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开泰银行 KASIKORNTHAIBANK

KASIKORNTHAI BANK LIMITED
ANNUAL REPORT

January - December 2018


ທະນາຄານກະສິກອນໄທ
KASIKORNTHAIBANK

Contents

Business Opportunities in AEC+3

Over the past few decades, ASEAN economic development has been outstanding and caught worldwide attention. Recently, while the global economy is facing various challenges and uncertainties, ASEAN economic growth remains robust. Ranked as the 7th global biggest economy, ASEAN achieved a growth of 4.9% in 2018 with a GDP of USD 2.4 trillion.

ASEAN has been an attractive destination for foreign direct investment (FDI) with an expanding opportunity to new emerging markets. On the 50th establishment anniversary in 2017, the region recorded an all-time high FDI of USD 137 billion, an 11.4% increase from 2016. In addition, ASEAN is also one of the remaining blocs to have a double-digit growth in trade. The exceptional performances are the result of ASEAN Economic Community (AEC), which allows free flow of goods, services, labour and capital between the 10 member states.

The connectivity between ASEAN and other economies such as China, Japan and Korea is expected to be strengthened further by regional cooperation and investments. In 2019, the ratification of Comprehensive and Progressive Trans-Pacific Partnership will markedly boost the economic connectivity of AEC+3. In addition, its sustainable growth will be driven by regional infrastructure development like China – Laos Railway, an investment project totaled USD 5.9 billion to be completed by 2021. Once the railway operates, Lao PDR will become the strategic location in ASEAN linking China, Thailand, Malaysia and Singapore.

To help our customers take advantage of this remarkable opportunity, KBank prioritizes international business on the top of the strategic agenda through the creation of AEC+3 strategy. We have continuously developed both financial solutions and non-financial services as well as expanded our international facilities to make KBank the unique and qualified partner for all financial service needs in AEC+3.

KASIKORNTHAI BANK Limited Vision, Mission and Core Values

Vision

KASIKORNTHAI BANK Limited aims to be a most innovative, dynamic, and proactive customer-centric financial institution that creates sustainability for all stakeholders.

Mission

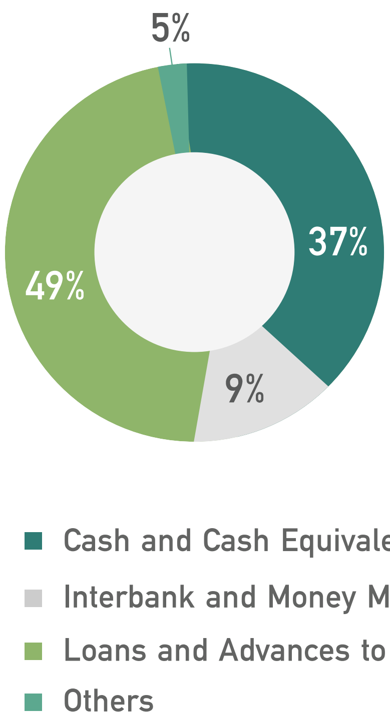
KASIKORNTHAI BANK Limited aims to harmoniously combine technology and human resources to sustainably create world-class-quality financial services, so as to achieve optimal benefits for all stakeholders.

Core Values

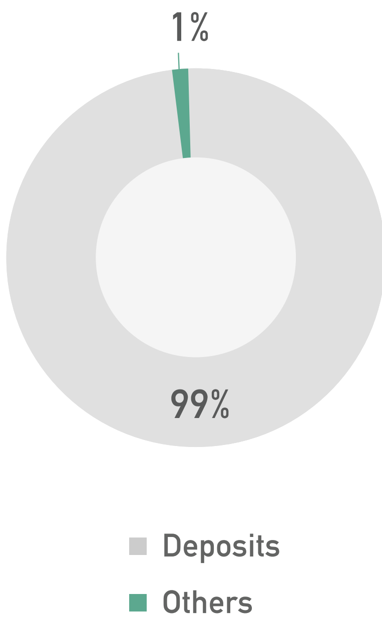
- Customer Centricity
- Organization-Wide Teamwork
- Professionalism
- Innovation

KASIKORNTHAI BANK Limited
Financial Highlights

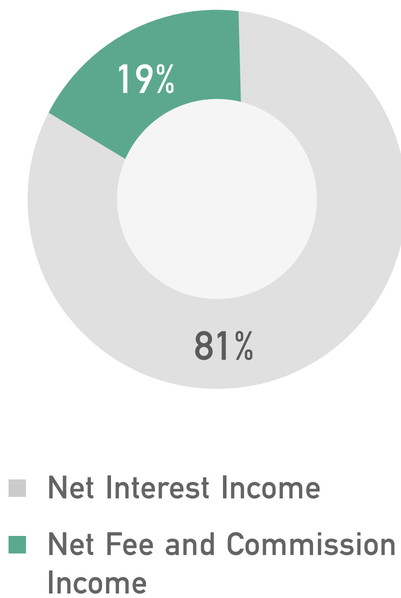
Total Assets



Total Liabilities



Net Operating Income



Unit : Thousand of LAK

	1 January 2017 to 31 December 2017	1 January 2018 to 31 December 2018
Net Interest Income	12,148,655	12,502,759
Net Fee and Commission Income	2,396,269	2,955,354
Net Operating Income	14,544,924	15,458,113
Total Operating Income	17,937,166	19,533,694
Total Operating Expense	14,722,991	16,742,341
Profit before Income Tax	3,214,175	2,791,353
Net Profit	2,442,773	1,472,024

Total Assets

As of December 31, 2018, KASIKORNTHAI BANK LIMITED ("KBank Lao") has total assets in equivalent to LAK 818,114,443 thousand with loan size, to both public and private sectors, at LAK 399,847,364 thousand in total. KBank Lao also maintains sustainable liquidity for increase of loan in year 2019.

Total Liabilities

Total liabilities as of December 31, 2018 is LAK 514,438,907 thousand with deposits totaled LAK 507,856,468 thousand from customers and other financial institution.

Net Operating Income

For the year ended 2018, KBank Lao has net operating income totaled LAK 15,458,113 thousand which comprises of net interest income totaled LAK 12,502,759 thousand, net fee and commission income totaled LAK 2,955,354 thousand. In comparison with 2017 full year operation, net operating income has mainly increased from fee and commission income.

Net Profit

KBank Lao has profit before income tax totaled LAK 2,791,353 thousand and net profit for the year 2018 totaled LAK 1,472,024 thousand which a bit decreased from year 2017 by LAK 970,749 thousand due to higher operation expenses of the new project, QR Wallet, and application of Financial Instruments, IFRS9.

Chairman Message

Lao PDR, a country rich in natural resources and cultural heritage. With a 6.8% average growth rate in the medium term, Lao PDR is one of the fastest growing nations in ASEAN, driven by foreign investments, particularly from China and other ASEAN countries. The country's economy has flourished because of opportunities granted by the Laotian government for domestic and foreign businesses to take part in a number of important development projects to enhance its infrastructures to become the region's transit service center.

Due to increasing international foreign direct investment, consultations for potential investors will be continued through business matching and business advisory activities. Aspiring to be the "Bank of AEC+3", KASIKORNTHAI BANK Limited is committed to leverage expertise from six ASEAN locations; Thailand, Lao PDR, Cambodia, Myanmar, Vietnam, Indonesia plus other presences in those AEC + 3 to deliver excellent services for regional investors.

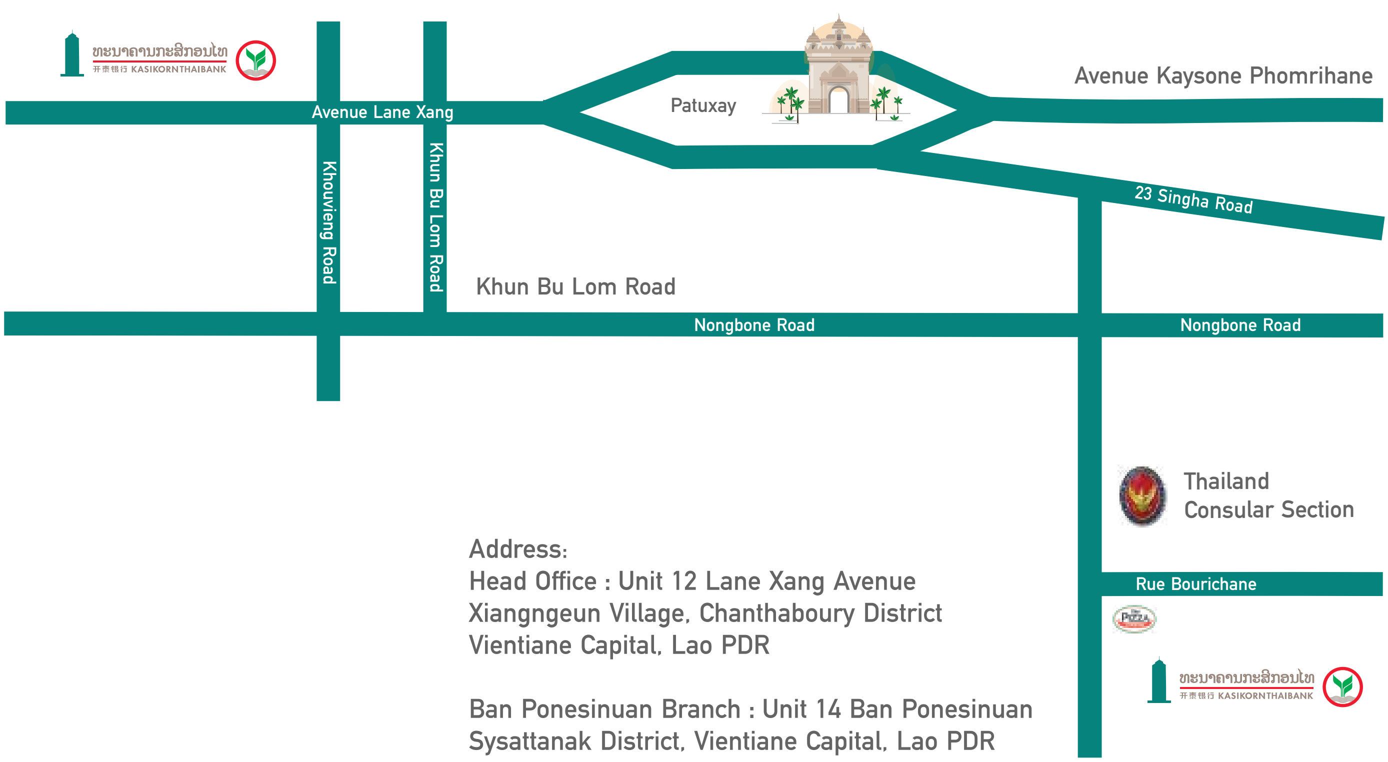
As the country economic growth will improve domestic businesses, KASIKORNTHAI BANK Limited has expanded the loan portfolio by focusing more on local SME lending. In 2018, the Bank acquired new customer groups in various industries including agriculture, construction, commerce, transport, leasing, and food and beverage sectors. In addition, for the fourth consecutive year, KBank still maintains the share of NPL at 0% as a result of remarkable risk control and management. We also initiate innovative channel in Lao PDR market (QR KBank) to capture retail segment customer.

Lastly, I would like to express my gratitude on behalf of the Board of Directors and KASIKORNTHAI BANK Limited, to the Bank of Lao PDR, the regulators, the partner banks, and the business alliances for assisting us in providing safe and convenient financial service in Lao PDR. Additionally, I would like to thank the shareholders and the customers for consistent trust in KASIKORNTHAI BANK Limited. As we continue to maintain our established "Customer Centricity" philosophy, the delivery of an impressive experience to all customer segments would not be possible without our excellent staff's collective efforts throughout 2018.

Part I Corporate Background

1.1. Corporate Information

Registered Name	KASIKORNTHAI BANK Limited
Enterprise Registration No.	0550 / ERO
Bank License No.	06 / BOL
Registered Capital	LAK 300,000 Million
Established Date	October 16, 2014
Chairman	Mr. Pattanapong Tansomboon
Country Director	Mr. Pakapong Poomarporn
Registered Office	Unit 12, Lane Xang Avenue, Xiangngeun Village Chanthaboury District, Vientiane Capital, Lao PDR
Telephone No.	+856 21 410 888
Website	http://www.kasikornbank.com.la



Address:
Head Office : Unit 12 Lane Xang Avenue
Xiangngeun Village, Chanthaboury District
Vientiane Capital, Lao PDR

Ban Ponesinuan Branch : Unit 14 Ban Ponesinuan
Sysattanak District, Vientiane Capital, Lao PDR

1.2 Overview of KASIKORNBANK PUBLIC COMPANY LIMITED

The KASIKORNBANK PUBLIC COMPANY LIMITED (KBank) was established on June 8, 1945 and listed on the Stock Exchange of Thailand since 1976. For over 70 years of operation, our main focus is to deliver impressive services and innovative products that best response to customer needs. KBank places equal importance on both domestic and regional economic direction, consumer behavior, government policies and market competition. These factors are assessed to define new strategies for KBank to enhance business operations and adapt to coming changes while sustainably upholding the superiority and relevance to customers' lives.

Furthermore, to better serve customer in all dimensions, KBank leverages synergies among 7 wholly-owned subsidiaries (K Companies) which specialize in different fields:

- KASIKORN ASSET MANAGEMENT CO., LTD. (KAsset)
- KASIKORN RESEARCH CENTER CO., LTD. (KResearch)
- KASIKORN SECURITIES PCL (KSecurities)
- KASIKORN LEASING CO., LTD. (KLeasing)
- KASIKORN FACTORY & EQUIPMENT CO., LTD. (KF&E)
- KASIKORN BUSINESS-TECHNOLOGY GROUP (KBTG)
- KASIKORN VISION CO., LTD (KVision)

KBank is also a major shareholder of our locally incorporated commercial bank in Lao PDR and China named KASIKORNTHAI BANK Limited and KASIKORNBANK (CHINA) CO., LTD. respectively, which work closely together to provide the most effective services by expertise of local and international staffs.

With the core strategy to be "The bank of AEC+3" and aspiration to be the "Regional Life Platform of Choice" in AEC+3, KBank implements **"Three Track Regional Digital Expansion"**. In the first **Classical Expansion** track, we extend and develop the banking business network in AEC+3. In the second **Digital Expansion** track, KBank develops issuing and acquiring business systems for electronic payments. In the third **Industry Solution and Ecosystem Expansion** track, we acquire customers in the "beyond banking" realm by delivering customer-centric solutions, enabled by asset-light investments to anticipate our customer's needs.

KBank set its foot in Lao PDR for the first time back in late 2014, becoming the first locally incorporated commercial bank from Thailand, under the Enterprise Registration No.0550 / ERO granted by Enterprise Registration Office of Lao PDR. KASIKORNTHAI BANK Limited (KBank Lao) has registered capital at LAK300,000 million and its shareholders comprise respectable corporations namely, KASIKORNBANK PUBLIC COMPANY LIMITED and KASIKORN ASSET MANAGEMENT Co., Ltd.. KBank Lao currently has two offices in Vientiane, Ban Ponesinuan branch and the Lane Xang Head Office. KBank Lao has come up with a wide variety of financial products and services for business and individual clientele in Laos such as international transfers, foreign exchange, local and foreign currency deposit accounts, long-term and short-term loans in Lao Kip, US dollar and Baht. KBank Lao has expanded accessibility to our financial services by setting up a service center in both offices especially for High Net Worth Individuals and developing QR KBank mobile application as a digital alternative channel for payments.

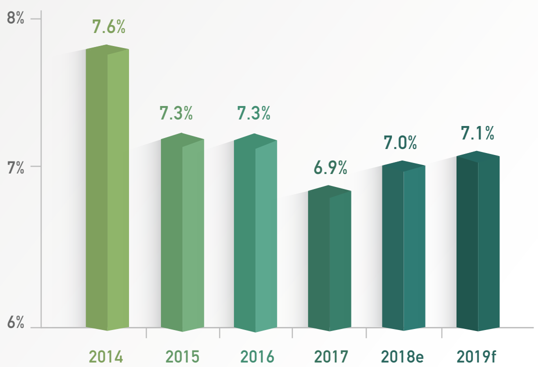
As we are stepping into our 8th decade with a well-established banking business in Laos, KBank will further develop products and services to satisfy diverse businesses and individuals' needs. We will continue to deliver great customer experiences in Laos to match our slogan, "Towards Service Excellence".

Part II Management Discussion and Analysis

2.1 Lao PDR Economic Overview

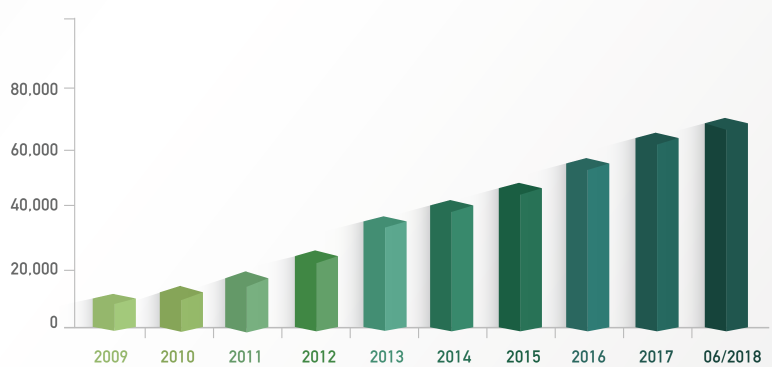
The economy of Lao PDR in 2019 is expected to continue to grow based on several factors. One important driver is foreign direct investment (FDI) into infrastructure projects, especially the high-speed railway linking Lao PDR with China that is part of China's Belt and Road Initiative (BRI). The total value of this project amounts to USD6 billion, accounting for 35 percent of the overall economy of the country, which will be injected into the system by an average of USD1.2 billion a year until construction is complete in 2021. However, this may also heighten Lao PDR's sensitivity regarding its high public debt to GDP ratio, which stood at 61 percent in 2017.

Continued Economic Growth



Sources: ADB and Bank of Lao PDR, compiled by KResearch
Note: e=expected, f=forecasted by KResearch

Continual Increase in Domestic Loans



Source: Bank of Lao PDR, compiled by KResearch

In addition to the high-speed railway construction, the government has attempted to attract FDI into other areas, as seen from additional benefits granted to investors, including trade facilitations and tax privileges in the Lao Savan Special Economic Zone (2-10 years of income tax exemption). The government plans to establish 40 new SEZs with the purpose of attracting USD3 billion of fresh FDI funds atop the existing USD1.24 billion in 2017, with a focus on the mining and electricity generation sectors. On the other hand, investment in Lao PDR faces some challenges, in particular the workforce constraints and the rising trend of labor wages. Although higher wages could attract Lao workers to return from working abroad, they may also diminish Lao PDR's advantage vis-à-vis other CLMV nations where wages are relatively lower.

Income derived from exports is helping narrow the country's current account deficit somewhat. As the construction of certain hydropower dams has been completed and electricity supplied to Malaysia and Singapore since 2017, and additional dams are slated for completion in 2019 including Xayabouly, Nam Ngiep 1 and Nam Pha, export income is expected to rise further. On the import front, Lao PDR has to rely on capital goods and substantial input from other countries to support the construction of megaprojects such as the aforementioned dams, and the Belt and Road Initiative (BRI) project. Moreover, oil imports are set to accelerate in line with tensions in the Middle East and the US-China trade war. Under these circumstances, the current account deficit of Lao PDR is unlikely to drop significantly in 2019 and will be persistent in the long term.

Regarding the financial sector, domestic businesses have increasingly borrowed from financial institutions for their expansion in sync with economic growth. According to a report of the Bank of Lao PDR, credit has recorded double-digit growth rates for at least five consecutive years. Among the credits which have grown in line with domestic production are credit extended to the industrial sector, which holds the largest share at 30 percent; followed by trade at 20 percent; construction at 12 percent; and service at 10 percent. Household credit is relatively insignificant. According to limited number of bank branches and ATMs and complicated bank account opening procedure, Banking Penetration in Laos is still 26 percent. Bank of Lao PDR's mission is to increase the financial inclusion by issuing innovative regulations such as mobile payment to Bank and Non-Bank which can facilitate payment and lead to economic growth and rising household income. This will certainly help upgrading quality of life of people in Laos.

The importance of technology is acknowledged worldwide amid today's rapid changes. Lao PDR is no exception, especially in its population's growing use of mobile phones. Currently, the country's mobile penetration rate is as high as 91 percent, and 90 percent of its populace has access to the internet via mobile phone, though the internet penetration rate is relatively low at 35 percent. This suggests that the majority of Lao consumers have access to mobile phones; therefore, any future business undertaking there must be mobile phone-based to be able to tap into customers residing in areas other than economic centers that already have land-line internet networks.

The high mobile penetration rate and the Bank of Lao PDR's permission for local financial institutions to introduce QR Code payment service in mid-2018 represent a new dimension in the country's financial service sector, because all consumer segments now have improved access to financial services, including those in areas with no land-line internet network. They also have a new option of saving their money in digital form. Local and international financial institutions operating in Lao PDR have begun to introduce QR code payment services and e-wallet applications. Building a customer base via such channels will likely allow such financial institutions to offer diverse financial innovations in the future.

In summary, the Lao economy's positive outlook in terms of investment, production, exports and financial innovation development in response to technological change will propel the country's economic performance in 2019 to continue expanding at 7.1 percent, slightly higher than the 7.0-percent growth expected for 2018. Such growth is a testament to Lao PDR's appeal not only in terms of economic expansion – recording the second-highest economic growth rate in ASEAN after Myanmar – but also progress in the development of information and communication technology, which shows Lao PDR's enthusiasm in embracing innovation to advance the country's economic development inclusively. Such efforts will enable local businesses to keep up with changing global technological trends and present an opportunity for international businesses to participate in the economic development of Lao PDR.

2.2 2018 Business Performance and Business Directions of KASIKORNTHAI BANK Limited for Year 2019

KASIKORNTHAI BANK Limited (“KBank Lao”) experienced a year of business revolution in 2018. Since the establishment in 2014, KBank Lao has grown remarkably both in terms of business performance and customer base with ongoing products and services development to meet with customer’s unique needs and changing business environment. However, our portfolio has mainly focused on Thai-Sub and local corporations with traditional banking products despite the high demand in local market. Therefore, KBank Lao has started to adjust the portfolio to focus more on local customers including corporations, their value chains, and SMEs in 2018. As a result, KBank Lao was being able to access the underserved market through better understanding in local customer’s needs and also achieved higher yields.

To support business growth in Laos, innovative products are essential. In the second half of 2018, KBank Lao signed MOU with PTT (LAO) Co.,Ltd in order to provide Supply Chain Solution to local petrol stations. Apart from Supply Chain Solution, KBank Lao also launched e-Wallet at Khua Din Market in December 2018. These innovations will not only enable local customers to enter banking sector, but also enhance KBank Lao’s capabilities to serve local customer’s needs.

Regarding digital business expansion of KBank in AEC+3 region, financial products and service innovations will be developed to match the needs of our customers and ensure excellent service quality.

Part III Organization Structure

3.1 Shareholders

KASIKORNBANK PUBLIC COMPANY LIMITED	90%
KASIKORN ASSET MANAGEMENT COMPANY LIMITED	10%

3.2 Board of Directors

1.	Mr. Pattanapong	Tansomboon	Chairman
2.	Ms. Nutcharee	Nuntivacharin	Deputy Chairman
3.	Mr. Karin	Boonlertvanich	Director
4.	Mr. Wichai	Narongwanich	Director
5.	Ms. Siranee	Phoophat	Director
6.	Mr. Photjanart	Sangpruaksa	Director
7.	Mr. Pakapong	Poomarporn	Director

Mr. Pattanapong Tansomboon
Chairman

Mr. Pattanapong Tansomboon has built his career with KASIKORNBANK PCL, one of the leading banks in Thailand, for more than 30 years. He has vigorous experience in diverse area of financial industry including risk management, multi-corporate business, SME business, product management and international business management. Mr. Pattanapong Tansomboon is also 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, she 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. Karin Boonlertvanich, Ph.D.
Director

Mr. Karin Boonlertvanich has comprehensive experience in bank's assets and liabilities management, strategic investment management, and financial analytic development for more than 10 years with an excellent academic background in Industrial Engineering from The Georgia Institute of Technology. At present, he leads Central Treasury Department, Financial Planning Department, and Strategic Data Analytic Department. He is also the Chairman of the Audit Committee of KBank Lao, Secretary of the Assets and Liabilities Management Committee, Secretary of the Investment Committee of Beacon Ventures and Member of the Board of Directors of KVision.

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

Mr. Wichai Narongwanich has exhaustive experience and skill in risk management. Prior to his current position, he leaded in formulating and developing strategic direction and value proposition of market and liquidity risk, managing and preventing in operational risk and fraud management, advising and providing risk management framework to K 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 analytics relating to KASIKORNBANK PCL. including integrated risk and capital management, capital markets and treasury risk management, and Analytics Center of Excellence.

Ms. Siranee Phoophat
Director

After obtaining Master degree in Public and Private Management from National Institute of Development Administration, Ms. Siranee Phoopat 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 Division and now she holds First Senior Vice President title. Her roles and responsibilities included HR Partnership & Organization Structure, Talent Acquisition, Compensation & Benefits, Performance Management System, HR Service and HRIS for the entire organization and subsidiaries.

Mr. Photjanart Sangpruaksa
Director

Mr. Photjanart Sangpruaksa has experience over 20 years in Financial Service including Capital Markets, Corporate Credit Product Management and Cash Management. After graduating in Master of Business Administration, National Institution of Development Administration, he took a role as First Vice President of Corporate Finance Department, followed by Senior Vice President of Corporate Credit Product Management Department. At present, he takes charge as First Senior Vice President at KASIKORNBANK PCL. He is responsible for taking care of Corporate Credit Product Management and Securities Services.

Mr. Pakapong Poomarporn
Director

Mr. Pakapong Poomarporn has more than 15 years of background in relationship management and financial solutions development. He gained an extensive experience in foreign branch management and operational improvement as General Manager in Phnom Penh, Cambodia with an expertise in forming localized strategic partnerships in the AEC markets.

3.3 Risk Management Committee

1.	Mr. Wichai	Narongwanich	Chairman
2.	Mr. Pattanapong	Tansomboon	Deputy Chairman
3.	Ms. Nutcharee	Nuntivacharin	Member
4.	Mr. Pakapong	Poomarporn	Member

3.4 Audit Committee

1.	Mr. Karin	Boonlertvanich	Chairman
2.	Mr. Wichai	Narongwanich	Deputy Chairman
3.	Mr. Photjanart	Sangpruaksa	Member

3.5 Governance Committee

1.	Ms. Siranee	Phoophat	Chairman
2.	Mr. Photjanart	Sangpruaksa	Deputy Chairman
3.	Mr. Pakapong	Poomarporn	Member

Part IV Financial Report

4.1 Corporate Information

Bank	KASIKORNTHAI BANK Limited
Banking Licence No.	06/Bank of LAO P.D.R.
Enterprise Registration Certificate	No. 0550/ERO Date 25/06/2018
Board of Directors	Mr. Pattanapong Tansomboon Ms. Nutcharee Nuntivacharin Mr. Wichai Narongwanich Mr. Photjanart Sangpruaksa Mr. Karin Boonlertvanich Ms. Siranee Phoophat Mr. Pakapong Poomarporn
Board of Management	Mr. Pakapong Poomarporn Country Director Ms. Sudamas Sutangkanu Department Head - Finance and Accounting Mr. Chatuporn Boozaya-Angool Department Head - Banking Operation Ms. Piyanoot Sangsana Branch Manager
Registered Office	KASIKORNTHAI BANK Limited Unit 12, Lane Xang Avenue, Xiengngeun Village, Chanthaboury District, Vientiane Capital, Lao P.D.R
Auditor	KPMG Lao Co., Ltd. 10th Floor, Royal Square Office Building, Samsenthai Road, Nongduong Nua Village, Sikhotabong District, P.O.Box 6978, Vientiane, Lao P.D.R

4.2 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 present fairly, in all material respects, financial position of the Bank as at 31 December 2018, the statements of profit or loss and other comprehensive income, changes in equity and of cash flows for the year then ended 31 December 2018 in accordance with the International Financial Reporting Standards ("IFRSs"). In preparing the financial statements, Management is required to:

i) Adopt appropriate accounting policies which are supported by reasonable and prudent judgements and estimates and then apply them consistently;

ii) Comply with IFRS 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. Pakapong Poomarporn l, on behalf of the Board of Director, do hereby state that the financial statements set out on pages 5 to 57 present fairly, in all material respects, the financial position of the Bank as at 31 December 2018, the statements of profit or loss and other comprehensive income, changes in equity and of cash flows for the year then ended and have been properly drawn up in accordance with IFRSs.

Signed on behalf of the Board of Management,

Mr. Pakapong Poomarporn
Country Director

29 MAR 2019

INDEPENDENT AUDITORS' REPORT

To the Board of Directors KASIKORNTHAI BANK Limited

Opinion

We have audited the financial statements of KASIKORNTHAI BANK Limited (the "Bank"), which comprise the statement of financial position as at 31 December 2018, the statements of profit or loss and other comprehensive income, changes in equity and of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

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 that is relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

KPMG Lao Co., Ltd

KPMG Lao Co., Ltd
Vientiane Capital, Lao P.D.R
29 March 2019

KASIKORNTHAI BANK Limited

Statement of financial position for the year ended 31 December 2018

	Note	31 December 2018	31 December 2017
		(in thousand LAK)	
Assets			
Cash and cash equivalents	10	301,492,138	221,083,491
Deposits with other banks	11	72,856,619	146,472,570
Statutory deposits with Central Bank	12	22,362,356	18,914,584
Loans and advances to customers, net	13	399,847,364	389,310,457
Leasehold improvement and equipment	14	17,232,193	18,064,101
Intangible assets	15	1,103,096	2,544,769
Other assets	16	3,220,677	2,017,893
Total assets		**818,114,443**	**798,407,865**
Liabilities and equity			
Liabilities			
Deposits from customers	17	317,483,128	240,913,789
Deposits from other banks		190,373,340	248,104,482
Deferred tax liabilities	18	186,034	409,456
Other liabilities	19	6,396,405	5,445,614
Total liabilities		**514,438,907**	**494,873,341**
Equity			
Paid-up share capital	20	300,000,000	300,000,000
Statutory reserve	21	583,739	405,211
Surplus		3,091,797	3,129,313
Total equity		**303,675,536**	**303,534,524**
Total liabilities and equity		**818,114,443**	**798,407,865**

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

KASIKORNTHAI BANK Limited

Statement of profit or loss and other comprehensive income
for the year ended 31 December 2018

	Note	For the year ended 31 December 2018	For the year ended 31 December 2017
		(in thousand LAK)	
Interest income		24,938,316	22,822,191
Interest expense		(12,435,557)	(10,673,536)
Net interest income	5	12,502,759	12,148,655
Fee and commission income		3,506,581	2,855,706
Fee and commission expense		(551,227)	(459,437)
Net fee and commission income	6	2,955,354	2,396,269
Net operating income		15,458,113	14,544,924
Impairment loss on financial assets		(134,266)	(709,954)
Gain on foreign exchange		3,868,265	4,040,144
Other income		341,582	62,052
Total operating income		19,533,694	17,937,166
Operating expenses			
Personnel expenses	7	(7,125,552)	(5,954,103)
Depreciation and amortization expenses		(2,538,238)	(2,694,743)
Other operating expenses	8	(7,078,551)	(6,074,145)
Total operating expenses		(16,742,341)	(14,722,991)
Profit before income tax		2,791,353	3,214,175
Income tax	9	(1,319,329)	(771,402)
Profit for the year		1,472,024	2,442,773
Other comprehensive income			
Other comprehensive income for the period, net of income tax		-	-
Total comprehensive income		1,472,024	2,442,773
Earnings per share			
Basic earnings per share (LAK)		49.07	81.43

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

KASIKORNTHAI BANK Limited

Statement of changes in equity for the year ended 31 December 2018

	Note	Paid-up share capital	Surplus	Statutory reserve	Total
			(in thousand LAK)		
Balance at 1 January 2017		300,000,000	916,195	175,556	301,091,751
Profit for the year		-	2,442,773	-	2,442,773
Transfer to Statutory reserve		-	(229,655)	229,655	-
Balance at 31 December 2017 and 1 January 2018		300,000,000	3,129,313	405,211	303,534,524
Impact of adopting IFRS 9 at 1 January 2018		-	(1,331,012)	-	(1,331,012)
Profit for the year		-	1,472,024	-	1,472,024
Transfer to Statutory reserve	17	-	(178,528)	178,528	-
Balance at 31 December 2018		300,000,000	3,091,797	583,739	303,675,536

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

KASIKORNTHAI BANK Limited

Statement of cash flows for the year ended 31 December 2018

	Note	For the year ended 31 December 2018	For the year ended 31 December 2017
		(in thousand LAK)	
Cash flows from operating activities			
Profit before income tax		2,791,353	3,214,175
Adjustments for:			
Depreciation and amortisation		2,538,238	2,694,743
Impairment loss on financial assets		134,266	709,954
Unrealised gain on exchange		(2,370,000)	(2,380,000)
Interest income		(24,938,316)	(22,822,191)
Interest expense		12,435,557	10,673,536
Interest received		26,841,042	21,989,543
Interest paid		(11,907,796)	(9,768,732)
Income tax paid		(999,984)	(852,329)
Income from operations before changes in operating assets and liabilities		4,524,360	3,458,699
Decrease (increase) in operating assets			
Statutory deposits with Central Bank		(3,731,128)	1,567,778
Deposits to other banks		71,759,597	47,304,400
Loans and advances to customers		(10,750,241)	(145,960,498)
Other assets		(660,214)	1,472,192
Increase (decrease) in operating liabilities			
Deposits from customers		76,569,339	77,632,015
Deposits from other banks		(57,731,142)	(16,603,761)
Other liabilities		692,733	337,371
Net cash provided by (used in) operating activities		80,673,304	(30,791,804)
Cash flows from investing activities			
Sales of investments in securities		-	40,000,000
Purchases of leasehold improvement and equipment		(264,657)	(4,770,073)
Acquired intangible assets		-	(274,713)
Net cash (used in) provided by investing activities		(264,657)	34,955,214
Net increase in cash and cash equivalents		80,408,647	4,163,410
Cash and cash equivalents at 1 January		221,083,491	216,920,081
Cash and cash equivalents at 31 December	10	301,492,138	221,083,491

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

KASIKORNTHAI BANK Limited

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KASIKORNTHAI BANK Limited

Notes to the financial statements for the year ended 31 December 2018

1. Reporting entity

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, Sisattanack District, Vientiane Capital, Lao P.D.R.

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 P.D.R") under the banking license (License No. 06/BOL) granted by the Bank of Lao P.D.R ("BoL") on 6 March 2017 and Enterprise Registration Certificate No. 0550/ERO dated 25 June 2018 issued by the Enterprise Registration Officer. Previously the Bank operated in Lao P.D.R under the banking license (License No. 32/BOL) granted by BoL on 16 October 2014 and Enterprise Registration Certificate No. 456/ERO dated 4 November 2014 issued by the Enterprise Registration Officer.

The principal activities of the Bank are to provide services comprehensive banking and related financial service in the Lao P.D.R.

As at 31 December 2018, the Bank had 38 (2017: 27) 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 29 March 2019.

In preparing these financial statements, the significant judgments made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as of and for the year ended 31 December 2017, except for the change in the accounting policy in relation to IFRS 9 and IFRS 15 effective from 1 January 2018. The nature and the effect of these changes are disclosed in below (Note 3).

(ii) Basis of measurement

The financial statements have been prepared on the historical cost basis except as stated in the significant accounting policies (Note 4).

(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 judgements

In preparing this financial statement, management has made judgements, 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.

In preparing these financial statements, the significant judgments made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those applied to the audited financial statements as at and for the year ended 31 December 2017, except the below which were a result of adoption of IFRS 9:

Financial asset classification:

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

Impairment of financial instruments

Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2018 included in the following note:

Note 13 - Loans and advances to customers

(v) Fiscal Year

The Bank's reporting period starts on 1 January and ends on 31 December.

3. Changes in accounting policies

Except for the changes below, the Bank has consistently applied the accounting policies as set out in Note 4 to all periods presented in these financial statements.

The accounting policies applied in these financial statements are the same as those applied in the last annual financial statements except for changes resulting from adoption of the following:

(a) IFRS 15 – Revenue from contract with customers

The Bank has adopted IFRS 15 as issued by IASB with effective date from 1 January 2018. This standard has superseded all revenue recognition requirements under IFRS and provides a principle based approach for revenue recognition with the introduction of concept for revenue recognition for performance obligation as they are satisfied. The Bank has assessed the impact of IFRS 15 and concluded that the application of this standard does not have any material impact on Bank's financial statements.

(b) IFRS 9 – Financial Instruments

The Bank has adopted IFRS 9 as issued by IASB in July 2014 with effective date from 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Bank did not early adopt IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and financial liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

Consequently for notes disclosure, disclosures were also made only for the current period. The comparative notes disclosures repeat those disclosures made in the prior year.

(i) Classification and measurements of financial instruments

The adoption of IFRS 9 has resulted in changes in Bank's accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets and are summarized below;

Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

On initial recognition, a financial asset is classified as measured at; amortised cost, FVOCI or FVTPL. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL;

- The asset is held within business model whose objective is to hold assets to collect contractual cash flows: and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL;

- The asset is held within business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For an equity instrument that is not held for trading, the bank may elect at initial recognition to irrecovably designate those instruments under FVOCI. This election is made on an investment on investment basis. All other financial assets are classified as measured at FVTPL. Under FVOCI, fair value changes are recognised in other comprehensive income (OCI) while dividends are recognised in profit or loss. On disposal of the investment the capital gain / loss is required to remain in OCI and is not recycled to profit or loss.

In addition, on initial recognition the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

IFRS 9 removes the requirement contained in IAS 39 relating to bifurcation of an embedded derivative from an asset host contract. However, entities are still required to separate derivatives embedded in financial liabilities where they are not closely related to the host contract.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognized in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and

- the remaining amount of change in the fair value is presented in profit or loss.

Business model assessment

The Banks' business model reflects how it manages the assets to generate cash flows. Whether it is solely to collect the contractual cash flows from the asset or both the contractual cash flows and from sale of asset. Factors considered by the Bank in determining the business models for group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel and how risks are assessed and managed.

Assessment whether contractual cash flows are solely payments of principal and interest

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represents solely payment of principal and interest. In making this assessment, the Bank considers whether the contractual cash flows are consistent with basic lending arrangement, i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss model in IAS 39 with an expected credit loss model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. .For an explanation of how the Bank applies impairment requirements of IFRS 9 see note 4(b)(vii)

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

IFRS 7 Financial instrument: Disclosures which were updated to reflect the differences between IFRS 9 and IAS 39 was also adopted by the Bank with IFRS 9, for the year beginning 1 January 2018.

The following table reconciles the closing impairment allowance under IAS 39 to opening allowance determined in accordance with IFRS 9 on the initial application date:

	Impairment allowance under IAS 39 as at 31 December 2017	Re-measurement	Impairment allowance under IFRS 9 as at 1 January 2018
		(in thousand LAK)	
Cash and cash equivalents	-	244,109	244,109
Loans and advances	1,942,461	213,333	2,155,794
Amount due from other banks	-	788,125	788,125
Statutory deposits with central bank	-	21,789	21,789
Loan commitments	-	62,175	62,175
Financial guarantees	-	1,481	1,481
Total	**1,942,461**	**1,331,012**	**3,273,473**

4. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these 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.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rates at the reporting date.

Foreign exchange differences arising from the translation are recognised in the profit or loss.

Non-monetary assets and liabilities that are measured based on historical cost in a foreign currency are translated into the functional currency at the exchange rate at the date of the transaction.

The applicable exchange rates for the LAK against foreign currencies were as follows:

	31 December 2018 (LAK)	31 December 2017 (LAK)
United State Dollar ("USD")	8,530.00	8,293.00
Thai Baht ("THB")	265.52	254.15

(b) Financial assets and financial liabilities

(i) Recognition

The Bank initially recognises loans and advances, deposits on the date on which they are originated.

A financial asset or financial liability is measured initially at fair value plus, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Financial assets-Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at; amortised cost, FVOCI or FVTPL. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL;

- The asset is held within business model whose objective is to hold assets to collect contractual cash flows: and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL;

- The asset is held within business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI.

In addition, on initial recognition the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets

Financial assets - Policy applicable before 1 January 2018

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 of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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 derecognised), 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. 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.

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 currently has a legally enforceable 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 on initial recognition, minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount and, for financial assets, adjusted for any impairment allowance.

(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 maximize the use of relevant observable inputs and minimize 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) Impairment

Policy applicable from 1 January 2018

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- financial guarantee contracts issued;
- loan commitments issued;

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- Interbank and money market items on which credit risk has not increased significantly since their initial recognition.

Measurement of ECL

Credit loss allowances are measured using a three-stage approach based on the extent of credit deterioration since origination:

Stage 1 – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.

Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD)

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information.

Details of these statistical parameters/inputs are as follows:

PD – The probability of default is an estimate of the likelihood of default over a given time horizon.

EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date.

LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

Assessment of significant increase in credit risk

The expected credit loss model requires the recognition of credit losses based on 12 months of expected losses for performing loans and the recognition of lifetime expected losses on loans that have experienced a SICR since origination. The determination of a SICR takes into account many different macro-economic factors and will vary by product and risk segment. The main factors considered in making this determination are relative changes in probability- weighted probability of default since origination and certain criteria such as 30 day past due and watch list status. The assessment of SICR will require experienced credit judgement.

The bank considers a financial instrument having a significant increase in credit risk based on the following factors:

- The assessment will be based on comparison of risk of default (and not the expected loss) occurring over the lifetime of the asset as at the reporting date and as at the origination i.e. which in turn is derived from the risk rating and expected life of the asset.

- The deterioration in credit quality will be judged as 'significant' if the Distance to Default (DD) on the reporting date has reduced by at least half as compared to the DD at initial recognition provided, however, that on the reporting date (i) the asset is not considered to be of low credit risk and (ii) the expected life of the asset has not increased since initial recognition. DD for any risk rating is defined as the number of notches separating it from default.

- The assessment of risk rating on each reporting date will be performed based on financial / non-financial data & conduct and performance of the related asset.

Definition of default

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or

- the borrower is past due more than 90 days on any material credit obligation of the Bank.

Overdrafts are considered as being past due once the customer has breached and advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether the borrower is in default, the Bank considers indicators that are;

- qualitative - e.g. breaches of covenant
- quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instruments is in default and their significance may vary over time to reflect changes in circumstances.

Presentation of loss allowance for ECL in statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision.

Policy applicable before 1 January 2018

Objective evidence 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 were 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 estimated reliably.

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.

Measurement of impairment

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.

Presentation

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. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Write-off

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 determine that there is no realistic prospect of recovery.

(c) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of 30 days or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Branch in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(d) Loans and advances

Loans and advances in the statement of financial position are loans and advances measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

Loans and advances are carried at amortised cost using the effective interest rate method, less any impairment losses. Loans and advances are shown inclusive of accrued interest receivables.

(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

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 Bank 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 statement of 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 the amortised cost of the 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 and points 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 are 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 is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation and establishes provisions of amounts payable to the tax authorities.

As per the revised tax law, from 1 January 2013 the minimum tax of 1% has been abolished and the new corporate tax rate is 24%.

(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 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

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

The taxation system in the Lao P.D.R is relatively new and is characterized by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges.

These facts may create tax risks in the Lao P.D.R substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

(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 amortised amount and the amount of loss allowance 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.

5. Net interest income

	31 December 2018	31 December 2017
	(in thousand LAK)	
Interest income		
Loans and advances to customers	23,436,130	16,291,111
Investments	-	1,195,069
Deposits with other banks	1,502,186	5,336,011
	24,938,316	22,822,191
Interest expense		
Deposits from customers	(6,226,638)	(4,498,352)
Deposits from other banks	(6,208,919)	(6,175,184)
	(12,435,557)	(10,673,536)
Net interest income	12,502,759	12,148,655

6. Net fee and commission income

	31 December 2018	31 December 2017
	(in thousand LAK)	
Fees and commission income		
Foreign remittances and facilities	1,816,940	1,634,332
Domestic facilities	159,626	100,449
Financial services fees	1,094,647	938,102
Others	435,368	182,823
	3,506,581	2,855,706
Fees and commission expense		
Other fees paid	(551,227)	(459,437)
Net fees and commission income	2,955,354	2,396,269

7. Personnel expenses

	31 December 2018	31 December 2017
	(in thousand LAK)	
Wages and salaries	6,198,710	5,213,181
Other benefits	926,842	740,922
Total	7,125,552	5,954,103

8. Other operating expenses

	31 December 2018	31 December 2017
	(in thousand LAK)	
Administrative expenses	3,951,995	3,201,145
Rental expenses	2,966,324	2,687,079
Other expenses	160,232	185,921
Total	**7,078,551**	**6,074,145**

9. Income tax

	Note	2018	2017
		(in thousand LAK)	
Current tax expense			
Current year		1,542,751	621,019
Deferred tax expense			
Movements in temporary differences	18	(223,422)	150,383
Total income tax expense		**1,319,329**	**771,402**

The reconciliation of income tax computed at the statutory tax rate to the income tax shown in the statement of income is as follow:

	Tax rate (%)	2018 (in thousand LAK)	Tax rate (%)	2017 (in thousand LAK)
Profit before income tax		2,791,353		3,214,175
Income tax at the domestic tax rate	24.00	669,925	24.00	771,402
Tax effect of:				
- Non-deductible expenses		649,404		-
Income tax	**47.26**	**1,319,329**	**24.00**	**771,402**

KASIKORNTHAI BANK Limited

Notes to the financial statements for the year ended 31 December 2018

10. Cash and cash equivalents

	2018	2017
	(in thousand LAK)	
Cash on hand	9,366,229	9,175,012
Balances at Central Bank	177,311,561	186,848,216
Balances at Central Bank	115,419,534	25,060,263
	302,097,324	221,083,491
Less: Allowance for impairment losses	(605,186)	-
Total	301,492,138	221,083,491

Cash and cash equivalents is classified under stage 1 as per IFRS9 and the expected credit loss as at 31 December 2018 is LAK 605,186 thousand (1 January 2018: LAK 244,109 thousand)

11. Deposits with other banks

	2018	2017
	(in thousand LAK)	
Other Banks	73,000,000	145,930,000
Accrued interest	353,409	542,570
	73,353,409	146,472,570
Less: Allowance for impairment losses	(496,790)	-
Total	72,856,619	146,472,570

Deposits with other banks is classified under stage 1 as per IFRS9 and the expected credit loss as at 31 December 2018 is LAK 496,790 thousand (1 January 2018: LAK 788,125 thousand)

12. Statutory deposits with Central Bank

	2018	2017
	(in thousand LAK)	
Statutory deposits on:		
Capital	4,569,571	4,569,571
Compulsory reserve	17,839,112	14,345,013
	22,408,683	18,914,584
Less: Allowance for impairment losses	(46,327)	-

	2018	2017
	(in thousand LAK)	
Total	22,362,356	18,914,584

Statutory deposits with Central Bank is classified under stage 1 as per IFRS9 and the expected credit loss as at 31 December 2018 is LAK 46,327 thousand (1 January 2018: LAK 21,789 thousand)

Balances with the BOL include capital and compulsory reserve. These balances bear no interest.

Under regulations of the BOL, the Bank is required to maintain certain cash reserves with the BOL in the form of compulsory deposits, which are computed at 5% and 10%, on a bi-monthly basis (2017: 5% and 10%) of amounts due to customer having original maturities of less than 12 months, in LAK and in foreign currencies, respectively. During the year, the Bank maintained its compulsory deposits in compliance with the requirements by the BOL.

13. Loans and advances to customers, net

	2018	2017
	(in thousand LAK)	
Loans	401,402,291	388,492,284
Add accrued income on loans	1,728,101	3,441,667
Less deferred income	(1,054,436)	(681,033)
allowance for impairment loss*	(2,228,592)	(1,942,461)
Loans and advances to customers, net	399,847,364	389,310,457
Current	290,356,114	248,245,419
Non-current	111,046,177	140,246,865
Total	401,402,291	388,492,284

*Impairment allowance for the prior year was calculated based on IAS39. The difference as at the beginning of the year is the loss allowance between IFRS9 and IAS39 were recorded in the opening retained earnings and loss allowance for the current year.

	2018		
	Loans, net deferred income	Allowance for impairment loss	Carrying amount
		(in thousand LAK)	
Corporate	402,075,956	(2,228,592)	399,847,364
Total	402,075,956	(2,228,592)	399,847,364

	2017		
	Loans, net deferred income	Allowance for impairment loss	Carrying amount
		(in thousand LAK)	
Corporate	391,252,918	(1,942,461)	389,310,457
Total	**391,252,918**	**(1,942,461)**	**389,310,457**

The changes in the allowance for impairment loss are as follows:

	2018	2017
	(in thousand LAK)	
Individual allowance for impairment loss		
Balance at 1 January	1,942,461	1,200,423
Net impact due to initial application of IFRS 9*	213,333	-
Foreign exchange translation	42,155	32,084
Credit loss expense	30,643	709,954
Balance at 31 December	**2,228,592**	**1,942,461**

*The difference as at the beginning of the year is the loss allowance between IFRS9 and IAS39 were recorded in the opening retained earnings and loss allowance for the current year.

14. Leasehold improvement and equipment

	Leasehold improvement	Furniture, fitting and office equipment	Total
		(in thousand LAK)	
Cost			
Balance at 31 December 2017	**17,898,901**	**3,004,281**	**20,903,182**
Additions	-	264,657	264,657
Balance at 31 December 2018	**17,898,901**	**3,268,938**	**21,167,839**
Accumulated depreciation			
Balance at 31 December 2017	**(1,608,723)**	**(1,230,358)**	**(2,839,081)**
Depreciation for the year	(495,479)	(601,086)	(1,096,565)
Balance at 31 December 2018	**(2,104,202)**	**(1,831,444)**	**(3,935,646)**

	Leasehold improvement	Furniture, fitting and office equipment	Total
		(in thousand LAK)	
Net book value			
At 31 December 2017	16,290,178	1,773,923	18,064,101
At 31 December 2018	15,794,699	1,437,494	17,232,193

15. Intangible assets

	Software license
	(in thousand LAK)
Cost	
Balance at 31 December 2017	6,799,065
Additions	-
Balance at 31 December 2018	6,799,065
Accumulated depreciation	
Balance at 31 December 2017	(4,254,296)
Amortisation for the year	(1,441,673)
Balance at 31 December 2018	(5,695,969)
Net book value	
At 31 December 2017	2,544,769
At 31 December 2018	1,103,096

16. Other assets

	2018	2017
	(in thousand LAK)	
Prepaid rental expenses	2,669,890	1,351,759
Prepaid tax	-	168,780
Others	550,787	497,354
Total	3,220,677	2,017,893

17. Deposits from customers

	2018	2017
	(in thousand LAK)	
Retail customers:		
- Current	2,344,390	3,728,228
- Savings	89,633,304	89,683,524
- Term	96,455,352	82,414,022
Corporate customers:		
- Current	67,464,939	27,605,817
- Savings	29,102,548	5,682,123
- Term	32,482,595	31,800,075
Total	317,483,128	240,913,789

18. Deferred tax

	As of 1 January 2018	(Charged) / Credited to Profit and loss	As of 31 December 2018
		(in thousand LAK)	
Deferred tax assets			
Deferred income	163,449	(89,617)	73,832
Deferred tax liabilities			
Depreciation	(572,905)	313,039	(259,866)
Net	(409,456)	223,422	(186,034)

	As of 1 January 2017	(Charged to) Profit and loss	As of 31 December 2017
		(in thousand LAK)	
Deferred tax assets			
Deferred income	209,624	(46,175)	163,449
Deferred tax liabilities			
Depreciation	(468,697)	(104,208)	(572,905)
Net	(259,073)	(150,383)	(409,456)

19. Other liabilities

	2018	2017
	(in thousand LAK)	
Accrued interest payables	4,476,364	3,948,603
Others	1,855,521	1,497,011
Impairment allowance - off balance sheet*	64,520	-
Total	**6,396,405**	**5,445,614**

*Loan commitment and financial guarantee are classified under stage 1 as per IFRS 9 and the expected credit loss as at 31 December 2018 is LAK 64,520 thousand (1 January 2018: LAK 63,656 thousand)

20. Paid-up share capital

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.

There was no increase in capital during the year 2018.

21. Statutory reserve

The statutory reserve is provided for at the rate of at least 10% of profit during the year in accordance with the BOL regulations.

22. 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 a 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 year are as follows:

Related party	Relationship	Transactions	2018	2017
			(in thousand LAK)	
KASIKORNBANK PUBLIC COMPANY LIMITED	Parent company	Fee and commission income	1,094,647	1,052,562
KASIKORNBANK PUBLIC COMPANY LIMITED	Parent company	Other operating expense	381,014	423,267
KASIKORNBANK PUBLIC COMPANY LIMITED	Parent company	Interest expense	4,945,497	5,932,541

Significant balances with related parties at 31 December 2018 are as follows:

Related party	Relationship	Transactions	Receivable	Payable
			(in thousand LAK)	
KASIKORNBANK PUBLIC COMPANY LIMITED	Parent company	Cash and cash equivalents	65,416,473	-
KASIKORNBANK PUBLIC COMPANY LIMITED	Parent company	Deposit from other banks	-	91,369,057
KASIKORNBANK PUBLIC COMPANY LIMITED	Parent company	Accrued interest payable	-	327,701

Significant balances with related parties at 31 December 2017 are as follows:

Related party	Relationship	Transactions	Receivable	Payable
			(in thousand LAK)	
KASIKORNBANK PUBLIC COMPANY LIMITED	Parent company	Cash and cash equivalents	18,818,659	-
KASIKORNBANK PUBLIC COMPANY LIMITED	Parent company	Deposit from other banks	-	238,104,482
KASIKORNBANK PUBLIC COMPANY LIMITED	Parent company	Accrued interest payable	-	1,551,645

Remuneration to members of the Board of Management during this year are as follows:

	2018	2017
	(in thousand LAK)	
Short-term employee benefits	2,292,781	2,114,685

23. 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.

Fair value hierarchy

When measuring the fair value of an asset or a liability, the Bank uses market observable data as far as possible. Fair value measurements for assets and liabilities are categorised into different levels in the fair value hierarchy based on the inputs used in valuation techniques as follows.

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). 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 whichare directly or indirectly observable from market data.

Level 3 Inputs for the assets or liability that are not based on unobservable market data (unobservable input).

If the inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirely in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred. There were no transfers between Level 1 to Level 2 of the fair value hierarchy during the year ended 31 December 2018 and 2017.

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 and cash equivalents, deposits with other banks, investment, and other assets which core item is accrued interest receivables and that of the following financial liabilities: deposits from customer, deposits 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.

24. Financial risk management

24.1 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 the entire group. In so doing, our management team, which includes executive member in KBank, regularly governs overall operational risk of the Bank, as well as, the 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 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.

To strengthen 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 supervisor level. They would be responsible to manage operational risk in normal course of business within the Bank, and control risk within acceptable level.

24.2 Credit risk

"Credit risk" refers to the risk that a counterparty or a borrower may default on its contractual obligations or agreements. Such defaults may be caused by counterparty's inability to pay due to financial encumbrances or intention not to abide by the contractual agreements, resulting in a loss to the Bank.

- 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.

The Bank determines the target of loan growth and its desirable credit portfolio composition that strive for the highest possible risk-adjusted return within the acceptable risk levels under stress conditions, by taking into account the economic outlook, potential market opportunities, and the bank's strategic direction. In assessing 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.

- Credit underwriting, approval process and monitoring

In the credit approval process, the Bank considers the customers' ability to repay and the loan objectives as key factors in the approval of credit and may obtain sufficient collateral or other securities, where appropriate, as a means of mitigating the risk of financial losses from defaults. To maximize the effectiveness of the credit approval process, credit analysis and approval functions are separated from the units responsible for maintaining customer relationship and undertaken by credit underwriters in KBank Head Office. However, large loans will require additional acknowledgement by BOD.

The Bank also has process for regularly reviewing customer's credit rating and performance 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 and internal requirements. The Bank assesses the risk and classifies the loans based on the possibilities of repayment. Principle factors taken into 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 mechanism and reinforces loan detection and monitoring for adjustment of the potential risk classifications to ensure that loan classifications are objective and prudent.

The provisioning must be set aside to offset any possible loss. The book value of assets shall be reduced via allowances for doubtful accounts. The amount of provisioning shall be determined by the number derived from the expected loss model.

Processes for measuring expected credit losses ("ECL") including initial approval, regular validation, back-testing of the models used, and incorporation of forward-looking information are also eveloped and maintained by Head Office credit committee.

Maximum exposure to credit risk

Maximum exposure to credit risk without taking into account of any collateral and other credit enhancements of the Bank as at 31 December 2018 and 2017ere as follows:

	2018 LAK (in thousand)	2017 LAK (in thousand)
Credit risk associated with on-financial reporting assets:		
Deposits with other banks	72,856,619	146,472,570
Statutory deposits with Central Bank	22,362,356	18,914,584
Loans and advances to customers and accrued interest receivables	403,130,392	391,933,951
	498,349,367	557,321,105
Fair value of collaterals	132,881,915	106,460,152

Credit risk concentrations by industry

Maximum exposure to credit risk for the components of the statement of financial position by industry without taking into account of any collateral, margin deposit as at 31 December 2018 and 2017 was as follows:

	2018								
	Financial institutions	Industry	Construction	Agriculture and forestry	Trade	Shipping and Postal	Service	Others	Total
	(in thousand LAK)								
Deposits with other banks	72,856,619	-	-	-	-	-	-	-	72,856,619
Statutory deposits with Central Bank	22,362,356	-	-	-	-	-	-	-	22,362,356
Loans and advances to customers and accrued interest receivables	-	68,536,645	3,092,980	35,971,028	170,485,331	2,140,562	36,103,138	86,800,708	403,130,392
	95,218,975	68,536,645	3,092,980	35,971,028	170,485,331	2,140,562	36,103,138	86,800,708	498,349,367

	2017								
	Financial institutions	Industry	Construction	Agriculture and forestry	Trade	Shipping and Postal	Service	Others	Total
	(in thousand LAK)								
Deposits with other banks	146,472,570	-	-	-	-	-	-	-	146,472,570
Statutory deposits with Central Bank	18,914,584	-	-	-	-	-	-	-	18,914,584
Loans and advances to customers and accrued interest receivables	-	201,743,358	2,429,849	23,545,814	51,692,396	3,307,606	25,114,165	84,100,763	391,933,951
	165,387,154	201,743,358	2,429,849	23,545,814	51,692,396	3,307,606	25,114,165	84,100,763	557,321,105

Credit quality by classes of financial assets

Details on credit quality by class of asset for all financial assets exposed to credit risk as at 31 December 2018 and 2017 were as follows:

	2018			
	Neither past due nor impaired LAK (in thousand)	Past due but not impaired LAK (in thousand)	Individually impaired LAK (in thousand)	Total LAK (in thousand)
Deposits with other banks and accrued interest receivables	73,353,409	-	-	73,353,409
Statutory deposits with Central Bank	22,408,683	-	-	22,408,683
Loans and advances to customers and accrued interest receivables	403,130,392	-	-	403,130,392
	498,892,484	-	-	498,892,484
Fair value of collaterals	132,881,915	-	-	132,881,915

	2017			
	Neither past due nor impaired LAK (in thousand)	Past due but not impaired LAK (in thousand)	Individually impaired LAK (in thousand)	Total LAK (in thousand)
Deposits with other banks	145,930,000	-	-	145,930,000
Statutory deposits with Central Bank	18,914,584	-	-	18,914,584
Loans and advances to customers and accrued interest receivables	391,933,951	-	-	391,933,951
Accrued interest receivable - Deposits with other banks	542,570	-	-	542,570
	557,321,105	-	-	557,321,105
Fair value of collaterals	106,460,152	-	-	106,460,152

Neither past due nor impaired: financial assets or the loans and advances with interest or principal payments not yet past due and there is no evidence of impairment.

Past due but not impaired: financial assets with past due interest and principal payments but the Bank believes that these assets are not impaired as they are secured by collaterals and has confidence in the customer's credit worthiness and other credit enhancements.

Individually impaired: debt instruments and loans to customers for which the Bank considers not being able to recover interest and principal under the terms of the contracts.

Fair value of collateral: the Bank carries out the valuation for collaterals at disbursement date and periodically revaluates these assets based on market value and other factors affecting the impairment of these assets.

(i) Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortized cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 4 (b) (vii).

	2018				2017
	12-month ECL	Life time ECL not credit impaired	Life time ECL Credit - Impaired	Total	Total
	LAK	LAK	LAK	LAK	LAK
	(in thousand)	(in thousand)	(in thousand)	(in thousand)	(in thousand)
Cash and cash equivalents					
Grades A	302,097,324	-	-	302,097,324	221,083,491
Less: Loss allowance	(605,186)	-	-	(605,186)	-
Carry amount	**301,492,138**	**-**	**-**	**301,492,138**	**221,083,491**
Loans and advances to customers at amortised cost					
Grades A	403,130,392	-	-	403,130,392	391,933,951
Less: Loss allowance	(2,228,592)	-	-	(2,228,592)	(1,942,461)
Carry amount	**400,901,800**	**-**	**-**	**400,901,800**	**389,991,490**

	2018				2017
	12-month ECL	Life time ECL not credit impaired	Life time ECL Credit - Impaired	Total	Total
	LAK (in thousand)	LAK (in thousand)	LAK (in thousand)	LAK (in thousand)	LAK (in thousand)
Loans Commitments					
Grades A	39,472,837	-	-	39,472,837	46,210,348
Less: Loss allowance	(61,401)	-	-	(61,401)	-
Carry amount	**39,411,436**	**-**	**-**	**39,411,436**	**46,210,348**
Financial guarantee contracts					
Grades A	17,050,892	-	-	17,050,892	11,139,173
Less: Loss allowance	(3,119)	-	-	(3,119)	-
Carry amount	**17,047,773**	**-**	**-**	**17,047,773**	**11,139,173**

(ii) Collateral Held and other credit enhancements

The Bank holds collateral and other credit enhancements against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

	Percentage of exposure that is a subject to collateral requirements		
Type of Credit Exposure	**31 December 2018**	**31 December 2017**	**Principal Type of Collateral Held**
Loans to customers	100%	100%	Mortgage, Cash and guarantee

Loans and advances to corporate customers

The Bank's loans and advances to corporate customers are subject to individual credit appraisal and impairment testing. The general creditworthiness of a customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Bank generally requests borrowers to provide it. The Bank may take collateral in the form of a charge over real estate and guarantees.

Assets obtained by taking possession of collateral

During the year, the Bank did not obtain any possession of collateral held as security against loans and advances.

The Bank's policy is to pursue timely realization of the collateral in an orderly manner. The Bank does not generally use the non-cash collateral for its own operations. During the period, there was no change in the Bank's collateral policies.

(iii) Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

Measurement of ECL

Credit loss allowances are measured using a three-stage approach based on the extent of credit deterioration since origination:

Stage 1 – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.

Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD)

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information.

Details of these statistical parameters/inputs are as follows:

PD – The probability of default is an estimate of the likelihood of default over a given time horizon.

EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date.

LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

Assessment of significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

(iv) Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 4 (b) (vii). Comparative amounts for 2017 represent allowance account for cred it losses and reflect measurement basis under IAS 39.

	2018				2017
	12 - month ECL	Lifetime ECL not credit - impaired	Lifetime ECL credit - impaired	Total	Total
	(in thousand LAK)				
Loans to customers at amortised cost					
Balance at 1 January	1,873,755	282,039	-	2,155,794	1,200,423
Transfer to 12-month ECL	86,528	(86,528)	-	-	-
Transfer to lifetime ECL not credit-impaired	-	-	-	-	-
Transfer to lifetime ECL credit-impaired	-	-	-	-	-
Net re-measurement of loss allowance	-	-	-	-	-
New financial assets originated or purchased	539,547	86,528	-	626,075	709,954
Financial assets that have been derecognized	(313,393)	(282,039)	-	(595,432)	-
Write-offs	-	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-	-
Changes in models/risk parameters	-	-	-	-	-
Foreign exchange and other movements	42,155	-	-	42,155	32,084
Balance at 31 December	2,228,592	-	-	2,228,592	1,942,461

	2018	2017
	12 - month ECL	Total
	(in thousand LAK)	
Cash and cash equivalents		
Balance at 1 January	244,109	-
Net remeasurement of loss allowance	-	-
Net decrease in cash and cash equivalents	347,223	-
Foreign exchange and other movements	13,854	-
Balance at 31 December	605,186	-
Loan commitments and financial guarantee contracts		
Balance at 1 January	63,656	-
Net remeasurement of loss allowance	-	-
New loan commitments and financial guarantees issued	804	-
Foreign exchange and other movements	60	-
Balance at 31 December	64,520	-

(v) Concentrations of credit risk

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans and advances, loan commitments and financial guarantees is shown below.

	Notes	Loans and advance to customers		Loan commitments and financial guarantee issued	
		2018	2017	2018	2017
		(in thousand LAK)		(in thousand LAK)	
Carrying amount	13	401,402,291	388,492,284	-	-
Amount committed/ guaranteed		-	-	56,523,729	57,349,521
Concentration by sector					
Corporate:					
Industry		68,491,198	199,524,392	-	-
Construction		3,090,662	2,428,483	-	-
Agriculture and forestry		35,946,000	23,535,200	-	-
Trade		170,359,651	51,668,669	56,523,729	57,349,521
Shipping and Postal		2,138,780	3,305,540	-	-
Service		36,076,000	25,100,000	-	-

	Notes	Loans and advance to customers		Loan commitments and financial guarantee issued	
		2018	2017	2018	2017
		(in thousand LAK)		(in thousand LAK)	
Others		85,300,000	82,930,000	-	-
		401,402,291	388,492,284	56,523,729	57,349,521
Concentration by location					
Lao PDR		401,402,291	388,492,284	56,523,729	57,349,521
		401,402,291	388,492,284	56,523,729	57,349,521

24.3. Liquidity Risk

Liquidity risk is the risk that the Bank is 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 Bank of Laos'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 ratio in order to ensure that the 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 such as Liquidity Gap 1-month. Moreover, 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 2018 and 2017 as follows:

Financial assets and liabilities, classified by contractual maturity analysis, as of 31 December 2018 and 2017 as follows:

	2018						
	At call	Less than 6 Months	6 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	No Maturity	Total
				(in thousand LAK)			
Financial assets							
Cash and cash equivalents	301,492,138	-	-	-	-	-	301,492,138
Deposits with other banks	-	72,856,619	-	-	-	-	72,856,619
Statutory deposits with Central Bank	-	-	-	-	-	22,362,356	22,362,356
Loans to customers (*)	-	204,749,814	87,251,058	98,507,456	12,622,064	-	403,130,392
Total financial assets	301,492,138	277,606,433	87,251,058	98,507,456	12,622,064	22,362,356	799,841,505
Financial liabilities							
Deposits from customers	188,545,180	44,194,801	27,341,831	57,401,316	-	-	317,483,128
Deposits from other banks	1,808,340	119,590,000	5,000,000	63,975,000	-	-	190,373,340
Accrued interest payables	19,467	2,313,996	184,714	1,958,187	-	-	4,476,364
Total financial liabilities	190,372,987	166,098,797	32,526,545	123,334,503	-	-	512,332,832
Liquidity – net	111,119,151	111,507,636	54,724,513	(24,827,047)	12,622,064	22,362,356	287,508,673
Liquidity -accumulative net	111,119,151	222,626,787	277,351,300	252,524,253	265,146,317	287,508,673	-

(*) includes accrued interest receivables

	2017						
	At call	Less than 6 Months	6 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	No Maturity	Total
				(in thousand LAK)			
Financial assets							
Cash and cash equivalents	221,083,491	-	-	-	-	-	221,083,491
Deposits with other banks	-	146,472,570	-	-	-	-	146,472,570
Statutory deposits with Central Bank	-	-	-	-	-	18,914,584	18,914,584
Loans to customers (*)	-	105,999,838	145,687,248	131,340,183	8,906,682	-	391,933,951
Accrued interest receivables	-	542,570	-	-	-	-	542,570
Total financial assets	221,083,491	253,014,978	145,687,248	131,340,183	8,906,682	18,914,584	778,947,166
Financial liabilities							
Deposits from customers	126,699,692	50,187,934	19,001,765	45,024,398	-	-	240,913,789
Deposits from other banks	1,753,982	121,955,500	124,395,000	-	-	-	248,104,482
Accrued interest payables	5,038	2,465	2,732,615	1,208,485	-	-	3,948,603
Total financial liabilities	128,458,712	172,145,899	146,129,380	46,232,883	-	-	492,966,874
Liquidity - net	92,624,779	80,869,079	(442,132)	85,107,300	8,906,682	18,914,584	285,980,292
Liquidity -accumulative net	92,624,779	173,493,858	173,051,726	258,159,026	267,065,708	285,980,292	-

(*) includes accrued interest receivables

24.4 Market risk

Market risk may arise from changes in interest rate, foreign exchange, securities and commodity prices. There are two major market risks that affect the Bank which are changes in interest rate and foreign exchange. These changes 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.

(i) 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 (LIBORR) as of 31 December 2018 and 31 December 2017 are as follows:

	2018	2017
	(in thousand LAK)	
Fixed interest rates	270,398,551	127,851,587
Floating interest rates	131,003,740	260,640,697
Total loans	**401,402,291**	**388,492,284**

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 year ended 31 December 2018 and 2017 are as follows:

	2018		
	Average balance	Interest income/ expense	Average interest rate (%)
	(in thousand LAK)		
Financial assets			
Interest-bearing financial assets			
Deposits with other banks	44,315,000	1,502,186	3.4%
Loans to customers	390,740,008	23,436,130	6.0%
Total financial assets	**435,055,008**	**24,938,316**	

	Average balance	Interest income/ expense	Average interest rate (%)
		(in thousand LAK)	
Financial liabilities			
Interest-bearing financial liabilities			
Deposits from customers	254,080,515	6,226,638	2.0%
Deposits from other banks	219,709,880	6,208,919	3.0%
Total financial liabilities	473,790,395	12,435,557	

		2017	
	Average balance	Interest income/ expense	Average interest rate (%)
		(in thousand LAK)	
Financial assets			
Interest-bearing financial assets			
Deposits with other banks	488,184,575	5,336,011	1.1%
Investments	24,188,265	1,195,069	4.9%
Loans to customers	278,689,062	16,291,111	5.8%
Total financial assets	791,061,902	22,822,191	
Financial liabilities			
Interest-bearing financial liabilities			
Deposits from customers	275,928,203	4,498,352	1.6%
Deposits from other banks	292,301,684	6,175,184	2.1%
Total financial liabilities	568,229,887	10,673,536	

Financial assets and liabilities, classified by maturity of interest repricing, as of 31 December 2018 and 31 December 2017are shown as below:

	2018						
	Immediate Repricing	Less than 6 Months	6 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	Non-interest Bearing	Total
				(in thousand LAK)			
Financial assets							
Cash and cash equivalents	-	-	-	-	-	301,492,138	301,492,138
Deposits with other banks	-	72,856,619	-	-	-	-	72,856,619
Statutory deposits with Central Bank	-	-	-	-	-	22,362,356	22,362,356
Loans to customers (*)	-	337,286,731	450,350	52,771,247	12,622,064	-	403,130,392
Total financial assets	-	410,143,350	450,350	52,771,247	12,622,064	323,854,494	799,841,505
Financial liabilities							
Deposits from customers	118,735,851	44,194,801	27,341,831	57,401,316	-	69,809,329	317,483,128
Deposits from other banks	-	119,590,000	5,000,000	63,975,000	-	1,808,340	190,373,340
Accrued interest payables	19,467	2,313,996	184,714	1,958,187	-	-	4,476,364
Total financial liabilities	118,755,318	166,098,797	32,526,545	123,334,503	-	71,617,669	512,332,832

(*) includes accrued interest receivables

	2017						
	Immediate Repricing	Less than 6 Months	6 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	Non-interest Bearing	Total
				(in thousand LAK)			
Financial assets							
Cash and cash equivalents	-	-	-	-	-	221,083,491	221,083,491
Deposits with other banks	-	146,472,570	-	-	-	-	146,472,570
Statutory deposits with Central Bank	-	-	-	-	-	18,914,584	18,914,584
Loans to customers (*)	-	105,999,838	145,687,248	131,340,183	8,906,682	-	391,933,951
Accrued interest receivables	-	542,570	-	-	-	-	542,570
Total financial assets	-	253,014,978	145,687,248	131,340,183	8,906,682	239,998,075	778,947,166
Financial liabilities							
Deposits from customers	95,365,647	50,187,934	19,001,765	45,024,398	-	31,334,045	240,913,789
Deposits from other banks	-	121,955,500	124,395,000	-	-	1,753,982	248,104,482
Accrued interest payables	3,948,603	-	-	-	-	-	3,948,603
Total financial liabilities	99,314,250	172,143,434	143,396,765	45,024,398	-	33,088,027	492,966,874

(*) includes accrued interest receivables

(ii) 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 2018 were as follows:

		2018	
		Currency	
	USD	THB	Total
		(in thousand LAK)	
Financial assets			
Cash and cash equivalents	151,472,384	43,223,894	194,696,278
Statutory deposits with Central Bank	9,609,292	5,767,590	15,376,882
Loans to customer and accrued	166,549,583	55,694,032	222,243,615
Total financial assets	327,631,259	104,685,516	432,316,775
Financial liabilities			
Deposits from customers	147,671,665	102,709,272	250,380,937
Deposits from other banks	91,370,763	1,328	91,372,091
Total financial liabilities	239,042,428	102,710,600	341,753,028
Foreign currency position of items recognised on the statement of inancial position - net	88,588,831	1,974,916	90,563,747

Foreign currency positions in LAK equivalent, as of 31 December 2017 were as follows:

		2017	
		Currency	
	US Dollar	THB	Total
		(in thousand LAK)	
Financial assets			
Cash and cash equivalents	101,151,615	58,212,324	159,363,939
Deposits with other banks	82,930,000	-	82,930,000
Statutory deposits with Central Bank	8,045,106	5,374,426	13,419,532

	2017		
	Currency		
	US Dollar	THB	Total
	(in thousand LAK)		
Loans to customer and accrued interest receivables	264,020,791	21,823,331	285,844,122
Other financial assets	228,449	-	228,449
Total financial assets	**456,375,961**	**85,410,081**	**541,786,042**
Financial liabilities			
Deposits from customers	122,559,248	82,779,110	205,338,358
Deposits from other banks	238,104,482	-	238,104,482
Total financial liabilities	**360,663,730**	**82,779,110**	**443,442,840**
Foreign currency position of items recognised on the statement of financial position - net	**95,712,231**	**2,630,971**	**98,343,202**

25. Financial assets and financial liabilities

(a) Classification of financial assets and financial liabilities

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments.

		31 December 2018	
	Note	Amortised cost	Total carrying amount
		(in thousand LAK)	
Cash and cash equivalents	10	301,492,138	301,492,138
Deposits with other banks	11	72,856,619	72,856,619
Statutory deposits with Central Bank	12	22,362,356	22,362,356
Loans and advances to customers, net	13	399,847,364	399,847,364
Total financial assets		**796,558,477**	**796,558,477**
Deposits from customers	17	317,483,128	317,483,128
Deposits from other banks		190,373,340	190,373,340
Total financial liabilities		**507,856,468**	**507,856,468**

	Note	Held-to-maturity	Loans and receivables	Other amortised cost	Total carrying amount
		31 December 2017			
		(in thousand LAK)			
Cash and cash equivalents	10	-	221,083,491	-	221,083,491
Deposits with other banks	11	146,472,570	-	-	146,472,570
Statutory deposits with Central Bank	12	-	18,914,584	-	18,914,584
Loans and advances o customers, net	13	-	389,310,457	-	389,310,457
Total financial assets		146,472,570	629,307,532	-	775,781,102
Deposits from banks	17	-	-	248,104,482	248,104,482
Deposits from customers		-	-	240,913,789	240,913,789
Total financial liabilities		-	-	489,018,271	489,018,271

(b) Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Bank's financial assets and financial liabilities as at 1 January 2018.

	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
				(in thousand LAK)	
Financial assets					
Cash and cash equivalents	10	Loans and receivables	Amortised cost	221,083,491	220,839,382
Deposits with other banks	11	Loans and receivables	Amortised cost	146,472,570	145,141,874
Statutory deposits with Central Bank	12	Loans and receivables	Amortised cost	18,914,584	18,892,795
Loans and advances to customers, net	13	Loans and receivables	Amortised cost	389,310,457	389,097,124
Total financial assets				775,781,102	773,971,175

	Note	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
			(in thousand LAK)		
Financial liabilities					
Deposits from banks	17	Amortised cost	Amortised cost	248,104,482	248,104,482
Deposits from customers		Amortised cost	Amortised cost	240,913,789	240,913,789
Total financial liabilities				489,018,271	489,018,271

26. Commitments

	2018	2017
	(in thousand LAK)	
Finance commitment	133,853,426	608,431,763
	133,853,426	608,431,763

27. Off-balance sheet items

	2018	2017
	(in thousand LAK)	
Commitment given		
Letters of guarantee outstanding	17,050,892	11,139,173
Collateral and Mortgages		
Collaterals and mortgages for loans to customer	132,881,915	106,460,152

28. Operating Segments

The major business of the Bank is to provide 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 P.D.R as one whole segment. The information reviewed by the Country Director 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 P.D.R.

29. Capital Management

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

	2018	2017
	(in thousand LAK)	
Tier 1 capital	306,142,537	304,052,109
Tier 2 capital	2,007,102	1,942,461
Total capital	308,149,639	305,994,570
TLess: Deductions from capital (Investments in other credit and financial institutions)	-	-
Capital for CAR calculation	308,149,639	305,994,570
Risk weighted balance sheet items	337,046,824	262,874,514
Risk weighted off balance sheet items	-	-
Total risk weighted assets	337,046,824	262,874,514
Capital Adequacy Ratio	91.43%	116.40%

30. Reclassification

Following reclassification have been made to the statement of income as at 31 December 2017 to conform to the presentation in 2018 financial statements;

Statement of financial position as of 31 December 2017	Before Reclassification (in thousand LAK)	Reclassification (in thousand LAK)	After Reclassification (in thousand LAK)
Deposits with other banks	145,930,000	542,570	146,472,570
Other assets	2,560,462	(542,570)	2,017,893

KASIKORNTHAI BANK Limited

Notes to the financial statements for the year ended 31 December 2018

31. 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 2018 that significantly impacted the financial position of the Bank as at 31 December 2018.

32. 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 2019; however, the Branch has not applied the following new or amended standards in preparing these financial statements.

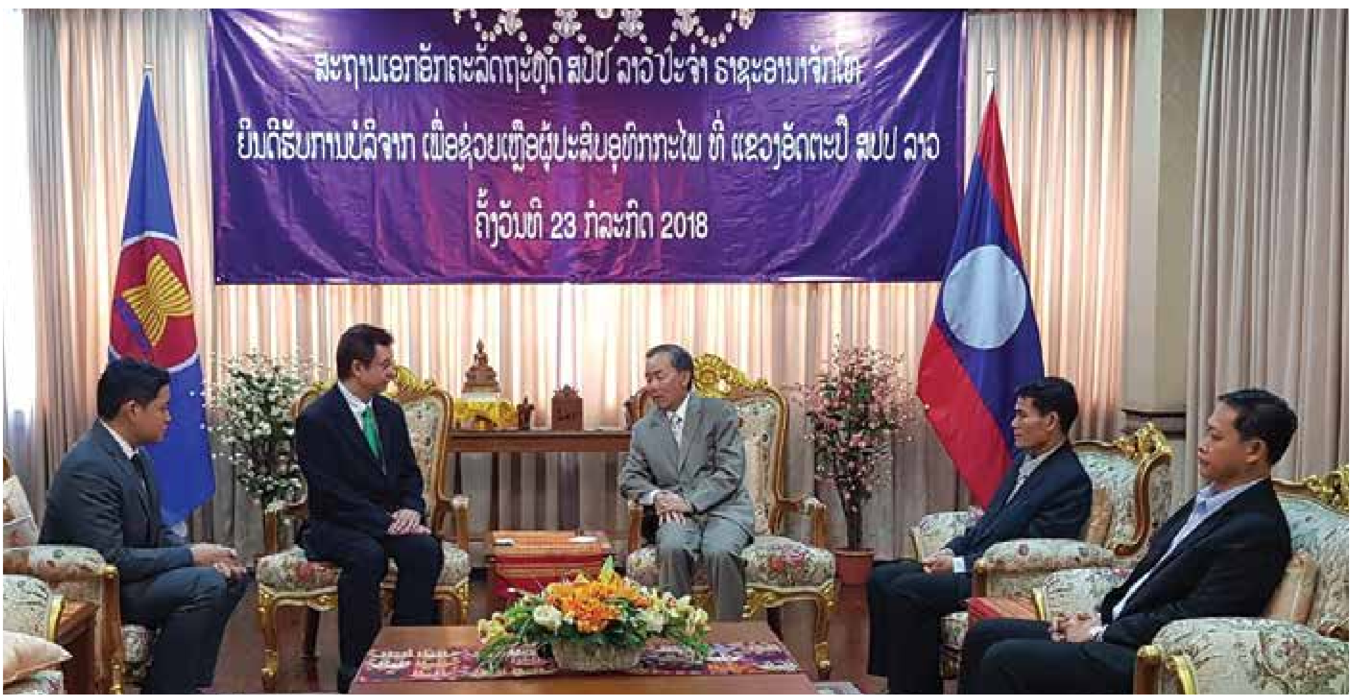
Note	Topic	Year effective
IFRS 16	Leases	2019
IFRS 17	Insurance contracts	2021

The Bank is assessing the potential impact on its financial statements resulting from the application of these new standards

Part V Events

KBank hands over donation to flood victims in Lao PDR

31 August 2018 - the Embassy of the Lao People's Democratic Republic in Thailand.



MOU Signing Ceremony between KASIKORNTHAI BANK Limited and PTT (LAO) CO., LTD for Electronic Supply Chain Financing Project

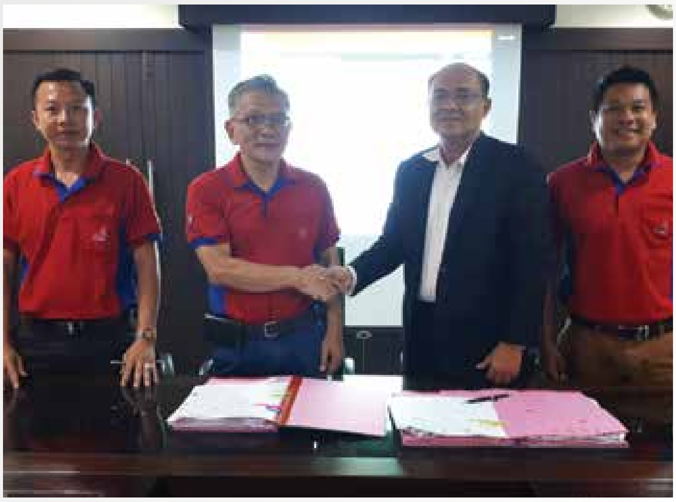
28 September 2018 - Cafe' Amazon Watchan, Vientiane, Lao PDR

KBank launches "QR KBank" – the first Thai bank's e-wallet in foreign country with Lao PDR as the first strategic market in AEC

11 December 2018 – Nong Chan Market, Vientiane, Lao PDR

MOU Signing Ceremony between KASIKORNTHAI BANK Limited and Inteqc Swine Farm Lao

14 December 2018 – Bangkok, Thailand



Mr. Pattanapong Tansomboon, Chairman of KASIKORNTHAI BANK Limited visited Mr. Waddana Soukbandith CEO of SOUVANNY HOME CENTER PUBLIC COMPANY

19 December 2018 – Souvanny Home Center HQ, Chanthabouly District, Vientiane, Lao PDR

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开泰银行 KASIKORNTHAIBANK

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