

**PRAKAS**

**ON**

**THE CALCULATION OF BANKS' NET WORTH**

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**Article 1.**

Banks are required to calculate their "Net Worth" in compliance with the provisions set forth in this Prakas. All regulatory ratios and limits referring to "Net Worth" shall be calculated in full accordance with the calculation rules. In addition, paid-in capital or endowment and "net worth" shall be equal or superior to the minimum capital requirement applying to them under the applicable regulations.

**Article 2.**

Banks shall establish internal control policies, procedures and processes aimed at ensuring that they permanently comply with all the regulatory requirements related to minimum solvency ratio and to limitations referring to "Net Worth".

**Article 3.**

The NBC might impose the banks specific calculations, especially in the form of subtractions of additional items from their "Net Worth", notwithstanding the general calculation rules set forth in this Prakas. Such specific treatments aim at restoring compliance with all regulatory requirements and at reflecting actual or potential risk for prudential purposes.

Such specific treatments shall be notified in writing by the NBC and immediately implemented by banks until otherwise instructed, in writing as well.

**Article 4.**

The Total Net Worth consists of two separate components:

- Tier 1 capital (Core capital), and
- Tier 2 capital (Supplementary capital).

Tier 2 capital shall not exceed 100 % of Tier 1 capital or not more than 50 % of total net worth.

Prior to issuing their regulatory reports, bank shall implement checks and controls aimed at ensuring compliance with this limit.

Should Tier 2 capital exceed Tier 1 capital, the NBC shall take any appropriate actions.

## Article 5.

Tier 1 capital shall be calculated as follows:

### I. Sub-total A : (Items to be added)

- Paid-in capital or endowment
- Reserves, other than revaluation reserves
- Premiums related to capital (share premiums)
- Retained earnings, up to 20 % of Sub-Total A. Above 20 % of Sub-total A, banks shall consider making a decision about reserving the corresponding amount
- Audited net profit for the last financial year.
- In addition, the NBC might approve other items to be included into Sub-total A, such as profits as recorded on intermediate dates, provided that 1) such profits be determined after posting all the charges related to the corresponding period (allowances for depreciations, provisions and net value adjustments), 2) such profits be calculated net of foreseeable taxes and dividends, and 3) such net profits have been certified by the external auditors.

### II. Sub-total B : (Items to be subtracted)

- Own shares held by bank at their net book value
- Accumulated losses
- Intangible assets (such as goodwill ... etc.)
- For shareholders, directors and any other related party according to the definition established in the Law on Banking and Financial Institutions:
  - Unpaid portion of capital;
  - Loans, overdrafts and other advances;
  - Debt instruments held by the bank and bearing the signature of the persons concerned, at their net book value;
- Losses determined on dates other than regular year-ends, including all the provisions for non performing debts and securities as well as any other value adjustments for depreciations in the corresponding period of time. Provisioning and depreciations shall be performed in compliance with the regulations based on prudent appraisals of risks involved.

**Tier 1 capital = Sub-total A - Sub-total B**

## Article 6.

Tier 2 Capital shall not exceed 100 % of Tier 1 Capital for the calculation of Total Net Worth.

Should Tier 2 Capital exceed Tier 1 Capital as calculated in Article 5 of this Prakas, banks shall not take the amount exceeding 100 % of Tier 1 Capital to include in Total Net Worth calculation.

### III. Sub-total C : (Items to be added)

- Reevaluation reserves with the prior approval, in writing, from the NBC;

- Provisions for general banking risks with the prior agreement of the NBC
- General provision of 1% foreseen in Prakas on Asset Classification and Provisioning in Banking and Financial Institutions
- Subordinated debt instruments, which shall not exceed 50% of Tier 1 Capital, provided that they fulfill all the conditions set forth in Article 7 below;
- Other items with the prior approval of the NBC in writing.

**IV. Sub-total D : (Items to be subtracted)**

- Equity participation(s) in banking or financial institutions, including securities companies, at their net book value
- Other items, such as deferred charges.

**Tier 2 Capital = Sub-total C - Sub-total D**

**Article 7.**

7.1- Subordinated Debt shall have supported documents including contracts as well. Such contracts shall clearly specify the subordination of subscribers, with a ranking just above regular shareholders, maturity and other conditions.

7.2- The subordinated debt shall be included into Tier 2 capital after obtaining prior approval in writing from the National Bank of Cambodia.

7.3- Bank shall not reimburse subordinated Debt to investors before obtaining prior approval in writing from the NBC. Should a bank decide to reimburse such subordinated debt without the prior approval, such reimbursement could be opposed either by the bank's non-subordinated creditors or by the Banking Supervisory Authority. In this case, the reimbursed subordinated debt holders cannot consider themselves as freed of their liability under such circumstances and could be required to return the funds to the bank.

7.4- For subordinated debt instruments issued with a contractual maturity at the origin in the issuance and subscription contract, banks are required to amortize the corresponding subordinated debt by one fifth (1/5<sup>th</sup>) starting over the five years preceding the contractual maturity. Such amortizations shall be performed in a cumulative manner time going so that the amount accounted for under Sub-total C equals zero at contractual maturity.

7.5- For subordinated debt instruments issued for an undefined period of time, the bank shall inform the NBC at least five years before of its intentions to reimburse such subordinated debt. Provided that the NBC does not object to such reimbursement, the bank shall amortize the corresponding subordinated debt by one fifth (1/5<sup>th</sup>) starting over the five years preceding the date for effective reimbursement.

7.6- The NBC shall approve or object of effective reimbursement of subordinated debt in light of the bank's overall financial condition.

**Article 8.**

The Prakas on Commercial Bank' Minimum Capital B7-00-39 Prokor dated on February 09, 2000 and the Prakas on the Calculation of Banks' Net Worth B7-00-47 Prokor dated on February 16, 2000 shall be repealed.

**Article 9.**

The General Directorate, the General Secretariat, the General Inspection, the General Cashier, and all Banking and Financial Institutions under the NBC's supervisory authority shall strictly implement this Prakas.

**Article 10.**

The present Prakas shall take effect from this signing date.

Phnom Penh, 15 October 2010

**The Governor**

Signed and Sealed : **Chea Chanto**