



# THE FOURTH QUARTERLY REPORT

31 DECEMBER 2020

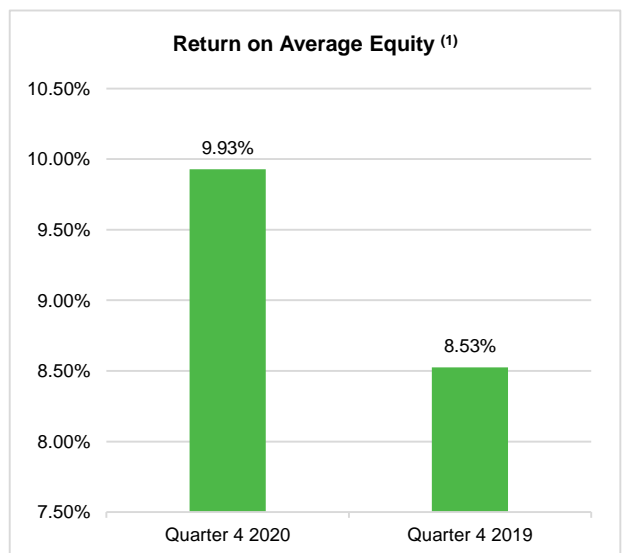
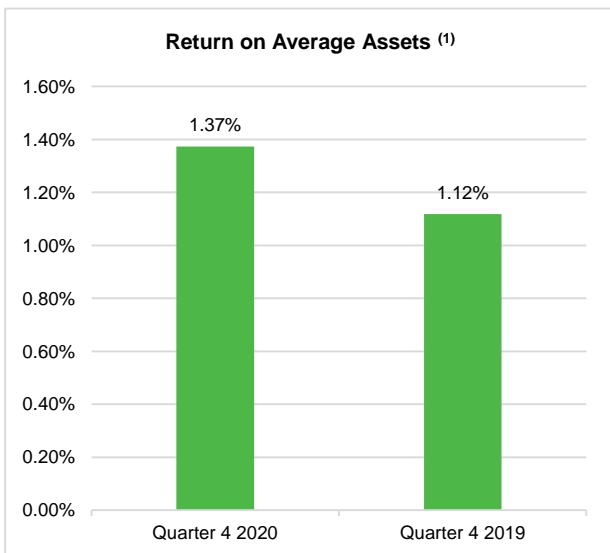
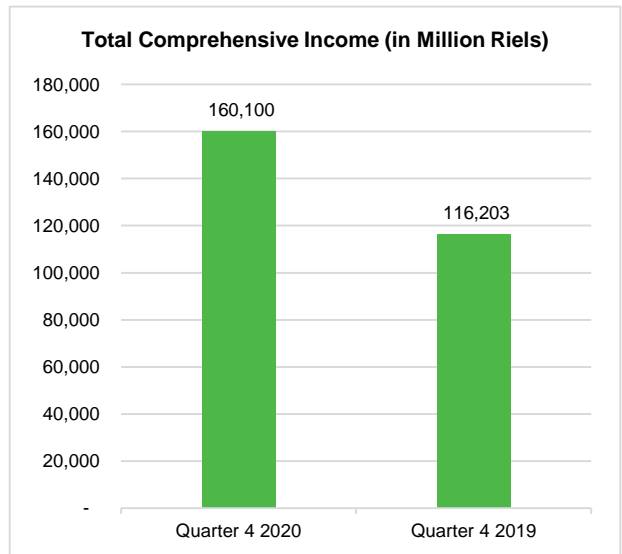
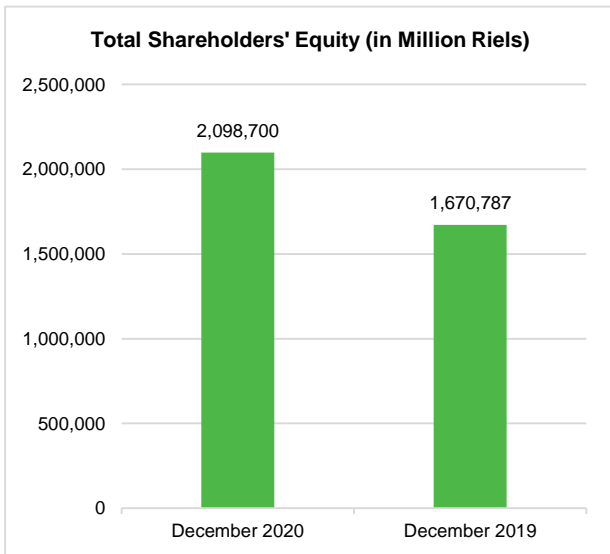
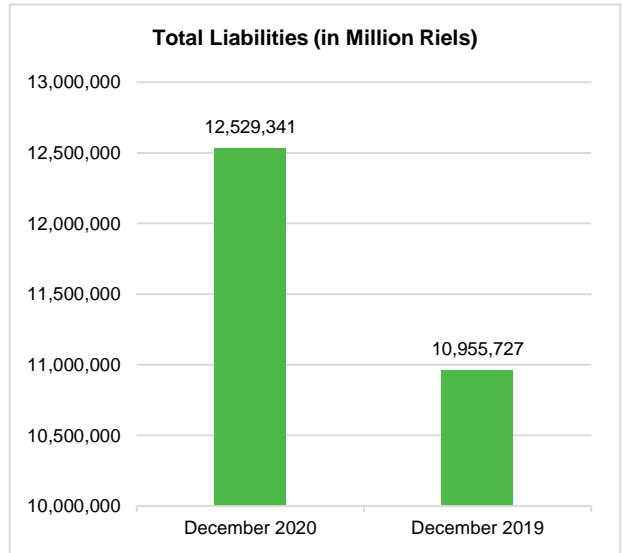
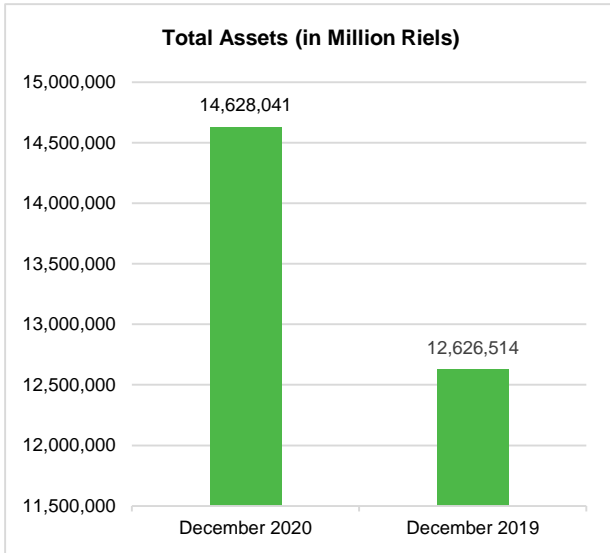
PRASAC MICROFINANCE INSTITUTION PLC.

## FINANCIAL HIGHLIGHT

Financial Position (in Million Riels)	December 2020	December 2019
Total Assets	14,628,041	12,626,514
Total Liabilities	12,529,341	10,955,727
Total Shareholders' Equity	2,098,700	1,670,787
Profit/(Loss) (in Million Riels)	Quarter 4 2020	Quarter 4 2019
Total Revenues	490,636	409,635
Profit/(Loss) Before Tax	230,918	154,692
Profit/(Loss) After Tax	187,140	123,714
Total Comprehensive Income	160,100	116,203
Financial Ratios (for Banking and Financial Institutions)	December 2020	December 2019
Solvency Ratio	18.91%	20.23%
Debt to Equity Ratio	597.00%	655.72%
Liquidity Coverage Ratio	232.78%	172.94%
Non-Performing Loans Ratio	1.37%	0.31%
Deposit to Loan Ratio	69.21%	72.46%
Financial Ratios (for Banking and Financial Institutions)	Quarter 4 2020	Quarter 4 2019
Return on Average Assets <sup>(1)</sup>	1.37%	1.12%
Return on Average Equity <sup>(1)</sup>	9.93%	8.53%
Interest Coverage Ratio	215.95%	190.92%
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

<sup>(1)</sup> The ratios were calculated by using net profit for the three-month period from 01 October to 31 December 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 quarter 4<sup>th</sup> of 2020 following the requirements of the Securities and Exchange Regulator of Cambodia (SERC, formerly 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, travel restriction, 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, release some travel restriction, noting that we may experience a second/third wave of the virus because of the vaccines are underway to produce and distribute. Some of countries are starting to shoot arm and some of countries are waiting delivery of vaccines, the timeframe of waiting and shooting arms of vaccines to all people around world will spend at least 6-12 months.

Over the past two decades, Cambodia has undergone a significant transition, reaching lower middle-income status in 2015 and aspiring to attain upper middle-income status by 2030. Driven by garment exports and tourism, Cambodia's economy has sustained an average growth rate of 8% between 1998 and 2018, making it one of the fastest-growing economies in the world. While easing slightly, growth remained strong, estimated to have reached 7.1% in 2019, after the better-than-expected growth rate of 7.5% in 2018.

The global shock triggered by the COVID-19 pandemic has significantly impacted Cambodia's economy in 2020 at a time when Cambodia also faces the partial suspension of preferential access to the EU market under the "Everything but Arms" initiative. The outbreak caused sharp deceleration in most of Cambodia's main engines of growth tourism, manufacturing exports, and construction which together account for more than 70% of the country's growth and almost 40% of paid employment. The economy in 2020 is projected to register negative growth of -2%, the sharpest decline in Cambodia's recent history. The COVID-19 outbreak and slow recovery in global economic activity, alongside prolonged financial market turmoil, poses risks to Cambodia's growth outlook.

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, 2020 and November 2020 and on-going on directive in providing grace periods and loan repayment restructuring to businesses affected by COVID-19.

As results by end of 2020, The financial industry's total assets were USD 3,616 million and grown around 16.71% compare with 2019, the total loans portfolios were USD 2,979 million and grown around 20.68% compares with 2019, while the total deposit balance were USD 2,061 million and grown around 15.25% compares with 2019.

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 31.18 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 4 of 2020, the total assets were USD 3,616 million, growing 16.71% compared to same quarter of 2019. The deposit balance increased to USD 2,061 million, and the gross loan portfolio amounted up to USD 2,979 million. The shareholder's equity also grew and reached USD 519 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. In next two year, PRASAC don't have any plan to make additional raising funds or IPO from CSX yet.

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 formerly SECC) and Cambodia Securities Exchange (CSX) for their continuous support and advice.

30 March 2021



**Kwi Sang JUN**  
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	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 SERC	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 3,616 million as of 31 December 2020, 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

- In December 2020, PRASAC signed a 3-years senior term loan facility in the amount of USD 150 million with KB Kookmin Bank, Hong Kong Branch for supporting its lending activities.
- PRASAC expanded electricity bill payment service of EDC Prey Veng, Tbong Khmum, Sihanoukville and Battambang.
- PRASAC donated KHR 200 million to Samdech Techo Hun Sen, Prime Minister of the Kingdom of Cambodia to rescue people affected by flood.
- PRASAC offered new and modern Interbank Payment Service “Bakong”, aiming in promoting the financial inclusion in Cambodia.
- PRASAC has launched water bill payment service for Thbong Khum province.
- PRASAC has opened another new branch in Siem Reap province called “Krong Angkor Branch” which is located along National Road 6, Kruos village, Sangkat Svay Dangkum, Krong Siem Reap, Siem Reap province.
- PRASAC has recently achieved a new milestone of deposit outstanding balance at USD 2 billion with 627,000 depositors.
- PRASAC has launched a campaign named “Contribute to Purchase Vaccines for Cambodia” to mobilize funds to purchase COVID-19 vaccines to save Cambodian lives.
- PRASAC donated of KHR 2,000,000,000 (Two Billion Riel) to the Royal Government of Cambodia (RGC) to purchase Covid-19 vaccines to vaccinate Cambodian people for free in the cause of protecting people’s lives and improving public health.

## PART 2 - INFORMATION ON BUSINESS OPERATION PERFORMANCE

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

Key Achievement	December 2020	December 2019
<b>Loan</b>		
Number of Borrowers	442,833	417,044
Total Gross Loans (in Million Riels)	12,048,356	10,058,019
<b>Deposit</b>		
Number of Depositors	627,188	600,204
Total Deposit (in Million Riels)	8,338,219	7,288,272
<b>Others</b>		
Operating Branches	182	180
Number of Staffs	9,042	9,091
Number of POS Terminals	514	509
Number of ATMs	141	135
Number of Active ATM Cards	56,060	57,834
Number of Active Mobile & Internet Banking	21,213	15,431

### B. REVENUE STRUCTURE

No.	Source of Revenue	Quarter 4 2020		Quarter 4 2019	
		Amount (in Million Riel)	Percentage (%)	Amount (in Million Riel)	Percentage (%)
1	Interest Income	469,477	95.69%	333,144	81.33%
2	Fees and commission income	9,438	1.92%	66,124	16.14%
3	Other Income	11,721	2.39%	10,367	2.53%
<b>Total Revenue</b>		<b>490,636</b>	<b>100%</b>	<b>409,635</b>	<b>100%</b>

## **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 31 December 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

No.	Source of Revenue	Quarter 4 2020		Quarter 4 2019	
		Amount (in Million Riel)	Percentage (%)	Amount (in Million Riel)	Percentage (%)
1	Interest Income	469,477	95.69%	333,144	81.33%
2	Fees and commission income	9,438	1.92%	66,124	16.14%
3	Other Income	11,721	2.39%	10,367	2.53%
	<b>Total Revenue</b>	<b>490,636</b>	<b>100%</b>	<b>409,635</b>	<b>100%</b>

Interest income is the main source for PRASAC to generate revenue. In fourth quarter 2020, interest income represents 95.69% of the total revenue while 99.98% of the total interest income generated from the loans from customer. As comparing by segment to the same period from previous year result, fees and commission income has decreased by KHR 56,685 million or -85.73% due to applying effective interest rate during the period 2020 in accordance with Cambodian International Financial Reporting Standard (CIFRS) while interest income has increased by KHR 136,333 million equivalent to 40.92% due to the strong growth of loans to customers in quarter 4<sup>th</sup> of 2020.

### 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 4 2020 (in Million Riel)	Quarter 4 2019 (in Million Riel)	Variance (in Million Riel)	Variance (%)
Interest income	469,477	333,144	136,333	40.92%
Interest expense	(199,147)	(170,144)	(29,003)	17.05%
<b>Net interest income</b>	<b>270,330</b>	<b>163,000</b>	<b>107,330</b>	<b>65.85%</b>
Fees and commission income	9,438	66,124	(56,685)	-85.73%
Fees and commission expense	(86)	(13,638)	13,552	-99.37%
<b>Net fees and commission income</b>	<b>9,352</b>	<b>52,486</b>	<b>(43,134)</b>	<b>-82.18%</b>
Other income	9,156	9,063	93	1.03%
Grant income	1,655	-	1,655	100%
Net foreign exchange gain	910	1,304	(394)	-30.21%
<b>Total other income</b>	<b>11,721</b>	<b>10,367</b>	<b>1,354</b>	<b>13.06%</b>
<b>Total interest, fees, commission and other income</b>	<b>291,403</b>	<b>225,853</b>	<b>65,550</b>	<b>29.02%</b>
Personnel expenses	(62,624)	(59,922)	(2,702)	4.51%
Provisions for expected credit losses	25,962	9,367	16,595	177.16%
General and administrative expenses	(16,990)	(14,058)	(2,932)	20.86%
Depreciation and amortization	(6,833)	(6,548)	(285)	4.35%
<b>Profit before income tax</b>	<b>230,918</b>	<b>154,692</b>	<b>76,226</b>	<b>49.28%</b>

In fourth quarter 2020, profit before income tax increasing by KHR 76,226 million equivalent to 49.28% compared to the same period in 2019. Although fees and commission income was significantly decreased for this quarter but interest income was higher than previous period around KHR 136,333 million equivalent to 40.92% which is the main to reason of rapid growth of profit before income tax. There is no much fluctuation for the movement of expenses besides the reversal of provisions for expected credit losses by KHR 16,595 million or 177.16% compared to quarter 4<sup>th</sup> 2019.

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

Statement of Profit or Loss After Income Tax	Quarter 4 2020 (in Million Riel)	Quarter 4 2019 (in Million Riel)	Variance (in Million Riel)	Variance (%)
Profit before income tax	230,918	154,692	76,226	49.28%
Income tax expense	(43,778)	(30,978)	(12,800)	41.32%
<b>Net profit for the period</b>	<b>187,140</b>	<b>123,714</b>	<b>63,426</b>	<b>51.27%</b>

In fourth quarter 2020, profit after income tax had an enormous increased by KHR 63,426 million equivalent to 51.27% that caused the tax on income also increased. Due to the result of net profit in quarter 4 2020, PRASAC has archived a great result with Return on Average Asset of 1.37% and Return on Average Equity of 9.93% for three-month period of net profit from 01 October to 31 December 2020.

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

Statement of Comprehensive Income	Quarter 4 2020 (in Million Riel)	Quarter 4 2019 (in Million Riel)	Variance (in Million Riel)	Variance (%)
Net profit for the period	187,140	123,714	63,426	51.27%
Translation difference	(27,040)	(7,511)	(19,529)	260.01%
<b>Total comprehensive income</b>	<b>160,100</b>	<b>116,203</b>	<b>43,897</b>	<b>37.78%</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.

## 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 fourth quarter 2020:

- No much impact on business from COVID-19 pandemic during the quarter.
- The Royal Government of Cambodia is working hard and has a good strategy for stopping transmission and slowing the spread of COVID-19 including case detection and rapid response, social/physical distancing, contact tracing and quarantine.
- Local business resumes as normal, clients start grow their business and need more fund.

## 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.

For good practice on tax compliance, PRASAC was awarded “GOLD” certificate of tax compliance from General Department of Taxation on 06 March 2020 with 2 years validity period for the year 2020 and 2021.

**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 4 2020, PRASAC earned total revenue around KHR 490,636 million increased 19.77% compared to the same period in prior year. Net interest income increased from KHR 163,000 million to KHR 270,330 million, while gross loan portfolio slightly increased 20.68%. Although, Cambodia’s economy affected by COVID-19 outbreak for the whole year, PRASAC is still managed and operating in a good profitability.

**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 2020 (in Million Riel or Percentage)	USD	KHR	THB	Total
Assets	12,722,746	1,798,436	106,859	14,628,041
Liabilities and capital	12,917,070	1,536,625	174,346	14,628,041
Off-balance sheet assets	404,702	400	-	405,102
Off-balance sheet liabilities	404,702	400	-	405,102
<b>(+) long / (-) short</b>	<b>(194,324)</b>	<b>261,811</b>	<b>(67,487)</b>	<b>-</b>
<b>Net open position / net worth %</b>	<b>-8.46%</b>	<b>11.40%</b>	<b>-2.94%</b>	<b>-</b>
Limit %	20%	20%	20%	-
<b>Excess</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>-</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 2020 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	-	-	-	-	-	649,538	649,538
Balances with the NBC	666,750	1,514	-	602	-	352,988	1,021,854
Balances with other banks	772	-	-	-	-	15,307	16,079
Loans to customers	355,101	511,748	2,158,844	7,706,867	1,315,796	-	12,048,356
Other assets	-	-	-	-	-	2,321	2,321
<b>Total financial assets</b>	<b>1,022,623</b>	<b>513,262</b>	<b>2,158,844</b>	<b>7,707,469</b>	<b>1,315,796</b>	<b>1,020,154</b>	<b>13,738,148</b>
<b>Financial liabilities</b>							
Deposits from banks and other financial institutions	11,873	44,535	89,799	-	-	-	146,207
Deposits from customers	1,419,119	1,477,894	5,025,281	269,718	-	-	8,192,012
Borrowings	83,149	112,400	986,982	2,006,441	4,044	-	3,193,016
Subordinated debts	4,047	6,745	35,061	251,849	157,162	-	454,864
Bonds payable	-	-	-	122,368	-	-	122,368
Other liabilities	-	-	-	-	-	253,119	253,119
<b>Total financial liabilities</b>	<b>1,518,188</b>	<b>1,641,574</b>	<b>6,137,123</b>	<b>2,650,376</b>	<b>161,206</b>	<b>253,119</b>	<b>12,361,586</b>
<b>Maturity Gap</b>	<b>(495,565)</b>	<b>(1,128,312)</b>	<b>(3,978,279)</b>	<b>5,057,093</b>	<b>1,154,590</b>	<b>767,035</b>	<b>1,377,562</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 82.36% of its total assets of which 12.15%, 0.78% and 87.06% is in Khmer Riel, Bath Thai 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).

### **E. 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.
- To stabilize Khmer Riel exchange rate, National Bank of Cambodia had sold USD 4 times in October and November 2020 with total amount of USD 100 million.

## 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**

30 March 2021  
Seen and Agreed

A handwritten signature in blue ink, appearing to be 'Sim Senacheert', with a long horizontal stroke extending to the right.

**Mr. Sim Senacheert**  
Director

A handwritten signature in blue ink, appearing to be 'M3h', with a stylized 'M' and 'h'.

**Mr. Minki Brian HONG**  
Director





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Private Company