

ANZ Bank (Lao) Limited

Financial statements for the year ended
31 December 2016
and
Independent Auditor's Report

ANZ Bank (Lao) Limited

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ANZ Bank (Lao) Limited

Corporate Information

Bank ANZ Bank (Lao) Limited

Foreign Investment License No. 007-15/PI/PM4, dated 08 December 2015
Enterprise Registration Certificate No. 0102/ERO
Dated 07 February 2017

Board of Directors

Ms. Binh Phan	Chairman
Mr. Nigel Jarvis Piper	Director
Ms. Maria Liu	Director
Mr. Karl Holden	Director
Mrs. Anna Green	Director

Board of Management

Mrs. Anna Green	Chief Executive Officer
Mr. Mark Luvant	Acting Chief Operating Officer
Ms. Nguyen Thi Huong Nga	Chief Risk Officer
Mr. Chris Kermodé	Head of Finance
Mrs. Souphachanh Khansyla	Head of International Banking and Head of Transaction Banking
Ms. Lobe Temo	Head of Global Markets
Mrs. Mukdalay Xayarath	Head of Human Resource
Mr. Aksone Bouphakonekham	Local Advisory
Mr. Daniel McCutcheon	Head of Compliance
Mr. Thomas Henderson	Head of Research and Analysis

Registered office ANZ Bank (Lao) Limited
ANZ Building
33 Lane Xang Avenue
PO Box 5001
Vientiane capital, Lao PDR

Auditors KPMG Lao Co., Ltd
4th Floor, K.P. Tower
23 Singha Road
P.O. Box 6978
Vientiane Capital, Lao PDR

MANAGEMENT'S RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Management of ANZ Bank (Lao) Limited (“the Bank”) is responsible for the preparation of the financial statements and for ensuring that the financial statement present fairly in all material respects financial position of the Bank as at 31 December 2016, and the statement of income, statement of changes in capital and other reserves and statement of cash flows for the year then ended that are in accordance with the accounting regulations of the Bank of Lao PDR and accounting rules in the Lao PDR. 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 the accounting regulations of the Bank of Lao PDR and accounting rules in the Lao PDR, 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, Mrs. Anna Green, on behalf of the Board of Management, do hereby state that the financial statements set out on pages 6 to 31 present fairly, in all material respects, financial position of the Bank as at 31 December 2016, and the statement of income, statement of changes in capital and other reserves and statement of cash flows for the year then ended and have been properly drawn up in accordance with the accounting regulations of the Bank of Lao PDR and accounting rules in the Lao PDR.

Signed on behalf of the Board of Management,


Anna Green
Chief Executive Officer
29 March 2017





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ຊັ້ນ 3-4, 37 ຕຶກ ເຄພີທາວເວີ
ຖະໜົນ 23 ສິງຫາ, ບ້ານໂພນໄຊ,
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INDEPENDENT AUDITORS' REPORT

To: **The Board of Directors**
ANZ Bank (Lao) Limited

Opinion

We have audited the financial statements of ANZ Bank (Lao) Limited (the “Bank”), which comprise the statement of financial position as at 31 December 2016, the statements of income, changes in capital and other reserves and 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 2016 and its financial performance and cash flows for the year then ended in accordance with the accounting regulations of the Bank of Lao PDR and accounting rules in the Lao PDR.

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 the accounting regulations of the Bank of Lao PDR and accounting rules in the Lao PDR, 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 PDR
Date: 29 March 2017

ANZ Bank (Lao) Limited
Statement of financial position

		31 December	
	<i>Note</i>	2016	2015
		<i>(in millions LAK)</i>	
Assets			
Cash	4, 20	49,113	53,041
Interbank and money market items			
Amounts due from head office and other branches		87,133	3,564
Amounts due from other banks	5	369,925	308,639
Statutory deposits with Central Bank	6	271,885	194,963
Loans and advances, net of specific provision	7	181,224	555,586
Property and equipment	8	13,287	17,658
Deferred tax asset	9	2,382	-
Other assets	10	4,237	8,166
Total assets		979,186	1,141,617

The accompanying notes form an integral part of these financial statements

ANZ Bank (Lao) Limited
Statement of financial position

		31 December	
	<i>Note</i>	2016	2015
		<i>(in millions LAK)</i>	
Liabilities, Capital and other reserves			
Liabilities			
Deposits from customers	<i>11</i>	636,861	726,963
Interbank and money market items			
Amounts due to other banks	<i>12</i>	26,210	65,864
Tax liabilities	<i>13</i>	1,801	7,483
Other liabilities	<i>14</i>	10,706	18,718
Total liabilities		675,578	819,028
Capital and other reserves			
Paid up capital	<i>15</i>	300,000	300,000
Statutory reserve	<i>16</i>	3,425	3,425
General provision for credit activities		1,731	5,556
Retained earnings		(1,548)	13,608
Total Capital and other reserves		303,608	322,589
Total liabilities, Capital and other reserves		979,186	1,141,617

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

ANZ Bank (Lao) Limited
Statement of income

	Note	Year ended 31 December	
		2016	2015
		<i>(in millions LAK)</i>	
Interest income			
Interest from loans and advances		18,038	44,274
Interest from interbank and money market items		1,536	1,378
Total interest income		19,574	45,652
Interest expense			
Interest on deposits	17	(5,636)	(8,207)
Interest on interbank and money market items		(1,080)	(1,602)
Total interest expense		(6,716)	(9,809)
Net interest income		12,858	35,843
Other income			
Fees and services income		17,150	20,981
Fees and services expenses		(2,580)	(2,649)
Fees and services income, net	18	14,570	18,332
Gain on foreign exchange		13,049	11,586
Other income		3,156	15,970
Net gain from fixed assets disposal		6,205	-
Total other income		22,410	27,556
Income before non-interest expense, doubtful accounts and income tax expense		49,838	81,731
Operating expenses			
Personnel expenses		(23,772)	(22,672)
Premises, depreciation and amortization expenses		(6,265)	(7,559)
Other expenses		(32,967)	(30,068)
Provision for bad debts and doubtful loans and advances			
General		3,825	905
Specific	7	(8,197)	-
Total operating expenses		(67,376)	(59,394)
(Loss) profit before income tax expense		(17,538)	22,337
Income tax benefit (expense)	19	2,382	(5,380)
(Loss) profit for the year		(15,156)	16,957

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

ANZ Bank (Lao) Limited
Statement of changes in capital and other reserves

	Paid up capital	Retained earnings / (Accumulated losses)	Statutory reserve	General provision for credit activities	Total
	LAK (in millions)	LAK (in millions)	LAK (in millions)	LAK (in millions)	LAK (in millions)
Balance as at 1 January 2015	300,000	(1,837)	1,913	6,461	306,537
Change in general provision	-	-	-	(905)	(905)
Profit for the year	-	16,957	-	-	16,957
Transfer to statutory reserve	-	(1,512)	1,512	-	-
Balance as at 31 December 2015 and 1 January 2016	300,000	13,608	3,425	5,556	322,589
Change in general provision	-	-	-	(3,825)	(3,825)
Loss for the year	-	(15,156)	-	-	(15,156)
Transfer to statutory reserve	-	-	-	-	-
Balance as at 31 December 2016	300,000	(1,548)	3,425	1,731	303,608

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

ANZ Bank (Lao) Limited
Statement of cash flows

	Note	Year ended 31 December	
		2016	2015
<i>(in millions LAK)</i>			
Cash flows from operating activities			
(Loss) profit before income tax expense		(17,538)	22,337
<i>Adjustments for</i>			
Interest income		(19,574)	(45,652)
Interest expense		6,716	9,809
Allowance for doubtful debts		4,372	(18,607)
Depreciation and amortisation		5,590	7,000
Gain from fixed assets disposal		(6,205)	(499)
Foreign exchange difference		-	(1,025)
Income from operations before change in operating assets and liabilities		(26,639)	(26,637)
<i>Change in operating assets / liabilities</i>			
Change in statutory deposits		19,736	2,687
Change in loans and advances to customers		366,164	109,639
Change in other assets		4,652	(751)
Change in deposits from customers		(90,102)	(113,329)
Change in deposits from banks		(39,654)	(20,380)
Change in deposits to banks		(24,830)	(5,850)
Change in other liabilities		(8,426)	(9,707)
Interest received		19,012	45,959
Interest paid		(7,495)	(10,041)
Income tax paid		(4,649)	(891)
Net cash from (used in) operating activities		207,769	(29,301)
<i>Cash flows from investing activities</i>			
Acquisition of property and equipment		(5,629)	(6,378)
Proceeds from disposal of assets		12,396	306
Construction in progress		(1,781)	-
Net cash from (used in) investing activities		4,986	(6,072)
Net change in cash and cash equivalents		212,755	(35,373)
Cash and cash equivalents at 1 January		447,235	482,608
Cash and cash equivalents at 31 December	20	659,990	447,235

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

ANZ Bank (Lao) Limited
Notes to the financial statements
For the year ended 31 December 2016

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ANZ Bank (Lao) Limited
Notes to financial statements
For the year ended 31 December 2016

1 General information

ANZ Bank (Lao) Limited is 100% foreign invested commercial bank which was incorporated in Lao People's Democratic Republic and has its registered office at ANZ Building, 33, Lane Xang Avenue, PO Box 5001, Vientiane, Lao PDR.

The Bank began operating as ANZ Vientiane Commercial Bank Ltd in September 2007 as the Australia and New Zealand Banking Group ("ANZ") purchased a majority shareholding in the Vientiane Commercial Bank Ltd, a privately owned bank that had been operating in Laos for 14 years. In August 2010, ANZ moved to hold 100% of the Bank and renamed it to ANZ Bank (Lao) Limited.

The Bank is operating under Foreign Investment Licence No. 007-15/PI/PM4 dated 08 December 2015 granted by the Ministry of Planning and Investment and Enterprise Registration Certificate No. 0102/ERO dated 07 February 2017 issued by the Enterprise Registration Officer.

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

As at 31 December 2016, the Bank had 81 (2015: 91) employees.

2 Basis of preparation of the financial statements

(a) General basis of accounting

(i) Basis of preparation

The accompanying financial statements are expressed in Lao Kip ("LAK"), in accordance with Decree No. 02/PR by the Prime Minister of Lao PDR dated 22 March 2000 and the Enterprise Accounting Law of Lao PDR and accounting regulations of the Bank of Lao PDR and accounting rules in the Lao PDR. This is also the functional currency of the Bank.

The financial statements have been prepared in accordance with accounting regulations of the Bank of Lao PDR and accounting rules in the Lao PDR, which may differ in some material respects from International Financial Reporting Standards and the generally accepted accounting principles and standards of other countries. Accordingly, the accompanying financial statements are not intended to present the financial position, results of operations, changes in equity, cash flows and notes thereto in accordance with generally accepted accounting principles and practices in countries or jurisdictions other than the Lao PDR. Furthermore, their utilization is not designed for those who are not informed about the Lao PDR's accounting rules, procedures and practices.

The Bank is 100% foreign invested commercial bank which was incorporated in the Lao PDR. The accompanying financial statements have been prepared from the records of the Bank and reflect only transactions recorded locally. The Bank has significant transactions and balances with its Head Office and other branches.

The financial statements were authorized for issue on behalf of the Board of Management on 29 March 2017.

ANZ Bank (Lao) Limited
Notes to the financial statements
For the year ended 31 December 2016

(ii) Basis of measurement

The financial statements have been prepared on the historical cost basis except as stated in the accounting policies. The accounting policies have been consistently applied by the Bank and are consistent with those used in the previous year except otherwise stated.

(iii) Use of judgements and estimates

The preparation of the Bank's financial statements requires management to make judgments, estimates and assumptions based on the management's best knowledge of current events and actions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, expenses and the disclosures of contingent liabilities at the reporting date.

Estimates and underlying assumptions are reviewed on an ongoing basis. Actual outcomes may differ from management's assessment and such differences could require revisions that are recognized in the period in which the estimates are revised and in any future periods affected.

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency at exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rates at the reporting date. All realized and unrealized foreign exchange differences arising from translation are recognized in the statement of income.

Non-monetary assets and liabilities measured at cost in foreign currencies are translated to the function currency at the exchange rates at the dates of transactions.

The applicable exchange rates for the LAK against currencies were:

	31 December 2016	31 December 2015
United State Dollar ("USD")	8,166.00	8,126.00
Thai Baht ("THB")	228.63	226.79
Euro ("EUR")	8,545.00	8,914.00

(c) Fiscal Year

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

3 Significant accounting policies

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

ANZ Bank (Lao) Limited
Notes to the financial statements
For the year ended 31 December 2016

(a) Financial instruments

The Bank's financial instruments include cash and cash equivalents, originated loans and receivables, deposits, investments, inter-bank balances and other receivables and payables. The accounting policies for the recognition and measurement of these items are disclosed in the respective accounting policies.

(b) Cash and cash equivalents

Cash and cash equivalents consist of: cash; highly liquid short-term investments with an original maturity of less than or equal to 30 days that are readily convertible to known amounts of cash; and accounts due from banks with original maturity of less than or equal to 30 days.

(c) Loans and advances

Loans and advances are originated by the Bank providing money to a customer for purposes other than short-term profit taking. They are stated at the outstanding principal balances less an impairment allowance for bad and doubtful loans and advances, to reflect the estimated recoverable amount. Loans and advances are shown exclusive of accrued interest receivable.

(d) Provision for bad debts and doubtful loans and advances

In accordance with Regulation 324/BOL ("BOL324") dated 19 April 2011, the Bank is required to classify loans and create provision for impairment losses. Accordingly, loans are classified into Performing loans or Non-performing loans based on the payment arrears status and other qualitative factors. Loans classified as either Normal or Pass (Group A) or Watch or Special Mention (Group B) are considered as Performing loans. Loans classified as either Substandard (Group C) or Doubtful (Group D) or Loss (Group E) are considered as Non-performing loans.

According to BOL324, provision for loans to customers is established by multiplying the outstanding balance of each loan item with the provision rates applicable to that loan classification as follows:

Classification	Number of days past due	Provision
Normal or Pass (A)	0-29 days	1%
Watch or Special mention (B)	30-89 days	3%
Substandard (C)	90-179 days	20%
Doubtful (D)	180-359 days	50%
Loss (E)	Over 360 days	100%

Recoveries on loans previously written off and reversals of previous provisions are disclosed as a deduction from the provision for bad and doubtful accounts in the statement of income. Accumulated specific provision reserve is recorded in the balance sheet in "Loans and advances, net of specific provision".

ANZ Bank (Lao) Limited
Notes to the financial statements
For the year ended 31 December 2016

In accordance with BOL324, the Bank is required to create a general provision for loan losses at the rate of 3% of the total balance of Watch or Special Mention loans as at the reporting date and general provision made for Normal or Pass loans shall be upon the BoL's notification for each year. For the year ended 31 December 2016, the general provision rate for Normal or Pass loans is ranging from 0.5% to 1% in accordance with the Official Letter No. 242/BOL issued by the Bank of Lao P.D.R on 2 April 2010 Accordingly, the Bank provided general provision at rate of 1% out of total balance of Normal or Pass loans.

The Bank complied with the BoL's regulations on general provision provided for Normal or Pass and Watch or Special loans for the year ended 31 December 2016.

In accordance with the relevant accounting regulations as stipulated by the Bank of Lao P.D.R, any changes in general provision for credit activities are recorded to the income statement as "Other operating expenses" for general provision expense and "Other operating income" for reversal of general provision expense and the balance of general provision reserve is recorded in the balance sheet in "General provision for credit activities" under capital and reserves of the Bank.

(e) Interbank and money market items

Interbank and money market items are carried at cost.

(f) Statutory reserves

Under the requirement of the Law on commercial Bank dated 16 January 2007, commercial banks are required to appropriate net profit to following reserves:

- Regulatory reserve fund
- Business expansion fund and other funds

In accordance with the Law on Enterprise (Revision) No.46/NA dated 26 December 2013, the Bank is required to provide statutory reserve at a rate of 10% on profit after deducting retained loss. The Bank can stop reserving when the statutory reserve has reached up to 50 percentage of Registered Capital.

(g) Property and equipment

(i) Items of property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Where an item of property comprises major components having different useful lives, the components are accounted for as separate items of property and equipment.

(ii) In accordance with the new Tax Law No.70/NA dated 15 December 2015 which is effective on or after 24 May 2016 stipulated by the President of the National Assembly, the depreciation of property and equipment is charged to the statement of income on a straight line basis over the estimated useful lives of the individual assets at the following annual rates:

Leasehold improvement	5%
Electronic equipment	20%
Furniture, fitting and office equipment	20%
Vehicle	20%

ANZ Bank (Lao) Limited
Notes to the financial statements
For the year ended 31 December 2016

- (iii) Subsequent expenditure relating to an item of property and equipment that has already been recognized is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Bank. All other subsequent expenditure is recognized as an expense in the period in which it is incurred.
- (iv) Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the assets and are recognized in the statement of income on the date of retirement or disposal.
- (v) Fully depreciated property and equipment is retained on the balance sheet until disposed of or written off.

(h) Income recognition

Interest income is recognized on a daily accrual basis, except in relation to non-performing accounts. Where an account becomes non-performing, the recording of interest as income is suspended until it is realized on a cash basis. Customers' accounts are deemed to be non-performing where repayments are in arrears for more than three months, in accordance with BoL regulations.

Fees and commissions consist of fees received from fund transfer transactions, trade settlement, foreign currency exchange transactions, ATM transaction fee, financial guarantees, facility approval fees, maintaining and administering existing facilities and others. Fee and commission income are recognized in to the income statement on cash basis.

Income from the various activities of the Bank is accrued using the following bases:

- (i) Loan arrangement fees and commissions on services and facilities extended to customers are recognized on the occurrence of such transactions;
- (ii) Commitment fees and guarantee fees on services and facilities extended to customers are recognized as income over the period in which the services and facilities are extended; and
- (iii) Service charges and processing fees are recognized when the service is provided.

(i) Interest expense

Interest expense on deposits is recognized on a daily accrual basis.

(j) Income tax

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss.

ANZ Bank (Lao) Limited
Notes to the financial statements
For the year ended 31 December 2016

Current tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the date of the statement of financial position. 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.

Provision is made for taxation based on the current year's total revenue as per the laws governing taxation within the Lao PDR. For each profitable year, the Bank is subject to the current tax rate of 24% on total taxable income.

Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

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

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which it can be utilized. 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 realized.

(k) Provisions

A provision is recognized 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.

ANZ Bank (Lao) Limited
Notes to the financial statements
For the year ended 31 December 2016

(l) 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.

(m) Employee benefits

Post-employment benefits

Post-employment benefits are paid to retired employees of the Bank by the Social Security Organisation (SSO) which belongs to the Ministry of Labour and Social Welfare. The Bank is required to contribute to these post-employment benefits by paying to the Security Welfare at the rate of 6.00% of SSO threshold on a monthly basis (maximum SSO threshold is LAK 4,500,000 million, new max threshold effective from 1 Jan 2017). The Bank has no further obligation concerning post-employment benefits for its employees other than this.

Termination benefits

In accordance with Article 82 of the Amended Labor Law issued by the President of Lao People's Democratic Republic on 24 December 2013, the Bank has the obligation to pay compensation for employees who are terminated in the following cases:

- The worker lacks specialized skills or is not in good health and has a medical certificate, and after allowing the worker in question to undertake other, more appropriate work according to their ability and health, yet the person in question is still unable to work;
- The employer considers it necessary to reduce the number of workers in order to improve the work within the labor unit after consulting the trade union or employee representative or the majority of employees, and has reported to the Labor Administration Agency.

For the termination of an employment contract on any of the above-mentioned grounds, the employer must pay compensation allowance which is calculated on the basis of 10% of the last salary or wage multiplied by the total number of months worked. As at 31 December 2016, there were 3 employees of the Bank who were dismissed under the above-mentioned grounds, therefore the Bank has made a provision for termination allowance in the financial statements.

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4 Cash

	2016 LAK <i>(in millions)</i>	2015 LAK <i>(in millions)</i>
Lao Kip ("LAK")	20,826	19,509
United States Dollar ("USD")	23,641	26,316
Thai Baht ("THB")	4,232	6,326
Others	414	890
	<u>49,113</u>	<u>53,041</u>

5 Amounts due from other banks

	2016 LAK <i>(in millions)</i>	2015 LAK <i>(in millions)</i>
Lao Kip ("LAK")	112,900	154,738
Other foreign currencies	257,025	153,901
	<u>369,925</u>	<u>308,639</u>

a) Domestic items

	2016 LAK <i>(in millions)</i>	2015 LAK <i>(in millions)</i>
At call	94,163	153,521
Term deposits	100,660	35,000
	<u>194,823</u>	<u>188,521</u>

b) Foreign items

	2016 LAK <i>(in millions)</i>	2015 LAK <i>(in millions)</i>
At call		
USD	155,306	94,079
THB	19,195	24,402
Other	601	1,637
	<u>175,102</u>	<u>120,118</u>

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6 Statutory deposits with Central Bank

	2016 LAK <i>(in millions)</i>	2015 LAK <i>(in millions)</i>
Statutory deposits:		
Compulsory	58,236	77,972
Demand deposits	213,649	116,991
	<u>271,885</u>	<u>194,963</u>

Balances with the BoL include demand deposits and compulsory deposits. 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 (2015: 5% and 10%) of customer deposits 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.

7 Loans and advances, net of specific provision

	2016 LAK <i>(in millions)</i>	2015 LAK <i>(in millions)</i>
Loans and receivables:		
Overdrafts	524	4,164
Loans	188,897	551,422
	<u>189,421</u>	<u>555,586</u>
Provision for bad debts and doubtful loans and advances:		
Specific	(8,197)	-
Loans and advances to customers	<u>181,224</u>	<u>555,586</u>

a) Classified by residual maturity

	2016 LAK <i>(in millions)</i>	2015 LAK <i>(in millions)</i>
Within 1 year	138,580	517,042
Over 1 year	34,448	38,544
Non-performing loans	16,393	-
	<u>189,421</u>	<u>555,586</u>

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7 Loans and advances, net of specific provision (continued)

b) Classified by currencies

	2016 LAK <i>(in millions)</i>	2015 LAK <i>(in millions)</i>
LAK	79,839	69,221
USD	90,186	421,457
THB	19,396	64,908
	<u>189,421</u>	<u>555,586</u>

c) Classified by type of business

	2016 LAK <i>(in millions)</i>	2015 LAK <i>(in millions)</i>
Agriculture	22,286	30,953
Manufacturing	33,354	192,286
Trading and service	131,271	327,825
Other	2,510	4,522
	<u>189,421</u>	<u>555,586</u>

d) Classified by performance

	2016 LAK <i>(in millions)</i>	2015 LAK <i>(in millions)</i>
Performing loans	173,028	555,586
Non-performing loans	16,393	-
	<u>189,421</u>	<u>555,586</u>

e) Classified by interest rate (per annum)

	2016 %	2015 %
Loans		
LAK	4.25% - 16.00%	4.25% - 16.00%
USD	4.00% - 12.00%	3.50% - 12.00%
THB	5.75% - 8.00%	5.75% - 8.00%

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7 Loans and advances, net of specific provision (continued)

f) The movement in the provision for bad debts and doubtful loans and advances are as follows:

	2016 LAK <i>(in millions)</i>	2015 LAK <i>(in millions)</i>
Balance at beginning of the year	-	18,726
Foreign exchange translation	-	(1,007)
Provision made in the year	8,197	-
Direct write off	-	(17,719)
Balance at end of the year	8,197	-

8 Property and equipment

	<i>Note</i>	2016 LAK <i>(in millions)</i>	2015 LAK <i>(in millions)</i>
Capital work in progress		1,904	123
Intangible fixed assets		304	-
Tangible fixed assets	<i>8.1</i>	11,079	17,535
Total		13,287	17,658

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8.1 Tangible fixed assets

	Leasehold improvement LAK (in millions)	Office equipment LAK (in millions)	Furniture and fixtures LAK (in millions)	Vehicles LAK (in millions)	Total LAK (in millions)
Cost					
Balance at 1 January 2015	37,596	20,791	3,035	2,281	63,703
Additions	981	2,465	326	3,436	7,208
Disposal	-	(8)	-	(1,614)	(1,622)
Balance at 31 December 2015 and at 1 January 2016	38,577	23,248	3,361	4,103	69,289
Additions	221	4,394	729	11	5,355
Disposal	(17,138)	(6,009)	(2,147)	-	(25,294)
Balance at 31 December 2016	21,660	21,633	1,943	4,114	49,350
Accumulated depreciation					
Balance at 1 January 2015	28,999	13,827	1,787	1,570	46,183
Depreciation for the year	3,646	2,408	327	619	7,000
Disposal	-	(8)	-	(1,421)	(1,429)
Balance at 31 December 2015 and at 1 January 2016	32,645	16,227	2,114	768	51,754
Depreciation for the year	1,774	2,625	413	809	5,621
Disposal	(13,113)	(4,396)	(1,595)	-	(19,104)
Balance at 31 December 2016	21,306	14,456	932	1,577	38,271
Net book value					
At 1 January 2015	8,597	6,964	1,248	711	17,520
At 31 December 2015 and 1 January 2016	5,932	7,021	1,247	3,335	17,535
At 31 December 2016	354	7,177	1,011	2,537	11,079

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9 Deferred tax asset

The Bank has unused tax losses on which no deferred tax asset has been recognised in the financial statements as at 31 December 2016.

	At 1 January 2016 LAK <i>(in millions)</i>	(Charged) / Credited to: Profit or loss LAK <i>(in millions)</i>	At 31 December 2016 LAK <i>(in millions)</i>
<i>Deferred tax asset</i>			
Provisions	-	2,382	2,382
	<u>-</u>	<u>2,382</u>	<u>2,382</u>
		2016 LAK <i>(in millions)</i>	2015 LAK <i>(in millions)</i>
Loss carry forward		12,908	-
		<u>12,908</u>	<u>-</u>

The tax losses expire during 2017-2019. The deductible temporary differences do not expire under current tax legislation. Deferred tax asset have has not been recognized in respect of this item because the management expects that the taxable income in future years would not be sufficient enough to utilise tax losses and deductible temporary differences. Hence, no deferred tax asset for loss carry forward has been recognized

10 Other assets

	2016 LAK <i>(in millions)</i>	2015 LAK <i>(in millions)</i>
Accrued interest receivable	729	166
Other receivables and prepayments	3,508	8,000
	<u>4,237</u>	<u>8,166</u>

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11 Deposits from customers

a) Classified by type of deposits

	2016 LAK <i>(in millions)</i>	2015 LAK <i>(in millions)</i>
Current	210,195	229,302
Savings	248,209	303,831
Term	178,457	193,830
	<u>636,861</u>	<u>726,963</u>

b) Classified by currencies

	2016 LAK <i>(in millions)</i>	2015 LAK <i>(in millions)</i>
LAK	104,001	63,340
USD	483,537	609,297
THB	42,091	49,036
Others	7,232	5,290
	<u>636,861</u>	<u>726,963</u>

c) Interest rate (per annum)

	2016 %	2015 %
Saving accounts		
LAK	1.00% - 1.91%	1.00% - 1.95%
USD	1.00% - 2.00%	0.25% - 2.00%
THB	0.50% - 2.00%	0.25% - 2.00%
Fixed deposits		
LAK	2.00% - 4.00%	2.00% - 4.00%
USD	0.25% - 2.00%	0.50% - 2.50%
THB	0.50% - 2.50%	0.50% - 2.50%

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12 Amounts due to other banks

a) Classified by type of deposits

	2016 LAK <i>(in millions)</i>	2015 LAK <i>(in millions)</i>
At call	5,628	14,835
Other deposits	20,582	51,029
	<u>26,210</u>	<u>65,864</u>

b) Classified by residence

	2016 LAK <i>(in millions)</i>	2015 LAK <i>(in millions)</i>
Domestic	24,596	65,825
Foreign	1,614	39
	<u>26,210</u>	<u>65,864</u>

c) Classified by currencies

	2016 LAK <i>(in millions)</i>	2015 LAK <i>(in millions)</i>
USD	4,574	12,620
THB	21,628	53,205
Others	8	39
	<u>26,210</u>	<u>65,864</u>

13 Tax liabilities

	2016 LAK <i>(in millions)</i>	2015 LAK <i>(in millions)</i>
Corporate tax	-	4,489
Value added tax	1,681	2,679
Withholding tax	120	315
	<u>1,801</u>	<u>7,483</u>

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14 Other liabilities

		2016	2015
	<i>Note</i>	LAK <i>(in millions)</i>	LAK <i>(in millions)</i>
Deferred income		705	394
Payable to employees		522	836
Accrued interest payables		454	1,233
Settlement accounts		1,278	1,614
Other payables – related parties	21	2,093	10,470
Other payables		5,654	4,171
		<u>10,706</u>	<u>18,718</u>

15 Paid up capital

The movement of the paid up capital during the year is presented below:

	2016	2015
	LAK <i>(in millions)</i>	LAK <i>(in millions)</i>
Balance as at 1 January	<u>300,000</u>	<u>300,000</u>
Balance as at 31 December	<u>300,000</u>	<u>300,000</u>
Total contributed legal capital	<u>300,000</u>	<u>300,000</u>

There was no increase in capital during the year 2016 and 2015.

16 Statutory reserve

The statutory reserve is provided for at the rate of at least 10% of profit for the year in accordance with the BOL regulations. The Bank retained loss for current year amounted to LAK 15,156 million hence no statutory reserve is required to be recorded.

17 Interest expense

	2016	2015
	LAK <i>(in millions)</i>	LAK <i>(in millions)</i>
Interest from deposits		
Savings deposits	259	379
Term deposits	5,377	7,828
	<u>5,636</u>	<u>8,207</u>

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18 Fees and service income, net

	2016 LAK <i>(in millions)</i>	2015 LAK <i>(in millions)</i>
Fee and service income		
Settlement services	1,135	1,068
Fees – loan related	2,375	6,497
Other fees and services	13,640	13,416
	<u>17,150</u>	<u>20,981</u>
Total fee and service expense	(2,580)	(2,649)
Fees and service income, net	<u>14,570</u>	<u>18,332</u>

19 Income tax expense

Income tax recognized in profit or loss

	2016 LAK <i>(in millions)</i>	2015 LAK <i>(in millions)</i>
Current tax expense		
Current year	-	5,380
Deferred tax (benefit) expense		
Movements in temporary differences	9 <u>(2,382)</u>	<u>-</u>
Total income tax (benefit) expense	<u>(2,382)</u>	<u>5,380</u>

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Reconciliation of effective tax rate

	2016		2015	
	Rate	LAK	Rate	LAK
	(%)	(in millions)	(%)	(in millions)
(Loss) profit before income tax expense		<u>(17,538)</u>		<u>22,337</u>
Income tax using the Lao PDR corporation tax rate	24	(4,209)	24	5,380
Tax effect of income and expense that are not taxable income or not deductible in determining taxable profit, net		62		-
Un-utilised loss carried forward		3,098		-
Others		(1,333)		-
Total	14	<u>(2,382)</u>	24	<u>5,380</u>

The corporate tax expense is calculated at 24% on taxable profit. The calculation of taxable income is subject to review and approval by the tax authorities.

20 Cash and cash equivalents

		2016	2015
	Note	LAK	LAK
		(in millions)	(in millions)
Cash	4	49,113	53,041
Amounts due from BoL	6	213,649	116,991
Amounts due from head office and other branches		87,133	3,564
Amounts due from other banks		<u>310,095</u>	<u>273,639</u>
		<u>659,990</u>	<u>447,235</u>

21 Related party transactions

Related party transactions include all transactions undertaken with other parties to which the Bank is related. A party is related to the Bank if:

(a) directly, or indirectly through one or more intermediaries, the party:

- controls, is controlled by, or is under common control with, the Bank (this includes parents, subsidiaries and fellow subsidiaries);
- has an interest in the Bank that gives it significant influence over the Bank; or
- has joint control over the Bank.

(b) the party is a joint venture in which the Bank is a venture;

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- (c) the party is a member of the key management personnel of the Bank or its parent;
- (d) the party is a close member of the family of any individual referred to in (a) or (d);
- (e) the party is a Bank that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such Bank resides with, directly or indirectly, any individual referred to in (c) or (d); or
- (f) the party is a post-employment benefit plan for the benefit of employees of the Bank, or of any Bank that is a related party of the Bank.

Significant transactions for the years ended 31 December 2016 and 2015 with related parties were:

Related party	Relationship	Transactions	2016 LAK (in millions)	2015 LAK (in millions)
Australian and NewZealand Bank - Melbourne	Head office	Intergroup expenses	17,281	11,039
Australian and NewZealand Bank - Melbourne	Head office	Guarantee expense	(458)	1,219
Australian and NewZealand Bank - Cambodia	Group entity	Interest expense	-	440
Australian and NewZealand Bank - Singapore	Group entity	Interest expense	12	105
Australian and NewZealand Bank - Singapore	Group entity	Interest income	254	-
Australian and NewZealand Bank - Manila Hub	Group entity	Intergroup expenses	780	630

Significant balances with related parties were as follows:

Related party	Relationship	Transactions	2016 LAK (in millions)	2015 LAK (in millions)
Australian and NewZealand Bank - Melbourne	Head office	Liabilities - Payable	2,038	10,196
Australian and NewZealand Bank - Singapore	Group entity	Assets - IG Deposit & Interest Accrual	81,660	-
Australian and NewZealand Bank - Manila Hub	Group entity	Liabilities - Payable	55	274

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Significant off-balance sheet transactions with related parties were as follows:

Related party	Relationship	Transactions	2016 LAK <i>(in millions)</i>	2015 LAK <i>(in millions)</i>
Australian and NewZealand Bank - Melbourne	Head office	Off-balance sheet - Guarantee	-	203,150

Remuneration to members of the Board of Directors and the Board of Management is as follows:

	2016 LAK <i>(in millions)</i>	2015 LAK <i>(in millions)</i>
Salaries	6,175	7,856
Bonus	1,304	1,189
Other allowance	1,018	304
	<u>8,497</u>	<u>9,349</u>

22 Commitments

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated from these transactions, which consists of:

	2016 LAK <i>(in millions)</i>	2015 LAK <i>(in millions)</i>
Letters of guarantee outstanding	1,494	19,050
Letters of credit outstanding	135,598	535
Undrawn overdraft	44,495	52,829
Other contingent	9,580	9,546
	<u>191,167</u>	<u>81,960</u>