

Banque Franco - Lao Limited

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

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Banque Franco - Lao Limited

Corporate Information

Bank

Banque Franco - Lao Limited

Foreign Investment License No.

007-15/PI/PM4, dated 08 December 2015
Enterprise Registration Certificate No. 0102/ERO
Dated 07 February 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

Registered office

Banque Franco-Lao Limited
Lane Xang Avenue, Hatsady Neua Village
Chanthabouly 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 ("the Bank") is responsible for the preparation of the financial statements and for ensuring that the financial statements present fairly in all material respects, the financial position of the Bank as at 31 December 2017, and the statements of income, changes in equity and of cash flows for the year then ended that are in accordance with the accounting regulations of the Bank of Lao PDR and accounting rules in the Lao PDR. In preparing the financial statements, Management is required to:

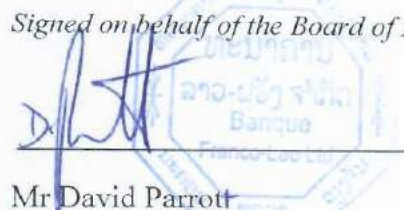
- i) Adopt appropriate accounting policies which are supported by reasonable and prudent judgements and estimates and then apply them consistently;
- ii) Comply with the accounting regulations of the Bank of Lao PDR and accounting rules in the Lao PDR, if there have been any departures in the interest 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 6 to 31 are present fairly, in all material respects, the financial position of the Bank as at 31 December 2017, and the statements of income, changes in equity and of cash flows for the year then ended and have been properly drawn up in accordance with the accounting regulations of the Bank of Lao PDR and accounting rules in the Lao PDR.

Signed on behalf of the Board of Management,



Mr David Parrott
Chief Executive Officer
30 March 2018



KPMG Lao Co., Ltd.
3rd - 4th Floor, 37 K.P. Tower
23 Singha Road, Ban Phonexay,
Saysettha District, P.O. Box 6978
Vientiane Capital, Lao PDR
Tel +856 (21) 454240-7

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

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

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 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, 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 the accounting regulations of the Bank of Lao PDR and accounting rules in the Lao PDR.

Basis for Opinion

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 the 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 opinion.

Other Matters

The financial statements of the Bank for the year ended 31 December 2016 were audited by another firm of auditors whose report, dated 6 April 2017, expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting regulations of the Bank of Lao PDR and accounting rules in the Lao PDR, 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

	<i>Note</i>	31 December	
		2017	2016
		<i>(in millions LAK)</i>	<i>(in millions LAK)</i>
Assets			
Cash	4	51,136	54,328
Statutory deposits with Central Bank	4	133,083	224,172
Amounts due from other banks	5	103,810	144,378
Investment in securities	7	-	20,000
Loans and advances, net of specific provision	8	965,386	864,945
Intangibles	9	10,029	1,319
Property and equipment	10	26,123	31,680
Other assets	11	37,927	55,288
Total assets		1,327,494	1,396,110

The accompanying notes form an integral part of these financial statements.

Banque Franco - Lao Limited
Statement of financial position

		31 December	
	<i>Notes</i>	2017 <i>(in millions LAK)</i>	2016 <i>(in millions LAK)</i>
Liabilities, Capital and other reserves			
Liabilities			
Interbank and money market items			
Amounts due to other banks	12	335,600	392,701
Deposits from customers	13	683,368	665,868
Other liabilities	14	25,914	21,706
Total liabilities		1,044,882	1,080,275
Capital and other reserves			
Paid up capital	1	300,000	300,000
Statutory reserve	15	1,481	1,481
General provision for credit activities	8(d)	5,726	4,298
Retained earnings		(24,595)	10,056
Total Capital and other reserves		282,612	315,835
Total liabilities, Capital and other reserves		1,327,494	1,396,110

The accompanying notes form an integral part of these financial statements.

Banque Franco - Lao Limited
Statement of income

		Year ended 31 December	
	Note	2017	2016
		(in millions LAK)	(in millions LAK)
OPERATING INCOME AND EXPENSES			
Interest and similar income	16	86,327	78,549
Interest and similar expenses	16	(23,725)	(18,736)
Net interest and similar income		62,602	59,813
Fee and commission income	17	18,636	18,124
Fees and commission expenses	17	(7,035)	(6,765)
Net gain from dealing in foreign currencies		9,025	3,556
Net operating incomes		83,228	74,728
Other income and expenses			
Other operating income	18	1,883	909
Administration expenses	19	(47,988)	(45,769)
Payroll and other staff costs	19(a)	(18,569)	(17,469)
Other administration expenses	19(b)	(29,419)	(28,300)
Depreciation and amortization charges		(7,886)	(9,950)
Other operating expenses	20	(2,946)	(3,358)
Provision for non-performing loans	8(d)	(60,942)	(3,094)
Provision for loan losses		(60,942)	(6,252)
Reversal of provision for loan losses		-	3,158
(Loss) profit before tax		(34,651)	13,466
Current corporate income tax	21	-	(3,280)
(Loss) profit after tax		(34,651)	10,186

The accompanying notes form an integral part of these financial statements.

Banque Franco - Lao Limited
Statement of changes in equity

	Paid up capital	Regulatory reserve	General Provision	Retained	Total
	LAK	fund	for credit activities	Earnings/(losses)	
	(in millions)	LAK	LAK	LAK	LAK
		(in millions)	(in millions)	(in millions)	(in millions)
Balance as at 1 January 2016	300,000	462	3,864	889	305,215
Profit for the year	-	-		10,186	10,186
Net increase in general provision			434		434
Appropriation to statutory reserve	-	1,019	-	(1,019)	-
Balance as at 31 December 2016 and 1 January 2017	300,000	1,481	4,298	10,056	315,835
Loss for the year	-	-		(34,651)	(34,651)
Net increase in general provision	-	-	1,428		1,428
Balance as at 31 December 2017	300,000	1,481	5,726	(24,595)	282,612

The accompanying notes form an integral part of these financial statements.

Banque Franco - Lao Limited
Statement of cash flows

	Year ended 31 December	
<i>Note</i>	2017	2016
	<i>(in millions LAK)</i>	
Cash flows from operating activities		
(Loss) profit before income tax expense	(34,651)	13,466
<i>Adjustments for</i>		
Interest income	(86,327)	(78,549)
Interest expense	23,725	18,736
Allowance for doubtful debts	62,370	3,528
Depreciation and amortisation	7,886	9,950
Gain from fixed assets disposal	(372)	(8)
Loss from operations before change in operating assets and liabilities	(27,369)	(32,877)
<i>Change in operating assets / liabilities</i>		
Change in statutory deposits	146	(8,102)
Change in loans and advances to customers	(162,501)	(107,377)
Change in other assets	22,537	13,182
Change in deposits from customers	17,499	103,028
Change in deposits from banks	(179,854)	44,623
Change in other liabilities	4,210	(17,560)
Interest received	85,480	75,667
Interest paid	(22,878)	(17,676)
Advance income tax paid	(3,369)	(3,129)
Net cash (used in)/from operating activities	(266,099)	49,779
Cash flows from investing activities		
Acquisition of property and equipment	(2,808)	(6,598)
Addition of Intangibles	(9,280)	(1,461)
Sales proceed from disposal of Investment	20,000	-
Proceeds from disposal of assets	732	-
Net cash (used in)/from investing activities	8,644	(8,059)
Cash flows from financing activities		
Loan from related party	122,752	(65,397)
Net cash (used in)/from financing activities	122,752	(65,397)

Banque Franco - Lao Limited
Statement of cash flows

	<i>Note</i>	Year ended 31 December	
		2017	2016
		<i>(in millions LAK)</i>	
Net change in cash and cash equivalents		(134,703)	23,676
Cash and cash equivalents at 1 January		370,712	394,389
Cash and cash equivalents at 31 December	6	236,009	370,712

The accompanying notes form an integral part of these financial statements.

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

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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. 1211/09 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).

Paid-up capital

The registered charter capital of the Bank is LAK 300,000 million. As at 31 December 2017, the actual paid-up capital of the Bank is LAK 300,000 million (31 December 2016, LAKm 300,000). The principal activities of the Bank are to provide comprehensive banking and related financial services in Lao P.D.R.

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 22 January 2017
Mr. Olivier Klein	Deputy chairman	Appointed on 22 January 2017
Mr. Guillaume Perdon	Member	Appointed on 22 January 2017
Mr. Marc Robert	Member	Appointed on 22 January 2017
Mr. Xaythong Phomphithack	Member	Appointed on 22 January 2017
Mr. Sivath Sengdoangchanh	Member	Appointed on 22 January 2017
Mr. Bernard Ramanantsoa	Member	Appointed on 22 January 2017

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. 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. Pascale Rouzies	Director of Administration, Corporate Affairs and Human Resource	Appointed on 01 May 2009
Ms. Annette Philaphandeth	Chief Financial Officer	Appointed on 29 December 2017
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

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).

2 Basis of preparation of the financial statements

(a) General basis of accounting

(i) Basis of preparation

The accompanying financial statements are expressed in Lao Kip ("LAK"), in accordance with Decree No. 02/PR by the Prime Minister of Lao PDR dated 22 March 2000 and the Enterprise Accounting Law of Lao PDR and accounting regulations of the Bank of Lao PDR and accounting rules in the Lao PDR. This is also the functional currency of the Bank.

The financial statements have been prepared in accordance with accounting regulations of the Bank of Lao PDR and accounting rules in the Lao PDR, which may differ in some material respects from International Financial Reporting Standards and the generally accepted accounting principles and standards of other countries. Accordingly, the accompanying financial statements are not intended to present the financial position, results of operations, changes in equity, cash flows and notes thereto in accordance with generally accepted accounting principles and practices in countries or jurisdictions other than the Lao PDR. Furthermore, their utilization is not designed for those who are not informed about the Lao PDR's accounting rules, procedures and practices.

The financial statements were authorized for issue on behalf of the Board of Management on 30 March 2018.

(ii) Basis of measurement

The financial statements have been prepared on the historical cost basis except as stated in the accounting policies. The accounting policies have been consistently applied by the Bank and are consistent with those used in the previous year except otherwise stated.

(iii) Use of judgments and estimates

The preparation of the Bank's financial statements requires management to make judgments, estimates and assumptions based on the management's best knowledge of current events and actions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, expenses and the disclosures of contingent liabilities at the reporting date.

Estimates and underlying assumptions are reviewed on an ongoing basis. Actual outcomes may differ from management's assessment and such differences could require revisions that are recognized in the period in which the estimates are revised and in any future periods affected.

(b) Foreign currency transactions

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

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rates at the reporting date. All realized and unrealized foreign exchange differences arising from translation are recognized in the statement of income.

Non-monetary assets and liabilities measured at cost in foreign currencies are translated to the function currency at the exchange rates at the dates of transactions.

The applicable exchange rates for the LAK against currencies were:

	31 December 2017	31 December 2016
United State Dollar ("USD")	8,285.00	8,179.00
Thai Baht ("THB")	253.91	228.00
Euro ("EUR")	9,866.00	8,512.00
Great Britain Pound ("GBP")	10,956.00	9,833.00

(c) Fiscal Year

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

3 Significant accounting policies

The significant accounting policies set out below have been adopted by the Bank in the preparation of the financial statements.

(a) Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid short-term investments with an original maturity of less than or equal to 3 months that are readily convertible to known amount of cash and accounts due from banks with original maturity of less than or equal to 3 months.

(b) Loans to customers

Loans and advances are originated by the Bank providing money to a customer for purposes other than short-term profit taking. They are stated at the outstanding principal balances less an impairment allowance for bad debt and doubtful loans and advances, to reflect the estimated recoverable amount. Loans and advances, except bank overdrafts, are shown exclusive of accrued interest receivable.

(c) Provision for loans

In accordance with Regulation 324/BOL ("BOL324") dated 19 April 2011, the Bank is required to classify loans and create provision for impairment losses. Accordingly, loans are classified into Performing loans or Non-performing loans based on the payment arrears

status and other qualitative factors. Loans classified as either Normal or Pass (Group A) or Watch or Special Mention (Group B) are considered as performing loans. Loans classified as either Substandard (Group C) or Doubtful (Group D) or Loss (Group E) are considered as Non-performing loans.

According to BOL324, provision for loans to customers is established by multiplying the outstanding balance of each loan item with the provision rates applicable to that loan classification as follows:

Classification	Number of days past due	Provision
Normal or Pass (A)	0-29 days	0.5%
Watch or Special mention (B)	30-89 days	3%
Substandard (C)	90-179 days	20%
Doubtful (D)	180-359 days	50%
Loss (E)	Over 360 days	100%

Changes in provision for non-performing loans is recorded to the income statement as "Net provision charges for non-performing loans". Accumulated specific provision reserve for non-performing loans is recorded in the balance sheet in "Loans and advances to customers, net of specific provision for NPL"

In accordance with BOL324, the Bank is required to create a general provision for loan losses at the rate of 3% of the total balance of Watch or Special Mention loans as at the reporting date and general provision made for Normal or Pass loans shall be upon the BoL's notification for each year. For the year ended 31 December 2017, the general provision rate for Normal or Pass loans is ranging from 0.5% to 1% in accordance with the Official Letter No. 242/BOL issued by the Bank of Lao P.D.R on 2 April 2011. Accordingly, the Bank provided general provision at rate of 0.5% out of total balance of Normal or Pass loans.

The Bank complied with the BOL's regulations on general provision provided for Normal or Pass and Watch or Special loans for the year ended 31 December 2017.

In accordance with the relevant accounting regulations as stipulated by the Bank of Lao P.D.R, any changes in general provision for credit activities are recorded to the income statement as "Other operating expenses" for general provision expense and "Other operating income" for reversal of general provision expense and the balance of general provision reserve is recorded in the balance sheet in "General provision for credit activities" under capital and reserves of the Bank.

(d) Investment securities

Held-to-maturity securities

These are investments with a fixed or determinable or determinable payments and fixed maturities which the Bank has the intention and ability to hold till maturity.

Held-to-maturity securities are initially recognized at cost and subsequently measured at cost.

Periodically, the held-to-maturity securities are subject to review for impairment.

(g) Property and equipment

Property and equipment consist of building and improvements, office equipment, furniture and fixtures, motor vehicles, construction in progress and project at development phases.

The cost of an asset comprises its purchase price plus any directly attributable costs; of bringing the asset to working condition for its intended use.

Expenditures for additions, improvements and renewals are capitalized and expenditures for maintenance and repairs are charged to the income statement.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and

Maintenance are charged to statement of income during the reporting period in which they are incurred. Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the assets and are recognized in the income statement on the date of retirement or disposal.

Property and equipment are stated at cost less accumulated depreciation, if any fully depreciated assets are retained on the balance sheets until disposed of or written off depreciation and amortization of fixed assets are provided on the straight line basis at prescribed rates over their estimated useful life. The following are the annual rates use for:

Depreciation

Leasehold improvement	10%
Electronic equipment	20%
Furniture, fitting and office equipment	10%
Vehicle	20%

(h) Intangible asset

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

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

Acquired computer software licenses are capitalized 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. Capitalized 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 maintenances, are expensed when incurred.

Intangible assets are stated at cost less accumulated depreciation, if any.

The intangible assets are amortized using straight line method at an annual rate of 20%

(i) Amounts due to customers and to banks

Amounts due to customers and to banks are deposits from customers and other banks are stated at placement value.

(j) Reserves

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

- Regulatory reserve fund
- Business expansion fund and other funds

In accordance with the Law on Enterprise (Revision) No.46/NA dated 26 December 2013, the Bank is required to provide statutory reserve at a rate of 10% on profit after deducting retained loss. The Bank can stop reserving when the statutory reserve has reached up to 50 percentage of Registered Capital.

(k) Employee benefits

Termination benefits

In accordance with Article 82 of the Amended Labor Law issued by the President of Lao People's Democratic Republic on 24 December 2013, the Bank has the obligation to pay compensation for employees who are terminated in the following cases:

- The worker lacks specialized skills or is not in good health and has a medical certificate, and after allowing the worker in question to undertake other, more appropriate work according to their ability and health, yet the person in question is still unable to work;

- The employer considers it necessary to reduce the number of workers in order to improve the work within the labor unit after consulting the trade union or employee representative or the majority of employees, and has reported to the Labor Administration Agency.

For the termination of an employment contract on any of the above-mentioned grounds, the employer must pay compensation allowance which is calculated on the basis of 10% of the last salary or wage multiplied by the total number of months worked. As at 31 December 2017, there was 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.

Post employment benefits

Post employment benefits are paid to retired employees of the Bank by the Social Security organisation 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 to the Security Welfare at the rate of 6.00% of SSO threshold on a monthly basis (maximum SSO threshold is LAK 4,500,000, new max threshold effective from 1 Jan 2017). The Bank has no further obligation concerning post-employment benefits for its employees other than this.

(l) 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 recognized as expense in the period in which termination takes place.

(m) Taxation

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the date of the statement of financial position. 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.

Provision is made for taxation based on the current year's total revenue as per the laws governing taxation within the Lao P.D.R. For each profitable year, the Bank is subject to the current tax rate of 24% on total taxable income.

(n) Income recognition

Interest income is recognized on a daily accrual basis, except in relation to non-performing accounts. Where an account becomes non-performing, the recording of interest as income is suspended until it is realized on a cash basis. Customers' accounts

are deemed to be non-performing where repayments are in arrears for more than 90 days, in accordance with BoL regulations.

Fees and commissions consist of fees received from fund transfer transactions, trade settlement, foreign currency exchange transactions, ATM transaction fee, financial guarantees, facility approval fees, maintaining and administering existing facilities and others. Fee and commission income are recognized in to the income statement on cash basis.

Income from the various activities of the Bank is accrued using the following bases:

- (i) Loan arrangement fees and commissions on services and facilities extended to customers are recognized on the occurrence of such transactions;
- (ii) Commitment fees and guarantee fees on services and facilities extended to customers are recognized as income over the period in which the services and facilities are extended; and
- (iii) Service charges and processing fees are recognized when the service is provided.

(i) Interest expense

Interest expense on deposits is recognized on a daily accrual basis.

(I) 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.

4. Cash and balances with Central Bank

	31 December 2017	31 December 2016
	LAK	LAK
	(in millions)	(in millions)
Cash on hand in LAK.	31,776	33,419
Cash on hand in foreign currencies (FC).	19,360	20,909
	51,136	54,328
Balances with the BOL		
- Demand deposit.	81,063	172,006
- Compulsory deposits	52,020	52,166
	133,083	224,172
	184,219	278,500

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, (2016:5.00% and 10.00%) of customer deposits.

5. Amount due from other banks

	31 December 2017	31 December 2016
	LAK	LAK
	(in millions)	(in millions)
Demand deposits with domestic banks	17,596	27,849
Demand deposits with overseas banks	86,214	110,479
Savings deposits at domestic banks	-	1,495
Savings deposits with overseas banks	-	4,555
	103,810	144,378

6. Cash and cash equivalents

	31 December 2017	31 December 2016
	LAK	LAK
	(in millions)	(in millions)
Cash on hand (Note 10)	51,136	54,328
Demand deposit at the BOL (Note '10)	81,063	172,006
Demand deposits at other banks (Note 11.1)	103,810	144,378
	236,009	370,712

7. Investment in securities

	31 December 2017	31 December 2016
	LAK	LAK
	(in millions)	(in millions)
Held-to-maturity securities - Bonds issued by the Ministry of Finance, Lao PDR	-	20,000
	-	20,000

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	interest rate per annum (%)
1 Year	23-Sep-2016	23-Sep-2017	20.000	5%

8. Loans to customers' net of provision for non-performing loans.

	31 December 2017 LAK (in millions)	31 December 2017 LAK (in millions)
Commercial loans	1,032,138	870,755
Less provision for loan losses	(66,752)	(5,810)
	<u>965,386</u>	<u>864,945</u>

(a) Classified by interest rate (per annum)

Interest rates for commercial loans as at the balance sheet date are as follows:

	31 December 2017 interest rates % per annum	31 December 2016 interest rates % per annum
Loans in LAK	8.00% - 12.00%	8.00% - 16.00%
Loans in USD	5.00% - 10.50%	5.00% - 19.24%
Loans in THB	5.00% - 10.50%	6.00% - 14.00%
Loans in EUR	4.00% - 9.50%	7.00% - 12.00%

(b) Classified by currency

	31 December 2017 LAK (in millions)	31 December 2016 LAK (in millions)
Loans in LAK	254,934	170,939
Loans in USD	557,459	652,458
Loans in THB	48,093	45,258
Loans in EUR	171,652	2,100
	<u>1,032,138</u>	<u>870,755</u>

(c) Classified by performance

	31 December 2017 LAK (in millions)	31 December 2016 LAK (in millions)
Performing loans	905,100	858,615
Non-performing loans	127,038	12,140
	<u>1,032,138</u>	<u>870,755</u>

(d) Change in provision for loan losses

Movement of provision for loan losses of the Bank during the year 2017 is as follows:

	Provision for NPL LAK (in millions)	General provision LAK (in millions)	Total Provision LAK (in millions)
Balance as at 1 January 2017	5,810	4,298	10,108
Provision for the year	60,942	1,709	62,651
Reversal of provision in the year	-	(281)	(281)
Balance at 31 December 2017	66,752	5,726	72,478

Movement of provision for loan losses of the Bank during the year 2016 is as follows:

	Provision for NPL LAK (in millions)	General provision LAK (in millions)	Total Provision LAK (in millions)
Balance as at 1 January 2016	2,716	3,864	6,580
Provision for the year	6,252	950	7,202
Reversal of provision in the year	(3,158)	(516)	(3,674)
Balance at 31 December 2016	5,810	4,298	10,108

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The breakdown of loan classification and provision as required by the BOL as at 31 December 2017 are as follows:

Classification	Loan balance LAK (in millions)	Provision for NPL LAK (in millions)	General provision LAK (in millions)	Total provision LAK (in millions)
Performing loans	905,100	-	5,726	5,726
- Normal or Pass	856,076	-	4,285	4,285
- Watch or Special Mention	48,024	-	1,441	1,441
Non-Performing loans	127,038	66,752	-	66,752
- Substandard	32,333	6,466	-	6,466
- Doubtful	68,839	34,420	-	34,420
- Loss	25,866	25,866	-	25,866
Total	1,032,138	66,752	5,726	72,478

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The breakdown of loan classification and provision as required by the BOL as at 31 December 2016 are as follows;

Classification	Loan balance LAK (in millions)	Provision for NPL LAK (in millions)	General provision LAK (in millions)	Total provision LAK (in millions)
Performing loans	858,615	-	4,298	4,298
- Normal or Pass	858,410	-	4,292	4,292
- Watch or Special Mention	205	-	6	6
Non-Performing loans	12,140	5,810	-	5,810
- Substandard	4,092	818	-	818
- Doubtful	6,114	3,057	-	3,057
- Loss	1,934	1,935	-	1,935
Total	870,755	5,810	4,298	10,108

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9. Intangibles

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	529	790	1,319
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	2,249	-	2,249
At 31 December 2016	<u>529</u>	<u>790</u>	<u>1,319</u>

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10. Property and equipment

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	1,030	65,787
Transferred from CIP	-	-	-	-	(1,030)	(1,030)
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	1,030	31,680
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	Office equipment	Furniture & fixture	Motor vehicles	Construction in progress	Total
	LAK (in millions)	LAK (in millions)	LAK (in millions)	LAK (in millions)	LAK (in millions)	LAK (in millions)
Cost						
At 1 January 2016	26,896	25,194	2,808	4,235	83	59,216
Additions	1,239	3,942	85	385	947	6,598
Disposals	-	(5)	(22)	-	-	(27)
At 31 December 2016	28,135	29,131	2,871	4,620	1,030	65,787
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	18,979	9,743	1,688	2,256	83	32,648
At 31 December 2016	18,357	9,052	1,469	1,772	1,030	31,680

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11. Other assets

	2017 LAK (in millions)	2016 LAK (in millions)
Accrued interest receivables	12,070	6,895
Cheques in collection	441	343
Security deposits	197	554
Prepayments	18,398	18,090
Payments made on behalf of Bred	754	-
Others (*)	6,067	29,406
	37,927	55,288

(*) Included in "Others" is LAKm 3,355 (31/12/2016: LAKm 25,485) being the POS transactions awaiting for settlement from VISA, Master card

12. Amount due to banks

	2017 LAK (in millions)	2016 LAK (in millions)
Demand deposits	49,267	131,749
Term deposits	-	97,372
Borrowings from other banks	286,333	163,580
	335,600	392,701

*Following are the details for the loans due to Bred Banque Populaire and IFC

Borrowings from	Currency	Date-Start	Date-End	Term	Interest rate	Outstanding 2017 in LAK (in million)	Accrued interest 2017 in LAK (in million)
Bred Banque Populaire	EUR	20-Sep-17	9-Sep-24	7 years	1.8% per annum plus 6 months LIBOR rate	102,879	97
Bred Banque Populaire	USD	21-Nov-16	21-Nov-23	7 years	1.8% per annum plus 6 months LIBOR rate	142,029	411
International Finance Corporation: IFC	USD	30-Jun-17	15-Apr-22	5 years	2.7% per annum plus 3 months LIBOR rate	41,425	379

13. Amounts due to customers

	2017 LAK (in millions)	2016 LAK (in millions)
Demand deposits	260,511	279,014
In LAK	49,525	48,500
In foreign currencies	210,986	230,514
Saving deposits	119,459	129,715
In LAK	20,680	17,069
In foreign currencies	98,779	112,646
Term deposits	303,398	257,139
In LAK	28,823	15,352
In foreign currencies	274,575	241,787
	683,368	665,868

Interest rates for customer's deposits during the year are as follows:

	2017 Interest rate % per annum	2016 Interest rate % per annum
Saving deposits in LAK	1.91%	1.91%
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%

14. Other liabilities

	2017 LAK (in millions)	2016 LAK (in millions)
Accrued interest payables	8,669	6,684
Corporate Income tax payable	-	793
Personal income tax payable	305	173
Other liabilities*	16,940	14,056
	25,914	21,706

*Other liabilities includes payable relating to visa cards, deferred revenue amounting to LAK 2,458 million against a major customer and interest suspended against NPL loans.

15. Statutory reserve

The statutory reserve is provided for at the rate of at least 10% of profit for the year in accordance with the BOL regulations. During the year the bank suffered a net loss of 34,651 million as a result statutory reserve was not provided.

16. Net interest and similar income

	2017 LAK (in millions)	2016 LAK (in millions)
Interest and similar income from		
Interbank transactions	7	15
Loans to customers	85,593	77,624
Held-to-maturity securities	727	910
	86,327	78,549
Interest and similar expense for		
Interbank transactions	(7,083)	(4,546)
Customers' deposits	(16,642)	(14,190)
	(23,725)	(18,736)
	62,602	59,813

17. Net fees and commission income

	2017 LAK (in millions)	2016 LAK (in millions)
Fees and commission income from		
Settlement services	8,745	5,768
Guarantee activities	716	1,067
Treasury activities	5,565	7,170
Fees for assistance and advising activities	3,374	3,989
Other activities	236	130
	<u>18,636</u>	<u>18,124</u>
Fees and commission expenses for		
Settlement services	(5,302)	(5,613)
Other activities	(1,733)	(1,152)
	<u>(7,035)</u>	<u>(6,765)</u>
Net fee and commission income	<u>11,601</u>	<u>11,359</u>

18. Other operating income

	2017 LAK (in millions)	2016 LAK (in millions)
Reversal of general provision for loan losses Note 13(d)	281	516
Others	1,602	393
	<u>1,883</u>	<u>909</u>

19. Administration expenses

(a) Payroll and other staff costs

	2017 LAK (in millions)	2016 LAK (in millions)
Wages and salaries	16,475	16,632
Insurance expense for employees	753	447
Other staff costs	1,341	390
	<u>18,569</u>	<u>17,469</u>

(b) General administration expenses

	2017 LAK (in millions)	2016 LAK (in millions)
Business trip	226	409
External service	12,779	12,093
Fuel	202	249
Office stationeries	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	1,021	994
Repairs and maintenance	1,560	1,488
Tools and equipment	713	22
Insurance fee	846	810
Office rental	5,379	5,073
Entertainment expenses	97	266
	<u>29,419</u>	<u>28,300</u>

20. Other operating expenses

	2017 LAK (in millions)	2016 LAK (in millions)
General provision expenses (Note 13(d))	1,709	950
Others	1,237	2,408
	<u>2,946</u>	<u>3,358</u>

21. Current corporate income tax

The corporate tax expense is calculated at 24% on taxable profit. The calculation of taxable income is subject to review and approval by tax authorities.

	2017 LAK (in millions)	2016 LAK (in millions)
(Loss) profit before tax for the year	(34,651)	13,466
Non - deductible expenses	135	199
(Loss) taxable Profit	(34,516)	13,665
Tax at 24%	-	3,280

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.

22. 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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Transactions with related parties are carried on contractually agreed terms.

Significant balances as of 31 December 2017 with related parties are as follows:

Related party	Relationship	Transactions	Receivables LAK <i>(in millions)</i>	Payables LAK <i>(in millions)</i>
Banque Pour Le Commerce Exterieur 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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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>

23. 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>

24. 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
Collaterals and mortgages for guarantees given to customers		
	<u>7,090,232</u>	<u>2,601,859</u>

25. Reclassification

Loan and Advances and capital and other reserves in the statement of financial position as at 31 December 2016 have been reclassified to conform to the presentation in the 2017 financial statements.

	Before Reclassification	Reclassification (in million LAK)	After reclassification
<i>Statement of financial position as at 31 December 2016</i>			
Assets			
Loan and advances net of specific provision	860,945	4,298	864,945
Capital and other reserves			
General Provision for credit activities	-	4,298	4,298