

ABA¹ BANK

15 Years of Growth

ANNUAL REPORT 2011



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CEO's Message



15 years of solid growth.

Exceptional growth in the last four quarters.

At ABA, it is all about commitment. As one of the country's truly 'local' banks, ABA is totally committed to its customers, its staff and the country as a whole. As such, as CEO of ABA, I see it as my personal mission - and that of the Bank – to make professional, easy-to-use and technologically advanced banking services available to each and every Cambodian.

In keeping with this philosophy of 'banking for all', we at ABA recognize that behind every account stands a business or individual. And it is these businesses and individuals that we at ABA are here to help.

With this in mind, ABA continues to prosper and grow. 2011 was marked by the 15th anniversary of the founding of ABA Bank. During this period, the Bank transformed dramatically, and today ABA is one of the leading Cambodian banks.

After years of acquisition and reorganization as well as investments in infrastructure, human capital and brand equity, the Bank has established a solid foundation for further growth and development. And now I am pleased to report that in 2011, the ABA team achieved some significant milestones.

Last year, the management agreed with the Board of Directors on the new strategy to be the number one supplier of dependable and technologically progressive banking services for all Cambodians by 2016. Having corporate, small and medium enterprises as our core clientele, the Bank has turned to the Cambodian micro-business segment. ABA achieved a client base of over 25,000 deposit accounts with over a thousand active loans.

In early September 2011, we reinforced our already established presence in Phnom Penh with the unveiling of our flagship city-centre location on Monivong Boulevard. And then later in the year, we opened yet another branch in the provinces - this time in Kompong Cham.

As for our financial performance, we are also proud to see the Bank growing in terms of assets, deposits and capital. In 2011, our deposit portfolio reached over USD 165 million and our loan portfolio was just short of USD 100 million as compared to USD 122 million and USD 74 million respectively for the financial year of 2010. Total assets of the Bank grew by over USD 201 million compared with USD 156 million for 2010. The shareholders capital went up from USD 32 million to USD 34 million due to growing profit amounting to USD 2 million.

Cambodian Retail Bank of the Year 2011.

These quite impressive figures are ample proof of the Cambodian business community and society's growing trust in the Bank. In fact, this trust is the most precious resource in today's economy.

ABA's achievements were fairly recognized by international partners. In 2011, the Bank was awarded by HSBC Bank, New York with the "HSBC Global Payments & Cash Management 2010 Golden Award" for global payments and cash management. Also, the Asian Banking & Finance Magazine chose ABA as "Cambodian Retail Bank of the Year 2011".

While 2011 was the year that we, as a Bank, turned our attention towards Cambodia's micro-businesses, the next few years will be the years that ABA reinforces its commitment to the country as a whole by expanding our countrywide branch network. To achieve this, in 2012 ABA is opening a further five branches throughout the Kingdom and creating an in-house training centre for the betterment of its Cambodian staff.

In view of further organizational development over the next 3 years, the management will dedicate its efforts to international relations, risk management, human resources development as well as to the improvement of quality standards for all banking services.

I would like to thank our valued customers for their trust, our shareholders and Board of Directors for their support and guidance and all employees for their fruitful teamwork. We will lead the way to create value for the benefit of all.

A handwritten signature in blue ink, appearing to read 'Madi Akmambet'.

Madi Akmambet
Chief Executive Officer



Vision, Mission & Values

Here to help the
Cambodian nation build
a better and brighter
future.

Our Vision

To be the country's number one supplier of dependable, easy-to-use, technologically advanced and easily accessible banking services. We want to be the bank that Cambodians trust to take care of all their personal and business banking needs.

Our Mission

To help Cambodia, Cambodian businesses and the Cambodian people build a bigger and brighter future for themselves and their country by providing highly professional, technologically-advanced banking services for all.

As a truly 'local' bank, we see ourselves as a partner of the Cambodian community as well as private businesses and individuals. We are here to serve Cambodia.

Our Values

Form the cornerstone of our business, they are as follows:

- **Honesty & Respect** – At ABA, we make it our responsibility to treat each and every customer with honesty and respect.
- **Trust & Partnership** – At ABA, we are here to help and assist. We see ourselves as partners whom our customers can always trust.
- **Quality of Service** – At ABA, we strive to find solutions to every banking need. We intend to provide the most technologically advanced, reliable banking services to all of our Cambodian customers - be they personal or business account holders.
- **Contribution** – At ABA, we aim to make a positive contribution to Cambodia. We want to play a beneficial role in the lives of our customers as well as the future of the country as a whole.
- **Sustainability & Growth** - At ABA, we are always thinking about the future of our bank, the Cambodian people and the country. We show the same level of commitment to our staff as we do to our customers. It is with this approach that we ensure the growth of a bank that is sustainable.
- **Ethics & Morals** - At ABA, we take our social responsibility seriously. We apply our high ethical and moral standards to each and every thing we do - inside and outside the bank. It is these homegrown principles that form the basis for every relationship - with the customers and communities we serve as well as with our staff.



Who We Are

Firmly established commercial bank.

ABA Bank is one of Cambodia's premier banking institutions founded in 1996 as the Advanced Bank of Asia Limited.

Being owned and managed since 2007 by one of the largest investment holdings in Central Asia, "Visor Group" (Kazakhstan), ABA Bank is now a multi-branch network commercial bank offering a full range of products and services to Cambodians from all walks of life.

ABA's branch network currently extends to 10 nationwide with 7 of those located in Phnom Penh. There are also branches in Siem Reap, Battambang and Kompong Cham. In 2011, ABA opened its flagship premier banking branch in downtown Phnom Penh to service its corporate and VIP clients.

Providing the most technologically advanced banking services in Cambodia.

A winner of Asian Banking & Finance Magazine's 2011 Retail Bank of the Year award, ABA prides itself in offering some of the most technologically advanced banking services in Cambodia.

Having serviced the corporate and retail banking sectors in Cambodia for a number of years, in 2011 ABA Bank turned its attention to the "microbusiness" sector -- its aim was to provide the best service and financial terms and conditions to Cambodia's small and medium-sized enterprises (SMEs).

ABA has a whole range of products and services designed to benefit every sector of the Cambodian community, from business loans to moto loans and current accounts to fixed interest deposits. Each and every product that ABA offers has been carefully tailored to suit the needs of the Cambodian market.

The range of services provided includes:

- **Transaction Services** – current accounts, trade finance, physical cash, international and local fund transfers, corporate and individual credit and debit cards, etc.
- **Business Solutions** – microloans, working capital finance, equipment and asset purchase finance, project finance, trust receipts, currency exchange and other trade finance instruments, etc.
- **Consumer Products** – savings accounts and fixed deposits, house and auto purchase loans, credit and debit cards, ATMs, etc.

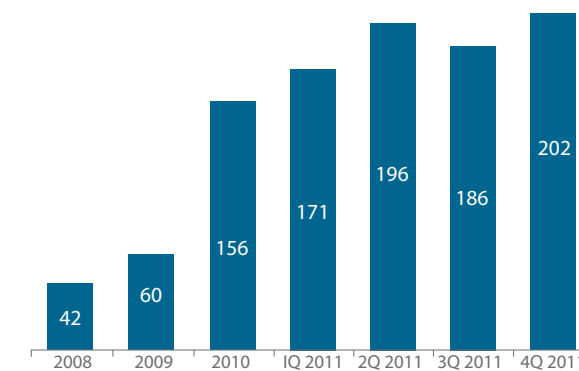
Financial Highlights

Year ended 31 December	F.Y. 2009	F.Y. 2010	F.Y. 2011	Incre/(Decre) (2011 vs 2010)
B/L Sheet (US\$ million)				
Total Deposits	40.1	122.4	165.6	35.3%
Total Gross Loan	26.5	74.0	93.1	25.8%
Share Capital	23.0	36.0	36.0	-
Total Assets	60.4	155.7	201.5	29.4%
Profit & Loss (US\$ million)				
Net Interest Income	2.1	3.3	6.4	93.9%
Net Fee & Commission Income	0.6	1.5	2.1	40.0%
Net Profit	(1.7)	0.04	2.02	4950.0%
Key Performance Indicators KPI (%)				
PROFITABILITY				
ROAE	-8.5	0.2	6.1	2950.0%
ROAA	-3.3	0.04	1.1	2650.0%
Net Interest Margin	7.6	5.2	5.9	13.5%
Cost/Income	161.2	93.7	67.1	(28.4%)
FUNDING AND LIQUIDITY				
Liquidity	93.1	52.9	66.8	26.3%
Credit Deposit Ratio	65.2	60.5	56.2	(7.1%)
Liquid Assets/Total Assets	39.50	21.8	28.0	28.4%
CAPITALISATION				
Solvency Ratio	62.42	24.4	20.0	(18.0%)
Equity /Total Assets	31.5	20.6	16.9	(18.0%)
ASSET QUALITY				
NPL/Total Loan	3.7	0.7	3.4	385.7%
Provision/Total Loan	3.0	1.4	1.8	28.6%
General Information				
No. of Branches	8	8	10	25.0%
No. of Staff	187	197	224	13.7%
No. of ATM Machines	17	30	32	6.7%
No. of POS Terminals	27	99	115	16.2%
No. of Depositors	11513	18390	25863	40.6%
No. of Borrowers	85	593	1456	145.5%

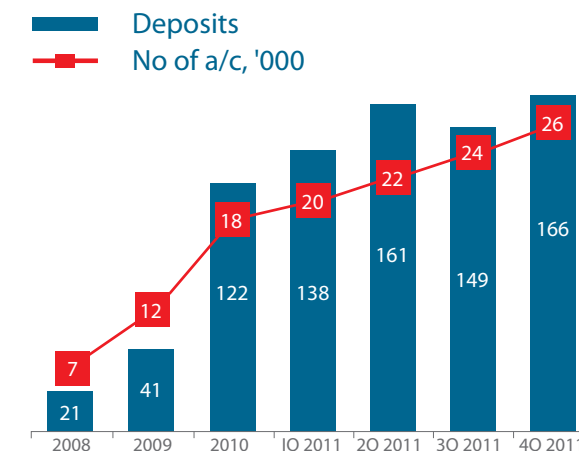
Simplified Financial Results

31.12.08 - 31.12.11

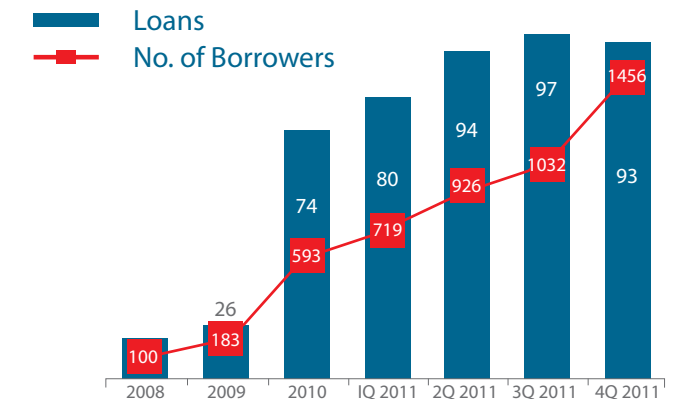
Assets Dynamics, mm, \$



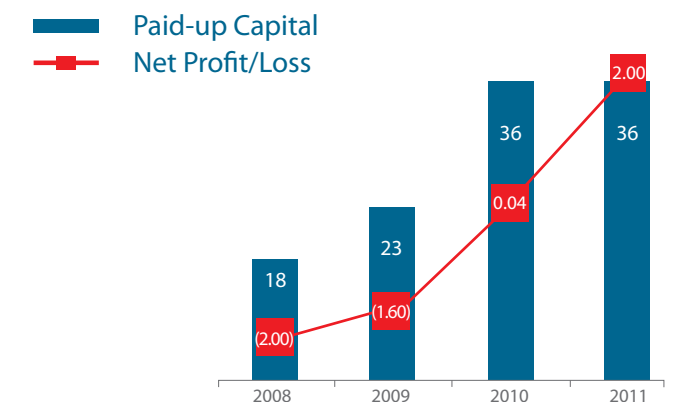
Deposits Dynamics, mm, \$



Loans Dynamics, mm, \$



Paid-up Capital, mm, \$
Net Profit/Loss, mm, \$



Achievements in 2011



Branch Name: Central Branch

Location: Monivong Blvd., Phnom Penh

Inauguration Date: 03 September 2011

Other Details:

Due to ABA Bank's status as the fastest organically growing bank in Cambodia, the new Central Branch has been specifically designated and designed as the main client service centre in order to provide greatly expanded servicing capacity for the Bank's large and fast-growing customer base.

This includes large premises with increased customer parking space, a modern interior and exterior design with advanced functionality, additional staff to enhance client servicing as well as expanded Loans and Remittance Departments, centralized Call Centre facilities and two special VIP rooms for both retail and corporate clients.



Branch Name: Kompong Cham Branch

Location: Preah Monivong Street, Kompong Cham Province

Inauguration Date: 03 December 2011

Other Details:

The Kompong Cham branch is the third provincial branch of ABA Bank outside Phnom Penh and aims to cater to the needs of fast-growing businesses in this part of the country. The branch is situated at the heart of the city's business district and will provide comprehensive access to high quality financial services as well as a full range of banking products including deposits, loans, remittance, cards and more.



Award: Cambodian Retail Bank of the Year

Awarding Body: Asian Banking & Finance Retail Banking Awards, Singapore

Awarding Date: 20 July 2011

Other Details:

This is the first year that a Cambodian financial institution has been selected in the category of "Retail Bank of the Year" in the history of the Asian Banking and Finance Retail Banking Awards. The nominations were screened by the top partners of different firms in Asia (PwC, KPMG, Deloitte, Ernst & Young). The judges looked at the nominees' strategy, service or product based on innovation, effectiveness and dynamism.



Award: HSBC Global Payments and Cash Management 2010 Golden Award

Awarding Body: HSBC

Awarding Date: 08 August 2011

Other Details:

The "HSBC Global Payments and Cash Management 2010 Golden Award" has confirmed the high standard of ABA Bank's international payments as well as the achievement of excellence in customer service and cash management.

Initiatives & Improvements



Employee Loyalty and Performance Awards.

ABA Bank enters an exciting new phase and approach to responsible business practice. With the implementation of new strategy, ABA Bank strengthened human resource, established new corporate social responsibility, and incorporated a new risk management approach.

Strategic Human Resource Management

With our commitment to be the country’s number one supplier of dependable, easy-to-use and technologically advanced banking services, it has been our priority to strengthen our human resource. This realization has helped ABA Bank to navigate an extraordinary year.

The initiatives and improvements for the year 2011 included new training and development implementation, team-building, competitive benefits and incentive programs improvements. As part of those activities, ABA Bank rewarded employee loyalty and performance during the Bank’s 15th Year Anniversary Gala celebration at the Hotel Sofitel Phnom Penh in December 2011.

Within the Strategic Human Resource Management (SHRM), a combination of the “best-fit” and the “resource-based” approaches were implemented. The former creates a corporate culture through selection, appraisal, rewarding and development processes; whereas the latter considers the human resources as an asset and source of competitive advantage of the Bank rather than as costs to be minimized.

As part of that, in 2011 ABA Bank implemented the Balanced Scorecard System. Its essential purpose is to align activities to the vision and strategy of ABA Bank, improve internal and external communications, and monitor organizational performance against strategic goals.

Corporate Social Responsibility and Sustainability

We have an important role to play in the economic and social development of the country where we operate. An effective community contribution also means understanding and responding to the broader social issues relevant to us.

In frame of credit policy, the top management promulgated a directive of restricting non-ethical investments such as alcohol, tobacco production and trading, environmentally harmful projects and other immoral businesses, while focusing on industries and projects that most benefit Cambodian society.

- **Investing in Local Communities**
In line with the new strategy of becoming a truly local bank, the opening of ABA Bank Kompong Cham branch



Cambodian Red Cross Donation Program.

is a gateway for the provision of our presence in the local community by providing deposit and loan products to largely agricultural, small and medium businesses and individuals in this part of Cambodia. Our presence in this community provides essential banking services to increase employment levels, generate opportunities and deliver positive outcomes for developing communities especially in rural areas. The opening of this branch is just one of a number of branch openings which ABA Bank has planned for the next few years.

- **Supporting Health Care**
As part of our annual commitment to health care, ABA Bank supports the Cambodian Red Cross. This has been part of our annual activities for the community and the Kingdom as a whole. Also ABA Bank participated in a donation programme aimed to help in the recovery of seriously damaged flooded rural areas in Cambodia.

- **Building Education And Sport**
This year, we have started our engagement with the universities in Phnom Penh by providing exchange of knowledge in the banking field. Our employees conducted seminars and orientation programs for the university students in preparation for their role in the business world.

In addition, we have also supported the promotion and reinforcement of sports through the football club of a major university in Phnom Penh, Build Bright University. The funding support for this club helps in the refurbishing and expansion of sport facilities.

Internal Control and Risk Management

Amidst the continuing competition in the banking sector as well as ABA Bank’s fast-growing assets, it is fair to note the ongoing momentum in embedding and strengthening responsible business practices throughout our operations.

Compliance Control and Internal Audit were most critical to review and evaluate the effectiveness of business processes and risk management.

In turn, a risk management framework was set up to further ensure effective assessment of the credit risk, market risk and operational risk involved. The Risk Management Department started its new role in the field of risk policy formulation and introduction of modern risk measurement techniques.

As part of the corporate governance, the Board of Directors through Audit and Risk Committees provided guidance over risk appetite and effectiveness of operations.



Strengthening internal control.

History & Milestones

ABA Bank has a long and established history. Founded in 1996 as the Advanced Bank of Asia Limited, the 'Bank' or 'ABA'- as it is now known - was originally set up to provide commercial banking services to a limited number of corporate clients in the country's rapidly emerging business community. However, since its incorporation in 1996, much has happened. Here are just a few of the institution's key milestones.

2007	<ul style="list-style-type: none">■ In April 2007, Kazakhstan-based emerging markets private equity firm Visor Group acquired 100% stake of ABA Bank. There then followed a period of investment and infrastructure development that culminated in the opening of ABA's first 'provincial' branch in Siem Reap.■ The Bank also began to expand into the retail banking sector.■ Under the Branch Expansion Strategy, the Bank opened its 1st branch in Siem Reap Province.
2008	<ul style="list-style-type: none">■ Advanced Bank of Asia continued to expand its retail banking portfolio with significant investment in the Bank's technological infrastructure. The result was the launch of the country's most technologically advanced internet banking service - iBank - as well as agreements with MasterCard that resulted in the roll-out of ATM and POS terminals across Cambodia.■ The Bank's network expanded with the addition of four more branches in Phnom Penh and one in Battambang.■ Implemented ATM Cards Processing System acquired from Compass Plus, Russia.■ Implemented new Core Banking System i-FlexCube through the upgrade of all IT infrastructure.
2009	<ul style="list-style-type: none">■ Having established itself in the retail sector, the Bank rebranded itself as ABA Bank.■ ABA's product line expanded to include Visa Card Services, Moneygram Payment System and small business loan facilities.

2010	<ul style="list-style-type: none">■ Following ABA Bank re-branding, the Bank introduced the first motor loan and car loan in Cambodia, providing innovative products at a competitive rate.■ ABA Bank Phnom Penh branch network expanded once again to include a Toul Kork branch as well as another in Borei Keyla.
2011	<ul style="list-style-type: none">■ After three years of expansion and investment, ABA Bank achieved international recognition for excellence in international payments and cash management services. The institution won the prestigious Golden Award in the HSBC Global Payments and Cash Management category.■ Following on from the recognition the Bank received the year before, in 2011 ABA Bank became the first Cambodian financial institution to become Asian Banking & Finance Retail Banking Magazine's Retail Bank of the Year.■ 2011 also marked the year that ABA Bank opened a flagship banking centre for its corporate and VIP clients in the heart of Phnom Penh. The Bank also increased its presence in the provinces with the opening of a new branch in Kampong Cham.■ With a new strategy that took into account the Bank's new social and economic approach, ABA introduced a special microbusiness program that offered some of the best financial terms and conditions in Cambodia - even better than existing MFIs and other banks.■ ABA's awards, achievements and highlights were celebrated at the Bank's 15th anniversary gala, which was attended by over 200 management and staff in Phnom Penh. <p>Having achieved some significant milestones over the past decade and a half, the management and staff at ABA Bank are looking forward to the next 15 years as a major player in Cambodia's banking sector.</p>

Management Team



Damir Karassayev
Chairman of the Board of Directors

Mr. Damir Karassayev comes to ABA Bank with a wealth of commercial and financial experience. A former President of the Kazakhstan Stock Exchange, Damir has also held senior positions with one of Kazakhstan's biggest telecom companies Kar-Tel as well as with the state gas transportation company KazTransGas. Damir's overseas experience includes a position as CEO of Nepal's leading mobile phone operator, Spice Nepal. Damir joined ABA Bank in Cambodia in 2008.



Madi Akmambet
Chief Executive Officer

As a graduate of the City University London MBA program, Mr. Madi Akmambet is a highly experienced finance executive. Madi has held senior positions with a variety of Kazakhstan state enterprises including the National Bank of Kazakhstan, the national electricity grid and the State Accumulative Pension Fund. In 2006, Madi moved into the private sector as Deputy Chairman of Kazakhstan's Tsesnabank. He then joined the Visor Group in 2007 to head up the organisation's Credit-Standard Bank in Uzbekistan. Madi joined ABA Bank in Cambodia in 2009.



Askhat Azhikhanov,
First Deputy Chief Executive Officer

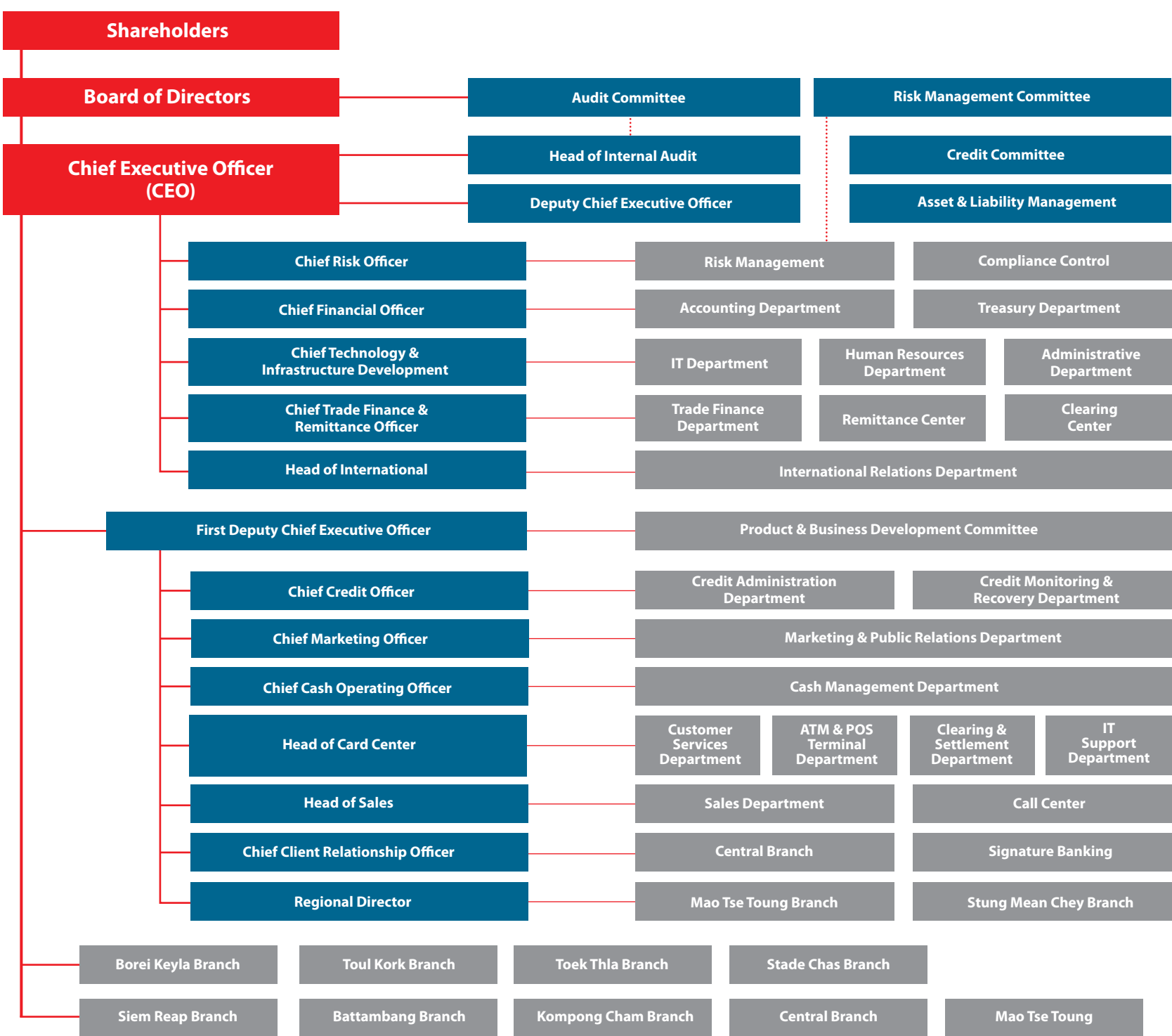
With a PhD in Economics and an MSc in Banking and International Finance from the City University London, Mr. Askhat Azhikhanov has played a leading role in a variety of Kazakhstan financial institutions. He started his banking career with the National Bank of Kazakhstan before moving into the private sector, culminating in the position of Head of Asset Management at Credit Suisse Kazakhstan and then as CEO of Zhetisu Asset Management in Kazhakstan. In 2009, Askhat took up the position as First Deputy Chief Executive Officer at ABA Bank in Cambodia.



Lee Young Ho,
Deputy Chief Executive Officer

A native of South Korea, Mr. Lee Young Ho has more than three decades of banking experience to his name. Mr. Lee has held senior managerial positions with commercial banks in South Korea, Indonesia and the United States. He was a senior manager with top Korean-American bank WOORI America Bank. Mr. Lee joined ABA Bank in 2007.

Organisation Chart



Our Office & Network

Head Office:

No. 148, Preah Sihanouk Blvd., Sangkat Boeung Keng Kang I, Khan Chamcarmorn, Phnom Penh, Kingdom of Cambodia, P.O. Box 2277
Tel: (855) 23 225 333
Fax: (855) 23 216 333
Email: info@ababank.com
Website: www.ababank.com.kh
SWIFT: ABAKHPP

Phnom Penh Branches:

- Borei Keyla Branch**
Corner Street 134 & 169, Sangkat Veal Vong, Khan 7 Makara, Phnom Penh, Cambodia
Tel: (855) 98 630 585, (855) 98 203 863, (855) 98 203 869
Fax: (855) 23 999 995
Email: boreikeyla@ababank.com
- Central Branch**
No. 443 A Monivong Blvd., Boeung Prolith, Khan 7 Makara Phnom Penh, Cambodia
Tel: (855) 23 225 333, (855) 98 203 102
Fax: (855) 23 998 199
Email: central@ababank.com
- Mao Tse Toung Branch**
No. 151 E0-E1-E2, Mao Tse Toung Blvd., Sangkat Boeung Keng Kang 3, Khan Chamcarmorn, Phnom Penh, Cambodia
Tel: (855) 23 225 333, (855) 12 804 172, (855) 98 630 172
Fax: (855) 23 216 135
Email: maotsetoung@ababank.com
- Stade Chas Branch**
No. 26 AE0-E1-E2, Street 70, Sangkat Srah Chak, Khan Daun Penh, Phnom Penh, Cambodia
Tel: (855) 23 995 304, (855) 16 556 585, (855) 98 630 585
Fax: (855) 23 986 514
Email: stadechas@ababank.com

5. Toek Thla Branch

No. A39-A41, Street Russian Blvd., Sangkat Toek Thla, Khan Russey Keo, Phnom Penh, Cambodia
Tel: (855) 23 225 333, (855) 17 376 777, (855) 98 630 295
Fax: (855) 23 995 304
Email: toekthla@ababank.com

6. Toul Kork Branch

No. 10A, Block A7E0123 and A8E0123 St. 289 Corner 516, Sangkat Boeung Kok I, Khan Toul Kork, Phnom Penh, Cambodia
Tel: (855) 98 203 859, (855) 98 630 815
Fax: (855) 23 883 596
Email: toulkork@ababank.com

Provinces:

7. Battambang Branch

No. 205-207, Street 3, Village Kamakor, Commune Svay Por, Battambang District, Battambang Province, Cambodia
Tel: (855) 98 203 838
Fax: (855) 53 730 814
Email: battambang@ababank.com

8. Kompong Cham Branch

No. 31 Street Monivong, Village 7, Kompong Cham Commune Kompong Cham Town, Kompong Cham Province, Cambodia
Tel: (855) 98 203 879
Fax: (855) 42 210 575
Email: kompongcham@ababank.com

9. Siem Reap Branch

No. A1-A2, Sivutha Street, Svay Dangcum Commune, Siem Reap District, Siem Reap Province, Cambodia (Phsar Kandal)
Tel: (855) 63 965 434, (855) 98 630 555
Fax: (855) 63 965 435
Email: siemreap@ababank.com

**FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT AUDITORS
FOR THE YEAR ENDED 31 DECEMBER 2011**



Report of the Board of Directors

The Board of Directors (“the Directors”) is pleased to submit their report together with the audited financial statements of Advanced Bank of Asia Limited ("the Bank") for the year ended 31 December 2011.

Advanced Bank of Asia

The Bank was incorporated on 25 October 1996 and registered with the Ministry of Commerce as a private limited liability company under Registration Number Co.322/97E dated 25 October 1996.

Principal Activities

The Bank is principally engaged in all aspects of banking business and the provision of related financial services in Cambodia.

Results of Operation and Dividends

The results of operations for the year ended 31 December 2011 are set out in the income statement on page 29.

No dividends were declared or paid during the year ended 31 December 2011.

Statutory Capital

There were no changes in the issued and paid-up capital of the Bank during the year.

Reserves and Provisions

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

Bad and Doubtful Loans and Advances

Before the financial statements of the Bank were drawn up, the Directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad loans and advances or making of provisions for doubtful loans and advances, and satisfied themselves that all known bad loans and

advances had been written off and that adequate provisions have been made.

At the date of this report and based on the best of knowledge, the Directors are not aware of any circumstances which would render the amount written off for bad loans and advances or the amount of the provision for bad and doubtful loans and advances in the financial statements of the Bank inadequate to any material extent.

Current Assets

Before the financial statements of the Bank were drawn up, 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 values 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 and based on the best of knowledge, the Directors are not aware of any circumstances that have arisen which would render adherence to the existing method of valuation of assets and liabilities in the financial statements of the Bank misleading or inappropriate in any material respect.

Valuation Methods

At the date of this report and based on the best of knowledge, the Directors are not aware of any circumstances that have arisen which would render adherence to the existing method of valuation of assets and liabilities in the financial statements of the Bank misleading or inappropriate in any material respect.

Contingent and Other Liabilities

At the date of this report, there are:

- (a) no charge on the assets of the Bank which has arisen since the end of the financial period which secures the liabilities of any other person, and
- (b) no contingent liability in respect of the Bank that has arisen since the end of the financial period 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 period which, in the opinion of the Directors, will or may have a material effect on the ability of the Bank to meet its obligations as and when they become due.

Changes of Cirumstances

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 in any material respect.

Items of an Unusual Nature

The results of the operations of the Bank for the year ended 31 December 2011 were not, in the opinion of the Directors, materially 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 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 substantially affect the results of the operations of the Bank for the current financial year in which this report is made.

The Board of Directors

The members of the Board of Directors holding office during the year and as at the date of this report are:

- Mr. Damir Karassayev, Chairman
- Mr. Nurlan Tokobayev, Independent Director
- Mr. Madi Akmambet, Director/CEO
- Mr. Yermek Mazhekenov, Independent Director

Directors' Interests

The Directors representing the interests of shareholders of the Bank during the year and at the date of this report are as follows:

Shareholder	Holding	Number of Shares
	%	Of USD 1,000 each
	74.72	26,900
Damir Karassayev	74.72	26,900

Directors' Benefits

During and at the end of the year, no arrangements existed, to which the Bank was 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.

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 Director or with a firm of which the Director is a member, or with a company which the Director has a material financial interest other than as disclosed in the financial statements.

Responsibilities of the Directors in Respect of the Financial Statements

The Directors are responsible to ensure that the financial statements are properly drawn up so as to present fairly, in all material respects, the financial position of the Bank as at 31 December 2011 and of its financial performance and cash flows for the year then ended. In preparing these financial statements, the Directors are 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 and Cambodian Accounting Standards and the National Bank of Cambodia’s guidelines or, if there have been any departures in the interests of fair presentation, 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 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 and actions affecting the operations and performance and ascertain that such have been properly reflected in the financial statements.

The Directors confirm that the Bank has complied with the above requirements in preparing the financial statements.

Approval of the Financial Statements

The accompanying financial statements have been drawn up so as to present fairly, in all material respects, the financial position of the Bank as at 31 December 2011, and of its financial performance and cash flows for the year then ended in accordance with Cambodian Accounting Standards and the National Bank of Cambodia's guidelines, were approved by the Board of Directors.

On behalf of the Board of Directors



Madi Akmambet
Chief Executive Officer

Date: 19 March 2012

Report of Independent Auditors

To the Shareholders and Board of Directors of Advanced Bank of Asia Limited

We have audited the accompanying financial statements of Advanced Bank of Asia Limited ("the Bank"), which comprise the balance sheet as at 31 December 2011, and the related income statement, statement of changes in equity, and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Cambodian Accounting Standards and the National Bank of Cambodia's guidelines. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Cambodian International Standards on Auditing ("CISA") and the requirements of the National Bank of Cambodia ("NBC"). Those principles require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

REPORT OF INDEPENDENT AUDITORS

Opinion

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the financial position of the Bank as at 31 December 2011 and of its financial performance and cash flows for the year then ended, in accordance with Cambodian Accounting Standards and the National Bank of Cambodia’s guidelines.

The accompanying financial statements are prepared for jurisdiction of Cambodia and the National Bank of Cambodia’s guidelines. It is not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in other countries and jurisdictions other than Cambodia.

On behalf of Morison Kak & Associés
Certified Public Accountants



Key KAK
Managing Partner

Morison Kak & Associés
Registered Auditors

Date: 19 March 2012

No. 25, Street 360, (opposite Apsara TV Station) Sangkat Boeng Keng Kang 1, Chamcarmon, Phnom Penh, Cambodia
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Balance Sheet
As at 31 December 2011

	Note	2011		2010
		USD	KHR'000	USD
ASSETS				
Cash in hand	4	9,636,415	38,921,480	9,345,698
Deposits and placements with banks	5	47,350,112	191,247,102	24,571,756
Statutory deposits with central bank	6	22,536,160	91,023,550	17,019,727
Loans and advances to customers - net	7	91,456,489	369,392,759	73,019,511
Capital investment	8	25,000	100,975	-
Investment securities	9	24,691,767	99,730,047	26,756,635
Intangible assets - computer software	10	1,797,072	7,258,374	1,921,517
Property and equipment	11	1,345,615	5,434,939	1,307,318
Other assets	12	2,651,412	10,709,053	1,831,971
TOTAL ASSETS		201,490,042	813,818,279	155,774,133
LIABILITIES AND CAPITAL				
LIABILITIES				
Deposits from customers and banks	13	165,608,805	668,893,963	122,401,589
Provision for income tax	14	13,389	54,078	9,775
Other liabilities	15	1,771,970	7,156,987	1,290,331
TOTAL LIABILITIES		167,394,164	676,105,028	123,701,695
CAPITAL AND RESERVES				
Share capital	16	36,000,000	145,404,000	36,000,000
Accumulated losses		(1,904,122)	(7,690,749)	(3,927,562)
TOTAL CAPITAL AND RESERVES		34,095,878	137,713,251	32,072,438
LIABILITES AND CAPITAL		201,490,042	813,818,279	155,774,133
Commitments and contingencies	27.1	9,168,471	37,031,455	6,542,151

Madi Akmambet
Chief Executive Officer

Date: 19 March 2012

Signed and authorised for release on behalf of the Board of Directors

Income Statement

For the year ended 31 December 2011

	Note	2011		2010
		USD	KHR'000	USD
Interest income	17	13,107,232	52,940,110	6,911,038
Interest expense	18	(6,724,244)	(27,159,222)	(3,639,101)
NET INTEREST INCOME		6,382,988	25,780,888	3,271,937
Fee and commission income - Net	19	2,096,316	8,467,020	1,544,386
Other operating income	20	289,052	1,167,481	809,688
Personnel cost	21	(2,069,497)	(8,358,698)	(1,823,999)
General and administrative expenses	22	(3,188,172)	(12,877,027)	(2,504,682)
Depreciation and amortisation expenses	23	(591,262)	(2,388,107)	(944,598)
OPERATING PROFIT		2,919,425	11,791,557	352,732
Allowances for doubtful loans and advances	7	(731,175)	(2,953,216)	(220,905)
PROFIT BEFORE INCOME TAX		2,188,250	8,838,341	131,827
Income tax expense	24	(164,810)	(665,668)	(93,264)
NET PROFIT FOR THE YEAR		2,023,440	8,172,673	38,563



Madi Akmambet
Chief Executive Officer

Date: 19 March 2012

Signed and authorised for release on behalf of the Board of Directors

Statement of Changes in Equity

For the year ended 31 December 2011

	Contributed capital	Retained earnings	Total
	USD	USD	USD
Balance as at 01 January 2010	23,000,000	(3,966,125)	19,033,875
Issued share capital	13,000,000	-	13,000,000
Net profit for the year	-	38,563	38,563
BALANCE AS AT 31 DECEMBER 2010	36,000,000	(3,927,562)	32,072,438
Balance as at 01 January 2011	36,000,000	(3,927,562)	32,072,438
Net profit for the year	-	2,023,440	2,023,440
BALANCE AS AT 31 DECEMBER 2011	36,000,000	(1,904,122)	34,095,878
BALANCE AS AT 31 DECEMBER 2011 (KHR'000 EQUIVALENTS)	145,404,000	(7,690,749)	137,713,251

Cash Flow Statement

For the year ended 31 December 2011

	Note	2011		2010
		USD	KHR'000	USD
CASH FLOWS FROM OPERATING ACTIVITIES				
Net cash (used in)/from operating activities	25	23,599,186	95,317,111	(2,736,457)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of intangible assets	10	-	-	(98,523)
Purchase of property and equipment and software	11	(505,113)	(2,040,151)	(126,349)
NET CASH USED IN INVESTING ACTIVITIES		(505,113)	(2,040,151)	(224,872)
CASH FLOWS FROM FINANCING ACTIVITIES				
Capital investment	8	(25,000)	(100,975)	-
Issued share capital		-	-	13,000,000
NET CASH USED IN FINANCING ACTIVITIES		(25,000)	(100,975)	13,000,000
NET CHANGES IN CASH AND CASH EQUIVALENTS		23,069,073	93,175,985	10,038,671
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR		33,917,454	136,992,597	23,878,783
CASH AND CASH EQUIVALENTS, END OF THE YEAR		56,986,527	230,168,582	33,917,454
Represented by:				
Cash in hand	4	9,636,415	38,921,480	9,345,698
Deposits and placements with banks	5	47,350,112	191,247,102	24,571,756
		56,986,527	230,168,582	33,917,454

Notes to the Financial Statements

For the year ended 31 December 2011

1. General Information

Advanced Bank of Asia Limited (“the Bank”) was incorporated in Cambodia on 25 October 1996 under Registration No. Co.322/97E dated 25 October 1996 granted by the Ministry of Commerce and commenced operations on 25 October 1996.

The Bank is principally engaged in all aspects of banking business and the provision of related financial services in the Kingdom of Cambodia. On 28 November 2006, the Bank was granted a permanent banking licence No.14 from the National Bank of Cambodia (“NBC”).

The registered office of the Bank is located at No. 148, Preah Sihanouk Blvd., Sangkat Boeung Keng Kang I, Khan Chamkarmon, Phnom Penh, Kingdom of Cambodia.

As at 31 December 2011, the Bank employed 224 employees (2010: 197 employees).

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

The financial statements were authorised for issue by the Board of Directors on 19 March 2012.

2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of the Bank are prepared under the historical cost convention in accordance with the guidelines issued by the NBC and Cambodian Accounting Standards (“CAS”). In applying CAS, the Bank also applies the Cambodian Financial Reporting Standard (“CFRS”) 7: Financial Instruments: Disclosures. This practice differs from the International Financial Reporting Standards which require that loans and receivables be carried at amortised cost using the effective interest method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or uncollectability.

The preparation of financial statements in conformity with CAS as modified by NBC guidelines requires the use of estimates and assumptions that affect the amounts reported in the financial statements as at and for the year ended and accompanying notes. The estimates have been made based on existing available information and Management’s best knowledge of current events and actions; and therefore the actual results ultimately may differ from those estimates.

NOTES TO THE FINANCIAL STATEMENTS

The accompanying financial statements are prepared for jurisdiction of Cambodia and are not intended to present the financial position of the Bank and its financial performance and cash flows in accordance with generally accepted accounting principles and practices in other countries and those who are not informed about Cambodia's procedures and practices.

2.2 New accounting standards and interpretations

There were no standards, amendments to existing standards and interpretations which, became effective in the year ended 31 December 2011.

On 28 August 2009, the National Accounting Council announced the adoption of Cambodian International Financial Reporting Standards ("CIFRS") which are based on full International Financial Reporting Standards. Public accountable entities shall prepare their financial statements in accordance with CIFRS for the accounting period beginning on or after 01 January 2012.

The following Cambodian International Accounting Standards ("CIAS") or CIFRS and amendments to existing standards, which have been published are relevant and mandatory for the Bank's accounting period beginning on or after 01 January 2012, but have not been earlier adopted by the Bank:

• **CIAS 1 (Revised), 'Presentation of Financial Statements'**

The revised standard prohibits the presentation of items of income and expenses (i.e., 'non-owner changes in equity') in the statement of changes in equity. All non-owner changes in equity are to be shown in a performance statement. Entities can opt to present one performance statement (i.e. statement of comprehensive income) or two statements (i.e. income statement and statement of comprehensive income). Entities which restate or reclassify comparative information are required to present a restated balance sheet as at the beginning comparative period. The revised standard also clarifies that potential settlement of a liability by issue of equity is not relevant in determining the classification of a liability as current or non-current liability.

• **CIAS 24 (Revised), 'Related Party Disclosures'**

CIAS 24 was revised by (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition; and (b) providing a partial exemption from the disclosure requirements for government-related entities.

• **CIAS 32, 'Financial Instruments: Presentation'**

The objective of this standard is to establish the principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments as well as classification of related interest, dividends, losses and gains.

• **CIAS 36 (Amendment), 'Impairment of Assets'**

The amended standard states that where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made.

• **CIAS 39, 'Financial Instruments: Recognition and Measurement'**

The standard establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. Adoption of CIAS 39 will result in the following revisions to the accounting policies on financial instruments:

Loans and advances to customers

Loans and advances to customers are currently stated in the balance sheet at outstanding principal and interest, less any amounts written off and provision for loan losses. Under CIAS 39, loans and receivables are initially recognised at fair value - which is the cash consideration to originate or purchase the loan including any transaction costs - and subsequently measured at amortised cost using the effective interest rate method.

Available for sale financial assets

The Bank currently states available for sale financial assets in the balance sheet at outstanding principal and interest, less any amounts written off and impairment. Under CIAS 39, available for sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and subsequently measured at fair value with gains and losses being recognised in the statement of comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. If available for sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in statement of comprehensive income is recognised in income statement. Interest is calculated using the effective interest method.

Held to maturity financial assets

The Bank currently states held to maturity financial assets in the balance sheet at outstanding principal and interest, less any amounts written off and impairment. Under CIAS 39, held to maturity financial assets are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at amortised cost, using effective interest method.

Deposits from banks and customers

The Bank currently measures deposits from banks and customers at the deposit amount. CIAS 39 requires that financial liabilities (which include deposits from banks and customers) to be measured at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS

Impairment of financial assets

The Bank currently follows the mandatory credit classification and provisioning as required by Prakas No. B7-09-074 dated 25 February 2009 issued by the Central Bank, as disclosed in Note 2.8 to the Financial Statements. CIAS 39 requires the Bank to assess at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired, either on an individual or collective assessment basis. Impairment loss is measured as the difference between an asset's carrying amount and present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset's original effective interest rate. For the purposes of collective impairment assessment, assets are grouped on the basis of similar credit risk characteristics.

Interest income and interest expense

The Bank currently recognises interest income and expense on an accrual basis at contractual rates, except where serious doubt exists as to the collectability, interest is suspended until it is realized on a cash basis. CIAS 39 requires interest income and expense for all interest-bearing financial instruments to be recognised using the effective interest method. In respect of a financial asset or a group of similar financial assets which are impaired, interest income is to be recognised at interest rate used in discounting future cash flows for purpose of measuring the impairment loss.

- **CIFRS 7 (Amendment), 'Financial instruments - Disclosures'**

The revised standard requires enhanced disclosures in respect of fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair values by fair value measurement hierarchy as follows:

- **Level 1** Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- **Level 2** Inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, either directly or indirectly; and
- **Level 3** Inputs for an asset or liability that are not based on observable market data.

- **CIFRS 9 'Financial instruments'**

The standard establishes principles for financial reporting of financial assets that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of the entity's future cash flows. CIFRS 9 specify the bases for classification and measurement of financial assets, including some hybrid contracts. They require all financial assets to be: (a) classified on the basis of an entity's business model for managing the financial assets and the contractual cash flow characteristics of a financial asset; (b) initially measured at fair value, plus transaction costs in the case of a financial asset not at fair value through profit or loss; and (c) subsequently measured at amortised cost or fair value based on asset classification. Other than the standards and amendments to existing standards as set out above, the other published standards, amendments and

interpretations to existing standards, which are applicable for accounting periods beginning on or after 01 January 2011, are not relevant to the Bank's operations.

2.3 Foreign currencies translation

(a) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates ('the functional currency').

The national currency of Cambodia is the Khmer Riel ("KHR"). However, as the Bank transacts essentially in US Dollar ("USD") and maintains its books of accounts primarily in USD, the financial statements are presented in USD, which is the Bank's functional and presentation currency as it reflects the economic substance of the underlying events and circumstances of the Bank.

In compliance with the requirements of the NBC, all assets, liabilities, profit and loss statement items in foreign currencies at the end of the year are converted into thousand Khmer Riel ("KHR'000") using the official exchange rate announced by the NBC at the balance sheet date, of **1 USD = 4,039 KHR** (31 December 2010: KHR 4,053). The purposes of such conversions are to comply with NBC's financial statements presentation guidelines only and should not be construed as representations that the KHR amounts have been, could be, or could in the future be, converted into USD at this or any other rate of exchange.

(b) Transactions and balance

Assets and liabilities expressed in currencies other than USD are translated into USD at the rate of exchange quoted by the NBC at the date of the balance sheet. Income and expenses arising in foreign currencies are converted at the rate of exchange prevailing on the transaction dates. Exchange differences arising from conversion are reported on a net basis in the statement of income.

2.4 Segment information

The Bank operates within one business segment, which is commercial banking, and within one geographical segment, the Kingdom of Cambodia.

2.5 Cash and cash equivalents

Cash and cash equivalents comprise balances with original maturity of less than three months from the date of acquisition, including cash on hand, non-restricted balance with the Central Bank and balances with other banks.

NOTES TO THE FINANCIAL STATEMENTS

2.6 Statutory deposits with the Central Bank

Statutory deposits represent mandatory reserve deposits and cash maintained with the NBC in compliance with the Law on Banking and Financial Institutions (“LBFI”) and are not available to finance the Bank’s day-to-day operations and hence are not considered as part of cash and cash equivalents for the purpose of the statement of cash flows.

2.7 Loans and advances to customers

Loans originated by the Bank by providing money directly to the borrowers at draw down are categorised as loans and advances to customers and are carried at outstanding balance and interest, less allowances for loan loss and any amount written off. Interest in suspense represents interest accrued on loan receivables that are substandard, doubtful or bad.

2.8 Allowances for loan losses

Allowances for loan losses are based on the latest mandatory credit classification and provisioning guidelines required by Prakas B7-09-074 dated 25 February 2009 issued by the NBC. Allowances are made with regard to specific risks on loans individually reviewed and classified into five classes as normal, special mention, substandard, doubtful and loss regardless of the assets (except cash) lodged as collateral.

NBC guidelines require the following loan classification and minimum level of allowances:

Classification	Overdue	Type of provision	Rate of allowances
Normal/Standard	Performing in accordance with contractual terms	General provision	1%
Special mention	Thirty days or more	Specific provision	3%
Substandard	More than ninety days	Specific provision	20%
Doubtful	More than six months	Specific provision	50%
Loss	More than one year	Specific provision	100%

Exception on the above provision rate may 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.

In accordance with NBC guidelines, overdue loans are defined as the total outstanding principal where the principal or interest is past due.

2.9 Other credit-related commitments

In the normal course of business, the Bank enters into other credit-related commitments including loan commitments, letters of credit, and guarantees. The accounting policy and allowance methodology are similar to those for originated loans noted above. Specific allowances are raised against other credit-related commitments when losses are considered probable.

2.10 Investment securities

Investment securities are stated in the balance sheet at outstanding principal and interest, less any amounts written off and impairment.

2.11 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditures are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the financial year in which they are incurred.

Depreciation of property and equipment is calculated on a straight-line basis over the estimated useful lives of assets at the following rates per annum:

Leasehold improvements	10% - 33%
Computer and IT equipment	16.6% - 33%
Office equipment	33%
Motor vehicle	20%

NOTES TO THE FINANCIAL STATEMENTS

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset’s fair value less costs to sell and value in use.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposal are determined by comparing proceeds with carrying amount and are recognised in income statement.

2.12 Intangible assets

Intangible assets, which comprise acquired computer software licenses and related costs, are stated at cost less accumulated amortisation and impairment loss. Acquired computer software licenses are capitalised on the basis of the cost incurred to acquire the specific software and bring it to use. These costs are amortised using the straight-line method at the rate of 5% to 10% per annum.

Costs associated with maintaining computer software are recognised as an expense when incurred.

2.13 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use.

Any impairment loss is charged to income statement in the period in which it arises. Reversal of impairment loss is recognised in the income statement to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, had no impairment loss been recognised.

2.14 Interest income and expense

Interest earned on loans and advances to customers, deposits with the Central Bank and other banks are recognised on the accrual basis, except when loans and advances to customers become doubtful of collection, in which case, no interest is recognised as income.

Where an account is classified as non-performing, recognition of interest income is suspended until it is realised on a cash basis. Customers' loan accounts are classified as non-performing where repayments are in arrears for 90 days and more.

Interest expenses on the deposits and borrowings are recognised on an accrual basis.

2.15 Fee and commission income

Loan arrangement fees and commissions are generally recognised based on the occurrence when the service has been provided and consideration received. Commitment fees and guarantee fees on a variety of services and facilities extended to customers are recognised as income based on time apportionment.

Service charges and processing fees are recognised as income when loan is disbursed.

2.16 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

2.17 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligations; and a reliable estimate of the amount of the obligation can be made.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

NOTES TO THE FINANCIAL STATEMENTS

2.18 Current and deferred income taxes

Income tax expense for the period comprises current and deferred tax. Tax is recognised as expenses for the period. Taxes other than on income are recorded within operating expenses.

Current tax is calculated on the basis of taxable profit using tax rates that have been enacted or substantially enacted at the balance sheet date in accordance with Cambodian Law on Taxation.

Deferred tax is provided in full, using the liability method, on temporary differences between tax bases of assets and liabilities and their carrying amounts in the financial statements. 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 rate enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is more likely than not that future taxable profits 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.

2.19 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Under the LBFI, 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.

3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations with regard to future events that are believed to be reasonable under the circumstances. The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment losses on loans and advances

The Bank follows the mandatory credit classification and provisioning as required by Prakas No. B7-09-074 dated 25 February 2009 on asset classification and provisioning in the banking and financial institutions issued by the NBC. The NBC requires commercial banks to classify their loans, advances and similar assets into five classes and the minimum mandatory level of provisioning is provided, depending on the classification concerned and regardless of the assets lodged as collateral. For the purpose of loan classification, the Bank takes into account all risks and relevant factors which may affect the counterparties’ repayment abilities.

(b) Income tax

Taxes are calculated on the basis of current interpretation of the tax regulations. However, these regulations are subject to periodic variation and the ultimate determination of tax expenses will be made following inspection by the Tax Authorities.

Where the final tax outcome is different from the amounts that were initially recorded, such differences will have an impact on the income tax and deferred tax provisions in the financial period in which such determination is made.

4. Cash in hand

	2011		2010
	USD	KHR’000	USD
Cash in hand	9,501,490	38,376,518	8,247,026
Cash items in the process of collection	134,925	544,962	1,098,672
	9,636,415	38,921,480	9,345,698

NOTES TO THE FINANCIAL STATEMENTS

5. Deposits and placement with banks

	2011		2010
	USD	KHR'000	USD
INSIDE CAMBODIA			
Current account:			
National Bank of Cambodia	3,743,082	15,118,308	2,969,875
Acleda Bank	1,061,927	4,289,123	46,832
Cambodia Public Bank	784	3,167	9,191
Singapore Banking Corporation Limited	4,387	17,719	4,387
	4,810,180	19,428,317	3,030,285
Saving deposits:			
Canadia Bank	14,478,719	58,479,546	17,098,945
Acleda Bank	-	-	156,116
Union Commercial Bank	494	1,995	11,269
	14,479,213	58,481,541	17,266,330
Fixed deposits:			
Union Commercial Bank	58,186	235,013	56,491
Sacom Bank	11,000,000	44,429,000	-
BIDC	10,500,000	42,409,500	-
OSK Bank	3,000,000	12,117,000	-
Phnom Penh Commercial Bank	1,000,000	4,039,000	-
	25,558,186	103,229,513	56,491
	44,847,579	181,139,371	20,353,106
OUTSIDE CAMBODIA			
JPMorgan Chase Bank	93,146	376,217	-
Deutsche Bank Trust Company	155,893	629,652	-
Standard Chartered Bank	761,119	3,074,160	1,714,900
HSBC Bank	-	-	1,399,707
Masheq Bank	735,522	2,970,773	419,984
Korea Exchange Bank	304,832	1,231,216	316,462
Commerz Bank	400,374	1,617,111	284,242
Development Bank of the Philippines	4,445	17,953	17,625
DBS Bank	47,202	190,649	65,730
	2,502,533	10,107,731	4,218,650
	47,350,112	191,247,102	24,571,756

(a) Further analysis of the above deposits and placements is as follows;

i) By maturity period

	2011		2010
	USD	KHR'000	USD
Within one month	22,791,926	92,056,589	24,515,265
Later than one month to three months	10,500,000	42,409,500	-
Later than three months to six months	6,000,000	24,234,000	-
Later than six months to twelve months	8,058,186	32,547,013	56,491
	47,350,112	191,247,102	24,571,756

(ii) By currency

	2011		2010
	USD	KHR'000	USD
US Dollar	46,533,584	187,949,146	23,872,571
EURO	465,131	1,878,664	284,242
Khmer Riel	195,400	789,221	213,078
Pound	96,043	387,918	98,927
Thai Baht	51,747	209,006	63,246
Singapore Dollar	8,207	33,147	15,794
Australian Dollar	-	-	23,898
	47,350,112	191,247,102	24,571,756

NOTES TO THE FINANCIAL STATEMENTS

(b) The above deposits earn interest at the following rates per annum:

	2011	2010
	%	%
Bank inside Cambodia	0.05 - 4.50	0.75 - 5.50
Bank outside Cambodia	0.00 - 0.60	0.00 - 0.70

6. Statutory deposits with the Central Bank

	2011		2010
	USD	KHR'000	USD
Statutory capital deposit	3,600,000	14,540,400	3,600,000
Reserve requirements on customer deposits	18,936,160	76,483,150	13,419,727
	22,536,160	91,023,550	17,019,727

(a) Statutory capital deposit:

Under NBC's Prakas No. B7-01-136 dated 15 October 2001, the Bank is required to maintain a deposit of ten percent of its capital. This deposit is not available for use in the Bank's day-to-day operations and is refundable should the Bank voluntarily cease its operations in Cambodia.

(b) Reserve requirements on customer deposits:

The reserve deposit with the NBC is to comply with the NBC's Prakas No. B7-09-020 dated 26 January 2009. As per the Prakas, the Bank shall maintain reserve requirements against deposits and borrowings at a daily average balance equal to eight percent (8%) in Riel and twelve percent (12%) in foreign currencies with the NBC.

(c) The above deposits earn interest at the following rates per annum:

	2011	2010
	%	%
Statutory capital deposits	0.11 - 0.13	0.11 - 0.18
8% of reserve requirements in foreign currencies	0.00	0.00
4% of reserve requirements in foreign currencies	0.09 - 0.16	½ SIBOR

7. Loans and advances to customers

	2011		2010
	USD	KHR'000	USD
Commercial loans:			
Long term loans	62,589,676	252,799,701	41,009,554
Short term loans	11,700,472	47,258,206	13,331,657
Overdrafts	17,539,413	70,841,689	18,677,806
Consumer loans:			
Vehicle loans	772,214	3,118,972	659,725
Staff loans	459,331	1,855,238	299,006
Credit card loans	63,781	257,611	55,135
	93,124,887	376,131,417	74,032,883
	(798,832)	(3,226,482)	(297,411)
Provisions for impairment losses - Specific (*)	(869,566)	(3,512,176)	(715,961)
Provisions for impairment losses - General (**)			
	91,456,489	369,392,759	73,019,511

NOTES TO THE FINANCIAL STATEMENTS

(*) Movements on specific provision for impairment losses are as follows;

	2011		2010
	USD	KHR'000	USD
At beginning of year	297,411	1,201,243	540,206
Addition during the year	629,186	2,541,282	110,869
Recovery during the year	(127,765)	(516,043)	(353,664)
Write-off during the year	-	-	-
At end of year	798,832	3,226,482	297,411

(**) Movements on general provision for impairment losses are as follow;

	2011		2010
	USD	KHR'000	USD
At beginning of year	715,961	2,891,766	252,261
Addition during the year	342,969	1,385,252	502,825
Recovery during the year	(113,215)	(457,275)	(39,125)
Write-off during the year	(76,149)	(307,566)	-
At end of year	869,566	3,512,177	715,961

(a) By performance

	2011		2010
	USD	KHR'000	USD
Normal loans:			
Secured (*)	84,221,424	340,170,332	71,250,919
Unsecured (**)	2,735,020	11,046,745	354,125
Special mention loans:			
Secured	2,982,210	12,045,145	1,893,694
Unsecured	-	-	-
Substandard loans:			
Secured	2,945,838	11,898,240	215,455
Unsecured	-	-	-
Doubtful loans:			
Secured	239,372	966,823	242,540
Unsecured	1,023	4,132	-
Loss loans:			
Secured	-	-	-
Unsecure	-	-	76,150
	93,124,887	376,131,417	74,032,883

(*) Secured loans represent loans and advances to customers that are collateralised by hard title deeds, movable assets, and cash with 90%, 5%, and 2%, respectively.

(**) Unsecured loans are collateralised by soft title deeds and third party's guarantees. Soft title deed is a non-official certificate issued by the district cadastre or a letter of land ownership transfer issued by the Commune Chiefs, rather than a proper land/hard title deed registered with the Cadastral Registry Unit under the Land Laws. The validity of soft title deeds is contingent.

NOTES TO THE FINANCIAL STATEMENTS

(b) By maturity period

	2011		2010
	USD	KHR'000	USD
Up to one month	1,268,823	5,124,776	1,319,383
Later than one month to three months	9,783,927	39,517,281	4,959,622
Later than three months to six months	7,764,175	31,359,503	9,509,767
Later than six months to one year	15,760,540	63,656,821	19,490,042
Later than one year to three years	14,724,309	59,471,484	17,139,276
Later than three years to five years	28,927,642	116,838,745	17,768,424
Over five years	14,895,471	60,162,807	3,846,369
	<u>93,124,887</u>	<u>376,131,417</u>	<u>74,032,883</u>

(c) By security

	2011		2010
	USD	KHR'000	USD
Secured	90,388,844	365,080,540	73,602,608
Unsecured	2,736,043	11,050,877	430,275
	<u>93,124,887</u>	<u>376,131,417</u>	<u>74,032,883</u>

(d) By currency denomination

	2011		2010
	USD	KHR'000	USD
US Dollar	<u>93,124,887</u>	<u>376,131,417</u>	<u>74,032,883</u>

(e) By status of residence

	2011		2010
	USD	KHR'000	USD
Residents	92,974,887	375,525,567	74,032,883
Non-residents	150,000	605,850	-
	<u>93,124,887</u>	<u>376,131,417</u>	<u>74,032,883</u>

(f) By relationship

	2011		2010
	USD	KHR'000	USD
Related parties (staff loans)	459,331	1,855,237	299,006
Non-related parties	92,665,556	374,276,180	73,733,877
	<u>93,124,887</u>	<u>376,131,417</u>	<u>74,032,883</u>

NOTES TO THE FINANCIAL STATEMENTS

(g) By economic sectors

	2011		2010
	USD	KHR'000	USD
Manufacturing	8,924,164	36,044,698	16,142,513
Building and construction	5,577,212	22,526,359	15,979,149
Services	12,845,822	51,884,275	14,610,316
Wholesale and retail	21,472,360	86,726,862	11,160,314
Import	4,326,920	17,476,430	6,057,176
Staff loans	459,331	1,855,238	299,006
Others	39,519,078	159,617,555	9,784,409
	93,124,887	376,131,417	74,032,883

(h) By exposures

	2011		2010
	USD	KHR'000	USD
Large exposures (*)	20,871,064	84,298,227	9,634,822
Non-large exposures	72,253,823	291,833,190	64,398,061
	93,124,887	376,131,417	74,032,883

(*) The Bank has six single large exposure loans as at 31 December 2011. However, none of these loans exceeds the ceiling limit from 10% to 20% as per the provisions of NBC's Prakas No. B7-06-226 dated 03 November 2006.

A "large exposure" is defined under NBC Prakas as the overall gross exposure of the aggregate balance of loans and advances with one single beneficiary, which exceeds 10% of the Bank's net worth. The exposure is the higher of the outstanding loans or commitments and the authorised loans or commitments.

(i) By interest rate (per annum)

	2011	2010
	%	%
Overdrafts	6.00 - 20.00	8.00 - 17.00
Loans	4.00 - 21.60	7.00 - 21.60
Trade finance	10.00 - 12.00	12.00 - 14.00
Staff loans	7.00 - 12.00	7.00 - 12.00

8. Capital investment

On 18 July 2011, the Bank decided to invest 1% of share capital in Credit Bureau (Cambodia) Co. Ltd with the amount of USD 25,000 to establish the Private Credit Bureau in Cambodia. The Credit Bureau (Cambodia) Co. Ltd is in the process of incorporation and registration with the capital of USD 2,500,000. This investment was made based on the agreement among members of the Association of Banks in Cambodia (ABC) on 04 October 2010, deciding each commercial bank had to invest at least 1% of share capital in Credit Bureau (Cambodia) Co. Ltd as a stakeholder. This capital investment carries no interest.

NOTES TO THE FINANCIAL STATEMENTS

9. Investment securities

	2011		2010
	USD	KHR'000	USD
LISTED			
Securities available-for-sale (a)	24,691,767	99,730,047	19,148,801
NOT LISTED			
Held to maturity (b)	-	-	7,607,834
	24,691,767	99,730,047	26,756,635

- (a)

Due to the excess of liquidity, the Bank decided to invest the excess portion in other company bonds which are designated as available for sale securities. The Bank intends to hold these debt securities for the purpose of liquidity management of the Bank which may be sold in response to needs for liquidity or changes in interest rate or equity prices.
- (b)

Securities held to maturity represent the Bank's purchases of eight promissory notes issued by an overseas company. As at 30 June 2011, all securities held to maturity were matured and invested in securities available-for-sale based on management's discretion.

10. Intangible assets

	System software	
	USD	KHR'000
COST		
At 01 January 2011	2,314,124	9,346,747
Written off	(335,564)	(1,355,343)
At 31 December 2011	1,978,560	7,991,404
ACCUMULATED AMORTISATION		
At 01 January 2011	392,607	1,585,740
Charge for the reporting period	124,445	502,633
Written off	(335,564)	(1,355,343)
At 31 December 2011	181,488	733,030
NET BOOK VALUE		
At 31 December 2011	1,797,072	7,258,374
At 31 December 2010	1,921,517	

11. Property and equipment

	Leasehold improvements	Office equipment & furniture, fixtures	Motor vehicles	Computer & IT equipment	Total	Total
	USD	USD	USD	USD	USD	KHR'000
COST						
At 01 January 2011	784,012	628,665	142,330	1,644,473	3,199,480	12,922,700
Additions	236,342	94,823	12,029	161,920	505,114	2,040,155
Written off	(154,706)	(15,431)	-	(1,064,588)	(1,234,725)	(4,987,054)
At 31 December 2011	865,648	708,057	154,359	741,805	2,469,869	9,975,801
ACCUMULATED DEPRECIATION						
At 01 January 2011	372,463	289,443	82,799	1,147,457	1,892,162	7,642,442
Charge for the year	110,436	131,223	29,070	196,088	466,817	1,885,474
Written off	(154,706)	(15,431)	-	(1,064,588)	(1,234,725)	(4,987,054)
At 31 December 2011	328,193	405,235	111,869	278,957	1,124,254	4,540,862
NET BOOK VALUE						
AT 31 DECEMBER 2011	537,455	302,822	42,490	462,848	1,345,615	5,434,939
AT 31 DECEMBER 2010	411,549	339,222	59,531	497,016	1,307,318	5,280,262
Depreciation charge for 2010	94,264	125,337	28,465	528,355	776,421	3,135,964

NOTES TO THE FINANCIAL STATEMENTS

12. Other assets

	2011		2010
	USD	KHR'000	USD
Interests receivable	1,548,001	6,252,376	981,397
Interest in suspense	(193,798)	(782,750)	(47,978)
Foreclosed property (*)	364,981	1,474,158	156,401
Advance payments	359,303	1,451,225	285,988
Prepayments	236,790	956,395	201,628
Others	336,135	1,357,649	254,535
	2,651,412	10,709,053	1,831,971

(*) These represent bad loan collaterals foreclosed in the course of banking operations. These foreclosed assets are recorded at value equal to the corresponding loan principal outstanding plus interest receivable. These assets will not be held for operational purposes and with the intention to be disposed of to recover the outstanding amount within the maximum allowable period of twelve months as per NBC's Prakas No. B7-01-186. Assets realised in excess of outstanding amount plus disposal costs will be recognised under the gain on sale of foreclosed property under the other income after the settlement as per the agreement between borrower and the Bank.

As of the date of this report, the Bank's foreclosed properties possessed in 2010 is USD 156,401 and 2011 is USD 208,580. All these foreclosed properties have not been sold.

13. Deposits from customers and banks

	2011		2010
	USD	KHR'000	USD
CUSTOMERS			
Demand deposits	5,102,018	20,607,051	6,570,884
Savings accounts	92,879,671	375,140,991	58,190,568
Fixed deposits	63,312,924	255,720,900	51,906,172
Margin deposits	583,283	2,355,880	139,523
	161,877,896	653,824,822	116,807,147
BANKS			
Demand deposits	26,138	105,571	36,480
Savings accounts	704,771	2,846,570	2,487,962
Fixed deposits	3,000,000	12,117,000	3,070,000
	3,730,909	15,069,141	5,594,442
	165,608,805	668,893,963	122,401,589

NOTES TO THE FINANCIAL STATEMENTS

(a) Further analysis is as follows:

	2011		2010
	USD	KHR'000	USD
(i) By maturity period			
Within one month	112,050,200	452,570,757	83,391,704
Later than one month to three months	15,115,962	61,053,371	9,226,989
Later than three months to six months	15,106,820	61,016,446	7,455,986
Later than six months to one year	15,536,414	62,751,576	20,447,758
Over one year	7,799,409	31,501,813	1,879,152
	165,608,805	668,893,963	122,401,589
(ii) By type of customers			
Individuals	120,621,863	487,191,705	86,655,195
Business enterprises	41,256,034	166,633,121	30,151,953
Banks	3,730,908	15,069,137	5,594,441
	165,608,805	668,893,963	122,401,589
(iii) By status of residence			
Residents	158,872,257	641,685,046	117,585,393
Non-residents	6,736,548	27,208,917	4,816,196
	165,608,805	668,893,963	122,401,589
(iv) By currency denomination			
US Dollar	165,235,356	667,385,603	122,012,869
Khmer Riel	365,472	1,476,141	357,576
Others	7,977	32,219	31,144
	165,608,805	668,893,963	122,401,589
(v) By relationship			
Related parties	754,237	3,046,363	927,139
Non-related parties	164,854,568	665,847,600	121,474,450
	165,608,805	668,893,963	122,401,589

(b) The savings accounts and deposits bear interest as follows:

	2011	2010
	%	%
Saving deposits	0.75	1.00
Fixed deposits	2.50 - 8.50	1.00 - 9.00

(c) The margin deposits are interest-free and are encumbered for trade line and guarantee granted to customers.

14. Provision for income tax

	2011		2010
	USD	KHR'000	USD
Balance at beginning of year	9,775	39,481	4,846
Charge during the year	164,810	665,668	93,264
Taxation paid during the year	(161,196)	(651,071)	(88,335)
	13,389	54,078	9,775

15. Other liabilities

	2011		2010
	USD	KHR'000	USD
Interests payable-customer deposits	1,410,128	5,695,507	1,037,219
Accrued expense	121,989	492,714	69,184
Other taxes payable	221,535	894,780	174,900
Others	18,318	73,986	9,028
	1,771,970	7,156,987	1,290,331

NOTES TO THE FINANCIAL STATEMENTS

16. Share capital

	2011		2010
	USD	KHR'000	USD
Balance at 01 January	36,000,000	145,404,000	23,000,000
Increase during the year	-	-	13,000,000
Balance at end of year	36,000,000	145,404,000	36,000,000

The registered statutory capital of the Bank as at 31 December 2011 is 36,000 shares at a par value of USD 1,000 per share. All shares are fully paid. The Bank's capital is USD 36 million equivalent to KHR 150 billion at the date of increase on 29 September 2010 (exchange rate is KHR 4,223/USD), approved by NBC to meet the minimum capital requirement based on Prakas B7-08-193 dated 19 September 2008.

17. Interest income

	2011		2010
	USD	KHR'000	USD
Loans and advances	10,144,078	40,971,931	5,961,352
Deposits and placements with banks:			
Banks inside and outside Cambodia	400,015	1,615,661	104,232
National Bank of Cambodia	10,926	44,130	6,075
Investment securities	2,552,213	10,308,388	839,379
	13,107,232	52,940,110	6,911,038

18. Interest expense

Interest expense is incurred on deposits from bank and non-bank customers.

	2011		2010
	USD	KHR'000	USD
Savings accounts	3,126,415	12,627,590	1,541,133
Fixed deposits	3,597,829	14,531,632	2,089,301
Other interest expenses	-	-	8,667
	6,724,244	27,159,222	3,639,101

19. Fee and commission income

	2011		2010
	USD	KHR'000	USD
Fee and commissions:			
Loan commitment fees	922,329	3,725,287	742,812
Inward and outward remittances	607,160	2,452,319	407,531
Visa and credit card	470,646	1,900,939	344,387
Telex, phone and fax	73,610	297,311	47,779
Other fees	105,372	425,598	50,751
	2,179,117	8,801,454	1,593,260
Fee and commission expenses	(82,801)	(334,434)	(48,874)
	2,096,316	8,467,020	1,544,386

NOTES TO THE FINANCIAL STATEMENTS

20. Other operating income

	2011		2010
	USD	KHR'000	USD
Gain on sales of investment securities	155,496	628,048	637,250
Foreign exchange gain, net	87,450	353,211	128,680
Other miscellaneous income	46,106	186,222	43,758
	289,052	1,167,481	809,688

21. Personnel cost

	2011		2010
	USD	KHR'000	USD
Wages and salaries	1,987,484	8,027,448	1,741,975
Other personnel cost	82,013	331,250	82,024
	2,069,497	8,358,698	1,823,999

22. Other operating expenses

	2011		2010
	USD	KHR'000	USD
Public relations, marketing and advertising	966,213	3,902,534	837,296
Office rental	567,864	2,293,604	421,603
Card expenses	367,833	1,485,677	310,734
Repair and maintenance	258,122	1,042,555	201,568
Utilities expenses	176,228	711,785	165,970
Communication	139,884	564,991	139,542
License fees expense	135,214	546,129	113,990
Motor vehicle operation expenses	103,950	419,854	76,895
Professional fees	86,690	350,141	54,061
Traveling and entertainment	85,956	347,176	36,743
Insurance expenses	6,166	24,904	3,768
Office supplies	183,051	739,343	122,476
Other expenses	111,001	448,334	20,036
	3,188,172	12,877,027	2,504,682

23. Depreciation and amortisation expenses

	2011		2010
	USD	KHR'000	USD
Depreciation of property and equipment (Note 11)	466,817	1,885,474	776,421
Amortisation of intangible assets (Note 10)	124,445	502,633	168,177
	591,262	2,388,107	944,598

NOTES TO THE FINANCIAL STATEMENTS

24. Income tax expense

(a) Reconciliation of income tax

In accordance with Cambodian law, the Bank has an obligation to pay corporate income tax of the higher of 20% of taxable income or a minimum tax of 1% of revenues.

The reconciliation of income tax expense computed at the statutory tax rate of 20% to the income tax expense shown in the income statement is as follows:

	2011		2010
	USD	KHR'000	USD
Profit/(loss) before income tax	2,188,250	8,838,342	131,827
Tax calculation at 20%	437,650	1,767,668	26,365
Expenses not deductible for tax purposes	30,054	121,390	6,022
Utilised net operating loss carryover (USD 1,514,471@20%)	(302,894)	(1,223,390)	-
	164,810	665,668	32,387
Minimum tax at 1% of turnover	164,810	665,668	93,264
Income tax expense	164,810	665,668	93,264

Tax losses can be carried forward to offset against the taxable profits of subsequent years for up to five years from the year in which they were incurred. As at 31 December 2011, the Bank had estimated unutilised losses of USD 297,453 and USD 2,078,097 that will expire in 2013 and 2014 respectively.

A deferred tax asset on tax loss is not recognised as it is not probable that future taxable profits will be available against which the losses can be utilised.

(b) Other tax matters

The Bank's tax calculation is subject to periodic examination by the General Department of Taxation. As the application of tax laws and regulations to various types of transactions is susceptible to varying interpretations, amounts reported in the financial statements could be changed at a later date, upon final determination by the General Department of Taxation.

25. Cash flows from operating activities

	2011		2010
	USD	KHR'000	USD
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax	2,188,250	8,838,341	131,827
<i>Adjustments for:</i>			
Depreciation and amortisation (Note 23)	591,262	2,388,107	944,598
Net impairment loss on loans and advances (Note 7)	731,175	2,953,216	220,905
Operating profit before changes in working capital	3,510,687	14,179,664	1,297,330
<i>Changes in operating assets and liabilities:</i>			
Statutory deposits with Central Bank	(5,516,432)	(22,280,869)	(10,763,146)
Loans and advances to customers	(19,168,153)	(77,420,170)	(47,546,582)
Investment securities (Note 9)	2,064,866	8,339,994	(26,756,635)
Other assets	(819,441)	(3,309,722)	(1,205,085)
Deposits from customers and banks	43,207,216	174,513,945	81,779,422
Other liabilities	481,639	1,945,340	546,574
Cash (used in)/generated from operations	23,760,382	95,968,182	(2,648,122)
Income tax paid (Note 14)	(161,196)	(651,071)	(88,335)
Net cash (used in)/from operating activities	23,599,186	95,317,111	(2,736,457)

NOTES TO THE FINANCIAL STATEMENTS

26. Related party transactions and balances

(a) Related party balances

	2011		2010
	USD	KHR'000	USD
DUE FROM			
Loans and advances to staff	459,331	1,855,238	299,007
Interest receivable from loans and advances	1,126	4,548	1,248
	460,457	1,859,786	300,255
DUE TO			
Deposit and placement by key management	520,110	2,100,724	682,066

(b) Related party transactions

	2011		2010
	USD	KHR'000	USD
INCOME			
Interest income from loans and advances to staff	38,834	156,851	23,095
EXPENSES			
Interest expenses to key management	9,251	37,366	10,189

(c) Key management personnel remuneration

	2011		2010
	USD	KHR'000	USD
Salaries and benefits	552,466	2,231,410	492,917

27. Commitments and contingencies

27.1 Credit-related commitments

In the normal course of business, the Bank makes various commitments to extend credit facilities to or incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions. At the year-end, the commitments of the Bank are as follow:

	2011		2010
	USD	KHR'000	USD
Financing commitments	8,099,779	32,715,008	5,000,194
Documentary credits	519,462	2,098,107	1,312,177
Bankers' guarantees	-	-	27,390
Others	549,230	2,218,340	202,390
	9,168,471	37,031,455	6,542,151

27.2 Operating lease commitments

The Bank has lease commitments in respect of the lease of the Bank's premises, branches and ATM outlets as follows:

NOTES TO THE FINANCIAL STATEMENTS

	2011		2010
	USD	KHR'000	USD
			Restated
Not later than one year	513,136	2,072,556	440,736
Later than one year and not later than 5 years	1,375,560	5,555,887	1,734,096
More than five years	488,800	1,974,263	971,000
	2,377,496	9,602,706	3,145,832

27.3 Tax interpretation

The Cambodian General Department of Taxation has two separate offices that are authorised to conduct tax audits of entities undertaking activities and doing business in Cambodia. The application of tax laws and regulations on many types of transactions is susceptible to varying interpretations when reviewed by these two tax offices. The Bank’s judgement of its business activities may not coincide with the interpretation of the same activities by those tax offices.

If a particular treatment was to be challenged by those various tax authorities, the Bank may be assessed additional taxes, penalties and interest, which can be significant. Tax years remain open to review by the tax authorities for three years with a possible extension of up to ten years.

28. Financial risk management

The Bank’s business involves taking on risks in a targeted manner and managing them professionally. The Bank’s risk management is to identify all key risks, measure these risks, manage the risk positions and determine capital allocations. The risks arising from financial business to which the Bank’s activities are exposed are operational risk, financial risks, credit risk, market risk (including foreign exchange risk and interest rate risk), and liquidity risk. The following are policies and guidelines adopted by the Bank to manage risks related to its business activities.

28.1 Operational risk

The operational risk is the risk of losses arising from inadequate or failed internal processes, people or systems or from external factors. This risk 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 senior management. This includes legal, compliance, accounting and fraud risk.

The operational risk management entails the establishment of policies and procedures to provide guidance to the key operating units on

the risk governance structure and baseline internal controls necessary to identify, assess, monitor and control their operational risks. Internalcontrol policies and measures that have been implemented include the establishment of signing authorities, defining system parameters controls, stream-lining procedures and documentation ensuring compliance with regulatory and legal requirements. These are reviewed periodically, taking into account the business objectives and strategies of the Bank as well as regulatory requirements.

28.2 Credit risk

The Bank assumes exposure to credit risk which is the risk that customers, clients or market counterparties fail to fulfill their contractual obligations to the Bank when due. Credit risk arises mainly from loans and advances and loan commitments arising from such lending activities.

(a) Credit risk measurement

The Bank has set up the Credit Risk Policy, which is designed to govern the Bank’s risk undertaking activities. Procedures of risk limit setting, monitoring, usage, and control are governed by credit programs which set out the plan for a particular product or portfolio, including the target market, terms and conditions, documentation and procedures under which a credit product will be offered and measured.

The Bank also ensures that there is a clear segregation of duties between loan originators, evaluators and approving authorities.

(b) Risk limit control and mitigation policies

The Bank manages, limits and controls concentration of credit risk whenever they are identified - in particular, to individual counterparties and groups, and to industries.

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 groups of borrowers, and industry segments. 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 by providing for loan losses. Limits on level of credit risk by product and industry sector are approved by the Board of Directors.

Commitments to extend credit represent unused portions of approved loans, guarantees or letters of credit. In general, all of the Bank’s guarantees and letters of credit are collateralised with cash deposits or collateral pledged to the Bank, and accordingly the Bank normally assumes risks.

Large exposure is defined by the NBC as overall credit exposure to any single beneficiary which exceeds 10% of the Bank’s net worth. The Bank is required, under the conditions of Prakas No. B7-06-226 of the NBC, to maintain at all times a maximum ratio of 20% between the Bank’s overall credit exposure to any single beneficiary and the Bank’s net worth. The aggregation of large credit exposure must not exceed 300% of the Bank’s net worth.

NOTES TO THE FINANCIAL STATEMENTS

(c) Impairment and provisioning policies

The Bank is required to follow the mandatory credit classification and provisioning in accordance with the relevant Prakas issued by NBC, as stated in Note 2.8 to the Financial Statements.

Loans and advances less than 90 days past due are not considered impaired, unless other information available indicates otherwise. A minimum level of specific provision for impairment is made depending on the classification concerned. All loans and advances due from customers as at the balance sheet date were granted by the Bank during the year ended 31 December 2011.

(d) Maximum exposure to credit risk before collateral held or other credit enhancements

	2011		2010
	USD	KHR'000	USD
			<i>Restated</i>
CREDIT RISK EXPOSURES RELATING TO ON-BALANCE SHEET ASSETS			
Balances with banks other than NBC	43,607,030	176,128,794	21,601,882
Loans and advances	93,124,887	376,131,419	74,032,883
Capital investment	25,000	100,975	-
Investment securities	24,691,767	99,730,047	26,756,635
Other assets	2,651,412	10,709,053	1,831,971
	164,100,096	662,800,288	124,223,371
CREDIT RISK EXPOSURES RELATING TO OFF-BALANCE SHEET ASSETS			
Unused portion of approved credit facilities	8,099,779	32,715,008	5,000,194
Letters of credit	519,462	2,098,107	1,312,177
Bank guarantees	-	-	27,390
Others	549,230	2,218,340	202,390
	9,168,471	37,031,455	6,542,151
	<u>173,268,567</u>	<u>699,831,743</u>	<u>130,765,522</u>

The table above represents the maximum credit risk exposure to the Bank as at 31 December 2011, without taking into account any collateral held or other credit enhancements. For on-balance sheet assets, the exposures set out above are based on gross carrying amounts. 57% of the total maximum credit exposure is derived from loans and advances to customers in Cambodia.

Management is confident of its ability to control and sustain minimal exposure to credit risk by the Bank resulting from its loans and advances based on the following:

- Approximately 97% of the loans and advances of the Bank are collateralised, such as hard title deeds, movable assets and cash. Loans and advances granted by the Bank are at approximately 50% to 60% of the collateral value.
- Most of all loans and advances portfolios are considered to be neither past due nor impaired, and
- The Bank has a proper credit evaluation process in place for granting of loans and advances to customers.

(e) Loans and advances

Loans and advances are summarised as follows:

	2011		2010
	USD	KHR'000	USD
Loans and advances neither past due nor impaired	86,956,444	351,217,077	71,605,044
Loans and advances past due but not impaired	2,982,210	12,045,146	1,893,694
Loans and advances individually impaired	3,186,233	12,869,194	534,145
Gross	93,124,887	376,131,417	74,032,883
Less:			
Provision for loan loss	(1,668,398)	(6,738,658)	(1,013,372)
Net	<u>91,456,489</u>	<u>369,392,759</u>	<u>73,019,511</u>

For the purpose of loan provisioning, expected recovery from collateral (except cash) is not taken into consideration in accordance with the Central Bank's requirement. Total provision for loan loss is USD 1,668,398 (2010: USD 1,013,372), which represents specific provision for the individual loans and 1% general provision of total loans outstanding, net of specific provision.

(i) **Loans and advances neither past due or impaired**

Loans and advances not past due are not considered impaired, unless other information is available to indicate the contrary.

(ii) **Loans and advances past due but not impaired**

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. In compliance with NBC guidelines, such loans are classified as special mention with a specific provision of 3%.

(iii) **Loans and advances individually impaired**

Loans and advances individually impaired are loans and advances for which the Bank determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loans and advances. In accordance with NBC guidelines, loans and advances past due more than 90 days are considered impaired and minimum level of specific provision for impairment is made depending on the classification concerned, unless other information is available to indicate the contrary.

(f) ***Reposessed collateral***

During the year ended 31 December 2011, the Bank obtained assets by taking possession of collateral held as security amounting to USD 208,580 (2010: USD 156,401).

Reposessed properties have to be sold within one year as required by the NBC. Reposessed property is classified in the balance sheet as foreclosed properties.

As of the date of this report, the Bank's foreclosed properties possessed in 2010 is USD 156,401 and 2011 is USD 208,580. All these foreclosed properties have not been sold.

(g) ***Collateral***

The Bank holds collateral against loans and advances in the form of mortgage interests, property and/or guarantees. The estimates of value are based on the value of collateral assessed on an annual basis. An estimate of the value of collateral held against loans and advances is shown below:

	2011		2010
	USD	KHR'000	USD
Against individually impaired: Land and buildings	7,546,508	30,480,346	921,617
Past due but not impaired	7,305,236	29,505,848	6,023,445
	14,851,744	59,986,194	6,945,062

(h) ***Concentration of financial assets with credit risk exposure***

(i) **By geographical distribution**

The credit exposure of the Bank as at 31 December 2011 is wholly derived from Cambodia based on the country of domicile of the counterparties.

NOTES TO THE FINANCIAL STATEMENTS

(ii) By industry sector

	Balances with other banks	Loan and advances to customers	Capital investment	Investment securities	Other assets	Total	Total
	USD	USD	USD	USD	USD	USD	KHR'000
AT 31 DECEMBER 2011							
Manufacturing	-	8,924,164	-	-	-	8,924,164	36,044,698
Building and construction	-	5,577,212	-	-	364,981	5,942,193	24,000,518
Financial institutions	43,607,030	-	-	24,691,767	-	68,298,797	275,858,841
Services	-	12,845,822	25,000	-	-	12,870,822	51,985,250
Wholesale and retail	-	21,472,360	-	-	-	21,472,360	86,726,862
Imports	-	4,326,920	-	-	-	4,326,920	17,476,430
Staff loans	-	459,331	-	-	-	459,331	1,855,238
Others	-	39,519,078	-	-	2,286,431	41,805,509	168,852,451
	43,607,030	93,124,887	25,000	24,691,767	2,651,412	164,100,096	662,800,288
AT 31 DECEMBER 2010							
Manufacturing	-	16,142,513	-	-	-	16,142,513	65,425,605
Building and construction	-	15,979,149	-	-	156,401	16,135,550	65,397,384
Financial institutions	21,601,882	-	-	26,756,635	-	48,358,517	195,997,069
Services	-	14,610,316	-	-	-	14,610,316	59,215,611
Wholesale and retail	-	11,160,314	-	-	-	11,160,314	45,232,753
Imports	-	6,057,176	-	-	-	6,057,176	24,549,734
Staff loans	-	299,006	-	-	-	299,006	1,211,871
Others	-	9,784,409	-	-	1,675,570	11,459,979	46,447,295
	21,601,882	74,032,883	-	26,756,635	1,831,971	124,223,371	503,477,322

28.3 Market risk

The Bank takes on exposure to market risk, which is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in market prices. Market risk arises from open positions in interest rates, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

(a) 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 exposures 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 currency widely in use in Cambodia.

(b) Price risk

The Bank is exposed to securities price risk, because it holds investment securities which are classified on the balance sheet as available for sale. The Bank currently does not have a policy to manage its price risk. Investment securities are disclosed in Note 9.

NOTES TO THE FINANCIAL STATEMENTS

(c) 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.

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

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates.

As at 31 December 2011 Financial Assets	Up to 1 month	1-3 months	4-6 months	7-12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total	Interest rate
	USD	USD	USD	USD	USD	USD	USD	USD	%
Cash in hand	-	-	-	-	-	-	9,636,415	9,636,415	
Deposits and placements with banks	15,479,213	10,500,000	6,000,000	8,058,186	-	-	7,312,713	47,350,112	0.05 - 4.50
Statutory deposits with Central Bank	-	-	-	-	-	3,600,000	18,936,160	22,536,160	0.11 - 0.13
Loans and advances to customers:									
Performing	1,268,823	6,838,089	7,523,780	15,760,540	43,651,951	14,895,471	-	89,938,654	4.00 - 21.60
Non-performing	-	2,945,838	240,395	-	-	-	-	3,186,233	
Specific provisions	-	-	-	-	-	-	(798,832)	(798,832)	
General provisions	-	-	-	-	-	-	(869,566)	(869,566)	
Capital investment	-	-	-	-	-	25,000	-	25,000	
Investment securities	-	-	-	-	24,691,767	-	-	24,691,767	7.50 - 10.50
Other assets	-	-	-	-	-	-	2,651,412	2,651,412	
TOTAL FINANCIAL ASSETS	16,748,036	20,283,927	13,764,175	23,818,726	68,343,718	18,520,471	36,868,302	198,347,355	
FINANCIAL LIABILITIES									
Deposits from customers and banks	106,838,761	15,115,962	14,606,820	15,536,414	7,799,409	-	5,711,439	165,608,805	0.75 - 8.50
Other liabilities	-	-	-	-	-	-	1,771,970	1,771,970	
Provision for income tax	-	-	-	-	-	-	13,389	13,389	
							-		
TOTAL FINANCIAL LIABILITIES	106,838,761	15,115,962	14,606,820	15,536,414	7,799,409	-	7,496,798	167,394,164	
INTEREST SENSITVITY GAP 2011(USD)	(90,090,725)	5,167,965	(842,645)	8,282,312	60,544,308	18,520,471	29,371,504	30,953,191	
INTEREST SENSITIVITY GAP 2011 (KHR'000 EQUIVALENT)	(363,876,438)	20,873,411	(3,403,443)	33,452,258	244,538,460	74,804,182	118,631,505	125,019,938	

NOTES TO THE FINANCIAL STATEMENTS

As at 31 December 2010 Financial Assets	Up to 1 month	1-3 months	4-6 months	7-12 months	1 to 5 years	Over 5 years	Non-interest bearing	Total	Interest rate
	USD	USD	USD	USD	USD	USD	USD	USD	%
Cash in hand	-	-	-	-	-	-	9,345,698	9,345,698	
Deposits and placements with banks	17,266,330	-	-	56,491	-	-	7,248,935	24,571,756	0.75 - 5.50
Statutory deposits with Central Bank	-	-	-	-	-	3,600,000	13,419,727	17,019,727	0.11 - 0.18
Loans and advances to customers:									
Performing	1,319,383	4,744,167	9,267,227	19,413,892	34,907,700	3,846,369	-	73,498,738	7.00 - 21.60
Non-performing	-	215,455	242,540	76,150	-	-	-	534,145	
Specific provisions	-	-	-	-	-	-	(297,411)	(297,411)	
General provisions	-	-	-	-	-	-	(715,961)	(715,961)	
Investment securities	-	-	-	-	26,756,635	-	-	26,756,635	7.50 - 10.75
Other assets	-	-	-	-	-	-	1,831,971	1,831,971	
TOTAL FINANCIAL ASSETS	18,585,713	4,959,622	9,509,767	19,546,533	61,664,335	7,446,369	30,832,959	152,545,298	
FINANCIAL LIABILITIES									
Deposits from customers and banks	76,784,340	9,226,989	7,455,986	20,447,758	1,879,152	-	6,607,364	122,401,589	1.00 - 9.00
Other liabilities	-	-	-	-	-	-	1,290,331	1,290,331	
Provision for income tax	-	-	-	-	-	-	9,775	9,775	
TOTAL FINANCIAL LIABILITIES	76,784,340	9,226,989	7,455,986	20,447,758	1,879,152	-	7,907,470	123,701,695	
INTEREST SENSITIVITY GAP 2010 (USD)	(58,198,627)	(4,267,367)	2,053,781	(901,225)	59,785,183	7,446,369	22,925,489	28,843,603	
INTEREST SENSITIVITY GAP 2010 (KHR'000 EQUIVALENT)	(235,879,035)	(17,295,638)	8,323,974	(3,652,665)	242,309,343	30,180,134	92,917,007	116,903,120	

28.4 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its obligation when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows.

(a) Liquidity risk management process

The Bank’s management monitors balance sheet liquidity and manages the concentration and profile of debt maturities. Monitoring

and reporting take the form of the daily cash position and project for the next day, week and month respectively, as these are key periods for liquidity management. The management monitors the movement of the main depositors and projection of their withdrawals.

(b) Funding approach

The Bank’s main sources of liquidities arise from shareholder’s paid-up capital and customers’ deposits. The sources of liquidity are regularly reviewed daily through management’s review of maturity of term deposits and key depositors.

NOTES TO THE FINANCIAL STATEMENTS

(c) Non-derivative cash flows

the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash flows.

The table below analyses non-derivative financial assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual or estimated maturity dates. The amounts disclosed in the table are

As at 31 December 2011 Financial Assets	Up to 1 month	1-3 months	3-12 months	1 to 5 years	Over 5 years	No maturity	Total	Total
	USD	USD	USD	USD	USD	USD	USD	KHR'000
Cash in hand	9,636,415	-	-	-	-	-	9,636,415	38,921,480
Deposits and placements with banks	47,350,112	-	-	-	-	-	47,350,112	191,247,102
Statutory deposits with Central Bank	-	-	-	-	-	22,536,160	22,536,160	91,023,550
Loans and advances to customers:								
Performing	1,268,823	6,838,089	7,523,780	15,760,540	58,547,422	-	89,938,654	363,262,224
Non-performing	-	2,945,838	240,395	-	-	-	3,186,233	12,869,195
Specific provisions	-	-	-	-	-	(798,832)	(798,832)	(3,226,482)
General provisions	-	-	-	-	-	(869,566)	(869,566)	(3,512,177)
Capital investment	-	-	-	-	-	25,000	25,000	100,975
Investment securities	-	-	-	24,691,767	-	-	24,691,767	99,730,047
Other assets	1,354,203	-	1,297,209	-	-	-	2,651,412	10,709,053
TOTAL FINANCIAL ASSETS	59,609,553	9,783,927	9,061,384	40,452,307	58,547,422	20,892,762	198,347,355	801,124,967
FINANCIAL LIABILITIES								
Deposits from customers and banks	112,550,200	15,115,962	30,143,234	7,799,409	-	-	165,608,805	668,893,963
Other liabilities	1,771,970	-	-	-	-	-	1,771,970	7,156,987
Provision for income tax	-	-	-	-	-	13,389	13,389	54,078
TOTAL FINANCIAL LIABILITIES	114,322,170	15,115,962	32,143,234	7,799,409	-	13,389	167,394,164	676,105,028
NET POSITION 2011 (USD)	(54,712,617)	(5,332,035)	3,609,917	7,961,131	58,547,422	20,879,373	30,953,191	125,019,939
AS AT 31 DECEMEBER 2010								
TOTAL FINANCIAL ASSETS	36,710,780	4,959,622	36,965,672	54,056,501	3,846,369	16,006,355	152,545,298	616,130,463
TOTAL FINANCIAL LIABILITIES	84,230,875	9,355,976	28,215,950	1,889,119	-	9,775	123,701,695	499,631,148
NET POSITION 2010 (USD)	(47,520,095)	(4,396,354)	8,749,722	52,167,382	3,846,369	15,996,580	28,843,603	116, 499,315

NOTES TO THE FINANCIAL STATEMENTS

28.5 Capital management

The Bank considers the need to balance efficiency, flexibility and adequacy when determining sufficiency of capital and when developing capital management plans. The Bank details these considerations through an internal capital adequacy assessment process and the key features of which include (a) consideration of both economic and regulatory of minimum capital requirements set by the National Bank of Cambodia, (b) safeguarding the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders, (c) maintaining a strong capital base to support the development of business.

As at 31 December 2011, the Bank has a paid-up statutory capital of USD 36 million equivalent to KHR150 billion at the date of increase on 29 September 2010 (exchange rate is KHR 4,223/USD). The Bank has complied with the minimum capital requirement issued by NBC, Prakas B7-08-193 dated 19 September 2008, on the date of increase. The paid-up capital was disclosed in Note 16 to the Financial Statements.

28.6 Fair value of financial assets and liabilities

Since market prices for the major part of the Bank's financial assets and liabilities are not available, the fair value of these items is based on the estimates of the Management according to the type of assets and liabilities. According to the estimation of the Management, the market value is not materially different from the carrying amount of all categories of assets and liabilities.

The carrying amounts and fair value of financial assets and liabilities are not presented on the Bank's balance sheet at their fair value. The estimated fair values are based on the following methodologies and assumptions:

(a) Deposits and placements with other banks

Deposits and placements with other banks include current accounts, savings deposits and fixed deposits. The fair value of deposits and placements with other banks approximates their carrying amounts.

(b) Loans and advances to customers

Loans and advances are stated at outstanding balance and interest, net of provision for loan losses. The provision of loan losses is made in accordance with the requirements of the relevant Prakas issued by the NBC.

(c) Investment securities

Investment securities are stated in the balance sheet at outstanding principal and interest, less any amounts written off and impairment.

(d) Deposits from customers and banks

The fair values of deposits payable on demand (current and savings accounts), or deposits with remaining maturity of less than one year are estimated to approximate their carrying amounts. The fair values of deposits with remaining maturity of more than one year are estimated based on discounted cash flows using the interest rates of such deposits from banks and customers.

(e) Other assets and liabilities

The carrying amounts of other financial assets and liabilities are assumed to approximate their fair values as these items are not materially sensitive to the shift in market interest rates.

For Notes

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