

Phongsavanh Bank Limited



Annual report, Year 2015

# **Phongsavanh Bank Limited**

Financial statements

31 December 2015

# Phongsavanh Bank Limited

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# Phongsavanh Bank Limited

## GENERAL INFORMATION

### THE BANK

Phongsavanh Bank Limited ("the Bank") is a 100% privately owned bank which is incorporated and registered in the Lao People's Democratic Republic.

The Bank was established in accordance with the Banking Business License No. 04/BOL granted by the Bank of Lao People's Democratic Republic ("the BOL") which is effective from 2 February 2007. The initial license was valid for an operating period of one year and renewed annually.

The principal activities of the Bank are to provide services on mobilizing and receiving short, medium and long term deposit funds from various organizations and individuals; lending on a short, medium and long term basis to various organizations and individuals up to the nature and ability of the Bank's capital resources; conducting foreign currency transactions; international trade finance services; discounting of commercial notes, bonds and valuable papers; providing transaction services between customers; and other banking services as approved by the Bank of Lao P.D.R.

The initial chartered capital of the Bank was LAK 97,100,000,000. The actual chartered capital as at 31 December 2015 is LAK 122,786,387,963 (31 December 2014: LAK 122,786,387,963).

The Head Office of the Bank is located at Kaisone Phomvihanh Road, Ban Phakhao, Xaythany District, Vientiane, Lao P.D.R. As at 31 December 2015, the Bank has one (1) Head Office, four (4) main branches, one (1) service center, twelve (12) service units and sixteen (16) small service units all over Lao P.D.R.

### BOARD OF DIRECTORS

Members of the Board of Directors during the year and at the date of this report are:

<i>Name</i>	<i>Position</i>	<i>Date of appointment/resignation</i>
Mrs. Daly Pholsena	Chairman	Appointed on 10 March 2014
Mr. Thongsay Inthisan	Vice Chairman	Appointed on 07 January 2012 Reappointed 10 March 2014
Mrs. Sengdao Bouphakonekham	Member	Appointed on 07 January 2012
Mr. Bounthan Vongsoury	Member	Resigned on 29 May 2015 Appointed on 29 May 2015
Mr. Chainarong Wongpaiboon	Member	Appointed on 07 January 2012
Mr. Chanpheng Luangsuvannavong	Member	Appointed on 29 May 2015

# Phongsavanh Bank Limited

## GENERAL INFORMATION (continued)

### BOARD OF MANAGEMENT

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

<i>Name</i>	<i>Position</i>	<i>Date of appointment</i>
Mr. Bounthanh Vongsoury	Managing Director	Appointed on 29 May 2015
	Deputy Managing Director	Resigned on 29 May 2015
Ms. Sengdao Bouphakonekham	Managing Director	Appointed on 09 September 2010
		Resigned on 29 May 2015
Mr. Phaiboun Phongsavanh	Deputy Managing Director	Appointed on 04 September 2012
Mr. Bounpan Naovalath	Deputy Managing Director	Appointed on 04 September 2012
Mr. Southideth Nalyvan	Deputy Managing Director	Appointed on 04 September 2012
Ms. Julaluck Khamphim	Acting Deputy Managing Director	Appointed on 20 Jan 2015
Mr. Saynavinh Desakhamphou	Acting Deputy Managing Director	Appointed on 29 May 2015
Mr. Sengkham Phanthavong	Acting Deputy Managing Director	Appointed on 29 May 2015

### LEGAL REPRESENTATIVE

The legal representative of the Bank during the year and at the date of this report is Ms. Daly Pholsena - Chairman.

Mr. Bounthanh Vongsoury – Managing Director is authorised by Ms. Daly Pholsena to sign the financial statements for the year ended 31 December 2015.

### AUDITORS

The auditors of the Bank are Ernst & Young Lao Limited.

# Phongsavanh Bank Limited

## REPORT OF THE BOARD OF MANAGEMENT

The Board of Management of Phongsavanh Bank Limited ("the Bank") is pleased to present its report and the Bank's financial statements as at and for the year ended 31 December 2015.

### THE BOARD OF MANAGEMENT'S RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Board of Management is responsible for the financial statements of each financial year which give a true and fair view of the financial position of the Bank and of its operational results and cash flows for the year. In preparing those financial statements, the Board of Management of the Bank is required to:

- ▶ select appropriate accounting policies and apply them consistently;
- ▶ make judgments and estimates that are reasonable and prudent;
- ▶ state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- ▶ prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Bank will continue its business.

The Board of Management of the Bank is responsible for ensuring that proper accounting records are kept which disclose, with reasonable accuracy at any time, the financial position of the Bank and to ensure that the accounting records comply with the applied accounting system. It is also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of frauds and other irregularities.

The Board of Management confirms that it has complied with the above requirements in preparing the financial statements as at and for the year ended 31 December 2015.

### STATEMENT BY BOARD OF MANAGEMENT

The Board of Management does hereby state that, in its opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2015 and the results of its operations and its cash flows for the year then ended in accordance with the Accounting Law of Lao P.D.R and the regulations stipulated by the Bank of Lao P.D.R relevant to preparation and presentation of financial statements.



For and on behalf of the Board of Management:

Mr. Bounthanh Vongsoury  
Managing Director

Vientiane, Lao P.D.R.

6 May 2016





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## INDEPENDENT AUDITORS' REPORT

**To: The Owners of  
Phongsavanh Bank Limited**

We have audited the accompanying financial statements of Phongsavanh Bank Limited ("the Bank"), which comprise the balance sheet as at 31 December 2015, the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 5 to 31.

### ***Management's Responsibility for the Financial Statements***

The Bank's Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Accounting Law of Lao P.D.R and the regulations stipulated by the Bank of Lao P.D.R relevant to preparation and presentation of financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

### ***Basis for Qualified Opinion***

1. We draw attention to Note 12 of the financial statements. Included in held-to-maturity securities as at 31 December 2015 were LAKm 30,000 overdue bonds issued by the Ministry of Finance, which have matured in 2014. Up to the date of this report, the Bank has been unable to obtain a written confirmation from the Ministry of Finance on the repayment of these bonds. Owing to the Bank's accounting records, we are unable to perform necessary procedure to collect sufficient audit evidence to determine the recoverability and the related provision amount that should be made, if any, for the impairment of these bonds.



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2. Included in accrued interest payable presented in the balance sheet as at 31 December 2015 was LAKm 65,457 being accrued interest payable of fixed deposits. The Bank has not been able to reconcile this amount to its subledger/listing. Owing to the unavailability of information, we are unable to satisfy ourselves by alternative audit procedures as to the existence/occurrence, completeness and valuation/measurement of such accrued interest payable and related interest expense and the possible impact on the Bank's financial position and operating results as at and for the year ended 31 December 2015.

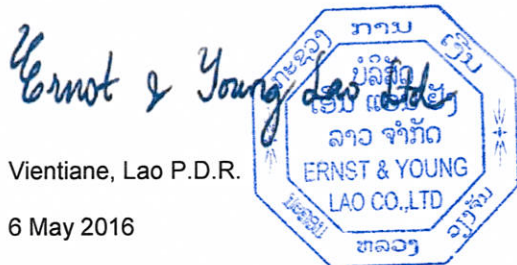
#### **Qualified Opinion**

In our opinion, except for the effects of the matters discussed in the Basis for Qualified Opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with the Accounting Law of Lao P.D.R and the regulations stipulated by the Bank of Lao P.D.R relevant to preparation and presentation of financial statements.

#### **Emphasis of Matter**

Without modifying our opinion, we draw attention to Note 2.3 - Going concern, of the accompanying financial statements. As at 31 December 2015, the Bank had accumulated losses amounting to LAKm (109,303) and total equity with the balance of only LAKm 22,854. This condition indicates the existence of a material uncertainty which may cast significant doubt about the Bank's ability to continue as a going concern. However, the Bank's owners have confirmed their willingness to provide all necessary financial supports to ensure that the Bank will have sufficient resources to settle its liabilities when fall due and for its operation to continue in the following financial year. The Bank's owners have also confirmed that they will not demand for payments from amounts due from the Bank until liabilities to third parties have been fully settled. As such, the Bank's Management has prepared the accompanying financial statements on going concern basis.

As disclosed in Note 19 to the financial statements, the contributed capital of the Bank as at 31 December 2015 was LAKm 122,786. This is not in compliance with Decree No. 141/PM issued by the Prime Minister on 24 September 2009, according to which, all commercial banks in Lao P.D.R are required to increase their charter capital to LAKm 300,000 by 1 January 2015.



Vientiane, Lao P.D.R.

6 May 2016



# Phongsavanh Bank Limited

INCOME STATEMENT  
for the year ended 31 December 2015

Currency: LAKm

Code	ITEMS	Notes	2015	2014
<b>A.</b>	<b>OPERATING INCOME AND EXPENSES</b>			
1.	Interest and similar income	3	188,069	191,154
2.	Interest and similar expenses	3	(132,904)	(123,956)
<b>I.</b>	<b>NET INTEREST AND SIMILAR INCOME</b>	<b>3</b>	<b>55,165</b>	<b>67,198</b>
3	Fees and commission income	4	26,574	22,848
4	Fees and commission expenses	4	(3,595)	(3,656)
<b>II.</b>	<b>NET FEE AND COMMISSION INCOME</b>	<b>4</b>	<b>22,979</b>	<b>19,192</b>
5	Gain from securities investment		-	794
6	Net gain from dealing in foreign currencies	5	11,428	10,609
<b>III.</b>	<b>NET OPERATING INCOME</b>		<b>89,572</b>	<b>97,793</b>
<b>B</b>	<b>OTHER INCOME AND EXPENSES</b>			
<b>7</b>	<b>Other operating income</b>	<b>6</b>	<b>22,659</b>	<b>9,710</b>
<b>8</b>	<b>Administrative expenses</b>		<b>(68,904)</b>	<b>(71,862)</b>
8.1	Payroll and other staff costs	7	(47,451)	(46,040)
8.2	Other administrative expenses	8	(21,453)	(25,822)
<b>9</b>	<b>Depreciation and amortization charges</b>	<b>16, 17</b>	<b>(14,454)</b>	<b>(13,654)</b>
<b>10</b>	<b>Other operating expenses</b>	<b>9</b>	<b>1,590</b>	<b>(13,066)</b>
<b>11</b>	<b>Net provision charges for non-performing loans</b>		<b>(25,065)</b>	<b>12,259</b>
11.1	Provision expense for non-performing loans	14.1	(78,390)	(8,960)
11.2	Reversal of provision for non-performing loans	14.1	53,325	21,219
<b>IV.</b>	<b>TOTAL PROFIT BEFORE TAX</b>		<b>5,398</b>	<b>21,180</b>
<b>12</b>	<b>Current Enterprise Income Tax</b>	<b>21</b>	<b>-</b>	<b>-</b>
<b>V.</b>	<b>PROFIT AFTER TAX</b>		<b>5,398</b>	<b>21,180</b>

Prepared by:



Mrs. KongKeo Khamtone  
Chief Financial Officer

Approved by:



Mr. Bounthanh Vongsoury  
Managing Director

Vientiane, Lao P.D.R.

6 May 2016

# Phongsavanh Bank Limited

BALANCE SHEET  
as at 31 December 2015

Currency: LAKm

Code	ASSETS	Notes	31 December 2015	31 December 2014
<b>I</b>	<b>Cash on hand and balances with the Bank of Lao P.D.R ("BOL")</b>	<b>10</b>	<b>657,893</b>	<b>540,535</b>
1	Cash on hand		215,719	238,059
2	Balances with the BOL		442,174	302,476
<b>II</b>	<b>Amounts due from other banks</b>	<b>11</b>	<b>169,397</b>	<b>124,261</b>
1	Demand deposits		169,397	124,261
2	Term deposits		-	-
<b>III</b>	<b>Investments in securities</b>		<b>40,000</b>	<b>65,886</b>
1	Held-to-maturity securities	12	40,000	65,886
<b>IV</b>	<b>Loans and advances to customers, net of provision for non-performing loans</b>	<b>13</b>	<b>1,607,819</b>	<b>1,468,645</b>
<b>V</b>	<b>Fixed assets</b>		<b>180,020</b>	<b>170,851</b>
1	Construction in progress and fixed assets in transit	15	15,601	32,079
2	Tangible fixed assets	16	125,341	106,505
3	Intangible fixed assets	17	39,078	32,267
<b>VI</b>	<b>Other assets</b>	<b>18</b>	<b>121,300</b>	<b>88,570</b>
1	Accrued interest receivables		38,298	24,719
2	Enterprise Income Tax recoverable		7,141	3,173
3	Other assets		75,882	60,731
4	Provision for other assets		(21)	(53)
	<b>TOTAL ASSETS</b>		<b>2,776,429</b>	<b>2,458,748</b>

# Phongsavanh Bank Limited

BALANCE SHEET (continued)  
as at 31 December 2015

Currency: LAKm

Code	LIABILITIES AND EQUITY	Notes	31 December 2015	31 December 2014
<b>I</b>	<b>Amounts due to other banks</b>	<b>19</b>	<b>99,233</b>	<b>15,557</b>
1	Demand deposits		96,236	831
2	Other payables to other banks		2,997	14,726
<b>II</b>	<b>Amounts due to customers</b>	<b>20</b>	<b>2,570,669</b>	<b>2,347,467</b>
1	Demand and daily deposits		246,167	195,036
2	Saving deposits		796,608	806,472
3	Term deposits		1,527,894	1,345,959
<b>V</b>	<b>Other liabilities</b>		<b>83,673</b>	<b>74,456</b>
1	Accrued interest payables		67,195	61,974
2	Profit Tax payable	21	-	-
3	Other liabilities	22	16,478	12,482
	<b>TOTAL LIABILITIES</b>		<b>2,753,575</b>	<b>2,437,480</b>
<b>VI</b>	<b>Capital and reserves</b>			
1	Contributed capital	23	122,786	122,786
2	General provision for credit activities	14.2	9,371	13,183
3	Regulatory reserve fund		-	-
4	Accumulated losses		(109,303)	(114,701)
	<b>TOTAL EQUITY</b>		<b>22,854</b>	<b>21,268</b>
	<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2,776,429</b>	<b>2,458,748</b>

# Phongsavanh Bank Limited

BALANCE SHEET (continued)  
as at 31 December 2015

Currency: LAKm

	OFF BALANCE SHEET ITEMS	Notes	31 December 2015	31 December 2014
<b>I</b>	<b>Commitments</b>			
<b>A</b>	<b>Commitments for financing</b>		<b>4,174</b>	<b>4,829</b>
1	Commitments for financing given to other banks		4,174	4,829
<b>B</b>	<b>Commitments for guarantees</b>		-	-
1	Commitments for guarantees given to customers		-	-
	<b>TOTAL COMMITMENTS</b>		<b>4,174</b>	<b>4,829</b>
<b>II</b>	<b>Collaterals and Mortgages</b>			
<b>A</b>	<b>Collaterals and Mortgages for loans</b>		<b>6,633,115</b>	<b>5,921,264</b>
1	Collaterals and Mortgages for loans to customers		6,633,115	5,921,264
	<b>TOTAL COLLATERALS AND MORTGAGES</b>		<b>6,633,115</b>	<b>5,921,264</b>

Prepared by:



Mrs. KongKeo Khamtone  
Chief Financial Officer

Approved by:



Mr. Bounthanh Vongsoury  
Managing Director

Vientiane, Lao P.D.R.

6 May 2016



# Phongsavanh Bank Limited

STATEMENT OF CHANGES IN EQUITY  
for the year ended 31 December 2015

	Contributed capital LAKm	General provision for credit losses LAKm	Accumulated losses LAKm	Total LAKm
<b>Balances as at 31 December 2013</b>	<b>122,786</b>	<b>9,519</b>	<b>(128,506)</b>	<b>3,799</b>
Dividend paid out to shareholders	-	-	(5,000)	(5,000)
Net gain for the year	-	-	21,180	21,180
General provision charged in the year	-	10,667	-	10,667
Reversal of general provision in the year	-	(7,024)	-	(7,024)
Foreign exchange difference	-	21	-	21
Additional Profit Tax for 2013	-	-	(2,375)	(2,375)
<b>Balances as at 31 December 2014</b>	<b>122,786</b>	<b>13,183</b>	<b>(114,701)</b>	<b>21,268</b>
Net gain for the year	-	-	5,398	5,398
General provision charged in the year	-	2,890	-	2,890
Reversal of general provision in the year	-	(6,702)	-	(6,702)
<b>Balances as at 31 December 2015</b>	<b>122,786</b>	<b>9,371</b>	<b>(109,303)</b>	<b>22,854</b>

Prepared by:



Mrs. KongKeo Khamtone  
Chief Financial Officer



Mr. Bounthanh Vongsoury  
Managing Director

Vientiane, Lao P.D.R.

6 May 2016

# Phongsavanh Bank Limited

## CASH FLOW STATEMENT

for the year ended 31 December 2015

	Notes	2015 LAKm	2014 LAKm
<b>Net profit before tax</b>		<b>5,398</b>	<b>21,180</b>
<i>Adjustments for:</i>			
Depreciation and amortization charges	16,17	14,454	13,654
Provision for credit losses of loans to customers	14	21,253	(8,616)
Provision for credit losses of other assets		(32)	53
<b>Cash flows from operating profit before changes in operating assets and liabilities</b>		<b>41,073</b>	<b>26,271</b>
(Increase)/Decrease in operating assets			
Balances with other banks		(23,653)	38,754
Loans to customers		(164,239)	(154,521)
Other assets		(28,709)	(15,379)
Increase/(Decrease) in operating liabilities			
Amounts due to other banks		83,676	6,059
Customer deposits and other amounts due to customers		223,202	158,586
Profit Tax paid during the year	21	(3,968)	(992)
Other liabilities		9,217	18,185
<b>Net cash flows from operating activities</b>		<b>136,599</b>	<b>76,963</b>
<b>INVESTING ACTIVITIES</b>			
Purchase and construction of fixed assets and other long-term assets	16,17	(23,623)	(19,690)
Payment for investment in securities		(10,000)	(27,143)
Securities matured and paid back		35,886	40,747
<b>Net cash flows from/(used in) investing activities</b>		<b>2,263</b>	<b>(6,086)</b>
<b>FINANCING ACTIVITIES</b>			
Dividend paid out to shareholders		-	(5,000)
<b>Net cash flows used in financing activities</b>		<b>-</b>	<b>(5,000)</b>
<b>Net increase in cash and cash equivalents</b>		<b>138,862</b>	<b>65,877</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>543,805</b>	<b>477,928</b>
Effect of foreign exchange difference		(21)	-
<b>Cash and cash equivalents at the end of the year</b>	<b>24</b>	<b>682,646</b>	<b>543,805</b>

Prepared by:



Mrs. KongKeo Khamtone  
Chief Financial Officer

Approved by:



Mr. Bounthanh Vongsoury  
Managing Director

Vientiane, Lao P.D.R.

6 May 2016