RHB BANK LAO LIMITED

FINANCIAL STATEMENTS

(in accordance with International Financial Reporting Standards)

31 DECEMBER 2018

www.pwc.com/la

RHB Bank Lao Limited

Contents

RHB Bank Lao Limited

Statement by the Board of Directors
31 December 2018

BOARD OF DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Board of Directors of RHB Bank Lao Limited (the Bank) are responsible for ensuring that the financial statements, present fairly, in all material respects, the financial position of the Bank as at 31 December 2018 and its financial performance, statements of changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS). In preparing these financial statements, the Board of Directors is required to:

i) adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;

ii) comply in accordance with accounting policies of IFRS and ensure that these have been, appropriately disclosed explained and quantified in the financial statements;

iii) maintain adequate accounting records and an effective system of internal controls;

iv) prepare the financial statements on a going concern basis unless it is inappropriate to assume that the Bank will continue operations for the foreseeable future; and

v) effectively control and direct the Bank and be involved in all material decisions affecting the operations and performance of the Bank, and ascertain that such decisions have been properly reflected in the financial statements.

The Board of Directors confirms that the Bank has complied with the above requirements in preparing the financial statements for as at and for the year ended 31 December 2018.

STATEMENT BY THE BOARD OF DIRECTORS ON THE FINANCIAL STATEMENTS

We do hereby state that the accompanying financial statements, present fairly, in all material respects, the financial position of the Bank as at 31 December 2018 and its financial performance, statements of changes in equity and its cash flows for the year then ended and are properly drawn up in accordance with IFRS.

For and on behalf of the Board of Directors

Danny Ling Chii Hian
Chief Executive Officer

29 March 2019

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER AND BOARD OF DIRECTORS OF RHB BANK LAO LIMITED

Our opinion

In our opinion, the financial statements of RHB Bank Lao Limited (the Bank) present fairly, in all material respects, the financial position of the Bank as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2018;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accounts' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of these financial statements in accordance with IFRS and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the management 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.

For PricewaterhouseCoopers (Lao) Sole Company Limited

ບໍລິສັດ
ພຣາຍເວເທີເຮົາສຄູເປີສ (ລາວ)
ຈຳກັດຜູ້ດຽວ
PricewaterhouseCoopers(Lao)
Sole Company Limited

Apisit Thiengtrongpinyo
Partner

Vientiane, Lao P.D.R.
29 March 2019

RHB Bank Lao Limited

Statement Of Financial Position
As At 31 December 2018

	Note(s)	2018 LAK	2017 LAK
ASSETS			
Cash and balances with central bank	5	482.894.123.825	515.899.129.791
Deposits with other banks	6	9.282.828.117	10.747.859.869
Loans and advances to customers	8	459.986.808.852	428.462.853.909
Intangible assets	9	1.257.870.977	2.579.639.138
Property and equipment	10	14.669.151.454	16.667.492.895
Other assets	11	12.878.655.692	13.825.385.472
Deferred tax asset	12	-	272.092.186
TOTAL ASSETS		**980.969.438.917**	**988.454.453.260**
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from customers	13	40.294.109.829	40.000.687.298
Deposits from other banks	14	150.645.988.977	147.661.970.352
Amount due to parent company	15	470.013.115.472	480.150.290.913
Current income tax liability	23	1.213.174.048	1.352.617.400
Other liabilities	16	1.783.537.843	2.916.699.911
Deferred tax liability	12	1.060.191.643	-
TOTAL LIABILITIES		**665.010.117.812**	**672.082.265.874**
EQUITY			
Paid-up capital	17	301.500.000.000	301.500.000.000
Legal reserve	18	1.714.014.602	1.114.186.014
Retained earnings		12.745.306.503	13.758.001.372
TOTAL EQUITY		**315.959.321.105**	**316.372.187.386**
TOTAL EQUITY AND LIABILITES		**980.969.438.917**	**988.454.453.260**

Danny Ling Chii Hian
Chief Executive Officer

29 March 2019

The accompanying notes on pages 8 to 45 form an integral part of these financial statements.
Independent auditor's report – pages 2 to 3.

RHB Bank Lao Limited

Statement of Comprehensive Income
For the year ended 31 December 2018

	Note(s)	2018 LAK	2017 LAK
Interest income		61.895.310.053	53.683.172.160
Interest expense		(20.944.047.078)	(19.069.292.713)
NET INTEREST INCOME	19	**40.951.262.975**	**34.613.879.447**
Loan impairment charges	8	(11.700.914.022)	(3.562.654.095)
NET INTEREST INCOME AFTER LOAN IMPAIRMENT CHARGES		**29.250.348.953**	**31.051.225.352**
Fee and commission income		919.559.512	1.013.598.044
Fee and commission expense		(193.499.420)	(211.846.104)
NET FEE AND COMMISSION INCOME	20	**726.060.092**	**801.751.940**
Foreign exchange gain, net		1.187.381.318	2.419.528.464
Payroll and other staff costs	21	(10.206.125.948)	(8.700.930.107)
General and administrative expenses	22	(5.843.385.935)	(5.260.022.948)
Depreciation and amortisation charges	9,10	(4.636.502.237)	(4.174.862.267)
TOTAL EXPENSES		**(19.498.632.802)**	**(15.716.286.858)**
PROFIT BEFORE TAX		**10.477.776.243**	**16.136.690.434**
Income tax expense	23	(4.653.480.231)	(3.530.831.976)
NET PROFIT FOR THE YEAR		**5.824.296.012**	**12.605.858.458**
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**5.824.296.012**	**12.605.858.458**

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RHB Bank Lao Limited

Danny Ling Chii Hian
Chief Executive Officer

29 March 2019

The accompanying notes on pages 8 to 45 form an integral part of these financial statements.
Independent auditor's report – pages 2 to 3.

Statement of Changes in Equity
For the year ended 31 December 2018

	Paid-up capital LAK	Legal reserve LAK	Retained earnings LAK	Total LAK
At 1 January 2017	301.500.000.000	190.340.872	2.075.988.056	303.766.328.928
Net profit for the year	-	-	12.605.858.458	12.605.858.458
Legal reserve	-	923.845.142	(923.845.142)	-
As at 31 December 2017	**301.500.000.000**	**1.114.186.014**	**13.758.001.372**	**316.372.187.386**
At 1 January 2018	**301.500.000.000**	**1.114.186.014**	**13.758.001.372**	**316.372.187.386**
Effect of adoption of IFRS 9	-	-	(6.237.162.293)	(6.237.162.293)
Restated balance at 1 January 2018	**301.500.000.000**	**1.114.186.014**	**7.520.839.079**	**310.135.025.093**
Net profit for the year	-	-	5.824.296.012	5.824.296.012
Legal reserve	-	599.828.588	(599.828.588)	-
As at 31 December 2018	**301.500.000.000**	**1.714.014.602**	**12.745.306.503**	**315.959.321.105**

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RHB Bank Lao Limited

Danny Ling Chii Hian
Chief Executive Officer

29 March 2019

The accompanying notes on pages 8 to 45 form an integral part of these financial statements.
Independent auditor's report – pages 2 to 3.

RHB Bank Lao Limited

Statement of Cash Flows
For the year ended 31 December 2018

	Note(s)	2018 LAK	2017 LAK
OPERATING ACTIVITIES			
Profit before tax		10.477.776.243	16.136.690.434
Adjustments for:			
Depreciation and amortisation charges	9,10	4.636.502.237	4.174.862.267
Loan impairment charges	8	11.700.914.022	3.562.654.095
Foreign exchange gain, net		(1.187.381.318)	(2.419.528.464)
Interest income	19	(61.895.310.053)	(53.683.172.160)
Interest expense	19	20.944.047.078	19.069.292.713
Cash flows used in operating profit before changes in operating assets and liabilities		**(15.323.451.791)**	**(13.159.201.115)**
Decrease in statutory deposits with BOL		430.963.272	858.590.251
Increase in loans and advances to customers		(49.593.312.870)	(96.578.670.735)
Decrease/(increase) in other assets		1.299.391.694	(1.198.344.855)
Increase/(decrease) in deposits from customers	13	131.339.084	(3.130.773.348)
Increase in deposits from other banks		2.799.920.000	92.879.294.416
Increase/(decrease) in deposits from parent company	15	(11.109.700.000)	16.192.760.000
Decrease in other liabilities		(1.133.162.068)	(12.557.325.365)
Interest received		61.542.648.139	50.225.965.249
Interest paid		(20.388.400.140)	(19.069.292.713)
Income tax paid		(3.460.639.754)	(2.532.860.585)
Net cash (used in)/generated from operating activities		**(34.804.404.434)**	**11.930.141.200**
INVESTING ACTIVITIES			
Placement in short term fixed deposit with central bank		(11.850.000.000)	(414.650.000.000)
Purchases of property and equipment		(1.197.039.714)	(4.288.302.634)
Purchases of intangible fixed assets		(119.352.921)	(575.194.453)
Net cash used in investing activities		**(13.166.392.635)**	**(419.513.497.087)**
Net decrease in cash and cash equivalents		(47.970.797.069)	(407.583.355.887)
Cash and cash equivalents, beginning	7	108.805.522.454	514.569.080.415
Effect of foreign exchange difference		2.081.722.623	1.819.797.926
Cash and cash equivalents, ending	7	**62.916.448.008**	**108.805.522.454**

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RHB Bank Lao Limited

Danny Ling Chii Hian
Chief Executive Officer

29 March 2019

The accompanying notes on pages 8 to 45 form an integral part of these financial statements.
Independent auditor's report – pages 2 to 3.

1. GENERAL INFORMATION

RHB Bank Lao Limited (the Bank) is a commercial bank incorporated and registered in Lao People's Democratic Republic (Lao P.D.R.).

The Bank is a limited company by 100% foreign investment under the laws of Lao P.D.R. The Bank operates its banking business under the Law on Commercial Bank No. 03/NA dated 26 December 2006 and under the regulations of Bank of Lao P.D.R (BOL). The Bank had received its Banking License No.10/BOL and Enterprise Registration Certificate No.213/ERA dated 30 May 2014.

The principal activities of the Bank are to provide comprehensive banking and related financial services in Lao P.D.R.

The registered office of the Bank is at Unit No.1, House No. 008, Kaisone Road, Phonesa Ard Village, Vientiane Capital, Lao P.D.R.

The Bank's Board of Directors has reviewed these financial statements and approved for their issuance on 29 March 2019.

According to BOL's number 35/Tor.Aor.Tor dated 21 January 2011 banks in Lao PDR are required to prepare a separate set of financial statements in accordance with International Financial Reporting Standards (IFRS). Apart from this set, the Bank has prepared the financial statements in accordance with the accounting policies of the Bank and the relevant accounting regulations and notifications of BOL.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The financial statements have been prepared in accordance with IFRS as issued by International Accounting Standards Board (IASB) and with International Financial Reporting Interpretations Committee (IFRIC). Additional information by national regulations is included where appropriate.

The financial statements comprise of the statement of comprehensive income, statement of financial position, statement of changes in equity, the statement of cash flows, and the notes. The financial statements have been prepared under the historical cost convention.

(a) New standards and amendments that are effective for the first time for periods on or after 1 January 2018 are as follows:

- *IFRS 9 'Financial Instruments'* and associated amendments to various other standards – replaces the multiple classification and measurement models in IAS 39 'Financial Instruments: Recognition and measurement' with single model that has initially only two classification categories: amortised cost and fair value. Also, the new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. The Bank's adoption of IFRS 9 is described more in detail in note 2.2.

- *IFRS 15 'Revenue from contracts with customers'* and associated amendments to various other standards – the IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The adoption of IFRS 15 did not have any impact on the financial statements of the Bank.

- *Interpretation 22 Foreign Currency Transactions and Advance Consideration* – the interpretation clarifies how to determine the date of transaction for the exchange rate to be used on initial recognition of a related asset, expense or income where an entity pays or receives consideration in advance for foreign currency-denominated contracts. The adoption of the standard did not have any material impact on the financial statements of the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

(b) Standards and interpretations that had been issued but were not mandatory for annual reporting periods ending 31 December 2018:

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Bank. The following are applicable new standards, amendments and interpretations to the Bank:

- *IFRS 16 'Leases'* – will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases. This standard will be effective on 1 January 2019. Early adoption is permitted only if IFRS 15 is adopted at the same time.

- Interpretation 23 *Uncertainty over Income Tax Treatments* – explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. This standard will be effective on 1 January 2019.

- *Prepayment Features with Negative Compensation – Amendments to IFRS 9* – the narrow-scope amendments made to AASB Financial Instruments in December 2017 enable entities to measure certain prepayable financial assets with negative compensation at amortised cost. These assets, which include some loan and debt securities, would otherwise have to be measured at fair value through profit or loss. This standard will be effective on 1 January 2019.

- *Annual improvements to IFRS standards 2015-2017 cycle* – improvements on IFRS 3, IFRS 11, IAS 12, and IAS 23 were finalised in December 2017. This standard will be effective on 1 January 2019.

2.2 Changes in accounting policies

The Bank has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Bank did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings of the current financial year.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as *IFRS 7 'Financial Instruments: Disclosures'*.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Bank. Further details on the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail in note 2.4.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.2 Changes in accounting policies

(a) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

	IAS 39		IFRS 9	
Financial assets	**Measurement category**	**Carrying amount LAK**	**Measurement category**	**Carrying amount LAK**
Cash and balances with central bank	Loans and receivables	515.899.129.791	Amortised cost	515.899.129.791
Deposits with other banks	Loans and receivables	10.747.859.869	Amortised cost	10.747.859.869
Loans and advances to customers	Loans and receivables	428.462.853.909	Amortised cost	422.225.691.616
Other assets	Loans and receivables	9.177.218.346	Amortised cost	9.177.218.346

There were no changes to the classification and measurement of financial liabilities at amortised cost.

(b) Reconciliation of statement of financial position balances from IAS 39 to IAS 9

The Bank performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. Please refer to note 2.4 for more detailed information regarding the new classification requirements of IFRS 9. The following table reconciles the carrying amounts of financial assets from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

Amortised cost	**IAS 39 carrying amount 31 December 2017 LAK**	**Remeasurements LAK**	**IFRS 9 carrying amount 1 January 2018 LAK**
Cash and balances with central bank			
Opening balance under IAS 39 and closing balance under IFRS 9	515.899.129.791	-	515.899.129.791
Deposits with other banks			
Opening balance under IAS 39 and closing balance under IFRS 9	10.747.859.869	-	10.747.859.869
Loans and advances to customers			
Opening balance under IAS 39	428.462.853.909		
ECL allowance		(6.237.162.293)	
Closing balance under IFRS 9			422.225.691.616
Other assets			
Opening balance under IAS 39 and closing balance under IFRS 9	9.177.218.346	-	9.177.218.346

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.2 Changes in accounting policies

(c) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior year's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

Loans and receivables (IAS 39) Financial assets at amortised cost (IFRS 9)	Loan loss allowance under IAS 39 LAK	Remeasurement LAK	Loan loss allowance under IFRS 9 LAK
Cash and balances with central bank	-	-	-
Deposits with other banks	-	-	-
Loans and advances to customers	5.245.179.662	6.237.162.293	11.482.341.955
Other assets	-	-	-
	5.245.179.662	**6.237.162.293**	**11.482.341.955**

Further information on the measurement of the impairment allowance under IFRS 9 can be found in note 4.1.1.

2.3 Measurement and presentation currency

(a) *Functional and presentation currency*

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates (the functional currency). The Bank's financial statements are presented in Laotian KIP 'LAK' (the presentation currency), which is also the Bank's functional currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

2.4 Financial assets and liabilities

From 1 January 2018, all financial assets and financial liabilities 2018 have to be recognised in the Bank's statement of financial position and measured in accordance with their assigned category under IFRS 9. All financial assets and financial liabilities before 1 January 2018 are recognised in the Bank's statement of financial position and measured in accordance with their assigned category under IAS 39.

Amortised cost and effective interest rate under IAS 39 and IFRS 9

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.4 Financial assets and liabilities

Initial recognition and measurement under IAS 39 and IFRS 9

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Immediately after initial recognition, under IFRS 9 only, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

2.4.1 Financial assets

The Bank's significant financial assets include cash and balances with central bank, deposits with other banks, and loans and advances.

Classification and subsequent measurement

Loans and receivables under IAS 39

Loans and receivables are initially recognised at fair value - which is the cash consideration to originate or purchase the loan including any transaction costs - and measured subsequently at amortised cost using the effective interest rate method. Loans and receivables are reported in the Bank's statement of financial position as 'Loans and advances to customers'. Interest on loans is included and is reported as 'Interest income'. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the statement of comprehensive income as 'Loan impairment charges'.

Amortised cost under IFRS 9

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at fair value through profit or loss ('FVTPL'), are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 4.1.1 Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

<u>Business model and SPPI requirement for debt instruments under IFRS 9</u>

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective. Classification and subsequent measurement of debt instruments depend on the Bank's business model for managing the asset and the cash flow characteristics of the asset.

Business model

The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPI

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.4 Financial assets and liabilities

2.4.1 Financial assets

Impairment

Incurred loss model under IAS 39

The Bank's assesses at the end of reporting date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the Bank of financial assets that can be reliably estimated.

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

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial assets, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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 credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

Expected credit loss model ('ECL') under IFRS 9

The Bank assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instruments carried at amortised cost. The Bank recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 4.1.1 provides more detail of how the expected credit loss allowance is measured.

De-recognition

Under IAS 39 and IFRS 9, financial assets are de-recognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests the control to ensure that continuing involvement on the basis of any retained powers of control does not prevent de-recognition).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.4 Financial assets and liabilities

2.4.2 Financial liabilities

The Bank's significant financial liabilities include amount due to parent company, deposits from customers, and deposits from other banks.

Classification and subsequent measurement

In both IAS 39 and IFRS 9, the Bank's financial liabilities are classified as subsequently measured at amortised cost.

De-recognition

Financial liabilities are de-recognised when they have been redeemed or otherwise extinguished (i.e. when the obligation specified in the contract is discharged, cancelled, or expires).

2.5 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Bank's statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.6 Recognition of income and expenses

2.6.1 Interest income and expenses

Interest income and expense for all interest-bearing financial instruments are recognised within 'Interest income' and 'Interest expense' in the Bank's statement of comprehensive income using the effective interest method.

Recognition under IAS 39

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets. Once a financial asset or similar financial assets of the Bank has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Recognition under IFRS 9

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets except for financial assets that are not purchased or originated credit-impaired financial assets but have been subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e., net of the expected credit loss provision).

2.6.2 Fee and commission income and expenses

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

2.7 Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.8 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, which includes cash on hand, deposits held at call with other banks and other short-term highly liquid investments with original maturities of three months or less.

2.9 Statutory deposits

Under the requirement of the Law on Commercial Bank dated 16 January 2007, commercial banks are required to appropriate net profit to 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 BOL and other relevant guidance, commercial banks are required to provide statutory reserve at the rate from 5% to 10% of profit after tax depending on the decision of the Board of Directors.

2.10 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

2.11 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to statement of comprehensive income during the financial period in which they are incurred.

Depreciation is provided on the straight-line basis at prescribed rates over their estimated useful lives as shown below:

Category	Depreciation rate
Motor vehicles	20%
Office equipment	20%
Furniture and fixtures	20%
Building and improvements	5%
Computer equipment	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting period of the Bank's statement of financial position.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Gains or losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Bank's statement of comprehensive income.

2.12 Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. The cost of an asset comprises its purchase price plus any directly attributable costs of bringing the asset into working condition for its intended use. Computer software licences are subsequently carried at cost less accumulated amortisation and impairment losses. These costs are amortised over the estimated useful lives of 5 to 10 years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.13 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of reporting period in the county where the Bank operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.14 Employee benefits

(a) *Short term obligations*

Liabilities for wages and salaries are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

(b) *Post-employment benefits*

Post-employment benefits are paid to retired employees of the Bank by the Social Security Fund Department which belongs to the Ministry of Labour and Social Welfare. The Bank is required to contribute to these post-employment benefits by paying social insurance premium to the Social Insurance Agency at the rate of 6.00% of employee's basic salary on a monthly basis.

(c) *Termination benefits*

In accordance with Article 90 of the Amended Labour Law issued by the President of Lao People's Democratic Republic on 24 December 2013 the Bank has the obligation to pay allowance for employees who are terminated by dismissal in the following cases:

- Compensation for the cancellation of employment contracts shall be 10% of the last salary multiplied by the total number of months worked;
- For unjustified termination of employment contracts in accordance with the Article 88 of the Amended Labour law, compensation will be 15% of the last salary multiplied by the total number of months worked; and
- Cancellation of employment contracts for reasons not specified in the Amended Labour Law, the Bank must implement compensation in accordance with the agreement between the Bank and the employee.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.15 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood of an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal to the actual results. Management also needs to exercise judgement in applying the Bank's accounting policies.

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standards. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events. Accounting policies and management's judgements for certain items are especially critical for the Bank's results and financial situation due to their materiality.

(a) *Measurement of the expected credit loss allowance*

The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 4.1.2 which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the Bank in the above areas is set out in note 4.1.2.

(b) *Taxes*

Management exercises judgement in determining the provision for income taxes and whether deferred taxes should be recognised or temporary differences arising from credit loss allowances since the taxation system in the Lao PDR can be subject to interpretations by different relevant authorities. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Management has then concluded that deferred taxes on the credit loss allowances should not be recognised. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Management also exercises judgement with regards to deferred tax assets. Where the possibility exists that no future taxable may income may flow against which these assets can be offset, the deferred tax assets are not recognised.

4. FINANCIAL RISK MANAGEMENT POLICIES

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

Risk management is carried out by the Compliance and Risk Management Department under policies approved by the Board of Directors and Board Risk Committee. The Compliance and Risk Management Department identifies, evaluates and minimises financial risks in close co-operation with the Bank's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The risks arising from financial instruments to which the Bank is exposed are financial risks, which include credit risk, liquidity risk, market risk (which are discussed below).

4.1 Credit risk

Credit risk is the potential loss of revenue and principal in the form of specific provisions as a result of defaults by the borrowers or counterparties through its lending and investing activities. The primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the statement of financial position. The lending activities are guided by the Bank's credit policy to ensure that the overall objectives in the area of lending are achieved i.e., that the loans portfolio is strong and healthy and credit risks are well diversified. The credit policy documents are the credit control and recovery manual, credit operations manual, and credit policy manual.

Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk.

4.1.1 Credit risk measurement

(a) *Loans and advances to customers*

The estimation of credit risk exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9.

<u>Credit risk grading</u>

The Bank uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The Bank uses internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of application is fed into this rating model. In addition, the models enable expert judgement from the Credit Risk Officer to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade.

4. FINANCIAL RISK MANAGEMENT POLICIES

4.1 Credit risk

4.1.2 Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward- looking information.
- Purchases or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

4.1.2.1 Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per 'Definition of default and credit-impaired' above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).
- Loss given default (LGD) represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD, and EAD for each future month and for each individual collective segment. These three components are multiplied together and adjusted for the likelihood of survival. This effectively calculated an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective rates or an approximation thereof.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type.

4. FINANCIAL RISK MANAGEMENT POLICIES

4.1 Credit risk

4.1.2.2 Sensitivity analysis

The Bank has performed ECL sensitivity assessment on loans and advances to customers based on the changes in key variables such as inflation rates and unemployment rates. The Bank's assessment shows that an increase and decrease by 5% on the key variables will not materially impact the ECL.

4.1.3 Risk limit control and mitigation policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified, in particular, to related parties, to individual counterparties and groups, and to industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry, sector and country are approved annually by the Board of Directors.

Some other specific control and mitigation measures are outlined below:

(a) *Collateral*

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for loans and advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. All loans and advances to customers are secured by collateral. Generally, the Bank shall accept all types of security and collateral which can be liquidated and enforced easily in the event of loan default.

The principal collateral types for loans and advances are mortgages over residential properties primarily land and building, and fixed deposits.

The carrying amount of collateral as at 31 December 2018 for loans and advances to customers is LAK 1.470.710.783.000 (2017: LAK 1.176.100.064.000)

(b) *Lending limits*

The Bank maintains strict control limits on loans to be disbursed to its customers by both amount and term depending on the type of loan. Lending limits are in accordance with the Regulation on limit of loan lending for Commercial Bank 330/BOL dated 2 July 2010.

4.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures relating to on-balance sheet assets are as follows:

	2018 LAK	2017 LAK
Cash and balances with central bank	480.133.619.891	512.707.662.585
Deposits with other banks	9.282.828.117	10.747.859.869
Loans and advances to customers	459.986.808.852	428.462.853.909
Other assets	9.529.880.260	9.177.218.346
	958.933.137.120	**961.095.594.709**

The above table represents a worse-case scenario of credit risk exposure to the Bank at 31 December 2018 and 2017 without taking account of any collateral held or other credit enhancements attached.

Cash and balances with central bank comprise of cash on hand and deposits with the BOL other than mandatory reserve deposits.

4. FINANCIAL RISK MANAGEMENT POLICIES

4.1 Credit risk

4.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

For on financial positions assets, the exposures set out in the table are based on net carrying amounts as reported in the statement of financial position. As shown above, 48% of the total maximum exposure is derived from loans and advances to customers (2017: 44%) and 50% from cash and balances with central bank (2017: 54%). Management is confident in its ability to continue to control and sustain minimal exposure credit risk to the Bank resulting from both its loan and advances as 100% of the loans and advances are backed up by collateral.

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Bank's maximum exposure to credit risk on these assets.

	Loans and advances to customers				
	2018				2017
	Stage 1 12-month ECL LAK	Stage 2 Lifetime ECL LAK	Stage 3 Lifetime ECL LAK	Total LAK	Total LAK
Gross carrying amount	412.457.883.025	19.713.772.972	51.129.690.444	483.301.346.441	433.708.033.571
Loss allowance	(3.557.316.837)	(920.355.245)	(18.836.865.507)	(23.314.537.589)	(5.245.179.662)
Carrying amount at 31 December	**408.900.566.188**	**18.793.417.727**	**32.292.824.937**	**459.986.808.852**	**428.462.853.909**

4.1.5 Loss allowance

The loss allowance recognised in the year is impacted by a variety of factors.

	Loans and advances to customers			
	Stage 1 12-month ECL LAK	Stage 2 Lifetime ECL LAK	Stage 3 Lifetime ECL LAK	Total LAK
Loss allowance at 1 January 2018	5.906.836.970	2.655.887.176	2.919.617.809	11.482.341.955
Net allowance made/(written back) during the year	(2.177.530.250)	(1.919.050.457)	15.797.494.729	11.700.914.022
Foreign exchange	(171.989.883)	183.518.526	119.752.969	131.281.612
Loss allowance at 31 December 2018	**3.557.316.837**	**920.355.245**	**18.836.865.507**	**23.314.537.589**

4. FINANCIAL RISK MANAGEMENT POLICIES

4.1 **Credit risk**

4.1.6 **Maximum exposure to credit risk before collateral held or other credit enhancements**

4.1.6.1 **Concentration of risks of financial assets with credit risk exposure**

(a) *Geographical sectors*

The following table breaks down the Bank's credit exposure at their carrying amounts (without taking into account any collateral held or other credit support), as categorised by geographical region as at 31 December 2018 and 2017. For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties.

	Thailand	Malaysia	Lao PDR	Total
Cash and balances with central bank	-	-	480.133.619.891	480.133.619.891
Deposits with other banks	135.451.276	1.170.566.270	7.976.810.571	9.282.828.117
Loans and advances to customers	-	-	459.986.808.852	459.986.808.852
Other assets	-	-	9.529.880.260	9.529.880.260
31 December 2018	**135.451.276**	**1.170.566.270**	**957.627.119.574**	**958.933.137.120**

	Thailand	Malaysia	Lao PDR	Total
Cash and balances with central bank	-	-	512.707.662.585	512.707.662.585
Deposits with other banks	541.927.263	886.232.606	9.319.700.000	10.747.859.869
Loans and advances to customers	-	-	428.462.853.909	428.462.853.909
Other assets	-	-	9.177.218.346	9.177.218.346
31 December 2017	**541.927.263**	**886.232.606**	**959.667.434.840**	**961.095.594.709**

4. FINANCIAL RISK MANAGEMENT POLICIES

4.1 Credit risk

4.1.6 Maximum exposure to credit risk before collateral held or other credit enhancements

4.1.6.1 Concentration of risks of financial assets with credit risk exposure

(b) *Industry sectors*

The following table breaks down the Bank's credit exposure at their carrying amounts (without taking into account any collateral held or other credit support), as categorised by industry sectors as at 31 December 2018 and 2017. Credit risks relating to on-balance sheet items are as follows:

	Cash and balances with central bank	Deposits with other banks	Loans and advances to customers	Other assets	Total
Financial	480.133.619.891	9.282.828.117	-	9.420.186.739	498.836.634.747
Manufacturing	-	-	30.067.021.478	5.464.880	30.072.486.358
Construction	-	-	28.531.109.454	13.155.636	28.544.265.090
Commercial	-	-	101.582.697.457	9.751.348	101.592.448.805
Transportation	-	-	27.691.806.987	2.335.592	27.694.142.579
Service	-	-	201.127.805.843	5.117.609	201.132.923.452
Others	-	-	70.986.367.633	73.868.456	71.060.236.089
31 December 2018	**480.133.619.891**	**9.282.828.117**	**459.986.808.852**	**9.529.880.260**	**958.933.137.120**

	Cash and balances with central bank	Deposits with other banks	Loans and advances to customers	Other assets	Total
Financial	512.707.662.585	10.747.859.869	-	9.177.218.346	532.632.740.800
Manufacturing	-	-	24.380.934.133	-	24.380.934.133
Construction	-	-	50.889.592.346	-	50.889.592.346
Commercial	-	-	96.412.900.701	-	96.412.900.701
Transportation	-	-	141.576.613.789	-	141.576.613.789
Service	-	-	92.416.609.206	-	92.416.609.206
Others	-	-	22.786.203.734	-	22.786.203.734
31 December 2017	**512.707.662.585**	**10.747.859.869**	**428.462.853.909**	**9.177.218.346**	**961.095.594.709**

4. FINANCIAL RISK MANAGEMENT POLICIES

4.1 Credit risk

4.1.7 Loans and advances to customers are summarised as follows:

	2017 LAK
Neither past due nor impaired – gross (a)	284.033.573.780
Impaired	149.674.459.791
Gross amount	**433.708.033.571**
Less provision for impairment	(5.245.179.662)
Net amount	**428.462.853.909**
Current	72.103.302.061
Non - current	356.359.551.848
Total	**428.462.853.909**

(a) *Loans and advances neither past due nor impaired*

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank.

	2017 LAK
Normal or pass	284.033.573.780
Total	**284.033.573.780**

4.1.8 Write-off policy

The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery.

4.2 Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and currency all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates and foreign exchange rates.

4.2.1 Foreign currency exchange risk

Foreign currency exchange risk refers to the risk of adverse exchange rate movements on foreign currency exchange positions taken from time to time. The Bank maintains a policy of not exposing itself to large foreign exchange positions. Net opening position is being monitored on a daily basis to check how much of foreign currency position there is to reduce risk and comply with the Bank's and BOL's regulations. Any foreign currency exchange open positions are monitored against the operating requirements, predetermined position limits and stop-loss limits. Included in the table below are the Bank's financial instruments at carrying amounts, categorised by LAK, United States Dollar (USD), Thailand Baht (THB) and Malaysian Ringgit (MYR) as at 31 December 2018 and 2017.

4. FINANCIAL RISK MANAGEMENT POLICIES

4.2 Market risk

4.2.1 Foreign currency exchange risk

	As at 31 December 2018			
	LAK	USD	THB	Total
Assets				
Cash and balances with central bank	37.672.490.371	437.656.066.869	7.565.566.585	482.894.123.825
Deposits with other banks	1.027.224.904	2.714.372.585	5.541.230.628	9.282.828.117
Loans and advances to customers	382.549.717.424	63.519.964.079	13.917.127.349	459.986.808.852
Other assets	53.026.536	9.466.323.173	10.530.551	9.529.880.260
Total financial assets	**421.302.459.235**	**513.356.726.706**	**27.034.455.113**	**961.693.641.054**
Liabilities				
Deposits from customers	17.125.218.225	20.100.029.390	3.068.862.214	40.294.109.829
Deposits from other banks	150.645.988.977	-	-	150.645.988.977
Amount due to parent company	-	470.013.115.472	-	470.013.115.472
Total financial liabilities	**167.771.207.202**	**490.113.144.862**	**3.068.862.214**	**660.953.214.278**
Net on-balance sheet financial position	**253.531.252.033**	**23.243.581.844**	**23.965.592.899**	**300.740.426.776**

4. FINANCIAL RISK MANAGEMENT POLICIES

4.2 Market risk

4.2.1 Foreign currency exchange risk

	As at 31 December 2017			
	LAK	USD	THB	Total
Assets				
Cash and balances with central bank	64.351.972.992	446.459.469.637	5.087.687.162	515.899.129.791
Deposits with other banks	-	2.544.832.606	8.203.027.263	10.747.859.869
Loans and advances to customers	345.479.689.682	68.755.513.094	14.227.651.133	428.462.853.909
Other assets	5.415.329	9.150.686.939	21.116.078	9.177.218.346
Total financial assets	**409.837.078.003**	**526.910.502.276**	**27.539.481.636**	**964.287.061.915**
Liabilities				
Deposits from customers	15.496.665.549	19.024.566.684	5.479.455.065	40.000.687.298
Deposits from other banks	147.661.970.352	-	-	147.661.970.352
Amount due to parent company	-	480.150.290.913	-	480.150.290.913
Total financial liabilities	**163.158.635.901**	**499.174.857.597**	**5.479.455.065**	**667.812.948.563**
Net on-balance sheet financial position	**246.678.442.102**	**27.735.644.679**	**22.060.026.571**	**296.474.113.352**

4. FINANCIAL RISK MANAGEMENT POLICIES

4.2 Market risk

4.2.2 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The potential reduction in net interest income from an unfavourable interest rate movement is monitored against the risk tolerance limits set. The Bank regularly monitors its interest rate risk to ensure that there are no undue exposures to significant interest rate movement. The table below summarizes the Bank's non-trading book fair value exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts (non-derivatives), categorised by the earlier of contractual re-pricing.

	As at 31 December 2018						
	Up to 1 month	> 1 to 3 months	> 3 to 12 months	> 1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with central bank	-	-	-	426.500.000.000	-	56.394.123.825	482.894.123.825
Deposits with other banks	-	-	5.277.400.000	-	-	4.005.428.117	9.282.828.117
Loans and advances to customers	-	-	101.043.348.032	106.812.187.547	252.131.273.273	-	459.986.808.852
Other assets	-	-	-	-	-	9.529.880.260	9.529.880.260
Total financial assets	-	-	**106.320.748.032**	**533.312.187.547**	**252.131.273.273**	**69.929.432.202**	**961.693.641.054**
Liabilities							
Deposits from customers	-	21.011.636.323	3.876.307.916	8.532.695.856	-	6.873.469.734	40.294.109.829
Deposits from other banks	-	32.158.536.930	30.418.493.149	88.068.958.898	-	-	150.645.988.977
Amount due to parent company	9.387.241.628	-	-	433.162.164.234	-	27.463.709.610	470.013.115.472
Current income tax liability	-	-	-	-	-	1.213.174.048	1.213.174.048
Other liabilities	-	-	-	-	-	47.994.606	47.994.606
Total financial liabilities	**9.387.241.628**	**53.170.173.253**	**34.294.801.065**	**529.763.818.988**	-	**35.598.347.998**	**662.214.382.932**
Total interest re-pricing gap	**(9.387.241.628)**	**(53.170.173.253)**	**72.025.946.967**	**3.548.368.559**	**252.131.273.273**	**34.331.084.204**	**299.479.258.122**

4. FINANCIAL RISK MANAGEMENT POLICIES

4.2 Market risk

4.2.2 Interest rate risk

	As at 31 December 2017						
	Up to 1 month	> 1 to 3 months	> 3 to 12 months	> 1 to 5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and balances with central bank	-	-	-	414.650.000.000	-	101.249.129.791	515.899.129.791
Deposits with other banks	-	-	9.319.700.000	-	-	1.428.159.869	10.747.859.869
Loans and advances to customers	11.092.589.092	27.137.640.412	29.860.293.635	73.691.324.861	286.681.005.909	-	428.462.853.909
Other assets	-	-	-	-	-	9.177.218.346	9.177.218.346
Total financial assets	**11.092.589.092**	**27.137.640.412**	**39.179.993.635**	**488.341.324.861**	**286.681.005.909**	**111.854.508.006**	**964.287.061.915**
Liabilities							
Deposits from customers	1.920.970.604	23.188.092.329	3.606.307.916	1.450.180.985	-	9.835.135.464	40.000.687.298
Deposits from other banks	-	24.114.147.945	123.546.923.282	-	-	899.125	147.661.970.352
Amount due to parent company	-	-	-	453.449.640.996	-	26.700.649.917	480.150.290.913
Current income tax liability	-	-	-	-	-	1.352.617.400	1.352.617.400
Other liabilities	-	-	-	-	-	10.722.669	10.722.669
Total financial liabilities	**1.920.970.604**	**47.302.240.274**	**127.153.231.198**	**454.899.821.981**	**-**	**37.900.024.575**	**669.176.288.632**
Total interest re-pricing gap	**9.171.618.488**	**(20.164.599.862)**	**(87.973.237.563)**	**33.441.502.880**	**286.681.005.909**	**73.954.483.431**	**295.110.773.283**

4. FINANCIAL RISK MANAGEMENT POLICIES

4.2 Market risk

4.2.3 Sensitivity analysis

(a) *Interest rate risk*

Sensitivity of loss before tax and equity to changes in interest rates by the following from the 31 December 2018 and 2017 rates agreed on the loan agreements and deposits with customers with all other variables held constant are:

i. Gains/(losses) – net increase/decrease in interest rates for loans and advances to customers

	2018 LAK	2017 LAK
Increase 10%	9.876.459.409	8.686.021.646
Decrease 10%	(9.876.459.409)	(8.686.021.646)

ii. Gains/(losses) – net increase/decrease in interest rates for deposits

	2018 LAK	2017 LAK
Increase 10%	21.315.395.430	19.407.400.740
Decrease 10%	(21.315.395.430)	(19.407.400.740)

(b) *Foreign exchange risk*

Sensitivity of profit before tax and equity to changes in foreign exchange rates by the following from the 31 December 2018 and 2017 rates in LAK, which is the functional currency, primarily against USD and THB by increase and decrease of 10% with all other variables held constant are:

	2018 LAK	2017 LAK
Increase 10%	3.787.770.281	5.166.153.223
Decrease 10%	(3.787.770.281)	(5.166.153.223)

4.3 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities or margin calls for derivatives.

Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the statement of financial position and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Bank will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

4. FINANCIAL RISK MANAGEMENT POLICIES

4.3 Liquidity risk

4.3.1 Liquidity risk management process

The Bank's liquidity management process, as carried out within the Bank and monitored by the Operations Department includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in global money markets to enable this to happen;

- Maintaining a portfolio off highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

- Monitoring of the liquidity ratios of the statement of financial position against internal and regulatory requirements of BOL; and

- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week, and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

4.3.2 Assets held for managing liquidity risk

The Bank holds a diversified portfolio of cash to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise:

- Cash and balances with central bank; and

- Deposits with other banks

4. FINANCIAL RISK MANAGEMENT POLICIES

4.3 Liquidity risk

4.3.3 Non-derivative financial liabilities held for managing liquidity risk

The table below represents the cash flows payable by the financial liabilities held for managing liquidity risk by remaining contractual maturities at the date of the statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flows whereas the Bank manages the liquidity risk based on a different basis, not resulting in a significantly different analysis.

	Up to 1 month and repayable on demand	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Liabilities						
Deposits from customers	9.332.606.060	18.603.056.708	3.606.307.916	8.934.847.102	-	40.476.817.786
Deposits from other banks	-	32.254.034.152	121.060.146.492	-	-	153.314.180.644
Amount due to parent company	9.388.938.269	-	-	467.435.267.679	-	476.824.205.948
Other liabilities	47.994.606	-	-	-	-	47.994.606
As at 31 December 2018	**18.769.538.935**	**50.857.090.860**	**124.666.454.408**	**476.370.114.781**		**670.663.198.984**

	Up to 1 month and repayable on demand	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Liabilities						
Deposits from customers	26.078.288.567	3.052.635.045	10.393.565.530	1.544.819.416	-	41.069.308.558
Deposits from other banks	-	32.334.851.749	117.875.500.034	-	-	150.210.351.783
Amount due to parent company	32.342.700.000	-	-	461.068.109.437	-	493.410.809.437
Other liabilities	10.722.669	-	-	-	-	10.722.669
As at 31 December 2017	**58.431.711.236**	**35.387.486.794**	**128.269.065.564**	**462.612.928.853**	-	**684.701.192.447**

4. FINANCIAL RISK MANAGEMENT POLICIES

4.3 Liquidity risk

4.3.4 Off-balance sheet items

(a) Credit facilities

	2018 LAK	2017 LAK
Unutilised overdraft	4.841.434.287	11.767.129.279
Undisbursed loans	15.323.000.000	16.919.000.000
	20.164.434.287	**28.686.129.279**

Unutilised overdraft pertains to amount not yet withdrawn by the customers.

4.3.5 Fair value of financial assets and liabilities

Fair value hierarchy:

Fair value measurements are analysed by level in the fair value hierarchy as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 inputs are unobservable inputs for the asset or liability.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible. The management applies judgement in categorising financial instruments using fair value hierarchy. Fair value disclosed is in level two valuation techniques.

The table below summarises the carrying amounts and fair values of those financial assets not presented on the Bank's statement of financial position at their fair value.

	Carrying value LAK	Fair value LAK
Financial assets		
Loans and advances to customers	459.986.808.852	498.080.530.925
As at 31 December 2018	**459.986.808.852**	**498.080.530.925**

	Carrying value LAK	Fair value LAK
Financial assets		
Loans and advances to customers	428.462.853.909	441.670.547.933
As at 31 December 2017	**428.462.853.909**	**441.670.547.933**

4. FINANCIAL RISK MANAGEMENT POLICIES

4.3 Liquidity risk

4.3.5 Fair value of financial assets and liabilities

The following methods and assumptions are used in estimating fair value of financial assets and liabilities:

(i) Loans and advances to customers

The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(ii) Deposits from customers and from other banks

The fair values of deposits from customers and deposits from other banks with maturities of less than one year approximate their carrying values due to the relatively short maturity of these instruments. The fair values of deposits from customers and deposits from other banks with remaining maturities of more than one year are expected to approximate their carrying values due to the bank offered similar interest rate for similar maturities and terms.

The estimated fair value of deposits with no stated maturities, which includes non-interest-bearing deposits, deposits payable on demand is the amount payable at the reporting date.

(iii) Amount due to parent company

The fair values amount due to parent company with maturities of less than one year approximate their carrying values due to the relatively short maturity of these instruments. The fair values of amounts due to parent company with remaining maturities of more than one year are expected to approximate their carrying values due to the similar interest rate for similar maturities and terms.

Carrying value of other financial assets and liabilities approximate its fair value.

4.4 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Bank operate;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for Head Office and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

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

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

(i) Tier 1 capital, which includes chartered capital, regulatory reserve fund, business expansion fund and other funds, and retained earnings;

(ii) Tier 2 capital, which includes qualifying subordinated liabilities, general provisions and the element of fair value reserve relating to unrealised gains/losses on equity instruments classified as available for sale.

4. FINANCIAL RISK MANAGEMENT POLICIES

4.4 Capital management

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 is as follows:

	2018 LAK	2017 LAK
Tier 1 capital	319.126.240.000	314.703.550.000
Tier 2 capital	2.454.110.000	2.995.920.000
Total capital	**321.580.350.000**	**317.699.470.000**
Less: deductions from capital	-	-
Capital for CAR calculation	**321.580.350.000**	**317.699.470.000**
Risk weighted statement of financial position items	289.539.330.000	256.919.840.000
Risk weighted off balance sheet items	-	-
Total risk weighted assets	**289.539.330.000**	**256.919.840.000**
Tier 1 Capital Adequacy Ratio	**110%**	**122%**
Tier 2 Capital Adequacy Ratio	**1%**	**1%**

5. CASH AND BALANCES WITH CENTRAL BANK

	2018 LAK	2017 LAK
Cash on hand (note 5.1)	11.935.233.588	14.814.425.389
Balances with central bank other than long term fixed deposit and mandatory reserve deposits (note 5.2)	41.698.386.303	83.243.237.196
Included in cash and cash equivalents (note 7)	**53.633.619.891**	**98.057.662.585**
Long term fixed deposit and mandatory reserve deposits with central bank (note 5.3)	429.260.503.934	417.841.467.206
	482.894.123.825	**515.899.129.791**

5.1 Cash on hand

	2018 LAK	2017 LAK
Cash on hand – LAK	5.177.501.000	7.605.735.500
Cash on hand – foreign currency	6.757.732.588	7.208.689.889
	11.935.233.588	**14.814.425.389**

5.2 Balances with central bank other than long term fixed deposit and mandatory reserve deposit

These are deposits made with BOL to cover any settlement and compulsory deposits which bear no interest.

	2018 LAK	2017 LAK
Demand deposit	**41.698.386.303**	**83.243.237.196**

5. CASH AND BALANCES WITH CENTRAL BANK

5.3 Mandatory reserve deposits with central bank

	2018 LAK	2017 LAK
Compulsory reserve (i)	2.755.503.934	3.186.467.206
Special deposit (ii)	5.000.000	5.000.000
Long term fixed deposit (iii)	426.500.000.000	414.650.000.000
	429.260.503.934	**417.841.467.206**

(i) These are minimum deposits maintained in BOL as per BOL regulations, and such should not be withdrawn. The balance is adjusted and calculated at 5% of LAK and 10% of other foreign currencies, such as Thailand Bath (THB) and United State Dollars (USD), on the average balance of bank and customer deposits, such as savings accounts, current accounts and term deposits as of the year. These deposits do not earn interest.

(ii) The Bank maintains an additional statutory capital deposit with BOL. This deposit amount is considered as a guarantee for the operations and such should not be withdrawn. Per regulation No.01/BOL dated 28 January 2010, commercial banks and foreign branch which have permanent office, no longer needs to appropriate a reserve of 25% of the registered capital and the investment capital. This deposit does not earn interest.

(iii) Long term fixed deposits maintained with BOL earn interest rate of 4.50% (2017: 4.50%) per annum with term of 3 years.

6. DEPOSITS WITH OTHER BANKS

	2018 LAK	2017 LAK
Balances with domestic banks		
Public Bank Berhad - Vientiane Branch	5.277.400.000	9.319.700.000
Banque Pour Le Commerce Exterieur Lao – Vientiane Branch	2.699.410.571	-
	7.976.810.571	**9.319.700.000**
Balances with overseas banks		
RHB Bank Berhad – Thailand	135.451.276	541.927.263
RHB Bank Berhad – Malaysia	1.170.566.270	886.232.606
	1.306.017.546	**1.428.159.869**
Included in cash and cash equivalents (note 7)	**9.282.828.117**	**10.747.859.869**

Deposits with Public Bank Berhad – Vientiane Branch is a fixed deposit with term of 3 months carrying an interest rate of 2.2% (2017: 2.7% to 3.45%) per annum. Deposits with other banks are current accounts and do not earn any interest.

7. CASH AND CASH EQUIVALENTS

	2018 LAK	2017 LAK
Cash and balances with central bank (note 5)	53.633.619.891	98.057.662.585
Deposits with other banks (note 6)	9.282.828.117	10.747.859.869
	62.916.448.008	**108.805.522.454**

8. LOANS AND ADVANCES TO CUSTOMERS

	2018 LAK	2017 LAK
Loans and advances to customers	483.301.346.441	433.708.033.571
Less:		
- Allowance for credit losses (i)	(23.314.537.589)	-
- Provision for impairment (ii)	-	(5.245.179.662)
	459.986.808.852	**428.462.853.909**

The Bank offers its customers interest rates ranging from 4.00% to 15.00% (2017: 4.00% to 12.00%) per annum with maturity ranging from 1 to 25 years (2017: 1 to 25 years) depending on each loan agreements.

(i) The movement in allowance for credit losses is as follows:

	2018 LAK
As at 1 January 2018 (remeasured per IFRS 9)	11.482.341.955
Allowance made during the year	11.700.914.022
Foreign exchange difference	131.281.612
As at 31 December	**23.314.537.589**

(ii) The movement in provision for impairment is as follows:

	2017 LAK
As at 1 January 2017	2.340.114.144
Net provision charged to expense during the year	3.562.654.095
Foreign exchange difference	(657.588.577)
As at 31 December	**5.245.179.662**

9. INTANGIBLE ASSETS

	2018 LAK	2017 LAK
Cost		
As at 1 January	7.415.250.205	6.840.055.752
Additions	119.352.921	575.194.453
As at 31 December	**7.534.603.126**	**7.415.250.205**
Accumulated amortisation		
As at 1 January	4.835.611.067	3.392.702.439
Charge for the year	1.441.121.082	1.442.908.628
As at 31 December	**6.276.732.149**	**4.835.611.067**
Net book value as at 31 December	**1.257.870.977**	**2.579.639.138**

10. PROPERTY AND EQUIPMENT

Movement of the balance of property and equipment for the year ended 31 December 2018 is as follows:

	Building & improvements LAK	Office equipment LAK	Computer equipment LAK	Furniture & fixtures LAK	Motor vehicles LAK	Total LAK
Cost						
At 1 January 2018	13.154.788.577	599.112.220	8.588.777.553	1.113.698.519	1.831.618.592	**25.287.995.461**
Additions	271.665.671	30.360.067	665.358.908	20.621.868	209.033.200	**1.197.039.714**
At 31 December 2018	**13.426.454.248**	**629.472.287**	**9.254.136.461**	**1.134.320.387**	**2.040.651.792**	**26.485.035.175**
Accumulated depreciation						
At 1 January 2018	1.490.341.355	240.876.400	5.468.837.468	497.091.658	923.355.685	**8.620.502.566**
Charge for the year	654.172.414	118.637.837	1.795.805.376	220.223.636	406.541.892	**3.195.381.155**
At 31 December 2018	**2.144.513.769**	**359.514.237**	**7.264.642.844**	**717.315.294**	**1.329.897.577**	**11.815.883.721**
Net book value at 31 December 2018	**11.281.940.479**	**269.958.050**	**1.989.493.617**	**417.005.093**	**710.754.215**	**14.669.151.454**

10. PROPERTY AND EQUIPMENT

Movement of the balance of property and equipment for the year ended 31 December 2017 is as follows:

	Building & improvements LAK	Office equipment LAK	Computer equipment LAK	Furniture & fixtures LAK	Motor vehicles LAK	Total LAK
Cost						
At 1 January 2017	10.157.393.824	388.326.375	8.103.368.274	841.744.962	1.508.859.392	**20.999.692.827**
Additions	2.997.394.753	210.785.845	485.409.279	271.953.557	322.759.200	**4.288.302.634**
At 31 December 2017	**13.154.788.577**	**599.112.220**	**8.588.777.553**	**1.113.698.519**	**1.831.618.592**	**25.287.995.461**
Accumulated depreciation						
At 1 January 2017	982.471.655	158.286.872	3.802.382.419	323.824.168	621.583.813	**5.888.548.927**
Charge for the year	507.869.700	82.589.528	1.666.455.049	173.267.490	301.771.872	**2.731.953.639**
At 31 December 2017	**1.490.341.355**	**240.876.400**	**5.468.837.468**	**497.091.658**	**923.355.685**	**8.620.502.566**
Net book value at 31 December 2017	**11.664.447.222**	**358.235.820**	**3.119.940.085**	**616.606.861**	**908.262.907**	**16.667.492.895**

11. OTHER ASSETS

	2018 LAK	2017 LAK
Prepaid expenses (i)	2.826.877.519	4.138.360.565
Accrued interest receivable (ii)	9.529.880.260	9.177.218.346
Others (iii)	521.897.913	509.806.561
	12.878.655.692	**13.825.385.472**

(i) Prepaid expenses include advance payments for the electronic equipment insurance, house and office rental, and leased area for the server at BOL.

(ii) Accrued interest receivable includes interest receivable from deposits with other banks.

(iii) These include bank supplies such as cheque books, passbooks, and signature verification slips.

12. DEFERRED TAX ASSET AND (LIABILITY)

Deferred income taxes are calculated in full of temporary differences, using the liability method and using a principal tax rate of 24% (2017: 24%). The deferred taxation related to the temporary differences between the carrying amounts and the tax bases of assets of the Bank are shown below:

The gross movement of the deferred tax asset and liability, relating to loans and advances, account is as follows:

	2018 LAK	2017 LAK
As at 1 January	272.092.186	32.429.933
Deferred income tax (charged)/credited to the statement of profit or loss (note 23)	(1.332.283.829)	239.662.253
As at 31 December	**(1.060.191.643)**	**272.092.186**

Deferred income tax assets are recognised to the extent that realisation of the related tax benefit through the future taxable profits are probable.

13. DEPOSITS FROM CUSTOMERS

The amounts due to customers are analysed as follows:

a) Analysis by types of deposit account

	2018 LAK	2017 LAK
Current deposits	7.135.485.744	9.835.135.464
Saving deposits	11.400.581.449	15.490.024.070
Term deposits	21.758.042.636	14.675.527.764
	40.294.109.829	**40.000.687.298**

b) Analysis by interest rates

	2018 LAK	2017 LAK
Current deposits	0%	0%
Saving deposits	1.6% to 2.0%	1.6% to 2.0%
Term deposits	2.0% to 6.75%	2.0% to 6.9%

14. DEPOSITS FROM OTHER BANKS

	2018 LAK	2017 LAK
Current deposits	819.125	899.125
Term deposits (i)	150.645.169.852	147.661.071.227
	150.645.988.977	**147.661.970.352**

(i) Term deposits carry an interest rate of 3.1% to 5.5% (2017: 2.1% to 5.7%) per annum.

15. AMOUNT DUE TO PARENT COMPANY

	2018 LAK	2017 LAK
Fixed deposits and accrued interest payable (i)	442.549.405.862	453.449.640.996
Intercompany payable (ii)	27.463.709.610	26.700.649.917
	470.013.115.472	**480.150.290.913**

(i) Fixed deposits, denominated in USD, carry an interest rate of 2.30% to 3.30% (2017: 1.80% to 2.95%) per annum with term of 1 month and an interest rate of 3.15% (2017: 3.15%) per annum with term of 3 years.

(ii) Intercompany payable includes purchases of property and equipment initially made by RHB Bank Berhad - Malaysia during the start-up phase of the Bank. The intercompany payable is repayable on demand.

16. OTHER LIABILITIES

	2018 LAK	2017 LAK
Accruals (i)	1.729.100.971	2.903.547.212
Other liabilities (ii)	54.436.872	13.152.699
	1.783.537.843	**2.916.699.911**

(i) Accruals include accruals for maintenance, external audit fees, utilities, bonus, and others.

(ii) Other liabilities include banker's cheque and others.

17. PAID-UP CAPITAL

	RHB Bank Berhad (100% shareholding)	
	Number of shares	Amount (LAK)
At 1 January 2017	30.000.000	301.500.000.000
Issuance of shares during the year	-	-
At 31 December 2017	**30.000.000**	**301.500.000.000**
Issuance of shares during the year	-	-
At 31 December 2018	**30.000.000**	**301.500.000.000**

17. PAID-UP CAPITAL

In accordance with the Bank's Articles of Association dated 17 November 2014 with the respective share certificate dated 30 May 2014, RHB Bank Berhad - Malaysia owns 100% of the Bank's shares represented by 30.000.000 shares (2017: 30.000.000 shares) with issue price of LAK 10.050 per share (2017: LAK 10.050). All issued shares were fully paid.

18. LEGAL RESERVE

The movement in legal reserve fund during the year is presented below:

	2018 LAK	2017 LAK
At 1 January	1.114.186.014	190.340.872
Additional during the year	599.828.588	923.845.142
At 31 December	**1.714.014.602**	**1.114.186.014**

A legal reserve shall be maintained in accordance with the Law on Enterprise No. 46/NA, dated 26 December 2013 where the Bank shall annually convert ten percent of its net profit into the reserve funds after deducting its accumulated losses. The Bank has set up its legal reserve based on its net profit derived under a separate set of financial statements prepared in accordance with the Bank's accounting policies and the BOL's relevant accounting regulations and notifications as required by BOL.

19. NET INTEREST INCOME

	2018 LAK	2017 LAK
Interest income		
Interest income from customers	42.474.551.699	33.788.404.601
Interest income from banks	19.420.758.354	19.894.767.559
	61.895.310.053	**53.683.172.160**
Interest expense		
Interest expense from customers	(1.040.540.174)	(1.111.664.112)
Interest expense from banks	(6.147.009.313)	(4.294.839.698)
Interest expense from parent company	(13.756.497.591)	(13.662.788.903)
	(20.944.047.078)	**(19.069.292.713)**
Net interest income	**40.951.262.975**	**34.613.879.447**

20. NET FEE AND COMMISSION INCOME

	2018 LAK	2017 LAK
Fee and commission income		
Credit related fees	762.858.400	837.488.667
Other fees	156.701.112	176.109.377
	919.559.512	**1.013.598.044**
Fee and commission expense		
Commission expenses	(66.661.220)	(92.945.797)
Wire transfer fees	(126.838.200)	(118.900.307)
	(193.499.420)	**(211.846.104)**
Net fee and commission income	**726.060.092**	**801.751.940**

21. PAYROLL AND OTHER STAFF COSTS

	2018 LAK	2017 LAK
Salaries and wages	7.447.126.490	6.234.147.511
Bonus	1.734.563.915	1.524.186.777
Other staff costs	1.024.435.543	942.595.819
	10.206.125.948	**8.700.930.107**

22. GENERAL AND ADMINISTRATIVE EXPENSES

	2018 LAK	2017 LAK
Rental	1.358.508.400	982.876.800
Repair and maintenance	1.663.730.367	1.419.421.456
Insurance	538.551.577	487.677.648
Professional fees	365.160.224	376.931.492
Communication expense	218.009.537	211.003.865
Utilities	241.062.354	204.228.434
Security fee	269.750.000	202.350.000
Office stationery expense	356.114.192	181.057.269
Transportation and travelling fees	99.368.463	79.205.475
Marketing and public relations	208.160.960	152.520.595
BoD fees	392.020.213	449.580.390
Other administrative expenses	132.949.648	513.169.524
	5.843.385.935	**5.260.022.948**

23. INCOME TAX EXPENSE

	2018 LAK	2017 LAK
Current income tax	3.321.196.402	3.770.494.229
Deferred income tax liability/(asset) (note 12)	1.332.283.829	(239.662.253)
Income tax expense	**4.653.480.231**	**3.530.831.976**

Presented below is the numerical reconciliation between current tax expense and income benefit:

	2018 LAK	2017 LAK
Profit before income tax	10.477.776.243	16.136.690.434
Tax rate 24%	2.514.666.298	3.872.805.704
Tax effects of expenses not deductible for tax purposes	5.698.459.586	2.655.071.827
Tax effects of income not taxable for tax purposes	(3.559.645.653)	(2.997.045.555)
Income tax expense	**4.653.480.231**	**3.530.831.976**

23. INCOME TAX EXPENSE

Analysis of the income tax payable is as follows:

	2018 LAK	2017 LAK
At 1 January	1.352.617.400	114.983.756
Current income tax	3.321.196.402	3.770.494.229
Tax paid during the year	(3.460.639.754)	(2.532.860.585)
At 31 December	**1.213.174.048**	**1.352.617.400**

24. RELATED PARTY TRANSACTIONS

The Bank is 100% owned by RHB Bank Berhad – Malaysia, which is the Bank's ultimate controlling party.

A few number of banking transactions were entered into with related parties in the normal course of business, which were mostly deposits. There were no loans issued to related parties.

Deposits to key management personnel comprised of savings and fixed deposits, all of which are unsecured. Savings deposits are repayable on demand and carry interest rates ranging from 1.85% to 2.25% (2017: 1.85% to 2.25%) per annum, depending on the currency. Fixed deposits carry an interest rates ranging from 2.50% to 6.35% per annum (2017: 2.50% to 6.35%) depending on the term and currency. Fixed deposits to key management personnel have terms ranging from 1 to 12 months.

The volume of related-party transactions, outstanding balances, at the year-end, and relating expense and income for the year are as follows:

	2018 LAK	2017 LAK
RHB Bank Berhad - Malaysia (Holding Bank)		
(a) Term deposit		
At 1 January	886.232.606	1.374.273.832
Deposits transferred/(withdrawn) during the year	259.006.659	(474.444.526)
Foreign exchange gain/(loss)	25.327.005	(13.596.700)
As at 31 December (note 6)	**1.1170.566.270**	**886.232.606**
(b) Fixed deposits		
At 1 January	453.449.640.996	437.158.888.273
Deposits (withdrawn)/received and interest payable during the year	(23.010.935.134)	10.630.706.233
Foreign exchange loss	12.110.700.000	5.660.046.490
As at 31 December (note 15)	**442.549.405.862**	**453.449.640.996**
Interest expense	13.576.497.591	13.662.788.903
(c) Intercompany payable		
At 1 January	26.700.649.917	26.359.365.835
Foreign exchange loss	763.059.693	341.284.082
As at 31 December (note 15)	**27.463.709.610**	**26.700.649.917**
Monthly swift payment	126.838.200	118.900.307

24. RELATED PARTY TRANSACTIONS

	2018 LAK	2017 LAK
RHB Bank Thailand		
(a) Term deposit		
At 1 January	541.927.263	483.000.061
Deposits (withdrawn)/transferred during the year	(388.437.918)	113.513.114
Foreign exchange loss	(18.038.069)	(54.585.912)
At 31 December (note 6)	**135.451.276**	**541.927.263**
Director and key management personnel		
(a) Deposits from customers		
At 1 January	4.584.745.725	2.534.204.725
Deposits received during the year	(612.060.995)	2.075.613.747
Foreign exchange loss/(gain)	76.123.013	(25.072.747)
As at 31 December	**4.048.807.743**	**4.584.745.725**
Interest expense	23.542.982	24.070.637
(b) Loans and advances to customers		
At 1 January	11.939.989.411	1.996.612.367
Loans disbursed during the year	1.866.223.358	10.094.531.757
Loans repaid during the year	(235.034.933)	(151.154.713)
As at 31 December	**13.571.177.836**	**11.939.989.411**
Interest income	578.661.652	301.983.035
Salaries and other short-term employee benefits	4.882.572.000	3.912.132.408

25. COMMITMENTS AND CONTINGENCIES

(a) Credit facilities

In 2016, the Bank had the contractual amounts of the Bank's off-financial position, financial instruments that commit it to extend credit to customers. Unutilised overdrafts are those credit limit provided to customers but have not yet been withdrawn as at 31 December 2018 and 2017.

	2018 LAK	2017 LAK
Unutilised overdraft	4.841.434.287	11.767.129.279
Undisbursed loans	15.323.000.000	16.919.000.000
	20.164.434.287	**28.686.129.279**

(b) Operating lease

	2018 LAK	2017 LAK
From 1 to 5 years	336.344.390	1.279.486.790
Over 5 years	29.926.229.048	34.232.625.585
	30.262.573.438	**35.512.112.375**

25. COMMITMENTS AND CONTINGENCIES

(c) Taxation contingencies

The taxation system in the Lao PDR is relatively new and is characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges.

These facts may create tax risks in Lao PDR substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.