



KINGDOM OF CAMBODIA
NATION RELIGION KING

NATIONAL BANK OF CAMBODIA

Number..... B7 018 068 Prokor

(Unofficial Translation)

Prakas

on

Capital Buffer in Banking and Financial Institutions

The Governor of the National Bank of Cambodia

- With reference to the Constitution of the Kingdom of Cambodia;
- With reference to the Royal Decree NS/RKT/0515/417 of May 11, 2015 on the reappointment of His Excellency CheaChanto as Governor General of the National Bank of Cambodia, equivalent to Senior Minister;
- With reference to the Royal Kram NS/RKM/0196/27 of January 26, 1996 promulgating the Law on Organization and Conduct of the National Bank of Cambodia;
- With reference to the Royal Kram NS/RKM/1206/036 of December 29, 2006 promulgating the Law on the Amendment of Article 14 and 57 of the Law on Organization and Conduct of the National Bank of Cambodia;
- With reference to the Royal Kram NS/RKM/1199/13 of November 18, 1999 promulgation the Law on Banking and Financial Institutions;
- With reference to Prakas N° B8-98-385 Prokor dated 20 July, 1998 on Organizational Structure of the National Bank of Cambodia and function-duties of all departments of the National Bank of Cambodia;
- With reference to Prakas N° B1-010-194 Prokor dated November 26, 2010 on the amendment of Article 3, Article 4, Article 5, Article 12 and Article 13 of Prakas on Organization Structure of the National Bank of Cambodia and functions-duties of all departments of the National Bank of Cambodia;
- With reference to Prakas N° B7-010-182 Prokor dated October 15, 2010 on the Calculation of Bank's Net Worth
- With reference to Prakas N° B7-00-46 Prokor dated February 16, 2000 on the Banks' Solvency Ratio
- With reference to Prakas N° B7-011-082 Prokor dated February 23, 2011 on the Implementing Risk based and forward looking supervision
- Pursuant to the recommendation made by the National Bank of Cambodia Management meeting on February 19, 2018

Decides
Chapter 1
General provision

Article 1.-

The purpose of this Prakas is to determine capital buffer including capital conservation buffer and countercyclical capital buffer in order to raise the resilience of the banking and financial institutions.

Article 2.-

This Prakas aims to:

- Improve the capital base to cover the loss, which may be derived from the risks of the banking and financial institutions,
- Avoid breaches of the minimum capital requirement, and
- Reduce the risks arisen out of the pro-cyclicality.

Article 3.-

This Prakas is applicable to banks and micro-finance deposits taking institutions under the National Bank of Cambodia (NBC)'s supervisory authority, hereinafter referred to as "Institution", both at the institution's level and on a consolidated basis when relevant. Consolidation shall be consistent with that as reported in the solvency ratio calculation.

Article 4.-

As used under this Prakas, the following terms are defined as follow:

Tier 1 Capital refers to Tier 1 capital as defined in article 5 of Prakas N° B7-010-182 Prokor dated on October 15, 2010 on Calculation of Bank's Net Worth.

Tier 2 Capital refers to Tier 2 capital as defined in article 6 of Prakas N° B7-010-182 Prokor dated on October 15, 2010 on Calculation of Bank's Net Worth.

Total Capital refers to the "*Net Worth*" as defined in Prakas N° B7-010-182 Prokor dated on October 15, 2010 on Calculation of Bank's Net Worth. Total Capital is the sum of Tier 1 Capital and Tier 2 Capital.

Risk Weighted Assets refers to the sum of Risk Weighted Assets specified in article 3 of Prakas N° B7-00-46 Prokor on dated February 16, 2000 on Banks' Solvency Ratio.

Solvency Ratio refers to the calculation as defined in Prakas N° B7-00-46 Prokor on dated February 16, 2000 on Banks' Solvency Ratio.

Tier 1 Capital ratio refers to the ratio of Tier 1 Capital to Risk Weighted Assets.

Total Capital ratio refers to the ratio of Total Capital to Risk Weighted Assets.

Minimum Capital Requirements (MCR) refers to MCR that Institution shall maintain at all-time as the following, unless otherwise specified according to Article 20 of this Prakas:

- Minimum Capital Requirement for Tier 1 (MCR1) shall equal to 7.5% meaning Tier 1 Capital must be equal to or more than 7.50% of Risk Weighted Assets,
- Tier 1 Capital shall be equal to or more than 50% of the Total Capital, and
- Minimum Capital Requirement for Total Capital (MCRt) shall equal to 15% meaning Total Capital must be equal to or more than 15% of the Risk Weighted Assets.

Earnings refer to distributable profits of a financial year calculated prior to the deduction of elements subject to the restriction on distributions, which are specified in Article 10 of this Prakas. Earnings are calculated after the tax that would have been reported prior to withdrawing the distributable items. As such, any tax impact of making such distribution is reversed out.

Chapter 2

Capital Conservation Buffer

Article 5.-

The capital conservation buffer is designed to ensure that Institutions build up capital buffers under normal financial situation that could be drawn down when losses would occur. When the capital conservation buffer in an institution has been drawn down whether partially or totally, the Institution shall rebuild it as soon as possible. In case the institution could not rebuild immediately, it shall submit to the NBC a “*capital management plan*” explaining the methods and determining the date it intends to build its capital conservation buffer.

Article 6.-

The capital conservation buffer shall be made only of the highest quality of Tier 1 Capital, meaning the registered capital and/or the non-distributable reserves.

Article 7.-

The Institution shall hold and maintain a capital conservation buffer above the minimum capital requirement for Tier 1 Capital (MCR1). The capital conservation buffer shall equal to 2.50% of the Risk Weighted Assets, unless determined otherwise by the NBC. Then, the sum of the Tier 1 Capital ratio (7.50%) plus the capital conservation buffer (2.50%) shall not be less than 10% of the Risk Weighted Assets.

Article 8.-

In case the Institution has Tier 1 Capital above the minimum capital requirement for Tier 1 Capital (MCR1=7.50%), the Institution may use the exceeded amount Tier 1 Capital to meet the minimum capital requirement for Total Capital (MCRt=15%), but the Institution may not include the exceeded amount in the capital conservation buffer according to minimum capital requirements (MCRs) as stated in Article 4 of this Prakas. A template for the calculation and

explanation of the capital buffers to be built up by institutions is provided in Appendix 1 and Appendix 2 accordingly.

Article 9.-

Earnings distribution constraints will apply when the Tier 1 Capital ratio (MCR1=7.50%) of the Institution fall within the capital conservation buffer quartile ranges outlined in article 11 of this Prakas. The constraints shall apply only to distributions per financial year, not to the operations of the Institution.

Article 10.-

Distributions that affect Tier 1 Capital are subjected to restrictions, such as dividends and share buybacks, discretionary bonus payments to staff, and so on.

Article 11.-

Institution has the obligation to maintain the Minimum Capital Conservation as defined in the Table 1.

The Table 1 shows the minimum capital conservation ratio the Institution must maintain corresponding to Tier 1 capital ratio of each quartile buffer range as following:

- First quartile: 25% of the capital conservation buffer equals to 0.625%
- Second quartile: 50% of the capital conservation buffer equals to 1.25%
- Third quartile: 75% of the capital conservation buffer equals to 1.875%
- Fourth quartile: 100% of the capital conservation buffer equals to 2.50%

Table 1

Tier 1 Capital Ratio	Minimum Capital Conservation Ratio (expressed as a percentage of earnings)
First quartile: 25% of the capital conservation buffer ≥ MCR1 (7.50%) to (MCR1 + 0.625%)	100
Second quartile: 50% of the capital conservation buffer > (MCR1 + 0.625%) to (MCR1 + 1.25%)	80
Third quartile: 75% of the capital conservation buffer > (MCR1 + 1.25%) to (MCR1 + 1.875%)	60
Fourth quartile: 100% of the capital conservation buffer > (MCR1 + 1.875%) to (MCR1 + 2.50%)	40
Above top of the capital conservation buffer > (MCR1 + 2.50%)	0

The minimum capital conservation ratios in Table 1 represent the percentage of earnings that the Institution is not allowed to distribute when its Tier 1 Capital ratio for Institution falls within the corresponding quartile.

Any Institution that does not have positive earnings and has a Tier 1 Capital ratio less than 10% shall not make positive net distributions.

For the purpose of this Prakas, any distribution that do not result in a depletion of Tier 1 Capital is not restricted.

The template in Appendix 1 shows a calculation of the minimum capital conservation ratio depending on the situation of the Institution regarding the building up of additional capital buffers. The minimum capital conservation ratio may be maintained all along the year. The value of that at the end of a financial year shall be used as the basis for calculation of the restriction of earnings' distribution the subsequent financial year.

Article 12.-

The NBC may determine the date to the rebuild of the buffers, on a case to case basis, to the Institution that would be operating within the quartile buffer ranges.

Article 13.-

If the Institution wants to make any distribution in excess of the constraints as defined in Article 11 of this Prakas, it should raise capital beforehand or ask permission from the NBC that will only grant approval where it is satisfied that the Institution has taken all necessary measures to raise capital equal to or greater than the amount above the distribution's constraint as stated in Table 1.

Chapter 3 Countercyclical Capital Buffer

Article 14.-

The countercyclical capital buffer aims to ensure that the Institution has sufficient capital to bear the loss where the NBC found that the credit has excessively growth that would be leading to systematic risk. The NBC may consider the setting of a countercyclical buffer requirement at a level between 0% and 2.50% of the Risk Weighted Assets.

Article 15.-

The NBC may require Institution to build different levels of countercyclical capital buffer as the appraisal of excess credit growth may not be similar in all categories of Institution at the same time.

Article 16.-

The NBC will publish by way of Circular any decision to set up or modify the level of the countercyclical capital buffer.

Article 17.-

The countercyclical capital buffer is applied by extending the range of the capital conservation buffer. It is subjected to the rules of composition in building and rebuilding stated in Articles 5 and 6 above.

Earnings distribution constraints similar to those mentioned in Articles 9 and 10 above shall apply if the Institution's Tier 1 Capital ratio falls within the capital buffer ranges outlined in Table 2 below.

The Table 2 shows the minimum capital conservation ratio that the Institution must maintain corresponding to Tier 1 capital ratio of each quartile buffer range.

The parameter y refers to the capital buffer adding to Tier 1 capital ratio, which $y = (2.50\%+x)/4$ of which 2.50% is the capital conservation buffer and x is the countercyclical capital buffer that will be determined by the NBC as stated in Article 16 above.

Table 2

Tier 1 Capital Ratio	Minimum Capital Conservation Ratio (expressed as a percentage of earnings).
First quartile: 25% of capital buffer \geq MCR1 (7.50%) to (MCR1 + y)	100
Second quartile: 50% of capital buffer $>$ (MCR1 + y) to (MCR1 + 2 y)	80
Third quartile: 75% of capital buffer $>$ (MCR1 + 2 y) to (MCR1 + 3 y)	60
Fourth quartile: 100% of capital buffer $>$ (MCR1 + 3 y) to (MCR1 + 4 y)	40
Above top of capital buffer $>$ (MCR1 + 4 y)	0

The explanation for the calculation of the countercyclical capital buffer is provided in Appendix 3.

Chapter 4 Transitional Provisions

Article 18.-

This Prakas is an addition to Prakas N° B7-00-46 Prokor dated February 16, 2000 on the Banks' Solvency Ratio.

Article 19.-

Micro-finance deposit taking shall fully comply with the Prakas N° B7-010-182 Prokor dated October 15, 2010 on the Calculation of Bank's Net Worth and Prakas N° B7-00-46 Prokor dated February 16, 2000 on the Banks' Solvency Ratio.

Article 20.-

By exception, the following particular provisions apply to Institution that the NBC requires to maintain its solvency ratio above the minimum requirements as following:

- The minimum capital requirements above which such Institution must build a capital conservation buffer and a countercyclical capital buffer are the minimum capital requirements (MCRs) 15% specified in Article 4 of this Prakas increased by the amount of their specific additional capital requirement as mentioned in Article 6 of Prakas N° B7-011-082 Prokor dated on February 23, 2011 on Implementing Risk based and forward looking supervision.
- The NBC may decide that such Institution will be subject to specific individual requirements of capital conservation buffer and countercyclical capital buffer that will be no more than 2.50% of their own increased minimum capital requirement and no less than the one needed to augment their capital requirement, including buffers, at the levels mentioned in Articles 7 and 14 of this Prakas.
- The Institution that shall maintain its solvency ratio above the minimum requirements shall act in accordance with particular provisions determined by the NBC.

Article 21.-

The Institution shall report its situation against the capital conservation buffer and the countercyclical capital buffer on a monthly basis by using the templates provided in Appendix 1.

The Institution shall complete the three figures in the templates of Appendix 1 including Tier 1 Capital, Tier 2 Capital and Risk weighted assets that must have the same data as that in the report about the solvency ratio and net worth calculation.

Article 22.-

The Institution shall comply with the provisions related to the capital conservation buffer at least 50% of the conservation buffer by 1st January 2019 and fully comply by 1st January 2020 as shown in Appendix 2.

With the provisions related to implementation of the countercyclical capital buffer, the Institution shall act in accordance with a particular Circular.

Chapter 6 Final Provisions

Article 23.-

Violations to the provisions of this Prakas may give rise to disciplinary sanctions as set forth in Article 52 of the Law on Banking and Financial Institutions.

Article 24.-

The General Secretary, the General Director of Central Banking, the General Director of Banking Supervision, the General Cashier, the General Inspector, Directors of all relevant

Departments in the National Bank of Cambodia and all banks and micro-finance deposit taking institutions under the National Bank of Cambodia's supervisory authority shall strictly implement this Prakas.

Article 25.-

This Prakas shall take effect from the signing date.

Phnom Penh, February 22, 2018

The Governor

Signed and Sealed: **Chea Chanto**

To:

- As stated in article 24 "for information"
- Files- archives

Cc:

- All members of the Board of Directors
- Council of Minister
"for information"
- Administrative Department of CM
"for publication in the National Gazette"

ឧបសម្ព័ន្ធ ១

របាយការណ៍ស្តីពី តម្រូវការទ្រទ្រង់ដើមទុនខនស៊ីវិលនិងទ្រទ្រង់ដើមទុនខនទោនធ្វើស៊ីហ្គីខល
និងអនុបាតដើមទុនបម្រុងអប្បបរមាសម្រាប់គ្រឹះស្ថានធនាគារនិងគ្រឹះស្ថានមីក្រូហិរញ្ញវត្ថុទទួលប្រាក់បញ្ញើ
Report on the need in capital conservation buffer and Countercyclical buffer
and minimum capital conservation ratio
in Banks and Microfinance Deposit Taking Institutions

ឈ្មោះគ្រឹះស្ថាន Name of the institutions:	
កាលបរិច្ឆេទរបាយការណ៍ Reporting date:	

បញ្ញត្តិជាក់លាក់សម្រាប់អនុវត្តចំពោះគ្រឹះស្ថាន Specific rules applicable to the institution:	%
អនុបាតសាធារណៈអប្បបរមា Minimum solvency ratio =	15
អនុបាតដើមទុនថ្នាក់ទី១ អប្បបរមា Minimum Tier1 solvency ratio=	7.5
ទ្រទ្រង់ដើមទុនខនស៊ីវិល Capital conservation buffer (%)=	2.5
ទ្រទ្រង់ដើមទុនខនទោនធ្វើស៊ីហ្គីខល countercyclical buffer (%) =	0

សូមបំពេញតួលេខនៅក្នុងប្រអប់ពណ៌សគិតជាលានរៀល
Please enter figures in white cells in MKHR

ទ្រទ្រង់ដើមទុនដែលត្រូវបំពេញ Buffer to be built	ចំនួន Amount	គិតជា%នៃទ្រព្យសកម្មដែលបានធ្វើតាមកម្រិតហានិភ័យ as % of RWA
ទ្រទ្រង់ដើមទុនខនស៊ីវិល Capital conservation buffer (B1)		2.50
ទ្រទ្រង់ដើមទុនខនទោនធ្វើស៊ីហ្គីខល Countercyclical capital buffer (B2)		0.00
ទ្រទ្រង់ដើមទុនសរុប Total capital buffer (B3)	0.00	2.50
ដើមទុនថ្នាក់ទី១ Tier 1 Capital (A1)		#DIV/0!
ដើមទុនថ្នាក់ទី២ Tier 2 Capital (A2)		#DIV/0!
ដើមទុនសរុប(មូលនិធិផ្ទាល់សុទ្ធ) Total Capital (Net Worth) (A3)	0.00	#DIV/0!
ទ្រព្យសកម្មដែលបានធ្វើតាមកម្រិតហានិភ័យ Risk Weighted Assets - RWA (A4)		
ដើមទុនថ្នាក់ទី១ដែលត្រូវការសម្រាប់អនុបាតសាធារណៈ ១៥% Tier 1 capital needed for Minimum Solvency ratio (A5)	#DIV/0!	#DIV/0!
ដើមទុនថ្នាក់ទី១ដែលនៅសល់សម្រាប់ទ្រទ្រង់ដើមទុន Available Tier 1 Capital for Capital buffers (A6)	#DIV/0!	#DIV/0!
តម្រូវការដើមទុនថ្នាក់ទី១ដែលត្រូវបំពេញបន្ថែម Additional Tier 1 Capital buffer to be built up (A7)	#DIV/0!	#DIV/0!

អនុបាតដើមទុនថ្នាក់ទី១អប្បបរមា + ដើមទុនថ្នាក់ទី១នៅសល់សម្រាប់បំពេញទ្រទ្រង់ដើមទុន Minimum Tier 1 capital ratio + available Tier 1 capital for capital buffer	#DIV/0!
អនុបាតដើមទុនបម្រុងអប្បបរមា (គិតជាភាគរយនៃប្រាក់ចំណេញប្រចាំឆ្នាំហិរញ្ញវត្ថុ) Minimum Capital Conservation ratio (expressed as percentage of earnings)	#DIV/0!

រាជធានីភ្នំពេញ ថ្ងៃទី ខែ ឆ្នាំ

អគ្គនាយក
General Manager/CEO

អ្នកត្រួតពិនិត្យ
Verified By

អ្នករៀបចំ
Prepared by

Appendix 2

Appendix 2 is the explanation of Article 7, 8, 9, 11 and 19.

Table 1 represents the percentage of earnings that an institution is not allowed to distribute when its Tier 1 Capital ratio falls within the corresponding quartile and the implementation effective year as stated in Article 19 as followings:

Table 1.1: Minimum capital conservation ratios to be implemented from 1st January 2019

Tier 1 Capital Ratio	Minimum Capital Conservation Ratio (expressed as a percentage of earnings)
≥ 7.5% - 7.813%	100
> 7.813% - 8.125%	80
> 8.125% - 8.438%	60
> 8.438% - 8.750%	40
> 8.750%	0

Table 1.2: Minimum capital conservation ratios to be implemented from 1st January 2020

Tier 1 Capital Ratio	Minimum Capital Conservation Ratio (expressed as a percentage of earnings)
≥ 7.5% - 8.125%	100
> 8.125% - 8.75%	80
> 8.75% - 9.375%	60
> 9.375% - 10%	40
> 10%	0

From 1st January 2020, Institution has obligation to maintain Tier 1 Capital ratio at least 10% as stated in Article 7 of this Prakas. Any exceeded amount of Tier 1 Capital ratio but needed to meet the minimum capital requirement for total capital (15%), is not eligible to be included in the capital conservation buffer. Examples:

Case 1

An Institution that has a solvency ratio of 16% where the Tier 1 Capital and the Tier 2 Capital are both 8% of the Risk Weighted Assets. The Institution makes use of 7.50% within the 8% of the Tier 1 Capital ratio to cover its MCR for Tier 1 and for Total Capital. The Institution shall be considered as having only implemented a 0.50% capital conservation buffer. Therefore, Institution needs additional Tier 1 capital ratio 2% for fulfilling MCR1 10% as stated in Article 7 of this Prakas.

According to Table 1.2, the Institution is in first quartile of capital buffer (MCR1 + available Tier 1 capital = 7.50% + 0.50% = 8%) which requires the Institution to maintain its earnings 100%.

Case 2

An Institution that has a solvency ratio of 17% where the Tier 1 Capital is 9.50% of the Risk Weighted Assets and the Tier 2 Capital is 7.50% of the Risk Weighted Assets. The Institution makes use of 7.50% within the 9.50% to cover its MCRs for Tier 1 and for Total Capital. The Institution shall be considered as having implemented a 2% capital conservation buffer. Therefore, Institution needs additional Tier 1 capital ratio 0.50% for fulfilling MCR1 10% as stated in Article 7 of this Prakas.

According to Table 1.2, the Institution is in fourth quartile of capital buffer (MCR1 + available Tier 1 capital = 7.50% + 2% = 9.50%) which requires the institution to maintain its earnings 40%.

Case 3

An Institution that has a solvency ratio of 16.50% where the Tier 1 Capital is 11.50% of the Risk Weighted Assets and the Tier 2 Capital 5% of the Risk Weighted Assets. The Institution makes use of 10% within the 11.50% to cover its MCR for Total Capital. It shall be considered as having implemented a 1.50% capital conservation buffer. Therefore, Institution needs additional Tier 1 capital ratio 1% for fulfilling MCR1 10% as stated in Article 7 of this Prakas.

According to Table 1.2, the Institution is in third quartile of capital buffer (MCR1 + available Tier 1 capital = 7.50% + 1.50% = 9%) which requires the Institution to maintain its earnings 60%.

Case 4

An Institution that has a solvency ratio of straight 15% where the Total Capital is only made of Tier 1 Capital. The Institution shall be considered as not having implemented any capital conservation buffer. Therefore, Institution needs additional Tier 1 capital ratio 2.50% for fulfilling MCR1 10% as stated in Article 7 of this Prakas.

According to Table 1.2, the Institution is in first quartile of capital buffer (MCR1 + available Tier1 capital = 7.50% + 0% = 7.50%) which requires the Institution to maintain its earnings 100%.

Case 5

An Institution that has a solvency ratio of 18% where the Tier 1 Capital is 12% of the Risk Weighted Assets and the Tier 2 Capital 6% of the Risk Weighted Assets. The Institution makes use of 9% within the 12% to cover its MCR for Total Capital. The Institution shall be considered as having implemented a 3% capital conservation buffer. Therefore, Institution does not need to have additional Tier 1 capital ratio for fulfilling MCR1 10% as stated in Article 7 of this Prakas.

According to Table 1.2, the Institution can distribute all of its earnings.

Appendix 3

Appendix 3 is the explanation of Article 17. For example, when the NBC sets the countercyclical capital buffer 2% in the Circular, the total range of the capital buffer is 4.50% (2.50% for the capital conservation buffer + 2% for the countercyclical capital buffer). $y = (2.50\% + 2\%)/4 = 1.125\%$. Table 2 will be:

Tier 1 Capital Ratio	Minimum Capital Conservation Ratio (expressed as a percentage of earnings)
$\geq 7.5\% - 8.625\%$	100
$> 8.625\% - 9.75\%$	80
$> 9.75\% - 10.875\%$	60
$> 10.875\% - 12\%$	40
$> 12\%$	0