

## 1. CHAIRMAN'S STATEMENT

Dear Shareholders

On behalf of the Board of Directors of Overseas Cambodian Investment Corporation Plc and its subsidiary, Canadia Bank Plc, I am pleased to present the Annual Report of the Bank for the financial year ended December 31, 2004.

### *Financial Highlights*

The total assets of the Bank have increased US\$53.2 Million or 27% from US\$195.6 Million to US\$248.76 Million in 2004 due to the increase in the mortgage lending activities to the house buyers and housing developers.

The registered share capital of the Bank also increased from US\$18 Million to US\$23 Million and will increase to US\$40 Million for the next financial fiscal year after the acquisition of the Capital Investment Holdings Plc and its subsidiaries subject to the approval from the National Bank of Cambodia.

### *Our Environment*

In our emerging market, today's growth can be seen throughout the cities and towns of our communities. Nowhere is this more prevalent than in the rising housing sector. As a part of our commitment to develop Cambodia, we have chosen to pursue opportunities in this area by offering Housing Loans to prospective home owners. With the assistance of the multi-lateral organization, International Finance Corporation (IFC), our capacities will be strengthened in the areas of product development, management, skills development, and corporate governance. Housing loans also enhance and enlarge the types of financial products offered in Cambodian market place making credit more accessible to a wider range of consumers and it will stimulate the economic activity in the country. We are proud to be a part of this frontier in lending in Cambodia.

Our other high priorities continue to be focused on providing access to credit for SMEs. As such, the KfW sponsored SME lending program and the USAID Guarantee program are now providing us with the tools and resources necessary to ensure these commitments are materialized. To date, our SME long-term loan portfolio is now over the US\$3 Million mark and loans under the USAID Guarantee program are continuing to grow. Outputs from these projects are greater economic activity and greater employment opportunities in Cambodia.

### *What's New*

Continuing our focus on achieving excellence in banking services, we now offer an International ATM. Our clients, both nationals and foreign, will save time and money through the convenience of an international automated banking machine and it closes the gap in the banking services missing in the Cambodian environment. This past year

we also introduced ATM services for our existing Canada Bank clients to provide hassle free seamless service and the avoidance of long queues.

The Bank also appointed two (2) new directors; namely Mr. Au Siek Kheang and Mr. Pung Way. Mr. Au has been our internal auditor and system manager for the last 9 years prior to the appointment as the Bank's director. Mr. Pung Way is my son and he will be my successor to lead this Bank. He is now a medical doctor practicing in Canada.

#### *Our Future and Commitments*

By strengthening our corporate governance and strategic direction, we expect to continue to deliver first class banking services in the coming year. Furthermore, we expect to expand our housing loan program and continue to look for new and innovative ways in providing our clients financial needs in the coming year. This can only be achievable through our employees, whom I would like to personally thank for their dedication, strong work ethic and forward thinking. Without them, our Bank would not have been propelled down its current trajectory of success and who without, are not able to continue down this path in the future.

Pung Kheav Se  
*Chairman and Chief Executive officer*

April 30, 2005

## **2. BOARD OF DIRECTORS CHART**

The duties and responsibilities of the Board of Directors: -

- (i) Approving a corporate philosophy and mission
- (ii) Selecting, monitoring, evaluating, compensating, and if necessary, replacing senior executives, and ensuring management succession
- (iii) Reviewing and approving management's strategic and business plans, including developing a depth of knowledge of the business being served, understanding and questioning the assumptions upon which such plans are based, and reaching an independent judgment as to the probability that the plans can be realised.
- (iv) Reviewing and approving the Bank's financial objectives, plans and actions, including significant capital allocations and expenditures
- (v) Reviewing and approving material transactions not in the ordinary course of business
- (vi) Monitoring corporate performance against the strategic and business plans, including overseeing the operating results on a regular basis to evaluate whether the business is being properly managed
- (vii) Ensuring ethical behaviour and compliance with laws and regulations, auditing and accounting principles, and the Bank's own governing documents
- (viii) Assessing its own effectiveness fulfilling these and other board responsibilities
- (ix) Performing such other functions as are prescribed by law, or assigned to the board in the corporation's governing documents

Reporting and management of work: -

All the branch managers and department managers at the Head Office are reporting directly to the General Manager, Mr. Pung Kheav Se. The management of work lies on each department manager who allocates the work to their staff at the branch offices and head office departments.

In addition, the General Manager will hold a monthly meeting with all the branch managers and department managers at the Head Office to discuss the Bank's operational issues and strategies.

### **3. REPORT OF THE BOARD OF DIRECTORS**

The directors hereby submit their report and the audited financial statements of Canadia Bank Plc (“the Bank”) for the year ended 31 December 2004.

#### **DIRECTORS**

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

Mr Pung Kheav Se @ Pung Sovann

Mrs Lim Sophany

Mr Phuong Khinh Hoa

Mr Mao Khan (resigned on November 15, 2004)

Mr Tol Hak (resigned on November 15, 2004)

Mr. Pung Way (appointed on November 15, 2004)

Mr. Au Siek Kheang (appointed on November 15, 2004)

#### **DIRECTORS’ INTERESTS**

With the exception of Mr Pung Kheav Se and Mrs Lim Sophany who dealt in the shares of the Bank through OCIC, none of the other directors held or dealt in the shares of the Bank during the financial year.

#### **DIRECTORS’ BENEFITS**

During and at the end of the 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.

Since the end of the previous financial year, no director of the Bank has received or become entitled to receive any benefit by reason of a contract made by the Bank with the directors or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest other than as disclosed in the financial statements.

#### **HOLDING COMPANY**

Overseas Cambodian Investment Corporation Ltd. (“OCIC”), a public limited company incorporated in the Kingdom of Cambodia, is the ultimate holding company of the Bank.

## **RESPONSIBILITIES OF THE DIRECTORS IN RESPECT OF THE FINANCIAL STATEMENTS**

The Board of Directors is responsible to ensure that the financial statements for each financial year are properly drawn up so as to give a true and fair view of the state of affairs of the Bank and of its results of operations and cash flows for the year then ended. In preparing those financial statements, the Board of Directors is required to:

- i) adopt appropriate accounting policies which are supported by reasonable and prudent judgements and estimates and then apply them consistently;
- ii) comply with the disclosure requirements of the international accounting bodies and the guidelines issued by the National Bank of Cambodia or, if there has been any departures in the interests of true and fair presentation, this has 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 a going concern basis unless it is inappropriate to assume that the Bank will continue operations in the foreseeable future; and
- v) effectively control and direct the Bank in all material decisions affecting the operations and performance and ascertain that such have been properly reflected in the financial statements.

## **4. POLICY AND PRACTICE GUIDELINES FOR CORPORATE GOVERNANCE**

### **Selection of Directors**

The appointment of new directors is nominated by the Founder, Mr. Pung Kheav Se and approved the majority shareholders.

### **Board of Directors**

#### **Board Composition**

The Board comprises of 5 Executive Directors: Mr. Pung Kheav Se (the Founder), Mrs Lim Sophany (Co- Founder), Mr. Phuong Khinh Hoa (Co-Founder), Mr. Pung Way and Mr. Au Siek Kheang.

## **Board and Directors' Profile**

### **Mr. Pung Kheav Se, Director**

Founder of Canadia Bank and a Cambodian returnee from Canada. He also serves as an independent director of EDC - Electricité du Cambodge and the economic advisor to the Royal Government of Cambodia. After 15 years operating a commercial bank in Cambodia, Mr. Pung has a very strong supports and trust from both the public and private sectors.

### **Mrs. Lim Sophany, Director**

Co-Founder of Canadia Bank and a Cambodian returnee from Canada. Mrs Lim Sophany is the wife of Mr. Pung Kheav Se and also a majority shareholder of Canadia Bank.

### **Mr. Phuong Kinh Hoa, Director**

Co-Founder of Canadia Bank and a Cambodian returnee from Canada. Mr. Phuong is the nephew of Mr. Pung Kheav Se.

### **Mr. Pung Way, Director**

Appointed on November 15, 2004. Mr. Pung is a professional medical doctor practising in Canada. He is the son of Mr. Pung Kheav Se.

### **Mr. Au Siek Kheang, Director**

Joined Canadia Bank in 1996 and appointed as a Director on November 15, 2004. Mr. Au is a Cambodian returnee from France. Prior to the appointment as Director, Mr. Au was an internal auditor of the Bank.

## **Board Meetings**

There are only one (1) Board meeting in 2004 and all the directors attended this meeting.

## **Internal Controls**

The Board believes that the system of internal controls maintained by the Bank's management is adequate to meet the needs of the Bank in its current business environment. The system of internal control provides reasonable, but not absolute, assurance that the Bank will not adversely affected by any event that could be reasonably foreseen as it strives to achieve its business objectives.

However, the Board also notes that no system of internal control could provide absolute assurance in this regard, or absolute assurance against the occurrence of material errors, poor judgment in decision making, human error, losses, fraud or other

irregularities. To that extent, the Board has decided to further strengthen the internal controls of the Bank with the consultants appointed by IFC.

## **Risk Management**

### **Risk Exposure and Risk Management Practice**

The main aim of Canadia Bank's risk management practice is to protect the Bank against extraordinary or exceptional losses that could arise from taking risks beyond its risk appetite. The Bank's philosophy on risk management is that all risks must be properly understood, monitored, controlled and managed. In addition, risk management processes must be closely aligned to the Bank's business strategy, to enable the Bank to maximise its risk-adjusted return on capital.

The Bank's primary business activity is commercial banking, which is essentially a customer-driven activity where the substantial risk is the credit risks of its corporate, and retail customers. To a lesser extent, commercial banking activities also expose the Bank to market risk arising from re-pricing and maturity of assets and liabilities. These mismatches give rise to interest rate and liquidity.

## **Code of Ethics**

The Board is elected by the shareholders to supervise the management of the business and affairs of the Bank. The prime stewardship responsibility of the Board is to ensure the viability of the Bank and to ensure that it is managed in the best interest of the shareholders as a whole while taking into account the interests of other stakeholders.

## **Independency and Transparency**

The Board has decided to invite three (3) independent directors who are mainly professionals or retired bankers in the future to enhance its independency and transparency.

## **5. BUSINESS DESCRIPTION**

### **Principal activities of the Bank**

The principal activities of the Bank comprise the operation of core banking business and the provision of related financial services.

There have been no significant changes in the nature of these principal activities during the financial year.

### **Mission and Vision**

The mission of the Bank is continued to be a leading local Bank in Cambodia. To achieve this mission, the Bank has continued to improve its customers' services by introducing more banking products that meet their needs. In addition, the Bank with the technical assistances from its partners, KfW & IFC to fund the capacity building programmes of its human resources.

## Bank Philosophy

**Customers:** Canadia Bank has been entrusted to safe keeping the public deposits. All the employees are advised to serve our customers with honesty, efficient and friendly to meet their needs. We believe providing great service to our customers creates value for the shareholders.

**Employees:** Our employees are the primary key to our success. To attract and hold quality people, we strive to pay competitive wages, offer attractive fringe benefits by industry standards and, most of all, provide a challenging, high integrity environment with unlimited growth opportunities where rewards are based on performance.

**Environment, Social and Community:** We believe in contribution back to the society, both financially and through volunteerism. The Bank has a policy of allocating 5% of its annual profit for charity works. We feel a responsibility to help those less fortunate.

**Shareholders:** Build good relations with the shareholders and other investors that provide the Bank's funding, by pursuing steadily growing profits, working to increase shareholder value, and conducting fair and impartial information disclosure.

## 6. FINANCIAL HIGHLIGHTS IN YEAR 2004 AND 2003

<b>Income Statement (US\$ Thousand)</b>			Increase / (Decrease) %
Income before operating expenses	12,308	9,311	32.19
Operating expenses	4,323	3,182	35.86
Operating profit	7,985	6,129	30.28
Provision for impairment losses	3,227	1,793	79.98
Profit before income tax	4,758	4,336	9.73
<b>Balance Sheet (US\$ Million)</b>			
Loans and advances to customers	129,503	96,515	34.18
Deposits from non-bank customers	208,947	162,438	28.63
Total assets	248,757	195,554	27.21
Total liabilities	221,203	174,085	27.06
Shareholders' equity	27,554	21,469	28.34

**Ratios (%)**

Return on equity	13.74	16.16	(2.42)
Return on assets	1.52	1.77	(0.25)
Solvency ratio	16.52	17.51	(0.99)
Non-performing loans to total loans	8.20	12.02	(3.82)
Dividend to net profit	71.34	54.12	17.22

**7. BUSINESS OPERATION TARGET****Financial perspective**

Over the last 5 years, the Bank managed to maintain the minimum Return on Equity of 15% and the Holding Company, OCIC declared a minimum cash dividend of 6% to the shareholders annually.

In future, the Group will maintain at least 15% Return on Equity and declare a minimum of 6% cash dividend to its shareholders.

**Customer perspective**

The Bank is targeting new customers from its housing/mortgage lending and new ATM users. The housing / mortgage projects and lending will contribute a significant income to the Group.

**Internal process perspective**

The Bank has engaged a professional firm to study its internal controls and procedures and to prepare procedures and policies manual for all its activities of the Bank.

**Human resource development**

The Bank has started the ACCA / CPA training where all the accounting staff are encouraged to participate in this training. The whole training course is sponsored by the Bank, which includes tuition and other related fees, study leave and increments.

In addition, the Bank also sent its staff to attend the training courses provided by the Bank Training Institute as part of its human resource development.

## **8. FINANCIAL RISK MANAGEMENT POLICIES**

### **Operational risk**

Operational risk is defined as the potential loss arising from a breakdown in the Bank's internal control or corporate governance that result in error, fraud, failure/delay to perform, or compromise of the Bank's interests by employees. Operational risk also includes potential loss arising from major failure of computer systems and disasters.

Potential loss includes financial loss and loss of reputation and public confidence that will impact the Bank's credibility and ability to transact, maintain liquidity and obtain new business. Operation risk is managed through an integral framework designed to assess, monitor, control and report such risks.

### **Credit risk**

The Bank assumes exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and the geographical and industry segments. Procedures of risk limit setting, monitoring, usage, and control are governed by internal regulations. Such risks are monitored on a regular basis.

Exposure to credit risk is managed through regular analysis of the ability of the borrowers and potential borrowers to meet interest and capital repayment obligations and reviewing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate or personal guarantees as well as providing for loan losses.

### **Market risk**

Market risk is defined as the potential loss arising from changes in market prices, namely foreign exchange, interest rates and equity prices. In Cambodia, market risk is minimal as this is a dollarized economy and less volatility of interest rates.

#### **Foreign currency exchange risk**

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Bank has no material exposure to currency risk as it transacts essentially in US Dollar. Significant presence of US Dollar is a normal practice of banks operating in Cambodia as this is a *de facto* currency in use in Cambodia.

#### **Interest rate risk**

The Bank interest rates are generally fixed on a short-term basis. Also, interest rates that are contractually fixed on both assets and liabilities are often renegotiated to reflect current market conditions. The management is satisfied that

the Bank's position is such that exposure to movements in interest rates is minimised.

### **Liquidity risk**

Liquidity risk is defined as the risk when the maturity of assets and liabilities does not match. Liquidity risk management at the Bank is performed on the basis of measuring liquidity surplus/deficit and liquidity ratios that are calculated using scenario analysis.

The matching and/or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks ever to be completely matched since business transactions are often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

## **9. SIGNIFICANT CHANGES DURING THE YEAR**

In 2005, the Bank will have a major restructuring on its organization chart with the creation of the senior and middle management. In addition, the Bank will draft manuals on all its operations and also the creation of a functional internal audit division.

The Bank is also looking into the appointment of three (3) additional independent directors after the acquisition of the Capital Investment Holdings Plc and its subsidiaries.

## **10. THREE YEAR FINANCIAL SUMMARY**

<b>Income Statement (US\$ Thousand)</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Income before operating expenses	12,308	9,311	7,010
Operating expenses	4,323	3,182	2,833
Operating profit	7,985	6,129	4,177
Provision for impairment losses	3,227	1,793	1,464
Profit before income tax	4,758	4,336	2,713

**Balance Sheet (US\$ Million)**

Loans and advances to customers	129,503	96,515	81,701
Deposits from non-bank customers	208,947	162,438	150,747
Total assets	248,757	195,554	174,162
Total liabilities	221,203	174,085	157,285
Shareholders' equity	27,554	21,469	16,877

**Ratios (%)**

Return on equity	13.74	16.16	12.88
Return on assets	1.52	1.77	1.25
Solvency ratio	16.52	17.51	16.04
Non-performing loans to total loans	8.20	12.02	10.33
Dividend to net profit	71.34	54.12	83.72