



Your Personal Bank

Vattanac Bank Phnom Penh Main Branch Lending Strategies

Phnom Penh Main Branch
Held On 09 October 2012

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Outlines

1. Lending Objectives
2. Lending History – Past 10 Year
3. Lending Strategies
4. Lending Action Plans
5. Approved Margin of Advance

1. Lending Objectives



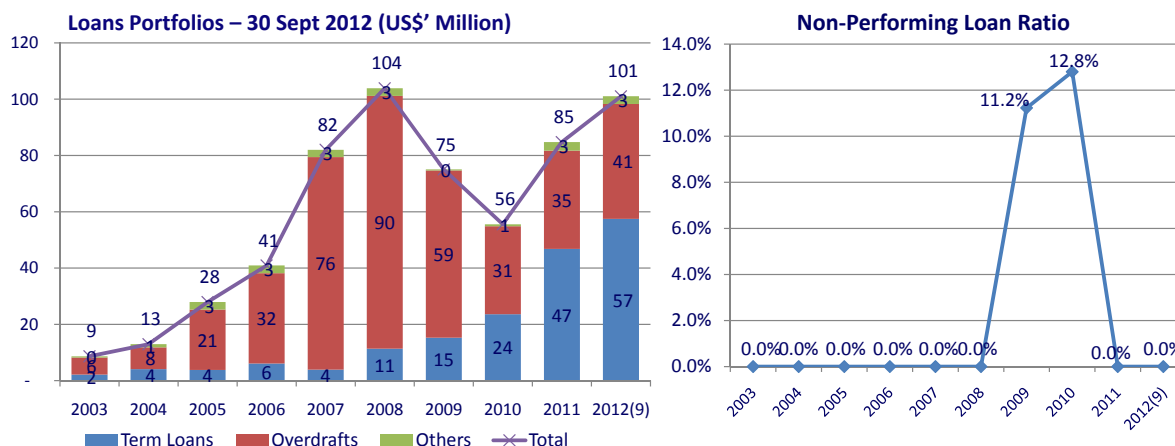
Objectives

To increase loans and advance from US\$101 Million in Sept 2012 to US\$116 Million by end of 2012 as budgeted for all branches Including Phnom Penh Main Branch budgeted US\$90 Million (Sept 2012: US\$83.81 Million).

To continue growths of the projected loans and advances for the next 5 years from 2012 to 2016 for Phnom Penh Main Branch and All Branches as follows:

| Loan Budget | 2011A | 2012(9) | 2012P | 2013P | 2014P | 2015P | 2016P |
|--------------|--------|---------|---------|---------|---------|---------|---------|
| PP Branch | 73,542 | 83,810 | 90,000 | 110,000 | 130,000 | 150,000 | 172,000 |
| All Branches | 84,778 | 101,039 | 116,000 | 157,000 | 196,000 | 245,000 | 306,000 |

2. Lending History – Past 10 Years



As can be seen in the above graph, loans and advances for the last 5 years from 2003 to 2008 have aggressively grown up by 20% to 50% yearly i. e up to US\$104M in 2008 with no NPL. In 2009, banking sector in Cambodia was affected from the world economic crisis especially on real estate sector. The Bank was impacted from four (4) non-performing loans (TSP/MSR, Ngor Kim, MSE, Lork Hour) which also classified by NBC 's onsite examination. In 2011, one (1) NPL has turned to performing loans (Lork Hour) and other three (3) NPLs have been foreclosed their properties by courts. Until Sep 2012, one foreclosed property (TS/MSR) has been sold and fully recovered. Other one (Ngor Kim) was partially recovered and two remained foreclosed properties are under sale. Whereas another (MSE) was foreclosed under the Bank and expected to sell and fully recover by this year 2012. The Bank turned back no NPL since 2011.

3. Lending Strategies



| No | Strategies | Description | Timeframe |
|----|--------------------------|---|-----------|
| 1 | Objective | <ul style="list-style-type: none"> Increase loans from \$85M in 2011 to \$116M in 2012 Increase lending by 25% to 50% per annum for the next 5 years | On-going |
| 2 | Credit type and features | <ul style="list-style-type: none"> Proportion of overdrafts and term loans were 40:60. Competitive lending interest rate ranging from 7% to 9% p.a. with negotiable fee charge Focus good sectors such as trading (25%), hotel (20%), services (12%), construction (20%), manufacturing (10%), agriculture (5%) & others(8%) Good property pledged with margin of advance (MOA) ranging at maximum 70%. | On-going |
| 3 | Loan quality | <ul style="list-style-type: none"> Prudent lending policy and select creditworthiness customers Closely control non-performing loan at maximum 1% Foreclosed properties to be hold and dispose off within one year. | On-going |
| 4 | Loan development | <ul style="list-style-type: none"> Establish credit team for innovating small (SME) loan products including corporate, householders, MFIs, etc. Innovate flexible and complement loan products or packages with other trade finance services such as LC, TR and BG. Introduce new loan products with special features to our existing loan products such as personal, car, housing loans, etc | On-going |
| 5 | Loan customer services | <ul style="list-style-type: none"> Treat loan customers as VIP or premier customers Take care our existing loan customers Market new loan customers and former potential target customers Promote awareness to public through media advertising tools and involve in public community | On-going |

4. Lending Action Plans



| No | Action Plan | Activities | Timeframe |
|----|----------------------------------|--|-----------|
| 1 | Property Margin of Advance (MOA) | <ul style="list-style-type: none"> To re-visit the marketable locations for upgrading to the potential grades or areas especially Khan: (1) Deun Pen, (2) Toul Kork, (3) Chamkamorn, and (4) 7 Makara. To review the potential areas of Khan (5) Meanchey, (6) Dankor, (7) Por Senchey, (8) Saensokh, and (9) Russey Keo. To establish the benchmark of our own valuation of those properties based on the specific areas and location. To consider accepting the additional soft land title with small margin of advance (say 30%-40%) case by case of good customer in respect of the revised property grade. To survey the other banks' practice of the valuation and margin of advance given to customer. To review the loan approval and rejection for the past 7 months of 2012 and find out the good and bad results. To review and consider the revised MOA for the Bank's management and board's approval. | On-going |
| 2 | Diversification Type of loans | <ul style="list-style-type: none"> To promote term loans to customers in respect of the nature and business of borrowers such as rental business, hotel, restaurant, purchase of plants and machinery, housing development, construction, etc. To promote overdraft facility for the borrower's working capital in business of trading, services, transportation, etc. To focus good sectors such as trading, transportation services, small and medium production and retail & wholesale. To diversify small portion of target lending to MFIs, agriculture & housing development (say 1%-2% of budget). | On-going |

4. Lending Action Plans (cont'd)



| No | Action Plans | Activities | Timeframe |
|----|--------------------------------------|--|-------------|
| 3 | Lending rate and other fee | <ul style="list-style-type: none"> To monitor market pricing offered by other banks such as lending interest rates, other fees and promotions. To review and offer lending rate to (i) creditworthy and high potential borrower at minimum of 7% p.a. and (ii) normal customer at minimum rate ranging from 9% to 12% p.a. To review and charge processing fee for (i) creditworthy and high potential borrower with credit limit exceeding \$1Million at minimum 0.2% per annum and (ii) normal customer at maximum of 1% per annum. | On-going |
| 4 | Marketing and sales | <ul style="list-style-type: none"> To establish credit support team at head office (Credit Operations)/ branches to lead for direct sale of loan products. To innovate new loan products such as SME, car loans, housing and other personal loan products. To publish credit brochures, leaflet and stand for type and fee charge of all loan products and update website for loan products. To advertise and promote through media, magazine, radio, TVs and other communities. | Considering |
| 5 | Internal process for credit approval | <ul style="list-style-type: none"> To review the consistency of adopting the standard processes of loan approval for all branches. To consider streamlining the loan approval process and procedure for small credit limit in according with the Bank's credit policy. To review all legal documents relating to credit approval such as loan agreement, letter offer, mortgage (or hypnotic) and guarantee agreement, etc both languages in Khmer and English. To improve credit team by internally and externally trainings like credit assessment, credit control, credit risk, credit products, etc. | On-going |

5. Approved Margin of Advance

- i. Cambodia Map - Cities & Provinces
- ii. Phnom Penh City – 9 Districts
- iii. Land Size of Districts in PP City
- iv. Road Grade In Phnom Penh City
- v. Revised Margin of Advance

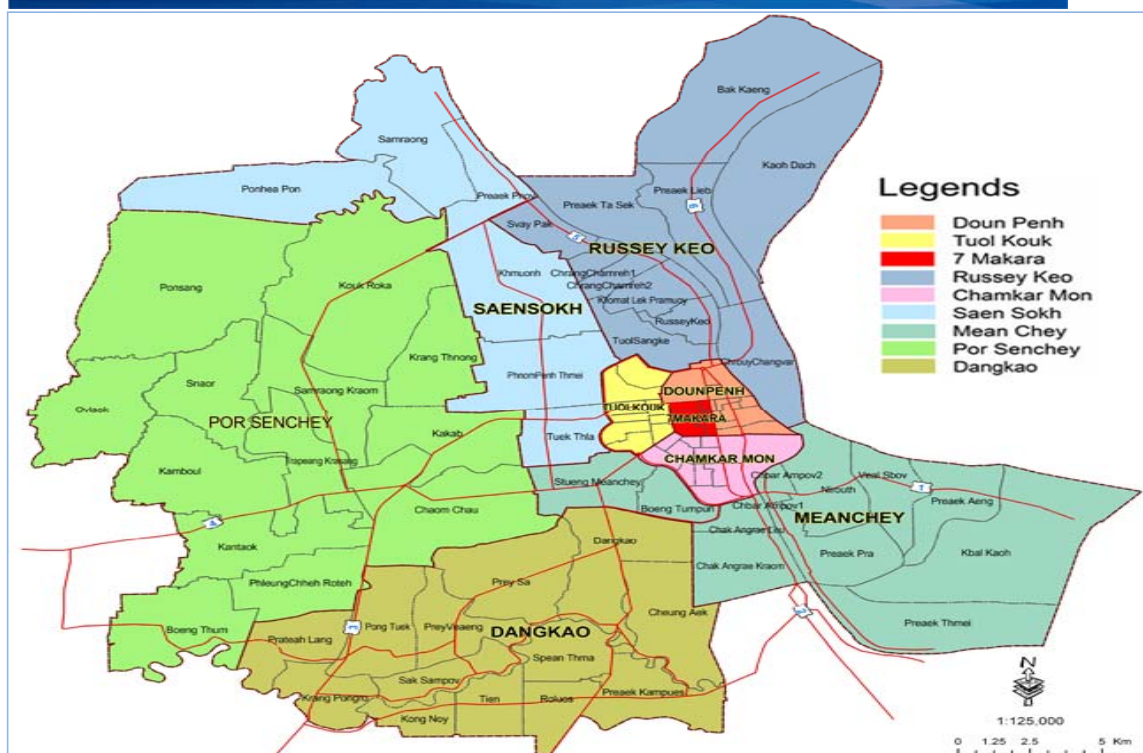
1. Cambodia Map



Cambodia country has 24 provinces and cities:



2. Phnom Penh Map



Vattanac Bank – Lending Strategies and Action Plans

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3. Land Size of Districts in Phnom Penh City



Name and land size of districts in Phnom Penh City:

| No | Name of Khan (District) | District Code | No. of Sangkat | Population (Actual) | Total Area (m2) |
|----|-------------------------|---------------|----------------|---------------------|--------------------|
| 1 | Chamkarmon | 120100 | 12 | 182,004 | 10,788,213 |
| 2 | Doun Penh | 120200 | 11 | 126,550 | 7,412,767 |
| 3 | 7 Makara | 120300 | 8 | 91,895 | 2,228,027 |
| 4 | Toul Kouk | 120400 | 10 | 171,200 | 8,432,543 |
| 5 | Dangkao | 120500 | 13 | 69,319 | 117,758,500 |
| 6 | Meanchey | 120600 | 12 | 327,801 | 44,000,448 |
| 7 | Russey Keo | 120700 | 11 | 196,684 | 63,948,255 |
| 8 | Saen Sokh | 120800 | 6 | 147,967 | 40,021,647 |
| 9 | Por Senchey | 120900 | 13 | 183,826 | 230,384,385 |
| | Total | | 96 | 1,497,246 | 524,974,785 |

In Phnom Penh city, there are nine (9) districts with total populations approximately 2 million and has four (4) districts in central of Phnom Penh – (i) Doun Penh, (ii) 7 Makara, (iii) Chamkarmon and (iv) Toul Kouk. These four districts are main commercial, market, and governance office areas which covered only **5.5%** of PP city. The land value of those areas are appraised ranging from \$500 to \$3,000 per square meter.

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3.1. Land Grade – Chamkarmon Districts



Location grade of 12 Sangkat (Commune) in Khan Chamkarmon (Code 120100) :

| No | Name of Sangkat (Commune) | Code | Existing Grade (2010) | New Grade (Proposed) | Estimated Land Value/Sqm (\$/m2) |
|----|---------------------------|--------|-----------------------|----------------------|----------------------------------|
| 1 | Tonle Basak | 120101 | A | A | \$1,200-\$3,500 |
| 2 | Boeng Keng Kang 1 | 120102 | A | A | \$1,600-\$4,000 |
| 3 | Boeng Keng Kang 2 | 120103 | B | B | \$1,200-\$3,500 |
| 4 | Boeng Keng Kang 3 | 120104 | B | B | \$800-\$3,500 |
| 5 | Boeng Trabek | 120105 | B | B | \$700-\$2,500 |
| 6 | Tumnup Tuk | 120106 | B | B | \$700-\$3,000 |
| 7 | Phsar Doeum Thkov | 120107 | B | B | \$700-\$2,000 |
| 8 | Toul Svay Prey 1 | 120108 | B | B | \$1,200-\$3,000 |
| 9 | Toul Svay Prey 2 | 120109 | B | B | \$1,200-\$3,000 |
| 10 | Toul Tum Pong 1 | 120110 | B | A | \$800-\$3,000 |
| 11 | Toul Tum Pong 2 | 120111 | B | B | \$800-2,500 |
| 12 | Olympic | 120112 | A | A | \$1,200-\$4,000 |

The new grade TTP1 is proposed A as surrounding areas of Toul Tum Pong (Russian) Market.

3.2. Land Grade – Doun Penh Districts



Location grade of 11 Sangkat (Commune) in Khan Doun Penh (Code 120200) :

| No | Name of Sangkat (Commune) | Sangkat Code | Existing Grade (2010) | New Grade (Proposed) | Estimated Land Value/Sqm (\$/m2) |
|----|---------------------------|--------------|-----------------------|----------------------|----------------------------------|
| 1 | Sraas Chak | 120201 | A | A | \$1,000 - \$2,500 |
| 2 | Wat Phnom | 120202 | A | A | \$1,000 - \$3,500 |
| 3 | Phsar Chas | 120203 | A | A | \$1,500 - \$3,500 |
| 4 | Phsar Kandal 1 | 120204 | A | A | \$1,500 - \$3,500 |
| 5 | Phsar Kandal 2 | 120205 | B | A | \$1,500 - \$3,500 |
| 6 | Chey Chumneas | 120206 | A | A | \$1,500 - \$3,500 |
| 7 | Chak Tomuk | 120207 | A | A | \$1,500 - \$3,500 |
| 8 | Phsar Thmei 1 | 120208 | A | A | \$1,700 - \$4,500 |
| 9 | Phsar Thmei 2 | 120209 | A | A | \$1,700 - \$3,000 |
| 10 | Phsar Thmei 3 | 120210 | A | A | \$1,700 - \$3,000 |
| 11 | Boeng Raing | 120211 | A | A | \$1,500 - \$3,500 |

The new proposed grade of Phsa Kandal 2 is grade A as surrounding by shop and market with tourist place along the riverside.

3.3. Land Grade – 7 Makara Districts



Location grade of 8 Sangkat (Commune) in Khan 7 Makara (Code 120300) :

| No | Name of Sangkat (Commune) | Sangkat Code | Existing Grade (2010) | New Grade (Proposed) | Estimated Land Value/Sqm (\$/m2) |
|----|---------------------------|--------------|-----------------------|----------------------|----------------------------------|
| 1 | Monorom | 120301 | B | A | \$1,000 – \$2,500 |
| 2 | Mittapheap | 120302 | B | A | \$1,000 – \$3,500 |
| 3 | Veal Vong | 120303 | B | A | \$1,000 - \$3,000 |
| 4 | Orussei 1 | 120304 | A | A | \$1,000 - \$4,000 |
| 5 | Orussei 2 | 120305 | B | A | \$1,000 - \$2,500 |
| 6 | Orussei 3 | 120306 | B | A | \$1,000 - \$2,500 |
| 7 | Orussei 4 | 120307 | B | A | \$1,000 - \$3,000 |
| 8 | Boeng Prolit | 120308 | B | A | \$1,200 - \$3,500 |

The upgraded communes are currently more development such as shop, hotel, guesthouse, and business areas and also near Orussei market.

3.4. Land Grade – Toul Kok Districts



Location grade of 10 Sangkat (Commune) in Khan Toul Kok (Code 120400) :

| No | Name of Sangkat (Commune) | Sangkat Code | Existing Grade (2010) | New Grade (Proposed) | Estimated Land Value/Sqm (\$/m2) |
|----|---------------------------|--------------|-----------------------|----------------------|----------------------------------|
| 1 | Boeng Kâk 1 | 120401 | B | B | \$500 - \$1,800 |
| 2 | Boeng Kâk 2 | 120402 | B | B | \$500 - \$1,800 |
| 3 | Phsar Dépo 1 | 120403 | B | A | \$800 – 3,000 |
| 4 | Phsar Dépo 2 | 120404 | B | A | \$800 – 3,000 |
| 5 | Phsar Dépo 3 | 120405 | B | A | \$800 – 2,500 |
| 6 | Tuk Laak 1 | 120406 | B | B | \$600 - \$2,000 |
| 7 | Tuk Laak 2 | 120407 | B | B | \$600 - \$2,000 |
| 8 | Tuk Laak 3 | 120408 | B | B | \$600 - \$2,000 |
| 9 | Phsar Doeum Kor | 120409 | B | A | \$600 - \$2,000 |
| 10 | Boeng Salang | 120410 | B | B | \$400 - \$2,000 |

The upgraded communes are currently more development such as shop, hotel, guesthouse, and business areas and near two markets - Phsa Depo and Phsa Doeum Kor

3.5. Land Grade – Dangkor Districts



Location grade of 13 Sangkat (Commune) in Khan Dangkor (Code 120500) :

| No | Name of Sangkat (Commune) | Sangkat Code | Existing Grade (2010) | New Grade (Proposed) | Estimated Land Value/Sqm (\$/m2) |
|----|---------------------------|--------------|-----------------------|----------------------|----------------------------------|
| 1 | Dang Kor | 120501 | B | B | \$50 - \$500 |
| 2 | Pong Teuk | 120502 | C | C | \$20 - \$200 |
| 3 | Prey Voeng | 120503 | C | C | \$20 - \$200 |
| 4 | Prey Sar | 120504 | C | C | \$20 - \$200 |
| 5 | Kraing Pongro | 120505 | C | C | \$20 - \$200 |
| 6 | Prataslang | 120506 | C | C | \$10 - \$100 |
| 7 | Sac Sampeou | 120507 | C | C | \$10 - \$100 |
| 8 | Cheung Ek | 120508 | C | C | \$10 - \$100 |
| 9 | Spean Thmar | 120509 | C | C | \$10 - \$100 |
| 10 | Prek Kampoeus | 120510 | - | C | \$10 - \$100 |
| 11 | Rolous | 120511 | - | C | \$10 - \$100 |
| 12 | Tiem | 120512 | - | C | \$10 - \$100 |
| 13 | Kong Noy | 120513 | - | C | \$10 - \$100 |

3.6. Land Grade – Meanchey Districts



Location grade of 12 Sangkat (Commune) in Khan Meanchey (Code 120600):

| No | Name of Sangkat (Commune) | Sangkat Code | Existing Grade (2010) | New Grade (Proposed) | Estimated Land Value/Sqm (\$/m2) |
|----|---------------------------|--------------|-----------------------|----------------------|----------------------------------|
| 1 | Boeng Tumpun | 120601 | B | B | \$300 - \$1,000 |
| 2 | Stung Meanchey | 120602 | B | B | \$300 - \$1,000 |
| 3 | Chak Angré Krom | 120603 | B | B | \$200 - \$800 |
| 4 | Chak Angre Lleu | 120604 | B | B | \$200 - \$800 |
| 5 | Chbar Ampeou 1 | 120605 | B | B | \$500 - \$1,000 |
| 6 | Chbar Ampeou 2 | 120606 | B | B | \$500 - \$1,000 |
| 7 | Niroth | 120607 | B | B | \$100 - \$500 |
| 8 | Prek Pra | 120608 | C | B | \$100 - \$500 |
| 9 | Kbal Kah | 120609 | - | C | \$20 - \$100 |
| 10 | Prek Eng | 120610 | - | C | \$20 - \$100 |
| 11 | Prek Thmei | 120611 | - | C | \$20 - \$100 |
| 12 | Veal Sbov | 120612 | - | C | \$20 - \$100 |

The upgraded Prek Pra to grade B is currently due to more business establishment and housing development .

3.7. Land Grade – Ruessei Keo Districts



Location grade of 12 Sangkat (Commune) in Khan Ruessei Keo (Code 120700):

| No | Name of Sangkat (Commune) | Code | Existing Grade (2010) | New Grade (Proposed) | Estimated Land Value/Sqm (\$/m2) |
|----|---------------------------|-------|-----------------------|----------------------|----------------------------------|
| 1 | Toul Sang Kè | 12101 | B | B | \$200 - \$800 |
| 2 | Ruessei Keo | 12102 | B | B | \$200 - \$600 |
| 3 | Chroy Chang Va | 12103 | B | B | \$200 - \$800 |
| 4 | Prek Leap | 12104 | B | B | \$200 - \$500 |
| 5 | Kilometre 6 | 12105 | C | B | \$100 - \$300 |
| 6 | Chrang Chamres 1 | 12106 | C | B | \$100 - \$300 |
| 7 | Chrang Chamres 2 | 12107 | C | B | \$100 - \$300 |
| 8 | Svay Pak | 12108 | C | C | \$50 - \$200 |
| 9 | Prek Tasek | 12109 | C | C | \$50 - \$200 |
| 10 | Bak Khaeng | 12110 | - | C | \$30 - \$100 |
| 11 | Koh Dach | 12111 | - | C | \$20 - \$100 |

3.8. Land Grade – Sen Sokh Districts



Location grade of 6 Sangkat (Commune) in Khan Sen Sokh (Code 120800):

| No | Name of Sangkat (Commune) | Sangkat Code | Existing Grade (2010) | New Grade (Proposed) | Estimated Land Value/Sqm (\$/m2) |
|----|---------------------------|--------------|-----------------------|----------------------|----------------------------------|
| 1 | Tuek Thlar | 120801 | B | B | \$300 - \$1,000 |
| 2 | Phnom Penh Thmei | 120802 | B | B | \$100 - \$800 |
| 3 | Khmounh | 120803 | C | C | \$50 - \$200 |
| 4 | Prek Pnov | 120804 | - | C | \$20 - \$100 |
| 5 | Samraong | 120805 | C | C | \$10 - \$100 |
| 6 | Ponhea Pon | 120806 | - | C | \$10 - \$100 |

3.9. Land Grade – Por Senchey Districts



Location grade of 13 Sangkat (Commune) in Khan Por Senchey (Code 120900) :

| No | Name of Sangkat (Commune) | Sangkat Code | Existing Grade (2010) | New Grade (Proposed) | Estimated Land Value/Sqm (\$/m2) |
|----|---------------------------|--------------|-----------------------|----------------------|----------------------------------|
| 1 | Chom Chao | 120901 | B | B | \$50 – \$200 |
| 2 | Kakap | 120902 | B | B | \$50 - \$200 |
| 3 | Trapeang Krasaing | 120903 | C | C | \$10 - \$100 |
| 4 | Kok Roka | 120904 | C | C | \$10 - \$100 |
| 5 | Phleng Chhes Rotes | 120905 | C | C | \$10 - \$100 |
| 6 | Kraing Thnoug | 120906 | C | C | \$10 - \$100 |
| 7 | Samrong Krom | 120907 | - | C | \$10 - \$50 |
| 8 | Beoung Thom | 120908 | - | C | \$10 - \$50 |
| 9 | Kambol | 120909 | - | C | \$10 - \$50 |
| 10 | Kantok | 120910 | - | C | \$10 - \$50 |
| 11 | Ovlork | 120911 | - | C | \$10 - \$50 |
| 12 | Ponsang | 120912 | - | C | \$10 - \$50 |
| 13 | Snor | 120913 | - | C | \$10 - \$50 |

4. Road Grade In Phnom Penh City



The Bank categorizes three type of road access to the pledged properties as follows:

| No | Criteria of Roads | Road Code | Road Rating |
|----|--|-----------|-------------|
| 1 | <u>First Main Road in Phnom Penh City</u> -Norodom Blvd (41), Monivong Blvd (93), Russian Blvd (110), Sihanouk Blvd (274), Mao Tse Toung (245), Monireth Blvd (217), Kampuchea Krom Blvd (128) - National Road No 1, No 2, No 3, No 4, No 5 and No.6 | 01 | A |
| 2 | Second Main Road in Phnom Penh City – similar with main road above | 02 | A |
| 3 | Sub main road like: - Concrete road and bitumen road - Road at least 8 meters wide - Road assigned number by City Hall - Location near commercial area, school, full infrastructure | 03 | B |
| 4 | Small road like: - Pave road - All streets are not qualified under A & B above - All streets situated in Location C (except national and main road) | 04 | C |

5. Proposed Upgrade of MOA



As highlighted the above MOA and location grading, we would like to propose new MOA as follows:

| No | Criteria of Grade | Existing MOA | Approved New MOA |
|----|-------------------|--------------|------------------|
| 1 | AA | 60% | 60% |
| 2 | AB/ BA | 50% | 50% |
| 3 | BB | 40% | 45% |
| 4 | BC/CB | 30% | 30% |
| 5 | CC | 30% | 30% |

In addition, soft title of the above MOA can be considered case by case for additional collaterals and for small loans.

The above proposed new MOA are mainly due to:

- The Bank uses the external valuers as reference to appraise our own conservative valuation and apply credit limit to the above MOA grading.
- Total locations of Grade A represent 5.5% in Phnom Penh city which those locations are central of Phnom Penh – (i) Doun Penh, (ii) 7 Makara, (iii) Chamkarmon and (iv) Toul Kouk.
- The banking industry in Cambodia is widely opened for new overseas banks and free market in lending. The pressures of small banks are narrowly approached or promoted their lending to the customers as those big banks have competitive advantages such as low lending rate, high margin of advance, no processing fee, flexible products, and wide networks.
- The Bank has high liquidity position which facilitates in lending position.

Thank You