

LAO PEOPLE'S DEMOCRATIC REPUBLIC

PEACE INDEPENDENCE DEMOCRACY UNITY PROSPERITY

The Bank of the Lao PDR

No. 04/BOL

REGULATION

**On Protecting Soundness Practices among the Commercial Banks
And Financial Institutions which are Under the Supervision
Of the Bank of the Lao PDR**

- In reference to Article 5 of the Law of the Bank of the Lao PDR, No. 05/NA, dated October 14, 1995;
- In reference to Article 5 and the last paragraph of Article 18 of the Decree of the Prime Minister, No. 03, dated January 23, 1992;
- In reference to the decision of the Board of Governors of the Bank of the Lao PDR, dated January 9, 1996.

The Governor the Bank of the Lao PDR regulates:

Article 1

When a commercial bank or a financial institution that is under the supervision of the Bank of the Lao PDR tends to be unsound or becomes unsound, the bank of the Lao PDR will enforce:

1. Money penalties;
2. The raising of capital according to a standard fixed by the Bank of the Lao PDR;
3. The removal or dismissal of the Board of Directors of the commercial bank or financial institution concerned;
4. The temporary suspension or termination of the activities of the commercial bank or financial institution in question.

Article 2

The actions or appearances of any commercial bank or financial institution, which the Bank of the Lao PDR considers unsound, include the following:

1. Engagement in hazardous lending, negligent debt collection, violation of regulations pertaining to the lending procedures;
2. Non-observance of the standard ratio of capital to high risk assets fixed by the Bank of the Lao PDR;
3. Violation or breach of liquidity requirements. Non-observance of the standard ratios fixed by the Bank of the Lao PDR;
4. Conducting business without internal controls: controls on accounts and cheques and control of the distribution of duties and responsibilities of personnel;

5. Engaging in hazardous investments which are against the prohibition requirements of the Bank of the Lao PDR;
6. Distributing of excessive annual profits in comparison with earning capacity, capital position and asset quality as well as in comparison to the ratios fixed by the State;
7. Failure in observing loan loss provisions;
8. Violation of laws, regulations and orders of the State and those of the Bank of the Lao PDR;
9. Any corruption of officers;
10. Failure to make programmes for debt collection.

Article 3

The Bank of the Lao PDR will fix penalties against unsafe and unsound actions as follows:

1. A violation of any item in Article 2 will carry a penalty of 150,000 kip/day;
2. An offence committed due to negligent business conduct, which results in financial damage to the related commercial bank or financial institution, will carry a penalty of 500,000 kip/day;
3. An intentional or unintentional offence, which causes great damage to the commercial bank or financial institution concerned, will carry a maximum penalty of up to one million kip/day or 1% of the assets of the said commercial bank or financial institution.

Article 4

In case of corruption, the Bank of the Lao PDR has the right to establish a control committee for collecting data and prosecution files.

Article 5

In cases where the commercial bank or financial institution commits serious offences leading to the distortions which are harmful to the soundness of the banking system as well as to the financial institution, capital market and economic system of the country, the Bank of the Lao PDR will suspend or terminate any or all the activities of the said commercial bank or financial institution according to the seriousness of the offence. The Bank of the Lao PDR will establish a control committee to oversee the activities of the bank or financial institution in question on behalf of its board of directors in order to solve problems in a lawful manner.

Article 6

The present Regulation comes into effect from the date of its signing.

Vientiane, January 15, 1996

The Acting Governor
Of the Bank of the Lao PDR
(Signed and sealed)

Pany YATHOTOU