

Cathay United Bank, Vientiane Capital Branch

Financial Statements

31 December 2016

Cathay United Bank, Vientiane Capital Branch

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Cathay United Bank, Vientiane Capital Branch

GENERAL INFORMATION

THE BRANCH

Cathay United Bank, Vientiane Capital Branch (the "Branch") is a branch established in Lao People's Democratic Republic ("Lao PDR") of Cathay United Bank, a bank incorporated in Taiwan. The Branch operates under Banking License No. 38/BOL granted by the Bank of Lao PDR ("the BOL") on 25 November 2014.

The initial registered capital of the Branch is LAK 100,000,000,000. The actual paid-up capital as at 31 December 2016 is LAK 105,183,000,000 (equivalent to US Dollar 13,000,000).

The principal activities of the Branch are to mobilize capital and provide loans for improving and strengthening the Lao economy.

The Branch is located at Hatsady Village, Unit 40, Khounboulom Road, Chanthabouly District, Vientiane Capital, Lao PDR.

MANAGEMENT

Members of the Management during the year ended 31 December 2016 and at the date of this report are as follows:

<i>Name</i>	<i>Title</i>	<i>Date of appointment</i>
Mr. Chen Hai Ching	Branch Manager	16 December 2014
Mr. Lu Yu-feng	Deputy Branch Manager	16 December 2014

LEGAL REPRESENTATIVE

The legal representative of the Branch during the year ended 31 December 2016 to the date of this report is Mr. Chen Hai Ching – Branch Manager.

AUDITORS

The auditors of the Branch are Ernst & Young Lao Company Limited.

Reference: 61157869/18182918-IFRS

INDEPENDENT AUDITORS' REPORT

To: The Owners of Cathay United Bank, Vientiane Capital Branch

Opinion

We have audited the financial statements of Cathay United Branch, Vientiane Capital Branch ("the Branch"), which comprise the statement of financial position as at 31 December 2016, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

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 the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in Lao PDR, 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 the Branch's Management for the Financial Statements

The Branch's management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of the 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

We communicate with those charged with governance 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.

Ernst & Young Lao

Vientiane, Lao PDR

08 June 2017



Cathay United Bank, Vientiane Capital Branch

INCOME STATEMENT for the year ended 31 December 2016

	Notes	2016 LAKm	2015 LAKm
Interest and similar income	7	29,923	21,227
Interest and similar expenses	8	(5,825)	(2,560)
Net interest and similar income		24,098	18,667
Fees and commission income	9	755	1,205
Fees and commission expenses	9	(74)	(106)
Net fees and commission income	9	681	1,099
Net gain from dealing in foreign currencies	10	110	376
Total operating income		25,889	20,142
Reversal of/(additional impairment loss)	16	18	(4,285)
NET OPERATING INCOME		24,907	15,857
Personnel expenses	11	(1,712)	(1,865)
Depreciation and amortization		(1,830)	(1,434)
Other operating expenses	12	(4,611)	(3,319)
TOTAL OPERATING EXPENSES		(8,153)	(6,618)
PROFIT BEFORE TAX		16,754	9,239
Profit tax expense	21	(3,623)	(2,056)
PROFIT FOR THE YEAR		13,131	7,183

Prepared by:



Ms. Phoutdavone Phommany
Chief of accountant

Reviewed by:




Mr. Chen Hai Ching
Branch Manager

Vientiane, Lao PDR

08 June 2017


Cathay United Bank, Vientiane Capital Branch

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2016

Notes	2016 LAKm	2015 LAKm
PROFIT FOR THE YEAR	13,131	7,183
OTHER COMPREHENSIVE INCOME, NET OF TAX	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	13,131	7,183

Prepared by:

Reviewed by:


Ms. Pheutdavone Phommany
Chief of accountant


Mr. Chen Hai Ching
Branch Manager



Vientiane, Lao PDR

08 June 2017

Cathay United Bank, Vientiane Capital Branch

STATEMENT OF FINANCIAL POSITION as at 31 December 2016

	Notes	31 December 2016 LAKm	31 December 2015 LAKm
ASSETS			
Cash and balances with the Bank of Lao PDR	13	51,671	39,588
Due from banks	14	254,105	228,650
Loans to customers	15	425,802	424,336
Property and equipment	17	5,234	6,815
Intangible assets		21	120
Other assets	18	1,449	1,659
TOTAL ASSETS		738,282	701,168
LIABILITIES			
Due to banks	19	598,220	577,559
Due to customers	20	19,573	11,239
Current tax liabilities	21	951	1,232
Other liabilities		123	139
TOTAL LIABILITIES		618,867	590,169
EQUITY			
Paid up capital	22	105,183	105,183
Regulatory reserve fund		1,873	726
Retained earnings		12,359	5,090
TOTAL EQUITY		119,415	110,999
TOTAL LIABILITIES AND EQUITY		738,282	701,168

Prepared by:

Reviewed by:


Ms. Phoutdavone Phommany
Chief of accountant


Mr. Chen Hai Ching
Branch Manager



Vientiane, Lao PDR

08 June 2017

Cathay United Bank, Vientiane Capital Branch


STATEMENT OF CASH FLOWS for the year ended 31 December 2016

	Notes	2016 LAKm	2015 LAKm
OPERATING ACTIVITIES			
Net profit before tax		16,754	9,239
<i>Adjustments for:</i>			
Depreciation and amortization charges		1,830	1,719
Credit loss expenses		5	4,285
(Increase)/Decrease in operating assets			
Balances with other banks		(45,853)	(91,582)
Loans and advances to customers		(1,471)	(428,621)
Other assets		210	5,959
Increase/(Decrease) in operating liabilities			
Customer deposits and other amounts due to customers		8,702	10,930
Other liabilities		5,332	(11,844)
Profit tax paid during the year		(3,904)	(824)
Net cash flows used in operating activities		(18,395)	(500,739)
INVESTING ACTIVITIES			
Purchases of property and equipment and other intangible assets		(150)	(7,042)
Net cash flows used in investing activities		(150)	(7,042)
FINANCING ACTIVITIES			
Drawdown of borrowings		19,221	577,559
Interest paid		(4,279)	-
Transfer profit to Head Office		(4,715)	-
Net cash flows from financing activities		10,227	577,559
Net (decrease)/increase in cash and cash equivalents		(8,318)	69,778
Cash and cash equivalents at the beginning of the year		71,473	1,695
Effect of foreign exchange difference		-	-
Cash and cash equivalents at the end of the year	23	63,155	71,473

Prepared by:


Ms. Phoutdavone Phommany
Chief of accountant

Reviewed by:


Mr. Chen Hai Ching
Branch Manager



Vientiane, Lao PDR

08 June 2017

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS
as at and for the year ended 31 December 2016

1. CORPORATE INFORMATION

Establishment and operations

Cathay United Bank, Vientiane Capital Branch (the "Branch") is a branch established in Lao People's Democratic Republic ("Lao PDR") of Cathay United Bank, a bank incorporated in Taiwan. The Branch operates under Banking License No. 38/BOL granted by the Bank of Lao PDR ("the BOL") on 25 November 2014.

The principal activities of the Branch are to mobilize capital and provide loans for improving and strengthening the Lao economy.

Paid-up capital

The initial registered capital of the Branch is LAK 100,000,000,000. The actual paid-up capital as at 31 December 2016 is LAK 105,183,000,000 (equivalent to US Dollar 13,000,000).

Management

Members of the Management during the year from 1 January 2016 to the date of this report are as follows:

<u>Name</u>	<u>Title</u>	<u>Date of appointment</u>
Mr. Chen Hai Ching	Branch Manager	16 December 2014
Mr. Lu Yu-feng	Deputy Branch Manager	16 December 2014

Location

The Branch is located at Hatsady Village, Unit 40, Khounboulom Road, Chanthabouly District, Vientiane Capital, Lao PDR.

Employees

Total employees of the Branch as at 31 December 2016 were 16 people.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

2. BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis, except as disclosed in other notes.

The Branch maintains its accounting records in Lao Kip ("LAK") which is the Branch's functional currency and presents its financial statements in thousand of Lao Kip ("LAK'000"). Except otherwise stated, financial information presented in LAK has been rounded to the nearest thousand.

The Branch's fiscal year starts on 1 January and ends on 31 December.

3. STATEMENT OF COMPLIANCE

The financial statements of the Branch have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB.

4. PRESENTATION OF FINANCIAL STATEMENTS

The Branch presents its statement of financial position in order of liquidity. Financial assets and financial liabilities are generally reported gross in the statement of financial position. They are only offset and reported net when, in addition to having an unconditional legally enforceable right to offset the recognized amounts without being contingent on a future event, the parties also intend to settle on a net basis in all of the following circumstances:

- ▶ The normal course of business
- ▶ The event of default
- ▶ The event of insolvency or bankruptcy of the Branch and/or its counterparties

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 *Foreign currency translation*

Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into LAK at the spot rate of exchange at the reporting date (see list of exchange rates of applicable foreign currencies against LAK on 31 December 2016 and 31 December 2015 as presented in Note 30). Unrealized exchange differences arising from the translation of monetary assets and liabilities on the reporting date are recognized in the income statement.

5.2 *Financial instruments - initial recognition and subsequent measurement*

5.2.1 *Date of recognition*

All financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognized on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes "regular way trades" - purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' account. The Branch recognises due to customer balances when funds reach the Branch.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.2 *Financial instruments - initial recognition and subsequent measurement (continued)*

5.2.2 *Initial measurement of financial instruments*

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

5.2.3 *The effective interest rate method*

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate a shorter period, to the net carrying amount of the financial asset or financial liability. The amortised cost of the financial asset or financial liability is adjusted if the Branch revises its estimates of payments or receipts. The adjusted amortised cost is calculated based on the original or latest re-estimated EIR and the change in is recorded as 'Interest and similar income' for financial assets and 'Interest and similar expense' for financial liabilities. The accounting policies for the EIR method vary by instruments and are further explained in Notes:

- ▶ 5.2.5 for 'Due from banks and loans and advances to customers'
- ▶ 5.2.6 for 'Due to banks and customers and other borrowed funds'
- ▶ 5.5 for 'Impairment of financial assets'
- ▶ 5.6 for 'Recognition of income and expenses'

5.2.4 *'Day 1' profit or loss*

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Branch immediately recognises the difference between the transaction price and fair value (a 'Day 1' profit or loss) in 'Net trading income'. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

5.2.5 *Due from banks and loans and advances to customers*

'Due from banks' and 'Loans and advances to customers' include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- ▶ Those that the Branch intends to sell immediately or in the near term and those that the Branch, upon initial recognition, designates as at fair value through profit or loss;
- ▶ Those that the Branch, upon initial recognition, designates as available-for-sale;
- ▶ Those for which the Branch may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, amounts 'Due from banks' and 'Loans and advances to customers' are subsequently measured at amortized cost using the EIR methodology, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. Therefore, the Branch recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of the loan, hence, recognising the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (prepayments, penalty interest and charges).

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.2 *Financial instruments - initial recognition and subsequent measurement (continued)*

5.2.5 *Due from banks and loans and advances to customers (continued)*

If expectations are revised the adjustment is booked a positive or negative adjustment to the carrying amount in the balance sheet with an increase or reduction in interest income. The adjustment is subsequently amortised through Interest and similar income in the income statement.

The Branch may enter into certain lending commitments where the loan, on drawdown, is expected to be classified as held-for-trading because the intent is to sell the loans in the short term. These commitments to lend are recorded as derivatives and measured at fair value through profit or loss.

Where the loan, on drawdown, is expected to be retained by the Branch, and not sold in the short term, the commitment is recorded only when it is an onerous contract that is likely to give rise to a loss (for example, due to a counterparty credit event).

5.2.6 *Due to banks and customers and other borrowed funds*

"Due to banks and customers and other borrowed funds" include arrangements where the substance of the contractual arrangements result in the Branch having an obligation either to deliver cash or another financial asset to the holder.

After initial measurement, "Due to banks and customers and other borrowed funds" are subsequently measured at amortised cost using the EIR. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

5.2.7 *Reclassification of financial assets*

Effective from 1 July 2008, the Branch was permitted to reclassify, in certain circumstances, non-derivative financial assets out of the 'Held-for-trading' category and into the 'Available-for-sale', 'Loans and receivables', or 'Held-to-maturity' categories. From this date it was also permitted to reclassify, in certain circumstances, financial instruments out of the 'Available-for-sale' category and into the 'Loans and receivables' category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortized cost.

For a financial asset reclassified out of the 'Available-for-sale' category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired then the amount recorded in equity is recycled to the income statement.

In rare circumstances, the Branch may reclassify a non-derivative trading asset out of the 'Held-for-trading' category and into the 'Loans and receivables' category if it meets the definition of loans and receivables and the Branch has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Branch subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognized as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the election of management, and is determined on an instrument by instrument basis.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.3 *De-recognition of financial assets and financial liabilities*

5.3.1 *Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when the rights to receive cash flows from the asset have expired. The Branch also derecognises the assets if it has both transferred the asset, and the transfer qualifies for derecognition.

The Branch has transferred the asset if, and only if, either:

- ▶ The Branch has transferred its contractual rights to receive cash flows from the asset or
- ▶ It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

Pass-through arrangements are transactions when the Branch retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when certain conditions are met. At 31 December 2016, the Branch does not have financial assets which are subject to such arrangements.

A transfer only qualifies for derecognition if either:

- ▶ The Branch has transferred substantially all the risks and rewards of the asset;
- or
- ▶ The Branch has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

In relation to the above, the Branch considers the control to be transferred if, and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

When the Branch has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Branch's continuing involvement in the asset. In that case, the Branch also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Branch has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Branch could be required to repay.

The Branch also derecognises a financial asset, in particular, a loan to customer when the terms and conditions have been renegotiated to the extent that it substantially became a new loan, with the difference recognised as an impairment in the income statement.

5.3.2 *Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in profit or loss.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.4 *Determination of fair value*

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarised below:

- ▶ Level 1 financial instruments – Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Branch has access to at the measurement date. The Branch considers markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the balance sheet date.
- ▶ Level 2 financial instruments – Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Branch will classify the instruments as Level 3.
- ▶ Level 3 financial instruments – Those that include one or more unobservable input that is significant to the measurement as whole.

The Branch periodically reviews its valuation techniques including the adopted methodologies and model calibrations.

The Branch evaluates the levelling at each reporting period on an instrument-by-instrument basis and reclassifies instruments when necessary based on the facts at the end of the reporting period.

5.5 *Impairment of financial assets*

The Branch assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; the probability that they will enter bankruptcy or other financial reorganization; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.5 Impairment of financial assets (continued)

5.5.1 Financial assets carried at amortized cost

Specific impairment losses

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers), the Branch first assesses whether objective evidence of impairment exists for financial assets that are individually significant or are already under specific work out by management.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in credit loss expense in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of interest and similar income.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Branch. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'other operating income'.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. If the Branch has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Collective impairment model

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms (for example, on the basis of a credit risk evaluation or grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors).

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.5 *Impairment of financial assets (continued)*

5.5.1 *Financial assets carried at amortized cost (continued)*

Collective impairment model (continued)

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, personal indebtedness, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

5.5.2 *Collateral valuation*

The Branch seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Branch's annually reporting schedule.

To the extent possible, the Branch uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, housing price indices, audited financial statements, and other independent sources.

5.5.3 *Collateral repossessed*

The Branch's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets that are determined better to be sold, are immediately transferred to assets held for sale at their fair value at the repossession date in line with the Branch's policy.

5.6 *Recognition of income and expense*

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Branch and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.6 *Recognition of income and expense (continued)*

5.6.1 *Interest and similar income and expense*

For all financial instruments measured at amortized cost, interest-bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

When the recorded value of a financial asset or a group of similar financial assets has been reduced by an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

5.6.2 *Fees and commission income*

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

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

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Fee income forming an integral part of the corresponding financial instrument

Fees that the Branch considers to be an integral part of the corresponding financial instruments include: loan origination fees, loan commitment fees for loans that are likely to be drawn down and other credit related fees. The recognition of these fees (together with any incremental costs) form an integral part of the corresponding financial instruments and are recognised as interest income through an adjustment to the EIR (as defined in Note 5.2.3 above). The exception is, when it is unlikely that a loan will be drawn down, the loan commitment fees are recognised as revenue on expiry. Loan commitments that are within the scope of IAS 39 (i.e., are designated as FVPL, or are at a below market rate of interest, or are settled net) are accounted for as derivatives and measured at fair value through profit or loss.

5.7 *Cash and cash equivalents*

Cash and cash equivalents as referred to in the statement of cash flows comprise cash on hand, non-restricted current accounts with the BOL and amounts due from banks on demand or with an original maturity of three months or less.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.8 *Property and equipment*

Property and equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. The following are annual rates used:

Office equipment	20%
Furniture and fixtures	20%
Building improvements	10%
Motor vehicles	20%

Property and equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in 'Other operating income' in the income statement in the year the asset is derecognized.

5.9 *Intangible assets*

The Branch's intangible assets include the value of computer software.

An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Branch.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the income statement in the expense category consistent with the function of the intangible asset.

Amortization is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

Computer software	50%
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Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.10 *Impairment of non-financial assets*

The Branch assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Branch estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit (CGU)'s fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Branch estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.11 *Financial guarantees*

In the ordinary course of business, the Branch issues financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements (within 'Other liabilities') at fair value, being the premium received. Subsequent to initial recognition, the Branch's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the income statement in 'Credit loss expense'. The premium received is recognized in the income statement in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

5.12 *Employee benefits*

Post-employment benefits

Post-employment benefits are paid to retired employees of the Branch by the Social Security Fund Department which belongs to the Ministry of Labor and Social Welfare. The Branch is required to contribute to these post-employment benefits by paying social insurance premium to the Social Insurance Agency at an amount equivalent to 6.00% of employee's basic salary on a monthly basis. The Branch has no further obligation concerning post-employment benefits for its employees other than this.

Termination benefits

In accordance with Article 82 of the Amended Labour Law No. 43/NA approved by the President of the Lao People's Democratic Republic on 28 January 2014, the Branch has the obligation to pay allowance for employees who are terminated by dismissal in the following cases:

- ▶ The worker lacks specialised skills or is not in good health and thus cannot continue to work;
- ▶ The employer considers it necessary to reduce the number of workers in order to improve the work within the labour unit.

For the termination of an employment contract on any of the above-mentioned grounds, the employer must pay a termination allowance which is calculated on the basis of 10% of the basic monthly salary earned before the termination of work. As at 31 December 2016, there is no employee of the Branch who was dismissed under the above-mentioned grounds; therefore the Branch has not made a provision for termination allowance in the financial statements.

5.13 *Provisions*

Provisions are recognized when the Branch has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is material, the Branch determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in the income statement net of any reimbursement in other operating expenses.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.14 Profit tax

Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, by the reporting date in the countries where the Branch operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it becomes probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current and deferred taxes are recognised as income tax benefits or expenses in the income statement except for tax related to the fair value remeasurement of available-for-sale assets, foreign exchange differences and the net movement on cash flow hedges, which are charged or credited to OCI. These exceptions are subsequently reclassified from OCI to the income statement together with the respective deferred loss or gain. The Branch also recognises the tax consequences of payments and issuing costs, related to financial instruments that are classified as equity, directly in equity.

The Branch only off-sets its deferred tax assets against liabilities when there is both a legal right to offset and it is the Branch's intention to settle on a net basis.

5.15 Fiduciary assets

The Branch provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in a fiduciary capacity are not reported in the financial statements, as they are not the assets of the Branch.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.16 Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Branch's financial statements are disclosed below. The Branch intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The adoption of IFRS 9 will have an effect on the classification and measurement of the Branch's financial assets, but no impact on the classification and measurement of the Branch's financial liabilities.

IFRS 15 Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognizing revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g., IFRS 9, and IFRS 16 Leases).

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The Branch does not anticipate early adopting IFRS 15 and is currently evaluating its impact.

IFRS 16 Leases

The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the statement of profit or loss.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach.

The Branch does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5.16 Standards issued but not yet effective (continued)

Amendments to IAS 12 Income Taxes

In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The amendment is effective from 1 January 2017. The Branch is currently evaluating the impact, but does not anticipate that adopting the amendments would have a material impact on its financial statements.

Amendments to IAS 7 Statement of Cash Flows

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Branch is currently evaluating the impact.

6. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Branch's financial statements requires management to make estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In the process of applying the Branch's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Branch's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

6.1 *Going concern*

The Branch's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Branch's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

6. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

6.2 *Fair value of financial instruments*

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. For further details about determination of fair value please see Note 5.4 and Note 30.

6.3 *Effective Interest Rate (EIR) method*

The Branch's EIR methodology, as explained in Note 5.2.3, recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of loans and deposits and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgement regarding the expected behaviour and life-cycle of the instruments, as well expected changes to other fee income/expense that are integral parts of the instrument.

6.4 *Impairment losses on loans and advances*

The Branch reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in the income statement.

The Branch's impairment methodology for assets carried at amortised cost results in the recording of provisions for:

- ▶ Specific impairment losses on individually significant or specifically identified exposures;
- ▶ Collective impairment of:

The detailed approach for each category is further explained in Note 5.5.1. All categories include an element of management's judgement, in particular for the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses. These estimates are driven by a number of factors, the changing of which can result in different levels of allowances.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

7. INTEREST AND SIMILAR INCOME

	2016 LAKm	2015 LAKm
Interbank transactions	8,447	1,057
Loans to customers	21,476	20,170
	29,923	21,227

8. INTEREST AND SIMILAR EXPENSES

	2016 LAKm	2015 LAKm
Customers' deposits	105	27
Borrowings	5,720	2,533
	5,825	2,560

9. NET FEES AND COMMISSION INCOME

	2016 LAKm	2015 LAKm
Fees and commission income from:		
Trade finance activities	755	765
Other activities	-	440
	755	1,205
Fees and commission expense for:		
Other activities	(74)	(106)
	(74)	(106)
Net fee and commission income	681	1,099

10. NET GAIN/(LOSS) FROM DEALING IN FOREIGN CURRENCIES

	2016 LAKm	2015 LAKm
Gain from dealing in foreign currencies	206	805
Loss from dealing in foreign currencies	(96)	(429)
	110	376

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

11. PERSONNEL EXPENSES

	2016 LAKm	2015 LAKm
Wages and allowances	1,471	1,107
Other staff costs	241	758
	1,712	1,865

12. OTHER OPERATING EXPENSES

	2016 LAKm	2015 LAKm
Taxes and duties	164	126
Rental fees	1,347	907
Equipments	19	89
Electricity and water supply	95	123
Fuel	26	17
Office stationeries	62	49
Business trip expenses	254	219
Publication, marketing and promotion	257	52
Telecommunication	580	475
Pre-operating costs	-	783
Management fee	842	-
Audit fee	135	78
Others	830	318
	4,611	3,319

13. CASH AND BALANCES WITH THE BANK OF LAO PDR ("THE BOL")

	31 December 2016 LAKm	31 December 2015 LAKm
Cash on hand in LAK	1,841	3,041
Balances with the BOL	49,830	36,547
- Demand deposit	47,869	34,912
- Compulsory deposits	1,956	1,630
- Registered capital deposit	5	5
	51,671	39,588

Balances with the BOL earn no interest.

Under regulations of the BOL, the Branch is required to maintain certain cash reserves with the BOL in the form of compulsory deposits, which are computed at 5.00% for LAK and 10.00% for foreign currencies, 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 of the BOL.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

14. DUE FROM BANKS

	31 December 2016 LAKm	31 December 2015 LAKm
Demand deposits	13,445	8,520
- Cathay United Bank Taiwan, Taipei	13,445	8,520
Term deposits at domestic bank	237,411	218,600
- Public Bank Berhad, Vientiane Capital Branch	227,411	218,600
- Lao Viet Bank	10,000	-
Accrued interest	3,249	1,530
	254,105	228,650

15. LOANS TO CUSTOMERS

	31 December 2016 LAKm	31 December 2015 LAKm
Gross loans to customers	428,954	428,451
Accrued interest receivable	1,138	170
Less: Allowance for impairment losses (Note 16)	(4,290)	(4,285)
	425,802	424,336

Interest rates for loans to customers during the year are as follows:

	2016 Interest rates % per annum
Loans denominated in USD	4.72% - 9.14%

Analysis of loans to customers

Analysis by currency

	31 December 2016 LAKm	31 December 2015 LAKm
Loans and advances denominated in USD	428,954	428,451
	428,954	428,451

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

15. LOANS TO CUSTOMERS (continued)

Analysis by economic sectors

	31 December 2016 LAKm	31 December 2015 LAKm
Construction companies	16,341	17,886
Industrial	4,085	4,065
Government organisations	408,528	406,500
	428,954	428,451

16. ALLOWANCE FOR IMPAIRMENT LOSSES

Changes in the allowance for impairment losses consisted of the following:

	31 December 2016 LAKm	31 December 2015 LAKm
Opening balance	4,285	-
(Reversal of)/additional impairment loss	(18)	4,285
Foreign exchange difference	23	-
Closing balance	4,290	4,285

17. PROPERTY AND EQUIPMENT

Movements of the balances of property and equipment for the ended 31 December 2016 are as follows:

	Office equipment LAKm	Furniture & fixtures LAKm	Building improvements LAKm	Others LAKm	Total LAKm
Cost:					
As at 31 December 2015	3,474	300	1,474	3,224	8,472
Additions for the year	57	5	13	75	150
As at 31 December 2016	3,531	305	1,487	3,299	8,622
Accumulated depreciation:					
As at 31 December 2015	643	59	288	667	1,657
Charge for the year	712	61	300	658	1,731
As at 31 December 2016	1,355	120	588	1,325	3,388
Net book value:					
As at 31 December 2015	2,831	241	1,186	2,557	6,815
As at 31 December 2016	2,176	185	899	1,974	5,234

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

17. PROPERTY AND EQUIPMENT (continued)

Movements of the balances of property and equipment for the ended 31 December 2015 are as follows:

	Office equipment LAKm	Furniture & fixtures LAKm	Building improvements LAKm	Motor vehicles LAKm	Total LAKm
Cost:					
As at 31 December 2014	1,625	-	-	-	1,625
Additions for the year 2015	1,849	300	1,474	3,224	6,847
As at 31 December 2015	3,474	300	1,474	3,224	8,472
Accumulated depreciation:					
As at 31 December 2014	13	-	-	-	13
Charge for the year 2015	630	59	288	667	1,644
As at 31 December 2015	643	59	288	667	1,657
Net book value:					
As at 31 December 2014	1,612	-	-	-	1,612
As at 31 December 2015	2,831	241	1,186	2,557	6,815

18. OTHER ASSETS

	31 December 2016 LAKm	31 December 2015 LAKm
Prepaid expenses	1,391	1,630
Other assets	58	29
	1,449	1,659

19. DUE TO BANKS

	31 December 2016 LAKm	31 December 2015 LAKm
Borrowings from Cathay United Bank Taiwan, Taipei	596,451	577,230
Accrued interest payable	1,769	329
	598,220	577,559

Details of the borrowings as at 31 December 2016 are as follows:

Currency	Term	Balance in original currency	LAKm equivalent	Interest rate % per annum
USD	6 months	1,000,000	8,171	1.05%
USD	12 months	1,000,000	8,171	1.58%
USD	6 months	50,000,000	408,528	1.30%
USD	6 months	1,000,000	8,171	1.30%
USD	12 months	20,000,000	163,411	1.61%
		73,000,000	596,451	

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

20. DUE TO CUSTOMERS

	<i>31 December 2016</i> <i>LAKm</i>	<i>31 December 2015</i> <i>LAKm</i>
Demand deposits	18,975	7,576
Demand deposits in LAK	128	185
Demand deposits in FC	18,847	7,391
Security Deposit for opening letters of credit	-	3,659
Accrued interest	10	4
Other payables to customer	588	-
	19,573	11,239

The interest rates for these deposits are as follows:

	<i>2016</i> <i>LAKm</i> <i>Interest rate p.a.</i>
Demand deposits in LAK	0.75%
Demand deposits in USD	0.5%
Demand deposits in THB	0.08%

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

21. CURRENT TAX LIABILITIES

	31 December 2016 LAKm	31 December 2015 LAKm
Profit tax payable	951	1,232
	951	1,232

Profit Tax ("PT")

The Branch is obliged to pay PT at rate of 24% on total profit before tax of the year in accordance with Tax Law No.70/NA dated 15 December 2015 which is effective on or after 24 May 2016.

	2016 LAKm	2015 LAKm
Profit before tax under IFRS	15,788	9,239
Adjustment for difference between LAS and IFRS	(694)	76
	15,094	9,315
Tax loss carried forward	-	(749)
Taxable profit under LAS	15,094	8,566
Current PT expense, at the statutory rate of 24%	3,623	2,056
PT payable at the beginning of the year	1,232	-
PT paid during the year	(3,904)	(824)
PT payable at the end of the year	951	1,232

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

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

22. PAID-UP CAPITAL

The movement of paid-up capital during the year is presented below:

	2016 LAKm	2015 LAKm
Opening balance	105,183	105,183
Increase in the year	-	-
Closing balance	105,183	105,183

23. ADDITIONAL CASH FLOW INFORMATION

Cash and cash equivalents

	31 December 2016 LAKm	31 December 2015 LAKm
Cash on hand	1,841	3,041
Current accounts with the BOL	47,869	34,912
Current accounts with other banks	13,445	8,520
Term deposits due within three months	-	25,000
	63,155	71,473

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

24. RELATED PARTY TRANSACTIONS

Related party transactions include all transactions undertaken with other parties to which the Branch is related. A party is related to the Branch if:

- (a) directly, or indirectly through one or more intermediaries, the party:
- ▶ controls, is controlled by, or is under common control with, the Branch (this includes parents, subsidiaries and fellow subsidiaries);
 - ▶ has an interest in the Branch that gives it significant influence over the Branch; or
 - ▶ has joint control over the Branch.
- (b) the party is a joint venture in which the Branch is a venture;
- (c) the party is a member of the key management personnel of the Branch or its parent;
- (d) the party is a close member of the family of any individual referred to in (a) or (c);
- (e) the party is a Branch that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such Branch resides with, directly or indirectly, any individual referred to in (c) or (d); or
- (f) the party is a post-employment benefit plan for the benefit of employees of the Branch, or of any entity that is a related party of the Branch.

Balances with related parties as at 31 December 2016 and 31 December 2015 are as follows:

<i>Related party</i>	<i>Relationship</i>	<i>Transactions</i>	<i>31 December 2016 Receivable/ (payable) LAKm</i>	<i>31 December 2015 Receivable/ (payable) LAKm</i>
Cathay United Bank Taiwan, Taipei	Owner	Demand deposits at the parent bank	13,445	8,520
		Borrowing from the parent bank	596,451	577,230

Significant transactions with related parties during the year ended 31 December 2016 were as follows:

<i>Related party</i>	<i>Relationship</i>	<i>Transactions during the year</i>	<i>Receipt/ (payment) LAKm</i>	<i>Income/ (expense) LAKm</i>
Cathay United Bank Taiwan, Taipei	Owner	Placement of deposits	(4,295)	-
		Receipt of borrowings	19,221	-
		Interest on borrowing	-	(5,720)

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

24. RELATED PARTY TRANSACTIONS (continued)

Transactions with key management personnel of the Branch

Remuneration to members of the Management is as follows:

	2016 LAKm	2015 LAKm
Salaries	544	587
	544	587

25. RISK MANAGEMENT POLICIES

Introduction

Risk is inherent in the Branch's activities but is managed through a process of ongoing identification, measurement and monitoring, 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 independent risk control process does not include business risks such as changes in the environment, technology and industry. The Branch's policy is to monitor those business risks through the Branch's strategic planning process.

Risk management structure

The Management is responsible for the overall risk management approach and for approving the risk management strategies and principles.

The Management has appointed the Risk - Compliance Officer which has the responsibility to monitor the overall risk process within the Branch.

The Risk - Compliance Officer has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. The Risk - Compliance Officer is responsible for managing risk decisions and monitoring risk levels and reports to the Board of Management.

The Branch follows Head Office's risk management policy and risk management processes throughout the Branch are audited annually by the Internal Audit function of Cathay United Bank, which examines both the adequacy of the procedures and the Branch's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee of Cathay United Bank.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

26. 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. Management has established limits on the non-trading interest rate gaps for stipulated periods. The Branch's policy is to monitor positions on a daily basis.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the profit or loss for a year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2016. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

The classification of financial assets and financial liabilities based on the interest rate re-pricing as at 31 December 2016 was as follows:

	Non re- pricing	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years	Total
Financial assets								
Cash and cash equivalents on hand	1,841	-	-	-	-	-	-	1,841
Balances with the Bank of Lao PDR ("the BOL")	49,830	-	-	-	-	-	-	49,830
Due from banks	3,249	13,445	-	24,000	213,411	-	-	254,105
Loans and advances to customers (*)	1,138	-	-	20,426	-	408,528	-	430,092
Other financial assets	-	-	-	-	-	-	-	-
Total financial assets	56,058	13,445	-	44,426	213,411	408,528	-	735,869
Financial liabilities								
Due to banks	1,769	-	8,171	416,698	171,582	-	-	598,220
Due to customers	19,573	-	-	-	-	-	-	19,573
Other financial liabilities	-	-	-	-	-	-	-	-
Total financial liabilities	21,342	-	8,171	416,698	171,582	-	-	617,793
Net interest rate exposure	34,716	13,445	(8,171)	(372,272)	41,829	408,528	-	118,076

(*) These do not include provision and unrealized gain.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

26. INTEREST RATE RISK (continued)

Interest rate risk sensitivity analysis

The following table demonstrates the sensitivity to a reasonably possible change in interest rates in 1 year, with all other variables held constant, of the Branch's income statement:

	2016		2015	
	<i>Impact on profit before tax</i>		<i>Impact on profit before tax</i>	
	<i>Interest rate increase 1 percentage point</i>	<i>Interest rate decrease 1 percentage point</i>	<i>Interest rate increase 1 percentage point</i>	<i>Interest rate decrease 1 percentage point</i>
Assets	2,713	(2,713)	2,505	(2,505)
Liabilities	(5,965)	5,965	-	-
Total	(3,252)	3,252	2,505	(2,505)

Unit: LAKm

27. CURRENCY RISK

Currency risk is the risk exposed to the Branch due to changes in foreign exchange rates which adversely impact the Branch's foreign currency positions. The Branch has set limits on positions by currency, based on its internal risk assessment system and the BOL's regulations. Positions are monitored on a daily basis to ensure positions are maintained within the established limits.

Breakdown of assets and liabilities which has been converted into LAKm 31 December 2016 is as follows:

	<i>LAK in LAKm</i>	<i>USD in LAKm equivalent</i>	<i>THB in LAKm equivalent</i>	<i>Total in LAKm equivalent</i>
ASSETS				
Cash and balances with the BOL	22,010	29,517	144	51,671
Due from banks	76,180	177,925	-	254,105
Loans to customers (*)	-	429,099	-	429,099
Property and equipment	5,234	-	-	5,234
Intangible assets	21	-	-	21
Other assets	1,449	-	-	1,449
TOTAL ASSETS	104,894	636,541	144	741,579
LIABILITIES AND EQUITY				
LIABILITIES				
Due to Banks	-	598,220	-	598,220
Due to customers	716	18,735	122	19,573
Current tax liabilities	951	-	-	951
Other liabilities	123	-	-	123
TOTAL LIABILITIES	1,790	616,955	122	618,867
EQUITY	118,422	-	-	118,422
TOTAL LIABILITIES AND EQUITY	120,212	616,955	122	737,289
NET EXPOSURE	(15,318)	19,586	22	4,290

(*) These do not include provision and unrealized gain.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

27. CURRENCY RISK (continued)

Currency risk sensitivity analysis

The table below indicates the currencies to which the Branch had significant exposure at 31 December on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the exchange rate against the Lao Kip, with all other variables held constant, on the income statement (due to the fair value of currency sensitive monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in the income statement, while a positive amount reflects a net potential increase.

Unit: LAK'000

	2016		2015	
	Impact on profit before tax		Impact on profit before tax	
	Exchange rate increase 10%	Exchange rate decrease 10%	Exchange rate increase 10%	Exchange rate decrease 10%
USD	1,959	(1,959)	2,222	(2,222)
THB	2	(2)	-	-
Others	-	-	-	-
Total	1,961	(1,961)	2,222	(2,222)

28. LIQUIDITY RISK

Liquidity risk is defined as the risk that the Branch will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. 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 terms of placements with and loans to other banks; and loans to customers are determined on the maturity dates as stipulated in contracts. The actual maturity terms may be altered because loan contracts may be extended.
- ▶ The maturity terms of deposits from other banks; and customer's deposits are 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 terms of deposits are determined based on the maturity dates in contracts. In fact, these amounts may be rotated and therefore may last beyond the original maturity date.
- ▶ The maturity terms of other liabilities are determined based on the actual maturity term of each other liability.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

28. LIQUIDITY RISK (continue)

The classification of financial assets and financial liabilities based on contractual maturities as at 31 December 2016 was as follows:

	Before due date					Total
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	
Financial assets						
Cash and cash equivalents on hand	1,841	-	-	-	-	1,841
Balances with the Bank of Lao PDR ("the BOL")	49,830	-	-	-	-	49,830
Due from banks	16,694	-	237,411	-	-	254,105
Loans and advances to customers (*)	145	-	20,426	408,528	-	429,099
Other financial assets	1,449	-	-	-	-	1,449
Total financial assets	69,959		257,838	408,528		736,325
Financial liabilities						
Due to banks	1,769	8,171	588,280	-	-	598,220
Due to customers	19,573	-	-	-	-	19,573
Other financial liabilities	123	-	-	-	-	123
Total financial liabilities	21,465	8,171	588,280			617,916
Liquidity exposure	48,494	(8,171)	(330,442)	408,528		118,409

(*) These do not include provision and unrealized gain.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
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29. CAPITAL MANAGEMENT

The Branch maintains minimum regulatory capital in accordance with Regulation No. 536/BFSD/BOL dated 14 October 2009 on commercial banks' capital adequacy and other detailed guidance. The primary objectives of the Branch's capital management are to ensure that the Branch complies with externally imposed capital requirements by BOL. The Branch recognizes the need to maintain effectiveness of assets and liabilities management to balance profit and capital adequacy.

In accordance with Regulation No. 536/BFSD/BOL, the Branch's regulatory capital is analyzed into two tiers:

- ▶ Tier 1 capital, which includes chartered capital, regulatory reserve fund, business expansion fund and other funds, and retained earnings;
- ▶ Tier 2 capital, which includes qualifying subordinated liabilities, general provisions and the element of fair value reserve relating to unrealized gains/losses on equity instruments classified as available for sale.

Various limits are applied to elements of the capital base: qualifying tier 2 cannot exceed tier 1 capital, and qualifying subordinated liabilities may not exceed 50 percent of tier 1 capital.

An analysis of the Branch's capital based on financial information deprived from IFRS financial statements is as follows:

<i>Items</i>	<i>31 December 2016 under IFRS LAKm</i>	<i>31 December 2015 under IFRS LAKm</i>
Tier 1 capital	118,422	110,999
Tier 2 capital	-	-
Total capital	118,422	110,999
Less: Deductions from capital (Investments in other credit and financial institutions)	-	-
Capital for CAR calculation (A)	118,422	110,996
Risk weighted balance sheet items	269,930	266,492
Risk weighted off balance sheet items	5,251	1,830
Total risk weighted assets (B)	275,181	268,322
Capital Adequacy Ratio (A/B)	43%	41%

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

30. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Determination of fair value and fair value hierarchy

The Branch uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Fair value of financial assets and liabilities carried at fair value

The Branch has no financial assets and liabilities carried at fair value as at 31 December 2016. Therefore, there is no analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

Fair value of financial assets and liabilities not carried at fair value

The Branch uses the following methodologies and assumptions to determine fair value for financial assets and liabilities not carried at fair value on the financial statements:

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short term maturity (less than one year) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits.

Fixed rate financial instruments

The fair value is determined using discounted cash flows using interest at year end of financial instruments in the market with similar risk and maturity. In addition, the Branch assumes that loans to customers are held to maturity. Fair values of loans to customers are determined as the carrying value less impairment losses. For Due to customers, fair value is approximated based on the carrying value of deposits, except for the fair value of fixed rate items with remaining maturity period greater than 1 year which is calculated based on the present value of future cash flows of principal and interest, discounted at interest rates currently being offered on such deposits.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

30. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Set out below is a comparison, by class, of the carrying amounts and fair values of the Branch's financial instruments that are not carried at fair value in the financial statements:

As at 31 December 2016

	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets					
Balances at the BOL	49,830	-	-	49,830	49,830
Demand deposits	254,105	-	-	254,105	254,105
Loans to customers	424,809	-	-	424,809	424,809
	728,744	-	-	728,744	728,744
Financial liabilities					
Due to banks	598,220	-	-	598,220	598,220
Due to customers	19,573	-	-	19,573	19,573
	617,793	-	-	617,793	617,793

As at 31 December 2015

	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
Financial assets					
Balances at the BOL	36,547	-	-	36,547	36,547
Demand deposits	228,650	-	-	228,650	228,650
Loans to customers	424,336	-	-	424,336	424,336
	689,533	-	-	689,533	689,533
Financial liabilities					
Due to banks	577,559	-	-	577,559	577,559
Due to customers	11,239	-	-	11,239	11,239
	588,798	-	-	588,798	588,798

31. EXCHANGE RATES OF APPLICABLE FOREIGN CURRENCIES AGAINST LAK AT REPORTING DATE

	31 December 2016 LAK	31 December 2015 LAK
United State Dollar ("USD")	8,171	8,130
Thai baht ("THB")	229	227
Chinese Yuan ("CNY")	1,200	1,200

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2016

32. EVENTS AFTER THE BALANCE SHEET DATE

There is no matter or circumstance that has arisen since the balance sheet date that requires adjustment or disclosure in the financial statements of the Branch.

Prepared by:



Ms. Phoutdavone Phommany
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Reviewed by:



Mr. Chen Hai Ching
Branch Manager



Vientiane, Lao PDR

08 June 2017