

PRAKAS
ON
MICROFINANCE INSTITUTIONS' SOLVENCY RATIO

Article 1

Microfinance Institutions, hereafter referred to as “institutions”, 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 asset risk exposure shall not be less than 15 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 microfinance institutions' 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 risk. It excludes the items which are deducted in calculating the net worth according to the provisions of the Prakas on the calculation of microfinance institutions' net worth.

3.2- The following weightings shall apply to assets:

3.2.1- zero weighting:

- cash,
- gold,
- claims on the National Bank of Cambodia,
- assets collateralized by deposits lodged with the bank,
- claims on or guaranteed by sovereigns rated AAA to AA- or equivalent rated under the methodology used by a rating agency acknowledged by the NBC.

3.2.2- 20 percent weighting:

- claims on or guaranteed by sovereigns rated A+ to A- or equivalent rated under the methodology used by a rating agency acknowledged by the NBC.
- claims on or guaranteed by banks or corporations rated AAA to AA-or equivalent rated under the methodology used by a rating agency acknowledged by the National Bank of Cambodia.

3.2.3 - 50 percent weighting:

- claims on or guaranteed by sovereigns rated BBB+ to BBB- or equivalent rated under the methodology used by a rating agency acknowledged by the National Bank of Cambodia.
- claims on or guaranteed by banks or corporations rated A+ to A- or equivalent rated under the methodology used by a rating agency acknowledged by the National Bank of Cambodia.

3.2.4- 100 percent weighting:

- All other assets.
- All off-balance sheet items.

Article 4

Banks and Financial Institutions that are not compliant with this Prakas will be penalized according to Article 52 of the Law on Banking and Financial Institutions.

Article 5

Article 15 in Prakas No B7-00-06 dated 11 January 2000, on the Licensing of Microfinance Institutions and all provisions contrary to those of this Prakas are hereby repealed.

Article 6

The General Director, the General Secretariat, the General Inspection, the General Cashier, all Departments of the National Bank of Cambodia, and all Banks and Financial Institutions under the National Bank of Cambodia's supervisory authority shall strictly implement this Prakas.

Article 7

This Prakas shall take effect from this signing date.

Phnom Penh, 27 August 2007

The Governor

Signed and Sealed: **Chea Chanto**