BANKING AND FINANCIAL INSTITUTIONS

CODE OF CONDUCT

04th March 2022

Statement of Agreement

we, the undersigned, members of the Association of Bank in Cambodia, Cambodia Microfinance Association, and Cambodia Association FinTech & Technology will commit to the following:

1. Adhere to and comply with the spirit of the values and practices under this Code;

2. Apply this Code to all types of Banking and Financial Institutions' activities; no matter the legal structure of the Banking and Financial Institutions shall be;

3. Promote and strengthen the sustainability of the financial sector by promoting access to responsible inclusive financial services in compliance with the regulations of the National Bank of Cambodia;

4. Fairly conduct our activities without seeking any illegal competitive advantage or unethical practices;

5. Make this Code freely available for all consumers and stakeholders and ensure the compliance of our institutions.

Signatories *Signatures*

Dr. IN Channy

Chairman of ABC .....

Mr. Sok Voeun

Chairman of CMA .....

Mr. PELL Remisisophon

Chairman of CAFT .....

CONTENTS

I. **Introduction** 1

II. **Objectives** 1

III. **Applicability and Compliance** 1

IV. **Banking and Financial Institutions Code of Conduct** 1

A. Enhancing Good Governance 1

B. Roles of Board and Executives 2

C. Awareness Raising and Training 3

D. Responsible Financing 3

E. Conflict of Interest 4

F. Availability 4

G. Accountability and Reliability 5

H. Responsibility and Transparency 5

I. Privacy of Consumer Data 6

J. Service Standards 7

K. Information 7

L. Guarantee 8

M. Advertising, Marketing and Sales 9

N. Ethics 9

O. Debt collection 9

P. Aggressive Selling Techniques 10

Q. Product and Services Design 10

R. Discrimination 11

S. Channels of Communication 11

T. Dispute Resolution for Consumers 11

U. Dispute resolution for Banking and Financial Institutions 12

V. Review and Effective Date 12

BANKING AND FINANCIAL INSTITUTIONS CODE OF CONDUCT

I. Introduction

In line with the best efforts to contribute towards a financial system that is robust, inclusive, consumer-oriented, and trust-based, this Banking and Financial Institutions Code of Conduct ("Code") has been established and designed to set out the ethical standards of responsible practices for the Banking and Financial Institutions in the Kingdom of Cambodia whereby individuals and business consumers and guarantors, (collectively known as "Consumers") can expect and trust when dealing with the Banking and Financial Institutions .

All members of the Association of Banks in Cambodia, Cambodia Microfinance Association, and Cambodia Association Fintech & Technology shall effectively comply with this Code.

II. Objectives

This Code aims:

1. To promote effective, reliable, accountable and responsible banking and financial practices by setting business operation standards for the Banking and Financial Institutions to follow and execute.
2. To increase transparency so that Consumers can have a better understanding of what they can reasonably expect from the services provided.
3. To build a fair and professional relationship between Consumers and the Banking and Financial Institutions based on the principles of equity and equality.
4. To foster confidence in the banking and financial system; and
5. To encourage a corporate culture of fair dealing and competition.

III. Applicability and Compliance:

This Code is applicable to all Banking and Financial Institutions licensed by National Bank of Cambodia. Meanwhile, it is generally applicable to:

i) Banking and Financial Institutions' products and services being or to be provided to both existing and new Consumers; and
ii) new Guarantees to be provided by the Consumers from the effective date onwards.

The Banking and Financial Institutions shall acknowledge and ensure that their relevant policies and procedures are in place in compliance with this Code.

IV. Banking and Financial Institutions Code of Conduct

A. Enhancing Good Governance

The Banking and Financial Institutions shall conduct and operate their business in compliance with all applicable laws and regulations of the Royal Government of Cambodia by adhering to good practices of governance as follows:

i) The Banking and Financial Institutions shall ensure that its employees have been aware and understand any laws and regulations relevant to their working field as well as acknowledge and accept all risks in case of failure to comply with such laws and regulations, which may impact business undertakings, image and reputation of the Banking and Financial Institutions, and duty of the employees.

ii) The compliance function shall be established to monitor and oversee the operations in line with laws and regulations as advisory role. In this regard, the aforesaid function shall be independent from the Financial Institution's Management while the workforce and resources are being allocated to such function in a sufficient manner.

iii) The Banking and Financial Institutions shall exercise compliance to review the operations in line with criteria stipulated by compliance function related to the Financial Institution's policy and procedure. In this regard, management practice, corrective guidelines, and preventive measures shall be established under the legal framework, good governance principle, policy, and procedure of the Banking and Financial Institutions.

iv) Disciplinary action shall be taken against those who fail to comply with applicable laws and regulations according to the level of impact and nature of such misconduct based on fairness and without discrimination.

v) The Banking and Financial Institutions shall arrange for whistleblowing channels for suspicious actions about integrity or failure to comply with laws and relevant regulations.

vi) The Banking and Financial Institutions shall implement three lines of defense in line with the Prakas on Internal Control issued by the NBC. The organizational three lines of defense are to ensure effective risk management by the institutions."

B. Roles of Board and Executives

The Board and Executives of the Banking and Financial Institutions shall be responsible for performing operations under a moral and ethical framework to promote good governance on every organizational level.

i) The Board and Executives shall adhere to integrity, fairness, ethical standards, and responsibility. They shall exercise prudence and thoroughness during operations and supervise various operating processes for the benefit of entire organization and stakeholders under guidelines and principles of consumer protection by taking the incidents encountered by an organization or after any activity occurred into account.

ii) The Board and Executives are playing crucial roles in establishing good governance to enhance confidence among shareholders, consumers, regulatory authorities, and all stakeholders for the optimum benefit of the banking and financial sector and the country. Additionally, the Board and Executives shall determine a written policy on good governance and prepare the Code of Conduct to be communicated to all employees and executives for practical and effective awareness and implementation.

iii) The Board is obliged to conform to the principle of good governance, act as coordinator between stakeholders and management functions by specifying various policies in relation to business undertakings and operations and ensure that good governance is put in place.

Moreover, they shall exercise supervision over operations of executives of the Banking and Financial Institutions and management functions to be consistent with the determined policy for effectiveness and efficiency.

iv) The Financial Institution's operations shall be in line with laws, regulations, standard protocols and various practices stipulated by the government. Therefore, the Board, as representatives of shareholders, shall formulate policies which are implemented by the management functions to ensure efficient and effective practicality. Furthermore, the Board is responsible for arranging efficient internal control to ensure the Financial Institution's operations are in accordance with laws, regulations, and rules in a strict manner.

v) The board shall oversee and ensure that the Banking and Financial Institutions establishes policies and effective risk management systems to handle significant risks. Also, they shall exercise supervision to ensure that the risk management committee can perform their duties in a complete and professional manner while being independent from business units. Additionally, the management of the Banking and Financial Institutions must acknowledge all possible risks, protect the Financial Institution's benefits, and manage the level of risk impact to be acceptable under effective risk management.

vi) Any financial transaction executed by the Board and management shall be appropriate or the characteristic of such financial transactions shall be categorized as normal commercial transaction. Transactions executed by the directors and management must be similar to that of an individual, who does not have any relation where the objective of such transaction is to gain benefits for the organization. Any action which leads to or possibly leads to a conflict of interest shall be avoided. However, in the event of conflict of interest, the resolution shall be reached in a fair and swift manner.

C. Awareness Raising and Training

The Banking and Financial Institutions shall provide facilities to support staff and representatives so that they are well oriented and trained to be competent about the Code of Conduct by which they can be the role models in responsible engagements with consumers in a transparent, reasonable and ethical manner.

The Banking and Financial Institutions shall make sure that all staff and their representatives are well oriented and trained so that they:

i) Can competently do their work;
ii) Understand the Code and how to comply with it when they are providing banking and financial services; and
iii) Can handle consumer transactions promptly and efficiently to minimize their waiting time.

D. Responsible Financing

The Banking and Financial Institutions shall:

i) Comply with the Lending Guidelines (LG) for loans up to $20,000 which have been adopted by both ABC, CMA (Reference to the detailed implementation guide of LG)

ii) Comply with the principles of the Client Protection Pathway currently owned by CERISE and Social Performance Task Force (SPTF) in addition to the existing consumer protection regulations set by the ABC/CMA and the National Bank of Cambodia (Reference to the detailed guides of Client Protection Pathway)

iii) Provide financial literacy to the consumers and the public.

a) Financial Literacy initiatives should be targeted at consumers at teachable moments and through financial services providers to ensure understanding, retention, and usage of disseminated information.

b) To build the financial competence and management skills through implementing financial literacy initiatives.

c) Launched campaigns to promote financial awareness emphasizing on consumer empowerment and financial sector transparency in order enhance financial inclusion and support vulnerable consumers.

d) To design campaign to empower consumer to use, to choose, to negotiate, and to communicate in order to make well-informed financial decision.

e) To raise awareness of promoting lending for investment over lending for consumption.

iv) Encourage Woman Owned Enterprise in lending and making decision

v) Protect environment, social, community and culture heritage

vi) Prevent-over indebtedness

vii) Treat consumers fairly

E. Conflict of Interest

1. Accepting/giving of gift, entertainment, or any other benefits shall be for the purpose of strengthening business relationships only. In this regard, those actions shall be performed in a prudence, thorough, and reasonable manner. Anything of value i.e. gift, entertainment, or benefit shall be appropriate and in accordance with occasion and tradition.
2. Any type of bribery is prohibited. The institution shall neither offer nor receive any returns, both directly and indirectly, from consumers, private or government organizations, or third party in a bid to dominate over the decision or influence over relevant officers to gain unfair advantage. Each member can have their own detail disclosure requirements.
3. "All the financial institution's employees shall not be permitted from engaging in any business activities, which could stand in any conflict with their designated role at the institution."

F. Availability

The Banking and Financial Institutions shall:

i) display this Banking and Financial Institutions Code of Conduct either on websites and at branches, in both Khmer and English;

ii) display in a readily visible manner or shall make the Code easily available to all Consumers via an online presence, in particular websites, mobile devices; and
iii) make this Code available at any time to Consumers up on request.

G. Accountability and Reliability

The Banking and Financial Institutions shall ensure:

i) that all its products and services comply with relevant laws and regulations of Cambodia.

ii) that the promotion of products and services shall comply with this Code.

iii) that the Consumers shall be explained and made understand the financial benefits of its products and services that they are interested in, how they work, and the risks involved.

iv) to have a secure and reliable banking and financial system, including security controls for their self-service banking and financial channels.

v) to keep consumers' records and transactions confidential and accurate.

vi) to provide up-to-date information to relevant stakeholder.

H. Responsibility and Transparency

The Banking and Financial Institutions shall:

i) act responsibly and reasonably in all its dealings with consumers.

ii) ensure that all the products and services have been offered or will be offered in compliance with the Code and are suitable to the needs of the target Consumer segments.

iii) establish a clear and common set of procedures to ensure that any dispute between the Consumers and Banking and Financial Institutions will be resolved fairly and within a timely manner.

iv) provide the Consumers with clear, relevant, timely information in vernacular language, and via a medium/channel that Consumers are adapted to, to help them make informed decisions about its products and services.

v) inform the Consumers of their rights and duties as Consumers through various delivery channels (e.g., over the internet and telephone or at branches), of available products and services and take adequate steps to ensure Consumers' understanding. These are the same channels through which the consumers can contact the Banking and Financial Institutions for information or provide feedback.

vi) In all advertising or promotional material that describes a product or service, and includes an interest rate, the Banking and Financial Institutions shall disclose whether any other fees and charges may apply.

vii) Terms and Conditions: The Banking and Financial Institutions shall:
(1) make available for Consumers the Terms and Conditions relating to each banking and financial service with all the fees, charges, penalties and relevant interest rates,

liabilities, and obligations with logical manner and comply with the law and regulations.

(2) assign their staff to answer queries the Consumers may have concerning the Terms and Conditions.

(3) prepare terms and conditions of each banking and financial service in Khmer or relevant vernacular. English should be made available on request of the consumer.

(4) ensure that the Terms and Conditions provide a fair and balanced description of the relationship between the Banking and Financial Institutions and Consumers.

(5) ensure that operations follow laws and regulations of the NBC and relevant authorities.

(6) notify (in reachable ways) and explain to the Consumers any change in the Terms and Conditions governing the products or services at least two weeks in advance before the Terms and Conditions take effect.

(7) May terminate the financial service, subject to the existing applicable Terms and Conditions if the Consumers do not intend to accept the variation to the Terms and Conditions.

I. Privacy of Consumer Data

The Banking and Financial Institutions shall have taken steps to ensure the confidentiality of all Consumer's information and data through the following:

i) All information of the Consumer shall be kept strictly confidential

ii) During the data collection, the data/information collector must inform the consumer about the fact that why their data is being collected, the purpose for which the data is collected or how the data will be used and if and how their data will be shared with any external parties as permitted by laws

iii) Trains all staff on how to deal with consumer data and how to ensure confidentiality during induction training and in refresher trainings. An undertaking is taken from all employees to protect the confidentiality of consumer data

iv) Consumer will be informed that the information from the loan application will be used as required by laws, legitimate court decision, or credit history investigation…etc. The Financial Institution will explain this orally during filling of the loan application and will take written consent from the consumers for this purpose. This "Consent and Privacy" clause is stated in every loan application

v) The prior written consent of an individual is required before their sensitive personal data may be processed as case study, video capture, photograph etc.

vi) Banking and Financial Institutions will communicate to Consumers on their right of privacy of their data and will offer necessary training to Consumers on their responsibilities which include: understanding the privacy policy and their rights in this

regard, keeping their information updated, storing the loan or savings documents in a safe place and confidential

vii) Consumer information shall not be disclosed to the public or otherwise to third parties unless they have an agreement with Banking and Financial Institutions or where disclosure is compelled by laws; and

viii) where disclosure is made with consumer's expressed consent.

J. Service Standards

The Banking and Financial Institutions shall ensure that:

i) all staff are trained to handle Consumer's transactions promptly and efficiently to minimize their waiting time.

ii) ATMs and any other self-service banking and financial channels are available both day and night, except when maintenance makes them temporarily unavailable.

iii) information on its products and services is currently and easily available at its branches and through its website and other customary channels.

iv) the Consumers are informed with suitable time before implementation of any changes to the Terms and Conditions, fees and charges and discontinuation of services/relocation of premises.

v) a contact point is available to handle the Consumers' queries and concerns, and that their officers respond to the Consumers' feedback promptly.

vi) a dispute resolution process is in place to ensure all complaints can be dealt with in an effective and timely manner.

K. Information

The Banking and Financial Institutions shall provide clear information to the Consumers about their products and services so they can make an informed decision.

1. Disclosure of information and communication with Consumers:

i) by providing useful and clear information regarding to the products and services offered by the Banking and Financial Institutions.

ii) by ensuring the staff (and authorized representatives) are trained so that they can competently and efficiently exercise their functions and that the banking and financial services they are authorized to provide comply with this Code.

iii) Banking and Financial Institutions shall ensure that Terms and Conditions are distinctive from marketing material by explaining to Consumers the contents of contracts, brochures, and other written information about financial services.

iv) by providing information to the Consumers in plain language in both Khmer and/or English.

v) if the Consumers ask the Banking and Financial Institutions for advice on banking and financial services:
   (1) by providing that advice through the staff authorized to give such advice.
   (2) by referring the Consumers to appropriate external sources of advice; or
   (3) by recommending that the Consumers seek advice from someone such as a legal or financial adviser.

vi) communicate with Consumers and/or Consumers' representatives in a timely and responsible manner whether by written or electronic communication.

2. Type of information to be disclosed with clearly verbal communication
   i) Terms and Conditions, fees and charges: when or before entering into a contract with a consumer, the Banking and Financial Institutions shall provide:
      (1) terms and conditions
      (2) the amount of fees and charges and how often they are applied
      (3) Any interest rate that applies, how and when different interest rates may apply, the method by which interest is calculated and when interest will be charged.
   ii) Deposits conditions (if applicable)
   iii) Exchange rates and commissions
   iv) Specific information asked or requested by Consumers

L. Guarantee

1. The Banking and Financial Institutions will ensure that the following items are undertaken before accepting a Guarantee:
   i) give prominent notice that:
      (1) the guaranteeing party can refuse to enter the Guarantee.
      (2) the guaranteeing party shall be aware that there are financial risks involved.
      (3) the guaranteeing party shall have a right to limit their liability in accordance with this Code and as allowed by laws; and
      (4) the guaranteeing party can request information about the transaction or facility to be guaranteed.
   ii) provide the guaranteeing party, with a copy of and verbal explanation:
      (1) any related credit contract together with a list of any related security contracts; and
      (2) the final letter of offer provided to the debtor by the Banking and Financial Institutions.
      (3) any related credit report from the credit bureau.
2. The guaranteeing party may, at any time, extinguish their liability to the Banking and Financial Institutions under a Guarantee by paying them the outstanding liability of the debtor (including any future or contingent liability), or any lesser amount to which their liability is limited by the terms

of the Guarantee, or by making other arrangements satisfactory to the Banking and Financial Institutions for the release of the Guarantee.

3. The guaranteeing party can, by written notice to the Banking and Financial Institutions:
   i) withdraw from the Guarantee at any time before the credit is first provided under the relevant credit contract; or
   ii) withdraw after credit is first provided, if the credit contract differs in a material respect from the proposed credit contract given to them before the Guarantee is signed without prior notification to and/or consent from guarantors before the revise agreement has been made.

M. Advertising, Marketing and Sales

All advertising and promotional materials shall be clear, and not misleading and comply with healthy competition principles and preventing over-indebtedness in following all relevant and applicable laws and regulations to be fair and balanced.

If the Banking and Financial Institutions avail the services of third parties to provide sales and marketing services, they will ensure that such services adhere to the same policies with the same degree of confidentiality and security as they would.

N. Ethics

The Banking and Financial Institutions shall:

i) act fairly and reasonably towards Consumers in a consistent and ethical manner. In doing so, the Banking and Financial Institutions will consider the conduct and agreement between them and the Consumers.

ii) at all times comply with applicable laws and regulations of the Kingdom of Cambodia. They will not engage in or support any corruptive activities and the Banking and Financial Institutions will be socially responsible to the cultural community and environment of Cambodia.

iii) promotes and enforces fair and respectful treatment of Consumers

iv) avoid discrimination against protected categories or minorities in selecting consumers and setting terms and conditions as thereof

v) conduct the loan collection by staff or authorized agents in an appropriate manner

O. Debt collection

In collecting or attempting to collect a debt, the Banking and Financial Institutions must make sure that their staff shall not:

i) threaten violence or harm to Consumers or those related to him, her or them, or his, her or their property;

ii) use obscene, defamatory or threatening language when communicating with Consumers or persons related to him or her or them;

iii) abuse or intimidate a consumer in any manner, whether orally or in writing, in order to induce a person to pay a debt;

iv) make telephone or personal calls or send written communications which may constitute excessive harassment of the Consumer, his or her spouse or any member of his or her family;

v) make telephone calls or personal calls for the purpose of demanding payment of a debt on a holiday or between the hours of nine o'clock in the evening and six o'clock in the morning on any other day, unless the Consumer or his or her spouse requests to do so;

vi) engage in any other excessive conduct, which can reasonably be expected to harass the Consumer or persons related to him or her;

vii) disclose or threaten to disclose information which could adversely affect the Consumer's reputation for creditworthiness, knowing or having reason to suspect that the information is false;

P. Aggressive Selling Techniques

Financial Institution shall provide the training to sale staff on how to sell the products and services without pressuring the Consumers. The sale staff from Banking and Financial Institutions shall avoid:

i) Incessantly putting time pressure on the consumers, offering aggressive discounts that make no sense, or harassing the consumers;

ii) continuing to pursue a Consumer who has clearly declined a product;

iii) discouraging or preventing Consumers from consulting with a trusted person;

iv) discouraging or preventing Consumers from reading product information, contract, etc.;

v) arguing, being hostile, or condescending toward the Consumer;

vi) Intimidating or threatening the Consumer ("if you don't purchase life insurance, you are going to look like you don't care about your family")

vii) the use of deceptive marketing techniques

Q. Product and Services Design

The Financial Institution must make sure that:

i) the product/service design shall be in line with the existing Consumer protection regulations set by the ABC, CMA or CAFT and NBC;

ii) the product/service features should match the needs of Consumer;
   (1) Loan size: maximum and minimum loan sizes and savings requirements should match Consumers' income, business type, savings habits, etc.

   (2) Price: prices should be affordable to Consumer.

(3) Guarantee/collateral requirements: Collateral requirements should match Consumers' access to physical collateral and/or guarantors.

(4) Loan repayment schedules: Repayment schedules should match the cash flows of Consumers.

(5) Delivery channels: Delivery channels should be affordable, convenient, and reliable for Consumers;

iii) the product/service should match to Consumer's financial capability which refers to:
(1) Consumer's capacity to act in his/her own financial best interest and to select and access financial services that suit his/her needs and
(2) Consumer's literacy, attitudes, skills and Consumer behavior

R. Discrimination

The Banking and Financial Institutions shall act in a manner that does not discriminate unfairly against any Consumer on grounds such as marital status, gender, disability, age, race, sexual orientation, or religious denomination in the provision of banking and financial services and in the quality and terms of services provided. The staff should be trained accordingly, to be able to understand diversity and to be able to give fair response to special needs.

S. Channels of Communication

The Banking and Financial Institutions shall set up lines and other communication channels so that it is convenient to notify any information or changes to the Consumers and public whilst the Consumers and public are also easy to contact the Banking and Financial Institutions through those lines and channels.

T. Dispute Resolution for Consumers

In the circumstances where disputes and complaints may arise from the application of this Code and the Complainant is a Consumer, this Code provides for four-step dispute resolution mechanisms:

i) The Consumer may directly approach the Banking and Financial Institutions for resolution as provided under Prakas B7-017-299 on "Resolution of Consumer Complaints" by NBC.

ii) If the Consumer is not satisfied with the outcome, then the Consumer may bring the complaint for mediation before the Association of Banks in Cambodia (ABC), if the complaint is for a Bank, or the Cambodia Microfinance Association (CMA), if the complaints is for MFIs or the Cambodia Association of Finance and Technology (CAFT), if the complaint is for PSI. If the complaint will be accepted by ABC or CMA, the matter will be heard by the ABC Council or CMA Board, which will either transfer the matter to the appropriate ABC, CMA or CAFT responsible Committees/ Secretariat Offices to resolve the dispute or will seek to find resolution themselves within 30 working days.

iii) The Consumer may directly approach NBC for resolution as provided under Prakas B7-017-299 on "Resolution of Consumer Complaints" by NBC.

iv) If the Consumer is dissatisfied with the outcome of above steps, the Consumer may bring it to competent authorities and/or courts for resolution.

U. Dispute resolution for Banking and Financial Institutions

In the circumstances where disputes and complaints may arise from the application of this Code and the Complainant is a Banking and Financial Institutions, this Code provides for a two-step dispute resolution mechanism:

i) The Banking and Financial Institutions shall try to solve amicably the dispute following the transparency principle as guided by the responsibility and transparency section of the Code.

ii) If the Banking and Financial Institutions are dissatisfied with the outcome of above step, they may bring it to competent authorities and/or courts for resolution.

V. Review and Effective Date

The Code is effective from 4th March 2022. This Code shall be periodically reviewed when necessary or as the banking and financial sector in Cambodia develops or when the material changes taken place and/ or required by applicable laws and regulations, in order to ensure the continued compliance with relevant applicable legal and regulatory frameworks.

Guide
for implementation of the Lending Guidelines

March 2022

Table of Contents

EXECUTIVE SUMMARY 1

I. INTRODUCTION 2

II. OBJECTIVES 2

III. SCOPE OF IMPLEMENTATION 2

1. APPLICABILITY AND COMPLIANCE 2
2. MARKET SIZE THAT IS SUBJECT TO THE GUIDELINES 2

IV. CODE OF LENDING PRACTICE 3

1. DATA UPLOAD 3
2. MULTIPLE LOAN RULE 3
3. REFINANCING RULE 3

V. MONITORING AND REPORTING 4

1. EXCEL-BASED MONITORING TOOL FOR BOTH ASSOCIATIONS 5
2. LGS MONITORING REPORT DASHBOARD FOR BFIS 6

VI. ENFORCEMENT 7

Executive Summary

The financial sector in Cambodia is recognized as one of the potential sectors with remarkable and sustainable growth. The sector plays an important role in reducing poverty in Cambodia and improving the financial inclusion through the provision a wide range of financial products and services to meet the needs of the people across Cambodia. These achievements are accomplished under the leadership and guidance by the National Bank of Cambodia, the collaboration from relevant partners, including banks, microfinance institutions, local and international development partners and especially the Royal Government of Cambodia, which has always provided support and encouragement to the sector.

In order to prevent the risk of customer excessive borrowing and the risk of sector itself, ABC and CMA is grounded in its responsibility to maintain the sustainability and resilience of the financial sector by proactively initiating the rules contributing to healthy growth of the sector. In addition, both ABC Council and the CMABoard of Directors approved the widen healthy practice to ensure the sustainability of the financial sector through including LG as the annex of the Banking and Financial Institutions Code of Conduct.

Financial Sector in Cambodia has evolved so quickly, and the demands for small and medium enterprise (SME) loan are also arising, which Banks and Microfinance Institutions start to extend their services and products to fulfil the needs of the designated clients. It becomes clear that the guidelines shall be covered to all financial players who offer credit services to micro loan segment. Therefore, the Cambodian Microfinance Association (CMA) and the Association of Banks in Cambodia (ABC), under the auspices of the Financial Inclusion Committee of the ABC, have continued to update the "Lending Guidelines" to cover banks that are members of the ABC.

The ABC Financial Inclusion Committee agreed to define the market for Joint ABC-CMA lending guidelines to be loans up to $20,000 in value excluding:

- Secured Credit Card
- Unsecured Credit Card
- Combined Credit Card
- Business Credit Card
- Overdraft Facility
- Revolving Loans
- Trade Finance Loans
- Any loan whose current outstanding balance is <10% of original principal amount.

This proposed condition has been agreed and approved by both ABC Council and CMA Board of Directors.

These Guidelines include the three key components below:

1. Data upload
2. Multiple loan rule
3. Refinancing rule

With support from Credit Bureau Cambodia (CBC) on data reporting, ABC and CMA are in charge of monitoring the effectiveness on the compliance with these rules among their members. Both associations will continue to monitor and to propose changes or enhancements as required.

The CMA and ABC proposed the interim implementation on the LGs from July to December in 2021. Both associations officially announced the implementation during the official launching of the Banking and Financial Institutions Code of Conduct on 4th March 2022.

I. Introduction

Over the past two decades, the financial sector in Cambodia has developed to serve the majority of households in the country. The sector is recognized globally as a leading example of a sustainable, dynamic, and well-regulated industry that meets the needs of its clients and other stakeholders.

In order to prevent the risk of customer excessive borrowing and the risk of sector itself. In this respect, ABC and CMA is grounded in its responsibility to maintain the sustainability and resilience of the financial sector by proactively initiating the rules contributing to healthy growth of the sector. In addition, both ABC Council and the CMA board of directors approved the widen healthy practice to ensure the sustainability of the financial sector through including LG as the annex of the Banking and Financial Institutions Code of Conduct.

As an integral part of the Cambodian financial system as well as the provider of financial services to most Cambodian households, especially those who are economically and socially vulnerable, the members of ABC and CMA recognize the utmost importance of ensuring the long-term sustainability of the industry for the benefit of the clients and the entire country. ABC and CMA reiterate their commitment to growth and development strategies that balance business goals with the need to protect clients and contribute to positive outcomes in their lives.

II. Objectives

The Lending Guidelines was designed with three main objectives:

1. The borrowing capacity of clients is thoroughly and accurately assessed
2. Sufficient data is available to monitor aggregate and institutional-level exposure to systemic risks
3. The incidence of multiple-indebtedness and rapid increases in household debt, both important causes of over-indebtedness and eventual delinquency, are reduced.

III. Scope of Implementation

1. Applicability and compliance

This Lending Guidelines is applicable to all lending institutions in Cambodia licensed by National Bank of Cambodia including commercial banks, specialized banks, microfinance deposit-taking institutions, non-deposit taking microfinance institutions, rural credit institutions, and leasing companies.

2. Market size that is subject to the guidelines

According to the study on the development of LGs for financial sector in 2020, the results have shown that overall levels of over-indebtedness are similar for both ABC and CMA member clients, but there is significantly less incidence of over-indebtedness for clients who hold loans larger than $20,000, including for clients with large number of multiple credit relationships (e.g. active loans with >3 lenders). The ABC Financial Inclusion Committee agreed to define the market for Joint ABC-CMA lending guidelines to be loans up to $20,000 in value excluding:

- Secured Credit Card,
- Unsecured Credit Card,
- Combined Credit Card,

- Business Credit Card,
- Overdraft Facility,
- Revolving Loans,
- Trade Finance Loan, and
- Any loan whose current outstanding balance is <10% of original principal amount.

Since there is no common standard for calculating or verifying the income of clients in this segment, the total debt threshold (monthly installment for existing and new loan compared to income) of the client cannot be used to violate the limit of active loans from three (3) or more financial institutions.

IV. Code of lending practice

The ABC and CMA imposed three rules Lending Guidelines including:

1. Data Upload

The LGs requires that all newly issued and closed loans should be reported to the CBC on a weekly basis within 5 working days and strengthen control and supervision of the data upload to the CBC with respect to the financial data (including personal identification details).

2. Multiple Loan Rule

Not issue a loan to any borrower that already has group and/or individual loans from three (3) or more financial institutions. The maximum limit of multiple loan rule violation is 2%.

3. Refinancing Rule

Refinancing remains an important component of the Lending Guidelines. Refinancing refers to a practice when a customer replaces an active loan with a new, larger loan. It plays an important role in the business strategies of some large and small micro-lenders. The refinancing rule uses the following methodology:

a) Rule applicability:

Limit of loan disbursement shall apply for the issuance of a new loan to a borrower who within 15 days before or after issuance of new loan has fully repaid (paid off) an existing loan before the older loan's official maturity date. This rule is applied whether or not the two loans (disbursed and paid off) are issued by different lenders or by the same lender.

b) Time indicator:

Loan terms shall be defined in trimesters (thirds) of the loan term. For example, for a 1-year (12-month) loan, each trimester is 4 months, so month 4 is in the first trimester and month 5 is in the second trimester. For a 3-year (36-month) loan, month 20 is in the second trimester and month 30 is in the third trimester.

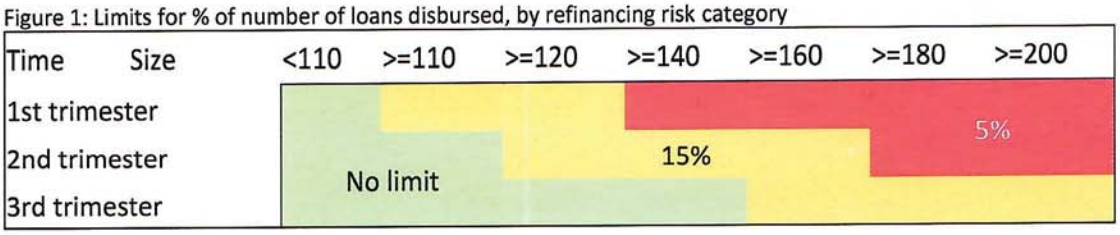
c) Size indicator:

The size of the refinancing shall be calculated as the full amount of the new (disbursed) loan divided by the original amount of the old (paid off) loan. In the event that loans are consolidated, i.e. multiple loans being paid off and replaced with a single new loan, the new loan amount will be divided by the combined original loan amount of the loans being paid off.

For example, a client who had two $500 loans and replaces both with a single $1200 loan will show as having increased the loan size to 120%. If the combined original loan amount of the loans being paid off is >$20,000, the refinancing limits shall be disregarded. Based on these indicators, refinancing is divided into three "zones". "Red zone" loans refinanced existing loans early in their cycle with a much larger new loan. "Yellow zone" loans occurred later in the cycle of the older loan and/or provided a smaller increase in total debt. "Green zone" refinancing loans occurred toward the end of the old loan's cycle and represented even smaller increases in total debt.

The LGs set a maximum limit of 5% for red zone loans and 15% for yellow zone loans. Green zone refinancing loans faced no limits. The "red zone" maximum limit of 5% sets up clear expectations that, while the 5% for these highest-risk loans is the maximum acceptable limit, BFIs should strive to reach a substantially lower level of 2%, a "red zone" limit that has also been adopted by the Smart Campaign which currently owned by SPTF and CERISE.

Figure 1: Limits for % of number of loans disbursed, by refinancing risk category

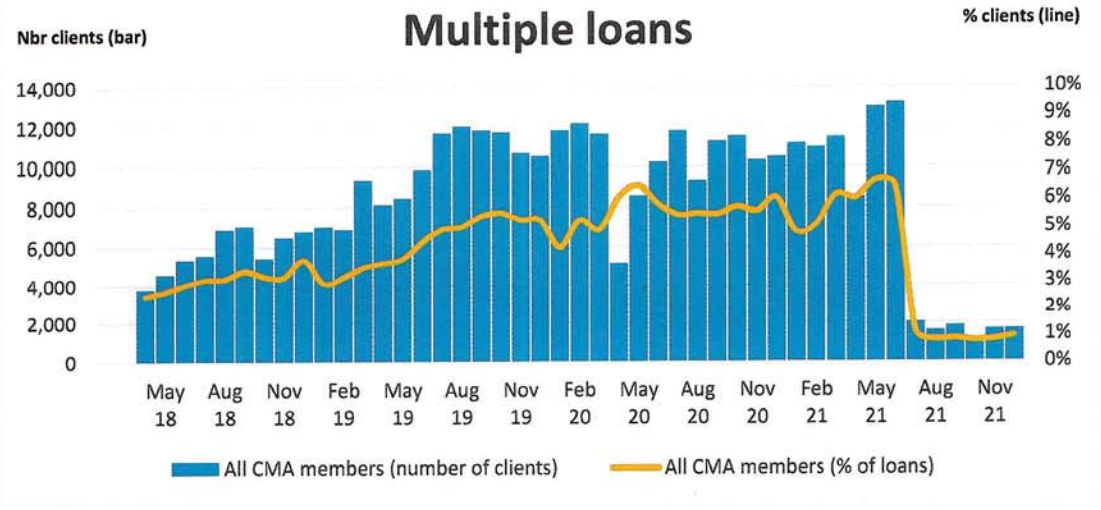


V. Monitoring and Reporting

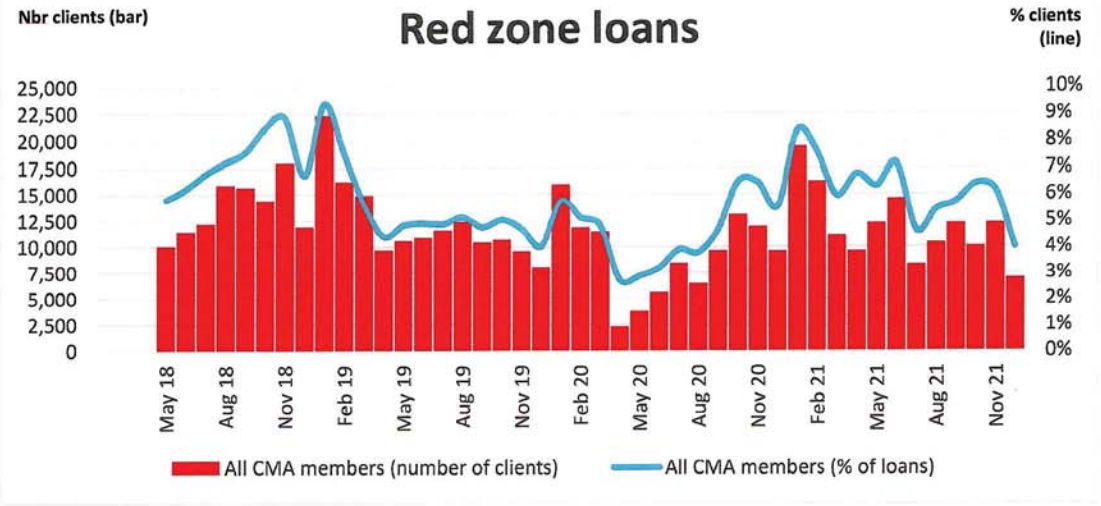
All members of ABC and CMA will receive a monthly report from the CBC with all key indicators in the LGs Dashboard, including for the two rules above. The only other recipient of this report is the LGs Team, which inputs it into an Excel-based monitoring tool. Designated members of the ABC and CMA secretariats working on the Lending Guidelines will also be granted. No one else in ABC or CMA, including board members, will have access to this data. Below are the samples of monitoring dashboard.

1. Excel-based Monitoring Tool for Both Associations

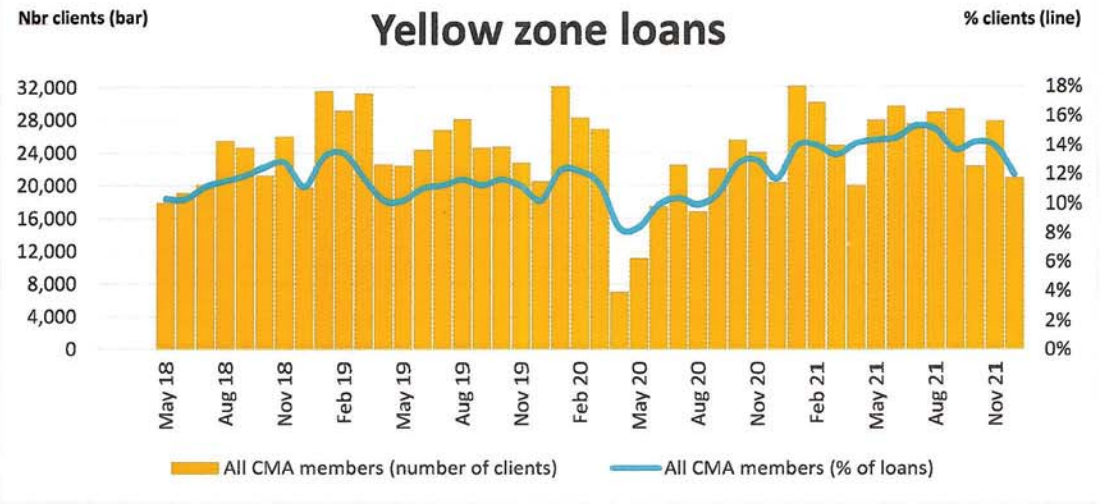
Graph 1: Multiple rule loan violation



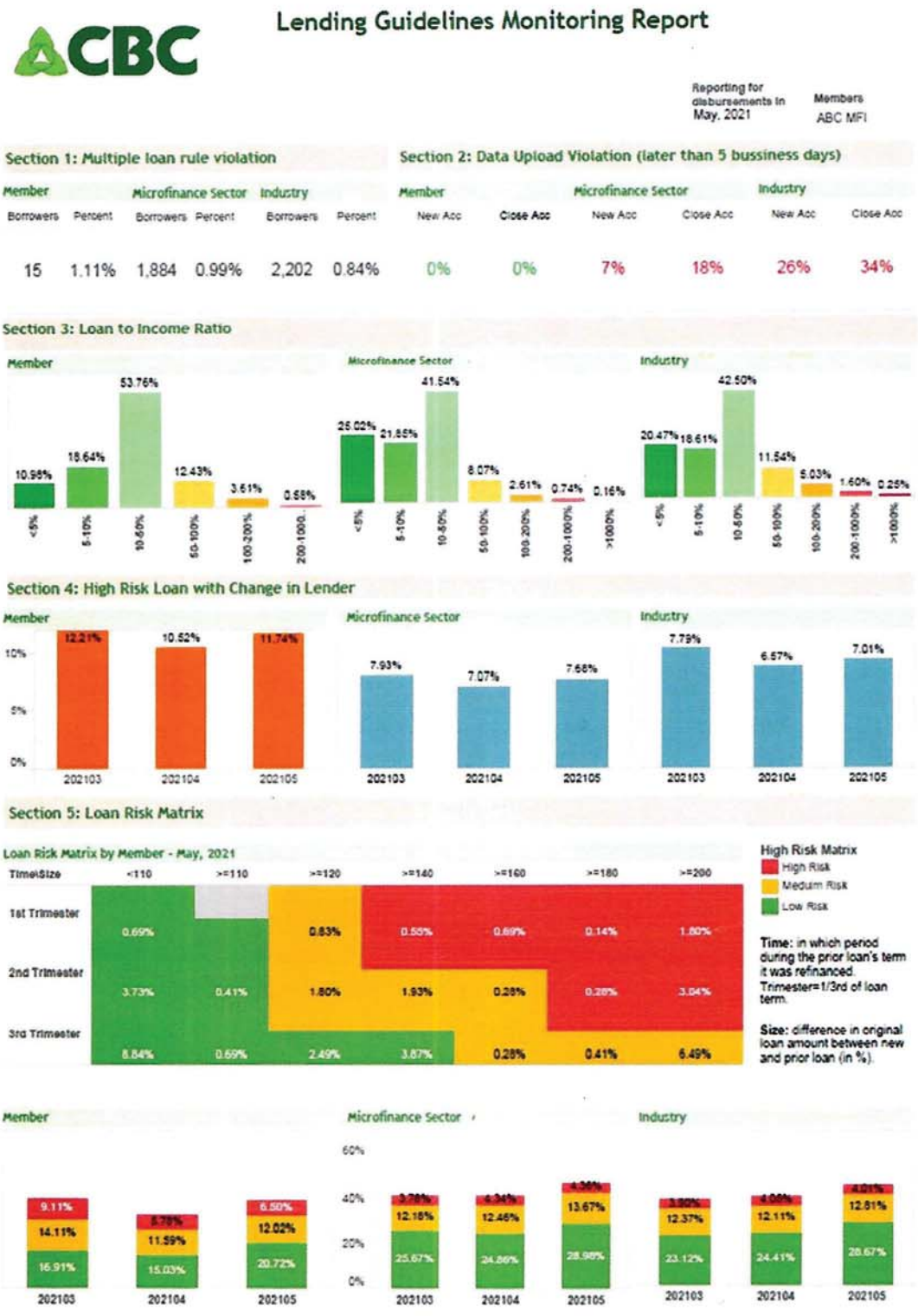
Graph 2: Refinancing rule violation – red zone



Graph 3: Refinancing rule violation – yellow zone



2. LGs Monitoring Report Dashboard for BFIs



VI. Enforcement

After the official launching all the lending institution licensed by National Bank of Cambodia shall comply with these guidelines from 4th March 2022 onwards. Any lending institution that are in non-compliance with, data upload, limits on the number of client relationships (multiple lending rule), engage in aggressive refinancing practices, or otherwise violate the lending guidelines will be identified through the monitoring processes. Both ABC and CMA will work with CBC to closely monitor and report on the progress of the implementation to their Council and board of director in the quarterly basis.