

MARUHAN Japan Bank Lao Co., Ltd

Special Purpose Financial Statements

For the year ended 31 December 2019

MARUHAN Japan Bank Lao Co., Ltd

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MARUHAN Japan Bank Lao Co., Ltd

GENERAL INFORMATION

THE BANK

MARUHAN Japan Bank Lao Co., Ltd ("the Bank") is a 100% foreign invested commercial bank which was incorporated in Lao People's Democratic Republic ("Lao PDR"). The Bank operates as part of MARUHAN Japan Group ("the Group"), which is affiliated to MARUHAN Corporation in Japan.

The Bank operates under Banking Business License No. 05/BOL granted by Bank of the Lao PDR. ("the BOL") on 11 February 2013.

The initial charter capital of the Bank is LAK 300,000,000,000. As at 31 December 2019, the actual paid-up capital is LAK 385,060,000,000 (31 December 2018: LAK 385,060,000,000).

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

The Bank is located at Unit 14, 23 Singha Road, Ban Phonxay, Saysettha District, Vientiane Capital, Lao PDR.

BOARD OF DIRECTORS

Members of the Board of Directors during the year ended 31 December 2019 and as at the date of these financial statements are as follows:

<i>Name</i>	<i>Position</i>	<i>Date of appointment</i>
Dr. HAN, Chang-woo	Chairman	Reappointed on 1 April 2019
Mr. HAN, Ken	Member	Reappointed on 1 April 2019
Mr. HAN, Yu	Member	Reappointed on 1 April 2019
Mr. VADA, Kim	Member	Reappointed on 1 April 2019
Mr. KARAKI, Yuji	Member	Reappointed on 1 April 2019

MANAGEMENT

Members of the Management during the year ended 31 December 2019 and as at the date of these financial statements are as follows:

<i>Name</i>	<i>Position</i>	<i>Date of appointment/resignation</i>
Mr. Anthony CHIN	Chief Executive Officer	Appointed on 16 July 2019
Mr. Yoshikoshi HAYATO	Deputy Chief Executive Officer	Appointed on 1 July 2019
Mr. FUJII, Takashi	Chief Executive Officer	Resigned on 1 July 2019
	Chief Finance Officer	Appointed on 1 July 2017
Mr. Boun XAIYARATH	Head of Distribution	Appointed on April 2020
	Head of Customer Value	
Mr. Lee Chee Seong, Richard	Management	Appointed on 2 September 2019
Mr. Vijayakumar SUBRAMANIAM, Ryan	Head of Business Process Re-engineering	Appointed on 2 January 2020
Mr. Vongphaseuth RATTANAVONG	Head of Credit	Appointed on 11 July 2017
	Acting Head of Collection/Legal Recovery	
Mr. Fouye KHOTPANYA		Appointed on 15 October 2018
Mr. JOHN, Jacob	Acting Head of IT & Operations	Appointed on 7 April 2014
Ms. Esme LAW	Chief Finance Officer	Appointed on April 2020
Mr. Worasit SANGKUL	Head of HR & Admin	Appointed on 20 August 2012
Mr. Sujit Guha THAKURTA	Chief Risk Officer	Appointed on 18 October 2019
Mr. Sombat DOUANGSOTSY	Head of Compliance	Appointed on 18 September 2017
Ms. Soumaly SIVIENGSAI	Head of Internal Audit	Appointed on 1 August 2014

MARUHAN Japan Bank Lao Co., Ltd

GENERAL INFORMATION

LEGAL REPRESENTATIVE

The legal representative of the Bank from 1 January 2019 to 1 July 2019 is Mr. FUJII Takashi – Chief Executive Officer. The legal representative of the Bank from 1 July 2019 to the date of this report is Mr. Anthony CHIN, the Chief Executive Officer.

AUDITOR

The auditor of the Bank is Ernst & Young Lao Co., Ltd.



Ernst & Young Lao Co., Ltd
6th floor, Kolao Tower I, 23 Singha Road
Nongbone Village, Saysettha District
Vientiane Capital, Lao P.D.R.

Tel: +856 21 455 077
Fax: +856 21 455 078
ey.com

Reference: 61078449/21504453-IFRS

INDEPENDENT AUDITORS' REPORT

**To: The Owner of MARUHAN Japan Bank Lao Co., Ltd; and
Bank of the Lao PDR**

Qualified opinion

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

In our opinion, except for the possible effects of the matter as described in the Basis for Qualified Opinion section of our report, the financial statements of the Bank for the year ended 31 December 2019 are prepared, in all material respects, in accordance with the accounting policies as described in Note 4 to the financial statements to meet the reporting requirements of Bank of the Lao PDR.

Basis for Qualified Opinion

The financial statements do not disclose information relating to fair value measurement as required by IFRS 13: "Fair value measurement" and financial risk management required by IFRS 7: "Financial Instruments: Disclosures". It is not possible to determine the effects on the financial statements of the Bank's failure to make these disclosures.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank 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 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 qualified 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 Bank 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 Bank and these regulators, and should not be used by other parties. Our opinion is not modified in respect of this matter.

Responsibilities of the Bank's Management for the Financial Statements

The Bank's management is responsible for the preparation of the financial statements in accordance with the accounting policies as described in Note 4 to the financial statements and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, 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' Responsibility for the Audit of the Financial Statements

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

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

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank'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 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 appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

Ernst & Young Lao Co., Ltd.



Saman Wijaya-Bandara
Partner
Audit Practising Registration Certificate No. 035/ LCPAA

Vientiane, Lao PDR

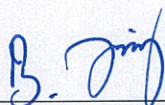
10 April 2020

MARUHAN Japan Bank Lao Co., Ltd

INCOME STATEMENT
for the year ended 31 December 2019

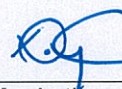
	Notes	2019 LAK'000	2018 LAK'000
Interest income calculated using the effective interest method	6	54,957,021	45,794,450
Interest expense calculated using the effective interest method	7	(22,936,421)	(18,004,346)
Net interest income		32,020,600	27,790,104
Fees and commission income		4,499,359	6,645,884
Fees and commission expense		(5,206,826)	(1,916,189)
Net fees and commission income	8	(707,467)	4,729,695
Net loss from dealing in foreign currencies	9	(1,582,667)	(845,843)
Other operating income	10	844,431	725,110
Net loss from financial instrument trading		(549,224)	(853,137)
Total operating income		30,025,673	31,545,929
Credit loss expense	16	(24,491,413)	(14,986,200)
NET OPERATING INCOME		5,534,260	16,559,729
Personnel expenses	11	(14,843,195)	(11,739,353)
Depreciation and amortization	18,19	(3,251,403)	(2,739,235)
Other operating expenses	12	(17,787,180)	(10,244,031)
TOTAL OPERATING EXPENSES		(35,881,778)	(24,722,619)
LOSS BEFORE TAX		(30,347,518)	(8,162,890)
Current profit tax expense	24	-	-
NET LOSS FOR THE YEAR		(30,347,518)	(8,162,890)

Prepared by:



Mr. Boun XAIYARATH
Chief Finance Officer

Approved by:



Mr. Anthony CHIN
Chief Executive Officer



Vientiane, Lao PDR

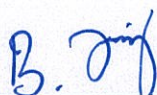
10 April 2020

MARUHAN Japan Bank Lao Co., Ltd

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2019

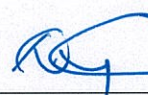
Notes	2019 LAK'000	2018 LAK'000
NET LOSS FOR THE YEAR	(30,347,518)	(8,162,890)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	(30,347,518)	(8,162,890)

Prepared by:



Mr. Boun XAIYARATH
Chief Finance Officer

Approved by:

Mr. Anthony CHIN
Chief Executive Officer

Vientiane, Lao PDR

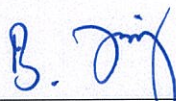
10 April 2020

MARUHAN Japan Bank Lao Co., Ltd

STATEMENT OF FINANCIAL POSITION as at 31 December 2019

	Notes	31/12/2019 LAK'000	31/12/2018 LAK'000
ASSETS			
Cash and balances with Bank of the Lao PDR ("the BOL")	13	129,351,660	117,373,478
Due from banks	14	207,062,841	112,424,831
Loans to customers	15	439,984,342	477,232,246
Held to maturity securities	17	-	3,940,780
Property, equipment and right-of-used assets	18	7,471,541	5,832,555
Intangible assets	19	3,058,757	670,042
Other assets	20	5,609,937	12,059,074
TOTAL ASSETS		792,539,078	729,533,006
LIABILITIES			
Due to banks	21	256,858,244	156,648,276
Due to customers	22	200,665,458	178,551,071
Other borrowed funds	23	88,618,341	123,567,130
Tax liabilities	24	459,224	425,548
Other liabilities	25	10,380,835	4,436,487
TOTAL LIABILITIES		556,982,102	463,628,512
EQUITY			
Paid-up capital	26	385,060,000	385,060,000
Accumulated losses		(149,503,024)	(119,155,506)
TOTAL EQUITY		235,556,976	265,904,494
TOTAL LIABILITIES AND EQUITY		792,539,078	729,533,006

Prepared by:



Mr. Boun XAIYARATH
Chief Finance Officer

Approved by:



Mr. Anthony CHIN
Chief Executive Officer



Vientiane, Lao PDR

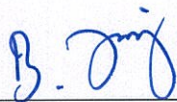
10 April 2020

MARUHAN Japan Bank Lao Co., Ltd

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

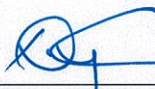
	<i>Paid-up capital</i> LAK'000	<i>Accumulated losses</i> LAK'000	<i>Total</i> LAK'000
Balance as at 1 January 2019	385,060,000	(119,155,506)	265,904,494
Additional paid up capital	-	-	-
Net loss for the year	-	(30,347,518)	(30,347,518)
Balance as at 31 December 2019	385,060,000	(149,503,024)	235,556,976

Prepared by:



Mr. Boun XAIYARATH
Chief Finance Officer

Approved by:



Mr. Anthony CHIN
Chief Executive Officer



Vientiane, Lao PDR

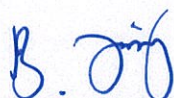
10 April 2020

MARUHAN Japan Bank Lao Co., Ltd

STATEMENT OF CASH FLOWS
for the year ended 31 December 2019

	Notes	2019 LAK'000	2018 LAK'000
OPERATING ACTIVITIES			
Loss before tax		(30,347,518)	(8,162,890)
<i>Adjustments for:</i>			
Depreciation and amortization charges	18,19	3,251,403	2,739,235
Credit loss expense	16	24,117,295	14,986,200
Interest income		(57,473,350)	(45,650,637)
Interest expense		22,936,421	18,004,346
Adjustments for:			
(Increase)/Decrease in operating assets			
Due from banks		(32,158,748)	(59,848,185)
Loans to customers		13,041,678	(160,296,692)
Held to maturity securities		3,940,780	(3,940,780)
Other assets		9,650,452	(1,260,086)
Increase/(Decrease) in operating liabilities			
Due to banks		97,912,495	58,253,034
Due to customers		20,993,417	20,989,843
Other borrowing funds		(31,804,167)	24,624,475
Other liabilities		4,176,954	(2,048,886)
Interest received		59,072,239	43,726,128
Interest paid		(22,662,599)	(15,230,539)
Net cash flows from/(used in) operating activities		84,646,752	(113,115,434)
INVESTING ACTIVITIES			
Payments to acquire property and equipment and intangible assets	18,19	(10,480,420)	(4,066,953)
Net cash flows used in investing activities		(10,480,420)	(4,066,953)
FINANCING ACTIVITIES			
Capital contribution		-	85,060,000
Net cash flows from financing activities		-	85,060,000
Net change in cash and cash equivalents		74,166,332	(32,122,387)
Cash and cash equivalents at the beginning of the year		136,618,443	168,740,830
Cash and cash equivalents at the end of the year	27	210,784,775	136,618,443

Prepared by:



Mr. Boun XAIYARATH
Chief Finance Officer

Approved by:



Mr. Anthony CHIN
Chief Executive Officer



Vientiane, Lao PDR

10 April 2020

MARUHAN Japan Bank Lao Co., Ltd

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

1. CORPORATE INFORMATION

Establishment and operations

MARUHAN Japan Bank Lao Co., Ltd (“the Bank”) is a 100% foreign invested commercial bank which was incorporated in Lao People’s Democratic Republic (“Lao PDR”). The Bank operates as part of MARUHAN Japan Group (“the Group”), which is affiliated to MARUHAN Corporation in Japan.

The Bank operates under Banking Business License No. 05/BOL granted by Bank of the Lao PDR (“the BOL”) on 11 February 2013.

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

Paid-up capital

The initial charter capital of the Bank is LAK 300,000,000,000. As at 31 December 2019, the actual paid-up capital is LAK 385,060,000,000 (31 December 2018: LAK 385,060,000,000).

Location

The Bank is located at Unit 14, 23 Singha Road, Ban Phonxay, Saysettha District, Vientiane Capital, Lao PDR.

Employees

As at 31 December 2019, the Bank has a total of 96 employees (31 December 2018: 83 employees).

2. BASIS OF PREPARATION

The financial statements (alternatively referred to as the “special purpose financial statements”) are prepared solely for the use of the Bank to meet the requirements of Bank of the Lao PDR. The financial statements are prepared in accordance with the accounting policies as described in Note 4. These accounting policies are primarily based on the International Financial Reporting Standards (“IFRS”) as issued by International Accounting Standard Board. However, this is not a complete set of general purpose financial statements prepared in accordance with IFRSs as the Bank follows the guidance stipulated in Official Letter No. 1659/BOL dated 14 December 2018 by the Bank of 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 IFRSs.

The financial statements are prepared solely for the use of the Bank 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 Bank maintains its accounting records in Lao Kip (“LAK”) which is the Bank’s functional currency and presents its financial statements in thousands of Lao Kip (“LAK’000”). Except otherwise stated, financial information presented in LAK has been rounded to the nearest thousand.

The Bank’s fiscal year starts on 1 January and ends on 31 December.

MARUHAN Japan Bank Lao Co., Ltd

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

3. PRESENTATION OF FINANCIAL STATEMENTS

The Bank 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 Bank and/or its counterparties

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Changes in accounting policies

The accounting policies adopted by the Bank in preparation of these financial statements are consistent with those used in preparation of the Bank's financial statements for the year ended 31 December 2018 except for the changes in the accounting policies and notes in relation to the following.

4.1.1. Leases

In these financial statements, the Bank has applied IFRS 16 Leases for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard are described as below.

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*.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases on the balance sheet.

The Bank adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Bank elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 January 2019. Instead, the Bank applied the standard only to contracts that were previously identified as leases at the date of initial application.

The Bank has lease contracts for office building. Before the adoption of IFRS 16, the Bank was required to classify each of its leases (as lessee) at the inception an operating lease or finance lease. Refer to Note 4.13 for the accounting policy prior to 1 January 2019.

Upon adoption of IFRS 16, the Bank applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to Note 4.12 for the accounting policy applied on and after 1 January 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Bank.

MARUHAN Japan Bank Lao Co., Ltd

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1 Changes in accounting policies (continued)

4.1.1. Leases (continued)

- ▶ Leases previously accounted for as operating leases

The Bank 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 Bank 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;
- ▶ 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 2019:

- ▶ Right-of-use assets of LAK 816 million were presented in the statement of financial position as "Right-of-use assets".
- ▶ Additional lease liabilities of LAK 454 million (included in "Other liabilities") were recognised by using discounted cash flow method minus any prepayment amounts .
- ▶ The adoption of IFRS 16 had no impact on the Bank's retained earnings.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

	<u>LAKm</u>
Operating lease commitments as at 31 December 2018	593
Weighted average incremental borrowing rate as at 1 January 2019	4.52%
Discounted operating lease commitments at 1 January 2019	454
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 2018	-
Lease liabilities as at 1 January 2019	<u>454</u>

MARUHAN Japan Bank Lao Co., Ltd

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.2 Foreign currency translation

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

4.3 Financial instruments - initial recognition and subsequent measurement

4.3.1 *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 Bank becomes a party to the contractual provisions of the instrument. This includes "regular way trades" - purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' account. The Bank recognises due to customer balances when funds reach the Bank.

4.3.2 *Initial measurement of financial instruments*

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

4.3.3 *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 Bank revises its estimates of payments or receipts. The adjusted amortised cost is calculated based on the original or latest re-estimated EIR and the change in is recorded as 'Interest and similar income' for financial assets and 'Interest and similar expense' for financial liabilities. The accounting policies for the EIR method vary by instruments and are further explained in Notes:

- ▶ 4.3.5 for 'Due from banks and loans to customers'
- ▶ 4.3.6 for 'Due to other banks and customers and other borrowing funds'
- ▶ 4.3.7 for 'Held-to-maturity financial investments'
- ▶ 4.4 for 'Impairment of financial assets'
- ▶ 4.5 for 'Recognition of income and expenses'

4.3.4 *'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 Bank 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.

MARUHAN Japan Bank Lao Co., Ltd

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Financial instruments - initial recognition and subsequent measurement (continued)

4.3.5 *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 Bank intends to sell immediately or in the near term and those that the Bank, upon initial recognition, designates as at fair value through profit or loss;
- ▶ Those that the Bank, upon initial recognition, designates as available-for-sale;
- ▶ Those for which the Bank 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 Bank 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 Bank 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 Bank, and not sold in the short term, the commitment is recorded only when it is an onerous contract that is likely to give rise to a loss (for example, due to a counterparty credit event).

4.3.6 *Due to other Banks and customers and other borrowed funds*

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

After initial measurement, "Due to other Banks and customers and other borrowed funds" 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.

MARUHAN Japan Bank Lao Co., Ltd

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Financial instruments - initial recognition and subsequent measurement (continued)

4.3.7 *Held-to-maturity financial investments*

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortized cost using the EIR. Periodically, held-to-maturity securities are subject to review for impairment. Allowance for impairment of these securities is made when there has been a significant or prolonged decline in the fair value below their cost. The losses arising from impairment of such investments are recognized in the income statement line 'Impairment loss expense'.

If the Bank were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held-to-maturity during the following two years.

4.3.8 *Reclassification of financial assets*

Effective from 1 July 2008, the Bank 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. From this date it 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 circumstance, the Bank 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 Bank 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 Bank 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.

MARUHAN Japan Bank Lao Co., Ltd

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.4 De-recognition of financial assets and financial liabilities

4.4.1 *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 Bank also derecognises the assets if it has both transferred the asset, and the transfer qualifies for derecognition.

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

- ▶ The Bank 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 Bank 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.

A transfer only qualifies for derecognition if either:

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

In relation to the above, the Bank 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 Bank 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 Bank's continuing involvement in the asset. In that case, the Bank 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 Bank 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 Bank could be required to repay.

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

4.4.2 *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

MARUHAN Japan Bank Lao Co., Ltd

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.5 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 Bank has access to at the measurement date. The Bank 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 Bank will classify the instruments as Level 3.
- ▶ Level 3 financial instruments – Those that include one or more unobservable input that is significant to the measurement as whole.

The Bank periodically reviews its valuation techniques including the adopted methodologies and model calibrations.

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

4.6 Impairment of financial assets

The Bank 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.

MARUHAN Japan Bank Lao Co., Ltd

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6 Impairment of financial assets (continued)

4.6.1 *Financial assets carried at amortized cost*

Specific impairment losses

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers), the Bank 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 Bank. 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 'other operating 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 Bank 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.

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.

MARUHAN Japan Bank Lao Co., Ltd

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6 Impairment of financial assets (continued)

4.6.1 *Financial assets carried at amortized cost* (continued)

Collective impairment model (continued)

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

4.6.2 *Collateral valuation*

The Bank 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 Bank's quarterly reporting schedule, however, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Bank 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 (if available) such as mortgage brokers, housing price indices, audited financial statements, and other independent sources.

4.6.3 *Collateral repossessed*

The Bank'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 Bank's policy.

MARUHAN Japan Bank Lao Co., Ltd

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.7 Recognition of income and expense

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

4.7.1 *Interest and similar income and expense*

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

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

4.7.2 *Fees and commission income*

The Bank 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 income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income, custody and other management and advisory fees.

Fee income forming an integral part of the corresponding financial instrument

Fees that the Bank considers to be an integral part of the corresponding financial instruments include: loan origination fees, loan commitment fees for loans that are likely to be drawn down and other credit related fees. The recognition of these fees (together with any incremental costs) form an integral part of the corresponding financial instruments and are recognised as interest income through an adjustment to the EIR (as defined in Note 4.3.3 above). The exception is, when it is unlikely that a loan will be drawn down, the loan commitment fees are recognised as revenue on expiry. Loan commitments that are within the scope of IAS 39 (i.e., are designated as FVPL, or are at a below market rate of interest, or are settled net) are accounted for as derivatives and measured at fair value through profit or loss.

4.8 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.

MARUHAN Japan Bank Lao Co., Ltd

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.9 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:

Buildings & improvements	10%
Office equipment	20%
Furniture and fixtures	20%
Computer equipment	20%
Motor vehicles	20%

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

4.10 Intangible assets

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

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

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 amortization 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 amortized over the useful economic life. The amortization 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 amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the income statement in the expense category consistent with the function of the intangible asset.

Amortization 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 is annual rate used:

Computer software	50%
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MARUHAN Japan Bank Lao Co., Ltd

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.11 Impairment of non-financial assets

The Bank 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 Bank 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 Bank estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement.

4.12 Leasing (applicable from 1 January 2019)

4.12.1 *Right-of-use assets*

At inception of a contract, the Bank 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 Bank combines lease and non-lease components, in cases where splitting the non-lease component is not possible.

The Bank 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 Bank 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.

MARUHAN Japan Bank Lao Co., Ltd

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.12 Leasing (applicable from 1 January 2019) (continued)

4.12.2 Lease liabilities

At the commencement date of the lease, the Bank 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 Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank 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 Bank 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.

4.12.3 Short-term leases and leases of low-value assets

The Bank 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.

4.12.4 Significant judgement in determining the lease term of contracts with renewal options

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 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 Bank 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). The Bank included the renewal period as part of the lease term for leases of premises and IT equipment due to the significance of these assets to its operations.

4.13 Leasing (applicable before 1 January 2019)

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 and the arrangement conveys a right to use the asset.

MARUHAN Japan Bank Lao Co., Ltd

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.13 Leasing (applicable before 1 January 2019) (continued)

The Bank as a lessee

Leases, where all the risks and benefits of ownership of the leased items are not transferred substantially to the Bank are operating leases. Operating lease payments are recognized as an expense in the profit or loss on a straight-line basis over the lease term. Contingent rental payable is recognized as an expense in the period in which they are incurred.

4.14 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 Bank 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 Bank also recognises the tax consequences of payments and issuing costs, related to financial instruments that are classified as equity, directly in equity.

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

MARUHAN Japan Bank Lao Co., Ltd

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.15 Employee benefits

Post-employment benefits

Post-employment benefits are paid to retired employees of the Bank by the Social Security Fund Department which belongs to the Ministry of Labour and Social Welfare. The Bank is required to contribute to these post-employment benefits by paying social insurance premium to the Social Insurance Agency at the rate of 6.00% of employee's basic salary on a monthly basis. 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 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 basis, 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 Bank who were dismissed under the above-mentioned basis; therefore, the Bank has not made a provision for termination allowance in the financial statements.

4.16 Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is material, the Bank determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in the income statement net of any reimbursement in other operating expenses.

4.17 Offsetting financial instruments

Financial assets and financial liabilities are offset, and the net amount reported in the separate statement of financial positions if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the separate statement of financial position.

4.18 Standards which have been effective but not yet applied

Standards that are effective, but not yet to be applied, up to the date of issuance of the Bank's financial statements are disclosed below.

MARUHAN Japan Bank Lao Co., Ltd

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

4.18 Standards which have been effective but not yet applied (continued)

IFRS 9 – Financial instruments

In July 2014, IASB issued the final version of IFRS 9 – *Financial instruments* which reflects all phases of their projects on financial instruments and replaces IAS 39 - *Financial instruments: Recognition and Measurement* and all prior versions of IFRS 9. The Standard states new requirements of 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 necessary but comparative data is not compulsory. In October 2017, IASB issued amendment to IFRS 9 regarding prepayment features with negative compensation. The amendment is effective for annual reporting periods beginning on or after 1 January 2019, and earlier application is permitted. The adoption of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but no impact on the classification and measurement of the Bank's financial liabilities.

In 2019, The Bank 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".

4.19 Standards issued but not yet effective

The standards that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below.

Amendments to IAS 1 and IAS 8: Definition of Material

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

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

5. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Bank'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 Bank'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 Bank'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 financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

MARUHAN Japan Bank Lao Co., Ltd

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

5. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

5.1 Going concern

The Bank's management has made an assessment of the Bank's 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 Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

5.2 Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. For further details about determination of fair value please see Note 4.5.

5.3 Effective Interest Rate (EIR) method

The Bank's EIR methodology, as explained in Note 4.3.3, 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.

5.4 Impairment losses on loans and advances

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

- ▶ Specific impairment losses;
- ▶ Collective impairment.

The detailed approach for each category is further explained in Note 4.6.1. 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.

MARUHAN Japan Bank Lao Co., Ltd

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

6. INTEREST AND SIMILAR INCOME

	2019 LAK'000	2018 LAK'000
Interest income calculated using the effective interest method from:		
<i>Interbank transactions</i>	3,780,851	1,027,133
<i>Loans to customers</i>	51,176,170	44,695,410
<i>Held to maturity investments</i>	-	71,907
	54,957,021	45,794,450

7. INTEREST AND SIMILAR EXPENSE

	2019 LAK'000	2018 LAK'000
Interest expense calculated using the effective interest method for:		
<i>Interbank transactions</i>	(15,116,800)	(11,783,231)
<i>Customer deposits</i>	(7,783,241)	(6,221,115)
<i>Interest expense on lease liabilities</i>	(36,380)	-
	(22,936,421)	(18,004,346)

8. NET FEES AND COMMISSION INCOME

	2019 LAK'000	2018 LAK'000
Fees and commission income from:		
Settlement activities	3,985,915	5,565,687
Other activities	513,444	1,080,197
	4,499,359	6,645,884
Fees and commission expense for:		
Transactions with customers	(106,538)	(73,608)
Other activities	(5,100,288)	(1,842,581)
	(5,206,826)	(1,916,189)
Net fee and commission income	(707,467)	4,729,695

9. NET (LOSS)/GAIN FROM DEALING IN FOREIGN CURRENCIES

	2019 LAK'000	2018 LAK'000
Gains from dealing in foreign currencies	643,705	2,364,540
Loss from dealing in foreign currencies	(2,226,372)	(3,210,383)
	(1,582,667)	(845,843)

MARUHAN Japan Bank Lao Co., Ltd

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

10. OTHER OPERATING INCOME

	2019 <i>LAK'000</i>	2018 <i>LAK'000</i>
Reversal of over accrued expense	380,530	676,835
Others	463,901	48,275
	844,431	725,110

11. PERSONNEL EXPENSES

	2019 <i>LAK'000</i>	2018 <i>LAK'000</i>
Wages and allowances	13,163,453	10,412,317
Other staff costs	1,679,742	1,327,036
	14,843,195	11,739,353

12. OTHER OPERATING EXPENSES

	2019 <i>LAK'000</i>	2018 <i>LAK'000</i>
Office rental	1,409,896	1,553,724
Fuel	108,310	84,616
Office stationeries	191,919	313,483
Publication, marketing and promotion	2,924,809	1,855,503
Telecommunication	459,130	356,074
Repair and maintenance	3,940,677	2,666,510
Electricity and water	350,376	261,562
Insurance fee	142,310	156,875
Brokerage fee	2,799,213	379,450
Officials' trips	188,023	71,929
Professional fees	2,051,871	596,588
Others	3,220,646	1,947,717
	17,787,180	10,244,031

MARUHAN Japan Bank Lao Co., Ltd

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

13. CASH AND BALANCES WITH BANK OF THE LAO PDR (“the BOL”)

	31/12/2019 LAK'000	31/12/2018 LAK'000
Cash on hand in LAK	16,961,451	13,445,641
Cash on hand in foreign currencies (“FC”)	8,458,689	8,278,741
Balances with the BOL		
- Demand deposit	93,602,117	71,832,168
- Compulsory deposits (*)	10,323,775	8,391,300
- Special deposit (**)	5,628	15,425,628
	129,351,660	117,373,478

Balances with the BOL include demand deposits, compulsory deposits and special 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, on a bi-monthly basis of customer deposits having original maturities of less than 12 months. During the year, the Bank maintained its compulsory deposits in compliance with the requirements of the BOL.

(**) Under 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. In accordance with Approval Letter No. 157/CSD dated 26 February 2019 by the BOL on utilising special deposit, the Bank used LAK'000 15,420,000 from its special deposit at the BOL for:

- ▶ Auto loan processing: LAK'000 3,084,285;
- ▶ Housing loan processing: LAK'000 1,608,310;
- ▶ Settlement deposit principle: LAK'000 10,727,405.

As at 31 December 2019, the balance of special deposit of the Bank is LAK'000 5,628.

14. DUE FROM BANKS

	31/12/2019 LAK'000	31/12/2018 LAK'000
Demand deposits	11,921,590	26,043,893
In LAK	1,455,492	939,831
In foreign currencies	10,466,098	25,104,062
Term deposits	195,141,251	86,380,938
	207,062,841	112,424,831

MARUHAN Japan Bank Lao Co., Ltd

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

14. DUE FROM BANKS (continued)

14.1 Demand deposits

Details of demand deposits at other banks are as follows:

	31/12/2019 LAK'000	31/12/2018 LAK'000
Demand deposits with domestic banks		
Banque pour le Commerce Exterieur Lao Public	4,387,685	8,917,969
First Commercial Vientiane Branch	49,459	45,045
Demand deposits with oversea banks		
SATHAPANA Bank Plc (*)	187,734	140,300
KEB Hana Bank Tokyo Branch	1,277,585	7,115,986
Siam Commercial Bank Headquarters	6,019,127	9,824,593
	11,921,590	26,043,893

(*) Previously named as MARUHAN Japan Bank Plc., Cambodia Branch.

14.2 Term deposits

Details of term deposits at other banks are as follows:

	31/12/2019 LAK'000	31/12/2018 LAK'000
Term deposit at domestic banks		
Saigon-Hanoi Bank Lao Limited	71,039,243	69,266,929
Indochina Bank Ltd	-	17,114,009
Vietcombank Lao Limited	79,840,928	-
Vietinbank Lao Limited	44,261,079	-
	195,141,250	86,380,938

Term deposits denominated in USD have terms of 3 to 6 months, and interest rates from 1.60% to 3.55% p.a. Term deposits denominated in THB have a term of 3 months, and interest rate at 1.65%% p.a.

MARUHAN Japan Bank Lao Co., Ltd

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

15. LOANS TO CUSTOMERS

	31/12/2019 LAK'000	31/12/2018 LAK'000
Gross loans to customers at amortized cost	449,252,931	484,367,337
Less: Allowance for impairment losses (<i>Note 16</i>)	(9,268,589)	(7,135,091)
	439,984,342	477,232,246

	2019 <i>Interest rates</i> % per annum	2018 <i>Interest rates</i> % per annum
Loans and advances in LAK	3.00% - 14.68%	3.00% - 17.00%
Loans and advances in USD	10.00%	10.00%

Analysis by currency

	31/12/2019 LAK'000	31/12/2018 LAK'000
Loans denominated in LAK	448,363,187	483,511,527
Loans denominated in USD	889,744	855,810
	449,252,931	484,367,337

Analysis by economic sectors

	31/12/2019 LAK'000	31/12/2018 LAK'000
Industrial	5,466,940	18,468,582
Transportation	6,514,877	7,925,629
Trading	15,809,801	18,515,325
Services	951,745	5,777,049
Agricultural	-	922,606
Construction	86,432	581,347
Others	420,423,136	432,176,799
	449,252,931	484,367,337

MARUHAN Japan Bank Lao Co., Ltd

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

16. ALLOWANCE FOR IMPAIRMENT LOSSES OF LOANS TO CUSTOMERS

Changes in allowance for impairment losses of loans to customers are as follows:

	<i>2019</i> <i>LAK'000</i>	<i>2018</i> <i>LAK'000</i>
Opening balance	7,135,091	9,296,505
Charged to expense during the year	24,491,413	14,986,200
Write-offs of NPLs	(22,414,373)	(16,952,714)
Foreign exchange difference	56,459	(194,900)
Closing balance	9,268,590	7,135,091

17. HELD TO MATURITY SECURITIES

	<i>2019</i> <i>LAK'000</i>	<i>2018</i> <i>LAK'000</i>
Bonds issued by the MOF (*)	-	3,940,780
	-	3,940,780

(*) In 2019, the Bond was sold to the BOL at par value (LAK'000 3,940,780) in accordance with Minute No 509/CSD dated 15 February 2019.

MARUHAN Japan Bank Lao Co., Ltd

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

18. PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS

	Building & improvement LAK'000	Office equipment LAK'000	Furniture & fixtures LAK'000	Computer equipment LAK'000	Motor vehicles LAK'000	Right- of-use assets Office rental LAK'000	Total LAK'000
Cost:							
Opening balance	10,469,033	6,593,063	2,160,207	4,544,025	1,317,317	-	25,083,645
Additions	-	150,329	146,803	1,279,572	-	2,138,068	3,714,772
Closing balance	10,469,033	6,743,392	2,307,010	5,823,597	1,317,317	2,138,068	28,798,417
Accumulated depreciation:							
Opening balance	6,156,250	6,155,578	2,056,634	3,741,927	1,140,701	-	19,251,090
Charged for the year	1,047,958	144,962	32,632	405,262	54,475	390,497	2,075,786
Closing balance	7,204,208	6,300,540	2,089,266	4,147,189	1,195,176	390,497	21,326,876
Net book value:							
Opening balance	4,312,783	437,485	103,573	802,098	176,616	-	5,832,555
Closing balance	3,264,825	442,852	217,744	1,676,408	122,141	1,747,571	7,471,541

MARUHAN Japan Bank Lao Co., Ltd

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

19. INTANGIBLE ASSETS

	<i>Computer software</i> <i>LAK'000</i>
Cost:	
Opening balance	16,858,778
Additions	3,564,332
Closing balance	<u>20,423,110</u>
Accumulated amortization:	
Opening balance	16,188,736
Charged for the period	1,175,617
Closing balance	<u>17,364,353</u>
Net book value:	
Opening balance	<u>670,042</u>
Closing balance	<u>3,058,757</u>

20. OTHER ASSETS

	<i>31/12/2019</i> <i>LAK'000</i>	<i>31/12/2018</i> <i>LAK'000</i>
Prepaid expenses	4,799,859	8,147,436
Work in progress	665,100	3,866,415
Others	144,978	45,223
	<u>5,609,937</u>	<u>12,059,074</u>

21. DUE TO BANKS

	<i>31/12/2019</i> <i>LAK'000</i>	<i>31/12/2018</i> <i>LAK'000</i>
Demand deposits	1,748,127	1,736,313
In LAK	1,741,675	876,989
In foreign currencies	6,452	859,324
Term deposits	255,110,117	154,911,963
	<u>256,858,244</u>	<u>156,648,276</u>

MARUHAN Japan Bank Lao Co., Ltd

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

21. DUE TO BANKS (continued)

21.1 Demand deposits

	31/12/2019 LAK'000	31/12/2018 LAK'000
Balances of domestic banks		
Canada Bank Lao Co., Ltd	299,975	4,760
First Commercial Bank Ltd, Vientiane Branch	1,448,152	1,714,204
Agricultural Promotion Bank	-	17,349
	1,748,127	1,736,313

21.2 Term deposits

	31/12/2019 LAK'000	31/12/2018 LAK'000
Balances of domestic banks		
First Commercial Bank Ltd, Vientiane Branch	62,029,252	20,123,703
Canada Bank Lao Co., Ltd	2,525,261	8,105,389
Agricultural Promotion Bank	47,958,483	64,154,829
Indochina Bank Ltd	-	17,123,727
Saigon-Hanoi Bank Lao Limited	20,182,455	45,404,315
Vietcom Bank Lao Limited	78,924,319	-
Vietinbank Lao Limited	43,490,347	-
	255,110,117	154,911,963

Details of the terms deposits as at 31 December 2019 are as follows:

	<i>Original balance (converted to LAK'000)</i>	<i>Amortised cost LAK'000</i>	<i>Currency</i>	<i>Term</i>	<i>Interest rate (%/year)</i>
First Commercial Bank Ltd, Vientiane Branch	61,000,000	62,029,252	LAK	3 - 12 months	3.00 - 6.50
Canada Bank Lao Co., Ltd	2,500,000	2,525,261	LAK	6 months	3.50
Agricultural Promotion Bank	29,854,000	30,112,455	THB	6 months	3.00
Agricultural Promotion Bank	17,697,920	17,846,029	USD	6 months	2.90
Saigon-Hanoi Bank Lao Limited	20,000,000	20,182,455	LAK	3 months	3.50
Vietcombank Lao Limited	78,470,000	78,924,319	LAK	3 months	2.00 - 2.05
Vietinbank Lao Limited	43,000,000	43,490,346	LAK	6 months	3.95
	252,521,920	255,110,117			

MARUHAN Japan Bank Lao Co., Ltd

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

22. DUE TO CUSTOMERS

	31/12/2019 LAK'000	31/12/2018 LAK'000
Demand deposits	9,179,987	6,322,236
Demand deposits in LAK	5,295,851	3,396,242
Demand deposits in FC	3,884,136	2,925,994
Saving deposits	84,561,222	72,688,167
Saving deposits in LAK	14,935,022	12,841,660
Saving deposits in FC	69,626,200	59,846,507
Fixed term deposits	106,924,249	99,540,668
Fixed term deposits in LAK	27,104,528	21,507,315
Fixed term deposits in FC	79,819,721	78,033,353
	200,665,458	178,551,071

The interest rates applied for due to customers are as follows:

	2019 <i>Interest rates</i> <i>% per annum</i>	2018 <i>Interest rates</i> <i>% per annum</i>
Demand deposits in LAK	No interest	No interest
Demand deposits in foreign currencies	No interest	No interest
Saving deposits in LAK	2.15% - 5.00%	1.89% - 5.00%
Saving deposits in USD	2.00% - 3.00%	2.00% - 3.00%
Saving deposits in THB	1.75% - 2.00%	1.75%
Term deposits in LAK	3.16% - 7.48%	3.16% - 9.10%
Term deposits in USD	1.50% - 5.00%	1.50% - 7.00%
Term deposits in THB	1.00% - 2.50%	2.50% - 4.00%

23. OTHER BORROWED FUNDS

	31/12/2019 LAK'000	31/12/2018 LAK'000
Borrowing from other banks		
MIZUHO Bank Ltd – Bangkok Branch	88,618,341	83,820,741
First Commercial Bank, Vientiane Branch	-	39,746,389
	88,618,341	123,567,130

Details of the borrowings as at 31 December 2019 are as follows:

	<i>Balance</i> <i>(converted</i> <i>to LAK'000)</i>	<i>Amortised</i> <i>cost</i> <i>LAK'000</i>	<i>Currency</i>	<i>Term</i>	<i>Interest</i> <i>rate</i> <i>(%/year)</i>
MIZUHO Bank Ltd – Bangkok Branch	88,390,000	88,618,341	USD	12 months	4.10%

MARUHAN Japan Bank Lao Co., Ltd

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

24. TAXATION

	31/12/2019 LAK'000	31/12/2018 LAK'000
Personal Income Tax	191,466	203
Withholding Tax	267,758	425,345
	459,224	425,548

Profit Tax

The Bank is obliged to pay profit tax at rate of 24% on total profit before tax of the year in accordance with Tax Law No.70/NA dated 15 December 2015 which is effective on or after 24 May 2016. Details of profit tax ("PT") provision for the years 2018 and 2019 are as follows:

	2019 LAK'000	2018 LAK'000
Loss before tax under IFRS	(30,347,518)	(8,162,890)
Adjustment for difference between LAS and IFRS	4,281,244	1,462,449
	(26,066,274)	(6,700,441)
Unrealized loss/(gain)	549,224	853,137
Non-deductible expenses	23,695	15,570
Taxable loss under LAS	(25,493,355)	(5,831,734)
Current Profit Tax expense, at the statutory rate of 24%	-	-
Profit tax payable at the beginning of the year	-	-
Profit tax paid during the year	-	-
Profit tax payable at the end of the year	-	-

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

Tax losses carried forward

In accordance with Article 40, amended Tax Law No. 70/NA dated 15 December 2015, annual losses, which are certified by the audit authority or an independent audit firm and acknowledged by the tax authorities, are eligible to carry forward to offset against the profit tax of the following year for a maximum period of three years. Once this period expires, any remaining losses are no longer allowed to deduct from the profit. As at 31 December 2019, the Bank had aggregated accumulated tax losses of LAK'000 72,231,082 (31 December 2018: LAK'000 55,870,001) available to offset against future taxable profits:

Year	<i>Additional losses incurred for the year LAK'000</i>	<i>Utilized up to the end of the year LAK'000</i>	<i>Amount unused but is not eligible for next year's use LAK'000</i>	<i>Eligible unused tax loss at the end of the year LAK'000</i>
2017	40,905,992	-	-	40,905,992
2018	5,831,734	-	-	5,831,734
2019	25,493,355	-	-	25,493,355
	72,231,081	-	-	72,231,081

MARUHAN Japan Bank Lao Co., Ltd

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

25. OTHER LIABILITIES

	31/12/2019 LAK'000	31/12/2018 LAK'000
Payable to suppliers	5,437,314	577,704
Payable to employees	2,953,510	2,369,897
Lease liability	975,026	-
Others	1,014,985	1,488,886
	10,380,835	4,436,487

26. PAID-UP CAPITAL

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

	2019 LAK'000	2018 LAK'000
Opening balance	385,060,000	300,000,000
Increase of paid-up capital in the year	-	85,060,000
Closing balance	385,060,000	385,060,000

27. ADDITIONAL CASH FLOW INFORMATION

Cash and cash equivalents

	31/12/2019 LAK'000	31/12/2018 LAK'000
Cash on hand	25,420,140	21,724,382
Demand deposit with the BOL	93,602,117	71,832,168
Demand deposits with other banks	11,921,590	26,043,893
Term deposits with maturity of 3 months or less	79,840,928	17,018,000
	210,784,775	136,618,443

MARUHAN Japan Bank Lao Co., Ltd

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

28. RELATED PARTY TRANSACTIONS

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

- (a) directly, or indirectly through one or more intermediaries, the party:
- ▶ controls are controlled by, or is under common control with, the Bank (this includes parents, subsidiaries and fellow subsidiaries);
 - ▶ has an interest in the Bank that gives it significant influence over the Bank; or
 - ▶ has joint control over the Bank.
- (b) the party is a joint venture in which the Bank is a venture;
- (c) the party is a member of the key management personnel of the Bank or its parent;
- (d) the party is a close member of the family of any individual referred to in (a) or (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 Bank, or of any entity that is a related party of the Bank.

Significant transactions with related parties during the years ended 31 December 2019 and 31 December 2018 were as follows:

<i>Related parties</i>	<i>Relationship</i>	<i>Nature of transaction</i>	<i>2019 Receivable/ (Payable) LAK'000</i>	<i>2018 Receivable/ (Payable) LAK'000</i>
SATHAPANA Bank Plc (previously known as MARUHAN Japan Bank Plc., Cambodia)	Fellow subsidiary	Fund transfer	70,340	510,540
		Fund transfer	(75,000)	(512,429)

Balances with related parties as at 31 December 2019 are as follows:

	<i>Relationship</i>	<i>31/12/2019 Receivable/ (payable) LAK'000</i>	<i>31/12/2018 Receivable/ (payable) LAK'000</i>
SATHAPANA Bank Plc (previously known as MARUHAN Japan Bank Plc., Cambodia)			
Nostro account	Fellow subsidiary	187,734	140,301

MARUHAN Japan Bank Lao Co., Ltd

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

28. RELATED PARTY TRANSACTIONS (continued)

Remuneration to members of the Board of Management and Board of Director are as follows:

	2019 <u>LAK'000</u>	2018 <u>LAK'000</u>
Salaries	2,294,878	2,203,704
Bonus and other benefits	469,973	297,064
	<u>2,764,851</u>	<u>2,500,768</u>

29. RISK MANAGEMENT POLICIES

Introduction

Risk is inherent in the Bank's activities but 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 Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to various operating risks.

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

Risk management structure

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

The Board of Directors has appointed the Risk Management Committee which has the responsibility to monitor the overall risk process within the Bank.

The Board of Management has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. The Board of Management is responsible for managing risk decisions and monitoring risk levels.

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

MARUHAN Japan Bank Lao Co., Ltd

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

30. CAPITAL MANAGEMENT

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

In accordance with Regulation 536/BFSD/BOL, the Bank's regulatory capital is analyzed into two tiers:

- ▶ Tier 1 capital, which includes chartered capital, regulatory reserve fund, business expansion fund and other funds, and retained earnings;
- ▶ Tier 2 capital, which includes qualifying subordinated liabilities, general provisions and the element of fair value reserve relating to unrealized gains/losses on equity instruments classified as available for sale.

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

An analysis of the Bank's capital based on financial information deprived from IFRS and LAS financial statements is as follows:

<i>Items</i>	<i>31/12/2019 under IFRS LAK'000</i>	<i>31/12/2018 under IFRS LAK'000</i>
Tier 1 capital	235,556,976	265,904,494
Tier 2 capital	-	-
Total capital	235,556,976	265,904,494
Less: Deductions from capital (Investments in other credit and financial institutions)	-	-
Capital for CAR calculation (A)	235,556,976	265,904,494
Risk weighted balance sheet items	271,652,515	276,995,749
Risk weighted off balance sheet items	-	-
Total risk weighted assets (B)	271,652,515	276,995,749
Capital Adequacy Ratio (A/B)	87%	96%

31. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arms-length basis. As verifiable market prices are not available, market prices are not available for a significant proportion of the Bank's financial assets and liabilities, fair values, therefore, have been based on management assumptions according to the profile of the asset and liability base. In the opinion of the Bank's management, the carrying amount of the financial assets and liabilities included in the statement of financial position are a reasonable estimation of their fair values. In making this assessment, the Bank's management assumes that loans are mainly held to maturity with fair values equal to the book value of loans adjusted for allowance for impairment losses.

MARUHAN Japan Bank Lao Co., Ltd

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

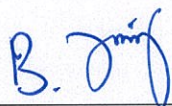
32. EXCHANGE RATES OF APPLICABLE FOREIGN CURRENCIES AGAINST LAK AT REPORTING DATE

	31/12/2019 LAK	31/12/2018 LAK
United State Dollar ("USD")	8,839	8,509
Thai Baht ("THB")	298.54	265.43
Japanese Yen ("JPY")	79.89	75.95
Euro ("EUR")	9,690	9,715

33. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

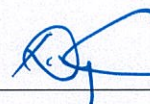
There is no matter or circumstance that has arisen since the 31 December 2019 that requires adjustment or disclosure in the financial statements of the Bank.

Prepared by:

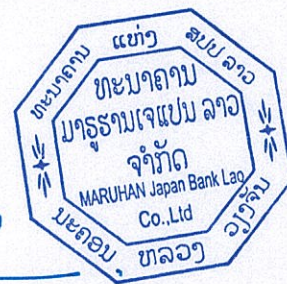


Mr. Boun XAIYARATH
Chief Finance Officer

Approved by:



Mr. Anthony CHIN
Chief Executive Officer



Vientiane, Lao PDR

10 April 2020