

Banque Franco - Lao Limited

Financial statements for the year ended
31 December 2018
and
Independent Auditor's Report

Banque Franco - Lao Limited

Contents	Page
Corporate information	1
Independent auditors' report	2-3
Statement of financial position	4-5
Statement of profit or loss and other comprehensive income	6
Statement of changes in equity	7
Statement of cash flows	8
Notes to the financial statements	9-74

Banque Franco - Lao Limited

Corporate Information

Bank Banque Franco - Lao Limited

Investment License No. 124-10/MPI4, dated 07 SEP 2010

Enterprise License No. Enterprise Registration Certificate No.0013/ERO, dated 08 JAN 2019

Board of Directors	Mr. Marc Robert	Chairman
	Mr. Nanthalath Keopaseuth	Deputy Chairman
	Mr. Olivier Klein	Director
	Mr. Guillaume Perdon	Director
	Mr. Xaythong Phomphithack	Director
	Mr. Sivath Sengdoangchanh	Director
	Mr. Bernard Ramanantsoa	Director

Board of Management

Mr. Arnaud Caulier	Managing Director
Mr. Bounmy Sengpachanh	Deputy Managing Director
Mr. Elie Behar	Chief Credit Officer
Mr. Kamal Benchabane	Chief Risk Officer
Ms. Agathe Carniel	Chief Financial Officer
Ms. Lungnapah Phapaseuth	Head of Credit
Ms. Annette Philaphandeth	Head of Operations
Ms. Sirivone Phimmasone	Head of Back Office
Ms. Pascale Rouzies	Director of Administration, Corporate affairs and Human Resources

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
10th Floor, Royal Square Office Building
Samsenthai Road, Nongdoun Nua Village
Sikhotabong District
PO Box 6978
Vientiane Capital, Lao PDR



KPMG Lao Co.,Ltd.
10th Floor, Royal Square Office Building,
Samsenthai Road, Nongduong Nua Village,
Sikhotabong District, P.O.Box 6978,
Vientiane, Lao PDR
Tel +856 (21) 454240-7

ບໍລິສັດ ເຄມີເອັມຈີລາວ ຈຳກັດ
ຊັ້ນ 10, ອາຄານ ໂຮໂຢລສະແຄລ
ຖະໜົນ ສາມແສນໄທ, ບ້ານ ຫນອງດ້ວງເໜືອ,
ເມືອງ ສີໂຄດຕະບອງ, ຕູ້ ປ.ນ. 6978,
ນະຄອນຫຼວງວຽງຈັນ, ສປປ ລາວ
ໂທ : +856 (21) 454240-7

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 2018, the statements of profit or loss and other comprehensive income, of changes in equity and 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 2018 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRS”).

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 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.

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



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

12 March 2019

Banque Franco - Lao Limited
Statement of financial position
As at 31 December 2018

		31 December		1 January
	<i>Note</i>	2018	2017 (Restated)	2017 (Restated)
		<i>(in millions LAK)</i>		
Assets				
Cash	5, 23	31,828	51,136	55,078
Interbank and money market items				
Amounts due from other banks	6	114,091	103,810	144,378
Statutory deposits with central bank	7	82,026	133,083	223,422
Loans and advances, net	8	914,315	1,021,188	869,234
Financial investment – held to maturity		-	-	20,274
Property, plant and equipment	9	22,476	26,123	30,993
Intangible assets	9	11,449	10,029	1,319
Other assets	10	23,537	23,279	48,253
Deferred tax asset	11	8,789	-	-
Total assets		1,208,511	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
As at 31 December 2018

		31 December	1 January
	<i>Note</i>	2018	2017 (Restated)
			(Restated)
		<i>(in millions LAK)</i>	
Liabilities and equity			
Liabilities			
Deposit from customer	12	702,279	671,170
Interbank and money market items			
Amounts due to other banks	13	46,977	230,507
Borrowing from related party	14	163,170	163,438
Tax liabilities	15	-	1,093
Other liabilities	16	21,731	18,368
Total liabilities		934,157	1,084,576
Equity			
Paid-up capital	17	300,000	300,000
Statutory reserve		1,481	1,462
Retained earnings		(27,127)	6,913
Total equity		274,354	308,375
Total liabilities and equity		1,208,511	1,392,951

The accompanying notes form an integral part of these financial statements

Banque Franco - Lao Limited
Statement of profit or loss and other comprehensive income
For the year ended 31 December 2018

	<i>Note</i>	Year ended 31 December	
		2018	2017 (Restated)
		<i>(in million LAK)</i>	
Interest and similar income	18	81,595	87,944
Interest and similar expense	19	(25,902)	(23,725)
Net interest income		55,693	64,219
Fee and commission income		12,798	18,636
Fee and commission expense		(13,375)	(7,035)
Net fee and commission income	20	(577)	11,601
Gain on foreign exchange		4,820	9,025
Other income		585	1,601
Total operating income		60,521	86,446
Operating Expenses			
Personnel expenses	21	(22,709)	(18,569)
Premises, depreciation and amortization		(7,049)	
Expenses			(7,886)
Other operating expenses	22	(37,676)	(30,658)
Impairment allowance		(21,894)	(15,874)
Total operating expenses		(89,328)	(72,987)
(Loss)/profit before income tax expense		(28,807)	13,459
Income tax benefit/(expense)	11,15	16,779	(2,874)
(Loss)/profit for the year		(12,028)	10,585
Other comprehensive income			
Other comprehensive income for the year, net of tax		-	-
Total comprehensive (loss)/income for the year, net of tax		(12,028)	10,585

Banque Franco - Lao Limited
Statement of Changes in Equity (Restated)
For the year ended 31 December 2018

	Paid-up capital LAK (in millions)	Retained earnings LAK (in millions)	Statutory reserve LAK (in millions)	Total LAK (in millions)
Balance as at 1 January 2017	300,000	12,361	1,462	313,823
Impact of change in accounting policy	-	(5,448)	-	(5,448)
Balance as at 1 January 2017	300,000	6,913	1,462	308,375
Profit for the year	-	10,585	-	10,585
Balance as at 31 December 2017	300,000	17,498	1,462	318,960
Balance as at 1 January 2018	300,000	17,498	1,462	318,960
Adjustment in statutory reserves	-	-	19	19
Other adjustment	-	661	-	661
Changes on initial application of IFRS 9- 3(b)(ii)	-	(33,258)	-	(33,258)
Restated balance as of 1 January 2018	300,000	(15,099)	1,481	286,382
Loss for the year	-	(12,028)	-	(12,028)
Balance as at 31 December 2018	300,000	(27,127)	1,481	274,354

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 2018

	For the year ended 31 December	
	2018	2017 (Restated)
	LAK	LAK
<i>Note</i>	<i>(in millions)</i>	<i>(in millions)</i>
<i>Cash flows from operating activities</i>		
(Loss)/profit before income tax	(28,807)	13,459
<i>Adjustments for:</i>		
Interest income	(81,595)	(87,944)
Interest expense	25,902	23,725
Provision for bad debt and doubtful loans and advances	21,893	15,874
Gain from disposal of fixed assets	(121)	(372)
Depreciation and amortisation	7,049	7,886
	(55,679)	(27,372)
Change in operating assets / liabilities		
Change in statutory deposits	(756)	146
Change in loans and advances to customers	54,954	(167,827)
Change in other assets	2,322	24,973
Change in deposits from customers	11,952	19,729
Change in deposits from banks	(2,154)	(181,240)
Change in other liabilities	(1,165)	4,704
Interest received	85,678	85,480
Interest paid	(26,232)	(22,878)
Income tax paid	-	(3,369)
Net cash generated from/(used in) operating activities	68,920	(267,654)
<i>Cash flows from investing activities</i>		
Acquisition of property and equipment	(3,669)	(2,808)
Proceeds from disposal of assets	2,057	732
Acquisition of intangibles	(3,089)	(9,280)
Disposal of investments	-	20,274
Net cash (used in)/ generated from investing activities	(4,701)	8,918
<i>Cash flows from financing activities</i>		
Loan from related party	(123,796)	124,033
Net cash from (used in)/generated from financing activities	(123,796)	124,033
Net decrease in cash and cash equivalents	(59,577)	(134,703)
Cash and cash equivalents at 1 January	236,009	370,712
Cash and cash equivalents at 31 December	176,432	236,009

23

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

Note	Contents
1	Reporting entity
2	Basis of financial statement preparation
3	Changes in accounting policies
4	Significant accounting policies
5	Cash
6	Amount due from other banks
7	Statutory deposits with Central Bank
8	Loans and advances
9	Property and equipment, Intangibles
10	Other assets
11	Deferred tax asset
12	Deposits from customers
13	Amounts due to other banks
14	Borrowings from related party
15	Tax liabilities and current tax
16	Other liabilities
17	Paid up capital
18	Interest and similar income
19	Interest expense
20	Net fee and commission income
21	Personnel expenses
22	Other operating expenses
23	Cash and cash equivalents
24	Related party transactions
25	Operating lease commitments
26	Off balance sheet items
27	Financial Risk management
28	Capital management
29	Fair value of financial assets and liabilities
30	Events after reporting period
31	International Financial Reporting Standards (IFRS) not yet adopted

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

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 Exterieur 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. 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).

The registered charter capital of the Bank is 300,000 million of KIP (“LAKm”). As at 31 December 2018, the actual charter capital of the Bank is LAKm 300,000 (31 December 2017: 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 2018, the Bank had 165 (2017: 172) 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 12 March 2019.

In preparing these financial statements, the significant judgments made by management in applying the Bank’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as of and for the year ended 31 December 2017, except for the change in the accounting policy in relation to IFRS 9 and IFRS 15 effective from 1 January 2018. The nature and the effect of these changes are disclosed in note 3.

The bank followed the regulation of BOL in respect of provisioning of loans and advances for the year ended 31st December 2017 instead of 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, therefore prior year information is not comparable to the information presented for 2018 under IFRS 9.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except as stated in the significant accounting policies (Note 4).

(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.

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

(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.

In preparing these financial statements, the significant judgments made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those applied to the audited financial statements as at and for the year ended 31 December 2017, except for the below which were as a result of adoption of IFRS 9:

Financial asset classification:

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

Impairment of financial instruments

Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

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 8: Loans and advances

(e) Fiscal Year

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

3 Changes in accounting policies

Except for the changes below, the Bank has consistently applied the accounting policies as set out in Note 4 to all periods presented in these financial statements.

The accounting policies applied in these financial statements are the same as those applied in the last annual financial statements except for changes resulting from adoption of the following:

(a) IFRS 15 – Revenue from contract with customers

The Bank has adopted IFRS 15 as issued by IASB with effect from 1 January 2018. This standard has superseded all revenue recognition requirements under IFRS and provides a principle based approach for revenue recognition with the introduction of concept for revenue recognition for performance obligation as they are satisfied. The Bank has assessed the impact of IFRS 15 and concluded that the application of this standard does not have any material impact on Bank's financial statements.

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

(b) IFRS 9 – Financial Instruments

The Bank has adopted IFRS 9 as issued by IASB in July 2014 with effect from 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Bank did not early adopt IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and financial liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

Consequently for notes disclosure, disclosures were also made only for the current period. The comparative notes disclosures repeat those disclosures made in the prior year.

(i) Classification and measurements of financial instruments

The adoption of IFRS 9 has resulted in changes in Bank's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets and are summarized below;

Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

On initial recognition, a financial asset is classified as measured at; amortised cost, FVOCI or FVTPL. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL;

- The asset is held within business model whose objective is to hold assets to collect contractual cash flows: and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL;

- The asset is held within business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For an equity instrument that is not held for trading, the bank may elect at initial recognition to irrevocably designate those instruments under FVOCI. This election is made on an investment on investment basis. All other financial assets are classified as measured at FVTPL. Under FVOCI, fair value changes are recognised in other comprehensive income (OCI) while dividends are recognised in profit or loss. On disposal of the investment the capital gain / loss is required to remain in OCI and is not recycled to profit or loss.

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

In addition, on initial recognition the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. For an explanation of how the Bank classifies financial assets under IFRS 9 see Note 4J

IFRS 9 removes the requirement contained in IAS 39 relating to bifurcation of an embedded derivative from an asset host contract. However, entities are still required to separate derivatives embedded in financial liabilities where they are not closely related to the host contract.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognized in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss model' in IAS 39 with an expected credit loss model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Bank applies impairment requirements of IFRS 9 see note 4(b)(vi)

(ii) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

IFRS 7 Financial instrument: Disclosures which were updated to reflect the differences between IFRS 9 and IAS 39 was also adopted by the Bank with IFRS 9, for the year beginning 1 January 2018.

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

The following table reconciles the closing impairment allowance under Lao GAAP to opening allowance determined in accordance with IFRS 9 on the initial application date:

	Impairment allowance under Lao GAAP as at 31 December 2017 (in million LAK)	Re-measurement (in million LAK)	Impairment allowance under IFRS 9 as at 1 January 2018 (in million LAK)
Loans and advances	23,020	24,831	47,851
Amount due from other banks	-	944	944
Statutory deposits with central bank	-	1,797	1,797
Financial guarantees	-	570	570
Subtotal	-	28,142	51,162
Deferred tax liability	-	5,116	5,116
Total	23,020	33,258	56,278

(c) Fair Value measurement

With effect from 1 January 2018, the Bank adopted the requirements for IFRS 13 - Fair Value measurement, the requirements of which are as under:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Bank.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, which reflects the significance of inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, group, pricing service or regulatory agency, and those prices represent actual and regularly recurring market transactions on an arm's length basis.

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs based on unobservable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The hierarchy used by the Bank is set out in note 29.

(d) Income recognition

With effect from 1 January 2018, the Bank has changed its policy for recording of interest income. Interest income is now recognised in profit or loss using the effective interest method. The effective interest rate is the rate that discounts the estimated future cash receipts through the expected life of the financial asset (or where appropriate the shorter period) to the carrying amount of the financial asset. When calculating the effective interest rate, the Bank estimated future cash flows considering all contractual terms of the financial instruments. The calculation of the effective interest rates includes all transaction costs and fees and points received that are an integral part of the effective interest rate. Transaction cost include incremental cost that are directly attributable to the acquisition of a financial asset.

The change in accounting policy has been applied retrospectively which impacts the opening retained earnings of the comparative financial year, the related account balances in the statement of financial position and the statement of income.

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

The following table summarises the impact of the changes in accounting policy.

	Before Restatement (in million LAK)	Impact of change in accounting policy (in million LAK)	After Restatement (in million LAK)
Statement of financial position as at 1 January 2017			
Liabilities			
Other liabilities	12,920	5,448	18,368
Capital and other reserves			
Retained Earning	12,361	(5,448)	6,913
Statement of financial position as at 31 December 2017			
Liabilities			
Other liabilities	17,622	3,831	21,453
Capital and other reserves			
Retained Earning	21,329	(3,831)	17,498
Statement of Income for the year 31 December 2017			
Interest income			
Loans and advances	85,593	1,617	87,210

4 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.

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

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

	31 December 2018	31 December 2017
	LAK	LAK
United State Dollar (“USD”)	8,530	8,285
Thai Baht (“THB”)	269.11	253.91
Euro (“EUR”)	9,757	9,866
Great Britain Pound (“GBP”)	10,659	10,956

(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-Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at; amortised cost, FVOCI or FVTPL. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL;

- The asset is held within business model whose objective is to hold assets to collect contractual cash flows: and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL;

- The asset is held within business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI.

In addition, on initial recognition the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

Business model assessment

The Banks' business model reflects how it manages the assets to generate cash flows. Whether it is solely to collect the contractual cash flows from the asset or both the contractual cash flows and from sale of asset. Factors considered by the Bank in determining the business models for group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel and how risks are assessed and managed.

Assessment whether contractual cash flows are solely payments of principal and interest

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represents solely payment of principal and interest. In making this assessment, the Bank considers whether the contractual cash flows are consistent with basic lending arrangement, i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets

Financial assets- Policy applicable before 1 January 2018

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

- 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.

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

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.

(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.

(vi) Impairment

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- financial guarantee contracts issued;
- loan commitments issued;

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- Interbank and money market items on which credit risk has not increased significantly since their initial recognition.

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

Measurement of ECL

Credit loss allowances are measured using a three-stage approach based on the extent of credit deterioration since origination:

Stage 1 – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.

Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD)

These parameters are generally derived from Basel prudential rules

Details of these statistical parameters/inputs are as follows:

PD – The probability of default is an estimate of the likelihood of default over a given time horizon.

EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date.

LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

Assessment of significant increase in credit risk

The expected credit loss model requires the recognition of credit losses based on 12 months of expected losses for performing loans and the recognition of lifetime expected losses on loans that have experienced a SICR since origination. The determination of a SICR takes into account many different macro-economic factors and will vary by product and risk segment. The main factors considered in making this determination are relative changes in probability- weighted probability of default since origination and certain criteria such as 30 day past due and watch list status. The assessment of SICR will require experienced credit judgement.

The bank considers a financial instrument having a significant increase in credit risk based on the following factors:

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

In order to assess as to whether the credit quality of an exposure has deteriorated, the following main credit events are used:

- Delinquencies ;
- Unauthorized Overdrafts.

A 6 months observation period is deemed necessary in order to:

- ensure that temporary credit difficulties faced by clients are indeed cured when they return to stage 1
- avoid undue variability in the Stage 1 / Stage 2 balance in the case of short, yet regular, periods of credit difficulties

An exposure will therefore be deemed belonging to stage 2 category in case of a delinquency or unauthorized overdraft that lasted more than 30 days in the last 6 months.

As credit difficulties could materialize in other ways than the sole delinquencies and overdrafts, and in order to better align with the operational processes within the bank, another criterion is added: any exposure belonging to the BFL watch list will fall under stage 2 category.

Computation of stage 1 impairment loss

The 1 year expected loss is by definition:

1 year default probability (PD) x Exposure At Default (EAD) x Loss Given Default (LGD).

As the bank lacks both number of data points and aging of the observations to statistically assess each of these parameters, default values derived from Basel prudential rules are used.

Loss Given Default

Default value is set at 45% which corresponds to the Basel IRBF parameter for senior claims on corporates, sovereigns and banks.

Exposure At Default

Computation of Exposure At Default also complies with prudential requirements stating that the exposure value of an asset item shall be its remaining accounting value with additional value adjustments. The exposure value of an off-balance sheet item shall be the following percentage of its nominal value:

- (a) 100 % if it is a full-risk item such as a letters of credit;
- (b) 50 % if it is a medium-risk item such as Revolving Credit Facilities;
- (c) 20 % if it is a medium/low-risk item such as trade finance transactions;
- (d) 0 % if it is a low-risk item such as uncommitted credit facilities.

As most transactions in BFL portfolio can be listed as high to medium risk, it is deemed adequate and prudent to set Exposure at Default 100% of drawn and undrawn exposures.

In the absence of sufficient series related to the credit quality of the bank's portfolio, it was decided to refer to the prudential scale used by BRED Group to compute own funds requirements on sovereign exposure.

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

As most of the countries where BRED has international subsidiaries are rated 6 on BRED sovereign scale, the related PD of 3.19% is chosen for all of them in order to ensure an homogeneous process at the Group level.

PD is subsequently rounded to 3% and multiplied by LGD of 45% to obtain the impairment rate of 1.35% for Stage 1 exposures.

Computation of stage 2 impairment loss

Loss Given Default

Default value was set at 45% which corresponds to the Basel IRBF parameter for senior claims on corporates, sovereigns and banks that are not secured by recognized collateral.

Exposure at Default

As for the one year expected loss, a 100% factor is applied to drawn and undrawn committed exposures.

For the sake of simplicity a linear amortization of Exposure at default over 15 years is chosen. Given the practice of the bank in terms of loan profile, with rather long term maturity, the 15 years duration appeared consistent.

Probability of Defaults

As Stage 2 exposures encompass Watch List exposures, prudential PD used for credit risk own funds requirements on Watch list exposures is taken into account. The bank credit granting policy follows general principles and rules defined in accordance with BRED Group credit granting approach.. As a consequence, watch listed items are expected to process from similar credit granting processes and display similar behaviour in terms of default.

As per BRED Group Watch List methodology, credit exposures ranked on credit grades 14 and higher are included in the Watch List. Such exposures bear a PD at least equal to 11.73%.

Marginal PD are then multiplied by the amortization factor (15 years linear amortization as mentioned above), which gives an average weighted PD of 39.4% over the lifetime.

This leads to a provisioning rate of 17.7 % for Stage 2 exposures.

Computation of stage 3 impairment loss

For stage 3 borrowers, Bank follow central bank provisioning model while taking the benefit of collateral held against the exposure with a minimum provision of 20%, except in few cases where provision is kept at 3% as the bank is certain that it will recover the remaining balance in future.

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

Presentation of loss allowance for ECL in statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision.

Policy applicable before 1 January 2018

Provision for loans

The bank followed the objective model of impairment as per Bank of Lao regulations as under

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% - 1%
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%

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.

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

(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:

Building and improvements	5 -10%
Office equipment	20%
Furniture and fitting	10%
Vehicle	20%

- (iii) 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.
- (iv) 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.
- (v) Fully depreciated property and equipment is retained on the balance sheet until disposed of or written off.

(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.

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

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:

The intangible assets are amortized using straight line method at an annual rate of 20-50%.

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

(h) Interest income and expense

Policy applicable from 1 January 2018

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Policy applicable before 1 January 2018

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.

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

(i) Fee and commission

Fee and commission income that are integral to the effective interest rate on the financial asset or financial liability is included in the effective interest rate.

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

Fee income from providing transaction services

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

Fees or components of fees that are linked to a certain performance are recognised as the related services are performed.

Other fee and commission expense relate mainly to transaction and service fee, which are expensed as services are received.

(j) 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.

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

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.

(k) 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.

(l) 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.

(m) 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.

(n) 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.

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

5 Cash

	2018 LAK (in millions)	2017 LAK (in millions)
Lao Kip ("LAK")	18,336	31,776
United States Dollar ("USD")	6,988	10,172
Thai Baht ("THB")	4,353	5,362
Others	2,151	3,826
	31,828	51,136

6 Amount due from other banks

	2018 LAK (in millions)	2017 LAK (in millions)
Demand deposits with domestic banks	18,540	17,596
Demand deposits with overseas banks	95,691	86,214
	114,231	103,810
Accrued interest	128	-
	114,359	103,810
Less: Allowance for impairment losses	(268)	-
	114,091	103,810

Amount due from other banks is classified under stage 1 as per IFRS 9 and the expected credit loss as at 31 December 2018 is LAK 268 million (1 January 2018: LAK 944 million)

a) Classified by currency

	2018 LAK (in millions)	2017 LAK (in millions)
Deposits in LAK	1,653	8,738
Deposits in USD	95,729	64,992
Deposits in THB	4,461	4,993
Deposits in others foreign currencies	12,388	25,087
	114,231	103,810

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

7 Statutory deposits with Central Bank

	2018 LAK (in millions)	2017 LAK (in millions)
Statutory deposits on:		
Compulsory	52,776	52,020
Demand deposits	30,373	81,063
	83,149	133,083
Less: Allowance for impairment losses	(1,123)	-
	82,026	133,083

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

Statutory balance with Central bank is classified under stage 1 as per IFRS 9 and the expected credit loss as at 31 December 2018 is LAK 1,123 million (1 January 2018: LAK 1,797 million)

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 of customer deposits having original maturities of less than 12 months, in LAK and in THB and USD, respectively. During the year, the Bank maintained its compulsory deposits in compliance with the requirements by the BOL.

8 Loans and advances, net of provision

	2018 LAK (in millions)	2017 LAK (in millions)
Loans and receivables:		
Overdrafts	86,868	95,146
Loans	876,108	936,992
	962,976	1,032,138
Accrued interest receivable	7,859	12,070
Loans and advances to customers	970,835	1,044,208
Less: Allowance for impairment losses*	(56,520)	(23,020)
Loans and advances to customers, net	914,315	1,021,188

* Impairment allowance for the prior year was calculated based on the regulations of Bank of Lao PDR. The differences as at the beginning of the year in the loss allowance between IFRS 9 and BOL regulation were recorded in the opening retained earnings and loss allowance for the current year.

a) Classified by performance

	2018 LAK (in millions)	2017 LAK (in millions)
Performing loans	791,396	905,100
Non-performing loans	171,580	127,038
	962,976	1,032,138

b) Classified by currency

	2018 LAK (in millions)	2017 LAK (in millions)
LAK	274,178	254,934
USD	468,366	557,459
THB	50,912	48,093
EUR	169,520	171,652
	962,976	1,032,138

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

c) Classified by interest rate (per annum)

	2018 %	2017 %
Loans in LAK	7.00% - 14.00%	8.00% - 12.00%
Loans in USD	7.00% - 10.00%	5.00% - 10.50%
Loans in THB	8.00% - 10.00%	5.00% - 10.50%
Loans in EUR	8.00%	4.00% - 9.50%

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

	2018 LAK (in millions)	2017 LAK (in millions)
Balance at beginning of the year	23,020	7,146
Net impact due to initial application of IFRS 9*	24,831	-
Provision for loan losses during the year	33,606	16,155
Reversals for loan losses during the year	(24,937)	(281)
Balance at end of the year	56,520	23,020

*Differences as at the beginning of the year in the loss allowance as per IFRS 9 and BOL regulation were recorded in the opening retained earnings and loss allowance for the current year.

9 Property, plant and equipment and Intangible assets

	Note	2018 LAK (in millions)	2017 LAK (in millions)
Tangible fixed assets	9.1	22,476	26,123
Intangible fixed assets	9.2	11,449	10,029
Total		33,925	36,152

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

9.1 Tangible fixed assets

Movement of tangible fixed assets for the year ended 31 December 2018 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 2018	28,878	29,799	2,915	4,459	-	66,051
Additions	-	1,425	822	813	768	3,828
Disposals	(2,482)	(171)		(742)		(3,395)
At 31 December 2018	26,396	31,053	3,737	4,530	768	66,484
Accumulated depreciation						
At 1 January 2018	11,613	24,229	1,689	2,397	-	39,928
Charge for the year	1,830	2,624	333	752	-	5,539
Disposal	(1,169)	(86)	-	(204)	-	(1,459)
At 31 December 2018	12,274	26,767	2,022	2,945	-	44,008
Net book value						
At 1 January 2018	17,265	5,570	1,226	2,062	-	26,123
At 31 December 2018	14,122	4,286	1,715	1,585	768	22,476

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

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

Cost	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)
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

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

9.2 Intangible assets

Movement of intangible assets for the year ended 31 December 2018 is as follows:

	Computer software LAK (in millions)	Construction in progress LAK (in millions)	Total LAK (in millions)
Cost			
At 1 January 2018	9,268	9,777	19,045
Transferred from CIP	-	(10,194)	(10,194)
Additions	9,959	3,324	13,283
At 31 December 2018	<u>19,227</u>	<u>2,907</u>	<u>22,134</u>
Accumulated amortization			
At 1 January 2018	9,016	-	9,016
Amortization charge	1,669	-	1,669
At 31 December 2018	<u>10,685</u>	<u>-</u>	<u>10,685</u>
Net book value			
At 1 January 2018	252	9,777	10,029
At 31 December 2018	<u>8,542</u>	<u>2,907</u>	<u>11,449</u>

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)
Cost			
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>

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

10 Other assets

	2018 LAK (in millions)	2017 LAK (in millions)
Cheques in collection	644	441
Security deposits	8	191
Prepayments	16,737	19,271
Others	6,148	3,376
	<u>23,537</u>	<u>23,279</u>

11 Deferred tax asset

	At 1 January 2018 LAK (in millions)	(Charged) / Credited to: Profit or loss LAK (in millions)	At 31 December 2018 LAK (in millions)
<i>Deferred tax asset</i>			
Provision against Central bank balances	431	162	269
Provision against Amount due from other banks	226	162	64
Provision against loans and advances	(5,910)	(14,140)	8,230
Off Balance sheet provision	137	(89)	226
	<u>(5,116)</u>	<u>(13,905)</u>	<u>8,789</u>

The bank only recognised the deferred tax asset on the differences between the provision calculated as per regulatory requirements and IFRS 9.

	2018 LAK (in millions)	2017 LAK (in millions)
Loss carry forward	92,445	32,899
	<u>92,445</u>	<u>32,899</u>

The tax losses expire during 2020-2021. The deductible temporary differences do not expire under current tax legislation. However, no deferred tax asset for loss carry forward has been recognised, the taxable losses carried forward are as per Lao GAAP financials.

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

12 Deposits from customers

a) Classified by type of deposits

	2018	2017
	LAK	LAK
	(in millions)	(in millions)
Current deposits	234,560	260,511
Savings deposit	147,692	119,459
Term deposit	313,068	303,398
Accrued interest	6,959	7,531
	702,279	690,899

b) Classified by currency

	2018	2017
	LAK	LAK
	(in millions)	(in millions)
LAK	86,350	99,921
USD	473,115	447,829
THB	48,868	57,457
Others	93,946	85,692
	702,279	690,899

c) Classified by interest rate (per annum)

	2018	2017
	%	%
Saving accounts		
LAK	1.91%	1.91%
USD	1.25% - 1.35%	1.25% - 1.75%
THB	1.25% - 1.35%	1.25% - 1.75%
EUR	0.50% - 0.75%	0.50% - 1.00%
Fixed deposits		
LAK	3.16% - 6.77%	3.34% - 8.00%
USD	2.00% - 5.00%	1.10% - 5.00%
THB	2.00% - 5.00%	1.10% - 5.00%

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

13 Amounts due to other banks

	2018 LAK (in millions)	2017 LAK (in millions)
Current deposits	1,230	49,267
Term deposits	45,000	-
Accrued interest	747	-
	46,977	49,267

a) Classified by currency

	2018 LAK (in millions)	2017 LAK (in millions)
LAK	45,758	787
USD	118	48,267
THB	228	213
Others	873	-
	46,977	49,267

14 Borrowing from related party

	2018 LAK (in millions)	2017 LAK (in millions)
BRED Banque Populaire	162,537	244,908
International finance corporation	-	41,425
Accrued interest	633	1,138
	163,170	287,471

15 Tax liabilities and current tax

	2018 LAK (in millions)	2017 LAK (in millions)
Current tax expense		
Current year	-	(2,874)
Prior year adjustment	2,874	-
Deferred Tax expense(benefit)		
Movement in temporary differences	13,905	-
	16,779	(2,874)
Tax liabilities at the beginning of the year	598	1,093
Reversal of liability	(598)	
Income tax expense	-	2,874
Tax paid on profit during the year	-	(3,369)
	-	-
Tax liabilities at the end of the year	-	598

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

The calculation of taxable income is subject to review and approval of the tax authorities.

(i) Reconciliation of effective tax rate

	Rate (%)	2017 LAK (in millions)	Rate (%)	2016 LAK (in millions)
Loss before tax in accordance with IFRS		(28,807)		13,459
Income tax using statutory tax rate	24	(6,914)	24	3,229
Tax effect of income and expense that are not taxable income or not deductible in determining taxable profit. net		-		33
Tax Impact on restatement of EIR		-		(388)
Permanent difference		(1,875)		-
Prior year adjustment		(2,874)		-
Deferred tax impact on retained earnings in initial application of IFRS 9		(5,116)		-
		(16,779)		2,874

16 Other liabilities

	2018 LAK (in millions)	2017(Restated) LAK (in millions)
Other external payables	4,933	5,683
Payables relating to VISA cards	3,044	585
Others	11,035	14,880
Personal Income Tax payable	1,782	305
Impairment allowance – off balance sheet*	937	-
	21,731	21,453

Loan commitments and financial guarantees are classified under stage 1 as per IFRS 9 and the expected credit loss as at 31 December 2018 is LAK 937 million (1 January 2018: LAK 570 million)

17 Paid up capital

	31 December 2018		31 December 2017	
	% ownership	LAK (in millions)	% ownership	LAK (in millions)
Equity owners				
Cofibred	70%	210,000	54%	162,000
Banque Pour Le Commerce Extérieur Lao Public	30%	90,000	46%	138,000
	100%	300,000	100%	300,000

There was no increase in capital during the year 2018 and 2017.

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

As per the share transfer deed dated 25 January 2018, 48,000 shares were transferred from Banque Pour Le Commerce Extérieur Lao Public to Cofibred.

18 Interest income

	2018 LAK (in millions)	2017(Restated) LAK (in millions)
Interest income from		
Interbank transactions	143	7
Loans and advances*	81,452	87,210
Held to maturity securities	-	727
	81,595	87,944

* The amount has been restated due to effective interest rate impact.

19 Interest expense

	2018 LAK (in millions)	2017 LAK (in millions)
Interest expense from		
Interbank transactions	10,166	7,083
Customer deposits	15,736	16,642
	25,902	23,725

20 Net fee and commission income

	2018 LAK (in millions)	2017(Restated) LAK (in millions)
Fee and service income		
Settlement services	9,111	8,745
Guarantee activities	297	716
Treasury activities	751	5,565
Fees for assistance and advisory activities	2,635	3,374
Other fees and services	4	236
	12,798	18,636
Fee and service expense		
Settlement services	(6,287)	(5,302)
Other activities	(7,088)	(1,733)
	(13,375)	(7,035)
Fees and service income, net	(577)	11,601

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

21 Personnel expenses

	2018 LAK (in millions)	2017 LAK (in millions)
Staff salaries	20,985	16,475
Social security costs	769	753
Other staff cost	955	1,341
	22,709	18,569

22 Other operating expenses

	2018 LAK (in millions)	2017 LAK (in millions)
Business trip	938	226
External services	17,887	12,779
Fuel	223	202
Office stationery	2,144	2,453
Electricity and water	834	903
Telecommunication	1,050	1,636
Publication, marketing and promotion	1,327	1,604
General and administration expenses	2,127	1,021
Repair and maintenance	81	1,560
Tools and equipment	6	713
Insurance fees	686	846
Office rental	5,007	5,379
Entertainment expenses	77	98
Others	5,289	1,238
	37,676	30,658

23 Cash and cash equivalents

	Note	2018 LAK (in millions)	2017 LAK (in millions)
Cash	4	31,828	51,136
Amounts due from BOL	7	30,373	81,063
Amount due from other banks	6	114,231	103,810
		176,432	236,009

24 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

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

- 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.

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

Balances with other related parties as at 31 December 2018 are as follows:

<i>Related party</i>	<i>Relationship</i>	<i>Transactions</i>	<i>Receivables In LAKm</i>	<i>Payables In LAKm</i>
Banque Pour Le Extérieur Lao Public	Shareholder	Demand deposits	2,371	-
		Fixed term deposits	10,236	-
		Accrued interest on deposit	127	-
		Fixed term deposits	-	10,000
		Accrued interest on deposit	-	167
BRED Banque Populaire	Shareholder (represented by Cofibred)	Demand deposits	84,674	-
		Borrowing	-	162,537
		Accrued interest on borrowing	-	384
		Accrued bank guarantee fee	-	249
BRED IT Thailand	Subsidiary of Cofibred	Demand deposits	-	559
		Term deposits	-	3,498
		Accrued interest on term deposits	-	135

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

Transactions with key management personnel of the Bank

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

	2018 LAK (in millions)	2017 LAK (in millions)
Salaries and Director fees	7,068	4,759
	7,068	4,759

25 Operating lease commitments

	2018 LAK (in millions)	2017 LAK (in millions)
Within 1 year	81	2,313
From 1 to less than 5 years	15,879	18,795
Over 5 years	39,832	35,917
	55,792	57,025

26 Off-balance sheet items

	2018 LAK (in millions)	2017 LAK (in millions)
Commitment given		
Letters of credit outstanding	13,979	11,777
Letters of guarantee outstanding	21,265	23,889
	35,244	35,666
Collateral and Mortgages		
Collaterals and mortgages for loans to customer	2,254,121	7,090,232
	2,254,121	7,090,232

27 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.

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

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 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 are performed whereas a credit report is obtained to help assess the credit worthiness of an individual or business customer seeking credits.
- iii) Concentration limits are currently applied based on regulatory limit controlling the maximum exposure to a borrower (and related parties) to 25% of the Bank's capital.
- iv) Credit Loss Review is performed to identify causes of credit loss and improvement opportunities in credit management and credit processes. Any losses or expected losses must be approved by the Managing Director.
- v) Country limits must be applied and recorded on the Credit Memorandum when transactions involve cross border risk. Cross border risk arises whenever payment or discharges of a transaction involves a flow of funds from one country to another.
- vi) Sharing of risk between customer and any third party (e.g., guarantor) is subject to independent consumer or business credit assessments.
- vii) Any request to vary the current maximum long terms needs to be formally supported by Head of Department and approved by Managing Director.
- viii) Customer groups that are assessed with increased risk or high risk are subject to more stringent monitoring and controls.

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

b) Credit quality

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

	2018 LAK (in millions)	2017 LAK (in millions)
Cash	31,828	184,218
Due from Banks	94,910	103,810
	126,738	288,028

c) Impaired loans and advances, net

	2018 LAK (in millions)	2017 LAK (in millions)
Performing loans	-	901,008
Non-performing loans	-	108,110
Stage 1	756,787	-
Stage 2	19,961	-
Stage 3	129,708	-
	906,456	1,009,118

The balances above are stated at loan balances after deducting provision and not including accrued interest.

Stage 1 – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.

Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

For the prior year, 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. Refer note 4(b)(vi).

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

(e) Credit risk concentrations by industry

Maximum exposure to credit risk for the components of the statement of financial position by industry without taking into account of any collateral, margin deposit as at 31 December 2018 and 2017 was as follows:

	2018						2017						
	Financial institutions LAK (in millions)	Government LAK (in millions)	Service LAK (in millions)	Electricity LAK (in millions)	Others LAK (in millions)	Total LAK (in millions)		Financial institutions LAK (in millions)	Government LAK (in millions)	Service LAK (in millions)	Electricity LAK (in millions)	Others LAK (in millions)	Total LAK (in millions)
Deposits with other banks	114,231	-	-	-	-	114,231		103,810	-	-	-	-	103,810
Statutory deposits with Central Bank	-	83,149	-	-	-	83,149		-	133,083	-	-	-	133,083
Loans and advances to customers *	-	-	199,058	167,826	603,951	970,835		-	-	224,516	169,695	649,997	1,044,208
	114,231	83,149	199,058	167,826	603,951	1,168,215		103,810	133,083	224,516	169,695	649,997	1,281,101

* The balance include accrued interest receivable

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

(f) Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortized cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 4(b) (vi).

	2018				2017	
	12-month ECL	Life time ECL not credit impaired	Life time ECL Credit – Impaired	Purchased Credit Impaired	Total	Total
	LAK	LAK	LAK	LAK	LAK	LAK
Loans and advances to banks at amortised cost	<i>(in millions)</i>	<i>(in millions)</i>	<i>(in millions)</i>	<i>(in millions)</i>	<i>(in millions)</i>	<i>(in millions)</i>
Grades 1- 6: Low- fair risk	114,231	-	-	-	114,231	103,810
Grades 7-9: Watch list	-	-	-	-	-	-
Grade 10: Substandard	-	-	-	-	-	-
Grade 10: Doubtful	-	-	-	-	-	-
Grade 12: Loss	-	-	-	-	-	-
Total	114,231	-	-	-	114,231	103,810
Loss allowance	(268)	-	-	-	(268)	-
Carrying Amount	113,963	-	-	-	113,963	103,810
	2018				2017	
	12-month ECL	Life time ECL not credit impaired	Life time ECL Credit – Impaired	Purchased Credit Impaired	Total	Total
	LAK	LAK	LAK	LAK	LAK	LAK
Loans and advances to customers at amortised cost	<i>(in millions)</i>	<i>(in millions)</i>	<i>(in millions)</i>	<i>(in millions)</i>	<i>(in millions)</i>	<i>(in millions)</i>
Grades 1- 6: Low- fair risk	767,143	-	-	-	767,143	857,076
Grades 7-9: Watch list	-	24,253	-	-	24,253	48,024
Grade 10: Substandard	-	-	31,523	-	31,523	32,333
Grade 10: Doubtful	-	-	38,972	-	38,972	68,831
Grade 12: Loss	-	-	101,085	-	101,085	25,874
Total	767,143	24,253	171,580	-	962,976	1,032,138
Loss allowance	(10,356)	(4,292)	(41,872)	-	(56,520)	(23,020)
Carrying Amount	756,787	19,961	129,708	-	906,456	1,009,118

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

(g) Credit quality analysis (continued)

	2018					2017
	12-month ECL	Life time ECL not credit impaired	Life time ECL Credit - Impaired	Purchased Credit Impaired	Total	Total LAK
	LAK	LAK	LAK	LAK	LAK	LAK
	(in millions)	(in millions)	(in millions)	(in millions)	(in millions)	(in millions)
Loans Commitments						
Grades 1- 6: Low- fair risk	11,079	-	-	-	11,079	11,777
Grades 7- 12		-	2,900	-	2,900	-
Total	11,079	-	2,900		13,979	11,777
Loss allowance	(437)	-	(500)	-	(937)	-
Carrying Amount	10,642		2,400		13,042	11,777
Financial guarantee contracts						
Grades 1-6: Low- fair risk	21,265	-	-	-	21,265	23,889
Grade 7-12	-	-	-	-	-	-
Loss allowance	-	-	-	-	-	-
Carrying amount	21,265				21,265	23,889

(h) Collateral Held and other credit enhancements

The Bank holds collateral and other credit enhancements against certain of its credit exposures.

The following table sets out the principal types of collateral held against different types of financial assets.

Type of Credit Exposure	Percentage of Collateral that is Subject to collateral requirements		Principal Type of Collateral Held
	31 December 2018	31 December 2017	
Loans and advances to banks	-	-	-
Loans and advances to retail customers	100%	100%	Mortgage, Cash collateral
Loans and advances to corporate customers	100%	100%	Mortgage

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

Loans and advances to corporate customers

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Bank generally requests that corporate borrowers provide it. The Bank may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Because of the Bank's focus on corporate customers' creditworthiness, the Bank does not routinely update the valuation of collateral held against all loans to corporate customers. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely.

Assets obtained by taking possession of collateral

During the year, the Bank did not obtain any possession of collateral held as security against loans and advances.

The Bank's policy is to pursue timely realisation of the collateral in an orderly manner. The Bank does not generally use the non-cash collateral for its own operations. During the period, there was no change in the Bank's collateral policies.

(i) Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

Measurement of ECL

Credit loss allowances are measured using a three-stage approach based on the extent of credit deterioration since origination:

Stage 1 – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.

Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD)

These parameters are generally derived from Basel prudential rules

Details of these statistical parameters/inputs are as follows:

PD – The probability of default is an estimate of the likelihood of default over a given time horizon.

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date.

LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

Assessment of significant increase in credit risk

The expected credit loss model requires the recognition of credit losses based on 12 months of expected losses for performing loans and the recognition of lifetime expected losses on loans that have experienced a SICR since origination. The determination of a SICR takes into account many different macro-economic factors and will vary by product and risk segment. The main factors considered in making this determination are relative changes in probability- weighted probability of default since origination and certain criteria such as 30 day past due and watch list status. The assessment of SICR will require experienced credit judgement.

The bank considers a financial instrument having a significant increase in credit risk based on the following factors:

In order to assess as to whether the credit quality of an exposure has deteriorated, the following main credit events are used:

- Delinquencies ;
- Unauthorized Overdrafts.

A 6 months observation period is deemed necessary in order to:

- ensure that temporary credit difficulties faced by clients are indeed cured when they return to stage 1
- avoid undue variability in the Stage 1 / Stage 2 balance in the case of short, yet regular, periods of credit difficulties

An exposure will therefore be deemed belonging to stage 2 category in case of a delinquency or unauthorized overdraft that lasted more than 30 days in the last 6 months.

As credit difficulties could materialize in other ways than the sole delinquencies and overdrafts, and in order to better align with the operational processes within the bank, another criterion is added: any exposure belonging to the BFL watch list will fall under stage 2 category.

Computation of stage 1 impairment loss

The 1 year expected loss is by definition:

1 year default probability (PD) x Exposure At Default (EAD) x Loss Given Default (LGD).

As the bank lacks both number of data points and aging of the observations to statistically assess each of these parameters, default values derived from Basel prudential rules are used.

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

Loss Given Default

Default value is set at 45% which corresponds to the Basel IRBF parameter for senior claims on corporates, sovereigns and banks.

Exposure At Default

Computation of Exposure At Default also complies with prudential requirements stating that the exposure value of an asset item shall be its remaining accounting value with additional value adjustments. The exposure value of an off-balance sheet item shall be the following percentage of its nominal value:

- (a) 100 % if it is a full-risk item such as a letters of credit;
- (b) 50 % if it is a medium-risk item such as Revolving Credit Facilities;
- (c) 20 % if it is a medium/low-risk item such as trade finance transactions;
- (d) 0 % if it is a low-risk item such as uncommitted credit facilities.

As most transactions in BFL portfolio can be listed as high to medium risk, it is deemed adequate and prudent to set Exposure at Default 100% of drawn and undrawn exposures.

In the absence of sufficient series related to the credit quality of the bank's portfolio, it was decided to refer to the prudential scale used by BRED Group to compute own funds requirements on sovereign exposure.

As most of the countries where BRED has international subsidiaries are rated 6 on BRED sovereign scale, the related PD of 3.19% is chosen for all of them in order to ensure an homogeneous process at the Group level.

PD is subsequently rounded to 3% and multiplied by LGD of 45% to obtain the impairment rate of 1.35% for Stage 1 exposures.

Computation of stage 2 impairment loss

Loss Given Default

Default value was set at 45% which corresponds to the Basel IRBF parameter for senior claims on corporates, sovereigns and banks that are not secured by recognized collateral.

Exposure at Default

As for the one year expected loss, a 100% factor is applied to drawn and undrawn committed exposures.

For the sake of simplicity a linear amortization of Exposure at default over 15 years is chosen. Given the practice of the bank in terms of loan profile, with rather long term maturity, the 15 years duration appeared consistent.

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

Probability of Defaults

As Stage 2 exposures encompass Watch List exposures, prudential PD used for credit risk own funds requirements on Watch list exposures is taken into account. The bank credit granting policy follows general principles and rules defined in accordance with BRED Group credit granting approach.. As a consequence, watch listed items are expected to process from similar credit granting processes and display similar behaviour in terms of default.

As per BRED Group Watch List methodology, credit exposures ranked on credit grades 14 and higher are included in the Watch List. Such exposures bear a PD at least equal to 11.73%.

Marginal PD are then multiplied by the amortization factor (15 years linear amortization as mentioned above), which gives an average weighted PD of 39.4% over the lifetime.

This leads to a provisioning rate of 17.7 % for Stage 2 exposures.

Computation of stage 3 impairment loss

For stage 3 borrowers, Bank follow central bank provisioning model while taking the benefit of collateral held against the exposure with a minimum provision of 20%, except in few cases where provision is kept at 3% as the bank is certain that it will recover the remaining balance in future.

(j) Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note4(b)(vi). Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis as per BOL regulation.

	2018			2017	
	12 - month ECL	Lifetime ECL not credit. impaired	Lifetime ECL credit - impaired	Total	Total
	<i>LAK(in millions)</i>				
Loans and advances to banks at amortised cost					
Balance at 1 January	944	-	-	944	-
Financial assets derecognised during the period other than write-offs	(155)	-	-	(155)	-
Changes in models/risk parameters	(521)	-	-	(521)	-
Balance at 31 December	268	-	-	268	-

* No loss allowance was held in 2017 against loans and advances to bank at amortized cost category

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

	2018			2017		
	12 - month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit - impaired	Total	Total	Total
	LAK	LAK	LAK	LAK	LAK	LAK
	(in millions)	(in millions)	(in millions)	(in millions)	(in millions)	(in millions)
Loans and advances to customers at amortised cost						
Balance at 1 January	10,847	16,451	20,553	47,851		7,146
Transfer from Stage 1 to Stage 2	(236)	3,208	-	2,972		
Transfer from Stage 1 to Stage 3	(641)	-	7,788	7,147		
Transfer from Stage 2 to Stage 3	-	(3,424)	1,798	(1,626)		
Transfer from Stage 3 to Stage 2	-	592	(20)	572		
Transfer from Stage 2 to Stage 1	670	(9,717)	-	(9,047)		
Transfer from Stage 3 to Stage 1	29	-	(71)	(42)		
Financial assets derecognised during the period other than write-offs	(1,448)	(3,198)	(357)	(5,003)		
Net re-measurement of loss allowance	(1,121)	(7)	8,008	6,880		15,874
New financial assets originated or purchased	2,256	387	263	2,906		
Write-offs	-	-	3,910	3,910		
Balance at 31 December	10,356	4,292	41,872	56,520		23,020

* Loss allowance held in 2017 against loan and advances to customers was held as per BOL regulations. Refer Note4(b)(vi)

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

	2018			
	12 - month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit - impaired	Total
	LAK	LAK	LAK	LAK
	(in millions)	(in millions)	(in millions)	(in millions)
Loans and advances to customers at amortised cost – retail customers				
Balance at 1 January	3,581	7,254	7,647	18,482
Transfer from Stage 1 to Stage 2	(113)	1,175	-	1,062
Transfer from Stage 1 to Stage 3	(327)	-	4,117	3,790
Transfer from Stage 2 to Stage 3	-	(1,898)	833	(1,065)
Transfer from Stage 3 to Stage 2	-	567	(19)	548
Transfer from Stage 2 to Stage 1	250	(3,906)	-	(3,656)
Transfer from Stage 3 to Stage 1	16	-	(64)	(48)
Financial assets derecognised during the period other than write-offs	(581)	(1,344)	(33)	(1,958)
Net re-measurement of loss allowance	47	273	1,676	1,996
New financial assets originated or purchased	1,033	77	262	1,372
Write-offs	-	-	1,517	1,517
Balance at 31 December	3,906	2,198	15,936	22,040

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

	2018			
	12 - month ECL <i>in millions of Lao kip</i>	Lifetime ECL not credit. impaired	Lifetime ECL credit – impaired	Total
	LAK	LAK	LAK	LAK
	<i>(in millions)</i>	<i>(in millions)</i>	<i>(in millions)</i>	<i>(in millions)</i>
Loans and advances to customers at amortised cost – corporate customers				
Balance at 1 January	7,266	9,196	12,907	29,369
Transfer from Stage 1 to Stage 2	(123)	2,034	-	1,911
Transfer from Stage 1 to Stage 3	(314)	-	3,670	3,356
Transfer from Stage 2 to Stage 3	-	(1,526)	965	(561)
Transfer from Stage 3 to Stage 2	-	25	(1)	24
Transfer from Stage 2 to Stage 1	420	(5,812)	-	(5,392)
Transfer from Stage 3 to Stage 1	13	-	(7)	6
Financial assets derecognised during the period other than write-offs	(867)	(1,854)	(324)	(3,045)
Net re-measurement of loss allowance	(1,168)	(281)	6,331	4,882
New financial assets originated or purchased	1,223	312	1	1,536
Write-offs	-	-	2,394	2,394
Balance at 31 December	6,450	2,094	25,936	34,480

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

	2018	2017
	12 - month ECL	Total
	<i>LAK (in millions)</i>	
<i>Cash and cash equivalents</i>		
Balance at 1 January	2,038	-
Net decrease in cash and cash equivalents	(1,360)	-
Balance at 31 December	678	-
<i>Loan commitments and financial guarantee contracts</i>		
Balance at 1 January	570	-
New loan commitments and financial guarantees issued	367	-
Balance at 31 December	937	-

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

Credit-impaired financial assets (2017: impaired financial assets)

Reconciliation of changes in the net carrying amount of credit-impaired (2017: impaired) loans and advances to customers.

	2018	2017
	<i>LAK(in millions)</i>	
Credit-impaired (2017: impaired) loans and advances to customers at 1 January	115,172	4,994
Change in allowance for impairment	(15,821)	2,424
Classified as credit-impaired (2017: impaired) during the year	55,067	97,145
Transferred to not credit-impaired (2017: impaired) during the year	(4,859)	-
Write offs	(11,401)	-
Other movements	(8,450)	(545)
Credit-impaired (2017: impaired) loans and advances to customers at 31 December	129,708	104,018

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

Impaired financial assets – Comparative information under Lao GAAP

	2017	
	Loans and advances to customers	Loans and advances to banks
	<i>LAK(in millions)</i>	
Loans with renegotiated terms		
Gross carrying amount	43,391	-
Impaired amount	43,391	-
Allowance for impairment	(2,491)	-
Net carrying amount	<u>40,900</u>	<u>-</u>
Individually impaired		
Grade 10: Substandard	32,333	-
Grade 11: Doubtful	68,839	-
Grade 12: Loss	25,866	-
	<u>127,038</u>	<u>-</u>
Allowance for impairment		
Individual	18,928	-
Collective	4,092	-
Total allowance for impairment	<u>23,020</u>	<u>-</u>

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

(k) Concentrations of credit risk

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans and advances, loan commitments and financial guarantees is shown below.

	Loans and advances to customers		Loan commitments and financial guarantees issued	
	2018	2017	2018	2017
	LAK(in millions)	LAK(in millions)	LAK(in millions)	LAK(in millions)
Carrying amount	970,835	1,044,208	-	-
Amount committed/guaranteed	-	-	35,244	35,666
Concentration by sector	-	-		
Corporate:	580,943	664,795	13,298	
Service	199,058	224,516	-	-
Electricity	167,826	169,695	-	-
Other	214,059	270,584	-	-
Government	-	-	-	-
Banks	-	-	-	-
Retail:	389,892	379,413	21,946	35,666
	<u>970,835</u>	<u>1,044,208</u>	<u>35,244</u>	<u>35,666</u>
Concentration by location				
Lao PDR	970,835	1,044,208	35,244	35,666
	<u>970,835</u>	<u>1,044,208</u>	<u>35,244</u>	<u>35,666</u>

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

Liquidity Risk

a) Exposure to liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its obligations as they fall due because of an inability to liquidate assets or obtain sufficient funding in a timely manner at an appropriate cost which could result in losses.

The Bank manages its liquidity risk under Bank of Laos's liquidity reserve regulations and other applicable regulations by sourcing for short-term and long-term funding, investing in highly liquid assets in both domestic and foreign currencies, maintaining liquidity ratio in order to ensure that the Bank has sufficient liquidity to support net cash outflows under liquidity stress scenario, and setting up various tools and limits for risk measurement, monitoring and control, and reporting such as Liquidity Gap 1-month. Moreover, the Bank also ensures that its liquidity position is suitable and sufficient for operations under both normal and critical situations.

Financial assets and liabilities, classified by contractual maturity analysis, as of 31 December 2018 and 2017 as follows:

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

Financial assets and liabilities, classified by contractual maturity analysis, as of 31 December 2018 and 2017 as follows:

	At call	Less than 6 Months	2018			No Maturity	Total
			6 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years		
			<i>LAK(in million)</i>				
Financial assets							
Cash	31,828	-	-	-	-	-	31,828
Deposits with other banks							
Statutory deposits with Central Bank	114,231	-	-	-	-	-	114,231
Loans to customers	-	-	-	-	-	83,149	83,149
Accrued interest receivables	-	134,348	88,133	345,480	395,015	-	962,976
	-	7,987	-	-	-	-	7,987
Total financial assets	146,059	142,335	88,133	345,480	395,015	83,149	1,200,171
Financial liabilities							
Deposits from customers*	375,306	128,435	145,511	45,540	528	-	695,320
Deposits from other banks*	1,230	20,000	25,000	-	-	-	46,230
Borrowings*	-	-	-	75,330	87,207	-	162,537
Accrued interest payables	-	8,339	-	-	-	-	8,339
Total financial liabilities	376,536	156,774	170,511	120,870	87,735	-	912,426
Liquidity – net	(230,477)	(14,439)	(82,378)	224,610	307,280	83,149	287,745
Liquidity -accumulative net	(230,477)	(244,916)	(327,294)	(102,684)	204,596	287,475	287,745

* The amount is exclusive of accrued interest expense

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

	At call	Less than 6 Months	6 Months to 1 Year	2017 Over 1 Year to 5 Years <i>LAK(in millions)</i>	Over 5 Years	No Maturity	Total
Financial assets							
Cash	51,136	-	-	-	-	-	51,136
Deposits with other banks	103,810	-	-	-	-	-	103,810
Statutory deposits with Central Bank	-	-	-	-	-	133,083	133,083
Loans to customers	-	171,708	7,940	433,250	419,240	-	1,032,138
Accrued interest receivables	-	12,070	-	-	-	-	12,070
Total financial assets	154,946	183,778	7,940	433,250	419,240	133,083	1,332,237
Financial liabilities							
Deposits from customers	379,969	138,914	142,026	22,459	-	-	683,368
Deposits from other banks	-	49,267	-	-	-	-	49,267
Borrowings	-	41,425	-	-	244,908	-	286,333
Accrued interest payables	-	8,669	-	-	-	-	8,669
Total financial liabilities	379,969	238,275	142,026	22,459	244,908	-	1,027,637
Liquidity - net	(225,023)	(54,497)	(134,086)	410,791	174,332	133,083	304,600
Liquidity -accumulative net	(225,023)	(279,520)	(413,606)	(2,815)	171,517	304,600	304,600

* The amount is exclusive of accrued interest expense

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

b) Liquidity reserves

The following table sets out the components of the Bank's liquidity reserves

	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
	<i>LAK(in millions)</i>			
Balances with central banks	83,149	83,149	133,083	133,083
Cash and balances with other banks	146,059	146,059	154,946	154,946
Total liquidity reserves	229,208	229,208	288,029	288,029

c) Financial assets available to support future funding

The following table sets out the availability of the Bank's financial assets to support future funding.

	31 December 2018				
	Encumbered		Unencumbered		
			Available		
	Note	Pledged as collateral	as collateral	Other**	Total
		<i>LAK(in millions)</i>			
Cash and cash equivalents		-	-	176,432	176,432
Statutory deposits with Central Bank			52,776	-	52,776
Loans and advances		-	-	962,976	962,976
Total assets		-	52,776	1,139,408	1,192,184

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

		Encumbered		Unencumbered		
	Note	Pledged as collateral	Other*	Available as collateral	Other**	Total
				<i>in millions of Lao kip</i>		
Cash and cash equivalents		-	-	-	236,009	236,009
Statutory deposits with Central Bank		-	52,020	-	-	52,020
Loans and advances		-	-	-	1,032,138	1,032,138
Total assets		-	52,020	-	1,268,147	1,320,167

* Represents assets that are not pledged but that the Bank believes it is restricted from using to secure funding, for legal or other reasons.

** Represents assets that are not restricted for use as collateral, but that the Bank would not consider readily available to secure funding in the normal course of business.

Market risk

Market risk may arise from changes in interest rate, foreign exchange, securities and commodity prices. There are two major market risks that affect the Bank which are changes in interest rate and foreign exchange. These changes affect the Bank's present and future income, capital, as well as the value of financial assets and liabilities. Essential infrastructures and processes have been developed to appropriately and timely manage market risk.

(a) Interest rate risk

Interest rate risk is the risk arising from changes in interest rates which may affect the value of the Bank's financial instruments, or may cause volatility in the Bank's earnings, capital, financial assets and liabilities, both the current reporting period and in the future. The Bank has employed various tools to manage interest rate risk, such as interest rate gap and net interest income (NII) sensitivity.

An analysis of loans at fixed and floating interest rates as of 31 December 2018 and 31 December 2017 are as follows:

	2018 <i>LAK(in million)</i>	2017 <i>LAK(in million)</i>
Fixed interest rates	962,976	1,032,138
Floating interest rates*	-	-
Total loans	962,976	1,032,138

* There were no loans disbursed on floating rate of interest as at 31 December 2018 and 31 December 2017

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

The average balances of the interest-bearing financial assets and liabilities of the Bank, calculated by using monthly average, and the average interest rates for the year ended 31 December 2018 and 2017 are as follows:

		2018	
	Average balance	Interest income/ expense <i>LAK(in millions)</i>	Average interest rate (%)
Financial assets			
Deposits with other banks	109,020	143	0.13%
Loans to customers	997,557	81,452	8.17%
Total financial assets	1,106,577	81,595	
Financial liabilities			
Deposits from customers	689,480	15,736	2.3%
Deposits from other banks	47,748	1,391	2.9%
Borrowings	224,435	8,775	3.9%
Total financial liabilities	961,663	25,902	
		2017	
	Average balance	Interest income/ Expense <i>LAK(in millions)</i>	Average interest rate (%)
Financial assets			
Deposits with other banks	134,094	734	0.55%
Loans to customers	951,447	87,210	9.17%
Total financial assets	1,085,541	87,944	
Financial liabilities			
Deposits from customers	674,618	16,642	2.5%
Deposits from other banks	139,194	58	0.04%
Borrowings	224,957	7,025	3.1%
Total financial liabilities	1,038,769	23,725	

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

(b) Foreign exchange rate risk

Foreign exchange rate risk is the risk that occurs from changes in exchange rates which may affect the value of the Bank's financial instruments or may cause volatility in the Bank's earnings, capital, financial assets and liabilities, both in the current reporting period and in the future. Example of the tools adopted for managing foreign exchange rate risk are, for instance, open position limit (OPL) and management action trigger (MAT).

Foreign currency positions in LAK equivalent, as of 31 December 2018 were as follows:

	2018			
	USD	THB	Currency Others	Total
	<i>LAK(in millions)</i>	<i>LAK(in millions)</i>	<i>LAK(in millions)</i>	<i>LAK(in millions)</i>
Financial assets				
Cash	6,988	4,353	2,151	13,492
Deposits with other banks	95,729	4,461	12,388	112,578
Balances with Central bank	57,201	12,756	-	69,957
Loans to customer and accrued interest receivables	471,786	51,231	170,359	693,376
Total financial assets	631,704	72,801	184,898	889,403
Financial liabilities				
Deposits from customers	473,115	48,868	93,946	615,929
Deposits from other banks	118	228	873	1,219
Borrowings	75,330	-	87,207	162,537
Total financial liabilities	548,563	49,096	182,026	779,685
Foreign currency position of items recognised on the statement of financial position - net	83,141	23,705	2,872	109,718

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

Foreign currency positions in LAK equivalent, as of 31 December 2017 were as follows:

	2017			
	US Dollar	THB	Currency Others	Total
	<i>LAK(in millions)</i>	<i>LAK(in millions)</i>	<i>LAK(in millions)</i>	<i>LAK(in millions)</i>
Financial assets				
Cash and cash equivalents	10,172	5,362	3,826	19,360
Deposits with other banks	64,992	4,993	25,087	95,072
Balances with Central Bank	83,761	20,243	-	104,004
Loans to customer and accrued interest receivables	557,459	48,093	171,652	777,204
Total financial assets	716,384	78,691	200,565	995,640
Financial liabilities				
Deposits from customers	447,829	57,457	85,692	590,978
Deposits from other banks	48,267	213	-	48,480
Borrowings	183,631	-	103,296	286,927
Total financial liabilities	679,727	57,670	188,988	926,385
Foreign currency position of items recognised on the statement of financial position - net	36,657	21,021	11,577	69,255

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

Exposure to interest rate risk

	2018					
	At call	Less than 6 Months	6 Months to 1 Year	Over 1 Year to 5 Years <i>LAK(in million)</i>	Over 5 Years	Non Repricing
Financial assets						
Cash		-	-	-	-	31,828
Deposits with other banks	114,231	-	-	-	-	114,231
Statutory deposits with Central Bank	-	-	-	-	-	83,149
Loans to customers	-	134,348	88,133	345,480	395,015	962,976
Accrued interest receivables	-	7,987	-	-	-	7,987
Total financial assets	114,231	142,335	88,133	345,480	395,015	1,200,171
Financial liabilities						
Deposits from customers*	375,306	128,435	145,511	45,540	528	695,320
Deposits from other banks*	1,230	20,000	25,000	-	-	46,230
Borrowings*	-	162,537	-	-	-	-
Accrued interest payables	-	8,339	-	-	-	8,339
Total financial liabilities	376,536	319,311	170,511	45,540	528	749,889
Difference of financial reporting items	(262,305)	(176,976)	(82,378)	299,940	394,487	287,745

* The amount is exclusive of accrued interest expense

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

Exposure to interest rate risk (continued)

	At call	Less than 6 Months	6 Months to 1 Year	2017 Over 1 Year to 5 Years <i>LAK(in millions)</i>	Over 5 Years	Non Repricing	Carrying amount
Financial assets							
Cash	-	-	-	-	-	51,136	51,136
Deposits with other banks	103,810	-	-	-	-	103,810	103,810
Statutory deposits with Central Bank	-	-	-	-	-	133,083	133,083
Loans to customers	-	171,708	7,940	433,250	419,240	1,032,138	1,032,138
Accrued interest receivables	-	12,070	-	-	-	12,070	12,070
Total financial assets	103,810	183,778	7,940	433,250	419,240	1,332,237	1,332,237
Financial liabilities							
Deposits from customers*	379,969	138,914	142,026	22,459	-	683,368	683,368
Deposits from other banks*	-	49,267	-	-	-	49,267	49,267
Borrowings*	-	286,333	-	-	-	-	286,333
Accrued interest payables	-	8,669	-	-	-	8,669	8,669
Total financial liabilities	379,969	483,183	142,026	22,459	-	741,304	1,027,637
Difference of financial reporting items	(276,159)	(299,405)	(134,086)	410,791	419,240	590,933	304,600

* The amount is exclusive of accrued interest expense

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

Financial assets and financial liabilities

(a) Classification of financial assets and financial liabilities

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments.

31 December 2018	Amortised cost	Total carrying amount
	<i>LAK(in millions)</i>	<i>LAK(in millions)</i>
Cash and cash equivalents	176,432	175,754
Loans and advances to customers, net	970,836	914,315
Loans and advances to banks	114,359	114,091
Statutory deposits with Central Bank	83,149	82,026
Total financial assets	1,344,776	1,286,186
Deposits from banks	46,977	46,977
Deposits from customers	702,279	702,279
Borrowings	163,170	163,170
Total financial liabilities	912,426	912,426

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

(b) Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Bank's financial assets and financial liabilities as at 1 January 2018.

<i>(in LAK)</i>	Original classification	New classification under IFRS 9	Original carrying amount under IAS 39/ Lao GAAP	New carrying amount under IFRS 9
Financial assets			<i>LAK(in millions)</i>	<i>LAK(in millions)</i>
Cash and cash equivalents	(Amortised cost)Loans and receivables	Amortised cost	236,009	233,971
Loans and advances to customers, net	Amortised cost)Loans and receivables	Amortised cost	1,021,188	996,357
Loans and advances to banks	Amortised cost)Loans and receivables	Amortised cost	103,810	102,886
Balances with Central Bank	Amortised cost)Loans and receivables	Amortised cost	133,083	131,286
Total financial assets			1,494,090	1,464,500
Financial liabilities				
Deposits from banks	Amortised cost	Amortised cost	49,267	49,267
Deposits from customers	Amortised cost	Amortised cost	690,899	690,899
Borrowings	Amortised cost	Amortised cost	287,471	287,471
Total financial liabilities			1,027,637	1,027,637

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

28 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>31 December 2018</i>	<i>31 December 2017</i>
<i>Items</i>	<i>LAK(in millions)</i>	<i>LAK(in millions)</i>
Tier 1 capital	274,354	282,612
Tier 2 capital	-	-
Total capital	274,354	282,612
Less: Deductions from capital (Investments in other credit and financial institutions)	-	-
Capital for CAR calculation (A)	274,354	282,612
Risk weighted balance sheet items	506,605	572,890
Risk weighted off balance sheet items	15,317	17,833
Total risk weighted assets (B)	521,922	590,723
Capital Adequacy Ratio (A/B)	52.7%	47.8%

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

29 Fair value of financial assets and liabilities

Methods and assumptions used by the Bank in estimating the fair values of financial assets and liabilities are as follows:

The fair value of cash, interbank and money market items (assets), statutory deposits with Central Bank, other financial assets, deposits, interbank and money market items (liabilities), liabilities payables on demand and other financial liabilities are approximately based on their carrying values at the reporting date due to their short-term duration.

The fair value of fixed-rate loans and advances to customers is estimated using discounted cash flow analysis and interest rates currently being offered for loans and advances to customers with similar credit quality. As at 31st December 2018 there were no loans outstanding on floating interest rates.

Fair value hierarchy

When measuring the fair value of an asset or a liability, the Bank uses market observable data as far as possible. Fair value measurements for assets and liabilities are categorised into different levels in the fair value hierarchy based on the inputs used in valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on unobservable market data (unobservable input).

If the inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred. There were no transfers between Level 1 to Level 2 of the fair value hierarchy during the year ended 31 December 2018 and 2017.

Financial assets and liabilities measured at fair value

The Bank has no financial assets and liabilities measured at fair value as at 31 December 2018 and 2017. Therefore, there is no analysis of financial assets and liabilities recorded at fair value by level of the fair value hierarchy.

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

Financial assets and liabilities not measured at fair value

The following table analyses financial assets and liabilities not measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised.

	Carrying amount	Fair value			
	LAK (in millions)	Level 1 LAK (in millions)	Level 2 LAK (in millions)	Level 3 LAK (in millions)	Total LAK (in millions)
31 December 2018					
Financial assets					
Cash	31,828	-	31,828	-	31,828
Interbank and money market items	114,091	-	114,091	-	114,091
Statutory deposits with Central Bank	82,026	-	82,026	-	82,026
Loans to customers and accrued interest receivable, net	914,315	-	-	914,315	914,315
Other financial assets		-	-		
Financial liabilities					
Deposits	702,279	-	702,552	-	702,552
Interbank and money market items	46,977	-	46,977	-	46,977
Other financial liabilities	163,170	-	163,170	-	163,170
	Carrying amount	Fair value			
	LAK (in millions)	Level 1 LAK (in millions)	Level 2 LAK (in millions)	Level 3 LAK (in millions)	Total LAK (in millions)
31 December 2017					
Financial assets					
Cash	51,136	-	51,136	-	51,136
Interbank and money market items	103,810	-	103,810	-	103,810
Statutory deposits with Central Bank	133,083	-	133,083	-	133,083
Loans to customers and accrued interest receivable, net	1,021,188	-	-	1,021,188	1,021,188
Other financial assets					
Financial liabilities					
Deposits	690,899	-	690,899	-	690,899
Interbank and money market items	49,267	-	49,267	-	49,267
Other financial liabilities	287,471	-	287,471	-	287,471

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2018

30 Events after the reporting period

Other than as disclosed elsewhere in these financial statements, at the date of this report, there were no events, which occurred subsequent to 31 December 2018 that significantly impacted the financial position of the Bank as at 31 December 2018.

31 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 2019; however, the Bank has not applied the following new or amended standards in preparing these financial statements.

IFRS	Topic	Year effective
IFRS 16	Leases	2019
IFRS 17	Insurance contract	2021

The Bank is assessing the potential impact on its financial statements resulting from the application of these new standards.