



# Annual Report 2022

31 December 2022

**PRASAC Microfinance Institution Plc.**

## **VISION**

To improve the living standard of rural people contributing to sustainable economic development by being a financially viable microfinance institution.

## **MISSION**

To provide sustainable access to financial services for rural communities and micro-enterprises.

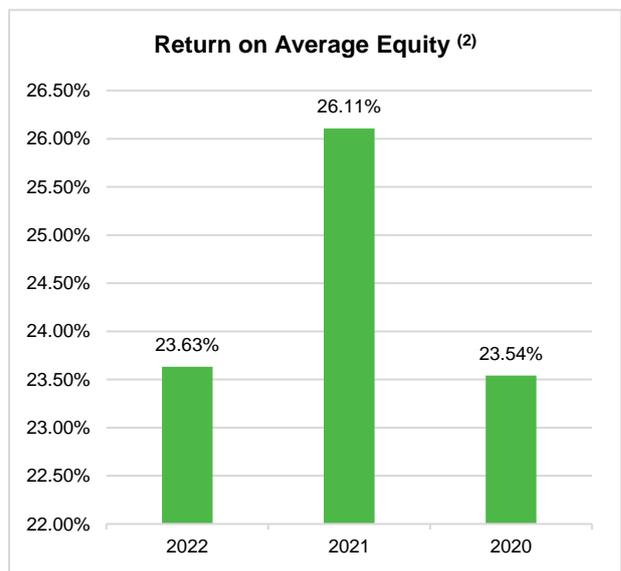
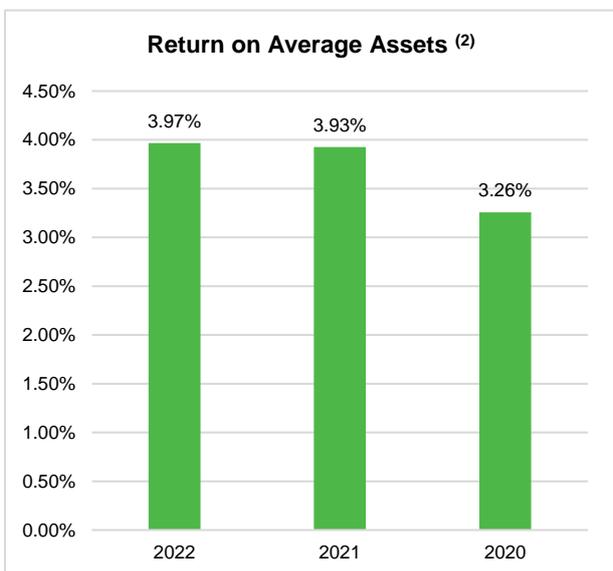
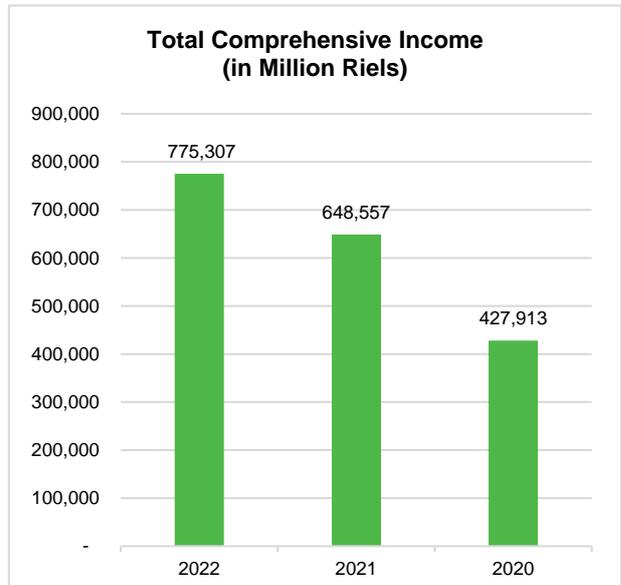
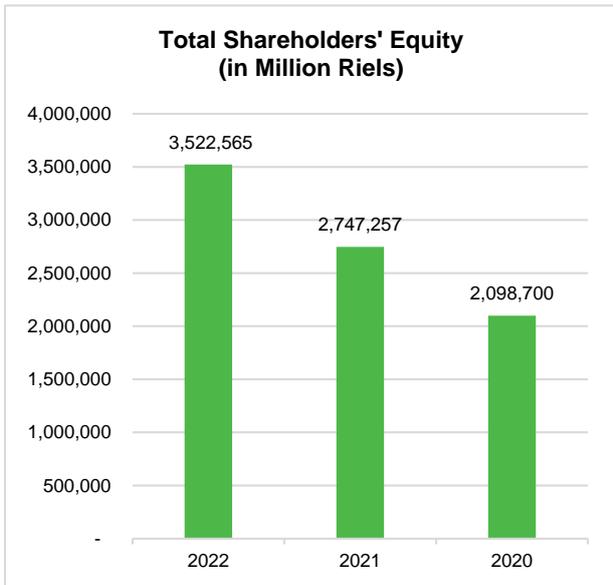
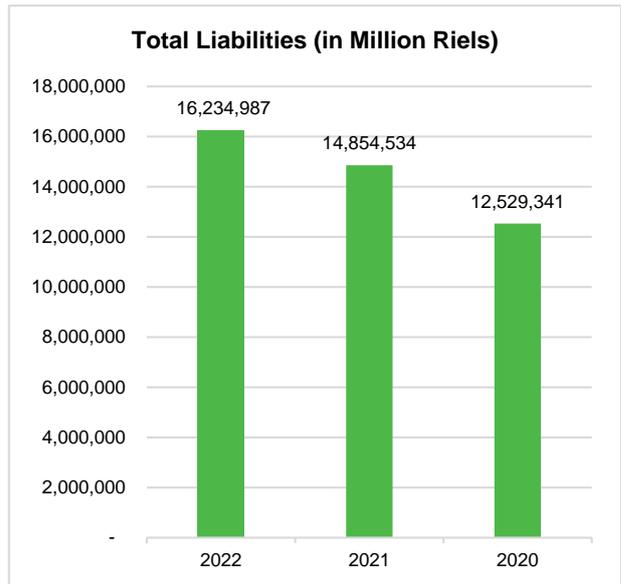
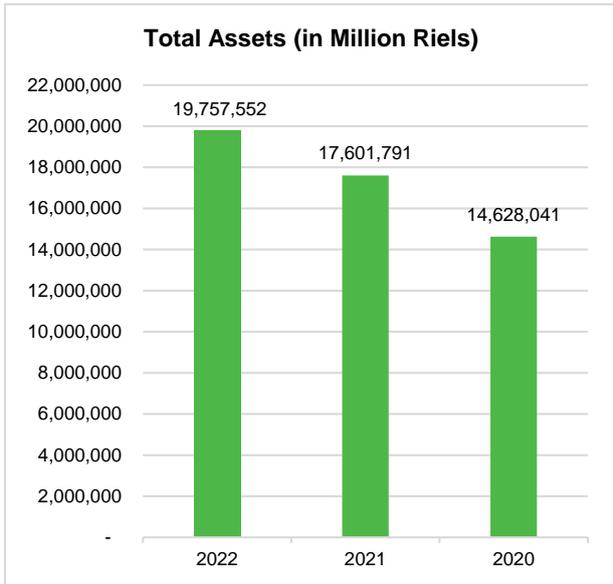
## FINANCIAL HIGHLIGHT

Financial Position (in Million Riels)	2022	2021	2020
Total Assets	19,757,552	17,601,791	14,628,041
Total Liabilities	16,234,987	14,854,534	12,529,341
Total Shareholders' Equity	3,522,565	2,747,257	2,098,700
Profit/(Loss) (in Million Riels)	2022	2021	2020
Total Revenues	2,507,682	2,138,496	1,825,356
Profit/(Loss) Before Tax	924,045	787,719	551,789
Profit/(Loss) After Tax	740,872	632,578	443,696
Total Comprehensive Income	775,307	648,557	427,913
Financial Ratios (for Banking and Financial Institutions)	2022	2021	2020
Solvency Ratio	19.76%	18.98%	18.91%
Debt to Equity Ratio	460.89%	540.70%	597.00%
Liquidity Coverage Ratio	119.05%	160.31%	232.78%
Non-Performing Loans Ratio <sup>(1)</sup>	1.19%	1.54%	1.37%
Deposit to Loan Ratio	63.84%	69.77%	69.74%
Return on Average Assets <sup>(2)</sup>	3.97%	3.93%	3.26%
Return on Average Equity <sup>(2)</sup>	23.63%	26.11%	23.54%
Interest Coverage Ratio	192.04%	192.14%	168.22%
Earnings per Share (For equity listed entity)	N/A	N/A	N/A
Dividend per Share (For equity listed entity)	N/A	N/A	N/A
Other Important Ratios (If any)	N/A	N/A	N/A

<sup>(1)</sup> The ratios was calculated follow NBC's definition

<sup>(2)</sup> The ratios were calculated by using net profit for twelve-month period from 1 January to 31 December 2022

## FINANCIAL SUMMARY CHARTS



**BOARD OF DIRECTORS**



Mr. JUN Kwi Sang  
Chairman



Mr. OUM Sam Oeun  
Director



Mr. CHUNG Hui Tae  
Director



Dr. CHOI Dong Hyun  
Director



Mr. PAK Jaehong  
Independent Director



Mr. LEE Kyung Cheon  
Independent Director



Mr. CHAN Sophal  
Independent Director

## MESSAGE FROM CHAIRMAN

*“Our slogan—Growing Together—conveys our fundamental optimism and the role we play in supporting economic growth, contributing to Cambodia’s prosperity, and help customers achieve their financial goals. Our continued focus on our customers and communities and disciplined execution has delivered another year of strong financial and operational performance.”*

### **Cambodia Economy**

The recovery from the COVID-19 pandemic allowed the world economy to rebound in 2022, but several challenges remain such as supply chain disruptions due to lockdown measures in China and the ongoing Russia-Ukraine war causing a hike in prices of goods, particularly in fuel and raw materials. These factors pushed global inflation to 8.8% and lowered the earlier global growth projection of 4.4% to 3.2%.

In Cambodia, the Royal Government’s introduction of the “Living with COVID-19” strategy after the success of vaccination campaign has ensured the resumption of domestic economic activities. A series of economic and financial measures and the relaxation of regulatory forbearance in the banking sector in place have supported and sped up the recovery of Cambodia’s economy. These favorable domestic conditions coupled with an increasing external demand have accelerated Cambodia’s economic growth to 5.1% in 2022.

According to the National Bank of Cambodia, the growth rate was driven by a 9.4% increase in the manufacturing sector, 15.2% in hotels and restaurants, 6.1% in transportation and 4.5% in wholesale and retail trades. Meanwhile, exports grew by 19.8%, much faster than that of imports, 8%; and tourism revenues noticeably grew at a 6.6% rate, while remittances from Cambodian workers working overseas increased by 4%. Moreover, foreign direct investment inflows rebounded by 4%, mainly due to the garment and food processing sectors. Exchange rate remained stable. The average inflation rate in 2022 reached 5.3%, higher than that in 2021 (2.9%) due to higher fuel and food prices.

### **Cambodian Banking System**

The banking system has played a crucial role in supporting Cambodia’s economic recovery by actively pursuing financial services to meet the needs of economies. Credit in private sector, which was disbursed to various main economic sectors, increased by 21% while consumer deposits rose by 11.3%. Prudential regulations, which were relaxed during the pandemic to relieve financial burdens of borrowers and maintain credit intermediation, have been strengthened gradually to in line with domestic economic recovery and the NBC exit strategy to safeguard financial stability and rebuild policy buffer for future needs. The loan restructuring policy was withdrawn at the end of June 2022 and the amount of restructured loan declined from 10.5% to only 6% of total bank credit. Besides, the payment system has been modernized to increase the efficiency of payment and settlement in both domestic and international transfers, as E-wallet accounts reached 17.9 million. Regional connectivity with other countries has also been strengthened to help facilitate interoperability between banks and financial institutions, thus promoting trade, investment, and tourism.

### **PRASAC Keeps Supporting Customers and Communities**

We have always been there in both the good times and when we are needed most for our customers and communities since our inception. Amid the pandemic, PRASAC continued restructuring the loans following the guidelines from the National Bank of Cambodia (NBC) to help alleviate financial pressure and uncertainty for both individuals and businesses. PRASAC participated in ‘SME Co-Financing

Scheme (SCFS)' and 'Tourism Recovery Co-Financing Scheme (TRCS), the initiatives of the government to provide affordable loans to SMEs and tourism-related businesses for capital expenditure and working capital in the objective to promote the recovery of economy and the tourism sector respectively.

We have continued our CSR activities to support the wellbeing and sustainable development of the people, community and the country, while enhancing and expanding our products and services especially in digital footprints to better serve customers.

**Highlights of the Overall Performance in 2022**

Amid the challenges, we have delivered strong operations and financial performance consistent with long-term shareholder interest. Lessons from the challenges of the past several years have allowed PRASAC to become a strong and stable institution with 27 years of sustainable growth. As of the end of 2022, total assets were USD 4.80 billion, growth of 11.08% compared to 2021. The deposit balance increased to USD 2.78 billion, and the gross loan portfolio amounted to USD 4.35 billion. Shareholder’s equity also grew and reached USD 856 million and the registered capital increased to USD 400 million in the reporting period.

The Board and shareholders have confidence that PRASAC’s leadership, strategy and people are on the right track to enable PRASAC to continue its high level of performance for all stakeholders.

On behalf of the Board of Directors, I would like to thank PRASAC’s management and staff for their hard work, dynamism, and strong dedication to grow the business along with customer’s growth in harmony. I also wish to thank the Board of Directors, shareholders, customers, the Royal Government of Cambodia and especially the National Bank of Cambodia, Securities and Exchange Regulator of Cambodia (SERC) and Cambodia Securities Exchange (CSX) for their continuous support and advice.

22 February 2023



**JUN Kwi Sang**  
Chairman

## MESSAGE FROM PRESIDENT & CHIEF EXECUTIVE OFFICER

*“As Cambodia’s largest financial institution, PRASAC has an important role to play in supporting our customers and communities while delivering robust financial performance.”*

### Supporting Our Customers and Communities

As we began to learn to live with COVID-19, the past year has seen further challenges and uncertainty such as rising inflation, slower global economic growth and decreased availability of energy supplies in the wake of the war in Ukraine. Confronting these problems, we recognized the essential role we play in the lives of our customers, communities and in Cambodia’s national interest. As the leading financial institution, we have continued to support businesses by restructuring loans for affected borrowers, following the guidelines from the National Bank of Cambodia (NBC). We also have disbursed USD 20 million in loans under the Government’s SME Co-Financing Scheme (SCFS) and Tourism Recovery Co-Financing Scheme (TRCS).

To build a strong financial position to sustain our robust growth of customers, investors and public trust, PRASAC increased its registered capital up to USD 400 million in 2022. This was also an orchestrated effort to undergo the transformation process from an MFI to a full-fledged commercial bank with the strong support of our single shareholder KB Kookmin Bank in Korea. PRASAC is fortunate to be the trusted financial partner in the lives of more than half a million customers. Our scale puts us in the unique position of being able to play a significant role in helping Cambodia become a more modern, resilient and sustainable economy.

As the world of finance is changing at a dizzying pace, we are committed to stand at the forefront of digital transformation. We strongly encourage our clients and staff to embrace new way of banking: doing financial transactions through ATM, mobile banking, and internet banking. We managed to enhance and expand our products and services such as the upgrade of PRASAC Mobile Banking by adding the feature of online self-registration for existing customers in a few taps, conveniently and securely without physical contact or branch visit, the launch of water bill payment service of Siem Reap Water Supply Authority (SRWSA) and the launch of KHQR Code interbank payment feature and to name a few. These services are provided for free of charge to promote cashless payment. We also increased our interest rate of Term Deposit Account up to 7.75% per annum and waived the initial deposit and minimum balance for Savings Account in order to promote the savings habit among Cambodian citizens at a licensed financial institution.

For corporate governance, we were honored once again with another certificate of appreciation, sealed by Samdech Akka Moha Sena Padei Techo Hun Sen, Prime Minister of Cambodia, for our commitment of tax obligation to the state and being named the 2<sup>nd</sup> largest taxpayer and also for receiving Certificate of Tax Compliance “Gold” type from General Department of Taxation. Moreover, we also received the Excellence Data Contribution Award from Credit Bureau Cambodia (CBC), the independent financial information provider to financial institutions and consumers in the Kingdom, for the recognition of PRASAC’s excellence endeavor in contributing data to CBC for building financial information, analytical solutions, and credit reporting services.

As always, our commitment to corporate social responsibility (CSR) is continuous and unwavering yet more relevant, ensuring the wellbeing and sustainable development of the people, community and the country. Our management and employees volunteered to donate blood in “The Financial Sector Donates Blood to Save Life.” We donated to Cambodian Red Cross to support its social and humanitarian activities in helping vulnerable victims. We sponsored the 7<sup>th</sup> National Reading Day, organized by MoEYS. PRASAC sponsored Cambodian Watercolorist Association to support its

mission in sending young watercolorist to the 28<sup>th</sup> Asian Watercolor Federation Exhibition in Korea. Moreover, we still managed to continue our CSR flagship library project by building two libraries in Banteay Meanchey and Takeo province to promote the reading culture in Cambodia. Interestingly, last year, we donated hand sanitizers worth of USD 10,000 for the 40<sup>th</sup> and 41<sup>st</sup> ASEAN Summit, hosted in Cambodia.

Being the first financial institution to issue the largest corporate bonds in the history of Cambodia's capital market for the total amount of KHR 127.2 billion, PRASAC also played its crucial role in developing the securities market and promotion of the Khmer Riel. 2022 marked the 10<sup>th</sup> anniversary of Cambodian Securities Exchange (CSX). PRASAC congratulated and sponsored and joined this remarkable event to promote the securities market and provide the public with fundamental knowledge of financial services.

## **Delivering Robust Financial Performance**

Our 2022 results reflect strong financial and operational performance through continued customer focus and disciplined execution. Here are some notes on key operational highlights:

- Total assets at year-end were USD 4.80 billion, grew by 11.08% compared with the end of 2021.
- Total loan portfolios were USD 4.35 billion increased by 16.05% with the total of 502 thousand clients.
- PRASAC's Non-Performing Loan (NPL) was at 1.19%.
- The deposits outstanding balance reached USD 2.78 billion with the total of 714 thousand depositors.
- After-tax net profit increased by 17.12% from USD 155.5 million to USD 181.3 million.
- Return on Average Equity (RoE) was 23.63% and Return on Average Assets (RoA) was 3.97%.
- Registered share capital increased from USD 300 million to USD 400 million.
- Office network covering 25 provinces and cities through 182 outlets, 163 ATMs, operating in more than 14,109 villages, equal to 97.7% of total villages, with a total of 9,573 staff.

Over the last several years, PRASAC has expanded its business size, client base and number of employees. The challenges we've been through are the lessons learned and have helped PRASAC successfully navigate the stormy years, demonstrating our ability to adapt with speed in response to the global pandemic and becoming a resilient strong and stable institution for 27 years of sustainable growth. The strength of our balance sheet means PRASAC is well-positioned to continue supporting our customers and the broader Cambodian economy, while delivering consistent and sustainable returns to the shareholders.

Looking ahead, PRASAC will continue to invest in its business, IT infrastructure, people and branding to reinforce our proposition and extend our digital leadership. PRASAC defines 2023 as the Year of Digital Banking. We will develop differentiated products and services to create more values for customers. We believe that strong customer engagement and deeper relationships will continue to underpin growth and performance. We will also maintain a strong risk management culture and focus on operational excellence while fostering our unique and inclusive culture to bring out the best in our clients and stakeholders. We are confident that our strategy, hard work and commitment to people will secure meaningful progress over the coming years.

On behalf of PRASAC Management, I would like to thank customers for their support, the management team and staff for their effort and commitment, the Board of Directors for their support and advice, the Royal Government of Cambodia and especially the National Bank of Cambodia (NBC), Securities and Exchange Regulator of Cambodia (SERC) and Cambodia Securities Exchange (CSX) for their continuous support and advice.

22 February 2023



**OUM Sam Oeun**  
President & Chief Executive Officer

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# PART 1 - GENERAL INFORMATION OF THE LISTED ENTITY

## A. IDENTITY OF THE LISTED ENTITY

Entity name in Khmer	គ្រឹះស្ថានមីក្រូហិរញ្ញវត្ថុ ប្រាសាក់ ម.ក
In Latin	PRASAC Microfinance Institution Plc.
Standard code	KH2000131A42
Address	Building № 212, Street 271, Sangkat Tuol Tumpung 2, Khan Chamkarmon, Phnom Penh, Cambodia.
Phone number	+855 23 999 911 / +855 86 999 911
Fax	+855 23 216 362
Website	<a href="http://www.prasac.com.kh">www.prasac.com.kh</a>
Email	<a href="mailto:info@prasac.com.kh">info@prasac.com.kh</a>
Company registration number	00001157      Date: 11 September 2011
License number	M.F 10      Issued by: National Bank of Cambodia Date: 19 October 2012
Disclosure document registration number issued by SERC	067/20SECC/SSR      Date: 30 March 2020
Representative of the listed entity	Mr. Oum Sam Oeun

## B. NATURE OF BUSINESS

PRASAC has a microfinance deposit taking license from the National Bank of Cambodia (NBC), and has operated for 27 years in the microfinance and banking industry in Cambodia. PRASAC is currently the largest microfinance deposit-taking institution (MDI) in terms of assets, loan portfolio, loan quality, net profit, customer deposits and ranks among the top five commercial banks in Cambodia.

PRASAC is dedicated to offering full-fledged financial services namely loans, deposits, PPWSA bill payment, EDC bill payment, PPSWMA bill payment, tuition fee payment, phone top-up from all telecom companies, interbank fund transfer between member banks and FI of Bakong and Retail Pay system, Inter-branch fund transfer, cash-by-code, foreign exchange, Cambodian Shared Switch (CSS) or use PRASAC's ATM card to withdraw cash from member banks and FI of CSS, fast payment, payroll, automated teller machine (ATM), cash deposit machine (CDM), mobile banking, internet banking, POS, bank confirmation, standing instruction and other services to target clients.

As a market leader with total assets of USD 4.80 billion as of 31 December 2022, PRASAC operates the second largest branch network, with 182 branches in Cambodia. PRASAC has strong financial

operations, customer care, and a modern, transparent and dynamic core banking system for serving the needs of customers and the public.

### C. THE LISTED ENTITY'S MILESTONES

Since its inception in 1995, PRASAC has gone through numerous considerable stages of its development. Here are the major milestones in 2022:

#### Quarter 1:

- PRASAC sponsored 7<sup>th</sup> National Reading Day, organized by Ministry of Education, Youth and Sports, held at National Institute of Education, under the theme, "Reading Promotes Life Quality in Digital Society."
- PRASAC sponsored Riel Day, the 42<sup>nd</sup> Anniversary of the Reintroduction of the Riel (20 March 1980 – 20 March 2022), organized by the National Bank of Cambodia.
- PRASAC entered in to 11 bilateral deals for 3-5 years term with overseas and local lenders totaling of USD 152.5 million in which equivalent of USD 78.5 million are in Khmer Riels to support its lending activities.

#### Quarter 2:

- PRASAC has enhanced PRASAC Mobile Banking app by adding the feature of online self-registration for existing customers in a few taps, conveniently and securely without physical contact or branch visit.
- PRASAC donated 400 million Riels to Cambodian Red Cross (CRC) in the celebration of the 159<sup>th</sup> Anniversary of World Red Cross and Red Crescent Day.
- PRASAC received a certificate of appreciation sealed by Samdech Hun Sen after being named the 2<sup>nd</sup> largest taxpayer and also for receiving Certificate of Tax Compliance "Gold" type for 2021 from General Department of Taxation.
- PRASAC joined CSX to promote and enhance the potential investment of the securities market in Cambodia on the occasion of the "10<sup>th</sup> Anniversary of the Cambodia Securities Exchange".
- PRASAC increased its registered capital up to USD 400 million in an orchestrated effort to undergo the transformation process from an MFI to a full-fledged commercial bank.
- PRASAC's management and employees volunteered to donate blood in "The Financial Sector Donates Blood to Save Life" campaign which took place at the headquarters of the Union of Youth Federations of Cambodia in Phnom Penh.
- PRASAC started to have built 2 more library buildings to promote reading culture.
- PRASAC launched Water bill of Siem Reap Water Supply Authority via PRASAC Mobile & Internet Banking and ATM without fee charge.
- PRASAC entered in to 4 bilateral deals for 3 years term with overseas and local lenders totaling of USD 39 million in which equivalent of USD 29 million are in Khmer Riels to support its lending activities.
- In June 2022, PRASAC has signed MOU in the amount of USD 5 million to participate the Tourism Recovery Co-financing Scheme (TRCS) initiative by Royal Government of Cambodia throughout SME Bank for supporting Tourism industry impacted by COVID-19 pandemic.

#### Quarter 3:

- PRASAC launched KHQR Code interbank payment feature for free of charge.
- PRASAC participated in the 'Tourism Recovery Co-Financing Scheme,' in a move to boost and restore the Cambodian tourism sector severely hammered by COVID-19 pandemic.

- PRASAC joined 'Bank and Financial Institutions Conference' and offered special promotion 'Open Account and Get Money' to new customers. This event took place at Aeon Mall Sen Sok.
- PRASAC sponsored Cambodian Watercolorist Association to support its mission in sending young watercolorist to the 28<sup>th</sup> Asian Watercolor Federation Exhibition in Korea.
- PRASAC joined as a silver sponsor of the Cambodia Stock Market Exhibition – themed "My First Stock 2022" – which was held at Aeon Mall Phnom Penh.
- PRASAC Wins Excellence Data Contribution Award from Credit Bureau Cambodia (CBC)
- PRASAC entered in to 5 bilateral deals for 3 years term with local lenders in amount of Khmer Riel currency equivalent of USD 22 million to support its lending activities.
- PRASAC signed a 3-years committed facility in the amount of USD 150 million with KB Kookmin Bank, Hong Kong Branch for day-to-day operational support and liquidity backup line.
- PRASAC signed a 3 years syndication loan agreement in the amount of USD 200 million with a group of Banks and Financial Institutions led by 3 Mandated Lead Arrangers and Bookrunners to support its lending activities.

#### Quarter 4:

- PRASAC donated hand sanitizers worth of USD 10,000 for the 40th and 41st ASEAN Summit held in Cambodia.
- PRASAC increased rate of Term Deposit Account up to 7.75% per annum.
- PRASAC congratulated the 43<sup>rd</sup> Anniversary of Re-establishment of National Bank of Cambodia.
- PRASAC participated in promoting and cultivating savings habit during the occasion of ASEAN Savings Day in Siem Reap Province.
- PRASAC waived the Initial Deposit and Minimum Balance for Savings Account.
- PRASAC participated in Business and Skill Innovation Camp 2022 in Takeo Province.
- PRASAC participated in Business and Skill Innovation Camp 2022 in Kampong Cham Province.
- PRASAC entered into 4 bilateral deals for 3 years term with local lenders in amount of Khmer Riel currency equivalent of USD 27.75 million to support its lending activities.
- PRASAC signed 2 Deal Confirmation Letters in the amount of USD 65 million with Kookmin Bank Head Quarter for day-to-day operational support and liquidity.
- PRASAC disbursed syndication loan in the amount of USD 30 million with a group of Banks and Financial Institutions led by 3 Mandated Lead Arrangers and Bookrunners to support its lending activities.

## D. MARKET SITUATION

Cambodia's entire banking system has remained resilient as it enjoyed strong growth in both loans and deposits in 2022 despite the impact of COVID-19 pandemic.

There are 59 commercial banks, 9 specialized banks, 5 microfinance deposit-taking institutions (MDIs) and 82 non deposit-taking microfinance institutions (MFIs) as of December 31, 2022.

The banking system continued to play an important role in supporting economic activities, especially for sectors that were impacted. The NBC continued to maintain the implementation of regulatory forbearance as well as to provide banking and financial institutions with sufficient liquidity to ensure steady flows of credit to the private sector. In addition, the distribution of banking and financial institutions profits has been suspended to encourage more investments in the banking system aimed at strengthening the capital position.

As a result, credits sustained its growth at 20.2% (reaching KHR 229.5 trillion, equivalent to USD 56.1 billion) and were extended to all economic sectors. It is worth noted that confidence in the banking system has also been strengthened as reflected by deposit growth of 11.3% (reaching KHR 178.5 trillion, equivalent to USD 44.6 billion).

## E. COMPETITIVE SITUATION

The competition in the banking and microfinance sector is very high. Nonetheless, PRASAC is currently ranked number 1 in microfinance sector and 1 among the 5 biggest banks in banking industry in Cambodia.

The banks and financial institutions we compete against have generally become strong. We are also experiencing increased competition in certain geographies and business segments from new market entrants. Notwithstanding increased competition, we remain well positioned and are making the necessary investments in people, processes and technology to deliver on the needs of new and existing customers throughout our footprint.

Committed to being a trusted microfinance institution, PRASAC earns reputation as a reliable MDI with strong performance result and sustainability growth. We are capable of offering a wide-range of financial services to MSMEs and individuals while making ourselves the most trusted supplier of dependable, easy-to-use, technologically advanced and easily accessible banking services.

To cement our position in the competitive market and to keep abreast of latest technology development, PRASAC has been intensively focusing on the development of new products and services as below:

- Convenient loan products tailored for micro, small and medium enterprises (MSMEs) that are the backbone of Cambodian economy.
- Development of more banking services to attract more customer segments.
- Further development of the technologically advanced solutions especially Mobile Banking, Internet Banking and others.
- Further development of modern cashless payment methods (QR Code) and partnering with merchants to provide convenience for the clients and promoting the financial inclusion in Cambodia.
- The branches and ATM/CDM expansion.
- Further improvement of the service quality to cater to the needs of the clients.

## F. FUTURE PLAN

Looking ahead, the financial service industry will be further shaped by rapid innovation and disruption. We are prepared for increasing capacities of our data center, DR, sophisticated cyber security and fraud risks, as well as evolving regulatory landscapes. We will continue to strengthen our implementation of the NBC's IT security guideline.

PRASAC will continue to invest in its business, IT infrastructure, people and branding to deliver customer-centric experiences and help those clients we serve to have confidence about their financial future. We will also maintain a strong risk management culture, and focus on operational excellence while fostering our unique and inclusive culture to bring out the best in our clients and stakeholders.

## **G. RISK FACTORS**

### **1. Analyst**

- In the last 3 years, the COVID-19 had adversely affected global economy as well as Cambodian economy, the tourism and oil prices increase/inflation and Fed rate increased due to Ukrain's war.
- Funding is the resource for growing the loan portfolio, during this year the funding cost is increased due to Fed rate increased.
- PRASAC is maintained good loan quality by kept the non-performing loan around 1.19% as of December-2022 although the COVID-19 still impact to tourism/restaurant/hotel and the oil prices increase/inflation that impact to local business.

### **2. Management Opinion and Risk Mitigation**

The key risk factors are under manageable by supporting from royal government of Cambodia especially the NBC and also did a very comprehensives implementation, measurement since the COVID-19 before start spread into Cambodia. The actions are as the following:

- Monitoring loan portfolio quality and its trend
- Monitoring deposit and its trend
- Strictly policy especially clients' criteria
- Strictly analyze the business/collaterals of client
- Strictly loan approval
- Issue a COVID-19 prevention instruction to staff.

## PART 2 - INFORMATION ON BUSINESS OPERATION PERFORMANCE

### A. BUSINESS OPERATION PERFORMANCE INCLUDING BUSINESS SEGMENTS

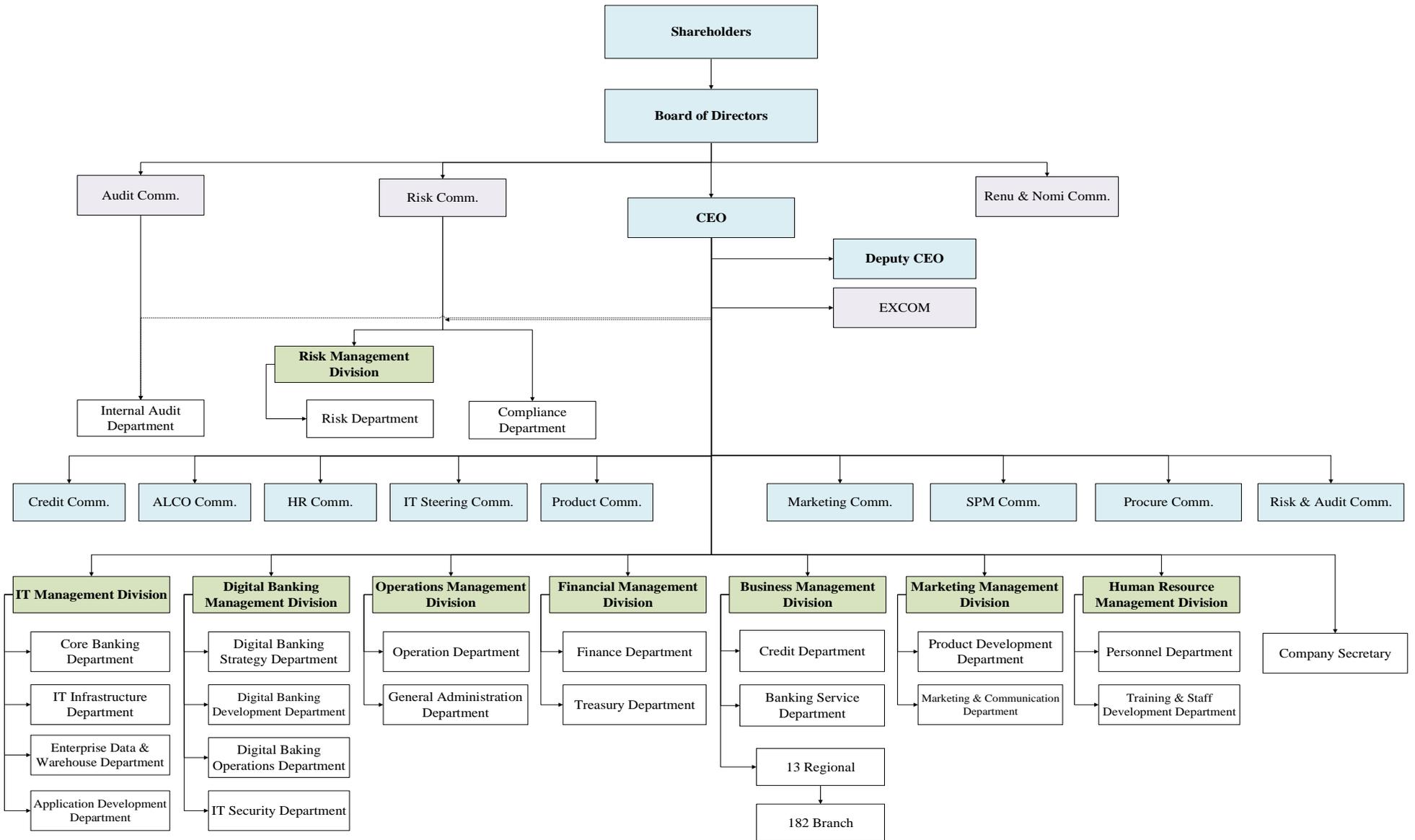
Key Achievement	2022	2021	2020
<b>Loan</b>			
Number of Borrowers	502,094	465,149	442,833
Total Gross Loans (in Million Riels)	17,909,301	15,270,812	12,249,042
<b>Deposit</b>			
Number of Depositors	713,811	660,976	627,188
Total Deposit (in Million Riels)	11,433,198	10,654,376	8,542,691
<b>Others</b>			
Operating Branches	182	182	182
Number of Staffs	9,573	9,330	9,042
Number of POS Terminals	440	505	514
Number of ATMs	163	141	141
Number of Active ATM Cards	54,669	53,454	56,060
Number of Active Mobile & Internet Banking	140,181	39,856	21,213

### B. REVENUE STRUCTURE

No.	Source of Revenue	2022		2021		2020	
		Amount (in Million Riel)	(%)	Amount (in Million Riel)	(%)	Amount (in Million Riel)	(%)
1	Interest income	2,424,513	96.68%	2,056,750	96.18%	1,754,437	96.11%
2	Fees and commission income	39,555	1.58%	35,057	1.64%	28,040	1.54%
3	Other income	43,614	1.74%	46,689	2.18%	42,879	2.35%
<b>Total revenue</b>		<b>2,507,682</b>	<b>100%</b>	<b>2,138,496</b>	<b>100%</b>	<b>1,825,356</b>	<b>100%</b>

# PART 3 - INFORMATION ON CORPORATE GOVERNANCE

## A. ORGANIZATION STRUCTURE



## B. BOARD OF DIRECTOR

### Board Composition

No	Name	Position	Date of Term Being Director	Expired Date of Being Director
1	Mr. JUN Kwi Sang	Chairman	10 April 2020	09 April 2023
2	Mr. CHUNG Hui Tae	Director	23 February 2022	22 February 2025
3	Dr. CHOI Dong Hyun	Director	27 October 2021	26 October 2024
4	Mr. PAK Jaehong	Independent Director	27 October 2021	26 October 2024
5	Mr. LEE Kyung Cheon	Independent Director	27 October 2021	26 October 2024
6	Mr. CHAN Sophal	Independent Director	27 October 2021	26 October 2024
7	Mr. OUM Sam Oeun	Director	23 February 2022	22 February 2025

**Note:** Each Director shall be limited to three (3) years from the date of appointment until such Director resigns or is removed. But each Director can be re-appointed and shall be limited to nine (9) years only.

## C. SENIOR OFFICERS

### Senior Officers Composition

No	Name	Gender	Position
1	Mr. OUM Sam Oeun	M	President & Chief Executive Officer
2	Mr. KIM Hyeun Jong	M	EVP & Deputy Chief Executive Officer
3	Mr. KONG Sean	M	EVP & Chief Operation Officer
4	Mr. RY Vanna	M	EVP & Chief Business Officer
5	Mr. PEN Sovannsoksitha	M	EVP & Chief Marketing Officer
6	Mr. HOEUN Honey	M	EVP & Chief Human Resource Officer
7	Mr. WON Soo Yeon	M	EVP & Chief Financial Officer
8	Mr. YI JuHwan	M	EVP & Chief Risk Officer
9	Mr. PHOK Vandy	M	EVP & Chief IT Officer
10	Mr. CHOI KiHyun	M	EVP & Chief Digital Officer

**Note:** Detail information of corporate governance is attached as appendix.

## PART 4 - INFORMATION ON SECURITIES' TRADING AND SHAREHOLDERS OF THE LISTED ENTITY

### A. INFORMATION ON SECURITIES

#### 1. Information on Equity Securities (For Equity Listed Entity)

- Name of equity securities: None
- Equity securities' symbol: None
- Class of equity securities: None
- Par value per equity securities: None
- IPO Price: None
- The total number of outstanding shares: None
- Market capitalization: None
- Permitted Securities Market: None

#### 2. Information on Debt Securities (For Debt Listed Entity)

Information	Description
Debt securities' type	Unsecured, unsubordinated, and guaranteed bonds in a registered form
Symbol	PRA23A
Issuing date	23 April 2020
Par value per equity securities:	None
Total amount of debt securities	KHR 127,200,000,000
Total amount of outstanding debt securities	KHR 127,200,000,000
Maturity	23 April 2023
Coupon payment schedule	23 April and 23 October
Coupon rate (%)	7.50% p.a.
Total amount of coupon payment	KHR 9,540,000,000

Credit ratings (if any)	<p>The issuer is issuing the bonds guaranteed by CGIF. According to the Prakas of Securities and Exchange Commission of Cambodia on Public Issuance of Debt Securities, there is no requirement to have a credit rating on the corporate bond but the credit rating of the guarantor is required. CGIF’s strong claims paying ability.</p> <p>“AA/A-1+” Global (Long Term &amp; Short Term), Stable Outlook, by S&amp;P Ratings on 22 June 2018.</p> <p>“gAAA/seaAAA/AAA”, Global/ASEAN/National, Stable Outlook, by RAM Ratings on 16 Jan 2019.</p> <p>“AAA” National, Stable Outlook, by MARC on 14 Jan 2019.</p> <p>AAA” National, Stable Outlook, by TRIS Ratings on 10 Oct 2018.</p> <p>“AAA” National, Stable Outlook, by Fitch Ratings Indonesia on 15 Nov 2018.</p>
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## B. SECURITIES’ PRICE AND TRADING VOLUME

As of the reporting date, there was no trading on PRASAC’s corporate bonds by maintaining the same price at KHR 100,000 per bond.

## C. CONTROLLING SHAREHOLDER(S) (30% OR MORE)

No	Name	National	Number of Share	Percentage
1	KOOKMIN BANK CO., LTD.	Republic of Korea	399,999,999	99.99999975%
<b>Total</b>			<b>399,999,999</b>	<b>99.99999975%</b>

## D. SUBSTANTIAL SHAREHOLDER(S) (1% OR MORE)

No	Name	National	Number of Share	Percentage
1	N/A			

**E. INFORMATION ON DIVIDEND DISTRIBUTION IN THE LAST 3 (THREE) YEARS (FOR EQUITY LISTED ENTITY)**

Detail of Dividend Distribution	2022	2021	2020
Net Profit	N/A	N/A	N/A
Total cash dividend	N/A	N/A	N/A
Total share dividend	N/A	N/A	N/A
Other dividend	N/A	N/A	N/A
Dividend payout ratio (%)	N/A	N/A	N/A
Dividend yield (%)	N/A	N/A	N/A
Dividend per share	N/A	N/A	N/A

# PART 5 - INTERNAL CONTROL AUDIT REPORT BY INTERNAL AUDITOR

## 1. Introduction

Effective internal controls are the foundation of safe and sound banking. To build effective internal controls, PRASAC's Internal Audit Department was established in 2001 with clear roles and responsibilities for providing independent appraisals on the adequacy, efficiency and effectiveness of the internal control systems implemented by managements. The department reports directly to the Audit Committee of the Board of Directors.

At the end of 2022, the department has 112 professional staff, 98 of whom are in regional/branch offices. The department may rotate work locations of regional audit staff anytime if the manager of internal audit department concerns about the effectiveness of audit work and/or a conflict of interest.

## 2. Scope of Auditing in the Year 2022

- Loan Portfolio (review loan documents and conduct client home visit to confirm outstanding balance, and to verify that loan disbursement complies with the prescribed policies and Client Protection Principles for new loans and existing loan respectively).
- Physical Cash Count in branches (Surprising physical cash count & observation of access to vaults).
- Branch Operations (cash management, customer services, deposit and withdrawal transactions, general expenses, fund transfers & other incomes, record keeping, office management, and Anti-Money Laundering & Combating the Financing of Terrorism (AML & CFT)).
- Centralized Departments (Warehouse Management, Liquidity Risk Management, Treasury Operation, Payment Operation & Back Office Transaction Processing, Procurement Process, Recruitment Process, Personnel File Management, Disciplinary & Labor Law Compliance, AML & CFT, and Operational & Credit Risk Management).
- Information Technology (E-Banking Security Management, Server Security Management, Business Continuity Management, IT Governance, and IT Security Essential Management).
- Fraud cases and internal policies abuses.

## 3. Standards for the Professional Practice of Internal Auditing

The work of Internal Audit adheres to NBC's regulations, PRASAC's internal rule and its own objectives and methodology.

Internal Audit also partially adheres to the Institute of Internal Auditors' (IIA) mandatory guidance-definition of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing ("the Standards"). In addition, Internal Audit considers the IIA's Practice Advisories, Practice Guides as applicable to guide its work.

## 4. Summary of Audit Results

- Internal Audit Department performs audit activities based on annual audit plan approved by Board Audit Committee and adapted to actual business operations. The planned and unplanned audit projects completed during the year as following:

No	Audit Areas	Achievement	Control Assessment
<b>I. Cash Surprise Check, Credit and Branch Operation Audits</b>			
1.1	Cash surprise check	1,803 times	--
1.2	Loan portfolio (normal loans, non-performing loans & written-off loans in all branches)	86,969 accounts (15.01% of total loan accounts)	Strong (for new loans)
1.3	Branch operation (1time per branch)	182 branches	Satisfactory
<b>II. Centralized Department Audits</b>			
2.1	Warehouse Management Review	1 time	Satisfactory
2.2	Liquidity Risk Management Review	1 time	Satisfactory
2.3	Treasury Operation, Payment Operation and Back Office Transaction Processing	1 time	Satisfactory
2.4	Procurement Process Review	1 time	Satisfactory
2.5	Recruitment Process, Personnel File Management, Disciplinary and Labor Law Compliance review	1 time	Satisfactory
2.6	Anti-Money Laundering and Combating the Financing of Terrorism	1 time	Satisfactory
2.7	Operational & Credit Risk Management Audit	1 time	Satisfactory
<b>III. Information technology Audits</b>			
3.1	E-Banking security management	1 time	Satisfactory
3.2	Sever security management	1 time	Satisfactory
3.3	Business continuity management	1 time	Satisfactory
3.4	IT Governance	1 time	Satisfactory
3.5	IT Security Essential Management	1 time	Satisfactory
<b>IV. Unplanned Audits</b>			
4.1	Fraud and abnormal case investigation	69 times	--
4.2	Cash shortage and surplus investigation	7 times	--

- The department has issued **1,755** audit reports to regional/branch management and related department managers.
- The department reported highlight audit results to the board audit committee every quarter.

## 5. Conclusion

Based on the audit results in 2022, Internal Audit Department concludes that:

- Institution has established effective internal control system to safeguard assets and public deposits, facilitate customer service improvement, guard against intentional or unintentional errors, and to ensure staff adherence to policies and guidelines.
- Responsible staff at both head office and branches have implemented internal control to mitigate risks that may occur during day-to-day operations.
- Responsible Managers have effectively implemented corrective and preventive actions to the addressed audit findings and recommendations.

Read and Approved  
Date: 09 February 2023  
Signature



**PAK Jaehong**  
Chairman of the Audit Committee

Date: 09 February 2023  
Signature



**HONG Sengroth**  
Acting Manager of Internal Audit Department

## PART 6 - FINANCIAL STATEMENT AUDITED BY THE EXTERNAL AUDITOR

Please refer to the Annex for Financial Statement Audited by the External Auditor.

## PART 7 - INFORMATION ON RELATED PARTY TRANSACTIONS AND CONFLICT OF INTEREST

The listed entity shall disclose material transaction information, with related parties in the last 2 (two) years, specifying name, relation between the listed entity and related parties, size of transaction and the type of interest which arise from that relationship as follows:

### A. MATERIAL TRANSACTIONS WITH SHAREHOLDER WHO HOLD AT LEAST 5% OR MORE SHARES OF OUTSTANDING EQUITY SECURITIES.

- Credit Line from Kookmin Bank Hong Kong Branch with loan amount of USD 150 million.
- Subordinated Debt from Kookmin Bank Hong Kong Branch with loan amount of USD 50 million.
- Senior Loan from Kookmin Bank Headquarter with total amount of USD 135 million.
- Senior Loan from Kookmin Bank Cambodia Branch in Khmer Riels with loan amount of USD 5 million.
- Syndicated Loan from Kookmin Bank Hong Kong Branch with total commitment up to USD 150 million.
- Senior Loan from Kookmin Bank Cambodia Branch with loan amount of USD 3 million.
- Senior Loan from KB Daehan Specialized Bank Plc, Cambodia Branch in Khmer Riels with loan amount of USD 3 million.
- Syndicated Loan 2021 from Kookmin Bank Hong Kong Branch with loan amount of USD 40 million.
- Syndicated Loan 2022 from Kookmin Bank Hong Kong Branch with loan amount of USD 35 million.

### B. MATERIAL TRANSACTIONS WITH DIRECTOR AND SENIOR OFFICER

N/A

### C. TRANSACTIONS WITH DIRECTOR AND SHAREHOLDER RELATED TO BUY/SELL ASSET AND SERVICE

N/A

### D. MATERIAL TRANSACTIONS WITH IMMEDIATE FAMILY MEMBERS OF THE DIRECTOR, SENIOR OFFICER AND SHAREHOLDER WHO HOLD AT LEAST 5% OR MORE SHARES

N/A

### E. MATERIAL TRANSACTIONS WITH THE PERSON, WHO ASSOCIATED WITH DIRECTOR OF THE LISTED ENTITY, ITS SUBSIDIARY OR HOLDING COMPANY, WHOSE RELATIONSHIP HAS OCCURRED IN ANY TRANSACTIONS OR HAVE BEEN MADE BY THE LISTED ENTITY

N/A

**F. MATERIAL TRANSACTIONS WITH FORMER DIRECTOR OR PERSON WHO INVOLVED WITH FORMER DIRECTOR**

N/A

**G. MATERIAL TRANSACTIONS WITH DIRECTOR WHO IS HOLDING ANY POSITION IN A NON-PROFIT ORGANIZATION OR IN ANY OTHER COMPANY OTHER THAN THE LISTED ENTITY**

N/A

**H. MATERIAL TRANSACTIONS WITH DIRECTORS WHO GET BENEFIT EITHER FINANCE OR NON-FINANCIAL FROM THE LISTED ENTITY**

N/A

## PART 8 - MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

The following discussion and analysis are the discussion of PRASAC's management team on the operational results and financial situation based on Financial Statement as of 31 December 2022, which is audited by KPMG Cambodia Ltd (Independent Auditors). Financial Statements have been prepared in accordance with Cambodian International Financial Reporting Standard (CIFRS) and follows regulations and guidelines of National Bank of Cambodia. The management team discussed and analyzed only the key component of the Financial Statement and key factors that affect PRASAC's profitability.

### A. OVERVIEW OF OPERATIONS

#### 1. Revenue Analysis

PRASAC generates revenue from the three major sources as follows:

- **Interest income:** Loan to customers and deposit with banks.
- **Fees and commission income:** Fee income from loans, card issuing fee and local remittances services.
- **Other income:** Penalty from loans, recovered loans, foreign exchange gains and others.

#### 2. Revenue by Segment Analysis

No	Source of Revenue	2022		2021	
		Amount (in Million Riel)	Percentage (%)	Amount (in Million Riel)	Percentage (%)
1	Interest income	2,424,513	96.68%	2,056,750	96.18%
2	Fees and commission income	39,555	1.58%	35,057	1.64%
3	Other income	43,614	1.74%	46,689	2.18%
<b>Total Revenue</b>		<b>2,507,682</b>	<b>100%</b>	<b>2,138,496</b>	<b>100%</b>

Interest income is the main source for PRASAC to generate revenue. In 2022, interest income represents 96.68% of the total revenue while 99.92% of the total interest income generated from the loans from customer. As comparing by segment to the same period from previous year result, there is no much fluctuation movement of PRASAC's revenue.

#### 3. Gross Profit Margin Analysis

Gross profit margin does not present in the format of statement of comprehensive income prepared by PRASAC. However, it presents net interest income resulting from interest income less interest expense which indicated in section 4. Profit / (loss) before tax analysis.

#### 4. Profit / (Loss) Before Tax Analysis

Statement of Profit or Loss Before Income Tax	2022 (in Million Riel)	2021 (in Million Riel)	Variance (in Million Riel)	Variance (%)
Interest income	2,424,513	2,056,750	367,763	17.88%
Interest expense	(1,003,923)	(854,885)	(149,038)	17.43%
<b>Net interest income</b>	<b>1,420,590</b>	<b>1,201,865</b>	<b>218,725</b>	<b>18.20%</b>
Fees and commission income	39,555	35,057	4,498	12.83%
Fees and commission expense	(6,199)	(480)	(5,719)	1191.46%
<b>Net fees and commission income</b>	<b>33,356</b>	<b>34,577</b>	<b>(1,221)</b>	<b>-3.53%</b>
Other income	39,801	39,859	(58)	-0.15%
Grant income	3,813	6,830	(3,017)	-44.17%
Net foreign exchange gain/(loss)	(12,806)	(6,458)	(6,348)	98.30%
<b>Total other income</b>	<b>30,808</b>	<b>40,231</b>	<b>(9,423)</b>	<b>-23.42%</b>
<b>Total interest, fees, commission and other income</b>	<b>1,484,754</b>	<b>1,276,673</b>	<b>208,081</b>	<b>16.30%</b>
Personnel expenses	(379,949)	(344,067)	(35,882)	10.43%
Allowance for impairment losses	(77,892)	(59,832)	(18,060)	30.18%
General and administrative expenses	(75,150)	(59,109)	(16,041)	27.14%
Depreciation and amortization	(27,718)	(25,946)	(1,772)	6.83%
<b>Profit before income tax</b>	<b>924,045</b>	<b>787,719</b>	<b>136,326</b>	<b>17.31%</b>

In 2022, profit before income tax increasing by KHR 136,326 million equivalent to 17.31% compared to the same period in 2021. Interest income, which is the main income, was significantly increased around KHR 367,763 million equivalent to 17.88% while fees and commission income also increased by KHR 4,498 million equivalent to 12.83% due to the strong loan growth. Expenses during the period also increased as well including personnel expenses of KHR 35,882 million equivalent to 10.43%, allowance for impairment losses of KHR 18,060 million equivalent to 30.18% and general and administrative expenses of KHR 16,041 million equivalent to 27.14% compared to last year. The reasons of increased expenses are mainly increasing number of staff and productivity, growing loan, and operation expansion.

## 5. Profit / (Loss) After Tax Analysis

Statement of Profit or Loss After Income Tax	2022 (in Million Riel)	2021 (in Million Riel)	Variance (in Million Riel)	Variance (%)
Profit before income tax	924,045	787,719	136,326	17.31%
Income tax expense	(183,173)	(155,141)	(28,032)	18.07%
<b>Net profit for the period</b>	<b>740,872</b>	<b>632,578</b>	<b>108,294</b>	<b>17.12%</b>

In 2022, profit after income tax increased by KHR 108,294 million equivalent to 17.12% that caused the tax on income also increased. Due to the result of net profit in 2022, PRASAC has archived a great result with Return on Average Asset of 3.97% and Return on Average Equity of 23.63% for twelve-month period of net profit from 1 January to 31 December 2022.

## 6. Total Comprehensive Income (Loss) Analysis

Statement of Comprehensive Income	2022 (in Million Riel)	2021 (in Million Riel)	Variance (in Million Riel)	Variance (%)
Net profit for the period	740,872	632,578	108,294	17.12%
Translation difference	34,435	15,979	18,456	115.50%
<b>Total comprehensive income</b>	<b>775,307</b>	<b>648,557</b>	<b>126,750</b>	<b>19.54%</b>

Other comprehensive income item consists only translation difference resulting from assets and liabilities are translated at the closing rate as at the statement of financial position date whereas the items in the statements of comprehensive income and cash flows are translated into KHR using the average rate for the period while share capital is translated at the historical rate of KHR 4,000 per USD 1.

## 7. Factors and Trends Analysis Affecting Financial Conditions and Results

There is no much impact to financial conditions and results of PRASAC in 2022. Cambodia has moved swiftly towards a post COVID normality, cases remained of COVID-19 at their current ultra-low levels. The government has implemented policies to mitigate the negative impact of COVID-19 on businesses and people's incomes and to support economic recovery. Widespread vaccination against COVID-19 has enabled the country to reopen its borders for trade and tourism, leading to positive economic prospects.

### B. SIGNIFICANT FACTORS AFFECTING PROFIT

#### 1. Demand and Supply Conditions Analysis

PRASAC is the largest microfinance deposit taking in Cambodia which providing a broad range of innovative and diversified products and services delivered via modernized distribution channels. Due to MDI status, PRASAC focus more on MSME and seeking to expand its business operations by taking advantage of a supply gap for banking services in Cambodia, particularly in rural areas. PRASAC has

also identified opportunities to increase profitability on existing customers and attract new customers by offering additional and innovative products and services.

PRASAC is continuously updating and expanding its line of products and services to meet the satisfaction of its customers. PRASAC is investing heavily in FinTech and digitalization of products and services to increase accessibility, convenience, ease of use, and to allow customers to perform self-service banking via mobile banking (smart phone) anywhere at any time and anywhere.

**2. Fluctuations in Prices of Raw Materials Analysis**

PRASAC is operating as microfinance institution to provide financial products and services to customers, therefore the analysis of fluctuations in prices of raw material is not applicable to the Company.

**3. Tax Analysis**

PRASAC is obliged to pay taxes and excises to the state under the existing laws of Cambodia. PRASAC is a large taxpayer and is required to pay tax under the real regime tax system as set forth by the General Department of Taxation. Tax expenses include current tax and deferred tax. Tax expenses are recorded in the statement of comprehensive income.

**4. Exceptional and Extraordinary Items Analysis**

At the date of this report, management is not aware of any exceptional and extraordinary items, transaction or event of a material and unusual nature accruing that may significantly impact to the financial statement of the Company except for the COVID-19 pandemic.

**C. MATERIAL CHANGES IN SALES AND REVENUE**

In 2022, PRASAC earned total revenue around KHR 2,507,682 million increased 17.26% compared to 2021. Net interest income increased from KHR 1,201,865 million to KHR 1,420,590 million while gross loan portfolio increased 16.05%.

**D. IMPACT OF FOREIGN EXCHANGE, INTEREST RATES AND COMMODITY PRICES**

**1. FOREIGN EXCHANGE RISK**

Foreign exchange risk involves losses that may occur due to fluctuations in currency exchange rates. PRASAC’s business activities cross three main currencies – KHR, USD, and THB. Volatility in exchange rates may have a material impact on PRASAC’s operating income and profitability.

Exchange rates are regularly monitored by the Treasury Department. PRASAC policies stated that it shall not engage in activities to derive income from proprietary trading or speculation on the movements of exchange rates, interest rates, or value of securities. PRASAC is not authorized to maintain a proprietary trading book in short-term foreign currency instruments. Any foreign currency transaction or position owned or owed must display a clear linkage to client-related business.

## Limit

Risk Measure	Limit
Aggregate Foreign Currency Position to Total Regulatory Capital	≥ -20 and ≤ 20%
Single Foreign Currency Position to Total Regulatory Capital	≥ -20 and ≤ 20%

The Asset and Liability Committee is responsible for taking appropriate measures to maintain the foreign currency risk exposure within these limits at all times.

## Actions on Forex

The Asset and Liability Committee (ALCO) will monitor current and forecast adherence to the limits above and will determine appropriate counterbalancing measures should the actual position threaten to be breached.

Acceptable foreign exchange risk management instruments that may serve to reduce the net long or short foreign exchange position in certain currencies include the following:

- creating additional offsetting Forex assets (in case of an underlying short position) or offsetting Forex liabilities (in case of an underlying long position).
- reducing (selling) Forex assets or buying back liabilities in the cash market for immediate value.
- using forward transactions to offset Forex assets or liabilities that would otherwise create an excessive short or long net open position.
- converting Forex liabilities into effective functional currency positions using cross currency swaps.

The detailed net open position calculation is provided in the following table:

As at 31 December 2022 (in Million Riel or Percentage)	USD	KHR	THB	Total
Assets	17,355,230	2,388,337	13,985	19,757,552
Liabilities and capital	17,983,998	1,772,983	571	19,757,552
Off-balance sheet assets	494,246	400	-	494,646
Off-balance sheet liabilities	494,246	400	-	494,646
<b>(+) long / (-) short</b>	<b>(628,768)</b>	<b>615,354</b>	<b>13,414</b>	-
<b>Net open position / net worth %</b>	<b>-17.87%</b>	<b>17.49%</b>	<b>0.38%</b>	-
Limit %	± 20%	± 20%	± 20%	-
<b>Excess</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	-

## 2. INTEREST RATE RISK

Interest rate risk is commonly defined as the possibility that changes in the prevailing market interest rate levels produce an adverse impact on PRASAC's income and the value of its assets and liabilities, with consequential effects on PRASAC's equity. Interest rate changes have an impact on the net interest income of PRASAC when there is an imbalance between assets and liabilities on which interest is applicable. Any significant changes in interest rates could have a material adverse effect on PRASAC's financial performance and profitability. An analysis of the interest rate risk pertaining to PRASAC's assets and liabilities is disclosed in the table on the following page:

As at 31 December 2022 in Million Riel	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest sensitive	Total
<b>Financial assets</b>							
Cash on hand	-	-	-	-	-	524,604	524,604
Balances with the NBC	618	1,523	1,639	-	164,680	1,174,853	1,343,313
Balances with other banks	12,742	-	-	-	-	11,738	24,480
Loans to customers	8,563	27,171	243,951	7,654,762	9,752,686	-	17,687,133
Other assets	-	-	-	-	-	3,956	3,956
<b>Total financial assets</b>	<b>21,923</b>	<b>28,694</b>	<b>245,590</b>	<b>7,654,762</b>	<b>9,917,366</b>	<b>1,715,151</b>	<b>19,583,486</b>
<b>Financial liabilities</b>							
Deposits from banks and other financial institutions	53,602	21,514	130,886	-	-	-	206,002
Deposits from customers	1,727,520	2,297,647	6,889,471	305,034	8,243	-	11,227,915
Borrowings	-	626,809	551,838	2,803,328	16,700	-	3,998,675
Bonds payable	-	-	128,320	-	-	-	128,320
Subordinated debts	-	-	12,459	356,743	-	-	369,202
Other liabilities	-	-	-	-	-	28,402	28,402
<b>Total financial liabilities</b>	<b>1,781,122</b>	<b>2,945,970</b>	<b>7,712,974</b>	<b>3,465,105</b>	<b>24,943</b>	<b>28,402</b>	<b>15,958,516</b>
<b>Maturity Gap</b>	<b>(1,759,199)</b>	<b>(2,917,276)</b>	<b>(7,467,384)</b>	<b>4,189,657</b>	<b>9,892,423</b>	<b>1,686,749</b>	<b>3,624,970</b>

## **Risk Mitigation:**

### Re-pricing Gap Management

The interest rate gap is a common form of interest rate sensitivity measurement. The re-pricing gap is equal to rate sensitive assets (RSA) minus rate sensitive liabilities (RSL).

PRASAC strives to achieve a balance between reducing risk to earnings from adverse movements in interest rates and enhancing net interest income through correct anticipation of the direction and extent of interest rate changes. By running positive near-term gaps, PRASAC will benefit if interest rates rise, and by running negative gaps PRASAC will benefit if interest rates fall. PRASAC's interest rate exposure limit is complied with and reviewed on a monthly basis. The gap reports are used to measure the magnitude of risk to interest income arising from interest rate movements. PRASAC focuses on net gaps in the 30, 90, 180, 270 and 365-days cumulative timeframes.

PRASAC takes into account the following limitations of re-pricing gap analysis:

- Interest rates on assets and liabilities do not always move by the same magnitude or velocity
- Optional features of many deposit instruments and loans are not readily determinable
- Exposures arising from new business generally are not captured
- Re-priceable investments/funds may roll off at rates significantly different from current rates.

In order to address the limitations of traditional re-pricing gap analysis, PRASAC maintains additional interest rate simulations (see below).

### Net Interest Income Simulation

The focus of this simulation is to measure risk to net income by projecting the future composition of PRASAC's assets and liabilities and applying different interest rate scenarios. Simulation modeling includes "what if" analyses to determine the effect of different strategies on PRASAC's risk profile and profitability.

By using simulations, PRASAC considers realistic assumptions about the speed and magnitude of the loan and deposit product rate reactions in response to market changes in various currencies. The impact of prepayment rates on loans is also taken into account. Management carefully assesses and documents the assumptions underlying the simulations. Second round effects about changes in loan demand and deposit supply following the assumed rate adjustments are not part of the simulation.

While simulations can adequately assess short-term (1 year) interest rate risk, PRASAC does not rely on this analysis to capture and isolate the risks associated with longer term re-pricing imbalances. Duration-weighted gap analysis of the balance sheet is utilized to evaluate long-term fixed-rate positions.

### Duration-Weighted Re-pricing Gap

In addition to the sensitivity of current income, an interest rate re-pricing gap report can also be used to provide a rough estimation of the value impact on assets and liabilities following a market interest rate change. By assessing the economic value change of assets and liabilities following such a rate shock, PRASAC can determine the economic loss or gain in equity value at the different simulation levels.

PRASAC calculates a matrix of more precise duration estimates for each cell in the re-pricing gap report, i.e. the intersections between time intervals and balance sheet line items. For this purpose, PRASAC maintains sufficiently granular time bands at the long end of the re-pricing schedule. These more distant gaps naturally become more important for their long-term economic capital impact. Duration analysis requires knowledge of the average contractual rates applicable to each line item and the new market discount yields following the rate change. With these assumptions, PRASAC may calculate a matrix of modified duration weights that are applied to the cells of the parallel re-pricing gap report.

The economic capital perspective in duration-weighted gap methods emphasizes the long-term balance sheet value impact of interest rate changes. This is an important complement to the strictly short-term earnings approach underlying the net interest income simulation.

Interest Rate Risk Limits

The Interest Rate Risk limits are as follows:

Interest Rate Risk Measure	Definition	Limit
Net Interest Income at Risk – <b>Re-pricing Gap</b>	<b>Using re-pricing gap analysis</b> , market rate scenarios of: +200 /-100 bps in the 4-yr USD swap rate, +200/200 bps in top 10 banks KHR 1 year Deposit Rate, and +200/-200 bps in THB 3-Month BIBOR may separately and in combination not lead to a deterioration of more than 25% of net interest income compared to rolling prior 12 months actual net interest income.	≤ 25% of Recent Actual Net Interest Income
Forward Net Interest Income at Risk – <b>Simulation</b>	<b>Using simulation</b> , market rate scenarios of: +200 /-100 bps in the 4-yr USD swap rate, +200/-200 bps in top 10 banks KHR 1 year Deposit Rate, and +200/-200 bps in THB 3-Month BIBOR may separately and in combination not lead to a cumulative deterioration of more than 25% of net interest income compared to the current budget 12 months forward. Simulation includes new business as per budget and detailed assumptions about the basis co-movement of asset and liability product rates.	≤ 25% of projected 12-months of forward Net Interest Income
Economic Capital at Risk - <b>Duration Gap</b>	Using a per-currency duration-weighted re-pricing gap, the economic capital at risk from a rate shock scenario as below may separately or in combination not lead to a loss of more than 20% of total regulatory capital: +200 /-100 bps in the 4-yr USD swap rate, +200/-200 bps in top 10 banks KHR 1 year Deposit Rate, and +200/-200 bps in THB 3-Month BIBOR	≤ 20% of Regulatory Net Worth

### Interest Rate Risk Management Actions

In the event that the current or forecasted balance sheet structure should lead to a likely breach of one or several of the interest rate risk limits above, it is the responsibility of the Asset and Liability Committee to devise strategies for adjusting PRASAC's balance sheet position in order to reduce interest rate risk exposure and maintain limit compliance.

Acceptable interest rate risk management instruments that PRASAC may deploy to manage interest rate risk are:

- creating an additional variable or fixed rate assets or liabilities in particular currencies to offset existing imbalances,
- selling certain fixed rate or variable rate assets or buying back (pre-paying) certain fixed rate or variable rate liabilities for immediate value,
- using over-the-counter interest rate forward transactions or long-term fixed-rate securities to offset existing fixed rate contracts on the asset or liability side,
- converting variable rate liabilities into fixed rate liabilities or vice versa using interest rate swap agreements.

Note that derivative overlay transactions, such as interest rate forwards and interest rate swap agreements require Board approval similar to the Board resolutions required for the underlying commercial borrowing transactions. The Board will only authorize forward or swaps in interest rate instruments for the purposes of risk reduction or hedging. Trading such instruments or making markets in them under an independent profit motive that is not related to an interest rate risk reduction strategy is specifically not allowed at PRASAC.

### **E. IMPACT OF INFLATION**

- Inflation is very important for PRASAC because PRASAC typically deal normal financial instrument such as making loan about 89.52% of its total assets of which 12.38%, 0.08% and 87.54% is in Khmer Riel, Bath Thai and United States Dollar respectively.
- The Cambodian economy is expected to grow by 5.4% in 2022 and around 6% in 2023.
- In the lasts 5 years record the CPI stood at an average year-on year of 2.5% p.a.
- The economy is to a large extent dollarized; the exchange rate moves within a small bandwidth for the last ten years.
- Registered unemployment at 0.6% in 2021.
- GDP of Cambodia for 2023 will increase to 5.2% (Reported by World Bank).

### **F. ECONOMIC, FISCAL AND MONETARY POLICY OF ROYAL GOVERNMENT**

- Reduce tax for tourism sectors. Improve infrastructure and reduce cost of operation. Reduce 6 holidays in year to increase productivities.
- Reserve USD 3 billion ahead for possible impacts COVID-19 and European Union's everything but Arm's (EBA) trade scheme.
- Reserve USD 600 million to 800 million to lend to banks and MFIs to stimulus economy.
- Delay in offering seniority payment to employees for year 2020.
- Cambodia reduces all expenses for 3 years (strategic plan for 2021-2023).
- The government adjusted quarantine measures and prepare special arrangements for potential investors, technical experts and consultants who come to the Kingdom.
- The RGC has planned to launch the Post-COVID-19 Economic Recovery Plan 2021-2023 based on 3 approaches, survival, reform, and resilience. The plan focuses on high value-added manufacturing, agriculture, domestic production (SME), E-commerce, and tourism.

### **The National Bank of Cambodia (NBC) interventions:**

- NBC requested banks and financial institutions to reduce loan-related fees and cancel fines for borrowers for the rest of the year as the Kingdom battles the COVID-19 pandemic.
- Encourage to continue lending to priority sectors (i.e. tourism, garment, construction, ...)
- Reduce the interest rate on the Liquidity-Providing Collateralized Operation (LPCO) up to 0.5%. Decrease the interest rate for the Negotiable Certificate of Deposits (NCD).
- Reduce the Reserve Requirement Rate (RRR) on deposit balance from 8% for KHR and 12.5% for USD to 7%.
- Reduce Liquidity Coverage Ratio (LCR) to appropriate level if it is necessary.
- Encourage all institutions and clients to use digital financial services rather than use cheque or cash for payment.
- Postpone the maintenance of Capital Conservation Buffer at 50%.
- National Bank of Cambodia launches 10 policies to support Cambodia's economic growth in 2022.
- The NBC has asked financial institutions to implement flexible measures for borrowers who have been affected by flood.

## PART 9 - OTHER NECESSARY INFORMATION FOR INVESTORS PROTECTION

PRASAC Bonds guaranteed by CGIF. According to the Prakas on Public Issuance of Debt Securities, there is no requirement to have a credit rating on the corporate bond but the credit rating of the guarantor is required.

CGIF has been assigned credit ratings of:

- “AA/A-1+” Global (Long Term & Short Term), Stable Outlook, by S&P Ratings on 22 Jun 2018
- “gAAA/seaAAA/AAA”, Global/ASEAN/National, Stable Outlook, by RAM Ratings on 16 Jan 2019
- “AAA” National, Stable Outlook, by MARC on 14 Jan 2019
- “AAA” National, Stable Outlook, by TRIS Ratings on 10 Oct 2018
- “AAA” National, Stable Outlook, by Fitch Ratings Indonesia on 15 Nov 2018

Guaranteed by CGIF. Pursuant to the CGIF Guarantee, CGIF will irrevocably and unconditionally guarantee to the Bondholders’ Representative the full and punctual payment of each Guaranteed Amount. For the purposes of the CGIF Guarantee, “Guaranteed Amount” means:

- any Principal Amount and any Scheduled Interest which is overdue and unpaid (whether in whole or in part) by the Issuer under the Terms and Conditions and the bondholder’s agreement;
- any Additional Accrued Interest; and any Bondholders’ Representative Expenses, (in each case as defined in the CGIF Guarantee).

The guarantee amount is subject to the terms of the guarantee in the form attached as Annex C to the Terms and Conditions (the “CGIF Guarantee”).

## Signature of Director of the Listed Entity

Date: 22 February 2023  
Read and Approved by:



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Mr. JUN Kwi Sang  
Chairman of the Board of Directors

Date: 22 February 2023  
Read and Approved by:



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Mr. OUM Sam Oeun  
Member of the Board of Directors

Date: 22 February 2023  
Read and Approved by:



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Dr. CHOI Dong Hyun  
Member of the Board of Directors

Date: 22 February 2023  
Read and Approved by:



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Mr. LEE Kyung Cheon  
Member of the Board of Directors

Date: 22 February 2023  
Read and Approved by:



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Mr. CHUNG Hui Tae  
Member of the Board of Directors

Date: 22 February 2023  
Read and Approved by:



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Mr. PAK Jaehong  
Member of the Board of Directors

Date: 22 February 2023  
Read and Approved by:



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Mr. CHAN Sophal  
Member of the Board of Directors



**PRASAC MICROFINANCE INSTITUTION PLC.**

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Email: [info@prasac.com.kh](mailto:info@prasac.com.kh) | Website: [www.prasac.com.kh](http://www.prasac.com.kh) | Incorporation Registration N°: 00001157

Private Company