

Banque Franco - Lao Limited

Financial statements for the year ended
31 December 2017
and
Independent Auditor's Report

Banque Franco - Lao Limited

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Banque Franco - Lao Limited

Corporate Information

Bank	Banque Franco - Lao Limited	
Foreign Investment Licence No.	121/09/PI/PM4, dated 26 August 2009	
Amended Foreign Investment Licence No.	124/10, dated 07 September 2010	
	Enterprise Registration Certificate No 0321/ERO, dated 20/04/2017	
Board of Directors	Mr. Nanthalath Keopaseuth	Chairman
	Mr. Olivier Klein	Deputy chairman
	Mr. Guillaume Perdon	Member
	Mr. Marc Robert	Member
	Mr. Xaythong Phomphithack	Member
	Mr. Sivath Sengdoaungchanh	Member
	Mr. Bernard Ramanantsoa	Member
Board of Management	Mr. David Parrot	Chief Executive Officer
	Mr. Somchanh Visisombath	Deputy Chief Executive Officer
	Mr. Bounmy Sengpachanh	Deputy CEO- Commercial
	Mr. Arnaud Caulier	CFO and Head of Strategic Project
	Ms. Pascale Rouzies	Director of Administration, Corporate Affairs and Human Resource
	Ms. Annette Philaphandeth	Head of Operation
	Ms. Lungnapah Phapaseuth	Head of Credit
	Mr. Kamal Benchabane	Chief Risk Officer
	Ms. Sirivone Phimmasone	Head of Back Office
Audit Committee	Mr. Sivath Sengdoaungchanh	Chairman
	Mr. Xaythong Phomphithack	Member
	Mr. Guillaume Perdon	Member
Registered office	Banque Franco - Lao Limited Lane Xang Avenue, Hatsady Neua Village, Chanthabuly District, Vientiane Capital, Lao PDR P.O. BOX: 5720	

Auditors

KPMG Lao Co., Ltd
4th Floor, K.P. Tower
23 Singha Road,
P.O. Box 6978
Vientiane Capital, Lao PDR

MANAGEMENT'S RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Management of Banque Franco - Lao Limited ("Bank") is responsible for the preparation of the financial statements and for ensuring that the financial statements present fairly, in all material respects, statement of financial position of the Bank as at 31 December 2017, and the statements of profit or loss and other comprehensive income, changes in equity and of cash flows for the year then ended 31 December 2017 in accordance with the International Financial Reporting Standards ("IFRS"). In preparing the financial statements, Management is required to:

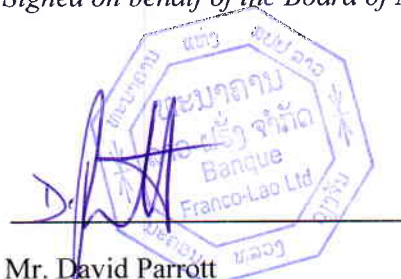
- i) Adopt appropriate accounting policies which are supported by reasonable and prudent judgements and estimates and then apply them consistently;
- ii) Comply with IFRS or, if there have been any departures in the interest of true and fair presentation, ensure that these have been appropriately disclosed, explained and quantified in the financial statements;
- iii) Maintain adequate accounting records and an effective system of internal controls;
- iv) Take reasonable steps for safeguarding the assets of the Bank and for preventing and detecting fraud, error and other irregularities;
- v) Prepare the financial statements on the going concern basis unless it is inappropriate to assume that the Bank will continue operations in the foreseeable future; and
- vi) Effectively control and direct the Bank and be involved in all material decisions affecting the Bank's operations and performance and ascertain that such have been properly reflected in the financial statements.

Management confirms that they have complied with the above requirements in preparing the financial statements.

APPROVAL OF THE FINANCIAL STATEMENTS

I, Mr. David Parrot, on behalf of the Board of Management, do hereby state that the financial statements set out on pages 5 to 57 are present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and the statements of profit or loss and other comprehensive income, changes in equity and of cash flows for the year then ended and have been properly drawn up in accordance with International Financial Reporting Standards ("IFRS").

Signed on behalf of the Board of Management,

A blue circular stamp of Banque Franco-Lao Ltd. is visible, containing the company name in Lao and French, and a signature in blue ink.

Mr. David Parrott
Chief Executive Officer
30 March 2018



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ບໍລິສັດ ເຄພີເອັມຈີລາວ ຈຳກັດ
ຊັ້ນ 3-4, 37 ຕຶກ ເຄພີທາວເວີ
ຖະໜົນ 23 ສິງຫາ, ບ້ານໂພນໄຊ,
ເມືອງໄຊເສດຖາ, ຜູ້ ປ.ນ. 6978,
ນະຄອນຫຼວງວຽງຈັນ, ສປປ ລາວ
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INDEPENDENT AUDITORS' REPORT

**To: The Board of Directors
Banque Franco-Lao Limited**

Qualified Opinion

We have audited the financial statements of Banque Franco-Lao Limited (the "Bank"), which comprise the statement of financial position as at 31 December 2017, the statements of profit or loss and other comprehensive income, changes in equity and of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, except for the effects of the matters described in and the incomplete disclosure of the information referred to in the basis for qualified opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for 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 accessing loans and advances, for a more accurate measurement of outcomes. The Bank is not applying IAS 39 and developing a model are departures from IFRSs in the following way:

- The Bank has not measured the outstanding loans with front-end and collateral fees at amortised cost using 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 896,987 million and LAK 557,225 million as at 31 December 2017 and 31 December 2016 respectively. The front end and collateral fees is LAK 1,816 million and LAK 3,751 million for the years then ended respectively. The Bank measuring loans on effective interest rate decreases the amount of amortised loans to customers and retained earnings in the statement of financial position as at 31 December 2017 and 2016 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 as per the requirement of Bank of Lao PDR's decision No 324 dated 19 April 2011 after taking the benefit of collaterals. The loans and advances and provision for loans losses are LAK 1,032,138 million and LAK 23,020 million as at 31 December 2017 and are LAK 870,755



million and LAK 7,146 million as at 31 December 2016. As per IAS 39, the amount of loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loans original effective interest rate. The differences between the requirement 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 2017 and 2016 and impairment loss accounts in the statements of profit or loss and other comprehensive income for the years then ended;

- The above departure also impacts the current and deferred income tax accounts as at 31 December 2017 and 2016;
- The above matters also impact cash flow from operation in the statement of cash flows for the year ended 31 December 2017 and 2016.

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

The Bank did not disclose fair value and financial risk management as required by IFRS 7 - Financials instruments: Disclosures and IFRS 13 - Fair Value measurement for the year ended 31 December 2017 and 2016.

The above matters cause the other auditor to qualify their audit opinion on the 2016 financial statements. It is impracticable for us to provide the financial impact for this information. Our audit opinion on the 2017 financial statements is also qualified.

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 are independent of the Bank in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants that is relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other matter

The financial statements of the bank for the year ended 31 December 2016 were audited by another firm of auditors whose report, dated 8 May 2017, 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 and non-compliance of IAS 39.

The Bank has prepared a separate set of financial statements for the year ended 31 December 2017 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 30 March 2018.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards ("IFRS"), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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 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.

KPMG Lao Co., Ltd.

KPMG Lao Co., Ltd.
Vientiane Capital, Lao PDR



Date: 30 March 2018

Banque Franco - Lao Limited
Statement of financial position

		31 December	
	<i>Note</i>	2017	2016
		<i>(in millions LAK)</i>	
Assets			
Cash	4, 22	51,136	55,078
Interbank and money market items			
Amounts due from other banks	5	103,810	144,378
Statutory deposits with central bank	6	133,083	223,422
Loans and advances, net	7	1,021,188	869,234
Financial investment – held to maturity	8	-	20,274
Property, plant and equipment	9.1	26,123	30,993
Intangible assets	9.2	10,029	1,319
Other assets	10	23,279	48,253
Total assets		1,368,648	1,392,951

The accompanying notes form an integral part of these financial statements

Banque Franco - Lao Limited
Statement of financial position

		31 December	
	Note	2017	2016
		<i>(in millions LAK)</i>	
Liabilities and equity			
Liabilities			
Deposit from customer	11	690,899	671,170
Interbank and money market items	12	49,267	230,507
Amounts due to other banks			
Borrowing from related party	13	287,471	163,438
Tax liabilities	14	598	1,093
Other liabilities	15	17,622	12,920
Total liabilities		1,045,857	1,079,128
Equity			
Paid-up capital	16	300,000	300,000
Statutory reserve		1,462	1,462
Retained earnings		21,329	12,361
Total equity		322,791	313,823
Total liabilities and equity		1,368,648	1,392,951

Banque Franco - Lao Limited**Statement of profit or loss and other comprehensive income**

		Year ended 31 December	
	Note	2017	2016
		<i>(in million LAK)</i>	
Interest and similar income	17	86,327	79,097
Interest and similar expense	18	(23,725)	(18,736)
Net interest income		(62,602)	(60,361)
Fee and commission income		18,636	17,590
Fee and commission expense		(7,035)	(6,765)
Net fee and commission income	19	11,601	10,825
Gain on foreign exchange		9,025	3,556
Other income		1,601	393
Total operating income		84,829	75,135
Operating Expenses			
Personnel expenses	20	(18,569)	(17,469)
Premises, depreciation and amortization			
Expenses		(7,886)	(9,950)
Other expenses	21	(30,658)	(31,397)
Provision for bad debts and doubtful		(15,874)	(3,094)
Total operating expenses		(72,987)	(61,910)
Profit before income tax expense		11,842	13,225
Income tax	14	(2,874)	(3,222)
Profit for the year		8,968	10,003
Other comprehensive income			
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year, net of tax		8,968	10,003

Banque Franco - Lao Limited
Statement of changes in equity
For the year ended 31 December 2017

	Bank capital LAK (in millions)	Retained earnings LAK (in millions)	Statutory reserve LAK (in millions)	Total LAK (in millions)
Balance as at 1 January 2016	300,000	3,358	462	303,820
Profit for the year	-	10,003	-	10,003
Statutory reserve	-	(1,000)	1,000	-
Balance as at 31 December 2016 and 1 January 2017	300,000	12,361	1,462	313,823
Profit for the year	-	8,968	-	8,968
Balance as at 31 December 2017	300,000	21,329	1,462	322,791

The accompanying notes form an integral part of these financial statements

Banque Franco - Lao Limited
Statement of cash flows
For the year ended 31 December 2017

	For the year ended 31 December	
	2017	2016
	LAK	LAK
Note	(in millions)	(in millions)
<i>Cash flows from operating activities</i>		
Profit before income tax	11,842	13,225
<i>Adjustments for:</i>		
Interest income	(86,327)	(79,097)
Interest expense	23,725	18,736
Provision for bad debt and doubtful loans and advances	15,874	3,094
(Gain) / loss from disposal of fixed assets	(372)	8
Depreciation and amortisation	7,886	9,950
	(27,372)	(34,084)
Change in operating assets / liabilities		
Change in statutory deposits	146	8,102
Change in loans and advances to customers	(167,827)	(105,507)
Change in other assets	24,973	14,820
Change in deposits from customers	19,729	103,802
Change in deposits from banks	(181,240)	(184,594)
Change in deposits to banks		
Change in other liabilities	4,704	(19,443)
Interest received	85,480	55,394
Interest paid	(22,878)	(15,012)
Income tax paid	(3,369)	(3,129)
Net cash used in operating activities	(267,654)	(179,651)
<i>Cash flows from investing activities</i>		
Acquisition of property and equipment	(2,808)	(5,994)
Proceeds from disposal of assets	732	1
Acquisition of intangibles	(9,280)	(1,461)
Disposal of investments	20,274	(10)
Net cash from (used in) investing activities	8,918	(7,464)
<i>Cash flows from financing activities</i>		
Loan from related party	124,033	(163,438)
Net cash from (used in) investing activities	124,033	(163,438)
Net decrease in cash and cash equivalents	(134,703)	(23,677)
Cash and cash equivalents at 1 January	370,712	394,389
Cash and cash equivalents at 31 December	236,009	370,712

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2017

1 Reporting entity

Banque Franco - Lao Limited (“BFL”) is a joint – venture bank incorporated and registered in Lao People’s Democratic Republic (“Lao PDR”). 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 Rapee, Paris, F-75012 France and Banque Pour Le Commerce Extérieur Lao Public (“BCEL”), a bank registered in Lao PDR and located at No. 01 Pangkham Street, Ban Xiengnyun, Chanthabouly District, Vientiane, Lao PDR.

The Bank was established under the Investment License Decision No. 121/09 dated 26 August 2009 issued by Ministry of Planning and Investment which was then amended by Decision No. 124/10 dated 07 September 2010 issued by the Ministry, and Decision No. 12/BOL dated 16 July 2010 issued by Bank of Lao PDR (“BOL”).

The registered charter capital of the Bank is 300,000 million of KIP (“LAKm”). As at 31 December 2017, the actual charter capital of the Bank is LAKm 300,000 (31 December 2016: LAKm 300,000).

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

As at 31 December 2017, the Bank had 172 (2016: 176) employees.

2 Basis of financial statement preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements of the Bank were authorised for issue on behalf of the Board of Management on 30 March 2018.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except as stated in the significant accounting policies (Note 3).

(c) Functional and presentation currency

These accompanying financial statements are presented in Lao Kip (“LAK”), which is the Bank’s functional currency. All financial information presented in LAK has been rounded in the financial statements and the accompanying notes to the nearest million, unless otherwise stated.

(d) Use of judgements and estimates

In preparing this financial statement, management has made judgments, estimates and assumptions that affect the application of the Bank’s accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2017

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the notes:

Note 7: Loans and advances

(v) Fiscal Year

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

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency at exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rates at the reporting date.

Non-monetary assets and liabilities that are measured based on historical cost in a foreign currency are translated into the functional currency at the exchange rate at the date of the transaction.

Foreign currency differences arising from the translation are recognised in the profit or loss.

The applicable exchange rates for the LAK against foreign currencies were:

	31 December 2017	31 December 2016
	LAK	LAK
United State Dollar ("USD")	8,285.00	8,179.00
Thai Baht ("THB")	253.91	288.00
Euro ("EUR")	9,866.00	8,545.00
Great Britain Pound ("GBP")	10,956.00	9,883.00

(b) Financial assets and financial liabilities

(i) Recognition

The Bank initially recognises loans and advances, deposits on the date on which they are originated. A financial asset or financial liability is measured initially at fair value plus, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Financial assets

The Bank classifies its financial assets in one of the following categories:

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2017

- loans and receivables; and
- held to maturity.
- at fair value through profit or loss as held for trading

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

(iii) Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially of all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss. Any interest in such transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

(iv) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS.

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2017

(v) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured on initial recognition, minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount and, for financial assets, adjusted for any impairment allowance.

(vii) Objective evidence of impairment

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 individual and 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 after taking the benefit of collateral held against the loans. Accordingly, the Bank sets provision for those that are classified as non-performing loans as disclosed in Note 7.

Provision for non-performing loans is 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 is recorded in the statement of financial position as contra-asset account against "Loans and advances".

Write-off

The Bank writes off certain loans and advances, either partially or in full, and any related allowance for impairment losses, when they determine that there is no realistic prospect of recovery.

(c) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of one month or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(d) Loans and advances

Loans and advances in the statement of financial position are loans and advances measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

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Notes to the financial statements
For the year ended 31 December 2017

(e) Deposits from customers

Deposits are the Bank's sources of debt funding. Deposits are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(f) Property and equipment

- (i) Items of property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Where an item of property comprises major components having different useful lives, the components are accounted for as separate items of property and equipment. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

- (ii) Depreciation of property and equipment is charged to the profit or loss on a straight line basis over the estimated useful lives of the individual assets at the following annual rates:

(iii)

Building and improvements	10%
Office equipment	20%
Furniture and fitting	10%
Vehicle	20%

- (iv) Subsequent expenditure relating to an item of property and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Bank. All other subsequent expenditure is recognised as an expense in the period in which it is incurred. Ongoing repairs and maintenance are expensed as incurred.
- (v) Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the assets and are recognised in the profit or loss on the date of retirement or disposal.
- (vi) Fully depreciated property and equipment is retained on the balance sheet until disposed of or written off.

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Notes to the financial statements
For the year ended 31 December 2017

(g) Intangible asset

Computer software acquired by the Bank is measured at cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on computer software is capitalised only when it increases future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Computer software is amortised on a straight-line-basis in profit or loss over its estimated useful life, from the date on which it is available for use at the following annual rate:

Computer software	20 %
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Amortisation method, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(h) Interest 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 (3d), 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.

(j) Fee and commission

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.

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

(k) Income tax

Income tax expense for the year comprises current and deferred tax. It is recognised in profit or loss except to the extent that they relate to items recognised directly in equity or in other comprehensive income.

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation and establishes provisions of amounts payable to the tax authorities.

In accordance with the Law on the Promotion and Management of Foreign investment in the Lao PDR No. 01/94 dated 14 March 1994, the tax rate applied for foreign invested entities is 24% on the taxable profit of the Bank reported under the Lao accounting rules ("LAR").

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit nor loss.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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(l) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(m) 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 amortised amount and the amount of loss allowance, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

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

(n) Provision 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 income statement net of any reimbursement.

(m) Related parties

Parties are considered to be related to the Bank if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions or where the Bank and the party are subject to common control or significant influence. Related parties may be individuals or corporate entities and include close family members of any individual considered to be a related party.

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4 Cash

	2017 LAK (in millions)	2016 LAK (in millions)
Lao Kip ("LAK")	31,776	36,649
United States Dollar ("USD")	10,172	9,154
Thai Baht ("THB")	5,362	5,561
Others	3,826	3,714
	51,136	55,078

5 Amount due from other banks

	2017 LAK (in millions)	2016 LAK (in millions)
Demand deposits with domestic banks	17,596	27,849
Demand deposits with overseas banks	86,214	110,479
Saving deposits with domestic banks	-	1,495
Saving deposits with overseas banks	-	4,555
	103,810	144,378

Classified by currency

	2017 LAK (in millions)	2016 LAK (in millions)
Deposits in LAK	8,738	5,991
Deposits in USD	64,992	58,909
Deposits in THB	4,993	4,913
Deposits in others	25,087	74,564
	103,810	144,378

Demand deposits at domestic and overseas banks are non-interest earning items.

6 Statutory deposits with Central Bank

	2017 LAK (in millions)	2016 LAK (in millions)
Statutory deposits on:		
Compulsory	52,020	52,166
Demand deposits	81,063	171,256
	133,083	223,422

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Balances with the BOL include demand deposits and compulsory deposits. These balances bear no interest.

Under the BOL regulations, the Bank is required to maintain certain cash reserves with the BOL in the form of compulsory deposits, which are computed at 5% and 10%, on a bi-monthly basis (2016: 5% and 10%) of customer deposits having original maturities of less than 12 months, in LAK and in foreign currencies, respectively. During the year, the Bank maintained its compulsory deposits in compliance with the requirements by the BOL.

7 Loans and advances, net

	2017 LAK (in millions)	2016 LAK (in millions)
Loans and receivables:		
Overdrafts	95,146	56,835
Loans	936,992	813,920
	1,032,138	870,755
Accrued interest receivable	12,070	5,625
Loans and advances to customers	1,044,208	876,380
Less: Provision for loan losses	(23,020)	(7,146)
Loans and advances to customers	1,021,188	869,234

a) Classified by performance

	2017 LAK (in millions)	2016 LAK (in millions)
Performing loans	905,100	858,615
Non-performing loans	127,038	12,140
	1,032,138	870,755

b) Classified by currency

	2017 LAK (in millions)	2016 LAK (in millions)
LAK	254,934	170,939
USD	557,459	652,458
THB	48,093	45,258
EUR	171,652	2,100
	1,032,138	870,755

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7 Loans and advances (continued)

a) Classified by interest rate (per annum)

	2017 %	2016 %
Loans in LAK	8.00% - 12.00%	7.00% - 18.00%
Loans in USD	5.00% - 10.50%	5.65% - 19.24%
Loans in THB	5.00% - 10.50%	6.00% - 14.00%
Loans in EUR	4.00% - 9.50%	7.00% - 13.00%

b) The changes in the provision for bad debts and doubtful loans and advances are as follows:

	2017 LAK (in millions)	2016 LAK (in millions)
Balance at beginning of the year	7,146	4,052
Provision for loan losses during the year	16,155	6,260
Reversals for loan losses during the year	(281)	(3,166)
Balance at end of the year	23,020	7,146

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8 Investment in securities

	<i>Note</i>	2017 LAK (in millions)	2016 LAK (in millions)
Held-to-maturity securities - Bonds issued by the Ministry of Finance, Lao PDR		-	20,274
Total		-	20,274

As at 31 December 2017, the Bank has not held any bonds issued by the Ministry of Finance.

As at 31 December 2016, the Bank held bonds issued by the Ministry of Finance having the following terms;

Term	Issue date	Maturity date	Face value	Amortised cost	Interest rate per annum (%)
1 Year	23-Sep-2016	23-Sep-2017	20,000	20,274	5%

9 Property and equipment

	<i>Note</i>	2017 LAK (in millions)	2016 LAK (in millions)
Tangible fixed assets	9.1	26,123	30,993
Intangible fixed assets	9.2	10,029	1,319
Total		36,152	32,312

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9.1 Tangible fixed assets

Movement of tangible fixed assets for the year ended 31 December 2017 is as follows;

	Building & improvements LAK (in millions)	Office equipment LAK (in millions)	Furniture & fixture LAK (in millions)	Motor vehicles LAK (in millions)	Construction in progress LAK (in millions)	Total LAK (in millions)
Cost						
At 1 January 2017	28,135	29,131	2,871	4,620	343	65,100
Transferred from CIP	-	-	-	-	(343)	(343)
Additions	1,021	670	103	1,356	-	3,150
Disposals	(278)	(2)	(59)	(1,517)	-	(1,856)
At 31 December 2017	28,878	29,799	2,915	4,459	-	66,051
Accumulated depreciation						
At 1 January 2017	9,778	20,079	1,402	2,848	-	34,107
Charge for the year	1,964	4,152	316	873	-	7,305
Disposal	(129)	(2)	(29)	(1,324)	-	(1,484)
At 31 December 2017	11,613	24,229	1,689	2,397	-	39,928
Net book value						
At 1 January 2017	18,357	9,052	1,469	1,772	343	30,993
At 31 December 2017	17,265	5,570	1,226	2,062	-	26,123

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Movement of tangible fixed assets for the year ended 31 December 2016 is as follows;

	Building & improvements LAK (in millions)	Office equipment LAK (in millions)	Furniture & fixture LAK (in millions)	Motor vehicles LAK (in millions)	Construction in progress LAK (in millions)	Total LAK (in millions)
Cost						
At 1 January 2016	26,896	25,194	2,808	4,235	-	59,133
Additions	1,239	3,942	85	385	343	5,994
Disposals	-	(5)	(22)	-	-	(27)
At 31 December 2016	28,135	29,131	2,871	4,620	343	65,100
Accumulated depreciation						
At 1 January 2016	8,018	15,451	1,120	1,979	-	26,568
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
Net book value						
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

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9.2 Intangible assets

Movement of intangible assets for the year ended 31 December 2017 is as follows:

	Computer software LAK (in millions)	Construction in progress LAK (in millions)	Total LAK (in millions)
Costs			
At 1 January 2017	8,974	790	9,764
Transferred from CIP		(141)	(141)
Additions	294	9,128	9,422
At 31 December 2017	<u>9,268</u>	<u>9,777</u>	<u>19,045</u>
Accumulated amortization			
At 1 January 2017	8,445	-	8,445
Amortization charge	571	-	571
At 31 December 2017	<u>9,016</u>	<u>-</u>	<u>9,016</u>
Net book value			
At 1 January 2017	<u>529</u>	<u>790</u>	<u>1,319</u>
At 31 December 2017	<u>252</u>	<u>9,777</u>	<u>10,029</u>

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

	Computer software LAK (in millions)	Construction in progress LAK (in millions)	Total LAK (in millions)
Costs			
At 1 January 2016	8,303	-	8,303
Additions	671	790	1,461
At 31 December 2016	<u>8,974</u>	<u>790</u>	<u>9,764</u>
Accumulated amortization			
At 1 January 2016	6,054	-	6,054
Amortization charge	2,391	-	2,391
At 31 December 2016	<u>8,445</u>	<u>-</u>	<u>8,445</u>
Net book value			
At 1 January 2016	<u>2,249</u>	<u>-</u>	<u>2,249</u>
At 31 December 2016	<u>529</u>	<u>790</u>	<u>1,319</u>

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10 Other assets

	2017 LAK (in millions)	2016 LAK (in millions)
Cheque in collection	441	343
Security deposits	191	554
Prepayments	19,271	18,415
Others	3,376	28,941
	23,279	48,253

11 Deposits from customers

a) Classified by type of deposits

	LAK (in millions)	LAK (in millions)
Current deposits	260,511	279,169
Savings deposit	119,459	129,562
Term deposit	303,398	257,139
Accrued interest	7,531	5,300
	690,899	671,170

b) Classified by currency

	2017 LAK (in millions)	2016 LAK (in millions)
LAK	99,921	81,627
USD	447,829	456,248
THB	57,457	52,120
Others	85,692	81,175
	690,899	671,170

c) Interest rate (per annum)

	2017 %	2016 %
Saving accounts		
LAK	1.91%	1.91%
USD	1.25% - 1.75%	1.25% - 1.75%
THB	1.25% - 1.75%	1.25% - 1.75%
EUR	0.50% - 1.00%	0.50% - 1.00%

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Fixed deposits

LAK	3.34% - 8.00%	3.34% - 8.00%
USD	1.10% - 5.00%	1.10% - 5.00%
THB	1.10% - 5.00%	1.10% - 5.00%

12 Amounts due to other banks

	2017 LAK (in millions)	2016 LAK (in millions)
Current deposits	49,267	131,749
Term deposits	-	97,372
Accrued interest	-	1,386
	49,267	230,507

Classified by currency

	2017 LAK (in millions)	2016 LAK (in millions)
LAK	787	43,983
USD	48,267	175,476
THB	213	11,047
	49,267	230,507

13 Borrowing

	2017 LAK (in millions)	2016 LAK (in millions)
Bred Banque Populaire	244,908	162,999
International finance corporation	41,425	-
Accrued interest	1,138	439
	287,471	163,438

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14 Tax liabilities and current tax

	2017 LAK (in millions)	2016 LAK (in millions)
Profit before tax for the year	11,841	13,225
Non-deductible expenses	136	199
Taxable profit	11,977	13,424
Income tax expense, at the statutory rate of 24%	2,874	3,222
Tax liabilities at the beginning of the year	1,093	1,000
Income tax expense	2,874	3,222
Tax paid on profit during the year	(3,369)	(3,129)
Tax liabilities at the end of the year	598	1,093

15 Other liabilities

	Note	2017 LAK (in millions)	2016 LAK (in millions)
Other external payables		5,683	4,791
Payables relating to VISA cards		585	1,781
Others		11,049	6,175
Personal Income Tax payable		305	173
		17,622	12,920

16 Paid up capital

	31 December 2017		31 December 2016	
	% ownership	LAKm	% ownership	LAKm
Equity owners				
Cofibred	54%	162,000	54%	162,000
Banque Pour Le Commerce Exterieur Lao Public	46%	138,000	46%	138,000
	100%	300,000	100%	300,000

There was no increase in capital during the year 2017 and 2016.

Banque Franco - Lao Limited
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17 Interest income

	2017 LAK (in millions)	2016 LAK (in millions)
Interest income from deposits at other banks	7	15
Interest income from lending to customers	85,593	78,172
Interest income from bonds issued by the BOL	727	910
	<u>86,327</u>	<u>79,097</u>

18 Interest expense

	2017 LAK (in millions)	2016 LAK (in millions)
Interest expense for due to other banks	7,083	4,546
Interest expense for customer deposits	16,642	14,190
	<u>23,725</u>	<u>18,736</u>

19 Net fee and commission income

	2017 LAK (in millions)	2016 LAK (in millions)
Fee and service income		
Settlement services	8,745	5,768
Guarantee activities	716	1,067
Treasury activities	5,565	6,636
Fees for assistance and advisory activities	3,374	3,989
Other fees and services	236	130
	<u>18,636</u>	<u>17,590</u>
Fee and service expense		
Settlement services	(5,302)	(5,613)
Other activities	(1,733)	(1,152)
	<u>(7,035)</u>	<u>(6,765)</u>
Fees and service income, net	<u>11,601</u>	<u>10,825</u>

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20 Personnel expenses

	2017 LAK (in millions)	2016 LAK (in millions)
Staff salaries	16,475	16,632
Other staff cost	2,094	837
	<u>18,569</u>	<u>17,469</u>

21 Other operating expenses

	2017 LAK (in millions)	2016 LAK (in millions)
Business trip	226	409
External services	12,779	12,782
Fuel	202	249
Office stationery	2,453	2,215
Electricity and water	903	858
Telecommunication	1,636	1,744
Publication, marketing and promotion	1,604	2,079
General and administration expenses	1,021	994
Repair and maintenance	1,560	1,488
Tools and equipment	713	22
Insurance fees	846	810
Office rental	5,379	5,073
Entertainment expenses	98	266
Others	1,238	2,408
	<u>30,658</u>	<u>31,397</u>

22 Cash and cash equivalents

	Note	2017 LAK (in millions)	2016 LAK (in millions)
Cash	4	51,136	55,078
Amounts due from BOL	6	81,063	171,256
Amount due from other banks		103,810	144,378
		<u>236,009</u>	<u>370,712</u>

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23 Related party transactions

Related party transactions include all transactions undertaken with other parties to which the Bank is related. A party is related to the Bank if:

- (a) directly, or indirectly through one or more intermediaries, the party:
 - controls, is controlled by, or is under common control with, the Bank (this includes parents, subsidiaries and fellow subsidiaries);
 - has an interest in the Bank that gives it significant influence over the Bank; or
 - has joint control over the Bank.
- (b) the party is a joint venture in which the Bank is a venture;
- (c) the party is a member of the key management personnel of the Bank or its parent;
- (d) the party is a close member of the family of any individual referred to in (a) or (d);
- (e) the party is a Bank that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such Bank resides with, directly or indirectly, any individual referred to in (c) or (d); or
- (f) the party is a post-employment benefit plan for the benefit of employees of the Bank, or of any bank that is a related party of the Bank.

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Transaction with related parties are carried on contractually agreed terms

Balances with other related parties as at 31 December 2017 are as follows:

Related party	Relationship	Transactions	Receivables LAK (in millions)	Payables LAK (in millions)
Banque Pour Le Commerce Extérieur Lao Public	Owner	Demand deposits	17,038	
Bred Banque Populaire	Owner (represented by Cofibred)	Demand deposits	33,911	
		Borrowing		244,907
		Accrued interest on borrowing		508
Bred IT Thailand	Subsidiary of Cofibred	Saving deposits		396
		Term deposits		3,301
		Accrued interest on term deposits		128
Bred Vanuatu	Subsidiary of Cofibred	Saving deposits		14

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Following are the transactions with key management personnel of the Bank

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

	2017 LAK (in millions)	2016 LAK (in millions)
Salaries	4,759	3,600
	<u>4,759</u>	<u>3,600</u>

24 Operating lease commitments

	2017 LAK (in millions)	2016 LAK (in millions)
Within 1 year	2313	3,832
From 1 to less than 5 years	18,795	20,914
Over 5 years	35,917	46,770
	<u>57,025</u>	<u>71,516</u>

25 Off-balance sheet items

	2017 LAK (in millions)	2016 LAK (in millions)
Commitment given		
Letters of guarantee outstanding	23,889	26,395
Letters of credit outstanding	11,777	13,997
	<u>35,666</u>	<u>40,392</u>
Collateral and Mortgages		
Collaterals and mortgages for loans to customer	7,090,232	2,601,859
	<u>7,090,232</u>	<u>2,601,859</u>

26 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.

Credit risk

Credit risk is the risk that the Bank 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.

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26 Financial risk management policies (continued)

c) Impaired loans and advances, net

	2017 LAK (in millions)	2016 LAK (in millions)
Non-performing loans	127,038	12,140
	127,038	12,140

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
Performing (General)			
A	Normal or Pass	Within 29 days	-
B	Watch or Special mention	30 to 89 days	-
Non-Performing (Specific)			
C	Substandard	90 to 179 days	20%
D	Doubtful	180 to 359 days	50%
E	Loss	From 360 days	100%

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.

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26 Financial risk management policies (continued)

Market Risk (continued)

Breakdown of financial assets and liabilities which has been converted into LAKm as at 31 December 2017 is as follows:

	LAK in LAKm	USD in LAKm	THB in LAKm	Others in LAKm	Total in LAKm
Financial assets					
Cash and balance with the BoL	60,856	93,933	25,605	3,825	184,219
Due from banks	8,738	64,992	4,993	25,087	103,810
Loans and advances, net	255,894	545,990	47,664	171,640	1,021,188
Other assets	1,170	2,388	68	48	3,675
Total assets	326,658	707,303	78,330	200,600	1,312,892
Financial liabilities					
Due to banks	787	48,267	213	-	49,267
Due to customers	99,921	447,829	57,457	85,692	690,899
Borrowing from related party	-	184,244	-	103,227	287,471
Other liabilities	5,669	6,373	2,881	80	15,003
Total liabilities	106,377	686,713	60,551	188,999	1,042,640
Equity	322,790	-	-	-	322,790
Total liabilities and equity	429,167	686,713	60,551	188,999	1,365,430
Net on-balance sheet currency position	(102,509)	20,590	17,779	11,601	(52,538)

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26 Financial risk management policies (continued)

Market Risk (continued)

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

	<u>LAK in LAKm</u>	<u>USD in LAKm</u>	<u>THB in LAKm</u>	<u>Others in LAKm</u>	<u>Total in LAKm</u>
Financial assets					
Cash and balance with the BoL (Note 9)	161,777	90,520	22,220	3,983	278,500
Due from banks	5,991	58,909	4,913	74,565	144,378
Loans and advances, net	170,939	650,937	45,258	2,100	869,234
Financial investments – Held-to-maturity	20,274	-	-	-	20,274
Other Assets	7,337	18,900	415	78	26,730
Total assets	366,318	819,266	72,806	80,726	1,339,116
Financial liabilities					
Due to banks	44,067	175,392	11,048	-	230,507
Due to customers	81,867	455,667	52,463	81,173	671,170
Borrowing from related parties	-	163,438	-	-	163,438
Other liabilities	5,209	6,183	45	1,297	12,734
Total liabilities	131,143	800,680	63,556	82,470	1,077,849
Equity	313,823	-	-	-	313,823
Total liabilities and equity	444,966	800,680	63,556	82,470	1,391,672
Net on-balance sheet currency position	(78,648)	18,586	9,250	(1,744)	(52,556)

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 2017 and 31 December 2016.

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27 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.
- 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 2017 LAKm</i>	<i>31 December 2016 LAKm</i>
Tier 1 capital	282,612	312,872
Tier 2 capital	-	-
Total capital	282,612	312,872
Less: Deductions from capital (Investments in other credit and financial institutions)	-	-
Capital for CAR calculation (A)	282,612	312,872
Risk weighted balance sheet items	572,890	540,112
Risk weighted off balance sheet items	17,833	20,196
Total risk weighted assets (B)	590,723	560,308
Capital Adequacy Ratio (A/B)	47.8%	55.84%

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28 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 impairment losses.

29 International Financial Reporting Standards (IFRS) not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2017 and 2018; however, the Group has not applied the following new or amended standards in preparing these financial statements.

IFRS	Topic	Year effective
IFRS 9	Financial Instruments	2018
IFRS 15	Revenue from Contracts with Customers	2018

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and DE recognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Bank's Group is assessing the potential impact on its consolidated financial statements resulting from the application of these new and revised standards and amendments.