

Lao People's Democratic Republic  
Peace Independence Democracy Unity Prosperity

Bank of the Lao PDR

No. 06/BOL

Vientiane, dated 11/05/2004

**Regulation**

**On Loan Classification requirement for Commercial Banks which are under the  
Supervision of the Bank of the Lao PDR**

- Pursuant to the Law on the Bank of Lao People's Democratic Republic No. 05/NA dated 14 October 1999
- Pursuant to the Ordinance on Commercial Banks No. 02 dated 22 March 2000
- Pursuant to the unanimous decision of the Board of Governor of the Bank of the Lao PDR

The Governor of the Bank of the Lao PDR regulates as follows:

**Article 1.0 Purpose**

The purpose of this regulation is to establish minimum prudential standards to ensure that banks (i) review and grade loans in a consistent manner; (ii) identify loans as being overdue when principal or interest is not being paid in accordance with the terms of the borrower's loan agreement; (iii) properly account for accrued but unpaid interest on loans in the profit and loss statement; (iv) write off losses out of the financial statement as they are identified and adequately provide and maintain provisions for other loans in their books; and (v) properly account for and classify restructured loans and properly record the account. The assignment of true and realistic values to loans made by banks is fundamental to the soundness and stability of the banking sector and in increasing the confidence of depositors and creditors in the banking sector.

**Article 2.0 Definitions**

2.1. **"Bank"** means commercial banks.

2.2 **"Loans"** means any financial assets of a bank arising from a direct or indirect payment of funds by a bank to a person (for example: loans and overdrafts made directly to a person or participation in such loan syndications or the purchase of loans from another bank on behalf of a person) or the payment of funds by a bank on behalf of a person (for example: payments under off- balance sheet commitments which includes the issuing letters of credit, issuing letters of guarantee, advance payments, etc.) that such

funds shall be repaid to the bank, either on a specified date or installment dates or on demand, with or without interest. The term does not include accrued but unpaid interest. The term "person" as used in this Regulation means person and entity which includes individuals, groups of individuals, partnerships, and corporate entities or other similar business groups and companies.

2.3 "**Large borrower**" means loans to borrowers of ten percent (10%) of the bank's total capital.

2.4 "**Non-accrual status**" means that a loan has been placed on a cash basis for financial reporting purposes. Interest is no longer accrued on the books of the bank or taken into income unless paid by the borrower from his own funds in cash. All "non-performing loans" must be placed on non-accrual status and previously accrued but unpaid interest must be reversed from the profit and loss statement; or interest should be placed in "suspended interest account".

2.5 "**Non- performing loans**" means loans that have been placed on non-accrual status and are not generating income. Loans are to be placed on non-accrual status and categorized as non-performing when:

- a. for loans with pre-established repayment programs:
  - principal or interest, in whole or in part, is due and unpaid from 90 (ninety) days beyond the scheduled payment or maturity date; or
  - accrued interest from 90 (ninety) days has been added to an existing loan, new loan, or restructured loan;
- b. for overdrafts and loans that do not have pre-established repayment programs:
  - the debt remains unpaid from 90 (ninety) consecutive days or more beyond the scheduled payment or maturity date or the date that the funds were paid by bank to or on behalf of a person;
  - the debt exceeds the borrower's approved limit from 90 (ninety) consecutive days;
  - interest is due and unpaid from 90 (ninety) consecutive days; or
  - for overdrafts, the account has been inactive from 90 (ninety) consecutive days or deposits during the past 90 (ninety) days have not been sufficient to cover interest, fees or other types of charges added to the overdraft during the period; and
- c. a loan is classified Doubtful or Loss;

According to the characteristics described above loans shall be classified as non- performing loans. Provided, the entire principal balance of loans exhibiting the characteristics described above shall be considered non-performing.

2.6 "**Overdue**" means:

- a. loans with pre-established repayment programs, where:
  - either principal or interest in whole or part, is due and unpaid from 30 days according to the scheduled payment;
  - accrued interest from 30 days if it has been added to an existing loan or new loan or restructured loan;
- b. overdrafts and other loans that do not have pre-established repayment programs:
  - the debt remains outstanding from 30 (thirty) consecutive days since the bank has paid on behalf of its customer to the creditor or according to the maturity date of the loan agreement;
  - the debt exceeds the borrower's approved limit of the bank from 30 (thirty) consecutive days;
  - interest is due and uncollected from 30 (thirty) consecutive days;
  - for overdrafts, the account has been inactive from 30 (thirty) consecutive days or deposits are insufficient to cover the interest, fees or other charges related to the overdrafts account;

According to the characteristics described above loans shall be classified as overdue loans. Provided the outstanding principal balance of loans shall be used in calculating the aggregate amount of overdue loans.

2.7 **"Suspended interest account"** means an account where previously accrued but unpaid interest on loans required to be placed on non-accrual status is reserved out of the profit and loss statement of the bank.

2.8 **"Well-secured"** means that a loan or a portion of a loan that is secured by cash, marketable securities approved by the Bank and Financial Institutions Supervision Department of the Bank of the Lao PDR, or the current market value of precious metals (gold, silver and platinum) that the borrower secures its loan with the bank.

### **Article 3.0    Classification of loans**

The board of directors of each bank shall ensure that a review of the loan portfolio is conducted on a regular basis, but not less than once each calendar quarter-end (as of March 31st, June 30th, September 30th and December 31st). The review of the loan portfolio shall have the objective of classifying loans in accordance with the following criteria:

- 3.1    Loans that have the following characteristics shall be classified as Substandard:

- a. loans that are overdue as agreed by the terms of the loan agreement whether in interest or principal from 90 (ninety) days;
- b. loans approved after issuing this regulation, if such loans are denominated in a foreign currency where the borrower does not have a source of income denominated in foreign currency or has not entered into a forward contract in sufficient amounts as required to repay the loan in accordance with the terms of the loan agreement;
- c. loans that are not adequately protected by the creditworthiness and paying capacity of the borrower as evidenced by the following:
  - the primary source of repayment is insufficient to service the loan in accordance with the terms of the loan agreement and the bank is relying on secondary sources for repayment, such as the sale of collateral, other assets of the borrower, or restructuring of the terms of the loan; or
  - for large borrowers, current financial information audited by an external auditor and satisfactory financial information is not maintained or there is inadequate collateral documentation under the Laws;
  - there is more than a normal degree of risk of loss due to the borrower's unsatisfactory financial condition.

3.2 Loans as prescribed in Article 3, item 3.1 of this Regulation, if they are over due as agreed in the terms of the loan agreement, whether in interest or principal from 180 (one-hundred eighty) days and are not well-secured shall be classified at Doubtful unless legal action, including proceedings to seize and sell the collateral in order to repay the loans, has commenced and the time needed to complete such legal action is not expected to exceed 180 days (one- hundred eighty) days from the date the legal action commenced shall be classified as substandard, but the bank shall maintain the documentation which clearly and unquestionably indicates the value of the collateral will be sufficient to repay the outstanding balance of the loan, all unpaid interest on the loan and all expenses of the bank connected with seizing and selling the collateral.

3.3 Loans having the following the characteristics shall be classified as Loss and written- off the books of the bank: a. any loan which is over due as agreed in the terms of the loan agreement, whether in interest or principal from 360 (three- hundred sixty ) days; b. any loan previously classified substandard but it has not been addressed as prescribes in Article 3.2 above, and the event has not been concluded within the required timeframe; c. any loan considered uncollectible or of such little value that their continuance as an asset on the books of the bank is not warranted.

3.4 Any loan, or that portion of the loan, that is well secured shall be excluded from classification

#### **Article 4.0    Classification of restructured loans**

"Restructured loans" include new loans to repay any overdue loan, or any loan rescheduled, rolled-over, or otherwise modified because of weaknesses in the borrower's financial condition or inability to repay the loan according to the terms of the original loan agreement.

4.1    For each restructured loan, the following documents shall be maintained by the bank and made available to examining personnel of the Bank of the Lao PDR upon request:

- a. a written restructuring or business plan showing how the operational or management changes the borrower intends to make will improve the borrower's debt servicing capacity;
- b. current audited financial information certified by an external auditor, including cash flow projections;
- c. a written analysis of the borrower's current financial condition and projected cash flow prepared by the bank which clearly and unquestionably indicates the borrower's ability to service the restructured terms of the debt;
- d. a written agreement on the restructured terms co-signed by the borrower and the bank.

4.2    Restructured loans in which the repayment terms are consistent with other similar loans made by the bank which have not been restructured shall be classified in accordance with the following criteria:

- a. a restructured loan for which overdue interest has been paid by the borrower from his own funds at the time the loan is restructured shall be classified Substandard;
- b. a restructured loan in which overdue interest has not been paid by the borrower from his own funds at the time the loan is restructured shall be classified as prescribed in Articles 3 of this Regulation.

4.3    Restructured loans that meet the criteria for classification in accordance with Article 4, item 4.2 of this Regulation may be reclassified as performing loans if the borrower has paid at least six (6) consecutive months of principal and interest from his own funds in accordance with the terms of the restructured loan agreement. Any restructured loan which fails to meet the classification criteria provided in Article 4.2 shall be classified based on the overdue status of the original loan as of the date the original loan was restructured and in accordance with the classification criteria provided in Article 3 and provisions shall be calculated in accordance with the provisioning requirements under Article 7, item 7.4.

4.4    Any restructured loan which subsequently becomes overdue for the payment of

principal or interest, in full or in part, from 90 days or more according to the terms of the restructured loan agreement shall be placed in non-accrual status and shall remain in non-accrual such status until the borrower pay all overdue principal and interest.

Any restructured loan that becomes nonperforming a second time and which the bank proposes to restructure a second time must have the prior written approval of the Bank of the Lao PDR and such approval shall be based on the criteria prescribed in Article 4, item 4.1.

#### **Article 5.0      Conversion of foreign currency denominated loans**

Any loan denominated in a foreign currency, in which the borrower does not have a source of income denominated in the foreign currency or has not entered into a forward contract with the bank for the purchase of such foreign currency in sufficient amounts for such times as required to repay the loan in accordance with the terms of the loan agreement and which meets the definition of non-performing loans according to the Article 2, item 2.5 of this Regulation, the bank shall convert such loan into Lao Kip according to exchange rate of the date the loan is categorized as a non-performing loan and required to be placed on non-accrual status in accordance with Article 10 of this Regulation.

5.1      Any loan denominated in a foreign currency shall be converted and recorded in the books of the bank at the Lao Kip equivalent as prescribed in Article 5.0 Such loan shall remain denominated in Lao Kip and recorded in the books of the bank until the loan is fully repaid or written-off.

5.2      Any loan denominated in a foreign currency required to be converted and recorded in the books of the bank at the Lao Kip equivalent as prescribed in Article 5.0 of this Regulation which has had its terms restructured it shall continue to be denominated in Lao Kip and recorded on the banks of the bank until the loan is fully repaid or written-off.

#### **Article 6.0      Treatment of multiple loans to one borrower**

If a bank has more than one loan outstanding to a borrower or companies direct or indirectly controlled by the same borrower, if one loan meets the criteria as a non-performing loan, then the bank shall prepare a written analysis of the borrower's current financial condition and repayment prospects for the other loans of such borrower. If the analysis suggest that repayment of the other loans by the borrower is in question or not able to meet the repayment, then such loans to the borrower shall placed be placed on non- accrual status. Such "borrower" mentioned above includes individual and their spouse or individual as prescribed by the Law. Direct or indirect "control" means a borrower: (i) owner, or has the

power to vote 20% (twenty percent) or more of the voting shares of a individual as prescribed by Law; (ii) has the power to control the election of a majority of the Board of Directors or the authorized person under the Law and (iii) who has power to intervene the management or to determine other policies over an individual as prescribed by Law.

#### **Article 7.0 Provisions for non-performing and classified loans**

Banks shall establish a Provision for Classified and Non-Performing Loans account in accordance with the following procedures:

- a. loans required to be placed on non-accrual status and classified Substandard, Doubtful and Loss according to the criteria of this Regulation shall be removed out of the performing loans account and transferred to a “non-performing loans” account and simultaneously recorded on the asset side of the balance sheet as such;
- b. at the end of each calendar quarter (March 31, June 30, September 30 and December 31), the bank shall review the adequacy of the Provisions for Non-Performing Loans account in comparison to the minimum provisions required by this Regulation.

7.1 Bank shall have a provision account for classified loans in accordance with the following procedures:

- a. loans required to be classified as Substandard according to the criteria of this Regulation shall be removed from performing loans account and transferred to a: Classified loans” account and simultaneously recorded on the asset side of the balance sheet as such;
- b. at the end of each calendar quarter (as of March 31, June 30, September 30 and December 31), the bank shall review the adequacy of the Provisions for classified Loans account in comparison to the minimum provisions required by this Regulation.

7.2 Adjustments to the Provision for Non-Performing Loans account and the Provisions for Classified Loans shall be through pre-tax adjustments to the profit and loss statement as follows:

- a. increases shall be effected by debiting the Loss on Revaluation of Loans account in the profit and loss statement and crediting the Provisions account in the general ledger;
- b. reduction shall be effected by crediting the Profit on Revaluation of Loans account in the profit and loss statement and debiting the Provisions account in the general ledger;

7.3 Provisions for non-performing loans and provision for classified loans shall be

“specific provisions” and shall be recorded on the asset side of the balance sheet and shall carry a credit balance;

7.4 Provisions for loans classified Substandard, Doubtful or Loss according to the criteria prescribed in this Regulation shall be determined by applying the following minimum percentages to the outstanding principal balance of a loan thereof classified:

<b>Loan</b>	<b>Minimum</b>
<b><u>Classification:</u></b>	<b><u>Provision Requirement</u></b>
Substandard	20%
Doubtful	50%
Loss	100%

7.5 The Governor, or Deputy Governor who is assigned by the Governor can instruct a commercial bank to maintain higher provisions for losses on classified and non-performing loans after taking into account such factors as the assessed condition of the loan portfolio, economic and financial trends in the country and in the region and the general quality of the management of the bank financial institution.

7.6 All documents relating to classified and non-performing loans shall be retained by the bank to verify the adequacy of the Provisions for Classified and Non-Performing Loans account and the provisions for Classified Loans account or use as evidence in the recovery of such loans or in case of the prosecution of the borrower.

#### **Article 8.0 Provisions for general loan loss reserve**

Banks shall establish a General Loan Loss Reserve in accordance with the following procedures:

- a) the General Loan Loss Reserve account shall be recorded on the liability side of the balance sheet;
- b) at the end of each calendar quarter (March 31, June 30, September 30 and December
  - the adequacy of the General Loan Loss Reserve shall be reviewed by the bank in comparison to the minimum general provisions required by this Regulation and appropriate adjustments shall be made to the account through pre-tax adjustments to the profit and loss statement as follows:
  - increases shall be effected by debiting the Loss on Revaluation of Loans account in the profit and loss statement and crediting the General Loan Loss Reserve account in the general ledger;
  - reductions shall be effected by crediting the Profit on Revaluation of Loans account in the profit and loss statement and debiting the General



Loan Loss Reserve account in the general ledger;

- c) Provisions to the General Loan Loss Reserve account shall be determined by deducting the total amount of non-performing loans and classified loans from the total amount of loans outstanding and multiplying the result by 3% (three percent) or such other minimum percentages as may be required by the Bank of the Lao PDR from time to time.

## **Article 9.0 Write-off and recovery of loan losses**

Banks shall establish and maintain a record of all loans written off by the bank to a borrower and the amount of all recoveries or payments subsequently received from such borrowers.

9.1 Loans classified Loss shall be written off the books of a bank in accordance with the following procedures, by not later than the end of the calendar quarter in which the loan is classified Loss:

- debiting the Provisions for Non-Performing Loans account in the outstanding principal balance of the loan, or portion thereof classified Loss; and
- crediting the loan account for the amount classified Loss.

9.2 Recoveries of loans written off the books of a bank shall be recorded in accordance with the following procedures:

- debiting the appropriate assets account in the general ledger to record the receipt of the cash payment or property repossessed or foreclosed; and
- crediting the Provisions for Non-Performing Loans account, if a recovery results in excess provision held in the Provisions for Non-Performing Loans account, such excess provisions shall be recovered as prescribed in Article 7, item 7.2.

## **Article 10.0 Non-accrual requirements**

Where a loan is required to be categorized as a non-performing loan:

- a) The bank shall cease accruing as income the interest due under such loan even though the maturity of such loan is not overdue.
- b) If the bank has previously accrued unpaid interest in its current or previous profit and loss statement, it shall immediately:
  - for interest accrued during the current year profit and loss statement, the bank shall reverse the amount of recorded accrued interest from income by

debiting such interest income to the Credit and Loans account and crediting the Interest in Suspense account.

- for interest accrued in previous profit and loss statement the bank shall reserve the amount of recorded accrued interest from income by debiting such interest income to the General Loan Loss Reserve account and crediting the Interest in Suspense account.

10.1 In the event that any cash payment is received by the bank in respect of such loan required to be placed on non-accrued status, that amount shall be applied first to reduce the outstanding principal balance of the loan.

10.2 A non-performing loan may be restored to performing loan status only when:

- a) all overdue principal and interest has been paid by the borrower from his own funds and the borrower shall repay at least 6 (six) consecutive months of principal and interest payments in accordance with the terms of the loan agreement or;
- b) for restructured loans, if the borrower repays at least 6 (six) consecutive months of principal and interest in accordance with the restructured terms of the loan provided the terms of the loan are consistent with other loans which have been made by the bank and have not been restructured; and if the bank expects full repayment of the remaining principal and interest as evidenced by a current written and well-documented analysis and evaluation of the borrower's creditworthiness.

#### **Article 11.0 Restriction on further loans to a delinquent customer**

Banks shall not make any new loan or provide any financial accommodation whatsoever to a customer in respect of whom a loan has been categorized as non-performing until such borrower has repaid all overdue principal and interest in accordance with the agreed terms of the loan.

#### **Article 12.0 Enforcement and corrective measures**

If a bank fails to comply with the requirements contained in this Regulation in a flagrant manner or submits statistical or other reports to the Bank of the Lao PDR which are materially inaccurate, the Governor of Bank of the Lao PDR may pursue any or all corrective actions as provided under New Article 66 of the Decree Law on Commercial Banks No.02/PR dated March 2000 and any amendments thereof, including a money penalty against the bank, or the officers, directors or employees of the bank, either individually or collectively, of up to the Kip equivalent of \$1,000 (one thousand United States Dollars) in respect of each

day in which the bank fails to comply with the requirements contained in this Regulation.

**Article 13.0 Effectiveness**

This regulation replaces Regulation No. 98/BOL dated 15 May 1998 with effect from the date of signature hereof and all guidelines and notices previously given which may be in conflict herewith are declared null and void.

Governor Bank of the Lao PDR

Phoumy THIPAVONE