Banque Pour Le Commerce Exterieur Lao Public

Special Purpose Consolidated Financial Statements

31 December 2018

EY

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CONTENTS

THE BANK

Banque Pour Le Commerce Exterieur Lao Public (hereinafter referred to as "the Bank") is a joint-stock bank incorporated and registered in the Lao People's Democratic Republic ("Lao PDR").

Establishment and Operations

The Bank was established from the equitization of Banque Pour Le Commerce Exterieur Lao which had been established in accordance with the Banking Business License No. 129/BOL dated 01 November 1989. On 23 December 2010, the Bank successfully undertook its Initial Public Offering. On 10 January 2011, the Bank was equitized and renamed into Banque Pour Le Commerce Exterieur Lao Public under the Operating License No. 0061/LRO dated 10 January 2011 issued by the Business License Registration Office of the Lao PDR. At that date, the Government, represented by the MOF, was the largest shareholder with 80% shareholding.

On 15 July 2011, the MOF sold 10% of the total ordinary shares (equivalent to 13.657.759 shares) to its strategic partner named Compagnie Financière de la BRED ("COFIBRED") in accordance with the Ordinary Shares Purchase Agreement between the Ministry of Finance and COFIBRED. COFIBRED is a subsidiary of BRED, the biggest regional banking society in the Banque Populare Group - a French group of cooperative banks. The total purchased price of LAK 150.235.349.000 has been paid fully by COFIBRED.

On 17 August 2017, Lao Securities Commission Office approved the Bank to recapitalize by both Rights offering (which resulted in 68.047.300 shares) and Public offering (which resulted in 3.098.400 shares) in Lao Securities Exchange in order to increase its charter capital. The Bank received the new Banking Business License No. 21/BOL, dated 13 September 2017 issued by Bank of the Lao PDR. On 15 September 2017, Lao Securities Exchange certified that the Bank successfully increased its charter capital amount LAK 355.728.500.000 (equivalent to 71.145.700 shares) in accordance with Listing Certificate No. 01/LSX, dated 15 September 2017 and its latest amended Business License No. 0889/ERO dated 15 September 2017 issued by Ministry of Industry and Commerce.

According to notification from Lao Securities Exchange, the shareholding structure of the Bank as at 31 December 2018 is as follows:

Shareholders	*Number of shares*	*%*
The Government	145.406.321	70%
Strategic partners	20.772.359	10%
Local investors (including employees of the Bank) and other foreign investors	41.544.620	20%
	207.723.300	**100%**

The principal activities of the Bank are to provide banking services including mobilizing and receiving short-term, medium-term, and long-term deposits from organizations and individuals; making short-term, medium-term, and long-term loans to organizations and individuals based on the nature and capability of the Bank's sources of capital; foreign exchange transactions, international trade financial services, discounting of commercial papers, bonds and other valuable papers, and providing other banking services allowed by Bank of the Lao PDR.

Charter Capital

The Bank's charter capital as at 31 December 2018 is LAKm 1.038.617 (31 December 2017: LAKm 1.038.617).

Location and Network

The Bank's Head Office is located at No. 01, Pangkham Street, Ban Xiengnheun, Chanthabouly District, Vientiane Capital, Lao PDR. As at 31 December 2018, the Bank has one (01) Head Office, one (1) subsidiary, four (4) joint ventures, twenty (20) main branches, ninety-three (93) services units, and fifteen (15) exchange units all over Lao PDR.

THE BANK (continued)

Subsidiary

As at 31 December 2018, the Bank has one (01) subsidiary as follows:

Name	*Established in accordance with Business License No.*	*Business sector*	*% owned by the Bank*
BCEL - Krung Thai Securities Company Limited	180-10 dated 14 December 2010 by the Investment Promotion Department of the Ministry of Planning and Investment of the Lao PDR	Securities	70%

Joint ventures

As at 31 December 2018, the Bank has four (04) joint ventures as follows:

Name	*Established in accordance with Business License No.*	*Business Sector*	*% owned by the Bank*
Lao Viet Joint Venture Bank	732/ERO dated 29 August 2016 by the Ministry of Industry and Commerce	Banking & Finance	25%
Banque Franco - Lao Limited	0495/ERO dated 07 June 2018 by the Ministry of Industry and Commerce	Banking & Finance	30%
Lao-Viet Insurance Joint Venture Company	0600 dated 16 August 2013 by the Ministry of Industry and Commence	Insurance	35%
Lao China Bank Company Limited	041/ERM dated 27 January 2014 by the Department of Enterprise Register and Management of Lao PDR	Banking & Finance	49%

BOARD OF DIRECTORS

Members of the Board of Directors during the year ended 31 December 2018 and at the date of this report are as follows:

Name	*Title*	*Date of appointment /resignation*
Dr. Bounleua Sinxayvoravong	Chairman	Reappointed on 27 April 2018
Mr. Khamsouk Sundara	Vice Chairman	Reappointed on 27 April 2018
Mr. Phoukhong Chanthachack	Member	Reappointed on 27 April 2018
Mr. Marc Robert	Member	Reappointed on 27 April 2018
Mr. Phoutthakhan Khanty	Member	Appointed on 27 April 2018
Associate Professor, Dr. Phouphet Kyophilavong	Member	Appointed on 27 April 2018
Mr. Viengsouk Chounthavong	Member	Appointed on 27 April 2018
Mr. Viengxay Chanthanvisouk	Member	Appointed on 9 April 2015 Resigned on 27 April 2018
Mr. Phansana Khounnouvong	Member	Appointed on 9 April 2015 Resigned on 27 April 2018
Ms. Khanthaly Vongxayarath	Member	Appointed on 9 April 2015 Resigned on 27 April 2018

MANAGEMENT

Members of the Management during the year ended 31 December 2018 and at the date of this report are as follows:

Name	*Title*	*Date of appointment*
Mr. Phoukhong Chanthachack	General Managing Director	15 January 2016
Mr. Phansana Khounnouvong	Deputy Managing Director	06 June 2008
Mr. Lachay Khanpravong	Deputy Managing Director	30 September 2014
Mr. Nanthalath Keopaseuth	Deputy Managing Director	30 September 2014
Mr. Khamsian Mingbouppha	Deputy Managing Director	23 November 2015
Mr. Souphak Thinsayphone	Deputy Managing Director	23 November 2015
Mr. Bouavanh Simalivong	Deputy Managing Director	1 November 2016

LEGAL REPRESENTATIVE

The legal representative of the Bank during the period and as at the date of this report is Mr. Phoukhong Chanthachack – General Managing Director.

AUDITORS

The auditors of the Bank are Ernst & Young Lao Company Limited.

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Ernst & Young Lao Co., Ltd
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Reference: 60790273/196316338-IFRS/CS

INDEPENDENT AUDITORS' REPORT

**To: Management of Banque Pour Le Commerce Exterieur Lao Public;
Bank of the Lao PDR; and
Laos Securities Commission Office**

Qualified Opinion

We have audited the special purpose consolidated financial statements ("the consolidated financial statements") of Banque Pour Le Commerce Exterieur Lao Public ("the Bank") and its subsidiary, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion section of our report, the consolidated financial statements of the Bank and its subsidiary for the year ended 31 December 2018 are prepared, in all material respects, in accordance with the accounting policies as described in Note 6 to the consolidated financial statements to meet the reporting requirements of Bank of the Lao PDR and the Laos Securities Commission Office.

Basis for Qualified Opinion

The consolidated financial statements do not disclose information relating to fair value measurements required by IFRS 13: "Fair value measurement" and financial risk management required by IFRS 7: "Financial Instruments: Disclosures".

The Bank did not record post-employment benefit for their employees since 2012 until 2017. In 2017, the Bank corrected this error by recording the cumulative post-employment benefit liability up to 31 December 2017 of LAKm 59.458 to personnel expenses of 2017. This obligation should have been recorded on a retrospective basis. Had the Bank made such adjustments correctly, the impact to the consolidated financial statements would have been as follows:

- Personnel expense for the year 2017 would have decreased by LAKm 59.458;
- Deferred tax income for the year 2017 would have decreased by LAKm 14.270; and
- Retained earnings as at 1 January 2017 would have decreased by LAKm 45.188.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in Lao PDR, and we have fulfilled our other ethical responsibilities in accordance these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Emphasis of Matter – Basis of Accounting and Restriction on Use

We draw attention to Note 2 to the consolidated financial statements, which describes the basis of preparation, under which the accounting policies used and disclosures made (hereinafter referred to as "Special purpose framework") are not intended to, and do not, comply with all the requirements of International Financial Reporting Standards as the accounting policies for recognition and measurement of financial instruments are based on IAS 39 *Financial instruments: Recognition and Measurement* instead of IFRS 9 - *Financial Instruments.* The consolidated financial statements are prepared solely for the use of the Bank to meet the reporting requirements of Bank of the Lao PDR and the Laos Securities Commission Office. As a result, the consolidated financial statements may not be suitable for another purpose. Our auditor's report is intended solely for the information and use of the Bank and these regulators, and should not be used by other parties. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Areas of focus	*How our audit addressed the risk factors*
Special purpose framework conversion process	
The Bank operates in Laos and maintains its underlying books and records in accordance with the Accounting Law of the Lao PDR, and regulations stipulated by Bank of the Lao PDR ("LAS"). The Bank's special purpose consolidated financial statements are prepared by posting the required adjustments to the underlying books and records, based on the accounting policies set out in Note 6. Identification of all required GAAP differences, and calculation of the required adjustments, requires the Bank's management to exercise judgement.	Our procedures, in respect of the Bank's special purpose framework conversion process, included: ▶ We assessed, and challenged, the Bank's selection and application of accounting policies under special purpose framework; ▶ We formed expectations of differences between the Bank's LAS and special purpose consolidated financial statements and compared to those prepared by the Bank; ▶ We used tools to evaluate the completeness and accuracy of disclosures made by the Bank; and ▶ We involved IFRS pre-issuance reviewer in our procedures to assess compliance with the disclosure requirements of special purpose framework.

Key audit matters (continued)

Areas of focus	*How our audit addressed the risk factors*
Allowance for impairment of loans to customers (Note 18 – Allowance for impairment losses of loans to customers)	
The provision for impairment of loans is a significant balance and carries a high degree of estimation uncertainty. The Bank's management is required to exercise judgement in identifying evidence of impairment and calculating the impairment amounts. In order to calculate the impairment provision, the Bank has developed models and makes certain assumptions including, but not limited to: collateral valuation, forecast future cash flows, and the financial condition of the borrower. Given the materiality of this balance, and the degree of judgement required of the Bank's management, and the inherent subjectivity of the assumptions selected, we considered this to be a significant item for our audit.	We understood, and tested, the design and operating effectiveness of key controls in relation to: ▶ loan origination and recognition; ▶ loan credit grading and credit monitoring; ▶ segmentation of the portfolio into exposures of similar risk characteristics; ▶ calculation of the loan loss provision; and ▶ IT general controls including manage change, manage access and operations control on data, IT applications and operating systems. For a sample of loans which had impairment provisions calculated on an individual basis, we: ▶ assessed and challenged management assumptions in respect of forecast cash and collateral recoverable amounts and ▶ assessed the impact of loan restructures as applicable For loan loss allowances calculated on a collective basis, we performed the followings: ▶ tested the completeness and accuracy of data used in models ▶ tested the arithmetical accuracy of the Bank's models ▶ evaluated and challenged the appropriateness of assumptions including historical loss rate, and ▶ compared, where available, data and assumptions made by the Bank to external benchmarks. Finally, we assessed the completeness and accuracy of financial statement disclosures relating to loan loss provisions to assess compliance with disclosure requirements.

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Responsibilities of the Bank's Management for the Consolidated Financial Statements

The Bank's management is responsible for the preparation of the consolidated financial statements in accordance with the accounting policies as described in Note 6 to the consolidated financial statements and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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.

Auditors' Responsibilities for the Audit of the Consolidated Financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated 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.
- 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 consolidated 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 appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Obtain sufficient appropriate audit evidence regarding the financial information of the Bank and its subsidiary to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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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.

Ernst & Young Lao Co., Ltd.

ບໍລິສັດ ເອິນ ແອນ ຢັງ ລາວ ຈໍາກັດ
ERNST & YOUNG LAO CO.,LTD

Trinh Hoang Anh
Partner
Audit Practising Registration
Certificate No. LCPAA/2-1-00001

Vientiane, Lao PDR
29 April 2019

Banque Pour Le Commerce Exterieur Lao Public

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2018

	Notes	*2018 LAKm*	*2017 LAKm*
Interest revenue calculated using the effective interest method	8	1.938.828	1.745.731
Interest expense calculated using the effective interest method	9	(1.000.577)	(887.891)
Net interest and similar income		**938.251**	**857.840**
Fee and commission income		261.637	200.288
Fee and commission expense		(22.017)	(21.071)
Net fee and commission income	**10**	**239.620**	**179.217**
Net trading income	11	49.719	43.853
Other operating income	12	21.892	20.550
Operating income		**1.249.482**	**1.101.460**
Credit loss expense of loans to customers	19	(221.957)	(212.409)
Impairment losses of financial investments	13	(29.412)	9.257
NET OPERATING INCOME		**998.113**	**898.308**
Personnel expenses	14	(334.693)	(340.848)
Depreciation and amortization	23, 24	(72.363)	(73.871)
Other operating expenses	15	(156.134)	(136.118)
TOTAL OPERATING EXPENSES		**(563.190)**	**(550.837)**
Share of (loss)/profit of joint ventures	22	(7.643)	16.551
PROFIT BEFORE TAX		**427.280**	**364.022**
Current profit tax expense	29.3	(124.762)	(85.395)
Deferred profit tax income	29.4	18.420	1.715
NET PROFIT FOR THE YEAR		**320.938**	**280.342**
Attributable to:			
Equity holders of the parent		320.732	279.399
Non-controlling interest		206	943
Earnings per share (LAK)	**40**	**1.544**	**1.797**

Prepared by:	Approved by:	Approved by:
Mrs. Phousengthong Anoulakkham Chief of Accounting Department	Mr. Kongsack Souphonesy Chief of Internal Audit Department	Mr. Lachay Khanpravong Deputy Managing Director

BANK OF THE LAO PDR BANQUE POUR LE COMMERCE EXTERIEUR LAO PUBLIC VIENTIANE CAPITAL

Vientiane, Lao PDR

26 April 2019

Banque Pour Le Commerce Exterieur Lao Public

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2018

	Notes	*2018 LAKm*	*2017 LAKm*
NET PROFIT FOR THE YEAR		**320.938**	**280.342**
OTHER COMPREHENSIVE INCOME			
Change on fair value of available-for-sale financial assets		-	(7.924)
Change due to impairment of available-for-sale financial assets		(1.792)	-
Remeasurement loss on defined benefit plan		(1.411)	-
Profit tax related to components of other comprehensive income	29.4	768	1.902
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(2.435)**	**(6.022)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**318.503**	**274.320**
Attributable to:			
Equity holders of the parent		317.999	273.435
Non-controlling interest		504	885

Prepared by:	Approved by:	Approved by:
Mrs. Phousengthong Anoulakkham Chief of Accounting Department	Mr. Kongsack Souphonesy Chief of Internal Audit Department	Mr. Lachay Khanpravong Deputy Managing Director

BANK OF THE LAO PDR BANQUE POUR LE COMMERCE EXTERIEUR LAO PUBLIC VIENTIANE

Vientiane, Lao PDR

26 April 2019

Banque Pour Le Commerce Exterieur Lao Public

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2018

	Notes	*31 December 2018 LAKm*	*31 December 2017 LAKm*
ASSETS			
Cash and balances with Bank of the Lao PDR	16	5.334.246	5.815.021
Due from banks	17	3.828.669	3.235.883
Loans to customers	18	24.366.860	22.425.778
Financial assets - Held-for-trading		14	5
Financial investments - Available-for-sale	20	156.516	190.959
Financial investments - Held-to-maturity	21	3.652.772	2.574.671
Investments in joint ventures	22	462.296	541.730
Property and equipment	23	450.132	457.487
Intangible assets	24	246.601	247.600
Deferred tax assets	29.4	29.099	18.215
Other assets	25	466.088	378.764
TOTAL ASSETS		**38.993.293**	**35.886.113**
LIABILITIES			
Due to banks and other financial institutions	26	3.413.129	3.275.546
Due to customers	27	29.915.142	28.403.531
Borrowings from other banks	28	3.349.266	2.145.402
Current tax liabilities	29.2	35.951	20.705
Deferred tax liabilities	29.4	5.272	13.576
Other liabilities	30	242.918	213.665
TOTAL LIABILITIES		**36.961.678**	**34.072.425**
EQUITY			
Chartered capital		1.038.617	1.038.617
Statutory reserves and other reserves	32	440.874	381.506
Available-for-sale reserve	33	-	1.661
Treasury shares		(3.313)	(1.316)
Retained earnings		524.050	361.658
Total equity contributable to the parent		**2.000.228**	**1.782.126**
Total equity contributable to non-controlling interest		31.387	31.562
TOTAL EQUITY		**2.031.615**	**1.813.688**
TOTAL LIABILITIES AND EQUITY		**38.993.293**	**35.886.113**

Prepared by:	Approved by:	Approved by:
Mrs. Phousengthong Anoulakkham Chief of Accounting Department	Mr. Kongsack Souphonesy Chief of Internal Audit Department	Mr. Lachay Khanpravong Deputy Managing Director

BANK OF THE LAO PDR
BANQUE POUR LE COMMERCE EXTERIEUR LAO PUBLIC
VIENTIANE CAPITAL

Vientiane, Lao PDR

26 April 2019

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2018

	Charter capital LAKm	*Statutory reserves and other reserves LAKm*	*Treasury shares LAKm*	*Available-for-sale reserve LAKm*	*Retained earnings LAKm*	*Non-controlling interest LAKm*	*Total LAKm*
Balances as at 31 December 2017	**1.038.617**	**381.506**	**(1.316)**	**1.661**	**361.658**	**31.562**	**1.813.688**
Dividend paid out to shareholders for 2017	-	-	-	-	(97.900)	(679)	(98.579)
Appropriation to reserve for the year 2017	-	59.368	-	-	(59.368)	-	-
Net profit for the year 2018	-	-	-	-	320.732	206	320.938
Net increase of treasury share	-	-	(1.997)	-	-	-	(1.997)
Other comprehensive income for the year 2018	-	-	-	(1.661)	(1.072)	298	(2.435)
in which:							
- *remeasurement loss on defined benefit plans*	-	-	-	-	*(1.411)*	-	*(1.411)*
- *change due to impairment of available-for-sale financial assets*	-	-	-	*(2.184)*	-	*392*	*(1.792)*
- *profit tax related to components of other comprehensive income*	-	-	-	*523*	*339*	*(94)*	*768*
Balances as at 31 December 2018	**1.038.617**	**440.874**	**(3.313)**	**-**	**524.050**	**31.387**	**2.031.615**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2018

	Chartered capital LAKm	*Statutory reserves and other reserves LAKm*	*Treasury shares LAKm*	*Available-for-sale reserve LAKm*	*Retained earnings LAKm*	*Non-controlling interest LAKm*	*Total LAKm*
Balances as at 31 December 2016	**682.888**	**359.007**	**(1.010)**	**7.385**	**230.992**	**33.932**	**1.313.194**
Dividend paid out to shareholders for 2016	-	-	-	-	(83.778)	(1.463)	(85.241)
Appropriation to reserve for the year 2016	-	35.130	-	-	(35.130)	-	-
Advance dividend payment to MOF for the year 2017	-	-	-	-	(50.000)	-	(50.000)
Additional capital injection	355.729	-	-	-	-	-	355.729
Net profit for the year 2017	-	-	-	-	279.399	943	280.342
Reversal of capital supplement reserve	-	(12.275)	-	-	12.275	-	-
Net increase of treasury share	-	-	(306)	-	-	-	(306)
Share of Non-controlling interest	-	(391)	-	240	1.943	(1.792)	-
Reversal of tax payable accrued from prior year based on tax inspection results	-	-	-	-	5.957	-	5.957
Others	-	35	-	-	-	-	35
Other comprehensive income for the year 2017	-	-	-	(5.964)	-	(58)	(6.022)
in which:							
- change on fair value of available-for-sale financial assets	-	-	-	*(7.848)*	-	*(76)*	*(7.924)*
- profit tax related to components of other comprehensive income	-	-	-	*1.884*	-	*18*	*1.902*
Balances as at 31 December 2017	**1.038.617**	**381.506**	**(1.316)**	**1.661**	**361.658**	**31.562**	**1.813.688**

Prepared by:

Mrs. Phousengthong Anoulakkham
Chief of Accounting Department

Approved by:

Mr. Kongsack Souphonesy
Chief of Internal Audit Department

Approved by:

BANK OF THE LAO PDR
BANQUE POUR LE COMMERCE EXTERIEUR LAO PUBLIC
VIENTIANE CAPITAL

Mr. Lachay Khanpravong
Deputy Managing Director

Vientiane, Lao PDR

26 April 2019

Banque Pour Le Commerce Exterieur Lao Public

CONSOLIDATED STATEMENT OF CASH FLOWS
as at 31 December 2018 and for the year then ended

	Notes	*2018* *LAKm*	*2017* *LAKm*
OPERATING ACTIVITIES			
Profit before tax		**427.280**	**364.022**
Adjustments for:			
Depreciation and amortization charges	23, 24	72.363	73.871
Expense for impairment losses	13, 19	251.369	203.152
Expense for writing off assets under construction	15	-	18.640
Share of associate's profit under equity method	22	7.643	(16.551)
Defined post-employment benefit expense	30	24.134	67.655
Interest income	8	(1.938.828)	(1.745.731)
Interest expense	9	1.000.577	887.891
Dividend income	12	(11.630)	(10.705)
Cash flows from operating profit before changing in operating assets and liabilities		**(167.092)**	**(157.756)**
Net changes in operating assets:			
Due from banks		(1.507.658)	(221.044)
Loans to customers		(1.982.178)	(3.421.495)
Financial investment - Held-for-trading		(9)	61
Financial investment - Available-for-sale		373	(733)
Financial investment - Held-to-maturity		280.969	5.840
Other assets		(15.986)	(41.470)
Net changes in operating liabilities:			
Due to other banks and the BOL		1.299.350	253.290
Due to customers		1.449.278	2.935.623
Other liabilities		31.200	31.796
Interest received		1.688.472	1.604.746
Interest paid		(904.321)	(842.356)
Profit tax paid during the year	29.3	(102.880)	(94.285)
Net cash flows from operating activities		**69.518**	**52.217**
INVESTING ACTIVITIES			
Purchase and construction of fixed assets		(120.340)	(89.451)
Proceeds from disposals of fixed assets		-	938
Dividends received		32.638	10.705
Net cash flows used in investing activities		**(87.702)**	**(77.808)**
FINANCING ACTIVITIES			
Payment of dividends		(97.900)	(135.241)
Additional capital contribution		-	360.060
Transaction cost of issuing shares		-	(4.296)
Net cash (used in)/from financing activities		**(97.900)**	**220.523**
Net change in cash and cash equivalents		**(116.084)**	**194.932**
Cash and cash equivalents at the beginning of the year		**7.320.516**	**7.125.584**
Cash and cash equivalents at the end of the year	**34**	**7.204.432**	**7.320.516**

Prepared by:

Mrs. Phousengthong Anoulakkham
Chief of Accounting Department

Approved by:

Mr. Kongsack Souphonesy
Chief of Internal Audit Department

Approved by:

Mr. Lachay Khanpravong
Deputy Managing Director

BANK OF THE LAO PDR
BANQUE POUR LE COMMERCE EXTERIEUR LAO PUBLIC
VIENTIANE CAPITAL

Vientiane, Lao PDR
26 April 2019

1. CORPORATE INFORMATION

Banque Pour Le Commerce Exterieur Lao Public (herein referred to as "the Bank") is a joint-stock bank incorporated and registered in the Lao People's Democratic Republic ("Lao PDR").

Establishment and Operations

The Bank was established from the equitization of Banque Pour Le Commerce Exterieur Lao which had been established in accordance with the Banking Business License No. 129/BOL dated 01 November 1989. On 23 December 2010, the Bank successfully undertook its Initial Public Offering. On 10 January 2011, the Bank was equitized and renamed into Banque Pour Le Commerce Exterieur Lao Public under the Operating License No. 0061/LRO dated 10 January 2011 issued by the Business License Registration Office of the Lao PDR. At that date, the Government, represented by the MOF, was the largest shareholder with 80% shareholding.

On 15 July 2011, the MOF sold 10% of the total ordinary shares (equivalent 13.657.759 shares) to its strategic partner named Compagnie Financière de la BRED ("COFIBRED") in accordance with the Ordinary Shares Purchase Agreement between the Ministry of Finance and COFIBRED. COFIBRED is a subsidiary of BRED, the biggest regional banking society in the Banque Populare Group - a French group of cooperative banks. The total purchased price of LAK 150.235.349.000 has been paid fully by COFIBRED.

On 17 August 2017, Lao Securities Commission Office approved the Bank to recapitalize by both Rights offering (which resulted in 68.047.300 shares) and Public offering (which resulted in 3.098.400 shares) in Lao Securities Exchange in order to increase its charter capital. The Bank received the new Established Banking Business License No. 21/BOL, dated 13 September 2017 issued by Bank of the Lao PDR. On 15 September 2017, Lao Securities Exchange certified the Bank successfully increased its charter capital amount LAK 355.728.500.000 (71.145.700 shares) in accordance with Listing Certificate No. 01/LSX, dated 15 September 2017 and its latest amended Business License No. 0889/ERO dated 15 September 2017 issued by Ministry of Industry and Commerce.

According to notification from Lao Securities Exchange Commission, the shareholding structure of the Bank as at 31 December 2018 is as follows:

Shareholders	*Number of shares*	*%*
The Government	145.406.321	70%
Strategic partners	20.772.359	10%
Local investors (including employees of the Bank) and other foreign investors	41.544.620	20%
	207.723.300	**100%**

The principal activities of the Bank are to provide banking services including mobilizing and receiving short-term, medium-term, and long-term deposits from organizations and individuals; making short-term, medium-term, and long-term loans to organizations and individuals based on the nature and capability of the Bank's sources of capital; foreign exchange transactions, international trade financial services, discounting of commercial papers, bonds and other valuable papers, and providing other banking services allowed by Bank of the Lao PDR.

Charter Capital

The Bank's chartered capital as at 31 December 2018 is LAKm 1.038.617 (31 December 2017: LAKm 1.038.617).

1. CORPORATE INFORMATION (continued)

Location and Network

The Bank's Head Office is located at No. 01, Pangkham Street, Ban Xiengnheun, Chanthabouly District, Vientiane Capital, Lao PDR. As at 31 December 2018, the Bank has one (01) Head Office, one (1) subsidiary, four (4) joint ventures, twenty (20) main branches, ninety-three (93) services units, and fifteen (15) exchange units all over Lao PDR.

Subsidiary

As at 31 December 2018, the Bank has one (01) subsidiary as follows:

Name	*Established in accordance with Business License No.*	*Business sector*	*% owned by the Bank*
BCEL - Krung Thai Securities Company Limited	180-10 dated 14 December 2010 by the Investment Promotion Department of the Ministry of Planning and Investment of the Lao PDR	Securities	70%

Joint ventures

As at 31 December 2018, the Bank has four (04) joint ventures as follows:

Name	*Established in accordance with Business License No.*	*Business Sector*	*% owned by the Bank*
Lao Viet Joint Venture Bank	732/ERO dated 29 August 2016 by the Ministry of Industry and Commerce	Banking & Finance	25%
Banque Franco - Lao Limited	0495/ERO dated 07 June 2018 by the Ministry of Industry and Commerce	Banking & Finance	30%
Lao-Viet Insurance Joint Venture Company	0600 dated 16 August 2013 by the Ministry of Industry and Commence	Insurance	35%
Lao China Bank Company Limited	041/ERM dated 27 January 2014 by the Department of Enterprise Register and Management of Lao PDR	Banking & Finance	49%

1. CORPORATE INFORMATION (continued)

Board of Directors

Members of the Board of Directors during the year ended 31 December 2018 and at the date of this report are as follows:

Name	*Title*	*Date of appointment*
Dr. Bounleua Sinxayvoravong	Chairman	Reappointed on 27 April 2018
Mr. Khamsouk Sundara	Vice Chairman	Reappointed on 27 April 2018
Mr. Phoukhong Chanthachack	Member	Reappointed on 27 April 2018
Mr. Marc Robert	Member	Reappointed on 27 April 2018
Mr. Phoutthakhan Khanty	Member	Appointed on 27 April 2018
Associate Professor, Dr. Phouphet Kyophilavong	Member	Appointed on 27 April 2018
Mr. Viengsouk Chounthavong	Member	Appointed on 27 April 2018
Mr. Viengxay Chanthanvisouk	Member	Appointed on 9 April 2015 Resigned on 27 April 2018
Mr. Phansana Khounnouvong	Member	Appointed on 9 April 2015 Resigned on 27 April 2018
Ms. Khanthaly Vongxayarath	Member	Appointed on 9 April 2015 Resigned on 27 April 2018

Management

Members of the Management during the year ended 31 December 2018 and at the date of this report are as follows:

Name	*Title*	*Date of appointment*
Mr. Phoukhong Chanthachack	General Managing Director	15 January 2016
Mr. Phansana Khounnouvong	Deputy Managing Director	6 June 2008
Mr. Lachay Khanpravong	Deputy Managing Director	30 September 2014
Mr. Nanthalath Keopaseuth	Deputy Managing Director	30 September 2014
Mr. Khamsian Mingbouppha	Deputy Managing Director	23 November 2015
Mr. Souphak Thinsayphone	Deputy Managing Director	23 November 2015
Mr. Bouavanh Simalivong	Deputy Managing Director	1 November 2016

Employees

Total number of employees of the Bank and its subsidiary as at 31 December 2018 is 1.920 persons (as at 31 December 2017: 1.716 persons).

2. BASIS OF PREPARATION

The consolidated financial statements (alternatively referred to as "the special purpose consolidated financial statements") are prepared solely for the use of the Bank to meet the requirements of Bank of the Lao PDR and the Laos Securities Commission Office. These consolidated financial statements are prepared in accordance with the accounting policies as described in Note 6. These accounting policies are primarily based on the International Financial Reporting Standards ("IFRS") as issued by International Accounting Standard Board. However, this is not a complete set of general purpose financial statements prepared in accordance with IFRS as the Bank follows the guidance stipulated in Official Letter No. 1659/BOL dated 14 December 2018 by Bank of the Lao PDR and Official Letter No. 19/LSCO dated 23 November 2018 by the Laos Securities Commission Office following which the accounting policies for recognition and measurement of financial instruments are based on IAS 39: "Financial instruments: Recognition and Measurement" instead of IFRS 9: "Financial instruments".

Accordingly, the accompanying consolidated financial statements are not intended to be prepared in accordance with IFRS.

The consolidated financial statements have been prepared on a historical cost basis, except as disclosed in other notes.

The Bank and its subsidiary maintains its records in Lao Kip ("LAK") and prepared its special purpose consolidated financial statements in millions of LAK ("LAKm"). The Bank uses the comma (,) as the decimal separator and the dot (.) to separate thousands.

The Bank also prepared and issued its special purpose separate financial statements in accordance with the accounting policies as described in Note 5 to the special purpose separate financial statements on 10 April 2019.

The Bank's fiscal year starts on 1 January and ends on 31 December.

3. PRESENTATION OF FINANCIAL STATMENTS

The Bank and it subsidiary presents its consolidated statement of financial position in order of liquidity. Financial assets and financial liabilities are generally reported gross in the consolidate statement of financial position. They are only offset and reported net when, in addition to having an unconditional legally enforceable right to offset the recognized amounts without being contingent on a future event, the parties also intend to settle on a net basic in all of the following circumstances:

- The normal course of business
- The event of default
- The event of insolvency or bankruptcy of the Bank and/or its counterparties

4. BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaryas at 31 December 2018. Subsidiary is the investee that the Bank has control over. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Generally, there is a presumption that a majority of voting rights results in control. However, under individual circumstances, the Bank may still exercise control with less than 50% shareholding or may not be able to exercise control even with ownership over 50% of an entity's shares. When assessing whether it has power over an investee and therefore controls the variability of its returns, the Bank considers all relevant facts and circumstances, including:

- The purpose and design of the investee
- The relevant activities and how decisions about those activities are made and whether the Bank can direct those activities
- Contractual arrangements such as call rights, put rights and liquidation rights
- Whether the Bank is exposed, or has rights, to variable returns from its involvement with the investee, and has the power to affect the variability of such returns.

Profit or loss and each component of OCI are attributed to the equity holders of the Bank and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiary to bring their accounting policies in line with the Bank's accounting policies. All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between the Bank and its subsidiary are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest (NCI) and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value at the date of loss of control.

5. CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES

5.1 *New and amended standards and interpretations*

In these financial statements, the Bank has applied, for the first time, the new new accounting standards and interpretation as described below. The Bank has not adopted early any other standard, interpretations or amendments that has been issued but is not yet effective.

5.2 *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled to in exchange for transferring goods or services to a customer. The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures. The Bank's revenue streams that are within the scope of IFRS 15 relate to fee and commission income. The Bank has not restated the comparative figures as the impact of retrospective adoption is immaterial.

5. CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

5.3 Presentation of net interest income

With effect from 1 January 2018, paragraph 82(a) of IAS 1 requires interest income/expense calculated using the effective interest rate (EIR) method to be presented separately from interest income/expense calculated using other methods. The Bank does not have other interest income/expense other than those calculated using the EIR method. Therefore, the Bank does not include an additional line of "Other interest income/expense" on the face of the interest income. The change in presentation does not impact on the 2017 comparatives.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

6.1 Foreign currency translation

Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into LAK at the spot rate of exchange at the reporting date (see list of exchange rates of applicable foreign currencies against LAK on 31 December 2018 and 31 December 2017 as presented in Note 42). Unrealized exchange differences arising from the translation of monetary assets and liabilities on the balance date are recognized in the consolidated income statement.

6.2 Financial instruments - initial recognition and subsequent measurement

6.2.1 Date of recognition

All financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognized on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes "regular way trades" - purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' account. The Bank recognises due to customer balances when funds reach the Bank.

6.2.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

6.2.3 Financial assets or financial liabilities held for trading

Financial assets or financial liabilities held-for-trading are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recognized in "Net gain/(loss) on securities and foreign currencies trading". Interest and dividend income are also recorded in "Net gain(loss) from securities and foreign currencies trading" according to the terms of the contract, or when the right to the payment has been established.

Included in this classification are equity securities which have been acquired principally for the purpose of selling or repurchasing in the near term.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.2 *Financial instruments - initial recognition and subsequent measurement* (continued)

6.2.4 *The effective interest rate method*

The effective interest rate (EIR) 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. The amortised cost of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted amortised cost is calculated based on the original or latest re-estimated EIR and the change in is recorded as 'Interest and similar income' for financial assets and 'Interest and similar expense' for financial liabilities. The accounting policies for the EIR method vary by instruments and are further explained in Notes:

- 6.2.7 for "Held-to-maturity investment"
- 6.2.8 for 'Due from banks and loans to customers'
- 6.2.9 for 'Due to other banks and customers and other borrowed funds'
- 6.4 for 'Impairment of financial assets'
- 6.8 for 'Recognition of income and expenses'

6.2.5 *'Day 1' profit or loss*

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Net trading income'. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

6.2.6 *Available for sale financial investments*

Available for sale investments include equity investments. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

The Bank has not designated any loans or receivables as available for sale.

After initial measurement, available for sale financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognized directly in equity (Other comprehensive income) in the 'Available-for-sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the consolidated income statement in 'Other operating income'. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first–in first–out basis. Dividends earned while holding available-for-sale financial investments are recognized in the consolidated income statement as 'Other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognized in the consolidated income statement in 'Impairment losses on financial investments' and removed from the 'Available-for-sale reserve'.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.2 *Financial instruments - initial recognition and subsequent measurement* (continued)

6.2.7 *Held-to-maturity financial investments*

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortized cost using the EIR. Periodically, held-to-maturity securities are subject to review for impairment. Allowance for impairment of these securities is made when there has been a significant or prolonged declined in the fair value below their cost. The losses arising from impairment of such investments are recognized in the consolidated income statement line 'Impairment loss expense'.

If the Bank were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held-to-maturity during the following two years.

6.2.8 *Due from banks and loans and advances to customers*

'Due from banks' and 'Loans and advances to customers' include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Bank intends to sell immediately or in the near term and those that the Bank, upon initial recognition, designates as at fair value through profit or loss;
- Those that the Bank, upon initial recognition, designates as available-for-sale;
- Those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, amounts 'Due from banks' and 'Loans and advances to customers' are subsequently measured at amortized cost using the EIR methodology, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. Therefore, the Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of the loan, hence, recognising the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (prepayments, penalty interest and charges).

If expectations are revised the adjustment is booked a positive or negative adjustment to the carrying amount in the balance sheet with an increase or reduction in interest income. The adjustment is subsequently amortised through Interest and similar income in the consolidated income statement.

The Bank may enter into certain lending commitments where the loan, on drawdown, is expected to be classified as held–for–trading because the intent is to sell the loans in the short term. These commitments to lend are recorded as derivatives and measured at fair value through profit or loss.

Where the loan, on drawdown, is expected to be retained by the Bank, and not sold in the short term, the commitment is recorded only when it is an onerous contract that is likely to give rise to a loss (for example, due to a counterparty credit event).

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.2 *Financial instruments - initial recognition and subsequent measurement* (continued)

6.2.9 *Due to other banks and customers and other borrowed funds*

"Due to other banks and customers and other borrowed funds" include arrangements where the substance of the contractual arrangements result in the Bank having an obligation either to deliver cash or another financial asset to the holder.

After initial measurement, "Due to other banks and customers and other borrowed funds" are subsequently measured at amortised cost using the EIR. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

6.2.10 *Reclassification of financial assets*

Effective from 1 July 2008, the Bank was permitted to reclassify, in certain circumstances, non-derivative financial assets out of the 'Held-for-trading' category and into the 'Available-for-sale', 'Loans and receivables', or 'Held-to-maturity' categories. From this date it was also permitted to reclassify, in certain circumstances, financial instruments out of the 'Available-for-sale' category and into the 'Loans and receivables' category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortized cost.

For a financial asset reclassified out of the 'Available-for-sale' category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recorded in equity is recycled to the consolidated income statement.

In rare circumstances, the Bank may reclassify a non-derivative trading asset out of the 'Held-for-trading' category and into the 'Loans and receivables' category if it meets the definition of loans and receivables and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognized as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the election of management, and is determined on an instrument by instrument basis.

6.3 *De-recognition of financial assets and financial liabilities*

6.3.1 *Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when the rights to receive cash flows from the asset have expired. The Bank also derecognises the assets if it has both transferred the asset, and the transfer qualifies for derecognition.

The Bank has transferred the asset if, and only if, either:

- The Bank has transferred its contractual rights to receive cash flows from the asset or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.3 *De-recognition of financial assets and financial liabilities* (continued)

6.3.1 *Financial assets* (continued)

Pass-through arrangements are transactions when the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when certain conditions are met. At 31 December 2018, the Bank does not have financial assets which are subject to such arrangements.

A transfer only qualifies for derecognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset or
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

In relation to the above, the Bank considers the control to be transferred if, and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

The Bank also derecognises a financial asset, in particular, a loan to customer when the terms and conditions have been renegotiated to the extent that it substantially became a new loan, with the difference recognised as an impairment in the consolidated income statement.

6.3.2 *Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in profit or loss.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.4 *Impairment of financial assets*

The Bank and its subsidiaries assess at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

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

6.4.1 *Financial assets carried at amortized cost*

Specific impairment losses

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers), the Bank first assesses whether objective evidence of impairment exists for financial assets that are individually significant or are already under specific work out by management.

If there is objective evidence that an impairment loss has been incurred, 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 expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in credit loss expense in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of interest and similar income.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write–off is later recovered, the recovery is credited to income.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. If the Bank has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.4 *Impairment of financial assets* (continued)

6.4.1 *Financial assets carried at amortized cost* (continued)

Collective impairment model

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms (for example, on the basis of a credit risk evaluation or grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors).

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, personal indebtedness, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

6.4.2 *Impairment of available for sale investments*

The Bank records impairment charges on available for sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

6.4.3 *Collateral valuation*

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's annually reporting schedule.

To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties (if available) such as mortgage brokers, housing price indices, audited financial statements, and other independent sources.

6.4.4 *Collateral repossessed*

The Bank's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets that are determined better to be sold, are immediately transferred to assets held for sale at their fair value at the repossession date in line with the Bank's policy.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.5 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial positions if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

6.6 Investment in joint ventures

The Bank has interests in joint ventures, which are jointly controlled entities, whereby the ventures have a contractual arrangement that establishes joint control over the economic activities of the entities. The arrangement requires unanimous agreement for financial and operating decisions among the ventures.

The Bank recognizes its interest in the joint ventures using the equity method. Under the equity method, the investment in a joint venture is initially recognized at cost in the consolidated statement of financial position plus any adjustment to the joint ventures' net assets relatively to the percentage of the Bank's investment in the joint ventures afterwards. Goodwill relating to the joint ventures is recognized at residual value included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The Bank's share of profit of a joint venture is shown on the face of the consolidated income statement. This is the profit attributable to equity holders of the joint venture and, therefore, is profit after tax and non-controlling interest in the subsidiaries of the joint venture.

After application of the equity method, the Bank will determine whether it is necessary to recognize an additional impairment loss of the investments in its joint ventures. The Bank determines at each reporting date whether there is objective evidence of impairment that the investment in the joint ventures is impaired. In that circumstance, the Bank will calculate the amount of impairment as the difference between the recoverable amount and carrying value of the investments in the joint ventures and recognize the difference in the consolidated income statement.

6.7 Leasing

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Bank as a lessee

Leases that do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the income statement on a straight line basis over the lease term. Contingent rental payable is recognized as an expense in the period in which they are incurred.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.8 Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

6.8.1 Interest and similar income and expense

For all financial instruments measured at amortized cost, interest-bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

When the recorded value of a financial asset or a group of similar financial assets has been reduced by an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

6.8.2 Fees and commission income

The Bank and its subsidiary earn fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Bank and its subsidiary expect to be entitled in exchange for providing the services. The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Bank's revenue contracts do not typically include multiple performance obligations, as explained further in 6.8.2.1 and 6.8.2.2 below. When the Bank and its subsidiary provide a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time (unless otherwise specified in 6.8.2.1 and 6.8.2.2 below). The Bank and its subsidiary have generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

6.8.2.1 Fee and commission income from services where performance obligations are satisfied over time

Performance obligations satisfied over time include services where the customer simultaneously receives and consumes the benefits provided by the performance of the Bank and its subsidiary as they perform.

6.8.2.2 Fee and commission income from providing services where performance obligations are satisfied at a point in time

Services provided where the performance obligations of the Bank and its subsidiary are satisfied at a point in time are recognized once control of the services is transferred to the customer. This is typically on completion of the underlying transaction or service or, for fees or components of fees that are linked to a certain performance, after fulfilling the corresponding performance criteria. These include fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement/participation or negotiation of the acquisition of shares or other securities, or the purchase or sale of businesses, brokerage and underwriting fees.

The Bank and its subsidiary typically have a single performance obligation with respect to these services, which is to successfully complete the transaction specified in the contract.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.8 *Recognition of income and expenses* (continued)

6.8.3 *Dividend income*

Dividend income is recognized when the Bank's right to receive the payment is established.

6.8.4 *Net trading income*

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities 'held for trading'. This includes any ineffectiveness recorded in hedging transactions.

6.9 *Cash and cash equivalents*

Cash and cash equivalents as referred to in the statement of cash flows comprise cash on hand, non-restricted current accounts with the BOL and amounts due from banks on demand or with an original maturity of three months or less.

6.10 *Property and equipment*

Property and equipment is stated at cost excluding the costs of day–to–day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated using the straight–line method to write down the cost of property and equipment to their residual values over their estimated useful lives. The following are annual rates used:

Buildings & improvements	5%
Office equipment	20%
Furniture and fixtures	20%
Motor vehicles	20%

Property and equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in 'Other operating income' in the consolidated income statement in the year the asset is derecognized.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.11 *Intangible assets*

The Bank's other intangible assets include the value of land use rights and software.

An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Intangible assets acquired consolidatedly are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year–end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the interim consolidated income statement in the expense category consistent with the function of the intangible asset.

Amortization is calculated using the straight–line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

- Software 2 - 5 years

The land use rights of the Bank was not amortized as land use rights have indefinite term and was granted by the Government of Lao PDR.

6.12 *Impairment of non-financial assets*

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit (CGU)'s fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated income statement.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.13 Financial guarantees

In the ordinary course of business, the Bank issues financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the consolidated financial statements (within 'Other liabilities') at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the income statement in 'Credit loss expense'. The premium received is recognized in the income statement in 'Net fees and commission income' on a straight-line basis over the life of the guarantee.

6.14 Employee benefits

Post-employment benefits

The Bank operates a defined benefit pension plan which post-employment benefits are paid to retired employees of the Bank at the time of retirement from:

- the retirement reserve contributed by the employees, for which the Bank withholds a certain monthly amount from employees' salary (currently 8%);
- the Bank's contribution, which is equal to employees' number of months working at the Bank multiplied by 15,00% of their latest salary.

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements, comprising of actuarial gains and losses, excluding amounts included in net interest on the net defined benefit liability, are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset.

The Bank recognises the following changes in the net defined benefit obligation under 'Personnel expenses' in the consolidated income statement:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements, and
- Net interest expense or income.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.14 *Employee benefits* (continued)

Termination benefits

In accordance with Article 82 of the Amended Labour Law No. 43/NA approved by the President of the Lao People's Democratic Republic on 28 January 2014, the Bank has the obligation to pay allowance for employees who are terminated by dismissal in the following cases:

- The worker lacks specialised skills or is not in good health and thus cannot continue to work;
- The employer considers it necessary to reduce the number of workers in order to improve the work within the labour unit.

For the termination of an employment contract on any of the above-mentioned grounds, the employer must pay a termination allowance which is calculated on the basis of 10% of the basic monthly salary earned before the termination of work. As at 31 December 2018, no employee of the Bank was dismissed under the above-mentioned grounds; therefore the Bank has not made a provision for termination allowance in the consolidated financial statements.

6.15 *Provisions*

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is material, the Bank determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in the income statement net of any reimbursement in other operating expenses.

6.16 *Profit tax*

Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, by the reporting date in the countries where the Bank operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.16 *Profit tax* (continued)

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it becomes probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current and deferred taxes are recognised as income tax benefits or expenses in the income statement except for tax related to the fair value remeasurement of available-for-sale assets, foreign exchange differences and the net movement on cash flow hedges, which are charged or credited to OCI. These exceptions are subsequently reclassified from OCI to the income statement together with the respective deferred loss or gain. The Bank also recognises the tax consequences of payments and issuing costs, related to financial instruments that are classified as equity, directly in equity.

The Bank only off-sets its deferred tax assets against liabilities when there is both a legal right to offset and it is the Bank's intention to settle on a net basis.

6.17 *Fiduciary assets*

The Bank provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in the consolidated financial statements, as they are not the assets of the Bank.

6.18 *Equity reserves*

The reserves recorded in equity on the Bank's consolidated statement of financial position include:

- Statutory reserves which are created in accordance with prevailing regulations of Lao PDR, as stated in Note 32; and
- Available-for-sale reserve which comprises changes in fair value of available-for-sale investments, as stated in Note 33.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.19 *Standards issued but not yet effective*

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's separate financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 16 Leases

The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. The Bank does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:
- whether an entity considers uncertain tax treatments separately,
- the assumptions an entity makes about the examination of tax treatments by taxation authorities,
- how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and
- how an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Bank will apply the interpretation from its effective date and is currently evaluating its impact.

Annual Improvements 2015-2017 Cycle *(issued in December 2017)*

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. The Bank will apply the amendments from their effective date and is currently evaluating its impact.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.19 *Standards issued but not yet effective* (continued)

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. The Bank will apply the amendments from their effective date and is currently evaluating its impact.

7. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Bank's consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In the process of applying the Bank's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

7.1 *Going concern*

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

7.2 *Effective Interest Rate (EIR) method*

The Bank's EIR methodology, as explained in Note 6.2.4, recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of loans and deposits and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgement regarding the expected behaviour and life-cycle of the instruments, as well expected changes to other fee income/expense that are integral parts of the instrument.

7. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

7.3 Impairment losses on loans and advances

The Bank reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the income statement.

The Bank's impairment methodology for assets carried at amortised cost results in the recording of provisions for:

- Specific impairment losses on individually significant or specifically identified exposures;
- Collective impairment.

The detailed approach for each category is further explained in Note 6.4.1. All categories include an element of management's judgement, in particular for the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses. These estimates are driven by a number of factors, the changing of which can result in different levels of allowances.

7.4 Impairment of available-for-sale investments

The Bank reviews its debt securities classified as available-for-sale investments at each reporting date to assess whether they are impaired as explained in Note 6.4.2.

This assessment, including estimated future cash flows and other inputs in to the discounted cash flow model and in the case of equity instruments, the interpretation of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Bank evaluates, among other factors, historical share price movements, and the duration and extent to which the fair value of an investment is less than its cost.

7.5 Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with future tax-planning strategies.

8. INTEREST AND SIMILAR INCOME

	2018 *LAKm*	*2017* *LAKm*
Interest income calculated using the effective interest method from:		
Lending to customers	1.722.144	1.584.067
Deposits at other banks	51.199	28.463
Investment securities	165.015	132.364
Other activities	470	837
	1.938.828	**1.745.731**

9. INTEREST AND SIMILAR EXPENSE

	2018 *LAKm*	*2017* *LAKm*
Interest expense calculated using the effective interest method for:		
Due to other banks	184.996	114.866
Customer deposits	815.581	773.025
	1.000.577	**887.891**

10. NET FEES AND COMMISSION INCOME

	2018 *LAKm*	*2017* *LAKm*
Fees and commission income from:		
Settlement services	157.223	132.449
Treasury activities	86.808	59.423
Other activities	17.606	8.416
	261.637	**200.288**
Fees and commission expense for:		
Settlement services	(20.396)	(18.144)
Treasury activities	(1.621)	(2.927)
	(22.017)	**(21.071)**
Net fees and commission income	**239.620**	**179.217**

11. NET TRADING INCOME

	2018 *LAKm*	*2017* *LAKm*
Net gain from foreign currencies trading and revaluation of monetary items	49.719	43.855
Changes in fair value of held-for-trading financial assets	-	(2)
	49.719	**43.853**

12. OTHER OPERATING INCOME

	2018 LAKm	*2017 LAKm*
Dividend income	11.630	10.705
Gain from sale of investment in joint ventures	2.734	-
Income from sale of fixed assets	-	1.210
Recovery of bad debts written off	4.879	7.722
Others	2.649	913
	21.892	**20.550**

13. IMPAIRMENT LOSSES OF FINANCIAL INVESTMENTS

	2018 LAKm	*2017 LAKm*
Impairment loss for Available-for-sale investments (*Note 20*)	(31.887)	-
Reversal of impairment loss for Held-to-maturity investments (*Note 21*)	2.475	9.257
	(29.412)	**9.257**

14. PERSONNEL EXPENSES

	2018 LAKm	*2017 LAKm*
Salary expense	149.274	137.506
Benefits and welfare	154.228	129.868
Defined employee benefit plans	24.134	67.655
Other staff costs	7.057	5.819
	334.693	**340.848**

15. OTHER OPERATING EXPENSES

	2018 LAKm	*2017 LAKm*
Repair and maintenance	23.277	16.517
Publication, marketing and promotion	8.343	7.768
Office rental	8.490	6.162
Telecommunication	7.662	6.326
Training, meeting and seminar	17.087	10.784
Insurance fee for depositor protection fund	27.038	24.503
Tax and other duties	162	215
Insurance expense	6.230	3.381
Utility	8.342	8.245
Fuel expense	2.276	1.768
Stationaries and office materials	16.966	13.751
Consulting and financial service fees	5.958	2.770
Construction in progress written off	-	18.640
Cash loss expense	4.011	2.231
Others	20.292	13.057
	156.134	**136.118**

16. CASH AND BALANCES WITH BANK OF THE LAO PDR ("THE BOL")

	31 December 2018 LAKm	*31 December 2017 LAKm*
Cash on hand in LAK	961.728	1.120.706
Cash on hand in foreign currencies ("FC")	681.517	790.761
Balances with the BOL		
- Compulsory deposit (*)	1.294.828	1.353.384
- Demand deposit	2.396.173	2.550.170
	5.334.246	**5.815.021**

Balances with the BOL include settlement and compulsory deposits. These balances earn no interest.

(*) Under regulations of the BOL, the Bank is required to maintain certain reserves with the BOL in the form of compulsory deposits, which are computed at 5,00% for LAK and 10,00% for foreign currencies, on a bi-weekly basis, (2017: 5,00% and 10,00%) of customer deposits having original maturities of less than 12 months. During the year, the Bank maintained its compulsory deposits in compliance with the requirements by the BOL.

17. DUE FROM BANKS

	31 December 2018 LAKm	*31 December 2017 LAKm*
Current and saving accounts	**2.700.974**	**2.271.791**
- In LAK	3.681	9.064
- In foreign currencies	2.697.293	2.262.727
Term deposits	**1.127.695**	**964.092**
- In LAK	381.380	648.662
- In foreign currencies	746.315	315.430
	3.828.669	**3.235.883**

Interest rates for amounts due from other banks during the year are as follows:

	2018 % per annum	*2017 % per annum*
Demand deposits	0,00% - 0,80%	0,00% - 0,80%
Saving deposits	0,00% - 0,80%	0,00% - 0,80%
Term deposits	0,85% - 4,00%	0,80% - 4,00%

18. LOANS TO CUSTOMERS

	31 December 2018 LAKm	*31 December 2017 LAKm*
Gross loans	24.845.276	22.906.791
In which:		
Loans funded by borrowing from BOL (Note 28)	*2.063.243*	*1.685.999*
Less: Allowance for impairment losses *(Note 19)*	(478.416)	(481.013)
	24.366.860	**22.425.778**

Interest rates for commercial loans during the year are as follows:

	2018 Interest rates % per annum	*2017 Interest rates % per annum*
Loans denominated in LAK	6,00% - 16,00%	6,00% - 16,00%
Loans denominated in USD	4,00% - 16,00%	2,00% - 16,00%
Loans denominated in THB	6,00% - 11,50%	6,00% - 11,00%

Analysis of loan portfolio by currency:

	31 December 2018 LAKm	*31 December 2017 LAKm*
Loans denominated in LAK	10.988.474	9.643.486
Loans denominated in USD	10.842.780	10.250.311
Loans denominated in THB	3.014.022	3.012.994
	24.845.276	**22.906.791**

Analysis of loan portfolio by original maturity:

	31 December 2018 LAKm	*31 December 2017 LAKm*
Short-term loans	1.825.034	3.070.119
Medium-term loans	14.431.801	13.098.525
Long-term loans	8.588.441	6.738.147
	24.845.276	**22.906.791**

Analysis of loan portfolio by industrial sectors of customers:

	31 December 2018		*31 December 2017*	
	LAKm	*%*	*LAKm*	*%*
Industrial services companies	12.931.637	52,05%	11.580.391	50,55%
Construction companies	3.374.610	13,58%	3.498.825	15,27%
Technical instruments enterprises	85.352	0,34%	92.241	0,40%
Agricultural & forestry	74.248	0,30%	58.225	0,25%
Trading companies	4.336.508	17,45%	4.232.838	18,48%
Transportation companies	688.078	2,77%	661.632	2,89%
Services companies	2.875.026	11,57%	2.417.529	10,55%
Handicrafts	3.456	0,01%	3.073	0,01%
Others	476.361	1,92%	362.037	1,58%
	24.845.276	**100%**	**22.906.791**	**100%**

19. ALLOWANCE FOR IMPAIRMENT LOSSES

Changes in allowance for impairment losses of loans to customers during the year ended 31 December 2018 are as follows:

	2018 *LAKm*	*2017* *LAKm*
Balance as at 1 January	481.013	339.579
Net change during the year	221.957	212.409
Bad debts written-off	(232.259)	(76.987)
Foreign exchange differences	7.705	6.012
Balance as at 31 December	**478.416**	**481.013**

Breakdown of allowance for impairment losses of loans to customers as at 31 December 2018 and 31 December 2017 are as follows:

	31 December 2018		*31 December 2017*	
	Outstanding balance LAKm	*Impairment LAKm*	*Outstanding balance LAKm*	*Impairment LAKm*
Individually impaired	1.859.522	291.960	2.190.692	351.320
Collectively impaired	22.478.847	186.456	20.395.592	129.693
	24.338.369	**478.416**	**22.586.284**	**481.013**

20. FINANCIAL INVESTMENTS - AVAILABLE-FOR-SALE

	31 December 2018 *LAKm*	*31 December 2017* *LAKm*
Listed shares of EDL-Generation Public Company (*)	156.516	190.197
CIMB - Principal Global Total Return Fund	-	762
	156.516	**190.959**

(*) As at 31 December 2018, the shares have been impaired by an amount of LAKm 31.887 below its cost of LAKm 188.403.

21. FINANCIAL INVESTMENTS – HELD-TO-MATURITY

	31 December 2018 LAKm	*31 December 2017 LAKm*
Amortized cost of Treasury bills issued by the Ministry of Finance	1.916.549	2.160.594
Amortized cost of bonds issued by the Ministry of Finance	1.737.433	417.762
	3.653.982	**2.578.356**
Impairment losses for investments in Held-to-maturity securities (*)	**(1.210)**	**(3.685)**
- *Impairment losses for Treasury bills issued by the Ministry of Finance*	-	*(188)*
- *Impairment losses for bonds issued by the Ministry of Finance*	*(1.210)*	*(3.497)*
	3.652.772	**2.574.671**

Changes in allowance for impairment losses of held-to-maturity financial investments during the year ended 31 December 2018 are as follows:

	2018 LAKm	*2017 LAKm*
Balance as at 1 January	**(3.685)**	**(12.942)**
Net impairment losses reversed in the year	2.475	9.257
Balance as at 31 December	**(1.210)**	**(3.685)**

21.1. Treasury bills issued by the Ministry of Finance

Cur: LAKm

Term	*Issue date*	*Maturity date*	*Face value*	*Amortized cost*	*Interest rate per annum (nominal)*
1 year	16-Feb-18	16-Feb-19	300.000	313.027	5,00%
1 year	9-Mar-18	9-Mar-19	73.000	75.956	5,00%
1 year	6-Apr-18	6-Apr-19	350.000	362.814	5,00%
1 year	13-Apr-18	13-Apr-19	100.000	103.564	5,00%
1 year	27-Apr-18	27-Apr-19	20.000	20.674	5,00%
1 year	18-May-18	18-May-19	10.000	10.308	5,00%
1 year	25-May-18	25-May-19	58.000	59.731	5,00%
1 year	15-Jun-18	15-Jun-19	300.000	308.087	5,00%
1 year	16-Nov-18	16-Nov-19	300.000	301.810	5,00%
1 year	17-Dec-18	16-Dec-19	150.000	150.297	5,30%
1 year	21-Dec-18	21-Dec-19	210.000	210.281	5,00%
			1.871.000	**1.916.549**	

21. FINANCIAL INVESTMENTS - HELD TO MATURITY (continued)

21.2. Bonds issued by the Ministry of Finance

	31 December 2018 LAKm	*31 December 2017 LAKm*
Capitalization bonds	70.600	68.944
Other bonds	1.666.833	348.818
	1.737.433	**417.762**

21.2.1 Capitalization bonds

Capitalization bonds were issued by the MOF to increase the Bank's chartered capital with the details as follows:

Term	*Issue date*	*Maturity date*	*Face value LAKm*	*Amortized cost LAKm*	*Interest rate per annum (nominal)*
5 years	1 March 2014	1 March 2019	68.600	70.600	4,00%
			68.600	**70.600**	

21.2.1 Other bonds

Details of other bonds by contractual maturity date are as follows:

	Face value LAKm	*Amortized cost LAKm*
Within 1 year	129.537	132.742
1 to 5 years	735.929	680.192
Over 5 years	755.634	853.899
	1.621.100	**1.666.833**

Details of other bonds interest by contractual maturity date are as follows:

	2018 % per annum	*2017 % per annum*
Within 1 year	3,00 - 5,30%	N/A
1 to 5 years	3,00 - 6,95%	3,00 - 5,50%
Over 5 years	4,00 - 4,80%	N/A

Other bonds represent the bonds which were issued by the Ministry of Finance to either (i) settle the balances due from the MOF or (ii) settle the debts owed to the Bank by customers who were in turn owed money by the MOF.

22. INVESTMENTS IN JOINT VENTURES (continued)

	2018 LAKm	2017 LAKm
Balance as at 1 January	541.730	551.449
Net share of (loss)/profit in the year under equity method	(7.643)	16.551
Less:		
Sale of joint venture's share	(52.266)	-
Dividends received during the year	(19.525)	(26.270)
Balance as at 31 December	**462.296**	**541.730**

	31 December 2018				31 December 2017			
	Cost in USD	Cost in LAKm equiv.	Carrying value in LAKm	% owned by the Bank	Cost in USD	Cost in LAKm Equiv.	Carrying value in LAKm	% owned by the Bank
Investments in other financial institutions								
Lao Viet Joint Venture Bank	24.500.000	197.839	228.359	25%	24.500.000	197.839	226.510	25%
Banque Franco - Lao Limited	N/A	90.000	64.053	30%	N/A	138.000	148.484	46%
Lao China Bank	N/A	147.000	158.179	49%	N/A	147.000	154.419	49%
Investments in local economic entities								
Lao-Viet Insurance Joint Venture Company	1.050.000	9.168	11.705	35%	1.050.000	8.784	12.317	35%
		444.007	**462.296**			**491.623**	**541.730**	

22. INVESTMENTS IN JOINT VENTURES (continued)

Lao Viet Joint Venture Bank ("LVB") is incorporated in Lao PDR with its head office located in Vientiane and engages in the provision of banking services. It is a joint venture with the Bank for Investment and Development of Vietnam, a state-owned commercial bank incorporated in the Socialist Republic of Vietnam. The joint venture was granted the banking license on 31 March 2000 by Bank of the Lao PDR for a year of 30 years. In 2015, LVB increased its contributed capital to LAK 791.357.560.000. The Bank's ownership rate in LVB after the capital increase is 25% in accordance with Investment License No. 004-15/KH-DDT4 issued by Ministry of Planning and Investment on 24 August 2015, equivalent to LAKm 197.839.

Lao-Viet Insurance Joint Venture Company ("LVI") is incorporated as a joint venture company in Lao PDR providing insurance services under the Investment License No. 077/08/FIMC issued by the Foreign Investment Management Committee on 09 June 2008. It is a joint venture with BIDV Insurance Joint Stock Corporation and Lao Viet Joint Venture Bank. As at 31 December 2018, the total contributed capital of the Bank in this company was USD 1.050.000, equivalent to LAKm 9.168.

Lao China Bank Company Limited ("LCNB") is incorporated in Lao PDR and engages in the provision of baking services. It is a joint venture with Fudian Bank China, a state-owned commercial bank incorporated in China. The joint venture bank was granted the Banking Business Licence on 20 January 2014 by Bank of the Lao PDR. The legal capital of LCNB was LAKm 300.000 and had been fully contributed by partners as at 31 December 2018.

Banque Franco - Lao Limited ("BFL") is incorporated in Lao PDR with its head office located in Vientiane and engages in the provision of banking services. It is a joint venture with Cofibred Company Frances De La Bred which is a state-owned bank incorporated in Paris, France. The joint venture was granted the temporary banking license on 01 October 2009 and a permanent license on 16 July 2010 by Bank of the Lao PDR. The legal capital of BFL was USD 20 million which was later revised to USD 37 million in accordance with the President's decree issued on 24 September 2009 and letter No. 01/BOL dated 28 January 2010 from the BOL.

23. PROPERTY AND EQUIPMENT

	Buildings & improvements LAKm	*Office equipment LAKm*	*Furniture & fixtures LAKm*	*Motor vehicles LAKm*	*Total LAKm*
Cost:					
As at 1 January 2018	477.166	128.158	38.874	19.940	664.138
Additions	3.081	52.072	5.017	2.367	62.537
Write-offs	(3.784)	(28.339)	(2.681)	(2.537)	(37.341)
Disposals	-	(5)	-	-	(5)
As at 31 December 2018	476.463	151.886	41.210	19.770	689.329
Accumulated depreciation:					
As at 1 January 2018	112.365	62.442	23.369	8.475	206.651
Charge for the year	26.536	28.841	5.535	4.061	64.973
Write-offs	(3.630)	(23.631)	(2.626)	(2.537)	(32.424)
Disposals	-	(3)	-	-	(3)
As at 31 December 2018	135.271	67.649	26.278	9.999	239.197
Net book value:					
As at 1 January 2018	364.801	65.716	15.505	11.465	457.487
As at 31 December 2018	341.192	84.237	14.932	9.771	450.132

24. INTANGIBLE ASSETS

	Land use rights LAKm	*Software LAKm*	*Total LAKm*
Cost:			
As at 1 January 2018	234.555	65.643	300.198
Additions	6.064	327	6.391
Write-offs	-	(49.129)	(49.129)
As at 31 December 2018	240.619	16.841	257.460
Accumulated amortization:			
As at 1 January 2018	-	52.598	52.598
Charge for the year	-	7.390	7.390
Write-offs	-	(49.129)	(49.129)
As at 31 December 2018	-	10.859	10.859
Net book value:			
As at 1 January 2018	234.555	13.045	247.600
As at 31 December 2018	240.619	5.982	246.601

25. OTHER ASSETS

	31 December 2018 LAKm	*31 December 2017 LAKm*
Assets available for sale	255.438	216.228
Stationeries and other tools	8.558	7.520
Checks in collection	6.671	19.179
Construction in progress and fixed assets in transit (*)	65.079	30.666
Prepaid expenses to be allocated	62.065	41.320
Advance payment for other operations	27.553	26.283
Advance payment to suppliers	34.589	10.906
Others	6.135	26.662
	466.088	**378.764**

(*): Movement of construction in progress and fixed assets in transit for the year ended 31 December 2018 is as follows:

	Land use rights LAKm	*Buildings & improvements LAKm*	*Other LAKm*	*Total LAKm*
As at 1 January 2018	3.474	6.762	20.430	30.666
Additions	3.131	52.928	59.167	115.226
Transferred to fixed assets	(6.064)	(4.385)	(53.365)	(63.814)
Transferred to other assets	-	(16.675)	(324)	(16.999)
As at 31 December 2018	**541**	**38.630**	**25.908**	**65.079**

26. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2018 LAKm	*31 December 2017 LAKm*
Demand deposits	**2.517.029**	**2.567.425**
- In LAK	800.136	1.231.231
- In foreign currencies	1.716.893	1.336.194
Saving deposits	**119.495**	**142.141**
- In LAK	21.954	37.773
- In foreign currencies	97.541	104.368
Term deposits	**754.543**	**551.839**
- In LAK	195.581	52.721
- In foreign currencies	558.962	499.118
Others	**22.062**	**14.141**
- In LAK	9.009	8.483
- In foreign currencies	13.053	5.658
	3.413.129	**3.275.546**

26. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS (continued)

Interest rates for deposits from other banks and financial institutions during the year are as follows:

	2018 *% per annum*	2017 *% per annum*
Demand deposits	No interest	No interest
Saving deposits	No interest	No interest
Term deposits	0,00% - 5,52%	0,00% - 6,00%

27. DUE TO CUSTOMERS

	31 December 2018 LAKm	*31 December 2017 LAKm*
Demand deposits	**5.447.954**	**6.237.693**
Demand deposits in LAK	2.141.221	2.286.496
Demand deposits in FC	3.306.733	3.951.197
Demand savings	**13.092.788**	**11.311.284**
Demand saving deposits in LAK	5.788.652	4.935.833
Demand saving deposits in FC	7.304.136	6.375.451
Term deposits	**11.159.134**	**10.572.743**
Term deposits in LAK	6.671.234	6.215.911
Term deposits in FC	4.487.900	4.356.832
Margin deposits	**103.279**	**173.659**
Margin deposits in LAK	33.629	17.454
Margin deposits in FC	69.650	156.205
Other payables to customers	**111.987**	**108.152**
	29.915.142	**28.403.531**

The interest rates during the year for these deposits are as follows:

	2018 % per annum	*2017 % per annum*
Demand deposits	No interest	No interest
Saving deposits in LAK	1,25% - 1,89%	1,25% - 1,91%
Saving deposits in USD	0,90% - 1,15%	0,90% - 1,15%
Saving deposits in THB	0,45% - 0,90%	0,45% - 0,90%
Term deposits in LAK	3,16% - 6,90%	2,00% - 7,04%
Term deposits in USD	1,65% - 6,65%	1,05% - 6,65%
Term deposits in THB	1,40% - 6,40%	0,60% - 6,40%

28. BORROWINGS FROM OTHER BANKS

	31 December 2018 LAKm	*31 December 2017 LAKm*
Borrowings from the BOL	2.063.243	1.685.999
Borrowings from foreign banks	1.286.023	459.403
	3.349.266	**2.145.402**

Borrowings from the BOL as at 31 December 2018 include:

- USD 3.942.856 long-term borrowing (original borrowing amount was USD 9.200.000 with interest rate of 0,25% per annum) for the purpose of investment in Banque Franco – Lao Limited. The loan's principal is paid annually from 2010 to 2023. Interest is paid semi-annually.
- USD 99.854.000 long-term borrowing (original borrowing amount was USD 100.000.000 with interest rate of 5,50% per annum) for the purpose of providing credit to certain Government-backed Hydropower projects. The loan's principal is paid annually from 1 January 2016 to 27 August 2025. Interest is paid semi-annually.
- USD 99.900.000 long-term borrowing (original borrowing amount was USD 100.000.000 with interest rate of 5,30% per annum) for the purpose of providing credit to certain Government-backed Hydropower projects. The loan's principal is paid annually from 3 May 2016 to 3 May 2026. Interest is paid semi-annually.
- LAKm 300.000 one-year borrowing with interest rate of 10% per annum for the purpose of providing credit to certain Government-backed Hydropower projects. The loan's principal and interest are paid at maturity date on 21 December 2019.

Borrowing from foreign banks and other financial institutions as at 31 December 2018 includes a USD 148.300.000 4-years borrowing with interest rate of 4% + 3M LIBOR for the purpose of providing credit to certain domestic projects. The loan's principal is paid annually and interest is paid quarterly.

29. TAXATION

29.1 Profit tax expense

Major components of tax expense are as follows:

	2018 LAKm	*2017 LAKm*
Current profit tax expense	124.762	85.395
Deferred profit tax expense	(18.420)	(1.715)
	106.342	**83.680**

29.2 Tax payables

	31 December 2018 LAKm	*31 December 2017 LAKm*
Profit Tax payable	31.422	9.540
Value Added Tax payable	4.529	11.165
	35.951	**20.705**

29. TAXATION (continued)

29.3 Current Profit tax

The Bank is obliged to pay tax at rate of 24% on total profit before tax in accordance with the new Tax Law No.70/NA dated 15 December 2015 which is effective on or after 24 May 2016.

The calculations of Profit taxes ("PT") for the years 2018 and 2017 are as follows:

	2018 LAKm	*2017 LAKm*
Consolidated profit before tax in accordance with special purpose framework	**427.280**	**364.022**
Adjustments for:		
- Difference between carrying value of bonds under LAS and their amortized cost under special purpose framework	(3.647)	(12.332)
- Difference between allowance for impairment losses of loans to banks and customers under LAS and under special purpose framework	31.729	(36.415)
- Difference between allowance for post-employment benefits under LAS and under special purpose framework	21.425	65.149
- Difference between impairment loss expense of investments under LAS and under special purpose framework	27.246	(9.257)
- Non-taxable profit arising from consolidation adjustments	35.569	13.211
- Non-taxable income	(34.734)	(40.468)
- Non-deductible expenses	14.977	11.855
- Other adjustments	-	46
Taxable profit under LAS	**519.845**	**355.811**
in which:		
- *Taxable profit of the parent bank*	*516.754*	*352.046*
- *Taxable profit of the subsidiary*	*3.091*	*3.765*
PT expense of the parent bank at rate of 24% (2017: 24%)	124.020	84.491
PT expense of the subsidiary at rate of 24% (2017: 24%)	742	904
Consolidated PT expense in the year	**124.762**	**85.395**
PT payable at the beginning of the year	9.540	24.431
PT paid in the year	(102.880)	(94.285)
Additional tax liability for previous years	-	(5.957)
Other adjustment	-	(44)
PT payable at the end of the year	**31.422**	**9.540**

The Bank's tax returns are subject to examination by the tax authorities. Because the application of tax laws and regulations in many types of transactions is susceptible to varying interpretations, amounts reported in the consolidated financial statements could be changed at a later date upon final determination by the tax authorities.

29. TAXATION (Continued)

29.4 *Deferred tax assets/(liabilities)*

	Statement of financial position		*Income statement*		*Statement of comprehensive income*	
	31 December 2018 LAKm	*31 December 2017 LAKm*	*2018 LAKm*	*2017 LAKm*	*2018 LAKm*	*2017 LAKm*
Deferred tax assets	29.099	18.215	11.144	7.298	(260)	61
Deferred tax liabilities	(5.272)	(13.576)	7.276	(5.583)	1.028	1.841
Net deferred tax credited/(charged) to the consolidated income statement			**18.420**	**1.715**		
Net deferred tax credited to the consolidated statement of comprehensive income					**768**	**1.902**

Details of the deferred tax assets and deferred tax liabilities are as follows:

	31 December 2018 LAKm	*31 December 2017 LAKm*
Deductible temporary differences	121.247	75.895
In which:		
Difference between carrying value of bonds under LAS and their amortized cost under special purpose framework	*2.331*	*5.978*
Difference in impairment expense of investments under LAS and under special purpose framework	*30.931*	*3.685*
Changes in fair value of available for sale financial instruments of BCEL KT under LAS and under special purpose framework	-	*1.083*
Difference in allowance for post-employment benefits under LAS and under special purpose framework	*87.985*	*65.149*
Deferred tax assets (at tax rate 24%)	**29.099**	**18.215**
Taxable temporary differences	(21.965)	(56.570)
In which:		
Difference in allowance for impairment losses of loans to customers under LAS and under special purpose framework	(21.965)	*(53.694)*
Changes in fair value of available for sale financial instruments of BCEL under LAS and under special purpose framework	-	*(2.876)*
Deferred tax liabilities (at tax rate 24%)	**(5.272)**	**(13.576)**

30. OTHER LIABILITIES

	31 December 2018 LAKm	*31 December 2017 LAKm*
Payables to employees	86.612	66.730
Payable to suppliers	22.101	20.440
Defined post-employment benefit plan (*)	87.985	65.149
Others	46.220	61.346
	242.918	**213.665**

(*) Defined post-employment benefit plan

Changes in defined post-employment benefit plan are as follows:

	2018 LAKm	*2017 LAKm*
As at 1 January	65.149	-
Past service cost	-	59.458
Current service cost	18.875	4.298
Interest cost	5.259	3.899
Actuarial changes arising from changes in financial assumption	1.411	-
Benefits paid	(2.709)	(2.506)
As at 31 December	**87.985**	**65.149**

Net benefit expense (recognised in profit or loss):

	2018 LAKm	*2017 LAKm*
Past service cost	-	59.458
Current service cost	18.875	4.298
Interest cost	5.259	3.899
	24.134	**67.655**

The cost of the defined post-employment benefit plan is determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases and employee turnover rate. Due to the complexities involved in the valuation and its long-term nature, a defined post-employment benefit plan is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of government bonds in currencies consistent with the currencies of the post-employment benefit obligation and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation.

30. **OTHER LIABILITIES** (continued)

The principal assumptions used in determining post-employment benefit obligations for the Bank's plans are shown below:

	2018 *%*	*2017* *%*
Discount rate	5,00 - 8,47	5,00 - 8,77
Future salary increases	1,03	0,91
Employee turnover rate	0,00	0,00

A quantitative sensitivity analysis for significant assumptions as at 31 December is, as shown below:

	2018 *LAKm*	*2017* *LAKm*
Discount rate		
increase 50 basis points	(7.301)	(5.935)
decrease 50 basis points	8.340	6.844
Future salary increase		
increase 50 basis points	(6.001)	(4.877)
decrease 50 basis points	5.517	4.458

31. **CHARTER CAPITAL**

There is no change in charter capital during the year 2018.

32. STATUTORY RESERVES

	Regulatory reserve fund LAKm	*Business expansion fund LAKm*	*Total LAKm*
As at 1 January 2018	100.823	280.683	381.506
Appropriation to reserves for the year 2017 from 2017 LAS profit of the Bank	29.584	29.584	59.168
Appropriation to reserves for the year 2017 from the 2017 LAS profit of the subsidiary	100	100	200
As at 31 December 2018	**130.507**	**310.367**	**440.874**

Under the requirement of the Law on Commercial Bank dated 16 January 2007, commercial banks are required to appropriate net profit to following reserves:

- Regulatory reserve fund
- Business expansion fund and other funds

In accordance with the Regulation on capital adequacy No.1/BOL dated 28 August 2001 by the Governor of Bank of the Lao PDR and other relevant guidance, commercial banks are required to appropriate at least 5% of profit after tax each year, after deducting retained losses, to regulatory reserve fund, until such fund reaches 10% of Tier-1 capital. Based on this requirement, management will decide the exact percentage of each year. The Business expansion fund and other funds shall be created upon decision of the Board of Directors.

33. AVAILABLE-FOR-SALE RESERVE

	2018 LAKm	*2017 LAKm*
Opening balance	1.661	7.385
Change in fair value of available-for-sale investments	-	(7.848)
Change due to impairment of available-for-sale investments	(2.184)	-
Profit tax related to net loss on available-for-sale financial assets	523	1.884
Share of Non-controlling interest	-	240
	-	**1.661**

34. ADDITIONAL CASH FLOW INFORMATION

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following consolidated statement of financial position amounts:

	31 December 2018 LAKm	*31 December 2017 LAKm*
Cash and cash equivalents on hand	1.643.245	1.911.467
Demand deposits with the BOL	2.396.173	2.550.170
Current accounts with other banks	2.700.974	2.271.791
Term deposits due within 90 days	464.040	587.088
	7.204.432	**7.320.516**

35. CONTINGENT LIABILITIES AND COMMITMENTS

	31 December 2018 LAKm	*31 December 2017 LAKm*
Financial letter of guarantees	255.094	312.618
At sight letters of credit	39.978	242.997
Deferred payment letters of credit	162.423	195.651
Credit limit given to customers	3.349.575	3.488.189
Credit limit given to other banks	548	548
	3.807.618	**4.240.003**

Financial guarantees

Letters of credit, guarantees (including standby letters of credit) and acceptances commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract. Guarantees and standby letters of credit carry the same credit risks as loans. Credit guarantees can be in the form of bills of exchange or in the form of irrevocable letters of credit, advance payment guarantees, and endorsement liabilities from bills discounted.

Un-drawn commitments to lend

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

However, the potential credit loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Lease commitments

As at 31 December 2018, the Bank did not enter into any lease contracts as either lessor or lessee which results in future cash inflows and/or outflows.

36. RELATED PARTY DISCLOSURES

Transactions with key management personnel of the Bank

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

	2018 LAKm	*2017 LAKm*
Salaries	1.557	1.716
Bonus	499	297
Responsibility allowance	1.000	1.223
Other benefits	1.001	-
	4.057	**3.236**

36. RELATED PARTY DISCLOSURES (continued)

Significant transactions with other related parties during the year 2018 are as follows:

Related party	*Note*	*Transactions*	*Income LAKm*	*Expense LAKm*
Bank of the Lao PDR ("BOL")	(i)	Interest expense from borrowing from the BOL	-	92.409
The Ministry of Finance of the Lao PDR ("MOF")	(ii)	Interest income from investment in MOF's bonds	172.489	-

Related party	*Note*	*Transactions*	*Increase LAKm*	*Decrease LAKm*
Bank of the Lao PDR	(i)	Net change in borrowings from the BOL	377.244	-
		Net change in deposits at BOL	-	(210.272)
		Net change in deposits from BOL	6.346	-
The Ministry of Finance of Lao PDR	(ii)	Net change in investment in MOF's bonds	1.071.978	-
Lao Viet Joint Venture Bank ("LVB")	(iii)	Net change in deposits at LVB	790.698	-
		Net change in deposits from LVB	47.515	-
Banque Franco – Lao Company Limited ("BFL")	(iii)	Net change in deposits at BFL	10.873	-
		Net change in deposits from BFL	1.521	-
Lao China Bank Co., Ltd ("LCNB")	(iii)	Net change in deposits at LCNB	-	(33.655)

Significant balances with related parties as at 31 December 2018 are as follows:

Related party	*Note*	*Transactions*	*Receivable LAKm*	*Payable LAKm*
Bank of the Lao PDR	(i)	Borrowings from the BOL	-	2.063.243
		BCEL's demand deposits at BOL	2.396.172	6.346
		BCEL's compulsory deposits at BOL	1.294.828	-
The Ministry of Finance of the Lao PDR	(ii)	Investment in MOF's bonds	3.656.312	-
Lao Viet Joint Venture Bank	(iii)	Current accounts	1.024.067	194.817
Banque Franco – Lao Company Limited	(iii)	Current accounts	873	7.970
	(iii)	Term deposit	10.000	10.246
Lao China Bank Co.Ltd	(iii)	Current accounts	-	5.587

(i) Direct controller
(ii) Direct owner
(iii) Joint venture

37. RISK MANAGEMENT POLICIES

Introduction

Risk is inherent in the Bank's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

The primary objective of the Bank in risk management is to comply with the BOL regulations. On the other hand, the Bank has recognized the importance of meeting international best practices on risk management. The Board of Directors and Board of Management, with support from an Asset and Liability Management Committee, are in process to formulate broad parameters of acceptable risk for the Bank and monitor the activities against these parameters.

The Board has appointed Asset and Liability Management Committee which has the responsibility to monitor the overall risk process within the Bank.

The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to various operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. The Bank's policy is to monitor those business risks through the Bank's strategic planning process.

Risk management structure

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles.

The Asset and Liability Management Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. The Risk-Compliance Department is responsible for managing risk decisions and monitoring risk levels and reports to the Board of Directors.

The Bank's policy is that risk management processes throughout the Bank are audited annually by the Internal Audit function, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

38. CAPITAL MANAGEMENT

The Bank maintains minimum regulatory capital in accordance with Regulation No 536/BFSD/BOL dated 14 October 2009 by the Governor of Commercial Bank Supervision Department of the BOL 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 the BOL. The Bank recognizes the need to maintain effectiveness of assets and liabilities management to balance its profit and capital adequacy.

In accordance with Regulation 536/BFSD/BOL, the Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes charter capital, regulatory reserve fund, business expansion fund and other funds, and retained earnings;
- Tier 2 capital, which is equal to 45% of revaluation reserves; and lower option between 1.25% of total risk weighted balance sheet items and outstanding balance of general provision during the year.

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 deprived from special purpose consolidated financial statements is as follows:

	31 December 2018 LAKm	*31 December 2017 LAKm*
Tier 1 capital	2.003.541	1.781.781
Tier 2 capital	-	747
Total capital	2.003.541	1.782.528
Less: Deductions from capital (Investments in other entities)	(462.296)	(541.730)
Capital for CAR calculation (A)	**1.541.245**	**1.240.798**
Risk weighted balance sheet items	11.984.241	10.592.015
Risk weighted off balance sheet items	1.880.710	2.172.751
Total risk weighted assets (B)	**13.864.951**	**12.764.766**
Capital Adequacy Ratio (A/B)	**11,12%**	**9,72%**

39. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arms-length basis. As verifiable market prices are not available, market prices are not available for a significant proportion of the Bank's financial assets and liabilities, fair values, therefore, have been based on management assumptions according to the profile of the asset and liability base. In the opinion of the Bank's management, except for bonds issued by the Ministry of Finance, bonds issued by and borrowings from the BOL, the carrying amount of the financial assets and liabilities included in the consolidated statement of financial position are a reasonable estimation of their fair values. In making this assessment, the Bank's management assumes that loans are mainly held to maturity with fair values equal to the book value of loans adjusted for allowance for impairment losses.

40. EARNINGS PER SHARE

Earnings per share ("EPS") amounts is calculated by dividing net profit after tax for the period attributable to ordinary shareholders of the Bank by the weighted average number of ordinary share outstanding during the year.

The following reflects the income and share data used in the basic earnings per share computation.

	2018	*2017*
Profit after tax attributable to ordinary equity holders for basic earnings (LAKm)	320.732	279.399
Weighted average number of ordinary shares for basic earnings per share (shares)	207.723.300	155.514.275
Face value per share (LAK)	5.000	5.000
Earnings per share (LAK)	1.544	1.797

41. EVENTS AFTER THE REPORTING DATE

There is no matter or circumstance that has arisen since 31 December 2018 that requires adjustment or disclosure in the consolidated financial statements of the Bank.

42. EXCHANGE RATES OF APPLICABLE FOREIGN CURRENCIES AGAINST LAK AT YEAR END

	31 December 2018 LAK	*31 December 2017 LAK*
USD	8.538,00	8.277,00
EUR	9.753,00	9.870,00
THB	265,48	253,97
GBP	10.702,00	10.947,00
JPY	75,80	72,09
AUD	5.966,00	6.350,00
CNY	1.229,00	1.257,00

Prepared by:	Approved by:	Approved by:
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BANK OF THE LAO PDR BANQUE POUR LE COMMERCE EXTERIEUR LAO PUBLIC VIENTIANE CAPITAL

Vientiane, Lao PDR

26 April 2019