

Kingdom of Cambodia
Nation Religion King

National Bank of Cambodia
No. NBC/B700/46
February 16, 2000

Prakas
on Banks' Solvency Ratio

The Governor of the National Bank of Cambodia

- Referring to the 1993 Constitution of the Kingdom of Cambodia;
- Referring to Kram No. NS/RKM/0196/27 of January 26, 1996 promulgating the Law on the Organization and Functioning of the National Bank of Cambodia;
- Referring to Kram No. NS/RKM/1199/13 of November 18, 1999 promulgating the Law on Banking and Financial Institutions;
- Referring to Kret No. CS/RKM/0398/85 of March 10, 1998 on the appointment of H.E. Chea Chanto as Governor of the National Bank of Cambodia;
- Pursuant to the request of the Banking Supervision Department of the National Bank of Cambodia.

IT IS HEREBY DECIDED

Article 1: Banks shall at all times observe a solvency ratio in accordance with the provisions of this Prakas. This solvency ratio of their net worth to their aggregate credit risk exposure shall not be less than 20 percent.

Article 2: The numerator of the ratio shall be the net worth calculated in accordance with the provisions of the Prakas on the calculation of the bank's net worth.

Article 3:

3.1. The denominator of the ratio shall comprise the aggregate of the assets (net amount after deduction of provision and depreciation) and off balance sheet items, weighted to their degree of credit risk. It excludes the items which are deducted in calculating the net worth according to the provisions of the Prakas on the calculation of the bank's net worth.

3.2. The following weightings shall apply to assets:

3.2.1. Zero weighting:

- Cash;
- Gold;
- Claims on NBC;
- Assets collateralized by deposits lodged with the bank;
- Claims on sovereigns rated AAA to AA- under the methodology used by Standard and Poor's Corporation.

3.2.2. 20 percent weighting:

- Claims on sovereigns rated A- to A- under the methodology used by Standard and Poor's Corporation;
- Claims on banks rated AAA to AA- under the methodology used by Standard and Poor's Corporation.

- 3.2.3. 50 percent weighting:
- Claims on sovereigns rated BBB+ to BBB- under the methodology used by Standard and Poor's Corporation;
 - Claims on banks rated A+ to A- under the methodology used by Standard and Poor's Corporation.

- 3.2.4. 100 percent weighting:
- All other assets.

3.3. The following provisions shall apply to off balance sheet items:

3.3.1 Off-balance sheet items shall be classified in four categories in accordance with the list given in the Annex.

These items shall be taken into account:

- at their full value where they are classified as carrying a full-risk;
- at 50 percent of their value where they are classified as carrying medium risk;
- at 20 percent of their value where they are classified as carrying moderate risk.

Items classified as carrying low risk shall not be taken into account.

3.3.2. The amounts thus determined shall be multiplied by the weightings laid down in Paragraph 3.2 that are applicable to the category to which the beneficiary or asset concerned belongs. However:

- in the case of commitments covered by a guarantee provided by a third party, the weightings shall be those applicable to the guarantor or the guarantee;
- in the case of guarantees given to another bank in connection with the repayment of claims held by the latter, the weighting shall be those applicable to these claims.

Article 4: Banks must declare their solvency ratio as at 30 June and 31 December of each year. The NBC may, in addition, ask any bank to calculate its solvency ratio on other dates specified by the NBC in the light of the requirements of supervision. The NBC shall determine by circular the format in which the items for calculating the ratio must be declared.

The characteristics of the items to which the weightings laid down in Article 3 are applied shall be specified, as necessary, by the NBC.

The NBC may object to a given weighting being applied to an asset or off balance sheet item if it considers that that item does not satisfactorily meet the conditions in force.

Article 5: The NBC reminds that weak or inadequate accounting policies undermine the usefulness of capital requirements by causing overstated or unreliable solvency ratios. Therefore the NBC attaches great importance to implementation of sound accounting and valuation practices and especially to the accurate classification and provisioning of assets in accordance with provisions of Prakas on the classification and the provisioning of bad and doubtful debts, including interests in suspense.

Article 6: All provisions contrary to those of this Prakas are hereby repealed.

Article 7: The General Director, the General Secretariat, the General Cashier, the General Inspection, all NBC departments, and all banking and financial institutions under the NBC supervisory authority shall be responsible for the enforcement of this Prakas.

Article 8: This Prakas shall enter into force from the date of its signature.

Phnom Penh, February 16, 2000
The Governor

Chea Chanto

cc:

- All members of the Board of Directors
- Parties concerned as stated in article 7
- to File
- Council of Ministers "for information"
- Administration Department of Council of Ministers "for publication in the Official Gazette"