



ធនាគារ ចិន
中國銀行
BANK OF CHINA

សាខាភ្នំពេញ
金边分行
PHNOM PENH BRANCH

转型跨越
变革图强



2012 Annual Report
年年度报告

Introduction

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 specialized international trade bank. Fulfilling its commitment to serving the public and developing China's financial services sector, the Bank rose to a leading position in the Chinese financial industry and developed a good standing in the international financial community, despite many hardships and setbacks. After the founding of People's Republic of China, with a long history as the state-designated specialized foreign exchange and trade bank, the Bank became responsible for managing China's foreign exchange operations and provided tremendous support to nation's foreign trade development and economic infrastructure through its offering of international trade settlement, overseas fund transfer and other non-trade foreign exchange services. During China's reform and opening up period, the Bank seized the historic opportunity presented by the government's strategy of capitalizing on foreign funds, advanced knowledge and equipment to boost economic development, and accomplished as the country's key foreign financing channel by building up its competitive advantages in foreign exchange business. In 1994, the Bank transformed from a specialized foreign exchange bank into a state-owned commercial bank, and then incorporated as Bank of China Limited in August 2004. The Bank was listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange in June and July 2006 respectively, becoming the first Chinese commercial bank to launch an A-Share and H-Share initial public offering and achieve a dual listing in both markets. In 2011 and 2012, the Bank was enrolled as a Global Systemically Important Financial Institution for two consecutive years, the only financial institution from China or any emerging economy to be recognized as such.

As China's most international and diversified bank, Bank of China provides a comprehensive range of financial services to customers across the Chinese mainland, Hong Kong, Macau, Taiwan and 36 overseas countries. The Bank's core business is commercial banking, including corporate banking, personal banking and financial markets services. BOC International Holdings Limited, a wholly owned subsidiary, is the Bank's investment banking arm. Bank of China Group Insurance Company Limited and Bank of China Insurance Company Limited, wholly owned subsidiaries, run the Bank's insurance business. Bank of China Group Investment Limited, 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 hundred-year history. With adoration of the nation in its soul, integrity as its backbone, reform and innovation as its path forward and people first as its guiding principle, the Bank has built up an excellent brand image that is widely recognized within the industry and by its customers. With historic opportunities now arising, the Bank will striding forward through transformation and growing stronger through reforms, and strive to become a premier multinational bank



中国银行 全球网络

中国银行是中国国际化程度最高的银行。1929年，中国银行设立伦敦分行，这是中国金融机构设立的第一家海外分行。此后，中国银行相继在东京、新加坡、纽约等世界各大金融中心开设分支机构。目前，中国银行在中国内地、香港澳门台湾及36个国家拥有广泛的机构网络，为客户提供全面优质的金融服务。



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* APPENDICES DO NOT FORM PART OF THE FINANCIAL STATEMENT.

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

Company Secretary

YEUNG Cheung Ying

Listing Affairs Representative

LUO Nan

Office Address:

No.1 Fuxingmen Nei Dajie, Beijing, China

Telephone: (86) 10-6659 2638

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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

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E-mail: bocir@bank-of-china.com

Place of Business in Cambodia

Canadia Tower, 1st & 2nd Floor, 315 Ang

Doung St. (Corner of Monivong Blvd.),

P.O.BOX 110, Phnom Penh, Cambodia

Telephone: (855) 23988886

Facsimile: (855) 23988880

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

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



Message from Chief Executive Officer (Cambodia)

The year 2012 marked the 2th anniversary of the founding of our Branch. Each employee faithfully inherits and carries forward the Bank's fine century-old traditions of "adoration of the nation, integrity as our paramount principle, constant reform and innovation, and a people first approach", diligently implements the development strategies of the Bank, and brings to life the principles of "streamlining structures, scaling up, managing risks and sharpening competitiveness". Through its insistence on customer-centric, market-oriented and technologized progress, the Bank has vigorously promoted innovative, transformative and cross-border development, and achieved excellent business results.

At the end of 2012, the Bank's total assets stood at USD462.92 million, total liabilities were USD422.96 million, and equity attributable to shareholders of the Bank was USD39.95 million, according to Cambodian Accounting Standards. This represented increases of 124.3%, 152.13% and 3.44% respectively from the prior year-end. During the year, the Bank achieved a profit after tax of USD1.33 million, a year-on-year increase of 224.30%.

In 2012, the Bank's profit achieved a steady growth. This was driven primarily by an increase in net interest income and non-interest income, improvement of net interest margin, a decrease in credit cost and further enhancement of the input and output efficiency. Return on average total assets stood at 0.99%, a year-on-year increase of 0.73 percentage point. During the year, the Bank achieved a net interest income of USD3.16 million, an increase of 16.5times over the prior year, a net interest margin of 0.92%, an increase of 0.78 percentage point, and a non-interest income of USD2.91 million, an increase of 182.52% over the prior year. Non-interest income accounted for 47.94% of the Bank's operating income, which remained the highest among domestic peers.

In 2012, the Bank continued to implement its strategic development plan, adhered to focusing on efficiency and emphasizing on streamlining structure and managing risks. It carried out its work diligently and continuously improved operational and management quality.

The Bank continued to streamline its structure. It adjusted its liability structure, vigorously expanded low-cost core deposits, and effectively controlled liability costs. It strengthened its efforts in adjusting asset structure, provided preferential support to strategic emerging industries, and increased the proportion of highly-profitable assets. Its fee-based business grew persistently and the business structure was further optimized.

In 2013, the Bank will seize important strategic opportunities. With the scientific development as the theme and accelerating the transformation of development mode as main task, the Bank will carry out its strategic development plan. It will continuously promote innovative, transformative and cross-border development, lead the branch to stride forward through transformation and to grow stronger through reforms, and accelerate pace of building a premier multinational bank.

At last, I would like to express my heartfelt gratitude to National Bank of Cambodia, our customers, peers and the public for their constant guidance and support, and the management for their contribution of wisdom, and to our employees for their diligent work. The solid foundation for the Bank's new journey rests on their effort and support. I believe that, with our concerted efforts, Bank of China Phnom Penh Branch will scale new heights in the journey ahead.

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 bank, delivering growth and excellence

Strategic Positioning

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

In 2013, according to the overall framework of striding forward through transformation and growing stronger through reforms, the Bank will focus on deepening business transformation to improve operational efficiency, enhancing operational management mechanisms to improve management efficiency, accelerating smart-bank construction to improve customer experience and strengthening risk management to improve the quality of its development, thus accelerate the building of a premier multinational bank.

Group Corporate Governance

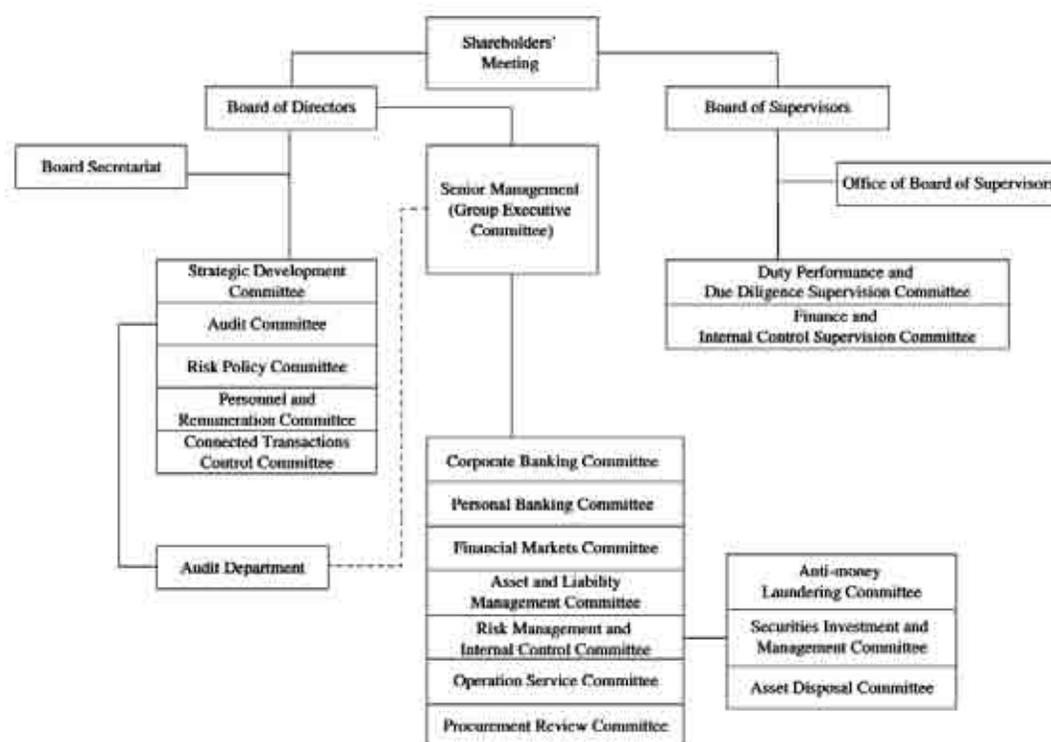
The Bank considers excellent corporate governance as an important goal. During 2012, the Bank strictly complied with the state laws and regulations, relevant regulatory requirements and listing rules of the Chinese mainland and Hong Kong, closely observed trends in regulatory changes in China and abroad, and continuously improved its corporate governance.

1. Ensuring legal compliance by virtue of a sound and scientific corporate governance framework in order to meet all capital market regulatory requirements. The Bank abided by the regulatory rules of Chinese mainland and Hong Kong, adhering to the stricter regulation in each case and consistently improved its corporate governance framework, which mainly consists of the shareholders' meeting, the Board of Directors, the Board of Supervisors, and the senior management. This framework operated smoothly and achieved comprehensive compliance based on a clear division of duties.
2. Providing support to the corporate governance and shaping excellent corporate governance culture by virtue of a comprehensive and rational corporate governance system. The Bank attached importance to the strengthening of its corporate governance systems. It continued to revise and improve its corporate governance normative documents based on regulatory requirements and the Bank's development, and acted in strict accordance with those documents. During the reporting period, the Bank amended the Articles of Association, revised and improved relevant provisions concerning the operation of the Board of Directors, independent directors and profit distribution, thus making its corporate governance system more comprehensive and rational.
3. Enhancing the corporate governance efficiency continuously by virtue of the coordinated operations of an efficient and pragmatic corporate governance mechanism focusing on scientific decision-making, the Bank's Board of Directors is rationally structured with members of various backgrounds and a sound operational mechanism. Directors performed their duties diligently and the Board meeting attendance was high. The Board of Directors fully communicated with the senior management on major proposals, which effectively ensured the scientific decision-making of the Board of Directors and continuously improved efficiency. The Bank continued to improve its information disclosure mechanisms and strengthened information disclosure management, thus improving the transparency and quality of information disclosure.
4. Exploring and developing the best practice of corporate governance by virtue of initiative and innovative corporate governance, striving for excellent corporate governance, the Bank actively explored the use of innovative corporate governance practices. The Bank reinforced its efforts in exploring the corporate governance at the Group level and effectively improved Group-level management and control. The Bank treated all shareholders equally, and ensured that all shareholders, especially minority shareholders, were properly informed and able to participate and make decisions. The annual shareholders' meetings were held in Beijing and Hong Kong by way of video conference, allowing shareholders from both places to attend in person. The Bank also continued to improve its stakeholder mechanism. It was responsible for shareholders, society, clients, the Bank, and for the staff, and actively assumed social responsibilities. The Bank focused closely on exploring forward-looking issues and strived for corporate governance excellence.

In 2012, progress in the Bank's corporate governance continued to be recognized by the capital markets and society. The Bank received, among other awards, "Top Ten Corporate Governance" by China Central Television, "Top Ten Enterprises with Highest Corporate Governance Scores" by The Hong Kong Institute of Directors, "Best Corporate Governance" by Institute of Corporate Governance of Nankai University, "Excellence of Listed Enterprises Award" by *Capital Weekly* of Hong Kong, "Achievement Award for Listed Companies" by *China Business News*, "Best Board of Directors of Main Board Listed Companies in China" by *Money Weekly*.

Corporate Governance Framework

The Bank's corporate governance framework is shown below:



Corporate Governance Compliance

During the reporting period, the Bank's corporate governance was fully in line with the Company Law and the relevant provisions of CBRC.

During the reporting period, the Bank strictly observed the *Corporate Governance Code* (the "Code") as set out in Appendix 14 to the Hong Kong Listing Rules. The Bank has complied with all provisions of the *Code* and has substantially complied with most of the recommended best practices set out in the *Code*. The Bank had already started to observe the amendments to the *Code* before 1 April 2012 when the amendments took effect and had proactively adopted their commended best practices specified by the amended *Code*.

Amendments to the Articles of Association

The 2012 First Extraordinary General Meeting considered and approved a proposal to amend the Articles of Association to specify that "the independent directors shall account for at least one third of the total board members". This amendment to the Articles of Association has been approved by CBRC.

The 2011 Annual General Meeting considered and approved a proposal for amendments to the Articles of Association, the key components of which were: "any vote of shareholders at the shareholders' meeting shall be taken by poll", the directors shall "take an active interest in the Bank's affairs and follow up anything untoward that comes to their attention", the Board of Directors' function and power shall include the responsibility "to develop and review the corporate governance policies of the Bank", "persons in charge of Personnel and Remuneration Committee and Connected Transactions Control Committee shall be independent directors", and a clarification of the function and power of the Audit Committee and the Personnel and Remuneration Committee. Please refer to the notice of the 2011 Annual General Meeting disclosed on 12 April 2012 and announcement regarding the resolutions of the 2011 Annual General Meeting disclosed on 30 May 2012 for details. These amendments of the Articles of Association have been approved by CBRC.

The Board of Directors' Meeting on 25 October 2012 considered and approved a proposal to amend the

Articles of Association to specify the profit distribution principles and policy of the Bank. The amendments to the Articles of Association are subject to approval by the 2013 First Extraordinary General Meeting. Please refer to the section “Report of the Board of Directors — Formulation and Implementation of Cash Dividend Policy” and the notice of the 2013 First Extraordinary General Meeting disclosed on 7 February 2013 for the details.

Shareholders and Shareholders’ Rights

The Bank highly values the protection of its shareholders’ interests and has established and maintained an effective and multi-channel platform to communicate with shareholders. This includes holding shareholders’ meetings and setting up an investor hotline 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 is independent and completely autonomous 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.

Shareholders’ right to convene a shareholders’ meeting

According to the Articles of Association, shareholders individually or in aggregate holding a total of 10% or more of the shares of the Bank have the right to make a written request 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 a written request for 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 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, 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 a shareholders’ meeting. When the Board of Directors decides not to include such proposals in 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 to exclude such proposals, they may request to call for an extraordinary shareholders’ meeting by themselves based on the relevant procedures stipulated in the Articles of Association.

Shareholders’ right to present enquiries

According to the Articles of Association, 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 for details of the rights entitled to shareholders. If shareholders need to contact the Board of Directors regarding the aforementioned items or for other enquiries to the Board of Directors, please refer to the section “Reference for Shareholders — Investor Enquiry” for contact details.

Shareholders' Meeting

The Bank held its 2012 First Extraordinary General Meeting in Beijing on 6 January 2012. This meeting considered and approved three proposals including a proposal to elect Mr. WANG Yongli as Executive Director of the Bank, the remuneration plan for the Chairman, executive directors, Chairman of the Board of Supervisors and shareholder representative supervisors of 2010, and a proposal to amend the Articles of Association. The proposal to amend the Articles of Association was a special resolution.

On 30 May 2012, the Bank held its 2011 Annual General Meeting in Beijing and Hong Kong by way of video conference. This meeting considered and approved eight proposals including the 2011 work report of the Board of Directors, the 2011 work report of the Board of Supervisors, the 2011 annual financial statements, the 2011 profit distribution plan, the 2012 annual budget, the re-appointment of PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers as external auditors for 2012, the proposal to elect Mr. Nout WELLINK as an Independent Director of the Bank, and the proposal to amend the Articles of Association. The proposal to amend the Articles of Association was a special resolution.

On 25 October 2012, the Bank held its 2012 Second Extraordinary General Meeting in Beijing. This meeting considered and approved two proposals including the remuneration plan for the Chairman, executive directors, Chairman of the Board of Supervisors and shareholder representative supervisors of 2011 and a proposal regarding the appointment of Ernst & Young Hua Ming as the Bank's external auditor for 2013.

All of the aforementioned meetings were convened and held in strict compliance with the relevant laws and regulations as well as the listing rules of the Chinese mainland and Hong Kong. The Bank's directors, supervisors and senior management members attended the meetings and communicated with shareholders on issues of their concern.

The Bank published announcements on the resolutions and legal opinions of the aforementioned shareholders' meetings on 6 January 2012, 30 May 2012 and 25 October 2012 respectively, pursuant to regulatory requirements. Please refer to the websites of SSE, HKEx and the Bank.

Directors' Attendance at Shareholders' Meetings

During the reporting period, the attendance rate of each director is given below:

Director	Number of meetings attended in person Number of meetings convened during term of office
XIAO Gang	2/3
LI Lihui	2/3
LI Zaohang	3/3
WANG Yongli	2/2
CAI Haoyi	3/3
SUN Zhijun	3/3
LIU Lina	3/3
JIANG Yansong	3/3
ZHANG Xiangdong	3/3
ZHANG Qi	3/3
Anthony Francis NEOH	2/3
Alberto TOGNI	0/2
HUANG Shizhong	2/3
HUANG Danhan	3/3
CHOW Man Yiu, Paul	2/3
Jackson TAI	2/3
Nout WELLINK	1/1

Notes:

1 Please refer to the section “Directors, Supervisors and Senior Management Members — Changes in Directors, Supervisors and Senior Management Members” for changes in directors.

2 Rule 1 (C) of *Corporate Governance Report*, as set out in Appendix 14 to the Hong Kong Listing Rules, requires that the corporate governance reports shall disclose each director’s attendance at shareholders’ meetings. This rule took effect on 1 April 2012.

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’ meetings during the reporting period.

The 2012 First Extraordinary General Meeting and the 2011 Annual General Meeting considered and approved a proposal to amend the Articles of Association. The relevant amendments have been approved by CBRC, and the amended Articles of Association has been published on the websites of SSE, HKEx and the Bank. All activities of the Bank are in line with the amended Articles of Association.

Proposals to elect directors were approved by the 2012 First Extraordinary General Meeting and the 2011 Annual General Meeting. The relevant approval and filling procedures have been completed with regulatory authorities.

As approved by the 2011 Annual General Meeting, the Board of Directors diligently carried out the 2011 profit distribution plan, distributed dividends to shareholders in a timely manner and effectively served the shareholders’ interests. The profit distribution was completed in July 2012.

As approved by the 2011 Annual General Meeting, the Bank has completed the re-appointment of PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers as external auditors for 2012.

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; developing and reviewing corporate governance policies of the Bank; 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 their work, etc. The Board of Directors continually reviews and updates the Articles of Association and the Bank's corporate governance policies and systems in accordance with the applicable laws and regulations, relevant regulatory requirements and listing rules, and ensures the compliance with such policies and systems.

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 of the Bank are assumed by two persons. The Bank renewed the directors' and officers' liability insurance for members of the Board in 2012 to provide protection against claims arising from the lawful discharge of duties by the directors, thus encouraging the directors to fully perform their duties.

Currently, the Board of Directors comprises fourteen members. There are three executive directors, five non-executive directors and six independent 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 appointment of CBRC. A director may serve consecutive terms by re-election and re-appointment unless otherwise specified by laws, regulations and supervisory requirements. For detailed background and an explanation of recent changes to the Board members, please refer to the section "Directors, Supervisors and Senior Management Members".

Convening of Board Meetings

In 2012, the Bank convened six on-site meetings of the Board of Directors on 29 March, 26 April, 30 May, 23 August, 25 October and 13 December, respectively. At these meetings, the Board of Directors reviewed and approved 39 proposals related to the 2011 internal control self-assessment report, the 2011 corporate social responsibility report, the 2011 work report of the Board of Directors, the Bank's regular reports, the profit distribution plan, the appointment of directors, the adjustment of the composition of special committees of the Board of Directors, the amendments to the Articles of Association, the appointment of auditor for 2013 and matters concerning expenses. It also listened to 10 reports, including reports related to the consolidated management and other matters.

In 2012, the Bank convened twelve meetings of the Board of Directors via written resolutions. At these meetings, the Board of Directors approved the Rules Governing Persons with *Knowledge of Inside Information of Bank of China Limited (Version 2012)*, the Announcement Regarding the Surveillance Credit Rating Results on the Convertible Bonds of Bank of China Limited and other proposals.

During the reporting period, the attendance rate of each director of the Board of Directors and Special Committees is given below:

Number of meetings attended in person/Number of meetings convened during term of office

Special Committees

Directors	Board of Directors	Strategic			Personnel and Remuneration	Connected Transactions Control
		Development Committee	Audit Committee	Risk Policy Committee	Committee	Committee
XIAO Gang	17/18	2/2	—	—	—	—
LI Lihui	18/18	2/2	—	—	—	—
LI Zaohang	18/18	—	—	—	—	4/4
WANG Yongli	16/17	—	—	6/7	—	—
CAI Haoyi	15/15	1/2	—	—	4/4	—
SUN Zhijun	18/18	2/2	6/6	—	—	—
LIU Lina	18/18	2/2	—	8/8	—	—
JIANG Yansong	18/18	2/2	—	8/8	—	—
ZHANG Xiangdong	18/18	2/2	6/6	—	—	—
ZHANG Qi	18/18	2/2	—	—	4/4	—
Anthony Francis NEOH	18/18	—	6/6	8/8	4/4	4/4
Alberto TOGNI	6/7	1/1	2/2	2/4	—	1/1
HUANG Shizhong	18/18	—	6/6	6/8	4/4	4/4
HUANG Danhan	18/18	—	6/6	—	4/4	4/4
CHOW Man Yiu, Paul	18/18	—	6/6	8/8	2/2	4/4
Jackson TAI	18/18	2/2	6/6	—	—	4/4
Nout WELLINK	4/4	0/0	1/1	1/1	—	—
Average Attendance Rate	99%	95%	100%	90%	100%	100%

Notes:

1 Please refer to the section “Directors, Supervisors and Senior Management Members — Changes in Directors, Supervisors and Senior Management Members” for changes in directors.

2 In 2012, the Bank’s Board of Directors convened a total of eighteen meetings, comprising six on-site meetings and twelve meetings via written resolutions.

3 Independent Director Mr. Alberto TOGNI was not able to attend the Board Meeting in person on 30 May 2012. He authorized another director to attend and vote at the meeting as his proxy.

4 Chairman Mr. XIAO Gang and Executive Director Mr. WANG Yongli were not able to attend the Board Meeting in person on 13 December 2012 due to other business engagements. They authorized other directors to attend and vote at the meeting as their proxies.

5 Non-executive Director Mr. CAI Haoyi was not able to attend the Strategic Development Committee Meeting in person on 22 August 2012. He authorized another director to attend and vote at the meeting as his proxy.

The Strategic Development Committee

The Strategic Development Committee comprises eight members, including Executive Director Mr. LI Lihui, Non-executive Directors Ms. Sun Zhijun, Ms. Liu Lina, Ms. Jiang Yansong, Mr. Zhang Xiangdong, Mr. Zhang Qi and Independent Directors Mr. Jackson Tai and Mr. Nout WELLINK.

The committee is mainly responsible for reviewing the strategic development plans presented by the senior 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; designing and formulating key investment and financing plans, reviewing and approving the plans presented by senior management under the Board’s authorization, and advising the Board accordingly.

The Strategic Development Committee held two meetings in 2012. At these meetings, it mainly approved the 2011 profit distribution plan, a proposal to turn the Bangkok Branch to a subsidiary, a report on the progress of the village bank project and requests for instructions on relevant issues.

The Audit Committee

The Audit Committee comprises eight members, including Non-executive Directors Ms. Sun Zhijun, Mr. Zhang Xiangdong and Independent Directors Mr. Anthony Francis Neoh, Mr. Huang Shizhong, Ms. Huang Danhan, Mr. Chow Man Yiu, Paul, Mr. Jackson Tai and Mr. Nout Wellink. Independent Director 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 formulated by the senior management; reviewing the external auditors' audit opinion, annual audit plan and recommendations for 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 external auditors and internal audit and monitoring their independence; recommending the engagement, reappointment, replacement and audit fee of the external auditors; recommending the appointment and dismissal and appraising the performance of the Chief Audit Officer; overseeing the Bank's internal control function, reviewing significant deficiencies in internal control design and execution by the senior management and investigating fraud cases, reviewing the employee reporting system and urging the Bank to conduct fair investigations and take appropriate measures regarding matters reported by the employees.

The Audit Committee held six meetings in 2012. It mainly reviewed such proposals as the Bank's quarterly, interim and annual financial reports, the annual self-assessment report on internal control and the 2011 internal audit work summary. It reviewed and approved the internal audit's work plan and budget for 2012, the internal audit priorities for 2013, the work plan for implementation of internal control standards in 2012, the overall work plan for external auditor rotation in 2013, the appointment and audit fee of the external auditor for 2013 and audit plan for external auditor transition in 2013. It also listened to a report on internal audit related to antimoney laundering, a report on internal audit requirements arising from the implementation of the *Administrative Measures for the Capital of Commercial Banks (Trial)* and corresponding countermeasures, and a report on cases in 2012. It also followed up on the implementation progress of an internal rating system for credit risk under the New Basel Capital Accord, the working practices of a risk accountability system and the building of an integrated monitoring platform for operational risk at the Group level.

According to the *Procedure Rules on the Preparation of Annual Report of the Board Audit Committee of Bank of China Limited*, prior to the start of audit field work by the auditors, the Audit Committee confirmed with the auditors the details of the 2012 audit plan, including areas of focus for auditing the 2012 Annual Report, risk assessment and identification methods, the application of accounting standards, tests of internal control and fraud related procedures, and the allocation of human resources. In particular, the committee reminded the auditors to report any differences of judgment between the auditors and the senior management during the audit, as well as the process and results of reconciling such differences.

The Audit Committee listened to and reviewed reports from the senior management concerning the Bank's business performance and major financial data. The committee also requested that the senior management submit the annual financial statements to the auditors in a timely manner, to ensure 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 2013, the Audit Committee reviewed and approved the Bank's 2012 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*, a 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 on the auditors' performance, effectiveness and independence in 2012.

According to the relevant requirements of MOF on the tenure of service of an external auditor engaged by a financial institution, the service term of the Bank's current external auditors will reach the prescribed time limit soon. As a result, the Bank launched the rotation of external auditors. Following the selection and engagement procedures required by the relevant regulations, the Audit Committee proposed to engage Ernst & Young Hua Ming as the Bank's external auditor for auditing its financial statements and internal control in 2013. This proposal has been reviewed and approved by the Board of Directors and the Extraordinary General Meeting of the Bank.

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

The Board proactively promotes and attaches great importance to the establishment of the Group's long-acting internal control system and regularly reviews reports from senior management concerning operational management, risk management, case prevention and control and internal control enhancement and assessment. The Board has taken responsibility for establishing, improving and conducting effective internal control and has made great efforts towards providing guidance to the Bank's internal control and compliance work, the Group's risk mitigation ability and level of operational compliance have been continuously enhanced. The Audit Committee of the Board of Directors closely tracked changes in the overseas and domestic economic and financial environment and paid close attention to the overall condition of the Group's internal control, including the establishment and operation of its internal control systems for financial and non-financial reporting, as well as the Bank's progress in implementing the *Basic Standard for Enterprise Internal Control* and its supporting guidelines. The Audit Committee guided the internal audit function to follow the implementation of the Group's strategies, focused on mitigating systemic and material risks, set inspection priorities and conducted inspection work based on the philosophy of comprehensive risk management and risk assessment results, thus improving the effectiveness and efficiency of the Group's operations and enhancing its corporate governance.

The Audit Committee heard and reviewed, on a regular and ad hoc basis, reports on internal audit and inspections, the assessment opinions on internal control, the progress of rectification measures related to the external auditor's recommendations for the improvement of internal control and the prevention and control of fraud cases and non-compliance, with a view to encouraging the senior management to continually improve the internal control system. The Audit Committee continued to guide the internal audit function to closely track the overall process of the New Basel Capital Accord implementation and provided independent suggestions and opinions on internal control improvement.

During the reporting period, the Bank followed the relevant requirements set forth in 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*, with no material deficiency identified in the internal control systems of the Bank, including both financial and non-financial reporting. Please refer to the announcement of the Bank dated 26 March 2013 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 Directors Mr. Anthony Francis Neoh, Mr. Huang Shizhong, Mr. Chow Man Yiu, Paul and Mr. Nout WELLINK. Independent Director Mr. Anthony Francis Neoh serves as the Chairman of the committee. The committee is mainly responsible for reviewing the Bank's risk management strategies, major risk management 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, regularly assessing the duty performance of risk management and internal control by the senior management, departments and institutions of the Bank, including regularly hearing reports and requesting improvements.

The Risk Policy Committee held eight meetings in 2012, in which it mainly reviewed and approved a compliance plan for advanced risk measurement approach and capital adequacy ratio, an assessment and rectification plan for the implementation of the New Basel Capital Accord, an internal rating policy for credit risk, securities investment policy, market risk limits and credit proposals whose amounts exceeded the approval authority of senior management. The committee also regularly reviewed progress reports regarding the Bank's implementation of the New Basel Capital Accord and reports on Group's risk assessment.

In addition, the committee paid constant attention to critical risk issues, such as the Bank's securities investments and loans to certain industries, in response to changes in overseas and domestic economic and financial conditions and adjustments of the government's macro policies. The committee members offered important opinions and recommendations regarding the improvement of the Bank's risk governance mechanism and the effective prevention and control of risks, including credit risk, market risk, operational risk, legal and compliance risk, liquidity risk, etc.

The Personnel and Remuneration Committee

The Personnel and Remuneration Committee comprises five members, including Non-executive Director Mr. ZHANG Qi, and Independent Directors Mr. Anthony Francis NEOH, Mr. HUANG Shizhong, Ms. HUANG Danhan and Mr. CHOW Man Yiu, Paul. Independent Director Mr. CHOW Man Yiu, Paul serves as the 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 implementations; reviewing the structure, size and composition of the Board of Directors on an annual basis, and making suggestions to the Board regarding the scale and composition of the Board of Directors; studying and reviewing the standards and procedures for selecting, nominating and appointing directors, members of the Board committees and senior management, and making recommendations to the Board of Directors; identifying individuals suitably qualified to become directors and making recommendations to the Board of Directors on the selection of individuals nominated for directorships; performing preliminary review of the candidates for the members of the senior management and the Chairman of the Board committees, selecting and nominating candidates for different Board committees, and reporting to the Board of Directors for approval; reviewing and monitoring the remuneration and incentive policies of the Bank; considering and examining the remuneration plan of directors, supervisors and senior management members, and making recommendations to the Board of Directors; and setting the performance appraisal standards for the senior management of the Bank, evaluating the performance of the directors, supervisors and members of the senior management, and making recommendations to the Board of Directors.

The Personnel and Remuneration Committee held three on-site meetings and one meeting by written resolution in 2012. At these meetings, the committee mainly approved proposals on the performance evaluation and remuneration distribution plan for the Chairman, executive directors and senior management members for 2011, the 2012 performance targets for the Group, the 2012 performance targets for the Chairman, the President and the senior management members, a proposal for the nomination and appointment of an independent director, a proposal for adjustments to the composition of the Board committees and a proposal on the nomination and appointment of the Secretary to the Board of Directors. The committee also reviewed the remuneration distribution plan for the Chairman and members of the Board of Supervisors in 2011. The committee put forward important opinions and recommendations on further improving the Bank's performance evaluation management in line with regulatory requirements.

The procedures and methods for the nomination of directors and the specific requirements for nominating independent directors are specified in the Articles of Association. For details, please refer to articles 59, 103 and 135 of the Articles of Association, which can be found on the websites of SSE, HKEx and the Bank. During the reporting period, the Bank appointed Mr. WANG Yongli as an Executive Director and Mr. Nout WELLINK as an Independent Director in strict compliance with the Articles of Association.

The Connected Transactions Control Committee

The Connected Transactions Control Committee comprises six members, including Executive Director Mr. LI Zaohang, and Independent Directors Mr. Anthony Francis NEOH, Mr. HUANG Shizhong, Ms. HUANG Danhan, Mr. CHOW Man Yiu, Paul and Mr. Jackson TAI. Independent Director Ms. HUANG Danhan serves as the Chairman of the committee. The committee is mainly responsible for administering connected transactions of the Bank in accordance with relevant laws, regulations and normative documents, and formulating administrative regulations with regard to connected transactions; confirming the Bank's connected parties according to laws, regulations and normative documents, and reporting the relevant confirmation to the Board of Directors and the Board of Supervisors; defining connected transactions of the Bank in accordance with laws, regulations and normative documents; examining connected transactions of the Bank pursuant to relevant laws, regulations and normative documents, as well as the

business principles of justice and fairness; and examining information disclosure matters related to the significant connected transactions of the Bank.

The Connected Transactions Control Committee held four meetings in 2012, in which the committee reviewed and approved several proposals, including the *Procedural Rules for Connected Transactions Control Committee of the Board of Directors of Bank of China Limited (2012)*, the report on 2012 connected transactions management of the Bank, and the report on the confirmation of connected parties list of the Bank. It also reviewed proposals related to the special report on funds occupied by controlling shareholders and other related parties in 2011, the declaration on connected transactions of the Bank in 2011, the report on transactions between the Bank and Fullerton Financial Holdings Pte. Ltd. and the report on the connected transactions monitoring system.

Independent Non-executive Directors

There are currently six independent directors on the Board of Directors. This exceeds one-third of the total number of directors and is in compliance with the quorum requirement specified in the Articles of Association and relevant regulatory requirements. For the professional backgrounds and other details of the independent directors, please refer to the section “Directors, Supervisors and Senior Management Members”. The independent 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 relevant domestic regulatory requirements and Rule 3.13 of the Hong Kong Listing Rules, the Bank has received the annual confirmation in writing from each independent 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 2012, the Bank’s independent 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, the *Procedural Rules for Board of Directors of Bank of China Limited* and the *Work Rules of Independent Directors of Bank of China Limited*. Please refer to the section “Convening of Board Meetings” for the attendance of independent directors at Board meetings and refer to the “Directors’ Attendance at Shareholders’ Meetings” for the attendance of independent directors at shareholders’ meetings.

In 2012, independent directors put forward recommendations on the Bank’s strategic planning, capital management, overseas development, human resources allocation, financial markets business, New Basel Capital Accord implementation, the appointment of external auditors and many other aspects. The recommendations were adopted and seriously implemented by the Bank. In 2012, the independent directors did not raise any objection to the resolutions of the Board of Directors or its special committees.

Expertise Enhancement of Directors

In 2012, the Board of Directors paid much attention to enhancing directors’ expertise, focused on and actively arranged for relevant trainings. All directors of the Bank fully observed Rule A6.5 of the *Corporate Governance Code* as set out in Appendix 14 to the Hong Kong Listing Rules and regulatory requirements of Chinese mainland and participated in many special training sessions, focusing on such topics as risk management in the financial industry, the supervision of G-SIFIs, latest changes in laws and regulatory requirements for companies listed in Hong Kong, domestic regulatory rules on the insider trading of securities, the application of economic capital under the New Basel Capital Accord, and the new price-sensitive information disclosure regime of Hong Kong, among others. All directors have also propelled their own progress in professional skills through various ways, including writing and publishing professional articles and books, attending forums and seminars, special trainings and public lectures, and conducting on-site research exercises at the international leading banks and the Bank’s domestic and abroad branches.

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 CSRC, and according to the principles of equity, fairness and objectivity, the Independent Directors of the Bank, Mr. Anthony Francis NEOH, Mr. HUANG Shizhong, Ms. HUANG Danhan, Mr. CHOW Man Yiu, Paul, Mr. Jackson TAI and Mr. Nout WELLINK 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 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 principally comprises letters of guarantee. As at 31 December 2012, the outstanding amount of letters of guarantee issued by the Bank was RMB846.627 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, 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 currently comprises eight members. Other than the Chairman of the Board of Supervisors, there are two supervisors representing shareholders, three employee supervisors and two 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 re-appointment. Supervisors representing shareholders and external supervisors are elected or replaced by the shareholders' meeting.

The Board of Supervisors has set up the Duty Performance and Due Diligence Supervision Committee and the Finance and Internal Control Supervision Committee to assist it in performing its authorized duties. The special committees mentioned above are responsible to the Board of Supervisors, members of which are supervisors, and each committee shall have at least three members.

In 2012, 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".

Senior Management

The senior management is the executive organ of the Bank. It is headed by the President, with Executive Vice Presidents and other senior management members assisting the President's work. The main responsibilities of the President include: presiding over the Bank's daily administrative, business and financial management; organizing the implementation of business plan and investment schemes; drafting basic management regulations and specific rules; nominating candidates for other senior management members; and reviewing employees' remuneration, benefit, reward and punishment measures.

In 2012, the senior management of the Bank drove forward the Bank's operations in accordance with the powers bestowed upon them by the Articles of Association and the authorizations of the Board of Directors, and carried out the Bank's development strategy based on the annual performance objectives approved by the Board of Directors. Following the principles of "streamlining structures, scaling up, managing risks and sharpening competitiveness", the senior management adhered to focusing on efficiency and emphasizing on streamlining structure and managing risks, propelled the sound development of various businesses, and hence continuously enhanced the Bank's performance.

During the reporting period, the senior management of the Bank held twenty-five regular meetings, in which it discussed and decided upon a series of significant matters, including the Bank's business development, asset and liability management, risk management, IT application, product innovation, human resources and performance management. It also convened one hundred and forty-three special meetings to arrange for matters relating to corporate banking, personal banking, financial markets, risk management and internal control, overseas development and integrated operations.

In 2012, in response to actual operational management needs, the senior management established the Asset and Liability Management Committee to take charge of the review of management policies on asset allocation, asset and liability business pricing, liquidity management, interest rate and exchange rate risk management, etc. The senior management of the Bank presides over the Corporate Banking Committee, the Personal Banking Committee, the Financial Markets Committee, the Asset and Liability Management 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 of the committees diligently fulfilled their duties and responsibilities as per the powers specified in their committee charters and the rights delegated by the Group Executive Committee, and strived to push forward the sound development of various operations of the Bank.

Securities Transactions by Directors and Supervisors

Pursuant to domestic and overseas securities regulatory requirements, the Bank formulated 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"). All directors and supervisors 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 understood separately 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 2011 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 2012, and PricewaterhouseCoopers as its international auditor for 2012.

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 RMB222 million for the year ended 31 December 2012, of which the fees for internal control audit totalled RMB15 million.

PricewaterhouseCoopers was not engaged in significant non-auditing services with the Bank in 2012. The Bank incurred RMB6 million for non-auditing services performed by PricewaterhouseCoopers for the year ended 31 December 2012.

PricewaterhouseCoopers Zhong Tian CPAs Limited Company and PricewaterhouseCoopers have provided audit services to the Bank for 10 years. Mr. WU Weijun and Mr. WANG Wei are the certified public

accountants that signed the auditor's report on the Group's financial statements prepared in accordance with the CAS for the year ended 31 December 2012. Mr. WU Weijun has provided audit services to the Bank for two consecutive years.

Upon the approval of the 2012 Second Extraordinary General Meeting, the Bank engaged Ernst & Young Hua Ming as its external auditor for auditing its financial statements and internal control in 2013.

Investor Relations and Information Disclosure

In 2012, following the 2011 annual results and 2012 interim results announcements, the Bank successfully organized non-deal roadshows in which the senior management explained the Bank's strategies and operating performance to investors from different countries and regions including the Chinese mainland, Hong Kong, Europe and North America. The senior management listened earnestly to market concerns and feedback and were warmly welcomed by investors. Furthermore, the Bank proactively enhanced investor relations activities by actively participating in influential investor conferences, successfully holding corporate day events and earnestly communicating with investors and analysts regarding critical issues such as interest rate liberalisation, cross-border RMB business and risk management. Through these activities, the Bank actively highlighted its differentiated competitive advantages to the market. During the reporting period, the Bank's senior management and representatives of major departments held and attended over 200 meetings with domestic and overseas institutional investors and analysts, effectively promoting the investment community's understanding of the Bank's investment value. The investor relations team of the Bank also continually updates its investor relations webpage and improves other communication channels including telephone hotline and email, providing timely information to individual investor.

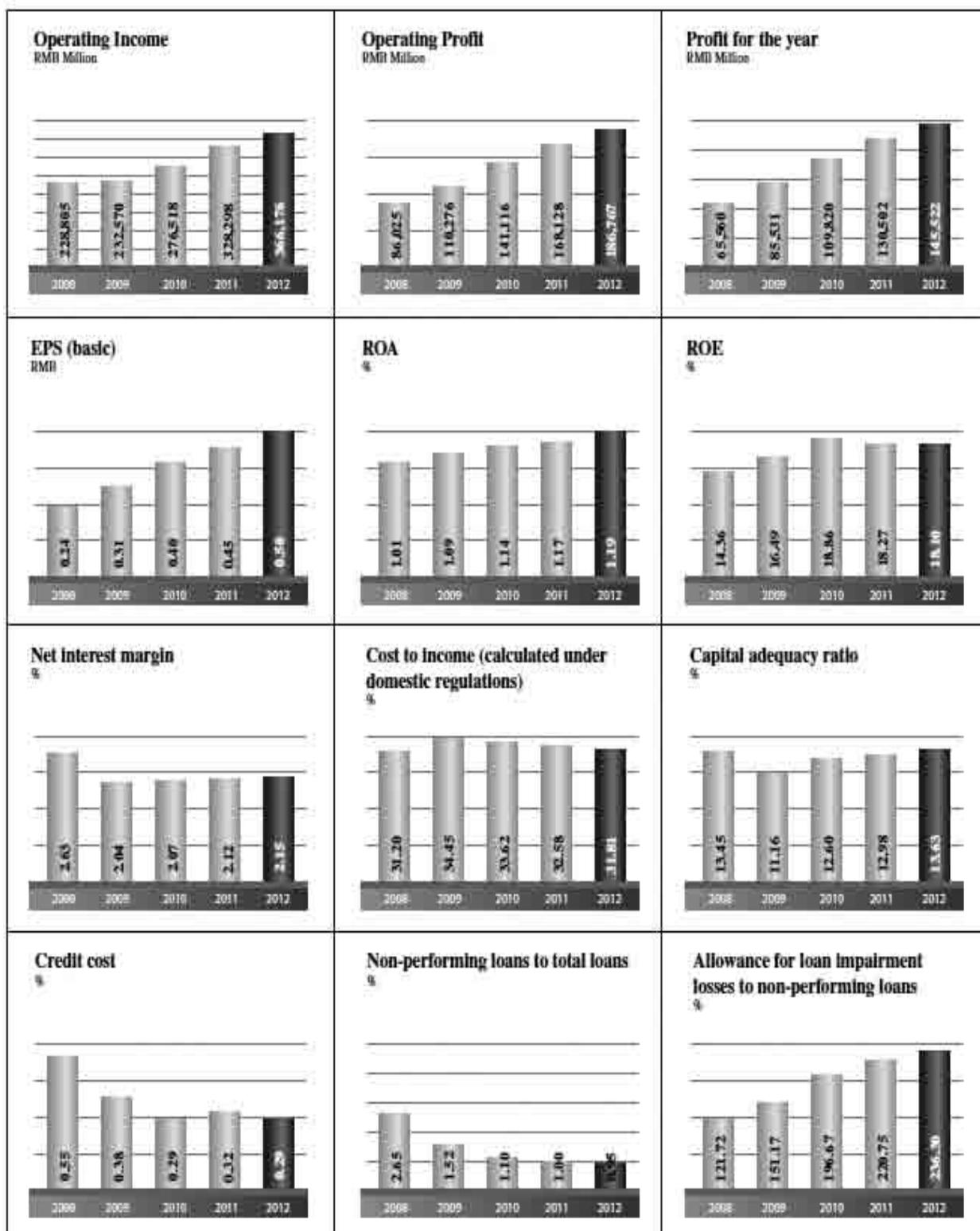
In the meantime, the Bank continued to enhance management of its external credit rating affairs, closely tracked the influence of its credit rating on the market and relevant institutions, and proactively researched rating methodologies and rating reports, and strengthened its integrated credit rating management, thereby further improving its management capability. In 2012, in the face of a complicated global financial and economic environment, the Bank's investor relations department fostered effective and more frequent communication with rating agencies at multiple levels, in respect of the Bank's risk profile, operating performance and development strategy. During the reporting period, the Bank's credit ratings have been reaffirmed by the major rating agencies.

In 2012, the Bank further improved its information disclosure management system by optimizing the working procedure for its regular reports, revising the *Rules Governing Persons with Knowledge of Inside Information of Bank of China Limited* published on the websites of SSE, HKEx and the Bank and formulating the rules of disclosure for material provisional reports. During the reporting period, the Bank prepared and disclosed its regular reports and provisional reports strictly in line with the principles of truthfulness, accuracy, completeness, timeliness and fairness in order to enhance transparency. The Bank strictly complied with regulatory requirements and internal regulations, conducted the registration of persons with knowledge of inside information and self-inspection to prevent the occurrence of insider trading. The Bank reinforced the accountability systems and information correspondence mechanism across the Head Office departments, domestic and overseas branches and subsidiaries, organised training sessions for employees involved in the information correspondence mechanism and included information disclosure effectiveness as part of the Group's internal control assessment. Moreover, the Bank has further enhanced its information disclosure management ability and compliance by paying close attention to the relevant laws and regulations, and conducting case studies on information disclosure. The Bank has established the *Management Measures on Responsibility Investigation on Material Information Disclosure Errors of Regular Reports of Bank of China Limited*. During the reporting period, no material disclosure error in the Bank's regular reports was found.

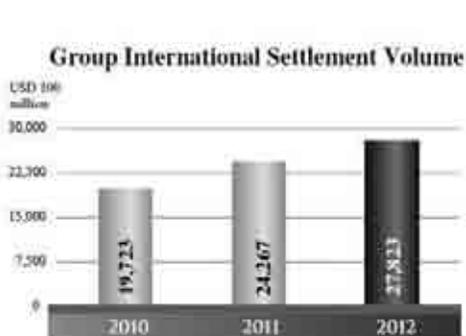
In 2012, the Bank once again received wide recognition for its investor relations and information disclosure performance. The Bank was recognised as a "Top 100 Listed Company by Capital Capacity" jointly by China Center for Market Value Management and Chinese Financial Research Center of Tsinghua University. The 2011 Annual Report of the Bank was honoured with a "Gold Award" in the overall category of the LACP (League of American Communications Professionals) and recognised as one of the "Top 25 Chinese Annual Reports" and "Top 50 Annual Reports in the Asia-Pacific Region". It was also awarded "Gold Winner in the Asia/ Pacific Region" by Galaxy Awards.

Group highlights in 2012

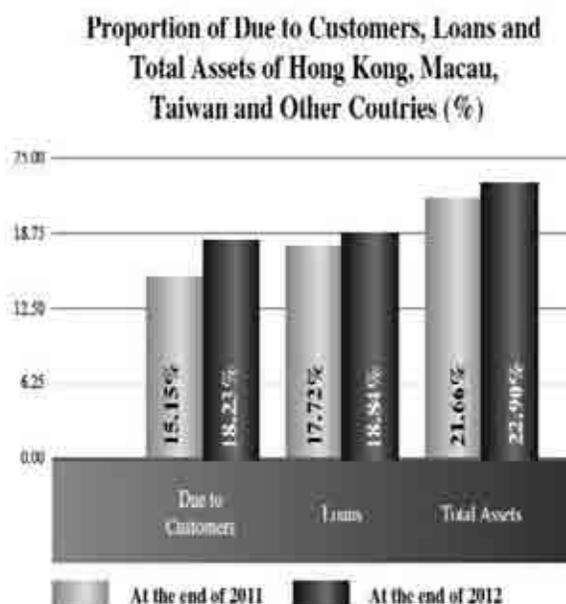
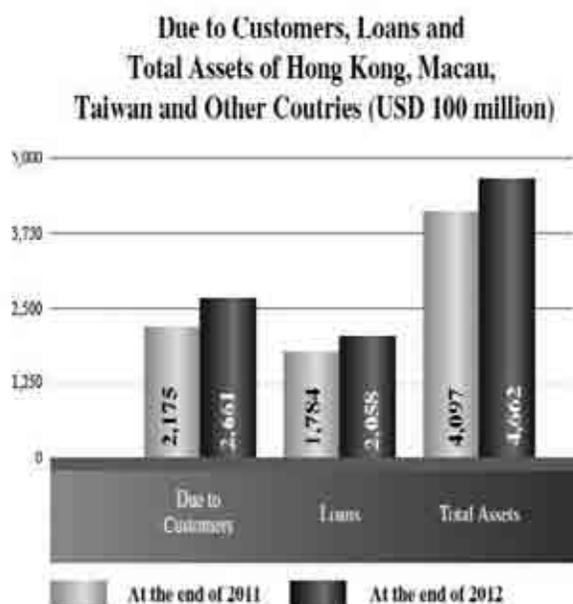
Achieving Sustainable Growth



International Settlement and Trade Finance Business



Commercial Banking Business in Hong Kong, Macau, Taiwan and Other Countries



2013 Macro Economy Outlook and Key Focuses of Bank

MACRO ECONOMY TREND

- The global economy experienced a soft recovery.
- European economies slipped into a double-dip recession.
- China's economy achieved a stable and balance growth and performed well.
- Monetary policies remained loose.
- Risk aversion sentiment has also led to relatively high volatility in foreign exchange markets.

KEY FOCUSES IN 2013

- Focus on deepening business transformation to improve operational efficiency.
- Enhance operational management mechanisms to improve management efficiency.
- Accelerate smart-bank construction to improve customer experience.
- Strengthen risk management pragmatically to improve the development quality.

Honors and Awards

China Central Television

Top Ten Corporate Governance

Institute of Corporate Governance of Nankai University

Best Corporate Governance

Euromoney

Best Debt House in China

Best Private Banking in China

Best Domestic Cash Manager in China

Best Domestic Debt Underwriter in China

Trade Finance

Best Chinese Trade Bank

FinanceAsia

Private Bank Country Awards 2012 in China

FORTUNE

Ranked 93rd in Fortune Global 500 (2012)

Interbrand

2012 Top 50 Best Chinese Brands

China Business News

Wealth Management Brand of the Year
(Banking Sector)

Private Bank of the Year

Best Charity Marketing Award

Money Weekly

Top Ten Popular Chinese Credit Card Brands

Best Financial Management Brand

21st Century Business Herald

Best Socially Responsible Bank in Asia

China Banking Association

Most Socially Responsible Financial
Institution Award

Social Responsibility — Best Charitable
Contribution Award

League of American Communications Professionals

2011 Annual Report — Gold Award

The Hong Kong Institute of Directors

Top Ten Enterprises with Highest Corporate
Governance Scores

The Banker

Bank of the Year China

Global Finance

Best Trade Finance Bank in China

The World's Best Foreign Exchange Providers
in China

The Asset

The Asset Asia Trade Finance Bank

Leadership Award

The Asian Banker

Best Trade Finance Bank in China

Best Mobile Phone Banking Application
in China

WPP Group

The BrandZ Top 50 Most Valuable Chinese
Brands

The Chinese Banker

Best Financial Enterprise Image Award

Global Entrepreneur

Best Cross-border RMB business

Best Private Banking

ChinaHR.com

Top 10 Best Employers in China

Nanfang Media Group

Top 100 Listed State-owned Enterprises
by Corporate Social Responsibility

China Next Generation Education Foundation

Top Ten Caring Enterprises

Galaxy Awards

Gold Winner in the Asia/Pacific Region

Branch Financial Highlights

	Year Ended 31 December	
	2012	2011
	Audited	Unaudited
Key Statement of Profit and Loss (USD'000)		
Net Interest Income	3,156	184
Net Fee and Commission Income	2,912	1,032
Profit Before Tax	1,766	-1,327
Net Profit After Tax	1,328	-1,074
Key Statement of Balance Sheet (USD'000)		
Total Assets	462,917	206,384
Loans and Advances, net	9,584	6,034
Total Liabilities	422,966	167,762
Total Deposits	331,998	152,213
Paid-up Capital	40,000	40,000
Shareholder's Equity	39,950	38,623
Key Financial Ratios (%)		
Solvency Ratio	23.17%	20.61%
Liquidity Ratio	148%	208%
Return on Assets	0.29%	-0.52%
Return on Equity	3.32%	-2.78%
Net Interest Margin to Total Assets	0.68%	0.09%

Our Management Team



BANK OF CHINA LIMITED - PHNOM PENH BRANCH
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

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 Branch") for the year ended 31 December 2012.

BANK OF CHINA LIMITED - PHNOM PENH BRANCH

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

PRINCIPAL ACTIVITIES

The Branch 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 2012 are set out in the income statement on page 6.

ASSETS

Before the financial statements of the Branch were drawn up, the Management took reasonable steps to ensure that any assets, which were unlikely to be realised in the ordinary course of business at their values as shown in the accounting records of the Branch, 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 Branch 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 Branch 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 Branch 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 Branch 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 Branch 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 Branch, 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 Branch 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 Branch 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)
- Mr. Liu Xiaofeng (Senior Manager - Trade Finance Department)
- Ms. Lin Jia (Manager – Internal Risk Control Department)
- Mr. Huang Limao (Manager - Cooperate Banking Department)
- Ms. Yu Lei (Manager - Baking Department)

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 Branch as at 31 December 2012 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 of Cambodian Accounting Standards and the guidelines issued by the National Bank of Cambodia 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 Branch will continue operations in the foreseeable future; and
- v) effectively control and direct the Branch 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 Branch 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 Branch as at 31 December 2012, and of its financial performance and cash flows for the year then ended in accordance with Cambodian Accounting Standards and the guidelines issued by the National Bank of Cambodia, were approved by the Executive Management.

Signed on behalf of the Executive Management.



Chen Changjiang
Chief Executive Officer, CEO - Cambodia

Date: 29 March 2013

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 2012 and the income statement, statement of changes in equity and cash flow statement for the year then ended and, notes, comprising 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 Cambodian Accounting Standards and the guidelines issued by the National Bank of Cambodia, 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.

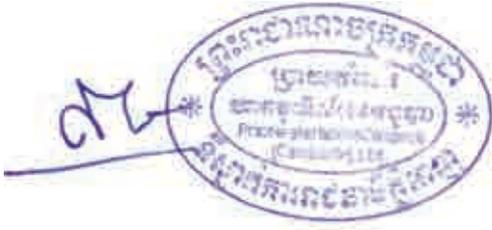
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or 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 Bank of China Limited – Phnom Penh Branch as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with Cambodian Accounting Standards and the guidelines issued by the National Bank of Cambodia.

For PricewaterhouseCooper (Cambodia) Ltd



By Kuy Lim
Partner

Phnom Penh, Kingdom of Cambodia
Date: 29 March 2013

BANK OF CHINA LIMITED - PHNOM PENH BRANCH

**INCOME STATEMENT
AS AT 31 DECEMBER 2012**

	Note	Year ended 31 December 2012		Year ended 31 December 2011	
		US\$	KHR'000	US\$	KHR'000
Interest income	4	4,940,095	19,735,680	517,608	2,090,619
Interest expense	5	(1,784,194)	(7,127,855)	(334,062)	(1,349,276)
Net interest income		<u>3,155,901</u>	<u>12,607,825</u>	<u>183,546</u>	<u>741,343</u>
Provision for doubtful debt	12-a	(910,458)	(3,637,280)	(60,950)	(246,177)
Net interest income after loan provision		<u>2,245,443</u>	<u>8,970,545</u>	<u>122,596</u>	<u>495,166</u>
Fee and commission income	6	3,010,311	12,026,192	1,060,944	4,285,153
Fee and commission expense		(98,342)	(392,876)	(29,443)	(118,920)
Net fee and commission income		<u>2,911,969</u>	<u>11,633,316</u>	<u>1,031,501</u>	<u>4,166,233</u>
Personnel expenses	7	(1,836,975)	(7,338,715)	(1,218,142)	(4,920,076)
Depreciation expenses	14	(288,988)	(1,154,507)	(289,095)	(1,167,655)
General and administrative expenses	8	(1,265,013)	(5,053,727)	(973,516)	(3,932,032)
Profit/(loss) before income tax		<u>1,766,436</u>	<u>7,056,912</u>	<u>(1,326,656)</u>	<u>(5,358,364)</u>
Income tax expense	9	(438,478)	(1,751,720)	252,540	1,020,009
Profit/(loss) for the year		<u>1,327,958</u>	<u>5,305,192</u>	<u>(1,074,116)</u>	<u>(4,338,353)</u>

The accompanying notes on pages 10 to 46 from an integral part of these financial statements.

BANK OF CHINA LIMITED - PHNOM PENH BRANCH

**BALANCE SHEET
AS AT 31 DECEMBER 2012**

	Note	As at 31 December 2012		As at 31 December 2011	
		US\$	KHR'000	US\$	KHR'000
ASSETS					
Cash on hand		5,247,624	20,964,258	3,072,654	12,410,450
Balances with the Central Bank	10	176,351,103	704,522,656	94,117,731	380,141,516
Balances with banks	11	182,196,502	727,875,025	101,454,977	409,776,652
Loans and advances to customers	12	95,839,112	382,877,252	6,034,053	24,371,540
Other assets	13	1,167,325	4,663,463	430,625	1,739,294
Property and equipment	14	2,073,843	8,285,003	938,437	3,790,347
Deferred tax asset	15	41,386	165,337	335,780	1,356,215
Total assets		462,916,895	1,849,352,994	206,384,257	833,586,014
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits from banks	16	35,130,722	140,347,234	21,282,343	85,959,383
Deposits from customers	17	296,867,512	1,185,985,710	130,930,573	528,828,584
Subordinated debt	18	10,000,000	39,950,000	10,000,000	40,390,000
Interbank borrowings	19	79,900,520	319,202,577	-	-
Current income tax liability		72,943	291,407	3,199	12,921
Other liabilities	20	994,667	3,973,695	5,545,569	22,398,554
Total liabilities		422,966,364	1,689,750,623	167,761,684	677,589,442
EQUITY					
Branch capital	21	40,000,000	159,800,000	40,000,000	161,560,000
Accumulated losses		(49,469)	(197,629)	(1,377,427)	(5,563,428)
Total equity		39,950,531	159,602,371	38,622,573	155,996,572
Total liabilities and equity		462,916,895	1,849,352,994	206,384,257	833,586,014

The accompanying notes on pages 10 to 46 from an integral part of these financial statements.

BANK OF CHINA LIMITED - PHNOM PENH BRANCH

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

	Branch capital US\$	Accumulated losses US\$	Total US\$
For the year ended 31 December 2012			
Balance as at 1 January 2012	40,000,000	(1,377,427)	38,622,573
Profit for the year	-	1,327,958	1,327,958
At 31 December 2012	<u>40,000,000</u>	<u>(49,469)</u>	<u>39,950,531</u>
<i>In KHR' 000 equivalent</i>	<u>159,800,000</u>	<u>(197,629)</u>	<u>159,602,371</u>
For the year ended 31 December 2011			
Balance as at 1 January 2011	15,000,000	(303,311)	14,696,689
Branch capital addition for the year	25,000,000	-	25,000,000
Loss for the year	-	(1,074,116)	(1,074,116)
At 31 December 2011	<u>40,000,000</u>	<u>(1,377,427)</u>	<u>38,622,573</u>
<i>In KHR' 000 equivalent</i>	<u>161,560,000</u>	<u>(5,563,428)</u>	<u>155,996,572</u>

The accompanying notes on pages 10 to 46 from an integral part of these financial statements.

BANK OF CHINA LIMITED - PHNOM PENH BRANCH

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

	Note	Year ended 31 December 2012		Year ended 31 December 2011	
		US\$	KHR '000	US\$	KHR '000
Cash flows from operating activities					
Cash flows from operating activities	24	101,758,417	406,524,876	122,769,009	495,864,027
Cash flows from investing activities					
Purchases of property and equipment		(1,297,274)	(5,182,610)	(787,147)	(3,179,287)
Net cash used in investing activities		(1,297,274)	(5,182,610)	(787,147)	(3,179,287)
Cash flows from financing activities					
Capital guarantee deposit with the Central Bank		(2,500,000)	(9,987,500)	-	-
Reserve requirement with the Central Bank		(28,374,029)	(113,354,246)	(14,732,485)	(59,504,507)
Time deposits with Central Bank		(30,000,000)	(119,850,000)		
Subordinated debt		-	-	10,000,000	40,390,000
Branch capital addition		-	-	25,000,000	100,975,000
Net cash (used in)/generated from financing activities		(60,874,029)	(243,191,746)	20,267,515	81,860,493
Net increase in cash and cash equivalents		39,587,114	158,150,520	142,249,377	574,545,233
Cash and cash equivalent at the beginning of the year		160,402,617	647,866,170	18,153,240	73,575,082
Currency translation differences		-	(7,057,714)	-	(254,145)
Cash and cash equivalents at end of the year	23	<u>199,989,731</u>	<u>798,958,976</u>	<u>160,402,617</u>	<u>647,866,170</u>

The accompanying notes on pages 10 to 46 from 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 2012

1. BACKGROUND INFORMATION

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

The Branch is principally engaged in all aspects of banking business and the provision of related financial services in Cambodia. The Branch 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 Branch is located at Canadia Tower 1st-2nd floor, No. 315, Preah Monivong Boulevard coner of street Ang Duong, Sangkat Wat Phnom, Khan Daun Penh, Phnom Penh, the Kingdom of Cambodia.

The financial statements were authorised for issue by the Executive Management on 29 March 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The financial statements have been prepared in accordance with the guidelines issued by the Central Bank and Cambodian Accounting Standards (“CAS”). 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 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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 2012 using the official rate of exchange regulated by the Central Bank as at the reporting date, which was US\$ 1 to KHR 3,995 (31 December 2011: 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.

2.2 New financial reporting framework

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 interpretations and amendments that may occur in any circumstances to each standard 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 National Accounting Council of the Ministry of Economy and Finance through Circular No. 086 MoEF.NAC dated 30 July 2012 approves banks and financial institutions to delay adoption of CIFRS until the periods beginning on or after 1 January 2016.

The first financial statement of the Branch which will be prepared under CIFRS is the year ending 31 December 2016. CAS, the current accounting standard used, is different to CIFRS in many areas. Hence, the adoption of CIFRS will have significant impact on the financial statements of the Branch.

2.3 Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of the Branch are measured using the currency of the primary economic environment in which the Branch operates (“the functional currency”). The financial statements are presented in United States dollars (“US\$”), which is the Branch’s functional and presentation currency.

(ii) Transactions and balances

Transactions in currencies other than US\$ are translated into US\$ at the exchange rates prevailing at the dates of transactions. 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 rates, are recognised in the income statement.

BANK OF CHINA LIMITED - PHNOM PENH BRANCH

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

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 banks.

2.5 Loans and advances to customers

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

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

2.6 Provision for loan losses

The Branch 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 Branch 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 2012

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 Branch 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 other 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	20 (Before 2012: 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 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.

BANK OF CHINA LIMITED - PHNOM PENH BRANCH

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, commitment fees and guarantee fees, service charges, account service fee, advice service fee and agency fees.

Loan processing fee is deferred and recognised over the term period of loan. Unamortised loan processing fee is presented as reduction to loans and advances to customers.

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 when appropriate over the period of the lease.

2.12 Provisions

Provisions are recognised when the Branch 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 Branch.

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.

BANK OF CHINA LIMITED - PHNOM PENH BRANCH

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Impairment of non-financial assets

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

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

2.16 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.

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

The Branch 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 Branch 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 Branch 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.

BANK OF CHINA LIMITED - PHNOM PENH BRANCH

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

4. INTEREST INCOME

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Balances with banks	2,505,677	10,010,180	450,662	270,395
Loans and advances to customers	2,434,418	9,725,500	66,946	1,820,224
	<u>4,940,095</u>	<u>19,735,680</u>	<u>517,608</u>	<u>2,090,619</u>

5. INTEREST EXPENSE

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Deposits from customers	765,880	3,059,691	313,676	1,266,937
Deposits and interbank borrowings from banks	1,018,314	4,068,164	20,386	82,339
	<u>1,784,194</u>	<u>7,127,855</u>	<u>334,062</u>	<u>1,349,276</u>

6. FEE AND COMMISSION INCOME

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Income on remittance	1,712,403	6,841,050	811,492	3,277,616
Processing fee and others	1,067,337	4,264,011	174,538	704,959
Gain from exchange rate - net	230,571	921,131	74,914	302,578
	<u>3,010,311</u>	<u>12,026,192</u>	<u>1,060,944</u>	<u>4,285,153</u>

7. PERSONNEL EXPENSES

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Salaries and wages	1,221,467	4,879,761	938,307	3,789,822
Allowances	389,061	1,554,299	233,003	941,099
Other benefits	226,447	904,655	46,832	189,155
	<u>1,836,975</u>	<u>7,338,715</u>	<u>1,218,142</u>	<u>4,920,076</u>

BANK OF CHINA LIMITED - PHNOM PENH BRANCH

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

8. GENERAL AND ADMINISTRATIVE EXPENSES

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Rental, repairs and maintenance	346,277	1,383,377	279,209	1,127,725
Telephone and internet expenses	208,482	832,886	135,027	545,374
Marketing expenses	162,376	648,692	193,968	783,437
Travelling expenses	93,182	372,262	39,163	158,179
Office supplies	81,813	326,843	43,892	177,280
Social expenses	69,928	279,362	48,555	196,114
Tax expenses	69,139	276,210	52,239	210,993
Legal and professional fees	48,626	194,261	51,193	206,769
Electricity and utilities	35,001	139,829	16,194	65,408
Installation services	27,881	111,385	27,090	109,417
Other operating expenses	122,308	488,620	86,986	351,336
	<u>1,265,013</u>	<u>5,053,727</u>	<u>973,516</u>	<u>3,932,032</u>

9. INCOME TAX EXPENSE

(a) Income tax expense

	2012		2011	
	US\$	KHR '000	US\$	KHR '000
Current income tax expense	(144,084)	(575,616)	(15,989)	(64,580)
Deferred tax (note 15)	(294,394)	(1,176,104)	268,529	1,084,589
	<u>(438,478)</u>	<u>(1,751,720)</u>	<u>252,540</u>	<u>1,020,009</u>

In accordance with the Cambodian tax laws, the Branch 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 2012**

9. INCOME TAX EXPENSE (continued)

(b) Reconciliation of income tax expense

	2012		2011	
	US\$	KHR' 000	US\$	KHR' 000
Profit/(loss) before income tax	1,766,436	7,056,912	(1,326,656)	(5,358,362)
Tax calculated at 20%	353,287	1,411,382	-	-
Tax effects in respect of:				
Temporary differences	(275,123)	(1,099,116)	-	-
Expenses not deductible for tax purposes	65,920	263,350	-	-
Income tax expense	144,084	575,616	-	-
Minimum tax at 1% of turnover	79,054	315,821	15,989	64,580

(c) Other tax matters

The Branch'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 is susceptible to varying interpretations, amounts reported in the financial statements could be changed at a later date, upon final determination by the General Department of Taxation.

10. BALANCES WITH THE CENTRAL BANK

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Term deposits)	115,000,000	459,425,000	-	-
Reserve deposits (a)	44,108,981	176,215,379	15,734,952	63,553,472
Current accounts	13,242,122	52,902,277	76,882,779	310,529,544
Statutory capital deposit (b)	4,000,000	15,980,000	1,500,000	6,058,500
	176,351,103	704,522,656	94,117,731	380,141,516

BANK OF CHINA LIMITED - PHNOM PENH BRANCH

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

10. BALANCES WITH THE CENTRAL BANK (continued)

(a) Reserve deposits

The reserve requirement represents the minimum reserve which is calculated at 8% and 12.5% of customers' deposits in KHR and other currencies, respectively. 4.5% of the 12.5% 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 capital 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 Branch's day-to-day operations, is refundable should the Branch 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:

	2012	2011
Term deposits	0.10% - 0.26%	0.10% - 0.26%
Reserve requirement	0.10% - 0.12%	0.10% - 0.11%
Statutory deposit	0.18% - 0.20%	0.13%

11. BALANCES WITH BANKS

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Local banks:				
Current accounts	22,010,697	87,932,735	5,323,404	21,501,229
Term deposits	85,110,575	340,016,747	73,000,000	294,847,000
Overseas banks:				
Current accounts	16,566,790	66,184,325	8,917,889	36,019,353
Term deposits	58,508,440	233,741,218	14,213,684	57,409,070
	<u>182,196,502</u>	<u>727,875,025</u>	<u>101,454,977</u>	<u>409,776,652</u>

	2012	2011
Term deposits (Local)	0.5% to 1.75%	1% to 1.75%
Term deposits (Overseas)	1% to 4%	1% to 2.5%
Current accounts (Overseas)	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 2012**

12. LOANS AND ADVANCES TO CUSTOMERS

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Overdrafts	5,982,725	23,900,986	5,295,003	21,386,517
Trade finance facilities	23,720,356	94,762,822	-	-
Short term loans	26,250,000	104,868,750	-	-
Long term loans	41,187,735	164,545,001	800,000	3,231,200
	<u>97,140,816</u>	<u>388,077,559</u>	<u>6,095,003</u>	<u>24,617,717</u>
Provisions for doubtful debts	(971,408)	(3,880,774)	(60,950)	(246,177)
Unamortised loan processing fees	<u>(330,296)</u>	<u>(1,319,533)</u>	<u>-</u>	<u>-</u>
	<u>95,839,112</u>	<u>382,877,252</u>	<u>6,034,053</u>	<u>24,371,540</u>

(a) Provision for doubtful debt

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

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
At beginning of the year	60,950	246,177	-	-
Additional allowance made during the year				
Specific provision	-	-	-	-
General provision	910,458	3,637,280	60,950	246,177
Currency translation differences	-	(2,683)	-	-
At end of the year	<u>971,408</u>	<u>3,880,774</u>	<u>60,950</u>	<u>246,177</u>

(b) Analysis by classification

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Standard loans:				
Secured loans	72,828,472	290,949,746	5,753,576	23,238,693
Unsecured loans	24,312,344	97,127,813	341,427	1,379,024
	<u>97,140,816</u>	<u>388,077,559</u>	<u>6,095,003</u>	<u>24,617,717</u>

BANK OF CHINA LIMITED - PHNOM PENH BRANCH

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

12. LOANS AND ADVANCES TO CUSTOMERS (continued)

(c) Analysis by maturity

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Within 1 year	56,253,081	224,731,059	5,295,003	21,386,517
From 1 to 5 years	16,093,019	64,291,610	800,000	3,231,200
More than 5 years	24,794,716	99,054,890	-	-
	<u>97,140,816</u>	<u>388,077,559</u>	<u>6,095,003</u>	<u>24,617,717</u>

(d) Analysis by industry

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Manufacturing	44,864,142	179,232,247	1,346,627	5,439,026
Wholesale and retailers	23,352,865	93,294,696	2,301,065	9,294,002
Services	13,956,209	55,755,055	1,046,038	4,224,947
Energy industry	9,000,000	35,955,000	-	-
Other industries	5,967,600	23,840,562	1,401,273	5,659,742
	<u>97,140,816</u>	<u>388,077,559</u>	<u>6,095,003</u>	<u>24,617,717</u>

(e) Analysis by exposure

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Large exposures	50,738,505	202,700,327	-	-
Non large exposures	46,402,311	185,377,232	6,095,003	24,617,717
	<u>97,140,816</u>	<u>388,077,559</u>	<u>6,095,003</u>	<u>24,617,717</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 Branch's net worth.

(f) Interest rates

	2012	2011
Overdrafts	7%-9%	7%-9%
Trade finance facilities	4.4%-8.5%	-
Short term loans (*)	1.5%-7.5%	-
Long term loans (*)	3.5%-9%	7%-9%

(*) Short term and long term loans are included the floating rate.

BANK OF CHINA LIMITED - PHNOM PENH BRANCH

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

13. OTHER ASSETS

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Accrued interest receivable	1,026,366	4,100,332	191,608	773,905
Prepayments and others	96,001	383,524	203,140	820,482
Security and rental deposits (a)	44,958	179,607	35,877	144,907
	<u>1,167,325</u>	<u>4,663,463</u>	<u>430,625</u>	<u>1,739,294</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.

14. PROPERTY AND EQUIPMENT

	Leasehold improvements US\$	Furniture and equipment US\$	Computer equipment US\$	Motor vehicles US\$	Work in progress US\$	Total US\$
At 1 January 2011						
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>-</u>	<u>938,437</u>
As at 31 December 2011						
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>-</u>	<u>938,437</u>
In KHR' 000 equivalent	<u>2,416,764</u>	<u>132,164</u>	<u>438,668</u>	<u>802,751</u>	<u>-</u>	<u>3,790,347</u>
At 1 January 2012						
Opening net book value	598,357	32,722	108,608	198,750	-	938,437
Additions	498,632	79,188	152,722	149,200	544,652	1,424,394
Depreciation charge	(163,360)	(12,167)	(36,824)	(76,637)	-	(288,988)
Closing net book amount	<u>933,629</u>	<u>99,743</u>	<u>224,506</u>	<u>271,313</u>	<u>544,652</u>	<u>2,073,843</u>
As at 31 December 2012						
Cost	1,274,879	121,967	296,228	414,200	544,652	2,651,926
Accumulated depreciation	(341,250)	(22,224)	(71,722)	(142,887)	-	(578,083)
Net book amount	<u>933,629</u>	<u>99,743</u>	<u>224,506</u>	<u>271,313</u>	<u>544,652</u>	<u>2,073,843</u>
In KHR' 000 equivalent	<u>3,729,848</u>	<u>398,473</u>	<u>896,901</u>	<u>1,083,895</u>	<u>2,175,885</u>	<u>8,285,002</u>

BANK OF CHINA LIMITED - PHNOM PENH BRANCH

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

15. DEFERRED TAX ASSET

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

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Deferred tax assets	88,705	354,377	335,780	1,356,215
Deferred tax liability	(47,319)	(189,040)	-	-
Deferred tax assets - net	<u>41,386</u>	<u>165,337</u>	<u>335,780</u>	<u>1,356,215</u>

The movements of deferred tax are as follows:

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Balance at beginning of year	335,780	1,356,215	67,251	271,627
(Charged)/credited to income statement	(294,394)	(1,176,104)	268,529	1,084,589
Currency translation differences	-	(14,774)	-	(1)
	<u>41,386</u>	<u>165,337</u>	<u>335,780</u>	<u>1,356,215</u>

The movements of deferred tax assets and liability during the year, without taking into consideration the offsetting of balances within the same jurisdiction, are as follows:

Deferred tax assets/ (liability)	Accrued bonus	Accrued interest expense	Tax losses carried forward	Accelerated tax depreciation	Total	
	US\$	US\$	US\$	US\$	US\$	KHR'000
As at 1 January 2012	115,063	-	241,934	(21,217)	335,780	1,341,440
(Charged)/credited to income statement	(41,585)	15,227	(241,934)	(26,102)	(294,394)	(1,176,103)
Currency translation differences	-	-	-	-	-	-
As at 31 December 2012	<u>73,478</u>	<u>15,227</u>	<u>-</u>	<u>(47,319)</u>	<u>41,386</u>	<u>165,337</u>

BANK OF CHINA LIMITED - PHNOM PENH BRANCH

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

16. DEPOSITS FROM BANKS

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Current accounts	25,130,722	100,397,234	11,282,343	45,569,383
Term deposits	10,000,000	39,950,000	10,000,000	40,390,000
	<u>35,130,722</u>	<u>140,347,234</u>	<u>21,282,343</u>	<u>85,959,383</u>

All deposits are from local commercial banks in Cambodia. Term deposits mature within three months and bears interest at 1.25% per annum (2011: 1.25% per annum).

17. DEPOSITS FROM CUSTOMERS

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Current accounts	126,921,581	507,051,716	45,807,076	185,014,780
Savings deposits	76,027,496	303,729,847	21,433,540	86,570,068
Term deposits	21,244,336	84,871,122	10,229,652	41,317,564
Margin deposits	72,674,099	290,333,025	53,460,305	215,926,172
	<u>296,867,512</u>	<u>1,185,985,710</u>	<u>130,930,573</u>	<u>528,828,584</u>

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

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

	2012	2011
Current accounts	0.0% - 0.50%	0.0% - 0.50%
Savings accounts	0.13% - 0.50%	0.13% - 0.50%
Term deposits	0.25% - 4.75%	0.25% - 4.75%

18. SUBORDINATED DEBT

This represents an unsecured term loan from Bank of China Limited, China. The loan carries interest at 12month LIBOR plus 150 basis point per annum and repayable on 3rd August 2016. The Central Bank approved this loan as subordinated debt on 07 September 2011 for net worth calculation purpose.

BANK OF CHINA LIMITED - PHNOM PENH BRANCH

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

19. INTERBANK BORROWINGS

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Interbank borrowings from Bank of China – Hong Kong	32,090,367	128,201,016	-	-
Interbank borrowings from Industrial and Commercial Bank of China Phnom Penh Branch	30,000,000	119,850,000	-	-
Interbank borrowings from Bank of China – Macao	17,810,153	71,151,561	-	-
	<u>79,900,520</u>	<u>319,202,577</u>	<u>-</u>	<u>-</u>

20. OTHER LIABILITIES

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Interest payable	465,793	1,860,843	185,669	749,917
Accrued bonuses	367,390	1,467,723	307,215	1,240,841
Payable to suppliers	139,120	555,784	-	-
Withholding tax payable	2,158	8,621	28,951	116,933
Cashier's orders	606	2,421	5,000,000	20,195,000
Accruals and others	19,600	78,303	23,734	95,863
	<u>994,667</u>	<u>3,973,695</u>	<u>5,545,569</u>	<u>22,398,554</u>

21. BRANCH CAPITAL

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Branch capital	40,000,000	161,560,000	15,000,000	60,795,000
Capital addition during the year	-	-	25,000,000	100,975,000
Currency translation differences	-	(1,760,000)	-	(210,000)
	<u>40,000,000</u>	<u>159,800,000</u>	<u>40,000,000</u>	<u>161,560,000</u>

BANK OF CHINA LIMITED - PHNOM PENH BRANCH

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

22. COMMITMENT AND CONTINGENT LIABILITIES

a) Commitment to extend credit

At 31 December 2012, the Branch had the contractual amounts of the Branch's off-balance sheet financial instruments that commit it to extend credit to customers as follows:

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Loan commitments	68,500,000	273,657,500	1,900,000	7,674,100
Unused portion of overdrafts	3,533,547	14,116,520	360,882	1,457,602
Letters of credit	3,999,903	15,979,612	792,770	3,201,998
Bank guarantees and others	3,781,404	15,106,709	1,956,425	7,902,001
	<u>79,814,854</u>	<u>318,860,341</u>	<u>5,010,077</u>	<u>20,235,701</u>

b) Operating lease commitments

As at 31 December 2012, the Branch 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 Branch are as follows:

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Less than one year	334,535	1,336,467	310,818	1,255,394
More than one year and no later than five years	889,477	3,553,461	1,176,326	4,751,181
	<u>1,224,012</u>	<u>4,889,928</u>	<u>1,487,144</u>	<u>6,006,575</u>

23. CASH AND CASH EQUIVALENTS

	2012		2011	
	US\$	KHR '000	US\$	KHR '000
Cash on hand	5,247,624	20,964,258	3,072,654	12,410,450
Balances with banks				
Current and saving accounts	38,577,487	154,117,061	14,241,293	57,520,582
Term deposits	57,922,498	231,400,380	66,205,891	267,405,594
Balances with the Central Bank				
Current accounts	13,242,122	52,902,277	76,882,779	310,529,544
Term deposits	85,000,000	339,575,000	-	-
	<u>199,989,731</u>	<u>798,958,976</u>	<u>160,402,617</u>	<u>647,866,170</u>

BANK OF CHINA LIMITED - PHNOM PENH BRANCH

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

24. CASH FLOW FROM OPERATING ACTIVITIES

	2012		2011	
	US\$	KHR '000	US\$	KHR '000
OPERATING ACTIVITIES				
Profit/(loss) before taxation	1,766,436	7,056,912	(1,326,656)	(5,358,364)
<i>Adjustments for:</i>				
Provision for doubtful debts	910,458	3,637,280	60,950	246,177
Depreciation	288,988	1,154,507	289,095	1,167,655
Net interest income	(3,155,901)	(12,607,824)	(183,546)	(741,342)
Cash used in operating profits	(190,019)	(759,125)	(1,160,157)	(4,685,874)
Changes in working capital:				
Loans and advances to customers	(91,045,813)	(363,728,023)	(6,095,003)	(24,617,717)
Other assets	(348,607)	(1,392,685)	621,252	2,509,237
Balances with banks	(64,688,724)	(258,431,452)	(21,007,793)	(84,850,476)
Deposits from banks	13,848,379	55,324,274	21,282,343	85,959,383
Deposits from customers	165,936,939	662,918,071	123,608,777	499,255,850
Interbank borrowings	79,900,520	319,202,577	-	-
Other liabilities	(4,347,726)	(17,369,165)	5,359,900	21,648,636
Interest received	4,239,729	16,937,717	326,000	1,316,714
Interest paid	(1,471,921)	(5,880,324)	(153,520)	(620,067)
Income tax paid	(74,340)	(296,989)	(12,790)	(51,659)
Cash flows from operating activities	<u>101,758,417</u>	<u>406,524,876</u>	<u>122,769,009</u>	<u>495,864,027</u>

25. RELATED-PARTY TRANSACTIONS AND BALANCES

a) Related-parties and relationship

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

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

BANK OF CHINA LIMITED - PHNOM PENH BRANCH

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

25. RELATED-PARTY TRANSACTIONS AND BALANCES (continued)

b) Related-party balances

	2012		2011	
	US\$	KHR' 000	US\$	KHR' 00
Due to:				
Interbank borrowing from Bank of China Hong Kong (Note 19)	32,090,367	128,201,016	-	
Interbank borrowing from Bank of China Macao (Note 19)	17,810,153	71,151,561	-	
Subordinated debt from Bank of China Limited – Beijing (Head Office)	10,000,000	39,950,000	10,000,000	40,390,00
Deposits and placements from key management personnel	10,063	40,202	10,529	42,52
	<u>59,910,583</u>	<u>239,342,779</u>	<u>10,010,529</u>	<u>40,432,52</u>
Due from:				
Deposits and placements with Head Office and other branches:				
Bank of China - Guang Dong	36,903,921	147,431,164	-	
Bank of China - Macau	20,000,000	79,900,000	10,000,000	40,390,00
Bank of China - New York	10,901,676	43,552,196	4,483,197	18,107,63
Bank of China - Hong Kong	5,158,248	20,607,201	7,034,336	28,411,68
Bank of China - Beijing (Head Office)	445,059	1,778,011	1,598,642	6,456,91
Bank of China - Frankfurt	45,643	182,344	15,398	62,19
Bank of China - Shieng Hai	16,164	64,575	-	
	<u>73,470,711</u>	<u>293,515,491</u>	<u>23,131,573</u>	<u>93,428,42</u>
Loan to related-party:				
Bank of China Shenzhen	641,810	2,564,031	-	

BANK OF CHINA LIMITED - PHNOM PENH BRANCH

**NOTES TO THE FINANCIAL STATEMENTS
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25. RELATED-PARTY TRANSACTIONS AND BALANCES (continued)

b) Related-party balances (continued)

	2012		2011	
	US\$	KHR' 000	US\$	KHR' 000
Accrual interest payable with:				
Bank of China Limited - Beijing (Head Office)	76,133	304,151	70,285	283,881
Bank of China Hong Kong	65,037	259,823	-	-
Bank of China Macao	62,136	248,232	-	-
	<u>203,306</u>	<u>812,206</u>	<u>70,285</u>	<u>283,881</u>
Accrual interest receivable from:				
Bank of China Macao	203,152	811,592	-	-
Bank of China Guangdong	132,583	529,669	-	-
	<u>335,735</u>	<u>1,341,261</u>	<u>-</u>	<u>-</u>

c) Related-party transactions

	2012		2011	
	US\$	KHR' 000	US\$	KHR' 000
Interest income from term deposit with:				
Bank of China Hong Kong	28,854	115,272	48,469	195,766
Bank of China Macao	351,085	1,402,585	52,754	213,073
Bank of China Guangdong	566,843	2,264,538	-	-
	<u>946,782</u>	<u>3,782,395</u>	<u>101,223</u>	<u>408,839</u>
Interest expense from:				
Subordinated debt from Bank of China Limited - Beijing (Head Office)	274,891	1,098,190	70,285	283,881
Interbank borrowing from Bank of China Hong Kong	57,050	227,915	-	-
Interbank borrowing from Bank of China Macao	552,842	2,208,604	14,245	57,536
	<u>884,783</u>	<u>3,534,709</u>	<u>84,530</u>	<u>341,417</u>

d) Key management personnel remuneration

	2012		2011	
	US\$	KHR' 000	US\$	KHR' 000
Salaries and short-term benefits	<u>821,613</u>	<u>3,282,344</u>	<u>790,573</u>	<u>3,193,124</u>

BANK OF CHINA LIMITED - PHNOM PENH BRANCH

**NOTES TO THE FINANCIAL STATEMENTS
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26. FINANCIAL RISK MANAGEMENT

The Branch'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 Branch does not use derivative financial instruments to manage its risk exposures.

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

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Financial assets				
Cash on hand	5,247,624	20,964,258	3,072,654	12,410,450
Balances with the Central Bank	176,351,103	704,522,656	94,117,731	380,141,516
Balances with banks	182,196,502	727,875,025	101,454,977	409,776,652
Loans and advances to customers (*)	97,140,816	388,077,560	6,095,003	24,617,717
Other assets	1,071,324	4,279,939	227,485	918,812
	<u>462,007,369</u>	<u>1,845,719,438</u>	<u>204,967,850</u>	<u>827,865,147</u>
Financial liabilities				
Deposits from banks	35,130,722	140,347,234	21,282,343	85,959,383
Deposits from customers	296,867,512	1,185,985,710	130,930,573	528,828,584
Subordinated debt	10,000,000	39,950,000	10,000,000	40,390,000
Interbank borrowings	79,900,520	319,202,577	-	-
Other liabilities	992,509	3,965,073	5,539,975	22,375,959
	<u>422,891,263</u>	<u>1,689,450,594</u>	<u>167,752,891</u>	<u>677,553,926</u>
Net financial assets	<u>39,116,106</u>	<u>156,268,844</u>	<u>37,214,959</u>	<u>150,311,221</u>

* excludes general provision for loan losses.

26.1 Credit risk

The Branch takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the Branch by failing to discharge an obligation. Credit risk is the most important risk for the Branch'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 Branch'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 2012

26. FINANCIAL RISK MANAGEMENT (continued)

26.1 Credit risk (continued)

a) Credit risk measurement

The Branch has established the Core Credit Risk Policy which is designed to govern the Branch'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 Branch 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 Branch manages, limits and controls concentration of credit risk whenever they are identified - in particular, to individual counterparties and groups, and to industries.

The Branch 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 Branch's net worth. The Branch 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 Branch's overall credit exposure to any single beneficiary and the Branch's net worth. The aggregation of large credit exposure must not exceed 300% of the Branch's net worth.

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

c) Impairment and provisioning policies

The Branch 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 2012**

26. FINANCIAL RISK MANAGEMENT (continued)

26.1 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

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
<i>Credit risks exposures relating to on-balance sheet assets:</i>				
Balances with banks	182,196,502	727,875,025	101,454,977	409,776,652
Loans and advances to customers (*)	97,140,816	388,077,560	6,095,003	24,617,717
Other assets	1,071,324	4,279,939	227,485	918,812
	<u>280,408,642</u>	<u>1,120,232,524</u>	<u>107,777,465</u>	<u>435,313,181</u>
<i>Credit risk exposures relating to off-balance sheet items:</i>				
Loan commitments	68,500,000	273,657,500	1,900,000	7,674,100
Unused portion of overdraft	3,533,547	14,116,520	360,882	1,457,602
Letters of credit	3,999,903	15,979,612	792,770	3,201,998
Bank guarantees and others	3,781,404	15,106,709	1,956,425	7,902,001
	<u>79,814,854</u>	<u>318,860,341</u>	<u>5,010,077</u>	<u>20,235,701</u>
	<u>360,223,496</u>	<u>1,439,092,865</u>	<u>112,787,542</u>	<u>455,548,882</u>

* excludes general provision for loan losses

The above table represents a worst case scenario of credit risk exposure to the Branch at 31 December 2012 and 2011, without taking account of any collateral held or other credit enhancements. For on-balance sheet assets, the exposures set out above are based on net carrying amounts.

As shown above, 51% of total maximum exposure is derived from balance with banks (2011: 90%); 27% represents loans and advances to customers (2011: 5%).

BANK OF CHINA LIMITED - PHNOM PENH BRANCH

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

26. FINANCIAL RISK MANAGEMENT (continued)

26.1 Credit risk (continued)

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

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Branch resulting from its loans and advances and balances with banks and financial institutions on the following:

- Most of loans are recovered by collateral and credit limits given less than the value of collateral held.
- Most of loans and advances to customers are considered to be neither past due nor impaired (2011: 100%).
- The deposits and placements with banks and financial institutions were held with local and overseas banks and management has done a proper risk assessment and believe there will be no material loss from these balances.

- e) Loans and advances to customers

Loans and advances to customers are summarised as follows:

	2012		2011	
	US\$	US\$	Riel'000	Riel'000
Loans and advances to customers neither past due nor impaired (i)	97,140,816	388,077,560	6,095,003	24,617,717
Loans and advances to customers past due but not impaired (ii)	-	-	-	-
Loans and advances to customers past due and individually impaired (iii)	-	-	-	-
	<u>97,140,816</u>	<u>388,077,560</u>	<u>6,095,003</u>	<u>24,617,717</u>
Less:				
Unamortised loan processing fees	(330,296)	(1,319,533)	-	-
Allowance for bad and doubtful loans and advances to customers	<u>(971,408)</u>	<u>(3,880,775)</u>	<u>(60,950)</u>	<u>(246,177)</u>
	<u>95,839,112</u>	<u>382,877,252</u>	<u>6,034,053</u>	<u>24,371,540</u>

For the purpose of loan provisioning, expected recovery from collateral (except cash) is not taken into consideration in accordance with the Central Bank's requirement.

- (i) Loans and advances neither past due nor impaired
Loans and advances not past due are not considered impaired, unless other information is available to indicate the contrary.
- (ii) Loans and advances past due but not impaired
Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary.

BANK OF CHINA LIMITED - PHNOM PENH BRANCH

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

26. FINANCIAL RISK MANAGEMENT (continued)

26.1 Credit risk (continued)

e) Loans and advances to customers (continued)

iii) Loans and advances past due and individually impaired

In accordance with Prakas No.B7-09-074, dated on 25 February 2009 on Asset Classification and Provisioning in Banking and Financial Institutions, loans and advances to customers past due more than 90 days are considered impaired and a minimum level of specific provision for impairment is made depending on the classification concerned, unless other information is available to indicate the contrary.

The value of collateral is based on the valuation assessed by external valuers. As the current property price volatile, value of collateral assessed when the loan was approved might be different from current value. Under the Central Bank's regulation, the value of collateral is not taken into account when determining the impairment of loans and advances to customers.

f) Repossessed collateral

During the year ended 31 December 2012, the Branch took no repossession of collateral held as security.

g) Concentration of financial assets with credit risk exposure

(i) *Geographical sector*

The following table breaks down the Branch's main credit exposure at their carrying amount, as catergorised by geographical region as at 31 December 2012. For this table, the Branch has allocated exposure to regions based on the country of domicile of our counterparties.

	Cambodia US\$	China US\$	USA US\$	Total US\$
31 December 2012				
Balances with banks	112,786,386	58,508,440	10,901,676	182,196,502
Loans and advances to customers (*)	97,140,816	-	-	97,140,816
Other assets	1,071,324	-	-	1,071,324
As at 31 December 2012	<u>210,998,526</u>	<u>58,508,440</u>	<u>10,901,676</u>	<u>280,408,642</u>
<i>In KHR'000 equivalents</i>	<u>842,939,111</u>	<u>233,741,218</u>	<u>43,552,196</u>	<u>1,120,232,525</u>
31 December 2011				
Balances with 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</i>	<u>359,796,479</u>	<u>57,409,070</u>	<u>18,107,633</u>	<u>435,313,182</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 2012**

26. FINANCIAL RISK MANAGEMENT (continued)

26.1 Credit risk (continued)

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

(ii) *Industry sector*

The following table breaks down the Branch'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\$	Energy US\$	Others US\$	Total US\$
31 December 2012							
Balances with banks	182,196,502	-	-	-	-	-	182,196,502
Loans and advances to customers(*)	-	13,956,209	44,864,142	23,352,865	9,000,000	5,967,600	97,140,816
Other assets	1,071,324	-	-	-	-	-	1,071,324
As at 31 December 2012	183,267,826	13,956,209	44,864,142	23,352,865	9,000,000	5,967,600	280,408,642
<i>In KHR'000 equivalents</i>	732,154,965	55,755,055	179,232,247	93,294,696	35,955,000	23,840,562	1,120,232,525
31 December 2011							
Balances with 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</i>	410,695,464	5,439,026	9,294,002	4,224,947	-	5,659,742	435,313,181

* excludes general provision for loan losses

BANK OF CHINA LIMITED PHNOM PENH BRANCH

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

26. FINANCIAL RISK MANAGEMENT (continued)

26.2 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 Branch 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 Branch's functional currency.

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

The table below summarises the financial assets and financial liabilities of the Branch by currency as at 31 December 2012.

BANK OF CHINA LIMITED PHNOM PENH BRANCH

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

26. FINANCIAL RISK MANAGEMENT (continued)

26.2 Market risk (continued)

b) Foreign exchange risk (continued)

As at 31 December 2012	US\$	CNY	KHR	EURO	Total
Financial assets					
Cash on hand	4,921,413	279,006	47,205	-	5,247,624
Balances with the Central Bank	176,227,694	-	123,409	-	176,351,103
Balances with banks	139,904,555	42,246,303	-	45,644	182,196,502
Loans and advances to customers*	78,467,914	18,672,902	-	-	97,140,816
Other assets	949,910	121,122	292	-	1,071,324
	<u>400,471,486</u>	<u>61,319,333</u>	<u>170,906</u>	<u>45,644</u>	<u>462,007,369</u>
Financial liabilities					
Deposits from banks	35,116,267	14,455	-	-	35,130,722
Deposits from customers	286,103,837	10,564,002	181,762	17,911	296,867,512
Subordinated debt	10,000,000	-	-	-	10,000,000
Interbank borrowings	30,000,000	49,900,520	-	-	79,900,520
Other liabilities	992,509	-	-	-	992,509
	<u>362,212,613</u>	<u>60,478,977</u>	<u>181,762</u>	<u>17,911</u>	<u>422,891,263</u>
Net on-balance sheet position	<u>38,258,873</u>	<u>840,356</u>	<u>(10,856)</u>	<u>27,733</u>	<u>39,116,106</u>
<i>In KHR'000 equivalent</i>	<u>152,844,198</u>	<u>3,357,222</u>	<u>(43,370)</u>	<u>110,793</u>	<u>156,268,843</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 2012**

26. FINANCIAL RISK MANAGEMENT (continued)

26.2 Market risk (continued)

b) Foreign exchange risk (continued)

As at 31 December 2011

Financial assets

	US\$	CNY	KHR	EURO	Total
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 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>

Financial liabilities

Deposits from 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>

Net on-balance sheet position

	<u>37,091,037</u>	<u>131,037</u>	<u>(22,221)</u>	<u>15,106</u>	<u>37,214,959</u>
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In KHR'000 equivalent

	<u>149,810,698</u>	<u>529,258</u>	<u>(89,751)</u>	<u>61,013</u>	<u>150,311,219</u>
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BANK OF CHINA LIMITED PHNOM PENH BRANCH

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

26. FINANCIAL RISK MANAGEMENT (continued)

26.2 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 Branch'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 2012**

26. FINANCIAL RISK MANAGEMENT (continued)

26.2 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\$
At 31 December 2012							
Financial assets							
Cash on hand	-	-	-	-	-	5,247,624	5,247,624
Balances with the Central Bank	35,000,000	50,000,000	30,000,000	-	48,108,981	13,242,122	176,351,103
Balance with banks	2,888,133	55,034,365	85,696,516	-	-	38,577,488	182,196,502
Loan and advance to customers (*)	6,745,157	13,888,254	52,471,008	23,655,824	380,573	-	97,140,816
Other assets	-	-	-	-	-	1,071,324	1,071,324
	44,633,290	118,922,619	168,167,524	23,655,824	48,489,554	58,138,558	462,007,369
Financial liabilities							
Deposits banks	-	10,000,000	-	-	-	25,130,722	35,130,722
Deposits from customers	115,363,746	10,534,802	4,522,358	-	-	166,446,606	296,867,512
Subordinated debt	-	-	10,000,000	-	-	-	10,000,000
Interbank borrowing	79,900,520	-	-	-	-	-	79,900,520
Other liabilities	-	-	-	-	-	992,509	992,509
	195,264,266	20,534,802	14,522,358	-	-	192,569,837	422,891,263
Total interest re-pricing gap	(150,630,976)	98,387,817	153,645,166	23,655,824	48,489,554	(134,431,279)	39,116,106
In KHR'000 equivalent	(601,770,749)	370,875,358	462,608,068	170,358,861	291,250,266	(537,052,960)	156,268,843

* excludes general provision for loan losses

BANK OF CHINA LIMITED PHNOM PENH BRANCH

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

26. FINANCIAL RISK MANAGEMENT (continued)

26.2 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\$
At 31 December 2011							
Financial assets							
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 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>
Financial liabilities							
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>
Total interest re-pricing gap	<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	<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>

BANK OF CHINA LIMITED PHNOM PENH BRANCH

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

26. FINANCIAL RISK MANAGEMENT (continued)

26.3 Liquidity risk

Liquidity risk is the risk that the Branch 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 Branch'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 term 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 Branch 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 2012**

26. FINANCIAL RISK MANAGEMENT (continued)

26.3 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\$
At 31 December 2012							
Financial liabilities							
Deposits from banks	25,130,722	10,019,521	-	-	-	-	35,150,243
Deposits from customers	282,269,157	10,997,387	3,761,897	1,238,451	-	-	298,266,892
Subordinated debt	-	-	-	233,320	10,616,354	-	10,849,674
Interbank borrowing	30,492,030	5,015,225	12,516,945	32,561,025	-	-	80,585,225
Other liabilities	465,793	367,390	159,326	-	-	-	992,509
Total financial liabilities (contractual maturity dates)	338,357,702	26,399,523	16,438,168	34,032,796	10,616,354	-	425,844,543
Total financial assets (contractual maturity dates)							
	102,733,388	178,497,136	120,749,984	10,350,816	42,643,019	72,948,654	527,922,996
Net liquidity gap - US\$	235,624,314	(152,097,613)	(104,311,816)	23,681,980	(32,026,665)	(72,948,654)	(102,078,453)
In KHR' 000 equivalent	941,319,136	(607,629,965)	(416,725,703)	94,609,510	(127,946,527)	(291,429,873)	(407,803,422)

BANK OF CHINA LIMITED PHNOM PENH BRANCH

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

26. FINANCIAL RISK MANAGEMENT (continued)

26.3 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\$
At 31 December 2011							
Financial liabilities							
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
Total financial liabilities (contractual maturity dates)	141,517,547	14,384,672	1,513,620	551,464	10,933,280	-	168,900,583
Total financial assets (contractual maturity dates)							
	110,212,407	66,215,500	21,022,207	828,828	6,860,296	-	205,139,238
Net liquidity gap - US\$	31,305,140	(51,830,828)	(19,508,587)	(277,364)	4,072,984	-	(36,238,655)
In KHR' 000 equivalent	126,441,460	(209,344,715)	(78,795,183)	(1,120,273)	16,450,782	-	(146,367,929)

BANK OF CHINA LIMITED PHNOM PENH BRANCH

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

26. FINANCIAL RISK MANAGEMENT (continued)

26.4 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 Branch 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 Branch 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 Branch 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 Branch.

26.5 Fair value of financial assets and liabilities

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

The estimated fair values are based on the following methodologies and assumptions:

a) Deposits and placements with banks

Deposits and placements with banks include current accounts, which are non-interest bearing and short term deposits. The fair values of deposits and placements with banks approximate 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 2012**

26. FINANCIAL RISK MANAGEMENT (continued)

26.6 Capital management

The Branch'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 Branch'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 Branch'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 Branch's regulatory capital:

	2012		2011	
	US\$	KHR'000	US\$	KHR'000
Tier 1 Capital				
Branch capital	40,000,000	159,800,000	15,000,000	60,585,000
Accumulated losses	(49,469)	(197,629)	(1,377,427)	(5,563,428)
	<u>39,950,531</u>	<u>159,602,371</u>	<u>13,622,573</u>	<u>55,021,572</u>
Tier 2 Capital				
Loan to related parties	(641,810)	(2,564,031)	-	-
General provision	971,408	3,880,775	60,950	246,177
Subordinated debt	10,000,000	39,950,000	6,811,287	27,510,788
	<u>10,329,598</u>	<u>41,266,744</u>	<u>6,872,237</u>	<u>27,756,965</u>
Regulatory capital/net worth	<u>50,280,129</u>	<u>200,869,115</u>	<u>20,494,810</u>	<u>82,778,537</u>

Time Line



2010年11月11日央行批复，
同年12月8日试营业



2011年10月22日网银产品发布会



2012年9月推出薪汇通产品



2012年11月推出借记卡产品
和ATM机服务



2011年5月7日正式对外营业



2012年6月推出银通卡



2012年10月推出预结汇产品

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

**APPENDIX: NOTES ON COMPLIANCE WITH THE CENTRAL BANK PRAKAS
FOR THE YEAR ENDED 31 December 2012**

This Appendix does not form part of the financial statements.

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 2012, the Bank's Liquidity Ratio was 194%.

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\$37.5 million) by the end of year 2012.

The Bank of China Limited – Head Office is an investment grade financial institution. As at 31 December 2012, the Bank has an approved paid-up statutory capital of US\$40million.

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

The Branch's net worth as at 31 December 2012 amounted to US\$ 50,280,129 as computed in Schedule 2.

Banks must maintain their net worth at least equal to the minimum capital. As at 31 December 2012, the Branch's net worth is higher than minimum capital.

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

The Branch was in compliance with this Prakas which requires a Solvency Ratio of at least 15%. As at 31 December 2012, the Branch maintained a Solvency Ratio of 21.37%, representing the Branch's net worth as a percentage of its risk-weighted assets and off-balance sheet items.

The Solvency Ratio calculation is detailed in Schedule 3.

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

The Branch 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 2012, in accordance with Prakas No. B7-00-50, all assets and liabilities of the Branch 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 2012****5. FOREIGN CURRENCY TRANSACTIONS, Prakas No. B7-00-50 (continued)***Off-balance sheet items*

The Branch 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 Branch has no open foreign exchange contracts for either spot or forward transactions as at 31 December 2012. 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 2012, the Branch 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 Branch'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 2012 is in compliance with the requirements of this Prakas.

The details of the computation of the required loan provision to comply with the Central Branch'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 2012, the Branch was in compliance with this Prakas.

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

The Prakas requires that total weighted outstanding of loans to related parties be not more than 10% of the Bank's net worth.

The Branch 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 Branch's net worth. As at 31 December 2012, the Branch had no loans outstanding to related parties exposure to a single beneficiary where such exposure exceeded 10% of the net worth.

**APPENDIX: NOTES ON COMPLIANCE WITH THE CENTRAL BANK PRAKAS
FOR THE YEAR ENDED 31 December 2012****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 2012, the Branch's fixed assets amounting to US\$ 2,073,843 were equivalent to 4.12% of the Branch's net worth and this is therefore in compliance with the fixed asset ratio required by this Prakas.

11. PREPAID RENTAL AND LEASE, Prakas No. B7-04-037

The Central Bank issued Prakas No. B7.04.037 on 9 March 2004 which stipulates that banks are only allowed to lease properties if these are directly related to its banking operations. Moreover, this Prakas stipulates that prepaid rental or lease should not exceed one year of the rental or lease term. In addition, rental with related parties is required to be reported as part of the loans and advances to related parties in a bank's quarterly related parties transactions and balances declaration with the Central Bank. In the event that a bank has prepaid rental or lease of more than one year, the bank should be compliance with the provisions of this Prakas within six months after 9 March 2004 and thereafter, the prepaid rental or lease of more than one year shall be deducted in calculating the bank's net worth.

As at 31 December 2012, the Branch was in compliance with this Prakas.

SCHEDULE 1
LIQUIDITY RATIO AS AT 31 DECEMBER 2012

LIQUIDITY RATIO

	<u>US\$</u>
NUMERATOR	
1. Treasury balance	
- Debit items	
- Cash on hand	5,247,624
- Deposits with the Central Bank (excluding statutory deposit and reserve requirement)	128,242,122
- Deposits with other banks and financial institutions	182,196,502
- Portion of lending to banks and FI with not more than one month to run	-
	<u>315,686,248</u>
Less:	
- Credit items	
- 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>
	<u>-</u>
Net balance - Lender position	315,686,248
1. Lending with not more than one month to run (exclude loans with no maturity)	25,130,722
2. Treasury bills with not more than one month to run (double)	-
	<u>-</u>
TOTAL NUMERATOR (A)	<u><u>340,816,970</u></u>
DENOMINATOR	
1. 80% of FD & CD having not more than one month to run	4,949,741
2. 50% of FD & CD having more than one month to run	12,528,580
3. 50% of savings deposits	38,013,748
4. 60% of demand deposits	119,757,409
	<u>175,249,478</u>
TOTAL DENOMINATOR (B)	<u><u>175,249,478</u></u>
LIQUIDITY RATIO (A/B)	<u><u>194%</u></u>

**SCHEDULE 3
SOLVENCY RATIO AS AT 31 DECEMBER 2012**

NET WORTH

	<u>US\$</u>
Tier (Core Capital)	
I. Subtotal – A	
Paid-up capital	40,000,000
Reserves (other than revaluation: translation reserve, general reserve and capital reserve)	-
Audited net income for the last financial year	1,327,958
Retained earnings brought forward (restated)	-
Other Item (NBC approved)	-
Premiums related to capital	-
Other items approved by the Central Bank	-
Total (A)	41,327,958
Limited check on retained earnings: Max 20% of Total A	0%
II. Subtotal – B	
Own shares held (at Book Value)	-
Accumulated losses	(1,377,427)
Intangible assets to be deducted	-
Shareholders, directors, related parties (deduct)	-
1. Unpaid portion(s) of capital (a)	-
2. Loans, overdrafts and other advances (b)	(641,810)
3. Debt instruments held bearing signature of shareholders, directors, related parties (c)	-
Other losses	-
Total (B)	(2,019,237)
Total Tier 1 (Core Capital) (A) - (B)	39,308,721
Tier (Complementary Capital)	
III. Sub-Total C	
Revaluation reserves approved by the Central Bank	-
Provisions for general banking risks	-
1% General provision (Prakas on Asset Class.)	971,408
Subordinated debts approved by the Central Bank up to 50% of Tier 1	10,000,000
Other items approved by the Central Bank	-
Total (C)	10,971,408
Limit check on Subordinated Debt (max. 50 % of Tier 1 Capital)	25%
IV. Sub-Total D (Tier 2, Deductions)	
Equity participation banking & Fin. Institution	-
Other items to be deducted (def. charge...)	-
Total (D)	-
Total Tier 2 (Complementary Capital) (C) - (D)	10,971,408
Limit check on Tier 2 capital (Tier 2 = max. 100 % of Tier 1)	27.91%
Regulatory Net Worth (A)- (B) + (C) - (D)	50,280,129

SCHEDULE 3
SOLVENCY RATIO AS AT 31 DECEMBER 2012

SOLVENCY RATIO

			<u>US\$</u>
Numerator			
Net Worth as computed above (N)			<u>50,280,129</u>
	Assets	Weighting	
Denominator			
Total gross assets			
- Cash, gold and claims on the Central Bank	181,598,727	0%	-
- Assets collateralised by deposits	21,000,000	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-	86,657,911	50%	43,328,956
- Other assets	<u>173,660,257</u>	100%	<u>173,660,257</u>
Total assets as reported in the balance sheet	<u><u>462,916,895</u></u>		<u><u>216,989,213</u></u>
Off-balance sheet items			
- Full risk	-	100%	-
- Medium risk	7,781,307	50%	3,890,654
- Moderate risk	72,033,547	20%	14,406,709
- Low risk	-	0%	-
	<u>79,814,854</u>		<u>18,297,363</u>
Denominator (D1)			<u>235,286,575</u>
SOLVENCY RATIO: (S = N / D1)			<u>21.37%</u>

SCHEDULE 4
CLASSIFICATION OF AND PROVISIONING FOR LOAN LOSSES AS AT 31 DECEMBER
2012

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.

	Loan Amount		The Central Bank required Rate	Provision required	Provision Over/(Under) recorded by the Bank	provision amount
	US\$	Classi- fication	%	US\$	US\$	US\$
Loans and advances	97,140,816	General provision	1%	971,408	971,408	-
Grand Total	97,140,816			971,408	971,408	

SCHEDULE 4
CLASSIFICATION OF AND PROVISIONING FOR LOAN LOSSES AS AT 31 DECEMBER
2012

	2012
	US\$
<u>CAPITAL</u>	
1 Equity to total asset (A/B)	8.63%
A- Equity	39,950,531
B- Total assets	462,916,895
2 Capital Tier I to total asset (A/B)	8.49%
A- Capital Tier I	39,308,721
B- Total assets	462,916,895
3 Capital Tier I to risk weighted asset (A/B)	18.12%
A- Capital Tier I	39,308,721
B- Risk Weighted Assets	216,989,213
4 Capital Tier I + Tier 2 to risk weighted asset (A/B)	23.17%
A- Capital Tier I + tier 2	50,280,129
B- Risk Weighted Assets	216,989,213
5 Net Worth to total assets (A/B)	10.86%
A- Net worth	50,280,129
B- Total assets	462,916,895
6 Solvency Ratio (A/B)	23.17%
A- Net worth	50,280,129
B- Risk Weighted Assets	216,989,213
7 Debt to total asset (A/B)	91.37%
A- Total liabilities	422,966,364
B- Total assets	462,916,895
8 Debt to equity (A/B)	1058.73%
A- Total liabilities	422,966,364
B- Equity	39,950,531
9 Dividend to net profit (A/B)	0.00%
A- Dividend	0
B- Net profit	0

SCHEDULE 4
CLASSIFICATION OF AND PROVISIONING FOR LOAN LOSSES AS AT 31 DECEMBER
2012

<u>ASSET QUALITY</u>		<u>2012</u> <u>US\$</u>
10	Banking reserve to total loans (A/B)	0.00%
	A- Banking reserves	-
	B- Total loans (gross)	97,140,816
11	Banking reserve to total assets (A/B)	0.00%
	A- Banking reserves	-
	B- Total assets	462,916,895
12	NPL to total loan (A/B)	0.00%
	A- NPL	-
	B- Total loans (gross)	97,140,816
13	NPL to total asset (A/B)	0.00%
	A- NPL	-
	B- Total assets	462,916,895
14	Classified asset to total loan (A/B)	0.00%
	A- Classified assets	-
	B- Total loans (gross)	97,140,816
15	Classified asset to total asset (A/B)	0.00%
	A- Classified assets	-
	B- Total assets	462,916,895
16	Classified asset to total equity (A/B)	0.00%
	A- Classified assets	-
	B- Equity	39,950,531
17	Loan to related parties to total loan (A/B)	0.66%
	A- Loan to related parties	641,807
	B- Total loans (gross)	97,140,816
18	Large exposure to total loan (A/B)	52.23%
	A- Large exposure	50,738,505
	B- Total loans (gross)	97,140,816
19	Loan to related parties to net worth (A/B)	1.28%
	A- Loan to related parties	641,807
	B- Net worth	50,280,129

SCHEDULE 4
CLASSIFICATION OF AND PROVISIONING FOR LOAN LOSSES AS AT 31 DECEMBER
2012

	2012
	US\$
20 Large exposure to net worth (A/B)	100.91%
A- Large exposure	50,738,505
B- Net worth	50,280,129
21 General provision to total loan (A/B)	1.00%
A- General provision	971,408
B- Total loans (gross)	97,140,816
22 Specific provision to total loan (A/B)	0.00%
A- Specific provision	-
B- Total loans (gross)	97,140,816
23 Specific provision to NPL (A/B)	0.00%
A- Specific provision	0
B- NPL	0
24 All allowances to total assets (A/B)	0.21%
A- Total all allowances	971,408
B- Total assets	462,916,895
25 Loans to deposits (A/B)	32.72%
A- Total loans to non-bank customers (gross)	97,140,816
B- Customer's deposits	296,867,512
<u>EARNINGS</u>	
26 ROA (A/B)	0.29%
A- Net profit	1,327,958
B- Total assets	462,916,895
27 ROE (A/B)	3.32%
A- Net profit	1,327,958
B- Equity	39,950,531
28 Gross Yield (A/B)	1.07%
A- Interest income	4,940,095
B- Total assets	462,916,895
29 Net Interest margin (NIM) to total asset ((A-B)/C)	0.68%
A- Interest income	4,940,095
B- Interest expense	1,784,194
C- Total assets	462,916,895

SCHEDULE 4
CLASSIFICATION OF AND PROVISIONING FOR LOAN LOSSES AS AT 31 DECEMBER
2012

	2012
	US\$
30 Other Income (OTNC) = (A/B)	0.65%
A- Other income	3,010,311
B- Total assets	462,916,895
31 Provision to total assets (A/B)	0.21%
A- Provision	971,408
B- Total assets	462,916,895
32 Overhead (OHEAD) = (A/B)	0.95%
A- Non-interest expenses	4,399,776
B- Total assets	462,916,895
33 Net income before tax (NIBT) = (A/B)	0.38%
A- Net income before tax	1,766,436
B- Total assets	462,916,895
34 Tax to total assets (A/B)	0.09%
A- Tax	438,478
B- Total assets	462,916,895
35 Interest margin to gross income ((A-B)/C)	39.69%
A- Interest income	4,940,095
B- Interest expense	1,784,194
C- Gross income	7,950,406
36 Non-interest income to gross income (A/B)	37.86%
A- Non-interest income	3,010,311
B- Gross income	7,950,406
37 Non-interest expense to Gross Income (A/B)	55.34%
A- Non-interest expense	4,399,776
B- Gross income	7,950,406
38 Time interest earned ((A+B)/C)	199.00%
A- Income before tax	1,766,436
B- Interest expense	1,784,194
C- Interest expense	1,784,194

SCHEDULE 4
CLASSIFICATION OF AND PROVISIONING FOR LOAN LOSSES AS AT 31 DECEMBER
2012

	2012
	US\$
<u>LIQUIDITY</u>	
39 Liquid asset (A/B)	43.20%
A- Liquid asset	199,989,731
B- Total assets	462,916,895
40 Short-term Liabilities (A/B)	89.21%
A- Short-term liabilities (less than one year)	412,966,364
B- Total assets	462,916,895
41 Net Liquid asset ((A-B)/C)	-50.35%
A- Liquid asset	199,989,731
B- Short-term liabilities	412,966,364
C- Total liabilities	422,966,364
42 Quick Ratio (A/B)	48.43%
A- Quick assets	199,989,731
B- Current liabilities	412,966,364
43 Deposit to total loans (A/B)	305.61%
A- Total customers' deposits	296,867,512
B- Total loans to non-bank customers (gross)	97,140,816



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