DFDL

8 April 2020

COVID-19 in Cambodia

Financial Responses by the Royal Government & the National Bank of Cambodia

KEY POINTS	COVID-19 – FINANCIAL RESPONSES
Support response from the RGC including low-interest loans to specialized banks	▪ The Royal Government of Cambodia ("**RGC**") have indicated that they are considering disbursing low-interest loans from their reserve budget to specialized banks, to enable the banks to pass on the low-interest loans to their customers. Banks and micro-finance institutions are urged to delay loan payment due dates and refrain from seizing affected borrowers' property during this time.
NBC's actions to provide more liquidity to BFIs	▪ The National Bank of Cambodia ("**NBC**") issued a press release announcing the following actions to provide more liquidity to Cambodian banks and financial institutions ("**BFIs**") to help mitigate the impact of the COVID-19 pandemic on Cambodia's economy: (a) Extension of the period for BFIs to maintain the level of capital conservation buffers ("**CCB**") at 50%; (b) Minimum interest rate reduced by 0.5% for Liquidity-Providing Collateralized Operations ("**LPCO**") for all maturities; (c) Interest rate reduction on Negotiable Certificates of Deposit ("**NCDs**") denominated in KHR or USD by an appropriate level; (d) Reduction of the Reserve Requirement Rate ("**RRR**") on KHR from 8% to 7%. For foreign currencies, the RRR is reduced from 12.5% to 7%. This will be effective for 6 months starting from April 2020; and (e) Reduction of the Liquidity Coverage Ratio ("**LCR**") to an appropriate level as deemed necessary.

KEY POINTS	COVID-19 – Financial Responses
NBC's directive to BFIs on loan restructuring	▪ The NBC issued a circular on 27 March 2020 to all BFIs regarding loan restructuring in 4 priority sectors ("**Circular**"). The purpose of the Circular is to maintain financial stability, support economic activities and ease the burden on debtors facing declining revenues due to the ongoing COVID-19 outbreak. This Circular will remain in effect until 31 December 2020. The NBC requires BFIs to work constructively with affected borrowers and assist in the restructuring of loans granted to borrowers in these 4 priority sectors: (i) tourism (including hotels, guest houses, restaurants, food and beverage suppliers, service activities and other support services), (ii) textile and garment manufacturing (including employees); (iii) construction (exclusively for first-time house/shop owner loans and mortgages); and (iv) transport (specifically taxi drivers and tuk-tuk drivers) and logistics. The respective boards of directors must ensure that BFIs have relevant policies, procedures and monitoring mechanisms in place to implement loan restructuring and oversee those restructured loans. Loan structuring should be in line with the process set out in the Circular: 1. **Determination of Financial Difficulties**: Prior to any loan restructuring, BFIs must first determine whether the affected borrowers are facing financial difficulties. Loan restructuring will be: (i) provided to borrowers that do not have any outstanding interest and/or principal payments which are more than 90 days' overdue (i.e. performing loans) and that are only expected to face temporary financial and repayment difficulties; and (ii) valid until 31 December 2020. **2. Types of concessions:** For restructured loans, the following concessions may be provided by BFIs: (i) reducing the amount of loan principal or amount to be repaid at the maturity; (ii) lowering interest rates; (iii) deferring the repayments of principal or interest or capitalized interest; (iv) extending the maturity dates; (v) adding and/or modifying co-borrowers and/or guarantors, where applicable;

(vi) changing the instalment plan such that only interest payments need to be made and the principal amount will be paid at maturity (bullet loans);
(vii) releasing collateral or accepting lower level of collateralization;
(viii) easing of covenants and/or;
(ix) providing grace periods for repayment of up to 6 months from the effective date of new agreements.

3. Loan classification and provisioning:

BFIs must maintain the current classification for loans which have been restructured in line with the above, provided that the borrowers comply with the terms of the loan restructuring. No additional provisioning is required for restructured loans as long as the restructuring is "ongoing".

For non-performing loans, BFIs may maintain the same classification once the loans have been restructured, provided that the terms of the loan restructuring are being complied with.

As required by the relevant regulations, loans subject to more than round of restructuring should be classified as "substandard" or worse.

BFIs must closely monitor the restructured loans and report them to the NBC. The report information has to include the following: type of loan, purpose of loan, location (capital/province), the gross outstanding amount, type of concession, classification, date of restructuring and status of restructuring (ongoing, failed, second or more round of restructuring).

4. Monitoring of loan restructuring:

The loan restructuring is to be carried out by a special unit comprised of personnel different to those in charge of the lending process. The special unit must regularly conduct portfolio reviews of the affected borrowers to assess the impact on their financial conditions.

The senior management should be provided with reports at least once a month to verify compliance with loan restructuring terms and their global risk management framework. Appropriate remedial action should be taken in the case of any deficiency. The special unit must immediately provide a written report to the senior management upon discovering any deficiency regarding the performance of restructured loans.

BFIs are to report to the NBC on a monthly basis or as necessary in regard to their restructured loan portfolios.