

RHB BANK LAO LIMITED



FINANCIAL STATEMENTS

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

31 DECEMBER 2016

RHB BANK LAO LIMITED

**STATEMENT BY THE BOARD OF DIRECTORS
31 DECEMBER 2016**

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 are prepared, in all material respects, the financial position of the Bank as at 31 December 2016 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 Bank of the Lao People's Democratic Republic (Lao P.D.R.) (BOL) accounting regulations and notifications 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 BOL accounting regulations and notifications 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 2016.

STATEMENT BY THE BOARD OF DIRECTORS ON THE FINANCIAL STATEMENTS

We do hereby state that the accompanying financial statements are prepared, in all material respects, the financial position of the Bank as at 31 December 2016 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 BOL accounting regulations and notifications described in Note 2 to the financial statements.

For and on behalf of the Board of Directors



Danny Ling Chii Hian
Country Head

Date: 29 March 2017



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 relevant Bank of the Lao People's Democratic Republic accounting regulations and notifications 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 2016;
- 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 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 these requirements.

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 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 aforementioned parties.

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 Bank of Lao People's Democratic Republic accounting regulations and notifications 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.

The audit committee assists management in discharging their responsibilities 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's 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



By Sakuna Yamsakul
Partner
Vientiane, Lao P.D.R.
29 March 2017

RHB BANK LAO LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Note(s)	2016 LAK	2015 LAK
ASSETS			
Cash and balances with central bank	4	459.488.220.174	142.640.300.590
Deposits with other banks	5	59.130.917.698	23.743.546.574
Loans and advances to customers	7	329.226.542.758	193.345.161.449
Property and equipment	8	15.111.143.900	13.693.098.735
Intangible assets	9	3.447.353.313	4.815.364.461
Other assets	10	14.946.000.087	3.761.829.351
TOTAL ASSETS		881.350.177.930	381.999.301.160
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from customers	11	42.983.115.582	36.381.901.236
Deposits from other banks	12	54.000.979.125	-
Amount due to parent company	13	457.159.305.835	46.471.620.816
Other liabilities	14	23.317.275.985	1.321.416.956
TOTAL LIABILITIES		577.460.676.527	84.174.939.008
EQUITY			
Paid-up capital	15	301.500.000.000	301.500.000.000
Legal reserve	16	190.340.872	-
Retained earnings/(deficit)		2.199.160.531	(3.675.637.848)
TOTAL EQUITY		303.889.501.403	297.824.362.152
TOTAL EQUITY AND LIABILITIES		881.350.177.930	381.999.301.160

Danny Ling Chii Hian
Country Head



29 March 2017

The accompanying notes on pages 8 to 25 form an integral part of these financial statements.
Independent auditor's report – pages 2 to 3.

RHB BANK LAO LIMITED

STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note(s)	2016 LAK	2015 LAK
Interest income		33,749,547,943	13,688,525,300
Interest expense		(8,555,444,160)	(383,034,173)
NET INTEREST INCOME	17	25,194,103,783	13,305,491,127
Loan impairment charges	7	(3,271,319,327)	(591,828,444)
NET INTEREST INCOME AFTER LOAN IMPAIRMENT CHARGES		21,922,784,456	12,713,662,683
Fee and commission income		2,001,756,742	1,606,604,306
Fee and commission expense		(175,520,560)	(145,132,981)
NET FEE AND COMMISSION INCOME	18	1,826,236,182	1,461,471,325
Foreign exchange gain/(loss), net		(807,312,219)	1,952,732,223
Payroll and other staff costs	19	(8,472,366,502)	(5,126,635,873)
General and administrative expenses	20	(4,438,245,599)	(3,745,431,065)
Depreciation and amortisation charges	8,9	(3,850,973,311)	(3,658,793,667)
TOTAL EXPENSES		(17,568,897,631)	(10,578,128,382)
PROFIT BEFORE TAX		6,180,123,007	3,597,005,626
Income tax expense	21	(114,983,756)	-
NET PROFIT FOR THE YEAR		6,065,139,251	3,597,005,626



Danny Ling Chii Hian
Country Head

29 March 2017

The accompanying notes on pages 8 to 25 form an integral part of these financial statements.
Independent auditor's report – pages 2 to 3.

RHB BANK LAO LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Paid-up capital LAK	Legal reserve LAK	Retained earnings/(deficit) LAK	Total LAK
At 1 January 2015	301.500.000.000	-	(7.272.643.474)	294.227.356.526
Net profit for the year	-	-	3.597.005.626	3.597.005.626
As at 31 December 2015	301.500.000.000	-	(3.675.637.848)	297.824.362.152
At 1 January 2016	301.500.000.000	-	(3.675.637.848)	297.824.362.152
Net profit for the year	-	-	6.065.139.251	6.065.139.251
Legal reserve	-	190.340.872	(190.340.872)	-
As at 31 December 2016	301.500.000.000	190.340.872	2.199.160.531	303.889.501.403



Danny Ling Chii Hian
Country Head

29 March 2017

The accompanying notes on pages 8 to 26 form an integral part of these financial statements.
Independent auditor's report – pages 2 to 3.

RHB BANK LAO LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note(s)	2016 LAK	2015 LAK
OPERATING ACTIVITIES			
Profit before tax		6.180.123.007	3.597.005.626
<i>Adjustments for:</i>			
Loan impairment charges	7	3.271.319.327	591.828.444
Depreciation and amortisation charges	8,9	3.850.973.311	3.658.793.667
Foreign exchange (gain)/loss, net		807.312.219	(1.952.732.223)
Interest and similar income	17	(33.749.547.943)	(13.688.525.300)
Interest and similar expense	17	8.555.444.160	383.034.173
Net cash flows used in operations before changes in operating assets and liabilities		(11.084.375.919)	(7.410.595.613)
Decrease in statutory deposits with BOL	4	57.426.184.122	132.396.411.879
Increase in loans and advances to customers	7	(139.155.373.795)	(113.107.340.373)
Increase in other assets		(523.011.072)	(207.196.909)
Increase in deposits from customers	11	6.601.214.346	28.267.171.696
Increase in deposits from banks	12	54.000.979.125	-
Increase in amount due to parent company	13	418.577.940.000	12.222.000.000
Increase/(decrease) in other liabilities		15.192.966.563	(2.608.961.417)
Interest received		23.088.388.459	13.110.104.106
Interest paid		(1.407.780.117)	(287.179.854)
Net cash generated from operating activities		422.717.131.712	62.374.413.515
INVESTING ACTIVITIES			
Purchases of property and equipment (i)		(3.901.007.328)	-
Purchases of intangible fixed assets (i)		-	(426.883.281)
Net cash used in investing activities		(3.901.007.328)	(426.883.281)
FINANCING ACTIVITIES			
Additional intercompany payables		-	1.293.585.396
Repayments of intercompany payables		(7.726.320.861)	(2.036.830.196)
Net cash used in financing activities		(7.726.320.861)	(743.244.800)
Net increase in cash and cash equivalents		411.089.803.523	61.204.285.434
Cash and cash equivalents, beginning	6	104.907.605.585	43.183.373.284
Effect of foreign exchange difference		(1.428.328.693)	519.946.867
Cash and cash equivalents, ending	6	514.569.080.415	104.907.605.585

(i) Total cash purchases of property and equipment and intangible fixed assets during the year were LAK 3.901.007.328 (2015: LAK 426.883.281). All purchases have been paid during 2016. In 2015, non-cash transactions relate to the cost of fixed assets acquired but have not been paid as of 31 December 2015 amounted to LAK 659.813.513.

Danny Ling Chii Hian
Country Head



29 March 2017

The accompanying notes on pages 8 to 25 form an integral part of these financial statements.
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 2016

1. GENERAL INFORMATION

RHB Bank Lao Limited (the Bank) is a commercial bank incorporated and registered in of 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 (2015 LAK 10.050). The actual paid up capital as at 31 December 2016 is LAK 301.500.000.000 (2015: 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 29 March 2017.

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 BOL accounting regulations and notifications. 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 relevant BOL accounting regulations and notifications.

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.

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

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 is 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.

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.

<u>Group</u>	<u>Category</u>	<u>Number of days past due</u>	<u>Provision rate</u>
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%

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. The useful life is in line with the Lao Tax Law.

2.11 Property and equipment

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

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 non-interest income 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.

The up-front payments made for leasehold land represent prepaid lease rentals and are amortised on straight line basis over the lease term. Where an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period when termination takes place.

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.14 Employee benefit

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% (2015: 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. FINANCIAL RISK MANAGEMENT POLICIES**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

	2016 LAK	2015 LAK
Cash on hand (note 4.1)	12.216.763.662	7.964.755.825
Balances with central bank other than mandatory reserve deposits (note 4.2)	443.221.399.055	73.199.303.186
Included in cash and cash equivalents (note 6)	455.438.162.717	81.164.059.011
Mandatory reserve deposits with central bank (note 4.3)	4.050.057.457	61.476.241.579
	459.488.220.174	142.640.300.590

4.1 CASH ON HAND

	2016 LAK	2015 LAK
Cash on hand – LAK	4.200.222.500	4.357.139.000
Cash on hand – foreign currency	8.016.541.162	3.607.616.825
	12.216.763.662	7.964.755.825

RHB BANK LAO LIMITED

NOTES TO THE FINANCIAL STATEMENTS
AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2016

4. CASH AND BALANCES WITH CENTRAL BANK

4.2 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.

	2016 LAK	2015 LAK
Demand deposit	<u>443.221.399.055</u>	<u>73.199.303.186</u>

4.3 MANDATORY RESERVE DEPOSITS WITH CENTRAL BANK

This represents current accounts which earn no interest.

	2016 LAK	2015 LAK
Compulsory reserve (i)	4.045.057.457	2.721.165.363
Special deposit (ii)	<u>5.000.000</u>	<u>58.755.076.216</u>
	<u>4.050.057.457</u>	<u>61.476.241.579</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 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.

5. DEPOSITS WITH OTHER BANKS

Deposits with other banks are analysed as follows:

a) Analysis by institution

	2016 LAK	2015 LAK
Balances with domestic banks		
Public Bank Berhad - Vientiane Branch	56.957.100.000	23.209.450.000
Banque Franco Lao Co., Ltd. – Vientiane Branch	<u>16.374.000</u>	<u>16.296.000</u>
	<u>56.973.474.000</u>	<u>23.225.746.000</u>
Balances with overseas banks		
RHB Bank Berhad – Thailand	483.000.061	168.615.916
Bank of China - Malaysia	300.169.805	-
RHB Bank Berhad – Malaysia	<u>1.374.273.832</u>	<u>349.184.658</u>
	<u>2.157.443.698</u>	<u>517.800.574</u>
Included in cash and cash equivalents (note 6)	<u>59.130.917.698</u>	<u>23.743.546.574</u>

RHB BANK LAO LIMITED

NOTES TO THE FINANCIAL STATEMENTS
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5. DEPOSITS WITH OTHER BANKS

b) Analysis by currency

	2016 LAK	2015 LAK
Domestic banks		
LAK	45.000.000.000	10.000.000.000
USD	7.384.674.000	5.719.896.000
THB	4.588.800.000	7.505.850.000
	56.973.474.000	23.225.746.000
Overseas banks		
USD	1.674.443.637	349.184.658
THB	483.000.061	168.615.916
	2.157.443.698	517.800.574
	59.130.917.698	23.743.546.574

6. CASH AND CASH EQUIVALENTS

	2016 LAK	2015 LAK
Cash and balances with central bank (note 4)	455.438.162.717	81.164.059.011
Deposits with other banks (note 5)	59.130.917.698	23.743.546.574
	514.569.080.415	104.907.605.585

7. LOANS AND ADVANCES TO CUSTOMERS

	2016 LAK	2015 LAK
Loans and advances to customers	333.495.955.318	194.340.581.523
Provision	(4.269.412.560)	(995.420.074)
	329.226.542.758	193.345.161.449

Loans and advances to customers are analysed as follows:

a) Analysis by currency

	2016 LAK	2015 LAK
LAK	241.232.702.596	96.183.908.385
USD	77.984.643.177	83.559.788.326
THB	14.278.609.545	14.596.884.812
	333.495.955.318	194.340.581.523

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7. LOANS AND ADVANCES TO CUSTOMERS

b) Analysis by status of loan

	2016 LAK	2015 LAK
Performing loans	328.741.719.457	194.340.581.523
Non-performing loans	4.754.235.861	-
	<u>333.495.955.318</u>	<u>194.340.581.523</u>

c) Analysis by classification of BOL

	2016 LAK	2015 LAK
Performing loans		
Normal	317.586.346.356	193.682.992.947
Special mention	11.155.373.101	657.588.576
Non-performing loans		
Substandard	1.140.971.912	-
Doubtful	2.955.675.373	-
Loss	657.588.576	-
	<u>333.495.955.318</u>	<u>194.340.581.523</u>

d) Analysis by relationship

	2016 LAK	2015 LAK
Customers	<u>333.495.955.318</u>	<u>194.340.581.523</u>

e) Analysis by economic sector

	2016 LAK	2015 LAK
Industrial	23.301.553.533	17.013.691.280
Construction	47.461.357.906	15.607.278.562
Commercial	72.895.373.295	37.442.693.878
Transport and telecommunication	17.151.614.242	2.855.093.095
Service	104.629.725.241	71.796.290.801
Handicraft	567.434.669	-
Others	67.488.896.432	49.625.533.907
	<u>333.495.955.318</u>	<u>194.340.581.523</u>

RHB BANK LAO LIMITED

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7. LOANS AND ADVANCES TO CUSTOMERS

f) Analysis by resident status

	2016 LAK	2015 LAK
Resident	303.862.168.553	194.340.581.523
Non-resident	29.633.786.765	-
	<u>333.495.955.318</u>	<u>194.340.581.523</u>

g) Analysis by security

	2016 LAK	2015 LAK
Secured	333.495.955.318	194.340.581.523
	<u>333.495.955.318</u>	<u>194.340.581.523</u>

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

	2016 LAK	2015 LAK
General provision		
Beginning balance	995.420.074	406.165.470
Provision charged during the year	4.581.085.575	591.828.444
Reversal of provision during the year	(3.649.880.392)	-
Foreign exchange difference	2.673.159	(2.573.840)
At 31 December	<u>1.929.298.416</u>	<u>995.420.074</u>

	2016 LAK	2015 LAK
Specific provision		
Beginning balance	-	-
Provision charged during the year	3.569.141.621	-
Reversal of provision during the year	(1.229.027.477)	-
At 31 December	<u>2.340.114.144</u>	<u>-</u>

The breakdown of as at 31 December 2016 and 2015 is as follows:

	2016 LAK	2015 LAK
Performing loans (general)		
Normal	1.594.637.306	975.692.417
Special mention	334.661.110	19.727.657
Non-performing loans (specific)		
Substandard	228.200.386	-
Doubtful	1.454.325.185	-
Loss	657.588.573	-
	<u>4.269.412.560</u>	<u>995.420.074</u>

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8. 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

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8. PROPERTY AND EQUIPMENT

Movement of the balance of property and equipment for the year ended 31 December 2015 is as follows:

Cost	Building & improvements LAK	Office equipment LAK	Computer equipment LAK	Furniture & fixtures LAK	Motor vehicles LAK	Total LAK
At 1 January 2015	8.191.729.416	287.321.375	7.737.344.314	9.991.790	1.178.586.392	17.404.973.287
Additions	-	-	69.686.441	590.127.072	-	659.813.513
Adjustments/transfers	(745.171.796)	-	(314.125.221)	-	-	(1.059.297.017)
At 31 December 2015	7.446.557.620	287.321.375	7.492.905.534	600.118.862	1.178.586.392	17.005.489.783
Accumulated depreciation						
At 1 January 2015	204.793.236	33.170.076	773.734.488	1.165.710	117.303.636	1.130.167.146
Charge for the year	336.600.370	57.464.304	1.467.165.838	178.471.834	235.717.272	2.275.419.618
Adjustments/transfers	(33.341.514)	-	(59.854.202)	-	-	(93.195.716)
At 31 December 2015	508.052.092	90.634.380	2.181.046.124	179.637.544	353.020.908	3.312.391.048
Net book value at 31 December 2015	6.938.505.528	196.686.995	5.311.859.410	420.481.318	825.565.484	13.693.098.735

RHB BANK LAO LIMITED

NOTES TO THE FINANCIAL STATEMENTS
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9. INTANGIBLE ASSETS

Movement of the balance of intangible assets is as follows:

	2016 LAK	2015 LAK
Cost		
At 1 January	6.840.055.752	6.413.172.471
Additions	-	426.883.281
At 31 December	6.840.055.752	6.840.055.752
Accumulated amortisation		
At 1 January	2.024.691.291	641.317.242
Charge for the year	1.368.011.148	1.383.374.049
At 31 December	3.392.702.439	2.024.691.291
Net book value at 31 December	3.447.353.313	4.815.364.461

10. OTHER ASSETS

	2016 LAK	2015 LAK
Prepaid expenses (i)	3.054.593.237	2.599.011.694
Accrued interest receivable (ii)	11.496.167.816	835.008.332
Others (iii)	395.239.034	327.809.325
	14.946.000.087	3.761.829.351

- (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 loans to customers and deposits with other banks.
- (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

	2016 LAK	2015 LAK
Current deposits	13.322.672.320	8.317.964.238
Saving deposits	9.190.964.126	13.692.287.626
Term deposits	20.469.479.136	14.371.649.372
	42.983.115.582	36.381.901.236

NOTES TO THE FINANCIAL STATEMENTS
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11. DEPOSITS FROM CUSTOMERS

b) Analysis by currency

	2016 LAK	2015 LAK
LAK	29.145.522.216	15.609.420.847
USD	9.146.464.085	13.623.799.275
THB	4.691.129.281	7.148.681.114
	<u>42.983.115.582</u>	<u>36.381.901.236</u>

c) Analysis by maturity

	2016 LAK	2015 LAK
Within 3 months	32.812.774.786	23.041.101.512
4 to 6 months	2.755.055.814	10.600.359.950
7 to 12 months	5.522.281.666	610.431.499
Over 12 months	1.893.003.316	2.130.008.275
	<u>42.983.115.582</u>	<u>36.381.901.236</u>

d) Analysis by type of customer

	2016 LAK	2015 LAK
Individual	23.070.264.895	17.897.024.170
Non-individual	19.912.850.687	18.484.877.066
	<u>42.983.115.582</u>	<u>36.381.901.236</u>

e) Analysis by type of relationship

	2016 LAK	2015 LAK
Staff	2.534.204.725	2.154.716.048
Customer	40.448.910.857	34.227.185.188
	<u>42.983.115.582</u>	<u>36.381.901.236</u>

12. DEPOSITS FROM OTHER BANKS

a) Analysis by types of deposit account

	2016 LAK	2015 LAK
Current deposits	979.125	-
Term deposits	54.000.000.000	-
	<u>54.000.979.125</u>	<u>-</u>

RHB BANK LAO LIMITED

NOTES TO THE FINANCIAL STATEMENTS
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12. DEPOSITS FROM OTHER BANKS

b) Analysis by currency

	<u>2016</u> <u>LAK</u>	<u>2015</u> <u>LAK</u>
LAK	54.000.979.125	-
	<u>54.000.979.125</u>	<u>-</u>

c) Analysis by maturity

	<u>2016</u> <u>LAK</u>	<u>2015</u> <u>LAK</u>
Within 3 months	979.125	-
4 to 6 months	44.000.000.000	-
7 to 12 months	10.000.000.000	-
	<u>54.000.979.125</u>	<u>-</u>

13. AMOUNT DUE TO PARENT COMPANY

	<u>2016</u> <u>LAK</u>	<u>2015</u> <u>LAK</u>
Fixed deposits (i)	430.799.940.000	12.222.000.000
Intercompany payable (ii)	26.359.365.835	34.249.620.816
	<u>457.159.305.835</u>	<u>46.471.620.816</u>

(i) Fixed deposits, denominated in USD, carry an interest rate of 1.80% (2015: 1.80%) per annum with term of 1 month and an interest rate of 3.15% (2015: 0) 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.

14. OTHER LIABILITIES

	<u>2016</u> <u>LAK</u>	<u>2015</u> <u>LAK</u>
Current income tax liability	114.983.756	-
Accrued interest payable	7.288.985.148	141.321.105
Accruals, provisions and other liabilities (i)	15.913.307.081	1.180.095.851
	<u>23.317.275.985</u>	<u>1.321.416.956</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

	2016 LAK	2015 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:

	2016 LAK	2015 LAK
At 1 January	-	-
Additional during the year	<u>190.340.872</u>	<u>-</u>
At 31 December	<u>190.340.872</u>	<u>-</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

	2016 LAK	2015 LAK
Interest income		
Interest income from customers	22.984.634.809	13.462.149.527
Interest income from banks	<u>10.764.913.134</u>	<u>226.375.773</u>
	<u>33.749.547.943</u>	<u>13.688.525.300</u>
Interest expense		
Interest expense from customers	(753.620.932)	(371.350.023)
Interest expense from banks	<u>(7.801.823.228)</u>	<u>(11.684.150)</u>
	<u>(8.555.444.160)</u>	<u>(383.034.173)</u>
Net interest and similar income	<u>25.194.103.783</u>	<u>13.305.491.127</u>

18. NET FEE AND COMMISSION INCOME

	2016 LAK	2015 LAK
Fee and commission income		
Loan processing fees	1.548.801.500	1.264.484.500
Other fees	<u>452.955.242</u>	<u>342.119.806</u>
	<u>2.001.756.742</u>	<u>1.606.604.306</u>
Fee and commission expense		
Commission fees	(71.047.563)	(36.983.825)
Wire transfer fees	<u>(104.472.997)</u>	<u>(108.149.156)</u>
	<u>(175.520.560)</u>	<u>(145.132.981)</u>
Net fee and commission income	<u>1.826.236.182</u>	<u>1.461.471.325</u>

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NOTES TO THE FINANCIAL STATEMENTS
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19. PAYROLL AND OTHER STAFF COSTS

	2016 LAK	2015 LAK
Salaries and wages	5,148,013,301	4,412,602,610
Bonus	2,725,467,567	136,349,107
Other staff costs	598,885,634	577,684,156
	8,472,366,502	5,126,635,873

20. GENERAL AND ADMINISTRATIVE EXPENSES

	2016 LAK	2015 LAK
Rental	1,094,028,000	1,064,544,000
Repair and maintenance	1,083,600,946	645,142,119
Insurance	314,810,012	325,924,951
Professional fees	306,754,095	282,356,854
Communication expense	206,251,095	113,815,502
Utilities	151,936,103	110,496,401
Security fee	153,000,000	108,160,000
Office stationery expense	198,890,888	96,402,720
Transportation and travelling fees	74,143,243	89,555,386
Marketing and public relations	105,747,303	52,867,820
Other administrative expenses (i)	749,083,914	856,165,312
	4,438,245,599	3,745,431,065

(i) Other administrative expense includes depositor protection fund fees, BOL operating fees, and other miscellaneous expenses.

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% (2015: 24%) of total taxable profit income.

	2016 LAK	2015 LAK
Profit before tax for the year	6,180,123,007	3,597,005,626
Non-deductible expenses	14,063,092,099	-
Non-taxable income	(13,239,532,035)	(4,060,788,983)
Losses carried forward from previous year (i)	(6,524,584,086)	(7,272,643,474)
Profit/(loss) before tax of the year after loss carry forward	479,098,985	(7,736,426,831)
Income tax expense at applicable tax rate	114,983,756	-

Tax losses incurred in any tax year can be carried forward to offset against profit realised in the following three tax years subject to the following conditions:

- The loss must be recorded in the tax on profit return and submitted to the Tax Department on time.
- The business objective of the Bank must not have changed.
- The ownership of the Bank must not have changed.

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

Deposits to key management personnel comprised of savings and fixed deposits, all of which are unsecured. Savings deposits are repayable on demand and carry interest rates ranging from 1.85% to 2.25% per annum (2015: 1.85% to 2.25%), depending on the currency. Fixed deposits carry interest rates of ranging from 2.50% to 6.35% per annum (2015: 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:

	2016 LAK	2015 LAK
RHB Bank Berhad - Malaysia (Holding Bank)		
(a) Term deposit		
At 1 January	349,151,658	403,300,000
Deposits transferred/(withdrawn) during the year	1,023,450,977	(50,634,211)
Foreign exchange gain/loss	1,671,197	(3,514,131)
As at 31 December (note 5)	1,374,273,832	349,151,658
(b) Fixed deposits		
At 1 January	12,222,000,000	-
Deposits received during the year	418,519,440,000	12,222,000,000
Foreign exchange gain	58,500,000	-
As at 31 December (note 13)	430,799,940,000	12,222,000,000
Interest expense	6,667,866,946	11,684,150
(c) Intercompany payable		
At 1 January	34,249,620,816	37,841,811,854
Additional payables during the year	-	1,293,585,396
Payments during the year	(7,726,320,861)	(2,036,830,196)
Foreign exchange gain	(163,934,120)	(2,848,946,238)
As at 31 December (note 13)	26,359,365,835	34,249,620,816
Monthly swift payment	104,472,997	108,149,056
RHB Bank Thailand		
(a) Term deposit		
At 1 January	168,615,916	123,250,000
Deposits transferred during the year	312,908,895	44,112,941
Foreign exchange gain/loss	1,475,250	1,252,975
At 31 December (note 5)	483,000,061	168,615,916

RHB BANK LAO LIMITED

NOTES TO THE FINANCIAL STATEMENTS
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22. RELATED PARTY BALANCES TRANSACTIONS

	2016 LAK	2015 LAK
<i>Director and key management personnel</i>		
<i>Deposits from customers</i>		
At 1 January	956.255.463	278.762.939
Deposits received during the year	1.573.372.192	680.416.464
Foreign exchange gain/loss	4.577.070	(2.923.940)
As at 31 December	2.534.204.725	956.255.463
Interest expense	5.759.726	21.515.748
Salaries and other short-term employee benefits	8.373.474.473	5.006.408.141

23. COMMITMENTS AND CONTINGENCIES

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 2016.

(a) Credit facilities

	2016 LAK	2015 LAK
Unutilised overdraft	11.473.714.226	28.834.832.792
Undisbursed loans	11.209.000.000	-
	22.682.714.226	28.834.832.792

(b) Operating lease

	2016 LAK	2015 LAK
From 1 to 5 years	2.222.629.190	1.830.299.178
Over 5 years	38.539.022.122	10.518.512.729
	40.761.651.312	12.348.811.907

(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.

24. EVENTS AFTER THE BALANCE SHEET DATE

There have been no any significant post balance sheet events that would significantly impact the figures in the Bank's financial information and data.