

# **Bank of China Ltd., Vientiane Branch**

Financial Statements

For the period from 26 March 2015 (date of establishment) to 31 December 2015

# Bank of China Ltd., Vientiane Branch

## CONTENTS

	<i>Pages</i>
General information	1
Independent auditors' report	2 - 3
Income statement	4
Statement of comprehensive income	5
Statement of financial position	6
Statement of changes in equity	7
Statement of cash flows	8
Notes to the financial statements	9 - 31

# Bank of China Ltd., Vientiane Branch

## GENERAL INFORMATION

### THE BRANCH

Bank Of China Ltd., Vientiane Branch (the "Branch"), a branch of Bank of China Ltd., was established in Lao People's Democratic Republic ("Lao PDR"). The Branch operates under Banking License No. 06/BOL granted by the Bank of Lao PDR (the "BOL") on 19 February 2015.

The initial registered capital of the Branch is LAK 405,100,000,000. The actual paid-up capital as at 31 December 2015 is LAK 405,100,000,000.

The principal activities of the Branch are to mobilize capital and provide loans for improving and strengthening the Lao economy.

The Branch is located at Building Vientiane Center, Khouvieng Road, Ban Nongchanh, Sisattanak District, Vientiane Capital, Lao P.D.R

### MANAGEMENT

Members of the Management during the period from 26 March 2015 to 31 December 2015 and at the date of this report are as follows:

<i>Name</i>	<i>Title</i>	<i>Date of appointment</i>
Mr. Li Zhiyong	General Manager	Appointed on 26 March 2015

### LEGAL REPRESENTATIVE

The legal representative of the Branch during the period from 26 March 2015 to 31 December 2015 and at the date of this report is Mr. Li Zhiyong, the General Manager.

### AUDITORS

The auditors of the Branch are Ernst & Young Lao Limited.

Reference: 61245636/ 18353158 -IFRS

## **INDEPENDENT AUDITORS' REPORT**

**To: The Owner of  
Bank of China Ltd., Vientiane Branch**

We have audited the accompanying financial statements of Bank of China Ltd., Vientiane Branch ("the Branch"), which comprise the balance sheet as at 31 December 2015, the income statement, statement of changes in equity and cash flow statement for the period from 26 March 2015 to 31 December 2015, and a summary of significant accounting policies and other explanatory information, as set out on pages 4 to 31.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards ("IFRS") and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatements, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Branch's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.



Building a better  
working world

**Basis for Qualified Opinion**

Due to the limitation of information, the Branch's management was unable to provide disclosures relating to fair value and financial risk management as required by IFRS 7: "Financial Instruments: Disclosures" and IFRS 13: "Fair value measurement".

**Qualified Opinion**

In our opinion, except for the effects of the matter as discussed in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Branch as at 31 December 2015, and its financial performance and cash flows for the period from 26 March 2015 to 31 December 2015 in accordance with International Financial Reporting Standards.

*Ernst & Young Lao Ltd*

Vientiane, Lao PDR

31 March 2016

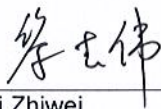


# Bank of China Ltd., Vientiane Branch

INCOME STATEMENT  
for the period from 26 March 2015 to 31 December 2015

	<i>Notes</i>	<i>For the period from 26 March 2015 to 31 December 2015 LAKm</i>
Interest and similar income	3	6,553
Interest and similar expenses	4	<u>(1,505)</u>
<b>Net interest and similar income</b>		<b>5,048</b>
Fees and commission income	5	180
Fees and commission expenses		<u>(57)</u>
<b>Net fees and commission income</b>		<b>123</b>
Net gain from dealing in foreign currencies	6	<u>394</u>
<b>Total operating income</b>		<b>5,565</b>
Credit loss expense	13	<u>(979)</u>
<b>NET OPERATING INCOME</b>		<b>4,586</b>
Personnel expenses	7	(8,405)
Depreciation and amortization		(2,475)
Other operating expenses	8	<u>(9,124)</u>
<b>TOTAL OPERATING EXPENSES</b>		<b>(20,004)</b>
<b>LOSS BEFORE TAX</b>		<b>(15,418)</b>
Profit tax expense	19	<u>-</u>
<b>LOSS FOR THE PERIOD</b>		<b>(15,418)</b>

Prepared by:



Mr. Li Zhiwei  
Financial Management and  
Operation Service Unit Manager

Reviewed by:



Mr. Li Zhiyong  
General Manager

Vientiane, Lao PDR

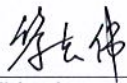
31 March 2016

Bank of China Ltd., Vientiane Branch

STATEMENT OF COMPREHENSIVE INCOME  
for the period from 26 March 2015 to 31 December 2015

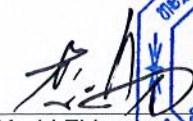
	Notes	2015 LAKm
LOSS FOR THE PERIOD		(15,418)
OTHER COMPREHENSIVE INCOME, NET OF TAX		-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		(15,418)

Prepared by:



Mr. Li Zhiwei  
Financial Management and  
Operation Service Unit Manager

Reviewed by:



Mr. Li Zhiyong  
General Manager



Vientiane, Lao PDR

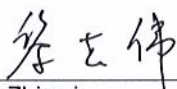
31 March 2016

# Bank of China Ltd., Vientiane Branch

STATEMENT OF FINANCIAL POSITION  
as at 31 December 2015

	Notes	31 December 2015 LAKm
<b>ASSETS</b>		
Cash and balances with the Bank of Lao PDR	9	372,123
Due from banks	10	37,777
Loans to customers	12	97,180
Held-to-maturity securities	11	411,325
Property and equipment	14	13,072
Other assets	15	19,669
<b>TOTAL ASSETS</b>		<b>951,146</b>
<b>LIABILITIES</b>		
Due to other banks	16	438,778
Due to customers	17	73,130
Other liabilities	18	49,556
<b>TOTAL LIABILITIES</b>		<b>561,464</b>
<b>EQUITY</b>		
Paid up capital	20	405,100
Accumulated losses		(15,418)
<b>TOTAL EQUITY</b>		<b>389,682</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>951,146</b>

Prepared by:



Mr. Li Zhiwei  
Financial Management and  
Operation Service Unit Manager

Reviewed by:



Mr. Li Zhiyong  
General Manager

Vientiane, Lao PDR

31 March 2016

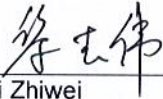


# Bank of China Ltd., Vientiane Branch

STATEMENT OF CHANGES IN EQUITY  
for the period from 26 March 2015 to 31 December 2015

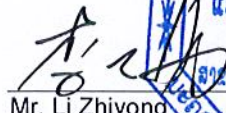
	<i>Paid-up capital</i> LAKm	<i>Accumulated losses</i> LAKm	<i>Total</i> LAKm
<b>Balance as at 26 March 2015</b>	-	-	-
Additional paid-up capital in the period	405,100	-	405,100
Net loss for the period	-	(15,418)	(15,418)
<b>Balance as at 31 December 2015</b>	<b>405,100</b>	<b>(15,418)</b>	<b>389,682</b>

Prepared by:



Mr. Li Zhiwei  
Financial Management and  
Operation Service Unit Manager

Reviewed by:



Mr. Li Zhiyong  
General Manager



Vientiane, Lao PDR

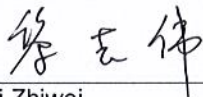
31 March 2016

# Bank of China Ltd., Vientiane Branch

STATEMENT OF CASH FLOWS  
for the period from 26 March 2015 to 31 December 2015

	Notes	2015 LAKm
<b>OPERATING ACTIVITIES</b>		
<b>Net loss before tax</b>		<b>(15,418)</b>
<i>Adjustments for:</i>		
Depreciation and amortization charges		2,475
Credit loss expenses		979
(Increase)/decrease in operating assets		
Balances with other banks		(32,365)
Loans and advances to customers		(98,159)
Other assets		(430,996)
Increase/(decrease) in operating liabilities		
Deposit and borrowing from other Bank		438,778
Customer deposits and other amounts due to customers		73,130
Other liabilities		49,556
<b>Net cash flows used in operating activities</b>		<b>(12,020)</b>
<b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment and other intangible assets		(15,547)
<b>Net cash flows used in investing activities</b>		<b>(15,547)</b>
<b>FINANCING ACTIVITIES</b>		
Capital contribution		405,100
<b>Net cash flows from financing activities</b>		<b>405,100</b>
<b>Net increase in cash and cash equivalents</b>		<b>377,533</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>-</b>
<b>Effect of foreign exchange difference</b>		<b>-</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>21</b>	<b>377,533</b>

Prepared by:



Mr. Li Zhiwei  
Financial Management and  
Operation Service Unit Manager

Reviewed by:



Mr. Li Zhiyong  
General Manager

Vientiane, Lao PDR

31 March 2016

# Bank of China Ltd., Vientiane Branch

## NOTES TO THE FINANCIAL STATEMENTS

as at 31 December 2015, and for the period from 26 March 2015 to 31 December 2015

### 1. CORPORATE INFORMATION

#### *Establishment and operations*

Bank Of China Ltd., Vientiane Branch (the "Branch"), a branch of Bank Of China Ltd., was established in Lao People's Democratic Republic ("Lao PDR"). The Branch operates under Banking License No. 06/BOL granted by the Bank of Lao PDR ("the BOL") on 19 February 2015.

The principal activities of the Branch are to mobilize capital and provide loans for improving and strengthening the Lao economy.

#### *Paid-up capital*

The initial registered capital of the Branch is LAK 405,100,000,000. The actual paid-up capital as at 31 December 2015 is LAK 405,100,000,000.

#### *Management*

Members of the Management during the period from 26 March 2015 to 31 December 2015 and at the date of this report are as follows:

<u>Name</u>	<u>Title</u>	<u>Date of appointment</u>
Mr. Li Zhiyong	General Manager	Appointed on 26 March 2015

#### *Location*

The Branch is located at No. 61 Phonxay, 23 Singha Road, Saysetha District, Vientiane Capital, Lao PDR.

#### *Employees*

Total employees of the Branch as at 31 December 2015 were 20 people.

# Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015, and for the period from 26 March 2015 to 31 December 2015

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1. *Basis of preparation*

The Branch prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS"). The financial statements have been prepared on a historical cost basis, except as disclosed in other notes.

The Branch maintains its accounting records in Lao KIP and presents the financial statements in millions of Lao KIP (LAKm).

### 2.2. *Fiscal year*

The Branch's first fiscal year starts on 26 March 2015 (the date of establishment) and ends on 31 December 2015.

The Branch's subsequent fiscal year starts on 1 January and ends on 31 December.

### 2.3. *Presentation of financial statements*

The Branch presents its statement of financial position broadly in order of liquidity. Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Branch.

### 2.4. *Significant accounting estimates and assumptions*

The preparation of the Branch's financial statements requires management to make estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Branch based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Branch. Such changes are reflected in the assumptions when they occur.

#### 2.4.1 *Going concern*

The Branch's management has made an assessment of the Branch's ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Branch's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

# Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015, and for the period from 26 March 2015 to 31 December 2015

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.4 *Significant accounting estimates and assumptions* (continued)

#### 2.4.2 *Impairment losses on loans and advances*

The Branch reviews its individually significant loans and advances at the reporting date to assess whether an impairment loss should be recorded in the income statement. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident.

### 2.5 *Summary of significant accounting policies*

#### 2.5.1 *Foreign currency translation*

Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into LAK at the spot rate of exchange at the reporting date (see list of exchange rates of applicable foreign currencies against LAK as at 31 December 2015 as presented in Note 28). Unrealized exchange differences arising from the translation of monetary assets and liabilities on the balance date are recognized in the income statement.

#### 2.5.2 *Financial instruments - initial recognition and subsequent measurement*

##### 2.5.2.1 *Date of recognition*

All financial assets and liabilities are initially recognized on the trade date, i.e., the date that the Branch becomes a party to the contractual provisions of the instrument. This includes "regular way trades" - purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

##### 2.5.2.2 *Initial measurement of financial instruments*

The classification of financial instruments at initial recognition depends on their purposes and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

##### 2.5.2.3 *'Day 1' profit or loss*

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Branch immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Net trading income'. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

# Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2015, and for the period from 26 March 2015 to 31 December 2015

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 Summary of significant accounting policies (continued)

#### 2.5.2 Financial instruments - initial recognition and subsequent measurement (continued)

##### 2.5.2.4 Due from banks and loans and advances to customers

'Due from banks' and 'Loans and advances to customers', include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- ▶ Those that the Branch intends to sell immediately or in the near term and those that the Branch, upon initial recognition, designates as at fair value through profit or loss;
- ▶ Those that the Branch, upon initial recognition, designates as available-for-sale;
- ▶ Those for which the Branch may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, amounts 'Due from banks' and 'Loans and advances to customers' are subsequently measured at amortized cost using effective interest rate ("EIR"), less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest and similar income' in the income statement. The losses arising from impairment are recognized in the income statement in 'Credit loss expense'.

The Branch may enter into certain lending commitments where the loan, on drawdown, is expected to be classified as held-for-trading because the intent is to sell the loans in the short term. These commitments to lend are recorded as derivatives and measured at fair value through profit or loss.

Where the loan, on drawdown, is expected to be retained by the Branch, and not sold in the short term, the commitment is recorded only when it is an onerous contract that is likely to give rise to a loss (For example, due to a counterparty credit event).

##### 2.5.2.5 Reclassification of financial assets

Effective from 1 July 2008, the Branch was permitted to reclassify, in certain circumstances, non-derivative financial assets out of the 'Held-for-trading' category and into the 'Available-for-sale', 'Loans and receivables', or 'Held-to-maturity' categories. From this date it was also permitted to reclassify, in certain circumstances, financial instruments out of the 'Available-for-sale' category and into the 'Loans and receivables' category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortized cost.

For a financial asset reclassified out of the 'Available-for-sale' category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recorded in equity is recycled to the income statement.

The Branch may reclassify a non-derivative trading asset out of the 'Held-for-trading' category and into the 'Loans and receivables' category if it meets the definition of loans and receivables and the Branch has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Branch subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognized as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the election of management, and is determined on an instrument by instrument basis.

# Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015, and for the period from 26 March 2015 to 31 December 2015

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 *Summary of significant accounting policies* (continued)

#### 2.5.3 *De-recognition of financial assets and financial liabilities*

##### 2.5.3.1 *Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- ▶ The rights to receive cash flows from the asset have expired;
- ▶ The Branch has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  - The Branch has transferred substantially all the risks and rewards of the asset, or
  - The Branch has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Branch has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Branch's continuing involvement in the asset. In that case, the Branch also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Branch has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Branch could be required to repay.

##### 2.5.3.2 *Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in profit or loss.

##### 2.5.4 *Determination of fair value*

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison with similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Branch's best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models. Also, profit or loss calculated when such financial instruments are first recorded ('Day 1' profit or loss) is deferred and recognized only when the inputs become observable or on de-recognition of the instrument.

# Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)

as at 31 December 2015, and for the period from 26 March 2015 to 31 December 2015

## 2. ACCOUNTING POLICIES (continued)

### 2.5 *Summary of significant accounting policies* (continued)

#### 2.5.5 *Impairment of financial assets*

The Branch assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganization; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### *Financial assets carried at amortized cost*

For financial assets carried at amortized cost (such as amounts due from banks, loans and advances to customers), the Branch first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Branch determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest and similar income'.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Branch. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Credit loss expense'.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. If the Branch has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.



# Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015, and for the period from 26 March 2015 to 31 December 2015

## 2. ACCOUNTING POLICIES (continued)

### 2.5 *Summary of significant accounting policies* (continued)

#### 2.5.5 *Impairment of financial assets* (continued)

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Branch's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

#### *Renegotiated loans*

Where possible, the Branch seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

#### *Collateral valuation*

The Branch seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Branch's quarterly reporting schedule, however, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Branch uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, housing price indices, audited financial statements, and other independent sources.

#### *Collateral repossessed*

The Branch's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets that are determined better to be sold, are immediately transferred to assets held for sale at their fair value at the repossession date in line with the Branch's policy.

# Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015, and for the period from 26 March 2015 to 31 December 2015

## 2. ACCOUNTING POLICIES (continued)

### 2.5 *Summary of significant accounting policies* (continued)

#### 2.5.6 *Offsetting financial instruments*

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial positions if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

#### 2.5.7 *Recognition of income and expense*

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Branch and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

##### 2.5.7.1 *Interest and similar income and expense*

For all financial instruments measured at amortized cost, interest-bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Branch revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Other operating income'. However, for a reclassified financial asset for which the Branch subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognized as an adjustment to the EIR from the date of the change in estimate.

Once the recorded value of a financial asset of a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

##### 2.5.7.2 *Fees and commission income*

The Branch earns fees and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

###### *Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognized over the commitment period on a straight line basis.

###### *Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

# Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015, and for the period from 26 March 2015 to 31 December 2015

## 2. ACCOUNTING POLICIES (continued)

### 2.5 *Summary of significant accounting policies* (continued)

#### 2.5.8 *Cash and cash equivalents*

Cash and cash equivalents as referred to in the statement of cash flows comprise cash on hand, non-restricted current accounts with the BOL and amounts due from banks on demand or with an original maturity of three months or less.

#### 2.5.9 *Property and equipment*

Property and equipment (including equipment under operating leases where the Branch is the lessor) is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. The following are annual rates used:

Building improvements	20%
Furniture and fixtures	20%
Computer equipment	33%
Motor vehicles	20%

Property and equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in 'Other operating income' in the income statement in the period the asset is derecognized.

#### 2.5.10 *Impairment of non-financial assets*

The Branch assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Branch estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit (CGU)'s fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Branch estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement.

# Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015, and for the period from 26 March 2015 to 31 December 2015

## 2. ACCOUNTING POLICIES (continued)

### 2.5 *Summary of significant accounting policies* (continued)

#### 2.5.11 *Profit tax*

##### *Current tax*

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

##### *Deferred tax*

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

#### 2.5.12 *Fiduciary assets*

The Branch provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the Branch.

# Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015, and for the period from 26 March 2015 to 31 December 2015

## 2. ACCOUNTING POLICIES (continued)

### 2.5 Summary of significant accounting policies (continued)

#### 2.5.13 Employee benefits

##### *Termination benefits*

In accordance with Article 82 of the Amended Labour Law No. 43/NA approved by the President of the Lao People's Democratic Republic on 28 January 2014, the Branch has the obligation to pay allowance for employees who are terminated by dismissal in the following cases:

- ▶ The worker lacks specialised skills or is not in good health and thus cannot continue to work;
- ▶ The employer considers it necessary to reduce the number of workers in order to improve the work within the labour unit.

For the termination of an employment contract on any of the above-mentioned grounds, the employer must pay a termination allowance which is calculated on the basis of 10% of the basic monthly salary earned before the termination of work. As at 31 December 2015, there are no employees of the Branch who were dismissed under the above-mentioned grounds; therefore the Branch has not made a provision for termination allowance in the financial statements

#### 2.5.14 Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Branch's financial statements are disclosed below. The Branch intends to adopt these standards, if applicable, when they become effective.

##### *IFRS 9 Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The adoption of IFRS 9 will have an effect on the classification and measurement of the Branch's financial assets, but no impact on the classification and measurement of the Branch's financial liabilities.

# Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015, and for the period from 26 March 2015 to 31 December 2015

## 3. INTEREST AND SIMILAR INCOME

	<i>For the period from 26 March 2015 to 31 December 2015 LAKm</i>
Interest income from deposits at other banks	17
Interest income from lending activities	2,611
Interest income from held-to-maturity securities	3,925
	<u>6,553</u>

## 4. INTEREST AND SIMILAR EXPENSES

	<i>For the period from 26 March 2015 to 31 December 2015 LAKm</i>
Interest expenses from deposits at other banks	1,378
Interest expenses for customers' deposits	127
	<u>1,505</u>

## 5. NET FEES AND COMMISSION INCOME

	<i>For the period from 26 March 2015 to 31 December 2015 LAKm</i>
<b>Fees and commission income from</b>	
Settlement services	178
Other fees and commissions	2
	<u>180</u>

## 6. NET GAIN FROM DEALING IN FOREIGN CURRENCIES

	<i>For the period from 26 March 2015 to 31 December 2015 LAKm</i>
Gain from dealing in foreign currencies	404
Loss from dealing in foreign currencies	(10)
	<u>394</u>

# Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015, and for the period from 26 March 2015 to 31 December 2015

## 7. PERSONNEL EXPENSES

	<i>For the period from 26 March 2015 to 31 December 2015 LAKm</i>
Wages and allowances	5,540
Other staff costs	2,865
	<u>8,405</u>

## 8. OTHER OPERATING EXPENSES

	<i>For the period from 26 March 2015 to 31 December 2015 LAKm</i>
Office rental	2,184
External services	484
Repair and maintenance	66
Publication, marketing and promotion	195
Telecommunication	716
Training, meeting and seminar	3,496
Electricity and water	227
Audit and lawyer fee	102
Other expenses	1,654
	<u>9,124</u>

## 9. CASH AND BALANCES WITH THE BANK OF LAO PDR ("THE BOL")

	<i>31 December 2015 LAKm</i>
Cash on hand in LAK	1,486
Cash on hand in foreign currencies	2,774
Balances with the BOL	<b>367,863</b>
- Demand deposit	335,498
- Compulsory deposits	4,740
- Registered capital deposit	27,625
	<u>372,123</u>

Balances with the BOL earn 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 5.00% for LAK and 10.00% for foreign currencies, on a bi-monthly basis of customer deposits having original maturities of less than 12 months.

In the period, the Branch maintained its compulsory deposits in compliance with the requirements of the BOL.

# Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015, and for the period from 26 March 2015 to 31 December 2015

## 10. DUE FROM BANKS

Due from banks as at 31 December 2015 comprises demand in foreign currencies. Details are as bellows:

	<i>31 December 2015</i> <i>LAKm</i>
<b>Demand deposits with domestic banks</b>	<b>984</b>
- ICBC Vientiane Branch	984
<b>Demand deposits with foreign banks</b>	<b>36,791</b>
- Bank of China Shanghai Branch	6,019
- Bank of China Head Office	28,889
- Bank of China Frankfurt Branch	809
- Bank of China Thailand Branch	1,074
<b>Accrued interest</b>	<b>2</b>
	<b><u>37,777</u></b>

## 11. INVESTMENT IN SECURITIES

	<i>31 December 2015</i> <i>LAKm</i>
<b>Held-to-maturity securities</b>	
Bonds issued by the BOL	407,400
<b>Accrued interest</b>	<b>3,925</b>
	<b><u>411,325</u></b>

Bonds issued by the BOL have terms of 5 year and earn interest at a fixed rate of 4.82% per annum.

## 12. LOANS TO CUSTOMERS

	<i>31 December 2015</i> <i>LAKm</i>
Gross loans to customers	97,888
Accrued interest receivable	271
Less: Allowance for impairment losses ( <i>Note 13</i> )	(979)
	<b><u>97,180</u></b>

Interest rates for loans to customers during the period are as follows:

	<i>For the period from</i> <i>26 March 2015 to</i> <i>31 December 2015</i> <i>Interest rates</i> <i>% per annum</i>
Loans denominated in LAK	11%
Loans denominated in USD	7.04%



## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015, and for the period from 26 March 2015 to 31 December 2015

### 12. LOANS TO CUSTOMERS (continued)

#### *Analysis of loans to customers*

##### *Analysis by currency*

	<i>31 December 2015</i> <i>LAKm</i>
Loans denominated in LAK	48,888
Loans denominated in USD	49,000
	<u>97,888</u>

##### *Analysis by original term*

	<i>31 December 2015</i> <i>LAKm</i>
Short-term loans	-
Medium-term loans	97,888
Long-term loans	-
	<u>97,888</u>

##### *Analysis by economic sectors*

	<i>31 December 2015</i> <i>LAKm</i>
Construction companies	49,000
Agriculture companies	48,888
	<u>97,888</u>

### 13. ALLOWANCE FOR IMPAIRMENT LOSSES

Changes in the allowance for impairment losses consisted of the following:

	<i>For the period from</i> <i>26 March 2015 to</i> <i>31 December 2015</i> <i>LAKm</i>
<b>Opening balance</b>	-
Credit loss expenses	979
<b>Closing balance</b>	<u>979</u>

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015, and for the period from 26 March 2015 to 31 December 2015

### 14. PROPERTY AND EQUIPMENT

Movements of the balances of property and equipment for the period from 26 March 2015 to 31 December 2015 are as follows:

	<i>Building improvements LAKm</i>	<i>Furniture &amp; fixtures LAKm</i>	<i>Computer equipment LAKm</i>	<i>Motor Vehicles LAKm</i>	<i>Total LAKm</i>
<b>Cost:</b>					
Opening balance	-	-	-	-	-
Additions for the period	7,448	4,912	2,011	1,176	15,547
Ending balance	7,448	4,912	2,011	1,176	15,547
<b>Accumulated depreciation:</b>					
Opening balance	-	-	-	-	-
Charge for the period	1,118	715	488	154	2,475
Ending balance	1,118	715	488	154	2,475
<b>Net book value:</b>					
Opening balance	-	-	-	-	-
Ending balance	6,330	4,197	1,523	1,022	13,072

### 15. OTHER ASSETS

	<i>31 December 2015 LAKm</i>
Prepaid expenses	19,669
	<u>19,669</u>

### 16. DUE TO OTHER BANK

	<i>31 December 2015 LAKm</i>
<b>Demand deposits from domestic bank</b>	
ANZ Laos Branch	30,000
<b>Borrowing from foreign bank</b>	
Bank of China Head Office	407,400
Accrued interest	1,378
	<u>438,778</u>

The borrowing from Bank of China Head Office is denominated in USD, has a term of 5 year and bears interest of 1.67% per annual.

# Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015, and for the period from 26 March 2015 to 31 December 2015

## 17. DUE TO CUSTOMERS

	<i>31 December 2015</i> <i>LAKm</i>
<b>Demand deposits</b>	
- in LAK	2,630
- in foreign currencies	49,046
	<b>51,676</b>
<b>Saving deposits</b>	
- in LAK	1,622
- in foreign currencies	16,561
	<b>18,183</b>
<b>Term deposits</b>	
- in LAK	1,093
- in foreign currencies	2,140
	<b>3,233</b>
<b>Accrued interest</b>	<b>38</b>
	<b>73,130</b>

The interest rates for amounts due to customers are as follows:

	<i>For the period from</i> <i>26 March 2015 to</i> <i>31 December 2015</i> <i>Interest rate</i>
Demand deposits in LAK	No interest
Demand deposits in foreign currencies	No interest
Saving deposits in LAK	1.00%
Saving deposits in USD	1.25%
Saving deposits in THB	0.50%
Term deposits in LAK	3.00% - 9.00%
Term deposits in USD	2.00% - 6.25%
Term deposits in THB	0.75% - 4.50%

## 18. OTHER LIABILITIES

	<i>31 December 2015</i> <i>LAKm</i>
Payable to Bank of China Head Office	45,776
Payable to employee	3,679
Others	101
	<b>49,556</b>

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015, and for the period from 26 March 2015 to 31 December 2015

### 19. TAXATION

#### *Profit Tax ("PT")*

The Branch is obliged to pay PT at rate of 24% on total profit before tax of the period in accordance with Tax Law No.05 dated 20 December 2011 which is effective on or after 1 January 2013.

	<i>For the period from 26 March 2015 to 31 December 2015 LAKm</i>
Loss before tax under IFRS	(15,418)
Differences between IFRS and LAS	1,313
<b>Loss under LAS</b>	<b>(14,105)</b>
Tax reconciling item arising from difference between accounting practice and Tax Law	745
<b>Taxable income under LAS</b>	<b>(13,360)</b>
<b>Current PT expense, at the statutory rate of 24%</b>	-
PT payable at the beginning of the period	-
PT paid during the period	-
<b>PT payable at the end of the period</b>	<b>-</b>

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

### 20. PAID-UP CAPITAL

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

	<i>For the period from 26 March 2015 to 31 December 2015 LAKm</i>
Opening balance	-
Increase in the period	405,100
<b>Closing balance</b>	<b>405,100</b>

# Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015, and for the period from 26 March 2015 to 31 December 2015

## 21. ADDITIONAL CASH FLOW INFORMATION

### *Cash and cash equivalents*

	<i>31 December 2015</i> <i>LAKm</i>
Cash on hand	4,260
Current accounts with the BOL	335,498
Current accounts with other banks	37,775
	<u>377,533</u>

## 22. 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);

(e) the party is a Branch that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such Branch 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 Branch that is a related party of the Branch.

Balances with related parties as at 31 December 2015 are as follows:

<i>Related party</i>	<i>Relationship</i>	<i>Transactions</i>	<i>31 December 2015</i> <i>LAKm</i>
Bank of China Head Office	Parent	Demand deposits at the parent bank	28,889
		Borrowing from the parent bank	407,400
		Other payable to the parent bank	(45,776)

Significant transactions with related parties during the period from 26 March 2015 to 31 December 2015 were as follows:

	<i>For the period from</i> <i>26 March 2015 to</i> <i>31 December 2015</i> <i>LAKm</i>
Interest expense for the borrowing from Bank of China Head Office	1,378

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015, and for the period from 26 March 2015 to 31 December 2015

### 22. RELATED PARTY TRANSACTIONS (continued)

#### *Transactions with key management personnel of the Branch*

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

	<i>31 December 2015</i>
	<i>LAKm</i>
Salaries and bonus	1,527
	<u>1,527</u>

### 23. RISK MANAGEMENT POLICIES

#### *Introduction*

Risk is inherent in the Branch's activities but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Branch's continuing profitability and each individual within the Branch is accountable for the risk exposures relating to his or her responsibilities.

The Branch is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to various operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. The Branch's policy is to monitor those business risks through the Branch's strategic planning process.

#### *Risk management structure*

The Management is responsible for the overall risk management approach and for approving the risk management strategies and principles.

The Management has appointed the Risk - Compliance Officer which has the responsibility to monitor the overall risk process within the Branch.

The Risk - Compliance Officer has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. The Risk - Compliance Officer is responsible for managing risk decisions and monitoring risk levels and reports to the Board of Management.

The Branch's policy is that risk management processes throughout the Branch are audited annually by the Internal Audit function of Bank of China, which examines both the adequacy of the procedures and the Branch's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee of Bank of China.

### 24. INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Branch is exposed to interest rate risk as a result of mismatches of interest rate re-pricing of assets and liabilities. The Branch manages this risk by matching the re-pricing of assets and liabilities through risk management strategies. Due to the nature of the Branch's records, the Branch is unable to prepare the interest rate risk sensitivity analysis.

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015, and for the period from 26 March 2015 to 31 December 2015

### 25. CURRENCY RISK

Currency risk is the risk exposed to the Branch due to changes in foreign exchange rates which adversely impact the Branch's foreign currency positions. The Branch has set limits on positions by currency, based on its internal risk assessment system and the BOL's regulations. Positions are monitored on a daily basis to ensure positions are maintained within the established limits.

Breakdown of assets and liabilities which has been converted into LAKm 31 December 2015 is as follows:

	<i>LAK</i> <i>in LAKm</i>	<i>USD</i> <i>in LAKm</i> <i>equivalent</i>	<i>THB</i> <i>in LAKm</i> <i>equivalent</i>	<i>Other</i> <i>In LAKm</i> <i>equivalent</i>	<i>Total</i> <i>in LAKm</i> <i>equivalent</i>
<b>ASSETS</b>					
Cash and balances with the BOL	292,880	72,625	6,462	156	372,123
Due from banks	-	28,890	1,074	7,813	37,777
Loans to customers (*)	49,165	48,994	-	-	98,159
Investment in securities	-	411,325	-	-	411,325
Property and equipment	13,072	-	-	-	13,072
Other assets	19,669	-	-	-	19,669
<b>TOTAL ASSETS</b>	<b>374,786</b>	<b>561,834</b>	<b>7,536</b>	<b>7,969</b>	<b>952,125</b>
<b>LIABILITIES AND EQUITY</b>					
<b>LIABILITIES</b>					
Due to Banks	30,000	408,778	-	-	438,778
Due to customers	5,367	52,261	7,548	7,954	73,130
Other liabilities	35,504	14,052	-	-	49,556
<b>TOTAL LIABILITIES</b>	<b>70,871</b>	<b>475,091</b>	<b>7,548</b>	<b>7,954</b>	<b>561,464</b>
<b>EQUITY</b>	<b>389,682</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>389,682</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>460,553</b>	<b>475,091</b>	<b>7,548</b>	<b>7,954</b>	<b>951,146</b>
<b>NET EXPOSURE</b>	<b>(85,767)</b>	<b>86,743</b>	<b>(12)</b>	<b>15</b>	<b>979</b>

(\*) These do not include provision.

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015, and for the period from 26 March 2015 to 31 December 2015

### 26. CAPITAL MANAGEMENT

The Branch maintains minimum regulatory capital in accordance with Regulation No. 536/BFSD/BOL dated 14 October 2009 on commercial Branch's capital adequacy and other detailed guidance. The primary objectives of the Branch's capital management are to ensure that the Branch complies with externally imposed capital requirements by BOL. The Branch recognizes the need to maintain effectiveness of assets and liabilities management to balance profit and capital adequacy.

In accordance with Regulation No. 536/BFSD/BOL, the Branch's regulatory capital is analyzed into two tiers:

- ▶ Tier 1 capital, which includes chartered capital, regulatory reserve fund, business expansion fund and other funds, and retained earnings;
- ▶ Tier 2 capital, which includes qualifying subordinated liabilities, general provisions and the element of fair value reserve relating to unrealized gains/losses on equity instruments classified as available for sale.

Various limits are applied to elements of the capital base: qualifying tier 2 cannot exceed tier 1 capital, and qualifying subordinated liabilities may not exceed 50 percent of tier 1 capital.

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

<i>Items</i>	<i>31 December 2015 under IFRS LAKm</i>
Tier 1 capital	389,682
Tier 2 capital	-
<b>Total capital</b>	<b>389,682</b>
Less: Deductions from capital (Investments in other credit and financial institutions)	-
<b>Capital for CAR calculation (A)</b>	<b>389,682</b>
Risk weighted balance sheet items	89,141
Risk weighted off balance sheet items	-
<b>Total risk weighted assets (B)</b>	<b>89,141</b>
<b>Capital Adequacy Ratio (A/B)</b>	<b>437%</b>

### 27. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arms-length basis. As verifiable market prices are not available, market prices are not available for a significant proportion of the Branch's financial assets and liabilities, fair values, therefore, have been based on management assumptions according to the profile of the asset and liability base. In the opinion of the Branch's management, the carrying amount of the financial assets and liabilities included in the statement of financial position are a reasonable estimation of their fair values. In making this assessment, the Branch's management assumes that loans and advances are mainly held to maturity with fair values equal to the book value of loans adjusted for provision for impairment losses.



# Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at 31 December 2015, and for the period from 26 March 2015 to 31 December 2015

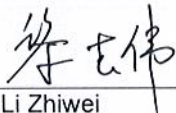
## 28. EXCHANGE RATES OF APPLICABLE FOREIGN CURRENCIES AGAINST LAK AT REPORTING DATE

	<i>31 December 2015</i>
	<u>LAK</u>
United State Dollar ("USD")	8,148
Thai baht ("THB")	225.96
Chinese Yuan ("CNY")	1,236

## 29. EVENTS AFTER THE BALANCE SHEET DATE

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

Prepared by:



Mr. Li Zhiwei  
Financial Management and  
Operation Service Unit Manager

Reviewed by:



Mr. Li Zhiyong  
General Manager

Vientiane, Lao PDR

31 March 2016