



**Australia and New Zealand Banking
Group Limited, Lao Branch**

Financial statements for the year ended
31 December 2019
and
Independent Auditor's Report



Australia and New Zealand Banking Group Limited, Lao Branch

Contents	Page
Corporate information	1
Management's responsibilities in respect of the financial statements	2
Independent auditors' report	3-5
Statement of financial position	6-7
Statement of comprehensive income	8
Statement of changes in capital and other reserves	9
Statement of cash flows	10
Notes to the financial statements	11-31

Corporate Information

Branch Australia and New Zealand Banking Group Limited, Lao Branch

Foreign Investment License No. 007-15/PI/PM4, dated 08 December 2015
Enterprise Registration Certificate No. 05/BOL
Dated 21 January 2019

Senior Management Team of Branch

Mr. Rufus Pinto	Chief Executive Officer
Mrs. Asha Ali	Chief Operating Officer
Mr. Dinh Anh Tuan Nguyen	Chief Risk Officer
Mrs. Souphachanh Khansyla	Head of International Banking
Ms. Nanthala Salichanh	Head of Markets
Mrs. Mukdalay Xayarath	Head of Human Resource
Mrs. Somvone Siaphay	Head of Compliance
Ms. Limleevanh Sysanonh	Customer Advocate and CSR

Registered office Australia and New Zealand Banking Group Limited, Lao Branch
ANZ Building
33 Lane Xang Avenue
PO Box 5001
Vientiane capital, Lao PDR

Auditors KPMG Lao Co.,Ltd.
10th Floor, Royal Square Office Building,
Samsenthai Road, Nongduong Nua Village,
Sikhotabong District, P.O.Box 6978,
Vientiane, Lao PDR
Tel +856 (21) 454240-7

MANAGEMENT'S RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Management of Australia and New Zealand Banking Group Limited, Lao Branch is responsible for the preparation of the financial statements and for ensuring that the financial statements present fairly in all material respects, the financial position of the Branch as at 31 December 2019, and the statement of comprehensive income, statement of changes in capital and other reserves and statement of cash flows for period 8 March to 31 December 2019 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 Branch 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 Branch will continue operations in the foreseeable future; and
- vi) Effectively control and direct the Branch and be involved in all material decisions affecting the Branch'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. Rufus Pinto, on behalf of the Board of Management, do hereby state that the financial statements set out on pages 6 to 31 are present fairly, in all material respects, the financial position of the Branch as at 31 December 2019, and its financial performance and cash flows for period 8 March to 31 December 2019 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,

Rufus Pinto
Chief Executive Officer



31 March 2020



KPMG Lao Co.,Ltd.
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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of Australia and New Zealand Banking Group Limited, Lao Branch, which comprise the statement of financial position as at 31 December 2019, the statements of comprehensive income, changes in capital and other reserves and cash flows for period 8 March to 31 December, 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 Branch as at 31 December 2019 and its financial performance and cash flows for period 8 March to 31 December 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 Branch 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 Branch'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 Branch 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 scepticism 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 Branch'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 Branch'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 Branch 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: 31 March 2020

Australia and New Zealand Banking Group Limited, Lao Branch
Statement of financial position

		2019
	<i>Note</i>	LAK
Assets		<i>(in million)</i>
Cash	5, 23	5.231
Interbank and money market items		572.859
Amounts due from head office and other branches	6	293.803
Amounts due from other banks	6	279.056
Statutory deposits with Central Bank	7	66.282
Loans and advances, net of specific Provision	8	379.300
Property and equipment	9	2.489
Right of use asset	10	6.786
Deferred tax asset	11	3.147
Other assets	12	12.291
Total assets		1.048.385

Australia and New Zealand Banking Group Limited, Lao Branch
Statement of financial position

	<i>Note</i>	2019 LAK <i>(in million)</i>
Liabilities, Capital and other reserves		
Liabilities		
Deposits from customers	<i>13</i>	501.952
Interbank and money market items		
Amounts due to other banks	<i>14</i>	81.479
Tax liabilities	<i>15</i>	4.817
Lease liabilities		6.518
Other liabilities	<i>16</i>	270.942
Total liabilities		865.708
Capital and other reserves		
Paid up share capital	<i>17</i>	150.000
Legal reserve	<i>18</i>	3.081
General provision for credit activities		1.869
Retained earnings		27.727
Total Capital and other reserves		182.677
Total liabilities, Capital and other reserves		1.048.385

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

Australia and New Zealand Banking Group Limited, Lao Branch
Statement of comprehensive income

	<i>Note</i>	8 March till 31 December 2019 <i>(in million)</i>
Interest income		
Interest from loans and advances	19	12.977
Interest from interbank and money market items		3.388
Total interest income		16.365
Interest expense		
Interest on customer deposits	20	(1.045)
Interest on interbank and money market items		(2.237)
Interest on intercompany loan		(6.031)
Total interest expense		(9.313)
Net interest income		7.052
Fees and services income		3.701
Fees and services expenses		(397)
Fees and services income, net	21	3.304
Other income		
Gain on foreign exchange		17.227
Other income		1.535
Net gain from fixed assets disposal	26	51.958
Total other income		70.720
Income before non-interest expense, doubtful accounts and income tax expense		81.076
Operating expenses		
Personnel expenses		(11.864)
Premises, depreciation and amortization expenses		(908)
Other expenses		(15.652)
Provision for bad debts and doubtful loans and advances		
General		(716)
Specific		(11.247)
Total operating expenses		(40.387)
Profit before income tax expense		40.689
Income tax expense	22	(9.881)
Profit for the year		30.808

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

Australia and New Zealand Banking Group Limited, Lao Branch
Statement of changes in capital and other reserves

	Paid up share capital		Retained earnings		Legal reserve		General provision for credit activities		Total	
	LAK	(in millions)	LAK	(in millions)	LAK	(in millions)	LAK	(in millions)	LAK	(in millions)
Transferred on 8 March 2019*	150.000		-		-		1.153		151.153	
Change in general provision	-		-		-		716		716	
Profit for the year	-		30.808		-		-		30.808	
Transfer to legal reserve	-		(3.081)		3.081		-		-	
Balance as at 31 December 2019	150.000		27.727		3.081		1.869		182.677	

*Refer note 1 for detail of transfer of capital.

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

Australia and New Zealand Banking Group Limited, Lao Branch
Statement of cash flows

	<i>Note</i>	2019 <i>(in million)</i>
Profit before income tax expense		40.689
<i>Adjustments for</i>		
Interest income		(16.365)
Interest expense		9.313
Allowance for doubtful debts		11.963
Depreciation and amortisation		908
(gain) from fixed assets disposal		(51.958)
Loss from operations before change in operating assets and liabilities		(5.450)
<i>Change in operating assets / liabilities</i>		
Change in statutory deposits		(48.304)
Change in loan and advances		(389.394)
Change in other assets		(15.643)
Change in deposits from customers		501.953
Change in deposits from banks		81.478
Change in deposits to banks		(80.001)
Change in other liabilities		264.985
Interest received		16.571
Interest paid		(8.421)
Income tax paid		-
Net cash generated from operating activities		317.774
<i>Cash flows from investing activities</i>		
Acquisition of property and equipment		(53)
Proceeds from disposal of assets		48.660
Net cash generated from investing activities		48.607
<i>Cash flows from financing activities</i>		
Payment of lease liabilities		(314)
Capital contribution		150.000
Net cash generated from financing activities		149.686
Net change in cash and cash equivalents		516.067
Cash and cash equivalents at 1 January		-
Cash and cash equivalents at		
31 December	23	516.067

Australia and New Zealand Banking Group Limited, Lao Branch
Notes to the financial statements
For the year ended 31 December 2019

Note	Contents
1	General information
2	Basis of preparation of the financial statements
3	Change in accounting policy
4	Significant accounting policies
5	Cash
6	Amounts due from head office, other branches and other banks
7	Statutory deposits with Central Bank
8	Loans and advances, net of specific provision
9	Property and equipment
10	Right of use assets
11	Deferred tax asset
12	Other assets
13	Deposits from customers
14	Amounts due to other banks
15	Tax liabilities
16	Other liabilities
17	Paid up capital
18	Legal reserve
19	Interest income
20	Interest expense
21	Fees and service income, net
22	Income tax expense
23	Cash and cash equivalents
24	Related party transactions
25	Commitments
26	Property sale
27	Subsequent event

Australia and New Zealand Banking Group Limited, Lao Branch
Notes to the financial statements
For the year ended 31 December 2019

1 General information

Australia and New Zealand Banking Group Limited, Lao Branch (“The Branch”) is 100% foreign invested commercial branch 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 Branch was established under Business Operating License No. 05/BOL dated 21 January 2019 issued by the Bank of Lao P.D.R., Enterprise Registration Certificate No. 0213/ERO dated 18 February 2019 issued by the Enterprise Registration Office of the Ministry of Industry and Commerce and Investment License No. 007-19/MPI.IPD4 dated 22 May 2019 issued by the Ministry of Planning and Investment.

Partial assets and liabilities were transferred in ANZ branch from subsidiary on 8th March 2019 and these assets were financed through a loan facility of up to 40mn USD disbursed by the subsidiary, the remaining assets and liabilities were transferred in September 2019.

ANZ Group injected a capital of 150bn LAK in cash which was used to repay an equivalent amount of loan to Subsidiary in September 2019.

The branch will pay back remaining loan of 150bn LAK to subsidiary once the tax audit of subsidiary is finalized and will raise the same amount of capital that would be financed by ANZ group.

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

As at 31 December 2019, the Branch had 36 employees.

During 2019, there has been a change in members of the management as follows:

Management members resigned and appointed:

Name	Title	Date of Appointment/resignation
Mr. Pem Khammoungkhoun	Chief Finance Officer	Resigned on 27 December 2019
Mr. Sophy Keo	Chief Operation Officer	Resigned on 30 April 2019
Mrs. Asha Ali	Chief Operation Officer	Appointed on 05 June 2019

2 Basis of preparation of the financial statements

(a) General basis of accounting

(i) Basis of preparation

The accompanying financial statements are expressed in million Lao Kip (mn“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 Branch.

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

Australia and New Zealand Banking Group Limited, Lao Branch
Notes to the financial statements
For the year ended 31 December 2019

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 Branch is 100% foreign invested commercial branch which was incorporated in the Lao PDR. The accompanying financial statements have been prepared from the records of the Branch and reflect only transactions recorded locally. The Branch 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 31 March 2020

(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 Branch.

(iii) Use of judgements and estimates

The preparation of the Branch'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 comprehensive 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.

Australia and New Zealand Banking Group Limited, Lao Branch
Notes to the financial statements
For the year ended 31 December 2019

The applicable exchange rates for the LAK against currencies were:

	31 December 2019
United State Dollar (“USD”)	8.842
Thai Baht (“THB”)	299,98
Euro (“EUR”)	9.836

(c) Fiscal Year

The Branch reporting period starts on 8 March and ends on 31 December.

3 Change in accounting policy

(a) Leases

As required by IFRS 16 and adopted by Bank of Lao PDR, the lessee shall account for all leases under finance lease and upon commencement of lease a right of use asset and a related lease liability shall be recorded. The branch has applied IFRS 16 from 8 March 2019.

(b) Definition of a lease

The lease contracts falling under the domain of IFRS 16 are building rental agreements and leased vehicles. The Branch has now assessed whether the rental agreements fall under the definition of a lease, as explained in Note 10.

(c) As a lessee

As a lessee, the branch has branch office and leased vehicles. Under IFRS 16, the Branch recognizes right-of-use asset and lease liability i.e. this lease is recorded in the statement of financial position. All the leases have been entered in to by the branch in the current year.

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 lessee's incremental borrowing rate, adjusted for any accruals and prepayments.

4 Significant accounting policies

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

(a) Financial instruments

The Branch'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.

Australia and New Zealand Banking Group Limited, Lao Branch
Notes to the financial statements
For the year ended 31 December 2019

(c) Loans and advances

Loans and advances are originated by the Branch 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

Regulation 512/BOL applicable from 1 October 2018

In accordance with Regulation 512/BOL (“BOL 512”) dated 29 June 2018 and effective from 1 October 2018, the Branch is required to classify loans and create provision for impairment losses. Accordingly, loans are classified into performing loans or Watch List or non-performing loans based on the payment arrears status and other qualitative factors. Loans classified as Normal or Pass (Group A) are considered as performing loans, loans classified as Watch or Special Mention (Group B) is considered as Watch List or Special Mention customers and loans classified as Substandard (Group C) or Doubtful (Group D) or Loss (Group E) are considered as non-performing loans.

According to BOL 512, general provision is created at the rate of 0,5% of the total balance of Normal or Pass loans as at the reporting date. Concurrently, specific provision for Watch or Special Mention, Substandard, Doubtful and Loss loans is established by multiplying the outstanding balance of each loan item less the value of collaterals (if any) in accordance with the regulation of BOL with the provision rates applicable to that loan classification as follows:

Classification	Number of days past due	Provision rate
Normal or Pass (A)	0-29 days	0,5%
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%

Maximum ratio of collateral benefits allowed under BOL 512 are as follows:

Type of collaterals	Maximum allowed ratio
(a) Deposits at the Bank	
- in the same currency with loans	100%
- in different currencies with those of loans	95%
(b) Gold kept at the Bank	90%
(c) Government bonds and BOL bonds	
- in the same currency with loans	
▪ With a remaining term of below 1 year	100%
▪ With a remaining term of between 1 year to 5 years	90%
▪ With a remaining term of over 5 years	80%
- in different currencies with those of loans	
▪ With a remaining term of below 1 year	95%
▪ With a remaining term of between 1 year to 5 years	85%
▪ With a remaining term of over 5 years	75%

Australia and New Zealand Banking Group Limited, Lao Branch
Notes to the financial statements
For the year ended 31 December 2019

Type of collaterals	Maximum allowed ratio
(d) Deposits at other banks or financial institutions <ul style="list-style-type: none"> ▪ With a remaining term of below 1 year ▪ With a remaining term of between 1 year to 5 years ▪ With a remaining term of over 5 years 	80%
(e) Letter of Credit or Standby Letter of Credit	75%
(f) Letter of Guarantee or Bank Guarantee	95%
(g) Real estates	90%
	40%

Changes in provision for non-performing loans is recorded to the statement of comprehensive income as “Net provision charges for non-performing loans”. Accumulated specific provision reserve for non-performing loans is recorded in the statement of financial position in “Loans and advances to customers, net of specific provision for NPL”.

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 statement of comprehensive income 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) Write-off

In accordance with BOL 512, loans are written off not later than 90 days after being classified to Loss group.

Loans written off are recorded as off-balance sheet items for following up and collection. The amounts collected from the loans previously written-off, including the proceeds from sales of collaterals against those debts, are recognised in the statement of comprehensive income upon receipt

(f) Provision for off-balance sheet commitments

In accordance with BOL 512, the Branch is not required to make provision for off-balance sheet commitments, except where the Branch has made payment under the guarantee contract on behalf of its customers, in which case the payment is classified and provision for credit losses is made in accordance with the accounting policy as described in Note 4(d).

(g) Interbank and money market items

Interbank and money market items are carried at cost.

(h) Legal 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 Branch is required to provide legal reserve at a rate of 10% on profit after deducting retained loss. The Branch can stop reserving when the legal reserve has reached up to 50 percentage of Registered Capital.

Australia and New Zealand Banking Group Limited, Lao Branch
Notes to the financial statements
For the year ended 31 December 2019

(i) 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 comprehensive 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%

- (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 Branch. 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 comprehensive income on the date of retirement or disposal.
- (v) Fully depreciated property and equipment is retained on the statement of financial position until disposed of or written off.

(j) 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 90 days, in accordance with BoL regulations.

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

Income from the various activities of the Branch 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.

Australia and New Zealand Banking Group Limited, Lao Branch
Notes to the financial statements
For the year ended 31 December 2019

(k) Interest expense

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

(l) Income tax

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in statement of comprehensive income.

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 Branch 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 Branch 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.

(m) Provisions

A provision is recognized if, as a result of a past event, the Branch 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.

Australia and New Zealand Banking Group Limited, Lao Branch
Notes to the financial statements
For the year ended 31 December 2019

(n) Related parties

Parties are considered to be related to the Branch 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 Branch 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) Employee benefits

Post-employment benefits

Post-employment benefits are paid to retired employees of the National Social Security Fund (NSSF) which belongs to the Ministry of Labour and Social Welfare. The Branch is required to contribute to these post-employment benefits by paying to the Security Welfare at the rate of 6,00% of NSSF threshold on a monthly basis (maximum NSSF threshold is LAK 4.500.000 million, new max threshold effective from 1 Jan 2017). The Branch 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 Branch 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.

(p) Leases

The Branch has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under Lao GAAP and related regulations. The details of accounting policies under Lao GAAP and related regulations are disclosed separately if they are different from those under IFRS 16. The impact of changes is disclosed in Note 3.

Policy applicable from 1 January 2019

At inception of a contract, the Branch 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 Branch assesses whether:

- the contract involves the use of an identified asset;
- the Branch has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use: and

Australia and New Zealand Banking Group Limited, Lao Branch
Notes to the financial statements
For the year ended 31 December 2019

- the Branch has the right to direct the use of the asset. The Branch 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.

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 Branch allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

5 Cash

	2019 LAK <i>(in millions)</i>
Lao Kip ("LAK")	1.977
United States Dollar ("USD")	2.289
Thai Baht ("THB")	506
Others	459
	<u>5.231</u>

6 Amounts due from head office, other branches and from other banks

	2019 LAK <i>(in millions)</i>
Lao Kip ("LAK")	225.776
Other foreign currencies	347.083
	<u>572.859</u>

a) Domestic items

	2019 LAK <i>(in millions)</i>
At call	176.725
Term deposits	80.000
	<u>256.725</u>

b) Foreign items

	2019 LAK <i>(in millions)</i>
At call	
USD	7.795
THB	11.142
Others	5.394
	<u>24.331</u>

Australia and New Zealand Banking Group Limited, Lao Branch
Notes to the financial statements
For the year ended 31 December 2019

c) Term deposits

	2019 LAK <i>(in millions)</i>
At call	
USD	291.803
	<u>291.803</u>

Demand deposits at domestic and foreign banks are non-interest bearing.

7 Statutory deposits with Central Bank

	2019 LAK <i>(in millions)</i>
Statutory deposits:	
Compulsory	48.305
Demand deposits	17.977
	<u>66.282</u>

Balances with the BoL include demand deposits and compulsory deposits. These balances bear no interest.

Under regulations of the BoL, the Branch 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 of customer deposits having original maturities of less than 12 months, in LAK and in foreign currencies, respectively. During the year, the Branch maintained its compulsory deposits in compliance with the requirements by the BoL.

8 Loans and advances, net of specific provision

	2019 LAK <i>(in millions)</i>
Loans and receivables:	
Overdrafts	12.040
Loans	378.507
	<u>390.547</u>
Provision for bad debts and doubtful loans and advances:	
Specific	(11.247)
	<u>379.300</u>

Australia and New Zealand Banking Group Limited, Lao Branch
Notes to the financial statements
For the year ended 31 December 2019

a) Classified by residual maturity

	2019 LAK <i>(in millions)</i>
Within 1 year	265.572
Over 1 year	109.074
Non-performing loans	15.901
	<u><u>390.547</u></u>

b) Classified by currencies

	2019 LAK <i>(in millions)</i>
LAK	262.046
USD	128.501
	<u><u>390.547</u></u>

c) Classified by type of business

	2019 LAK <i>(in millions)</i>
Agriculture – Forestry	3.504
Commercial	133.369
Industry	24.460
Service	225.134
Transportation – Postal	4.080
	<u><u>390.547</u></u>

d) Classified by performance

	2019 LAK <i>(in millions)</i>
Normal or Pass	374.647
Watch list or special mention	-
Non-performing loans	15.900
	<u><u>390.547</u></u>

Australia and New Zealand Banking Group Limited, Lao Branch
Notes to the financial statements
For the year ended 31 December 2019

e) Classified by interest rate (per annum)

	2019 %
Loans	
LAK	4,25% - 6,70%
USD	3,40% - 5,50%
THB	3,40% - 5,50%

f) Specific Provision for credit activities

	2019 LAK (in millions)
Balance at beginning of the year	-
Provision made during the year	11.247
Balance at end of the year	11.247

g) General Provision for credit activities

	2019 LAK (in millions)
Balance at beginning of the year	1.153
Foreign exchange translation	15
Provision made during the year	701
Balance at end of the year	1.869

9 Property and equipment

	<i>Note</i>	2019 LAK (in millions)
Capital work in progress		366
Intangible assets		74
Tangible fixed assets	9.1	2.049
Total		2.489

Australia and New Zealand Banking Group Limited, Lao Branch
Notes to financial statements
For the year ended 31 December 2019

9.1 Tangible fixed assets

	Leasehold improvement LAK (in millions)	Computer Hardware LAK (in millions)	Furniture and fixtures LAK (in millions)	Vehicles LAK (in millions)	Total LAK (in millions)
Cost					
Balance transfer from Subsidiary	3.158	7.608	3.194	2.257	16.217
Additions during the year	-	53	-	-	53
Disposal during the year	-	-	-	(1.935)	(1.935)
Balance at 31 December 2019	3.158	7.661	3.194	322	14.335
Accumulated depreciation					
Balance transfer from Subsidiary	2.091	6.985	2.585	2.018	13.678
Depreciation for the year	81	128	97	1	308
Disposal during the year	-	-	-	(1.700)	(1.700)
Balance at 31 December 2019	2.172	7.113	2.682	319	12.286
Net book value					
Balance transfer from Subsidiary	1.067	623	609	239	2.539
At 31 December 2019	986	548	512	3	2.049

Australia and New Zealand Banking Group Limited, Lao Branch
Notes to the financial statements
For the year ended 31 December 2019

10 (a) Right-of-use asset

	31-December-19 LAK (in millions)
Balance at 1 January 2019	-
Addition during the year	6.833
Depreciation charge for the year	(47)
Balance at 31 December 2019	<u><u>6.786</u></u>

(b) Amount recognized in statement of comprehensive income

	31-December-19 LAK (in millions)
Interest on Lease Liability	-
Depreciation expense	47
Total	<u><u>47</u></u>

11 Deferred tax asset

The Branch has recorded deferred tax asset against provision on loans and advances, further the branch has utilised the previously recorded deferred tax asset on taxable losses against current year net profit.

	(Charged) / Credited to:		
	Transfer from Subsidiary	Statement of comprehensive income	At 31 December 2019
	LAK	LAK	LAK
	(in millions)	(in millions)	(in millions)
Deferred tax asset			
Provisions	278	2.869	3.147
Loss carry forward	8.086	(8.086)	-
	<u><u>8.364</u></u>	<u><u>(5.217)</u></u>	<u><u>3.147</u></u>

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 Branch has decided not to apply the new tax rate of 20% in the measurement of deferred tax assets and liabilities as at 31 December 2019 since the effective date of the new tax law is uncertain at 31 December 2019 and the impact is not material.

Australia and New Zealand Banking Group Limited, Lao Branch
Notes to the financial statements
For the year ended 31 December 2019

12 Other assets

	2019 LAK <i>(in millions)</i>
Accrued interest receivable	438
Prepayments	572
Other receivables	11.281
	<u>12.291</u>

13 Deposits from customers

a) Classified by type of deposits

	2019 LAK <i>(in millions)</i>
Current deposits	389.163
Savings deposits	1.966
Term deposits	104.492
Unclaimed deposit from retail customers*	6.331
	<u>501.952</u>

These deposit includes unclaimed balances by retail customers as a result of closure of retail segment of ANZ Laos. These balances were approved by the BOL to move to unclaimed deposit for a period of 3 years after which they will be transferred to government treasury if the customer does not claim the balance.

b) Classified by currencies

	2019 LAK <i>(in millions)</i>
LAK	205.317
USD	283.936
THB	9.115
Others	3.584
	<u>501.952</u>

c) Interest rate (per annum)

	2019 %
Saving accounts	
LAK	1,00% - 1,91%
USD	1,00% - 2,00%
THB	0,50% - 2,00%

Australia and New Zealand Banking Group Limited, Lao Branch
Notes to the financial statements
For the year ended 31 December 2019

	2019 %
Fixed deposits	
LAK	2,00% - 4,00%
USD	0,25% - 2,00%
THB	0,50% - 2,50%

14 Amounts due to other banks

a) Classified by type of deposits

	2019 LAK <i>(in millions)</i>
At call	1.739
Term deposits	79.740
	<u><u>81.479</u></u>

b) Classified by residence

	2019 LAK <i>(in millions)</i>
Domestic	79.740
Foreign	1.739
	<u><u>81.479</u></u>

c) Classified by currencies

	2019 LAK <i>(in millions)</i>
USD	72.480
THB	8.999
	<u><u>81.479</u></u>

15 Tax liabilities

	2019 LAK <i>(in millions)</i>
Corporate tax	4.416
Value added tax	280
Withholding tax	18
Fringe benefit tax	103
	<u><u>4.817</u></u>

Australia and New Zealand Banking Group Limited, Lao Branch

Notes to the financial statements

For the year ended 31 December 2019

16 Other liabilities

	Note	2019 LAK (in millions)
Deferred income		217
Payable to employees		666
Accrued interest payables		893
Loan payables – related parties	24	153.272
Other payables		115.894
		<u>270.942</u>

The beginning balance for related party loan was LAK 279.803 million. During the year ANZGBL paid off loan amounting to LAK 126.531 million. The loan carries interest rate of 3,17% per annum. The loan was obtained to finance the assets of the branch.

17 Paid up capital

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

	2019 LAK (in millions)
Transferred during the year*	150.000
Balance as at 31 December	<u>150.000</u>
Total paid up capital	<u>150.000</u>

*Refer note 1 which describes transfer of capital.

18 Legal reserve

The Legal reserve is provided for at the rate of at least 10% of profit for the year in accordance with the BOL regulations. The Branch recorded profit for the year of LAK 30.808 million so a legal reserve of 3.081 million was booked for the year ended 31 December 2019.

19 Interest income

	8 March till 31 December 2019 LAK (in millions)
Interest from loans and advances	
Overdraft	177
Term loans	12.800
	<u>12.977</u>

Australia and New Zealand Banking Group Limited, Lao Branch
Notes to the financial statements
For the year ended 31 December 2019

20 Interest expense

	8 March till 31 December 2019 LAK (in millions)
Interest from deposits	
Savings deposits	565
Term deposits	480
	<u><u>1.045</u></u>

21 Fees and service income, net

	8 March till 31 December 2019 LAK (in millions)
Fee and service income	
Fees – Loan related	352
Fee Income – Current Account	4
International service fees	3.003
Fee income – other services	342
Total fees and service income	<u><u>3.701</u></u>
Fee and service expense	
Bank charges	(384)
Fee expense – Current Account	(13)
Total fee and service expense	<u><u>(397)</u></u>
Fees and service income, net	<u><u>3.304</u></u>

22 Income tax expense

Income tax recognized in statement of comprehensive income

	8 March till 31 December 2019 LAK (in millions)
Current tax expense	
Current year	(4.664)
Accrued provision tax expense	
Deferred tax benefit/(expense)	
Movements in temporary differences	11 <u>(5.217)</u>
Total income tax benefit/(expense)	<u><u>(9.881)</u></u>

Australia and New Zealand Banking Group Limited, Lao Branch
Notes to the financial statements
For the year ended 31 December 2019

Reconciliation of effective tax rate

	8 March till 31 December 2019	
	Rate (%)	LAK (in millions)
Accounting profit		40.689
Income tax using the Lao PDR corporation tax rate	24	(9.766)
Others		(115)
Effective tax rate	24%	(9.881)

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.

23 Cash and cash equivalents

	Note	2019 LAK (in millions)
Cash	5	5.231
Amounts due from BoL		17.977
Amounts due from head office and other branches		293.803
Amounts due from other banks		199.056
		516.067

24 Related party transactions

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

- (a) directly, or indirectly through one or more intermediaries, the party:
 - controls, is controlled by, or is under common control with, the Branch (this includes parents, subsidiaries and fellow subsidiaries);
 - has an interest in the Branch that gives it significant influence over the Branch; or
 - has joint control over the Branch.
- (b) the party is a joint venture in which the Branch is a venture;
- (c) the party is a member of the key management personnel of the Branch or its parent;
- (d) the party is a close member of the family of any individual referred to in (a) or (d);

Australia and New Zealand Banking Group Limited, Lao Branch
Notes to the financial statements
For the year ended 31 December 2019

- (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 Branch, or of any Bank that is a related party of the Branch.

Significant transactions with related parties in statement of comprehensive income were:

Related party	Relationship	Transactions	8 March till 31 December 2019 LAK (in millions)
Australian and NewZealand Bank - Singapore	Group entity	Interest received	459
ANZ Bank (Lao) Limited - Subsidiary	Subsidiary	Interest payable	1.234
Australian and NewZealand Bank - Melbourne	Head Office	Inter group expenses	1.691
Australian and NewZealand Bank - Manila Hub	Group entity	Intergroup expense	128
Australian and NewZealand Bank - Bangalor Hub	Group entity	Intergroup expense	118
ANZ Pacific Operations Limited	Group entity	Intergroup expense	29

* Refer to Note 1 and 16 for related party loan.

Significant balances with related parties in On-Balance Sheet were:

Related party	Relationship	Transactions	2019 LAK (in millions)
Australian and New Zealand Bank - Singapore	Group entity	Assets - Placements	291.803
ANZ Bank (Lao) Limited – Subsidiary*	Subsidiary	Liabilities - Payable	152.287
Australian and New Zealand Bank - Melbourne	Head office	Liabilities - Payable	916
Australian and New Zealand Bank - Manila Hub	Group entity	Liabilities - Payable	69

Remuneration to members of the Leadership Team is as follows:

	8 March till 31 December 2019 LAK (in millions)
Salaries	4.868
Bonus	1.133
Other allowance	741
	6.742

Australia and New Zealand Banking Group Limited, Lao Branch
Notes to the financial statements
For the year ended 31 December 2019

25 Commitments

In the normal course of business, the Branch 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:

	2019 LAK <i>(in millions)</i>
Letters of guarantee outstanding	1.391
Letters of credit outstanding	10.775
Undrawn loans	756.702
	<u><u>768.868</u></u>

26 Property sale

The Branch has sold its building to Allianz General Laos under agreement dated 16 December 2019. The net sales proceeds from the property sale was LAK 57.889 million against a book value of LAK 5.931 million, net gain from the sale of assets of LAK 51.958 million was recorded in statement of comprehensive income. This building was previously classified as held for sale under the Bank financial statements.

27 Subsequent events

As 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 Branch as at 31 December 2019.

