

Bank of China Ltd., Vientiane Branch

Financial Statements

31 December 2016

Bank of China Ltd., Vientiane Branch

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Bank of China Ltd., Vientiane Branch

GENERAL INFORMATION

THE BRANCH

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

The initial registered capital of the Branch is LAK 405,100,000,000. The actual paid-up capital as at 31 December 2016 is LAK 405,100,000,000 (31 December 2015: LAK 405,100,000,000).

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

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

GENERAL MANAGER AND LEGAL REPRESENTATIVE

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

AUDITORS

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

Bank of China Ltd., Vientiane Branch

REPORT OF MANAGEMENT

Management of Bank of China Ltd., Vientiane Branch (the "Branch") is pleased to present its report and the Branch's financial statements as at and for the year ended to 31 December 2016.

MANAGEMENT'S RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Branch's Management is responsible for preparation of the financial statements of each financial year which give a true and fair view of the state of affairs of the Branch and of its results and cash flows for the year. In preparing those financial statements, Management is required to:

- ▶ select suitable accounting policies and then apply them consistently;
- ▶ make judgments and estimates that are reasonable and prudent;
- ▶ state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- ▶ prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Branch will continue its business.

Management is responsible for ensuring that proper accounting records are kept which disclose, with reasonable accuracy at any time, the financial position of the Branch and to ensure that the accounting records comply with the applied accounting system. It is also responsible for safeguarding the assets of the Branch and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Management confirms that it has complied with the above requirements in preparing the accompanying financial statements.

STATEMENT BY MANAGEMENT

Management does hereby state that, in its opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Branch as at 31 December 2016 and the results of its operations and its cash flows for the year then ended in accordance with the Accounting Law of Lao PDR and the regulations stipulated by the Bank of Lao PDR relevant to preparation and presentation of financial statements.

For and on behalf of Management:


Mr. Li Zhiyong
General Manager



Vientiane, Lao PDR

31 March 2017

Reference: 61245636/18967928

INDEPENDENT AUDITORS' REPORT

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

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

In our opinion, the accompanying financial statements of the Branch are prepared, in all material respects, in accordance with the Accounting Law of Lao P.D.R and with the regulations stipulated by the Bank of Lao P.D.R relevant to preparation and presentation of financial statements.

Basis for Opinion

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

Emphasis of Matter

We draw attention to Note 2 to the financial statements, which describes the accounting policies adopted by the Branch. These accounting policies are not intended to present the financial position, the results of operations and cash flows of the Branch in accordance with international generally accepted accounting principles. Our opinion is not modified in respect of this matter.

Responsibilities of the Branch's Management for the Financial Statements

The Branch's management is responsible for the preparation of the financial statements in accordance with the Accounting Law of Lao P.D.R and with the regulations stipulated by the Bank of Lao P.D.R relevant to preparation and presentation of financial statements, 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.



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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.

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

Ernst & Young

Vientiane, Lao PDR

31 March 2017



Bank of China Ltd., Vientiane Branch

INCOME STATEMENT
for the year ended 31 December 2016

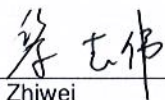
Code	ITEMS	Notes	2016 LAKm	2015 LAKm
A	OPERATING INCOME AND EXPENSES			
1	Interest and similar income	3	34,160	6,553
1.1	Interest and similar income from interbank transactions		1,260	17
1.2	Interest and similar income from customers		11,430	2,611
1.3	Other interest and similar income		21,470	3,925
2	Interest and similar expense	3	(9,339)	(1,505)
2.1	Interest and similar expense for interbank transactions		(8,543)	(1,378)
2.2	Interest and similar expense for customers		(795)	(127)
I.	NET INTEREST AND SIMILAR INCOME		24,821	5,048
3	Fee and commission income	4	1,820	180
4	Fee and commission expense	5	(204)	(57)
5	Net gain from dealing in foreign currencies	6	926	394
II.	NET OPERATING INCOME		27,363	5,565
B	OTHER INCOME AND EXPENSES			
6	Other operating income		243	489
7	Administration expenses		(17,873)	(15,400)
7.1	Payroll and other staff costs	7	(10,240)	(7,076)
7.2	Other administration expenses	8	(7,633)	(8,324)
8	Depreciation and amortization charges		(4,354)	(3,291)
9	Other operating expenses	9	(867)	(1,468)

Bank of China Ltd., Vientiane Branch

INCOME STATEMENT (continued)
for the year ended 31 December 2016

Code	ITEMS	Notes	2016 LAKm	2015 LAKm
III.	TOTAL PROFIT/(LOSS) BEFORE TAX		4,512	(14,105)
10	Profit tax expense	22	-	-
IV.	PROFIT/(LOSS) AFTER TAX		4,512	(14,105)

Prepared by:



Mr. Li Zhiwei
Financial Management and
Operation Service Unit Manager

Reviewed by:



Mr. Li Zhiyong
General Manager

Vientiane, Lao PDR

31 March 2017

Bank of China Ltd., Vientiane Branch

BALANCE SHEET
as at 31 December 2016

<i>Code</i>	<i>ASSETS</i>	<i>Notes</i>	<i>31 December 2016 LAKm</i>	<i>31 December 2015 LAKm</i>
I	Cash and balances with the Bank of Lao PDR ("BOL")		386,016	372,123
1	Cash on hand	10	10,660	4,260
2	Balance with the BOL	11	375,356	367,863
II	Due from other banks	12	410,493	37,775
1	Demand deposits	12.1	164,973	37,775
2	Term deposit	12.2	245,520	-
III	Investment in securities		409,200	407,400
1	Held-to-maturity securities	13	409,200	407,400
IV	Loans to customers, net of provision for non-performing loans	14	122,404	97,888
V	Fixed assets		10,056	14,385
1	Tangible fixed assets	15.1	9,808	13,072
2	Intangible fixed assets	15.2	248	1,313
VI	Other assets		22,650	23,867
1	Accrued interests receivable	16	5,031	4,198
2	Other assets	17	17,619	19,669
	TOTAL ASSETS		1,360,819	953,438

Bank of China Ltd., Vientiane Branch

BALANCE SHEET (continued)
as at 31 December 2016

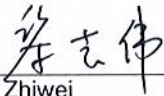
<i>Code</i>	<i>LIABILITIES AND CAPITAL</i>	<i>Notes</i>	<i>31 December 2016 LAKm</i>	<i>31 December 2015 LAKm</i>
I	Due to other banks		532,197	437,400
1	Demand deposits from other banks	18.1	81,900	30,000
2	Term deposits from other banks	18.1	41,097	-
3	Borrowing funds	18.2	409,200	407,400
II	Due to customers	19	425,244	73,092
1	Demand deposits		293,628	51,676
2	Saving deposits		32,665	18,183
3	Term deposits		98,951	3,233
III	Other liabilities		6,647	50,972
1	Accrued interest	20	2,361	1,416
2	Other liabilities	21	4,286	49,556
	TOTAL LIABILITIES		964,088	561,464
IV	Capital and reserves			
1	Paid-up capital	23	405,100	405,100
2	General provision for credit activities	14.2	1,224	979
3	Accumulated losses		(9,593)	(14,105)
	TOTAL CAPITAL		396,731	391,974
	TOTAL LIABILITIES AND CAPITAL		1,360,819	953,438

Bank of China Ltd., Vientiane Branch

BALANCE SHEET (continued)
as at 31 December 2016

Code	LIABILITIES AND CAPITAL	31 December 2016 LAKm	31 December 2015 LAKm
I	Collaterals and Mortgages	1,090,209	1,019,429
1	Collaterals and Mortgages for loans to customers	1,090,209	1,019,429
	TOTAL COLLATERALS AND MORTGAGES	1,090,209	1,019,429

Prepared by:



Mr. Li Zhiwei
Financial Management and
Operation Service Unit Manager

Reviewed by:



Mr. Li Zhiyong
General Manager

Vientiane, Lao PDR


31 March 2017

Bank of China Ltd., Vientiane Branch

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

ITEMS	Paid-up capital LAKm	General provision for credit activities LAKm	Accumulated losses LAKm	Total LAKm
Balance as at 1 January 2016	405,100	979	(14,105)	391,974
Net profit for the year	-	-	4,512	4,512
General provision charged during the year	-	488	-	488
Reversal of general provision during the year	-	(243)	-	(243)
Balance as at 31 December 2016	405,100	1,224	(9,593)	396,731

Prepared by:



Mr. Li Zhiwei
Financial Management and Operation
Service Unit Manager

Vientiane, Lao PDR

31 March 2017

Reviewed by:





Mr. Li Zhiyong
General Manager

Bank of China Ltd., Vientiane Branch

CASHFLOW STATEMENT
for the year ended 31 December 2016

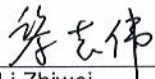
ITEMS	Notes	2016 LAKm	2015 LAKm
OPERATING ACTIVITIES			
Net profit/(loss) before tax		4,512	(14,105)
<i>Adjustments for:</i>			
Depreciation and amortization charges		4,354	3,291
Loan loss provision expenses	14.2	245	979
Cash inflows/(outflows) before changing in operating assets and liabilities		9,111	(9,835)
(Increase)/decrease in operating assets			
Balances with other banks		2,221	(32,365)
Loans and advances to customers		(24,516)	(97,888)
Accrued interest receivables		(833)	(4,198)
Other assets		2,050	(427,069)
Increase/(decrease) in operating liabilities			
Deposits and borrowings from other banks		92,997	437,400
Customer deposits and other amounts due to customers		352,152	73,092
Accrued interest expense		945	1,416
Other liabilities		(45,270)	49,556
Net cash flows from/(used in) operating activities		388,857	(9,891)
INVESTING ACTIVITIES			
Payments to acquire property and equipment		(25)	(17,676)
Net cash flows used in investing activities		(25)	(17,676)
FINANCING ACTIVITIES			
Capital contribution		-	405,100
Net cash flows from financing activities		-	405,100
Net increase in cash and cash equivalents		388,832	377,533

Bank of China Ltd., Vientiane Branch

CASHFLOW STATEMENT (continued)
for the year ended 31 December 2016

ITEMS	Notes	2016 LAKm	2015 LAKm
Cash and cash equivalents at the beginning of the year		377,533	-
Effect of foreign exchange difference		-	-
Cash and cash equivalents at the end of the year	24	766,365	377,533

Prepared by:



Mr. Li Zhiwei
Financial Management and
Operation Service Unit Manager

Vientiane, Lao PDR

31 March 2017

Reviewed by:



Mr. Li Zhiyong
General Manager

Bank of China Ltd., Vientiane Branch

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

1. CORPORATE INFORMATION

Establishment and operations

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

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

Paid-up capital

The initial registered capital of the Branch is LAK 405,100,000,000. The actual paid-up capital as at 31 December 2016 is LAK 405,100,000,000.

General Manager

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

Location

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

Employees

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

Bank of China Ltd., Vientiane Branch

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. *Statement of compliance*

Management of the Branch states that the accompanying financial statements have been prepared in compliance with the Accounting Law of Lao PDR and the regulations stipulated by the Bank of Lao PDR relevant to preparation and presentation of financial statements.

2.2. *Basis of preparation*

The Branch maintained its accounting records in Lao Kips ("LAK") and prepared its financial statements in millions of Lao Kips ("LAKm") in accordance with Decree No. 02/PR by the Prime Minister of Lao PDR dated 22 March 2000 and the Accounting Law of Lao PDR and the regulations stipulated by the Bank of Lao PDR relevant to preparation and presentation of financial statements.

The accompanying financial statements have been prepared using accounting principles, procedures and reporting practices generally accepted in Lao PDR. Accordingly, the income statement, the balance sheet, the statement of changes in equity, the cash flow statement and the notes thereto are not designed for those who are not informed about Lao PDR's accounting principles, procedures and practices and furthermore are not intended to present the financial position of the Branch and its results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than Lao PDR.

2.3. *Fiscal year*

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

2.4. *Recognition of interest income and expense*

Interest income and expense are recognized in the income statement on accrual basis using straight-line method and the interest rates stipulated in the lending/depositing contracts with customers.

The recognition of accrued interest income is suspended when the loans becoming non-performing (See Note 2.8 for the definition of non-performing loans) or when management believes that the borrower has no ability to repay the interest and principal. Interest income on such loans is only recorded in the income statement when actually received.

2.5. *Recognition of fee and commission*

Fee and commission consists of fees received for fund transfer (including trade settlement), fee arising for foreign currency exchange transactions and fee arising from financial guarantees.

Fee and commissions are recognized in to income statement on cash basis.

2.6. *Cash and cash equivalents*

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

Bank of China Ltd., Vientiane Branch

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7. Loans to customers

Loans to customers are recognized at cost and presented at outstanding balance less provision for non-performing loans.

2.8. Provision for non-performing loans ("NPL")

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

According to Regulation 324/BOL, provision for non-performing loans is established by multiplying the outstanding balance of each loan item with the provision rates applicable to that loan classification as follows:

No	Category	Specific provision rate
1	Substandard	20%
2	Doubtful	50%
3	Loss	100%

Changes in provision for non-performing loans are recorded to the income statement as "Provision expense for non-performing loans" or "Reversal of provision for non-performing loans". Accumulated provision reserve for non-performing loans is recorded in the balance sheet in "Loans and advances to customers, net of provision for NPL".

Details on the loan classification and provision for non-performing loans and the provision amount that are actually booked by the Branch as at 31 December 2016 are presented in Note 14.2.

2.9. General provision for credit activities

In accordance with BOL324, the Branch is required to create a general provision for loan losses at the rate 3.00% of the total balance of Watch or Special Mention loans as at the balance sheet date and general provision made for Normal or Pass loans shall be created upon the BOL's notification for each year. For the year ended 31 December 2016, the general provision rate for Normal or Pass loans is ranging from 0.5% to 1% in accordance with the Official Letter No. 242/BOL issued by the Bank of Lao PDR on 2 April 2011. Accordingly, the Branch provided general provision at rate of 1% out of total balance of Normal or Pass loans.

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

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

Details of change in general provision for credit activities are presented in Note 14.2.

Bank of China Ltd., Vientiane Branch

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10. Fixed assets

Fixed asset includes tangible fixed assets and intangible fixed assets. Tangible fixed assets consist of building improvements, furniture and fixtures, computer equipment and motor vehicles. Intangible fixed assets include start-up costs.

Fixed assets are stated at cost less accumulated depreciation and amortization, if any.

The cost of an asset comprises its purchase price plus any directly attributable costs of bringing the asset to working condition for its intended use.

Expenditures for additions, improvements and renewals are capitalized and expenditures for maintenance and repairs are charged to the income statement.

When assets are sold or disposed, their cost and accumulated depreciation are removed from the balance sheet and any gains or losses resulting from their disposal are posted to the income statement.

2.11. Depreciation and amortization

Depreciation and amortization of fixed assets are provided on the straight line basis at prescribed rates over their estimated useful life. The following are the annual depreciation and amortization rates used:

<i>Tangible fixed assets:</i>	
Building improvements	5%
Furniture and fixtures	20%
Computer equipment	20%
Motor vehicles	20%
<i>Intangible fixed assets:</i>	
Start-up costs	50%

2.12. Statutory Reserves

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

- ▶ Regulatory reserve fund
- ▶ Business expansion fund and other funds

In accordance with the Regulation on capital adequacy No.1/BOL dated 28 August 2011 by the Governor of the Bank of Lao PDR and other relevant guidance, commercial banks are required to provide regulatory reserve fund at the rate between 5% to 10% of profit after tax depending on the decision of the Management. The Business expansion fund and other funds shall be created upon decision of the Management. Since the Branch has accumulated losses, the Branch has not provided for statutory reserves for the year ended 31 December 2016.

Bank of China Ltd., Vientiane Branch

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13. Foreign currency transactions

The Branch maintains its accounting system and records all transactions in original currencies. Monetary assets and liabilities denominated in foreign currencies at year end are translated into LAK at exchange rates ruling on the balance sheet date (see the list of exchange rates of applicable foreign currencies against LAK on 31 December 2016 and 2015 presented below). In accordance with the new Regulation No. 237/BOL issued on 17 May 2016 by the BOL, starting from the year ended 31 December 2016, any unrealized exchange difference arising from such revaluation is recognised in equity in the balance sheet, instead of the income statement as in previous year. The new regulation does not require retrospective application.

	<u>31 December 2016</u>	<u>31 December 2015</u>
	LAK	LAK
United State Dollar ("USD")	8,184	8,148
Thai baht ("THB")	228.60	225.96
Chinese Yuan ("CNY")	1174	1,236

2.14. Taxation

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 new Tax Law No.70/NA dated 15 December 2015 which is effective on or after 24 May 2016. Additionally, in accordance with the Law on the Promotion and Management of Foreign investment in Lao PDR No. 01/94 dated 14 March 1994, the tax rate applied for foreign invested entities is 20% on the taxable profit of the Branch reported under the Lao Accounting System.

2.15. Employee benefit

Post-employment benefits

Post employment benefits are paid to retired employees of the Branch by the Social Security Fund Department which belongs to the Ministry of Labor and Social Welfare. The Branch is required to contribute to these post employment benefits by paying social insurance premium to the Social Insurance Agency at the rate of 6.00% of employee's basic salary on a monthly basis. The Branch has no further obligation concerning post employment benefits for its employees other than this.

Termination benefits

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

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

For the termination of an employment contract on any of the above-mentioned grounds, the employer must pay a termination allowance which is calculated on the basis of 10% of the basic monthly salary earned before the termination of work. As at 31 December 2016, there are no employees of the Branch who were dismissed under the above-mentioned grounds; therefore the Branch has not made a provision for termination allowance in the financial statements.

Bank of China Ltd., Vientiane Branch

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

3. NET INTEREST AND SIMILAR INCOME

	<i>2016</i> <i>LAKm</i>	<i>2015</i> <i>LAKm</i>
Interest and similar income from:		
Interbank transactions	1,260	17
Loans to customers	11,430	2,611
Held-to-maturity securities	21,470	3,925
	<u>34,160</u>	<u>6,553</u>
Interest and similar expense for:		
Interbank transactions	(8,543)	(1,378)
Customer deposits	(795)	(127)
	<u>(9,338)</u>	<u>(1,505)</u>
Net interest and similar income	<u>24,822</u>	<u>5,048</u>

4. FEES AND COMMISSION INCOME

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

5. FEE AND COMMISSION EXPENSE

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

Bank of China Ltd., Vientiane Branch

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

6. NET GAIN FROM DEALING IN FOREIGN CURRENCIES

	<i>2016</i> <i>LAKm</i>	<i>2015</i> <i>LAKm</i>
Gain from foreign exchange spot rate differences	926	404
Loss from foreign exchange spot rate differences	-	(10)
	<u>926</u>	<u>394</u>

7. PAYROLL AND OTHER STAFF COSTS

	<i>2016</i> <i>LAKm</i>	<i>2015</i> <i>LAKm</i>
Wages and allowances	9,768	6,473
Other staff costs	472	603
	<u>10,240</u>	<u>7,076</u>

8. OTHER ADMINISTRATION EXPENSES

	<i>2016</i> <i>LAKm</i>	<i>2015</i> <i>LAKm</i>
Office rental	2,185	2,184
External services	163	339
Repair and maintenance	284	66
Publication, marketing and promotion	51	195
Telecommunication	801	716
Training, meeting and seminar	1,199	3,496
Electricity and water	813	227
Audit and lawyer fee	125	102
Other expenses	2,012	999
	<u>7,633</u>	<u>8,324</u>

Bank of China Ltd., Vientiane Branch

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

9. OTHER OPERATING EXPENSES

	2016 LAKm	2015 LAKm
General provision for loans to customers (see Note 14.2)	486	1,468
Commissions for Depositor Protection Fund	117	-
Other expenses	264	-
	867	1,468

10. CASH ON HAND

	31 December 2016 LAKm	31 December 2015 LAKm
Cash on hand in LAK	2,065	1,486
Cash on hand in foreign currencies	8,595	2,774
	10,660	4,260

11. BALANCES WITH THE BANK OF LAO PDR ("BOL")

	31 December 2016 LAKm	31 December 2015 LAKm
Demand deposit	345,212	335,498
Compulsory deposit	30,139	4,740
Registered capital reserve	5	27,625
	375,356	367,863

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

Under regulations of the BOL, the Branch is required to maintain certain cash reserves with the BOL in the form of compulsory deposits, which are computed at 5.00% for LAK and 10.00% for foreign currencies, on a bi-monthly basis, (2015: 5% and 10%) of customer deposits having original maturities of less than 12 months. In the year, the Branch maintained its compulsory deposits in compliance with the requirements of the BOL.

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

Bank of China Ltd., Vientiane Branch

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

12. DUE FROM OTHER BANKS

12.1 Demand deposits

	<i>31 December 2016</i> <i>LAKm</i>	<i>31 December 2015</i> <i>LAKm</i>
Demand deposits at domestic banks		
Industrial and Commercial Bank Of China Limited, Vientiane Branch	40	984
Demand deposits at foreign banks		
Bank of China Limited, Shanghai RMB Trading Unit	53,736	6,019
Bank of China (Hongkong) Limited	238	-
Bank of China (Thai) Public Company Limited	14,689	1,074
Bank of China Limited, Head Office	17,430	28,889
Bank of China, New York Branch	78,521	-
Bank of China, Frankfurt Branch	319	809
	164,973	37,775

12.2 Term deposits

	<i>31 December 2016</i> <i>LAKm</i>	<i>31 December 2015</i> <i>LAKm</i>
Term deposit at foreign bank		
Bank of China - Head Office	245,520	-
	245,520	-

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

13. HELD-TO-MATURITY SECURITIES

	<i>31 December 2016</i> <i>LAKm</i>	<i>31 December 2015</i> <i>LAKm</i>
Bonds issued by the BOL	409,200	407,400
	409,200	407,400

Bonds issued by the BOL have total face value of USD 50,000,000, terms of 5 year and earn interest at a fixed rate of 5.56% per annum.

Bank of China Ltd., Vientiane Branch

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

14. LOANS TO CUSTOMERS, NET OF PROVISION FOR NON-PERFORMING LOANS

	<u>31 December 2016</u> LAKm	<u>31 December 2015</u> LAKm
Loans to customers (Note 14.1)	122,404	97,888
Less provision for non-performing loans (Note 14.2)	-	-
	<u>122,404</u>	<u>97,888</u>

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

14.1 Analysis of loans to customers

Analysis by currency

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

Analysis by status of loans

	<u>31 December 2016</u> LAKm	<u>31 December 2015</u> LAKm
Performing loans	122,404	97,888
Non-performing loans ("NPL")	-	-
	<u>122,404</u>	<u>97,888</u>

Analysis by original term

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

Analysis by economic sectors

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

Bank of China Ltd., Vientiane Branch

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

14. LOANS TO CUSTOMERS, NET OF PROVISION FOR NON-PERFORMING LOANS (continued)

14.2 Provision for credit losses

Movement of provision for credit losses of the Branch during the year ended 31 December 2016 is as follows:

	<i>Provision for NPL LAKm</i>	<i>General provision LAKm</i>	<i>Total LAKm</i>
As at 1 January 2016	-	979	979
Provision charged to expense in the year	-	486	486
Reversal of provision in the year	-	(243)	(243)
Foreign currency differences	-	2	2
As at 31 December 2016	-	1,224	1,224

The breakdown of loan classification and provision as required by the BOL as at 31 December 2016 are as follows:

<i>Classification</i>	<i>Loan balance LAKm</i>	<i>Specific provision LAKm</i>	<i>General provision LAKm</i>	<i>Total provision LAKm</i>
Current	122,404	-	1,224	1,224
Special Mention	-	-	-	-
Sub-standard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	-	-
Total	122,404	-	1,224	1,224

Bank of China Ltd., Vientiane Branch

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

15. FIXED ASSETS

15.1 Tangible fixed assets

Movements of the balance of tangible fixed assets during the year ended 31 December 2016 are as follows:

	<i>Building improvements LAKm</i>	<i>Furniture & fixtures LAKm</i>	<i>Computer equipment LAKm</i>	<i>Motor vehicles LAKm</i>	<i>Total LAKm</i>
Cost:					
As at 1 January 2016	7,448	2,742	4,181	1,176	15,547
Additions for the year	-	-	25	-	25
As at 31 December 2016	<u>7,448</u>	<u>2,742</u>	<u>4,206</u>	<u>1,176</u>	<u>15,572</u>
Accumulated depreciation:					
As at 1 January 2016	1,118	399	804	154	2,475
Charge for the year	1,490	532	1,077	190	3,289
As at 31 December 2016	<u>2,608</u>	<u>931</u>	<u>1,881</u>	<u>344</u>	<u>5,764</u>
Net book value:					
As at 31 December 2015	<u>6,330</u>	<u>2,343</u>	<u>3,377</u>	<u>1,022</u>	<u>13,072</u>
As at 31 December 2016	<u>4,840</u>	<u>1,811</u>	<u>2,325</u>	<u>832</u>	<u>9,808</u>

15.2 Intangible fixed assets

Movements of the balance of intangible fixed assets during the year ended 31 December 2016 are as follows:

	<i>Start-up cost LAKm</i>	<i>Total LAKm</i>
Cost:		
As at 1 January 2016	2,129	2,129
Additions for the year	-	-
As at 31 December 2016	<u>2,129</u>	<u>2,129</u>
Accumulated amortisation:		
As at 1 January 2016	816	816
Charge for the year	1,065	1,065
As at 31 December 2016	<u>1,881</u>	<u>1,881</u>
Net book value:		
As at 31 December 2015	<u>1,313</u>	<u>1,313</u>
As at 31 December 2016	<u>248</u>	<u>248</u>

Bank of China Ltd., Vientiane Branch

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

16. ACCRUED INTERESTS RECEIVABLE

	<u>31 December 2016</u> LAKm	<u>31 December 2015</u> LAKm
Accrued interest income from deposits at other banks	65	2
Accrued interest income from loans to customer	340	271
Accrued interest income from held to maturity securities	4,547	3,925
Accrued interest income from term deposits at other banks	79	-
	<u>5,031</u>	<u>4,198</u>

17. OTHER ASSETS

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

18. DUE TO OTHER BANKS

18.1 Demand deposits and term deposits

	<u>31 December 2016</u> LAKm	<u>31 December 2015</u> LAKm
Demand deposits from domestic bank		
ANZ Laos Branch	81,900	30,000
Term deposits from domestic bank		
ANZ Laos Branch	41,097	-
	<u>122,997</u>	<u>30,000</u>

Term deposit from ANZ Laos Branch has term of 3 months and bears interest at rate of 1.55% per annum.

18.2 Borrowing funds

	<u>31 December 2016</u> LAKm	<u>31 December 2015</u> LAKm
Borrowing from foreign bank		
Bank of China Head Office	409,200	407,400
	<u>409,200</u>	<u>407,400</u>

The borrowing from Bank of China Head Office is denominated in USD, has a term of 5 year and bears interest of 2.41% per annual.

Bank of China Ltd., Vientiane Branch

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

19. DUE TO CUSTOMERS

	<i>31 December 2016</i> <i>LAKm</i>	<i>31 December 2015</i> <i>LAKm</i>
Demand deposits		
- in LAK	5,745	2,630
- in foreign currencies	287,883	49,046
	293,628	51,676
Saving deposits		
- in LAK	3,040	1,622
- in foreign currencies	29,625	16,561
	32,665	18,183
Term deposits		
- in LAK	2,659	1,093
- in foreign currencies	96,292	2,140
	98,951	3,233
	425,244	73,092

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

	<i>2016</i> <i>Interest rate</i>	<i>2015</i> <i>Interest rate</i>
Demand deposits in LAK	No interest	No interest
Demand deposits in foreign currencies	No interest	No interest
Saving deposits in LAK	1.10%	1.00%
Saving deposits in USD	1.25%	1.25%
Saving deposits in THB	0.50%	0.50%
Term deposits in LAK	3.00% - 6.50%	3.00% - 9.00%
Term deposits in USD	2.00% - 6.25%	2.00% - 6.25%
Term deposits in THB	0.75% - 4.50%	0.75% - 4.50%

20. ACCRUED INTERESR EXPENSE

	<i>31 December 2016</i> <i>LAKm</i>	<i>31 December 2015</i> <i>LAKm</i>
Interest payable on:		
Term deposits	330	38
Placements from overseas branches	2,031	1,378
	2,361	1,416

Bank of China Ltd., Vientiane Branch

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

21. OTHER LIABILITIES

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

22. TAXATION

Profit Tax ("PT")

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

	2016 LAKm	2015 LAKm
Profit/(loss) before tax	4,512	(14,105)
Tax reconciling item arising from difference between accounting practice and Tax Law	169	745
Tax loss carried forward	(4,681)	-
	-	(13,360)
Taxable income	-	-
Current PT expense, at the statutory rate of 24%	-	-
PT payable at the beginning of the year/period	-	-
PT paid during the year/period	-	-
PT payable at the end of the year/period	-	-

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

Tax loss carried forward

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

Bank of China Ltd., Vientiane Branch

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

22. TAXATION (continued)

Tax loss carried forward (continued)

Details are as follows:

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

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

23. PAID-UP CAPITAL

	2016 LAKm	2015 LAKm
Opening balance	405,100	-
Increase in the year/period	-	405,100
Closing balance	405,100	405,100

24. CASH AND CASH EQUIVALENTS

	31 December 2016 LAKm	31 December 2015 LAKm
Cash on hand	10,660	4,260
Current accounts with the BOL	345,212	335,498
Current accounts with other banks	164,973	37,775
Term deposit with other banks	245,520	-
	766,365	377,533

Bank of China Ltd., Vientiane Branch

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

25. RELATED PARTY TRANSACTIONS

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

- (a) directly, or indirectly through one or more intermediaries, the party:
- ▶ controls, is controlled by, or is under common control with, the Branch (this includes parents, subsidiaries and fellow subsidiaries);
 - ▶ has an interest in the Branch that gives it significant influence over the Branch; or
 - ▶ has joint control over the Branch.
- (b) the party is a joint venture in which the Branch is a venture;
- (c) the party is a member of the key management personnel of the Branch or its parent;
- (d) the party is a close member of the family of any individual referred to in (a) or (d);
- (e) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d); or
- (f) the party is a post-employment benefit plan for the benefit of employees of the Branch, or of any entity that is a related party of the Branch.

Significant balances with related parties are as follows:

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

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

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

Bank of China Ltd., Vientiane Branch

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

25. RELATED PARTY TRANSACTIONS (continued)

Transactions with key management personnel of the Branch

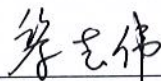
Remuneration to members of the Board of Management is as follows:

	2016 LAKm	2015 LAKm
Salaries and bonus	2,512	1,527
	2,512	1,527

26. EVENTS AFTER THE BALANCE SHEET DATE

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

Prepared by:



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Financial Management and
Operation Service Unit Manager

Reviewed by:



Mr. Li Zhiyong
General Manager

Vientiane, Lao PDR

31 March 2017