

Phongsavanh Bank Limited.



Annual Report , Year 2017.

(Audited)

Phongsavanh Bank Limited

Financial statements

31 December 2017

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 the Lao PDR ("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 Bank of the Lao PDR.

The initial charter capital of the Bank was LAK 97,100,000,000. The actual charter capital as at 31 December 2017 is LAK 139,392,387,963 (31 December 2016: LAK 122,786,387,963).

The Head Office of the Bank is located at Kaisone Phomvihanh Road, Ban Phakhao, Xaythany District, Vientiane, Lao PDR. As at 31 December 2017, the Bank has one (1) Head Office, four (4) main branches, one (1) service center, fifteen (15) service units, eighteen (18) small service units all over Lao PDR, and one (1) representative office in Thailand.

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</i>
Mrs. Daly Pholsena	Chairman	10 March 2014
Mr. Thongsay Inthisan	Vice Chairman	10 March 2014
Mr. Bounthanh Vongsoury	Member	29 May 2015
Mr. Chainarong Wongpaiboon	Member	07 January 2012
Mr. Chanpheng Luangsuvannavong	Member	29 May 2015

MANAGEMENT

Members 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	29 May 2015
Mr. Phaiboun Phongsavanh	Deputy Managing Director	04 September 2012
Mr. Southideth Nalyvan	Deputy Managing Director	04 September 2012
Mr. Chanhpheng Luangsouvanhnavong	Deputy Managing Director	10 June 2016
Ms. Julaluck Khamphim	Acting Deputy Managing Director	20 Jan 2015
Mr. Saynavinh Desakhamphou	Acting Deputy Managing Director	29 May 2015
Mr. Sengkham Phanthavong	Acting Deputy Managing Director	29 May 2015
Ms. Dalavanh Srithirath	Acting Deputy Managing Director	05 January 2018
Ms. Manola Luangkhot	Acting Deputy Managing Director	06 February 2018

LEGAL REPRESENTATIVE

The legal representative of the Bank during the year and at the date of this report is Bounthanh Vongsoury – Managing Director.

AUDITORS

The auditors of the Bank are Ernst & Young Lao Co., Ltd.

Phongsavanh Bank Limited

REPORT OF MANAGEMENT

Management of Phongsavanh Bank Limited ("the Bank") is pleased to present this report and the financial statements of the Bank for the year ended 31 December 2017.

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 2017 and of the results of its operations and its cash flows for the year then ended in accordance with the Accounting Law of Lao PDR and the regulations stipulated by Bank of the Lao PDR relevant to preparation and presentation of financial statements.

For and on behalf of Management:



Mr. Bounthanh Vongsoury
Managing Director

Vientiane, Lao PDR.

4 May 2018

Reference: 60753097/19754753

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 2017, 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 PDR and with the regulations stipulated by Bank of the Lao PDR 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 PDR, and we have fulfilled our other ethical responsibilities in accordance 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 Matters

1. 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.
2. We draw attention to Note 2.9 "Provision for non-performing loans". In accordance with the Official Letter No. 165/CBS dated 22 May 2014, the Bank has been granted approval from the BOL for keeping the original classification for certain restructured loans related to Public Investment Projects and Public Servants for the year ended 31 December 2017.

Our opinion is not modified in respect of these matters.

Other Matter

As disclosed in Note 23 to the financial statements, the contributed capital of the Bank as at 31 December 2017 was LAKm 139,392. 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 PDR 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 PDR and with the regulations stipulated by Bank of the Lao PDR 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.

Auditor's Responsibilities for the Audit of the Financial Statements

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

- We communicate with the Bank's 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.

4 May 2018

Phongsavanh Bank Limited

INCOME STATEMENT for the year ended 31 December 2017

Currency: LAKm

Code	ITEMS	Notes	2017	2016
A.	OPERATING INCOME AND EXPENSES			
1.	Interest and similar income	3	226,541	195,500
2.	Interest and similar expenses	3	(136,022)	(129,790)
I.	NET INTEREST AND SIMILAR INCOME		90,519	65,710
3	Fees and commission income	4	26,126	32,031
4	Fees and commission expenses	4	(7,686)	(5,098)
II.	NET FEE AND COMMISSION INCOME		18,440	26,933
5	Net gain from dealing in foreign currencies	5	9,599	9,537
6	Net loss from financial instrument trading		(73)	-
III.	NET OPERATING INCOME		118,485	102,180
B	OTHER INCOME AND EXPENSES			
7	Other operating income	6	20,542	23,648
8	Administrative expenses		(98,463)	(74,613)
8.1	Payroll and other staff costs	7	(63,292)	(55,314)
8.2	Other administrative expenses	8	(35,171)	(19,299)
9	Depreciation and amortization charges	16, 17	(24,707)	(18,979)
10	Other operating expenses	9	(15,738)	(13,658)
11	Net reversal/(provision charges) for non-performing loans		5,234	(14,379)
11.1	Provision expense for non-performing loans	14.1	(40,247)	(54,878)
11.2	Reversal of provision for non-performing loans	14.1	45,481	40,499
IV.	TOTAL PROFIT BEFORE TAX		5,353	4,199
12	Current profit tax	21	(1,285)	-
V.	PROFIT AFTER TAX		4,068	4,199

Prepared by:



Mrs. KongKeo Khamtone
Chief Financial Officer

Approved by:



Mr. Bounthanh Vongsoury
Managing Director

Vientiane, Lao PDR.

4 May 2018

Phongsavanh Bank Limited

BALANCE SHEET
as at 31 December 2017

Currency: LAKm

Code	ASSETS	Notes	31 December 2017	31 December 2016
I	Cash on hand and balances with Bank of the Lao PDR ("the BOL")	10	526,287	474,628
1	Cash on hand		191,712	216,351
2	Balances with the BOL		334,575	258,277
II	Due from other banks	11	128,720	142,017
1	Demand deposits		69,440	142,017
2	Saving deposits		14,859	-
3	Term deposits		44,421	-
III	Investments in securities	12	61,000	58,000
1	Available-for-sale securities		29,000	18,000
2	Held-to-maturity securities		32,000	40,000
IV	Loans and advances to customers, net of provision for non-performing loans	13	2,257,395	2,065,109
V	Fixed assets		188,493	185,861
1	Construction in progress and fixed assets in transit	15	5,347	1,315
2	Tangible fixed assets	16	135,043	143,226
3	Intangible fixed assets	17	48,103	41,320
VI	Other assets	18	219,390	173,544
1	Accrued interest receivables		108,804	58,955
2	Profit Tax recoverable	21.2	14,438	12,777
3	Other assets		96,148	101,812
	TOTAL ASSETS		3,381,285	3,099,159

Phongsavanh Bank Limited

BALANCE SHEET (continued)
as at 31 December 2017

Currency: LAKm

Code	LIABILITIES AND EQUITY	Notes	31 December 2017	31 December 2016
I	Due to other banks	19	155,804	254,836
1	Demand deposits		866	847
2	Term deposit		152,826	241,641
3	Other payables to other banks		2,112	12,348
II	Due to customers	20	3,083,340	2,727,855
1	Demand and daily deposits		188,420	195,625
2	Saving deposits		855,469	860,988
3	Term deposits		2,039,451	1,671,242
III	Other liabilities		87,242	86,161
1	Accrued interest payables		69,184	69,393
2	Statutory obligation	21.1	1,354	-
3	Other liabilities	22	16,704	16,768
	TOTAL LIABILITIES		3,326,386	3,068,852
IV	Capital and reserves			
1	Contributed capital	23	139,392	122,786
2	General provision for credit losses	14.2	16,543	12,625
3	Accumulated losses		(101,036)	(105,104)
	TOTAL EQUITY		54,899	30,307
	TOTAL LIABILITIES AND EQUITY		3,381,285	3,099,159

Phongsavanh Bank Limited

BALANCE SHEET (continued)
as at 31 December 2017

Currency: LAKm

	OFF BALANCE SHEET ITEMS	Notes	31 December 2017	31 December 2016
I	Commitments			
A	Commitments for financing given		4,875	5,917
1	Commitments for financing given to other banks		4,875	5,917
	TOTAL COMMITMENTS		4,875	5,917
II	Collaterals and Mortgages			
A	Collaterals and Mortgages for loans		5,251,985	6,940,157
1	Collaterals and Mortgages for loans to customers		5,251,985	6,940,157
	TOTAL COLLATERALS AND MORTGAGES		5,251,985	6,940,157

Prepared by:



Mrs. KongKeo Khamtone
Chief Financial Officer

Approved by:



Mr. Bounthanh Vongsoury
Managing Director

Vientiane, Lao PDR.

4 May 2018

Phongsavanh Bank Limited

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2017

	Contributed capital LAKm	General provision for credit losses LAKm	Accumulated losses LAKm	Total LAKm
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
Net profit for the year	-	-	4,068	4,068
Capital injection during the year	16,606	-	-	16,606
General provision charged in the year	-	12,793	-	12,793
Reversal of general provision in the year	-	(9,368)	-	(9,368)
Foreign exchange difference	-	493	-	493
Balances as at 31 December 2017	139,392	16,543	(101,036)	54,899

Prepared by:



Mrs. Kongkeo Khamtone
Chief Financial Officer

Vientiane, Lao PDR.

4 May 2018



Mr. Pounthanh Vongsoury
Managing Director

Phongsavanh Bank Limited

CASH FLOW STATEMENT for the year ended 31 December 2017

	Notes	2017 LAKm	2016 LAKm
FINANCING ACTIVITIES			
Net profit before tax		5,353	4,199
<i>Adjustments for:</i>			
Depreciation and amortization charges	16,17	24,707	18,979
(Reversal)/ provision charged for credit losses	14	(1,809)	17,596
Interest income from bonds investment		(2,820)	(2,371)
Provision for credit losses of other assets		-	27
Cash flows from operating profit before changes in operating assets and liabilities		25,421	38,430
(Increase)/Decrease in operating assets			
Balances with other banks		(39,216)	(1,534)
Loans to customers		(178,855)	(471,671)
Other assets		(51,055)	(55,602)
Increase/(Decrease) in operating liabilities			
Amounts due to other banks		(99,032)	155,603
Customer deposits and other amounts due to customers		352,935	157,186
Other liabilities		1,082	2,527
Profit Tax paid during the year	21	(2,946)	(5,636)
Net cash flows from/(used in) operating activities		8,334	(180,697)
INVESTING ACTIVITIES			
Capital contribution		16,606	-
Purchase and construction of fixed assets		(28,174)	(24,820)
Payment for investment in securities		(29,000)	(18,000)
Securities matured and paid back		26,000	10,000
Interest received from securities investment		5,380	1,338
Net cash flows used in investing activities		(9,188)	(31,482)
FINANCING ACTIVITIES			
Net cash flows used in financing activities		-	-
Net decrease in cash and cash equivalents		(854)	(212,179)
Cash and cash equivalents at the beginning of the year		470,467	682,646
Cash and cash equivalents at the end of the year	24	469,613	470,467

Prepared by:



Mrs. KongKeo Khamtone
Chief Financial Officer

Approved by:



Mr. Bounthanh Vongsoury
Managing Director

Vientiane, Lao PDR.

4 May 2018