

Session 4:

Governance, Risk Management, and Strategic Asset Allocation for Central Banks

Governance, Risk Management, and Strategic Asset Allocation for Central Banks

Mr. Kormoly Kimty
National Bank of Cambodia

**2026 ASIAN REGIONAL FORUM
ON INVESTMENT MANAGEMENT
OF FOREIGN EXCHANGE RESERVES**

Governance, Risk Management, and Strategic Asset Allocation for Central Banks

Kimty Kormoly

Assistant Governor in charges of Central Banking Operations

October 2026



NATIONAL BANK OF CAMBODIA

Risk. Stability. Development.

The views expressed in this presentation are those of the author and do not necessarily represent the views of the NBC.

INTERNAL. This information is accessible to ADB Management and Staff. It may be shared outside ADB with appropriate permission.



Contents:

I. FX Reserves Governance

II. Strategic Asset Allocation

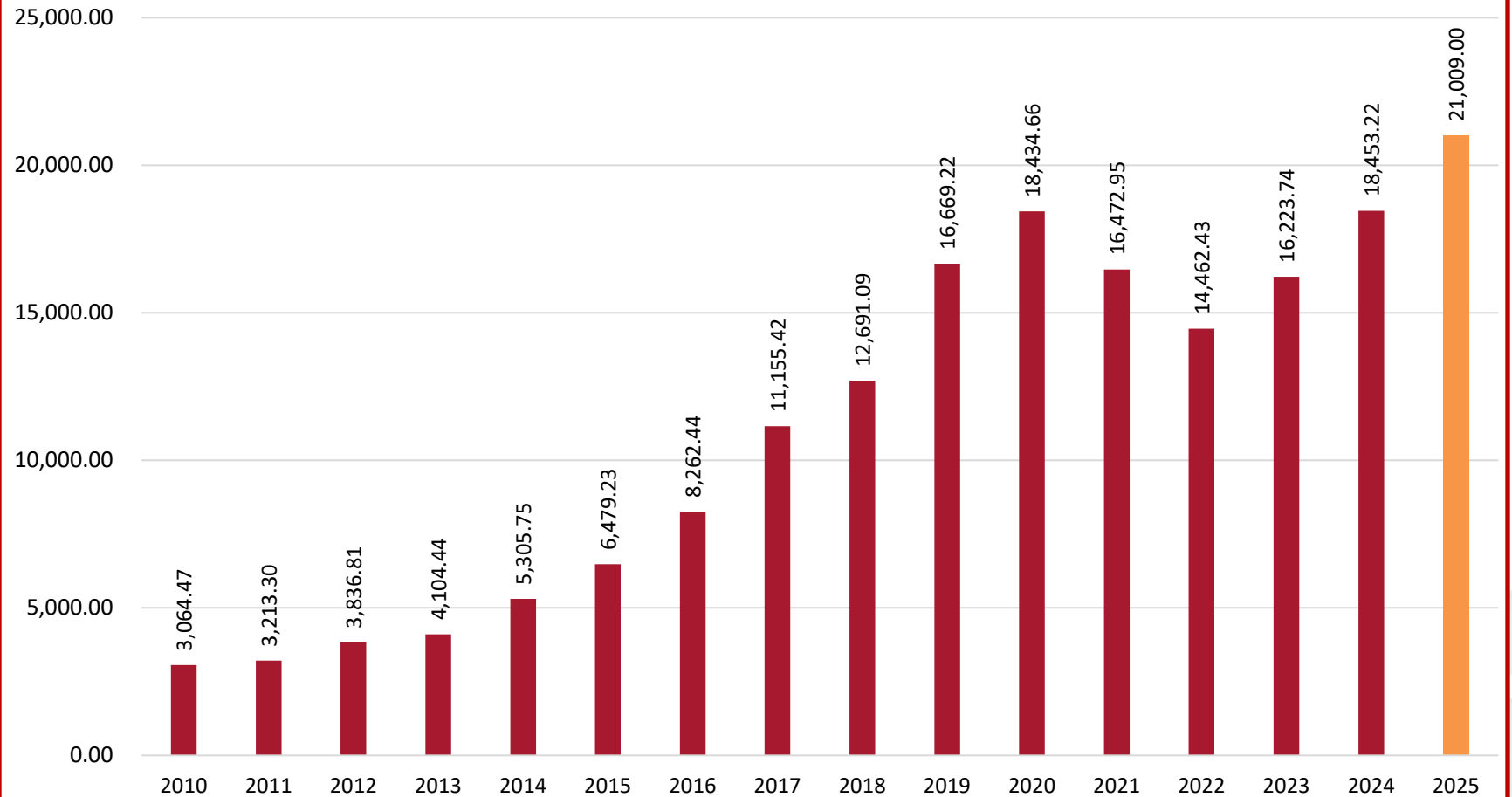
III. Risk Management and Compliance



NBC's Reserves

NBC's FX Reserves have been growing substantially during last 15 years from around 3 billion (2010) to 21.01 billion (as of Dec 2025).

Foreign Exchange Reserves from 2010 to 2025



Source: Reserve Management Department



Investment Objectives

Safety

Capital Preservation:

- Constraining the portfolio risks to preserve the principal value of the portfolio over the investment horizon
- Based on market values (mark to market)

Liquidity

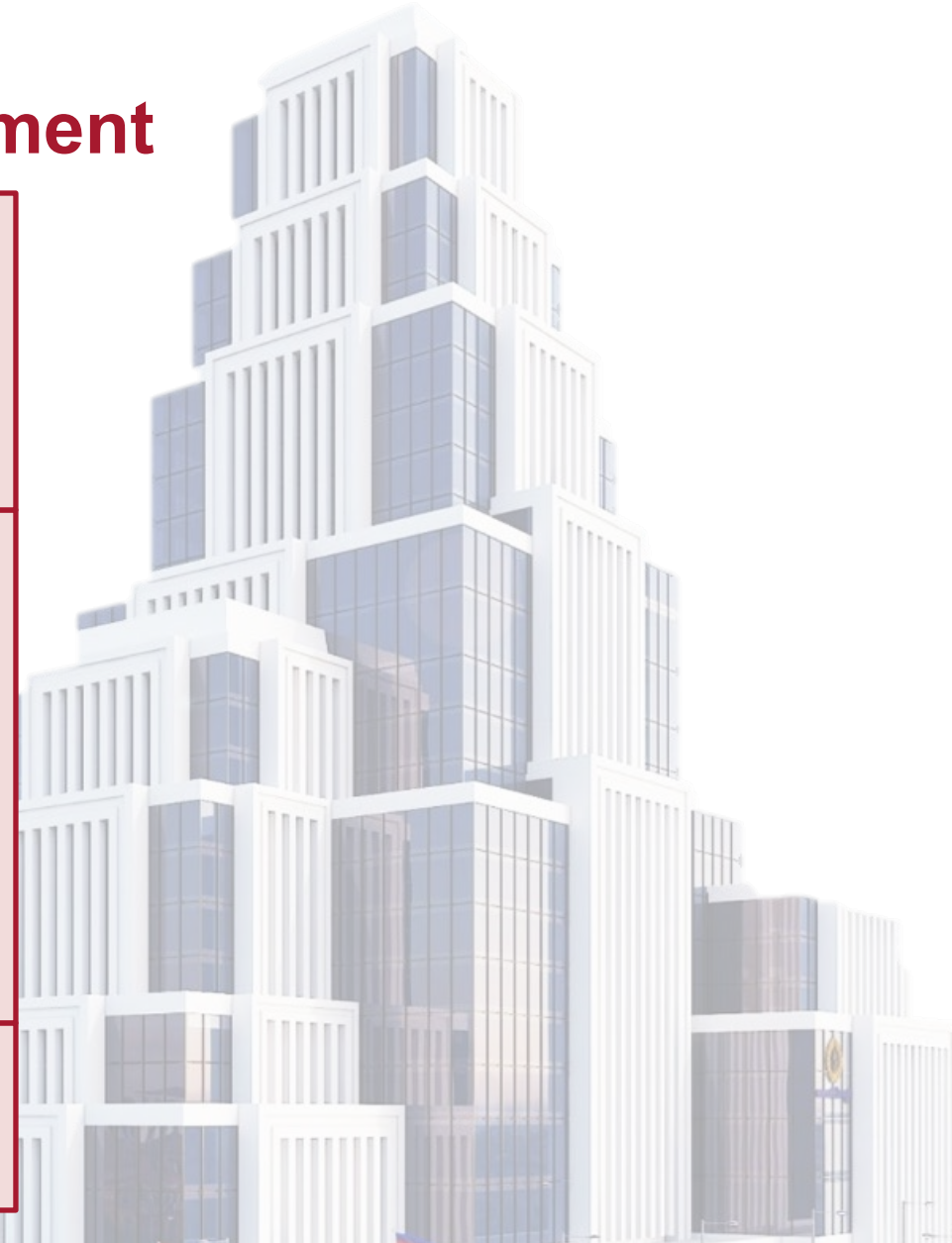
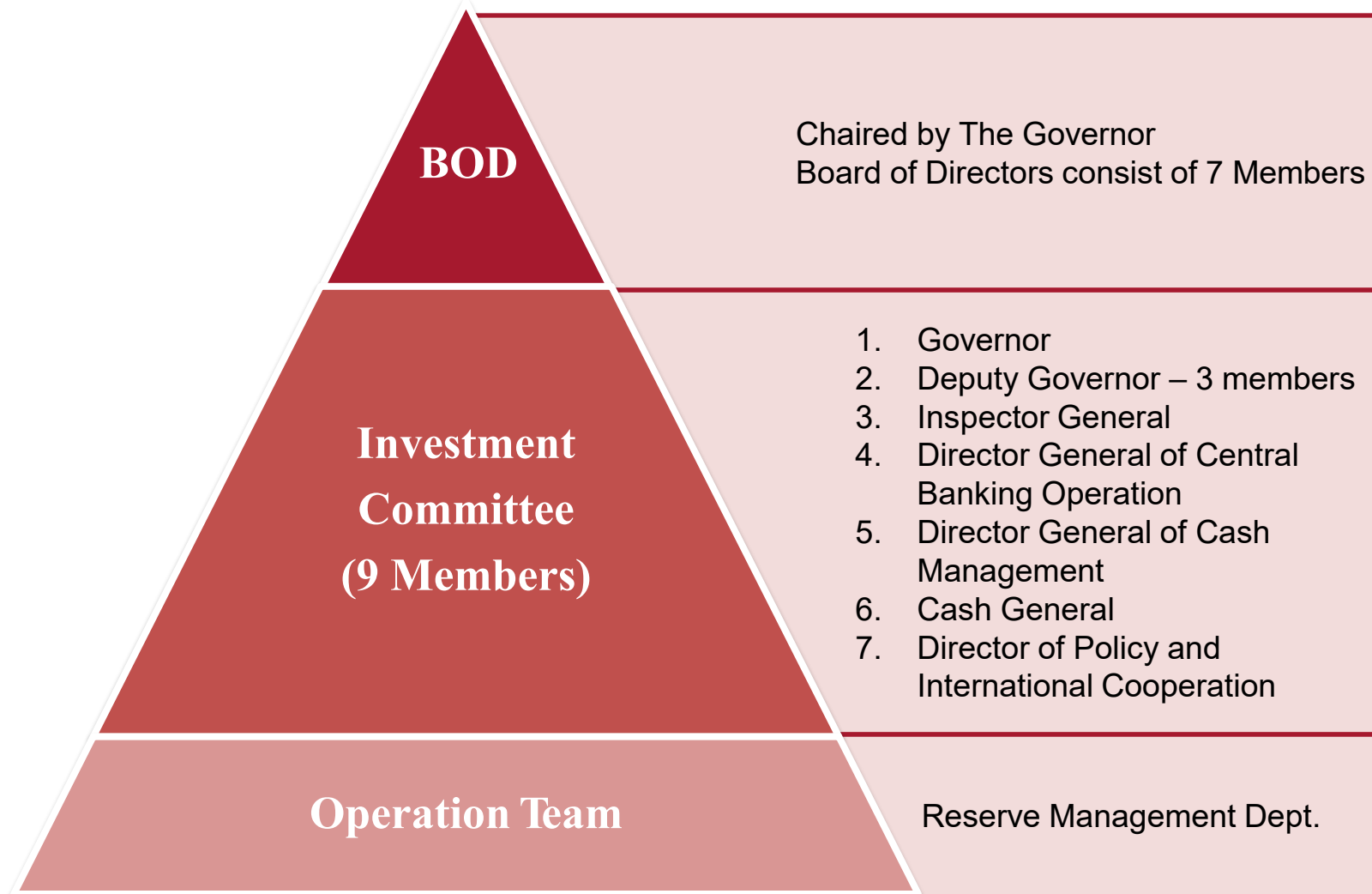
The ability to convert a security into cash quickly and at low cost, without materially affecting its market price — critical for ensuring reserve assets remain accessible when needed.

Return

Total return of the portfolio as compensation for a commensurate amount of risk taken on excess reserves — measures how efficiently return was earned relative to the risk assumed



Governance Structure of Reserves Management





Who makes Which Decision?

Board of Director

- Articulate objective and investment horizon
- Return Goals
- Define risk tolerance and constraints
- Eligible Asset Classes

Investment Committee

- Strategy Currency Composition
- Strategic Asset Allocation and Benchmark
- Tactical Currency Composition
- Tactical Asset Allocation
- Risk Budgeting

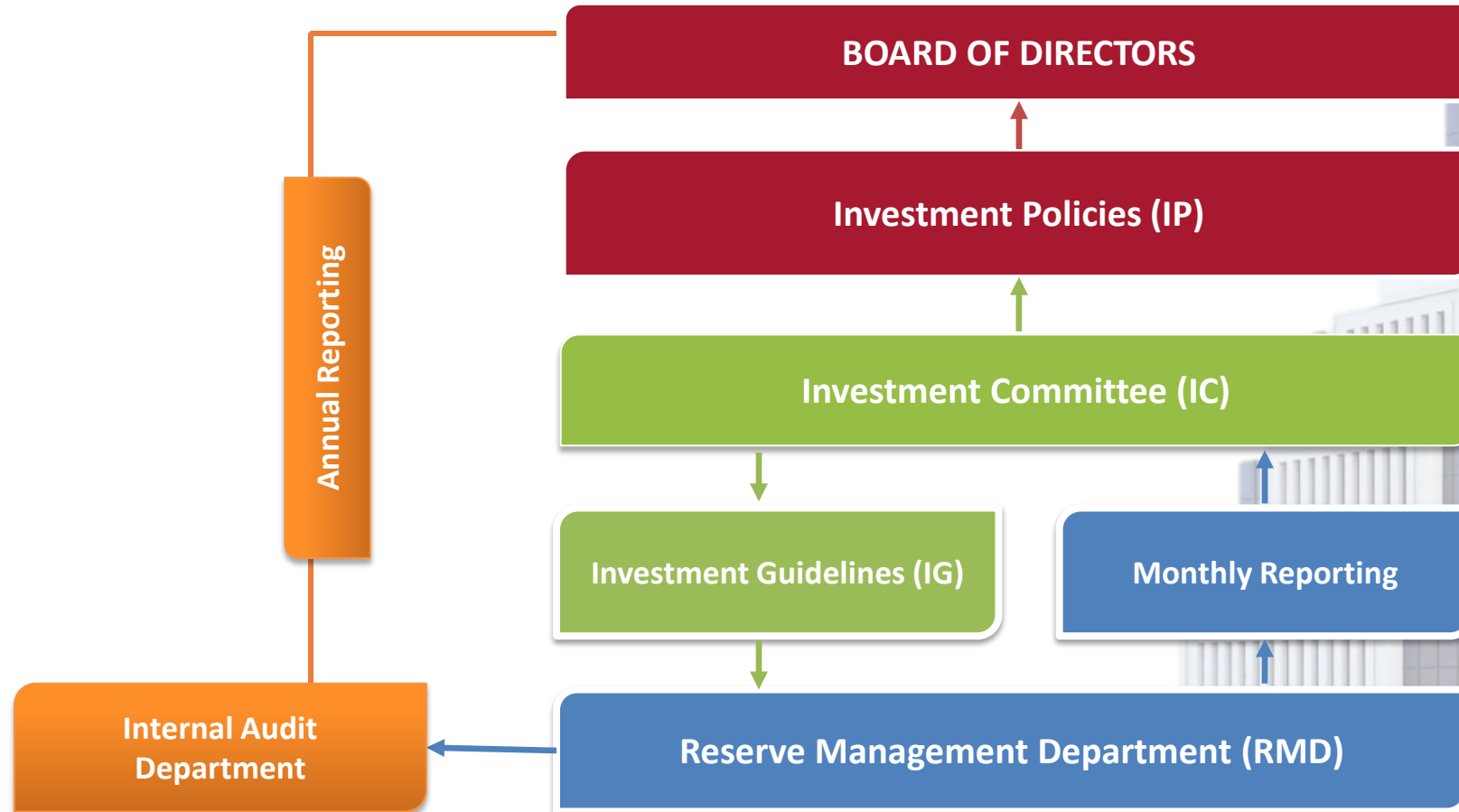
Reserve Management Department

- Active Investment Decision
- Yield Curve Exposure
- Security Selection



National Bank of Cambodia's Governance Structure of Reserves Management

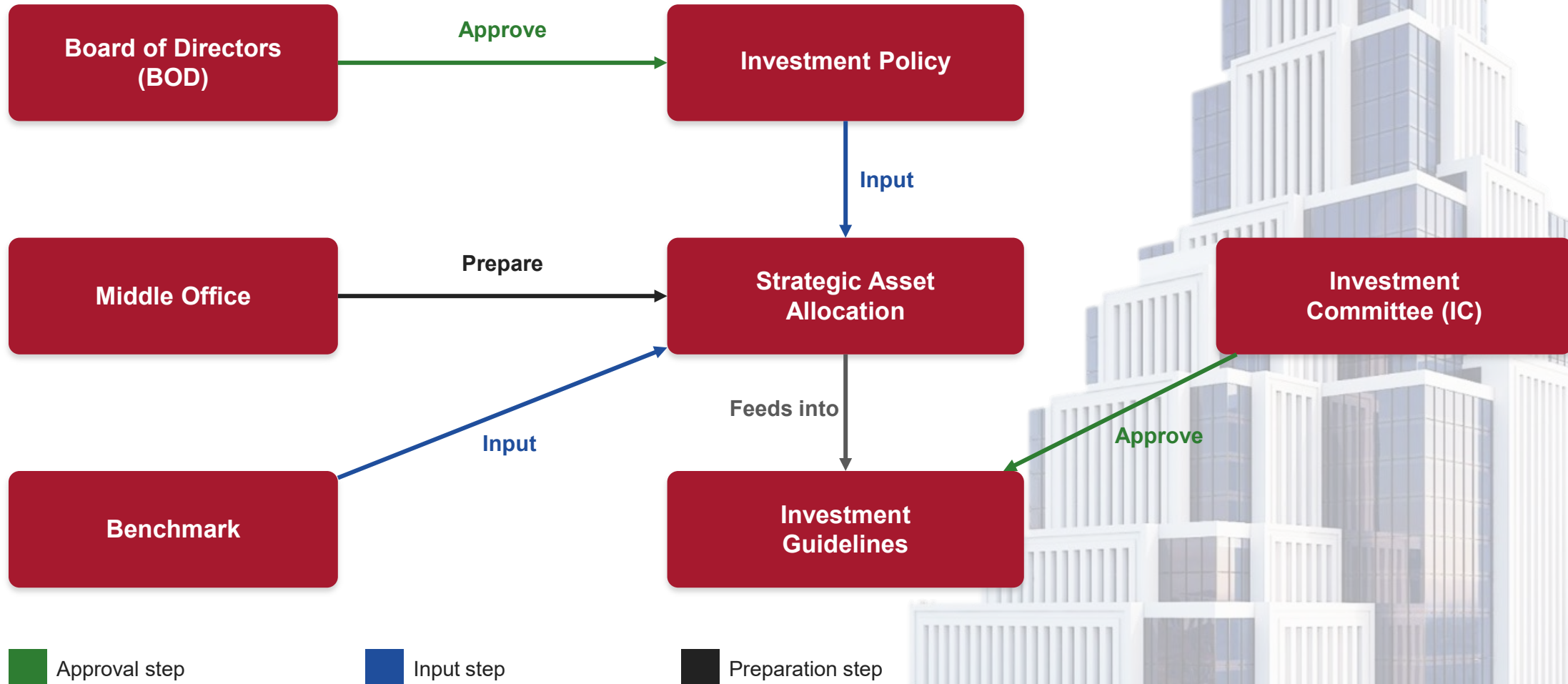
Policy cascades down from the Board through the Investment Committee to the Reserve Management Department (RMD), while reporting flows back up on a monthly and annual basis.





Investment Governance & Approval Workflow

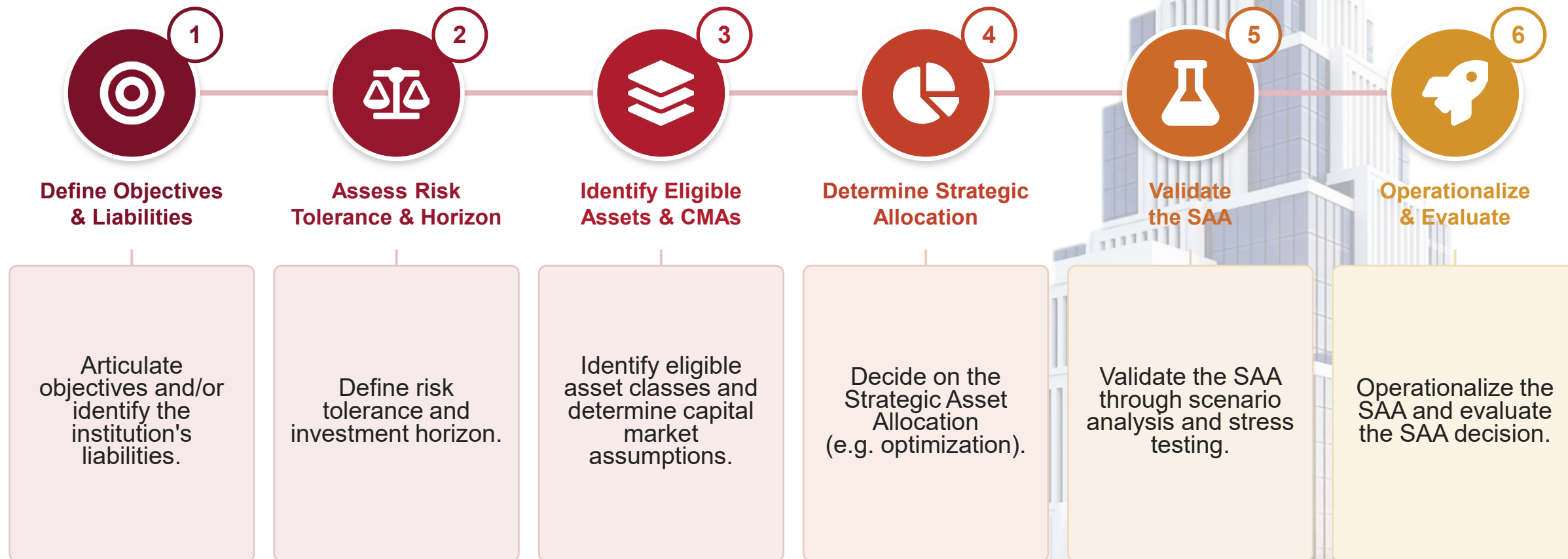
The Strategic Asset Allocation is prepared by the Middle Office, informed by the Benchmark and Board-approved Investment Policy, and finalized into Investment Guidelines upon Investment Committee approval.





SAA Process

Six sequential steps take the institution from defining its objectives to a fully operational, stress-tested Strategic Asset Allocation.





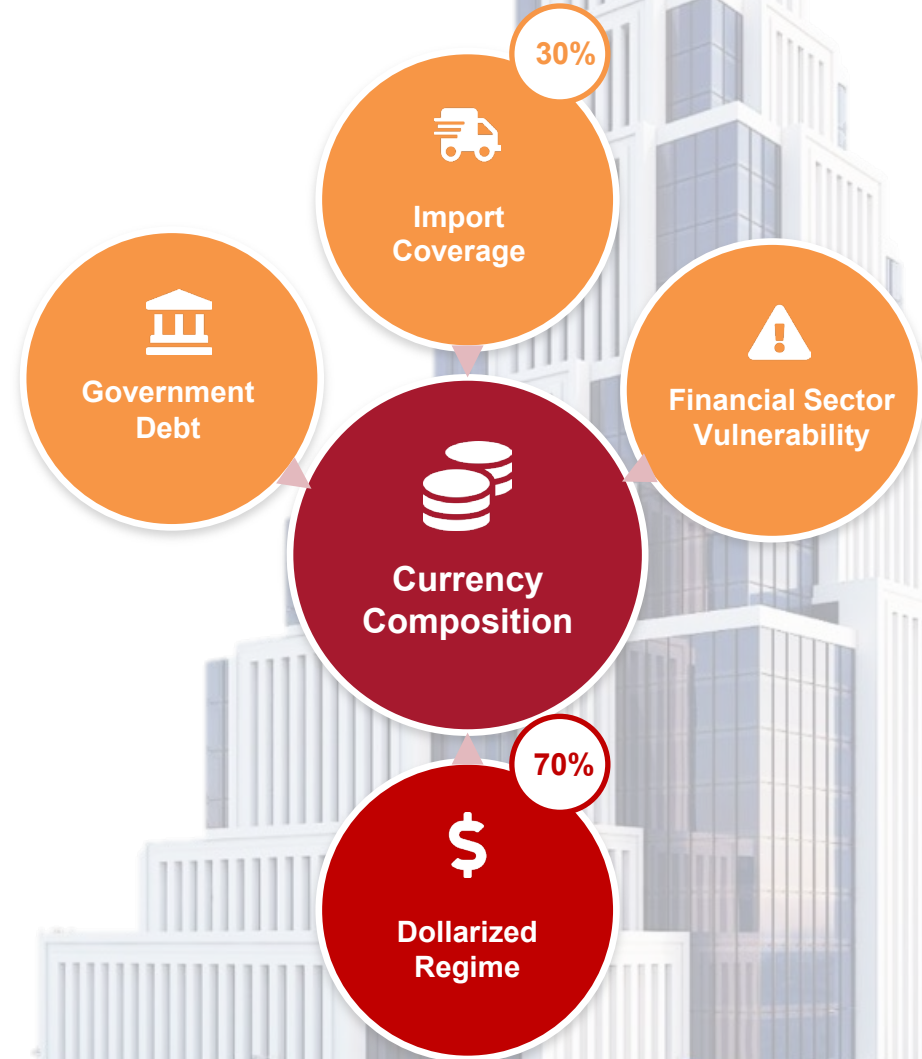
Strategic Currency Composition

Currency Composition Requirements:

- 30%** **Need-Based**
- **Import Coverage:** Around 5 Months of Imports
 - **Government Debt Coverage:** based on 5Yr Avg.
 - **Financial Sector Vulnerability:** modeled based on NPL and financial vulnerability index

70% **Dollarization**
Reflects the Cambodian economy's dollarized regime.

Each factor opposite feeds directly into one of these two allocation targets — see matching percentage badges.





Reserve Tranching Structure

Reserves are segmented into three tranches by time horizon and purpose.

Liquidity Tranche

PURPOSE

- Reserve a certain level of liquidity to meet sudden demand
- USD current account and money market products (US T-bill, overnight, Fixed Deposit)

ALLOCATED TO

- ✓ Fund transfer in-out
- ✓ Daily operation needs
- ✓ External needs (e.g. General Election)

Investment Tranche

PURPOSE

- Focus on higher returns while maintaining safeness
- Short term to Medium term bonds

ALLOCATED TO

- ✓ Import
- ✓ Short term government debts
- ✓ Financial Sector Vulnerability
- ✓ FX intervention

Long-Term Investment Tranche

PURPOSE

- Exposure to new products and advanced investment techniques
- Broader investment universe and more flexible guidelines

ALLOCATED TO

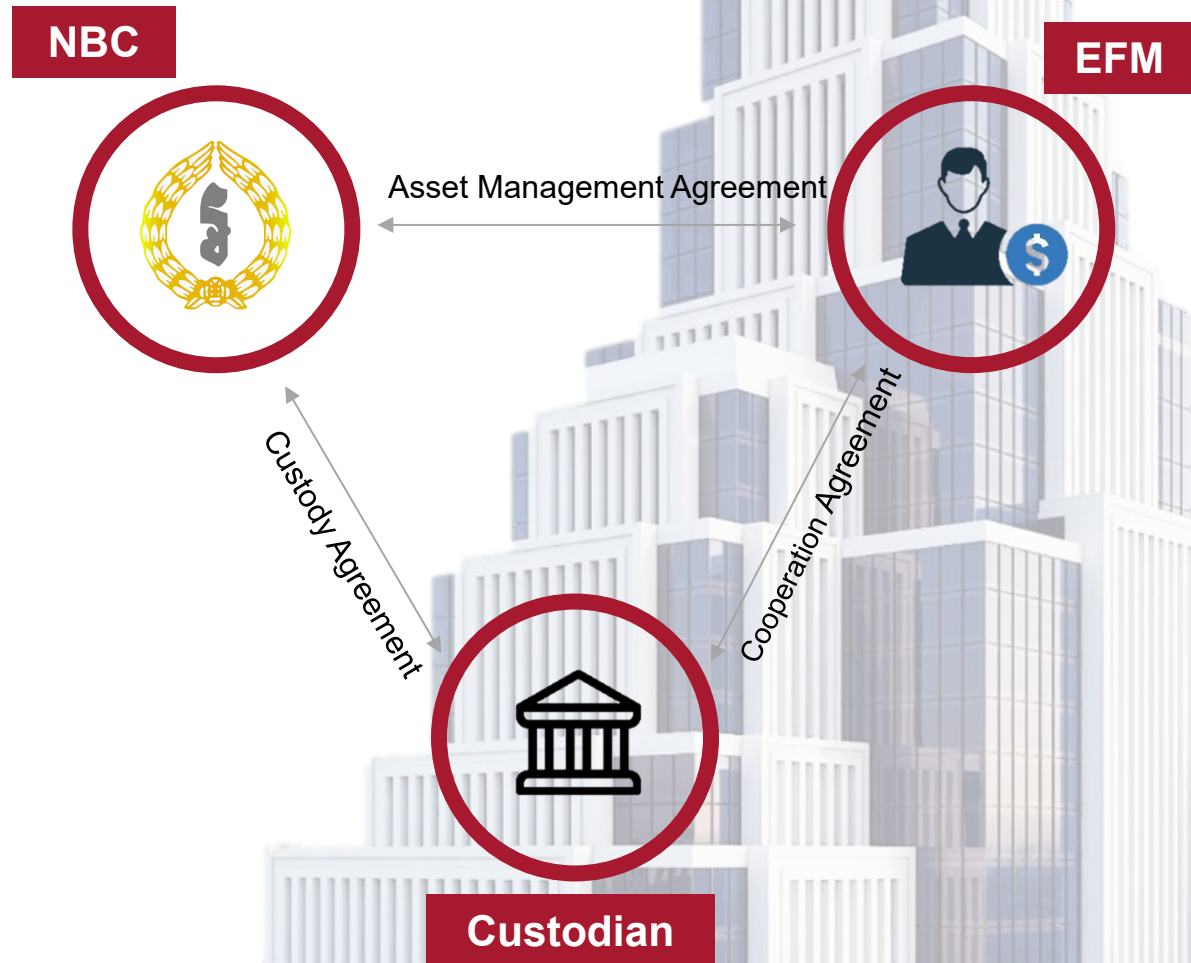
- ✓ Excess Funds

Reserve Diversification: *External Fund Managers (EFM)*

External Fund Managers

Purpose:

- ✓ Diversification of reserves
- ✓ Exposure to more complex instruments
- ✓ Seeking higher return



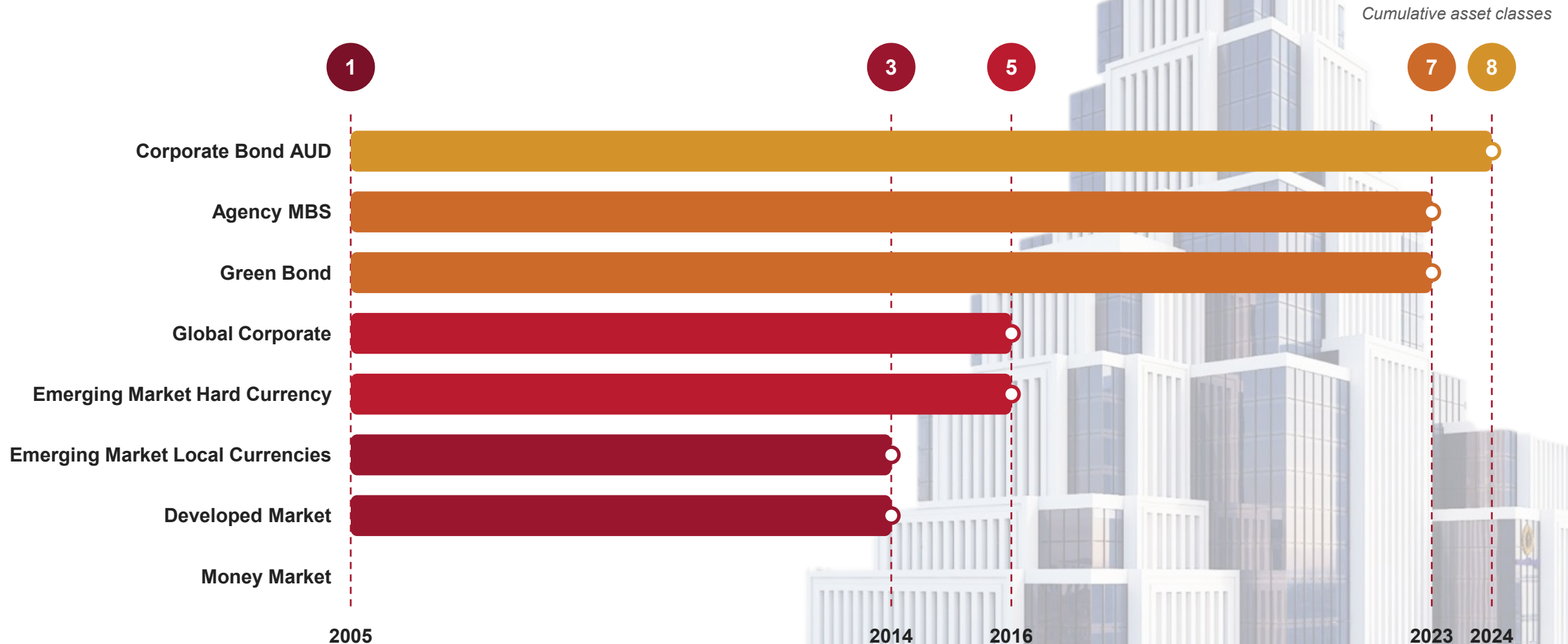


NATIONAL BANK OF CAMBODIA

Riel. Stability. Development.

NBC's Reserves Diversification

The eligible investment universe has grown from a single asset class in 2005 to eight today.





What are the Risk Factors?

Nine risk categories are actively monitored, with **Credit, Market, Liquidity, and Operational Risk** marked as priority focus areas.



Risk Limits and Management

Each priority risk is governed by hard limits set in the Investment Guidelines and tracked through dedicated monitoring indicators.

	Hard Limits	Monitoring Indicators
 Market Risk	• Duration • FX composition • Credit Spread Products	• Value at Risk (VaR) • Tracking Error (TE) • Scenario Analysis
 Credit Risk	• Credit Rating (Issuer and counterparty) • Exposure to an Issuer	• Credit VaR • DRSK
 Liquidity Risk	• Minimum Issuance Size	• Liquidity Cost
 Operation Risk	• Rules for Operation	• Risk Self Assessment • Key Risk Indicators



Compliance Risk

Key sources of compliance breaches:

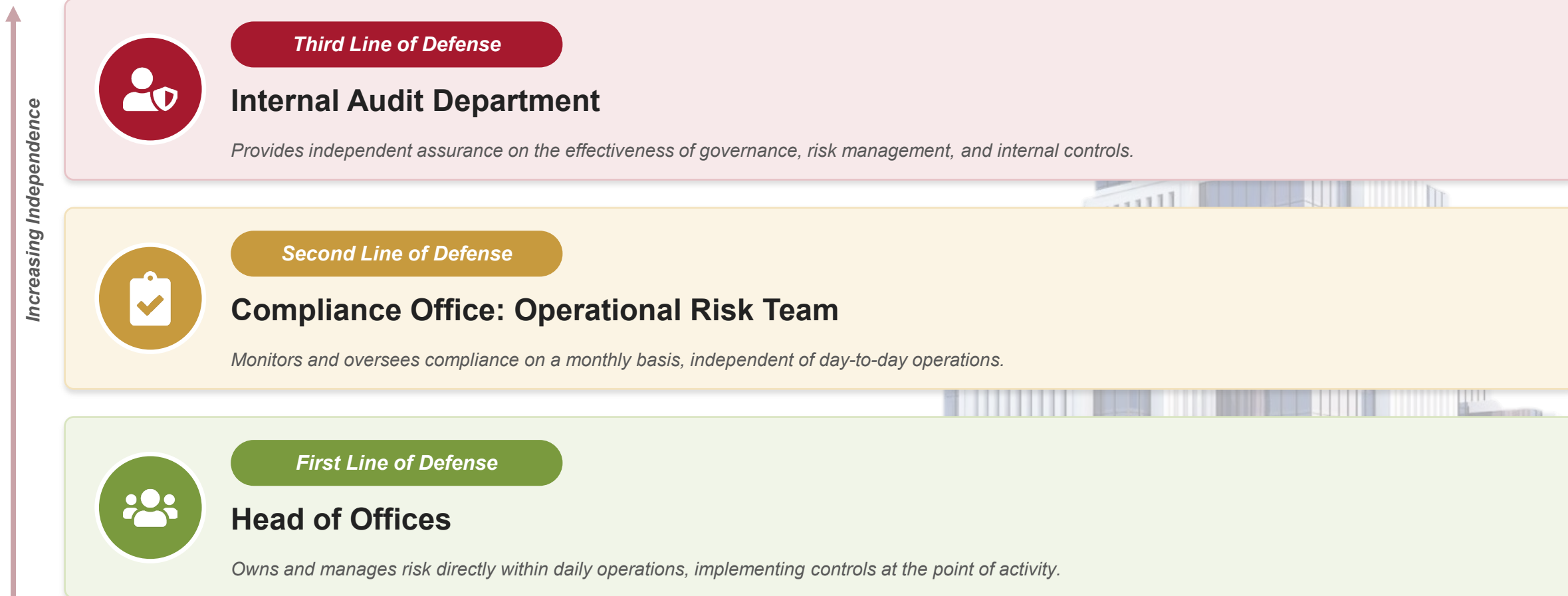
- ✓ Currencies composition
- ✓ Portfolio composition
- ✓ Minimum bond and credit rating
- ✓ Duration deviation
- ✓ Eligible assets and instruments
- ✓ Concentration limit on issue and issuers
- ✓ Counterparty limit





The Three Lines of Defense

Risk is managed through three progressively independent layers of oversight.





Reportings



Daily Report

- Brief reporting to the Investment committee members and top managements of the Bank

Monthly /Semi-annual/ Annual Investment reports

- Risk management: counterparty risk, liquidity risk, market risk (portfolio duration, DV01)
- Performance measurement on an absolute and relative basis versus benchmarks
- Compliance risk: concentration limit, spread duration, portfolio composition, foreign currency composition, credit limits etc.)
- External managers: performance measurement, portfolio composition, spread duration and credit limits.

Annual report for the Board of Directors





Thank You for Your Attention!

