

Bank of China Ltd., Vientiane Branch

Financial Statements

31 December 2016

Bank of China Ltd., Vientiane Branch

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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 2016 is LAK 405,100,000,000 (31 December 2015: 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 PDR.

GENERAL MANAGER AND LEGAL REPRESENTATIVE

The legal representative of the Branch during the year and at the date of this report is Mr. Li Zhiyong, the General Manager.

AUDITORS

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

Reference: 61245636/18967928 -IFRS

INDEPENDENT AUDITORS' REPORT

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

We have audited the financial statements of Bank of China Ltd., Vientiane Branch ("the Branch"), which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cashflows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Branch as at 31 December 2016, and its financial performance and its cashflows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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".

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 (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in Lao P.D.R ("Lao Ethical requirements"), and we have fulfilled our other ethical responsibilities in accordance the IESBA Code and Lao Ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Responsibilities of the Branch's Management for the Financial Statements

The Branch's management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of the 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 auditor's 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.



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working world

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

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

We communicate with those charged with governance 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.

Ernst & Young Lao

Vientiane, Lao P.D.R

31 March 2017

Bank of China Ltd., Vientiane Branch

INCOME STATEMENT
for the year ended 31 December 2016

	Notes	2016 LAKm	2015 LAKm
Interest and similar income	7	34,160	6,553
Interest and similar expenses	8	(9,339)	(1,505)
Net interest and similar income		24,821	5,048
Fees and commission income	9	1,820	180
Fees and commission expenses	10	(204)	(57)
Net fees and commission income		1,616	123
Net gain from dealing in foreign currencies	11	926	394
Total operating income		27,363	5,565
Credit loss expense	18	(243)	(979)
NET OPERATING INCOME		27,120	4,586
Personnel expenses	12	(10,240)	(8,405)
Depreciation and amortization	19	(3,289)	(2,475)
Other operating expenses	13	(8,014)	(9,124)
TOTAL OPERATING EXPENSES		(21,543)	(20,004)
PROFIT/(LOSS) BEFORE TAX		5,577	(15,418)
Profit tax expense	24	-	-
PROFIT/(LOSS) FOR THE YEAR		5,577	(15,418)

Prepared by:


Mr. Li Zhiwei
Financial Management and
Operation Service Unit Manager

Reviewed by:


Mr. Li Zhiyong
General Manager



Vientiane, Lao PDR

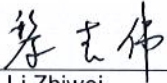
31 March 2017

Bank of China Ltd., Vientiane Branch

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2016

	2016 LAKm	2015 LAKm
PROFIT/(LOSS) FOR THE YEAR	5,577	(15,418)
OTHER COMPREHENSIVE INCOME, NET OF TAX	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	<u>5,577</u>	<u>(15,418)</u>

Prepared by:



Mr. Li Zhiwei
Financial Management and
Operation Service Unit Manager

Reviewed by:



Mr. Li Zhiyong
General Manager

Vientiane, Lao PDR

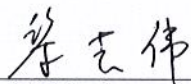
31 March 2017

Bank of China Ltd., Vientiane Branch

STATEMENT OF FINANCIAL POSITION as at 31 December 2016

	Notes	31 December 2016 LAKm	31 December 2015 LAKm
ASSETS			
Cash and balances with the Bank of Lao PDR	14	386,016	372,123
Due from banks	15	410,637	37,777
Held-to-maturity securities	16	413,747	411,325
Loans to customers	17	121,520	97,180
Property and equipment	19	9,808	13,072
Other assets	20	17,619	19,669
TOTAL ASSETS		1,359,347	951,146
LIABILITIES			
Due to other banks	21	534,228	438,778
Due to customers	22	425,574	73,130
Other liabilities	23	4,286	49,556
TOTAL LIABILITIES		964,088	561,464
EQUITY			
Paid up capital	25	405,100	405,100
Accumulated losses		(9,841)	(15,418)
TOTAL EQUITY		395,259	389,682
TOTAL LIABILITIES AND EQUITY		1,359,347	951,146

Prepared by:



Mr. Li Zhiwei
Financial Management and
Operation Service Unit Manager

Reviewed by:



Mr. Li Zhiyong
General Manager

Vientiane, Lao PDR

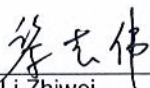
31 March 2017

Bank of China Ltd., Vientiane Branch

STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2016

	<i>Paid-up capital</i> LAKm	<i>Accumulated losses</i> LAKm	<i>Total</i> LAKm
Balance as at 26 March 2015	-	-	-
Capital contribution	405,100	-	405,100
Net loss during the period	-	(15,418)	(15,418)
Balance as at 31 December 2015	405,100	(15,418)	389,682
Net profit during the year	-	5,577	5,577
Balance as at 31 December 2016	405,100	(9,841)	395,259

Prepared by:



Mr. Li Zhiwei
Financial Management and
Operation Service Unit Manager

Reviewed by:



Mr. Li Zhiyong
General Manager

Vientiane, Lao PDR

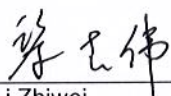
31 March 2017

Bank of China Ltd., Vientiane Branch

STATEMENT OF CASHFLOWS
for the year ended 31 December 2016

	Notes	2016 LAKm	2015 LAKm
OPERATING ACTIVITIES			
Net profit/(loss) before tax		5,577	(15,418)
<i>Adjustments for:</i>			
Depreciation and amortization charges	19	3,289	2,475
Credit loss expenses	18	245	979
(Increase)/decrease in operating assets			
Balances with other banks		2,221	(32,365)
Loans and advances to customers		(24,585)	(98,159)
Other assets		(370)	(430,996)
Increase/(decrease) in operating liabilities			
Deposit and borrowing from other Bank		95,450	438,778
Customer deposits and other amounts due to customers		352,444	73,130
Other liabilities		(45,270)	49,556
Net cash flows from/(used in) operating activities		389,001	(12,020)
INVESTING ACTIVITIES			
Purchases of property and equipment and other intangible assets		(25)	(15,547)
Net cash flows used in investing activities		(25)	(15,547)
FINANCING ACTIVITIES			
Capital contribution		-	405,100
Net cash flows from financing activities		-	405,100
Net increase in cash and cash equivalents		388,976	377,533
Cash and cash equivalents at the beginning of the year/period		377,533	-
Effect of foreign exchange difference			-
Cash and cash equivalents at the end of the year/period	26	766,509	377,533

Prepared by:



Mr. Li Zhiwei
Financial Management and
Operation Service Unit Manager

Vientiane, Lao PDR

31 March 2017

Reviewed by:



Mr. Li Zhiyong
General Manager



Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS
as at and for the year ended 31 December 2016

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 2016 is LAK 405,100,000,000 (31 December 2015: LAK 405,100,000,000).

General Manager

The Branch's General Manager during the year ended 31 December 2016 and at the date of this report is Mr. Li Zhiyong.

Location

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

Employees

Total employees of the Branch as at 31 December 2016 were 27 people (31 December 2015: 20).

2. BASIS OF PREPARATION

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").

The Branch's first fiscal year was from 26 March 2015 to 31 December 2015. The subsequent fiscal years start on 1 January and ends on 31 December.

3. STATEMENT OF COMPLIANCE

The financial statements of the Branch have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB.

Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

4. PRESENTATION OF FINANCIAL STATEMENTS

The Branch presents its statement of financial position in order of liquidity. Financial assets and financial liabilities are generally reported gross in the statement of financial position. They are only offset and reported net when, in addition to having an unconditional legally enforceable right to offset the recognized amounts without being contingent on a future event, the parties also intend to settle on a net basis in all of the following circumstances:

- ▶ The normal course of business
- ▶ The event of default
- ▶ The event of insolvency or bankruptcy of the Branch and/or its counterparties

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 on 31 December 2016 and 31 December 2015 as presented in Note 33). Unrealized exchange differences arising from the translation of monetary assets and liabilities on the balance date are recognized in the income statement.

5.2 *Financial instruments - initial recognition and subsequent measurement*

5.2.1 *Date of recognition*

All financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, 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. Loans and advances to customers are recognised when funds are transferred to the customers' account. The Branch recognises due to customer balances when funds reach the Branch.

5.2.2 *Initial measurement of financial instruments*

The classification of financial instruments at initial recognition depends on their purpose 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.

5.2.3 *The effective interest rate method*

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate a shorter period, to the net carrying amount of the financial asset or financial liability. The amortised cost of the financial asset or financial liability is adjusted if the Branch revises its estimates of payments or receipts. The adjusted amortised cost is calculated based on the original or latest re-estimated EIR and the change in is recorded as 'Interest and similar income' for financial assets and 'Interest and similar expense' for financial liabilities. The accounting policies for the EIR method vary by instruments and are further explained in Notes:

- ▶ 5.2.5 for 'Due from banks and loans and advances to customers'
- ▶ 5.2.6 for 'Held-to-maturity financial investments'
- ▶ 5.2.7 for 'Due to other banks and customers and other borrowed funds'
- ▶ 5.4 for 'Impairment of financial assets'
- ▶ 5.5 for 'Recognition of income and expenses'

Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.2 *Financial instruments - initial recognition and subsequent measurement* (continued)

5.2.4 *'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.

5.2.5 *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 the EIR methodology, less allowance for impairment. Amortised 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. Therefore, the Branch recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of the loan, hence, recognising the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (prepayments, penalty interest and charges).

If expectations are revised the adjustment is booked a positive or negative adjustment to the carrying amount in the balance sheet with an increase or reduction in interest income. The adjustment is subsequently amortised through Interest and similar income in the income statement.

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).

5.2.6 *Held-to-maturity financial investments*

Held-to-maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Branch has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the EIR less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in interest and similar income in the income statement. The losses arising from impairment of such investments are recognised in the income statement within credit loss expense.

Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.2 *Financial instruments - initial recognition and subsequent measurement (continued)*

5.2.7 *Due to other banks and customers and other borrowed funds*

"Due to other banks and customers and other borrowed funds" include arrangements where the substance of the contractual arrangements result in the Branch having an obligation either to deliver cash or another financial asset to the holder.

After initial measurement, "Due to other banks and customers and other borrowed funds" are subsequently measured at amortised cost using the EIR. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

5.2.8 *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.

In rare circumstances, 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.

5.3 *De-recognition of financial assets and financial liabilities*

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 also derecognises the assets if it has both transferred the asset, and the transfer qualifies for derecognition.

Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.3 *De-recognition of financial assets and financial liabilities (continued)*

5.3.1 *Financial assets (continued)*

The Branch has transferred the asset if, and only if, either:

- ▶ The Branch has transferred its contractual rights to receive cash flows from the asset

Or

- ▶ It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

Pass-through arrangements are transactions when the Branch retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when certain conditions are met. At 31 December 2016, the Branch does not have financial assets which are subject to such arrangements.

A transfer only qualifies for derecognition if 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

In relation to the above, the Branch considers the control to be transferred if, and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

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.

The Branch also derecognises a financial asset, in particular, a loan to customer when the terms and conditions have been renegotiated to the extent that it substantially became a new loan, with the difference recognised as an impairment in the income statement.

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.

Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.4 *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.

5.4.1 *Financial assets carried at amortized cost*

Specific impairment losses

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers), the Branch first assesses whether objective evidence of impairment exists for financial assets that are individually significant or are already under specific work out by management.

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 recognised in credit loss expense 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 and for the year ended 31 December 2016

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.4 *Impairment of financial assets (continued)*

5.4.1 *Financial assets carried at amortized cost (continued)*

Collective impairment model

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms (for example, on the basis of a credit risk evaluation or grading process that considers 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 currently exist.

Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, personal indebtedness, collateral values including property prices for mortgages, 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.

5.4.2 *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 annually reporting schedule.

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.

5.4.3 *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 and for the year ended 31 December 2016

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.5 *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.

5.5.1 *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. 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.

When the recorded value of a financial asset or a group of similar financial assets has been reduced by an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

5.5.2 *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.

Fee income forming an integral part of the corresponding financial instrument

Fees that the Branch considers to be an integral part of the corresponding financial instruments include: loan origination fees, loan commitment fees for loans that are likely to be drawn down and other credit related fees. The recognition of these fees (together with any incremental costs) form an integral part of the corresponding financial instruments and are recognised as interest income through an adjustment to the EIR (as defined in Note 5.2.3 above). The exception is, when it is unlikely that a loan will be drawn down, the loan commitment fees are recognised as revenue on expiry. Loan commitments that are within the scope of IAS 39 (i.e., are designated as FVPL, or are at a below market rate of interest, or are settled net) are accounted for as derivatives and measured at fair value through profit or loss.

5.6 *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.

Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.7 *Property and equipment*

Property and equipment 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	5%
Furniture and fixtures	20%
Computer equipment	20%
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 year the asset is derecognized.

5.8 *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 and for the year ended 31 December 2016

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.9 *Financial guarantees*

In the ordinary course of business, the Branch issues financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements (within 'Other liabilities') at fair value, being the premium received. Subsequent to initial recognition, the Branch's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the income statement in 'Credit loss expense'. The premium received is recognized in the income statement in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

5.10 *Employee benefits*

Post-employment benefits

Post-employment benefits are paid to retired employees of the Branch by the Social Security Fund Department which belongs to the Ministry of Labor and Social Welfare. The Branch is required to contribute to these post-employment benefits by paying social insurance premium to the Social Insurance Agency at the rate of 6.00% of employee's basic salary on a monthly basis. 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 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 2016, there is no employee of the Branch who was dismissed under the above-mentioned grounds; therefore the Branch has not made a provision for termination allowance in the financial statements.

Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.11 Provisions

Provisions are recognized when the Branch has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is material, the Branch determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in the income statement net of any reimbursement in other operating expenses.

5.12 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 in the countries where the Branch operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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.

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 utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it becomes 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 year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current and deferred taxes are recognised as income tax benefits or expenses in the income statement except for tax related to the fair value remeasurement of available-for-sale assets, foreign exchange differences and the net movement on cash flow hedges, which are charged or credited to OCI. These exceptions are subsequently reclassified from OCI to the income statement together with the respective deferred loss or gain. The Branch also recognises the tax consequences of payments and issuing costs, related to financial instruments that are classified as equity, directly in equity.

The Branch only off-sets its deferred tax assets against liabilities when there is both a legal right to offset and it is the Branch's intention to settle on a net basis.

Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.13 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.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognizing revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 Leases).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The Branch does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

IFRS 16 Leases

The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.

The Branch does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.13 Standards issued but not yet effective (continued)

Amendments to IAS 12 Income Taxes

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The amendment is effective from 1 January 2017. The Branch is currently evaluating the impact, but does not anticipate that adopting the amendments would have a material impact on its financial statements.

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Branch is currently evaluating the impact.

6. 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.

In the process of applying the Branch's accounting policies, management has made the following judgements and 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. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Branch's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

6.1 *Going concern*

The Branch's management has made an assessment of its 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 and for the year ended 31 December 2016

6. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

6.2 Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. For further details about determination of fair value please see Note 32.

6.3 Effective Interest Rate (EIR) method

The Branch's EIR methodology, as explained in Note 5.2.3, recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of loans and deposits and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgement regarding the expected behaviour and life-cycle of the instruments, as well expected changes to other fee income/expense that are integral parts of the instrument.

6.4 Impairment losses on loans and advances

The Branch reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the income statement.

The Branch's impairment methodology for assets carried at amortised cost results in the recording of provisions for:

- ▶ Specific impairment losses;
- ▶ Collective impairment

The detailed approach for each category is further explained in Note 5.4.1. All categories include an element of management's judgement, in particular for the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses. These estimates are driven by a number of factors, the changing of which can result in different levels of allowances.

7. INTEREST AND SIMILAR INCOME

	2016 LAKm	2015 LAKm
Interest income from deposits at other banks	1,260	17
Interest income from lending activities	11,430	2,611
Interest income from held-to-maturity securities	21,470	3,925
	34,160	6,553

Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

8. INTEREST AND SIMILAR EXPENSES

	2016 LAKm	2015 LAKm
Interest expenses from deposits at other banks	8,544	1,378
Interest expenses for customers' deposits	795	127
	<u>9,339</u>	<u>1,505</u>

9. NET FEES AND COMMISSION INCOME

	2016 LAKm	2015 LAKm
Fees and commission income from:		
Settlement services	802	178
Other fees and commissions	1,018	2
	<u>1,820</u>	<u>180</u>

10. FEE AND COMMISSION EXPENSE

	2016 LAKm	2015 LAKm
Fees and commission income from:		
Financial enterprise fee	51	6
Clearing fee payable to central bank	5	2
Membership fee	148	49
	<u>204</u>	<u>57</u>

11. NET GAIN FROM DEALING IN FOREIGN CURRENCIES

	2016 LAKm	2015 LAKm
Gain from dealing in foreign currencies	926	404
Loss from dealing in foreign currencies	-	(10)
	<u>926</u>	<u>394</u>

12. PERSONNEL EXPENSES

	2016 LAKm	2015 LAKm
Wages and allowances	9,768	5,540
Other staff costs	472	2,865
	<u>10,240</u>	<u>8,405</u>

Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

13. OTHER OPERATING EXPENSES

	2016 LAKm	2015 LAKm
Office rental	2,185	2,184
External services	163	484
Repair and maintenance	284	66
Publication, marketing and promotion	51	195
Telecommunication	801	716
Training, meeting and seminar	1,199	3,496
Electricity and water	813	227
Audit and lawyer fee	125	102
Other expenses	2,393	1,654
	8,014	9,124

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

	31 December 2016 LAKm	31 December 2015 LAKm
Cash on hand in LAK	2,065	1,486
Cash on hand in foreign currencies	8,595	2,774
Balances with the BOL	375,356	367,863
- Demand deposit	345,212	335,498
- Compulsory deposit	30,139	4,740
- Registered capital reserve	5	27,625
	386,016	372,123

Balances with the BOL include demand deposit, compulsory deposit and registered capital reserve. These balances 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, (2015: 5% and 10%) of customer deposits having original maturities of less than 12 months. In the year, the Branch maintained its compulsory deposits in compliance with the requirements of the BOL.

According to Decree No. 02/PR of BOL, foreign bank branches are required to maintain a minimum balance of special deposit at BOL which is equivalent to 25% of their paid-up capital to secure for their operational continuance. The Branch was then approved by the BOL in Official Letters No. 194/BOL dated 18 May 2015, 239/BOL dated 18 June 2015 and 334/BOL dated 19 August 2016 to withdraw from this deposit account to supplement its working capital. As at 31 December 2016, the balance of this special deposit is LAKm 5.

Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

15. DUE FROM BANKS

Due from banks as at 31 December 2016 comprises demand in foreign currencies. Details are as follows:

	<i>31 December 2016</i> <i>LAKm</i>	<i>31 December 2015</i> <i>LAKm</i>
Demand deposits with domestic banks	40	984
- Industrial and Commercial Bank Of China Limited, Vientiane Branch	40	984
Demand deposits with foreign banks	164,933	36,791
- Bank of China Limited, Shanghai RMB Trading Unit	53,736	6,019
- Bank of China (Hongkong) Limited	238	-
- Bank of China (Thai) Public Company Limited	14,689	1,074
- Bank of China Limited, Head Office	17,430	28,889
- Bank of China, New York Branch	78,521	-
- Bank of China, Frankfurt Branch	319	809
Term deposit with foreign banks	245,520	-
- Bank of China Limited Head Office	245,520	-
Accrued interest	144	2
	410,637	37,777

The term deposit at Bank of China Head Office has a term of 1 months and earns interest at rate of 1.64%-1.74% per annum.

16. HELD-TO-MATURITY SECURITIES

	<i>31 December 2016</i> <i>LAKm</i>	<i>31 December 2015</i> <i>LAKm</i>
Bonds issued by the BOL	409,200	407,400
Accrued interest	4,547	3,925
	413,747	411,325

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

Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

17. LOANS TO CUSTOMERS

	31 December 2016 LAKm	31 December 2015 LAKm
Gross loans to customers	122,404	97,888
Accrued interest receivable	340	271
Less: Allowance for impairment losses (Note 18)	(1,224)	(979)
	121,520	97,180

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

	For the year ended 31 December 2016 % per annum	For the period from 26 March 2015 to 31 December 2015 % per annum
Loans denominated in LAK	8.00% - 11.00%	11.00%
Loans denominated in USD	7.75%	7.04%

Analysis of loans to customers

Analysis by currency

	31 December 2016 LAKm	31 December 2015 LAKm
Loans denominated in LAK	73,300	49,000
Loans denominated in USD	49,104	48,888
	122,404	97,888

Analysis by original term

	31 December 2016 LAKm	31 December 2015 LAKm
Short-term loans	24,300	-
Medium-term loans	98,104	97,888
Long-term loans	-	-
	122,404	97,888

Analysis by economic sectors

	31 December 2016 LAKm	31 December 2015 LAKm
Industrial services companies	24,300	-
Construction companies	49,000	49,000
Agriculture companies	49,104	48,888
	122,404	97,888

Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

18. ALLOWANCE FOR IMPAIRMENT LOSSES

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

	<i>For the year ended 31 December 2016</i>	<i>For the period from 26 March 2015 to 31 December 2015</i>
	<i>LAKm</i>	<i>LAKm</i>
Opening balance	979	-
Net expense of provision for impairment loss during the year	243	979
Foreign currency differences	2	-
Closing balance	1,224	979

19. PROPERTY AND EQUIPMENT

Movements of the balances of property and equipment for the year ended 31 December 2016 are as follows:

	<i>Building improvements LAKm</i>	<i>Furniture & fixtures LAKm</i>	<i>Computer equipment LAKm</i>	<i>Motor Vehicles LAKm</i>	<i>Total LAKm</i>
Cost:					
Opening balance	7,448	2,742	4,181	1,176	15,547
Additions for the year	-	-	25	-	25
Ending balance	7,448	2,742	4,206	1,176	15,572
Accumulated depreciation:					
Opening balance	1,118	399	804	154	2,475
Charge for the year	1,490	532	1,077	190	3,289
Ending balance	2,608	931	1,881	344	5,764
Net book value:					
Opening balance	6,330	2,343	3,377	1,022	13,072
Ending balance	4,840	1,811	2,325	832	9,808

20. OTHER ASSETS

	<i>31 December 2016 LAKm</i>	<i>31 December 2015 LAKm</i>
Prepaid expenses	17,619	19,669
	17,619	19,669

Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

21. DUE TO OTHER BANKS

	<i>31 December 2016</i> <i>LAKm</i>	<i>31 December 2015</i> <i>LAKm</i>
Demand deposits from domestic bank		
ANZ Laos Branch	81,900	30,000
Term deposit from domestic bank		
ANZ Laos Branch (term: 3 months, interest rate: 1.55% p.a.)	41,097	-
Borrowing from foreign bank		
Bank of China Head Office (term: 5 years, interest rate: 2.41% p.a.)	409,200	407,400
Accrued interest	2,031	1,378
	534,228	438,778

22. DUE TO CUSTOMERS

	<i>31 December 2016</i> <i>LAKm</i>	<i>31 December 2015</i> <i>LAKm</i>
Demand deposits		
- in LAK	5,745	2,630
- in foreign currencies	287,883	49,046
	293,628	51,676
Saving deposits		
- in LAK	3,040	1,622
- in foreign currencies	29,625	16,561
	32,665	18,183
Term deposits		
- in LAK	2,659	1,093
- in foreign currencies	96,292	2,140
	98,951	3,233
Accrued interest	330	38
	425,574	73,130

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

	<i>For the year ended</i> <i>31 December 2016</i> <i>Interest rate</i>	<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	No interest
Demand deposits in foreign currencies	No interest	No interest
Saving deposits in LAK	1.10%	1.00%
Saving deposits in USD	1.25%	1.25%
Saving deposits in THB	0.50%	0.50%
Term deposits in LAK	3.00% - 6.50%	3.00% - 9.00%
Term deposits in USD	2.00% - 6.25%	2.00% - 6.25%
Term deposits in THB	0.75% - 4.50%	0.75% - 4.50%

Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

23. OTHER LIABILITIES

	<i>31 December 2016</i> LAKm	<i>31 December 2015</i> LAKm
Payable to Bank of China Head Office	8	45,776
Payable to employee	3,962	3,679
Others	316	101
	4,286	49,556

24. TAXATION

Profit Tax ("PT")

Provision is made for profit tax on the current year's profits, based on the Tax Law governing taxation within Lao P.D.R. The Branch is obliged to pay tax on total profit before tax in accordance with the new Tax Law No.70/NA dated 15 December 2015 which is effective on or after 24 May 2016.

	<i>For the year ended</i> <i>31 December 2016</i> LAKm	<i>For the period from</i> <i>26 March 2015 to</i> <i>31 December 2015</i> LAKm
Profit/(loss) before tax under IFRS	5,577	(15,418)
Differences between IFRS and LAS	(1,065)	1,313
Loss under LAS	4,512	(14,105)
Tax reconciling item arising from difference between accounting practice and Tax Law	169	745
Tax loss carried forward	(4,681)	-
	-	(13,360)
Taxable income under LAS	-	-
Current PT expense, at the statutory rate of 24%	-	-
PT payable at the beginning of the year/period	-	-
PT paid during the year/period	-	-
PT payable at the end of the year/period	-	-

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.

Tax loss carried forward

In accordance with the amended Tax Law No.70/NA dated 15 December 2015, article 40, annual losses which are certified by the audit authority or an independent audit firm and acknowledged by the tax authorities, are eligible to carry forward such losses to offset their profit tax of the following year for a period of three years. Once this period expires, any remaining losses are no longer allowed to deduct from the profit. At 31 December 2016, the Branch has aggregated accumulated tax losses of LAKm 8,679 (31 December 2015: LAKm 13,360) available for offset against future taxable profits.

Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

24. TAXATION (continued)

Tax loss carried forward (continued)

Details are as follows:

Currency: LAKm					
Originating year	Can be utilized up to	Tax loss amount	Utilized up to 31 December 2016	Forfeited	Unutilized at 31 December 2016
2015	2018	(13,360) (*)	4,681	-	(8,679)
TOTAL		(13,360)	4,681	-	(8,679)

(*) Estimated tax loss as per the Branch's profit tax declaration for the period from 26 March 2015 (date of establishment) to 31 December 2015 has not been audited by the local tax authorities as of the date of these financial statements.

25. PAID-UP CAPITAL

There has been no change to paid-up capital during the year 2016.

26. ADDITIONAL CASH FLOW INFORMATION

Cash and cash equivalents

	31 December 2016 LAKm	31 December 2015 LAKm
Cash on hand	10,660	4,260
Current accounts with the BOL	345,212	335,498
Current accounts with other banks	165,038	-
Term deposit with other banks	245,599	37,775
	766,509	377,533

Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

27. 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 an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity 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 entity that is a related party of the Branch.

Balances with related parties as at 31 December 2016 are as follows:

<i>Related party</i>	<i>Relationship</i>	<i>Transactions</i>	<i>31 December 2016 Receivable/ (Payable) LAKm</i>	<i>31 December 2015 Receivable/ (Payable) LAKm</i>
Bank of China, Head Office	Parent	Demand deposit at the parent bank	17,430	28,889
		Borrowing from the parent bank	(409,200)	407,400
		Other payable to the parent bank	(8)	(45,776)
		Term deposit at parent bank	245,520	-
Bank of China Limited, Shanghai RMB Trading Unit	Affiliate	Demand deposit	53,736	6,019
Bank of China (Hongkong) Limited	Affiliate	Demand deposit	238	-
Bank of China (Thai) Public Company Limited	Affiliate	Demand deposit	14,689	1,074
Bank of China, New York Branch	Affiliate	Demand deposit	78,521	-

Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

27. RELATED PARTY TRANSACTIONS (Continued)

Significant transactions with related parties during the year ended 31 December 2016 were as follows:

	2016 LAKm	2015 LAKm
Interest income from deposits at Bank of China, Head Office	1,087	-
Interest expense for the borrowing from Bank of China, Head Office	(2,031)	1,378
Expense for using banking system with Head Office	(214)	-

Transactions with key management personnel of the Branch

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

	<i>For the year ended 31 December 2016 LAKm</i>	<i>For the period from 26 March 2015 to 31 December 2015 LAKm</i>
Salaries and bonus	2,512	1,527
	2,512	1,527

28. 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.

Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

28. RISK MANAGEMENT POLICIES (continued)

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.

29. 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.

30. 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 2016 is as follows:

	LAK in LAKm	USD in LAKm equivalent	THB in LAKm equivalent	Other In LAKm equivalent	Total in LAKm equivalent
ASSETS					
Cash and balances with the BOL	283,967	94,816	4,672	2,561	386,016
Due from banks	-	341,560	14,689	54,388	410,637
Loans to customers (*)	73,524	49,220	-	-	122,744
Investment in securities	-	413,747	-	-	413,747
Property and equipment	9,808	-	-	-	9,808
Other assets	17,619	-	-	-	17,619
TOTAL ASSETS	384,918	899,343	19,361	56,949	1,360,571
LIABILITIES AND EQUITY					
LIABILITIES					
Due to Banks	81,900	452,328	-	-	534,228
Due to customers	11,540	337,723	19,712	56,599	425,574
Other liabilities	(100,165)	104,701	(380)	130	4,286
TOTAL LIABILITIES	(6,725)	894,752	19,332	56,729	964,088
EQUITY	395,259	-	-	-	395,259
TOTAL LIABILITIES AND EQUITY	388,534	894,752	19,332	56,729	1,359,347
NET EXPOSURE	(3,616)	4,591	29	220	1,224

(*) These do not include provision.

Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

31. 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 derived from IFRS financial statements is as follows:

<i>Items</i>	<i>31 December 2016 Under IFRS LAKm</i>	<i>31 December 2015 under IFRS LAKm</i>
Tier 1 capital	395,259	389,682
Tier 2 capital	-	-
Total capital	395,259	389,682
Less: Deductions from capital (Investments in other credit and financial institutions)	-	-
Capital for CAR calculation (A)	395,259	389,682
Risk weighted balance sheet items	172,150	89,141
Risk weighted off balance sheet items	-	-
Total risk weighted assets (B)	172,150	89,141
Capital Adequacy Ratio (A/B)	230%	437%

32. 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 and for the year ended 31 December 2016

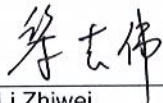
33. EXCHANGE RATES OF APPLICABLE FOREIGN CURRENCIES AGAINST LAK AT REPORTING DATE

	<u>31 December 2016</u>	<u>31 December 2015</u>
	LAK	LAK
United State Dollar ("USD")	8,184	8,148
Thai baht ("THB")	229	225.96
Chinese Yuan ("CNY")	1,174	1,236

34. EVENTS AFTER THE BALANCE SHEET DATE

There is no matter or circumstance that has arisen since the balance sheet date that requires adjustment or disclosure in the financial statements of the Branch.

Prepared by:



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Reviewed by:



Mr. Li Zhiyong
General Manager

Vientiane, Lao PDR

31 March 2017