

RHB BANK LAO LIMITED



FINANCIAL STATEMENTS

(in accordance with International Financial Reporting Standards)

31 DECEMBER 2017

RHB Bank Lao Limited

Contents	Page(s)
Statement by the Board of Directors	1
Independent auditor's report	2-3
Statement of financial position	4
Statement of comprehensive income	5
Statement of changes in equity	6
Statement of cash flows	7
Notes to the financial statements	8-39

RHB Bank Lao Limited

**Statement by the Board of Directors
31 December 2017**

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 2017 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:

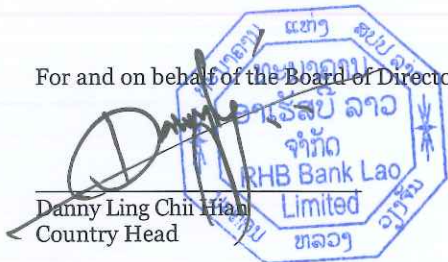
- i) adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- ii) comply in accordance with accounting policies of IFRS and ensure that these have been, appropriately disclosed explained and quantified in the financial 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 2017.

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 2017 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 Chiu Hian
Country Head

30 March 2018



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 2017, 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 2017;
- 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



Apisit Thiengtrongpinyo
Partner

Vientiane, Lao P.D.R.
30 March 2018

RHB Bank Lao Limited

**Statement of Financial Position
As at 31 December 2017**

	Note(s)	2017 LAK	2016 LAK
ASSETS			
Cash and balances with central bank	5	515.899.129.791	459.488.220.174
Deposits with other banks	6	10.747.859.869	59.130.917.698
Loans and advances to customers	8	428.462.853.909	330.759.605.518
Intangible assets	9	2.579.639.138	3.447.353.313
Property and equipment	10	16.667.492.895	15.111.143.900
Other assets	11	13.825.385.472	13.257.334.919
Deferred tax asset	12	272.092.186	32.429.933
TOTAL ASSETS		988.454.453.260	881.227.005.455
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from customers	13	40.000.687.298	43.131.460.646
Deposits from other banks	14	147.661.970.352	54.782.675.936
Amount due to parent company	15	480.150.290.913	463.518.249.108
Current income tax liability	23	1.352.617.400	114.983.756
Other liabilities	16	2.916.699.911	15.913.307.081
TOTAL LIABILITIES		672.082.265.874	577.460.676.527
EQUITY			
Paid-up capital	17	301.500.000.000	301.500.000.000
Legal reserve	18	1.114.186.014	190.340.872
Retained earnings		13.758.001.372	2.075.988.056
TOTAL EQUITY		316.372.187.386	303.766.328.928
TOTAL EQUITY AND LIABILITIES		988.454.453.260	881.227.005.455

Danny Ling Chii Hian
Country Head

30 March 2018

The accompanying notes on pages 8 to 39 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 2017

	Note(s)	2017 LAK	2016 LAK
Interest income		53,683,172,160	34,921,883,221
Interest expense		(19,069,292,713)	(8,555,444,160)
NET INTEREST INCOME	19	34,613,879,447	26,366,439,061
Loan impairment charges	8	(3,562,654,095)	(2,340,114,144)
NET INTEREST INCOME AFTER LOAN IMPAIRMENT CHARGES		31,051,225,352	24,026,324,917
Fee and commission income		1,013,598,044	694,296,742
Fee and commission expense		(211,846,104)	(175,520,560)
NET FEE AND COMMISSION INCOME	20	801,751,940	518,776,182
Foreign exchange gain/(loss), net		2,419,528,464	(807,312,219)
Payroll and other staff costs	21	(8,700,930,107)	(8,472,366,502)
General and administrative expenses	22	(5,260,022,948)	(4,438,245,599)
Depreciation and amortisation charges	9,10	(4,174,862,267)	(3,850,973,311)
TOTAL EXPENSES		(15,716,286,858)	(17,568,897,631)
PROFIT BEFORE TAX		16,136,690,434	6,976,203,468
Income tax expense	23	(3,530,831,976)	(545,123,886)
NET PROFIT FOR THE YEAR		12,605,858,458	6,431,079,582
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		12,605,858,458	6,431,079,582

Danny Ling Chii Hian
Country Head

30 March 2018

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RHB Bank Lao Limited

Statement of Changes in Equity
For the year ended 31 December 2017

	Paid-up capital LAK	Legal reserve LAK	Retained earnings LAK	Total LAK
At 1 January 2016	301.500.000.000	-	(4.164.750.654)	297.335.249.346
Net profit for the year	-	-	6.431.079.582	6.431.079.582
Legal reserve	-	190.340.872	(190.340.872)	-
As at 31 December 2016	301.500.000.000	190.340.872	2.075.988.056	303.766.328.928
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

1




Danny Ling Chii Hian
Country Head

30 March 2018

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RHB Bank Lao Limited

**Statement of Cash Flows
For the year ended 31 December 2017**

	Note(s)	2017 LAK	2016 LAK
OPERATING ACTIVITIES			
Profit before tax		16.136.690.434	6.976.203.468
<i>Adjustments for:</i>			
Depreciation and amortisation charges	9,10	4.174.862.267	3.850.973.311
Loan impairment charges	8	3.562.654.095	2.340.114.144
Foreign exchange (gain)/loss, net		(2.419.528.464)	807.312.219
Interest income	19	(53.683.172.160)	(34.921.883.221)
Interest expense	19	19.069.292.713	8.555.444.160
Cash flows used in operating profit before changes in operating assets and liabilities		(13.159.201.115)	(12.391.835.919)
Increase in loans and advances to customers		(96.578.670.735)	(138.515.431.880)
Increase in other assets		(1.198.344.855)	(523.011.072)
Increase/(decrease) in deposits from customers	13	(3.130.773.348)	6.601.214.346
Increase in deposits from banks		92.879.294.416	54.000.979.125
Increase in deposits from parent company	15	16.192.760.000	418.577.940.000
Increase/(decrease) in other liabilities		(12.557.325.365)	15.860.484.649
Interest received		50.225.965.249	23.088.388.459
Interest paid		(19.069.292.713)	(1.407.780.118)
Income tax paid		(2.532.860.585)	-
Net cash generated from operating activities		11.071.550.949	365.290.947.590
INVESTING ACTIVITIES			
Placement in short term fixed deposit with central bank		(414.650.000.000)	-
Purchases of property and equipment		(4.288.302.634)	(3.901.007.328)
Purchases of intangible fixed assets		(575.194.453)	-
Decrease in deposits with BOL	5	858.590.251	57.426.184.122
Net (cash used in)/ generated from investing activities		(418.654.906.836)	53.525.176.794
FINANCING ACTIVITIES			
Repayments of intercompany payables		-	(7.726.320.861)
Net cash used in financing activities		-	(7.726.320.861)
Net (decrease)/increase in cash and cash equivalents		(407.583.355.887)	411.089.803.523
Cash and cash equivalents, beginning	7	514.569.080.415	104.907.605.585
Effect of foreign exchange difference		1.819.797.926	(1.428.328.693)
Cash and cash equivalents, ending	7	108.805.522.454	514.569.080.415

Danny Ling Chii Hian
Country Head

30 March 2018

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Independent auditor's report – pages 2 to 3.

RHB Bank Lao Limited

Notes to the Financial Statements As at and for the year ended 31 December 2017

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, Phonsa 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 30 March 2018.

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 2017 are as follows:

A number of new standards and amendments to standards and interpretations are effective for annual period beginning on or after 1 January 2017. The applicable amendment to the Bank is the *Amendment to IAS 7 'Statement of Cash Flows' on disclosure initiative* - going forward, entities will be required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows and non-cash changes such as acquisitions, disposals, accretion of interest and unrealised exchange differences.

The adoption of this amendment did not have any impact on the current period but will highly likely to affect future periods.

- (b) Standards and interpretations that had been issued but were not mandatory for annual reporting periods ending 31 December 2017 are as follows:

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Bank. The following are applicable new standards, amendments and interpretations to the Bank:

- *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. This standard will be effective on 1 January 2018.

Notes to the Financial Statements
As at and for the year ended 31 December 2017

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 2017:

No formal assessment has been performed yet but based on the initial assessment, the impact is as follows:

- Classification and measurement of financial assets – no major impact as the financial assets classified as loans and receivables under IAS 39 will remain at amortised cost under IFRS 9.
 - Classification and measurement of financial liabilities – no major impact as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Bank does not have any such liabilities.
 - Impairment of financial asset – the Bank cannot quantify yet the impact as it is still under assessment by the management. However, based on the initial assessment, the Bank expects that the expected credit losses model will have a significant impact on the impairment provisioning for loans and advances.
- *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. This standard will be effective on 1 January 2018. The adoption of IFRS 15 will not have a material impact on the financial statements of the Bank.
 - *IFRS 16 'Leases'* – this 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 option 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 'Revenue from contracts with customers' is adopted at the same time. The adoption of IFRS 16 will likely affect the accounting of certain assets currently held by the BPI group under operating lease agreements.
 - *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. This standard will be effective on 1 January 2018. This will likely affect the accounting of certain transactions by the Bank.

2.2 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.

**Notes to the Financial Statements
As at and for the year ended 31 December 2017**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.3 Financial instruments

In accordance with IAS 39, all financial assets and liabilities have to be recognised in the Bank's statement of financial position and measured in accordance with their assigned category.

2.3.1 Financial assets

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

Loans and receivables

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'.

2.3.2 Financial liabilities

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

Financial liabilities that are not classified as at fair value through profit or loss fall as other liabilities and are measured at amortised cost. Financial liabilities measured at amortised cost are amounts due to parent company and deposits from customers and other banks.

2.3.3 Derecognition

Financial assets are derecognised 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 derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

2.4 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.

2.5 Recognition of income and expenses

2.5.1 Interest and similar 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.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. 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. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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.

Notes to the Financial Statements
As at and for the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.5 Recognition of income and expenses

2.5.2 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.

2.6 Impairment of financial assets

The Bank 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.

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.

2.8 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.

Notes to the Financial Statements
As at and for the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 is 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:

<u>Category</u>	<u>Depreciation rate</u>
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.

2.13 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.

Notes to the Financial Statements
As at and for the year ended 31 December 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.13 Current and deferred income tax

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.

2.15 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.

Notes to the Financial Statements
As at and for the year ended 31 December 2017

3. CRITICAL ACCOUNTING ESTIMATES

The Bank's financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements.

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) Impairment losses on loans and advances to customers

The Bank reviews its loan portfolios to assess impairment at least on an annually basis. In determining whether an impairment loss should be recorded in the statement of profit or loss, the Bank makes judgements as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in the group, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Taxes

The taxation system in the Lao PDR is relatively new and is characterised by numerous taxes and frequently changing legislation and can be subject to interpretations. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose 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.

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).

Notes to the Financial Statements
As at and for the year ended 31 December 2017

4. FINANCIAL RISK MANAGEMENT POLICIES

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 Bank's internal rating scale and mapping of external ratings as supplemented by the Bank's assessment through the use of internal rating tools are as follows:

Category	Number of days past due
Performing loans	
A – Normal or pass	Loans that are overdue for less than thirty (30) days as agreed by the terms of loan agreement whether in interest or principal.
B – Watch or special mention	Loans that are overdue from thirty (30) days until less than ninety (90) days as agreed by the terms of loan agreement whether in interest or principal.
Non-performing loans	
C – Substandard	Loans that are overdue from ninety (90) days until less than one hundred eighty (180) days as agreed by the terms of loan agreement whether in interest or principal. The main source of income of the borrower for loan repayment are insufficient and the borrower relies on the other sources of income to service loan such as sale of collateral, other assets of borrower, or use of outside source of fund.
D – Doubtful	Loans that are overdue from one hundred eighty (180) days until less than three hundred sixty (360) days as agreed by the terms of loan agreement whether in interest or principal.
E – Loss	Any loan which is overdue as agreed by the terms of the loan agreement whether in interest or principal from three hundred sixty (360) days. Any loan considered uncollectible or in part or in whole of the loan is not well secured.

The credit risk measurement mentioned above reflects the expected loss (the 'expected loss model') as required by BOL and as stated in regulation 324/BOL. The operational measurements can be contrasted with impairment allowances required under related IAS, which are based on losses that have been incurred as at the date of statement of financial position (the 'incurred loss model') rather than expected losses. In contrast, impairment allowances are recognised for financial reporting purposes only for losses that have been incurred at the date of statement of financial position based on objective evidence of impairment. Due to the different methodologies applied, impairment allowances that is determined for banking regulation purposes is usually higher than the amount determined from the incurred loss model.

RHB Bank Lao Limited

Notes to the Financial Statements As at and for the year ended 31 December 2017

4. FINANCIAL RISK MANAGEMENT POLICIES

4.1 Credit risk

4.1.1 Credit risk measurement

4.1.2 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 2017 for loans and advances to customers is LAK 1.176.100.064.000 (2016: LAK 957.693.173.360)

(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.

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

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

	2017 LAK	2016 LAK
Cash and balances with central bank	512.707.662.585	455.438.162.717
Deposits with other banks	10.747.859.869	59.130.917.698
Loans and advances to customers	428.462.853.909	330.759.605.518
Other assets	9.177.218.346	9.891.002.648
	961.095.594.709	855.219.688.581

The above table represents a worse-case scenario of credit risk exposure to the Bank at 31 December 2017 and 2016 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.

For on financial positions assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position. As shown above, 44% of the total maximum exposure is derived from loans and advances to customers (2016: 35%) and 54% from cash and balances with central bank (2016: 48%). 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.

RHB Bank Lao Limited

**Notes to the Financial Statements
As at and for the year ended 31 December 2017**

4. FINANCIAL RISK MANAGEMENT POLICIES

4.1 Credit risk

4.1.3.1 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 2017 and 2016. 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	-	-	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
	Thailand	Malaysia	Lao PDR	Total
Cash and balances with central bank	-	-	455,438,162.717	455,438,162.717
Deposits with other banks	483,000,061	1,674,443,637	56,973,474,000	59,130,917,698
Loans and advances to customers	-	-	330,759,605,518	330,759,605,518
Other assets	-	-	9,891,002,648	9,891,002,648
31 December 2016	483,000,061	1,674,443,637	853,062,244,883	855,219,688,581

RHB Bank Lao Limited

Notes to the Financial Statements
As at and for the year ended 31 December 2017

4. FINANCIAL RISK MANAGEMENT POLICIES

4.1 Credit risk

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

4.1.3.1 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 2017 and 2016. 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	512,707,662,585	10,747,859,869	-	-	523,455,522,454
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	9,177,218,346	31,963,422,080
31 December 2017	512,707,662,585	10,747,859,869	428,462,853,909	9,177,218,346	961,095,594,709
	Cash and balances with central bank	Deposits with other banks	Loans and advances to customers	Other assets	Total
Financial	455,438,162,717	59,130,917,698	-	-	514,569,080,415
Manufacturing	-	-	23,356,454,444	-	23,356,454,444
Construction	-	-	47,691,387,037	-	47,691,387,037
Commercial	-	-	-	-	-
Transportation	-	-	-	-	-
Service	-	-	73,207,946,286	-	73,207,946,286
Others	-	-	186,503,817,751	9,891,002,648	196,394,820,399
31 December 2016	455,438,162,717	59,130,917,698	330,759,605,518	9,891,002,648	855,219,688,581

RHB Bank Lao Limited

Notes to the Financial Statements
As at and for the year ended 31 December 2017

4. FINANCIAL RISK MANAGEMENT POLICIES

4.1 Credit risk

4.1.4 Loans and advances to customers are summarised as follows:

	2017 LAK	2016 LAK
Neither past due nor impaired – gross (a)	284.033.573.780	328.345.483.801
Impaired	149.674.459.791	4.754.235.861
Gross amount	433.708.033.571	333.099.719.662
Less provision for impairment	(5.245.179.662)	(2.340.114.144)
Net amount	428.462.853.909	330.759.605.518
Current	72.103.302.061	25.539.431.574
Non - current	356.359.551.848	305.220.173.944
Total	428.462.853.909	330.759.605.518

(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	2016 LAK
Normal or pass	284.033.573.780	328.345.483.801
Total	284.033.573.780	328.345.483.801

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 2017 and 2016.

RHB Bank Lao Limited

Notes to the Financial Statements
As at and for the year ended 31 December 2017

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				
Amount due to parent company	-	480,150,290,913	-	480,150,290,913
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
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

RHB Bank Lao Limited

Notes to the Financial Statements
As at and for the year ended 31 December 2017

4. FINANCIAL RISK MANAGEMENT POLICIES

4.2 Market risk

4.2.1 Foreign currency exchange risk

	As at 31 December 2016				Total
	LAK	USD	THB		
Assets					
Cash and balances with central bank	21.883.301.381	432.538.999.371	5.065.919.422		459.488.220.174
Deposits with other banks	45.000.000.000	9.059.117.637	5.071.800.061		59.130.917.698
Loans and advances to customers	242.599.187.517	78.269.467.270	9.890.950.731		330.759.605.518
Other assets	9.891.002.648	-	-		9.891.002.648
Total financial assets	319.373.491.546	519.867.584.278	20.028.670.214		859.269.746.038
Liabilities					
Amount due to parent company	-	463.518.249.108	-		463.518.249.108
Deposits from customers	29.215.425.616	9.166.223.983	4.749.811.047		43.131.460.646
Deposits from other banks	54.782.675.936	-	-		54.782.675.936
Total financial liabilities	83.998.101.552	472.684.473.091	4.749.811.047		561.432.385.690
Net on-balance sheet financial position	235.375.389.994	47.183.111.187	15.278.859.167		297.837.360.348

RHB Bank Lao Limited

Notes to the Financial Statements
As at and for the year ended 31 December 2017

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 summarises 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 repricing.

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	-	1,428,159,869	9,319,700,000	-	-	-	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	28,565,800,281	39,179,993,635	488,341,324,861	286,681,005,909	110,426,348,137	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	-	-	-	-	-	2,916,699,911	2,916,699,911
Total financial liabilities	1,920,970,604	47,302,240,274	127,153,231,198	454,899,821,981	-	40,806,001,817	672,082,265,874
Total interest repricing gap	9,171,618,488	(18,736,439,993)	(87,973,237,563)	33,441,502,880	286,681,005,909	69,620,346,320	292,204,796,041

RHB Bank Lao Limited

Notes to the Financial Statements
As at and for the year ended 31 December 2017

4. FINANCIAL RISK MANAGEMENT POLICIES

4.2 Market risk

4.2.2 Interest rate risk

	As at 31 December 2016						Total
	Up to 1 month	> 1 to 3 months	> 3 to 12 months	> 1 to 5 years	Over 5 years	Non-interest bearing	
Assets							
Cash and balances with central bank	-	406.609.682.302	-	-	-	52.878.537.872	459.488.220.174
Deposits with other banks	14.130.917.698	-	45.000.000.000	-	-	-	59.130.917.698
Loans and advances to customers	4.505.420.437	29.100.321.707	24.415.412.246	53.244.295.125	219.494.156.003	-	330.759.605.518
Other assets	-	-	-	-	-	9.891.002.648	9.891.002.648
Total financial assets	18.636.338.135	435.710.004.009	69.415.412.246	53.244.295.125	219.494.156.003	62.769.540.520	859.269.746.038
Liabilities							
Deposits from customers	-	12.893.525.292	15.991.291.154	923.971.880	-	13.322.672.320	43.131.460.646
Deposits from other banks	-	979.125	54.781.696.811	-	-	-	54.782.675.936
Amount due to parent company	6.372.694.731	-	-	437.158.883.273	-	19.986.671.104	463.518.249.108
Current income tax liability	-	-	-	-	-	114.983.756	114.983.756
Other liabilities	-	-	-	-	-	15.913.307.081	15.913.307.081
Total financial liabilities	6.372.694.731	12.894.504.417	70.772.987.965	438.082.855.153	-	49.337.634.261	577.460.676.527
Total interest repricing gap	12.263.643.404	422.815.499.592	(1.357.575.719)	(384.838.560.028)	219.494.156.003	13.431.906.259	281.809.069.511

RHB Bank Lao Limited

Notes to the Financial Statements As at and for the year ended 31 December 2017

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 2017 and 2016 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

	<u>2017</u> <u>LAK</u>	<u>2016</u> <u>LAK</u>
Increase 10%	8.686.021.646	15.464.443.008
Decrease 10%	(8.686.021.646)	(15.464.443.008)

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

	<u>2017</u> <u>LAK</u>	<u>2016</u> <u>LAK</u>
Increase 10%	19.407.400.740	10.576.115.018
Decrease 10%	(19.407.400.740)	(10.576.115.018)

(b) Foreign exchange risk

Sensitivity of profit before tax and equity to changes in foreign exchange rates by the following from the 31 December 2017 and 2016 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:

	<u>2017</u> <u>LAK</u>	<u>2016</u> <u>LAK</u>
Increase 10%	5.166.153.223	74.933.287.532
Decrease 10%	(5.166.153.223)	(74.933.287.532)

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

RHB Bank Lao Limited

Notes to the Financial Statements
As at and for the year ended 31 December 2017

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	11,756,106,068	23,188,092,329	3,606,307,916	1,450,180,985	-	40,000,687,298
Deposits from other banks	899,125	24,114,147,945	123,546,923,282	-	-	147,661,970,352
Amount due to parent company	26,700,649,917	-	-	453,449,640,996	-	480,150,290,913
Current income tax liability	1,352,617,400	-	-	-	-	1,352,617,400
Other liabilities	2,916,699,911	-	-	-	-	2,916,699,911
As at 31 December 2017	42,726,972,421	47,302,240,274	127,153,231,198	454,899,821,981	-	672,082,265,874
	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	13,322,672,319	12,893,525,293	15,991,291,154	923,971,880	-	43,131,460,646
Deposits from other banks	-	979,125	54,781,696,811	-	-	54,782,675,936
Amount due to parent company	26,359,365,835	-	-	437,158,883,273	-	463,518,249,108
Current income tax liability	114,983,756	-	-	-	-	114,983,756
Other liabilities	15,913,307,081	-	-	-	-	15,913,307,081
As at 31 December 2016	55,710,328,991	12,894,504,418	70,772,987,965	438,082,855,153	-	577,460,676,527

RHB Bank Lao Limited

**Notes to the Financial Statements
As at and for the year ended 31 December 2017**

4. FINANCIAL RISK MANAGEMENT POLICIES

4.3 Liquidity risk

4.3.4 Off-balance sheet items

(a) Credit facilities

	2017 LAK	2016 LAK
Unutilised overdraft	11.767.129.279	11.473.714.226
Undisbursed loans	16.919.000.000	11.209.000.000
	28.686.129.279	22.682.714.226

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	428.462.853.909	441.670.547.933
As at 31 December 2017	428.462.853.909	441.670.547.933
	Carrying value LAK	Fair value LAK
Financial assets		
Loans and advances to customers	330.759.605.518	340.062.668.515
As at 31 December 2016	330.759.605.518	340.062.668.515

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.

RHB Bank Lao Limited

**Notes to the Financial Statements
As at and for the year ended 31 December 2017**

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:

	2017 LAK	2016 LAK
Tier 1 capital	314.703.550.000	294.975.420.000
Tier 2 capital	2.995.920.000	9.020.450.000
Total capital	317.699.470.000	303.995.870.000
Less: deductions from capital	-	-
Capital for CAR calculation	317.699.470.000	303.995.870.000
Risk weighted statement of financial position items	256.919.840.000	46.509.980.000
Risk weighted off balance sheet items	-	-
Total risk weighted assets	256.919.840.000	46.059.980.000
Tier 1 Capital Adequacy Ratio	122%	634%
Tier 2 Capital Adequacy Ratio	1%	20%

5. CASH AND BALANCES WITH CENTRAL BANK

	2017 LAK	2016 LAK
Cash on hand (note 5.1)	14.814.425.389	12.216.763.662
Balances with central bank other than long term fixed deposit and mandatory reserve deposits (note 5.2)	83.243.237.196	443.221.399.055
Included in cash and cash equivalents (note 7)	98.057.662.585	455.438.162.717
Long term fixed deposit and mandatory reserve deposits with central bank (note 5.3)	417.841.467.206	4.050.057.457
	515.899.129.791	459.488.220.174

5.1 CASH ON HAND

	2017 LAK	2016 LAK
Cash on hand – LAK	7.605.735.500	4.200.222.500
Cash on hand – foreign currency	7.208.689.889	8.016.541.162
	14.814.425.389	12.216.763.662

5.2 BALANCES WITH CENTRAL BANK OTHER THAN MANDATORY RESERVE DEPOSITS

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

	2017 LAK	2016 LAK
Demand deposit	83.243.237.196	443.221.399.055

RHB Bank Lao Limited

**Notes to the Financial Statements
As at and for the year ended 31 December 2017**

5. CASH AND BALANCES WITH CENTRAL BANK

5.3 MANDATORY RESERVE DEPOSITS WITH CENTRAL BANK

	2017	2016
	LAK	LAK
Compulsory reserve (i)	3.186.467.206	4.045.057.457
Special deposit (ii)	5.000.000	5.000.000
Long term fixed deposit (iii)	414.650.000.000	-
	417.841.467.206	4.050.057.457

- (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. The amended law does not state the specific percentage to set up/maintain the special deposit. This deposit does not earn interest.
- (iii) Long term fixed deposits maintained with BOL earn interest with annual rate of 4.50% per annum (2016: nil).

6. DEPOSITS WITH OTHER BANKS

	2017	2016
	LAK	LAK
Balances with domestic banks		
Public Bank Berhad - Vientiane Branch	9.319.700.000	56.957.100.000
Banque Franco Lao Co., Ltd. - Vientiane Branch	-	16.374.000
	9.319.700.000	56.973.474.000
Balances with overseas banks		
RHB Bank Berhad - Thailand	541.927.263	483.000.061
Bank of China	-	300.169.805
RHB Bank Berhad - Malaysia	886.232.606	1.374.273.832
	1.428.159.869	2.157.443.698
Included in cash and cash equivalents (note 7)	10.747.859.869	59.130.917.698

Deposits with domestic banks carry an interest rate ranging from 2.7% to 3.45% (2016: 1.90% to 3.24%) per annum. Deposits with overseas banks do not earn any interest.

7. CASH AND CASH EQUIVALENTS

	2017	2016
	LAK	LAK
Cash and balances with central bank (note 5)	98.057.662.585	455.438.162.717
Deposits with other banks (note 6)	10.747.859.869	59.130.917.698
	108.805.522.454	514.569.080.415

RHB Bank Lao Limited

Notes to the Financial Statements
As at and for the year ended 31 December 2017

8. LOANS AND ADVANCES TO CUSTOMERS

	2017	2016
	LAK	LAK
Loans and advances to customers	433,708,033,571	333,099,719,662
Less provision for impairment (i)	(5,245,179,662)	(2,340,114,144)
	428,462,853,909	330,759,605,518

The Bank offers its customers interest rates ranging from 4.00% to 12.00% (2016: 4.00% to 14.00%) per annum with maturity ranging from 1 to 25 years (2016: 1 to 20 years) depending on each loan agreements.

(i) The movement of provision for impairment is as follows:

	2017	2016
	LAK	LAK
As at 1 January	2,340,114,144	-
Net provision charged to expense during the year	3,562,654,095	2,340,114,144
Utilisation for bad debt written off	(657,588,577)	-
As at 31 December	5,245,179,662	2,340,114,144

9. INTANGIBLE ASSETS

	2017	2016
	LAK	LAK
Cost		
As at 1 January	6,840,055,752	6,840,055,752
Additions	575,194,453	-
As at 31 December	7,415,250,205	6,840,055,752
Accumulated amortisation		
As at 1 January	3,392,702,439	2,024,691,291
Charge for the year	1,442,908,628	1,368,011,148
As at 31 December	4,835,611,067	3,392,702,439
Net book value as at 31 December	2,579,639,138	3,447,353,313

RHB Bank Lao Limited

Notes to the Financial Statements
As at and for the year ended 31 December 2017

10. PROPERTY AND EQUIPMENT

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

Cost	Building & improvements LAK	Office equipment LAK	Computer equipment LAK	Furniture & fixtures LAK	Motor vehicles LAK	Total LAK
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

RHB Bank Lao Limited

Notes to the Financial Statements
As at and for the year ended 31 December 2017

10. PROPERTY AND EQUIPMENT

Movement of the balance of property and equipment for the year ended 31 December 2016 is as follows:

Cost	Building & improvements LAK	Office equipment LAK	Computer equipment LAK	Furniture & fixtures LAK	Motor vehicles LAK	Total LAK
At 1 January 2016	7,446,557,620	287,321,375	7,492,905,534	600,118,862	1,178,586,392	17,005,489,783
Additions	2,632,494,690	101,005,000	595,608,538	241,626,100	330,273,000	3,901,007,328
Adjustments	78,341,514	-	14,854,202	-	-	93,195,716
At 31 December 2016	10,157,393,824	388,326,375	8,103,368,274	841,744,962	1,508,859,392	20,999,692,827
Accumulated depreciation						
At 1 January 2016	508,052,092	90,634,380	2,181,046,124	179,637,544	353,020,908	3,312,391,048
Charge for the year	441,078,049	67,652,492	1,561,482,093	144,186,624	268,562,905	2,482,962,163
Adjustments	33,341,514	-	59,854,202	-	-	93,195,716
At 31 December 2016	982,471,655	158,286,872	3,802,382,419	323,824,168	621,583,813	5,888,548,927
Net book value at 31 December 2016	9,174,922,169	230,039,503	4,300,985,855	517,920,794	887,275,579	15,111,143,900

RHB Bank Lao Limited

**Notes to the Financial Statements
As at and for the year ended 31 December 2017**

11. OTHER ASSETS

	2017 LAK	2016 LAK
Prepaid expenses (i)	4.138.360.565	3.054.593.237
Accrued interest receivable (ii)	9.177.218.346	9.807.502.648
Others (iii)	509.806.561	395.239.034
	13.825.385.472	13.257.334.919

(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

Deferred income taxes are calculated in full of temporary differences, using the liability method and using a principal tax rate of 24% (2016: 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, relating to loans and advances, account is as follows:

	2017 LAK	2016 LAK
As at 1 January	32.429.933	462.570.063
Deferred income tax recognised in the statement of profit or loss (note 23)	239.662.253	(430.140.130)
As at 31 December	272.092.186	32.429.933

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

	2017 LAK	2016 LAK
Current deposits	9.835.135.464	13.322.672.320
Saving deposits	15.490.024.070	9.190.964.126
Term deposits	14.675.527.764	20.617.824.200
	40.000.687.298	43.131.460.646

b) Analysis by interest rates

	2017 LAK	2016 LAK
Current deposits	0%	0%
Saving deposits	1.6% to 2.0%	1.6% to 2.25%
Term deposits	2.0% to 6.9%	2.25% to 8.2%

RHB Bank Lao Limited

**Notes to the Financial Statements
As at and for the year ended 31 December 2017**

14. DEPOSITS FROM OTHER BANKS

	2017 LAK	2016 LAK
Current deposits	899.125	979.125
Term deposits (i)	<u>147.661.071.227</u>	<u>54.781.696.811</u>
	<u>147.661.970.352</u>	<u>54.782.675.936</u>

(i) Term deposits carry an interest rate of 2.1% to 5.7% (2016: 2.8% to 5.5%) per annum.

15. AMOUNT DUE TO PARENT COMPANY

	2017 LAK	2016 LAK
Fixed deposits and accrued interest payable (i)	453.449.640.996	437.158.883.273
Intercompany payable (ii)	<u>26.700.649.917</u>	<u>26.359.365.835</u>
	<u>480.150.290.913</u>	<u>463.518.249.108</u>

(i) Fixed deposits, denominated in USD, carry an interest rate of 1.80% to 2.95% (2016: 1.80%) per annum with term of 1 month and an interest rate of 3.15% (2016: 3.15%) per annum with term of 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.

16. OTHER LIABILITIES

	2017 LAK	2016 LAK
Accruals (i)	2.903.547.212	3.034.159.315
Other liabilities (ii)	<u>13.152.699</u>	<u>12.879.147.766</u>
	<u>2.916.699.911</u>	<u>15.913.307.081</u>

(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 2016	30.000.000	301.500.000.000
Issuance of shares during the year	-	-
At 31 December 2016	30.000.000	301.500.000.000
Issuance of shares during the year	-	-
At 31 December 2017	<u>30.000.000</u>	<u>301.500.000.000</u>

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 (2016: 30.000.000 shares) with issue price of LAK 10.050 per share (2016: LAK 10.050). All issued shares were fully paid.

RHB Bank Lao Limited

**Notes to the Financial Statements
As at and for the year ended 31 December 2017**

18. LEGAL RESERVE

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

	2017 LAK	2016 LAK
At 1 January	190.340.872	-
Additional during the year	923.845.142	190.340.872
At 31 December	1.114.186.014	190.340.872

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.

19. NET INTEREST INCOME

	2017 LAK	2016 LAK
Interest income		
Interest income from customers	33.788.404.601	24.156.970.087
Interest income from banks	19.894.767.559	10.764.913.134
	53.683.172.160	34.921.883.221
Interest expense		
Interest expense from customers	(1.111.664.112)	(753.620.932)
Interest expense from banks	(4.294.839.698)	(1.133.956.282)
Interest expense from parent company	(13.662.788.903)	(6.667.866.946)
	(19.069.292.713)	(8.555.444.160)
Net interest income	34.613.879.447	26.366.439.061

20. NET FEE AND COMMISSION INCOME

	2017 LAK	2016 LAK
Fee and commission income		
Credit related fees	937.192.619	241.341.500
Other fees	76.405.425	452.955.242
	1.013.598.044	694.296.742
Fee and commission expense		
Commission fees	(92.945.797)	(71.047.563)
Wire transfer fees	(118.900.307)	(104.472.997)
	(211.846.104)	(175.520.560)
Net fee and commission income	801.751.940	518.776.182

21. PAYROLL AND OTHER STAFF COSTS

	2017 LAK	2016 LAK
Salaries and wages	6.234.147.511	5.148.013.301
Bonus	1.524.186.777	2.725.467.567
Other staff costs	942.595.819	598.885.634
	8.700.930.107	8.472.366.502

RHB Bank Lao Limited

**Notes to the Financial Statements
As at and for the year ended 31 December 2017**

22. GENERAL AND ADMINISTRATIVE EXPENSES

	2017 LAK	2016 LAK
Rental	982.876.800	1.094.028.000
Repair and maintenance	1.419.421.456	1.083.600.946
Insurance	487.677.648	314.810.012
Professional fees	376.931.492	306.754.095
Communication expense	211.003.865	206.251.095
Utilities	204.228.434	151.936.103
Security fee	202.350.000	153.000.000
Office stationery expense	181.057.269	198.890.888
Transportation and travelling fees	79.205.475	74.143.243
Marketing and public relations	152.520.595	105.747.303
BoD fees	449.580.390	613.730.833
Other administrative expenses	513.169.524	135.353.081
	5.260.022.948	4.438.245.599

23. INCOME TAX EXPENSE

	2017 LAK	2016 LAK
Current income tax	3.770.494.229	114.983.756
Deferred income tax asset (note 12)	(239.662.253)	430.140.130
Income tax expense	3.530.831.976	545.123.886

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

	2017 LAK	2016 LAK
Profit before income tax	16.136.690.434	6.976.203.468
Tax rate 24%	3.872.805.704	1.674.288.832
Tax effects of expenses not deductible for tax purposes	9.577.699.925	1.809.241.923
Tax effects of income not taxable for tax purposes	(9.919.673.653)	(2.938.406.869)
Income tax expense	3.530.831.976	545.123.886

Analysis of the income tax payable is as follows:

	2017 LAK	2016 LAK
At 1 January	114.983.756	-
Income tax expense	3.770.494.229	114.983.756
Tax paid during the year	(2.532.860.585)	-
At 31 December	1.352.617.400	114.983.756

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.

RHB Bank Lao Limited

Notes to the Financial Statements
As at and for the year ended 31 December 2017

24. RELATED PARTY TRANSACTIONS

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% (2016: 1.85% to 2.25%) per annum, depending on the currency. Fixed deposits carry an interest rates of ranging from 2.50% to 6.35% per annum (2016: 2.50% to 6.35%) depending on the term and currency. Fixed deposits to key management personnel have terms of 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:

	2017	2016
	LAK	LAK
RHB Bank Berhad - Malaysia (Holding Bank)		
(a) Term deposit		
At 1 January	1,374,273,832	349,151,658
Deposits transferred/(withdrawn) during the year	(474,444,526)	1,023,450,977
Foreign exchange gain/(loss)	(13,596,700)	1,671,197
As at 31 December (note 6)	886,232,606	1,374,273,832
(b) Fixed deposits		
At 1 January	437,158,888,273	12,233,684,151
Deposits received and interest payable during the year	10,630,706,233	424,866,704,122
Foreign exchange loss	5,660,046,490	58,500,000
As at 31 December (note 15)	453,449,640,996	437,158,888,273
Interest expense	13,662,788,903	6,667,866,946
(c) Intercompany payable		
At 1 January	26,359,365,835	34,249,620,816
Payments during the year	-	(7,726,320,861)
Foreign exchange loss/(gain)	341,284,082	(163,934,120)
As at 31 December (note 15)	26,700,649,917	26,359,365,835
Monthly swift payment	118,900,307	104,472,997
RHB Bank Thailand		
(a) Term deposit		
At 1 January	483,000,061	168,615,916
Deposits transferred during the year	113,513,114	312,908,895
Foreign exchange gain/(loss)	(54,585,912)	1,475,250
At 31 December (note 6)	541,927,263	483,000,061
Director and key management personnel		
Deposits from customers		
At 1 January	2,534,204,725	956,255,463
Deposits received during the year	2,075,613,747	1,573,372,192
Foreign exchange (gain)/loss	(25,072,747)	4,577,070
As at 31 December	4,584,745,725	2,534,204,725
Interest expense	24,070,637	5,759,726
Salaries and other short-term employee benefits	3,912,132,408	4,101,204,797

RHB Bank Lao Limited

Notes to the Financial Statements As at and for the year ended 31 December 2017

25. COMMITMENTS AND CONTINGENCIES

(a) Credit facilities

At 31 December 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 2017 and 2016.

	<u>2017</u> <u>LAK</u>	<u>2016</u> <u>LAK</u>
Unutilised overdraft	11.767.129.279	11.473.714.226
Undisbursed loans	<u>16.919.000.000</u>	<u>11.209.000.000</u>
	<u>28.686.129.279</u>	<u>22.682.714.226</u>

(b) Operating lease

	<u>2017</u> <u>LAK</u>	<u>2016</u> <u>LAK</u>
From 1 to 5 years	1.279.486.790	2.222.629.190
Over 5 years	<u>34.232.625.585</u>	<u>38.539.022.122</u>
	<u>35.512.112.375</u>	<u>40.761.651.312</u>

(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.

26. EVENTS AFTER THE BALANCE SHEET DATE

The Bank has opened a third branch in Dongdok on 26 January 2018. The new branch is to provide banking services to individuals, entities, educational institution, SMEs, and enterprises.

