

**RHB BANK LAO LIMITED**



**FINANCIAL STATEMENTS**

*(in accordance with International Financial Reporting Standards)*

**31 DECEMBER 2020**

## RHB Bank Lao Limited

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**RHB Bank Lao Limited**

**Statement by the Board of Directors  
31 December 2020**

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**BOARD OF DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS**

The Board of Directors of RHB Bank Lao Limited (the Bank) are responsible for ensuring that the financial statements, present fairly, in all material respects, the financial position of the Bank as at 31 December 2020 and its financial performance, statement of changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS). In preparing these financial statements, the Board of Directors is required to:

- i) adopt appropriate accounting policies which are supported by reasonable and prudent judgments and estimates and then apply them consistently;
- ii) comply in accordance with accounting policies of IFRS and 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) prepare the financial statements on a going concern basis unless it is inappropriate to assume that the Bank will continue operations for the foreseeable future; and
- v) effectively control and direct the Bank and be involved in all material decisions affecting the operations and performance of the Bank, and ascertain that such decisions have been properly reflected in the financial statements.

The Board of Directors confirms that the Bank has complied with the above requirements in preparing the financial statements as at and for the year ended 31 December 2020.

**STATEMENT BY THE BOARD OF DIRECTORS ON THE FINANCIAL STATEMENTS**

We do hereby state that the accompanying financial statements, present fairly, in all material respects, the financial position of the Bank as at 31 December 2020 and its financial performance, statements of changes in equity and its cash flows for the year then ended and are properly drawn up in accordance with IFRS.

For and on behalf of the Board of Directors



Chhong Seang Heng  
Chief Executive Officer

29 March 2021



## INDEPENDENT AUDITOR'S REPORT

### TO THE SHAREHOLDER OF RHB BANK LAO LIMITED

#### Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of RHB Bank Lao Limited (the Bank) as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

#### What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2020;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. 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 believe that audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

#### Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of these financial statements in accordance with 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 Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.



## INDEPENDENT AUDITOR'S REPORT

### Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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 Bank'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 Bank'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 Bank 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 the directors 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.

For PricewaterhouseCoopers (Lao) Sole Company Limited

Apisit Thientrongpinyo  
Partner

Vientiane, Lao P.D.R.  
29 March 2021

RHB Bank Lao Limited

Statement of Financial Position  
As at 31 December 2020

|  | Note(s) | 2020<br>LAK            | 2019<br>LAK            |
|--|---------|------------------------|------------------------|
| <b>ASSETS</b>                              |         |                        |                        |
| Cash and short-term fund with central bank | 5       | 91.359.330.774         | 53.874.321.105         |
| Placement with central bank                | 6       | 389.423.538.636        | 455.102.908.842        |
| Deposits with other banks                  | 7       | 10.112.757.776         | 2.852.515.413          |
| Loans and advances to customers            | 9       | 355.780.164.957        | 416.781.840.602        |
| Intangible assets                          | 10      | 695.961.108            | 654.914.048            |
| Property and equipment                     | 11      | 11.790.349.489         | 12.934.354.135         |
| Right of use assets                        | 12      | 8.368.365.032          | 9.482.773.765          |
| Other assets                               | 13      | 6.597.256.197          | 2.597.318.357          |
| Deferred tax asset                         | 14      | -                      | 98.764.139             |
| <b>TOTAL ASSETS</b>                        |         | <b>874.127.723.969</b> | <b>954.379.710.406</b> |
| <b>LIABILITIES AND EQUITY</b>              |         |                        |                        |
| <b>LIABILITIES</b>                         |         |                        |                        |
| Deposits from customers                    | 15      | 47.518.528.675         | 39.586.557.123         |
| Deposits from other banks                  | 16      | 31.243.145.463         | 119.015.958.295        |
| Amount due to parent company               | 17      | 415.613.060.489        | 478.062.967.496        |
| Current income tax liability               | 26      | -                      | 1.134.392.567          |
| Other liabilities                          | 18      | 3.626.650.033          | 2.178.480.661          |
| Lease liabilities                          | 19      | 9.655.727.115          | 10.465.360.845         |
| Deferred tax liability                     | 14      | 2.346.007.789          | -                      |
| <b>TOTAL LIABILITIES</b>                   |         | <b>510.003.119.564</b> | <b>650.443.716.987</b> |
| <b>EQUITY</b>                              |         |                        |                        |
| Paid-up capital                            | 20      | 380.900.025.000        | 301.500.000.000        |
| Legal reserve                              | 21      | 2.130.187.655          | 1.714.014.602          |
| (Accumulated loss)/ Retained earnings      |         | (18.905.608.250)       | 721.978.817            |
| <b>TOTAL EQUITY</b>                        |         | <b>364.124.604.405</b> | <b>303.935.993.419</b> |
| <b>TOTAL EQUITY AND LIABILITIES</b>        |         | <b>874.127.723.969</b> | <b>954.379.710.406</b> |


  
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 ຈຳກັດຜູ້ດຽວ
   
 RHB Bank Lao
   
 Sole
   
 Choong Seang Heng
   
 Chief Executive Officer

29 March 2021

The accompanying notes on pages 8 to 47 form an integral part of these financial statements.  
Independent auditor's report – pages 2 to 3.

RHB Bank Lao Limited

Statement of Comprehensive Income  
For the year ended 31 December 2020

|  | Note(s)  | 2020<br>LAK             | 2019<br>LAK             |
|--|----------|-------------------------|-------------------------|
| Interest income  |          | 54.968.988.369          | 57.725.441.727          |
| Interest expense   |          | (20.820.110.634)        | (23.141.298.914)        |
| <b>NET INTEREST INCOME</b>                                   | 22       | <b>34.148.877.735</b>   | <b>34.584.142.813</b>   |
| Allowance for credit losses on loans                         | 9        | (30.744.180.931)        | (26.972.943.186)        |
| Allowance for credit losses on other financial assets        | 5,2,6,7  | (622.422.645)           | -                       |
| <b>NET INTEREST INCOME AFTER LOAN<br/>IMPAIRMENT CHARGES</b> |          | <b>2.782.274.159</b>    | <b>7.611.199.627</b>    |
| Fee and commission income                                    |          | 895.460.394             | 894.472.464             |
| Fee and commission expense                                   |          | (240.753.272)           | (219.746.799)           |
| <b>NET FEE AND COMMISSION INCOME</b>                         |          | <b>654.707.122</b>      | <b>674.725.665</b>      |
| Other income   |          | 1.372.419               | -                       |
| <b>NET FEE, COMMISSION AND OTHER INCOME</b>                  | 23       | <b>656.079.541</b>      | <b>674.725.665</b>      |
| Foreign exchange gain, net                                   |          | 1.400.174.004           | 3.735.607.020           |
| Payroll and other staff costs                                | 24       | (12.425.128.201)        | (9.321.888.082)         |
| General and administrative expenses                          | 25       | (5.428.655.695)         | (5.183.579.415)         |
| Depreciation and amortisation charges                        | 10,11,12 | (3.751.385.894)         | (5.008.743.636)         |
| <b>TOTAL EXPENSES</b>  |          | <b>(20.204.995.786)</b> | <b>(15.778.604.113)</b> |
| <b>LOSS BEFORE TAX</b>                                       |          | <b>(16.766.642.086)</b> | <b>(7.492.678.821)</b>  |
| Income tax expense   | 26       | (2.444.771.928)         | (2.894.033.991)         |
| <b>NET LOSS FOR THE YEAR</b>                                 |          | <b>(19.211.414.014)</b> | <b>(10.386.712.812)</b> |
| Other comprehensive income                                   |          | -                       | -                       |
| <b>TOTAL COMPREHENSIVE LOSS FOR THE<br/>YEAR</b>             |          | <b>(19.211.414.014)</b> | <b>(10.386.712.812)</b> |



Choong Seang Heng  
Chief Executive Officer

29 March 2021

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Independent auditor's report – pages 2 to 3.

RHB Bank Lao Limited

Statement of Changes in Equity  
For the year ended 31 December 2020

|                               | Note | Paid-up capital<br>LAK | Legal reserve<br>LAK | (Accumulated<br>loss)/ Retained<br>earnings<br>LAK | Total<br>LAK           |
|-------------------------------|------|------------------------|----------------------|--|------------------------|
| At 1 January 2019             |      | 301.500.000.000        | 1.714.014.602        | 11.108.691.629                                     | 314.322.706.231        |
| Net loss for the year         |      | -                      | -                    | (10.386.712.812)                                   | (10.386.712.812)       |
| <b>As at 31 December 2019</b> |      | <b>301.500.000.000</b> | <b>1.714.014.602</b> | <b>721.978.817</b>                                 | <b>303.935.993.419</b> |
| At 1 January 2020             |      | 301.500.000.000        | 1.714.014.602        | 721.978.817  | 303.935.993.419        |
| Additional paid-up capital    | 20   | 79.400.025.000         | -                    | -  | 79.400.025.000         |
| Net loss for the year         |      | -                      | -                    | (19.211.414.014)                                   | (19.211.414.014)       |
| Legal reserve                 |      | -                      | 416.173.053          | (416.173.053)                                      | -                      |
| <b>As at 31 December 2020</b> |      | <b>380.900.025.000</b> | <b>2.130.187.655</b> | <b>(18.905.608.250)</b>                            | <b>364.124.604.405</b> |



Choong Seang Heng  
Chief Executive Officer

29 March 2021

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RHB Bank Lao Limited

Statement of Cash Flows  
For the year ended 31 December 2020

|   | Note(s)  | 2020<br>LAK             | 2019<br>LAK             |
|---|----------|-------------------------|-------------------------|
| <b>OPERATING ACTIVITIES</b>   |          |                         |                         |
| Loss before tax   |          | (16.766.642.086)        | (7.492.678.821)         |
| <i>Adjustments for:</i>   |          |                         |                         |
| Depreciation and amortisation charges   | 10,11,12 | 3.751.385.894           | 5.008.743.636           |
| Gain on disposal of property and equipment  | 23       | (1.372.419)             | -                       |
| Allowance for credit losses on loans  | 9        | 30.744.180.931          | 26.972.943.186          |
| Allowance for credit losses on other financial assets   | 5,2,6,7  | 622.422.645             | -                       |
| Foreign exchange gain, net  |          | (1.400.174.004)         | (3.735.607.020)         |
| Interest income   | 22       | (54.968.988.369)        | (57.725.441.727)        |
| Interest expense  | 22       | 20.820.110.634          | 23.141.298.914          |
| <b>Cash flows used in operating profit before changes in operating assets and liabilities</b> |          | <b>(17.199.076.774)</b> | <b>(13.830.741.832)</b> |
| Increase in statutory deposits with BOL   |          | (1.823.960.914)         | (1.299.150.757)         |
| Decrease/(increase) in placement with central bank  |          | 63.390.267.691          | (16.650.000.000)        |
| Decrease in loans and advances to customers   |          | 29.705.391.750          | 15.294.828.034          |
| (Increase)/decrease in other assets   |          | (4.043.058.482)         | 4.114.276               |
| Increase/(decrease) in deposits from customers  |          | 7.660.808.776           | (610.711.118)           |
| Decrease in deposits from other banks   |          | (86.000.080.000)        | (32.000.080.000)        |
| (Decrease)/increase in deposits from parent company   |          | (62.464.867.691)        | 7.267.000.000           |
| Increase in other liabilities   |          | 1.448.169.372           | 805.782.736             |
| Interest received   |          | 56.678.788.881          | 55.302.413.145          |
| Interest paid   |          | (23.487.407.515)        | (21.384.786.323)        |
| Income tax paid   |          | (1.134.392.567)         | (4.131.771.254)         |
| <b>Net cash used in operating activities</b>  |          | <b>(37.269.417.472)</b> | <b>(11.233.103.093)</b> |
| <b>INVESTING ACTIVITIES</b>   |          |                         |                         |
| Purchases of property and equipment   |          | (1.224.321.961)         | (1.271.675.787)         |
| Proceed from disposal of property and equipment   |          | 1.372.419               | -                       |
| Purchases of intangible assets  |          | (250.107.000)           | (247.354.993)           |
| <b>Net cash used in investing activities</b>  |          | <b>(1.473.056.542)</b>  | <b>(1.519.030.780)</b>  |
| <b>FINANCING ACTIVITIES</b>   |          |                         |                         |
| Payment of lease liabilities  |          | (869.224.344)           | (1.469.483.520)         |
| Capital injection   |          | 79.400.025.000          | -                       |
| <b>Net cash used in financing activities</b>  |          | <b>78.530.800.656</b>   | <b>(1.469.483.520)</b>  |
| Net increase/(decrease) in cash and cash equivalents  |          | 39.788.326.642          | (14.221.617.393)        |
| Cash and cash equivalents, beginning  | 8        | 52.667.181.827          | 62.916.448.008          |
| Effect of foreign exchange difference   |          | 3.132.964.476           | 3.972.351.212           |
| <b>Cash and cash equivalents, ending</b>  | <b>8</b> | <b>95.588.472.945</b>   | <b>52.667.181.827</b>   |



Cheong Seang Heng  
Chief Executive Officer

29 March 2021

The accompanying notes on pages 8 to 47 form an integral part of these financial statements.  
Independent auditor's report – pages 2 to 3.

**Notes to the Financial Statements**  
**As at and for the year ended 31 December 2020**

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**1. GENERAL INFORMATION**

RHB Bank Lao Limited (the Bank) is a commercial bank incorporated and registered in Lao People's Democratic Republic (Lao P.D.R.).

The Bank is a limited company by 100% foreign investment under the laws of Lao P.D.R. The Bank operates its banking business under the Law on Commercial Bank No. 56/NA, dated 07 December 2018 and under the regulations of Bank of Lao P.D.R (BOL). The Bank had received its Banking License No.10/BOL and Enterprise Registration Certificate No.213/ERA dated 30 May 2014.

The principal activities of the Bank are to provide comprehensive banking and related financial services in Lao P.D.R.

The Bank is 100% fully owned by RHB Bank Berhad. In April 2020, RHB Bank Berhad additionally paid up a capital of LAK 79.400.025.000, therefore the registered capital of the Bank increased from LAK 301.500.000.000 to LAK 380.900.025.000 with 37.900.500 (2019: 30.000.000) shares at issue price of LAK 10.050 per share.

The registered office of the Bank is at Unit No.1, House No. 008, Kaisone Road, Phonsa Ard Village, Vientiane Capital, Lao P.D.R.

The Bank's Board of Directors has reviewed these financial statements and approved for their issuance on 29 March 2021.

According to BOL's number 35/Tor.Aor.Tor dated 21 January 2011 banks in Lao PDR are required to prepare a separate set of financial statements in accordance with International Financial Reporting Standards (IFRS). Apart from this set, the Bank has prepared the financial statements in accordance with the accounting policies of the Bank and the relevant accounting regulations and notifications of BOL.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**2.1 Basis of preparation**

The financial statements have been prepared in accordance with IFRS as issued by International Accounting Standards Board (IASB) and with International Financial Reporting Interpretations Committee (IFRIC). Additional information by national regulations is included where appropriate.

The financial statements comprise of the statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows, and the notes. The financial statements have been prepared under the historical cost convention.

(a) New standards and amendments that are effective for the first time for periods on or after 1 January 2020 are as follows:

- *Definition of Material Amendments to IAS 1 and IAS 8* - IASB has made amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* which use a consistent definition of materiality throughout International Financial Reporting Standards and the *Conceptual Framework for Financial Reporting*, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information.
- *Revised Conceptual Framework for Financial Reporting* - IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect.
- *Covid-19-Related Rent Concessions Amendments to IFRS 16* - As a result of the COVID-19 pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. This provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. The revisions are effective on 1 June 2020.

Notes to the Financial Statements  
As at and for the year ended 31 December 2020

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

- (b) Standards and interpretations that had been issued but were not mandatory for annual reporting periods ending 31 December 2020:

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Bank. The following are applicable new standards, amendments and interpretations to the Bank:

- *Classification of Liabilities as Current or Non-current Amendments to IAS 1* - The narrow-scope amendments to IAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g the receipt of a waiver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability. In May 2020, the IASB issued an Exposure Draft proposing to defer the effective date of the amendments to 1 January 2023.
- *Property, Plant and Equipment: Proceeds before intended use Amendments to IAS 16* - The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. This amendment will be effective on 1 January 2022.
- *Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37* - The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.
- *Annual Improvements to IFRS Standards 2018–2020* – includes improvements on IFRS 9 Financial Instruments and IFRS 16 Leases which were finalised in May 2020. IFRS 9 Financial Instruments clarifies which fees should be included in the 10% test for derecognition of financial liabilities. IFRS 16 leases amends the illustrative example 13 to remove the illustration of payments the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.

2.2 Measurement and presentation currency

- (a) *Functional and presentation currency*

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates (the functional currency). The Bank's financial statements are presented in Laotian KIP 'LAK' (the presentation currency), which is also the Bank's functional currency.

- (b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss.

**Notes to the Financial Statements  
As at and for the year ended 31 December 2020**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**2.3 Financial assets**

The Bank's significant financial assets include cash and balances with central bank, deposits with other banks and loans and advances.

At initial recognition, the Bank measures a financial asset at fair value plus transaction costs that are directly attributable to acquisition of the financial asset in the case of a financial asset not FVTPL. Transaction costs of financial assets carried at FVTPL are expensed in the income statement. Financial assets are recognised when the entity becomes a party to the contractual provisions of the instrument.

**Classification**

The Bank classify its financial assets measured at amortised cost.

The amortised cost is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at fair value through profit or loss ('FVTPL'), are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 4.1.1 Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

**Business model and SPPI requirement for debt instruments**

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective. Classification and subsequent measurement of debt instruments depend on the Bank's business model for managing the asset and the cash flow characteristics of the asset.

*Business model*

The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Bank in determining the business model for a 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, how risks are assessed and managed and how managers are compensated.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.3 Financial assets

#### Classification

##### *SPPI*

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a 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 fair value through profit or loss ('FVTPL').

#### Impairment

##### *Expected credit loss model ('ECL')*

The Bank assesses on a forward-looking basis the expected credit loss ('ECL') associated with its debt instruments carried at amortised cost. The Bank recognises a loss allowance for such losses at each 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.

Note 4.1.1 provides more detail of how the expected credit loss allowance is measured.

#### De-recognition

The financial assets are de-recognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests the control to ensure that continuing involvement on the basis of any retained powers of control does not prevent de-recognition).

### 2.4 Financial liabilities

The Bank's significant financial liabilities include amount due to parent company, deposits from customers, deposits from other banks and lease liabilities.

Financial liabilities are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost using effective interest rate. Financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument.

#### De-recognition

Financial liabilities are de-recognised when they have been redeemed or otherwise extinguished (i.e. when the obligation specified in the contract is discharged, cancelled, or expires).

### 2.5 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Bank's statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

**Notes to the Financial Statements**  
**As at and for the year ended 31 December 2020**

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**2.6 Recognition of income and expenses**

**2.6.1 Interest income and expenses**

Interest income and expense for all interest-bearing financial instruments are recognised within 'Interest income' and 'Interest expense' in the Bank's statement of comprehensive income using the effective interest rate method.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets except for financial assets that are not purchased or originated credit-impaired financial assets but have been subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e., net of the expected credit loss provision).

**2.6.2 Fee and commission income and expenses**

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

**2.7 Impairment of non-financial assets**

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

**2.8 Cash and cash equivalents**

For the purpose of presentation in the statement of cash flows, cash and cash equivalents comprise balances with one month or less maturity from the date of acquisition, which includes cash on hand, deposits held at call with other banks and other short-term highly liquid investments with original maturities of one month or less.

**2.9 Statutory deposits**

Under the requirement of the Law on Commercial Bank No. 56/NA, dated 07 December 2018, commercial banks are required to appropriate net profit to regulatory reserve fund, business expansion fund, and other funds.

In accordance with (Revised) Enterprise law No. 46/NA, dated 26 December 2013 Capital Adequacy, the regulatory reserve fund shall be provided annually at 10% from profit after tax. When this regulatory reserve fund accumulates half of registered capital, the company may suspend the deduction, unless otherwise provided by Law of Limited Company.

**2.10 Leases for lessee**

Leases are recognised as a right of use asset and a corresponding liability at the date which the leased asset is available for use by the Bank. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed payments (including in-substance fixed payments).

Lease payments to be made under reasonably certain extension options are also included in the measurement of liability.

**Notes to the Financial Statements  
As at and for the year ended 31 December 2020**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**2.10 Leases for lessee**

The lease payments are discounted using the interest rate implicit in the lease. If the rate cannot be really determined, which is generally the case for leases in the Bank, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right of use asset in a similar economic environment with similar terms, security, and conditions.

Right of use assets are measured at cost comprising the amount of the initial measurement of lease liability. Right of use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

**2.11 Property and equipment**

Property and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to statement of comprehensive income during the financial period in which they are incurred.

Depreciation is provided on the straight-line basis at prescribed rates over their estimated useful lives as shown below:

| <b>Category</b>           | <b>Depreciation rate</b> |
|---------------------------|--------------------------|
| Motor vehicles            | 20%                      |
| Office equipment          | 20%                      |
| Furniture and fixtures    | 20%                      |
| Building and improvements | 5%                       |
| Computer equipment        | 20%                      |

Leasehold improvements are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. There are no material adjustments arising from the review that would require disclosure in the financial statements.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Gains or losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Bank's statement of comprehensive income.

**2.12 Intangible assets**

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. The cost of an asset comprises its purchase price plus any directly attributable costs of bringing the asset into working condition for its intended use. Computer software licences are subsequently carried at cost less accumulated amortisation and impairment losses. These costs are amortised over the estimated useful lives of 5 to 10 years.

**2.13 Current and deferred income tax**

The income tax expense or credit for the period is the tax payable on the current's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.13 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of reporting period in the country where the Bank operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

### 2.14 Employee benefits

#### (a) Short term obligations

Liabilities for wages and salaries are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

#### (b) Post-employment benefits

Post-employment benefits are paid to retired employees of the Bank by the Social Security Fund Department which belongs to the Ministry of Labour and Social Welfare. The Bank is required to contribute to these post-employment benefits by paying social insurance premium to the Social Insurance Agency at the rate of 6.00% of employee's basic salary on a monthly basis.

#### (c) Termination benefits

In accordance with Article 90 of the Amended Labour Law issued by the President of Lao People's Democratic Republic on 18 January 2014 the Bank has the obligation to pay allowance for employees who are terminated by dismissal in the following cases:

- Compensation for the cancellation of employment contracts shall be 10% of the last salary multiplied by the total number of months worked;
- For unjustified termination of employment contracts in accordance with the Article 88 of the Amended Labour law, compensation will be 15% of the last salary multiplied by the total number of months worked; and
- Cancellation of employment contracts for reasons not specified in the Amended Labour Law, the Bank must implement compensation in accordance with the agreement between the Bank and the employee.

### 2.15 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.



**Notes to the Financial Statements**  
**As at and for the year ended 31 December 2020**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**2.15 Provisions**

Where there are a number of similar obligations, the likelihood of an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

**2.16 Reclassification**

The Bank has reclassified the presentation of its long-term fixed deposit with central bank together with the related accrued interest receivable to enhance understandability and presentation of the financial statements. Below is the impact to the statement of financial position:

| Item in the Statement of Financial Position (extract) | As previously reported | Reclassification | As newly reported |
|---|------------------------|------------------|-------------------|
| As at 31 December 2019                                |                        |                  |                   |
| Cash and balances with central bank                   | 497.024.321.105        | 443.150.000.000  | 53.874.321.105    |
| Placement with central bank                           | -                      | 455.102.908.842  | 455.102.908.842   |
| Other assets  | 14.550.227.199         | (11.952.908.842) | 2.597.318.357     |

The statement of cash flows, relevant financial risk management qualitative disclosures, and relevant notes have also been amended to reflect the reclassification above.

**3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT**

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal to the actual results. Management also needs to exercise judgement in applying the Bank's accounting policies.

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standards. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events. Accounting policies and management's judgements for certain items are especially critical for the Bank's results and financial situation due to their materiality.

*(a) Measurement of the expected credit loss allowance*

The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 4.1.2 which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the Bank in the above areas is set out in note 4.1.2.

**Notes to the Financial Statements**  
**As at and for the year ended 31 December 2020**

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**3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT**

*(b) Taxes*

Management exercises judgement in determining the provision for income taxes and whether deferred taxes should be recognised or temporary differences arising from credit loss allowances since the taxation system in the Lao PDR can be subject to interpretations by different relevant authorities. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Management has then concluded that deferred taxes on the credit loss allowances should not be recognised. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Management also exercises judgement with regards to deferred tax assets. Where the possibility exists that no future taxable income may flow against which these assets can be offset, the deferred tax assets are not recognised.

**4. FINANCIAL RISK MANAGEMENT POLICIES**

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

Risk management is carried out by the Compliance and Risk Management Department under policies approved by the Board of Directors and Board Risk Committee. The Compliance and Risk Management Department identifies, evaluates and minimises financial risks in close co-operation with the Bank's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The risks arising from financial instruments to which the Bank is exposed are financial risks, which include credit risk, liquidity risk, market risk (which are discussed below).

**4.1 Credit risk**

Credit risk is the potential loss of revenue and principal in the form of specific provisions as a result of defaults by the borrowers or counterparties through its lending and investing activities. The primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the statement of financial position. The lending activities are guided by the Bank's credit policy to ensure that the overall objectives in the area of lending are achieved i.e., that the loans portfolio is strong and healthy and credit risks are well diversified. The credit policy documents are the credit control and recovery manual, credit operations manual, and credit policy manual.

Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk.

4. FINANCIAL RISK MANAGEMENT POLICIES

4.1 Credit risk

4.1.1 Credit risk measurement

(a) *Loans and advances to customers*

The estimation of credit risk exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9.

Credit risk grading

The Bank uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The Bank uses internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of application is fed into this rating model. In addition, the models enable expert judgement from the Credit Risk Officer to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade.

4.1.2 Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward- looking information.
- Purchases or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

4. FINANCIAL RISK MANAGEMENT POLICIES

4.1 Credit risk

4.1.2 Expected credit loss measurement

4.1.2.1 Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per 'Definition of default and credit-impaired' above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).
- Loss given default (LGD) represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD, and EAD for each future month and for each individual collective segment. These three components are multiplied together and adjusted for the likelihood of survival. This effectively calculated an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective rates or an approximation thereof.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type. The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type.

4.1.2.2 Sensitivity analysis

The Bank has performed ECL sensitivity assessment on loans and advances to customers based on the changes of the following key variables based on the following scenarios:

- Unemployment +0.01%
- Unemployment - 0.01%
- Export +5%
- Export - 5%
- Inflation + 0.6%
- Inflation - 0.6%

The Bank's assessment shows based on the scenarios above will not materially impact the ECL.

**Notes to the Financial Statements**  
**As at and for the year ended 31 December 2020**

**4. FINANCIAL RISK MANAGEMENT POLICIES**

**4.1 Credit risk**

**4.1.3 Risk limit control and mitigation policies**

The Bank manages, limits and controls concentrations of credit risk wherever they are identified, in particular, to related parties, to individual counterparties and groups, and to industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry, sector and country are approved annually by the Board of Directors.

Some other specific control and mitigation measures are outlined below:

(a) *Collateral*

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for loans and advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. All loans and advances to customers are secured by collateral. Generally, the Bank shall accept all types of security and collateral which can be liquidated and enforced easily in the event of loan default.

The principal collateral types for loans and advances are mortgages over residential properties primarily land and building, and fixed deposits.

The carrying amount of collateral as at 31 December 2020 for loans and advances to customers is LAK 1.500.061.758.468 (2019: LAK 1.626.474.921.000)

(b) *Lending limits*

The Bank maintains strict control limits on loans to be disbursed to its customers by both amount and term depending on the type of loan. Lending limits are in accordance with the Regulation on limit of loan lending for Commercial Bank 330/BOL dated 2 July 2010.

**4.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements**

Credit risk exposures relating to on-balance sheet assets are as follows:

|   | <u>2020</u><br><u>LAK</u>     | <u>2019</u><br><u>LAK</u>     |
|---|-------------------------------|-------------------------------|
| Cash and short-term funds with central bank | 85.564.076.036                | 49.819.666.414                |
| Placement with central bank                 | 389.423.538.636               | 455.102.908.842               |
| Deposits with other banks                   | 10.112.757.776                | 2.852.515.413                 |
| Loans and advances to customers             | 355.780.164.957               | 416.781.840.602               |
|   | <u><b>840.880.537.405</b></u> | <u><b>924.556.931.271</b></u> |

The above table represents a worse-case scenario of credit risk exposure to the Bank at 31 December 2020 and 2019 without taking account of any collateral held or other credit enhancements attached.

Cash and short-term funds with central bank comprise of cash on hand and deposits with the BOL other than compulsory reserve deposits.

**Notes to the Financial Statements**  
**As at and for the year ended 31 December 2020**

**4. FINANCIAL RISK MANAGEMENT POLICIES**

**4.1 Credit risk**

**4.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements**

For on financial positions assets, the exposures set out in the table are based on net carrying amounts as reported in the statement of financial position. As shown above, 42% of the total maximum exposure is derived from loans and advances to customers (2019: 45%) and 46% from placement with central bank (2019: 49%). Management is confident in its ability to continue to control and sustain minimal exposure credit risk to the Bank resulting from both its loan and advances as 100% of the loans and advances are backed up by collateral. The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Bank's maximum exposure to credit risk on these assets.

|   | Loans and advances to customer   |                                |                                |                        |
|---|----------------------------------|--------------------------------|--------------------------------|------------------------|
|   | Stage 1<br>12-month ECL<br>LAK   | Stage 2<br>Lifetime ECL<br>LAK | Stage 3<br>Lifetime ECL<br>LAK | Total<br>LAK           |
| At 31 December 2020                                       |                                  |                                |                                |                        |
| Gross carrying amount                                     | 302.732.790.070                  | 37.715.679.379                 | 31.493.485.900                 | 371.941.955.349        |
| Allowance for credit losses                               | (6.555.971.118)                  | (3.173.859.446)                | (6.431.959.828)                | (16.161.790.392)       |
| <b>Carrying amount at 31<br/>December 2020 (Note 9)</b>   | <b>296.176.818.952</b>           | <b>34.541.819.933</b>          | <b>25.061.526.072</b>          | <b>355.780.164.957</b> |
| At 31 December 2019                                       |                                  |                                |                                |                        |
| Gross carrying amount                                     | 358.868.624.632                  | 33.447.074.237                 | 37.302.719.504                 | 429.618.418.373        |
| Allowance for credit losses                               | (3.491.004.529)                  | (1.173.896.604)                | (8.171.676.638)                | (12.836.577.771)       |
| <b>Carrying amount at 31<br/>December 2019 (Note 9)</b>   | <b>355.377.620.103</b>           | <b>32.273.177.633</b>          | <b>29.131.042.866</b>          | <b>416.781.840.602</b> |
|   | Demand deposit with central bank |                                |                                |                        |
|   | Stage 1<br>12-month ECL<br>LAK   | Stage 2<br>Lifetime ECL<br>LAK | Stage 3<br>Lifetime ECL<br>LAK | Total<br>LAK           |
| At 31 December 2020                                       |                                  |                                |                                |                        |
| Gross carrying amount                                     | 68.598.969.381                   | -                              | -                              | 68.598.969.381         |
| Allowance for credit losses                               | (35.912.585)                     | -                              | -                              | (35.912.585)           |
| <b>Carrying amount at 31<br/>December 2020 (Note 5.2)</b> | <b>68.563.056.796</b>            | <b>-</b>                       | <b>-</b>                       | <b>68.563.056.796</b>  |
|   | Placement with central bank      |                                |                                |                        |
|   | Stage 1<br>12-month ECL<br>LAK   | Stage 2<br>Lifetime ECL<br>LAK | Stage 3<br>Lifetime ECL<br>LAK | Total<br>LAK           |
| At 31 December 2020                                       |                                  |                                |                                |                        |
| Gross carrying amount                                     | 390.002.840.639                  | -                              | -                              | 390.002.840.639        |
| Allowance for credit losses                               | (579.302.003)                    | -                              | -                              | (579.302.003)          |
| <b>Carrying amount at 31<br/>December 2020 (Note 6)</b>   | <b>389.423.538.636</b>           | <b>-</b>                       | <b>-</b>                       | <b>389.423.538.636</b> |
|   | Deposits with other banks        |                                |                                |                        |
|   | Stage 1<br>12-month ECL<br>LAK   | Stage 2<br>Lifetime ECL<br>LAK | Stage 3<br>Lifetime ECL<br>LAK | Total<br>LAK           |
| At 31 December 2020                                       |                                  |                                |                                |                        |
| Gross carrying amount                                     | 10.119.965.833                   | -                              | -                              | 10.119.965.833         |
| Allowance for credit losses                               | (7.208.057)                      | -                              | -                              | (7.208.057)            |
| <b>Carrying amount at 31<br/>December 2020 (Note 7)</b>   | <b>10.112.757.776</b>            | <b>-</b>                       | <b>-</b>                       | <b>10.112.757.776</b>  |

Notes to the Financial Statements  
As at and for the year ended 31 December 2020

## 4. FINANCIAL RISK MANAGEMENT POLICIES

## 4.1 Credit risk

## 4.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

## 4.1.4.1 Loss allowance

The loss allowance recognised in the year is impacted by a variety of factors.

|   | Loans and advances to customers  |                                |                                | Total<br>LAK          |
|---|----------------------------------|--------------------------------|--------------------------------|-----------------------|
|   | Stage 1<br>12-month ECL<br>LAK   | Stage 2<br>Lifetime ECL<br>LAK | Stage 3<br>Lifetime ECL<br>LAK |                       |
| At 1 January 2020   | 3.491.004.529                    | 1.173.896.604                  | 8.171.676.638                  | 12.836.577.771        |
| Net allowance made during<br>the financial year                   | 2.922.868.712                    | 1.907.240.633                  | 25.914.071.586                 | 30.744.180.931        |
| Bad debts written off   | -                                | -                              | (27.971.071.273)               | (27.971.071.273)      |
| Foreign exchange  | 142.097.877                      | 92.722.209                     | 317.282.877                    | 552.102.963           |
| <b>At 31 December 2020<br/>(Note 9)</b>                           | <b>6.555.971.118</b>             | <b>3.173.859.446</b>           | <b>6.431.959.828</b>           | <b>16.161.790.392</b> |
| At 1 January 2019   | 3.557.316.837                    | 920.355.245                    | 18.836.865.507                 | 23.314.537.589        |
| Net allowance made/(written<br>back) during the financial<br>year | (13.693.694)                     | 662.485.532                    | 26.324.151.348                 | 26.972.943.186        |
| Bad debts written off   | -                                | -                              | (38.388.100.034)               | (38.388.100.034)      |
| Foreign exchange  | (52.618.614)                     | (408.944.173)                  | 1.398.759.817                  | 937.197.030           |
| <b>At 31 December 2019<br/>(Note 9)</b>                           | <b>3.491.004.529</b>             | <b>1.173.896.604</b>           | <b>8.171.676.638</b>           | <b>12.836.577.771</b> |
|   | Demand deposit with central bank |                                |                                | Total<br>LAK          |
|   | Stage 1<br>12-month ECL<br>LAK   | Stage 2<br>Lifetime ECL<br>LAK | Stage 3<br>Lifetime ECL<br>LAK |                       |
| At 1 January 2020   | -                                | -                              | -                              | -                     |
| Net allowance made during<br>the financial year                   | 35.912.585                       | -                              | -                              | 35.912.585            |
| Foreign exchange  | -                                | -                              | -                              | -                     |
| <b>At 31 December 2020<br/>(Note 5.2)</b>                         | <b>35.912.585</b>                | <b>-</b>                       | <b>-</b>                       | <b>35.912.585</b>     |
|   | Placement with central bank      |                                |                                | Total<br>LAK          |
|   | Stage 1<br>12-month ECL<br>LAK   | Stage 2<br>Lifetime ECL<br>LAK | Stage 3<br>Lifetime ECL<br>LAK |                       |
| At 1 January 2020   | -                                | -                              | -                              | -                     |
| Net allowance made during<br>the financial year                   | 579.302.003                      | -                              | -                              | 579.302.003           |
| Foreign exchange  | -                                | -                              | -                              | -                     |
| <b>At 31 December 2020<br/>(Note 6)</b>                           | <b>579.302.003</b>               | <b>-</b>                       | <b>-</b>                       | <b>579.302.003</b>    |

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## 4. FINANCIAL RISK MANAGEMENT POLICIES

## 4.1 Credit risk

## 4.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

## 4.1.4.1 Loss allowance

|   | Deposit with other banks       |                                |                                | Total<br>LAK     |
|---|--------------------------------|--------------------------------|--------------------------------|------------------|
|   | Stage 1<br>12-month ECL<br>LAK | Stage 2<br>Lifetime ECL<br>LAK | Stage 3<br>Lifetime ECL<br>LAK |                  |
| At 1 January 2020                               | -                              | -                              | -                              | -                |
| Net allowance made during<br>the financial year | 7.208.057                      | -                              | -                              | 7.208.057        |
| Foreign exchange                                | -                              | -                              | -                              | -                |
| <b>At 31 December 2020<br/>(Note 7)</b>         | <b>7.208.057</b>               | <b>-</b>                       | <b>-</b>                       | <b>7.208.057</b> |

There are no loss allowances recognised for demand deposit with central bank, placement with central bank and deposit with other banks during 2019.

## 4.1.4.2 Concentration of risks of financial assets with credit risk exposure

## (a) Geographical sectors

The following table breaks down the Bank's credit exposure at their carrying amounts (without taking into account any collateral held or other credit support), as categorised by geographical region as at 31 December 2020 and 2019. For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties.

|   | Thailand             | Vietnam              | Malaysia           | Lao PDR                | Total                  |
|---|----------------------|----------------------|--------------------|------------------------|------------------------|
| Cash and short-term<br>funds with central<br>bank | -                    | -                    | -                  | 85.564.076.036         | 85.564.076.036         |
| Placement with<br>central bank                    | -                    | -                    | -                  | 389.423.538.636        | 389.423.538.636        |
| Deposits with other<br>banks                      | 4.076.429.219        | 3.193.601.781        | -                  | 2.842.726.776          | 10.112.757.776         |
| Loans and<br>advances to<br>customers             | -                    | -                    | -                  | 355.780.164.957        | 355.780.164.957        |
| <b>31 December 2020</b>                           | <b>4.076.429.219</b> | <b>3.193.601.781</b> | <b>-</b>           | <b>833.610.506.405</b> | <b>840.880.537.405</b> |
| Cash and short-term<br>funds with central<br>bank | -                    | -                    | -                  | 49.819.666.414         | 49.819.666.414         |
| Placement with<br>central bank                    | -                    | -                    | -                  | 455.102.908.842        | 455.102.908.842        |
| Deposits with other<br>banks                      | 670.052.101          | -                    | 472.031.061        | 1.710.432.251          | 2.852.515.413          |
| Loans and<br>advances to<br>customers             | -                    | -                    | -                  | 416.781.840.602        | 416.781.840.602        |
| <b>31 December 2019</b>                           | <b>670.052.101</b>   | <b>-</b>             | <b>472.031.061</b> | <b>923.414.848.109</b> | <b>924.556.931.271</b> |

Cash and short-term funds with central bank comprise of cash on hand and deposits with the BOL other than compulsory reserve deposits.



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Notes to the Financial Statements  
As at and for the year ended 31 December 2020

4. FINANCIAL RISK MANAGEMENT POLICIES

4.1 Credit risk

4.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

4.1.4.2 Concentration of risks of financial assets with credit risk exposure

(b) *Industry sectors*

The following table breaks down the Bank's credit exposure at their carrying amounts (without taking into account any collateral held or other credit support), as categorised by industry sectors as at 31 December 2020 and 2019. Credit risks relating to on-balance sheet items are as follows:

|                         | Cash and short-term funds with central bank | Placement with central bank | Deposits with other banks | Loans and advances to customers | Total                  |
|-------------------------|---|-----------------------------|---------------------------|---------------------------------|------------------------|
| Financial               | 85,564,076,036                              | 389,423,538,636             | 10,112,757,776            | -                               | 485,100,372,448        |
| Manufacturing           | -   | -                           | -                         | 24,219,325,513                  | 24,219,325,513         |
| Construction            | -   | -                           | -                         | 25,820,884,618                  | 25,820,884,618         |
| Commercial              | -   | -                           | -                         | 98,640,980,811                  | 98,640,980,811         |
| Transportation          | -   | -                           | -                         | 13,787,058,588                  | 13,787,058,588         |
| Service                 | -   | -                           | -                         | 138,283,812,783                 | 138,283,812,783        |
| Others                  | -   | -                           | -                         | 55,028,102,644                  | 55,028,102,644         |
| <b>31 December 2020</b> | <b>85,564,076,036</b>                       | <b>389,423,538,636</b>      | <b>10,112,757,776</b>     | <b>355,780,164,957</b>          | <b>840,880,537,405</b> |
| Financial               | 49,819,666,414                              | 455,102,908,842             | 2,852,515,413             | -                               | 507,775,090,669        |
| Manufacturing           | -   | -                           | -                         | 22,876,857,014                  | 22,876,857,014         |
| Construction            | -   | -                           | -                         | 22,298,355,619                  | 22,298,355,619         |
| Commercial              | -   | -                           | -                         | 53,059,539,076                  | 53,059,539,076         |
| Transportation          | -   | -                           | -                         | 24,940,321,678                  | 24,940,321,678         |
| Service                 | -   | -                           | -                         | 264,344,747,178                 | 264,344,747,178        |
| Others                  | -   | -                           | -                         | 29,262,020,037                  | 29,262,020,037         |
| <b>31 December 2019</b> | <b>49,819,666,414</b>                       | <b>455,102,908,842</b>      | <b>2,852,515,413</b>      | <b>416,781,840,602</b>          | <b>924,556,931,271</b> |

Cash and short-term funds with central bank comprise of cash on hand and deposits with the BOL other than compulsory reserve deposits.

**4. FINANCIAL RISK MANAGEMENT POLICIES**

**4.1 Credit risk**

**4.1.5 Write-off policy**

The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery.

**4.2 Market risk**

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates and foreign exchange rates.

**4.2.1 Foreign currency exchange risk**

Foreign currency exchange risk refers to the risk of adverse exchange rate movements on foreign currency exchange positions taken from time to time. The Bank maintains a policy of not exposing itself to large foreign exchange positions. Net opening position is being monitored on a daily basis to check how much of foreign currency position there is to reduce risk and comply with the Bank's and BOL's regulations. Any foreign currency exchange open positions are monitored against the operating requirements, predetermined position limits and stop-loss limits. Included in the table below are the Bank's financial instruments at carrying amounts, categorised by LAK, United States Dollar (USD), Thailand Baht (THB) and Malaysian Ringgit (MYR) as at 31 December 2020 and 2019.

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4. FINANCIAL RISK MANAGEMENT POLICIES

4.2 Market risk

4.2.1 Foreign currency exchange risk

|  | As at 31 December 2020 |                        |                       |  | Total                  |
|--|------------------------|------------------------|-----------------------|--|------------------------|
|  | LAK                    | USD                    | THB                   |  |                        |
| <b>Assets</b>                                  |                        |                        |                       |  |                        |
| Cash and short-term funds with central bank    | 59,561,457,077         | 17,589,881,386         | 14,207,992,311        |  | 91,359,330,774         |
| Placement with central bank                    | -                      | 389,423,538,636        | -                     |  | 389,423,538,636        |
| Deposits with other banks                      | 2,180,668,057          | 3,483,648,649          | 4,448,441,070         |  | 10,112,757,776         |
| Loans and advances to customers                | 302,545,750,740        | 44,729,480,975         | 8,504,933,242         |  | 355,780,164,957        |
| <b>Total financial assets</b>                  | <b>364,287,875,874</b> | <b>455,226,549,646</b> | <b>27,161,366,623</b> |  | <b>846,675,792,143</b> |
| <b>Liabilities</b>                             |                        |                        |                       |  |                        |
| Deposits from customers                        | 12,774,146,600         | 29,752,025,319         | 4,992,356,756         |  | 47,518,528,675         |
| Deposits from other banks                      | 31,243,145,463         | -                      | -                     |  | 31,243,145,463         |
| Amount due to parent company                   | -                      | 415,613,060,489        | -                     |  | 415,613,060,489        |
| <b>Total financial liabilities</b>             | <b>44,017,292,063</b>  | <b>445,365,085,808</b> | <b>4,992,356,756</b>  |  | <b>494,374,734,627</b> |
| <b>Net on-balance sheet financial position</b> | <b>320,270,583,811</b> | <b>9,861,463,838</b>   | <b>22,169,009,867</b> |  | <b>352,301,057,516</b> |

**RHB Bank Lao Limited**

**Notes to the Financial Statements  
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**4. FINANCIAL RISK MANAGEMENT POLICIES**

**4.2 Market risk**

**4.2.1 Foreign currency exchange risk**

|  | As at 31 December 2019 |                        |                       |                        |  |
|--|------------------------|------------------------|-----------------------|------------------------|--|
|  | LAK                    | USD                    | THB                   | Total                  |  |
| <b>Assets</b>                                  |                        |                        |                       |                        |  |
| Cash and short-term funds with central bank    | 25.423.093.288         | 13.342.089.879         | 15.109.137.938        | 53.874.321.105         |  |
| Placement with central bank                    | -                      | 455.102.908.842        | -                     | 455.102.908.842        |  |
| Deposits with other banks                      | 944.284.227            | 1.009.592.395          | 898.638.791           | 2.852.515.413          |  |
| Loans and advances to customers                | 359.035.771.194        | 48.243.421.364         | 9.502.648.044         | 416.781.840.602        |  |
| <b>Total financial assets</b>                  | <b>385.403.148.709</b> | <b>517.698.012.480</b> | <b>25.510.424.773</b> | <b>928.611.585.962</b> |  |
| <b>Liabilities</b>                             |                        |                        |                       |                        |  |
| Deposits from customers                        | 11.951.108.010         | 24.304.672.626         | 3.330.776.487         | 39.586.557.123         |  |
| Deposits from other banks                      | 119.015.958.295        | -                      | -                     | 119.015.958.295        |  |
| Amount due to parent company                   | -                      | 478.062.967.496        | -                     | 478.062.967.496        |  |
| Other liabilities                              | 28.179.607             | -                      | -                     | 28.179.607             |  |
| <b>Total financial liabilities</b>             | <b>130.995.245.912</b> | <b>502.367.640.122</b> | <b>3.330.776.487</b>  | <b>636.693.662.521</b> |  |
| <b>Net on-balance sheet financial position</b> | <b>254.407.902.797</b> | <b>15.330.372.358</b>  | <b>22.179.648.286</b> | <b>291.917.923.441</b> |  |

**RHB Bank Lao Limited**

**Notes to the Financial Statements  
As at and for the year ended 31 December 2020**

**4. FINANCIAL RISK MANAGEMENT POLICIES**

**4.2 Market risk**

**4.2.2 Interest rate risk**

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The potential reduction in net interest income from an unfavourable interest rate movement is monitored against the risk tolerance limits set. The Bank regularly monitors its interest rate risk to ensure that there are no undue exposures to significant interest rate movement. The table below summarizes the Bank's non-trading book fair value exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts (non-derivatives), categorised by the earlier of contractual re-pricing.

**As at 31 December 2020**

|   | <b>Up to 1 month</b>    | <b>&gt; 1 to 3 months</b> | <b>&gt; 3 to 12 months</b> | <b>&gt; 1 to 5 years</b> | <b>Over 5 years</b>    | <b>Non-interest bearing</b> | <b>Total</b>           |
|---|-------------------------|---------------------------|----------------------------|--------------------------|------------------------|-----------------------------|------------------------|
| <b>Assets</b>                               |                         |                           |                            |                          |                        |                             |                        |
| Cash and short-term funds with central bank | -                       | -                         | -                          | -                        | -                      | 91,359,330,774              | 91,359,330,774         |
| Placement with central bank                 | -                       | -                         | -                          | 389,423,538,636          | -                      | -                           | 389,423,538,636        |
| Deposits with other banks                   | -                       | -                         | -                          | -                        | -                      | 10,112,757,776              | 10,112,757,776         |
| Loans and advances to customers             | -                       | -                         | 10,608,018,706             | 65,155,959,615           | 280,016,186,636        | -                           | 355,780,164,957        |
| <b>Total financial assets</b>               | <b>-</b>                | <b>-</b>                  | <b>10,608,018,706</b>      | <b>454,579,498,251</b>   | <b>280,016,186,636</b> | <b>101,472,088,550</b>      | <b>846,675,792,143</b> |
| <b>Liabilities</b>                          |                         |                           |                            |                          |                        |                             |                        |
| Deposits from customers                     | 11,609,560,896          | 10,658,079,795            | 11,104,015,511             | 8,395,879,267            | -                      | 5,750,993,206               | 47,518,528,675         |
| Deposits from other banks                   | -                       | -                         | 31,242,486,338             | -                        | -                      | 659,125                     | 31,243,145,463         |
| Amount due to parent company                | 7,909,383,898           | -                         | -                          | 379,759,732,309          | -                      | 27,943,944,282              | 415,613,060,489        |
| Lease liabilities                           | 30,174,147              | 60,631,471                | 818,636,556                | 6,505,580,537            | 2,240,704,404          | -                           | 9,655,727,115          |
| <b>Total financial liabilities</b>          | <b>19,549,118,941</b>   | <b>10,718,711,266</b>     | <b>43,165,138,405</b>      | <b>394,661,192,113</b>   | <b>2,240,704,404</b>   | <b>33,695,596,613</b>       | <b>504,030,461,742</b> |
| <b>Total interest re-pricing gap</b>        | <b>(19,549,118,941)</b> | <b>(10,718,711,266)</b>   | <b>(32,557,119,699)</b>    | <b>59,918,306,138</b>    | <b>277,775,482,232</b> | <b>67,776,491,937</b>       | <b>342,645,330,401</b> |

Notes to the Financial Statements  
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4. FINANCIAL RISK MANAGEMENT POLICIES

4.2 Market risk

4.2.2 Interest rate risk

|   | As at 31 December 2019  |                        |                         |                        |                        |                       | Total                  |
|---|-------------------------|------------------------|-------------------------|------------------------|------------------------|-----------------------|------------------------|
|   | Up to 1 month           | > 1 to 3 months        | > 3 to 12 months        | > 1 to 5 years         | Over 5 years           | Non-interest bearing  |                        |
| <b>Assets</b>                               |                         |                        |                         |                        |                        |                       |                        |
| Cash and short-term funds with central bank | -                       | -                      | -                       | -                      | -                      | 53.874.321.105        | 53.874.321.105         |
| Placement with central bank                 | -                       | -                      | -                       | 455.102.908.842        | -                      | -                     | 455.102.908.842        |
| Deposits with other banks                   | -                       | -                      | -                       | -                      | -                      | 2.852.515.413         | 2.852.515.413          |
| Loans and advances to customers             | -                       | -                      | 61.551.629.277          | 89.824.870.994         | 265.405.340.331        | -                     | 416.781.840.602        |
| <b>Total financial assets</b>               | -                       | -                      | <b>61.551.629.277</b>   | <b>544.927.779.836</b> | <b>265.405.340.331</b> | <b>56.726.836.518</b> | <b>928.611.585.962</b> |
| <b>Liabilities</b>                          |                         |                        |                         |                        |                        |                       |                        |
| Deposits from customers                     | 10.622.007.742          | 7.611.511.593          | 7.607.516.868           | 6.470.190.945          | -                      | 7.275.329.975         | 39.586.557.123         |
| Deposits from other banks                   | -                       | -                      | 119.015.219.170         | -                      | -                      | 739.125               | 119.015.958.295        |
| Amount due to parent company                | 8.149.710.724           | -                      | -                       | 443.150.000.000        | -                      | 26.763.256.772        | 478.062.967.496        |
| Current income tax liability                | -                       | -                      | -                       | -                      | -                      | 1.134.392.567         | 1.134.392.567          |
| Other liabilities                           | -                       | -                      | -                       | -                      | -                      | 28.179.607            | 28.179.607             |
| Lease liabilities                           | 165.685.945             | 254.823                | 643.692.962             | 7.163.152.880          | 2.492.574.235          | -                     | 10.465.360.845         |
| <b>Total financial liabilities</b>          | <b>18.937.404.411</b>   | <b>7.611.766.416</b>   | <b>127.266.429.000</b>  | <b>456.783.343.825</b> | <b>2.492.574.235</b>   | <b>35.201.898.046</b> | <b>648.293.415.933</b> |
| <b>Total interest re-pricing gap</b>        | <b>(18.937.404.411)</b> | <b>(7.611.766.416)</b> | <b>(65.714.799.723)</b> | <b>88.144.436.011</b>  | <b>262.912.766.096</b> | <b>21.524.938.472</b> | <b>280.318.170.029</b> |

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**As at and for the year ended 31 December 2020**

**4. FINANCIAL RISK MANAGEMENT POLICIES**

**4.2 Market risk**

**4.2.3 Sensitivity analysis**

(a) *Interest rate risk*

Sensitivity of loss before tax and equity to changes in interest rates by the following from the 31 December 2020 and 2019 rates agreed on the loan agreements and deposits with customers with all other variables held constant are:

i. Gains/(losses) – net increase/decrease in interest rates for loans and advances to customers

|              | 2020<br>LAK      | 2019<br>LAK      |
|--------------|------------------|------------------|
| Increase 10% | 10.285.293.278   | 11.171.499.575   |
| Decrease 10% | (10.285.293.278) | (11.171.499.575) |

ii. Gains/(losses) – net increase/decrease in interest rates for deposits

|              | 2020<br>LAK      | 2019<br>LAK      |
|--------------|------------------|------------------|
| Increase 10% | 20.648.327.543   | 21.375.787.667   |
| Decrease 10% | (20.648.327.543) | (21.375.787.667) |

(b) *Foreign exchange risk*

Sensitivity of profit before tax and equity to changes in foreign exchange rates by the following from the 31 December 2020 and 2019 rates in LAK, which is the functional currency, primarily against USD and THB by increase and decrease of 10% with all other variables held constant are:

|              | 2020<br>LAK     | 2019<br>LAK     |
|--------------|-----------------|-----------------|
| Increase 10% | 2.998.816.023   | 2.683.585.117   |
| Decrease 10% | (2.998.816.023) | (2.683.585.117) |

**4.3 Liquidity risk**

Liquidity risk is the risk that the Bank is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities or margin calls for derivatives.

Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the statement of financial position and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Bank will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

**4. FINANCIAL RISK MANAGEMENT POLICIES**

**4.3 Liquidity risk**

**4.3.1 Liquidity risk management process**

The Bank's liquidity management process, as carried out within the Bank and monitored by the Operations Department includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring of the liquidity ratios of the statement of financial position against internal and regulatory requirements of BOL; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week, and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

**4.3.2 Assets held for managing liquidity risk**

The Bank holds a diversified portfolio of cash to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise:

- Cash and short-term fund with central bank;
- Placement with central bank; and
- Deposits with other banks



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## 4. FINANCIAL RISK MANAGEMENT POLICIES

## 4.3 Liquidity risk

## 4.3.3 Non-derivative financial liabilities held for managing liquidity risk

The table below represents the cash flows payable by the financial liabilities held for managing liquidity risk by remaining contractual maturities at the date of the statement of financial position. The amounts disclosed in the table are the contractual undiscounted cash flows whereas the Bank manages the liquidity risk based on a different basis, not resulting in a significantly different analysis.

|                               | Up to 1 month<br>and repayable<br>on demand | 1 to 3 months         | 3 to 12 months        | 1 to 5 years           | Over 5 years         | Total                  |
|-------------------------------|---|-----------------------|-----------------------|------------------------|----------------------|------------------------|
| <b>Liabilities</b>            |   |                       |                       |                        |                      |                        |
| Deposits from customers       | 24,816,295,819                              | 6,003,144,321         | 15,439,795,733        | 3,132,549,493          | -                    | 49,391,785,366         |
| Deposits from other banks     | 5,250,659,125                               | 26,250,000,000        | -                     | -                      | -                    | 31,500,659,125         |
| Amount due to parent company  | 28,869,699,230                              | -                     | -                     | 422,521,718,604        | -                    | 451,391,417,834        |
| Other liabilities             | 46,527,426                                  | 2,207,079,149         | 1,373,043,458         | -                      | -                    | 3,626,650,033          |
| Lease liabilities             | 30,174,147                                  | 60,631,471            | 818,636,556           | 6,505,580,537          | 2,240,704,404        | 9,655,727,115          |
| <b>As at 31 December 2020</b> | <b>59,013,355,747</b>                       | <b>34,520,854,941</b> | <b>17,631,475,747</b> | <b>432,159,848,634</b> | <b>2,240,704,404</b> | <b>545,566,239,473</b> |
| <b>Liabilities</b>            |   |                       |                       |                        |                      |                        |
| Deposits from customers       | 9,137,189,579                               | -                     | 21,908,683,918        | 8,866,023,872          | -                    | 39,911,897,369         |
| Deposits from other banks     | 739,125                                     | -                     | -                     | 121,683,410,837        | -                    | 121,684,149,962        |
| Amount due to parent company  | 26,764,953,413                              | -                     | -                     | 458,109,104,559        | -                    | 484,874,057,972        |
| Other liabilities             | 74,023,663                                  | 1,823,348,070         | 281,108,928           | -                      | -                    | 2,178,480,661          |
| Lease liabilities             | 165,685,945                                 | 254,823               | 643,692,962           | 7,163,152,880          | 2,492,574,235        | 10,465,360,845         |
| <b>As at 31 December 2019</b> | <b>36,142,591,725</b>                       | <b>1,823,602,893</b>  | <b>22,833,485,808</b> | <b>595,821,692,148</b> | <b>2,492,574,235</b> | <b>659,113,946,809</b> |

**Notes to the Financial Statements**  
**As at and for the year ended 31 December 2020**

**4. FINANCIAL RISK MANAGEMENT POLICIES**

**4.3 Liquidity risk**

**4.3.4 Off-balance sheet items**

(a) *Credit facilities*

|                      | 2020<br>LAK           | 2019<br>LAK           |
|----------------------|-----------------------|-----------------------|
| Unutilised overdraft | 8.475.434.281         | 15.969.497.226        |
| Undisbursed loans    | 11.990.000.000        | 10.043.000.000        |
|                      | <u>20.465.434.281</u> | <u>26.012.497.226</u> |

Unutilised overdraft pertains to amount not yet withdrawn by the customers.

**4.3.5 Fair value of financial assets and liabilities**

*Fair value hierarchy:*

Fair value measurements are analysed by level in the fair value hierarchy as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 inputs are unobservable inputs for the asset or liability.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible. The management applies judgement in categorising financial instruments using fair value hierarchy. Fair value disclosed is in level two valuation techniques.

The table below summarises the carrying amounts and fair values of those financial assets not presented on the Bank's statement of financial position at their fair value.

|                                 | Carrying value<br>LAK  | Fair value<br>LAK      |
|---------------------------------|------------------------|------------------------|
| <b>Financial assets</b>         |                        |                        |
| Loans and advances to customers | 355.780.164.957        | 387.959.884.498        |
| <b>As at 31 December 2020</b>   | <u>355.780.164.957</u> | <u>387.959.884.498</u> |
|                                 | Carrying value<br>LAK  | Fair value<br>LAK      |
| <b>Financial assets</b>         |                        |                        |
| Loans and advances to customers | 416.781.840.602        | 487.250.213.039        |
| <b>As at 31 December 2019</b>   | <u>416.781.840.602</u> | <u>487.250.213.039</u> |

**Notes to the Financial Statements  
As at and for the year ended 31 December 2020**

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**4. FINANCIAL RISK MANAGEMENT POLICIES**

**4.3 Liquidity risk**

**4.3.5 Fair value of financial assets and liabilities**

The following methods and assumptions are used in estimating fair value of financial assets and liabilities:

(i) Loans and advances to customers

The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(ii) Deposits from customers and from other banks

The fair values of deposits from customers and deposits from other banks with maturities of less than one year approximate their carrying values due to the relatively short maturity of these instruments. The fair values of deposits from customers and deposits from other banks with remaining maturities of more than one year are expected to approximate their carrying values due to the bank offered similar interest rate for similar maturities and terms.

The estimated fair value of deposits with no stated maturities, which includes non-interest-bearing deposits, deposits payable on demand is the amount payable at the reporting date.

(iii) Amount due to parent company

The fair values of amount due to parent company with maturities of less than one year approximate their carrying values due to the relatively short maturity of these instruments. The fair values of amounts due to parent company with remaining maturities of more than one year are expected to approximate their carrying values due to the similar interest rate for similar maturities and terms.

Carrying value of other financial assets and liabilities approximate its fair value.

**4.4 Capital management**

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Bank operate;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for Head Office and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The Bank maintains minimum regulatory capital in accordance with Regulation No 01/BOL dated 28 August 2001 by the Governor of Lao P.D.R and other detailed guidance. The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements by BOL. The Bank recognises the need to maintain effectiveness of assets and liabilities management to balance profit and capital adequacy.

In accordance with Regulation No 01/BOL, the Bank's regulatory capital is analysed into two tiers:

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

**Notes to the Financial Statements**  
**As at and for the year ended 31 December 2020**

**4. FINANCIAL RISK MANAGEMENT POLICIES**

**4.4 Capital management**

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 Bank's capital based on financial information is as follows:

|   | 2020<br>LAK            | 2019<br>LAK            |
|---|------------------------|------------------------|
| Tier 1 capital                                      | 354.425.898.255        | 310.750.490.000        |
| Tier 2 capital                                      | 1.680.054.358          | 1.844.370.000          |
| <b>Total capital</b>                                | <b>356.105.952.613</b> | <b>312.594.860.000</b> |
| Less: deductions from capital                       | -                      | -                      |
| <b>Capital for CAR calculation</b>                  | <b>356.105.952.613</b> | <b>312.594.860.000</b> |
| Risk weighted statement of financial position items | 225.535.950.000        | 262.088.530.000        |
| Risk weighted off balance sheet items               | -                      | -                      |
| <b>Total risk weighted assets</b>                   | <b>225.535.950.000</b> | <b>262.088.530.000</b> |
| Tier 1 Capital Adequacy Ratio                       | 157%                   | 119%                   |
| Tier 2 Capital Adequacy Ratio                       | 1%                     | 1%                     |

**5. CASH AND SHORT-TERM FUNDS WITH CENTRAL BANK**

|   | 2020<br>LAK           | 2019<br>LAK           |
|---|-----------------------|-----------------------|
| Cash on hand (Note 5.1)                                 | 16.912.658.373        | 11.536.192.040        |
| Demand deposit with central bank (Note 5.2)             | 68.563.056.796        | 38.278.474.374        |
| <b>Included in cash and cash equivalents (Note 8)</b>   | <b>85.475.715.169</b> | <b>49.814.666.414</b> |
| Mandatory reserve deposits with central bank (Note 5.3) | 5.883.615.605         | 4.059.654.691         |
|   | <b>91.359.330.774</b> | <b>53.874.321.105</b> |

**5.1 CASH ON HAND**

|                                 | 2020<br>LAK           | 2019<br>LAK           |
|---------------------------------|-----------------------|-----------------------|
| Cash on hand – LAK              | 7.515.212.500         | 5.974.025.000         |
| Cash on hand – foreign currency | 9.397.445.873         | 5.562.167.040         |
|                                 | <b>16.912.658.373</b> | <b>11.536.192.040</b> |

**Notes to the Financial Statements**  
**As at and for the year ended 31 December 2020**

**5. CASH AND SHORT-TERM FUNDS WITH CENTRAL BANK****5.2 DEMAND DEPOSIT WITH CENTRAL BANK**

These are deposits made with BOL to cover any settlement which bear no interest.

|                              | <u>2020</u><br><u>LAK</u>    | <u>2019</u><br><u>LAK</u>    |
|------------------------------|------------------------------|------------------------------|
| Demand deposit               | 68.598.969.381               | 38.278.474.374               |
| Less: expected credit losses | <u>(35.912.585)</u>          | <u>-</u>                     |
|                              | <u><b>68.563.056.796</b></u> | <u><b>38.278.474.374</b></u> |

**5.3 MANDATORY RESERVE DEPOSITS WITH CENTRAL BANK**

|                        | <u>2020</u><br><u>LAK</u>   | <u>2019</u><br><u>LAK</u>   |
|------------------------|-----------------------------|-----------------------------|
| Compulsory reserve (i) | 5.795.254.738               | 4.054.654.691               |
| Special deposit (ii)   | <u>88.360.867</u>           | <u>5.000.000</u>            |
|                        | <u><b>5.883.615.605</b></u> | <u><b>4.059.654.691</b></u> |

(i) These are minimum deposits maintained in BOL as per BOL regulations, and such should not be withdrawn. The balance is adjusted and calculated at 4% (2019: 5%) of LAK and 8% (2019: 10%) of other foreign currencies, such as Thailand Bath (THB) and United State Dollars (USD), on the average balance of bank and customer deposits, such as savings accounts, current accounts and term deposits as of the year. These deposits do not earn interest.

(ii) The Bank maintains an additional statutory capital deposit with BOL. This deposit amount is considered as a guarantee for the operations and such should not be withdrawn. Per regulation No.01/BOL dated 28 January 2010, commercial banks and foreign branch which have permanent office, no longer needs to appropriate a reserve of 25% of the registered capital and the investment capital. This deposit does not earn interest.

**6. PLACEMENT WITH CENTRAL BANK**

|   | <u>2020</u><br><u>LAK</u>     | <u>2019</u><br><u>LAK</u>     |
|---|-------------------------------|-------------------------------|
| Long term fixed deposit with central bank | 390.002.840.639               | 455.102.908.842               |
| Less: expected credit losses              | <u>(579.302.003)</u>          | <u>-</u>                      |
|   | <u><b>389.423.538.636</b></u> | <u><b>455.102.908.842</b></u> |

Long term fixed deposits maintained with BOL earn interest rate of 5.50% (2019: 4.50%) per annum with a term of 3 years.

**7. DEPOSITS WITH OTHER BANKS**

|   | <u>2020</u><br><u>LAK</u>    | <u>2019</u><br><u>LAK</u>   |
|---|------------------------------|-----------------------------|
| Deposits with other banks                             | 10.119.965.833               | 2.852.515.413               |
| Less: expected credit losses                          | <u>(7.208.057)</u>           | <u>-</u>                    |
| <b>Included in cash and cash equivalents (Note 8)</b> | <u><b>10.112.757.776</b></u> | <u><b>2.852.515.413</b></u> |

RHB Bank Lao Limited

Notes to the Financial Statements  
As at and for the year ended 31 December 2020

7. DEPOSITS WITH OTHER BANKS

|  | 2020<br>LAK           | 2019<br>LAK          |
|--|-----------------------|----------------------|
| <b>Balances with domestic banks</b>                      |                       |                      |
| Banque Pour Le Commerce Exterieur Lao – Vientiane Branch | 2.846.144.413         | 1.710.432.251        |
|  | <b>2.846.144.413</b>  | <b>1.710.432.251</b> |
| <b>Balances with overseas banks</b>                      |                       |                      |
| RHB Bank Berhad – Thailand                               | 4.076.429.219         | 670.052.101          |
| JP Morgan  | 3.197.392.201         | 472.031.061          |
|  | <b>7.273.821.420</b>  | <b>1.142.083.162</b> |
|  | <b>10.119.965.833</b> | <b>2.852.515.413</b> |
| Less: expected credit losses                             | (7.208.057)           | -                    |
|  | <b>10.112.757.776</b> | <b>2.852.515.413</b> |

Deposits with other banks are current accounts and do not earn any interest.

8. CASH AND CASH EQUIVALENTS

|  | 2020<br>LAK           | 2019<br>LAK           |
|--|-----------------------|-----------------------|
| Cash and balances with central bank (Note 5) | 85.475.715.169        | 49.814.666.414        |
| Deposits with other banks (Note 7)           | 10.112.757.776        | 2.852.515.413         |
|  | <b>95.588.472.945</b> | <b>52.667.181.827</b> |

9. LOANS AND ADVANCES TO CUSTOMERS

|                                       | 2020<br>LAK            | 2019<br>LAK            |
|---------------------------------------|------------------------|------------------------|
| Loans and advances to customers       | 371.941.955.349        | 429.618.418.373        |
| Less: allowance for credit losses (i) | (16.161.790.392)       | (12.836.577.771)       |
|                                       | <b>355.780.164.957</b> | <b>416.781.840.602</b> |

The Bank offers its customers interest rates ranging from 4.00% to 15.00% (2019: 4.00% to 15.00%) per annum with maturity ranging from 1 to 25 years (2019: 1 to 25 years) depending on each loan agreements.

(i) The movement in allowance for credit losses is as follows:

|                                      | 2020<br>LAK           | 2019<br>LAK           |
|--------------------------------------|-----------------------|-----------------------|
| As at 1 January                      | 12.836.577.771        | 23.314.537.589        |
| Allowance made during the year       | 30.744.180.931        | 26.972.943.186        |
| Utilisation for bad debt written off | (27.971.071.273)      | (38.388.100.034)      |
| Foreign exchange difference          | 552.102.963           | 937.197.030           |
| <b>As at 31 December</b>             | <b>16.161.790.392</b> | <b>12.836.577.771</b> |

RHB Bank Lao Limited

Notes to the Financial Statements  
As at and for the year ended 31 December 2020

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10. INTANGIBLE ASSETS

|   | <u>2020</u><br><u>LAK</u> | <u>2019</u><br><u>LAK</u> |
|---|---------------------------|---------------------------|
| <b>Cost</b>                             |                           |                           |
| As at 1 January                         | 7.781.958.119             | 7.534.603.126             |
| Additions                               | 250.107.000               | 247.354.993               |
| <b>As at 31 December</b>                | <u>8.032.065.119</u>      | <u>7.781.958.119</u>      |
| <b>Accumulated amortisation</b>         |                           |                           |
| As at 1 January                         | (7.127.044.071)           | (6.276.732.149)           |
| Charge for the year                     | (209.059.940)             | (850.311.922)             |
| <b>As at 31 December</b>                | <u>(7.336.104.011)</u>    | <u>(7.127.044.071)</u>    |
| <b>Net book value as at 31 December</b> | <u>695.961.108</u>        | <u>654.914.048</u>        |

Notes to the Financial Statements  
As at and for the year ended 31 December 2020

11. PROPERTY AND EQUIPMENT

Movement of the balance of property and equipment for the year ended 31 December 2020 is as follows:

|   | Building and<br>improvements<br>LAK | Office equipment<br>LAK | Computer<br>equipment<br>LAK | Furniture and<br>fixtures<br>LAK | Motor vehicles<br>LAK  | Total<br>LAK            |
|---|-------------------------------------|-------------------------|------------------------------|----------------------------------|------------------------|-------------------------|
| <b>Cost</b>                               |                                     |                         |                              |                                  |                        |                         |
| At 1 January 2020                         | 13,426,454,248                      | 661,743,887             | 10,462,674,048               | 1,165,186,987                    | 2,040,651,792          | 27,756,710,962          |
| Additions                                 | 93,318,125                          | -                       | 987,495,755                  | 143,508,081                      | -                      | 1,224,321,961           |
| Disposal                                  | -                                   | -                       | (130,519,700)                | (1,173,363)                      | -                      | (131,693,063)           |
| <b>At 31 December 2020</b>                | <b>13,519,772,373</b>               | <b>661,743,887</b>      | <b>11,319,650,103</b>        | <b>1,307,521,705</b>             | <b>2,040,651,792</b>   | <b>28,849,339,860</b>   |
| <b>Accumulated depreciation</b>           |                                     |                         |                              |                                  |                        |                         |
| At 1 January 2020                         | (3,431,876,539)                     | (457,259,652)           | (8,425,834,930)              | (886,661,392)                    | (1,620,724,314)        | (14,822,356,827)        |
| Charge for the year                       | (1,293,416,545)                     | (74,884,488)            | (707,962,060)                | (119,650,442)                    | (172,413,072)          | (2,368,326,607)         |
| Disposal                                  | -                                   | -                       | 130,519,700                  | 1,173,363                        | -                      | 131,693,063             |
| <b>At 31 December 2020</b>                | <b>(4,725,293,084)</b>              | <b>(532,144,140)</b>    | <b>(9,003,277,290)</b>       | <b>(1,005,138,471)</b>           | <b>(1,793,137,386)</b> | <b>(17,058,990,371)</b> |
| <b>Net book value at 31 December 2020</b> | <b>8,794,479,289</b>                | <b>129,599,747</b>      | <b>2,316,372,813</b>         | <b>302,383,234</b>               | <b>247,514,406</b>     | <b>11,790,349,489</b>   |



Notes to the Financial Statements  
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## 11. PROPERTY AND EQUIPMENT

Movement of the balance of property and equipment for the year ended 31 December 2019 is as follows:

|   | Building and improvements<br>LAK | Office equipment<br>LAK | Computer equipment<br>LAK | Furniture and fixtures<br>LAK | Motor vehicles<br>LAK  | Total<br>LAK            |
|---|----------------------------------|-------------------------|---------------------------|-------------------------------|------------------------|-------------------------|
| <b>Cost</b>                               |                                  |                         |                           |                               |                        |                         |
| At 1 January 2019                         | 13,426,454,248                   | 629,472,287             | 9,254,136,461             | 1,134,320,387                 | 2,040,651,792          | 26,485,035,175          |
| Additions                                 | -                                | 32,271,600              | 1,208,537,587             | 30,866,600                    | -                      | 1,271,675,787           |
| <b>At 31 December 2019</b>                | <b>13,426,454,248</b>            | <b>661,743,887</b>      | <b>10,462,674,048</b>     | <b>1,165,186,987</b>          | <b>2,040,651,792</b>   | <b>27,756,710,962</b>   |
| <b>Accumulated depreciation</b>           |                                  |                         |                           |                               |                        |                         |
| At 1 January 2019                         | (2,144,513,769)                  | (359,514,237)           | (7,264,642,844)           | (717,315,294)                 | (1,329,897,577)        | (11,815,883,721)        |
| Charge for the year                       | (1,287,362,770)                  | (97,745,415)            | (1,161,192,086)           | (169,346,098)                 | (290,826,737)          | (3,006,473,106)         |
| <b>At 31 December 2019</b>                | <b>(3,431,876,539)</b>           | <b>(457,259,652)</b>    | <b>(8,425,834,930)</b>    | <b>(886,661,392)</b>          | <b>(1,620,724,314)</b> | <b>(14,822,356,827)</b> |
| <b>Net book value at 31 December 2019</b> | <b>9,994,577,709</b>             | <b>204,484,235</b>      | <b>2,036,839,118</b>      | <b>278,525,595</b>            | <b>419,927,478</b>     | <b>12,934,354,135</b>   |

RHB Bank Lao Limited

Notes to the Financial Statements  
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12. RIGHT OF USE ASSETS

|                                      | 2020<br>LAK            | 2019<br>LAK            |
|--------------------------------------|------------------------|------------------------|
| <b>Cost</b>                          |                        |                        |
| At 1 January                         | 14.768.349.908         | 14.768.349.908         |
| Modification                         | 59.590.614             | -                      |
| <b>At 31 December</b>                | <b>14.827.940.522</b>  | <b>14.768.349.908</b>  |
| <b>Accumulated amortisation</b>      |                        |                        |
| At 1 January                         | (5.285.576.143)        | (4.133.617.535)        |
| Charge for the year                  | (1.173.999.347)        | (1.151.958.608)        |
| <b>At 31 December</b>                | <b>(6.459.575.490)</b> | <b>(5.285.576.143)</b> |
| <b>Net book value at 31 December</b> | <b>8.368.365.032</b>   | <b>9.482.773.765</b>   |

The right of use assets recognised pertains to the lease of head office in Phonxay and branch offices in Sithan Neau and Dongdok.

13. OTHER ASSETS

|                      | 2020<br>LAK          | 2019<br>LAK          |
|----------------------|----------------------|----------------------|
| Prepaid expenses (i) | 3.335.318.379        | 1.610.361.405        |
| Others (ii)          | 3.261.937.818        | 986.956.952          |
|                      | <b>6.597.256.197</b> | <b>2.597.318.357</b> |

- (i) Prepaid expenses include advance payments for the electronic equipment insurance, house and office rental and leased area for the server at BOL.  
(ii) These include bank supplies such as cheque books, passbooks and signature verification slips.

14. DEFERRED TAX ASSET AND (LIABILITY)

Deferred income taxes are calculated in full of temporary differences, using the liability method and using a principal tax rate of 20%, which is the enacted tax rate at the balance sheet date (2019: 24%). The deferred taxation related to the temporary differences between the carrying amounts and the tax bases of assets of the Bank are shown below:

The gross movement of the deferred tax asset and liability, relating to loans and advances and leasehold improvements accounts are as follows:

|   | 2020<br>LAK            | 2019<br>LAK       |
|---|------------------------|-------------------|
| As at 1 January   | 98.764.139             | (1.060.191.643)   |
| Deferred income tax (charged)/credited to the statement of profit or loss (Note 26) | (2.444.771.928)        | 1.158.955.782     |
| <b>As at 31 December</b>  | <b>(2.346.007.789)</b> | <b>98.764.139</b> |

Deferred income tax assets are recognised to the extent that realisation of the related tax benefit through the future taxable profits are probable.

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**15. DEPOSITS FROM CUSTOMERS**

The amounts due to customers are analysed as follows:

**a) Analysis by types of deposit account**

|                  | 2020<br>LAK           | 2019<br>LAK           |
|------------------|-----------------------|-----------------------|
| Current deposits | 5.755.555.428         | 7.275.329.975         |
| Saving deposits  | 11.604.998.674        | 10.622.007.742        |
| Term deposits    | 30.157.974.573        | 21.689.219.406        |
|                  | <u>47.518.528.675</u> | <u>39.586.557.123</u> |

**b) Analysis by interest rates**

|                  | 2020<br>LAK   | 2019<br>LAK   |
|------------------|---------------|---------------|
| Current deposits | 0%            | 0%            |
| Saving deposits  | 1.6% to 2.0%  | 1.6% to 2.0%  |
| Term deposits    | 2.0% to 6.75% | 2.0% to 6.75% |

**16. DEPOSITS FROM OTHER BANKS**

|                   | 2020<br>LAK           | 2019<br>LAK            |
|-------------------|-----------------------|------------------------|
| Current deposits  | 659.125               | 739.125                |
| Term deposits (i) | 31.242.486.338        | 119.015.219.170        |
|                   | <u>31.243.145.463</u> | <u>119.015.958.295</u> |

(i) Term deposits carry an interest rate of 2.0% to 5.5% (2019: 3.1% to 5.5%) per annum.

**17. AMOUNT DUE TO PARENT COMPANY**

|   | 2020<br>LAK            | 2019<br>LAK            |
|---|------------------------|------------------------|
| Fixed deposits and accrued interest payable (i) | 387.669.116.207        | 451.299.710.724        |
| Intercompany payable (ii)                       | 27.943.944.282         | 26.763.256.772         |
|   | <u>415.613.060.489</u> | <u>478.062.967.496</u> |

(i) Fixed deposits, denominated in USD, carry interest rates ranging from 1.00% to 3.75% (2019: 2.30% to 3.75%) per annum with terms ranging from 1 week to 3 years.

(ii) Intercompany payable includes purchases of property and equipment initially made by RHB Bank Berhad - Malaysia during the start-up phase of the Bank. The intercompany payable is repayable on demand.

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18. OTHER LIABILITIES

|                        | 2020<br>LAK          | 2019<br>LAK          |
|------------------------|----------------------|----------------------|
| Accruals (i)           | 3.626.650.033        | 2.150.301.054        |
| Other liabilities (ii) | -                    | 28.179.607           |
|                        | <u>3.626.650.033</u> | <u>2.178.480.661</u> |

(i) Accruals include accruals for maintenance, external audit fees, utilities, bonus and others.

(ii) Other liabilities include banker's cheque and others.

19. LEASE LIABILITIES

|  | 2020<br>LAK          | 2019<br>LAK           |
|--|----------------------|-----------------------|
| Lease liabilities from property            | <u>9.655.727.115</u> | <u>10.465.360.845</u> |
| Scheduled repayments of lease liabilities: |                      |                       |
| - Within one year                          | 909.442.174          | 809.633.730           |
| - Beyond one year                          | 8.746.284.941        | 9.655.727.115         |
|  | <u>9.655.727.115</u> | <u>10.465.360.845</u> |

20. PAID-UP CAPITAL

|                                    | RHB Bank Berhad<br>(100% shareholding) |                        |
|------------------------------------|--|------------------------|
|                                    | Number of<br>shares                    | Amount<br>(LAK)        |
| At 1 January 2019                  | 30.000.000                             | 301.500.000.000        |
| Issuance of shares during the year | -                                      | -                      |
| <b>At 31 December 2019</b>         | <b>30.000.000</b>                      | <b>301.500.000.000</b> |
| Issuance of shares during the year | 7.900.500                              | 79.400.025.000         |
| <b>At 31 December 2020</b>         | <b>37.900.500</b>                      | <b>380.900.025.000</b> |

RHB Bank Berhad - Malaysia owns 100% of the Bank's shares represented by 37.900.500 (2019: 30.000.000) shares with issue price of LAK 10.050 (2019: LAK 10.050) per share. All issued shares were fully paid.

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**21. LEGAL RESERVE**

The movement in legal reserve fund during the year is presented below:

|                            | 2020<br>LAK          | 2019<br>LAK          |
|----------------------------|----------------------|----------------------|
| At 1 January               | 1.714.014.602        | 1.714.014.602        |
| Additional during the year | 416.173.053          | -                    |
| <b>At 31 December</b>      | <b>2.130.187.655</b> | <b>1.714.014.602</b> |

A legal reserve shall be maintained in accordance with the Law on Enterprise No. 46/NA, dated 26 December 2013 where the Bank shall annually convert ten percent of its net profit into the reserve funds after deducting its accumulated losses. The Bank has set up its legal reserve based on its net profit derived under a separate set of financial statements prepared in accordance with the Bank's accounting policies and the BOL's relevant accounting regulations and notifications as required by BOL.

**22. NET INTEREST INCOME**

|                                       | 2020<br>LAK             | 2019<br>LAK             |
|---------------------------------------|-------------------------|-------------------------|
| <b>Interest income</b>                |                         |                         |
| Interest income from customers        | 32.771.074.267          | 35.933.752.077          |
| Interest income from banks            | 22.197.914.102          | 21.791.689.650          |
|                                       | <b>54.968.988.369</b>   | <b>57.725.441.727</b>   |
| <b>Interest expense</b>               |                         |                         |
| Interest expense from customers       | (1.322.078.965)         | (1.005.572.645)         |
| Interest expense from banks           | (3.978.939.084)         | (6.319.350.303)         |
| Interest expense from parent company  | (15.132.178.649)        | (15.405.536.048)        |
| Interest expense from lease liability | (386.913.936)           | (410.839.918)           |
|                                       | <b>(20.820.110.634)</b> | <b>(23.141.298.914)</b> |
| <b>Net interest income</b>            | <b>34.148.877.735</b>   | <b>34.584.142.813</b>   |

**23. NET FEE, COMMISSION AND OTHER INCOME**

|   | 2020<br>LAK          | 2019<br>LAK          |
|---|----------------------|----------------------|
| <b>Fee and commission income</b>            |                      |                      |
| Credit related fees                         | 539.647.813          | 773.603.020          |
| Other fees                                  | 355.812.581          | 120.869.444          |
|   | <b>895.460.394</b>   | <b>894.472.464</b>   |
| <b>Fee and commission expense</b>           |                      |                      |
| Commission expenses                         | (58.408.199)         | (80.365.754)         |
| Wire transfer fees                          | (182.345.073)        | (139.381.045)        |
|   | <b>(240.753.272)</b> | <b>(219.746.799)</b> |
| <b>Net fee and commission income</b>        | <b>654.707.122</b>   | <b>674.725.665</b>   |
| Gain on disposal of property and equipment  | 1.372.419            | -                    |
| <b>Net fee, commission and other income</b> | <b>656.079.541</b>   | <b>674.725.665</b>   |

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24. PAYROLL AND OTHER STAFF COSTS

|                    | 2020<br>LAK           | 2019<br>LAK          |
|--------------------|-----------------------|----------------------|
| Salaries and wages | 9.754.714.077         | 7.373.454.303        |
| Bonus              | 1.882.755.913         | 1.079.211.636        |
| Other staff costs  | 787.658.211           | 869.222.143          |
|                    | <u>12.425.128.201</u> | <u>9.321.888.082</u> |

25. GENERAL AND ADMINISTRATIVE EXPENSES

|   | 2020<br>LAK          | 2019<br>LAK          |
|---|----------------------|----------------------|
| Repair and maintenance                  | 2.165.094.026        | 1.955.049.158        |
| Insurance                               | 591.243.177          | 581.532.579          |
| Professional fees                       | 368.979.859          | 405.161.697          |
| Communication expense                   | 385.266.993          | 253.524.423          |
| Rental                                  | 332.091.992          | 208.865.760          |
| Utilities                               | 219.071.106          | 254.272.192          |
| Security fee                            | 287.853.000          | 284.300.000          |
| Office stationery expense               | 270.649.289          | 393.156.839          |
| Meal and travelling                     | 100.624.867          | 106.106.286          |
| Marketing and public relations          | 173.107.997          | 326.391.041          |
| Board of directors' fees and allowances | 418.311.061          | 266.741.291          |
| Other administrative expenses           | 116.362.328          | 148.478.149          |
|   | <u>5.428.655.695</u> | <u>5.183.579.415</u> |

26. INCOME TAX EXPENSE

|   | 2020<br>LAK          | 2019<br>LAK          |
|---|----------------------|----------------------|
| Current income tax                              | -                    | 4.052.989.773        |
| Deferred income tax liability/(asset) (Note 14) | 2.444.771.928        | (1.158.955.782)      |
| <b>Income tax expense</b>                       | <u>2.444.771.928</u> | <u>2.894.033.991</u> |

Presented below is the numerical reconciliation between current tax expense and income benefit:

|  | 2020<br>LAK          | 2019<br>LAK          |
|--|----------------------|----------------------|
| Loss before income tax   | (16.766.642.086)     | (7.492.678.821)      |
| Tax rate 20% (2019: 24%)   | (3.353.328.417)      | (1.798.242.917)      |
| Tax effects on losses carry forward where no deferred tax assets is recognised | 6.859.098.744        | -                    |
| Tax effects of expenses not deductible for tax purposes                        | 4.533.469.497        | 8.355.243.044        |
| Tax effects of income not taxable for tax purposes                             | (5.594.467.896)      | (3.662.966.136)      |
| <b>Income tax expense</b>  | <u>2.444.771.928</u> | <u>2.894.033.991</u> |

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26. INCOME TAX EXPENSE

Analysis of the income tax payable is as follows:

|                          | 2020<br>LAK     | 2019<br>LAK          |
|--------------------------|-----------------|----------------------|
| At 1 January             | 1.134.392.567   | 1.213.174.048        |
| Current income tax       | -               | 4.052.989.773        |
| Tax paid during the year | (1.134.392.567) | (4.131.771.254)      |
| <b>At 31 December</b>    | <b>-</b>        | <b>1.134.392.567</b> |

27. RELATED PARTY TRANSACTIONS

The Bank is 100% owned by RHB Bank Berhad – Malaysia, which is the Bank's ultimate controlling party.

A few number of banking transactions were entered into with related parties in the normal course of business, which were mostly deposits. There were no loans issued to related parties.

Deposits to key management personnel comprised of savings and fixed deposits, all of which are unsecured. Savings deposits are repayable on demand and carry interest rates ranging from 1.60% to 2.00% (2019: 1.60% to 2.00%) per annum, depending on the currency. Fixed deposits carry an interest rates ranging from 2.50% to 6.50% per annum (2019: 2.00% to 6.75%) depending on the term and currency. Fixed deposits to key management personnel have terms ranging from 1 to 36 months (2019: 1 to 12 months).

The volume of related-party transactions, gross outstanding balances, at the year-end, and relating expense and income for the year are as follows:

|  | 2020<br>LAK            | 2019<br>LAK            |
|--|------------------------|------------------------|
| <b>RHB Bank Berhad - Malaysia (Holding Bank)</b>                   |                        |                        |
| <b>(a) Fixed deposits</b>  |                        |                        |
| At 1 January   | 451.299.710.724        | 442.549.405.862        |
| Deposits (withdrawn)/received and interest expense during the year | (80.010.389.679)       | 1.483.304.412          |
| Foreign exchange loss  | 16.379.795.069         | 7.267.000.450          |
| <b>As at 31 December (Note 17)</b>                                 | <b>387.669.116.207</b> | <b>451.299.710.724</b> |
| Interest expense (Note 22)   | 15.132.178.649         | 15.405.536.048         |
| <b>(b) Intercompany payable</b>                                    |                        |                        |
| At 1 January   | 26.763.256.772         | 27.463.709.610         |
| Foreign exchange loss/(gain)                                       | 1.180.687.510          | (700.452.838)          |
| <b>As at 31 December (Note 17)</b>                                 | <b>27.943.944.282</b>  | <b>26.763.256.772</b>  |
| Monthly swift payment  | 182.345.073            | 139.381.045            |
| <b>RHB Bank Thailand</b>   |                        |                        |
| <b>(a) Term deposit</b>  |                        |                        |
| At 1 January   | 670.052.101            | 135.451.276            |
| Deposits placed during the year                                    | 3.378.119.590          | 551.058.050            |
| Foreign exchange gain/(loss)                                       | 28.257.528             | (16.457.225)           |
| <b>At 31 December (Note 7)</b>                                     | <b>4.076.429.219</b>   | <b>670.052.101</b>     |

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**27. RELATED PARTY TRANSACTIONS**

|  | 2020<br>LAK           | 2019<br>LAK           |
|--|-----------------------|-----------------------|
| <i>Director and key management personnel</i>               |                       |                       |
| <i>(a) Deposits from customers</i>                         |                       |                       |
| At 1 January   | 2.032.953.532         | 4.076.994.285         |
| Deposits and interest received/(withdrawn) during the year | 1.284.577.834         | (2.062.178.270)       |
| Foreign exchange loss                                      | 89.040.455            | 18.137.517            |
| <b>As at 31 December</b>                                   | <b>3.406.571.821</b>  | <b>2.032.953.532</b>  |
| Interest expense   | 66.474.558            | 15.969.349            |
| <i>(b) Loans and advances to customers</i>                 |                       |                       |
| At 1 January   | 15.874.415.530        | 13.578.760.295        |
| Loans disbursed during the year                            | 366.138.725           | 2.857.258.830         |
| Loans repaid during the year                               | (1.382.774.778)       | (561.603.595)         |
| <b>As at 31 December</b>                                   | <b>14.857.779.477</b> | <b>15.874.415.530</b> |
| Interest income  | 578.079.515           | 563.758.796           |
| Salaries and other short-term employee benefits            | 7.665.006.646         | 5.889.853.472         |

**28. COMMITMENTS AND CONTINGENCIES***(a) Capital commitment*

In order to meet the minimum capital requirement of LAK 500.000.000.000, as per revised Law on Commercial Bank No. 56/NA, dated 24 February 2020, RHB Bank Berhad needs to inject additional capital. BOL has already acknowledged the capital injection schedule of the remaining LAK 198.500.000.000 of which, LAK 79.400.000.000 representing the 40%, has already been injected in March 2020. The acknowledgement is supported by the memo BOL No.83/CBSD, dated 24 February 2020. As at 31 December 2020, the approved schedule of the remaining capital injection is as follows:

| <u>Schedule</u>  | <u>Amount in LAK</u>   | <u>Percentage</u> | <u>Period</u>   |
|------------------|------------------------|-------------------|-----------------|
| 31 December 2021 | 39.700.000.000         | 20%               | 3 <sup>rd</sup> |
| 31 December 2022 | 39.700.000.000         | 20%               | 4 <sup>th</sup> |
| 31 December 2023 | 39.700.000.000         | 20%               | 5 <sup>th</sup> |
|                  | <b>119.100.000.000</b> |                   |                 |

*(b) Credit facilities*

The Bank had the contractual amounts of the Bank's off-financial position, financial instruments that commit it to extend credit to customers. Unutilised overdrafts are those credit limit provided to customers but have not yet been withdrawn as at 31 December 2020 and 2019.

|                      | 2020<br>LAK           | 2019<br>LAK           |
|----------------------|-----------------------|-----------------------|
| Unutilised overdraft | 8.475.434.281         | 15.969.497.226        |
| Undisbursed loans    | 11.990.000.000        | 10.043.000.000        |
|                      | <b>20.465.434.281</b> | <b>26.012.497.226</b> |



**28. COMMITMENTS AND CONTINGENCIES**

(c) *Taxation contingencies*

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 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.

