



ម៉រីសុង កាក់ & អាស៊ុន
Morison Kak & Associés

Certified Public Accountants, Cambodia

ADVANCED BANK OF ASIA LIMITED

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT AUDITORS FOR THE YEAR ENDED 31 DECEMBER 2012

ADVANCED BANK OF ASIA LIMITED

**FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT AUDITORS
FOR THE YEAR ENDED 31 DECEMBER 2012**

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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 2012.

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 register 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 OPERATIONS AND DIVIDEND

The results of operations for the year ended 31 December 2012 are set out in the income statement on page 8.

No dividends were declared or paid during the year ended 31 December 2012.

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.

CURRENT ASSETS (continued)

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 values attributed to the current assets in the financial statements of the Bank misleading 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 is:

- (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.

CHANGE OF CIRCUMSTANCES

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

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Bank for the year ended 31 December 2012 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, Executive Director
Mr. Yermek Mazhekenov, Independent Director

DIRECTORS' INTERESTS

The Directors are 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 USD1,000 each |
| Damir Karassayev | 80.56% | 29,000 |
| | 80.56% | 29,000 |

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 2012 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 has been drawn up so as to present fairly, in all material respects, the financial position of the Bank as at 31 December 2012, 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



Askhat Azhikhanov
Chief Executive Officer

Date: 22 March 2013

**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 2012, 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.



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Morison Kak & Associés

Certified Public Accountants, Cambodia

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 2012 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.

Morison Kak & Associés
Certified Public Accountants
Statutory Auditors


Key KAK
Managing Partner



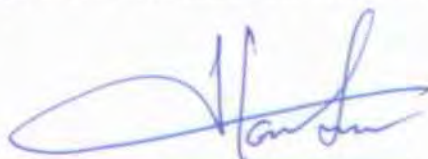
Date: 22 March 2013

ADVANCED BANK OF ASIA LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2012

| | | 2012 | | 2011 |
|---------------------------------------|------|--------------------|----------------------|--------------------|
| | Note | USD | KHR'000 | USD |
| ASSETS | | | | |
| Cash in hand | 4 | 9,947,495 | 39,740,243 | 9,636,415 |
| Deposits and placements with banks | 5 | 49,417,581 | 197,423,236 | 47,350,112 |
| Loans and advances to customers - net | 6 | 138,985,116 | 555,245,538 | 91,456,489 |
| Capital investment | 7 | 25,588 | 102,224 | 25,000 |
| Investment securities | 8 | 26,810,482 | 107,107,876 | 24,691,767 |
| Other assets | 9 | 4,610,231 | 18,417,873 | 2,651,412 |
| Statutory deposits with central bank | 10 | 32,084,884 | 128,179,112 | 22,536,160 |
| Intangible assets - computer software | 11 | 1,675,691 | 6,694,386 | 1,797,072 |
| Property and equipment | 12 | 1,414,988 | 5,652,877 | 1,345,615 |
| TOTAL ASSETS | | 264,972,056 | 1,058,563,365 | 201,490,042 |
| LIABILITIES AND CAPITAL | | | | |
| LIABILITIES | | | | |
| Deposits from customers and banks | 13 | 224,232,365 | 895,808,298 | 165,608,805 |
| Provision for income tax | 14 | 185,591 | 741,436 | 13,389 |
| Other liabilities | 15 | 2,800,746 | 11,188,981 | 1,771,970 |
| Deferred tax liability | 24 | 269,272 | 1,075,743 | - |
| TOTAL LIABILITIES | | 227,487,974 | 908,814,458 | 167,394,164 |
| CAPITAL AND RESERVES | | | | |
| Share capital | 16 | 36,000,000 | 143,820,000 | 36,000,000 |
| Accumulated profit/(losses) | | 1,484,082 | 5,928,907 | (1,904,122) |
| TOTAL CAPITAL AND RESERVES | | 37,484,082 | 149,748,907 | 34,095,878 |
| LIABILITIES AND CAPITAL | | 264,972,056 | 1,058,563,365 | 201,490,042 |
| Commitments and contingencies | 27.1 | 8,934,635 | 35,693,867 | 9,168,471 |

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



Askhat Azhikhanov
Chief Executive Officer

Date: 22 March 2013

The accompanying notes form an integral part of these financial statements.

ADVANCED BANK OF ASIA LIMITED

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

| | | 2012 | | 2011 |
|--|------|------------------|-------------------|------------------|
| | Note | USD | KHR'000 | USD |
| Interest income | 17 | 17,426,320 | 69,618,148 | 13,107,232 |
| Interest expense | 18 | (8,887,252) | (35,504,572) | (6,724,244) |
| Net interest income | | 8,539,068 | 34,113,576 | 6,382,988 |
| Fee and commission income - Net | 19 | 2,903,037 | 11,597,633 | 2,096,316 |
| Other operating income | 20 | 522,908 | 2,089,017 | 289,052 |
| Personnel cost | 21 | (2,743,572) | (10,960,570) | (2,069,497) |
| General and administrative expenses | 22 | (3,854,123) | (15,397,221) | (3,188,172) |
| Depreciation and amortisation expenses | 23 | (673,703) | (2,691,443) | (591,262) |
| Operating profit | | 4,693,615 | 18,750,992 | 2,919,425 |
| Allowances for doubtful loans and advances | 6 | (660,449) | (2,638,494) | (731,175) |
| Profit before income tax | | 4,033,166 | 16,112,498 | 2,188,250 |
| Income tax expense | 24 | (644,962) | (2,576,623) | (164,810) |
| Net profit for the year | | 3,388,204 | 13,535,875 | 2,023,440 |

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



Askhat Azhikhanov
Chief Executive Officer

Date: 22 March 2013

The accompanying notes form an integral part of these financial statements.

ADVANCED BANK OF ASIA LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012**

| | Contributed capital USD | Retained earnings USD | Total USD |
|---|--|--------------------------------------|----------------------|
| Balance as at 1 January 2011 | 36,000,000 | (3,927,562) | 32,072,438 |
| Net profit for the year | - | 2,023,440 | 1,703,572 |
| Balance as at 31 December 2011 | 36,000,000 | (1,904,122) | 33,776,010 |
| Balance as at 1 January 2012 | 36,000,000 | (1,904,122) | 34,095,878 |
| Net profit for the year | - | 3,388,204 | 3,388,204 |
| Balance as at 31 December 2012 | 36,000,000 | 1,484,082 | 37,484,082 |
| Balance as at 31 December 2012 (KHR'000 equivalents) | 143,820,000 | 5,928,907 | 149,748,907 |

The accompanying notes form an integral part of these financial statements.

ADVANCED BANK OF ASIA LIMITED

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012**

| | Note | 2012 | | 2011 |
|---|-----------|--------------------------|---------------------------|--------------------------|
| | | USD | KHR'000 | USD |
| Cash flows from operating activities | | | | |
| Net cash from operating activities | 25 | <u>2,994,844</u> | <u>11,964,402</u> | <u>23,599,186</u> |
| Cash flows from investing activities | | | | |
| Purchase of property and equipment | 12 | (624,353) | (2,494,290) | (505,113) |
| Proceeds from disposal of property and equipment | | <u>8,646</u> | <u>34,541</u> | <u>-</u> |
| Net cash used in investing activities | | <u>(615,707)</u> | <u>(2,459,749)</u> | <u>(505,113)</u> |
| Cash flows from financing activities | | | | |
| Capital investment | 7 | <u>(588)</u> | <u>(2,349)</u> | <u>(25,000)</u> |
| Net cash used in financing activities | | <u>(588)</u> | <u>(2,349)</u> | <u>(25,000)</u> |
| Net changes in cash and cash equivalents | | <u>2,378,549</u> | <u>9,502,303</u> | <u>23,069,073</u> |
| Cash and cash equivalents, beginning of the year | | <u>56,986,527</u> | <u>227,661,175</u> | <u>33,917,454</u> |
| Cash and cash equivalents, end of the year | | <u>59,365,076</u> | <u>237,163,479</u> | <u>56,986,527</u> |
| Represented by: | | | | |
| Cash in hand | 4 | 9,947,495 | 39,740,243 | 9,636,415 |
| Deposits and placements with banks | 5 | <u>49,417,581</u> | <u>197,423,236</u> | <u>47,350,112</u> |
| | | <u>59,365,076</u> | <u>237,163,479</u> | <u>56,986,527</u> |

The accompanying notes form an integral part of these financial statements.

ADVANCED BANK OF ASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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 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 2012, the Bank employed 313 employees (2011: 224 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 22 March 2013.

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 International Financial Reporting Standard ("CIFRS") 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 event and actions; and therefore the actual results ultimately may differ from those estimates.

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

ADVANCED BANK OF ASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 New accounting standards and interpretations

On 28 August 2009, the National Accounting Council, as mandated by Prakas (Circular) No. 068-MEF-Pr dated 8 January 2009 issued by the Ministry of Economy and Finance of Cambodia, 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 accounting period beginning on or after 1 January 2012.

The following Cambodian International Accounting Standards ("CIAS") or CIFRS, which have been published are relevant and mandatory for the Bank's accounting period beginning on or after 1 January 2012, but have not been adopted by the Bank:

- **CIAS 1, '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.
- **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 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.

ADVANCED BANK OF ASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 New accounting standards and interpretations (continued)

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.

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.

ADVANCED BANK OF ASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 New accounting standards and interpretations (continued)

- CIFRS 7, '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.

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.

(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.

ADVANCED BANK OF ASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Translation of United States Dollars into Khmer Riel

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 = 3,995 KHR (31 December 2011: KHR 4,039). 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.

2.5 Segment information

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

2.6 Cash and cash equivalents

Cash and cash equivalents comprise balances with original maturity of three months or less from the date of acquisition, including cash on hand, non-restricted balance with the National Bank of Cambodia, demand deposits and balances with other banks that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

2.7 Statutory deposits with 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.

2.8 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 loss.

Loans are written off when there is no realistic prospect of recovery. Recoveries on loans previously written off and reversals of previous provisions are disclosed separately together with the net movement in the provision for bad and doubtful loans and advances in the income statement.

2.9 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.

ADVANCED BANK OF ASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Allowances for loan losses (continued)

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, less than thirty days | General provision | 1% |
| Special mention | Thirty days or more | Specific provision | 3% |
| Substandard | Ninety days or more | Specific provision | 20% |
| Doubtful | Hundred eighty days or more | 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.

Recoveries on loans previously written off and reversals of previous provisions are disclosed separately together with the net movement in the provision for bad and doubtful loans and advances in the income statement.

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

2.10 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.

2.11 Investment securities

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

2.12 Other receivables

Other receivables are carried at estimated realizable value.

ADVANCED BANK OF ASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 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% |

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.

2.14 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.

2.15 Impairment of assets

(i) *Impairment of financial assets other than loans and advances to customers*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimate future cash flows of that asset.

ADVANCED BANK OF ASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Impairment of assets (continued)

(ii) *Impairment of financial assets other than loans and advances to customers (continued)*

An impairment loss in respect of a financial asset is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

(iii) *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.

2.16 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.

2.17 Deposits from customers and banks

Deposits from customers and banks are stated at placement value.

ADVANCED BANK OF ASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 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. Customer's loan accounts are classified as non-performing where repayments are in arrears for ninety days and more.

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

2.19 Fee and commission income

Loan arrangement fee and commissions are generally recognized 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 the service is provided.

2.20 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.

2.21 Income taxes

Income tax expense for the period comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity. 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.

2.22 Related parties

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

ADVANCED BANK OF ASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Related parties (continued)

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.

2.23 Comparative figures

Comparative figures, where necessary, were reclassified to conform to current year presentation.

3. USE OF 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

| | 2012 USD | KHR'000 | 2011 USD |
|---|------------------|-------------------|------------------|
| Cash in hand | 9,411,922 | 37,600,628 | 9,501,490 |
| Cash items in the process of collection | 535,573 | 2,139,615 | 134,925 |
| | <u>9,947,495</u> | <u>39,740,243</u> | <u>9,636,415</u> |

ADVANCED BANK OF ASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

5. Deposits and placement with banks

| | 2012 | | 2011 |
|---------------------------------------|-------------------|--------------------|-------------------|
| | USD | KHR'000 | USD |
| Inside Cambodia | | | |
| Current account: | | | |
| National Bank of Cambodia | 4,238,974 | 16,934,701 | 3,743,082 |
| Canadia Bank | 193,223 | 771,926 | 516,000 |
| Acleda Bank | 30,488 | 121,800 | 95,838 |
| Singapore Banking Corporation Limited | 4,387 | 17,526 | 4,387 |
| Cambodia Public Bank | 784 | 3,132 | 784 |
| | <u>4,467,856</u> | <u>17,849,085</u> | <u>4,360,091</u> |
| Saving deposits: | | | |
| Acleda Bank | 137,048 | 547,506 | 966,089 |
| Union Commercial Bank | 27,858 | 111,293 | 494 |
| Canadia Bank | 15,318 | 61,195 | 13,962,719 |
| | <u>180,224</u> | <u>719,994</u> | <u>14,929,302</u> |
| Fixed deposits: | | | |
| BIDC | 28,119,141 | 112,335,968 | 10,500,000 |
| Acleda Bank | 4,000,000 | 15,980,000 | - |
| OSK Bank | 3,121,058 | 12,468,627 | 3,000,000 |
| Sacom Bank | 3,082,652 | 12,315,195 | 11,000,000 |
| Prasac | 1,929,261 | 7,707,398 | - |
| Hattha Kaksekar Limited | 1,015,280 | 4,056,044 | - |
| Amret Microfinance | 600,000 | 2,397,000 | - |
| Sathapana limited | 500,000 | 1,997,500 | - |
| AMK Microfinance | 300,000 | 1,198,500 | - |
| Kredit Microfinance | 280,000 | 1,118,600 | - |
| VisionFund | 150,000 | 599,250 | - |
| Union Commercial Bank | 58,186 | 232,453 | 58,186 |
| Phnon Penh Commercial Bank | - | - | 1,000,000 |
| | <u>43,155,578</u> | <u>172,406,535</u> | <u>25,558,186</u> |
| | <u>47,803,658</u> | <u>190,975,614</u> | <u>44,847,579</u> |
| Outside Cambodia | | | |
| Masheq Bank | 589,077 | 2,353,363 | 735,522 |
| Standard Chartered Banks | 254,097 | 1,015,118 | 761,119 |
| JPMorgan Chase Bank | 219,389 | 876,459 | 93,146 |
| Deutch Bank Trust Company | 158,539 | 633,362 | 155,893 |
| Commerz Bank | 142,934 | 571,021 | 400,374 |
| Korea Exchange Bank | 141,002 | 563,303 | 304,832 |
| DBS Bank | 97,624 | 390,008 | 47,202 |
| Development Bank of Philippines | 11,261 | 44,988 | 4,445 |
| | <u>1,613,923</u> | <u>6,447,622</u> | <u>2,502,533</u> |
| | <u>49,417,581</u> | <u>197,423,236</u> | <u>47,350,112</u> |

ADVANCED BANK OF ASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

5. Deposits and placement with banks (continued)

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

(i) By maturity

| | 2012 | | 2011 |
|--|-------------------|--------------------|-------------------|
| | USD | KHR'000 | USD |
| Within one month | 5,758,065 | 23,003,470 | 22,791,926 |
| Later than one month to three months | 503,942 | 2,013,248 | 10,500,000 |
| Later than three months to six months | 20,266,933 | 80,966,397 | 6,000,000 |
| Later than six months to twelve months | 22,888,641 | 91,440,121 | 8,058,186 |
| | <u>49,417,581</u> | <u>197,423,236</u> | <u>47,350,112</u> |

(ii) By currency

| | 2012 | | 2011 |
|------------------|-------------------|--------------------|-------------------|
| | USD | KHR'000 | USD |
| US Dollar | 49,006,024 | 195,779,066 | 46,533,584 |
| Khmer Riel | 175,024 | 699,221 | 195,400 |
| EURO | 156,166 | 623,883 | 465,131 |
| Thai Bath | 45,604 | 182,188 | 51,747 |
| Pound | 20,499 | 81,894 | 96,043 |
| Singapore Dollar | 14,264 | 56,984 | 8,207 |
| | <u>49,417,581</u> | <u>197,423,236</u> | <u>47,350,112</u> |

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

| | 2012 | 2011 |
|-----------------------|-------------|-------------|
| | % | % |
| MFI inside Cambodia | 5.00 - 8.15 | - |
| Bank inside Cambodia | 0.02 - 5.00 | 0.05 - 4.50 |
| Bank outside Cambodia | 0.00 - 0.95 | 0.00 - 0.60 |

ADVANCED BANK OF ASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

6. Loans and advances to customers

| | 2012 USD | KHR'000 | 2011 USD |
|--|-------------|-------------|-------------|
| Commercial loans: | | | |
| Long term loans | 103,313,457 | 412,737,261 | 62,589,676 |
| Short term loans | 12,138,078 | 48,491,622 | 11,519,378 |
| Overdrafts | 22,531,004 | 90,011,361 | 17,539,413 |
| Consumer loans: | | | |
| Housing loans | 1,760,037 | 7,031,348 | 181,094 |
| Vehicle loans | 670,304 | 2,677,864 | 772,214 |
| Staff loans | 715,176 | 2,857,128 | 459,331 |
| Credit card loans | 174,413 | 696,780 | 63,781 |
| | 141,302,469 | 564,503,364 | 93,124,887 |
| Allowance for loan losses - Specific (*) | (962,860) | (3,846,626) | (798,832) |
| Allowance for loan losses - General (**) | (1,354,493) | (5,411,200) | (869,566) |
| | 138,985,116 | 555,245,538 | 91,456,489 |

(*) Movements on specific allowance for loan losses are as follows:

| | 2012 USD | KHR'000 | 2011 USD |
|---------------------------|-------------|-----------|-------------|
| At beginning of year | 798,832 | 3,191,334 | 297,411 |
| Addition during the year | 261,079 | 1,043,011 | 629,186 |
| Recovery during the year | (85,557) | (341,800) | (127,765) |
| Write-off during the year | (11,494) | (45,919) | - |
| At end of year | 962,860 | 3,846,626 | 798,832 |

(**) Movements on general allowance for loan losses are as follows:

| | 2012 USD | KHR'000 | 2011 USD |
|---------------------------|-------------|-----------|-------------|
| At beginning of year | 869,566 | 3,473,916 | 715,961 |
| Addition during the year | 572,508 | 2,287,169 | 342,969 |
| Recovery during the year | (87,581) | (349,885) | (113,215) |
| Write-off during the year | - | - | (76,149) |
| At end of year | 1,354,493 | 5,411,200 | 869,566 |

ADVANCED BANK OF ASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

6. Loans and advances to customers (continued)

The above amounts are analysed as follows:

(a) By maturity

| | 2012 USD | KHR'000 | 2011 USD |
|---------------------------------------|--------------------|--------------------|-------------------|
| Up to one month | 5,496,691 | 21,959,281 | 1,268,823 |
| Later than one month to three months | 4,549,330 | 18,174,573 | 9,783,927 |
| Later than three months to six months | 8,064,699 | 32,218,473 | 7,764,175 |
| Later than six months to one year | 18,975,511 | 75,807,166 | 15,760,540 |
| Later than one year to three years | 23,149,007 | 92,480,283 | 14,724,309 |
| Later than three years to five years | 51,792,672 | 206,911,725 | 28,927,642 |
| Over five years | 29,274,559 | 116,951,863 | 14,895,471 |
| | <u>141,302,469</u> | <u>564,503,364</u> | <u>93,124,887</u> |

(b) By performance

| | 2012 USD | KHR'000 | 2011 USD |
|------------------------|--------------------|--------------------|-------------------|
| Normal loans: | | | <i>Restated</i> |
| - Secured (*) | 133,189,625 | 532,092,552 | 86,894,856 |
| - Unsecured (**) | 2,259,473 | 9,026,595 | 61,588 |
| Special mention loans: | | | |
| - Secured | 2,328,476 | 9,302,262 | 2,982,210 |
| - Unsecured | - | - | - |
| Substandard loans: | | | |
| - Secured | 2,955,012 | 11,805,273 | 2,945,838 |
| - Unsecured | - | - | - |
| Doubtful loans: | | | |
| - Secured | 531,937 | 2,125,088 | 240,395 |
| - Unsecured | 3,826 | 15,285 | - |
| Loss loans: | | | |
| - Secured | 34,120 | 136,309 | - |
| - Unsecured | - | - | - |
| | <u>141,302,469</u> | <u>564,503,364</u> | <u>93,124,887</u> |

ADVANCED BANK OF ASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

6. Loans and advances to customers (continued)

(*) Secured loans represent loans and advances to customer that are collateralised by hard title deeds, soft title deeds, movable assets, and cash with 87%, 6%, 4%, and 1%, respectively. Soft title deed is a 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.

(**) Unsecured loans are collateralised by third party's guarantees.

(c) By security

| | 2012 | | 2011 |
|-----------|--------------------|--------------------|-------------------|
| | USD | KHR'000 | USD |
| Secured | 139,039,170 | 555,461,484 | 93,063,299 |
| Unsecured | 2,263,299 | 9,041,880 | 61,588 |
| | <u>141,302,469</u> | <u>564,503,364</u> | <u>93,124,887</u> |

(d) By currency denomination

| | 2012 | | 2011 |
|-----------|--------------------|--------------------|-------------------|
| | USD | KHR'000 | USD |
| US Dollar | <u>141,302,469</u> | <u>564,503,364</u> | <u>93,124,887</u> |

(e) By status of residence

| | 2012 | | 2011 |
|---------------|--------------------|--------------------|-------------------|
| | USD | KHR'000 | USD |
| Residents | 141,297,908 | 564,485,143 | 92,974,887 |
| Non residents | 4,561 | 18,221 | 150,000 |
| | <u>141,302,469</u> | <u>564,503,364</u> | <u>93,124,887</u> |

(f) By relationship

| | 2012 | | 2011 |
|-------------------------------|--------------------|--------------------|-------------------|
| | USD | KHR'000 | USD |
| Related parties (staff loans) | 715,176 | 2,857,128 | 459,331 |
| Non related parties | 140,587,293 | 561,646,236 | 92,665,556 |
| | <u>141,302,469</u> | <u>564,503,364</u> | <u>93,124,887</u> |

ADVANCED BANK OF ASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

6. Loans and advances to customers (continued)

(g) By industry

| | 2012 | | 2011 |
|-----------------------|--------------------|--------------------|-------------------|
| | USD | KHR'000 | USD |
| Wholesale and retail | 41,287,147 | 164,942,152 | 28,781,447 |
| Services | 21,709,113 | 86,727,906 | 13,569,681 |
| Manufacturing | 11,958,255 | 47,773,229 | 7,555,661 |
| Agriculture | 10,412,213 | 41,596,791 | 2,920,247 |
| Real estate | 8,880,784 | 35,478,732 | 904,149 |
| Construction | 7,623,348 | 30,455,275 | 9,750,756 |
| Personal consumption | 3,192,209 | 12,752,875 | 1,500,641 |
| Financial Institution | 2,700,000 | 10,786,500 | - |
| Other services | 33,539,400 | 133,989,904 | 28,142,305 |
| | <u>141,302,469</u> | <u>564,503,364</u> | <u>93,124,887</u> |

(h) By exposures

| | 2012 | | 2011 |
|---------------------|--------------------|--------------------|-------------------|
| | USD | KHR'000 | USD |
| Large exposures (*) | 16,757,499 | 66,946,209 | 20,871,064 |
| Non large exposures | 124,544,970 | 497,557,155 | 72,253,823 |
| | <u>141,302,469</u> | <u>564,503,364</u> | <u>93,124,887</u> |

(*) The Bank has two single large exposure loans as at 31 December 2012. All of these loans exceed the ceiling limit of 10% as per the provisions of NBC's Prakas No. B7-06-226 dated 3 November 2006 and per interpretation of the said Prakas by NBC's official dated on 22 March 2013.

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)

| | 2012 | 2011 |
|---------------|-------------|-------------|
| | % | % |
| Overdrafts | 6% to 16% | 6% to 20% |
| Loans | 4% to 25.2% | 4% to 21.6% |
| Trade finance | 10.5% | 10% to 12% |
| Staff loans | 5% to 15% | 7% to 12% |

ADVANCED BANK OF ASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

7. 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 incorporated and registered with Ministry of Commerce on 07 June 2011 under registration number Co. 1310 KH/2011. This investment was made based on the agreement among members of the Association of Banks in Cambodia (ABC) on 4 October 2010, deciding each commercial bank has to invest at least 1% of share capital in Credit Bureau (Cambodia) Co. Ltd as a stakeholder. This capital investment carries no interest.

As at 31 December 2012, the Bank has invested additional share capital of USD 588 in the Credit Bureau (Cambodia) Co. Ltd, as requested by the Company.

8. Investment securities

| | 2012 | | 2011 |
|---------------------------------|-------------------|--------------------|-------------------|
| | USD | KHR'000 | USD |
| Listed | | | |
| Securities held to maturity (*) | 26,810,482 | 107,107,876 | 24,691,767 |
| | <u>26,810,482</u> | <u>107,107,876</u> | <u>24,691,767</u> |

(*) Due to the excess of liquidity, the Bank decided to invest the excess portion in other company bonds which are designated as held to maturity 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 the needs for liquidity or changes in interest rate or equity prices.

9. Other assets

| | 2012 | | 2011 |
|-------------------------|------------------|-------------------|------------------|
| | USD | KHR'000 | USD |
| Interests receivable | 2,720,031 | 10,866,524 | 1,548,001 |
| Interest in suspense | (613,227) | (2,449,842) | (193,798) |
| Foreclosed property (*) | 478,934 | 1,913,341 | 364,981 |
| Advance payments | 1,269,972 | 5,073,538 | 359,303 |
| Prepayments | 181,424 | 724,789 | 236,790 |
| Others | 573,097 | 2,289,523 | 336,135 |
| | <u>4,610,231</u> | <u>18,417,873</u> | <u>2,651,412</u> |

(*) 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 realized in excess of outstanding amount plus disposal costs will be recognized under the gain on sale of foreclosed property under the other income after the settlement as per the agreement between borrower and the Bank.

ADVANCED BANK OF ASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

9. Other assets (continued)

As of the date of this report, the Bank's foreclosed properties possessed in 2010 is USD 156,401 and 2012 is USD 322,533. All these foreclosed properties have not been sold. On 08 November 2012, Bank was approved by the National Bank of Cambodia to hold these foreclosed properties beyond their maximum allowable period with the intention to be disposed of to recover the outstanding amount in the near future.

10. Statutory deposits with central bank

| | 2012 | | 2011 |
|---|-------------------|--------------------|-------------------|
| | USD | KHR'000 | USD |
| Statutory capital deposit | 3,600,000 | 14,382,000 | 3,600,000 |
| Reserve requirements on customer deposits | 28,484,884 | 113,797,112 | 18,936,160 |
| | <u>32,084,884</u> | <u>128,179,112</u> | <u>22,536,160</u> |

(a) Statutory capital deposit:

Under NBC's *Prakas* No.B 7-01-136 dated 15 October 2001, the Bank is required to maintain a statutory deposit of ten per cent 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. B 7-09-020 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:

| | 2012 | 2011 |
|--|----------------|----------------|
| Statutory capital deposits | 0.18% to 0.20% | 0.11% to 0.13% |
| 8% of reserve requirements in foreign currencies | 0% | 0% |
| 4% of reserve requirements in foreign currencies | 0.10% to 0.14% | 0.09% to 0.16% |

ADVANCED BANK OF ASIA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

11. Intangible assets

| | System, software | |
|---------------------------------|-------------------------|------------------|
| | USD | KHR'000 |
| Cost | | |
| At 31 January 2012 | 1,978,559 | 7,904,343 |
| Addition | - | - |
| At 31 December 2012 | <u>1,978,559</u> | <u>7,904,343</u> |
| Accumulated amortization | | |
| At 31 January 2012 | 181,488 | 725,045 |
| Charge for the reporting period | 121,380 | 484,912 |
| At 31 December 2012 | <u>302,868</u> | <u>1,209,957</u> |
| Net book value | | |
| At 31 December 2012 | <u>1,675,691</u> | <u>6,694,386</u> |
| At 31 December 2011 | <u>1,797,072</u> | |

ADVANCED BANK OF ASIA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

Property and equipment

| | Leaschold improvements USD | Office equipment & furniture, fixtures USD | Motor vehicles USD | Computer & IT equipment USD | Total USD | Total KHR'000 |
|---------------------------------|----------------------------------|---|--------------------------|-----------------------------------|--------------|------------------|
| Cost | | | | | | |
| At 1 January 2012 | 865,648 | 708,057 | 154,359 | 741,805 | 2,469,869 | 9,867,127 |
| Additions | 173,638 | 104,042 | 32,214 | 314,459 | 624,353 | 2,494,290 |
| Written off | - | - | (16,380) | - | (16,380) | (65,438) |
| At 31 December 2012 | 1,039,286 | 812,099 | 170,193 | 1,056,264 | 3,077,842 | 12,295,979 |
| Accumulated depreciation | | | | | | |
| At 1 January 2012 | 328,193 | 405,235 | 111,869 | 278,957 | 1,124,254 | 4,491,395 |
| Charge for the year | 166,469 | 151,906 | 29,617 | 204,331 | 552,323 | 2,206,530 |
| Written off | - | - | (13,723) | - | (13,723) | (54,823) |
| At 31 December 2012 | 494,662 | 557,141 | 127,763 | 483,288 | 1,662,854 | 6,643,102 |
| Net book value | | | | | | |
| At 31 December 2012 | 544,624 | 254,958 | 42,430 | 572,976 | 1,414,988 | 5,652,877 |
| At 31 December 2011 | 537,455 | 302,822 | 42,490 | 462,848 | 1,345,615 | 5,375,732 |
| Depreciation charge for 2011 | 110,436 | 131,223 | 29,070 | 196,088 | 466,817 | 1,864,934 |

ADVANCED BANK OF ASIA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

13. Deposits from customers and banks

| | 2012 | | 2011 |
|---------------------------|--------------------|--------------------|--------------------|
| | USD | KHR'000 | USD |
| Non-bank customers | | | |
| Demand deposits | 13,443,365 | 53,706,243 | 5,102,018 |
| Savings accounts | 134,056,027 | 535,553,828 | 92,879,671 |
| Fixed deposits | 74,653,324 | 298,240,029 | 63,312,924 |
| Margin deposits | 237,326 | 948,118 | 583,283 |
| | <u>222,390,042</u> | <u>888,448,218</u> | <u>161,877,896</u> |
| Banks | | | |
| Demand deposits | 1,560 | 6,232 | 26,138 |
| Savings accounts | 840,763 | 3,358,848 | 704,771 |
| Fixed deposits | 1,000,000 | 3,995,000 | 3,000,000 |
| | <u>1,842,323</u> | <u>7,360,080</u> | <u>3,730,909</u> |
| | <u>224,232,365</u> | <u>895,808,298</u> | <u>165,608,805</u> |

a) Further analysis is as follows:

| | 2012 | | 2011 |
|---------------------------------------|--------------------|--------------------|--------------------|
| | USD | KHR'000 | USD |
| (i) By maturity | | | |
| Within one month | 154,518,469 | 617,301,284 | 112,050,200 |
| Later than one month to three months | 11,143,044 | 44,516,461 | 15,115,962 |
| Later than three months to six months | 26,996,464 | 107,850,874 | 15,106,820 |
| Later than six months to one year | 19,974,708 | 79,798,958 | 15,536,414 |
| Over one year | 11,599,680 | 46,340,721 | 7,799,409 |
| | <u>224,232,365</u> | <u>895,808,298</u> | <u>165,608,805</u> |
| (ii) By type of customers | | | |
| Individuals | 168,692,772 | 673,927,624 | 120,621,863 |
| Business enterprises | 53,697,271 | 214,520,598 | 41,256,034 |
| Banks | 1,842,322 | 7,360,076 | 3,730,908 |
| | <u>224,232,365</u> | <u>895,808,298</u> | <u>165,608,805</u> |
| (iii) By status of residence | | | |
| Residents | 217,588,085 | 869,264,400 | 158,872,257 |
| Non Residents | 6,644,280 | 26,543,898 | 6,736,548 |
| | <u>224,232,365</u> | <u>895,808,298</u> | <u>165,608,805</u> |
| (iv) By currency denomination | | | |
| US Dollar | 223,877,677 | 894,391,320 | 165,235,356 |
| Khmer Riel | 337,639 | 1,348,868 | 365,472 |
| Others | 17,049 | 68,110 | 7,977 |
| | <u>224,232,365</u> | <u>895,808,298</u> | <u>165,608,805</u> |

ADVANCED BANK OF ASIA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

13. Deposits from customers and banks (continued)

a) Further analysis is as follows:

| | 2012 | | 2011 |
|---------------------|--------------------|--------------------|--------------------|
| | USD | KHR'000 | USD |
| (v) By relationship | | | |
| Related parties | 228,179 | 911,575 | 754,237 |
| Non related parties | 224,004,186 | 894,896,723 | 164,854,568 |
| | <u>224,232,365</u> | <u>895,808,298</u> | <u>165,608,805</u> |

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

| | 2012 | 2011 |
|-----------------|--------------|--------------|
| | % | % |
| Saving deposits | 0.75 | 1.00 |
| Fixed deposits | 2.50 to 8.50 | 4.70 to 8.50 |

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

14. Provision for income tax

| | 2012 | | 2011 |
|----------------------------------|------------------|------------------|------------------|
| | USD | KHR'000 | USD |
| Balance at beginning of year | 13,389 | 53,489 | 9,775 |
| Charge during the year (note 24) | 819,177 | 3,272,614 | 467,704 |
| Utilised tax loss | (443,487) | (1,771,731) | (302,894) |
| Taxation paid during the year | <u>(203,488)</u> | <u>(812,934)</u> | <u>(161,196)</u> |
| | <u>185,591</u> | <u>741,438</u> | <u>13,389</u> |

15. Other liabilities

| | 2012 | | 2011 |
|---------------------------------------|------------------|-------------------|------------------|
| | USD | KHR'000 | USD |
| Interests payable - customer deposits | 2,449,469 | 9,785,629 | 1,410,128 |
| Accrued expense | 39,148 | 156,396 | 121,989 |
| Other taxes payable | 190,818 | 762,318 | 221,535 |
| Others | <u>121,311</u> | <u>484,638</u> | <u>18,318</u> |
| | <u>2,800,746</u> | <u>11,188,981</u> | <u>1,771,970</u> |

ADVANCED BANK OF ASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

16. Share capital

| | 2012 USD | KHR'000 | 2011 USD |
|------------------------|-------------|-------------|-------------|
| Balance at 1 January | 36,000,000 | 143,820,000 | 36,000,000 |
| Balance at end of year | 36,000,000 | 143,820,000 | 36,000,000 |

The registered statutory capital of the Bank as at 31 December 2012 is 36,000 shares at a par value of USD1,000 per share. The Bank's capitalis USD 36 million equivalents to KHR 150 billion since the date of increase on 29 September 2010, approved by NBC to meet the minimum capital requirement based on Prakas B7-08-193 dated 19 September 2008. All shares are fully paid up by the following shareholders and their respective interest in the bank:

| | 2012 Holding % Number of shares of USD1,000 each | 2011 Holding % Number of shares of USD1,000 each |
|-----------------------|--|--|
| Damir Karassayev | 80.56% 29,000 | 74.72% 26,900 |
| Visor Growth Fund B.V | 19.44% 7,000 | - - |
| Nikolay Varenko | - - | 19.44% 7,000 |
| Vladislav Kim | - - | 5.84% 2,100 |
| | 100.00% 36,000 | 100.00% 36,000 |

The change in shareholders and an amendment to Memorandum and Articles of Association was approved by the National Bank of Cambodia on 08November 2012 and by the Ministry of Commerce on 26 February 2013.

17. Interest income

| | 2012 USD | KHR'000 | 2011 USD |
|-------------------------------------|-------------|------------|-------------|
| Loans and advances | 12,897,862 | 51,526,959 | 10,144,078 |
| Deposits and placements with banks: | | | |
| Banks inside and outside Cambodia | 1,651,028 | 6,595,856 | 400,015 |
| National Bank of Cambodia | 16,240 | 64,879 | 10,926 |
| Investment securities | 2,861,190 | 11,430,454 | 2,552,213 |
| | 17,426,320 | 69,618,148 | 13,107,232 |

ADVANCED BANK OF ASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

18. Interest expense

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

| | 2012 | | 2011 |
|------------------|------------------|-------------------|------------------|
| | USD | KHR'000 | USD |
| Savings accounts | 4,830,491 | 19,297,812 | 3,126,415 |
| Fixed deposits | 4,056,761 | 16,206,760 | 3,597,829 |
| | <u>8,887,252</u> | <u>35,504,572</u> | <u>6,724,244</u> |

19. Fee and commission income - Net

| | 2012 | | 2011 |
|--------------------------------|------------------|-------------------|------------------|
| | USD | KHR'000 | USD |
| Fee and commissions: | | | |
| Loan commitment fees | 1,296,339 | 5,178,874 | 922,329 |
| Inward and outward remittances | 724,059 | 2,892,616 | 607,160 |
| Visa and credit card | 728,659 | 2,910,993 | 470,646 |
| Telex, phone and fax | 79,235 | 316,544 | 73,610 |
| Other fees | 143,177 | 571,992 | 105,372 |
| | <u>2,971,469</u> | <u>11,871,019</u> | <u>2,179,117</u> |
| Fee and commission expenses | <u>(68,432)</u> | <u>(273,386)</u> | <u>(82,801)</u> |
| | <u>2,903,037</u> | <u>11,597,633</u> | <u>2,096,316</u> |

20. Other operating income

| | 2012 | | 2011 |
|--|----------------|------------------|----------------|
| | USD | KHR'000 | USD |
| Gain on sales of investment securities | 391,390 | 1,563,603 | 155,496 |
| Foreign exchange gain, net | 98,163 | 392,161 | 87,450 |
| Other miscellaneous income | 33,355 | 133,253 | 46,106 |
| | <u>522,908</u> | <u>2,089,017</u> | <u>289,052</u> |

21. Personnel cost

| | 2012 | | 2011 |
|-----------------------|------------------|-------------------|------------------|
| | USD | KHR'000 | USD |
| Wages and salaries | 2,602,008 | 10,395,022 | 1,987,484 |
| Others personnel cost | 141,564 | 565,548 | 82,013 |
| | <u>2,743,572</u> | <u>10,960,570</u> | <u>2,069,497</u> |

ADVANCED BANK OF ASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

22. General and administrative expenses

| | 2012 | | 2011 |
|---|------------------|-------------------|------------------|
| | USD | KHR'000 | USD |
| Office rental | 706,414 | 2,822,124 | 567,864 |
| Public relations, marketing and advertising | 585,141 | 2,337,638 | 966,213 |
| Card expenses | 462,807 | 1,848,914 | 367,833 |
| Repair and maintenance | 263,161 | 1,051,328 | 258,122 |
| Utilities expenses | 234,059 | 935,066 | 176,228 |
| Office supplies | 234,556 | 937,051 | 183,051 |
| License fees expense | 187,685 | 749,802 | 135,214 |
| Communication | 150,786 | 602,390 | 139,884 |
| Motor vehicle operation expenses | 132,568 | 529,609 | 103,950 |
| Traveling and entertainment | 112,299 | 448,635 | 85,956 |
| Professional fees | 68,193 | 272,431 | 86,690 |
| Insurance expenses | 21,027 | 84,003 | 6,166 |
| Other expenses | 695,427 | 2,778,230 | 111,001 |
| | <u>3,854,123</u> | <u>15,397,221</u> | <u>3,188,172</u> |

23. Depreciation and amortisation expenses

| | 2012 | | 2011 |
|--|----------------|------------------|----------------|
| | USD | KHR'000 | USD |
| Depreciation of property and equipment (note 12) | 552,322 | 2,206,527 | 466,817 |
| Amortisation of intangible assets (note 11) | 121,381 | 484,916 | 124,445 |
| | <u>673,703</u> | <u>2,691,443</u> | <u>591,262</u> |

24. Income tax expense

| | 2012 | | 2011 |
|--------------------|----------------|------------------|----------------|
| | USD | KHR'000 | USD |
| Current income tax | 819,177 | 3,272,613 | 467,704 |
| Deferred tax | (174,215) | (695,990) | (302,894) |
| | <u>644,962</u> | <u>2,576,623</u> | <u>164,810</u> |

(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.

ADVANCED BANK OF ASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

24. Income tax expense (continued)

(a) Reconciliation of income tax (continued)

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

| | 2012 USD | KHR'000 | 2011 USD |
|--|-------------|-------------|-------------|
| Profit before income tax | 4,033,166 | 16,112,498 | 2,188,250 |
| Statutory income tax @ 20% | 806,633 | 3,222,499 | 437,650 |
| Expenses not deductible for tax purposes | 12,544 | 50,114 | 30,054 |
| Utilized tax loss (USD 2,217,435@20%) | (443,487) | (1,771,732) | (302,894) |
| Deferred tax | 269,272 | 1,075,742 | - |
| Income tax expense | 644,962 | 2,576,623 | 164,810 |

(b) Deferred tax

| | 2012 USD | KHR'000 | 2011 USD |
|--------------------------|-------------|-------------|-------------|
| Deferred tax assets | - | - | 443,487 |
| Deferred tax liabilities | (269,272) | (1,075,743) | (319,868) |
| | (269,272) | (1,075,743) | 123,619 |

Movement of deferred tax is as follow:

| | Tax loss USD | Accelerated depreciation USD | Total USD |
|----------------------------|-----------------|------------------------------------|--------------|
| 01 January 2011 | 746,381 | (428,807) | 317,574 |
| Credit to income statement | (302,894) | 108,939 | (193,955) |
| 31 December 2011 | 443,487 | (319,868) | 123,619 |
| Credit to income statement | (443,487) | 50,596 | (392,891) |
| 31 December 2012 | - | (269,272) | (269,272) |

(c) 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.

ADVANCED BANK OF ASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

25. Cash flows from operating activities

| | 2012 | | 2011 |
|--|--------------|---------------|--------------|
| | USD | KHR'000 | USD |
| Cash flows from operating activities | | | |
| Profit before income tax | 4,033,166 | 16,112,498 | 2,188,250 |
| <i>Adjustments for:</i> | | | |
| Depreciation and amortisation (note 23) | 673,703 | 2,691,443 | 591,262 |
| Allowance for loan losses (note 6) | 660,449 | 2,638,494 | 731,175 |
| Loss/(gain) on disposal of property and equipment | (5,988) | (23,922) | - |
| Operating profit before changes in working capital | 5,361,330 | 21,418,513 | 3,510,687 |
| Changes in operating assets and liabilities: | | | |
| Loans and advances to customers | (48,189,076) | (192,515,359) | (19,168,153) |
| Investment securities (note 8) | (2,118,715) | (8,464,266) | 2,064,866 |
| Other assets | (1,958,819) | (7,825,482) | (819,441) |
| Statutory deposits with central bank | (9,548,724) | (38,147,152) | (5,516,432) |
| Deposits from customers and banks | 58,623,560 | 234,201,122 | 43,207,216 |
| Other liabilities | 1,028,776 | 4,109,960 | 481,639 |
| Cash generated from operations | 3,198,332 | 12,777,336 | 23,760,382 |
| Income tax paid (note 14) | (203,488) | (812,934) | (161,196) |
| Net cash (used in)/from operating activities | 2,994,844 | 11,964,402 | 23,599,186 |

26. Related party transactions and balances

(a) Related party balances

| | 2012 | | 2011 |
|---|---------|-----------|---------|
| | USD | KHR'000 | USD |
| Due from: | | | |
| Loans and advances to staffs | 715,176 | 2,857,128 | 459,331 |
| Interest receivable from loans and advances | 1,753 | 7,003 | 1,126 |
| | 716,929 | 2,864,131 | 460,457 |
| Due to: | | | |
| Deposit and placement by key management | 228,176 | 911,563 | 520,110 |

ADVANCED BANK OF ASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

26. Related party transactions and balances (continued)

(b) Related party transactions

| | 2012 | | 2011 |
|---|--------|---------|--------|
| | USD | KHR'000 | USD |
| Income: | | | |
| Interest income from loans and advance to staff | 62,936 | 251,429 | 38,834 |
| Expenses: | | | |
| Interest expenses to key management | 763 | 3,048 | 9,251 |

(c) Key management personnel remuneration

| | 2012 | | 2011 |
|-----------------------|---------|-----------|---------|
| | USD | KHR'000 | USD |
| Salaries and benefits | 724,143 | 2,892,951 | 552,466 |

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 follows:

| | 2012 | | 2011 |
|-----------------------|------------------|-------------------|------------------|
| | USD | KHR'000 | USD |
| Financing commitments | 8,010,285 | 32,001,089 | 8,099,779 |
| Documentary credits | 471,908 | 1,885,272 | 519,462 |
| Others | 452,442 | 1,807,506 | 549,230 |
| | <u>8,934,635</u> | <u>35,693,867</u> | <u>9,168,471</u> |

27.2 Operating lease commitments

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

| | 2012 | | 2011 |
|--|------------------|-------------------|------------------|
| | USD | KHR'000 | USD |
| Not later than one year | 544,269 | 2,174,356 | 528,517 |
| Later than one year and not later than 5 years | 1,189,663 | 4,752,704 | 1,582,416 |
| More than five years | 916,494 | 3,661,394 | 1,068,011 |
| | <u>2,650,426</u> | <u>10,588,454</u> | <u>3,178,944</u> |

ADVANCED BANK OF ASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

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. Internal control policies and measures that have been implemented including the establishment of signing authorities, defining system parameters controls, streamlining 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 fulfil 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.

ADVANCED BANK OF ASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

28. Financial risk management (continued)

28.2 Credit risk (continued)

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 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 minimal 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.

(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 2012.

ADVANCED BANK OF ASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

28. Financial risk management (continued)

28.2 Credit risk (continued)

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

| | 2012 | | 2011 |
|--|--------------------|--------------------|--------------------|
| | USD | KHR'000 | USD |
| Credit risks exposures relating to on-balance sheet assets: | | | |
| Balances with banks other than NBC | 45,178,607 | 180,488,535 | 43,607,030 |
| Loans and advances | 141,302,469 | 564,503,364 | 93,124,887 |
| Capital investment | 25,588 | 102,224 | 25,000 |
| Investment securities | 26,810,482 | 107,107,876 | 24,691,767 |
| Other assets | 4,610,231 | 18,417,873 | 2,651,412 |
| | <u>217,927,377</u> | <u>870,619,872</u> | <u>164,100,096</u> |
| Credit risk exposures relating to off-balance sheet items: | | | |
| Unused portion of approved credit facilities | 8,010,285 | 32,001,089 | 8,099,779 |
| Letters of credit | 471,908 | 1,885,272 | 519,462 |
| Others | 452,442 | 1,807,506 | 549,230 |
| | <u>8,934,635</u> | <u>35,693,867</u> | <u>9,168,471</u> |
| | <u>226,862,012</u> | <u>906,313,739</u> | <u>173,268,567</u> |

The table above represents the maximum credit risk exposure to the Bank as at 31 December 2012, 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. 65% 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 87% of the loans and advances of the Bank are collateralised such as hard title deed, 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 portfolio 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.

ADVANCED BANK OF ASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

28. Financial risk management (continued)

28.2 Credit risk (continued)

(e) Loans and advances

Loans and advances are summarised as follows:

| | 2012 | | 2011 |
|--|-------------|-------------|-------------|
| | USD | KHR'000 | USD |
| Loans and advances neither past due nor impaired | 135,449,098 | 541,119,146 | 86,956,444 |
| Loans and advances past due but not impaired | 2,328,476 | 9,302,262 | 2,982,210 |
| Loans and advances individually impaired | 3,524,895 | 14,081,956 | 3,186,233 |
| Gross | 141,302,469 | 564,503,364 | 93,124,887 |
| Less: | | | |
| Allowance for loan losses | (2,317,353) | (9,257,826) | (1,668,398) |
| Net | 138,985,116 | 555,245,538 | 91,456,489 |

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 allowance for loan loss 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.

ADVANCED BANK OF ASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

28. Financial risk management (continued)

28.2 Credit risk (continued)

(f) Repossessed collateral

During the year ended 31 December 2012, the Bank obtained assets by taking possession of collateral held as security amount to USD 322,533 (2011: USD 208,580).

Repossessed properties have to be sold within one year as required by the NBC. Repossessed 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 2012 is USD 322,533. All these foreclosed properties have not been sold.

On 08 November 2012, Bank was approved by the National Bank of Cambodia to hold these foreclosed properties beyond their maximum allowable period with the intention to be disposed of to recover the outstanding amount in the near future.

(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:

| | 2012 | | 2011 |
|---|-------------------|-------------------|-------------------|
| | USD | KHR'000 | USD |
| Against individually impaired: Land and buildings | 7,666,840 | 30,629,026 | 7,546,508 |
| Past due but not impaired | 6,861,024 | 27,409,791 | 7,305,236 |
| | <u>14,527,864</u> | <u>58,038,817</u> | <u>14,851,744</u> |

(h) Concentration of financial assets with credit risk exposure

(i) By geographical distribution

The credit exposure of the Bank as at 31 December 2012 is wholly derived from Cambodia based on the country of domicile of the counterparties.

ADVANCED BANK OF ASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Financial risk management (continued)

Credit risk (continued)

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

(ii) By industry sector

| | Balances with other banks USD | Loan and advances to customers USD | Capital investment USD | Investment securities USD | Other assets USD | Total USD | Total KHR' 000 |
|----------------------------------|-------------------------------------|--|------------------------------|---------------------------------|------------------------|--------------|-------------------|
| At 31 December 2012 | | | | | | | |
| Financial Institution | 45,178,607 | 2,700,000 | 25,588 | 26,810,482 | - | 74,714,677 | 298,485,136 |
| Wholesale and retail Services | - | 41,287,147 | - | - | - | 41,287,147 | 164,942,152 |
| Agriculture | - | 21,709,113 | - | - | - | 21,709,113 | 86,727,906 |
| Personal consumption | - | 10,412,213 | - | - | - | 10,412,213 | 41,596,791 |
| Construction | - | 3,192,209 | - | - | - | 3,192,209 | 12,752,875 |
| Manufacturing | - | 7,623,348 | - | - | - | 7,623,348 | 30,455,275 |
| Real estate | - | 11,958,255 | - | - | - | 11,958,255 | 47,773,229 |
| Other services | - | 8,880,784 | - | - | 478,934 | 9,359,718 | 37,392,073 |
| | - | 33,539,400 | - | - | 4,131,297 | 37,670,697 | 150,494,435 |
| | 45,178,607 | 141,302,469 | 25,588 | 26,810,482 | 4,610,231 | 217,927,377 | 870,619,872 |
| At 31 December 2011 | | | | | | | |
| Financial Institution | 43,607,030 | - | 25,000 | 24,691,767 | - | 68,323,797 | 275,959,816 |
| Wholesale and retail Services | - | 28,781,447 | - | - | - | 28,781,447 | 116,248,264 |
| Agriculture | - | 13,569,681 | - | - | - | 13,569,681 | 54,807,942 |
| Personal consumption | - | 2,920,247 | - | - | - | 2,920,247 | 11,794,878 |
| Construction | - | 1,500,641 | - | - | - | 1,500,641 | 6,061,089 |
| Manufacturing | - | 9,750,756 | - | - | - | 9,750,756 | 39,383,303 |
| Real estate | - | 7,555,661 | - | - | - | 7,555,661 | 30,517,315 |
| Other services | - | 904,149 | - | - | 364,981 | 1,269,130 | 5,126,016 |
| | - | 28,142,305 | - | - | 2,286,431 | 30,428,736 | 122,901,665 |
| | 43,607,030 | 93,124,887 | 25,000 | 24,691,767 | 2,651,412 | 164,100,096 | 662,800,288 |

ADVANCED BANK OF ASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

28. Financial risk management (continued)

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 held to maturity. The Bank currently does not have a policy to manage its price risk. Investment securities are disclosed in note 8.

(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.

(Continued)

ADVANCED BANK OF ASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Financial risk management (continued)

Market risk (continued)

As at 31 December 2012

| Financial Assets | Up to 1 month USD | 1-3 months USD | 4-6 months USD | 7-12 months USD | 1 to 5 years USD | Over 5 years USD | Non-interest bearing USD | Total USD | Interest rate % |
|--|-------------------------|---------------------|-------------------|-----------------------|---------------------|------------------------|--------------------------------|--------------------|-----------------------|
| Cash in hand | - | - | - | - | - | - | 9,947,495 | 9,947,495 | |
| Deposits and placements with banks | 180,228 | 503,942 | 20,266,933 | 22,888,641 | - | - | 5,577,837 | 49,417,581 | 0.02 - 8.15 |
| Statutory deposits with central bank | - | - | - | - | - | 3,600,000 | 28,484,884 | 32,084,884 | 0.1 - 0.2 |
| Loans and advances to customers: | | | | | | | | | |
| - Performing | 5,496,691 | 2,220,854 | 5,109,687 | 18,439,748 | 74,907,559 | 29,274,559 | - | 135,449,098 | 4 - 25.2 |
| - Non-performing | - | 2,328,476 | 2,955,012 | 535,763 | 34,120 | - | - | 5,853,371 | |
| - Specific provisions | - | - | - | - | - | - | (962,860) | (962,860) | |
| - General provisions | - | - | - | - | - | - | (1,354,493) | (1,354,493) | |
| Capital investment | - | - | - | - | - | 25,588 | - | 25,588 | |
| Investment securities | - | - | - | - | 26,810,482 | - | - | 26,810,482 | 7.5 - 10.50 |
| Other assets | - | - | - | - | - | - | 4,610,231 | 4,610,231 | |
| Total financial assets | 5,676,919 | 5,053,272 | 28,331,632 | 41,864,152 | 101,752,161 | 32,900,147 | 46,303,094 | 261,881,377 | |
| Financial liabilities | | | | | | | | | |
| Deposits from customers and banks | 140,836,218 | 11,143,044 | 26,996,464 | 19,974,708 | 11,599,680 | - | 13,682,251 | 224,232,365 | 0.75 - 7.50 |
| Other liabilities | - | - | - | - | - | - | 2,800,746 | 2,800,746 | |
| Provision for income tax | - | - | - | - | - | - | 185,591 | 185,591 | |
| Deferred tax liability | - | - | - | - | - | - | 269,272 | 269,272 | |
| Total financial liabilities | 140,836,218 | 11,143,044 | 26,996,464 | 19,974,708 | 11,599,680 | - | 16,937,860 | 227,487,974 | |
| Interest sensitivity gap 2012 (USD) | (135,159,299) | (6,089,772) | 1,335,168 | 21,889,444 | 90,152,480 | 32,900,147 | 29,365,234 | 34,393,403 | |
| Interest sensitivity gap 2012 (KHR' 000 equivalent) | (539,961,400) | (24,328,639) | 5,333,996 | 87,448,329 | 360,159,158 | 131,436,087 | 117,314,110 | 137,401,645 | |

ADVANCED BANK OF ASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Financial risk management (continued)

Market risk (continued)

As at 31 December 2011

| Financial Assets | Up to 1 month USD | 1-3 months USD | 4-6 months USD | 7-12 months USD | 1 to 5 years USD | Over 5 years USD | Non-interest bearing USD | Total USD | Interest rate % |
|--|-------------------------|-------------------|--------------------|-----------------------|---------------------|------------------------|--------------------------------|--------------------|-----------------------|
| 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 | 6,801,717 | 4,818,337 | 15,520,145 | 43,651,951 | 14,895,471 | - | 89,938,654 | 4 - 21.6 |
| - Non-performing | - | 2,982,210 | 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 | 7.5 - 10.5 |
| 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 - 8.5 |
| 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 sensitivity gap 2011 (USD) | (90,090,725) | 5,167,965 | (842,645) | 8,282,312 | 60,544,309 | 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 | 244,538,464 | 74,804,182 | 118,631,505 | 125,019,938 | |

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

28. Financial risk management(continued)

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.

(c) Non-derivative 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 the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash flows.

ADVANCED BANK OF ASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

Financial risk management(continued)

4 Liquidity risk (continued)

As at 31 December 2012

| Financial Assets | Up to 1 month USD | 1-3 months USD | 3-12 months USD | 1 to 5 years USD | Over 5 years USD | No maturity USD | Total USD | Total KHR'000 |
|--------------------------------------|----------------------|--------------------|---------------------|---------------------|---------------------|--------------------|--------------------|----------------------|
| Cash in hand | 9,947,495 | - | - | - | - | - | 9,947,495 | 39,740,243 |
| Deposits and placements with banks | 49,417,581 | - | - | - | - | - | 49,417,581 | 197,423,236 |
| Statutory deposits with central bank | - | - | - | - | - | 32,084,884 | 32,084,884 | 128,179,112 |
| Loans and advances to customers: | | | | | | | | |
| - Performing | 5,496,691 | 2,220,854 | 23,549,435 | 74,907,559 | 29,274,559 | - | 135,449,098 | 541,119,147 |
| - Non-performing | - | 2,328,476 | 3,490,775 | 34,120 | - | - | 5,853,371 | 23,384,217 |
| - Specific provisions | - | - | - | - | - | (962,860) | (962,860) | (3,846,626) |
| - General provisions | - | - | - | - | - | (1,354,493) | (1,354,493) | (5,411,200) |
| Capital investment | - | - | - | - | - | 25,588 | 25,588 | 102,224 |
| Investment securities | - | - | - | 26,810,482 | - | - | 26,810,482 | 107,107,876 |
| Other assets | 2,106,804 | - | 2,503,427 | - | - | - | 4,610,231 | 18,417,873 |
| Total financial assets | 66,968,571 | 4,549,330 | 29,543,637 | 101,752,161 | 29,274,559 | 29,793,119 | 261,881,377 | 1,046,216,101 |
| Financial liabilities | | | | | | | | |
| Deposits from customers and banks | 154,518,469 | 11,143,044 | 46,971,172 | 11,599,680 | - | - | 224,232,365 | 895,808,298 |
| Other liabilities | 2,800,746 | - | - | - | - | - | 2,800,746 | 11,188,981 |
| Provision for income tax | - | - | - | - | - | 185,591 | 185,591 | 741,436 |
| Deferred tax liability | - | - | - | - | - | 269,272 | 269,272 | 1,075,743 |
| Total financial liabilities | 157,319,215 | 11,143,044 | 46,971,172 | 11,599,680 | - | 454,863 | 227,487,974 | 908,814,458 |
| Net position 2012 (USD) | (90,350,644) | (6,593,714) | (17,427,535) | 90,152,481 | 29,274,559 | 29,338,256 | 34,393,403 | 137,401,643 |
| As at 31 December 2011 | | | | | | | | |
| 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 |
| Total financial liabilities | 114,322,170 | 15,115,962 | 30,143,234 | 7,799,409 | - | 13,389 | 167,394,164 | 676,105,028 |
| Net position 2011 (USD) | (54,712,617) | (5,332,035) | (21,081,850) | 32,652,898 | 58,547,422 | 20,879,373 | 30,953,191 | 125,019,939 |

ADVANCED BANK OF ASIA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

28. Financial risk management(continued)

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 2012, the Bank has a paid-up statutory capital of USD 36 million equivalentsto KHR150 billion at the date of increase on 29 September 2010. The Banks 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 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, saving 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.

ADVANCED BANK OF ASIA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

28. Financial risk management(continued)

28.6 Fair value of financial assets and liabilities (continued)

(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.