



Lao People's Democratic Republic  
Peace Independence Democracy Unity Prosperity  
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Bank of Lao PDR (BOL)  
Commercial Banks Supervision Department

No: 541/CBSD  
Vientiane Capital, date 29/Sep/2011

**INSTRUCTION**  
**ON IMPLEMENTATION OF DECISION ON**  
**LOAN CLASSIFICATION AND PROVISION OF CLASSIFIED LOANS FOR COMMERCIAL BANKS**

- Pursuant to the Decision on Loan Classification and Provision of Classified Loans for Commercial Banks No. 324/BOL, dated 19 April 2011
- Pursuant to the Role of Commercial Banks and Financial Institutions Supervision Department.

**I. Objective**

The instruction explains some articles in Decision No. 324/BOL, dated 19 April 2011, on Classification and Provision of Commercial Banks, in order to ensure the correctness and fully understanding among commercial banks.

**II. Definitions**

1. **Decision** refers to decision on loan classification and provision of classified loans for commercial banks No. 324/BOL, dated 19 April 2011.
2. **Forward exchange contract** refers special type of foreign currency transaction between two parties to exchange designated currency, exchange rate, amount and a specific time for the transaction.
3. **Non-accrual status** refer to NPL, interest is no longer accrued or taken into income of bank, previous accrued interest must be written off and record in accrued interest from NPL. As well as, continue to calculate and monitor in off balance sheet based on accounting policy of bank.

**III. Loan classification**

Normal, special mention can be classified as NPL, if banks consider there are external factors affect to borrower's business such as economic crisis, natural disaster and so on.

Special mention and NPL, after borrower pay total principal and interest, or pay a partial of unpaid balance, the classification will consider based on article 4 of decision.

#### **IV. Transfer loan in foreign currency to LAK**

Loan in foreign currency, if income of borrower is not in foreign currency, bank must create forward exchange contract in sufficient amount for payment. If the forward exchange contract not available, bank must consider as substandard or lower at the date of contract and make provision based on agreement.

Loan with no income in foreign currency and it is classified as NPL, bank should transfer to LAK based on exchange rate in classification date and continue to record in LAK until making payment or write-off, but contract must be in original currency.

#### **V. Loan restructures**

Restructure aim to help borrower to have condition to continue their business and make payment. For normal loan, borrowers who have a good condition on their business, the interest set lower for the borrowers due to the market strategy and develop payment terms comply with real situation which not consider to be loan restructure.

Loan restructuring of each loan have to complete condition referred in Article 8 of the agreement.

Banks have appointed party to research and develop structure loan which independent from research/loan analysis. Loan restructuring and able follow not more than 2 times from original contract on wards, period of amended contract each time no exceed the period of old contract.

#### **VI. Provisions for Classified Loan**

Provision for classified Loan to be implemented frequently in each month by actual changing of each loan.

#### **VII. Loan writing off and loss recovery**

Bad debt to complete provision of loan writing off and follow up in the off balance sheet, after approved from board director or management of credit department or the person who have authority, making loan loss latest no exceed the fourth quarter of the year.

Loan writing off and loss recovery must follow accounting method of regulation of BOL.

#### **VIII. Reporting and keeping documentation**

Banks must report about loan classification and provisions by format form of BOL in each period.

Banks have to keeps documents related to loan classification and provisions and have to provide documents when requested by BOL.

This recommendation is effective from the date signature on wards. Any regulations conflict this recommendation had to be canceled.

**Head of Commercial Banks**

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