



National Bank of Cambodia



Annual Report 2010

General Directorate of Supervision

Foreword



Following a severe depression by the global crisis in the last two year, the collective efforts have then been spent on recovery. In Cambodia, sing of recovery significantly emerged in 2009 and was no exception in 2010. This recovery was contributed by the growth in various economic sectors such as: agriculture, industry and service. In addition, banking sector actively contributed to such economic development.

The global economic crisis at the same time stimulated the necessity of enhancing higher standard of prudential regulation in order to deal with emerging banking operations and to maintain financial stability. Thus, the National Bank of Cambodia has made a revise on supervisory framework and prudential regulation to cope with a number of potential risks emerged through rapid increasing operations of banking and financial operations in Cambodia. In this regards, the National Bank of Cambodia issued some prudential regulations in particular: Prakas on Net Worth Calculation, Prakas on internal control and Prakas on risk based and forward looking supervision. These recent regulations will further enhance the banking and financial institutions to be safer and stronger.

Apart from strengthening regulatory standard, the National Bank of Cambodia also engages in promoting access to finance through motivating banking and financial institutions to expand operational areas, allowing microfinance institutions to mobilize deposits from the public, and developing their products with technological integration such as internet banking and mobile banking. Developing financial market infrastructure is also one of the agenda of the National Bank of Cambodia. Currently, we focus on materializing money and interbank market, launching credit bureau, and also enhancing governance practices within banking institutions.

Furthermore, the National Bank of Cambodia has importantly taken into account the capacity building of the employees in pursuit of performing their functions and duties efficiently and successfully. The capacity building is aimed at enabling the employees to gain new knowledge in responding to increasing trend of banking and financial sector in Cambodia, region and the globe. The effort has also been contributed by a number of key partners such as IMF, ADB, SEACEN, US Treasury, and other central banks. In addition, the banking and financial activities are not only concentrated in the country, but also the connectivity of the sector has even complicated and challenging when it comes to international transactions. In this regards, the National Bank of Cambodia has established vital cooperation with various central banks in pursuit of sharing information, experiences and new knowledge.

Performance in the banking sector is quite promising in 2010 and years ahead. Intermediation in term of credits and deposits both improve significantly.

Total assets in the banking sector reach 56% of the GDP and remain dominant in the financial sector. Nonperforming loans remain low with sufficient coverage of provisioning. Other indicators such as large exposures, related party lending, and concentration by economic sectors, all confirm low credit risk level. Liquidity in the banking sector is of less concern since it possesses high liquidity cushion and builds up overtime. Market risk is, indeed, almost inexistence due to the lack of capital market and negotiable financial instruments. Increasing operations and diversified financial products have made banking institutions to expose more to operational risk but still at manageable level.

Nonetheless, microfinance subsector has maintained its vital role in promoting economic growth and increasing living standard of the rural inhabitants. The recent development of microfinance institutions have been evident with enhancing institutional capacity to gain public confidence and expanding operational structure to mobilize public deposits. The growth rate of deposit has increased 6 times more than the credit comparing from 2009 to 2010; however, the amount of deposit has yet responded to the demand for credit. The loan quality has been strengthened, which resulted in reduction of nonperforming rate. In addition, microfinance institution still depended very much on foreign funding sources in which it caused the foreign exchange risk exposure. Thus, the mobilization of local currency funding sources will reduce foreign exchange risk and notably provide a significant funding source for microfinance institutions.

To summarize, the achievements in 2010 have brought about the growth in banking system in term of operational scope, maintaining strong banking system during the global crisis, and notably enhancing the international cooperation. Despite gaining such achievements, there are numbers of challenges have also simultaneously emerged. That is, the National Bank of Cambodia, particularly the Banking Supervision Directorate will need to play more active role in preventing and resolving these coming challenges; notably, the need of comprehensive study for updating regulatory framework in pursuit of coping with increasing development of regional and international banking and financial sector. Additionally, the supervisory capacity needs to be continuously trained and strengthened, especially, the comprehensive understanding about risk based and forward looking supervision. The National Bank of Cambodia has also enhanced active cooperation between supervisory authority and banking and financial institutions in pursuit of effectively implementing the risk-based and forward looking supervision.

The publication of this report aims to promote integrity and transparency of Cambodian banking sector. The data in this report will be useful for the public in employing the published information to support research study on Cambodian banking system development.

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CHEA CHANTO
Governor
National Bank of Cambodia

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All data publish are compiled and calculated by NBC staffs.

GDP Figure is from the National Institute of Statistics.