

Banque Pour Le Commerce Extérieur Lao Public

Special Purpose Consolidated Financial Statements

For the year ended 31 December 2019



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Banque Pour Le Commerce Extérieur Lao Public

GENERAL INFORMATION

THE BANK

Banque Pour Le Commerce Extérieur 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 Extérieur 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 Extérieur 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 Ministry of Finance ("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 Populaire 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 and Public offering 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. 0429/ERO dated 18 May 2018 issued by Ministry of Industry and Commerce.

On 11 October 2019, Lao Securities Commission Office approved the Bank to recapitalize by both Rights offering and Public offering. The purpose of the government share divestment is to support more diverse shareholders to develop the Bank on the business expansion and sustainability. On 29 November 2019, Lao Securities Commission Office certified the Bank successfully offered 10% of the Bank's shares.

The shareholding structure of the Bank as at 31 December 2019 is as follows:

<i>Shareholders</i>	<i>Number of shares</i>	<i>%</i>
The Government	124,634,021	60%
Strategic partners	20,772,359	10%
Local investors (including employees of the Bank) and other foreign investors (*)	62,316,920	30%
	207,723,300	100%

(*) Each individual investor or single entity is permitted to hold maximum of 2% on total shares.

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.

Banque Pour Le Commerce Extérieur Lao Public

GENERAL INFORMATION (continued)

THE BANK (continued)

Charter Capital

The Bank's charter capital as at 31 December 2019 is LAKm 1.038.617 (31 December 2018: 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 2019, the Bank has one (01) Head Office, one (1) subsidiary, five (5) 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 2019, the Bank has one (01) subsidiary as follows:

<i>Name</i>	<i>Established in accordance with Business License No.</i>	<i>Business sector</i>	<i>% owned by the Bank</i>
BCEL - Krung Thai Securities Company Limited	1079/ERO issued by the Ministry of Industry and Commerce on 10 July 2019	Securities	70%

Joint ventures

As at 31 December 2019, the Bank has five (05) joint ventures as follows:

<i>Name</i>	<i>Established in accordance with Business License No.</i>	<i>Business Sector</i>	<i>% owned by the Bank</i>
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	124-10/MPI4 dated 07 September 2010 by the Ministry of Planning and Investment of Lao PDR	Banking & Finance	30%
Lao-Viet Insurance Joint Venture Company	0600 dated 16 August 2013 by the Ministry of Industry and Commerce	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%
Lao National Payment Network Company Limited	0349/ERO granted by the Department of Enterprise Registration and Management of the Ministry of Industry and Commerce of the Lao PDR on 12 March 2019	Transaction settlement management (Electronic)	20%

Banque Pour Le Commerce Exterieur Lao Public

GENERAL INFORMATION (continued)

THE BANK (continued)

BOARD OF DIRECTORS

Members of the Board of Directors during the year ended 31 December 2019 and at the date of this report are as follows:

<i>Name</i>	<i>Title</i>	<i>Date of appointment</i>
Mr. 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. Phouthakhan 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

MANAGEMENT

Members of the Management during the year ended 31 December 2019 and at the date of this report are as follows:

<i>Name</i>	<i>Title</i>	<i>Date of appointment/resignation</i>
Mr. Phoukhong Chanthachack	General Managing Director	Appointed 15 January 2016
Mr. Phansana Khounnouvong	Deputy Managing Director	Appointed 06 June 2008 Resigned 01 April 2019
Mr. Lachay Khanpravong	Deputy Managing Director	Appointed 30 September 2014
Mr. Nanthalath Keopaseuth	Deputy Managing Director	Appointed 30 September 2014
Mr. Khamsian Mingbouppha	Deputy Managing Director	Appointed 23 November 2015 Resigned 26 April 2019
Mr. Souphak Thinsayphone	Deputy Managing Director	Appointed 23 November 2015
Mr. Bouavanh Simalivong	Deputy Managing Director	Appointed 1 November 2016
Mr. Viengsouk Chounthavong	Deputy Managing Director	Appointed 18 February 2019

LEGAL REPRESENTATIVE

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

AUDITORS

The auditor of the Bank is Ernst & Young Lao Co., Ltd.

Reference: 60790273/21199783-IFRS/CS

INDEPENDENT AUDITORS' REPORT

**To: Management of Banque Pour Le Commerce Extérieur 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 Extérieur Lao Public ("the Bank") and its subsidiary, which comprise the consolidated statement of financial position as at 31 December 2019, 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 possible 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 2019 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".

We conducted our audit in accordance with International Standards on Auditing (ISA). 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

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.

We also draw attention to Note 31 – Taxation to the consolidated financial statements, which describes the request of the Ministry of Finance for commercial banks to recalculate profit tax for the years from 2016 to 2019 and the potential impact to deductible expenses for profit tax calculation during this period subject to pending clarification and detailed implementation guidance from authorized agencies.

Our opinion is not modified in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Bank consolidated financial statements of the year 2019. In addition to the matter described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report. 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditors' Responsibilities for the Audit of the Separate Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Areas of focus	How our audit addressed the risk factors
<p>Special purpose framework conversion process</p> <p>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").</p> <p>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.</p> <p>Identification of all required GAAP differences, and calculation of the required adjustments, requires the Bank's management to exercise judgement.</p>	<p>Our procedures, in respect of the Bank's special purpose framework conversion process, included:</p> <ul style="list-style-type: none"> ▶ 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
<p><i>Allowance for impairment of loans to customers (Note 20 – Allowance for impairment losses of loans to customers)</i></p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>We understood, and tested, the design and operating effectiveness of key controls in relation to:</p> <ul style="list-style-type: none"> ▶ 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. <p>For a sample of loans which had impairment provisions calculated on an individual basis, we:</p> <ul style="list-style-type: none"> ▶ assessed and challenged management assumptions in respect of forecast cash and collateral recoverable amounts; and ▶ assessed the impact of loan restructures as applicable. <p>For loan loss allowances calculated on a collective basis, we performed the followings:</p> <ul style="list-style-type: none"> ▶ 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. <p>Finally, we assessed the completeness and accuracy of financial statement disclosures relating to loan loss provisions to assess compliance with disclosure requirements.</p>

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 ISA 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 ISA, 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.
- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves compliance.
- ▶ 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.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Ernst & Young Lao Co., Ltd.



Saman Wijaya Bandara
Partner
Audit Practising Registration
Certificate No. 014/LCPAA-APT-2019

Vientiane, Lao PDR

19 May 2020

Banque Pour Le Commerce Extérieur Lao Public

CONSOLIDATED INCOME STATEMENT for the year ended 31 December 2019

	Notes	2019 LAKm	2018 LAKm
Interest revenue calculated using the effective interest method	8	2.159.294	1.938.828
Interest expense calculated using the effective interest method	9	(1.193.701)	(1.000.577)
Net interest and similar income		965.593	938.251
Fee and commission income	10	249.461	261.637
Fee and commission expense	10	(29.975)	(22.017)
Net fee and commission income	10	219.486	239.620
Net trading income	11	34.749	49.719
Net loss from derivatives	12	(1.204)	-
Other operating income	13	112.093	21.892
Operating income		1.330.717	1.249.482
Credit loss expense of loans to customers	20	(314.919)	(221.957)
Impairment losses of financial investments	14	(21.376)	(29.412)
NET OPERATING INCOME		994.422	998.113
Personnel expenses	15	(303.632)	(334.693)
Depreciation and amortization	24, 25	(71.999)	(72.363)
Depreciation of right-of-use assets	26	(7.062)	-
Other operating expenses	16	(182.001)	(156.134)
TOTAL OPERATING EXPENSES		(564.694)	(563.190)
Share of profit/(loss) of joint ventures	23	33.034	(7.643)
PROFIT BEFORE TAX		462.762	427.280
Current profit tax expense	31.1	(107.712)	(124.762)
Deferred profit tax income	31.1	5.640	18.420
NET PROFIT FOR THE YEAR		360.690	320.938
Attributable to:			
Equity holders of the parent		359.734	320.732
Non-controlling interest		956	206
Earnings per share (LAK)	42	1.732	1.544

Prepared by:

Approved by:

Mrs. Phousengthong
Anoulakham
Chief of Accounting Department

Mr. Kongsack Souphonesy
Chief of Internal Audit
Department



Approved by:

Mr. Viengsouk Chounthavong
Deputy Managing Director

Vientiane, Lao PDR

19 May 2020

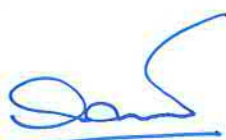
Banque Pour Le Commerce Extérieur Lao Public

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 December 2019

	Notes	2019 LAKm	2018 LAKm
NET PROFIT FOR THE YEAR		360.690	320.938
OTHER COMPREHENSIVE INCOME			
Change due to impairment of available-for-sale financial assets		-	(1.792)
Remeasurement loss on defined benefit plan	32	(15.897)	(1.411)
Profit tax related to components of other comprehensive income	31.5	3.815	768
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		(12.082)	(2.435)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		348.608	318.503
Attributable to:			
Equity holders of the parent		347.652	317.999
Non-controlling interest		956	504

Prepared by:

Approved by:



Mrs. Phousengthong
Anoulakham
Chief of Accounting Department



Mr. Kongsack Souphonesy
Chief of Internal Audit
Department



Approved by:



Mr. Viengsouk Chounthavong
Deputy Managing Director

Vientiane, Lao PDR

19 May 2020

Banque Pour Le Commerce Extérieur Lao Public

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2019

	Notes	31/12/2019 LAKm	31/12/2018 LAKm
ASSETS			
Cash and balances with Bank of the Lao PDR	17	9.202.051	5.334.246
Due from banks	18	4.588.321	3.828.669
Loans to customers	19	27.490.492	24.366.860
Financial assets - Held-for-trading		19	14
Financial investments - Available-for-sale	21	133.930	156.516
Financial investments - Held-to-maturity	22	3.453.937	3.652.772
Investments in joint ventures	23	494.666	462.296
Property and equipment	24	456.259	450.132
Intangible assets	25	245.069	246.601
Right-of-use assets	26	55.194	-
Deferred tax assets	31.5	34.644	29.099
Other assets	27	472.122	466.088
TOTAL ASSETS		46.626.704	38.993.293
LIABILITIES			
Due to banks and other financial institutions	28	4.061.775	3.413.129
Due to customers	29	36.419.928	29.915.142
Borrowings from other banks	30	3.705.378	3.349.266
Current tax liabilities	31.2	41.636	35.951
Deferred tax liabilities	31.5	-	5.272
Other liabilities	32	228.301	242.918
TOTAL LIABILITIES		44.457.018	36.961.678
EQUITY			
Chartered capital		1.038.617	1.038.617
Statutory reserves and other reserves	34	605.993	440.874
Treasury shares		(3.613)	(3.313)
Retained earnings		496.962	524.050
Total equity contributable to the parent		2.137.959	2.000.228
Total equity contributable to non-controlling interest		31.727	31.387
TOTAL EQUITY		2.169.686	2.031.615
TOTAL LIABILITIES AND EQUITY		46.626.704	38.993.293

Prepared by:

Approved by:

Mrs. Phousengthong
Anoulakkham
Chief of Accounting Department

Mr. Kongsack Souphonesy
Chief of Internal Audit
Department

Approved by:

Mr. Viengsouk Chounthavong
Deputy Managing Director

Vientiane, Lao PDR

19 May 2020



Banque Pour Le Commerce Extérieur Lao Public

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2019

	Charter capital LAKm	Statutory reserves and other reserves LAKm	Treasury shares LAKm	Retained earnings LAKm	Non- controlling interest LAKm	Total LAKm
Balances as at 31 December 2018	1.038.617	440.874	(3.313)	524.050	31.387	2.031.615
Effect of adopting IFRS 16 as at 1 January 2019	-	-	-	(4.311)	-	(4.311)
Dividend paid out to shareholders for 2018	-	-	-	(205.310)	(616)	(205.926)
Appropriation to reserve for the year 2018	-	165.119	-	(165.119)	-	-
Net profit for the year 2019	-	-	-	359.734	956	360.690
Net increase of treasury share	-	-	(300)	-	-	(300)
Other comprehensive income for the year 2019	-	-	-	(12.082)	-	(12.082)
<i>in which:</i>						
- remeasurement loss on defined benefit plans	-	-	-	(15.897)	-	(15.897)
- profit tax related to components of other comprehensive income	-	-	-	3.815	-	3.815
Balances as at 31 December 2019	1.038.617	605.993	(3.613)	496.962	31.727	2.169.686

Banque Pour Le Commerce Extérieur Lao Public

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
for the year ended 31 December 2019

	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

Prepared by:



Mrs. Phousengthong Anoulakkham
Chief of Accounting Department

Approved by:



Mr. Kongsack Souphonesy
Chief of Internal Audit Department

Approved by:



Mr. Viengsouk Chounthavong
Deputy Managing Director

Vientiane, Lao PDR

19 May 2020

Banque Pour Le Commerce Extérieur Lao Public

CONSOLIDATED STATEMENT OF CASH FLOWS
as at 31 December 2019 and for the year then ended

	Notes	2019 LAKm	2018 LAKm
OPERATING ACTIVITIES			
Profit before tax		462.762	427.280
<i>Adjustments for:</i>			
Depreciation and amortization charges	24, 25, 26	79.061	72.363
Adjustments for retained earnings under IFRS 16		(4.311)	-
Expense for impairment losses	14, 20	336.295	251.369
Expense for writing off assets under construction	16	13.351	-
Share of associate's profit under equity method	23	(33.034)	7.643
Defined post-employment benefit expense	32	7.325	24.134
Interest income	8	(2.159.294)	(1.938.828)
Interest expense	9	1.193.701	1.000.577
Dividend income	13	(6.198)	(11.630)
Cash flows from operating profit before changing in operating assets and liabilities		(110.342)	(167.092)
<i>Net changes in operating assets:</i>			
Due from banks		(16.179)	(1.507.658)
Loans to customers		(2.809.910)	(1.982.178)
Financial investment - Held-for-trading		(5)	(9)
Financial investment - Available-for-sale		(300)	373
Financial investment - Held-to-maturity		200.045	280.969
Other assets		(65.202)	(15.986)
<i>Net changes in operating liabilities:</i>			
Due to other banks and the BOL		932.702	1.299.350
Due to customers		6.587.377	1.449.278
Other liabilities		(26.243)	31.200
Interest received		1.522.442	1.688.472
Interest paid		(1.308.950)	(904.321)
Profit tax paid during the year	31.3	(109.808)	(102.880)
Net cash flows from operating activities		4.795.627	69.518
INVESTING ACTIVITIES			
Purchase and construction of fixed assets		(100.914)	(120.340)
Proceeds from disposals of fixed assets		24.320	-
Payment for joint venture investments		(2.040)	-
Dividends received		8.902	32.638
Net cash flows used in investing activities		(69.732)	(87.702)

Banque Pour Le Commerce Extérieur Lao Public

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
as at 31 December 2019 and for the year then ended

	Notes	2019 LAKm	2018 LAKm
FINANCING ACTIVITIES			
Payment of dividends		(205.926)	(97.900)
Net cash used in financing activities		(205.926)	(97.900)
Net change in cash and cash equivalents		4.519.969	(116.084)
Cash and cash equivalents at the beginning of the year		7.204.432	7.320.516
Cash and cash equivalents at the end of the year	36	11.724.401	7.204.432

Prepared by:

Approved by:

Approved by:



Mrs. Phousengthong
Anoulakkham
Chief of Accounting Department



Mr. Kongsack Souphonesy
Chief of Internal Audit
Department



Mr. Viengsouk Chounthavong
Deputy Managing Director

Vientiane, Lao PDR

19 May 2020

Banque Pour Le Commerce Extérieur Lao Public

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS as at 31 December 2019 and for the year then ended

1. CORPORATE INFORMATION

Banque Pour Le Commerce Extérieur 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 Extérieur 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 Extérieur 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 Populaire 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 the Bank of the Lao PDR. On 15 September 2017, Lao Securities Exchange certified that the Bank successfully increased its charter capital amount of 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. 0429/ERO dated 18 May 2018 issued by Ministry of Industry and Commerce.

On 11 October 2019, Lao Securities Commission Office approved the Bank to recapitalize by both Rights offering and Public offering. The purpose of the share divestment of the government is to support more diverse shareholders to develop the Bank on the business expansion and sustainability. On 29 November 2019, Lao Securities Commission Office certified the Bank successfully offered 10% of the Bank's shares.

The shareholding structure of the Bank as at 31 December 2019 is as follows:

<i>Shareholders</i>	<i>Number of shares</i>	<i>%</i>
The Government	124,634,021	60%
Strategic partners	20,772,359	10%
Local investors (including employees of the Bank) and other foreign investors	62,316,920	30%
	207,723,300	100%

(*) Each individual investor or single entity is permitted to hold maximum of 2% on total shares.

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.

Banque Pour Le Commerce Extérieur Lao Public

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
as at 31 December 2019 and for the year then ended

1. CORPORATE INFORMATION (continued)

Charter Capital

The Bank's chartered capital as at 31 December 2019 is LAKm 1.038.617 (31 December 2018: LAKm 1.038.617).

Location and Network

The Bank's Head Office is located at No. 01, Pangkham Street, Ban Xiengneun, Chanthabouly District, Vientiane Capital, Lao PDR. As at 31 December 2019, the Bank has one (01) Head Office, one (1) subsidiary, five (5) 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 2019, the Bank has one (01) subsidiary as follows:

<i>Name</i>	<i>Established in accordance with Business License No.</i>	<i>Business sector</i>	<i>% owned by the Bank</i>
BCEL - Krung Thai Securities Company Limited	1079/ERO issued by the Ministry of Industry and Commerce on 10 July 2019	Securities	70%

Joint ventures

As at 31 December 2019, the Bank has five (05) joint ventures as follows:

<i>Name</i>	<i>Established in accordance with Business License No.</i>	<i>Business Sector</i>	<i>% owned by the Bank</i>
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	124-10/MPI4 dated 07 September 2010 by the Ministry of Planning and Investment of Lao PDR	Banking & Finance	30%
Lao-Viet Insurance Joint Venture Company	0600 dated 16 August 2013 by the Ministry of Industry and Commerce	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%
Lao National Payment Network Company Limited	0349/ERO granted by the Department of Enterprise Registration and Management of the Ministry of Industry and Commerce of the Lao PDR on 12 March 2019	Transaction settlement management (Electronic)	20%

Banque Pour Le Commerce Exterieur Lao Public

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
as at 31 December 2019 and for the year then ended

1. CORPORATE INFORMATION (continued)

Board of Directors

Members of the Board of Directors during the year ended 31 December 2019 and at the date of this report are as follows:

<i>Name</i>	<i>Title</i>	<i>Date of appointment</i>
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. Phouthakhan 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

Management

Members of the Management during the year ended 31 December 2019 and at the date of this report are as follows:

<i>Name</i>	<i>Title</i>	<i>Date of appointment/resignation</i>
Mr. Phoukhong Chanthachack	General Managing Director	Appointed 15 January 2016
Mr. Phansana Khounnouvong	Deputy Managing Director	Appointed 06 June 2008 Resigned 01 April 2019
Mr. Lachay Khanpravong	Deputy Managing Director	Appointed 30 September 2014
Mr. Nanthalath Keopaseuth	Deputy Managing Director	Appointed 30 September 2014
Mr. Khamsian Mingbouppha	Deputy Managing Director	Appointed 23 November 2015 Resigned 26 April 2019
Mr. Souphak Thinsayphone	Deputy Managing Director	Appointed 23 November 2015
Mr. Bouavanh Simalivong	Deputy Managing Director	Appointed 01 November 2016
Mr. Viengsouk Chounthavong	Deputy Managing Director	Appointed 18 February 2019

Employees

Total number of employees of the Bank and its subsidiary as at 31 December 2019 is 2.080 persons (31 December 2018: 1.920 persons).

Banque Pour Le Commerce Extérieur Lao Public

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
as at 31 December 2019 and for the year then ended

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 maintain 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.

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

3. PRESENTATION OF FINANCIAL STATEMENTS

The Bank and its subsidiary presents its consolidated statement of financial position in order of liquidity. Financial assets and financial liabilities are generally reported gross in the consolidated 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 basis 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

Banque Pour Le Commerce Extérieur Lao Public

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
as at 31 December 2019 and for the year then ended

4. BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary as at 31 December 2019. 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. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

5.1 *New and amended standards and interpretations*

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Bank's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019 as described below. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

5.2 *IFRS 16 Leases*

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Banque Pour Le Commerce Extérieur Lao Public

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
as at 31 December 2019 and for the year then ended

5. CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES

5.2 IFRS 16 Leases (continued)

The Bank adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Bank elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Bank also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The effect of adoption IFRS 16 as at 1 January 2019 (increase/(decrease)) is as follow:

	<i>LAKm</i>
Asset	
Right of use assets	41.695
Prepayments	(38.381)
Deferred tax assets	1.362
Total assets	4.676
Liabilities	
Lease liabilities	8.987
Total liabilities	8.987
Total adjustment on equity:	
Retained earnings	(4.311)

The Bank has lease contracts for various items of plant and land. Before the adoption of IFRS 16, the Bank classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to Note 6.14 - Leases for the accounting policy prior to 1 January 2019.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to Note 6.14 Leases for the accounting policy beginning 1 January 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Bank.

Banque Pour Le Commerce Extérieur Lao Public

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
as at 31 December 2019 and for the year then ended

5. CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES

5.2 IFRS 16 Leases (continued)

a) Nature of the effect of adoption of IFRS 16 (continued)

► Leases previously accounted for as operating leases

The Bank recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Bank also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Nature of the effect of adoption of IFRS 16

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	LAKm
Operating lease commitments as at 31 December 2018	13.710
Weighted average incremental borrowing rate as at 1 January 2019	5,59%
Discounted operating lease commitments at 1 January 2019	9.000
Less:	
Commitments relating to short-term lease	-
Commitments relating to leases of low-value assets	(13)
Lease liabilities as at 1 January 2019	8.987

Banque Pour Le Commerce Extérieur Lao Public

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
as at 31 December 2019 and for the year then ended

5. CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES

5.3 *Post-employment benefits*

From 01 January 2019, the Bank's policy on Post-employment benefits was changed to the new policy as disclosed in Note 6.16. The Bank used the prospective application for this accounting change, accordingly the Bank applied the new accounting policy for post-employment benefits occurring after the date as at which the policy is changed.

5.4 *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 Income Taxes. It 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;
- ▶ How an entity considers changes in facts and circumstances.

The Bank determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

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 as at 31 December 2019 and 31 December 2018 as presented in Note 44). Unrealized exchange differences arising from the translation of monetary assets and liabilities on the balance sheet 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

6.2.4 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 financial investments'
- ▶ 6.2.8 for 'Due from banks and loans and advances to customers'
- ▶ 6.2.9 for 'Due to other banks and customers and other borrowed funds'
- ▶ 6.4 for 'Impairment of financial assets'; and
- ▶ 6.7 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 consolidated income statement when the inputs become observable, or when the instrument is derecognised.

Banque Pour Le Commerce Exterieur Lao Public

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
as at 31 December 2019 and for the year then ended

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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'.

6.2.7 *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 decline 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.

Banque Pour Le Commerce Extérieur Lao Public

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
as at 31 December 2019 and for the year then ended

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

6.2.8 Due from banks and loans and advances to customers (continued)

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).

6.2.9 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.

Banque Pour Le Commerce Extérieur Lao Public

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
as at 31 December 2019 and for the year then ended

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

6.2.10 Reclassification of financial assets (continued)

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.

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 2019, 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.

Banque Pour Le Commerce Extérieur Lao Public

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
as at 31 December 2019 and for the year then ended

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

6.3.1 *Financial assets (continued)*

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.

6.4 *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 consolidated 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.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.4 Impairment of financial assets (continued)

6.4.1 Financial assets carried at amortized cost (continued)

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.

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.4 *Impairment of financial assets (continued)*

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.

6.5 *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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
as at 31 December 2019 and for the year then ended

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.6 *Investment in joint ventures (continued)*

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 *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.

6.7.1 *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.

6.7.2 *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 6.7.2.1 and 6.7.2.2 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 6.7.2.1 and 6.7.2.2 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.

6.7.2.1 *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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
as at 31 December 2019 and for the year then ended

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.7 Recognition of income and expenses (continued)

6.7.2 Fees and commission income (continued)

6.7.2.2 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.

6.7.3 Dividend income

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

6.7.4 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.

6.8 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.

6.9 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.10 *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 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
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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.

6.11 *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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
as at 31 December 2019 and for the year then ended

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.12 *Derivative financial instruments*

Swap

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Bank with other counterparties (customers and financial institutions) in which the Bank either receives or pays a floating rate of interest, respectively, in return for paying or receiving a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

In a currency swap (included within foreign exchange contracts), the Bank pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross settled.

Credit default swaps are contractual agreements between two parties to make payments with respect to defined credit events, based on specified notional amounts. The Bank purchases credit default swaps in order to mitigate the risk of default by the counterparty on the underlying security referenced by the swap.

Irrespective of whether settled through clearing houses or directly with the counterparties, most swaps are fully collateralised and require daily margin settlement. The practice significantly reduces the Bank's credit risk, but requires more diligent liquidity management than if the positions were not collateralised.

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 consolidated 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 consolidated income statement in 'Credit loss expense'. The premium received is recognized in the consolidated income statement in 'Net fees and commission income' on a straight-line basis over the life of the guarantee.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.14 Leasing (applicable from 1 January 2019)

6.14.1. Right-of-use assets

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease arrangement based on whether the contract that conveys to the user (the lessee) the right to control the use of an identified asset for a period of time in exchange for consideration. If a contract contains more than one lease component, or a combination of leasing and services transactions, the consideration is allocated to each of these lease and non-lease components on conclusion and on each subsequent re-measurement of the contract on the basis of their relative stand-alone selling prices. The Bank combines lease and non-lease components, in cases where splitting the non-lease component is not possible.

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The lease term includes periods covered by an option to extend if the Group is reasonably certain to exercise that option. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment assessment.

6.14.2. Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying assets.

6.14.3. Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the lease of low-value assets recognition exemption to leases of assets that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.14 Leasing (applicable from 1 January 2019)

6.14.4. Significant judgement in determining the lease term of contracts with renewal options

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy). The Bank included the renewal period as part of the lease term for leases of premises and IT equipment due to the significance of these assets to its operations.

6.15 Leasing (applicable before 1 January 2019)

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

The Bank as a lessee

Leases, where all the risks and benefits of ownership of the leased items are not transferred substantially to the Bank are operating leases. Operating lease payments are recognized as an expense in the profit or loss 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.

6.16 Employee benefits

Post-employment benefits (applicable from 1 January 2019)

Post-employment benefits are paid to retired employees of the Bank at the time of retirement by the amount equal to (Latest Basic Salary + Wage + 25% of allowance (If have) + 25% of other benefits) x 1,5 x working years.

The fund for Post-employment benefits come from:

- (i) the retirement reserve contributed by the employees, for which the Bank withholds a certain monthly amount from employees' salary (5,5%) of the amount (Equal to Basic Salary + Wage + 25% of allowance + 25% of other benefits);
- (ii) and the Bank contribution by monthly, which is equal to 6% of the amount (Equal to Basic Salary + Wage + 25% of allowance + 25% of other benefits);

The Bank records its contribution as 'Payroll and other staff costs' into the consolidated income statement when such payment is made.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.16 Employee benefits (continued)

Post-employment benefits (applicable before 1 January 2019)

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.

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 2019, 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.17 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 consolidated income statement net of any reimbursement in other operating expenses.

6.18 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.

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 consolidated 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.19 *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.

6.20 *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 34; and
- ▶ Available-for-sale reserve which comprises changes in fair value of available-for-sale investments, as stated in Note 35.

6.21 *Standards issued but not be applied*

The standards and interpretations that are issued, but not yet to be applied, up to the date of issuance of the Branch's financial statements are disclosed below.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The adoption of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but no impact on the classification and measurement of the Bank's financial liabilities.

In 2019, 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".

6.22 *Standards issued but not be effective*

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

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.22 Standards issued but not be effective (continued)

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Bank will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material is not expected to have a significant impact on the Bank's consolidated financial statements.

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 consolidated 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.

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8. INTEREST AND SIMILAR INCOME

	2019 LAKm	2018 LAKm
Interest income calculated using the effective interest method from:		
Lending to customers	1.924.038	1.722.144
Deposits at other banks	68.632	51.199
Investment securities	166.478	165.015
Other activities	146	470
	2.159.294	1.938.828

9. INTEREST AND SIMILAR EXPENSE

	2019 LAKm	2018 LAKm
Interest expense calculated using the effective interest method for:		
Due to other banks	283.997	184.996
Customer deposits	909.704	815.581
	1.193.701	1.000.577

10. NET FEE AND COMMISSION INCOME

	2019 LAKm	2018 LAKm
Fee and commission income from:		
Settlement services	181.324	157.223
Treasury activities	40.924	86.808
Other activities	27.213	17.606
	249.461	261.637
Fee and commission expense for:		
Settlement services	(25.694)	(20.396)
Treasury activities	(4.281)	(1.621)
	(29.975)	(22.017)
Net fees and commission income	219.486	239.620

11. NET TRADING INCOME

	2019 LAKm	2018 LAKm
Net gain from foreign currencies trading and revaluation of monetary items	34.749	49.719
	34.749	49.719

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12. NET LOSS FROM DERIVATIVES

	2019 LAKm	2018 LAKm
Gain from derivatives	1,518	-
Loss from derivatives	(2,722)	-
	(1,204)	-

13. OTHER OPERATING INCOME

	2019 LAKm	2018 LAKm
Dividend income	6,198	11,630
Gain from sale of investment in joint ventures	-	2,734
Income from sale of fixed assets	922	-
Recovery of bad debts written off	58,758	4,879
Past service cost for amendment of defined benefit plans	25,874	-
Others	20,341	2,649
	112,093	21,892

14. IMPAIRMENT LOSSES OF FINANCIAL INVESTMENTS

	2019 LAKm	2018 LAKm
Impairment loss for Available-for-sale investments	(22,586)	(31,887)
Reversal of impairment loss for Held-to-maturity investments (Note 22)	1,210	2,475
	(21,376)	(29,412)

15. PERSONNEL EXPENSES

	2019 LAKm	2018 LAKm
Salaries	163,575	149,274
Benefits and welfare	125,203	154,228
Defined employee benefit plans (note 32)	7,325	24,134
Other staff costs	7,529	7,057
	303,632	334,693

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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16. OTHER OPERATING EXPENSES

	2019 LAKm	2018 LAKm
Repair and maintenance	23.446	23.277
Publication, marketing and promotion	13.316	8.343
Office rental	-	8.490
Telecommunication	9.714	7.662
Training, meeting and seminar	17.568	17.087
Insurance fee for depositor protection fund	31.753	27.038
Interest expense on lease liabilities	443	-
Tax and other duties	14.220	162
Insurance expense	8.256	6.230
Utility	9.501	8.342
Fuel expense	2.406	2.276
Stationaries and office materials	21.024	16.966
Consulting and financial service fees	5.817	5.958
Construction in progress written off	13.351	-
Cash loss expense	-	4.011
Others	11.186	20.292
	182.001	156.134

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

	31/12/2019 LAKm	31/12/2018 LAKm
Cash on hand in LAK	1.235.430	961.728
Cash on hand in foreign currencies ("FC")	814.671	681.517
Balances with the BOL		
- Compulsory deposit (*)	1.399.542	1.294.828
- Demand deposit	5.752.408	2.396.173
	9.202.051	5.334.246

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, (2018: 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.

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18. DUE FROM BANKS

	31/12/2019 LAKm	31/12/2018 LAKm
Current and saving accounts	3.921.892	2.700.974
- In LAK	1.750	3.681
- In foreign currencies	3.920.142	2.697.293
Term deposits	666.429	1.127.695
- In LAK	312.549	381.380
- In foreign currencies	353.880	746.315
	4.588.321	3.828.669

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

	2019 % per annum	2018 % per annum
Demand deposits	0,00% - 3,10%	0,00% - 0,80%
Saving deposits	0,00% - 0,80%	0,00% - 0,80%
Term deposits	0,85% - 4,95%	0,85% - 4,00%

19. LOANS TO CUSTOMERS

	31/12/2019 LAKm	31/12/2018 LAKm
Gross loans	28.141.033	24.845.276
In which:		
Loans funded by borrowing from BOL (Note 30)	1.825.039	2.063.243
Less: Allowance for impairment losses (Note 20)	(650.541)	(478.416)
	27.490.492	24.366.860

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

	2019 Interest rates % per annum	2018 Interest rates % per annum
Loans denominated in LAK	6,00% - 16,00%	6,00% - 16,00%
Loans denominated in USD	5,80% - 16,00%	4,00% - 16,00%
Loans denominated in THB	6,00% - 10,00%	6,00% - 11,50%

Analysis of loan portfolio by currency:

	31/12/2019 LAKm	31/12/2018 LAKm
Loans denominated in LAK	12.649.118	10.988.474
Loans denominated in USD	12.054.073	10.842.780
Loans denominated in THB	3.437.842	3.014.022
	28.141.033	24.845.276

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19. LOANS TO CUSTOMERS (continued)

Analysis of loan portfolio by original maturity:

	31/12/2019 LAKm	31/12/2018 LAKm
Short-term loans	1.581.901	1.825.034
Medium-term loans	16.311.131	14.431.801
Long-term loans	10.248.001	8.588.441
	28.141.033	24.845.276

Analysis of loan portfolio by industrial sectors of customers:

	31/12/2019		31/12/2018	
	LAKm	%	LAKm	%
Industrial services companies	14.778.834	52,52%	12.931.637	52,05%
Construction companies	4.319.800	15,35%	3.374.610	13,58%
Technical instruments enterprises	75.996	0,27%	85.352	0,34%
Agricultural & forestry	64.855	0,23%	74.248	0,30%
Trading companies	4.272.155	15,18%	4.336.508	17,45%
Transportation companies	726.588	2,58%	688.078	2,77%
Services companies	3.575.691	12,71%	2.875.026	11,57%
Handicrafts	3.187	0,01%	3.456	0,01%
Others	323.927	1,15%	476.361	1,92%
	28.141.033	100%	24.845.276	100%

20. ALLOWANCE FOR IMPAIRMENT LOSSES OF LOANS TO CUSTOMER

Changes in allowance for impairment losses of loans to customers during the year ended 31 December 2019 are as follows:

	2019 LAKm	2018 LAKm
Balance as at 1 January	478.416	481.013
Net change during the year	314.919	221.957
Bad debts written-off	(164.410)	(232.259)
Foreign exchange differences	21.616	7.705
Balance as at 31 December	650.541	478.416

Breakdown of allowance for impairment losses of loans to customers as at 31 December 2019 and 31 December 2018 are as follows:

	31/12/2019		31/12/2018	
	Outstanding balance LAKm	Impairment LAKm	Outstanding balance LAKm	Impairment LAKm
Individually impaired	4.008.282	401.513	1.859.522	291.960
Collectively impaired	22.979.708	249.028	22.478.847	186.456
	26.987.990	650.541	24.338.369	478.416

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21. FINANCIAL INVESTMENTS - AVAILABLE-FOR-SALE

	31/12/2019 LAKm	31/12/2018 LAKm
Listed shares of EDL-Generation Public Company (*)	133.930	156.516
	133.930	156.516

(*) As at 31 December 2019, the shares have been impaired by an amount of LAKm 54.473 below its cost of LAKm 188.403.

22. FINANCIAL INVESTMENTS – HELD-TO-MATURITY

	31/12/2019 LAKm	31/12/2018 LAKm
Amortized cost of Treasury bills issued by the Ministry of Finance	900.929	1.916.549
Amortized cost of bonds issued by the Ministry of Finance	2.553.008	1.737.433
	3.453.937	3.653.982
Impairment losses for investments in Held-to-maturity securities (*)	-	(1.210)
Impairment losses for bonds issued by the Ministry of Finance	-	(1.210)
	3.453.937	3.652.772

Changes in allowance for impairment losses of held-to-maturity financial investments during the year ended 31 December 2019 are as follows:

	2019 LAKm	2018 LAKm
Balance as at 1 January	(1.210)	(3.685)
Net impairment losses reversed in the year	1.210	2.475
Balance as at 31 December	-	(1.210)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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22. FINANCIAL INVESTMENTS – HELD-TO-MATURITY (continued)

22.1. 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	22-Feb-19	22-Feb-20	300.000	312.776	5,00%	
1 year	7-Mar-19	7-Mar-20	73.000	75.968	5,00%	
1 year	22-Mar-19	22-Mar-20	68.600	71.247	5,00%	
1 year	5-Apr-19	5-Apr-20	150.000	151.853	5,30%	
1 year	12-Apr-19	12-Apr-20	50.000	51.784	5,00%	
1 year	26-Apr-19	26-Apr-20	20.000	20.675	5,00%	
1 year	31-May-19	31-May-20	68.000	69.968	5,00%	
1 year	14-Jun-19	14-Jun-20	100.000	102.702	5,00%	
1 year	28-Jun-19	28-Jun-20	42.880	43.956	5,00%	
			872.480	900.929		

22.2. Bonds issued by the Ministry of Finance

	31/12/2019 LAKm	31/12/2018 LAKm
Capitalization bonds	-	70.600
Other bonds	2.553.008	1.666.833
	2.553.008	1.737.433

22.2.1 Other bonds

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

	Face value LAKm	Amortized cost LAKm
Within 1 year	50.000	45.683
1 to 5 years	1.697.049	1.724.328
Over 5 years	755.634	782.997
	2.502.683	2.553.008

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

	2019 % per annum	2018 % per annum
Within 1 year	4,00%	3,00 - 5,30%
1 to 5 years	3,00 - 6,95%	3,00 - 6,95%
Over 5 years	4,00 - 4,80%	4,00 - 4,80%

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.

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23. INVESTMENTS IN JOINT VENTURES

	2019 LAKm	2018 LAKm
Balance as at 1 January	462.296	541.730
Net share of (loss)/profit in the year under equity method	33.034	(7.643)
Invest in joint ventures	2.040	
Less:		
Sale of joint venture's share	-	(52.266)
Dividends received during the year	(2.704)	(19.525)
Balance as at 31 December	494.666	462.296

	31/12/2019				31/12/2018			
	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	235.339	25%	24.500.000	197.839	228.359	25%
Banque Franco - Lao Limited	N/A	90.000	84.431	30%	N/A	90.000	64.053	30%
Lao China Bank	N/A	147.000	162.464	49%	N/A	147.000	158.179	49%
Investments in local economic entities								
Lao-Viet Insurance Joint Venture Company	1.050.000	9.168	10.837	35%	1.050.000	9.168	11.705	35%
Lao National Payment Network Company Limited		2.040	1.595	20%		-	-	-
		446.047	494.666			444.007	462.296	

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23. INVESTMENTS IN JOINT VENTURES (continued)

- Lao Viet Joint Venture Bank ("LVB") is incorporated in the 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 period 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 LAK 197.839.390.000.
- Lao-Viet Insurance Joint Venture Company ("LVI") is incorporated as a joint venture company in the 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 2019, 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 the Lao PDR and engages in the provision of banking 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 2019.
- Banque Franco - Lao Limited ("BFL") is incorporated in the 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.
- Lao National Payment Network Company Limited (LAPNet) is incorporated in the Lao PDR under the Business License No. 0349 granted by the Department of Enterprise Registration and Management of the Ministry of Industry and Commerce of the Lao PDR on 12 March 2019 and engages in the provision of financial services. It is an association among Bank of the Lao PDR, Union Pay International, Lao Development Bank, Agriculture Promotion Bank, Joint Development Bank, Lao-Viet Bank, STBank, BIC Bank and the Bank. The legal capital was LAKm 34.000. As 31 December 2019, the total contributed capital of the Bank in this company was LAKm 2.040.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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24. PROPERTY AND EQUIPMENT

	<i>Buildings & improvements LAKm</i>	<i>Office equipment LAKm</i>	<i>Furniture & fixtures LAKm</i>	<i>Motor vehicles LAKm</i>	<i>Total LAKm</i>
Cost:					
As at 1 January 2019	476.463	151.886	41.210	19.770	689.329
Additions	29.725	44.165	4.109	3.513	81.512
Disposal and write-off	(10.921)	(34.046)	(6.132)	(5.246)	(56.345)
As at 31 December 2019	495.267	162.005	39.187	18.037	714.496
Accumulated depreciation:					
As at 1 January 2019	135.271	67.649	26.278	9.999	239.197
Charge for the year	26.938	31.801	5.823	3.886	68.448
Disposal and write-off	(6.710)	(31.702)	(6.012)	(4.984)	(49.408)
As at 31 December 2019	155.499	67.748	26.089	8.901	258.237
Net book value:					
As at 1 January 2019	341.192	84.237	14.932	9.771	450.132
As at 31 December 2019	339.768	94.257	13.098	9.136	456.259

25. INTANGIBLE ASSETS

	<i>Land use rights LAKm</i>	<i>Software LAKm</i>	<i>Total LAKm</i>
Cost:			
As at 1 January 2019	240.619	16.841	257.460
Additions	14.374	5.027	19.401
Disposal and write-off	(17.382)	(7.444)	(24.826)
As at 31 December 2019	237.611	14.424	252.035
Accumulated amortization:			
As at 1 January 2019	-	10.859	10.859
Charge for the year	-	3.551	3.551
Disposal and write-off	-	(7.444)	(7.444)
As at 31 December 2019	-	6.966	6.966
Net book value:			
As at 1 January 2019	240.619	5.982	246.601
As at 31 December 2019	237.611	7.458	245.069

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26. RIGHT-OF-USE ASSETS

	<i>Lands and buildings LAKm</i>
Cost:	
As at 1 January 2019	52.571
Additions	20.561
As at 31 December 2019	73.132
Accumulated depreciation:	
As at 1 January 2019	10.876
Charge for the year	7.062
As at 31 December 2019	17.938
Net book value:	
As at 1 January 2019	41.695
As at 31 December 2019	55.194

27. OTHER ASSETS

	<i>31/12/2019 LAKm</i>	<i>31/12/2018 LAKm</i>
Assets available for sale	250.272	255.438
Stationeries and other tools	5.165	8.558
Checks in collection	13.734	6.671
Construction in progress and fixed assets in transit (*)	75.072	65.079
Prepaid expenses to be allocated	33.968	62.065
Advance payment for other operations	31.347	27.553
Advance payment to suppliers	58.561	34.589
Others	4.003	6.135
	472.122	466.088

(*): Movement of construction in progress and fixed assets in transit for the year ended 31 December 2019 is as follows:

	<i>Land use rights LAKm</i>	<i>Buildings & improvements LAKm</i>	<i>Others LAKm</i>	<i>Total LAKm</i>
As at 1 January 2019	541	38.630	25.908	65.079
Additions	17.684	26.241	76.787	120.712
Transferred to fixed assets	(14.374)	(26.666)	(50.987)	(92.027)
Transferred to other assets	-	(5.341)	-	(5.341)
Written off	(3.851)	(181)	(9.319)	(13.351)
As at 31 December 2019	-	32.683	42.389	75.072

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28. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	31/12/2019 LAKm	31/12/2018 LAKm
Demand deposits	3.521.128	2.517.029
- In LAK	1.125.688	800.136
- In foreign currencies	2.395.440	1.716.893
Saving deposits	302.654	119.495
- In LAK	45.567	21.954
- In foreign currencies	257.087	97.541
Term deposits	215.345	754.543
- In LAK	137.359	195.581
- In foreign currencies	77.986	558.962
Others	22.648	22.062
- In LAK	15.166	9.009
- In foreign currencies	7.482	13.053
	4.061.775	3.413.129

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

	2019 % per annum	2018 % per annum
Demand deposits	0,00% - 0,30%	No interest
Saving deposits	No interest	No interest
Term deposits	0,56% - 6,65%	0,00% - 5,52%

29. DUE TO CUSTOMERS

	31/12/2019 LAKm	31/12/2018 LAKm
Demand deposits	5.851.192	5.447.954
Demand deposits in LAK	2.828.297	2.141.221
Demand deposits in FC	3.022.895	3.306.733
Demand savings	16.422.065	13.092.788
Demand saving deposits in LAK	8.015.243	5.788.652
Demand saving deposits in FC	8.406.822	7.304.136
Term deposits	13.900.002	11.159.134
Term deposits in LAK	7.640.736	6.671.234
Term deposits in FC	6.259.266	4.487.900
Margin deposits	104.854	103.279
Margin deposits in LAK	33.832	33.629
Margin deposits in FC	71.022	69.650
Other payables to customers	141.815	111.987
	36.419.928	29.915.142

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29. DUE TO CUSTOMERS (continued)

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

	2019 % per annum	2018 % per annum
Demand deposits	No interest	No interest
Saving deposits in LAK	1,25% - 1,89%	1,25% - 1,89%
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% - 13,00%	3,16% - 6,90%
Term deposits in USD	1,65% - 7,75%	1,65% - 6,65%
Term deposits in THB	1,40% - 7,75%	1,40% - 6,40%

30. BORROWINGS FROM OTHER BANKS

	31/12/2019 LAKm	31/12/2018 LAKm
Borrowings from the BOL	1.825.039	2.063.243
Borrowings from foreign banks	1.880.339	1.286.023
	3.705.378	3.349.266

Borrowings from the BOL as at 31 December 2019 include:

- USD 3.285.713 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 quarterly.
- 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 quarterly.

Borrowing from domestic banks and other financial institution as at 31 December 2019 includes a USD 80.000.000 one-year borrowing from ICBC Vientiane Branch with interest rate of 5,50% per annum. The loan's principal and interest are paid at maturity date

Borrowing from foreign banks and other financial institutions as at 31 December 2019 includes a USD 126.055.000 (original borrowing amount was 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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31. TAXATION

31.1 Profit tax expense

Major components of tax expense are as follows:

	2019 LAKm	2018 LAKm
Current profit tax expense	107.712	124.762
Deferred profit tax income	(5.640)	(18.420)
	102.072	106.342

31.2 Current tax liabilities

	31/12/2019 LAKm	31/12/2018 LAKm
Profit tax payable (Note 31.3)	28.880	31.422
Withholding tax payable	12.156	-
Value Added Tax payable	358	4.529
Other tax payable	242	-
	41.636	35.951

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
as at 31 December 2019 and for the year then ended

31. TAXATION (continued)

31.3 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 2019 and 2018 are as follows:

	2019 LAKm	2018 LAKm
Consolidated profit before tax in accordance with special purpose framework	462.762	427.280
<i>Adjustments for:</i>		
- Difference between carrying value of bonds under LAS and their amortized cost under special purpose framework	2.689	(3.647)
- Difference between carrying value under LAS and amortized cost under IFRS of loans to banks and customers	58.512	-
- Difference between allowance for impairment losses of loans to banks and customers under LAS and under special purpose framework	56.666	31.729
- Difference between allowance for post-employment benefits under LAS and under special purpose framework	(63.436)	21.425
- Difference between impairment loss expense of investments under LAS and under special purpose framework	(30.931)	27.246
- Non-taxable profit arising from consolidation adjustments	(27.686)	35.569
- Non-taxable income	(23.924)	(34.734)
- Non-deductible expenses	14.147	14.977
Taxable profit under LAS	448.799	519.845
<i>in which:</i>		
- Taxable profit of the parent bank	444.351	516.754
- Taxable profit of the subsidiary	4.448	3.091
PT expense of the parent bank at rate of 24% (2018: 24%)	106.644	124.020
PT expense of the subsidiary at rate of 24% (2018: 24%)	1.068	742
Consolidated PT expense in the year	107.712	124.762
PT payable at the beginning of the year	31.422	9.540
PT paid in the year	(109.808)	(102.880)
Tax adjustment for previous years based on the results of tax authority's inspection	(446)	-
PT payable at the end of the year	28.880	31.422

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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31. TAXATION (Continued)

31.4 Contingent liabilities

On 6 November 2019, the Ministry of Finance issued Notification No. 4475/MOF requesting commercial banks to recalculate profit tax for the years from 2016 to 2019 in which provision for credit losses should be considered as non-deductible expenses. The Bank has submitted Official Letter No. 003/BCEL dated 06 December 2019 to the Ministry of Finance and Official Letter No. 037/BCEL dated 23 January 2020 to Bank of the Lao PDR to seek for further clarification and detailed guidance on the implementation of such Notification. Until the date of the consolidated financial statements, the Bank has not yet received the responses from the Ministry of Finance and Bank of the Lao PDR and the impact of this issue (if any) has not been yet defined. Therefore, the Bank has not booked any adjustments on the consolidated financial statements for the fiscal year 2019.

31.5 Deferred tax assets/(liabilities)

	Statement of financial position		Income statement		Statement of comprehensive income	
	31 December 2019	31 December 2018	2019	2018	2019	2018
	LAKm	LAKm	LAKm	LAKm	LAKm	LAKm
Deferred tax assets	33.282	29.099	368	11.144	3.815	(260)
Effect of adopting IFRS 16 as at 1 January 2019	1.362	-	-	-	-	-
Deferred tax liabilities	-	(5.272)	5.272	7.276	-	1.028
Net deferred tax credited/(charged) to the consolidated income statement			5.640	18.420		
Net deferred tax credited to the consolidated statement of comprehensive income					3.815	768

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
as at 31 December 2019 and for the year then ended

31. TAXATION (continued)

31.5 Deferred tax assets/(liabilities)

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

	31/12/2019 LAKm	31/12/2018 LAKm
Deductible temporary differences	144.350	121.247
<i>In which:</i>		
Effect of adopting IFRS 16 as at 1 January 2019	5.673	-
Difference between carrying value of bonds under LAS and their amortized cost under special purpose framework	5.019	2.331
Difference in impairment expense of investments under LAS and under special purpose framework	-	30.931
Difference between carrying value under LAS and amortized cost under IFRS of loans to banks and customers	58.512	-
Difference in allowance for impairment losses of loans to customers under LAS and under special purpose framework	34.700	-
Difference in allowance for post-employment benefits under LAS and under special purpose framework	40.446	87.985
Deferred tax assets (at tax rate 24%)	34.644	29.099
Taxable temporary differences	-	(21.965)
<i>In which:</i>		
Difference in allowance for impairment losses of loans to customers under LAS and under special purpose framework	-	(21.965)
Deferred tax liabilities (at tax rate 24%)	-	(5.272)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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32. OTHER LIABILITIES

	31/12/2019 LAKm	31/12/2018 LAKm
Payables to employees	52.477	86.612
Payable to suppliers	28.513	22.101
Defined post-employment benefit plan	79.219	87.985
Lease liabilities	14.249	-
Others	53.843	46.220
	228.301	242.918

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

	2019 LAKm	2018 LAKm
As at 1 January	87.985	65.149
Past service cost	(25.874)	-
Current service cost	3.643	18.875
Interest cost	3.682	5.259
Actuarial changes arising from changes in financial assumption	15.897	1.411
Benefits paid	(6.114)	(2.709)
As at 31 December	79.219	87.985

Net benefit expense (recognised in profit or loss):

	2019 LAKm	2018 LAKm
Current service cost	3.643	18.875
Interest cost	3.682	5.259
	7.325	24.134

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

	2019 %	2018 %
Discount rate	4,68 - 6,11	5,00 - 8,47
Future salary increases	0,76	1,03
Employee turnover rate	0,00	0,00

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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32. OTHER LIABILITIES (continued)

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

	2019 LAKm	2018 LAKm
Discount rate		
increase 50 basis points	(6.175)	(7.301)
decrease 50 basis points	5.596	8.340
Future salary increase		
increase 50 basis points	(6.448)	(6.001)
decrease 50 basis points	5.874	5.517

33. CHARTER CAPITAL

There is no change in charter capital during the year 2019.

34. STATUTORY RESERVES

	<i>Regulatory reserve fund LAKm</i>	<i>Business expansion fund LAKm</i>	<i>Total LAKm</i>
As at 1 January 2019	130.507	310.367	440.874
Appropriation to reserves for the year 2018 from 2018 LAS profit of the Bank	41.218	123.655	164.873
Appropriation to reserves for the year 2018 from the 2018 LAS profit of the subsidiary	123	123	246
As at 31 December 2019	171.848	434.145	605.993

Under the requirement of the Law on Commercial Banks dated 7 December 2018, commercial banks are required to appropriate net profit to following reserves:

- ▶ Regulatory reserve fund
- ▶ Business expansion fund and other funds

In accordance with Article 156, Enterprise Law dated 26 December 2013, the Bank is required to appropriate 10% of profit after tax each year into Regulatory reserve fund. When this reserve fund reaches 50% of the registered capital, the Bank may suspend such provision, unless otherwise provided by the laws.

The Business expansion fund and other funds shall be created upon decision of the Board of Management.

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35. AVAILABLE-FOR-SALE RESERVE

	2019 LAKm	2018 LAKm
Opening balance	-	1.661
Change due to impairment of available-for-sale investments	-	(2.184)
Profit tax related to net loss on available-for-sale financial assets	-	523
	-	-

36. 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:

	31/12/2019 LAKm	31/12/2018 LAKm
Cash and cash equivalents on hand	2.050.101	1.643.245
Demand deposits with the BOL	5.752.408	2.396.173
Current accounts with other banks	3.921.892	2.700.974
Term deposits due within 90 days	-	464.040
	11.724.401	7.204.432

37. CONTINGENT LIABILITIES AND COMMITMENTS

	31/12/2019 LAKm	31/12/2018 LAKm
Financial letter of guarantees	400.347	255.094
At sight letters of credit	350.346	39.978
Deferred payment letters of credit	95.254	162.423
Credit limit given to customers	2.434.380	3.349.575
Credit limit given to other banks	548	548
	3.280.875	3.807.618

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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37. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

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.

38. 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:

	2019 LAKm	2018 LAKm
Salaries	1.589	1.557
Bonus	518	499
Responsibility allowance	988	1.000
Other benefits	48	1.001
	3.143	4.057

Significant transactions with other related parties during the year 2019 are as follows:

Related party	Note	Transactions	Income LAKm	Expense LAKm
Bank of the Lao PDR ("BOL")	(i)	Interest expense for borrowing from BOL	-	124.579
The Ministry of Finance of Lao PDR ("MOF")	(ii)	Interest income from investment in MOF's bonds	169.167	-

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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38. RELATED PARTY DISCLOSURES (continued)

<i>Related party</i>	<i>Note</i>	<i>Transactions</i>	<i>Increase LAKm</i>	<i>Decrease LAKm</i>
Bank of the Lao PDR	(i)	Net change in borrowings from the BOL	-	(238.204)
		Net change in deposits at BOL	3.356.235	-
		Net change in deposits from BOL	464	-
The Ministry of Finance of Lao PDR	(ii)	Net change in investment in MOF's bonds	-	(116.937)
Lao Viet Joint Venture Bank ("LVB")	(iii)	Net change in deposits at LVB	171.556	-
		Net change in deposits from LVB	878.005	-
Banque Franco – Lao Company Limited ("BFL")	(iii)	Net change in deposits at BFL	-	(9.965)
		Net change in deposits from BFL	3.144	-
Lao China Bank Co., Ltd ("LCNB")	(iii)	Net change in deposits at LCNB	13.792	-
(i) Direct controller				
(ii) Direct owner				
(iii) Joint venture				

Significant balances with related parties as at 31 December 2019 are as follows:

<i>Related party</i>	<i>Note</i>	<i>Transactions</i>	<i>Receivable LAKm</i>	<i>Payable LAKm</i>
The Bank of the Lao PDR	(i)	Borrowings and accrued interest from the BOL	-	1.825.039
		BCEL's demand deposits at BOL	5.752.407	6.810
		BCEL's compulsory deposits at BOL	1.399.542	-
The Ministry of Finance of the Lao PDR	(ii)	Investment in MOF's bonds	3.375.163	-
		Accrued interest	83.793	-
Lao Viet Joint Venture Bank	(iii)	Current accounts	1.195.623	1.072.822
Banque Franco – Lao Company Limited	(iii)	Current deposit	908	10.718
		Term deposit	-	10.642
Lao China Bank Co.Ltd	(iii)	Current accounts	-	19.379
(i) Direct controller				
(ii) Direct owner				
(iii) Joint venture				

39. 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.

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40. 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:

	31/12/2019 LAKm	31/12/2018 LAKm
Tier 1 capital	2.141.572	2.003.541
Tier 2 capital	-	-
Total capital	2.141.572	2.003.541
Less: Deductions from capital (Investments in other entities)	(494.666)	(462.296)
Capital for CAR calculation (A)	1.646.906	1.541.245
Risk weighted balance sheet items	13.377.776	11.984.241
Risk weighted off balance sheet items	1.595.547	1.880.710
Total risk weighted assets (B)	14.973.323	13.864.951
Capital Adequacy Ratio (A/B)	11,00%	11,12%

41. 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.

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42. 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.

	2019	2018
Profit after tax attributable to ordinary equity holders for basic earnings (LAKm)	359.734	320.732
Weighted average number of ordinary shares for basic earnings per share (shares)	207.723.300	207.723.300
Face value per share (LAK)	5.000	5.000
Earnings per share (LAK)	1.732	1.544

43. EVENTS AFTER THE REPORTING DATE

On 24 March 2020, Laos confirmed the first two cases of Covid-19. Since then, Laos Government has been implementing a number of measures to prevent and counter the spread of the disease into Laos. In early April 2020, more aggressive measures were taken to combat possible outbreaks including a nationwide social distancing of 15 days.

Although being one of the best-organised pandemic control countries, Laos is still hit hard by the outbreak due to the slowdown of almost all national industries.

Up to the date of the financial statements, the Bank is conducting assessment of the impact of Covid-19 on its operation as well as on the operations, cash flows and financial condition of its customers in order to implement restructuring loan repayments, waiving, reducing interest rates and fee for its customers. Significant increase in credit risk and other relevant information will be reflected in preparation of interim financial statements for six-month period ending 30 June 2020.

There is no other matter or circumstance that has arisen since 31 December 2019 that requires adjustment or disclosure in the consolidated financial statements of the Bank.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
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44. EXCHANGE RATES OF APPLICABLE FOREIGN CURRENCIES AGAINST LAK AT YEAR END

	31/12/ 2019 LAK	31/12/2018 LAK
USD	8.868,00	8.538,00
EUR	9.915,00	9.753,00
THB	298,59	265,48
GBP	11.474,00	10.702,00
JPY	79,95	75,80
AUD	6.104,00	5.966,00
CNY	1.263,00	1.229,00

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19 May 2020