



NATIONAL BANK OF CAMBODIA

Number B7 018 001 C.L.

(Unofficial Translation)

Phnom Penh, February 16, 2018

CIRCULAR
ON
IMPLEMENTATION OF PRAKAS ON CREDIT RISK
GRADING AND IMPAIRMENT PROVISIONING

With reference to the Royal Kram NS/RKM/1199/13 of November 18, 1999 promulgation the Law on Banking and Financial Institutions and Prakas N° B7-017-344 Prokor dated December 01, 2017 on Credit Risk Grading and Impairment Provisioning, the National Bank of Cambodia (NBC) herewith introduces the additional implementation information of this Prakas as follow:

1. Presentation of Financial Report for 2017

Banks and financial institutions are expected to implement all provisions of Prakas N° B7-017-344 Prokor including the calculation of impairment provisions in the annual audited financial statement of the year 2017. In case banks and financial institutions have a difficulty to present their financial statement in compliance with the new Prakas, they may exceptionally continue to rely on the previous obligations only for the 2017 accounts' closing.

2. Preparation of facility review and grading

Banks and financial institutions are required to prepare a formal and complete review of their facilities' credit grading in accordance with the rules set forth in Prakas N° B7-017-344 Prokor before the end of March 2018. Banks and financial institutions shall report the result of this review to the NBC by detailing the amount of the facilities as well as the outstanding amount classified in each five regulatory credit grades, as stated in Prakas N° B7-017-344 Prokor, before April 10, 2018.

3. Impairment provisioning assessment testing in 2018

Based on Prakas N° B7-017-344 Prokor, banks and financial institutions shall prepare a full assessment on impairment provisioning needed in accordance with provisions from article 49 to article 71 as follow:

- **First phase:** banks and financial institutions shall calculate the impairment provisioning based on data as at June 30, 2018 and report the results of the calculated provisioning by each credit risk grading to the NBC before July 10, 2018. This assessment will help the banks and financial institutions in preparing adequate internal policies and procedures to compute their provisioning needs on the basis of new rules.
- **Second phase:** banks and financial institutions shall calculate the impairment provisioning based on data as at December 31, 2018 and report the results of the calculated provisioning by each credit risk grading to the NBC before January 10, 2019.

These results have to show the detail the amount of provisioning by credit risk grading of facilities and reflect precisely the actual need of provisioning of the banks and financial institutions.

Banks and financial institutions shall prepare a complete provisioning assessment above with high attention.

4. Credit policies and procedures

Banks and financial institutions shall prepare and submit credit policies and procedures in accordance with Prakas N° B7-017-344 Prokor to the NBC by June 30, 2018. In case, there is any update on the prepared credit policies and procedures, banks and financial institutions shall submit those documents to the NBC at the maximum of 10 days after the approval from their Board of Director.

On the basis of reporting made by banks and financial institutions on their grading and provisioning, the NBC shall have rights to obtain additional information and require rectifications together with the practice of the policies and procedures.

5. Recording specific provision and accrued interest

In implementing the regulatory provision requirements, banks and financial institutions are subjected to have sufficient specific provision and accurately record in their account to be commensurate with actual situation of counterparties then recognize the amounts as expense in periodic report of profit and loss statement submitting to the NBC. When the outstanding amount of customer account includes interest capitalization credited to interest in suspense, the interest capitalization shall not be included in the provisioning calculation.

Based on Accrual Accounting Principle, the accrued interest on non-impaired facilities shall be recorded as income in the profit and loss account, whereas the accrued interest on any facilities classified as substandard, doubtful or loss shall be recorded in liability of on-balance sheet to an interest suspense account.

6. Chart of Account Implementation

To ease in accounting entry, microfinance deposit institutions have to implement uniform chart of accounts the same as banks. Nevertheless, microfinance institutions and leasing companies have to implement the currently used uniform chart of account.

7. Grading and regulatory provisioning for short-term facilities

Grading and regulatory provisioning for short-term facilities are determined as follow:

Facilities Categories (short-term)	Past Due	Regulatory Provision
Normal	Less than or 14 days	1%
Special mention	15 to 30 days	3%
Sub-standard	31 to 60 days	20%
Doubtful	61 to 90 days	50%
Loss	From 91 days or more	100%

8. Provisioning for off-balance sheet items

a. Overdraft

Provision amount for overdraft shall be calculated based on balance outstanding of overdraft or approved limit or outstanding exceed limit according to the credit policy of each bank and financial institution. For instance, in case of the institution's policy or contract stated

that when the overdraft is classified from special mention, the borrower automatically has no rights or unable to withdraw the unused amount; therefore, the provisioning must base on the balance outstanding of overdraft. However, in case banks and financial institutions do not have policy, which prohibit customers from withdrawing the unused amount of overdraft as stated above, banks and financial institutions have to make provision depending on the approved limit or outstanding exceed limit.

b. Other off-balance sheet items

Banks and financial institutions have to make provision on approved limit of credit contracts or irrevocable contracts because these contracts could become the institutions' payment obligation.

For commercial financing products such as letter of credit or credit guarantee that guaranteed by margin deposit, the provisioning must be calculated base on the approved deposit withdrawal limit that has maturity date over actual maturity date of those products.

This circular shall take effect from the signing date.

The Governor

Signed and Sealed: **Chea Chanto**

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