

LAO PEOPLE'S DEMOCRATIC REPUBLIC

PEACE INDEPENDENCE DEMOCRACY UNITY PROSPERITY

Bank of the Lao PDR

No. 02/BOL

**REGULATION ON COMMERCIAL BANKS AND FINANCIAL
INSTITUTIONS'
CAPITAL ADEQUACY UNDER SUPERVISION BY THE BANK OF THE
LAO PDR**

- Based on Article 5 of the Law on the Bank of the Lao PDR No.5/NA of 14 October 1995.
- According to Articles 5, 10, and 18 of Decree on managing the operations of commercial banks and other financial institutions No.3/PM dated 23 October 1992.
- Based on the Decision of the Executive Board of the Bank of Lao dated 9 January 1996.

The Governor of the Bank of the Lao PDR has defined as follows:

Article 1

The commercial banks and financial institutions under supervision by the Bank of Lao shall have a capital not less than 8 percent of the risk assets, in which Tier 1 capital as determined in Article 2 of the present Regulation shall not be less than 5 percent of those assets.

Article 2

Capital of commercial banks and financial institutions under supervision by the Bank of Lao:

- 2.1 Registered paid up capital, including the difference between nominal and actual value of shares, which constitutes the capital.
 - 2.2 Reserve requirements according to the law.
 - 2.3 Annual depreciation expense, reserve for business expansion obtained from annual profit after tax deduction according to the state regulations.
 - 2.4 Net profit.
 - 2.5 Increase in value from revaluation of assets based on the state regulations.
 - 2.6 Provisions to cover losses
 - 2.7 Provisions for assuring repayment of loans, the duration of which is more than 5 years.
- Points 2.1 to 2.4 are Tier 1 capital, and the remaining is Tier 2 capital.

Article 3

All commercial banks and financial institutions under supervision by the Bank of Lao shall make calculations according to the procedure and method of determining the capital ratio stated in Article 1 as follows:

- (1) Add up all items stated in Article 2 of the present Regulation as the formula's quotient by taking from the liabilities based on the actual value in the balance sheet of the reporting date.
- (2) Multiply each item of assets with the weighted average risk of them as stated in Article 4 of this Regulation.
- (3) Add up multiplication results of assets based on Article 3.2 and use it as divisor. The result of calculation should not be below the capital ratio as stated in Article 1 of the present Regulation.

Article 4

Commercial banks' and financial institutions' assets which have a weighted average risk, shall be as follows:

- 4.1 Non-risk assets or assets having nil weighted average risk:
 - Cash (including kip, any foreign currency and cheques)
 - Deposits of commercial banks and financial institutions at the Bank of Lao.
 - Loans in Kip given to the Government or the Bank of Lao.
 - Loans in foreign currencies granted to the Government or any central bank of any countries in foreign currency
 - Holding of Treasury Bills or Bank of Lao Bills.
 - Loans granted in any currency and fully guaranteed by commercial banks, such as:
 - Precious metals.
 - Certificates of deposit.
 - Bills of exchange.
 - Promissory notes
 - Deposits at other commercial banks inside or outside the country.
 - Loans equal allowance for bad debts.
- 4.2 Assets which have a weighted average risk of 20 percent:
 - Loans to business entities guaranteed by International Financial Institutions.
 - Loans given to APB or guaranteed by APB.
 - Loans to or investment in finance companies lending co-operatives or loans guaranteed by these financial institutions.
 - Loans given to state-owned enterprises guaranteed by the Government.
 - Import credits against arrivals of goods at the warehouse and with warehouse warranty.
- 4.3 Assets which have a weighted average risk of 50 percent:
 - Loans to commercial banks or financial institutions, which have a capital ratio below 8 percent of the risk assets with a maturity of less than one year, or guaranteed by those financial institutions.

- Credits for construction of individuals' dwelling houses. The construction cost of which should not be less than the balance of loan accounts of the borrower, including interest.
 - Loans given to construction companies with a warranty of a construction project.
- 4.4 Assets which have a weighted average risk of 100 percent.
- Assets excepted from the above weighted average risks shall have a weighted average risk of 100 percent.

Article 5

All commercial banks and financial institutions, which are under supervision by the Bank of Lao, shall strictly implement the present Regulation.

Article 6

This Regulation takes effect from the date of its signing. Any order or regulation contradicting the present one shall be cancelled.

Vientiane, January 15, 1996
Acting Governor of the Bank of Lao

Sealed and signed
Pany Yathotou