PRAKAS
ON
THE BANKS’ SOLVENCY RATIO

As amended by the following Prakas: B 7-07-135 dated August 27, 2007 on Amendment of Prakas Relating to the Banks’ Solvency Ratio and B7-04-206 dated December 29, 2004 on Amendment of Prakas Relating to the Banks’ Solvency Ratio.

Article 1 [as amended by Prakas B 7-04-206 dated December 29, 2004].

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 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 the bank’s net worth.

Article 3 [as amended by Prakas B7-07-135 dated August 27, 2007]

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 100% lodged with the bank,
   - claims on or guaranteed by sovereigns rated AAA to AA- or equivalent, under the methodology used by an rating agency acknowledged by the NBC.

3.2.2 - 20 percent weighting:
   - claims on or guaranteed by sovereigns rated A+ to A- or equivalent, under the methodology used by an rating agency acknowledged by the NBC.
- claims on or guaranteed by banks rated AAA to AA- or equivalent, under the methodology used by Rating Agency acknowledged by the NBC.

3.2.3 - 50 percent weighting:
- claims on or guaranteed by sovereigns rated BBB+ to BBB- or equivalent, under the methodology used by Rating Agency acknowledged by the NBC.
- claims on or guaranteed by banks rated A+ to A- or equivalent, under the methodology used by Rating Agency acknowledged by the NBC.

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 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 National Bank of Cambodia 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 Direction, the General Secretariat, the General Inspection, the General Cashier and all Departments of the National Bank of Cambodia, and all Banking and Financial Institutions under the NBC’s supervisory authority shall strictly implement this Prakas.

**Article 8**

This Prakas shall have effect from the signing date.

Phnom Penh, February 16, 2000

*The Governor*

Signed and Sealed: Chea Chanto
ANNEX TO PRAKAS RELATING TO THE BANKS’ SOLVENCY RATIO
CLASSIFICATION OF OFF-BALANCE SHEET ITEMS
REFERRED TO IN PARAGRAPH 3-3-1

Banks have to note that where items are not referred to in the following list, they must classify them in the category of transactions that show similar characteristics, after they have asked the NBC, if necessary.

1. Items classified as carrying a full risk:

   - Loan guarantees (deductible from the risk exposure in respect of the beneficiary).
   - Acceptances.
   - Endorsements on bills not bearing the name of another bank or financial institution.
   - Transactions with recourse.
   - Irrevocable credit lines, or guarantees, having the character of credit substitutes.
   - Other items carrying a high risk.

2. Items classified as carrying a medium risk:

   - Commitments to pay resulting from documentary credits issued or confirmed where the underlying goods do not serve as collateral.
   - Warranties and indemnity bonds (including tender, performance, customs and tax bonds) and guarantees not having the character of credit substitutes.
   - Undrawn facilities, particularly overdrafts and commitments to lend with an initial term of more than one year.
   - Other items carrying medium risk.

3. Items classified as carrying a moderate risk:

   - Documentary credits issued or confirmed where the underlying goods serve as collateral and other similar transactions.
   - Other items carrying a moderate risk.

4. Items classified as carrying a low risk:

   - Undrawn facilities, particularly overdrafts and commitments to lend, which are for an initial maturity of up to and including one year or that, may be cancelled unconditionally at any time without notice.
   - Other items carrying a low risk.