



# THE FIRST QUARTERLY REPORT

31 March 2023

PRASAC MICROFINANCE INSTITUTION PLC.

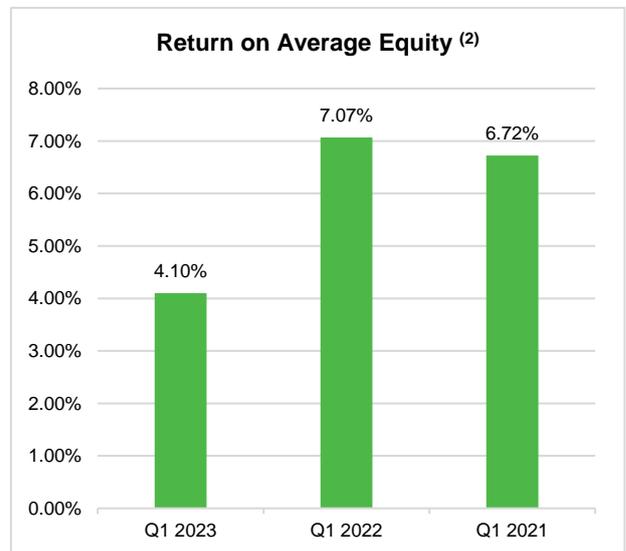
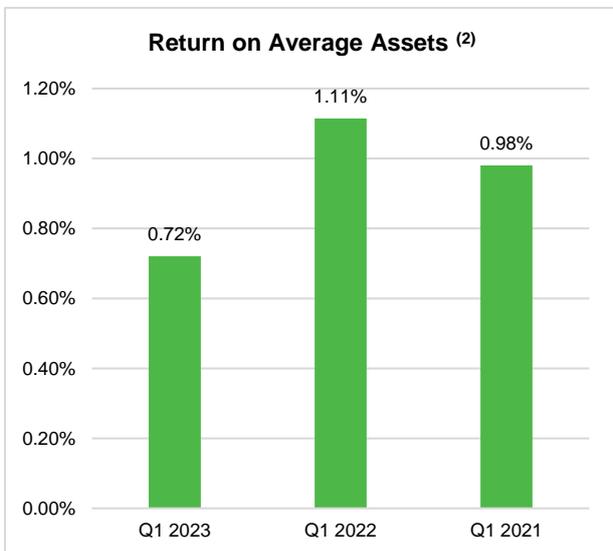
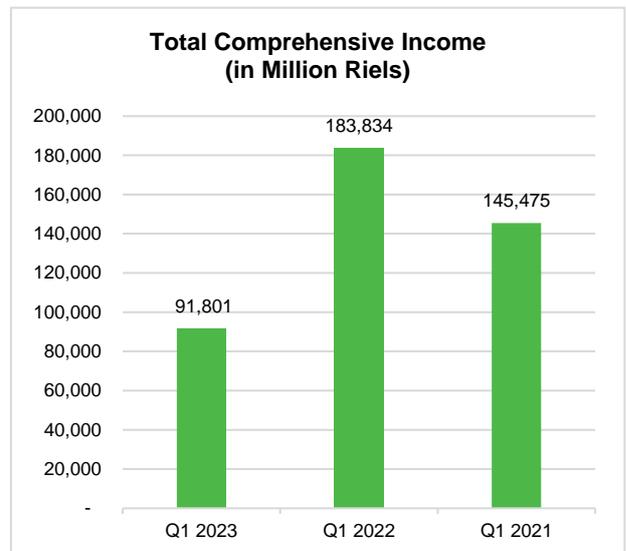
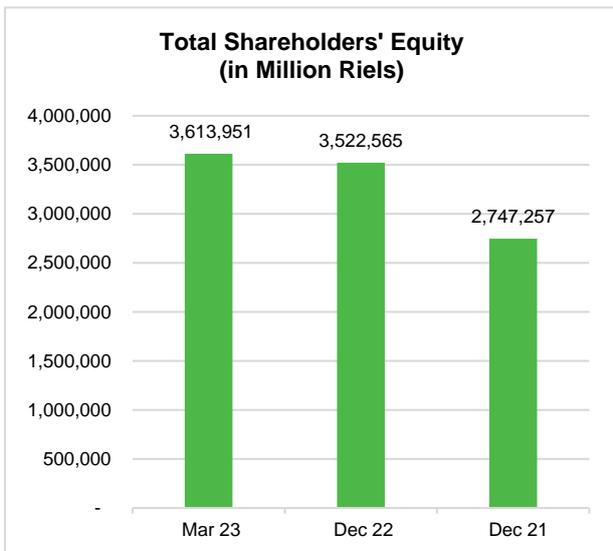
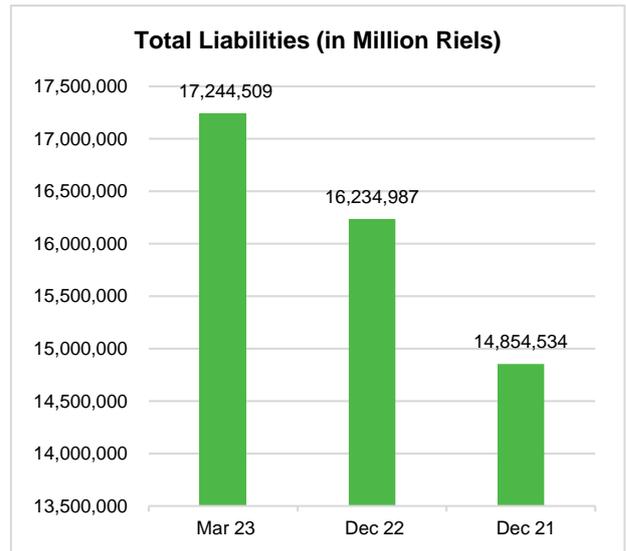
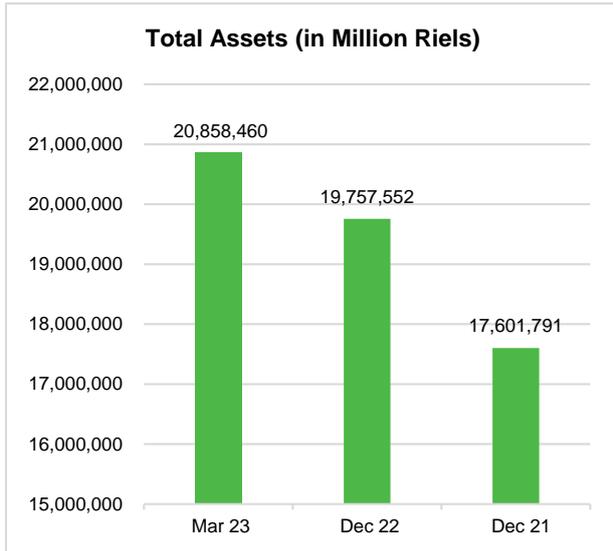
## FINANCIAL HIGHLIGHT

Financial Position (in Million Riels)	March 2023	December 2022	December 2021
Total Assets	20,858,460	19,757,552	17,601,791
Total Liabilities	17,244,509	16,234,987	14,854,534
Total Shareholders' Equity	3,613,951	3,522,565	2,747,257
Profit/(Loss) (in Million Riels)	Quarter 1 2023	Quarter 1 2022	Quarter 1 2021
Total Revenues	666,070	595,756	506,875
Profit/(Loss) Before Tax	183,567	250,205	181,630
Profit/(Loss) After Tax	146,365	200,660	145,978
Total Comprehensive Income	91,801	183,834	145,475
Financial Ratios (for Banking and Financial Institutions)	March 2023	December 2022	December 2021
Solvency Ratio	18.79%	19.76%	18.98%
Debt to Equity Ratio	477.16%	460.89%	540.70%
Liquidity Coverage Ratio	216.41%	119.05%	160.31%
Non-Performing Loans Ratio <sup>(1)</sup>	1.71%	1.19%	1.54%
Deposit to Loan Ratio	62.54%	63.84%	69.77%
Financial Ratios (for Banking and Financial Institutions)	Quarter 1 2023	Quarter 1 2022	Quarter 1 2021
Return on Average Assets <sup>(2)</sup>	0.72%	1.11%	0.98%
Return on Average Equity <sup>(2)</sup>	4.10%	7.07%	6.72%
Interest Coverage Ratio	163.93%	208.09%	189.11%
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 the three-month period from 1 January to 31 March 2023

## 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

It is our pleasure to present the financial performance of PRASAC Microfinance Institution Plc. in the Q1 of 2023, following the requirements of the Securities and Exchange Regulator of Cambodia (SERC).

In the first quarter of the year, Cambodia saw a strong economic recovery after returning to normalcy. According to the Asian Development Bank (ADB), Cambodia's economy is forecast to grow at 5.5% in 2023 and 6.0% in 2024 on a more robust tourism recovery and higher growth in the services sector. Growth in garments, footwear, and travel goods is projected to decelerate as demand weakens in the US and Europe. Yet industry continues to benefit from new trade agreements and policy reform that includes a new investment law to create a one-stop service organization for investors. Industrial output growth is expected to decelerate to 5.8% in 2023 before reaccelerating to 7.8% in 2024. Growth in construction—a key driver of growth before the pandemic—is expected to remain slow. Agriculture is forecast to grow by 1.1% this year and 1.2% in 2024, boosted by crop production for export.

To play its part in contributing to sustainable economic development, PRASAC actively continued disbursing new loans to customers for capital expenditure and working capital in their businesses. PRASAC also continued promoting savings habit among Cambodian people by introducing Digital Account that allows on-the-go customer to open an account via PRASAC Mobile Banking app instantly by him/herself without visiting any branch and without initial and minimum balance. Furthermore, we also increased the rate of Term Deposit Account up to 8.50% per annum to fulfill customers' needs and to motivate all clients to save at licensed institution.

For corporate governance, we were honored with two Letters of Appreciation, signed 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 4<sup>th</sup> Largest Taxpayer and 2<sup>nd</sup> Largest Tax on Income Payer respectively for 2022 and also for receiving Certificate of Tax Compliance “Gold” type from General Department of Taxation.

For corporate social responsibility (CSR), we sponsored the 8th National Reading Day, organized by MoEYS. Moreover, we continued our CSR flagship library project by building one more library in Tbong Khmum province, and inaugurated two library buildings—one in Banteay Meanchey province and another one in Takeo province—to promote the reading culture in Cambodia.

On financial performance side, PRASAC once again has demonstrated a strong growth on all main parameters, including the total assets, deposits and loans, profit as well as financial technology. We have learned a lot from the challenges of the past several years that made PRASAC become a strong and stable institution for 27 years of sustainable growth. As results of the end of Q1 of 2023, the total assets were USD 5.15 billion, growing 13.20% compared to same quarter of 2022. The deposit balance increased to USD 2.83 billion, and the gross loan portfolio amounted up to USD 4.53 billion. The shareholder's equity also grew and reached USD 891 million. The registered capital was USD 400 million in the reporting period.

These results are fuelled by the institution's successful implementation of its sound business strategy, the offer of tailored financial products and service to target customers with excellent customer service, sound risk management, strong internal control, and effective compliance and enforcement, delivered by all of our committed staff.

It's been 3 years since our corporate bonds issuance. We are proud to be 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, and are also proud to play the crucial role in developing the securities market and promotion of the Khmer Riel.

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

On behalf of the Board of Directors, I wish 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 (NBC), Securities and Exchange Regulator of Cambodia (SERC) and Cambodia Securities Exchange (CSX) for their continuous support and advice.

12 May 2023



**JUN Kwi Sang**  
Chairman

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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 institution 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 5.15 billion as of 31 March 2023, 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. QUARTER'S KEY EVENTS

- PRASAC inaugurated a new library building in Preah Netr Preah Primary and Secondary School in Kandal village, Preah Netr Preah commune, Preah Netr Preah district, Banteay Meanchey province, in the objective of enhancing education sector and instilling a reading culture.
- PRASAC had a library building constructed in Tuol Kandaol Primary and Secondary School Tbong Khmum in Tuol Kandaol village, Chikor commune, Tbong Khmum district, Tbong Khmum province.
- PRASAC has offered special interest rate of Term Deposit Account up to 8.50% per annum. PRASAC provides bonus rate on top of its standard interest rate of Term Deposit Account to fulfill customers' needs and to motivate all clients to save at licensed institution.
- PRASAC received certificate of appreciation sealed by Samdech Akka Moha Sena Padei Techo Hun Sen, Prime Minister of Cambodia, for the institution's commitment of tax obligation to the state and being named the 4<sup>th</sup> largest taxpayer and also for receiving Certificate of Tax Compliance "Gold" type for 2022 from General Department of Taxation.
- PRASAC sponsored gifts, namely Kindle e-readers and backpacks for students champions in the 8th National Reading Day, held under the theme, "Reading is the Way to Revolutionize Education"
- PRASAC held a handover ceremony of a library building to Kdol Chrum Primary and Secondary School in Kdol Chrum village, Kampong Krasang commune, Borei Chulsa district, Takeo province along Cambodia-Vietnam borders, in the objective of enhancing education sector and instilling a reading culture.
- During Q1 2023, PRASAC has entered into 6 bilateral deals for 1 to 3 years term with oversea and local lenders totaling of USD 157 million in which equivalent of USD 60 million are in local currency to support its lending activities.
- During Q1 2023, PRASAC signed 4 Deal Confirmation Letters in the amount of USD 220 million with Kookmin Bank Head Quarter for day-to-day operational support and liquidity.

## PART 2 - INFORMATION ON BUSINESS OPERATION PERFORMANCE

### A. BUSINESS OPERATION PERFORMANCE INCLUDING BUSINESS SEGMENTS INFORMATION

Key Achievement	March 2023	December 2022	December 2021
<b>Loan</b>			
Number of Borrowers	514,839	502,094	465,149
Total Gross Loans (in Million Riels)	18,358,129	17,909,301	15,270,812
<b>Deposit</b>			
Number of Depositors	744,905	713,811	660,976
Total Deposit (in Million Riels)	11,481,648	11,433,918	10,654,376
<b>Others</b>			
Operating Branches	182	182	182
Number of Staffs	9,911	9,573	9,330
Number of POS Terminals	434	440	505
Number of ATMs	162	163	141
Number of Active ATM Cards	56,809	54,669	53,454
Number of Active Mobile & Internet Banking	203,330	140,181	39,856

### B. REVENUE STRUCTURE

No.	Source of Revenue	Quarter 1 2023		Quarter 1 2022		Quarter 1 2021	
		Amount (in Million Riel)	(%)	Amount (in Million Riel)	(%)	Amount (in Million Riel)	(%)
1	Interest income	632,851	95.01%	571,854	95.99%	482,284	95.15%
2	Fees and commission income	10,988	1.65%	10,350	1.74%	8,824	1.74%
3	Other income	22,231	3.34%	13,552	2.27%	15,767	3.11%
<b>Total revenue</b>		<b>666,070</b>	<b>100%</b>	<b>595,756</b>	<b>100%</b>	<b>506,875</b>	<b>100%</b>

## PART 3 - FINANCIAL STATEMENTS REVIEWED BY THE EXTERNAL AUDITOR

Please refer to the annex for interim financial statement reviewed by the independent auditor.

## PART 4 - 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 March 2023, which is reviewed by PricewaterhouseCoopers (Cambodia) Ltd. (Independent Auditors). Financial Statement 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	Quarter 1 2023		Quarter 1 2022	
		Amount (in Million Riel)	Percentage (%)	Amount (in Million Riel)	Percentage (%)
1	Interest income	632,851	95.01%	571,854	95.99%
2	Fees and commission income	10,988	1.65%	10,350	1.74%
3	Other income	22,231	3.34%	13,552	2.27%
	<b>Total revenue</b>	<b>666,070</b>	<b>100%</b>	<b>595,756</b>	<b>100%</b>

Interest income is the main source for PRASAC to generate revenue. In the first quarter of 2023, interest income represents 95.01% of the total revenue while 99.87% of the total interest income generated from the loans from customer. Comparing to prior year with the same period, there is no much fluctuation movement of PRASAC's revenue by segment.

#### 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 is indicated in section 4. Profit / (loss) before tax analysis.

#### 4. PROFIT / (LOSS) BEFORE INCOME TAX ANALYSIS

Statement of Profit or Loss Before Income Tax	Quarter 1 2023 (in Million Riel)	Quarter 1 2022 (in Million Riel)	Variance (in Million Riel)	Variance (%)
Interest income	632,851	571,854	60,997	10.67%
Interest expense	(287,150)	(231,477)	(55,673)	24.05%
<b>Net interest income</b>	<b>345,701</b>	<b>340,377</b>	<b>5,324</b>	<b>1.56%</b>
Fees and commission income	10,988	10,350	638	6.16%
Fees and commission expense	(1,583)	(94)	(1,489)	1584.04%
<b>Net fees and commission income</b>	<b>9,405</b>	<b>10,256</b>	<b>(851)</b>	<b>-8.30%</b>
Other income	10,562	11,459	(897)	-7.83%
Grant income	-	546	(546)	-100.00%
Net foreign exchange gain/(loss)	11,669	1,547	10,122	654.30%
<b>Total other income</b>	<b>22,231</b>	<b>13,552</b>	<b>8,679</b>	<b>64.04%</b>
<b>Total interest, fees, commission and other income</b>	<b>377,337</b>	<b>364,185</b>	<b>13,152</b>	<b>3.61%</b>
Personnel expenses	(97,235)	(96,380)	(855)	0.89%
Allowance for impairment losses	(68,265)	4,087	(72,352)	-1770.30%
General and administrative expenses	(21,363)	(15,048)	(6,315)	41.97%
Depreciation and amortization	(6,907)	(6,639)	(268)	4.04%
<b>Profit before income tax</b>	<b>183,567</b>	<b>250,205</b>	<b>(66,638)</b>	<b>-26.63%</b>

In the first quarter of 2023, profit before income tax decreased by KHR 66,638 million equivalent to -26.63% compared to the same period in 2022. The reason of decreasing profit before income tax during this quarter is mainly comes from allowance for impairment losses which was higher than Q1 2022 around KHR 72,352 million equivalent to 1770.30%.

#### 5. PROFIT / (LOSS) AFTER INCOME TAX ANALYSIS

Statement of Profit or Loss After Income Tax	Quarter 1 2023 (in Million Riel)	Quarter 1 2022 (in Million Riel)	Variance (in Million Riel)	Variance (%)
Profit before income tax	183,567	250,205	(66,638)	-26.63%
Income tax expense	(37,202)	(49,545)	12,343	-24.91%
<b>Net profit for the period</b>	<b>146,365</b>	<b>200,660</b>	<b>(54,295)</b>	<b>-27.06%</b>

In the first quarter 2023, profit after income tax had decreased by KHR 54,295 million equivalent to -27.06% that caused the income tax expense also decreased. Although the result of net profit in Q1 2023 is lower than previous period, PRASAC has still achieved a good result with Return on Average

Assets of 0.72% and Return on Average Equity of 4.10% for three-month period of net profit from 1 January to 31 March 2023.

## 6. TOTAL COMPREHENSIVE INCOME / (LOSS) ANALYSIS

Statement of Comprehensive Income	Quarter 1 2023 (in Million Riel)	Quarter 1 2022 (in Million Riel)	Variance (in Million Riel)	Variance (%)
Net profit for the period	146,365	200,660	(54,295)	-27.06%
Translation difference	(54,564)	(16,826)	(37,738)	224.28%
<b>Total comprehensive income</b>	<b>91,801</b>	<b>183,834</b>	<b>(92,033)</b>	<b>-50.06%</b>

Other comprehensive income item consisting of 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 for the Q1 2023. 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 institution in Cambodia which provides 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 flexible 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 quarter 1 of 2023, PRASAC earned total revenue around KHR 666,070 million increased 11.80% compared to the same period in prior year. Net interest income increased from KHR 340,377 million to KHR 345,701 million, while gross loan portfolio increased 13.09%.

## 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 must display a clear linkage to client-related business.

#### Limit

Risk Measure	Limit
Aggregate Foreign Currency Position to Total Regulatory Capital	$\geq -20$ and $\leq 20\%$
Single Foreign Currency Position to Total Regulatory Capital	$\geq -20$ and $\leq 20\%$

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 March 2023 (in Million Riel or Percentage)	USD	KHR	THB	Total
Assets	18,477,048	2,370,796	10,616	20,858,460
Liabilities and capital	19,112,322	1,745,784	354	20,858,460
Off-balance sheet assets	689,383	104,400	-	793,783
Off-balance sheet liabilities	689,383	104,400	-	793,783
<b>(+) long / (-) short</b>	<b>(635,274)</b>	<b>625,012</b>	<b>10,262</b>	-
<b>Net open position / net worth %</b>	<b>-18.47%</b>	<b>18.17%</b>	<b>0.30%</b>	-
Limit %	N/A	N/A	± 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 March 2023 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	-	-	-	-	-	515,853	515,853
Balances with the NBC	41,148	21,211	20,872	-	162,160	1,712,405	1,957,796
Balances with other banks	13,170	-	60,202	-	-	9,803	82,455
Loans to customers	8,209	19,285	271,990	7,845,481	9,927,238	-	18,072,203
Other assets	-	-	-	-	-	4,645	4,645
<b>Total financial assets</b>	<b>62,527</b>	<b>40,496</b>	<b>353,064</b>	<b>7,845,481</b>	<b>10,089,398</b>	<b>2,241,986</b>	<b>20,632,952</b>
<b>Financial liabilities</b>							
Deposits from banks and other financial institutions	23,658	18,604	262,334	-	-	-	304,596
Deposits from customers	1,375,043	2,091,484	7,343,090	363,598	3,837	-	11,177,052
Borrowings	409,710	944,743	656,823	3,043,505	15,825	-	5,070,606
Bonds payable	131,218	-	-	-	-	-	131,218
Subordinated debts	-	12,462	-	353,969	-	-	366,431
Other liabilities	-	-	-	-	-	59,618	59,618
<b>Total financial liabilities</b>	<b>1,939,629</b>	<b>3,067,293</b>	<b>8,262,247</b>	<b>3,761,072</b>	<b>19,662</b>	<b>59,618</b>	<b>17,109,521</b>
<b>Maturity Gap</b>	<b>(1,877,102)</b>	<b>(3,026,797)</b>	<b>(7,909,183)</b>	<b>4,084,409</b>	<b>10,069,736</b>	<b>2,182,368</b>	<b>3,523,431</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>	<p><b>Using re-pricing gap analysis</b>, market rate scenarios of:</p> <p>+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</p> <p>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.</p>	≤ 25% of Recent Actual Net Interest Income
Forward Net Interest Income at Risk – <b>Simulation</b>	<p><b>Using simulation</b>, market rate scenarios of:</p> <p>+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</p> <p>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.</p>	≤ 25% of projected 12-months of forward Net Interest Income
Economic Capital at Risk - <b>Duration Gap</b>	<p>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:</p> <p>+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</p>	≤ 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.

### **D. IMPACT OF INFLATION**

- Inflation is very important for PRASAC because PRASAC typically deal normal financial instrument such as making loan about 86.64% of its total assets of which 11.75%, 0.06% and 88.19% 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).

### **E. 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)'s 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 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.
- 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.
- On 9 January 2023, the NBC announced, through Prakas No.B7-023-005, the increase of the Reserve Requirements Rate ("RRR") to 9% and 12.5% for foreign currencies deposits and borrowings, which is effective from 1 January 2023 to 31 December 2023, and from 1 January 2024 onward, respectively. While, the RRR for local currency deposits and borrowings will remain at 7%.
- The NBC issued a Letter No. B7.023.022 dated 9 January 2023 on re-implementation of conservation capital ratio on deposit taking institution shall fulfill conservation capital requirement 1.25% by 30 June 2023 2.5% by 31 December 2023. Countercyclical capital buffer requirement will remain 0% until future notice.

## PART 5 - OTHER NECESSARY INFORMATION FOR INVESTOR 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 Directors of the Listed Entity**

12 May 2023  
Seen and Agreed

A blue circular stamp of PRASAC Microfinance Institution PLC is overlaid with a handwritten signature in blue ink that reads "Jmks". The stamp contains the following text: "ក្រុមហ៊ុនមីក្រូហិរញ្ញវត្ថុ ប្រាសាក់ (ស.ក)", "កម្រិតសេវា: ប្រាសាក់មីក្រូហិរញ្ញវត្ថុ (ស.ក)", "PRASAC MICROFINANCE INSTITUTION PLC", and "PRASAC MFI PLC".

**Mr. JUN Kwi Sang**  
Chairman



**PRASAC MICROFINANCE INSTITUTION PLC.**

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Private Company