

**First Commercial Bank Ltd., Vientiane Branch**

Special Purpose Financial Statements

For the year ended 31 December 2019



Building a better  
working world

First Commercial Bank Ltd., Vientiane Branch

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# First Commercial Bank Ltd., Vientiane Branch

## GENERAL INFORMATION

### THE BRANCH

First Commercial Bank Ltd., Vientiane Branch (the "Branch") is a branch established in Lao People's Democratic Republic ("Lao PDR") of First Commercial Bank Ltd., a bank incorporated and headquartered in Taiwan. The Branch operates under Banking License No. 22/BOL granted by Bank of the Lao PDR ("the BOL") on 29 May 2015.

The initial registered capital of the Branch is LAK 121,890,000,000. The actual paid-up capital as at 31 December 2019 is LAK 121,890,000,000.

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

The Branch is located at No. 61 Phonxay, 23 Singha Road, Saysettha District, Vientiane Capital, Lao PDR.

### MANAGEMENT

Members of the Management during year and at the date of these financial statements are as follows:

<i>Name</i>	<i>Title</i>	<i>Date of appointment</i>
Mr. YEH Hsu-chao	General Manager	Appointed 28 August 2018
Mr. WANG Ching-Ping	Deputy Manager	Appointed on 08 June 2016
Mr. CHANG Kang-Hu	Deputy Manager	Appointed on 08 May 2017

### LEGAL REPRESENTATIVE

The legal representative of the Branch during the year ended 31 December 2019 and as at the date of these financial statements is Mr. YEH, Hsu-chao, the General Manager.

### AUDITOR

The auditor of the Branch is Ernst & Young Lao Company Limited.



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Ernst & Young Lao Co., Ltd  
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Nongbone Village, Saysettha District  
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Reference: 61217374/21433303-IFRS

## INDEPENDENT AUDITORS' REPORT

To: **The Owner of First Commercial Bank Ltd., Vientiane Branch; and  
Bank of the Lao PDR**

### *Opinion*

We have audited the special purpose financial statements ("the financial statements") of First Commercial Bank Ltd., Vientiane branch ("the Branch"), which comprise the statement of financial position as at 31 December 2019, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements of the Branch for the year ended 31 December 2019 are prepared, in all material respects, in accordance with the accounting policies as described in Note 4 to the financial statements to meet the reporting requirements of Bank of 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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Branch in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in Lao PDR, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Emphasis of Matter – Basis of Accounting and Restriction on Use*

We draw attention to Note 2 to the financial statements, which describes the basis of preparation, under which the accounting policies used and disclosures made are not intended to, and do not, comply with all the requirements of International Financial Reporting Standards as the accounting policies for recognition and measurement of financial instruments are based on IAS 39 - Financial instruments: Recognition and Measurement instead of IFRS 9 - Financial instruments; and the accounting policies for leases are based on IAS 17 - Leases instead of IFRS 16 - Leases. The financial statements are prepared solely for the use of the Branch to meet the reporting requirements of Bank of the Lao PDR. As a result, the financial statements may not be suitable for another purpose. Our auditor's report is intended solely for the information and use of the Branch and these regulators, and should not be used by other parties. Our opinion is not modified in respect of this matter.

### *Responsibilities of the Branch's Management for the Financial Statements*

The Branch's management is responsible for the preparation of the financial statements in accordance with the accounting policies as described in Note 4 to the financial statements, and for such internal control as management determines is necessary to enable the preparation of the 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 Branch'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 Branch 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 Branch's internal control.
- ▶ 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 Branch'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 Branch to cease to continue as a going concern.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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.

*Ernst & Young Lao*



The stamp is an octagonal seal. The outer ring contains the text 'ການ ປະຕິບັດ' at the top and 'ອົງການ' at the bottom. The inner circle contains the text 'ບໍລິສັດ ເອີນ ແອນ ໃຊ໌ ລາວ ຈຳກັດ' in Lao script, followed by 'ERNST & YOUNG' and 'LAO CO., LTD' in English.

Vientiane, Lao PDR

31 March 2020

# First Commercial Bank Ltd., Vientiane Branch

## INCOME STATEMENT

for the year ended 31 December 2019

	Notes	2019 LAKm	2018 LAKm
Interest revenue calculated using the effective interest method	7	35,657	33,326
Interest expense calculated using the effective interest method	8	(11,827)	(10,108)
<b>Net interest and similar income</b>		<b>23,830</b>	<b>23,218</b>
Fee and commission income	9	1,231	696
Fee and commission expense		(73)	(93)
<b>Net fees and commission income</b>		<b>1,158</b>	<b>603</b>
Net gain from dealing in foreign currencies	10	(562)	(639)
<b>Total operating income</b>		<b>24,426</b>	<b>23,182</b>
Credit loss (expenses)/reversal	16	(1,632)	3,832
Other operating expenses		(39)	(12)
<b>NET OPERATING INCOME</b>		<b>22,755</b>	<b>27,002</b>
Personnel expenses	11	(4,182)	(3,991)
Depreciation and amortization		(1,961)	(1,954)
Other administrative expenses	12	(2,918)	(3,141)
<b>TOTAL OPERATING INCOME</b>		<b>13,694</b>	<b>17,916</b>
<b>PROFIT BEFORE TAX</b>		<b>13,694</b>	<b>17,916</b>
Profit tax expense	22	-	-
<b>PROFIT FOR THE YEAR</b>		<b>13,694</b>	<b>17,916</b>

Prepared by:



Mr. WANG Ching-Ping  
Deputy Manager

Reviewed by:



Mr. YEH Hsu-chao  
General Manager



Vientiane, Lao PDR

31 March 2020



# First Commercial Bank Ltd., Vientiane Branch

## STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 December 2019

Notes	2019 LAKm	2018 LAKm
PROFIT FOR THE YEAR	13,694	17,916
OTHER COMPREHENSIVE INCOME, NET OF TAX	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	13,694	17,916

Prepared by:



Mr. WANG Ching-Ping  
Deputy Manager

Reviewed by:



Mr. YEH Hsu-chao  
General Manager

Vientiane, Lao PDR

31 March 2020

# First Commercial Bank Ltd., Vientiane Branch

## STATEMENT OF FINANCIAL POSITION as at 31 December 2019

	Notes	31 December 2019 LAKm	31 December 2018 LAKm
<b>ASSETS</b>			
Cash and balances with the BOL	13	97,167	77,501
Due from banks	14	255,245	241,269
Loans to customers	15	350,775	335,492
Property and equipment	17	6,108	8,014
Intangible assets	18	45	53
Other assets	19	1,116	1,716
<b>TOTAL ASSETS</b>		<b>710,456</b>	<b>664,045</b>
<b>LIABILITIES</b>			
Due to other banks	20	493,679	475,390
Due to customers	21	54,657	40,673
Current tax liabilities	22	46	47
Other liabilities		493	48
<b>TOTAL LIABILITIES</b>		<b>548,875</b>	<b>516,158</b>
<b>EQUITY</b>			
Paid up capital	23	121,890	121,890
Statutory reserve fund		3,892	2,420
Retained earnings		35,799	23,577
<b>TOTAL EQUITY</b>		<b>161,581</b>	<b>147,887</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>710,456</b>	<b>664,045</b>

Prepared by:



Mr. WANG Ching-Ping  
Deputy Manager

Reviewed by:



Mr. YEH Hsu-chao  
General Manager



Vientiane, Lao PDR

31 March 2020



# First Commercial Bank Ltd., Vientiane Branch

## STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2019

	<i>Paid-up capital LAKm</i>	<i>Regulatory reserves LAKm</i>	<i>(Accumulated losses)/ retained earnings LAKm</i>	<i>Total LAKm</i>
<b>Balance as at 31 December 2017</b>	<b>121,890</b>	<b>808</b>	<b>7,273</b>	<b>129,971</b>
Net profit during the year	-	-	17,916	<b>17,916</b>
Appropriation to regulatory reserves for the year	-	1,612	(1,612)	-
<b>Balance as at 31 December 2018</b>	<b>121,890</b>	<b>2,420</b>	<b>23,577</b>	<b>147,887</b>
Net profit during the year	-	-	13,694	<b>13,694</b>
Appropriation to regulatory reserves for the year	-	1,472	(1,472)	-
<b>Balance as at 31 December 2019</b>	<b>121,890</b>	<b>3,892</b>	<b>35,799</b>	<b>161,581</b>

Prepared by:



Mr. WANG Ching-Ping  
Deputy Manager

Reviewed by:



Mr. YEH Hsu-chao  
General Manager



Vientiane, Lao PDR  
31 March 2020

# First Commercial Bank Ltd., Vientiane Branch

## STATEMENT OF CASH FLOWS for the year ended 31 December 2019

	Notes	2019 LAKm	2018 LAKm
<b>OPERATING ACTIVITIES</b>			
<b>Net profit before tax</b>		<b>13,694</b>	<b>17,916</b>
<i>Adjustments for:</i>			
Depreciation and amortization charges		1,961	1,954
Credit loss expenses/(reversal)	16	1,632	(3,832)
Interest income		(35,657)	(33,326)
Interest expense		11,827	10,108
(Increase)/decrease in operating assets			
Due from other banks		(80,237)	(56,814)
Loans to other banks		39,758	(19,469)
Loans to customers		(16,979)	36,006
Other assets		664	742
Increase/(decrease) in operating liabilities			
Due to other banks		4,429	116,303
Customer deposits and other amounts due to customers		13,984	(15,648)
Other liabilities		2,727	(241)
Interest received		33,335	31,061
Interest paid		(11,790)	(9,539)
<b>Net cash flows (used in)/from operating activities</b>		<b>(20,652)</b>	<b>75,221</b>
<b>INVESTING ACTIVITIES</b>			
Purchases of property and equipment and other intangible assets		(46)	(55)
<b>Net cash flows used in investing activities</b>		<b>(46)</b>	<b>(55)</b>
<b>FINANCING ACTIVITIES</b>			
Drawdown/(payment) of borrowings		13,860	(27,202)
<b>Net cash flows from financing activities</b>		<b>13,860</b>	<b>(27,202)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(6,838)</b>	<b>47,964</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>113,011</b>	<b>65,047</b>
<b>Cash and cash equivalents at the end of the year</b>	24	<b>106,173</b>	<b>113,011</b>

Prepared by:



Mr. WANG Ching-Ping  
Deputy Manager

Reviewed by:



Mr. YEH Hsu-chao  
General Manager



Vientiane, Lao PDR

31 March 2020

# First Commercial Bank Ltd., Vientiane Branch

## NOTES TO THE FINANCIAL STATEMENTS as at and for the year ended 31 December 2019

### 1. CORPORATE INFORMATION

#### *Establishment and operations*

First Commercial Bank Ltd., Vientiane Branch (the "Branch") is a branch established in Lao People's Democratic Republic ("Lao PDR") of First Commercial Bank Ltd., a bank incorporated and headquartered in Taiwan. The Branch operates under Banking License No. 22/BOL granted by Bank of the Lao PDR ("the BOL") on 29 May 2015.

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

#### *Paid-up capital*

The initial registered capital of the Branch is LAK 121,890,000,000. The actual paid-up capital as at 31 December 2019 is LAK 121,890,000,000.

#### *Management*

Members of the Management during the year ended 31 December 2019 and as at the date of this report are as follows:

<i>Name</i>	<i>Title</i>	<i>Date of appointment</i>
Mr. YEH Hsu-chao	General Manager	Appointed 28 August 2018
Mr. WANG Ching-Ping	Deputy Manager	Appointed on 08 June 2016
Mr. CHANG Kang-Hu	Deputy Manager	Appointed on 08 May 2017

#### *Location*

The Branch is located at No. 61 Phonxay, 23 Singha Road, Saysettha District, Vientiane Capital, Lao PDR.

#### *Employees*

Total employees of the Branch as at 31 December 2019 were 18 people (2018: 18 people).

# First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2019

## 2. BASIS OF PREPARATION

The financial statements (alternatively referred to as the special purpose financial statements) are prepared solely for the use of the Branch to meet the requirements of Bank of the Lao PDR. The financial statements are prepared in accordance with the accounting policies as described in Note 4. These accounting policies are primarily based on the International Financial Reporting Standards ("IFRS") as issued by International Accounting Standard Board. However, this is not a complete set of general-purpose financial statements prepared in accordance with IFRS as the Branch follows the guidance stipulated in:

- Official Letters No. 1659/BOL dated 14 December 2018 by Bank of the Lao PDR following which the accounting policies for recognition and measurement of financial instruments are based on IAS 39: "Financial instruments: Recognition and Measurement" instead of IFRS 9: "Financial instruments"; and
- Notification No. 216/BOL dated 25 Feb 2020 by Bank of the Lao PDR following which the accounting policies for leases are based on IAS 17: "Leases" instead of IFRS 16: "Leases".

Accordingly, the accompanying financial statements are not intended to be prepared in accordance with IFRS.

The financial statements are prepared solely for the use of the Branch to meet the reporting requirements of Bank of the Lao PDR.

The financial statements have been prepared on a historical cost basis, except as disclosed in other notes.

The Branch maintains its accounting records in Lao Kip ("LAK") which is the Branch's functional currency and presents its financial statements in millions of Lao Kip ("LAKm"). Except otherwise stated, financial information presented in LAK has been rounded to the nearest million.

The Branch's fiscal years start on 1 January and end on 31 December.

## 3. PRESENTATION OF FINANCIAL STATEMENTS

The Branch presents its statement of financial position in order of liquidity. Financial assets and financial liabilities are generally reported gross in the statement of financial position. They are only offset and reported net when, in addition to having an unconditional legally enforceable right to offset the recognized amounts without being contingent on a future event, the parties also intend to settle on a net basis in all of the following circumstances:

- ▶ The normal course of business
- ▶ The event of default
- ▶ The event of insolvency or bankruptcy of the Branch and/or its counterparties

# First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2019

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 4.1 *Foreign currency translation*

Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into LAK at the spot rate of exchange at the reporting date (see list of exchange rates of applicable foreign currencies against LAK on 31 December 2019 and 31 December 2018 in Note 32). Unrealized exchange differences arising from the translation of monetary assets and liabilities on the balance date are recognized in the income statement.

### 4.2 *Financial instruments - initial recognition and subsequent measurement*

#### 4.2.1 *Date of recognition*

All financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognized on the trade date, i.e., the date that the Branch becomes a party to the contractual provisions of the instrument. This includes "regular way trades" - purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' account. The Branch recognises due to customer balances when funds reach the Branch.

#### 4.2.2 *Initial measurement of financial instruments*

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

#### 4.2.3 *The effective interest rate method*

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate a shorter period, to the net carrying amount of the financial asset or financial liability. The amortised cost of the financial asset or financial liability is adjusted if the Branch revises its estimates of payments or receipts. The adjusted amortised cost is calculated based on the original or latest re-estimated EIR and the change in is recorded as 'Interest and similar income' for financial assets and 'Interest and similar expense' for financial liabilities. The accounting policies for the EIR method vary by instruments and are further explained in Notes:

- 4.2.5 for 'Due from banks and loans to customers'
- 4.2.6 for 'Due to other banks and customers'
- 4.5 for 'Impairment of financial assets'
- 4.6 for 'Recognition of income and expenses'

#### 4.2.4 *'Day 1' profit or loss*

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Branch immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Net trading income'. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

# First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2019

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

### 4.2 *Financial instruments - initial recognition and subsequent measurement (continued)*

#### 4.2.5 *Due from banks and loans to customers*

'Due from banks' and 'Loans to customers' include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- ▶ Those that the Branch intends to sell immediately or in the near term and those that the Branch, upon initial recognition, designates as at fair value through profit or loss;
- ▶ Those that the Branch, upon initial recognition, designates as available-for-sale;
- ▶ Those for which the Branch may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, amounts 'Due from banks' and 'Loans to customers' are subsequently measured at amortized cost using the EIR methodology, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. Therefore, the Branch recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of the loan, hence, recognising the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (prepayments, penalty interest and charges).

If expectations are revised the adjustment is booked a positive or negative adjustment to the carrying amount in the balance sheet with an increase or reduction in interest income. The adjustment is subsequently amortised through Interest and similar income in the income statement.

The Branch may enter into certain lending commitments where the loan, on drawdown, is expected to be classified as held-for-trading because the intent is to sell the loans in the short term. These commitments to lend are recorded as derivatives and measured at fair value through profit or loss.

Where the loan, on drawdown, is expected to be retained by the Branch, and not sold in the short term, the commitment is recorded only when it is an onerous contract that is likely to give rise to a loss (for example, due to a counterparty credit event).

#### 4.2.6 *Due to other banks and customers*

"Due to other banks and customers" include arrangements where the substance of the contractual arrangements result in the Branch having an obligation either to deliver cash or another financial asset to the holder.

After initial measurement, "Due to other banks and customers" are subsequently measured at amortised cost using the EIR. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.



# First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2019

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

### 4.2 *Financial instruments - initial recognition and subsequent measurement (continued)*

#### 4.2.7 *Reclassification of financial assets*

The Branch was permitted to reclassify, in certain circumstances, non-derivative financial assets out of the 'Held-for-trading' category and into the 'Available-for-sale', 'Loans and receivables', or 'Held-to-maturity' categories. The Branch was also permitted to reclassify, in certain circumstances, financial instruments out of the 'Available-for-sale' category and into the 'Loans and receivables' category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortized cost.

For a financial asset reclassified out of the 'Available-for-sale' category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recorded in equity is recycled to the income statement.

In rare circumstances, the Branch may reclassify a non-derivative trading asset out of the 'Held-for-trading' category and into the 'Loans and receivables' category if it meets the definition of loans and receivables and the Branch has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Branch subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognized as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the election of management and is determined on an instrument by instrument basis.

### 4.3 *De-recognition of financial assets and financial liabilities*

#### 4.3.1 *Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when the rights to receive cash flows from the asset have expired. The Branch also derecognises the assets if it has both transferred the asset, and the transfer qualifies for derecognition.

The Branch has transferred the asset if, and only if, either:

- ▶ The Branch has transferred its contractual rights to receive cash flows from the asset; or
- ▶ It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

Pass-through arrangements are transactions when the Branch retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when certain conditions are met. At 31 December 2019, the Branch does not have financial assets which are subject to such arrangements.

A transfer only qualifies for derecognition if either:

- ▶ The Branch has transferred substantially all the risks and rewards of the asset; or
- ▶ The Branch has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

# First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2019

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

### 4.3 *De-recognition of financial assets and financial liabilities (continued)*

#### 4.3.1 *Financial assets (continued)*

In relation to the above, the Branch considers the control to be transferred if, and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

When the Branch has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Branch's continuing involvement in the asset. In that case, the Branch also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Branch has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Branch could be required to repay.

The Branch also derecognises a financial asset, in particular, a loan to customer when the terms and conditions have been renegotiated to the extent that it substantially became a new loan, with the difference recognised as an impairment in the income statement.

#### 4.3.2 *Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in profit or loss.

### 4.4 *Determination of fair value*

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarised below:

- ▶ Level 1 financial instruments –Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Branch has access to at the measurement date. The Branch considers markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the balance sheet date.
- ▶ Level 2 financial instruments—Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Branch will classify the instruments as Level 3.

# First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2019

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

### 4.4 *Determination of fair value (continued)*

- ▶ Level 3 financial instruments –Those that include one or more unobservable input that is significant to the measurement as whole.

The Branch evaluates the levelling at each reporting period on an instrument-by-instrument basis and reclassifies instruments when necessary based on the facts at the end of the reporting period.

### 4.5 *Impairment of financial assets*

The Branch assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganization; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### 4.5.1 *Financial assets carried at amortized cost*

##### *Specific impairment losses*

For financial assets carried at amortised cost (such as amounts due from banks, loans to customers), the Branch first assesses whether objective evidence of impairment exists for financial assets that are individually significant or are already under specific work out by management.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in credit loss expense in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of interest and similar income.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Branch. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. If the Branch has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date.

# First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2019

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

### 4.5 *Impairment of financial assets* (continued)

#### 4.5.1 *Financial assets carried at amortized cost* (continued)

##### *Specific impairment losses* (continued)

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

##### *Collective impairment model*

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms (for example, on the basis of a credit risk evaluation or grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors).

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, personal indebtedness, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

#### 4.5.2 *Collateral valuation*

The Branch seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Branch's annually reporting schedule.

To the extent possible, the Branch uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, housing price indices, audited financial statements, and other independent sources.

#### 4.5.3 *Collateral repossessed*

The Branch's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets that are determined better to be sold, are immediately transferred to assets held for sale at their fair value at the repossession date in line with the Branch's policy.

# First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2019

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

### 4.6 *Recognition of income and expense*

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Branch and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

#### 4.6.1 *Interest and similar income and expense*

For all financial instruments measured at amortized cost, interest-bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

When the recorded value of a financial asset or a group of similar financial assets has been reduced by an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

#### 4.6.2 *Fees and commission income*

The Branch earns fees and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

*Fee and commission income from services where performance obligations are satisfied over time*

Performance obligations satisfied over time include loan commitment, custody and other services, where the customer simultaneously receives and consumes the benefits provided by the Branch's performance as the Branch performs.

*Fee and commission income from providing services where performance obligations are satisfied at a point in time*

Services provided where the Branch's performance obligations are satisfied at a point in time are recognised once control of the services is transferred to the customer. This is typically on completion of the underlying transaction or service or, for fees or components of fees that are linked to a certain performance, after fulfilling the corresponding performance criteria. These include fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement/participation or negotiation of the acquisition of shares or other securities, or the purchase or sale of businesses, brokerage and underwriting fees.

The Branch typically has a single performance obligation with respect to these services, which is to successfully complete the transaction specified in the contract.

### 4.7 *Cash and cash equivalents*

Cash and cash equivalents as referred to in the statement of cash flows comprise cash on hand, non-restricted current accounts with the BOL and amounts due from banks on demand or with an original maturity of three months or less.

# First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2019

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

### 4.8 *Property and equipment*

Property and equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. The following are annual rates used:

Building improvements	10%
Furniture and fixtures	20%
Computer equipment	20%
Motor vehicles	20%

Property and equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in 'Other operating income' in the income statement in the year the asset is derecognized.

### 4.9 *Intangible assets*

The Branch's intangible asset includes the value of computer software.

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

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life, or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing the amortisation period or method, as appropriate, which are then treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category that is consistent with the function of the intangible assets.

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

Computer software	50%
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# First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2019

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

### 4.10 *Impairment of non-financial assets*

The Branch assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Branch estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit (CGU)'s fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Branch estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement.

### 4.11 *Leases*

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset.

#### *Branch as a lessee*

Leases that do not transfer to the Branch substantially all of the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which it is incurred.

### 4.12 *Financial guarantees*

In the ordinary course of business, the Branch issues financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements (within 'Other liabilities') at fair value, being the premium received. Subsequent to initial recognition, the Branch's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the income statement, 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 recognized in the income statement in 'Fee and commission income' on a straight line basis over the life of the guarantee.

# First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2019

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

### 4.13 *Employee benefits*

#### *Post-employment benefits*

Post-employment benefits are paid to retired employees of the Branch by the Social Security Fund Department which belongs to the Ministry of Labor and Social Welfare. The Branch is required to contribute to these post-employment benefits by paying social insurance premium to the Social Insurance Agency at the rate of 6% of employee's basic salary on a monthly basis. The Branch has no further obligation concerning post-employment benefits for its employees other than this.

#### *Termination benefits*

In accordance with Article 82 of the Amended Labour Law No. 43/NA approved by the President of the Lao People's Democratic Republic on 28 January 2014, the Branch has the obligation to pay allowance for employees who are terminated by dismissal in the following cases:

- The worker lacks specialised skills or is not in good health and thus cannot continue to work;
- The employer considers it necessary to reduce the number of workers in order to improve the work within the labour unit.

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

### 4.14 *Provisions*

Provisions are recognized when the Branch 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. When the effect of the time value of money is material, the Branch determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in the income statement net of any reimbursement in other operating expenses.

### 4.15 *Profit tax*

#### *Current tax*

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, by the reporting date in the countries where the Branch operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

# First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2019

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

### *Deferred tax*

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it becomes probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current and deferred taxes are recognised as income tax benefits or expenses in the income statement except for tax related to the fair value remeasurement of available-for-sale assets, foreign exchange differences and the net movement on cash flow hedges, which are charged or credited to OCI. These exceptions are subsequently reclassified from OCI to the income statement together with the respective deferred loss or gain. The Branch also recognises the tax consequences of payments and issuing costs, related to financial instruments that are classified as equity, directly in equity.

The Branch only off-sets its deferred tax assets against liabilities when there is both a legal right to offset and it is the Branch's intention to settle on a net basis.

## 5. STANDARDS ISSUED BUT NOT YET TO BE APPLIED

The standards and interpretations that are issued, but not yet to be applied, up to the date of issuance of the Branch's financial statements are disclosed below.

### *IFRS 9 Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The adoption of IFRS 9 will have an effect on the classification and measurement of the Branch's financial assets, but no impact on the classification and measurement of the Branch's financial liabilities.

In 2019, The Branch follows the guidance stipulated in Official Letter No. 1659/BOL dated 14 December 2018 by Bank of the Lao PDR following which the accounting policies for recognition and measurement of financial instruments are based on IAS 39: "Financial instruments: Recognition and Measurement" instead of IFRS 9: "Financial instruments".

# First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2019

## 5. STANDARDS ISSUED BUT NOT YET TO BE APPLIED (continued)

### *IFRS 16 Leases*

The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.

In 2019, the Bank of the Lao PDR issued the Notification No. 1433/BOL dated 24 October 2019 and the Notification No. 216/BOL dated 25 Feb 2020 that allow commercial banks to apply IFRS 16 either from the year 2019 or 2020 for preparation and presentation of financial statements.

The Branch has opted to apply IFRS 16 starting from the year 2020 for preparation and presentation of financial statements. For 2019, the Branch still consistently applied the accounting policy as described in *Note 4.11 – Leases*.

### *Amendments to IAS 1 and IAS 8: Definition of Material*

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material is not expected to have a significant impact on the Branch's financial statements.

## 6. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Branch's financial statements requires management to make estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In the process of applying the Branch's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Branch's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

# First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2019

## 6. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

### 6.1 *Going concern*

The Branch's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Branch's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

### 6.2 *Fair value of financial instruments*

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. For further details about determination of fair value please see Note 4.4.

### 6.3 *Effective Interest Rate (EIR) method*

The Branch's EIR methodology, as explained in Note 4.2.3, recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of loans and deposits and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgement regarding the expected behaviour and life-cycle of the instruments, as well expected changes to other fee income/expense that are integral parts of the instrument.

### 6.4 *Impairment losses on loans and advances*

The Branch reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the income statement.

The Branch's impairment methodology for assets carried at amortised cost results in the recording of provisions for:

- ▶ Specific impairment losses;
- ▶ Collective impairment

The detailed approach for each category is further explained in Note 4.5. All categories include an element of management's judgement, in particular for the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses. These estimates are driven by a number of factors, the changing of which can result in different levels of allowances.

# First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2019

## 7. INTEREST AND SIMILAR INCOME

	2019 LAKm	2018 LAKm
<i>Interest revenue calculated using the effective interest method from:</i>		
- Deposits at other banks	10,566	7,831
- Lending activities	25,091	25,495
	<b>35,657</b>	<b>33,326</b>

## 8. INTEREST AND SIMILAR EXPENSES

	2019 LAKm	2018 LAKm
<i>Interest expense calculated using the effective interest method for:</i>		
- Borrowings at other banks	10,514	9,192
- Customers' deposits	1,313	916
	<b>11,827</b>	<b>10,108</b>

## 9. NET FEES AND COMMISSION INCOME

	2019 LAKm	2018 LAKm
Fees and commission income from:		
<i>Remittance and credit activities</i>	1,231	696
Fee and commission expense	(73)	(93)
	<b>1,158</b>	<b>603</b>

## 10. NET GAIN FROM DEALING IN FOREIGN CURRENCIES

	2019 LAKm	2018 LAKm
Gain from dealing in foreign currencies	10	94
Loss from dealing in foreign currencies	(572)	(733)
	<b>(562)</b>	<b>(639)</b>

## 11. PERSONNEL EXPENSES

	2019 LAKm	2018 LAKm
Wages and allowances	4,100	3,886
Other employee expenses	82	105
	<b>4,182</b>	<b>3,991</b>



# First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2019

## 12. OTHER OPERATING EXPENSES

	2019 LAKm	2018 LAKm
Office rental	1,665	1,746
Fuel	43	42
Office stationeries	34	66
Telecommunication	98	107
Repair and maintenance	169	151
Electricity and water	94	94
Insurance fee	44	106
Consultation fee	153	-
Business trips	123	111
Audit and lawyer fee	134	158
Others	361	560
	<b>2,918</b>	<b>3,141</b>

## 13. CASH AND BALANCES WITH BANK OF THE LAO PDR

	31 December 2019 LAKm	31 December 2018 LAKm
Cash on hand in LAK	291	313
Cash on hand in foreign currencies	954	2,054
Balances with the BOL	95,922	75,134
- Demand deposit	27,860	61,389
- Compulsory reserve (*)	5,498	3,950
- Registered capital reserve (**)	5	9,795
- Term deposit (***)	62,559	-
	<b>97,167</b>	<b>77,501</b>

These balances of demand deposit, compulsory reserve and registered capital reserve earn no interest.

(\*) Under regulations of the BOL, the Branch 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 foreign currencies (2018: 5.00% and 10.00%), on a bi-monthly basis of customer deposits having original maturities of less than 12 months. During the year, the Branch maintained its compulsory deposits in compliance with the requirements by the BOL.

(\*\*) According to Decree No. 02/PR of the BOL, foreign bank branches are required to maintain a minimum balance of special deposit at the BOL which is equivalent to 25% of their paid-up capital to secure for their operational continuance. The Bank was then approved by the BOL to withdraw from this deposit account to supplement its working capital according to letter No. 231/BOL dated 28 Mar 2019 and No. 494/BOL dated 21 August 2019 approving the withdrawal amounts of LAKm7,500m and LAKm2,290mLAK, respectively.

(\*\*\*) The term deposit at the BOL is denominated in USD with term of 12 months and interest rate of 5.5% per annum.

# First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2019

## 14. DUE FROM BANKS

	<i>31 December 2019</i> <i>LAKm</i>	<i>31 December 2018</i> <i>LAKm</i>
<b>Demand deposits with domestic banks</b>	<b>6,336</b>	<b>1,959</b>
- Industrial and Commercial Bank of China - Vientiane Branch	4,547	228
- Banque pour le Commerce Extérieur Lao Public (BCEL)	43	4
- Bangkok Bank - Vientiane Branch	15	13
- Banque Franco Lao Limited	280	1
- Maruhan Japan Bank Lao	1,448	1,714
- Kasikornthai Bank Limited	3	-
<b>Demand deposits with foreign banks</b>	<b>57,688</b>	<b>38,771</b>
- Bangkok Bank - Head Office	142	126
- First Commercial Bank - Head Office (Note 25)	57,546	38,645
<b>Term deposits at domestic banks (*)</b>	<b>191,221</b>	<b>160,799</b>
<b>Loans to other banks (**)</b>	<b>-</b>	<b>39,749</b>
<b>Allowance for impairment loss</b>	<b>-</b>	<b>(9)</b>
	<b>255,245</b>	<b>241,269</b>

(\*) As at 31 December 2019, term deposits to domestic banks comprise twenty (20) deposit contracts totaling LAKm 125,000, seven (7) deposit contracts totaling USD 7,000,000, which have terms of 3, 6 and 12 months and earn interest at rates ranging from 3.00% to 6.50% per annum.

(\*\*) Loans to other banks comprise 5 short term loans matured during 2019.

## 15. LOANS TO CUSTOMERS

	<i>31 December 2019</i> <i>LAKm</i>	<i>31 December 2018</i> <i>LAKm</i>
Gross loans to customers	352,522	335,534
Less: Allowance for impairment losses	(1,747)	(42)
	<b>350,775</b>	<b>335,492</b>

### *Analysis of loans to customers*

#### *Analysis by currency*

	<i>31 December 2019</i> <i>LAKm</i>	<i>31 December 2018</i> <i>LAKm</i>
Loans denominated in LAK	16,923	4,516
Loans denominated in USD	335,599	331,018
	<b>352,522</b>	<b>335,534</b>

# First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2019

## 15. LOANS TO CUSTOMERS (continued)

*Analysis by economic sectors*

	31 December 2019 LAKm	31 December 2018 LAKm
Government organisations	251,389	278,616
Industrial	101,133	56,918
	<b>352,522</b>	<b>335,534</b>

## 16. ALLOWANCE FOR IMPAIRMENT LOSSES

Changes in the allowance for impairment losses consisted of the following:

	2019 LAKm	2018 LAKm
Opening balance	51	3,796
Credit loss expenses/(reversal)	1,632	(3,832)
Foreign exchange difference	64	87
Closing balance	<b>1,747</b>	<b>51</b>

## 17. PROPERTY AND EQUIPMENT

Movements of property and equipment during the year end 31 December 2019 are as follows:

	Building improvements LAKm	Furniture & fixtures LAKm	Computer equipments LAKm	Motor Vehicles/ Others LAKm	Total LAKm
<b>Cost:</b>					
Opening balance	7,743	3,292	1,963	2,199	15,197
Additions for the year	-	-	46	-	46
Ending balance	7,743	3,292	2,009	2,199	15,243
<b>Accumulated depreciation:</b>					
Opening balance	2,698	2,087	1,046	1,352	7,183
Charges for the year	704	549	329	370	1,952
Ending balance	3,402	2,636	1,375	1,722	9,135
<b>Net book value:</b>					
Opening balance	5,045	1,205	917	847	8,014
Ending balance	4,341	656	634	477	6,108

# First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2019

## 18. INTANGIBLE ASSETS

Movements of the balance of intangible fixed assets during the 2019 are as follows:

	<i>Computer software LAKm</i>	<i>Total LAKm</i>
<b>Cost:</b>		
As at 1 January 2019	131	131
Additions for the year	-	-
As at 31 December 2019	131	131
<b>Accumulated amortisation:</b>		
As at 1 January 2019	77	77
Charges for the year	9	9
As at 31 December 2019	86	86
<b>Net book value:</b>		
As at 1 January 2019	54	54
As at 31 December 2019	45	45

## 19. OTHER ASSETS

	<i>31 December 2019 LAKm</i>	<i>31 December 2018 LAKm</i>
Prepaid expenses	1,116	1,716

## 20. DUE TO OTHER BANKS

	<i>31 December 2019 LAKm</i>	<i>31 December 2018 LAKm</i>
Demand deposits from:	121,476	116,925
- First Commercial Bank Head Office (Note 25)	121,343	116,797
Borrowings from:		
- First Commercial Bank Head Office (Note 25)	372,203	358,465
	<b>493,679</b>	<b>475,390</b>

Details of the borrowings from First Commercial Bank Head Office as at 31 December 2019 are as follows:

<i>Currency</i>	<i>Term</i>	<i>Balance in original currency</i>	<i>LAKm equivalent</i>	<i>Interest rate % per annum</i>
USD	6 months	15,097,183	133,444	2.38%
USD	3 months	13,129,156	116,049	2.28%
USD	1 month	9,506,294	84,026	2.65%
USD	1 month	4,376,543	38,684	2.54%
		<b>42,109,176</b>	<b>372,203</b>	

# First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2019

## 21. DUE TO CUSTOMERS

	<i>31 December 2019</i> <i>LAKm</i>	<i>31 December 2018</i> <i>LAKm</i>
Demand deposits	1,828	327
- <i>In LAK</i>	514	107
- <i>In foreign currency</i>	1,314	220
Saving deposits	14,979	8,511
- <i>In LAK</i>	653	243
- <i>In foreign currency</i>	14,326	8,268
Term deposits	37,850	31,835
- <i>In foreign currency</i>	37,850	31,835
	<b>54,657</b>	<b>40,673</b>

The interest rates during the years for these deposits are as follows:

	<i>2019</i> <i>LAKm</i> <i>Interest rate p.a.</i>	<i>2018</i> <i>LAKm</i> <i>Interest rate p.a.</i>
Demand deposits in LAK	No interest	No interest
Demand deposits in foreign currencies	No interest	No interest
Saving deposits in LAK	1.50%	0.80%
Saving deposits in USD	1.00%	0.10%
Saving deposits in THB	0.50%	0.00%
Term deposits in LAK	NA	1.57% - 3.00%
Term deposits in USD	2.25% - 4.68%	1.80% - 4.68%

## 22. TAXATION

### 22.1 Tax payables

	<i>31 December 2019</i> <i>LAKm</i>	<i>31 December 2018</i> <i>LAKm</i>
Profit Tax payable ( <i>Note 22.2</i> )	-	-
Other payable to tax authorities	46	47
	<b>46</b>	<b>47</b>

### 22.2 Profit Tax ("PT")

The Branch is obliged to pay PT at rate of 24% on total profit before tax of the year in accordance with the new Tax Law No.70/NA dated 15 December 2015 which is effective on or after 24 May 2016.

# First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2019

## 22. TAXATION (continued)

### 22.2 Profit Tax ("PT") (continued)

The Branch's interest income from loans to certain Government Agencies are exempted from profit tax as specified in the loan contracts and confirmation letters from these agencies. The Branch's exempted income in 2019 is LAKm 18,480.

	2019 LAKm	2018 LAKm
Profit before tax under IFRS	13,694	17,916
Adjustment for difference between LAS and IFRS	1,022	(1,797)
Exempted income from profit tax	(18,480)	(18,410)
Non-deductible expenses	562	-
<b>Loss before tax</b>	<b>(3,202)</b>	<b>(2,291)</b>
<b>Taxable profit</b>	<b>-</b>	<b>-</b>
<b>Current PT expense, at the statutory rate of 24%</b>	<b>-</b>	<b>-</b>
PT payable at the beginning of the year	-	-
PT paid during the year	-	-
<b>PT payable at the end of the year</b>	<b>-</b>	<b>-</b>

The Branch's tax returns are subject to examination by the tax authorities. Because the application of tax laws and regulations in many types of transactions is susceptible to varying interpretations, amounts reported in the financial statements could be changed at a later date upon final determination by the tax authorities.

#### Tax loss carried forward

In accordance with Article 40, amended Tax Law No. 70/NA dated 15 December 2015, annual losses, which are certified by the audit authority or an independent audit firm and acknowledged by the tax authorities, are eligible to carry forward to offset against the profit tax of the following year for a maximum period of three years. Once this period expires, any remaining losses are no longer allowed to deduct from the profit. As at 31 December 2019, the Branch had aggregated accumulated tax losses of LAKm 13,956 (31 December 2018: LAKm 29,173) available to offset against future taxable profits.

Details are as follows:

Currency: LAKm

Originating year	Eligible to be utilized up to	Tax loss amount	Utilized up to 31 December 2019	Forfeited	Unutilized as at 31 December 2019
2015	2018	(11,579) (*)	-	(11,579)	-
2016	2019	(8,619) (*)	-	(8,619)	-
2017	2020	(8,463) (*)	-	-	(8,463)
2018	2021	(2,291) (*)	-	-	(2,291)
2019	2022	(3,202) (*)	-	-	(3,202)
<b>TOTAL</b>		<b>(34,154)</b>		<b>(20,198)</b>	<b>(13,956)</b>

(\*) Estimated tax loss as per the Branch's profit tax declaration has not been audited by the local tax authorities as of the date of these financial statements.



# First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2019

## 23. PAID-UP CAPITAL

The movement of paid-up capital during the year is presented below:

	2019 LAKm	2018 LAKm
Opening balance	121,890	121,890
Changed during the year	-	-
<b>Closing balance</b>	<b>121,890</b>	<b>121,890</b>

## 24. ADDITIONAL CASH FLOW INFORMATION

### *Cash and cash equivalents*

	31 December 2019 LAKm	31 December 2018 LAKm
Cash on hand	1,245	2,367
Current accounts with the BOL	27,860	61,389
Current accounts with other banks	64,024	40,731
Term deposit within 3 months	13,044	8,524
	<b>106,173</b>	<b>113,011</b>

## 25. RELATED PARTY TRANSACTIONS

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

(a) directly, or indirectly through one or more intermediaries, the party:

- controls, is controlled by, or is under common control with, the Branch (this includes parents, subsidiaries and fellow subsidiaries);
- has an interest in the Branch that gives it significant influence over the Branch; or
- has joint control over the Branch.

(b) the party is a joint venture in which the Branch is a venture;

(c) the party is a member of the key management personnel of the Branch or its parent;

(d) the party is a close member of the family of any individual referred to in (a) or (c);

(e) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity 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 Branch, or of any entity that is a related party of the Branch.

# First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2019

## 25. RELATED PARTY TRANSACTIONS (continued)

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

<i>Related party</i>	<i>Relationship</i>	<i>Transactions</i>	<i>31 December 2019 LAKm</i>	<i>31 December 2018 LAKm</i>
First Commercial Bank Head Office	Parent Bank	Demand deposits	57,546	38,645
First Commercial Bank Head Office	Parent Bank	Demand deposits	(121,343)	(116,797)
First Commercial Bank Head Office	Parent Bank	Borrowings	(372,203)	(357,378)

Significant transactions with related parties during the year were as follows:

<i>Related party</i>	<i>Relationship</i>	<i>Transactions during the year</i>	<i>2019 LAKm</i>	<i>2018 LAKm</i>
First Commercial Bank Head Office	Parent Bank	Interest expense	(10,514)	(9,192)

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

Remuneration to members of the Management is as follows:

	<i>2019 LAKm</i>	<i>2018 LAKm</i>
Salaries and other benefits	2,219	2,046
Bonus	27	45
	<b>2,246</b>	<b>2,091</b>

# First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2019

## 26. RISK MANAGEMENT POLICIES

### *Introduction*

Risk is inherent in the Branch's activities and is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Branch's continuing profitability and each individual within the Branch is accountable for the risk exposures relating to his or her responsibilities.

The Branch 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 independent risk control process does not include business risks such as changes in the environment, technology and industry. The Branch's policy is to monitor those business risks through the Branch's strategic planning process.

### *Risk management structure*

Management is responsible for the overall risk management approach and for approving the risk management strategies and principles.

Management has appointed the Risk - Compliance Officer which has the responsibility to monitor the overall risk process within the Branch.

The Risk - Compliance Officer has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. The Risk – Compliance Officer is responsible for managing risk decisions and monitoring risk levels and reports to the Management.

The Branch's policy is that risk management processes throughout the Branch are audited annually by the Internal Audit function of First Commercial Bank - Head Office, which examines both the adequacy of the procedures and the Branch's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee of First Commercial Bank.

## 27. CREDIT RISK

Credit risk is the risk that the Branch will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Branch manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Branch has maintained a policy of credit risk management to ensure the following basic principles:

- ▶ set up an appropriate credit risk management environment;
- ▶ operate in a healthy process for granting credit facilities;
- ▶ maintain an appropriate management, measurement and monitoring credit process; and
- ▶ ensure adequate controls for credit risk.

The approval process for granting credit must go through several management levels to ensure a credit facility is reviewed independently together with the limit applied to each competent level. In addition, the participation of Credit Council in the credit approval model also helps to ensure a highest quality and concentrated approval process.

## First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2019

### 27. CREDIT RISK (continued)

#### 27.1 *Impairment assessment*

For accounting purposes, the Branch uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognised when objective evidence of a specific loss event has been observed. Triggering events include the following:

- A breach of contract such as a default of payment;
- Where the Branch grants the customer a concession due to the customer experiencing financial difficulty;
- It becomes probable that the customer will enter bankruptcy or other financial reorganisation;
- Other observable data that suggests that there is a decrease in the estimated future cashflows from the loans.

#### 27.2 *Individually assessed allowances*

The Branch determines the allowances appropriate for each individually significant loan or advance on an individual basis, taking into account any overdue payments of interests, credit rating downgrades, or infringement of the original terms of the contract. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected pay-out should bankruptcy ensue, the availability of other financial support, the realisable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

#### 27.3 *Collectively assessed allowances*

Allowances are assessed collectively for losses on loans and advances that are not individually significant and for individually significant loans and advances that have been assessed individually and found not to be impaired.

Allowances are evaluated separately at each reporting date with each portfolio.

The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilisation, loan to collateral ratios and expected receipts and recoveries once impaired) or economic data (such as current economic conditions, unemployment levels and local or industry-specific problems). The approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. Local management is responsible for deciding the length of this period, which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Branch's overall policy.

## First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2019

### 27. CREDIT RISK (continued)

#### 27.4 Collateral management

Collateral is used to mitigate credit risk, as the secondary source of repayment in case the counterparty cannot meet its contractual repayment obligations.

The Branch's credit principles specify to only lend when the counterparty has the capacity and ability to repay, and the Branch sets limits on the acceptable level of credit risk. Acceptance of credit risk is firstly based on the counterparty's assessed capacity to meet contractual obligations (such as the scheduled repayment of principal and interest).

In certain cases, such as where the customer risk profile is considered very sound or by the nature of the product, a transaction may not be supported by collateral.

The most common types of collateral typically taken by the Branch include:

- Security over real estate including residential, commercial, industrial or rural property.

Credit policy and requirements set out the acceptable types of collateral, as well as a process by which additional instruments and/or asset types can be considered for approval.

In the event of customer default, any loan security is usually held as mortgagee in possession while the Branch is actively seeking to realise it. Therefore, the Branch does not usually hold any real estate or other assets acquired through the enforcement of security.

#### 27.5 Credit risk concentrations by industry

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 2019 is as follows:

	<i>Financial institutions</i>	<i>Industrial</i>	<i>Others</i>	<i>Total</i>
Balances with Bank of the Lao PDR ("the BOL")	95,922	-	-	95,922
Due from banks	255,245	-	-	255,245
Loans to customers (*)				
Gross amount	251,389	101,133	-	352,522
Allowance for impairment	(1,243)	(504)	-	(1,747)
Total	<u>601,313</u>	<u>100,629</u>	<u>-</u>	<u>701,942</u>

## First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2019

### 27. CREDIT RISK (continued)

#### 27.6 Credit quality by classes of financial assets

Details on credit quality by class of asset for all financial assets exposed to credit risk as at 31 December 2019 are as follows:

	Book value	No impaired and overdue less than 90 days	Overdue from 91 days to 180 days	Overdue from 181 days to 365 days	Overdue more than 365 days
<b>Financial assets</b>					
Balances with the BOL	95,922	95,922	-	-	-
Due from banks	255,245	255,245	-	-	-
Loans to customers	350,775	350,775	-	-	-
- Gross amount	352,522	352,522	-	-	-
- Allowance for impairment	(1,747)	(1,747)	-	-	-
	<b>701,942</b>	<b>701,942</b>	-	-	-

**Neither past due nor impaired:** financial assets or the loans with interest or principal payments not yet past due and there is no evidence of impairment.

**Past due but not impaired:** financial assets with past due interest and principal payments but the Branch believes that these assets are not impaired as they are secured by collaterals and has confidence in the customer's credit worthiness and other credit enhancements.

**Individually impaired:** debt instruments and loans to customers for which the Branch considers not being able to recover interest and principal under the terms of the contracts.

**Fair value of collaterals:** the Branch carries out the valuation for collaterals at disbursement date and periodically revalues these assets based on market value and other factors affecting the impairment of these assets.

## First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2019

### 28. LIQUIDITY RISK

Liquidity risk is defined as the risk that the Branch will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Branch might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged for diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. The Branch has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The following assumptions and conditions are applied in the liquidity risk analysis of the Branch's financial assets and liabilities:

- ▶ Deposits at the BOL are classified as demand deposits which include compulsory deposits. The balance of compulsory deposits depends on the proportion and terms of the Branch's customer deposits.
- ▶ The maturity term of placements with other banks; and loans to customers is determined on the maturity date as stipulated in contracts. The actual maturity term may be altered because loan contracts may be extended.
- ▶ The maturity term of deposits from other banks; and customer's deposits is determined based on features of these items or the maturity date as stipulated in contracts. Demand deposits are transacted as required by customers and therefore being classified as current accounts. The maturity term of deposits is determined based on the maturity date in contracts. In fact, these amounts may be rotated and therefore they last beyond the original maturity date.
- ▶ The maturity term of other liabilities is determined based on the actual maturity term of each other liability.

## First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2019

### 28. LIQUIDITY RISK (continued)

The classification of financial assets and financial liabilities based on the maturity as at 31 December 2019 was as follows:

*Unit: LAKm*

	<i>Before due date</i>					<i>Total</i>
	<i>Up to 1 month</i>	<i>1 to 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	
<b>Financial assets</b>						
Cash and cash equivalents on hand	1,245	-	-	-	-	1,245
Balances with Bank of the Lao PDR	33,362	-	62,560	-	-	95,922
Due from banks (*)	74,569	38,993	141,683	-	-	255,245
Loans to customers (*)	35,640	19,702	164,974	132,206	-	352,522
Other financial assets	1,116	-	-	-	-	1,116
<b>Total financial assets</b>	<b>145,932</b>	<b>58,695</b>	<b>369,217</b>	<b>132,206</b>	-	<b>706,050</b>
<b>Financial liabilities</b>						
Due to banks	244,186	-	249,493	-	-	493,679
Due to customers	16,971	11,474	26,212	-	-	54,657
Other financial liabilities	492	-	-	-	-	492
<b>Total financial liabilities</b>	<b>261,649</b>	<b>11,474</b>	<b>275,705</b>	-	-	<b>548,828</b>
<b>Liquidity exposure</b>	<b>(115,717)</b>	<b>47,221</b>	<b>93,512</b>	<b>132,206</b>	-	<b>157,222</b>

(\*) These do not include provision.



# First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2019

## 29. MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables. Market risk arises from the open position of interest rates, currency and equity instruments which are also affected by the fluctuations in general market and in each particular market and by market variables such as interest rates, foreign exchange rates and equity prices.

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The Branch classifies exposures to market risk into either trading or non-trading portfolios and manages each of those portfolios separately.

### 29.1 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Management has established limits on the non-trading interest rate gaps for stipulated periods. The Branch's policy is to monitor positions on a daily basis.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the profit or loss for a year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2019. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

The following assumptions and conditions have been adopted in the analysis of real interest rate adjustment term of the Branch's items on balance sheet:

- ▶ Cash and balances with the Branch of the Lao PDR are considered as current and classified as non-interest items;
- ▶ The real interest adjustment term of due from other banks, loans to customers, due to other banks and customer deposits are identified as follows:
  - Items with fixed interest rate during the contractual term: The real interest adjustment term is based on contractual maturity date since the balance sheet date.
  - Items with floating interest rate: The real interest adjustment term is based on the latest interest rate term since the balance sheet date.
- ▶ The real interest adjustment term of other borrowed funds is based on borrowed fund's maturities.

The real interest adjustment term of other liabilities are classified as non-interest items.

# First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2019

## 29. MARKET RISK (continued)

### 29.1 Interest rate risk (continued)

*Unit: LAKm*

	<i>Non re-pricing</i>	<i>Up to 1 month</i>	<i>1 - 3 months</i>	<i>3 - 6 months</i>	<i>6 - 12 months</i>	<i>1 - 5 years</i>	<i>Over 5 years</i>	<i>Total</i>
<b>Financial assets</b>								
Cash and cash equivalents	1,245	-	-	-	-	-	-	1,245
Balances with Bank of the Lao PDR ("the BOL")	33,362	-	-	-	62,560	-	-	95,922
Due from banks (*)	64,024	-	13,044	10,016	168,161	-	-	255,245
Loans to customers (*)	2,316	-	7,500	5,613	337,093	-	-	352,522
Other financial assets	1,116	-	-	-	-	-	-	1,116
<b>Total financial assets</b>	<b>102,063</b>	<b>-</b>	<b>20,544</b>	<b>15,629</b>	<b>567,814</b>	<b>-</b>	<b>-</b>	<b>706,050</b>
<b>Financial liabilities</b>								
Due to banks	122,441	122,641	116,012	132,585	-	-	-	493,679
Due to customers	17,467	-	7,160	884	29,146	-	-	54,657
Other financial liabilities	492	-	-	-	-	-	-	492
<b>Total financial liabilities</b>	<b>140,400</b>	<b>122,641</b>	<b>123,172</b>	<b>133,469</b>	<b>29,146</b>	<b>-</b>	<b>-</b>	<b>548,828</b>
<b>Net interest rate exposure</b>	<b>(38,337)</b>	<b>(122,641)</b>	<b>(102,628)</b>	<b>(117,840)</b>	<b>538,668</b>	<b>-</b>	<b>-</b>	<b>157,222</b>

(\*) These do not include provision.

# First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2019

## 29. MARKET RISK (continued)

### 29.1 Interest rate risk (continued)

#### Interest rate risk sensitivity analysis

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the profit or loss for the year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December (including the following items: cash, balances at the BOL, due from banks, loans and advances to customers, due to banks, due to customers).

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Branch's income statement for next year:

<i>Increase/(decrease) in basis points</i>	<i>Sensitivity of profit before tax</i>
+ 100 bps	2,773
- 100 bps	(2,773)

### 29.2 Currency risk

Breakdown of assets and liabilities which has been converted into LAKm 31 December 2019 is as follows:

	<i>LAK in LAKm</i>	<i>USD in LAKm equivalent</i>	<i>THB in LAKm equivalent</i>	<i>Total in LAKm equivalent</i>
<b>ASSETS</b>				
Cash and balances with the BOL	15,346	81,612	209	97,167
Due from banks (*)	129,637	125,451	157	255,245
Loans to customers (*)	16,922	335,600	-	352,522
Property and equipment	6,108	-	-	6,108
Intangible assets	45	-	-	45
Other assets	229	887	-	1,116
<b>TOTAL ASSETS</b>	<b>168,287</b>	<b>543,550</b>	<b>366</b>	<b>712,203</b>
<b>LIABILITIES</b>				
Due to Banks	-	493,679	-	493,679
Due to customers	1,167	53,371	119	54,657
Current tax liabilities	46	-	-	46
Other liabilities	6,184	(5,938)	247	493
<b>TOTAL LIABILITIES</b>	<b>7,397</b>	<b>541,112</b>	<b>366</b>	<b>548,875</b>
<b>NET EXPOSURE</b>	<b>160,890</b>	<b>2,438</b>	<b>-</b>	<b>163,328</b>

(\*) These do not include provision.

# First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2019

## 29. MARKET RISK (continued)

### 29.2 Currency risk (continued)

#### Currency risk sensitivity analysis

The table below indicates the currencies to which the Branch had significant exposure at 31 December on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the exchange rate against the Lao Kip, with all other variables held constant, on the income statement (due to the fair value of currency sensitive monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in the income statement, while a positive amount reflects a net potential increase.

Unit: LAKm

	2019	
	Impact on profit before tax	
	Exchange rate increase 10%	Exchange rate decrease 10%
USD	77	(77)
THB	-	-
<b>Total</b>	<b>77</b>	<b>(77)</b>

## 30. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

#### Determination of fair value and fair value hierarchy

The Branch uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted prices/(unadjusted) in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

#### Fair value of financial assets and liabilities carried at fair value

The Branch has no financial assets and liabilities carried at fair value as at 31 December 2019. Therefore, there is no analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

#### Fair value of financial assets and liabilities not carried at fair value

The Branch uses the following methodologies and assumptions to determine fair value for financial assets and liabilities not carried at fair value on the financial statements:

##### Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short-term maturity (less than one year) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits.

# First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2019

## 30. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

*Fair value of financial assets and liabilities not carried at fair value* (continued)

*Fixed rate financial instruments*

The fair value is determined using discounted cash flows using interest at year end of financial instruments in the market with similar risk and maturity. In addition, the Branch assumes that loans to customers are held to maturity. Fair values of loans to customers are determined as the carrying value less impairment losses. For Due to customers, fair value is approximated based on the carrying value of deposits, except for the fair value of fixed rate items with remaining maturity period greater than 1 year which is calculated based on the present value of future cash flows of principal and interest, discounted at interest rates currently being offered on such deposits.

Set out below is a comparison, by class, of the carrying amounts and fair values of the Branch's financial instruments that are not carried at fair value in the financial statements:

As at 31 December 2019

Unit: LAKm

	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
<b>Financial assets</b>					
Cash and balances at the BOL	95,922	95,922	-	-	95,922
Due from banks	255,245	64,024	-	191,221	255,245
Loans to customers	352,522	16,807	-	335,715	352,522
	<b>703,689</b>	<b>176,753</b>	<b>-</b>	<b>526,936</b>	<b>703,689</b>
<b>Financial liabilities</b>					
Due to banks	493,679	121,476	-	372,203	493,679
Due to customers	54,657	16,807	-	37,850	54,657
	<b>548,336</b>	<b>138,283</b>	<b>-</b>	<b>410,053</b>	<b>548,336</b>

## 31. CAPITAL MANAGEMENT

The Branch maintains minimum regulatory capital in accordance with Regulation No. 536/BFSD/BOL dated 14 October 2009 on commercial Branches' capital adequacy and other detailed guidance. The primary objectives of the Branch's capital management are to ensure that the Branch complies with externally imposed capital requirements by the BOL. The Branch recognizes the need to maintain effectiveness of assets and liabilities management to balance profit and capital adequacy.

In accordance with Regulation No. 536/BFSD/BOL, the Branch'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.

# First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2019

## 31. CAPITAL MANAGEMENT (continued)

An analysis of the Branch's capital based on financial information derived from IFRS financial statements is as follows:

	31 December 2019 LAKm	31 December 2018 LAKm
Tier 1 capital	147,887	147,887
Tier 2 capital	-	-
<b>Total capital</b>	<b>147,887</b>	<b>147,887</b>
Less: Deductions from capital (Investments in other credit and financial institutions)	-	-
<b>Capital for CAR calculation (A)</b>	<b>147,887</b>	<b>147,887</b>
Risk weighted balance sheet items	232,832	225,762
Risk weighted off balance sheet items	-	-
<b>Total risk weighted assets (B)</b>	<b>232,832</b>	<b>225,762</b>
<b>Capital Adequacy Ratio (A/B)</b>	<b>64%</b>	<b>66%</b>

## 32. EXCHANGE RATES OF APPLICABLE FOREIGN CURRENCIES AGAINST LAK AT REPORTING DATE

	31 December 2019 LAK	31 December 2018 LAK
United State Dollar ("USD")	8,839	8,509
Thai baht ("THB")	296.51	262.80

## 33. EVENTS AFTER THE BALANCE SHEET DATE

There is no matter or circumstance that has arisen since the balance sheet date that requires adjustment or disclosure in the financial statements of the Branch.

Prepared by:



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Reviewed by:



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Vientiane, Lao PDR

31 March 2020