

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

Financial Statements

31 December 2018



# 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 PDR and operates under Banking License No. 06/BOL granted by Bank of the Lao PDR ("the BOL") on 19 February 2016.

The initial registered capital of the Branch is LAK 405,100,000,000. The actual paid-up capital as at 31 December 2018 is LAK 405,100,000,000 (31 December 2017: 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 Co., Ltd.

Reference: 61245636/20598988 -IFRS

## **INDEPENDENT AUDITORS' REPORT**

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

### ***Opinion***

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 2018, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Branch as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

### ***Basis for Opinion***

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in Lao PDR, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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.

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.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*Ernst & Young Lao*



Vientiane, Lao PDR

23 April 2019

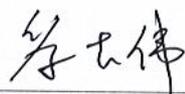
# Bank of China Ltd., Vientiane Branch

INCOME STATEMENT  
for the year ended 31 December 2018

	Notes	2018 LAKm	2017 LAKm
Interest revenue calculated using the effective interest method	9	140,490	77,867
Interest expense calculated using the effective interest method	9	(24,973)	(10,750)
<b>Net interest income</b>		<b>115,517</b>	<b>67,117</b>
Fees and commission income	10	5,610	3,437
Fees and commission expenses	10	(273)	(281)
<b>Net fees and commission income</b>		<b>5,337</b>	<b>3,156</b>
Net gain from dealing in foreign currencies	11	13,317	7,867
<b>Total operating income</b>		<b>134,171</b>	<b>78,140</b>
Credit loss expense	12	(5,326)	(2,872)
<b>NET OPERATING INCOME</b>		<b>128,845</b>	<b>75,268</b>
Personnel expenses	13	(15,981)	(16,273)
Depreciation and amortization	19	(3,033)	(3,327)
Other operating expenses	14	(9,410)	(8,911)
<b>TOTAL OPERATING EXPENSES</b>		<b>(28,424)</b>	<b>(28,511)</b>
<b>PROFIT BEFORE TAX</b>		<b>100,421</b>	<b>46,757</b>
Profit tax expense	25	(25,777)	(9,547)
<b>PROFIT FOR THE YEAR</b>		<b>74,644</b>	<b>37,210</b>

Prepared by:

Reviewed by:



Mr. Li Zhiwei  
Financial Management and  
Operation Service Unit Manager



Mr. Li Zhiyong  
General Manager



Vientiane, Lao PDR

23 April 2019

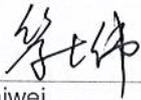
Bank of China Ltd., Vientiane Branch

STATEMENT OF COMPREHENSIVE INCOME  
for the year ended 31 December 2018

	2018 LAKm	2017 LAKm
PROFIT FOR THE YEAR	74,644	37,210
OTHER COMPREHENSIVE INCOME, NET OF TAX	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	<u>74,644</u>	<u>37,210</u>

Prepared by:

Reviewed by:



Mr. Li Zhiwei  
Financial Management and  
Operation Service Unit Manager



Mr. Li Zhiyong  
General Manager



Vientiane, Lao PDR

23 April 2019

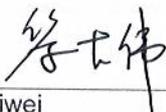
# Bank of China Ltd., Vientiane Branch

## STATEMENT OF FINANCIAL POSITION as at 31 December 2018

	Notes	31 December 2018 LAKm	31 December 2017 LAKm
<b>ASSETS</b>			
Cash and balances with Bank of the Lao PDR	15	965,118	428,487
Due from banks	16	982,928	869,290
Debt instruments at amortised cost	17	860,129	-
Held-to-maturity securities	17	-	835,197
Loans to customers	18	567,722	407,499
Property and equipment	19	5,577	7,465
Other assets	20	13,374	15,579
<b>TOTAL ASSETS</b>		<b>3,394,848</b>	<b>2,563,517</b>
<b>LIABILITIES</b>			
Due to banks	21	224,526	139,803
Due to customers	22	2,648,535	1,980,192
Current tax liabilities	25	8,683	3,065
Provisions	24	354	-
Other liabilities	23	5,657	7,988
<b>TOTAL LIABILITIES</b>		<b>2,887,755</b>	<b>2,131,048</b>
<b>EQUITY</b>			
Paid up capital	26	405,100	405,100
Statutory reserve		10,859	2,737
Retained earnings		91,134	24,632
<b>TOTAL EQUITY</b>		<b>507,093</b>	<b>432,469</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>3,394,848</b>	<b>2,563,517</b>

Prepared by:

Reviewed by:



Mr. Li Zhiwei  
Financial Management and  
Operation Service Unit Manager



Mr. Li Zhiyong  
General Manager



Vientiane, Lao PDR

23 April 2019

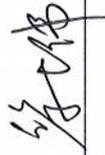


Bank of China Ltd., Vientiane Branch

STATEMENT OF CHANGES IN EQUITY  
for the year ended 31 December 2018

	Paid-up capital LAKm	Statutory reserve LAKm	Retained earnings/ (Accumulated losses) LAKm	Total LAKm
<b>Balance as at 31 December 2016</b>	<b>405,100</b>	-	<b>(9,841)</b>	<b>395,259</b>
Net profit during the year 2017	-	-	37,210	37,210
Appropriate to reserve for the year 2017	-	2,737	(2,737)	-
<b>Balance as at 31 December 2017</b>	<b>405,100</b>	<b>2,737</b>	<b>24,632</b>	<b>432,469</b>
Impact of adopting IFRS 9 (Note 8)	-	-	(20)	(20)
<b>Restated balance as at 31 December 2017 under IFRS 9</b>	<b>405,100</b>	<b>2,737</b>	<b>24,612</b>	<b>432,449</b>
Net profit during the year 2018	-	-	74,644	74,644
Appropriate to reserve for the year 2018	-	8,122	(8,122)	-
<b>Balance as at 31 December 2018</b>	<b>405,100</b>	<b>10,859</b>	<b>91,134</b>	<b>507,093</b>

Prepared by:



Mr. Li Zhiwei  
Financial Management and Operation Service Unit Manager

Vientiane, Lao PDR

23 April 2019

Reviewed by:



Mr. Li Zhiyong  
General Manager

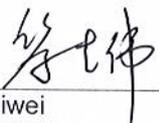
# Bank of China Ltd., Vientiane Branch

## STATEMENT OF CASHFLOWS for the year ended 31 December 2018

	Notes	2018 LAKm	2017 LAKm
<b>OPERATING ACTIVITIES</b>			
<b>Net profit before tax</b>		<b>100,421</b>	<b>46,757</b>
<i>Adjustments for:</i>			
Depreciation and amortization charges	19	3,033	3,327
Credit loss expenses	12	5,326	2,872
Interest income		(140,490)	(77,867)
Interest expense		24,973	10,750
(Increase)/decrease in operating assets			
Due from banks		(401,637)	(177,665)
Loans to customers		(164,351)	(287,901)
Other assets		(21,494)	2,046
Increase/(decrease) in operating liabilities			
Due to banks		84,419	(393,026)
Due to customers		660,717	1,552,868
Other liabilities		(2,180)	4,262
Interest received		134,940	75,144
Interest paid		(17,043)	(10,958)
Profit tax paid during the year	25	(20,288)	(6,482)
<b>Net cash flows from operating activities</b>		<b>246,346</b>	<b>744,127</b>
<b>INVESTING ACTIVITIES</b>			
Purchases of property and equipment		(1,145)	(984)
Investment in securities		-	(420,100)
<b>Net cash flows used in investing activities</b>		<b>(1,145)</b>	<b>(421,084)</b>
<b>FINANCING ACTIVITIES</b>			
<b>Net cash flows from financing activities</b>		<b>-</b>	<b>-</b>
<b>Net increase in cash and cash equivalents</b>		<b>245,201</b>	<b>323,043</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>1,089,552</b>	<b>766,509</b>
<b>Cash and cash equivalents at the end of the year</b>	27	<b>1,334,753</b>	<b>1,089,552</b>

Prepared by:

Reviewed by:

  
Mr. Li Zhiwei  
Financial Management and  
Operation Service Unit Manager

  
Mr. Li Zhiyong  
General Manager



Vientiane, Lao PDR

23 April 2019

# Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

## 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 PDR and operates under Banking License No. 06/BOL granted by Bank of the Lao PDR ("the BOL") on 19 February 2016.

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 2018 is LAK 405,100,000,000 (31 December 2017: LAK 405,100,000,000).

### *General Manager*

The Branch's General Manager during the year 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 2018 were 33 people (31 December 2017: 27).

## 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 ("LAK") which is the Branch's functional currency and presents its financial statements in millions of Lao Kip ("LAKm"). Except otherwise stated, financial information presented in LAK has been rounded to the nearest million.

The Branch's fiscal year starts 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.

## 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

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

### 5. CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES

#### 5.1 *New and amended standards and interpretations*

In these financial statements, the Branch has applied, for the first time, IFRS 15 *Revenue from Contracts with Customers*, IFRS 9 *Financial Instruments* and the consequential amendments to IFRS 7 *Financial Instruments: Disclosures*, effective for annual periods beginning on or after 1 January 2018. The nature and effect of the changes as a result of the adoption of these new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the Branch's financial statements. The Branch has not adopted early any other standard, interpretations or amendments that has been issued but is not yet effective.

##### 5.1.1 *IFRS 9 - Financial instruments*

IFRS 9 replaces IAS 39 for annual periods beginning on or after 1 January 2018.

The Branch has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable with the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed in Note 8.

##### 5.1.1.1 *Changes to classification and measurement*

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (FVTPL, AFS, held-to-maturity and amortised cost) have been replaced by:

- ▶ Debt instruments at amortised cost
- ▶ Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- ▶ Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- ▶ Financial assets at FVTPL

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVTPL. Such movements are presented in other comprehensive income ("OCI") with no subsequent reclassification to the income statement.

The Branch's classification of its financial assets and liabilities is explained in Notes 6.5 and 6.7. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in Note 8.

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

### 5. CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

#### 5.1 *New and amended standards and interpretations (continued)*

##### 5.1.1 *IFRS 9 - Financial instruments (continued)*

##### 5.1.1.2 *Changes to the impairment calculation*

The adoption of IFRS 9 has fundamentally changed the Branch's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. IFRS 9 requires the Branch to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired ("POCI"), the allowance is calculated based on the change in the ECLs over the life of the asset.

Details of the Branch's impairment method are disclosed in Note 6.10. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in Note 8.

##### 5.1.2 *IFRS 7R*

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 - *Financial Instruments: Disclosures* was updated and the Branch have adopted it, together with IFRS 9, for the year beginning on or after 1 January 2018. Changes include:

- ▶ transition disclosures as shown in Note 8;
- ▶ detailed qualitative information about the ECL calculations such as the assumptions and inputs used are set out in Note 31.

The Branch has not restated comparatives for financial instruments covered by IFRS 9 and IAS 39. The comparative information for 2017 is under IAS 39 and is not comparable with the information presented for 2018 under IFRS 9. Differences arising from the adoption of IFRS 9 were recognised directly in Retained earnings on 1 January 2018 and are disclosed in Note 8.

The Branch concluded on the following assessments based on the facts and circumstances that existed at the date of initial application as at 1 January 2018:

- ▶ The business models under which the Branch held and managed its financial assets
- ▶ Whether to continue or revoke previous designations of financial assets and financial liabilities that it measured at FVTPL
- ▶ For financial liabilities that it continued to designate as FVPL, whether presenting the impact of changes its own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss
- ▶ Whether to elect to classify certain equity instruments not held for trading as FVOCI

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

### 5. CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

#### 5.1 *New and amended standards and interpretations (continued)*

##### 5.1.3 *IFRS 15 Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers which replaces all existing revenue requirements and related interpretations and is effective for annual periods beginning on 1 January 2018. IFRS 15 redefined the principles for recognising revenue and is applicable to all contracts with customers other than contracts in the scope of other standards (e.g., interest and fee income integral to financial instruments which would be in the scope of IFRS 9 and lease income). Certain requirements in IFRS 15 are also relevant for the recognition and measurement of gains or losses on disposal of non-financial assets that are not in the ordinary course of business.

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled to in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

Many of the Branch's revenue streams (e.g., interest income, gains and losses on financial instruments) are outside the scope of IFRS 15 and, therefore, accounting for those streams did not change as a result of the adoption of IFRS 15. The Bank's revenue streams that are within the scope of IFRS 15 relate to fee and commission income disclosed in Note 6.3. The Branch has not restated the comparative figures as the impact of retrospective adoption is immaterial.

#### 5.2 *Presentation of net interest income*

With effect from 1 January 2018, paragraph 82(a) of IAS 1 requires interest revenue calculated using the effective interest rate (EIR) method to be presented separately on the face of the income statement. This implies that interest revenue calculated using the EIR method is to be differentiated and presented separately from interest revenue calculated using other methods.

The Branch has also elected to present its interest expense in a manner consistent and symmetrical with interest income.

The Branch's accounting policies in respect of interest income/expense and the effective interest method are set out in Notes 6.2.1 and 6.2.2.

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

### 6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 6.1 *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 2018 and 31 December 2017 as presented in Note 37). Unrealized exchange differences arising from the translation of monetary assets and liabilities on the balance date are recognized in the income statement.

#### 6.2 *Recognition of interest income*

##### 6.2.1 *Effective Interest Rate method*

Under both IFRS 9 and IAS 39, interest income is recorded using the EIR method for all financial assets measured at amortised cost. Interest expense is also calculated using the EIR method for all financial liabilities held at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on the acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. The Branch recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, the EIR calculation also takes into account the effect of potentially different interest rates that may be charged at various stages of the financial asset's expected life, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations of fixed rate financial assets' or liabilities' cash flows are revised for reasons other than credit risk, then changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset or liability on the balance sheet with a corresponding increase or decrease in *Interest revenue/expense calculated using the effective interest method*.

For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the effective interest rate, but when instruments were initially recognised at an amount equal to the principal, re-estimating the future interest payments does not significantly affect the carrying amount of the asset or the liability.

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

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

#### 6.2 Recognition of interest income (continued)

##### 6.2.2 Interest and similar income/expense

Net interest income of the Branch comprises interest income and interest expense calculated using the effective interest method. These are disclosed separately on the face of the income statement for both interest income and interest expense to provide symmetrical and comparable information.

In its *Interest income/expense calculated using the effective interest method*, the Branch only includes interest on those financial instruments that are set out in Note 6.2.1 above.

The Branch calculates interest income on financial assets, other than those considered credit-impaired, by applying the EIR to the gross carrying amount of the financial asset.

When a financial asset becomes credit-impaired (as set out in Note 6.10.1 and is therefore regarded as 'Stage 3', the Branch calculates interest income by applying the EIR to the net amortised cost of the financial asset. If the financial asset cures (as outlined in Note 6.10.1) and is no longer credit-impaired, the Branch reverts to calculating interest income on a gross basis.

#### 6.3 Fee and commission income

The Branch earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Branch expects to be entitled in exchange for providing the services.

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Branch's revenue contracts do not typically include multiple performance obligations, as explained further in Note 6.3.1 and Note 6.3.2 below.

When the Branch provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time (unless otherwise specified in Note 6.3.1 and Note 6.3.2 below).

The Branch has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

##### 6.3.1 Fee and commission income from services where performance obligations are satisfied over time

Performance obligations satisfied over time include services where the customer simultaneously receives and consumes the benefits provided by the Branch's performance as the Branch performs.



## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

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

#### 6.3 *Fee and commission income* (continued)

##### 6.3.2 *Fee and commission income from services where performance obligations are satisfied at a point in time*

Services provided where the Branch's performance obligations are satisfied at a point in time are recognised once control of the services is transferred to the customer. This is typically on completion of the underlying transaction or service or, for fees or components of fees that are linked to a certain performance, after fulfilling the corresponding performance criteria. These include fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement/participation or negotiation of the acquisition of shares or other securities, or the purchase or sale of businesses, brokerage and underwriting fees.

The Branch typically has a single performance obligation with respect to these services, which is to successfully complete the transaction specified in the contract.

##### 6.3.3 *Contract balances*

The following are recognised in the statement of financial position arising from revenue from contracts with customers:

- ▶ 'Fees and commissions receivables' included under 'Other assets', which represent the Branch's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). These are measured at amortised cost and subject to the impairment provisions of IFRS 9.
- ▶ 'Unearned fees and commissions' included under 'Other liabilities', which represent the Branch's obligation to transfer services to a customer for which the Branch has received consideration (or an amount of consideration is due) from the customer. A liability for unearned fees and commissions is recognised when the payment is made or the payment is due (whichever is earlier). Unearned fees and commissions are recognised as revenue when (or as) the Branch performs.

#### 6.4 *Net loss on derecognition of financial assets measured at amortised cost*

Net loss on derecognition of financial assets measured at amortised cost includes loss (or income) recognised on sale or derecognition of financial assets measured at amortised costs calculated as the difference between the book value (including impairment) and the proceeds received.

#### 6.5 *Financial instruments - initial recognition*

##### 6.5.1 *Date of recognition*

Financial assets and liabilities, with the exception of loans 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 to customers are recognised when funds are transferred to the customers' account. The Branch recognises balances due to customers when funds are transferred to the Branch.

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

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

#### 6.5 *Financial instruments - initial recognition* (continued)

##### 6.5.2 *Initial measurement of financial instruments*

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes 6.7.1.1 and Note 6.7.1.2. Financial instruments are initially measured at their fair value (as defined in Note 6.6), except in the case of financial assets and financial liabilities recorded at FVTPL, transaction costs are added to, or subtracted from, this amount. Financial receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Branch account for the Day 1 profit or loss, as described below.

##### 6.5.3 *Day 1 profit or loss*

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Branch recognises the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

##### 6.5.4 *Measurement categories of financial assets and liabilities*

From 1 January 2018, the Branch classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at:

- Amortised cost, as explained in Note 6.7.1

Before 1 January 2018, the Branch classified its financial assets as loans and receivables (amortised cost) or held-to-maturity (amortised cost) as explained in Note 6.7.1 and 6.7.7.

The Branch's financial liabilities include those measured at amortised cost.

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

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

#### 6.6 *Determination of fair value*

The Branch uses the valuation techniques commonly used by market participants to price financial instruments and techniques which have been demonstrated to provide reliable estimates of prices obtained in actual market transactions. In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarised below:

- ▶ Level 1 financial instruments – Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Branch accesses to at the measurement date. The Branch considers markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available at the reporting date.
- ▶ Level 2 financial instruments – Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Branch will classify the instruments as Level 3.
- ▶ Level 3 financial instruments – Those that include one or more unobservable input that is significant to the measurement as whole.

The Branch evaluates the levelling at each reporting period on an instrument-by-instrument basis and reclassify instruments when necessary based on the facts at the end of the reporting period.

# Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

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

### 6.7 *Financial assets and liabilities*

#### 6.7.1 *Due from banks, Loans to customers and other financial investments at amortised cost*

Before 1 January 2018, Due from banks and Loans to customers, included non-derivative financial assets with fixed or determinable payments that were not quoted in an active market, were other than those:

- ▶ that the Branch intended to sell immediately or in the near term
- ▶ that the Branch, upon initial recognition, designated as at FVTPL or as available-for-sale
- ▶ for which the Branch may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available-for-sale.

From 1 January 2018, the Branch only measures Due from banks, Loans to customers and other financial investments at amortised cost if both of the following conditions are met:

- ▶ The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- ▶ The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

##### 6.7.1.1 *Business model assessment*

The Branch determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Branch's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- ▶ How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- ▶ The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- ▶ How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- ▶ The expected frequency, value and timing of sales are also important aspects of the Branch's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Branch's original expectations, the Branch does not change the classification of the remaining financial assets held in that business model, but incorporate such information when assessing newly originated or newly purchased financial assets going forward.

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

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

#### 6.7 *Financial assets and liabilities* (continued)

##### 6.7.1 *Due from banks, Loans to customers and other financial investments at amortised cost* (continued)

###### 6.7.1.2 *The SPPI test*

As a second step of its classification process the Branch assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Branch applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

##### 6.7.4 *Debt issued and other borrowed funds*

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issued funds, and costs that are an integral part of the EIR.

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

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

#### 6.7 *Financial assets and liabilities* (continued)

##### 6.7.5 *Financial guarantees, letters of credit and undrawn loan commitments*

The Branch issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognised in the financial statements (within Provisions) at fair value, being the premium received. The premium received is recognised in the income statement in "*Net fee and commission income*" on a straight-line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Branch is required to provide a loan with pre-specified terms to the customer.

Under IFRS 9, both financial guarantees, letters of credit and undrawn loan commitments are in the scope of the ECL requirements. The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 24.

##### 6.7.6 *Held-to-maturity financial investments (Policy applicable before 1 Jan 2018)*

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.

##### 6.8 *Reclassification of financial assets and liabilities*

From 1 January 2018, the Branch does not reclassify its financial assets subsequent to their initial recognition apart from the exceptional circumstances in which the Branch acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified. The Branch did not reclassify any of its financial assets or liabilities in 2017.

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

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

#### 6.9. *Derecognition of financial assets and financial liabilities*

##### 6.9.1. *Derecognition due to substantial modification of terms and conditions*

The Branch derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI. When assessing whether or not to derecognise a loan to a customer, amongst others, the Branch considers the following factors:

- ▶ Change in currency of the loan
- ▶ Introduction of an equity feature
- ▶ Change in counterparty
- ▶ If the modification is such that the instrument would no longer meet the SPPI

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Branch records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

##### 6.9.2 *Derecognition other than for substantial modification*

###### 6.9.2.1 *Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the asset have expired. The Branch also derecognises the assets if they have both transferred the asset, and the transfer qualifies for derecognition.

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 all of the following three conditions are met:

- ▶ The Branch has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances by the entity with the right of full recovery of the amount lent plus accrued interest at market rates;
- ▶ The Branch cannot sell or pledge the original asset other than as security to the eventual recipients for the obligation to pay them cash flows; and
- ▶ The Branch has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Branch are not entitled to reinvest such cash flows, except for investments in cash or cash equivalents during the short settlement period from the collection date to the date of required remittance to the eventual recipients, and interest earned on such investments is passed to the eventual recipients.

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

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

#### 6.9.2 *Derecognition other than for substantial modification (continued)*

##### 6.9.2.1 *Financial assets (continued)*

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.

The Branch considers 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 neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset continues to be recognised only to the extent of the Branch's continuing involvement, in which case, the Branch also recognises 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.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Branch would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

##### 6.9.2.2 *Financial liabilities*

A financial liability is derecognised 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 derecognition 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 recognised in the statement of profit or loss.



## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

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

#### 6.10. Impairment of financial assets (Policy applicable from 1 January 2018)

##### 6.10.1. Overview of the ECL principles

As described in Note 5.1.1, the adoption of IFRS 9 has fundamentally changed the Branch's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Branch has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss as outlined in Note 6.10.2. The Branch's policies for determining if there has been a significant increase in credit risk are set out in Note 31.

The 12-month ECL is the portion of life time ECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both life time ECLs and 12-month ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Branch has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 31.

Based on the above process, the Branch groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- ▶ Stage 1 When loans are first recognised, the Branch recognises an allowance based on 12-month ECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- ▶ Stage 2 When a loan has shown a significant increase in credit risk since origination, the Branch records an allowance for the life time ECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- ▶ Stage 3 Loans considered credit-impaired (as outlined in Note 31). The Branch records an allowance for the life time ECLs.
- ▶ POCI Purchased or originated credit impaired ("POCI") assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Branch has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

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

#### 6.10. Impairment of financial assets (Policy applicable from 1 January 2018) (continued)

##### 6.10.2. The calculation of ECLs

The Branch calculates ECLs based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the Branch expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- ▶ **Probability of Default ("PD")** The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The concept of PDs is further explained in Note 31.
- ▶ **Exposure at Default ("EAD")** The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in Note 31.
- ▶ **Loss Given Default ("LGD")** The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 31.

When estimating the ECLs, the Branch considers three scenarios (base case, upper, and downside). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how individually significant loans are expected to be recovered, including the probability that the loans will make repayment timely and the value of collateral or the amount that might be received for selling the asset.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying amount.

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

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

#### 6.10. Impairment of financial assets (Policy applicable from 1 January 2018) (continued)

##### 6.10.2. The calculation of ECLs (continued)

The mechanics of the ECL method are summarised below:

- ▶ Stage 1 The 12-month ECL is calculated as the portion of life time ECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Branch calculates the 12-month ECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.
- ▶ Stage 2 When a loan has shown a significant increase in credit risk since origination, the Branch record an allowance for the life time ECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
- ▶ Stage 3 For loans considered credit-impaired, the Branch recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.
- ▶ POCI POCI assets are financial assets that are credit impaired on initial recognition. The Branch only recognises the cumulative changes in life time ECLs since initial recognition, based on a probability-weighting of the three scenarios, discounted by the credit adjusted EIR.
- ▶ Loan commitments and letters of credit When estimating life time ECLs for undrawn loan commitments, the Branch estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the three scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.  
  
For loan commitments and letters of credit, the ECL is recognised within *Provision for off-balance sheet commitments* under "*Other liabilities*".
- ▶ Financial guarantee contracts The Branch's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortization recognised in the income statement, and the ECL allowance. For this purpose, the Branch estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the three scenarios. The ECLs related to financial guarantee contracts are recognised within *Provision for off-balance sheet commitments* under "*Other liabilities*".

##### 6.10.3. Purchased or originated credit impaired financial assets (POCI)

For POCI financial assets, the Branch only recognises the cumulative changes in life time ECL since initial recognition in the loss allowance.

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

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

#### 6.10. Impairment of financial assets (Policy applicable from 1 January 2018) (continued)

##### 6.10.4. Forward-looking information

In its ECL models, the Branch relies on a broad range of forward looking information as economic inputs, such as:

- ▶ GDP growth
- ▶ Unemployment rates
- ▶ Inflation
- ▶ House price indices

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

#### 6.11 Credit enhancements: collateral valuation and financial guarantees

To mitigate its credit risks on financial assets, the Branch seeks to use collateral, where possible. 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 Branch's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same as it was under IAS 39. Collateral, unless repossessed, is not recorded on the Branch's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a quarterly basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

Details of the impact of the Branch's various credit enhancements are disclosed in Note 31.

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

If a loan, as part of its contractual terms, is guaranteed by a third party the Branch estimates the corresponding ECLs based on the combined credit risk of the guarantor and the guaranteed party, by reflecting the guarantee in the measurement of the loss given default (LGD). The Branch considers the financial guarantee integral to the contractual terms' of the guaranteed loan, when the guarantee was entered into at the same time, or within a short time, after the loan is advanced.

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

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

#### 6.12 *Collateral repossessed*

The Branch's accounting policy under IFRS 9 remains the same as it was under IAS 39. The Branch's policy is to determine whether a repossessed asset can be 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 for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Branch's policy.

#### 6.13 *Write-offs*

With the exception of partial write-offs, the Branch's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Branch has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

#### 6.14. *Impairment of financial assets (Policy applicable before 1 January 2018)*

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.

##### 6.14.1 *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.

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

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

#### 6.14. Impairment of financial assets (Policy applicable before 1 January 2018) (continued)

##### 6.14.1 Financial assets carried at amortized cost (continued)

###### *Specific impairment losses (continued)*

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 income.

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.

###### *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.

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

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

#### 6.15 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.

#### 6.16 Leasing

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset.

##### *Branch as a lessee*

Leases that do not transfer to the Branch substantially all of the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they it is incurred.

#### 6.17 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.

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

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

#### 6.18 *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.

#### 6.19 *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 but the amount shall not exceed LAK 270,000 per staff per month. 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 2018, 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 2018

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

### 6.20 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.

### 6.21 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 2018

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

#### 6.22 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 16 Leases*

IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases - Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less).

At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset, which will lead to a higher charge being recorded in the income statement compared to IAS 17. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

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.

##### *IFRIC Interpretation 23 Uncertainty over Income Tax Treatment*

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- ▶ whether an entity considers uncertain tax treatments separately,
- ▶ the assumptions an entity makes about the examination of tax treatments by taxation authorities,
- ▶ how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, and
- ▶ how an entity considers changes in facts and circumstances.

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. The Branch will apply the interpretation from its effective date 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 2018

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

### 6.22 Standards issued but not yet effective (continued)

#### *Amendments to IAS 12 Income Taxes*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. The Branch will apply the amendments from their effective date and is currently evaluating its impact.

## 7. 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 financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

### 7.1 *Impairment losses on financial assets (Policy applicable after 1 January 2018)*

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets in scope requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Branch's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- ▶ The Branch's internal credit grading model, which assigns PDs to the individual grades
- ▶ The Branch's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment
- ▶ The segmentation of financial assets when their ECL is assessed on a collective basis
- ▶ Development of ECL models, including the various formulas and the choice of inputs
- ▶ Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- ▶ Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

It has been the Branch's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

### 7. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

#### 7.2 *Impairment losses on financial assets (Policy applicable before 1 January 2018)*

The Branch reviews its individually significant financial assets 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

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.

#### 7.3 *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 on the Branch's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

#### 7.4 *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 6.6 and Note 36.

#### 7.5 *Effective Interest Rate (EIR) method*

The Branch's EIR methodology, as explained in Note 6.2.1, 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.

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

### 8. TRANSITION DISCLOSURES

	IAS 39 measurement		Re-measurement			IFRS 9	Unit: LAKm
	Category	Amount	Re-classification	Impact on RE	Other		
Cash and balance with BOL		428,487	-	(114)	-	428,373	Amortised cost
Due from banks		869,290	-	(179)	-	869,111	Amortised cost
Loans to customers		407,499	-	879	-	408,378	Amortised cost
Debt instruments at amortised cost		-	835,197	(224)	-	834,973	Amortised cost
<i>From: Financial investments - HTM</i>			835,197				
<b>Loans &amp; Receivables</b>		<b>1,705,276</b>	<b>835,197</b>	<b>362</b>	<b>-</b>	<b>2,540,835</b>	<b>Amortised cost</b>
Financial investments – HTM	HTM	835,197	(835,197)	-	-	-	N/A
<i>To: Debt instruments at amortised cost</i>	HTM	835,197	(835,197)	-	-	-	N/A
<b>Total assets</b>		<b>2,540,473</b>	<b>-</b>	<b>362</b>	<b>-</b>	<b>2,540,835</b>	
<b>Non-financial liabilities</b>							
Provisions for off-balance sheet commitment	N/A	-	-	382	-	382	N/A
<b>Total liabilities</b>		<b>-</b>	<b>-</b>	<b>382</b>	<b>-</b>	<b>382</b>	

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

### 8. TRANSITION DISCLOSURES (continued)

The impact of transition to IFRS 9 on reserves and retained earnings is, as follows:

	<i>Retained earnings</i>
	<i>LAKm</i>
Closing balance under IAS 39 as at 31 December 2017	24,632
Recognition of IFRS 9 ECLs (see below)	(20)
<b>Opening balance under IFRS 9 as at 1 January 2018</b>	<b>24,612</b>

The following table reconciles the aggregate opening credit loss provision allowance under IAS 39 to the ECL allowances under IFRS 9.

<i>Impairment allowance for</i>	<i>Credit loss provision under</i>	<i>ECL under IFRS 9 as</i>
	<i>IAS 39 as at</i>	<i>at 1 January 2018</i>
	<i>31 December 2017</i>	<i>LAKm</i>
	<i>LAKm</i>	<i>Re-measurement</i>
		<i>LAKm</i>
Cash and balance with BOL (IAS 39)/	-	114
Cash and balance with BOL (IFRS 9)	-	179
Due from banks (IAS 39)/ Due from banks (IFRS 9)		
Loans to customers (IAS 39)/	3,224	(879)
Debt instruments at amortised cost (IFRS 9)		2,345
HTM securities (IAS 39)/		
Debt instruments at amortised cost (IFRS 9)	-	224
Provisions for off-balance sheet commitment (IAS 39)/		
Provisions for off-balance sheet commitment (IFRS 9)	-	382
	<b>3,224</b>	<b>20</b>
		<b>3,244</b>

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

### 9. NET INTEREST AND SIMILAR INCOME

	2018 <i>LAKm</i>	2017 <i>LAKm</i>
<i>Interest income calculated using the effective interest method</i>		
Due from banks	37,098	16,266
Loans to customers	47,233	24,738
Bonds	56,159	36,863
	<u>140,490</u>	<u>77,867</u>
<i>Interest expenses calculated using the effective interest method</i>		
Due to banks	(2,869)	(4,016)
Due to customers	(22,104)	(6,734)
	<u>(24,973)</u>	<u>(10,750)</u>
<b>Net interest and similar income</b>	<u><b>115,517</b></u>	<u><b>67,117</b></u>

### 10. NET FEES AND COMMISSION INCOME

	2018 <i>LAKm</i>	2017 <i>LAKm</i>
<b>Fees and commission income</b>		
Fee and commission income from providing financial services at a point in time:		
- Settlement services	3,369	1,266
- Credit services	1,204	1,318
- Other activities	1,037	853
	<u>5,610</u>	<u>3,437</u>
<b>Fees and commission expense</b>		
- Financial enterprise fee	(236)	(214)
- Clearing fee payable to central bank	(6)	(13)
- Membership fee	(31)	(54)
	<u>(273)</u>	<u>(281)</u>
<b>Net fees and commission income</b>	<u><b>5,337</b></u>	<u><b>3,156</b></u>

### 11. NET GAIN FROM DEALING IN FOREIGN CURRENCIES

	2018 <i>LAKm</i>	2017 <i>LAKm</i>
Net gain from foreign exchange spot rate differences	10,169	6,580
Net gain from revaluation of monetary items	3,148	1,287
	<u>13,317</u>	<u>7,867</u>

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

### 12. CREDIT LOSS EXPENSE ON FINANCIAL ASSETS

The table below shows the ECL charges on financial instruments under IFRS 9 for the year ended 31 December 2018:

	Note	Stage 1 Individual LAKm	Total LAKm
Cash and balance with the BOL	15	122	122
Due from banks	16	(62)	(62)
Debt instruments measured at amortised cost	17	(10)	(10)
Loans to customers	18	5,304	5,304
Off-balance sheet items	24	(28)	(28)
		<b>5,326</b>	<b>5,326</b>

The table below shows the impairment charges recorded in the income statement under IAS 39 during 2017:

	Note	Collective impairment LAKm	Total LAKm
Cash and balance with BOL		-	-
Due from banks		-	-
Held-to-maturity securities		-	-
Loans to customers	18	2,872	2,872
Off-balance sheet items		-	-
		<b>2,872</b>	<b>2,872</b>

### 13. PERSONNEL EXPENSES

	2018 LAKm	2017 LAKm
Wages and allowances	14,699	15,630
Other staff costs	1,282	643
	<b>15,981</b>	<b>16,273</b>

### 14. OTHER OPERATING EXPENSES

	2018 LAKm	2017 LAKm
Rental	2,185	2,285
External services	338	560
Repair and maintenance	410	362
Publication, marketing and promotion	165	18
Telecommunication	1,120	801
Training, meeting and seminar	1,912	2,070
Electricity and water	909	784
Insurance fee for depositor protection fund	1,022	628
Others	1,349	1,403
	<b>9,410</b>	<b>8,911</b>



# Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

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

	<u>31 December 2018</u>	<u>31 December 2017</u>
	<u>LAKm</u>	<u>LAKm</u>
Cash on hand in LAK	8,384	2,448
Cash on hand in foreign currencies	17,602	18,694
Balances with the BOL	939,368	407,345
- Demand deposit	326,331	199,680
- Term deposit (i)	430,235	-
- Compulsory deposit (ii)	182,797	207,660
- Registered capital reserve (iii)	5	5
Allowance for expected credit losses	(236)	-
	<u><b>965,118</b></u>	<u><b>428,487</b></u>

- (i) The term deposit at the BOL has a term of 5 years and earns interest at the rate of 4.30% + Libor 6-month rate per annum.
- (ii) 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, (2017: 5.00% and 10.00%) 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.
- (iii) According to Decree No. 02/PR of the BOL, foreign bank branches are required to maintain a minimum balance of special deposit at the BOL (registered capital reserve) 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 2018, the balance of the special deposit of the Branch is LAKm 5.

Balances of demand deposit, compulsory deposit and registered capital reserve with the BOL earn no interest.

### 15.1 Impairment allowance for balances with the BOL under IFRS 9

The table below shows the credit quality and maximum exposure to credit risk based on the Branch's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Branch's internal grading system are explained in Note 31.

	<u>31 December 2018</u>			<u>1 January 2018</u>	
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>	<u>Total</u>
	<u>Individual</u>	<u>Individual</u>	<u>Individual</u>	<u>Individual</u>	<u>Individual</u>
	<u>LAKm</u>	<u>LAKm</u>	<u>LAKm</u>	<u>LAKm</u>	<u>LAKm</u>
Performing	939,368	-	-	939,368	407,345
<i>in which:</i>					
- Unrated/Overall	939,368	-	-	939,368	407,345
Non-performing	-	-	-	-	-
	<u><b>939,368</b></u>	<u><b>-</b></u>	<u><b>-</b></u>	<u><b>939,368</b></u>	<u><b>407,345</b></u>

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

### 15. CASH AND BALANCES WITH BANK OF THE LAO PDR (continued)

#### 15.1 *Impairment allowance for balances with the BOL under IFRS 9* (continued)

An analysis of changes in the gross carrying amount is as follows:

	<i>Stage 1 Individual LAKm</i>
<b>Gross carrying amount as at 1 January 2018</b>	<b>407,345</b>
New assets originated or purchased	556,886
Derecognised or repaid (excluding written offs)	(24,863)
Amounts written off	-
<b>As at 31 December 2018</b>	<b>939,368</b>

An analysis of changes in the corresponding ECL allowances is as follows:

	<i>Stage 1 Individual LAKm</i>
<b>ECL allowance as at 1 January 2018</b>	<b>114</b>
New assets originated or purchased	140
Derecognised or repaid (excluding written offs)	(7)
Changes to inputs used for ECL calculations	(11)
Amounts written off	-
<b>As at 31 December 2018</b>	<b>236</b>

#### 15.2 *Impairment allowance for balances with the BOL under IAS 39*

The total gross balances with the BOL as at 31 December 2017 of LAKm 407,345 was neither past due nor impaired and their impairment allowance for credit loss during the year 2017 under IAS 39 was at nil.

### 16. DUE FROM BANKS

	<i>31 December 2018 LAKm</i>	<i>31 December 2017 LAKm</i>
<b>Demand deposits with domestic banks:</b>	<b>10,474</b>	<b>2,141</b>
- Industrial and Commercial Bank of China Limited, Vientiane Branch	10,474	2,141
<b>Demand deposits with foreign banks:</b>	<b>525,562</b>	<b>305,909</b>
- Bank of China, Shanghai RMB Trading Unit	114,484	8,779
- Bank of China (Hongkong) Limited	20,418	1,972
- Bank of China (Thai) Public Co., Ltd.,	2,220	7,360
- Bank of China, Head Office	225,132	58,201
- Bank of China, New York Branch	163,245	229,533
- Bank of China, Shanghai Branch	63	64
<b>Term deposits with foreign banks:</b>	<b>447,009</b>	<b>561,240</b>
- Bank of China, Head Office	-	331,915
- Bank of China, Shanghai RMB Trading Unit	447,009	229,325
<b>Allowance for expected credit losses</b>	<b>(117)</b>	<b>-</b>
	<b>982,928</b>	<b>869,290</b>

Term deposits at Bank of China, Shanghai RMB Trading Unit have terms of less than 3 months and earn interest at rates ranging from 2.45% - 3.45% per annum.

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

### 16. DUE FROM BANKS (continued)

#### 16.1 Impairment allowance for due from banks under IFRS 9

The table below shows the credit quality and maximum exposure to credit risk based on the Branch's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Branch's internal grading system are explained in Note 31.

	31 December 2018			1 January 2018	
	Stage 1 Individual LAKm	Stage 2 Individual LAKm	Stage 3 LAKm	Total LAKm	Total LAKm
Performing	983,045	-	-	983,045	869,290
<i>in which:</i>					
- Unrated/Overall	983,045	-	-	983,045	869,290
Non-performing	-	-	-	-	-
	<b>983,045</b>	<b>-</b>	<b>-</b>	<b>983,045</b>	<b>869,290</b>

An analysis of changes in the gross carrying amount during the year 2018 is as follows:

	Stage 1 Individual LAKm
<b>Gross carrying amount as at 1 January 2018</b>	<b>869,290</b>
New assets originated or purchased	517,099
Derecognised or repaid (excluding written offs)	(403,344)
Amounts written off	-
<b>As at 31 December 2018</b>	<b>983,045</b>

An analysis of changes in the corresponding ECL allowances during the year 2018 is as follows:

	Stage 1 Individual LAKm
<b>ECL allowance as at 1 January 2018</b>	<b>179</b>
New assets originated or purchased	130
Derecognised or repaid (excluding written offs)	(83)
Changes to inputs used for ECL calculations	(109)
Amounts written off	-
<b>As at 31 December 2018</b>	<b>117</b>

#### 16.2 Impairment allowance for due from banks under IAS 39

The total gross balances of due from banks as at 31 December 2017 of LAKm 869,290 was neither past due nor impaired and their impairment allowance for credit loss during the year 2017 under IAS 39 was at nil.

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

### 17. FINANCIAL INVESTMENTS OTHER THAN THOSE MEASURED AT FVTPL

#### 17.1 Held-to-maturity securities

	31 December 2018 LAKm	31 December 2017 LAKm
Bonds issued by the BOL	-	835,197
Allowance for impairment	-	-
	<u>-</u>	<u>835,197</u>

The total gross balances of held-to-maturity securities as at 31 December 2017 of LAKm 835,197 was neither past due nor impaired and their impairment allowance for credit loss during the year 2017 under IAS 39 was at nil.

#### 17.2 Debt instruments at amortised cost

	31 December 2018 LAKm	31 December 2017 LAKm
Bonds issued by the BOL	860,343	-
Allowance for expected credit losses	(214)	-
	<u>860,129</u>	<u>-</u>

Bonds issued by the BOL as at 31 December 2018 include:

Term	Purchase date	Maturity date	Face value USD	Interest rate % per annum
5 year	21-Oct-15	25-Oct-20	50,000,000	4,30% + Libor 6 months
5 year	16-Jun-17	16-Jun-22	50,000,000	4,30% + Libor 6 months
			<u>100,000,000</u>	

#### Impairment allowance for debt instruments amortised cost under IFRS 9

The table below shows the credit quality and maximum exposure to credit risk based on the Branch's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Branch's internal grading system are explained in Note 31.

	31 December 2018				1 January 2018
	Stage 1 Individual LAKm	Stage 2 Individual LAKm	Stage 3 LAKm	Total LAKm	Total LAKm
Performing	860,343	-	-	860,343	835,197
in which:					
- Unrated/Overall	983,045	-	-	983,045	869,290
Non-performing	-	-	-	-	-
	<u>860,343</u>	<u>-</u>	<u>-</u>	<u>860,343</u>	<u>835,197</u>

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

### 17. FINANCIAL INVESTMENTS OTHER THAN THOSE MEASURED AT FVTPL (continued)

#### 17.2 Debt instruments at amortised cost (continued)

An analysis of changes in the gross carrying amount is as follows:

	<i>Stage 1 Individual LAKm</i>
<b>Gross carrying amount as at 1 January 2018</b>	<b>835,197</b>
New assets originated or purchased	1,277
Foreign exchange adjustment	23,869
<b>As at 31 December 2018</b>	<b>860,343</b>

An analysis of changes in the corresponding ECL allowances is as follows:

	<i>Stage 1 Individual LAKm</i>
<b>ECL allowance as at 1 January 2018</b>	<b>224</b>
New assets originated or purchased	1
Foreign exchange adjustment	6
Changes to inputs used for ECL calculations	(17)
<b>As at 31 December 2018</b>	<b>214</b>

### 18. LOANS TO CUSTOMERS

	<i>31 December 2018 LAKm</i>	<i>31 December 2017 LAKm</i>
Gross loans to customers	576,273	411,602
Less: Allowance for impairment losses (Note 18.1)	(8,551)	(4,103)
	<b>567,722</b>	<b>407,499</b>

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

	<i>2018 % per annum</i>	<i>2017 % per annum</i>
Loans denominated in LAK	8.00 - 11.00%	8.00 - 11.00%
Loans denominated in USD	6.95 - 9.03%	7.75%
Loans denominated in CNY	5.50 - 6.50%	N/A

#### **Analysis of loans to customers**

##### *Analysis by currency*

	<i>31 December 2018 LAKm</i>	<i>31 December 2017 LAKm</i>
Loans denominated in LAK	356,501	357,527
Loans denominated in USD	82,118	54,075
Loans denominated in CNY	137,654	-
	<b>576,273</b>	<b>411,602</b>

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

### 18. LOANS TO CUSTOMERS (continued)

*Analysis by original term*

	<i>31 December 2018</i> LAKm	<i>31 December 2017</i> LAKm
Short-term loans	142,630	12,988
Medium-term loans	132,799	97,666
Long-term loans	300,844	300,948
	<b>576,273</b>	<b>411,602</b>

*Analysis by economic sectors*

	<i>31 December 2018</i> LAKm	<i>31 December 2017</i> LAKm
Industrial services companies	366,617	349,702
Construction companies	146,280	-
Agriculture companies	51,324	49,915
Trading companies	12,052	11,985
	<b>576,273</b>	<b>411,602</b>

#### 18.1 Impairment allowance for loans to customers under IFRS 9

The table below shows the credit quality and maximum exposure to credit risk based on the Branch's internal credit rating system and stage classification. The amounts presented are gross of impairment allowances. Details of the Branch's internal grading system are explained in Note 31.

	<i>31 December 2018</i>			<i>1 January 2018</i>	
	<i>Stage 1 Individual LAKm</i>	<i>Stage 2 Individual LAKm</i>	<i>Stage 3 LAKm</i>	<i>Total LAKm</i>	<i>Total LAKm</i>
Performing	576,273	-	-	576,273	411,602
<i>in which:</i>					
- Risk class 3	420,294	-	-	420,294	300,000
- Risk class 4	51,198	-	-	51,198	98,502
- Risk class 5	97,658	-	-	97,658	-
- Risk class 6	7,123	-	-	7,123	13,100
Non-performing	-	-	-	-	-
	<b>576,273</b>	<b>-</b>	<b>-</b>	<b>576,273</b>	<b>411,602</b>

An analysis of changes in the gross carrying amount is as follows:

	<i>Stage 1 Individual LAKm</i>
<b>Gross carrying amount as at 1 January 2018</b>	<b>411,602</b>
New assets originated or purchased	230,656
Derecognised or repaid (excluding written offs)	(65,985)
<b>As at 31 December 2018</b>	<b>576,273</b>

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

### 18. LOANS TO CUSTOMERS (continued)

#### 18.1 Impairment allowance for loans to customers under IFRS 9 (continued)

An analysis of changes in the corresponding ECL allowances is as follows:

	<i>Stage 1 Individual LAKm</i>
<b>ECL allowance as at 1 January 2018</b>	<b>3,224</b>
New assets originated or purchased	3,423
Derecognised or repaid (excluding written offs)	(517)
Changes to inputs used for ECL calculations	2,421
Amounts written off	-
<b>As at 31 December 2018</b>	<b>8,551</b>

#### 18.2 Impairment allowance for loans to customers under IAS 39

An analysis of the allowance for impairment losses under IAS 39 for loans to customers for the year to 31 December 2017 is, as follows:

	<i>Neither past due nor impaired LAKm</i>	<i>Collective impairment LAKm</i>	<i>Individual impairment LAKm</i>	<i>Total LAKm</i>
Impairment allowance balances				
Opening balance	-	1,224	-	1,224
Credit loss expense charged	-	2,872	-	2,872
Foreign currency differences	-	7	-	7
<b>Closing balance</b>	<b>-</b>	<b>4,103</b>	<b>-</b>	<b>4,103</b>

### 19. PROPERTY AND EQUIPMENT

	<i>Building improvement 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>					
As at 1 January 2018	7,448	2,742	4,759	1,607	16,556
Additions	-	12	1,133	-	1,145
As at 31 December 2018	7,448	2,754	5,892	1,607	17,701
<b>Accumulated depreciation:</b>					
As at 1 January 2018	4,098	1,464	2,989	540	9,091
Charge for the year	1,488	535	750	260	3,033
As at 31 December 2018	5,586	1,999	3,739	800	12,124
<b>Net book value:</b>					
As at 1 January 2018	3,350	1,278	1,770	1,067	7,465
As at 31 December 2018	1,862	755	2,153	807	5,577

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

### 20. OTHER ASSETS

	<i>31 December 2018</i> <i>LAKm</i>	<i>31 December 2017</i> <i>LAKm</i>
Prepaid expenses	13,263	15,579
Others	111	-
	<b>13,374</b>	<b>15,579</b>

### 21. DUE TO BANKS

	<i>31 December 2018</i> <i>LAKm</i>	<i>31 December 2017</i> <i>LAKm</i>
<b>Demand deposits from domestic banks</b>		
ANZ Bank (Laos) Limited	166,617	52,913
Banque Pour Le Commerce Exterieur Lao Public	2,064	6,527
Lao China Bank Limited	19,603	13,387
<b>Term deposit from domestic banks</b>		
ANZ Bank (Laos) Limited	-	66,417
Canadia Bank Lao Limited	30,377	-
Other payables to other financial institutions	5,865	559
	<b>224,526</b>	<b>139,803</b>

The term deposit from Canadia Bank Lao Limited has a term of 6 months and bears interest at the rate of 3.95% per annum.

### 22. DUE TO CUSTOMERS

	<i>31 December 2018</i> <i>LAKm</i>	<i>31 December 2017</i> <i>LAKm</i>
<b>Demand deposits</b>	<b>1,753,074</b>	<b>1,718,143</b>
- in LAK	101,163	143,731
- in foreign currencies	1,651,911	1,574,412
<b>Saving deposits</b>	<b>193,314</b>	<b>113,692</b>
- in LAK	17,115	11,924
- in foreign currencies	176,199	101,768
<b>Term deposits</b>	<b>702,147</b>	<b>148,357</b>
- in LAK	4,585	2,701
- in foreign currencies	697,562	145,656
	<b>2,648,535</b>	<b>1,980,192</b>



## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

### 22. DUE TO CUSTOMERS (continued)

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

	<u>2018</u> <i>Interest rate</i>	<u>2017</u> <i>Interest rate</i>
Demand deposits	No interest	No interest
Saving deposits in LAK	1.00%	1.00%
Saving deposits in USD	1.25%	1.25%
Saving deposits in THB	0.50%	0.50%
Term deposits in LAK	3.00% - 9.00%	3.00% - 6.50%
Term deposits in USD	2.00% - 6.75%	2.00% - 6.25%
Term deposits in THB	0.75% - 4.50%	0.75% - 4.50%

### 23. OTHER LIABILITIES

	<u>31 December 2018</u> <i>LAKm</i>	<u>31 December 2017</u> <i>LAKm</i>
Payable to Bank of China Head Office	950	812
Payable to employee	4,457	6,686
Others	250	490
	<u>5,657</u>	<u>7,988</u>

### 24. PROVISIONS

The movement in provisions during 2018 and 2017 is as follows:

	<u>Provisions for financial commitments</u>	
	<u>2018</u> <i>LAKm</i>	<u>2017</u> <i>LAKm</i>
Opening balance	382	-
Net change during the year	(26)	-
Amounts written off	-	-
<b>Closing balance</b>	<u>354</u>	<u>-</u>

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees and letters of credit. Even though these obligations may not be recognised on the statement of financial position, they contain credit risk and, therefore, form part of the overall risk of the Bank.

Letters of credit and guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans. The nominal values of such commitments are listed below:

	<u>31 December 2018</u> <i>LAKm</i>	<u>31 December 2017</u> <i>LAKm</i>
Letter of Credit	-	3,500
Financial guarantees	2,525,781	2,665,385
	<u>2,525,781</u>	<u>2,668,885</u>

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

### 24. PROVISIONS (continued)

#### 24.1 Impairment allowance for financial commitments under IFRS 9

The table below shows the credit quality and maximum exposure to credit risk based on the Branch's internal credit rating system and stage classification. The amounts presented are gross of impairment allowances. Details of the Branch's internal grading system are explained in Note 31.

	31 December 2018			1 January 2018	
	Stage 1 Individual LAKm	Stage 2 Individual LAKm	Stage 3 LAKm	Total LAKm	Total LAKm
Performing	2,525,781	-	-	2,525,781	2,668,885
<i>in which:</i>					
- Unrated/Overall	2,525,781	-	-	2,525,781	2,668,885
Non-performing	-	-	-	-	-
	<b>2,525,781</b>	<b>-</b>	<b>-</b>	<b>2,525,781</b>	<b>2,668,885</b>

An analysis of changes in the gross carrying amount is as follows:

	Stage 1 Individual LAKm
<b>Gross carrying amount as at 1 January 2018</b>	<b>2,668,885</b>
New assets originated or purchased	313,920
Derecognised or repaid (excluding written offs)	(457,024)
Amounts written off	-
<b>As at 31 December 2018</b>	<b>2,525,781</b>

An analysis of changes in the corresponding ECL allowances is as follows:

	Stage 1 Individual LAKm
<b>ECL allowance as at 1 January 2018</b>	<b>382</b>
New assets originated or purchased	39
Derecognised or repaid (excluding written offs)	(64)
Changes to inputs used for ECL calculations	(3)
Amounts written off	-
<b>As at 31 December 2018</b>	<b>354</b>

#### 24.2 Impairment allowance for financial commitments under IAS 39

The total gross balances of financial commitments as at 31 December 2017 of LAKm 2,668,885 was neither past due nor impaired and their impairment allowance for credit loss during the year 2017 was at nil under IAS 39.

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

### 25. 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 PDR. The Branch is obliged to pay tax on total profit before tax in accordance with the Tax Law No.70/NA dated 15 December 2016 which is effective on or after 24 May 2017.

	2018 LAKm	2017 LAKm
Profit before tax under IFRS	100,421	46,757
Differences between IFRS and LAS		
<i>in which:</i>		
<i>Allowance expense for expected credit losses for due from banks</i>	60	-
<i>Allowance expense for expected credit losses for loans to customers</i>	6,557	-
<i>Allowance expense for expected credit losses for other assets at amortised cost</i>	(10)	-
<i>Allowance expense for expected credit losses for off-balance sheet commitments</i>	(28)	-
<i>Depreciation expense for start-up cost</i>	-	(248)
<b>Profit before tax under LAS</b>	<b>107,000</b>	<b>46,509</b>
Non-deductible expenses	269	1,726
Tax reconciling item arising from difference between accounting practice and Tax Law	135	224
Tax loss carried forward	-	(8,679)
<b>Taxable income under LAS</b>	<b>107,405</b>	<b>39,780</b>
<b>Current PT expense, at the rate of 24%</b>	<b>25,777</b>	<b>9,547</b>
PT payable at the beginning of the year	3,065	-
PT paid during the year	(20,288)	6,482
<b>PT payable at the end of the year</b>	<b>8,554</b>	<b>3,065</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.

#### **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.

Details are as follows:

Year	Additional losses incurred for the year	Utilized up to the end of the year	Amount unused but is not eligible for next year's use	Unit: LAKm
				Eligible unused tax loss at the end of the year
2015	13,360	-	-	13,360
2016	-	(4,681)	-	(8,679)
2017	-	(8,679)	-	-

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

### 26. PAID-UP CAPITAL

There has been no change to paid-up capital during the year 2018.

### 27. ADDITIONAL CASH FLOW INFORMATION

Cash and cash equivalents included in the statement of cash flows comprise the followings:

	<i>31 December 2018</i>	<i>31 December 2017</i>
	<i>LAKm</i>	<i>LAKm</i>
Cash on hand	25,986	21,142
Current accounts with the BOL	326,331	199,680
Current accounts with other banks	536,036	308,050
Term deposit with other banks with maturity of 90 days or less	446,400	560,680
	<u>1,334,753</u>	<u>1,089,552</u>

### 28. 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 (c);
- (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.

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

### 28. RELATED PARTY TRANSACTIONS (continued)

Balances with related parties as at 31 December 2018 are as follows:

<i>Related party</i>	<i>Relationship</i>	<i>Transactions</i>	<i>31 December 2018 Receivable/ (Payable) LAKm</i>	<i>31 December 2017 Receivable/ (Payable) LAKm</i>
Bank of China, Head Office	Parent bank	Demand deposit	225,132	58,201
		Other payable	(950)	(812)
		Term deposit	-	331,915
Bank of China Limited, Shanghai RMB Trading Unit	Affiliate	Demand deposit	114,484	8,779
		Term deposit	447,009	229,325
Bank of China (Hongkong) Limited	Affiliate	Demand deposit	20,418	1,972
Bank of China (Thai) Public Company Limited	Affiliate	Demand deposit	2,220	7,360
Bank of China, New York Branch	Affiliate	Demand deposit	163,245	229,533
Bank of China Shanghai Branch	Affiliate	Demand deposit	63	64

Significant transactions with related parties during the years were as follows:

	<i>2018 LAKm</i>	<i>2017 LAKm</i>
Net increase/(decrease) in deposit at other Bank of China branches:		
- demand deposit at Bank of China, Head Office	166,931	40,771
- term deposit at Bank of China, Head Office	(331,720)	(245,520)
- demand deposit at Bank of China Limited, Shanghai RMB Trading Unit	105,705	(44,957)
- term deposit at Bank of China Limited, Shanghai RMB Trading Unit	217,440	228,960
- demand deposit at Bank of China (Hongkong) Limited	18,446	1,734
- demand deposit at Bank of China (Thai) Public Company Limited	(5,140)	(7,329)
- demand deposit at Bank of China, New York Branch	(66,288)	151,012
Decrease in borrowing from Bank of China, Head Office	-	409,200
Interest income from deposits at other Bank of China branches	18,662	16,266
Interest expense for borrowing from Bank of China, Head Office	-	(3,086)

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

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

	<i>2018 LAKm</i>	<i>2017 LAKm</i>
Salaries and bonus	2,805	2,802
	<b>2,805</b>	<b>2,802</b>

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

### 29. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled. Trading assets and liabilities have been classified to mature and/or be repaid within 12 months, regardless of the actual contractual maturities of the products. With regard to loans and advances to customers, the Bank uses the same basis of expected repayment behaviour that was used for estimating the EIR. Issued debt reflect the contractual coupon amortisations.

<b>As at 31 December 2018</b>	<i>Within 12 months LAKm</i>	<i>After 12 months LAKm</i>	<i>Total LAKm</i>
<b>ASSETS</b>			
Cash and balances with the BOL	965,118	-	965,118
Due from banks	982,928	-	982,928
Debt instruments at amortised cost	7,129	853,000	860,129
Loans to customers	-	567,722	567,722
Property and equipment	-	5,577	5,577
Other assets	-	13,374	13,374
<b>TOTAL ASSETS</b>	<b>1,955,175</b>	<b>1,439,673</b>	<b>3,394,848</b>
<b>LIABILITIES</b>			
Due to banks	224,526	-	224,526
Due to customers	2,549,002	99,533	2,648,535
Current tax liabilities	8,683	-	8,683
Provisions	354	-	354
Other liabilities	5,657	-	5,657
<b>TOTAL LIABILITIES</b>	<b>2,788,222</b>	<b>99,533</b>	<b>2,887,755</b>
<b>NET</b>	<b>(833,047)</b>	<b>1,340,140</b>	<b>507,093</b>

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

### 30. 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 Branch's risk management governance structure is designed to cover all business process and ensure various risks are properly managed and controlled in the course of conducting the business. It has a robust risk management organisational structure with a comprehensive set of policies and procedures to identify, measure, monitor and control various risks that may arise. These risk management policies and procedures are regularly reviewed and updated to reflect changes in markets and business strategies. Various groups of risk takers assume their respective responsibilities for risk management.

The Board of Directors of Bank of China Ltd., representing the interests of shareholders, is the highest decision-making authority and has the ultimate responsibility for risk management. The Board, with the assistance of its committees, has the primary responsibility for the formulation of risk management strategies and ensuring that the Branch has an effective risk management system to implement these strategies.

The Risk Management Committee, a standing committee established by the Board of Directors of Bank of China Ltd., is responsible for overseeing the Branch's various types of risks, approving risk management policies and monitoring their implementation, and approving significant or high risk exposures or transactions. The Audit Committee assists the Board in fulfilling its role in overseeing the internal control system.

Various units of the Branch have their respective risk management responsibilities. Business units act as the first line of defense while risk management units, which are independent from the business units, are responsible for the day-to-day management of different kinds of risks. Risk management units have the primary responsibility for drafting, reviewing and updating various risk management policies and procedures.

The Branch has put in place appropriate internal control systems, including the establishment of an organisation structure that sets clear lines of authority and responsibility for monitoring compliance with policies, procedures and limits. Proper reporting lines also provide sufficient independence of the control functions from the business areas, as well as adequate segregation of duties throughout the organisation which helps to promote an appropriate internal control environment.

# Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

## 31. CREDIT RISK

Credit risk is the risk that the Branch incurs a loss because its customers or counterparties fail to discharge their contractual obligations. The Branch manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Branch has established credit quality review processes to provide early identification of possible changes in the creditworthiness of counterparties. Counterparty limits are established through the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to monthly revision. The credit quality review process aims to allow the Branch to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

### 31.1 *Credit quality and credit risk*

Currently, the Branch has already set up internal credit ratings to score customers based on risk level. The Branch has not established internal credit rating for central banks, commercial banks and other financial institutions based on their risk level, instead the Branch applies the Group's weighted average rate for overall financial institutions.

### 31.2 *Credit-related commitments risks*

The Branch makes available to its customers guarantees that may require that the Branch make payments on their behalf and enter into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees commit the Branch to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Branch to similar risks to loans and are mitigated by the same control processes and policies.

### 31.3 *Impairment assessment (Policy applicable from 1 January 2018)*

For the purpose of presenting the financial statements under IFRS, the Branch uses an expected loss model for the recognition of losses on impaired financial assets. This means that the Branch always accounts for ECLs and updates the loss allowance for change in these ECLs at each reporting date to reflect changes in credit risk since initial recognition. Consequently, the Branch needs to take into account the following information:

- ▶ The probability-weighted outcome;
- ▶ The time value of money; and
- ▶ Reasonable and supportable information that is available without undue cost or effort.



## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

### 31. CREDIT RISK (continued)

#### 31.3.1 Definition of default and cure

The Branch considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

As a part of a qualitative assessment of whether a customer is in default, the Branch considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Branch carefully consider whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- ▶ Internal rating of the borrower indicating default or near-default;
- ▶ The borrower requesting emergency funding from the Branch;
- ▶ The borrower having past due liabilities to public creditors or employees;
- ▶ The borrower is deceased;
- ▶ A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral;
- ▶ A material decrease in the borrower's turnover or the loss of a major customer
- ▶ A covenant breach not waived by the Branch
- ▶ The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection
- ▶ Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties

It is the Branch's policy to consider a financial instrument as "cured" and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least one month for short term debts or three consecutive months for middle and long term debts since the day begins full repayment of the overdue principals and interests. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

### 31. CREDIT RISK (continued)

#### 31.3 *Impairment assessment (Policy applicable from 1 January 2018) (continued)*

##### 31.3.2 *The Branch's internal rating and probability of default estimation process*

The Branch operates its internal rating models which incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behavior. These information sources are first used to determine the PDs within the Branch's Basel II framework. The internal credit grades are assigned based on these Basel II grades. PDs are then adjusted for IFRS 9 ECL calculations to incorporate forward looking information and the IFRS 9 Stage classification of the exposure. This is repeated for each economic scenarios as appropriate.

##### ***Treasury, trading and interbank relationships***

The Branch's treasury, trading and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Branch's credit risk department analyses publicly available information such as financial information and other external data, e.g., the rating of Moody's, S&P, Fitch, and assigns the internal rating, as shown in the table below.

##### ***Corporate lending***

For corporate loans, the borrowers are assessed by specialised credit risk employees of the Branch. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

- ▶ Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- ▶ Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports or press releases and articles.
- ▶ Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- ▶ Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

The complexity and granularity of the rating techniques varies based on the exposure of the Branch and the complexity and size of the customer.

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

### 31. CREDIT RISK (continued)

#### 31.3 Impairment assessment (Policy applicable from 1 January 2018) (continued)

##### 31.3.2 The Branch's internal rating and probability of default estimation process

#### The Branch's internal credit rating grades

	Internal rating grade	Internal rating grade	12-months PD rate			
			31 December 2018	Corporate lending	Financial institutions	1 December 2018
Risk class 1		An obligor has extremely strong capacity to meet its financial commitment	0.003%	0.563%	0.010%	0.339%
Risk class 2		An obligor has very strong capacity to meet its financial commitments. It differs from the highest-rated obligors only to a small degree	0.009%	0.563%	0.010%	0.339%
Risk class 3		An obligor has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories	0.021%	0.563%	0.017%	0.339%
Risk class 4		An obligor has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.	0.115%	1.473%	0.066%	1.043%
Risk class 5		An obligor is less vulnerable in the near term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitments.	0.115%	5.367%	0.212%	3.423%
Risk class 6		An obligor is more vulnerable than the obligors rated in risk class 5, but the obligor currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitments.	2.157%	16.473%	0.473%	11.941%
Risk class 7		An obligor is currently vulnerable, and is dependent upon favourable business, financial, and economic conditions to meet its financial commitments.	2.518%	17.484%	2.556%	11.941%
Unrated/Overall		Weighted average all overall all risk classes	0.025%	3.031%	0.028%	2.250%

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

### 31. CREDIT RISK (continued)

#### 31.3 *Impairment assessment (Policy applicable from 1 January 2018) (continued)*

##### 31.3.3 *Exposure at default*

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 loan, the Branch assesses the possible default events within 12 months for the calculation of the 12mECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments. The Branch determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Branch's models.

##### 31.3.4 *Loss given default*

For corporate and investment banking financial instruments, LGD values are assessed periodically by account managers and reviewed and approved by the Branch's specialised credit risk department. The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

Further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the group. The Branch estimates regulatory and IFRS 9 LGDs on a different basis. Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI IFRS 9 segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

##### 31.3.5 *Significant increase in credit risk*

The Branch continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Branch assesses whether there has been a significant increase in credit risk since initial recognition. The Branch considers an exposure to have significantly increased in credit risk when the IFRS 9 lifetime PD has doubled since initial recognition and has increased by more than 20 bps a year.

The Branch also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Branch may also consider that events explained in Note 31.3.1 are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

### 32. INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Management has established limits on the non-trading interest rate gaps for stipulated periods. The Branch's policy is to monitor positions on a daily basis. The sensitivity of the income statement is the effect of the assumed changes in interest rates on the profit or loss for a year, based on the floating rates of non-trading financial assets and financial liabilities held at 31 December 2018. The total sensitivity is based on the assumption that there are parallel shifts in the yield curve. The table below analyses the interest rate risk for financial assets and financial liabilities of the Branch presented at the gross carrying amount and classified by the repricing date or maturity, whichever is earlier.

	Non re- pricing	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years	Total
<i>Unit: LAKm</i>								
<b>Financial assets</b>								
Cash and balances with the BOL	538,618	-	-	426,500	-	-	-	965,118
Due from banks	536,528	-	446,400	-	-	-	-	982,928
Debt instruments at amortised cost	-	-	-	860,129	-	-	-	860,129
Loans and advances to customers (*)	1,617	-	3,500	215,500	-	55,656	300,000	576,273
Other financial assets	13,374	-	-	-	-	-	-	13,374
<b>Total financial assets</b>	<b>1,090,137</b>	<b>-</b>	<b>449,900</b>	<b>1,502,129</b>	<b>-</b>	<b>55,656</b>	<b>300,000</b>	<b>3,397,822</b>
<b>Financial liabilities</b>								
Due to banks	194,149	-	-	30,377	-	-	-	224,526
Due to customers	1,956,096	183,814	207,372	121,572	80,148	99,533	-	2,648,535
Provisions	354	-	-	-	-	-	-	354
Other financial liabilities	5,657	-	-	-	-	-	-	5,657
<b>Total financial liabilities</b>	<b>2,156,256</b>	<b>183,814</b>	<b>207,372</b>	<b>151,949</b>	<b>80,148</b>	<b>99,533</b>	<b>-</b>	<b>2,879,072</b>
<b>Net interest rate exposure</b>	<b>(1,066,119)</b>	<b>(183,814)</b>	<b>242,528</b>	<b>1,350,180</b>	<b>(80,148)</b>	<b>(43,877)</b>	<b>300,000</b>	<b>518,750</b>

(\*) Excluding allowance for impairment losses of loans to customers

Assuming that all other variables unchanged, the fluctuation in interest rates as at 31 December 2018 that affect the pre-tax profit over the next 12 months period of the Branch as at reporting date is as following:

<i>Increase/(decrease) in basis points</i>	<i>Sensitivity of profit before tax</i>
+ 100 bps	8,498
- 100 bps	(8,498)

## Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

### 33. LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk is defined as the risk that the Bank might be unable to meet their payment obligations when they fall due under both normal and stress circumstances. To limit this risk, the Bank has arranged for diversified funding sources in addition to their core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. The Bank has developed internal control processes and contingency plans for managing liquidity risk. In addition, the Bank maintain a compulsory reserve at the BOL based on deposits from customers. The table below summarises the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at the end of the reporting date.

	On demand	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Unit: LAKm Total
<b>Financial assets</b>							
Cash and balances with the BOL	352,317	-	-	430,000	182,801	-	965,118
Due from banks	536,036	-	446,892	-	-	-	982,928
Debt instruments at amortised cost	-	-	-	860,129	-	-	860,129
Loans to customers	-	-	3,448	213,895	54,830	295,549	567,722
Other financial assets	-	-	-	-	13,374	-	13,374
<b>Total financial assets</b>	<b>888,353</b>	<b>-</b>	<b>450,340</b>	<b>1,504,024</b>	<b>251,005</b>	<b>295,549</b>	<b>3,389,271</b>
<b>Financial liabilities</b>							
Due to banks	194,149	-	-	30,377	-	-	224,526
Due to customers	1,956,096	183,814	207,372	201,720	99,533	-	2,648,535
Provisions	-	-	-	354	-	-	354
Other financial liabilities	-	-	-	5,657	-	-	5,657
<b>Total financial liabilities</b>	<b>2,150,245</b>	<b>183,814</b>	<b>207,372</b>	<b>238,108</b>	<b>99,533</b>	<b>-</b>	<b>2,879,072</b>
<b>Net interest rate exposure</b>	<b>(1,261,892)</b>	<b>(183,814)</b>	<b>242,968</b>	<b>1,265,916</b>	<b>151,472</b>	<b>295,549</b>	<b>510,199</b>

# Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

## 34. 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 2018 is as follows:

	<i>LAK in LAKm</i>	<i>USD in LAKm equivalent</i>	<i>CNY in LAKm equivalent</i>	<i>Other in LAKm equivalent</i>	<i>Total in LAKm equivalent</i>
<b>ASSETS</b>					
Cash and balances with the BOL	256,548	691,411	10,742	6,653	965,354
Due from banks	-	404,713	576,112	2,220	983,045
Investment in securities	-	860,343	-	-	860,343
Loans to customers	356,670	82,095	137,508	-	576,273
Property and equipment	5,577	-	-	-	5,577
Other assets	13,263	111	-	-	13,374
<b>TOTAL ASSETS</b>	<b>632,058</b>	<b>2,038,673</b>	<b>724,362</b>	<b>8,873</b>	<b>3,403,966</b>
<b>LIABILITIES AND EQUITY</b>					
<b>LIABILITIES</b>					
Due to Banks	195,973	4,597	23,956	-	224,526
Due to customers	122,938	1,844,096	672,852	8,649	2,648,535
Provisions	-	354	-	-	354
Other liabilities	69	5,221	365	2	5,657
<b>TOTAL LIABILITIES</b>	<b>318,980</b>	<b>1,854,268</b>	<b>697,173</b>	<b>8,651</b>	<b>2,879,072</b>
<b>NET EXPOSURE</b>	<b>313,078</b>	<b>184,405</b>	<b>27,189</b>	<b>222</b>	<b>524,894</b>

### Currency risk sensitivity analysis

The table below indicates the currencies to which the Branch had significant exposure at 31 December 2018 on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the exchange rate against the Lao Kip, with all other variables held constant, on the income statement (due to the fair value of currency sensitive monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in the income statement, while a positive amount reflects a net potential increase.

	<i>Unit: LAKm</i>			
	<i>Impact on profit before tax</i>		<i>Impact on profit after tax</i>	
	<i>Exchange rate increase 10%</i>	<i>Exchange rate decrease 10%</i>	<i>Exchange rate increase 10%</i>	<i>Exchange rate decrease 10%</i>
USD	18,441	(18,441)	14,015	(14,015)
CNY	2,719	(2,719)	2,066	(2,066)
<b>Total</b>	<b>21,160</b>	<b>(21,160)</b>	<b>16,081</b>	<b>(16,081)</b>

# Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

## 35. 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 the 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 2018 Under IFRS LAKm</i>	<i>31 December 2017 under IFRS LAKm</i>
Tier 1 capital	507,093	432,470
Tier 2 capital	-	-
<b>Total capital</b>	<b>507,093</b>	<b>432,470</b>
Less: Deductions from capital (Investments in other credit and financial institutions)	-	-
<b>Capital for CAR calculation (A)</b>	<b>507,093</b>	<b>432,470</b>
Risk weighted balance sheet items	873,797	404,755
Risk weighted off balance sheet items	1,262,537	1,334,443
<b>Total risk weighted assets (B)</b>	<b>2,136,334</b>	<b>1,739,198</b>
<b>Capital Adequacy Ratio (A/B)</b>	<b>24%</b>	<b>25%</b>

## 36. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

### *Determination of fair value and fair value hierarchy*

The Branch uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted prices/(unadjusted) in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.



# Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

## 36. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

### *Fair value of financial assets and liabilities carried at fair value*

The Branch has no financial assets and liabilities carried at fair value as at 31 December 2018. Therefore, there is no analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

### *Fair value of financial assets and liabilities not carried at fair value*

The Branch uses the following methodologies and assumptions to determine fair value for financial assets and liabilities not carried at fair value on the financial statements:

#### *Assets for which fair value approximates carrying value*

For financial assets and financial liabilities that have a short term maturity (less than one year) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits.

#### *Fixed rate financial instruments*

The fair value is determined using discounted cash flows using interest at year end of financial instruments in the market with similar risk and maturity. In addition, the Branch assumes that loans to customers are held to maturity. Fair values of loans to customers are determined as the carrying value less impairment losses. For Due to customers, fair value is approximated based on the carrying value of deposits, except for the fair value of fixed rate items with remaining maturity period greater than 1 year which is calculated based on the present value of future cash flows of principal and interest, discounted at interest rates currently being offered on such deposits.

Set out below is a comparison, by class, of the carrying amounts and fair values of the Branch's financial instruments that are not carried at fair value in the financial statements:

As at 31 December 2018

	Carrying value	Fair value			Total	Unit: LAKm
		Level 1	Level 2	Level 3		
<b>Financial assets</b>						
Cash and balances at the BOL	939,368	509,133	-	430,235	939,368	
Due from banks	983,045	536,036	-	447,009	983,045	
Investment in securities	860,343	-	-	860,343	860,343	
Loans to customers	576,273	-	-	576,273	576,273	
	<b>3,359,029</b>	<b>1,045,169</b>	<b>-</b>	<b>2,313,860</b>	<b>3,359,029</b>	
<b>Financial liabilities</b>						
Due to banks	224,526	194,149	-	30,377	224,526	
Due to customers	2,648,535	1,956,094	-	692,441	2,648,535	
	<b>2,873,061</b>	<b>2,150,243</b>	<b>-</b>	<b>722,818</b>	<b>2,873,061</b>	

# Bank of China Ltd., Vientiane Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)  
as at and for the year ended 31 December 2018

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

	31 December 2018	31 December 2017
	LAK	LAK
United State Dollar ("USD")	8,530	8,293
Thai baht ("THB")	261.90	253.84
Chinese Yuan ("CNY")	1,240	1,272

## 38. SUBSEQUENT EVENTS

There is no matter or circumstance that has arisen since 31 December 2018 that requires adjustment or disclosure in the financial statements of the Branch.

Prepared by:

Reviewed by:



Mr. Li Zhiwei  
Financial Management and  
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Mr. Li Zhiyong  
General Manager



Vientiane, Lao PDR

23 April 2019