

**Banque Franco - Lao Limited**



(in accordance with International Financial Reporting Standards)

**Financial statements**  
**31 December 2016**

# Banque Franco - Lao Limited

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# Banque Franco - Lao Limited

## THE BANK

Banque Franco - Lao Limited ("BFL" or "the Bank") is a joint-venture bank incorporated and registered in the Lao People's Democratic Republic ("Lao P.D.R"). The Bank was established by Cofibred - a company representing BRED Banque Populaire, a bank registered in France and located at No. 18 Quai de la Rapée, Paris, F-75012 France - and Banque Pour Le Commerce Extérieur Lao Public, a bank registered in Lao P.D.R and located at No. 01 Pangkham Street, Ban Xiengnyum, Chanthabouly District, Vientiane, Lao P.D.R ("BCEL").

The Bank was established under the Investment License Decision No. 121/09 dated 26 August 2009 issued by the Ministry of Planning and Investment which was then amended by Decision No. 124/10 dated 07 September 2010 issued by the same Ministry; and Decision No. 12/BOL dated 16 July 2010 issued by the Bank of Lao P.D.R ("the BOL").

The registered charter capital of the Bank is 300,000 million of KIP ("LAKm"). As at 31 December 2016, the actual paid-up capital of the Bank is LAKm 300,000 (31 December 2015: LAKm 300,000).

The principal activities of the Bank are to provide comprehensive banking and related financial services in Lao P.D.R.

The Head Office of the Bank is located at Lane Xang Avenue, HatsadyNeua Village, Chanthabuly District, P.O. BOX: 5720, Vientiane Capital, Lao P.D.R. As at 31 December 2016, the Bank has one (1) head office and eleven (11) service units in Vientiane Capital, two (2) service units in Champasack Province, two (2) service units in Savanakheth Province, one (1) service unit in Luangprabang Province, one (1) service unit in Sayabouly Province, one (1) service unit in Khammuan Province, one (1) service unit in Oudomxay Province and one (1) service unit in Bolikhamxay Province, (1) service unit in Vientiane Province (Vang Vieng).

## BOARD OF DIRECTORS

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

<i>Name</i>	<i>Position</i>	<i>Date of appointment/resignation</i>
Mr. Nanthalath Keopaseuth	Chairman	Appointed on 25 September 2015
Mr. Olivier Klein	Deputy chairman	Appointed on 28 February 2014
Mr. Guillaume Perdon	Managing Director	Appointed on 31 August 2009
Mr. Marc Robert	Member	Appointed on 4 April 2014
Mr. Xaythong Phomphithack	Member	Appointed on 17 July 2014
Mr. Sivath Sengdoangchanh	Member	Appointed on 31 August 2009
Mr. Bernard Ramanantsoa	Independent Director	Appointed on 14 January 2016

## AUDIT COMMITTEE

Members of the Audit Committee during the year and at the date of this report are as follows:

<i>Name</i>	<i>Position</i>	<i>Date of appointment/resignation</i>
Mr. Sivath Sengdoangchanh	Chairman	Appointed on 15 January 2010
Mr. Xaythong Phomphithack	Member	Appointed on 4 April 2014
Mr. Guillaume Perdon	Member	Appointed on 15 January 2010

# Banque Franco - Lao Limited

## BOARD OF MANAGEMENT

Members of the Board of Management during the year and at the date of this report are as follows:

<i>Name</i>	<i>Position</i>	<i>Date of appointment/resignation</i>
Mr. Guillaume Perdon	Managing Director	Appointed on 31 August 2009 Resigned on 15 October 2016
Mr David Parrot	Managing Director	Appointed on 15 October 2016
Mr. Somchanh Visisombath	Deputy Managing Director	Appointed on 07 March 2014
Mr. Bounmy Sengpachanh	Deputy Managing Director	Appointed on 07 March 2014
Mr Arnaud Caulier	Chief Financial Officer	Appointed on 15 October 2016
Ms. Annette Philaphandeth	Chief Financial Officer	Appointed on 17 August 2012 Resigned on 15 October 2016
Ms. Lungnapah Phapaseuth	Head of Credit	Appointed on 01 July 2015
Mr Kamal Benchabane	Chief Risk Officer	Appointed on 15 October 2016
Ms. Sirivone Phimmasone	Head of Back Office	Appointed on 01 July 2015

## LEGAL REPRESENTATIVE

The legal representative of the Bank during the year and at the date of this report is Mr. Guillaume Perdon – Managing Director.

## AUDITORS

The auditors of the Bank are PricewaterhouseCoopers (Lao) Sole Company Limited.



## **INDEPENDENT AUDITORS' REPORT**

*To: Shareholders and Board of Directors of Banque Franco-Lao Limited*

Report on the audit of the financial statements

### ***Our qualified opinion***

In our opinion, except for the effects of the matters described in and the incomplete disclosures of the information referred to in the basis for qualified opinion section of our report, the financial statements of Banque Franco-Lao Limited (the Bank) present fairly, in all material respects, the financial position of the Bank as at 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### ***What we have audited***

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2016
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

### ***Basis of qualified opinion***

The Bank has not applied *IAS 39 – Financial instruments: Recognition and measurement relating to 1) subsequent measurement on loans and advances and 2) measurement on impairment and uncollectibility of loans and advances* because the Bank is still in the process of developing a model for tracking and assessing loans and advances, for a more accurate measurement of outcomes. The Bank not applying *IAS 39* and developing its own model are departures from IFRSs in the following ways:

- The Bank has not measured the outstanding loans with front-end and collateral fees at amortised cost using the effective interest rate (EIR). Whereas, the related interest income was calculated on accrual basis using the nominal value instead of adjusted EIR. The loan amounts are LAK 557,225 million and LAK 326,973 million as at 31 December 2016 and 2015, respectively. The front end fees and collateral fees are LAK 3,751 million and LAK 4,951 million for the years then ended, respectively. The Bank measuring loans using the effective interest rate decreases the amount of amortised loans to customers and retained earnings in the statements of financial position as at 31 December 2016 and 2015 and decreases the fee and commission income and increases interest and similar income in the statements of profit or loss and other comprehensive income for the years then ended.
- The Bank is currently applying the 'credit loss model' where they follow the minimum provisioning for non-performing loans and advances per the requirement of Bank of Lao PDR's decision No. 324 dated 19 April 2011. The loans and advances and provision for loan losses are LAK 870,755 million and LAK 7,146 million as at 31 December 2016 and LAK 763,814 million and LAK 4,052 million as at 31 December 2015. Per *IAS 39*, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. The differences between the requirements of the Bank of Lao PDR and *IAS 39* impacts the related accounts such as loans and advances and retained earnings in the statements of financial position as at 31 December 2016 and 2015 and impairment loss accounts in the statements of profit or loss and other comprehensive income for the years then ended.



- The above departures also impact the current and deferred income tax accounts as at 31 December 2016 and 2015
- The above matters also impact cash flow from operations in the statements of cash flows for the years end 31 December 2016 and 2015.

The Bank has no available information to quantify the financial effects because it hasn't yet completed its model.

The Bank is unable to provide sufficient information for the financial instruments and fair value disclosures in Note 23 and 25 to the financial statements as required by IFRS 7 - Financial instruments: Disclosures and IFRS 13 - Fair value measurement. These notes are disclosures about financial risk management policies and fair value on financial assets and liabilities. Therefore, the financial statements do not adequately disclose these matters.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

### ***Independence***

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accounts' Code of Ethics for Professional Accountants (IESBA Code).

### ***Other matter***

The financial statements of the company for the year ended 31 December 2015 were audited by another firm of auditors whose report, dated 31 March 2016, expressed a qualified opinion on those statements, due to the limitation of information on the disclosures relating to fair value and financial risk management as required by IFRS 7: Financial instruments- Disclosures and IFRS 13: Fair value measurement.

The Bank has prepared a separate set of financial statements for the year ended 31 December 2016 in accordance with the regulation of Bank of Lao P.D.R. on which we issued a separate auditor's report to the shareholders' of Banque Franco-Lao Limited dated 6 April 2017.

### ***Responsibilities of management and those charged with governance for the financial statements***

Management is responsible for the preparation and presentation of the financial statements in accordance with accounting policies described in Note 2 to the financial statements, and for such internal control as director determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, director is responsible for assessing the Company'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 director either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.





### ***Auditor's responsibilities for the audit of the financial statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

*We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.*

For PricewaterhouseCoopers (Lao) Sole Company Limited



By : Lim Kuy  
Audit Partner

Vientiane, Lao PDR  
8 May 2017

# Banque Franco - Lao Limited

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 LAKm	2015 LAKm <i>Restated</i>
Interest and similar income	4	<b>79,097</b>	<b>64,876</b>
Interest and similar expense	5	(18,736)	(16,727)
<b>Net interest and similar income</b>		<b>60,361</b>	<b>48,149</b>
Provision for loan losses, net of reversal	12.2	(3,094)	(1,087)
<b>NET INTEREST AND SIMILAR INCOME AFTER PROVISION FOR LOAN LOSSES</b>		<b>57,267</b>	<b>47,062</b>
Fees and commission income	6	17,590	11,974
Fees and commission expense	6	(6,765)	(3,298)
<b>NET FEES AND COMMISSION INCOME</b>		<b>10,825</b>	<b>8,676</b>
Gain on foreign currency exchange, net		3,556	1,971
Other operating income		393	170
Personnel expenses	7	(17,469)	(15,680)
Depreciation and amortisation expenses	14,15	(9,950)	(10,103)
Other operating expenses	8	(31,397)	(25,734)
<b>PROFIT BEFORE TAX</b>		<b>13,225</b>	<b>6,362</b>
Income tax expense	20	(3,222)	(1,579)
<b>PROFIT FOR THE YEAR</b>		<b>10,003</b>	<b>4,783</b>
Other comprehensive income		-	-
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>10,003</b>	<b>4,783</b>

*The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.*

Prepared by:



Mr. Arnaud Caulier  
Chief Financial Officer

Approved by:



Mr. David Parrott  
Managing Director

Vientiane, Lao P.D.R

8 May 2017



# Banque Franco - Lao Limited

## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Notes	31 December 2016 LAKm	31 December 2015 LAKm Restated	1 January 2015 LAKm Restated
<b>ASSETS</b>				
Cash and balances with the BOL	9	278,500	298,550	252,987
Due from banks	10	144,378	139,903	304,990
Loans and advances, net	12	869,234	763,048	527,184
Financial investment - held-to-maturity	13	20,274	20,264	20,264
Property and equipment, net	14	30,993	32,565	35,855
Intangible assets, net	15	1,319	2,249	4,528
Other assets	16	48,253	63,073	43,612
<b>TOTAL ASSETS</b>		<b>1,392,951</b>	<b>1,319,652</b>	<b>1,189,420</b>
<b>LIABILITIES</b>				
Due to banks	17	231,082	415,101	324,863
Due to customers	18	671,778	567,368	560,222
Borrowings	19	163,438	-	-
Tax liability	20	1,093	1,000	443
Other liabilities	21	11,737	32,363	4,855
<b>TOTAL LIABILITIES</b>		<b>1,079,128</b>	<b>1,015,832</b>	<b>890,383</b>
<b>EQUITY</b>				
Paid up capital	22	300,000	300,000	300,000
Statutory reserves		1,462	462	-
Retained earnings		12,361	3,358	(963)
<b>TOTAL EQUITY</b>		<b>313,823</b>	<b>303,820</b>	<b>299,037</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1,392,951</b>	<b>1,319,652</b>	<b>1,189,420</b>

*The above statement of financial position should be read in conjunction with the note accompanying notes.*

Prepared by:



Mr. Arnaud Caulier  
Chief Financial Officer

Approved by:



Mr. David Parrott  
Managing Director

Vientiane, Lao P.D.R

8 May 2017

# Banque Franco - Lao Limited

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

	Paid-up capital LAKm	Regulatory reserve fund LAKm	(Accumulated losses)/ Retained earnings LAKm	Total LAKm
Balances as at 1 January 2015 (Restated)	300,000	-	(963)	299,037
Profit for the year (Restated)	-	-	4,783	4,783
Retentive reserve	-	462	(462)	-
Balances as at 31 December 2015 (Restated)	300,000	462	3,358	303,820
Profit for the year	-	-	10,003	10,003
Retentive reserve	-	1,000	(1,000)	-
Balances as at 31 December 2016	300,000	1,462	12,361	313,823

The above statement of changes in equity should be read in conjunction with the note accompanying notes.

Prepared by:

*Arnaud Caulier*

Arnaud Caulier  
Chief Financial Officer

Vientiane, Lao P.D.R

May 2017

Approved by:



Mr. David Parrott  
Managing Director

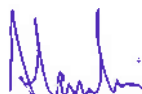
# Banque Franco - Lao Limited

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 LAKm	2015 LAKm (Restated)
<b>Profit before tax</b>	<b>13,225</b>	<b>6,362</b>
<i>Adjustments for:</i>		
Depreciation and amortisation charges	9,950	10,103
Provision for loan losses, net of reversal	3,094	1,087
Loss / (gain) on assets disposals	8	(85)
Interest from financial investment- Held-to-maturity	(900)	(900)
Interest from borrowings	440	-
Amortised borrowing costs	22	-
Unrealised gain on foreign exchange	(2,891)	-
<i>Change in operating assets and liabilities</i>		
(Increase) in loans and advances	(109,280)	(236,652)
Decrease / (increase) in other assets	14,820	(18,828)
(Decrease) / (increase) in due to banks	(184,019)	90,238
Increase in due to customers	104,410	7,146
(Decrease) / increase in other liabilities	(21,077)	27,971
<b>Cash flow from operations</b>	<b>(172,198)</b>	<b>(113,558)</b>
Profit tax paid during the year	(3,129)	(1,022)
<b>Net cash flows used in operating activities</b>	<b>(175,327)</b>	<b>(114,580)</b>
<b>INVESTING ACTIVITIES</b>		
Payments to acquire property and equipment	(5,995)	(3,958)
Payments to acquire intangibles	(1,461)	(1,498)
Proceeds from disposals of fixed assets	1	(388)
Compulsary deposit with BoL	(8,102)	-
Compulsary and term deposit	-	46,551
Interest from financial investment- Held-to-maturity	900	900
<b>Net cash flows used in investing activities</b>	<b>(14,657)</b>	<b>41,607</b>

The above statement of cash flows should be read in conjunction with the note accompanying notes.

Prepared by:



Mr. Arnaud Caulier  
Chief Financial Officer

Vientiane, Lao P.D.R

8 May 2017



Approved by:



Mr. David Parrott  
Managing Director

# Banque Franco - Lao Limited

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 LAKm	2015 LAKm (Restated)
<b>FINANCING ACTIVITIES</b>			
Proceed from borrowings –related party		163,580	-
Payment of borrowing costs		(164)	-
<b>Net cash flows from financing activities</b>		<b>163,416</b>	<b>-</b>
<b>Net change in cash and cash equivalents</b>		<b>(26,568)</b>	<b>(72,973)</b>
<b>Cash and cash equivalents at the beginning of</b>		<b>394,389</b>	<b>467,362</b>
<b>Effect of foreign exchange rates on cash and</b>		<b>2,891</b>	<b>-</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>11</b>	<b>370,712</b>	<b>394,389</b>

*The above statement of cash flows should be read in conjunction with the note accompanying notes.*

Prepared by:



Mr. Arnaud Caulier  
Chief Financial Officer

Vientiane, Lao P.D.R

8 May 2017

Approved by:



Mr. David Parrott  
Managing Director

# Banque Franco - Lao Limited

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2016

## 1. CORPORATE INFORMATION

Banque Franco – Lao Limited (BFL or the Bank) is a joint-venture bank incorporated and registered in the Lao People's Democratic Republic (Lao P.D.R). The Bank was established by the Cofibred - a company representing BRED Banque Populaire, a Bank registered in France and located at 18 quai de la Rapée, Paris, F-75012 France - and Banque Pour Le Commerce Extérieur Lao Public, a Bank registered in Lao P.D.R and located at 01 Pangkham Street, Ban Xiengnyum, Chanthabouly District, Vientiane, Lao P.D.R (BCEL).

### *Establishment and operations*

The Bank was established under the Investment License Decision No. 121/09 dated 26 August 2009 issued by the Ministry of Planning and Investment which was then amended by Decision No. 124/10 dated 7 September 2010 issued by the same Ministry; and Decision No. 12/BOL dated 16 July 2010 issued by the Bank of Lao P.D.R (the BOL).

The principal activities of the Bank are to provide comprehensive banking and related financial services in Lao P.D.R.

### *Paid-up capital*

The registered charter capital of the Bank is 300,000 million of KIP (LAKm).

### *Board of Directors*

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

Name	Position	Date of appointment/resignation
Mr. Nanthalath Keopaseuth	Chairman	Appointed on 25 September 2015
Mr. Olivier Klein	Deputy chairman	Appointed on 28 February 2014
Mr. Guillaume Perdon	Managing Director	Appointed on 31 August 2009
Mr. Marc Robert	Member	Appointed on 4 April 2014
Mr. Xaythong Phomphithack	Member	Appointed on 17 July 2014
Mr. Sivath Sengdoangchanh	Member	Appointed on 31 August 2009
Mr. Bernard Ramanantsoa	Independent Director	Appointed on 14 January 2016

### *Board of Management*

Members of the Board of Management during the year and at the date of this report are as follows:

Name	Position	Date of appointment/resignation
Mr. Guillaume Perdon	Managing Director	Appointed on 31 August 2009 Resigned on 15 October 2016
Mr David Parrot	Managing Director	Appointed on 15 October 2016
Mr. Somchanh Visisombath	Deputy Managing Director	Appointed on 07 March 2014
Mr. Bounmy Sengpachanh	Deputy Managing Director	Appointed on 07 March 2014
Mr Arnaud Caulier	Chief Financial Officer	Appointed on 15 October 2016
Ms. Annette Philaphandeth	Chief Financial Officer	Appointed on 17 August 2012 Resigned on 15 October 2016
Ms. Lungnapah Phapaseuth	Head of Credit	Appointed on 01 July 2015
Mr Kamal Benchabane	Chief Risk Officer	Appointed on 15 October 2016
Ms. Sirivone Phimmasone	Head of Back Office	Appointed on 01 July 2015

# Banque Franco - Lao Limited

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016

### 1. CORPORATE INFORMATION (continued)

The Head Office of the Bank is located at Lane Xang Avenue, HatsadyNeua Village, Chanthabuly District, P.O. BOX: 5720, Vientiane Capital, Lao P.D.R. As at 31 December 2016, the Bank has one (1) head office and eleven (11) service units in Vientiane Capital, two (2) service units in Champasack Province, two (2) service units in Savanakheth Province, one (1) service unit in Luangprabang Province, one (1) service unit in Sayyabouly Province, one (1) service unit in Khammuan Province, one (1) service unit in Oudomxay Province and one (1) service unit in Bolikhamxay Province, (1) service unit in Vientiane Province (Vang Vieng).

BoL's regulation number 338 dated 13 September 2012 requires banks in Lao PDR to prepare a separated set of financial statements in accordance with International Financial Reporting Standards. Apart from this set, the Bank has prepared the financial statements in accordance with regulations of the Bank of Lao PDR. Therefore, the Bank has 2 financial statements as the follows:

- i) In accordance with regulations of the Bank of Lao PDR and the Bank's principal accounting policies (Lao Practice)
- ii) In accordance with International Financial Reporting Standards (IFRS Practice).

The Bank's financial reporting period starts on 1 January and ends on 31 December.

The Bank's management approved the financial statements for issuance on 8 May 2017.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the Bank's financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### 2.1 Basis of preparation

- (i) **Compliance with IFRS**  
The financial statements of Banque Franco- Lao Limited (the Bank) have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretation issued by the IFRS Interpretation Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).
- (ii) **Presentation and historical convention**  
The financial statements have been prepared on a historical basis. The Bank presents its statement of financial position in order of liquidity. Where indicated, amounts in the financial statements have been rounded off to the nearest million LAK.
- (iii) **New and amended standards**

The Bank has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2016:

- IAS 1 - Disclosure initiative
- IAS16 and IAS 38 - Clarification of acceptable methods of depreciation and amortisation



# Banque Franco - Lao Limited

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.1 Basis of preparation (continued)

The adoption of this amendment did not have any impact on the current period or any prior period and is not likely to affect future periods.

##### New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2016 reporting periods and have not been early adopted by the Bank. The Bank's assessment of the impact of these new standards and interpretations is set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

There will be no impact on the Bank's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Bank does not have any such liabilities. The derecognition rules have been transferred from IAS 39 'Financial instruments; Recognition and Measurement' and have not been changed.

As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. Accordingly, the Bank does not expect a significant impact on the accounting for its hedging relationships.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income (FVOCI), contract assets under IFRS 15 'Revenue from guarantee contracts'. While the Bank has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

The new standard also introduces expand disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Bank's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 15, 'Revenue from contracts with customers', will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption

IFRS 16, 'Leases', was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly changes.

##### Annual improvement 2014-2016 was published in December 2016

IFRIC 22, "Foreign currency transactions and advance consideration" published in December 2016.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

# Banque Franco - Lao Limited

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2016

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

### **2.2 Significant accounting judgments, estimates and assumptions**

The preparation of the Bank's financial statements requires management to make judgments, 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.

The key 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, are described below. The Bank based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

#### **2.2.1 Provision for loan losses**

The Bank reviews the outstanding loans at each reporting date to assess whether a provision for loan losses should be recorded in the statement of profit or loss and other comprehensive income. Refer to Note 2.4.3 for the details of the policy.

#### **2.2.2. Taxation**

The taxation system in the Lao PDR is relatively new and is characterised by numerous taxes and frequently changing legislation and can be subject to interpretations. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose fines, penalties and interest charges. These facts may create tax risks in Lao PDR substantially more significant than in other countries. The relevant authorities may have differing interpretations and the effects could be significant. However, management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation.

## **2.3 Foreign currency translation**

### **2.3.1 Functional and presentation currency**

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates (the functional currency). The financial statements are presented in Lao Kip (LAK), which is the bank functional and reporting currency.

### **2.3.2 Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of transactions. Foreign exchange gains and losses resulting from settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates (see list of exchange rates of applicable foreign currencies against LAK as 31 December 2016 as presented are generally recognised in statement of profit or loss and other comprehensive income . All foreign exchange gains and losses are presented on a net basis within other income or other expenses.

# Banque Franco - Lao Limited

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.4 Financial assets and liabilities

##### 2.4.1 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.

##### *Financial assets*

###### (a) Loans and receivables

Loans and receivables are reported in the Bank's statements of financial position as cash and cash balances with Bank of Lao PDR (refer to Note 2.5 for the accounting policy), amounts due from banks, and loans and advances.

Loan and advances comprise of three types of loans (1) loan without front-end and collateral fees, (2) loan with front-end and collateral fees, and overdraft.

Due from banks and loan and advances are non-derivative financial assets with fixed or determinable payments that not quoted in an active market.

Loans receivables are initially recognised at fair value (except for the the loan with front-end and collateral fees), which is the cash consideration to originate or purchase the loan and measured subsequently at amortised cost using the effective interest rate (EIR) method.

Loan with front-end and collateral fees are initially recognised at the principal value of the loans received by customer. The related incremental costs are directly recognised as fee commission income in the statement of profit or loss and other comprehensive income. This type of loan is subsequently measured at amortised cost using its contractual lending rate, less any repayments, provisions plus accrued interest.

Amortised cost is the amount at which the financial assets was recognised at initial recognition less any principal repayments, and less any write-down for incurred impairment losses. Accrued interest income is not presented separately and is included in the carrying value of the loan and advances, net in the statement of financial position.

Interest on loans is reported as *interest and similar income*, whilst, the provision for loan losses is reported as a deduction from the carrying value of the loan and recognised in the statement of profit or loss and other comprehensive income as *provision for loan losses*.

###### b) Held -to-maturity financial assets

Held-to-maturity investments is consist only of the non-derivative financial assets with fixed or determinable payments and fixed maturities held with Bank of Lao, PDR. The Bank's management has the positive intention and ability to hold to maturity.

These are initially recognised at fair value including direct and incremental transaction costs and measure subsequently at amortised cost, using the effective interest method plus accrued interest.

##### *Financial liabilities*

Financial liabilities that are not classified as at fair value through profit or loss are measured at amortised costs. Financial liabilities that measured at amortised cost are Due to banks, and Due to customers, and other liabilities.

# Banque Franco - Lao Limited

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2016

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.4 *Financial assets and liabilities (continued)*

#### 2.4.2 Derecognition

##### *Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired;
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and 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.

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 recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises 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.

##### *Financial liabilities*

A financial liability is derecognised 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 recognised in profit or loss.

#### 2.4.3 Impairment of financial assets

The Bank assesses at each reporting date, whether there is any evidence that a financial asset or a group of financial assets is impaired.

Loans and advances together with the associated provisions for loan losses are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the provision for loan losses account. If a future write-off is later recovered, the recovery is credited to the Provision for loan losses.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system, that considers credit risk characteristics such as asset type, past-due status and other relevant factors and in accordance with regulation No. 324/BOL ("BOL 324") dated 19 April 2011, the Bank classifies its loans into performing and non-performing loans and set provision for loan losses. Accordingly, the Bank set provisions for those that are classified as non-performing loans as disclosed in Note 23.1.

Provision for non-performing loans are recorded to the statement of profit or losses and other comprehensive income as "provision for loan losses" and/or "reversal of provision for loan losses from non-performing loans. Accumulated provision for loan losses are recorded in the statement of financial position as contra-asset account against "loans and advances".



# Banque Franco - Lao Limited

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2016

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.4 *Financial assets and liabilities (continued)*

#### 2.4.4 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised 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 statement of financial position.

### 2.5 *Cash and cash equivalents*

Cash and cash equivalents comprises cash on hand, current account with the Bank of Lao P.D.R (the BOL) and amounts due from banks on demand or with an original maturity of three months or less.

### 2.6 *Property and equipment*

Property and equipment (including equipment under operating leases where the Bank is the lessor) is stated at historical cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Historical cost includes expenditures that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, only when it is probable that future economics benefits associated with the item will flow to the Bank and the cost of item can be measured reliably.

The carrying amount of any component accounted as separate assets is derecognized when replaced. All other repairs and maintenance are charge to profit or loss during the period in which those are incurred.

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	10%
Office equipment	20%
Furniture and fixtures	10%
Motor vehicles	20%

The assets residual value and useful lives are revised, and adjusted if appropriate, at the end of each reporting period.

Changes in the expected useful life are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

The asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Property and equipment are derecognised on disposal or when no future economic benefits are expected from its use. Gains or losses on disposals are determine by comparing the proceeds with the carrying amount. These are recognised in Other operating income or expenses in the statement of profit of loss and other comprehensive income.

# Banque Franco - Lao Limited

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.7 Intangible assets

The Bank's intangible assets comprise the value of computer software.

An intangible asset is recognised 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.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Development costs that are directly associated with identifiable and unique software controlled by the Bank are recorded as intangible assets if the inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation 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 amortised over the useful economic life. The amortisation period and the amortisation 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 amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss and other comprehensive income in the expense category consistent with the function of the intangible asset.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives. The following is annual rate used:

► Computer software	50%
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#### 2.8 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 recognised 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 recognised 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 recognised.



# Banque Franco - Lao Limited

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2016

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.8 *Impairment of non-financial assets (continued)*

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 recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss and other comprehensive income.

### 2.9 *Financial guarantees*

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the 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 recognised less cumulative amortisation recognised in the statement of profit or loss and other comprehensive income, 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 statement of profit or loss and other comprehensive income in 'Credit loss expense'. The premium received is recognised in the statement of profit or loss and other comprehensive income in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

### 2.10 *Borrowings*

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

### 2.11 *Borrowing cost*

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. Other borrowing costs are expensed in the period in which they are incurred.

# Banque Franco - Lao Limited

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2016

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.12 Provisions for contingent liabilities

Provisions for contingent liabilities are recognised 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. The expense relating to any provision is presented in the statement of profit or loss and other comprehensive income net of any reimbursement.

#### 2.13 Recognition of income and expense

Revenue is recognised 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 recognised:

##### 2.13.1 Interest and similar income and expense

For all financial instruments measured at amortised cost, (except for those interest income from loans with associated incremental cost as disclosed in note 2.4.1, whereas, the interest income is accrued using the contractual lending rates), interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the contractual lending rates and the change in carrying amount is recorded as 'interest and similar income'.

However, for a reclassified financial asset for which 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 has not been recognised as an adjustment to the EIR from the date of the change in estimate, rather the original EIR rate has been used.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the contractual lending rates.

##### 2.13.2 Fees and commission income

The Bank earns fees and commission income from a diverse range of services it provides to its customers.

###### *Fee income from providing transaction services*

Fee and commission income consists of fees received for fund transfer (including trade settlement), fees arising for foreign currency exchange transactions, fees arising from financial guarantees, loan approval, loan collateral, settlement, renegotiation, and penalty charges to customers.

Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

#### 2.14 Income tax

Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the period.

# Banque Franco - Lao Limited

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2016

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.14 *Income tax (continued)*

except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within administrative and other operating expenses.

### 2.15 *Employee benefits*

#### Short-term obligations

Liabilities for wages and salaries expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employee's services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The short-term employee benefit obligations are presented as payables.

#### Post employment and termination benefits

Post employment benefits are paid to retired employees of the Bank by the Social Security Fund Department which belongs to the Ministry of Labor and Social Welfare of Government of Lao P.D.R. The Bank is required to contribute to these post employment benefits by paying social insurance premium to the Social Insurance Agency at the rate of 5.00% of employee's basic salary on a monthly basis. The Bank has assessed to have no further material obligation concerning post employment benefits for its employees other than this.

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 10.00% of the basic monthly salary earned before the termination of work. As at 31 December 2016, there is no employee of the Bank who was dismissed under the above-mentioned grounds; therefore the Bank has not made a provision for termination allowance in the financial statements.

### 2.16 *Operating lease - for lessee*

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Bank as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to make to the lessor by way of penalty is recognised as expense in the period in which termination takes place

## CORRECTION OF PRIOR PERIOD ERROR

The Bank has restated balances as at 31 December 2015 and 2014 to correct prior year reporting errors. The impact of these errors are summarised below:

- (1) The Company adjusted the general provision set up for normal loans for 2015 that was not reversed amounting to LAKm 1,196.
- (2) The Company reclassified the presentation of current tax liability to other liabilities amounting to LAKm 180 and LAKm 136, as at 31 December 2015 and 2014, respectively.
- (3) The Company adjusted the effect of deferred front end fees related to the calculated adjusted EIR of the loans amounting to LAKm 463.
- (4) The Company adjusted the unrecorded interest income related to non performing income for the 2015 and 2014 amounting to, LAKm 351 and LAKm 411 respectively.

Statement of financial position (extract)	31-Dec-15 LAKm (Original)	Adjustment LAKm	31-Dec-15 LAKm (Restated)	01-Jan-15 LAKm (Original)	Adjustment LAKm	01-Jan-15 LAKm (Restated)
Loans and advances to customers, net	762,315	733	763,048	527,184	-	527,184
<b>Total assets</b>	<b>1,318,919</b>	<b>733</b>	<b>1,319,652</b>	<b>1,189,420</b>	<b>-</b>	<b>1,189,420</b>
Tax liability	1,029	(29)	1,000	481	(38)	443
Other liabilities	32,081	282	32,363	5,130	(275)	4,855
<b>Total liabilities</b>	<b>1,015,579</b>	<b>253</b>	<b>1,015,832</b>	<b>890,696</b>	<b>(313)</b>	<b>890,383</b>
Retained earnings	2,878	480	3,358	(1,276)	313	(963)
<b>Total capital</b>	<b>303,340</b>	<b>480</b>	<b>303,820</b>	<b>298,724</b>	<b>313</b>	<b>299,037</b>
<b>Statement of profit or loss and other comprehensive income (extract)</b>						
Interest and similar income	64,525	351	64,876	56,029	411	56,440
Fees and commission income	12,437	(463)	11,974	9,524	-	9,524
Provision for loan losses	(2,283)	1,196	1,087	150	-	150
Other operating expenses	(24,871)	(863)	(25,734)	(23,204)	-	(23,204)
Income tax expense	(1,526)	(53)	(1,579)	(425)	(98)	(523)
<b>Net income</b>	<b>4,616</b>	<b>167</b>	<b>4,783</b>	<b>4,290</b>	<b>313</b>	<b>4,603</b>



**CORRECTION OF PRIOR PERIOD ERROR (continued)**

	31-Dec-15 LAKm (Original)	Adjustment LAKm	31-Dec-15 LAKm (Restated)	01-Jan-15 LAKm (Original)	Adjustment LAKm	01-Jan-15 LAKm (Restated)
Correction of cash flows (except						
Income tax	6,142	220	6,362	4,715	411	5,126
Provision for loan losses	2,283	(1,196)	1,087	-	-	-
Interest from financial investment- Held-to-maturity	-	(900)	(900)	-	-	-
Increase in due from banks	36,551	(36,551)	-	83,351	(83,351)	-
Increase in loans and advances	(237,414)	762	(236,652)	-	-	-
Increase in other assets	(18,066)	(762)	(18,828)	-	-	-
Increase in other liabilities	26,995	976	27,971	618	(411)	207
Change in financial investment held-to maturity	-	-	-	210,117	(210,117)	-
<b>Cash flows from operating activities</b>	<b>(77,129)</b>	<b>(37,451)</b>	<b>(114,580)</b>	<b>289,932</b>	<b>(293,468)</b>	<b>(3,536)</b>
Payments to acquire property and equipment	-	(3,958)	(3,958)	-	(5,779)	(5,779)
Payments to acquire intangibles	-	(1,498)	(1,498)	-	(3,233)	(3,233)
Proceeds from disposals of fixed assets	-	(388)	(388)	-	455	455
Pulsary deposit with BoL	-	-	-	-	-	-
Pulsary and term deposit with the banks	-	46,551	46,551	-	73,351	73,351
Interest from financial investment- Held-to-maturity	-	900	900	-	-	-
Proceeds from financial investment- Held-to-maturity	-	-	-	-	210,117	210,117
<b>Cash flows from investing activities</b>	<b>-</b>	<b>(41,607)</b>	<b>(41,607)</b>	<b>-</b>	<b>274,911</b>	<b>274,911</b>
Payments to acquire property and equipment	(3,958)	3,958	-	(5,676)	5,676	-
Payments for construction in progress	(1,498)	1,498	-	(103)	103	-
Payments to acquire intangibles	-	-	-	(3,233)	3,233	-
Proceeds from disposals of fixed assets	(388)	388	-	455	(455)	-
<b>Cash flows from financing activities</b>	<b>(5,844)</b>	<b>5,844</b>	<b>-</b>	<b>(8,557)</b>	<b>8,557</b>	<b>-</b>
<b>Change in cash and cash equivalents</b>	<b>(82,973)</b>	<b>10,000</b>	<b>(72,973)</b>	<b>281,375</b>	<b>(10,000)</b>	<b>271,375</b>
<b>and cash equivalents at the beginning of the</b>	<b>477,362</b>	<b>(10,000)</b>	<b>467,362</b>	<b>195,987</b>	<b>-</b>	<b>195,987</b>
<b>and cash equivalents at the end of the year</b>	<b>394,389</b>	<b>-</b>	<b>394,389</b>	<b>477,362</b>	<b>(10,000)</b>	<b>467,362</b>

# Banque Franco - Lao Limited

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2016

## 4. INTEREST AND SIMILAR INCOME

	2016 LAKm	2015 LAKm
Interest income from deposits at other banks	15	1,817
Interest income from lending to customers	78,172	62,168
Interest income from bonds issued by the MoF	910	891
	<b>79,097</b>	<b>64,876</b>

## 5. INTEREST AND SIMILAR EXPENSE

	2016 LAKm	2015 LAKm
Interest expense for due to other banks	4,546	2,691
Interest expense for customer deposits	14,190	14,036
	<b>18,736</b>	<b>16,727</b>

## 6. NET FEES AND COMMISSION INCOME

	2016 LAKm	2015 LAKm
<b>Fees and commission income from:</b>		
Settlement services	5,768	4,405
Guarantee activities	1,067	544
Treasury activities	6,636	4,498
Fee for assistance and advisory activities	3,989	2,391
Other activities	130	136
	<b>17,590</b>	<b>11,974</b>
<b>Fees and commission expense for:</b>		
Settlement services	(5,613)	(2,941)
Other activities	(1,152)	(357)
	<b>(6,765)</b>	<b>(3,298)</b>
<b>Net fees and commission income</b>	<b>10,825</b>	<b>8,676</b>

## 7. PERSONNEL EXPENSES

	2016 LAKm	2015 LAKm
Wages and salaries	16,632	15,100
Social security expenses	447	412
Others	390	168
	<b>17,469</b>	<b>15,680</b>



# Banque Franco - Lao Limited

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2016

## 8. OTHER OPERATING EXPENSES

	2016 LAKm	2015 LAKm
Business trip	409	233
External services	12,782	9,606
Fuel	249	304
Office stationery	2,215	2,064
Electricity and water	858	822
Telecommunication	1,744	1,534
Publication, marketing, and promotion	2,079	1,523
General and administration expenses	994	800
Repair and maintenance	1,488	1,278
Tools and equipment	22	8
Insurance fees	810	762
Office rental	5,073	4,790
Expenses on welcoming guests	266	284
Others	2,408	1,726
	<b>31,397</b>	<b>25,734</b>

## 9. CASH AND BALANCES WITH THE BANK OF LAO P.D.R (BOL)

	31 December 2016 LAKm	31 December 2015 LAKm
Cash on hand in LAK*	36,649	52,995
Cash on hand in foreign currencies (FC)*	18,429	23,316
	<b>55,078</b>	<b>76,311</b>
Balances with the BOL		
- Demand deposit*	171,256	178,175
- Compulsory deposits	52,166	44,064
	<b>223,422</b>	<b>222,239</b>
	<b>278,500</b>	<b>298,550</b>

\* These balances are included in Note 11 – Cash and cash equivalents

Balances with the BOL include demand and compulsory deposits in compliance with the requirements of the BOL. These balances earn no interest.

Under regulations of the BOL, the Bank is required to maintain certain cash reserves with the BOL in the form of compulsory deposits, which are computed at 5.00% for LAK and 10.00% for USD and THB, on a bi-monthly basis, (2015: 5.00% and 10.00%) of customer deposits having original maturities of less than 12 months.

During the year 2016, the Bank maintained its compulsory deposits in compliance with the requirements of the BOL.

# Banque Franco - Lao Limited

NOTES TO THE FINANCIAL STATEMENTS  
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## 10. DUE FROM BANKS

	31 December 2016 LAKm	31 December 2015 LAKm
<b>Demand deposits at domestic banks</b>	<b>27,849</b>	<b>28,220</b>
Banque Pour Le Commerce Extérieur Lao Public	27,849	28,220
<b>Demand deposits at overseas banks</b>	<b>110,479</b>	<b>70,981</b>
National Australia Bank	675	1,116
ING Belgium S.A	10,936	7,177
UBI	833	-
Commerz Bank	-	6,090
Standard Chartered Bank	10,970	146
Bred Banque Populaire	86,600	56,233
Bangkok Bank Public Company Limited	465	219
<b>Saving deposits at domestic banks</b>	<b>1,495</b>	<b>36,445</b>
Banque Pour Le Commerce Extérieur Lao Public	1,495	36,445
<b>Saving deposits at overseas banks</b>	<b>4,555</b>	<b>4,257</b>
Thanachart Bank Public Company Limited	4,555	4,257
Included in Note 11 Cash and cash equivalents	<b>144,378</b>	<b>139,903</b>

## 11. CASH AND CASH EQUIVALENTS

	31 December 2016 LAKm	31 December 2015 LAKm
Cash on hand (Note 9)	55,078	76,311
Demand deposit at the BOL (Note 9)	171,256	178,175
Demand deposits at other banks (Note 10)	144,378	139,903
	<b>370,712</b>	<b>394,389</b>

## 12. LOANS AND ADVANCES, NET

	31 December 2016 LAKm	31 December 2015 LAKm (Restated)
Commercial loans (Type 1)	256,695	333,622
Commercial loans (Type 2)	557,225	326,973
Overdraft	56,835	103,219
Accrued interest	5,625	3,286
Less: Provision for loan losses (Note 12.2)	(7,146)	(4,052)
	<b>869,234</b>	<b>763,048</b>

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

	2016 Interest rates % per annum	2015 Interest rates % per annum
Loans in LAK	7.00% - 18.00%	7.00% - 18.00%
Loans in USD	5.65% - 19.24%	5.65% - 19.24%
Loans in THB	6.00% - 14.00%	6.00% - 14.00%
Loans in EUR	7.00% - 13.00%	7.00% - 13.00%

# Banque Franco - Lao Limited

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2016

## 12. LOANS TO ADVANCES, NET (continued)

### 12.1 Analysis of loan portfolio by currency:

	31 December 2016 LAKm	31 December 2015 LAKm
Loans in LAK	170,939	99,539
Loans in USD	652,458	621,734
Loans in THB	45,258	38,099
Loans in EUR	2,100	4,442
<b>Total of commercial loans</b>	<b>870,755</b>	<b>763,814</b>

### 12.2 Changes in provision for loan losses are as follow:

	2016 LAKm	2015 LAKm
Balance as at 1 January	4,052	2,965
Provisions for loan losses during the year	6,260	21,935
Recoveries for loan losses during the year	(3,166)	(20,848)
<b>Balance as at 31 December</b>	<b>7,146</b>	<b>4,052</b>

## 13. FINANCIAL INVESTMENT - HELD-TO-MATURITY

	2016 LAKm	2015 LAKm
Investment bonds	20,274	20,264
<b>Balance as at 31 December</b>	<b>20,274</b>	<b>20,264</b>
<i>Changes in financial investment- held-to-maturity</i>		
	2016 LAKm	2015 LAKm
Balance as at 1 January	20,264	20,000
Accrued interest	10	264
<b>Balance as at 31 December</b>	<b>20,274</b>	<b>20,264</b>

As at 31 December 2016, the Bank holds bonds issued by the Ministry of Finance with the details as follows:

Term	Issue date	Maturity date	Face value LAKm	Amortised cost LAKm	Interest rate per annum (%)
1 year	23-Sep-16	23-Sep-17	20,000	20,274	5.00%

As at 31 December 2015, the Bank holds bonds issued by the Ministry of Finance with the details as follows:

Term	Issue date	Maturity date	Face value LAKm	Amortised cost LAKm	Interest rate per annum (%)
1 year	16-Sep-15	16-Sep-16	20,000	20,264	4.5%

# Banque Franco - Lao Limited

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2016

## 14. PROPERTY AND EQUIPMENT, NET

Movements of property and equipment for the year ended 31 December 2016 are as follows:

	<i>Buildings &amp; improvements LAKm</i>	<i>Office equipment LAKm</i>	<i>Furniture &amp; fixtures LAKm</i>	<i>Motor vehicles LAKm</i>	<i>Construction in progress LAKm</i>	<i>Total LAKm</i>
<b>Cost:</b>						
At 1 January 2016	26,896	25,194	2,808	4,235	-	59,133
Transferred from CIP	-	-	-	-	-	-
Additions	1,239	3,942	85	385	343	5,994
Disposal	-	(5)	(22)	-	-	(27)
At 31 December 2016	28,135	29,131	2,871	4,620	343	65,100
<b>Accumulated depreciation:</b>						
At 1 January 2016	8,018	15,451	1,120	1,979	-	25,568
Charge for the year	1,760	4,631	299	869	-	7,559
Disposal	-	(3)	(17)	-	-	(20)
At 31 December 2016	9,778	20,079	1,402	2,848	-	34,107
<b>Net book value:</b>						
At 1 January 2016	18,878	9,743	1,688	2,256	-	32,565
At 31 December 2016	18,357	9,052	1,469	1,772	343	30,993

Movements of property and equipment for the year ended 31 December 2015 are as follows:

	<i>Buildings &amp; improvements LAKm</i>	<i>Office equipment LAKm</i>	<i>Furniture &amp; fixtures LAKm</i>	<i>Motor vehicles LAKm</i>	<i>Construction in progress LAKm</i>	<i>Total LAKm</i>
<b>Cost:</b>						
At 1 January 2015	25,302	22,810	2,736	4,278	-	55,126
Transferred from CIP	95	8	-	-	-	103
Additions	1,499	2,376	72	217	-	4,164
Disposal	-	-	-	(260)	-	(260)
At 31 December 2015	26,896	25,194	2,808	4,235	-	59,133
<b>Accumulated depreciation:</b>						
At 1 January 2015	6,412	10,756	833	1,270	-	19,271
Charge for the year	1,606	4,695	287	848	-	7,436
Disposal	-	-	-	(139)	-	(139)
At 31 December 2015	8,018	15,451	1,120	1,979	-	26,568
<b>Net book value:</b>						
At 1 January 2015	18,890	12,054	1,903	3,008	-	35,855
At 31 December 2015	18,878	9,743	1,688	2,256	-	32,565

# Banque Franco - Lao Limited

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2016

## 15. INTANGIBLE ASSETS, NET

Movement of intangible fixed assets for the year ended 31 December 2016 are as follows:

	<i>Computer software 31 December 2016 LAKm</i>	<i>Work in progress Software LAKm</i>	<i>31 December 2016 LAKm</i>
<b>Cost:</b>			
At 1 January 2016	8,303	-	8,303
Additions	671	790	1,461
At 31 December 2016	8,974	790	9,764
<b>Accumulated amortisation:</b>			
At 1 January 2016	6,054	-	6,054
Amortise for the year	2,391	-	2,391
At 31 December 2016	8,445	-	8,445
<b>Net book value:</b>			
At 1 January 2016	2,249	-	2,249
At 31 December 2016	529	790	1,319

Movement of intangible fixed assets for the year ended 31 December 2015 are as follows:

	<i>Computer software 31 December 2016 LAKm</i>	<i>Work in progress Software LAKm</i>	<i>31 December 2015 LAKm</i>
<b>Cost:</b>			
At 1 January 2015	7,915	-	7,915
Additions	388	-	388
At 31 December 2015	8,303	-	8,303
<b>Accumulated amortisation:</b>			
At 1 January 2015	3,387	-	3,387
Amortise for the year	2,667	-	2,667
At 31 December 2015	6,054	-	6,054
<b>Net book value:</b>			
At 1 January 2015	4,528	-	4,528
At 31 December 2015	2,249	-	2,249

# Banque Franco - Lao Limited

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016

### 16. OTHER ASSETS

	31 December 2016	31 December 2015
	LAKm	LAKm
Cheques in collection	343	561
Security deposits	554	441
Prepayments	17,944	21,715
Payments made on behalf of Bred	471	5,865
Others (*)	28,941	34,491
	<b>48,253</b>	<b>63,073</b>

(\*) Included in "Others" as at 31 December 2016 is LAKm 25,485 (31 December 2015: LAKm 32,814 ) being the Point on Sale (POS) transactions awaiting for settlement from VISA, Master cards.

### 17. DUE TO BANKS

	31 December 2016	31 December 2015
	LAKm	LAKm
<b>Demand deposits - other banks</b>	<b>131,749</b>	<b>79,559</b>
Lao China Bank	117,717	66,966
Deutsch Bank	9,424	11,235
Standard Charter Bank	-	1,358
Bred Vanuatu Limited	4,608	-
<b>Term deposits - other banks</b>	<b>97,372</b>	<b>90,555</b>
Banque Pour Le Commerce Extérieur Lao Public	8,201	7,824
First Commercial Bank	40,895	-
Lao China Bank	4,000	40,000
Bred Vanuatu Limited	44,276	42,731
<b>Overdrafts</b>	<b>-</b>	<b>238,401</b>
Bred Banque Populaire	-	238,401
<b>Other payables to other banks</b>	<b>576</b>	<b>5,536</b>
<b>Accrued interest</b>	<b>1,385</b>	<b>1,050</b>
	<b>231,082</b>	<b>415,101</b>

Term deposit with	Currency	Term	Interest Rate
Banque Pour Le Commerce Extérieur Lao Public	THB	12 months	2%
First Commercial bank	LAK	12 months	4.27%
Lao China Bank is denominated	USD	6 months	3.55%
Bred Vanuatu Limited	USD	3,6,12 months	1.4%, 1.9% - 2.20%



# Banque Franco - Lao Limited

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2016

## 18. DUE TO CUSTOMERS

	31 December 2016	31 December 2015
	LAKm	LAKm
<b>Demand deposits</b>	<b>279,169</b>	<b>246,847</b>
In LAK	48,500	41,281
In foreign currencies	230,669	205,566
<b>Saving deposits</b>	<b>129,562</b>	<b>112,148</b>
In LAK	17,069	11,571
In foreign currencies	112,492	100,577
<b>Term deposits</b>	<b>257,139</b>	<b>186,948</b>
In LAK	15,353	10,366
In foreign currencies	241,787	176,582
<b>Other payables to customers</b>	<b>609</b>	<b>17,506</b>
In LAK	243	1,096
In foreign currencies	366	16,410
<b>Accrued interest</b>	<b>5,299</b>	<b>3,919</b>
	<b>671,778</b>	<b>567,368</b>

The interest rates for amount due to customers at the reporting date are as follows:

	2016 Interest rate % per annum	2015 Interest rate % per annum
Saving deposits in LAK	1.91%	1.96%
Saving deposits in USD	1.25% - 1.75%	1.25% - 1.75%
Saving deposits in THB	1.25% - 1.75%	1.25% - 1.75%
Saving deposits in EUR	0.50% - 1.00%	0.50% - 1.00%
Term deposits in LAK	3.34% - 8.00%	3.34% - 8.00%
Term deposits in foreign currencies	1.10% - 5.00%	1.10% - 5.00%

## 19. BORROWING

	31 December 2016	31 December 2015
	LAKm	LAKm
Borrowing from related party	163,438	-
	<b>163,438</b>	<b>-</b>

As at 31 December 2016, the borrowing from Bred Banque Populaire is denominated in USD and bears interest at floating rate, which is computed at 6-month LIBOR rate plus 1.8% per annum (31 December 2015: nil).

# Banque Franco - Lao Limited

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016

### 20. INCOME TAX

Provision is made for income tax on the current year's profits, based on the Tax Law governing taxation within Lao P.D.R. The Bank is obliged to pay income tax at a rate of 24% of total profit before tax in accordance with the Tax Law No.05 dated 20 December 2011 which was effective on or after 1 January 2013.

The Bank's tax returns are subject to periodic 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 financial statements could be changed at a later date upon final determination by the tax authorities.

	2016 LAKm	2015 LAKm (Restated)
Profit before tax for the year	13,225	6,362
Non - deductible expenses	199	216
Taxable profit	13,424	6,578
<b>Income tax expense, at the statutory rate of 24%</b>	<b>3,222</b>	<b>1,579</b>

#### Numerical reconciliation of income tax expense to tax liability

	2016 LAKm	2015 LAKm (Restated)
Tax liability at the beginning of the year	1,000	443
Income tax expense	3,222	1,579
Profit tax paid during the year	(3,129)	(1,022)
<b>Tax liability at the end of the year</b>	<b>1,093</b>	<b>1,000</b>

### 21. OTHER LIABILITIES

	31 December 2016 LAKm	31 December 2015 LAKm (Restated)
Other external payables	3,608	3,619
Payables relating to VISA cards	1,781	25,608
Others	6,175	2,925
Personal income tax payable	173	211
	<b>11,737</b>	<b>32,363</b>

### 22. PAID-UP CAPITAL

	31 December 2016		31 December 2015	
	% ownership	LAKm	% ownership	LAKm
<b>Equity owners</b>				
Cofibred	54%	162,000	54%	162,000
Banque Pour Le Commerce Exterieur Lao Public	46%	138,000	46%	138,000
	<b>100%</b>	<b>300,000</b>	<b>100%</b>	<b>300,000</b>

# Banque Franco - Lao Limited

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2016

## 23. FINANCIAL RISK MANAGEMENT POLICIES

### *Introduction*

Risk is inherent in the Bank's activities, which is managed through a process of ongoing identification, measurement and monitoring and 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 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 Bank's policies are also to monitor business risks arising from changes in the environment, technology and industry through the Bank's strategic planning process.

### *Risk management structure*

The Bank's risk management strategies and principles are approved by the Board of Directors, who is responsible for the overall risk management approach.

The Board has appointed Risk - Compliance Department which has the responsibility to monitor the overall risk process within the Bank.

The Risk - Compliance Department 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. The Internal Audit then discusses the results of the audit with the Bank's Management and reports all findings and recommendations to the Audit Committee.

### 23.1 Credit risk

Credit risk is the risk that the Branch will incur a loss because its customers, clients or counter parties failed to discharge their contractual obligations.

#### a) Credit risk management

BFL's credit risk management involves decisions involving a balance between acceptable risk and commercial judgment and it is guided through the it's risk management framework and credit risk principles and policies approved by the Board of Directors. The Risk management unit performs the monitoring function, to ensure that day to day credit operations are in line with the risk management framework..

Some of key specific mitigating controls and processes are outlined below.

- i) All credit facilities are measured at 100% of the exposure and no risk weights are applied.
- ii) Credit checks is performed whereas a credit report is obtained to help assess the credit worthiness of an individual or business customer seeking creidits.
- iii) Concentration limits is currently applied based n regulatory limit contolling the maximum exposure to a borrower (and related parties) to 25% of the Bank's capital.
- iv) Credit Loss Review is performed to identify causes of credit loss and improvement opportunities in credit management and credit processes. Any losses or expected losses must be approved by the Managing Director.
- v)

# Banque Franco - Lao Limited

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2016

## 23. FINANCIAL RISK MANAGEMENT POLICIES (continued)

### 23.1 Credit risk (continued)

- vi) Country limits must be applied and recorded on the Credit Memorandum when transactions involves cross border risk. Cross border risk arises whenever payment or discharges of a transaction involves a flow of funds from one country to another.
- vii) Sharing of risk between customer and any third party (e.g., guarantor) is subject to independent consumer or business credit assessments.
- viii) Any request to vary the current maximum loan terms needs to be formally supported by Head of Department and approved by Managing Director.
- ix) Customer groups that are assessed with increased risk or high risk are subject to more stringent monitoring and controls.

#### b) Credit quality

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external historical information about by the counter party default rates:

	31 December 2016 LAKm	31 December 2015 LAKm
Balance with BoL	278,500	298,550
Due from banks	144,378	139,903
Loans and advances		
Group A	857,075	755,323
Group B	204	2,954
Financial investment, held-to-maturity	20,274	20,264
Other assets*	30,309	41,358
	<b>1,330,740</b>	<b>1,258,352</b>

\*Other assets as shown above is net of prepayments.

#### c) Impaired loans and advances, net

	31 December 2016 LAKm	31 December 2015 LAKm
Group C	3,273	526
Group D	3,057	959
	<b>6,330</b>	<b>1,485</b>

Accordingly, loans are classified into Performing loans or Non-performing loans based on the payment arrears status and other qualitative factors in accordance with BoL regulation No. 324. Provisions are set for non-performing loans, per below:

Group	/ Category	Number of days past due	Provision Rate
<b>Performing (General)</b>			
A	Normal or Pass	Within 29 days	-
B	Watch or Special mention	30 to 89 days	-
<b>Non-Performing (Specific)</b>			
C	Substandard	90 to 179 days	20%
D	Doubtful	180 to 359 days	50%
E	Loss	From 360 days	100%

# Banque Franco - Lao Limited

NOTES TO THE FINANCIAL STATEMENTS  
31 DECEMBER 2016

## 23. FINANCIAL RISK MANAGEMENT POLICIES (continued)

### 23.2 Market Risk

#### (i) Interest rate risk

Interest rate risk is the risk that changes in market interest rates which may lead to changes in the value of financial instruments, and fluctuations in revenue and the values of financial assets and liabilities.

The Bank is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities. The Bank manages this risk by matching the re-pricing of assets and liabilities through risk management strategies. The financial assets and and financial liabilities that bear interest have fixed interest rates and those were not re-measured to fair value. Thus, management believes that the Bank is only expose to low risk from the sensitivity of the interest rate.

#### (ii) Foreign currency risk (continued)

Currency risk is the risk exposed to the Bank due to changes in foreign exchange rates which adversely impact the Bank's foreign currency positions. The Bank has set limits on positions by currency based on its internal risk assessment system and the BOL's regulations. Positions are monitored on a daily basis to ensure the compliance within the established limits.

Breakdown of financial assets and liabilities which has been converted into LAKm as at 31 December 2016 is as follows:

	<i>LAK in LAKm</i>	<i>USD in LAKm</i>	<i>THB in LAKm</i>	<i>Others in LAKm</i>	<i>Total in LAKm</i>
<b>Financial assets</b>					
Cash and balance with the BoL (Note 9)	161,777	90,520	22,220	3,983	278,500
Due from banks (Note10)	5,991	58,909	4,913	74,565	144,378
Loans and advances, net (Note 12)	170,643	650,791	45,693	2,107	869,234
Financial investments – Held-to-maturity	20,274	-	-	-	20,274
Other Assets (Note 16)	9,813	19,209	1,029	258	30,309
	<u>368,498</u>	<u>819,429</u>	<u>73,855</u>	<u>80,913</u>	<u>1,342,695</u>
<b>Financial liabilities</b>					
Due to banks (Note 17)	44,067	175,967	11,048	-	231,082
Due to customers (Note 18)	81,867	456,275	52,463	81,174	671,778
Borrowing (Note 19)	-	163,438	-	-	163,438
Tax liability (Note 20)	1,093	-	-	-	1,093
Other liabilities (Note 21)	5,209	5,816	45	1,297	11,734
	<u>132,236</u>	<u>800,866</u>	<u>63,556</u>	<u>82,471</u>	<u>1,079,129</u>
	<u>236,262</u>	<u>18,563</u>	<u>10,299</u>	<u>(1,558)</u>	<u>263,566</u>



# Banque Franco - Lao Limited

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016

### 23. FINANCIAL RISK MANAGEMENT POLICIES (continued)

#### 23.2 Market Risk (continued)

Breakdown of financial assets and liabilities which has been converted into LAKm as at 31 December 2015 is as follows:

	<i>LAK in LAKm</i>	<i>USD in LAKm</i>	<i>THB in LAKm</i>	<i>Others in LAKm</i>	<i>Total in LAKm</i>
<b>Financial assets</b>					
Cash and balance with the BoL (Note 9)	204,073	67,764	19,796	6,917	298,550
Due from banks (Note 10)	58,743	11,750	2,311	67,099	139,903
Loans and advances, net (Note 12)	97,050	623,409	38,139	4,450	763,048
Financial investments – Held-to-maturity (Note 13)	20,264	-	-	-	20,264
Other Assets (Note 16)	11,702	23,753	5,267	636	41,358
	<b>391,832</b>	<b>726,676</b>	<b>65,513</b>	<b>79,102</b>	<b>1,263,123</b>
<b>Financial liabilities</b>					
Due to banks (Note 17)	72,878	331,076	10,463	684	415,101
Due to customers (Note 18)	64,381	377,966	51,916	73,105	567,368
Tax liability (Note 20)	1,000	-	-	-	1,000
Other liabilities (Note 21)	27,978	4,790	17	41	32,826
	<b>166,237</b>	<b>713,832</b>	<b>62,396</b>	<b>73,830</b>	<b>1,016,295</b>
<b>Net balance</b>	<b>225,595</b>	<b>12,844</b>	<b>3,117</b>	<b>5,272</b>	<b>246,828</b>

#### 23.3 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through adequate amount of committed credit facilities to meet obligations when due. Owing to the unavailability of detailed information, the management is unable to disclose the relevant maturity analysis and financing arrangement for the balance of due to banks, customers, borrowings, and other liabilities as at 31 December 2016 and 31 December 2015.

### 24. 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 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 recognises 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 analyzed into two tiers:

- ▶ Tier 1 capital, which includes chartered capital, regulatory reserve fund, business expansion fund and other funds, and retained earnings;
- ▶ Tier 2 capital, which includes qualifying subordinated liabilities, general provisions and the element of fair value reserve relating to unrealized gains/losses on equity instruments classified as available for sale.

# Banque Franco - Lao Limited

## NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2016

### 24. CAPITAL MANAGEMENT (continued)

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 IFRS financial statements as at 31 December is as follows:

<i>Items</i>	<i>31 December 2016 LAKm</i>	<i>31 December 2015 LAKm</i>
Tier 1 capital	313,323	303,820
Tier 2 capital	-	-
<b>Total capital</b>	<b>313,323</b>	<b>303,820</b>
Less: Deductions from capital (Investments in other credit and financial institutions)	-	-
<b>Capital for CAR calculation (A)</b>	<b>313,323</b>	<b>303,820</b>
Risk weighted balance sheet items	540,112	503,953
Risk weighted off balance sheet items	20,196	12,663
<b>Total risk weighted assets (B)</b>	<b>560,308</b>	<b>516,616</b>
<b>Capital Adequacy Ratio (A/B)</b>	<b>56.00%</b>	<b>58.72%</b>

### 25. 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, the carrying amount of the financial assets and liabilities included in the 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 provision for loan losses.

### 26. COMMITMENTS AND CONTINGENCIES

	<i>31 December 2016 LAKm</i>	<i>31 December 2015 LAKm</i>
<b>(i) Financial commitments:</b>		
Letters of credit	26,395	5,703
Bank guarantees	13,997	19,613
	<b>40,392</b>	<b>25,326</b>
<b>(ii) Lease commitments:</b>		
No later than one year	3,832	253
From one year to five years	20,914	20,397
Over five years	46,770	50,272
	<b>71,516</b>	<b>70,925</b>

# Banque Franco - Lao Limited

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## 27. RELATED PARTY TRANSACTIONS

### *Transactions with key management personnel of the Bank*

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

	2016 LAKm	2015 LAKm
Salaries of BoD and Board of management	3,600	2,422
	<b>3,600</b>	<b>2,422</b>

### *Transactions with other related parties*

Balances with other related parties as at 31 December 2016 are as follows:

<i>Related party</i>	<i>Relationship</i>	<i>Transactions</i>	<i>Receivables LAKm</i>	<i>Payables LAKm</i>
Banque Pour Le Extérieur Lao Public	Owner	Demand deposits	27,849	-
		Saving deposits	1,495	-
		Term deposits	-	8,201
		Accrued interest on term deposits	-	161
Bred Banque Populaire	Owner (represented by Cofibred)	Demand deposits	86,600	-
Bred Banque Populaire	Owner (represented by Cofibred)	Borrowing	-	163,580
Bred Banque Populaire	Owner (represented by Cofibred)	Accrued interest on borrowing	-	439
Bred Banque Populaire	Owner (represented by Cofibred)	Payments made on behalf of Bred	2,666	-
Bred Vanuatu	Subsidiary of Cofibred	Term deposits	-	44,276
Bred Vanuatu	Subsidiary of Cofibred	Accrued interest on term deposits	-	313

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## 27. RELATED PARTY TRANSACTIONS (continued)

Balances with other related parties as at 31 December 2015 are as follows:

<i>Related party</i>	<i>Relationship</i>	<i>Transactions</i>	<i>Receivables LAKm</i>	<i>Payables LAKm</i>
Banque Pour Le Exterieur Lao Public	Owner	Demand deposits	28,220	-
		Saving deposits	36,445	-
		Term deposits	-	7,824
		Accrued interest on term deposits	-	306
Bred Banque Populaire	Owner (represented by Cofibred)	Demand deposits	56,223	-
Bred Banque Populaire	Owner (represented by Cofibred)	Overdraft	-	238,401
Bred Banque Populaire	Owner (represented by Cofibred)	Payments made on behalf of Bred	5,865	-
Bred Vanuatu	Subsidiary of Cofibred	Term deposits	-	42,731
Bred Vanuatu	Subsidiary of Cofibred	Accrued interest on term deposits	-	372

## 28. EXCHANGE RATES FOR APPLICABLE FOREIGN CURRENCIES AGAINST LAK AT 31 DECEMBER 2016

	<i>31 December 2016 LAK</i>	<i>31 December 2015 LAK</i>
United State Dollar ("USD")	8,179	8,143
Thai Baht ("THB")	228	227
Euro ("EUR")	8,512	8,874
Great Britain Pound ("GBP")	9,833	11,866