



THE SECOND QUARTERLY REPORT

30 JUNE 2020

PRASAC MICROFINANCE INSTITUTION PLC.

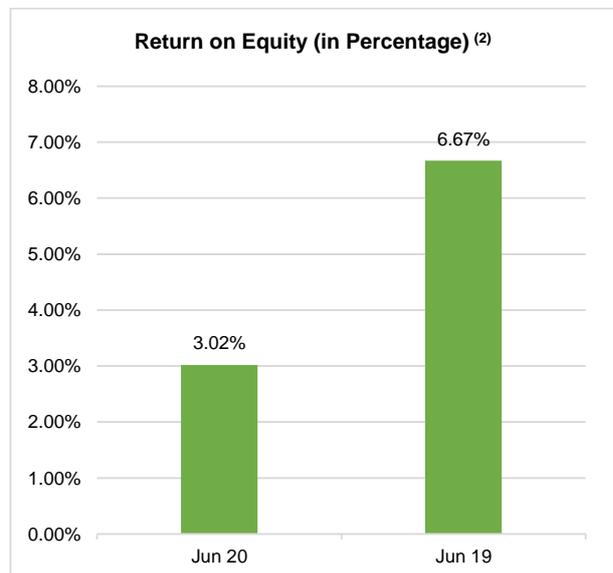
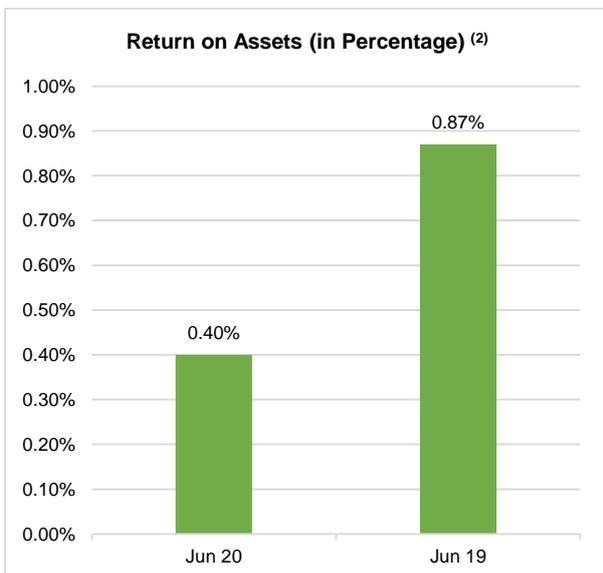
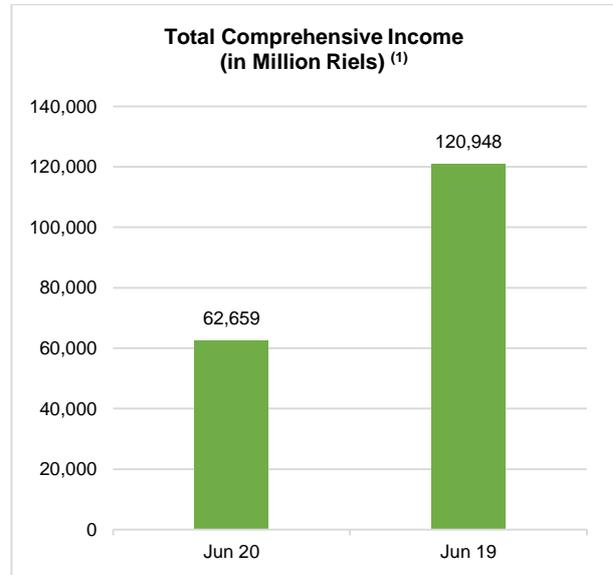
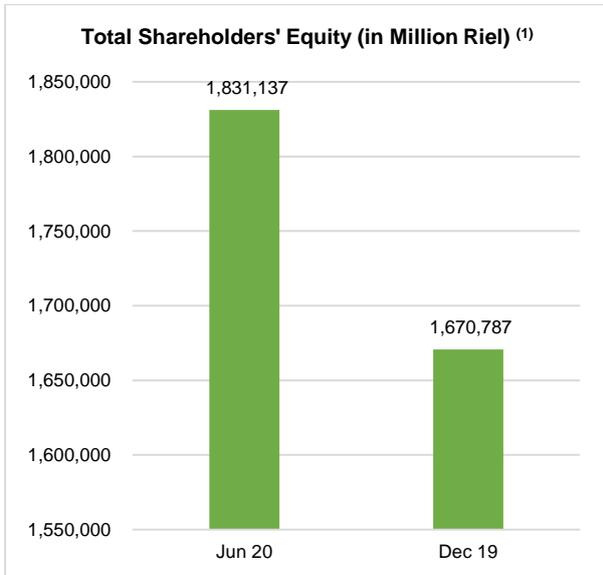
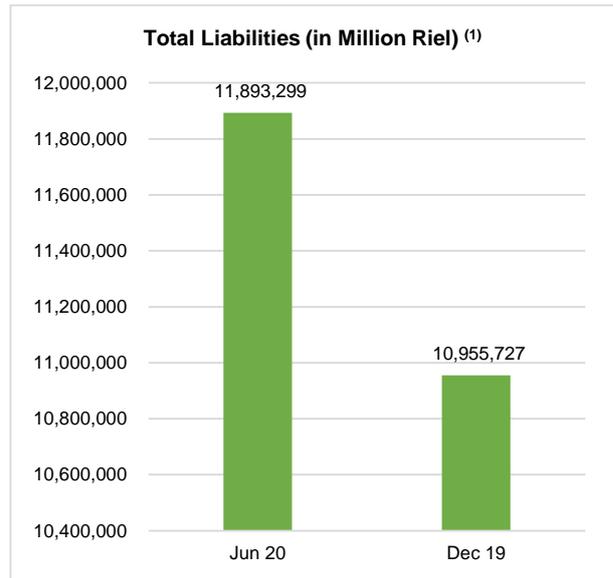
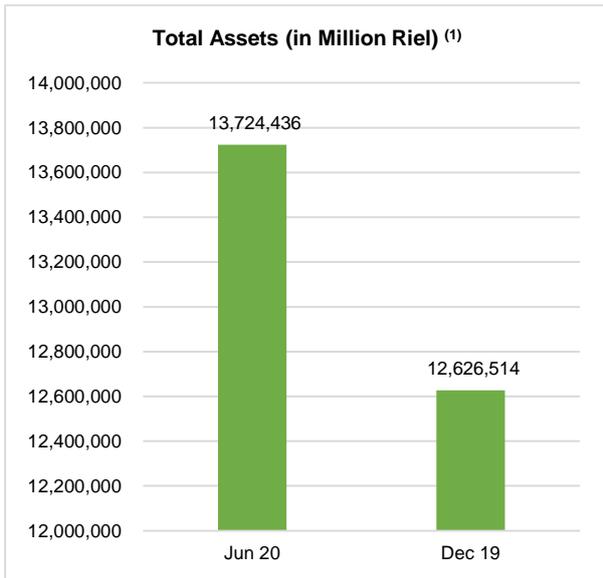
FINANCIAL HIGHLIGHT

Financial Position (in Million Riels)	Quarter 2 2020 ⁽¹⁾	December 2019 ⁽¹⁾
Total Assets	13,724,436	12,626,514
Total Liabilities	11,893,299	10,955,727
Total Shareholders' Equity	1,831,137	1,670,787
Profit/(Loss) (in Million Riels)	Quarter 2 2020 ⁽¹⁾	Quarter 2 2019 ⁽¹⁾
Total Revenues	431,513	384,723
Profit/(Loss) Before Tax	66,053	129,681
Profit/(Loss) After Tax	52,839	103,763
Total Comprehensive Income	62,659	120,948
Financial Ratios (for Banking and Financial Institutions)	Quarter 2 2020	December 2019
Solvency Ratio ⁽¹⁾	18.76%	20.26%
Debt to Equity Ratio ⁽¹⁾	649.50%	655.72%
Liquidity Ratio	331.07%	172.94%
Non-Performing Loans Ratio	0.49%	0.31%
Loan to Deposit Ratio	138.03%	139.85%
Financial Ratios (for Banking and Financial Institutions)	Quarter 2 2020	Quarter 2 2019
Return on Assets ⁽²⁾	0.40%	0.87%
Return on Equity ⁽²⁾	3.02%	6.67%
Interest Coverage Ratio ⁽²⁾	132.34%	177.86%
Earnings per Share (For equity listed entity)	N/A	N/A
Dividend per Share (For equity listed entity)	N/A	N/A
Other Important Ratios (If any)	N/A	N/A

⁽¹⁾ The figures in accordance with Cambodian International Financial Reporting Standards ("CIFRS")

⁽²⁾ The ratios were calculated by using net profit for the three-month period from 01 April to 30 June 2020

FINANCIAL SUMMARY CHARTS



BOARD OF DIRECTORS



Mr. Kwi Sang JUN
Chairman



Mr. Hwan Kook KIM
Independent Director



Mr. Hana LEE
Independent Director



Mr. Bell Sak Pheakdey
Independent Director



Mr. Ishara C. Nanayakkara
Director



Mr. Minki Brian HONG
Director



Mr. Sim Senacheert
Director



Mr. Hak Soo KIM
Director



Mr. Ji Kyu JANG
Director

MESSAGE FROM CHAIRMAN

It is our pleasure to present you with the financial performance of PRASAC Microfinance Institution Plc. in 2nd quarter of 2020 following the requirements of the Securities and Exchange Commission of Cambodia (SECC).

As part of the global response to the COVID-19 pandemic, we are facing big challenges and experiences on global economy lock-down, countries lock-down, continues to practice social/physical distancing and wear masks to prevent asymptomatic contamination around the world. All countries have started to re-open their economic, noting that we may experience a second wave of the virus because of the vaccines are underway to research and produce.

The global epidemiological and economic crisis unleashed by COVID-19 poses the greatest threat to Cambodia's development in its 30 years of modern history. The three most affected sectors, (i). Tourism, (ii). Manufacturing exports, and (iii). Construction that it contributed more than 70 percent of growth and 39.4 percent of total paid employment in 2019. Therefore, in the current year, Cambodia's economy is likely to register its slowest growth since 1994, contracting between -1 percent (baseline) and -2.9 percent (downside). Poverty could increase between 3 and 11 percentage points from a 50 percent income loss that lasts for six months for households engaged in tourism, wholesale and retail trade, garment, construction, or manufacturing. Cambodia is expected to experience its lowest growth rate since 1994. The COVID-19 shock, propagated through falling global demand, supply chain disruptions, and nationwide lockdowns, is hitting most of Cambodia's main drivers of growth hard. While real GDP growth was strong at 7.1 percent in 2019, it is projected to register a negative growth rate, ranging between -1.0 and -2.9 percent in 2020. At least 1.76 million jobs are currently at risk due to the COVID-19 outbreak.

The Royal Government of Cambodia (RGC) has been great effort to support the social, economy and particularly the financial sector which is considered the backbone of the national economy. That said, the National Bank of Cambodia (NBC) issued in March and on-going on directive in providing grace periods and loan repayment restructuring to businesses affected by COVID-19.

In line with our vision and to maintain financial stability, support economic activity and ease the burden of borrowers facing major revenue declines, PRASAC has fully adopted this circular.

Despite this time of uncertainty, PRASAC continued to grow in all key areas, including the total assets, deposits and loans, profit as well as financial technology. We managed to smoothly carry out the ownership transfer transition and successfully listed PRASAC Corporate Bond on the Cambodia Securities Exchange (CSX). The first bond issuance of PRASAC marks the single largest funds raising in the history of Cambodia's Stock Exchange market. PRASAC was able to raise additional funds of 127.2 billion riel (USD 31.8 million) through the corporate bond issuance for the public offering on the Cambodia Securities Exchange (CSX).

Although we are facing big challenges and experiences on global economy crises, we have delivered strong operation and financial performance and consistent long-term shareholders interest. We have learned a lot from the challenges of the past several years that made PRASAC becomes a strong and stable institution for more than 25 years of sustainable growth. As results of the end of quarter 2 of 2020, the total assets were USD 3,353 million, growing 19.97% compared to same quarter of 2019. The deposit balance increased to USD 1,931 million, and the gross loan portfolio amounted up to USD 2,665 million. The shareholder's equity also grew and reached USD 447 million in the reported period.

Although 2020 is an unprecedented challenging year, 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 Commission of Cambodia (SECC) and Cambodia Securities Exchange (CSX) for their continuous support and advice.

15 September 2020



Kwi Sang JUN
Chairman

CONTENTS

Financial Highlight.....	i
Financial Summary Charts	ii
Board of Directors.....	iii
Message from Chairman	iv
Part 1 - General Information of the Listed Entity.....	1
A. Identity of the Listed Entity.....	1
B. Nature of Business.....	1
C. Quarter's Key Events	2
Part 2 - Information on Business Operation Performance.....	3
A. Business Operation Performance Including Business Segments Information.....	3
B. Revenue Structure	3
Part 3 - Financial Statements Reviewed by the External Auditor	4
Part 4 - Management's Discussion and Analysis (MD&A).....	5
A. Overview of Operations.....	5
B. Significant Factors Affecting Profit.....	7
C. Material Changes in Sales and Revenue	8
D. Impact of Foreign Exchange, Interest Rates and Commodity Prices.....	8
E. Impact of Inflation.....	14
F. Economic, Fiscal and Monetary Policy of Royal Government.....	14
Part 5 - Other Necessary Information for Investor Protection.....	16
Signature of Directors of the Listed Entity.....	17

PART 1 - GENERAL INFORMATION OF THE LISTED ENTITY

A. IDENTITY OF THE LISTED ENTITY

Entity name in Khmer	គ្រឹះស្ថានមីក្រូហិរញ្ញវត្ថុប្រាសាក់ 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	www.prasac.com.kh
Email	info@prasac.com.kh
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 SECC	067/20SECC/SSR Date: 30 March 2020
Representative of the listed entity	Mr. Sim Senacheert

B. NATURE OF BUSINESS

PRASAC has a microfinance deposit taking license from the National Bank of Cambodia (NBC), and has operated for 25 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, EDC bill payment, PPWSA bill payment, tuition fee payment, cash-by-code, fund transfer, foreign exchange, phone top-up, Cambodian shared switch (CSS), fast payment, payment services via the Bakong system, real-time fund transfer, payroll, automated teller machine (ATM), cash deposit machine (CDM), mobile banking, internet banking, POS, bank confirmation and other services to target clients.

As a market leader with total assets of USD 3,353 million as of 30st June 2020, PRASAC operates the second largest branch network, with 180 branches across 86% of the total villages 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

- On the 10 April 2020, Kookmin Bank (KB) a leading commercial bank in South Korea has successfully acquired 70 percent of total share and became a new and largest majority of PRASAC shareholders.
- PRASAC changed its legal identity and brand name from PRASAC Microfinance Institution Limited "PRASAC MFI Ltd." to PRASAC Microfinance Institution Plc. "PRASAC MFI Plc." which was approved by the National Bank of Cambodia (NBC) and Ministry of Commerce (MoC).
- Despite the impact on the business environment and economy caused by the COVID-19 pandemic, PRASAC obtained securities listing certificate from Cambodia Securities Exchange (CSX). PRASAC was successful closed the Bond Issuance in Khmer Riel in the amount of KHR 127.2 billion (about USD 31.8 million), which is the largest capital raising through the capital market in Cambodia.
- In June 2020, PRASAC signed a 3 to 5 years syndication loan agreement in the amount of USD 95 million with a group of Banks led by TAISHIN INTERNATIONAL BANK CO., LTD. to support its lending activities.
- In June 2020, PRASAC signed a 7-years subordinated loan agreement in the amount of USD 50 million with KB Kookmin Bank, Hong Kong Branch to improve its' tier 2 capital.
- In June 2020, PRASAC signed a 3-years committed facility in the amount of USD 100 million with KB Kookmin Bank, Hong Kong Branch for day-to-day operational support and liquidity backup line.

PART 2 - INFORMATION ON BUSINESS OPERATION PERFORMANCE

A. BUSINESS OPERATION PERFORMANCE INCLUDING BUSINESS SEGMENTS INFORMATION

Key Achievement	Quarter 2 2020	December 2019
Loan		
Number of Borrowers	426,857	417,044
Total Gross Loans (in Million Riels) ⁽³⁾	10,909,853	10,192,782
Deposit		
Number of Depositors	621,743	600,204
Total Deposit (in Million Riels) ⁽³⁾	7,904,173	7,288,272
Others		
Operating Branches	180	180
Number of Staffs	9,382	9,091
Number of POS Terminals	513	509
Number of ATMs	138	135
Number of Active ATM Cards	58,309	57,834
Number of Active Mobile & Internet Banking	18,605	15,431

B. REVENUE STRUCTURE

Nr.	Source of Revenue	Quarter 2 2020 ⁽¹⁾		Quarter 2 2019 ⁽¹⁾	
		Amount (in Million Riel)	Percentage (%)	Amount (in Million Riel)	Percentage (%)
1	Interest Income	421,000	97.56%	371,049	96.45%
2	Fees and commission income	2,146	0.50%	898	0.23%
3	Other Income	8,367	1.94%	12,776	3.32%
Total Revenue		431,513	100%	384,723	100%

⁽³⁾ The figures in accordance with Cambodian Accounting Standards ("CAS")

PART 3 - FINANCIAL STATEMENTS REVIEWED BY THE EXTERNAL AUDITOR

Please refer to the Annex for Interim Financial Statement Review 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 30 June 2020, which is reviewed by EY (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

Nr.	Source of Revenue	Quarter 2 2020		Quarter 2 2019	
		Amount (in Million Riel)	Percentage (%)	Amount (in Million Riel)	Percentage (%)
1	Interest Income	421,000	97.56%	371,049	96.45%
2	Fees and commission income	2,146	0.50%	898	0.23%
3	Other Income	8,367	1.94%	12,776	3.32%
Total Revenue		431,513	100%	384,723	100%

Interest income is main source for PRASAC to generate revenue. In second quarter 2020, interest income represents 97.56% of total revenue while 99.93% of interest income is from loan to customers. Comparing to prior year with the same period, there is not much difference 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 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 2 2020 (in Million Riel)	Quarter 2 2019 (in Million Riel)	Variance (in Million Riel)	Variance (%)
Operating income				
Interest income	421,000	371,049	49,951	13.46%
Interest expense	(204,248)	(166,566)	(37,682)	22.62%
Net interest income	216,752	204,483	12,269	6.00%
Fees and commission income	2,146	898	1,248	138.98%
Fees and commission expense	(123)	(109)	(14)	12.84%
Net fees and commission income	2,023	789	1,234	156.40%
Other income	7,315	12,776	(5,461)	-42.74%
Grant income	1,052	-	1,052	100%
Total other income	8,367	12,776	(4,409)	-34.51%
Total operating, fees, commission and other income	227,142	218,048	9,094	4.17%
Personnel expenses	(64,491)	(59,523)	(4,968)	8.35%
Provisions for expected credit losses	(69,113)	(10,246)	(58,867)	574.54%
General and administrative expenses	(16,029)	(11,074)	(4,955)	44.74%
Depreciation and amortization	(6,605)	(6,001)	(604)	10.06%
Net foreign exchange loss	(4,851)	(1,523)	(3,328)	218.52%
Profit before income tax	66,053	129,681	(63,628)	-49.07%

In second quarter 2020, profit before income tax decreased KHR 63,628 million equivalent to -49.07% comparing to the same period in 2019. This declining amount of the profit this year is mainly due to the COVID-19 pandemic which globally harm all the economy of each and every country worldwide. As a result, PRASAC was also affected by the pandemic which led to increase the provision for expected credit losses to KHR 58,867 million with 574.54% growth compared to second quarter 2019.

5. PROFIT / (LOSS) AFTER INCOME TAX ANALYSIS

Statement of Profit or Loss After Income Tax	Quarter 2 2020 (in Million Riel)	Quarter 2 2019 (in Million Riel)	Variance (in Million Riel)	Variance (%)
Profit before income tax	66,053	129,681	(63,628)	-49.07%
Income tax expense	(13,214)	(25,918)	12,704	-49.02%
Net profit for the period	52,839	103,763	(50,924)	-49.08%

Tax on income is calculated on taxable profit on income rate 20%. As the profit before income tax decreased so income tax expense also decreased. The result of net profit in quarter 2 2020 was lower than previous period 49.08% due to the increasing of provision for expected credit losses during COVID-19 pandemic. However, PRASAC still achieved a good result with Return on Assets 0.40% and Return on Equity 3.02% for three-month period of net profit from 01 April to 30 June 2020.

6. TOTAL COMPREHENSIVE INCOME / (LOSS) ANALYSIS

Statement of Comprehensive Income	Quarter 2 2020 (in Million Riel)	Quarter 2 2019 (in Million Riel)	Variance (in Million Riel)	Variance (%)
Net profit for the period	52,839	103,763	(50,924)	-49.08%
Translation difference	9,820	17,185	(7,365)	-42.86%
Total comprehensive income	62,659	120,948	(58,289)	-48.19%

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.

7. FACTORS AND TRENDS ANALYSIS AFFECTING FINANCIAL CONDITIONS AND RESULTS

Below are the factors and challenges that have significant impact to financial conditions and results in quarter 2 2020:

- Slow down economic activities due to government restrictions during COVID-19 outbreak. Some of sectors are heavily impact for instance, tourism, garment, construction and transportation.
- More business shut down and workers loss jobs due to COVID-19 pandemic. About 400 garments, footwear and travel goods factories in Cambodia have suspended their operations, leaving over 150,000 workers jobless.
- NBC requires Banks and financial institution implementation loan restructure guideline in order to maintain banking system soundness and sustain economic activity during the impact of COVID-19 outbreak and especially to relief the pressure on borrowers who are facing sharp collapse in their income, and hence difficulty in repaying their obligations as they come due.
- NPL started increasing because the borrowers loss jobs, business shutdown, less income and savings and more borrowers requested to reschedule their loans.
- Difficult to grow loan portfolio because of no demands, less business activities, people are still afraid of Covid-19 infections.
- NGOs and former opposition leaders are campaigning and instigating people not to pay back loans and continuing fighting MFI sector.

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 diverse needs of its customers. PRASAC is investing heavily in FinTech and digitalization of services to increase accessibility, convenience, ease of use, and to allow customers to perform self-service banking anywhere at any time.

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. With current status of the coronavirus (COVID-19) outbreak, management will continuously pay close attention to the development of the COVID-19 outbreak in Cambodia and its impact to the Company’s operation.

C. MATERIAL CHANGES IN SALES AND REVENUE

In quarter 2 2020, PRASAC earned total revenue around KHR 431,513 million increased 12.16% compared to the same period in prior year. Net interest income increased from KHR 204,483 million to KHR 216,752 million while gross loan portfolio slightly increased 12.83%. Although, Cambodia’s economy affected by COVID-19 outbreak, PRASAC is still managed and operating in a good profitability.

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 30 June 2020 (in Million Riel or Percentage)	USD	KHR	THB	Total
Assets	11,851,239	1,727,396	145,801	13,724,436
Liabilities and capital	11,967,592	1,553,363	203,481	13,724,436
Off-balance sheet assets	1,015,269	400	-	1,015,669
Off-balance sheet liabilities	1,015,269	400	-	1,015,669
(+) long / (-) short	(116,353)	174,033	(57,680)	-
Net open position / net worth %	-5.74%	8.59%	-2.85%	-
Limit %	20%	20%	20%	-
Excess	N/A	N/A	N/A	-

2. INTEREST RATE

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 30 June 2020 in Million Riel	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest sensitive	Total
Financial assets							
Cash on hand	-	-	-	-	-	645,919	645,919
Balances with the NBC	859,530	914	-	605	-	639,592	1,500,641
Balances with other banks	781	-	-	-	-	8,164	8,945
Loans to customers	333,922	443,738	2,131,937	7,079,274	697,014	-	10,685,885
Other assets	-	-	-	-	-	1,468	1,468
Total financial assets	1,194,233	444,652	2,131,937	7,079,879	697,014	1,295,143	12,842,858
Financial liabilities							
Deposits from banks and other financial institutions	27,561	21,384	202,109	-	-	-	251,054
Deposits from customers	1,265,262	1,344,242	4,793,073	250,544	-	-	7,653,121
Borrowings	166,617	196,502	649,209	2,187,543	120	-	3,199,991
Subordinated debts	-	2,729	43,648	135,651	85,980	-	268,008
Debt securities issued	-	-	-	124,981	-	-	124,981
Other liabilities	-	-	-	-	-	282,152	282,152
Total financial liabilities	1,459,440	1,564,857	5,688,039	2,698,719	86,100	282,152	11,779,307
Maturity Gap	(265,207)	(1,120,205)	(3,556,102)	4,381,160	610,914	1,012,991	1,063,551

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 – Re-pricing Gap	<p>Using re-pricing gap analysis, 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.</p>	≤ 25% of Recent Actual Net Interest Income
Forward Net Interest Income at Risk – Simulation	<p>Using simulation, 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.</p>	≤ 25% of projected 12-months of forward Net Interest Income
Economic Capital at Risk - Duration Gap	<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: +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.

E. IMPACT OF INFLATION

- Inflation is very important for PRASAC because PRASAC typically deal normal financial instrument such as making loan about 80% of its total assets of which 12% and 88% is in Khmer Riel and United States Dollar respectively.
- Cambodia's economy recovered strongly in 2016-19 with real GDP growth of 7.0%, 7.0%, 7.5% and 7.0% p.a.
- 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 1.02% in 2019.
- Due to COVID-19 all GDP of Cambodia for 2020 will drop down to -1.6% (IMF April 2020).

F. ECONOMIC, FISCAL AND MONETARY POLICY OF ROYAL GOVERNMENT

- Government accumulates USD 400 million of savings for the use of Covid-19 emergency cases.
- 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.
- Appeal banks and MFIs to reschedule loans during this Covid-19 period.
- Existing loan: Reduce withholding tax of borrowing to 10% from April to December 2020. New loan: Reduce withholding tax of borrowing to 5% from April to December 2020, then 10% from January to December 2021. From 2022, previous withholding tax (WHT) will be applied.
- Delay in offering seniority payment to employees for year 2020.
- Cambodia reduces all expenses for 3 years (strategic plan for 2021-2023).
- Government prepared and gives USD 125 million to more than 600,000 poor and vulnerable families.
- The government adjusted quarantine measures and prepare special arrangements for potential investors, technical experts and consultants who come to the Kingdom.

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, ...)
- Delay the implementation of the Capital Conservation Buffer (CCB) requirement until next year.
- 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% for the next 6 months, starting from April.
- Reduce Liquidity Coverage Ratio (LCR) to appropriate level if it is necessary.
- Issued guideline on reschedule loans that impact from Covid-19, especially priority sectors.
- Encourage all institutions and clients to use digital financial services rather than use cheque or cash for payment.

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

15 September 2020
Seen and Agreed



Sim Senacheert
Director



Hak Soo KIM
Director



PRASAC MICROFINANCE INSTITUTION PLC.

Building N° 212, Street 271, Tuol Tumpung 2, Chamkarmon, Phnom Penh, Cambodia

Phone: +855 23 220 102 | Customer Service: +855 23 / 86 999 911 | Fax: +855 216 362 | P.O. Box: 2412

Email: info@prasac.com.kh | Website: www.prasac.com.kh | Incorporation Registration N°: 00001157

Private Company