

Phongsavanh Bank Limited.



Annual Report , Year 2016.

(Audited)

Phongsavanh Bank Limited

Financial statements

31 December 2016



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 2016 is LAK 122,786,387,963 (31 December 2015: 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 2016, the Bank has one (1) Head Office, four (4) main branches, one (1) service center, twelve (12) service units, sixteen (16) small service units all over Lao P.D.R., and two (2) representative offices in Thailand and Vietnam.

BOARD OF DIRECTORS

Members of the Board of Directors during the year 2016 and at the date of this report are:

<i>Name</i>	<i>Position</i>	<i>Date of appointment</i>
Mrs. Daly Pholsena	Chairman	10 March 2014
Mr. Thongsay Inthisan	Vice Chairman	10 March 2014
Mr. Bounthanvong Vongsoury	Member	29 May 2015
Mr. Chainarong Wongpaiboon	Member	07 January 2012
Mr. Chanhpheng Luangsuvannavong	Member	29 May 2015

MANAGEMENT

Members of Management during the year 2016 and at the date of this report are:

<i>Name</i>	<i>Position</i>	<i>Date of appointment/resignation</i>
Mr. Bounthanvong Vongsoury	Managing Director	Appointed 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	Resigned on 30 April 2016
Mr. Chanhpheng Luangsuvannavong	Deputy Managing Director	Appointed on 04 September 2012
Ms. Julaluck Khamphim	Acting Deputy Managing Director	Appointed on 10 June 2016
Mr. Saynavinh Desakhamphou	Acting Deputy Managing Director	Appointed on 20 Jan 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 Mr. Bounthanvong Vongsoury – Managing Director.

AUDITORS

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

Phongsavanh Bank Limited

REPORT OF MANAGEMENT

Management of Phongsavanh Bank Limited ("the Bank") is pleased to present its report and the financial statements of the Bank for the year ended 31 December 2016.

MANAGEMENT'S RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

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 the results of its operational and its cash flows for the year. In preparing those financial statements, management 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.

Management 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.

Management confirmed that it has complied with the above requirements in preparing the accompanying financial statements.

STATEMENT BY MANAGEMENT

Management does hereby state that, in its opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2016 and of 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 Management:



Mr. Bounthanh Vongsoury
Managing Director

Vientiane, Lao P.D.R.

26 April 2017

Reference: 60753097/18918018

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of Phongsavanh Bank Limited ("the Bank"), which comprise the balance sheet as at 31 December 2016, the income statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Bank are prepared, in all material respects, in accordance with the Accounting Law of Lao P.D.R and with the regulations stipulated by the Bank of Lao P.D.R relevant to preparation and presentation of financial statements.

Basis for Opinion

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

Emphasis of Matter

We draw attention to Note 2 to the financial statements, which describes the accounting policies adopted by the Bank. These accounting policies are not intended to present the financial position, the results of operations and cash flows of the Bank in accordance with international generally accepted accounting principles. Our opinion is not modified in respect of this matter.

Other Matter

As disclosed in Note 23 to the financial statements, the contributed capital of the Bank as at 31 December 2016 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.

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 Law of Lao P.D.R and with 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 the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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.



Building a better
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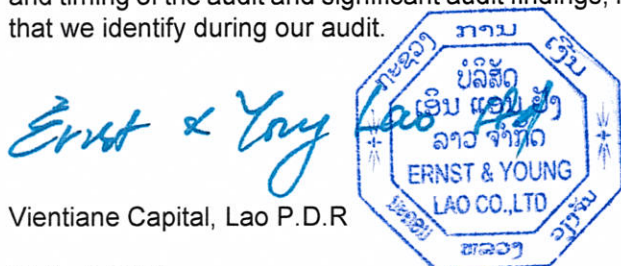
Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

We communicate with those charged with governance 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.



Vientiane Capital, Lao P.D.R

26 April 2017

Phongsavanh Bank Limited

INCOME STATEMENT

for the year ended 31 December 2016

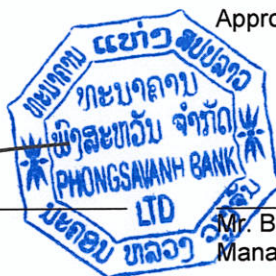
Currency: LAKm

Code	ITEMS	Notes	2016	2015
A.	OPERATING INCOME AND EXPENSES			
1.	Interest and similar income	3	195,500	188,069
2.	Interest and similar expenses	3	(129,790)	(132,904)
I.	NET INTEREST AND SIMILAR INCOME	3	65,710	55,165
3	Fees and commission income	4	32,031	26,574
4	Fees and commission expenses	4	(5,098)	(3,595)
II.	NET FEE AND COMMISSION INCOME	4	26,933	22,979
5	Net gain from dealing in foreign currencies	5	9,537	11,428
III.	NET OPERATING INCOME		102,180	89,572
B	OTHER INCOME AND EXPENSES			
6	Other operating income	6	23,648	28,883
7	Administrative expenses		(74,613)	(68,904)
7.1	Payroll and other staff costs	7	(55,314)	(47,451)
7.2	Other administrative expenses	8	(19,299)	(21,453)
8	Depreciation and amortization charges	16, 17	(18,979)	(14,454)
9	Other operating expenses	9	(13,658)	(4,634)
10	Net provision charges for non-performing loans		(14,379)	(25,065)
10.1	Provision expense for non-performing loans	14.1	(54,878)	(85,647)
10.2	Reversal of provision for non-performing loans	14.1	40,499	60,582
IV.	TOTAL PROFIT BEFORE TAX		4,199	5,398
11	Current profit tax	21	-	-
V.	PROFIT AFTER TAX		4,199	5,398

Prepared by:

Approved by:







Mrs. KongKeo Khamtone
Chief Financial Officer

Mr. Bounthanh Vongsoury
Managing Director

Vientiane, Lao P.D.R.

26 April 2017

Phongsavanh Bank Limited

BALANCE SHEET
as at 31 December 2016

Currency: LAKm

Code	ASSETS	Notes	31 December 2016	31 December 2015
I	Cash on hand and balances with the Bank of Lao P.D.R ("BOL")	10	474,628	657,893
1	Cash on hand		216,351	215,719
2	Balances with the BOL		258,277	442,174
II	Due from other banks	11	142,017	169,397
1	Demand deposits		142,017	169,397
III	Investments in securities	12	58,000	40,000
1	Available-for-sale securities		18,000	-
2	Held-to-maturity securities		40,000	40,000
IV	Loans and advances to customers, net of provision for non-performing loans	13	2,065,109	1,607,819
V	Fixed assets		185,861	180,020
1	Construction in progress and fixed assets in transit	15	1,315	15,601
2	Tangible fixed assets	16	143,226	125,341
3	Intangible fixed assets	17	41,320	39,078
VI	Other assets	18	173,544	121,300
1	Accrued interest receivables		58,955	38,298
2	Profit Tax recoverable		12,777	7,141
3	Other assets		101,812	75,861
	TOTAL ASSETS		3,099,159	2,776,429

Phongsavanh Bank Limited

BALANCE SHEET (continued)
as at 31 December 2016

Currency: LAKm

Code	LIABILITIES AND EQUITY	Notes	31 December 2016	31 December 2015
I	Due to other banks	19	254,836	99,233
1	Demand deposits		847	852
2	Term deposits		241,641	95,384
2	Other payables to other banks		12,348	2,997
II	Due to customers	20	2,727,855	2,570,669
1	Demand and daily deposits		195,625	246,167
2	Saving deposits		860,988	796,608
3	Term deposits		1,671,242	1,527,894
V	Other liabilities		86,161	83,673
1	Accrued interest payables		69,393	67,195
2	Other liabilities	22	16,768	16,478
	TOTAL LIABILITIES		3,068,852	2,753,575
VI	Capital and reserves			
1	Contributed capital	23	122,786	122,786
2	General provision for credit losses	14.2	12,625	9,371
3	Accumulated losses		(105,104)	(109,303)
	TOTAL EQUITY		30,307	22,854
	TOTAL LIABILITIES AND EQUITY		3,099,159	2,776,429

Phongsavanh Bank Limited

BALANCE SHEET (continued)
as at 31 December 2016

Currency: LAKm

	OFF BALANCE SHEET ITEMS	Notes	31 December 2016	31 December 2015
I	Commitments			
A	Commitments for financing given		5,917	4,174
1	Commitments for financing given to other banks		5,917	4,174
	TOTAL COMMITMENTS		5,917	4,174
II	Collaterals and Mortgages			
A	Collaterals and Mortgages for loans		6,940,157	6,633,115
1	Collaterals and Mortgages for loans to customers		6,940,157	6,633,115
	TOTAL COLLATERALS AND MORTGAGES		6,940,157	6,633,115

Prepared by:

Approved by:

Mrs. KongKeo Khamtone
Chief Financial Officer



Mr. Bounthanh Vongsoury
Managing Director

Vientiane, Lao P.D.R.

26 April 2017

Phongsavanh Bank Limited

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016

	Contributed capital LAKm	General provision for credit losses LAKm	Accumulated losses LAKm	Total LAKm
Balances as at 31 December 2014	122,786	13,183	(114,701)	21,268
Net profit for the year	-	-	5,398	5,398
General provision charged in the year	-	2,412	-	2,412
Reversal of general provision in the year	-	(6,224)	-	(6,224)
Balances as at 31 December 2015	122,786	9,371	(109,303)	22,854
Net profit for the year	-	-	4,199	4,199
General provision charged in the year	-	11,327	-	11,327
Reversal of general provision in the year	-	(8,110)	-	(8,110)
Foreign exchange difference	-	37	-	37
Balances as at 31 December 2016	122,786	12,625	(105,104)	30,307

Prepared by:



Mrs. KongKeo Khamtone
Chief Financial Officer

Approved by:



Ms. Bounthanh Vongsoury
Managing Director

Vientiane, Lao P.D.R.

26 April 2017

Phongsavanh Bank Limited

CASH FLOW STATEMENT

for the year ended 31 December 2016

	Notes	2016 LAKm	2015 LAKm
FINANCING ACTIVITIES			
Net profit before tax		4,199	5,398
<i>Adjustments for:</i>			
Depreciation and amortization charges	16,17	18,979	14,454
Provision for credit losses of loans to customers	14	17,596	21,253
Provision for credit losses of other assets		27	(32)
Cash flows from operating profit before changes in operating assets and liabilities		40,801	41,073
(Increase)/Decrease in operating assets			
Balances with other banks		(1,534)	(23,653)
Loans to customers		(471,671)	(164,239)
Other assets		(56,635)	(28,709)
Increase/(Decrease) in operating liabilities			
Amounts due to other banks		155,603	83,676
Customer deposits and other amounts due to customers		157,186	223,202
Other liabilities		2,527	9,196
Profit Tax paid during the year	21	(5,636)	(3,968)
Net cash flows (used in)/from operating activities		(179,359)	136,578
INVESTING ACTIVITIES			
Purchase and construction of fixed assets and other long-term assets		(24,820)	(23,623)
Payment for investment in securities		(18,000)	(10,000)
Securities matured and paid back		10,000	35,886
Net cash flows (used in)/from investing activities		(32,820)	2,263
FINANCING ACTIVITIES			
Net cash flows used in financing activities		-	-
Net (decrease)/increase in cash and cash equivalents		(212,179)	138,841
Cash and cash equivalents at the beginning of the year		682,646	543,805
Effect of foreign exchange difference		-	-
Cash and cash equivalents at the end of the year	24	470,467	682,646

Prepared by:



Mrs. KongKeo Khamtone
Chief Financial Officer

Approved by:



Mr. Bounthanh Vongsoury
Managing Director



Vientiane, Lao P.D.R.

26 April 2017