

ທະນາຄານກະສິກອນໄທ  
开泰银行 KASIKORNTHAIBANK



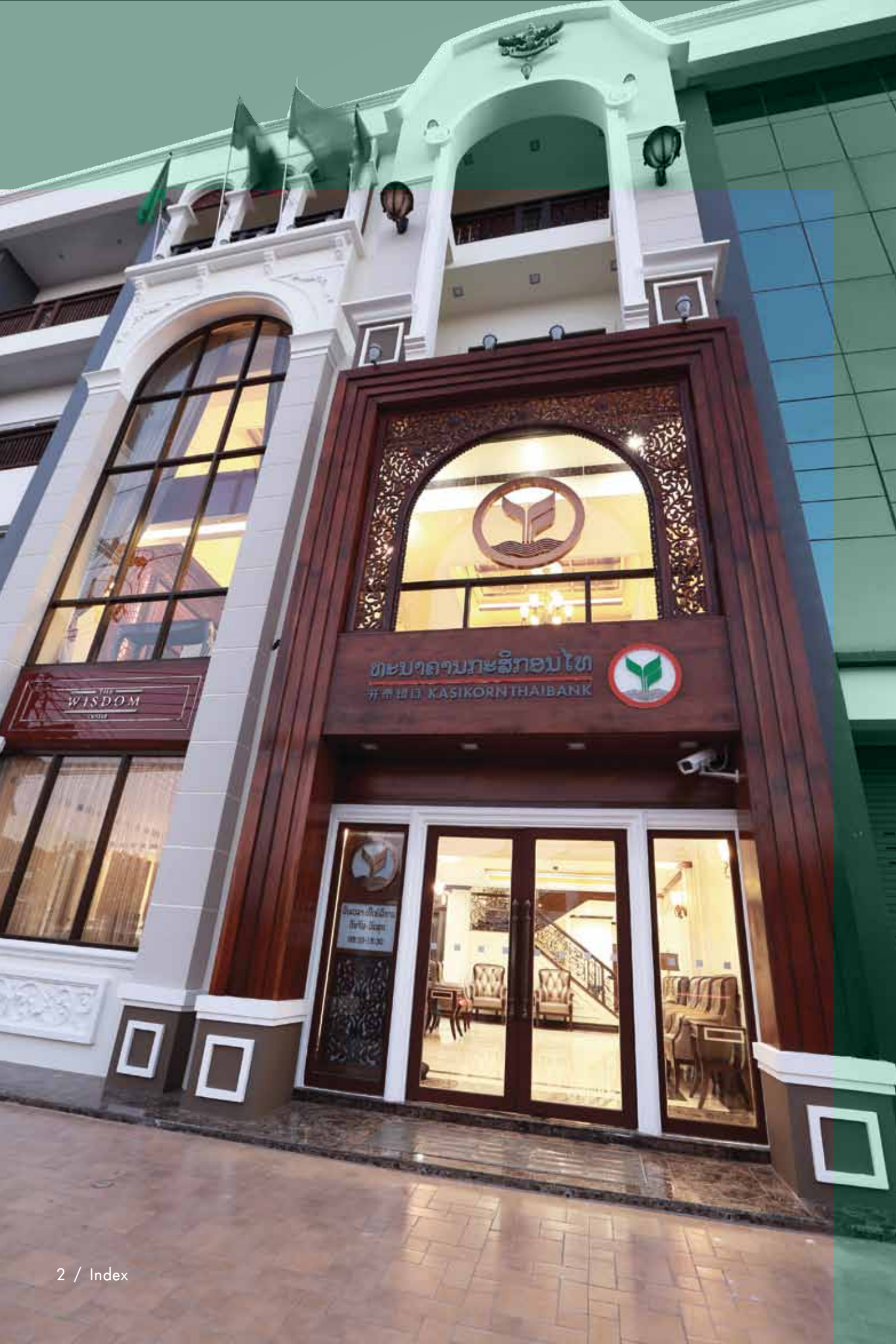
# KASIKORNTHAI BANK LIMITED ANNUAL REPORT

November 2014 - December 2015



ທະນາຄານກະສິກອນໄທ  
开泰银行 KASIKORNTHAIBANK





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### Mission

KASIKORNTHAI BANK LIMITED aims to be a strong financial institution that provides a variety of financial services of world-class quality responsive to customers' needs by harmoniously combining technology and human resources so as to achieve optimal benefits for customers, shareholders, employees and society.

### Vision

KASIKORNTHAI BANK LIMITED aims to be the strongest, the most innovative and the most proactive financial institution in serving customers

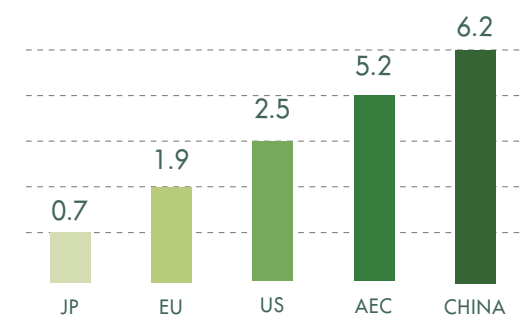
### Core Value

- Customer centricity
- Organization-wide teamwork
- Professionalism
- Innovation

The inception of ASEAN Economy Community (AEC) has shed new light on the region's economic potential. By gradually overcoming cultural, economic and geographical barriers, the AEC is significantly redefining the rules of the game. Now, competition is transforming into cooperation, and differences represent diversity.

As a unified economy, AEC is the seventh largest economy with GDP of US\$ 2.4 trillion and is expected to become the fourth largest economy by 2050, according to the International Monetary Fund (IMF). It is also the world's third most populous region after China and India. Moreover, majority of the region's 600 million populations are relatively young and ready to enter the labor market.

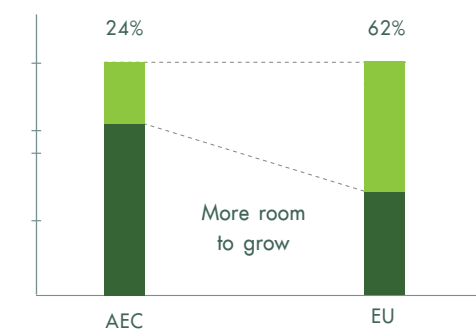
Average GDP Growth 2016 -2020 (F)



Source : IMF, 2016 / OECD, 2015

Additionally, emerging economies such as Myanmar and Vietnam are representing new business frontiers. The region offers magnificent economic potential. The GDP is expected to grow on average of 5.2% in the next five years.

Intra-Regional Trade : AEC vs. EU (2013)



Source : EuroStat (Note: Intra trade of each country in EU ranges from 43%-83%)

GROWTH OF MIDDLE CLASS IN AEC



By 2020 the middle class population of AEC will more than double to 400 million

### Flourishing middle class: Huge consumption base

As urbanization within AEC+ 3 continues to accelerate, the middle class population will reach 400 million by 2020 providing an outstanding market base

The corresponding increase in purchasing power, together with the establishment of a single market and production base, will promote a free flow of goods and service within AEC, and drive intra-trade volume higher towards the level now enjoyed by the European Union (EU)

### Ample opportunities in intra-regional trade

Intra-AEC trade accounts for 24% of total trade in 2013 compared to 62% of EU. The gap reflects the outstanding growth potential for intra-regional trade in the AEC.

## KASIKORNTHAI BANK LIMITED FINANCIAL HIGHLIGHTS

### Total Assets



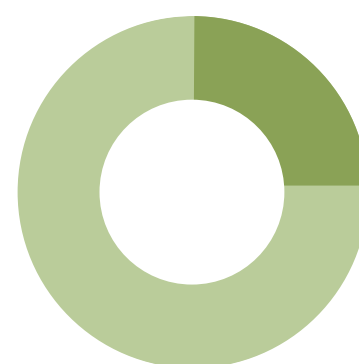
- Total Loan
- Cash and cash equivalents
- Deposits with other banks
- Others

### Total Liabilities



- Total Deposits
- Others

### Total Operating Income



- Net Interest Income
- Net Non-Interest Income

4 November 2014 to  
31 December 2014  
(in thousand LAK)

1 January 2015 to  
31 December 2015  
(in thousand LAK)

For the period from  
4 November 2014 to  
31 December 2015  
(in thousand LAK)

Net interest income	65,870.00	2,473,518.81	2,539,388.81
Net fee and commission income	(28,490.00)	1,177,869.00	1,149,379.00
Net operating income	37,380.00	3,651,387.81	3,688,767.81
Total operating income	(210,440.00)	10,091,923.81	9,881,483.81
Total operating expenses	686,230.00	9,181,137.00	9,867,367.00
Profit before income tax	(896,670.00)	910,786.81	14,116.81
Gain/(Loss) for the year	(896,670.00)	883,401.81	(13,268.19)

### Total Assets

As of December 31, 2015, KASIKORNTHAI BANK LIMITED (“KBank Lao”) has total assets in equivalent to LAK 679,057,623 thousand with loan size, to both public and private sector, at LAK104,205,752 thousand in total. KBank Lao also maintains sustainable liquidity for increase of loan in year 2016.

### Total Liabilities

Total liabilities as of Dec 31, 2015 is LAK379,070,891 thousand with deposits totaled to LAK374,473,743 thousand from customers and other financial institutions.

### Total Net Operating Income

For the first year of KBank Lao operation (November 2014-December 2015), KBank Lao has an impressive net operating income totaled LAK3,688,768 thousand which comprises net Interest Income totaled LAK2,539,389 thousand, net fee and commission income totaled LAK1,149,379 thousand.

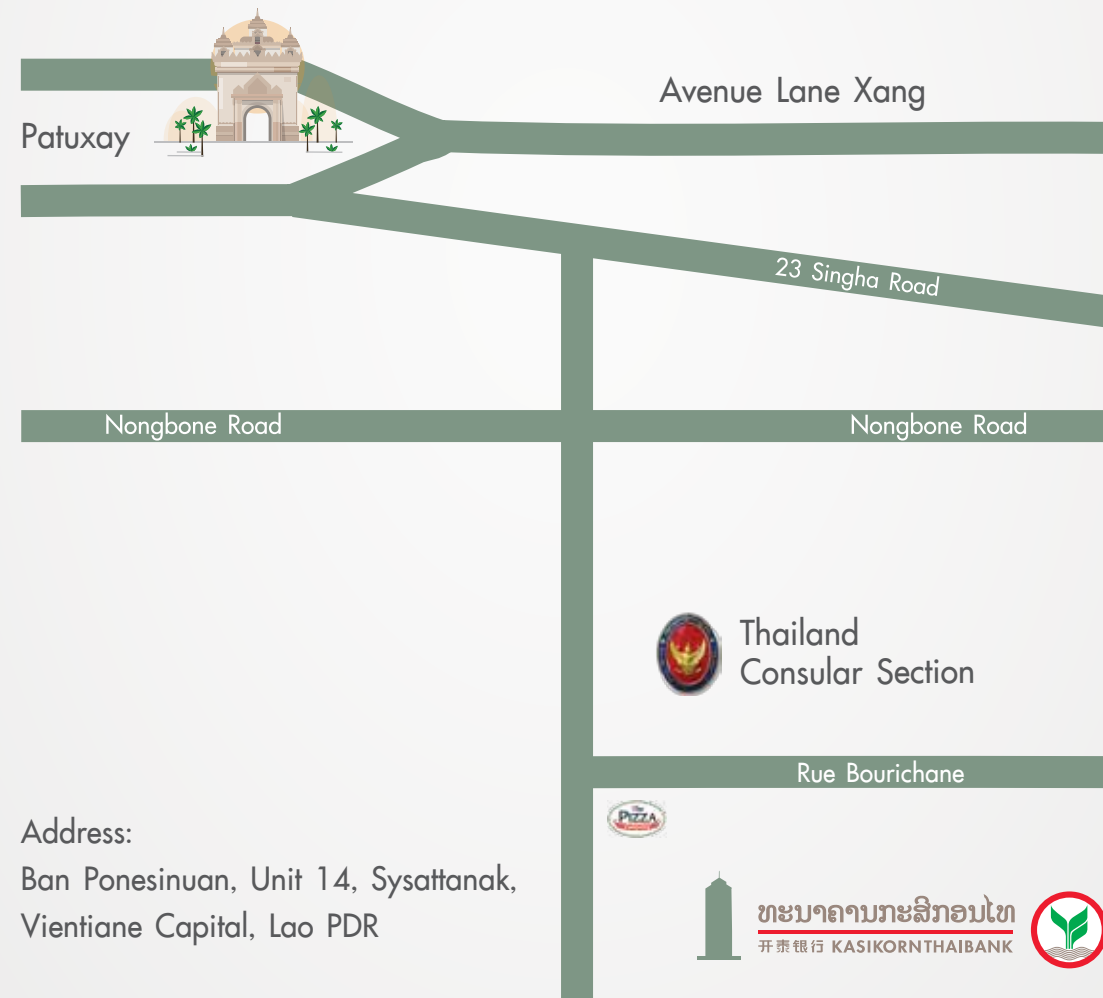
### Net Profit

First year KBank Lao operation from November 2014-December 2015, although with remarkable total net operating income, due to personal expense, depreciation and amortization during the first year of establishment, KBank Lao has profit before income tax totaled LAK14,117 thousand and net loss for the year totaled LAK-13,268 thousand.

## Part I Corporate Background

### 1.1 Corporate Information

Bank	KASIKORNTHAI BANK LIMITED
Enterprise Registration No.	No. 456/ ERO
Bank License No.	No. 32/ BOL, October 14, 2014
Chairman	Mr. Pattanapong Tansomboon
Country Director	Mr. Bavorn Srisangatrakul
Registered Office	Ban Ponesinuan, unit 14, Sysattanak District, Vientiane Capital, Lao PDR
Contact Number	856 21 410888
Website	<a href="http://www.kasikornbank.com.la">http://www.kasikornbank.com.la</a>



### 1.2 Corporate Background and KASIKORNTHAI BANK LIMITED's Vision

KASIKORNBANK PCL (“KBank”) was established in 1945 as a commercial bank in Thailand and has been listed on the Stock Exchange of Thailand (SET) since 1976. KBank is a part of a successful and reputable financial conglomerate. The core of KBank’s AEC+3 strategy revolves around creating network connectivity in the AEC region as well as China, South Korea and Japan. To achieve these strategic goals, KBank has made its initial pan-Asia endeavors with the establishment of presences in China, Japan, and Lao PDR. These footprints will contribute an important role to bolsters strong network and heighten the sustainable growth in AEC+3 region.

KASIKORNTHAI BANK LIMITED (“KBank Lao”) is a foreign owned locally incorporated commercial bank. KBank Lao was incorporated in Lao PDR on November 14, 2014 under the Enterprise Registration No. 456/ERO granted by Enterprise Registration Office of Lao PDR.

KBank Lao has registered capital at LAK300,000 million and its shareholders comprise respectable corporations namely, KASIKORNBANK PCL and KASIKORN ASSET MANAGEMENT Company Limited.

KBank Lao strives to fully create a cross-region network in order to meet and satisfy our customers’ demands. Collaboration with our network in China and Japan is also a major contributor to accomplish our AEC+3 strategy to ensure our leading position in banking services, as well as to deliver the best financial solutions and services to our customers.

## Chairman's message

The last few years have borne witness to a historical shift in global economic power towards Asia. Within this larger scope of growth is the regional gain of economic influence in the AEC+3 nations, which combined represent some of the most dynamic and expansive economies in the world. Co-operation between these countries only magnifies this phenomenal effect. The lowering of geographic, economic and cultural barriers creates a true global economic giant, which naturally attracts investment and attention from all sectors.



Lao People's Democratic Republic (Lao PDR) is a close neighbor to Thailand in many ways, sharing a border as well as linguistic, ethnic, and cultural overlaps that have served the close relations of the two countries for generations. AEC integration only enhances the potential of their long prosperous relationship.

Banking is a significant area in which Thailand and Lao PDR have been collaborating. Bilateral arrangements between the Bank of Thailand and Bank of Lao PDR promote the regional economy, and develop the Lao PDR financial and banking system through human capital, and policy improvement.

KASIKORNTHAI BANK LIMITED was established in Lao PDR in 2014, certifying the importance of this new growth market. In line with the bank's "customer centricity" approach, our presence in Lao PDR helps fulfill customers' new needs in regional business connectivity and expansion. The first year was a great success, thanks to exceptional support from all sectors including regulators, partner banks and our customers. Tremendous trust, support and satisfied feedback has reaffirmed our position as one of the most trusted banks in the AEC region.

To maintain the absolute best levels of customer service, we have invested in technology development to provide innovative banking channels which will provide more banking services and cost efficiency to customers than current conventional bank branches.

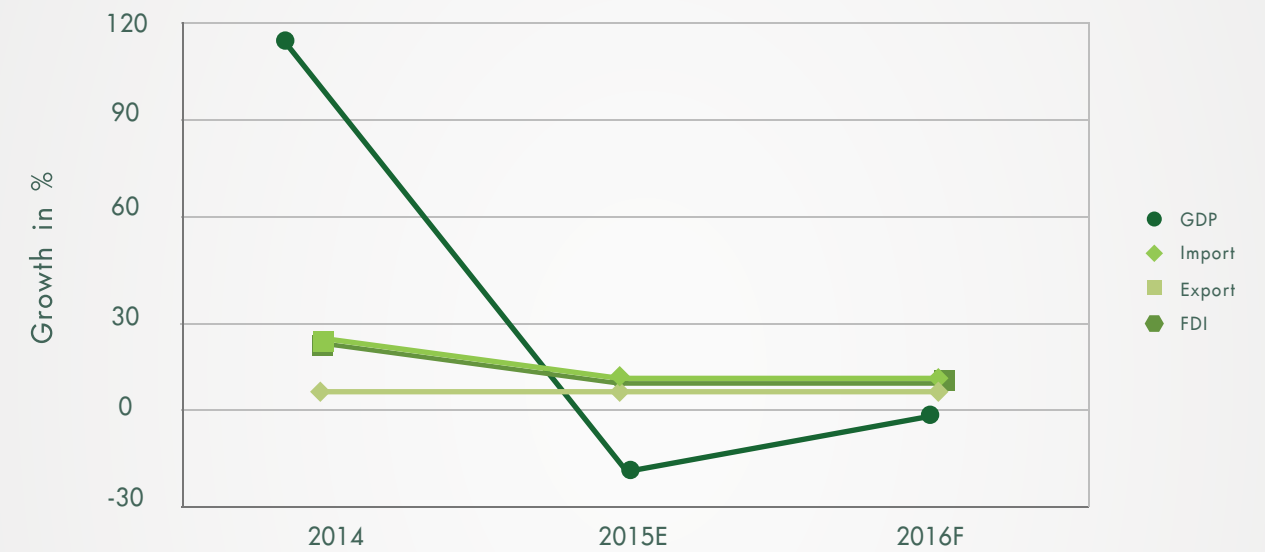
On behalf of the Board of Directors and KASIKORNTHAI BANK LIMITED, I would like to take this opportunity to thank Bank of Lao PDR, the regulators, the partner banks, the customers, the shareholders and the staff of KASIKORNTHAI BANK LIMITED for their continued confidence and support throughout 2015. I reaffirm that KASIKORNTHAI BANK LIMITED will stay focused on our "Customer Centricity" strategy and further promote business activities to the mutual benefit of both Lao PDR and the Thai economy.

## Part II Management discussion and Analysis

### 2.1 Lao PDR economic overview

In 2015, Laos' economy has maintained the strongest pace of growth recorded in recent years and the country is likely to have been one of the strongest performers in the region. Strong inflows of investment, particularly in hydro power and transportation project, have greatly contributed to developing the economy. The government's eight years development plan that was published at the end of January aims for steady economic growth of around 7% in the next 5 years, thanks to growing labour market and ongoing industrialization.

Lao PDR Economic Outlook 2015



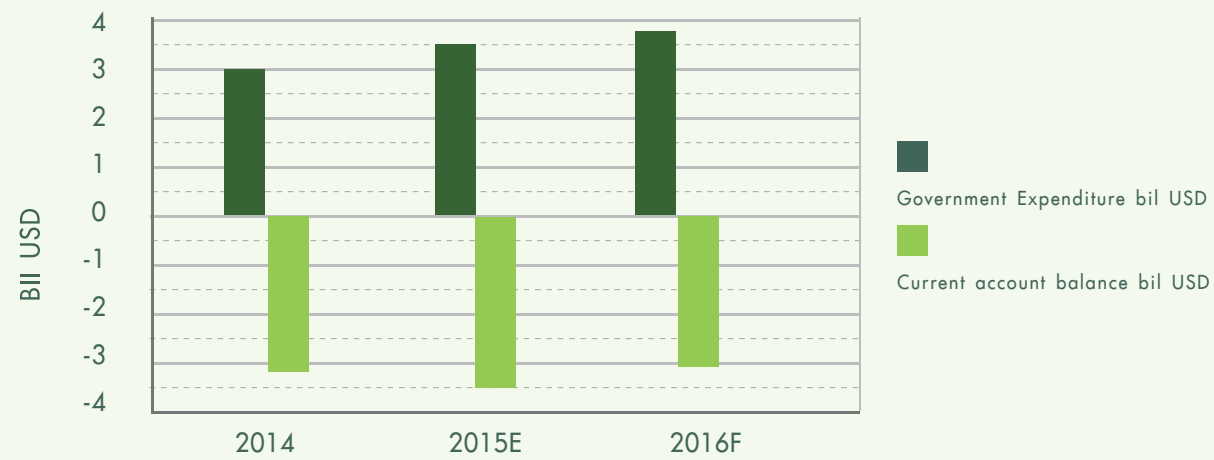
Source: International Trade Center, The World in 2015. The Economist, KBank WB advisory

Laos Gross Domestic Product (GDP) growth improved from 6% to 6.5% while trade volume continues to rise in both exports and imports. Fuel and oil are still the largest import products, while energy and electricity contributes to almost half of total export volume to Thailand.

According to the Economist, energy exports and related power projects are driving growth in Lao PDR. The 1.9 gigawatt Hongsa lignite-fired power plant started commercial operations in June, and the 1.3 gigawatt Xayaburi project is just one of several hydropower under construction. The tourism sector grew by a huge 11% last year, with almost 2 million tourists in the first 5 months, helped by an increase in airline services. Mining output of copper, gold, and silver rose in the first half, though prices for these commodities have declined worldwide.

Despite these growth numbers, government spending remains constrained by the fiscal deficit. Both mineral exports and oil imports decreased last year. Growth in credit slowed to 13.5% year over year in May. As a result, the Bank of Lao PDR directed commercial banks to lower interest rates with the hope of stimulating lending. In accordance to International Monetary Fund (IMF), Foreign Direct Investment (FDI) slightly decreased at 16% year over year, but is still growing overall, especially in the power sector.

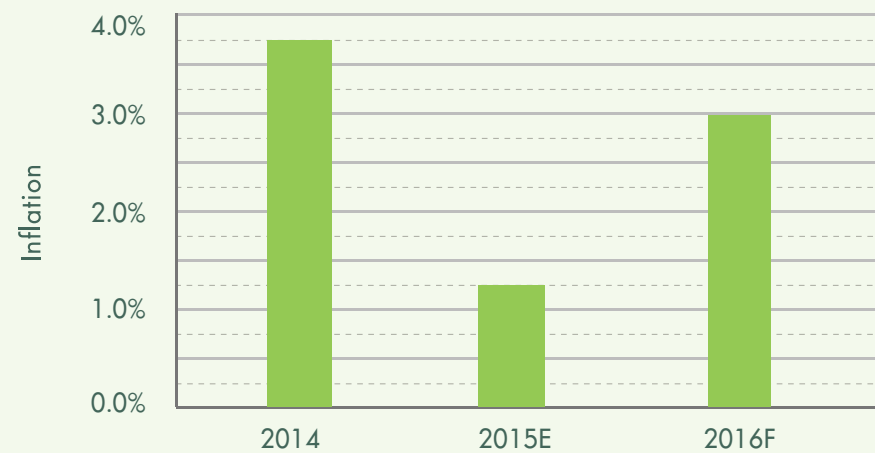
## Lao PDR Government Expenditure



Source: IMF World economic Outlook database Oct, 2015

From Asian Development Outlook, inflation is estimated to rise 1.5% year on year. The Lao Kip depreciated by 0.9% against the US Dollar but more significantly appreciated by 7.1% against the Thai Baht.

## Lao PDR Inflation



Source: Asian Development Outlook 2015 Update

Overall, the Laos economy in 2015 continued robust growth, but this growth was slowed by low oil and commodity prices. The opportunities in Lao PDR remain high due to its abundance natural resources, favorable trade terms with major economies, strategic location, and growth probability.



## 2.2 Business directions of KASIKORNTHAI BANK LIMITED for year 2016

AEC integration has created substantial growth in border trade between neighboring countries. In 2015, total border trade value rose by 6.85% compared to 2014.

Lao PDR remains one of Thailand's most important border trade partners. The border trade value between Thailand and Lao PDR dramatically increased 16.82% from 2014, to a total value of 176,474.54 mTHB. More than half of this value is from imports from Thailand. KASIKORNTHAI BANK LIMITED ("KBank Lao") recognizes the need and opportunity for financial and banking support for these border trade transaction. "Customer Centricity" means tailor made products and services designed for Thai business expanding to Lao PDR. Improved convenience, as well as exclusive privileges for both Thai and Lao WISDOM customers, will make it easy to prosper from this trade growth.

The AEC's inception created immediate opportunity. Our customers must stay competitive and maintain operational efficiency to benefit from these opportunities. KBank Lao provides intra-regional supply chains, supports regional connectivity, and gives business advisory services and financial solutions for our corporate customers. We know that enhancement our quality services is the key to winning customer loyalty and expanding our customer base.

As banking grows and penetrates in Lao PDR, we're looking into new and innovative ways to expand accessibility and services. As your partner for today and tomorrow, KBank Lao remains committed to prosperity, the AEC+3, and "Customer Centricity."

## Part III Organization Structure

### ● 3.1 List of Shareholders

1. KASIKORNBANK PCL
2. KASIKORN ASSET MANAGEMENT Co., Ltd.

### ● 3.2 Board of Directors



Mr. Pattanapong Tansomboon

#### Chairman

Mr. Pattanapong Tansomboon has built his career in financial with KASIKORNBANK PCL, one of the leading banks in Thailand, for the past 30 years. He has vigorous experience in diverse area of financial industry including operation management, multi-corporate business, SME business, product management and international business management.

Mr. Pattanapong Tansomboon is currently First Senior Vice President of KASIKORNBANK PCL and a member of many prestigious business organizations in Thailand.

Ms. Nutcharee Nuntivacharin

#### Deputy Chairman

Ms. Nutcharee Nuntivacharin is an expert in financial accounting and treasury services in both Thai and global bank. Prior to joining KASIKORNBANK PCL, Ms. Nutcharee worked at Bank of Asia as Fund Control-Financial Accounting, Thailand and at Citibank Thailand as Treasury Finance controller. With her intensive experience in financial industry, she now serves as Capital Markets Support Management Head of KASIKORNBANK PCL



Mr. Chartchai Sundharagiati

#### Member



Mr. Chartchai Sundharagiati graduated from New York University, United States of America with Master degree in Business Administration (Stern). He started his banking career in 1985 as a software developer. After 30 years, he developed expertise on Banking services specializing in credit card. He was a Managing Director of Progress Software Co., Ltd. At present, he is a First Senior Vice President at KASIKORNBANK PCL.



Mr. Wichai Narongwanich, Ph.D., FRM, CFA

#### Member

Mr. Wichai Narongwanich has exhaustive experience and skill in risk management. Prior to his current position, he led in formulating strategic direction and value proposition of market and liquidity risk, developing market and liquidity and advising and providing risk management framework to KGroup companies. At present, as a First Senior Vice President of Enterprise Risk Management Division, his main role and responsibility is overseeing and supervising overall enterprise risk relating to KASIKORNBANK PCL including integrated risk, operational risk and fraud management.

Mrs. Pannee Lertchanyakul

#### Member



Mrs. Pannee Lertchanyakul has cultivated her expertise in financial industry through working in diverse area of banking sector. She initially began her career as a relationship management office, from which she earned her in-depth knowledge on Manufacturing and Services Industry and skill in business development. After 20 years, she shifted her role and responsibilities from relationship management to risk management and served as Department-Head of Credit Underwriting department whilst she is a pioneer in KBank's credit and risk assessment model. She was also a Managing Director of KASIKORN Factoring and Equipment Company before titling as First Senior Vice President of Corporate and SME Products Division of KASIKORNBANK PCL.



Ms. Siranee Phoophat

Member

After obtaining master degree in Public and Private Management from National Institute of Development Administration, Ms. Siranee Phoophat started her career path in general management before pursuing her career in human resource management.

After 10 years of experience, She first joined KASIKORNBANK PCL as the Head of Compensation and Benefits and now she held First Senior Vice President title. Her roles and responsibilities include develop and design career development strategy as well as talent management and salary planning for the entire organization.



Mr. Barvorn Srisangatrakul

Member

Mr. Barvorn Srisangatrakul has more than 10 years background in both Retail and SME banking. Prior to joining with KBank in 2009, he extensively gained management and operational experience from lending local bank and regional banks from South East Asian countries with variety of disciplines: credit analysis, E-channel management, product and channel development, business strategy and planning as well as marketing.



### 3.3 Risk Management Committee

1. Mr. Wichai	Narongwanich	Chairman
2. Mr. Pattanapong	Tansomboon	Deputy Chairman
3. Ms. Nutcharee	Nuntivacharin	Member
4. Mr. Barvorn	Srisangatrakul	Member
5. Ms. Supaporn	Sitilertpisan	Member

### 3.4 Audit Committee

1. Mr. Chartchai	Sundharagiati	Chairman
2. Mrs. Pannee	Lertchanyakul	Deputy Chairman
3. Mr. Wichai	Narongwanich	Member

### 3.5 Governance Committee

1. Ms. Siranee	Phoophat	Chairman
2. Mrs. Pannee	Lertchanyakul	Deputy Chairman
3. Mr. Barvorn	Srisangatrakul	Member



## Part IV Financial Report

### ● Corporate information

<b>Bank</b>	KASIKORNTHAI BANK Limited
<b>Banking Licence No.</b>	32/Bank of LAO PDR. Date 16/10/2014 Enterprise Registration Certificate No. 456/ERO Date 04/11/2014
<b>Board of Directors</b>	Mr. Pattanapong Tansomboon Ms. Nutcharee Nuntivacharin Mr. Chartchai Sundharagiati Mr. Wichai Narongwanich Mrs. Pannee Lertchanyakul Ms. Siranee Phoophat Mr. Bavorn Srisangatrakul
<b>Board of Management</b>	Mr. Bavorn Srisangatrakul (Country Director) Mr. Weekit Kimrattanapan (Chief Financial Officer)
<b>Registered Office</b>	KASIKORNTHAI BANK Limited Unit 14, Boulichan Road, Ban Ponesinuan Sysattanak, Vientiane Capital Vientiane, Lao PDR
<b>Auditor</b>	KPMG Lao Co., Ltd 4th Floor, K.P. Tower 23 Singha Road P.O. Box 6978 Vientiane Capital, Lao PDR

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

The management of KASIKORNTHAI BANK Limited (the "Bank") is responsible for the preparation of the financial statements and for ensuring that the financial statements fairly are prepared in all material respects financial position of the Bank as at 31 December 2015, and the statement of income, statement of changes in equity and statement of cash flows for the period from 4 November 2014 to 31 December 2015 in accordance with the Lao accounting rules. In preparing the financial statements, Management is required to:

- i) Adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- ii) Comply with the Lao accounting rules and the guidelines issued by the Bank of the Lao PDR or, if there have been any departures in the interest of true and fair presentation, ensure that these have been appropriately disclosed, explained and quantified in the financial statements;
- iii) Maintain adequate accounting records and an effective system of internal controls;
- iv) Take reasonable steps for safeguarding the assets of the Bank and for preventing and detecting fraud, error and other irregularities;
- v) Prepare the financial statements on the going concern basis unless it is inappropriate to assume that the Bank will continue operations in the foreseeable future; and
- vi) Effectively control and direct the Bank and be involved in all material decisions affecting the Bank's operations and performance and ascertain that such have been properly reflected in the financial statements.

Management confirms that they have complied with the above requirements in preparing the financial statements.

### APPROVAL OF THE FINANCIAL STATEMENTS

I, Mr. Barvorn Srisangatrakul, on behalf of the Board of Management, do hereby state that the financial statements set out on pages 5 to 23 give a true and fair view of the financial position of KASIKORNTHAI BANK Limited as at 31 December 2015 and of its financial performance and its cash flows for the period from 4 November 2014 to 31 December 2015 and have been properly drawn up in accordance with Lao accounting rules. Signed on behalf of the Board of Management



Mr. Barvorn Srisangatrakul  
Country Director 31 March 2016

## INDEPENDENT AUDITORS' REPORT

### To the Board of Directors of KASIKORNTHAI BANK Limited

We have audited the accompanying financial statements of KASIKORNTHAI BANK Limited (the "Bank"), which comprise the statement of financial position as at 31 December 2015, the statements of income, changes in equity and cash flows for the period from 4 November 2014 to 31 December 2015, and notes, comprising a summary of significant accounting policies and other explanatory information.

The financial statements have been prepared by the Bank using the basis of financial statement preparation and the accounting policies described in Notes 2 and 3 to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Lao accounting rules, 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 auditors consider internal control relevant to the entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by 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 audit opinion

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of KASIKORNTHAI BANK Limited as at 31 December 2015 and its financial performance and its cash flows for the period from 4 November 2014 to 31 December 2015 in accordance with the accounting regulations of the Bank of the Lao PDR and the Lao accounting rules

### Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2(a)(i) to the financial statements, which states that, the accompanying financial statements are not intended to present the financial position, results of operations, changes in equity, cash flows and notes thereto in accordance with generally accepted accounting principles and practices in countries or jurisdictions other than the Lao PDR. Furthermore, their utilisation is not designed for those who are not informed about the Lao PDR's accounting rules, procedures and practices.

*KPMG Lao Co*

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KPMG Lao Co., Ltd  
Vientiane Capital, Lao PDR  
31 March 2016

# KASIKORNTHAI BANK Limited

## Statement of financial position

Assets	Note	31 December 2015 (in thousand LAK)
Cash	9	348,246,736
Deposits with other banks	19	168,705,500
Statutory deposits with Central Bank		14,042,079
Investments	10	25,000,000
Loans and advances to customers	11	104,205,752
Property and equipment	12	9,426,927
Intangible assets	13	5,002,329
Other assets	14,19	4,428,300
<b>Total assets</b>		<b><u>679,057,623</u></b>
<b>Liabilities and Equity</b>		
<b>Liabilities</b>		
Deposits from customers	15	169,260,275
Deposits from other banks	19	205,213,456
Other liabilities	16,19	4,597,160
<b>Total liabilities</b>		<b><u>379,070,891</u></b>
<b>Equity</b>		
Paid-up share capital	17	300,000,000 (13,268)
Deficit		299,986,732
<b>Total Equity</b>		<b><u>679,057,623</u></b>
<b>Total liabilities and Equity</b>		

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

# KASIKORNTHAI BANK Limited

## Statement of income

	Note	For the period from 4 November 2014 to 31 December 2015 (in thousand LAK)
Interest income		6,481,218
Interest expense	19	(3,941,829)
<b>Net interest income</b>	4	<b>2,539,389</b>
Fee and commission income	19	1,379,194
Fee and commission expense		(229,815)
<b>Net fee and commission income</b>	5	<b>1,149,379</b>
<b>Net operating income</b>		<b>3,688,768</b>
Impairment loss on financial assets	11	(522,023)
Gain on foreign exchange		6,593,255
Other income		121,484
<b>Total operating income</b>		<b>9,881,484</b>
<b>Operating Expenses</b>		
Personnel expenses	6	3,281,465
Depreciation and amortization expenses		2,301,868
Other operating expenses	7,19	4,284,034
<b>Total operating expenses</b>		<b>9,867,367</b>
<b>Profit before income tax</b>		<b>14,117</b>
Income tax	8	27,385
<b>Loss for the period</b>		<b><u>(13,268)</u></b>
<b>Other comprehensive income</b>		<b>-</b>
Other comprehensive income for the period, net of income tax		(13,268)
<b>Total comprehensive income</b>		
<b>Loss per share</b>		
Basic loss per share (LAK)		0.44

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

# KASIKORNTHAI BANK Limited

## Statement of changes in equity

	Paid-up share capital	Deficit (in thousand LAK)	Total
For the period from 4 November 2014 to 31 December 2015	300,000,000	-	300,000,000
Issue of shares on incorporation 4 November 2014	-	(13,268)	(13,268)
Loss for the period	-	(13,268)	(13,268)
Balance at 31 December 2015f	300,000,000	(13,268)	299,986,732

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

# KASIKORNTHAI BANK Limited

## Statement of cash flows

For the period from  
4 November 2014 to  
31 December 2015  
(in thousand LAK)

	Note	
<b>Cash flows from operating activities</b>		
Profit before tax		14,117
Adjustments for:		
Depreciation and amortisation		2,301,869
Provision for bad and doubtful loans and advances (reversal)		523,873
Unrealised loss (gain) on exchange		(474,149)
Interest income		(6,481,218)
Interest expense		3,941,829
Interest received		4,606,034
Interest paid		(884,085)
<b>Income from operations before changes in operating assets and liabilities</b>		<b>3,548,270</b>
(Increase) decrease in operating assets		
Statutory deposits with Central Bank		(14,042,079)
Deposits to other banks		(168,705,500)
Loans and advances to customers		(104,254,158)
Other assets		(2,554,434)
Increase (decrease) in operating liabilities		
Deposits from customers		169,260,275
Deposits from other banks		205,213,456
Other liabilities		1,512,031
<b>Net cash provided by operating activities</b>		<b>89,977,861</b>
<b>Cash flows from investing activities</b>		
Purchases of investments in securities		(25,000,000)
Purchases of leasehold improvement and equipment		(10,206,773)
Acquired intangible asset		(6,524,352)
<b>Net cash used in investing activities</b>		<b>(41,731,125)</b>
<b>Cash flow from financing activities</b>		
Proceeds from issuance of ordinary shares	17	300,000,000
<b>Net cash provided by financing activities</b>		<b>300,000,000</b>
<b>Net increase in cash and cash equivalents</b>		<b>348,246,736</b>
Cash and cash equivalents at 4 November 2014		-
<b>Cash and cash equivalents at 31 December 2015</b>	9	<b>348,246,736</b>

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

# KASIKORNTHAI BANK Limited

Note to the financial statement

## 1. Organization and principle activities

KASIKORNTHAI BANK Limited (the “Bank”) is 100% foreign invested commercial bank which was incorporated in Lao People’s Domestic Republic and its registered office at Unit 14, Phonsinuan Village, Sisattanak District, Vientiane Capital, Lao PDR.

The Bank has issued and fully paid - up LAK 300 billion of authorized share capital which was registered with the Ministry of Commerce on 4 November 2014. The share capital is held by KASIKORNBANK PUBILC COMPANY LIMITED “KBANK” and Kasikorn Asset Management Co., Ltd 90% and 10%, respectively.

The Bank operates in the Lao People's Democratic Republic (“Lao PDR”) under the banking license (License No. 32/BOL) granted by the Bank of Lao PDR (“BoL”) on 4 November 2014 and Enterprise Registration Certificate No. 456/ERO dated 13 August 2013 issued by the Enterprise Registration Officer.

The principal activities of the Bank are to provide services comprehensive banking and related financial service in Lao PDR. As at 31 December 2015, the Bank had 17 employees

## 2. Basis of financial statement preparation

### (i) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The financial statements of the Bank were authorised for issue by the Country Director on 31 March 2016.

### (ii) Basis of measurement

The financial statements have been prepared on the historical cost basis except as stated in the accounting policies.

### (iii) Functional and presentation currency

These accompanying financial statements are presented in Lao Kip (“LAK”), which is the Bank’s functional currency. All financial information presented in LAK has been rounded in the financial statements and the accompanying notes to the nearest thousand, unless otherwise stated.

### (iv) Use of accounting estimates and judgments

In preparing this financial statement, management has made judgments, estimates and assumptions that affect the application of the Bank’s accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the notes:

Note 7 Loans and advances to customers

### (v) Fiscal Year

The Bank’s reporting period starts on 4 November 2014 and ends on 31 December 2015. Due to this is the first period for preparing the financial statement and the Bank got the approval from BOL.

## 3. Summary of significant accounting policies

The significant accounting policies set out below have been adopted by the Bank in the preparation of the financial statements.

### (a) Foreign currency transactions

Transactions in a currency other than the functional currency of the Bank are translated to LAK at the exchange rates approximating those ruling at the transaction dates.

All monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into LAK at the spot exchange rates at that date. All realised and unrealised foreign exchange differences arising from the translation are recognised in the statement of comprehensive income.

The applicable exchange rates for the Lao Kip against foreign currencies were:

	31 December 2015 (LAK)
United State Dollar (“USD”)	8,130.00
Thai Baht (“THB”)	225.85

## **(b) Financial assets and financial liabilities**

### **(i) Recognition**

The Bank initially recognises loans and advances, deposits on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

### **(ii) Classification**

Financial assets

The Bank classifies its financial assets in one of the following categories:

- Loans and receivables;
- Held to maturity; and
- At fair value through profit or loss as held for trading

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

### **(iii) Derecognition**

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

Any interest in such transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

### **(iv) Offsetting**

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS.

### **(v) Amortised cost measurement**

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

### **(vi) Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

#### **(vii) Identification and measurement of impairment**

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be reliably estimated.

Objective evidence that financial assets are impaired includes significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, the restructuring of a loan or advance by the Bank on terms that the Bank would not consider, otherwise indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security or observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances or held-to-maturity investment securities. Interest on the impaired assets continues to be recognised through the unwinding of the discount. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

The Bank writes off certain loans and advances and investment securities, either partially or in full, and any related allowance for impairment losses, when they determines that there is no realistic prospect of recovery.

#### **(c) Cash and cash equivalents**

Cash and cash equivalents consist of cash and bank balances, demand deposits and short-term highly liquid investments with original maturities of 30 days or less when purchased, and that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

#### **(d) Loans and advances**

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

#### **(e) Leasehold improvement and equipment**

##### **(i) Recognition and measurement**

Items of leasehold improvement and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of leasehold improvement and equipment have different useful lives, then they are accounted for as separate items (major components) of leasehold improvement and equipment.

Any gain or loss on disposal of an item of leasehold improvement and equipment is recognised within other income in profit or loss.



## (ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

## (iii) Depreciation

Depreciation is calculated to write off the cost of items of leasehold improvement and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss.

The estimated useful lives of significant items of leasehold improvement and equipment are as follows:

Leasehold improvement	20 years
Furniture, fittings and office equipment	5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

## (f) Deposits from customers

Deposits are the Bank's sources of debt funding. Deposits are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

## (g) Employee benefit obligations

### (i) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

## (h) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

## (i) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest income and expense presented in profit or loss.

## (j) Fee and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial assets or financial liabilities are included in the measurement of the effective interest rate.

Other fees and commission income are recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

## (k) Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

### (i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

### (ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

### (iii) Tax exposures

In determining the amount of current and deferred tax, the Bank considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Bank to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

### (l) Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements (within 'Other liabilities') at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the income statement in 'Credit loss expense'. The premium received is recognized in the income statement in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

### (m) Provision for contingent liabilities

Provisions for contingent liabilities 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. The expense relating to any provision is presented in the income statement net of any reimbursement.

### (n) Related parties

Parties are considered to be related to the Bank if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions or where the Bank and the party are subject to common control or significant influence. Related parties may be individuals or corporate entities and include close family members of any individual considered to be a related party.

## 4. Net interest income

4 November 2014 to  
31 December 2015  
(in thousand LAK)

Interest income	
Loans and advances to customers	2,641,727
Investments	95,890
Deposits with other banks	3,743,601
	<u>6,481,218</u>
Interest expense	
Deposits from customers	2,199,228
Deposits from other banks	1,742,601
	<u>3,941,829</u>
Net interest income	<u>2,539,389</u>

## 5. Net fee and commission income

4 November 2014 to  
31 December 2015  
(in thousand LAK)

Fees and commission income	
Foreign remittances and facilities	725,468
Domestic facilities	37,698

Financial services fees	598,528
Others	17,500
	<u>1,379,194</u>

#### Fees and commission expense

Other fees paid	(229,815)
Net fees and commission income	<u>1,149,379</u>

## 6. Personnel expenses

4 November 2014 to  
31 December 2015  
(in thousand LAK)

Wages and salaries	1,776,124
Other benefits	1,505,341
Total	<u>3,281,465</u>

## 7. Other operating expenses

4 November 2014 to  
31 December 2015  
(in thousand LAK)

Administrative expenses	2,369,286
Rental expense	1,844,817
Other expenses	69,931
Total	<u>4,284,034</u>

## 8. Income tax

Amounts recognised in profit and loss

4 November 2014 to  
31 December 2015  
(in thousand LAK)

Income tax	<u>27,385</u>
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The reconciliation of income tax computed at the statutory tax rate to the income tax shown in the statement of income is as follow:

	2015
Tax rate (%)	(in thousand LAK)
Profit before income tax	<u>14,117</u>
Income tax at the domestic tax rate	24.00 3,388
Add different between Lao accounting rules and IFRS tax effect of income and expenses that are not	10,796

exempt for tax purpose	13,201
Income tax	<u>46.34</u>
	<u>27,385</u>

## 9. Cash and cash equivalents

2015  
(in thousand LAK)

Cash on hand	4,556,380
Balances at Central Banks	209,824,700
Balances at other banks	133,865,656
Total	<u>348,246,736</u>

## 10. Investment

Held-to-maturity investments are bonds issued by the Ministry of Finance of the Lao PDR, the movement of investment were as follows:

	Balance as at 4 November 2015	Bought	Sold	Balance as at 31 December 2015
	(in thousand LAK)			
Investment securities				
Held-to-maturity	-	25,000,000	-	25,000,000
Total	-	<u>25,000,000</u>	-	<u>25,000,000</u>

## 11. Loans and advances to customers

2015  
(in thousand LAK)

Term loans	104,729,625
Less allowance for impairment	(523,873)
Loans and advances to customers, net	<u>104,205,752</u>
Current	14,251,493
Non-current	90,478,132
Total	<u>104,729,625</u>

	Gross amount	2015 Allowance for impairment loss (in thousand LAK)	Carrying amount
Corporate	104,729,625	(523,873)	104,205,752
<b>Total</b>	<b>104,729,625</b>	<b>(523,873)</b>	<b>104,205,752</b>

The changes in the provision for bad and doubtful loans and advances are as follows:

	2015 (in thousand LAK)
Individual allowance for impairment	
Balance at 4 November 2014	—
Foreign exchange translation	1,850
Credit loss expense	522,023
<b>Balance at 31 December 2015</b>	<b>523,873</b>

## 12. Leasehold improvement and equipment

	Leasehold improvement	Furniture, fitting and office equipment (in thousand LAK)	Total
<b>Cost</b>			
Balance at 4 November 2014	—	—	—
Additions	9,062,758	1,144,015	10,206,773
<b>Balance at 31 December 2015</b>	<b>9,062,758</b>	<b>1,144,015</b>	<b>10,206,773</b>
<b>Accumulated depreciation</b>			
Balance at 4 November 2014	—	—	—
Depreciation for the period	(528,868)	(250,978)	(779,846)
<b>Balance at 31 December 2015</b>	<b>(528,868)</b>	<b>(250,978)</b>	<b>(779,846)</b>
<b>Net book value</b>			
At 4 November 2014	—	—	—
At 31 December 2015	8,533,890	893,037	9,426,927

## 13. Intangible assets

Software license  
(in thousand LAK)

Cost	
Balance at 4 November 2014	—
Additions	6,524,352
<b>Balance at 31 December 2015</b>	<b>6,524,352</b>
<b>Accumulated depreciation</b>	
Balance at 4 November 2014	—
Amortisation for the period	(1,522,023)
<b>Balance at 31 December 2015</b>	<b>(1,522,023)</b>
<b>Net book value</b>	
At 4 November 2014	—
At 31 December 2015	5,002,329

## 14. Other assets

	2015 (in thousand LAK)
Interest receivables on loans	928,902
Interest receivables on investments	95,890
Interest receivables on deposit with other banks	849,074
Prepaid rental expense	1,195,110
Others	1,359,324
<b>Total</b>	<b>4,428,300</b>

## 15. Deposits from customers

	2015 (in thousand LAK)
<b>Retail customers:</b>	
- Current	2,898,475
- Savings	23,418,914
- Term	43,054,697
<b>Corporate customers:</b>	
- Current	92,663,730
- Savings	3,159,159
- Term	4,065,300
<b>Total</b>	<b>169,260,275</b>

## 16. Other liabilities

	2015
	(in thousand LAK)
Accrued interest payables	3,057,744
Others	<u>1,539,416</u>
<b>Total</b>	<b><u>4,597,160</u></b>

## 17. Paid-up share capital

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

	2015
	(in thousand LAK)
Balance as at 4 November 2014	—
Movement during the period	<u>300,000,000</u>
<b>Balance as at 31 December</b>	<b><u>300,000,000</u></b>

### Issue of ordinary shares

The Bank has issued and fully paid - up LAK 300 billion of authorized share capital which was registered with the Ministry of Commerce on 4 November 2014.

## 18. Statutory reserve

In accordance with the Law on Enterprise (Revision) No.46/NA dated 26 December 2013, the Bank is required to provide statutory reserve at the rate 10% of profit after deduct retained loss. The Bank can stop to reserve when the statutory reserve had accumulative up to 50 percentage of registered capital. The statutory reserve is subject to approval by Board of director.

## 19. 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, is 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 (d);
- (e) The party is an Bank that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such Bank 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 Bank that is a related party of the Bank.

The pricing policies for transactions with related parties are explained further below:

Transactions	Pricing policies
Fee and commission income	Contractual agreed price
Other operating expense	Contractual agreed price
Interest expense	Market rate

Significant transactions with related parties during the period are as follows:

Related party	Relationship	Transactions	Amount
			(in thousand LAK)
KASIKORNBANK PUBLIC COMPANY LIMITED	Parents company	Fee and commission income	596,244
KASIKORNBANK PUBLIC COMPANY LIMITED	Parents company	Other operating expense	402,465
KASIKORNBANK PUBLIC COMPANY LIMITED	Parents company	Interest expense	1,742,600

Significant balances with related parties at 31 December 2015 are as follows:

Related party	Relationship	Transactions	Receivable	Payable
				(in thousand LAK)
KASIKORNBANK PUBLIC COMPANY LIMITED	Parents company	Deposit with other banks	116,668,012	—
KASIKORNBANK PUBLIC COMPANY LIMITED	Parents company	Other assets	675,297	—
KASIKORNBANK PUBLIC COMPANY LIMITED	Parents company	Deposit from other banks	—	205,213,456

KASIKORNBANK PUBLIC COMPANY LIMITED	Parents company	Accrued interest payable	—	1,229,392
KASIKORNBANK PUBLIC COMPANY LIMITED	Parents company	Other liabilities	—	1,389,963

## 20. Fair Value of Assets and Liabilities

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market at the measurement date. In the absence of a principal market, the most advantageous market would be considered if the Bank and its subsidiaries are able to access that market at the measurement date.

The Bank measure fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Inputs other than quoted prices included within level 1 that are observable, either directly or indirectly. This category includes instruments valued using quoted prices in active markets for similar instruments, quoted prices for similar assets or liabilities in markets that are less than active, or other valuation techniques which are directly or indirectly observable from market data.
- Level 3** Inputs that are unobservable. This category includes assets or liabilities for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant impact on the valuation.

A transfer between the hierarchy occurs when the source or level of observability of input data in fair value measurement has changed

### Financial assets are not measured at fair value

The fair values of loans to customers approximates carrying value including accrued interest receivables and net of deferred revenue, allowance for doubtful accounts as loans are at market rates of interest and the majority of fixed rate loans are short term. Furthermore, allowance for doubtful accounts is predominately determined on an expected loss basis.

The carrying amount of the following financial assets: cash, deposit with other banks, investment, and other assets which core item is accrued interest receivables and that of the following financial liabilities: deposits from customer, deposit from other bank, and other liabilities which core item is accrued interest payables are a reasonable approximation of fair value because they are mostly short term in nature.

## 21. Financial risk management

### 21.1 Operational Risk Management

Operational risk refers to the risk of direct or indirect losses in bank earnings and capital funds, resulting from inadequate processes, personnel, or operating and IT systems, or external events. Having realized the importance of operational risk management, the Bank continues to place a great emphasis on effective operational risk management, and has continually improved the Bank risk management framework to control and mitigate operational risk proactively, as well as strengthening the operational risk awareness and education to entire the group.

In so doing, our management teams, which includes executive member in KBANK, regularly governs overall operational risk of the Bank, as well as, bank's supervisors, who ensures the effectiveness of controls of all operational activities closely.

Currently, the overall banks' key risk would be classified in staff experience and operation skills which may cause error during process operation. To manage the mentioned risk, the concept of segregation of duty and four eyes of defense will be applied as control mechanism to reduce chances of involvement of crime and fraud. The concept is introduced and instilled along with clarification of roles and responsibilities of staffs, regular training schedules for operational risk awareness and banking ethics. Furthermore, the core banking system is implemented to facilitate operating control and accuracy of information along banking activities.

The Bank continues to place great emphasis on effective operational risk management, and has continually improved our risk management framework to control and mitigate operational risk proactively. From the highest level of control, the operational risk management policy has been developed and implemented in the bank, where there is clear segregation of roles and establishment of standards that is systematically implemented across the entire the Bank's operations. For the operational processes, the operational risk management framework focuses on the procedure of developing new / existing product (PMF) and delegation of authorities management, implementation of annual review to update the change of environment, adoption of incident and case management policy to regulate reporting of operational risk incident, centralizing the Risk Event Database (RED) of occurred incidents and compliance with local regulation requirements. Furthermore, the Bank will maintain constant situational awareness in order to handle contingency events, which might impact customer service quality or pose as business obstacles. The reaction plans are geared towards the Business Continuity Management (BCM) per KBANK standard.

For strengthen of staff experience and awareness, training is regularly arranged to enhance employees' awareness in areas of risk knowledge. On the other hand, the staff will receive effective and realistic on job training guided by the experienced staff in charge of each unit.

Besides the first layer of daily operation staff, the second layer of operational risk management includes the Enterprise Risk Management unit, Branch manager, unit supervisors level. They would be responsible to manage operational risk in normal course of business within the branch, and control risk within acceptable level.

## 21.2 Credit risk

“Credit risk” refers to the risk that a counterparty or borrower may default on contractual obligation or agreements. Such defaults by counterparties incur losses to the Bank, and are often a result of the inability to make repayment owing to financial difficulties, or intention not to abide by the agreements. To effectively mitigate such adverse scenarios, the Bank conducts credit risk management in areas as follows:

### Loan portfolio management

The Bank sets and reviews loan targets, performs continuous monitoring of portfolio quality to better reflect changing economic situations, ensures consistency with the bank’s policies and risk appetite before submitting monthly reports to the Risk Management Committee.

### Credit underwriting, approval process and monitoring

In the credit approval process, the Bank will consider the customers’ ability to repay and the loan objectives as key factors in the approval of credit. The Bank may obtain sufficient collateral or other securities, where appropriate, as a means of mitigating the risk of financial losses from repayment defaults. To maximize the effectiveness of the credit approval process, credit analysis and approval functions are undertaken by credit underwriters in KBANK. However, large loans will require additional acknowledgement by BOD.

The Bank determines the loan growth target and its desirable credit portfolio composition to strive for the highest possible risk-adjusted return within the acceptable risk levels. This is done by taking into account the economic outlook, potential market opportunities, and the bank’s strategic direction. For assessment of medium and large corporate customers’ credit risk level, the Bank utilizes credit risk rating tools to enhance the quality of loans granted. The Bank has additional processes in place for regular reviewing of the customers’ credit ratings and performance on all approved transactions.

The Bank establishes monitoring mechanism for continuous tracking of customer performance, taking into account the changing economic situation and other major events. Relationship managers will be assigned to monitor customers and prepare quarterly credit monitoring reports. Proper mitigation actions will be taken as soon as negative signals from customers are detected. Moreover, the Bank will monitor and control credit usages to ensure that borrowing objectives are strictly met.

### Loan Risks Classification and provisioning

Loan classification and loan loss provisions have been completely established in compliance with regulatory requirements. The Bank assesses the risk and classifies the loans based on the possibilities of repayment. Principle factors taken in to consideration include: the borrower’s repayment ability, repayment record and willingness to repay the loan, profitability of the loan project, the loan guarantees as well as the legal obligations relating to loan repayment.

During the reporting period, the Bank refines the loan risk classification system and reinforces loan detection and monitoring for adjustment of the potential risk classifications to ensure that loan classifications are objective and prudent.

According to the BOL regulation, when the Bank extends credit to borrowers, provisioning must be set aside to offset any possible loss. The amount of provisioning shall be determined by applying the following minimum percentages by classification ranging from 0.5% to 1% in accordance with the Official Letter No. 242/BOL issued by the Bank of Lao P.D.R on 2 April 2011. Accordingly, the Bank provided general provision at rate of 1% out of total balance of Normal or Pass loan, 3% for Special mention, 20% for Substandard, 50% for Doubtful and 100% for Loss.

## 21.3 Market risk

Market risk may arise from changes in interest rate, foreign exchange, securities and commodity prices, as well as credit spreads. These changes will affect the bank’s present and future income, capital, as well as the value of financial assets and liabilities. Essential infrastructures and processes have been developed to appropriately and timely manage market risk.

### 21.3.1 Interest rate risk

Interest rate risk is the risk arising from changes in interest rates which may affect the value of the bank’s financial instruments, or may cause volatility in the bank’s earnings, capital, financial assets and liabilities, both the current reporting period and in the future. The Bank has employed various tools to manage interest rate risk, such as interest rate gap and net interest income (NII) sensitivity.

An analysis of loans (including financial institutions) at fixed and floating interest rates (MLR, MOR and MRR) as of 31 December 2015 is as follows:

2015  
(in thousand LAK)

Fixed interest rates	104,774,607
Floating interest rates	—
<b>Total Loans (including financial institutions)</b>	<b>104,774,607</b>

The average balances of the interest-bearing financial assets and liabilities of the Bank, calculated by using monthly average, and the average interest rates for the years ended 31 December 2015 are as follows:

	Average balance	2015 Interest income/ expense (in thousand LAK)	Average interest rate (%)
<b>Financial assets</b>			
Interest-bearing financial assets			
Deposits with other banks	136,284,463	3,743,601	2.7%
Investments	4,166,666	95,890	4.0%
Loans to customers	71,510,726	2,641,727	6.8%
<b>Total financial assets</b>	<b>211,961,855</b>	<b>6,481,218</b>	
<b>Financial liabilities</b>			
Interest-bearing financial liabilities			
Deposits from customers	60,273,504	2,349,577	3.9%
Deposits from other banks	181,862,259	1,742,601	0.9%
<b>Total financial liabilities</b>	<b>242,135,763</b>	<b>4,092,178</b>	

## Financial assets and liabilities, classified by maturity of interest repricing, as of 31 December 2015 shown below:

	2015 (in thousand LAK)					Total
	Immediate Repricing	Less than 6 Months	6 Months to 1 Year	Over 1 Year to 5 Years	Non- interest Bearing	
<b>Financial liabilities</b>						
Cash and cash equivalents	—	—	—	—	348,246,736	348,246,736
Deposits with other banks	—	168,705,500	—	—	—	168,705,500
Statutory deposits with Central Bank	—	—	—	—	14,042,079	14,042,079
Investments	—	—	25,000,000	—	—	25,000,000
Loans to customers	—	5,787,307	4,488,390	94,453,928	—	104,729,625
Accrued interest receivables	—	1,777,970	95,890	—	—	1,873,860
<b>Total financial assets</b>	<b>—</b>	<b>176,270,777</b>	<b>29,584,280</b>	<b>94,453,928</b>	<b>362,288,815</b>	<b>662,597,800</b>
<b>Financial liabilities</b>						
Deposits from customers	26,578,075	7,731,218	10,673,944	28,714,835	95,562,203	169,260,275
Deposits from other banks	1,963,456	81,300,000	121,950,000	—	—	205,213,456
Accrued interest	364	266,292	1,474,030	1,317,058	—	3,057,744
<b>Total financial liabilities</b>	<b>28,541,895</b>	<b>89,297,510</b>	<b>134,097,974</b>	<b>30,031,893</b>	<b>95,562,203</b>	<b>377,531,475</b>



### 21.3.2 Foreign exchange rate risk

Foreign exchange rate risk is the risk that occurs from changes in exchange rates which may affect the value of the bank's financial instruments or may cause volatility in the bank's earnings, capital, financial assets and liabilities, both in the current reporting period and in the future. Example of the tools adopted for managing foreign exchange rate risk are, for instance, open position limit (OPL) and management action trigger (MAT).

Foreign currency positions in LAK equivalent, as of 31 December 2015 were as follows:

	2015		Total
	US Dollar	THB (in thousand LAK)	
<b>Financial assets</b>			
Cash and cash equivalents	161,679,021	103,050,385	264,729,406
Deposits with other banks	81,490,513	6,781,626	88,272,139
Statutory deposits with Central Bank	2,088,272	7,172,416	9,260,688
Loans to customer and accrued interest receivables	83,549,954	2,584,613	86,134,567
Other financial assets	1,296,759	821,544	2,118,303
<b>Total financial assets</b>	<b>330,104,519</b>	<b>120,410,584</b>	<b>450,515,103</b>
<b>Financial liabilities</b>			
Deposits from customers and accrued interest	35,920,206	116,621,976	152,542,182
Deposits from other banks and accrued interest	206,442,847	—	206,442,847
<b>Total financial liabilities</b>	<b>242,363,053</b>	<b>116,621,976</b>	<b>358,985,029</b>
<b>Foreign currency position of items recognised on the statement of financial position - net</b>	<b>87,741,466</b>	<b>3,788,608</b>	<b>91,530,074</b>

### 21.4 Credit spread risk

Credit spread risk is the risk arising from changes in credit spreads which may affect the value of the bank's financial instruments or may cause volatility in the bank's earnings, capital, financial assets and liabilities, both in the current reporting period and in the future.

The bank manages risk arising from bond underwriting and bond trading business mainly to serve customers' demand, as well as investing in bond under relevant applicable regulations.

In addition, the bank has closely monitored risk status and market situations in order to pursue prudent management and control risk under the limits.

### 21.5 Liquidity risk

Liquidity risk is the risk that the bank will be unable to meet its obligations as they fall due because of an inability to liquidate assets or obtain sufficient funding in a timely manner at an appropriate cost which could result in losses.

The bank manages its liquidity risk under the Bank of Thailand's liquidity reserve regulations and other applicable regulations by sourcing for short-term and long-term funding, investing in highly liquid assets in both domestic and foreign currencies, maintaining Liquidity Coverage Ratio (LCR) in order to ensure that bank has sufficient liquidity to support net cash outflows under liquidity stress scenario, and setting up various tools and limits for risk measurement, monitoring and control, and reporting. The bank also ensures that its liquidity position is suitable and sufficient for operations under both normal and critical situations.

Financial assets and liabilities, classified by contractual maturity analysis, as of 31 December 2015 and 2014 shown follows:

	2015					Total
	At call	Less than 6 Months	6 Months to 1 Year	Over 1 Year to 5 Years	No Maturity	
<b>Financial assets</b>						
Cash and cash equivalents	348,246,736	—	—	—	—	348,246,736
Deposits with other banks	—	168,705,500	—	—	—	168,705,500
Statutory deposits with Central Bank	—	—	—	—	14,042,079	14,042,079
Investments	—	—	25,000,000	—	—	25,000,000

Loans to customers	–	7,768,429	6,483,064	90,478,132	–	104,729,625
Accrued interest receivables	–	1,777,970	95,890	–	–	1,873,860
<b>Total financial assets</b>	<b>348,246,736</b>	<b>178,251,899</b>	<b>31,578,954</b>	<b>91,405,158</b>	<b>14,042,079</b>	<b>662,597,800</b>
<b>Financial liabilities</b>						
Deposits from customers	122,140,278	7,731,218	10,673,944	28,714,835	–	169,260,275
Deposits from other banks	1,963,456	81,300,000	121,950,000	–	–	205,213,456
Accrued interest	364	266,292	1,474,030	1,317,058	–	3,057,744
<b>Total financial liabilities</b>	<b>124,104,098</b>	<b>89,297,510</b>	<b>134,097,974</b>	<b>30,031,893</b>	<b>–</b>	<b>377,531,475</b>
<b>Liquidity - net</b>	<b>224,142,638</b>	<b>88,954,389</b>	<b>(102,519,020)</b>	<b>60,446,239</b>	<b>14,042,079</b>	<b>285,066,325</b>
<b>Liquidity - cumulative net</b>	<b>224,142,638</b>	<b>313,097,027</b>	<b>210,578,007</b>	<b>271,024,246</b>	<b>285,066,325</b>	<b>–</b>

## 22. Operating Segments

The major business of the Bank is providing financial services to the corporate customers. The rest of the business is not significant to overall financial statements. The management considers the business conducted in Lao PDR as one whole segment. The information reviewed by the Chief Executive Officer is similar as presented in the statement of profit or loss. When taking into consideration the business location of the Bank, there is only one geographical segment as the business operates only in Lao PDR.

## 23. Capital Management

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

	2015
	(in thousand LAK)
Tier 1 capital	300,031,710
Tier 2 capital	523,870
<b>Total capital</b>	<b>300,555,580</b>
Less: Deductions from capital (Investments in other credit and financial institutions)	–
<b>Capital for CAR calculation</b>	<b>300,555,580</b>
Risk weighted balance sheet items	182,834,220
Risk weighted off balance sheet items	–
<b>Total risk weighted assets</b>	<b>182,834,220</b>
<b>Capital Adequacy Ratio</b>	<b>164.39%</b>

## 24. Events after the reporting period

Other than as disclosed elsewhere in these financial statements, at the date of this report, there were no events, which occurred subsequent to 31 December 2015 that significantly impacted the financial position of the Bank as at 31 December 2015.

## 25. International Financial Reporting Standards (IFRS) not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2014; however, the Group has not applied the following new or amended standards in preparing these financial statements.

IFRS	Topic	Year effective
IFRS 9	Financial Instruments	2018

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 9.



## Part V Events



May 28, 2015  
Financial Inclusion Seminar:  
Mobile Payment Service (with BoL)



July 8, 2015  
 AEON Lao PDR MOU Signing Ceremony

September 1, 2015  
 Microfinance seminar at the Bank of the Lao PDR



December 25, 2015  
KBank Laos 1st year Anniversary Campaign

