

PRAKAS
ON
THE IMPLEMENTATION OF RISK-BASED
AND FORWARD LOOKING SUPERVISION

Article 1

Banking institutions, hereinafter called “Institutions” are required to comply permanently with regulatory requirements. Such permanent compliance can only be achieved through clear policies, appropriate procedures and processes and effectiveness of risk management and control functions. Combinations of major weaknesses alongside with financial risk undertakings can result in leveraged risk profiles and dramatically increase vulnerabilities and jeopardize ability to withstand foreseeable adverse developments. In order to perform comprehensive risk-profile assessments, at banking institution’s level and, where applicable, at consolidated level, the National Bank of Cambodia shall implement risk-based and forward-looking supervisory monitoring aimed at anticipating potential adverse developments and at addressing them in a timely manner by issuing adequate injunctions to implement corrective actions required, in a responsive and effective manner.

Article 2

Risk-Based and Forward-Looking Supervision is defined as the permanent supervisory monitoring processes based on risk-profile assessments, examinations’ findings extrapolations and stress-testing aimed at identifying a supervised entity’s or group’s vulnerability factors and weaknesses and anticipating arising supervisory issues and concerns as soon as possible in order to address them swiftly, to prevent from further deterioration of overall financial condition and to strengthen its ability to withstand adverse market conditions through appropriate supervisory actions.

Article 3

The implementation of Risk-Based and Forward-Looking Supervision and Action relies on the periodic performance of comprehensive individual and, where applicable, consolidated risk-profile assessments.

A supervisory risk-profile assessment shall be defined as Comprehensive analysis of a covered institution’s condition based on all the data and information made available to the supervisory authority in charge.

Such assessment aims at evaluating all the risks carried by a covered entity namely

solvency, liquidity, credit/counterparty, market and interest rate risk, the quality (effectiveness and independence) of internal controls and audit, risk, business and funding concentration issues, loan portfolio diversification, identification of weaknesses in the institution's ability to withstand adverse business or market developments, risk management organization and effectiveness, staffing, segregation of duties and potential for conflicts of interest, independence of "key" functions such as Internal Audit or Compliance, effectiveness of reporting lines and delegations/accountability procedures and processes, IT infrastructures and processes, Management Information Systems, Corporate Governance and effectiveness of Committees established, Shareholders' support, Contingency Planning addressing major risks, procedures and effectiveness of back-up solutions supported by periodic testing.

Such assessment shall notably allow for early identification of major weaknesses and of potential problems resulting from risk combinations that could result in leveraged vulnerability factors.

Article 4

The National Bank of Cambodia shall make use of stress-testing scenarios and measures as well as of examinations' findings extrapolations to refine its assessments based on the stress metrics. Such stress-tests and extrapolations shall also be made use of to check effectiveness of contingency plans, notably but not limited to for contingency funding plans and solvency restoration plans under adverse circumstances or market developments.

In the performance of its risk-profile assessments, the National Bank of Cambodia shall also consider Board's commitment in reassessing periodically the effectiveness of the risk-taking policies, organization, internal controls' set up and independence. Such reassessments shall notably be performed in case of:

- a. major changes in the institution's activity such as in case of undertaking of new activities, risks and transactions,
- b. major changes in the corporate structure such as in case of new equity participations or establishment of specialized subsidiaries, and
- c. adverse market developments and changes in the competitive environment which shall also lead to address potential weaknesses in contingency planning.

Article 5

Based on the risk-profile assessments, the National Bank of Cambodia shall make forward looking judgment and address swiftly any potential supervisory issue at institution's and, where applicable, consolidated levels. Corrective actions shall be issued swiftly against the banks where so required. Coerciveness of injunctions for effective implementation of

appropriate corrective actions required shall be considered in light of the potential impacts for the financial stability.

Article 6

The National Bank of Cambodia shall consider issuing increased solvency ratio requirements against institutions or groups that would show leveraged risk profiles with significant vulnerability factors and/or that could represent a significant threat to the depositors and to the financial system as a whole.

Such increased solvency ratio requirements are left to the National Bank of Cambodia discretion but shall not exceed 30 (thirty) percent of the minimum solvency ratio requirements applicable to all covered entities.

Article 7

Increased solvency ratio requirements shall only be removed by the National Bank of Cambodia once the reassessed risk-profile is no more of supervisory concern, after considering effectiveness of corrective actions implemented.

Increased consolidated solvency requirements shall be notified in writing to the institution and shall not be part of the information disclosure requirements.

Article 8

The General Secretariat, the General Directorate of Supervision, the Technical General Directorate, the General Cashier, General Inspection, and all Banking and Financial Institutions under the National Bank of Cambodia's supervisory authority shall strictly implement this Prakas.

Article 9

The present Prakas shall take effect from this signing date.

Phnom Penh, 23 February 2011

The Governor

Signed and Sealed: **Chea Chanto**