

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

Audited Financial Statements
and
Independent Auditors' Report
Year ended 31 December 2017



Industrial and Commercial Bank of China Limited Vientiane Branch

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Corporate Information

Bank Industrial and Commercial Bank of China Limited
Vientiane Branch

Banking Licence No. 18/BOL date 08 May 2015
Business Registration Certificate No. 519
dated 28 July 2015

Board of Management

Mr. Lu Jian	General Manager
Mr. Joxiong Bouasinengma	Deputy General Manager
Mr. Chen Wenxian	Deputy General Manager

Registered Office Unit 12, Asean Road
Sibounheuang Village
Chanthabouly District
Vientiane Capital, Lao PDR

Auditors KPMG Lao Co., Ltd
4th Floor, K.P. Tower
23 Singha Road
P.O. Box 6978
Vientiane Capital, Lao PDR

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 and for ensuring that the financial statement present fairly, in all material respects, financial position of the Branch as at 31 December 2017, and the 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 IFRS or, if there have been any departures in the interest of true and fair presentation, ensure that these have been appropriately disclosed, explained and quantified in the financial statements;
- iii) Maintain adequate accounting records and an effective system of internal controls;
- iv) Take reasonable steps for safeguarding the assets of the Branch and for preventing and detecting fraud, error and other irregularities;
- v) Prepare the financial statements on the going concern basis unless it is inappropriate to assume that the Branch will continue operations in the foreseeable future; and
- vi) Effectively control and direct the Branch and be involved in all material decisions affecting the Branch’s operations and performance and ascertain that such have been properly reflected in the financial statements.

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

APPROVAL OF THE FINANCIAL STATEMENTS

I, Mr. Lu Jian, on behalf of the Board of Management, do hereby state that the financial statements set out on pages 5 to 52 give a true and fair view of the financial position of Industrial and Commercial Bank of China Limited Vientiane Branch as at 31 December 2017 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 IFRS.

Signed on behalf of the Board of Management,



 Lu Jian
 General Manager
 27 March 2018
LU JIAN



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Tel +856 (21) 454240-7

ບໍລິສັດ ເຄຟເອັມຈີລາວ ຈຳກັດ
ຊັ້ນ 3-4, 37 ຕຶກ ເຄຟທາວເວີ
ຖະໜົນ 23 ສິງຫາ, ບ້ານໂພນໄຊ,
ເມືອງໄຊເສດຖາ, ຕັ້ງ ປ.ນ. 6978,
ນະຄອນຫຼວງວຽງຈັນ, ສປປ ລາວ
ໂທ : +856 (21) 454240-7

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 2017, the statements of profit or loss and other comprehensive income, of changes in equity and cash flows 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 2017 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 International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants that is 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.



Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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.



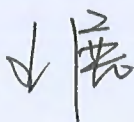
Date: 27 March 2018

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of Financial Position
As at 31 December 2017

	Note	31 December	
		2017 LAK	2016 LAK
ASSETS			
Cash	5	111,708,236,048	94,719,941,165
Interbank and money market items			
Amounts due from Head Office and other branches	25(a)	828,518,533,681	2,950,238,517,199
Amounts due from other banks	6	11,613,146,039,799	7,173,398,313,935
Statutory deposits with Central Bank	7	397,462,303,646	347,068,803,468
Investments	8	3,138,996,000,000	3,183,710,000,000
Loans and advances	9	2,633,467,809,531	7,958,528,802,432
Derivative financial assets	10	–	91,879,015,327
Property and equipment	11	138,445,495,671	148,122,230,027
Intangible assets	12	49,129,051,420	49,607,147,184
Other assets	13	308,610,670,402	182,778,773,904
Total assets		19,219,484,140,198	22,180,051,544,641

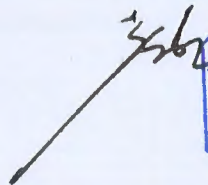

The accompanying notes form an integral part of these financial statements

Prepared by:



Accountant

Approved by:

General Manager

LU JIAN

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of Financial Position
As at 31 December 2017

		31 December	
	Note	2017	2016
		LAK	LAK
<u>LIABILITIES AND EQUITY</u>			
Liabilities			
Deposits from customers	14	4,740,772,715,647	3,865,566,033,459
Interbank and money market items			
Amounts due to other branches	25(a)	12,865,992,915,201	17,514,477,153,244
Amounts due to other banks	15	764,726,657,723	162,526,608,964
Tax liabilities	16	16,315,522,105	11,600,646,520
Deferred tax liabilities	17	-	2,632,297,053
Derivative financial liabilities	10	-	80,911,110,938
Other liabilities	18	188,586,996,424	120,494,284,186
Total liabilities		18,576,394,807,100	21,758,208,134,364
Equity			
Head Office's capital contribution	19(a)	239,970,000,000	239,970,000,000
Statutory reserve	19(b)	57,537,228,174	35,581,061,318
Retained earnings		345,582,104,924	146,292,348,959
Total equity		643,089,333,098	421,843,410,277
Total liabilities and equity		19,219,484,140,198	22,180,051,544,641

The accompanying notes form an integral part of these financial statements

Prepared by:

Accountant

Approved by:

General Manager

LU JIAN

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2017

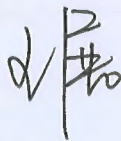
	Note	31 December	
		2017 LAK	2016 LAK
Interest income			
Interest from loans and advances		269,582,371,547	111,200,212,108
Interest from interbank and money market items		414,167,185,752	167,089,074,436
Interest from investment in bonds		181,860,542,000	160,420,492,504
Total interest income		865,610,099,299	438,709,779,048
Interest expense			
Interest on deposits		(31,415,774,030)	(30,150,709,911)
Interest on interbank and money market items		(474,115,664,116)	(249,657,831,979)
Total interest expense	20	(505,531,438,146)	(279,808,541,890)
Net interest income		360,078,661,153	158,901,237,158
Fee and commission income		21,199,143,744	7,205,324,465
Fee and commission expenses		(2,729,866,637)	(2,250,565,636)
Net fee and commission income	21	18,469,277,107	4,954,758,829
Impairment loss	6&9	-	-
Net income from interest after doubtful accounts		378,547,938,260	163,855,995,987
Other income			
Gain on foreign exchange		61,927,904,665	78,803,577,934
Other income		1,962,717,055	1,285,138,356
Total other income		63,890,621,720	80,088,716,290
Income before non-interest expense and income tax		442,438,559,980	243,944,712,277
Operating expenses			
Personnel expenses	22	(40,341,482,147)	(35,873,381,164)
Depreciation and amortisation expenses		(11,217,792,473)	(18,104,654,350)
Other expenses		(13,416,644,288)	(12,291,095,433)
Total operating expenses		(64,975,918,908)	(66,269,130,947)

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2017

	Note	31 December	
		2017 LAK	2016 LAK
Profit before income tax		377,462,641,072	177,675,581,330
Tax expense	23	(90,428,507,910)	(43,103,365,370)
Profit for the year		287,034,133,162	134,572,215,960
Other comprehensive income			
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year, net of tax		287,034,133,162	134,572,215,960

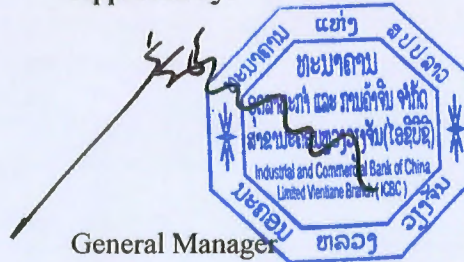
The accompanying notes form an integral part of these financial statements

Prepared by:



Accountant

Approved by:



General Manager

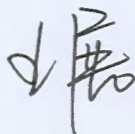
LU JIAN

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of Changes in Equity
For the year ended 31 December 2017

	Head Office's capital contribution LAK	Statutory reserve LAK	Retained earnings LAK	Total LAK
Balance at 1 January 2016	239,970,000,000	22,826,058,656	102,159,902,063	364,955,960,719
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)
Balance at 31 December 2016 and 1 January 2017	239,970,000,000	35,581,061,318	146,292,348,959	421,843,410,277
Profit for the year	-	-	287,034,133,162	287,034,133,162
Statutory reserve for the year	-	21,956,166,856	(21,956,166,856)	-
Profit appropriation	-	-	(65,788,210,341)	(65,788,210,341)
Balance at 31 December 2017	239,970,000,000	57,537,228,174	345,582,104,924	643,089,333,098

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

Prepared by:



Accountant

Approved by:



General Manager

LU JIAN

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of Cash Flows
For the year ended 31 December 2017

	31 December	
	2017	2016
Note	LAK	LAK
Cash flows from operating activities		
Profit for the year	<u>287,034,133,162</u>	<u>134,572,215,960</u>
<i>Adjustments for:</i>		
Depreciation and amortisation	11,217,792,473	18,104,654,350
Interest income from investment in bonds	(181,860,542,000)	(160,420,492,504)
Fair value loss on derivative financial assets and liabilities	10,967,904,389	6,369,138,191
Income tax expenses	<u>90,428,507,910</u>	<u>43,103,365,370</u>
	217,787,795,934	41,728,881,367
Change in operating assets / liabilities		
Change in interbank and money market assets	2,056,846,675,971	(7,536,316,675,971)
Change in statutory deposits	(50,393,500,178)	(36,152,918,394)
Change in loans and advances to customers	5,325,060,992,901	(2,329,658,194,526)
Change in derivative financial assets and liabilities	-	110,547,477
Change in other assets excluding interest receivable on investments	(122,376,464,088)	(96,294,460,362)
Change in deposits from customers	875,206,682,188	576,921,310,076
Change in interbank and money market liabilities	(4,046,284,189,284)	6,354,299,611,094
Change in withholding tax liabilities	530,782,816	(1,095,813,803)
Change in other liabilities	68,092,712,238	62,020,502,600
Income tax paid	<u>(88,876,712,194)</u>	<u>(44,537,261,495)</u>
Net cash generated from / (used in) operating activities	<u>4,235,594,776,304</u>	<u>(3,008,974,471,937)</u>
Cash flows from investing activities		
Acquisition of property and equipment	(931,310,353)	(402,906,600)
Acquisition of intangible assets	(131,652,000)	-
Purchases of bond investments	(328,220,000,000)	(1,281,244,648,571)
Proceeds from sale and redemption of bond investments	372,934,000,000	479,395,469,249
Interest income from investment in bonds	<u>178,405,109,590</u>	<u>145,769,548,709</u>
Net cash generated from / (used in) investing activities	<u>222,056,147,237</u>	<u>(656,482,537,213)</u>

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of Cash Flows
For the year ended 31 December 2017

	Note	31 December	
		2017 LAK	2016 LAK
Cash flows from financing activities			
Payment for profit distribution		(65,788,210,341)	(77,684,766,402)
Net cash used in financing activities		(65,788,210,341)	(77,684,766,402)
Net change in cash and cash equivalents		4,391,862,713,200	(3,743,141,775,552)
Cash and cash equivalents at 1 January		2,682,040,096,328	6,425,181,871,880
Cash and cash equivalents at 31 December	24	7,073,902,809,528	2,682,040,096,328

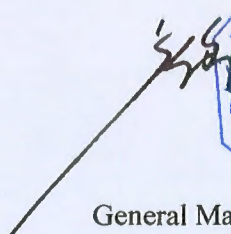

The accompanying notes form an integral part of these financial statements.

Prepared by:



Accountant

Approved by:

General Manager
LU JIAN

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/MPI3 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 2017, the Branch had 92 (2016: 92) employees.

BoL's announcement number 338/BoL 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 27 March 2018.

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 27 March 2018.

(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:

	31 December 2017	31 December 2016
	LAK	LAK
United States Dollar ("USD")	8,274.00	8,165.00
Thai Baht ("THB")	253.97	229.14
Chinese Yuan ("CNY")	1,258.82	1,163.05
Euro ("EUR")	9,885.00	8,618.00
HongKong Dollar ("HKD")	1,003.00	997.94
Japanese Yen ("JPY")	72.33	69.31

(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 2017; however, the Branch has not applied the following new or amended standards in preparing these financial statements.

IFRS	Topic	Year effective
IFRS 9	Financial Instruments	2018
IFRS 15	Revenue from contracts with customers	2018

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 plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

Classification and measurement

The standard will affect the classification and measurement of financial assets held as at 1 January 2018 as follows.

- Loans and advances to banks and to customers that are classified as loans and receivables and measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9.
- Held-to-maturity investment securities measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9.

The standard is expected to have no impact on the classification and measurement of financial instruments of the branch.

Impairment

The new impairment model in IFRS 9 replaces the “incurred loss” model in IAS 39 with an “expected credit loss” model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or lifetime expected credit loss, depending on the asset and the facts and circumstances.

The branch expects that the application of the expected credit loss model will result in earlier recognition of credit losses. Based on a preliminary assessment, if the branch were to adopt the new impairment requirements at 31 December 2017, accumulated impairment loss at that date would increase compared with that recognised under IAS 39. As a consequence, an adjustment will be made to the opening balances of net assets and retained profits at 1 January 2018.

IFRS 15 “Revenue from contracts with customers”

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

IFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. An entity may adopt IFRS 15 on a full retrospective basis. Alternatively, it may choose to adopt it from the date of initial application by adjusting opening balances at that date. Transitional disclosures are different depending on the approach adopted by the entity.

The standard is expected to have no impact on the financial position and the financial result.

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2017

5. Cash

	2017	2016
	LAK	LAK
Lao Kip ("LAK")	14,663,866,000	50,099,232,500
United States Dollar ("USD")	64,447,352,634	20,102,132,020
Thai Baht ("THB")	6,346,880,460	4,512,719,822
Chinese Yuan ("CNY")	26,250,136,954	20,005,856,823
	111,708,236,048	94,719,941,165

6. Amounts due from other banks

	2017	2016
	LAK	LAK
LAK	119,222,331,142	123,976,565,225
Other foreign items	11,493,923,708,657	7,049,421,748,710
	11,613,146,039,799	7,173,398,313,935

a) Domestic items

	2017	2016
	LAK	LAK
At call		
Bank of Lao PDR	50,670,373,909	123,084,631,474
Other commercial banks	68,551,957,233	891,933,751
	119,222,331,142	123,976,565,225

b) Foreign items

	2017	2016
	LAK	LAK
At call		
USD	11,456,595,192,002	6,198,460,506,570
THB	29,433,229,430	41,454,751,472
CNY	7,893,256,501	21,103,220,189
HKD	2,030,724	2,020,479
JPY	-	788,401,250,000
	11,493,923,708,657	7,049,421,748,710

c) Allowances for impairment

	2017	2016
	LAK	LAK
Amounts due from other banks	-	-
	-	-

7. Statutory deposits with Central Bank

	2017	2016
	LAK	LAK
Statutory deposits on:		
Registered capital reserve	5,000,000	5,000,000
Compulsory reserve	397,457,303,646	347,063,803,468
	<u>397,462,303,646</u>	<u>347,068,803,468</u>

Balances with the BoL include compulsory reserve and registered capital reserve. These balances earn no interest.

Under regulations of the BoL, the Branch is required to maintain certain cash reserves with the BoL in the form of compulsory deposits, which are computed at 5% for LAK and 10% for foreign currencies (2016: 5% and 10%), on a bi-monthly basis, of customer deposits having original maturities of less than 12 months. During the year, the Branch maintained its compulsory deposits in compliance with the requirements by the BoL.

8. Investments

	2017	2016
	LAK	LAK
Government bonds	623,700,000,000	701,550,000,000
Financial bonds	2,515,296,000,000	2,482,160,000,000
	<u>3,138,996,000,000</u>	<u>3,183,710,000,000</u>

Investments represent held-to-maturity investment in bonds. These bonds have maturities ranging from date 15 Jan 2018 to 26 Dec 2022 (2016: 29 May 2017 to 21 June 2021) and interest rates ranging from 5.75 % to 6.26 % (2016: 4.76 % to 6 %).

9. Loans and advances

	2017	2016
	LAK	LAK
Loans and receivables:		
- Overdrafts	2,400,558,607	1,951,953,339
- Loans	2,631,067,250,924	7,956,576,849,093
	<u>2,633,467,809,531</u>	<u>7,958,528,802,432</u>
Allowances for impairment:		
- Collective allowances for impairment	-	-
- Specific allowances for impairment	-	-
	-	-
Loans and advances to customers	<u>2,633,467,809,531</u>	<u>7,958,528,802,432</u>

a) Classified by residual maturity

	2017	2016
	LAK	LAK
Within 1 year	1,956,280,934,388	7,361,329,625,874
Over 1 year	677,186,875,143	597,199,176,558
	<u>2,633,467,809,531</u>	<u>7,958,528,802,432</u>

9. Loans and advances (continued)

b) Classified by currencies

	<u>2017</u> <u>LAK</u>	<u>2016</u> <u>LAK</u>
LAK	11,840,307,644	938,785,485
USD	749,606,920,266	1,724,846,156,999
CNY	1,871,466,629,145	6,232,288,679,845
THB	553,952,476	455,180,103
	<u>2,633,467,809,531</u>	<u>7,958,528,802,432</u>

c) Classified by interest rate (per annum)

	<u>2017</u> <u>%</u>	<u>2016</u> <u>%</u>
USD	2.70%-8.45%	1.09%-8.16%
CNY	3.10%-5.50%	3.00%-5.00%

d) Classified by type of business

	<u>2017</u> <u>LAK</u>	<u>2016</u> <u>LAK</u>
Industry	-	8,165,000,000
Construction	70,708,569,750	-
Commercial	9,350,000,000	8,981,500,000
Service	-	95,838,414,034
Personal	13,575,974,450	12,752,465,021
Others	2,539,833,265,331	7,832,791,423,377
	<u>2,633,467,809,531</u>	<u>7,958,528,802,432</u>

10. Derivatives

a) Derivative financial assets

	2017	2016
	LAK	LAK
	<u> </u>	<u> </u>
Foreign exchange rate forward	-	508,973,440
Foreign exchange rate swap	-	91,370,041,887
	<u> </u>	<u>91,879,015,327</u>

b) Derivative financial liabilities

	2017	2016
	LAK	LAK
	<u> </u>	<u> </u>
Foreign exchange rate swap	-	80,911,110,938
	<u> </u>	<u>80,911,110,938</u>

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Year ended 31 December 2017

11. Property and equipment

	Property LAK	Leasehold improvement LAK	Electronic equipment LAK	Furniture, fitting and office equipment LAK	Vehicle LAK	Total LAK
Cost						
Balance 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 and at 1 January 2017	152,794,300,966	10,361,077,500	6,369,683,606	9,492,733,374	2,848,597,850	181,866,393,296
Additions	-	-	264,626,483	264,616,070	402,067,800	931,310,353
Disposal	-	(10,361,077,500)	-	(62,562,206)	-	(10,423,639,706)
Balance at 31 December 2017	152,794,300,966	-	6,634,310,089	9,694,787,238	3,250,665,650	172,374,063,943
Accumulated depreciation						
Balance 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 and at 1 January 2017	13,407,412,400	10,361,077,500	3,647,040,692	3,614,197,294	2,714,435,383	33,744,163,269
Depreciation for the year	7,634,486,000	-	924,760,212	1,894,598,740	154,199,757	10,608,044,709
Disposal	-	(10,361,077,500)	-	(62,562,206)	-	(10,423,639,706)
Balance at 31 December 2017	21,041,898,400	-	4,571,800,904	5,446,233,828	2,868,635,140	33,928,568,272
Carrying amounts						
At 1 January 2016	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
At 31 December 2017	131,752,402,566	-	2,062,509,185	4,248,553,410	382,030,510	138,445,495,671

12. Intangible assets

	Software LAK	Land use rights LAK	Total LAK
Cost			
Balance at 1 January 2016	204,602,724	51,863,500,000	52,068,102,724
Additions	-	-	-
Balance at 31 December 2016 and at 1 January 2017	204,602,724	51,863,500,000	52,068,102,724
Additions	131,652,000	-	131,652,000
Balance at 31 December 2017	336,254,724	51,863,500,000	52,199,754,724
Accumulated amortisation			
Balance at 1 January 2016	108,710,473	1,733,990,111	1,842,700,584
Amortisation for the year	40,784,182	577,470,774	618,254,956
Balance at 31 December 2016 and at 1 January 2017	149,494,655	2,311,460,885	2,460,955,540
Amortisation for the year	33,854,779	575,892,985	609,747,764
Balance at 31 December 2017	183,349,434	2,887,353,870	3,070,703,304
Carrying amounts			
At 1 January 2016	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
At 31 December 2017	152,905,290	48,976,146,130	49,129,051,420

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Notes to Financial Statements (continued)
Year ended 31 December 2017

13. Other assets

	2017	2016
	LAK	LAK
Accrued interest receivable on loans	259,183,296,062	135,968,460,605
Accrued interest receivable on investment	48,261,862,004	44,806,429,594
Other receivables and prepayments	1,165,512,336	2,003,883,705
	308,610,670,402	182,778,773,904

14. Deposits from customers

a) Classified by type of deposits

	2017	2016
	LAK	LAK
Current	3,134,045,789,821	2,320,097,260,353
Savings	353,767,552,063	237,392,682,099
Term (contractual maturity):		
Within 1 year	1,134,580,706,805	1,151,679,423,122
Over 1 year	106,584,079,958	61,298,912,885
Others	11,794,587,000	95,097,755,000
	4,740,772,715,647	3,865,566,033,459

b) Classified by currencies

	2017	2016
	LAK	LAK
LAK	164,154,844,701	83,681,150,033
USD	4,173,435,496,858	3,658,621,974,688
THB	31,269,711,118	14,725,669,202
CNY	371,912,662,970	108,537,239,536
	4,740,772,715,647	3,865,566,033,459

c) Interest rate (per annum)

	2017	2016
	%	%
Saving accounts		
LAK	1.65%	1.00%
USD	1.00%	1.00%
THB	0.50%	0.50%
CNY	0.90%	0.25%
Fixed deposits		
LAK	2.50%-11.00%	2.50%-11.00%
USD	0.50%-6.25%	1.00%-6.25%
THB	0.75%-4.50%	0.75%-4.50%
CNY	0.40%-3.00%	0.40%-3.00%

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Notes to Financial Statements (continued)
Year ended 31 December 2017

15. Amounts due to other banks

	2017	2016
	LAK	LAK
At Call	<u>764,726,657,723</u>	<u>162,526,608,964</u>

a) By residence:

	2017	2016
	LAK	LAK
Domestic	102,806,657,723	89,041,608,964
Overseas	661,920,000,000	73,485,000,000
	<u>764,726,657,723</u>	<u>162,526,608,964</u>

b) By currency:

	2017	2016
	LAK	LAK
LAK	59,705,781,480	9,047,509,480
USD	682,343,332,433	127,850,773,374
CNY	22,677,543,810	25,628,326,110
	<u>764,726,657,723</u>	<u>162,526,608,964</u>

16. Tax liabilities

	2017	2016
	LAK	LAK
Corporate tax	15,784,739,289	11,600,646,520
Other withholding tax	530,782,816	-
	<u>16,315,522,105</u>	<u>11,600,646,520</u>

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2017

17 Deferred tax liability

	Deferred tax liability		
	At 1 January 2017	Total gains/(losses) recorded in profit and loss	At 31 December 2017
Fair value change of derivative financial assets and liabilities	2,632,297,053	(2,632,297,053)	-
	2,632,297,053	(2,632,297,053)	-

18. Other liabilities

	2017 LAK	2016 LAK
Accrued interest payable	172,692,642,789	96,881,465,754
Payable to employees	8,553,720,000	6,087,925,000
Settlement accounts	6,626,197,616	8,108,228,957
Deferred income	116,520,848	2,481,782,780
Other payables	597,915,171	6,934,881,695
	188,586,996,424	120,494,284,186

19 (a). Head Office's capital contribution

	2017 LAK	2016 LAK
Contributed legal capital	239,970,000,000	239,970,000,000

19 (b). Statutory reserve

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

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2017

20. Interest expense

	2017	2016
	LAK	LAK
Deposits	31,415,774,030	30,150,709,911
Interbank and money market items	474,115,664,116	249,657,831,979
	505,531,438,146	279,808,541,890

21. Net fee and commission income

	2017	2016
	LAK	LAK
Fee and commission income		
Commission on bank cards	1,579,085,114	1,365,509,918
Commission on guarantees	461,857,279	922,316,580
Commission on letters of credit	34,959,364	91,121,811
Commission on fund transfers	3,968,483,669	1,869,365,848
Commission on e-Banking	140,839,405	66,198,541
Fees on financial services	15,013,918,913	2,890,811,767
Total fee and commission income	21,199,143,744	7,205,324,465
Fee and commission expense		
Commission on bank cards	217,500,858	383,555,200
Commission on fund transfers	239,530,237	237,353,150
Others	2,272,835,542	1,629,657,286
Total fee and commission expense	2,729,866,637	2,250,565,636
Net fee and commission income	18,469,277,107	4,954,758,829

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2017

22. Personnel expenses

	2017 LAK	2016 LAK
Staff salaries	36,585,292,238	33,459,699,150
Other staff cost	3,756,189,909	2,413,682,014
	40,341,482,147	35,873,381,164

23. Tax expense

	2017 LAK	2016 LAK
Current tax expense		
Current year	93,060,804,963	44,465,927,548
Adjustment for prior year	-	120,459,505
	93,060,804,963	44,586,387,053
Deferred tax expense		
Reversal origination of temporary differences	(2,632,297,053)	(1,483,021,683)
	90,428,507,910	43,103,365,370

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

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

(i) Reconciliation of effective tax rate

	Rate %	2017 LAK	Rate %	2016 LAK
Profit before tax		377,462,641,072		177,675,581,330
Income tax using the Lao PDR corporation tax rate	24.0	90,591,033,857	24.0	42,642,139,519
Under provided in prior years – current	-	-	0.1	120,459,505
Others	0.0	(162,525,947)	0.2	340,766,346
Tax expense	24.0	90,428,507,910	24.3	43,103,365,370

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2017

24. Cash and cash equivalents

	2017 LAK	2016 LAK
Cash	111,708,236,048	94,719,941,165
Deposits and placements with Head Office and other branches	828,518,533,681	1,101,104,595,109
Deposits and placements with other banks	6,133,676,039,799	1,486,215,560,054
	<u>7,073,902,809,528</u>	<u>2,682,040,096,328</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

	2017 LAK	2016 LAK
Interbank and money market items		
Due from Head Office and other branches	828,518,533,681	692,854,595,109
Loans to other branches	-	2,257,383,922,090
Subtotal	<u>828,518,533,681</u>	<u>2,950,238,517,199</u>
Interest receivable from other branches	-	10,245,332,296
Total	<u>828,518,533,681</u>	<u>2,960,483,849,495</u>

(i) Foreign items

	2017 LAK	2016 LAK
USD	469,555,133,847	2,073,628,409,233
CNY	358,414,292,593	733,719,331,118
EUR	427,631,031	398,498,647
JPY	121,476,210	152,737,610,497
	<u>828,518,533,681</u>	<u>2,960,483,849,495</u>

25. Related party transactions (continued)

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

	2017	2016
	LAK	LAK
Other balances at end of the year:		
Deposits from other branches	(3,301,618,652,620)	(2,445,926,635,309)
Borrowings from Head Office and other branches	(9,564,374,262,581)	(15,068,550,517,935)
Subtotal	<u>(12,865,992,915,201)</u>	<u>(17,514,477,153,244)</u>
Interest payable	(139,097,792,337)	(74,285,409,082)
Total	<u>(13,005,090,707,538)</u>	<u>(17,588,762,562,326)</u>
Transactions during the year:		
Interest income from interbank and money market items	32,031,371,815	36,136,365,293
Interest expense on interbank and money market items	<u>(463,210,610,682)</u>	<u>(240,593,603,102)</u>

(b) Other related parties

	2017	2016
	LAK	LAK
Balances at end of the year:		
Due from banks and financial institutions	31,911,575,691	1,238,310,478,729
Borrowings from other than Head Office and other branches	(661,920,000,000)	(73,485,000,000)
Transactions during the year:		
Interest income from amount due from these banks and financial institutions	7,621,184,278	35,851,530,340
Interest expense on borrowings from other than Head Office and other branches	<u>(10,482,831,212)</u>	<u>(9,063,932,950)</u>

(c) Key management personnel

	2017	2016
	LAK	LAK
Transactions during the year:		
Compensation	<u>4,378,103,324</u>	<u>4,316,367,468</u>

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.

	2017	2016
	LAK	LAK
Letters of guarantee outstanding	173,675,165,549	87,639,532,298
Letters of credit outstanding	4,803,057,000	23,449,880,000
	178,478,222,549	111,089,412,298

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 2017

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

<i>In millions of LAK</i>	Loan and advances		Investments		Derivative financial assets		Interbank and money market items	
	2017	2016	2017	2016	2017	2016	2017	2016
Carrying amount	2,633,468	7,958,529	3,138,996	3,183,710	-	91,879	12,441,665	10,123,637
Assets at amortised cost								
Individually impaired	-	-	-	-	-	-	-	-
Collectively impaired	-	-	-	-	-	-	-	-
Past due but not impaired	-	-	-	-	-	-	-	-
Neither past due nor impaired	2,633,468	7,958,529	3,138,996	3,183,710	-	91,879	12,441,665	10,123,637
Subtotal	2,633,468	7,958,529	3,138,996	3,183,710	-	91,879	12,441,665	10,123,637
Total	2,633,468	7,958,529	3,138,996	3,183,710	-	91,879	12,441,665	10,123,637

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 2017	31 December 2016
Derivative financial assets	None	-	-
Loans and advances			
Corporate Loans	Land and building and LCs issued by other banks; Guarantee	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 2017 or 31 December 2016.

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 2017

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	
	2017	2016	2017	2016	2017	2016	2017	2016
Carrying amount	2,633,468	7,958,529	3,138,996	3,183,710	-	91,879	12,441,665	10,123,637
Concentration by Sector								
Corporate:								
<i>Industry</i>	-	8,165	-	-	-	-	-	-
<i>Construction</i>	70,709	-	-	-	-	-	-	-
<i>Commercial</i>	9,350	8,982	-	-	-	-	-	-
<i>Service</i>	-	95,838	-	-	-	-	-	-
<i>Others</i>	2,539,833	7,832,792	-	-	-	-	-	-
Personal	13,576	12,752	-	-	-	-	-	-
Government	-	-	623,700	701,550	-	-	-	-
Bank and financial institution	-	-	2,515,296	2,482,160	-	91,879	12,441,665	10,123,637
	2,633,468	7,958,529	3,138,996	3,183,710	-	91,879	12,441,665	10,123,637

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 2017

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>	Carrying amount	On demand	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years	No maturity
31 December 2017								
Assets								
Cash	111,708	111,708	-	-	-	-	-	-
Interbank and money market items								
- Amounts due from Head Office and other branches	828,519	828,519	-	-	-	-	-	-
- Amounts due from other banks	11,613,146	341,876	2,482,200	3,309,600	5,479,470	-	-	-
Statutory deposits with Central Bank	397,462	-	-	-	-	-	-	397,462
Investments	3,138,996	-	496,440	130,000	80,000	2,432,556	-	-
Loans and advances	2,633,468	-	2,401	1,145,390	808,490	159,920	517,267	-
Derivative financial assets	-	-	-	-	-	-	-	-
Other assets	259,836	259,836	-	-	-	-	-	-
	18,983,135	1,541,939	2,981,041	4,584,990	6,367,960	2,592,476	517,267	397,462

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2017

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
31 December 2017								
Liabilities								
Deposits from customers	(4,740,773)	(3,499,608)	(123,592)	(590,999)	(460,366)	(66,208)	-	-
Interbank and money market items								
- Amounts due to other branches	(12,865,993)	(2,474,219)	(1,654,800)	(3,462,111)	(5,192,123)	(82,740)	-	-
- Amounts due to other banks	(764,727)	(52,807)	-	-	(711,920)	-	-	-
Derivative financial liabilities	-	-	-	-	-	-	-	-
Other liabilities	(188,587)	(188,587)	-	-	-	-	-	-
	(18,560,080)	(6,215,221)	(1,778,392)	(4,053,110)	(6,364,409)	(148,948)	-	-
Commitments	178,478	-	23,185	18,491	2,979	133,823	-	-
Liquidity exposure	601,533	(4,673,282)	1,225,834	550,371	6,530	2,577,351	517,267	397,462

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2017

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
31 December 2016								
Assets								
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	-	-	-	-	-	-
	21,936,318	1,173,088	525,918	1,497,256	14,999,655	2,931,207	441,452	367,742

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2017

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
31 December 2016								
Liabilities								
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)	-	-	-	-	-	-
	(21,743,975)	(5,063,101)	(1,927,484)	(1,734,301)	(12,890,921)	(128,168)	-	-
Commitments	111,089	-	11,805	-	95,098	4,186	-	-
Liquidity exposure	303,432	(3,890,013)	(1,389,761)	(237,045)	2,203,832	2,807,225	441,452	367,742

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 2017. 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 2017

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
31 December 2017							
Assets							
Cash	111,708	111,708	-	-	-	-	-
Interbank and money market items							
- Amounts due from Head Office and other branches	828,519	828,519	-	-	-	-	-
- Amounts due from other banks	11,613,146	341,876	5,791,800	2,646,310	2,833,160	-	-
Statutory deposits with Central Bank	397,462	397,462	-	-	-	-	-
Investments	3,138,996	-	1,867,540	1,191,456	80,000	-	-
Loans and advances	2,633,468	2,401	1,145,390	555,140	253,350	159,920	517,267
Derivative financial assets	-	-	-	-	-	-	-
Other assets	259,836	259,836	-	-	-	-	-
	18,983,135	1,941,802	8,804,730	4,392,906	3,166,510	159,920	517,267

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2017

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
31 December 2017							
Liabilities							
Deposits from customers	(4,740,773)	(3,145,841)	(1,068,359)	(186,939)	(273,426)	(66,208)	-
Interbank and money market items							
- Amounts due to other branches	(12,865,993)	(2,474,219)	(5,116,911)	(2,871,859)	(2,320,264)	(82,740)	-
- Amounts due to other banks	(764,727)	(52,807)	-	(711,920)	-	-	-
Derivative financial liabilities	-	-	-	-	-	-	-
Other liabilities	(188,587)	(188,587)	-	-	-	-	-
	(18,560,080)	(5,861,454)	(6,185,270)	(3,770,718)	(2,593,690)	(148,948)	-
Difference of on-financial reporting items	423,055	(3,919,652)	2,619,460	622,188	572,820	10,972	517,267
Off-financial reporting items	178,478	178,478	-	-	-	-	-
Total interest sensitivity gap	601,533	(3,741,174)	2,619,460	622,188	572,820	10,972	517,267

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2017

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
31 December 2016							
Assets							
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	-	-	-	-	-
	21,936,318	1,411,025	3,867,629	2,438,710	13,491,755	285,747	441,452

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2017

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
31 December 2016							
Liabilities							
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)	-	-	-	-	-
	(21,743,975)	(2,738,737)	(4,475,624)	(678,420)	(12,294,151)	(1,557,043)	-
Difference of on-financial reporting items	192,343	(1,327,712)	(607,995)	1,760,290	1,197,604	(1,271,296)	441,452
Off-financial reporting items	111,089	111,089	-	-	-	-	-
Total interest sensitivity gap	303,432	(1,216,623)	(607,995)	1,760,290	1,197,604	(1,271,296)	441,452

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 <i>(In millions of LAK)</i>	2017 LAK	2016 LAK
Net foreign currency exposure:		
USD	26,028	21,904
EUR	43	40
CNY	2,017	117,048
THB	703	7
JPY	12	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 2017 and 2016. 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.

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>	2017 LAK	2016 LAK
Tier 1 capital		
Branch capital	239,970	239,970
Retained earnings	268,965	137,110
Statutory reserve	57,537	35,581
	566,472	412,661
Tier 2 capital		
Loan loss reserve (at the lower of loan loss reserve for the year or 1.25% of risk-weighted assets on the Branch's assets)	17,025	13,697
Profit for the year	219,598	127,577
	236,623	141,274
Total regulatory capital	803,095	553,935

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 2017 that significantly impacted the financial position of the Branch as at 31 December 2017.