
	<u>44,818,533</u>	<u>183,173,344</u>	<u>38,137,058</u>	<u>155,141,552</u>

# PRASAC Microfinance Institution Plc.

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

### 19. Income tax (continued)

#### (b) Income tax payable

Movements of income tax payable during the year were as follows:

	2022		2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Balance at 1 January	34,153,679	139,142,088	24,076,695	97,390,231
Current income tax at applicable tax rate	47,234,851	193,048,836	39,678,014	161,410,161
Under provision from prior year	1,156,005	4,724,592	-	-
Tax incentive on bond listing	(783,078)	(3,200,440)	(718,172)	(2,921,524)
Income tax paid	(40,712,538)	(166,392,143)	(28,882,858)	(117,495,466)
Currency translation differences	-	1,675,467	-	758,686
Balance at 31 December	<u>41,048,919</u>	<u>168,998,400</u>	<u>34,153,679</u>	<u>139,142,088</u>

#### (c) Deferred tax assets – net

	31 December 2022		31 December 2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Deferred tax assets	14,788,456	60,884,073	11,970,162	48,766,440
Deferred tax liabilities	(271,576)	(1,118,078)	(242,527)	(988,055)
Deferred tax assets – net	<u>14,516,880</u>	<u>59,765,995</u>	<u>11,727,635</u>	<u>47,778,385</u>

# PRASAC Microfinance Institution Plc.

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

### 19. Income tax (continued)

#### (c) Deferred tax assets – net

Deferred taxes were attributable to the following:

	31 December 2022		31 December 2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
<i>Deferred tax assets:</i>				
Unamortised loan fees	8,014,195	32,994,441	6,968,122	28,388,129
Allowance for impairment losses	3,823,667	15,742,037	3,510,062	14,299,992
Unused annual leave	462,589	1,904,479	440,040	1,792,723
Provision for employee benefits	206,285	849,275	47,581	193,845
Accrued interest receivable	65,611	270,120	5,696	23,206
Right-of-use assets and lease liabilities	192,513	792,576	122,870	500,572
Unamortised borrowing fees	174,356	717,824	282,493	1,150,876
Management incentive	471,285	1,940,280	-	-
Foreign exchange difference	1,377,955	5,673,041	593,298	2,417,097
	<u>14,788,456</u>	<u>60,884,073</u>	<u>11,970,162</u>	<u>48,766,440</u>
<i>Deferred tax liabilities:</i>				
Property, equipment and intangible assets	(271,576)	(1,118,078)	(242,527)	(988,055)
	<u>14,516,880</u>	<u>59,765,995</u>	<u>11,727,635</u>	<u>47,778,385</u>

The movements of net deferred tax assets during the year were as follows:

	2022		2021	
	USD	KHR'000 Equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Balance at 1 January	11,727,635	47,778,385	10,904,851	44,110,122
Recognised in profit or loss	2,789,245	11,399,644	822,784	3,347,085
Currency translation differences	-	587,966	-	321,178
Balance at 31 December	<u>14,516,880</u>	<u>59,765,995</u>	<u>11,727,635</u>	<u>47,778,385</u>



# PRASAC Microfinance Institution Plc.

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

### 20. Provision for employee benefits

This represents the accrued for severance pay for the fixed-duration contract employees who are entitled to receive 5% of the total contract cost at the end of the contract duration.

The movements of provision for employee benefits during the year were as follows:

	2022		2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Balance at 1 January	237,906	969,229	435,375	1,761,092
Recognised in profit or loss	4,909,046	20,063,271	3,925,784	15,970,089
Payments during the year	(4,115,527)	(16,820,159)	(4,123,253)	(16,773,393)
Currency translation differences	-	34,036	-	11,441
Balance at 31 December	<u>1,031,425</u>	<u>4,246,377</u>	<u>237,906</u>	<u>969,229</u>

The amount paid during the year also includes the balance of the current seniority indemnity payment as required by Prakas No. 443 issued by the Ministry of Labour and Vocational Training ("MoLVT") on 21 September 2018, and subsequently amended by the Instruction No. 042/19 dated 22 March 2019, which is equivalent to 15 days of wages and other benefits per year. Payments was made in June and December.

During 2019, the Company has chosen to early pay all the amount of seniority back-pay portion as required by the same Prakas to its employees.

### 21. Other liabilities

	31 December 2022		31 December 2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Accrued bonus and incentives	2,844,695	11,711,609	6,329,705	25,787,218
Accrued expenses	3,546,830	14,602,299	2,832,493	11,539,576
Withholding tax payable	1,933,604	7,960,648	1,360,438	5,542,424
Accounts payable	498,573	2,052,625	1,913,161	7,794,218
Tax on salary	4,166,259	17,152,488	2,186,046	8,905,951
Others	8,625	35,507	6,009	24,484
	<u>12,998,586</u>	<u>53,515,176</u>	<u>14,627,852</u>	<u>59,593,871</u>

# PRASAC Microfinance Institution Plc.

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

### 22. Equity and reserves

#### (a) Share capital

On 11 March 2022, the Company requested to the National Bank of Cambodia (“NBC”) to increase its share capital from USD300,000,000 to USD400,000,000 by way of capitalising the retained earnings. This request was approved by the NBC on 25 April 2022. The Memorandum and Articles of Association of the Company had been updated to reflect this change and was endorsed by the MoC on 28 April 2022.

All 400,000,000 ordinary shares are registered, issued, and paid-up with a par value of KHR4,000 per share.

The details of shareholders and shareholding structure are as follows:

	31 December 2022		
	USD	KHR'000 equivalent (Note 4)	%
KB	399,999,999	1,599,999,996	99.99999975%
KBC	1	4	0.00000025%
	<u>400,000,000</u>	<u>1,600,000,000</u>	<u>100%</u>
	31 December 2021		
	USD	KHR'000 equivalent (Note 4)	%
KB	299,999,999	1,199,999,996	99.99999967%
KBC	1	4	0.00000033%
	<u>300,000,000</u>	<u>1,200,000,000</u>	<u>100%</u>

Abbreviation:

KB: Kookmin Bank

KBC: Kookmin Bank Cambodia Plc.

#### (b) Regulatory reserve

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

As at 31 December 2022, the Company transferred from retained earnings to regulatory reserves of USD7,134,778 (31 December 2021: USD24,276,817).

## PRASAC Microfinance Institution Plc.

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

#### 22. Equity and reserves

##### (b) Regulatory reserve (continued)

	Balances with other banks	Loans to customers	Other assets	Total	
	USD	USD	USD	USD	KHR'000 equivalent (Note 4)
<b>At 31 December 2022</b>					
Allowances per NBC	60,062	85,836,305	-	85,896,367	353,635,343
Less: Allowances per CIFRS 9	60,062	53,963,378	19,016	54,023,440	222,414,502
Currency translation differences	-	-	-	-	(1,524,784)
Regulatory reserves (A)	<u>-</u>	<u>31,872,927</u>	<u>-</u>	<u>31,872,927</u>	<u>129,696,057</u>
<b>At 31 December 2021</b>					
Allowances per NBC	23,314	81,528,581	-	81,551,895	332,242,420
Less: Allowances per CIFRS 9	23,314	56,790,432	12,233	56,813,746	231,459,201
Currency translation differences	-	-	-	-	(247,000)
Regulatory reserves (B)	<u>-</u>	<u>24,738,149</u>	<u>-</u>	<u>24,738,149</u>	<u>100,536,219</u>
Transfer from retained earnings to regulatory reserves (A - B)				<u>7,134,778</u>	<u>29,159,838</u>

# PRASAC Microfinance Institution Plc.

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

### 23. Interest income

	2022		2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Individual loans	592,737,604	2,422,518,588	505,355,683	2,055,786,918
Group loans	20,577	84,098	40,981	166,711
Balances with other banks	75,197	307,330	154,204	627,302
Balances with NBC	392,244	1,603,101	41,510	168,863
	<u>593,225,622</u>	<u>2,424,513,117</u>	<u>505,592,378</u>	<u>2,056,749,794</u>

### 24. Interest expense

	2022		2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Deposits from customers	170,880,491	698,388,567	144,469,925	587,703,654
Borrowings	58,914,368	240,783,022	47,986,130	195,207,577
Subordinated debts	9,397,981	38,409,548	11,255,052	45,785,552
Bonds payable	2,510,158	10,259,016	2,601,274	10,581,983
Deposits from banks and other financial institutions	2,036,982	8,325,145	2,132,478	8,674,921
Lease liabilities	1,898,088	7,757,486	1,703,815	6,931,119
	<u>245,638,068</u>	<u>1,003,922,784</u>	<u>210,148,674</u>	<u>854,884,806</u>

### 25. Net fees and commission income

	2022		2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Penalty from early loan paid off	8,995,973	36,766,542	7,900,268	32,138,290
Local remittance services income	682,171	2,788,033	717,422	2,918,473
<b>Fees and commission income</b>	<u>9,678,144</u>	<u>39,554,575</u>	<u>8,617,690</u>	<u>35,056,763</u>
Borrowing fee	(1,388,196)	(5,673,557)	-	-
Bank charges on borrowings	(123,142)	(503,281)	(116,689)	(474,691)
Others	(5,392)	(22,038)	(1,320)	(5,370)
<b>Fees and commission expense</b>	<u>(1,516,730)</u>	<u>(6,198,876)</u>	<u>(118,009)</u>	<u>(480,061)</u>
<b>Net fees and commission income</b>	<u>8,161,414</u>	<u>33,355,699</u>	<u>8,499,681</u>	<u>34,576,702</u>

## PRASAC Microfinance Institution Plc.

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

#### 26. Other income

	2022		2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Penalty from late repayment of loan	4,544,683	18,574,119	5,643,476	22,957,660
Recovery of loan written-off	4,159,268	16,998,928	3,038,061	12,358,832
Others	1,034,510	4,228,043	1,116,593	4,542,301
	<u>9,738,461</u>	<u>39,801,090</u>	<u>9,798,130</u>	<u>39,858,793</u>

#### 27. Personnel expenses

	2022		2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Salaries, bonuses and incentives	85,466,888	349,303,171	78,667,732	320,020,334
Employee benefits	4,909,046	20,063,271	3,925,784	15,970,089
Employee social welfare fund expenses	1,264,902	5,169,654	1,148,216	4,670,943
Staff uniform	611,542	2,499,372	279,480	1,136,925
Medical expenses	75,730	309,509	46,586	189,512
Other employee benefits	637,051	2,603,628	511,131	2,079,280
	<u>92,965,159</u>	<u>379,948,605</u>	<u>84,578,929</u>	<u>344,067,083</u>

## PRASAC Microfinance Institution Plc.

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

#### 28. General and administrative expenses

	2022		2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Fuel costs	4,300,351	17,575,535	3,722,551	15,143,337
Professional fees	2,884,305	11,788,155	635,696	2,586,011
Maintenance	1,683,302	6,879,655	1,169,673	4,758,230
Transportation	1,266,196	5,174,943	1,127,650	4,587,280
Printing and stationery	1,217,217	4,974,766	1,426,967	5,804,902
Utilities	1,190,345	4,864,940	1,101,733	4,481,850
Communications	930,355	3,802,361	854,179	3,474,800
Other tax expenses	815,266	3,331,992	204,860	833,370
Rental expenses	726,076	2,967,473	815,242	3,316,404
Marketing and promotions	631,883	2,582,506	408,671	1,662,474
License fees	505,754	2,067,017	1,064,783	4,331,537
Entertainment expense	383,029	1,565,440	101,005	410,888
Office supplies	301,365	1,231,679	272,483	1,108,461
Stamp Tax	257,488	1,052,353	592,720	2,411,185
Donation	237,589	971,026	182,420	742,085
Training	158,229	646,682	51,075	207,773
Travelling	153,715	628,233	50,887	207,008
Bank charges	131,464	537,293	226,453	921,211
Other expenses	613,634	2,507,921	521,067	2,119,702
	<u>18,387,563</u>	<u>75,149,970</u>	<u>14,530,115</u>	<u>59,108,508</u>

#### 29. Depreciation and amortisation

	2022		2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Property and equipment	2,106,023	8,607,316	2,072,431	8,430,649
Intangible assets	292,002	1,193,412	296,374	1,205,648
Right-of-use assets	4,383,937	17,917,151	4,009,254	16,309,647
	<u>6,781,962</u>	<u>27,717,879</u>	<u>6,378,059</u>	<u>25,945,944</u>

# PRASAC Microfinance Institution Plc.

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

### 30. Net cash used in operating activities

	Note	2022		2021	
		USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Net profit for the year		181,275,345	740,872,334	155,500,964	632,577,922
<i>Adjustments for:</i>					
Depreciation and amortisation	29	6,781,962	27,717,879	6,378,059	25,945,944
Gain on disposal of property and equipment		(99,235)	(405,573)	(100,550)	(409,037)
Net interest income		(347,587,554)	(1,420,590,333)	(295,443,704)	(1,201,864,988)
Allowance for impairment losses	34.1(g)	19,058,514	77,892,147	14,707,859	59,831,570
Income tax expense	19(a)	44,818,533	183,173,344	38,137,058	155,141,552
Provision for employee benefits	20	4,909,046	20,063,271	3,925,784	15,970,089
Unrealised exchange losses		3,284,314	13,422,991	1,902,630	7,739,898
		(87,559,075)	(357,853,940)	(74,991,900)	(305,067,050)
<i>Changes in:</i>					
Balances with the NBC		(22,734,931)	(92,917,663)	(35,306,817)	(143,628,132)
Loans to customers		(624,681,480)	(2,553,073,209)	(729,372,289)	(2,967,086,472)
Other assets		(2,552,587)	(10,432,424)	(476,806)	(1,939,647)
Deposits from banks and other financial institutions		(31,120,531)	(127,189,610)	44,067,315	179,265,837
Deposits from customers		183,018,294	747,995,768	450,965,847	1,834,529,066
Other liabilities		(1,629,266)	(6,658,810)	6,754,251	27,476,293
Cash used in operations		(587,259,576)	(2,400,129,888)	(338,360,399)	(1,376,450,105)
Interest received		588,824,762	2,406,526,802	501,636,323	2,040,656,562
Interest paid		(235,049,874)	(960,648,835)	(201,351,671)	(819,098,599)
Income tax paid	19(b)	(40,712,538)	(166,392,143)	(28,882,858)	(117,495,466)
Employee benefits paid	20	(4,115,527)	(16,820,159)	(4,123,253)	(16,773,393)
<b>Net cash used in operating activities</b>		<b>(278,312,753)</b>	<b>(1,137,464,223)</b>	<b>(71,081,858)</b>	<b>(289,161,001)</b>

# PRASAC Microfinance Institution Plc.

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

### 31. Commitments

#### A. Operating leases

The Company leases vehicles under an operating lease arrangement, with minimum lease commitments due as follows:

	31 December 2022		31 December 2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Within one year	<u>225,120</u>	<u>926,819</u>	<u>538,378</u>	<u>2,193,352</u>

In the normal course of business, the Company enters into commitments and incurs certain contingent liabilities with legal recourse.

#### B. Leases committed but not yet commenced

The Company has entered into 7 new lease agreements for their office premises during the year. However, these lease agreements are not yet commenced as of 31 December 2022. The total commitment for these leases is USD1,695,666.

### 32. Related party transactions and balances

#### A. Identity of related parties

For the purposes of these financial statements, parties are considered to be related to the Company if the Company 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 Company and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

The Company has related party relationships with its shareholders, related companies, 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 Company either directly or indirectly. The key management personnel include all members of the Board of Directors of the Company, and certain senior management members of the Company.

Key management members 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.



# PRASAC Microfinance Institution Plc.

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

### 32. Related party transactions and balances (continued)

#### B. Transactions with related parties

The Company entered into a number of transactions with related parties in the normal course of business. The volumes of related-party transactions, outstanding balances at the year end, and related income and expense for the year were as follows:

	2022		2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
<i>Fees and related expenses</i>				
Board of Directors	<u>277,097</u>	<u>1,132,495</u>	<u>209,629</u>	<u>852,771</u>
<i>Interest expense</i>				
Board of Directors	1,424	5,820	1,973	8,026
Shareholders	2,389,394	9,765,453	611,167	2,486,227
Key management personnel	818,664	3,345,880	2,164,060	8,803,396
Other related parties	<u>11,925,002</u>	<u>48,737,483</u>	<u>9,032,127</u>	<u>36,742,693</u>
	<u>15,134,484</u>	<u>61,854,636</u>	<u>11,809,327</u>	<u>48,040,342</u>
<i>Fees and commissions on loans</i>				
Shareholders	<u>1,498,131</u>	<u>6,122,861</u>	<u>833,993</u>	<u>3,392,684</u>
<i>Salaries and employee benefits</i>				
Key management personnel	<u>4,992,254</u>	<u>20,403,342</u>	<u>6,555,033</u>	<u>26,665,874</u>
<i>Interest income</i>				
Key management personnel	<u>62,386</u>	<u>254,972</u>	<u>84,011</u>	<u>341,757</u>
<i>Employee benefits expense</i>				
Key management personnel	<u>207,703</u>	<u>848,882</u>	<u>316,982</u>	<u>1,289,483</u>
<i>Management Incentive</i>				
Key management personnel	<u>5,636,800</u>	<u>23,037,602</u>	<u>5,780,027</u>	<u>23,513,150</u>

# PRASAC Microfinance Institution Plc.

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

### 32. Related party transactions and balances (continued)

#### C. Balances with related parties

Outstanding balances with related parties were as follows:

	31 December 2022		31 December 2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
<i>Deposits</i>				
Directors	61,958	255,081	11,309	46,073
Key Management personnel	16,813,050	69,219,327	51,563,301	210,068,888
KB Daehan				
Specialized Bank Plc	970	3,993	4,001,000	16,300,074
KB Bank Myanmar Co., Ltd	22,759,014	93,698,861	15,153,386	61,734,895
	<u>39,634,992</u>	<u>163,177,262</u>	<u>70,728,996</u>	<u>288,149,930</u>
<i>Loans</i>				
Key management personnel	<u>527,521</u>	<u>2,171,804</u>	<u>1,006,948</u>	<u>4,102,306</u>
<i>Borrowings</i>				
KB	135,444,846	557,626,431	-	-
KBC	7,938,656	32,683,447	7,974,847	32,489,527
KB Daehan Specialized Bank Plc.	2,922,965	12,033,847	2,953,984	12,034,531
Other KB related parties	135,860,538	559,337,835	103,052,706	419,836,724
	<u>282,167,005</u>	<u>1,161,681,560</u>	<u>113,981,537</u>	<u>464,360,782</u>
<i>Subordinated debts</i>				
KB	<u>50,274,973</u>	<u>206,982,064</u>	<u>50,192,137</u>	<u>204,482,766</u>
<i>Accrued management incentive</i>				
Key management personnel	<u>2,353,859</u>	<u>9,690,838</u>	<u>5,780,027</u>	<u>23,547,830</u>

## PRASAC Microfinance Institution Plc.

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

#### 33. Cash and cash equivalents

	31 December 2022		31 December 2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Cash on hand (Note 5)	127,423,827	524,603,896	222,365,399	905,916,636
<i>Balances with the NBC (Note 6)</i>				
Current accounts	64,590,618	265,919,574	139,856,737	569,776,347
Term deposits (original maturity up to three months)	372,869	1,535,102	373,638	1,522,201
<i>Balances with other banks (Note 7)</i>				
Current accounts	2,858,502	11,768,453	2,240,993	9,129,805
Savings accounts	147,697	608,069	90,418	368,363
Term deposits (original maturity up to three months)	3,000,000	12,351,000	-	-
Cash and cash equivalents in the statement of cash flows	<u>198,393,513</u>	<u>816,786,094</u>	<u>364,927,185</u>	<u>1,486,713,352</u>

#### 34. Financial risk management

The Company's activities are exposed to a variety of financial risks: credit risk, market risk (including currency risk and interest rate risk), and liquidity risk. Taking risk is core to the financial business, and operational risks are an inevitable consequence of being in business.

The Company intends to comply with the NBC's regulations for financial risk management purposes. The Company however recognises that international best practices on risk management are yet to be fully implemented. The Board of Directors has established an asset and liability management committee and risk management committee to formulate broad parameters of acceptable risk for the Company and monitor the activities against these parameters.

# PRASAC Microfinance Institution Plc.

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

### 34. Financial risk management (continued)

The Company holds the following financial assets and liabilities:

	31 December 2022		31 December 2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
<b>Financial assets</b>				
Cash on hand	127,423,827	524,603,896	222,365,399	905,916,636
Balances with the NBC	326,284,541	1,343,313,455	368,419,366	1,500,940,497
Balances with other banks	5,946,137	24,480,246	2,308,097	9,403,187
Loans to customers	4,296,121,785	17,687,133,389	3,691,567,993	15,039,448,003
Other assets	960,777	3,955,519	627,675	2,557,148
<b>Total financial assets</b>	<b>4,756,737,067</b>	<b>19,583,486,505</b>	<b>4,285,288,530</b>	<b>17,458,265,471</b>
<b>Financial liabilities</b>				
Deposits from banks and other financial institutions	50,037,118	206,002,815	81,881,578	333,585,549
Deposits from customers	2,727,207,862	11,227,914,768	2,533,330,855	10,320,789,903
Borrowings	971,259,425	3,998,675,053	829,821,864	3,380,694,274
Subordinated debts	89,677,427	369,201,967	105,191,790	428,551,352
Bonds payable	31,168,428	128,320,418	31,342,099	127,687,711
Other liabilities	6,898,723	28,402,040	11,081,368	45,145,493
<b>Total financial liabilities</b>	<b>3,876,248,983</b>	<b>15,958,517,061</b>	<b>3,592,649,554</b>	<b>14,636,454,282</b>

#### **Capital management**

The primary objectives of the Company's capital management are to ensure that it complies with externally imposed capital requirements and maintains strong financial position and healthy capital ratios to support its business and to maximise shareholders' value.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend payment to shareholders or return on capital. No changes were made in the objectives, policies and processes from previous years.

Net worth and risk-weighted assets are computed based on the NBC regulations. Management believes the Company is compliant with the solvency ratio prescribed by the NBC and all externally imposed capital requirements.

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

# PRASAC Microfinance Institution Plc.

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

### 34. Financial risk management (continued)

#### *Capital management (continued)*

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

On 25 June 2020, the NBC further issued an additional circular on the implementation of Prakas on Capital Buffer in Banking and Financial Institutions to introduce the additional implementation information of the Prakas. There are no updates to revoke the determination of the countercyclical capital buffer at level of 0% up to date of this report.

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

Subsequently, on 9 January 2023, the NBC issued a circular on the implementation of Prakas on Capital Buffer in Banking and Financial Institutions, which the institution shall rebuild the capital conservation buffer ratio by 1.25% and 2.5% by 30 June 2023 and 31 December 2023, respectively. For the countercyclical capital buffer, the institution shall keep at level of 0%.

The below table summarises the composition of the regulatory capital:

	31 December 2022		31 December 2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
<b>Tier 1 capital</b>				
Share capital	400,000,000	1,646,800,000	300,000,000	1,222,200,000
Retained earnings, up to 20% of Sub-total A	145,318,836	598,277,649	113,875,241	463,927,732
Audited net profit for the last financial year	181,275,345	746,310,595	155,500,964	633,510,927
Sub-total A	726,594,181	2,991,388,244	569,376,205	2,319,638,659
Less: Intangible assets	1,079,327	4,443,589	1,354,529	5,518,351
Less: Loans to related parties	527,521	2,171,804	1,006,948	4,102,306
	<b>724,987,333</b>	<b>2,984,772,851</b>	<b>567,014,728</b>	<b>2,310,018,002</b>
<b>Tier 2 complementary capital</b>				
General provision	40,776,537	167,877,003	33,268,303	135,535,067
Subordinated debts approved by the National Bank of Cambodia	89,000,000	366,413,000	104,500,000	425,733,000
	<b>129,776,537</b>	<b>534,290,003</b>	<b>137,768,303</b>	<b>561,268,067</b>

# PRASAC Microfinance Institution Plc.

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

### 34. Financial risk management (continued)

#### *Risk management functional and governance structure*

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors has established the Company Audit committee and the Risk Committee, which are respectively responsible for approving and monitoring Company's risk management policies.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Company's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Company's Audit Committee.

#### 34.1 Credit risk

The Company takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss to the Company by failing to discharge an obligation. Credit risk is the most important risk for the Company's business. Credit exposure arises principally in lending activities that lead to loans to customers. The credit risk management is carried out by the credit committee.

##### (a) *Credit risk measurement*

The Company assesses the probability of default of individual counterparties in accordance with its credit policy, procedures and practices. The credit committee is responsible for determining the appropriateness and sufficiency of its credit policies.

##### (b) *Risk limit control and mitigation policy*

The Company operates and provides loans mainly to individuals within the Kingdom of Cambodia. The Company manages limits and controls the concentration of credit risk whenever it is identified. Large exposure is defined by the NBC as overall credit exposure to any single beneficiary which exceeds 2% for individual loan and 3% for group loan of the Company's net worth under the conditions of NBC Prakas No. B7-07-163.

The Company also employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security in the form of collateral for loans to customers, which is common practice. The Company also accepts personal guarantee for the group loans. The Company implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral type for loans to customers is mortgage over residential properties (land, building and other properties).

# PRASAC Microfinance Institution Plc.

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

### 34. Financial risk management (continued)

#### 34.1 Credit risk (continued)

##### (c) *Maximum exposure to credit risk*

The table below shows the Company's maximum exposure to credit risk on its loans to customers after taking into account any collateral held and other credit enhancement:

	31 December 2022				
	Carrying amounts	Fair value of collateral or credit enhancements	Maximum exposure to credit risk (*)	Financial effect of collateral or credit enhancements	Associated impairment losses
Individual loans	4,223,608,148	11,333,006,126	4,223,608,148	4,276,485,921	52,877,773
Loans to small and medium enterprises	66,709,214	152,013,129	66,709,214	67,776,118	1,066,904
Staff loans	5,710,021	14,614,774	5,710,021	5,721,233	11,212
Group loans	94,402	738,041	94,402	101,891	7,489
<b>Total</b>	<b>4,296,121,785</b>	<b>11,500,372,070</b>	<b>4,296,121,785</b>	<b>4,350,085,163</b>	<b>53,963,378</b>
<b>KHR'000 equivalent</b> (Note 4)	<b>17,687,133,389</b>	<b>47,347,031,812</b>	<b>17,687,133,389</b>	<b>17,909,300,616</b>	<b>222,167,227</b>
	31 December 2021				
	Carrying amounts	Fair value of collateral or credit enhancements	Maximum exposure to credit risk (*)	Financial effect of collateral or credit enhancements	Associated impairment losses
Individual loans	3,623,692,875	9,224,788,848	3,623,692,875	3,679,039,296	55,346,421
Loans to small and medium enterprises	60,433,657	132,718,665	60,433,657	61,840,745	1,407,088
Staff loans	7,277,059	15,866,651	7,277,059	7,299,740	22,681
Group loans	164,402	636,351	164,402	178,644	14,242
<b>Total</b>	<b>3,691,567,993</b>	<b>9,374,010,515</b>	<b>3,691,567,993</b>	<b>3,748,358,425</b>	<b>56,790,432</b>
<b>KHR'000 equivalent</b> (Note 4)	<b>15,039,448,003</b>	<b>38,189,718,838</b>	<b>15,039,448,003</b>	<b>15,270,812,223</b>	<b>231,364,220</b>

(\*) The maximum exposure to credit risk for loans to customers is the amount that best represents its maximum exposure to credit risk at the end of the reporting date without taking account of any collateral held or other credit enhancements and is limited to its carrying amounts.

# **PRASAC Microfinance Institution Plc.**

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

### **34. Financial risk management (continued)**

#### **34.1 Credit risk (continued)**

##### **(c) *Maximum exposure to credit risk (continued)***

The maximum exposure to credit risks for other financial assets is limited to the carrying value at the reporting date.

The Company holds collateral against loans to customers in the form of real estate mortgages, guarantees, and other registered securities over assets. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are regularly updated according to internal lending policies and regulatory guidelines.

##### **(d) *Concentration of risks***

The Board of Directors created the Company Credit Committee for the oversight of credit risk. A separate Credit department, reporting to the Company's Credit Committee, is responsible for managing the Company's credit risk, including the following.

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



## PRASAC Microfinance Institution Plc.

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

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

##### 34.1 Credit risk (continued)

###### (d). Concentration of risks (continued)

###### Type of credit exposure

	Carrying amounts		Fully subject to collateral/credit enhancement %	Partially subject to collateral/ credit enhancement %	Unsecured and not subject to collateral/ credit enhancement %
	Maximum credit exposure USD	Maximum credit exposure KHR'000 equivalent (Note 4)			
<b>At 31 December 2022</b>					
<b>On-Balance sheet items</b>					
Cash on hand	127,423,827	524,603,896	-	-	100.00
Balances with the National Bank of Cambodia	326,284,541	1,343,313,455	-	-	100.00
Balances with other banks	5,946,137	24,480,246	-	-	100.00
Loans to customers	4,296,121,785	17,687,133,389	45.78	54.21	0.01
Other assets	960,777	3,955,519	-	-	100.00
Total	<u>4,756,737,067</u>	<u>19,583,486,505</u>			

## PRASAC Microfinance Institution Plc.

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

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

##### 34.1 Credit risk (continued)

##### (d) Concentration of risks (continued)

##### Types of credit risk exposure (continued)

	Carrying amounts		Fully subject to collateral/credit enhancement %	Partially subject to collateral/ credit enhancement %	Unsecured and not subject to collateral/ credit enhancement %
	Maximum credit exposure USD	Maximum credit exposure KHR'000 equivalent (Note 4)			
<b>At 31 December 2021</b>					
<b>On-Balance sheet items</b>					
Cash on hand	222,365,399	905,916,636	-	-	100.00
Balances with the National Bank of Cambodia	368,419,366	1,500,940,497	-	-	100.00
Balances with other banks	2,308,097	9,403,187	-	-	100.00
Loans to customers	3,691,567,993	15,039,448,003	44.08	55.89	0.03
Other assets	627,675	2,557,148	-	-	100.00
Total	<u>4,285,288,530</u>	<u>17,458,265,471</u>			

# PRASAC Microfinance Institution Plc.

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

### 34. Financial risk management (continued)

#### 34.1 Credit risk (continued)

##### (d) Concentration of risks (continued)

###### Concentration risk by industrial sectors

	31 December 2022		31 December 2021	
	Loans to customers USD	KHR'000 equivalent (Note 4)	Loans to customers USD	KHR'000 equivalent (Note 4)
Trade and commerce	1,168,443,276	4,810,480,967	1,006,083,731	4,098,785,121
Service	715,963,592	2,947,622,108	650,895,034	2,651,746,369
Real-estate	666,094,479	2,742,310,970	536,199,895	2,184,478,372
Home improvement	580,109,380	2,388,310,317	453,670,525	1,848,253,719
Agriculture	514,068,358	2,116,419,430	445,927,277	1,816,707,726
Automotive	327,666,923	1,349,004,722	299,573,327	1,220,461,734
Transportation	253,111,335	1,042,059,366	249,173,560	1,015,133,083
Manufacture	48,430,882	199,389,941	45,502,628	185,377,706
Construction	47,556,510	195,790,152	39,316,458	160,175,250
Personal	28,640,428	117,912,643	22,015,990	89,693,143
<b>Total</b>	<b>4,350,085,163</b>	<b>17,909,300,616</b>	<b>3,748,358,425</b>	<b>15,270,812,223</b>

###### Concentration risk by security, residency, relationship, and currency, and location for loans to customers:

##### (i) By security

	31 December 2022		31 December 2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
<i>Secured</i>				
Real estate (hard title)	1,988,387,055	8,186,189,505	1,649,002,901	6,718,037,818
Chattel	112,862	464,653	189,467	771,887
Deposit hold-out	2,596,512	10,689,840	2,530,818	10,310,554
Others	493,240	2,030,669	640,271	2,608,465
	<b>1,991,589,669</b>	<b>8,199,374,667</b>	<b>1,652,363,457</b>	<b>6,731,728,724</b>

# PRASAC Microfinance Institution Plc.

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

### 34. Financial risk management (continued)

#### 34.1 Credit risk (continued)

##### (d) Concentration of risks (continued)

Concentration risk by security, residency, relationship and currency, and location for loans to customers: (continued)

##### (i) By security (continued)

	31 December 2022		31 December 2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
<i>Unsecured (*)</i>				
Real estate (soft title)	2,357,520,465	9,705,911,754	2,094,535,205	8,533,136,427
Chattel	505,877	2,082,696	363,670	1,481,591
Others	469,152	1,931,499	1,096,093	4,465,481
	<u>2,358,495,494</u>	<u>9,709,925,949</u>	<u>2,095,994,968</u>	<u>8,539,083,499</u>
<b>Total</b>	<u>4,350,085,163</u>	<u>17,909,300,616</u>	<u>3,748,358,425</u>	<u>15,270,812,223</u>

(\*) This refer to the loan that collaterals are included soft title deed and no collaterals which the management believe that it has high risk and treated it as unsecured loan.

##### (ii) By residency, relationship, and currency

	31 December 2022		31 December 2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
<b>Residency</b>				
Residents	<u>4,350,085,163</u>	<u>17,909,300,616</u>	<u>3,748,358,425</u>	<u>15,270,812,223</u>
<b>Relationship</b>				
External customers	4,344,363,930	17,885,746,300	3,741,058,685	15,241,073,082
Staff loans	5,721,233	23,554,316	7,299,740	29,739,141
	<u>4,350,085,163</u>	<u>17,909,300,616</u>	<u>3,748,358,425</u>	<u>15,270,812,223</u>

# PRASAC Microfinance Institution Plc.

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

### 34. Financial risk management (continued)

#### 34.1 Credit risk (continued)

##### (d) Concentration of risks (continued)

Concentration risk by security, residency, relationship and currency, and location for loans to customers: (continued)

##### (ii) By residency, relationship, and currency

	31 December 2022		31 December 2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
<b>Currency</b>				
USD	3,807,388,176	15,675,017,121	3,286,440,759	13,388,959,652
KHR	539,305,197	2,220,319,496	452,563,732	1,843,744,644
THB	3,391,790	13,963,999	9,353,934	38,107,927
	<u>4,350,085,163</u>	<u>17,909,300,616</u>	<u>3,748,358,425</u>	<u>15,270,812,223</u>

##### (iii) By location

	31 December 2022		31 December 2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Branches	4,346,808,372	17,895,810,068	3,743,643,515	15,251,603,680
Head office	3,276,791	13,490,548	4,714,910	19,208,543
	<u>4,350,085,163</u>	<u>17,909,300,616</u>	<u>3,748,358,425</u>	<u>15,270,812,223</u>

##### (e) Collaterals

Whilst the Company'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 Company's exposure.

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

#### Cash on hand, balances with the NBC, balance with other banks, and other assets

Collaterals are generally not sought for these assets.

# PRASAC Microfinance Institution Plc.

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

### 34. Financial risk management (continued)

#### 34.1 Credit risk (continued)

##### (e) *Collateral (continued)*

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

Certain Loans 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.

##### (f) *Credit quality per class of financial assets*

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

Allowance for ECLs will be made based on the following three-stage approach which reflects the change in credit quality of the financial instrument since initial recognition:

##### (i) Stage 1: 12-month ECL – not credit-impaired

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

##### (ii) Stage 2: Lifetime ECL – not credit-impaired

For exposures where there has been a significant increase in credit risk since initial recognition but that are not credit-impaired, a lifetime ECL will be recognised.

##### (iii) Stage 3: Lifetime ECL – credit-impaired

Financial assets are assessed as credit-impaired when one or more events that have detrimental impact on the estimated future cash flows of that asset have occurred. For financial assets that are credit-impaired, a lifetime ECL will be recognised.

<i>Stage</i>	<i>Credit risk status</i>	<i>Default indicator</i>
1	12-month ECL – not credit-impaired	0 to 29 days past due (“DPD”)
2	Lifetime ECL – not credit-impaired	30 to 89 DPD
3	Lifetime ECL – credit-impaired	More than 89 DPD

# PRASAC Microfinance Institution Plc.

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

### 34. Financial risk management (continued)

#### 34.1 Credit risk (continued)

(f) **Credit quality per class of financial assets (continued)**

(iv) Incorporation of forward-looking information

The Company 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 Company operates, supranational organisations.

The Company 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 Company used the macroeconomic historical data is being taken from the National Bank of Cambodia, the Global Economy website and 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 Company has used a time weighted average methodology in order to forecast future MEVs.

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

The MEVs are shocked in order to generate baseline, upside- and downside-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 +/- 2 standard deviation to generate best- and worst-case scenarios.

#### Probability weightage outcome

PWO	Baseline %	Upside %	Downside %
As at 31 December 2022	40	20	40
As at 31 December 2021	40	20	40

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.

# PRASAC Microfinance Institution Plc.

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

### 34. Financial risk management (continued)

#### 34.1 Credit risk (continued)

##### (f) Credit quality per class of financial assets (continued)

###### Recognition of ECL

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

	31 December 2022			
	Stage 1 USD	Stage 2 USD	Stage 3 USD	Total USD
<b>Loans to customers at amortised cost</b>				
Normal	4,063,725,388	243,455	53,649	4,064,022,492
Special Mention	30,563	232,541,325	53,186	232,625,074
Substandard	259	2,006	12,219,906	12,222,171
Doubtful	-	3,016	8,112,976	8,115,992
Loss	-	227	33,099,207	33,099,434
	<u>4,063,756,210</u>	<u>232,790,029</u>	<u>53,538,924</u>	<u>4,350,085,163</u>
Impairment loss allowance	<u>(12,526,838)</u>	<u>(11,679,826)</u>	<u>(29,756,714)</u>	<u>(53,963,378)</u>
Carrying amounts (USD)	<u>4,051,229,372</u>	<u>221,110,203</u>	<u>23,782,210</u>	<u>4,296,121,785</u>
Carrying amounts (KHR'000 equivalent -Note 4)	<u>16,678,911,325</u>	<u>910,310,706</u>	<u>97,911,359</u>	<u>17,687,133,389</u>
	31 December 2021			
	Stage 1 USD	Stage 2 USD	Stage 3 USD	Total USD
<b>Loans to customers at amortised cost</b>				
Normal	3,318,084,458	-	49,164	3,318,133,622
Special Mention	57,471	370,349,875	53,544	370,460,890
Substandard	-	7,328,467	10,881,782	18,210,249
Doubtful	123	3,270	12,804,004	12,807,397
Loss	-	21,415	28,724,852	28,746,267
	<u>3,318,142,052</u>	<u>377,703,027</u>	<u>52,513,346</u>	<u>3,748,358,425</u>
Impairment loss allowance	<u>(8,693,888)</u>	<u>(18,871,562)</u>	<u>(29,224,982)</u>	<u>(56,790,432)</u>
Carrying amounts (USD)	<u>3,309,448,164</u>	<u>358,831,465</u>	<u>23,288,364</u>	<u>3,691,567,993</u>
Carrying amounts (KHR'000 equivalent -Note 4)	<u>13,482,691,820</u>	<u>1,461,879,388</u>	<u>94,876,795</u>	<u>15,039,448,003</u>



# PRASAC Microfinance Institution Plc.

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

### 34. Financial risk management (continued)

#### 34.1 Credit risk (continued)

##### (g) Amounts arising from ECL

##### *Impairment loss allowance*

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

	2022			
	Stage 1 USD	Stage 2 USD	Stage 3 USD	Total USD
Balance at 1 January	8,693,888	18,871,562	29,224,982	56,790,432
- Transfer to stage 1	1,437,316	(317,784)	(1,119,532)	-
- Transfer to stage 2	(143,271)	3,113,461	(2,970,190)	-
- Transfer to stage 3	(241,676)	(2,762,603)	3,004,279	-
(Reversal of)/addition for provision for existing loans	(98,827)	(4,394,464)	23,742,902	19,249,611
New financial assets originated or purchased	5,029,391	712,317	795,085	6,536,793
Financial assets that have been paid-off	(2,149,983)	(3,542,663)	(1,078,775)	(6,771,421)
Written-off during the year	-	-	(21,842,037)	(21,842,037)
Balance at 31 December (USD)	<u>12,526,838</u>	<u>11,679,826</u>	<u>29,756,714</u>	<u>53,963,378</u>
Balance at 31 December (KHR'000 equivalent (Note 4))	<u>51,572,992</u>	<u>48,085,844</u>	<u>122,508,391</u>	<u>222,167,227</u>
	2021			
	Stage 1 USD	Stage 2 USD	Stage 3 USD	Total USD
Balance at 1 January	11,262,106	12,954,251	25,397,136	49,613,493
- Transfer to stage 1	3,706,562	(1,960,861)	(1,745,701)	-
- Transfer to stage 2	(3,383,444)	5,224,060	(1,840,616)	-
- Transfer to stage 3	(551,964)	(3,720,107)	4,272,071	-
(Reversal of)/addition for provision for existing loans	(3,927,348)	8,338,098	12,212,075	16,622,825
New financial assets originated or purchased	4,965,576	1,062,772	503,565	6,531,913
Financial assets that have been paid-off	(3,377,600)	(3,026,651)	(2,027,724)	(8,431,975)
Written-off during the year	-	-	(7,545,824)	(7,545,824)
Balance at 31 December (USD)	<u>8,693,888</u>	<u>18,871,562</u>	<u>29,224,982</u>	<u>56,790,432</u>
Balance at 31 December (KHR'000 equivalent (Note 4))	<u>35,418,900</u>	<u>76,882,744</u>	<u>119,062,577</u>	<u>231,364,220</u>

# PRASAC Microfinance Institution Plc.

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

### 34. Financial risk management (continued)

#### 34.1 Credit risk (continued)

##### (g) Amounts arising from ECL (continued)

##### *Impairment loss allowance (continued)*

Impairment losses on financial instruments recognised in profit or loss were summarised as follows:

	2022		2021	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Loans to customers (Note 8)	19,014,983	77,714,236	14,722,763	59,892,200
Other assets (Note 9)	6,783	27,722	1,933	7,863
Balance with other banks (Note 7)	36,748	150,189	(16,837)	(68,493)
	<u>19,058,514</u>	<u>77,892,147</u>	<u>14,707,859</u>	<u>59,831,570</u>

#### 34.2 Operational risk

The operational risk losses which would result from inadequate or failed internal processes, people and systems or from external factors are managed through established operational risk management processes, proper monitoring and reporting of the business activities by control and support units which are independent of the business units and oversight provided by the management.

The operational risk management entails the establishment of clear organisational structure, roles and control policies. Various internal control policies and measures have been implemented. These include the establishment of signing authorities, defining system parameters controls, streamlining procedures and documentation. These are reviewed continually to address the operational risks of its business.

#### 34.3 Market risk

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

##### (i) Foreign exchange risk

The Company operates in the Kingdom of Cambodia and transacts in USD, KHR and THB.

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

# PRASAC Microfinance Institution Plc.

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

### 34. Financial risk management (continued)

#### 34.3 Market risk (continued)

(i) *Foreign exchange risk (continued)*

The balances in monetary assets and liabilities denominated in their respective currencies, expressed in USD, are as follows:

	31 December 2022				31 December 2021			
	USD	KHR	THB	Total USD	USD	KHR	THB	Total USD
<b>Financial assets</b>								
Cash on hand	114,419,602	12,736,052	268,173	127,423,827	184,320,172	34,859,816	3,185,411	222,365,399
Balances with the NBC	295,324,562	30,959,979	-	326,284,541	334,001,564	34,417,802	-	368,419,366
Balances with other banks	4,167,119	1,779,018	-	5,946,137	1,741,416	566,681	-	2,308,097
Loans to customers	3,758,355,853	534,637,214	3,128,718	4,296,121,785	3,234,729,052	448,182,464	8,656,477	3,691,567,993
Other assets	958,486	2,291	-	960,777	625,854	1,821	-	627,675
<b>Total financial assets</b>	<b>4,173,225,622</b>	<b>580,114,554</b>	<b>3,396,891</b>	<b>4,756,737,067</b>	<b>3,755,418,058</b>	<b>518,028,584</b>	<b>11,841,888</b>	<b>4,285,288,530</b>
<b>Financial liabilities</b>								
Deposits from banks and other financial institutions	50,013,944	23,174	-	50,037,118	81,823,935	57,643	-	81,881,578
Deposits from customers	2,546,046,345	181,026,036	135,481	2,727,207,862	2,338,356,190	193,497,517	1,477,148	2,533,330,855
Borrowings	798,375,467	172,883,958	-	971,259,425	670,477,767	143,249,534	16,094,563	829,821,864
Bonds payable	-	31,168,428	-	31,168,428	-	31,342,099	-	31,342,099
Subordinated debts	89,677,427	-	-	89,677,427	105,191,790	-	-	105,191,790
Other liabilities	6,610,121	287,716	886	6,898,723	10,892,227	188,729	412	11,081,368
<b>Total financial liabilities</b>	<b>3,490,723,304</b>	<b>385,389,312</b>	<b>136,367</b>	<b>3,876,248,983</b>	<b>3,206,741,909</b>	<b>368,335,522</b>	<b>17,572,123</b>	<b>3,592,649,554</b>
<b>Net asset position</b>	<b>682,502,318</b>	<b>194,725,242</b>	<b>3,260,524</b>	<b>880,488,084</b>	<b>548,676,149</b>	<b>149,693,062</b>	<b>(5,730,235)</b>	<b>692,638,976</b>
KHR'000 equivalent (Note 4)	2,809,862,043	801,683,821	13,423,578	3,624,969,442	2,235,306,631	609,849,535	(23,344,977)	2,821,811,188

# PRASAC Microfinance Institution Plc.

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

### 34. Financial risk management (continued)

#### 34.3 Market risk (continued)

(i) *Foreign exchange risk (continued)*

#### Sensitivity analysis

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

	31 December 2022		31 December 2021	
	- 1% Depreciation USD	+ 1% Appreciation USD	- 1% Depreciation USD	+ 1% Appreciation USD
KHR	1,947,252	(1,947,252)	1,496,931	(1,496,931)
THB	32,605	(32,605)	(57,302)	57,302
	<u>1,979,857</u>	<u>(1,979,857)</u>	<u>1,439,629</u>	<u>(1,439,629)</u>
KHR'000 equivalent (Note 4)	<u>8,151,071</u>	<u>(8,151,071)</u>	<u>5,865,049</u>	<u>(5,865,049)</u>

(ii) *Interest rate risk*

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Interest margins may increase as a result of changes and may reduce losses in the event that unexpected movements arise. The management of the Company, at this stage, does not have a policy to set limits on the level of mismatch of interest rate re-pricing that may be undertaken; however, management regularly monitors the mismatch.

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Company is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities. The Company manages this risk by matching the re-pricing of assets and liabilities through risk management strategies.

The following is a summary of the Company's interest rate gap position. The interest rate repricing gap table analyses the full-term structure of interest rate mismatches within the Company's balance sheet based on either (i) the next repricing date or the maturity date if floating rate or (ii) the maturity date if fixed rate.

# PRASAC Microfinance Institution Plc.

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

### 34. Financial risk management (continued)

#### 34.3 Market risk (continued)

##### (ii) Interest rate risk (continued)

	31 December 2022						Total (Carrying amount) USD	Interest rate %
	Up to 1 month USD	>1 to 3 months USD	>3 to 12 months USD	>1 to 5 years USD	Over 5 years USD	Non-interest bearing USD		
<b>Financial assets</b>								
Cash on hand	-	-	-	-	-	127,423,827	127,423,827	0%
Balances with the NBC	150,000	370,027	398,158	-	40,000,000	285,366,356	326,284,541	1.54% to 3.37%
Balances with other banks	3,094,930	-	-	-	-	2,851,207	5,946,137	0.00% to 0.75%
Loans to customers	2,079,893	6,599,797	59,254,626	1,859,305,813	2,368,881,656	-	4,296,121,785	8.00% to 25.20%
Other assets	-	-	-	-	-	960,777	960,777	0%
<b>Total financial assets</b>	<b>5,324,823</b>	<b>6,969,824</b>	<b>59,652,784</b>	<b>1,859,305,813</b>	<b>2,408,881,656</b>	<b>416,602,167</b>	<b>4,756,737,067</b>	
<b>Financial liabilities</b>								
Deposits from banks and other financial institutions	13,019,774	5,225,741	31,791,603	-	-	-	50,037,118	0.00% to 6.50%
Deposits from customers	419,606,323	558,087,780	1,673,420,231	74,091,296	2,002,232	-	2,727,207,862	0.00% to 10.15%
Borrowings	-	152,248,998	134,038,815	680,915,233	4,056,379	-	971,259,425	2.00% to 10.21%
Bonds payable	-	-	31,168,428	-	-	-	31,168,428	7.50%
Subordinated debts	-	-	3,026,338	86,651,089	-	-	89,677,427	6.98% to 10.47%
Other liabilities	-	-	-	-	-	6,898,723	6,898,723	0%
<b>Total financial liabilities</b>	<b>432,626,097</b>	<b>715,562,519</b>	<b>1,873,445,415</b>	<b>841,657,618</b>	<b>6,058,611</b>	<b>6,898,723</b>	<b>3,876,248,983</b>	
<b>Maturity gap</b>	<b>(427,301,274)</b>	<b>(708,592,695)</b>	<b>(1,813,792,631)</b>	<b>1,017,648,195</b>	<b>2,402,823,045</b>	<b>409,703,444</b>	<b>880,488,084</b>	
<b>KHR'000 equivalent (Note 4)</b>	<b>(1,759,199,345)</b>	<b>(2,917,276,125)</b>	<b>(7,467,384,262)</b>	<b>4,189,657,619</b>	<b>9,892,422,476</b>	<b>1,686,749,079</b>	<b>3,624,969,442</b>	

# PRASAC Microfinance Institution Plc.

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

### 34. Financial risk management (continued)

#### 34.3 Market risk (continued)

##### (ii) Interest rate risk (continued)

	31 December 2021						Interest rate	
	Up to 1 month USD	>1 to 3 months USD	>3 to 12 months USD	>1 to 5 years USD	Over 5 years USD	Non-interest bearing USD	Total USD	%
<b>Financial assets</b>								
Cash on hand	-	-	-	-	-	222,365,399	222,365,399	0%
Balances with the NBC	223,638	150,000	148,184	-	30,000,000	337,897,544	368,419,366	0.00% to 1.63%
Balances with other banks	167,309	-	-	-	-	2,140,788	2,308,097	0.00% to 0.75%
Loans to customers	1,890,334	6,903,114	57,037,065	1,704,414,128	1,921,323,352	-	3,691,567,993	7% to 26.40%
Other assets	-	-	-	-	-	627,675	627,675	0%
<b>Total financial assets</b>	<b>2,281,281</b>	<b>7,053,114</b>	<b>57,185,249</b>	<b>1,704,414,128</b>	<b>1,951,323,352</b>	<b>563,031,406</b>	<b>4,285,288,530</b>	
<b>Financial liabilities</b>								
Deposits from banks and other financial institutions	22,923,836	14,574,240	44,383,502	-	-	-	81,881,578	0.00% to 5.25%
Deposits from customers	419,608,905	465,587,496	1,576,867,549	71,266,905	-	-	2,533,330,855	0.00% to 10.15%
Borrowings	12,298,668	18,987,273	211,256,262	580,899,379	6,380,282	-	829,821,864	2.00% to 8.84%
Bonds payable	-	-	400,029	30,942,070	-	-	31,342,099	7.50%
Subordinated debts	-	-	3,009,565	51,990,088	50,192,137	-	105,191,790	6.98% to 10.47%
Other liabilities	-	-	-	-	-	11,081,368	11,081,368	0%
<b>Total financial liabilities</b>	<b>454,831,409</b>	<b>499,149,009</b>	<b>1,835,916,907</b>	<b>735,098,442</b>	<b>56,572,419</b>	<b>11,081,368</b>	<b>3,592,649,554</b>	
<b>Maturity gap</b>	<b>(452,550,128)</b>	<b>(492,095,895)</b>	<b>(1,778,731,658)</b>	<b>969,315,686</b>	<b>1,894,750,933</b>	<b>551,950,038</b>	<b>692,638,976</b>	
<b>KHR'000 equivalent (Note 4)</b>	<b>(1,843,689,221)</b>	<b>(2,004,798,676)</b>	<b>(7,246,552,777)</b>	<b>3,948,992,106</b>	<b>7,719,215,301</b>	<b>2,248,644,455</b>	<b>2,821,811,188</b>	

# PRASAC Microfinance Institution Plc.

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

### 34. Financial risk management (continued)

#### 34.3 Market risk (continued)

(ii) *Interest rate risk (continued)*

***Interest rate benchmark reform***

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

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

For existing contracts that are indexed to an IBOR and mature after the expected cessation of the IBOR rate, the Company's treasury department has renegotiated with the lender to amend the contractual terms of affected contracts and the determination of alternative rates. These amendments include the addition of fallback clauses or replacement of the IBOR rate with an alternative benchmark rate which will be nearly risk-free rate and vary depending on the jurisdiction of the lenders.

The alternative reference rate for US dollar LIBOR is the Secured Overnight Financing Rate (SOFR) and the National Bank of Cambodia USD-NCD sell side rate ("NBC USD NCD sell side rate). Changes to the contractual terms of financial liabilities of the Company indexed to US dollar LIBOR to incorporate new benchmark rates are not yet fully completed as at 31 December 2022.

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

# PRASAC Microfinance Institution Plc.

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

### 34. Financial risk management (continued)

#### 34.3 Market risk (continued)

(ii) *Interest rate risk (continued)*

	31 December 2022		31 December 2021	
	100 bp Increase USD	100 bp Decrease USD	100 bp Increase USD	100 bp Decrease USD
<b><i>Variable rate instruments</i></b>				
Profit or loss (before tax)	<u>6,661,250</u>	<u>(6,661,250)</u>	<u>5,211,250</u>	<u>(5,211,250)</u>
KHR'000 equivalent (Note 4)	<u>27,424,366</u>	<u>(27,424,366)</u>	<u>21,230,633</u>	<u>(21,230,633)</u>

#### 33.4 Liquidity risk

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

Management monitors statement of financial position liquidity and manages the concentration and profile of debt maturities. Monitoring and reporting take the form of the daily cash position and projection for the next day, week and month, respectively, as these are key years for liquidity management. Management monitors the movements of the main depositors and projection of their withdrawals.

The table below summarises the Company'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.



# PRASAC Microfinance Institution Plc.

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

### 34. Financial risk management (continued)

#### 34.4 Liquidity risk (continued)

Analysis of the assets and liabilities of the Company by relevant maturity based on the remaining year at the reporting date to the contractual or estimated maturity dates is as follows:

	31 December 2022							
	Carrying amount USD	Gross nominal inflow/(outflow) USD	Up to 1 month USD	>1 to 3 months USD	>3 to 12 months USD	>1 to 5 years USD	Over 5 years USD	No maturity date USD
<b>Financial assets</b>								
Cash on hand	127,423,827	127,423,827	127,423,827	-	-	-	-	-
Balances with the NBC	326,284,541	65,633,037	64,740,618	391,420	500,999	-	-	-
Balances with other banks	5,946,137	6,006,199	6,006,199	-	-	-	-	-
Loans to customers	4,296,121,785	6,044,062,185	141,911,181	255,298,849	1,067,663,119	3,716,778,234	862,410,802	-
Other assets	960,777	979,793	951,626	-	-	-	-	28,167
<b>Total financial assets</b>	<b>4,756,737,067</b>	<b>6,244,105,041</b>	<b>341,033,451</b>	<b>255,690,269</b>	<b>1,068,164,118</b>	<b>3,716,778,234</b>	<b>862,410,802</b>	<b>28,167</b>
<b>Financial liabilities</b>								
Deposits from banks and other financial institutions	(50,037,118)	(50,927,848)	(13,032,147)	(5,263,713)	(32,631,988)	-	-	-
Deposits from customers	(2,727,207,862)	(2,821,944,274)	(413,518,730)	(571,016,909)	(1,749,573,986)	(85,818,661)	(2,015,988)	-
Borrowings	(971,259,425)	(1,072,035,407)	(12,242,344)	(220,123,777)	(254,501,684)	(584,379,659)	(787,943)	-
Bonds payable	(31,168,428)	(32,054,894)	-	-	(32,054,894)	-	-	-
Subordinated debts	(89,677,427)	(109,524,046)	(1,290,065)	(23,750)	(28,793,408)	(79,416,823)	-	-
Other liabilities	(6,898,723)	(6,898,723)	(6,898,723)	-	-	-	-	-
<b>Total financial liabilities</b>	<b>(3,876,248,983)</b>	<b>(4,093,385,192)</b>	<b>(446,982,009)</b>	<b>(796,428,149)</b>	<b>(2,097,555,960)</b>	<b>(749,615,143)</b>	<b>(2,803,931)</b>	<b>-</b>
<b>Net liquidity surplus (gap)</b>	<b>880,488,084</b>	<b>2,150,719,849</b>	<b>(105,948,558)</b>	<b>(540,737,880)</b>	<b>(1,029,391,842)</b>	<b>2,967,163,091</b>	<b>859,606,871</b>	<b>28,167</b>
KHR'000 equivalent (Note 4)	3,624,969,442	8,854,513,618	(436,190,213)	(2,226,217,852)	(4,238,006,214)	12,215,810,446	3,539,001,488	115,964

# PRASAC Microfinance Institution Plc.

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

### 34. Financial risk management (continued)

#### 34.4 Liquidity risk (continued)

Analysis of the assets and liabilities of the Company by relevant maturity based on the remaining year at the reporting date to the contractual or estimated maturity dates is as follows:  
(continued)

	31 December 2021							No maturity date USD
	Carrying amount USD	Gross nominal inflow/(outflow) USD	Up to 1 month USD	>1 to 3 months USD	>3 to 12 months USD	>1 to 5 years USD	Over 5 years USD	
<b>Financial assets</b>								
Cash on hand	222,365,399	222,365,399	222,365,399	-	-	-	-	-
Balances with the NBC	368,419,366	140,387,730	140,080,375	151,410	155,945	-	-	-
Balances with other banks	2,308,097	2,331,411	2,331,411	-	-	-	-	-
Loans to customers	3,691,567,993	5,208,860,461	122,538,071	223,811,479	944,792,859	3,199,286,272	718,431,780	-
Other assets	627,675	639,908	611,741	-	-	-	-	28,167
<b>Total financial assets</b>	<b>4,285,288,530</b>	<b>5,574,584,909</b>	<b>487,926,997</b>	<b>223,962,889</b>	<b>944,948,804</b>	<b>3,199,286,272</b>	<b>718,431,780</b>	<b>28,167</b>
<b>Financial liabilities</b>								
Deposits from banks and other financial institutions	(81,881,578)	(84,679,775)	(4,262,143)	(34,390,058)	(46,027,574)	-	-	-
Deposits from customers	(2,533,330,855)	(2,562,934,934)	(407,395,534)	(478,639,985)	(1,597,242,731)	(78,213,762)	(1,442,922)	-
Borrowings	(829,821,864)	(883,112,710)	(28,256,312)	(52,400,915)	(286,052,601)	(515,104,002)	(1,298,880)	-
Bonds payable	(31,342,099)	(34,221,637)	-	-	(2,186,377)	(32,035,260)	-	-
Subordinated debts	(105,191,790)	(129,352,520)	(1,335,196)	(40,850)	(21,840,510)	(95,329,382)	(10,806,582)	-
Other liabilities	(11,081,368)	(11,081,368)	(11,081,368)	-	-	-	-	-
<b>Total financial liabilities</b>	<b>(3,592,649,554)</b>	<b>(3,705,382,944)</b>	<b>(452,330,553)</b>	<b>(565,471,808)</b>	<b>(1,953,349,793)</b>	<b>(720,682,406)</b>	<b>(13,548,384)</b>	<b>-</b>
<b>Net liquidity surplus (gap)</b>	<b>692,638,976</b>	<b>1,869,201,965</b>	<b>35,596,444</b>	<b>(341,508,919)</b>	<b>(1,008,400,989)</b>	<b>2,478,603,866</b>	<b>704,883,396</b>	<b>28,167</b>
KHR'000 equivalent (Note 4)	2,821,811,188	7,615,128,805	145,019,913	(1,391,307,336)	(4,108,225,629)	10,097,832,150	2,871,694,955	114,752

# PRASAC Microfinance Institution Plc.

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

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

The methods and assumptions used by the Company in estimating the fair values of the financial instruments are:

- *Cash on hand, balances with the NBC and other banks*

The carrying amounts approximate the fair values due to the short-term nature of these accounts.

- *Loans to customers*

The fair value of loans to customers is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes expected lifetime credit losses, interest rates, prepayment rates and primary origination or secondary market spreads.

Input into the models may include data from third party and information obtained from other market participants, which includes observed primary and secondary transactions. Its carrying value approximates to fair value at the reporting date.

# PRASAC Microfinance Institution Plc.

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

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

The methods and assumptions used by the Company in estimating the fair values of the financial instruments are: (continued)

- *Deposits from banks and other financial institutions, and deposits from customers*

The fair value of deposits from banks and other financial institutions and deposits from customers with maturities of less than one year approximates their carrying amount due to the relatively short maturity of these instruments. The fair value of deposits and placements of other banks and financial institutions and deposits from customers with remaining maturities of more than one year are expected to approximate their carrying amount because the Company offered similar interest rate of the instrument with similar maturities and terms.

The estimated fair value of deposits with no stated maturities, which includes non-interest bearing current accounts and savings deposits, is the amount payable at the reporting date.

- *Borrowings, bonds payable and subordinated debts*

The fair value of borrowings, bonds payable and subordinated debts are estimated by discounting the expected future cash flows using the applicable prevailing market interest rates for borrowings with similar risk profiles. However, only the contractual interest rates which are confirmed and provided by all lenders are available at the reporting date instead of the applicable prevailing market interest rates. The Company believed that the contractual interest rates were not significantly different to the prevailing market interest rates on the ground that there was no significant change to interest rates considering the Company's credit risk profile as at reporting date. On this basis, the fair value of borrowings and subordinated debts approximates their carrying values at the reporting date.

- *Other assets and liabilities*

Due to their short duration, the carrying amounts of other liabilities in the statement of financial position are considered to be reasonable approximation of their fair values.

#### **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 Company'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.

# **PRASAC Microfinance Institution Plc.**

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

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

The Company'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 statement of financial position are a reasonable estimation of their fair values.

### **36. Tax contingency**

On 26 April 2022, the Company received a tax notification letter from the General Department of Taxation ("GDT") for a comprehensive tax audit for the period from 1 January 2020 to 31 December 2021. As at the date of this report, the GDT has yet issued any result to the Company.

Taxes are calculated on the basis of current interpretation of the tax regulations enacted as at reporting date. The management periodically evaluates position taken in tax returns with respect to situations in which applicable tax regulation is subjected to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

However, these regulations are subject to periodic variation and the ultimate determination of tax liabilities will be made following inspection by the tax authorities. Where the final tax outcome of these matters is different from the amounts initially recorded, such differences will impact the taxes liabilities and balances in the year in which the determination is made.