

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

Audited Financial Statements
and
Independent Auditors' Report
Year ended 31 December 2018



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. Sun Fenglei	General Manager
Mr. Joxiong Bouasinengma	Deputy General Manager
Mr. Chen Wenxian	Deputy General Manager
Mr. Ruan Jing	Deputy General Manager

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

Auditors KPMG Lao Co., Ltd.
10th Floor, Royal Square Office Building,
Samsenthai Road, Nongduong Nua Village,
Sikhotabong District, P.O.Box 6978,
Vientiane, Lao P.D.R

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 2018, 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. Sun Fenglei, on behalf of the Board of Management, do hereby state that the financial statements set out on pages 5 to 61 give a true and fair view of the financial position of Industrial and Commercial Bank of China Limited Vientiane Branch as at 31 December 2018 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,



Sun Fenglei
General Manager
29 March 2019

SUN FENG LEI



KPMG Lao Co., Ltd.
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Samsenthai Road, Nongduong Nua Village,
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ຊັ້ນ 10, ອາຄານ ໂຮໂຢລສະແຄລ
ຖະໜົນ ສາມແສນໄທ, ບ້ານ ຫນອງດ້ວງເໜືອ,
ເມືອງ ສີໂຄດຕະບອງ, ຕູ້ ປ.ນ. 6978,
ນະຄອນຫຼວງວຽງຈັນ, ສປປ ລາວ
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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 2018, 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 2018 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.

KPMG

Lao



KPMG Lao Co., Ltd.
Vientiane Capital, Lao PDR

Date: 29 March 2019

KPMG Lao Co., Ltd. a Company licensed under the Foreign Investment Law of Lao PDR, is a member of KPMG International, a Swiss cooperative.

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of Financial Position
As at 31 December 2018

	Note	31 December	
		2018 LAK	2017 LAK
ASSETS			
Cash	5	113,793,419,299	111,708,236,048
Interbank and money market items			
Amounts due from Head Office and other branches	25(a)	1,195,206,689,890	828,518,533,681
Amounts due from other banks	6	14,476,755,019,612	11,613,146,039,799
Statutory deposits with Central Bank	7	442,320,835,728	397,462,303,646
Investments	8	3,289,867,261,153	3,138,996,000,000
Loans and advances	9	1,766,390,227,368	2,633,467,809,531
Property and equipment	10	128,366,861,793	138,445,495,671
Intangible assets	11	48,505,864,349	49,129,051,420
Other assets	12	364,225,084,586	308,610,670,402
Deferred tax asset		43,964,010,811	-
Total assets		21,869,395,274,589	19,219,484,140,198

The accompanying notes form an integral part of these financial statements

Prepared by:



Accountant

Approved by:



General Manager

SUN FENG LEI

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of Financial Position
As at 31 December 2018

		31 December	
	Note	2018 LAK	2017 LAK
LIABILITIES AND EQUITY			
Liabilities			
Deposits from customers	13	5,464,673,566,867	4,740,772,715,647
Interbank and money market items			
Amounts due to other branches	25(a)	15,295,640,684,876	12,865,992,915,201
Amounts due to other banks	14	90,532,722,516	764,726,657,723
Tax liabilities	15	11,236,074,784	16,315,522,105
Other liabilities	16	300,004,088,496	188,586,996,424
Total liabilities		21,162,087,137,539	18,576,394,807,100
Equity			
Head Office's capital contribution	17(a)	239,970,000,000	239,970,000,000
Statutory reserve	17(b)	89,291,544,507	57,537,228,174
Retained earnings		378,046,592,543	345,582,104,924
Total equity		707,308,137,050	643,089,333,098
Total liabilities and equity		21,869,395,274,589	19,219,484,140,198

The accompanying notes form an integral part of these financial statements

Prepared by:



Accountant

Approved by:



General Manager

SUN FENG LEI

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2018

	Note	31 December	
		2018 LAK	2017 LAK
Interest income			
Interest from loans and advances		121,218,554,729	269,582,371,547
Interest from interbank and money market items		608,985,479,943	414,167,185,752
Interest from investment in bonds		206,998,915,747	181,860,542,000
Total interest income		937,202,950,419	865,610,099,299
Interest expense			
Interest on deposits		(39,987,481,956)	(31,415,774,030)
Interest on interbank and money market items		(415,700,570,361)	(474,115,664,116)
Total interest expense	18	(455,688,052,317)	(505,531,438,146)
Net interest income		481,514,898,102	360,078,661,153
Fee and commission income		67,695,428,581	21,199,143,744
Fee and commission expenses		1,308,236,913	(2,729,866,637)
Net fee and commission income	19	66,387,191,668	18,469,277,107
Impairment loss	6&9&8	(63,433,846,742)	-
Net income from interest after doubtful accounts		484,468,243,028	378,547,938,260
Other income			
Gain on foreign exchange		17,570,486,209	61,927,904,665
Other income		1,105,548,733	1,962,717,055
Total other income		18,676,034,942	63,890,621,720
Income before non-interest expense and income tax		503,144,277,970	442,438,559,980
Operating expenses			
Personnel expenses	20	(50,194,473,033)	(40,341,482,147)
Depreciation and amortisation expenses		(11,162,574,349)	(11,217,792,473)
Other expenses		(17,049,089,436)	(13,416,644,288)
Total operating expenses		(78,406,136,818)	(64,975,918,908)

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2018

	Note	31 December	
		2018 LAK	2017 LAK
Profit before income tax		424,738,141,152	377,462,641,072
Tax expense	21	(107,142,193,394)	(90,428,507,910)
Profit for the year		317,595,947,758	287,034,133,162
Other comprehensive income			
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year, net of tax		317,595,947,758	287,034,133,162

The accompanying notes form an integral part of these financial statements

Prepared by:



Accountant

Approved by:



General Manager

SUN FENG LEI

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of Changes in Equity
For the year ended 31 December 2018

	Note	Head Office's capital contribution		Statutory reserve	Retained earnings	Total
		LAK	LAK			
Balance at 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
Change of Accounting policy	2.(a)(vi)	-		-	(88,164,526,466)	(88,164,526,466)
Balance at 1 January 2018		239,970,000,000		57,537,228,174	257,417,578,458	554,924,806,632
Profit for the year		-		-	317,595,947,758	317,595,947,758
Statutory reserve for the year		-		31,754,316,333	(31,754,316,333)	-
Profit appropriation(*)		-		-	(165,212,617,340)	(165,212,617,340)
Balance at 31 December 2018		239,970,000,000		89,291,544,507	378,046,592,543	707,308,137,050

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

Prepared by:



Accountant

Approved by:



General Manager

SUN FENG LEI

(*)profit appropriation to ICBC Head Office

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of Cash Flows
For the year ended 31 December 2018

	Note	31 December	
		2018 LAK	2017 LAK
Cash flows from operating activities			
Profit for the year		<u>365,607,263,570</u>	<u>287,034,133,162</u>
<i>Adjustments for:</i>			
Allowance for doubtful debts		63,433,846,742	-
Depreciation and amortisation		11,162,574,349	11,217,792,473
Interest income from investment in bonds		(206,998,915,747)	(181,860,542,000)
Gain on foreign exchange		3,743,575,760	10,967,904,389
Income tax expenses		107,142,193,394	90,428,507,910
		<u>296,079,222,256</u>	<u>217,787,795,934</u>
Change in operating assets / liabilities			
Change in interbank and money market assets		(5,890,160,000,000)	2,056,846,675,971
Change in statutory deposits		(44,858,532,082)	(50,393,500,178)
Change in loans and advances to customers		835,420,181,223	5,325,060,992,901
Change in other assets excluding interest receivable on investments		(103,876,276,188)	(122,376,464,088)
Change in deposits from customers		723,900,851,220	875,206,682,188
Change in interbank and money market liabilities		1,755,453,834,468	(4,046,284,189,284)
Change in withholding tax liabilities		(123,061,984)	530,782,816
Change in other liabilities		111,417,092,072	68,092,712,238
Income tax paid		(128,221,160,131)	(88,876,712,194)
Net cash generated (used in) / from operating activities		<u>(2,444,967,849,146)</u>	<u>4,235,594,776,304</u>
Cash flows from investing activities			
Acquisition of property and equipment		(460,753,400)	(931,310,353)
Acquisition of intangible assets		-	(131,652,000)
Purchases of bond investments		(740,660,000,000)	(328,220,000,000)
Proceeds from sale and redemption of bond investments		636,762,000,000	372,934,000,000
Interest income from investment in bonds		198,910,928,973	178,405,109,590
Net cash generated from investing activities		<u>94,552,175,573</u>	<u>222,056,147,237</u>

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of Cash Flows
For the year ended 31 December 2018

		31 December	
	Note	2018 LAK	2017 LAK
Cash flows from financing activities			
Payment for profit distribution		(165,212,617,340)	(65,788,210,341)
Net cash used in financing activities		(165,212,617,340)	(65,788,210,341)
Net change in cash and cash equivalents		(2,515,628,290,913)	4,391,862,713,200
Cash and cash equivalents at 1 January		7,073,902,809,528	2,682,040,096,328
Cash and cash equivalents at 31 December	22	4,558,274,518,615	7,073,902,809,528

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

Prepared by:



Accountant

Approved by:



General Manager

SUN FENG LEI

SUN FENG LEI

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2018

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 2018, the Branch had 89 (2017: 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 29 March 2019.

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 29 March 2019.

In preparing these financial statements, the significant judgments made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as of and for the year ended 31 December 2017, except for the change in the accounting policy in relation to IFRS 9 and IFRS 15 effective from 1 January 2018. The nature and the effect of these changes are disclosed in below sections.

(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.

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of Cash Flows
For the year ended 31 December 2018

2. Basis of financial statement preparation (continued)

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

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.

(vi) Change in accounting policies

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.

The adoption has no impact on the financial position and the financial result.

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

(a) Classification and measurement

The standard 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 also be measured at amortised cost under IFRS 9.
- Held-to-maturity investment securities measured at amortised cost under IAS 39 also be measured at amortised cost under IFRS 9.

The standard has no impact on the classification and measurement of financial instruments of the branch.

(b) 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 adopted the new impairment requirements at 1 January 2018, accumulated impairment loss at that date increased compared with that recognised under IAS 39. As a consequence, an adjustment had been made to the opening balances of net assets and retained profits at 1 January 2018.

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2018

The following table reconciles the closing impairment allowance under IAS 39 to opening allowance determined in accordance with IFRS 9 on 1 January 2018:

	Impairment allowance under IAS 39 as at 31 December 2017	Reclassification	Remeasurement	Impairment allowance under IFRS 9 as at 1 January 2018
Loans and receivables (IAS 39)/Financial assets measured at amortised cost (IFRS 9)	-	-	30,104,894,260	30,104,894,260
Investment	-	-	8,031,300,558	8,031,300,558
Due from other banks	-	-	77,869,761,058	77,869,761,058
Subtotal	-	-	116,005,955,876	116,005,955,876
Deferred tax asset	-	-	(27,841,429,410)	(27,841,429,410)
Total	-	-	88,164,526,466	88,164,526,466

2. Basis of financial statement preparation (continued)

(vi) Change in accounting policies (continued)

(c) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below

Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of Cash Flows
For the year ended 31 December 2018

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 2018	31 December 2017
	LAK	LAK
United States Dollar (“USD”)	8,511.00	8,274.00
Thai Baht (“THB”)	265.56	253.97
Chinese Yuan (“CNY”)	1,227.53	1,258.82
Euro (“EUR”)	9,745.50	9,885.00
HongKong Dollar (“HKD”)	1,030.50	1,003.00
Japanese Yen (“JPY”)	75.11	72.33

(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

The adoption of IFRS 9 has resulted in changes in Bank’s accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets and are summarized below;

Financial assets

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

On initial recognition, a financial asset is classified as measured at; amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL;

- The asset is held within business model whose objective is to hold assets to collect contractual cash flows: and

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of Cash Flows
For the year ended 31 December 2018

3. Significant accounting policies (continued)

(b) Financial assets and financial liabilities (continued)

(ii) Classification (continued)

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as FVTPL;

- The asset is held within business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For an equity instrument that is not held for trading, the bank may elect at initial recognition to irrevocably designate those instruments under FVOCI. This election is made on an investment on investment basis. All other financial assets are classified as measured at FVTPL. Under FVOCI, fair value changes are recognised in other comprehensive income (OCI) while dividends are recognised in profit or loss. On disposal of the investment the capital gain / loss is required to remain in OCI and is not recycled to profit or loss.

In addition, on initial recognition the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

IFRS 9 removes the requirement contained in IAS 39 relating to bifurcation of an embedded derivative from an asset host contract. However, entities are still required to separate derivatives embedded in financial liabilities where they are not closely related to the host contract.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognized in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and

- the remaining amount of change in the fair value is presented in profit or loss.

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of Cash Flows
For the year ended 31 December 2018

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.

Business model assessment

The Banks' business model reflects how it manages the assets to generate cash flows. Whether it is solely to collect the contractual cash flows from the asset or both the contractual cash flows and from sale of asset. Factors considered by the Bank in determining the business models for group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel and how risks are assessed and managed.

Assessment whether contractual cash flows are solely payments of principal and interest

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represents solely payment of principal and interest. In making this assessment, the Bank considers whether the contractual cash flows are consistent with basic lending arrangement, i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of Cash Flows
For the year ended 31 December 2018

3. Significant accounting policies (continued)

(b) Financial assets and financial liabilities (continued)

(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.

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of Cash Flows
For the year ended 31 December 2018

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.

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of Cash Flows
For the year ended 31 December 2018

3. Significant accounting policies (continued)

(b) Financial assets and financial liabilities (continued)

(vii) Impairment

Policy applicable from 1 January 2018

The Bank assess on a forward-looking basis the expected credit losses (ECL) associated with financial assets measured at amortised cost or FVOCI which mainly include loans & advances and financings, investments (other than equity investments), interbank placements, loan commitments and financial guarantees. The Bank recognises a loss allowance and provision for such losses at reporting date. The measurement of ECL reflects:

- an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Bank's approach leveraged the existing regulatory capital models and processes for Bank's loan portfolios that use the existing Internal Rating based and behavioural credit models. IFRS 9 considers the calculation of ECL by multiplying the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

Measurement of ECL

Credit loss allowances are measured using a three-stage approach based on the extent of credit deterioration since origination:

Stage 1 – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.

Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD)

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of Cash Flows
For the year ended 31 December 2018

3. Significant accounting policies (continued)

(b) Financial assets and financial liabilities (continued)

(vii) Impairment (continued)

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information.

Details of these statistical parameters/inputs are as follows:

PD – The probability of default is an estimate of the likelihood of default over a given time horizon.

EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date.

LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios

IFRS 9 requires an unbiased and probability weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions. Macroeconomic factors and FLI are required to be incorporated into the measurement of ECL as well as the determination of whether there has been a SICR since origination. The Bank is using three scenarios that is probability weighted to determine ECL.

The Bank’s ECL allowance methodology, requires the Bank to use its experienced credit judgement to incorporate the estimated impact of factors not captured in the modelled ECL results, in all reporting periods.

Assessment of significant increase in credit risk

The expected credit loss model requires the recognition of credit losses based on 12 months of expected losses for performing loans and the recognition of lifetime expected losses on loans that have experienced a SICR since origination. The determination of a SICR takes into account many different macro-economic factors and will vary by product and risk segment. The main factors considered in making this determination are relative changes in probability-weighted probability of default since origination and certain criteria such as 30 day past due and watch list status. The assessment of SICR will require experienced credit judgement.

The bank considers a financial instrument having a significant increase in credit risk based on the following factors:

- The assessment will be based on comparison of risk of default (and not the expected loss) occurring over the lifetime of the asset as at the reporting date and as at the origination i.e. which in turn is derived from the risk rating and expected life of the asset.
- The deterioration in credit quality will be judged as ‘significant’ if the Distance to Default (DD) on the reporting date has reduced by at least half as compared to the DD at initial recognition provided, however, that on the reporting date (i) the asset is not considered to be of low credit risk and (ii) the expected life of the asset has not increased since initial recognition. DD for any risk rating is defined as the number of notches separating it from default.
- The assessment of risk rating on each reporting date will be performed based on financial / non-financial data & conduct and performance of the related asset.

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of Cash Flows
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3. Significant accounting policies (continued)

(b) Financial assets and financial liabilities (continued)

(vii) Impairment (continued)

Definition of default

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation of the Bank.

Overdrafts are considered as being past due once the customer has breached and advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether the borrower is in default, the Bank considers indicators that are;

- qualitative - e.g. breaches of covenant
- quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instruments is in default and their significance may vary over time to reflect changes in circumstances.

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of Cash Flows
For the year ended 31 December 2018

3. Significant accounting policies (continued)

(b) Financial assets and financial liabilities (continued)

(vii) Impairment (continued)

Policy applicable before 1 January 2018

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.

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

Measured at amortised cost

Investments measured at amortised cost using the effective interest method. A gain or loss on a financial asset that is measured at amortised cost and is not part of a hedging relationship shall be recognised in profit or loss when the financial asset is derecognised, through the amortisation process or in order to recognise impairment gains or losses.

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of Cash Flows
For the year ended 31 December 2018

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.

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of Cash Flows
For the year ended 31 December 2018

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 and expense

Policy applicable from 1 January 2018

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The “effective interest rate” is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Branch estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

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

Amortised cost and gross carrying amount

The “amortised cost” of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The “gross carrying amount of a financial asset” is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of Cash Flows
For the year ended 31 December 2018

3. Significant accounting policies (continued)

(j) Interest income and expense (continued)

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 3 (b) (i).

Policy applicable before 1 January 2018

Interest income and expense are 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 and receipts through the expected life of the financial asset or financial liability (or where appropriate, a shorter period) to the carrying amount of the financial asset or the amortised cost of the financial liability. When calculating the effective interest rate, the Bank 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 transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest income and expense are presented in profit or loss.

(k) 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.

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of Cash Flows
For the year ended 31 December 2018

3. Significant accounting policies (continued)

(I) 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.

Industrial and Commercial Bank of China Limited Vientiane Branch
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3. Significant accounting policies (continued)

(m) 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.

(n) 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 2018; however, the Branch has not applied the following new or amended standards in preparing these financial statements.

IFRS	Topic	Year effective
IFRS 16	Leases	2019

IFRS 16“Leases”

In January 2016, the IASB issued IFRS 16, “Leases”, which replaces the current guidance in IAS 17. The new standard requires the companies to bring leases on-balance sheet for lessees. The new standard also makes changes in accounting over the life of the lease, and introduces a stark dividing line between leases and service contracts.

Under IFRS 16 there is no longer a distinction between finance leases and operating leases so far as lessees are concerned. Instead, subject to practical expedients, a lessee recognises all leases on-balance sheet by recognising a right-of-use (ROU) asset and lease liability.

Lessor accounting is substantially unchanged – i.e. lessors continue to classify leases as finance and operating leases. However, there are a number of changes in the details of lessor accounting. For example, lessors apply the new definition of a lease, sale-and-leaseback guidance, sub-lease guidance and disclosure requirements.

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

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5. Cash

	2018	2017
	LAK	LAK
Lao Kip (“LAK”)	67,525,052,000	14,663,866,000
United States Dollar (“USD”)	15,059,805,972	64,447,352,634
Thai Baht (“THB”)	21,738,436,206	6,346,880,460
Chinese Yuan (“CNY”)	9,470,125,121	26,250,136,954
	113,793,419,299	111,708,236,048

6. Amounts due from other banks

	2018	2017
	LAK	LAK
LAK	67,637,376,281	119,222,331,142
Other foreign items	14,551,267,033,145	11,493,923,708,657
	14,618,904,409,426	11,613,146,039,799

Less: Allowance for Amounts due from other banks	142,149,389,814	-
	14,476,755,019,612	11,613,146,039,799

a) Domestic items

	2018	2017
	LAK	LAK
At call		
Bank of Lao PDR	14,348,897,973	50,670,373,909
Other commercial banks	53,288,478,308	68,551,957,233
	67,637,376,281	119,222,331,142

b) Foreign items

	2018	2017
	LAK	LAK
At call		
USD	14,348,831,055,148	11,456,595,192,002
THB	71,662,578,321	29,433,229,430
CNY	130,771,313,274	7,893,256,501
HKD	2,086,402	2,030,724
	14,551,267,033,145	11,493,923,708,657

c) Allowances for impairment

	2018	2017
	LAK	LAK
Amounts due from other banks	142,149,389,814	-
	142,149,389,814	-

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7. Statutory deposits with Central Bank

	2018	2017
	LAK	LAK
Statutory deposits on:		
Registered capital reserve	5,000,000	5,000,000
Compulsory reserve	442,315,835,728	397,457,303,646
	442,320,835,728	397,462,303,646

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 (2017: 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

	2018	2017
	LAK	LAK
Government bonds	655,550,000,000	623,700,000,000
Financial bonds	2,587,344,000,000	2,515,296,000,000
Accrued interest receivable	56,349,848,778	-
	3,299,243,848,778	3,138,996,000,000
Less: Allowance for Investments	9,376,587,625	-
	3,289,867,261,153	3,138,996,000,000

Investments represent investment measured at amortised cost in bonds. These bonds have maturities ranging from date 27 Apr 2019 to date 30 Jan 2023 (2017: 15 Jan 2018 to 26 Dec 2022) and interest rates ranging from 5.00% to 7.49% (2017: 5.75 % to 6.26%).

During the year, movements of the allowance for impairment losses on financial investments measured at amortised cost are as follows:

	Group			Total
	Stage 1	Stage 2	Stage 3	
Balance at 1 January 2018	8,031,300,558	-	-	8,031,300,558
Transfer:				
- to stage 1	-	-	-	-
- to stage 2	-	-	-	-
- to stage 3	-	-	-	-
Charge	1,083,441,996	-	-	1,083,441,996
Other movements	261,845,071	-	-	261,845,071
Balance at 31 December 2018	9,376,587,625	-	-	9,376,587,625

The definition of three stages please refer to 3. Significant accounting policies.

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Statement of Cash Flows
For the year ended 31 December 2018

9. Loans and advances

	<u>2018</u> <u>LAK</u>	<u>2017</u> <u>LAK</u>
Loans and receivables(Measured at amortised cost):		
- Overdrafts	2,400,838,708	2,400,558,607
- Loans	1,795,646,789,600	2,631,067,250,924
	<u>1,798,047,628,308</u>	<u>2,633,467,809,531</u>
Less: Allowance for impairment losses of loans and advances to customers measured at amortised cost	31,657,400,940	-
Loans and advances to customers	<u>1,766,390,227,368</u>	<u>2,633,467,809,531</u>

a) Classified by residual maturity

	<u>2018</u> <u>LAK</u>	<u>2017</u> <u>LAK</u>
Within 1 year	47,149,945,156	1,956,280,934,388
Over 1 year	1,750,897,683,152	677,186,875,143
	<u>1,798,047,628,308</u>	<u>2,633,467,809,531</u>

b) Classified by currencies

	<u>2018</u> <u>LAK</u>	<u>2017</u> <u>LAK</u>
LAK	11,331,922,259	11,840,307,644
USD	1,783,636,724,744	749,606,920,266
CNY	2,565,337,760	1,871,466,629,145
THB	513,643,545	553,952,476
	<u>1,798,047,628,308</u>	<u>2,633,467,809,531</u>

c) Classified by interest rate (per annum)

	<u>2018</u> <u>%</u>	<u>2017</u> <u>%</u>
USD	4.18%-9.52%	2.70%-8.45%
CNY	5.00%	3.10%-5.50%

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of Cash Flows
For the year ended 31 December 2018

9. Loans and advances (continued)

d) Classified by type of business

	2018	2017
	LAK	LAK
Construction	264,153,349,189	70,708,569,750
Commercial	168,931,250,000	9,350,000,000
Personal	15,580,315,719	13,575,974,450
Others	1,349,382,713,400	2,539,833,265,331
	<u>1,798,047,628,308</u>	<u>2,633,467,809,531</u>

(e) Movements of allowance for impairment losses of loans and advances to customers measured at amortised cost are as follows

	31 December 2018			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2018*	30,104,894,260	-	-	30,104,894,260
Transfer:				
- to stage 1	-	-	-	-
- to stage 2	-	-	-	-
- to stage 3	-	-	-	-
Charge	6,524,490,645			6,524,490,645
Reversal	(6,118,489,517)	-	-	(6,118,489,517)
Other movements	1,146,505,552	-	-	1,146,505,552
Balance at 31 December 2018	<u>31,657,400,940</u>	<u>-</u>	<u>-</u>	<u>31,657,400,940</u>

(*) : For the impact of change in accounting policy, please refer to 2.(a).(vi).

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2018

10. 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 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 and at 1 January 2018	152,794,300,966	-	6,634,310,089	9,694,787,238	3,250,665,650	172,374,063,943
Additions	-	-	71,852,538	388,900,862	-	460,753,400
Disposal	-	-	-	-	-	-
Balance at 31 December 2018	152,794,300,966	-	6,706,162,627	10,083,688,100	3,250,665,650	172,834,817,343
Accumulated depreciation						
Balance 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 and at 1 January 2018	21,041,898,400	-	4,571,800,904	5,446,233,828	2,868,635,140	33,928,568,272
Depreciation for the year	7,634,486,000	-	901,968,954	1,922,562,974	80,369,350	10,539,387,278
Disposal	-	-	-	-	-	-
Balance at 31 December 2018	28,676,384,400	-	5,473,769,858	7,368,796,802	2,949,004,490	44,467,955,550
Carrying amounts						
At 1 January 2017	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
At 31 December 2018	124,117,916,566	-	1,232,392,769	2,714,891,298	301,661,160	128,366,861,793

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2018

11. Intangible assets

	Software LAK	Land use rights LAK	Total LAK
Cost			
Balance 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 and at 1 January 2018	336,254,724	51,863,500,000	52,199,754,724
Additions	-	-	-
Balance at 31 December 2018	336,254,724	51,863,500,000	52,199,754,724
Accumulated amortisation			
Balance 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 and at 1 January 2018	183,349,434	2,887,353,870	3,070,703,304
Amortisation for the year	47,294,086	575,892,985	623,187,071
Balance at 31 December 2018	230,643,520	3,463,246,855	3,693,890,375
Carrying amounts			
At 1 January 2017	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
At 31 December 2018	105,611,204	48,400,253,145	48,505,864,349

12. Other assets

	2018 LAK	2017 LAK
Accrued interest receivable on loans	361,404,645,432	259,183,296,062
Accrued interest receivable on investment	-	48,261,862,004
Other receivables and prepayments	2,820,439,154	1,165,512,336
	364,225,084,586	308,610,670,402

13. Deposits from customers

a) Classified by type of deposits

	2018 LAK	2017 LAK
Current	3,858,378,646,488	3,134,045,789,821
Savings	402,690,554,476	353,767,552,063
Term (contractual maturity):		
Within 1 year	1,009,868,842,893	1,134,580,706,805
Over 1 year	150,819,002,652	106,584,079,958
Others	42,916,520,358	11,794,587,000
	5,464,673,566,867	4,740,772,715,647

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2018

13. Deposits from customers (continued)

b) Classified by currencies

	2018 LAK	2017 LAK
LAK	102,043,411,152	164,154,844,701
USD	4,557,615,299,014	4,173,435,496,858
THB	54,275,004,293	31,269,711,118
CNY	750,739,852,408	371,912,662,970
	<u>5,464,673,566,867</u>	<u>4,740,772,715,647</u>

c) Interest rate (per annum)

	2018 %	2017 %
Saving accounts		
LAK	1.65%	1.65%
USD	1.00%	1.00%
THB	0.50%	0.50%
CNY	0.90%	0.90%
Fixed deposits		
LAK	2.90%-11.00%	2.50%-11.00%
USD	1.05% - 6.25%	0.50%-6.25%
THB	0.90%-4.50%	0.75%-4.50%
CNY	0.40%-2.20%	0.40%-3.00%

14. Amounts due to other banks

	2018 LAK	2017 LAK
At Call	<u>90,532,722,516</u>	<u>764,726,657,723</u>

a) By residence:

	2018 LAK	2017 LAK
Domestic	90,532,722,516	102,806,657,723
Overseas	-	661,920,000,000
	<u>90,532,722,516</u>	<u>764,726,657,723</u>

b) By currency:

	2018 LAK	2017 LAK
LAK	29,954,495	59,705,781,480
USD	56,953,026,017	682,343,332,433
CNY	33,549,742,004	22,677,543,810
	<u>90,532,722,516</u>	<u>764,726,657,723</u>

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2018

15. Tax liabilities

	2018	2017
	LAK	LAK
Corporate tax	10,828,353,952	15,784,739,289
Other withholding tax	407,720,832	530,782,816
	11,236,074,784	16,315,522,105

16. Other liabilities

	2018	2017
	LAK	LAK
Accrued interest payable	223,136,835,135	172,692,642,789
Payable to employees	13,466,236,577	8,553,720,000
Settlement accounts	61,734,663,895	6,626,197,616
Deferred income	1,187,350,425	116,520,848
Other payables	479,002,464	597,915,171
	300,004,088,496	188,586,996,424

17 (a). Head Office's capital contribution

	2018	2017
	LAK	LAK
Contributed legal capital	239,970,000,000	239,970,000,000

17 (b). Statutory reserve

The statutory reserve is provided for at the rate of at least 10% of net 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 2018

18. Interest expense

	2018	2017
	LAK	LAK
Deposits	39,987,481,956	31,415,774,030
Interbank and money market items	415,700,570,361	474,115,664,116
	<u>455,688,052,317</u>	<u>505,531,438,146</u>

19. Net fee and commission income

	2018	2017
	LAK	LAK
Fee and commission income		
Commission on bank cards	1,830,192,604	1,579,085,114
Commission on guarantees	906,072,835	461,857,279
Commission on letters of credit	916,580,917	34,959,364
Commission on fund transfers	7,025,843,275	3,968,483,669
Commission on e-Banking	92,168,956	140,839,405
Fees on financial services	56,924,569,994	15,013,918,913
Total fee and commission income	<u>67,695,428,581</u>	<u>21,199,143,744</u>

Fee and commission expense

Commission on bank cards	536,687,304	217,500,858
Commission on fund transfers	514,519,111	239,530,237
Others	257,030,498	2,272,835,542
Total fee and commission expense	<u>1,308,236,913</u>	<u>2,729,866,637</u>

Net fee and commission income

66,387,191,668 **18,469,277,107**

20. Personnel expenses

	2018	2017
	LAK	LAK
Staff salaries	45,744,617,756	36,585,292,238
Other staff cost	4,449,855,277	3,756,189,909
	<u>50,194,473,033</u>	<u>40,341,482,147</u>

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2018

21. Tax expense

	2018	2017
	LAK	LAK
Current tax expense		
Current year	123,264,774,794	93,060,804,963
Adjustment for prior year	-	-
	<u>123,264,774,794</u>	<u>93,060,804,963</u>
Deferred tax expense		
Origination of temporary differences	(16,122,581,400)	(2,632,297,053)
	<u>107,142,193,394</u>	<u>90,428,507,910</u>

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

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

(i) Reconciliation of effective tax rate

	<i>Rate</i>	2018	<i>Rate</i>	2017
	<i>%</i>	LAK	<i>%</i>	LAK
Profit before tax		424,738,141,152		377,462,641,072
Income tax using the Lao PDR corporation tax rate	24.0	101,937,153,876	24.0	90,591,033,857
Expenses not deductible for tax purposes	1.2	5,205,039,518	0.0	(162,525,947)
Tax expense	<u>25.2%</u>	<u>107,142,193,394</u>	<u>24.0</u>	<u>90,428,507,910</u>

22. Cash and cash equivalents

	2018	2017
	LAK	LAK
Cash	113,793,419,299	111,708,236,048
Deposits and placements with Head Office and other branches	1,195,206,689,890	828,518,533,681
Deposits and placements with other banks	3,249,274,409,426	6,133,676,039,799
	<u>4,558,274,518,615</u>	<u>7,073,902,809,528</u>

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2018

23. 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

	2018	2017
	LAK	LAK
Interbank and money market items		
Due from Head Office and other branches	1,195,206,689,890	828,518,533,681
Loans to other branches	-	-
Subtotal	<u>1,195,206,689,890</u>	<u>828,518,533,681</u>
Interest receivable from other branches	3,436,197,453	-
Total	<u>1,198,642,887,343</u>	<u>828,518,533,681</u>

(i) Foreign items

	2018	2017
	LAK	LAK
USD	408,918,561,534	469,555,133,847
CNY	788,586,514,443	358,414,292,593
EUR	1,011,666,224	427,631,031
JPY	126,145,142	121,476,210
	<u>1,198,642,887,343</u>	<u>828,518,533,681</u>

	2018	2017
	LAK	LAK
Other balances at end of the year:		
Deposits from other branches	(2,193,612,684,876)	(3,301,618,652,620)
Borrowings from Head Office and other branches	(13,102,028,000,000)	(9,564,374,262,581)
Subtotal	<u>(15,295,640,684,876)</u>	<u>(12,865,992,915,201)</u>
Interest payable	(198,885,803,978)	(139,097,792,337)
Total	<u>(15,494,526,488,854)</u>	<u>(13,005,090,707,538)</u>

Transactions during the year:

Interest income from interbank and money market items	20,554,843,858	32,031,371,815
Interest expense on interbank and money market items	<u>(407,603,656,450)</u>	<u>(463,210,610,682)</u>

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2018

23. Related party transactions (continued)

(b) Other related parties

	2018	2017
	LAK	LAK
Balances at end of the year:		
Due from banks and financial institutions	288,759,490,994	31,911,575,691
Borrowings from institutions other than Head Office and other branches	-	(661,920,000,000)
Transactions during the year:		
Interest income from amount due from these banks and financial institutions	3,710,840,531	7,621,184,278
Interest expense on borrowings from institutions other than Head Office and other branches	(6,726,401,152)	(10,482,831,212)

(c) Key management personnel

	2018	2017
	LAK	LAK
Transactions during the year:		
Compensation	8,094,853,525	4,378,103,324

24. 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.

	2018	2017
	LAK	LAK
Letters of guarantee outstanding	207,540,515,094	173,675,165,549
Letters of credit outstanding	30,229,656,685	4,803,057,000
	237,770,171,779	178,478,222,549

No material losses are anticipated from these transactions.

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2018

25. 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" refers to the risk that a counterparty or a borrower may default on its contractual obligations or agreements. Such defaults may be caused by counterparty's inability to pay due to financial encumbrances or intention not to abide by the contractual agreements, resulting in a loss to the Bank.

▪ **Loan portfolio management**

The Bank sets and reviews loan targets, performs continuous monitoring of portfolio quality to better reflect changing economic situations, ensures consistency with the bank's policies and risk appetite before submitting quarterly reports to the Risk Management Committee.

The Bank determines the target of loan growth and its desirable credit portfolio composition that strive for the highest possible risk-adjusted return within the acceptable risk levels under stress conditions, by taking into account the economic outlook, potential market opportunities, and the bank's strategic direction. In assessing medium and large corporate customers' credit risk level, the Bank utilizes credit risk rating tools to enhance the quality of loans granted. The Bank has additional processes in place for regular reviewing of the customers' credit ratings and performance on all approved transactions.

▪ **Credit underwriting, approval process and monitoring**

In the credit approval process, the Bank considers the customers' ability to repay and the loan objectives as key factors in the approval of credit and may obtain sufficient collateral or other securities, where appropriate, as a means of mitigating the risk of financial losses from defaults. To maximize the effectiveness of the credit approval process, credit analysis and approval functions are separated from the units responsible for maintaining customer relationship and undertaken by credit underwriters in ICBC Head Office. However, large loans will require additional acknowledgement by BOD.

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2018

25. Financial risk management (continued)

(b) Credit risk (continued)

The Bank also has process for regularly reviewing customer's credit rating and performance establishes monitoring mechanism for continuous tracking of customer performance, taking into account the changing economic situation and other major events. Relationship managers will be assigned to monitor customers and prepare post-lending reports. Proper mitigation actions will be taken as soon as negative signals from customers are detected. Moreover, the Bank will monitor and control credit usages to ensure that borrowing objectives are strictly met.

▪ **Loan Risks Classification and provisioning**

Loan classification and loan loss provisions have been completely established in compliance with regulatory and internal requirements. The Bank assesses the risk and classifies the loans based on the possibilities of repayment. Principle factors taken into consideration include: the borrower's repayment ability, repayment record and willingness to repay the loan, profitability of the loan project, the loan guarantees as well as the legal obligations relating to loan repayment.

During the reporting period, the Bank refines the loan risk classification mechanism and reinforces loan detection and monitoring for adjustment of the potential risk classifications to ensure that loan classifications are objective and prudent.

The provisioning must be set aside to offset any possible loss. The book value of assets shall be reduced via allowances for doubtful accounts. The amount of provisioning shall be determined by the number derived from the expected loss model.

Processes for measuring expected credit losses ("ECL") including initial approval, regular validation, back-testing of the models used, and incorporation of forward-looking information are also developed and maintained by Head Office credit committee.

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2018

25. Financial risk management (continued)

(b) Credit risk (continued)

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

Exposure to credit risk

	Loan and advances	Investments	Interbank and money market items
<i>In millions of LAK</i>	2018	2018	2018
Carrying amount	1,798,048	3,299,244	15,814,111
Assets at amortised cost			
Stage 1	1,798,048	3,299,244	15,814,111
Stage 2	-	-	-
Stage 3	-	-	-
Subtotal	1,798,048	3,299,244	15,814,111
Total	1,798,048	3,299,244	15,814,111

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2018

25. Financial risk management (continued)			
(b) Credit risk (continued)			
Exposure to credit risk (continued)	Loan and advances	Investments	Interbank and money market items
<i>In millions of LAK</i>	2017	2017	2017
Carrying amount	2,633,468	3,138,996	12,441,665
Assets at amortised cost			
Individually impaired	-	-	-
Collectively impaired	-	-	-
Past due but not impaired	-	-	-
Neither past due nor impaired	2,633,468	3,138,996	12,441,665
Subtotal	2,633,468	3,138,996	12,441,665
Total	2,633,468	3,138,996	12,441,665

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2018

25. Financial risk management (continued)

(b) Credit risk (continued)

Exposure to credit risk (continued)

For the definition of three stages, please refer to 3. Significant accounting policies.

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.

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 2018	31 December 2017
Derivative financial assets	None	-	-
Loans and advances			
	Land and building and LCs issued by other banks;	100%	100%
Corporate Loans	Guarantee		
Participant loans	Financial Guarantee	-	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 2018 or 31 December 2017.

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 2018

25. 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		Interbank and money market items	
	2018	2017	2018	2017	2018	2017
Carrying amount	1,798,048	2,633,468	3,242,894	3,138,996	15,814,111	12,441,665
Concentration by Sector						
Corporate:						
<i>Construction</i>	264,154	70,709	-	-	-	-
<i>Commercial</i>	168,931	9,350	-	-	-	-
<i>Others</i>	1,349,383	2,539,833	-	-	-	-
Personal	15,580	13,576	-	-	-	-
Government	-	-	655,550	623,700	-	-
Bank and financial institution	-	-	2,587,344	2,515,296	15,814,111	12,441,665
	1,798,048	2,633,468	3,242,894	3,138,996	15,814,111	12,441,665

25. 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 2018

25. 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 2018								
Assets								
Cash	113,793	113,793	-	-	-	-	-	-
Interbank and money market items								
- Amounts due from Head Office and other branches	1,195,207	458,689	736,518	-	-	-	-	-
- Amounts due from other banks	14,618,905	231,799	365,973	2,651,503	6,518,360	4,851,270	-	-
Statutory deposits with Central Bank	442,321	-	-	-	-	-	-	442,321
Investments	3,242,894	-	-	-	605,550	2,637,344	-	-
Loans and advances	1,798,048	-	10,912	4,787	31,451	878,232	872,666	-
Other assets	364,225	364,225	-	-	-	-	-	-
	21,775,393	1,168,506	1,113,403	2,656,290	7,155,361	8,366,846	872,666	442,321

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2018

25. 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 2018								
Liabilities								
Deposits from customers	(5,464,674)	(4,303,986)	(16,789)	(38,969)	(980,434)	(124,496)	-	-
Interbank and money market items								
- Amounts due to other branches	(15,295,641)	(2,193,613)	(2,553,300)	(5,186,798)	(5,361,930)	-	-	-
- Amounts due to other banks	(90,533)	(90,533)	-	-	-	-	-	-
Other liabilities	(300,004)	(300,004)	-	-	-	-	-	-
	(21,150,852)	(6,888,136)	(2,570,089)	(5,225,767)	(6,270,364)	(124,496)	-	-
Commitments	237,770	-	18,504	22,942	23,240	173,084	-	-
Liquidity exposure	862,311	(5,719,630)	(1,438,182)	(2,546,535)	836,237	8,415,434	872,666	442,321

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2018

25. 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								
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	-
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 2018

25. 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)	-	-	-
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 2018

25. 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 2018. 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 2018

	Carrying amount	Non-interest bearing	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
25. Financial risk management (continued)							
(d) Market risks (continued)							
Exposure to interest rate risk (continued)							
<i>In millions of LAK</i>							
31 December 2018							
Assets							
Cash	113,793	113,793	-	-	-	-	-
Interbank and money market items							
- Amounts due from Head Office and other branches	1,195,207	378,039	817,168	-	-	-	-
- Amounts due from other banks	14,618,905	182,020	3,067,255	2,177,750	4,340,610	4,851,270	-
Statutory deposits with Central Bank	442,321	442,321	-	-	-	-	-
Investments	3,242,894	-	1,837,310	1,325,584	80,000	-	-
Loans and advances	1,798,048	2,401	776,205	825,125	17,182	8,348	168,787
Other assets	364,225	364,225	-	-	-	-	-
	21,775,393	1,482,799	6,497,938	4,328,459	4,437,792	4,859,618	168,787

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2018

25. 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 2018								
Liabilities								
Deposits from customers		(5,464,674)	(3,901,296)	(458,448)	(675,050)	(305,384)	(124,496)	-
Interbank and money market items								
- Amounts due to other branches		(15,295,641)	(45,306)	(9,888,405)	(5,361,930)	-	-	-
- Amounts due to other banks		(90,533)	(90,533)	-	-	-	-	-
Other liabilities		(300,004)	(300,004)	-	-	-	-	-
		(21,150,852)	(4,337,139)	(10,346,853)	(6,036,980)	(305,384)	(124,496)	-
Difference of on-financial reporting items		624,541	(2,854,340)	(3,848,915)	(1,708,521)	4,132,408	4,735,122	168,787
Off-financial reporting items		237,770	237,770	-	-	-	-	-
Total interest sensitivity gap		862,311	(2,616,570)	(3,848,915)	(1,708,521)	4,132,408	4,735,122	168,787

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2018

25. 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
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 2018

25. 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)	-	-
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
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 2018

25. 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>	2018 LAK	2017 LAK
Net foreign currency exposure:		
USD	19,617	26,028
EUR	101	43
CNY	2,139	2,017
THB	72	703
JPY	13	12

(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).

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2018

25. 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 2018 and 2017.

(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.

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.

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2018

25. Financial risk management (continued)

(f) Operational risks (continued)

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 Branch 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.

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

<i>(In millions LAK)</i>	2018 LAK	2017 LAK
Tier 1 capital		
Branch capital	239,970	239,970
Retained earnings	378,047	268,965
Statutory reserve	89,292	57,537
	707,309	566,472
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)	18,087	17,025
Profit for the year	317,596	219,598
	335,683	236,623
Total regulatory capital	1,042,992	803,095

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

25. Financial risk management (continued)

(g) Capital management (continued)

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.

26. 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.

27. 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 2018 that significantly impacted the financial position of the Branch as at 31 December 2018.