Industrial and Commercial Bank of China Limited Vientiane Branch

Audited Financial Statements
and
Independent Auditors' Report
Year ended 31 December 2014

Industrial and Commercial Bank of China Limited Vientiane Branch

Contents

Corporate Information

Bank	Industrial and Commercial Bank of China Limited Vientiane Branch
Banking Licence No.	06/BOL date 11 February 2013 Business Registration Certificate No. 1497 dated 25 December 2012
Board of Management	Mr. Lu Jian General Manager Mr. Chen Yingzhi Deputy General Manager
Registered office	Unit no. 15, Lane Xang Avenue Hatsady Village Chanthaboury District Vientiane Capital, Lao PDR
Auditors	KPMG Lao Co., Ltd 4th Floor, K.P. Tower 23 Singha Road P.O. Box 6978 Vientiane Capital, Lao PDR

ທະນາຄານ ອຸດສາຫະກຳ ແລະ ການຄ້າຈີນ ຈຳກັດ ສາຂານະຄອນຫຼວງວຽງຈັນ

ICBC 中国工商银行 万象分行

MANAGEMENT'S RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Management of Industrial and Commercial Bank of China Limited Vientiane Branch ("Branch") is responsible for the preparation of the financial statements of each financial year that ensure a true and fair presentation of its statement of financial position of the Branch as at 31 December 2014, statement of comprehensive income, statement of changes in head office account and statement of cash flows in accordance with the International Financial Reporting Standards ("IFRS"). In preparing the financial statements, Management is required to:

i) Adopt appropriate accounting policies which are supported by reasonable and prudent judgements and estimates and then apply them consistently;

ii) Comply with International Financial Reporting Standards or, if there have been any departures in the interest of true and fair presentation, ensure that these have been appropriately disclosed, explained and quantified in the financial statements;

iii) Maintain adequate accounting records and an effective system of internal controls;

iv) Take reasonable steps for safeguarding the assets of the Branch and for preventing and detecting fraud, error and other irregularities;

v) Prepare the financial statements on the going concern basis unless it is inappropriate to assume that the Branch will continue operations in the foreseeable future; and

vi) Effectively control and direct the Branch and be involved in all material decisions affecting the Branch's operations and performance and ascertain that such have been properly reflected in the financial statements.

Management confirms that they have complied with the above requirements in preparing the financial statements.

APPROVAL OF THE FINANCIAL STATEMENTS

I, Mr. Lu Jian, on behalf of the Board of Management, do hereby state that the financial statements set out on pages 5 to 51 give a true and fair view of the financial position of Industrial and Commercial Bank of China Limited Vientiane Branch as at 31 December 2014 and of the results of its operations and its cash flows for the year then ended and have been properly drawn up in accordance with International Financial Reporting Standards ("IFRS").

Signed on behalf of the Board of Management,

Lu Jian
General Manager
26 March 2015

Industrial and Commercial Bank of China LTD. VIENTIANE BRANCH P.O.BOX：7302,Vientiane Capital,Lao PDR.
Tel：00856-21-258888 Ext：8019 Fax：00856-21-258889 Website: www.icbc.com.la Email: icbcvtc@la.icbc.com.cn

带格式的: 字体: 11 磅, 加粗, 复杂文种字体: 11 磅, 加粗, 倾斜

MANAGEMENT'S RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Management of Industrial and Commercial Bank of China Limited Vientiane Branch ("Branch") is responsible for the preparation of the financial statements of each financial year that ensure a true and fair presentation of its statement of financial position of the Branch as at 31 December 2014, statement of comprehensive income, statement of changes in head office account and statement of cash flows in accordance with the International Financial Reporting Standards ("IFRS"). In preparing the financial statements, Management is required to:

i) Adopt appropriate accounting policies which are supported by reasonable and prudent judgements and estimates and then apply them consistently;

ii) Comply with International Financial Reporting Standards or, if there have been any departures in the interest of true and fair presentation, ensure that these have been appropriately disclosed, explained and quantified in the financial statements;

iii) Maintain adequate accounting records and an effective system of internal controls;

iv) Take reasonable steps for safeguarding the assets of the Branch and for preventing and detecting fraud, error and other irregularities;

v) Prepare the financial statements on the going concern basis unless it is inappropriate to assume that the Branch will continue operations in the foreseeable future; and

vi) Effectively control and direct the Branch and be involved in all material decisions affecting the Branch's operations and performance and ascertain that such have been properly reflected in the financial statements.

Management confirms that they have complied with the above requirements in preparing the financial statements.

APPROVAL OF THE FINANCIAL STATEMENTS

I, Mr. Lu Jian, on behalf of the Board of Management, do hereby state that the financial statements set out on pages 5 to 51 give a true and fair view of the financial position of Industrial and Commercial Bank of China Limited Vientiane Branch as at 31 December 2014 and of the results of its operations and its cash flows for the year then ended and have been properly drawn up in accordance with International Financial Reporting Standards ("IFRS").

Signed on behalf of the Board of Management,

Lu Jian
General Manager
26 March 2015

INDEPENDENT AUDITORS' REPORT

To: The Management
Industrial and Commercial Bank of China Limited Vientiane Branch

We have audited the accompanying financial statements of Industrial and Commercial Bank of China Limited Vientiane Branch ("the Branch"), which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in Head Office account and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The Branch is a part of Industrial and Commercial Bank of China Limited and is not a separately incorporated legal entity. The accompanying financial statements have been prepared from the records of the Branch and reflect only transactions recorded locally.

The financial statements have been prepared by the Branch using the basis of financial statement preparation and the accounting policies described in Notes 2 and 3 to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Industrial and Commercial Bank of China Limited Vientiane Branch as of 31 December 2014 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Lao Co., Ltd
Vientiane Capital, Lao PDR

Date: 26 March 2015

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of Financial Position
As at 31 December 2014

	Note	31 December 2014 LAK	31 December 2013 LAK
ASSETS			
Cash	5	42,316,021,926	18,572,855,821
Interbank and money market items			
Amounts due from head office and other branches	25(a)	823,021,729,795	253,936,135,106
Amounts due from other banks	6	185,196,006,495	162,725,218,092
Statutory deposits with Central Bank	7	152,782,618,180	139,119,849,416
Investments	8	2,007,778,916,691	1,567,696,000,000
Loans and advances	9	9,413,530,840,333	6,229,044,725,044
Derivative financial assets	10	544,632,534	900,885,258
Property and equipment	11	98,963,619,791	13,903,547,050
Intangible assets	12	50,833,151,564	51,448,216,349
Other assets	13	52,594,918,739	47,110,417,404
Total assets		**12,827,562,456,048**	**8,484,457,849,540**

The accompanying notes form an integral part of these financial statements

Prepared by: Approved by:

Accountant General Manager

LIABILITIES AND HEAD OFFICE ACCOUNT			
Liabilities			
Deposits from customers	14	2,067,816,247,512	990,478,055,529
Interbank and money market items			
Amounts due to other branches	25(a)	9,815,131,427,721	1,804,892,501,573
Amounts due to other banks	15	25,710,930,457	66,490,247
Borrowings	16,25	484,020,000,000	5,354,676,000,000
Tax liabilities	17	4,934,455,521	656,944,451
Deferred tax liabilities		516,215,677	7,506,321,526
Other liabilities	18	62,148,845,716	20,727,675,697
Total liabilities		**12,460,278,122,604**	**8,179,003,989,023**
Head Office Account			
Branch capital	19(a)	239,970,000,000	239,970,000,000
Statutory reserve	19(b)	12,568,659,697	4,173,694,285
Retained earnings		114,745,673,747	61,310,166,232
Total Head Office account		**367,284,333,444**	**305,453,860,517**
Total liabilities and Head Office Account		**12,827,562,456,048**	**8,484,457,849,540**

The accompanying notes form an integral part of these financial statements

Prepared by: Approved by:

Accountant General Manager

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of comprehensive income
For the year ended 31 December 2014

	Note	31 December 2014 LAK	31 December 2013 LAK
Interest income			
Interest from Loans and advances		127,696,228,293	81,483,900,217
Interest from Interbank and money market items		4,669,540,795	16,098,721,839
Interest from investment in bonds		94,328,547,803	77,472,184,512
Total interest income		**226,694,316,891**	**175,054,806,568**
Interest expense			
Interest from Deposits		(3,080,495,004)	(3,375,819,685)
Interest from Interbank and money market items		(69,473,752,857)	(49,345,883,416)
Interest from Borrowings		(42,279,245,862)	(34,964,871,078)
Total interest expense	20	**(114,833,493,723)**	**(87,686,574,179)**
Net interest income		**111,860,823,168**	**87,368,232,389**
Fee and commission income		6,132,916,210	5,559,027,798
Fee and commission expense		(918,150,067)	(481,414,536)
Net fee and commission income	21	5,214,766,143	5,077,613,262
Provision for bad and doubtful loans and advances	9	-	-
Net income from interest after doubtful accounts		**117,075,589,311**	**92,445,845,651**
Other income			
Gain on foreign exchange		2,983,833,625	5,403,047,138
Other income		6,362,224	1,129,545,468
Total other income		2,990,195,849	6,532,592,606
Income before non-interest expense and income tax		**120,065,785,160**	**98,978,438,257**
Operating Expenses			
Personnel expenses	22	(23,055,810,388)	(17,504,804,692)
Depreciation and amortization expenses		(2,842,801,295)	(2,712,617,397)
Other expenses		(12,466,729,589)	(10,239,977,210)
Total operating expenses		(38,365,341,272)	(30,457,399,299)

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of comprehensive income
For the year ended 31 December 2014

	Note	31 December 2014 LAK	31 December 2013 LAK
Profit before income tax		**81,700,443,888**	**68,521,038,958**
Tax expense	23	(19,869,970,961)	(18,234,759,404)
Profit for the year		**61,830,472,927**	**50,286,279,554**
Other comprehensive income			
Other comprehensive income for the period, net of tax		-	-
Total comprehensive income for the period, net of tax		**61,830,472,927**	**50,286,279,554**

The accompanying notes form an integral part of these financial statements

Prepared by: Approved by:

Accountant General Manager

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of changes in Head Office account
For the year ended 31 December 2014

	Branch capital LAK	Retained earnings LAK	Statutory reserve LAK	Total LAK
Balance at 1 January 2013	**239,970,000,000**	**14,143,189,472**	**1,054,391,491**	**255,167,580,963**
Profit for the year	-	50,286,279,554	-	50,286,279,554
Statutory reserve for the year	-	(3,119,302,794)	3,119,302,794	-
Balance at 31 December 2013 and 1 January 2014	**239,970,000,000**	**61,310,166,232**	**4,173,694,285**	**305,453,860,517**
Profit for the year	-	61,830,472,927	-	61,830,472,927
Statutory reserve for the year	-	(8,394,965,412)	8,394,965,412	-
Balance at 31 December 2014	**239,970,000,000**	**114,745,673,747**	**12,568,659,697**	**367,284,333,444**

The accompanying notes form an integral part of these financial statements.

Prepared by: Approved by:

Accountant General Manager

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of cash flows
For the year ended 31 December 2014

	Note	2014 LAK	2013 LAK
		31 December	
		2014	**2013**
	Note	**LAK**	**LAK**
Cash flows from operating activities			
Profit after tax		61,830,472,927	50,286,279,554
Adjustments for:			
Depreciation and amortisation		2,842,801,295	2,712,617,397
Income from investment in bonds		(94,328,547,803)	(77,472,184,512)
Income tax expenses		19,869,970,961	18,234,759,404
		(9,785,302,620)	**(6,238,528,157)**
Change in operating assets / liabilities			
Change in statutory deposits		(13,662,768,764)	(48,229,903,398)
Change in loans and advances to customers		(3,184,486,115,289)	(5,298,271,389,015)
Change in derivative financial assets		356,252,724	(900,885,258)
Change in other assets excluding interest receivable on investments		(5,977,287,639)	(7,828,115,934)
Change in deposits from customers		1,077,338,191,983	404,330,730,929
Change in interbank and money market liabilities		8,035,883,366,358	1,008,658,991,820
Change in withholding tax liabilities		(434,999,112)	515,886,658
Change in other liabilities		41,421,170,019	1,256,524,438
Income tax paid		(22,147,566,628)	(11,297,703,945)
Net cash used in operating activities		**5,918,504,941,032**	**(3,958,004,391,862)**
Cash flows from investing activities			
Acquisition of property and equipment		(87,287,809,251)	(2,500,552,882)
Acquisition of intangible assets		-	(52,014,883,164)
Purchases of bond investments		(601,458,032,047)	(1,247,536,000,000)
Proceeds from sale and redemption of bond investments		161,375,115,356	762,770,000,000
Income from investment in bonds		94,821,334,107	65,298,296,159
Net cash used in investing activities		**(432,549,391,835)**	**(473,983,139,887)**
Cash flows from financing activities			
Proceeds from borrowings		15,012,858,340,000	56,711,864,200,000
Repayment of borrowings		(19,883,514,340,000)	(52,157,284,220,000)
Net cash generated from financing activities		**(4,870,656,000,000)**	**4,554,579,980,000**

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of cash flows
For the year ended 31 December 2014

	Note	31 December 2014 LAK	2013 LAK
Net change in cash and cash equivalents		**615,299,549,197**	**122,592,448,251**
Cash and cash equivalents at 1 January		435,234,209,019	312,641,760,768
Cash and cash equivalents at 31 December	24	**1,050,533,758,216**	**435,234,209,019**

The accompanying notes form an integral part of these financial statements.

Prepared by: Approved by:

Accountant General Manager

1. Organisation and principal activities

The Industrial and Commercial Bank of China Limited Vientiane Branch ("the Branch") is a branch of the Industrial and Commercial Bank of China Limited which is incorporated in the People's Republic of China. The Branch has its registered office at Unit no. 15, Lane Xang Avenue, Hatsady Village, Chanthaboury District, Vientiane, Lao People's Democratic Republic ("Lao PDR"). The Branch commenced its operations on 28 November 2011 in accordance with investment licence 180-11/MPI 2 August 2011. It received approval from the Bank of the Lao PDR ("BoL") to operate as a bank under Banking Licence 16/BOL 25 August 2011 and amendment Banking Business License in February 2013. The Branch is a part of Industrial and Commercial Bank of China Limited and is not a separately incorporated legal entity. The accompanying financial statements have been prepared from the records of the Branch and reflect only transactions recorded locally. The Branch has significant transactions and balances with its Head Office and other branches.

The principal activities of the Branch consist of providing services in finance, commerce and banking to Lao, Chinese and Thai corporate investors and banking services to individuals.

As at 31 December 2014, the Branch had 56 (2013: 53) employees.

BoL's announcement number 338/Tor.Aor.Tor dated 13 September 2012 requested the banks in Lao PDR to prepare a separate set of financial statements in accordance with International Financial Reporting Standards. The Branch has also prepared the financial statements in accordance with regulations of the Bank of Lao PDR and the Branch's principal accounting policies. Therefore, the Branch has 2 set of financial statements which are:

1. In accordance with regulations of the Bank of Lao PDR and the Branch's principal accounting policies ("Lao Practice")
2. In accordance with International Financial Reporting Standards ("IFRS")

The financial statements of the Branch based on Lao Practice were authorised for issue by the Board of Management on 26 March 2015.

2. Basis of financial statement preparation

(i) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).The financial statements of the Branch were authorised for issue by the Board of Management on 26 March 2015.

(ii) Basis of measurement

The financial statements have been prepared on the historical cost basis except as stated in the accounting policies. The accounting policies have been consistently applied by the Branch and are consistent with those used in the previous year except otherwise stated.

(iii) Functional and presentation currency

These accompanying financial statements are presented in Lao Kip ("LAK"), which is the Branch's functional currency.

(iv) Use of accounting estimates and judgments

The preparation of the Branch's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions based on the management's best

2. Basis of financial statement preparation (continued)

(iv) Use of accounting estimates and judgments (continued)

knowledge of current events and actions that affect the application of accounting policies and the reported amounts of assets, liabilities, income, expenses and the disclosures of contingent liabilities at the reporting date.Estimates and underlying assumptions are reviewed on an ongoing basis. Actual outcomes may differ from management's assessment and such differences could require revisions that are recognised in the period in which the estimates are revised and in any future periods affected.

(v) Fiscal Year

The Branch reporting period starts on 1 January and ends on 31 December.

(vi) Change in accounting policies

The IASB has issued the following revised IFRSs (including International Accounting Standards ("IASs")) and amendments to standards that are effective in 2014 and relevant to the Branch's operation.

Amendments to IAS 32 *Financial instruments: presentation–Offsetting financial assets and financial liabilities*

The principal effects of adopting the new and amended IFRSs are as follows:

Amendments to IAS 32 – Financial instruments: presentation – offsetting financial assets and financial liabilities

The amendments to IAS 32 clarify the offsetting criteria in IAS 32. The amendments to IAS 32 clarify the meaning of "currently has a legally enforceable right to set-off". The adoption does not have any material impact on the Branch's financial statements.

3. Summary of significant accounting policies

The significant accounting policies set out below have been adopted by the Branch in the preparation of the financial statements.

(a) Foreign currency transactions

Transactions in a currency other than the functional currency of the Branch are translated to LAK at the exchange rates approximating those ruling at the transaction dates.

All monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into LAK at the spot exchange rates at that date. All realised and unrealised foreign exchange differences arising from the translation are recognised in the statement of comprehensive income.

The applicable exchange rates for the Lao Kip against foreign currencies were:

	31 December 2014	31 December 2013
	LAK	LAK
United States Dollar ("USD")	8,067.00	8,004.00
Thai Baht ("THB")	246.48	244.82
Chinese Yuan ("CNY")	1,289.11	1,311.53
Euro ("EUR")	9,787.00	11,045.00

3. Summary of significant accounting policies (continued)

(b) Financial assets and financial liabilities

(i) Recognition

The Branch initially recognises loans and advances, deposits and borrowings on the date that they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Branch commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Branch becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Financial assets

The Branch classifies its financial assets in one of the following categories:

- loans and receivables; and
- held to maturity.
- at fair value through profit or loss as held for trading

Financial liabilities

The Branch classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost.

(iii) Derecognition

Financial assets

The Branch derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Branch neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in such transferred financial assets that qualify for derecognition that is created or retained by the Branch is recognised as a separate asset or liability. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

In transactions in which the Branch neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Branch continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

3. Summary of significant accounting policies (continued)

(b) Financial assets and financial liabilities (continued)

(iii) Derecognition (continued)

Financial liabilities

The Branch derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

(iv) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Branch has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS.

(v) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(vi) Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction on the measurement date.

If a market for a financial instrument is not active, the Branch establishes fair value using a valuation technique. Valuation techniques include the use of discounted cash flow analyses. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Branch, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

(vii) Identification and measurement of impairment

At each reporting date the Branch assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Branch on terms that the Branch would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

3. Summary of significant accounting policies (continued)

(b) Financial assets and financial liabilities (continued)

(vii) Identification and measurement of impairment (continued)

The Branch considers evidence of impairment for loans and advances and held-to-maturity investments at both a specific asset and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances or held-to-maturity investments. Interest on the impaired assets continues to be recognised through the unwinding of the discount. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The Branch writes off certain loans and advances and investment securities when they are determined to be uncollectible.

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances, demand deposits and short-term highly liquid investments with original maturities of three months or less when purchased, and that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

(d) Investments

Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Branch has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available for sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment losses. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available for sale, and would prevent the Branch from classifying investment securities as held to maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Branch has collected substantially all of the asset's original principal; and
- sales or reclassifications attributable to non-recurring isolated events beyond the Branch's control that could not have been reasonably anticipated.

3. Summary of significant accounting policies (continued)

(e) Derivatives

Derivative financial instruments are used to manage exposure to foreign exchange, interest rate arising from operational, financing and investment activities. Derivative financial instruments are not used for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, they are measured at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of item being hedged.

The fair value of interest rate swaps is the estimated amount that the Branch would receive or pay to terminate the swap at the reporting date, taking into account current interest rates.

(f) Loans and advances

Loans and advances are originated by the Branch providing money to a customer for purposes other than short-term profit taking.

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Branch does not intend to sell immediately or in the near term.

Loans and advances to customers include those classified as loans and receivables.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Loans and advances are carried at amortised cost using the effective interest rate method, less any impairment losses. Loans and advances are shown exclusive of accrued interest receivable.

(g) Deposits from customers

Deposits are the Branch’s sources of debt funding. Deposits are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Branch designates liabilities at fair value through profit or loss.

(h) Property and equipment

(i) Items of property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Where an item of property comprises major components having different useful lives, the components are accounted for as separate items of property and equipment. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

(ii) Depreciation of property and equipment is charged to the statement of income on a straight line basis over the estimated useful lives of the individual assets at the following annual rates:

Leasehold improvement	10%
Electronic equipment	20%
Furniture, fitting and office equipment	20%
Vehicle	20%

3. Summary of significant accounting policies (continued)

(h) Property and equipment (continued)

(iii) Subsequent expenditure relating to an item of property and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Branch. All other subsequent expenditure is recognised as an expense in the period in which it is incurred. Ongoing repairs and maintenance are expensed as incurred.

(iv) Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the assets and are recognised in the profit or loss on the date of retirement or disposal.

(v) Fully depreciated property and equipment is retained on the balance sheet until disposed of or written off.

(i) Intangible assets

(i) Software

Software acquired by the Branch is stated at cost less accumulated amortization and accumulated impairment loss, if any.

Subsequent expenditure on software assets is capitalized only when it increases future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed when incurred.

Amortization is recognised in the statement of income on a straight line basis over the estimated useful life of software, from the date that it is available for use. The estimated useful life of software is 5 years.

(ii) Land use rights

Land use rights include costs incurred to purchase formal rights to use land and land compensation costs. The initial cost is based on the costs incurred and the value of land approved by the Government at the time of purchase. Amortisation is provided on a straight-line basis over the expected period of benefit from the land use rights.

(j) Interest income

Interest income is recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset. When calculating the effective interest rate, the Branch estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the effective interest rate includes all transaction costs and fees and points received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition of a financial asset.

3. Summary of significant accounting policies (continued)

(k) Interest expense

Interest expense is recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial liability. When calculating the effective interest rate, the Branch estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees and points paid that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the issue of a financial liability.

(l) Fee and commission

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

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

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognized over the commitment period on a straight line basis.

Fee income from providing transaction services

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

(m) Tax expense

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity or in other comprehensive income.

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation and establishes provisions of amounts payable to the tax authorities.

For each profitable year, the Branch is subject to the tax rate of 24% on taxable profit.

3. Summary of significant accounting policies (continued)

(m) Tax expense (continued)

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

● temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

● temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and

● taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Branch expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which it can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax exposures

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

The taxation system in Lao PDR is relatively new and is characterized by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are enabled by law to impose severe fines, penalties and interest charges.

These facts may create tax risks in Lao PDR substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the relevant authorities may have differing interpretations and the effects could be significant.

3. Summary of significant accounting policies (continued)

(n) Provisions

A provision is recognised if, as a result of a past event, the Branch has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(o) Related parties

Parties are considered to be related to the Branch if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions or where the Branch and the party are subject to common control or significant influence. Related parties may be individuals or corporate entities and include close family members of any individual considered to be a related party.

4. Impact of issued but not yet effective International Financial Reporting Standards

The Branch has not applied the following new and revised IFRSs and IASs that have been issued but are not yet effective, in these financial statements.

IAS 16 Amendments *Property, plant and equipment*[1]

IAS 38 Amendments *Intangible assets*[1]

IFRS 9 *Financial instruments* [2]

[1] Effective for annual periods beginning on or after 1 January 2016, early adoption is permitted.

[2] Effective for annual periods beginning on or after 1 January 2018, early adoption is permitted.

Further information about those changes that are expected to affect the Branch is as follows:

Amendments to IAS 16, Property, plant and equipment and IAS 38, Intangible assets "Clarification of acceptable methods of depreciation and amortization"

The amendments introduce a rebuttable presumption to IAS 38 that the use of revenue-based amortisation methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. The amendments also prohibit the use of revenue-based depreciation methods for property, plant and equipment under IAS 16.

The adoption does not have any material impact on the Branch's financial statements.

4. Impact of issued but not yet effective International Financial Reporting Standards (continued)

IFRS 9 "Financial instruments"

On 24 July 2014, the IASB issued the complete standard of IFRS 9 (IFRS 9 (2014)).

Classification and measurement of financial assets and financial liabilities

IFRS 9 (2014) includes a 3rd business model and requires some debt instruments to be measured at fair value through other comprehensive income less impairment with recycling. For the classification and measurement, IFRS 9 introduces a new requirement that the gain or loss on a financial liability designated at fair value through profit or loss that is attributable to changes in the entity's own credit risk is recognised in other comprehensive income; the remaining amount of change in fair value is recognised in profit or loss ("own credit risk requirements").

Hedge accounting

The new standard aligns hedge accounting more closely with risk management. It does not fundamentally change the types of hedging or the requirement to measure and recognise ineffectiveness; however, more hedging strategies that are used for risk management will qualify for hedge accounting.

Impairment

The new impairment methodology in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under IFRS 9 it is not necessary for a credit event to have occurred before credit losses are recognised.

The Branch is currently assessing the impact of the amendments on its financial position and performance.

5. Cash

	2014 LAK	2013 LAK
Lao Kip (“LAK”)	9,248,342,500	1,067,079,000
United States Dollar (“USD”)	23,332,764,924	1,963,365,192
Thai Baht (“THB”)	7,506,094,876	2,905,800,406
China Yuan (“CNY”)	2,228,819,626	12,636,611,223
	42,316,021,926	**18,572,855,821**

6. Interbank and money market items (assets)

	2014 LAK	2013 LAK
Lao Kip (“LAK”)	19,166,063,414	40,931,893,959
Other foreign items	166,029,943,081	121,793,324,133
	185,196,006,495	**162,725,218,092**

a) Domestic items

	2014 LAK	2013 LAK
At call		
Bank of Lao PDR	15,900,705,657	35,425,670,130
Other commercial banks	3,265,357,757	5,506,223,829
	19,166,063,414	**40,931,893,959**

b) Foreign items

	2014 LAK	2013 LAK
At call		
USD	76,290,336,398	98,813,132,515
THB	12,296,680,697	15,706,441,726
CNY	77,442,925,986	7,273,749,892
	166,029,943,081	**121,793,324,133**

7. Statutory deposits with Central Bank

	2014	2013
	LAK	LAK
Statutory deposits on:		
Capital	7,539,719,883	7,539,719,883
Customer deposits	145,242,898,297	131,580,129,533
	152,782,618,180	**139,119,849,416**

Statutory deposits on capital and on customer deposits are maintained with the BoL in compliance with applicable BoL regulations.

These deposits do not earn interest.

8. Investments

	2014	2013
	LAK	LAK
Government bonds	1,982,008,000,000	1,567,696,000,000
Financial bonds	25,770,916,691	-
	2,007,778,916,691	**1,567,696,000,000**

Investments represent held-to-maturity investment in bonds. These bonds have maturities ranging from date 28 February 2015 to 27 May 2019 (2013: date 23 May 2014 to date 29 January 2018) and interest rates ranging from 4.33% to 9% (2013: 4.38% to 9%).

9. Loans and advances

	2014	2013
	LAK	LAK
Loans and receivables:		
- Overdrafts	1,299,767,632	538,250,852
- Loans	9,412,231,072,701	6,228,506,474,192
	9,413,530,840,333	**6,229,044,725,044**
Allowances for Impairment:		
- Collective allowances for impairment	-	-
- Specific allowances for impairment	-	-
	-	-
Loans and advances to customers	**9,413,530,840,333**	**6,229,044,725,044**

9. Loans and advances (continued)

a) Classified by residual maturity

	2014 LAK	2013 LAK
Within 1 year	8,691,867,907,798	5,498,759,765,044
Over 1 year	721,662,932,535	730,284,960,000
	9,413,530,840,333	**6,229,044,725,044**

b) Classified by currencies

	2014 LAK	2013 LAK
LAK	1,055,839,711	445,918,183
USD	9,351,642,902,701	6,178,668,334,192
CNY	60,832,097,921	49,930,472,669
	9,413,530,840,333	**6,229,044,725,044**

c) Classified by interest rate (per annum)

	2014 %	2013 %
Loans		
USD	0.94%-8.00%	1.35% - 7.20%
CNY	4.46%	4.20% - 4.50%

10. Derivative financial assets

	2014 LAK	2013 LAK
Interest rate swap	**544,632,534**	**900,885,258**

11. Property and equipment

	Leasehold improvement LAK	Electronic equipment LAK	Furniture, fitting and office equipment LAK	Vehicle LAK	Construction in progress LAK	Total LAK
Cost						
Balance at 1 January 2013	10,361,077,500	2,017,539,942	250,592,186	2,848,597,850	-	15,477,807,478
Additions	-	624,707,278	136,613,450	-	1,739,232,154	2,500,552,882
Balance at 31 December 2013 and at 1 January 2014	**10,361,077,500**	**2,642,247,220**	**387,205,636**	**2,848,597,850**	**1,739,232,154**	**17,978,360,360**
Additions	-	631,290,361	1,754,735,841	-	84,901,783,049	87,287,809,251
Balance at 31 December 2014	**10,361,077,500**	**3,273,537,581**	**2,141,941,477**	**2,848,597,850**	**86,641,015,203**	**105,266,169,611**
Accumulated depreciation						
Balance at 1 January 2013	1,131,084,300	376,303,706	23,318,086	433,619,897	-	1,964,325,989
Depreciation for the year	1,038,700,500	433,690,207	67,063,048	571,033,566	-	2,110,487,321
Balance at 31 December 2013 and at 1 January 2014	**2,169,784,800**	**809,993,913**	**90,381,134**	**1,004,653,463**	**-**	**4,074,813,310**
Depreciation for the year	1,035,256,800	536,262,282	86,810,128	569,407,300	-	2,227,736,510
Balance at 31 December 2014	**3,205,041,600**	**1,346,256,195**	**177,191,262**	**1,574,060,763**	**-**	**6,302,549,820**
Carrying amount						
At 1 January 2013	**9,229,993,200**	**1,641,236,236**	**227,274,100**	**2,414,977,953**	**-**	**13,513,481,489**
At 31 December 2013	**8,191,292,700**	**1,832,253,307**	**296,824,502**	**1,843,944,387**	**1,739,232,154**	**13,903,547,050**
At 31 December 2014	**7,156,035,900**	**1,927,281,386**	**1,964,750,215**	**1,274,537,087**	**86,641,015,203**	**98,963,619,791**

There are no disposals during the year

12. Intangible assets

	Computer software	Land use rights	Total
	LAK	LAK	LAK
Cost			
Balance at 1 January 2013	44,607,880	-	44,607,880
Acquisitions	151,383,164	51,863,500,000	52,014,883,164
Balance at 31 December 2013 and at 1 January 2014	**195,991,044**	**51,863,500,000**	**52,059,491,044**
Acquisitions	-	-	-
Balance at 31 December 2014	**195,991,044**	**51,863,500,000**	**52,059,491,044**
Accumulated amortisation			
Balance at 1 January 2013	9,144,619	-	9,144,619
Amortisation for the year	19,925,935	582,204,141	602,130,076
Balance at 31 December 2013 and at 1 January 2014	**29,070,554**	**582,204,141**	**611,274,695**
Amortisation for the year	39,171,800	575,892,985	615,064,785
Balance at 31 December 2014	**68,242,354**	**1,158,097,126**	**1,226,339,480**
Carrying amounts			
At 1 January 2013	**35,463,261**	**-**	**35,463,261**
At 31 December 2013	**166,920,490**	**51,281,295,859**	**51,448,216,349**
At 31 December 2014	**127,748,690**	**50,705,402,874**	**50,833,151,564**

13. Other assets

	2014	2013
	LAK	LAK
Accrued interest receivable on loan	17,612,580,839	9,924,982,410
Accrued interest receivable on investment	28,437,841,294	28,930,627,598
Other receivables and prepayments	6,544,496,606	8,254,807,396
	52,594,918,739	**47,110,417,404**

14. Deposits from customers

a) Classified by type of deposits

	2014 LAK	2013 LAK
Current	1,853,468,901,060	776,688,304,038
Savings	170,865,836,972	125,413,960,569
Term (residual maturity):		
Within 1 year	28,101,290,516	45,995,767,622
Over 1 year	15,380,218,964	42,380,023,300
	2,067,816,247,512	**990,478,055,529**

b) Classified by currencies

	2014 LAK	2013 LAK
LAK	58,810,855,252	65,797,752,843
USD	1,858,630,446,269	814,599,466,745
THB	16,497,257,504	18,837,794,999
CNY	133,877,688,487	91,243,040,942
	2,067,816,247,512	**990,478,055,529**

c) Interest rate (per annum)

	2014 %	2013 %
Saving accounts		
LAK	0.50% - 2.00%	0.50% - 2.00%
USD	0.75% - 1.25%	0.75% - 1.25%
THB	0.25% - 0.50%	0.25% - 0.50%
CNY	0.20%	0.20%
Fixed deposits		
LAK	5% - 11%	5% - 11%
USD	2.00% - 6.25%	2.00% - 6.25%
THB	0.75% - 4.50%	0.75% - 2.50%
CNY	0.30% - 0.40%	0.25% - 0.40%

15. Interbank and money market items (liabilities)

	2014 LAK	2013 LAK
At Call	**25,710,930,457**	**66,490,247**

a) By residence:

	2014 LAK	2013 LAK
Domestic	**25,710,930,457**	**66,490,247**

b) By currency:

	2014 LAK	2013 LAK
LAK	209,821	233,992
USD	17,509,922,121	720,360
CNY	8,200,798,515	65,535,895
	25,710,930,457	**66,490,247**

16. Borrowings

	2014 LAK	2013 LAK
Industrial and Commercial Bank of China (Asia) Limited	484,020,000,000	5,354,676,000,000
	484,020,000,000	**5,354,676,000,000**

The amounts are unsecured, bore interest between 0.45% and 2.35% and were repayable over a period from 5 January 2015 to 24 March 2015.

17. Tax liabilities

	2014 LAK	2013 LAK
Corporate Tax	4,712,510,182	-
Withholding tax – PIT	173,289,624	-
Other withholding tax	48,655,715	656,944,451
	4,934,455,521	**656,944,451**

18. Other liabilities

	2014 LAK	2013 LAK
Accrued interest payables	22,669,908,359	11,086,249,961
Payable to employees	5,786,515,000	3,154,040,000
Settlement accounts	32,866,502,175	5,806,395,798
Deferred income	567,432,780	629,274,480
Other payables	258,487,402	51,715,458
	62,148,845,716	**20,727,675,697**

19 (a). Branch capital

	2014 LAK	2013 LAK
Contributed legal capital	**239,970,000,000**	**239,970,000,000**

19 (b). Statutory reserve

The statutory reserve is provided for at the rate of at least 10% of profit during the year under Lao GAAP in accordance with regulations of the Bank of the Lao PDR.

20. Interest expense

	2014 LAK	2013 LAK
Savings deposits:		
Customer	1,251,009,532	926,744,577
Bank	69,473,752,857	49,345,883,416
Fixed deposits	1,829,485,472	2,449,075,108
Borrowings	42,279,245,862	34,964,871,078
	114,833,493,723	**87,686,574,179**

21. Net fee and commission income

	2014 LAK	2013 LAK
Fee and commission income		
Commission on bank cards	681,067,891	410,059,833
Commission on guarantees	13,594,105	153,300
Commission on letters of credit	45,431,376	72,015,734
Commission on fund transfers	1,771,719,016	1,521,183,191
Commission on e-Banking	90,214,937	50,377,590
Fees on financial services	3,530,888,885	3,505,238,150
Total fee and commission income	6,132,916,210	5,559,027,798
Fee and commission expense		
Commission on bank cards	232,507,362	48,255,649
Fees on financial services	-	3,608,932
Commission on fund transfers	145,988,628	90,907,561
Other	539,654,077	338,642,394
Total fee and commission expense	918,150,067	481,414,536
Net fee and commission income	**5,214,766,143**	**5,077,613,262**

22. Personnel expenses

	2014 LAK	2013 LAK
Staff salaries	22,307,800,541	16,906,181,969
Other staff cost	748,009,847	598,622,723
	23,055,810,388	**17,504,804,692**

23. Tax expense

	2014 LAK	2013 LAK
Current tax expense		
Current year	26,598,212,382	10,055,607,677
Adjustment for prior year	261,864,428	672,830,201
	26,860,076,810	10,728,437,878
Deferred tax expense		
(Reversal) and origination of temporary differences	(6,990,105,849)	6,389,441,673
Adjustment for prior year	-	1,116,879,853
	19,869,970,961	**18,234,759,404**

The corporate tax expense is calculated at 24% on taxable profit.

The calculation of taxable income is subject to review and approval of the tax authorities.

(i) Reconciliation of effective tax rate

	Rate %	2014 LAK	*Rate* %	2013 LAK
Profit before tax		81,700,443,888		68,521,038,958
Income tax using the Lao PDR corporation tax rate	24.0	19,608,106,533	24.0	16,445,049,350
Under provided in prior years – current	0.3	261,864,428	1.0	672,830,201
Under provided in prior years – deferred	0.0	-	1.0	1,116,879,853
Tax expense	**24.3**	**19,869,970,961**	**26.6**	**18,234,759,404**

24. Cash and cash equivalents

	2014 LAK	2013 LAK
Cash	42,316,021,926	18,572,855,821
Deposits and placements with head office and other branches	823,021,729,795	253,936,135,106
Deposits and placements with other banks	185,196,006,495	162,725,218,092
	1,050,533,758,216	**435,234,209,019**

25. Related party transactions

A portion of the Bank's assets, liabilities, revenues and expenses has arisen from transactions with related parties. These parties are related through common shareholdings and/or directorships. The financial statements reflect the effects of these transactions, which are through negotiated agreements.

(a) Head Office and other branches of the same juristic person

	2014 LAK	2013 LAK
Interbank and money market items		
Due from head office	49,200,980,425	38,432,489,697
Due from other branches	678,481,775,298	189,228,463,105
Loans to other branches	95,338,974,072	26,230,600,000
Subtotal	823,021,729,795	253,891,552,802
Interest receivable from other branches	88,422,306	44,582,304
Total	**823,110,152,101**	**253,936,135,106**

(i) Foreign items

	2014 LAK	2013 LAK
USD	776,626,960,032	211,068,661,190
CNY	46,452,275,425	42,864,790,533
EUR	30,916,644	2,683,383
	823,110,152,101	**253,936,135,106**

25. Related party transactions (continued)

(a) Head Office and other branches of the same juristic person (continued)

	2014 LAK	2013 LAK
Other balances at end of the year:		
Deposits from other branches	(1,332,595,257,721)	(1,004,492,501,573)
Borrowings from other branches	(8,482,536,170,000)	(800,400,000,000)
Subtotal	(9,815,131,427,721)	(1,804,892,501,573)
Interest payable	(13,191,407,073)	(9,746,924,547)
Total	**(9,828,322,834,794)**	**(1,814,639,426,120)**
Transactions during the year:		
Interest income on amount due from Head Office and other branches	388,601,104	87,215,117
Interest income on loans	4,053,357,195	15,895,152,780
Interest expense on deposits	(69,473,752,857)	(49,345,882,684)

(b) Other related parties

	2014 LAK	2013 LAK
Balances at end of the year:		
Due from banks and financial institutions	81,359,934,582	62,833,595,941
Borrowings	(484,020,000,000)	(5,354,676,000,000)
Transactions during the year:		
Interest income on amount due from these banks and financial institutions	227,582,496	116,353,942
Interest expense on borrowings	(42,279,245,862)	(34,964,871,078)

(c) Key management personnel

	2014 LAK	2013 LAK
Transactions during the year:		
Compensation	3,613,851,007	3,111,327,795

26. Commitments

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated from these transactions, which consist of:

	2014 LAK	2013 LAK
Letters of guarantee outstanding	339,854,643	39,345,900,000
	339,854,643	**39,345,900,000**

27. Financial risk management

(a) Introduction and overview

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

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

The Branch's policies are also to monitor business risks arising from changes in the environment, technology and industry through the Branch's strategic planning process.

Risk management framework

The Branch's risk management strategies and principles are approved by the head office, who is responsible for the overall risk management approach.

The head office has appointed Risk Compliance Department which is in charge of monitoring the overall risk process within the Branch. This department has the overall responsibility for the development of the Branch's risk strategy as well as the implementation of principles, frameworks, policies and limits. It also manages decisions on risk, monitors risk levels and reports directly to the head office.

The Branch's risk management processes are annually audited by the Internal Audit function in terms of the adequacy of the designed processes as well as the compliance with the designed processes. The Internal Audit then discusses the results of the audit with the Branch's management and reports all findings and recommendations to the Group Internal Audit Department.

(b) Credit risk

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

27. Financial risk management (continued)

(b) Credit risk (continued)

Management of credit risk

The Branch has maintained a policy of credit risk management to ensure the following basic principles:

- set up an appropriate credit risk management environment;
- operate in a healthy process for granting credit facilities;
- maintain an appropriate management, measurement and monitoring credit process; and
- ensure adequate controls for credit risk.

The approval process for granting credit must go through several management levels to ensure a credit facility is reviewed independently together with the limit applied to each competent level. In addition, the participation of Credit Council in the credit approval model also helps to ensure a highest quality and concentrated approval process.

Exposure to credit risk

	Loans and advances		Investments	
LAK in million	**2014**	**2013**	**2014**	**2013**
Carrying amount	**9,413,531**	**6,229,045**	**2,007,779**	**1,567,696**
Assets at amortised cost				
Individually impaired	-	-	-	-
Collectively impaired	-	-	-	-
Past due but not impaired	-	-	-	-
Neither past due nor impaired	9,413,531	6,229,045	2,007,779	1,567,696
Carrying amount	**9,413,531**	**6,229,045**	**2,007,779**	**1,567,696**
Carrying amount – amortised cost	**9,413,531**	**6,229,045**	**2,007,779**	**1,567,696**

Neither past due nor impaired: financial assets or the loans with interest or principal payments not yet past due and there is no evidence of impairment.

Past due but not impaired: financial assets with past due interest and principal payments but the Branch believes that these asset are not impaired as they are secured by collaterals and has confidence in the customer's credit worthiness and other credit enhancements.

Individually impaired: debt instruments and loans to customers for which the Branch considers not being able to recover interest and principal under the terms of the contracts.

27. Financial risk management (continued)

(b) Credit risk (continued)

Collateral held and other credit enhancements and their financial effect

The Branch holds collateral and other credit enhancements against certain of its credit exposures. The table below sets out the principal types of collateral held against different types of financial assets.

Type of credit exposure *LAK in millions*	**Principal type of collateral held for secured lending**	**Percentage of exposure that is subject to an arrangement that requires collateralization** 31 December 2014	31 December 2013
Derivative assets	None	-	-
Loans and advances to customers			
Corporate Loans	Land & building & LCs issued by other banks	100%	91.95%
Participant loans	Financial Guarantee	100%	100%
Personal loans	Building	100%	-
Credit cards	None	-	-
Investments	None	-	-

The Branch typically does not hold collateral against investments, and no such collateral was held at 31 December 2014 or 2013.

Loans and advances to corporate customers

The Branch's loans and advances to corporate customers are subject to individual credit appraisal and impairment testing. The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Branch generally requests corporate borrowers to provide it. The Branch may take collateral in the form of a charge over real estate and guarantees.

27. Financial risk management (continued)

(b) Credit risk (continued)

Concentration of credit risk

The Branch monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk from loans and advances, lending commitments and investment is shown below:

	Loan and advances		Investments		Lending commitments	
In millions of LAK	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Carrying amount	**9,413,531**	**6,229,045**	**2,007,779**	**1,567,696**	**340**	**39,346**
Concentration by Sector						
Corporate:						
Industry	418,597	182,091	-	-	340	39,346
Technology	322,680	320,160	-	-	-	-
Service	80,670	104,052	-	-	-	-
Other	8,590,143	5,622,742	-	-	-	-
Personal	1,441	-	-	-	-	-
Government	-	-	1,982,008	1,567,696	-	-
Bank	-	-	25,771	-	-	-
	9,413,531	**6,229,045**	**2,007,779**	**1,567,696**	**340**	**39,346**

Trading assets

The Branch held derivative assets held for risk management purposes of LAK 545 million at 31 December 2014 (2013: 901 million). An analysis of the credit quality of the maximum credit exposure is as follows:

In millions of LAK	**2014**	**2013**
Derivative assets:		
Corporate counterparties	476	877
Bank and financial institution counterparties	69	24
Fair value and carrying amount	**545**	**901**

27. Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Branch will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

Liquidity risk arises because of the possibility that the Branch might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged for diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. The Branch has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The following assumptions and conditions are applied in the liquidity risk analysis of the Branch's financial assets and liabilities:

- Deposits at the BOL are classified as demand deposits which include compulsory deposits. The balance of compulsory deposits depends on the proportion and terms of the Branch's customer deposits.
- The maturity term of investment securities is calculated based on the maturity date of each kind of securities.
- The maturity term of loans to customers is determined on the maturity date as stipulated in contracts. The actual maturity term may be altered because loan contracts may be extended.
- The maturity term of deposits and borrowings from other banks; and customer's deposits is determined based on features of these items or the maturity date as stipulated in contracts. Demand deposits are transacted as required by customers and therefore being classified as current accounts. The maturity term of borrowings and term deposits is determined based on the maturity date in contracts. In fact, these amounts may be rotated and therefore they last beyond the original maturity date.
- The maturity of other borrowed funds in which the risks are borne by the Branch is calculated based on the actual maturity date of each fund borrowed and loans at the balance sheet date. The maturity term of other liabilities is determined based on the actual maturity term of each other liability.

27. Financial risk management (continued)

(c) Liquidity risk (continued)

Maturity analysis for financial assets and liabilities

The tables below set out the remaining contractual maturities of the Branch's financial assets and financial liabilities.

In millions of LAK	Carrying amount	On demand	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years	No maturity
31 December 2014								
Liabilities								
Deposits from customers	(2,067,816)	(2,025,042)	(3,751)	(7,412)	(18,360)	(13,251)	-	-
Interbank and money market items								
- Amounts due to other branches	(9,815,131)	(1,540)	(5,949,498)	(1,524,663)	(1,008,375)	(1,331,055)	-	-
- Amounts due to other banks	(25,711)	(25,711)	-	-	-	-	-	-
Borrowings	(484,020)	-	(80,670)	(403,350)	-	-	-	-
Other liabilities	(28,715)	-	(28,715)	-	-	-	-	-
	(12,421,393)	**(2,052,293)**	**(6,062,634)**	**(1,935,425)**	**(1,026,735)**	**(1,344,306)**	-	-

27. Financial risk management (continued)

(c) Liquidity risk (continued)

Maturity analysis for financial assets and liabilities (continued)

In millions of LAK	Carrying amount	On demand	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years	No maturity
31 December 2014								
Assets								
Cash	42,316	42,316	-	-	-	-	-	-
Interbank and money market items								
- Amounts due from head office and other branches	823,022	727,683	-	95,339	-	-	-	-
- Amounts due from other banks	185,196	107,849	77,347	-	-	-	-	-
Statutory deposits with Central Bank	152,783	-	-	-	-	-	-	152,783
Investments	2,007,779	-	-	130,000	125,670	1,752,109	-	-
Loans and advances	9,413,531	-	4,398,788	2,232,889	2,060,191	398,510	323,153	-
Derivative financial assets	545	-	-	-	-	545	-	-
Other assets	46,073	-	46,073	-	-	-	-	-
	12,671,245	**877,848**	**4,522,208**	**2,458,228**	**2,185,861**	**2,151,164**	**323,153**	**152,783**
Commitments	**(340)**	**-**	**-**	**(340)**	-	-	-	-
Liquidity exposure	**249,512**	**(1,174,445)**	**(1,540,426)**	**522,463**	**1,159,126**	**806,858**	**323,153**	**152,783**

27. Financial risk management (continued)

(c) Liquidity risk (continued)

Maturity analysis for financial assets and liabilities (continued)

In millions of LAK	**Carrying amount**	**On demand**	**Less than 1 month**	**1-3 months**	**3 months to 1 year**	**1-5 years**	**More than 5 years**	**No maturity**
31 December 2013								
Liabilities								
Deposits from customers	(990,478)	(902,102)	-	(5,577)	(39,883)	(42,916)	-	-
Interbank and money market items								
- Amounts due to other branches	(1,804,892)	(1,004,492)	(800,400)	-	-	-	-	-
- Amounts due to other banks	(66)	(66)	-	-	-	-	-	-
Borrowings	(5,354,676)	-	(5,354,676)	-	-	-	-	-
Other liabilities	(14,292)	-	(14,292)	-	-	-	-	-
	(8,164,404)	**(1,906,660)**	**(6,169,368)**	**(5,577)**	**(39,883)**	**(42,916)**	**-**	**-**

27. Financial risk management (continued)

(c) Liquidity risk (continued)

Maturity analysis for financial assets and liabilities (continued)

In millions of LAK	Carrying amount	On demand	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years	No maturity
31 December 2013								
Assets								
Cash	18,573	18,573	-	-	-	-	-	-
Interbank and money market items								
- Amounts due from head office and other branches	253,936	253,936	-	-	-	-	-	-
- Amounts due from other banks	162,725	162,725	-	-	-	-	-	-
Statutory deposits with Central Bank	139,120	-	-	-	-	-	-	139,120
Investments	1,567,696	-	-	160,080	1,407,616	-	-	-
Loans and advances	6,229,045	-	2,870,691	2,945,039	413,315	-	-	-
Derivative financial assets	901	-	-	-	-	901	-	-
Other assets	40,638	-	40,638	-	-	-	-	-
	8,412,634	**435,234**	**2,911,329**	**3,105,119**	**1,820,931**	**901**	**-**	**139,120**
Commitments	**(39,346)**	**-**	**-**	**-**	**-**	**(39,346)**	**-**	**-**
Liquidity exposure	**208,884**	**(1,471,426)**	**(3,258,039)**	**3,099,542**	**1,781,048**	**(81,361)**	**-**	**139,120**

27. Financial risk management (continued)

(d) Market risks

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the Branch's income or the value of its holdings of financial instruments. Market risk arises from the open position of interest rates and currency which are also affected by the fluctuations in general market and in each particular market and by market variables such as interest rates and foreign exchange rates. The objective of the Branch's market risk management is to manage and control market risk exposures within acceptable parameters in order to ensure the solvency while optimising the return on risk.

Management of market risks

The Branch classifies exposures to market risk into either trading or non-trading portfolios and manages each of those portfolios separately. The market risk for the trading portfolio is managed and monitored based on a Value-at-Risk (VaR) methodology that reflects the interdependency between risk variables. Non-trading positions are managed and monitored using other sensitivity analyses.

Exposure to interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Management has established limits on the non-trading interest rate gaps for stipulated periods. The Branch's policy is to monitor positions on a daily basis.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the profit or loss for a year, based on the floating rate non-trading financial assets and financial liabilities held at 31 Dec 2014. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

27. Financial risk management (continued)

(d) Market risks (continued)

Exposure to interest rate risk (continued)

In millions of LAK	**Carrying amount**	**Non-repricing**	**Less than 3 months**	**3-6 months**	**6-12 months**	**1-5 years**	**More than 5 years**
31 December 2014							
Assets							
Cash	42,316	42,316	-	-	-	-	-
Interbank and money market items							
- Amounts due from head office and other branches	823,022	727,683	95,339	-	-	-	-
- Amounts due from other banks	185,196	107,849	77,347	-	-	-	-
Statutory deposits with Central Bank	152,783	152,783	-	-	-	-	-
Investments	2,007,779	-	130,000	30,000	95,670	1,752,109	-
Loans and advances	9,413,531	-	6,631,677	2,019,050	41,141	398,510	323,153
Derivative financial assets	545	-	-	-	-	545	-
Other assets	46,073	46,073	-	-	-	-	-
	12,671,245	**1,076,704**	**6,934,363**	**2,049,050**	**136,811**	**2,151,164**	**323,153**

27. Financial risk management (continued)

(d) Market risks (continued)

Exposure to interest rate risk (continued)

In millions of LAK	**Carrying amount**	**Non-repricing**	**Less than 3 months**	**3-6 months**	**6-12 months**	**1-5 years**	**More than 5 years**
31 December 2014							
Liabilities							
Deposits from customers	(2,067,816)	(2,025,042)	(11,163)	(7,825)	(10,535)	(13,251)	-
Interbank and money market items							
- Amounts due to other branches	(9,815,131)	(1,540)	(7,474,161)	(1,008,375)	-	(1,331,055)	-
- Amounts due to other banks	(25,711)	(25,711)	-	-	-	-	-
Borrowings	(484,020)	-	(484,020)	-	-	-	-
Other liabilities	(28,715)	(28,715)	-	-	-	-	-
	(12,421,393)	**(2,081,008)**	**(7,969,344)**	**(1,016,200)**	**(10,535)**	**(1,344,306)**	**-**
Difference of on-financial reporting items	**249,852**	**(1,004,304)**	**(1,034,981)**	**1,032,850**	**126,276**	**806,858**	**323,153**
Off-financial reporting items	**(340)**	**-**	**(340)**	**-**	**-**	**-**	**-**
Total interest sensitivity gap	**249,512**	**(1,004,304)**	**(1,035,321)**	**1,032,850**	**126,276**	**806,858**	**323,153**

27. Financial risk management (continued)

(d) Market risks (continued)

Exposure to interest rate risk (continued)

In millions of LAK	Carrying amount	Non-repricing	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
31 December 2013							
Assets							
Cash	18,573	18,573	-	-	-	-	-
Interbank and money market items							
- Amounts due from head office and other branches	253,936	253,936	-	-	-	-	-
- Amounts due from other banks	162,725	162,725	-	-	-	-	-
Statutory deposits with Central Bank	139,120	139,120	-	-	-	-	-
Investments	1,567,696	-	160,080	1,392,616	15,000	-	-
Loans and advances	6,229,045	-	5,815,730	413,315	-	-	-
Derivative financial assets	901	901	-	-	-	-	-
Other assets	40,638	40,638	-	-	-	-	-
	8,412,634	**615,893**	**5,975,810**	**1,805,931**	**15,000**	**-**	**-**

27. Financial risk management (continued)

(d) Market risks (continued)

Exposure to interest rate risk (continued)

In millions of LAK	Carrying amount	Non-repricing	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
31 December 2013							
Liabilities							
Deposits from customers	(990,478)	(902,102)	(5,577)	(28,912)	(10,971)	(42,916)	-
Interbank and money market items							
- Amounts due to other branches	(1,804,892)	(1,004,492)	(800,400)	-	-	-	-
- Amounts due to other banks	(66)	(66)	-	-	-	-	-
Borrowings	(5,354,676)	-	(5,354,676)	-	-	-	-
Other liabilities	(14,292)	(14,292)	-	-	-	-	-
	(8,164,404)	**(1,920,952)**	**(6,160,653)**	**(28,912)**	**(10,971)**	**(42,916)**	**-**
Difference of on-financial reporting items	**248,230**	**(1,305,059)**	**(184,843)**	**1,777,019**	**4,029**	**(42,916)**	**-**
Off-financial reporting items	**(39,346)**	**-**	**-**	**-**	**(39,346)**	**-**	**-**
Total interest sensitivity gap	**208,884**	**(1,305,059)**	**(184,843)**	**1,777,019**	**(35,317)**	**(42,916)**	**-**

27. Financial risk management (continued)

(d) Market risks (continued)

Foreign currency transactions

The Branch monitors any concentration risk in relation to any individual currency in regard to the translation of foreign currency transactions and monetary assets and liabilities into the functional currency of the Branch. As at the reporting date net currency exposures representing more than 10 percent of the Branch's equity are as follows:

Foreign currency transactions *(In millions LAK)*	**2014** **LAK**	**2013** **LAK**
Net foreign currency exposure:		
USD	37,532	14,769
EUR	31	2
CNY	8,145	21,114
THB	4,916	1,525

(e) Fair value of financial instruments

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. In determining the fair value of its financial assets and liabilities, the Branch takes into account its current circumstances and the costs that would be incurred to exchange or settle the liabilities under financial instruments.

Methods and assumptions used by the Company in estimating the fair values of financial assets and liabilities are as follows:

The fair values of cash, intercompany and money market items, amounts due from related parties, deposits, accounts payable, accrued interest payable and advance from asset purchaser are approximately their carrying values at the reporting date due to their short-term duration.

The carrying values of investments and loans to customers approximated fair value at the date of initial recognition. Subsequent increases/ decreases in fair value arising from any changes to the net present value of expected future cash collections are recognised in income, only to the extent of cash receipts or impairment.

(f) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Branch's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Branch's operations.

The Branch's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the reputation with overall cost effectiveness and innovation. In all cases, the Branch's policy requires compliance with all applicable legal and regulatory requirements.

27. Financial risk management (continued)

(f) Operational risks (continued)

The head office has delegated responsibility for operational risk to its management which is responsible for the development and implementation of controls to address operational risk. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

● requirements for appropriate segregation of duties, including the independent authorisation of transactions;

● requirements for the reconciliation and monitoring of transactions;

● compliance with regulatory and other legal requirements;

● documentation of controls and procedures;

● requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;

● requirements for the reporting of operational losses and proposed remedial action;

● development of contingency plans;

● training and professional development;

● ethical and business standards; and

● risk mitigation, including insurance where this is effective.

Compliance with standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management, with summaries submitted to the Group Internal Audit Department and senior management of the Branch.

(g) Capital management

The Central Bank of the Lao PDR, the Bank of Lao PDR ("BOL"), sets and monitors capital requirements for the Branch. In accordance with Regulation No. 135/BOL dated 20 March 2007, the Branch's capital comprises of tier 1 capital and tier 2 capital:

● Tier 1 capital is the core capital which is not allowed to be withdrawn as long as the Branch is still in operation, unless the Branch is under liquidation. It includes registered capital, share premium, statutory and surplus reserve, business expansion reserve and accumulated retained earnings.

● Tier 2 capital is the supplementary capital which can be adjusted or withdrawn. It includes gain or loss from re-evaluation, allowance for bad and doubtful loans and advances, supplementary liabilities, risk reserve, profit and loss for the year, unappropriated profit and allowance and fund distributed by the government.

Banking operations are categorized as either on-balance sheet items or off-balance sheet items, and risk weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and exposures not recognised in the statement of financial position. The BOL's regulation maintains a risk-weighted asset requirement in respect of operational risk.

The primary objectives of the Branch's capital management are to ensure that the Branch complies with externally imposed capital requirements by BOL. The Branch recognizes the need to maintain effectiveness of assets and liabilities management to balance profit and capital adequacy.

The Branch has complied with all externally imposed capital requirements.

27. Financial risk management (continued)

(g) Capital management (continued)

The Branch's regulatory capital position under BOL's regulation at 31 December was as follows:

(In millions LAK)	**2014 LAK**	**2013 LAK**
Tier 1 capital		
Branch capital	239,970	239,970
Retained earnings	113,111	14,143
Statutory reserve	12,569	1,054
	365,650	**255,167**
Tier 2 capital		
Loan loss reserve (at the lower of loan loss reserve for the year or 1.25% of risk-weighted assets on the Branch's assets)	17,699	14,736
Profit for the year	83,966	50,286
	101,665	**65,022**
Total regulatory capital	**467,315**	**320,189**

Note: The regulatory capital position above is calculated based on the financial figures under Lao GAAP.

The BOL's approach to measurement of capital adequacy is primarily based on monitoring the relationship of the capital resources requirement to available capital resources.

Capital allocation

The amount of capital allocated to each operation or activity is based on primarily on the regulatory capital, but in some cases the regulatory requirements do not fully reflect the varying degree of risk associated with difference activities. In such cases, the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Branch to particular operations or activities, it is not the sole basis used for decision making. Account is also taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Branch's longer-term strategic objectives.