

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

Audited Financial Statements
and
Independent Auditors' Report
Year ended 31 December 2020



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.0392 dated 21 March 2019
Board of Management	Mr. Sun Fenglei General Manager Mr. Joxiong Bouasinengma 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 2020, 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 2020 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
25 March 2021

SUN FENG LEI



KPMG Lao Co., Ltd.
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ເມືອງ ສີໂຄດຕະບອງ, ຖັງ ປ.ບ. 6978,
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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 2020, the statements of profit or loss and other comprehensive income, 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 2020 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' International Code of Ethics for Professional Accountants (including International Independence standard) (*IESBA Code*) together with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.



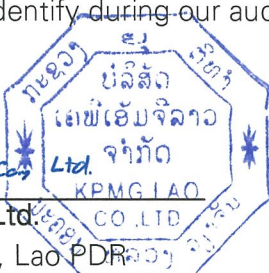
Auditors' Responsibilities for the Audit of the Financial Statements

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.

A blue ink stamp of KPMG Lao Co., Ltd. is placed over the text. The stamp is octagonal with a double border. Inside, it contains the text: 'ບໍລິສັດ ເອັບເອັມຈີລາວ ຈຳກັດ' (KPMG Lao Co., Ltd.) in Lao script, and 'KPMG LAO CO., LTD' in English. There are also some smaller Lao characters around the perimeter of the stamp.

KPMG Lao Co., Ltd.
KPMG LAO
CO., LTD
Vientiane Capital, Lao PDR

Date: 25 March 2021

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of Financial Position
As at 31 December 2020

		31 December	
	Note	2020 LAK	2019 LAK
ASSETS			
Cash	5	128,316,072,585	119,743,967,583
Interbank and money market items			
Amounts due from Head Office and other branches	25(a)	4,179,942,207,807	3,689,710,517,997
Amounts due from other banks	6	14,585,932,211,685	14,828,440,223,724
Statutory deposits with Central Bank	7	421,945,235,761	311,639,822,642
Investments	8	3,909,914,160,266	3,796,137,563,991
Loans and advances	9	10,421,762,912,041	4,600,154,413,907
Derivative financial assets	10(a)	3,280,000,000	-
Property and equipment	11	111,373,725,783	119,429,001,928
Intangible assets	12	48,374,697,596	47,901,934,984
Other assets	13	473,942,224,679	619,012,966,506
Deferred tax asset		42,707,844,439	57,292,170,686
Total assets		34,327,491,292,642	28,189,462,583,948

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 2020

		31 December	
	Note	2020 LAK	2019 LAK
<u>LIABILITIES AND EQUITY</u>			
Liabilities			
Deposits from customers	14	7,868,397,739,865	6,667,613,871,382
Interbank and money market items			
Amounts due to other branches	25(a)	22,072,809,255,469	20,066,450,081,849
Amounts due to other banks	15	85,058,086,492	166,712,418,155
Borrowings from other than head office and other branches	16	2,776,500,000,000	-
Tax liabilities	17	47,601,101,083	2,921,266,942
Derivative financial liabilities	10(b)	421,905,813	-
Other liabilities	18	319,178,041,514	377,891,821,759
Total liabilities		<u>33,169,966,130,236</u>	<u>27,281,589,460,087</u>
Equity			
Head Office's capital contribution	19(a)	239,970,000,000	239,970,000,000
Legal reserve	19(b)	150,000,000,000	126,557,300,387
Retained earnings		767,555,162,406	541,345,823,474
Total equity		<u>1,157,525,162,406</u>	<u>907,873,123,861</u>
Total liabilities and equity		<u>34,327,491,292,642</u>	<u>28,189,462,583,948</u>

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 2020

	Note	31 December	
		2020 LAK	2019 LAK
Interest income			
Interest from loans and advances		182,681,376,802	172,381,088,218
Interest from interbank and money market items		689,283,740,413	794,274,923,375
Interest from investment in bonds		209,324,347,923	211,676,639,808
Total interest income		1,081,289,465,138	1,178,332,651,401
Interest expense			
Interest on deposits		(71,955,929,565)	(55,000,902,034)
Interest on interbank and money market items		(441,050,312,104)	(603,773,596,568)
Interest from borrowings from other than head office and other branches		(12,660,568,079)	-
Total interest expense	20	(525,666,809,748)	(658,774,498,602)
Net interest income		555,622,655,390	519,558,152,799
Fee and commission income		100,993,208,809	87,708,513,198
Fee and commission expenses		(2,258,270,243)	(1,246,664,083)
Net fee and commission income	21	98,734,938,566	86,461,849,115
Impairment loss	6,8,9	(62,993,443,759)	(55,533,999,478)
Net income from interest after doubtful accounts		591,364,150,197	550,486,002,436
Other income			
Gain on foreign exchange		38,648,152,548	24,068,738,627
Other income		5,667,090	57,550,212
Total other income		38,653,819,638	24,126,288,839
Income before non-interest expense and income tax		630,017,969,835	574,612,291,275
Operating expenses			
Personnel expenses	22	(63,731,490,301)	(56,501,964,212)
Depreciation and amortisation expenses		(9,701,699,724)	(11,385,395,248)
Other expenses		(23,357,637,854)	(20,931,584,713)
Total operating expenses		(96,790,827,879)	(88,818,944,173)

**Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2020**

	Note	31 December	
		2020 LAK	2019 LAK
Profit before income tax		533,227,141,956	485,793,347,102
Tax expense	23	(112,503,338,806)	(116,759,250,477)
Profit for the year		420,723,803,150	369,034,096,625
Other comprehensive income			
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year, net of tax		420,723,803,150	369,034,096,625

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 2020

	Note	Head Office's capital contribution LAK	Legal reserve LAK	Retained earnings LAK	Total LAK
Balance at 1 January 2019		239,970,000,000	89,291,544,507	378,046,592,543	707,308,137,050
Profit for the year		-	-	369,034,096,625	369,034,096,625
Legal reserve for the year	17(b)	-	37,265,755,880	(37,265,755,880)	-
Profit appropriation (*)		-	-	(168,469,109,814)	(168,469,109,814)
Balance at 31 December 2019 and 1 January 2020		239,970,000,000	126,557,300,387	541,345,823,474	907,873,123,861
Profit for the year		-	-	420,723,803,150	420,723,803,150
Legal reserve for the year	17(b)	-	23,442,699,613	(23,442,699,613)	-
Profit appropriation (*)		-	-	(171,071,764,605)	(171,071,764,605)
Balance at 31 December 2020		239,970,000,000	150,000,000,000	767,555,162,406	1,157,525,162,406

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, approved by Bank of Lao on 11 November 2020.

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of Cash Flows
For the year ended 31 December 2020

	Note	31 December	
		2020 LAK	2019 LAK
Cash flows from operating activities			
Profit for the year		<u>420,723,803,150</u>	<u>369,034,096,625</u>
<i>Adjustments for:</i>			
Allowance for doubtful debts		62,993,443,759	55,533,999,478
Depreciation and amortisation		9,701,699,724	11,385,395,248
Interest income from investment in bonds		(209,324,347,923)	(211,676,639,808)
Interest expense on borrowings from other than head office and other branches		12,660,568,079	-
Gain on foreign exchange		12,076,416,093	7,654,186,824
Income tax expenses		112,503,338,806	116,759,250,477
		<u>421,334,921,688</u>	<u>348,690,288,844</u>
Change in operating assets / liabilities			
Change in interbank and money market assets		8,501,146,522,000	2,483,253,874,000
Change in statutory deposits		(110,305,413,119)	130,681,013,086
Change in loans and advances to customers		(5,888,927,715,642)	(2,847,438,056,050)
Change in other assets excluding interest receivable on investments		134,770,775,966	(198,629,963,095)
Change in deposits from customers		1,200,783,868,483	1,202,940,304,515
Change in interbank and money market liabilities		1,924,704,841,957	4,846,989,092,612
Change in withholding tax liabilities		6,061,003,359	(396,109,552)
Change in other liabilities		(68,528,845,029)	77,887,733,263
Income tax paid		(59,300,181,777)	(138,006,108,642)
Net cash generated from operating activities		<u>6,061,739,777,886</u>	<u>5,905,972,068,981</u>
Cash flows from investing activities			
Acquisition of property and equipment		(1,038,407,803)	(1,651,676,065)
Acquisition of intangible assets		(1,080,778,388)	-
Purchases of bond investments		(1,609,150,000,000)	(1,114,200,000,000)
Proceeds from sale and redemption of bond investments		1,493,948,000,000	622,100,000,000
Interest income from investment in bonds		219,624,313,784	94,502,639,808
Net cash generated from / (used in) investing activities		<u>102,303,127,593</u>	<u>(399,249,036,257)</u>

Industrial and Commercial Bank of China Limited Vientiane Branch
Statement of Cash Flows
For the year ended 31 December 2020

	Note	31 December	
		2020 LAK	2019 LAK
Cash flows from financing activities			
Proceeds from borrowings		6,756,150,000,000	-
Repayment of borrowings		(3,979,650,000,000)	-
Payment for interest		(12,660,568,079)	-
Payment for profit distribution		(171,071,764,605)	(168,469,109,814)
Net cash used in financing activities		2,592,767,667,316	(168,469,109,814)
Net change in cash and cash equivalents		8,756,810,572,795	5,338,253,922,910
Cash and cash equivalents at 1 January		9,896,528,441,525	4,558,274,518,615
Cash and cash equivalents at 31 December	24	18,653,339,014,320	9,896,528,441,525

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

Prepared by:



Accountant

Approved by:




SUN FENG LEI

General Manager

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements
Year ended 31 December 2020

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 March 2019. 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 2020, the Branch had 96 (2019: 93) employees.

BoL's announcement number 338/BoL dated 13 September 2012 requested the branches 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 25 March 2021.

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 25 March 2021.

In preparing these financial statements, the significant judgments made by management in applying the Branch'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 2018, except for the change in the accounting policy in relation to IFRS 16 effective from 1 January 2019. The nature and the effect of these changes are disclosed in Note 2 (iv).

(ii) Basis of measurement

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

(iii) Functional and presentation currency

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

2. Basis of financial statement preparation (continued)

(iv) Use of accounting estimates and judgments (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

Amendments to IFRS 9, Financial Instruments, IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial instruments: Disclosures, "Interest Rate Benchmark Reform"

The IASB issued the amendments to IFRS 9, IAS 39 and IFRS 7, which aims to address uncertainties related to the ongoing reform of interbank offered rates ("IBOR").

The amendments provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to IBOR reform. They are mandatory and apply to all hedging relationships directly affected by uncertainties related to IBOR reform

The adoption does not have any material impact on financial position and financial performance of the Branch.

Amendment to IFRS 16, Leases "Covid-19-Related Rent Concessions"

The IASB has issued the amendment to IFRS 16, the amendment allows lessees, as a voluntary practical expedient, not to account for rent concessions as lease modifications if they arise as a direct consequence of COVID-19 and meet the qualifying criteria. The amendment is effective for annual reporting periods beginning on or after 1 June 2020 with earlier application permitted.

The Branch does not adopt the practical expedient of the amendment, therefore the amendment does not have any material impact on financial position and financial performance of the Branch.

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
For the year ended 31 December 2020

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 2020	31 December 2019
	LAK	LAK
United States Dollar (“USD”)	9,255.00	8,842.00
Thai Baht (“THB”)	330.79	298.73
Chinese Yuan (“CNY”)	1,416.06	1,257.88
Euro (“EUR”)	11,425.00	9,911.00
HongKong Dollar (“HKD”)	1,166.50	1,076.50
Japanese Yen (“JPY”)	88.60	79.96

(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 Branch’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
Notes to Financial Statements (continued)
For the year ended 31 December 2020

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 branch 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 Branch 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
Notes to Financial Statements (continued)
For the year ended 31 December 2020

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 Branch's 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 Branch 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 Branch assesses whether the financial instruments' cash flows represents solely payment of principal and interest. In making this assessment, the Branch 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
Notes to Financial Statements (continued)
For the year ended 31 December 2020

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
Notes to Financial Statements (continued)
For the year ended 31 December 2020

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
Notes to Financial Statements (continued)
For the year ended 31 December 2020

3. Significant accounting policies (continued)

(b) Financial assets and financial liabilities (continued)

(vii) Impairment

The Branch 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 Branch 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 Branch'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 Branch 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
Notes to Financial Statements (continued)
For the year ended 31 December 2020

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 Branch is using three scenarios that is probability weighted to determine ECL.

The Branch's ECL allowance methodology, requires the Branch 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 Branch 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
Notes to Financial Statements (continued)
For the year ended 31 December 2020

3. Significant accounting policies (continued)

(b) Financial assets and financial liabilities (continued)

(vii) Impairment (continued)

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Branch in full, without recourse by the Branch 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 Branch .

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 Branch 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 Branch; and
- based on data developed internally and obtained from external sources.

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

(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
Notes to Financial Statements (continued)
For the year ended 31 December 2020

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
Notes to Financial Statements (continued)
For the year ended 31 December 2020

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

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.

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
Notes to Financial Statements (continued)
For the year ended 31 December 2020

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).

(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
Notes to Financial Statements (continued)
For the year ended 31 December 2020

3. Significant accounting policies (continued)

(1) 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 20% 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
Notes to Financial Statements (continued)
For the year ended 31 December 2020

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) Leases

At inception of a contract, the Branch assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

As a lessee:

Where the contract contains lease component(s) and non-lease component(s), the Branch has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Branch recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Branch, are primarily laptops and office furniture. When the Branch enters into a lease in respect of a low-value asset, the Branch decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Branch's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Branch will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

In the statement of financial position, the Branch presents right-of-use assets within the same line item as similar underlying assets and presents lease liabilities separately.

(o) Related parties

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

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
For the year ended 31 December 2020

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

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, and a new standard, IFRS 17, Insurance contracts, which are not yet effective for the year ended 31 December 2020 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Branch.

IFRS	Year effective
Amendments to IFRS 3, Reference to the Conceptual Framework	2022
Amendments to IAS 16, Property, Plant and Equipment: Proceeds before Intended Use	2022
Amendments to IAS 37, Onerous Contracts — Cost of Fulfilling a Contract	2022
Annual Improvements to IFRSs 2018-2020 Cycle	2022

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

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
For the year ended 31 December 2020

5. Cash

	2020	2019
	LAK	LAK
Lao Kip (“LAK”)	48,777,881,000	45,335,702,000
United States Dollar (“USD”)	36,599,767,470	27,390,376,236
Thai Baht (“THB”)	9,467,610,056	14,932,676,256
Chinese Yuan (“CNY”)	33,470,814,059	32,085,213,091
	128,316,072,585	119,743,967,583

6. Amounts due from other banks

	2020	2019
	LAK	LAK
LAK	195,966,921,062	69,009,605,053
Other foreign items	14,534,343,416,866	14,904,440,476,892
	14,730,310,337,928	14,973,450,081,945
Less: Allowance for Amounts due from other banks	144,378,126,243	145,009,858,221
	14,585,932,211,685	14,828,440,223,724

(a) Domestic items

	2020	2019
	LAK	LAK
At call		
Bank of Lao PDR	189,749,630,639	62,615,361,522
Other commercial banks	6,217,290,423	6,394,243,531
	195,966,921,062	69,009,605,053

(b) Foreign items

	2020	2019
	LAK	LAK
At call		
USD	14,468,809,880,090	14,809,592,053,769
THB	57,591,811,801	85,342,148,869
CNY	7,939,654,846	9,504,363,843
HKD	2,070,129	1,910,411
	14,534,343,416,866	14,904,440,476,892

(c) Allowances for impairment

	2020	2019
	LAK	LAK
Amounts due from other banks	144,378,126,243	145,009,858,221
	144,378,126,243	145,009,858,221

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
For the year ended 31 December 2020

7. Statutory deposits with Central Bank

	2020	2019
	LAK	LAK
Statutory deposits on:		
Registered capital reserve	5,000,000	5,000,000
Compulsory reserve	421,940,235,761	311,634,822,642
	421,945,235,761	311,639,822,642

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 4% for LAK and 8% for foreign currencies (2019: 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

	2020	2019
	LAK	LAK
Government bonds	506,000,000,000	280,000,000,000
Financial bonds	3,461,370,000,000	3,572,168,000,000
	3,967,370,000,000	3,852,168,000,000
Less: Allowance for Investments	57,455,839,734	56,030,436,009
	3,909,914,160,266	3,796,137,563,991

Investments represent investment measured at amortised cost in bonds. These bonds have maturities ranging from date 17 March 2021 to date 30 Sep 2023 (2019: 03 May 2020 to date 30 Jan 2023) and interest rates ranging from 4.45% to 6.80% (2019: 5.00% to 6.80%).

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

	2020			Total
	Stage 1	Stage 2	Stage 3	
Balance at 1 January 2020	56,030,436,009	-	-	56,030,436,009
Transfer:				
- to stage 1	-	-	-	-
- to stage 2	-	-	-	-
- to stage 3	-	-	-	-
(Reversal)	(566,471,408)	-	-	(566,471,408)
Other movements	1,991,875,133	-	-	1,991,875,133
Balance at 31 December 2020	57,455,839,734	-	-	57,455,839,734

The definition of three stages please refer to significant accounting policies as described in note 3(b)(vii).

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
For the year ended 31 December 2020

8. Investments (continued)

	2019			Total
	Stage 1	Stage 2	Stage 3	
Balance at 1 January 2019	9,376,587,625	-	-	9,376,587,625
Transfer:				
- to stage 1	-	-	-	-
- to stage 2	-	-	-	-
- to stage 3	-	-	-	-
Charge	50,095,231,132	-	-	50,095,231,132
Other movements	(3,441,382,748)	-	-	(3,441,382,748)
Balance at 31 December 2019	56,030,436,009	-	-	56,030,436,009

The definition of three stages please refer to significant accounting policies as described in note 3(b)(vii).

9. Loans and advances

	2020 LAK	2019 LAK
Loans and receivables (Measured at amortised cost):		
- Overdrafts	1,350,955,882	1,929,807,896
- Loans	10,533,062,444,118	4,643,555,876,462
	10,534,413,400,000	4,645,485,684,358
Less: Allowance for impairment losses of loans and advances to customers measured at amortised cost	112,650,487,959	45,331,270,451
Loans and advances to customers	10,421,762,912,041	4,600,154,413,907

(a) Classified by residual maturity

	2020 LAK	2019 LAK
Within 1 year	9,254,455,866,470	2,989,264,795,885
Over 1 year	1,279,957,533,530	1,656,220,888,473
	10,534,413,400,000	4,645,485,684,358

(b) Classified by currencies

	2020 LAK	2019 LAK
LAK	890,376,029	1,294,479,928
USD	1,985,776,256,427	2,140,604,738,917
CNY	8,536,051,077,750	2,503,303,186,838
EUR	11,688,224,231	-
THB	7,465,563	283,278,675
	10,534,413,400,000	4,645,485,684,358

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
For the year ended 31 December 2020

9. Loans and advances (continued)

(c) Classified by interest rate (per annum)

	2020	2019
	%	%
USD	0.70-7.30%	2.50%-9.09%
CNY	2.55-3.30%	3.00%-4.80%

(d) Classified by type of business

	2020	2019
	LAK	LAK
Construction	160,099,835,275	332,151,671,261
Personal	5,132,666,142	13,345,145,165
Others	10,369,180,898,583	4,299,988,867,932
	10,534,413,400,000	4,645,485,684,358

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

	2020			Total
	Stage 1	Stage 2	Stage 3	
Balance at 1 January 2020	44,252,180,481	1,079,089,970	-	45,331,270,451
Transfer:				
- to stage 1	-	-	-	-
- to stage 2	-	-	-	-
- to stage 3	-	-	-	-
Charge / (Reversal)	62,926,501,457	(1,080,891,878)	-	61,845,609,579
Other movements	5,471,806,021	1,801,908	-	5,473,607,929
Balance at 31 December 2020	112,650,487,959	-	-	112,650,487,959
	2019			
	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January 2019	31,657,400,940	-	-	31,657,400,940
Transfer:				
- to stage 1	-	-	-	-
- to stage 2	(18,355,133,081)	18,355,133,081	-	-
- to stage 3	-	-	-	-
Charge / (Reversal)	29,878,397,761	(17,276,043,111)	-	12,602,354,650
Other movements	1,071,514,861	-	-	1,071,514,861
Balance at 31 December 2019	44,252,180,481	1,079,089,970	-	45,331,270,451

Industrial and Commercial Bank of China Limited Vientiane Branch
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For the year ended 31 December 2020

10. Derivatives

(a) Derivative financial assets

	2020	2019
	LAK	LAK
Foreign exchange rate forward	3,280,000,000	-
	3,280,000,000	-

(b) Derivative financial liabilities

	2020	2019
	LAK	LAK
Foreign exchange rate swap	421,905,813	-
	421,905,813	-

Industrial and Commercial Bank of China Limited Vientiane Branch
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Year ended 31 December 2020

11. Property and equipment

	Property LAK	Right-of-use assets LAK	Electronic equipment LAK	Furniture, fitting and office equipment LAK	Vehicle LAK	Total LAK
Cost						
Balance at 1 January 2019	152,794,300,966	-	6,706,162,627	10,083,688,100	3,250,665,650	172,834,817,343
Additions	-	511,813,205	1,089,026,614	242,766,199	-	1,843,606,018
Write off	-	-	(258,521,852)	-	-	(258,521,852)
Balance at 31 December 2019 and at 1 January 2020	152,794,300,966	511,813,205	7,536,667,389	10,326,454,299	3,250,665,650	174,419,901,509
Additions	-	-	174,217,810	864,189,993	-	1,038,407,803
Write off	-	-	-	(52,468,307)	-	(52,468,307)
Balance at 31 December 2020	152,794,300,966	511,813,205	7,710,885,199	11,138,175,985	3,250,665,650	175,405,841,005
Accumulated depreciation						
Balance at 1 January 2019	28,676,384,400	-	5,473,769,858	7,368,796,802	2,949,004,490	44,467,955,550
Depreciation for the year	7,634,486,000	191,929,953	917,267,381	1,957,413,199	80,369,350	10,781,465,883
Write off	-	-	(258,521,852)	-	-	(258,521,852)
Balance at 31 December 2019 and at 1 January 2020	36,310,870,400	191,929,953	6,132,515,387	9,326,210,001	3,029,373,840	54,990,899,581
Depreciation for the year	7,655,402,400	255,906,604	524,844,710	576,940,694	80,589,540	9,093,683,948
Write off	-	-	-	(52,468,307)	-	(52,468,307)
Balance at 31 December 2020	43,966,272,800	447,836,557	6,657,360,097	9,850,682,388	3,109,963,380	64,032,115,222
Carrying amounts						
At 1 January 2019	124,117,916,566	-	1,232,392,769	2,714,891,298	301,661,160	128,366,861,793
At 31 December 2019	116,483,430,566	319,883,252	1,404,152,002	1,000,244,298	221,291,810	119,429,001,928
At 31 December 2020	108,828,028,166	63,976,648	1,053,525,102	1,287,493,597	140,702,270	111,373,725,783

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2020

12. Intangible assets

	Software LAK	Land use rights LAK	Total LAK
Cost			
Balance at 1 January 2019	336,254,724	51,863,500,000	52,199,754,724
Balance at 31 December 2019 and at 1 January 2020	336,254,724	51,863,500,000	52,199,754,724
Addition	1,080,778,388	-	1,080,778,388
Balance at 31 December 2020	1,417,033,112	51,863,500,000	53,280,533,112
Accumulated amortisation			
Balance at 1 January 2019	230,643,520	3,463,246,855	3,693,890,375
Amortisation for the year	28,036,380	575,892,985	603,929,365
Balance at 31 December 2019 and at 1 January 2020	258,679,900	4,039,139,840	4,297,819,740
Amortisation for the year	30,545,002	577,470,774	608,015,776
Balance at 31 December 2020	289,224,902	4,616,610,614	4,905,835,516
Carrying amounts			
At 1 January 2019	105,611,204	48,400,253,145	48,505,864,349
At 31 December 2019	77,574,824	47,824,360,160	47,901,934,984
At 31 December 2020	1,127,808,210	47,246,889,386	48,374,697,596

13. Other assets

	2020 LAK	2019 LAK
Accrued interest receivable	467,977,383,260	617,191,952,392
Other receivables and prepayments	5,964,841,419	1,821,014,114
	473,942,224,679	619,012,966,506

14. Deposits from customers

(a) Classified by type of deposits

	2020 LAK	2019 LAK
Current	5,270,984,941,696	4,546,235,303,510
Savings	565,151,979,031	429,302,682,061
Term (contractual maturity):		
Within 1 year	955,205,297,220	1,174,677,587,241
Over 1 year	309,356,680,541	274,531,175,092
Others	767,698,841,377	242,867,123,478
	7,868,397,739,865	6,667,613,871,382

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2020

14. Deposits from customers (continued)

(b) Classified by currencies

	2020	2019
	LAK	LAK
LAK	552,943,832,722	274,850,966,522
USD	6,124,237,065,669	4,427,757,004,409
THB	81431767694	84,653,549,354
CNY	1,109,785,073,780	1,774,738,306,902
EUR	-	105,614,044,195
	7,868,397,739,865	6,667,613,871,382

(c) Interest rate (per annum)

	2020	2019
	%	%
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%-6.65%	2.90%-6.65%
USD	1.65%-5.00%	1.65%-5.75%
THB	0.90%-4.70%	0.90%-4.70%
CNY	1.60%-2.20%	1.60%-2.20%

15. Amounts due to other banks

	2020	2019
	LAK	LAK
At Call	85,058,086,492	166,712,418,155

(a) By residence:

	2020	2019
	LAK	LAK
Domestic	85,058,086,492	166,712,418,155
	85,058,086,492	166,712,418,155

(b) By currency:

	2020	2019
	LAK	LAK
LAK	123,334,084	98,037,719,195
USD	23,689,658,019	29,230,901,492
CNY	61,245,094,389	39,443,797,468
	85,058,086,492	166,712,418,155

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Notes to Financial Statements (continued)
Year ended 31 December 2020

16. Borrowings from other than head office and other branches

	2020	2019
	LAK	LAK
At Call	<u>2,776,500,000,000</u>	<u>-</u>
(a) By residence:		
	2020	2019
	LAK	LAK
Overseas	<u>2,776,500,000,000</u>	<u>-</u>
	<u>2,776,500,000,000</u>	<u>-</u>
(b) By currency:		
	2020	2019
	LAK	LAK
USD	<u>2,776,500,000,000</u>	<u>-</u>
	<u>2,776,500,000,000</u>	<u>-</u>

17. Tax liabilities

	2020	2019
	LAK	LAK
Corporate tax	41,528,486,444	2,909,655,662
Withholding personal income tax	1,280,396,754	-
Other withholding tax	4,792,217,885	11,611,280
	<u>47,601,101,083</u>	<u>2,921,266,942</u>

18. Other liabilities

	2020	2019
	LAK	LAK
Accrued interest payable	191,276,625,055	334,667,841,495
Payable to employees	32,331,210,336	22,203,420,302
Settlement accounts	28,359,916,339	9,453,779,807
Deferred income	54,541,625,807	10,160,621,373
Lease liabilities	-	258,873,281
Other payables	2,853,599,193	1,147,285,501
Allowance for impairment losses on credit commitments	9,815,064,784	-
	<u>319,178,041,514</u>	<u>377,891,821,759</u>

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2020

19 (a). Head Office's capital contribution

	2020	2019
	LAK	LAK
Contributed legal capital	<u>239,970,000,000</u>	<u>239,970,000,000</u>

19 (b). Legal reserve

The legal reserve is provided for at the rate of at least 10% of net profit during the year, and it is not required to provide furthermore if the statutory reserve exceeds 50% of the capital 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 2020

20. Interest expense

	2020	2019
	LAK	LAK
Deposits	71,955,929,565	55,000,902,034
Interbank and money market items	453,710,880,183	603,773,596,568
	525,666,809,748	658,774,498,602

21. Net fee and commission income

	2020	2019
	LAK	LAK
Fee and commission income		
Commission on bank cards	2,227,641,935	2,245,154,638
Commission on guarantees	1,575,896,601	2,426,897,379
Commission on letters of credit	6,051,613,104	6,041,445,935
Commission on fund transfers	13,087,074,350	10,144,123,025
Commission on e-Banking	140,121,167	88,502,431
Fees on financial services	77,910,861,652	66,762,389,790
Total fee and commission income	100,993,208,809	87,708,513,198
Fee and commission expense		
Commission on bank cards	1,107,283,690	559,785,049
Commission on fund transfers	1,037,091,910	670,308,249
Others	113,894,643	16,570,785
Total fee and commission expense	2,258,270,243	1,246,664,083
Net fee and commission income	98,734,938,566	86,461,849,115

22. Personnel expenses

	2020	2019
	LAK	LAK
Staff salaries	58,507,126,393	51,572,115,421
Other staff cost	5,224,363,908	4,929,848,791
	63,731,490,301	56,501,964,212

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23. Tax expense

	2020	2019
	LAK	LAK
Current tax expense		
Current year	97,919,012,559	130,087,410,352
	<u>97,919,012,559</u>	<u>130,087,410,352</u>
Deferred tax expense		
Origination of temporary differences	14,584,326,247	(13,328,159,875)
	<u>112,503,338,806</u>	<u>116,759,250,477</u>

The corporate tax expense is calculated at 20% on taxable profit.

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

(a) Reconciliation of effective tax rate

	<i>Rate</i>	2020	<i>Rate</i>	2019
	<i>%</i>	LAK	<i>%</i>	LAK
Profit before tax		533,227,141,956		485,793,347,102
Income tax using the Lao PDR corporation tax rate	20.0	106,645,428,391	24.0	116,590,403,304
Expenses not deductible for tax purposes	1.1	5,857,910,415	0.0	168,847,173
Tax expense	<u>21.1</u>	<u>112,503,338,806</u>	<u>24.0</u>	<u>116,759,250,477</u>

24. Cash and cash equivalents

	2020	2019
	LAK	LAK
Cash	128,316,072,585	119,743,967,583
Deposits and placements with Head Office and other branches	3,794,712,603,807	3,291,654,391,997
Deposits and placements with other banks	14,730,310,337,928	6,485,130,081,945
	<u>18,653,339,014,320</u>	<u>9,896,528,441,525</u>

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2020

25. Related party transactions

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

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

	2020	2019
	LAK	LAK
Interbank and money market items		
Due from Head Office and other branches	4,179,942,207,807	3,689,710,517,997
Subtotal	<u>4,179,942,207,807</u>	<u>3,689,710,517,997</u>
Interest receivable from other branches	10,926,418,338	13,228,920,850
Total	<u>4,190,868,626,145</u>	<u>3,702,939,438,847</u>

(i) Foreign items

	2020	2019
	LAK	LAK
USD	3,110,416,830,255	324,939,413,670
CNY	1,077,693,602,475	3,275,875,798,397
EUR	2,609,392,196	101,989,936,200
JPY	148,801,219	134,290,580
	<u>4,190,868,626,145</u>	<u>3,702,939,438,847</u>

	2020	2019
	LAK	LAK
Other balances at end of the year:		
Deposits from other branches	(3,724,280,881,533)	(2,687,964,925,341)
Borrowings from Head Office and other branches	(18,348,528,373,936)	(17,378,485,156,508)
Subtotal	<u>(22,072,809,255,469)</u>	<u>(20,066,450,081,849)</u>
Interest payable	(140,936,251,155)	(298,278,881,723)
Total	<u>(22,213,745,506,624)</u>	<u>(20,364,728,963,572)</u>

Transactions during the year:

Interest income from interbank and money market items	66,464,758,012	54,209,012,220
Interest expense on interbank and money market items	<u>(440,042,413,305)</u>	<u>(603,773,596,568)</u>

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2020

25. Related party transactions (continued)

(b) Other related parties

	2020	2019
	LAK	LAK
Balances at end of the year:		
Due from banks and financial institutions	35,283,699,636	95,549,905,346
Borrowings from other than head office and other branches	(2,776,500,000,000)	-
Transactions during the year:		
Interest income from amount due from these banks and financial institutions	89,443,139	7,319,262,486
Interest expense on borrowings from institutions other than Head Office and other branches	(12,660,568,079)	-

(c) Key management personnel

	2020	2019
	LAK	LAK
Transactions during the year:		
Compensation	9,047,520,273	7,582,583,146

26. Commitments

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

	2020	2019
	LAK	LAK
Letters of guarantee outstanding	1,325,363,421,353	637,539,697,388
Letters of credit and other commitments outstanding	727,045,021,107	206,982,113,104
	2,052,408,442,460	844,521,810,492

No material losses are anticipated from these transactions.

27. Financial risk management

(a) Introduction and overview

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

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

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

Risk management framework

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

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

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

(b) Credit risk

"Credit risk" 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 Branch.

▪ Loan portfolio management

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

The Branch 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 branch's strategic direction. In assessing medium and large corporate customers' credit risk level, the Branch utilizes credit risk rating tools to enhance the quality of loans granted. The Branch 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 Branch 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.

27. Financial risk management (continued)

(b) Credit risk (continued)

The Branch 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 Branch 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 Branch 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 Branch 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.

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Notes to Financial Statements (continued)
Year ended 31 December 2020

27. 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

<i>In millions of LAK</i>	Loan and advances	Investments	Interbank and money market items
	2020	2020	2020
Carrying amount	10,534,413	3,967,370	18,910,253
Assets at amortised cost			
Stage 1	10,534,413	3,967,370	18,910,253
Stage 2	-	-	-
Stage 3	-	-	-
Subtotal	10,534,413	3,967,370	18,910,253
Total	10,534,413	3,967,370	18,910,253

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
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27. Financial risk management (continued)

(b) Credit risk (continued)

Exposure to credit risk (continued)

<i>In millions of LAK</i>	Loan and advances	Investments	Interbank and money market items
	2019	2019	2019
Carrying amount	4,645,486	3,852,168	18,663,161
Assets at amortised cost			
Stage 1	4,613,115	3,852,168	18,663,161
Stage 2	32,371	-	-
Stage 3	-	-	-
Subtotal	4,645,486	3,852,168	18,663,161
Total	4,645,486	3,852,168	18,663,161

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2020

27. 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 2020	31 December 2019
Derivative financial assets	None	-	-
Loans and advances			
	Land and building and LCs issued by other banks;		
Corporate Loans	Guarantee	100%	100%
Participant loans	Financial Guarantee	100%	100%
Personal loans	Building	100%	100%
Credit cards	None	-	-
Investments	None	-	-

The Branch typically does not hold collateral against investments, and no such collateral was held at 31 December 2020 or 31 December 2019.

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.

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Notes to Financial Statements (continued)
Year ended 31 December 2020

27. Financial risk management (continued)

(b) Credit risk (continued)

Concentration of credit risk

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

<i>In millions of LAK</i>	Loan and advances		Investments		Interbank and money market items	
	2020	2019	2020	2019	2020	2019
Carrying amount	10,534,413	4,645,486	3,967,370	3,852,168	18,910,253	18,663,161
Concentration by Sector						
Corporate:						
<i>Construction</i>	160,100	332,152	-	-	-	-
<i>Commercial</i>	-	-	-	-	-	-
<i>Others</i>	10,369,181	4,299,989	-	-	-	-
Personal	5,132	13,345	-	-	-	-
Government	-	-	506,000	280,000	-	-
Bank and financial institution	-	-	3,461,370	3,572,168	18,910,253	18,663,161
	10,534,413	4,645,486	3,967,370	3,852,168	18,910,253	18,663,161

27. Financial risk management (continued)

(c) Liquidity risk

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

Management of liquidity risk

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

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

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

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2020

27. Financial risk management (continued)

(c) Liquidity risk (continued)

Maturity analysis for financial assets and liabilities

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

<i>In millions of LAK</i>	Carrying amount	On demand	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years	No maturity
31 December 2020								
Assets								
Cash	128,316	128,316	-	-	-	-	-	-
Interbank and money market items								
- Amounts due from Head Office and other branches	4,179,942	1,486,170	898,119	1,410,424	385,229	-	-	-
- Amounts due from other banks	14,730,310	250,186	9,760,075	4,720,049	-	-	-	-
Statutory deposits with Central Bank	421,945	-	-	-	-	-	-	421,945
Investments	3,967,370	-	-	975,500	1,932,920	1,058,950	-	-
Loans and advances	10,534,413	-	280,697	1,327,401	7,646,357	345,991	933,967	-
Derivative financial assets	3,280	-	-	-	3,280	-	-	-
Other assets	473,942	473,942	-	-	-	-	-	-
	34,439,518	2,338,614	10,938,891	8,433,374	9,967,786	1,404,941	933,967	421,945

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2020

27. Financial risk management (continued)

(c) Liquidity risk (continued)

Maturity analysis for financial assets and liabilities (continued)

<i>In millions of LAK</i>	Carrying amount	On demand	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years	No maturity
31 December 2020								
Liabilities								
Deposits from customers	(7,868,398)	(6,603,836)	(59,460)	(42,630)	(946,655)	(215,817)	-	-
Interbank and money market items								
- Amounts due to other branches	(22,072,809)	(947,781)	(3,047,226)	(8,388,861)	(6,912,441)	(2,776,500)	-	-
- Amounts due to other banks	(85,058)	(85,058)	-	-	-	-	-	-
Borrowings from other than head office and other branches	(2,776,500)	(2,776,500)	-	-	-	-	-	-
Derivative financial liabilities	(422)	-	-	-	(422)	-	-	-
Other liabilities	(309,363)	(309,363)	-	-	-	-	-	-
	(33,112,550)	(10,722,538)	(3,106,686)	(8,431,491)	(7,859,518)	(2,992,317)	-	-
Commitments	2,052,717	-	182,239	259,060	649,514	961,904	-	-
Liquidity exposure	3,379,685	(8,377,707)	8,008,227	260,943	2,757,782	(625,472)	933,967	421,945

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2020

26. 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 2019								
Assets								
Cash	119,744	119,744	-	-	-	-	-	-
Interbank and money market items								
- Amounts due from Head Office and other branches	3,689,711	493,560	1,804,429	993,666	398,056	-	-	-
- Amounts due from other banks	14,973,450	472,570	3,006,280	3,006,280	3,978,900	4,509,420	-	-
Statutory deposits with Central Bank	311,640		-	-	-	-	-	311,640
Investments	3,852,168	-	-	-	1,594,720	2,257,448	-	-
Loans and advances	4,645,486	-	973,519	872,398	1,143,348	339,870	1,316,351	-
Other assets	619,013	619,013	-	-	-	-	-	-
	28,211,212	1,704,887	5,784,228	4,872,344	7,115,024	7,106,738	1,316,351	311,640

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2020

27. Financial risk management (continued)

(c) Liquidity risk (continued)

Maturity analysis for financial assets and liabilities (continued)

<i>In millions of LAK</i>	Carrying amount	On demand	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years	No maturity
31 December 2019								
Liabilities								
Deposits from customers	(6,667,614)	(5,218,405)	(18,499)	(65,386)	(1,150,279)	(215,045)	-	-
Interbank and money market items								
- Amounts due to other branches	(20,066,450)	(919,565)	(2,952,468)	(7,930,246)	(5,611,571)	(2,652,600)	-	-
- Amounts due to other banks	(166,712)	(166,712)	-	-	-	-	-	-
Other liabilities	(377,892)	(377,892)	-	-	-	-	-	-
	(27,278,668)	(6,682,574)	(2,970,967)	(7,995,632)	(6,761,850)	(2,867,645)	-	-
Commitments	844,522	-	76,190	302,607	258,699	207,026	-	-
Liquidity exposure	1,777,066	(4,977,687)	2,889,451	(2,820,681)	611,873	4,446,119	1,316,351	311,640

27. Financial risk management (continued)

(d) Market risks

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

Management of market risks

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

Exposure to interest rate risk

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

The sensitivity of the statement of income is the effect of the assumed changes in interest rates on the profit or loss for a year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2020. 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 2020

27. Financial risk management (continued)

(d) Market risks (continued)

Exposure to interest rate risk (continued)

<i>In millions of LAK</i>	Carrying amount	Non-interest bearing	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
31 December 2020							
Assets							
Cash	128,316	128,316	-	-	-	-	-
Interbank and money market items							
- Amounts due from Head Office and other branches	4,179,942	1,337,712	2,457,001	385,229	-	-	-
- Amounts due from other banks	14,730,311	290,098	14,440,213	-	-	-	-
Statutory deposits with Central Bank	421,945	421,945	-	-	-	-	-
Investments	3,967,370	-	1,530,800	877,420	1,333,150	226,000	-
Loans and advances	10,534,413	1,351	1,606,748	1,221,459	6,424,898	345,991	933,966
Derivative financial assets	3,280	3,280	-	-	-	-	-
Other assets	473,942	473,942	-	-	-	-	-
	34,439,519	2,656,644	20,034,762	2,484,108	7,758,048	571,991	933,966

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2020

27. Financial risk management (continued)

(d) Market risks (continued)

Exposure to interest rate risk (continued)

<i>In millions of LAK</i>	Carrying amount	Non-interest bearing	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
31 December 2020							
Liabilities							
Deposits from customers	(7,868,398)	(6,603,836)	(102,090)	(802,188)	(144,467)	(215,817)	-
Interbank and money market items							
- Amounts due to other branches	(22,072,809)	(947,781)	(11,436,087)	(971,808)	(5,940,633)	(2,776,500)	-
- Amounts due to other banks	(85,058)	(75,803)	(9,255)	-	-	-	-
Borrowings from other than head office and other branches	(2,776,500)	(2,776,500)	-	-	-	-	-
Derivative financial liabilities	(422)	(422)	-	-	-	-	-
Other liabilities	(309,363)	(309,363)	-	-	-	-	-
	(33,112,550)	(10,713,705)	(11,547,432)	(1,773,996)	(6,085,100)	(2,992,317)	-
Difference of on-financial reporting items	1,326,969	(8,057,061)	8,487,330	710,112	1,672,948	(2,420,326)	933,966
Off-financial reporting items	2,052,717	2,052,717	-	-	-	-	-
Total interest sensitivity gap	3,379,686	(6,004,344)	8,487,330	710,112	1,672,948	(2,420,326)	933,966

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2020

27. Financial risk management (continued)

(d) Market risks (continued)

Exposure to interest rate risk (continued)

<i>In millions of LAK</i>	Carrying amount	Non-interest bearing	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
31 December 2019							
Assets	119,744	119,744	-	-	-	-	-
Cash							
Interbank and money market items							
- Amounts due from Head Office and other branches	3,689,711	285,556	3,006,099	398,056	-	-	-
- Amounts due from other banks	14,973,450	406,573	6,078,557	2,652,600	1,326,300	4,509,420	-
Statutory deposits with Central Bank	311,640	311,640	-	-	-	-	-
Investments	3,852,168	-	1,956,820	1,815,348	80,000	-	-
Loans and advances	4,645,486	1,930	1,843,988	889,707	253,641	339,870	1,316,350
Other assets	619,013	619,013	-	-	-	-	-
	28,211,212	1,744,456	12,885,464	5,755,711	1,659,941	4,849,290	1,316,350

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2020

27. Financial risk management (continued)

(d) Market risks (continued)

Exposure to interest rate risk (continued)

<i>In millions of LAK</i>	Carrying amount	Non-interest bearing	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
31 December 2019							
Liabilities							
Deposits from customers	(6,667,614)	(4,789,102)	(513,188)	(670,923)	(479,356)	(215,045)	-
Interbank and money market items							
- Amounts due to other branches	(20,066,450)	(24,807)	(11,777,472)	(3,754,751)	(1,856,820)	(2,652,600)	-
- Amounts due to other banks	(166,712)	(166,712)	-	-	-	-	-
Other liabilities	(377,892)	(377,892)	-	-	-	-	-
	(27,278,668)	(5,358,513)	(12,290,660)	(4,425,674)	(2,336,176)	(2,867,645)	-
Difference of on-financial reporting items	932,544	(3,614,057)	594,804	1,330,037	(676,235)	1,981,645	1,316,350
Off-financial reporting items	844,522	844,522	-	-	-	-	-
Total interest sensitivity gap	1,777,066	(2,769,535)	594,804	1,330,037	(676,235)	1,981,645	1,316,350

Industrial and Commercial Bank of China Limited Vientiane Branch
Notes to Financial Statements (continued)
Year ended 31 December 2020

27. Financial risk management (continued)

(d) Market risks (continued)

Foreign currency transactions

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

Foreign currency transactions <i>(In millions of LAK)</i>	2020 LAK	2019 LAK
Net foreign currency exposure:		
USD	87,017	61,931
EUR	479	362
CNY	4,127	4,456
THB	2,962	190
JPY	15	13

(e) Fair value of financial instruments

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

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

The carrying values of investments and loans to customers approximated fair value at the date of initial recognition. Subsequent increases/ decreases in fair value arising from any changes to the net present value of expected future cash collections are recognised in income, only to the extent of cash receipts or impairment. The fair value of floating-rate loans and advances to customers that reprice within 1 year since the reporting date approximates carrying value at the reporting date. The fair value of other fixed-rate loans and advances to customers is estimated using discounted cash flow analysis and interest rates currently being offered for loans and advances to customers with similar credit quality.

Fair value hierarchy

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

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

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

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

27. Financial risk management (continued)

(e) Fair value of financial instruments (continued)

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

The Branch recognises transfers between levels of the fair value hierarchy as hierarchy as of the end of the reporting period during which the transfer has occurred. There were no transfers between Level 1 to Level 2 of the fair value hierarchy during the year ended 31 December 2020 and 2019.

(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 2020

27. 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>	2020 LAK	2019 LAK
Tier 1 capital		
Branch capital	239,970	239,970
Retained earnings	767,555	541,346
Legal reserve	150,000	126,557
	1,157,525	907,873
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)	74,424	36,773
Profit for the year	420,724	369,034
	495,148	405,807
Total regulatory capital	1,652,673	1,313,680

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

27. 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.

27. 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.

28. 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 2020 that significantly impacted the financial position of the Branch as at 31 December 2020.

