

CIRCULAR
ON
THE IMPLEMENTATION OF PRAKAS
ON THE CALCULATION OF BANKS' NET WORTH

The present Circular sets forth for the rules and principles for implementation on the Prakas B-7-010-182 Prokor dated 15 October 2010 on the Calculation of Banks' Net Worth hereinafter called "Prakas" that introduces a Tier 1 and Tier 2 regulatory capital structure, in accordance with applicable international standards. Under the new framework, Tier 2 capital will be limited to 100% of Tier 1 capital and, to prevent from regulatory capital volatility, the share of retained earnings within Tier 1 capital is limited to 20% of total Tier 1 capital (core regulatory capital or "hard capital"). In addition, the new regulatory framework allows for the accounting for the 1% General Provision is actually as a regulatory capital element (under Tier 2 capital) since this General provision is actually a general reserve that is not set up against a specific and identified risk but reserves as a general solvency buffer.

The institutions subject to the new Prakas on Regulatory Capital Calculation are required to fully comply with all the rules and principles set forth by the regulation itself and the implementation principles and requirements established by the present implementation circular, latest 31 May 2011.

1. Internal Controls and Permanent Compliance

The institutions subject to the new regulation shall establish policies, procedures and processes aimed at ensuring compliance with all solvency requirements and limits established against regulatory capital on a permanent basis. More specifically, individual(s) in charge of compliant checks and controls shall be designated and the overall policies, procedures and processes shall be documented.

Forward-looking, the potential impacts of strategic business development plans shall be assessed and, where necessary, adjustments shall be performed to prevent from being faced with a solvency issue or a regulatory capital. Periodically, the effectiveness of corresponding policies, procedures and processes shall be reassessed by the Audit Committee.

2. Reporting Requirement

The institution subject to the regulation shall report on a monthly basis their regulatory capital, solvency ratio and any other regulatory exposure vs. limits by making use of the new reference regulatory capital no later than 31 May 2011.

For the purpose of their regulatory reports, institutions shall make use of the revised reporting format attached.

3. Prudential Limitation of Retained Earnings and Other Prudential Subtractions

Retained earnings being “distributable” in the form of dividends paid out to the shareholders, any such decision is likely to introduce volatility in regulatory capital. Retained earnings are limited to 20% of Tier 1 capital or core regulatory capital (sub-total A in article 5 of the Prakas) before subtraction of elements listed under II. Sub-total B (Items to be subtracted from Core Regulatory Capital). In other words, retained earnings cannot exceed 25% (one fourth, ¼) of all Tier 1 eligible core regulatory capital elements, other than retained earnings.

In addition, the NBC might, in accordance with the provisions set forth by the article 3 of the Prakas, notify further subtractions to be performed from Tier 1- core regulatory capital, notably- but not limit to- with the aim of restoring analytical compliance with all such regulatory requirements. In addition, based on on-site examinations’ findings, the NBC might require that additional provisions required due to adverse assets’ classification performed be subtracted from regulatory equity. Such notifications shall be performed in writing by Banking Supervision and are to be complied with until explicitly lifted, in writing as well, by the National Bank of Cambodia.

The corresponding subtraction(s) shall be clearly shown on the regulatory calculation sheet by making reference to the injunction/notification issued against the bank by the NBC. In case the required prudential treatments and subtractions were not complied with, the NBC shall consider taking sanctions and actions against contravening institutions and, if necessary, against management.

Such prudential treatments and subtractions required by the NBC shall also be brought immediately to the attention of the External Auditors, the Audit Committee members and the individual(s) in charge of compliance mention in article 1,1 above, under the responsibility of the Board.

4. Transitional Measures

For the effective implementation of the new Prakas on Regulatory Capital Calculation, the institutions will have to convene a General Shareholders’ Assembly before 30 April 2011 to make decision on the allocation of accumulated and audited retained earnings, in light of the regulatory limit related to retained earnings as part of Tier 1 regulatory capital.

In light of the financial condition of the institution and light of the business development plans and their forecasted impacts on the institution’s solvency condition and ration, the General Shareholders’ Assembly will have to decide upon the allocation:

- In the form of transfer to a non distributable reserve account,
- In the form of an incorporation to paid-in capital,
- In the form of a dividends’ distribution,
- Or any combination of the three above.

5. Proposal for Allocation of Retained Earnings

Institution’s management will be required to submit the National Bank of Cambodia- the agenda of the General Shareholders’ Assembly 10 (ten) working days ahead from the effective convention date of the said General Shareholders’ Assembly. This agenda

should notably detail the resolution (s) that will be submitted to the shareholders for adoption and shall detail the proposals with regard to the repartition or reallocation of retained earnings.

Should the suggested resolution(s) be of the prudential concern for the NBC, management would be notified in writing, within 5 (five) working days from reception of the General Shareholders' Assembly agenda and resolution proposals, of any supervisory concern or objection due to financial condition, and more specifically, the solvency condition of the institution. Such supervisory and prudential objection or injunction, if any, shall be brought to the shareholders' attention by management.

6. Effective Implementation of the New Calculation Methodology

At the first regulatory "cut-off" date after the convention of the General Shareholders' Assembly- which shall be convened no later than 31 May 2011- making decision on the financial statements and profits and losses for the business year 2010, institutions will have to make use of the new calculation methodology and to make use of the new attached reporting format.

No later than 31 May 2011, institutions disclosing retained earnings in amounts exceeding 20% of core regulatory capital (Tier 1) will be no more allowed to incorporate the exceeding portion of retained earnings in their regulatory capital calculations. Should nevertheless institutions continue to report excess retained earnings, the NBC shall adjust the calculations and drop the corresponding excess and consider issuing sanctions and actions against the institution and management.

7. Reporting Requirement

In order to support the first regulatory report related to regulatory capital's calculation, which shall be performed no later than 31 May 2011, management is required to issue to NBC an authenticated set of the General Shareholders' Assembly's minutes that clearly shows the allocation decision approved for the allocation of accumulated and audited retained earnings, with regard to the options discussed in article 4 above.

After each General Shareholders' Assembly convened for deciding upon the previous business year's financial statements, dividends' distribution and retained earnings allocation, management shall issue a set of authenticated meeting minutes that clearly shows decisions made by shareholders with regard to profits' and retained earnings' allocation or incorporation into paid-in capital as well as any other resolution(s) approved that would have direct or indirect impacts on the institution's solvency condition, regulatory capital structure and solvency ratio.

The corresponding report shall be issued to the National Bank of Cambodia- Banking Supervision- no later than 31 May.

8. Effective Date

This present Circular will enter into effect from this signing date.

Phnom Penh, 23 February 2011

The Governor

Signed and Sealed: **Chea Chanto**