



ANNUAL REPORT 2012



ທະນາຄານອິນໂດຈີນ

Contents

Part 1: SUMMARY CORPORATE BACKGROUND

1. Corporate Information	1
2. Corporate Background	1
3. Vision of the Bank	1
• Message from Chairman	2
4. General Performance in the year 2012	3
• Lao Economy Review for the year 2012	
• Performance of Indochina Bank : 2012 vs 2011	

Part 2: ORGANIZATION STRUCTURE

1. Shareholder	5
2. Board of Directors	6
3. Board of Management	7
4. Other Committees	7

Part 3: FINANCIAL REPORT

1. History of External Auditor	8
2. Financial Report	8-11
• Notes to Financial Statements	12-25

Part 4: BUSINESS UNIT NETWORKS

1. Location of the Business Unit within Country	26
2. Address of the Branches and Service Units	26

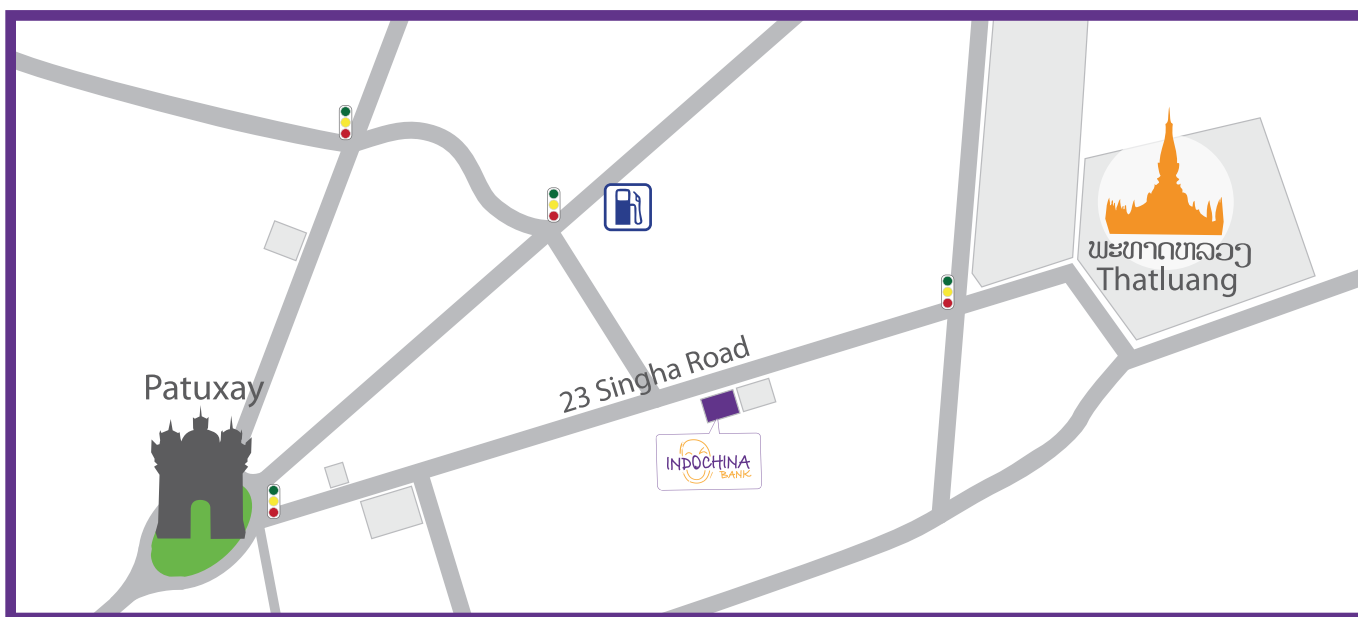
Part 5: ADVERTISING

1. Social Events	27-29
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SUMMARY CORPORATE BACKGROUND

1. Corporate Information

Bank Name:	Indochina Bank Ltd
Registration No.:	53/BOL, 28th November 2008
Chairman:	Mr. Oh Sei Young
Managing Director:	Mr. Tay Hong Heng
Registered Office:	1st Floor, Capital Tower, 116, 23 Singha Road, Vientiane Capital, Lao PDR
Contact Numbers Tel:	+856 21 455 000-2, Fax: +856 21 455 111
Website :	www.indochinabank.com



2. Corporate Background

Indochina Bank Ltd (“the Bank”) is a foreign owned local incorporated commercial bank. The Bank was incorporated in Lao People’s Democratic Republic (“Lao PDR”) on 26 May 2008 under a Foreign Investment License No.070-08/PI granted by Ministry of Planning and Investment and under Banking Business License No.53/BOL granted by the Bank of the Lao PDR (“BOL”) on 28 November 2008.

Indochina Bank officially started operation on 6 February 2009 in Vientiane Capital. The Bank’s shareholders comprise of reputable corporations and individual with strong and stable financial background, namely Mr. Oh Sei Young, The Military Mutual Aid Association of Korea and Public Official Benefit Association of Korea.

3. Vision of the Bank

Indochina Bank is moving forward to establish a strong foothold in the country by taking advantage of the steady economic growth of Lao People’s Democratic Republic. The vision of the bank is;

“To be the No.1 private bank in Laos, in terms of business growth, customer service, products, profit as well as branding, and continually enhancing our service and to meet customer’s highest level of satisfaction.”

Chairman's Message

In 2012, Lao economy continued to see robust growth despite of the direct impacts of the uncertain global economic environment. It is fueled mainly from growth in the construction, manufacturing, mining and service sectors. This depends on the successful delivery of several large power projects which are under construction or in the pipeline. While the GDP growth was at 8.2 % in 2012, inflation has been declining average 4.33 % in 2012. However, the economy is subjected more to secondary effects from the economic developments of major regional trading partners.

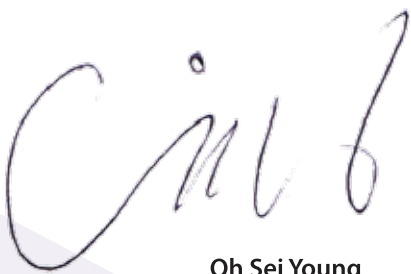
For Indochina Bank, the year 2012 marked the fourth year after the inception of the bank at the end of 2008. The Bank recorded strong growth in total assets from USD 52.59 million (as end of 2009) to USD103.22 million (as at end of 2010) to USD 130.53 million (as at end of 2011) , finally 2012 to USD 206.41 million, representing a increase of 58.13%. In tandem with this increase, the Bank's total deposits also grew by 64.75% from USD107.32 million (as end of 2011) to USD176.81 million (as end of 2012). Meanwhile Indochina Bank's total loans grew from USD87.70 million (as end of 2011) to USD 128.91 million representing an impressive growth rate of 47.99%.

In our strive to provide the best value for our customers, Indochina Bank will continue to provide "Extreme Banking" concept where lowest fees, highest deposits rates and safest protection are given to customers. In addition, our VIP customers continue to receive the highest level of care, discounts and rewards just by producing our Premier Card at our Business Units and our affiliate premier partner outlets. In

order to further enhance our customer's service, more innovative banking products are presently in the pipeline while more ATMs, Branches and Service Units are being planned. It is the desire of Indochina Bank to extend our superior service culture and banking products to customers all over Lao PDR.

In conclusion, I would like to take this opportunity to thank our shareholders, customers and business partners for their continued support throughout the year of 2012. With their understanding and support, Indochina Bank was able to overcome the many challenges and thus achieving high growth rates for Assets, Deposit and Loans portfolios. Credit should also be given to the Management and Staff of Indochina Bank for their dedication and hard work in serving our customers, our shareholders and our communities, thereby contributing to the continued prosperity and growth of the bank.

"To be the No.1 private bank in Laos, in terms of business growth, customer service, products, profit as well as branding, and continually enhancing our service and to meet customer's highest level of satisfaction."



Oh Sei Young
Chairman



4. General Performance of the Bank in the Year 2012

• Lao Economy Review for the Year 2012

Lao PDR economy continues to maintain robust growth 8.2% this year but faces a challenge to manage domestic demand. On the supply side, the construction, services, industry and agriculture sectors are the main drivers of growth; while on the demand side, public spending and private investment including demand driven by preparations for the Asia-Europe Meeting (ASEM) has played an important role in boosting the economy this year. In spite of robust growth, inflation has been declining, mostly on account of declining food and fuel inflation. However, home-grown and external risks associated with low reserves coverage, increased exposure to mining revenues and a large number of newly announced large investment projects warrant close monitoring to preserve macroeconomic stability and sustainable growth.

Stronger than expected revenue performance from the mining sector and external grants contributed to an improvement in the fiscal performance in FY11/12. With the contribution of mining revenue increasing, closely monitoring commodity price fluctuations is becoming increasingly important. The fiscal deficit in FY12/13 is expected to slightly widen as a result of a planned wage increase.

Lao PDR's risk of debt distress has been reclassified from high to moderate following the country's improved policy performance. The Public and Public Guaranteed (PPG) debt stock as a ratio of GDP has declined due to strong economic growth and the appreciation of the Lao kip against the US dollar. While multilateral creditors still hold the majority of public external debt, bilateral creditors have an increasing

share of external PPG debt. Recently announced mega-projects raise concerns about debt sustainability if these projects are to go forward.

Strong pressure on external reserves calls for tightening of aggregate demand. Reserves are reaching a critical low, raising concerns over the country's capacity to absorb any adverse external shock. The overall balance of payments is estimated to remain in a deficit of 0.7% of GDP at the end of 2012 as a result of continued demand for imports. The expected gains from investments in both resource¹ and non-resource sectors are to be offset by the deterioration of the current account deficit associated with growing imports and higher net income payments from the natural resources sector². As a result, foreign reserves are expected to fall by about 9% year-on-year (YOY) reaching a critically low level of about \$620 million in December, or 2.5 months of non-resource imports. Slowing down internal demand through fiscal and credit tightening is therefore becoming essential.

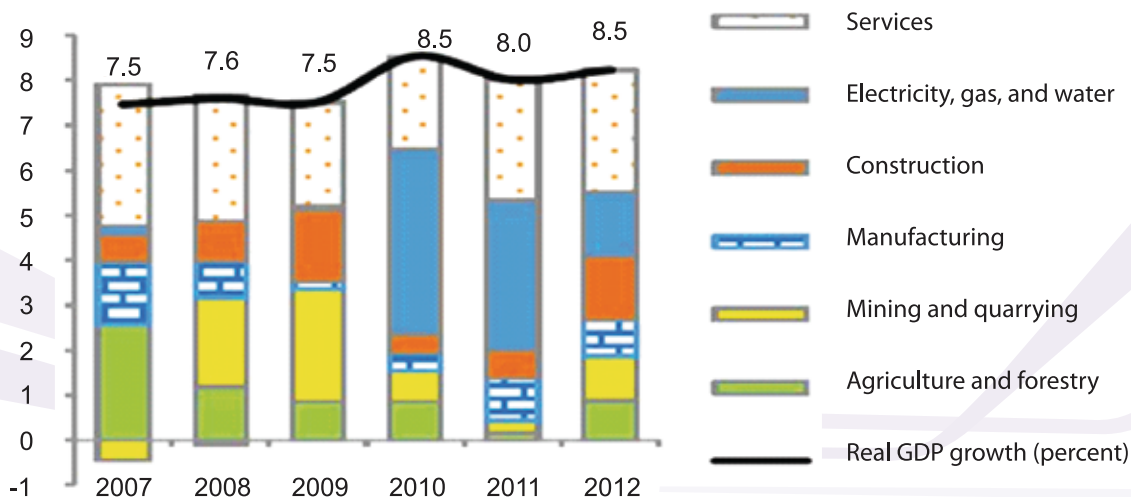
Credit growth remains high and is putting pressure on falling reserves. Credit growth has picked up in June 2012 driven by increased credit to the private sector and SOEs. Private sector credit growth is driven by buoyant performance in construction, manufacturing and service sectors. The Bank of Lao PDR's disbursements to local infrastructure projects have moderated compared to their peak in 2009, but are ongoing as a result of previous commitments.

1. Hydro projects under construction and mining upgrade new project

2. These include hotels and constructions most of which are related to the preparation for the ASEM.

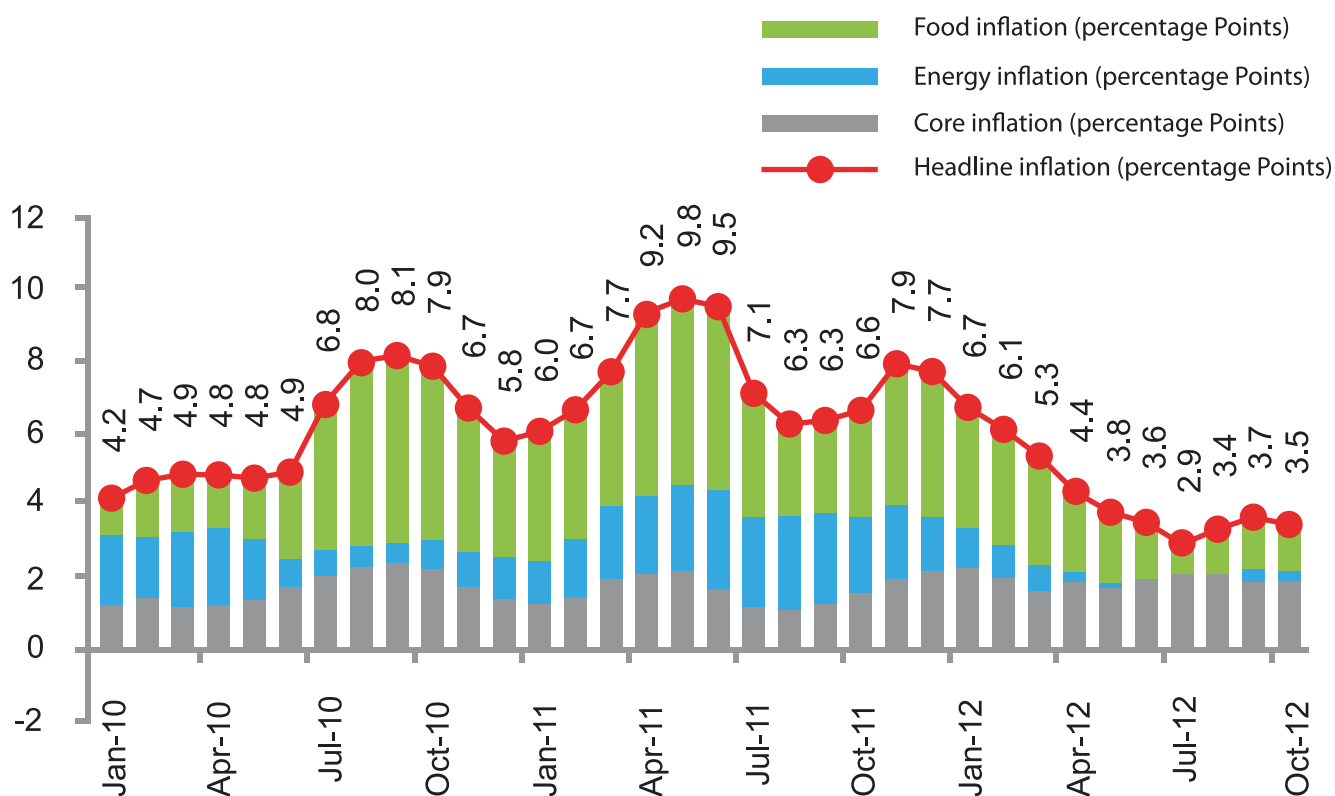
Contribution by Sector (Percentage Points)

Figure 1: Real GDP Growth (At factor cost)



(Source of Information: <http://www.worldbank.org/en/news/2012/12/19/lao-pdr-economic-monitor-november-2012-key-findings>)

Figure 2: Monthly Inflation (YOY Percentage Change)



Source: MPI (LSB) and staff calculations

• Performance of Indochina Bank : 2012 vs 2011

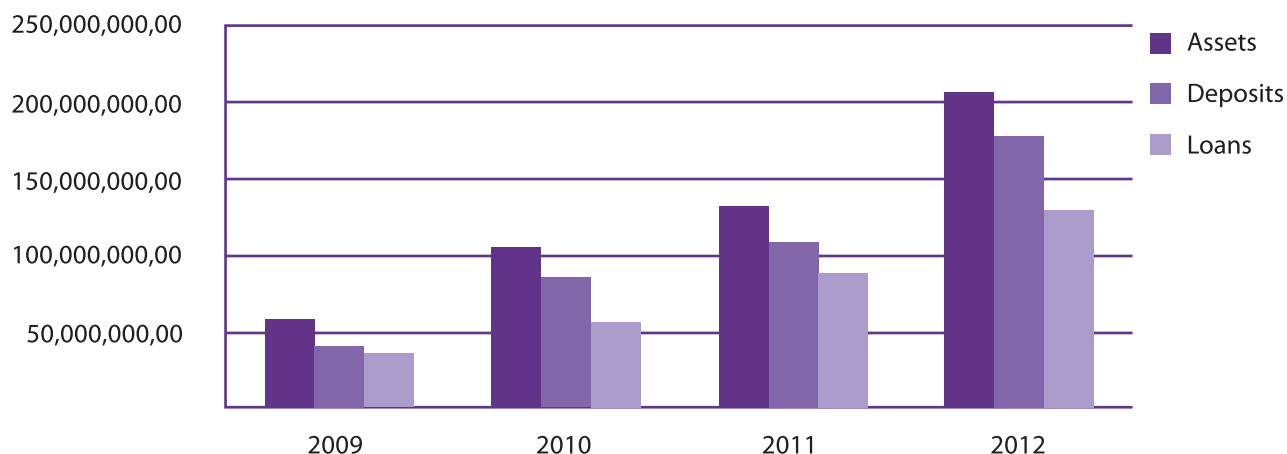
For Indochina Bank, the year 2012 marked the fourth year after the inception of the bank at the end of 2008 and started operating since 6 February 2009. The Bank recorded strong growth in total assets from USD 130.53 million (as at end of 2011), and 2012 increased to USD 206.41 million, representing a increase of 58.13%. In tandem with this increase, the Bank’s total deposits also grew by 64.75% from USD107.32 million (as end of 2011) to USD176.81 million (as end of 2012). Indochina Bank’s total loans grew from USD87.70 million (as end of 2011) to USD 128.91 million representing an impressive growth rate of 47.99 %. Meanwhile Net Profit before tax increased from USD 867 thousand (as at end 2011) to USD 1.697 thousand (as at end 2012). During the 2012 Indochina Bank had expanded two new Service Units in Paksan (Bolikhamsay Province) and Luang Namtha (Luang Namtha Province) and increased ATM from 16 Units (as at end of 2011) to 20 units (as at end of 2012).

Table of Comparative Performance 2012 vs 2011

(In Thousand USD)

Description	2012		2011	2012 vs 2011	
	Budgeted	Performance		(%) Increased	Amt. increased
Deposits	150,000	176,817	107,320	64.75%	69,497
Loans	120,000	128,918	87,700	47.99%	41,598
Assets	172,998	206,419	130,530	58.13%	75,889
Profit before Tax	2,112	1,697	867	95.73%	830

Growth of the Bank in term of Assets, Deposits and loans (in USD)

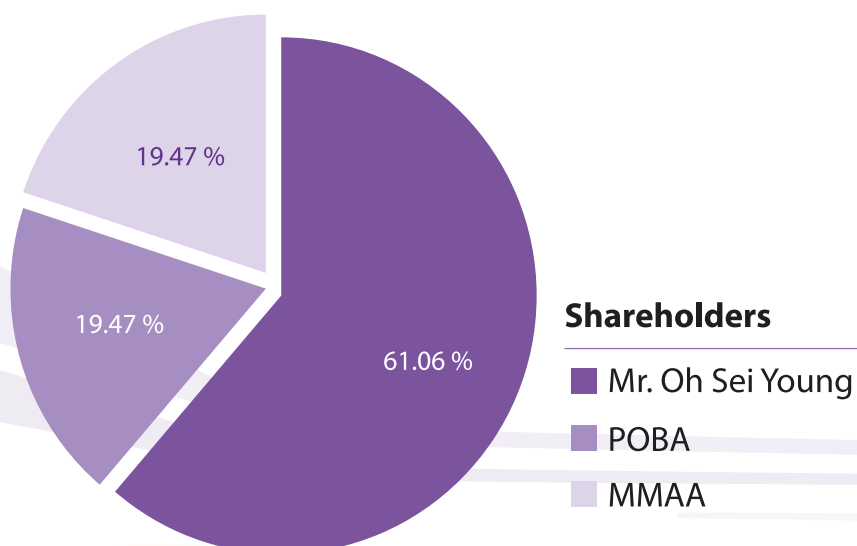


PART 2

ORGANIZATION STRUCTURE

1. Shareholders

No	Shareholders	Share (%)
1	Mr. Oh Sei Young (Chairman of Indochina Bank)	61.06%
2	Public Official Benefit Association of Korea (POBA)	19.47%
3	Military Mutual Aid Association of Korea (MMAA)	19.47%
	Total Share	100%



2. Board of Directors

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



Mr. Oh Sei Young

Mr. Oh is a prominent and successful businessman in Lao PDR. He is the Founder and Chairman of Kolao Group, which was incorporated in Lao PDR in May 1997.



Mr. Kim Myung Kwan

Mr. Kim graduated from Dongkuk University, Seoul in 2002 in Finance. Prior to joining Kolao Group, he has a strong background in auditing, financial consulting and securities.



Mr. Tay Hong Heng

Mr. Tay started his banking career in 1976 with Public Bank Bhd, Malaysia. For 20 years he served domestic branches in various states in Malaysia in the capacity of Branch Manager. From 1996 to 2003(7 years) he was the Country Head of Public Bank Vientiane Branch, Lao PDR. Thereafter up to 2008 (5 years) he was seconded as the General Director to VID Public Bank, Vietnam. Presently he is the Managing Director of Indochina Bank since its inception in 2008.



Mr. Teo Kim Siong

Mr. Teo started his banking career in 1983 with Public Bank Bhd, Malaysia. He has accumulated a vast knowledge significantly on banking operations and development. His last position held was Deputy Country Head of Vientiane Branch. Mr Teo joined Vientiane Commercial Bank Ltd, Lao PDR presently known as ANZ Bank in 2003 as General Manager. Under ANZ Bank he was designated to Chief of Staff, heading the Operations. He is now the Deputy Managing Director of Indochina Bank since its inception in 2008.



Ms. Chanpheng Vongsombath

Ms. Chanpheng furthered her study at Levobskaya Engineering Economic Institute, Soviet in 1989. From 1995 to 2002 (7 years) she worked with Public Bank Bhd Vientiane Branch. Ms. Chanpheng joined Kolao as the Head of Finance Department before joined Indochina Bank in September 2008 and presently she is the General Manager of the Indochina Bank.

3. Board of Management

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

Name	Position	Date of Appointment
Mr. Tay Hong Heng	Managing Director	20 April 2009
Mr. Teo Kim Siong	Deputy Managing Director	20 April 2009
Mr. Kheup INSARN	Deputy Managing Director	20 April 2009
Ms. Chanpheng VONGSOMBATH	General Manager	20 April 2009

4. Other Committees

Governance Committee

Name	Position	Date of Appointment
Ms. Chanpheng VONGSOMBATH	Chairperson	2 June 2010
Ms. Thavone VONGSOMBATH	Member	2 June 2010
Mr. Oh Sei Young	Member	2 June 2010

Audit Committee

Name	Position	Date of Appointment
Mr. Kheup INSARN	Chairman	18 March 2009
Mr. Tay Hong Heng	Member	18 March 2009
Mr. Teo Kim Siong	Member	18 March 2009
Ms. Chanpheng VONGSOMBATH	Member	18 March 2009

Risk Management Committee

Name	Position	Date of Appointment
Mr. Teo Kim Siong	Chairman	18 March 2009
Mr. Tay Hong Heng	Member	18 March 2009
Ms. Chanpheng VONGSOMBATH	Member	18 March 2009

Loans Committee

Name	Position	Date of Appointment
Mr. Tay Hong Heng	Chairman	20 April 2009
Mr. Teo Kim Siong	Member	20 April 2009
Mr. Kheup INSARN	Member	20 April 2009
Ms. Chanpheng VONGSOMBATH	Member	20 April 2009

FINANCIAL REPORT

1. History of External Auditors

- 2009 and 2010 the Bank was audited by KPMG Lao Co., Ltd
- 2011 and 2012 the Bank was audited by Ernst & Young Lao Ltd

2. Financial Report

Independent Auditors' Report

To: The Board of Directors of Indochina Bank Ltd.

We have audited the accompanying financial statements of Indochina Bank Ltd ("the Bank") as set out on pages on 10 to 30, which comprise the balance sheet as at 31 December 2012, the income statement, cash flow statement and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Accounting Law of Lao P.D.R and other relevant accounting regulations stipulated by the Bank of Lao P.D.R, and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors'

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects the financial position of the Bank as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with the Accounting Law of Lao P.D.R and relevant accounting regulations stipulated by the Bank of Lao P.D.R.

Ernst & Young Lao Ltd

The logo is a circular seal with a blue border. Inside the seal, the text "ERNST & YOUNG" is written in a bold, sans-serif font, with "LAO CO., LTD" below it. There are also some smaller characters in Lao script around the inner edge of the seal.

Vientiane, Lao P.D.R
30 March 2013

Income Statement(For the Year Ended 31 December 2012)

Code	ITEMS	Notes	2012 LAKm	2011 Restated LAKm
A.	OPERATING INCOME AND EXPENSES 1			
1	Interest and similar income	2	102,245	63,390
1.1	Interest and similar income from interbank		373	42
1.2	Interest and similar income from customers		97,252	62,792
1.3	Other interest and similar income		4,620	556
2	Interest and similar expense	2	(73,654)	(40,572)
2.1	Interest and similar expense for interbank		(1,033)	(113)
2.2	Interest and similar expense for customers		(72,621)	(40,459)
I.	NET INTEREST AND SIMILAR INCOME	2	28,591	22,818
9	Fee and commission income	3	12,473	7,688
10	Fee and commission expense	3	(229)	(243)
13	Net gain/(loss) from dealing in foreign currencies and gold		494	(262)
II.	NET OPERATING INCOME		41,329	30,001
B	OTHER INCOME AND EXPENSES			
15	Other operating income	4	3,917	1,253
16	Administration expenses		(21,495)	(17,330)
16.1	Payroll and other staff costs	5	(12,692)	(10,777)
16.2	Other administration expenses		(8,803)	(6,553)
17	Depreciation and amortization expenses	6	(4,691)	(3,878)
18	Other operating expenses	7	(5,543)	(2,974)
III.	TOTAL PROFIT BEFORE TAX		13,517	7,072
23	Enterprise income tax	17	(3,785)	(714)
IV.	PROFIT AFTER TAX		9,732	6,358



Mr. Tay Hong Heng
 Managing Director
 Vientiane Capital, Lao PDR
 30 March 2013

Mr. Chanxay KHANTHAVONG
 Head of Finance Department

Balance Sheet (For the Year Ended 31 December 2012)

Code		Notes	31 -Dec-12 LAKm	31-Dec-11 Restated LAKm
	ASSETS			
I	Cash and balances with the BOL		277,971	210,213
1	Cash on hand	8	37,975	36,352
2	Demand deposits	9	130,223	82,780
3	Compulsory reserves and registered capital deposit	9	109,773	91,081
II	Amounts due from other banks	10	152,148	44,846
1	Demand deposits		86,660	44,846
2	Term deposits		65,488	-
III	Investment in Securities	11	86,930	-
1	Held to maturities		86,930	-
V	Loans and advances to customers (net of specific provision)	12	1,026,835	698,565
VIII	Fixed Assets			30,643
1	Work in progress		795	757
2	Intangible fixed assets	13.1	1,654	2,197
3	Tangible fixed assets	13.2	28,194	26,998
X	Other Assets		69,602	62,576
1	Accrued interests		5,630	3,130
2	Other assets	14	63,972	59,446
	TOTAL ASSETS		1,644,129	1,046,152
	LIABILITIES AND CAPITAL			
I	Amounts due to other banks		29,460	32,583
1	Term deposits	15	29,420	32,500
2	Other payables to other banks		40	83
II	Amounts due to customers	16	1,378,926	826,000
1	Demand and saving deposits		74,431	188,256
2	Term deposits		1,304,495	637,744
V	Other liabilities		47,247	27,638
1	Accrued interest		35,541	20,412
2	Tax payable	17	1,680	216
3	Other payables	18	10,026	7,010
	TOTAL LIABILITIES		1,455,633	886,221
VI	Capital and reserves			
1	Paid-up capital	19	181,866	164,866
2	Regulatory reserve fund		71	-
3	Business expansion fund		-	-
4	General provision for credit activities	12.2	5,544	4,084
5	Retained earnings/(Accumulated losses)		1,015	(9,019)
	TOTAL CAPITAL		188,496	159,931
	TOTAL LIABILITIES AND CAPITAL		1,644,129	1,046,152

CASH FLOW STATEMENT for the year ended 31 December 2012

	Notes	2012 LAKm	2011 Restated LAKm
Net profit after tax		9,732	6,358
Adjustments for:			
Enterprise income tax expenses	17	3,785	714
Depreciation and amortization charges	13	4,691	3,878
Loan loss provision expenses	12.2	1,454	1,958
Gain on asset disposals		-	(5)
Cash flows from operating profit before			
Changing in operating assets and liabilities		19,662	12,903
(Increase)/Decrease in operating assets			
Balances with other banks		(84,180)	(23,083)
Loans and advances to customers		(328,270)	(268,463)
Accrued interest income		(2,500)	(719)
Other assets		(4,527)	(5,888)
(Increase)/Decrease in operating liabilities			
Deposits and borrowings from other banks		(3,080)	32,330
Customer deposits and other amounts due to customers		552,926	149,879
Enterprise income tax paid during the year	17	(2,321)	(632)
Accrued interest expense		15,129	6,847
Other liabilities		3,015	(712)
Net cash flows from/(used in) operating activities		165,854	(97,538)
INVESTING ACTIVITIES			
Work in progress		(37)	4,312
Payments to acquire property and equipment		(8,411)	(10,851)
Proceed of asset disposals		3,067	114
Investment in securities		(86,930)	-
Net cash flows used in investing activities		(92,311)	(6,425)
FINANCING ACTIVITIES			
Capital contribution		17,000	17,000
Net cash flows used in financing activities		17,000	17,000
Net increase/(decrease) in cash and cash equivalents		90,543	(86,963)
Cash and cash equivalents at the beginning of the year		163,978	251,045
Effect of foreign exchange difference		337	(104)
Cash and cash equivalents at the end of the year	20	254,858	163,978



Mr. Tay Hong Heng
Managing Director
Vientiane Capital, Lao PDR
30 March 2013

Mr. Chanxay KHANTHAVONG
Head of Finance Department

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

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

1.1. Basis of Preparation

The Bank maintains its records in Lao Kip ("LAK") and prepares its financial statements in millions of LAK ("LAKm") in accordance Decree No. 02/PR by the Prime Minister of Lao P.D.R dated 22 March 2000 and the Enterprise Accounting Law of Lao P.D.R and other relevant accounting regulations as stipulated by Bank of Lao P.D.R ("LAS").

The accompanying financial statements have been prepared using accounting principles, procedures and reporting practices generally accepted in Lao P.D.R. Accordingly, the accompanying financial statements and the notes thereto are not designed for those who are not informed about Lao P.D.R's accounting principles, procedures and practices and furthermore are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than Lao P.D.R.

The attached supplementary information is presented for reference purposes only and do not form part of these financial statements.

1.2. Fiscal Year

The fiscal year of the Bank starts on 1 January and ends on 31 December.

1.3. Recognition of Interest Income and Expense

Interest income and expense are recognized in the income statement on accrual basis using straight-line method and the interest rates stipulated in the lending/depositing contracts with clients.

The recognition of accrued interest income is suspended when the loans becoming non-performing or when management believes that the borrower has no ability to repay the interest and principal. Interest income on such loans is only recorded in the income statement when actually received.

1.4. Recognition of Fee and Commission Income

Fee and commission consists of fees received for fund transfer services.

Fee and commissions are recognized in to income statement on cash basis.

1.5. Net Gain/(Loss) from Dealing in Foreign Currency

Net gain/(loss) from dealing in foreign currencies comprise realized and unrealized foreign exchange differences arising from foreign currencies trading and translation of foreign currencies monetary assets and liabilities. Net gain/(loss) from dealing in foreign currencies during the year are converted into LAK at rates ruling at the month end. Translation of monetary items originated in foreign currencies at the month end is also recorded as income or expense during the financial year.

1.6. Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid short-term investments with an original maturity of less than 30 days that are readily convertible to known amount of cash and accounts due from banks with original maturity of less than 30 days.

1.7. Loans and Advances to Customers

Loans and advances to customers are recognized at cost and presented at outstanding balance less specific provision for loans and advances to customers as at 31 December 2012.

1.8. Specific Provision for Loans and Advances to Customers

In accordance with Regulation 324/BOL ("BOL324") dated 19 April 2011, the Bank is required to classify loans and create provision for impairment losses. Accordingly, loans are classified into Performing loans or Non-performing loans based on the payment arrears status and other qualitative factors. Loans classified as either Normal or Pass or Watch or Special mention are considered as Performing loans. Loans classified as either Substandard or Doubtful or Loss are considered as Non-Performing Loans (NPL).

According to BOL 324, provision for loans and advances to customers is established by multiplying the outstanding balance of each loan item with the provision rates applicable to that loan classification as follows:

No	Category	Specific Provision Rate
1	Normal or Pass	0%
2	Watch or Special Mention	0%
3	Substandard	20%
4	Doubtful	50%
5	Loss	100%

Changes in specific provision is recorded to the income statement as “Net specific provision charges/(reversal) for loans and advances to customers”. Accumulated specific provision reserve is recorded in the balance sheet in “Loans and advances to customers (net of specific provisions)”.

Details on the loan classification and specific provision and the provision amount that are actually booked by the Bank as at 31 December 2012 are presented in Note 12.2

1.9. General Provision for Credit Activities

In accordance with BOL324, a general provision is created for credit activities with both other banks and customers which are yet to be identified during the loan classification process and in specific provision as well as in case of the Bank’s potential financial difficulty due to deterioration in loan quality. Accordingly, the Bank is required to create a general provision for loan losses at the rate 3.00% of the total balance of Special Mention loans as at the balance sheet date and general provision made for Normal loans shall be based on the BOL’s notification for each period. For the year ended 31 December 2012, the general provision rate for Normal loans was 0.5% in accordance with the Official letter No 242/BOL issued by the Bank of Lao P.R.D on 2 April 2011.

Accordingly, the Bank applied the rates of 0.50% and 3% to create general provision for Normal and Special loans, respectively for the year ended 31 December 2012.

In accordance with the relevant accounting regulations as stipulated by the Bank of Lao P.D.R, changes in general provision for credit activities are recorded to the income statement as “Other operating expenses” for general provision expense and “Other operating income” for reversal of general provision expense and general provision reserve is recorded in the balance sheet in “General provision for credit activities” under capital and reserves of the Bank.

1.10. Investment Securities

Held-to-maturity securities

Held-to-maturity investment securities are debt securities with fixed or determinable payments and maturities, which the Bank has intention and ability to hold to maturity for interest earnings. These securities will not be sold before maturity date or reclassified as trading securities or available-for-sale securities. These securities have determined values and maturities. When they are sold before maturity date, these securities will be reclassified as trading securities or available-for-sale securities.

Held-to-maturity securities are initially recognized at cost and subsequently presented at cost for the following years.

Periodically, the held-to-maturity securities are subject to review for impairment. Provision for impairment of these securities is made when there has been a significant or prolonged declined in the fair value below their cost. Provision for impairment is recognized as “Net gain/(loss) from securities investment in the income statement.

1.11. Fixed Assets

Fixed asset includes of tangible fixed assets and intangible fixed assets and land use rights. Tangible fixed assets consist of building, furniture and fixtures, office equipments, vehicles. Intangible fixed assets consist of computer software.

Fixed assets are stated at cost less accumulated depreciation, if any the cost of an asset comprises its purchase price plus any directly attributable costs of bringing the asset to working condition for its intended use.

Expenditures for additions, improvements and renewals are capitalized and expenditures for maintenance and repairs are charged to the income statement.

Cost and accumulated depreciation of sold or retired assets are derecognized in the balance sheet and any gains or losses resulting from their disposal are recorded in the income statement.

1.12. Depreciation and Amortization of Fixed Assets

Depreciation and amortization of fixed assets are provided on the straight line basis at prescribed rates over their estimated useful life in accordance with the Lao Tax Law No.001 dated 1 March 2011 stipulated by the President of the National Assembly. The following are the annual rates used:

Buildings & Improvements	5%
Office Equipments	10%
Furniture & Fixtures	10%
Motor Vehicles	20%
Computer Software	20%

1.13. Statutory Reserves

Under the requirement of the Law on Commercial Bank dated 26 December 2006, 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 statutory reserve at the rate between 5% to 10% of profit after tax depending on the decision of the Board of Director. Accordingly, the Bank has provided the following reserves for the year 2012:

Reserves	% of profit after tax (after deduction of accumulated losses)
Regulatory reserve fund	10%
Business expansion fund and other funds	-

1.14. Foreign Currency Transactions

The Bank maintains its accounting system and records all transactions in original currencies. Monetary assets and liabilities denominated in foreign currencies at year end are translated into LAK at exchange rates ruling on the balance sheet date (see the list of exchange rates of applicable foreign currencies against LAK on 31 December 2012 as presented below). Income and expenses arising in foreign currencies during the year are converted into LAK at year end rates. Foreign exchange differences arising from the translation of monetary assets and liabilities on the balance sheet date are recognized in the income statement.

	31 December 2012 LAK	31 December 2011 LAK
United State Dollar ("USD")	7,965.00	8,007.00
Thai baht ("THB")	260.23	256.38
Euro ("EUR")	10,418.00	10,667.00
Japanese yen ("JPY")	89.66	101.33
Australian Dollar ("AUD")	8,034.00	7,996.00

1.15. Taxation

Provision is made for taxation on the current year's profits, based on the Tax Law governing taxation within Lao P.D.R. The Bank is subject to the higher of 28% on total profit before tax and 1% of total revenue in accordance with the new Tax Law No.001 dated 1 March 2011 which is effective on or after 1 January 2012 (2011: at the higher of 35% on the taxable profit of the Bank and 1.00% of total income reported under the Lao Accounting System). 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 financial statements could be changed at a later date upon final determination by the tax authorities.

2. NET INTEREST AND SIMILAR INCOME

	2012 LAKm	2011 LAKm
Interest and similar income:		
Interest income from interbank	373	42
Interest income from customers	97,252	62,792
Other interest and similar income	4,620	556
	102,245	63,390
Interest and similar expense:		
Interest expense from borrowings from other banks	(1,033)	(113)
Interest expense from customer deposits	(72,621)	(40,459)
	(73,654)	(40,572)
Net interest and similar income	28,591	22,818

3. NET FEES AND COMMISSION INCOME

	2012 LAKm	2011 LAKm
Fees and commission income from:		
Domestic banks	108	123
Travel checks, bank checks and other valuables	84	77
Commission from import credit	1,303	844
Securities	17	23
Telecommunication (fax, telegram)	1,153	1,153
Fee on transferring money	84	45
Fees on Loan	2,668	1,423
Income from other services	3,653	1,902
Fees from exchanges	50	33
Other income from financial services and customers	3,353	2,065
	12,473	7,688
Fees and commission expense:		
Other commission	(108)	(77)
Fees for settlement services via Check, Fax, TT, Swift	(68)	(119)
Other financial services	(53)	(47)
	(229)	(243)
Net fees and commission income	12,244	7,445

4. OTHER OPERATING INCOME

	2012 LAKm	2011 LAKm
Income from returned expenses	1,423	1,132
Reversal of general provision (see Note 12.2)	2,342	-
Others	152	121
	3,917	1,253

5. PAYROLL AND OTHER STAFF COSTS

	2012 LAKm	2011 LAKm
Wages and salaries	11,082	9,484
Other staff costs	1,610	1,293
	12,692	10,777

6. OTHER ADMINISTRATIVE EXPENSES

	2012 LAKm	2011 restated LAKm
Office rental expenses	1,640	729
Fuel expenses	270	185
Office stationery expenses	243	864
Publication, marketing and promotion expenses	1,247	1,045
Telecommunication expenses	742	1,008
Repair and maintenance expenses	579	466
Electricity and water expenses	538	479
Audit and legal fees	83	82
Expenses on welcoming guests	6	11
Other expenses	2,166	711
External services	641	504
Insurance fee	648	469
	8,803	6,553

7. OTHER OPERATING EXPENSES

	2012 LAKm	2011 LAKm
General provision expenses (see Note 12.2)	3,796	1,958
Depositor Protection Fund	891	280
Returned income	-	247
Loss on disposals of assets	104	5
Others	752	484
	5,543	2,974

8. CASH ON HAND

	31/12/2012	31/12/2011
	LAKm	LAKm
Cash on hand in LAK	15,824	11,229
Cash on hand in foreign currencies	22,151	25,123
	37,975	36,352

9. BALANCES WITH THE BANK OF LAO P.D.R (“BOL”)

	31/12/2012	31/12/2011
	LAKm	LAKm
Demand deposits	130,223	82,780
Compulsory reserves and registered capital deposit	109,773	91,081
	239,996	173,861

Balances with the BOL include demand deposits, compulsory reserves and registered capital deposit. These balances bear no interest.

Under the regulations of the BOL, the Bank is required to maintain certain cash reserves with the BOL in the form of compulsory deposits, which are computed at 5.00% for LAK and 10.00% for USD and THB, on a bi-monthly basis, (2011: 5.00% and 10.00%) of customer deposits having original maturities of less than 12 months, after deducting the balances of cash on hand, in LAK and in USD and THB, respectively.

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

10. AMOUNTS DUE FROM OTHER BANKS

	31/12/2012	31/12/2011
	LAKm	LAKm
Demand deposits	86,660	44,846
Balances with domestic banks	16,397	20,842
Banque pour le Commerce Exterieur Lao (BCEL)	15,282	20,419
Joint Development Bank (JDB)	1,115	346
Lao Development Bank (LDB)	-	77
Balances with oversea banks	70,263	24,004
Standard Chartered Bank, New York	65,189	10,561
Standard Chartered Bank, Bangkok	1,882	3,769
Standard Chartered Bank City, Frankfurt	657	3,442
Deutsche Bank Trust Company America, New York	2,535	6,232
Term deposits	65,488	-
Vietin Bank-Laos Branch	25,593	-
Sacombank-Laos Branch	8,000	-
Lao Development Bank (LDB)	8,000	-
International Commercial Bank Lao Limited	23,895	-
	152,148	44,846

Term deposits with Vietin Bank-Laos Branch are denominated in LAK and USD. Term deposits in LAK have term of 3 months and bear interest at rates of 5% per annum. Term deposits in USD have term of 3 months and bears interest at rate of 4% per annum.

Term deposit with Sacombank-Laos Branch is denominated in LAK which has term of 3 months and bears interest at rate of 2.5% per annum.

Term deposit with Lao Development Bank is denominated in LAK which has term of 3 months and bears interest at rate of 2.15% per annum.

Term deposit with International Commercial Bank Lao Limited is denominated in USD which has term of 3 months and bears interest at rate of 3% per annum.

11. INVESTMENT IN SECURITIES

	31/12/2012 LAKm	31/12/2011 LAKm
Held-to-maturity securities		
Debt securities issued by the Bank of Lao P.D.R	55,930	-
Debt securities issued by the Ministry of Finance	31,000	-
	86,930	-

11.1. Bonds Issued by the Bank of Lao P.D.R

Bonds issued by the Bank of Lao P.D.R with the details as follow:

Issuance Date	LAKm Equivalent	Term	Interest rate (% p.a)
11-Dec-12	15,930	1 year	3.75%
13-Nov-12	20,000	6 months	4.50%
13-Nov-12	20,000	3 months	3.50%
	55,930		

11.2. Bonds Issued by the Ministry of Finance

Bonds issued by the Ministry of Finance are as follows:

Issuance date	LAKm equivalent	Term	Interest rate (% p.a)
25-Jul-12	21,000	2 years	3.00%
01-Mar-12	5,000	2 years	3.00%
18-Sep-12	5,000	3 years	3.50%
	31,000		

12. LOANS AND ADVANCES TO CUSTOMERS (NET OF SPECIFIC PROVISION)

12.1. Loans and Advances to Customers

	31/12/2012 LAKm	31/12/2011 LAKm
Loans and advances to customers	1,026,835	698,565
Less specific provision for loans	-	-
	1,026,835	698,565

Commercial loans comprise overdrafts, short term, medium term and long-term loans lent by the Bank in LAK, USD and THB. Commercial loans denominated in LAK earn interest at rates varying from 10% to 18% per annum depending on the terms of the loans. Commercial loans denominated in USD and THB earn interest at rates ranging from 7% to 18% per annum.

Analysis by Currency

	31/12/2012 LAKm	31/12/2011 LAKm
Loans and advances denominated in LAK	376,683	210,353
Loans and advances denominated in USD	528,379	377,482
Loans and advances denominated in THB	121,773	110,730
	1,026,835	698,565

Analysis by Status of Loan

	31/12/2012 LAKm	31/12/2011 LAKm
Performing loans	1,026,835	698,565
- Normal	1,011,474	674,924
- Special Mention	15,361	23,642
Non-performing loans		
- Substandard	-	-
- Doubtful	-	-
- Loss	-	-
	1,026,835	698,565

12.2. Provision for Credit Losses

Movement of loan loss provision of the Bank during the year 2012 is as follows:

	Specific provision in LAKm	General provision in LAKm
Balance as at 1 January 2011	-	2,150.00
Provision charged to expense in the year	-	2,090.00
Reversal of provision in the year	-	(132.00)
Foreign exchange difference	-	(24.00)
Balance at 31 December 2011	-	4,084.00
Provision charged to expense in the year	-	3,796.00
Reversal of provision in the year	-	(2,342.00)
Foreign exchange difference	-	6.00
Balance at 31 December 2012	-	5,544.00

The breakdown of loan classification and provision as required by the BOL as at 31 December 2012 are as follows:

	Loan balance LAKm	Specific provision LAKm	General provision LAKm	Total provision LAKm
Classification				
Performing loans				
- Normal loan	1,011,474	-	5,057	5,057
- Special mention	15,361	-	487	487
Non-Performing Loans (NPL)	-	-	-	-
Total	1,026,835	-	5,544	5,544

13. FIXED ASSETS

13.1. Intangible Fix Assets

Movement of intangible fixed assets for the year ended 31 December 2012 is as follows:

	Computer software LAKm	Total LAKm
Cost:		
As at 1 January 2012	4,488	4,488
Additions	360	360
Disposal	-	-
As at 31 December 2012	4,848	4,848
Accumulated amortization:		
As at 1 January 2012	2,291	2,291
Charge for the year 2012	903	903
Disposal	-	-
As at 31 December 2012	3,194	3,194
Net book value:		
As at 1 January 2012	2,197	2,197
As at 31 December 2012	1,654	1,654

Movement of intangible fixed assets for the year ended 31 December 2011 was as follows:

	Computer software LAKm	Total LAKm
Cost:		
As at 1 January 2011	4,221	4,221
Additions	267	267
Disposal	-	-
As at 31 December 2011	4,488	4,488
Accumulated amortization:		
As at 1 January 2011	1,422	1,422
Charge for the year 2011	869	869
Disposal	-	-
As at 31 December 2011	2,291	2,291
Net book value:		
As at 1 January 2011	2,799	2,799
As at 31 December 2011	2,197	2,197

13.2. Tangible Fix Assets

Movement of Fixed Assets for the year ended 31 December 2012 is as follows:

	Building & improvement in LAKm	Office equipment in LAKm	Furniture & fixtures in LAKm	Motor vehicles in LAKm	Total in LAKm
Cost:					
At 1 January 2012	15,468	9,949	6,800	2,322	34,539
Additions	4,797	2,502	331	421	8,051
Disposal	(2,472)	(581)	-	(230)	(3,283)
At 31 December 2012	17,793	11,870	7,131	2,513	39,307
Accumulated depreciation:					
At 1 January 2011	4,351	1,736	588	866	7,541
Charge for the year	1,830	1,070	410	478	3,788
Disposal-	(66)	-	(150)	(216)	
At 31 December 2012	6,181	2,740	998	1,194	11,113
Net book value:					
At 1 January 2012	11,117	8,213	6,212	1,456	26,998
At 31 December 2012	11,612	9,130	6,133	1,319	28,194

Movement of Fixed Assets for the year ended 31 December 2011 was as follows:

	Building & improvement in LAKm	Office equipment in LAKm	Furniture & fixtures in LAKm	Motor vehicles in LAKm	Total in LAKm
Cost:					
At 1 January 2011	13,853	6,867	1,696	1,658	24,074
Additions	1,615	3,129	5,151	689	10,584
Disposal-	(47)	(47)	(25)	(119)	
At 31 December 2011	15,468	9,949	6,800	2,322	34,539
Accumulated depreciation:					
At 1 January 2011	2,870	923	271	478	4,542
Charge for the year	1,481	815	324	389	3,009
Disposal-	(2)	(7)	(1)	(10)	
At 31 December 2011	4,351	1,736	588	866	7,541
Net book value:					
At 1 January 2011	10,983	5,944	1,425	1,180	19,532
At 31 December 2011	11,117	8,213	6,212	1,456	26,998

14. OTHER ASSETS

	31/12/2012 LAKm	31/12/2011 LAKm
Rental deposits	49,886	50,135
Prepayments	3,695	5,187
Others	10,195	3,779
	63,776	59,101

15. AMOUNTS DUE TO OTHER BANKS

	31/12/2012 LAKm	31/12/2011 LAKm
Term deposits		
Domestic financial institutions		
- Military Bank-Laos Branch	-	20,000
- Vietin Bank-Laos Branch	16,520	-
- Lanexang Securities Public Company	10,400	10,000
- Depositors Protection Fund	2,500	2,500
	29,420	32,500

Term deposits from other banks represents amount due to VietinBank-Laos Branch, Lanexang Securities Public Company and Depositors Protection Fund. These term deposits have term of ranging from 6 months to 24 months and bear interest at rates ranging from 6.00% to 12.00% per annum.

16. AMOUNTS DUE TO CUSTOMERS

Balance of customer deposits and other amounts due to customers as of 31 December 2012 is as follow:

	31/12/2012 LAKm	31/12/2011 LAKm
Demand deposits	74,431	41,333
Demand deposits in LAK	23,367	17,497
Demand deposits in FC	51,064	23,836
Saving deposits	259,226	146,923
Saving deposits in LAK	48,898	30,420
Saving deposits in FC	210,328	116,503
Fixed term deposits	1,045,269	637,744
Fixed term deposits in LAK	352,823	140,493
Fixed term deposits in FC	692,446	497,251
	1,378,926	826,000

Demand deposits bear no interest. Customer saving accounts in LAK and USD and THB bear interest at rates of 3.50%, 1.75% and 1.75% per annum respectively (2011: 5.00%, 2.00% and 2.00% per annum respectively).

Fixed term deposits in LAK have terms of 3, 6, 12, 18 and 24 months and are subject to interest at rates ranging from 5.75% to 13.50% per annum (2011: 6.00%, 8.00%, and 10.00% per annum respectively). Fixed term deposits in foreign currencies have the same range of terms and bear interest at rates ranging from 2.75% to 7.00% per annum for THB and from 3.75% to 8.00% per annum for USD (2011: from 2.75% to 8.00% per annum for THB and from 3.75% to 7.00% per annum for USD).

17. TAXATION

In accordance with the Tax Law No.001 dated 1 March 2011 which is effective on or after 1 January 2012, enterprise income tax is payable at the higher of the minimum tax of 1.00% on total income ("1.00% method") or at 28% on the taxable profit of the Bank reported under the Lao Accounting System (2011: at the higher of the minimum tax of 1.00% on total income ("1.00% method") or at 35% on the taxable profit of the Bank reported under the Lao Accounting System).

	2012 LAKm	2011 LAKm
Under 1% total taxable revenue method		
Total taxable revenues	119,989	71,368
Income tax expense under 1% method	1,200	714
Under 28% profit before tax method (2011: 35%)		
Profit before tax	13,517	7,072
Losses carried forward from previous year	-	(15,298)
Taxable income	13,517	(8,226)
Current Enterprise Income Tax expense, at the statutory rate of 28% (2011: 35%)	3,785	-
Current Enterprise Income Tax expense (higher between two methods)	3,785	714
Payable at the beginning of the year	216	134
Tax paid during the year	(2,321)	(632)
Payable at the end of the year	1,680	216

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

18. OTHER PAYABLES

	31/12/2012 LAKm	31/12/2011 LAKm
External account payable	8,233	6,746
Deferred income	819	-
Other payables	974	264
	10,026	7,010

19. PAID-UP CAPITAL

The movement of paid-up capital during the year is presented below:

	2012 LAKm	2011 LAKm
Opening balance	164,866	147,866
Additional paid-up capital during the year	17,000	17,000
Closing balance	181,866	164,866

20. CASH AND CASH EQUIVALENTS

	31/12/2012 LAKm	31/12/2011 LAKm
Cash on hand	37,975	36,352
Current accounts with the BOL	130,223	82,780
Current accounts with other banks	86,660	44,846
	254,858	163,978

21. RELATED PARTY TRANSACTIONS

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

- (a) directly, or indirectly through one or more intermediaries, the party:
 - controls, is controlled by, or is under common control with, the Bank (this includes parents, subsidiaries and fellow subsidiaries);
 - has an interest in the Bank that gives it significant influence over the Bank; or
 - has joint control over the Bank.
- (b) the party is a joint venture in which the Bank is a venture;
- (c) the party is a member of the key management personnel of the Bank or its parent;
- (d) the party is a close member of the family of any individual referred to in (a) or (d);
- (e) the party is a Bank that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such Bank resides with, directly or indirectly, any individual referred to in (c) or (d); or
- (f) the party is a post-employment benefit plan for the benefit of employees of the Bank, or of any Bank that is a related party of the Bank.

Balances with related parties as at 31 December are as follows:

Related party	Transactions	31/12/2012 LAKm	31/12/2011 LAKm
ITECH Construction Company Limited	Deposits at the Bank	1,444	265
	Borrowings	31,107	30,393
Kolao Farm and Bio-energy Company Limited	Deposits at the Bank	1,294	307
	Borrowings	11,479	11,482
KLD Computer Co. Ltd	Deposits at the Bank	1,242	1,040
	Borrowings	24,700	29,042
Kolao Resort Company Limited	Deposits at the Bank	1,623	918
Kolap Developing Company Limited	Deposits at the Bank	41,306	66,252
	Borrowings	37,210	-
Kolao Import- Export Company Limited	Deposits at the Bank	456	42
Kolao Holdings	Deposits at the Bank	62	-

Transactions with key management personnel of the Bank

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

	2012 LAKm
Salaries	421
Bonus and other benefits	70
	491

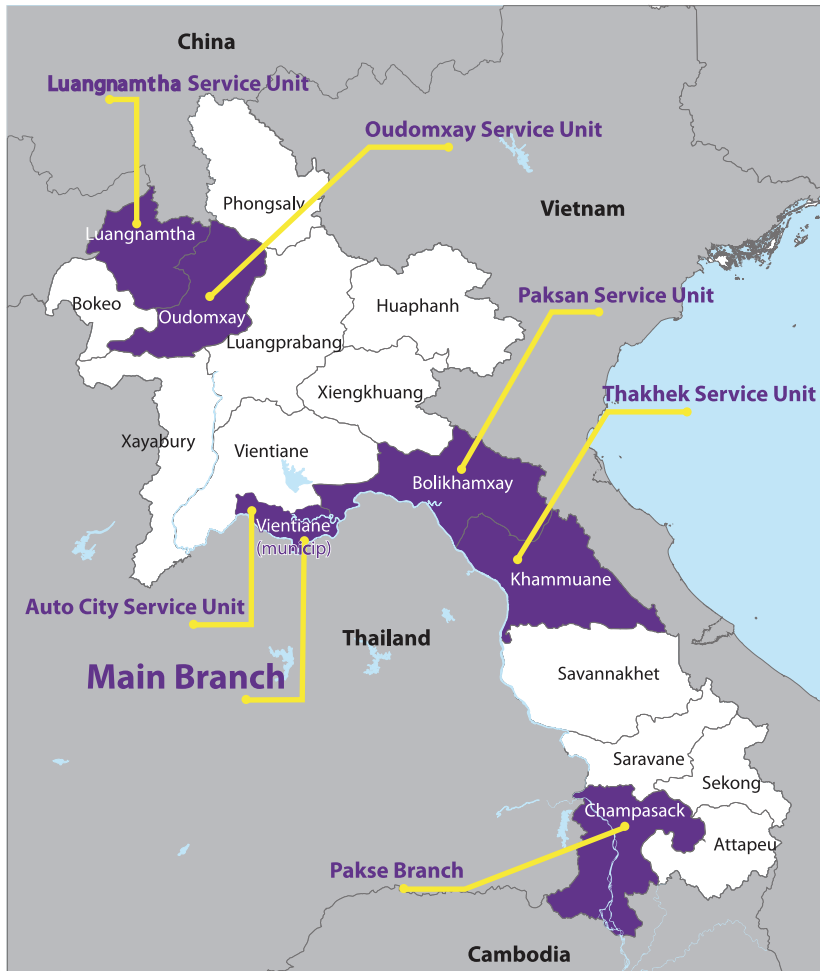
22. OPERATING LEASE COMMITMENTS

	31/12/2012 LAKm	31/12/2011 LAKm
Within 1 year	90,747	111,606
From 1 to less than 5 years	3,983	740
Over 5 years	-	-
	94,730	112,346

PART 4

NETWORK OF THE BANK

1. Location of all Branches & Service Units within the Country



2. Address of the Branches and Service Units

Head Office/Main Branch

Capital Tower, 116, 23 Singha Road,
P.O.Box 6029, Vientiane Capital, Lao PDR.
Tel. : (+856-21) 455 000-2 Fax : (+856-21) 455 111

Pakse Branch

Ban Phonekhong, Pakse District,
Champasak Province, Lao PDR.
Tel. : (+856-31) 260 300-4 Fax : (+856-31) 260 305

Auto City Service Unit

Asean (T2) Road, Ban Nakham,
Sikottabong District, Vientiane Capital, Lao PDR.
Tel. : (+856-21) 520 702-4 Fax : (+856-21) 520 705

Thakhek Service Unit

Vientiane Rd, Ban Nabong,
Thakhek District, Khammouane Province, Lao PDR.
Tel. : (+856-51) 625 600-3 Fax : (+856-51) 625 604

Oudomxay Service Unit

Northern Highway No. 13, Ban Navanny,
Xay District, Oudomxay Province, Lao PDR.
Tel. : (+856-81) 260 023-5 Fax : (+856-81) 260 026

Paksan Service Unit

13 South Road, Sivilay Village,
Paksan District, Bolikhamxay Province, LAO PDR.
Tel. : (+856-54) 280172-3 Fax : (+856-54) 280174

Luang Namtha Service Unit

Phonxay Village, Luang Namtha District,
Luang Namtha Province, LAO PDR.
Tel. : (+856-86) 212256-7 Fax : (+856-86) 212258

PART 5

EVENTS



Opening of Paksan Service Unit



Opening of Luang Namtha Service Unit



Indochina Bank's VIP Appreciation Dinner

PART 5

EVENTS



Donation at Dansavanh Primary School



Donation at International Children's Day

PART 5

EVENTS



Sponsoring ISMO



Bank of Lao (BOL) Sports Competition



Bank of Lao (BOL) Sports Competition



ທະນາຄານອິນໂດຈີນ



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