

Banque Pour Le Commerce Extérieur Lao

Audited consolidated financial statements
in accordance with International Financial Reporting Standards
for the year ended 31 December 2010

Banque Pour Le Commerce Extérieur Lao

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INDEPENDENT AUDITORS' REPORT

**To: The Board of Directors of
Banque Pour Le Commerce Extérieur Lao**

We have audited the accompanying consolidated financial statements of Banque Pour Le Commerce Extérieur Lao and its subsidiaries ("the Bank") as at 31 December 2010, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position as at 31 December 2010, consolidated statement of changes in equity, consolidated statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 3 to 46.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. The responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Except as discussed in the qualification paragraphs below, we conducted our audit in accordance with 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 consolidated financial statements are free from material misstatement.

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

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

Qualifications

1. The prior year's auditors expressed a disclaimer of opinion on the separate financial statements of the Bank as of 31 December 2009. Because of the significance and the nature of the issues raised in the prior year auditors' report, we were unable to perform procedures to provide sufficient assurance over the amounts carried forward as opening balances for the year ended 31 December 2010 and were unable to determine whether adjustments required by IFRS are necessary to restate those opening balances. We were also unable to evaluate the impact of any adjustment relating to the prior year separate financial statements on these accompanying consolidated financial statements. As a consequence, we do not express an opinion on the opening balances of the accompanying consolidated financial statements for the year ended 31 December 2010.
2. Included in the accompanying consolidated financial statements are the financial instruments initially recognized at cost and subsequently measured at cost plus accrued interest income using nominal interest rate under straight-line method. We refer to:
 - ▶ Note 19.2 on the triangle bonds, capitalization bonds and bond for settlement of default LC;
 - ▶ Note 19.3 on the bonds issued by the Bank of Lao P.D.R with face value amounting to LAKm 521,824; and
 - ▶ Note 25 on borrowings from the BOL amounting to LAKm 78,566.

Due to the unavailability of an active capital market, the lack of observable inputs as well as internal valuation models for fair value measurement, the Bank's consolidated financial statements as at and for the year ended 31 December 2010 and of prior year's have not been adjusted to reflect the estimated fair value at inception of the above mentioned financial instruments. Subsequently, these financial instruments have also not been reflected at amortized cost using effective interest rate as required under IAS 39 – Financial Instruments: Recognition and Measurement.

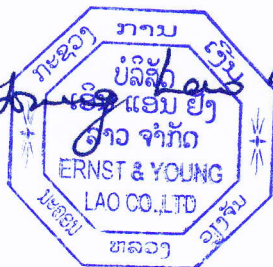
3. The accompanying notes to the consolidated financial statements include information on the activities of the Bank only to the extent the information is available, which does not fulfill certain IFRS disclosure requirements. The accompanying notes do not include disclosures required by International Financial Reporting Standard 7: "Financial Instruments: Disclosures" on the following:
 - ▶ maturity analysis of assets and liabilities;
 - ▶ interest rate exposure by each class of financial assets and financial liabilities;
 - ▶ a sensitivity analysis for each type of market risk to which the entity is exposed at the end of the reporting period;
 - ▶ fair value for each class of financial assets and financial liabilities; and
 - ▶ risk management policies

Opinion

In our opinion, except for the effects of the matters discussed in the qualification paragraphs, the consolidated financial statements give a true and fair view of the consolidated financial position of the Bank and its subsidiaries as at 31 December 2010, and of their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Vientiane, Lao P.D.R

20 June 2011



Banque Pour Le Commerce Exterieur Lao

CONSOLIDATED INCOME STATEMENT for the year ended 31 December 2010

	Notes	2010 LAKm	2009 LAKm
Interest and similar income	5	266,143	193,072
Interest and similar expense	6	(146,909)	(95,454)
Net interest and similar income		119,234	97,618
Fee and commission income	7	143,273	85,984
Fee and commission expense	7	(38,926)	(5,399)
Net fee and commission income		104,347	80,585
Net trading income	8	37,720	36,862
Net gain/(loss) from trading gold and other precious metals		12,356	3,595
Net share of profit in associates and joint ventures		3,839	6,842
Other operating income	9	42,921	56,449
TOTAL OPERATING INCOME		320,417	281,951
Credit loss expenses	10	(85,756)	(21,665)
Reversal of provision for credit losses	10	53,451	5,518
Reversal of impairment losses on financial investments		8,039	-
NET OPERATING INCOME		296,151	265,804
Personnel expenses	11	(68,733)	(53,410)
Depreciation and amortization	20,21	(23,784)	(16,102)
Other operating expenses	12	(63,346)	(41,867)
TOTAL OPERATING EXPENSES		(155,863)	(111,379)
PROFIT BEFORE TAX		140,288	154,425
Income tax expense	27	(47,516)	(46,096)
PROFIT FOR THE YEAR		92,772	108,329
Non-controlling interest		564	-
Net profit after tax attributable to the equity holders of the Bank		92,208	108,329



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Approved by:
Mrs. Thonglith Saochanethala
Deputy Chief of Accounting
Division



Approved by:
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Deputy Managing Director

Vientiane, Lao P.D.R

20 June 2011

The accompanying notes from 1 to 41 form part of these consolidated financial statements

Banque Pour Le Commerce Exterieur Lao

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 December 2010

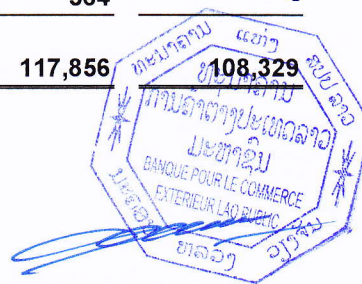
	Note	2010 LAKm	2009 LAKm
NET PROFIT FOR THE YEAR		92,772	108,329
Other comprehensive income		-	-
Net (loss)/gain on hedge of net investments		-	-
Exchange differences on translation of foreign operations		-	-
Net gain on cash flow hedges		-	-
Net (loss)/gain on available-for-sale financial assets		39,458	-
Income tax related to components of other comprehensive income		(13,810)	-
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year, net of tax		118,420	108,329
Non-controlling interest		564	-
Total comprehensive income for the year attributable to the equity holder, net of tax		117,856	108,329



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Banque Pour Le Commerce Exterieur Lao

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2010

	Notes	31 December 2010 LAKm	31 December 2009 LAKm
ASSETS			
Cash and cash equivalents on hand	13	717,647	440,770
Balances with the Bank of the Lao P.D.R ("the BOL")	14	2,434,382	1,117,302
Placements and loans to other banks	15	1,834,933	1,872,406
Loans and advances to customers, net of provision	16	2,694,031	1,894,023
Financial investments - Available-for-sale	18	139,458	-
Financial investments - Held-to-maturity	19	1,346,514	896,608
Investments in joint-ventures	20	210,030	89,850
Property and equipment	21	134,705	109,576
Intangible assets	22	24,210	17,002
Other assets	23	56,871	107,047
TOTAL ASSETS		9,592,781	6,544,584
LIABILITIES AND OWNER'S EQUITY			
LIABILITIES			
Due to banks	24	590,900	366,933
Borrowings from the BOL	25	78,628	21,553
Due to customers	26	7,863,831	5,693,123
Current tax liabilities	27.1	52,689	43,378
Deferred tax liabilities	27.2	4,882	-
Other liabilities	28	205,767	19,440
TOTAL LIABILITIES		8,796,697	6,144,427
OWNER'S EQUITY			
Chartered capital	29	610,433	326,933
Statutory reserves	30	119,530	102,246
Available-for-sale reserve	31	25,648	-
Retained earnings/(Accumulated losses)		31,472	(29,022)
TOTAL OWNER'S EQUITY		787,083	400,157
NON-CONTROLLING INTEREST		9,000	-
TOTAL LIABILITIES, OWNER'S EQUITY AND NON-CONTROLLING INTEREST		9,592,781	6,544,584

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Banque Pour Le Commerce Extérieur Lao

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2010

	Chartered capital LAKm	Statutory reserves LAKm	Available- for-sale reserve LAKm	Accumulated gain/(losses) LAKm	Total LAKm
Balances as at 1 January 2009	228,933	108,733	-	(151,458)	186,208
Net profit for the year 2009	-	-	-	108,329	108,329
Capital increase during the year 2009	98,000	-	-	-	98,000
Appropriation to reserves for the year 2009 based on the profit reported under the Lao Accounting System	-	31,237	-	(31,237)	-
Reclassification to accumulated gain/(losses)	-	(37,724)	-	37,724	-
Others	-	-	-	7,620	7,620
Balances as at 31 December 2009, restated	326,933	102,246	-	(29,022)	400,157
Net profit for the year 2010	-	-	-	92,772	92,772
Transfer profit 2010 to MOF	-	-	-	(14,726)	(14,726)
Capital increase during the year 2010	283,500	-	-	-	283,500
Appropriation to reserves for the year 2010 based on the profit reported under the Lao Accounting System	-	17,284	-	(17,284)	-
Net change in fair value of available-for-sale financial investments	-	-	25,648	-	25,648
Others	-	-	-	(268)	(268)
Balances as at 31 December 2010	610,433	119,530	25,648	31,472	787,083

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CONSOLIDATED STATEMENT OF CASH FLOWS for the year ended 31 December 2010

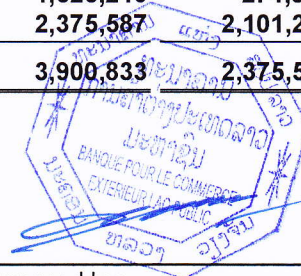
	Notes	2010 LAKm	2009 LAKm
Net profit before tax		140,288	154,425
Adjustments for:			
Depreciation and amortization charges		23,784	16,102
Provision for doubtful debts		32,305	16,147
(Profits)/ losses from investing activities		(12,252)	(6,679)
Cash flows from operating profit before changing in operating assets and liabilities		184,125	179,995
(Increase)/Decrease in operating assets			
Balances with other banks		(30,449)	(450,751)
Loans and advances to customers		(825,140)	(515,934)
Other financial assets		(260,958)	(295,328)
Accrued interest income		(12,281)	(688)
Other assets		57,952	10,960
(Increase)/Decrease in operating liabilities			
Amounts due to other banks		223,968	229,670
Customer deposits and other amounts due to customers		2,169,934	1,365,028
Corporate tax paid during the year	27.1	(47,133)	(60,224)
Other liabilities		24,720	(106,106)
Net cash flows from operating activities		1,484,738	356,622
INVESTING ACTIVITIES			
Purchase and construction of fixed assets and other long term assets		(70,579)	(85,096)
Payments for investments in other entities		(119,420)	(15,349)
Proceeds from sale of investments in other entities		8,039	-
Interest and dividends received		6,690	3,642
Net cash flows used in investing activities		(175,270)	(96,803)
FINANCING ACTIVITIES			
Capital contribution and issuance of shares		172,364	-
Drawdown of borrowings		59,186	15,609
Repayment of borrowings		(1,046)	(1,103)
Transfer the profit to MOF		(14,726)	-
Net cash flows used in financing activities		215,778	14,506
Net increase in cash and cash equivalents		1,525,246	274,325
Cash and cash equivalents at the beginning of the year		2,375,587	2,101,263
Cash and cash equivalents at the end of the year	32	3,900,833	2,375,588

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Banque Pour Le Commerce Extérieur Lao

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as at 31 December 2010 and for the year then ended

1. CORPORATE INFORMATION

Banque Pour Le Commerce Extérieur Lao (herein referred to as “the Bank”) is a state-owned commercial bank incorporated and registered in the Lao People’s Democratic Republic.

Establishment and operations

The Bank operates under the Banking Business License No. 129/BOL granted by the Bank of Lao People’s Democratic Republic (“Bank of the Lao P.D.R”) which was effective from 01 November 1989, and its Amended Business Licenses; with the latest Amended Business License No. 4284/BOL issued by the BOL on 11 November 2010.

The Bank operates as a universal commercial bank providing a full range of financial, monetary, credit, banking and non-banking products and services in accordance with the law, including: banking services (comprehensive packages of both traditional and modern banking services); insurance services (insurance, re-insurance all types of non-life insurance services); securities (securities brokerage, securities custody, investment consulting business, underwriting, portfolio management), financial investments (investment securities: bonds, stocks); capital investment in new projects.

Equitisation of the Bank

On 14 December 2010, the Bank’s equitisation plan had been approved by the Prime Minister Office according to Decision No. 181/PMO. Under the equitisation plan, the current capital of the Ministry of Finance in the Bank remains unchanged with additional shares to be issued on the condition that the Ministry of Finance still holds 80% of chartered capital of the joint stock bank after equitisation. On 23 December 2010, the Bank successfully completed the Initial Public Offering of 27,315,520 shares equivalent to 20% of its chartered capital. Of the shares issued, 20,490,160 shares were subscribed by the public and 6,825,360 shares were offered to the employees. On 10 January 2011, the Bank had received the Operating License No. 0061/LRO issued by the Business License Registration Office of the Lao P.D.R which is effective from 10 January 2011. Accordingly, the Bank has formally been transformed into joint stock bank under the new name of Banque Pour Le Commerce Extérieur Lao Public.

Chartered capital

The initial chartered capital of the Bank is 1,933 millions of KIP (“LAKm”). According to the decisions of the Board of Directors of the Bank and the approval from the Ministry of Finance, its chartered capital has been increased to LAK 610,433 million as at 31 December 2010 as follows:

<i>Decision/Bond issuance</i>	<i>Date</i>	<i>Chartered capital (LAKm)</i>
No. 129/BOL	01 November 1989	1,933
Capitalization bonds	01 February 2006	130,933
Capitalization bonds	01 March 2007	228,933
Capitalization bonds	01 March 2009	326,933
Capitalization bonds	01 October 2010	610,433

Operational results

The consolidated net profit after tax for the year ended 31 December 2010 was LAK 92,772 millions (the consolidated net profit after tax for the year ended 31 December 2009 was LAK 108,329 millions).

Banque Pour Le Commerce Extérieur Lao

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
as at 31 December 2010 and for the year then ended

1. CORPORATE INFORMATION (continued)

Board of Directors

The members of the Board of Directors during the year 2010 and at the date of this report are:

<i>Name</i>	<i>Position</i>	<i>Date of appointment</i>
Mrs. Viengthong Siphandone	Chairman	Appointed on 17 September 2007
Mr. Khamlien Pholsena	Vice Chairman	Appointed on 17 September 2007
Mr. Sonexay Sitphasay	Member	Appointed on 16 March 2003
Mr. Onekeo Damlongboun	Member	Appointed on 17 September 2007
Mr. Vanhkham Voravong	Member	Appointed on 17 September 2007
Mr. Khamhou Thongthavy	Member	Appointed on 16 March 2003
Mrs. Palamy Souannavong	Member	Appointed on 17 September 2007

Board of Management

The members of the Board of Management during the year 2010 and at the date of this report are:

<i>Name</i>	<i>Position</i>	<i>Date of appointment</i>
Mr. Sonexay Sitphasay	General Managing Director	Appointed on 16 January 2003
Mr. Onekeo Damlongboun	Deputy Managing Director	Appointed on 02 February 2007
Mr. Vanhkham Voravong	Deputy Managing Director	Appointed on 08 May 2005
Mr. Phansana Khounnouvong	Deputy Managing Director	Appointed on 06 June 2008
Mr. Phoukhong Chanthachack	Deputy Managing Director	Appointed on 08 May 2005

Location and Network

The Bank's Head Office is located at No. 01, Pangkham Street, Ban Xiengneun, Chanthabouly District, Vientiane, Lao P.D.R. As at 31 December 2010, the Bank has one (01) Head Office, eighteen (18) main branches, twenty five (25) services units, and eleven (11) exchange units all over Lao P.D.R.

Subsidiaries

As at 31 December 2010, the Bank has two (02) subsidiaries as follows:

<i>Name</i>	<i>Established in accordance with Business License No.</i>	<i>Business sector</i>	<i>% owned by the Bank</i>
BCEL Leasing Company	011/09 dated 17 November 2009 by the Investment Promotion Department of the Ministry of Planning and Investment of the Lao P.D.R	Banking & Finance	100%
BCEL - Krung Thai Securities Company Limited	180-10 dated 14 December 2010 by the Investment Promotion Department of the Ministry of Planning and Investment of the Lao P.D.R	Securities	70%

Banque Pour Le Commerce Extérieur Lao

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
as at 31 December 2010 and for the year then ended

1. CORPORATE INFORMATION (continued)

Joint ventures

As at 31 December 2010, the Bank has three (03) joint ventures as follows:

<i>Name</i>	<i>Business License No.</i>	<i>Business Sector</i>	<i>% owned by the Bank</i>
Lao Viet Joint Venture Bank	01/NHNN dated 31 March 2000 by the Bank of the Lao P.D.R	Banking & Finance	50%
Banque Franco - Lao Limited	121-09/MPI dated 26 August 2009 by the Ministry of Planning and Investment of the Lao P.D.R	Banking & Finance	46%
Lao-Viet Insurance Joint Venture Company	077/08/FIMC dated 09 June 2008 by the Foreign Investment Management Committee of the Lao P.D.R	Insurance	29%

Employees

Total number of employees of the Bank and its subsidiaries as at 31 December 2010 is 1,019 persons (the number of employees of the Bank and its subsidiaries as at 31 December 2009 was 813 persons).

2. BASIS OF PREPARATION

2.1 Basis of preparation for consolidated financial statements

The Bank maintains its records in Lao Kip ("LAK") and prepares its consolidated financial statements in millions of LAK ("LAKm") in accordance with the "Decree of the President on Commercial Banks" numbered 03/NA dated 26 December 2006 and the Enterprise Accounting Law of Lao P.D.R and other relevant accounting regulations as stipulated by Bank of the Lao P.D.R ("LAS").

The Bank also prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") by conversion of data from LAS to IFRS. However, the Bank does not apply the following IFRS or IAS while preparing the consolidated financial statements:

- ▶ Disclosures on risk management under IFRS 7 - "Financial Instruments: Disclosures";
- ▶ Accounting for initial recognition of investment securities at fair value (under IAS 39 - Financial Instruments: Recognition and Measurement); and
- ▶ Supplementary information on risk management and other disclosures on the operations of the Bank (under International Financial Reporting Standard 7 - "Financial Instruments: Disclosures").

2.2 Fiscal year

The Bank's fiscal year starts on 1 January and ends on 31 December.

Banque Pour Le Commerce Extérieur Lao

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
as at 31 December 2010 and for the year then ended

2. BASIS OF PREPARATION (continued)

2.3 *Basis of consolidation*

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries for the year ended 31 December. The financial statements of the Bank's subsidiaries are prepared for the same reporting year and using consistent accounting policies as well as of the Bank.

All intra-group balances, transactions, income and expenses are eliminated in full.

Subsidiaries (as disclosed in Note 1) are fully consolidated from the date on which control is transferred to the Bank. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal.

Non-controlling interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Bank and are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from the Bank's equity.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In the process of applying the Bank's accounting policies, management has used its judgments and made estimates in determining the amounts recognised in the consolidated financial statements. The most significant uses of judgments and estimates are as follows:

3.1 *Going concern*

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

3.2 *Fair value of financial instruments*

Where the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities.

Banque Pour Le Commerce Extérieur Lao

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
as at 31 December 2010 and for the year then ended

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

3.3 *Impairment losses on loans and advances*

The Bank and its subsidiaries review their individually significant loans and advances at each consolidated statement of financial position date to assess whether an impairment loss should be recorded in the consolidated income statement. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident.

The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilization, loan to collateral ratios etc.), and judgments to the effect of concentrations of risks and economic data (including unemployment rate, country risk, and the performance of different individual groups).

The impairment loss on loans and advances to customers is disclosed in more details in Note 16 and 17.

3.4 *Impairment of available-for-sale financial investments*

The Bank and its subsidiaries review their debt securities classified as available-for-sale investments at each consolidated statement of financial position date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

The Bank also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Bank evaluates, among other factors, historical share price movements, duration, and extent to which the fair value of an investment is less than its cost.

Banque Pour Le Commerce Extérieur Lao

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
as at 31 December 2010 and for the year then ended

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted by the Bank in the year are consistent with those used in the previous year.

4.1 *Changes in accounting policies and disclosures*

New and amended standards and interpretations

Amendments resulting from improvements to IFRSs to the following standards did not have any impact on the accounting policies, consolidated financial position or consolidated performance of the Bank and its subsidiaries:

- ▶ IFRS 2 *Share-based payment: Group Cash-settled Share-based Payment Transactions* effective from 1 January 2010
- ▶ IFRS 3 *Business Combinations (Revised)* and IAS 27 *Consolidated and Separate Financial Statements (Amended)* effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- ▶ IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* effective 1 July 2009
- ▶ IFRIC 17 *Distributions of Non-cash Assets to Owners* effective 1 July 2009

Improvements to IFRSs

Issued in May 2008

- ▶ IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* effective 1 January 2010

Issued in May 2009

- ▶ IFRS 2 *Share-based Payment*
- ▶ IAS 1 *Presentation of Financial Statements*
- ▶ IAS 17 *Leases*
- ▶ IAS 38 *Intangible Assets*
- ▶ IAS 39 *Financial Instruments: Recognition and Measurement*
- ▶ IFRIC 9 *Reassessment of Embedded Derivatives*

4.2 *Foreign currency transactions*

The Bank maintains its accounting system and records all transactions in original currencies. Monetary assets and liabilities denominated in foreign currencies at year end are translated into LAK at exchange rates ruling on the consolidated statement of financial position date (see the list of exchange rates of applicable foreign currencies against LAK on 31 December 2010 as presented below). Income and expenses arising in foreign currencies during the year are converted into LAK at rates ruling on the transaction dates. Unrealized exchange differences arising from the translation of monetary assets and liabilities on the consolidated statement of financial position date are recognized in the consolidated income statement.

	31 December 2010 LAK	31 December 2009 LAK
United State Dollar ("USD")	8,041.51	8,483.20
Thai baht ("THB")	267.14	255.01
Euro ("EUR")	10,667.00	12,164.00

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
as at 31 December 2010 and for the year then ended

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 *Financial instruments – initial recognition and subsequent measurement*

4.3.1 *Date of recognition*

All financial assets and liabilities are initially recognized on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes “regular way trades”: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

4.3.2 *Initial measurement of financial instruments*

The classification of financial instruments at initial recognition depends on the purpose and the management’s intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

4.3.3 *Financial assets or financial liabilities held-for-trading*

Financial assets or financial liabilities held-for-trading are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recognised in “*net trading income*”. Interest and dividend income or expense are also recorded in “*net trading income*” according to the terms of the contract, or when the right to the payment has been established.

Included in this classification are debt securities, equities and short positions and customer loans that have been acquired principally for the purpose of selling or repurchasing in the near term.

4.3.4 *‘Day 1’ profit or loss*

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognizes the difference between the transaction price and fair value (a ‘Day 1’ profit or loss) in ‘Net trading income’. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated income statement when the inputs become observable, or when the instrument is derecognized.

4.3.5 *Available-for-sale financial investments*

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

The Bank has not designated any loans or receivables as available-for-sale.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
as at 31 December 2010 and for the year then ended

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 *Financial instruments – initial recognition and subsequent measurement* (continued)

4.3.5 *Available-for-sale financial investments* (continued)

After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealized gain or losses are recognised directly in equity in the “*Available-for-sale reserve*”. When the investment is disposed, the cumulative gain or loss previously recognised in equity is recognised in the consolidated income statement in “*Other operating income*”. Where the Bank holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the effective interest rate. Dividends earned whilst holding available-for-sale financial investments are recognised in the consolidated income statement as “*Other operating income*” when the Bank’s entitlement to receive the dividend is established. The losses arising from impairment of such investments are recognised in the consolidated income statement in “*Impairment losses on financial investments*” and removed from the “*Available-for-sale reserve*”.

4.3.6 *Held-to-maturity financial investments*

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortized costs using the effective interest rate method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in “*Interest and similar income*” in the consolidated income statement. The losses (if any) arising from impairment of such investments are recognised in the consolidated income statement line “*Impairment losses on financial investments*”.

If the Bank were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

4.3.7 *Due from banks and loans and advances to customers*

“*Due from banks*” and “*Loans and advances to customers*”, include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- ▶ Those that the Bank intends to sell immediately or in the near term and those that the Bank upon initial recognition designates as at fair value through profit or loss;
- ▶ Those that the Bank, upon initial recognition, designates as available for sale; or
- ▶ Those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, “*due from banks and loans*” and “*loans and advances to customers*” are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in “*Interest and similar income*” in the consolidated income statement. The losses arising from impairment are recognized in the consolidated income statement in “*Credit loss expense*”.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
as at 31 December 2010 and for the year then ended

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 *Financial instruments – initial recognition and subsequent measurement* (continued)

4.3.8 *Reclassification of financial assets*

Effective from 1 July 2008, the Bank was permitted to reclassify, in certain circumstances, non-derivative financial assets out of the 'Held-for-trading' category and into the 'Available-for-sale', 'Loans and receivables', or 'Held-to-maturity' categories. From this date it was also permitted to reclassify, in certain circumstances, financial instruments out of the 'Available-for-sale' category and into the 'Loans and receivables' category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortized cost.

For a financial asset reclassified out of the 'Available-for-sale' category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recorded in equity is recycled to the consolidated income statement.

The Bank may reclassify a non-derivative trading asset out of the 'Held-for-trading' category and into the 'Loans and receivables' category if it meets the definition of loans and receivables and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognized as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Bank does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

4.4 *Derecognition of financial assets and financial liabilities*

4.4.1 *Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- ▶ the rights to receive cash flows from the asset have expired; or
- ▶ the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and
- ▶ either (a) has transferred substantially all the risks and rewards of the assets, or (b) has neither transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
as at 31 December 2010 and for the year then ended

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.4 *Derecognition of financial assets and financial liabilities* (continued)

4.4.2 *Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in profit or loss in the consolidated income statement.

4.5 *Determination of fair value*

The fair value for financial instruments traded in active markets at the consolidated statement of financial position date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Bank's best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded ('Day 1' profit or loss) is deferred and recognized only when the inputs become observable or on derecognition of the instrument (see Note 4.3.4)

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 38.

4.6 *Impairment of financial assets*

The Bank assesses at each consolidated statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial assets or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
as at 31 December 2010 and for the year then ended

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6 *Impairment of financial assets* (continued)

4.6.1 *Financial assets carried at amortized cost*

For financial assets carried at amortized cost (such as amounts due from banks, loans and advances to customers as well as held-to-maturity investments), the Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest and similar income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Credit loss expense'.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. If the Bank has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR (Refer Note 4.3.8 above) determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
as at 31 December 2010 and for the year then ended

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6 *Impairment of financial assets* (continued)

4.6.2 *Available-for-sale financial investments*

For available-for-sale financial investments, the Bank assesses at each consolidated statement of financial position date whether its financial investments are impaired.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as “*due from banks and loans and advances to customers*”. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statement.

Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for measuring the impairment loss. The interest income is recorded as part of “*Interest and similar income*”. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

In the case of equity investments classified as available-for-sale, objective evidence would also include a ‘significant’ or ‘prolonged’ decline in the fair value of the investment below its cost. The Bank treats ‘significant’ generally as 20% and ‘prolonged’ as greater than 6 months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statement - is removed from equity and recognized in the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in the fair value after impairment are recognized directly in equity.

4.7 *Offsetting financial instruments*

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the consolidated statement of financial position.

4.8 *Leasing*

The determination of whether an arrangement is a lease or it contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

4.8.1 *Bank as a lessee*

Leases which do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight line basis over the lease term. Contingent rental payable are recognised as an expense in the period in which they are incurred.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.8 *Leasing* (continued)

4.8.2 *Bank as a lessor*

Leases where the Bank does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

4.9 *Recognition of income and expense*

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

4.9.1 *Recognition of interest and similar income and expense*

For all financial instruments measured at amortized cost, interest bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as *“Other operating income”*. However, for a reclassified financial asset for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognized as an adjustment to the effective interest rate from the date of the change in estimate.

Once the recorded value of a financial asset of a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

4.9.2 *Fees and commission income*

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

- ▶ *Fee income earned from services that are provided over a certain period of time:* Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.
- ▶ *Fee income from providing transaction services:* Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
as at 31 December 2010 and for the year then ended

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.9 *Recognition of income and expense*

4.9.3 *Net trading income*

Results arising from trading activities include all gains and losses from changes in fair value and related interest income, expense and dividends for financial assets and financial liabilities held for trading.

4.9.4 *Dividend income*

Dividend income is recognised when the Bank's right to receive the payment is established.

4.10 *Cash and cash equivalents*

Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, current account with the Bank of Lao P.D.R ("the BOL") and amounts due from banks on demand or with an original maturity of three months or less.

4.11 *Interest in joint ventures*

The Bank has an interest in a joint venture whereby there is a contractual agreement that establishes joint control over the economic activities of the entity. The Bank recognizes its interest in the joint venture using the equity accounting method, where it is recognized to present its aggregate share of the profit or loss of joint ventures in its consolidated income statement. Also, the investment needs to be presented as non-current assets in the consolidated statement of financial position.

The financial statements of the joint ventures are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Bank.

Upon loss of joint control and provided the former joint control entity does not become a subsidiary or associate, the Bank measures and recognizes its remaining investment at its fair value. Any difference between the carrying amount of the former jointly controlled entity upon loss of joint control and the fair value of the remaining investments and proceeds from disposal is recognized in the consolidated income statement. Where the remaining investment constitutes significant influence, it is accounted for as investment in an associate.

4.12 *Property and equipment*

Property and equipment, comprising of buildings and structures, machinery, equipment, vehicles and others, are stated at cost excluding day-to-day servicing less accumulated depreciation and accumulated impairment in value (if any). Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate and treated as changes in accounting estimates.

An item of property and equipment is derecognized upon disposal or when no future benefits are expected from its use or disposal. Any gain or loss on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in "*Other operating income*" in the consolidated income statement in the year the asset is derecognized.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.13 *Intangible assets*

Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over economic useful lives. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated income statement.

Intangible assets with indefinite useful lives are not amortized but annually reviewed for impairment. Any impairment losses are recognized in the consolidated income statement.

4.14 *Depreciation and amortization*

Depreciation and amortization of fixed assets and intangible assets is calculated on a straight-line basis over the estimated useful lives of these assets, which are as follows:

Buildings and fixtures	10 - 20 years
Machines and equipment	5 - 10 years
Motor vehicles	5 years
Others	5 - 10 years
Land use rights	No amortization
Computer software	5 - 7 years

The land use right of the Bank was not amortized as land use rights has indefinite term and was granted by the Government of Lao P.D.R.

4.15 *Impairment of non-financial assets*

The Bank assesses at each consolidated statement of financial position date whether there is indication that an asset, excluding investment property and deferred tax asset, is impaired. If any indication exists, the Bank estimates the asset's recoverable amount. If the carrying value of the asset exceeds its recoverable amount, provision for impairment is made for the difference between the carrying value and recoverable amount.

4.16 *Enterprise income tax*

4.16.1 *Current tax*

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the consolidated statement of financial position date.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
as at 31 December 2010 and for the year then ended

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.16 Enterprise income tax (continued)

4.16.2 Deferred tax

Deferred tax is provided using the liability method on temporary differences at the consolidated statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- ▶ Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- ▶ In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- ▶ Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- ▶ In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each consolidated statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each consolidated statement of financial position date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the consolidated statement of financial position date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.17 Provisions for contingent liabilities

Provisions for contingent liabilities are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

4.18 Fiduciary assets

Assets held in trust or in a fiduciary capacity which are not under the ownership of the Bank and are not reported in the consolidated financial statements since they are not assets of the Bank.

4.19 Employee benefits

Post employment benefits

The Bank is required to contribute to these post employment benefits at the rate of 6.00% of employee's basic salary on a monthly basis. The Bank has no further obligation concerning post employment benefits for its employees other than this.

Termination benefits

The Bank has the obligation, under the prevailing Labor Code, to pay allowance for employees who are dismissed on one of the following circumstances:

- where the employees concerned lacks the required specialized skills;
- where the employees are not in good health and therefore cannot continue to work; or
- where the Bank considers it necessary to reduce the number of workers in order to improve the organization of work within the labor unit

The allowance is equal to 10% and 15% of the basic monthly salary for every month of service for dismissed employees who have worked for the Bank for less than three years and more than three years, respectively.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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5. INTEREST AND SIMILAR INCOME

	2010 LAKm	2009 LAKm
Interest income from lending	211,981	157,977
Interest income from deposits	1,039	133
Interest income from investment securities	53,123	34,962
	266,143	193,072

6. INTEREST AND SIMILAR EXPENSE

	2010 LAKm	2009 LAKm
Interest expense on deposits	144,429	95,449
Interest expense on borrowings	2,480	5
	146,909	95,454

7. NET FEES AND COMMISSION INCOME

	2010 LAKm	2009 LAKm
Fees and commission income from:		
Settlement services	32,379	4,302
Guarantee activities	7,291	9,882
Treasury activities	6,383	15,286
Agency services	22,002	20,823
Advisory services	43,475	-
Other fees and commission	31,743	35,691
	143,273	85,984
Fees and commission expense for:		
Settlement services	3,178	3,005
Other direct fees and commission expenses	35,748	2,394
	38,926	5,399
Net fees and commission income	104,347	80,585

8. NET TRADING INCOME

	2010 LAKm	2009 LAKm
Gains from foreign exchange trading	59,733	81,285
Loss from foreign exchange trading	(22,013)	(44,423)
	37,720	36,862

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
as at 31 December 2010 and for the year then ended

9. OTHER OPERATING INCOME

	2010 LAKm	2009 LAKm
Other income from financial services	62	13
Income from sale of tangible fixed assets	326	236
Income from disposal of equity investments	1,289	-
Recovery of the customers debts written off	28,027	38,409
Other income	13,217	17,791
	42,921	56,449

10. PROVISION FOR CREDIT LOSSES

	2010 LAKm	2009 LAKm
Provision for credit losses of loans and advances to customers (see Note 17)	85,756	21,665
Reversal of provision for credit losses	(53,451)	(5,518)
	32,305	16,147

11. PERSONNEL EXPENSES

	2010 LAKm	2009 LAKm
Salary expense	44,271	33,415
Insurance expense for employees	118	1,479
Provision expense for employment termination	928	37
Bonus and pension expense	13,800	11,283
Other expenses	9,616	7,196
	68,733	53,410

12. OTHER OPERATING EXPENSES

	2010 LAKm	2009 LAKm
Fuel and travelling expenses	9,918	6,833
Training and education expenses	775	540
Deposit insurance	1,250	567
Telecommunication expenses	1,773	1,473
Publication, marketing and promotion expenses	18,027	10,389
Repair and maintenance expenses	3,737	2,161
Materials, tools and equipment expenses	3,704	2,028
Electricity and water supply	6,268	4,607
Office rental	8,642	7,431
Other general and administration expenses	9,252	5,838
	63,346	41,867

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13. CASH AND CASH EQUIVALENTS ON HAND

	31 December 2010 LAKm	31 December 2009 LAKm
Cash on hand in LAK	318,053	194,242
Cash on hand in foreign currencies ("FC")	399,153	245,664
Travelers' cheques and others	441	864
	717,647	440,770

14. BALANCES WITH THE BANK OF LAO P.D.R ("THE BOL")

	31 December 2010 LAKm	31 December 2009 LAKm
Compulsory deposit	402,933	352,051
Demand deposit	1,913,259	681,987
Term deposit	118,190	83,264
	2,434,382	1,117,302

Balances with the BOL include settlement, compulsory and time deposits. These balances bear no interest.

Under regulations of the BOL, the Bank is required to maintain certain cash reserves with the BOL in the form of compulsory deposits, which are computed at 5.00% and 10.00%, on a bi-monthly basis, (2009: 5.00% and 10.00%) of customer deposits having original maturities of less than 12 months, in LAK and in foreign currencies, respectively.

In the year, the Bank maintained its compulsory deposits in compliance with the requirements by the BOL.

In accordance with Decree No. 02/PR of the President of Lao P.D.R on Credit Institutions, the Bank is required to deposit twenty-five percent of the registered capital into a block deposit account with the BOL within ninety days from the date of registration. This deposit amount is considered as a guarantee for the operations of the Bank.

15. DUE FROM BANKS

	31 December 2010 LAKm	31 December 2009 LAKm
Current accounts		
- In LAK	3,595	2,573
- In foreign currencies	863,666	898,294
Term deposits		
- In LAK	-	-
- In foreign currencies	738,683	921,778
Loans		
- In LAK	-	-
- In foreign currencies	226,971	48,354
Accrued interest	2,018	1,407
	1,834,933	1,872,406

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16. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2010 LAKm	31 December 2009 LAKm
Gross loans and advances	2,740,472	1,916,254
Accrued interest related to loan to customers	21,051	13,806
Less provision for impairment losses	(67,492)	(36,037)
	2,694,031	1,894,023

Commercial loans comprise overdrafts, short-term, medium-term and long-term loans lent by the Bank in LAK, USD and THB. Commercial loans denominated in LAK earn interest rates varying from 8.00% to 20.00% per annum depending on the terms of the loans. Commercial loans denominated in USD and THB earn interest rates ranging from 5.00% to 14.00% per annum.

The loan portfolio at year-end comprised loans to entities in the following sectors:

	2010		2009	
	LAKm	%	LAKm	%
Industrial services companies	353,438	12.90%	292,206	15.25%
Construction companies	735,051	26.82%	408,438	21.31%
Technical instruments enterprises	79,052	2.88%	-	-
Agricultural & forestry	49,776	1.82%	48,824	2.55%
Trading companies	829,923	30.28%	640,465	33.42%
Transportation companies	122,597	4.47%	-	-
Services companies	545,202	19.89%	526,321	27.47%
Others	25,433	0.94%	-	-
	2,740,472	100%	1,916,254	100%

Analysis of loan portfolio by type of business entity:

	2010		2009	
	LAKm	%	LAKm	%
State-owned enterprises	197,235	7.20%	264,792	13.82%
Non-State-owned enterprises and individuals	2,543,237	92.80%	1,651,462	86.18%
	2,740,472	100%	1,916,254	100%

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17. PROVISION FOR IMPAIRMENT LOSSES

Changes in the provision for impairment losses consisted of the following:

	2010 LAKm	2009 LAKm
Balance as at 1 January	36,037	28,242
Provision for impairment losses charged during the year	85,756	21,665
Reversal of provision	(53,451)	(5,518)
Non-performing loans written-off	-	-
Other	(850)	(8,352)
Balance as at 31 December	67,492	36,037

The grading of the loan portfolio as at 31 December 2010 is as follows:

	Principal LAKm	Specific provision LAKm	Ratio of provision/ outstanding balance %
<i>Risk classification</i>			
Current	1,820,468	-	-
Special Mention	611,793	25,235	4.12%
Substandard	183,539	10,596	5.77%
Doubtful	70,019	3,803	5.43%
Loss	54,653	27,858	50.97%
	2,740,472	67,492	2.46%

In accordance with BOL 6 dated 11 May 2004 issued by the Bank of Lao P.D.R, a loan write-off can be made by the Bank when the loan is either: (i) overdue as agreed in the terms of the loan agreement, whether in interest or principal from 360 days; (ii) considered uncollectible or of such little value that their continuance as an asset on the books of the Bank is not warranted.

18. FINANCIAL INVESTMENTS - AVAILABLE-FOR-SALE

This was the purchase of EDL Generation Public Company's shares in December 2010.

	31 December 2010 LAKm	31 December 2009 LAKm
Equity securities issued by local corporate	139,458	-
	139,458	-

Effect of changes in fair value of AFS securities

	2010 Cost LAKm	2010 Fair value LAKm	Difference LAKm
Changes in fair value of AFS equity securities	100,000	139,458	39,458
	100,000	139,458	39,458

Tax effect arising from changes in fair value of available-for-sale securities is presented in Note 27.2.

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as at 31 December 2010 and for the year then ended

19. FINANCIAL INVESTMENTS - HELD-TO-MATURITY

	31 December 2010 LAKm	31 December 2009 LAKm
Treasury bills	115,000	47,472
Bonds issued by the Ministry of Finance	678,280	394,780
Bills issued by the Bank of the Lao P.D.R	521,823	435,407
Securities issued by foreign credit institutions	14,693	7,679
	1,329,796	885,338
Accrued interest related to bonds	16,718	11,270
	1,346,514	896,608

19.1 Treasury bills

Treasury bills carry a term of 1 year and bear interest rate of 7.00% per annum. Interest is paid on maturity date. Details of the bills as at 31 December 2010 are as follows:

Term	Issue date	Maturity	Face value	Interest rate per annum (nominal)	Interest accrual (at nominal rate)	Carrying value at 31 December 2010
1 year	2 Feb 10	2 Feb 11	50,000	7.00%	3,184	53,184
1 year	3 Aug 10	3 Aug 11	65,000	7.00%	1,870	66,870
			115,000		5,054	120,054

19.2 Bonds issued by the Ministry of Finance

	31 December 2010 LAKm	31 December 2009 LAKm
Triangle bonds	29,780	29,780
Capitalization bonds	608,500	325,000
Bonds for settlement of defaulted LC	40,000	40,000
	678,280	394,780

- Triangle bonds represent the bonds which were issued by the Ministry of Finance to either settle the balances due from the MOF or settle the debts owed to the Bank by customers who were in turn owed money by the MOF. The bonds are not transferrable and could be required to be extended on maturity by the MOF. The bonds carry a term of 17 years and bear no interest.
- Capitalization bonds were issued by the MOF to increase the Bank's chartered capital with the details as following:

Term	Issue date	Maturity	Face value	Interest rate per annum (nominal)	Interest accrual (at nominal rate)	Carrying value at 31 December 2010
5 years	1 Feb 06	1 Feb 11	129,000	7.80%	4,128	133,128
5 years	1 Mar 07	1 Mar 12	98,000	7.80%	2,576	100,576
5 years	1 Mar 09	1 Mar 14	98,000	7.80%	2,576	100,576
5 years	1 Oct 10	1 Oct 15	283,500	1.00%	707	284,207
			608,500		9,987	618,487

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19. FINANCIAL INVESTMENTS - HELD-TO-MATURITY (continued)

19.2 Bonds issued by the Ministry of Finance (continued)

- Bonds for settlement of defaulted LC are bonds issued by the MOF on 07 June 2007 under Decision No. 1330 in order to settle overdue letters of credit of customers which had been categorized as "Non-performing" since the year 1999. These bonds have maturities of 4 years and bear no interest.

19.3 Bills issued by the Bank of the Lao P.D.R

Bills issued by the Bank of the Lao P.D.R in LAK and USD have term of 3 months, bear interest rates ranging from 2.00% to 3.50% per annum. Interest is paid on the maturity date.

Details of the bills issued by the Bank of the Lao P.D.R as at 31 December 2010 are as follows:

<i>Term</i>	<i>Issue date</i>	<i>Maturity</i>	<i>Face value</i>	<i>Currency</i>	<i>Interest rate per annum (nominal)</i>	<i>Interest accrual (at nominal rate)</i>	<i>Carrying value at 31 December 2010</i>
3 months	12 Oct 10	11 Jan 11	50,000	LAK	3.50%	384	50,384
3 months	19 Oct 10	18 Jan 11	50,000	LAK	3.50%	350	50,350
3 months	2 Nov 10	1 Feb 11	50,000	LAK	3.50%	283	50,283
3 months	7 Dec 10	6 Mar 11	58,900	LAK	3.50%	136	59,036
3 months	14 Dec 10	13 Mar 11	50,000	LAK	3.50%	82	50,082
3 months	21 Dec 10	20 Mar 11	92,300	LAK	3.50%	89	92,389
3 months	28 Dec 10	27 Mar 11	50,000	LAK	3.50%	14	50,014
3 months	2 Nov 10	1 Feb 11	40,208	USD	2.00%	130	40,338
3 months	7 Dec 10	6 Mar 11	40,208	USD	2.00%	53	40,260
3 months	21 Dec 10	20 Mar 11	40,208	USD	2.00%	22	40,230
			521,824			1,543	523,366

19.4 Other securities

Investment fund units are purchased through CIMB Thai Bank Public Company Limited. The fund units have terms ranging from 9 to 11 months and bear the interest rates ranging from 1.50% to 2.10% per annum. Interest is paid on the maturity date.

Details of these bonds as at 31 December 2010 are as follows:

<i>Term</i>	<i>Issue date</i>	<i>Maturity</i>	<i>Face value</i>	<i>Currency</i>	<i>Interest rate per annum (nominal)</i>	<i>Interest accrual (at nominal rate)</i>	<i>Carrying value at 31 December 2010</i>
9 months	19 May 10	19 Feb 11	4,007	THB	1.50%	37	4,044
11 months	29 Jun 10	29 May 11	5,343	THB	2.10%	57	5,400
11 months	20 Aug 10	20 Jul 11	5,343	THB	2.00%	39	5,382
			14,693			133	14,826

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20. INVESTMENT IN JOINT VENTURES

	<i>Investments in joint ventures LAKm</i>	<i>Total LAKm</i>
Balance as at 1 January 2010	89,850	89,850
Additional investments in the year	122,414	122,414
Net share of profit/loss in the year using equity method	3,839	3,839
Less: Dividend received during the year	(6,073)	(6,073)
Decrease in investment during the year	-	-
Transfer from investments in associates to long-term investments	-	-
Transfer from joint ventures to subsidiaries	-	-
Balance as at 31 December 2010	210,030	210,030

20.1 Investments in joint ventures

	<i>31 December 2010</i>				<i>31 December 2009</i>			
	<i>Cost in USD</i>	<i>Cost in LAKm equiv.</i>	<i>Carrying value in LAKm</i>	<i>% owned by the Bank</i>	<i>Cost in USD</i>	<i>Cost in LAKm Equiv.</i>	<i>Carrying value in LAKm</i>	<i>% owned by the Bank</i>
Investments in other financial institutions								
Lao Viet Joint Venture Bank	7,500,000	63,624	70,166	50%	7,500,000	63,624	68,065	50%
Banque Franco - Lao Limited	16,322,230 (*)	138,023	133,886	46%	1,840,000	15,609	15,609	46%
Investments in local economic entities								
Lao-Viet Insurance Joint Venture Company	870,000	7,380	5,978	29%	870,000	7,380	6,176	29%
		209,027	210,030			86,613	89,850	

(*): This includes USD 1,840,000 & LAKm 122,414

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20. INVESTMENT IN JOINT VENTURES (continued)

20.1 *Investments in joint ventures* (continued)

- Lao Viet Joint Venture Bank (“LVB”) is incorporated in the Lao P.D.R with its head office located in Vientiane and engages in the provision of banking services. It is a joint venture with the Bank for Investment and Development of Vietnam, a state-owned commercial bank incorporated in the Socialist Republic of Vietnam. The joint venture was granted the banking license on 31 March 2000 by the Bank of the Lao P.D.R for a period of 30 years. The legal capital of LVB is USD 15,000,000 and had been fully contributed by partners as at 31 December 2009. As at 31 December 2010, LVB’s chartered capital had been approved to increase to USD 22,500,000, yet both the Bank and the Bank for Investment and Development of Vietnam had not contributed the additional chartered capital. The Bank has received dividend income of LAKm 6,073 from the investment for the year 2010 (2009: LAKm 3,606).
- Banque Franco - Lao Limited (“BFL”) is incorporated in the Lao P.D.R with its head office located in Vientiane and engages in the provision of banking services. It is a joint venture with Cofibred Company Frances De La Bred which is a state-owned bank incorporated in Paris, France. The joint venture was granted the temporary banking license on 01 October 2009 and a permanent license on 16 July 2010 by the Bank of the Lao P.D.R. The legal capital of BFL was USD 20 million which was later revised to USD 37 million in accordance with the President’s decree issued on 24 September 2009 and letter No. 01/BOL dated 28 January 2010 from BOL. The total amount of USD 1,840,000 and LAK 122,414,077,600 was contributed by the Bank as at 31 December 2010.
- Lao-Viet Insurance Joint Venture Company (“LVI”) is incorporated as a joint venture company in the Lao P.D.R providing insurance services under the Investment License No. 077/08/FIMC issued by the Foreign Investment Management Committee on 09 June 2008. It is a joint venture with BIDV Insurance Joint Stock Corporation and Lao Viet Joint Venture Bank. LVI’s legal capital is USD 3,000,000 and has been fully contributed by partners on 17 July 2008.

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21. PROPERTY AND EQUIPMENT

Movements of the balance of property and equipment for the year ended 31 December 2010 are as follows:

	<i>Buildings and fixtures LAKm</i>	<i>Machines and equipments LAKm</i>	<i>Motor vehicles LAKm</i>	<i>Others LAKm</i>	<i>Total LAKm</i>
Cost					
As at 1 January 2010	72,681	61,608	12,581	6,325	153,195
Additions	18,111	21,343	4,663	7,191	51,308
Disposals	(3,141)	(9,135)	(1,144)	(333)	(13,753)
As at 31 December 2010	87,651	73,816	16,100	13,183	190,750
Accumulated depreciation					
As at 1 January 2010	11,211	26,305	5,383	720	43,619
Charge for the year	5,216	11,851	2,734	931	20,732
Disposals	(1,366)	(6,202)	(637)	(101)	(8,306)
As at 31 December 2010	15,061	31,954	7,480	1,550	56,045
Net book value					
As at 1 January 2010	61,470	35,303	7,198	5,605	109,576
As at 31 December 2010	72,590	41,862	8,620	11,633	134,705

Movements of the balance of property and equipment for the year ended 31 December 2009 are as follows:

	<i>Buildings and fixtures LAKm</i>	<i>Machines and equipments LAKm</i>	<i>Motor vehicles LAKm</i>	<i>Others LAKm</i>	<i>Total LAKm</i>
Cost					
As at 1 January 2009	32,821	45,649	10,270	1,593	90,333
Additions	43,829	21,286	2,682	4,967	72,764
Disposals	(3,969)	(5,327)	(371)	(235)	(9,902)
As at 31 December 2009	72,681	61,608	12,581	6,325	153,195
Accumulated depreciation					
As at 1 January 2009	7,880	18,083	3,635	633	30,231
Charge for the year	3,683	8,672	2,063	93	14,511
Disposals	(352)	(450)	(315)	(6)	(1,123)
As at 31 December 2009	11,211	26,305	5,383	720	43,619
Net book value					
As at 1 January 2009	24,941	27,566	6,635	960	60,102
As at 31 December 2009	61,470	35,303	7,198	5,605	109,576

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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22. INTANGIBLE ASSETS

Movements in intangible assets during the year ended 31 December 2010 are as follows:

	<i>Land use rights LAKm</i>	<i>Computer software LAKm</i>	<i>Total LAKm</i>
Cost			
As at 1 January 2010	8,518	20,826	29,344
Additions	5,406	5,606	11,012
Disposals	(748)	(9,313)	(10,061)
As at 31 December 2010	13,176	17,119	30,295
Accumulated amortization			
As at 1 January 2010	-	12,342	12,342
Charge for the year	-	3,052	3,052
Decrease	-	(9,309)	(9,309)
As at 31 December 2010	-	6,085	6,085
Net book value			
As at 1 January 2010	8,518	8,484	17,002
As at 31 December 2010	13,176	11,034	24,210

Movements in intangible assets during the year ended 31 December 2009 are as follows:

	<i>Land use rights LAKm</i>	<i>Computer software LAKm</i>	<i>Total LAKm</i>
Cost			
As at 1 January 2009	2,783	14,230	17,013
Additions	5,735	6,596	12,331
Disposals	-	-	-
As at 31 December 2009	8,518	20,826	29,344
Accumulated amortization			
As at 1 January 2009	-	10,751	10,751
Charge for the year	-	1,591	1,591
Decrease	-	-	-
As at 31 December 2009	-	12,342	12,342
Net book value			
As at 1 January 2009	2,783	3,479	6,262
As at 31 December 2009	8,518	8,484	17,002

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23. OTHER ASSETS

	31 December 2010 LAKm	31 December 2009 LAKm
Assets waiting for sales	7,914	8,185
Stationeries and other tools	6,384	6,591
Checks in collection	2,368	2,017
Fixed assets in transit	23,935	15,675
Prepaid expenses to be allocated	8,322	6,576
Other receivables	7,948	68,003
	56,871	107,047

24. DUE TO BANKS

	31 December 2010 LAKm	31 December 2009 LAKm
Demand deposits from other banks		
- In LAK	290,310	104,440
- In foreign currencies	276,891	255,325
Term deposits from other banks		
- In LAK	4,526	-
- In foreign currencies	8,765	-
Others		
- In LAK	4,938	6,258
- In foreign currencies	5,470	910
	590,900	366,933

Demand deposits from other banks are non-interest bearing items.

25. BORROWINGS FROM THE BOL

	31 December 2010 LAKm	31 December 2009 LAKm
Borrowings for equity investment	78,566	21,547
Accrued interest payables	62	6
	78,628	21,553

Borrowings from the BOL include:

- Borrowing from the BOL represents the long-term loan of USD 570,000 as at 31 December 2010 (original loan amount is USD 2,000,000) from the BOL for the purpose of investment in Lao Viet Joint Venture Bank. The loan's principal is paid annually from 2000 to 2014. The loan does not bear interest if the principal repayment is on time.
- Other borrowings from the BOL represents the long-term loan of USD 9,200,000 as at 31 December 2010 (original loan amount is USD 9,200,000) from the BOL for the purpose of investment in Banque Franco - Lao Limited. The loan's principal is paid annually from 2010 to 2023 with the interest rate of 0.25% per annum.

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26. AMOUNTS DUE TO CUSTOMERS

	31 December 2010 LAKm	31 December 2009 LAKm
Demand deposits		
Demand deposits in LAK	1,548,834	649,976
Demand deposits in FC	1,069,603	1,143,489
Demand savings		
Demand saving deposits in LAK	725,647	515,181
Demand saving deposits in FC	2,343,517	1,813,460
Term deposits		
Term deposits in LAK	974,992	591,563
Term deposits in FC	969,264	785,534
Margin deposits		
Margin deposits in LAK	8,462	35,171
Margin deposits in FC	45,565	109,105
Pending remittance	7,317	1,482
Cheque payables	128,201	5,105
Others	6,313	7,715
	7,827,715	5,657,781
Accrued interest payables	36,116	35,342
	7,863,831	5,693,123

Demand deposits denominated in LAK and in foreign currencies do not bear interest. Term deposits include deposits in terms of 3, 6, 12 and more than 12 months. Customers could withdraw term deposits before the due date subject to the negotiation with the Bank.

Interest rates for demand saving deposits and term deposits in LAK are presented in the following tables:

<i>Deposits in LAK</i>	<i>Individual % per annum</i>	<i>Corporate % per annum</i>	<i>Financial institutions % per annum</i>
Savings	3.00%	1.50%	1.00%
3-month term	6.00%	3.00%	2.00%
6-month term	8.00%	5.00%	3.00%
12-month term	9.00%	6.00%	5.00%
24-month term	12.00%	9.00%	7.00%

Interest rates for demand saving deposits and term deposits in foreign currencies are presented in the following table:

	<i>USD</i>			<i>THB</i>		
<i>Deposits in FC</i>	<i>(% p.a.)</i>	<i>(% p.a.)</i>	<i>(%p.a.)</i>	<i>(% p.a.)</i>	<i>(% p.a.)</i>	<i>(%p.a.)</i>
Savings	1.25%	0.75%	0.25%	1.00%	0.50%	0.25%
3-month term	1.75%	1.00%	0.75%	1.25%	0.75%	0.50%
6-month term	2.50%	1.75%	1.25%	2.00%	1.50%	1.00%
12-month term	3.25%	2.25%	1.50%	3.00%	2.00%	1.25%
24-month term	4.50%	4.00%	3.00%	4.00%	3.75%	2.75%

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27. TAXATION

Major components of tax expense for the year 2010 and 2009 were as follows:

	2010 LAKm	2009 LAKm
Enterprise Income Tax expense in accordance with statutory tax regulations		
- Current	56,444	46,096
- Deferred tax income	(8,928)	-
Total tax expense for the year	47,516	46,096

27.1 Current Enterprise Income Tax

In accordance with tax regulation of Lao P.D.R, current enterprise income tax is calculated at the higher of 35% of taxable profit and the 1% of business revenue recognized in the consolidated income statement. As the result, income tax expense for the year 2010 is calculated at 35% of taxable profit.

The Bank's tax returns are subject to examination by the tax authorities. Because the application of tax laws and regulations too many types of transactions is susceptible to varying interpretations, amounts reported in the consolidated financial statements could be changed at a later date upon final determination by the tax authorities.

The calculation of tax obligations for the year 2010 and 2009 is as follows:

	2010 LAKm	2009 LAKm
Profit before tax in accordance with IFRS	140,288	154,425
<i>In which:</i>		
(*) Profit before tax of the Bank under IFRS	138,345	151,190
<i>Add/(Less):</i>		
Difference in provision for credit loss expense between LAS and IFRS	21,167	(15,845)
Reversal of the adjustment related to the translation of the investments in joint ventures at the exchange rate stipulated by BOL	3,941	-
Net profit before tax under LAS	163,453	135,345
<i>Add/(Less):</i>		
Income, exempt from EIT	(8,472)	(3,644)
Taxable income of the Bank	154,981	131,701
Enterprise income tax expense at rate of 35% (i)	54,244	46,096
(**) Profit before tax of subsidiaries in the consolidated financial statements	5,960	-
<i>Add/(Less):</i>		
Difference in provision for credit loss expense between LAS and IFRS	398	-
Profit before tax of subsidiaries in the consolidated financial statements under LAS	6,358	-
EIT expense of subsidiaries (ii)	2,200	-
Consolidated EIT expense (i) + (ii)	56,444	46,096
Enterprise income tax payable at the beginning of the year	43,378	57,506
Enterprise income tax paid in the year	(47,133)	(60,224)
Enterprise income tax payable at the end of the year	52,689	43,378

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
as at 31 December 2010 and for the year then ended

27. TAXATION (continued)

27.2 Deferred tax assets/(liabilities)

	<i>Tax base</i> <i>LAKm</i>	<i>Carrying</i> <i>value</i> <i>LAKm</i>	<i>Taxable</i> <i>temporary</i> <i>difference</i> <i>LAKm</i>	<i>Deferred</i> <i>tax assets</i> <i>(tax rate of</i> <i>35%)</i> <i>LAKm</i>
Adjustments to the consolidated income statement:				
Provision for impairment loss	36,037	67,492	31,455	11,009
Revert general provision	-	(9,886)	(9,886)	(3,460)
Record the foreign exchange difference relating to the investments in joint ventures using the rate stipulated by BOL as at 31 Jan 2010	(3,940)	-	3,940	1,379
	32,097	57,606	25,509	8,928
Adjustments to equity:				
Change in fair value of available-for-sale financial investments	-	39,458	39,458	13,810
Net deferred tax liabilities	32,097	18,148	(13,949)	(4,882)

28. OTHER LIABILITIES

	<i>31 December 2010</i> <i>LAKm</i>	<i>31 December 2009</i> <i>LAKm</i>
Payables to employees (*)	14,250	12,162
Payable to suppliers	18,940	1,709
Termination allowances	2,821	2,097
Subventions received from ADB	1,102	2,267
Proceeds from issuing additional shares (**)	163,364	-
Others	5,290	1,205
	205,767	19,440

(*): Including the bonus payables to the Bank's employees for the financial year 2010 in accordance with Decision No. 02/BOD dated 10 January 2011 of the Bank's Board of Directors.

(**): Including the amount of LAK 163,364 million received from the issuing of additional shares to new shareholders, equivalent to 27,315,520 additional shares. As at the date of these consolidated financial statements, the equitisation process has not yet been completed, therefore, those payables have not yet been finalized by authoritative bodies.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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29. CHARTERED CAPITAL

Total capital accounts of the Bank as of 31 December 2010 and 2009 are as follows:

	<i>Chartered capital LAKm</i>
Balance as at 31 December 2008	228,933
Increase/(decrease) during the year	98,000
Balance as at 31 December 2009	326,933
Increase/(decrease) during the year 2010	283,500
Balance as at 31 December 2010	610,433

The Bank's chartered capital represents capital contributions received by the Ministry of Finance of Lao P.D.R in the form of capitalization bonds.

30. STATUTORY RESERVES

	<i>Regulatory reserve fund LAKm</i>	<i>Business expansion fund LAKm</i>	<i>Total LAKm</i>
As at 1 January 2009	37,724	71,008	108,732
Additional/(reverse) appropriations to reserves for the year 2009 from the profit reported under LAS	8,925	31,238	40,163
Reclassification to retained earning	(46,649)		(46,649)
As at 31 December 2009	-	102,246	102,246
Additional appropriations to reserves for the year 2010 from the profit reported under LAS	4,432	12,852	17,284
As at 31 December 2010	4,432	115,098	119,530

Under the requirements of the Law on Commercial Bank dated 16 January 2007, commercial banks are required to appropriate net profit to the following reserves: (i) regulatory reserve fund; (ii) business expansion fund; and (iii) other funds. In addition, according to the Regulation on Capital Adequacy (BOL 01) by the Bank of the Lao P.D.R, commercial banks are required to provide regulatory reserve fund at the rate from 5.00% to 10.00% or more of the profit after tax, depending on the decision of the Board of Directors. Accordingly, in the year 2010, the Bank has provided the following reserves:

<i>Reserve</i>	<i>% of profit after tax (less accumulated losses, if any)</i>
Regulatory reserve fund	10%
Business expansion fund	30%

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31. AVAILABLE-FOR-SALE RESERVE

	31 December 2010	31 December 2009
	LAKm	LAKm
Opening balance	-	-
Net increase relating to fair value revaluation of financial assets	25,648	-
	25,648	-

32. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows comprise the following consolidated statement of financial position amounts:

	31 December 2010	31 December 2009
	LAKm	LAKm
Cash and cash equivalents on hand (Note 13)	717,647	440,770
Balances with the Bank of Lao P.D.R ("BOL")	2,315,925	1,033,951
Current accounts with other banks and National Treasury	867,261	900,867
	3,900,833	2,375,588

33. CONTINGENT LIABILITIES AND COMMITMENTS

In the normal course of business, the Bank trades with financial instruments which are recorded as contingent liabilities and commitments. These financial instruments mainly comprise financial guarantees and commercial letters of credit. These instruments involve elements of credit risk in excess of the amounts recognized in the consolidated statement of financial position.

Credit risk for off- statement of financial position financial instruments is defined as the possibility of sustaining a loss since any other party to a financial instrument fails to perform in accordance with the terms of the contract.

Financial guarantees are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party including guarantee for borrowings, settlement, performance bonds and bid bonds. The credit risk involved in issuing guarantees is essentially the same as that involved in extending facilities to customers.

Letters of credit are payment commitments of the bank under which the bank is to pay beneficiary when the beneficiary presents the documents in accordance with the terms and conditions of the Letter of Credit.

At sight/ deferred payment letter of credit are payment commitments of the bank under which the bank is to make immediate payment / payment on the due date in the future after receiving the documents accordingly.

Letter of credit transaction risks will arise when customers do not pay the beneficiary on the maturity date and the bank has to pay instead. The payment of this change is recorded as compulsory bank loans for customers.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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33. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

The Bank requires margin deposits to secure credit-related financial instruments when it is necessary. The margin deposit required varies from 0% to 100% of the value of a commitment granted, depending on the creditworthiness of clients as assessed by the Bank.

Details of contingent liabilities and commitments as at 31 December are as follows:

	31 December 2010 LAKm	31 December 2009 LAKm
Financial letter of guarantees	105,923	98,460
At sight letters of credit	326,253	547,877
Deferred payment letters of credit	432,767	87,455
Credit limit given to customer	1,920,981	1,113,068
Others	152	-
	2,786,076	1,846,860

34. RELATED PARTY DISCLOSURES

Related party transactions include all transactions undertaken with other parties to which the Bank is related. A party is related to the Bank if:

- (a) directly, or indirectly through one or more intermediaries, the party:
 - ▶ controls, is controlled by, or is under common control by the Bank (this includes parents, subsidiaries and fellow subsidiaries);
 - ▶ has an interest in the Bank that gives it significant influence over the Bank; or
 - ▶ has joint control over the Bank;
- (b) the party is a joint venture in which the Bank is a venturer (see IAS 31 - Interests in Joint Ventures) or the party is an associate of the Bank (see IAS 28 - Investments in Associates);
- (c) the party is a member of the key management personnel of the Bank;
- (d) the party is a close member of the family of any individual referred to in (a) or (c);
- (e) the party is a Bank that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such Bank resides with, directly or indirectly, any individual referred to in (c) or (d)

Significant transactions with related parties during the year 2010 were as follows:

Related party	Relationship	Transactions	in LAKm
Lao-Viet Insurance Joint Venture Company	Joint venture	Insurance expenses	340
Lao Viet Joint Venture Bank	Joint venture	Interest expenses	1,529
The Bank of the Lao P.D.R	Direct controller	Interest income	994
The Bank of the Lao P.D.R	Direct controller	Interest income from BOL's bonds	17,723
The Ministry of Finance of the Lao P.D.R	Direct owner	Interest income from MOF bonds	35,227

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34. RELATED PARTY DISCLOSURES (continued)

Balances with related parties at 31 December 2010 are as follow:

<i>Related party</i>	<i>Relationship</i>	<i>Transactions</i>	<i>Receivable LAKm</i>	<i>Payable LAKm</i>
Lao Viet Joint Venture Bank	Joint venture	Current accounts	-	29,944
Lao Viet Joint Venture Bank	Joint venture	BCEL's term deposits at LVB	23	-
Banque Franco - Lao Limited	Joint venture	Current accounts	-	6,909
Banque Franco - Lao Limited	Joint venture	BCEL's demand deposits at BFL	1	-
Lao-Viet Insurance Venture Company	Joint venture	Prepaid insurance expenses	255	-
Money Changer Counter	Long-term investment	Current accounts	-	118
The Bank of the Lao P.D.R	Direct controller	Borrowings from the BOL	-	78,566
The Bank of the Lao P.D.R	Direct controller	BCEL's demand deposits at BOL	1,377,432	-
The Bank of the Lao P.D.R	Direct controller	BCEL's compulsory deposits at BOL	57,361	-
The Bank of the Lao P.D.R	Direct controller	BCEL's term deposits at BOL	442	-
The Bank of the Lao P.D.R	Direct controller	Investment in BOL's bonds	521,823	-
The Bank of the Lao P.D.R	Direct controller	Accrued interest income from BOL's bonds	1,541	-
The Ministry of Finance of the Lao P.D.R	Direct owner	Capitalization bonds	608,500	-
The Ministry of Finance of the Lao P.D.R	Direct owner	Accrued interest income from capitalization bonds	10,021	-
The Ministry of Finance of the Lao P.D.R	Direct owner	Investment in MOF's bonds	69,780	-

35. RISK MANAGEMENT POLICIES CONCERNING FINANCIAL INSTRUMENTS

The primary objective of the Bank in risk management is to comply with the BOL regulations. On the other hand, the Bank has recognized the importance of meeting international best practices on risk management. The Board of Directors and Board of Management, with support from an Asset and Liability Management Committee, are in process to formulate broad parameters of acceptable risk for the Bank and monitor the activities against these parameters.

36. INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities. The Bank manages this risk by matching the re-pricing of assets and liabilities through risk management strategies. Due to the nature of the Bank's records, the Bank is unable to prepare the interest rate risk sensitivity analysis.

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37. CURRENCY RISK

Currency risk is the risk exposed to the Bank due to changes in foreign exchange rates which adversely impact the Bank's foreign currency positions. The Bank has set limits on positions by currency, based on its internal risk assessment system and the BOL's regulations. Positions are monitored on a daily basis to ensure positions are maintained within the established limits.

Breakdown of assets and liabilities which has been converted into LAKm as at 31 December 2010 is as follows:

	<i>LAK in LAKm</i>	<i>USD in LAKm</i>	<i>THB in LAKm</i>	<i>Others in LAKm</i>	<i>Total in LAKm</i>
ASSETS					
Cash and cash equivalents on hand	318,053	291,494	101,780	6,320	717,647
Balances with the Bank of Lao P.D.R ("the BOL")	1,497,705	598,906	337,771	-	2,434,382
Placement and loan to other banks	3,595	1,354,755	405,670	70,913	1,834,933
Loans and advances to customers, excluding provision for impairment loss	905,736	1,514,319	341,468	-	2,761,523
Financial investments – Available-for-sale	139,458	-	-	-	139,458
Financial investments – Held to maturity	1,210,899	120,828	14,787	-	1,346,514
Investment in joint venture, excluding provision for impairment loss	121,420	88,610	-	-	210,030
Property and equipment	134,705	-	-	-	134,705
Intangible assets and land use right	24,210	-	-	-	24,210
Other assets	55,851	861	132	27	56,871
TOTAL ASSETS	4,411,632	3,969,773	1,201,608	77,260	9,660,273
LIABILITIES AND EQUITY					
LIABILITIES					
Due to banks	314,908	250,182	25,775	35	590,900
Borrowings from the BOL	-	78,628	-	-	78,628
Other borrowed funds	-	-	-	-	-
Due to customers	3,312,481	3,348,807	1,160,840	41,703	7,863,831
Current tax liabilities	52,689	-	-	-	52,689
Deferred tax liabilities	4,882	-	-	-	4,882
Other liabilities	44,042	104,773	21,425	35,527	205,767
TOTAL LIABILITIES	3,729,002	3,782,390	1,208,040	77,265	8,796,697
EQUITY	779,686	7,397	-	-	787,083
Non-controlling interest	9,000				9,000
TOTAL LIABILITIES AND EQUITY	4,517,688	3,789,787	1,208,040	77,265	9,592,780
NET EXPOSURE	(106,056)	179,986	(6,432)	(5)	(67,493)

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38. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arms-length basis. As verifiable market prices are not available, market prices are not available for a significant proportion of the Bank's financial assets and liabilities, fair values, therefore, have been based on management assumptions according to the profile of the asset and liability base. In the opinion of the Bank's management, except for capitalized bonds and triangle bonds, the carrying amount of the financial assets and liabilities included in the consolidated statement of financial position are a reasonable estimation of their fair values. In making this assessment, the Bank's management assumes that loans and advances are mainly held to maturity with fair values equal to the book value of loans adjusted for provision for impairment losses.

39. CAPITAL MANAGEMENT

The Bank maintains minimum regulatory capital in accordance with Regulation No 01/BOL dated 28 August 2001 by the Governor of Lao PDR and other detailed guidance. The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements by BOL. The Bank recognizes the need to maintain effectiveness of assets and liabilities management to balance profit and capital adequacy

In accordance with Regulation No 01/BOL, the Bank's regulatory capital is analyzed into two tiers:

- ▶ Tier 1 capital, which includes chartered capital, regulatory reserve fund, business expansion fund and other funds, and retained earnings;
- ▶ Tier 2 capital, which includes qualifying subordinated liabilities, general provisions and the element of fair value reserve relating to unrealized gains/losses on equity instruments classified as available for sale.

Various limits are applied to elements of the capital base: qualifying tier 2 cannot exceed tier 1 capital, and qualifying subordinated liabilities may not exceed 50 percent of tier 1 capital.

An analysis of the Bank's capital based on financial information deprived from IFRS and LAS consolidated financial statements is as follows:

	2010	
	IFRS LAKm	LAS LAKm
Tier 1 capital	761,435	755,823
Tier 2 capital	25,648	28,964
Total capital	787,083	784,787
Less: Deductions from capital (Investments in other credit and financial institutions)	(210,030)	(238,899)
Capital for CAR calculation (A)	577,053	545,888
Risk weighted balance sheet items	3,434,023	3,374,089
Risk weighted off balance sheet items	432,472	432,472
Total risk weighted assets (B)	3,866,495	3,806,561
Capital Adequacy Ratio (A/B)	14.92%	14.34%

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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40. EVENTS AFTER THE REPORTING PERIOD

On 10 January 2011, the Bank had received the Operating License No. 0061/LRO issued by the Business License Registration Office of the Lao P.D.R which is effective from 10 January 2011. Accordingly, the Bank has formally been transformed into joint stock bank under the new name of Banque Pour Le Commerce Extérieur Lao Public and the chartered capital is LAK 682,888,000,000. Other than as disclosed above, at the date of this report, there was no other event, which occurred subsequent to 31 December 2010 that significantly impacted the consolidated financial position of the Bank and its subsidiaries as at 31 December 2010.

41. EXCHANGE RATES OF APPLICABLE FOREIGN CURRENCIES AGAINST LAK AT THE YEAR END

	31 December 2010 LAK	31 December 2009 LAK
USD	8,041.51	8,483.20
THB	267.14	255.01



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20 June 2011