

PRASAC MICROFINANCE INSTITUTION PLC.

**Financial Statements
for the year ended 31 December 2021
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	<i>Former shareholders:</i> Kookmin Bank Co., Ltd LOLC International Private Limited The Bank of East Asia, Limited PRASAC Staff Company Limited <i>New shareholders (approved by NBC on 12 October 2021):</i> Kookmin Bank Co., Ltd Kookmin Bank Cambodia Plc	
Board of Directors	Mr. Kwi Sang Jun Mr. Chung Hui Tae Mr. Oum Sam Oeun Mr. Choi Dong Hyun Mr. Lee Kyung Cheon Mr. Pak Jaehong Mr. Chan Sophal Mr. Ji Kyu Jang Mr. Ishara Chinthaka Nanayakkara Mr. Sim Senacheert Mr. Minki Brian Hong Mr. Hak Soo Kim	Chairman Director (appointed on 23 February 2022) Director (appointed on 23 February 2022) Director (appointed on 12 October 2021) Independent Director (appointed on 12 October 2021) Independent Director (appointed on 12 October 2021) Independent Director (appointed on 12 October 2021) Director (resigned on 18 January 2022) Director (resigned on 12 October 2021) Director (resigned on 12 October 2021) Director (resigned on 12 October 2021) Director (resigned on 28 January 2021)
Executive Committee	Mr. Oum Sam Oeun Mr. Kim Hyeunjong Mr. Yi JuHwan Mr. Won Sooyeon	President & Chief Executive Officer (appointed on 2 December 2021) EVP & Deputy Chief Executive Officer (appointed on 16 February 2022) EVP & Chief Risk Officer (appointed on 14 January 2022) EVP & Chief Finance Officer (appointed on 14 January 2022)

Corporate Information (continued)

Executive Committee (continued)

Mr. Kong Sean	EVP & Chief Operation Officer (appointed on 1 December 2021)
Mr. Ry Vanna	EVP & Chief Business Officer (appointed on 6 December 2021)
Mr. Pen Sovannsoksitha	EVP & Chief Marketing Officer (appointed on 6 December 2021)
Mr. Hoeun Honey	EVP & Chief Human Resource Officer (appointed on 1 December 2021)
Mr. Sim Senacheert	President & Chief Executive Officer (resigned on 21 January 2022)
Mr. Oum Sophan	EVP & Chief Financial 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)

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 2021.

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.

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 2021 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.

Share capital

On 12 May 2021, the Company requested to the National Bank of Cambodia (“NBC”) to increase its share capital from USD230,000,000 to USD300,000,000 by way of capitalising the retained earnings. This request was approved by the NBC on 31 May 2021. The Memorandum and Articles of Association of the Company had been updated to reflect this change and was endorsed by the MoC on 9 June 2021.

Prasac Microfinance Institution Plc.

Share capital (continued)

On 6 September 2021, the shareholders have reached an agreement and resolved to transfer the 30% of the Company's ordinary share, collectively, from LOLC International Private Limited ("LOLC"), The bank of East Asia, Limited ("BEA") and PRASAC Staff Company Limited ("PSCo") to Kookmin Bank Co., Ltd ("KB") and Kookmin Bank Cambodia Plc ("KBC"). On 12 October 2021, the Company obtained approval from the National Bank of Cambodia ("NBC") regarding this capital transfer. The Memorandum and Articles of Association of the Company had been updated to reflect this change and was endorsed by the MoC on 19 October 2021.

The details of the capital transfers were as follows:

	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>
	31 December 2020		
	USD	KHR'000 equivalent (Note 4)	%
KB	161,000,000	644,000,000	70.0%
LOLC	48,300,000	193,200,000	21.0%
BEA	14,490,000	57,960,000	6.3%
PSCo	6,210,000	24,840,000	2.7%
	<u>230,000,000</u>	<u>920,000,000</u>	<u>100%</u>

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 is 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.

Prasac Microfinance Institution Plc.

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 is 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 is not aware of any circumstances which have arisen which render adherence to the existing method of valuation of assets and liabilities in the financial statements of the 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.

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 is 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 year and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect substantially the results of the operations of the Company for the current reporting period in which this report is made.

Prasac Microfinance Institution Plc.

The Board of Directors

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

<i>Name</i>	<i>Position</i>
Mr. Kwi Sang Jun	Chairman
Mr. Chung Hui Tae	Director (appointed on 23 February 2022)
Mr. Oum Sam Oeun	Director (appointed on 23 February 2022)
Mr. Choi Dong Hyun	Director (appointed on 12 October 2021)
Mr. Lee Kyung Cheon	Independent Director (appointed on 12 October 2021)
Mr. Pak Jaehong	Independent Director (appointed on 12 October 2021)
Mr. Chan Sophal	Independent Director (appointed on 12 October 2021)
Mr. Ji Kyu Jang	Director (resigned on 18 January 2022)
Mr. Ishara Chinthaka Nanayakkara	Director (resigned on 12 October 2021)
Mr. Sim Senacheert	Director (resigned on 12 October 2021)
Mr. Minki Brian Hong	Director (resigned on 12 October 2021)
Mr. Hak Soo Kim	Director (resigned on 28 January 2021)

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 (appointed on 2 December 2021)
Mr. Kim Hyeunjong	EVP & Deputy Chief Executive Officer (appointed on 16 February 2022)
Mr. Yi JuHwan	EVP & Chief Risk Officer (appointed on 14 January 2022)
Mr. Won Sooyeon	EVP & Chief Finance Officer (appointed on 14 January 2022)
Mr. Kong Sean	EVP & Chief Operation Officer (appointed on 1 December 2021)
Mr. Ry Vanna	EVP & Chief Business Officer (appointed on 6 December 2021)
Mr. Pen Sovannsoksitha	EVP & Chief Marketing Officer (appointed on 6 December 2021)
Mr. Hoeun Honey	EVP & Chief Human Resource Officer (appointed on 1 December 2021)
Mr. Sim Senacheert	President & Chief Executive Officer (resigned on 21 January 2022)
Mr. Oum Sophan	EVP & Chief Financial 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)

Prasac Microfinance Institution Plc.

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 object 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 2021, and its financial performance and its cash flows for the year then ended. In preparing these financial statements, the Board of Directors is required to:

- 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;
- 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.

Prasac Microfinance Institution Plc.

Approval of the financial statements

We hereby approved the accompanying financial statements together with the notes thereto as set out on pages 12 to 100 which, in our opinion, present fairly, in all material respects, the financial position of the Company as at 31 December 2021, and its financial performance and its cash flows for the year then ended, in accordance with Cambodian International Financial Reporting Standards (“CIFRSs”).

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



Mr. Kwi Sang Jun
Chairman

Phnom Penh, Kingdom of Cambodia

25 March 2022



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Sangkat Tonle Bassac, Khan Chamkar Mon
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THE INDEPENDENT AUDITORS' REPORT

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 2021, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information as set out on pages 12 to 100 (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 2021, and its financial performance and its cash flows for the year then ended in accordance with Cambodian International Financial Reporting Standards (“CIFRSs”).

Basis for 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 2021, the Company recognised the allowance for impairment losses on loan to customer amounting to USD56,790,432, which represent 1.51% 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"> • 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; • macroeconomic information (including forward-looking information and COVID-19 consideration) to the estimation; and • Selection of criteria to determine whether a credit exposure has exhibited significant increase in credit risk (“SICR”). <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 experience a SICR since initial recognition nor become 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"> - 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; - Involving our own Information Technology (IT) specialist to evaluate the design and tested the operating effectiveness of the relevant controls relating to the accuracy of the computation of the day past due, which is used in the determining the loan’s staging; - 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 evaluate the reasonableness of the criteria used for determination of SICR; - Testing the reliability of the relevant data elements, using sampling, relating to historical loan recovery, macroeconomic information and historical loan data; - Testing loan written-off during the year, and - Evaluating the adequacy of the financial statement disclosures, including disclosures of key inputs, assumptions and judgements.



Emphasis of Matter – Comparative Information

We draw attention to Note 36 to the financial statements which indicates that the comparative information presented as at 31 December 2020 has been restated. Our opinion is not modified in respect of this matter.

Other Matter Relating to Comparative Information

The financial statements of the Company for the year ended 31 December 2020 and 31 December 2019 (from which the statement of financial position as at 1 January 2020 has been derived), excluding the adjustments described in Note 36 to the financial statements, were audited by another firm of auditors who expressed an unmodified opinion on those financial statements on 31 March 2021.

As part of our audit of the financial statements as at and for the year ended 31 December 2021, we audited the adjustments described in Note 36 that were applied to restate the comparative information presented as at and for the year ended 31 December 2020 and the statement of financial position as at 1 January 2020. We were not engaged to audit, review or apply any procedures to the financial statements as at and for the year ended 31 December 2020 or 31 December 2019 (not presented herein) or to the statement of financial position as at 1 January 2020, other than with respect to the adjustments described in Note 36 to the financial statements. Accordingly, we do not express an opinion or any other form of assurance on those respective financial statements taken as a whole. However, in our opinion, the adjustments described in Note 36 are appropriate and have been properly applied.

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.
- 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

25 March 2022

Prasac Microfinance Institution Plc.

Statement of financial position As at 31 December 2021

	Notes	31 December 2021		31 December 2020		1 January 2020	
		USD	KHR'000 equivalent (Note 4)	USD (As restated)	KHR'000 equivalent (Note 4) (As restated)	USD (As restated)	KHR'000 equivalent (Note 4) (As restated)
ASSETS							
Cash on hand	5	222,365,399	905,916,636	160,578,086	649,538,358	150,702,355	614,112,097
Balances with the National Bank of Cambodia	6	368,419,366	1,500,940,497	438,355,399	1,773,147,589	439,823,205	1,792,279,560
Balances with other banks	7	2,308,097	9,403,187	3,975,029	16,078,992	1,092,239	4,450,874
Loans to customers	8	3,691,567,993	15,039,448,003	2,978,579,934	12,048,355,833	2,468,225,611	10,058,019,365
Other assets	9	1,815,969	7,398,258	1,341,096	5,424,733	8,723,049	35,546,425
Property and equipment	10	4,861,518	19,805,825	5,662,803	22,906,039	4,906,287	19,993,120
Right-of-use assets	11	16,097,643	65,581,798	15,322,179	61,978,214	14,360,265	58,518,080
Intangible assets	12	1,354,529	5,518,351	1,607,168	6,500,995	1,499,886	6,112,035
Deferred tax assets – net	19(c)	11,727,635	47,778,385	10,904,851	44,110,122	9,198,173	37,482,555
TOTAL ASSETS		4,320,518,149	17,601,790,940	3,616,326,545	14,628,040,875	3,098,531,070	12,626,514,111
LIABILITIES AND SHAREHOLDERS' EQUITY							
LIABILITIES							
Deposits from banks and other financial institutions	13	81,881,578	333,585,549	37,232,817	150,606,745	56,546,034	230,425,089
Deposits from customers	14	2,533,330,855	10,320,789,903	2,074,680,943	8,392,084,414	1,779,206,547	7,250,266,679
Borrowings	15	829,821,864	3,380,694,274	794,430,317	3,213,470,632	733,915,161	2,990,704,281
Bonds payable	16	31,342,099	127,687,711	30,666,038	124,044,124	-	-
Subordinated debts	17	105,191,790	428,551,352	113,667,817	459,786,320	76,840,659	313,125,685
Lease liabilities	18	15,591,438	63,519,518	14,424,818	58,348,389	13,172,728	53,678,867
Income tax payable	19(b)	34,153,679	139,142,088	24,076,695	97,390,231	23,414,889	95,415,673
Provision for employee benefits	20	237,906	969,229	435,375	1,761,092	74,562	303,840
Other liabilities	21	14,627,852	59,593,871	7,873,601	31,848,716	5,351,353	21,806,764
Total liabilities		3,646,179,061	14,854,533,495	3,097,488,421	12,529,340,663	2,688,521,933	10,955,726,878

Prasac Microfinance Institution Plc.

Statement of financial position (Continued) As at 31 December 2021

	Notes	31 December 2021		31 December 2020		1 January 2020	
		USD	KHR'000 equivalent (Note 4)	USD (As restated)	KHR'000 equivalent (Note 4) (As restated)	USD (As restated)	KHR'000 equivalent (Note 4) (As restated)
SHAREHOLDERS' EQUITY							
Share capital	22(a)	300,000,000	1,200,000,000	230,000,000	920,000,000	230,000,000	920,000,000
Retained earnings		349,600,939	1,430,490,098	285,224,840	1,163,897,093	174,271,385	711,503,244
Reserve fund	22(b)	-	-	3,151,952	12,773,175	3,093,332	12,534,181
Regulatory reserve		24,738,149	100,536,219	461,332	1,778,127	2,644,420	10,715,190
Currency translation reserves		-	16,231,128	-	251,817	-	16,034,618
Total shareholders' equity		674,339,088	2,747,257,445	518,838,124	2,098,700,212	410,009,137	1,670,787,233
TOTAL LIABILITIES AND							
SHAREHOLDERS' EQUITY		4,320,518,149	17,601,790,940	3,616,326,545	14,628,040,875	3,098,531,070	12,626,514,111

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 2021

	Notes	2021		2020	
		USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Interest income	23	505,592,378	2,056,749,794	430,325,525	1,754,437,165
Interest expense	24	(210,148,674)	(854,884,806)	(198,398,688)	(808,871,451)
Net interest income		<u>295,443,704</u>	<u>1,201,864,988</u>	<u>231,926,837</u>	<u>945,565,714</u>
Fees and commission income	25	8,617,690	35,056,763	6,877,558	28,039,804
Fees and commission expense	25	(118,009)	(480,061)	(163,152)	(665,171)
Net fees and commission income	25	<u>8,499,681</u>	<u>34,576,702</u>	<u>6,714,406</u>	<u>27,374,633</u>
Other income	26	9,798,130	39,858,793	9,005,549	36,715,623
Grant income		1,678,842	6,829,529	996,785	4,063,893
Net foreign exchange (loss)/gain		(1,587,373)	(6,457,433)	514,961	2,099,497
Total other income		<u>9,889,599</u>	<u>40,230,889</u>	<u>10,517,295</u>	<u>42,879,013</u>
Total interest, fees, commission and other income		<u>313,832,984</u>	<u>1,276,672,579</u>	<u>249,158,538</u>	<u>1,015,819,360</u>
Personnel expenses	27	(84,578,929)	(344,067,083)	(67,850,856)	(276,627,940)
Allowance for impairment losses	33.1(g)	(14,707,859)	(59,831,570)	(23,411,178)	(95,447,373)
General and administrative expenses	28	(14,530,115)	(59,108,508)	(15,984,672)	(65,169,508)
Depreciation and amortisation	29	(6,378,059)	(25,945,944)	(6,570,058)	(26,786,126)
Profit before income tax		<u>193,638,022</u>	<u>787,719,474</u>	<u>135,341,774</u>	<u>551,788,413</u>
Income tax expense	19(a)	(38,137,058)	(155,141,552)	(26,512,787)	(108,092,633)
Net profit for the year		<u>155,500,964</u>	<u>632,577,922</u>	<u>108,828,987</u>	<u>443,695,780</u>
<i>Other comprehensive income/(loss)</i>					
Currency translation differences		-	15,979,311	-	(15,782,801)
Total comprehensive income for the year		<u>155,500,964</u>	<u>648,557,233</u>	<u>108,828,987</u>	<u>427,912,979</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 2021

	Share capital		Retained earnings		Reserve fund		Regulatory reserve		Currency translation reserves		Total	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
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
Balance at 31 December 2021	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
Balance as at 1 January 2020 (as restated)	230,000,000	920,000,000	174,271,385	711,503,244	3,093,332	12,534,181	2,644,420	10,715,190	-	16,034,618	410,009,137	1,670,787,233
Net profit for the year	-	-	108,828,987	443,695,780	-	-	-	-	-	-	108,828,987	443,695,780
Transfer from regulatory reserve	-	-	2,183,088	8,937,063	-	-	(2,183,088)	(8,937,063)	-	-	-	-
Transfer to reserve fund	-	-	(58,620)	(238,994)	58,620	238,994	-	-	-	-	-	-
Currency translation differences	-	-	-	-	-	-	-	-	-	(15,782,801)	-	(15,782,801)
Balance at 31 December 2020 (as restated)	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

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 2021

	Notes	2021		2020	
		USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
CASH FLOWS FROM OPERATING ACTIVITIES					
Net cash used in operating activities	30	<u>(71,081,858)</u>	<u>(289,161,001)</u>	<u>(136,113,852)</u>	<u>(554,936,176)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property and equipment		(1,282,372)	(5,216,689)	(2,963,009)	(12,080,188)
Purchase of intangible assets		(43,735)	(177,914)	(474,334)	(1,933,860)
Investment in negotiable certificates of deposit		(147,430)	(599,745)	(147,561)	(601,606)
Proceed from investment in negotiable certificates of deposit		148,377	603,598	147,991	603,359
Proceeds from disposal of property and equipment		111,776	454,705	10,890	44,399
Placements of capital guarantee		<u>(7,000,000)</u>	<u>(28,476,000)</u>	-	-
Net cash used in investing activities		<u>(8,213,384)</u>	<u>(33,412,045)</u>	<u>(3,426,023)</u>	<u>(13,967,896)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		335,239,090	1,363,752,618	416,904,907	1,699,721,306
Repayments of borrowings		(295,976,678)	(1,204,033,126)	(353,817,494)	(1,442,513,923)
Proceeds from subordinated debts		17,296,512	70,362,211	49,264,141	200,849,903
Repayments of subordinated debts		(25,784,186)	(104,890,069)	(12,833,334)	(52,321,503)
Proceeds from bond issuance		-	-	30,535,399	124,492,822
Payments of lease liabilities		<u>(3,618,098)</u>	<u>(14,718,423)</u>	<u>(3,770,363)</u>	<u>(15,371,770)</u>
Net cash generated from financing activities		<u>27,156,640</u>	<u>110,473,211</u>	<u>126,283,256</u>	<u>514,856,835</u>
Net decrease in cash and cash equivalents		(52,138,602)	(212,099,835)	(13,256,619)	(54,047,237)
Cash and cash equivalents at beginning of the year		417,065,787	1,687,031,108	430,322,406	1,753,563,804
Currency translation differences		-	11,782,079	-	(12,485,459)
Cash and cash equivalents at end of the year	5	<u>364,927,185</u>	<u>1,486,713,352</u>	<u>417,065,787</u>	<u>1,687,031,108</u>
Significant non-cash transaction from financing activities					
Conversion of retained earnings to share capital		<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 2021

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.

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 2021, the Company had 9,330 employees (31 December 2020: 9,042 employees).

2. Basis of preparation

(a) Statement of compliance

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

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

These financial statements were authorised for issue by the Company’s Board of Directors on 25 March 2022.

(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.

Prasac Microfinance Institution Plc.

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

2. Basis of preparation (continued)

(b) Functional and presentation currency (continued)

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.

Prasac Microfinance Institution Plc.

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

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. 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.

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

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.

B. Foreign currency

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.

Prasac Microfinance Institution Plc.

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

3. Significant accounting policies (continued)

B. Foreign currency (continued)

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

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

C Financial 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 34 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.

Prasac Microfinance Institution Plc.

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

3. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(ii) *Classification (continued)*

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.

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.

Prasac Microfinance Institution Plc.

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

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”)

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.

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;

Prasac Microfinance Institution Plc.

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

3. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(ii) *Classification (continued)*

Non-recourse loans (continued)

- 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.

(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 expire.

(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.

Prasac Microfinance Institution Plc.

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

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 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.

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.

Prasac Microfinance Institution Plc.

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

3. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

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

Financial liabilities (continued)

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

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.

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.

Prasac Microfinance Institution Plc.

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

3. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(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.

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.

Prasac Microfinance Institution Plc.

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

3. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

(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.

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.

Prasac Microfinance Institution Plc.

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

3. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

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

Credit-impaired financial assets (continued)

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.

- 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.

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.

Prasac Microfinance Institution Plc.

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

3. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

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

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.

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 2021

3. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

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

Inputs, assumptions and techniques used for estimating impairment (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 ‘impairment losses on financial instruments’ 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.

Prasac Microfinance Institution Plc.

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

3. Significant accounting policies (continued)

C. Financial assets and financial liabilities (continued)

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

Restructured financial assets

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

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

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 deposit.

F. Balances with other banks

Balances with other banks are carried at cost less ECL.

Prasac Microfinance Institution Plc.

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

3. Significant accounting policies (continued)

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 method.

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.

Prasac Microfinance Institution Plc.

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

3. Significant accounting policies (continued)

H. Property and equipment (continued)

(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.

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:

	Useful life
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.

Prasac Microfinance Institution Plc.

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

3. Significant accounting policies (continued)

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.

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.

Prasac Microfinance Institution Plc.

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

3. Significant accounting policies (continued)

J. Leases (continued)

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.

K. Other assets

Other assets are carried at estimated realisable value.

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 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 statement of 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.

Prasac Microfinance Institution Plc.

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

3. Significant accounting policies (continued)

O. Employee benefits (continued)

(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.

P. 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
- 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 transfer the difference from retained earnings to the regulatory reserve in the shareholders' equity account.

Prasac Microfinance Institution Plc.

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

3. Significant accounting policies (continued)

P. Regulatory reserve (continued)

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 shall be classified and provisioned based on the requirements under this circular. For loans that were still in the assessment period, they shall be kept at the same classification as before the restructured terms of contract.

The Company has reviewed this new 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.

Q. Share capital – share issue costs

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

R. 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.

S. Interest

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.

Prasac Microfinance Institution Plc.

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

3. Significant accounting policies (continued)

S. Interest (continued)

Effective interest rate (continued)

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.

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.

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.

Prasac Microfinance Institution Plc.

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

3. Significant accounting policies (continued)

S. Interest (continued)

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.

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 and 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.

Prasac Microfinance Institution Plc.

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

3. Significant accounting policies (continued)

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'.

(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.

(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.

Prasac Microfinance Institution Plc.

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

3. Significant accounting policies (continued)

W. Income tax (continued)

(iii) *Deferred tax (continued)*

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

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 2021 do not have a significant impact on the Company's financial statements:

New currently effective requirements

- COVID-19-Related Rent Concessions (Amendment to CIFRS 16).
- Interest Rate Benchmark Reform – Phase 2 (Amendments to CIFRS 9, IAS 39, CIFRS 7, CIFRS 4 and CIFRS 16)

In addition, a number of new standards and amendments to standards are effective for annual periods beginning on or after 1 January 2021 and earlier application is permitted; however, the Company has not early adopted any of the new or amended standards in preparing these financial statements.

Prasac Microfinance Institution Plc.

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

3. Significant accounting policies (continued)

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

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 2021, the taxable temporary difference in relation to the right-of-use asset is USD14,977,091 and the deductible temporary difference in relation to the lease liability is USD15,591,438, resulting in a net deferred tax asset of USD122,870 (Note 19). Under the amendments, the Company will present a separate deferred tax liability of USD2,995,418 and a deferred tax asset of USD3,118,288. There will be no impact on retained earnings on adoption of the amendments.

(ii) **Other standards**

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

- Annual Improvements to CIFRS Standards 2018–2020.
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to CIAS 16.
- Reference to Conceptual Framework – Amendments to CIFRS 3.
- Classification of Liabilities as Current or Non-current – Amendments to CIAS 1;
- Disclosure of Accounting Policies – Amendments to CIAS 1 and CIFRS Practice Statement 2.
- Definition of Accounting Estimate – Amendments to CIAS 8

Prasac Microfinance Institution Plc.

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

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 have not fluctuated significantly during the year. Exchange differences arising from the translation are recognised as “Currency Translation Differences” in other comprehensive income.

The Company uses the following exchange rates:

			Closing rate	Average rate twelve-months
31 December 2021	USD1	=	KHR 4,074	KHR 4,068
31 December 2020	USD1	=	KHR 4,045	KHR 4,077

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.

5. Cash on hand

	31 December 2021		31 December 2020	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Branches	184,569,664	751,936,812	116,999,478	473,262,889
Head office	37,795,735	153,979,824	43,578,608	176,275,469
	<u>222,365,399</u>	<u>905,916,636</u>	<u>160,578,086</u>	<u>649,538,358</u>

Prasac Microfinance Institution Plc.

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

5. Cash on hand (continued)

Cash on hand by currency comprises the following:

	31 December 2021		31 December 2020	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
USD	184,320,172	750,920,382	130,637,165	528,427,332
KHR	34,859,816	142,018,890	26,845,731	108,590,982
THB	3,185,411	12,977,364	3,095,190	12,520,044
	<u>222,365,399</u>	<u>905,916,636</u>	<u>160,578,086</u>	<u>649,538,358</u>

For the purpose of preparing the statement of cash flows, cash and cash equivalents comprise:

	31 December 2021		31 December 2020	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Cash on hand	222,365,399	905,916,636	160,578,086	649,538,358
<i>Balances with the NBC</i>				
Current accounts	139,856,737	569,776,347	87,265,227	352,987,843
Term deposits (original maturity up to three months)	373,638	1,522,201	165,207,294	668,263,504
<i>Balances with other banks</i>				
Current accounts	2,240,993	9,129,805	3,959,939	16,017,953
Savings accounts	90,418	368,363	55,241	223,450
	<u>364,927,185</u>	<u>1,486,713,352</u>	<u>417,065,787</u>	<u>1,687,031,108</u>

Prasac Microfinance Institution Plc.

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

6. Balances with the National Bank of Cambodia

	Note	31 December 2021		31 December 2020	
		USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Current accounts	(a)	139,856,737	569,776,347	87,265,227	352,987,843
Term deposits (original maturity up to three months)	(a)	373,638	1,522,201	165,207,294	668,263,504
Term deposits (original maturity of more than three months)	(a)	148,184	603,702	148,888	602,252
Capital guarantee	(b)	30,000,000	122,220,000	23,000,000	93,035,000
Reserve requirement	(c)	198,040,807	806,818,247	162,733,990	658,258,990
		<u>368,419,366</u>	<u>1,500,940,497</u>	<u>438,355,399</u>	<u>1,773,147,589</u>

(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 0.04% to 1.63% (2020: from 0.02% to 1.60%) and more than three months at annual interest rates ranging from 0.13% to 1.91% (2020: from 0.23% to 1.93%) during the year.

(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 7 June 2021, the Company increased the capital guarantee to USD30 million, following the increase in share capital, which was approved by the NBC on 31 May 2021. 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 0.04% (2020: 0.09%) during the year.

Prasac Microfinance Institution Plc.

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

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

(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.

On 11 January 2022, the Company transferred an additional sum of USD6,471,930 to their reserve requirement account with NBC to maintain the minimum reserve requirement to comply with the above Prakas.

7. Balances with other banks

	31 December 2021		31 December 2020	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Current accounts	2,240,993	9,129,805	3,959,939	16,017,953
Savings accounts	90,418	368,363	55,241	223,450
Gross balances with other banks	2,331,411	9,498,168	4,015,180	16,241,403
Allowance for impairment losses	(23,314)	(94,981)	(40,151)	(162,411)
	<u>2,308,097</u>	<u>9,403,187</u>	<u>3,975,029</u>	<u>16,078,992</u>

Current accounts earn annual interest rate up to 0.75% (2020: 0.00% to 1.00%) and savings accounts earn annual interest rates ranging from 0.00% to 0.20% (2020: 0.00% to 1.00%) during the year.

Balances with other banks by currency are as follows:

	31 December 2021		31 December 2020	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
USD	1,759,006	7,166,190	1,742,434	7,048,146
KHR	572,405	2,331,978	2,272,746	9,193,257
	<u>2,331,411</u>	<u>9,498,168</u>	<u>4,015,180</u>	<u>16,241,403</u>

Prasac Microfinance Institution Plc.

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

7. Balances with other banks (continued)

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

	2021		2020	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Balance at 1 January	40,151	162,411	11,033	44,959
Recognised in profit or loss	(16,837)	(68,493)	29,118	118,715
Currency translation differences	-	1,063	-	(1,263)
Balance at 31 December	<u>23,314</u>	<u>94,981</u>	<u>40,151</u>	<u>162,411</u>

8. Loans to customers

Loans to customers are categorised as follows:

	31 December 2021		31 December 2020	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Individual loans	3,683,632,514	15,007,118,862	2,973,563,176	12,028,063,047
Small and medium enterprises	61,901,154	252,185,301	48,733,619	197,127,489
Staff loans	7,300,898	29,743,858	8,148,355	32,960,096
Group loans	176,926	720,797	375,579	1,519,217
	<u>3,753,011,492</u>	<u>15,289,768,818</u>	<u>3,030,820,729</u>	<u>12,259,669,849</u>
Unamortised loan processing fees	(34,840,611)	(141,940,649)	(28,858,791)	(116,733,810)
	<u>3,718,170,881</u>	<u>15,147,828,169</u>	<u>3,001,961,938</u>	<u>12,142,936,039</u>
Accrued interest receivable	30,187,544	122,984,054	26,231,489	106,106,373
	<u>3,748,358,425</u>	<u>15,270,812,223</u>	<u>3,028,193,427</u>	<u>12,249,042,412</u>
Allowance for impairment losses	(56,790,432)	(231,364,220)	(49,613,493)	(200,686,579)
	<u>3,691,567,993</u>	<u>15,039,448,003</u>	<u>2,978,579,934</u>	<u>12,048,355,833</u>

Prasac Microfinance Institution Plc.

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

8. Loans to customers (continued)

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

	2021		2020	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Balance at 1 January	49,613,493	200,686,579	26,232,892	106,899,034
Recognised in profit or loss	14,722,763	59,892,200	23,380,601	95,322,710
Written-off during the year	(7,545,824)	(30,696,412)	-	-
Currency translation differences	-	1,481,853	-	(1,535,165)
Balance at 31 December	<u>56,790,432</u>	<u>231,364,220</u>	<u>49,613,493</u>	<u>200,686,579</u>

The annual interest rates of loans to customers are as follows:

	2021	2020
Group loans	16.20% - 18.00%	16.20% - 18.00%
Individual loans	6.50% - 27.60%(before April 2017) 7.00% – 18.00% (after April 2017)	10.00% - 32.40%(before April 2017) 7.00% – 18.00% (after April 2017)
Biogas loans	18%	0%
Staff loans	<u>8.00% - 10.00%</u>	<u>8.00% - 10.00%</u>

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 as at statement of financial position date.

For additional analysis of gross amount of loans to customers, refer to Note 33.1.

Prasac Microfinance Institution Plc.

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

9. Other assets

	31 December 2021		31 December 2020	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Prepayments	1,139,886	4,643,896	767,359	3,103,967
Deposits	611,637	2,491,809	513,266	2,076,161
Long-term investment	28,167	114,752	28,167	113,936
Others	48,512	197,638	42,604	172,333
	<u>1,828,202</u>	<u>7,448,095</u>	<u>1,351,396</u>	<u>5,466,397</u>
Allowance for impairment losses	<u>(12,233)</u>	<u>(49,837)</u>	<u>(10,300)</u>	<u>(41,664)</u>
	<u>1,815,969</u>	<u>7,398,258</u>	<u>1,341,096</u>	<u>5,424,733</u>

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

	2021		2020	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Balance at 1 January	10,300	41,664	8,841	35,762
Recognised in profit or loss	1,933	7,863	1,459	5,948
Currency translation differences	-	310	-	(46)
Balance at 31 December	<u>12,233</u>	<u>49,837</u>	<u>10,300</u>	<u>41,664</u>

Prasac Microfinance Institution Plc.

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

10. Property and equipment

	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)
Cost									
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	<u>5,517,131</u>	<u>2,851,723</u>	<u>360,678</u>	<u>9,797,701</u>	<u>2,419,207</u>	<u>344,072</u>	<u>288,696</u>	<u>21,579,208</u>	<u>87,913,693</u>
Less: Accumulated depreciation									
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	<u>4,582,179</u>	<u>2,313,720</u>	<u>353,407</u>	<u>7,235,877</u>	<u>1,952,147</u>	<u>280,360</u>	<u>-</u>	<u>16,717,690</u>	<u>68,107,868</u>
Carrying amounts									
Balance at 31 December	<u>934,952</u>	<u>538,003</u>	<u>7,271</u>	<u>2,561,824</u>	<u>467,060</u>	<u>63,712</u>	<u>288,696</u>	<u>4,861,518</u>	<u>19,805,825</u>

Prasac Microfinance Institution Plc.

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

10. Property and equipment (continued)

	2020							Total USD	KHR'000 equivalent (Note 4)
	Office furniture USD	Vehicles USD	Motorcycles USD	Computer and peripherals USD	Leasehold improvements USD	Communication equipment USD	Work in progress USD		
Cost									
Balance at 1 January	4,871,906	2,917,904	354,528	7,171,805	2,297,202	417,766	86,160	18,117,271	73,827,879
Additions	469,993	137,490	6,150	668,756	37,107	-	1,643,513	2,963,009	12,080,188
Disposals/write-offs	(34,572)	(18,000)	-	(104,575)	(24,069)	(91,410)	-	(272,626)	(1,111,496)
Transfers	48,310	-	-	1,294,434	91,215	-	(1,433,959)	-	-
Currency translation differences	-	-	-	-	-	-	-	-	(629,611)
Balance at 31 December	<u>5,355,637</u>	<u>3,037,394</u>	<u>360,678</u>	<u>9,030,420</u>	<u>2,401,455</u>	<u>326,356</u>	<u>295,714</u>	<u>20,807,654</u>	<u>84,166,960</u>
Less: Accumulated depreciation									
Balance at 1 January	3,796,688	2,039,937	346,727	5,164,683	1,622,584	240,365	-	13,210,984	53,834,760
Depreciation for the year	458,101	293,147	3,092	1,151,216	189,564	47,347	-	2,142,467	8,734,838
Disposals/write-offs	(32,457)	(18,000)	-	(100,155)	(23,238)	(34,750)	-	(208,600)	(850,462)
Currency translation differences	-	-	-	-	-	-	-	-	(458,215)
Balance at 31 December	<u>4,222,332</u>	<u>2,315,084</u>	<u>349,819</u>	<u>6,215,744</u>	<u>1,788,910</u>	<u>252,962</u>	<u>-</u>	<u>15,144,851</u>	<u>61,260,921</u>
Carrying amounts									
Balance at 31 December	<u>1,133,305</u>	<u>722,310</u>	<u>10,859</u>	<u>2,814,676</u>	<u>612,545</u>	<u>73,394</u>	<u>295,714</u>	<u>5,662,803</u>	<u>22,906,039</u>

Prasac Microfinance Institution Plc.

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

11. Right-of-use assets

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.

	2021			KHR'000 equivalent (Note 4)
	Office space USD	ATM space USD	Total USD	
Cost				
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>
Less: Accumulated depreciation				
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>
Carrying amounts				
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 2021

11. Right-of-use assets (continued)

	2020			KHR'000 equivalent (Note 4)
	Office space USD	ATM space USD	Total USD	
Cost				
Balance at 1 January	20,863,158	500,461	21,363,619	87,056,750
Additions	4,822,970	245,844	5,068,814	20,665,555
Expirations/terminations	(47,600)	(29,252)	(76,852)	(313,326)
Currency translation differences	-	-	-	(800,654)
Balance at 31 December	<u>25,638,528</u>	<u>717,053</u>	<u>26,355,581</u>	<u>106,608,325</u>
Less: Accumulated depreciation				
Balance at 1 January	6,722,452	280,902	7,003,354	28,538,670
Depreciation for the year	3,887,081	173,458	4,060,539	16,554,818
Expirations/terminations	(30,491)	-	(30,491)	(124,312)
Currency translation differences	-	-	-	(339,065)
Balance at 31 December	<u>10,579,042</u>	<u>454,360</u>	<u>11,033,402</u>	<u>44,630,111</u>
Carrying amounts				
Balance at 31 December	<u>15,059,486</u>	<u>262,693</u>	<u>15,322,179</u>	<u>61,978,214</u>

Prasac Microfinance Institution Plc.

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

12. Intangible assets

	2021			
	Computer software USD	Core banking system license USD	Total USD	KHR'000 equivalent (Note 4)
Cost				
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>
Less: Accumulated amortisation				
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 31 December	<u>925,837</u>	<u>1,875,275</u>	<u>2,801,112</u>	<u>11,411,730</u>
Carrying amounts				
Balance at 31 December	<u>338,217</u>	<u>1,016,312</u>	<u>1,354,529</u>	<u>5,518,351</u>
	2020			
	Computer software USD	Core banking system license USD	Total USD	KHR'000 equivalent (Note 4)
Cost				
Balance at 1 January	1,121,820	2,515,752	3,637,572	14,823,106
Additions	98,499	375,835	474,334	1,933,860
Currency translation differences	-	-	-	(124,305)
Balance at 31 December	<u>1,220,319</u>	<u>2,891,587</u>	<u>4,111,906</u>	<u>16,632,661</u>
Less: Accumulated amortisation				
Balance at 1 January	720,398	1,417,288	2,137,686	8,711,071
Amortisation for the year	97,417	269,635	367,052	1,496,470
Currency translation differences	-	-	-	(75,875)
Balance at 31 December	<u>817,815</u>	<u>1,686,923</u>	<u>2,504,738</u>	<u>10,131,666</u>
Carrying amounts				
Balance at 31 December	<u>402,504</u>	<u>1,204,664</u>	<u>1,607,168</u>	<u>6,500,995</u>

Prasac Microfinance Institution Plc.

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

13. Deposits from banks and other financial institutions

	31 December 2021		31 December 2020	
	USD	KHR'000 equivalent (Note 4)	USD (As restated)	KHR'000 equivalent (Note 4) (As restated)
Term deposits	77,619,435	316,221,578	36,497,989	147,634,366
Savings deposits	4,262,143	17,363,971	734,828	2,972,379
	<u>81,881,578</u>	<u>333,585,549</u>	<u>37,232,817</u>	<u>150,606,745</u>

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

(a) By maturity

Refer to Note 33.3 (ii) interest rate risk.

(b) By currency

	31 December 2021		31 December 2020	
	USD	KHR'000 equivalent (Note 4)	USD (As restated)	KHR'000 equivalent (Note 4) (As restated)
USD	81,823,935	333,350,711	36,992,081	149,632,968
KHR	<u>57,643</u>	<u>234,838</u>	<u>240,736</u>	<u>973,777</u>
	<u>81,881,578</u>	<u>333,585,549</u>	<u>37,232,817</u>	<u>150,606,745</u>

(c) By relationship

	31 December 2021		31 December 2020	
	USD	KHR'000 equivalent (Note 4)	USD (As restated)	KHR'000 equivalent (Note 4) (As restated)
Non-related parties	62,727,192	255,550,580	37,232,817	150,606,745
Related parties	<u>19,154,386</u>	<u>78,034,969</u>	<u>-</u>	<u>-</u>
	<u>81,881,578</u>	<u>333,585,549</u>	<u>37,232,817</u>	<u>150,606,745</u>

Prasac Microfinance Institution Plc.

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

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 during the year

	<u>2021</u>	<u>2020</u>
Term deposits		
USD	2.00% - 5.25%	2.00% - 5.50%
KHR	N/A	2.00% - 5.50%
Savings deposits		
USD	0.00%	0.00%
KHR	<u>0.00%</u>	<u>0.00%</u>

14. Deposits from customers

	<u>31 December 2021</u>		<u>31 December 2020</u>	
	USD	KHR'000 equivalent (Note 4)	USD (As restated)	KHR'000 equivalent (Note 4) (As restated)
Term deposits	2,397,228,295	9,766,308,074	1,956,078,958	7,912,339,385
Savings deposits	<u>136,102,560</u>	<u>554,481,829</u>	<u>118,601,985</u>	<u>479,745,029</u>
	<u>2,533,330,855</u>	<u>10,320,789,903</u>	<u>2,074,680,943</u>	<u>8,392,084,414</u>

(a) By maturity

Refer to Note 33.3 (ii) interest rate risk.

(b) By currency

	<u>31 December 2021</u>		<u>31 December 2020</u>	
	USD	KHR'000 equivalent (Note 4)	USD (As restated)	KHR'000 equivalent (Note 4) (As restated)
USD	2,338,356,190	9,526,463,118	1,921,733,031	7,773,410,110
KHR	193,497,517	788,308,884	150,140,808	607,319,568
THB	<u>1,477,148</u>	<u>6,017,901</u>	<u>2,807,104</u>	<u>11,354,736</u>
	<u>2,533,330,855</u>	<u>10,320,789,903</u>	<u>2,074,680,943</u>	<u>8,392,084,414</u>

Prasac Microfinance Institution Plc.

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

14. Deposits from customers (continued)

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

(c) By relationship

	31 December 2021		31 December 2020	
	USD	KHR'000 equivalent (Note 4)	USD (As restated)	KHR'000 equivalent (Note 4) (As restated)
Non-related parties	2,481,756,245	10,110,674,942	2,042,197,190	8,260,687,634
Related parties	51,574,610	210,114,961	32,483,753	131,396,780
	<u>2,533,330,855</u>	<u>10,320,789,903</u>	<u>2,074,680,943</u>	<u>8,392,084,414</u>

(d) By range of annual interest rates during the year

	2021	2020
Term deposits		
USD	0.75% - 8.25%	3.50% - 7.25%
KHR	2.00% - 10.15%	3.50% - 7.25%
THB	0.10% - 8.00%	0.10% (for existing customer only)
Savings deposits		
USD	0.00% - 3.00%	1.50%-2.5%
KHR	0.00% - 3.00%	1.50%-2.5%
THB	0.00% - 0.10%	0.10% (for existing customer only)

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.

Prasac Microfinance Institution Plc.

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

15. Borrowings (continued)

Borrowings are further analysed as follows:

(a) By maturity

Refer to Note 33.3 (ii) interest rate risk.

(b) By currency

	31 December 2021		31 December 2020	
	USD	KHR'000 equivalent (Note 4)	USD (As restated)	KHR'000 equivalent (Note 4) (As restated)
USD	670,477,767	2,731,526,422	594,543,775	2,404,929,570
KHR	143,249,534	583,598,602	159,624,276	645,680,196
THB	16,094,563	65,569,250	40,262,266	162,860,866
	<u>829,821,864</u>	<u>3,380,694,274</u>	<u>794,430,317</u>	<u>3,213,470,632</u>

(c) By relationship

	31 December 2021		31 December 2020	
	USD	KHR'000 equivalent (Note 4)	USD (As restated)	KHR'000 equivalent (Note 4) (As restated)
Non-related parties	715,840,327	2,916,333,492	708,215,447	2,864,731,483
Related parties	113,981,537	464,360,782	86,214,870	348,739,149
	<u>829,821,864</u>	<u>3,380,694,274</u>	<u>794,430,317</u>	<u>3,213,470,632</u>

(d) By range of annual interest rates during the year

	2021	2020
USD	2.00% - 6.98%	2.00% - 7.15%
KHR	2.00% - 7.50%	2.00% - 7.50%
THB	<u>8.37% - 8.84%</u>	<u>8.37% - 8.84%</u>

Prasac Microfinance Institution Plc.

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

15. Borrowings (continued)

Borrowings are further analysed as follows: (continued)

The movements of borrowings during the year were as follows:

	2021		2020	
	USD	KHR'000 equivalent (Note 4)	USD (As restated)	KHR'000 equivalent (Note 4) (As restated)
Balance at 1 January	794,430,317	3,213,470,632	733,915,161	2,990,704,281
Additions	335,239,090	1,363,752,618	416,904,907	1,699,721,306
Interest expense	47,986,130	195,207,577	55,047,225	224,427,536
Interest paid	(47,454,899)	(193,046,529)	(59,608,788)	(243,025,029)
Repayments of principals	(295,976,678)	(1,204,033,126)	(353,817,494)	(1,442,513,923)
Unrealised exchange (gain)/loss	(4,402,096)	(17,907,727)	1,989,306	8,110,401
Currency translation differences	-	23,250,829	-	(23,953,940)
Balance at 31 December	<u>829,821,864</u>	<u>3,380,694,274</u>	<u>794,430,317</u>	<u>3,213,470,632</u>

16. Bonds payable

In April 2020, the Company issued KHR127.2 billion (equivalent to USD31.18 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).

Prasac Microfinance Institution Plc.

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

16. Bonds payable (continued)

The movements of bond payable during the year were as follows:

	2021		2020	
	USD	KHR'000 equivalent (Note 4)	USD (As restated)	KHR'000 equivalent (Note 4) (As restated)
Balance at 1 January	30,666,038	124,044,124	-	-
Additions	-	-	30,535,399	124,492,822
Interest expense	2,601,274	10,581,983	1,814,068	7,395,955
Interest paid	(2,612,660)	(10,628,303)	(1,399,703)	(5,706,589)
Unrealised exchange loss/(gain)	687,447	2,796,536	(283,726)	(1,156,751)
Currency translation differences	-	893,371	-	(981,313)
Balance at 31 December	<u>31,342,099</u>	<u>127,687,711</u>	<u>30,666,038</u>	<u>124,044,124</u>

17. Subordinated debts

	31 December 2021		31 December 2020	
	USD	KHR'000 equivalent (Note 4)	USD (As restated)	KHR'000 equivalent (Note 4) (As restated)
Subordinated debts (a)	105,191,790	428,551,352	98,814,321	399,703,930
Trust fund (b)	-	-	14,853,496	60,082,390
	<u>105,191,790</u>	<u>428,551,352</u>	<u>113,667,817</u>	<u>459,786,320</u>

(a) Subordinated debts

These are subordinated debts from foreign lenders, non-related parties, amounting to USD54,999,653 (equivalent to KHR224.1 billion) (31 December 2020: USD48,757,974 equivalent to KHR197.2 billion) and shareholder amounting to USD50,192,137 (equivalent to KHR204.5 billion) (31 December 2020: USD50,056,347 equivalent to KHR202.5 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% (2020: 6.98% to 10.47%) during the year.

Prasac Microfinance Institution Plc.

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

17. Subordinated debts (continued)

(b) Trust fund

	31 December 2021		31 December 2020	
	USD	KHR'000 equivalent (Note 4)	USD (As restated)	KHR'000 equivalent (Note 4) (As restated)
Prasac Financial Trust	-	-	14,853,496	60,082,390

In accordance with the revised financial trust agreement on 4 February 2021, the trust fund was to be managed by Prasac Financial Trust. The agreement signed between Ministry of Economic and Finance, the Company, and Prasac Financial Trust dated 11 August 2017 was, accordingly, superseded.

The Company fully settled the outstanding balances of trust fund to Prasac Financial Trust on 27 December 2021.

The movements of subordinated debts during the year were as follows:

	2021		2020	
	USD	KHR'000 equivalent (Note 4)	USD (As restated)	KHR'000 equivalent (Note 4) (As restated)
Balance at 1 January	113,667,817	459,786,320	76,840,659	313,125,685
Additions	17,296,512	70,362,211	49,264,141	200,849,903
Interest expense	11,255,052	45,785,552	7,489,842	30,536,086
Interest paid	(11,243,405)	(45,738,172)	(7,202,842)	(29,365,987)
Repayments of principals	(25,784,186)	(104,890,069)	(12,833,334)	(52,321,503)
Unrealised exchange loss	-	-	109,351	445,824
Currency translation differences	-	3,245,510	-	(3,483,688)
Balance at 31 December	<u>105,191,790</u>	<u>428,551,352</u>	<u>113,667,817</u>	<u>459,786,320</u>

Prasac Microfinance Institution Plc.

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

18. Lease liabilities

	31 December 2021		31 December 2020	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Maturity analysis – contractual undiscounted cash flows				
Less than one year	4,494,357	18,310,009	4,926,938	19,929,464
One to five years	11,814,043	48,130,411	13,233,200	53,528,294
More than five years	2,713,396	11,054,377	1,075,061	4,348,622
Total undiscounted lease liabilities	<u>19,021,796</u>	<u>77,494,797</u>	<u>19,235,199</u>	<u>77,806,380</u>
Present value of lease liabilities				
Current	3,407,054	13,880,338	3,640,367	14,725,285
Non-current	12,184,384	49,639,180	10,784,451	43,623,104
	<u>15,591,438</u>	<u>63,519,518</u>	<u>14,424,818</u>	<u>58,348,389</u>

The movements of lease liabilities during the year were as follows:

	2021		2020	
	USD	KHR'000 (Note 4)	USD	KHR'000 (Note 4)
Balance at 1 January	14,424,818	58,348,389	13,172,728	53,678,867
Additions	4,784,718	19,464,233	5,022,453	20,476,541
Interest expense	1,703,815	6,931,119	1,134,113	4,623,779
Interest paid	(1,703,815)	(6,931,119)	(1,134,113)	(4,623,779)
Principal portion of lease payments	(3,618,098)	(14,718,423)	(3,770,363)	(15,371,770)
Currency translation differences	-	425,319	-	(435,249)
Balance at 31 December	<u>15,591,438</u>	<u>63,519,518</u>	<u>14,424,818</u>	<u>58,348,389</u>

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

	2021		2020	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Expenses relating to short-term leases and lower-value assets	<u>815,242</u>	<u>3,316,404</u>	<u>633,895</u>	<u>2,584,390</u>

Prasac Microfinance Institution Plc.

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

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.

Income tax expense comprises:

	2021		2020	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Current tax at applicable tax rate	39,678,014	161,410,161	28,775,681	117,318,452
Tax incentive on bond listing	(718,172)	(2,921,524)	(624,432)	(2,545,809)
Current tax	38,959,842	158,488,637	28,151,249	114,772,643
Deferred tax	(822,784)	(3,347,085)	(1,638,462)	(6,680,010)
	<u>38,137,058</u>	<u>155,141,552</u>	<u>26,512,787</u>	<u>108,092,633</u>

Prasac Microfinance Institution Plc.

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

19. Income tax (continued)

(a) Income tax expense (continued)

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

	2021		2020	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Profit before income tax	193,638,022	787,719,474	135,341,774	551,788,413
Income tax expense at applicable tax rate of 20%	38,727,604	157,543,893	27,068,355	110,357,683
Non-deductible expenses	127,626	519,183	68,864	280,759
Tax incentive on bond listing	(718,172)	(2,921,524)	(624,432)	(2,545,809)
	<u>38,137,058</u>	<u>155,141,552</u>	<u>26,512,787</u>	<u>108,092,633</u>

(b) Income tax payable

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

	2021		2020	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Balance at 1 January	24,076,695	97,390,231	23,414,889	95,415,673
Current income tax at applicable tax rate	39,678,014	161,410,161	28,775,681	117,318,452
Tax incentive on bond listing	(718,172)	(2,921,524)	(624,432)	(2,545,809)
Income tax paid	(28,882,858)	(117,495,466)	(27,489,443)	(112,074,458)
Currency translation differences	-	758,686	-	(723,627)
Balance at 31 December	<u>34,153,679</u>	<u>139,142,088</u>	<u>24,076,695</u>	<u>97,390,231</u>

Prasac Microfinance Institution Plc.

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

19. Income tax (continued)

(c) Deferred tax assets – net

	31 December 2021		31 December 2020	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Deferred tax assets	11,970,162	48,766,440	11,124,827	44,999,925
Deferred tax liabilities	(242,527)	(988,055)	(219,976)	(889,803)
Deferred tax assets – net	<u>11,727,635</u>	<u>47,778,385</u>	<u>10,904,851</u>	<u>44,110,122</u>

Deferred taxes were attributable to the following:

	31 December 2021		31 December 2020	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
<i>Deferred tax assets:</i>				
Unamortised loan fees	6,968,122	28,388,129	5,771,758	23,346,761
Allowance for impairment losses	3,510,062	14,299,992	4,506,554	18,229,011
Unused annual leave	440,040	1,792,723	382,077	1,545,501
Provision for employee benefits	47,581	193,845	87,075	352,218
Accrued interest receivable	5,696	23,206	13,934	56,363
Leases	122,870	500,572	63,709	257,703
Unamortised borrowing fees	282,493	1,150,876	172,950	699,583
Foreign exchange difference	593,298	2,417,097	126,770	512,785
	<u>11,970,162</u>	<u>48,766,440</u>	<u>11,124,827</u>	<u>44,999,925</u>
<i>Deferred tax liabilities:</i>				
Property, equipment and intangible assets	(242,527)	(988,055)	(219,976)	(889,803)
	<u>11,727,635</u>	<u>47,778,385</u>	<u>10,904,851</u>	<u>44,110,122</u>

Prasac Microfinance Institution Plc.

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

19. Income tax (continued)

(c) Deferred tax assets – net (continued)

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

	2021		2020	
	USD	KHR'000 Equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Balance at 1 January	10,904,851	44,110,122	9,198,173	37,482,555
Recognised in profit or loss	822,784	3,347,085	1,638,462	6,680,010
Currency translation differences	-	321,178	68,216	(52,443)
Balance at 31 December	<u>11,727,635</u>	<u>47,778,385</u>	<u>10,904,851</u>	<u>44,110,122</u>

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:

	2021		2020	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Balance at 1 January	435,375	1,761,092	74,562	303,840
Recognised in profit or loss	3,925,784	15,970,089	3,289,019	13,409,330
Payments during the year	(4,123,253)	(16,773,393)	(2,928,206)	(11,938,296)
Currency translation differences	-	11,441	-	(13,782)
Balance at 31 December	<u>237,906</u>	<u>969,229</u>	<u>435,375</u>	<u>1,761,092</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.

Prasac Microfinance Institution Plc.

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

21. Other liabilities

	31 December 2021		31 December 2020	
	USD	KHR'000 equivalent (Note 4)	USD (As restated)	KHR'000 equivalent (Note 4) (As restated)
Accrued bonus and incentives	6,329,705	25,787,218	1,000,000	4,045,000
Accruals expenses	2,832,493	11,539,576	2,237,474	9,050,582
Withholding tax payable	1,360,438	5,542,424	1,208,570	4,888,666
Accounts payable	1,913,161	7,794,218	2,096,877	8,481,867
Tax on salary	2,186,046	8,905,951	1,326,675	5,366,400
Others	6,009	24,484	4,005	16,201
	<u>14,627,852</u>	<u>59,593,871</u>	<u>7,873,601</u>	<u>31,848,716</u>

22. Equity and reserves

(a) Share capital

On 12 May 2021, the Company requested to the National Bank of Cambodia (“NBC”) to increase its share capital from USD230,000,000 to USD300,000,000 by way of capitalising the retained earnings. This request was approved by the NBC on 31 May 2021. The Memorandum and Articles of Association of the Company had been updated to reflect this change and was endorsed by the MoC on 9 June 2021.

All 300,000,000 ordinary shares are registered, issued, and paid-up with a par value of KHR4,000 per share.

On 6 September 2021, the shareholders have reached an agreement and resolved to transfer the 30% of the Company’s ordinary share, collectively, from LOLC International Private Limited (“LOLC”), The Bank of East Asia, Limited (“BEA”) and PRASAC Staff Company Limited (“PSCo”) to Kookmin Bank Co., Ltd (“KB”) and Kookmin Bank Cambodia Plc (“KBC”). On 12 October 2021, the Company obtained approval from the National Bank of Cambodia (“NBC”) regarding this capital transfer. The Memorandum and Articles of Association of the Company had been updated to reflect this change and was endorsed by the MoC on 19 October 2021.

Prasac Microfinance Institution Plc.

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

22. Equity and reserves (continued)

(a) Share capital (continued)

The details of shareholding are as follows:

	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>
	31 December 2020		
	USD	KHR'000 equivalent (Note 4)	%
KB	161,000,000	644,000,000	70.0%
LOLC	48,300,000	193,200,000	21.0%
BEA	14,490,000	57,960,000	6.3%
PSCo	6,210,000	24,840,000	2.7%
	<u>230,000,000</u>	<u>920,000,000</u>	<u>100%</u>

Abbreviation:

KB:	Kookmin Bank
LOLC:	LOLC International Private Limited
BEA:	The Bank of East Asia, Limited
PSCo:	PRASAC Staff Company Limited

(b) Reserve fund

Based on the loan agreement signed between the Company and Instituto De Crédito Oficial (“ICO”) of the Kingdom of Spain on 8 December 2008, during the life of the loan the Company shall undertake to establish and keep a reserve fund for capital strengthening by transferring its net profit of each year, an amount equivalent to a 3.5% of the outstanding principal of the loans with ICO. On 16 October 2021, the maturity date of this borrowing, the Company fully settled the outstanding balance. Subsequently, the Company transferred the reserve fund, that had been established for this borrowing, back to retained earnings.

Prasac Microfinance Institution Plc.

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

23. Interest income

	2021		2020	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Individual loans	505,355,683	2,055,786,918	430,029,195	1,753,229,028
Group loans	40,981	166,711	87,151	355,314
Balances with other banks	154,204	627,302	63,873	260,410
Balances with NBC	41,510	168,863	145,306	592,413
	<u>505,592,378</u>	<u>2,056,749,794</u>	<u>430,325,525</u>	<u>1,754,437,165</u>

24. Interest expense

	2021		2020	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Deposits from customers	144,469,925	587,703,654	130,423,290	531,735,753
Borrowings	47,986,130	195,207,577	55,047,225	224,427,536
Subordinated debts	11,255,052	45,785,552	7,489,842	30,536,086
Bonds payable	2,601,274	10,581,983	1,814,068	7,395,955
Deposits from banks and other financial institutions	2,132,478	8,674,921	2,490,150	10,152,342
Lease liabilities	1,703,815	6,931,119	1,134,113	4,623,779
	<u>210,148,674</u>	<u>854,884,806</u>	<u>198,398,688</u>	<u>808,871,451</u>

25. Net fees and commission income

	2021		2020	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Penalty from early loan paid off	7,900,268	32,138,290	6,004,101	24,478,720
Local remittance services income	717,422	2,918,473	873,457	3,561,084
Fees and commission income	<u>8,617,690</u>	<u>35,056,763</u>	<u>6,877,558</u>	<u>28,039,804</u>
Bank charges on borrowings	(116,689)	(474,691)	(163,152)	(665,171)
Others	(1,320)	(5,370)	-	-
Fees and commission expense	<u>(118,009)</u>	<u>(480,061)</u>	<u>(163,152)</u>	<u>(665,171)</u>
Net fees and commission income	<u>8,499,681</u>	<u>34,576,702</u>	<u>6,714,406</u>	<u>27,374,633</u>

Prasac Microfinance Institution Plc.

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

26. Other income

	2021		2020	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Penalty from late repayment of loan	5,643,476	22,957,660	4,585,539	18,695,243
Recovery of loan written-off	3,038,061	12,358,832	3,296,548	13,440,026
Others	1,116,593	4,542,301	1,123,462	4,580,354
	<u>9,798,130</u>	<u>39,858,793</u>	<u>9,005,549</u>	<u>36,715,623</u>

27. Personnel expenses

	2021		2020	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Salaries, bonuses and incentives	78,667,732	320,020,334	62,684,803	255,565,942
Employee benefits	3,925,784	15,970,089	3,289,019	13,409,330
Employee social welfare fund expenses	1,148,216	4,670,943	1,126,383	4,592,263
Staff uniform	279,480	1,136,925	226,036	921,549
Medical expenses	46,586	189,512	16,197	66,035
Other employee benefits	511,131	2,079,280	508,418	2,072,821
	<u>84,578,929</u>	<u>344,067,083</u>	<u>67,850,856</u>	<u>276,627,940</u>

Prasac Microfinance Institution Plc.

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

28. General and administrative expenses

	2021		2020	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Fuel costs	3,722,551	15,143,337	3,816,692	15,560,653
Printing and stationery	1,426,967	5,804,902	1,300,211	5,300,960
Repair and maintenance	1,169,673	4,758,230	1,193,431	4,865,618
Transportation	1,127,650	4,587,280	1,368,728	5,580,304
Utilities	1,101,733	4,481,850	1,236,215	5,040,049
License fees	1,064,783	4,331,537	1,258,342	5,130,260
Communications	854,179	3,474,800	812,810	3,313,826
Rental	815,242	3,316,404	633,895	2,584,390
Professional fees	635,696	2,586,011	817,258	3,331,961
Stamp tax	409,663	1,666,509	602,297	2,455,565
Marketing and promotions	408,671	1,662,474	547,931	2,233,915
Other tax expenses	387,917	1,578,046	350,371	1,428,463
Office supplies	373,488	1,519,349	484,585	1,975,653
Bank charges	226,453	921,211	264,250	1,077,347
Donation	182,420	742,085	701,476	2,859,918
Training	51,075	207,773	51,349	209,350
Traveling	50,887	207,008	197,275	804,290
Other expenses	521,067	2,119,702	347,556	1,416,986
	<u>14,530,115</u>	<u>59,108,508</u>	<u>15,984,672</u>	<u>65,169,508</u>

29. Depreciation and amortisation

	2021		2020	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Property and equipment	2,072,431	8,430,649	2,142,467	8,734,838
Intangible assets	296,374	1,205,648	367,052	1,496,470
Right-of-use assets	4,009,254	16,309,647	4,060,539	16,554,818
	<u>6,378,059</u>	<u>25,945,944</u>	<u>6,570,058</u>	<u>26,786,126</u>

Prasac Microfinance Institution Plc.

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

30. Net cash used in operating activities

	Note	2021		2020	
		USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Net profit for the year		155,500,964	632,577,922	108,828,987	443,695,780
<i>Adjustments for:</i>					
Depreciation and amortisation	29	6,378,059	25,945,944	6,570,058	26,786,126
Gain on disposal of property and equipment		(100,550)	(409,037)	53,136	216,635
Net interest income		(295,443,704)	(1,201,864,988)	(231,926,837)	(945,565,714)
Allowance for impairment losses	33.1(g)	14,707,859	59,831,570	23,411,178	95,447,373
Income tax expense	19(a)	38,137,058	155,141,552	26,512,787	108,092,633
Provision for employee benefits	20	3,925,784	15,970,089	3,289,019	13,409,330
Unrealised exchange losses/(gains)		1,902,630	7,739,898	(456,554)	(1,861,373)
		(74,991,900)	(305,067,050)	(63,718,226)	(259,779,210)
<i>Changes in:</i>					
Balances with the NBC		(35,306,817)	(143,628,132)	(24,575,724)	(100,195,227)
Loans to customers		(729,372,289)	(2,967,086,472)	(525,631,056)	(2,142,997,815)
Other assets		(476,806)	(1,939,647)	7,380,494	30,090,274
Deposits from banks and other financial institutions		44,067,315	179,265,837	(19,907,094)	(81,161,222)
Deposits from customers		450,965,847	1,834,529,066	292,738,485	1,193,494,803
Other liabilities		6,754,251	27,476,293	2,522,247	10,283,201
Cash used in operations		(338,360,399)	(1,376,450,105)	(331,190,874)	(1,350,265,196)
Interest received		501,636,323	2,040,656,562	424,423,768	1,730,375,702
Interest paid		(201,351,671)	(819,098,599)	(198,929,097)	(811,033,928)
Income tax paid	19(b)	(28,882,858)	(117,495,466)	(27,489,443)	(112,074,458)
Employee benefits paid	20	(4,123,253)	(16,773,393)	(2,928,206)	(11,938,296)
Net cash used in operating activities		(71,081,858)	(289,161,001)	(136,113,852)	(554,936,176)

Prasac Microfinance Institution Plc.

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

31. Commitment

A. Operating leases

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

	31 December 2021		31 December 2020	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Within one year	538,378	2,193,352	485,770	1,964,940

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 6 new lease agreements for their office premises during the year. However, these lease agreements are not yet commenced as of 31 December 2021. The total commitment for these leases is USD 2,491,265.

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 2021

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:

	2021		2020	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
<i>Fees and related expenses</i>				
Board of Directors	209,629	852,771	335,784	1,368,991
<i>Interest expense</i>				
Board of Directors	1,973	8,026	121,540	495,519
Shareholders	4,508,349	18,339,964	1,470,547	5,995,420
Key management personnel	2,164,060	8,803,396	1,633,226	6,658,662
Other related parties	162,088	659,374	-	-
	<u>6,836,470</u>	<u>27,810,760</u>	<u>3,225,313</u>	<u>13,149,601</u>
<i>Fees and commissions on loans</i>				
Shareholders	833,993	3,392,684	391,280	1,595,249
<i>Salaries and employee benefits</i>				
Key management personnel	6,555,033	26,665,874	4,740,451	19,326,819
<i>Interest income</i>				
Key management personnel	84,011	341,757	12,243	49,915
<i>Employee benefits expense</i>				
Key management personnel	316,982	1,289,483	233,526	952,086
<i>Management Incentive</i>				
Key management personnel	5,780,027	23,513,150	-	-

Prasac Microfinance Institution Plc.

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

32. Related party transactions and balances (continued)

C. Balances with related parties

Outstanding balances with related parties were as follows:

	31 December 2021		31 December 2020	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
<i>Deposits</i>				
Directors	11,309	46,073	1,782,604	7,210,633
Key Management personnel	51,563,301	210,068,888	27,733,045	112,180,166
PSCo	-	-	2,968,104	12,005,981
KB Daehan				
Specialized Bank Plc	4,001,000	16,300,074	-	-
KB Bank Myanmar Co., Ltd	15,153,386	61,734,895	-	-
	<u>70,728,996</u>	<u>288,149,930</u>	<u>32,483,753</u>	<u>131,396,780</u>
<i>Loans</i>				
Key management personnel	<u>1,006,948</u>	<u>4,102,306</u>	<u>805,477</u>	<u>3,258,154</u>
<i>Borrowings</i>				
BEA	-	-	6,003,274	24,283,243
KB	111,027,553	452,326,251	80,211,596	324,455,906
KB Daehan				
Specialized Bank Plc	2,953,984	12,034,531	-	-
	<u>113,981,537</u>	<u>464,360,782</u>	<u>86,214,870</u>	<u>348,739,149</u>
<i>Subordinated debts</i>				
KB	<u>50,192,137</u>	<u>204,482,766</u>	<u>50,056,347</u>	<u>202,477,924</u>
<i>Accrued management incentive</i>				
Key management personnel	<u>5,780,027</u>	<u>23,513,150</u>	<u>-</u>	<u>-</u>

33. 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 2021

33. Financial risk management (continued)

The Company holds the following financial assets and liabilities:

	31 December 2021		31 December 2020	
	USD	KHR'000 equivalent (Note 4)	USD (As restated)	KHR'000 equivalent (Note 4) (As restated)
Financial assets				
Cash on hand	222,365,399	905,916,636	160,578,086	649,538,358
Balances with the NBC	368,419,366	1,500,940,497	438,355,399	1,773,147,589
Balances with other banks	2,308,097	9,403,187	3,975,029	16,078,992
Loans to customers	3,691,567,993	15,039,448,003	2,978,579,934	12,048,355,833
Other assets	676,083	2,754,362	573,737	2,320,766
Total financial assets	4,285,336,938	17,458,462,685	3,582,062,185	14,489,441,538
Financial liabilities				
Deposits from banks and other financial institutions	81,881,578	333,585,549	37,232,817	150,606,745
Deposits from customers	2,533,330,855	10,320,789,903	2,074,680,943	8,392,084,414
Borrowings	829,821,864	3,380,694,274	794,430,317	3,213,470,632
Subordinated debts	105,191,790	428,551,352	113,667,817	459,786,320
Bonds payable	31,342,099	127,687,711	30,666,038	124,044,124
Other liabilities	11,081,368	45,145,493	5,338,356	21,593,651
Total financial liabilities	3,592,649,554	14,636,454,282	3,056,016,288	12,361,585,886

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.

Prasac Microfinance Institution Plc.

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

33. Financial risk management (continued)

Capital management (continued)

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

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

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.

33.1 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 2021

33. Financial risk management (continued)

33.1 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 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	-	3,679,039,296	55,346,421
Loans to small and medium enterprises	60,433,657	132,718,665	-	61,840,745	1,407,088
Staff loans	7,277,059	15,866,651	-	7,299,740	22,681
Group loans	164,402	636,351	-	178,644	14,242
Total	3,691,567,993	9,374,010,515	-	3,748,358,425	56,790,432
KHR'000 equivalent (Note 4)	15,039,448,003	38,189,718,838	-	15,270,812,223	231,364,220
	31 December 2020				
	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	2,922,914,446	7,768,135,911	-	2,970,917,136	48,002,690
Loans to small and medium enterprises	47,182,947	102,187,450	-	48,756,849	1,573,902
Staff loans	8,116,625	16,157,573	-	8,142,400	25,775
Group loans	365,916	798,745	-	377,042	11,126
Total	2,978,579,934	7,887,279,679	-	3,028,193,427	49,613,493
KHR'000 equivalent (Note 4)	12,048,355,833	31,904,046,302	-	12,249,042,412	200,686,579

Prasac Microfinance Institution Plc.

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

33. Financial risk management (continued)

33.1 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 as at statement of financial position 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 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 2021

33. Financial risk management (continued)

33.1 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)			
31 December 2021					
On-Balance sheet items					
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	676,083	2,754,362	-	-	100.00
Total	4,285,336,938	17,458,462,685			

Prasac Microfinance Institution Plc.

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

33. Financial risk management (continued)

33.1 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)			
31 December 2020					
On-Balance sheet items					
Cash on hand	160,578,086	649,538,358	-	-	100.00
Balances with the National Bank of Cambodia	438,355,399	1,773,147,589	-	-	100.00
Balances with other banks	3,975,029	16,078,992	-	-	100.00
Loans to customers	2,978,579,934	12,048,355,833	41.81	58.12	0.07
Other assets	573,737	2,320,766	-	-	100.00
Total	3,582,062,185	14,489,441,538			

Prasac Microfinance Institution Plc.

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

33. Financial risk management (continued)

33.1 Credit risk (continued)

(d) Concentration of risks (continued)

Concentration risk by industrial sectors

	31 December 2021		31 December 2020	
	Loans to customers USD	KHR'000 equivalent (Note 4)	Loans to customers USD	KHR'000 equivalent (Note 4)
Trade and commerce	1,006,083,731	4,098,785,121	745,402,429	3,015,152,826
Service	650,895,034	2,651,746,369	513,552,045	2,077,318,022
Real-estate	536,199,895	2,184,478,372	421,594,777	1,705,350,873
Agriculture	445,927,277	1,816,707,726	408,192,523	1,651,138,756
Home improvement	453,670,525	1,848,253,719	346,941,003	1,403,376,357
Automotive	299,573,327	1,220,461,734	281,223,077	1,137,547,346
Transportation	249,173,560	1,015,133,083	221,905,561	897,607,994
Manufacture	45,502,628	185,377,706	34,613,559	140,011,846
Construction	39,316,458	160,175,250	29,420,267	119,004,980
Personal	22,015,990	89,693,143	25,348,186	102,533,412
Total	3,748,358,425	15,270,812,223	3,028,193,427	12,249,042,412

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

(i) By security

	31 December 2021		31 December 2020	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Secured				
Real estate(hard title)	1,649,002,901	6,718,037,818	1,263,330,700	5,110,172,683
Chattel	189,467	771,887	36,983	149,596
Deposit hold-out	2,530,818	10,310,554	1,710,744	6,919,961
Others	640,271	2,608,465	996,268	4,029,904
	1,652,363,457	6,731,728,724	1,266,074,695	5,121,272,144

Prasac Microfinance Institution Plc.

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

33. Financial risk management (continued)

33.1 Credit risk (continued)

(d) Concentration of risks (continued)

(i) By security (continued)

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

	31 December 2021		31 December 2020	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Unsecured (*)				
Real estate (soft title)	2,094,535,205	8,533,136,427	1,759,719,077	7,118,063,666
Chattel	363,670	1,481,591	313,910	1,269,768
Others	1,096,093	4,465,481	2,085,745	8,436,834
	<u>2,095,994,968</u>	<u>8,539,083,499</u>	<u>1,762,118,732</u>	<u>7,127,770,268</u>
Total	<u>3,748,358,425</u>	<u>15,270,812,223</u>	<u>3,028,193,427</u>	<u>12,249,042,412</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 2021		31 December 2020	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Residency				
Residents	<u>3,748,358,425</u>	<u>15,270,812,223</u>	<u>3,028,193,427</u>	<u>12,249,042,412</u>
Relationship				
External customers	3,741,058,685	15,241,073,082	3,020,051,028	12,216,106,408
Staff loans	<u>7,299,740</u>	<u>29,739,141</u>	<u>8,142,399</u>	<u>32,936,004</u>
	<u>3,748,358,425</u>	<u>15,270,812,223</u>	<u>3,028,193,427</u>	<u>12,249,042,412</u>

Prasac Microfinance Institution Plc.

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

33. Financial risk management (continued)

33.1 Credit risk (continued)

(d) Concentration of risks (continued)

(ii) By residency, relationship, and currency

	31 December 2021		31 December 2020	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Currency				
USD	3,286,440,759	13,388,959,652	2,638,558,932	10,672,970,880
KHR	452,563,732	1,843,744,644	365,326,565	1,477,745,955
THB	9,353,934	38,107,927	24,307,930	98,325,577
	<u>3,748,358,425</u>	<u>15,270,812,223</u>	<u>3,028,193,427</u>	<u>12,249,042,412</u>

(iii) By location

	31 December 2021		31 December 2020	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Branches	3,743,643,515	15,251,603,680	3,022,565,520	12,226,277,528
Head office	4,714,910	19,208,543	5,627,907	22,764,884
	<u>3,748,358,425</u>	<u>15,270,812,223</u>	<u>3,028,193,427</u>	<u>12,249,042,412</u>

(e) Collateral

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

Collateral is generally not sought for these assets.

Prasac Microfinance Institution Plc.

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

33. Financial risk management (continued)

33.1 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.

Prasac Microfinance Institution Plc.

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

33. Financial risk management (continued)

33.1 Credit risk (continued)

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

Stage	Credit risk status	Default indicator
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

(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.

Recognition of ECL

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

	31 December 2021			Total USD
	Stage 1 USD	Stage 2 USD	Stage 3 USD	
Loans to customers at amortised cost				
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 2021

33. Financial risk management (continued)

33.1 Credit risk (continued)

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

Recognition of ECL (continued)

	31 December 2020			
	Stage 1 USD	Stage 2 USD	Stage 3 USD	Total USD
Loans to customers at amortised cost				
Normal	2,932,082,190	-	17,758	2,932,099,948
Special Mention	70,099	51,788,944	27,728	51,886,771
Substandard	884	41,916	18,800,405	18,843,205
Doubtful	-	61,982	15,993,044	16,055,026
Loss	-	-	9,308,477	9,308,477
	<u>2,932,153,173</u>	<u>51,892,842</u>	<u>44,147,412</u>	<u>3,028,193,427</u>
Impairment loss allowance	<u>(11,262,106)</u>	<u>(12,954,251)</u>	<u>(25,397,136)</u>	<u>(49,613,493)</u>
Carrying amounts (USD)	<u>2,920,891,067</u>	<u>38,938,591</u>	<u>18,750,276</u>	<u>2,978,579,934</u>
Carrying amounts (KHR'000 equivalent -Note 4)	<u>11,815,004,366</u>	<u>157,506,601</u>	<u>75,844,866</u>	<u>12,048,355,833</u>

(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.

	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 2021

33. Financial risk management (continued)

33.1 Credit risk (continued)

(g) Amounts arising from ECL (continued)

Impairment loss allowance (continued)

	2020			
	Stage 1 USD	Stage 2 USD	Stage 3 USD	Total USD
Balance at 1 January	18,696,858	481,191	7,054,843	26,232,892
- Transfer to stage 1	150,887	(28,301)	(122,586)	-
- Transfer to stage 2	(440,834)	504,648	(63,814)	-
- Transfer to stage 3	(373,946)	(237,358)	611,304	-
(Reversal of)/addition for provision for existing loans	(6,214,290)	5,860,970	11,539,208	11,185,888
New financial assets originated or purchased	4,945,916	6,581,841	7,648,051	19,175,808
Financial assets that have been paid-off	(5,502,485)	(208,740)	(1,269,870)	(6,981,095)
Balance at 31 December (USD)	<u>11,262,106</u>	<u>12,954,251</u>	<u>25,397,136</u>	<u>49,613,493</u>
Balance at 31 December (KHR'000 equivalent (Note 4))	<u>45,555,219</u>	<u>52,399,945</u>	<u>102,731,415</u>	<u>200,686,579</u>

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

	2021		2020	
	USD	KHR'000 equivalent (Note 4)	USD	KHR'000 equivalent (Note 4)
Loans to customers (Note 8)	14,722,763	59,892,200	23,380,601	95,322,710
Other assets (Note 9)	1,933	7,863	1,459	5,948
Balance with other banks (Note 7)	(16,837)	(68,493)	29,118	118,715
	<u>14,707,859</u>	<u>59,831,570</u>	<u>23,411,178</u>	<u>95,447,373</u>

Prasac Microfinance Institution Plc.

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

33. Financial risk management (continued)

33.2 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.

33.3 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 2021

33. Financial risk management (continued)

33.3 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 2021				31 December 2020			
	USD	KHR	THB	Total USD	USD	KHR	THB	Total USD
Financial assets								
Cash on hand	184,320,172	34,859,816	3,185,411	222,365,399	130,637,165	26,845,731	3,095,190	160,578,086
Balances with the NBC	334,001,564	34,417,802	-	368,419,366	395,756,676	42,598,723	-	438,355,399
Balances with other banks	1,741,416	566,681	-	2,308,097	1,725,009	2,250,020	-	3,975,029
Loans to customers	3,234,729,052	448,182,464	8,656,477	3,691,567,993	2,593,252,480	362,005,027	23,322,427	2,978,579,934
Other assets	673,411	2,672	-	676,083	570,930	2,807	-	573,737
Total financial assets	3,755,465,615	518,029,435	11,841,888	4,285,336,938	3,121,942,260	433,702,308	26,417,617	3,582,062,185
Financial liabilities								
Deposits from banks and other financial institutions	81,823,935	57,643	-	81,881,578	36,992,081	240,736	-	37,232,817
Deposits from customers	2,338,356,190	193,497,517	1,477,148	2,533,330,855	1,921,733,031	150,140,808	2,807,104	2,074,680,943
Borrowings	670,477,767	143,249,534	16,094,563	829,821,864	594,543,775	159,624,276	40,262,266	794,430,317
Bonds payable	-	31,342,099	-	31,342,099	-	30,666,038	-	30,666,038
Subordinated debts	105,191,790	-	-	105,191,790	98,814,321	14,853,496	-	113,667,817
Other liabilities	10,892,227	188,729	412	11,081,368	5,122,419	214,107	1,830	5,338,356
Total financial liabilities	3,206,741,909	368,335,522	17,572,123	3,592,649,554	2,657,205,627	355,739,461	43,071,200	3,056,016,288
Net asset position	548,723,706	149,693,913	(5,730,235)	692,687,384	464,736,633	77,962,847	(16,653,583)	526,045,897
KHR'000 equivalent (Note 4)	2,235,500,378	609,853,001	(23,344,977)	2,822,008,402	1,879,859,680	315,359,716	(67,363,743)	2,127,855,653

Prasac Microfinance Institution Plc.

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

33. Financial risk management (continued)

33.3 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 2021		31 December 2020	
	- 1% Depreciation USD	+ 1% Appreciation USD	- 1% Depreciation USD	+ 1% Appreciation USD
KHR	1,496,939	(1,496,939)	779,628	(779,628)
THB	(57,302)	57,302	(166,536)	166,536
	<u>1,439,637</u>	<u>(1,439,637)</u>	<u>613,092</u>	<u>(613,092)</u>
KHR'000 equivalent (Note 4)	<u>5,865,081</u>	<u>(5,865,081)</u>	<u>2,497,737</u>	<u>(2,497,737)</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 2021

33. Financial risk management (continued)

33.3 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	%
Financial assets								
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	-	-	-	-	-	676,083	676,083	0%
Total financial assets	2,281,281	7,053,114	57,185,249	1,704,414,128	1,951,323,352	563,079,814	4,285,336,938	
Financial liabilities								
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%
Total financial liabilities	454,831,409	499,149,009	1,835,916,907	735,098,442	56,572,419	11,081,368	3,592,649,554	
Maturity gap	(452,550,128)	(492,095,895)	(1,778,731,658)	969,315,686	1,894,750,933	551,998,446	692,687,384	
KHR'000 equivalent (Note 4)	(1,843,689,221)	(2,004,798,676)	(7,246,552,777)	3,948,992,106	7,719,215,301	2,248,841,669	2,822,008,402	

Prasac Microfinance Institution Plc.

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

33. Financial risk management (continued)

33.3 Market risk (continued)

(ii) Interest rate risk (continued)

	31 December 2020						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	%
Financial assets								
Cash on hand	-	-	-	-	-	160,578,086	160,578,086	0%
Balances with the NBC	164,833,127	374,166	148,888	-	23,000,000	249,999,218	438,355,399	0.04% to 1.63%
Balances with other banks	190,905	-	-	-	-	3,784,124	3,975,029	0.00% to 0.75%
Loans to customers	2,216,130	7,078,977	62,519,328	1,744,628,527	1,162,136,972	-	2,978,579,934	7% to 32.40%
Other assets	-	-	-	-	-	573,737	573,737	0%
Total financial assets	167,240,162	7,453,143	62,668,216	1,744,628,527	1,185,136,972	414,935,165	3,582,062,185	
Financial liabilities								
Deposits from banks and other financial institutions	3,012,499	11,517,404	22,702,914	-	-	-	37,232,817	0.00% to 5.50%
Deposits from customers	359,764,063	381,907,638	1,264,477,242	68,532,000	-	-	2,074,680,943	0.10% to 7.25%
Borrowings	-	20,913,693	106,594,766	662,835,640	4,086,218	-	794,430,317	2.00% to 8.84%
Bonds payable	-	-	414,364	30,251,674	-	-	30,666,038	7.50%
Subordinated debts	-	712,767	1,378,769	26,469,197	85,107,084	-	113,667,817	6.98% to 10.47%
Other liabilities	-	-	-	-	-	5,338,356	5,338,356	0%
Total financial liabilities	362,776,562	415,051,502	1,395,568,055	788,088,511	89,193,302	5,338,356	3,056,016,288	
Maturity gap	(195,536,400)	(407,598,359)	(1,332,899,839)	956,540,016	1,095,943,670	409,596,809	526,045,897	
KHR'000 equivalent (Note 4)	(790,944,738)	(1,648,735,362)	(5,391,579,849)	3,869,204,365	4,433,092,145	1,656,819,092	2,127,855,653	

Prasac Microfinance Institution Plc.

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

33. Financial risk management (continued)

33.3 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). Changes to the contractual terms of financial liabilities of the Company indexed to US dollar LIBOR to incorporate new benchmark rates are not yet complete as at 31 December 2021.

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.

Prasac Microfinance Institution Plc.

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

33. Financial risk management (continued)

33.4 Liquidity risk (continued)

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

	31 December 2021							
	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
Financial assets								
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	676,083	688,316	660,149	-	-	-	-	28,167
Total financial assets	4,285,336,938	5,574,633,317	487,975,405	223,962,889	944,948,804	3,199,286,272	718,431,780	28,167
Financial liabilities								
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)	-	-	-	-	-
Total financial liabilities	(3,592,649,554)	(3,705,382,944)	(452,330,553)	(565,471,808)	(1,953,349,793)	(720,682,406)	(13,548,384)	-
Net liquidity surplus (gap)	692,687,384	1,869,250,373	35,644,852	(341,508,919)	(1,008,400,989)	2,478,603,866	704,883,396	28,167
KHR'000 equivalent (Note 4)	2,822,008,402	7,615,326,020	145,217,127	(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 2021

33. Financial risk management (continued)

33.4 Liquidity risk (continued)

	31 December 2020 (As restated)							
	Carrying amount	Gross nominal inflow/(outflow)	Up to 1 month	>1 to 3 months	>3 to 12 months	>1 to 5 years	Over 5 years	No maturity date
	USD	USD	USD	USD	USD	USD	USD	USD
Financial assets								
Cash on hand	160,578,086	160,578,086	160,578,086	-	-	-	-	-
Balances with the NBC	438,355,399	252,622,666	252,098,355	374,411	149,900	-	-	-
Balances with other banks	3,975,029	4,015,180	4,015,180	-	-	-	-	-
Loans to customers	2,978,579,934	4,068,155,870	128,034,877	195,482,549	815,764,869	2,552,718,693	376,154,882	-
Other assets	573,737	2,804,199	2,776,032	-	-	-	-	28,167
Total financial assets	3,582,062,185	4,488,176,001	547,502,530	195,856,960	815,914,769	2,552,718,693	376,154,882	28,167
Financial liabilities								
Deposits from banks and other financial institutions	(37,232,817)	(36,820,374)	(2,938,586)	(11,096,007)	(22,785,781)	-	-	-
Deposits from customers	(2,074,680,943)	(2,151,678,066)	(361,118,911)	(383,604,323)	(1,327,262,140)	(79,279,251)	(413,441)	-
Borrowings	(794,430,317)	(854,986,530)	(23,977,843)	(34,317,041)	(270,122,286)	(525,552,471)	(1,016,889)	-
Bonds payable	(30,666,038)	(35,762,837)	-	-	(2,202,052)	(33,560,785)	-	-
Subordinated debts	(113,667,817)	(148,766,323)	(1,415,222)	(1,925,629)	(16,205,410)	(84,183,703)	(45,036,359)	-
Other liabilities	(5,338,356)	(5,338,356)	(5,338,356)	-	-	-	-	-
Total financial liabilities	(3,056,016,288)	(3,233,352,486)	(394,788,918)	(430,943,000)	(1,638,577,669)	(722,576,210)	(46,466,689)	-
Net liquidity surplus (gap)	526,045,897	1,254,823,515	152,713,612	(235,086,040)	(822,662,900)	1,830,142,483	329,688,193	28,167
KHR'000 equivalent (Note 4)	2,127,855,653	5,075,761,118	617,726,561	(950,923,032)	(3,327,671,431)	7,402,926,344	1,333,588,741	113,936

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

34. 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 and advances 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.

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

34. Fair values of financial assets and liabilities (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 and subordinated debts*

The fair value of borrowings 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.

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

35. Tax contingency

On 6 August 2021, the Company received a tax notification letter from the General Department of Taxation (“GDT”) for a comprehensive tax audits for the period from 1 January 2019 to 31 December 2019. As at the date of this report, the GDT has yet to commence its tax audits.

Taxes are calculated on the basis of current interpretation of the tax regulations enacted as at reporting date. The management yearically 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 yearic 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.

36. Comparative information

During the preparation of the financial statements for the year ended 31 December 2021, the management has identified errors in the prior years’ financial statements relating to the wrong classification of financial liabilities at amortised cost, and the computation error on regulatory reserve. The details of the adjustments are as follows:

Financial liabilities at amortised cost

In accordance with CIFRS 9, the accrued interest payable is part of the amortised cost of the financial liabilities measured at the amortised cost. However, the Company classified the accrued interest payable as other liabilities. As a result, the other liabilities were overstated by USD57,767,947 as at 1 January 2020 and USD57,237,535 as at 31 December 2020, and the deposits from banks and financial institutions, the deposits from customers, the borrowings, the bonds payable and the subordinated debts were understated by USD1,454,033, USD45,765,622, USD9,618,444, USD0 and USD929,848 respectively as at 1 January 2020, and USD1,087,600, USD49,461,842, USD5,056,882, USD414,364 and USD1,216,847, respectively as at 31 December 2020.

Regulatory reserve and retained earnings

Banks and financial institutions are required to compute regulatory provisions, according to Prakas No. B7-017-344 dated 1 December 2017 and Circular No. B7-018-001 dated 16 February 2018 on credit risk classification and provisions on impairment. If the accumulated regulatory provision is higher than the accumulated impairment based on CIFRS 9, the ‘topping up’ will be recorded as regulatory reserves presented under equity. The reserve is subsequently reversed (up to zero) should the regulatory provision equal or be lower than allowance for impairment loss in accordance with CIFRS 9. The regulatory reserve is set aside as a buffer, is non-distributable, is not allowed to be included in the net worth calculation. As at 1 January 2020 and 31 December 2020, the regulatory provision is higher than allowance for impairment loss under CIFRS 9 by USD2,644,420 and USD461,332, respectively. However, the Company has used the impairment expense as the basis of calculating the regulatory reserve. As a result, the regulatory reserve was overstated and the retained earnings was understated by USD1,464,505 as at both 1 January 2020 and 31 December 2020, respectively.

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

36. Comparative information (continued)

The summary of the line items affected by the adjustments on the financial statements are as follows:

Statement of financial position

	At 1 January 2020			
	As previously reported USD	Adjustments USD	As restated USD	As restated KHR'000 equivalent (Note 4)
LIABILITIES				
Deposits from banks and other financial institutions	55,092,001	1,454,033	56,546,034	230,425,089
Deposits from customers	1,733,440,925	45,765,622	1,779,206,547	7,250,266,679
Borrowings	724,296,717	9,618,444	733,915,161	2,990,704,281
Subordinated debts	75,910,811	929,848	76,840,659	313,125,685
Other liabilities	63,119,300	(57,767,947)	5,351,353	21,806,764
SHAREHOLDERS' EQUITY				
Retained earnings	172,806,880	1,464,505	174,271,385	711,503,244
Regulatory reserve	4,108,925	(1,464,505)	2,644,420	10,715,190
At 31 December 2020				
	As previously reported USD	Adjustments USD	As restated USD	As restated KHR'000 equivalent (Note 4)
LIABILITIES				
Deposits from banks and other financial institutions	36,145,217	1,087,600	37,232,817	150,606,745
Deposits from customers	2,025,219,101	49,461,842	2,074,680,943	8,392,084,414
Borrowings	789,373,435	5,056,882	794,430,317	3,213,470,632
Bonds payable	30,251,674	414,364	30,666,038	124,044,124
Subordinated debts	112,450,970	1,216,847	113,667,817	459,786,320
Other liabilities	65,111,136	(57,237,535)	7,873,601	31,848,716
SHAREHOLDERS' EQUITY				
Retained earnings	283,760,335	1,464,505	285,224,840	1,163,897,093
Regulatory reserve	1,925,837	(1,464,505)	461,332	1,778,127