



ក្រុមហ៊ុន

ក្រុមហ៊ុនប្រតិបត្តិការធនាគារជាតិកម្ពុជា
 ភ្នំពេញ

Vision

To be the No. 1 Bank in Cambodia.

គោលនយោបាយ

- 1> គោលនយោបាយនៃការផ្តល់សេវាធនាគារដល់អតិថិជន តាមរយៈការផ្តល់សេវាធនាគារ ដោយប្រុងប្រយ័ត្ន និងប្រសិទ្ធភាព ផ្តល់នូវផលប្រយោជន៍ដល់អតិថិជន។
- 2> គោលនយោបាយនៃការគ្រប់គ្រងហានិភ័យ ដោយយល់ច្បាស់ និងប្រុងប្រយ័ត្ន ក្នុងការផ្តល់សេវាធនាគារ។
- 3> គោលនយោបាយនៃការគ្រប់គ្រងធនធានមនុស្ស ដោយផ្តល់នូវបរិយាកាស និងប្រសិទ្ធភាព ក្នុងការងារ និងការងាររបស់អ្នកប្រតិបត្តិការ។
- 4 គោលនយោបាយនៃការគ្រប់គ្រងហានិភ័យ ដោយយល់ច្បាស់ និងប្រុងប្រយ័ត្ន ក្នុងការផ្តល់សេវាធនាគារ។

Corporate Philosophy

1. To achieve high customer satisfaction by providing honest, efficient and courteous services, offering innovative products and excellent service delivery.
2. To be a responsible corporate citizen.
3. To promote the well being of our employees through job enrichment and fostering goodwill among the staff.
4. To generate adequate profits and promote the long-term, sustainable growth of the Bank.



Opening ceremony
8 November 2002



1st Anniversary
8 November 2003

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Madam Chhun Leang

Rovt s: aCvkmp

erkay B) an s em a f eb ken a e f t j b Exvic ka q a 2002 / Fna Karv D/ An³ K W a F na Karm y f p n Ae l T p Sar F na Kar km & a Ed l) any k cit f i k dak BR gy C M h r x b E g ed m, karr kc M h r g m a l l y³ e B l Evg .

m s Pa Kh u s M a n² K W l a k j k j a s M G a g n i g e l a k C M a r Q m l a g E d l C a s h s B o n k R k m h u v D/ A n³ G a h r P a l - n i h r P a l . e r k a y B) a n b e g i t e L g r y³ e B l C a e h q a l R k m h u v D/ A n³ G a h r P a l - n i h r P a l) a n T T V G a C h o P a l N a t u n i g n a t j p p c m x n U m a s K L U k g R o e t s k m & a n i g C a e d K k g R s k r b s ; R k m h u p l i t R s a e b o r k m & a E d l C a R k m h u p l i t R s a e b o r m a k T i g e r d m a n R o C a R b i y P a B . m s P a K h u n e p S g e T o t r b s ; F n a K a r v D/ A n³ K W B a f s M a g k a n i k a E d l k B g s k S a m x C M a j e s d i e c q a l B a b , e n A s a l a e s d i e c n a t R k g L g d g R o e t s G g e K s n i g e l a k s M a g v D/ A n³ E d l k B g s k S a q a T 2 e n s a k l v i t u a l y Oxford University n a t R k g L g d g R o e t s G g e K s . m s P a K h u T a g e n E d l C a s m a C k r b s R k m P o k S a P) a l p g e n a l m a n k a r C y k a r g a r B i s M a k b N p o k A k R k b R k g m y c M E d l C a G k m a n v C a C i³ n i g b T B e s a F n c , a s ; l a s ; k u g m x t M N g C a G k T T V x s R t U e n A k g b N p F n a K a r G n p C a t n a n a .

F n a K a r v D/ A n³ e F l o t b t k a r G a C i v k m p l h a l s k m p a B F n a K a r . k a r y l d g y a g T U M a y r b s e y g n u s h P a b k g R s k) a n e d r t h a T y a g s M a n k u g k a r v a y t e m o u l T p B E d l G a c e k i t m a n c a b A G t i f C n [p r o s p e c t] n i g G a c R k b R k g h a n P y n a n a e d a y R o g R o y k a m u d a e G t i f C n m a n c a b B E k C n E d l C a n s ;

K N n i s n S M h u d l b N p G a C i v k m p s g² / b N p G g k a r N G O s k u g R s k / b N p G g k a r G n p C a t i / b N p R k m h u F R k g R s k n i g b N p R k m h u B h C a t i . c M N k E k a r p l R y a k k b i l s h R K a s x a t t b n i g x a t m F u m [S M E] k z i t k u g k a r e p t k a r y k c i t f i k d a k y a g s M a n m y E d r .

m e F u a) a y s M a n s M b k a r G n u t p k a r g a r b c b , n n i g s M b ; k a r G n u t p n a e B l G n a k t K W B a n o t b t k a r R o k b e d a y R o s i l P a B / I T , G P) a l k i c R k m h u l y k a r y l d g G m s P a B k a r N k u g R s k n i g R o N i t P a B e n e s v a k m p b N p R o t b t k a r r b s F n a K a r e y g R t U) a n d a k ; [d M N k a r e B j e l j k u g R o B a k M U T / S M A R T B A N K E d l c a t ; T k C a R o B a s i l e n R o t b t k a r r b s F n a K a r . r E b N p e s v a k m G n p C a t i R t U) a n K a n t e d a y F n a K a r T M a k ; T M g b o e T s S M a n B f K W H S B C B a n k , N e w Y o r k n i g W a c h o v i a B a n k , N e w Y o r k . k a r B R g y G P) a l k i c S a C i v k m p o s e y g R o R B u p T A t a n r y³ k a r G n u t l y a g m l y m a t ; n u s l g d a r G n p C a t i f i f c g e k a y r b s y i s y F n a K a r . t a n r y³ e s v a k m p l R o N i t e n H [s e r v i c e e x c e l l e n c e] F n a K a r v D/ A n³ m a n b M g c g E R o k a y e T A C a F n a K a r C M i s s M o b N p G t i f C n b c b , n n a n A k g R o e t s k m & a n i g c g E R o k a y e T A C a t k e n g d F M R o k b e d a y s k p n B l s M o b G t i f C n e F v s k m p a B n a e B l G n a k t .

Corporate Profile

Launched on 8 November 2002, Vattanac Bank is a relatively new player on the Cambodian banking scene that has carefully positioned itself for long-term sustainable growth.

The primary shareholders are Mr. Sam Ang and Madam Chhun Leang, co-founders of Progress Import Export Co. Ltd. Long established in Cambodia, this company is the sole licensed importer and exporter of gold bullion and the local partner of Cambodia Brewery, producer of the popular Tiger beer brand. The other owners of the bank are Ms. Sam Ang Kanika, a final year economics undergraduate in the London School of Economics, and Mr. Sam Ang Vattanac, a second year undergraduate in Oxford University, UK. The shareholders, who also make up the Board of Directors, are assisted by a number of qualified managerial staff with solid experience in responsible positions at international banks.



Ms. Sam Ang Kanika



Mr. Sam Ang Vattanac

Vattanac Bank provides a full range of retail and corporate banking services and our extensive local knowledge plays a vital role in assessing customer prospects and prudently managing risks. The diversified client base ranges from individual savings account holders to businesses, local NGOs, international organisations, large local corporations and multinationals. SME lending is also an important focus.

The key platforms for current performance and future expansion are an efficient and effective operating system, IT, good corporate governance, local knowledge and service excellence. Operations are fully computerised with SMARTBANK as the core retail banking system. International services are supported by two main overseas correspondents: HSBC Bank, New York and Wachovia Bank, New York. Reinforcing our corporate governance is the conscientious application of the latest international standards for the banking industry. Through service excellence, Vattanac aims to become the bank of choice among current banking customers in Cambodia and the potentially much larger pool of customers in the future.

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SRmgTinn̄yhiBaŃB

2003

I TPãBR)akcMj³

R)akcMj dũ	1,100,33.00
cMj BRotbtãr	1,002,147.00
cMj / xatmbgbnš	400,482.00
cMj / xatekaybgbnš	351,458.00

smaPaBsMan²éntaragtu ùkar³

srbRTBüskmp	26,499,708.00
mũ nFimãPaKhũ	13,194,795.00
R)akkMingberPãTan	8,641,470.00
R)akbeBãbsGtifCn	12,910,558.00
TayCTan nigEpnRTBüGkmp	3,431,642.00

Gn)at hiBaŃB³

cMj eFobngednTumãPaKhũ	2.66%
cMj eFobngRTBüskmp	1.33%
Gn)atcMjayeFobngcMj	60%
R)akkMn)anGnutpFobngR)akkMsrb	0%
Gn)aténsaFnPaB -FnaKarCatênkmã;	76%
Gn)aténsacR)akgayRsV	208%

Financial Highlights

The following are the financial highlights for Vattanac Bank for the position ending 31 December 2003, presented in United States dollars (USD).

Financial Highlights

2003

PROFITABILITY

Gross revenue	1,100,333.00
Operating income	1,002,147.00
Profit/loss before tax	400,482.00
Profit/loss after tax	351,458.00

KEY BALANCE SHEET ITEMS

Total assets	26,499,708.00
Shareholders' funds	13,194,795.00
Loans and advances	8,641,470.00
Deposits from customers	12,910,558.00
Commitments and contingencies	3,431,642.00

FINANCIAL RATIOS

Return on Equity (RoE)	2.66%
Return on Assets (RoA)	1.33%
Expense to income ratio	60%
Non-performing loans to total loans	0%
Solvency Ratio (NBC)	76%
Liquidity Ratio	208%

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 bNpl kRkRgRsk. qmTénRbtbtKareBjel jrbsybg´
 BitCa)annaknkukarrkclrhthenAküRkbEpiksMan;²TajGs;
 eTAbCamYcInkFRtU)aneFVLgedm,RTomI kN³sMokar
 rkclrh nigsMokarGPiD/AnaeBI Gnaktkeday.

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 USD13.1M. R)akktalngiberRoTan [Loan & Advances]
)anekhelLgdI Cag USD8.6M. bNpGtifCnkmanCkMhO
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 cu nigEgvecj CaGnpCati edaysardMNRbRbItptAen
 skmpAbTajenHmanPaBrhÿ nigKV [eCOTkkitp niyayrnkV
 RotbtKartajLayenHeF [FnaKareygtTV)anR)akcMnj
 CkMh USD400,482 espg 3.08% eFobngedmTu [Return
 on Capital] .

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edm,Fana[manPaBrabsarenAküRkb,skmpABR)asÿ/
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 el kklRsesvakmpbsybg [Let's Up Our Service]}.

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ID JAW KITA RASNIIPS

Message from the Chairman

Our first full year of operation was indeed marked by progress in all key areas

“Vattanac” is the Khmer word for “progress.” As reflected in the name, a key element of the vision for founding the bank is to bring to Cambodia a strategic combination of world-class banking services, and intimate knowledge of local conditions. Our first full year of operation was indeed marked by progress in all key areas, while much was also done to prepare for future growth and expansion.

Assets nearly doubled to US\$26.5 million with deposits at a healthy US\$13.1 million. Loans and advances climbed to over US\$8.6 million. Customers also entrusted us with an increasing volume of inward and outward international remittances, which we attribute to our fast and reliable handling of such transactions. Overall, operations generated a profit of US\$400,482, representing 3.08% Return on Capital.

Much effort was invested in setting up of essential infrastructure and in improving the efficiency and effectiveness of the Bank’s operations. In particular, initiatives were carried out for enhancement of the computer system, documentation of guidelines and procedures, reorganisation of resources, establishing correspondent banking relationships and streamlining work.

To ensure courtesy in all our customer interactions, we launched the GOLDEN service in the second half of 2003. We plan to reinforce this emphasis through another campaign to “Let’s Up Our Service” in the first half of 2004.



Oknha Sam Ang

Having achieved satisfactory performance in our first full financial year, we look at the road ahead with confidence and reassurance. Economic growth is stable and Cambodia has a vigorous and increasingly sophisticated business community. It is our firm belief that the present economic climate offers ample opportunities for expansion and diversification of our banking operations with greater reach across the country.

On behalf of the Board of Directors, we wish to express our sincere appreciation to the management and staff of Vattanac Bank for their hard work, loyalty, dedication and firm commitment throughout 2003. We are also deeply indebted to our customers, corresponding agents and business associates for their valued patronage, confidence and support that played such an important role in the successes of the past year.

The Board and management also wish to thank the National Bank of Cambodia and especially the Governor H.E. Chea Chanto, senior officials and staff for their guidance, support and advice.

Sam Ang
Chairman

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cINU BkarR)ak; RtU)anrhcMnkayagxã BkarR)ak; el R)akkeM nigGRtakR)akel NNTanel ssmtdü [OD] Ed I mankMcabBl 11% eTA 16% eFobngkMGRtakR)ak; Rtmet 1% eTA3% bänH Ed I Fnakaray)anbg; [GtifCn Ed I)andak; R)akbeBaDl küqã2003/ cINU süBkarR)ak;)anekhelLgdI ; \$590,413 nigGaksYedaycMnay karR)akmanMttab dëchFnakarGacTTV)annU kMttkarR)ak;SÜ\$[net interest margin] CMM 94%.



bEnhBel enHeygkTTV)ancINU sü\$CMM \$405,061 eTot BkMreChsar nigBefQü / BessKMBskmpAb hiBa0, Tan BaNICkmpunigskmpABEgVR)ak;. I Tpl enH)anbegit eTAcR)akcMnj mabgBngMmFüm bënPKVatEl kTkcitp [a modest but encouraging pretax profit] CMM \$400,482.

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Baküesak nigsgdãkMtrbseyg sMokareFIskmpAb CamlybnGtifCnKMSvakmpas [GOLDEN Services] . edm,sMcekal edAenH/naqã2003 ey)andMnkareCserbs bKã kedayRogRoyYäritehydMnkarbNplNpl eday ykctikdãk; vneyaKenH)anTTV eCaKCy tamry³karBj citkMtxsBsmakGtifCn nig)anBRgysmtPaBrbsFnakar edm,I[GacTTV)anGtifCnfFefmetot .

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Management Review and Analysis

Our credit portfolio is diversified among growth sectors, including tourism, trade, construction and manufacturing.

Financial Performance

Assets increased by a resounding 82% in 2003, driven by rapid growth in lending to over \$8.6 million by year end and ample liquidity from customer deposits at almost \$13 million. This success is the result of proactive marketing of deposits and prudent management policy. Interest-based income was complemented by strong performance in fee-based income from remittances and trade financing activities. Despite the robust expansion in revenue-generating operations, the capital base on approximate par with assets is still more than adequate to support further expansion, particularly with the LDR at only 66%.

Prudent risk management is reflected in the diversification of our credit portfolio, with exposure in various growth sectors including tourism, trading, real estate, construction and manufacturing. While lending is dominated by the corporate sector, individuals nevertheless account for 34.4% of the loan portfolio. Maturities for deposits and the majority of loans are short-term at less than one year, representing a significant reduction in risks.

Interest income is supported by a substantial spread, with rates on loans and overdrafts in the 11%-16% range compared to only 1%-3% on

interest-bearing deposits. Net interest income in 2003 reached \$590,413, and with low interest expense, the bank posted a net interest margin of 94%. Added to this was \$405,061 in net income from fees and commissions generated largely from trade financing and remittances. These results contributed to a modest but encouraging pretax profit of \$400,482.

Human Resources

We recognise the importance of excellent customer service for achieving high customer satisfaction. At the heart of service are the people on the front line. The first step in building human resources was taken by recruiting management personnel with respected track records in international banks in the region. During 2003, Vattanac Bank more than doubled its personnel from 12 to 27 through careful recruitment and selection followed by meticulous training and immersion in the corporate culture. This investment has paid off with high levels of customer satisfaction and strengthened the ability of the bank to win new customers.

Technology

The bank's distinctly human touch is reinforced by its modern, fully integrated computer systems

The bank's distinctly human touch is reinforced by its modern, fully integrated computer systems and the use of SWIFT, the universal medium for wire instruction. The internal application software was customised during the year to achieve full compliance with the requirements of the National Bank of Cambodia, thus improving system efficiency and reliability. With the computer system currently in place, Vattanac Bank is well positioned to launch future innovations to enhance its products and services to customers.



Prospects

Cambodia's economy is predicted to achieve 5.5% growth in 2004, with inflation holding steady at below 2%. Although the last 6 months of 2003 were marked by thin depreciation in the Cambodian riel, the currency is expected to remain stable in the coming year. The current level of interest rate spread supports profitable operations while remaining competitive against other banks.

The outlook for the coming years, barring any unforeseen circumstances, is positive with ongoing structural improvement in the economy, rising foreign direct investment and improvement in the tourism industry. The bank looks forward to expanding its support for the productive sectors of the economy, which in turn will contribute to steady, sustained growth in our operations.

While we are proud of our performance in the first year in business, our Bank recognises the need to win the trust and confidence of the public and our customers. Towards this objective, we will strive to build an effective and dynamic organisational structure and subscribe to good corporate governance. We remain confident that successful implementation of these plans will bring us closer to fulfilling our corporate mission to be the No. 1 Bank in Cambodia.

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GOLDEN Service

“The overriding objective is customer satisfaction, achieved through strong focus on efficient, highly personalised service responsive to the needs of customers.”

The cornerstone of the Vattanac philosophy of excellence is the pursuit of customer satisfaction as our overriding objective. We believe that this satisfaction will be achieved through strong focus on efficient, highly personalised service that anticipates and is responsive to customer needs. This commitment is reinforced by our vision for improvements in delivery channels for a comprehensive range of products and services expected of a commercial bank.

With these aims in focus, we seek to create an environment committed to customer care, continuous improvement and professionalism in every aspect of our interaction with customers at all times. The Bank actively seeks qualified and committed personnel and ensure that training programmes are aligned to service goals.

To build common awareness and shared principles of service excellence among all personnel, Vattanac Bank has adopted a codified set of expectations known as the GOLDEN Standard of Service.



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Customer Service Pledge

We recognise that excellent service is a key component of customer satisfaction and that our interface with customers bears testimony to our commitment to consistent quality of service.

At Vattanac Bank, that means delivering fast, accurate and reliable services as well as treating our customers with courtesy and respect. We also recognise the key role of customers in helping us improve our services and will work with them in partnership to achieve continuous service improvement.

Translating the above into tangibles, we the staff of Vattanac Bank PLEDGE the following to all our customers:



Your Needs

Shorter Waiting Time

Fast Service

Prompt Answering of Phone Calls

Prompt Attention to Problems

Courteous and Friendly Service

Our Commitment

Ensure that your waiting time is not more than 5 minutes before you are served.

Complete simple transactions in not more than 5 minutes

Your call will be answered before the third ring and transferred to the appropriate person.

Your enquiry or complaint will receive immediate acknowledgment. We will resolve issues in the shortest time possible and keep you informed of status or decisions made.

We are committed to upholding our GOLDEN Standard of Service

Greet - Open Arms - Listen - Deliver - Express Appreciation - Neighbourliness.

VATTANAC BANK'S SERVICE MISSION

“To be recognised as the Bank with the best customer service by consistently meeting and exceeding our customers' requirements and expectations for efficiency, courtesy, confidentiality, reliability and convenience”.



VATTANAC BANK LIMITED

Registration No: Co 6000/02P
Incorporated in Cambodia

Shareholders/Directors

Oknha Sam Ang
Madam Chhun Leang
Miss Sam Ang Kanika
Mr. Sam Ang Vattanac

FINANCIAL STATEMENTS

31 December 2003

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Report of directors

The directors have pleasure in submitting their report and the audited financial statements of Vattanac Bank Limited (“the Bank”) for the year ended 31 December 2003.

Principal activities

The Bank is principally engaged in all aspects of banking business and the provision of related financial services. The Bank obtained a license to commence banking business with effect from 7 June 2002. The Bank was officially inaugurated on 8 November 2002.

Financial results

The financial results of the Bank for the year ended 31 December 2003 were as follows:

	US\$
Profit before taxation	400,482
Taxation	(49,024)
	<hr/>
Profit after taxation	<u>351,458</u>

Dividends

No dividend was declared or paid and the directors do not recommend any dividend to be paid for the year under review.

Share capital

There were no changes in the registered and issued share capital of the Bank for the year under review.

Reserves and provisions

There were no material movements to or from reserves and provisions during the financial year.

Bad and doubtful debts

Before the financial statements of the Bank were prepared, the directors took reasonable steps to ascertain that actions had been taken in relation to the writing off of bad debts and the making of allowances for doubtful debts, and satisfied themselves that there were no known bad debts and no allowance is required to be made for bad and doubtful debts.

At the date of this report, the directors are not aware of any circumstances of bad or doubtful debts in the financial statements of the Bank.

Current assets

Before the financial statements of the Bank were made out, the directors took reasonable steps to ensure that any current assets, other than debts, which were unlikely to be realised in the ordinary course of business at their value as shown in the accounting records of the Bank have been written down to an amount which they might be expected to realise.

At the date of this report, the directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Bank misleading.

Valuation methods

At the date of this report, the directors are not aware of any circumstances which have arisen which render adherence to the existing method of valuation of assets and liabilities in the financial statements of the Bank misleading or inappropriate.

Contingent and other liabilities

At the date of this report, there does not exist:

- (a) any charge on the assets of the Bank which has arisen since the end of the financial year which secures the liabilities of any other person, or
- (b) any contingent liability in respect of the Bank that has arisen since the end of the financial year other than in the ordinary course of banking business.

No contingent or other liability of the Bank has become enforceable, or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the directors, will or may substantially affect the ability of the Bank to meet its obligations as and when they fall due.

Change of circumstances

At the date of this report, the directors are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Bank, which would render any amount stated in the financial statements misleading.

Items of unusual nature

The results of the operations of the Bank for the financial year were not, in the opinion of the directors, substantially affected by any item, transaction or event of a material and unusual nature. There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect substantially the results of the operations of the Bank for the current financial year in which this report is made.

Directors

The directors who served since the date of the last report are:

Oknha Sam Ang

Madam Chhun Leang

Miss Sam Ang Kanika

Mr Sam Ang Vattanac

Directors' interests

The interests of the directors in the shares of the Bank since the date of the last report are as follows:

	Holding %	Number of shares of US\$100 each
Oknha Sam Ang	30	39,000
Madam Chhun Leang	30	39,000
Miss Sam Ang Kanika	20	26,000
Mr Sam Ang Vattanac	20	26,000
	<hr/> 100 <hr/>	<hr/> 130,000 <hr/>

Directors' benefits

Since the end of the previous financial year, no arrangements subsisted, to which the Bank is a party, with the object of enabling directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate; and

No director of the Bank has received or become entitled to receive any benefit by reason of a contract made by the Bank or a related corporation with a firm of which the director is a member, or with a Bank in which the director has a substantial financial interest as disclosed in Note 24 to financial statements.

Directors' responsibility in respect of the financial statements

The board of directors is responsible for ascertaining that the financial statements are properly drawn up so as to give a true and fair view of the financial position of the Bank as at 31 December 2003 and of the results of its operations, change in equity and its cash flows for the year then ended. In preparing these financial statements, the board of directors is required to:

- i) adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- ii) comply with accounting principles generally followed in Cambodia and the guidelines issued by the National Bank of Cambodia or, if there have been any departures in the interest of true and fair presentation, ensure that these have been appropriately disclosed, explained and quantified in the financial statements;

- iii) maintain adequate accounting records and an effective system of internal controls;
- iv) prepare the financial statements on the going concern basis unless it is inappropriate to assume that the Bank will continue operations in the foreseeable future; and
- v) control and direct effectively the Bank in all material decisions affecting the operations and performance and ascertain that such have been properly reflected in the financial statements.

The board of directors confirms that the Bank has complied with the above requirements in preparing the financial statements.

Signed in accordance with a resolution of the board of directors,



Oknha Sam Ang
Chairman

Date: 18 February 2004



Madam Chhun Leang
President

Date: 18 February 2004

Report of the independent auditors to the shareholders of Vattanac Bank Limited

We have audited the accompanying balance sheet of Vattanac Bank Limited (“the Bank”) as at 31 December 2003 and the related statements of income, changes in equity, and cash flows for the year then ended as set out on pages 25 to 27. The preparation of the financial statements is the responsibility of the directors of the Bank. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with prevailing independent auditing practices in Cambodia. These require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2003, and of the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally followed in Cambodia and NBC Guidelines.

As indicated in note 2(a) the accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than Cambodia.

KPMG Cambodia

Date: 18 February 2004

Balance sheet as at 31 December 2003

	Note	2003		2002
		US\$	KHR'000	US\$
Assets				
Cash and bank balances	4	5,935,926	23,601,241	1,100,200
Deposits and placements with banks	5	9,300,000	36,976,800	11,644,755
Loans and advances	6	8,641,470	34,358,485	-
Other assets	7	45,024	179,015	17,256
Statutory deposits	8	2,190,000	8,707,440	1,392,000
Property and equipment	9	387,288	1,539,857	415,571
		<hr/>	<hr/>	<hr/>
Total assets		26,499,708	105,362,838	14,569,782
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Liabilities and shareholders' funds				
Deposits from customers	10	12,910,558	51,332,379	1,497,690
Deposit by other bank	11	157,431	625,945	-
Other liabilities	12	26,476	105,268	58,458
Provision for taxation	13	40,448	160,821	297
		<hr/>	<hr/>	<hr/>
		13,134,913	52,224,413	1,556,445
		<hr/>	<hr/>	<hr/>
Share capital	14	13,000,000	51,688,000	13,000,000
Retained profit/(Accumulated loss)		194,795	774,505	(156,663)
		<hr/>	<hr/>	<hr/>
Total shareholders' funds		13,194,795	52,462,505	12,843,337
		<hr/>	<hr/>	<hr/>
Subordinated loans	15	170,000	675,920	170,000
		<hr/>	<hr/>	<hr/>
		13,364,795	53,138,425	13,013,337
		<hr/>	<hr/>	<hr/>
Total liabilities and shareholders' funds		26,499,708	105,362,838	14,569,782
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes form part of these financial statements

Income statement for the year ended 31 December 2003

	Note	2003 US\$	KHR'000	2002 US\$
Interest income	16	628,027	2,497,035	95,071
Interest expenses	17	(37,614)	(149,553)	(952)
Net interest income		<u>590,413</u>	<u>2,347,482</u>	<u>94,119</u>
Fee and commission income		465,733	1,851,755	14,949
Fee and commission expense		(60,672)	(241,232)	(5,613)
Net fee and commission income	18	<u>405,061</u>	<u>1,610,523</u>	<u>9,336</u>
Other operating income		6,673	26,531	851
Operating income		<u>1,002,147</u>	<u>3,984,536</u>	<u>104,306</u>
General administrative expenses	19	(601,665)	(2,392,220)	(259,846)
Profit/(Loss) before taxation		<u>400,482</u>	<u>1,592,316</u>	<u>(155,540)</u>
Taxation	20	(49,024)	(194,919)	(1,123)
Profit/(Loss) after taxation		<u><u>351,458</u></u>	<u><u>1,397,397</u></u>	<u><u>(156,663)</u></u>

The accompanying notes form part of these financial statements

Statement of changes in equity for the year ended 31 December 2003

	Share capital US\$	(Accumulated loss)/ Retained profit US\$	Shareholders' funds US\$	Subordinated loans US\$	Shareholders' funds and subordinated loans US\$
As at 7 June 2002 (date of establishment)	13,000,000	-	13,000,000	-	13,000,000
Net loss for the period	-	(156,663)	(156,663)	-	(156,663)
Subordinated loans from shareholders	-	-	-	170,000	170,000
Balance as at 31 December 2002	<u>13,000,000</u>	<u>(156,663)</u>	<u>12,843,337</u>	<u>170,000</u>	<u>13,013,337</u>
Balance as at 1 January 2003	13,000,000	(156,663)	12,843,337	170,000	13,013,337
Net profit for the year	-	351,458	351,458	-	351,458
Balance as at 31 December 2003	<u>13,000,000</u>	<u>194,795</u>	<u>13,194,795</u>	<u>170,000</u>	<u>13,364,795</u>
(KHR'000 equivalents)	<u>51,688,000</u>	<u>774,505</u>	<u>52,462,505</u>	<u>675,920</u>	<u>53,138,425</u>

The accompanying notes form part of these financial statements

Cash flow statement for the year ended 31 December 2003

	Note	2003 US\$	2003 KHR'000	2002 US\$
Cash flows from operating activities				
Net cash generated from operating activities	21	2,352,152	9,352,156	1,410,509
Cash flows from investing activities				
Purchase of property and equipment		(63,181)	(251,208)	(443,554)
Statutory deposits		(798,000)	(3,172,848)	(1,392,000)
Net cash used in investing activities		(861,181)	(3,424,056)	(1,835,554)
Cash flows from financing activities				
Proceeds from issue of shares		-	-	13,000,000
Subordinated loans		-	-	170,000
Net cash generated from financing activities		-	-	13,170,000
Net increase in cash and cash equivalents		1,490,971	5,928,100	12,744,955
Cash and cash equivalents at beginning of period		12,744,955	50,673,941	-
Cash and cash equivalents at end of period	22	14,235,926	56,602,041	12,744,955

The accompanying notes form part of these financial statements

Notes to the financial statements - 31 December 2003

1. Principal activities

The Bank is principally engaged in all aspects of banking business and the provision of related financial services. There were no significant changes in the nature of these principal activities during the financial year.

The Bank obtained a license to commence banking business with effect from 7 June 2002 and subsequently formalised with the Ministry of Commerce of Cambodia on 1 July 2002. The Bank was officially inaugurated on 8 November 2002. The year ended 31 December 2003 is the first full year of operations for which financial statements have been presented and the comparative information represents the results for the period from 2 June 2002 (date of establishment) to 31 December 2002.

2. Basis of preparation

(a) General basis of accounting

The financial statements have been prepared in accordance with the laws and accounting regulations of Cambodia and The National Bank of Cambodia (“NBC”) Guidelines. These may differ in some material respects from International Financial Reporting Standards and the generally accepted accounting principles and standards of other countries. Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with generally accepted accounting principles and practices in countries or jurisdictions other than Cambodia. Furthermore, their utilisation is not designed for those who are not informed about Cambodia’s accounting principles, procedures and practices.

The accounting policies have been consistently applied by the Bank and are consistent with those used in the previous year.

(b) Financial instruments

The Bank’s financial assets and liabilities include cash and cash equivalents, originated loans and receivables, deposits and other receivables and payables. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies.

(c) Measurement and presentation currency

The national currency of Cambodia is the Khmer Riel (“KHR”). However as the Bank transacts and maintains its accounting records primarily in United States dollars (“US\$”), management have determined the United States dollar to be the Bank’s measurement and presentation currency as it reflects the economic substance of the underlying events and circumstances of the Bank.

(d) Measurement and presentation currency (continued)

In compliance with the NBC guidelines, all assets, liabilities and income statement items in foreign currencies at the end of the year are converted into Khmer Riel (“KHR”) using the prescribed official exchange rate announced by the National Bank of Cambodia at the balance sheet date of US\$1: KHR3,976 (2002 – KHR3,930). These translations are for presentation purposes only and should not be construed as representations that the KHR amounts have been, could have or could in the future be converted into US\$ at this rate of exchange.

3. Significant accounting policies

(a) Foreign currency transactions

Transactions in foreign currencies are translated to US\$ at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in currencies other than US\$ at the balance sheet date are translated into US\$ at the rates of exchange ruling at that date. Exchange differences arising on translation are recognised in the income statement.

(b) Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances, demand deposits and short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(c) Loans and advances

Originated loans and advances comprise loans and advances to banks and customers which are created by the bank providing money to a debtor other than those created with the intention of short-term profit taking. They are measured at amortised cost less impairment allowance for bad and doubtful debts, to reflect the estimated recoverable amount. Amortised cost is calculated on the effective interest rate method, which is based on expected future cash flows of contractual instalment payments discounted at prevailing market rates offered for similar loans with similar risk profiles.

(d) Allowance for bad and doubtful debts

Allowances for bad and doubtful debts are made with regard to specific risks and relate to those loans that have been individually reviewed and specifically identified as substandard, doubtful or bad.

In compliance with NBC Guidelines, allowance for doubtful debts is made as follows:

Clarification	Status of non-performing	Provision Rate
Substandard	Excess of 3 months	10%
Doubtful	Excess of 6 months	30%
Loss	Excess of 12 months	100%

In determining the above allowance any collateral value other than cash deposits pledged is disregarded. In the case of a loss classification collateral can be considered, but this is conditional on the actual market value of the collateral having been deemed acceptable by the NBC on a case by case basis.

An uncollectable loan or portion of a loan classified as bad is written off after taking into consideration the realisable value of the collateral, if any, when in the judgement of the management, there is no prospect of recovery.

(e) Deposits and placements with banks

Deposits and placements with banks are stated at cost.

(f) Other receivables

Other receivables are carried at anticipated realisable value.

(g) Statutory deposits

Statutory deposits are maintained with the NBC in compliance with the Cambodian Law on Banking and Financial Institutions and are determined by set percentages of minimum share capital and customers' deposits as required by NBC.

(h) Property and equipment

(i) Items of property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Where an item of property comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Depreciation of property and equipment is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets at the following rates:

Premises improvements	10%
Furniture and fittings	10%
Computer and office equipment	20%
Computer software	20%
Motor vehicles	20%

(iii) Subsequent expenditure relating to an item of property and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Bank. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(iv) Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the assets and are recognised in the income statement on the date of retirement or disposal.

- (v) Fully depreciated property and equipment are retained in the financial statements until disposed of or written off.
- (vi) The carrying amounts of property and equipment are reviewed for impairment when there is an indication that the assets might be impaired. Impairment is measured by comparing the carrying values of the assets with their recoverable amounts. An impairment loss is charged to the income statement immediately.

Reversal of impairment losses recognised in prior years is recorded where there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recognised to the extent of the carrying amount of the asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the income statement immediately.

(i) Other payables

Other payables are stated at cost.

(j) Provisions

A provision is recognised in the balance sheet when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(k) Income recognition

Interest income is recognised on an accruals basis.

Interest income on overdrafts, term loans and other loans is recognised by reference to rest periods, which are either monthly or daily. Where an account becomes nonperforming, interest is suspended until it is realised on a cash basis. Customers' accounts are deemed to be non-performing where repayments are in arrears for more than three months. The policy on suspension of interest is in conformity with NBC Guidelines on the suspension of interest on non-performing loans and provision for bad and doubtful debts.

Income from the various activities of the Bank is accrued using the following basis:

- (i) Loan arrangement fees and commissions on services and facilities extended to customers are recognised based on contractual arrangements;
- (ii) Commitment fees and guarantee fees on a variety of services and facilities extended to customers are recognised as income based on time apportionment; and
- (iii) Service charges and processing fees are recognised when the service is provided.

(l) Recognition of interest expenses

Interest expense on deposits and borrowings is recognised on an accruals basis.

(m) Pre-operating expenses

Pre-operating expenses are charged to income statement when incurred.

(n) Operating lease

Rent incurred on the lease of land and building is treated as operating lease and is accounted for in the income statement on a straight-line basis over the period of the lease.

(o) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates approved at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profit will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Related parties

Parties are considered to be related if the Bank has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice-versa, or where the Bank and the party are subject to common control or significance influence. Related parties may be individuals or corporate entities and include close family members of any individual considered to be a related party.

Under the Law on Banking and Financial Institutions, the definition of related parties includes parties who hold, directly or indirectly, at least 10 percent of the capital or voting rights and includes any individual who participates in the administration, direction, management or internal control of the Bank.

4. Cash and bank balances

	2003		2002
	US\$	KHR'000	US\$
Cash in hand:			
US Dollar	1,865,289	7,416,389	653,452
Khmer Riel	1,101	4,378	526
	<u>1,866,390</u>	<u>7,420,767</u>	<u>653,978</u>
Bank balances in Cambodia:			
National Bank of Cambodia	1,647,200	6,549,267	285,514
Other banks	-	-	149,069
Bank balances outside Cambodia	2,422,336	9,631,207	11,639
	<u>4,069,536</u>	<u>16,180,474</u>	<u>446,222</u>
	<u>5,935,926</u>	<u>23,601,241</u>	<u>1,100,200</u>

The above bank balances represent the settlement accounts with other banks and are analysed by currency denominations as follows:

	2003		2002
	US\$	KHR'000	US\$
US Dollar	3,961,720	15,751,798	433,215
Singapore Dollar	12,562	49,946	11,639
Khmer Riel	95,254	378,730	1,368
	<u>4,069,536</u>	<u>16,180,474</u>	<u>446,222</u>

5. Deposits and placements with banks

	2003		2002
	US\$	KHR'000	US\$
National Bank of Cambodia	3,500,000	13,916,000	11,000,000
Banks outside Cambodia	5,800,000	23,060,800	644,755
	<u>9,300,000</u>	<u>36,976,800</u>	<u>11,644,755</u>

The above are denominated in US\$ and analysed as follows:

a) By maturity period

	2003		2002
	US\$	KHR'000	US\$
Within one month	8,300,000	33,000,800	11,644,755
Between 2 to 3 months	-	-	-
Between 4 to 6 months	1,000,000	3,976,000	-
	<u>9,300,000</u>	<u>36,976,800</u>	<u>11,644,755</u>

b) By interest earning

	2003	2002
	per annum	per annum
National Bank of Cambodia	0.83% to 1.21%	1.21% to 1.61%
Banks outside Cambodia	0.5% to 0.9%	0.52% to 0.91%

6. Loans and advances

	2003		2002
	US\$	KHR'000	US\$
Gross loans and advances			
Loans	2,143,664	8,523,208	-
Overdrafts	6,069,556	24,132,555	-
Bills purchased	28,560	113,555	-
Trust receipt	399,690	1,589,167	-
	<u>8,641,470</u>	<u>34,358,485</u>	<u>-</u>

a) No allowance for bad and doubtful loans and advances and no interest-in-suspense has been provided for in the financial statements. In the opinion of the directors, all loans and advances have been individually reviewed at the year-end and in accordance with the NBC provisioning guidelines, all balances are considered fully recoverable and accordingly no provision is considered necessary.

b) The above loans and advances analysed:

	2003		2002
	US\$	KHR'000	US\$
(i) By maturity periods			
Within 1 month	-	-	-
2 to 3 months	399,690	1,589,167	-
4 to 6 months	2,285,006	9,085,184	-
7 to 12 months	4,975,515	19,782,648	-
1 to 2 years	972,507	3,866,688	-
3 to 5 years	8,752	34,798	-
	<u>8,641,470</u>	<u>34,358,485</u>	
(ii) By security			
Secured	8,632,718	34,323,687	-
Unsecured	8,752	34,798	-
	<u>8,641,470</u>	<u>34,358,485</u>	-
(iii) By economic sectors			
Commercial trading	908,995	3,614,164	-
Manufacturing	488,352	1,941,688	-
Real estate and construction	1,520,364	6,044,967	-
Petroleum trading	2,534,144	10,075,757	-
Hotel services	2,560,358	10,179,983	-
Others	629,257	2,501,926	-
	<u>8,641,470</u>	<u>34,358,485</u>	-
(iv) By currency denominations			
US Dollar	8,641,470	34,359,485	-
	<u>8,641,470</u>	<u>34,359,485</u>	-
(v) By resident status			
Residents	8,641,470	34,359,485	-
	<u>8,641,470</u>	<u>34,359,485</u>	-

<i>(vi) By relationship</i>			
Staff loans	8,752	34,798	-
Related parties *	1,178,359	4,685,155	-
Non related parties	7,454,359	29,638,532	-
	<u>8,641,470</u>	<u>34,358,485</u>	<u>-</u>

* At 31 December 2003, the Bank did not have any loans to related parties other than overdraft of US\$1,178,359 given to one borrower who is a relative to the shareholders. However, the Bank has obtained a letter from the NBC dated 12 September 2003, to which NBC has not considered the loan as a related party loan in view that the loan was given on normal credit terms.

<i>(vii) By type of customers</i>			
Corporate	5,667,602	22,534,386	-
Individuals	2,973,868	11,824,099	-
	<u>8,641,470</u>	<u>34,358,485</u>	<u>-</u>

c) The above loans and advances earn interest at annual rates as follows:

	2003	2002
Loans	11%-13.2%	-
Overdrafts	10.8%-15.6%	-
Bills purchased	13.2%	-
Staff loans	3%	-
Trust receipt	11%	-

7. Other assets

	2003		2002
	US\$	KHR'000	US\$
Interest receivables	14,835	58,984	8,263
Travellers' cheques	4,350	17,296	-
Prepayments	13,832	54,996	7,067
Others	12,007	47,739	1,926
	<u>45,024</u>	<u>179,015</u>	<u>17,256</u>

8. Statutory deposits

	2003		2002
	US\$	KHR'000	US\$
Statutory deposits on:			
Minimum share capital	1,300,000	5,168,800	1,300,000
Customers' deposits	890,000	3,538,640	92,000
	<u>2,190,000</u>	<u>8,707,440</u>	<u>1,392,000</u>

The statutory deposits are maintained with NBC in compliance with Article 5 of NBC Prakas No. B701-136, the amounts of which are determined by set percentages of the Bank's minimum share capital and customers' deposits with the Bank.

The statutory deposit on minimum share capital is refundable only when the Bank ceases its operations in Cambodia and that on customers' deposits fluctuate depending on the level of the customers' deposits.

The statutory deposit on minimum capital placed with NBC in US\$ earns interest at the rate of 3/8 six month SIBOR, with the effective rates ranging from 0.5% to 0.7% (2002 - 0.73% to 0.74%) per annum. There is no interest earned from the statutory deposit relating to customers' deposits.

9. Property and equipment

	Balance at 1.1.2003 US\$	Additions US\$	Disposal/ write-off US\$	Balance at 31.12.2003 US\$
Cost				
Premises improvements	42,916	450	-	43,366
Furniture and fittings	25,681	4,760	-	30,441
Computers and office equipment	85,239	35,291	-	120,530
Computer software	162,058	22,680	-	184,738
Motor vehicles	127,400	-	-	127,400
	<u>443,294</u>	<u>63,181</u>	<u>-</u>	<u>506,475</u>

	Balance at 1.1.2003 US\$	Depreciation charge for the year US\$	Disposal/ write-off US\$	Balance at 31.12.2003 US\$
Less: Accumulated depreciation				
Premises improvements	1,827	4,019	-	5,846
Furniture and fittings	1,388	2,525	-	3,913
Computers and office equipment	8,721	18,780	-	27,501
Computer software	2,499	34,804	-	37,303
Motor vehicles	13,288	31,336	-	44,624
	<u>27,723</u>	<u>91,464</u>	<u>-</u>	<u>119,187</u>

	Net Book Value		Depreciation Charge	
	31.12.2003 US\$	31.12.2002 US\$	31.12.2003 US\$	31.12.2002 US\$
Premises improvements	37,520	41,089	4,019	1,827
Furniture and fittings	26,528	24,293	2,525	1,388
Computer and office equipment	93,029	76,518	18,780	8,751
Computer software	147,435	159,559	34,804	2,499
Motor vehicles	82,776	114,112	31,336	13,288
	<u>387,288</u>	<u>415,571</u>	<u>91,464</u>	<u>27,753</u>

	Balance at 1.1.2003 KHR'000	Additions KHR'000	Disposal/ write-off KHR'000	Balance at 31.12.2003 KHR'000
Cost				
Premises improvements	170,634	1,789	-	172,423
Furniture and fittings	102,107	18,926	-	121,033
Computer and office equipment	338,910	140,317	-	479,227
Computer software	644,343	90,176	-	734,519
Motor vehicles	506,542	-	-	506,542
	<u>1,762,536</u>	<u>251,208</u>	<u>-</u>	<u>2,013,744</u>

	Balance at 1.1.2003 KHR'000	Depreciation charge for the year KHR'000	Disposal/ write-off KHR'000	Balance at 31.12.2003 KHR'000
Less : Accumulated Depreciation				
Premises improvements	7,264	15,979	-	23,243
Furniture and fittings	5,518	10,039	-	15,558
Computer and office equipment	34,675	74,669	-	109,344
Computer software	9,936	138,381	-	148,317
Motor vehicles	52,833	124,593	-	177,425
	<u>110,226</u>	<u>363,661</u>	<u>-</u>	<u>473,887</u>

	Net Book Value		Depreciation Charge	
	31.12.2003 KHR'000	31.12.2002 KHR'000	31.12.2003 KHR'000	31.12.2002 KHR'000
Premises improvements	149,180	163,370	15,979	7,264
Furniture and fittings	105,475	96,589	10,039	5,519
Computer and office equipment	369,883	304,235	74,669	34,794
Computer software	586,202	634,407	138,381	9,936
Motor vehicles	329,117	453,709	124,593	52,833
	<u>1,539,857</u>	<u>1,652,310</u>	<u>363,661</u>	<u>110,346</u>

The premises improvements were carried out on the office building leased from one of the directors/ shareholders for the period from 1 June 2002 to 31 May 2007. The related commitments are stated in Note 25.

In the previous period, an amount of US\$16,349 of depreciation was charged to preoperating expenses.

10. Deposits from customers

	2003		2002
	US\$	KHR'000	US\$
Current accounts	7,080,873	28,153,551	395,821
Savings deposits	5,242,476	20,844,085	1,054,074
Fixed deposits	587,209	2,334,743	29,678
Margin deposits	-	-	18,117
	<u>12,910,558</u>	<u>51,332,379</u>	<u>1,497,690</u>
a) Further analysed as follows:			
(i) By maturity year			
Within 1 month	12,596,510	50,083,724	1,484,012
2 to 3 months	30,000	119,280	-
4 to 6 months	52,348	208,136	-
7 to 12 months	231,700	921,239	13,678
	<u>12,910,558</u>	<u>51,332,379</u>	<u>1,497,690</u>
(ii) By related parties			
Staff accounts	94,206	374,563	67,510
Directors/shareholders	425,115	1,690,257	41,628
External parties	12,391,237	49,267,559	1,388,552
	<u>12,910,558</u>	<u>51,332,379</u>	<u>1,497,690</u>
(iii) By types of customers			
Business enterprises	5,779,208	22,978,131	143,069
Individuals	7,022,385	27,921,003	1,351,099
Non-government organisations	108,965	433,245	3,522
	<u>12,910,558</u>	<u>51,332,379</u>	<u>1,497,690</u>
(iv) By currency denomination			
US Dollar	12,806,614	50,919,097	1,497,690
Khmer Riel	103,944	413,282	-
	<u>12,910,558</u>	<u>51,332,379</u>	<u>1,497,690</u>

(v) By resident status			
Residents	12,876,796	51,198,141	1,497,690
Non-residents	33,762	134,238	-
	<u>12,910,558</u>	<u>51,332,379</u>	<u>1,497,690</u>

b) The savings and fixed deposits bear interest as follows:

	2003 per annum	2002 per annum
Saving deposits	1%	1%
Fixed deposits	1.5% - 3%	1% - 2%

c) The margin deposits were retained by the Bank for trade line and guarantees granted to the customers.

11. Deposit by other bank

This is a vostro settlement account with another bank in Cambodia.

12. Other liabilities

	2003		2002
	US\$	KHR'000	US\$
Interest payables	2,704	10,751	214
Others	23,772	94,517	58,244
	<u>26,476</u>	<u>105,268</u>	<u>58,458</u>

13. Provision for taxation

	2003		2002
	US\$	KHR'000	US\$
Balance at beginning of year	297	1,181	-
Taxation paid	(8,873)	(35,279)	(826)
Current charge	49,024	194,919	1,123
Balance at end of year	<u>40,448</u>	<u>160,821</u>	<u>297</u>

14. Share capital

	2003		2002
	US\$	KHR'000	US\$
Shares of US\$ 100 each: -			
Registered	13,000,000	51,688,000	13,000,000
Issued and paid-up	13,000,000	51,688,000	13,000,000

On 7 June 2002, the Bank issued 130,000 shares of US\$100 each to establish the Bank.

15. Subordinated loans

These represented cash contributed by the shareholders to cover the amount of shortfall in the Bank's net worth as at 31 December 2002 for which the Bank has obtained approval from NBC. The subordinated loans are unsecured, interest free and have no fixed term of repayment.

16. Interest income

	2003		2002
	US\$	KHR'000	US\$
Deposits and placements with banks:			
National Bank of Cambodia	39,828	158,356	92,755
Banks outside Cambodia	52,849	210,128	2,286
Banks in Cambodia	27,500	109,340	30
Loans and advances	507,850	2,019,211	-
	628,027	2,497,035	95,071

17. Interest expenses

	2003		2002
	US\$	KHR'000	US\$
Saving deposits	33,204	132,019	895
Fixed deposits	4,410	17,534	57
	37,614	149,553	952

18. Net fee and commission income

	2003		2002
	US\$	KHR'000	US\$
Fee and commissions earned from:			
Trade finances	63,238	251,434	2,954
Loan processing and commitment fee	146,797	583,665	-
Service charges	252,955	1,005,749	11,995
Foreign exchange gains	2,743	10,907	-
	<u>465,733</u>	<u>1,851,755</u>	<u>14,949</u>
Fee and commission expenses	(60,672)	(241,232)	(5,613)
	<u>405,061</u>	<u>1,610,523</u>	<u>9,336</u>

19. General administrative expenses

	2003		2002
	US\$	KHR'000	US\$
Depreciation	91,464	363,661	11,404
Rent of land and building	49,389	196,371	7,000
Pre-operating expenses written-off	-	-	160,197
Property and equipment written-off	-	-	230
Personnel costs	281,829	1,120,552	41,973
Communication expenses	28,686	114,056	2,894
Other administrative expenses	150,297	597,580	36,148
	<u>601,665</u>	<u>2,392,220</u>	<u>259,846</u>

The Bank had 27 (2002 – 15) employees excluding directors at the year-end.

Included in pre-operating expenses written off in the previous period were:

	2002
	US\$
Depreciation	16,349
Personnel costs	57,896
Rent of land and building	17,500

20. Taxation

	2003	2002	
	US\$	KHR'000	US\$
Current taxation	49,038	194,975	1,123
Over-provided in prior period	(14)	(56)	-
	<u>49,024</u>	<u>194,919</u>	<u>1,123</u>

In accordance with Cambodian law, the Bank has an obligation to pay corporate income tax of either the profit tax at the rate of 20% of taxable profits or the minimum tax at 1% of gross revenue, whichever is higher.

Reconciliation of effective tax rate

	2003	2002	
	US\$	KHR'000	US\$
Profit/(loss) before tax	400,482	1,592,316	(155,540)
Income tax using the approved tax rate	80,096	318,462	(31,108)
Permanent differences	-	-	50
Effect of tax loss carried forward	(31,058)	(123,487)	31,058
	<u>49,038</u>	<u>194,975</u>	-
Effect of adjustment to reflect minimum tax payable	-	-	1,123
Over-provided in prior period	(14)	(56)	-
	<u>49,024</u>	<u>194,919</u>	<u>1,123</u>

As the profit tax is higher, the current taxation represents profit tax computed at 20% of the taxable profit and the previous period taxation was a minimum tax charge for the period.

Deferred tax

The computation of deferred tax using the liability method is as follows:

	2003	2002
	US\$	US\$
	KHR'000	
Unutilised tax loss carried forward	-	155,292
Unrecognised deferred tax assets using the enacted profit tax rate of 20%	-	31,058

The actual amounts of deductible temporary differences and tax loss available to the Bank are subject to review and assessment by the Cambodian Tax Department ("CTD").

Deferred tax assets have not been recognized in respect of deductible temporary differences and accumulated tax losses because of the inherent uncertainties as to whether any future benefits can be derived from these assets. These uncertainties include:

- it is not probable that future taxable profits will be available or exceed the exposure to minimum tax against which the Bank can utilize the benefits therefrom.
- tax losses can only be carried forward to offset against the taxable profits of subsequent years, for a maximum year of five years.
- the actual tax loss that can be carried forward is subject to review and approval by CTD which has not been done since the incorporation of the Bank.

21. Cash flows from operating activities

	2003	2002	
	US\$	KHR'000	US\$
Profit/(loss) before taxation	400,482	1,592,316	(155,540)
Adjustments for:			
Depreciation	91,464	363,661	27,753
Property and equipment written-off	-	-	230
Operating profit/(loss) before changes in operating assets and liabilities	491,946	1,955,977	(127,557)
(Increase)/decrease in:			
Deposits and placements with banks	(1,000,000)	(3,976,000)	-
Loans and advances	(8,641,470)	(34,358,485)	-
Other assets	(27,768)	(110,406)	(17,256)
Increase/(decrease) in:			
Deposits from customers	11,412,868	45,377,563	1,497,690
Deposit by other bank	157,431	625,945	-
Other liabilities	(31,982)	(127,159)	58,458
Cash generated from operations	2,361,025	9,387,435	1,411,335
Taxation paid	(8,873)	(35,279)	(826)
Net cash generated from operating activities	2,352,152	9,352,156	1,410,509

22. Cash and cash equivalents

	2003	2002	
	US\$	KHR'000	US\$
Cash and bank balances	5,935,926	23,601,241	1,100,200
Deposits and placements with banks	8,300,000	33,000,800	11,644,755
	14,235,926	56,602,041	12,744,955

23. Commitments and contingencies

(i) Operations

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated from these transactions which comprise:

	2003		2002
	US\$	KHR'000	US\$
Bank guarantees	78,045	310,307	12,350
Bills received under Letters of Credit	2,277,305	9,054,564	-
Letters of Credit	1,076,292	4,279,337	5,767
	<u>3,431,642</u>	<u>13,644,208</u>	<u>18,117</u>

All commitments and contingencies mature within three months.

(ii) Taxation contingencies

The taxation system in Cambodia is relatively new and is characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges.

These facts may create tax risks in Cambodia substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant since the incorporation of the Bank.

24. Related party balances and transactions

a) The Bank has balances with related parties as at the balance sheet date as follows:

	2003		2002
	US\$	KHR'000	US\$
With shareholders/directors:			
Customers' deposits	396,537	1,576,631	41,628
Subordinated loans	170,000	675,920	170,000
	<u>566,537</u>	<u>2,252,551</u>	<u>211,628</u>
With shareholders' relatives:			
Loans and advances *	<u>1,178,359</u>	<u>4,685,155</u>	-

* At 31 December 2003, the Bank did not have any loans to related parties other than overdraft of US\$1,178,359 given to one borrower who is a relative to the shareholders. However, the Bank has obtained a letter from the NBC dated 12 September 2003, to which NBC has not considered the loan as a related party loan in view that the loan was given on normal credit terms.

b) Transactions with related parties during the year are as follows:

	2003		2002
	US\$	KHR'000	US\$
With shareholders/directors:			
Interest expenses	1,364	5,423	33
Rent of land and building	49,389	196,371	24,500
	<u>50,753</u>	<u>201,794</u>	<u>24,533</u>
With shareholders' relatives:			
Interest income	<u>56,709</u>	<u>225,475</u>	-

The above transactions are conducted on normal commercial terms.

25. Lease commitments

The Bank has commitments under an operating lease agreement, which expires on 31 May 2007, with a director/shareholder for the lease of land and building. The lease rental payment terms are as follows:

	2003		2002
	US\$	KHR'000	US\$
Within one year	42,000	166,992	42,000
Between 2 to 5 years	101,500	403,564	143,500
	<u>143,500</u>	<u>570,556</u>	<u>185,500</u>

26. Segment information

Since the date of incorporation, the Bank has only engaged in commercial banking business and has operated solely within the Kingdom of Cambodia.

27. Financial risk management policies

The guidelines and policies adopted by the Bank to manage the following risks that arise in the conduct of the business activities are as follows:

a) Operational risk

The operational risk losses which would result from inadequate or failed internal processes, people and systems is managed through established operational risk management processes, proper monitoring and reporting of the business activities by control and support units which are independent of the business units and oversight provided by the management.

Operational risk management entails the establishment of clear organisational structure, roles and control policies. Various internal control policies and measures have been implemented. These include the establishment of signing authorities, defining system parameters controls, streamlining procedures and documentation. These are reviewed continually to address the operational risks of its banking business. Plans are being made to set up an internal audit department to formalize the compliance process of the Bank.

b) Credit risk

Credit risk is the potential loss of revenue and principal losses in the form of specific provisions as a result of defaults by the borrowers or counterparties through its lending and investing activities.

The primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. The lending activities are guided by the Credit Policy to ensure that the overall objectives in the area of lending are achieved, i.e., the loans portfolio is strong and healthy and credit risks are well diversified. The Credit Policy documents the lending policy, collateral policy and credit approval processes, including the Bank's own internal grading system, and procedures implemented to ensure compliance with NBC Guidelines.

The Executive Committee meeting, chaired by the Chairman and President with the General Manager in attendance, is empowered to manage all credit and credit-related matters of the Bank. The key activities of the Executive Committee include approving credits proposals, reviewing non-performing loans and reviewing adequacy of measures taken to mitigate credit risks.

c) Market risk

Market risk is the risk of loss arising from adverse movement in the level of market prices or rates, the two key components being foreign currency exchange risk and interest rate risk.

Market risk arising from the trading activities is controlled by mark-to-market of the trading positions against their predetermined market risk limits.

(i) Foreign currency exchange risk

Foreign currency exchange risk refers to the adverse exchange rate movements on foreign currency exchange positions taken from time to time. The Bank maintains a policy of not exposing itself to large foreign exchange positions. Any foreign currency exchange open positions are monitored against the operating requirements, predetermined position limits and cut-loss limits.

(ii) Interest rate risk

Interest rate risk refers to the volatility in net interest income as a result of changes in the levels of interest rate and shifts in the composition of the assets and liabilities. Interest rate risk is managed through close monitoring of returns on investment, market pricing, cost of funds and through interest rate sensitivity gap analysis. The potential reduction in net interest income from an unfavourable interest rate movement is monitored against the risk tolerance limits set.

d) Liquidity risk

Liquidity risk relates to the ability to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due at a reasonable cost.

In addition to full compliance of all liquidity requirements, the Management of the Bank closely monitors all inflows and outflows and the maturity gaps through periodical reporting. Movements in loans and customers' deposits are monitored and liquidity requirements adjusted to ensure sufficient liquid assets to meet its financial commitments and obligations as and when they fall due.

28. Interest rate risk

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rate on its financial position and cash flows.

The following table indicates the effective interest rates at the balance sheet date and the years in which the financial instruments reprice or mature, whichever is earlier.

2003	Up to 1 month US\$'000	2 - 3 months US\$'000	4 - 6 months US\$'000	7 - 12 months US\$'000	2 - 5 years US\$'000	Over 5 years US\$'000	Non-interest sensitive US\$'000	Total US\$'000	Effective interest rate %
Assets									
Cash and bank balances	-	-	-	-	-	-	5,936	5,936	-
Deposits and placements with banks	8,300	-	1,000	-	-	-	-	9,300	0.5 - 0.9
Loans and advances	-	400	2,285	4,975	982	-	-	8,642	3.0 - 15.6
Other assets	-	-	-	-	-	-	45	45	-
Statutory deposits	-	-	1,300	-	-	-	890	2,190	0.5 - 0.7
Property and equipment	-	-	-	-	-	-	387	387	-
Total assets	10,300	400	4,585	4,975	982	-	5,258	26,500	
Liabilities and shareholders' funds									
Deposits from customers	5,516	30	52	232	-	-	7,081	12,911	1.0 - 3.0
Deposits and placements of banks	-	-	-	-	-	-	157	157	-
Other liabilities	-	-	-	-	-	-	27	27	-
Provision for taxation	-	-	-	-	-	-	40	40	-
Total liabilities	5,516	30	52	232	-	-	7,305	13,135	
Share capital	-	-	-	-	-	-	13,000	13,000	-
Retained profit	-	-	-	-	-	-	195	195	-
Subordinated loans	-	-	-	-	-	-	170	170	-
Shareholder's funds	-	-	-	-	-	-	13,365	13,365	
Total liabilities and shareholder's funds	5,516	30	52	232	-	-	20,670	26,500	

2003	Up to 1 month US\$'000	2 – 3 months US\$'000	4 – 6 months US\$'000	7 – 12 months US\$'000	2 – 5 years US\$'000	Over 5 years US\$'000	Non-interest sensitive US\$'000	Total US\$'000	Effective interest rate %
On-balance sheet interest sensitivity gap/total interest sensitivity gap	4,784	370	4,533	4,743	982	-	(15,412)	-	
Assets									
Cash and bank balances	-	-	-	-	-	-	1,100	1,100	-
Deposits and placements with banks	11,645	-	-	-	-	-	-	11,645	0.52 - 1.61
Other assets	-	-	-	-	-	-	17	17	-
Statutory deposits	-	-	1,300	-	-	-	92	1,392	0.73 - 0.74
Property and equipment	-	-	-	-	-	-	416	416	-
Total assets	11,645	-	1,300	-	-	-	1,625	14,570	
Liabilities and shareholders' funds									
Deposits from customers	1,054	16	-	14	-	-	414	1,498	1 - 2
Provision for taxation	-	-	-	-	-	-	1	1	-
Other liabilities	-	-	-	-	-	-	58	58	-
Total liabilities	1,054	16	-	14	-	-	473	1,557	
Share capital	-	-	-	-	-	-	13,000	13,000	-
Accumulated losses	-	-	-	-	-	-	(157)	(157)	-
Subordinated loans	-	-	-	-	-	-	170	170	-
Shareholder's funds	-	-	-	-	-	-	13,013	13,013	
Total liabilities and shareholder's funds	1,054	16	-	14	-	-	13,486	14,570	
On-balance sheet interest sensitivity gap/total interest sensitivity gap	10,591	(16)	1,300	(14)	-	-	(11,861)	-	

There is no off-balance sheet sensitivity gap.

29. Fair values of financial assets and liabilities

The aggregate fair values of financial assets and liabilities carried on the balance sheet are equal to their carrying values as at 31 December 2003 and 31 December 2002.

The methods and assumptions used in estimating the fair values of financial instruments are as follows:

(a) *Cash and bank balances* -

The carrying amounts are reasonable estimates of the fair values because of their short-term nature.

(b) *Deposits and placements with banks* -

The fair values of deposits and placements with remaining maturities less than one year are estimated to approximate their carrying values. For deposits and placements with maturities of more than one year, the fair values are estimated based on discounted cash flows using the prevailing market rates of similar remaining maturities.

(c) *Loans and advances* -

The fair values of fixed rate loans with remaining maturity of less than one year and variable rate loans are estimated to approximate their carrying values. For fixed rate loans with maturities of more than one year, fair value is calculated based on discounted expected future cash flows using prevailing market rates offered for similar loans with similar maturities and risk profiles. In respect of non-performing loans, the fair values are deemed to approximate the carrying values, net of interest-in-suspense and specific allowance for bad and doubtful debts.

(d) *Deposits and placements from customers and banks* -

The fair values for deposit liabilities payable on demand (demand and savings deposits) or with remaining maturities of less than one year are estimated to approximate their carrying values at balance sheet date. The fair values of fixed deposits with remaining maturities of more than one year are estimated based on discounted cash flows using rates currently offered for deposits of similar remaining maturities.

30. Maturities of financial assets and liabilities

The maturities of financial assets and liabilities carried on the balance sheet as at 31 December 2003 are represented in the following table:

	Less than 1 month US\$'000	Between 1 and 3 months US\$'000	Between 3 months and 1 year US\$'000	Between 1 year and 5 years US\$'000	No fixed terms US\$'000	Total US\$'000
Financial assets						
Cash and bank balances	5,936	-	-	-	-	5,936
Deposits and placements	8,300	-	1,000	-	-	9,300
Loans and advances	-	400	7,261	981	-	8,642
Other assets	4	15	-	-	26	45
Statutory deposits	-	-	-	-	2,190	2,190
	<u>14,240</u>	<u>415</u>	<u>8,262</u>	<u>981</u>	<u>2,216</u>	<u>26,113</u>
Financial liabilities						
Deposits from customers	12,597	30	283	-	-	12,911
Deposit by other bank	157	-	-	-	-	157
Other liabilities	-	3	-	-	24	27
Provision for taxation	-	40	-	-	-	40
	<u>12,754</u>	<u>73</u>	<u>283</u>	<u>-</u>	<u>24</u>	<u>13,135</u>

31. Comparatives

The comparative figures for the results, cash flows and related notes for the preceding period are from 2 June 2002 (date of establishment) to 31 December 2002.

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