

Independent Auditors' Report

To : The Board of Management and Board of Directors of
Banque Pour le Commerce Extérieur Lao

We have audited the accompanying financial statements of Banque Pour le Commerce Extérieur Lao (“the Bank”), which comprise the balance sheet as at 31 December 2008 and the income statement, statement of changes in owner’s equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 3 to 40.

Management’s Responsibility for the Financial statements

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

Auditors’ Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Qualifications

1. We refer to Note 9 to the financial statements which states that cash and cash equivalents on hand of the Bank as at 31 December 2008 amounting to 458,760 Lao kip million (“LAKm”)

Due to the fact that the Bank appointed the independent auditors for the year ended 31 December 2008 after the financial year, closed, we were unable to attend the cash count procedures of the Bank or perform other audit procedures as to the balances of cash and cash equivalents of the Bank as at 31 December 2008. As a consequence, we are not able to express our opinion on the balances of cash and cash equivalents of the Bank as at 31 December 2008 as presented in the accompanying financial statements.

2. We refer to Note 16.1.1 and 16.1.2 to the financial statements which states that the Bank holds Triangle Bonds amounting to 36.108 Lao kip million (“LAKm”) and Capitalization Bonds amounting to LAKm 227.000 (“the Bonds”) issued by the Ministry of Finance and the Bank of Lao,PDR respectively. Since the issue date,Bonds have been recognized by the Bank at the nominal value while interest income is recognized on accrual basis at the annual rate from 7.80% to 11.00% for the LAK-denominated Bonds using the straight-line interest rate method.

the recognition of the Bonds at the nominal value at issue date is not compliant with International Accounting Standard (“IAS 39”) “ Financial Instruments : Recognition and measurement “,which requires the initial recognition of financial instruments at fair value,An exact measurement of the Bonds’ fair value,however,could not be determined due to the absence of an active market for the Bonds in Lao PDR . Using the discounted cash flow method and based on the approximate interest rate for Triangle Bonds of 20% per annum for the LAK-denominated Bonds,and 15% for Capitalization Bonds,the estimated fair value of the Triangle bonds and Capitalization Bonds at the time of issue are LAKm 6.044 and LAKm 170.907, respectively (“the estimated initial fair value”) The estimated initial fair value of the Bonds is lower than the recorded nominal values thereby indicating impairment in the value of the Triangle Bonds by an amount of LAKm 30.064 and LAKm 56.093 respectively,

In addition ,IAS 39 requires that the Bonds be subsequently recognized at amortized cost using the effective interest rate method less any allowance for impairment. The collection of proceeds from these Bonds upon maturity dates,however,is dependent solely on the MOF’s discretion.

as such and because of the nature of the Bank’s accounting records,we are not able to perform audit procedures to estimate the recoverability and carrying value of the Bonds as required by IAS 39 as at 31 December 2008.

the Bank’s financial statements as at and for the year ended 31 December 2008 and of prior year’s have not been adjusted to estimated initial fair value of the Bonds at the time of issue,and

the recognition of the Bonds at amortized cost in accordance with IAS 39 as well as the effect of any impairment in value of the Bonds at 31 December 2008.

3. The accompanying notes to the financial statements include information on the activities of the Bank to the extent of the information available,which does not fulfill certain disclosure requirements of international Financial Reporting Standard No.7 “Financial Instruments, Disclosures” relating to the

- maturity analysis of assets and liabilities;
- interest rate risk exposure by each class of financial assets and financial liabilities;and
- disclosures on risk management policies.

Opinion

In our opinion,except for the effect of the matters referred to in the qualification paragraphs above, the Financial statements give a true and fair view of the financial position of the Bank as at 31 December 2008 and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young Lao Ltd



The stamp is a blue circular seal with the text 'ERST & YOUNG LAO CO LTD' in the center. It is surrounded by a decorative border and contains some smaller text in Lao script.

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Banque Pour le Commerce Exterieur Lao
the year ended 31 December 2008

	Notes	2008 LAKm	2007 LAKm
Interest and similar income	3	168.431	158.611
Interest and similar expense	4	(58.247)	(42.985)
Net interest similar incime		110.184	115.626
Fees and commisio income	5	69.896	55.041
Fees and commisio expense	5	(6.799)	(3.888)
Net fees and commisio income	5	63.097	51.153
Net trading income	6	18.085	53.973
Net profit chare in associates and joit ventures	17	2.404	(716)
Other operating income	7	25.058	3.068
Total operating income		218.828	223.104
Cladit loss expenses for loans to customers		(14.427)	(164)
Recovery of previously written-off loans		52.142	12.129
Net operating income		256.543	235.069
Personnel expenses		(41.557)	(20.093)
Depreciation and amortization changes		(10.052)	(7.174)
Other operating expenses	8	(30.477)	(18.739)
Total operating expenses		(82.086)	(46.006)
Profit before tax		174.457	189.063
Corrent enterprise income tax	24	(59.562)	(2.827)
NET PROFIT FOR THE YEAR		114.895	186.236

Banque Pour le Commerce Exterieur Lao
BLANNC SHEET
As at 31 December 2008

	Notes	2008 LAKM	2007 LAKM
SASET			
Cash and cash equivalents on hand	9	458.760	217.763
Balances with the Bank of Lao PDR	10	768.807	493.624
Current accounts with other banks	11	542.045	933.270
Placements withy and loans to other banks	12	872,950	746,929
Loans and advances to customer, net of allowance for impairment losses	13,14	1,382,756	865,799
Financial assets, available-for-sale	15	200	10,773
Financial assets, held-to-maturity	16	484,844	511,611
Investment in joint ventures	17	83,978	71,715
Property and equipment	18	61,449	38,758
Intangible in assets and land use right	19	6,221	4,578
Other assets	20	133,287	109,025
TOTAL ASSETS		4,795,297	4,003,840
LIABILITIES AND OWNER'S EQUITY			
LIABILITIES			
Current accounts from other banks	21	135,031	339,429
Borrowings from the Bank of Lao PDR	22	7,067	9,046
Customer deposits and other amounts due to customers	23	4,381,205	3,555,616
Current tax liabilities	24	57,506	2,103
Other liabilities	25	24,846	9,831
TOTAL LIABILITIES		4,605,655	3,916,022
OWNER'S EQUITY			
Paid-up capital	26	228,933	228,933
Other capital	26	3,436	4,475
Statutory reserves	27	108,732	53,589
Foreign currency translation		(438)	(5,014)
Accumulated losses		(151,921)	(204,193)
TOTAL OWNER'S EQU		189,642	87,818
LIABILITIES AND OWNER'S EQUITY		4,795,294	4.003,840

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Banque Pour le Commerce Extérieur Lao
STATEMENT OF CHANGES IN OWNER'S EQUITY
 As at and for the year ended 31 December 2008

	Paid-up capital LAKm	other capital LAKm	Foreign Currency		Accumulated losses LAKm	Tot al LAKm
			statutory reserves LAKm	translation reserve LAKm		
Balances at 1 January 2007	130,933	4,878	32,747	7,905	(369,587)	(193,124)
Capital increase during the year 2007	98,000	-	-	-	-	98,000
Net profit for the year	-	-	-	-	186,236	186,236
Appropriation to reserves for the year 2007 based on the profit reported under Lao Accounting System	-	-	20,842	-	(20,842)	-
foreign exchange translate difference	-	-	-	(2,891)	-	(2,891)
Othe changes	-	(403)	-	-	-	(403)
Balances as at 31 December 2007	228,933	4,475	53,589	5,014	(204,193)	87,818
Net profit for the year	-	-	-	-	114,895	114,895
Appitional reserves created for 2007	-	-	16,427	-	(16,4270)	-
Appitional to bonus and tax for 2007	-	-	-	-	(7,6330)	(7,6330)
Appropriation to reserves for the year 2008 based on the profit reported under the Lao Accunting System	-	-	38,716	-	(38,716)	-
Foreign exchange transiation difference	-	-	-	(5,452)	-	(5,452)
Othe changes	-	(1,039)	-	-	1,053	14
Balances as at 31 December 2007	228,933	3,436	108,732	(438)	(151,021)	189,642

Banque Pour le Commerce Extérieur Lao
STATEMENT OF CASH FLOWS
For the year ended 31 December 2008

	Notes	2008 LAKM	2007 LAKM
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest and fees and commission receipts		217,181	208,309
Interest and fees and commission payments		(56,625)	(41,334)
Net gain from dealing in foreign currencies		18,085	53,973
Net other operating income		14,429	15,060
Cash payments to employees to suppliers		(75,043)	(43,259)
Taxation paid	24	(4,159)	-
Cash provided by operating activities before changes in net operating assets		166,010	192,749
(Increase)/Decrease in operating assets			
Placements with other banks		(395,744)	56,000
Loans and advances to customers		(528,441)	(206,886)
Financial asset - Available-for-sale		12,831	(5,483)
Financial asset - Held-to-maturity		44,968	23,566
Other assets		(25,042)	(69,771)
Increase/(Decrease) in operating liabilities			
Current accounts and Borrowings from the BOL and other banks		(206,371)	91,357
Customer deposits and other amounts due to customers		817,168	662,842
Other liabilities		11,239	(4,565)
Net cash (use in)/provided by operating activities		(103,386)	739,810
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend receipts during the year		233	4,919
Acquisitions of property and equipment and intangible assets and land use right		(35,207)	(22,565)
Proceeds from disposal of property and equipment and intangible assets and land use right		1,197	1,197
Purchase of investment in Lao Viet Insurance		(7,595)	-
Net cash (use in)/provided by investing activities		(41,382)	15,891
CASH FLOWS FROM FINANCING ACTIVITIES			
Other capital received in the year		-	-
Net cash (use in)/provided by financing activities		-	-

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Banque Pour le Commerce Exterieur Lao
STATEMENT OF CASH FLOWS (continued)
for the year ended 31 December 2008

	Notes	2008 LAKM	2007 LAKM
Net (decrease)/increase in cash and cash equivalents in the year		144,768	723,991
Cash and cash equivalents at the beginning of the year	28	2,246,031	1,522,040
Cash and cash equivalents at the end of the year	28	2,101,263	2,246,031

Banque Pour le Commerce Exterieur Lao
NOTES TO THE FINANCIAL STATEMENTS
as at and for the year ended 31 December 2008

1. CORPORATE INFORMATION

Banque Pour le Commerce Exterieur Lao (here in referred to as "BCL" or "the Bank") is a Lao state-owned commercial bank incorporation and registered in the Lao people's Democratic Republic.

Establishment and Operations

The Bank was established on 2 December 1974 by the Bank of Lao People's Democratic Republic ("the BOL").

The Bank was established to conduct banking activities, including mobilizing and receiving short,

medium and long term deposit funds from various organization and individuals; lending on a short, medium and long term basis to various organization and individuals up to the nature and ability of the Banks's capital resources; conducting foreign currency transactions; international tranche services; discounting of commercial notes, bonds and valued document; providing transaction services between customers; and other banking services as approved by the BOL.

Paid-up capital

The actual paid-up capital of the Bank as at 31 December 2008 is LAKm 228.933 (as at 31 December 2007: LAKm 228.933)

Board of Directors

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

Name	Position	Date of Appointment/Resignation
Mrs Viengthong SIPHANDON	Chairperson	Appoited on 17 September 2007
Mr Sonexay SITPHAXAY	Deputy Chairman	Appoited on 16 January 2003
Mr Khamlien PHONHSENA	ViceChairperson	Appoited on 17 September 2007
Mr Khambou THONGTHAVY	Member	(Re)appoited on 16 January 2003
Mr Onekeo DAMLONGBOUN	Member	Appoited on 17 September 2007
Mr Vanhkhham VORAVONG	Member	Appoited on 17 September 2007
Mrs Palamy SOUANNAVONG	Member	Appoited on 17 September 2007

Board of Management

The members of the Board of management during the financial year and at the date of this report are:

Name	Position	Date of Appointment/Resignation
Mr Sonexay SITPHAXAY	General Director	Appointed on 16 January 2003
Mr Onekeo DAMLONGBOUN	Deputy General Director	Appointed in 2007
Mr Vanhkhram VORAVONG	Deputy General Director	Appointed in 2005
Mr Phansana KHOUNNOUVONG	Deputy General Director	Appointed in 16 June 2008

Locations and the Network

The Head Office of the Bank is located at No. 1 Pangkham Street, Vientiane, Lao PDR. As at 31 December 2008, the Bank has a Head Office, thirteen (13) branched locations in major cities and Provinces throughout the country.

Employees

Total employees of the Bank as at 31 December 2008 are 640 people (2007: 499 people)

Banque Pour le Commerce Extérieur Lao NOTES TO THE FINANCIAL STATEMENTS As at and for the year ended 31 December 2008

2. ACCOUNTING POLICIES

2.1 Basis of Presentation

The Bank maintains its records in Lao Kip ("LAK") and prepares its financial statements in millions of LAK ("LAKm") in accordance with the "Decree of the President on commercial Banks" number 02/PR dated 22 March 2000 and the Lao Accounting System for Banks ("LAS"). The Bank prepares its financial statements in accordance with international Financial Reporting Standards ("IFRS"). The accompanying financial statements differ from the financial statements issued for statutory purposes in Lao PDR as they reflect certain adjustments, not recorded in the Bank's LAS record, which are necessary to present the financial position, results of operation, cash flows and changes in owner's equity of the Bank in accordance with IFRS issued by the International Accounting Standards Board except for accounting for initial recognition of investment securities at fair

value (under IAS 39 - Financial Instrument: Recognition and Measurement) and supplementary information on risk management and other disclosures on the operation of the Bank (under Instrument Financial Reporting Standard 7 - "Financial Instrument: Disclosures").

Certain figures in the prior year's financial statement were reclassified in order to conform to this year's presentation.

Fiscal year

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

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

2.2.1 Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using appropriate valuation techniques. Valuation techniques include discounted cash flow method, comparison to similar instruments for which observable prices exist, options pricing models, credit models and other relevant valuation models.

2.2.2 Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be

recorded in the income statement. In particular, judgment by management 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.), concentrations of risks and economic data (including level of unemployment, country risk, and the deterioration in cash flows). The impairment losses on loans and advances are disclosed in more detail in Note 14.

2.3 Summary of significant accounting policies

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

2.3.1 Financial instruments

2.3.1.1 Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are initially recognized on the trade date i.e. the date that the Bank becomes a party to the contractual provisions of the instrument.

2.3.1.2 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.

2.3.1.3 Financial assets or financial liabilities held for trading

Financial assets or financial liabilities held-for-trading are recorded in the balance sheet at fair value. Changes in fair value are recognized in Net trading income". Interest and dividend income are 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 and equity securities which have been acquired principally for the purpose of selling or repurchasing in the near term

2.3.1.4 Financial assets or financial liabilities designated at fair value through profit and loss

Financial assets and financial liabilities classified in this category are designated by the management on initial recognition when the following criteria are met:

» the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or

» the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

» the financial instrument contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

Financial assets and financial liabilities at fair value through profit and loss are recorded in the balance sheet at fair value. Changes in fair value are recorded in "Net gain or loss on financial assets and liabilities designated at fair value through profit and loss". Interest earned or incurred is accrued in "Interest and similar income or expense", respectively, while dividend income is recorded in "Other operating income" according to the terms of contract, or when the right to the payment has been established.

2.3.1.5 Held-to-maturity financial investments

Held-to-maturity financial investments are those 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, 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 income statement. The losses (if any) arising from impairment of such investments are recognized in the income statement line “Credit loss expense”.

2.3.1.6 Placements with other banks and loans and advances to customers

“Placements with other banks” and “loans and advances to customers” are financial assets with fixed or determinable payments and fixed maturities that are not quoted in active market. They are not entered into with the intention of immediate or short-term resale and are not classified as “financial investments held-for-trading”, designated as “Financial investments - available-for-sale” or “financial assets designated at fair value through profit and loss”.

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

2.3.1.7 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 and loss, held-to-maturity or loans and advances. 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 the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealized gains or losses are recognized directly in equity in the “Available-for-sale reserve”. When the security is disposed of, the cumulative gain or loss previously recognized in

equity is recognized in the income statement in “other operating income” or “other operating expense”. 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 recognized in the income statement as “Other operating income” when the right of the payment has been established. The losses arising from impairment of such investments are recognized in the income statement in “Impairment losses on financial investments” and removed from the “Available-for-sale reserve”.

2.3.2 Derecognition of financial assets and financial liabilities

2.3.2.1 Financial assets

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

- » the rights to receive cash flows from the assets 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 Jr. 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.

2.3.2.2 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, and the difference in the respective carrying amounts is recognized in the income statement.

2.3.3 Repurchase and reverse repurchase agreements

Securities sold under agreement to repurchase at a specified future date (repos) are not derecog-

nized from the balance sheet. The corresponding cash received is recognized in the balance sheet as an asset with a corresponding obligation to return it, including accrued interest as a liability within “Cash collateral on securities lent and repurchase agreements”, reflecting the transaction’s economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the effective interest rate.

Conversely, securities purchased under agreements to resell at a .specified future date (reverse repos) are not recognised in the balance sheet. The consideration paid, including accrued interest, is recorded in the balance sheet, within ‘Cash collateral on securities borrowed and reverse repurchase agreements’ (if any). The difference between the purchase and resale prices is recorded in “Net interest income” and is accrued over the life of the agreement using the effective interest rate.

2.3.4 Determination of fair value

The fair value for financial instruments traded in active markets at the balance sheet 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 that are 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 price list option pricing models and other relevant valuation models

2.3.5 Impairment of financial assets

The Bank assesses at each balance sheet 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 for loan and advances may include indications that a borrower or 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 reorganization and where observable’ data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.3.5.1 Placements with other banks and loans and advances to customers

For amounts placements with other banks and loans and advances to customers carried at amortized costs, the Bank first assesses individually whether objective evidence of impairment exists individually 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, whether significant or not, it includes the assets 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 continued to be, recognized are not included in a collective assessment of impairment.

It 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 the 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 loss is recognized in the income statement,

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery. 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 decreased 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 effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest

rate. 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 collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal 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 the 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 rate, property prices, commodity prices, payment status, or other factors that are indicative of current losses in the group and their magnitude). The methodology and assumption used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

2.3.5.2 Held-to-maturity financial investments

For held-to-maturity financial investments, the Bank assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of 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 assets is reduced and the amount of the loss is recognized in the income statement.

If, in a subsequent year, the amount of the estimated impairment loss decrease because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to the "Credit loss expense".

2.3.5.3 Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a "significant" or "prolonged" decline in the fair value of the investment below its cost. 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 financial asset previously recognized in the income statement - is removed from equity and recognized in the income statement. Impairment losses on equity investments are not reversed through the income statement increases in their fair value after impairment are recognized directly in equity.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of "Interest and similar income". If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

2.3.6 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet 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, and the related assets and liabilities are presented gross in the balance sheet.

2.3.7 Recognition of income or expense

Revenue is recognized 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 recognized.

2.3.7.1 Recognition of interest and similar income and expense

For all financial instruments measured at

amortized cost and interest bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recorded at 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 estimate 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”.

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.

2.3.7.2 Fee 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 investment fund fees, custodian fees, fiduciary fees, commission income, credit related fees, asset management fees, portfolio and other management fees, 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 of 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.

2.3.7.3 Dividend income

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

2.3.7.4 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.

2.3.8 Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprise of cash on hand, non-restricted current accounts with BOL and amounts due from banks on demand or with an original maturity of three months or less.

2.3.9 Property and equipment

Property and equipment, comprising of buildings and structures, machinery, equipment, vehicles and others, is stated at cost excluding the costs of 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.

Property and equipment is derecognized upon disposal or when no future benefits are expected from its use. Any gain or loss arising on derecognition 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 income statement in the year the asset is derecognized.

2.3.10 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 the useful economic life. 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 income statement.

Intangible assets with indefinite useful lives are not amortized but annually reviewed for impair-

ment. Any impairment losses are recognized in the income statement.

2.3.11 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 building improvements » 20 years

Machines and equipment » 5 years

Motor vehicles » 5 years

Software » 5 years

Land use right » no amortization

The land use right of the Bank was not amortized as the Bank's land use right has indefinite term and was granted by the Government of Lao PDR.

2.3.12 Enterprise income tax

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 by the balance sheet date.

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

Deferred tax

Deferred tax is provided using the balance sheet liability method on temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amount 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 an asset or liability in a transaction which at the time of the transaction affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that future taxable profits will be available against which these differences can be utilized, except:

» where the deferred tax arises from the initial recognition of an asset or liability in a transaction

which at the time of the transaction affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered. Unrecognized deferred income tax assets are re-assessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

2.3.13 Foreign currency transactions and translation

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 re-translated to LAK at the exchange rates ruling at the balance sheet date (see list of exchange rates of applicable foreign currencies against LAK on 31 December in Note 37). Income and expenses arising in foreign currencies are converted into LAK using the exchange rates ruling at the transaction dates. Unrealized foreign exchange differences arising from the translation of monetary assets and liabilities on the balance sheet date are recognized in the income statement.

The reporting currency of the Lao Viet Joint Venture Bank which is the Bank's joint venture is in USD. For the purpose of equity accounting investment in this joint venture in the financial statements, at the reporting date, assets and liabilities of this joint venture are translated into KIP at the exchange rate ruling at the balance sheet date and equity accounts are translated into KIP at the exchange rates ruling on the transaction date and, the income statement is translated at the average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of the owner's equity.

2.3.14 Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letter of credits, letter of guarantees and acceptances. Financial guarantees are initially recognized in the financial statement as fair value, in "other liabilities", being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognized less, when appropriate, cumula-

tive amortization recognized in the income statement and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the income statement in 'Credit loss expense'. The premium received is recognized in the income statement in "Net fees and commission income" on a straight-line basis over the life of the guarantee.

2.3.15 Provisions

Provisions are recognized 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.

2.3.16 Fiduciary assets

Assets held in trust or in a fiduciary capacity are not reported in the financial statement since they are not the assets of the Bank.

2.3.17 Employee benefits

Post employment benefits

Post employment benefits are paid to retired employees of the Bank by the Social Security Fund Department which belongs to the Ministry, of Labor and Social Welfare. The Bank is required to contribute to these post employment benefits by paying social insurance premium to the Social Insurance Agency 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 lack the required specialized skills;
- » where the employees are not in good health and therefore cannot continue to ; 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.

3. INTEREST AND SIMILAR INCOME

	2008 LAKM	2007 LAKM
Interest income from lending	100,423	77,34
Interest income from deposits	32,293	61,27
Interest income from available-for-sale and held-to maturity financial assets	35,715	19,98
	168,431	158,611

4. INTEREST AND SIMILAR EXPENSE

	2008 LAKM	2007 LAKM
Interest expense on deposits	58,247	42,935
Interest expense on borrowings	-	50
	58,247	42,985

5. NET FEES AND COMMISSION INCOME

	2008 LAKM	2007 LAKM
Fees and commission income from:	37,819	31,235
Settlement services	4,759	4,253
Guarantee activities	2,037	3,455
Securities	2,620	2,735
Telecommunication	18,145	9,976
Financing commitment	4,516	3,387
Other fees and commission	69,896	55,041
Fees and commission expense from:		
Settlement services	(1,465)	(574)
Insurance for customer deposit	(1,552)	(547)
Other direct fees and commission expenses	(3,782)	(2,767)
	(6,799)	(3,888)
Net fees and commission income	63,097	51,153

6. NET TRADING INCOME

	2008 LAKM	2007 LAKM
Gains from foreign exchange trading	36,404	56,822
Loss from foreign exchange trading	(18,715)	(2,849)
	17,659	53,973
Gains from gold trading	1,431	-
Loss from gold trading	(1,035)	-
	396	-
Net trading income	18,085	53,973

7. OTHER OPERATING INCOME

	2008 LAKM	2007 LAKM
Dividend income	223	136
Recovery of interest income from written-off loans	12,136	-
Income from government grant	1,146	1,140
Gain from sale of available-for-sale financial assets	2,257	-
Reversal of allowance for impairment loss of investment in joint venture - Champasak shopping center	7,715	-
Other income	1,581	1,792
	25,058	3,068

8. OTHER OPERATING EXPENSES

	2008 LAKM	2007 LAKM
Materials for banking activities	219	148
Business trip expenses	3,329	1,412
Training and education expenses	595	429
Telecommunication expenses	1,170	638
Publication, marketing and promotion expenses	5,050	2,576
General and administration expenses	9,641	6,489
Professional fees	2,321	2,037
Repair and maintenance expenses	1,412	1,139
Office rental	3,352	1,457
Other expenses	3,388	2,414
	30,477	18,739

9. CASH AND CASH EQUIVALENTS ON HAND

	2008 LAKM	2007 LAKM
Cash on hand in LAK	110,304	60,963
Cash on hand in foreign currencies ("FC")	324,585	156,755
Gold	23,871	-
Other cash equivalents	-	45
	458,760	217,763

10. BALANCES WITH THE BANK OF LAO PDR

Balances with the the Bank of Lao PDR ("the BOL") include settlement and compulsory 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% and 10%, on a bimonthly basis, (2007: 5% and 10%) of customer deposits having original maturities of less than 12 months, after deducting the balances of government bonds, in LAK and in foreign currencies which can not exceed 2% of the total deposits, respectively. Accordingly, total required .average compulsory deposits (in both LAK and foreign currencies) for the last two weeks of December 2008 are LAKm 281,010 (2007: LAKm 311,958).

11. CURRENT ACCOUNTS WITH OTHER BANKS

	2008 LAKM	2007 LAKM
Settlement accounts with overseas banks in FC	335,943	754,988
Settlement accounts with local banks in LAK	2,268	161
Settlement accounts with local banks in FC	203,831	178,118
Demand deposits with National Treasury in LAK	3	3
	542,045	933,270

12. PLACEMENTS WITH AND LOANS TO OTHER BANKS

	2008 LAKM	2007 LAKM
Term deposits with local banks denominated in FC	42,571	9,423
Term deposits with overseas banks denominated in FC	821,686	731,329
Loans to other banks	4,257	-
	868,514	740,752
Accrued interest	4,436	6,177
	872,950	746,929

Term deposits with focal banks in PC represent deposits denominated in USD with ANZ Vientiane Commercial Bank. These deposits have a term of 3 months and earn interest at rate of 3.05% per annum.

Term deposits with overseas banks denominated in FC are in USD, THE and others. These deposits have maturities of 1 month to 5 years and bear interest at rates from 0.16% to 5.25% per annum (2007: 2.75% to 5.15% per annum) depending on the terms of placements and counterpart banks.

13. LOANS AND ADVANCES TO CUSTOMERS, NET OF ALLOWANCE FOR IMPAIRMENT LOSSES

	2008 LAKM	2007 LAKM
Commercial loans	1,400,320	872,378
Others	-	793
	1,400,320	873,171
Accrued interest	10,678	7,733
	1,410,998	880,904
Less allowance for impairment losses	(28,242)	(15,105)
	1,382,756	865,799

Commercial loans comprise of overdraft, short term, medium term and long-term loans including syndicated loans lent by the Bank in LAK, USD and THB currencies. Commercial loans denominated in LAK bear interest at rates varying from 12% to 17% per annum depending on the terms of the loans (2007: from 12% to 17% per annum). Commercial loans denominated in USD and THB bear interest rates from 7% to 9.50% per annum (2007: from 7% to 9.50% per annum).

Analysis of loan portfolio by industrial sectors is as follows:

	2008		2007	
	LAKm	%	LAKm	%
	40,027	3%	22,738	3%
	206,774	15%	125,627	14%
	360,898	26%	358,692	41%
	310,223	22%	69,049	8%
	482,398	34%	297,065	34%
	1,400,320	100%	873,171	100%

Analysis of loan portfolio by type of business entity is as follows:

	2008		2007	
	LAKm	%	LAKm	%
SOEs and Government agencies	269,048	19%	216,193	25%
Non-SOEs and Individuals	1,131,272	81%	656,978	75%
	1,400,320	100%	873,171	100%

14. ALLOWANCE FOR IMPAIRMENT LOSSES

Changes in the allowance for impairment losses consisted of the following

	2008 LAKM	2007 LAKM
Balance as at 1 January	15,105	99,513
Reclassify the allowance for impairment loss of compulsory loans for overdue letters of credit to impairment of Treasury Bonds for settlement default LC	-	(31,833)
Allowance for impairment losses charged to expenses	14,427	164
Non-performing loans written off during the year	-	(52,444)
Foreign exchange difference	(1,310)	(295)
Others	20	-
Balance as at 31 December	28,242	15,105

The grading of the loan portfolio and the allowance for impairment losses at 31 December are as follows:

	2008		2007	
	Principal LAKm	Allowance amount LAKm	Principal LAKm	Allowance amount LAKm
Risk classification				
Current	1,123,434	-	608,405	-
Special Mention	256,114	18,654	236,151	7,929
Substandard	7,115	1,210	26,176	6,533
Doubtful	7,198	2,984	2,439	643
Loss	6,459	5,394	-	-
	1,400,320	28,242	873,171	15,105

15. FINANCIAL ASSETS, AVAILABLE-FOR-SALE

Details of financial assets, available-for-sale at 31 December are presented as follow

	Original	2008				2007			
		Cost in original currency	Cost in LAKm equiv.	Carrying value in LAKm	% owned by the Bank	Cost in original currency	Cost in LAKm equiv	Carrying value in LAKm	% owned by the Bank
Foreign Exchange Unit	USD	-	200	200	20%	-	200	200	20%
Lanexang Hotel	USD	-	-	-	-	525,000	4,947	4,947	10.2%
Thai Fund certificate	THO	-	-	-	-	20,000,000	5,626	5,626	-
			200	200			10,773	10,773	

Investment in Foreign Exchange Unit is 20% owned by BCEL and operated under the management of Construction Group Chalernsy. This investment is held by the Bank for sale.

Investment in Lanexang Hotel was sold in 2008 at a price of USD 750,000.

Thai Fund Certificate is an investment of the Bank through BT FIE Gold Linked Fund 3 (a Thai Fund). On 22 December 2008, the Bank sold this investment at a gain of THB 1,132,701.

16. FINANCIAL ASSETS, HELD-TO-MATURITY

	2008 LAKM	2007 LAKM
Bonds issued by the MOF (16.1)	334,641	430,817
Treasury bills issued by the BOL (16.2)	147,696	-
Others (16.3)	2,507	80,794
	484,844	511,611

The Bank initially recorded held to maturity securities at par value and subsequently accrued interest income at the fixed interest rate as nominated on the securities using the straight-line method.

16.1 Bonds issued by the MOF

	2008 LAKM	2007 LAKM
Tringle Bonds	36,308	110,871
Capitalization Bonds	237,563	233,741
Bond for settlement of defaulted LC	60,770	86,205
	334,641	430,817

16.1.1 Details of Triangle Bonds issued by the MOF held by the Bank as at 31 December 2008 are as follows:

	Interest rate (per annum)	Face value in LAKm	2008 Accrued interest income up to 31 December	Carrying value in LAKm
Triangle bonds in LAK	7.8% to 11%	6,328	200	6,528
Triangle bonds in LAK (*)	0%	29,780	-	29,780
		36,108	200	36,308

(*): This bond has a term of 17 years and bears no interest.

These represented Bonds issued by the MOF to either settle balances due from the MOF or settle debts owed to the Bank by customers who were in turn owed money by the MOF. Interest is payable on a semi-annual basis in arrears. These Bonds are not transferable and can be required to be extended on maturity by the MOF.

Details of Bonds held by the Bank as at 31 December 2007 are as follows:

	Interest rate (per annum)	Face value in LAKm	2007 Accrued Interest income up to 31 December	Carrying value in LAKm
Triangle bonds in USD	1.2%	52,066	337	52,403
Triangle bonds in LAK	7.8% to 11%	27,353	1,335	28,688
Triangle bonds in LAK	0%	29,780	-	29,780
		109,199	1,672	110,871

16.1.2 Details of Capitalization Bonds held by the Bank as at 31 December 2008 are as follows:

	Interest rate (Per annum)	Value maturity in LAK m	Accrued interest as at 31 December in LAKm	Carrying Value as at 31 December 2008 in LAKm
Capitalization Bonds	7.80%	227,000	10,563	237,563
		227,000	10,563	237,563

In 2007, the Bank was granted LAKm 98,000 Capitalization Bonds by the BOL to increase its chartered capital and at a consequence, the Bank's chartered capital increased by LAKm 98,000. These Bonds have a term of 5 years, bear a fixed interest rate of 7.80% per annum, and interest is payable on a semi-annual basis.

Details of Bonds held by the Bank as at 31 December 2007 are as follows:

	Interest rate (per annum)	Value on maturity in LAKm	Accrued interest as at 31 December in LAKm	Carrying value as at 31 December 2007 in LAKm
Capitalization Bonds	7.80	227,000	6,741	233,741
		227,000	6,741	233,741

161.3 Bond for settlement of defaulted LC held by the Bank as at 31 December 2008 are as follows:

	Interest rate (per annum)	Value on maturity in LAKm	Amortised cost as at 31 December 2008 in LAKm
Bonds for settlement of defaulted LC	0%	80,000	60,770
		80,000	60,770

These treasury bonds were issued by MOE in June 2007 under Decision No. 1330 in order to settle an overdue letters of credit of customers that has been categorized as 'Nonperforming' since 1999. In 2006, those overdue letters of credit were recognized as an advance to customer with total amount of LAKm 155,631. Those bonds have total original nominal amount of LAKm 160,000 equivalent to 16081,988 USD and will be repaid by MOF gradually in four years commencing from 2007. These Bonds have maturities ranging from 1 to 4 years and bear interest at rate of 0%.. The Bank initially recognized a loss of LAKm 31,833 in 2006 and further recognized impairment loss for those bond in 2007 of LAKm 11,697 being the difference between the nominal amount and the fair value of the treasury bonds on the acquisition date in accordance with International Accounting Standard ("IAS") No 39 - "Financial Instruments: Recognition and Measurement".

Details of Bonds held by the Bank as at 31 December 2007 are as follows:

	Interest rate (per annum)	Value on maturity in LAKm	Amortised cost as at 31 December 2007 in LAKm
Bonds for settlement of defaulted LC	0%	120,000 120,000	86,205 86,205

16.2 Treasury bills issued by the bank of Lao PDR

	Interest rate (per annum)	Face value	Accrued interest or prepaid income	Carrying value
BOL bills in USD	3.5%	123,456	1,105	124,562
BOL bills in LAK	7%	23,000	134	23,134
		146,456	1,239	147,696

16.3 Others

	Interest rate (per annum)	Face value	Accrued interest or prepaid income	Carrying value
Thai Government Bonds	3.5% to 37%	2,445	62	2,507
		2,445	62	2,507

The Bank has intention and ability to hold these securities until maturity.

The investment in Thai Government Bonds pays interest once on maturity date.

17. INVESTMENT IN JOINT VENTURES

Detail of equity investments as at 31 December presented as follows:

	Original	2008				2007			
		Cost in original currency	Cost in LAKm equiv.	Carrying value in LAKm	% owned by the Bank	Cost in original currency	Cost in LAKm equiv	Carrying value in LAKm	% owned by the Bank
Lao Viet Joint Venture Bank	USD	7,500,000	64,250	69,238	50%	7,500,000	64,250	71,715	50%
Lao Viet Insurance	USD	870,000	7,595	7,024	29	-	-	-	-
Champasak Shopping Center Ltd	USD	1,839,659	15,663	7,716	40%	1,839,659	17,837	-	40%
		10,209,659	87,508	83,978		9,339,659	82,087	71,715	

Lao Viet Joint Venture Bank is incorporated in Lao PDR with its Head Office located in Vientiane and engaged in the provision of banking services, it is a joint venture with Bank for Investment and Development of Vietnam, a state owned bank incorporated in the Socialist Republic of Vietnam. The joint venture was granted banking license on 31 March 2000 by the Bank of Lao PDR for a period of 30 years. The legal capital of this bank is US\$ 15,000,000 and has been fully contributed by partners as at 31 December 2008. The Bank has not received dividend from the investment for the year 2008 (2007: 4,783 LAKm).

Lao Viet Insurance is incorporated as a Joint venture company in the Lao PDR, is to provide insurance services in the Lao PDR under Investment Licence No.077/08 FIMC issued by the Foreign Investment Management Committee on 09 June 2008. It is a joint venture with BIDV Insurance Company and Lao Viet Bank. Legal Capital of this insurance company is US\$ 3,000,000 and has been fully contributed by partners at 17 July 2008.

Champasak Shopping Center Limited ("the Company") is incorporated in Lao PDR and engaged in the building of a shopping center for rent in Cham.pasak. It is a joint venture with Champasak Group, a limited company in Laos PDR for a period of 5 years. The legal capital of the Company is 4,616,000 USD and 40% of which has been fully contributed by BCEL by means of restructuring the overdue loans including outstanding principal and overdue interest of Champasak Group with the Bank. The Bank has made provision of LAKm 7,947 for this investment due to its bad performance over years.

The net share of change in net assets of Lao Viet Joint Venture and Lao Viet Insurance of LAKm 2,404 (2007: LAKm 4,025) has been included in the equity investment accounts as follows:

	2008 LAKM	2007 LAKM
Balance as at 1 January	71,715	80,105
Capital contribution to LVI in the year	7,595	-
Adjustment for difference in audited figure of LVB's FS 2007	-	(4,741)
Share of net profit of joint ventures in the year	2,404	4,025
Dividend received	-	(4,783)
Foreign exchange loss due to the translation of the accounts in USD into LAK	(5,452)	(2,891)
	76,262	71,715

18. PROPERTY AND EQUIPMENT

Movement of the balance of property and equipment for the year ended 31 December 2008 is as follows:

	Buildings and building improvements LAKm	Machines and equipments LAKm	Motor vehicles LAKm	Total LAKm
Cost:				
At 1 January 2008	21,636	30,451	8,985	60,972
Additions	4,882	24,860	3,164	32,906
Disposals	-	(526)	(1,878)	(2,404)
At 31 December 2008	26,418	54,785	10,271	91,474
Accumulated depreciation:				
At 1 January 2008	4,283	14,877	3,059	22,219
Charge for the year	1,179	6,512	1,600	9,291
Disposals	-	(441)	(1,044)	(1,485)
At 31 December 2008	5,462	20,948	3,615	30,025

	Buildings and building improvements LAKm	Machines and equipments LAKm	Motor vehicles LAKm	Total LAKm
Net book value:				
At 1 January 2008	17,253	15,574	5,926	38,753
At 31 December 2008	20,956	33,837	6,656	61,449

Movement of the balance of property and equipment for the year ended 31 December 2007 is as follows:

	Buildings and building improvements LAKm	Machines and equipments LAKm	Motor vehicles LAKin	Total LAKin
Cost:				
At 1 January 2007	16,123	26,142	5,771	48,036
Additions	7,236	25,029	8,045	40,310
Disposals	(1,823)	(20,720)	(4,831)	(27,374)
At 31 December 2007	21,536	30,451	8,985	60,972
Accumulated depreciation:				
At January 2007	3,707	12,204	3,633	19,544
Charge for the year	749	4,501	1,203	6,453
Disposals	(173)	(1,828)	(1,777)	(3,778)
At 31 December 2007	4,283	14,877	3,059	22,219
Net book value:				
At 1 January 2007	12,416	13,938	2,138	28,492
At 31 December 2007	17,253	15,574	5,926	38,753

19. INTANGIBLE ASSETS AND LAND USE RIGHT

Movement of the balance of intangible assets and land use right for the year ended December 2005 is as follows:

	Land use right LAKm	Software LAKm	To LA Km
Cost:			
At 1 January 2008	2,031	12,540	14,5
Additions in the year	853	1,556	2,409
Disposals	-	(8)	(8)
At 31 December 2008	2,884	14,088	16,972
Accumulated amortization:			
At 1 January 2008	-	9,993	9,993
Charge in the year	13	748	761
Disposals	-	(3)	(3)
At 31 December 2008	13	10,738	10,75
Net book value:			
At 1 January 2008	2,031	2,547	4,57
At 31 December 2008	2,871	3,350	6,221

Movement of the balance of intangible assets and land use right for the year ended 31 December 2007 is as follows:

	Land use right LAKm	Software LAKm	Total LAKm
Cost:			
At 1 January 2007	1,020	13,820	14,840
Additions in the year	1,011	8,585	9,596
Disposals	-	(9,865)	(9,865)
At 31 December 2007	2,031	12,540	14,571
Accumulated amortization:			
At 1 January 2007	-	13,161	13,161
Charge in the year	-	723	723
Disposals	-	(3,891)	(3,891)
At 31 December 2007	-	9,993	9,993
Net book value:			
At 1 January 2007	1,020	659	1,679
At 31 December 2007	2,031	2,547	4,578

20. OTHER ASSETS

	2008 LAKM	2007 LAKM
Checks in collection	7,414	66,178
Advance to constructors	44,687	29,671
Receivables from other banks related to credit cards	7,365	3,589
Others	8,708	9,587
Advance for export credit customers	65,113	-
	133,287	109,025

21. CURRENT ACCOUNTS FROM OTHER BANKS

	2008 LAKM	2007 LAKM
Current accounts of the Lao Postal Saving Institute	215	4
Current accounts of the National Treasury	29,750	163,118
Current accounts of local banks in LAK	24,364	10,227
Current accounts of local banks in FC	79,772	165,519
Current accounts of overseas banks in LAK	222	27
Current accounts of overseas banks in FC	708	531
	135,031	339,426

The current accounts are owned by the Bank of Lao PDR, the National Treasury, the Ministry of Finance and other banks All current accounts are non interest bearing

22. BORROWINGS FROM THE BOL

Borrowing from the BOL represents the outstanding balance of USD 830,000 as at December 2008 of a long term loan in USD (original principal: USD 2,000,000) from the BOL for the purpose of equity contribution in Lao Viet Joint Venture Bank, The loan repayable annually from 2000 to 2014. The loan does not bear interest if the principal repayment is on time.

23. CUSTOMER DEPOSITS AND OTHER AMOUNTS DUE TO CUSTOMERS

	2008 LAKM	2007 LAKM
Demand deposits	1,721,628	1,316,081
Demand deposits in LAK	412,702	383,853
Demand deposits in EC	1,308,926	932,228
Demand savings	1,621,268	1,425,459
Demand saving deposits in LAK	260,254	155,494
Demand saving deposits in FC	1,361,014	1,269,965
Term deposits	959,188	657,053
Term deposits in LAK	301,655	164,289
Term deposits in FC	657,533	492,764
Margin deposits	35,777	126,483
Margin deposits in LAK	53	13,004
Margin deposits in FC	35,724	113,479
Other payable to customers	21,553	17,171
	4,359,414	3,542,247
Accrued interest expenses	21,791	13,369
	4,381,205	3,655,616

Demand deposits denominated in LAK and in foreign currencies bear interest at rate of 0% p.a (2007: 0% p.a). Demand saving deposits in LAK and foreign currencies bear interest at rates of 3.00% per annum and from 1.00% p.a to 1.25% p.a respectively (2007: 3.00% per annum and from 0.10% p.a to 1.25% p.a respectively).

Term deposits include deposits for terms of 3, 6, 12 and more than 12 months. Customers can withdraw term deposits before the due date subject to the negotiation with the Bank. Term deposits denominated in LAK bear interest at rates from 6.00% p.a to 14.00% p.a (2007: 6.00% p.a to 14.00% p.a). Term deposits denominated in foreign currencies bear interest at rates from 1.25% p.a to 4.50% p.a (2007: 1.25% p.a to 4.50% p.a).

24. TAXATION

Major components of tax expense for the years 2007 and 2008 were as follows:

	2008 LAKM	2007 LAKM
Enterprise Income Tax expense in accordance with statutory tax regulations		
- Current	59,562	2,827
- Deterred	-	-
Total tax expense for the year	59,562	2,827

24.1 Current Enterprise Income Tax (EIT)

In accordance with tax regulation of Lao PDR, current enterprise income tax is calculated at the higher of the taxable income for the year multiplied by the tax rate at the balance sheet date and the 1% of business revenue recognized in the statement of operation. According to the status of the Bank' profit and loss in recent 3 years under Lao Accounting System, the Bank was qualified to apply the tax rate of 1% of business revenue for the financial year 2007. For 2008, the Bank's liability for current tax is calculated using tax rates that have been enacted at the balance sheet date of 35%.

	2008 LAKm	2007 LAKm
Profit before tax in accordance with IFRS	174,457	189,063
Add/(less):		
Adjustments for additional provision for loan loss under IFRS	12,720	14,651
Share of profit from equity investments in associates and joint Ventures	(2,404)	-
Reversal of allowance for impairment losses of available-for sale financial assets	4,947	-
Adjustment for held-to-maturity financial assets	(14,565)	-
Reversal of allowance for impairment loss of investment in joint venture - Champasack shopping center	(7,715)	-
Other adjustments under IFRS	2,739	5,280
Profit before tax in accordance with Lao Accounting System	170,179	208,994
Taxable income/business revenue	170,179	282,685(*)
Current Enterprise Income Tax expense, at the statutory rate of 35%/1%	59,562	2,827(*)
EIT payable at the beginning of the year	2,103	(724)
EIT paid during the year	(4,159)	-
Net EIT payable at the end of the year	57,506	2,103

(*) Enterprise income tax of 2007 calculated at 1% of the business revenue is as follows:

	2008 LAKm	2007 LAKm
Business revenue recognized in the income statement:		
Interest and similar income	NA	158,611
Fee and commission income	NA	55,041
Gain from dealing in foreign currencies	NA	53,973
Other operating income	NA	2,931
Recovery of bad debts written-off previously charged to Expenses	NA	12,129
Taxable business revenue	NA	282,685
Current Enterprise Income Tax expense, at the statutory rate of 1%	NA	2,827

NA: Not applicable

The Bank's tax returns are subject to periodic examination by the tax authorities. Because the application of tax laws and regulations to many types of transactions is susceptible to varying interpretations,

amounts reported in the financial statements could be changed at a later date upon final determination by the tax authorities. The tax assessments for the years from 2002 to 2008 have not been finalized by the tax authorities.

24.3 Deferred Enterprise Income Tax

There is no deferred tax recognized in the year since there is no significant identified items treated as temporary differences in the Bank's financial statements.

25. OTHER LIABILITIES

	2008 LAKM	2007 LAKM
Provision for employee entitlements	7,048	5,375
Payable to the MOF, suppliers and staff	8,307	4,103
Others	9,491	353
	24,846	9,831

26. CAPITAL ACCOUNTS

Total capital accounts of the Bank as of 31 December 2007 and 2008 are as follows:

	Chartered capital LAKm	Other capital LAKm	Total capital LAKm
Balances as at 1 January 2007	130,933	4,878	135,811
Capitalization Bonds received in the year	98,000	-	98,000
Subsidy in kind (computers) received from the Asia Development Bank through the Ministry of Finance	-	738	738
Subsidy in-kind recorded to income statement	-	(1,141)	(1,141)
Balances as at 31 December 2007	228,933	4,475	233,408
Subsidy in-kind (computers) received from the Asia Development Bank through the Ministry of Finance	-	107	107
Subsidy in-kind recorded to income statement	-	(1,146)	(1,146)
Balances as at 31 December 2008	228,933	3,436	232,369

The Bank's chartered capital represents capital contributions received by the Bank from the Government of Laos in the form of cash and Capitalization Bonds.

27. STATUTORY RESERVES

	General risk reserve LAKm	Business & development reserve LAKm	Total LAKm
As at 1 January 2007	7,154	25,593	32,747
Create reserves for 2007	-	20,619	20,619
Create reserves for Lao Viet Joint Venture Bank	-	223	223
As at 31 December 2007	7,154	46,435	53,589
Additional reserves created for 2007	16,427	-	16,427
Create reserves for 2008	11,062	27,654	38,716
Reclassify Business & Development to reserve to General risk reserve	3,081	(3,081)	-
As at 31 December 2008	37,724	71,008	108,732

The creation of reserves is made in accordance with Regulation No. I BOL dated 28 August 2001 by the Governor of Lao PDR and other detailed guidance. Accordingly, commercial banks are required to make the following allocation of profit after tax (under LAS) to create statutory reserves:

balance	Annual allocation from the profit after tax	Maximum
General risk reserve	10% of the profit after tax	No limit
Business development reserve	Based on the negotiation and discussion with the MOF on yearly, basis subject to the profit earned by the Bank in the year.	No limit

The foreign currency translation reserve of LAKm - 438 (2007: LAKm 5,014) is the Bank's 50% proportionate interest in the foreign currency translation surplus arising/deficit on the translation of the 31 December 2008 financial statements of Lao Viet Joint Venture Bank from USD to LAK. The Bank is required to recognize its share of changes in reserves of the investee in accordance with the equity method of accounting.

28. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows comprise the following balance sheet amounts:

	2008 LAKm	2007 LAKm
Cash and cash equivalents on hand (Note 9)	458,760	217,763
Balance with the BOL	768,807	493,624
Current accounts with other banks	542,045	933,270
Placements with banks due within three month	331,651	601,374
	2,101,263	2,246,031

29. OFF BALANCE SHEET ITEMS

	2008			2007		
	Overdue LAKm	Current LAKm	Total LAKm	Overdue LAKm	Current LAKm	Total LAKm
Contingencies						
Letter of guarantees	-	98,566	98,566	-	81,775	81,775
At sight letters of Credit	-	228,246	228,246	-	96,534	96,534
Deferred payment letters of credit	-	109,275	109,275	-	242,260	242,260
	-	436,087	436,087	-	420,569	420,569

30. RELATED PARTY TRANSACTIONS

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 with, 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;
- (c) the party is a member of the key management personnel of the Bank or its parent;
- (d) the party is a close member of the family of any individual referred to in (a) or (d);
- (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); or
- (f) the party is a post-employment benefit plan for the benefit of employees of the Bank, or of any Bank that is a related party of the Bank.

Significant transactions with related parties in the year 2008 were as follows:

Related party	Relationship	Transactions	in LAKm
The BOL	Regulator	Net increase of settlement and compulsory deposits	275,183
	Regulator	Net decrease of borrowings	(1,979)
Lao Viet J.V. Bank	Investee	Net increase of demand deposits with Lao Viet Bank	152,931
	Investee	Net increase of demand deposits from Lao Viet Bank	8,903
	Investee	Net increase of term deposits from Lao Viet Bank	4,000

Amount due to and due from related parties as at 31 December were as follows:

Related party	Transactions	2008		2007	
		Receivable LAKm	(Payable) LAKm	Receivable LAKm	(Payable) LAKm
The BOL	Borrowing	-	(7,067)	-	(9,046)
The BOL	Settlement and compulsory deposits	768,807	-	493,624	-
Lao Viet J.V. Bank	Borrowing	152,935	(8,903)	4.22	(0.19)
Lao Viet J.V. Bank	Settlement and compulsory, deposits	-	(4,000)	-	-

31. RISK MANAGEMENT POLICIES CONCERNING FINANCIAL INSTRUMENTS

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

32. 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.

33. 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 by currency translated into KIP as at 31 December 2008 is as follows:

	KIP in LAKm	USD in LAKm	THB in LAKm	Other foreign currencies in LAKm	Total in LAKm
ASSETS					
Cash and cash equivalents on hand	110,304	279,905	57,081	11,470	458,760
Balances with the BOL	261,194	410,767	96,846	-	768,807
Current accounts with other banks	2,795	413,719	71,359	54,172	542,045
Placements with and loans to other Banks	-	605,008	267,925	17	872,950
Loans and advances to customers	358,807	906,544	117,405	-	1,382,756
Financial assets, available for sale	200	-	-	-	200
Financial assets, held-to-maturity	357,775	124,562	2,507	-	484,844
Investments in joint ventures	12,713	71,265	-	-	83,978
Property and equipment	61,449	-	-	-	61,449
Intangible assets and land use right	6,221	-	-	-	6,221
Other assets	59,444	69,153	4,277	413	133,287
TOTAL ASSETS	1,230,902	2,880,923	617,400	66,072	4,795,297

LIABILITIES AND OWNER'S EQUITY					
LIABILITIES					
Current accounts from other banks	46,513	57,199	31,319	-	135,031
Borrowings from the BOL	-	7,067	-	-	7,067
Customer deposits and other amounts due to customers	1,066,737	2,694,122	579,663	40,683	4,381,205
Current tax liabilities	57,506	-	-	-	57,506
Other liabilities	23,659	310	871	6	24,846
TOTAL LIABILITIES	1,194,415	2,758,698	611,853	40,689	4,605,655
OWNERS EQUITY	189,642	-	-	-	189,642
TOTAL LIABILITIES AND OWNER'S EQUITY	1,384,057	2,758,698	611,853	40,689	4,795,297
NET EXPOSURE	(153,155)	122,225	5,547	25,383	-

34. 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 management, except for bonds issued by the MOF, the carrying amount of the financial assets and liabilities included in the balance sheet are a reasonable estimation of their fair values. In making this assessment, the 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 loan losses.

35. CAPITAL MANAGEMENT

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements by the Bank of Laos. The Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

BOL's regulation requires commercial banks to maintain a minimum capital adequacy ratio at 8% which are consistent with the requirements from the BIS. However, BOL does not issue detailed guidance on how to calculate risk weighted assets and the definition of capital. We therefore estimate the capital adequacy ratio as at 31 December 2008 for the Bank under the guidance of BIS.

An analysis of the Banks capital based on financial information deprived from JFRS and LAS financial statements is as follows:

	2008		2007	
	IFRS LAKm	LAS LAKm	IFRS LAKm	LAS LAKm
Tier 1 capital	189,642	189,642	87,818	88,200
Tier 2 capital	-	13,888	-	17,405
Total capital	189,642	203,530	87,818	105,605
Less: Deductions from capital	(83,978)	(83,978)	(71,715)	(71,715)
Capital for CAR calculation	105,66	119,552	16,103	33,890

36. SUBSEQUENT EVENTS

Other than as disclosed elsewhere in these financial statements, at the date of this report, there were no events, which occurred subsequent to 31 December 2008 that significantly impacted the financial position of the Bank as at 31 December 2008.

37. EXCHANGE RATES OF APPLICABLE FOREIGN CURRENCIES AGAINST LAO KIP AT THE YEAR END

	2008 LAK	2007 LAK
United State Dollar	8.514.24	9.423.18
Thai Baht	244.52	281.29





ບັດວີຊາ ຂອງທະນາຄານການຄ້າ ຕ່າງປະເທດລາວ

ທະນາຄານການຄ້າຕ່າງປະເທດລາວກຳລັງທົດລອງນຳໃຊ້ບັດວີຊາ ເຊິ່ງປະກອບດ້ວຍ ບັດວີຊາເລບິດ ແລະ ເຄຣດິດ, ຫຼັງຈາກທົດລອງເປັນທີ່ຮຽບຮ້ອຍແລ້ວ ທຄຫລ ຈະໃຫ້ບໍລິການບັດດັ່ງກ່າວຢ່າງເປັນທາງການ ໃນຕົ້ນເດືອນພະຈິກ 2009 ນີ້

ຂໍ້ສະດວກຂອງການນຳໃຊ້ບັດວີຊາ

- ✓ ບໍ່ຈຳເປັນຕ້ອງຕົວເງິນສົດເປັນຈຳນວນຫຼາຍໃນການເດີນທາງໄປຕ່າງປະເທດ
- ✓ ໃຊ້ແທນເງິນສົດໃນການໃຊ້ຈ່າຍ/ຊື້/ຊຳລະຄ່າສິນຄ້າ ແລະ ບໍລິການຜ່ານເຄື່ອງຮຸດບັດ (POS/EDC)
- ✓ ມີຄວາມເຊື່ອຖື ແລະ ສະດວກສະບາຍ





ທະນາຄານການຄ້າຕ່າງປະເທດລາວ

BANQUE POUR LE COMMERCE EXTERIEUR LAO



ທະນາຄານການຄ້າຕ່າງປະເທດລາວ

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