

RHB BANK LAO LIMITED



FINANCIAL STATEMENTS

*(in accordance with the accounting policies of the Bank
and the relevant accounting regulations and notifications
of Bank of the Lao People's Democratic Republic)*

31 DECEMBER 2018

RHB BANK LAO LIMITED

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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 (the BOD) 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 of its financial performance, statement of changes in equity and its cash flows for the year then ended in accordance with accounting policies of the Bank and the relevant accounting regulations and notifications of Bank of the Lao People's Democratic Republic (BOL) described in Note 2 to the financial statements. In preparing these financial statements, the BOD 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 the Bank and the relevant accounting regulations and notifications of BOL described in Note 2 to the financial statements 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 BOD confirms that the Bank has complied with the above requirements in preparing the financial statements 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, statement of changes in equity and its cash flows for the year then ended and have been properly drawn up in accordance with accounting policies of the Bank and the relevant accounting regulations and notifications of BOL described in Note 2 to the financial statements.

For and on behalf of the Board of Directors



Danny Ling Chii Hian
Chief Executive Officer



25 March 2019



INDEPENDENT AUDITOR'S REPORT

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

Opinion

In our opinion, the financial statements of RHB Bank Lao Limited (the Bank) are prepared, in all material respects, in accordance with the accounting policies of the Bank and the relevant accounting regulations and notifications of Bank of the Lao People's Democratic Republic as described in Note 2 to the financial statements.

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2018;
- the statement of 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 Bank 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 IESBA Code.

Emphasis of Matter - Basis of Accounting and Restriction on Distribution and Use

Without modifying our opinion, we draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the accounting policies of the Bank and the relevant accounting regulations and notifications of Bank of the Lao People's Democratic Republic as described in Note 2 to the financial statements to assist the Bank to meet the requirements of the Bank of Lao People's Democratic Republic. As a result, the financial statements may not be suitable for another purpose.

Our report is intended solely for the Bank and should not be distributed to or used by parties other than the Bank and the aforementioned parties. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements in accordance with accounting policies of the Bank and the relevant accounting regulations and notifications of Bank of Lao People's Democratic Republic as described in Note 2 to the financial statements, 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.



INDEPENDENT AUDITOR'S REPORT

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.

Auditor's Responsibilities for the Audit of the Financial Statements

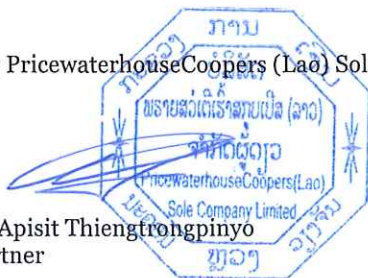
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee 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.

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



By Apisit Thiangtrongpinyo
Partner

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

RHB BANK LAO LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	2018 LAK	2017 LAK
ASSETS			
Cash and balances with central bank	4	482,894,123,825	515,899,129,791
Deposits with other banks	5	9,282,828,117	10,747,859,869
Loans and advances to customers	7	461,742,848,530	423,243,217,212
Property and equipment	8	14,669,151,454	16,667,492,895
Intangible assets	9	1,257,870,977	2,579,639,138
Other assets	10	18,140,834,713	16,422,676,163
TOTAL ASSETS		987,987,657,616	985,560,015,068
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from customers	11	39,755,944,108	39,624,605,025
Deposits from other banks	12	148,000,819,125	145,200,899,125
Amount due to parent company	13	463,346,709,610	473,693,349,917
Other liabilities	14	17,757,946,072	13,913,208,174
TOTAL LIABILITIES		668,861,418,915	672,432,062,241
EQUITY			
Paid-up capital	15	301,500,000,000	301,500,000,000
Legal reserve	16	1,714,014,602	1,114,186,014
Retained earnings		15,912,224,099	10,513,766,813
TOTAL EQUITY		319,126,238,701	313,127,952,827
TOTAL EQUITY AND LIABILITIES		987,987,657,616	985,560,015,068



Danny Ling Chii Hian
Chief Executive Officer



25 March 2019

The accompanying notes on pages 7 to 25 form an integral part of these financial statements.
Independent auditor's report – pages 1 to 2.

RHB BANK LAO LIMITED

STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note(s)	2018 LAK	2017 LAK
Interest income		54,361,684,292	51,449,871,710
Interest expense		(20,944,047,078)	(19,069,292,713)
NET INTEREST INCOME	17	33,417,637,214	32,380,578,997
Loan impairment charges	7	(5,898,770,438)	(5,681,357,456)
NET INTEREST INCOME AFTER LOAN IMPAIRMENT CHARGES		27,518,866,776	26,699,221,541
Fee and commission income		1,492,747,722	2,237,857,074
Fee and commission expense		(193,499,420)	(211,846,104)
NET FEE AND COMMISSION INCOME	18	1,299,248,302	2,026,010,970
Foreign exchange gain, net		1,187,381,318	2,419,528,464
Payroll and other staff costs	19	(10,206,125,948)	(8,700,930,107)
General and administrative expenses	20	(5,843,385,935)	(5,260,022,948)
Depreciation and amortisation charges	8,9	(4,636,502,237)	(4,174,862,267)
TOTAL EXPENSES		(19,498,632,802)	(15,716,286,858)
PROFIT BEFORE TAX		9,319,482,276	13,008,945,653
Income tax expense	21	(3,321,196,402)	(3,770,494,229)
NET PROFIT FOR THE YEAR		5,998,285,874	9,238,451,424




Danny Ling Chii Hian
Chief Executive Officer

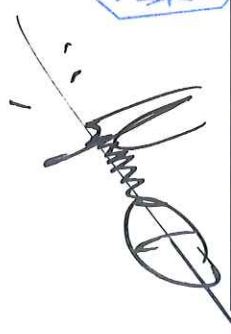

25 March 2019

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Independent auditor's report – pages 1 to 2.

RHB BANK LAO LIMITED

**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	2.199.160.531	303.889.501.403
Net profit for the year	-	-	9.238.451.424	9.238.451.424
Legal reserve	-	923.845.142	(923.845.142)	-
As at 31 December 2017	301.500.000.000	1.114.186.014	10.513.766.813	313.127.952.827
At 1 January 2018	301.500.000.000	1.114.186.014	10.513.766.813	313.127.952.827
Net profit for the year	-	-	5.998.285.874	5.998.285.874
Legal reserve	-	599.828.588	(599.828.588)	-
As at 31 December 2018	301.500.000.000	1.714.014.602	15.912.224.099	319.126.238.701



 Danny Ling Chii Hian
 Chief Executive Officer

25 March 2019

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 Independent auditor's report – pages 1 to 2.

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		9,319,482,276	13,008,945,653
<i>Adjustments for:</i>			
Loan impairment charges	7	5,898,770,438	5,681,357,456
Depreciation and amortisation charges	8,9	4,636,502,237	4,174,862,267
Foreign exchange gain, net		(1,187,381,318)	(2,419,528,464)
Interest and similar income	17	(54,361,684,292)	(51,449,871,710)
Interest and similar expense	17	20,944,047,078	19,069,292,713
Net cash flows used in operations before changes in operating assets and liabilities		(14,750,263,581)	(11,934,942,085)
Decrease in statutory deposits with BOL	4	430,963,272	858,590,251
Increase in loans and advances to customers	7	(44,810,549,715)	(99,098,301,372)
Decrease/(increase) in other assets		1,189,698,174	(367,714,148)
Increase/(decrease) in deposits from customers	11	131,339,083	(3,358,510,557)
Increase in deposits from banks	12	2,799,920,000	91,199,920,000
(Decrease)/increase in deposits from parent company	13	(11,109,700,000)	16,192,760,000
Increase/(decrease) in other liabilities		478,885,638	(12,305,526,721)
Interest received		55,447,402,281	50,340,909,782
Interest paid		(20,388,400,139)	(17,064,183,365)
Income tax paid	21	(3,460,639,754)	(2,532,860,585)
Net cash (used in)/generated from operating activities		(34,041,344,741)	11,930,141,200
INVESTING ACTIVITIES			
Placement in 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		(47,207,737,376)	(407,583,355,887)
Cash and cash equivalents, beginning	6	108,805,522,454	514,569,080,415
Effect of foreign exchange difference		1,318,662,930	1,819,797,926
Cash and cash equivalents, ending	6	62,916,448,008	108,805,522,454


Danny Ling Chii Hian
Chief Executive Officer



25 March 2019

The accompanying notes on pages 7 to 25 form an integral part of these financial statements.
Independent auditor's report – pages 1 to 2

RHB BANK LAO LIMITED

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

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 operate 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 Bank is 100% fully owned by RHB Bank Berhad. The initial registered capital of the Bank is LAK 301,500,000,000 with 30,000,000 shares and issue price of LAK 10.050 (2017: LAK 10.050). The actual paid up capital as at 31 December 2018 remained at LAK 301,500,000,000 (2017: LAK 301,500,000,000)

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

The Bank's BOD has reviewed these financial statements and approved for their issuance on 25 March 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the financial statements are set out below.

2.1 Basis of preparation

The financial statements are prepared in accordance with accounting policies of the Bank and the relevant accounting regulations and notifications of BOL. The accounting principles applied may differ from generally accepted accounting principles adopted in other countries and jurisdictions. The accompanying financial statements are not intended to present the financial position and financial performance in accordance with other jurisdictions. Consequently, these financial statements are addressed only to those who are informed about the Bank's accounting policies and the relevant accounting regulations and notifications of BOL.

The preparation of financial statements requires management to make estimates and assumptions affecting the amounts reported as assets and liabilities, the disclosure of any contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses in the reported periods. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

The financial statements have been prepared under the historical cost convention.

2.2 Measurement and presentation currency

The Bank maintains its records in Lao Kip (LAK) and presents financial statements in LAK.

2.3 Financial instruments

The Bank's significant financial assets and liabilities include cash and balances with central bank, deposits with other banks, loans and advances, deposit from customers, deposits from other banks, amount due to parent company, other receivables and other payables. The accounting policies for the recognition and measurement of these items are disclosed in the respective accounting policies.

2.4 Recognition of interest income and expense

Interest income recognition

Interest income is recognised on an accrual basis and is recognised at the nominal interest rates stipulated in the loan contracts with clients except in relation to non-performing accounts.

Per BOL No.134/AD, dated 13 June 2011, where an account becomes non-performing, the recording of interest is suspended and interest income already recognised will be reversed. Interest income will be recognised if accrued interest on non-performing loans will be subsequently collected. Customer accounts are deemed to be non-performing where repayments are in arrears for more than three months or 89 days. This is in line with the regulations of BOL.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**2.4 Recognition of interest income and expense****Interest expense**

Interest expense on deposits from customers and banks are recognised on an accrual basis and at the approved interest rates.

2.5 Recognition of fee and commission income

Fee and commission income from the various activities of the Bank is accrued using the following bases:

- Loan arrangement fees and commissions on services and facilities extended to customers are recognised on the occurrence of such transactions.
- Commitment fees and guarantees on services and facilities extended to customers are recognised as income over the period in which the services and facilities are extended.
- Service charges and processing fees are recognised when the service is provided.

2.6 Foreign currency transactions and translation

Monetary assets and liabilities denominated in currencies other than LAK at year end are translated into LAK at exchange rates ruling on the statement of the financial report date. Income and expenses arising in foreign currencies during the period are converted into LAK at rates ruling on the transaction dates. Gains and losses resulting from the settlement of such transactions and from the translation of such monetary assets and liabilities are recognised in the statement of income when earned and incurred.

2.7 Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances and short-term deposits maturing within thirty (30) days.

2.8 Loans and advances to customers

Loans and advances are originated by the Bank providing money to a customer for purposes other than short-term profit taking. They are stated at the outstanding principal balances less an impairment allowance for doubtful loans and advances, to reflect the estimated recoverable amount. Loans and advances, except bank overdrafts, are shown exclusive of accrued interest receivable.

2.9 Provision for credit losses

In accordance with regulation 324/BOL dated 19 April 2011, the Bank is required to classify loans and create a provision for impairment losses. Accordingly, loans are classified into performing loans or non-performing loans based on their payment arrears status and other qualitative factors. Loans classified as normal/pass (group A) and watch/special mention (group B) is considered as performing loans. Loans classified as substandard (group C), doubtful (group D) and loss (group E) are considered as non-performing loans.

In accordance with the newly issued regulation 512/BOL dated 29 June 2018, the new method of provision calculation mentions that banks can take into consideration the collateral value with a certain prescribed percentage, indicated in the regulation, to be deducted from the loan outstanding before applying the provision rates.

Provisions are categorised as general and specific based on the loan classification. Below is the summary of provision rates applicable for each loan classification as at the balance sheet date.

Group	Category	Number of days past due	Provision rate
Performing (general)			
A	Normal or pass	Within 29 days	0.5%
B	Watch or special mention	30 to 89 days	3%
Non-Performing (Specific)			
C	Substandard	90 to 179 days	20%
D	Doubtful	180 to 359 days	50%
E	Loss	From 360 days	100%

**NOTES TO THE FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.10 Intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software licences are subsequently carried at cost less accumulated amortisation and impairment losses. These costs are amortised over the estimated useful life of 2 years.

2.11 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses.

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 group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to statement of income during the reporting period in which they are incurred.

Depreciation of property and equipment is provided for on a straight-line basis to write down the cost of each asset to its residual value over the estimated useful life, at the following annual rates:

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

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. There are no material adjustments arising from the review that would require disclosure in the financial statements.

Gains or losses on disposals are determined by comparing proceeds with carrying amount and are included in statement of income. At the end of the reporting period, the Bank assesses whether there is any indication of impairment. Where an indication of impairment exists, the carrying amount of the asset is written down to its recoverable amount.

2.12 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 of from 5% to 10% of profit after tax depending on the decision of the Board of Directors.

2.13 Operating lease - for lessee

Leases of assets where 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 the statement of income on a straight-line basis over the period of the lease.

2.14 Employee benefit

a) Short term employee benefits

Wages, salaries paid, annual leave and sick leave, bonuses and non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.14 Employee benefit

b) *Post-employment benefits*

Post-employment benefits are paid to retired employees of the Bank by the National 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. The Bank has no further obligation concerning post-employment benefits for the employees other than this.

c) *Termination benefits*

In accordance with Article 90 of the Amended Labour Law issued by the President of Lao People's Democratic Republic on 18 January 2014, 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.

2.15 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made.

2.16 Tax

Provision is made for taxation on the current year's profits, based on the Tax Law governing taxation within Lao P.D.R. The Bank is subject to 24% (2017: 24%) on total taxable profit, and it shall be paid on quarterly basis. This is in accordance with Article 29: Profit Tax Rates of the amended Tax Law no.023/NA dated 28 January 2016.

Tax losses incurred in any tax year can be carried forward to offset against profit realised in the following three tax years from the year loss was incurred subject to certification by the National Audit Authority or an independent audit company and with the acknowledgement of the tax authorities. Upon expiration of such period, any remaining loss not so deducted may no longer be deducted from profits. This is in accordance with Article 39: Carrying Forward annual losses of the amended tax law.

2.17 Related parties

Enterprises or individuals that, directly or indirectly through one or more intermediaries, control, or are under controlled by, or are under common control with, the Bank, including holding companies, subsidiaries and fellow subsidiaries are related parties of the Bank. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank, key management personnel, including directors and officers of the Bank and close members of the family of these individuals and companies associated with these individuals also constitute related parties.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

3. FINANCIAL RISK MANAGEMENT POLICIES

The guidelines and policies adopted by the Bank to manage the risks that arise in the conduct of its business activities are as follows:

3.1 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 balance sheet. 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.

3.2 Market risk

Market risk is the risk of loss arising from adverse movement in the level of market prices or rates, the two key components being foreign currency exchange risk and interest rate risk.

(i) 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. Any foreign currency exchange open positions are monitored against the operating requirements, predetermined position limits and stop-loss limits.

(ii) Interest rate risk

Interest rate risk refers to the volatility in net interest income as a result of changes in the levels of interest rate and shifts in the composition of the assets and liabilities. Interest rate risk is managed through close monitoring of returns on investment, market pricing and cost of funds. The potential reduction in net interest income from an unfavourable interest rate movement is monitored against the risk tolerance limits set.

3.3 Liquidity risk

Liquidity risk relates to the ability to maintain sufficient liquid assets to meet its financial commitments and obligations when they fall due at a reasonable cost. The management of the Bank closely monitors all inflows and outflows and maturity gaps. Movements in loans and customers' deposits are monitored and liquidity requirements adjusted to ensure sufficient liquid assets to meet its financial commitments and obligations as and when they fall due.

4. CASH AND BALANCES WITH CENTRAL BANK

	2018	2017
	LAK	LAK
Cash on hand (note 4.1)	11,935,233,588	14,814,425,389
Balances with central bank other than long term fixed deposit and mandatory reserve deposits (note 4.2)	41,698,386,303	83,243,237,196
Included in cash and cash equivalents (note 6)	53,633,619,891	98,057,662,585
Long term fixed deposit and mandatory reserve deposits with central bank (note 4.3)	429,260,503,934	417,841,467,206
	482,894,123,825	515,899,129,791

RHB BANK LAO LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018

4. CASH AND BALANCES WITH CENTRAL BANK

4.1 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
	<u>11,935,233,588</u>	<u>14,814,425,389</u>

4.2 BALANCES WITH CENTRAL BANK OTHER THAN MANDATORY RESERVE DEPOSITS

	2018 LAK	2017 LAK
Demand deposit	41,698,386,303	83,243,237,196

4.3 LONG TERM AND FIXED DEPOSIT AND 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
	<u>429,260,503,934</u>	<u>417,841,467,206</u>

(i) These are deposits maintained in BOL as per BOL regulations. The balance is adjusted and calculated at 5% of LAK and 10% of other foreign currencies, such as Thailand Baht (THB) and United States Dollar (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. 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 of 4.50% (2017: 4.5%) per annum with term of 3 years.

5. DEPOSITS WITH OTHER BANKS

Deposits with other banks are analysed as follows:

a) Analysis by institution

	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 Extérieur Lao – Vientiane Branch	2,699,410,571	-
	<u>7,976,810,571</u>	<u>9,319,700,000</u>
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
	<u>1,306,017,546</u>	<u>1,428,159,869</u>
	<u>9,282,828,117</u>	<u>10,747,859,869</u>

RHB BANK LAO LIMITED

NOTES TO THE FINANCIAL STATEMENTS
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5. DEPOSITS WITH OTHER BANKS

b) Analysis by currency

	2018 LAK	2017 LAK
Domestic banks		
LAK	1.027.224.904	-
USD	1.543.806.315	1.658.600.000
THB	5.405.779.352	7.661.100.000
	<u>7.976.810.571</u>	<u>9.319.700.000</u>
Overseas banks		
USD	1.170.566.270	886.232.606
THB	135.451.276	541.927.263
	<u>1.306.017.546</u>	<u>1.428.159.869</u>
	<u>9.282.828.117</u>	<u>10.747.859.869</u>

6. CASH AND CASH EQUIVALENTS

	2018 LAK	2017 LAK
Cash and balances with central bank (note 4)	53.633.619.891	98.057.662.585
Deposits with other banks (note 5)	9.282.828.117	10.747.859.869
	<u>62.916.448.008</u>	<u>108.805.522.454</u>

7. LOANS AND ADVANCES TO CUSTOMERS

	2018 LAK	2017 LAK
Loans and advances to customers	477.123.940.058	432.594.256.690
Provision	(15.381.091.528)	(9.351.039.478)
	<u>461.742.848.530</u>	<u>423.243.217.212</u>

Loans and advances to customers are analysed as follows:

a) Analysis by currency

	2018 LAK	2017 LAK
LAK	399.723.573.466	350.462.650.574
USD	63.519.964.079	67.960.029.460
THB	13.880.402.153	14.171.576.656
	<u>477.123.940.058</u>	<u>432.594.256.690</u>

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7. LOANS AND ADVANCES TO CUSTOMERS

b) Analysis by status of loan

	2018	2017
	LAK	LAK
Performing loans	426.213.067.229	419.195.825.761
Non-performing loans	50.910.872.829	13.398.430.929
	477.123.940.058	432.594.256.690

c) Analysis by classification of BOL

	2018	2017
	LAK	LAK
Performing loans		
Normal	414.610.466.979	385.168.556.656
Special mention	11.602.600.250	34.027.269.105
Non-performing loans		
Substandard	11.121.701.118	1.163.656.730
Doubtful	26.536.053.034	12.234.774.199
Loss	13.253.118.677	-
	477.123.940.058	432.594.256.690

d) Analysis by relationship

	2018	2017
	LAK	LAK
Customers	477.123.940.058	432.594.256.690

e) Analysis by economic sector

	2018	2017
	LAK	LAK
Industrial	25.871.339.664	25.030.778.255
Construction	50.203.391.054	52.195.301.311
Commercial	119.258.792.733	98.616.557.912
Transport and telecommunication	16.248.350.479	18.112.404.614
Service	165.806.258.552	144.979.025.775
Agriculture	1.078.230.627	1.086.721.552
Handicraft	2.878.893.449	2.975.384.671
Others	95.778.683.500	89.598.082.600
	477.123.940.058	432.594.256.690

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7. LOANS AND ADVANCES TO CUSTOMERS

f) Analysis by resident status

	2018	2017
	LAK	LAK
Resident	431.451.656.219	400.089.947.254
Non-resident	45.672.283.839	32.504.309.436
	<u>477.123.940.058</u>	<u>432.594.256.690</u>

g) Analysis by security

	2018	2017
	LAK	LAK
Secured	477.123.940.058	432.594.256.690
	<u>477.123.940.058</u>	<u>432.594.256.690</u>

The movement in the allowance for performing loans is as follows:

	2018	2017
	LAK	LAK
General provision		
Beginning balance	2.995.919.951	1.929.298.416
Provision charged during the year	18.878.843.663	11.636.788.403
Reversal of provision during the year	(19.432.185.716)	(10.584.287.424)
Foreign exchange difference	11.528.642	14.120.556
At 31 December	<u>2.454.106.540</u>	<u>2.995.919.951</u>

	2018	2017
	LAK	LAK
Specific provision		
Beginning balance	6.355.119.527	2.340.114.144
Provision charged during the year	19.169.288.920	12.161.891.962
Reversal of provision during the year	(12.717.176.429)	(7.533.035.485)
Utilisation for bad debt written off	-	(657.588.577)
Foreign exchange difference	119.752.970	43.737.483
At 31 December	<u>12.926.984.988</u>	<u>6.355.119.527</u>

The breakdown of as at 31 December 2018 is as follows:

	2018	2017
	LAK	LAK
Performing loans (general)		
Normal	2.105.922.029	1.974.995.246
Special mention	348.184.511	1.020.924.705
Non-performing loans (specific)		
Substandard	1.194.826.345	232.731.345
Doubtful	6.518.797.852	6.122.388.182
Loss	5.213.360.791	-
	<u>15.381.091.528</u>	<u>9.351.039.478</u>

RHB BANK LAO LIMITED

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8. 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

RHB BANK LAO LIMITED

NOTES TO THE FINANCIAL STATEMENTS
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8. 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

NOTES TO THE FINANCIAL STATEMENTS
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9. INTANGIBLE ASSETS

Movement of the balance of intangible assets is as follows:

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

10. OTHER ASSETS

	2018 LAK	2017 LAK
Prepaid expenses (i)	2.826.877.519	4.138.360.565
Accrued interest and penalty receivable (ii)	14.792.059.281	11.774.509.037
Others (iii)	521.897.913	509.806.561
	18.140.834.713	16.422.676.163

- (i) Prepaid expenses include advance payments for the electronic equipment insurance, house and office rental, leased area for the server at BOL, and other prepayments.
- (ii) Accrued interest receivable includes interest receivable from loans to customers and deposits with other banks. This also includes penalty receivable for the overdue loans.
- (iii) These include bank supplies such as cheque books, passbooks, and signature verification slips.

11. DEPOSITS FROM CUSTOMERS

Deposits from 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	21.219.876.915	14.299.445.491
	39.755.944.108	39.624.605.025

NOTES TO THE FINANCIAL STATEMENTS
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11. DEPOSITS FROM CUSTOMERS

b) Analysis by currency

	2018 LAK	2017 LAK
LAK	16.747.452.741	15.223.148.716
USD	19.953.528.602	18.949.328.193
THB	3.054.962.765	5.452.128.116
	39.755.944.108	39.624.605.025

c) Analysis by maturity

	2018 LAK	2017 LAK
Within 3 months	26.175.136.714	28.970.376.260
4 to 6 months	964.328.616	1.093.056.470
7 to 12 months	9.238.772.485	7.140.100.785
Over 12 months	3.377.706.293	2.421.071.510
	39.755.944.108	39.624.605.025

d) Analysis by type of customer

	2018 LAK	2017 LAK
Individual	25.232.061.649	27.237.060.545
Non-individual	14.523.882.459	12.387.544.480
	39.755.944.108	39.624.605.025

e) Analysis by type of relationship

	2018 LAK	2017 LAK
Staff	4.622.583.167	5.385.898.722
Customer	35.133.360.941	34.238.706.303
	39.755.944.108	39.624.605.025

12. DEPOSITS FROM OTHER BANKS

a) Analysis by types of deposit account

	2018 LAK	2017 LAK
Current deposits	819.125	899.125
Term deposits	148.000.000.000	145.200.000.000
	148.000.819.125	145.200.899.125

RHB BANK LAO LIMITED

NOTES TO THE FINANCIAL STATEMENTS
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12. DEPOSITS FROM OTHER BANKS

b) Analysis by currency

	<u>2018</u> LAK	<u>2017</u> LAK
LAK	148.000.819.125	145.200.899.125
	<u>148.000.819.125</u>	<u>145.200.899.125</u>

c) Analysis by maturity

	<u>2018</u> LAK	<u>2017</u> LAK
Within 3 months	32.000.819.125	24.000.899.125
4 to 6 months	30.000.000.000	18.000.000.000
7 to 12 months	86.000.000.000	103.200.000.000
	<u>148.000.819.125</u>	<u>145.200.899.125</u>

13. AMOUNT DUE TO PARENT COMPANY

	<u>2018</u> LAK	<u>2017</u> LAK
Fixed deposits (i)	435.883.000.000	446.992.700.000
Intercompany payable (ii)	27.463.709.610	26.700.649.917
	<u>463.346.709.610</u>	<u>473.693.349.917</u>

(i) Fixed deposits, denominated in USD, carry interest rates ranging from 1.80% to 3.15% (2017: 1.80% to 3.15%) per annum with terms ranging from 1 week to 3 years.

(ii) Intercompany payables include purchases of property and equipment initially made by RHB Bank Berhad - Malaysia during the start-up phase of the Bank.

14. OTHER LIABILITIES

	<u>2018</u> LAK	<u>2017</u> LAK
Current income tax liability (note 21)	1.213.174.048	1.352.617.400
Accrued interest payable	9.849.741.435	9.294.094.496
Accruals, provisions and other liabilities (i)	6.695.030.589	3.266.496.278
	<u>17.757.946.072</u>	<u>13.913.208.174</u>

(i) Accruals, provisions, and other liabilities include banker's cheques, accruals for utilities, bonus, and other liabilities to suppliers.

RHB BANK LAO LIMITED

NOTES TO THE FINANCIAL STATEMENTS
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15. PAID-UP CAPITAL

	2018 LAK	2017 LAK
Paid-up capital	<u>301.500.000.000</u>	<u>301.500.000.000</u>

16. 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	<u>599.828.588</u>	<u>923.845.142</u>
At 31 December	<u>1.714.014.602</u>	<u>1.114.186.014</u>

A legal reserve shall be maintained in accordance with the Law on Enterprise, where the Bank shall annually convert ten percent of its net profit into the reserve funds after deducting its accumulated losses.

17. NET INTEREST INCOME AND EXPENSE

	2017 LAK	2017 LAK
Interest income		
Interest income from customers	34.940.925.937	31.555.104.150
Interest income from banks	<u>19.420.758.355</u>	<u>19.894.767.560</u>
	<u>54.361.684.292</u>	<u>51.449.871.710</u>
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	<u>(13.756.497.591)</u>	<u>(13.662.788.903)</u>
	<u>(20.944.047.078)</u>	<u>(19.069.292.713)</u>
Net interest and similar income	<u>33.417.637.214</u>	<u>32.380.578.997</u>

18. NET FEE AND COMMISSION INCOME

	2018 LAK	2017 LAK
Fee and commission income		
Loan processing fees	747.638.210	1.374.259.030
Penalty fees	313.747.940	467.629.953
Commitment fees	118.054.564	183.032.134
Other fees	<u>313.307.008</u>	<u>212.935.957</u>
	<u>1.492.747.722</u>	<u>2.237.857.074</u>
Fee and commission expense		
Commission expenses	(66.661.220)	(92.945.797)
Wire transfer fees	<u>(126.838.200)</u>	<u>(118.900.307)</u>
	<u>(193.499.420)</u>	<u>(211.846.104)</u>
Net fee and commission income	<u>1.299.248.302</u>	<u>2.026.010.970</u>

RHB BANK LAO LIMITED

NOTES TO THE FINANCIAL STATEMENTS
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19. 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

20. 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
Meal and travelling	99.368.463	79.205.475
Marketing and public relations	208.160.960	152.520.595
Board of directors' fees and allowances	392.020.213	449.580.390
Other administrative expenses	132.949.648	513.169.524
	5.843.385.935	5.260.022.948

21. INCOME TAX EXPENSE

In accordance with the amended Lao Tax Law No. 023 dated 28 January 2016 stipulated by the President of the National Assembly, applicable profit tax that should be applied to both domestic and foreign enterprises that hold legal entities is 24% (2017: 24%) of total taxable profit income.

	2018 LAK	2017 LAK
Profit before tax for the year	9.319.482.276	13.008.945.653
Non-deductible expenses	17.748.884.970	12.619.208.309
Non-taxable income	(13.230.048.902)	(9.917.761.342)
Taxable profit for the year	13.838.318.344	15.710.392.620
Income tax expense at applicable tax rate	3.321.196.402	3.770.494.229

Analysis of the income tax payable is as follows:

	2018 LAK	2017 LAK
At 1 January	1.352.617.400	114.983.756
Income tax expense	3.321.196.402	3.770.494.229
Tax paid during the year	(3.460.639.754)	(2.532.860.585)
At 31 December (note 14)	1.213.174.048	1.352.617.400

NOTES TO THE FINANCIAL STATEMENTS
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21. RELATED PARTY BALANCES AND TRANSACTIONS

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

A few numbers 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 1.60% to 2.00% per annum (2017: 1.85% to 2.25%), depending on the currency. Fixed deposits carry interest rates of ranging from 2.00% to 6.75% 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 5)	1.170.566.270	886.232.606
(b) Fixed deposits		
At 1 January	446.992.700.000	430.799.940.000
Deposits received/(withdrawn) during the year	(23.220.400.000)	11.930.540.000
Foreign exchange loss	12.110.700.000	4.262.220.000
As at 31 December (note 13)	435.883.000.000	446.992.700.000
Interest expense (note 17)	13.756.497.591	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 13)	27.463.709.610	26.700.649.917
Monthly swift payment	126.838.200	118.900.307

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22. RELATED PARTY BALANCES TRANSACTIONS

	2018 LAK	2017 LAK
<i>RHB Bank Thailand</i>		
(a) Term deposit		
At 1 January	541,927,263	483,000,061
Deposits transferred/(withdrawn) during the year	(410,839,256)	113,513,114
Foreign exchange gain/(loss)	4,363,269	(54,585,912)
At 31 December (note 5)	135,451,276	541,927,263
<i>Director and key management personnel</i>		
(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
Loan repayments 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

23. COMMITMENTS AND CONTINGENCIES

At 31 December 2018, 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.

(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

(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

23. 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.