

**Industrial and Commercial Bank  
of China Limited  
Vientiane Branch**

Audited Financial Statements  
and  
Independent Auditors' Report  
Year ended 31 December 2016

## **Industrial and Commercial Bank of China Limited Vientiane Branch**

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**Corporate Information**

<b>Bank</b>	Industrial and Commercial Bank of China Limited Vientiane Branch	
<b>Banking Licence No.</b>	18/BOL date 08 May 2015 Business Registration Certificate No. 519 dated 28 July 2015	
<b>Board of Management</b>	Mr. Lu Jian	General Manager
	Mr. Chen Yingzhi	Deputy General Manager (appointed on 25 September 2012, and resigned on 29 August 2016)
	Mr. Joxiong Bouasinengma	Deputy General Manager
	Mr. Chen Wenxian	Deputy General Manager (appointed on 27 November 2016)
<b>Registered Office</b>	Unit 12, Asean Road Sibounheuang Village Chanthabouly District Vientiane Capital, Lao PDR	
<b>Auditors</b>	KPMG Lao Co., Ltd 4th Floor, K.P. Tower 23 Singha Road P.O. Box 6978 Vientiane Capital, Lao PDR	

**MANAGEMENT’S RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS**

The Management of Industrial and Commercial Bank of China Limited Vientiane Branch (the “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 2016, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended 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 6 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 2016 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  
 Date: 24 March 2017



## **INDEPENDENT AUDITORS' REPORT**

**To: The Board of Directors  
Industrial and Commercial Bank of China Limited Vientiane Branch**

### *Opinion*

We have audited the 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 2016, the statements of profit or loss and other comprehensive income and statement of changes in equity and cash flow for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Branch as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards ("IFRS").

### *Basis for Opinion*

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

### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the 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.

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.

### *Auditor’s Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Branch to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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

KPMG Lao Co.

KPMG Lao Co., Ltd  
Vientiane Capital, Lao PDR



Date: 24 March 2017

Industrial and Commercial Bank of China Limited Vientiane Branch  
Statement of Financial Position  
As at 31 December 2016

	Note	31 December	
		2016 LAK	2015 LAK
<b><u>ASSETS</u></b>			
Cash	5	94,719,941,165	80,800,499,872
Interbank and money market items			
Amounts due from head office and other branches	25(a)	2,950,238,517,199	3,081,427,165,032
Amounts due from other banks	6	7,173,398,313,935	3,262,954,206,976
Statutory deposits with Central Bank	7	347,068,803,468	310,915,885,074
Investments	8	3,183,710,000,000	2,381,860,820,678
Loans and advances	9	7,958,528,802,432	5,628,870,607,906
Derivative financial assets	10	91,879,015,327	17,672,568,098
Property and equipment	11	148,122,230,027	165,205,722,821
Intangible assets	12	49,607,147,184	50,225,402,140
Other assets	13	182,778,773,904	71,833,369,747
<b>Total assets</b>		<b><u>22,180,051,544,641</u></b>	<b><u>15,051,766,248,344</u></b>

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 Financial Position  
As at 31 December 2016

	Note	31 December	
		2016 LAK	2015 LAK
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>Liabilities</b>			
Deposits from customers	14	3,865,566,033,459	3,288,644,723,383
Interbank and money market items			
Amounts due to other branches	25(a)	17,514,477,153,244	11,151,057,913,792
Amounts due to other banks	15	162,526,608,964	171,646,237,322
Tax liabilities	16	11,600,646,520	12,647,334,765
Deferred tax liabilities	17	2,632,297,053	4,115,318,736
Derivative financial liabilities	10	80,911,110,938	224,978,041
Other liabilities	18	120,494,284,186	58,473,781,586
<b>Total liabilities</b>		<b>21,758,208,134,364</b>	<b>14,686,810,287,625</b>
<b>Equity</b>			
Head office's capital contribution	19(a)	239,970,000,000	239,970,000,000
Statutory reserve	19(b)	35,581,061,318	22,826,058,656
Retained earnings		146,292,348,959	102,159,902,063
<b>Total equity</b>		<b>421,843,410,277</b>	<b>364,955,960,719</b>
<b>Total liabilities and equity</b>		<b>22,180,051,544,641</b>	<b>15,051,766,248,344</b>

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 Profit or Loss and Other Comprehensive Income**  
**For the year ended 31 December 2016**

	Note	31 December	
		2016 LAK	2015 LAK
<b>Interest income</b>			
Interest from loans and advances		111,200,212,108	122,880,755,266
Interest from interbank and money market items		167,089,074,436	25,141,960,191
Interest from investment in bonds		160,420,492,504	105,959,001,175
<b>Total interest income</b>		<b>438,709,779,048</b>	<b>253,981,716,632</b>
<b>Interest expense</b>			
Interest on deposits		(30,150,709,911)	(18,961,830,169)
Interest on interbank and money market items		(249,657,831,979)	(148,512,399,167)
<b>Total interest expense</b>	20	<b>(279,808,541,890)</b>	<b>(167,474,229,336)</b>
<b>Net interest income</b>		<b>158,901,237,158</b>	<b>86,507,487,296</b>
Fee and commission income		7,205,324,465	8,258,348,246
Fee and commission expenses		(2,250,565,636)	(2,110,615,275)
<b>Net fee and commission income</b>	21	<b>4,954,758,829</b>	<b>6,147,732,971</b>
Provision for bad and doubtful loans and advances	9	-	-
<b>Net income from interest after doubtful accounts</b>		<b>163,855,995,987</b>	<b>92,655,220,267</b>
<b>Other income</b>			
Gain on foreign exchange		78,803,577,934	74,060,763,118
Other income		1,285,138,356	801,931,216
Total other income		80,088,716,290	74,862,694,334
<b>Income before non-interest expense and income tax</b>		<b>243,944,712,277</b>	<b>167,517,914,601</b>
<b>Operating expenses</b>			
Personnel expenses	22	(35,873,381,164)	(18,430,390,497)
Depreciation and amortisation expenses		(18,104,654,350)	(10,571,575,159)
Other expenses		(12,291,095,433)	(11,833,426,252)
Total operating expenses		(66,269,130,947)	(40,835,391,908)



Industrial and Commercial Bank of China Limited Vientiane Branch  
Statement of Profit or Loss and Other Comprehensive Income  
For the year ended 31 December 2016

	Note	31 December	
		2016 LAK	2015 LAK
<b>Profit before income tax</b>		<b>177,675,581,330</b>	<b>126,682,522,693</b>
Tax expense	23	(43,103,365,370)	(23,536,117,160)
<b>Profit for the year</b>		<b>134,572,215,960</b>	<b>103,146,405,533</b>
<b>Other comprehensive income</b>			
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year, net of tax		<b>134,572,215,960</b>	<b>103,146,405,533</b>

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 Equity  
For the year ended 31 December 2016

	Head office's capital contribution LAK	Statutory reserve LAK	Retained earnings LAK	Total LAK
<b>Balance at 1 January 2015</b>	239,970,000,000	12,568,659,697	114,745,673,747	367,284,333,444
Profit for the year	-	-	103,146,405,533	103,146,405,533
Statutory reserve for the year	-	10,257,398,959	(10,257,398,959)	-
Profit appropriation	-	-	(105,474,778,258)	(105,474,778,258)
<b>Balance at 31 December 2015 and 1 January 2016</b>	<b>239,970,000,000</b>	<b>22,826,058,656</b>	<b>102,159,902,063</b>	<b>364,955,960,719</b>
Profit for the year	-	-	134,572,215,960	134,572,215,960
Statutory reserve for the year	-	12,755,002,662	(12,755,002,662)	-
Profit appropriation	-	-	(77,684,766,402)	(77,684,766,402)
<b>Balance at 31 December 2016</b>	<b>239,970,000,000</b>	<b>35,581,061,318</b>	<b>146,292,348,959</b>	<b>421,843,410,277</b>

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 2016

	31 December	
	2016 LAK	2015 LAK
<b>Cash flows from operating activities</b>		
Profit for the year	<u>134,572,215,960</u>	<u>103,146,405,533</u>
<i>Adjustments for:</i>		
Depreciation and amortisation	18,104,654,350	10,571,575,159
Income from investment in bonds	(160,420,492,504)	(105,959,001,175)
Fair value loss/ (gain) on derivative financial assets and liabilities	6,369,138,191	(17,147,161,400)
Income tax expenses	<u>43,103,365,370</u>	<u>23,536,117,160</u>
	<b>41,728,881,367</b>	<b>14,147,935,277</b>
<b>Change in operating assets / liabilities</b>		
Change in interbank and money market assets	(7,536,316,675,971)	-
Change in statutory deposits	(36,152,918,394)	(158,133,266,894)
Change in loans and advances to customers	(2,329,658,194,526)	3,784,655,771,585
Change in derivative financial assets and liabilities	110,547,477	(205,752,205)
Change in other assets excluding interest receivable on investments	(96,294,460,362)	(17,520,806,503)
Change in deposits from customers	576,921,310,076	1,220,828,475,871
Change in interbank and money market liabilities	6,354,299,611,094	998,296,209,860
Change in withholding tax liabilities	(1,095,813,803)	873,868,464
Change in other liabilities	62,020,502,600	(3,675,064,130)
Income tax paid	<u>(44,537,261,495)</u>	<u>(13,098,003,321)</u>
<b>Net cash (used in)/ generated from operating activities</b>	<b><u>(3,008,974,471,937)</u></b>	<b><u>5,826,169,368,004</u></b>
<b>Cash flows from investing activities</b>		
Acquisition of property and equipment	(402,906,600)	(76,197,317,085)
Acquisition of intangible assets	-	(8,611,680)
Purchases of bond investments	(1,281,244,648,571)	(374,081,903,987)
Proceeds from sale and redemption of bond investments	479,395,469,249	-
Income from investment in bonds	<u>145,769,548,709</u>	<u>104,241,356,670</u>
<b>Net cash used in investing activities</b>	<b><u>(656,482,537,213)</u></b>	<b><u>(346,046,476,082)</u></b>

**Industrial and Commercial Bank of China Limited Vientiane Branch**  
**Statement of Cash Flows**  
**For the year ended 31 December 2016**

	Note	31 December	
		2016 LAK	2015 LAK
<b>Cash flows from financing activities</b>			
Payment for profit distribution		(77,684,766,402)	(105,474,778,258)
<b>Net cash used in financing activities</b>		<u>(77,684,766,402)</u>	<u>(105,474,778,258)</u>
<b>Net change in cash and cash equivalents</b>		<b>(3,743,141,775,552)</b>	<b>5,374,648,113,664</b>
Cash and cash equivalents at 1 January		6,425,181,871,880	1,050,533,758,216
<b>Cash and cash equivalents at 31 December</b>	24	<u><b>2,682,040,096,328</b></u>	<u><b>6,425,181,871,880</b></u>

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

Prepared by:

Approved by:

Accountant

General Manager

**1. Reporting entity**

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 12, Asean Road, Sibounheuang Village, Chanthabouly District, Vientiane Capital, 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 18/BOL 08 May 2015 and amendment Banking Business License in July 2015. 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 2016, the Branch had 92 (2015: 80) 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 the 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 24 March 2017.

**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 24 March 2017.

**(ii) Basis of measurement**

The financial statements have been prepared on the historical cost basis except as stated in the significant accounting policies.

**(iii) Functional and presentation currency**

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



**2. Basis of financial statement preparation (continued)**

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

In preparing this financial statement, management has made judgments, estimates and assumptions that affect the application of the Branch's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

**(v) Fiscal Year**

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

**3. Significant accounting policies**

The significant accounting policies set out below have been applied consistently to all periods presented in the financial statements.

**(a) Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currency at exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date.

Foreign exchange differences arising from the translation are recognised in the profit or loss.

Non-monetary assets and liabilities that are measured based on historical cost in a foreign currency are translated into the functional currency at the exchange rate at the date of the transaction.

The applicable exchange rates for the LAK against foreign currencies were as follows:

	<b>31 December 2016</b>	<b>31 December 2015</b>
	<b>LAK</b>	<b>LAK</b>
United States Dollar ("USD")	8,165.00	8,129.00
Thai Baht ("THB")	229.14	226.02
Chinese Yuan ("CNY")	1,163.05	1,225.82
Euro ("EUR")	8,618.00	8,868.00
HongKong Dollar ("HKD")	997.94	993.48
Japanese Yen ("JPY")	69.31	66.51

**(b) Financial assets and financial liabilities**

**(i) Recognition**

The Branch initially recognises loans and advances, deposits and borrowings from other than head office and other branches on the date that they are originated. A financial asset or financial liability is measured initially at fair value plus 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;
- held to maturity; and
- at fair value through profit or loss.



**3. Significant accounting policies (continued)**

**(b) Financial assets and financial liabilities (continued)**

**(ii) Classification (continued)**

**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 of the risks and rewards of ownership of the financial asset are transferred or in which the Branch neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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 derecognised), 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. 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.

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.

**Financial liabilities**

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

**(iv) Offsetting**

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

**(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 on initial recognition, minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount and, for financial assets, adjusted for any impairment allowance.

**(vi) Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Branch has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Branch measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

**3. Significant accounting policies (continued)**

**(b) Financial assets and financial liabilities (continued)**

**(vi) Fair value measurement (continued)**

If there is no quoted price in an active market, then the Branch uses valuation techniques that maximise the use of relevant observable inputs and minimise use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Branch determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Branch measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Branch on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Branch recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

**(vii) Objective evidence of impairment**

At each reporting date the Branch assessed whether there is objective evidence that financial assets not carried at fair value through profit or loss were 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 consider otherwise, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or 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. Significant accounting policies (continued)**

**(b) Financial assets and financial liabilities (continued)**

**(vii) Objective evidence 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.

*Measurement of impairment*

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.

*Presentation*

Impairment losses are recognised in profit or loss and reflected in an allowance for doubtful accounts against loans and advances or held-to-maturity investments. Interest on the impaired assets continued 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.

*Write-off*

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 into known amounts of cash and are 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. 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 in the statement of financial position are loans and advances measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

**(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.

**(h) Property and equipment**

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.

Depreciation of property and equipment is charged to the profit or loss on a straight-line basis over the estimated useful lives of the individual asset at the following annual rates:

Buildings	5%
Leasehold improvement	10%
Electronic equipment	20%
Furniture, fitting and office equipment	20%
Vehicle	20%

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.

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 statement of profit or loss on the date of retirement or disposal.

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



**3. Significant accounting policies (continued)**

**(i) Intangible assets**

**(i) Software**

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

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

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of the 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 in profit or loss over the expected period of benefit from the land use rights.

**(j) Interest income**

Interest income is recognised in statement of 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.

**(k) Interest expense**

Interest expense is recognised in statement of 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**

Fees and commission income and expense that are integral to the effective interest rate on a financial assets or financial liabilities are included in the measurement of the effective interest rate.

Other fees and commission income are recognised as the related services are performed. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

### 3. Significant accounting policies (continued)

#### (m) Income Tax

Income tax expense for the year comprises current and deferred tax. It is 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.

##### **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 the following 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.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. 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.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

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

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

##### **Tax exposures**

The Branch's tax returns are subject to examination by the tax authorities. As 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 the Lao PDR is relatively new and is characterised 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 the 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. 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

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2016; however, the Branch has not applied the following new or amended standards in preparing these financial statements.

IFRS	Topic	Year effective
IAS 7 Amendments	Statement of Cash Flows	2017
IFRS 9	Financial Instruments	2018

#### Amendments to IAS 7, Statement of Cash Flows

The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific method to fulfil the new disclosure requirements. However, the amendments indicate that one way is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities.

IAS 7 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.

The Branch's is assessing the potential impact of the amendments on its financial statements.

#### IFRS 9 "Financial Instruments"

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Branch's is assessing the potential impact on its financial statements resulting from the application of IFRS 9.

Industrial and Commercial Bank of China Limited Vientiane Branch  
Notes to Financial Statements (continued)  
Year ended 31 December 2016

5. Cash

	<b>2016</b>	<b>2015</b>
	<b>LAK</b>	<b>LAK</b>
Lao Kip (“LAK”)	50,099,232,500	14,914,199,502
United States Dollar (“USD”)	20,102,132,020	52,874,519,599
Thai Baht (“THB”)	4,512,719,822	6,217,254,191
Chinese Yuan (“CNY”)	20,005,856,823	6,794,526,580
	<b>94,719,941,165</b>	<b>80,800,499,872</b>

6. Amounts due from other banks

	<b>2016</b>	<b>2015</b>
	<b>LAK</b>	<b>LAK</b>
LAK	123,976,565,225	69,213,908,627
Other foreign items	7,049,421,748,710	3,193,740,298,349
	<b>7,173,398,313,935</b>	<b>3,262,954,206,976</b>

a) Domestic items

	<b>2016</b>	<b>2015</b>
	<b>LAK</b>	<b>LAK</b>
<b>At call</b>		
Bank of Lao PDR	123,084,631,474	68,076,268,432
Other commercial banks	891,933,751	1,137,640,195
	<b>123,976,565,225</b>	<b>69,213,908,627</b>

b) Foreign items

	<b>2016</b>	<b>2015</b>
	<b>LAK</b>	<b>LAK</b>
<b>At call</b>		
USD	6,198,460,506,570	3,057,848,126,492
THB	41,454,751,472	12,235,940,938
CNY	21,103,220,189	123,656,230,919
HKD	2,020,479	-
JPY	788,401,250,000	-
	<b>7,049,421,748,710</b>	<b>3,193,740,298,349</b>

7. Statutory deposits with Central Bank

	<b>2016</b>	<b>2015</b>
	<b>LAK</b>	<b>LAK</b>
Statutory deposits on:		
Capital	5,000,000	5,000,000
Customer deposits	347,063,803,468	310,910,885,074
	<b>347,068,803,468</b>	<b>310,915,885,074</b>

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.

Industrial and Commercial Bank of China Limited Vientiane Branch  
Notes to Financial Statements (continued)  
Year ended 31 December 2016

8. Investments

	2016 LAK	2015 LAK
Government bonds	701,550,000,000	699,030,000,000
Financial bonds	2,482,160,000,000	1,682,830,820,678
	<u>3,183,710,000,000</u>	<u>2,381,860,820,678</u>

Investments represent held-to-maturity investment in bonds. These bonds have maturities ranging from date 29 May 2017 to 21 June 2021 (2015: date 4 March 2016 to 6 October 2020) and interest rates ranging from 4.76 % to 6 % (2015: 4.76% to 6%).

9. Loans and advances

	2016 LAK	2015 LAK
Loans and receivables:		
- Overdrafts	1,951,953,339	1,461,824,667
- Loans	7,956,576,849,093	5,627,408,783,239
	<u>7,958,528,802,432</u>	<u>5,628,870,607,906</u>
Allowances for impairment:		
- Collective allowances for impairment	-	-
- Specific allowances for impairment	-	-
	<u>-</u>	<u>-</u>
Loans and advances to customers	<u>7,958,528,802,432</u>	<u>5,628,870,607,906</u>

a) Classified by residual maturity

	2016 LAK	2015 LAK
Within 1 year	7,361,329,625,874	5,352,964,387,096
Over 1 year	597,199,176,558	275,906,220,810
	<u>7,958,528,802,432</u>	<u>5,628,870,607,906</u>

b) Classified by currencies

	2016 LAK	2015 LAK
LAK	938,785,485	829,363,874
USD	1,724,846,156,999	4,388,902,440,931
CNY	6,232,288,679,845	1,238,863,241,777
THB	455,180,103	275,561,324
	<u>7,958,528,802,432</u>	<u>5,628,870,607,906</u>

Industrial and Commercial Bank of China Limited Vientiane Branch  
Notes to Financial Statements (continued)  
Year ended 31 December 2016

9. Loans and advances (continued)

c) Classified by interest rate (per annum)

	2016 %	2015 %
USD	1.09%-8.16%	0.62%-7.50%
CNY	3.00%-5.00%	3.40%-5.10%

10. Derivatives

a) Derivative financial assets

	2016 LAK	2015 LAK
Foreign exchange rate forward	508,973,440	-
Interest rate swap	-	205,195,795
Foreign exchange rate swap	91,370,041,887	17,467,372,303
	<u>91,879,015,327</u>	<u>17,672,568,098</u>

b) Derivative financial liabilities

	2016 LAK	2015 LAK
Foreign exchange rate swap	80,911,110,938	202,386,412
Interest rate swap	-	22,591,629
	<u>80,911,110,938</u>	<u>224,978,041</u>



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Notes to Financial Statements (continued)  
Year ended 31 December 2016

11. Property and equipment

	Property LAK	Leasehold improvement LAK	Electronic equipment LAK	Furniture, fitting and office equipment LAK	Vehicle LAK	Construction in progress LAK	Total LAK
<b>Cost</b>							
Balance at 1 January 2015	-	10,361,077,500	3,273,537,581	2,141,941,477	2,848,597,850	86,641,015,203	105,266,169,611
Additions	-	-	777,059,008	1,126,957,845	-	74,293,300,232	76,197,317,085
Transfers	152,794,300,966	-	1,984,961,431	6,155,053,038	-	(160,934,315,435)	-
Balance at 31 December 2015 and at 1 January 2016	152,794,300,966	10,361,077,500	6,035,558,020	9,423,952,360	2,848,597,850	-	181,463,486,696
Additions	-	-	334,125,586	68,781,014	-	-	402,906,600
Balance at 31 December 2016	152,794,300,966	10,361,077,500	6,369,683,606	9,492,733,374	2,848,597,850	-	181,866,393,296
<b>Accumulated depreciation</b>							
Balance at 1 January 2015	-	3,205,041,600	1,346,256,195	177,191,262	1,574,060,763	-	6,302,549,820
Depreciation for the year	5,752,010,000	1,035,256,800	1,050,592,629	1,547,947,326	569,407,300	-	9,955,214,055
Balance at 31 December 2015 and at 1 January 2016	5,752,010,000	4,240,298,400	2,396,848,824	1,725,138,588	2,143,468,063	-	16,257,763,875
Depreciation for the year	7,655,402,400	6,120,779,100	1,250,191,868	1,889,058,706	570,967,320	-	17,486,399,394
Balance at 31 December 2016	13,407,412,400	10,361,077,500	3,647,040,692	3,614,197,294	2,714,435,383	-	33,744,163,269
<b>Carrying amounts</b>							
At 1 January 2015	-	7,156,035,900	1,927,281,386	1,964,750,215	1,274,537,087	86,641,015,203	98,963,619,791
At 31 December 2015	147,042,290,966	6,120,779,100	3,638,709,196	7,698,813,772	705,129,787	-	165,205,722,821
At 31 December 2016	139,386,888,566	-	2,722,642,914	5,878,536,080	134,162,467	-	148,122,230,027

Industrial and Commercial Bank of China Limited Vientiane Branch  
Notes to Financial Statements (continued)  
Year ended 31 December 2016

12. Intangible assets

	Software LAK	Land use rights LAK	Total LAK
<b>Cost</b>			
Balance at 1 January 2015	195,991,044	51,863,500,000	52,059,491,044
Transfers	8,611,680	-	8,611,680
<b>Balance at 31 December 2015 and at 1 January 2016</b>	<b>204,602,724</b>	<b>51,863,500,000</b>	<b>52,068,102,724</b>
Transfers	-	-	-
<b>Balance at 31 December 2016</b>	<b>204,602,724</b>	<b>51,863,500,000</b>	<b>52,068,102,724</b>
<b>Accumulated amortisation</b>			
Balance at 1 January 2015	68,242,354	1,158,097,126	1,226,339,480
Amortisation for the year	40,468,119	575,892,985	616,361,104
<b>Balance at 31 December 2015 and at 1 January 2016</b>	<b>108,710,473</b>	<b>1,733,990,111</b>	<b>1,842,700,584</b>
Amortisation for the year	40,784,182	577,470,774	618,254,956
<b>Balance at 31 December 2016</b>	<b>149,494,655</b>	<b>2,311,460,885</b>	<b>2,460,955,540</b>
<b>Carrying amounts</b>			
At 1 January 2015	127,748,690	50,705,402,874	50,833,151,564
At 31 December 2015	95,892,251	50,129,509,889	50,225,402,140
At 31 December 2016	55,108,069	49,552,039,115	49,607,147,184



Industrial and Commercial Bank of China Limited Vientiane Branch  
Notes to Financial Statements (continued)  
Year ended 31 December 2016

13. Other assets

	2016 LAK	2015 LAK
Accrued interest receivable on loans	135,968,460,605	36,381,975,174
Accrued interest receivable on investment	44,806,429,594	30,155,485,799
Other receivables and prepayments	2,003,883,705	5,295,908,774
	<u>182,778,773,904</u>	<u>71,833,369,747</u>

14. Deposits from customers

a) Classified by type of deposits

	2016 LAK	2015 LAK
Current	2,320,097,260,353	2,043,583,267,855
Savings	237,392,682,099	226,226,405,185
Term (contractual maturity):		
Within 1 year	1,151,679,423,122	991,818,008,370
Over 1 year	61,298,912,885	27,017,041,973
Others	95,097,755,000	-
	<u>3,865,566,033,459</u>	<u>3,288,644,723,383</u>

b) Classified by currencies

	2016 LAK	2015 LAK
LAK	83,681,150,033	106,239,437,136
USD	3,658,621,974,688	3,018,674,628,073
THB	14,725,669,202	15,155,448,931
CNY	108,537,239,536	148,575,209,243
	<u>3,865,566,033,459</u>	<u>3,288,644,723,383</u>

c) Interest rate (per annum)

	2016 %	2015 %
Saving accounts		
LAK	1.00%	1.00%
USD	1.00%	0.25%-1.25%
THB	0.50%	0.25%-0.50%
CNY	0.25%	0.50%
Fixed deposits		
LAK	2.50%-11.00%	2.50%-11.00%
USD	1.00% - 6.25%	1.25% - 6.25%
THB	0.75%-4.50%	0.75%-4.50%
CNY	0.40%-3.00%	0.30%-3.00%

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Notes to Financial Statements (continued)  
Year ended 31 December 2016

15. Amounts due to other banks

	2016 LAK	2015 LAK
At Call	162,526,608,964	171,646,237,322

a) By residence:

	2016 LAK	2015 LAK
Domestic	89,041,608,964	171,646,237,322
Overseas	73,485,000,000	-
	<u>162,526,608,964</u>	<u>171,646,237,322</u>

b) By currency:

	2016 LAK	2015 LAK
LAK	9,047,509,480	70,047,509,480
USD	127,850,773,374	35,144,498,087
CNY	25,628,326,110	66,454,229,755
	<u>162,526,608,964</u>	<u>171,646,237,322</u>

16. Tax liabilities

	2016 LAK	2015 LAK
Corporate tax	11,600,646,520	11,551,520,962
Other withholding tax	-	1,095,813,803
	<u>11,600,646,520</u>	<u>12,647,334,765</u>

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Notes to Financial Statements (continued)  
Year ended 31 December 2016

17 Deferred tax liability

	Deferred tax liability		
	At 1 January 2016	Total gains/(losses) recorded in profit and loss	At 31 December 2016
Fair value change of derivative financial assets and liabilities	4,115,318,736	(1,483,021,683)	2,632,297,053
	<b>4,115,318,736</b>	<b>(1,483,021,683)</b>	<b>2,632,297,053</b>

18. Other liabilities

	2016 LAK	2015 LAK
Accrued interest payable	96,881,465,754	41,539,808,669
Payable to employees	6,087,925,000	1,624,902,000
Settlement accounts	8,108,228,957	7,651,253,087
Deferred income	2,481,782,780	131,187,280
Other payables	6,934,881,695	7,526,630,550
	<b>120,494,284,186</b>	<b>58,473,781,586</b>

19 (a). Head office's capital contribution

	2016 LAK	2015 LAK
Contributed legal capital	<b>239,970,000,000</b>	<b>239,970,000,000</b>

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 the BOL regulations.

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Notes to Financial Statements (continued)  
Year ended 31 December 2016

20. Interest expense

	<b>2016</b>	<b>2015</b>
	<b>LAK</b>	<b>LAK</b>
Deposits	30,150,709,911	18,961,830,169
Interbank and money market items	249,657,831,979	148,512,399,167
	<b>279,808,541,890</b>	<b>167,474,229,336</b>

21. Net fee and commission income

	<b>2016</b>	<b>2015</b>
	<b>LAK</b>	<b>LAK</b>
<b>Fee and commission income</b>		
Commission on bank cards	1,365,509,918	1,114,784,040
Commission on guarantees	922,316,580	25,331,635
Commission on letters of credit	91,121,811	17,786,709
Commission on fund transfers	1,869,365,848	1,862,819,705
Commission on e-Banking	66,198,541	57,908,856
Fees on financial services	2,890,811,767	5,179,717,301
Total fee and commission income	<b>7,205,324,465</b>	<b>8,258,348,246</b>
<b>Fee and commission expense</b>		
Commission on bank cards	383,555,200	375,226,976
Commission on fund transfers	237,353,150	228,330,502
Others	1,629,657,286	1,507,057,797
Total fee and commission expense	<b>2,250,565,636</b>	<b>2,110,615,275</b>
Net fee and commission income	<b>4,954,758,829</b>	<b>6,147,732,971</b>



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Notes to Financial Statements (continued)  
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22. Personnel expenses

	2016 LAK	2015 LAK
Staff salaries	33,459,699,150	16,789,946,895
Other staff cost	2,413,682,014	1,640,443,602
	<b>35,873,381,164</b>	<b>18,430,390,497</b>

23. Tax expense

	2016 LAK	2015 LAK
<b>Current tax expense</b>		
Current year	44,465,927,548	26,425,196,644
Adjustment for prior year	120,459,505	(6,488,182,543)
	44,586,387,053	19,937,014,101
<b>Deferred tax expense</b>		
(Reversal)/ origination of temporary differences	(1,483,021,683)	3,599,103,059
	<b>43,103,365,370</b>	<b>23,536,117,160</b>

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

	<i>Rate</i> %	2016 LAK	<i>Rate</i> %	2015 LAK
Profit before tax		177,675,581,330		126,682,522,693
Income tax using the Lao PDR corporation tax rate	24.0	42,642,139,519	24.0	30,403,805,451
Under/(Over) provided in prior years – current	0.1	120,459,505	-5.0	(6,488,182,543)
Others	0.2	340,766,346	0	(379,505,748)
<b>Tax expense</b>	<b>24.3</b>	<b>43,103,365,370</b>	<b>19.0</b>	<b>23,536,117,160</b>

Industrial and Commercial Bank of China Limited Vientiane Branch  
Notes to Financial Statements (continued)  
Year ended 31 December 2016

24. Cash and cash equivalents

	<u>2016</u> <u>LAK</u>	<u>2015</u> <u>LAK</u>
Cash	94,719,941,165	80,800,499,872
Deposits and placements with head office and other branches	1,101,104,595,109	3,081,427,165,032
Deposits and placements with other banks	1,486,215,560,054	3,262,954,206,976
	<u><b>2,682,040,096,328</b></u>	<u><b>6,425,181,871,880</b></u>

25. Related party transactions

A portion of the Branch'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

	<u>2016</u> <u>LAK</u>	<u>2015</u> <u>LAK</u>
Interbank and money market items		
Due from head office and other branches	692,854,595,109	1,870,921,994,086
Loans to other branches	2,257,383,922,090	1,210,505,170,946
Subtotal	<u>2,950,238,517,199</u>	<u>3,081,427,165,032</u>
Interest receivable from other branches	10,245,332,296	9,046,333,323
<b>Total</b>	<u><b>2,960,483,849,495</b></u>	<u><b>3,090,473,498,355</b></u>

(i) Foreign items

	<u>2016</u> <u>LAK</u>	<u>2015</u> <u>LAK</u>
USD	2,073,628,409,233	2,498,067,909,359
CNY	733,719,331,118	591,717,080,669
EUR	398,498,647	688,508,327
JPY	152,737,610,497	-
	<u><b>2,960,483,849,495</b></u>	<u><b>3,090,473,498,355</b></u>

Industrial and Commercial Bank of China Limited Vientiane Branch  
Notes to Financial Statements (continued)  
Year ended 31 December 2016

25. Related party transactions (continued)

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

	2016 LAK	2015 LAK
<b>Other balances at end of the year:</b>		
Deposits from other branches	(2,445,926,635,309)	(1,346,635,638,749)
Borrowings from head office and other branches	(15,068,550,517,935)	(9,804,422,275,043)
Subtotal	<u>(17,514,477,153,244)</u>	<u>(11,151,057,913,792)</u>
Interest payable	(74,285,409,082)	(26,433,382,795)
<b>Total</b>	<b><u>(17,588,762,562,326)</u></b>	<b><u>(11,177,491,296,587)</u></b>
<b>Transactions during the year:</b>		
Interest income from interbank and money market items	36,136,365,293	17,166,251,654
Interest expense on interbank and money market items	(240,593,603,102)	(145,745,072,260)

(b) Other related parties

	2016 LAK	2015 LAK
<b>Balances at end of the year:</b>		
Due from banks and financial institutions	1,238,310,478,729	3,019,127,085,197
Borrowings from other than head office and other branches	(73,485,000,000)	-
<b>Transactions during the year:</b>		
Interest income from amount due from these banks and financial institutions	35,851,530,340	7,412,695,624
Interest expense on borrowings from other than head office and other branches	(9,063,932,950)	(2,767,326,907)

(c) Key management personnel

	2016 LAK	2015 LAK
<b>Transactions during the year:</b>		
Compensation	<u>4,316,367,468</u>	<u>4,684,165,576</u>

**Industrial and Commercial Bank of China Limited Vientiane Branch**  
**Notes to Financial Statements (continued)**  
**Year ended 31 December 2016**

**26. Commitments**

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers, which consist of.

	<b>2016</b>	<b>2015</b>
	<b>LAK</b>	<b>LAK</b>
Letters of guarantee outstanding	87,639,532,298	-
Letters of credit outstanding	23,449,880,000	-
	<b>111,089,412,298</b>	<b>-</b>

No material losses are anticipated from these transactions.

**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 branch has appointed Risk Management 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.



**Industrial and Commercial Bank of China Limited Vientiane Branch**  
**Notes to Financial Statements (continued)**  
**Year ended 31 December 2016**

**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**

	Loan and advances		Investments		Derivative financial assets		Interbank and money market items	
	2016	2015	2016	2015	2016	2015	2016	2015
<i>In millions of LAK</i>								
<b>Carrying amount</b>	<b>7,958,529</b>	<b>5,628,871</b>	<b>3,183,710</b>	<b>2,381,861</b>	<b>91,879</b>	<b>17,673</b>	<b>10,123,637</b>	<b>6,344,381</b>
<b>Assets at amortised cost</b>								
Individually impaired	-	-	-	-	-	-	-	-
Collectively impaired	-	-	-	-	-	-	-	-
Past due but not impaired	-	-	-	-	-	-	-	-
Neither past due nor impaired	7,958,529	5,628,871	3,183,710	2,381,861	91,879	17,673	10,123,637	6,344,381
<b>Carrying amount</b>	<b>7,958,529</b>	<b>5,628,871</b>	<b>3,183,710</b>	<b>2,381,861</b>	<b>91,879</b>	<b>17,673</b>	<b>10,123,637</b>	<b>6,344,381</b>
<b>Carrying amount – amortised cost</b>	<b>7,958,529</b>	<b>5,628,871</b>	<b>3,183,710</b>	<b>2,381,861</b>	<b>91,879</b>	<b>17,673</b>	<b>10,123,637</b>	<b>6,344,381</b>

**27. Financial risk management (continued)**

**(b) Credit risk (continued)**

**Exposure to credit risk (continued)**

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.

**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 <i>LAK in millions</i>	Principal type of collateral held for secured lending	Percentage of exposure that is subject to an arrangement that requires collateralisation	
		31 December 2016	31 December 2015
Derivative financial assets	None	-	-
Loans and advances			
Corporate Loans	Land and building and LCs issued by other banks	100%	100%
Participant loans	Financial Guarantee	100%	100%
Personal loans	Building	100%	100%
Credit cards	None	-	-
Investments	None	-	-

The Branch typically does not hold collateral against investments, and no such collateral was held at 31 December 2016 or 31 December 2015.

**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.

**Industrial and Commercial Bank of China Limited Vientiane Branch**  
**Notes to Financial Statements (continued)**  
**Year ended 31 December 2016**

**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:

<i>In millions of LAK</i>	Loan and advances		Investments		Derivative financial assets		Interbank and money market items	
	2016	2015	2016	2015	2016	2015	2016	2015
<b>Carrying amount</b>	<b>7,958,529</b>	<b>5,628,871</b>	<b>3,183,710</b>	<b>2,381,861</b>	<b>91,879</b>	<b>17,673</b>	<b>10,123,637</b>	<b>6,344,381</b>
<b>Concentration by Sector</b>								
Corporate:								
<i>Industry</i>	8,165	174,774	-	-	-	-	-	-
Commercial	8,982	8,942	-	-	-	-	-	-
<i>Service</i>	95,838	24,387	-	-	-	205	-	-
<i>Others</i>	7,832,792	5,417,510	-	-	-	-	-	-
Personal	12,752	3,258	-	-	-	-	-	-
Government	-	-	701,550	2,356,081	-	-	-	-
Bank and financial institution	-	-	2,482,160	25,780	91,879	17,468	10,123,637	6,344,381
	<b>7,958,529</b>	<b>5,628,871</b>	<b>3,183,710</b>	<b>2,381,861</b>	<b>91,879</b>	<b>17,673</b>	<b>10,123,637</b>	<b>6,344,381</b>

**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 than head office and 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 from other than head office and other banks 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.



**Industrial and Commercial Bank of China Limited Vientiane Branch**  
**Notes to Financial Statements (continued)**  
**Year ended 31 December 2016**

**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.

<i>In millions of LAK</i>	<b>Carrying amount</b>	<b>On demand</b>	<b>Less than 1 month</b>	<b>1-3 months</b>	<b>3 months to 1 year</b>	<b>1-5 years</b>	<b>More than 5 years</b>	<b>No maturity</b>
<b>31 December 2016</b>								
<b>Assets</b>								
Cash	94,720	94,720	-	-	-	-	-	-
Interbank and money market items								
- Amounts due from head office and other branches	2,950,239	692,855	408,250	-	1,849,134	-	-	-
- Amounts due from other banks	7,173,398	248,739	-	1,237,476	5,666,510	-	-	20,673
Statutory deposits with Central Bank	347,069	-	-	-	-	-	-	347,069
Investments	3,183,710	-	-	-	408,250	2,775,460	-	-
Loans and advances	7,958,529	-	63,415	222,154	7,075,761	155,747	441,452	-
Derivative financial assets	91,879	-	54,253	37,626	-	-	-	-
Other assets	136,774	136,774	-	-	-	-	-	-
	<b>21,936,318</b>	<b>1,173,088</b>	<b>525,918</b>	<b>1,497,256</b>	<b>14,999,655</b>	<b>2,931,207</b>	<b>441,452</b>	<b>367,742</b>

Industrial and Commercial Bank of China Limited Vientiane Branch  
Notes to Financial Statements (continued)  
Year ended 31 December 2016

27. Financial risk management (continued)									
(c) Liquidity risk (continued)									
Maturity analysis for financial assets and liabilities (continued)									
<i>In millions of LAK</i>		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
<b>31 December 2016</b>									
<b>Liabilities</b>									
Deposits from customers		(3,865,566)	(2,652,588)	(35,954)	(637,954)	(492,552)	(46,518)	-	-
Interbank and money market items									
- Amounts due to other branches		(17,514,477)	(2,200,977)	(1,882,020)	(975,956)	(12,373,874)	(81,650)	-	-
- Amounts due to other banks		(162,527)	(89,042)	-	(48,990)	(24,495)	-	-	-
Derivative financial liabilities		(80,911)	-	(9,510)	(71,401)	-	-	-	-
Other liabilities		(120,494)	(120,494)	-	-	-	-	-	-
		<b>(21,743,975)</b>	<b>(5,063,101)</b>	<b>(1,927,484)</b>	<b>(1,734,301)</b>	<b>(12,890,921)</b>	<b>(128,168)</b>	-	-
Commitments		111,089	-	11,805	-	95,098	4,186	-	-
Liquidity exposure		<b>303,432</b>	<b>(3,890,013)</b>	<b>(1,389,761)</b>	<b>(237,045)</b>	<b>2,203,832</b>	<b>2,807,225</b>	<b>441,452</b>	<b>367,742</b>

Industrial and Commercial Bank of China Limited Vientiane Branch  
Notes to Financial Statements (continued)  
Year ended 31 December 2016

27. Financial risk management (continued)

(c) Liquidity risk (continued)

Maturity analysis for financial assets and liabilities (continued)

<i>In millions of LAK</i>	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
<b>31 December 2015</b>								
<b>Assets</b>								
Cash	80,800	80,800	-	-	-	-	-	-
Interbank and money market items								
- Amounts due from head office and other branches	3,081,427	1,870,922	-	16,859	1,193,646	-	-	-
- Amounts due from other banks	3,262,954	377,159	-	812,900	2,072,895	-	-	-
Statutory deposits with Central Bank	310,916	-	-	-	-	-	-	310,916
Investments	2,381,861	-	-	24,515	438,966	1,918,380	-	-
Loans and advances	5,628,871	-	3,033,598	1,089,696	1,229,671	274,904	1,002	-
Derivative financial assets	17,673	-	-	-	17,673	-	-	-
Other assets	71,833	-	71,833	-	-	-	-	-
	<b>14,836,335</b>	<b>2,328,881</b>	<b>3,105,431</b>	<b>1,943,970</b>	<b>4,952,851</b>	<b>2,193,284</b>	<b>1,002</b>	<b>310,916</b>

Industrial and Commercial Bank of China Limited Vientiane Branch  
Notes to Financial Statements (continued)  
Year ended 31 December 2016

27. Financial risk management (continued)

(c) Liquidity risk (continued)

Maturity analysis for financial assets and liabilities (continued)

<i>In millions of LAK</i>	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
<b>31 December 2015</b>								
<b>Liabilities</b>								
Deposits from customers	(3,288,645)	(2,269,810)	(25,044)	(638,779)	(332,364)	(22,647)	-	-
Interbank and money market items								
- Amounts due to other branches	(11,151,058)	(940,186)	(3,652,550)	(4,589,693)	(1,724,760)	(243,870)	-	-
- Amounts due to other banks	(171,646)	(171,646)	-	-	-	-	-	-
Other liabilities	(58,474)	-	(58,474)	-	-	-	-	-
	<b>(14,669,823)</b>	<b>(3,381,642)</b>	<b>(3,736,068)</b>	<b>(5,228,472)</b>	<b>(2,057,124)</b>	<b>(266,517)</b>	-	-
<b>Commitments</b>	-	-	-	-	-	-	-	-
<b>Liquidity exposure</b>	<b>166,512</b>	<b>(1,052,761)</b>	<b>(630,637)</b>	<b>(3,284,502)</b>	<b>2,895,727</b>	<b>1,926,767</b>	<b>1,002</b>	<b>310,916</b>



**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 statement of income 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 December 2016. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

Industrial and Commercial Bank of China Limited Vientiane Branch  
Notes to Financial Statements (continued)  
Year ended 31 December 2016

27. Financial risk management (continued)		(d) Market risks (continued)					Exposure to interest rate risk (continued)				
<i>In millions of LAK</i>		Carrying amount	Non-interest bearing	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years			
<b>31 December 2016</b>											
<b>Assets</b>											
Cash		94,720	94,720	-	-	-	-	-	-	-	
Interbank and money market items											
- Amounts due from head office and other branches		2,950,239	494,961	606,144	-	1,849,134	-	-	-	-	
- Amounts due from other banks		7,173,398	245,622	1,261,266	816,500	4,850,010	-	-	-	-	
Statutory deposits with Central Bank		347,069	347,069	-	-	-	-	-	-	-	
Investments		3,183,710	-	1,714,650	1,339,060	-	130,000	-	-	-	
Loans and advances		7,958,529	-	285,569	283,150	6,792,611	155,747	441,452	-	-	
Derivative financial assets		91,879	91,879	-	-	-	-	-	-	-	
Other assets		136,774	136,774	-	-	-	-	-	-	-	
		<b>21,936,318</b>	<b>1,411,025</b>	<b>3,867,629</b>	<b>2,438,710</b>	<b>13,491,755</b>	<b>285,747</b>	<b>441,452</b>			

Industrial and Commercial Bank of China Limited Vientiane Branch  
Notes to Financial Statements (continued)  
Year ended 31 December 2016

27. Financial risk management (continued)		(d) Market risks (continued)					
Exposure to interest rate risk (continued)		<i>In millions of LAK</i>					
	Carrying amount	Non-interest bearing	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
<b>31 December 2016</b>							
<b>Liabilities</b>							
Deposits from customers	(3,865,566)	(2,415,196)	(911,300)	(234,044)	(258,508)	(46,518)	-
Interbank and money market items							
- Amounts due to other branches	(17,514,477)	(33,094)	(3,515,334)	(419,881)	(12,035,643)	(1,510,525)	-
- Amounts due to other banks	(162,527)	(89,042)	(48,990)	(24,495)	-	-	-
Derivative financial liabilities	(80,911)	(80,911)	-	-	-	-	-
Other liabilities	(120,494)	(120,494)	-	-	-	-	-
	<b>(21,743,975)</b>	<b>(2,738,737)</b>	<b>(4,475,624)</b>	<b>(678,420)</b>	<b>(12,294,151)</b>	<b>(1,557,043)</b>	<b>-</b>
<b>Difference of on-financial reporting items</b>	<b>192,343</b>	<b>(1,327,712)</b>	<b>(607,995)</b>	<b>1,760,290</b>	<b>1,197,604</b>	<b>(1,271,296)</b>	<b>441,452</b>
<b>Off-financial reporting items</b>	<b>111,089</b>	<b>111,089</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total interest sensitivity gap</b>	<b>303,432</b>	<b>(1,216,623)</b>	<b>(607,995)</b>	<b>1,760,290</b>	<b>1,197,604</b>	<b>(1,271,296)</b>	<b>441,452</b>

Industrial and Commercial Bank of China Limited Vientiane Branch  
Notes to Financial Statements (continued)  
Year ended 31 December 2016

27. Financial risk management (continued)		(d) Market risks (continued)					Exposure to interest rate risk (continued)				
<i>In millions of LAK</i>		Carrying amount	Non-interest bearing	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years			
<b>31 December 2015</b>											
<b>Assets</b>											
Cash	80,800	80,800	-	-	-	-	-	-			
Interbank and money market items											
- Amounts due from head office and other branches	3,081,427	1,870,922	16,859	85,807	1,107,839	-	-	-			
- Amounts due from other banks	3,262,954	377,159	812,900	812,900	1,259,995	-	-	-			
Statutory deposits with Central Bank	310,916	310,916	-	-	-	-	-	-			
Investments	2,381,861	-	24,515	438,966	-	1,918,380	-	-			
Loans and advances	5,628,871	-	4,123,294	966,705	262,966	274,904	1,002	-			
Derivative financial assets	17,673	-	-	17,673	-	-	-	-			
Other assets	71,833	-	71,833	-	-	-	-	-			
	<b>14,836,335</b>	<b>2,639,797</b>	<b>5,049,401</b>	<b>2,322,051</b>	<b>2,630,800</b>	<b>2,193,284</b>	<b>1,002</b>	<b>-</b>			



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27. Financial risk management (continued)							
(d) Market risks (continued)							
Exposure to interest rate risk (continued)							
<i>In millions of LAK</i>	Carrying amount	Non-interest bearing	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
<b>31 December 2015</b>							
<b>Liabilities</b>							
Deposits from customers	(3,288,645)	(2,269,810)	(663,823)	(214,767)	(117,598)	(22,647)	-
Interbank and money market items							
- Amounts due to other branches	(11,151,058)	(940,186)	(8,242,243)	(1,479,598)	(245,161)	(243,870)	-
- Amounts due to other banks	(171,646)	(171,646)	-	-	-	-	-
Other liabilities	(58,474)	-	(58,474)	-	-	-	-
	<b>(14,669,823)</b>	<b>(3,381,642)</b>	<b>(8,964,540)</b>	<b>(1,694,365)</b>	<b>(362,759)</b>	<b>(266,517)</b>	<b>-</b>
<b>Difference of on-financial reporting items</b>	<b>166,512</b>	<b>(741,845)</b>	<b>(3,915,139)</b>	<b>627,686</b>	<b>2,268,041</b>	<b>1,926,767</b>	<b>1,002</b>
<b>Off-financial reporting items</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total interest sensitivity gap</b>	<b>166,512</b>	<b>(741,845)</b>	<b>(3,915,139)</b>	<b>627,686</b>	<b>2,268,041</b>	<b>1,926,767</b>	<b>1,002</b>

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 of LAK)	2016 LAK	2015 LAK
Net foreign currency exposure:		
USD	21,904	26,760
EUR	40	3,479
CNY	117,048	41,122
THB	7	260
JPY	94,127	-

(e) Fair value of 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, interbank 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. The fair value of floating-rate loans and advances to customers that reprice within 1 year since the reporting date approximates carrying value at the reporting date. The fair value of other fixed-rate loans and advances to customers is estimated using discounted cash flow analysis and interest rates currently being offered for loans and advances to customers with similar credit quality.

*Fair value hierarchy*

When measuring the fair value of an asset or a liability, the Branch uses market observable data as far as possible. Fair value measurements for assets and liabilities are categorised into different levels in the fair value hierarchy based on the inputs used in valuation techniques as follows.

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

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on unobservable market data (unobservable input).

**27. Financial risk management (continued)**

**(e) Fair value of financial instruments (continued)**

If the inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Branch recognises transfers between levels of the fair value hierarchy as hierarchy as of the end of the reporting period during which the transfer has occurred. There were no transfers between Level 1 to Level 2 of the fair value hierarchy during the year ended 31 December 2016 and 2015. The Branch's derivative financial assets are categorised into Level 2.

**(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 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 categorised 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 recognises 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.



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**Notes to Financial Statements (continued)**  
**Year ended 31 December 2016**

**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:

<i>(In millions LAK)</i>	<b>2016</b> <b>LAK</b>	<b>2015</b> <b>LAK</b>
<b>Tier 1 capital</b>		
Branch capital	239,970	239,970
Retained earnings	137,110	99,973
Statutory reserve	35,581	22,826
	<b>412,661</b>	<b>362,769</b>
<b>Tier 2 capital</b>		
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)	13,697	32,254
Profit for the year	127,577	102,594
	<b>141,274</b>	<b>134,848</b>
Total regulatory capital	<b>553,935</b>	<b>497,617</b>

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.

**28. Operating segments**

The major business of the Branch is providing financial services to the corporate customers. The rest of the business is not significant to overall financial statements. The management considers the business conducted in Lao PDR as one whole segment. The information reviewed by the General Manager is similar as presented in the statement of profit or loss. When taking into consideration the business location of the Branch, there is only one geographical segment as the business operates only in Lao PDR.

**29. Events after the reporting date**

Other than as disclosed elsewhere in these financial statements, at the date of this report, there were no events, which occurred subsequent to 31 December 2016 that significantly impacted the financial position of the Branch as at 31 December 2016.