Nº B7-00-05 Prokor

PRAKAS

ON

LICENSING OF RURAL CREDIT SPECIALIZED BANKS

*******

As amended by the following Prakas: B7-06-208 dated September 13, 2006 on Amendment to Prakas on Licensing of Specialized Bank, B7-04-205 dated December 29, 2004 on License Fees for Banks and Financial Institutions, and B7-01-187 dated November 08, 2001 on Transfer of Shares of Banks and B7-08-193 dated September 19, 2008 on New Capital Requirement and Criteria For Licensing Approval of Banks.

Chapter I

General Provisions

Article 1

Specialized banks as defined in Chapter I of the Law on Banking and Financial Institutions and in accordance with Article 14 of this law must obtain a license from the National Bank of Cambodia (NBC) before starting business.

Article 2

A licensed rural credit specialized bank shall only carry out banking operations which are specified by the terms of the decision granting the license.

Article 3

An applicant for a specialized bank’s license shall take one of the legal forms provided for in Chapter III of the Law on Banking and Financial Institutions.

Article 4 [Replaced by the Article 8 of Prakas: B7-08-193 dated September 19, 2008].

Chapter II

Procedure for Submitting a License Application

Article 5

The application for a license shall be drawn up by a duly authorized person (manager or person expressly empowered to such effect) and shall indicate the following:

(a) Name or business name of the institution.
(b) Registered address of the headquarters.
(c) Legal form and the Articles of Association or other founding instrument.
(d) Type of securities representing the capital, and connection between the holding of such securities and the exercise of voting rights.
(e) Amount of authorized and paid-in equity capital.
(f) Distribution of shares and voting rights, and possible agreements between shareholders acting in concert with a view to directing the policy of the institution.
(g) Capital contributors which will hold 5 percent or more of the voting rights must provide the information listed in article 6 below.
(h) Identity of at least two persons responsible for the effective direction of the specialized bank's business. These designated managers must fill in the curriculum vitae and questionnaire appended in Annex II and furnishes a copy of their police records.
(i) Identity of the members of the decision-making body. This information must be supplemented by curriculum vitae and a statement certifying that none of the individuals concerned is subject to the prohibitions set forth in Article 18 of the Law on Banking and Financial Institutions; the majority of the members should have at least three years of credit experience.
(j) If the legal entity for which the application is made has already been formed, provide a description of its business and certified copies of its audited balance sheets for operations in any of the previous three years.
(k) Description of the planned activity over the next three years:

- Nature and volume of the different types of lending liable to appear on the balance sheet, and other possible services offered to customers or members (for loans: nature, form, purpose, main terms and conditions, annual volume, and amount outstanding),
- Type of clients that the institution intends to seek,
- Nature of planned financial resources: own funds, subsidies, subordinated debt, deposits, borrowings etc. As appropriate, specify the nature and ownership of these resources in the event of any ambiguity (subordinated debt for example),
- Likely number of employees over the next three years and corresponding payroll, broken down by category of staff,
- Location of existing branches or planned branches,
- Planned organization and resources, especially as regards accounting procedures and computer system,
- Balance sheet and profit and loss account forecasts for the next three accounting periods. Forecast level of main prudential ratios (as defined by the NBC) at the end of the next three accounting periods.

(l) Audit procedures:

- Planned internal audit organization for application of provisions of Article 43 of the Law on Banking and Financial Institutions,
- Identity of proposed external auditors, nature of assignments given to external auditors.
Article 6

Capital contributors holding 5 percent or more of the capital or voting rights of the institution must provide the following information:

(a) Identity of the capital contributor. In the case of a legal entity, indicate the business name, legal form, address of the headquarters and furnish the Articles of Association. In the case of an individual, state his or her full name, date and place of birth, nationality and domicile. Indicate whether this person is to be appointed one of the managers of the institution. State whether the capital contributor is to be represented on the institution’s board of directors; if so, ensure that this representative is not subject to the prohibitions set forth in Article 18 of the Law on Banking and Financial Institutions.

(b) Indicate the amount and percentage of the proposed participation and its equivalent in voting rights. Describe in detail the legal and financial arrangements for the acquisition of the securities. State whether the transaction is subject to particular formalities in respect of regulations such as those applicable to foreign direct investment in Cambodia and whether such formalities have been complied with.

(c) Describe the activities of the capital contributor. If the capital contributor is part of a group, provide a description of the main entities of said group together with an organization chart. Indicate whether the capital contributor has significant equity holding in other credit institutions. Indicate whether the group to which the capital contributor itself belongs has significant equity holdings in credit institutions. If so, list such interests.

(d) State whether the capital contributor and the companies possibly associated with it carry on a financial activity. If so, indicate the regulations and the authorities to which they are subject in this respect.

(e) Indicate the internal and external audit procedures of the capital contributor.

(f) Indicate whether, over the preceding ten years the capital contributor has been the subject of an investigation or of a professional, administrative, or judicial proceeding of a material nature.

(g) State the capital contributor’s objectives for the acquisition of an equity holding in the institution. Give all relevant information.

(h) Indicate whether there is significant business between the capital contributor and the institution and how these relations are likely to develop in the future.

(i) Indicate the main banking relations of the capital contributor in Cambodia and how long these relations have existed.

Article 7

A capital contributor which will directly or indirectly hold at least 20 percent of the capital or the voting rights shall be considered as an influential shareholder in accordance with the provisions of Article 26 of the Law on Banking and Financial Institutions. Influential shareholders might be enjoined by the National Bank of Cambodia to increase the net worth of the institution under the conditions described in Article 27 of the Law on Banking and Financial Institutions. For that purpose, a letter in accordance with the model set forth in annex I must be sent to the Governor of the National Bank of Cambodia.

Such a provision will only be removed once a deposit insurance scheme (or other customer deposit guarantee) is set up in Cambodia.
Moreover, in accordance with the provisions of article 40 of the Law on Banking and Financial Institutions, the National Bank of Cambodia will be able to grant a written waiver from the provisions of Article 7 at the time of the license approval.

Chapter III

License Approval and Related Fee

Article 8

The National Bank of Cambodia shall provide written notification of its decision within 3 months from the receipt of application. Where appropriate, the approval shall set out the specific conditions laid down by the National Bank of Cambodia for its entry into force and the timetable for the project. If the project has not been completed upon expiry of the deadline and if no extension has been requested, the approval becomes void.

Article 9 [as amended by Prakas B7- 06-208 dated December 29, 2006]

An indefinite license shall be provided by the National Bank of Cambodia to all specialized banks operating in the Kingdom of Cambodia.

Article 10 The institution shall pay a fee of KHR 500,000 upon submission of the application for license.

Article 11

The annual license fee shall be paid before January 15 as follows:

- [partly repealed by Prakas B7-04-205 dated December 29, 2004, that established new license fees].

For institutions established during year, the license fee shall be calculated on a pro rata basis for the remaining period to the year’s end. In the event of late payment of license fee, the institutions concerned shall be fined by paying interest on the overdue payment at the existing refinancing interest rate for a period up to 30 days. If they are not in order after this period, their license shall be revoked.

Chapter IV

Prudential Rules

Article 12

Applicants with no operating history must pay up 100 percent of registered capital into an account open with the NBC prior to commencement of operations.

Article 13 [as amended by Prakas B7-06-208 dated September 13, 2006].

A licensed specialized bank shall maintain an amount equal to five (5) percent of its registered capital in a permanent account with the National Bank of Cambodia, and be subject to the following conditions:
A. Deposits in Riel will bear interest at 1/2 of the refinancing rate set by the National Bank of Cambodia. The interest payment shall be settled semi-annually.
B. Deposits in foreign currency will bear interest at 3/8 SIBOR. The interest payment shall be settled semi-annually. The National Bank of Cambodia will notify all Specialized Banks of the applicable rate for the relevant period.

The National Bank of Cambodia will only reimburse the capital deposit to a licensed Specialized Bank if it voluntarily liquidates and has no deposit liabilities.

Article 14

A licensed specialized bank shall deposit 5 percent of its deposits into its account maintained with the National Bank of Cambodia. This reserve requirement shall be maintained under the conditions set forth in Regulation on reserve requirement.

Article 15

A licensed specialized bank shall observe all the regulatory requirements to which banks are subject, particularly the reporting requirements.

Chapter V

Other Provisions

Article 16 and 17 [Repealed by Prakas B7-01-187 dated November 08, 2001].

Article 18

In the event of the appointment of new managers (namely the two persons responsible for the effective direction of the specialized bank’s business) following information must be furnished to the National Bank of Cambodia:

- A document providing proof of such appointment (board meeting minutes for example);
- Curriculum vitae and questionnaire appended in Annex II.

All these documents must be furnished at least one month before the person concerned takes up his position.

Article 19

Other changes in the legal or financial status of a specialized bank must be submitted to the National Bank of Cambodia for approval. Application materials should be accompanied by a description of the reasons for the planned operation and, as applicable, by the following information:

- extension or redefinition of activity: the information referred to in paragraph k of Article 5 of this Prakas must be furnished;
- capital reduction: description of terms and conditions, namely legal and accounting arrangements and indication of the new amount of own funds with
possible effects on future business and prudential ratios;
  - change in legal form: draft amendments to the Articles of Association and
  information concerning management bodies;
  - change in business name: draft amendment to Articles of Association.

All these changes must be submitted to the National Bank of Cambodia at least
three months before their enforcement.

Banks shall pay a fee of KHR 1 million for a change of one page of the Article of
Association. Banks shall pay fee 1% on the capital decrease.

Article 20

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

Article 21

The General Director, the General Secretariat, the General Cashier, the General
Inspection, all Departments of the NBC and all specialized banks under the NBC’s
supervisory authority shall strictly implement this Prakas.

Article 22

This Prakas shall have effect from this signing date.

Phnom Penh, 11 January 2000

The Governor

Signed and Sealed: Chea Chanto
MODEL LETTER

To be sent to the Governor of the National Bank of Cambodia by Capital Contributors Who Directly or Indirectly Hold 20 percent or more of the Capital or the Voting Rights of a Specialized Bank.

Dear Sir,

In my capacity as (give the status of the signatory), please find herewith the information requested by the National Bank of Cambodia (Prakas No) with regard to the equity holding that (contributor’s name) has taken or intends to take in (name of the specialized bank).

I hereby certify that this information is complete and accurate and that, to the best of my knowledge, there are no other material facts of which the National Bank of Cambodia should be informed.

I undertake to inform the National Bank of Cambodia immediately of any change which would significantly alter the information provided.

I have taken note of the provisions of Article 7 of the Prakas on licensing of specialized banks, pursuant to which the National Bank of Cambodia may, where the situation requires, enjoin the influential shareholders of a specialized bank to provide such a specialized bank with the support it needs.

Very truly yours,

Signature
CURRICULUM VITAE
and
Questionnaire for individuals who are, or who propose to become,
Managers of a specialized bank

******

1. Family name: .................................................................
2. Given name(s): ..............................................................
3. Other name(s) by which you are or have been known: ...........

4. Please describe the duties and responsibilities attaching to your position.

4.1. Please describe the duties and responsibilities attaching to your position.

4.2. Indicate if you are a capital contributor to the applicant and if you intend to carry out,
directly or through an intermediary, personal or professional transactions with the applicant.

4.2. Indicate if you are a capital contributor to the applicant and if you intend to carry out,
directly or through an intermediary, personal or professional transactions with the applicant.

5. Your private address: .......................................................

6. Your previous private address(es) during the last 5 years: ..............

7. Your date (day/month/year) and place of birth (including district, town or city).

8. Your nationality and how it was acquired (birth, naturalization, marriage).

9. Name(s) and address(es) of your bankers within the last 5 years.

10. Your academic degrees and/or professional qualifications and the place and year they
were obtained.
11.1 Your current occupation and employment and over the past 10 years, including the name and address of the employer in each case, the nature of the business, the position held and relevant dates.

11.2 Indicate whether you are or in the past ten years have been a significant shareholder (namely holding directly or indirectly at least 10 percent of the share capital or voting rights) in a company other than the applicant. If so, state the name and activities of such companies and the amount of your shareholding or interest in them.

11.3 Indicate, to the best of your knowledge, which of the companies in which you have held or hold a position of responsibility, or in which you have been or are a significant shareholder, has or might soon have significant business relations with the applicant.

12. Have you or any entity with which you are associated as a director, shareholder, or manager ever held or applied for a license or to carry on any business activity in any country? If so, if any such application was refused or withdrawn after it was made or if any authorization was revoked, give particulars.

13. Have you, or any entity with which you have been involved in the conduct of its affairs, been disciplined, and warned as to future conduct, publicly criticized, or the subject of an investigation by any regulatory authority or any professional body? If so, give particulars.
14. Have you, in any country, been dismissed from any office or employment by your employer or barred from entry to any professional or occupation? If so, give particulars.

15. Have you failed to satisfy any debt adjudged due and payable by you under an order of a court, or have you been declared bankrupt by a court in any country or has a bankruptcy petition ever been served on you? If so, give particulars.

16. Have you, in connection with the management of any entity been adjudged by a court, in any country, to be legally liable for any fraud, or other misconduct by you toward such an entity or any of its members? If so, give particulars.

17. Are you now, or do you other than in a professional capacity, expect to be, engaged in any litigation in any country? If so, give particulars.

18. Please supply an audited statement of personal net worth providing a breakdown of your assets and liabilities.

19. Indicate the names, addresses, telephone numbers and positions of three individuals of good standing who would be able to provide a reference on your personal and professional integrity. The referees must not be related to you, and should have known you for at least five years.

20. Is there any additional information which you consider to be relevant for the consideration of your suitability for the position of manager? The omission of material facts may present the provision of misleading information (see declaration below).
N.B. The information provided in response to this questionnaire shall be kept fully confidential by the supervisory authority, the National Bank of Cambodia, except in cases provided for by law.

DECLARATION

I am aware that it is an offense to knowingly or recklessly provide any false or misleading information in connection with an application for a banking license or a renewal of a banking license.

I certify that the information provided in response to the above questions are complete and accurate to the best of my knowledge, and that there are no other facts relevant to this application of which the supervisory authority should be aware.

I undertake to inform the supervisory authority of any changes material to the application which arises while the supervisory authority is considering the application.

Name ........................................................................................................
Position held ...........................................................................................
Signed .........................................................Date / /