

Bank of China was formally established in February 1912 following the approval of Dr. Sun Yat-sen. From 1912 to 1949, the Bank served consecutively as the country's central bank, international exchange bank and specialist foreign trade bank, and fulfilled its commitment to serving the public and developing China's financial services sector. Prudent management and progressive reforms resulted in many significant achievements across the Bank's diversified business operations. After the founding of the People's Republic of China, with a long history in acting as the state-designated specialist foreign exchange bank, Bank of China became China's important opening-up window to the world and the key foreign exchange financing channel. Transformed from a specialist foreign exchange bank into a state-owned commercial bank in 1994, Bank of China began a joint stock restructuring in 2003, which resulted in Bank of China Limited being incorporated in August 2004 and listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange in June and July 2006 respectively, becoming the first Chinese commercial bank listed in domestic and overseas capital markets.

As the most international and diversified bank in China, Bank of China provides a comprehensive range of financial services to customers across the Chinese mainland, Hong Kong, Macau, Taiwan and 31 overseas countries and regions. The Bank's core business is commercial banking, including corporate banking, personal banking and financial markets services. BOCI, one of its wholly-owned subsidiaries, is the Bank's investment banking arm. BOCG Insurance and BOC Insurance run the Bank's insurance business. BOCG Investment, a wholly owned subsidiary, undertakes the Bank's direct investment and investment management business. BOCIM, its controlling subsidiary, operates the Bank's fund management business. BOC Aviation is in charge of the Bank's aircraft leasing business.

Bank of China has upheld the spirit of "pursuing excellence" throughout its near hundred-year history. It is widely recognised within the industry and by its customers for its prudent operations, principle of integrity and customer-centric business concepts. With historical opportunities now arising, Bank of China will actively promote its innovative, transformative and cross-border approaches to development and remain focused on its goal of becoming a premier international bank.



## Bank of China Global Network

Bank of China is the most internationalised bank in China. After establishing its first overseas branch in London in 1929, the Bank gradually expended its overseas network to major global financial centres including Tokyo, Singapore and New York. At present, the Bank provides comprehensive and quality financial services to customers through its global network across the Chinese mainland, Hong Kong, Macau, Taiwan and 31 overseas countries and regions.



# **BANK OF CHINA LIMITED - PHNOM PENH BRANCH**

## **ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2011**

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# Group Corporate Information

## Registered Name in Chinese

中国银行股份有限公司(“中国银行”)

## Registered Name in English

BANK OF CHINA LIMITED  
("Bank of China")

## Legal Representative and Chairman

XIAO Gang

## Vice Chairman and President

LI Lihui

## Secretary to the Board of Directors

ZHANG Bingxun

## Office Address:

No.1 Fuxingmen Nei Dajie, Beijing, China

Telephone: (86) 10-6659 2638

Facsimile: (86) 10-6659 4568

E-mail: [bocir@bank-of-china.com](mailto:bocir@bank-of-china.com)

## Company Secretary

YEUNG Cheung Ying

## Listing Affairs Representative

LUO Nan

## Office Address:

No.1 Fuxingmen Nei Dajie, Beijing, China

Telephone: (86) 10-6659 2638

Facsimile: (86) 10-6659 4568

E-mail: [bocir@bank-of-china.com](mailto:bocir@bank-of-china.com)

## Registered Address of Head Office

No.1 Fuxingmen Nei Dajie, Beijing, China

## Office Address

No.1 Fuxingmen Nei Dajie,  
Beijing, China, 100818

Telephone: (86) 10-6659 6688

Facsimile: (86) 10-6601 6871

Website: <http://www.boc.cn>

E-mail: [bocir@bank-of-china.com](mailto:bocir@bank-of-china.com)

## Place of Business in Cambodia

Canadia Tower, 1<sup>st</sup> & 2<sup>nd</sup> Floor, 315 Ang  
Doung St. (Corner of Monivong Blvd.),  
P.O.BOX 110, Phnom Penh, Cambodia

## Selected Newspapers for Information Disclosure (A Share)

*China Securities, Shanghai Securities, Securities Times, Securities Daily*

## Website designated by CSRC to publish the Annual Report

<http://www.sse.com.cn>

## Website designated by Hong Kong Exchanges and Clearing Limited to publish the Annual Report

<http://www.hkexnews.hk>

## Places where Annual Report can be Obtained

Major business locations

## Domestic Legal Advisor

King & Wood Mallesons Lawyers

## Hong Kong Legal Advisor

Allen & Overy

# Centennial Bank Global Service



## Our Vision:

To be a multinational banking group with a diversified and integrated cross-border business platform, based on a core business of commercial banking

## **Message from Chief Executive Officer (Cambodia)**

Bank of China is the most internationalized bank in China. At present, the Bank provides comprehensive and quality financial services to customers through its global network across the Chinese mainland, Hong Kong, Macau, Taiwan and 31 overseas countries and regions.

Bank of China was formally established in February 1912 following the approval of Dr. Sun Yat-sen. From 1912 to 1949, the Bank served consecutively as the country's central bank, international exchange bank and specialist foreign trade bank, and fulfilled its commitment to serving the public and developing China's financial services sector. Prudent management and progressive reforms resulted in many significant achievements across the Bank's diversified business operations. After the founding of the People's Republic of China, with a long history in acting as the state-designated specialist foreign exchange bank, Bank of China became China's important opening-up window to the world and the key foreign exchange financing channel. Transformed from a specialist foreign exchange bank into a state-owned commercial bank in 1994, Bank of China began a joint stock restructuring in 2003, which resulted in Bank of China Limited being incorporated in August 2004 and listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange in June and July 2006 respectively, becoming the first Chinese commercial bank listed in domestic and overseas capital markets.

As the most international and diversified bank in China, Bank of China provides a comprehensive range of financial services to customers across the Chinese mainland, Hong Kong, Macau, Taiwan and 31 overseas countries and regions. The Bank's core business is commercial banking, including corporate banking, personal banking and financial markets services.

Bank of China Limited Phnom Penh Branch was established and opened for business at 8 December 2010. The bank is registered in Cambodia with the Ministry of Commerce on 12 July 2010 under Registration No. CO.0034Br/2010. The Bank has carried on the spirit of "pursuing excellence", which Bank of China Head Office has upheld throughout its near hundred-year history. It is widely recognized within the industry and by its customers for its prudent operations, principle of integrity and customer-centric business concepts. By reinforcing core capability construction and accelerating business increase, the Bank will achieve a sound, fast and sustainable development. Just one year start-up operation in Cambodia, The Bank has achieved the remarkable outcomes, which Total Assets scale and Customer Deposit exceeded USD200 million, and USD150 million respectively. In



responding to the rapid growth of the Bank's operations in Cambodia, during the year, the Bank increased its core capital from USD15 million to USD40 million, and USD10 million subordinated debts into Tier 2 Capital, which made the Bank becomes one of the strongest Capital Banks in Cambodia.

Moving ahead, Bank of China Limited Phnom Penh Branch will continue its bright journey with our network expansion of opening more Sub-Branches, and bring the selective and convenient products and services to serve our customers.

While celebrating the 100th anniversary of the Bank, on behalf of the management, I would like to take this opportunity to express our heartfelt gratitude to our customers, and business partners for your trust and support, to all colleagues for their diligent work and invaluable contribution to the Bank, and to relevant regulatory authorities, especially, the National Bank of Cambodia for your assistance, guidance, and support.



Chen Chang Jiang  
Chief Executive Officer  
Bank of China Limited Phnom Penh Branch

# **Group Development Strategy**

## **Core Values**

Pursuing excellence — integrity, performance, responsibility, innovation and harmony

## **Strategic Goal**

To be a premier multinational banking group, delivering growth and excellence

## **Strategic Positioning**

To be a multinational banking group with a diversified and integrated cross-border business platform based on a core business of commercial banking

## **2012 Work Plan**

To carry forward its fine century-old traditions, the Bank will continue to follow its strategic development plan, implement the principles of “streamlining structure, scaling up, managing risks and sharpening competitiveness”, and promote innovative, transformative and cross-border development to pursue balanced and sustainable growth. Through establishing a customer-centric, market-oriented and technology-led global service system, the Bank will refine its service offering and performance to meet the needs of the real economy, and move rapidly towards its goal of becoming a premier multinational banking group.

## Group Corporate Governance

In 2011, the Bank strictly complied with state laws and regulations, closely observed regulatory changes, further improved its corporate governance mechanisms and boosted corporate governance efficiency. The Board of Directors focused its attention on “making key decisions, developing core strategies and monitoring systemic risks” and continued to improve the efficiency and quality of its decision-making.

### 1. Improving corporate governance systems and efficiency

During the reporting period, the Bank approved a proposal to delegate authority for issuing ordinary financial bonds to the Board of Directors, further optimized the power and responsibility mechanism of the Board of Directors, Board of Supervisors, Shareholders' Meeting and senior management and improved the efficiency of its business management. The Bank attaches great importance to the role of independent directors in corporate governance, and strictly regulates the structure of the Board of Directors accordingly. As such, it approved a proposal to amend the Articles of Association to include the provision that independent directors shall account for no less than one-third of the members of the Board of Directors. The Bank prepared and implemented the *Working Rules of Board Secretary*, the *Management Measures on Responsibility Investigation on Material Information Disclosure Errors of Regular Reports*, and the *Investor Relations Management Policy*, further improving its corporate governance regulations.

### 2. Complying with external regulations and proactively exploring new trends in corporate governance

During 2011, the Bank continued to enhance its corporate governance mechanisms by ensuring total compliance with the relevant regulatory requirements and by actively seeking out best practices. As such, the Bank kept well apprised of changes to regulatory policies and explored new and developing trends in corporate governance.

In 2011, the Bank conducted a comprehensive gap analysis with reference to the *Principles for Enhancing Corporate Governance* issued by the Basel Committee on Banking Supervision in October 2010, and explored new directions for further improving corporate governance by considering the latest changes in regulatory policies. In October 2011, the Hong Kong Stock Exchange issued the amendments to the *Code on Corporate Governance Practices* as set out in Appendix 14 to the Hong Kong Listing Rules and to the related rules under the Hong Kong Listing Rules. The Board of Directors reviewed and approved the Bank's plan for implementing the amendments according to existing policies and practices.

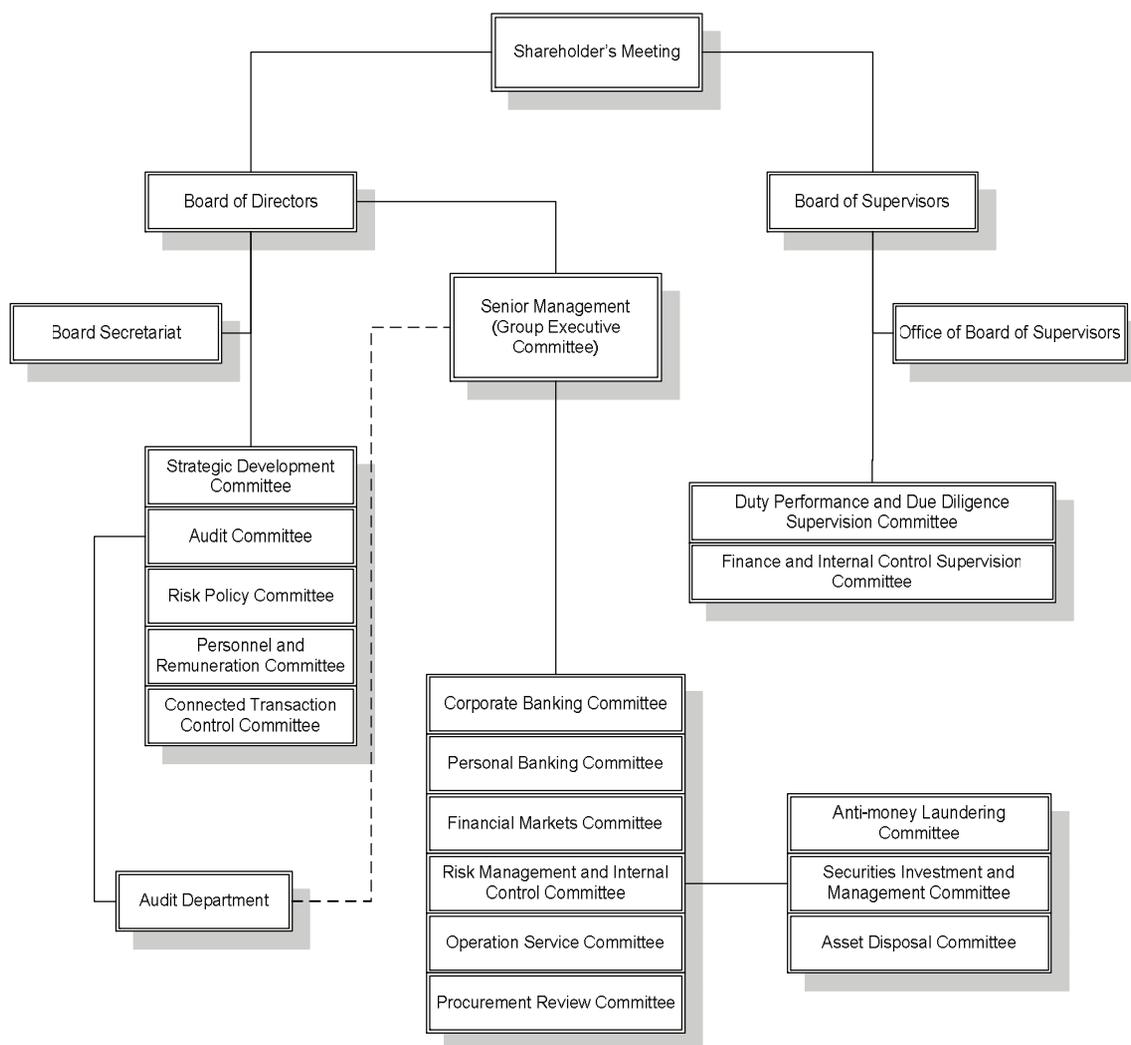
### 3. Focusing on scientific decision-making and effective duty performance

The Bank further increased its training efforts in 2011, with the Directors taking part in 19 training sessions involving 87 participants. These sessions, provided both by regulators and the Bank itself, covered external regulatory rules, the macroeconomic situation and banking management. In addition, Board Members have actively carried out on-site research exercises in order to better understand the Bank's operations. There were a total of 14 such research exercises and surveys in 2011, involving 45 participants. Moreover, the Directors have focused more intently on external regulation and increased communication with regulators. Thanks to these efforts, the Board of Directors has further enhanced the efficiency and scientific nature of its decision-making and effectively performed its responsibilities.

In 2011, the Bank continued to receive praise and recognition from regulators, capital markets, academic institutions and the media for its corporate governance. The Bank won a number of awards such as the “Corporate Governance Award of Chinese Companies— Information Disclosure Award 2011” conferred by SSE, the “Best Board of Directors Award” from the *Directors & Boards*, a publication on corporate governance, the “Hong Kong Corporate Governance Excellence Award” jointly selected by the Chamber of Hong Kong Listed Companies and Hong Kong Baptist University, the “Top 10 Financial Institutions” in the “Corporate Governance Assessment of the Top 100 Chinese Listed Companies” co-sponsored by the Chinese Academy of Social Sciences, China National School of Administration and Protiviti Consulting Private Limited, and the “Finance 50 Index — Top Ten Corporate Governance” selected by CCTV.

### Corporate Governance Framework

The Bank’s corporate governance framework is shown below:



### Code on Corporate Governance Practices

During the reporting period, the Bank strictly observed the *Code on Corporate Governance Practices* (the “Code”) as set out in Appendix 14 to the Hong Kong Listing Rules. The Bank has complied with all code provisions of the Code and has substantially complied with most of the

recommended best practices set out in the Code. In October 2011, the Hong Kong Stock Exchange announced forthcoming amendments to the Code. The Bank has already taken steps to address these amendments prior to them coming into effect, and has proactively adopted the recommended best practices specified by the amended Code.

### **Shareholders and Shareholders' Rights**

The Bank highly values the protection of its shareholders' interests and has established an effective and multi-channel platform to communicate with shareholders. This includes holding shareholders' meetings to ensure that all shareholders are treated equally, properly informed and able to participate in and exercise their voting and other rights regarding the major issues of the Bank. The Bank has independence and complete autonomy in all of its business operations. It operates independently and separately from its controlling shareholder, Huijin, in respect of its business, personnel, assets, institutional and financial matters.

In 2011, when implementing the profit distribution plan, the Bank properly addressed the impact on the individual H-Share Holders caused by the change of taxation policy, thus safeguarding the legitimate interest of the shareholders.

### **Shareholders' right to convene a shareholders' meeting**

According to the Articles of Association of the Bank, shareholders ("Proposing Shareholders") individually or in aggregate holding a total of 10% or more of the shares of the Bank have the right to request in writing to the Board of Directors to convene an extraordinary shareholders' meeting. Two or more shareholders holding a total of 10% or more of the shares carrying voting rights of the Bank may sign one or more written requests of identical form and substance requesting the Board of Directors to convene a meeting of shareholders of different categories and stating the subject of the meeting. If the Board of Directors fails to issue a notice of such a meeting within 30 days after having received the written request of convening an extraordinary shareholders' meeting or a meeting of shareholders of different categories submitted by the Proposing Shareholders, the Proposing Shareholders may themselves convene the meeting within four months after the Board of Directors received the request. The procedures according to which they convene such meeting shall, to the extent possible, be identical to the procedures according to which shareholders' meetings are to be convened by the Board of Directors. Where the Proposing Shareholders convene and hold a meeting because the Board of Directors failed to convene such meeting pursuant to a request as mentioned above, the reasonable expenses incurred by such shareholders shall be borne by the Bank and shall be deducted from the sums owed by the Bank to the negligent directors.

### **Shareholders' right to propose resolutions at shareholders' meetings**

According to the Articles of Association of the Bank, any shareholders who hold, individually or in aggregate, 3% or more voting shares of the Bank shall have the right to propose a resolution in a shareholders' meeting. Any shareholders who hold, individually or in aggregate, 3% or more voting shares of the Bank shall have the right to propose and submit in writing to the Board of Directors interim proposals 10 days prior to the convening of shareholders' meeting. When the Board of Directors decides not to put proposals of shareholders' meeting onto the meeting's agenda, it shall explain and clarify the reasons in the shareholders' meeting. When the Proposing Shareholders dissent with the Board of Directors' decision of excluding the proposal raised by the Proposing Shareholders on the agenda of shareholders' meeting, they may request to call for an extraordinary shareholders' meeting by themselves based on the relevant procedures stipulated in the Articles of Association of the Bank.

## **Shareholders' right to present enquiries**

According to the Articles of Association of the Bank, any shareholder who holds severally or jointly with others 5% or more of voting shares of the Bank shall have right to present enquiries to a shareholders' meeting. The Board of Directors, the Board of Supervisors, or other relevant senior management personnel shall attend the shareholders' meeting, accept enquiries, and answer or explain accordingly.

Please refer to the Articles of Association of the Bank for details of entitled rights of the shareholders. In case shareholders need to contact the Board of Directors regarding the aforementioned items or for other enquiries to the Board of Directors, please refer to "Reference for Shareholders — Investor Enquiry" for the means of contact.

## **Shareholders' Meeting**

The Bank held its 2011 First Extraordinary General Meeting in Beijing on 28 January 2011, which reviewed and approved a proposal on the election of Mr. Jackson P. TAI as an Independent Non-executive Director of the Bank, and a proposal in relation to the issuance of RMB-denominated bonds by the Bank in Hong Kong for an aggregate amount of not more than RMB20 billion by the end of 2012, among others.

On 27 May 2011, the Bank held its 2010 Annual General Meeting in Beijing and Hong Kong by way of video conference, which reviewed and approved proposals related to the 2010 Work Report of the Board of Directors, the 2010 Work Report of the Board of Supervisors, the profit distribution plan for 2010, the election of Non-executive Directors, the election of External Supervisors, and the delegation of authority for the issuance of ordinary financial bonds by Shareholders' Meeting to the Board of Directors.

The Bank held its 2012 First Extraordinary General Meeting in Beijing on 6 January 2012, which reviewed and approved proposals related to an amendment to the Articles of Association of the Bank, the election of Mr. WANG Yongli as an Executive Director of the Bank, and the remuneration plan for the Directors and Supervisors.

All the aforementioned meetings were convened and held in strict compliance with the relevant governing laws and regulations, including the listing rules of the Chinese mainland and Hong Kong. The Bank's Directors, Supervisors and senior management personnel attended the meetings and communicated with shareholders on issues of their concern. The Bank published the resolutions and legal opinions of the aforementioned Shareholders' Meetings in a timely manner pursuant to regulatory requirements.

## **Implementation of the Resolutions Passed at the Shareholders' Meeting by the Board of Directors**

The Board of Directors earnestly and fully implemented the resolutions passed at the Shareholders' Meeting during the reporting period.

According to the proposal on electing Directors and External Supervisors approved by the 2011 First Extraordinary General Meeting and the 2010 Annual General Meeting, the relevant approval and filing procedures have been concluded with the regulatory authorities.

According to the profit distribution plan for 2010 approved by the 2010 Annual General Meeting, the Board of Directors diligently carried out the profit distribution implementation scheme and effectively served the shareholders' interests. The profit distribution was completed in July 2011.

According to the approval of the 2010 Annual General Meeting, the Board of Directors has completed the reappointment of PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers as external auditors of 2011.

In 2010, the Bank carried out refinancing plans through the issuance of A-Share Convertible Bonds and rights issues of A Shares and H Shares. According to the authorization of the 2010 First Extraordinary General Meeting held on 19 March 2010, the 2010 Second Extraordinary General Meeting, the 2010 First A-Share Holders Class Meeting and the 2010 First H-Share Holders Class Meeting held on 20 August 2010, the Bank made amendments to the relevant provisions of the Articles of Association regarding the share capital, the shareholding structure and the registered capital of the Bank in 2011 and issued an announcement with the approval of the CBRC on 23 March 2011.

## **Directors and the Board of Directors**

The Board of Directors, which is responsible to the shareholders' meeting, is the Bank's decision-making body. The Board of Directors exercises the following functions and powers as specified by the Bank's Articles of Association: convening shareholders' meetings and implementing the resolutions of shareholders' meetings; deciding on the Bank's strategic policies, business plans and material investment plans (except for those material investment plans that are subject to shareholders' meeting approval as specified in the Articles of Association); formulating the annual financial budgets, final accounts and plans for profit distribution and loss remedy of the Bank; appointing or dismissing members of special committees and senior management of the Bank; reviewing and deciding on the establishment of the Bank's basic administrative system, internal management framework and important sub-entities; taking charge of performance evaluation and matters of material reward and punishment for senior management members; and hearing the reports of senior management and examining the work of senior management, etc.

Currently, the Board of Directors comprises sixteen members. Other than the Chairman, there are three Executive Directors, six Non-executive Directors and six Independent Non-executive Directors. The Bank's directors are elected at the Shareholders' Meeting, with a term of office of three years starting from the date when the Bank receives the approval of the CBRC. A director may serve consecutive terms by re-election and reappointment. For detailed background and an explanation of recent changes to the Board Members, please refer to the section "Directors, Supervisors and Senior Management" in this annual report.

The Board of Directors has set up the Strategic Development Committee, Audit Committee, Risk Policy Committee, Personnel and Remuneration Committee, and Connected Transactions Control Committee to assist the Board in performing different aspects of its functions. The positions of Chairman and President are assumed by two persons. The Bank renewed the directors' and officers' liability insurance for members of the Board in 2011 to provide protection against claims arising from the lawful discharge of duties by the directors, thus encouraging the directors to fully perform their duties.

## **Convening of Board Meetings**

In 2011, the Bank convened six on-site meetings of the Board of Directors, on 24 March, 28 April, 27 May, 24 August, 26 October and 8 December, respectively. At these meetings, the Board of Directors reviewed and approved proposals related to the amendment of the dividend distribution policy of the Bank, the 2010 internal control self-assessment report, the 2010 corporate social responsibility report, the 2010 Work Report of the Board of Directors, the delegation of authority for the issuance of ordinary financial bonds, the Bank's periodic reports, the profit distribution plan, performance evaluation results of senior management and remuneration distribution plans, the appointment of Directors, the appointment of Chief Audit

Officer, the reappointment of Chief Credit Officer, the amendment of the Articles of Association of the Bank, the *Working Rules of Board Secretary*, the *Management Measures on Responsibility Investigation on Material Information Disclosure Errors of Regular Reports*, and the *Investor Relations Management Policy* of the Bank. The Board of Directors also reviewed reports related to the implementation progress of the IT Blueprint project and the amendments to the Hong Kong Listing Rules and relevant recommendations for compliance.

In 2011, the Bank convened twelve meetings of the Board of Directors via written resolutions. At these meetings, the Board of Directors reviewed such matters as the establishment of a business presence in Taiwan, the establishment of Luanda Representative Office in Angola and the appointment of its Chief Representative, and the announcement on the approval of issuance of subordinated bonds, etc.

The average attendance rate of the meetings of the Board of Directors in 2011 was 99%. The attendance rate of each director is given below:

**Number of meetings attended/Number of meetings convened Director during term of office**

---

XIAO Gang	17/18
LI Lihui	18/18
LI Zaohang	18/18
ZHOU Zaiqun	10/10
HONG Zhihua	10/10
HUANG Haibo	10/10
CAI Haoyi	18/18
SUN Zhijun	18/18
LIU Lina	18/18
JIANG Yansong	18/18
ZHANG Xiangdong	6/6
ZHANG Qi	6/6
Anthony Francis NEOH	18/18
Alberto TOGNI	17/18
HUANG Shizhong	18/18
HUANG Danhan	18/18
CHOW Man Yiu, Paul	17/18
Jackson P. TAI	14/14

Notes:

1. In 2011, the Bank's Board of Directors convened a total of eighteen meetings, comprising six on-site meetings and twelve meetings via written resolutions.

2. Chairman Mr. XIAO Gang was not able to attend the Board Meeting in person on 26 October 2011 due to other business engagements. He authorized another director to attend and vote at the meeting as his proxy.

3. Mr. ZHOU Zaiqun ceased to serve as an Executive Director of the Bank as of 28 May 2011. Ms. HONG Zhihua and Ms. HUANG Haibo ceased to serve as Non-executive Directors of the Bank as of 28 May 2011.

4. Mr. ZHANG Xiangdong and Mr. ZHANG Qi began to serve as Non-executive Directors of the Bank as of 8 July 2011.

5. Independent Non-executive Director Mr. Alberto TOGNI was not able to attend the Extraordinary Board Meeting in person on 27 May 2011. He authorized another director to attend and vote at the meeting as his proxy.

6. Independent Non-executive Director Mr. CHOW Man Yiu, Paul was not able to attend the Extraordinary Board Meeting in person on 27 May 2011. He authorized another director to attend and vote at the meeting as his proxy.

7. Mr. Jackson P.TAI began to serve as an Independent Non-executive Director of the Bank as of 11 March 2011.

## The Strategic Development Committee

The Strategic Development Committee comprises ten members, including Chairman Mr. XIAO Gang, Executive Director Mr. LI Lihui, Non-executive Directors Mr. CAI Haoyi, Ms. SUN Zhijun, Ms. LIU Lina, Ms. JIANG Yansong, Mr. ZHANG Xiangdong, Mr. ZHANG Qi and Independent Non-executive Directors Mr. Alberto TOGNI and Mr. Jackson P. TAI. The committee is chaired by Chairman Mr. XIAO Gang. The committee is mainly responsible for reviewing the strategic development plans presented by the management and advising the Board accordingly; reviewing the annual budget of the Bank in accordance with the strategic development plan, and advising the Board accordingly; reviewing decisions on strategic capital allocation (policies on capital structure, capital adequacy ratio and risk-reward trade-off) and the objectives of asset-liability management, and advising the Board accordingly; coordinating strategy on the overall development of the various financial businesses, and advising the Board accordingly; and designing and formulating key investment and financing plans, reviewing and approving the plans presented by senior management under the Board's authorisation, and advising the Board accordingly.

The Strategic Development Committee held three meetings in 2011. At these meetings, the committee approved proposals covering amendments to the Bank's dividend policy, the Bank's profit distribution for 2010, the *Regulations Governing Internal Capital Adequacy Assessment Process of Bank of China*, the progress report on the village bank project and the Bank's business plans and financial budget for 2012.

The average attendance rate of the meetings of the Strategic Development Committee in 2011 reached 100%. The attendance rate of each director is given below:

Director	Number of meetings attended/ Number of meetings convened during term of office
XIAO Gang	3/3
LI Lihui	3/3
HONG Zhihua	1/1
HUANG Haibo	1/1
CAI Haoyi	3/3
SUN Zhijun	3/3
LIU Lina	3/3
JIANG Yansong	3/3
ZHANG Xiangdong	2/2
ZHANG Qi	2/2
Alberto TOGNI	3/3
Jackson P. TAI	3/3

Notes:

1. Ms. HONG Zhihua and Ms. HUANG Haibo ceased to serve as members of the Strategic Development Committee of the Bank as of 28 May 2011.

2. Non-executive Directors Mr. ZHANG Xiangdong and Mr. ZHANG Qi began to serve as members of the Strategic Development Committee of the Bank as of 8 July 2011.

## The Audit Committee

The Audit Committee comprises eight members, including Non-executive Directors Ms. SUN Zhijun, Mr. ZHANG Xiangdong, and Independent Non-executive Directors Mr. Anthony Francis NEOH, Mr. Alberto TOGNI, Mr. HUANG Shizhong, Ms. HUANG Danhan, Mr. CHOW Man Yiu, Paul and Mr. Jackson P. TAI. Mr. HUANG Shizhong serves as Chairman of the Audit Committee. The committee is mainly responsible for reviewing financial reports and other significant accounting policies and regulations put forward by the senior management; reviewing the external auditors' audit opinion, annual audit plan and the recommendation on management; approving the Internal Audit Charter, internal audit development plan, annual audit priorities, annual audit plan and budget; appraising the duty performance and work quality of the internal and external auditors and monitoring their independence; recommending the engagement, reappointment and audit fee of the external auditor; appointing, dismissing and appraising the performance of the Chief Audit Officer; and overseeing the Bank's internal control function, reviewing significant defects in internal control design and implementation by the senior management and investigating fraud cases.

The Audit Committee held five meetings in 2011, in which it mainly reviewed and discussed such proposals as the Bank's financial statements, the self-assessment report on internal control, the integrated audit plan, the report on the pilot implementation of the "Internal Control Assessment Standards of Bank of China", the report on fraud cases related to the Bank of 2010, the appointment, audit scope, plans and audit fee of the external auditors for 2012, the 2010 internal audit work summary, the revised *Policies of Selection, Rotation and Dismissal for External Auditors of Bank of China Limited (2011 edition)*, and implementation rules and procedures for the engagement of external auditors. It also approved such proposals as the internal audit's work plan and budget for 2011, the internal audit priorities of Bank of China for 2012. The committee also continuously monitored the work progress related to the implementation of New Basel Capital Accord and the *Basic Standard for Enterprise Internal Control*.

The average attendance rate of Audit Committee meetings in 2011 reached 100%. The attendance rate of each director is given below:

### Number of meetings attended/Number of meetings convened Director during term of office

HUANG Shizhong	5/5
HUANG Haibo	2/2
SUN Zhijun	5/5
ZHANG Xiangdong	3/3
Anthony Francis NEOH	5/5
Alberto TOGNI	5/5
HUANG Danhan	5/5
CHOW Man Yiu Paul	5/5
Jackson P. TAI	5/5

#### Notes:

1. Ms. HUANG Haibo ceased to serve as a member of Audit Committee of the Bank as of 28 May 2011.
2. Non-executive Director Mr. ZHANG Xiangdong began to serve as a member of the Audit Committee of the Bank as of 8 July 2011.
3. Independent Non-executive Director Mr. Jackson P. TAI began to serve as a member of the Audit Committee of the Bank as of 11 March 2011.

According to the *Procedure Rules on the Preparation of Annual Report of the Board Audit Committee of Bank of China Limited*, pending the start of audit work by the auditors, the Audit Committee confirmed with the auditors the details of the 2011 audit plan, including the audit focuses for the 2011 Annual Report, risk assessment and identification methods, the application

of accounting standards, tests of internal control and fraud, and allocation of human resources. In particular, the committee reminded the auditors to report any differences of judgment between the auditors and senior management during the audit, as well as the process and results of reconciling such differences.

The Audit Committee received and reviewed reports from senior management concerning the Bank's operating and major financial data, and gave comments and recommendations accordingly. The committee also requested that senior management submit the annual financial statements to the auditors in a timely manner, to allow sufficient time for the annual audit. During the audit, the committee maintained independent discussions with the auditors and arranged independent meetings between the auditors and the independent directors. At its first meeting of 2012, the Audit Committee reviewed and approved the Bank's 2011 financial statements and submitted them to the Board of Directors for approval.

In accordance with the *Policies of Selection, Rotation and Dismissal for External Auditors of Bank of China Limited*, the 2011 summary report was submitted by the external auditors and appraised by the Bank's senior management. Based on this appraisal, the Audit Committee conducted its own assessment of the auditors' performance in 2011, as well as a special review on their independence. After deliberation about the reappointment of auditors, the Audit Committee decided to submit to the Board of Directors a proposal to reappoint PricewaterhouseCoopers Zhong Tian CPAs Limited Company as the Bank's domestic auditor and internal control auditor for 2012, and PricewaterhouseCoopers as the Bank's international auditor for 2012.

#### **Guidance of the Board of Directors and the Audit Committee of the Board regarding Internal Control**

The Board proactively promotes the establishment and development of the Group's internal control system and is dedicated to cultivating a sound internal control and compliance culture. Under the Board's efforts on regularly hearing and reviewing reports from senior management concerning operational management, risk management and internal control, and providing effective guidance to the Bank's internal control and compliance work, the Group's risk mitigation ability and level of operational compliance have continuously enhanced.

The Audit Committee of the Board of Directors has paid close attention to the overall condition of the Group's internal control, including the establishment and operation of the internal control systems for financial reporting and non-financial reporting. The Audit Committee heard and reviewed, on a regular and ad hoc basis, the findings, recommendations and rectifications regarding internal control put forth by external auditors and internal audit function, the prevention and control of material fraud cases and non-compliance, so as to urge the senior management to continually improve internal control systems. The Audit Committee has attached great importance to the Bank's implementation of the *Basic Standard for Enterprise Internal Control* and its supporting guidelines. During the reporting period, the Bank released the *Plan of Bank of China Limited for Implementing the Basic Standard for Enterprise Internal Control and Its Supporting Guidelines*, and launched relevant works across the Group.

Moreover, members of the Board of Directors and the Audit Committee conducted site visits to branches and outlets. With facts and data collected from these on-site inspections, they offered advice in response to the business operations, risk management, internal control and the building of internal control culture of such business offices.

The Bank, under the guidance of the Audit Committee, further refined its internal control assessment system. The assessment system, which consists of assessment standards, methods, tools and system platforms, etc., covers the domestic and overseas institutions at all

levels, subsidiaries, and all business modules and lines of the Group and provides a more comprehensive perspective for the Bank to monitor and analyze the operation of the Group's internal control system.

In line with the Group's implementation of strategies to mitigate systemic and material risks, the Audit Committee closely tracked changes in the domestic and overseas economic and financial environment and guided the internal audit function to set inspection priorities and conduct inspection works, thus improving the effectiveness and efficiency of the Group's operations and corporate governance. With regard to the development and operation of the IT Blueprint and the implementation of the New Basel Capital Accord, the Audit Committee guided the internal audit function to closely follow up the relevant works and provide suggestions on improving internal control from an independent third-party perspective.

During the reporting period, the Bank followed the relevant requirements of the *Basic Standard for Enterprise Internal Control* and its supporting guidelines, and performed internal control self-assessment in accordance with the *Standards of Internal Control Assessment of Bank of China Limited* and the *Standards of Recognizing Internal Control Deficiencies of Bank of China Limited*, during which no material defect was found in the internal control of the Bank, regarding both financial reporting and non-financial reporting premises. Please refer to the announcement of the Bank dated 29 March 2012 for the relevant reports.

### **The Risk Policy Committee**

The Risk Policy Committee of the Bank comprises seven members, including Executive Director Mr. WANG Yongli, Non-executive Directors Ms. LIU Lina and Ms. JIANG Yansong, and Independent Non-executive Directors Mr. Anthony Francis NEOH, Mr. Alberto TOGNI, Mr. HUANG Shizhong and Mr. CHOW Man Yiu, Paul. Mr. Anthony Francis NEOH acts as the Chairman of the committee. The committee is mainly responsible for reviewing the Bank's risk management strategies, policies, procedures and systems, and providing suggestions to the Board of Directors; reviewing the Bank's major risk activities, and exercising its veto power in a reasonable manner over any transaction that will or may lead to debts to the Bank and/or expose the Bank to market risk in excess of the single transaction risk limit or the accumulated transaction risk limit approved by the Risk Policy Committee or the Board of Directors; monitoring the implementation of the Bank's risk management strategies, policies and procedures, and providing suggestions to the Board of Directors; reviewing the Bank's risk management situation and regularly assessing the duty performance of risk management and internal control by the senior management, departments and institutions of the Bank, including regularly hearing their reports and requesting improvements.

The Risk Policy Committee held six meetings in 2011, at which it mainly reviewed and approved the risk appetite quantification proposal report, the implementation plan of new regulatory standard of CBRC by the Bank, market risk management policy, valuation policy for financial instruments at fair value, country risk management procedures and relevant country risk limits, market risk limit, material risk assessment results of the Bank for 2012, as well as credit proposals whose amounts exceeded the approval authority of senior management. The Risk Policy Committee also reviewed progress reports on the Bank's implementation of the New Basel Capital Accord, and reports on consolidation management.

In addition, the Risk Policy Committee paid constant attention to hot issues, including the Bank's securities investment and the loans to LGFVs, in response to the changes in global economic and financial conditions, the adjustment of the government's macro policies and the release of new regulatory standards. The committee members contributed important opinions and suggestions for further improving and enhancing the Bank's risk governance mechanism and effective risk prevention and control.

The average attendance rate of Risk Policy Committee meetings in 2011 reached 100%. The attendance rate of each director is given below:

Director	Number of meetings attended/ Number of meetings convened during term of office
Anthony Francis NEOH	6/6
ZHOU Zaiqun	2/2
LIU Lina	6/6
JIANG Yansong	6/6
Alberto TOGNI	6/6
HUANG Shizhong	6/6
CHOW Man Yiu, Paul	6/6

Notes:

1. Mr. ZHOU Zaiqun ceased to serve as a member of the Risk Policy Committee of the Bank as of 28 May 2011.

2. Following the approval of the Board of Directors, Executive Director Mr. WANG Yongli began to serve as a member of the Risk Policy Committee of the Bank as of 2 March 2012.

### The Personnel and Remuneration Committee

The Personnel and Remuneration Committee comprises six members, including Non-executive Directors Mr. CAI Haoyi, Mr. ZHANG Qi, and Independent Non-executive Directors Mr. Anthony Francis NEOH, Mr. HUANG Shizhong, Ms. HUANG Danhan and Mr. CHOW Man Yiu, Paul. Mr. CHOW Man Yiu, Paul serves as Chairman of the committee. The committee is mainly responsible for assisting the Board of Directors in reviewing the Bank's human resources and remuneration strategies and overseeing their implementation; studying and reviewing the standards and procedures for selecting, nominating and appointing directors, members of the Bank's Board committees and senior management, and performing the duties of related nomination, review and supervision; reviewing and monitoring the remuneration and incentive policies of the Bank; and setting the performance appraisal standards for the senior management of the Bank and evaluating the performance of the directors, supervisors and members of the senior management.

The Personnel and Remuneration Committee held six meetings, and held one meeting by written resolutions in 2011. At these meetings, the committee approved several proposals, including proposals on the performance evaluation and remuneration distribution plan for the Chairman of the Board of Directors, the President and the senior management members for 2010, 2011 performance targets for the Group, performance targets for the Chairman of the Board of Directors, the President and the senior management members in 2011, *the Management Measures on Sound Compensation Practices of Bank of China Limited*, a proposal on the reappointment of Chief Credit Officer and the appointment of Chief Audit Officer of the Bank, proposals on the nomination and appointment of executive directors, and a proposal on adjustments to the membership of the Board committees. The committee also reviewed the remuneration distribution plan of the Chairman of the Board of Supervisors and the supervisors for 2010. In 2011, the Personnel and Remuneration Committee earnestly performed its duties of selecting and nominating directors. The committee conducted preliminary examination on the qualifications and conditions of the candidates in strict accordance with the external regulatory requirements and provisions of the Bank's Article of Association, and submitted the proposals on appointing the directors to the Shareholders' Meeting for discussion and approval after the deliberation of the Board of Directors.

The average attendance rate of the meetings of the Personnel and Remuneration Committee in 2011 reached 97%. The attendance rate of each director is given below:

Director	Number of meetings attended/ Number of meetings convened during term of office
CAI Haoyi	7/7
HONG Zhihua	5/5
ZHANG Qi	2/2
Anthony Francis NEOH	6/7
HUANG Shizhong	7/7
HUANG Danhan	7/7

Notes:

1. Non-executive Director Ms. HONG Zhihua ceased to serve as a member of the Personnel and Remuneration Committee as of 28 May 2011.
2. Non-executive Director Mr. ZHANG Qi began to serve as a member of the Personnel and Remuneration Committee as of 8 July 2011.
3. Independent Non-executive Director Mr. Anthony Francis NEOH was not able to attend the meeting of Personnel and Remuneration Committee on 23 August 2011 in person. He authorized another director to attend and vote at the meeting as his proxy.
4. Independent Non-executive Director Mr. CHOW Man Yiu, Paul began to serve as a member of the Personnel and Remuneration Committee as of 29 March 2012.

#### The Connected Transactions Control Committee

The Connected Transactions Control Committee comprises seven members, including Executive Director Mr. LI Zaohang, and Independent Non-executive Directors Mr. Anthony Francis NEOH, Mr. Alberto TOGNI, Mr. HUANG Shizhong, Ms. HUANG Danhan, Mr. CHOW Man Yiu, Paul and Mr. Jackson P. TAI. Mr. Alberto TOGNI serves as Chairman of the committee. The committee is mainly responsible for administering connected transactions of the Bank in accordance with the provisions of relevant laws and regulations and formulating the administrative system with regard to connected transactions; defining connected transactions of the Bank in accordance with the provisions of relevant laws, regulations and the Articles of Association of the Bank; examining connected transactions of the Bank pursuant to the provisions of relevant laws and regulations, as well as the business principles of justice and fairness; and examining and approving information disclosure matters related to the significant connected transactions of the Bank.

The Connected Transactions Control Committee held four meetings in 2011, at which the committee discussed and approved several proposals, including the Bank's representation letter on continuing connected transactions in 2010, *the Measures of Bank of China Limited for Administration of Connected Transactions (2011 edition)*, and reviewed such proposals as the report on the *Implementation Guide to Listed Companies' Connected Transactions* issued by SSE and the work report on the management of connected transactions in 2011.

The average attendance rate of the meetings of the Connected Transactions Control Committee reached 97% in 2011. The attendance rate of each director is given below:

**Number of meetings attended/  
Number of meetings convened**

**Director****during term of office**

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Alberto TOGNI	4/4
LI Zaohang	4/4
ZHOU Zaiqun	1/1
Anthony Francis NEOH	3/4
HUANG Shizhong	4/4
HUANG Danhan	4/4
CHOW Man Yiu, Paul	4/4
Jackson P. TAI	4/4

## Notes:

**1. Independent Non-executive Director Mr. Anthony Francis NEOH was not able to attend the meeting of the Connected Transactions Control Committee in person on 23 August 2011. He authorized Mr. Alberto TOGNI, chairman of the committee, to attend and vote at the meeting as his proxy.**

**2. Mr. ZHOU Zaiqun ceased to serve as a member of the Connected Transactions Control Committee as of 28 May 2011.**

**3. Independent Non-executive Director Mr. Jackson P. TAI began to serve as a member of the Connected Transactions Control Committee as of 11 March 2011.**

**Independent Non-executive Directors**

There are currently six independent non-executive directors on the Board of Directors, in compliance with the quorum requirement specified in the Articles of Association of the Bank and relevant regulatory regulations. The independent non-executive directors serve as members of the special committees under the Board of Directors and the Chairmen of the Audit Committee, Risk Policy Committee, Personnel and Remuneration Committee and Connected Transactions Control Committee, respectively. As stipulated in Rule 3.13 of the Hong Kong Listing Rules, the Bank has received the annual confirmation in writing from each Independent Non-executive Director with regard to his/her independence. Based on these confirmations and relevant information in possession of the Board of Directors, the Bank confirms their independent status.

In 2011, the Bank's independent non-executive directors attended meetings of the Board of Directors, reviewed proposals, participated in discussions and offered their professional opinions independently, objectively and diligently, in accordance with the Articles of Association of the Bank, the *Procedural Rules for Board of Directors of Bank of China Limited* and the *Work Rules of Independent Directors of Bank of China Limited*.

In 2011, the independent non-executive directors did not raise any objection to the resolutions of the Bank's Board of Directors or its special committees.

**Specific Explanation and Independent Opinions of Independent Non-executive Directors on the Guarantee Business of the Bank**

Pursuant to the provisions and requirements set forth in the circular (ZhengJianFa [2003] No.56) issued by the CSRC and according to the principles of equity, fairness and objectivity, the Independent Non-executive Directors of the Bank, Mr. Anthony Francis NEOH, Mr. Alberto TOGNI, Mr. HUANG Shizhong, Ms. HUANG Danhan, Mr. CHOW Man Yiu, Paul and Mr. Jackson P. TAI have provided the following information regarding the Bank's guarantee business:

The guarantee business is one of the Bank's ordinary business activities. It has been approved by the PBOC and CBRC and does not fall within the scope of guarantees as defined in the

*Circular on Regulating Guarantee Businesses of Listed Companies.* The Bank has formulated specific management measures, operational processes and approval procedures in light of the risks of the guarantee business and carried out this business accordingly. The Bank's guarantee business comprises principally letters of guarantee. As at 31 December 2011, the outstanding amount of letters of guarantee issued by the Bank was RMB769.124 billion.

## **Supervisors and Board of Supervisors**

The Board of Supervisors is the Bank's supervisory organ and is responsible to the shareholders' meeting. As stipulated in the *Company Law* and the Articles of Association of the Bank, the Board of Supervisors is accountable for overseeing the Bank's financial activities, internal control and the legality and compliance of the Board of Directors, the senior management and its members in performing their duties.

The Board of Supervisors comprises seven supervisors, with three supervisor positions assumed by representatives of shareholders, two supervisor positions assumed by employee representatives and two supervisor positions assumed by external supervisors. According to the Bank's Articles of Association, a supervisor has a term of office of three years and may serve consecutive terms by re-election and reappointment. Supervisors representing shareholders and external supervisors are elected or replaced by the shareholders' meeting.

Two special committees, namely the Duty Performance and Due Diligence Supervision Committee and the Finance and Internal Control Supervision Committee, have been set up under the Board of Supervisors. They are responsible to the Board of Supervisors, and assist it in performing the duties under its authorization. Members of the special committees are supervisors, and each committee shall have at least three members.

In 2011, the Board of Supervisors and its special committees earnestly performed their supervisory responsibilities and reviewed relevant proposals through detailed discussion. The Board of Supervisors held six meetings and made related resolutions. The Duty Performance and Due Diligence Supervision Committee held one meeting, while the Finance and Internal Control Supervision Committee held four meetings. For the performance of and supervisory opinions from the Board of Supervisors within the reporting period, please refer to the section "Report of the Board of Supervisors" in this annual report.

## **Senior Management**

In 2011, the senior management of the Bank, in accordance with the powers bestowed upon them by the Articles of Association of the Bank and the rights delegated to them by the Board of Directors, drove forward the Bank's various businesses in line with the annual performance goals set by the Board of Directors, showing composure in face of various challenges.

During the reporting period, the senior management of the Bank held 29 regular meetings and 125 special meetings in which it discussed and decided upon a series of significant operating and management matters, including the Bank's business development plan, assets and liabilities management, risk management, the progress of the IT Blueprint, the integration of business processes and human resources management, etc.

The senior management of the Bank presides over the Corporate Banking Committee, the Personal Banking Committee, the Financial Markets Committee, the Risk Management and Internal Control Committee (which governs the Anti-money Laundering Committee, the Securities Investment and Management Committee and the Asset Disposal Committee), the Operation Service Committee and the Procurement Review Committee. During the reporting period, all committees diligently fulfilled their duties and responsibilities as per the power specified in their *Committee Charters* and the rights delegated by the Group Executive Committee.

## **Securities Transactions by Directors and Supervisors**

Pursuant to domestic and overseas securities regulatory requirements, the Bank formulated, amended and implemented the *Management Measures on Securities Transactions by Directors, Supervisors and Senior Management Personnel of Bank of China Limited* (the “Management Rules”) to govern securities transactions by Directors, Supervisors and senior management members of the Bank. The terms of the Management Rules are more stringent than the mandatory standards set out in the *Model Code for Securities Transactions by Directors of Listed Issuers* contained in Appendix 10 to the Hong Kong Listing Rules (the “Model Code”). The Bank has made specific enquiry with all directors and supervisors, all of whom confirmed that they have complied with the standards set out in both the Management Rules and the Model Code throughout the reporting period.

## **Responsibility Statement of Directors on Financial Reports**

The following statement, which sets out the responsibilities of the Directors regarding financial statements, should be read in conjunction with, but be distinguished from, the auditor’s statement of their responsibilities as set out in the Independent Auditor’s Report contained in this annual report.

The Directors acknowledge that they are responsible for preparing financial statements of the Bank that truly represent the operating results of the Bank for each financial year. To the best knowledge of the Directors, there was no material event or condition during the reporting period that might have a material adverse effect on the continuing operation of the Bank.

## **Appointment of External Auditors**

At the 2010 Annual General Meeting of the Bank, shareholders of the Bank approved the appointments of PricewaterhouseCoopers Zhong Tian CPAs Limited Company as its domestic auditor and internal control auditor for 2011, and PricewaterhouseCoopers as its international auditor for 2011.

Fees paid to PricewaterhouseCoopers and its member firms for the audit of the financial statements of the Group, including those of the Bank’s overseas subsidiaries and branches, were RMB215 million for the year ended 31 December 2011.

PricewaterhouseCoopers was not engaged in significant non-auditing services with the Bank. The Bank incurred RMB8million for non-auditing services performed by PricewaterhouseCoopers for the year ended 31 December 2011.

PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers have provided audit services to the Bank for nine years. Mr. WU Weijun and Mr. HU Liang are the certified public accountants who signed the auditor’s report on the Group’s financial statements prepared in accordance with the CAS for the year ended 31 December 2011.

The Board will table a resolution at the forthcoming 2011 Annual General Meeting for discussion and approval regarding the proposal to appoint PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers as external auditors of the Bank for 2012, being respectively responsible for audit services in relation to CAS and IFRS reporting; and to appoint PricewaterhouseCoopers Zhong Tian CPAs Limited Company as the Bank’s internal control auditor for 2012.

## **Investor Relations and Information Disclosure**

With the commitment to full capital market compliance and pursuing best practices in corporate governance, the Board and senior management of the Bank devote continuing efforts to the improvement of its investor relations and information disclosure function, in line with the principles of timeliness, proactivity, openness and fairness. In 2011, confronted with an unfavorable global economic and financial environment, the Bank proactively broadened its working approach to investor relations and information disclosure, which helped to improve effective communication with the market and also ensured that information disclosure was authentic, accurate and complete.

In 2011, after the 2010 annual results and 2011 interim results announcements, the Bank successfully organized non-deal road shows, in which the senior management explained the Bank's strategy and operating performance to investors from different countries and regions including the Chinese mainland, Hong Kong, Europe and North America, while also listening earnestly to investors' concerns and feedback. Such dynamic exchanges were warmly welcomed by investors. During the reporting period, the Bank's senior management and representatives of major departments held and attended over 200 meetings with worldwide institutional investors and analysts, effectively promoting the investment community's understanding of the Bank's investment value. Furthermore, the Bank explored other proactive means of investor relations activities such as reverse road shows, corporate day events and other activities revolving around hot issues including foreign exchange business, cross-border RMB business and risk management. Through those activities, the Bank actively highlighted its investment value and its differentiated competitive advantages to the market. In addition, the Bank's investor relations department continues to closely communicate with analysts from buy side and sell side, which enables the timely exchange of views on major market concerns. The Bank also continually improves its communication channels including investor relations webpage, telephone hotline and email, for catering the market's demand on the Bank's information.

In the meantime, the Bank proactively implemented regulatory requirements, and kept close watch on the influence of credit rating on the market and various institutions. The Bank has comprehensively improved the management of its external credit rating, through in-depth research on their rating methodologies, professional communication with the agencies, as well as consolidated management of the Group's use of the rating. In 2011, the investor relations department of the Bank fostered the effective communication with rating agencies at multi-levels in respect of the Bank's risk profile, operating performance and development strategy. During the reporting period, rating agencies, including Moody's Investors Services, Fitch Ratings and Rating and Investment Information, reaffirmed the Bank's credit ratings, while Standard & Poor's announced in November raising the Bank's long term/short term counterparty credit ratings to 'A/A-1', with a stable outlook on the long-term rating. The stable and improved credit rating will help the Bank by enhancing its market influence and investors' confidence, and lowering its financing cost.

In 2011, the Bank further optimized its three-tier information disclosure management system, including disclosure policies, management measures and the operation manual. The Bank formulated and implemented the *Management Measures on Responsibility Investigation on Material Information Disclosure Errors of Regular Reports of Bank of China Limited (Trial, 2011 Edition)*. Through vigilant compliance with regulatory requirements and the *Rules Governing Persons with Knowledge of Inside Information of Bank of China Limited*, the Bank strictly implemented the registration and filling of persons with inside information, improved the self-inspection mechanism and prevented the occurrence of insider trading. During the reporting period, the Bank reinforced the accountability systems and information correspondence mechanism across the Head Office departments, domestic and overseas branches and subsidiaries. It further enhanced group-wide information disclosure management through organizing regular training sessions, conducting on-site investigations on principal subsidiaries, coordinating disclosure affairs with listed subsidiaries and strengthening internal control and assessment. With a focus on following regulatory changes and examining case studies, the Bank

constantly builds up its professional capabilities in information disclosure through exploiting different resources and taking advantage of various opportunities.

In 2011, the Bank's achievements in investor relations and information disclosure once again received wide recognition. At the 10th China Corporate Governance Forum organized by SSE, the Bank was granted the "Information Disclosure Award 2011" in recognition of its continuously improving policy systems, well-organized day-to-day operations and innovative practices in information disclosure management. The Bank was the only listed commercial bank to receive the honor. The Bank's 2010 Annual Report won the "Gold Award" in the overall category of the LACP (League of American Communications Professionals) annual report competition. It was also awarded "Top 20 Chinese Annual Reports of 2010" and "Top 50 Annual Reports in the Asia-Pacific Region". In the Seventh China Capital Market Annual Conference organized by the *Securities Daily*, the Bank was granted the "Golden Tripod Award".

In the future, the Bank shall continue to enhance its commitment to investor relations and information disclosure, increase the transparency of its corporate information and conduct more diversified investor relations program so as to better serve the needs of the investors and analysts.

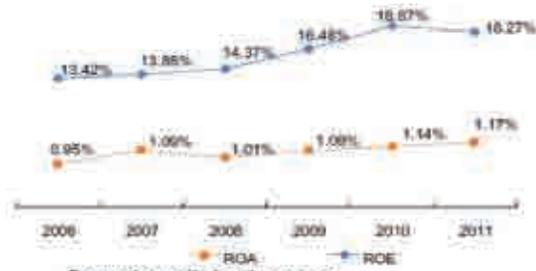
# Group highlights in 2011

## Achieving Sustainable Growth

### Stable growth of after-tax profit



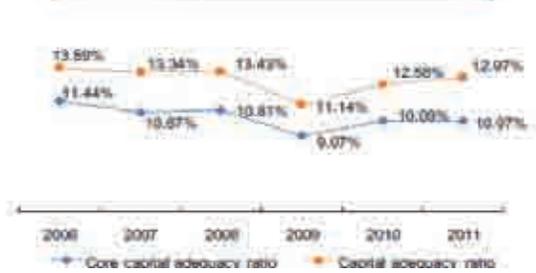
### Steady improvement in profitability



### Continuous improvement in asset quality

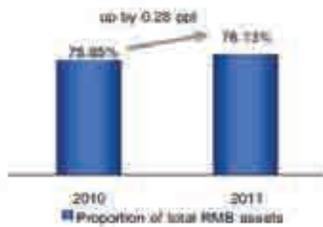


### Sound capital adequacy

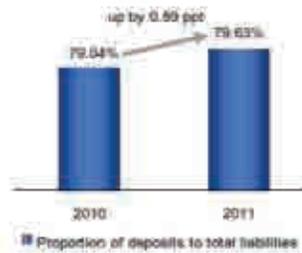


## Progress of Structural Optimization

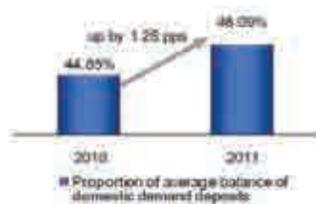
### Increased proportion of RMB assets



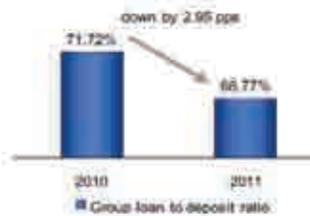
### Increased proportion of deposit



### Increased proportion of demand deposit

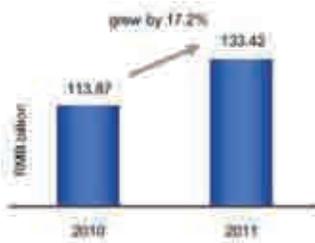


### Decreased loan to deposit ratio

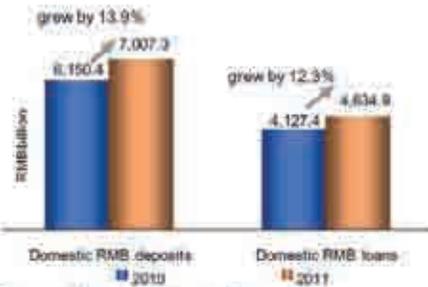


## Improving Profitability of Domestic Business

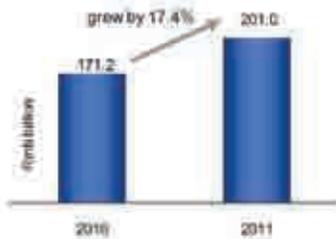
### Domestic profit before income tax



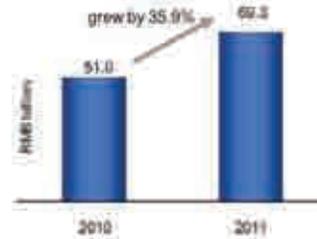
### Domestic RMB Deposits & Loans



### Domestic interest income

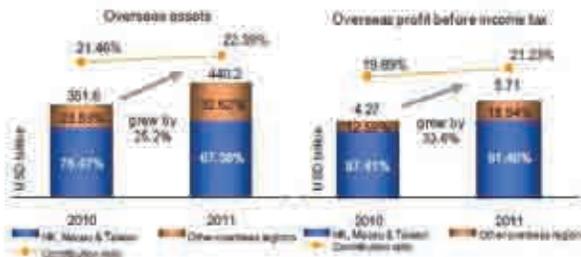


### Domestic non-interest income



## Accelerated Overseas Business Development

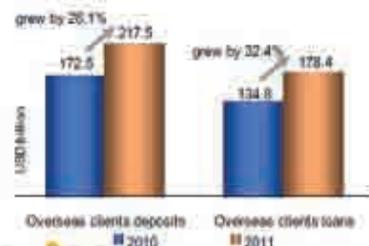
### Overseas contribution leading peers



### Various measures to extend overseas network

- Set up 12 new overseas institutions, with overseas network covering Hong Kong, Macau, Taiwan and 32 countries
- Opened China Desks in 5 countries, including Oman, Peru, Ghana, the United Arab Emirates and Chile
- Established private banking units in Hong Kong and Macau, providing customized financial products and services to worldwide high-end customers
- Initial progress in developing Asia-Pacific and European wealth management platforms

### Rapid growth of loans & deposits of overseas commercial banking business

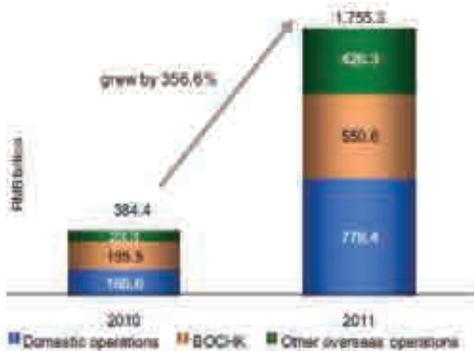


### Optimize global product & service platform

- New York, Frankfurt, Tokyo, Singapore, and Sydney branches all act as local tier one clearing bank
- Proactively implemented global customer service model to provide comprehensive services to Going Global enterprises, Fortune 500 companies and other overseas enterprises
- Opened Bulk Commodity Financing and Forfeiting Center in Singapore
- Established a platform for overseas card business, achieving credit card issuance in UK and Thailand
- 5 overseas institutions issued wealth management products

## Leading Position in Cross-border & Overseas RMB Businesses

Cross-border RMB settlement business leading peers with a market share over 30%



### Global clearance network taking shape

- Opened 630 cross-border RMB clearing accounts for banks from Asia, Europe, America, Oceania & Africa
- Acting as designated RMB business-clearing bank in Hong Kong & Macau
- BOCHK conducted business volume of over RMB1.77 trillion as clearing bank in Hong Kong

### Rapid growth of RMB bond underwriting & investment

- Engaged in underwritings of 18 RMB bond issuances in Hong Kong, amounting to RMB26.5 billion with market share of 26%
- HK and Macau operations actively participated in investment of domestic RMB bonds

### More diversified overseas RMB products & services

- Total amount of overseas institutions' RMB deposits and loans reached RMB260 billion and RMB140 billion approximately, up by 77% and 5.3 times respectively
- Extended cash business from Asia-Pacific to other overseas areas with RMB cash wholesale business doubled in volume
- Largest local RMB business market maker in Russia
- Actively promoted overseas RMB credit card and RMB wealth management businesses

## Enhanced Competitiveness in Diversified Business



Investment Banking	Insurance	Equity Investment	Fund Management	Aircraft Leasing
<p><b>中銀證券</b> BOC Securities</p> <ul style="list-style-type: none"> <li>After-tax profit of RMB1.21 billion</li> <li>Completed first RMB-denominated IPO in HK</li> <li>Ranking 4th in domestic market in equity and debt underwriting volume</li> </ul>	<p><b>中國人壽保險有限公司</b> China Life Insurance Company Limited</p> <ul style="list-style-type: none"> <li>Dominant position in HK property insurance market</li> <li>Life insurance business ranks 2nd in HK, and recorded gross premium income of HKD12.9 billion, up by 49%</li> <li>Leading position in RMB insurance business in HK</li> </ul> <p><b>中國保務</b> BOC Insurance</p> <ul style="list-style-type: none"> <li>Recorded premium income of RMB2.9 billion, up by 14%</li> <li>Provided insurance cover for overseas projects including Bata Port of Equatorial Guinea &amp; Friendship Port of Mauritania</li> </ul>	<p><b>中銀集團投資有限公司</b> BOC Group Investment Limited</p> <ul style="list-style-type: none"> <li>After-tax profit of HKD3.6 billion</li> <li>Launched BOGCI-Zhehsing Investment Fund, which has raised RMB4.2 billion in its first round of funding</li> </ul>	<p><b>中銀基金管理有限公司</b> BOC Asset Management</p> <ul style="list-style-type: none"> <li>Assets under management amounted to RMB54.5 billion, up by 37% over the prior year-end, higher than market benchmark</li> <li>Successfully launched new funds including 4 public-offered funds, 2 on-on-mutual discretionary accounts and 2 one-on-one discretionary accounts</li> <li>Awarded the Top 10 Golden Bull Investment Managers</li> </ul>	<p><b>BOCAVIATION</b></p> <ul style="list-style-type: none"> <li>After-tax profit of USD201 million, an increase of 20%</li> <li>Ranking as global fifth aircraft lessor</li> <li>Possessing a fleet of 183 aircraft, in service with 47 airlines of 29 countries worldwide</li> </ul>

- In 2011, the Bank rigorously implemented the Group's strategy on comprehensive operation and promoted cross-selling and synergy between commercial banking and diversified business platform. The Bank's commercial banking platform recommended over 300 projects to diversified business platform, including listing and refinancing, debts issue, M&A, direct equity investment and asset-backed structured financing
- BOC Insurance and BOC Investment Management achieved 72% and 52% respectively of their sales through the Bank's commercial banking channels
- Profit contribution from non-commercial banking business reached 8.4%, higher than other domestic peers

## Prudent Risk Management

The Bank continued to push forward the integration, refinement and specialization of its risk management function, and strengthen the risk management of key business areas, to ensure the growth quality and keep a balance between risk, capital and return

Credit risk	Market risk	Liquidity risk	Basel II & III Implementation
<ul style="list-style-type: none"> <li>Stepped up efforts to adjust and optimize industry structure and formulated Annual Guidelines for Industry Credit, continued to improve credit portfolio management and monitor the implementation monthly</li> <li>Strengthened the management of loans granted to local government financing vehicles and property sector</li> <li>Carried out stress testing and risk investigation for property sector loans to prevent cyclical risk</li> <li>Explored the differentiated credit approval model for medium-sized enterprises, continued to promote and improve the "Credit Factory" model designed for small and medium-sized enterprises</li> <li>Strengthened personal credit management to prevent over-borrowing</li> </ul>	<ul style="list-style-type: none"> <li>Strengthened risk management of Group bond investment portfolio</li> <li>Timely adjusted bond investment strategy, disposed of all high risk bonds issued by the five crisis-stricken European countries, reflecting the proactive and professional risk management capability</li> </ul>	<ul style="list-style-type: none"> <li>Implemented proactive and effective liquidity management under the tightening liquidity situation, intensified the management of liquidity reserve and established an early warning system</li> <li>Strengthened centralized management of foreign-currency funding and broaden funding sources</li> </ul>	<ul style="list-style-type: none"> <li>Established measurement management system for the three risks of Pillar I</li> <li>Deepened and extended the application of Basel II &amp; III to promote asset structure optimization and improve capital efficiency</li> <li>Conducted in-depth researches into the influence of Basel III and regulatory reform on global systemically important banks</li> <li>Accelerated implementation of the advanced approaches for Basel II &amp; III</li> </ul>

## Channel Construction Promote Service Capability

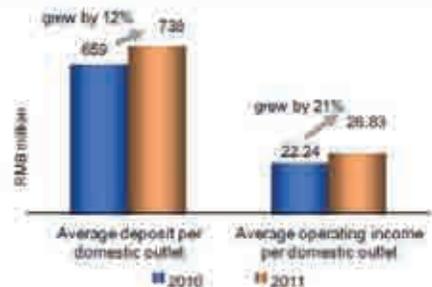
### Increased input in branch network construction

- Enhance outlet function, Domestic commercial banking outlets reached 10,226, including 1,800 middle to large-sized full-functional outlets
- Upgrade mid-to-high end clients service channels: The Bank has established 3,000 wealth management centers, 168 prestigious wealth management centers and 19 private banking centers in the Chinese mainland
- Enhance self-service utilities: Domestic ATMs, self-service terminals and self-service banks in operation reached 30,000, 16,000 and 9,400 respectively, up by 8,000, 2,000, and 1,800 from the prior year-end

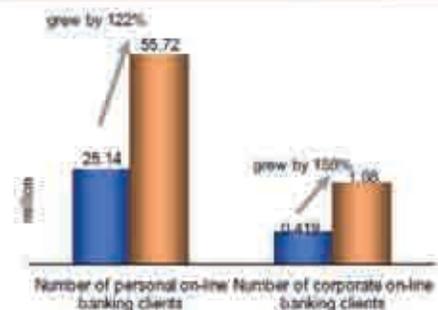
### Rapid development of E-banking channels

- Comprehensively upgraded e-banking channels and improved online service: Number of e-banking customers exceeded 130 million, up by 72% from the prior year-end. Business substitution rate of electronic channels rose by 14 percentage points to 68%
- Upgrade online banking product offering: Increased functions including loan inquiry, credit card repayment, corporate wealth management product sales and personal clients investment and wealth management sales
- Enhanced mobile banking, home banking and e-business platform: The number of mobile banking users exceeded 17 million, 27 times greater than the prior year-end
- Improve overseas e-banking services: Online banking service covers 29 countries and regions

### Outlet efficiency leading peers

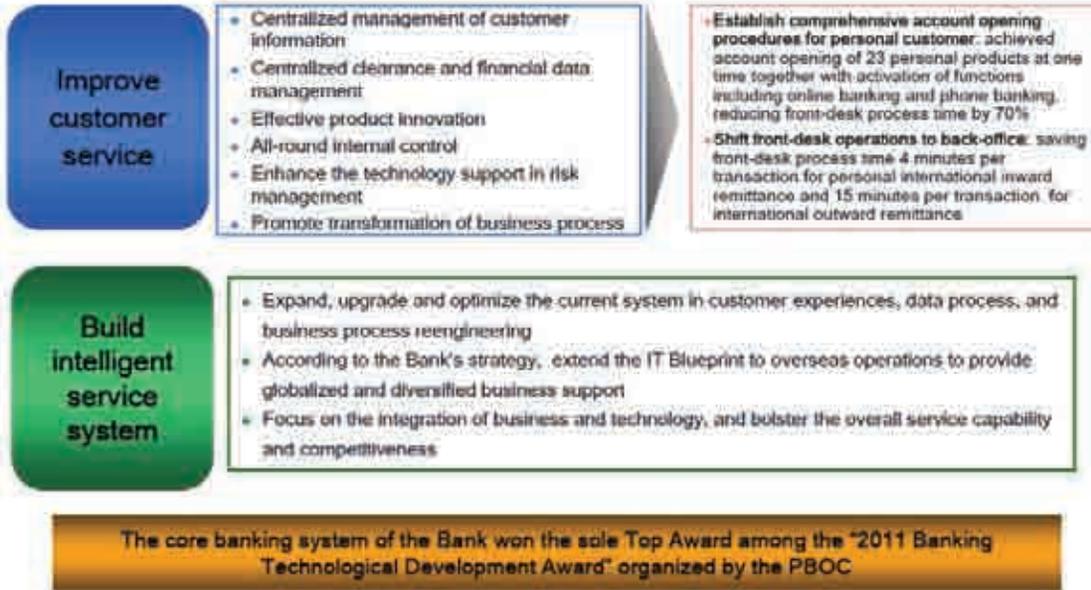


### Expansion of online banking client base



## Technology Drives Intelligent Service System

The successful completion of the IT Blueprint project marks the transformation from "account-centric" to "customer-centric" service model. Client service quality and efficiency were significantly enhanced, and technology will continue to promote the intelligent service system.



## 2012 Macro Economy Outlook and Key Focuses of Bank



## Honors and Awards

### *Euromoney*

Best Bank in China 2011  
Best Private in China 2011  
Best Syndicated Loan Arranger 2011

### *The Banker*

Equities Deal of the Year in Asia Pacific

### *Financial Times*

Best Product Innovation Award in China's  
Banking Industry

### *Global Finance*

The World's Best Foreign Exchange Providers  
(China)

### *Trade Finance*

Best Chinese Trade Finance Bank

### *The Asset*

Triple A Best Trade Finance Bank in China  
Best Trade Finance Deal

### *Euro Finance*

Best Liquidily Management Bank Partner

### *Asiamoney*

Best Domestic Debt House in China

### *The Asian Banker*

The Best Domestic Trade Bank in China  
The Best Branch Banking in Asia Pacific  
The Best RMB Clearing Bank in Asia Pacific

### *FORTUNE*

Ranked 132 th in Fortune 500 (2011)

### *WPP Group*

The BrandZ Top 50 Most Valuable Chinese  
Brands

### *Stanford University and IDG*

Global Competitiveness Brand "China Top 10"

### *ChinaHR.com*

Top 10 Best Employers in China

### *21st Century Business Herald*

Most Influential Bank in Asi  
Chinese-funded Provate Bank of the Year  
Best Corporate Citizen

### *China Business News*

Wealth Management Brand of the Year  
(Banking Sector)  
CBN Corporate Social Responsibility  
Contribution Award

### *Money Weekly*

Most Respected Chinese-funded Bank in China  
Best Private Banking  
Best Mobile Banking

### *Nanfang Media Group*

Distinguished Contribution Award

### *China Banking Association*

Green Finance of the Year  
Social Responsibility Innovation of the Year

### *Directors & Boards*

Best Board of Directors Award

### *CCTV*

Finance 50 Index — Top Ten Corporate  
Govementance

### *Shanghai Stock Exchange*

Information Disclosure Award 2011

### *League of American Communications*

#### *Professionals*

2010 Annual Report — Gold Award

## Branch Financial Highlights

	Year Ended 31 December	
	2011	2010
	Audited	Unaudited
<b>Key Statement of Profit and Loss (USD'000)</b>		
Net Interest Income	184	-2
Net Fee and Commission Income	1,032	3
Profit Before Tax	-1,327	-371
Net Profit After Tax	-1,074	-303
<b>Key Statement of Balance Sheet (USD'000)</b>		
Total Assets	206,384	22,024
Loans and Advances, net	6,034	0
Total Liabilities	167,762	7,327
Total Deposits	152,213	7,322
Paid-up Capital	40,000	15,000
Shareholder's Equity	38,623	14,697
<b>Key Financial Ratios (%)</b>		
Solvency Ratio	20.61%	96.66%
Liquidity Ratio	208%	362%
Return on Assets	-0.52%	-1.38%
Return on Equity	-2.78%	-2.06%
Net Interest Margin to Total Assets	0.28%	0.28%

中国银行中柬企业家座谈会

金边 柬埔寨  
11.05.17



ប្រារព្ធពិធីបើកប្រតិបត្តិការ ភ្នាក់ងារ រាជធានី  
រាជធានី ភ្នំពេញ ប្រារព្ធពិធីបើកប្រតិបត្តិការ ភ្នាក់ងារ រាជធានី  
ថ្ងៃទី០៧ ខែឧសភា ឆ្នាំ



ធនាគារ  
ចិន



中國銀行

BANK  
OF  
CHINA

ធនាគារ ចិន  
中國銀行  
BANK OF CHINA



1. Bank of China-Cambodia Enterprises Symposia Meeting.
2. Grand opening ceremony of Bank of China Phnom Penh Branch.
3. Bank of China Phnom Penh Branch Customer Service.
4. Bank of China Head Office.

## **REPORT OF THE EXECUTIVE MANAGEMENT**

The Executive Management ("the Management") hereby submit their report and the audited financial statements of Bank of China Limited - Phnom Penh Branch ("the Bank") for the year ended 31 December 2011.

### **BANK OF CHINA LIMITED - PHNOM PENH BRANCH**

The Bank was incorporated on 12 July 2010 and is a branch of Bank of China Limited, a licensed bank incorporated in Beijing, China Mainland.

### **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**

The results of operations for the year ended 31 December 2011 are set out in the income statement on page 6.

### **CURRENT AND NON-CURRENT ASSETS**

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

At the date of this report and based on the best of knowledge, the Management are not aware of any circumstances which would render the values attributed to the assets in the financial statements of the Bank misleading 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 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 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 period which, in the opinion of the Management, 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 Management 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 financial period were not, in the opinion of the Management, 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 period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Management, to substantially affect the results of the operations of the Bank for the current period in which this report is made.

## **EXECUTIVE MANAGEMENT**

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

- Mr. Chen Changjiang (Chief Executive Officer, CEO - Cambodia)
- Mr. Liu Daozhi (Assistant CEO)
- Mr. Huang Wei (Senior Vice President)
- Mr. Xing Limin (Senior Vice President)
- Mr. Ouyang Chang (First Vice President)
- Ms. Yang Yun Xia (First Vice President)
- Mr. Yang Hua (First Vice President)

## **BENEFITS OF THE MANAGEMENT**

During and at the end of the period, no arrangements existed, to which the Bank was a party, with the object of enabling the Management 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 any member of the Executive Management of the Bank has received or become entitled to receive any benefit by reason of a contract made by the Bank with the Management or with a firm of which the Management is a member, or with a company which the Management has a substantial financial interest other than as disclosed in the financial statements.

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

The Management are responsible to ensure that the financial statements are properly drawn up so as to present fairly, in all material respects, the financial position of the Bank as at 31 December 2011 and of its financial performance and cash flows for the year then ended. In preparing these financial statements, the Management 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 guidelines issued by the National Bank of Cambodia and Cambodian Accounting Standards 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 affecting the operations and performance and ascertain that such have been properly reflected in the financial statements.

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

### **APPROVAL OF THE FINANCIAL STATEMENTS**

The accompanying financial statements, which present fairly, in all material respects, the financial position of the Bank as at 31 December 2011, and of its financial performance and cash flows for the year then ended in accordance with the guidelines issued by the National Bank of Cambodia and Cambodian Accounting Standards, were approved by the Executive Management.

Signed on behalf of the Executive Management.



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Chen Changjiang  
Chief Executive Officer, CEO - Cambodia

Date:

## **Independent auditor's report**

To the Bank of China Limited, Head Office

We have audited the accompanying financial statements of Bank of China Limited - Phnom Penh Branch which comprise the balance sheet as at 31 December 2011 and the income statement, statement of changes in equity and cash flow statement for the year ended 31 December 2011 and a summary of significant accounting policies and other explanatory information.

### *Management's responsibility for the financial statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the guidelines issued by the National Bank of Cambodia and Cambodian Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's 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. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 auditor's 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 auditor considers internal control relevant to the entity'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 entity'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.

*Opinion*

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2011, and of its financial performance and its cash flows for the year ended 31 December 2011 in accordance with the guidelines issued by the National Bank of Cambodia and Cambodian Accounting Standards.

For PricewaterhouseCoopers (Cambodia) Ltd.



By Kuy Lim  
Director

Phnom Penh, Kingdom of Cambodia  
Date: 29 March 2012

**BANK OF CHINA LIMITED - PHNOM PENH BRANCH**

**INCOME STATEMENT  
FOR THE YEAR/PERIOD ENDED 31 DECEMBER 2011**

	Note	For the year ended 31 December 2011		For the period ended 31 December 2010	
		US\$	KHR'000	US\$	KHR'000
			<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Interest income	4	517,608	2,090,619	188	762
Interest expense	5	<u>(334,062)</u>	<u>(1,349,276)</u>	<u>(2,359)</u>	<u>(9,561)</u>
<b>Net interest income</b>		<u>183,546</u>	<u>741,343</u>	<u>(2,171)</u>	<u>(8,799)</u>
Fee and commission income	6	1,060,944	4,285,153	6,463	26,195
Fee and commission expense		(29,443)	(118,920)	(3,568)	(14,460)
Personnel expenses	7	(1,122,520)	(4,533,858)	(25,498)	(103,343)
Depreciation expenses	14	(289,095)	(1,167,655)	-	-
General and administrative expenses	8	(1,069,138)	(4,318,248)	(345,785)	(1,401,467)
Provision for doubtful debt	12-a	<u>(60,950)</u>	<u>(246,177)</u>	<u>-</u>	<u>-</u>
<b>Loss before income tax</b>		<u>(1,326,656)</u>	<u>(5,358,362)</u>	<u>(370,559)</u>	<u>(1,501,874)</u>
Income tax expense	9	<u>252,540</u>	<u>1,020,009</u>	<u>67,249</u>	<u>272,560</u>
<b>Net loss for the year</b>		<u>(1,074,116)</u>	<u>(4,338,353)</u>	<u>(303,310)</u>	<u>(1,229,314)</u>

The accompanying notes on pages 10 to 47 form an integral part of these financial statements.

**BANK OF CHINA LIMITED - PHNOM PENH BRANCH**

**BALANCE SHEET  
AS AT 31 DECEMBER 2011**

	Note	31 December 2011		31 December 2010	
		US\$	KHR'000	US\$	KHR'000
			<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
<b>ASSETS</b>					
Cash on hand		3,072,654	12,410,450	802,335	3,251,864
Balances with the Central Bank	10	94,117,731	380,141,516	6,017,174	24,387,606
Balances with other banks	11	101,454,977	409,776,652	8,836,198	35,813,110
Loans and advances to customers	12	6,034,053	24,371,540	-	-
Other assets	13	430,625	1,739,294	5,860,269	23,751,670
Property and equipment	14	938,437	3,790,347	440,385	1,784,880
Deferred tax assets	15	335,780	1,356,215	67,251	272,568
<b>Total assets</b>		<u>206,384,257</u>	<u>833,586,014</u>	<u>22,023,612</u>	<u>89,261,698</u>
<b>LIABILITIES AND HEAD OFFICES' EQUITY</b>					
<b>LIABILITIES</b>					
Deposits from banks	16	21,282,343	85,959,383	-	-
Deposits from customers	17	130,930,573	528,828,584	7,321,796	29,675,239
Subordinated debt	18	10,000,000	40,390,000	-	-
Current income tax liabilities		3,199	12,921	-	-
Other liabilities	19	5,545,569	22,398,554	5,127	20,778
<b>Total liabilities</b>		<u>167,761,684</u>	<u>677,589,442</u>	<u>7,326,923</u>	<u>29,696,017</u>
<b>HEAD OFFICE'S EQUITY</b>					
Branch capital	20	40,000,000	161,560,000	15,000,000	60,795,000
Accumulated losses		(1,377,427)	(5,563,428)	(303,311)	(1,229,319)
<b>Total head office's equity</b>		<u>38,622,573</u>	<u>155,996,572</u>	<u>14,696,689</u>	<u>59,565,681</u>
<b>Total liabilities and head office's equity</b>		<u>206,384,257</u>	<u>833,586,014</u>	<u>22,023,612</u>	<u>89,261,698</u>

The accompanying notes on pages 10 to 47 form an integral part of these financial statements.

**BANK OF CHINA LIMITED - PHNOM PENH BRANCH**

**STATEMENT OF CHANGES IN HEAD OFFICE'S EQUITY  
FOR THE YEAR/PERIOD ENDED 31 DECEMBER 2011**

	<b>Branch capital US\$</b>	<b>Accumulated losses US\$</b>	<b>Total US\$</b>
For the period ended 31 December 2010 <i>(Unaudited)</i>			
As at 12 July 2010 (date of incorporation)	15,000,000	-	15,000,000
Net loss for the period	<u>-</u>	<u>(303,311)</u>	<u>(303,311)</u>
At 31 December 2010 <i>(Unaudited)</i>	<u>15,000,000</u>	<u>(303,311)</u>	<u>14,696,689</u>
<i>In KHR' 000 equivalent (Unaudited)</i>	<u>60,795,000</u>	<u>(1,229,319)</u>	<u>59,565,681</u>
For the year ended 31 December 2011			
Balance as at 1 January 2011	15,000,000	(303,311)	15,000,000
Branch capital addition for the year	25,000,000	-	25,000,000
Net loss for the year	<u>-</u>	<u>(1,074,116)</u>	<u>(1,377,427)</u>
At 31 December 2011	<u>40,000,000</u>	<u>(1,377,427)</u>	<u>38,622,573</u>
<i>In KHR' 000 equivalent (Unaudited)</i>	<u>161,560,000</u>	<u>(5,563,428)</u>	<u>155,996,572</u>

The accompanying notes on pages 10 to 47 form an integral part of these financial statements.

**BANK OF CHINA LIMITED - PHNOM PENH BRANCH**

**CASH FLOW STATEMENT  
FOR THE YEAR/PERIOD ENDED 31 DECEMBER 2011**

	Note	For the year ended 31 December 2011		For the period ended 31 December 2010	
		US\$	KHR '000 <i>(Unaudited)</i>	US\$ <i>(Unaudited)</i>	KHR '000 <i>(Unaudited)</i>
<b>Cash flows from operating activities</b>					
Cash flows from operating activities	23	122,769,009	495,864,027	6,096,092	24,707,461
<b>Cash flows from investing activities</b>					
Purchase of property and equipment		(787,147)	(3,179,287)	(440,385)	(1,784,880)
Net cash used in investing activities		(787,147)	(3,179,287)	(440,385)	(1,784,880)
<b>Cash flows from financing activities</b>					
Capital guarantee deposit with the Central Bank		-	-	(1,500,000)	(6,079,500)
Reserve requirement with the Central Bank		(14,732,485)	(59,504,507)	(1,002,467)	(4,062,999)
Subordinated debt		10,000,000	40,390,000	-	-
Branch capital addition		25,000,000	100,975,000	15,000,000	60,795,000
Net cash from financing activities		20,267,515	81,860,493	12,497,533	50,652,501
<b>Net increase in cash and cash equivalents</b>		142,249,377	574,545,233	18,153,240	73,575,082
Cash and cash equivalent at the beginning of the year		18,153,240	73,575,082	-	-
Currency translation differences		-	(254,145)	-	-
<b>Cash and cash equivalents at end of the year/period</b>	22	<u>160,402,617</u>	<u>647,866,170</u>	<u>18,153,240</u>	<u>73,575,082</u>

The accompanying notes on pages 10 to 47 form an integral part of these financial statements.

## **BANK OF CHINA LIMITED - PHNOM PENH BRANCH**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011**

#### **1. BACKGROUND INFORMATION**

Bank of China Limited – Phnom Penh Branch (“the Bank”) registered with the Ministry of Commerce on 12 July 2010 under Registration No. Co. 0034Br/2010 and commenced operation on 08 December 2011. The Bank is a branch of Bank of China Limited, a licensed bank incorporated in Beijing, China Mainland.

The Bank is principally engaged in all aspects of banking business and the provision of related financial services in Cambodia. The Bank holds a banking operation licence which was issued by the National Bank of Cambodia (“the Central Bank”) on 11 November 2010.

The registered office of the Bank is located at Canadia Tower 1<sup>st</sup>-2<sup>nd</sup> floor, No. 315, Preah Monivong Boulevard coner of street Ang Duong, Sangkat Wat Phnom, Khan Daun Penh, Phnom Penh, Kingdom of Cambodia.

The financial statements were authorised for issue by the Executive Management on 29 March 2012.

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted in the preparation of the financial statements are set out below.

##### **2.1 Basis of preparation**

The financial statements have been prepared in accordance with the guidelines issued by the Central Bank and Cambodian Accounting Standards (“CAS”). In applying CAS, the Bank also applies the Cambodian Financial Reporting Standard (“CFRS”) 7: Financial Instruments: Disclosures. The accounting principles applied may differ from generally accepted accounting principles adopted in other countries and jurisdictions. The accompanying financial statements are therefore not intended to present the financial position and results of operations and cash flows in accordance with jurisdictions other than Cambodia. Consequently, these financial statements are addressed only to those who are informed about Cambodia accounting principles, procedures and practices.

The financial statements are prepared using the historical cost convention.

The preparation of financial statements in accordance with CAS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management’s best knowledge of current event and actions, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3 to the financial statements.

## BANK OF CHINA LIMITED - PHNOM PENH BRANCH

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.2 New accounting standards and interpretations

- (a) New standards, amendments to existing standards and interpretations effective in the year 2011.

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

- (b) Standards and amendments to existing standards issued but not yet effective

On 28 August 2009, the National Accounting Council of the Ministry of Economy and Finance announced the adoption of Cambodian International Financial Reporting Standards ("CIFRS") which are based on all standards published by International Accounting Standard Board including other interpretation and amendment that may occur in any circumstances to each standards by adding "Cambodian". 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 and amendments to existing standards, which have been published are relevant and mandatory for the Bank for accounting periods beginning on or after 1 January 2012, but have not been early adopted by the Bank:

- CIAS 1 (Amendment), 'Financial statement presentation' regarding other comprehensive Income

The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. This is not expected to have a material impact on the Bank's financial statements.

- CIAS 19 and the amendment, 'Employee benefits'

The objective of this standard is to prescribe the accounting and disclosure requirements for employee benefits. The Standard requires an entity to recognise: (a) a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and (b) an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

Subsequent amendments to the standard is to eliminate the corridor approach and calculate finance costs on a net funding basis. This is not expected to have a material impact on the Bank's financial statements.

- CIAS 24 (Revised), 'Related Party Disclosures'

CIAS 24 was revised by (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition; and (b) providing a partial exemption from the disclosure requirements for government-related entities. This is not expected to have a material impact on the Bank's financial statements.

## BANK OF CHINA LIMITED - PHNOM PENH BRANCH

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.2 New accounting standards and interpretations (continued)

###### (b) Standards and amendments to existing standards issued but not yet effective (continued)

- 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 the related interest, dividends, losses and gains. This is not expected to have a material impact on the Bank's financial statements.

- CIAS 36 (Amendment), 'Impairment of Assets'

The amended standard states that where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. This is not expected to have a material impact on the Bank's financial statements.

- 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, interest-in-suspense 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.

###### 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 a 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.

## BANK OF CHINA LIMITED - PHNOM PENH BRANCH

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.2 New accounting standards and interpretations (continued)

###### (b) Standards and amendments to existing standards issued but not yet effective (continued)

- CIAS 39, 'Financial Instruments: Recognition and Measurement' (continued)

###### Deposits from banks, other financial institutions and customers

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

###### 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 realised on a cash basis. CIAS 39 requires interest income and expense for all interest-bearing financial instruments to be recognised using the effective interest rate method. In respect of a financial asset or a group of similar financial assets which are impaired, interest income is to be recognised at interest rate used in discounting future cash flows for purpose of measuring the impairment loss.

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

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

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

Subsequent amendments to the standard requires an entity to provide qualitative disclosures in the context of quantitative disclosures on the nature and extent of risks arising from financial instruments. This is not expected to have a material impact on the Bank's financial statements.

- CIFRS 9, 'Financial instruments'

CIFRS 9 is the first standard issued as part of a wider project to replace CIAS 39. CIFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in CIAS 39 on impairment of financial assets and hedge accounting continues to apply. The Bank is yet to assess CIFRS9's full impact on financial statements.

## BANK OF CHINA LIMITED - PHNOM PENH BRANCH

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.2 New accounting standards and interpretations (continued)

###### (b) Standards and amendments to existing standards issued but not yet effective (continued)

- CIFRS 13, 'Fair value measurement'

CIFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across CIFRSs. The requirements, which are largely aligned between CIFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. This is not expected to have a material impact on the Bank's financial statements.

Other than the improvements and amendments to existing standards as set out above, the other published standards, amendments and interpretations to existing standards, which are applicable for accounting periods beginning on or after 1 January 2011, are not relevant to the Bank's operations.

###### (c) Early adoption of standards

In the year 2011, the Bank did not early-adopt any new or amended standards.

##### 2.3 Foreign currencies

###### (i) *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 financial statements are presented in United States dollars ("US\$"), which is the Bank's functional and presentation currency.

For the sole regulatory purpose of complying with the Prakas No. B7-07-164 dated 13 December 2007 of the Central Bank, a translation to Khmer Riel ("KHR") is provided for the balance sheet, income statement, statement of changes in equity, cash flow statement and notes to the financial statements as of and for the financial period ended 31 December 2011 using the official rate of exchange regulated by the Central Bank as at the reporting date, which was US\$ 1 to KHR 4,039. Such translation amounts are unaudited and should not be construed as representations that the US\$ amounts represent, or have been or could be, converted into KHR at that or any other rate.

###### (ii) *Transactions and balances*

Transactions in currencies other than US\$ are translated into US\$ at the exchange rate prevailing at the date of transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in currencies other than US\$ at the period-end exchange rate, are recognised in the income statement.

## BANK OF CHINA LIMITED - PHNOM PENH BRANCH

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### 2.4 Cash and cash equivalents

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

##### 2.5 Loans and advances to customers

All loans and advances to customers are stated in the balance sheet at outstanding principal and interest, less any amounts written-off and provision for loan losses.

Loans and advances are written-off when there are no realistic prospects of recovery. Recoveries of loans and advances previously written off or provided for is recognised in the income statement.

##### 2.6 Provision for loan losses

The Bank follows the mandatory credit classification and provisioning as required by Prakas B7-09-074 dated 25 February 2009 issued by the Central Bank. The Prakas requires commercial banks to classify their loans, advances and similar assets into five classes and the minimum mandatory level of specific provisioning is provided, depending on the classification concerned and regardless of the assets pledged as collateral as follows:

	Rate of provision (%)
General provision:	
Normal	1
Specific provision:	
Special mention	3
Substandard	20
Doubtful	50
Loss	100

##### 2.7 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 provision methodology are similar to those for originated loans as stated above. Specific provisions are raised against other credit-related commitments when losses are considered probable.

## **BANK OF CHINA LIMITED - PHNOM PENH BRANCH**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011**

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **2.8 Property and equipment**

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

Subsequent expenditure relating to an item of property and equipment are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the 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 income statement during the financial period in which they are incurred.

Work-in-progress is not depreciated. Depreciation of property and equipment is charged to the income statement on a straight-line basis over the estimated useful lives of the individual assets at the following annual rates:

	%
Leasehold improvements	25
Furniture and office equipment	25
Computer equipment	25
Motor vehicles	25

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.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

##### **2.9 Interest income and expense**

Interest earned on loans and advances to customers, deposits with the Central Bank and other banks is recognised on an accrual basis, except where serious doubt exists as to the collectability of loans and advances to customers, in which case, interest is suspended until it is realised on a cash basis. The policy on the suspension of interest is in conformity with the Central Bank's guidelines on the suspension of interest on non-performing loans and provision for loan losses.

Interest expense on deposits from banks and customers is recognised on an accrual basis.

##### **2.10 Fee and commission income**

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Fee and commission income comprise income received from inward and outward bank transfers, ATM fee charges, and others. Loan processing fee is recognised as income when loan is disbursed.

## **BANK OF CHINA LIMITED - PHNOM PENH BRANCH**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011**

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **2.11 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.

##### **2.12 Provisions**

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events when it is probable that an outflow of resources will be required to settle the obligation and when the amount can be reliably estimated.

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 discount 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.

##### **2.13 Employee benefits**

Employee benefits are accrued in the period in which the associated services are rendered by employees of the Bank.

##### **2.14 Income taxes**

The current income tax expense is calculated based on the tax laws enacted or substantively enacted at the balance sheet date in Cambodia.

Deferred tax liability will be provided in full, using the liability method, on temporary differences arising between tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

##### **2.15 Rounding of amount**

Amounts in the financial statements have been rounded-off to the nearest dollar for US\$ amounts and to the nearest thousand KHR for KHR, respectively.

## BANK OF CHINA LIMITED - PHNOM PENH BRANCH

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

#### 3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable in the circumstances.

##### a) Impairment losses on loans and advances

The Bank follows the mandatory assets 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 Central Bank. The Central Bank 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 pledged as collateral. For the purpose of loan classification, the Bank takes into account all 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 General Department of Taxation.

Where the final tax outcome of these matters 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. INTEREST INCOME

	For the year ended 31 December 2011		For the period ended 31 December 2010	
	US\$	KHR'000	US\$	KHR'000
		<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Balances with other banks	450,662	270,395	188	762
Loans and advances to customers	66,946	1,820,224	-	-
	<u>517,608</u>	<u>2,090,619</u>	<u>188</u>	<u>762</u>

**BANK OF CHINA LIMITED - PHNOM PENH BRANCH**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

**5. INTEREST EXPENSE**

	For the year ended 31 December 2011		For the period ended 31 December 2010	
	US\$	KHR'000	US\$	KHR'000
	<i>(Unaudited)</i>		<i>(Unaudited)</i>	
Due to customers	313,676	1,266,937	2,359	9,561
Deposit from banks	20,386	82,339	-	-
	<u>334,062</u>	<u>1,349,276</u>	<u>2,359</u>	<u>9,561</u>

**6. FEE AND COMMISSION INCOME**

	For the year ended 31 December 2011		For the period ended 31 December 2010	
	US\$	KHR'000	US\$	KHR'000
	<i>(Unaudited)</i>		<i>(Unaudited)</i>	
Income on remittance	811,492	3,277,616	-	-
Other non interest income	174,538	704,959	6,463	26,195
Other operating income	74,914	302,578	-	-
	<u>1,060,944</u>	<u>4,285,153</u>	<u>6,463</u>	<u>26,195</u>

**7. PERSONNEL EXPENSES**

	For the year ended 31 December 2011		For the period ended 31 December 2010	
	US\$	KHR'000	US\$	KHR'000
	<i>(Unaudited)</i>		<i>(Unaudited)</i>	
Salaries and wages	879,241	3,551,254	25,498	103,343
Allowance	196,447	793,449	-	-
Other staff benefits	46,832	189,155	-	-
	<u>1,122,520</u>	<u>4,533,858</u>	<u>25,498</u>	<u>103,343</u>

**BANK OF CHINA LIMITED - PHNOM PENH BRANCH**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

**8. GENERAL AND ADMINISTRATIVE EXPENSES**

	For the year ended 31 December 2011		For the period ended 31 December 2010	
	US\$	KHR'000	US\$	KHR'000
	<i>(Unaudited)</i>		<i>(Unaudited)</i>	
Rental, repairs and maintenance	279,209	1,127,725	48,719	197,458
Marketing expenses	193,968	783,437	-	-
Meal and allowance	95,622	386,217	-	-
Telephone and internet expenses	135,027	545,374	-	-
Office supplies	70,982	286,696	85,031	344,631
Other tax expenses	52,239	210,993	-	-
Legal and professional fees	51,193	206,769	-	-
Social expenses	48,555	196,114	-	-
Travelling expenses	39,163	158,179	61,547	249,450
Electricity and utilities expenses	16,194	65,408	1,445	5,857
Other operating expenses	86,986	351,336	149,043	604,071
	<u>1,069,138</u>	<u>4,318,248</u>	<u>345,785</u>	<u>1,401,467</u>

**9. INCOME TAX EXPENSE**

**(a) Income tax expense**

	For the year ended 31 December 2011		For the period ended 31 December 2010	
	US\$	KHR '000	US\$	KHR '000
	<i>(Unaudited)</i>		<i>(Unaudited)</i>	
<i>Current tax:</i>				
Current income tax expense	(15,989)	(64,580)	(2)	(8)
<i>Deferred tax:</i>				
Current year origination and reversal of temporary differences	268,529	1,084,589	67,251	272,568
	<u>252,540</u>	<u>1,020,009</u>	<u>67,249</u>	<u>272,560</u>

In accordance with the Cambodian tax laws, the Bank has an obligation to pay corporate income tax of either tax on profit at a rate of 20% on taxable profit or minimum tax at 1% of turnover, whichever is higher.

**BANK OF CHINA LIMITED - PHNOM PENH BRANCH**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

**9. INCOME TAX EXPENSE** (continued)

**(b) Reconciliation of income tax expense**

	For the year ended 31 December 2011		For the period ended 31 December 2010	
	US\$	KHR' 000	US\$	KHR' 000
		<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Loss before income tax	<u>(1,326,656)</u>	<u>(5,358,362)</u>	<u>(370,559)</u>	<u>(1,501,874)</u>
Tax calculated at 20%	(265,331)	(1,071,672)	(74,112)	(300,375)
Tax effects in respect of: Expenses not deductible for tax purposes	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Tax on profit at 20%	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Minimum tax at 1% of turnover	<u>15,989</u>	<u>64,580</u>	<u>2</u>	<u>8</u>

**(c) Minimum Tax**

Tax on profit of the Bank is computed based on minimum tax. Minimum tax is calculated at the rate of 1% of the annual turnover inclusive of all the taxes. Taxes are paid either:

- at 20% of taxable profit, or
- at the Minimum Tax rate of 1% of total revenue inclusive of value added tax, whichever is higher.

**(d) Other tax matters**

The Bank's tax returns are subject to periodic examination by the General Department of Taxation. As the application of tax laws and regulations to various types of transactions are 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.

**10. BALANCES WITH THE CENTRAL BANK**

	31 December 2011		31 December 2010	
	US\$	KHR'000	US\$	KHR'000
		<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Current account	76,882,779	310,529,544	3,514,707	14,245,107
Reserve requirement (a)	15,734,952	63,553,472	1,002,467	4,062,999
Statutory deposit (b)	<u>1,500,000</u>	<u>6,058,500</u>	<u>1,500,000</u>	<u>6,079,500</u>
	<u>94,117,731</u>	<u>380,141,516</u>	<u>6,017,174</u>	<u>24,387,606</u>

**BANK OF CHINA LIMITED - PHNOM PENH BRANCH**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

**10. BALANCES WITH THE CENTRAL BANK (continued)**

**(a) Reserve requirement**

The reserve requirement represents the minimum reserve which is calculated at 8% and 12% of customers' deposits in KHR and other currencies, respectively. Four percent of the 12% reserve requirement on customers' deposits in currencies other than KHR earns interest at three-quarters of one-month SIBOR while the remaining 8% and the reserve requirement on customers' deposits in KHR bear no interest.

**(b) Statutory deposit**

Pursuant to Prakas No. B7-01-136 on Bank's Capital Guarantee dated 15 October 2001 issued by the Central Bank, banks are required to maintain 10% of their paid up capital as a statutory deposit with the Central Bank. The deposit, which is not available for use in the Bank's day-to-day operations, is refundable should the Bank voluntarily cease its operations in Cambodia.

**(c) Interest rates**

The current account is non-interest bearing. Annual interest rates on other balances with the Central Bank are summarised as follows:

	%
Reserve requirement	0.10 - 0.11
Statutory deposit	0.13

**11. BALANCES WITH OTHER BANKS**

	<b>31 December 2011</b>		<b>31 December 2010</b>	
	<b>US\$</b>	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Local banks:				
Current accounts	5,323,404	21,501,229	963,215	3,903,910
Term deposit	73,000,000	294,847,000	7,000,000	28,371,000
Oversea banks:				
Current accounts	8,917,889	36,019,353	872,983	3,538,200
Term deposit	14,213,684	57,409,070	-	-
	<u>101,454,977</u>	<u>409,776,652</u>	<u>8,836,198</u>	<u>35,813,110</u>

	<b>2011</b>	<b>2010</b>
Term deposit (Local)	1% to 1.75%	1% to 1.75%
Term deposit (Oversea)	1% to 2.5%	1% to 2.5%
Current accounts (Oversea)	0.10% to 0.13%	0.10% to 0.13%

**BANK OF CHINA LIMITED - PHNOM PENH BRANCH**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

**12. LOANS AND ADVANCES TO CUSTOMERS**

	<b>31 December 2011</b>		<b>31 December 2010</b>	
	<b>US\$</b>	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
	<i>(Unaudited)</i>		<i>(Unaudited)</i>	
Commercial loans:				
Overdrafts	5,295,003	21,386,517	-	-
Term loan	800,000	3,231,200	-	-
Total loans and advances - gross	<u>6,095,003</u>	<u>24,617,717</u>	<u>-</u>	<u>-</u>
Provisions for doubtful debts	<u>(60,950)</u>	<u>(246,177)</u>	<u>-</u>	<u>-</u>
	<u>6,034,053</u>	<u>24,371,540</u>	<u>-</u>	<u>-</u>

**(a) Provision for doubtful debt**

Movements in the provisions for bad and doubtful debts are as follows:

	<b>31 December 2011</b>	
	<b>US\$</b>	<b>KHR '000</b>
	<i>(Unaudited)</i>	
At beginning of the year	-	-
Provision for the year	<u>60,950</u>	<u>246,177</u>
At end of the year	<u>60,950</u>	<u>246,177</u>

**(b) Analysis by classification**

	<b>31 December 2011</b>		<b>31 December 2010</b>	
	<b>US\$</b>	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
	<i>(Unaudited)</i>		<i>(Unaudited)</i>	
Standard loans:				
Secured loans	5,753,576	23,238,693	-	-
Unsecured loans	341,427	1,379,024	-	-
	<u>6,095,003</u>	<u>24,617,717</u>	<u>-</u>	<u>-</u>

**BANK OF CHINA LIMITED - PHNOM PENH BRANCH**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

**12. LOANS AND ADVANCES TO CUSTOMERS (continued)**

**(c) Analysis by maturity**

	<b>31 December 2011</b>		<b>31 December 2010</b>	
	<b>US\$</b>	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Within 1 year	5,295,003	21,386,517	-	-
From 1 to 5 years	800,000	3,231,200	-	-
	<u>6,095,003</u>	<u>24,617,717</u>	<u>-</u>	<u>-</u>

**(d) Analysis by industry**

	<b>31 December 2011</b>		<b>31 December 2010</b>	
	<b>US\$</b>	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Wholesale and Retail	2,301,065	9,294,002	-	-
Service	1,046,038	4,224,947	-	-
Manufacturing	1,346,627	5,439,026	-	-
Other industries	1,401,273	5,659,742	-	-
	<u>6,095,003</u>	<u>24,617,717</u>	<u>-</u>	<u>-</u>

**(e) Analysis by exposure**

	<b>31 December 2011</b>		<b>31 December 2010</b>	
	<b>US\$</b>	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Large exposures	-	-	-	-
Non large exposures	6,095,003	24,617,717	-	-
	<u>6,095,003</u>	<u>24,617,717</u>	<u>-</u>	<u>-</u>

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.

**(f) Interest rates**

	<b>2011</b>
Overdrafts	7%-9%
Term loan	3 months LIBOR rate+6.65%

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**NOTES TO THE FINANCIAL STATEMENTS  
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**13. OTHER ASSETS**

	<b>31 December 2011</b>		<b>31 December 2010</b>	
	<b>US\$</b>	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
	<i>(Unaudited)</i>		<i>(Unaudited)</i>	
Lease and service prepayment	203,140	820,482	777,627	3,151,722
Interest receivable	191,608	773,905	-	-
Security and rental deposits (a)	35,877	144,907	82,642	334,948
Cheque under clearance	-	-	5,000,000	20,265,000
	<u>430,625</u>	<u>1,739,294</u>	<u>5,860,269</u>	<u>23,751,670</u>

- (a) This represents security and rental deposits which are only refundable at the end of the lease term. The deposits are non-interest-bearing and refundable within one to three years which the time value of money is not significant.

**BANK OF CHINA LIMITED - PHNOM PENH BRANCH**

**NOTES TO THE FINANCIAL STATEMENTS  
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**14. PROPERTY AND EQUIPMENT**

	Leasehold improvements US\$	Furniture and equipment US\$	Computer equipment US\$	Motor vehicles US\$	Total US\$
<b>As at 1 January 2010</b> (unaudited)					
Opening net book value	-	-	-	-	-
Addition	-	36,830	138,555	265,000	440,385
Depreciation charge	-	-	-	-	-
Closing net book amount (unaudited)	<u>-</u>	<u>36,830</u>	<u>138,555</u>	<u>265,000</u>	<u>440,385</u>
<b>As at 31 December 2010</b> (unaudited)					
Cost	-	36,830	138,555	265,000	440,385
Accumulated depreciation	-	-	-	-	-
Net book amount (unaudited)	<u>-</u>	<u>36,830</u>	<u>138,555</u>	<u>265,000</u>	<u>440,385</u>
In KHR' 000 equivalent (unaudited)	<u>-</u>	<u>149,272</u>	<u>561,563</u>	<u>1,074,045</u>	<u>1,784,880</u>
<b>At 1 January 2011</b>					
Opening net book value	-	36,830	138,555	265,000	440,385
Additions	776,247	5,949	4,951	-	787,147
Depreciation Charge	(177,890)	(10,057)	(34,898)	(66,250)	(289,095)
Closing net book amount	<u>598,357</u>	<u>32,722</u>	<u>108,608</u>	<u>198,750</u>	<u>938,437</u>
<b>As at 31 December 2011</b>					
Cost	776,247	42,779	143,506	265,000	1,227,532
Accumulated depreciation	(177,890)	(10,057)	(34,898)	(66,250)	(289,095)
Net book amount	<u>598,357</u>	<u>32,722</u>	<u>108,608</u>	<u>198,750</u>	<u>938,437</u>
In KHR' 000 equivalent (unaudited)	<u>2,416,764</u>	<u>132,164</u>	<u>438,668</u>	<u>802,751</u>	<u>3,790,347</u>

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**NOTES TO THE FINANCIAL STATEMENTS  
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**15. DEFERRED TAX ASSETS**

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	<b>31 December 2011</b>		<b>31 December 2010</b>	
	<b>US\$</b>	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Deferred tax assets	335,780	1,356,215	67,251	272,568
Deferred tax liabilities	-	-	-	-
	<u>335,780</u>	<u>1,356,215</u>	<u>67,251</u>	<u>272,568</u>

The movements of net deferred tax assets are as follows:

	<b>31 December 2011</b>		<b>31 December 2010</b>	
	<b>US\$</b>	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Balance at beginning of year	67,251	271,627	-	-
Credited to income statement	268,529	1,084,589	67,251	272,568
Currency translation	-	(1)	-	-
	<u>335,780</u>	<u>1,356,215</u>	<u>67,251</u>	<u>272,568</u>

Deferred tax assets are attributable to the losses carried forward which the Bank expects to utilised against future taxable profit.

**16. DEPOSITS FROM BANKS**

	<b>31 December 2011</b>		<b>31 December 2010</b>	
	<b>US\$</b>	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Current accounts	11,282,343	45,569,383	-	-
Fixed deposits	<u>10,000,000</u>	<u>40,390,000</u>	-	-
	<u>21,282,343</u>	<u>85,959,383</u>	-	-

All deposits are from local commercial banks in Cambodia. Fixed deposit matures within three months and bears interest at 1.25% per annum.

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**NOTES TO THE FINANCIAL STATEMENTS  
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**17. DEPOSITS FROM CUSTOMERS**

	31 December 2011		31 December 2010	
	US\$	KHR'000	US\$	KHR'000
	<i>(Unaudited)</i>		<i>(Unaudited)</i>	
Current accounts	45,807,076	185,014,780	6,673,965	27,049,582
Savings deposits	21,433,540	86,570,068	629,705	2,552,194
Fixed deposits	10,229,652	41,317,564	18,126	73,463
Margin deposits	53,460,305	215,926,172	-	-
	<u>130,930,573</u>	<u>528,828,584</u>	<u>7,321,796</u>	<u>29,675,239</u>

Fixed deposits are short-term with maturity less than 12 months.

Current accounts are generally non-interest-bearing; however, interest may be paid to customer on a negotiation basis. Current accounts, savings accounts and fixed deposits bear the following interest rates per annum:

	%
Current accounts	0.0% - 0.50%
Savings accounts	0.13% - 0.50%
Fixed deposits	0.25% - 4.75%

**18. SUBORDINATED DEBT**

This represent an unsecure term loan from Bank of China Limited, China Mainland. The loan carries interest at 12month LIBOR plus 150 basis point per annum and repayable on 3<sup>rd</sup> August 2016. The Central Bank approved this loan as subordinated debt on 07 September 2011.

**19. OTHER LIABILITIES**

	31 December 2011		31 December 2010	
	US\$	KHR'000	US\$	KHR'000
	<i>(Unaudited)</i>		<i>(Unaudited)</i>	
Cashier's order (*)	5,000,000	20,195,000	-	-
Accrued bonuses	307,215	1,240,841	-	-
Interest payable	185,669	749,917	5,127	20,778
Withholding tax payable	28,951	116,933	-	-
Other liabilities	23,734	95,863	-	-
	<u>5,545,569</u>	<u>22,398,554</u>	<u>5,127</u>	<u>20,778</u>

(\*) Cashier's order was subsequently cleared on 3 January 2012.

**BANK OF CHINA LIMITED - PHNOM PENH BRANCH**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

**20. BRANCH CAPITAL**

	<b>31 December 2011</b>		<b>31 December 2010</b>	
	<b>US\$</b>	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Branch capital	15,000,000	60,795,000	15,000,000	60,795,000
Capital addition during the year	25,000,000	100,975,000	-	-
Currency translation differences	-	(210,000)	-	-
	<u>40,000,000</u>	<u>161,560,000</u>	<u>15,000,000</u>	<u>60,795,000</u>

The branch capital as at 31 December 2011 includes US\$25million additional capital subsequently approved by the Central Bank on 12 January 2012.

**21. COMMITMENT AND CONTINGENT LIABILITIES**

**a) Commitment to extend credit**

At 31 December 2011, the Bank had the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers as follows:

	<b>31 December 2011</b>		<b>31 December 2010</b>	
	<b>US\$</b>	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Loan commitment	1,900,000	7,674,100	-	-
Unused portion of overdrafts	360,882	1,457,602	-	-
Letters of credit	792,770	3,201,998	-	-
Bank guarantees and others	1,956,425	7,902,001	-	-
	<u>5,010,077</u>	<u>20,235,701</u>	<u>-</u>	<u>-</u>

**b) Operating lease commitments**

As at 31 December 2011, the Bank has non-cancellable lease commitments in respect of its leases of premises. The future aggregate minimum lease payments under non-cancellable operating leases of the Bank are as follows:

	<b>31 December 2011</b>		<b>31 December 2010</b>	
	<b>US\$</b>	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Less than one year	310,818	1,255,394	196,680	797,144
More than one year and no later than five years	1,176,326	4,751,181	829,334	3,361,291
	<u>1,487,144</u>	<u>6,006,575</u>	<u>1,026,014</u>	<u>4,158,435</u>

**BANK OF CHINA LIMITED - PHNOM PENH BRANCH**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

**21. COMMITMENT AND CONTINGENT LIABILITIES (continued)**

**c) Capital commitment**

As at 31 December 2011, the Branch has a capital commitment of US\$1,069,427 for renovation of two new branches.

**22. CASH AND CASH EQUIVALENTS**

	31 December 2011		31 December 2010	
	US\$	KHR '000	US\$	KHR '000
		(Unaudited)	(Unaudited)	(Unaudited)
Cash on hand	3,072,654	12,410,450	802,335	3,251,864
Balances with other banks:				
<i>Current and saving account</i>	14,241,293	57,520,582	1,836,198	7,442,110
<i>Term deposit</i>	66,205,891	267,405,594	7,000,000	28,371,000
Current accounts with the Central Bank	<u>76,882,779</u>	<u>310,529,544</u>	<u>8,514,707</u>	<u>34,510,108</u>
	<u>160,402,617</u>	<u>647,866,170</u>	<u>18,153,240</u>	<u>73,575,082</u>

**23. CASH FLOW FROM OPERATING ACTIVITIES**

	For the year ended 31 December 2011		For the period ended 31 December 2010	
	US\$	KHR '000	US\$	KHR '000
		(Unaudited)	(Unaudited)	(Unaudited)
<b>OPERATING ACTIVITIES</b>				
Losses before taxation	(1,326,656)	(5,358,362)	(370,559)	(1,501,874)
<i>Adjustments for:</i>				
Provision for doubtful debts	60,950	246,177	-	-
Depreciation	289,095	1,167,655	-	-
Net interest income	(183,546)	(741,342)	2,171	8,799
Operating loss before changes in operating assets and liabilities	(1,160,157)	(4,685,874)	(368,388)	(1,493,077)
Changes in operating assets and liabilities				
Loans and advances to customers	(6,095,003)	(24,617,717)	-	-
Other assets	621,252	2,509,237	(860,269)	(3,486,670)
Balances with other banks	(21,007,793)	(84,850,476)	-	-
Deposit from banks	21,282,343	85,959,383	-	-
Deposit from customers	123,608,777	499,255,850	7,321,796	29,675,239
Other liabilities	5,359,900	21,648,636	-	-
Interest received	326,000	1,316,714	188	762
Interest paid	(153,520)	(620,067)	2,765	11,207
Income tax paid	(12,790)	(51,659)	-	-
Cash flows from operating activities	<u>122,769,009</u>	<u>495,864,027</u>	<u>6,096,092</u>	<u>24,707,461</u>

**BANK OF CHINA LIMITED - PHNOM PENH BRANCH**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

**24. RELATED-PARTY TRANSACTIONS AND BALANCES**

**a) Related-parties and relationship**

The Bank is a branch of Bank of China Limited, a licensed bank incorporated in China Mainland. The Bank of China Limited has many branches around the world. They are considered the related parties of the Bank.

Key management personnel of the Bank are those who make critical decisions in relation to the strategic direction of the Bank and senior management staff (including their close family members).

**b) Related-party balances**

	31 December 2011		31 December 2010	
	US\$	KHR' 000	US\$	KHR' 000
	<i>(Unaudited)</i>		<i>(Unaudited)</i>	
Due to:				
Subordinated debt from Bank of China Limited – Beijing (Head Office)	10,000,000	40,390,000	-	-
Deposits and placements from key management personnel	<u>10,529</u>	<u>42,527</u>	-	-
	<u>10,010,529</u>	<u>40,432,527</u>	-	-
Due from:				
<i>Deposit and placement with Head Office and other branches</i>				
Bank of China – Hong Kong	7,034,336	28,411,683	71,263	288,829
Bank of China – Frankfurt	15,398	62,193	-	-
Bank of China – Beijing (Head Office)	1,598,642	6,456,915	578,295	2,343,830
Bank of China – New York	4,483,197	18,107,633	223,425	905,542
Bank of China – Macau	<u>10,000,000</u>	<u>40,390,000</u>	-	-
	<u>23,131,573</u>	<u>93,428,424</u>	<u>872,983</u>	<u>3,538,201</u>

**c) Key management personnel remuneration**

	For the year ended 31 December 2011		For the period ended 31 December 2010	
	US\$	KHR' 000	US\$	KHR' 000
	<i>(Unaudited)</i>		<i>(Unaudited)</i>	
Salaries and short-term benefits	<u>790,573</u>	<u>3,193,124</u>	-	-

**BANK OF CHINA LIMITED - PHNOM PENH BRANCH****NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011****25. FINANCIAL RISK MANAGEMENT**

The Bank's activities expose it to a variety of financial risks: credit risk, market risk (including foreign exchange risk and interest rate risk), liquidity risk and operational risk. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank does not use derivative financial instruments to manage its risk exposures.

The financial assets and liabilities held by the Bank are as follows:

	<b>31 December 2011</b>		<b>31 December 2010</b>	
	<b>US\$</b>	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
<b>Financial assets</b>				
Cash on hand	3,072,654	12,410,450	802,335	3,251,864
Balances with the Central Bank	94,117,731	380,141,516	6,017,174	24,387,606
Balances with other banks	101,454,977	409,776,652	8,836,198	35,813,110
Loans and advances to customers (*)	6,095,003	24,617,717	-	-
Other assets	227,485	918,812	5,082,641	20,599,944
	<u>204,967,850</u>	<u>827,865,147</u>	<u>20,738,348</u>	<u>84,052,524</u>
<b>Financial liabilities</b>				
Deposits from banks	21,282,343	85,959,383	-	-
Deposits from customers	130,930,573	528,828,584	7,321,796	29,675,239
Subordinated debt	10,000,000	40,390,000	-	-
Other liabilities	5,539,975	22,375,959	5,127	20,780
	<u>167,752,891</u>	<u>677,553,926</u>	<u>7,326,923</u>	<u>29,696,019</u>
<b>Net financial assets</b>	<u>37,214,959</u>	<u>150,311,221</u>	<u>13,411,425</u>	<u>54,356,505</u>

\* excludes general provision for loan losses.

**25.1 Credit risk**

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business. Credit exposure arises principally in lending activities that lead to loans and advances. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management is carried out by the Bank's credit committee.

Exposure to credit is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations. Exposure to credit risk is also managed in part by obtaining collateral and personal guarantees. Management performs credit assessment on a yearly basis after loans and advances have been disbursed to analyse the financial conditions and performance of the borrowers.

## **BANK OF CHINA LIMITED - PHNOM PENH BRANCH**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011**

#### **25. FINANCIAL RISK MANAGEMENT (continued)**

##### **25.1 Credit risk (continued)**

###### **a) Credit risk measurement**

The Bank has established the Core Credit Risk Policy which is designed to govern the Bank's risk undertaking activities. Extension of credit is governed by credit programmes that set out the plan for a particular product or portfolio, including the target market, terms and conditions, documentation and procedures under which a credit product will be offered and measured.

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

###### **b) Risk limit control and mitigation policies**

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

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and industry segments. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review, when considered necessary. Limits on level of credit risk by product and industry sector are approved by Board of Directors at Head Office..

Large exposure is defined by the Central Bank as overall credit exposure to any single beneficiary that exceeds 10% of the Bank's net worth. The Bank is required, under the conditions of Prakas No. B7-06-226 of the Central Bank, 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.

The Bank employs a range of policies and practices to mitigate credit risk, including requiring borrowers to pledge collateral against loans and advances granted by the Bank.

###### **c) Impairment and provisioning policies**

The Bank follows the mandatory loan classification and provisioning as required by a Prakas, B7-09-074, dated on 25 February 2009, on loans classification and provisioning for banks and financial institutions. It applies for loans and advances or other assets with similar nature. The Prakas replaces existing Prakas B7-00-51 and B702-145 from 25 February 2009. The minimum mandatory loan loss provision is made depending on the classification concerned, regardless of the assets (except cash) pledged as collateral, unless other information is available to indicate worsening.

**BANK OF CHINA LIMITED - PHNOM PENH BRANCH**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

**25. FINANCIAL RISK MANAGEMENT** (continued)

**25.1 Credit risk** (continued)

c) Impairment and provisioning policies (continued)

The table below shows loan classifications and minimum provisioning requirements:

Classifications	Minimum Provisioning Requirements
Standard	1%
Special mention	3%
Sub-standards	20%
Doubtful	50%
Loss	100%

Both past due and qualitative factors shall be taken into account for loan classification and provisioning.

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

	<b>31 December 2011</b>		<b>31 December 2010</b>	
	<b>US\$</b>	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Credit risks exposures relating to on-balance sheet assets:				
Balances with other banks	101,454,977	409,776,652	8,836,198	35,813,110
Loans and advances to customers(*)	6,095,003	24,617,717	-	-
Other assets	227,485	918,812	5,082,641	20,599,944
	<u>107,777,465</u>	<u>435,313,181</u>	<u>13,918,839</u>	<u>56,413,054</u>
Credit risk exposures relating to off-balance sheet items:				
Loan commitment	1,900,000	7,674,100	-	-
Unused portion of overdraft	360,882	1,457,602	-	-
Letters of credit	792,770	3,201,998	-	-
Bank guarantees and others	1,956,425	7,902,001	-	-
	<u>5,010,077</u>	<u>20,235,701</u>	<u>-</u>	<u>-</u>

\* excludes general provision for loan losses

**BANK OF CHINA LIMITED - PHNOM PENH BRANCH**

**NOTES TO THE FINANCIAL STATEMENTS  
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**25. FINANCIAL RISK MANAGEMENT (continued)**

**25.1 Credit risk (continued)**

a) Concentration of financial assets with credit risk exposure

(i) *Geographical sector*

The following table breaks down the Bank's main credit exposure at their carrying amount, as categorised by geographical region as at 31 December 2011. For this table, the Bank has allocated exposure to regions based on the country of domicile of our counterparties

	<b>Cambodia US\$</b>	<b>China US\$</b>	<b>USA US\$</b>	<b>Total US\$</b>
<b>31 December 2011</b>				
Balances with other banks	82,758,096	14,213,684	4,483,197	101,454,977
Loans and advances to customers (*)	6,095,003	-	-	6,095,003
Other assets	227,485	-	-	227,485
As at 31 December 2011	<u>89,080,584</u>	<u>14,213,684</u>	<u>4,483,197</u>	<u>107,777,465</u>
<i>In KHR'000 equivalents (Unaudited)</i>	359,796,479	57,409,070	18,107,633	435,313,182
<b>31 December 2010 (Unaudited)</b>				
Balances with other banks	7,963,215	639,610	233,373	8,836,198
Other assets	5,082,641	-	-	5,082,641
As at 31 December 2010 (Unaudited)	<u>13,045,856</u>	<u>639,610</u>	<u>233,373</u>	<u>13,918,839</u>
<i>In KHR'000 equivalents (Unaudited)</i>	<u>52,874,854</u>	<u>2,592,339</u>	<u>945,861</u>	<u>56,413,054</u>

\* excludes general provision for loan losses

**BANK OF CHINA LIMITED - PHNOM PENH BRANCH**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

**25. FINANCIAL RISK MANAGEMENT** (continued)

**25.1 Credit risk** (continued)

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

(ii) *Industry sector*

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by the industry sectors of our counterparties.

	Financial institutions US\$	Manufacturing US\$	Wholesale and Retailers US\$	Services US\$	Others US\$	Total US\$
<b>31 December 2011</b>						
Balances with other banks	101,454,977	-	-	-	-	101,454,977
Loans and advances to customers (*)	-	1,346,627	2,301,065	1,046,038	1,401,273	6,095,003
Other assets	227,485	-	-	-	-	227,485
As at 31 December 2011	101,682,462	1,346,627	2,301,065	1,046,038	1,401,273	107,777,465
<i>In KHR'000 equivalents (Unaudited)</i>	410,695,464	5,439,026	9,294,002	4,224,947	5,659,742	435,313,181
<b>31 December 2010 (Unaudited)</b>						
Balances with other banks	8,836,198	-	-	-	-	8,836,198
Other assets	5,082,641	-	-	-	-	5,082,641
As at 31 December 2010 (Unaudited)	13,918,840	-	-	-	-	13,918,840
<i>In KHR'000 equivalents (Unaudited)</i>	56,413,059	-	-	-	-	56,413,059

\* excludes general provision for loan losses

## **BANK OF CHINA LIMITED PHNOM PENH BRANCH**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011**

#### **25. FINANCIAL RISK MANAGEMENT (continued)**

##### **25.2 Market risk**

Market risk 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) Price risk

The Bank is not exposed to securities price risk because it does not hold any investment, that is classified in the balance sheet either as available-for-sale or at fair value through profit or loss.

##### b) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the Bank's functional currency.

The Bank mainly transacts in US\$, which is the Bank's functional currency and the Bank does not have significant exposure to foreign exchange risk.

The table below summarises the financial assets and financial liabilities of the Bank by currency as at 31 December 2011.

**BANK OF CHINA LIMITED PHNOM PENH BRANCH**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

**25. FINANCIAL RISK MANAGEMENT (continued)**

**25.2 Market risk (continued)**

b) Foreign exchange risk (continued)

<b>As at 31 December 2011</b>	<b>US\$</b>	<b>CNY</b>	<b>KHR</b>	<b>EURO</b>	<b>Total</b>
<b>Financial assets</b>					
Cash on hand	2,896,671	167,705	8,278	-	3,072,654
Balances with the Central Bank	94,102,522	-	15,209	-	94,117,731
Balances with other banks	95,057,548	6,382,031	-	15,398	101,454,977
Loans and advances to customers*	6,095,003	-	-	-	6,095,003
Other assets	227,485	-	-	-	227,485
	<u>198,379,229</u>	<u>6,549,736</u>	<u>23,487</u>	<u>15,398</u>	<u>204,967,850</u>
<b>Financial liabilities</b>					
Due to other banks	21,271,997	10,346	-	-	21,282,343
Deposits from customers	124,476,220	6,408,353	45,708	292	130,930,573
Subordinated debt	10,000,000	-	-	-	10,000,000
Other liabilities	5,539,975	-	-	-	5,539,975
	<u>161,288,192</u>	<u>6,418,699</u>	<u>45,708</u>	<u>292</u>	<u>167,752,891</u>
<b>Net on-balance sheet position</b>	<u>37,091,037</u>	<u>131,037</u>	<u>(22,221)</u>	<u>15,106</u>	<u>37,214,959</u>
<i>In KHR'000 equivalent (unaudited)</i>	<u>149,810,698</u>	<u>529,258</u>	<u>(89,751)</u>	<u>61,013</u>	<u>150,311,219</u>

\* excludes general provision for loan losses

**BANK OF CHINA LIMITED PHNOM PENH BRANCH**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

**25. FINANCIAL RISK MANAGEMENT (continued)**

**25.2 Market risk (continued)**

b) Foreign exchange risk (continued)

**As at 31 December 2010 (Unaudited)**

**Financial assets (Unaudited)**

Cash on hand	782,459	14,968	4,908	-	802,335
Balances with the Central Bank	6,009,174	-	8,000	-	6,017,174
Balances with other banks	8,836,198	-	-	-	8,836,198
Other assets	5,082,641	-	-	-	5,082,641
	<u>20,710,472</u>	<u>14,968</u>	<u>12,908</u>	<u>-</u>	<u>20,738,348</u>

**Financial liabilities (Unaudited)**

Deposits from customers	7,285,860	34,707	1,229	-	7,321,796
Other liabilities	5,127	-	-	-	5,127
	<u>7,290,987</u>	<u>34,707</u>	<u>1,229</u>	<u>-</u>	<u>7,326,923</u>

**Net on-balance sheet position (Unaudited)**

	<u>13,419,485</u>	<u>(19,739)</u>	<u>11,679</u>	<u>-</u>	<u>13,411,425</u>
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*In KHR'000 equivalent (Unaudited)*

	<u>54,389,172</u>	<u>(80,002)</u>	<u>47,335</u>	<u>-</u>	<u>54,356,505</u>
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**BANK OF CHINA LIMITED PHNOM PENH BRANCH**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

**25. FINANCIAL RISK MANAGEMENT** (continued)

**25.2 Market risk** (continued)

c) Interest rate risk

Interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest margins may increase or decrease due to unexpected movements in rates. The management regularly monitors any mismatch of interest rate re-pricing undertaken.

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

**BANK OF CHINA LIMITED PHNOM PENH BRANCH**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

**25. FINANCIAL RISK MANAGEMENT (continued)**

**25.2 Market risk (continued)**

c) Interest rate risk (continued)

	Up to 1 month US\$	1 to 3 months US\$	3 to 12 months US\$	1 to 5 Years US\$	Over 5 years US\$	Non-interest bearing US\$	Total US\$
<b>At 31 December 2011</b>							
<b>Financial assets</b>							
Cash on hand	-	-	-	-	-	3,072,654	3,072,654
Balances with the Central Bank	-	-	-	-	6,744,984	87,372,747	94,117,731
Balance with other banks	14,241,293	66,205,891	21,007,793	-	-	-	101,454,977
Loan and advance to customers (*)	5,295,003	-	-	800,000	-	-	6,095,003
Other assets	-	-	-	-	-	227,485	227,485
	<u>19,536,296</u>	<u>66,205,891</u>	<u>21,007,793</u>	<u>800,000</u>	<u>6,744,984</u>	<u>90,672,886</u>	<u>204,967,850</u>
<b>Financial liabilities</b>							
Deposits from banks	-	10,000,000	-	-	-	11,282,343	21,282,343
Deposits from customers	25,900,852	3,988,900	1,773,441	-	-	99,267,380	130,930,573
Subordinated debt	-	-	-	10,000,000	-	-	10,000,000
Other liabilities	-	-	-	-	-	5,539,975	5,539,975
	<u>25,900,852</u>	<u>13,988,900</u>	<u>1,773,441</u>	<u>10,000,000</u>	<u>-</u>	<u>116,089,698</u>	<u>167,752,891</u>
<b>Total interest re-pricing gap</b>	<u>(6,364,556)</u>	<u>52,216,991</u>	<u>19,234,352</u>	<u>(9,200,000)</u>	<u>6,744,984</u>	<u>(25,416,812)</u>	<u>37,214,959</u>
In KHR'000 equivalent ( <i>Unaudited</i> )	<u>(25,706,442)</u>	<u>210,904,427</u>	<u>77,687,548</u>	<u>(37,158,800)</u>	<u>27,242,990</u>	<u>(102,658,502)</u>	<u>150,311,221</u>

\* excludes general provision for loan losses

**BANK OF CHINA LIMITED PHNOM PENH BRANCH**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

**25. FINANCIAL RISK MANAGEMENT (continued)**

**25.2 Market risk (continued)**

c) Interest rate risk (continued)

	Up to 1 month US\$	1 to 3 months US\$	3 to 12 months US\$	1 to 5 Years US\$	Over 5 years US\$	Non- interest bearing US\$	Total US\$
<b>As at 31 December 2010</b>							
<b>Financial assets (Unaudited)</b>							
Cash on hand	-	-	-	-	-	802,335	802,335
Balances with the Central Bank	-	-	-	-	1,834,156	4,183,018	6,017,174
Balance with other banks	1,836,198	7,000,000	-	-	-	-	8,836,198
Other assets	5,082,641	-	-	-	-	-	5,082,641
	<u>6,918,839</u>	<u>7,000,000</u>	<u>-</u>	<u>-</u>	<u>1,834,156</u>	<u>4,985,353</u>	<u>20,738,348</u>
<b>Financial liabilities (Unaudited)</b>							
Deposits from customers	7,306,716	9,060	6,020	-	-	-	7,321,796
Other liabilities	-	5,127	-	-	-	-	5,127
	<u>7,306,716</u>	<u>14,187</u>	<u>6,020</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,326,923</u>
<b>Total interest re-pricing gap (Unaudited)</b>	<u>(387,877)</u>	<u>6,985,813</u>	<u>(6,020)</u>	<u>-</u>	<u>1,834,156</u>	<u>4,985,353</u>	<u>13,411,425</u>
In KHR'000 equivalent (Unaudited)	<u>(1,572,066)</u>	<u>28,313,500</u>	<u>(24,399)</u>	<u>-</u>	<u>7,433,834</u>	<u>20,205,636</u>	<u>54,356,505</u>

## **BANK OF CHINA LIMITED PHNOM PENH BRANCH**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011**

#### **25. FINANCIAL RISK MANAGEMENT (continued)**

##### **25.3 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 management monitors balance sheet liquidity and manages the concentration and profile of debt maturities as well as the movements of main depositors and projection of their withdrawals.

##### b) Funding approach

The Bank's main sources of funding are from branch's paid-up capital and deposits from banks and customers. The sources of funding are reviewed daily through management's review of maturity profile of fixed deposits

##### c) Non-derivative cash flows

The table below presents the cash flows arising from non-derivative financial assets and liabilities by remaining contractual maturities as at the balance sheet date. 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.

**BANK OF CHINA LIMITED PHNOM PENH BRANCH**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

**25. FINANCIAL RISK MANAGEMENT** (continued)

**25.3 Liquidity risk** (continued)

c) Non-derivative cash flows (continued)

	Up to 1 month US\$	1 to 3 months US\$	3 to 6 months US\$	6 to 12 months US\$	1 to 5 years US\$	Total US\$
<b>At 31 December 2011</b>						
<b>Financial liabilities</b>						
Deposits from banks	11,282,343	10,031,507	-	-	-	21,313,850
Deposits from customers	125,235,204	4,045,950	1,490,263	318,144	-	131,089,561
Subordinated debt	-	-	-	233,320	10,933,280	11,166,600
Other liabilities	5,000,000	307,215	23,357	-	-	5,330,572
<b>Total financial liabilities</b> (contractual maturity dates)	<u>141,517,547</u>	<u>14,384,672</u>	<u>1,513,620</u>	<u>551,464</u>	<u>10,933,280</u>	<u>168,900,583</u>
<b>Total financial assets</b> (contractual maturity dates)	<u>110,212,407</u>	<u>66,215,500</u>	<u>21,022,207</u>	<u>828,828</u>	<u>6,860,296</u>	<u>205,139,238</u>
<b>Net liquidity gap - US\$</b>	<u>31,305,140</u>	<u>(51,830,828)</u>	<u>(19,508,587)</u>	<u>(277,364)</u>	<u>4,072,984</u>	<u>(36,238,655)</u>
<b>In KHR' 000 equivalent</b> (Unaudited)	<u>126,441,460</u>	<u>(209,344,715)</u>	<u>(78,795,183)</u>	<u>(1,120,273)</u>	<u>16,450,782</u>	<u>(146,367,929)</u>

**BANK OF CHINA LIMITED PHNOM PENH BRANCH**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

**25. FINANCIAL RISK MANAGEMENT (continued)**

**25.3 Liquidity risk (continued)**

c) Non-derivative cash flows (continued)

	Up to 1 month US\$	1 to 3 months US\$	3 to 6 months US\$	6 to 12 months US\$	1 to 5 years US\$	Over 5 years US\$	Total US\$
<b>At 31 December 2010 (Unaudited)</b>							
<b>Financial liabilities (Unaudited)</b>							
Deposits from customers	7,306,718	9,070	3,045	3,035	-	-	7,321,868
Other liabilities	-	5,121	-	-	-	-	5,121
<b>Total financial liabilities (contractual maturity dates) (Unaudited)</b>	<b>7,306,718</b>	<b>14,191</b>	<b>3,045</b>	<b>3,035</b>	<b>-</b>	<b>-</b>	<b>7,326,989</b>
<b>Total financial assets (Unaudited) (contractual maturity dates)</b>	<b>6,918,839</b>	<b>7,000,000</b>	<b>-</b>	<b>-</b>	<b>1,834,156</b>	<b>4,985,353</b>	<b>20,738,348</b>
<b>Net liquidity gap - US\$ (Unaudited)</b>	<b>387,879</b>	<b>(6,985,809)</b>	<b>3,045</b>	<b>3,035</b>	<b>1,834,156</b>	<b>(4,985,353)</b>	<b>(13,411,359)</b>
<b>In KHR' 000 equivalent (Unaudited)</b>	<b>1,572,074</b>	<b>(28,313,482)</b>	<b>12,341</b>	<b>12,301</b>	<b>(7,433,834)</b>	<b>(20,205,636)</b>	<b>(54,356,236)</b>

## **BANK OF CHINA LIMITED PHNOM PENH BRANCH**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011**

#### **25. FINANCIAL RISK MANAGEMENT** (continued)

##### **25.4 Operational risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. This includes legal, compliance, accounting and fraud risk.

The Bank has established 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. The policies and procedures are reviewed periodically, taking into account the business objectives and strategies of the Bank as well as regulatory requirements.

The Head Office's internal audit function provides independent assessment of the adequacy of the internal control policies and procedures of the Bank to mitigate risk associated with operational activities. Any findings arising from the audit and review will be escalated to the head office and executive management of the Bank.

##### **25.5 Fair value of financial assets and liabilities**

As at the balance sheet date, the fair values of financial instruments of the Bank approximate their carrying amounts.

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, which are non-interest bearing and short term fixed deposits. The fair values of deposits and placements with other banks approximates their carrying amounts.

b) Deposits from banks and customers

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 prevailing market rates for similar deposits from banks and customers

c) 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.

d) Subordinated debt

Subordinated debt bears floating rate as such a carrying amount is approximate to fair value.

**BANK OF CHINA LIMITED PHNOM PENH BRANCH**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

**25. FINANCIAL RISK MANAGEMENT (continued)**

**25.6 Capital management**

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheet, are:

- To comply with the capital requirement set by the Central Bank;
- To safeguard the Bank's ability to continue as a going concern so that it can provide returns to its shareholder and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of business.

The Central Bank requires all commercial banks to i) hold minimum capital requirement, ii) maintain the Bank's net worth of at least equals to minimum capital and iii) comply with solvency and liquidity ratios.

The table below summarises the composition of the Bank's regulatory capital:

	<b>31 December 2011</b>		<b>31 December 2010</b>	
	<b>US\$</b>	<b>KHR'000</b>	<b>US\$</b>	<b>KHR'000</b>
		<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
<b>Tier 1 Capital</b>				
Branch capital	15,000,000	60,585,000	15,000,000	60,795,000
Accumulated losses	<u>(1,377,427)</u>	<u>(5,563,428)</u>	<u>(303,311)</u>	<u>(1,229,319)</u>
	<u>13,622,573</u>	<u>55,021,572</u>	<u>14,696,689</u>	<u>59,565,681</u>
<b>Tier 2 Capital</b>				
General provision	60,950	246,177	-	-
Subordinated debt	<u>6,811,287</u>	<u>27,510,788</u>	<u>-</u>	<u>-</u>
Regulatory capital/net worth	<u>20,494,810</u>	<u>82,778,538</u>	<u>14,696,689</u>	<u>59,565,681</u>



一份耕耘，一份收获。  
一份耕耘，一份收获。

持续百年经营，筑就长青基业。

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**APPENDIX: NOTES ON COMPLIANCE WITH THE CENTRAL BANK'S PRAKAS**

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**APPENDIX : NOTES ON COMPLIANCE WITH THE CENTRAL BANK PRAKAS  
FOR THE YEAR ENDED 31 December 2011****1. LIQUIDITY RATIO, Prakas No. B7-04-207**

The Bank was in compliance with this Prakas which requires a Liquidity Ratio of at least 50%. As at 31 December 2011, the Bank's Liquidity Ratio was 208%.

The Liquidity Ratio calculation is detailed in Schedule 1.

**2. MINIMUM CAPITAL REQUIREMENT, Prakas No. B7-08-139**

The Central Bank's Prakas No.B7-08-139 on new capital requirement and criteria for licensing approval of banks requires that commercial banks locally incorporated as companies that have at least one influential shareholder, being a bank or financial institution with an "investment grade" rating, extended by a reputable rating agency must have minimum capital equal to at least KHR 50 billion (or US\$13 million) and commercial banks having as shareholders individuals or companies must have a minimum capital of at least KHR 150 billion (approximately US\$37 million) by the end of year 2011.

The Bank of China Limited – Head Office is an investment grade financial institution. As at 31 December 2011, the Bank has an approved paid-up statutory capital of US\$15million.

**3. NET WORTH, Prakas No. B7-00-47**

The Bank's net worth as at 31 December 2011 amounted to US\$20,494,810 as computed in Schedule 2.

Banks must maintain their net worth at least equal to the minimum capital. As at 31 December 2011, the Bank's net worth of US\$ 20,494,810 is higher than the minimum capital of US\$13,000,000 by US\$7,494,810.

**4. SOLVENCY RATIO, Prakas No. B7-04-206**

As at 31 December 2011, the Bank maintained a Solvency Ratio of 20.61%, representing the Bank's net worth as a percentage of its risk-weighted assets and off-balance sheet items.

The Bank was in compliance with this Prakas which requires a Solvency Ratio of at least 15%.

The Solvency Ratio calculation is detailed in Schedule 3.

**5. FOREIGN CURRENCY TRANSACTIONS, Prakas No. B7-00-50**

The Bank transacts its business primarily in United States dollars (US\$) and maintains its books of accounts in US\$. Accordingly, all currencies other than US\$ are considered as foreign currencies.

*Balance sheet items*

As at 31 December 2011, in accordance with Prakas No. B7-00-50, all assets and liabilities of the Bank that were denominated in foreign currencies were translated using the year end exchange rate.

**APPENDIX : NOTES ON COMPLIANCE WITH THE CENTRAL BANK PRAKAS  
FOR THE YEAR ENDED 31 December 2011****5. FOREIGN CURRENCY TRANSACTIONS, Prakas No. B7-00-50 (continued)***Off-balance sheet items*

The Bank is required to record off-balance sheet items from the commitments arising from the purchase and sale of foreign currencies relating to spot transactions (with a completion period of two days) and forward foreign exchange transactions.

The Bank has no open foreign exchange contracts for either spot or forward transactions as at 31 December 2011. Accordingly, no capital commitments for open foreign exchange contracts were disclosed as off balance sheet items.

**6. NET OPEN POSITION IN FOREIGN CURRENCY, Prakas No. B7-07-134**

Net open position in foreign currencies in either any foreign currency or overall net open position in all foreign currencies, whether long or short, shall not exceed 20% of Bank's net worth.

As at 31 December 2011, the Bank is in compliance with the Prakas of net open position in foreign currency.

**7. CLASSIFICATION OF AND PROVISIONING FOR LOSSES ON LOANS AND ADVANCES, Prakas No. B7-00-51, ITS AMENDMENT PER Prakas B7-02-145 AND Circular B7-04-01**

The Bank's loan classification and provisioning policy is in compliance with the Central Bank's guidelines. The amount of the allowance for bad and doubtful debts determined as at 31 December 2011 is in compliance with the requirements of this Prakas.

The details of the computation of the required loan provision to comply with the Central Bank's requirements are provided in Schedule 4.

**8. LARGE CREDIT EXPOSURES, Prakas No. B7-00-52 and B706-226 BK**

Banks are required, under the conditions of the above Prakas, to maintain at all times a maximum ratio of 20% between their overall exposure resulting from their operations with each individual beneficiary and their net worth and the aggregate individual large credit exposure must not be more than 300% of the Bank's net worth.

As at 31 December 2011, the Bank had no exposure with a single beneficiary where such exposure exceeded 20% and 300% as aggregate of individual large credit exposure of the net worth as computed in Schedule 2.

**9. LOANS TO RELATED PARTIES, Prakas No. B7-02-146**

The Bank was in compliance with this Prakas which requires the total of the weighted outstanding balances of loans to related parties to be not more than 10% of the Bank's net worth.

As at 31 December 2011, the Bank was in compliance with this Prakas.

**APPENDIX : NOTES ON COMPLIANCE WITH THE CENTRAL BANK PRAKAS  
FOR THE YEAR ENDED 31 December 2011**

**10. FIXED ASSETS, Prakas No. B7-01-186**

Fixed assets acquired by banks for operational purposes shall be less than 30% of the Bank's total net worth as defined in Prakas B7-00-47. Fixed assets with no direct link to operating the Bank shall be sold not later than one year after the date they became the property of the Bank.

As at 31 December 2011, the Bank's fixed assets amounting to US\$938,437 were equivalent to 4.58% of the Bank's net worth and this is therefore in compliance with the fixed asset ratio required by this Prakas.

**SCHEDULE 1**  
**LIQUIDITY RATIO AS AT 31 DECEMBER 2011**

**LIQUIDITY RATIO**

	<u>US\$</u>
<b>NUMERATOR</b>	
<i>1. Treasury balance</i>	
<i>- Debit items</i>	
- Cash on hand	3,072,654
- Deposits with the Central Bank (excluding statutory deposit and reserve requirement )	76,882,779
- Deposits with other banks and financial institutions	101,454,977
- Portion of lending to banks and FI with not more than one month to run	-
	<u>181,410,410</u>
<b>Less:</b>	
<i>- Credit items</i>	
- Sight accounts maintained by the Central Bank, banks or financial Institutions	-
- Borrowings from the Central Bank with not more than one month to run	-
	<u>-</u>
<b>Net balance - Lender position</b>	181,410,410
1. Lending with not more than one month to run (exclude loans with no maturity)	-
2. Treasury bills with not more than one month to run (double)	<u>-</u>
<b>TOTAL NUMERATOR (A)</b>	<u><u>181,410,410</u></u>
<b>DENOMINATOR</b>	
1. 80% of FD & CD having not more than one month to run	271,934
2. 50% of FD & CD having more than one month to run	9,944,867
3. 50% of savings deposits	10,716,770
4. 60% of demand deposits	<u>66,329,834</u>
<b>TOTAL DENOMINATOR (B)</b>	<u><u>87,263,406</u></u>
<b>LIQUIDITY RATIO (A/B)</b>	<u><u>208%</u></u>

**SCHEDULE 2**  
**NET WORTH AS AT 31 DECEMBER 2011**

**NET WORTH**

	<u>US\$</u>
<b>Tier (Core Capital)</b>	
<b>I. Subtotal - A</b>	
Paid-up capital	15,000,000
Reserves (other than revaluation: translation reserve, general reserve and capital reserve)	-
Audited net income for the last financial period	(1,074,116)
Retained earnings brought forward (restated)	-
Other Item (NBC approved)	-
Premiums related to capital	-
Other items approved by the Central Bank	-
<b>Total (A)</b>	<u>13,925,884</u>
<b>II. Subtotal - B</b>	
Own shares held (at Book Value)	-
Accumulated losses	(303,311)
Intangible assets to be deducted	-
Shareholders, directors, related parties (deduct)	
1. Unpaid portion(s) of capital (a)	-
2. Loans, overdrafts and other advances (b)	-
3. Debt instruments held bearing signature of shareholders, directors, related parties (c)	-
Other losses	-
<b>Total (B)</b>	<u>(303,311)</u>
<b>Total Tier 1 (Core Capital) (A) - (B)</b>	<b>13,622,573</b>
<b>Tier (Complementary Capital)</b>	
<b>III. Sub-Total C</b>	
Revaluation reserves approved by the Central Bank	-
Provisions for general banking risks	-
1% General provision (Prakas on Asset Class.)	60,950
Subordinated debts approved by the Central Bank up to 50% of Tier 1	6,811,287
Other items approved by the Central Bank	-
<b>Total (C)</b>	<u>6,872,237</u>
<b>IV. Sub-Total D (Tier 2, Deductions)</b>	
Equity participation banking & Fin. Institution	-
Other items to be deducted (def. charge...)	-
<b>Total (D)</b>	<u>-</u>
<b>Total Tier 2 (Complementary Capital) (C) - (D)</b>	<b>6,872,237</b>
<b>Regulatory Net Worth (A)- (B) + (C) - (D)</b>	<b>20,494,810</b>

**SCHEDULE 3**  
**SOLVENCY RATIO AS AT 31 DECEMBER 2011**

**SOLVENCY RATIO**

			<u>US\$</u>
<b>Numerator</b>			
<b>Net Worth as computed above (N)</b>			<u>20,494,810</u>
	Assets	Weighting	
<b>Denominator</b>			
Total gross assets			
- Cash, gold and claims on the Central Bank	97,190,385	0%	-
- Assets collateralised by deposits		0%	-
- Claims on sovereign rated AAA to AA-		0%	-
- Claims on sovereign rated A+ to A-		20%	-
- Claims on banks rated AAA to AA-		20%	-
- Claims on sovereign rated BBB+ to BBB-		50%	-
- Claims on banks rated A+ to A-	23,131,573	50%	11,565,787
- Other assets	86,062,299	100%	86,062,299
Total assets as reported in the balance sheet	<u>206,384,257</u>		<u>97,628,086</u>
Off-balance sheet items			
- Full risk	-	100%	-
- Medium risk	2,749,195	50%	1,374,598
- Moderate risk	2,260,882	20%	452,176
- Low risk	-	0%	-
	<u>3,110,077</u>		<u>1,826,774</u>
<b>Denominator (D1)</b>			<u>99,454,859</u>
<b>SOLVENCY RATIO: (S = N / D1)</b>			<u>20.61%</u>

**SCHEDULE 4**  
**CLASSIFICATION OF AND PROVISIONING FOR LOAN LOSSES AS AT 31 DECEMBER**  
**2011**

The details of the Central Bank's required provision following its mandatory provisioning requirements based on the prescribed credit classification of loans and advances to customers are provided in the following table.

	<b>Loan Amount</b>		<b>The Central Bank required Provision</b>	<b>Provision recorded by the Bank</b>	<b>Estimated collateral value</b>	<b>Over/(Under) provision amount</b>
	<b>US\$</b>	<b>Classi- fication</b>	<b>%</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Loans and advances	6,095,003	General provision	1%	60,950	60,950	-
<b>Grand Total</b>	<b>6,095,003</b>			<b>60,950</b>	<b>60,950</b>	<b>-</b>

**COMPUTATION OF OTHER RATIOS  
AS AT 31 DECEMBER 2011**

	<b>2011 US\$</b>
<b><u>CAPITAL</u></b>	
<b>1 Equity to total asset (A/B)</b>	<b>18.71%</b>
A- Equity	38,622,573
B- Total assets	206,384,257
<b>2 Capital Tier I to total asset (A/B)</b>	<b>6.60%</b>
A- Capital Tier I	13,622,573
B- Total assets	206,384,257
<b>3 Capital Tier I to risk weighted asset (A/B)</b>	<b>13.95%</b>
A- Capital Tier I	13,622,573
B- Risk Weighted Assets	97,628,086
<b>4 Capital Tier I + Tier 2 to risk weighted asset (A/B)</b>	<b>20.99%</b>
A- Capital Tier I + tier 2	20,494,810
B- Risk Weighted Assets	97,628,086
<b>5 Net Worth to total assets (A/B)</b>	<b>9.93%</b>
A- Net worth	20,494,810
B- Total assets	206,384,257
<b>6 Solvency Ratio (A/B)</b>	<b>20.99%</b>
A- Net worth	20,494,810
B- Risk Weighted Assets	97,628,086
<b>7 Debt to total asset (A/B)</b>	<b>81.29%</b>
A- Total liabilities	167,761,684
B- Total assets	206,384,257
<b>8 Debt to equity (A/B)</b>	<b>434.36%</b>
A- Total liabilities	167,761,684
B- Equity	38,622,573
<b>9 Dividend to net profit (A/B)</b>	<b>0%</b>
A- Dividend	-
B- Net profit	-
<b><u>ASSET QUALITY</u></b>	
<b>10 Banking reserve to total loans (A/B)</b>	<b>0%</b>
A- Banking reserves	-
B- Total loans (gross)	6,095,003
<b>11 Banking reserve to total assets (A/B)</b>	<b>0.00%</b>
A- Banking reserves	-
B- Total assets	206,384,257

**COMPUTATION OF OTHER RATIOS  
AS AT 31 DECEMBER 2011**

	<b>2011 US\$</b>
<b>12 NPL to total loan (A/B)</b>	<b>0%</b>
A- NPL	-
B- Total loans (gross)	6,095,003
<b>13 NPL to total asset (A/B)</b>	<b>0%</b>
A- NPL	-
B- Total assets	206,384,257
<b>14 Classified asset to total loan (A/B)</b>	<b>0%</b>
A- Classified assets	-
B- Total loans (gross)	6,095,003
<b>15 Classified asset to total asset (A/B)</b>	<b>0%</b>
A- Classified assets	-
B- Total assets	206,384,257
<b>16 Classified asset to total equity (A/B)</b>	<b>0%</b>
A- Classified assets	-
B- Equity	38,622,573
<b>17 Loan to related parties to total loan (A/B)</b>	<b>0.00%</b>
A- Loan to related parties	-
B- Total loans (gross)	6,095,003
<b>18 Large exposure to total loan (A/B)</b>	<b>0.00%</b>
A- Large exposure	-
B- Total loans (gross)	6,095,003
<b>19 Loan to related parties to net worth (A/B)</b>	<b>0.00%</b>
A- Loan to related parties	-
B- Net worth	20,494,810
<b>20 Large exposure to net worth (A/B)</b>	<b>0.00%</b>
A- Large exposure	-
B- Net worth	20,494,810
<b>21 General provision to total loan (A/B)</b>	<b>1.00%</b>
A- General provision	60,950
B- Total loans (gross)	6,095,003
<b>22 Specific provision to total loan (A/B)</b>	<b>0.00%</b>
A- Specific provision	-
B- Total loans (gross)	6,095,003
<b>23 Specific provision to NPL (A/B)</b>	<b>0.00%</b>
A- Specific provision	-
B- NPL	-

**COMPUTATION OF OTHER RATIOS  
AS AT 31 DECEMBER 2011**

	<b>2011 US\$</b>
<b>24 All allowances to total assets (A/B)</b>	<b>0.03%</b>
A- Total all allowances	60,950
B- Total assets	206,384,257
<b>25 Loans to deposits (A/B)</b>	<b>4.66%</b>
A- Total loans to non-bank customers (gross)	6,095,003
B- Customer's deposits	130,930,573
<b><u>EARNINGS</u></b>	
<b>26 ROA (A/B)</b>	<b>-0.52%</b>
A- Net profit	(1,074,116)
B- Total assets	206,384,257
<b>27 ROE (A/B)</b>	<b>-2.78%</b>
A- Net profit	(1,074,116)
B- Equity	38,622,573
<b>28 Gross Yield (A/B)</b>	<b>0.25%</b>
A- Interest income	517,608
B- Total assets	206,384,257
<b>29 Net Interest margin (NIM) to total asset ((A-B)/C)</b>	<b>0.09%</b>
A- Interest income	517,608
B- Interest expense	334,062
C- Total assets	206,384,257
<b>30 Other Income (OTNC) = (A/B)</b>	<b>0.51%</b>
A- Other income	1,060,944
B- Total assets	206,384,257
<b>31 Provision to total assets (A/B)</b>	<b>0.03%</b>
A- Provision	60,950
B- Total assets	206,384,257
<b>32 Overhead (OHEAD) = (A/B)</b>	<b>0.70%</b>
A- Non-interest expenses	1,449,252
B- Total assets	206,384,257
<b>33 Net income before tax (NIBT) = (A/B)</b>	<b>-0.64%</b>
A- Net income before tax	(1,326,656)
B- Total assets	206,384,257
<b>34 Tax to total assets (A/B)</b>	<b>0.12%</b>
A- Tax	252,540
B- Total assets	206,384,257

**COMPUTATION OF OTHER RATIOS  
AS AT 31 DECEMBER 2011**

	<b>2011</b>
	<b>US\$</b>
<b>35 Interest margin to gross income ((A-B)/C)</b>	<b>11.63%</b>
A- Interest income	517,608
B- Interest expense	334,062
C- Gross income	1,578,552
<b>36 Non-interest income to gross income (A/B)</b>	<b>67.21%</b>
A- Non-interest income	1,060,944
B- Gross income	1,578,552
<b>37 Non-interest expense to Gross Income (A/B)</b>	<b>91.81%</b>
A- Non-interest expense	1,449,252
B- Gross income	1,578,552
<b>38 Time interest earned ((A+B)/C)</b>	<b>-297.13%</b>
A- Income before tax	(1,326,656)
B- Interest expense	334,062
C- Interest expense	334,062

**LIQUIDITY**

<b>39 Liquid asset (A/B)</b>	<b>77.72%</b>
A- Liquid asset	160,402,617
B- Total assets	206,384,257
<b>40 Short-term Liabilities (A/B)</b>	<b>76.44%</b>
A- Short-term liabilities (less than one year)	157,761,684
B- Total assets	206,384,257
<b>41 Net Liquid asset ((A-B)/C)</b>	<b>1.57%</b>
A- Liquid asset	160,402,617
B- Short-term liabilities	157,761,684
C- Total liabilities	167,761,684
<b>42 Quick Ratio (A/B)</b>	<b>101.67%</b>
A- Quick assets	160,402,617
B- Current liabilities	157,761,684
<b>43 Deposit to total loans (A/B)</b>	<b>2148.16%</b>
A- Total customers' deposits	130,930,573
B- Total loans to non-bank customers (gross)	6,095,003