

Banque Franco - Lao Limited

Financial statements for the year ended
31 December 2019
and
Independent Auditor's Report

Banque Franco - Lao Limited

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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. Sisamone Srithirath | Director |
| | Mr. Sivath Sengdoangchanh | Director |
| | Mr. Bernard Ramanantsoa | Director |
| Board of Management | Mr. Arnaud Caulier | Managing Director |
| | Mr. Bounmy Sengpachanh | Deputy Managing Director |
| | Ms. Daloune Southammavong | Deputy Managing Director |
| | Ms. Agathe Carniel | Chief Financial Officer |
| | Mr. Elie Behar | Chief Credit Officer |
| | Ms. Annette Philaphandeth | Head of Operations |
| | Ms. Sirivone Phimmasone | Head of Back Office |
| | Ms. Emilie Saves | Head of Risk and Compliance |
| 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 10 th Floor, Royal Square Office Building Samsenthai Road, Nongdoung Nua Village Sikhotabong District PO Box 6978 Vientiane Capital, Lao PDR | |

MANAGEMENT'S RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Management of Banque Franco - Lao Limited ("the Bank") is responsible for the preparation of the financial statements and for ensuring that the financial statements present fairly in all material respects, the financial position of the Bank as at 31 December 2019, and the statements of comprehensive income, changes in equity and of cash flows for the year then ended that are in accordance with the accounting regulations of the Bank of Lao PDR and accounting rules in the Lao PDR. In preparing the financial statements, Management is required to:

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

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

APPROVAL OF THE FINANCIAL STATEMENTS

I, Mr. Arnaud Caulier, on behalf of the Board of Management, do hereby state that the financial statements set out on pages 5 to 36 are present fairly, in all material respects, the financial position of the Bank as at 31 December 2019, and the statements of comprehensive income, changes in equity and of cash flows for the year then ended and have been properly drawn up in accordance with the accounting regulations of the Bank of Lao PDR and accounting rules in the Lao PDR.

Signed on behalf of the Board of Management,

Mr. Arnaud CAULIER
Chief Executive Officer
13 March 2020





KPMG Lao Co., Ltd.
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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of Banque Franco - Lao Limited (the "Bank"), which comprise the statement of financial position as at 31 December 2019, the statements of comprehensive income, changes in equity and of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2019 and its financial performance and cash flows for the year then ended in accordance with the accounting regulations of the Bank of Lao PDR and accounting rules in the Lao PDR.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants that is relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting regulations of the Bank of Lao PDR and accounting rules in the Lao PDR, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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



Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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



13 March 2020

Banque Franco - Lao Limited
Statement of financial position

| | | 31 December | |
|---|-------------|--------------------------|--------------------------|
| | <i>Note</i> | 2019 | 2018 |
| | | <i>(in millions LAK)</i> | <i>(in millions LAK)</i> |
| Assets | | | |
| Cash | 5 | 32,813 | 31,828 |
| Statutory deposits with Central Bank | 5 | 102,986 | 83,149 |
| Amounts due from other banks | 6 | 135,246 | 114,231 |
| Loans and advances, net of specific provision | 8 | 801,549 | 855,973 |
| Intangibles | 9 | 10,182 | 11,449 |
| Right to use assets | 22 | 9,167 | - |
| Property and equipment | 10 | 22,053 | 22,476 |
| Other assets | 11 | 17,849 | 31,522 |
| Total assets | | 1,131,845 | 1,150,628 |

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

Banque Franco - Lao Limited
Statement of financial position

| | | 31 December | |
|--|-------------|----------------------------------|----------------------------------|
| | <i>Note</i> | 2019 <i>(in millions LAK)</i> | 2018 <i>(in millions LAK)</i> |
| Liabilities, Capital and other reserves | | | |
| Liabilities | | | |
| Interbank and money market items | | | |
| Amounts due to other banks | <i>12</i> | 130,520 | 209,650 |
| Deposits from customers | <i>13</i> | 751,375 | 695,320 |
| Other liabilities | <i>14</i> | 32,634 | 28,244 |
| Total liabilities | | 914,529 | 933,214 |
| Capital and other reserves | | | |
| Paid up-share capital | | 300,000 | 300,000 |
| Legal reserve | <i>15</i> | 1,482 | 1,481 |
| General provision for credit activities | <i>8(d)</i> | 3,790 | 3,905 |
| Accumulated losses | | (87,956) | (87,972) |
| Total Capital and other reserves | | 217,316 | 217,414 |
| Total liabilities, Capital and other Reserves | | 1,131,845 | 1,150,628 |

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

Banque Franco - Lao Limited
Statement of comprehensive income

| | | Year ended 31 December | |
|--|-------|------------------------|-------------------|
| | Note | 2019 | 2018 |
| | | (in millions LAK) | (in millions LAK) |
| OPERATING INCOME AND EXPENSES | | | |
| Interest and similar income | 16 | 72,378 | 81,595 |
| Interest and similar expenses | 16 | (21,062) | (25,902) |
| Net interest and similar income | | 51,316 | 55,693 |
| Fee and commission income | 17 | 21,166 | 12,798 |
| Fees and commission expenses | 17 | (8,540) | (13,375) |
| Net gain from dealing in foreign exchange transactions | | 7,335 | 4,820 |
| Net operating income | | 71,277 | 59,936 |
| Other income and expenses | | | |
| Other operating income | 18 | 20,917 | 6,312 |
| Administration expenses | 19 | (48,959) | (55,096) |
| Payroll and other staff costs | 19(a) | (21,749) | (21,603) |
| Other administration expenses | 19(b) | (27,210) | (33,493) |
| Depreciation and amortization charges | | (11,149) | (7,049) |
| Other operating expenses | 20 | (34,781) | (112,079) |
| Provision for non-performing loans | 8(d) | 2,713 | 48,430 |
| Provision for loan losses | | (38,548) | (49,497) |
| Reversal of provision for loan losses | | 41,261 | 97,927 |
| Profit/(loss) before tax | | 18 | (59,546) |
| Income tax expense | 21 | - | - |
| Profit/(loss) after tax | | 18 | (59,546) |

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

Banque Franco - Lao Limited
Statement of changes in equity

| | <i>Note</i> | Paid up share capital | Legal reserve | General Provision for credit activities | Accumulated losses | Total |
|---------------------------------------|-------------|--------------------------|----------------------|--|-----------------------|----------------------|
| | | LAK | LAK | LAK | LAK | LAK |
| | | <i>(in millions)</i> | <i>(in millions)</i> | <i>(in millions)</i> | <i>(in millions)</i> | <i>(in millions)</i> |
| Balance as at 1 January 2018 | | 300,000 | 1,481 | 5,726 | (28,426) | 278,781 |
| Loss for the year | | - | - | | (59,546) | (59,546) |
| Net decrease in general provision | | - | - | (1,141) | - | (1,141) |
| Reclassified to specific provision | | - | - | (680) | - | (680) |
| Balance as at 31 December 2018 | | 300,000 | 1,481 | 3,905 | (87,972) | 217,414 |
| Adjustment in statutory reserve | | - | (1) | - | - | (1) |
| Profit for the year | | - | - | - | 18 | 18 |
| Net decrease in general provision | 8(d) | - | - | (115) | - | (115) |
| Transfer to legal reserve | | - | 2 | - | (2) | - |
| Balance as at 31 December 2019 | | 300,000 | 1,482 | 3,790 | (87,956) | 217,316 |

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

Banque Franco - Lao Limited
Statement of cash flows

| | Year ended 31 December | |
|---|--------------------------|------------------|
| <i>Note</i> | 2019 | 2018 |
| | <i>(in millions LAK)</i> | |
| Cash flows from operating activities | | |
| Profit/(loss) before income tax expense | 18 | (59,546) |
| <i>Adjustments for</i> | | |
| Interest income | (72,378) | (81,595) |
| Interest expense | 21,062 | 25,902 |
| Allowance for doubtful debts | (2,828) | (50,251) |
| Depreciation and amortisation | 11,149 | 7,049 |
| Gain from fixed assets disposal | (291) | (121) |
| Loss from operations before change in operating assets and liabilities | (43,268) | (158,562) |
| <i>Change in operating assets / liabilities</i> | | |
| Change in statutory deposits | (897) | (756) |
| Change in loans and advances to customers | 57,135 | 157,843 |
| Change in other assets | 731 | 2,322 |
| Change in deposits from customers | 56,055 | 12,225 |
| Change in deposits from banks | 9,557 | (2,154) |
| Change in other liabilities | 2,800 | (1,443) |
| Interest received | 72,782 | 85,678 |
| Interest paid | (19,472) | (26,232) |
| Net cash generated from operating activities | 135,423 | 68,921 |
| Cash flows from investing activities | | |
| Acquisition of property and equipment | (5,933) | (3,670) |
| Addition of Intangibles | (1,555) | (3,089) |
| Proceeds from disposal of assets | 1,692 | 2,057 |
| Net cash used in investing activities | (5,796) | (4,702) |
| Cash flows from financing activities | | |
| Loan from related party | (88,687) | (123,796) |
| Net cash used in financing activities | (88,687) | (123,796) |
| Net change in cash and cash equivalents | (40,940) | (59,577) |
| Cash and cash equivalents at 1 January | 176,432 | 236,009 |
| Cash and cash equivalents at 31 December | 217,372 | 176,432 |

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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 2019

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Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2019

1 Corporate information

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

Establishment and operations

The Bank was established under the Investment License Decision No. 1211/09 dated 26 August 2009 issued by the Ministry of Planning and Investment which was then amended by decision No. 124/10 dated 7 September 2010 issued by the same Ministry; and Decision No.12 BOL dated 16 July 2010 issued by the Bank of Lao P.D.R (the BOL).

Paid-up capital

The registered charter capital of the Bank is LAK 300,000 million. As at 31 December 2019, the actual paid-up capital of the Bank is LAK 300,000 million (31 December 2018, LAKm 300,000). The principal activities of the Bank are to provide comprehensive banking and related financial services in Lao P.D.R.

With reference to the Law on Commercial Bank No. 56/NA, dated 7/12/2018 (Amended), commercial bank which is established under this law shall have a registered capital not less than five hundred billion Kip. Each branch of a foreign commercial bank which is established in Lao PDR shall have investment capital not less than three hundred billion Kip.

The Bank has obtained extension dated 26 December 2019-CBSD/733 from Bank of Lao P.D.R for the implementation of requirement of Law on Commercial Bank.

Details of member of Board of Directors and Management are as follows:

Board of Directors

| Name | Position | Date of appointment/resignation |
|---------------------------|-----------------|---------------------------------|
| Mr. Marc Robert | Chairman | |
| Mr. Nanthalath Keopaseuth | Deputy chairman | Appointed on 22 January 2017 |
| Mr. Olivier Klein | Director | Appointed on 22 January 2017 |
| Mr. Guillaume Perdon | Director | Appointed on 22 January 2017 |
| Mr. Sisamone Srithirath | Director | Appointed on 6 December 2019 |
| Mr. Sivath Sengdoangchanh | Director | Appointed on 22 January 2017 |
| Mr. Bernard Ramanantsoa | Director | Appointed on 22 January 2017 |

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2019

Management

| Name | Position | Date of appointment/resignation |
|---------------------------|-----------------------------|---------------------------------|
| Mr. Arnaud Caulier | Managing Director | Appointed on 01 June 2018 |
| Mr. Bounmy Sengpachanh | Deputy Managing Director | Appointed on 07 March 2014 |
| Ms. Daloune Southammavong | Deputy Managing Director | Appointed on 1 march 2018 |
| Ms. Agathe Carniel | Chief Financial Officer | Appointed on 27 July 2018 |
| Mr. Elie Behar | Head of credit collection | Appointed on 27 July 2018 |
| Ms. Annette Philaphandeth | Head of Operations | Appointed on 29 December 2017 |
| Ms. Sirivone Phimmasone | Head of Back Office | Appointed on 01 July 2015 |
| Ms. Emilie Saves | Head of Risk and Compliance | Appointed on 13 May 2019 |

The Head Office of the Bank is located at Lane Xang Avenue, HatsadyNeua Village, Chanthabuly District, P.O. BOX: 5720, Vientiane Capital, Lao P.D.R. As at 31 December 2019, the Bank has one (1) head office and five (5) service units in Vientiane Capital, one (1) service unit in Champasack Province, one (1) service unit in Savanakheth Province, one (1) service unit in Luangprabang Province and one (1) service unit in Vientiane Province (Vang Vieng).

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2019

2 Basis of preparation of the financial statements

(a) General basis of accounting

(i) Basis of preparation

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

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

New accounting standard IFRS 16 is effective for annual accounting periods on or after 1st January 2019. The application of IFRS 16 accounting is pursuant to the BOL Instruction 1433/AF on implementation of International Financial Reporting Standard 16 Leases (“IFRS 16”) dated 24th October 2019. The initial application of new accounting standard has resulted in change of the bank’s policy. The effect of this change is described in Note 3.

The financial statements were authorized for issue on behalf of the Board of Management on 13 March 2020.

(ii) Basis of measurement

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

(iii) Use of judgments and estimates

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

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

(b) Foreign currency transactions

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

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

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2019

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

The applicable exchange rates for the LAK against currencies were:

| | 31 December 2019 | 31 December 2018 |
|-----------------------------|------------------|------------------|
| United State Dollar (“USD”) | 8,857.00 | 8,530.00 |
| Thai Baht (“THB”) | 299.62 | 269.11 |
| Euro (“EUR”) | 9,915.00 | 9,757.00 |
| Great Britain Pound (“GBP”) | 11,445.00 | 10,659.00 |

(c) Fiscal Year

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

3 Change in accounting policy

(a) Leases

The Bank applied IFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for 2018 is not restated i.e. it is presented, as previously reported under Lao GAAP and related regulations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

(b) Definition of a lease

Previously, the Bank treated Lease contracts as operating leases and booked related lease expense as operating expense. The only lease contracts falling under the domain of IFRS 16 are building rental agreements. The Bank has now assessed whether the rental agreements fall under the definition of a lease, as explained in Note 22.

(c) As a lessee

As a lessee, the bank has headquarter and service units. Under IFRS 16, the Bank recognizes right-of-use asset and lease liability i.e. this lease is recorded in the statement of financial position. Further, the Bank has not entered into any new lease during the year ended 31 December 2019.

On transition, the Bank has all of its leases paid fully in advance and for future reporting's the Bank will use incremental borrowing to discount the lease liability.

The right-of-use are measured at their carrying amount which is equal to lease liability at the beginning of current year, discounted using the lessee's weighted average deposits rate at the date of transition, adjusted for any accruals and prepayments.

4 Significant accounting policies

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

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2019

(a) Cash and cash equivalents

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

(b) Loans to customers

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

(c) Provision for loans

Regulation 512/BOL applicable from 1 October 2018

In accordance with Regulation 512/BOL (“BOL 512”) dated 29 June 2018 and effective from 1 October 2018, 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 Normal or Pass (Group A) are considered as performing loans. Loans classified as either Watch or Special Mention (Group B) or Substandard (Group C) or Doubtful (Group D) or Loss (Group E) are considered as non-performing loans.

According to BOL 512, general provision is created at the rate of 0.5% of the total balance of Normal or Pass loans as at the reporting date. Concurrently, specific provision for Watch or Special Mention, Substandard, Doubtful and Loss loans is established by multiplying the outstanding balance of each loan item less the value of collaterals (if any) in accordance with the regulation of BOL with the provision rates applicable to that loan classification as follows:

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

Maximum ratio of collateral benefits allowed under BOL 512 are as follows:

| Type of collaterals | Maximum allowed ratio |
|--|------------------------------|
| (a) Deposits at the Bank | |
| - in the same currency with loans | 100% |
| - in different currencies with those of loans | 95% |
| (b) Gold kept at the Bank | 90% |
| (c) Government bonds and BOL bonds | |
| - in the same currency with loans | |
| ▪ With a remaining term of below 1 year | 100% |
| ▪ With a remaining term of between 1 year to 5 years | 90% |
| ▪ With a remaining term of over 5 years | 80% |
| - in different currencies with those of loans | |

Banque Franco - Lao Limited
Notes to the financial statements
For the year ended 31 December 2019

| Type of collaterals | Maximum allowed ratio |
|--|-----------------------|
| <ul style="list-style-type: none"> ▪ With a remaining term of below 1 year ▪ With a remaining term of between 1 year to 5 years ▪ With a remaining term of over 5 years | 95% 85% 75% |
| (d) Deposits at other banks or financial institutions <ul style="list-style-type: none"> ▪ With a remaining term of below 1 year ▪ With a remaining term of between 1 year to 5 years ▪ With a remaining term of over 5 years | 80% 75% 70% |
| (e) Letter of Credit or Standby Letter of Credit | 95% |
| (f) Letter of Guarantee or Bank Guarantee | 90% |
| (g) Real estates | 40% |

Changes in provision for non-performing loans is recorded to the statement of comprehensive income as “Net provision charges for non-performing loans”. Accumulated specific provision reserve for non-performing loans is recorded in the statement of financial position in “Loans and advances to customers, net of specific provision for NPL”.

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

Regulation 324/BOL applicable before 1 October 2018

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% |

Changes in provision for non-performing loans is recorded to the statement of comprehensive income as “Net provision charges for non-performing loans”. Accumulated specific provision reserve for non-performing loans is recorded in the statement of financial position in “Loans and advances to customers, net of specific provision for NPL”.

In accordance with BOL324, the Bank is required to create a general provision for loan losses at the rate of 3% of the total balance of Watch or Special Mention loans as at the reporting date and general provision made for Normal or Pass loans shall be upon the BoL’s notification for each year. For the

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period before 1 October 2018, the general provision rate for Normal or Pass loans is ranging from 0.5% to 1% in accordance with the Official Letter No. 242/BOL issued by the Bank of Lao P.D.R on 2 April 2011. Accordingly, the Bank provided general provision at rate of 0.5% out of total balance of Normal or Pass loans.

The Bank complied with BOL 324 on general provision provided for Normal or Pass and Watch or Special loans for the period before 1 October 2018.

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

(d) Write-off

In accordance with BOL 512, loans are written off not later than 90 days after being classified to Loss group.

Loans written off are recorded as off-balance sheet items for following up and collection. The amounts collected from the loans previously written-off, including the proceeds from sales of collaterals against those debts, are recognised in the statement of comprehensive income upon receipt.

(e) Provision for off-balance sheet commitments

In accordance with BOL 512, the Bank is not required to make provision for off-balance sheet commitments, except where the Bank has made payment under the guarantee contract on behalf of its customers, in which case the payment is classified and provision for credit losses is made in accordance with the accounting policy as described in Note 4(c).

(f) Investment securities

Held-to-maturity securities

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

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

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

(g) Property and equipment

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

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

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

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow

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to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged to statement of comprehensive income during the reporting period in which they are incurred. Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the assets and are recognized in the statement of comprehensive income on the date of retirement or disposal.

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

Depreciation

| | |
|---|-------|
| Leasehold improvement | 5-10% |
| Electronic equipment | 20% |
| Furniture, fitting and office equipment | 10% |
| Vehicle | 20% |

(h) Intangible asset

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

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

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

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

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

(i) Amounts due to customers and to banks

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

(j) Legal reserves

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

- Regulatory reserve fund
- Business expansion fund and other funds

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

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(k) Employee benefits

Termination benefits

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

- The worker lacks specialized skills or is not in good health and has a medical certificate, and after allowing the worker in question to undertake other, more appropriate work according to their ability and health, yet the person in question is still unable to work;
- The employer considers it necessary to reduce the number of workers in order to improve the work within the labor unit after consulting the trade union or employee representative or the majority of employees, and has reported to the Labor Administration Agency.

For the termination of an employment contract on any of the above-mentioned grounds, the employer must pay compensation allowance which is calculated on the basis of 10% of the last salary or wage multiplied by the total number of months worked. As at 31 December 2019, there was no employee of the Bank who was dismissed under the above-mentioned grounds, therefore the Bank has not made a provision for termination allowance in the financial statements.

Post employment benefits

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

(l) Taxation

The taxation system in the Lao PDR is relatively new and is characterised by numerous taxes and frequently changing legislation and can be subject to interpretations. Taxes are subject to review and investigation by a number of authorities. These facts may create tax risks in Lao PDR substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will have an impact on the income tax and deferred tax provisions in the period in which such determination is made.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the date of the statement of financial position. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation and establishes provisions of amounts payable to the tax authorities.

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

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The Income Tax Law No. 67/NA dated 31 July 2019 reduced the profit tax rate from 24% to 20% of taxable profit for the fiscal years beginning on or after 1 January 2020.

(n) Income recognition

Interest income is recognised in statement of comprehensive income using the effective interest method. The effective interest rate is the rate that exactly 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.

Where an account becomes non-performing, the recording of interest as income is suspended until it is realized on a cash basis. Customers' accounts are deemed to be non-performing where repayments are in arrears for more than 90 days, in accordance with BoL regulations.

Fees and commissions consist of fees received from fund transfer transactions, trade settlement, foreign currency exchange transactions, ATM transaction fee, financial guarantees, facility approval fees, maintaining and administering existing facilities and others.

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

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

(o) Interest expense

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

(p) 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.

(q) Leases

The Bank has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under Lao GAAP and related regulations. The details of accounting policies under Lao GAAP and related regulations are disclosed separately if they are different from those under IFRS 16. The impact of changes is disclosed in Note 3.

Policy applicable from 1 January 2019

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At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank assesses whether:

- the contract involves the use of an identified asset;
- the Bank has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use: and
- the Bank has the right to direct the use of the asset. The Bank has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

This policy is applied to contracts entered in to, or changed, on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

Under Lao GAAP

Operating leases

In the comparative period, payments made under operating leases were recognised in statement of comprehensive income on a straight-line basis over the term of the lease.

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For the year ended 31 December 2019

5 Cash and balances with Central Bank

| | 31 December 2019 LAK (in millions) | 31 December 2018 LAK (in millions) |
|------------------------------------|--|--|
| Cash on hand in LAK | 23,234 | 18,336 |
| Cash on hand in foreign currencies | 9,579 | 13,492 |
| | 32,813 | 31,828 |
| Balances with the BOL | | |
| - Demand deposit. | 49,313 | 30,373 |
| - Compulsory deposits | 53,673 | 52,776 |
| | 102,986 | 83,149 |
| | 135,799 | 114,977 |

These balances are included in Note 7 - cash and cash equivalents balances with the BOL include demand and compulsory deposits in compliance with the requirements of the BOL. These balances earn no interest. Under regulations of the BOL, the Bank is required to maintain certain cash reserves with the BOL in the form of compulsory deposits, which are computed at 5.00% for LAK and 10.00% for USD and THB, on a bi-monthly basis, (2018: 5.00% and 10.00%), customer deposits (≤ 1 year duration). During the year the bank maintained its compulsory deposit in compliance with regulation of BOL.

6 Amounts due from other banks

| | 31 December 2019 LAK (in millions) | 31 December 2018 LAK (in millions) |
|-------------------------------------|--|--|
| Demand deposits with domestic banks | 10,346 | 8,304 |
| Demand deposits with overseas banks | 114,272 | 95,691 |
| Fixed deposits at domestic banks* | 10,628 | 10,236 |
| | 135,246 | 114,231 |

These fixed deposits in domestic banks are maintained with BCEL and carry interest rate at 2.40% per annum. The change in balance is due to changes in exchange rates, as these are held in foreign currencies.

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7 Cash and cash equivalents

| | 31 December 2019 LAK (in millions) | 31 December 2018 LAK (in millions) |
|--|--|--|
| Cash on hand (Note 5) | 32,813 | 31,828 |
| Demand deposit at the BOL (Note 5) | 49,313 | 30,373 |
| Demand deposits at other banks (Note 6) | 135,246 | 114,231 |
| | 217,372 | 176,432 |

8 Loans and advances, net of provision for non-performing loan

| | 31 December 2019 LAK (in millions) | 31 December 2018 LAK (in millions) |
|---|--|--|
| Commercial loans | 817,158 | 874,295 |
| Less provision for non-performing loans [Note 8(d)] | (15,609) | (18,322) |
| | 801,549 | 855,973 |

(a) Classified by interest rate (per annum)

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

| | 31 December 2019 interest rates % per annum | 31 December 2018 interest rates % per annum |
|--------------|---|---|
| Loans in LAK | 6.00% - 16.00% | 7.00% - 8.00% |
| Loans in USD | 5.00% - 12.00% | 7.00% - 10.00% |
| Loans in THB | 6.00% - 12.00% | 8.00% - 10.00% |
| Loans in EUR | 3.90% - 12.00% | 8.00% |

(b) Classified by currency

| | 31 December 2019 LAK (in millions) | 31 December 2018 LAK (in millions) |
|--------------|--|--|
| Loans in LAK | 258,088 | 246,325 |
| Loans in USD | 363,579 | 410,961 |
| Loans in THB | 39,841 | 47,494 |
| Loans in EUR | 155,650 | 169,515 |
| | 817,158 | 874,295 |

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(c) Classified by performance

| | 31 December 2019 LAK (in millions) | 31 December 2018 LAK (in millions) |
|-------------------------------|--|--|
| Normal or Pass | 757,998 | 781,198 |
| Watch List or Special Mention | 21,488 | 23,849 |
| Non-Performing Loans | 37,672 | 69,248 |
| | 817,158 | 874,295 |

(d) Provision for credit activities

Movement of provision as required by BOL during the year 2019 is as follow:

| | Specific provision LAK (in millions) | General provision LAK (in millions) | Total Provision LAK (in millions) |
|---|---|--|--|
| Balance as at the beginning of the year | 18,322 | 3,905 | 22,227 |
| Provision for the year | 38,548 | - | 38,548 |
| Reversal during the year | (41,261) | (115) | (41,376) |
| Balance at end of the year | 15,609 | 3,790 | 19,399 |

Movement of provision as required by BOL during the year 2018 is as follows:

| | Specific provision LAK (in millions) | General provision LAK (in millions) | Total Provision LAK (in millions) |
|--|---|--|--|
| Balance as at the beginning of the year | 66,752 | 5,726 | 72,478 |
| Provision for the year | 48,817 | 4,586 | 53,403 |
| Reversal during the year | (97,927) | (5,727) | (103,654) |
| Reclassified from general to specific provision during the year | 680 | (680) | - |
| Balance at end of the year | 18,322 | 3,905 | 22,227 |

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For the year ended 31 December 2019

9 Intangibles

Movement of intangible assets for the year ended 31 December 2019 is as follows:

| | Computer software LAK (in millions) | Construction in progress LAK (in millions) | Total LAK (in millions) |
|---------------------------------|--|---|-------------------------------|
| Costs | | | |
| As at 1 January 2019 | 19,227 | 2,907 | 22,134 |
| Transferred from CIP | - | (2,907) | (2,907) |
| Additions | 3,848 | 614 | 4,462 |
| As at 31 December 2019 | 23,075 | 614 | 23,689 |
| Accumulated amortization | | | |
| As at 1 January 2019 | 10,685 | - | 10,685 |
| Amortization charge | 2,822 | - | 2,822 |
| As at 31 December 2019 | 13,507 | - | 13,507 |
| Net book value | | | |
| As at 1 January 2019 | 8,542 | 2,907 | 11,449 |
| As at 31 December 2019 | 9,568 | 614 | 10,182 |

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) |
|---------------------------------|--|---|-------------------------------|
| Costs | | | |
| As at 1 January 2018 | 9,268 | 9,777 | 19,045 |
| Transferred from CIP | - | (10,194) | (10,194) |
| Additions | 9,959 | 3,324 | 13,283 |
| As at 31 December 2018 | 19,227 | 2,907 | 22,134 |
| Accumulated amortization | | | |
| As at 1 January 2018 | 9,016 | - | 9,016 |
| Amortization charge | 1,669 | - | 1,669 |
| As at 31 December 2018 | 10,685 | - | 10,685 |
| Net book value | | | |
| As at 1 January 2018 | 252 | 9,777 | 10,029 |
| As at 31 December 2018 | 8,542 | 2,907 | 11,449 |

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10 Property and equipment

Movement of tangible fixed assets for the year ended 31 December 2019 is as follows;

| | Building & improvements | Office equipment | Furniture & fixture | Motor vehicles | Construction in progress | Total |
|---------------------------------|----------------------------|---------------------|------------------------|----------------|-----------------------------|---------------|
| | LAK | LAK | LAK | LAK | LAK | LAK |
| | (in millions) | (in millions) | (in millions) | (in millions) | (in millions) | (in millions) |
| Cost | | | | | | |
| At 1 January 2019 | 26,396 | 31,053 | 3,737 | 4,530 | 768 | 66,484 |
| Additions | 723 | 4,401 | 137 | 505 | 167 | 5,933 |
| Disposals | (1,643) | (3,852) | (30) | (527) | (841) | (6,893) |
| At 31 December 2019 | 25,476 | 31,602 | 3,844 | 4,508 | 94 | 65,524 |
| Accumulated depreciation | | | | | | |
| At 1 January 2019 | 12,274 | 26,767 | 2,022 | 2,945 | - | 44,008 |
| Charge for the year | 1,728 | 2,197 | 475 | 555 | - | 4,955 |
| Disposal | (1,156) | (3,796) | (22) | (518) | - | (5,492) |
| At 31 December 2019 | 12,846 | 25,168 | 2,475 | 2,982 | - | 43,471 |
| Net book value | | | | | | |
| At 1 January 2019 | 14,122 | 4,286 | 1,715 | 1,585 | 768 | 22,476 |
| At 31 December 2019 | 12,630 | 6,434 | 1,369 | 1,526 | 94 | 22,053 |

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Movement of tangible fixed assets for the year ended 31 December 2018 is as follows;

| | Building & improvements | Office equipment | Furniture & fixture | Motor vehicles | Construction in progress | Total |
|---------------------------------|----------------------------|---------------------|------------------------|----------------|-----------------------------|---------------|
| | LAK | LAK | LAK | LAK | LAK | LAK |
| | (in millions) | (in millions) | (in millions) | (in millions) | (in millions) | (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 |

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11 Other assets

| | 2019 LAK (in millions) | 2018 LAK (in millions) |
|------------------------------|------------------------------|------------------------------|
| Accrued interest receivables | 7,584 | 7,987 |
| Cheques in collection | 147 | 644 |
| Security deposits | 12 | 8 |
| Prepayments | 5,384 | 16,737 |
| Others (*) | 4,722 | 6,146 |
| | 17,849 | 31,522 |

(*) Included in "Others" is LAKm 4,116 (2018: LAKm 4,954) being the POS transactions awaiting for settlement from VISA and Master card.

12 Amounts due to banks

| | 2019 LAK (in millions) | 2018 LAK (in millions) |
|-------------------------------|------------------------------|------------------------------|
| Demand deposits | 1,194 | 1,111 |
| Savings deposits | 405 | 119 |
| Term deposits | 55,000 | 45,000 |
| Borrowings from other banks* | 73,850 | 162,537 |
| Other payables to other banks | 71 | 883 |
| | 130,520 | 209,650 |

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

| Borrowings from | Currency | Date-Start | Date-End | Term | Interest rate | Outstanding 2019 in LAK (in million) | Accrued interest 2019 in LAK (in million) |
|-----------------------|----------|------------|----------|---------|---|--------------------------------------|---|
| Bred Banque Populaire | EUR | 20-Sep-17 | 9-Sep-24 | 7 years | 1.5% per annum plus 3 months LIBOR rate | 73,850 | 51 |

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13 Deposits from customers

| | 2019 LAK (in millions) | 2018 LAK (in millions) |
|------------------------|------------------------------|------------------------------|
| Demand deposits | 274,263 | 234,560 |
| In LAK | 66,346 | 38,104 |
| In foreign currencies | 207,917 | 196,456 |
| Saving deposits | 140,051 | 147,692 |
| In LAK | 16,350 | 19,123 |
| In foreign currencies | 123,701 | 128,569 |
| Term deposits | 337,061 | 313,068 |
| In LAK | 23,490 | 27,909 |
| In foreign currencies | 313,571 | 285,159 |
| | 751,375 | 695,320 |

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

| | 2019 Interest rate % per annum | 2018 Interest rate % per annum |
|-------------------------------------|--------------------------------------|--------------------------------------|
| Saving deposits in LAK | 1.91% | 1.91% |
| Saving deposits in USD | 1.25% - 1.35% | 1.25% - 1.35% |
| Saving deposits in THB | 1.25% - 1.35% | 1.25% - 1.35% |
| Saving deposits in EUR | 0.50% - 0.75% | 0.50% - 0.75% |
| Term deposits in LAK | 3.16% - 6.77% | 3.16% - 6.77% |
| Term deposits in foreign currencies | 0.50% - 5.00% | 0.50% - 5.00% |

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14 Other liabilities

| | 2019 LAK (in millions) | 2018 LAK (in millions) |
|-----------------------------|------------------------------|------------------------------|
| Accrued interest payables | 9,929 | 8,339 |
| Personal income tax payable | 258 | 1,782 |
| Other liabilities* | 22,447 | 18,123 |
| | 32,634 | 28,244 |

* Other liabilities includes payable relating to deferred revenue amounting to LAK 3,494 million against customers, interest suspended amounting to LAK 3,164 million against NPL loans, guaranteed deposit amounting to 2,683 million against car loan customers and external service amounting to 9,409 million.

15 Legal reserve

The legal reserve is provided at the rate of at least 10% of profit for the year in accordance with the BOL regulations. During the year the bank earned a net profit of LAK 18 million.

16 Net interest and similar income

| | 2019 LAK (in millions) | 2018 LAK (in millions) |
|---|------------------------------|------------------------------|
| Interest and similar income from | | |
| Interbank transactions | 747 | 143 |
| Loans and advances | 71,631 | 81,452 |
| | 72,378 | 81,595 |
| Interest and similar expense for | | |
| Interbank transactions | (5,135) | (10,166) |
| Customer deposits | (15,927) | (15,736) |
| | (21,062) | (25,902) |
| | 51,316 | 55,693 |

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17 Net fees and commission income

| | 2019 LAK (in millions) | 2018 LAK (in millions) |
|---|------------------------------|------------------------------|
| Fees and commission income from | | |
| Settlement services | 8,390 | 9,111 |
| Guarantee activities | 701 | 297 |
| Treasury activities | 671 | 751 |
| Fees for assistance and advising activities | 11,374 | 2,635 |
| Other activities | 30 | 4 |
| | 21,166 | 12,798 |
| Fees and commission expenses for | | |
| Settlement services | (6,537) | (6,287) |
| Other activities | (2,003) | (7,088) |
| | (8,540) | (13,375) |
| Net fee and commission income | 12,626 | (577) |

18 Other operating income

| | 2019 LAK (in millions) | 2018 LAK (in millions) |
|---|------------------------------|------------------------------|
| Reversal of general provision Note 8(d) | 115 | 5,727 |
| Others* | 20,802 | 585 |
| | 20,917 | 6,312 |

*Others mainly includes written off loans collected during the year amounting to 20,071 million.

19 Administration expenses

(a) Payroll and other staff costs

| | 2019 LAK (in millions) | 2018 LAK (in millions) |
|---------------------------------|------------------------------|------------------------------|
| Wages and salaries | 20,209 | 19,879 |
| Insurance expense for employees | 649 | 769 |
| Other staff costs | 891 | 955 |
| | 21,749 | 21,603 |

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(b) General administration expenses

| | 2019 LAK (in millions) | 2018 LAK (in millions) |
|--------------------------------------|------------------------------|------------------------------|
| Business trip | 981 | 938 |
| External service | 16,559 | 17,887 |
| Fuel | 221 | 223 |
| Office stationeries | 1,585 | 2,144 |
| Electricity and water | 673 | 834 |
| Telecommunication | 737 | 1,050 |
| Publication, marketing and promotion | 1,524 | 1,327 |
| Repairs and maintenance | 90 | 81 |
| Tools and equipment | 269 | 6 |
| Insurance fee | 540 | 686 |
| Office rental | 1,543 | 5,007 |
| Entertainment expenses | 64 | 77 |
| Others | 2,424 | 3,233 |
| | 27,210 | 33,493 |

20 Other operating expenses

| | 2019 LAK (in millions) | 2018 LAK (in millions) |
|---|------------------------------|------------------------------|
| Charge of general provision [Note 8(d)] | - | 3,906 |
| Others* | 34,781 | 108,173 |
| | 34,781 | 112,079 |

* Others mainly includes to NPL balances written off amounting to LAK 31,137 million.

21 Current corporate income tax

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

| | 2019 LAK (in millions) | 2018 LAK (in millions) |
|---------------------------------------|------------------------------|------------------------------|
| Profit/(loss) before tax for the year | 18 | (59,546) |
| Carry forward losses | (18) | - |
| Non - deductible expenses | - | - |
| Taxable Profit/(loss) | - | (59,546) |
| Tax at 24% | - | - |

Banque Franco - Lao Limited
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22 Leases

(a) Right-of-use asset

| | 31 December 2019 | |
|------------------------------------|----------------------|----------------------|
| | LAK (in millions) | LAK (in million) |
| Balance at 1 January 2019 | 12,539 | - |
| Depreciation charge for the year | (3,372) | - |
| Balance at 31 December 2019 | 9,167 | - |

(b) Amount recognized in statement of comprehensive income

| | 31 December 2019 | |
|-----------------------------|----------------------|----------------------|
| | LAK (in millions) | LAK (in million) |
| Interest on Lease Liability | - | - |
| Depreciation expense | 3,372 | - |
| Total | 3,372 | - |

The asset held under lease were fully paid in advance.

Banque Franco - Lao Limited
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23 Related party transactions

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

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

Transactions with related parties are carried on contractually agreed terms.

Banque Franco - Lao Limited
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For the year ended 31 December 2019

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

| Related party | Relationship | Transactions | Receivables LAK (in millions) | Payables LAK (in millions) |
|---|---|-----------------------------------|--|---|
| Banque Pour Le Commerce Exterieur Lao Public | Shareholder | Demand deposits | 10,346 | - |
| | | Fixed term deposits | 10,628 | - |
| | | Accrued interest on deposit | 108 | - |
| | | Demand deposits | - | 909 |
| | | Fixed term deposits | - | 20,000 |
| | | Accrued interest on deposit | - | 293 |
| Bred Banque Populaire | Shareholder (represented by Cofibred) | Demand deposits | 72,589 | - |
| | | Borrowing | - | 73,850 |
| | | Accrued interest on borrowing | - | 51 |
| | | Accrued bank guarantee fee | - | 176 |
| Bred IT Thailand | Subsidiary of Cofibred | Saving deposits | - | 777 |
| | | Term deposits | - | 3,895 |
| | | Accrued interest on term deposits | - | 151 |

Transactions with key management personnel of the Bank

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

| | 2019 LAK (in millions) | 2018 LAK (in millions) |
|----------|---------------------------------------|---------------------------------------|
| Salaries | 5,238 | 7,068 |
| | 5,238 | 7,068 |

Banque Franco - Lao Limited
Notes to the financial statements
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24 Operating lease commitments

| | 2019 LAK (in millions) | 2018 LAK (in millions) |
|-----------------------------|------------------------------|------------------------------|
| Within 1 year | - | 81 |
| From 1 to less than 5 years | - | 15,879 |
| Over 5 years | - | 39,832 |
| | <u>-</u> | <u>55,792</u> |

25 Off-balance sheet items

| | 2019 LAK (in millions) | 2018 LAK (in millions) |
|---|------------------------------|------------------------------|
| Commitment given | | |
| Letters of guarantee outstanding | 15,060 | 21,265 |
| Letters of credit and undisbursed loans outstanding | 47,366 | 13,979 |
| | <u>62,426</u> | <u>35,244</u> |
| Collateral and Mortgages | | |
| Collaterals and mortgages for loans to customer | 2,188,527 | 2,254,121 |
| | <u>2,188,527</u> | <u>2,254,121</u> |

26 Subsequent events

As 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 2019 that significantly impacted the financial position of the Bank as at 31 December 2019.