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ANNUAL REPORT 2018

Corporate Summary
Organization Structure
Financial Report
Business Unit Network
Events

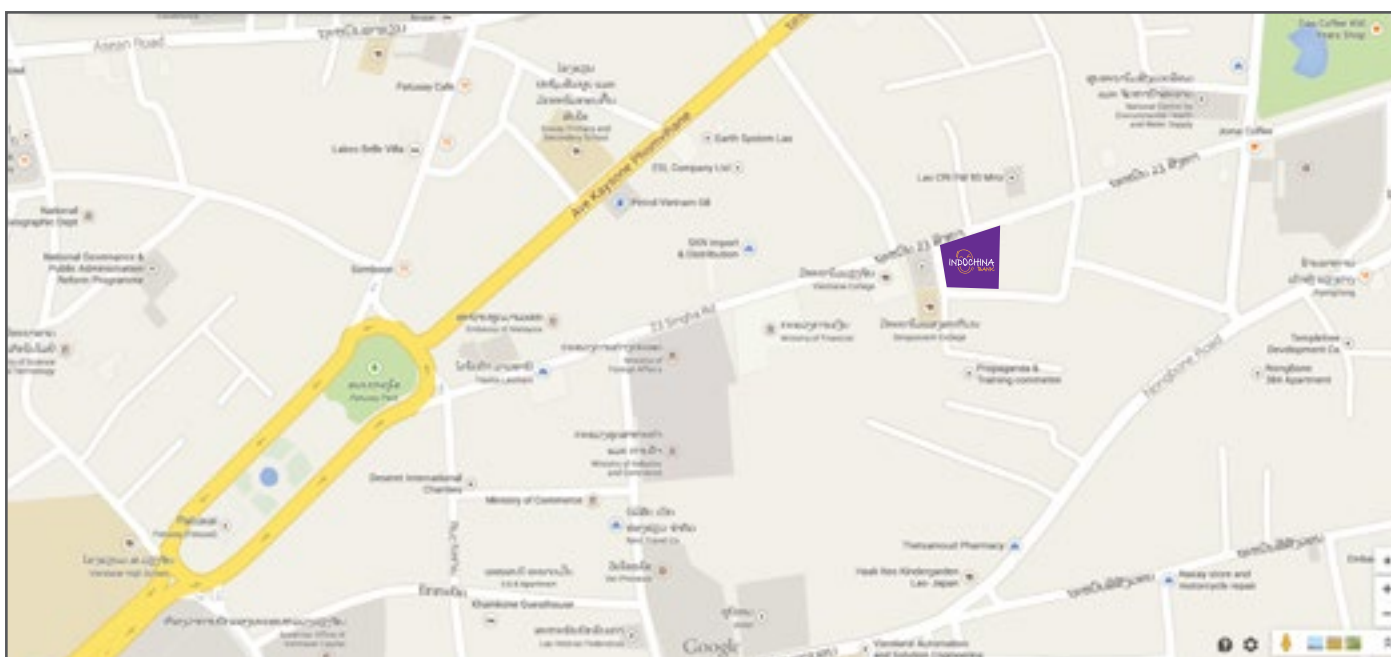


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PART 1. CORPORATE SUMMARY

1.1. CORPORATE INFORMATION

Bank Name	: Indochina Bank Ltd.
Registration No.	: 53/BOL, 28 th November 2008
Chairman	: Mr. Oh Sei Young
Managing Director	: Mr. Tay Hong Heng
Registered Office	: 1 st Floor, KOLAO Tower 1, 23 Singha Road, Vientiane Capital, Lao PDR
Contact Numbers	: Tel: +856 21 455 000-2, Fax: +856 21 455 111
Website	: www.indochinabank.com



1.2. CORPORATE BACKGROUND

Indochina Bank Ltd (“the Bank”) is a foreign owned locally incorporated commercial bank. The Bank was incorporated in Lao People’s Democratic Republic (“Lao PDR”) on 26 May 2008 under a Foreign Investment License No.070-08/PI granted by Ministry of Planning and Investment and under Banking Business License No.53/BOL granted by the Bank of the Lao PDR (“BOL”) on 28 November 2008.

Indochina Bank officially commenced its business on the 6th February 2009 in Vientiane Capital. The Bank’s shareholders comprise of reputable individual with strong and stable financial background, namely Mr. Oh Sei Young, and reputable Corporation, LVMC Investment Ltd.

1.3. Vision of the Bank

Indochina Bank is moving forward to establish a strong foothold in the country by taking advantage of the steady economic growth of Lao People’s Democratic Republic. The vision of the bank is:

“To be the No.1 private bank in Laos, in terms of business growth, customer service, products, profit as well as branding, and continually enhancing its service to meet customer’s highest level of satisfaction.”

CHAIRMAN'S MESSAGE

2018 was a remarkable year for Indochina Bank. The year has witnessed numerous challenges in the market as well as overall economy. In Indochina Bank, ensuring customer's satisfaction is our highest priority. Thus the result speaks for itself when there is an increase in our customer numbers as well as growth of our business. The key to our success is focusing on our core competency rendered by our well-trained and customer-centric workforce.

With slower economic growth, the Bank continues to keep its business profitable at a reasonable level while employing a more conservative approach to managing risks. Undoubtedly, many players in the market are faced with increasing pressure to keep cost down despite the efforts to generate more revenue. It is admittedly never an easy task in a modest-size market with rising number of players and stiff competition.

The Bank's total asset grew by nearly 5% in 2018 relative to the previous year. Profitability is still maintained although below expectation due to a number of inevitable factors such as more cautious risk management, investment in system upgrade and human resources development, more significant competition pressure. The current operating environment is increasingly more dynamically as a result of technology advancement. This has implied that to be able to stay in competition and be sustainable, Banks need to monitor the market and adapt their strategies in a timely manner. As a customer focus bank, Indochina Bank has always ensured that our customer experience is well enhanced regardless of the market situation.

The recent investment in our risk management solutions have started to pay off now as more manual works have been eliminated and hence our people can stay close to our clients for a better relationship management. The costs although high, are worth the improved customer experience. Investment in technology and system are also a significant effort of the team in trying to keep the Bank abreast of the market trend. New products are expected to be rolled out on phases approach.

May I, as Chairman of the Bank, express my sincere thanks to our customers, the regulators, the staff of the Bank and the community for their unwavering support. We will relentlessly strive harder for all our stakeholders in pursuit of enhancing their value. The trust in Indochina Bank has been flourishing from its inception to this very day and we shall reciprocate by ensuring that Indochina Bank forge ahead in good stride.

Last but not least, I would like to wish everyone great health, success and happiness.



Oh Sei Young
Chairman



1.4. GENERAL OVERVIEW OF THE YEAR 2018

Economic growth is estimated at 6.5% in 2018, which is considered lower relative to 2017. The growth rate although indicates a slowdown, still remains robust relative to many other nations. The main drivers have shifted from mining sector to industry sector such as construction and electricity exports. This in turn has contributed to the reduction of current account deficit from 12.1% in 2017 to 11% in the following year. Government still continues with its fiscal consolidation as a means to improve the revenue collection as well as more disciplined spending. A number of factors including higher food and fuel prices and currency depreciation have also resulted in inflation rate of approximately 2%.

Good progress has been witnessed in the mega project of Lao-China railway which is scheduled for completion in 2021 to mark the 46th Anniversary of Lao National Day. This represents a very significant economic benefits to the country through connectivity with the rest of the region. With very well prepared regulatory framework and good management, augmentation of cross borders trade and foreign investments are anticipated.

Moderate growth in 2018 is a key transitional period for businesses to adapt into the change in their operating environment. There is a continuing trend of new technology adoption in many industries of which the level varies from one to another. Banks are required to reshape their strategies in light of changing landscape and risks as a whole.

Performance of Indochina Bank: 2018

Indochina Bank's balance sheet has witnessed growth funded fundamentally by customer deposits which is a reflection of stronger trust rendered by our clients. Despite reduced emphasis on high deposit interest rates, which is on the contrary to many competitors, Indochina Bank still managed to raise more liquidity in the market. An increase in retail deposit of nearly 15% in 2018 relative to 2017 has been proven as a right strategy focusing on relationship rather interest rates. This leads to a more sustainable business paradigm. On the other hand, a slight growth in lending assets serves as a reflection of the challenging operating environment and hence a more risk-avert approach to lending adopted.

Due to requirement to establish well controlled cost structure in 2018 certain expenditure has occurred on an interim basis such as outsourcing for system enhancement and infrastructure upgrade. This in turn has created a sharp upward move of overall expense of the bank. In a long term, this will however be well kept within the allowable bandwidth.

A more prudent management of loan portfolios amid the slowdown in the economy have resulted in the emergence of a few toxic lending assets thus specific provision. Banks generally are unable to shun non-performing loans in their books especially during the time of unfavourable market conditions. As far as competition and specific loan provision are concerned, the bank's profitability is impacted. This applies to many banks across the market. Nevertheless, Indochina Bank has still managed to deliver a profitable business for its shareholders in 2018 with a healthier balance sheet.

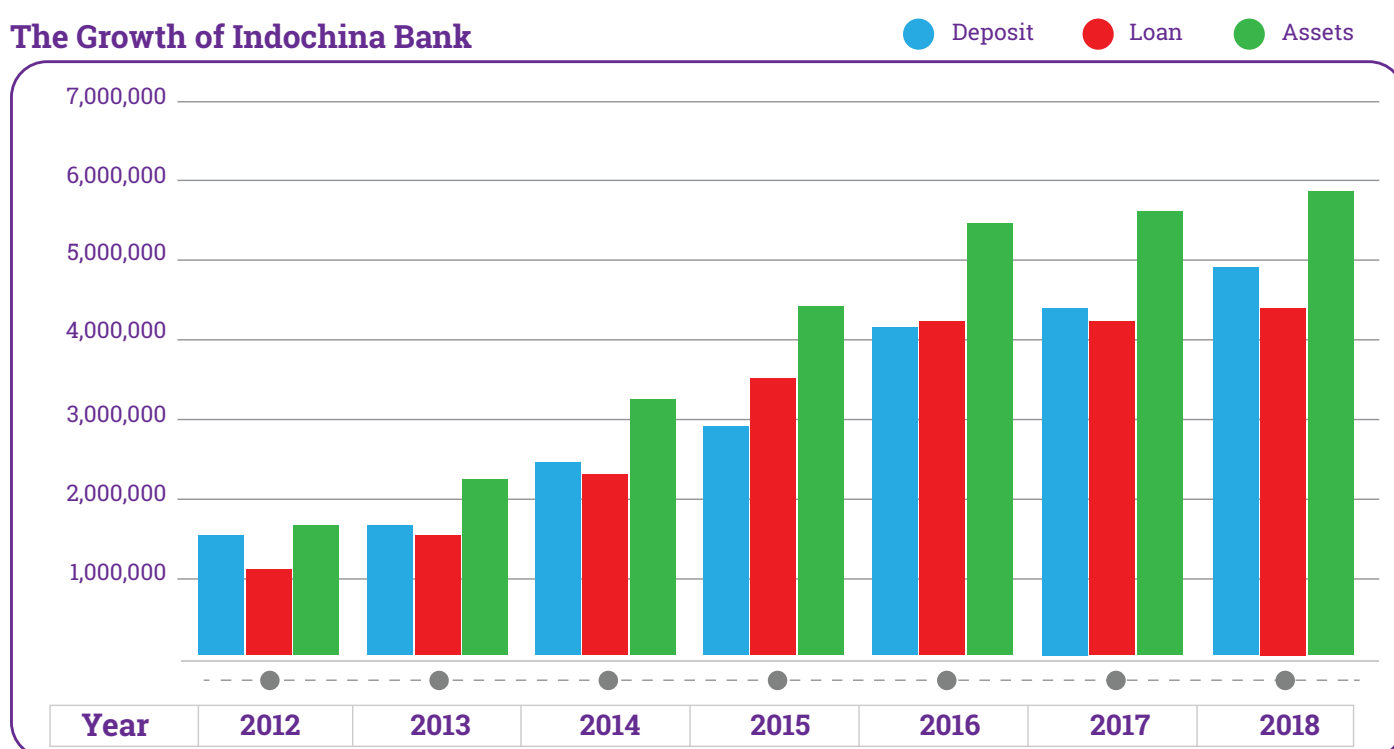
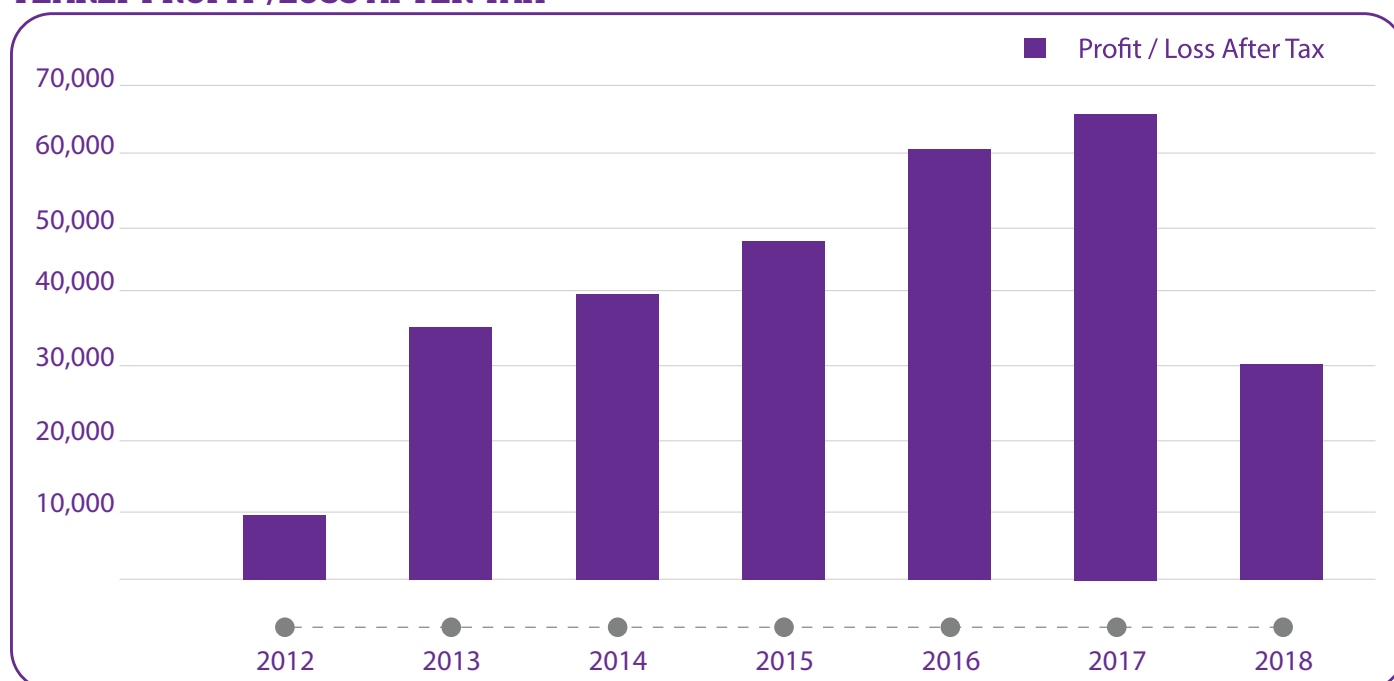
Extra efforts and resources were poured into the business in 2018 to ensure the Bank keeps up with customers' evolving banking requirements. Relative to the previous year, 2018 was a semi final transitioning period for the Bank with its preparation for the roll out of new products and services in the following year.

Indochina Bank is highly committed to customer-centricity as the core concept of services. For whatever investment made, the Bank focuses on long term benefits for its customers albeit short term costs to be absorbed.

Table of Comparative Performance 2018 VS 2017

(In million Kip)

Description	2018		2017	2018 vs 2017	
	Budgeted	Performance		Amount increased	% Increased/(decrease)
Deposit	4,565,308	4,936,156	4,275,757	660,399	15.45
Loans	4,102,665	4,244,249	4,106,191	138,058	3.37
Assets	5,565,598	5,862,952	5,607,282	255,670	4.36
Profit before Tax	85,844	43,858	87,274	43,416	(49.75)

The Growth of Indochina Bank

YEARLY PROFIT /LOSS AFTER TAX


1.5. PLAN AND BUSINESS OBJECTIVE OF INDOCHINA BANK 2019

2019 will see the final phases of technology projects having been carried out since 2017 and 2018. The efforts are expected to be paid off post second quarter of the year reflected via the roll out of new products and improved services. Efficiency is of stronger focus with the upgraded infrastructure being better leveraged.

Increase in fee-based income as a result will help diversify the revenue stream of the Bank and hence lower reliance of lending interest income which has been pressured.

The Bank will continue to strengthen its risk management framework in alignment with best international practices by putting in place more resources and comprehensive system.

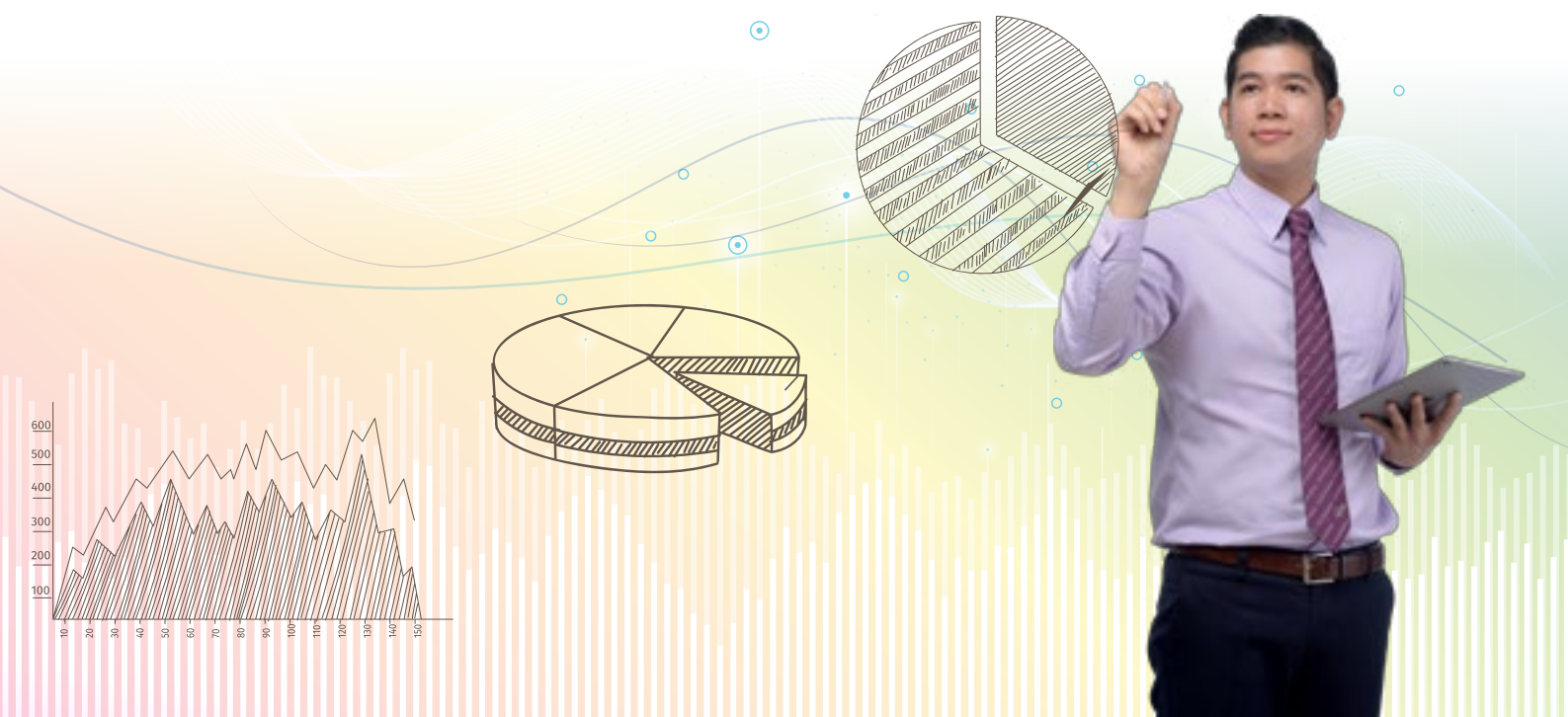
Despite technology's increasing role in the business, our well trained in-house talent will stay connected and close to our customers as we believe relationship is the key success factor in our business model. Therefore Indochina Bank is always committed to grooming our-own people for servicing our customers.

Given increased efficiency focus, downward move in investment and major spending are anticipated in 2019. It is rather a cost saving exercise to maintain profitability and hence fortify the business against unfriendly market conditions that will be seen.

Basel II compliance is a long-journey manoeuvre, with the road map being in place the Bank has teamed up skilled resources with clear direction moving towards the achievement in a realistic and timely manner.

Regardless of market conditions, Indochina Bank's team has always been and will always be committed to giving back to the community where we belong. We will constantly look for ways to make a positive impact to our society through our contribution. This great deep-seated value of giving has been imprinted in the heart of every staff member from the earlier to the now-generation and it will continue on for the sustainability of the business.

In relentless pursuit of customers' highest satisfaction, Indochina Bank is looking forward to 2019 to be a year where more products will be rolled out, better benefits for customers will be delivered, and stronger customer relationship are maintained by means of comprehensive services. Our team members are very eager to make 2019 a fantastic year for our customers given the changes and development within our organisation.



PART 2. ORGANIZATION STRUCTURE

2.1. LIST OF SHAREHOLDERS

No	Name of shareholders	Percentage
1.	Mr. Oh Sei Young (Korean)	78.01%
2.	LVMC Investment Ltd	11.99%
3.	Ms. Thavone Vongsombath	10.00%
Total:		100.00%

2.2. BOARD OF DIRECTORS



Mr. Oh Sei Young
Chairman

Mr. Oh is a prominent and successful businessman in Lao PDR. He is the Founder and Chairman of Kolao Group, which was incorporated in Lao PDR in May 1997.



Mr. Bounheng SOUPHIDA
Deputy Chairman

Mr. Bounheng graduated from Flinders University, Australia with a Master's degree in Business Administration. He started off his banking career with Public Bank in 1998 before joining ANZ in 2007 and Indochina Bank in 2014 and presently he is the Deputy Managing Director of the Indochina Bank.



Mr. Tay Hong Heng
Member

Mr. Tay started his banking career in 1976 with Public Bank Bhd, Malaysia. For 20 years he served domestic branches in various states in Malaysia in the capacity of Branch Manager. From 1996 to 2003(7 years) he was the Country Head of Public Bank Vientiane Branch, Lao PDR. Thereafter up to 2008 (5 years) he was seconded as the General Director to VID Public Bank, Vietnam. Presently he is the Managing Director of Indochina Bank since its inception in 2008.



Ms. Chanpheng Vongsombath
Member

Ms. Chanpheng furthered her study at Levobskaya Engineering Economic Institute, Soviet in 1989. From 1995 to 2002 (7 years) she worked with Public Bank Bhd Vientiane Branch. Ms. Chanpheng joined Kolao as the Head of Finance Department before joining Indochina Bank in September 2008 and presently she is the Deputy Managing Director of the Indochina Bank.



Ms. Thavone Vongsombath
Member

Ms. Thavone Vongsombath is considered one of the most outstanding businesswomen in the country. She started her career right after her university degree in 1999 when she joined Kolao Business as an executive assistant. She has been a major driving force behind the success of many businesses including Kolao Group. Thanks to her strong entrepreneurship and charisma as a leader, she is now holding a position of president at Kolao Group.

2.3. BOARD OF MANAGEMENT

Members of the Board of Management during the year and at the date of this report are as follows:

Name	Title	Date of appointment
Mr. Tay Hong Heng	Managing Director	Appointed on 20 April 2009
Ms. Chanpheng Vongsombath	Deputy Managing Director	Appointed on 01 August 2014
Mr. Bounheng Souphida	Deputy Managing Director	Appointed on 01 August 2014
Mr. Wong Chew Huat	Senior General Manager	Appointed on 1 February 2014
Ms. Khonemala Sitthilath	General Manager	Appointed on 01 January 2017

2.4. OTHER COMMITTEES

1. Governance Committee

Name	Position	Date of Appointment
Ms. Chanpheng VONGSOMBATH	Chairperson	2 June 2010
Ms. Thavone VONGSOMBATH	Member	2 June 2010
Mr. Oh Sei Young	Member	2 June 2010

2. Audit Committee

Name	Position	Date of Appointment
Ms. Khonemala Sitthilath	Chairperson	01 February 2014
Mr. Tay Hong Heng	Member	01 February 2014
Ms. Chanpheng Vongsombath	Member	01 February 2014
Mr. Bounheng Souphida	Member	01 February 2014
Mr. Wong Chew Huat	Member	01 February 2014

3. Risk Management Committee

Name	Position	Date of Appointment
Ms. Khonemala Sitthilath	Chairperson	01 February 2014
Mr. Tay Hong Heng	Member	01 February 2014
Ms. Chanpheng Vongsombath	Member	01 February 2014
Mr. Bounheng Souphida	Member	01 February 2014
Mr. Wong Chew Huat	Member	01 February 2014
Head of IT Dept.	Member	01 February 2014
Head of Finance Division	Member	01 February 2014

4. Loans Committee

Name	Position	Date of Appointment
Mr. Tay Hong Heng	Chairman	01 February 2014
Ms. Chanpheng Vongsombath	Member	01 February 2014
Mr. Bounheng Souphida	Member	01 February 2014

PART 3. FINANCIAL REPORT

3.1. HISTORY OF EXTERNAL AUDITORS

- 2009 and 2010 the Bank was audited by KPMG Lao Co., Ltd
- 2011 to 2017 the Bank was audited by Ernst & Young Lao Ltd
- 2018 the Bank was audited by KPMG Lao Co., Ltd

3.2. FINANCIAL REPORTS

INDEPENDENT AUDITORS' REPORT

To: The owners of Indochina Bank Ltd.

Opinion

We have audited the financial statements of Indochina Bank Ltd. (the "Bank"), which comprise the statement of financial position as at 31 December 2018, the statements of income, changes in capital and other reserves and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018 and its financial performance and cash flows for the year then ended in accordance with the accounting regulations of the Bank of Lao P.D.R and accounting rules in the Lao P.D.R.

Basis for Opinion

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

Other matter

The financial statements of the Bank for the year ended 31 December 2017 were audited by another firm of auditors whose report, dated 11 April 2018, expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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



KPMG Lao Co., Ltd.
Vientiane Capital, Lao P.D.R
29 March 2019

	Notes	2018	2017
ASSETS			
Cash and balances with the BOL		827,810	1,064,010
Cash on hand	11	61,442	66,493
Balances with the BOL	12	766,368	997,517
Due from other banks	13	310,240	240,830
Demand Deposits		185,240	176,830
Term deposits		125,000	64,000
Investments		279,254	5,000
Investment in bond	14	261,140	5,000
Investment in associate	14 (a)	18,114	-
Loans and advances to customers, net of specific provision	15	4,244,249	4,106,191
Fixed and Intangibles assets		17,737	24,791
Intangible fixed assets	16	2,331	5,886
Tangible fixed assets	16	15,406	18,905
Other assets		183,662	166,460
Accrued interest receivables		30,964	25,362
Other Assets	17	152,698	141,098
TOTAL ASSETS		5,862,952	5,607,282
LIABILITIES AND CAPITAL			
Due to banks and other financial institutions	18	568,084	909,929
Term Deposits		289,413	220,012
Borrowings from other financial institutions		278,671	689,917
Due to customers	19	4,646,743	4,055,745
Demand and saving deposits		503,978	522,087
Term deposits		4,115,794	3,514,705
Other payables to customers		26,971	18,953
Other Liabilities		191,140	151,689
Accrued interest payable – due to customer		160,375	131,973
Taxes Payable	20.1	9,860	4,706
Other Payable	21	20,905	15,010
TOTAL LIABILITIES		5,405,967	5,117,363
Capital and reserves			
Paid-up capital	22	381,252	381,252
Regulatory reserve fund		28,207	25,181
General provision for credit activities	15.2	20,063	26,559
Retained earnings		27,463	56,927
TOTAL CAPITAL		456,985	489,919
TOTAL LIABILITIES AND CAPITAL		5,862,952	5,607,282

31 December (in million LAK)			
	Notes	2018	2017
OPERATING INCOME AND EXPENSES			
Interest and similar income	5	511,416	453,677
Interest and similar income from interbank transactions		63,571	7,902
Interest and similar income from loans to customers		447,645	445,583
Interest income from investment in securities		200	192
Interest and similar expense	5	(395,803)	(318,738)
Interest and similar expense for interbank transactions		(111,226)	(88,918)
Interest and similar expense for customer deposits		(284,577)	(229,820)
Net Interest and Similar Income	5	115,613	134,939
Fees and Commission Income	6	33,032	33,349
Fees and Commission Expense	6	(2,136)	(3,117)
Net Fee and Commission Income		30,896	30,232
Share of loss from associate	14(a)	(200)	-
Net Operating Income		146,309	165,171
OTHER INCOME AND EXPENSES			
Other Income		159,464	45,384
Gain on foreign exchange		2,630	361
Other Operating Income	7	156,834	45,023
Administration expenses		(73,114)	(56,662)
Payroll and other staff costs	8	(39,831)	(32,354)
Other administrative expenses	9	(33,283)	(24,308)
Depreciation and amortization expenses	16	(14,454)	(13,736)
Other operating expenses	10	(166,685)	(50,221)
Total expenses		(254,253)	(120,619)
Net operating profit		51,520	89,936
Net provision for non-performing loans	15.2	(7,662)	(2,662)
Provision expense for non-performing loans		(22,036)	(11,266)
Reversal of provision for non-performing loans		14,374	8,604
PROFIT BEFORE TAX		43,858	87,274
Current Profit Tax	20.2	(13,344)	(20,946)
PROFIT AFTER TAX		30,514	66,328

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

Statement of changes in capital and other reserve For the year ended 31 December 2018

31 December (in million LAK)

	Paid-up capital	Regulatory reserve fund	General provision for credit activities	Other Reserve	Retained earnings	Total
Balance as at 1 January 2017	381,252	18,548	26,069	587	54,270	480,726
Dividend paid to shareholders	-	-	-	-	(55,374)	(55,374)
Net profit for the year	-	-	-	-	66,328	66,328
Transfer to statutory reserve	-	6,633	-	-	(6,633)	-
General provision charged during the year	-	-	45,111	-	-	45,111
Reversal of general provision during the year	-	-	(44,958)	-	-	(44,958)
Reversal of other reserve	-	-	-	(587)	-	(587)
Other decrease	-	-	-	-	(1,664)	(1,664)
Foreign exchange difference	-	-	337	-	-	337
Balance as at 31 December 2017	381,252	25,181	26,559	-	56,927	489,919
Dividend paid to shareholders (Note 22)	-	-	-	-	(56,927)	(56,927)
Net profit for the year	-	-	-	-	30,514	30,514
Transfer to statutory reserve	-	3,051	-	-	(3,051)	-
General provision charged during the year	-	-	152,876	-	-	152,876
Reversal of general provision during the year	-	-	152,999)	-	-	(152,999)
Reclassified to Specific provision during the year	-	-	(6,915)	-	-	(6,915)
Foreign exchange difference	-	(25)	542	-	-	517
Balance as at 31 December 2018	381,252	28,207	20,063	-	27,463	456,985

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



	Notes	2018	2017
Cash flows from operating activities			
Net profit before tax		43,858	87,274
Adjustments for non-cash items:			
Loan impairment charges		7,539	2,815
Interest and similar income		(511,416)	(453,677)
Interest and similar expense		395,803	318,738
Net gain from dealing in foreign currencies		(2,630)	(361)
Depreciation and amortization charges		14,454	13,340
Loss on disposal of tangible fixed assets		(53)	540
Share of loss from associate		200	-
Interest received		505,814	453,586
Interest paid		(416,989)	(390,971)
Income tax paid		(10,676)	(20,577)
Cash flows from operations before changing in operating assets and liabilities		25,904	10,707
Statutory deposit with BOL		(11,487)	(23,905)
Loans and advances to customers		(138,059)	6,304
Other assets		(11,598)	(31,460)
Change in due to other banks and financial institutions		(341,845)	(505,540)
Amounts due to customers		553,661	709,289
Other liabilities		18,271	6,004
Net cash generated from operating activities		68,943	160,692
Cash flows from investing activities			
Purchase of property and equipment		(3,508)	(9,036)
Proceeds from disposal of property and equipment		565	2
Investment made during the year		(274,254)	233
Net cash used in investing activities		(277,197)	(8,801)
Cash flows from financing activities			
Dividend paid to shareholders		(56,927)	(55,374)
Net cash generated used in financing activities		(56,927)	(55,374)
Net change in cash and cash equivalents		(239,277)	107,224
Cash and amount due from other banks, beginning		1,042,545	935,321
Cash and amount due from other banks, ending		803,268	1,042,545

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

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1 ORGANIZATION AND PRINCIPAL ACTIVITIES

Indochina Bank Ltd. ("the Bank") is a foreign owned, locally incorporated commercial bank. The Bank was incorporated in Lao People's Democratic Republic ("Lao P.D.R") on 26 May 2008 under a Foreign Investment License No.217-11/PI granted by the Ministry of Planning and Investment and under Banking Business License No.23/BOL granted by Bank of LAO P.D.R on 8 November 2017.

The Bank is 78.01% owned by Mr. Oh Sei Young (Korean), 10% owned by Ms. Thavone Vongsombath and the remaining 11.99% owned by LVMC Investment Ltd. of Hong Kong.

The principal activities of the Bank are to provide comprehensive banking and related financial services in Lao P.D.R. As at 31 December 2018, the Bank had 205 (2017: 204) employees.

PAID-UP CAPITAL

The initial paid-up capital of the Bank was LAKm 130,785. As at 31 December 2018, the paid up capital of the bank was LAKm 381,252.(2017: LAKm 381,252)

2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

(a) General basis of accounting

(i) Statement of compliance

Management of the Bank states that the accompanying financial statements have been prepared in compliance with the Accounting Law of Lao P.D.R and the regulations stipulated by Bank of the Lao P.D.R relevant to preparation and presentation of financial statements.

(ii) Basis of Preparation

The Bank maintains its accounting records in Lao Kip ("LAK") and prepares its financial statements in millions of LAK ("LAKm") in accordance Decree No. 02/PR by the Prime Minister of Lao P.D.R dated 22 March 2000 and the Accounting Law of Lao P.D.R and the regulations stipulated by Bank of Lao P.D.R relevant to preparation and presentation of financial statements.

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

(iii) Basis of measurement

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

(iv) Use of judgements and estimates

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

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






(b) Fiscal Year

The fiscal year of the Bank starts on 1 January and end on 31 December.

(c) Foreign currency transactions

The Bank 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 rates ruling on the balance sheet date. Foreign exchange differences arising from the translation of monetary assets and liabilities on the balance sheet date are recognized in the income statement.

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

	31 December 2018	31 December 2017
 United State Dollar ("USD")	8,538.00	8,292.27
 Thai baht ("THB")	264.85	255.11
 Euro ("EUR")	9590.00	9,682.00
 Japanese yen ("JPY")	74.83	70.78
 Australian Dollar ("AUD")	5,914.00	6,192.00

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies set out below have been applied consistently to all periods presented in these financial statements

(a) Recognition of interest income and expense

Interest income and expense are recognized in the income statement on an accrual basis using the straight-line method and the interest rates stipulated in the lending/deposits contracts with customers.

The recognition of accrued interest income is suspended when the loans becoming non-performing or when management believes that the borrower has no ability to repay the interest and principal. Interest income on such loans is only recorded in the income statement when actually received.

(b) Recognition of fee and commission income

Fees and commissions consist of fees received from fund transfer transactions, trade settlement, foreign currency exchange transactions, ATM transactions and financial guarantees. Fee and commission income are recognized in to the income statement on cash basis.

Fee and commissions are recognized in the income statement on a cash basis.

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

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

(c) Cash and cash equivalents

Cash and cash equivalents consist of (i) cash; and (ii) due from banks and highly liquid short-term investments with an original maturity of less than or equivalent to 30 days that are readily convertible to known amount of cash.

(d) Loans to customers

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

(e) Provision for non-performing loans ("NPL")

Regulation 512/BOL applicable from 1 October 2018

In accordance with Regulation 512/BOL ("BOL 512") dated 29 June 2018 and effective from 1 October 2018, the Bank is required to classify loans and create provision for impairment losses. Accordingly, loans are classified into Normal or Watch List or non-performing loans based on the payment arrears status and other qualitative factors. Loans classified as Normal or Pass (Group A) are considered as Normal or Pass loans, loans classified as Watch List or Special Mention (Group B) are considered as Watch List or Special Mention loans and loans classified as Substandard (Group C) or Doubtful (Group D) or Loss (Group E) are considered as non-performing loans.

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

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

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

Type of collaterals	Maximum
(a) Deposits at the Bank	allowed ratio
- in the same currency with loans	100%
- in different currencies with those of loans	95%
(b) Gold kept at the Bank	90%
(c) Government bonds and BOL bonds	
- in the same currency with loans	
With a remaining term of below 1 year	100%
With a remaining term of between 1 year to 5 years	90%
With a remaining term of over 5 years	80%
- in different currencies with those of loans	
With a remaining term of below 1 year	95%
With a remaining term of between 1 year to 5 years	85%
With a remaining term of over 5 years	75%
(d) Deposits at other banks or financial institutions	
With a remaining term of below 1 year	80%
With a remaining term of between 1 year to 5 years	75%
With a remaining term of over 5 years	70%
(e) Letter of Credit or Standby Letter of Credit	95%
(f) Letter of Guarantee or Bank Guarantee	90%
(g) Real estates	40%

Changes in specific provision is recorded to the income statement as “Net specific provision charges”. Accumulated specific provision reserve is recorded in the balance sheet in “Loans and advances to customers, net of specific provision”.

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

Regulation 324/BOL applicable before 1 October 2018

In accordance with Regulation 324/BOL (“BOL324”) dated 19 April 2011, the Bank is required to classify loans and create provision for impairment losses. Accordingly, loans are classified into Performing loans or Non-performing loans based on the payment arrears status and other qualitative factors. Loans classified as either Normal or Pass (Group A) or Watch or Special Mention (Group B) are considered as Performing loans. Loans classified as either Substandard (Group C) or Doubtful (Group D) or Loss (Group E) are considered as Non-performing loans.

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

Classification	Number of days past due	Provision
Normal or Pass (A)	0 - 29 days	0.5% - 1%
Watch or Special mention (B)	30 - 89 days	3%
Substandard (C)	90 - 179 days	20%
Doubtful (D)	180 - 359 days	50%
Loss (E)	Over 360 days	100%

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

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

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

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

(f) Write-off

In accordance with BOL512, loans are written off not later than 90 days after being classified to Loss group.

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

(g) Held-to-maturity securities

Held-to-maturity securities are debt securities with fixed or determinable payments and maturities, which the Bank has intention and ability to hold to maturity to earn interest. When they are sold before maturity date, these securities will be reclassified as trading securities or available-for-sale securities.

Held-to-maturity securities are initially recognized at cost and subsequently presented at cost. Premiums and discounts arising from securities purchases are amortized in the income statement using the straight-line method over the period from the acquisition dates to the maturity dates.

Periodically, the held-to-maturity securities are subject to review for impairment. Provision for impairment of these securities is made when there has been a significant or prolonged decline in the fair value below their cost. Provision for impairment, if any, is recognized as "Net gain/(loss) from securities investment" in the income statement.

(h) Investment in associates

An associate is an entity over which the investor has significant influence but does not have control over the financial and operating policies.

If an entity holds, directly or indirectly (for example through subsidiaries), 20 percent or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated that this is not the case.

These financial statements include the bank's share of total recognized gains and losses of associates on equity accounting basis, from the date when significant influence commenced.

(i) Fixed and Intangible assets

Fixed assets include of tangible and intangible fixed assets. Tangible fixed assets consist of buildings and improvements, office equipment, furniture and fixtures, and motor vehicles. Intangible fixed assets consist of computer software

Fixed assets are stated at cost less accumulated depreciation and amortization, if any.

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

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

When assets are sold or disposed, their cost and accumulated depreciation are removed from the balance sheet and any gains or losses resulting from their disposal are posted to the income statement.

(j) Depreciation and amortization of fixed assets and intangible

Depreciation and amortization of fixed assets are provided on the straight line basis at prescribed rates over their estimated useful life in accordance with the new Tax Law No.70/NA dated 15 December 2015 which is effective on or after 24 May 2016 stipulated by the President of the National Assembly. The following are the annual depreciation and amortization rates used:

Category	Depreciation Rates
Computer software	50%
Office equipment	20%
Furniture & fixtures	20%
Motor vehicles	20%

(k) Statutory Reserves

Under the requirement of the Law on Commercial Bank No.03/NA dated 26 December 2006, commercial banks are required to appropriate net profit to following reserves:

- Regulatory reserve fund
- Business expansion fund and other funds

In accordance with the Regulation on capital adequacy No.1/BOL dated 28 August 2001 by the Governor of the Bank of Lao P.D.R and other relevant guidance, commercial banks are required to appropriate at least 5% of profit after tax each year, after deducting retained losses, to regulatory reserve fund, until such fund reaches 10% of Tier-1 capital. Based on this requirement, management will decide the exact percentage of each year.

The Business expansion fund and other funds shall be created upon decision of the Board of Management.

Reserves	% of profit after tax (after deduction of accumulated losses)
Regulatory reserve fund	10%
Business expansion fund and other funds	-

(l) Taxation

Provision is made for profit tax on the current year's profit, based on the Tax Law governing taxation within Lao P.D.R. The Bank is obliged to pay tax at rate of 24% of total profit before tax in accordance with the Tax Law No.70/NA dated 15 December 2015. The Bank'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.

(m) Employee benefit

Post-employment benefits

Post-employment benefits are paid to retired employees of the Bank by staff provident fund setup by the Bank. Each month, the Bank contributes 6% and each employee contributes 4% of the employee's monthly basic salary into the fund (maximum Bank's monthly contribution per employee is 500 USD). The benefit will be paid to each employee at the time of the retirement. The Bank 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 Bank has the obligation to pay allowance for employees who are terminated by dismissal in the following cases:

- The employee 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 basic monthly salary earned before the termination of work. As at 31 December 2018, there are no employees of the Bank who were dismissed under the above-mentioned grounds; therefore the Bank has not made a provision for termination allowance in the financial statements.

4 REGULATION 512/BOL

On 29 June 2018, the Bank of the Lao P.D.R ("BOL") issued Regulation 512/BOL ("BOL 512") effective from 1 October 2018 on classification and impairment provision for loans to replace Regulation 324/BOL ("BOL 324") dated 19 April 2011.

BOL 512 largely retains the existing requirements in BOL 324 for the classification of loans based on the payment arrears status and other qualitative factors. The requirements of BOL 512 are stated below:

(a) Classification

In accordance with BOL 512, loans classified as Normal or Pass (Group A) are considered as Normal or Pass loans, loans classified as Watch List or Special Mention (Group B) are considered as Watch List or Special Mention loans and loans classified as Substandard (Group C) or Doubtful (Group D) or Loss (Group E) are considered as non-performing loans. Under the previous regulation, loans classified in both Group A or Group B were considered as performing loans, and loans classified in Group C or Group D or Group E were considered as non-performing loans.

For more details on how the Bank classifies its loan, see Note 3 (e).

(b) General provision

In accordance with BOL 512, the Bank is required to create a general provision for Normal loans at the fixed rate of 0.5% of the total balance of Normal or Pass loans. Provision for Watch or Special Mention loans is considered as specific provision together with provision for Substandard, Doubtful and Loss loans. Under the previous regulation, the general provision also included 3.0% of the total balance of Watch or Special Mention loans, and the general provision rate for Normal or Pass loans was not fixed but was in the range of 0.5% to 1.0% in accordance with the Official Letter No. 242/BOL issued by the Bank of Lao P.D.R on 2 April 2011.

For more details on how the Bank makes provision in compliance with BOL 512, see Note 3 (e).

(c) Specific provision

Under BOL 512, specific provision includes provision for Watch list or Special Mention, Substandard, Doubtful and Loss loans. This provision is established by multiplying the outstanding balance of each loan item less the value of collaterals (if any) in accordance with the regulation of BOL with the provision rates applicable to that loan classification. Value of collateral was not taken into account when calculating provision under previous regulation.

For more details on how the Bank makes provision in compliance with BOL 512, see Note 3 (e).

(d) Write-off

In accordance with BOL 512, loans in Loss category (Group E) must be written off not later than 90 days after being classified to Loss category. Whereas under the previous regulation, the writing-off of loans in Loss category was carried out at the end of each quarter but not later than the end of the last quarter of the calendar year.

For more details on the Bank's policy on its bad debts written off in compliance with BOL 512, see Note 3 (f).

(e) Provision for off-balance sheet commitments

In accordance with BOL 512, the Bank has to classify and make provision for off-balance sheet commitments if a payment under the guarantee contract has been made by the Bank on behalf of its customers. The classification and provisioning for off-balance sheet commitments were not mentioned under the previous regulation.

(f) Transition

Management assesses the provision considering recoverability of each customer and the BOL regulation. The regulation BOL 512 has been applied prospectively (effective date 1 October 2018) in the financial statements. There is no significant impact in the statement of income. However, an impact of LAK 6,915 million has been reclassified from general to specific provision in statement of changes in equity.

5 NET INTEREST AND SIMILAR INCOME

31 December (in million LAK)

	2018	2017
Interest and similar income from:		
Interbank transactions	63,571	7,902
Loans to customers	447,645	445,583
Investment in securities	200	192
	511,416	453,677
Interest and similar expense for:		
Interbank transactions	(111,226)	(88,918)
Customer deposits	(284,577)	(229,820)
	(395,803)	(318,738)
Net interest and similar income	115,613	134,939

6 NET FEES AND COMMISSION INCOME

31 December (in million LAK)

	2018	2017
Fees and Commission Income from		
Fees on loans	3,746	3,166
Late payment penalties charged to customers	15,822	19,735
Telecommunication (fax, telegram)	1,379	1,567
Other activities	12,085	8,881
	33,032	33,349
Fees and Commission Expense for :		
Settlement services via Check, Fax, TT, Swift	(205)	(183)
Other financial services	(1,931)	(2,934)
	(2,136)	(3,117)
Net fees and commission income	30,896	30,232

7 OTHER OPERATING INCOME

31 December (in million LAK)

	2018	2017
Reversal of general provision for credit losses	152,999	45,023
Others	3,835	-
	156,834	45,023

8 PAYROLL AND OTHER STAFF COST

31 December (in million LAK)

	2018	2017
Wages and Salaries	21,727	19,043
Others Staff Cost	18,104	13,311
	39,831	32,354

9 OTHER ADMINISTRATIVE EXPENSES

31 December (in million LAK)

	2018	2017
Office Rental	10,803	3,361
Fuel	1,152	285
Office stationery	1,133	290
Publication, marketing and promotion	1,523	6,486
Telecommunication	1,427	958
Repair and maintenance	2,433	1,082
Electricity and water	1,006	1,111
Audit and legal fees	2,425	-
Taxes and Duties	2,300	3,940
External services	-	1,021
Insurance fee	501	826
Commission	2,438	-
Others	6,142	4,948
	33,283	24,308

10 OTHER OPERATING EXPENSES

31 December (in million LAK)

	2018	2017
General provision expenses (Note 13.2)	152,876	45,111
Depositor Protection Fund	3,136	2,775
Loss on disposals of assets	11	142
Others	10,662	2,193
	166,685	50,221

11 CASH ON HAND

31 December (in million LAK)

	2018	2017
Cash on hand in LAK	31,543	31,098
Cash on hand in foreign currencies ("FC")	29,899	35,395
	61,442	66,493

12 BALANCES WITH THE BANK OF LAO P.D.R ("BOL")

31 December (in million LAK)

	2018	2017
Demand deposits	556,586	799,222
Compulsory reserves (*)	209,488	198,001
Registered capital deposit (**)	294	294
	766,368	997,517

Balances with the BOL include demand deposits, compulsory reserves and registered capital deposit. These balances earn no interest.

(*) Under regulations of the BOL, the Bank is required to maintain certain cash reserves with the BOL in the form of compulsory deposits, which are computed at 5.00% for LAK and 10.00% for foreign currencies (2017: 5.00% and 10.00%), on a bi-monthly basis, of customer deposits having original maturities of less than 12 months. In the year, the Bank maintained its compulsory deposits in compliance with the requirements by the BOL.

(**) According to Decree No. 02/PR of the BOL, commercial banks are required to maintain a minimum balance of special deposit at the BOL which is equivalent to 25% of their paid-up capital to secure for their operational continuance. The Bank was then approved by the BOL in Official Letter No. 266/BSO dated 15 August 2014 to withdraw from this deposit account to supplement its working capital. As at 31 December 2018, the balance of this special deposit is 294 LAKm.

13 DUE FROM OTHER BANKS

31 December (in million LAK)

	2018	2017
Demand deposits	185,240	176,830
With domestic banks	89,459	42,782
Banque pour le Commerce Extérieur Lao Public (BCEL)	88,565	41,969
Joint Development Bank (JDB)	894	813
With overseas banks	95,781	134,048
Standard Chartered Bank, New York	91,755	121,845
Standard Chartered Bank, Bangkok	30	5,414
Standard Chartered Bank, Frankfurt	258	287
KB Kookmin Bank	3,738	6,502
Term deposits	125,000	64,000
Vietinbank Lao Limited	33,000	16,000
Saigon Thuong Tin Lao Bank Limited	58,000	48,000
Maruhan Japan Bank Lao Co., Ltd.	17,000	-
Bangkok Bank Public Co., Ltd.	17,000	-
	310,240	240,830

Details of term deposits as at 31 December 2018 are as follows

Bank	31/12/2018 (LAK)	Currency	Term (month)	Interest rate % per annum
Bangkok Bank Public Co., Ltd.	17,000,000,000	LAK	6	3.75%
Vietinbank Lao Limited	16,000,000,000	LAK	12	5.00%
Vietinbank Lao Limited	17,000,000,000	LAK	6	3.50%
Saigon Thuong Tin Lao Bank Limited	24,000,000,000	LAK	12	4.80%
Saigon Thuong Tin Lao Bank Limited	17,000,000,000	LAK	3	3.10%
Saigon Thuong Tin Lao Bank Limited	17,000,000,000	LAK	12	4.30%
Maruhan Japan Bank Lao Co., Ltd.	17,000,000,000	LAK	6	3.85%
Total	125,000,000,000	LAK		

14 INVESTMENTS

31 December (in million LAK)

	2018	2017
Ministry of Finance Bonds *	5,000	5,000
Convertibles Bond **	256,140	-
	261,140	5,000

(*) The investment represents bonds with Ministry of Finance of the LAO P.D.R having term of 1 year with an interest rate of 4% per annum.

(**) During the year, the Bank entered into an agreement to purchase Convertible Bonds from LMVC Holdings, a company incorporated under the laws of Cayman Islands, having term of 3 years.

14 (A) INVESTMENT IN ASSOCIATE

31 December (in million LAK)

	2018	2017
Investment in associate *	18,114	-
	18,114	-

(*) During the year, the bank invested LAK 18.185 million to acquire 10% holding in KB Daehan Specialized Bank, formerly called as Tomato Specialized Bank Limited incorporated in Cambodia. The bank has assessed recoverable amount of investment in associate based on value in use calculation. The calculation has been made on the discounted cash flow methodology considering certain assumptions. Based on valuations, the recoverable amount exceeds the carrying amount and accordingly, no impairment has been recorded.

Movement of investment in associate

31 December (in million LAK)

	2018	2017
Balance as at 1 January 2018	-	-
Investment made during the year	18,185	-
Share of loss up to December 31, 2018	(200)	-
	17,985	-
Foreign Exchange Translation	129	-
Closing balance as at December 31, 2018	18,114	-

15 LOANS AND ADVANCES TO CUSTOMERS, NET OF SPECIFIC PROVISION

15.1 Loans to Customers

31 December (in million LAK)

	2018	2017
Loans to customers	4,253,159	4,110,174
Less provision for non-performing loans (Note 15.2)	(8,910)	(3,983)
	4,244,249	4,106,191

Classified by interest rates (per annum)

31 December

	2018	2017
Loans in LAK	5.00%-15.50%	7.08% - 16.50%
Loans in USD	6.00%-12.50%	7.00% - 16.80%
Loans in THB	6.00% - 11.00%	8.00% - 13.00%

Classified by currency

31 December (in million LAK)

	2018	2017
Loans in LAK	1,108,140	1,108,181
Loans in USD	2,764,517	2,617,773
Loans in THB	380,502	384,220
	4,253,159	4,110,174

Classified by performance

31 December (in million LAK)

	2018	2017
- Normal or Pass	4,012,692	3,858,828
- Watch or Special Mention	230,491	241,531
Non- Performing loans		
- Substandard	9,976	3,063
- Doubtful	-	6,752
- Loss	-	-
	4,253,159	4,110,174

15.2 Provision for Credit Activities**(i) Specific provision for credit activities**

31 December (in million LAK)

	2018	2017
Balance as at the beginning of the year	3,983	1,257
Reclassified from general provision during the year	6,915	-
Provision made in the year	22,036	11,266
Reversal of provision in the year	(14,374)	(8,604)
Bad debt written off	(9,970)	-
Foreign exchange translation	320	64
Balance as at the of the year	8,910	3,983

(ii) General provision for credit activities

31 December (in million LAK)

	2018	2017
Balance as at the beginning of the year	26,559	26,069
Reclassified to specific provision during the year	(6,915)	-
Provision made in the year	152,876	45,111
Reversal of provision in the year	(152,999)	(44,958)
Foreign exchange translation	542	337
Balance as at the of the year	20,063	26,559

16 Fixed and Intangible Assets

31 December (in million LAK)

	2018	2017
Intangible fixed assets (note 16.1)	2,331	5,886
Construction in progress (note 16.2)	1,015	124
Tangible fixed assets (note 16.3)	14,391	18,781
Total	17,737	24,791

16.1 Intangible Fixed Assets

31 December (in million LAK)

	2018	2017
Cost		
As at 1 January	16,977	12,871
Additions made during the year	-	4,106
As at 31 December	16,977	16,977
Amortization for the year		
As at 1 January	11,091	4,302
Amortization charged for the year	3,555	6,789
As at 31 December	14,646	11,091
Net book value :		
As at 1 January 2018	5,886	8,569
As at December 2018	2,331	5,886

16.2 Construction in progress

31 December (in million LAK)

	2018	2017
Opening balance	124	3,252
Movement during the year		
- Increased during the year	919	9,034
- Transferred to fixed assets	(28)	(12,162)
Closing balance	1,015	124

16.3 Tangible Fixed Assets

Movements of tangible fixed assets for the year ended 31 December 2018 are as follows:

	Office equipment (in millions)	Furniture & fixtures (in millions)	Motor vehicles (in millions)	Total LAK (in millions)
Cost				
At 1 January 2018	22,837	30,289	2,727	55,853
Transfers	-	28	-	28
Additions	1,935	682	-	2,617
Disposals	(5)	(98)	(2,683)	(2,786)
At 31 December 2018	24,767	30,901	44	56,712
Accumulated depreciation				
At 1 January 2018	13,682	21,083	2,307	37,072
Charge for the year	3,301	3,587	78	6,966
Disposal	(340)	(31)	(2,346)	(2,717)
At 31 December 2018	16,643	24,639	39	41,321
Net book value				
At 1 January 2018	9,155	9,206	420	18,781
At 31 December 2018	8,124	6,262	5	14,391

Movements of tangible fixed assets for the year ended 31 December 2017 were as follows:

	Office equipment (in millions)	Furniture & fixtures (in millions)	Motor vehicles (in millions)	Total LAK (in millions)
Cost				
At 1 January 2017	17,407	28,410	2,520	48,337
Additions	5,872	1,977	207	8,056
Disposals	(442)	(98)	-	(540)
At 31 December 2017	22,837	30,289	2,727	55,853
Accumulated depreciation				
At 1 January 2017	10,549	18,010	1,962	30,521
Charge for the year	3,457	3,145	345	6,947
Disposal	(324)	(72)	-	(396)
At 31 December 2017	13,682	21,083	2,307	37,072
Net book value				
At 1 January 2017	6,858	10,400	558	17,816
At 31 December 2017	9,155	9,206	420	18,781

17 OTHER ASSETS

31 December (in million LAK)

	2018	2017
Rental deposits	1,592	51,749
Prepayments	65,648	9,542
Checks waiting for clearance	8,505	23,827
Prepaid interests	53,445	55,761
Other receivables	23,508	219
	152,698	141,098

18 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

31 December (in million LAK)

	2018	2017
Term deposits	289,413	220,012
VietinBank Lao Limited	76,842	16,558
Maybank Lao Bank	-	16,558
First Commercial Bank Limited, Vientiane Bank	68,304	56,158
Maruhan Japan Bank Lao Co., Ltd.	17,076	-
Depositors Protection Fund	-	16,000
Social Security Organization	-	6,000
Allianz General Laos	26,741	25,948
Canadia Bank Lao	17,674	16,558
Saigon Thuong Tin Lao Bank Limited	-	66,232
National Social Security Fund Office	6,000	-
Prudential Life Assurance(Lao) Co., Ltd.	8,472	-
Sacom Bank - Lao Bank	68,304	-
Joint Development Bank	0.44	-
Borrowings from financial institutions	278,671	689,917
Heungkuk Life Insurance Co., Ltd.	249,025	379,454
Cascof Holdings, LP	29,646	310,463
	568,084	909,929

Term deposits from other banks have terms ranging from 6 months to 48 months and bear interest at rates ranging from 6.0% to 6.80% per annum for LAK and 3.0% to 8.30% per annum for USD and 5.00% per annum for THB.

Borrowings from other banks and financial institutions comprise:

- Bonds issued to Cascof Holdings LP amounting to USD 37,500,000 which have terms of 26-57 months and bear interest at rates of 11.00% per annum.
- Borrowings from Heungkuk Life Insurance Co., Ltd. amounting USD 45,833,337 which have terms of 17-48 months and bear interest at rates of 8.30% per annum.

19 Due to Customers

Balances of customer deposits and other amounts due to customers as of 31 December 2018 are as follow:

31 December (in million LAK)

	2018	2017
Demand deposits	168,455	151,054
Demand deposits in LAK	24,806	36,411
Demand deposits in FC	143,649	114,643
Saving deposits	335,523	371,033
Saving deposits in LAK	111,210	121,315
Saving deposits in FC	224,313	249,718
Fixed term deposits	4,115,794	3,514,705
Fixed term deposits in LAK	936,965	877,073
Fixed term deposits in FC	3,178,829	2,637,632
Other payables to customers	26,971	18,953
	4,646,743	4,055,745

Classified by interest rates (per annum)

31 December

	2018	2017
Demand deposits in LAK	No interest	No interest
Demand deposits in FC	No interest	No interest
Saving deposits in LAK	1.89%	1.91%
Saving deposits in USD	1.75%	1.75%
Saving deposits in THB	1.75%	1.75%
Fixed term deposits in LAK	3.09-6.90%	3.09% - 14.00%
Fixed term deposits in USD	2.75-6.55%	4.00% - 8.55%
Fixed term deposits in THB	3.75-7.00%	3.00% - 7.55%

20 Taxation

20.1 Taxes Payable

31 December (in million LAK)

	2018	2017
Personal income tax payable	-	-
Profit tax payable	3,487	3,637
Value Added Tax payable	500	500
Withholding tax payable	5,873	569
	9,860	4,706

20.2 Profit Tax

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

Details of profit tax for the years 2018 and 2017 are as follows:

Income tax recognised in profit or loss

31 December (in million LAK)		
	2018	2017
Current tax expense		
Current year	13,344	20,946

Reconciliation of effective tax rate

31 December (in million LAK)				
	%	2018	%	2017
Profit before income tax		43,858		87,274
Income tax using the corporation tax rate	24.0	10,526	24.0	20,946
Prior year tax		2,818		-
Total	30.43	13,344	24.0	20,946

The Bank's tax returns are subject to periodic 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.

21 Other Payable

31 December (in million LAK)		
	2018	2017
External accounts payable	9,346	8,030
Payables to staffs	8,400	2,083
Deferred income	-	10
Other payables	3,159	4,887
	20,905	15,010

22 Paid-Up Capital

31 December (in million LAK)		
	2018	2017
Opening balance	381,252	381,252
Closing balance	381,252	381,252

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

During the year, the shareholders of the bank during its Board Meeting held on 18 January 2019, declared a dividend of LAK 56,927 million which was subsequently paid to shareholders. The withholding tax for dividend has not yet been paid.

23 Cash and cash equivalents

31 December (in million LAK)

	2018	2017
Cash on hand	61,442	66,493
Current accounts with BOL	556,586	799,222
Current accounts with other banks	185,240	176,830
	803,268	1,042,545

24 Related Party Transactions

Transactions with key management personnel of the Bank

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

31 December (in million LAK)

	2018	2017
Salaries	16,204	6,241
Bonus and other benefits	1,037	6,405
	17,241	12,646

25 Operating Lease Commitments

31 December (in million LAK)

	2018	2017
Within 1 year	3,470	422
From 1 to less than 5 years	23,029	4,041
Over 5 years	27,005	-
	53,504	4,463

26 Events after the Balance Sheet Date

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

Prepared by



MR. MALAYPHONE SAKSATHITH
Head of Finance Division
Vientiane, Lao P.D.R
31 March 2018

Approved by



MR. TAY HONG HENG
Managing Director

PART 4. BUSINESS UNIT NETWORK

4.1. Map of all Branches and Service Units within country



4.2. LOCATION OF THE BRANCHES AND SERVICE UNITS

1. Vientiane Capital



Main Branch

Address: Kolao Tower, 1,
23 Singha Road, P.O.Box 6029,
Phone: (+856-21) 455 000-3
Fax: (+856-21) 455 111



Auto City Service Unit

Address: Asean Road, Ban Nakham,
Sikhottabong District,
Phone: (+856-21) 520 702-4
Fax: (+856-21) 520 705



Xaymoungkhoun Service Unit

Address: Ban Xaymoungkhoun, Road
No. 13 North, Naxaithong District
Phone: (+856-21) 612471-2
Fax: (+856-21) 612 473

Location of the Branches and Service Units



Champasack Province

Pakse Branch

Address: Ban Phonekhoun, Pakse,

Phone: (+856-31) 260 300-4, Fax: (+856-31) 260 305



Savannakhet Province

Savannakhet Branch

Address: Huameuangtai Village, Kaysone Phomvihane District,

Phone: (+856-41) 250 000-4 Fax: (+856 41) 250 0005



Luang Namtha Province

Luang Namtha Service Unit

Address: Phonxay Village, Luang Namtha District,

Phone: (+856-86) 212 256-7, Fax: (+856-86) 212 258



Savannakhet Province

8KM Service Unit

Address: Road No.9, Ban Oudomvilay,

Kaysone Phomvihane District.

Phone: (+856-41) 253 555-6, Fax: (+856 41) 253 557



Khammouan Province

Thakhek Service Unit

Address: Vientiane Rd, Ban Nabong, Thakhek District,

Phone: (+856-51) 625 600-3, Fax: (+856-51) 625 604



Xiengkhuang Province

Xiengkhuang Service Unit

Address: Xaysana Road, Ban Theun, Paek District,

Phone: (+856-61) 313 001-2, Fax: (+856 61) 313 003



Luangphabang Province

Luangphabang Service Unit

Address: Phouvao Road, Ban Pongkham, Luangphabang District,

Phone: (+856-71) 215 000-1, Fax: (+856-71) 215 002



Bolikhamxay Province

Paksan Service Unit

Address: 13 South Road, Sivilay Village, Paksan District,

Phone: (+856-54) 280 172-3, Fax: (+856-54) 280 174



Oudomxay Province

Oudomxay Service Unit

Northern Highway No. 13, Ban Navannoy, Xay District,

Phone: (+856-81) 260 023-5, Fax: (+856-81) 260 026

PART 5. Events

VIP appreciation Dinner 2018



“enhancing your value”

Booking donation at Children's Cultural Center (Saylom)



Donation for Xiengkhuang Fire Victims



Donation Campaign for Attapeu Flood Victims "Pray for Attapeu"



Blood Donation to mark the anniversary of Lao Federation of Trade Unions



Blood Donation in Kolao Campaign "Give Blood, Give Life, Blood Donation to Save Lives"



Dhamma talk at the bank's premises to welcome New Year 2018



Vientiane International Half Marathon





*“enhancing
your value”*