



**NATIONAL BANK OF CAMBODIA**

**Riel. Stability. Development.**

# Banking Supervision

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Phnom Penh, Cambodia

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The views expressed in this presentation are those of the author and do not necessarily represent the views of the NBC.

# Contents

- Overview
- Off-Site Banking Supervision
- On-Site Banking Supervision
- Selected Prudential Regulations
- Concluding Statement





# Overview



## National Bank of Cambodia

- Commercial Banks
- Specialized Banks
- Microfinance institutions (MDIs & MFIs)
- Financial leasing Companies
- Payment system
- Money and interbank market



## Ministry of Economy and Finance

- Insurance industry
- Casino
- Pension funds
- Real estate market
- Pawnshop



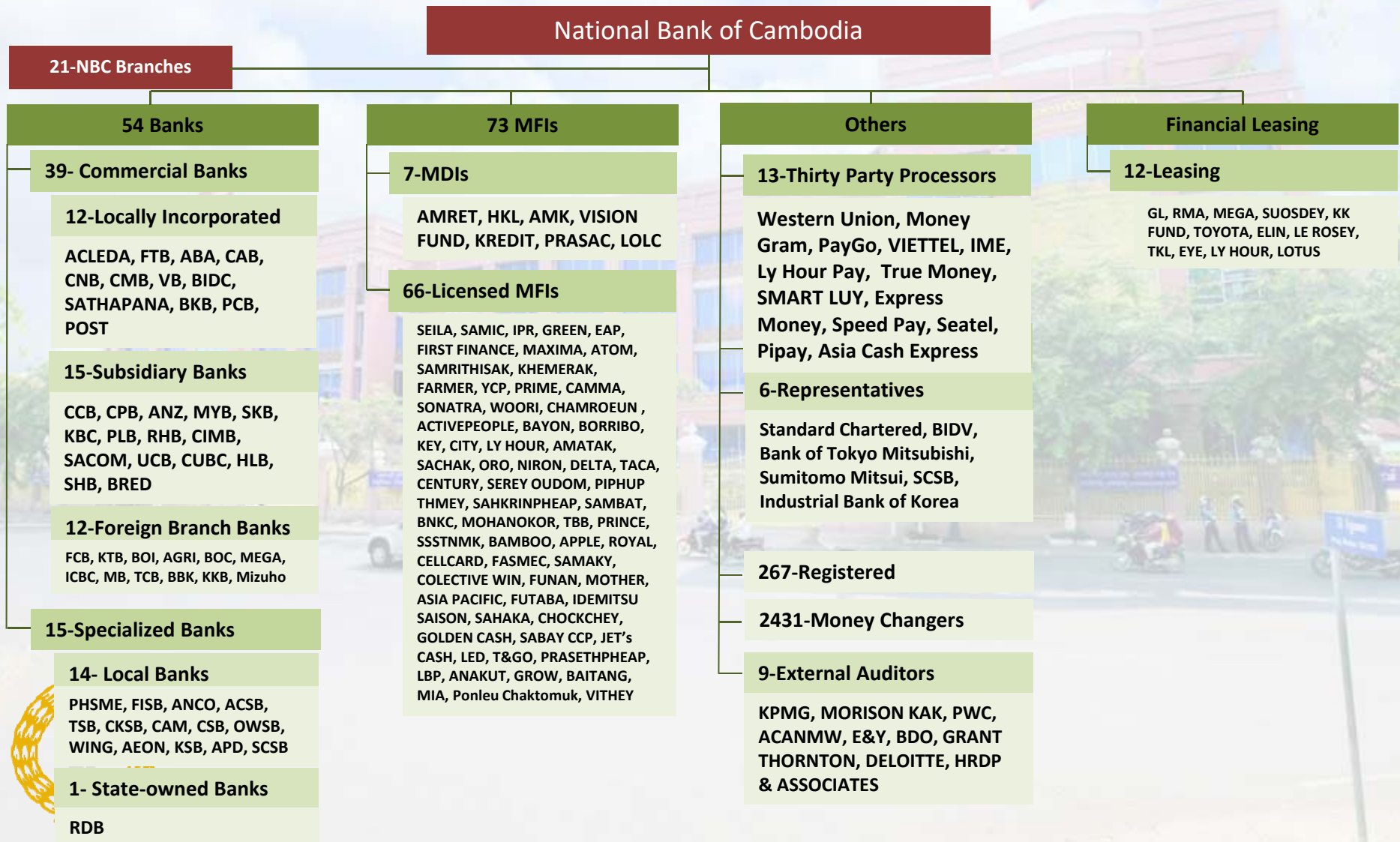
## Securities and Exchange Commission of Cambodia

- Capital market
- Future market



# Banking System in Cambodia

As June 2017

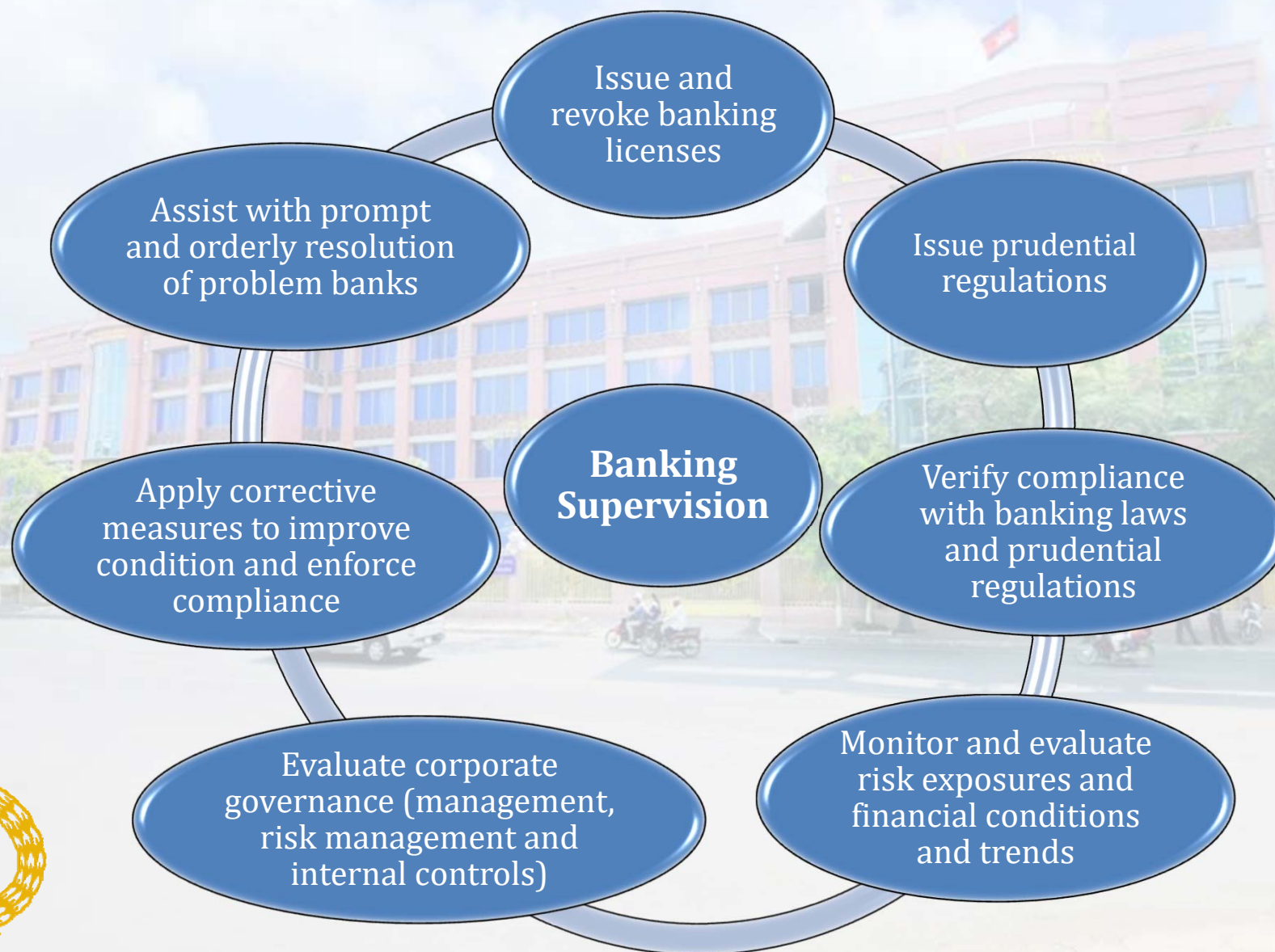


# Goals of Banking Supervision





# Foundations of Banking Supervision



## Factors influencing supervision

Factors influencing supervision frequency, intensity, prioritization and scope:

- Size of bank
- Systemic importance of bank
- Presence of elevated risk
- Adverse trends detected from offsite analysis
- “Red flags” such as an unexpected change in management, material change in strategy or business model
- Previous rating accorded to the BFI





# NBC's main mission, functions and duties

## Principal mission

**Art. 3-** The principal mission of the Central Bank is to determine and direct the monetary policy aimed at maintaining price stability in order to facilitate economic development within the framework of the Kingdom's economic and financial policy.

## Functions and duties

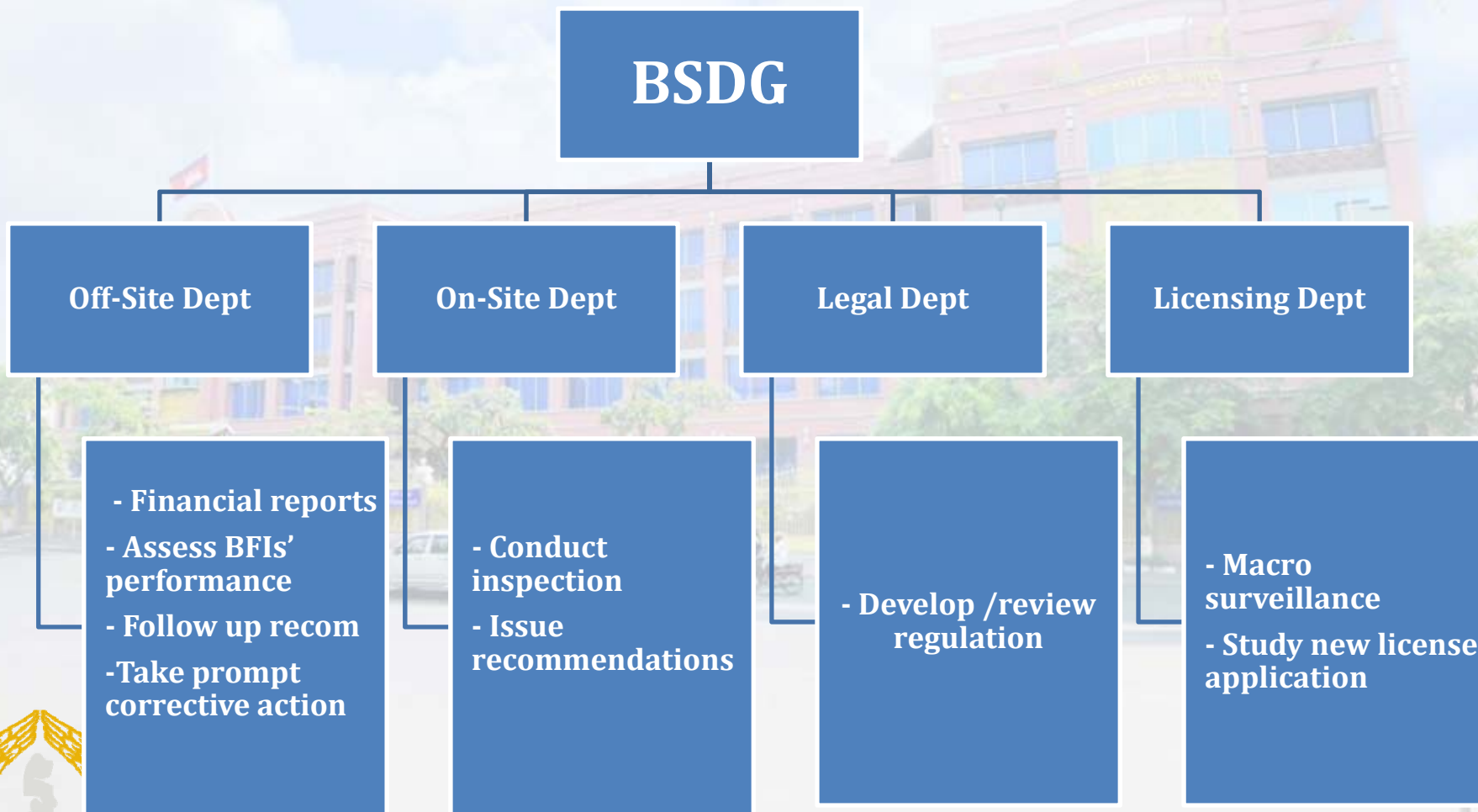
'Determine and direct monetary policy aimed at maintaining price stability in order to facilitate economic development within the framework of the economy and financial policy'.

Mission achieved through maintaining the value of the domestic currency and external reserves, pursuing appropriate exchange rate policies and **safeguarding the integrity of the financial sector.**

**Article 33.** The Central bank shall be exclusively responsible for the licensing, delicensing and supervision of banks and financial institutions subject to the banking law and the supervision of other institutions



# Structure of Banking Supervision Directorate General



# Regulatory and supervisory framework

## Entry Criteria

- ❖ Ability to screen access to ownership and management
  - fit and proper tests
  - assessment of wider group structure
- ❖ Minimum capital funds
- ❖ Reasonable business plans and projections
- ❖ Consultations with home supervisors
- ❖ Power to review (and reject) transfer of significant ownership or controlling interests

## On-Going Supervision

### Governance Standards & Risk Management

- Guidance on sound governance and internal control practices and fit and proper requirements
- Generally includes oversight, roles of BODs, business management and controls and audit functions of institutions
- Guidance on good practices to ensure sound and prudent credit policies and risks are well-managed
- Generally, covers the prudential credit policies, procedures, authorities, documentations, and risk management policies and procedures.

### Capital Adequacy

- Minimum capital requirement for risk exposures assumed by institutions

### Reporting and Disclosure

- Minimum reporting and disclosure requirements to promote transparency and facilitate supervisory surveillance.

### Prudential Limits

- Specific limits imposed on BFIs to prevent them from undertaking excessive risks
- Can be specific to certain activities, counterparties, sectors etc.
  - Solvency ratio 15%
  - Liquidity ratio (LCR) 100%
  - Reserve requirements: 8% KHR, 12.5%USD
  - Large exposure limit : 10%
  - Related parties limit : 10%
  - Fixed asset ratio : 30%
  - Asset classification ...



# Banking supervision framework

Objectives:  
Safety and Soundness

On-Going Supervision of Banking and Financial Institutions

Timely and Accurate Risk  
Assessment of BFIs

Off-Site  
Supervision

On-Site  
Supervision

Special audits, meetings,....

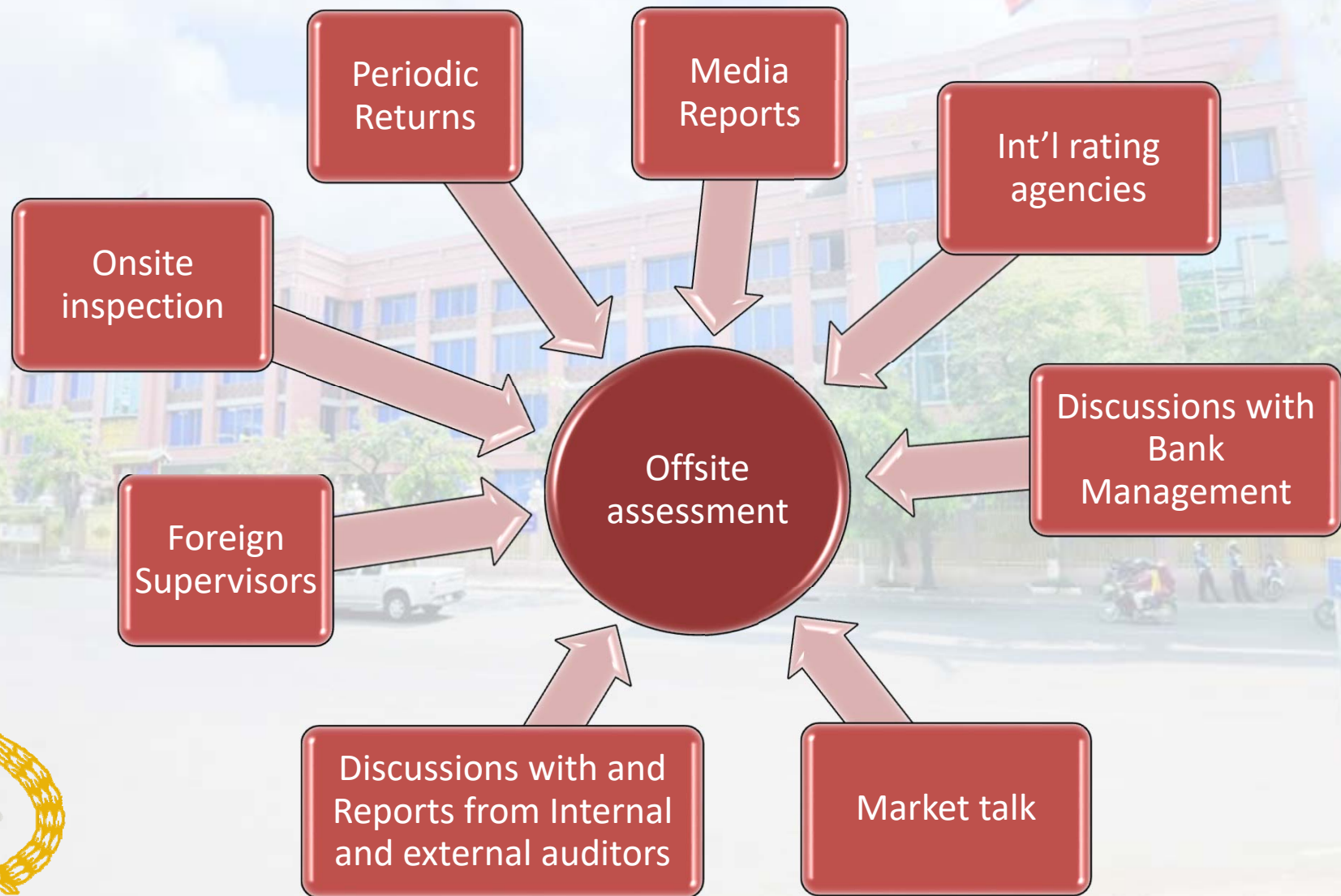
Macro-Surveillance

Supervisory plan and  
intensity for each BFI

Supervisory  
Strategy



# Off-Site Assessment



# Off-site Surveillance System

## ➤ Overview of Off-site Surveillance System

- Early warning on potential weaknesses of banks
- Check compliances with law and regulations
- Incorporate data from bank general ledger, according to the Uniformed Chart of Account
- Prepare on-site inspections
- Follow up the on-site inspection's recommendations
- Enforcement through PCA and disciplinary sanctions.

## ➤ The Bank Performance Report (BPR)

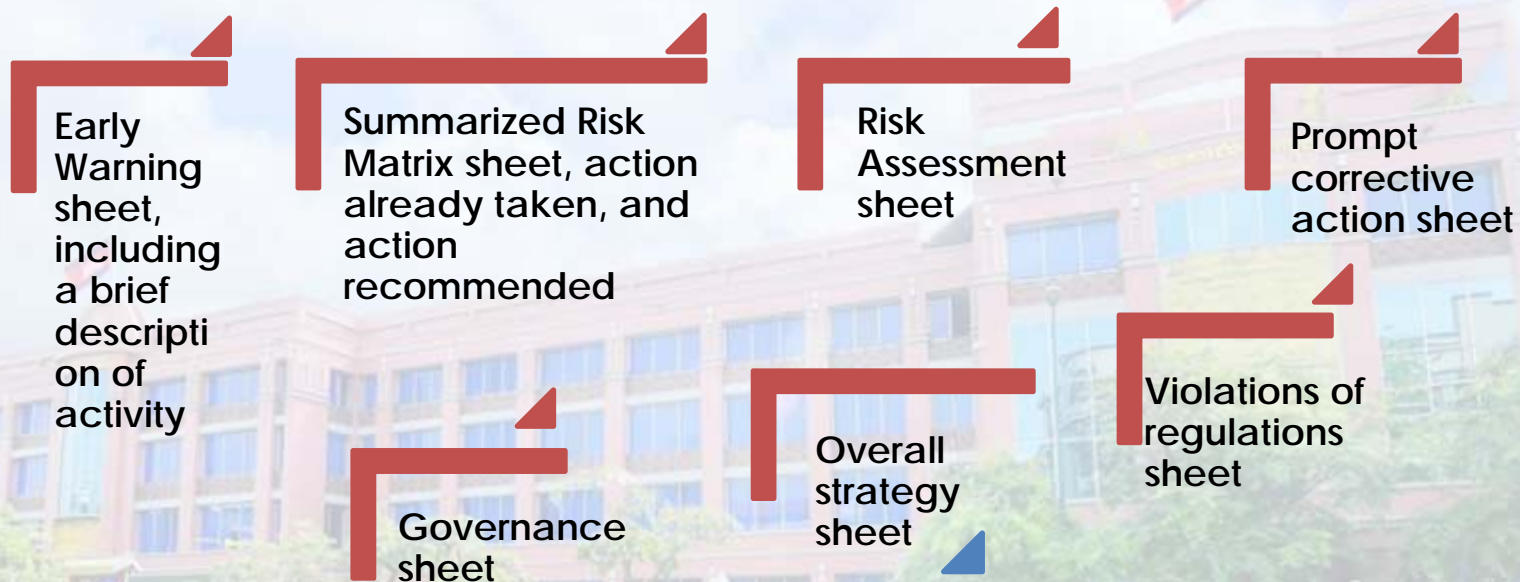
## ➤ Other reporting from banks

## ➤ Off-Site Supervisory Strategy (OSS)





# The OSS Format: 7 Sheets

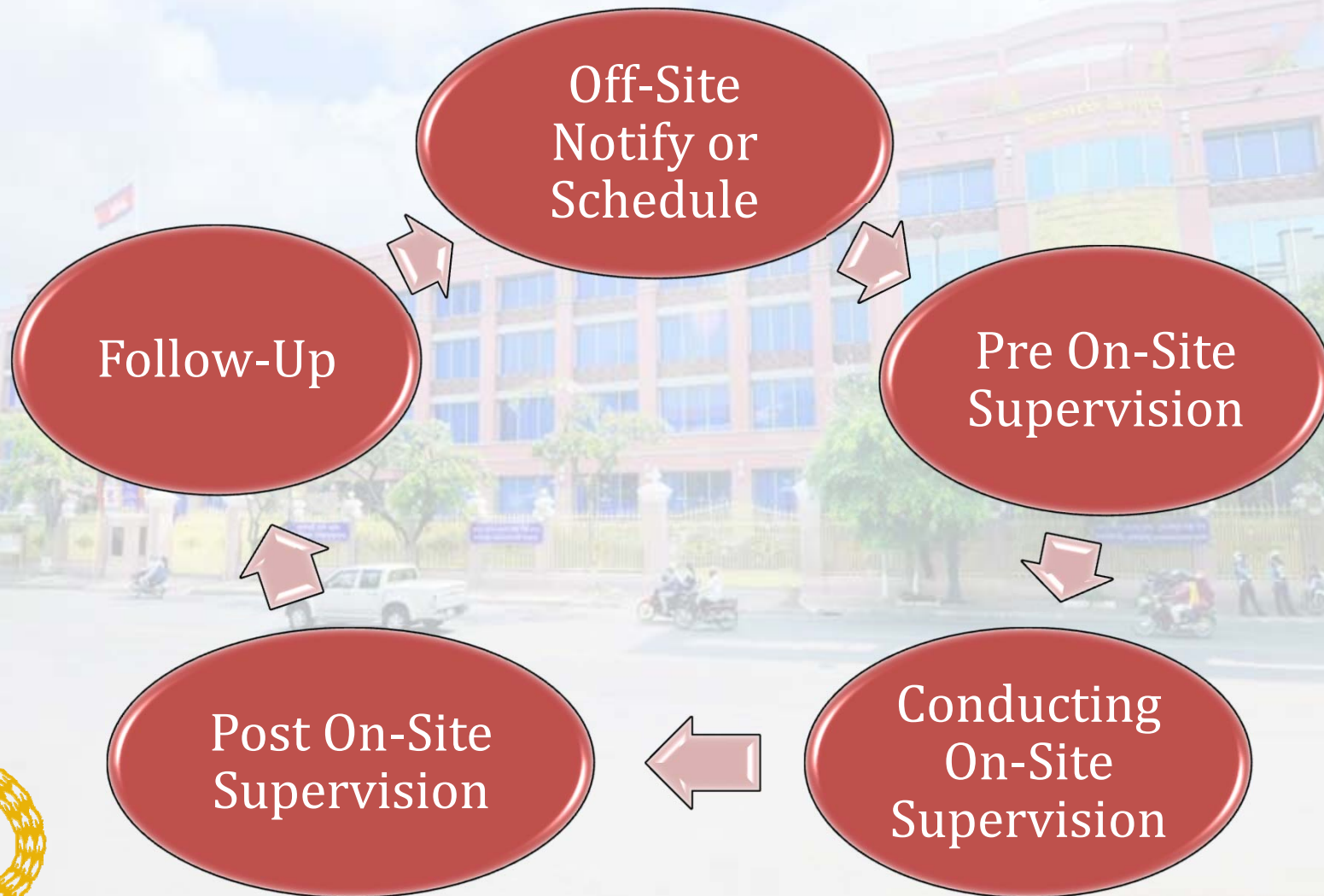


❑ There are 43 financial soundness indicators (Prakas B7-7-04-204 Pro Kor):

- ❖ **Capital:** 9 ratios
- ❖ **Asset Quality:** 16 ratios
- ❖ **Earnings:** 13 ratios
- ❖ **Liquidity:** 5 ratios



# On-Site Supervision



# On-Site Supervision

## ▪ On-Site Supervisory Cycles

- 12 months (Large and complex as well as systemic BFIs)
- 18 months (Medium size)
- 24 months (Small size)
- More frequent as needed

## ▪ Scope

- Full scope
- Target
- Special

## ▪ On-site examination

- EIC take the overall responsibility
- EIC should inform Director immediately of any major finding, violation or operational issues
- EIC consolidate findings and recommendations as well as draft the report of the examination
- EIC may report findings and recommendations to committee if needed.

## ▪ Pre on-site examination

- Inform the bank and gather necessary information and data
- Meet with off-site supervisor
- Appoint Examiner In Charge (EIC)
- EIC prepare scope of examination, time frame, objective of examination, preliminary assessment, risks issue of concern
- Allocate resource





# Selected Prudential Regulations

## 1. Bank's Net Worth

- Paid-in capital shall be equal or superior to the applying minimum capital requirement;
- All regulatory ratios and limits referring to “Net Worth” shall be calculated in full accordance with the calculation rules;
- **Total Net Worth consists of two separate components :**
  - **Tier 1 capital (Core capital)**
  - **Tier 2 capital (Supplementary capital)**
- Tier 2 capital shall not exceed 100 % of Tier 1 capital or not more than 50 % of total net worth.



# Selected Prudential Regulations

## 2. Minimum Capital

CB

- Locally incorporated 300,000,000,000 (three hundred bln KHR)
- Foreign branch (H.O has investment grade) 200,000,000,000 (two hundred bln KHR)

SB

- Locally incorporated 60,000,000,000 (sixty bln KHR)

MDI

- 120,000,000,000 (one hundred and twenty bln KHR)

MFI

- 6,000,000,000 (six bln KHR)

Leasing

- 200,000,000 (two hundred mln KHR)

# Selected Prudential Regulations

## 3. Solvency Ratio (CAR)

- The prudential rule to measure the adequacy of bank's capital to absorb loss
- Solvency ratio the bank's net worth to aggregate credit risk exposure shall not be less than 15% at all times.

$$\frac{\text{NetWorth}}{\text{RiskWeigh edAssets}} \geq 15 \%$$





# Selected Prudential Regulations

## 4. Liquidity Coverage Ratio (LCR)

- Promoting short-term resilience of each BFI's liquidity risk profile
- BFI shall, at all time, maintain its LCR of at least 100%.

With effect from	1 Sept 2016	1 Sept 2016	1 Sept 2016	1 Jun 2019	1 Jan 2020
Mini LCR	60%	70%	80%	90%	100%



$$\text{LCR} = \frac{\text{Stock of eligible liquid assets}}{\text{Net cash outflows within 30 days}} \geq 100\%$$

# Selected Prudential Regulations

## 5. Assets Classification

Type	Past due	Type of provision	% of provision required
Normal		General	1% of gross loans
Special Mention	>30 days but < 90 days	Specific	3% of gross loans
Substandard	> 90 days but < 180 days	Specific	20% of gross loans
Doubtful	> 180 days but < 360 days	Specific	50% of gross loans
Loss	> 360 days	Specific	100% of gross loans

# Selected Prudential Regulations

## 6. Fixed Assets

- Fixed assets can be acquired by banks only in two cases:
  - ❖ either they are directly used for operating the bank
  - ❖ or, though not used for operating the bank, they become its property by legal enforcement of a guarantee and help reducing the exposure on bad loans.
- Fixed assets with no direct link to operating the bank shall be sold no later than one year after the date they become the property of the bank.
- Fixed assets acquired by banks for operational purpose shall remain inferior to **30% of total net worth.**

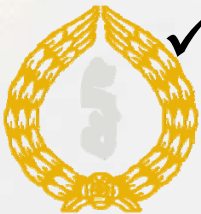




# Selected Prudential Regulations

## 7. Loans to related parties

- Related parties of BFIs are defined as follow:
  - ✓ any person holding directly or indirectly at least 10% of the capital or voting rights,
  - ✓ any company of which the covered entity directly or indirectly holds at least 10% of the capital or voting rights,
  - ✓ any individual who participates in the administration, direction, management, or internal control
  - ✓ and the external auditors.
- ✓ Loans to related parties **cannot exceed 10% of NW.**



# Selected Prudential Regulations

## 8. Loans Large Exposure

- Large exposure is defined as the overall gross exposure resulting from BFI's operations with **one single beneficiary**, where such exposure **exceeds 10%** of the institution's **net worth**.
- BFI shall maintain at all times a ratio **not exceeding 20%** between their overall exposure resulting from their operation with each individual beneficiary and their net worth.
- Banking and financial institutions shall be required to maintain at all times not exceed a **maximum ratio of 300%** between total of their large exposures and their net worth.



# Prompt Corrective Actions

- According to Prakas B7-02-203 on Standardized Procedure for Prompt Corrective Actions for Banking and Financial Institutions.

Capital situation of institutions	Solvency Ratio	Action to be taken
<b>Well capitalized</b>	≥20%	Normal supervision
<b>Adequately Capitalized</b>	≥15% but <20%	Close monitoring
<b>Undercapitalized</b>	≥10% but <15%	Submit capital restoration plan within 30days
<b>Significant Undercapitalized</b>	≥5% but <10%	Injunction to recapitalize or other discretionary measures including appoint provisional administrator (PA)
<b>Critically Undercapitalized</b>	<5%	Capital call meeting; appoint PA within 180 days.





# Main Prudential Regulations

Selected Ratios	How to calculate?	Requirement
<b>Solvency Ratio</b>	Net Worth/RWA	> 15%
<b>Net Worth</b>	Tier 1 + Tier 2	> Minimum Capital
<b>Liquidity</b>	Stock of eligible liquid assets/Net cash outflows within 30 days	> 60% (Sep 2016) > 70% (Sep 2017) > 80% (Sep 2018) > 90% (Jun 2019) > 100% (1 Jan 2020)
<b>Assets classification</b>	- Financial conditions - Pass due	5 classifications
<b>Large Exposure</b>	Total exposure/Net Worth	<20%; total <300%
<b>Related Party Lending</b>	Total exposure/Net worth	<10%
<b>Fixed Assets Ratio</b>	Total Fixed Assets/Net worth	<30%



# Disciplinary Sanctions

**Article 52** of Law of Banking and Financial Institutions empowers the NBC to impose disciplinary sanctions if a covered entity has contravened a provision of the laws or regulations governing its activities.

**Article 52.** If a covered entity has contravened a provision of the laws or regulations governing its activities, has failed to heed a warning or not complied with an injunction, the supervisory authority may impose one of the following disciplinary sanctions:

- caution;
- reprimand;
- prohibition on the execution of certain operations and any other limitations on the carrying on of business;
- temporary suspension of one or more of the executives, with or without appointment of a provisional administrator;
- compulsory resignation of one or more of the executives, with or without appointment of a provisional administrator;
- setting up a provisional administration;
- withdrawal of the license and liquidation.

Furthermore, the supervisory authority may, either in place of or in addition to these sanctions, impose a **fine not exceeding the minimum capital of the covered entity**.



# Disciplinary Sanctions

## Banks (Prakas n° B7-06-211 Prokor)

### A. For reports:

No. of days late	Amount
From 1 to 5 days	1,000,000 Riels per day
From 6 to 10 days	7,500,000 Riels per day
From 11 to 15 days	15,000,000 Riels per day
From more than 16 days, Commercial and Specialized banks will be subject to a written warning and public announcement.	

### B. For reply letters and other information:

No. of days late	Amount
From 1 to 5 days	500,000 Riels per day
From 6 to 10 days	1,000,000 Riels per day
From more than 11 days, Commercial and Specialized banks will be subject to a written warning and public announcement.	

## MDIs and MFIs (n° B7-06-212 Prokor)

No. of days late	Amount
From 1 to 5 days	50,000 Riels per day
From 6 to 10 days	300,000 Riels per day
From 11 to 15 days	700,000 Riels per day
From more than 16 days, microfinance institutions will be subject to a written warning and public announcement.	

No. of days late	Amount
From 1 to 5 days	50,000 Riels per day
From 6 to 10 days	300,000 Riels per day
From more than 11 days, microfinance institutions will be subject to a written warning and public announcement.	



## Future Direction of Regulatory Framework

- More effective customer protection and market conduct of BFIs
- Stronger regulatory capital which is in line with risk profiles of each BFIs
- Better asset quality and accurate/adequate provisioning of BFIs
- Stronger liquidity position and liquidity management framework of BFIs
- Wider range of supervisory responses for weak BFIs
- Higher quality of external auditing



## Concluding Statements

- **Banking system is expanding their business operations and branches**
- **Higher public confidence in banking system over the last 2 decades**
- **Increasing level of diversification of products and services by BFIs**
- **BFIs are generally profitable**
- **Stronger liquidity position and capital bases of BFIs**
- **Stronger and more proactive cooperation among stakeholders needed to take timely remedial measures to safeguard a safe and sound banking sector.**







**Thank You for Your Kind  
Attention !!!**