

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 2015.

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.

Bank of China Ltd., Vientiane Branch

REPORT OF MANAGEMENT

Management of Bank of China Ltd., Vientiane Branch (the "Branch") is pleased to present this report and the Branch's financial statements for the year ended 31 December 2018.

MANAGEMENT'S RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Branch's Management is responsible for the financial statements of each financial year which give a true and fair view of the financial position of the Branch and of the results of its operations and its 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 confirmed 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 give a true and fair view of the financial position of the Branch as at 31 December 2018 and of 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 Bank of the Lao PDR relevant to preparation and presentation of financial statements.

For and on behalf of Management:


Mr. Li Zhiyong
General Manager



Vientiane, Lao PDR

19 April 2019

Reference: 61245636/20598988

INDEPENDENT AUDITORS' REPORT

To: The Management 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 2018, the income statement, statement of changes in equity and cash flow 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 PDR and with the regulations stipulated by Bank of the Lao PDR 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 *Auditors' 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) together with 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.

Emphasis of Matter – Basis of Accounting

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 PDR and with the regulations stipulated by Bank of the Lao PDR 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.

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.
- ▶ 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 appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Branch management.

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



Vientiane, Lao PDR

19 April 2019

Bank of China Ltd., Vientiane Branch

INCOME STATEMENT
for the year ended 31 December 2018

Code	ITEMS	Notes	2018 LAKm	2017 LAKm
A	OPERATING INCOME AND EXPENSES			
1	Interest and similar income	3	140,490	77,867
2	Interest and similar expense	3	(24,973)	(10,750)
I.	NET INTEREST AND SIMILAR INCOME		115,517	67,117
3	Fee and commission income	4	5,610	3,437
4	Fee and commission expense	4	(273)	(281)
5	Net gain from dealing in foreign currencies	5	13,317	7,867
II.	NET OPERATING INCOME		134,171	78,140
B	OTHER INCOME AND EXPENSES			
6	Other operating income	6	1,255	771
7	Administration expenses		(24,318)	(24,141)
7.1	Payroll and other staff costs	7	(15,981)	(16,273)
7.2	Other administration expenses	8	(8,337)	(7,868)
8	Depreciation and amortization charges		(3,033)	(3,575)
9	Other operating expenses	9	(1,075)	(4,686)
10	Provision for non-performing loans		-	-
III.	TOTAL PROFIT BEFORE TAX		107,000	46,509
11	Current profit tax expense	22.2	(25,777)	(9,547)
IV.	PROFIT AFTER TAX		81,223	36,962

Prepared by:

Reviewed by:


 Mr. Li Zhiwei
 Financial Management and
 Operation Service Unit Manager


 Mr. Li Zhiyong
 General Manager



Vientiane, Lao PDR
19 April 2019

Bank of China Ltd., Vientiane Branch

BALANCE SHEET
as at 31 December 2018

<i>Code</i>	<i>ASSETS</i>	<i>Notes</i>	<i>31 December 2018 LAKm</i>	<i>31 December 2017 LAKm</i>
I	Cash and balances with Bank of the Lao PDR ("the BOL")		961,619	428,487
1	Cash on hand	10	25,986	21,142
2	Balances with the BOL	11	935,633	407,345
II	Due from banks		982,436	868,730
1	Demand deposits	12.1	536,036	308,050
2	Term deposit	12.2	446,400	560,680
III	Investment in securities		853,000	829,300
1	Held-to-maturity securities	13	853,000	829,300
IV	Loans to customers, net of provision for non-performing loans		574,656	410,305
V	Fixed assets		5,577	7,465
1	Tangible fixed assets	15	5,577	7,465
VI	Other assets		26,678	23,333
1	Accrued interest receivable	16	13,304	7,754
2	Other assets	17	13,374	15,579
	TOTAL ASSETS		3,403,966	2,567,620

Bank of China Ltd., Vientiane Branch

BALANCE SHEET (continued)
as at 31 December 2018

<i>Code</i>	<i>LIABILITIES AND CAPITAL</i>	<i>Notes</i>	<i>31 December 2018 LAKm</i>	<i>31 December 2017 LAKm</i>
I	Due to banks	18	224,149	139,730
1	Demand deposits		188,284	72,827
2	Term deposits		30,000	66,344
3	Other payables		5,865	559
II	Due to customers	19	2,638,829	1,978,112
1	Demand deposits		1,753,074	1,718,143
2	Saving deposits		193,314	113,692
3	Term deposits		692,441	146,277
III	Other liabilities		24,423	13,206
1	Accrued interest payable	20	10,083	2,153
2	Taxes payable	22	8,683	3,065
3	Other liabilities	21	5,657	7,988
	TOTAL LIABILITIES		2,887,401	2,131,048
IV	Capital and reserves			
1	Paid-up capital	23	405,100	405,100
2	Statutory reserve		10,859	2,737
3	Provision for performing loans	14.2	2,873	4,103
4	Retained earnings		97,733	24,632
	TOTAL CAPITAL		516,565	436,572
	TOTAL LIABILITIES AND CAPITAL		3,403,966	2,567,620

Bank of China Ltd., Vientiane Branch

BALANCE SHEET (continued)
as at 31 December 2018

Code	LIABILITIES AND CAPITAL	31 December 2018 LAKm	31 December 2017 LAKm
I	Commitments given		
A	Commitments for financing given	-	3,500
1	Commitments for financing given to customers	-	3,500
B	Commitments for guarantees given	2,525,781	2,665,385
1	Commitments for guarantees given to customers	2,525,781	2,665,385
	TOTAL COMMITMENTS GIVEN	2,525,781	2,668,885
II	Collaterals and Mortgages	755,702	511,716
1	Collaterals and Mortgages for loans to customers	755,702	511,716
	TOTAL COLLATERALS AND MORTGAGES	755,702	511,716

Prepared by:

Reviewed by:

Mr. Li Zhiwei
Financial Management and
Operation Service Unit Manager

Mr. Li Zhiyong
General Manager



Vientiane, Lao PDR

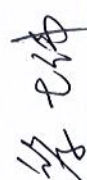
19 April 2019

Bank of China Ltd., Vientiane Branch

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

ITEMS	Paid-up capital LAKm	Statutory reserve LAKm	Provision for performing loans LAKm	Retained earnings/ (Accumulated losses) LAKm	Total LAKm
Balance as at 1 January 2017	405,100	-	1,224	(9,593)	396,731
Net profit for the year	-	-	-	36,962	36,962
Appropriate to reserve for the year 2017	-	2,737	-	(2,737)	-
Net provision for performing loans	-	-	2,872	-	2,872
Foreign exchange differences	-	-	7	-	7
Balance as at 31 December 2017	405,100	2,737	4,103	24,632	436,572
Net profit for the year	-	-	-	81,223	81,223
Appropriate to reserve for the year 2018	-	8,122	-	(8,122)	-
Reversal of provision for performing loans	-	-	(1,253)	-	(1,253)
Foreign exchange differences	-	-	23	-	23
Balance as at 31 December 2018	405,100	10,859	2,873	97,733	516,565

Prepared by:


Mr. Li Zhiwei
Financial Management and Operation
Service Unit Manager

Vientiane, Lao PDR

19 April 2019

Reviewed by:


Mr. Li Zhiyong
General Manager



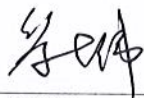
Bank of China Ltd., Vientiane Branch

CASH FLOW STATEMENT
for the year ended 31 December 2018

ITEMS	Note	2018 LAKm	2017 LAKm
OPERATING ACTIVITIES			
Net profit before tax		107,000	46,509
<i>Adjustments for:</i>			
Depreciation and amortization charges		3,033	3,575
Net provision for performing loans	14.2	(1,253)	2,872
Interest income		(140,490)	(77,867)
Interest expense		24,973	10,750
Cash flows from operations before changing in operating assets and liabilities		(6,737)	(14,161)
(Increase)/decrease in operating assets			
Due from banks		(626,037)	(177,521)
Loans to customers		(164,351)	(287,901)
Other assets		(21,495)	2,046
Increase/(decrease) in operating liabilities			
Due to banks		84,419	16,174
Due to customers		660,717	1,552,868
Borrowing fund		-	(409,200)
Other liabilities		(2,179)	4,262
Interest received		134,940	75,144
Interest paid		(17,043)	(10,958)
Profit tax paid during the year	22.2	(20,288)	(6,482)
Net cash flows from operating activities		21,946	744,271
INVESTING ACTIVITIES			
Payments to acquire property and equipment	15	(1,145)	(984)
Investment in securities		-	(420,100)
Net cash flows used in investing activities		(1,145)	(421,084)
FINANCING ACTIVITIES			
Net cash flows from financing activities		-	-
Net increase in cash and cash equivalents		20,801	323,187
Cash and cash equivalents at the beginning of the year		1,089,552	766,365
Cash and cash equivalents at the end of the year	24	1,110,353	1,089,552

Prepared by:

Reviewed by:



Mr. Li Zhiwei
Financial Management and
Operation Service Unit Manager




Mr. Li Zhiyong
General Manager

Vientiane, Lao PDR

19 April 2019

Bank of China Ltd., Vientiane Branch

NOTE TO THE FINANCIAL STATEMENTS
as at and for the year then 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 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 2018 is LAK 405,100,000,000.

General Manager

The Branch's General Manager during 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 people)

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 Bank of the 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 Bank of the 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.

Fiscal year

The Branch's fiscal years applicable for the preparation of its financial statements start on 1 January and end on 31 December.

Bank of China Ltd., Vientiane Branch

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. *Changes in accounting policies*

The accounting policies adopted by the Branch in preparation of these financial statements are consistent with those used in preparation of the Branch's financial statements for the year ended 31 December 2017, except for the changes in the accounting policies and notes in relation to the following operations:

As disclosed in Note 2.8, on 29 June 2018, the Governor of Bank of the Lao PDR issued Regulation 512/BOL ("BOL512") on classification of and provision for credit activities, which was effective on 27 September 2018 and replaced Regulation 324/BOL dated 19 April 2011. On 14 November 2018, the Banking Supervision Department of Bank of the Lao PDR issued Official Letter No. 898/DCBS providing guidance to certain areas of Regulation BOL 512. These documents lead to the following significant changes:

- ▶ Classification: amending and supplementing the loan classification rule in regard of restructured loan.
- ▶ Provision: supplementing the option to include the discounted value of collateral in the provision calculation.
- ▶ Commitments: supplementing the recognition, classification and provisioning for commitments.

As there is no guidance from the BOL on retrospective application of the new regulations, the Branch has selected to apply the changes prospectively. Accordingly, all values and presentation of the comparative figures for 2017 remain unchanged.

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 loan/deposit 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 less than or equivalent to 30 days are readily convertible to known amount of cash and accounts due from banks with original maturity of less than or equivalent to 30 days.

2.7. *Loans to customers*

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

Bank of China Ltd., Vientiane Branch

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8. Classification of and provision for credit activities

Loan classification

In accordance with Regulation 512/BOL ("BOL512") dated 29 June 2018 and Official Letter No. 898/CBSD ("BOL898") dated 14 November 2018, the Branch has classified loans into 5 groups 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 ("NPL").

Provision

In accordance with BOL512 and BOL898, the Branch creates provision for loans based on their classification groups as follows:

Group	Provision rate	Provision type (i)	Accounting for provision balance (ii)	Accounting for changes in provision balance (iii)
<i>Performing loans</i>				
A	0.5%	General	In equity	Other expense/ income
B	3.0%	Specific	In equity	Other expense/ income
<i>NPLs</i>				
C	20.0%	Specific	Deducted to loan balance	Net provision for NPL
D	50.0%	Specific	Deducted to loan balance	Net provision for NPL
E	100.0%	Specific	Deducted to loan balance	Net provision for NPL

- (i) Provision amount is calculated by the following formulas:
- General provision = Provision rate x Loan outstanding balance
 - Specific provision = Provision rate x Loan outstanding balance
where the Branch has opted to not include the discounted value of collateral in the provision calculation as allowed by BOL512 and BOL898.
- (ii) The balance of provision for *performing loans* is recorded in the balance sheet in "Provision for performing loans" under capital and reserves.
- Accumulated balance of provision for *NPLs* is recorded in the balance sheet in "Loans to customers, net of provision for NPLs".
- (iii) Changes in provision for *performing loans* are recorded to the income statement as "Other operating expenses" for provision expense and "Other operating income" for reversal of provision expense.
- Changes in provision for *NPLs* are recorded to the income statement as "Net provision for NPLs charged to/(reversed out of) expense".

Bank of China Ltd., Vientiane Branch

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 *Held-to-maturity securities*

Held-to-maturity investment securities are debt securities with fixed or determinable payments and maturities, which the Branch has intention and ability to hold to maturity to earn interest. When a significant part of the securities is sold before maturity date, the remaining balance will be reclassified as trading securities or available-for-sale securities.

Held-to-maturity securities are initially recognized at cost and subsequently presented at cost. Premiums and discounts arising from securities purchases are amortized in the income statement using the straight-line method over the year from the acquisition dates to the maturity dates.

Periodically, the held-to-maturity securities are subject to review for impairment. Provision for impairment of these securities is made when there has been a significant or prolonged decline in the fair value below their cost. Provision for impairment is recognized as "Net gain/(loss) from securities investment" in the income statement.

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 made on the straight-line basis at prescribed rates over their estimated useful life in accordance with the Tax Law No.70/NA dated 15 December 2015 which is effective on or after 24 May 2016 stipulated by the President of the National Assembly. The 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%

Bank of China Ltd., Vientiane Branch

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 2001 by the Governor of Bank of the Lao PDR and other relevant guidance, commercial banks are required to appropriate at least 5% of profit after tax each year, after deducting retained losses, to regulatory reserve fund, until such fund reaches 10% of Tier-1 capital. Based on this requirement, management will decide the exact percentage of each year.

The Business expansion fund and other funds shall be created upon decision of the Board of Management.

2.13. Foreign currency transactions

The Branch maintains its accounting system and records all transactions in original currencies. Income and expenses arising in foreign currencies during the year are converted into LAK at rates ruling on the transaction dates. Monetary assets and liabilities denominated in foreign currencies at year end are translated into LAK at exchange rates ruling on the balance sheet date. Foreign exchange differences arising from the transaction of monetary assets and liabilities on the balance sheet date are recognized into the income statement. The list of applicable foreign currencies against LAK on 31 December 2018 and 2017 presented below:

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

2.14. Profit tax

The Branch is obliged to pay profit tax at the rate of 24% of total profit before tax for the year ended 31 December 2018 in accordance with the Tax Law No.70/NA dated 15 December 2015 which is effective on or after 24 May 2016. 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.

Bank of China Ltd., Vientiane Branch

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15. 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 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 2018, 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.

3. NET INTEREST AND SIMILAR INCOME

	<u>2018</u> <u>LAKm</u>	<u>2017</u> <u>LAKm</u>
Interest and similar income from:		
Interbank transactions	37,098	16,266
Loans to customers	47,233	24,738
Held-to-maturity securities	56,159	36,863
	<u>140,490</u>	<u>77,867</u>
Interest and similar expense for:		
Interbank transactions	(2,869)	(4,016)
Customer deposits	(22,104)	(6,734)
	<u>(24,973)</u>	<u>(10,750)</u>
Net interest and similar income	<u>115,517</u>	<u>67,117</u>

Bank of China Ltd., Vientiane Branch

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

4. NET FEES AND COMMISSION INCOME

	<u>2018</u> <u>LAKm</u>	<u>2017</u> <u>LAKm</u>
Fees and commission income from:		
Settlement activities	3,369	1,266
Treasury activities	1,204	1,318
Other activities	1,037	853
	<u>5,610</u>	<u>3,437</u>
Fees and commission expenses for:		
Financial enterprise fee	(236)	(214)
Clearing fee payable to central bank	(6)	(13)
Membership fee	(31)	(54)
	<u>(273)</u>	<u>(281)</u>
Net fees and commission income	<u>5,337</u>	<u>3,156</u>

5. NET GAIN FROM DEALING IN FOREIGN CURRENCIES

	<u>2018</u> <u>LAKm</u>	<u>2017</u> <u>LAKm</u>
Net gain from foreign exchange spot rate differences	10,168	6,580
Net gain from revaluation of monetary items	3,149	1,287
	<u>13,317</u>	<u>7,867</u>

6. OTHER OPERATING INCOME

	<u>2018</u> <u>LAKm</u>	<u>2017</u> <u>LAKm</u>
Reversal of provision for performing loans (Note 14.2)	1,253	768
Others	2	3
	<u>1,255</u>	<u>771</u>

7. PAYROLL AND OTHER STAFF COSTS

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

Bank of China Ltd., Vientiane Branch

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

8. OTHER ADMINISTRATION EXPENSES

	<u>2018</u> <u>LAKm</u>	<u>2017</u> <u>LAKm</u>
Office 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
Others	1,298	988
	<u>8,337</u>	<u>7,868</u>

9. OTHER OPERATING EXPENSES

	<u>2018</u> <u>LAKm</u>	<u>2017</u> <u>LAKm</u>
Provision for performing loans (<i>Note 14.2</i>)	-	3,640
Commissions for Depositor Protection Fund	1,022	628
Other expenses	53	418
	<u>1,075</u>	<u>4,686</u>

10. CASH ON HAND

	<u>31 December 2018</u> <u>LAKm</u>	<u>31 December 2017</u> <u>LAKm</u>
Cash on hand in LAK	8,384	2,448
Cash on hand in foreign currencies	17,602	18,694
	<u>25,986</u>	<u>21,142</u>

Bank of China Ltd., Vientiane Branch

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

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

	<i>31 December 2018</i> <i>LAKm</i>	<i>31 December 2017</i> <i>LAKm</i>
Demand deposit	326,331	199,680
Term deposit (i)	426,500	-
Compulsory deposit (ii)	182,797	207,660
Registered capital reserve (iii)	5	5
	935,633	407,345

- (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. During the year, the Branch maintained its compulsory deposits in compliance with the requirements of the BOL.
- (iii) Under the regulation of 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.

12. DUE FROM BANKS

12.1 Demand deposits

	<i>31 December 2018</i> <i>LAKm</i>	<i>31 December 2017</i> <i>LAKm</i>
Balances at domestic banks		
Industrial and Commercial Bank of China Limited, Vientiane Branch	10,474	2,141
Balances at foreign banks		
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
	536,036	308,050

Bank of China Ltd., Vientiane Branch

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

12. DUE FROM BANKS (continued)

12.2 Term deposits

	<u>31 December 2018</u> LAKm	<u>31 December 2017</u> LAKm
Term deposits at foreign banks		
Bank of China, Head Office	-	331,720
Bank of China, Shanghai RMB Trading Unit	446,400	228,960
	<u>446,400</u>	<u>560,680</u>

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.

13. HELD-TO-MATURITY SECURITIES

	<u>31 December 2018</u> LAKm	<u>31 December 2017</u> LAKm
Bonds issued by the BOL	853,000	829,300
	<u>853,000</u>	<u>829,300</u>

Details of bonds issued by the BOL as at 31 December 2018 are as follows:

<u>Term</u>	<u>Purchase date</u>	<u>Maturity date</u>	<u>Face value USD</u>	<u>LAKm Equivalent</u>	<u>Interest rate % per annum</u>
5-year	21-Oct-15	25-Oct-20	50,000,000	426,500	4,30% + Libor 6 months
5-year	16-Jun-17	16-Jun-22	50,000,000	426,500	4,30% + Libor 6 months
			<u>100,000,000</u>	<u>853,000</u>	

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

	<u>31 December 2018</u> LAKm	<u>31 December 2017</u> LAKm
Loans to customers (Note 14.1)	574,656	410,305
Less provision for non-performing loans	-	-
	<u>574,656</u>	<u>410,305</u>

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

	<u>2018</u> <u>Interest rates</u> <u>% per annum</u>	<u>2017</u> <u>Interest rates</u> <u>% per annum</u>
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

Bank of China Ltd., Vientiane Branch

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

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

14.1 Analysis of loans to customers

Analysis by currency

	31 December 2018 LAKm	31 December 2017 LAKm
Loans denominated in LAK	355,500	356,400
Loans denominated in USD	81,888	53,905
Loans denominated in CNY	137,268	-
	574,656	410,305

Analysis by status of loans

	31 December 2018 LAKm	31 December 2017 LAKm
Performing loans	574,656	410,305
Non-performing loans	-	-
	574,656	410,305

Analysis by original term

	31 December 2018 LAKm	31 December 2017 LAKm
Short-term loans	142,230	12,947
Medium-term loans	132,426	97,358
Long-term loans	300,000	300,000
	574,656	410,305

Analysis by economic sectors

	31 December 2018 LAKm	31 December 2017 LAKm
Industrial services companies	365,588	348,600
Construction companies	145,870	-
Agriculture companies	51,180	49,758
Trading companies	12,018	11,947
	574,656	410,305

Bank of China Ltd., Vientiane Branch

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

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

14.2 Provision for performing loans

Movement of provision for performing loans of the Branch during the year is as follows:

	2018 LAKm	2017 LAKm
As at 1 January	4,103	1,224
Provision (reversed)/charged in the year	(1,253)	2,872
Foreign currency differences	23	7
As at 31 December	2,873	4,103

The breakdown of loan classification and provision as required by the BOL as at 31 December 2018 are as follows:

<i>Classification</i>	<i>Loan balance LAKm</i>	<i>Provision for performing loans LAKm</i>	<i>Total provision LAKm</i>
Current	574,656	2,873	2,873
Special Mention	-	-	-
Sub-standard	-	-	-
Doubtful	-	-	-
Loss	-	-	-
Total	574,656	2,873	2,873

15. TANGIBLE FIXED ASSETS

	<i>Building improvement 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 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
Accumulated depreciation:					
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
Net book value:					
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

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

16. ACCRUED INTEREST RECEIVABLE

	<i>31 December 2018</i> LAKm	<i>31 December 2017</i> LAKm
Accrued interest from:		
Deposits at other banks	4,344	560
Loans to customers	1,617	1,297
Held-to-maturity securities	7,343	5,897
	13,304	7,754

17. OTHER ASSETS

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

18. DUE TO BANKS

	<i>31 December 2018</i> LAKm	<i>31 December 2017</i> LAKm
Demand deposits from domestic banks		
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
Term deposits from domestic banks		
ANZ Bank (Laos) Limited	-	66,344
Canadia Bank Lao Limited	30,000	-
Other payables to other financial institutions	5,865	559
	224,149	139,730

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.

Bank of China Ltd., Vientiane Branch

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

19. DUE TO CUSTOMERS

	<i>31 December 2018</i> <i>LAKm</i>	<i>31 December 2017</i> <i>LAKm</i>
Demand deposits	1,753,074	1,718,143
- in LAK	101,163	143,731
- in foreign currencies	1,651,911	1,574,412
Saving deposits	193,314	113,692
- in LAK	17,115	11,924
- in foreign currencies	176,199	101,768
Term deposits	692,441	146,277
- in LAK	4,522	2,663
- in foreign currencies	687,919	143,614
	<u>2,638,829</u>	<u>1,978,112</u>

The interest rates during the year for these deposits are as follows:

	<i>2018</i> <i>Interest rate</i>	<i>2017</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	1.00%	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%

20. ACCRUED INTEREST PAYABLE

	<i>31 December</i> <i>2018</i> <i>LAKm</i>	<i>31 December</i> <i>2017</i> <i>LAKm</i>
Interest payable to:		
Other banks	377	73
Customers	9,706	2,080
	<u>10,083</u>	<u>2,153</u>

21. OTHER LIABILITIES

	<i>31 December</i> <i>2018</i> <i>LAKm</i>	<i>31 December</i> <i>2017</i> <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>

Bank of China Ltd., Vientiane Branch

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

22. TAXES PAYABLE

22.1 Taxes payable

	<i>31 December 2018</i> <i>LAKm</i>	<i>31 December 2017</i> <i>LAKm</i>
Profit tax payable	8,554	3,065
Personal income tax payable	129	-
	8,683	3,065

22.2 Profit tax ("PT")

The Branch is obliged to pay profit tax at the rate of 24% of total profit before tax for the year ended 31 December 2018 in accordance with the new Tax Law No.70/NA dated 15 December 2015 which is effective on or after 24 May 2016.

	<i>2018</i> <i>LAKm</i>	<i>2017</i> <i>LAKm</i>
Profit before tax	107,000	46,509
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)
Taxable income	107,404	39,780
Current PT expense, at the statutory rate of 24%	25,777	9,547
PT payable at the beginning of the year	3,065	-
PT paid during the year	(20,288)	(6,482)
PT payable at the end of the year	8,554	3,065

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.

23. PAID-UP CAPITAL

	<i>2018</i> <i>LAKm</i>	<i>2017</i> <i>LAKm</i>
Opening balance	405,100	405,100
Changed during the year	-	-
Closing balance	405,100	405,100

24. CASH AND CASH EQUIVALENTS

	<i>31 December 2018</i> <i>LAKm</i>	<i>31 December 2017</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 deposits with original maturity term of 30 days or less	222,000	560,680
	1,110,353	1,089,552

Bank of China Ltd., Vientiane Branch

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

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 (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.

Significant balances with related parties are as follows:

<i>Related party</i>	<i>Relationship</i>	<i>Transactions</i>	<i>31 December</i>	<i>31 December</i>
			<i>2018</i>	<i>2017</i>
			<i>Receivable/ (Payable)</i>	<i>Receivable/ (Payable)</i>
			<i>LAKm</i>	<i>LAKm</i>
Bank of China, Head Office	Parent bank	Demand deposit	225,132	58,201
		Other payable	(950)	(812)
		Term deposit	-	331,720
		Accrued interest	-	195
Bank of China Limited, Shanghai RMB Trading Unit	Affiliate	Demand deposit	114,484	8,779
		Term deposit	446,400	228,960
		Accrued interest	609	365
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

Bank of China Ltd., Vientiane Branch

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

25. RELATED PARTY TRANSACTIONS (continued)

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

	2018 LAKm	2017 LAKm
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 Management is as follows:

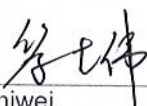
	2018 LAKm	2017 LAKm
Salaries and bonus	2,805	2,802
	<u>2,805</u>	<u>2,802</u>

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:

Reviewed by:


Mr. Li Zhiwei
Financial Management and
Operation Service Unit Manager


Mr. Li Zhiyong
General Manager



Vientiane, Lao PDR

19 April 2019