

First Commercial Bank Ltd., Vientiane Branch

Special Purpose Financial Statements

For the year ended 31 December 2020



Building a better
working world

First Commercial Bank Ltd., Vientiane Branch

CONTENTS

	<i>Pages</i>
General information	1
Independent auditors' report	2 - 3
Income statement	4
Statement of comprehensive income	5
Statement of financial position	6
Statement of changes in equity	7
Statement of cash flows	8
Notes to the financial statements	9 - 50

Reference: 61217374/22193368-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 2020, 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 2020 are prepared, in all material respects, in accordance with the accounting policies as described in Note 5 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 (ISA). 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. 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 5 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.

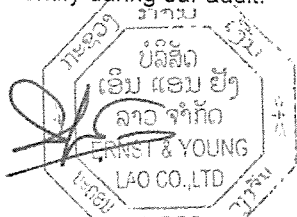
Auditors' Responsibilities for the Audit of the Financial Statements

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 ISA 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 ISA, 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.



Mr. Saman Wijaya Bandara
Partner
Audit Practising Registration
Certificate

Vientiane, Lao PDR

19 April 2021

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. On 25 December 2020, the Branch has injected additional capital with amount of LAK 74,360,000,000. The actual paid-up capital of the Branch as at 31 December 2020 is LAK 196,250,000,000 (31 December 2019: 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 on 28 August 2018
Mr. WANG, Ching-Ping	Deputy Manager	Appointed on 08 June 2016 Resigned on 20 April 2020
Mr. CHANG, Kang-Hu	Deputy Manager	Appointed on 08 May 2017
Mr. WANG, Tzer-Yau	Deputy Manager	Appointed on 26 February 2020

LEGAL REPRESENTATIVE

The legal representative of the Branch during the year ended 31 December 2020 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 Co., Ltd..

First Commercial Bank Ltd., Vientiane Branch

INCOME STATEMENT for the year ended 31 December 2020

	Notes	2020 LAKm	2019 LAKm
Interest revenue calculated using the effective interest method	7	32,380	35,657
Interest expense calculated using the effective interest method	8	(7,182)	(11,827)
Net interest and similar income		25,198	23,830
Fee and commission income	9	461	1,231
Fee and commission expense	9	(71)	(73)
Net fees and commission income		390	1,158
Net loss from dealing in foreign currencies	10	(600)	(562)
Total operating income		24,988	24,426
Credit loss reversal/(expenses)	16	79	(1,632)
Other operating expenses		(127)	(39)
NET OPERATING INCOME		24,940	22,755
Personnel expenses	11	(4,751)	(4,182)
Depreciation and amortization		(1,873)	(1,961)
Other administrative expenses	12	(2,269)	(2,918)
TOTAL OPERATING INCOME		16,047	13,694
PROFIT BEFORE TAX		16,047	13,694
Profit tax expense	23.2	(781)	-
Deferred tax expense	23.3	(196)	-
PROFIT FOR THE YEAR		15,070	13,694

Prepared by:

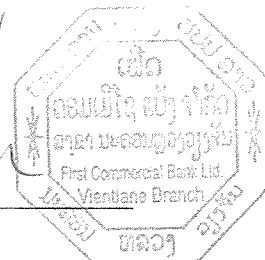


Mr. WANG, Tzer-Yau
Deputy Manager

Reviewed by:



Mr. YEH, Hsu-chao
General Manager



Vientiane, Lao PDR

19 April 2021

First Commercial Bank Ltd., Vientiane Branch

STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 December 2020

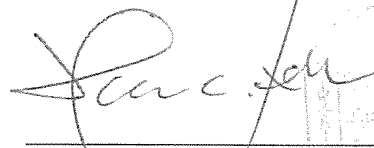
	Notes	2020 LAKm	2019 LAKm
PROFIT FOR THE YEAR		15,070	13,694
OTHER COMPREHENSIVE INCOME, NET OF TAX		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		15,070	13,694

Prepared by:

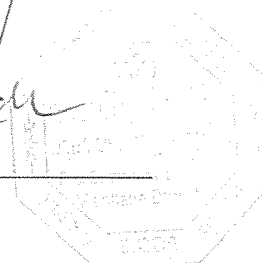


Mr. WANG, Tzer-Yau
Deputy Manager

Reviewed by:



Mr. YEH, Hsu-chao
General Manager



Vientiane, Lao PDR

19 April 2021

First Commercial Bank Ltd., Vientiane Branch

STATEMENT OF FINANCIAL POSITION as at 31 December 2020

	Notes	31/12/2020 LAKm	31/12/2019 LAKm
ASSETS			
Cash and balances with the BOL	13	307,125	97,167
Due from banks	14	250,603	255,245
Loans to customers	15	242,442	350,775
Property and equipment	17	5,919	6,108
Intangible assets	18	152	45
Right-of-use assets	19	2,968	-
Deferred tax asset	23.3	125	-
Other assets	20	519	1,116
TOTAL ASSETS		809,853	710,456
LIABILITIES			
Due to other banks	21	516,926	493,679
Due to customers	22	61,749	54,657
Current tax liabilities	23.1	827	46
Deferred tax liabilities	23.3	321	-
Lease liabilities	19	142	-
Other liabilities	24	771	493
TOTAL LIABILITIES		580,736	548,875
EQUITY			
Paid up capital	25	196,250	121,890
Statutory reserve fund		5,399	3,892
Retained earnings		27,468	35,799
TOTAL EQUITY		229,117	161,581
TOTAL LIABILITIES AND EQUITY		809,853	710,456

Prepared by:

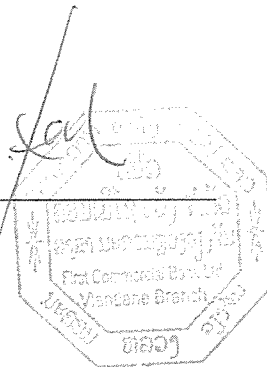


Mr. WANG, Tzer-Yau
Deputy Manager

Reviewed by:



Mr. YEH, Hsu-chao
General Manager



Vientiane, Lao PDR

19 April 2021

First Commercial Bank Ltd., Vientiane Branch

STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2020

	<i>Paid-up capital LAKm</i>	<i>Regulatory reserves LAKm</i>	<i>Retained earnings LAKm</i>	<i>Total LAKm</i>
Balance as at 31 December 2018	121,890	2,420	23,577	147,887
Net profit during the year	-	-	13,694	13,694
Appropriation to regulatory reserves for the year	-	1,472	(1,472)	-
Balance as at 31 December 2019	121,890	3,892	35,799	161,581
Net profit during the year	-	-	15,070	15,070
Capital contribution	54,655	-	-	54,655
Capital contribution from retained earnings	19,705	-	(19,705)	-
Withholding dividend tax	-	-	(2,189)	(2,189)
Appropriation to regulatory reserves for the year	-	1,507	(1,507)	-
Balance as at 31 December 2020	196,250	5,399	27,468	229,117

Prepared by:



Mr. WANG, Tzer-Yau
Deputy Manager

Reviewed by:



Mr. YEH, Hsu-chao
General Manager

Vientiane, Lao PDR


19 April 2021

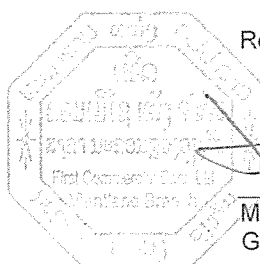
First Commercial Bank Ltd., Vientiane Branch

STATEMENT OF CASH FLOWS for the year ended 31 December 2020


	Notes	2020 LAKm	2019 LAKm
OPERATING ACTIVITIES			
Net profit before tax		16,047	13,694
Adjustments for:			
Depreciation and amortization charges		1,873	1,961
Credit loss expenses/(reversal)	16	(79)	1,632
Interest income	7	(32,380)	(35,657)
Interest expense		7,182	11,827
(Increase)/decrease in operating assets			
Due from other banks		(212,713)	(80,237)
Loans to other banks		-	39,758
Loans to customers		108,334	(16,979)
Other assets		(2,065)	664
Increase/(decrease) in operating liabilities			
Due to other banks		23,247	4,429
Customer deposits and other amounts due to customers		7,092	13,984
Other liabilities		(13,791)	2,727
Interest received		31,396	33,335
Interest paid		7,957	(11,790)
Net cash flows used in operating activities		(57,900)	(20,652)
INVESTING ACTIVITIES			
Purchases of property and equipment and other intangible assets		(4,152)	(46)
Net cash flows used in investing activities		(4,152)	(46)
FINANCING ACTIVITIES			
Drawdown of borrowings		54,654	13,860
Net cash flows from financing activities		54,654	13,860
Net decrease in cash and cash equivalents		(7,398)	(6,838)
Cash and cash equivalents at the beginning of the year		106,173	113,011
Cash and cash equivalents at the end of the year	26	98,775	106,173

Prepared by:


Mr. WANG, Tzer-Yau
Deputy Manager



Reviewed by:


Mr. YEH, Hsu-chao
General Manager

Vientiane, Lao PDR

19 April 2021

First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS as at and for the year ended 31 December 2020

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. On 25 December 2020, the Branch has successfully injected on capital with amount LAK 74,360,000,000. The actual paid-up capital as at 31 December 2020 is LAK 196,250,000,000.

Management

Members of the Management during the year ended 31 December 2020 and as at the date of this report are as follows:

<u>Name</u>	<u>Title</u>	<u>Date of appointment</u>
Mr. YEH, Hsu-chao	General Manager	Appointed on 28 August 2018
Mr. WANG, Ching-Ping	Deputy Manager	Appointed on 08 June 2016
		Resigned on 20 April 2020
Mr. CHANG, Kang-Hu	Deputy Manager	Appointed on 08 May 2017
Mr. WANG, Tzer-Yau	Deputy Manager	Appointed on 26 February 2020

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 2020 were 18 people (2019: 18 people).

First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued) as at and for the year ended 31 December 2020

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 5. 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";

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 2020

4. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Branch's annual financial statements for the year ended 31 December 2019, except for the adoption of new standards effective as of 1 January 2020 as described below. The Branch has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Leases

The Branch follows the guidance stipulated in Notification No 216 dated 25 February 2020 issued by the BOL which allows commercial banks to select applying IFRS 16 from the year 2019 or 2020 for preparation and presentation of financial statements. The Bank has opted to apply IFRS 16 starting from the year 2020 for preparation and presentation of financial statements. IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

The Branch adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2020. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Branch elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying the previous accounting policy at the date of initial application. Instead, the Branch applied the standard only to contracts that were previously identified as leases at the date of initial application.

The Branch has lease contracts for office lease. Before the adoption of IFRS 16, the Branch classified each of its leases (as lessee) at the inception date as an operating lease. Refer to Note 5.12 for the accounting policy prior to 1 January 2020.

Upon adoption of IFRS 16, the Branch applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. Refer to Note 5.11 for the accounting policy applied on and after 1 January 2020. The standard provides specific transition requirements and practical expedients, which have been applied by the Branch.

- Leases previously accounted for as operating leases.

The Branch recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Branch also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application;

First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued) as at and for the year ended 31 December 2020

4. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

Leases (continued)

- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

Based on the above, as at 1 January 2020:

- Right-of-use assets of LAKm 655 were reclassified from the prepaid expenses and presented in the statement of financial position as "Right-of-use assets".
- Right-of-use assets of LAKm 3,070 were additionally recognized and presented in the statement of financial position as "Right-of-use assets".
- Lease liabilities of LAKm 3,070 were additionally recognized and presented in the statement of financial position as "Other liabilities".
- The adoption of IFRS 16 had no impact on the Branch's retained earnings.

The lease liabilities as at 1 January 2020 can be reconciled to the operating lease commitments as of 31 December 2019 as follows:

	<u>LAKm</u>
Operating lease commitments as at 31 December 2019	3,777
Weighted average incremental borrowing rate as at 1 January 2020:	1.66%
Discounted operating lease commitments at 1 January 2020	3,070
Less:	
Commitments relating to short-term lease	-
Commitments relating to leases of low-value assets	-
Add:	
Lease payments relating to renewal periods not included in operating lease commitments as at 31 December 2019	-
Lease liabilities as at 1 January 2020	<u>3,070</u>

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 *Foreign currency translation*

The Branch maintains its accounting system and records all transactions in original currencies. Monetary assets and liabilities denominated in foreign currencies at year end are translated into LAK at exchange rate ruling on the statement of financial position date (see list of exchange rates of applicable foreign currencies against LAK on 31 December 2020 and 31 December 2019 in Note 34). Foreign exchange differences arising from the translation of monetary assets and liabilities are recognized in the income statement.

First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2020

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.2 *Financial instruments - initial recognition and subsequent measurement*

5.2.1 *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 marketplace. 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.

5.2.2 *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.

5.2.3 *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:

- 5.2.5 for 'Due from banks and loans to customers'
- 5.2.6 for 'Due to other banks and customers'
- 5.5 for 'Impairment of financial assets'
- 5.6 for 'Recognition of income and expenses'

5.2.4 *'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 2020

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

5.2.5 *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).

5.2.6 *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 2020

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

5.2.7 *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.

5.3 *De-recognition of financial assets and financial liabilities*

5.3.1 *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 2020, 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 2020

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

5.3.1 *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.

5.3.2 *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.

5.4 *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 2020

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.4 *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.

5.5 *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.

5.5.1 *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 2020

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.5 *Impairment of financial assets (continued)*

5.5.1 *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.

5.5.2 *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.

5.5.3 *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 2020

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.6 *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.

5.6.1 *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.

5.6.2 *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.

5.7 *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 2020

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.8 *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.

5.9 *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	20%
-------------------	-----

First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2020

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.10 *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.

5.11 *Leasing (applicable after 1 January 2020)*

5.11.1 *Right-of-use assets*

At inception of a contract, the Branch assesses whether a contract is, or contains, a lease arrangement based on whether the contract that conveys to the user (the lessee) the right to control the use of an identified asset for a period of time in exchange for consideration. If a contract contains more than one lease component, or a combination of leasing and services transactions, the consideration is allocated to each of these lease and non-lease components on conclusion and on each subsequent re-measurement of the contract on the basis of their relative stand-alone selling prices. The Branch combines lease and non-lease components, in cases where splitting the non-lease component is not possible.

The Branch recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The lease term includes periods covered by an option to extend if the Group is reasonably certain to exercise that option. Unless the Branch is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment assessment.

First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2020

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.11 Leasing (applicable after 1 January 2020) (continued)

5.11.2. Lease liabilities

At the commencement date of the lease, the Branch recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Branch and payments of penalties for terminating a lease, if the lease term reflects the Branch exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Branch uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

5.11.3. Short-term leases and leases of low-value assets

The Branch applies the short-term lease recognition exemption to its short-term leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the lease of low-value assets recognition exemption to leases of assets that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

The Branch determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Branch applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Branch reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

5.12 Leasing (applicable before 1 January 2020)

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 they it is incurred.

First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2020

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.13 *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.

5.14 *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.

5.15 *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.

First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2020

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.16 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.

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.

First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2020

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.17 Standards which have been effective but not yet 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 2020, 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".

5.18 Standards issued but not yet effective

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 Annual Improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Bank will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual period in which it will first apply the amendment and does not expect this will result in a material impact on its financial statements.

First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2020

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.

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 5.4.

6.3 *Effective Interest Rate (EIR) method*

The Branch's EIR methodology, as explained in Note 5.2.3, 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.

First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2020

6. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

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 5.5. 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.

6.5 *Determination of the lease term for lease contracts with renewal and termination options (Bank as a lessee)*

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank has 1 lease contract that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation of the leased asset).

6.6 *Estimating the incremental borrowing rate*

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses the same incremental borrowing rate (IBR) as the parent bank to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments

First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2020

7. INTEREST AND SIMILAR INCOME

	2020 LAKm	2019 LAKm
<i>Interest revenue calculated using the effective interest method from:</i>		
- Deposits at other banks	16,346	10,566
- Lending activities	16,034	25,091
	32,380	35,657

8. INTEREST AND SIMILAR EXPENSES

	2020 LAKm	2019 LAKm
<i>Interest expense calculated using the effective interest method for:</i>		
- Borrowings at other banks	5,572	10,514
- Customers' deposits	1,610	1,313
	7,182	11,827

9. NET FEES AND COMMISSION INCOME

	2020 LAKm	2019 LAKm
Fees and commission income from:		
Remittance and credit activities	461	1,231
Fee and commission expense	(71)	(73)
	390	1,158

10. NET LOSS FROM DEALING IN FOREIGN CURRENCIES

	2020 LAKm	2019 LAKm
Gain from dealing in foreign currencies	-	10
Loss from dealing in foreign currencies	(600)	(572)
	(600)	(562)

11. PERSONNEL EXPENSES

	2020 LAKm	2019 LAKm
Wages and allowances	4,638	4,100
Other employee expenses	113	82
	4,751	4,182

First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2020

12. OTHER ADMINISTRATIVE EXPENSES

	2020 LAKm	2019 LAKm
Office rental	990	1,665
Fuel	40	43
Office stationeries	44	34
Publication, marketing and promotion expenses	4	-
Telecommunication	99	98
Repair and maintenance	186	169
Electricity and water	91	94
Insurance fee	80	44
Consultation fee	102	153
Business trips	53	123
Audit and lawyer fee	237	134
Others	343	361
	2,269	2,918

13. CASH AND BALANCES WITH BANK OF THE LAO PDR

	31/12/2020 LAKm	31/12/2019 LAKm
Cash on hand in LAK	878	291
Cash on hand in foreign currencies	2,738	954
Balances with the BOL	303,509	95,922
- Demand deposit	35,928	27,860
- Compulsory reserve (*)	4,759	5,498
- Registered capital reserve (**)	74,365	5
- Term deposit (***)	188,457	62,559
	307,125	97,167

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 4.00% for LAK and 8.00% for foreign currencies (2019: 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 Branch was then approved by the BOL to withdraw from this deposit account to supplement its working capital. During 2020, the Branch deposited an amount of LAK 74,360 in order to increase its capital as required by the Law in which LAKm 54,655 were imported from oversea.

(***) The term deposit at the BOL is denominated in USD with term of 12 months and interest rate of 5.00% to 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 2020

14. DUE FROM BANKS

	31/12/2020 LAKm	31/12/2019 LAKm
Demand deposits with domestic banks	1,837	6,336
- Industrial and Commercial Bank of China - Vientiane Branch	175	4,547
- Banque pour le Commerce Extérieur Lao Public (BCEL)	360	43
- Bangkok Bank - Vientiane Branch	16	15
- Banque Franco Lao Limited	3	280
- Maruhan Japan Bank Lao	1,280	1,448
- Kasikornthai Bank Limited, Lao PDR	3	3
Demand deposits with foreign banks	57,394	57,688
- Bangkok Bank Public Company Limited	148	142
- First Commercial Bank - Head Office (Note 27)	57,246	57,546
Term deposits at domestic banks (*)	191,372	191,221
	250,603	255,245

(*) As at 31 December 2020, term deposits to domestic banks comprise five (5) deposit contracts totaling LAKm 104,000, four (4) deposit contracts totaling USD 9,000,000, which have terms of 3, 6 and 12 months and earn interest at rates ranging from 3.20% to 6.50% per annum.

15. LOANS TO CUSTOMERS

	31/12/2020 LAKm	31/12/2019 LAKm
Gross loans to customers	244,188	352,522
Less: Allowance for impairment losses (Note 16)	(1,746)	(1,747)
	242,442	350,775

Analysis of loans to customers

Analysis by currency

	31/12/2020 LAKm	31/12/2019 LAKm
Loans denominated in LAK	20,693	16,923
Loans denominated in USD	223,495	335,599
	244,188	352,522

Analysis by original term

	31/12/2020 LAKm	31/12/2019 LAKm
Short-term loans	2,013	84,713
Medium-term loans	160,709	267,809
Long-term loans	81,466	-
	244,188	352,522

First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2020

15. LOANS TO CUSTOMERS (continued)

Analysis by industrial sectors

	31/12/2020 LAKm	31/12/2019 LAKm
Agricultural and forestry	2,013	-
Trading companies	7,548	84,713
Services companies	1,208	-
Industrial services companies	8,790	5,663
Others	224,629	262,146
	244,188	352,522

16. ALLOWANCE FOR IMPAIRMENT LOSSES

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

	2020 LAKm	2019 LAKm
Opening balance	1,747	51
Credit loss expenses	(79)	1,632
Foreign exchange difference	78	64
Closing balance	1,746	1,747

17. PROPERTY AND EQUIPMENT

Movements of property and equipment during the year end 31 December 20 are as follows:

	Building improvements LAKm	Furniture & fixtures LAKm	Computer equipments LAKm	Motor Vehicles/ Others LAKm	Total LAKm
Cost:					
Opening balance	7,743	3,292	2,009	2,199	15,243
Additions for the year	-	39	651	228	918
Reclassify	-	-	7	(7)	-
Ending balance	7,743	3,331	2,667	2,420	16,161
Accumulated depreciation:					
Opening balance	3,402	2,636	1,375	1,722	9,135
Charges for the year	704	101	205	97	1,107
Reclassify	-	-	2	(2)	-
Ending balance	4,106	2,737	1,582	1,817	10,242
Net book value:					
Opening balance	4,341	656	634	477	6,108
Ending balance	3,637	594	1,085	603	5,919

First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2020

18. INTANGIBLE ASSETS

Movements of the balance of intangible fixed assets during the 2020 are as follows:

	<i>Computer software LAKm</i>	<i>Total LAKm</i>
Cost:		
As at 1 January 2020	131	131
Additions for the year	116	116
Disposal	-	-
As at 31 December 2020	247	247
Accumulated amortization:		
As at 1 January 2020	86	86
Charges for the year	9	9
Disposal	-	-
As at 31 December 2020	95	95
Net book value:		
As at 1 January 2020	45	45
As at 31 December 2020	152	152

19. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

Set out below are the carrying amounts of right-of-use assets recognized and the movements during the years

	<i>Building LAKm</i>	<i>Parking land LAKm</i>	<i>Total LAKm</i>
Cost or Valuation:			
As at 1 January 2020	3,540	185	3,725
As at 31 December 2020	3,540	185	3,725
Depreciation:			
As at 1 January 2020	-	-	-
Depreciation charge	720	37	757
As at 31 December 2020	720	37	757
Net book value:			
As at 1 January 2020	3,540	185	3,725
As at 31 December 2020	2,820	148	2,968

First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2020

19. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES (continued)

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	<i>Building LAKm</i>	<i>Parking land LAKm</i>	<i>Total LAKm</i>
As at 1 January 2020	-	-	-
Additions	2,898	172	3,070
Accretion of interest	46	3	49
Payments	(3,077)	(41)	(3,118)
Exchange difference	133	8	141
As at 31 December 2020	-	142	142

20. OTHER ASSETS

	<i>31/12/2020 LAKm</i>	<i>31/12/2019 LAKm</i>
Prepaid expenses	519	1,116

21. DUE TO OTHER BANKS

	<i>31/12/2020 LAKm</i>	<i>31/12/2019 LAKm</i>
Demand deposits from:		
- First Commercial Bank Head Office (Note 27)	127,238	121,343
- Lao China Bank Co., Ltd	92	89
- Maruhan Japan Bank Lao Co.,Ltd	52	44
- Taiwan Coopertive Bank Co., Ltd – Vientiane Branch	905	-
Borrowings from:		
- First Commercial Bank Head Office (Note 27)	388,639	372,203
	516,926	493,679

Details of the borrowings from First Commercial Bank Head Office as at 31 December 2020 are as follows:

<i>Bank</i>	<i>Currency</i>	<i>Maturity date</i>	<i>Term</i>	<i>Interest rate (% p.a.)</i>	<i>Balance at 31/12/2020 USD</i>
First Commercial Bank Head Office	USD	29-Jan-21	1	0.53%	4,375,193
First Commercial Bank Head Office	USD	29-Mar-21	3	0.46%	8,750,335
First Commercial Bank Head Office	USD	24-Mar-21	3	0.61%	15,002,033
First Commercial Bank Head Office	USD	20-May-21	6	0.49%	13,882,933
					42,010,494

First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2020

22. DUE TO CUSTOMERS

	31/12/2020 LAKm	31/12/2019 LAKm
Demand deposits	1,337	1,828
- In LAK	952	514
- In foreign currency	385	1,314
Saving deposits	10,602	14,979
- In LAK	767	653
- In foreign currency	9,835	14,326
Term deposits	49,810	37,850
- In foreign currency	49,810	37,850
	61,749	54,657

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

	2020 Interest rate (% p.a.)	2019 Interest rate (% p.a.)
Demand deposits in LAK	No interest	No interest
Demand deposits in foreign currencies	No interest	No interest
Saving deposits in LAK	1.50	1.50
Saving deposits in USD	0.50	1.00
Saving deposits in THB	0.50	0.50
Term deposits in LAK	NA	NA
Term deposits in USD	1.50 - 3.70	2.25 - 4.68

23. TAXATION

23.1 Tax payables

	31/12/2020 LAKm	31/12/2019 LAKm
Profit Tax payable (Note 23.2)	781	-
Other tax payable	46	46
	827	46

23.2 Profit Tax ("PT")

The Branch is obliged to pay PT at rate of 20% on total profit before tax of the year in accordance with the new Tax Law No.67/NA dated 18 June 2019 which is effective on or after 1 January 2020.

First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2020

23. TAXATION (continued)

23.2 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 2020 is LAKm 12,541.

	2020 LAKm	2019 LAKm
Profit before tax under IFRS	16,047	13,694
Temporary difference between LAS and IFRS in which:		
Interest income under amortised cost	(734)	(795)
Impairment expense for loans to customers under special accounting framework	533	1,817
Profit before tax under LAS	15,846	14,716
Income exempted from profit tax	(12,541)	(18,480)
Non-deductible expenses	600	562
Taxable profit/(loss)	3,905	(3,202)
Current PT expense, at the statutory rate of 20%	781	-
PT payable at the beginning of the year	-	-
PT paid during the year	-	-
PT payable at the end of the year	781	-

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.

23.3 Deferred tax

	<i>Statement of financial position</i>		<i>Income statement</i>	
	31/12/2020 LAKm	31/12/2019 LAKm	2020 LAKm	2019 LAKm
Deferred tax assets	125	-	125	-
Deferred tax liabilities	(321)	-	(321)	-
Net deferred tax credited to the income statement			(196)	-

First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2020

23. TAXATION (continued)

23.3 Deferred tax (continued)

Details of the deferred tax assets and deferred tax liabilities are as follows:

	31/12/2020 LAKm	31/12/2019 LAKm
Deductible temporary differences	627	-
<i>In which:</i>		
<i>Difference in allowance for impairment losses between LAS and IFRS of loans to customers</i>	533	-
<i>Difference between carrying value under LAS and amortised cost under special purpose IFRS of balance with BOL</i>	94	-
Deferred tax assets at tax rate 20%	125	-
Deductible temporary differences	1,603	-
<i>In which:</i>		
<i>Difference between carrying value under LAS and amortised cost under special purpose IFRS of loans to customers</i>	1,231	-
<i>Difference between carrying value under LAS and amortised cost under special purpose IFRS of cash at other banks</i>	372	-
Deferred tax liability at tax rate 20%	321	-

24. OTHER LIABILITIES

	31/12/2020 LAKm	31/12/2019 LAKm
Payable to employees	8	8
Other	763	485
	771	493

25. PAID-UP CAPITAL

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

	2020 LAKm	2019 LAKm
Opening balance	121,890	121,890
Changed during the year	74,360	-
Closing balance	196,250	121,890

First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2020

26. ADDITIONAL CASH FLOW INFORMATION

Cash and cash equivalents

	31/12/2020 LAKm	31/12/2019 LAKm
Cash on hand	3,616	1,245
Current accounts with the BOL	35,928	27,860
Current accounts with other banks	59,231	64,024
Term deposit within 3 months	-	13,044
	98,775	106,173

27. 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.

Significant balances with related parties as at 31 December 2020 are as follows:

<i>Related party</i>	<i>Relationship</i>	<i>Transactions</i>	31/12/2020 LAKm	31/12/2019 LAKm
First Commercial Bank Head Office	Parent Bank	Demand deposits	57,246	57,546
First Commercial Bank Head Office	Parent Bank	Demand deposits	(127,238)	(121,343)
First Commercial Bank Head Office	Parent Bank	Borrowings	(388,639)	(372,203)

First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2020

27. RELATED PARTY TRANSACTIONS (continued)

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>2020 LAKm</i>	<i>2019 LAKm</i>
First Commercial Bank Head Office	Parent Bank	Interest expense	(5,572)	(10,514)

Transactions with key management personnel of the Branch

Remuneration to members of the Management is as follows:

	<i>2020 LAKm</i>	<i>2019 LAKm</i>
Salaries and other benefits	2,636	2,219
Bonus	40	27
	2,676	2,246

28. 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.

First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2020

29. 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.

29.1 *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.

29.2 *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 realizable 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.

First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2020

29. CREDIT RISK (continued)

29.3 *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.

29.4 *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.

First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued) as at and for the year ended 31 December 2020

29. CREDIT RISK (continued)

29.5 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 2020 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")	303,509	-	-	303,509
Due from banks	250,603	-	-	250,603
Loans to customers	219,622	22,820	-	242,442
- Gross amount	221,294	22,894	-	244,188
Total	773,734	22,820	-	796,554

First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2020

29. CREDIT RISK (continued)

29.6 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 2020 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
Financial assets					
Cash and cash equivalents on hand	3,616	3,616	-	-	-
Balances with the BOL	303,509	303,509	-	-	-
Due from banks	250,603	250,603	-	-	-
Loans to customers	242,442	242,442	-	-	-
- Gross amount	244,188	244,188	-	-	-
	800,170	800,170	-	-	-

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 2020

30. 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 2020

30. LIQUIDITY RISK (continued)

The classification of financial assets and financial liabilities based on the maturity as at 31 December 2020 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>	
Financial assets						
Cash and cash equivalents on hand	3,616	-	-	-	-	3,616
Balances with Bank of the Lao PDR	115,052	-	188,457	-	-	303,509
Due from banks	59,231	-	191,372	-	-	250,603
Loans to customers (*)	-	-	85,373	158,815	-	244,188
Other financial assets	519	-	-	-	-	519
Total financial assets	178,418	-	465,202	158,815	-	802,435
Financial liabilities						
Due to banks	128,287	260,208	128,431	-	-	516,926
Due to customers	11,939	18,340	31,470	-	-	61,749
Lease liabilities	-	-	-	142	-	142
Other financial liabilities	771	-	-	-	-	771
Total financial liabilities	140,997	278,548	159,901	142	-	579,588
Liquidity exposure	37,421	(278,548)	305,301	158,673	-	222,847

(*) 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 2020

31. 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.

31.1 *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 2020. 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 2020

31. MARKET RISK (continued)

31.1 Interest rate risk (continued)

Unit: LAKm

	Non re- pricing	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years	Total
Financial assets								
Cash and cash equivalents on hand	3,616	-	-	-	-	-	-	3,616
Balances with Bank of the Lao PDR ("the BOL")	115,052	-	-	92,510	95,947	-	-	303,509
Due from banks	59,231	-	-	28,620	162,752	-	-	250,603
Loans to customers (*)	-	-	-	2,011	83,362	158,815	-	244,188
Other financial assets	519	-	-	-	-	-	-	519
Total financial assets	178,418	-	-	123,141	342,061	158,815	-	802,435
Financial liabilities								
Due to banks	128,287	-	260,208	128,431	-	-	-	516,926
Due to customers	11,939	-	18,340	21,695	9,775	-	-	61,749
Lease liabilities	-	-	-	-	-	142	-	142
Other financial liabilities	771	-	-	-	-	-	-	771
Total financial liabilities	140,997	-	278,548	150,126	9,775	142	-	579,588
Net interest rate exposure	37,421	-	(278,548)	(26,985)	332,286	158,673	-	222,847

(*) 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 2020

31. MARKET RISK (continued)

31.1 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	1,659
- 100 bps	(1,659)

31.2 Currency risk

Breakdown of assets and liabilities which has been converted into LAKm 31 December 2020 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>
ASSETS				
Cash and balances with the BOL	92,921	213,290	914	307,125
Due from banks	104,455	145,984	164	250,603
Loans to customers (*)	20,693	223,495	-	244,188
Property and equipment	5,919	-	-	5,919
Intangible assets	152	-	-	152
Right-of-use assets	2,968	-	-	2,968
Deferred tax asset	125	-	-	125
Other assets	177	342	-	519
TOTAL ASSETS	227,410	583,111	1,078	811,599
LIABILITIES				
Due to Banks	5	516,921	-	516,926
Due to customers	1,719	59,207	823	61,749
Current tax liabilities	827	-	-	827
Lease liabilities	-	142	-	142
Deferred tax liabilities	321	-	-	321
Other liabilities	8	763	-	771
TOTAL LIABILITIES	2,880	577,033	823	580,736
NET EXPOSURE	224,530	6,078	255	230,863

(*) 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 2020

31. MARKET RISK (continued)

31.2 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

	2020	
	Impact on profit before tax	
	Exchange rate increase 10%	Exchange rate decrease 10%
USD	608	(608)
THB	25	(25)
Total	633	(633)

32. 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 2020. 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 2020

32. 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 2020

Unit: LAKm

	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets					
Cash and balances at the BOL	307,125	118,668	-	188,457	307,125
Due from banks	250,603	59,231	-	191,372	250,603
Loans to customers	244,188	-	-	244,188	244,188
Other financial assets	519	-	-	519	519
	802,435	177,899	-	624,536	802,435
Financial liabilities					
Due to banks	516,926	128,287	-	388,639	516,926
Due to customers	61,749	11,939	-	49,810	61,749
Lease liabilities	142	-	-	142	142
Other financial liabilities	771	-	-	771	771
	578,675	140,226	-	438,449	578,675

33. 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;

First Commercial Bank Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2020

33. CAPITAL MANAGEMENT (continued)

- Tier 2 capital, which includes qualifying subordinated liabilities, general provisions and the element of fair value reserve relating to unrealized gains/losses on equity instruments classified as available for sale.

Various limits are applied to elements of the capital base: qualifying tier 2 cannot exceed tier 1 capital, and qualifying subordinated liabilities may not exceed 50 percent of tier 1 capital.

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

	31/12/2020 LAKm	31/12/2019 LAKm
Tier 1 capital	161,581	147,887
Tier 2 capital	-	-
Total capital	161,581	147,887
Less: Deductions from capital (Investments in other credit and financial institutions)	-	-
Capital for CAR calculation (A)	161,581	147,887
Risk weighted balance sheet items	177,059	232,832
Risk weighted off balance sheet items	-	-
Total risk weighted assets (B)	177,059	232,832
Capital Adequacy Ratio (A/B)	91.3%	64%

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

	31/12/2020 LAK	31/12/2019 LAK
United State Dollar ("USD")	9,251.00	8,839.00
Thai baht ("THB")	310.64	296.51

35. EVENTS AFTER THE BALANCE SHEET DATE

There is no matter or circumstance that has arisen since 31 December 2020 that requires adjustment or disclosure in the financial statements of the Branch.

Prepared by:

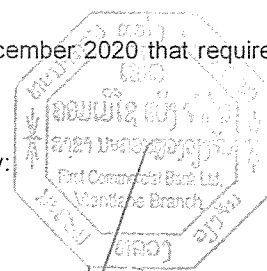


Mr. WANG, Tzer-Yau
Deputy Manager

Reviewed by:



Mr. YEH, Hsu-chao
General Manager



Vientiane, Lao PDR

19 April 2021

