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开泰银行 KASIKORNTHAIBANK

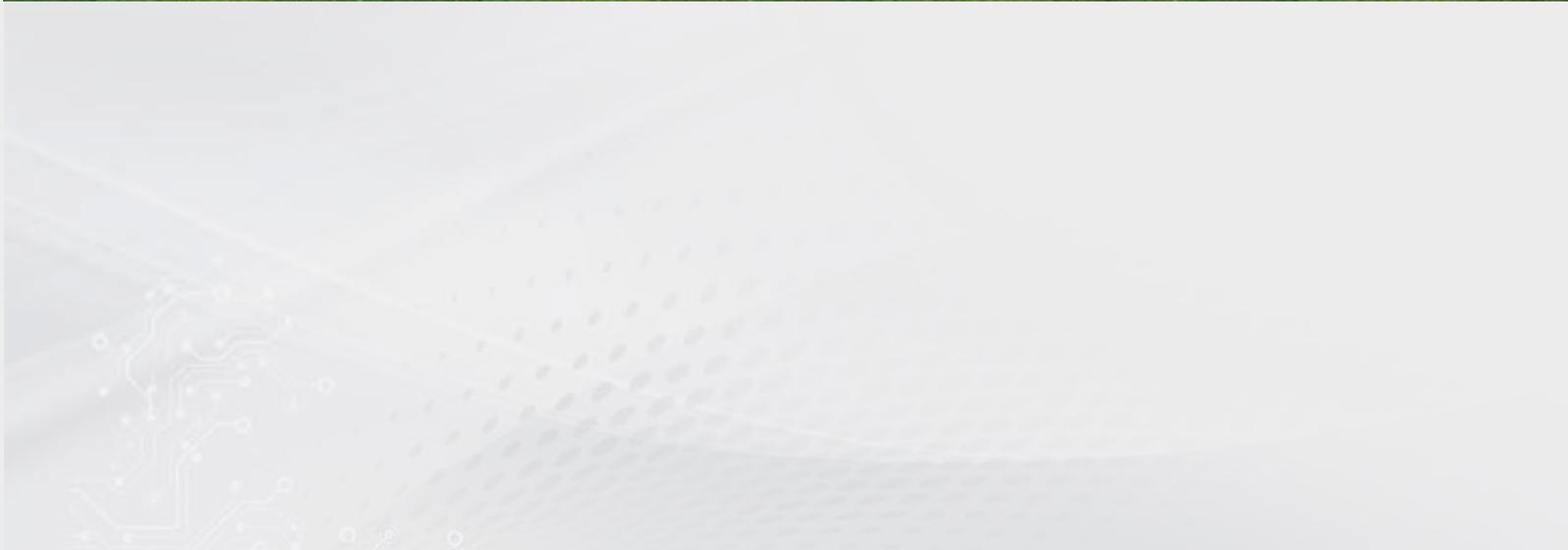


KASIKORNTHAI BANK LIMITED

ANNUAL REPORT



January - December 2019



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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 5th global biggest economy, ASEAN achieved a growth of 5.1% in 2018 with a GDP of USD 3 trillion.

ASEAN has been an attractive destination for foreign direct investment (FDI) with an expanding opportunity to new emerging markets. The FDI have increasingly become key underpinning factors in the region's economic development. The flow of FDI into the 10 ASEAN countries has gone up for the third consecutive year, breaking a record 155 billion USD set in 2018, a 13.1% increase from 2017. In addition, ASEAN has been well embedded in global value chains, the region is also one of the largest globally in terms of trade in goods by having a 7.2% share in global trade in goods and a 6.8% share in global trade in services (ranked fourth after the EU, China, and the US). The exceptional performances are the result of ASEAN Economic Community (AEC), which allows free flow of goods, services, labour and capital between the 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 2020, the ratification of Regional Comprehensive Economic Partnership (RCEP) along with Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) 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 in which nearly 80 percent of the construction has been completed. 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 beyond financial services as well as expanded our international network to make KBank the qualified and trusted partner for all financial service needs in AEC+3.

KASIKORNTHAI BANK Limited Vision and Core Values

Vision

KASIKORNTHAI BANK Limited aims to be the most innovative, proactive, and customer centric financial institution, delivering world class financial services and sustainable value for all stakeholders by harmoniously combining technology and talent.

Core Values



Customer at Heart



Agility



Collaboration

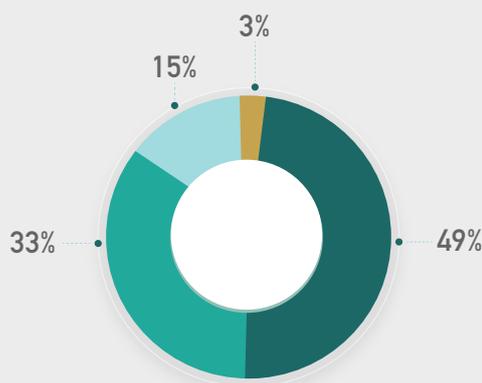


Innovativeness

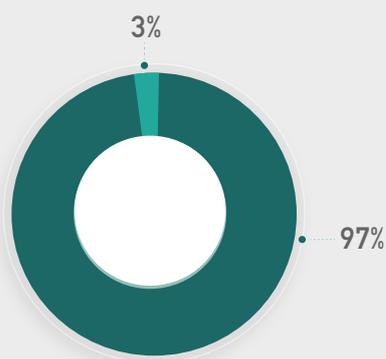


Financial Highlights

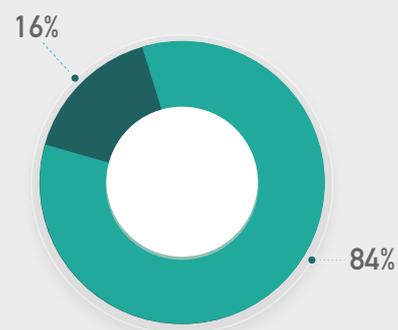
Total Assets



Total Liabilities



Net Operating Income



- Loans and Advances to Customers
- Cash and Cash Equivalents
- Interbank and Money Market
- Others

- Deposits
- Others

- Net Fee and Commission Income
- Net Interest Income

Unit : Thousand of LAK

	1 January 2018 to 31 December 2018	1 January 2019 to 31 December 2019
Net Interest Income	12,502,759	17,677,031
Net Fee and Commission Income	2,955,354	3,396,149
Net Operating Income	15,458,113	21,073,180
Total Operating Income	19,533,694	22,981,547
Total Operating Expense	16,742,341	21,442,113
Profit before Income Tax	2,791,353	1,539,434
Net Profit	1,472,024	(328,136)



Total Assets

As of December 31, 2019, KASIKORNTHAI BANK LIMITED (“KBank Lao”) has total assets in equivalent to LAK 1,250,856,367 thousand with loan size, to both public and private sectors, at LAK 613,507,889 thousand in total. KBank Lao also maintains sustainable liquidity for increase of loan in year 2020.



Total Liabilities

Total liabilities as of December 31, 2019 is LAK 907,508,967 thousand with deposits totaled LAK 877,480,111 thousand from customers and other financial institution.



Net Operating Income

For the year ended 2019, KBank Lao has net operating income totaled LAK 21,073,180 thousand which comprises of net interest income totaled LAK 17,677,031 thousand, net fee and commission income totaled LAK 3,396,149 thousand. In comparison with 2018 full year operation, net operating income has increased from both interest income and fee.



Net Profit

KBank Lao has profit before income tax totaled LAK 1,539,434 thousand and net loss for the year 2019 totaled LAK 328,136 thousand which significantly decreased from year 2018 due to application of IFRS9, provision expense.

Chairman Message

Lao PDR, a country rich in natural resources and cultural heritage. With a growth averaged 7.7% over the last decade, Lao PDR is one of the fastest growing nations in ASEAN, driven by a resilient services sector, led by wholesale and retail trade growth and by the construction sector, supported by investments in large infrastructure projects via 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 participate in a number of important development projects 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 services. Aspiring to be the "Bank of AEC+3", KASIKORNTHAI BANK Limited is committed to leverage our expertise from six ASEAN locations; Thailand, Lao PDR, Cambodia, Myanmar, Vietnam, Indonesia plus other presences and partners in those AEC+3 to deliver service excellence for regional investors.

As the country economic growth will improve domestic businesses, especially SMEs as the backbone of the Lao PDR which accounted for about 99% of all registered firms in the country and contributed about 82% of employment. Accordingly, KASIKORNTHAI BANK Limited has expanded the loan portfolio by focusing more on local SME lending. In 2019, the Bank acquired new customer groups in various industries including agriculture, construction, petroleum, commerce, FMCGs, transport, and leasing. In addition, for the fifth consecutive year, KBank still maintains the share of NPL at 0% as a result of remarkable risk control and management. About retail segment, we also initiate innovative channel in Lao PDR market (QR KBank) with upgraded features relevant to customer needs.



Finally, 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 both conventional and innovative financial services in Lao PDR. Furthermore, I would like to thank the shareholders and the customers for consistent trust in KASIKORNTHAI BANK Limited. Under the philosophy of "Customer at Heart", the delivery of impressive experience and service excellence to all customer segments would not be possible without collective efforts of our staffs throughout 2019.

Part I Corporate Background

1.1 Corporate Information

Registered Name	KASIKORNTHAI BANK Limited
Enterprise Registration No.	0396 / ERO
Bank License No.	06 / BOL
Registered Capital	LAK 340,000 Million
Established Date	October 16, 2014
Chairman	Mr. Pattanapong Tansomboon
Country Director	Mr. Chatuporn Boozaya-Angool
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



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 prioritizes on both domestic and regional dimensions in line with changing economic trend, consumer behavior, government policies and market competition. These factors are assessed to define new strategies for KBank to enhance business operations and adjust to upcoming changes while sustainably upholding the superiority and relevance to customers' lives.

Furthermore, to better serve customer in all dimensions, KBank leverages synergies among wholly-owned subsidiaries 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 leveraging expertise of our local and international staffs.

With the core strategy to be “The bank of 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 plus with infrastructure for enhancing international payment/remittance across region for all customer segments under the business strategic area “Borderless Payment for All”. In the third **Industry Solution and Ecosystem Expansion** track,



“LA.KGLOALSUPPLYCHAIN.COM” website as digital alternative channels for retail and supply chain payments respectively.

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



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 footprint in Lao PDR for the first time back in late 2014, becoming the first locally incorporated commercial bank from Thailand, under the Enterprise Registration 0396 / ERO granted by Enterprise Registration Office of Lao PDR. In 2019, KASIKORNTHAI BANK Limited (KBank Lao) was increased registered capital from LAK300,000 million to LAK340,000 million to align with the amended law on commercial bank from the Bank of Lao PDR in which required all banks to have minimum registered capital at LAK500,000 million within 2023. Its shareholders comprise respectable corporations namely, KASIKORNBANK PUBLIC COMPANY LIMITED and KASIKORN ASSET MANAGEMENT Co., Ltd.. Currently, KBank Lao 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 Thai 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, and



Part II Management Discussion and Analysis

2.1 Lao PDR Economic Overview

In 2020, the economic outlook in Lao PDR is expected to remain stable, despite decelerating growth in 2019 due to the global economic slowdown. The FDI inflow into Lao PDR is expected to remain robust and inflation rate will be controllable by the Bank of Lao PDR. Hence, the country is forecast to sustain the economic growth at 6.2% in 2020.

The Lao PDR economy decelerated to 6.2% growth in 2019, mainly due to the decline in exports caused by economic slowdown of major trade partners, China and Thailand, accounted for more than 70% of Lao PDR's exports. In 2019, the Lao PDR's exports dropped by 1.1%. In addition, a fall in commodity prices was also one of major factors leading to a reduction in Lao PDR exports as mineral and ores were among the top export commodities of the country.

Stable Economic Growth

Slightly Increase Inflation but Controllable



Source: ADB, forecast by KResearch

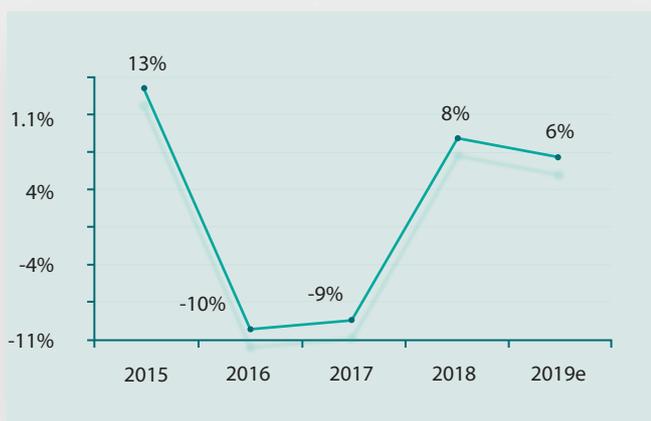
Source: Bank of Lao PDR, forecast by KResearch

Furthermore, weakened purchasing power of consumers caused by higher inflation is another factor that softened economic growth of the country in 2019. The inflation rate reached 3.32% in 2019, the slightly higher than that of 2018. The major cause of rising inflation was depreciation in Lao Kip that pushed up import prices of several products and created upward pressure on consumer prices last year.

In 2020, the Lao PDR economy is expected to continue facing external economic headwinds due to the prolonged US China trade war and the novel Corona virus outbreak. Even though the U.S. and China has agreed on a trade deal, majority of tariff imposition on Chinese products are still at the same level as last year. Hence, the adverse impacts of the trade war on Chinese and Thai economies will not cease. Moreover, the novel Corona virus outbreak will weaken the Lao PDR's export to China. In addition, commodity prices are expected to continue declining due to global economic slowdown resulting from the trade war and the outbreak.

Besides weakening Lao PDR's exports to China, the novel Corona virus outbreak is also expected to cause deceleration of tourism growth in 2020. As Chinese tourists account for 20% of total foreign tourists visiting Lao PDR, the fall in number of Chinese tourists will lead to slowdown in growth of tourists. For example, if the number of Chinese tourists drops by 10% this year, growth of total tourist arrival will decelerate to 1.9% in 2020 from 6.4% in 2019. This will lead to 0.1% declining in Lao PDR's GDP. Hence, deceleration of tourism growth will be another factor, moderating the country's economic growth in 2020.

Deceleration of Tourism Growth



Source: Laos Statistic Bureau, forecast by KResearch

Nevertheless, the FDI inflow into the country is expected to remain stable in 2020, thanks to the high speed railway project that committing China to inject huge amount of investment into the country during 2016-2021. In addition, an investment in high speed railway project may lead to crowding in effect, in which private sector invest more (e.g. real estate, tourism related services) to tap into business opportunities resulting from the project. Hence, the FDI inflow is predicted to be more stable this year. Moreover, inflation rate is expected to be lower this year as the Bank of Lao PDR has imposed measures to stabilize Lao Kip since the end of 2019. In summary, even though the Lao PDR is facing external economic shocks, stable FDI and lower inflation rate are expected to alleviate the situation allowing the country to grow at 6.2% in 2020.

Regarding the financial sector, there has been an impressive progress in development of digital financial services in Lao PDR. After the Bank of Lao PDR's permission for local financial institutions

Stable FDI from high speed railway project



Source: ASEANstats.org, forecast by KResearch

to introduce QR code payment service in mid-2018, local and international financial institutions operating in Lao PDR have begun to introduce QR code payment services and e-wallet applications. Last year, UnionPay International, one of the most popular mobile payment apps in China, formed partnership with a local financial institution to launch a new QR code aiming to tap into Laotian merchants and Chinese tourists visiting Lao PDR. In addition, the Bank of Lao PDR has just launched the Lao QR code standard for payments to prompt development of the standard and boost payment integration. This rapid development in digital financial services together with rapid technology adoption among Laotians is the game changer to enhance financial inclusion in Lao PDR. Currently, number of account at a formal financial institution is approximately 29% of the total population, whereas the mobile penetration rate is as high as 91% and 90% of its populace has access to the internet via mobile phone. Therefore, mobile phone-based digital platform will be an innovative tool, allowing financially underserved Laotians to gain access to financial services.

2.2 2019 Business Performance and Business Directions of KASIKORNTHAI BANK Limited for Year 2020



KASIKORNTHAI BANK Limited (“KBank Lao”) experienced a year of business revolution in 2019. 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 needs and changing business environment. In 2019, our portfolio has not only focused on Thai Subsidiary and Thai-related local corporations with conventional banking products, but also adjusted the portfolio to focus more on local customers including corporations, their value chains, and SMEs in 2019. As a result, KBank Lao was being able to access the underserved market through better knowledge and understanding in local customer’s needs and also achieved higher yields.

To enhance business growth in Laos, innovative products are indispensable in the digital era. In 2019, KBank Lao started to provide Supply Chain Solution to local petrol stations. Apart from Supply Chain Solution, KBank Lao also joined hands with partner to launch QR KBank’s new feature for mobile and internet top-up anytime, anywhere. The service has been well-received, as evidenced by more than 166,000 transactions conducted via the application from over 41,000 users. This digital solution will not only enable local customers to access to financial services, but also enhance KBank Lao’s capabilities to serve local customer’s needs.

Regarding digital business expansion of KBank in AEC+3 region, KBank will keep developing financial products and service innovations 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. Mrs. Sunan	Siriaksorn	Director
6. Mr. Photjanart	Sangpruaksa	Director
7. Mr. Chatuporn	Boozaya-Angool	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. Nucharee Nuntivacharin
Deputy Chairman

Ms. Nucharee 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, Strategic Treasury Department, and Financial 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, Member of the Regional Business Executive Working Group (REG), 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 led 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.



Mrs. Sunan Siriaksorn
Director

Mrs. Sunan Siriaksorn has experience over 25 years in financial industry with the academic background of the bachelor degree in Accounting, and the master degree in Finance. She has diverse backgrounds in investment analysis, treasury, corporate strategy, and human resource management. Her current job title is First Senior Vice President of Human Resource Division, and her main roles and responsibilities are supervising overall organization's employees issues that related to human resource management, human resource development and employee relations.



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 Commercial Credit and Housing Loan Product Management Unit, Housing Loan Alliance and Promotion Management Department and Credit Products Business Integration and Planning Department.



Mr. Chatuporn Boozaya-Angool
Director

Mr. Chatuporn Boozaya-angool has more than 15 years background in International Trade both Operational Process and Trade Solution Expert. Prior to be a Country Director of KBank Lao, he was a head of Banking Operation Department which extensively gained management and operational experiences in Branch network, Corporate & Retail Banking, Compliance, Enterprise Risk, and Business & Product Development.

3.3 Risk Management Committee

1. Mr. Wichai	Narongwanich	Chairman
2. Mr. Pattanapong	Tansomboon	Deputy Chairman
3. Ms. Nutcharee	Nuntivacharin	Member
4. Mr. Chatuporn	Boozaya-Angool	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. Mrs. Sunan	Siriaksorn	Chairman
2. Mr. Photjanart	Sangpruaksa	Deputy Chairman
3. Mr. Chatuporn	Boozaya-Angool	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. 1930/ERO Date 21/10/2019
Board of Directors	Mr. Pattanapong Tansomboon Ms. Nutcharee Nuntivacharin Mr. Wichai Narongwanich Mr. Photjanart Sangpruaksa Mr. Karin Boonlertvanich Mrs. Sunan Siriaksorn Mr. Chatuporn Boozaya-Angool
Board of Management	Mr. Chatuporn Boozaya-Angool Country Director Ms. Sudamas Sutangkanu Department Head - Finance and Accounting Mr. Preedee Simapetch Department Head - Banking Operation Ms. Piyanoot Sangsana Department Head - Sales and Services
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. 10 th 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 2019, the statements of profit or loss and other comprehensive income, changes in equity and of cash flows for the year then ended 31 December 2019 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.

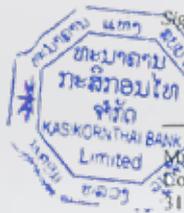
Management confirms that they have complied with the above requirements in preparing the financial statements.

APPROVAL OF THE FINANCIAL STATEMENTS

I, Mr. Chatuporn Boozaya-Angool, 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 2019, 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,

Ms. Chatuporn Boozaya-Angool
Country Director
31 March 2020



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 2019, 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 2019 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

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.

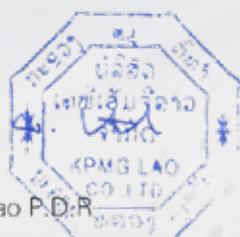
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- 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

KPMG Lao Co., Ltd.
Vientiane Capital, Lao P.D.R.
31 March 2020



KASIKORNTHAI BANK Limited

Statement of financial position For the year ended 31 December 2019

	Note	31 December 2019 (in thousand LAK)	31 December 2018
Assets			
Cash and cash equivalents	10	410,862,920	301,492,138
Deposits with other banks	11	118,745,639	72,856,619
Statutory deposits with Central Bank	12	72,163,884	22,362,356
Loans and advances to customers, net	13	613,507,889	399,847,364
Leasehold improvement and equipment	14	33,291,107	17,232,193
Intangible assets	15	336,613	1,103,096
Other assets	16	1,948,315	3,220,677
Total assets		1,250,856,367	818,114,443
Liabilities and equity			
Liabilities			
Deposits from customers	17	443,442,741	317,483,128
Deposits from other banks		434,037,370	190,373,340
Deferred tax liabilities	18	372,777	186,034
Other liabilities	19	29,656,079	6,396,405
Total liabilities		907,508,967	514,438,907
Equity			
Paid-up share capital	20	340,000,000	300,000,000
Legal reserve	21	1,106,472	583,739
Surplus		2,240,928	3,091,797
Total equity		343,347,400	303,675,536
Total liabilities and equity		1,250,856,367	818,114,443

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 2019

	Note	For the year ended 31 December 2019 (in thousand LAK)	For the year ended 31 December 2018
Interest income		37,044,977	24,938,316
Interest expense		<u>(19,367,946)</u>	<u>(12,435,557)</u>
Net interest income	5	<u>17,677,031</u>	<u>12,502,759</u>
Fee and commission income		3,897,459	3,506,581
Fee and commission expense		<u>(501,310)</u>	<u>(551,227)</u>
Net fee and commission income	6	<u>3,396,149</u>	<u>2,955,354</u>
Net operating income		21,073,180	15,458,113
Impairment loss on financial assets		(5,224,837)	(134,266)
Gain on foreign exchange		7,019,011	3,868,265
Other income		<u>114,193</u>	<u>341,582</u>
Total operating income		<u>22,981,547</u>	<u>19,533,694</u>
Operating expenses			
Personnel expenses	7	(8,110,690)	(7,125,552)
Depreciation and amortization expenses		(3,563,295)	(2,538,238)
Other operating expenses	8	<u>(9,768,128)</u>	<u>(7,078,551)</u>
Total operating expenses		<u>(21,442,113)</u>	<u>(16,742,341)</u>

KASIKORNTHAI BANK Limited

Statement of profit or loss and other comprehensive income
For the year ended 31 December 2019

	Note	For the year ended 31 December 2019 (in thousand LAK)	For the year ended 31 December 2018
Profit before income tax		1,539,434	2,791,353
Income tax	9	<u>(1,867,570)</u>	<u>(1,319,329)</u>
(Loss) / Profit for the year		<u><u>(328,136)</u></u>	<u><u>1,472,024</u></u>
Other comprehensive income			
Other comprehensive income for the period, net of income tax		<u>-</u>	<u>-</u>
Total comprehensive income		<u><u>(328,136)</u></u>	<u><u>1,472,024</u></u>
Earnings per share			
Basic earnings per share (LAK)		(9.65)	49.07

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 2019

	Note	Paid-up share capital	Surplus (in thousand LAK)	Legal reserve	Total
Balance at 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 Legal reserve		-	(178,528)	178,528	-
Balance at 31 December 2018 and 1 January 2019		300,000,000	3,091,797	583,739	303,675,536
Loss for the year		-	(328,136)	-	(328,136)
Capital injection during the year	20	40,000,000	-	-	40,000,000
Transfer to Legal reserve	21	-	(522,733)	522,733	-
Balance at 31 December 2019		340,000,000	2,240,928	1,106,472	343,347,400

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

KASIKORNTHAI BANK Limited

Statement of cash flows for the year ended 31 December 2019

	For the year ended 31 December 2019	For the year ended 31 December 2018
Note	(in thousand LAK)	
Cash flows from operating activities		
Profit before income tax	1,539,434	2,791,353
Adjustments for:		
Depreciation and amortization	3,563,295	2,538,238
Impairment loss on financial assets	5,224,837	134,266
Unrealised gain on exchange	(3,934,930)	(2,370,000)
Interest income	(37,044,977)	(24,938,316)
Interest expense	19,367,946	12,435,557
Interest received	37,940,177	26,841,042
Interest paid	(26,300,334)	(11,907,796)
Income tax paid	(1,226,585)	(999,984)
Loss/Income from operations before changes in operating assets and liabilities	<u>(871,137)</u>	<u>4,524,360</u>
Decrease (increase) in operating assets		
Statutory deposits with Central Bank	(50,803,519)	(3,731,128)
Deposits to other banks	(46,534,211)	71,759,597
Loans and advances to customers	(219,157,292)	(10,750,241)
Other assets	1,272,362	(660,214)
Increase (decrease) in operating liabilities		
Deposits from customers	125,959,613	76,569,339
Deposits from other banks	243,664,030	(57,731,142)
Other liabilities	<u>16,358,964</u>	<u>692,733</u>
Net cash provided by operating activities	<u><u>69,888,810</u></u>	<u><u>80,673,304</u></u>

KASIKORNTHAI BANK Limited

Statement of cash flows for the year ended 31 December 2019

	Note	For the year ended 31 December 2019	For the year ended 31 December 2018
		(in thousand LAK)	
Cash flows from investing activities			
Purchases of leasehold improvement and Equipment		(173,292)	(264,657)
Acquisition of intangible assets		(344,736)	-
Net cash used in investing activities		(518,028)	(264,657)
Cash flows from financing activities			
Proceeds from capital injection		40,000,000	-
Net cash provided by financing activities		40,000,000	-
Net increase in cash and cash equivalents		109,370,782	80,408,647
Cash and cash equivalents at 31 December		301,492,138	221,083,491
Net increase in cash and cash equivalents	10	410,862,920	301,492,138

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

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Notes to the financial statement for the year ended 31 December 2019

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KASIKORNTHAI BANK Limited

Notes to the financial statement for the year ended 31 December 2019

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 Unit 12, Lane Xang Avenue, Xiengngeun Village, Chanthaboury District, Vientiane Capital, Lao P.D.R.

The Bank has issued and fully paid up LAK 340 billion of authorized share capital (2018: LAK 300 billion), in accordance with the BOL announcement: Agreement on Increasing in Minimum Registered Capital and Investment Capital of Commercial Bank No.141/PM dated 24 September 2009.

According to Article 12 of amended Law on Commercial Bank No. 56/NA dated 07 December 2018, a commercial bank is required to raise its capital to minimum of LAK 500 billion within 5 years. The Bank must inject the additional capital not less than 20% each year commencing from September 2019.

During the year, the Bank complied with above requirement and raised its capital by LAK 40 billion. The share capital is held by KASIKORNBANK PUBLIC 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. 1930/ERO dated 21 October 2019 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 2019, the Bank had 46 (2018: 38) employees.

2. Basis of financial statement preparation

(i) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The financial statements of the Bank were authorised for issue by the Country Director on 31 March 2020.

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 2018, except for the change in the accounting policy in relation to IFRS 16 effective from 1 January 2019. The nature and the effect of these changes are disclosed in note 3.

KASIKORNTHAI BANK Limited

Notes to the financial statement for the year ended 31 December 2019

(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 2018.

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:

IFRS 16 - Lease

The Bank applied IFRS 16 using the modified retrospective approach. Accordingly, the comparative information presented for 2018 is not restated i.e. it is presented, as previously reported under IFRS and related regulations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

KASIKORNTHAI BANK Limited

Notes to the financial statement for the year ended 31 December 2019

Definition of a lease

Previously, the Bank treated Lease contracts as operating leases and booked related lease expense as operating expense. The only lease contracts falling under the domain of IFRS 16 are building rental agreements. The Bank has now assessed whether the rental agreements fall under the definition of a lease, as explained in Note 4(p).

As a lessee

As a lessee, the bank has two office premises. Under IFRS 16, the Bank recognizes right-of-use asset and lease liability i.e. this lease is recorded in the statement of financial position. Further, the Bank has not entered into any new leasing contracts during the year ended 31 December 2019.

On transition, for this lease, lease liability was measured at the present value of the remaining lease payments, discounted at the Bank's incremental borrowing rate for the year 2019.

The right-of-use are measured at their carrying amount which is equal to lease liability at the beginning of current year, discounted using the Bank's incremental borrowing rate at the date of transition, adjusted for any accruals and prepayments.

Impact on transition

On transition to IFRS 16, the Bank recognized additional right-of-use assets and additional lease liability. The impact on transition is summarised below:

	1 January 2019 (in thousand LAK)
Right-of-use Asset (ROUA)	15,562,640
Prepaid rental transferred to ROUA	<u>2,775,058</u>
Right-of-use Asset (ROUA)	18,337,698
Lease liability	(15,562,640)

KASIKORNTHAI BANK Limited

Notes to the financial statement for the year ended 31 December 2019

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 2019 (LAK)	31 December 2018 (LAK)
United State Dollar ("USD")	8,866.00	8,530.00
Thai Baht ("THB")	300.20	265.52

(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

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:

KASIKORNTHAI BANK Limited

Notes to the financial statement for the year ended 31 December 2019

- 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.

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.

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Notes to the financial statement for the year ended 31 December 2019

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

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.

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Notes to the financial statement for the year ended 31 December 2019

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

KASIKORNTHAI BANK Limited

Notes to the financial statement for the year ended 31 December 2019

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

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

KASIKORNTHAI BANK Limited

Notes to the financial statement for the year ended 31 December 2019

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 days 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 instrument is in default and their significance may vary over time to reflect changes in circumstances.

KASIKORNTHAI BANK Limited

Notes to the financial statement for the year ended 31 December 2019

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.

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.

KASIKORNTHAI BANK Limited

Notes to the financial statement for the year ended 31 December 2019

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.

KASIKORNTHAI BANK Limited

Notes to the financial statement for the year ended 31 December 2019

(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,

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Notes to the financial statement for the year ended 31 December 2019

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%.

(i) 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.

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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,

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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.

(o) Leases

The Bank has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IFRS and related regulations. The impact of changes is disclosed in Note 3.

Policy applicable from 1 January 2019

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank assesses whether:

- the contract involves the use of an identified asset;
- the Bank has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Bank has the right to direct the use of the asset. The Bank has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

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Notes to the financial statement for the year ended 31 December 2019

This policy is applied to contracts entered in to, or changed, on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

Policy Applicable before 1 January 2019.

Operating leases

In the comparative period, payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease.

5. Net interest income

	31 December 2019	31 December 2018
	(in thousand LAK)	
Interest income		
Loans and advances to customers	33,780,225	23,436,130
Deposits with other banks	<u>3,264,752</u>	<u>1,502,186</u>
	<u>37,044,977</u>	<u>24,938,316</u>
Interest expense		
Deposits from customers	(7,892,514)	(6,226,638)
Deposits from other banks	<u>(11,475,432)</u>	<u>(6,208,919)</u>
	<u>(19,367,946)</u>	<u>(12,435,557)</u>
Net interest income	<u><u>17,677,031</u></u>	<u><u>12,502,759</u></u>

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Notes to the financial statement for the year ended 31 December 2019

6. Net fee and commission income

	31 December 2019	31 December 2018
	(in thousand LAK)	
Fees and commission income		
Foreign remittances and facilities	2,147,404	1,816,940
Domestic facilities	230,031	159,626
Financial services fees	1,185,403	1,094,647
Others	<u>334,621</u>	<u>435,368</u>
	<u>3,897,459</u>	<u>3,506,581</u>
Fees and commission expense		
Other fees paid	<u>(501,310)</u>	<u>(551,227)</u>
Net fees and commission income	<u><u>3,396,149</u></u>	<u><u>2,955,354</u></u>

7. Personnel expenses

	31 December 2019	31 December 2018
	(in thousand LAK)	
Wages and salaries	7,224,976	6,198,710
Other benefits	<u>885,714</u>	<u>926,842</u>
Total	<u><u>8,110,690</u></u>	<u><u>7,125,552</u></u>

8. Other operating expenses

	31 December 2019	31 December 2018
	(in thousand LAK)	
Administrative expenses	7,249,068	3,951,995
Rental expenses	1,604,002	2,966,324
Other expenses	<u>915,058</u>	<u>160,232</u>
Total	<u><u>9,768,128</u></u>	<u><u>7,078,551</u></u>

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Notes to the financial statement for the year ended 31 December 2019

9. Income tax

Amounts recognised in profit and loss

	Note	2019	2018
(in thousand LAK)			
Current tax expense			
Current year		1,680,827	1,542,751
Deferred tax expense			
Movements in temporary differences	18	<u>186,743</u>	<u>(223,422)</u>
Total income tax expense		<u><u>1,867,570</u></u>	<u><u>1,319,329</u></u>

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 (%)	2019 (in thousand LAK)	Tax rate (%)	2018 (in thousand LAK)
Profit before income tax		<u>1,539,434</u>		<u>2,791,353</u>
Income tax at the domestic tax rate	24.00	369,464	24.00	669,925
Tax effect of:				
- Non-deductible items		<u>1,498,106</u>		<u>649,404</u>
Income tax	121.33	<u><u>1,867,570</u></u>	47.26	<u><u>1,319,329</u></u>

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Notes to the financial statement for the year ended 31 December 2019

10. Cash and cash equivalents

	2019	2018
	(in thousand LAK)	
Cash on hand	9,555,361	9,366,229
Balances at Central Bank	269,084,527	177,311,561
Balances at other banks	<u>132,371,601</u>	<u>115,419,534</u>
	411,011,489	302,097,324
Less: Allowance for impairment losses	<u>(148,569)</u>	<u>(605,186)</u>
Total	<u>410,862,920</u>	<u>301,492,138</u>

Cash and cash equivalents is classified under stage 1 as per IFRS 9 and the expected credit loss as at 31 December 2019 is LAK 148,569 thousand (31 December 2018: LAK 605,186 thousand).

11. Deposits with other banks

	2019	2018
	(in thousand LAK)	
Other Banks	118,660,000	73,000,000
Accrued interest	<u>1,227,620</u>	<u>353,409</u>
	119,887,620	73,353,409
Less: Allowance for impairment losses	<u>(1,141,981)</u>	<u>(496,790)</u>
Total	<u>118,745,639</u>	<u>72,856,619</u>

Deposits with other banks is classified under stage 1 as per IFRS 9 and the expected credit loss as at 31 December 2019 is LAK 1,141,981 thousand (31 December 2018: LAK 496,790 thousand).

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Notes to the financial statement for the year ended 31 December 2019

12. Statutory deposits with Central Bank

	2019	2018
	(in thousand LAK)	
Statutory deposits on:		
Capital	40,842,666	4,569,571
Compulsory reserve	32,369,536	17,839,112
	<u>73,212,202</u>	<u>22,408,683</u>
Less: Allowance for impairment losses	(1,048,318)	(46,327)
Total	<u>72,163,884</u>	<u>22,362,356</u>

Statutory deposits with Central Bank is classified under stage 1 as per IFRS9 and the expected credit loss as at 31 December 2019 is LAK 1,048,318 thousand (31 December 2018: LAK 46,327 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 (2018: 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

	2019	2018
	(in thousand LAK)	
Loans	620,538,593	401,402,291
Add accrued income on loans	1,749,091	1,728,101
Less deferred income	(2,915,306)	(1,054,436)
allowance for impairment loss*	<u>(5,864,489)</u>	<u>(2,228,592)</u>
Loans and advances to customers, net	<u>613,507,889</u>	<u>399,847,364</u>
Current	281,701,289	290,356,114
Non-current	<u>338,837,304</u>	<u>111,046,177</u>
Total	<u>620,538,593</u>	<u>401,402,291</u>

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Notes to the financial statement for the year ended 31 December 2019

	2019		Carrying amount
	Loans, net deferred income	Allowance for impairment loss (in thousand LAK)	
Corporate	<u>619,372,378</u>	<u>(5,864,489)</u>	<u>613,507,889</u>
Total	<u>619,372,378</u>	<u>(5,864,489)</u>	<u>613,507,889</u>
	2018		Carrying amount
	Loans, net deferred income	Allowance for impairment loss (in thousand LAK)	
Corporate	<u>402,075,956</u>	<u>(2,228,592)</u>	<u>399,847,364</u>
Total	<u>402,075,956</u>	<u>(2,228,592)</u>	<u>399,847,364</u>

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

	2019	2018
	(in thousand LAK)	
Individual allowance for impairment loss		
Balance at 1 January	2,228,592	1,942,461
Net impact due to initial application of IFRS 9	-	213,333
Foreign exchange translation	(200,442)	42,155
Credit loss expense	<u>3,836,339</u>	<u>30,643</u>
Balance at 31 December	<u>5,864,489</u>	<u>2,228,592</u>

14. Leasehold improvement and equipment

	Loans, net deferred income	Furniture, fitting and office equipment (in thousand LAK)	Right of use asset	Total
Cost				
Balance at 31 December 2018	<u>17,898,901</u>	<u>3,268,938</u>	-	<u>21,167,839</u>
Recognition of right of use asset on initial application of IFRS 16	<u>-</u>	<u>-</u>	<u>18,337,698</u>	<u>18,337,698</u>

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Notes to the financial statement for the year ended 31 December 2019

	Loans, net deferred income	Furniture, fitting and office equipment (in thousand LAK)	Right of use asset	Total
Adjusted balance at 1 January 2019	17,898,901	3,268,938	18,337,698	39,505,537
Additions	-	173,292	-	173,292
Balance at 31 December 2019	17,898,901	3,442,230	18,337,698	39,678,829
Accumulated depreciation				
Balance at 31 December 2018	(2,104,202)	(1,831,444)	-	(3,935,646)
Depreciation for the year	(415,840)	(624,479)	(1,411,757)	(2,452,076)
Balance at 31 December 2019	(2,520,042)	(2,455,923)	(1,411,757)	(6,387,722)
Net book value				
As at 1 January 2019 - Adjusted	15,794,699	1,437,494	18,337,698	35,569,891
At 31 December 2019	15,378,859	986,307	16,925,941	33,291,107

15. Intangible assets

	Software license (in thousand LAK)
Cost	
Balance at 31 December 2018	6,799,065
Additions	344,736
Balance at 31 December 2019	7,143,801

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Notes to the financial statement for the year ended 31 December 2019

	Software license (in thousand LAK)
Accumulated depreciation	
Balance at 31 December 2018	(5,695,969)
Amortisation for the year	<u>(1,111,219)</u>
Balance at 31 December 2019	(6,807,188)
Net book value	
At 31 December 2018	<u>1,103,096</u>
At 31 December 2019	<u>336,613</u>

16. Other assets

	2019	2018
	(in thousand LAK)	
Prepaid rental expenses	196,243	2,669,890
Others	<u>1,752,072</u>	<u>550,787</u>
Total	<u>1,948,315</u>	<u>3,220,677</u>

17. Deposits from customers

	2019	2018
	(in thousand LAK)	
Retail customers:		
- Current	1,677,771	2,344,390
- Savings	101,499,657	89,633,304
- Term	163,842,051	96,455,352
Corporate customers:		
- Current	58,324,518	67,464,939
- Savings	63,892,965	29,102,548
- Term	<u>54,205,779</u>	<u>32,482,595</u>
Total	<u>443,442,741</u>	<u>317,483,128</u>

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Notes to the financial statement for the year ended 31 December 2019

18. Deferred tax liabilities

	As of 1 January 2019	Charged to Profit and loss (in thousand LAK)	As of 31 December 2019
Deferred tax assets			
Deferred income	<u>73,832</u>	<u>(446,609)</u>	<u>(372,777)</u>
Deferred tax liabilities			
Depreciation	<u>(259,866)</u>	<u>259,866</u>	<u>-</u>
Net	<u>(186,034)</u>	<u>(186,743)</u>	<u>(372,777)</u>
	As of 1 January 2018	Charged to Profit and loss (in thousand LAK)	As of 31 December 2018
Deferred tax assets			
Deferred income	<u>163,449</u>	<u>(89,617)</u>	<u>73,832</u>
Deferred tax liabilities			
Depreciation	<u>(572,905)</u>	<u>313,039</u>	<u>(259,866)</u>
Net	<u>(409,456)</u>	<u>223,422)</u>	<u>(186,034)</u>
Income tax reduction			

The Income Tax Law No. 67/NA dated 31 July 2019 reduced the profit tax rate from 24% to 20% of taxable profit.

As announced through the Notification from Ministry of Finance on Implementation of the Taxation Management Law, Income Tax Law and Excise Tax Law, No. 042/ MOF, dated on 11 February 2020, The Income Tax Law No. 67/NA shall be started from 1st January 2020 onwards. The Bank has decided not to apply the new tax rate in the measurement of deferred tax assets and liabilities as at 31 December 2019 since the impact is not material.

19. Other liabilities

	2019	2018
	(in thousand LAK)	
Accrued interest payables	12,141,694	4,476,364
Others	2,925,559	1,855,521
Impairment allowance - off balance sheet*	309,181	64,520
Lease Liabilities	<u>14,279,645</u>	<u>-</u>
Total	<u>29,656,079</u>	<u>6,396,405</u>

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Notes to the financial statement for the year ended 31 December 2019

*Loan commitment and financial guarantee are classified under stage 1 as per IFRS 9 and the expected credit loss as at 31 December 2019 is LAK 309,181 thousand (31 December 2018: LAK 64,520 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.

The Bank has issued and fully paid up LAK 340 billion of authorized share capital (2018: LAK 300 billion), in accordance with the BOL announcement: Agreement on Increasing in Minimum Registered Capital and Investment Capital of Commercial Bank No.141/PM dated 24 September 2009.

According to Article 12 of amended Law on Commercial Bank No. 56/NA dated 07 December 2018, a commercial bank is required to raise its capital to minimum of LAK 500 billion within 5 years. The Bank must inject the additional capital not less than 20% each year commencing from September 2019.

During the year, the Bank complied with above requirement and raised its capital by LAK 40 billion. The share capital is held by KASIKORNBANK PUBLIC COMPANY LIMITED "KBANK" and Kasikorn Asset Management Co., Ltd 90% and 10%, respectively.

21. Legal reserve

The legal 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:

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Notes to the financial statement for the year ended 31 December 2019

(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 (c);

(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	2019	2018
			(in thousand LAK)	
KASIKORNBANK PUBLIC COMPANY LIMITED	Parent company	Fee and commission income	1,185,403	1,094,647
KASIKORNBANK PUBLIC COMPANY LIMITED	Parent company	Other operating expense	1,006,669	381,014
KASIKORNBANK PUBLIC COMPANY LIMITED	Parent company	Interest expense	3,851,646	4,945,497

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Notes to the financial statement for the year ended 31 December 2019

Significant balances with related parties at 31 December 2019 are as follows:

Related party	Relationship	Transactions	Receivable	Payable
(in thousand LAK)				
KASIKORNBANK PUBLIC COMPANY LIMITED	Parent company	Cash and cash equivalents	83,335,316	-
KASIKORNBANK PUBLIC COMPANY LIMITED	Parent company	Deposit from other banks	-	157,030,119
KASIKORNBANK PUBLIC COMPANY LIMITED	Parent company	Accrued interest payable	-	316,923

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

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

	2019	2018
(in thousand LAK)		
Short-term employee benefits	2,522,890	2,292,781

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.

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Notes to the financial statement for the year ended 31 December 2019

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 which are 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 entirety 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.

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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 developed 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 2019 and 2018 were as follows:

	2019 LAK (in thousand)	2018 LAK (in thousand)
Credit risk associated with on-financial reporting assets:		
Deposits with other banks	119,887,620	73,353,409
Statutory deposits with Central Bank	73,212,202	22,408,683
Loans and advances to customers and accrued interest receivables	<u>622,287,684</u>	<u>403,130,392</u>
	<u>815,387,506</u>	<u>498,892,484</u>
Fair value of collaterals	<u>738,588,982</u>	<u>132,881,915</u>

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 2019 and 2018 was as follows:

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Notes to the financial statement for the year ended 31 December 2019

	2019							Total	
	Financial institutions	Industry	Construction	Agriculture and forestry	Trade	Shipping and Postal	Service		Others
Deposits with other banks	119,887,620	-	-	-	-	-	-	-	119,887,620
Statutory deposits with Central Bank	73,212,202	-	-	-	-	-	-	-	73,212,202
Loans and advances to customers and accrued interest receivables	-	128,148,655	-	71,186,873	188,016,754	972,425	93,804,977	140,158,000	622,287,684
	<u>193,099,822</u>	<u>128,148,655</u>	<u>-</u>	<u>71,186,873</u>	<u>188,016,754</u>	<u>972,425</u>	<u>93,804,977</u>	<u>140,158,000</u>	<u>815,387,506</u>
				(in thousand LAK)					
	2018							Total	
	Financial institutions	Industry	Construction	Agriculture and forestry	Trade	Shipping and Postal	Service		Others
Deposits with other banks	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	-	68,536,645	3,092,980	35,971,028	170,485,331	2,140,562	36,103,138	86,800,708	403,130,392
	<u>95,762,092</u>	<u>68,536,645</u>	<u>3,092,980</u>	<u>35,971,028</u>	<u>170,485,331</u>	<u>2,140,562</u>	<u>36,103,138</u>	<u>86,800,708</u>	<u>498,892,484</u>

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Notes to the financial statement for the year ended 31 December 2019

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 2019 and 2018 were as follows:

	2019			
	Neither past due nor impaired (in thousand)	Past due but not impaired (in thousand)	Individually impaired (in thousand)	Total (in thousand)
Deposits with other banks	119,887,620	-	-	119,887,620
Statutory deposits with Central Bank	73,212,202	-	-	73,212,202
Loans and advances to customers and accrued interest receivables	622,287,684	-	-	622,287,684
	815,387,506	-	-	815,387,506
Fair value of collaterals	738,588,982	-	-	738,588,982
	2018			
	Neither past due nor impaired (in thousand)	Past due but not impaired (in thousand)	Individually impaired (in thousand)	Total (in thousand)
Deposits with other banks	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

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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).

	2019			
	12-month ECL	Life time ECL not credit impaired	Life time ECL Credit - Impaired	Total
	LAK (in thousand)	LAK (in thousand)	LAK (in thousand)	LAK (in thousand)
Cash and cash equivalents				
Grades A	411,011,489	-	-	411,011,489
Less: Loss allowance	(148,569)	-	-	(148,569)
Carrying amount	410,862,920	-	-	410,862,920
Loans and advances to customers at amortised cost				
Grades A	622,287,684	-	-	622,287,684
Less: Loss allowance	(5,864,489)	-	-	(5,864,489)
Carrying amount	616,423,195	-	-	616,423,195

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2019

	12-month ECL	Life time ECL not credit impaired	Life time ECL Credit - Impaired	Total
	LAK (in thousand)	LAK (in thousand)	LAK (in thousand)	LAK (in thousand)
Loans Commitments				
Grades A	297,796,207	-	-	297,796,207
Less: Loss allowance	(281,907)	-	-	(281,907)
Carrying amount	297,514,300	-	-	297,514,300
Financial guarantee contracts				
Grades A	12,277,821	-	-	12,277,821
Less: Loss allowance	(27,274)	-	-	(27,274)
Carrying amount	12,250,547	-	-	12,250,547

2018

	12-month ECL	Life time ECL not credit impaired	Life time ECL Credit - Impaired	Total
	LAK (in thousand)	LAK (in thousand)	LAK (in thousand)	LAK (in thousand)
Loans Commitments				
Grades A	302,097,324	-	-	302,097,324
Less: Loss allowance	(605,186)	-	-	(605,186)
Carrying amount	301,492,138	-	-	301,492,138
Loans and advances to customers at amortised cost				
Grades A	403,130,392	-	-	403,130,392
Less: Loss allowance	(2,228,592)	-	-	(2,228,592)
Carrying amount	400,901,800	-	-	400,901,800

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2018

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

(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.

Type of Credit Exposure	Percentage of exposure that is a subject to collateral requirements		Principal Type of Collateral Held
	31 December 2019	31 December 2018	
Loans to corporate 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.

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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 Basel prudential rules

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.

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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).

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2019

	12-month ECL	Lifetime ECL not credit - impaired	Life time ECL Credit - Impaired	Total
	(in thousand)			
Loans to customers at amortised cost				
Balance at 1 January	2,228,592	-	-	2,228,592
Transfer to 12-month ECL	-	-	-	-
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	4,196,625	-	-	4,196,625
Financial assets that have been derecognized	(360,286)	-	-	(360,286)
Write-offs	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-
Changes in models/risk parameters	-	-	-	-
Foreign exchange and other movements	(200,442)	-	-	(200,442)
Balance at 31 December	5,864,489	-	-	5,864,489

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	2018			Total
	12-month ECL	Lifetime ECL not credit - impaired	Life time ECL Credit - Impaired	
	(in thousand)			
Loans to customers at amortised cost				
Balance at 1 January	1,873,755	282,039	-	2,155,794
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
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
Balance at 31 December	2,228,592	-	-	2,228,592

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	2019	2018
	12 - month ECL	12 - month ECL
	(in thousand LAK)	
Cash and cash equivalents		
Balance at 1 January	605,186	244,109
Net remeasurement of loss allowance	-	-
Net decrease in cash and cash equivalents	(453,023)	347,223
Foreign exchange and other movements	(3,594)	13,854
Balance at 31 December	148,569	605,186
Loan commitments and financial guarantee contracts		
Balance at 1 January	64,520	63,656
Net remeasurement of loss allowance	-	-
New loan commitments and financial guarantees issued	252,723	804
Foreign exchange and other movements	(8,062)	60
Balance at 31 December	309,181	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.

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	Notes	Loans and advance to customers		Loan commitments and financial guarantee issued	
		2019	2018	2019	2018
		(in thousand LAK)		(in thousand LAK)	
Carrying amount	13	620,538,593	401,402,291	-	-
Amount committed/guaranteed		-	-	310,074,028	56,523,729
Concentration by sector					
Corporate:					
Industry		128,105,225	68,491,198	41,694,464	-
Construction		-	3,090,662	-	-
Agriculture and forestry		71,154,000	35,946,000	416,000	-
Trade		187,944,415	170,359,651	58,658,517	56,523,729
Shipping and Postal		972,020	2,138,780	2,527,980	-
Service		93,772,933	36,076,000	206,777,067	-
Government		138,590,000	85,300,000	-	-
		<u>620,538,593</u>	<u>401,402,291</u>	<u>310,074,028</u>	<u>56,523,729</u>
Concentration by location					
Lao PDR		<u>620,538,593</u>	<u>401,402,291</u>	<u>310,074,028</u>	<u>56,523,729</u>
		<u>620,538,593</u>	<u>401,402,291</u>	<u>310,074,028</u>	<u>56,523,729</u>

24.3. Liquidity Risk

(i) Exposure to 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 2019 and 2018 as follows:

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2019

	At call	Less than 6 Months	6 Months to 1 Year	Over 1 Year to 5 Years (in thousand LAK)	Over 5 Years	No Maturity	Total
Financial assets							
Cash and cash equivalents	410,862,920	-	-	-	-	-	410,862,920
Deposits with other banks	-	88,016,574	30,729,065	-	-	-	118,745,639
Statutory deposits with Central Bank	-	-	-	-	-	72,163,884	72,163,884
Loans to customers (*)	-	272,875,960	8,925,933	215,603,535	124,882,256	-	622,287,684
Total financial assets	<u>410,862,920</u>	<u>360,892,534</u>	<u>39,654,998</u>	<u>215,603,535</u>	<u>124,882,256</u>	<u>72,163,884</u>	<u>1,224,060,127</u>
Financial liabilities							
Deposits from customers	225,394,912	104,126,356	39,902,883	74,018,590	-	-	443,442,741
Deposits from other banks	1,882,370	193,330,000	172,330,000	66,495,000	-	-	434,037,370
Accrued interest payables	15,491	7,992,646	3,153,560	979,997	-	-	12,141,694
Total financial liabilities	<u>227,292,773</u>	<u>305,449,002</u>	<u>215,386,443</u>	<u>141,493,587</u>	<u>-</u>	<u>-</u>	<u>889,621,805</u>
Liquidity - net	<u>183,570,147</u>	<u>55,443,532</u>	<u>(175,731,445)</u>	<u>74,109,948</u>	<u>124,882,256</u>	<u>72,163,884</u>	<u>334,438,322</u>
Liquidity - accumulative net	<u>183,570,147</u>	<u>239,013,679</u>	<u>63,282,234</u>	<u>137,392,182</u>	<u>262,274,438</u>	<u>334,438,322</u>	<u>-</u>

(*) includes accrued interest receivables

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2018

	At call	Less than 6 Months	6 Months to 1 Year	Over 1 Year to 5 Years (in thousand LAK)	Over 5 Years	No Maturity	Total
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	-	403,130,391
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	287,508,672	-

(*) includes accrued interest receivables

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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 (LIBOR) as of 31 December 2019 and 31 December 2018 are as follows:

	2019	2018
	(in thousand LAK)	
Fixed interest rates	449,540,052	270,398,551
Floating interest rates	<u>170,998,541</u>	<u>131,003,740</u>
Total loans	<u><u>620,538,593</u></u>	<u><u>401,402,291</u></u>

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 2019 and 2018 are as follows:

	2019		
	Average balance	Interest income/ expense	Average interest rate (%)
	(in thousand LAK)		
Financial assets			
Interest-bearing financial assets			
Deposits with other banks	93,990,417	3,264,752	3.5%
Loans to customers	<u>491,350,827</u>	<u>33,780,225</u>	6.9%
Total financial assets	<u><u>585,341,244</u></u>	<u><u>37,044,977</u></u>	

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Notes to the financial statement for the year ended 31 December 2019

	Average balance	2019 Interest income/ expense (in thousand LAK)	Average interest rate (%)
Financial liabilities			
Interest-bearing financial liabilities			
Deposits from customers	380,222,874	7,892,514	2.1%
Deposits from other banks	<u>277,021,786</u>	<u>11,475,432</u>	4.1%
Total financial liabilities	<u>657,244,660</u>	<u>19,367,946</u>	

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

Financial liabilities			
Interest-bearing financial liabilities			
Deposits from customers	254,080,515	6,226,638	2.0%
Deposits from other banks	<u>219,709,880</u>	<u>6,208,919</u>	3.0%
Total financial liabilities	<u>473,780,395</u>	<u>12,435,557</u>	

KASIKORNTHAI BANK Limited

Notes to the financial statement for the year ended 31 December 2019

2018

(in thousand LAK)

	Immediate Repricing	Less than 6 Months	6 Months to 1 Year	Over 1 Year to 5 Years	Over 5 Years	Non-interest Bearing	Total
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

KASIKORNTHAI BANK Limited

Notes to the financial statement for the year ended 31 December 2019

(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 2019 were as follows:

	USD	2019 Currency THB	Total
	(in thousand LAK)		
Financial assets			
Cash and cash equivalents	126,730,458	58,014,271	184,744,729
Statutory deposits with Central Bank	19,735,111	9,703,868	29,438,979
Loans to customer and accrued interest receivables	213,951,493	76,098,678	290,050,171
Total financial assets	360,417,062	143,816,817	504,233,879
Financial liabilities			
Deposits from customers	196,860,750	141,299,969	338,160,719
Deposits from other banks	157,034	1,441	158,475
Total financial liabilities	197,017,784	141,301,410	338,319,194
Foreign currency position of items recognised on the statement of financial position - net	163,399,278	2,515,407	165,914,685

KASIKORNTHAI BANK Limited

Notes to the financial statement for the year ended 31 December 2019

Foreign currency positions in LAK equivalent, as of 31 December 2018 were as follows:

	USD	2018 Currency THB (in thousand LAK)	Total
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 interest receivables	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 financial position - net	88,588,831	1,974,916	90,563,747

25. Financial assets and financial liabilities

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.

KASIKORNTHAI BANK Limited

Notes to the financial statement for the year ended 31 December 2019

31 December 2019

	Note	Fair value through profit and loss	Amortised cost	Total carrying amount
(in thousand LAK)				
Cash and cash equivalents	10	-	410,862,920	410,862,920
Deposits with other banks	11	-	118,745,639	118,745,639
Statutory deposits with Central Bank	12	72,163,884	-	72,163,884
Loans and advances to customers, net	13	-	613,507,889	613,507,889
Total financial assets		72,163,884	1,143,116,448	1,215,280,332
Deposits from banks	17	-	443,442,741	443,442,741
Deposits from customers		-	434,037,370	434,037,370
Total financial liabilities		-	877,480,111	877,480,111

31 December 2018

	Note	Fair value through profit and loss	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		22,362,356	774,196,121	796,558,477

KASIKORNTHAI BANK Limited

Notes to the financial statement for the year ended 31 December 2019

		31 December 2018		
	Note	Fair value through profit and loss	Amortised cost	Total carrying amount
		(in thousand LAK)		
Deposits from banks	17	-	317,483,128	317,483,128
Deposits from customers		-	190,373,340	190,373,340
Total financial liabilities		-	507,856,468	507,856,468

26. Commitments

	2019	2018
	(in thousand LAK)	
Finance commitment	297,796,207	133,853,426
	<u>297,796,207</u>	<u>133,853,426</u>

27. Off-balance sheet items

	2019	2018
	(in thousand LAK)	
Commitment given		
Letters of guarantee outstanding	12,277,821	17,050,892
Collateral and Mortgages		
Collaterals and mortgages for loans to customer	738,588,982	738,588,982

KASIKORNTHAI BANK Limited

Notes to the financial statement for the year ended 31 December 2019

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:

	2019	2018
	(in thousand LAK)	
Tier 1 capital	351,064,724	306,142,537
Tier 2 capital	<u>3,102,693</u>	<u>2,007,102</u>
Total capital	<u>354,167,417</u>	<u>308,149,639</u>
Less: Deductions from capital (Investments in other credit and financial institutions)	<u>-</u>	<u>-</u>
Capital for CAR calculation	<u>354,167,417</u>	<u>308,149,639</u>
Risk weighted balance sheet items	476,695,406	337,046,824
Risk weighted off balance sheet items	<u>-</u>	<u>-</u>
Total risk weighted assets	<u>476,695,406</u>	<u>337,046,824</u>
Capital Adequacy Ratio	<u>74.30%</u>	<u>91.43%</u>

KASIKORNTHAI BANK Limited

Notes to the financial statement for the year ended 31 December 2019

30. Rights of use Assets

Right-of-use asset

31 December 2019
(in thousand LAK)

Balance at 1 January 2019	18,337,698
Depreciation charge for the year	<u>(1,411,757)</u>
Balance at 31 December 2019	<u><u>16,925,941</u></u>

Amount recognized in profit or loss

31 December 2019
(in thousand LAK)

Interest on lease liability	578,865
Depreciation charge for the year	<u>1,411,757</u>
Total	<u><u>1,990,622</u></u>

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 2019 that significantly impacted the financial position of the Bank as at 31 December 2019.

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 2020; however, the Bank has not applied the following new or amended standards in preparing these financial statements.

KASIKORNTHAI BANK Limited

Notes to the financial statement for the year ended 31 December 2019

IFRS	Topic	Year effective
IFRS 17	Insurance contracts	2023
IFRS 3	Definition of a business (Amendments to IFRS 3)	2020
	Amendments to References to Conceptual Framework In IFRS Standards	2020

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

Part V Events



KASIKORNTHAI BANK Limited Lao PDR and Lao Telecom join hands to launch QR KBank new feature for mobile top-up anytime and anywhere

26 April 2019 KASIKORNTHAI BANK Limited, Lane Xang Head Office, Vientiane.

Signing Ceremony between KASIKORNTHAI BANK Limited (Lao PDR) and Bangkok Chain Hospital Public Company Limited (BCH) for financial support agreement on the construction of Kasemrad International Hospital Vientiane



18 June 2019 Vientiane, Lao PDR



KBank Laos organizes a seminar on International Financial Reporting Standards and Base II for the Comptroller General Accounting Office, Bank of the Lao PDR

4 December 2019 Bank of the Lao PDR, Vientiane, Lao PDR

KBTG welcomes and organizes seminar 'KBank Digital Transformation' for students from Faculty of Economic and Business Managements, National University of Laos



6 December 2019 KBTG, Bangkok



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