Banque Pour Le Commerce Exterieur Lao Public

A Summary of Business Performance for the year 2016

1. Banque pour le Commerce Exterieur Lao Public

Banque Pour Le Commerce Exterieur Lao Public (BCEL) has operated its business as a public company and the bank is listed on the Lao Securities Exchange.

BCEL was established under Bank Establishment License No. 129/BOL dated 01 November 1989 issued by the Bank of the Lao P.D.R and in accordance with the latest Amended Banking Business License No. 4284/BOL dated on 11 November 2010 issued by the Bank of the Lao P.D.R. On 23 December 2010, the Bank successfully underwent Initial Public Offering. The bank later changed its name to Banque Pour Le Commerce Exterieur Lao Public in accordance with the Enterprise Registration No.0061/ERO dated on 10 January 2011 issued by the Department of Enterprise Registration and Management, Ministry of Industry and Commerce of the Lao P.D.R. At that time, the Ministry of Finance was a major shareholder which held 80% of the total shares.

On 15 July 2011, the Ministry of Finance sold 10% of the total ordinary shares to its strategic partner named COFIBRED in accordance with the Ordinary Shares Purchase Agreement between the Ministry of Finance and COFIBRED.

The current structure of BCEL's shareholders includes 70% is held by the government, 10% is held by local investors, 10% is held by the strategic partner and 10% is held by foreign investors.

The principal activities of the Bank are to provide banking services including fund mobilization and short-term, medium-term, and long-term deposits for organizations and individuals as well as short-term, medium-term, and long-term loans to organizations and individuals based on the requests and capability of the Bank's sources of capital; foreign exchange services, letter of credit services, guarantees, precious metal trading services and other banking services allowed by the Bank of Lao P.D.R.

Charter Capital

The charter capital as of 30 December 2016 is LAKm 682,888.

Location and Network

The Bank's Head Office is located at No.01, Pangkham Street, Ban Xiengnheun, Chanthabouly District, Vientiane, Lao P.D.R. As at 31 December 2016, the Bank has one (01) Head Office, one (1) subsidiary, four (4) joint ventures, nineteen (19) main branches, eighty-one (81) services units, and sixteen (16) exchange units all over Lao P.D.R.

2. Vision

BCEL has adopted a vision and apply to its business development to achieve its goals and objectives of “becoming the leading and modern bank with internationally recognized standard”. BCEL is determined to develop itself in all areas to become the modern bank that serves its customers with convenience and standardized services as well as to receive recognition from customers and other financial institution domestically and internationally. The bank also tries to maintain its leading position in the Lao P.D.R and moves forward toward expanding its business to regional and international level.

3. Mission

In accordance with the Long Term Strategic Plan toward 2020, BCEL will continue to implement the missions adopted by the Shareholders including committing to become a modernized bank and having service quality as international standard. The bank determines a customer-centered strategy by harmonizing excellent services of staff with modern technology to ensure that customers, shareholders and its staff will receive the highest benefits and to contribute significantly to the national socio-economic development.

In 2016, BCEL has included the following key elements into its plan:

- The operation must be under principle basis and having financial disciplines.
- The management of 3 major areas: budgeting plan, working plan and human resource plan.
- NPLs resolution.
- Implementation of Business Plan of the year 2016.
- Product Development and Management.
- Development and utilization of some necessary instruments (IT system, Corporate Governance, BASEL II, International Reporting Standard (IFRS), and Key Performance Indicators (KPI)).
- Accumulation of equity and recapitalization.
- Searching for new customers; to maintain and enhance the relationship with current customers (Customers and the bank must grow together).
- To follow up on risk management and AML.
- To manage and audit branches.

4. Organizational Structure.

4.1 The organizational structure of BCEL consists of the Board of Directors (7 Directors), Executive Management (8 members), 11 Divisions, 3 Centers, 19 Branches, 81 Service Units and 16 Money Changers nationwide.

The current Board of Directors includes:

1. Dr. Bounleua Sinxayvoravong, Director General of the Fiscal Policy Department, MOF ,Chairman.
2. Mr. Khamsouk Sundara, Independent Director, Vice Chairman
3. Mr. Phoukhong Chanthachack, General Managing Director of BCEL Member
4. Mr. Phansana Khounnouvong, Deputy Managing Director of BCEL Member
5. Ms. Khanthaly Vongxayarath, Deputy Managing Director of BCEL Member
6. Mr. Viengxay Chanthanvisouk, Chief of Branch Supervision Division of BCEL Member
7. Mr. Marc Robert, COFIBRED representative, on behalf of the Strategic Partner Member

Board of Directors of BCEL



Dr. BounleuaSinxayvoravong
Chairman



Mr. Khamsouk Sundara
Voice Chairman



Mr. Phoukhong Chanthachack
Member



Mr. Phansana Khounnouvong
Member



Ms. Khanthaly Vongxayarath
Member



Mr . Viengxay Chanthanvisouk
Member



Mr Marc ROBERT
Member

BCEL Management Team



Mr. Phoukhong Chanthachack
General Managing Director



Mr. Phansana Khounnouvong
Deputy managing Director



Mr. Lachay Khanppravong
Deputy managing Director



Mr. Nanthalath Keopaseuth
Deputy managing Director



Ms. Khanthaly Vongxayarath
Deputy managing Director



Mr. Khamsian Mingboupha
Deputy managing Director



Mr. Souphak Thinxayphone
Deputy managing Director



Mr. Bouavanh Simmalivong
Deputy managing Director

5. The implementation of the bank's missions for the year 2016.

In 2016, BCEL held the Business Performance Review Meeting for 4 times, held Ordinary Board of Directors' meetings for 4 times, and disclosed the resolutions of the meeting on the Lao Securities Exchange information disclosure system for 3 times. BCEL has paid the dividend of the second half of the year 2015 to the shareholders, in the amount of 219 LAK per share.

- BCEL has been established the year plans for 2017 and drafted a long-term strategic plans for 2016-2020 which was approved by BCEL's Board of Directors and continue to propose for the approval in the BCEL's Ordinary Shareholders meeting for 2016.
- Completed the research on KPI of BCEL's Headquarter Service center. KPI will measure the entire branch's business performance. Currently, the project is at the stage of computer programme development which will be tested and launched in the first quarter of 2017. Meanwhile, BCEL has appointed the committee to review job description and KPI of BCEL's Staff.
- Completed the contract signing with advisory company, Ernst & Young Lao Co., Ltd to evaluate Basel II implementation and to proceed the selection of advisory company for the recapitalization project of BCEL.

- Upgraded on product development such as the utility payment via ATM which improve the system to generate the information faster; Applied the fraud detection system for ATM and Visa Card in order to reduce the possible risks; Developed BCEL i-bank version 3; Completed the Improvement of Bill Payment System with ability to accept cash in the system; Upgraded card acquiring of EMV VISA cards via ATM machines ; Up to now, BCELs' ATM can accept VISA card with chip completely; For UnionPay Payment Gateway (UPOP), UnionPay international cards can be used on E-commerce System of BCEL and the bank has basically completed online payment system of BCEL Unionpay card to be able to purchase air tickets from Lao Airlines via Lao Airlines' website. For BCEL One version 3 development project, the bank upgraded; Developed the queuing program to call the queue according to VIP card number; Developed Queue Client VIP and install VIP programme and completed the research on Smart Vat product at the 1st Lao-Thai Friendship Bridge (VTE-Nongkai). Moreover, BCEL also considered the amendment of deposit interest rates, Loan interest rates for Baht and USD in the system for 2 times and completed the contract singing on payment transactions between BCEL and YNRCC.

- Moreover, BCEL also extended its service network to the society for 4 more service units including Khoun Kham Service Unit, Pak District Service Unit of Oudomxay Branch, all in one service unit , Xaysomboun Service Unit and KM7 Service Unit in Vientiane Capital which is under the supervision of Head Office.

- Participated in ASEAN SUMMIT 2016 by exhibiting the advertising booth and BCEL also received banking award from Asian Banking & Finance Awards and from Global Banking and Finance Review for the year 2016.

6. The Activities of Board of Directors, Management and other Committees.

- **Board of Directors.**

Within the year, BOD of BCEL held 4 BOD's Meetings to discuss and approve important issues as follows:

- To approve the distribution of profits of BCEL for the year 2015 to the reserves and to implement the payment of dividend to BCEL's shareholders for the second quarter of 2015 in the amount of 219LAK/share; To approve the 2016 plan; To approve the regulation on recruitment of new staff; To approve the strategic plan on risks and the amendment of the regulation on risk management committee of BCEL; To approve the long-term strategic plan from 2016-2020 of BCEL; To approve the selection of Ernst & Young Lao Limited for BASEL 2 diagnostic for BCEL; To approve the selection of financial advisor for recapitalization project of BCEL and to approve the 2017 plans including Implementation Plan, Business Operation plan, Technical-Construction and repair Plan, Branch and Service unit Extension Plan, and New Staff recruitment plan in overall network. In additions, the meeting also approved the reconsideration of the establishment of Marketing Division and approved the combination of International Audit Division and Branch Supervision Division as on Division.

- **Governance Committee.**

Completed 9 meetings of the governance committee to consider and discuss on governance issues and the assessment of business plan implementation as follows:

- To monitor BCEL's business performance in each month, analyze and evaluate business performance in each area as well as setting the implementation of monthly plans. Research on the business implementation plan, business plan, technical-equipment-repairing plan, network expansion plan, marketing plan and long-term strategic plan from 2016-2020.
- To lead the implementation of new service style of BCEL which aims to centralized the service at BCEL's Head Office. The work has been implemented in some parts such as having centralized FX trading, having centralized assets of BCEL and the bank also established the committee to work on centralizing expense in overall BCEL network and to research on the process and the implementation of centralizing credits.
- To consider on the IT system development to be modernized, highly secured and research on new products to meet that needs of the customers.
- To closely manage the capital, credit management to be better comparing to previous year, solving of NPL to reduce, research on SME criteria, research on

source of fund to support for credit growth, maintain the banks' liquidity, research on quality source of fund as well as to consider on the deposit interest rates and the reduction of credit interest rates.

- To research on the amendment of internal regulations of BCEL to be more appropriated such as regulation on recruiting new staff and some inconsistent regulations.
- Follow up the recapitalization from the government and research on the recapitalization for Lao-Viet Bank (LVB) and Lao-Viet Insurance Company (LVI).
- Research on customer's information storage and business operation data of BCEL.
- Research on the implementation of KPI by staff and KPI at branch level.
- Approved the Credit Strategic Plan of BCEL which the Credit Division completed the research on Home Loan and amended the related work, policies of Credit Division to be suitable with the competition and to ensure the implementation of BOL's polices such as the amendment of repayment term according to the characteristic of the projects.
- To improve the interest rate to be more flexible for Baht and USD deposit to maintain the existing customers and to mobilize foreign currency.

➢ **Risk Management Committee.**

The committee completed the meeting of the Risk Management Committee for 3 times. The meetings discussed the risk management policies of BCEL in various areas and BCEL's compliance including

- Carefully monitor the credit risk of the clients which have the possibility to become NPL, monitor the policies and the process of credit management and closely monitor NPL.
- Reduce the risk on treasury, FX Trading, liquidity in each period, operational risks and manage the cash at the controllable levels.
- Review implementation of risk management policies in the areas that hold the important risks of the bank. Currently, it is can be seen that many areas are not complied with the scope of the set regulations.
- Approve the regulations for cash reserve at the branches in order to reduce risks at branch level and for the Head Office to manage cash more effectively, and approve the level of risks associated with Money-Laundering.
- Continue to review on the implementation of BCEL's business operation which related to the risk management policies and try to find the possible solutions for the future.

- Amendment of the Risk Management Strategic Plan and regulation on Risk management committee which was approved by the board of Director in the previous meeting.
- Follow up the divisions and branches on the implementation of AML regulations as well as provide information and reports for BOL.
- Improved the Credit Card Issuance Regulations to be the work under Credit Division to be an analysed section on collaterals.
- Created the risk management strategy and the regulation on risk management committee as the guidelines for implementation of the work of the committee.
- To approve the cash reserve regulation of branches, to reduce the risk at branch level and in order to increase Head Office's capacity on cash management.
- Research on the amendment of teller authorization right, the management authorization right and the research on electronic authorization right in cooperation with IT Center.

➢ **Internal Audit Committee.**

The committee held Internal Audit Committee to discuss the following issues:

- Completed the audit for the year 2015 by the State Audit Organization and by the Commercial Bank Supervision Department of BOL.
- Completed the coordination with the external audit company EY for auditing of BCEL for the year 2015.
- Completed and announced the adoption of BCEL's 2-steps auditing and the new Internal Audit (IA) in BCEL's auditing work.
- Completed the solving of some audit issues.
- Completed the audit for the first 6 months of 2016 by the external auditor, EY.
- Completed the audit of BCEL's financial statement for 2015 and the first 6 months of 2016 by the external auditor, EY.
- Completed the draft of regulation or guidelines for 2 steps auditing according to 3 steps for auditing guidelines.
- Started the use of IA manual.
- Succeed the selection of external audit company and signed the auditing contract for 2017.
- Succeed in issuance of financial report for the first quarter, 6 months and 9 months for the year 2016 by EY.

➢ **The activities of sub-committees in brief.**

Besides the mentioned committees, BCEL also has a number of sub-committees such as the Repair and Construction Committee, IT Development Committee, Assets and Liabilities Management Committee, Procurement Committee and etc. These committees held the meetings monthly or as requested to discuss the important issues to facilitate and support for customer service of BCEL overall the network on time.

7. BCEL's Business Performance for the year 2016.

During for the year 2016, BCEL achieved the business performance as follows:

- Total Assets: 32,023,274.00 Billion LAK, equaled to 116.11% of the year plan,

- Total Deposits: 28,187,968.00 Billion LAK, equals to 112.75% of the year plan,

- Total Loans: 19,240,075.00 Billion LAK, equals to 137.18% of the year plan

- Profit before tax: 226,216.00 Billion LAK, which equals to 144.09% of the year plan,

Deputy **Managing Director**
Banque pour le Commerce Exterieur Lao Public

BANK OF THE LAO PDR
BANQUE POUR LE COMMERCE EXTERIEUR LAO PUBLIC
VIEN TIANE CAPITAL

Mr. Lachay Khanppravong

Note: The business performance figures in the first half of the year 2016 are based on the consolidated financial report under the International Financial Reporting Standards (Audited).

Banque Pour Le Commerce Exterieur Lao Public

Consolidated Financial Statements

31 December 2016

Banque Pour Le Commerce Exterieur Lao Public

CONTENTS

	Pages
General information	1 - 3
Independent auditors' report	4 - 7
Consolidated income statement	8
Consolidated statement of comprehensive income	9
Consolidated statement of financial position	10
Consolidated statement of changes in equity	11
Consolidated statement of cash flows	12
Notes to the consolidated financial statements	13 - 52

Banque Pour Le Commerce Exterieur Lao Public

GENERAL INFORMATION

THE BANK

Banque Pour Le Commerce Exterieur Lao Public (herein referred to as "the Bank") is a joint-stock bank incorporated and registered in the Lao People's Democratic Republic ("Lao P.D.R").

Establishment and Operations

The Bank was established from the equitization of Banque Pour Le Commerce Exterieur Lao which had been established in accordance with the Banking Business License No. 129/BOL dated 01 November 1989, and its latest Amended Business License No. 4284/BOL dated 11 November 2010 issued by the Bank of Lao P.D.R. On 23 December 2010, the Bank successfully undertook its Initial Public Offering. On 10 January 2011, the Bank was equitized and renamed into Banque Pour Le Commerce Exterieur Lao Public under the Operating License No. 0061/LRO dated 10 January 2011 issued by the Business License Registration Office of the Lao P.D.R. At that date, the Government, represented by the MOF, was the largest shareholder with 80% shareholding.

On 15 July 2011, the MOF sold 10% of the total ordinary shares (equivalent 13,657,759 shares) to its strategic partner named Compagnie Financière de la BRED ("COFIBRED") in accordance with the Ordinary Shares Purchase Agreement between the Ministry of Finance and COFIBRED. COFIBRED is a subsidiary of BRED, the biggest regional banking society in the Banque Populare Group - a French group of cooperative banks. The total purchased price of LAK 150,235,349,000 has been paid fully by COFIBRED.

According to notification from Lao Securities and Exchange Commission, the shareholding structure of the Bank as at 31 December 2016 is as follows:

Shareholders	*Number of shares*	*%*
The Government	95,604,321	70%
Local investors (including employees of the Bank)	13,657,760	10%
Strategic partners	13,657,759	10%
Other foreign investors	13,657,760	10%
	136,577,600	**100%**

The principal activities of the Bank are to provide banking services including mobilizing and receiving short-term, medium-term, and long-term deposits from organizations and individuals; making short-term, medium-term, and long-term loans to organizations and individuals based on the nature and capability of the Bank's sources of capital; foreign exchange transactions, international trade financial services, discounting of commercial papers, bonds and other valuable papers, and providing other banking services allowed by the Bank of Lao P.D.R.

Charter Capital

The charter capital as at 31 December 2016 is LAKm 682,888 (31 December 2015: LAKm 682,888).

Location and Network

The Bank's Head Office is located at No. 01, Pangkham Street, Ban Xiengnheun, Chanthabouly District, Vientiane Capital, Lao P.D.R. As at 31 December 2016, the Bank has one (01) Head Office, one (1) subsidiary, four (4) joint ventures, nineteen (19) main branches, eighty-one (81) services units, and sixteen (16) exchange units all over Lao P.D.R.

GENERAL INFORMATION (continued)

THE BANK (continued)

Subsidiary

As at 31 December 2016, the Bank has one (01) subsidiary as follows:

Name	*Established in accordance with Business License No.*	*Business sector*	*% owned by the Bank*
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%

Joint ventures

As at 31 December 2016, the Bank has four (04) joint ventures as follows:

Name	*Business License No.*	*Business Sector*	*% owned by the Bank*
Lao Viet Joint Venture Bank	232/11 dated 8 September 2011 by the Bank of Lao P.D.R	Banking & Finance	25%
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	35%
Lao China Bank Limited	041/ERM dated 27 January 2014 by the granted by Department of Enterprise Register and Management of Lao P.D.R	Banking & Finance	49%

GENERAL INFORMATION (continued)

BOARD OF DIRECTORS

Members of the Board of Directors during the year ended 31 December 2016 and at the date of this report are as follows:

Name	*Title*	*Date of appointment*
Mr. Bounleua Sinxayvoravong	Chairman	Appointed on 9 April 2015
Mr. Khamsouk Sundara	Vice Chairman	Reappointed on 9 April 2015
Mr. Phoukhong Chanthachack	Member	Reappointed on 9 April 2015
Mr. Phansana Khounnouvong	Member	Appointed on 9 April 2015
Ms. Khanthaly Vongxayarath	Member	Appointed on 9 April 2015
Mr. Marc Robert	Member	Reappointed on 9 April 2015
Mr. Viengxay Chanthanvisouk	Member	Appointed on 9 April 2015

BOARD OF MANAGEMENT

Members of the Board of Management during the year ended 31 December 2016 and at the date of this report are as follows:

Name	*Title*	*Date of appointment*
Mr. Phoukhong Chanthachack	General Managing Director	Appointed on 15 January 2016
Mr. Phansana Khounnouvong	Deputy Managing Director	Appointed on 06 June 2008
Ms. Khanthaly Vongxayarath	Deputy Managing Director	Appointed on 30 September 2014
Mr. Lachay Khanpravong	Deputy Managing Director	Appointed on 30 September 2014
Mr. Nanthalath Keopaseuth	Deputy Managing Director	Appointed on 30 September 2014
Mr. Khamsian Mingbouppha	Deputy Managing Director	Appointed on 23 November 2015
Mr. Souphak Thinsayphone	Deputy Managing Director	Appointed on 23 November 2015
Mr. Bouavanh Simalivong	Deputy Managing Director	Appointed on 1 November 2016

LEGAL REPRESENTATIVE

The legal representative of the Bank from 1 January 2016 to 14 January 2016 is Mr. Phoukhong Chanthachack - Acting General Managing Director.

The legal representative of the Bank from 15 January 2016 till the date of this report is Mr. Phoukhong Chanthachack - General Managing Director.

AUDITORS

The auditors of the Bank are Ernst & Young Lao Company Limited.

Reference: 60790273/ 18712878-IFRS/CS

INDEPENDENT AUDITORS' REPORT

To: The shareholders
Banque Pour Le Commerce Exterieur Lao Public

Qualified Opinion

We have audited the consolidated financial statements of Banque Pour Le Commerce Exterieur Lao Public ("the Bank"), which comprise the consolidated of financial position as at 31 December 2016, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter as discussed in the Basis for Qualified Opinion section of our report, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at 31 December 2016, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Qualified Opinion

Due to the limitation of information, the Bank's management was unable to provide disclosures relating to fair value and financial risk management as required by IFRS 7: "Financial Instruments: Disclosures" and IFRS 13: "Fair value measurement".

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in Lao P.D.R, and we have fulfilled our other ethical responsibilities in accordance these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a consolidated opinion on these matters.

Areas of focus	***How our audit addressed the risk factors***
IFRS conversion The Bank operates in Laos and maintains its underlying books and records in accordance with the Accounting Law of the Lao P.D.R, and regulations stipulated by the Bank of Lao P.D.R. The Bank's IFRS consolidated financial statements are prepared by posting the required adjustments to the underlying books and records. Identification of all required GAAP differences, and calculation of the required adjustments, requires the Bank's management to exercise judgement.	Our procedures, in respect of the Bank's IFRS conversion process, included: ▶ We assessed, and challenged, the Bank's selection and application of accounting policies, ▶ We formed expectations of differences between the Bank's LAS and IFRS financial statements and compared to those prepared by the Bank, ▶ We used tools to evaluate the completeness and accuracy of disclosures made by the Bank, and ▶ We involved IFRS pre-issuance reviewer in our procedures to assess compliance with the disclosure requirements of IFRS.
Allowance for impairment of loans to customers (Note 18 – Loans to customers) The provision for impairment of loans is a significant balance and carries a high degree of estimation uncertainty. The Bank's management is required to exercise judgement in classifying loans as performing or non-performing based upon quantitative or qualitative factors. In order to calculate the impairment provision the Bank has developed models and makes certain assumptions including, but not limited to: collateral valuation, forecast future cash flows, and the financial condition of the borrower. Given the materiality of this balance, and the degree of judgement required of the Bank's management, and the inherent subjectivity of the assumptions selected, we considered this to be a significant item for our audit.	We understood, and tested, the design and operating effectiveness of key controls in relation to: ▶ loan origination and recognition, ▶ loan credit grading and credit monitoring, ▶ segmentation of the portfolio into exposures of similar risk characteristics, and ▶ calculation of the loan loss provision For a sample of non-performing loans, which had impairment provisions calculated on an individual basis, we: ▶ Assessed and challenged management assumptions in respect of forecast cash and collateral recoverable amounts and ▶ Assessed the impact of loan restructures as applicable For loan loss allowances calculated on a collective basis, we performed the following: ▶ Tested the completeness and accuracy of data used in models ▶ Tested the arithmetical accuracy of the Bank's models ▶ Evaluated and challenged the appropriateness of assumptions including historical loss rate, and

Areas of focus	*How our audit addressed the risk factors*
	▶ Compared, where available, data and assumptions made by the Bank to external benchmarks. Finally, we assessed the completeness and accuracy of financial statement disclosures relating to loan loss provisions to assess compliance with disclosure requirements.

Responsibilities of the Bank's Management for the Consolidated Financial Statements

The Bank's management is responsible for the preparation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Consolidated Financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Building a better working world

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young Lao Co., Ltd.:



Trinh Hoang Anh
Partner
Audit Practising Registration
Certificate No. LCPAA/2-1-00001

Vientiane, Lao P.D.R

31 May 2017

Banque Pour Le Commerce Exterieur Lao Public

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2016

	Notes	2016 LAKm	2015 LAKm
Interest and similar income	8	1,406,431	1,073,610
Interest and similar expense	9	(858,596)	(812,970)
Net interest and similar income		**547,835**	**260,640**
Fee and commission income	10	193,844	171,548
Fee and commission expense	10	(15,411)	(13,314)
Net fee and commission income	**10**	**178,433**	**158,234**
Net trading income/(expenses)	11	47,270	(246,883)
Other operating income	12	14,994	422,260
Total operating income		**788,532**	**594,251**
Credit loss expense of loans to customers	19	(167,367)	(114,455)
(Additional)/reversal of impairment losses of financial investments	13	(10,985)	1,837
NET OPERATING INCOME		**610,180**	**481,633**
Personnel expenses	14	(240,203)	(220,719)
Depreciation and amortization	23,24	(70,553)	(64,465)
Other operating expenses	15	(99,621)	(97,685)
Total operating expenses		**(410,377)**	**(382,869)**
Share of profit and loss of joint ventures	22	26,413	48,325
PROFIT BEFORE TAX		**226,216**	**147,089**
Current profit tax expense	29.1	(49,928)	(24,327)
Deferred profit tax (expense)/income	29.1	(2,183)	1,950
PROFIT FOR THE YEAR		**174,105**	**124,712**
Attributable to:			
Equity holders of the parent		173,416	124,371
Non-controlling interest		689	341
Earnings per shares (LAK)	**40**	**1,270**	**911**

Prepared by:

Mrs. Lammaniseng Sayaphet
Head of Accounting Department

Approved by:

Mrs. Phousengthong Anoulakkham
Acting Head of Internal Audit Department

Approved by:

BANK OF THE LAO PDR
BANQUE POUR LE COMMERCE EXTERIEUR LAO PUBLIC

Mr. Lachay Khanpravong
Deputy Managing Director

Vientiane, Lao P.D.R

31 May 2017

Banque Pour Le Commerce Exterieur Lao Public

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2016

	Notes	2016 LAKm	2015 LAKm
NET PROFIT FOR THE YEAR		**174,105**	**124,712**
OTHER COMPREHENSIVE INCOME			
Net loss on available-for-sale financial assets		(33,427)	(35,708)
Profit tax related to components of other comprehensive income		8,023	4,627
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(25,404)**	**(31,081)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**148,701**	**93,631**
Attributable to:			
Equity holders of the parent		148,200	93,290
Non-controlling interest		501	341

Prepared by:

Mrs. Lammaniseng Sayaphet
Head of Accounting Department

Approved by:

Mrs. Phousengthong Anoulakkham
Acting Head of Internal Audit Department

Approved by:

BANK OF THE LAO PDR
BANQUE POUR LE COMMERCE EXTERIEUR LAO PUBLIC

Mr. Lachay Khanpravong
Deputy Managing Director

Vientiane, Lao P.D.R

31 May 2017

Banque Pour Le Commerce Exterieur Lao Public

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2016

	Notes	31 December 2016 LAKm	31 December 2015 LAKm
ASSETS			
Cash and balances with the BOL	16	5,680,936	9,466,790
Due from banks	17	2,950,093	1,986,635
Loans to customers	18	19,093,205	10,854,955
Financial assets - Held-for-trading		39	6,046
Financial investments - Available-for-sale	20	198,121	224,348
Financial investments - Held-to-maturity	21	2,553,110	1,776,408
Investments in joint ventures	22	551,449	555,418
Property and equipment	23	447,935	391,146
Intangible assets	24	243,521	297,744
Deferred tax assets	29.4	10,856	6,259
Other assets	25	294,009	211,111
TOTAL ASSETS		**32,023,274**	**25,776,860**
LIABILITIES			
Due to banks and other financial institutions	26	3,526,229	2,446,347
Due to customers	27	25,402,421	21,310,561
Borrowings from the BOL	28	1,640,776	720,497
Current tax liabilities	29.2	36,496	30,934
Deferred tax liabilities	29.4	9,834	11,077
Other liabilities	30	94,324	60,373
TOTAL LIABILITIES		**30,710,080**	**24,579,789**
EQUITY			
Charter capital		682,888	682,888
Statutory and other reserves	32	359,007	314,898
Available-for-sale reserve	33	7,385	32,789
Treasury shares		(1,010)	(1,010)
Retained earnings		230,992	134,263
Total equity contributable to the parent		**1,279,262**	**1,163,828**
Total equity contributable to non-controlling interest		33,932	33,243
TOTAL EQUITY		**1,313,194**	**1,197,071**
TOTAL LIABILITIES AND EQUITY		**32,023,274**	**25,776,860**

Prepared by:

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Head of Accounting Department

Approved by:

Mrs. Phousengthong Anoulakkham
Acting Head of Internal Audit Department

Approved by:

Mr. Lachay Khanpravong
Deputy Managing Director

Vientiane, Lao P.D.R

31 May 2017

Banque Pour Le Commerce Exterieur Lao Public

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016

	Chartered capital LAKm	*Statutory and other reserves LAKm*	*Treasury share LAKm*	*Available-for-sale reserve LAKm*	*Retained earnings LAKm*	*Non-controlling interest LAKm*	*Total LAKm*
Balances as at 31 December 2015	**682,888**	**314,898**	**(1,010)**	**32,789**	**134,263**	**33,243**	**1,197,071**
Dividend of 2015 paid out to shareholders	-	-	-	-	(29,881)	-	(29,881)
Net profit for the year	-	-	-	-	173,416	689	174,105
Appropriation to reserves for the year 2015	-	44,109	-	-	(44,109)	-	-
Share of joint venture's net loss on available-for-sale financial assets	-	-	-	(25,404)	-	-	(25,404)
Additional tax payable for previous year	-	-	-	-	(2,697)	-	(2,697)
Balances as at 31 December 2016	**682,888**	**359,007**	**(1,010)**	**7,385**	**230,992**	**33,932**	**1,313,194**

Prepared by:

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Head of Accounting Department

Approved by:

Mrs. Phousengthong Anoulakkham
Acting Head of Internal Audit Department

Approved by:

BANK OF THE LAO PDR
BANQUE POUR LE COMMERCE EXTERIEUR LAO PUBLIC
VIENTIANE CAPITAL

Mr. Lachay Khanpravong
Deputy Managing Director

Vientiane, Lao P.D.R

31 May 2017

Banque Pour Le Commerce Exterieur Lao Public

CONSOLIDATED STATEMENT OF CASH FLOWS
as at 31 December 2016 and for the year then ended

	Notes	2016 LAKm	2015 LAKm
OPERATING ACTIVITIES			
Profit before tax		**226,216**	**147,089**
Adjustments for:			
Depreciation and amortization charges	23, 24	70,553	64,465
Credit loss and impairment loss of investment securities expense		178,352	112,618
Share of associate's profit under equity method	22	(26,413)	(48,325)
Gain on disposal of fixed assets	12	(676)	(359,076)
Dividend income		(11,060)	(12,673)
Cash flows from operating profit before changing in operating assets and liabilities		**436,972**	**(95,902)**
Changes in operating assets			
Due from banks		(206,364)	(334,797)
Loans to customers		(8,406,559)	(1,338,065)
Financial investment - Held-for-trading		6,007	(2,140)
Financial investment - Available-for-sale		26,227	(2,016)
Financial investment - Held-to-maturity		(787,691)	(507,839)
Other assets		(7,296)	54,422
Changes in operating liabilities			
Due to other banks and the BOL		2,000,161	183,832
Due to customers		4,091,859	2,208,913
Other liabilities		5,007	(186,372)
Profit tax paid during the year	29.3	(46,875)	(9,020)
Net cash flows used in operating activities		**(2,888,552)**	**(28,984)**
INVESTING ACTIVITIES			
Purchase and construction of fixed assets		(170,304)	(244,225)
Proceeds from disposals of fixed assets		48,918	371,908
Dividends received		11,060	38,452
Net cash flows (used in)/from investing activities		**(110,326)**	**166,135**
FINANCING ACTIVITIES			
Payment of dividend		(29,881)	(55,534)
Net cash flows used in financing activities		**(29,881)**	**(55,534)**
Net (decrease)/increase in cash and cash equivalents		**(3,028,759)**	**81,617**
Cash and cash equivalents at the beginning of the year		**10,154,343**	**10,081,167**
Foreign exchange difference		**-**	**(8,441)**
Cash and cash equivalents at the end of the year	**34**	**7,125,584**	**10,154,343**

Prepared by:

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Mr. Lachay Khanpravong
Deputy Managing Director

Vientiane, Lao P.D.R

31 May 2017

1. CORPORATE INFORMATION

Banque Pour Le Commerce Exterieur Lao Public (herein referred to as "the Bank") is a joint-stock bank incorporated and registered in the Lao People's Democratic Republic ("Lao P.D.R").

Establishment and Operations

The Bank was established from the equitization of Banque Pour Le Commerce Exterieur Lao which had been established in accordance with the Banking Business License No. 129/BOL dated 01 November 1989, and its latest Amended Business License No. 4284/BOL dated 11 November 2010 issued by the Bank of Lao P.D.R. On 23 December 2010, the Bank successfully undertook its Initial Public Offering. On 10 January 2011, the Bank was equitized and renamed into Banque Pour Le Commerce Exterieur Lao Public under the Operating License No. 0061/LRO dated 10 January 2011 issued by the Business License Registration Office of the Lao P.D.R. At that date, the Government, represented by the MOF, was the largest shareholder with 80% shareholding.

On 15 July 2011, the MOF sold 10% of the total ordinary shares (equivalent 13,657,759 shares) to its strategic partner named Compagnie Financière de la BRED ("COFIBRED") in accordance with the Ordinary Shares Purchase Agreement between the Ministry of Finance and COFIBRED. COFIBRED is a subsidiary of BRED, the biggest regional banking society in the Banque Populare Group - a French group of cooperative banks. The total purchased price of LAK 150,235,349,000 has been paid fully by COFIBRED.

According to notification from Lao Securities and Exchange Commission, the shareholding structure of the Bank as at 31 December 2016 is as follows:

Shareholders	*Number of shares*	*%*
The Government	95,604,321	70%
Local investors (including employees of the Bank)	13,657,760	10%
Strategic partners	13,657,759	10%
Other foreign investors	13,657,760	10%
	136,577,600	**100%**

The principal activities of the Bank are to provide banking services including mobilizing and receiving short-term, medium-term, and long-term deposits from organizations and individuals; making short-term, medium-term, and long-term loans to organizations and individuals based on the nature and capability of the Bank's sources of capital; foreign exchange transactions, international trade financial services, discounting of commercial papers, bonds and other valuable papers, and providing other banking services allowed by the Bank of Lao P.D.R.

Charter Capital

The charter capital as at 31 December 2016 is LAKm 682,888 (31 December 2015: LAKm 682,888).

Location and Network

The Bank's Head Office is located at No. 01, Pangkham Street, Ban Xiengnheun, Chanthabouly District, Vientiane Capital, Lao P.D.R. As at 31 December 2016, the Bank has one (01) Head Office, one (1) subsidiary, four (4) joint ventures, nineteen (19) main branches, eighty-one (81) services units, and sixteen (16) exchange units all over Lao P.D.R.

1. CORPORATE INFORMATION (continued)

Subsidiary

As at 31 December 2016, the Bank has one (01) subsidiary as follows:

Name	*Established in accordance with Business License No.*	*Business sector*	*% owned by the Bank*
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 Lao P.D.R	Securities	70%

Joint ventures

As at 31 December 2016, the Bank has four (04) joint ventures as follows:

Name	*Business License No.*	*Business Sector*	*% owned by the Bank*
Lao Viet Joint Venture Bank	232/11 dated 8 September 2011 by the Bank of Lao P.D.R	Banking & Finance	25%
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	35%
Lao China Bank Limited	041/ERM dated 27 January 2014 by the granted by Department of Enterprise Register and Management of Lao P.D.R	Banking & Finance	49%

1. CORPORATE INFORMATION (continued)

Board of Directors

Members of the Board of Directors during the year ended 31 December 2016 and at the date of this report are as follows:

Name	*Title*	*Date of appointment*
Mr. Bounleua Sinxayvoravong	Chairman	Appointed on 9 April 2015
Mr. Khamsouk Sundara	Vice Chairman	Reappointed on 9 April 2015
Mr. Phoukhong Chanthachack	Member	Reappointed on 9 April 2015
Mr. Phansana Khounnouvong	Member	Appointed on 9 April 2015
Ms. Khanthaly Vongxayarath	Member	Appointed on 9 April 2015
Mr. Marc Robert	Member	Reappointed on 9 April 2015
Mr. Viengxay Chanthanvisouk	Member	Appointed on 9 April 2015

Board of Management

Members of the Board of Management during the year ended 31 December 2016 and at the date of this report are as follows:

Name	*Title*	*Date of appointment*
Mr. Phoukhong Chanthachack	General Managing Director	Appointed on 15 January 2016
Mr. Phansana Khounnouvong	Deputy Managing Director	Appointed on 06 June 2008
Ms. Khanthaly Vongxayarath	Deputy Managing Director	Appointed on 30 September 2014
Mr. Lachay Khanpravong	Deputy Managing Director	Appointed on 30 September 2014
Mr. Nanthalath Keopaseuth	Deputy Managing Director	Appointed on 30 September 2014
Mr. Khamsian Mingbouppha	Deputy Managing Director	Appointed on 23 November 2015
Mr. Souphak Thinsayphone	Deputy Managing Director	Appointed on 23 November 2015
Mr. Bouavanh Simalivong	Deputy Managing Director	Appointed on 1 November 2016

Employees

Total number of employees of the Bank and its subsidiary as at 31 December 2016 is 1,621 persons (as at 31 December 2015: 1,548 persons).

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis, except as disclosed in other notes.

The Bank maintains its records in Lao Kip ("LAK") and prepared its consolidated financial statements in millions of LAK ("LAKm").

The Bank also prepared and issued its separate financial statements in accordance with IFRS on 31 March 2017.

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

3. STATEMENT OF COMPLIANCE

The consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB.

4. PRESENTATION OF FINANCIAL STATMENTS

The Bank presents its statement of financial position in order of liquidity. Financial assets and financial liabilities are generally reported gross in the consolidated statement of financial position. They are only offset and reported net when, in addition to having an unconditional legally enforceable right to offset the recognized amounts without being contingent on a future event, the parties also intend to settle on a net basic in all of the following circumstances:

- The normal course of business
- The event of default
- The event of insolvency or bankruptcy of the Bank and/or its counterparties

5. BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary (collectively referred to as the "Group") as at 31 December 2016. Subsidiary is the investee that the Bank has control over. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Generally, there is a presumption that a majority of voting rights results in control. However, under individual circumstances, the Bank may still exercise control with less than 50% shareholding or may not be able to exercise control even with ownership over 50% of an entity's shares. When assessing whether it has power over an investee and therefore controls the variability of its returns, the Bank considers all relevant facts and circumstances, including:

- The purpose and design of the investee
- The relevant activities and how decisions about those activities are made and whether the Bank
- can direct those activities
- Contractual arrangements such as call rights, put rights and liquidation rights
- Whether the Bank is exposed, or has rights, to variable returns from its involvement with the investee, and has the power to affect the variability of such returns

5. BASIS OF CONSOLIDATION (continued)

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest (NCI) and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value at the date of loss of control.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

6.1 Foreign currency translation

Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into LAK at the spot rate of exchange at the reporting date (see list of exchange rates of applicable foreign currencies against LAK on 31 December 2016 and 31 December 2015 as presented in Note 42). Unrealized exchange differences arising from the translation of monetary assets and liabilities on the balance date are recognized in the consolidated income statement.

6.2 Financial instruments - initial recognition and subsequent measurement

6.2.1 Date of recognition

All financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, 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. Loans and advances to customers are recognised when funds are transferred to the customers' account. The Bank recognises due to customer balances when funds reach the Bank.

6.2.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. 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.

6.2.3 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 recognized in "Net gain/(loss) on securities and foreign currencies trading". Interest and dividend income are also recorded in "Net gain(loss) from securities and foreign currencies trading" according to the terms of the contract, or when the right to the payment has been established.

Included in this classification are equity securities which have been acquired principally for the purpose of selling or repurchasing in the near term.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.2 Financial instruments - initial recognition and subsequent measurement (continued)

6.2.4 The effective interest rate method

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate a shorter period, to the net carrying amount of the financial asset or financial liability. The amortised cost of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted amortised cost is calculated based on the original or latest re-estimated EIR and the change in is recorded as 'Interest and similar income' for financial assets and 'Interest and similar expense' for financial liabilities. The accounting policies for the EIR method vary by instruments and are further explained in Notes:

- 6.2.6 for "Available for sale financial investment"
- 6.2.7 for "Held-to-maturity investment"
- 6.2.8 for 'Due from banks and loans to customers'
- 6.2.9 for 'Due to other banks and customers and other borrowed funds'
- 6.4 for 'Impairment of financial assets'
- 6.8 for 'Recognition of income and expenses'

6.2.5 '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 recognises 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 recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

6.2.6 Available for sale financial investments

Available for sale 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 intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

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

After initial measurement, available for sale financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognized directly in equity (Other comprehensive income) in the 'Available-for-sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized 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. Dividends earned while holding available-for-sale financial investments are recognized in the consolidated 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 consolidated income statement in 'Impairment losses on financial investments' and removed from the 'Available-for-sale reserve'.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.2 Financial instruments - initial recognition and subsequent measurement (continued)

6.2.7 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 cost using the effective interest rate ("EIR"). Periodically, held-to-maturity securities are subject to review for impairment. Allowance for impairment of these securities is made when there has been a significant or prolonged declined in the fair value below their cost. The losses arising from impairment of such investments are recognized in the consolidated income statement line 'Impairment loss expense'.

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.

6.2.8 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;
- Those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, amounts 'Due from banks' and 'Loans and advances to customers' are subsequently measured at amortized cost using the EIR methodology, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. Therefore, the Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of the loan, hence, recognising the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (prepayments, penalty interest and charges).

If expectations are revised the adjustment is booked a positive or negative adjustment to the carrying amount in the balance sheet with an increase or reduction in interest income. The adjustment is subsequently amortised through Interest and similar income in the income statement.

The Bank may enter into certain lending commitments where the loan, on drawdown, is expected to be classified as held–for–trading because the intent is to sell the loans in the short term. These commitments to lend are recorded as derivatives and measured at fair value through profit or loss.

Where the loan, on drawdown, is expected to be retained by the Bank, and not sold in the short term, the commitment is recorded only when it is an onerous contract that is likely to give rise to a loss (for example, due to a counterparty credit event).

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.2 Financial instruments - initial recognition and subsequent measurement (continued)

6.2.9 Due to other banks and customers and other borrowed funds

"Due to other banks and customers and other borrowed funds" include arrangements where the substance of the contractual arrangements result in the Bank having an obligation either to deliver cash or another financial asset to the holder.

After initial measurement, "Due to other banks and customers and other borrowed funds" are subsequently measured at amortised cost using the EIR. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

6.2.10 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.

In rare circumstances, 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.

6.3 De-recognition of financial assets and financial liabilities

6.3.1 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. The Bank also derecognises the assets if it has both transferred the asset, and the transfer qualifies for derecognition.

The Bank has transferred the asset if, and only if, either:

- The Bank has transferred its contractual rights to receive cash flows from the asset or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.3 De-recognition of financial assets and financial liabilities (continued)

6.3.1 Financial assets (continued)

Pass-through arrangements are transactions when the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when certain conditions are met. At 31 December 2016, the Bank does not have financial assets which are subject to such arrangements.

A transfer only qualifies for derecognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset or
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

In relation to the above, the Bank considers the control to be transferred if, and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

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 of 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.

The Bank also derecognises a financial asset, in particular, a loan to customer when the terms and conditions have been renegotiated to the extent that it substantially became a new loan, with the difference recognised as an impairment in the income statement.

6.3.2 Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where 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 de-recognition 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.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.4 Impairment of financial assets

The Bank and its subsidiaries assess at each reporting 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 asset 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; the probability that they will enter bankruptcy or other financial reorganization; default or delinquency in interest or principal payments; 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.

6.4.1 Financial assets carried at amortized cost

Specific impairment losses

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers), the Bank first assesses whether objective evidence of impairment exists for financial assets that are individually significant or are already under specific work out by management.

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 recognised in credit loss expense 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 income.

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 determined at the reclassification date.

The calculation of the present value of the estimated future cash flows of a collateralised 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.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.4 Impairment of financial assets (continued)

6.4.1 Financial assets carried at amortized cost (continued)

Collective impairment model

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms (for example, on the basis of a credit risk evaluation or grading process that considers 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 currently exist.

Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, personal indebtedness, collateral values including property prices for mortgages, 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.

6.4.2 Impairment of available for sale investments

The Bank 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 and duration and extent to which the fair value of an investment is less than its cost.

6.4.3 Collateral valuation

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank’s annually reporting schedule.

To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, housing price indices, audited consolidated financial statements, and other independent sources.

6.4.4 Collateral repossessed

The Bank’s policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets that are determined better to be sold, are immediately transferred to assets held for sale at their fair value at the repossession date in line with the Bank’s policy.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.5 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial positions 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 consolidated statement of financial position.

6.6 Investment in joint ventures

The Bank has interests in joint ventures, which are jointly controlled entities, whereby the ventures have a contractual arrangement that establishes joint control over the economic activities of the entities. The arrangement requires unanimous agreement for financial and operating decisions among the ventures.

The Bank recognizes its interest in the joint ventures using the equity method. Under the equity method, the investment in a joint venture is initially recognized at cost in the consolidated statement of financial position plus any adjustment to the joint ventures' net assets relatively to the percentage of the Bank's investment in the joint ventures afterwards. Goodwill relating to the joint ventures is recognized at residual value included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The Bank's share of profit of a joint venture is shown on the face of the consolidated income statement. This is the profit attributable to equity holders of the joint venture and, therefore, is profit after tax and non-controlling interest in the subsidiaries of the joint venture.

After application of the equity method, the Bank will determine whether it is necessary to recognize an additional impairment loss of the investments in its joint ventures. The Bank determines at each reporting date whether there is objective evidence of impairment that the investment in the joint ventures is impaired. In that circumstance, the Bank will calculate the amount of impairment as the difference between the recoverable amount and carrying value of the investments in the joint ventures and recognize the difference in the consolidated income statement.

6.7 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.

Bank as a lessee

Leases that 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 recognized as an expense in the income statement on a straight line basis over the lease term. Contingent rental payable is recognized as an expense in the period in which they are incurred.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.8 Recognition of income and expenses

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.

6.8.1 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 EIR. 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 EIR, but not future credit losses.

When the recorded value of a financial asset or a group of similar financial assets has been reduced by an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

6.8.2 Fees and commission income

The Bank earns fees 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 forming an integral part of the corresponding financial instrument

Fees that the Bank considers to be an integral part of the corresponding financial instruments include: loan origination fees, loan commitment fees for loans that are likely to be drawn down and other credit related fees. The recognition of these fees (together with any incremental costs) form an integral part of the corresponding financial instruments and are recognised as interest income through an adjustment to the EIR (as defined in Note 6.2.3 above). The exception is, when it is unlikely that a loan will be drawn down, the loan commitment fees are recognised as revenue on expiry. Loan commitments that are within the scope of IAS 39 (i.e., are designated as FVPL, or are at a below market rate of interest or are settled net) are accounted for as derivatives and measured at fair value through profit or loss.

Dividend income

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

Net trading income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities 'held for trading'. This includes any ineffectiveness recorded in hedging transactions.

6.9 Cash and cash equivalents

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

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.10 Property and equipment

Property and equipment is stated at cost excluding the costs of day–to–day servicing, less accumulated depreciation and accumulated impairment in value. 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.

Depreciation is calculated using the straight–line method to write down the cost of property and equipment to their residual values over their estimated useful lives. The following are annual rates used:

Buildings & improvements	5%
Office equipment	20%
Furniture and fixtures	20%
Motor vehicles	20%

Property and equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising 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.

6.11 Intangible assets

The Bank's other intangible assets include the value of land use rights and software.

An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Intangible assets acquired consolidatedly are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. 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 to be 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 or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the interim consolidated income statement in the expense category consistent with the function of the intangible asset.

Amortization is calculated using the straight–line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

- Software 2 - 5 years

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

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.12 Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit (CGU)'s fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated income statement.

6.13 Financial guarantees

In the ordinary course of business, the Bank issues financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the consolidated financial statements (within 'Other liabilities') at fair value, 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 cumulative 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 recorded in 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.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.14 Employee benefits

Post-employment benefits

Post-employment benefits are paid to retired employees of the Bank by retirement reserve setup by the Bank. The Bank's policy is to deduct a certain monthly amount from employees' salary to contribute to such reserve. Currently, the applied rate is 8.00% of employees' monthly basic salary. The Bank has no further obligation concerning post-employment benefits for its employees other than this.

Termination benefits

In accordance with Article 82 of the Amended Labour Law No. 43/NA approved by the President of the Lao People's Democratic Republic on 28 January 2014, the Bank has the obligation to pay allowance for employees who are terminated by dismissal in the following cases:

- The worker lacks specialised skills or is not in good health and thus cannot continue to work;
- The employer considers it necessary to reduce the number of workers in order to improve the work within the labour unit.

For the termination of an employment contract on any of the above-mentioned grounds, the employer must pay a termination allowance which is calculated on the basis of 10% of the basic monthly salary earned before the termination of work. As at 31 December 2016, there is no employee of the Bank who was dismissed under the above-mentioned grounds; therefore the Bank has not made a provision for termination allowance in the consolidated financial statements.

6.15 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. When the effect of the time value of money is material, the Bank determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in the income statement net of any reimbursement in other operating expenses.

6.16 Profit tax

Current tax

Current tax assets and liabilities for the current and prior years 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 reporting date in the countries where the Bank operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.16 Profit tax (continued)

Deferred tax

Deferred tax is provided on temporary differences at the reporting 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.

The carrying amount of deferred tax assets is reviewed at each reporting 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 utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it becomes probable that future taxable profit 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 realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current and deferred taxes are recognised as income tax benefits or expenses in the income statement except for tax related to the fair value remeasurement of available-for-sale assets, foreign exchange differences and the net movement on cash flow hedges, which are charged or credited to OCI. These exceptions are subsequently reclassified from OCI to the income statement together with the respective deferred loss or gain. The Bank also recognises the tax consequences of payments and issuing costs, related to financial instruments that are classified as equity, directly in equity.

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

The Bank only off-sets its deferred tax assets against liabilities when there is both a legal right to offset and it is the Bank's intention to settle on a net basis.

6.17 Fiduciary assets

The Bank provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in the consolidated financial statements, as they are not the assets of the Bank.

6.18 Equity reserves

The reserves recorded in equity on the Bank's consolidated statement of financial position include:

- Statutory reserves which are created in accordance with prevailing regulations of Lao P.D.R, as stated in Note 32; and
- Available-for-sale reserve which comprises changes in fair value of available-for-sale investments, as stated in Note 33.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.19 Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's consolidated financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The adoption of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but no impact on the classification and measurement of the Bank's financial liabilities.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognizing revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 Leases).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The Bank does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

IFRS 16 Leases

The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised consolidatedly in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.

The Bank does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

Amendments to IAS 12 Income Taxes

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The amendment is effective from 1 January 2017. The Bank is currently evaluating the impact, but does not anticipate that adopting the amendments would have a material impact on its consolidated financial statements.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.19 Standards issued but not yet effective (continued)

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Bank is currently evaluating the impact.

7. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Bank's consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In the process of applying the Bank's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

7.1 Going concern

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, 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.

7.2 Effective Interest Rate (EIR) method

The Bank's EIR methodology, as explained in Note 6.2.4, recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of loans and deposits and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgement regarding the expected behaviour and life-cycle of the instruments, as well expected changes to other fee income/expense that are integral parts of the instrument.

7. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

7.3 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.

The Bank's impairment methodology for assets carried at amortised cost results in the recording of provisions for:

- Specific impairment losses on individually significant or specifically identified exposures;
- Collective impairment.

The detailed approach for each category is further explained in Note 6.4.1. All categories include an element of management's judgement, in particular for the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses. These estimates are driven by a number of factors, the changing of which can result in different levels of allowances.

7.4 Impairment of available-for-sale investments

The Bank reviews its debt securities classified as available-for-sale investments at each reporting date to assess whether they are impaired as explained in Note 6.4.2.

This assessment, including estimated future cash flows and other inputs in to the discounted cash flow model and in the case of equity instruments, the interpretation of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Bank evaluates, among other factors, historical share price movements, and the duration and extent to which the fair value of an investment is less than its cost.

7.5 Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with future tax-planning strategies.

8. INTEREST AND SIMILAR INCOME

	2016 LAKm	*2015 LAKm*
Interest income from lending to customers	1,252,157	933,530
Interest income from deposits at other banks	14,344	9,664
Interest income from investment securities	108,348	81,650
Other interest income and similar income	31,582	48,766
	1,406,431	**1,073,610**

9. INTEREST AND SIMILAR EXPENSE

	2016 LAKm	*2015 LAKm*
Interest expense for due to other banks	83,871	27,427
Interest expense for customer deposits	774,725	785,543
	858,596	**812,970**

10. NET FEES AND COMMISSION INCOME

	2016 LAKm	*2015 LAKm*
Fees and commission income from:		
Settlement services	124,993	106,908
Credit activities	64,633	60,519
Other activities	4,218	4,121
	193,844	**171,548**
Fees and commission expense for:		
Settlement services	(14,077)	(10,707)
Other activities	(1,334)	(2,607)
	(15,411)	**(13,314)**
Net fees and commission income	**178,433**	**158,234**

11. NET TRADING INCOME/(EXPENSE)

	2016 LAKm	*2015 LAKm*
Net gain from foreign currencies trading	47,270	41,002
Loss from margin trading	-	(287,150)
Changes in fair value of financial assets - held-for-trading	-	(993)
Dividend income from financial assets - held-for-trading	-	258
	47,270	**(246,883)**

12. OTHER OPERATING INCOME

	2016 LAKm	*2015 LAKm*
Dividend income from investment securities	11,060	12,413
Income from sale of tangible fixed assets	676	359,076
Recovery of the bad debts written off	2,677	49,731
Others	581	1,040
	14,994	**422,260**

13. (ADDITIONAL)\ REVERSAL OF IMPAIRMENT LOSSES FOR FINANCIAL INVESTMENTS

	2016 LAKm	*2015 LAKm*
(Additional)/reversal of impairment losses for held-to-maturity securities *(Note 21)*	(10,985)	1,837
	(10,985)	**1,837**

14. PERSONNEL EXPENSES

	2016 LAKm	*2015 LAKm*
Salary expense	132,580	125,780
Benefits and welfare	102,340	89,438
Other staff costs	5,283	5,501
	240,203	**220,719**

15. OTHER OPERATING EXPENSES

	2016 LAKm	*2015 LAKm*
External services	24,490	23,094
Repair and maintenance	15,371	14,165
Publication, marketing and promotion	4,546	4,037
Office rental	9,566	8,134
Telecommunication	1,277	1,803
Training, meeting and seminar	8,844	7,238
Insurance fee for depositor protection fund	21,250	18,697
Tax and other duties	578	146
Others	13,699	20,371
	99,621	**97,685**

16. CASH AND BALANCES WITH THE BANK OF LAO P.D.R ("THE BOL")

	31 December 2016 LAKm	*31 December 2015 LAKm*
Cash on hand in LAK	1,016,618	1,246,264
Cash on hand in foreign currencies ("FC")	850,541	990,378
Balances with the BOL		
- Compulsory deposit	1,378,763	1,134,906
- Demand deposit	2,435,014	6,095,242
	5,680,936	**9,466,790**

Balances with the BOL include settlement and compulsory deposits. These balances earn no interest.

Under regulations of the BOL, the Bank is required to maintain certain reserves with the BOL in the form of compulsory deposits, which are computed at 5.00% for LAK and 10.00% for foreign currencies, on a bi-weekly basis, (2015: 5.00% and 10.00%) of customer deposits having original maturities of less than 12 months. During the year, the Bank maintained its compulsory deposits in compliance with the requirements by the BOL.

17. DUE FROM BANKS

	31 December 2016 LAKm	*31 December 2015 LAKm*
Current and saving accounts	**2,573,530**	**1,659,680**
- In LAK	2,178,524	1,390,194
- In foreign currencies	395,006	269,486
Term deposits	**374,329**	**325,797**
- In LAK	213,170	142,806
- In foreign currencies	161,159	182,991
Accrued interest	**2,234**	**1,158**
	2,950,093	**1,986,635**

Interest rates for amounts due from other banks during the year are as follows:

	2016 % per annum	*2015 % per annum*
Demand deposits	No interest	No interest
Saving deposits	0.02% - 1.25%	0.02% - 1.25%
Term deposits	1.00% - 9.54%	1.00% - 9.54%

18. LOANS TO CUSTOMERS

	31 December 2016 LAKm	*31 December 2015 LAKm*
Gross loans to customers	19,240,075	11,026,334
In which:		
Loans funded by borrowings from BOL (Note 28)	*1,640,776*	*720,497*
Accrued interest related to loans to customers	192,709	97,369
Less: Allowance for impairment losses *(see Note 19)*	(339,579)	(268,748)
	19,093,205	**10,854,955**

Interest rates for commercial loans during the year are as follows:

	2016 Interest rates % per annum	*2015 Interest rates % per annum*
Loans denominated in LAK	6.00% - 16.00%	7.00% - 16.00%
Loans denominated in USD	2.00% - 14.00%	6.50% - 14.00%
Loans denominated in THB	6.00% - 12.00%	7.75% - 12.00%

Analysis of loan portfolio by currency:

	31 December 2016 LAKm	*31 December 2015 LAKm*
Loans denominated in LAK	7,408,014	4,513,088
Loans denominated in USD	9,300,297	5,177,960
Loans denominated in THB	2,531,764	1,335,286
	19,240,075	**11,026,334**

18. LOANS TO CUSTOMERS (continued)

Analysis of loan portfolio by original maturity:

	31 December 2016 LAKm	*31 December 2015 LAKm*
Short-term loans	2,966,973	2,350,521
Medium-term loans	11,301,876	5,674,920
Long-term loans	4,971,226	3,000,893
	19,240,075	**11,026,334**

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

	31 December 2016		*31 December 2015*	
	LAKm	*%*	*LAKm*	*%*
Industrial services companies	9,796,735	50.92%	2,395,765	21.73%
Construction companies	3,305,600	17.18%	3,526,539	31.98%
Technical instruments enterprises	63,867	0.33%	93,269	0.85%
Agricultural & forestry	48,385	0.25%	31,414	0.28%
Trading companies	3,498,551	18.18%	3,031,544	27.49%
Transportation companies	642,664	3.34%	573,180	5.20%
Services companies	1,701,361	8.84%	1,228,065	11.14%
Handicrafts	9,958	0.05%	10,468	0.09%
Others	172,954	0.91%	136,090	1.24%
	19,240,075	**100%**	**11,026,334**	**100%**

19. ALLOWANCE FOR IMPAIRMENT LOSSES

Changes in the allowance for impairment losses of loans to customers during the year ended 31 December 2016 as follows:

	Allowance for impairment of loans to customers LAKm
Balance as at 1 January 2016	268,748
Net change during the year	167,367
Non-performing loans written-off	(97,479)
Foreign exchange difference	943
Balance as at 31 December 2016	**339,579**

Break down of allowance for impairment losses of loans to customers as at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016		*31 December 2015*	
	Outstanding balance LAKm	*Impairment LAKm*	*Outstanding balance LAKm*	*Impairment LAKm*
Individually impaired	2,792,381	290,125	1,694,825	210,793
Collectively impaired	16,447,694	49,454	9,331,509	57,955
	19,240,075	**339,579**	**11,026,334**	**268,748**

20. FINANCIAL INVESTMENTS - AVAILABLE-FOR-SALE

	31 December 2016 LAKm	*31 December 2015 LAKm*
Listed shares of EDL-Generation Public Company	198,121	224,348
	198,121	**224,348**

21. FINANCIAL INVESTMENTS - HELD TO MATURITY

	31 December 2016 LAKm	*31 December 2015 LAKm*
Amortized cost of Treasury bills issued by the Ministry of Finance	1,998,663	982,563
Amortized cost of bonds issued by the Ministry of Finance	567,389	795,802
	2,566,052	**1,778,365**
Impairment losses for investments in Held-to-maturity securities (*)	**(12,942)**	**(1,957)**
- *Impairment losses for Treasury bills issued by the Ministry of Finance*	*(1,926)*	*(2)*
- *Impairment losses for bonds issued by the Ministry of Finance*	*(11,016)*	*(1,955)*
	2,553,110	**1,776,408**

(*): The net change in impairment losses of LAKm 10,985 for the year ended 31 December 2016 is recorded in the consolidated income statement as (Additional)/reversal of impairment loss for held-to-maturity securities *(Note 13)*.

21. FINANCIAL INVESTMENTS - HELD TO MATURITY (continued)

21.1. Treasury bills issued by the Ministry of Finance

Details of the treasury bills as at 31 December 2016 are as follows:

Term	*Issue date*	*Maturity date*	*Face value LAKm*	*Amortized cost LAKm*	*Interest rate per annum (nominal)*
1 year	27 March 2016	27 March 2017	300,000	307,305	4.00%
1 year	8 April 2016	8 April 2017	100,000	102,595	4.00%
1 year	10 March 2016	10 March 2017	73,000	75,325	4.00%
1 year	31 March 2016	31 March 2017	50,000	51,469	4.00%
1 year	28 April 2016	28 April 2017	20,000	20,522	4.00%
1 year	12 May 2016	12 May 2017	10,000	10,245	4.00%
1 year	26 May 2016	26 May 2017	58,000	59,324	4.00%
1 year	15 January 2016	15 January 2017	300,000	311,499	4.00%
1 year	17 June 2016	17 June 2017	500,000	510,697	4.00%
1 year	26 August 2016	26 August 2017	50,000	50,855	5.00%
1 year	2 September 2016	2 September 2017	50,000	50,807	5.00%
1 year	18 November 2016	18 November 2017	300,000	301,728	5.00%
1 year	16 December 2016	16 December 2017	146,000	146,292	5.00%
			1,957,000	**1,998,663**	

21.2. Bonds issued by the Ministry of Finance

	31 December 2016 LAKm	*31 December 2015 LAKm*
Triangle bonds	-	16,714
Capitalization bonds	67,391	65,923
Other bonds	499,998	713,165
	567,389	**795,802**

21. FINANCIAL INVESTMENTS - HELD TO MATURITY (continued)

21.2. Bonds issued by the Ministry of Finance (continued)

Capitalization bonds were issued by the MOF to increase the Bank's chartered capital with the details as following:

Issue date	*Maturity date*	*Face value (LAKm)*	*Amortized cost (LAKm)*	*Term*	*Interest rate (% per annum)*
1 March 2014	1 March 2019	68,600	67,391	5 years	4.00%

Details of other bonds are as follows:

Purchase date	*Maturity date*	*Face value LAKm*	*Amortized cost LAKm*	*Interest rate (% p.a)*
3 July 2016	3 July 2021	29,780	30,219	3.00%
10 October 2016	10 October 2017	2,000	1,946	4.00%
20 December 2016	20 December 2017	50,000	49,474	4.00%
12 March 2016	12 March 2018	20,000	19,522	4.25%
12 November 2016	12 November 2017	8,000	7,172	4.00%
31 July 2016	31 July 2018	5,000	4,674	4.25%
7 May 2016	7 May 2018	22,000	20,211	4.25%
11 June 2016	11 June 2018	9,000	8,208	4.25%
12 June 2016	12 June 2018	25,000	22,796	4.25%
13 June 2016	13 June 2018	1,000	912	4.25%
16 May 2016	16 May 2018	5,000	4,585	4.25%
18 September 2016	18 September 2018	4,000	3,581	4.25%
31 July 2016	31 July 2018	2,000	1,868	4.25%
2 August 2016	2 August 2018	14,000	12,864	4.25%
11 June 2016	11 June 2018	2,000	1,702	4.25%
30 December 2014	30 December 2017	100,000	100,018	5.10%
23 December 2016	23 December 2018	210,000	210,246	5.50%
		508,780	**499,998**	

22. INVESTMENTS IN JOINT VENTURES

	2016 LAKm	*2015 LAKm*
Balance as at 1 January 2016	555,418	534,430
Change in investment cost	-	(1,286)
Net share of profit in the year under equity method	26,413	48,325
Others	-	(272)
Less: Dividends received during the year	(30,382)	(25,779)
Balance as at 31 December 2016	**551,449**	**555,418**

22. INVESTMENTS IN JOINT VENTURES (continued)

	31 December 2016				*31 December 2015*			
	Cost in USD	*Cost in LAKm equiv.*	*Carrying value in LAKm*	*% owned by the Bank*	*Cost in USD*	*Cost in LAKm Equiv.*	*Carrying value in LAKm*	*% owned by the Bank*
Investments in other financial institutions								
Lao Viet Joint Venture Bank	24,500,000	197,839	235,076	25%	24,500,000	197,839	248,855	25%
Banque Franco - Lao Limited	16,322,230	138,000	144,138	46%	16,322,230	138,000	140,297	46%
Lao China Bank	N/A	147,000	151,653	49%	N/A	147,000	148,360	49%
Investments in local economic entities								
Lao-Viet Insurance Joint Venture Company	1,050,000	8,784	20,582	35%	1,050,000	8,784	17,906	35%
		491,623	**551,449**			**491,623**	**555,418**	

- 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 Lao P.D.R for a year of 30 years. In 2015, LVB increased its contributed capital to LAK 791,357,560,000. The Bank's ownership rate in LVB after the capital increase is 25% in accordance with Investment License No. 004-15/KH-DDT4 issued by Ministry of Planning and Investment on 24 August 2015, equivalent to LAK 197,839,390,000.

- 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 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. As at 31 December 2016, the contributed capital of the Bank included USD 1,840,000 and LAK 122,854,960,000.

- Lao China Bank Company Limited ("LCNB") is incorporated in the Lao P.D.R and engages in the provision of baking services. It is a joint venture with Fudian Bank China, a state-owned commercial bank incorporated in China. The joint venture bank was granted the Banking Business Licence on 20 January 2014 by the Bank of Lao P.D.R. The legal capital of LCNB was LAKm 300,000 and had been fully contributed by partners as at 31 December 2016.

- 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. In 2013, the Bank has contributed additional capital of USD 180,000 on 02 September 2013. As at 31 December 2016, the total contributed capital of the Bank in this company was USD 1,050,000, equivalent to LAKm 8,784.

23. PROPERTY AND EQUIPMENT

Movements of property and equipment for the year ended 31 December 2016 are as follows:

	Buildings & improvements LAKm	*Office equipment LAKm*	*Furniture & fixtures LAKm*	*Motor vehicles LAKm*	*Total LAKm*
Cost:					
As at 1 January 2016	374,923	116,564	33,738	16,335	541,560
Additions	77,508	28,941	3,282	5,767	115,498
In which					
New purchases	*3,579*	-	*4*	*1*	*3,584*
Transferred from CIP and fixed assets in transit	73,929	28,941	3,278	5,766	111,914
Disposals	(3,374)	(17,781)	(728)	(2,623)	(24,506)
As at 31 December 2016	449,057	127,724	36,292	19,479	632,552
Accumulated depreciation:					
As at 1 January 2016	71,506	56,121	14,465	8,322	150,414
Charge for the year 2016	22,339	24,885	4,450	3,342	55,016
Disposals	(3,089)	(14,695)	(406)	(2,623)	(20,813)
As at 31 December 2016	90,756	66,311	18,509	9,041	184,617
Net book value:					
As at 1 January 2016	303,417	60,443	19,273	8,013	391,146
As at 31 December 2016	358,301	61,413	17,783	10,438	447,935

24. INTANGIBLE ASSETS

Movements in intangible assets during the year ended 31 December 2016 are as follows:

	Land use rights LAKm	*Computer software LAKm*	*Total LAKm*
Cost:			
As at 1 January 2016	261,594	80,756	342,350
Additions	4,148	2,392	6,540
In which			
New purchases	-	282	282
Transferred from CIP and fixed asset in transit	*4,148*	*2,110*	*6,258*
Disposal	(45,224)	(14,568)	(59,792)
As at 31 December 2016	220,518	68,580	289,098
Accumulated amortization:			
As at 1 January 2016	-	44,606	44,606
Charge for the year 2016	-	15,537	15,537
Disposal	-	(14,566)	(14,566)
As at 31 December 2016	-	45,577	45,577
Net book value:			
As at 1 January 2016	261,594	36,150	297,744
As at 31 December 2016	220,518	23,003	243,521

25. OTHER ASSETS

	31 December 2016 LAKm	*31 December 2015 LAKm*
Assets waiting for sales	143,098	8,483
Stationeries and other tools	1,467	1,192
Checks in collection	31,472	13,234
Construction in progress and fixed assets in transit (*)	48,260	123,372
Prepaid expenses to be allocated	31,330	34,122
Other receivables	38,382	30,708
	294,009	**211,111**

(*): Movement of construction in progress and fixed assets in transit for the year ended 31 December 2016 is as follows:

	Land use rights LAKm	*Buildings & improvement sLAKm*	*Other LAKm*	*Total LAKm*
As at 1 January 2016	41,714	67,507	14,150	123,371
Additions	92,932	33,976	39,530	166,438
Transferred to fixed assets	(4,148)	(73,929)	(40,095)	(118,172)
Transferred to assets waiting for sales	(122,437)	(893)	(47)	(123,377)
As at 31 December 2016	8,061	26,661	13,538	48,260

26. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2016 LAKm	*31 December 2015 LAKm*
Demand deposits	**2,813,254**	**2,104,890**
- In LAK	1,242,744	825,086
- In foreign currencies	1,570,510	1,279,804
Saving deposits	**28,299**	**232,019**
- In LAK	20,634	52,445
- In foreign currencies	7,665	179,574
Term deposits	**306,858**	**95,185**
- In LAK	45,450	43,130
- In foreign currencies	261,408	52,055
Borrowings from other banks (*)	**359,436**	**-**
- In foreign currencies	359,436	-
Others	**11,257**	**13,720**
- In LAK	8,590	4,222
- In foreign currencies	2,667	9,498
	3,519,104	**2,445,814**
Accrued interest	**7,125**	**533**
	3,526,229	**2,446,347**

Saving deposits from other banks and financial institutions denominated in LAK, USD, THB bear interest at rates ranging of 0% - 1.25%, 0% - 0.75% and 0% - 0.20% per annum, respectively.

26. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

The term deposits from other banks and financial institutions denominated in LAK, USD, THB bear interest at rates ranging of 1.25% – 7.00%, 0% - 3.00% and 0% – 3.00% per annum, respectively.

(*): Borrowings from foreign banks and other financial institutions include:

- USD 24,000,000 one-year borrowing from ICBC Vientiane Branch. The loan's principal is paid at maturity date. Interest rate is at 4.58% per annum. The interest shall be paid at the maturity date.
- USD 20,000,000 one-year borrowing from ICBC Vientiane Branch. The loan's principal is paid at maturity date. Interest rate is at 4.58% per annum. The interest shall be paid at the maturity date.

27. DUE TO CUSTOMERS

	31 December 2016 LAKm	*31 December 2015 LAKm*
Demand deposits	**6,082,985**	**4,515,881**
Demand deposits in LAK	1,656,340	2,178,278
Demand deposits in FC	4,426,645	2,337,603
Demand savings	**9,341,554**	**8,591,522**
Demand saving deposits in LAK	3,704,509	3,060,115
Demand saving deposits in FC	5,637,045	5,531,407
Term deposits	**9,495,540**	**7,882,509**
Term deposits in LAK	5,868,476	5,502,892
Term deposits in FC	3,627,064	2,379,617
Margin deposits	**119,478**	**61,525**
Margin deposits in LAK	11,716	16,162
Margin deposits in FC	107,762	45,363
Other payables to customers	**270,585**	**202,651**
	25,310,142	**21,254,088**
Accrued interest	92,279	56,473
	25,402,421	**21,310,561**

Saving deposits from customers denominated in LAK, USD and THB bear interest at rate ranging of 1.50% – 3.00%, 1.00% - 1.25% and 0.60% – 1.00% per annum respectively.

Fixed term deposits in LAK, USD, THB have terms of 3, 6, 12 months and more than 1 year and are subject to interest rates ranging of 2.25% – 12.50%, 1.00% - 6.75 % and 0.50% – 6.50% per annum respectively.

28. BORROWINGS FROM THE BANK OF LAO PDR

	31 December 2016 LAKm	*31 December 2015 LAKm*
Borrowings from the BOL	1,640,776	720,497
	1,640,776	**720,497**

Borrowings from the BOL as at 31 December 2016 include:

- USD 4,599,999 long-term borrowing (original borrowing amount was USD 9,200,000) for the purpose of investment in Banque Franco – Lao Limited. The loan's principal is paid annually from 2010 to 2023 with the interest of 0.25% per annum. The interest is paid semi-annually.
- USD 99,854,000 long-term borrowing (original borrowing amount was USD 100,000,000) for the purpose of providing credit to certain Government-backed Hydropower projects with interest rate of 5.5% per annum.
- USD 96,400,000 long-term borrowing (original borrowing amount was USD 100,000,000) for the purpose of providing credit to certain Government-backed Hydropower projects with interest rate of 5.3% per annum.

29. TAXATION

29.1 Profit tax expense

Major components of tax expense for the year 2016 and 2015 are as follows:

	2016 LAKm	*2015 LAKm*
Current profit tax expense	49,928	24,327
Deferred profit tax expense (income)	2,183	(1,950)
	52,111	**22,377**

29.2 Tax payables

	31 December 2016 LAKm	*31 December 2015 LAKm*
Profit Tax payable	24,431	18,763
Value Added Tax payable	12,065	12,171
	36,496	**30,934**

29. TAXATION (continued)

29.3 Current Profit tax

The Bank is obliged to pay tax at rate of 24% on total profit before tax in accordance with the new Tax Law No.70/NA dated 15 December 2015 which is effective on or after 24 May 2016.

Accordingly, the Bank is subject to the tax rate of 24% for the year ended 31 December 2016 (2015: 24%). The subsidiary is subject to the tax rate of 24% for the year ended 31 December 2016 (2015: 24%).

The calculations of Profit taxes ("PT") for the years 2016 and 2015 are as follows:

	2016 LAKm	*2015 LAKm*
Consolidated profit before tax under IFRS	**226,216**	**147,089**
Adjustments for:		
- Difference between carrying value under LAS and amortized cost under IFRS of bonds	(5,700)	(1,133)
- Difference in allowance for impairment losses between LAS and IFRS of loans to customers	(16,908)	9,143
- Difference in allocation of subvention funds	1,572	356
- Write-off start-up cost as expense during the year	(22)	(47)
- Difference in impairment loss expense of investment between LAS and IFRS	10,985	(1,837)
- Non-taxable profit arising from consolidation adjustments	4,066	(22,721)
- Income exempted from PT	(41,469)	(38,020)
- Non-deductible expenses	29,291	8,695
- Others	-	(165)
Taxable profit under LAS	**208,031**	**101,360**
in which:		
- *Taxable profit of the parent bank*	*205,383*	*98,449*
- *Taxable profit of the subsidiary*	*2,648*	*2,914*
PT expense of the parent bank at rate of 24% (2015: 24%)	49,292	23,627
PT expense of the subsidiary at rate of 24% (2015: 24%)	636	700
Consolidated PT expense in the year	**49,928**	**24,327**
PT payable at the beginning of the year	18,763	8,582
PT paid in the year	(46,875)	(9,020)
Additional tax liability for previous years	2,697	165
Other adjustment	(82)	(5,291)
PT payable at the end of the year	**24,431**	**18,763**

The Bank's tax returns are subject to periodic examination by the tax authorities. Because the application of tax laws and regulations in 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.

29. TAXATION (Continued)

29.4 Deferred tax assets/(liabilities)

	Deferred tax assets	*Deferred tax liabilities*	*Net deferred tax assets/ (liabilities)*
	LAKm	*LAKm*	*LAKm*
As at 1 January 2016	6,259	(11,077)	(4,818)
Increase during the year due to:			
Changes in fair value of available for sale financial instruments	199	7,824	8,023
Changes in temporary difference between taxable profit under LAS and taxable profit under IFRS	4,398	(6,581)	(2,183)
As at 31 December 2016	**10,856**	**(9,834)**	**1,022**

30. OTHER LIABILITIES

	31 December 2016	*31 December 2015*
	LAKm	*LAKm*
Payables to employees	19,772	13,661
Payable to suppliers	20,236	17,472
Termination allowances	17,906	14,537
Others	36,410	14,703
	94,324	**60,373**

31. CHARTER CAPITAL

There has been no change to charter capital during the year 2016.

32. STATUTORY RESERVES

	Regulatory reserve fund	*Business expansion fund*	*Capital supplement*	*Total*
	LAKm	*LAKm*	*LAKm*	*LAKm*
As at 1 January 2016	73,983	228,640	12,275	314,898
Appropriations to reserves for the year 2015 from 2015 LAS profit of BCEL Bank	9,742	34,137	-	43,879
Appropriations to reserves for the year 2015 from the 2015 LAS profit of BCEL KT Securities Company	230	-	-	230
As at 31 December 2016	**83,955**	**262,777**	**12,275**	**359,007**

32. STATUTORY RESERVES (continued)

Under the requirement of the Law on Commercial Bank dated 16 January 2007, commercial banks are required to appropriate net profit to following reserves:

- Regulatory reserve fund
- Business expansion fund and other funds

In accordance with the Regulation on capital adequacy No.1/BOL dated 28 August 2002 by the Governor of the Bank of Lao PDR and other relevant guidance, commercial banks are required to provide regulatory reserve at the rate between 5% to 10% of profit after tax depending on the decision of the Board of Directors. The Business expansion fund and other shall be created upon decision of the Board of Directors.

33. AVAILABLE-FOR-SALE RESERVE

	31 December 2016 LAKm	*31 December 2015 LAKm*
Opening balance	32,789	64,142
Net changes in fair value of available-for- sale financial investments	(25,404)	(31,081)
Others	-	(272)
	7,385	**32,789**

34. ADDITIONAL CASH FLOW INFORMATION

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

	31 December 2016 LAKm	*31 December 2015 LAKm*
Cash and cash equivalents on hand	1,867,159	2,236,642
Balances with the BOL	2,435,014	6,095,242
Current accounts with other banks	2,573,530	1,659,680
Term deposits due within 3 months	249,881	162,779
	7,125,584	**10,154,343**

35. CONTINGENT LIABILITIES AND COMMITMENTS

	31 December 2016 LAKm	*31 December 2015 LAKm*
Financial letter of guarantees	248,997	252,765
At sight letters of credit	579,768	850,007
Deferred payment letters of credit	141,234	148,541
Credit limit given to customer	4,088,546	6,226,584
Credit limit given to other banks	22,232	55,080
	5,080,777	**7,532,977**

35. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Financial guarantees

Letters of credit, guarantees (including standby letters of credit) and acceptances commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract. Guarantees and standby letters of credit carry the same credit risks as loans. Credit guarantees can be in the form of bills of exchange or in the form of irrevocable letters of credit, advance payment guarantees, and endorsement liabilities from bills discounted.

Un-drawn commitments to lend

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

However, the potential credit loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Lease commitments

As at 31 December 2016, the Bank did not enter into any lease contracts as either lessor or lessee which results in future cash inflows and/or outflows.

36. RELATED PARTY DISCLOSURES

Transactions with key management personnel of the Bank

Remuneration to members of the Board of Directors and the Board of Management is as follows:

	2016 LAKm	*2015 LAKm*
Salaries	1,752	1,648
Bonus	185	363
Responsibility allowance	1,225	1,176
	3,162	**3,187**

36. RELATED PARTY DISCLOSURES (continued)

Significant balances with other related parties at 31 December 2016 are as follows:

Related party	*Relationship*	*Transactions*	*Receivable LAKm*	*Payable LAKm*
The Bank of the Lao P.D.R	Direct controller	Borrowings and accrued interest from the BOL	-	1,640,776
The Bank of the Lao P.D.R	Direct controller	BCEL's demand deposits at BOL	2,435,014	-
The Bank of the Lao P.D.R	Direct controller	BCEL's compulsory deposits at BOL	1,378,763	-
The Bank of the Lao P.D.R	Direct controller	Demand deposit at BCEL	-	728
The Ministry of Finance of the Lao P.D.R	Direct owner	Investment in MOF's bonds	2,553,110	-
Lao Viet Joint Venture Bank	Joint venture	Current accounts	-	114,846
Lao Viet Joint Venture Bank	Joint venture	Term deposit	-	122,535
Banque Franco – Lao Company Limited	Joint venture	Term deposit	8,231	-
Banque Franco – Lao Company Limited	Joint venture	Current accounts	-	29,372
Lao China Bank Co.Ltd	Joint venture	Current accounts	-	11,268

37. RISK MANAGEMENT POLICIES

Introduction

Risk is inherent in the Bank's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

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.

The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to various operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. The Bank's policy is to monitor those business risks through the Bank's strategic planning process.

Risk management structure

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

The Board has appointed Asset and Liability Management Committee which has the responsibility to monitor the overall risk process within the Bank.

The Asset and Liability Management Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. The Risk-Compliance Department is responsible for managing risk decisions and monitoring risk levels and reports to the Board of Directors.

The Bank's policy is that risk management processes throughout the Bank are audited annually by the Internal Audit function, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

38. CAPITAL MANAGEMENT

The Bank maintains minimum regulatory capital in accordance with Regulation No 536/BFSD/BOL dated 14 October 2009 by the Governor of Commercial Bank Supervision Department of BOL 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 the BOL. The Bank recognizes the need to maintain effectiveness of assets and liabilities management to balance its profit and capital adequacy.

In accordance with Regulation 536/BFSD/BOL, the Bank"s regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes charter capital, regulatory reserve fund, business expansion fund and other funds, and retained earnings;
- Tier 2 capital, which is the lower of: 1.25% of total risk weighted balance sheet items and outstanding balance of general provision during the year.

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 consolidated financial statements is as follows:

	31 December 2016 LAKm	*31 December 2015 LAKm*
Tier 1 capital	1,272,887	1,132,051
Tier 2 capital	3,323	14,877
Total capital	1,276,210	1,146,928
Less: Deductions from capital (Investments in other entities)	(551,449)	(555,418)
Capital for CAR calculation (A)	**724,761**	**591,510**
Risk weighted balance sheet items	11,125,282	6,810,241
Risk weighted off balance sheet items	2,463,599	3,738,949
Total risk weighted assets (B)	**13,588,881**	**10,549,190**
Capital Adequacy Ratio (A/B)	**5.33%**	**5.60%**

39. 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, 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 are mainly held to maturity with fair values equal to the book value of loans adjusted for allowance for impairment losses.

40. EARNINGS PER SHARE

Earnings per share ("EPS") amounts is calculated by dividing net profit after tax for the period attributable to ordinary shareholders of the Bank by the weighted average number of ordinary share outstanding during the year.

The following reflects the income and share data used in the basic earnings per share computation.

	2016	*2015*
Profit after tax attributable to ordinary equity holders for basic earnings (LAKm)	173,416	124,371
Weighted average number of ordinary shares for basic earnings per share (shares)	136,577,600	136,577,600
Face value per share (LAK)	5,000	5,000
Earnings per share (LAK)	1,270	911

41. EVENTS AFTER THE REPORTING DATE

There is no matter or circumstance that has arisen since 31 December 2016 that requires adjustment or disclosure in the consolidated financial statements of the Bank.

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

	31/12/2016 LAK	*31/12/2015 LAK*
USD	8,169.00	8131.00
EUR	8,620.00	8,871.00
THB	229.19	226.06
GBP	9,892.00	11,864.00
CHF	7,675.00	7,829.00
JPY	69.15	66.33
SGD	5,886.00	5,845.00
CAD	5,799.00	5,610.00
AUD	5,826.00	5,830.00
CNY	1,153.00	1,180.00
VND	0.36	0.36

Prepared by:	Approved by:	Approved by:
Mrs. Lammaniseng Sayaphet Head of Accounting Department	Mrs. Phousengthong Anoulakkham Acting Head of Internal Audit Department	Mr. Lachay Khanpravong Deputy Managing Director

BANK OF THE LAO PDR
BANQUE POUR LE COMMERCE EXTERIEUR LAO PUBLIC
VIENTIANE

Vientiane, Lao P.D.R

31 May 2017

Banque Pour Le Commerce Exterieur Lao Public

Separate financial Statements

31 December 2016

Banque Pour Le Commerce Exterieur Lao Public

CONTENTS

	Pages
General information	1 - 3
Independent auditor's report	4 - 7
Separate income statement	8
Separate statement of comprehensive income	9
Separate statement of financial position	10
Separate statement of changes in equity	11
Separate statement of cash flows	12
Notes to the separate financial statements	13 - 53

Banque Pour Le Commerce Exterieur Lao Public

GENERAL INFORMATION

THE BANK

Banque Pour Le Commerce Exterieur Lao Public (herein referred to as "the Bank") is a joint-stock bank incorporated and registered in the Lao People's Democratic Republic ("Lao P.D.R").

Establishment and Operations

The Bank was established from the equitization of Banque Pour Le Commerce Exterieur Lao which had been established in accordance with the Banking Business License No. 129/BOL dated 01 November 1989, and its latest Amended Business License No. 4284/BOL dated 11 November 2010 issued by the Bank of Lao P.D.R. On 23 December 2010, the Bank successfully undertook its Initial Public Offering. On 10 January 2011, the Bank was equitized and renamed into Banque Pour Le Commerce Exterieur Lao Public under the Operating License No. 0061/LRO dated 10 January 2011 issued by the Business License Registration Office of the Lao P.D.R. At that date, the Government, represented by the MOF, was the largest shareholder with 80% shareholding.

On 15 July 2011, the MOF sold 10% of the total ordinary shares (equivalent 13,657,759 shares) to its strategic partner named Compagnie Financière de la BRED ("COFIBRED") in accordance with the Ordinary Shares Purchase Agreement between the Ministry of Finance and COFIBRED. COFIBRED is a subsidiary of BRED, the biggest regional banking society in the Banque Populare Group - a French group of cooperative banks. The total purchased price of LAK 150,235,349,000 has been paid fully by COFIBRED.

According to notification from Lao Securities and Exchange, the shareholding structure of the Bank as at 31 December 2016 is as follows:

Shareholders	*Number of shares*	*%*
The Government	95,604,321	70%
Local investors (including employees of the Bank)	13,657,760	10%
Strategic partners	13,657,759	10%
Other foreign investors	13,657,760	10%
	136,577,600	**100%**

The principal activities of the Bank are to provide banking services including mobilizing and receiving short-term, medium-term, and long-term deposits from organizations and individuals; making short-term, medium-term, and long-term loans to organizations and individuals based on the nature and capability of the Bank's sources of capital; foreign exchange transactions, international trade financial services, discounting of commercial papers, bonds and other valuable papers, and providing other banking services allowed by the Bank of Lao P.D.R.

Charter Capital

The charter capital as at 31 December 2016 is LAKm 682,888 (31 December 2015: LAKm 682,888).

Location and Network

The Bank's Head Office is located at No. 01, Pangkham Street, Ban Xiengnheun, Chanthabouly District, Vientiane Capital, Lao P.D.R. As at 31 December 2016, the Bank has one (01) Head Office, one (1) subsidiary, four (4) joint ventures, nineteen (19) main branches, eighty-one (81) services units, and sixteen (16) exchange units all over Lao P.D.R.

GENERAL INFORMATION (continued)

THE BANK (continued)

Subsidiary

As at 31 December 2016 the Bank has one (01) subsidiary as follows:

Name	*Business License No.*	*Business sector*	*% owned by the Bank*
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%

Joint ventures

As at 31 December 2016, the Bank has four (04) joint ventures as follows:

Name	*Business License No.*	*Business sector*	*% owned by the Bank*
Lao Viet Joint Venture Bank	232/11 dated 8 September 2011 by the Bank of Lao P.D.R	Banking & Finance	25%
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	35%
Lao China Bank Limited	041/ERM dated 27 January 2014 by the granted by Department of Enterprise Register and Management of Lao P.D.R	Banking & Finance	49%

GENERAL INFORMATION (continued)

BOARD OF DIRECTORS

Members of the Board of Directors during the year ended 31 December 2016 and at the date of this report are as follows:

Name	*Title*	*Date of appointment*
Mr. Bounleua Sinxayvoravong	Chairman	Appointed on 9 April 2015
Mr. Khamsouk Sundara	Vice Chairman	Reappointed on 9 April 2015
Mr. Phoukhong Chanthachack	Member	Reappointed on 9 April 2015
Mr. Phansana Khounnouvong	Member	Appointed on 9 April 2015
Ms. Khanthaly Vongxayarath	Member	Appointed on 9 April 2015
Mr. Marc Robert	Member	Reappointed on 9 April 2015
Mr. Viengxay Chanthanvisouk	Member	Appointed on 9 April 2015

BOARD OF MANAGEMENT

Members of the Board of Management during the year ended 31 December 2016 and at the date of this report are as follows:

Name	*Title*	*Date of appointment*
Mr. Phoukhong Chanthachack	General Managing Director	Appointed on 15 January 2016
Mr. Phansana Khounnouvong	Deputy Managing Director	Appointed on 06 June 2008
Ms. Khanthaly Vongxayarath	Deputy Managing Director	Appointed on 30 September 2014
Mr. Lachay Khanpravong	Deputy Managing Director	Appointed on 30 September 2014
Mr. Nanthalath Keopaseuth	Deputy Managing Director	Appointed on 30 September 2014
Mr. Khamsian Mingbouppha	Deputy Managing Director	Appointed on 23 November 2015
Mr. Souphak Thinsayphone	Deputy Managing Director	Appointed on 23 November 2015
Mr. Bouavanh Simalivong	Deputy Managing Director	Appointed on 1 November 2016

LEGAL REPRESENTATIVE

The legal representative of the Bank from 1 January 2016 to 14 January 2016 is Mr. Phoukhong Chanthachack - Acting General Managing Director.

The legal representative of the Bank from 15 January 2016 till the date of this report is Mr. Phoukhong Chanthachack - General Managing Director.

AUDITORS

The auditors of the Bank are Ernst & Young Lao Company Limited.

Ernst & Young Lao Company Limited.
6th Floor, Capital Tower
23 Singha Road, Nongbone Village
Saysettha District, Vientiane Capital, Lao PDR

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Reference: 60790273/ 18712878-IFRS

INDEPENDENT AUDITORS' REPORT

To: The shareholders
Banque Pour Le Commerce Exterieur Lao Public

Qualified Opinion

We have audited the separate financial statements of Banque Pour Le Commerce Exterieur Lao Public ("the Bank"), which comprise the separate statement of financial position as at 31 December 2016, and the separate income statement, separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter as discussed in the Basis for Qualified Opinion section of our report, the separate financial statements present fairly, in all material respects, the separate financial position of the Bank as at 31 December 2016, and its separate financial performance and separate cash flows for the year ended 31 December 2016 in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Qualified Opinion

Due to the limitation of information, the Bank's management was unable to provide disclosures relating to fair value and financial risk management as required by IFRS 7: "Financial Instruments: Disclosures" and IFRS 13: "Fair value measurement".

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Separate Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in Lao P.D.R, and we have fulfilled our other ethical responsibilities in accordance these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Emphasis of Matter

We draw attention to Note 2 of the separate financial statements which states that the Bank is preparing the consolidated financial statements of the Bank and its subsidiary for the year ended 31 December 2016 in accordance with IFRSs. Our audit conclusion is not modified in respect of this matter. Users of the accompanying separate financial statements should read them together with the said consolidated financial statements in order to obtain full information on the consolidated financial position, consolidated results of operations and consolidated cash flows of the Bank and its subsidiary as a whole.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Areas of focus	***How our audit addressed the risk factors***
IFRS conversion The Bank operates in Laos and maintains its underlying books and records in accordance with the Accounting Law of the Lao P.D.R, and regulations stipulated by the Bank of Lao P.D.R. The Bank's IFRS financial statements are prepared by posting the required adjustments to the underlying books and records. Identification of all required GAAP differences, and calculation of the required adjustments, requires the Bank's management to exercise judgement.	Our procedures, in respect of the Bank's IFRS conversion process, included: • We assessed, and challenged, the Bank's selection and application of accounting policies, • We formed expectations of differences between the Bank's LAS and IFRS financial statements and compared to those prepared by the Bank, • We used tools to evaluate the completeness and accuracy of disclosures made by the Bank, and • We involved IFRS pre-issuance reviewer in our procedures to assess compliance with the disclosure requirements of IFRS.
Allowance for impairment of loans to customers (Note 17 – Loans and advances to customers) The provision for impairment of loans is a significant balance and carries a high degree of estimation uncertainty. The Bank's management is required to exercise judgement in classifying loans as performing or non-performing based upon quantitative or qualitative factors. In order to calculate the impairment provision the Bank has developed models and makes certain assumptions including, but not limited to: collateral valuation, forecast future cash flows, and the financial condition of the borrower. Given the materiality of this balance, and the degree of judgement required of the Bank's management, and the inherent subjectivity of the assumptions selected, we considered this to be a significant item for our audit.	We understood, and tested, the design and operating effectiveness of key controls in relation to: • loan origination and recognition, • loan credit grading and credit monitoring, • segmentation of the portfolio into exposures of similar risk characteristics, and • calculation of the loan loss provision For a sample of non-performing loans, which had impairment provisions calculated on an individual basis, we: • Assessed and challenged management assumptions in respect of forecast cash and collateral recoverable amounts and • Assessed the impact of loan restructures as applicable For loan loss allowances calculated on a collective basis, we performed the following: • Tested the completeness and accuracy of data used in models • Tested the arithmetical accuracy of the Bank's models

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	• Evaluated and challenged the appropriateness of assumptions including historical loss rate, and • Compared, where available, data and assumptions made by the Bank to external benchmarks. Finally, we assessed the completeness and accuracy of financial statement disclosures relating to loan loss provisions to assess compliance with disclosure requirements.

Responsibilities of the Bank's Management for the Separate Financial Statements

The Bank's management is responsible for the preparation of the separate financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of the separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Separate Financial statements

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young Lao Co., Ltd.:



Trinh Hoang Anh
Partner
Audit Practising Registration
Certificate No. LCPAA/2-1-00001

Vientiane, Lao P.D.R
31 March 2017

Banque Pour Le Commerce Exterieur Lao Public

SEPARATE INCOME STATEMENT
for the year ended 31 December 2016

	Notes	2016 LAKm	2015 LAKm
Interest and similar income	7	1,398,839	1,070,150
Interest and similar expense	8	(858,596)	(816,208)
Net interest and similar income		**540,243**	**253,942**
Fee and commission income	9	192,570	169,130
Fee and commission expense	9	(15,409)	(12,255)
Net fee and commission income	**9**	**177,161**	**156,875**
Net trading income/(expense)	10	47,291	(246,148)
Other operating income	11	45,051	447,484
Operating income		**809,746**	**612,153**
Credit loss expense of loans to customers	18	(167,367)	(114,455)
(Reversal of)/additional impairment losses of financial investments	12	(10,985)	1,837
NET OPERATING INCOME		**631,394**	**499,535**
Personnel expenses	13	(236,618)	(217,109)
Depreciation and amortization	22, 23	(70,188)	(63,993)
Other operating expenses	14	(97,240)	(95,898)
TOTAL OPERATING EXPENSES		**(404,046)**	**(377,000)**
PROFIT BEFORE TAX		**227,348**	**122,535**
Current profit tax expense	28.1	(49,292)	(23,627)
Deferred profit tax (expense)/income	28.1	(2,183)	1,950
NET PROFIT FOR THE YEAR		**175,873**	**100,858**
Earnings per share (LAK)	**36**	**1,288**	**739**

Prepared by:

Mrs. Lammaniseng Sayaphet
Head of Accounting Department

Approved by:

Mrs. Phousengthong Anoulakkham
Acting Head of Internal Audit Department

Approved by:

BANK OF THE LAO PDR
BANQUE POUR LE COMMERCE EXTERIEUR LAO PUBLIC
VIEN TIANE CAPITAL

Mr. Lachay Khanpravong
Deputy Managing Director

Vientiane, Lao P.D.R

31 March 2017

Banque Pour Le Commerce Exterieur Lao Public

SEPARATE STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2016

	Notes	2016 LAKm	2015 LAKm
NET PROFIT FOR THE YEAR		**175,873**	**100,858**
OTHER COMPREHENSIVE INCOME			
Net loss on available-for-sale financial assets		(32,598)	(35,708)
Profit tax related to components of other comprehensive income		7,824	4,627
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(24,774)**	**(31,081)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**151,099**	**69,777**

Prepared by:	Approved by:	Approved by:
Mrs. Lammaniseng Sayaphet Head of Accounting Department	Mrs. Phousengthong Anoulakkham Acting Head of Internal Audit Department	Mr. Lachay Khanpravong Deputy Managing Director

BANK OF THE LAO FOR BANQUE POUR LE COMMERCE EXTERIEUR LAO PUBLIC VIENTIANE CAPITAL

Vientiane, Lao P.D.R

31 March 2017

Banque Pour Le Commerce Exterieur Lao Public

SEPARATE STATEMENT OF FINANCIAL POSITION
as at 31 December 2016

	Notes	*31 December 2016 LAKm*	*31 December 2015 LAKm*
ASSETS			
Cash and balances with the Bank of Lao P.D.R	15	5,678,649	9,464,499
Due from banks	16	2,855,631	1,892,944
Loans to customers	17	19,093,205	10,854,955
Financial investments - Available-for-sale	19	191,750	224,348
Financial investments - Held-to-maturity	20	2,553,110	1,776,408
Investments in subsidiary and joint ventures	21	561,623	561,623
Property and equipment	22	446,733	389,658
Intangible assets	23	243,503	297,659
Deferred tax assets	28.4	10,657	6,259
Other assets	24	292,715	210,586
TOTAL ASSETS		**31,927,576**	**25,678,939**
LIABILITIES			
Due to banks and other financial institutions	25	3,165,445	2,448,155
Due to customers	26	25,403,131	21,311,144
Borrowings from other banks	27	2,002,307	720,497
Current tax liabilities	28.2	36,365	30,966
Deferred tax liabilities	28.4	9,834	11,077
Other liabilities	29	90,927	56,024
TOTAL LIABILITIES		**30,708,009**	**24,577,863**
EQUITY			
Charter capital	30	682,888	682,888
Statutory reserves and other reserves	31	357,712	313,833
Available-for-sale reserve	32	8,014	32,789
Retained earnings		170,953	71,566
TOTAL EQUITY		**1,219,567**	**1,101,076**
TOTAL LIABILITIES AND EQUITY		**31,927,576**	**25,678,939**

Prepared by:

Mrs. Lammaniseng Sayaphet
Head of Accounting Department

Approved by:

Mrs. Phousengthong Anoulakkham
Acting Head of Internal Audit Department

Approved by:

Mr. Lachay Khanpravong
Deputy Managing Director

BANK OF THE LAO PDR
BANQUE POUR LE COMMERCE EXTERIEUR
LAO PUBLIC
VIEN TIANE CAPITAL

Vientiane, Lao P.D.R

31 March 2017

Banque Pour Le Commerce Exterieur Lao Public

SEPARATE STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016

	Charter capital LAKm	*Statutory reserves LAKm*	*Available-for-sale reserve LAKm*	*Retained earnings LAKm*	*Capital supplement reserve LAKm*	*Total LAKm*
Balance as at 31 December 2015	**682,888**	**301,558**	**32,789**	**71,566**	**12,275**	**1,101,076**
Dividend of 2015 paid out to shareholders	-	-	-	(29,910)	-	(29,910)
Net profit for the year	-	-	-	175,873	-	175,873
Appropriation to reserve for the year 2015	-	43,879	-	(43,879)	-	-
Net movement in available-for-sale reserve	-	-	(24,775)	-	-	(24,775)
Additional tax payable for previous year	-	-	-	(2,697)	-	(2,697)
Balances as at 31 December 2016	**682,888**	**345,437**	**8,014**	**170,953**	**12,275**	**1,219,567**

Prepared by:

Mrs. Lammaniseng Sayaphet
Head of Accounting Department

Approved by:

Mrs. Phousengthong Anoulakkham
Acting Head of Internal Audit Department

Approved by:

BANK OF THE LAO PDR
BANQUE POUR LE COMMERCE EXTERIEUR LAO PUBLIC
VIENTIANE CAPITAL

Mr. Lachay Khanpravong
Deputy Managing Director

Vientiane, Lao P.D.R

31 March 2017

Banque Pour Le Commerce Exterieur Lao Public

SEPARATE STATEMENT OF CASH FLOWS
for the year ended 31 December 2016

	Notes	2016 LAKm	2015 LAKm
OPERATING ACTIVITIES			
Profit before tax		**227,348**	**122,535**
Adjustments for:			
Depreciation and amortization charges	22, 23	70,188	63,993
Expense for impairment losses	12, 18	178,352	112,618
Allocation of subvention fund		-	356
Dividend income		(41,119)	(37,706)
Cash flows from operating profit before changing in operating assets and liabilities		**434,769**	**261,796**
Changes in operating assets			
Net change in balances with other banks		(206,469)	(264,495)
Net change in loans to customers		(8,406,559)	(1,338,065)
Financial investment - Held-to-maturity		(787,691)	(507,839)
Financial investment - Available-for-sale		32,598	(2,016)
Net change in other assets		(86,526)	28,407
Changes in operating liabilities			
Net change in due to other banks		1,999,099	117,625
Net change in due to customers		4,091,987	2,209,289
Net change in other liabilities		6,542	(160,976)
Tax paid during the year	28.3	(46,404)	(8,074)
Net cash flows (used in)/from operating activities		**(2,968,654)**	**335,652**
INVESTING ACTIVITIES			
Purchase and construction of fixed assets		(122,033)	(244,217)
Proceeds from disposals of fixed assets		48,918	12,832
Dividend received		41,119	37,706
Net cash flows used in investing activities		**(31,996)**	**(193,679)**
FINANCING ACTIVITIES			
Payment of dividends		(29,910)	(55,587)
Net cash flows used in financing activities		**(29,910)**	**(55,587)**
Net (decrease)/increase in cash and cash equivalents		**(3,030,560)**	**86,386**
Cash and cash equivalents at the beginning of the year		**10,148,821**	**10,070,876**
Foreign exchange difference		**926**	**(8,441)**
Cash and cash equivalents at the end of the year	**33**	**7,119,187**	**10,148,821**

Prepared by:

Mrs. Lammaniseng Sayaphet
Head of Accounting Department

Approved by:

Mrs. Phousengthong Anoulakkham
Acting Head of Internal Audit Department

Approved by:

BANK OF THE LAO PUR BANQUE POUR LE COMMERCE EXTERIEUR LAO PUBLIC VIEN HANE CAPITAL

Mr. Lachay Khanpravong
Deputy Managing Director

Vientiane, Lao P.D.R
31 March 2017

1. CORPORATE INFORMATION

Banque Pour Le Commerce Exterieur Lao Public (herein referred to as "the Bank") is a joint-stock bank incorporated and registered in the Lao People's Democratic Republic.

Establishment and Operations

The Bank was established from the equitization of Banque Pour Le Commerce Exterieur Lao which had been established in accordance with the Banking Business License No. 129/BOL dated 01 November 1989, and its latest Amended Business License No. 4284/BOL dated 11 November 2010 issued by the Bank of Lao P.D.R. On 23 December 2010, the Bank successfully undertook its Initial Public Offering. On 10 January 2011, the Bank was equitized and renamed into Banque Pour Le Commerce Exterieur Lao Public under the Operating License No. 0061/LRO dated 10 January 2011 issued by the Business License Registration Office of the Lao P.D.R. At that date, the Government, represented by the MOF, was the largest shareholder with 80% shareholding.

On 15 July 2011, the MOF sold 10% of the total ordinary shares (equivalent 13,657,759 shares) to its strategic partner named Compagnie Financière de la BRED ("COFIBRED") in accordance with the Ordinary Shares Purchase Agreement between the Ministry of Finance and COFIBRED. COFIBRED is a subsidiary of BRED, the biggest regional banking society in the Banque Populare Group - a French group of cooperative banks. The total purchased price of LAK 150,235,349,000 has been paid fully by COFIBRED.

According to notification from Lao Securities and Exchange Commission, the shareholding structure of the Bank as at 31 December 2016 is as follows:

Shareholders	*Number of shares*	*%*
The Government	95,604,321	70%
Local investors (including employees of the Bank)	13,657,760	10%
Strategic partners	13,657,759	10%
Other foreign investors	13,657,760	10%
	136,577,600	**100%**

The principal activities of the Bank are to provide banking services including mobilizing and receiving short-term, medium-term, and long-term deposits from organizations and individuals; making short-term, medium-term, and long-term loans to organizations and individuals based on the nature and capability of the Bank's sources of capital; foreign exchange transactions, international trade financial services, discounting of commercial papers, bonds and other valuable papers, and providing other banking services allowed by the Bank of Lao P.D.R.

Charter Capital

The charter capital as at 31 December 2016 is LAKm 682,888 (31 December 2015 LAKm 682,888).

Location and Network

The Bank's Head Office is located at No. 01, Pangkham Street, Ban Xiengnheun, Chanthabouly District, Vientiane Capital, Lao P.D.R. As at 31 December 2016, the Bank has one (01) Head Office, one (1) subsidiary, four (4) joint ventures, nineteen (19) main branches, eighty-one (81) services units, and sixteen (16) exchange units all over Lao P.D.R.

1. CORPORATE INFORMATION (continued)

Subsidiary

As at 31 December 2016, the Bank has one (01) subsidiary as follows:

Name	*Business License No.*	*Business sector*	*% owned by the Bank*
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%

Joint ventures

As at 31 December 2016, the Bank has four (04) joint ventures as follows:

Name	*Business License No.*	*Business Sector*	*% owned by the Bank*
Lao Viet Joint Venture Bank	232/11 dated 8 September 2011 by the Bank of Lao P.D.R	Banking & Finance	25%
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	35%
Lao China Bank Limited	041/ERM dated 27 January 2014 by the granted by Department of Enterprise Register and Management of Lao P.D.R	Banking & Finance	49%

1. CORPORATE INFORMATION (continued)

Board of Directors

Members of the Board of Directors during the year ended 31 December 2016 and at the date of this report are as follows:

Name	*Title*	*Date of appointment*
Mr. Bounleua Sinxayvoravong	Chairman	Appointed on 9 April 2015
Mr. Khamsouk Sundara	Vice Chairman	Reappointed on 9 April 2015
Mr. Phoukhong Chanthachack	Member	Reappointed on 9 April 2015
Mr. Phansana Khounnouvong	Member	Appointed on 9 April 2015
Ms. Khanthaly Vongxayarath	Member	Appointed on 9 April 2015
Mr. Marc Robert	Member	Reappointed on 9 April 2015
Mr. Viengxay Chanthanvisouk	Member	Appointed on 9 April 2015

Board of Management

Members of the Board of Management during the year ended 31 December 2016 and at the date of this report are as follows:

Name	*Title*	*Date of appointment*
Mr. Phoukhong Chanthachack	General Managing Director	Appointed on 15 January 2016
Mr. Phansana Khounnouvong	Deputy Managing Director	Appointed on 06 June 2008
Ms. Khanthaly Vongxayarath	Deputy Managing Director	Appointed on 30 September 2014
Mr. Lachay Khanpravong	Deputy Managing Director	Appointed on 30 September 2014
Mr. Nanthalath Keopaseuth	Deputy Managing Director	Appointed on 30 September 2014
Mr. Khamsian Mingbouppha	Deputy Managing Director	Appointed on 23 November 2015
Mr. Souphak Thinsayphone	Deputy Managing Director	Appointed on 23 November 2015
Mr. Bouavanh Simalivong	Deputy Managing Director	Appointed on 1 November 2016

Employees

Total number of employees of the Bank as at 31 December 2016 is 1,591 persons (as at 31 December 2015: 1,519 persons).

2. BASIS OF PREPARATION

The separate financial statements have been prepared on a historical cost basis, except as disclosed in other notes.

The Bank maintains its records in Lao Kip ("LAK") and prepared its separate financial statements in millions of LAK ("LAKm").

The separate financial statements were prepared in order to present the separate financial position and separate financial performance and separate cash flows of the Bank, specifically:

- The accompanying financial statements cover operations of the Bank including Head office and its branches only;
- Investments in subsidiary and joint ventures are accounted for under the cost method of accounting.

Purpose of preparing the separate financial statements

The Bank has prepared and issued the separate financial statements in accordance with IFRS. In addition, the Bank is also in the process of preparation of the consolidated financial statements for the year ended 31 December 2016.

Users of the accompanying separate financial statements should read them together with the consolidated financial statements of the Bank and its subsidiary for the year ended 31 December 2016 in order to obtain full information on the consolidated financial position, consolidated results of operations and consolidated cash flows of the Bank and its subsidiary.

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

3. STATEMENT OF COMPLIANCE

The Bank prepares its separate financial statements in accordance with International Financial Reporting Standards ("IFRS").

4. PRESENTATION OF FINANCIAL STATMENTS

The Bank presents its statement of financial position in order of liquidity. Financial assets and financial liabilities are generally reported gross in the statement of financial position. They are only offset and reported net when, in addition to having an unconditional legally enforceable right to offset the recognized amounts without being contingent on a future event, the parties also intend to settle on a net basic in all of the following circumstances:

- The normal course of business
- The event of default
- The event of insolvency or bankruptcy of the Bank and/or its counterparties

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Foreign currency translation

Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into LAK at the spot rate of exchange at the reporting date (see list of exchange rates of applicable foreign currencies against LAK on 31 December 2016 and 31 December 2015 as presented in Note 41). Unrealized exchange differences arising from the translation of monetary assets and liabilities on the balance date are recognized in the income statement.

5.2 Financial instruments - initial recognition and subsequent measurement

5.2.1 Date of recognition

All financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, 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. Loans and advances to customers are recognised when funds are transferred to the customers' account. The Bank recognises due to customer balances when funds reach the Bank.

5.2.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. 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.

5.2.3 The effective interest rate method

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate a shorter period, to the net carrying amount of the financial asset or financial liability. The amortised cost of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted amortised cost is calculated based on the original or latest re-estimated EIR and the change in is recorded as 'Interest and similar income' for financial assets and 'Interest and similar expense' for financial liabilities. The accounting policies for the EIR method vary by instruments and are further explained in Notes:

- 5.2.7 for 'Due from banks and loans and advances to customers'
- 5.2.8 for 'Due to other banks and customers and other borrowed funds'
- 5.4 for 'Impairment of financial assets'
- 5.8 for 'Recognition of income and expenses'

5.2.4 '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 recognises 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 recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.2 Financial instruments - initial recognition and subsequent measurement (continued)

5.2.5 Available for sale financial investments

Available for sale 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 intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

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

After initial measurement, available for sale financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognized directly in equity (Other comprehensive income) in the 'Available-for-sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the separate 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. Dividends earned while holding available-for-sale financial investments are recognized in the separate 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 separate income statement in 'Impairment losses on financial investments' and removed from the 'Available-for-sale reserve'.

5.2.6 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 cost using the effective interest rate ("EIR"). Periodically, held-to-maturity securities are subject to review for impairment. Allowance for impairment of these securities is made when there has been a significant or prolonged declined in the fair value below their cost. The losses arising from impairment of such investments are recognized in the separate income statement line 'Impairment loss expense'.

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.

5.2.7 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;
- Those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.2 Financial instruments - initial recognition and subsequent measurement (continued)

5.2.7 Due from banks and loans and advances to customers (continued)

After initial measurement, amounts 'Due from banks' and 'Loans and advances to customers' are subsequently measured at amortized cost using the EIR methodology, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. Therefore, the Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of the loan, hence, recognising the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (prepayments, penalty interest and charges).

If expectations are revised the adjustment is booked a positive or negative adjustment to the carrying amount in the balance sheet with an increase or reduction in interest income. The adjustment is subsequently amortised through Interest and similar income in the income statement.

The Bank may enter into certain lending commitments where the loan, on drawdown, is expected to be classified as held–for–trading because the intent is to sell the loans in the short term. These commitments to lend are recorded as derivatives and measured at fair value through profit or loss.

Where the loan, on drawdown, is expected to be retained by the Bank, and not sold in the short term, the commitment is recorded only when it is an onerous contract that is likely to give rise to a loss (for example, due to a counterparty credit event).

5.2.8 Due to other banks and customers and other borrowed funds

"Due to other banks and customers and other borrowed funds" include arrangements where the substance of the contractual arrangements result in the Bank having an obligation either to deliver cash or another financial asset to the holder.

After initial measurement, "Due to other banks and customers and other borrowed funds" are subsequently measured at amortised cost using the EIR. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

5.2.9 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 income statement.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.2 Financial instruments - initial recognition and subsequent measurement (continued)

5.2.9 Reclassification of financial assets (continued)

In rare circumstances, 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.

5.3 De-recognition of financial assets and financial liabilities

5.3.1 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. The Bank also derecognises the assets if it has both transferred the asset, and the transfer qualifies for derecognition.

The Bank has transferred the asset if, and only if, either:

- The Bank has transferred its contractual rights to receive cash flows from the asset or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement.

Pass-through arrangements are transactions when the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when certain conditions are met. At 31 December 2016, the Bank does not have financial assets which are subject to such arrangements.

A transfer only qualifies for derecognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset or
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

In relation to the above, the Bank considers the control to be transferred if, and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

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 of 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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.3 De-recognition of financial assets and financial liabilities (continued)

5.3.1 Financial assets (continued)

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.

The Bank also derecognises a financial asset, in particular, a loan to customer when the terms and conditions have been renegotiated to the extent that it substantially became a new loan, with the difference recognised as an impairment in the income statement.

5.3.2 Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where 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 de-recognition 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.

5.4 Impairment of financial assets

The Bank assesses at each reporting 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 asset 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; the probability that they will enter bankruptcy or other financial reorganization; default or delinquency in interest or principal payments; 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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.4 Impairment of financial assets (continued)

5.4.1 Financial assets carried at amortized cost

Specific impairment losses

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers), the Bank first assesses whether objective evidence of impairment exists for financial assets that are individually significant or are already under specific work out by management.

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 recognised in credit loss expense 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 income.

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 determined at the reclassification date.

The calculation of the present value of the estimated future cash flows of a collateralised 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.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.4 Impairment of financial assets (continued)

5.4.1 Financial assets carried at amortized cost (continued)

Collective impairment model

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms (for example, on the basis of a credit risk evaluation or grading process that considers 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 currently exist.

Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, personal indebtedness, collateral values including property prices for mortgages, 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.

5.4.2 Impairment of available for sale investments

The Bank 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 and duration and extent to which the fair value of an investment is less than its cost.

5.4.3 Collateral valuation

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's annually reporting schedule.

To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, housing price indices, audited separate financial statements, and other independent sources.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.4 Impairment of financial assets (continued)

5.4.4 Collateral repossessed

The Bank's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets that are determined better to be sold, are immediately transferred to assets held for sale at their fair value at the repossession date in line with the Bank's policy.

5.5 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the separate statement of financial positions 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 separate statement of financial position.

5.6 Investment in subsidiaries

Investments in subsidiaries over which the Bank has control are accounted for under the cost method of accounting. Distributions from accumulated net profits of the subsidiaries arising subsequent to the date of acquisition are recognized in the separate income statement. Distributions from sources other than from such profits are considered a recovery of investment and are deducted from the cost of the investment.

The allowance for impairment is made for investment in subsidiary when the subsidiary is making loss (except for the loss which is identified in the business plan before establishment). Accordingly, the allowance is made for difference between actual investment in the subsidiary and the Bank's proportionate share in the subsidiary's net equity.

5.7 Investment in joint ventures

Investments in joint ventures over which the Bank has control are accounted for under the cost method of accounting. Distributions from accumulated net profits of the joint ventures arising subsequent to the date of acquisition are recognized in the separate income statement. Distributions from sources other than from such profits are considered a recovery of investment and are deducted from the cost of the investment.

The allowance for impairment is made for investment in joint venture when the joint venture is making loss (except for the loss which is identified in the business plan before establishment). Accordingly, the allowance is made for difference between actual investment in the joint venture and the Bank's proportionate share in the joint venture's net equity.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.8 Recognition of income and 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.

5.8.1 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 EIR. 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 EIR, but not future credit losses.

When the recorded value of a financial asset or a group of similar financial assets has been reduced by an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

5.8.2 Fees and commission income

The Bank earns fees 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 forming an integral part of the corresponding financial instrument

Fees that the Bank considers to be an integral part of the corresponding financial instruments include: loan origination fees, loan commitment fees for loans that are likely to be drawn down and other credit related fees. The recognition of these fees (together with any incremental costs) form an integral part of the corresponding financial instruments and are recognised as interest income through an adjustment to the EIR (as defined in Note 5.2.3 above). The exception is, when it is unlikely that a loan will be drawn down, the loan commitment fees are recognised as revenue on expiry. Loan commitments that are within the scope of IAS 39 (i.e., are designated as FVPL, or are at a below market rate of interest, or are settled net) are accounted for as derivatives and measured at fair value through profit or loss.

Dividend income

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

5.9 Cash and cash equivalents

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.10 Property and equipment

Property and equipment is stated at cost excluding the costs of day–to–day servicing, less accumulated depreciation and accumulated impairment in value. 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.

Depreciation is calculated using the straight–line method to write down the cost of property and equipment to their residual values over their estimated useful lives. The following are annual rates used:

Buildings & improvements	5%
Office equipment	20%
Furniture and fixtures	20%
Motor vehicles	20%

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

5.11 Intangible assets

The Bank's other intangible assets include the value of land use rights and software.

An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. 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 to be 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 or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the interim separate income statement in the expense category consistent with the function of the intangible asset.

Amortization is calculated using the straight–line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

- Software 2 - 5 years

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.12 Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit (CGU)'s fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.13 Financial guarantees

In the ordinary course of business, the Bank issues financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the separate financial statements (within 'Other liabilities') at fair value, 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 cumulative 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 recorded in 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.

5.14 Employee benefits

Post-employment benefits

Post-employment benefits are paid to retired employees of the Bank by retirement reserve setup by the Bank. The Bank's policy is to deduct a certain monthly amount from employees' salary to contribute to such reserve. Currently, the applied rate is 8.00% of employees' monthly basic salary. The Bank has no further obligation concerning post-employment benefits for its employees other than this.

Termination benefits

In accordance with Article 82 of the Amended Labour Law No. 43/NA approved by the President of the Lao People's Democratic Republic on 28 January 2014, the Bank has the obligation to pay allowance for employees who are terminated by dismissal in the following cases:

- The worker lacks specialised skills or is not in good health and thus cannot continue to work;
- The employer considers it necessary to reduce the number of workers in order to improve the work within the labour unit.

For the termination of an employment contract on any of the above-mentioned grounds, the employer must pay a termination allowance which is calculated on the basis of 10% of the basic monthly salary earned before the termination of work. As at 31 December 2016, there is no employee of the Bank who was dismissed under the above-mentioned grounds; therefore the Bank has not made a provision for termination allowance in the separate financial statements.

5.15 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. When the effect of the time value of money is material, the Bank determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in the income statement net of any reimbursement in other operating expenses.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.16 Profit tax

Current tax

Current tax assets and liabilities for the current and prior years 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 reporting date in the countries where the Bank operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided on temporary differences at the reporting 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.

The carrying amount of deferred tax assets is reviewed at each reporting 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 utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it becomes probable that future taxable profit 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 realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current and deferred taxes are recognised as income tax benefits or expenses in the income statement except for tax related to the fair value remeasurement of available-for-sale assets, foreign exchange differences and the net movement on cash flow hedges, which are charged or credited to OCI. These exceptions are subsequently reclassified from OCI to the income statement together with the respective deferred loss or gain. The Bank also recognises the tax consequences of payments and issuing costs, related to financial instruments that are classified as equity, directly in equity.

The Bank only off-sets its deferred tax assets against liabilities when there is both a legal right to offset and it is the Bank's intention to settle on a net basis.

5.17 Fiduciary assets

The Bank provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in the separate financial statements, as they are not the assets of the Bank.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.18 *Equity reserves*

The reserves recorded in equity on the Bank's separate statement of financial position include:

- Statutory reserves which are created in accordance with prevailing regulations of Lao P.D.R, as stated in Note 31; and
- Available-for-sale reserve which comprises changes in fair value of available-for-sale investments, as stated in Note 32.

5.19 *Standards issued but not yet effective*

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's separate financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The adoption of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but no impact on the classification and measurement of the Bank's financial liabilities.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognizing revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 Leases).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The Bank does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

IFRS 16 Leases

The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.

The Bank does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Amendments to IAS 12 Income Taxes

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The amendment is effective from 1 January 2017. The Bank is currently evaluating the impact, but does not anticipate that adopting the amendments would have a material impact on its separate financial statements.

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Bank is currently evaluating the impact.

6. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Bank's separate financial statements requires management to make estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In the process of applying the Bank's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the separate financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

6.1 Going concern

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, 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 separate financial statements continue to be prepared on the going concern basis.

6. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

6.2 Effective Interest Rate (EIR) method

The Bank's EIR methodology, as explained in Note 5.2.3, recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of loans and deposits and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgement regarding the expected behaviour and life-cycle of the instruments, as well expected changes to other fee income/expense that are integral parts of the instrument.

6.3 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.

The Bank's impairment methodology for assets carried at amortised cost results in the recording of provisions for:

- Specific impairment losses on individually significant or specifically identified exposures;
- Collective impairment.

The detailed approach for each category is further explained in Note 5.4.1. All categories include an element of management's judgement, in particular for the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses. These estimates are driven by a number of factors, the changing of which can result in different levels of allowances.

7. INTEREST AND SIMILAR INCOME

	2016 LAKm	2015 LAKm
Interest income from lending to customers	1,252,157	933,530
Interest income from deposits at other banks	6,752	5,993
Interest income from investment securities	108,348	82,137
Other interest and similar income	31,582	48,490
	1,398,839	**1,070,150**

8. INTEREST AND SIMILAR EXPENSE

	2016 LAKm	2015 LAKm
Interest expense for due to other banks	83,871	30,666
Interest expense for customer deposits	774,725	784,962
Other interest and similar expenses	-	580
	858,596	**816,208**

9. NET FEES AND COMMISSION INCOME

	2016 LAKm	2015 LAKm
Fees and commission income from:		
Settlement services	124,993	106,908
Treasury activities	64,633	60,519
Other activities	2,944	1,703
	192,570	**169,130**
Fees and commission expense for:		
Settlement services	(14,077)	(10,707)
Treasury activities	(1,332)	(1,548)
	(15,409)	**(12,255)**
Net fees and commission income	**177,161**	**156,875**

10. NET TRADING INCOME/(EXPENSE)

	2016 LAKm	2015 LAKm
Gains from foreign currencies trading	3,392,835	4,028,733
Loss from foreign currencies trading	(3,345,544)	(3,987,731)
Net gain from foreign currencies trading	**47,291**	**41,002**
Loss from margin trading	**-**	**(287,150)**
	47,291	**(246,148)**

11. OTHER OPERATING INCOME

	2016 LAKm	2015 LAKm
Dividend income	41,119	37,706
Other income from financial services	513	564
Income from sale of fixed assets	676	359,076
Recovery of bad debts written-off	2,677	49,731
Subsidies received from Bank for Investment and Development of Vietnam	45	116
Others	21	291
	45,051	**447,484**

12. (REVERSAL OF)/ADDITIONAL IMPAIRMENT LOSSES FOR FINANCIAL INVESTMENTS

	2016 LAKm	2015 LAKm
Reversal of impairment losses for held-to-maturity securities *(Note 20)*	(10,985)	1,837
	(10,985)	**1,837**

13. PERSONNEL EXPENSES

	2016 LAKm	2015 LAKm
Salary expense	129,814	122,982
Insurance expense for employees	101,594	88,664
Other allowances	5,210	5,463
	236,618	**217,109**

14. OTHER OPERATING EXPENSES

	2016 LAKm	2015 LAKm
External services	24,042	22,292
Repair and maintenance	15,282	14,063
Publication, marketing and promotion	4,490	3,959
Office rental	9,050	7,643
Telecommunication	1,233	1,800
Training, meeting and seminar	8,844	7,225
Insurance fee for depositor protection fund	21,250	18,697
Tax and other duties	532	145
Others	12,517	20,074
	97,240	**95,898**

15. CASH AND BALANCES WITH THE BANK OF LAO P.D.R ("THE BOL")

	31 December 2016 LAKm	*31 December 2015 LAKm*
Cash on hand in LAK	1,016,613	1,246,254
Cash on hand in foreign currencies ("FC")	850,541	990,378
Balances with the BOL:		
- Compulsory deposit	1,378,763	1,134,906
- Demand deposit	2,432,732	6,092,961
	5,678,649	**9,464,499**

Balances with the BOL include settlement and compulsory. These balances earn no interest.

Under regulations of the BOL, the Bank is required to maintain certain reserves with the BOL in the form of compulsory deposits, which are computed at 5.00% for LAK and 10.00% for foreign currencies, on a bi-weekly basis, (2015: 5.00% and 10.00%) of customer deposits having original maturities of less than 12 months. During the year, the Bank maintained its compulsory deposits in compliance with the requirements by the BOL.

16. DUE FROM BANKS

	31 December 2016 LAKm	*31 December 2015 LAKm*
Current and saving accounts	**2,569,420**	**1,656,449**
- In LAK	2,174,414	1,386,963
- In foreign currencies	395,006	269,486
Term deposits	**284,330**	**235,797**
- In LAK	123,171	52,806
- In foreign currencies	161,159	182,991
Accrued interest	**1,881**	**698**
	2,855,631	**1,892,944**

17. LOANS TO CUSTOMERS

	31 December 2016 LAKm	*31 December 2015 LAKm*
Gross loans	19,240,075	11,026,334
In which:		
Loans funded by borrowing from BOL (Note 27)	*1,640,776*	*720,497*
Accrued interest related to loans to customers	192,709	97,369
Less: Allowance for impairment losses *(see Note 18)*	(339,579)	(268,748)
	19,093,205	**10,854,955**

Interest rates for commercial loans during the year are as follows:

	2016 Interest rates % per annum	*2015 Interest rates % per annum*
Loans denominated in LAK	6.00% - 16.00%	7.00% - 16.00%
Loans denominated in USD	2.00% - 14.00%	6.50% - 14.00%
Loans denominated in THB	6.00% - 12.00%	7.75% - 12.00%

Analysis of loan portfolio by currency:

	31 December 2016 LAKm	*31 December 2015 LAKm*
Loans denominated in LAK	7,408,014	4,513,088
Loans denominated in USD	9,300,297	5,177,960
Loans denominated in THB	2,531,764	1,335,286
	19,240,075	**11,026,334**

Analysis of loan portfolio by original maturity:

	31 December 2016 LAKm	*31 December 2015 LAKm*
Short-term loans	2,966,973	2,350,521
Medium-term loans	11,301,876	5,674,920
Long-term loans	4,971,226	3,000,893
	19,240,075	**11,026,334**

17. LOANS TO CUSTOMERS (continued)

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

	31 December 2016		*31 December 2015*	
	LAKm	*%*	*LAKm*	*%*
Industrial services companies	9,796,735	50.92%	2,395,765	21.73%
Construction companies	3,305,600	17.18%	3,526,539	31.98%
Technical instruments enterprises	63,867	0.33%	93,269	0.85%
Agricultural & forestry	48,385	0.25%	31,414	0.28%
Trading companies	3,498,551	18.18%	3,031,544	27.49%
Transportation companies	642,664	3.34%	573,180	5.20%
Services companies	1,701,361	8.84%	1,228,065	11.14%
Handicrafts	9,958	0.05%	10,468	0.09%
Others	172,954	0.91%	136,090	1.24%
	19,240,075	**100%**	**11,026,334**	**100%**

18. ALLOWANCE FOR IMPAIRMENT LOSSES

Changes in the allowance for impairment losses of loans to customers during the year ended 31 December 2016 are as follows:

	Allowance for impairment of loans to customers LAKm
Balance as at 1 January 2016	**268,748**
Net change during the year	167,367
Non-performing loans written-off	(97,479)
Foreign exchange differences	943
Balance as at 31 December 2016	**339,579**

Break down of allowance for impairment losses of loans to customers as at 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016		*31 December 2015*	
	Outstanding balance LAKm	*Impairment LAKm*	*Outstanding balance LAKm*	*Impairment LAKm*
Individually impaired	2,792,381	290,125	1,694,825	210,793
Collectively impaired	16,447,694	49,454	9,331,509	57,955
	19,240,075	**339,579**	**11,026,334**	**268,748**

19. FINANCIAL INVESTMENTS - AVAILABLE-FOR-SALE

	31 December 2016 LAKm	*31 December 2015 LAKm*
Listed shares of EDL-Generation Public Company	191,750	224,348
	191,750	**224,348**

20. FINANCIAL INVESTMENTS - HELD-TO-MATURITY

	31 December 2016 LAKm	*31 December 2015 LAKm*
Amortized cost of Treasury bills issued by the Ministry of Finance	1,998,663	982,563
Amortized cost of Bonds issued by the Ministry of Finance	567,389	795,802
	2,566,052	**1,778,365**
Impairment losses for investments in Held-to-maturity securities (*)	**(12,942)**	**(1,957)**
- *Impairment losses for Treasury bills issued by the Ministry of Finance*	*(1,926)*	*(2)*
- *Impairment losses for Bonds issued by the Ministry of Finance*	*(11,016)*	*(1,955)*
	2,553,110	**1,776,408**

(*): The net change in impairment losses of LAKm 10,985 for the year ended 31 December 2016 is recorded in the separate income statement as reversal of impairment loss for held-to-maturity securities *(Note 12)*.

20.1 Treasury bills issued by the Ministry of Finance

Details of the treasury bills as at 31 December 2016 are as follows:

Term	*Issue date*	*Maturity date*	*Face value*	*Amortized cost*	*Interest rate per annum (nominal)*
1 year	27 March 2016	27 March 2017	300,000	307,305	4.00%
1 year	8 April 2016	8 April 2017	100,000	102,595	4.00%
1 year	10 March 2016	10 March 2017	73,000	75,325	4.00%
1 year	31 March 2016	31 March 2017	50,000	51,469	4.00%
1 year	28 April 2016	28 April 2017	20,000	20,522	4.00%
1 year	12 May 2016	12 May 2017	10,000	10,245	4.00%
1 year	26 May 2016	26 May 2017	58,000	59,324	4.00%
1 year	15 January 2016	15 January 2017	300,000	311,499	4.00%
1 year	17 June 2016	17 June 2017	500,000	510,697	4.00%
1 year	26 August 2016	26 August 2017	50,000	50,855	5.00%
1 year	2 September 2016	2 September 2017	50,000	50,807	5.00%
1 year	18 November 2016	18 November 2017	300,000	301,728	5.00%
1 year	16 December 2016	16 December 2017	146,000	146,292	5.00%
			1,957,000	**1,998,663**	

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

20.2 *Bonds issued by the Ministry of Finance*

	31 December 2016 LAKm	*31 December 2015 LAKm*
Triangle bonds	-	16,714
Capitalization bonds	67,391	65,923
Other bonds	499,998	713,165
	567,389	**795,802**

Capitalization bonds were issued by the MOF to increase the Bank's chartered capital with the details as following:

Purchased date	*Maturity date*	*Face value (LAKm)*	*Amortized cost (LAKm)*	*Term*	*Interest rate (% per annum)*
1 March 2014	1 March 2019	68,600	67,391	5 years	4.00%
		68,600	**67,391**		

- Details of other bonds are as follows:

Purchase date	*Maturity date*	*Face value LAKm*	*Amortized cost LAKm*	*Interest rate (% p.a)*
3 July 2016	3 July 2021	29,780	30,219	3.00%
10 October 2016	10 October 2017	2,000	1,946	4.00%
20 December 2016	20 December 2017	50,000	49,474	4.00%
12 March 2016	12 March 2018	20,000	19,522	4.25%
12 November 2016	12 November 2017	8,000	7,172	4.00%
31 July 2016	31 July 2018	5,000	4,674	4.25%
7 May 2016	7 May 2018	22,000	20,211	4.25%
11 June 2016	11 June 2018	9,000	8,208	4.25%
12 June 2016	12 June 2018	25,000	22,796	4.25%
13 June 2016	13 June 2018	1,000	912	4.25%
16 May 2016	16 May 2018	5,000	4,585	4.25%
18 September 2016	18 September 2018	4,000	3,581	4.25%
31 July 2016	31 July 2018	2,000	1,868	4.25%
2 August 2016	2 August 2018	14,000	12,864	4.25%
11 June 2016	11 June 2018	2,000	1,702	4.25%
30 December 2014	30 December 2017	100,000	100,018	5.10%
23 December 2016	23 December 2018	210,000	210,246	5.50%
		508,780	**499,998**	

21. INVESTMENTS IN SUBSIDIARIES AND JOINT VENTURES

	31 December 2016		*31 December 2015*	
	Cost LAKm	*Ownership %*	*Cost LAKm*	*Ownership %*
Investments in subsidiaries				
BCEL - Krung Thai Securities Company Limited	70,000	70%	70,000	70%
Investments in joint ventures				
Lao Viet Joint Venture Bank	197,839	25%	197,839	25%
Banque Franco - Lao Company Limited	138,000	46%	138,000	46%
Lao China Bank Company Limited	147,000	49%	147,000	49%
Lao-Viet Insurance Joint Venture Company	8,784	35%	8,784	35%
	561,623		**561,623**	

- BCEL - Krung Thai Securities Company Limited is incorporated in the Lao P.D.R under the Business License No. 180-10 granted by the Investment Promotion Department of the Ministry of Planning and Investment of the Lao P.D.R on 14 December 2010. The company's principal activities are to provide brokerage services, proprietary trading, finance and securities investment advisory services, custody services, underwriting for share issues and other value added services.

- 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 Lao P.D.R for a year of 30 years. In 2015, LVB increased its contributed capital to LAK 791,357,560,000. The Bank's ownership rate in LVB after the capital increase is 25% in accordance with Investment License No. 004-15/KH-DDT4 issued by Ministry of Planning and Investment on 24 August 2015, equivalent to LAK 197,839,390,000.

- 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 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. As at 31 December 2016, the contributed capital of the Bank included USD 1,840,000 and LAK 122,854,960,000.

- Lao China Bank Company Limited ("LCNB") is incorporated in the Lao P.D.R and engages in the provision of baking services. It is a joint venture with Fudian Bank China, a state-owned commercial bank incorporated in China. The joint venture bank was granted the Banking Business Licence on 20 January 2014 by the Bank of Lao P.D.R. The legal capital of LCNB was LAKm 300,000 and had been fully contributed by partners as at 31 December 2016.

- 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. In 2013, the Bank has contributed additional capital of USD 180,000 on 02 September 2013. As at 31 December 2016, the total contributed capital of the Bank in this company was USD 1,050,000, equivalent to LAKm 8,784.

22. PROPERTY AND EQUIPMENT

Movements of property and equipment for the year ended 31 December 2016 are as follows:

	Buildings & improvements LAKm	*Office equipment LAKm*	*Furniture & fixtures LAKm*	*Motor vehicles LAKm*	*Total LAKm*
Cost:					
As at 1 January 2016	373,345	116,564	32,492	15,708	538,109
Additions	77,508	28,941	3,278	5,767	115,494
In which					
New purchases	*3,579*	-	-	*1*	*3,580*
Transferred from CIP and fixed assets in transit	*73,929*	*28,941*	*3,278*	*5,766*	*111,914*
Disposals	(3,374)	(17,781)	(728)	(2,623)	(24,506)
As at 31 December 2016	447,479	127,724	35,042	18,852	629,097
Accumulated depreciation:					
As at 1 January 2016	70,731	56,121	13,898	7,701	148,451
Charge for the year	22,181	24,885	4,324	3,336	54,726
Disposals	(3,089)	(14,695)	(406)	(2,623)	(20,813)
As at 31 December 2016	89,823	66,311	17,816	8,414	182,364
Net book value:					
As at 1 January 2016	302,614	60,443	18,594	8,007	389,658
As at 31 December 2016	357,656	61,413	17,226	10,438	446,733

23. INTANGIBLE ASSETS

Movements of intangible assets during the year ended 31 December 2016 are as follows:

	Land use rights LAKm	*Software LAKm*	*Total LAKm*
Cost:			
As at 1 January 2016	261,595	80,430	342,025
Additions	4,148	2,392	6,540
In which			
New purchases	-	282	282
Transferred from CIP and fixed assets in transit	4,148	2,110	6,258
Disposals	(45,225)	(14,567)	(59,792)
As at 31 December 2016	220,518	68,255	288,773
Accumulated amortization:			
As at 1 January 2016	-	44,366	44,366
Charge for the year	-	15,462	15,462
Disposals	-	(14,558)	(14,558)
As at 31 December 2016	-	45,270	45,270
Net book value:			
As at 1 January 2016	261,595	36,064	297,659
As at 31 December 2016	220,518	22,985	243,503

24. OTHER ASSETS

	31 December 2016 LAKm	*31 December 2015 LAKm*
Assets waiting for sales	143,098	8,483
Stationeries and other tools	1,467	1,192
Checks in collection	31,472	13,234
Construction in progress and fixed assets in transit (*)	48,260	123,372
Prepaid expenses to be allocated	30,800	34,000
Advance payment for other operations	24,791	15,781
Others	12,827	14,524
	292,715	**210,586**

(*): Movement of construction in progress and fixed assets in transit for the year ended 31 December 2016 is as follows:

	Land use rights LAKm	*Buildings & improvement sLAKm*	*Other LAKm*	*Total LAKm*
As at 1 January 2016	41,714	67,507	14,150	123,371
Additions	92,932	33,976	39,530	166,438
Transferred to fixed assets	(4,148)	(73,929)	(40,095)	(118,172)
Transferred to assets waiting for sales	(122,437)	(893)	(47)	(123,377)
As at 31 December 2016	8,061	26,661	13,538	48,260

25. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2016 LAKm	*31 December 2015 LAKm*
Demand deposits	**2,813,254**	**2,104,890**
- In LAK	1,242,744	825,086
- In foreign currencies	1,570,510	1,279,804
Saving deposits	**29,046**	**233,827**
- In LAK	21,381	53,873
- In foreign currencies	7,665	179,954
Term deposits	**306,858**	**95,185**
- In LAK	45,450	43,130
- In foreign currencies	261,408	52,055
Others	**11,257**	**13,720**
- In LAK	8,590	4,222
- In foreign currencies	2,667	9,498
	3,160,415	**2,447,622**
Accrued interest payables	**5,030**	**533**
	3,165,445	**2,448,155**

Saving deposits from other banks and financial institutions denominated in LAK, USD, THB bear interest at rates ranging of 0% - 1.25%, 0% - 0.75% and 0% - 0.20% per annum, respectively.

The term deposits from other banks and financial institutions denominated in LAK, USD, THB bear interest at rates ranging of 1.25% – 7.00%, 0% - 3.00% and 0% – 3.00% per annum, respectively.

26. DUE TO CUSTOMERS

	31 December 2016 LAKm	*31 December 2015 LAKm*
Demand deposits	**6,082,985**	**4,515,881**
Demand deposits in LAK	1,656,340	2,178,278
Demand deposits in FC	4,426,645	2,337,603
Demand savings	**9,341,554**	**8,591,522**
Demand saving deposits in LAK	3,704,509	3,060,115
Demand saving deposits in FC	5,637,045	5,531,407
Term deposits	**9,495,540**	**7,882,509**
Term deposits in LAK	5,868,476	5,502,892
Term deposits in FC	3,627,064	2,379,617
Margin deposits	**119,478**	**61,525**
Margin deposits in LAK	11,716	16,162
Margin deposits in FC	107,762	45,363
Others	**271,295**	**203,234**
	25,310,852	**21,254,671**
Accrued interest	**92,279**	**56,473**
	25,403,131	**21,311,144**

Saving deposits from customers denominated in LAK, USD and THB bear interest at rate ranging of 1.50% – 3.00%, 1.00% - 1.25% and 0.60% – 1.00% per annum respectively.

Fixed term deposits in LAK, USD, THB have terms of 3, 6, 12 months and more than 1 year and are subject to interest rates ranging of 2.25% – 12.50%, 1.00% - 6.75 % and 0.50% – 6.50% per annum respectively.

27. BORROWINGS FROM OTHER BANKS

	31 December 2016 LAKm	*31 December 2015 LAKm*
Borrowings from the BOL	1,640,776	720,497
Borrowings from foreign banks	359,436	-
Accrued interest payables	2,095	-
	2,002,307	**720,497**

27. BORROWINGS FROM OTHER BANKS (Continued)

Borrowings from the BOL as at 31 December 2016 include:

- USD 4,599,999 long-term borrowing (original borrowing amount was USD 9,200,000) for the purpose of investment in Banque Franco – Lao Limited. The loan's principal is paid annually from 2010 to 2023 with the interest of 0.25% per annum. The interest is paid semi-annually.
- USD 99,854,000 long-term borrowing (original borrowing amount was USD 100,000,000) for the purpose of providing credit to certain Government-backed Hydropower projects with interest rate of 5.5% per annum.
- USD 96,400,000 long-term borrowing (original borrowing amount was USD 100,000,000) for the purpose of providing credit to certain Government-backed Hydropower projects with interest rate of 5.3% per annum.

Borrowings from foreign banks and other financial institutions include:

- USD 24,000,000 one-year borrowing from ICBC Vientiane Branch. The loan's principal is paid at maturity date. Interest rate is at 4.58% per annum. The interest shall be paid at the maturity date.
- USD 20,000,000 one-year borrowing from ICBC Vientiane Branch. The loan's principal is paid at maturity date. Interest rate is at 4.58% per annum. The interest shall be paid at the maturity date.

28. TAXATION

28.1 Profit tax expense

Major components of tax expense are as follows:

	2016 LAKm	*2015 LAKm*
Current profit tax expense	49,292	23,627
Deferred profit tax expense/(income)	2,183	(1,950)
Total tax expense for the year	**51,475**	**21,677**

28.2 Tax payables

	31 December 2016 LAKm	*31 December 2015 LAKm*
Profit Tax payable	24,300	18,797
Value Added Tax payable	12,065	12,169
	36,365	**30,966**

28. TAXATION (continued)

28.3 Current Profit Tax ("PT")

The Bank is obliged to pay tax at rate of 24% on total profit before tax in accordance with the new Tax Law No.70/NA dated 15 December 2015 which is effective on or after 24 May 2016.

The calculations of Profit taxes for the years 2016 and 2015 are as follows:

	2016 LAKm	*2015 LAKm*
Profit before tax in accordance with IFRS	**227,348**	**122,535**
Adjustments for:		
- Difference between carrying value under LAS and amortized cost under IFRS of Bonds	(5,700)	(1,133)
- Difference in allowance for impairment losses between LAS and IFRS of loans to banks and customers	(16,908)	9,143
- Difference in allocation of subvention funds	1,572	356
- Write-off start-up cost as expense during the year	(22)	(47)
- Difference in impairment expense of investment between LAS and IFRS	10,985	(1,837)
- Others	-	(165)
Profit before tax in accordance with LAS	**217,275**	**128,852**
Increase/(Decrease):		
- Income exempted from PT (dividend income)	(41,119)	(37,706)
- Non-deductible expenses	29,227	7,303
Taxable profit under LAS	**205,383**	**98,449**
PT expense at rate of 24%	**49,292**	**23,627**
Total tax expense in the year	**49,292**	**23,627**
Payable at the beginning of the year	18,797	8,369
Additional tax payable for previous year	2,697	165
Other adjustment	(82)	(5,290)
Paid in the year	(46,404)	(8,074)
PT payable at the end of the year	**24,300**	**18,797**

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

28. TAXATION (continued)

28.4 Deferred tax assets/(liabilities)

	Deferred tax assets (tax rate of 24%) LAKm	*Deferred tax liabilities (tax rate of 24%) LAKm*	*Net deferred tax assets/ (liabilities) LAKm*
As at 1 January 2016	6,259	(11,077)	(4,818)
Increase during the year due to:			
Changes in fair value of available for sale financial instruments	-	7,824	7,824
Changes in temporary difference between taxable profit under LAS and taxable profit under IFRS	4,398	(6,581)	(2,183)
As at 31 December 2016	**10,657**	**(9,834)**	**823**

29. OTHER LIABILITIES

	31 December 2016 LAKm	*31 December 2015 LAKm*
Payables to employees	19,772	13,661
Payable to suppliers	17,271	13,602
Termination allowances	17,906	14,537
Others	35,978	14,224
	90,927	**56,024**

30. CHARTER CAPITAL

There has been no change to paid-up capital during the year 2016.

31. STATUTORY RESERVES AND OTHER RESERVES

	Regulatory reserve fund LAKm	*Business expansion fund LAKm*	*Capital supplement reserve LAKm*	*Total LAKm*
As at 1 January 2016	72,893	228,665	12,275	313,833
Appropriation to reserves for the year 2015	9,742	34,137	-	43,879
As at 31 December 2016	**82,635**	**262,802**	**12,275**	**357,712**

Under the requirement of the Law on Commercial Bank dated 16 January 2007, commercial banks are required to appropriate net profit to following reserves:

- Regulatory reserve fund
- Business expansion fund and other funds

In accordance with the Regulation on capital adequacy No.1/BOL dated 28 August 2002 by the Governor of the Bank of Lao P.D.R and other relevant guidance, commercial banks are required to provide regulatory reserve fund at the rate between 5% to 10% of profit after tax depending on decision of the Board of Directors. The Business expansion fund and other shall be created upon decision of the Board of Directors.

32. AVAILABLE-FOR-SALE RESERVE

	31 December 2016 LAKm	*31 December 2015 LAKm*
Opening balance	32,789	63,870
Net changes in fair value of available-for- sale financial investments	(24,775)	(31,081)
	8,014	**32,789**

33. ADDITIONAL CASH FLOW INFORMATION

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

	31 December 2016 LAKm	*31 December 2015 LAKm*
Cash and cash equivalents on hand	1,867,154	2,236,632
Demand deposits with the BOL	2,432,732	6,092,961
Current accounts with other banks	2,569,420	1,656,449
Term deposits due within 90 days	249,881	162,779
	7,119,187	**10,148,821**

34. CONTINGENT LIABILITIES AND COMMITMENTS

	31 December 2016 LAKm	*31 December 2015 LAKm*
Financial letter of guarantees	248,997	252,765
At sight letters of credit	579,768	850,007
Deferred payment letters of credit	141,234	148,541
Credit limit given to customers	4,088,546	6,226,584
Credit limit given to other banks	22,232	55,080
	5,080,777	**7,532,977**

Financial guarantees

Letters of credit, guarantees (including standby letters of credit) and acceptances commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract. Guarantees and standby letters of credit carry the same credit risks as loans. Credit guarantees can be in the form of bills of exchange or in the form of irrevocable letters of credit, advance payment guarantees, and endorsement liabilities from bills discounted.

Un-drawn commitments to lend

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

However, the potential credit loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Lease commitments

As at 31 December 2016, the Bank did not entered into any lease contracts as either lessor or lessee which results in future cash inflows and/or outflows.

35. RELATED PARTY DISCLOSURES

Transactions with key management personnel of the Bank

Remuneration to members of the Board of Directors and the Board of Management is as follows:

	2016 LAKm	*2015 LAKm*
Salaries	1,752	1,648
Bonus	185	363
Responsibility allowance	1,225	1,176
	3,162	**3,187**

35. RELATED PARTY DISCLOSURES (continued)

Significant balances with related parties as at 31 December 2016 are as follows:

Related party	*Relationship*	*Transactions*	*Receivable LAKm*	*Payable LAKm*
The Bank of the Lao P.D.R	Direct controller	Borrowings and accrued interest from the BOL	-	1,640,776
The Bank of the Lao P.D.R	Direct controller	BCEL's demand deposits at BOL	2,432,732	-
The Bank of the Lao P.D.R	Direct controller	BCEL's compulsory deposits at BOL	1,378,763	-
The Bank of the Lao P.D.R	Direct controller	Demand deposit at BCEL	-	728
The Ministry of Finance of the Lao P.D.R	Direct owner	Investment in MOF's bonds	2,553,110	-
BCEL - Krung Thai Securities Company Limited	Subsidiary	Current accounts	-	741
Lao Viet Joint Venture Bank	Joint venture	Current accounts	-	114,846
Lao Viet Joint Venture Bank	Joint venture	Term deposit	-	122,535
Banque Franco – Lao Company Limited	Joint venture	Term deposit	8,231	-
Banque Franco – Lao Company Limited	Joint venture	Current accounts	-	29,372
Lao China Bank Co.Ltd	Joint venture	Current accounts	-	11,268

36. EARNINGS PER SHARE

Earnings per share ("EPS") is calculated by dividing net profit after tax for the year attributable to ordinary shareholders of the Bank by the weighted average number of ordinary share outstanding during the year.

The following reflects the income and share data used in the earnings per share computation.

	2016	*2015*
Profit after tax attributable to ordinary equity holders for basic earnings (LAKm)	175,873	100,858
Weighted average number of ordinary shares for basic earnings per share (shares)	136,577,600	136,577,600
Face value per share (LAK)	5,000	5,000
Earnings per share (LAK)	1,288	739

37. RISK MANAGEMENT POLICIES

Introduction

Risk is inherent in the Bank's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

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.

The Board has appointed Asset and Liability Management Committee which has the responsibility to monitor the overall risk process within the Bank.

The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to various operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. The Bank's policy is to monitor those business risks through the Bank's strategic planning process.

Risk management structure

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

The Asset and Liability Management Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. The Risk-Compliance Department is responsible for managing risk decisions and monitoring risk levels and reports to the Board of Directors.

The Bank's policy is that risk management processes throughout the Bank are audited annually by the Internal Audit function, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

38. CAPITAL MANAGEMENT

The Bank maintains minimum regulatory capital in accordance with Regulation No 536/BFSD/BOL dated 14 October 2009 by the Governor of Commercial Bank Supervision Department of BOL 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 the BOL. The Bank recognizes the need to maintain effectiveness of assets and liabilities management to balance its profit and capital adequacy.

In accordance with Regulation 536/BFSD/BOL, the Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes charter capital, regulatory reserve fund, business expansion fund and other funds, and retained earnings;
- Tier 2 capital, which is equal higher option between 1.25% of total risk weighted balance sheet items and outstanding balance of general provision during the year.

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 separate financial statements is as follows:

	31 December 2016 *LAKm*	*31 December 2015* *LAKm*
Tier 1 capital	1,211,553	1,101,170
Tier 2 capital	3,607	14,755
Total capital	1,215,160	1,115,925
Less: Deductions from capital (Investments in other entities)	(561,623)	(561,623)
Capital for CAR calculation (A)	**653,537**	**554,302**
Risk weighted balance sheet items	10,829,925	6,783,355
Risk weighted off balance sheet items	2,463,599	3,738,949
Total risk weighted assets (B)	**13,293,524**	**10,522,304**
Capital Adequacy Ratio (A/B)	**4.92%**	**5.27%**

39. 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 bonds issued by the Ministry of Finance, bonds issued by and borrowings from the BOL, the carrying amount of the financial assets and liabilities included in the separate statement of financial position are a reasonable estimation of their fair values. In making this assessment, the Bank's management assumes that loans are mainly held to maturity with fair values equal to the book value of loans adjusted for allowance for impairment losses.

40. EVENTS AFTER THE REPORTING DATE

There is no matter or circumstance that has arisen since 31 December 2016 that requires adjustment or disclosure in the separate financial statements of the Bank.

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

	31/12/2016 *LAK*	*31/12/2015* *LAK*
USD	8,169.00	8131.00
EUR	8,620.00	8,871.00
THB	229.19	226.06
GBP	9,892.00	11,864.00
CHF	7,675.00	7,829.00
JPY	69.15	66.33
SGD	5,886.00	5,845.00
CAD	5,799.00	5,610.00
AUD	5,826.00	5,830.00
CNY	1,153.00	1,180.00
VND	0.36	0.36

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BANK OF THE LAO PDR
BANQUE POUR LE COMMERCE EXTERIEUR
LAO PUBLIC
VIENTIANE CAPITAL

Mr. Lachay Khanpravong
Deputy Managing Director

Vientiane, Lao P.D.R

31 March 2017