



Lao People's Democratic Republic
Peace Independence Democracy Unity Prosperity
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The Bank of the Lao PDR

No. 03/BOL

Vientiane Capital, Date 03/June/2008

Regulation

For Savings and Credit Unions

Based on the Law No 5/NA on the Bank of Lao PDR, dated 14 October 1999.

Based on a Proposal from the Banking and Financial Institutions Supervision Department of the Bank of Lao PDR.

The Governor of the Bank of Lao PDR issues the following regulation:

Part I

General Provisions

Article 1 Purposes of the Regulation

This Regulation regulates the establishment and operations of Savings and Credit Unions within the territory of Lao PDR by outlining measures aiming at sustainability and harmonisation in implementation.

Article 2 Interpretation of Terms

- "Savings and Credit Union" means a group cooperative formed in the Lao PDR for the purpose of operating and carrying out the activities of a Savings and Credit Union that has been granted a Licence by the Bank of Lao PDR in accordance with this Regulation.

- “Savings and Credit Union Activities” means extending Loans, accepting deposits, and providing other financial services to Savings and Credit Union members as stipulated in this Regulation or as determined by the Bank of Lao PDR from time to time.
- “Voluntary Deposit” means the deposit of a sum of money repayable on demand or as agreed with the Savings and Credit Union.
- “Compulsory Deposit” means a sum of money that is required to be deposited by a borrower of a Savings and Credit Union as a condition for receiving a loan or as collateral for a loan either as a percentage of the loan or as a nominal amount. The sum may be withdrawn by the borrower immediately upon repayment of the loan.
- “Kip” means the lawful currency of the Lao PDR
- “Foreign Currency” means any lawful currency other than the Kip.
- “Licence” means a certificate of establishment and operation issued to a Savings and Credit Union by the Bank of Lao PDR.
- “Related Parties” means: Officials and immediate family members of Officials
- “Official” means a member of the board of directors, credit committee or audit committee or other senior manager.
- “Immediate family member” means a parent, foster parent, spouse, child, foster child or sibling .
- “Capital” means initial capital, regulatory reserves, grants and retained earnings of the Savings and Credit Union.
- “Initial Capital” is the total of the shares of the Founder Members, provided at the establishment of the Savings and Credit Union.
- “Current Loan” means any loan that is fully paid to date according to a contract.
- "Non-Performing Loan" means a loan for which:
 - a) either principal and/or interest in whole or in part is due and unpaid for more than thirty (30) days.
 - (b) either principal and/or accrued interest from 30 days has been added to an existing loan, new loan or restructured loan.
- “Accounting Documents” means different types of general ledgers, bookkeeping, cash books and other accounting records and documents which are recorded manually and/or electronically used by the Savings and Credit Union.
- “Founder member” means a subscriber to a Savings and Credit Union on its initial establishment.
- “Member” is an individual that pays the minimum share amount to join the Savings and Credit Union.
- “Agent” means individual or enterprise representing an individual or an enterprise for establishing business relationships in order to negotiate contracts by not representing any side.
- “Bye-laws” are the rules adopted by the General Assembly of members that define the field of membership, establish the minimum share capital required for membership, define the rights and responsibilities of the officials and the manager, establish the way in which member meetings are held and voting proceeds during the meetings and, defines the products and services the Savings and Credit Union may offer.

- “Share” is the amount required to be paid in accordance with the Bye-Laws by an individual to become a member of a Savings and Credit Union’s bye-laws.

Article 3 Legal Status

A Savings and Credit Union, which has been granted a Licence from the Bank of the Lao PDR, is a financial cooperative regarded as a legal entity that has equal rights before the law and operates in accordance with the law and this Regulation.

Article 4 Location

A Savings and Credit Union that has been granted a Licence by the Bank of the Lao PDR shall be allowed to open a head office, branches or service units in the entire country in accordance with its approved application for a Licence. The opening, closing and relocation of the head office or a branch or service unit or the opening of any new branches or services units is subject to the prior approval of the Bank of the Lao PDR.

Part II

Establishment Rejection of Establishment, Fee, Revocation

Article 5 Requirements for Requesting Establishment

Any group of individuals intending to establish a Savings and Credit Union in the Lao PDR shall:

- (a) have an appropriate common bond that is either associational, occupational, or geographic in nature.
- (b) be of legal age, Lao nationality and physically currently living in the Lao PDR.
- (c) have members:
 - (1) at the minimum of ten (10) founder members and initial member of hundred (100) or,
 - (2) at minimum of two hundred fifty (250) members and voluntary deposits of three hundred (300) million kip for the existing financial institution or cooperative which wants to transform itself into a Saving and Credit Union subject to an approval of the Bank of Lao.

For both cases, no individual member or any individual member together with such member’s related parties owning more than 10% of the initial capital.

- (d) For both cases, have at least registered capital of one hundred (100) million Kip as specified in Article 17 of this regulation.

Article 6 Required Documents for Requesting Establishment

1 The application file for a Licence to be submitted to the Bank of Lao PDR body shall comprise the following original documents:

- (a) an application form in accordance with the format to be provided by the Bank of Lao PDR.
- (b) a receipt voucher from the Operational Department of the Bank of the Lao PDR indicating the receipt of cash or a check of five hundred thousand (500,000) Kip (the Application Fee) or as determined by the Bank of Lao from time to time.
- (c) the draft Bye-laws of the Savings and Credit Union (in accordance with draft Bye-laws provided by the Bank of Lao)
- (d) a statement evidencing that the proposed Savings and Credit Union has the minimum hundred (100) million Kip capital requirement as stipulated in Article 17 of this Regulation.
- (e) minutes of the organisational meeting of the Founder Members of the Savings and Credit Union on the establishment of the Savings and Credit Union, election of the members of the board of directors, credit committee, and audit committee.
- (f) investment, credit, personnel, collections and provisioning policies approved by the General Assembly of Founder Members.
- (g) a map of location and a business plan covering the first three years of operation of the Savings and Credit Union that demonstrates the sustainability of the Savings and Credit Union.
- (h) the curriculum vitae of each of the members of Officials (Board of Directors) and the manager of the Savings and Credit Union .
- (i) names and responsibilities of proposed Savings and Credit Union staff.

2 In order to determine the professional suitability of persons proposed to become Officials and the manager of a Savings and Credit Union, the Bank of Lao PDR shall have regard to the educational background and experience in finance, banking, accounting, auditing and business management of the person concerned.

Article 7 Membership Requirements

To become a Savings and Credit Union member the individual:

- 1 shall be eligible for membership under the terms of the Savings and Credit Union bye-laws.
- 2 must be of legal age in accordance with Lao law.
- 3 be a person with full capacity as defined in the law.
- 4. other requirments as stipulated in the Bye-law.

Article 8 Disqualified Persons

A person shall be disqualified from being an official or manager, if in so far as can reasonably be determined such person:

- (a) has been convicted of the offence of fraud or has been subject to an investigation of a professional, administrative or judicial proceeding of a material nature.
- (b) has contravened the provisions of any laws or regulations designed for the protection of members of the public against financial loss due to dishonesty or incompetence of, or malpractices by, persons engaged in the provision of banking, insurance, investment or other financial services.
- (c) was an Official or manager of an institution that has been involuntarily liquidated or is under liquidation or management of the Bank of Lao PDR or under receivership.
- (d) has taken part in any business practices that in the opinion of the Bank of Lao PDR, were fraudulent, prejudicial or otherwise improper whether unlawful or not or which otherwise discredited his or her methods of conducting business.
- (e) has taken part or been associated with any other business practices as would, or has otherwise conducted himself or herself in such manner as to, cast doubt on his or her competence and soundness of judgement.
- (f) has been declared insolvent.
- (g) is involved either as an employee, shareholder, member or manager in any Microfinance or Savings and Credit Union Activities in such a way as there may be a potential conflict of interest.

Article 9 Licensing

1 The Bank of the Lao PDR shall within thirty (30) working days of receipt of the full application file notify the result (decline or approval) of its consideration.

2 Within thirty (30) working days of receipt of the Licence a Savings and Credit Union shall

- a. pay the Licence issuance fee in Article 14 of this Regulation.
- b. register its Licence and comply with tax registration with relevant authorities.

Article 10 Name

1 A Savings and Credit Union shall use the name specified in the Licence. If a name is used in a foreign language the meaning shall be consistent with the name specified in the approved Licence.

2 The Bank of Lao PDR shall prohibit the Savings and Credit Union from using a name if it is already used or if it closely resembles a name that is already given to another Savings and Credit Union.

3 No individual's name may be used in a Savings and Credit Union's name.

Article 11 Duration of the Licence

Unless withdrawn earlier by the Bank of Lao PDR in accordance with Article 16 of this Regulation, the Licence of the Savings and Credit Union shall remain valid for ten (10) years.

Article 12 Refusal of Licensing

- 1 A Licence shall not be issued if the Bank of Lao PDR finds:
 - (a) an Official or the manager is participating in illegal activities or there is a court decision prohibiting from engaging in Microfinance, Savings and Credit Union Activities or banking.
 - (b) the conditions set out in Articles 6 and 7 of this Regulation are not complied with.
 - (c) unreliable information in the documentation submitted by the applicant.
 - (d) the business plan is not viable.
- 2 In the case of refusal of a Licence, the Bank of Lao PDR shall, within thirty (30) working days of receipt of the full application, provide a written statement of the reasons for refusal and shall return all submitted documentation.

Article 13 Resubmission of Application

- 1 The applicants may address the reasons given for refusal in writing to the Bank of the Lao PDR shall allow the applicant to re-submit an application for licensing one time without paying an application fee again The Bank of the Lao PDR shall, within thirty (30) working days upon receipt of the file, issues the result of its reconsideration in writing as specified in Article 9 of this Regulation.
- 2 For applications resubmitted more than one time a resubmission fee shall be imposed as specified in Article 14 of this Regulation

Article 14 Licensing Fees

- 1 The Savings and Credit Union shall pay a licensing application fee of five hundred thousand (500,000) Kip.
- 2 Within seven (7) working days of receipt of the Licence, the Savings and Credit Union shall pay a Licence issuance fee as followings:
 - If the registered capital is between 100-300 million kip then it is subject to a fee of 1,000,000 Kip
 - If the registered capital exceeds 3 billion kip then it is subject to a fee of 1,500,000 Kip

The licening fee shall to be pay only one time until the business is terminated.

Article 15 Supervision Fee

1 All Savings and Credit Unions shall pay an annual fee of five hundred thousand (500,000) Kip before January 30 of each year (to be exempted in the first year).

Article 16 Revocation of the Licence

With immediate effect, the Bank of the Lao PDR shall revoke the Licence of a Savings and Credit Union if the Savings and Credit Union:

- (a) has not commenced operations within six (6) months from the date of the Licence.
- (b) has total shares of below the minimum initial shares (at least 100 million Kip) that are not replenished in six (6) months from the date that the shares fall below the minimum.
- (c) is prohibited by a court decision from engaging in Savings and Credit Union Activities.
- (d) does not implement any prescribed corrective measures or comply with any notice in the prescribed time frame after its business has been temporarily suspended.
- (e) does not perform of any requirements established as part of the Licence or under this Regulation
- (f) discontinues its operations.

Part III

Capital of a Savings and Credit Union

Article 17 Initial Capital

1 The minimum initial capital shall not be less than hundred (100) million Kip or another amount determined by the Bank of the Lao PDR from time to time.

2 The amount of a share is established in each Savings and Credit Union's bye-laws but shall not exceed one hundred thousand (100,000) Kip per share.

3 The initial capital may be comprised of cash only.

Article 18 Utilising Shares and Capital

1 The shares and capital of a Savings and Credit Union granted a licence by the Bank of the Lao PDR may be utilised toward:

- (a) building offices and purchasing assets necessary for business operations.

- (b) granting credit
- (c) making investments in approved BOL investments.

Article 19 Depositors' Protection Fund Membership

1 A Savings and Credit Union shall become a member of the Depositors' Protection Fund and shall remit a certain percentage of total deposits as required by the Depositors' Protection Fund to establish a fund for the protection of depositors of a Deposit-Taking Microfinance Institution.

Article 20 Shares

- 1 Shares may not be transferred, sold, or change holder.
- 2 The share amount is withdrawable and refundable upon termination of membership as long as liquidity and capital prudential standards have been met.
- 3 No member and related party may own more than ten (10) percent of shares
- 4 Shares may not be used as collateral for a loan.

Part IV Organisation

Article 21 Organisation of a Savings and Credit Union

The organisation of a Savings and Credit Union consists of the General Assembly of Members, the board of directors, the Audit and Credit Committees and the Manager.

Article 22 General Assembly of Members

- 1. The General Assembly of Members is the highest body of a Savings and Credit Union. The ordinary General Assembly of Members is held at least once a year on the decision of the board of directors. The annual General Assembly of Members shall be held not later than three months after the close of the fiscal year. The meeting will be held in the locality of the head office of the Savings and Credit Union.
- 2. The notice and agenda of the annual General Assembly of Members or other meetings shall be published in the mass media at least ten (10) days before the date of the meeting.
- 3. An ordinary General Assembly of Members shall not be conducted unless 50% of the members for Savings and Credit Unions with membership up to 300, or 150 members for Savings and Credit Unions with membership exceeding 300 members are present.

Article 23 Resolutions of the General Assembly of Members

1 Unless a higher majority is provided for in the Bye-laws of the Savings and Credit Union, resolutions of ordinary General Assembly of Members and extraordinary meetings are effective when adopted by a simple majority of the members present at the meeting.

2 Each member, regardless of the volume or amount of business conducted with the Savings and Credit Union, is entitled to one vote, which shall be cast by secret ballot.

3 Any member who is a party to, or has an immediate family member who is party to any transaction being considered by the General Assembly of Members shall not be entitled to vote on matters concerning that transaction.

Article 24 Rights and Responsibilities of the General Assembly of Members

The ordinary General Assembly has the following rights and responsibilities:

- (a) to hear the board of directors' report on the Savings and Credit Union operations, financial statements, budget and action plan for the upcoming year.
- (b) to hear the report of the auditor.
- (c) to approve and adopt the annual operational report of the previous year.
- (d) to approve and adopt the annual financial statements.
- (e) to approve the distribution of dividends and various reserves.
- (f) to elect or remove members of the board of directors, Audit and Credit Committees.
- (g) to authorise the board of directors to perform a specific tasks on behalf of the General Assembly of Members.
- (h) to appoint the external auditor and approve auditing fees.
- (i) other rights and responsibilities in accordance with the law and the Bye-laws of the Savings and Credit Union.

Article 25 Extraordinary General Assembly of Members

1 An Extraordinary General Assembly of Members may be convened at any time and may be requested in writing by.

- (a) a majority of the board of directors.
- (b) a majority of the Audit Committee.
- (c) 50 percent of the members for Savings and Credit Unions with membership up to 300 members, or 150 members for Savings and Credit Unions with membership exceeding 300 members.
- (d) persons appointed by the court.

(e) the liquidation agent.

2 An Extraordinary General Assembly of Members shall not be conducted unless fifty (50) % of the members for Savings and Credit Unions with membership up to 300, or 150 members for Savings and Credit Unions with membership exceeding 300 members are present.

3 Unless a higher majority is provided for in the Bye-laws, resolutions of an Extraordinary General Assembly of Members are effective only when approved by more than half of the members or the proxies present at the meeting in person.

Article 26 Rights and Responsibilities of Members

Members have the following rights and responsibilities:

- (a) to participate to and cast their vote at General Assemblies.
- (b) to receive documents at least ten (10) working days prior to the ordinary General Assembly.
- (c) to be informed about operations of the Savings and Credit Union.
- (d) to raise questions and submit opinions in writing on the Savings and Credit Union's management.
- (e) to receive dividends in proportion with their shares.
- (f) to pay for membership shares in accordance with the specified timeframe.
- (g) to be liable for the Savings and Credit Union's debts to the total value of their shares.
- (h) to appoint a proxy in writing.
- (i) other rights and responsibilities in accordance with the law and the Bye-laws of the Savings and Credit Union.

Article 27 Structure of the Board of Directors

1 The board of directors shall consist of five members including the Chairman, all of whom shall be Savings and Credit Union members.

2 Members of the board of directors are elected or removed by the General Assembly of Members.

3 Members of the board of directors have a term of office of three years and may be re-elected for up to two consecutive terms following which a minimum period of three years shall elapse before they are eligible to be elected again.

4 In case a member of the board of directors passes away, may no longer perform his duties, resigns between two General Assemblies of Members, the board of directors may appoint another member for temporary replacement until the next General Assembly of Members.

Article 28 Rights and Responsibilities of the Board of Directors

1 The board of directors shall be responsible before the law and have the following rights and responsibilities:

- (a) to implement the resolutions of the general assembly of members;
- (b) to report the activities of the Savings and Credit Union to the general assembly of members;
- (c) to be responsible before the law for any losses caused to the Savings and Credit Union through the negligence of the board of directors;
- (d) to propose the distribution of profits to various reserves and dividends to the general assembly of members;
- (e) to appoint the chairman of the board of directors;
- (f) to appoint and fill any vacancy for a board member between two general assemblies of members;
- (g) to appoint, dismiss or remove the Manager;
- (h) to decide the objectives and business strategies of the Savings and credit Union and to approve business plans;
- (i) to fulfil other rights and responsibilities as defined in the bye-laws of the Savings and Credit Union and the law;

2 Members of the board of directors are prohibited from having others to carry out their duties on their behalf.

Article 29 Meetings of the Board of Directors

1 The Board of Directors shall have at least one meeting each month and shall have extraordinary meetings at the request of any member of the Board of Directors.

2 The schedule and agenda of meetings of the board of directors shall be notified in writing to members of the board of directors at least seven (7) days in advance of each ordinary meeting and at least twenty four (24) hours in advance of each extraordinary meeting by the Chairman of the board of directors.

3 A meeting of the board of directors may be held only in the presence of at least two third of its total members. Resolutions of the meetings of the board of directors are effective only when adopted by a majority of votes from members present at the meeting. In the case of tied votes, the Chairman shall have the casting vote. Each meeting of the board of directors shall be recorded in a minute book. The Chairman of the board of directors shall be responsible for the accuracy and reliability of the minutes of meetings of the board of directors. The minutes of meetings of the board of directors shall be signed by all participants to the meeting.

4 Where a quorum is not present at the first convocation, the meeting shall be reconvened by the chairman of the board of directors within the next ten (10) working days.

Article 30 Rights and Responsibilities of the Chairman of the Board of Directors

The rights and responsibilities of the chairman of the board of directors are set out in Schedule A hereto.

Article 31 Rights and Responsibilities of Members of the Board of Directors

The rights and responsibilities of members of the board of directors are set out in Schedule B hereto.

Article 32 Audit Committee

1 The Audit Committee shall be elected by the membership at the General Assembly. The Audit Committee shall be comprised of three members. Terms will be for three years and committee members may be re-elected and no more than two consecutive terms may be served. Subsequently, after a period of three years has passed they are eligible to run for office again.

2 At least one member of the Audit Committee shall have accounting and/or financial experience with a thorough understanding of standards and regulations on audit, accounting and finance.

3 The Audit Committee shall have the following rights and responsibilities:

- (a) to audit expenses and operations of the Savings and Credit Union;
- (b) to investigate and examine all documents it deems necessary in performing his functions;
- (c) to make recommendations for internal controls and the policies, procedures and systems for implementation;
- (d) to review and verify the accuracy of the daily, monthly, quarterly and annually financial accounts;
- (e) to prepare a report on the examination of the accounting and other operations of the year to the General Assembly of Members for consideration and approval;
- (f) to immediately prepare a report to Board of Directors and the Bank of Lao PDR on finding any violations of laws and regulations of the Bank of the Lao PDR.
- (g) other rights and responsibilities in accordance with the law and the Bye-laws of the Savings and Credit Union.

Article 33 Suspension and Removal Rights of the Board of Directors and Audit Committee

1 The Audit Committee by a unanimous vote shall suspend any of the members of the Board and the Board by unanimous vote may suspend any of the members of the Audit or Credit Committees in case of violation of the bye-laws, regulations, law or fraud and other wrong-doing by them.

2 The body that suspended the official, that is, the Board or Audit Committee shall call an extraordinary general assembly of members not later than ten (10) working days after the Board or Audit Committee has made such decision to confirm such suspension by a two-third majority vote of the members present. The chairperson of the Board or Audit Committee depending on which body suspended the official shall act as chairperson of the extraordinary general assembly of members unless the members select another person to act as chairperson.

Article 34 Credit Committee

1 The Credit Committee shall be elected by the membership at the General Assembly of Members.

2 The Credit Committee shall consist of five (5) members.

3 Credit Committee members shall be elected for a 3 year term and may serve for 2 consecutive terms. However, after a term of 3 years has passed they are eligible to be elected again.

4 The Credit Committee may delegate its powers, or part of them, with regards to the approval of loan applications and lines of credit, requests for deposits being used as collateral, releases and substitutions of collateral to the manager or a credit officer.

5 Credit officers may be employed by the Savings and Credit Union and restrictions on their lending authority stated in the Savings and Credit Union lending policy.

6 The credit officer shall maintain a record of all received loan applications and furnish to the Committee a record of each approved or disapproved application, and such record shall become a part of the records of the Committee.

7. Any individual who has the authority to approve a loan shall not be permitted to borrow from the SCU except such individual is a member of that SCU. However, such borrowing shall be made under normal conditions as applied to any other members consistent with SCU's bye-laws.

8 The Credit Committee shall:

- (a) meet as often as required by the volume of business referred to the committee for decision or review, but no less than once a month. Decisions shall be taken by a majority vote of the members, unless otherwise stipulated in the bye-laws or relevant regulations.
- (b) provide counsel to members in the effective use of credit.
- (c) review applications for loans and make decisions upon such applications within the authority delegated to the Credit Committee by the Board.
- (d) act upon the request of the members with respect to amendment of the terms and conditions of a loan provided that such amendments are in line with the Savings and Credit Union credit policy.
- (e) review, upon written member request, loan applications denied by the credit officer.
- (f) give preference to the smaller loan should adequate funds not be available to meet all loans demand, and
- (g) monitor loan repayment.

Article 35 Rights and Responsibilities of the Manager

1 The Manager has the following rights and responsibilities:

- (a) to manage and decide all matters of the Savings and Credit Union within the scope assigned by the board of directors, as well as answer for all the Savings and Credit Union's activities before the board of directors and the General Assembly of Members.
- (b) to represent the Savings and Credit Union in contacts and contractual dealings.
- (c) to recruit or dismiss personnel, implement the payroll, allowances and other treatments as approved by the Board of Director, award and promote personnel or apply disciplinary sanctions against offenders.
- (d) to perform other rights and responsibilities assigned by the board of directors.

2 The Manager may appoint a deputy manager (s) as agreed by the board of directors.

Article 36 Restrictions

1 The Chairman may not also be the Manager of the Savings and Credit Union nor shall the Chairman participate in the board of directors nor manage any other Savings and Credit Union or Microfinance Institution or similar business.

2 Members of the board of directors, credit committee and audit committee may not be employees of the Savings and Credit Union.

3 In the event that any Official, or the Manager, or departmental head intends to work simultaneously for another enterprise that is not a Savings and Credit Union, prior approval from the board of directors is required. The board of directors shall only consent to such employment if there is no conflict of interest and it is satisfied that the said Official, Manager or departmental head will be able to devote adequate time to fully and properly discharge their assigned duties with the Savings and Credit Union.

4 Officials, the Manager, and departmental heads of a Savings and Credit Union may not have been dismissed from the civil service or have formerly worked in the same position at a company whose Licence has been revoked.

Part V

Business Operations of a Savings and Credit Union

Article 37 Rights and Responsibilities of a Savings and Credit Union

- 1 A Savings and Credit Union shall be entitled to:
 - (a) extend loans in Kip to members.
 - (b) receive Compulsory and Voluntary Deposits from members .
 - (c) mobilise capital in the form of loans or grants, from Lao and foreign organisations or legal entities.
 - (d) open accounts and deposit funds with any commercial banks.

- (e) provide payment services or transferring within the country.
- (f) offer insurance products to members as a Broker
- (f) determine deposit rates and loan rates that shall be at such level as to cover cost of funds, administrative costs, taxes, loan loss provisions and profits.

2 A Savings and Credit union shall:

- (a) ensure the availability of the deposits when depositors wish to withdraw their funds in accordance with the deposit agreements.
- (b) keep confidentiality on financial status of member deposits and loans except if there is an order from court, auditor or prior approval from the Bank of the Lao PDR.
- (c) pay interest to the customers in accordance with the deposit agreement.
- (d) advise borrowers prior to the signature of a loan agreement of the total amount in Kip of fees and interest to be paid on the loan over the course of the loan.

Article 38 Business Operation Restriction

Savings and Credit Unions shall not:

- (a) carry out leasing.
- (b) deal in gold, precious metals, raw materials and commodities.
- (c) provide payment services through checking accounts.
- (d) carry out swap or foreign exchange business.
- (e) issue letter of credit, bank guarantees, bid and performance bonds, or any other guarantee.
- (f) provide insurance services on their own account.
- (g) hold, deal or trade in real estate (land, building or others premises) except for their own use.
- (h) hold, deal or trade in derivatives.
- (i) other restrictions which may be determined by the Bank of the Lao PDR from time to time.

Article 39 Financial Ratios

Savings and Credit Unions are required to strictly maintain financial ratios in compliance with this Regulation to ensure stability and solvency for effective and efficient operations.

Article 40 Fund Mobilisation

- 1 Savings and Credit Unions shall mobilise Deposits from members only.

2 Savings and Credit Unions shall mobilise member deposits in Kip only. The Savings and Credit Union may mobilise member deposits in foreign currency only with the prior written approval of the Bank of Lao PDR.

3 Savings and Credit Unions may mobilise donations and grants. A Savings and Credit Union receiving a donation or grant from any domestic or foreign source shall be fully aware of the ultimate source of such funds to avoid the risk of money laundering.

4 The aggregate amount of borrowed funds may not exceed 30% of the outstanding credit portfolio of the Savings and Credit Union at any time.

5 Any borrowing from a foreign source shall be subject to the prior approval of the Bank of the Lao PDR.

Article 41 Credit

The aggregate amount of Loans extended to any one member of the Savings and Credit Union shall not be more than ten (10) percent of the capital of the Savings and Credit Union.

Article 42 Loan Agreement

1 At a minimum the loan agreement shall specify:

- (a) the name and last name of the borrower.
- (b) amount of loan.
- (c) purpose and drawdown period of the loan.
- (d) maturity date and repayment schedule of interest and principal.
- (e) the loan interest rate
- (f) The total amount of fees to be paid over the course of the loan, if any
- (g) The total amount of interest to be paid over the course of the loan.
- (h) penalties (in case a borrower is unable to fulfil a contract obligation).
- (i) type and value of security or collateral,.
- (j) procedures for settlement of disputes.

2 The loan agreement shall at least bear the signatures of the borrower and an authorised person of the Savings and Credit Union.

Article 43 Credit Restrictions

1 A Savings and Credit Union shall not grant any new loan or financial support to a borrower whose loan has been classified as a non-performing loan, until the borrower has repaid all overdue principal and interest.

2 A Savings and Credit Union is prohibited from making loans to non-members.

3 A Savings and Credit Union may reschedule a loan and the rescheduling shall be for a valid reason. Rescheduling under no circumstances may be used to avoid classifying loans as non-performing.

4 Interest due shall be paid current prior to any loan being rescheduled. Under no circumstance may interest be capitalized into the rescheduled loan.

Article 44 Credit Extension to the Related Parties

1 All loans to elected officials, majority shareholders and individuals whose business directly benefit officials shall be approved by a majority of two-thirds of the members of the credit committee. All loans to the related parties and members of credit committee and their immediate family shall be approved by a majority of two-thirds of the board of directors.

2 Loans to Related Parties shall be made under normal conditions as applied to any other non-related member.

3 The amount of outstanding loans made to each related party shall not exceed 5% of the capital of the Savings and Credit Union.

4 The aggregate amounts of outstanding loans made to all related parties shall not exceed 25% of the capital of the Savings and Credit Union.

Article 45 Loan Classification and Provision

1 A Savings and Credit Union shall ensure that all loans are reviewed on a regular basis at least every calendar quarter. Any loan overdue shall be recorded as non-performing on the balance sheet and classified and provisioned for as follows:

(a) Loans for which the principal and or interest are overdue for a period between 30-90 days shall be classified as Substandard Loans and provision shall be made for 25% of the outstanding principal.

(b) Loans for which the principal and or interest are overdue for a period between 91-180 days shall be classified as Doubtful Loans and provision shall be made for 50% of the outstanding principal.

(c) Loans for which the principal and or interest are overdue for more than 180 days shall be classified as Loss Loans and a provision shall be made for 100% of the outstanding principal.

2 Outstanding loans which are recorded as a non-performing loan shall not exceed five (5) % of total value of outstanding loans. In addition a Savings and Credit Union shall establish a general loan loss reserve of one (1) percent of the total value of performing Loans outstanding.

3 The Bank of Lao PDR may order a Savings and Credit Union to increase provisions for Non-Performing Loans, if existing provisions are deemed to be insufficient after taking into account the risks and the general quality of the management of the Savings and Credit Union.

4 A Savings and Credit Union shall maintain all documentation relating to Non-performing Loans for inspection of the accuracy and completeness of the provisions in the accounting records and for use as evidence in the collection of debts or in legal action against borrowers.

5 Any new Loan made to repay any overdue Loan, or any Loan that has been rescheduled, rolled-over, or otherwise modified because of weakness in the borrower's financial conditions or the borrower's inability to repay shall be classified no higher than Substandard. The Savings and Credit Union may accrue interest on such loans.

Article 46 Discontinue Accruing Interest of Loan which are Classified as Non-Performing Loans

Other than as provided for in Article 45, Clause 5 Savings and Credit Unions, if using accrual basis accounting, shall discontinue charging further interest of loans which are classified as non-performing and shall also reverse the amount of previous recorded accrued interest which has not actually been received and recorded in the income statement.

Article 47 Repayment of Non-Performing Loans Classified as a Loss:

For any received repayment from loans which are classified as non-performing and a loss, that is more than 180 days delinquent, due to overdue principal or both overdue principal and unpaid interest, the Savings and Credit Union shall first apply such repayment to any outstanding interest and any balance shall be deducted unpaid principal.

Article 48 Write-Off

1 Any loan classified as non-performing and overdue more than 180 days shall be written off from the balance sheet of the Savings and Credit Union no later than the following quarter in which it was reported as a loss. The Savings and Credit Union shall continue collection efforts for any loans which are written off.

2 A Savings and Credit Union shall record all loans written-off and all recoveries or payments received against these loans after write-off and shall write-back such recoveries

Article 49 Capital Adequacy Ratio

A Savings and Credit Union shall maintain a ratio of capital to risk weighted assets of at least twelve (12) % or as determined by the Bank of Lao from time to time.

Article 50 Liquidity Ratio

A Savings and Credit Union shall maintain a liquidity ratio of as follows:

- (a) cash in hand of four (4) % which is calculated as: $\text{Total Cash Available (Assets)} \div \text{Total Deposits (Liabilities)}$.
- (b) a liquidity ratio of twenty (20) % which is calculated as: $(\text{Total Cash Available} + \text{Cash Deposit in other banks or any other financial institutions}) \div \text{Total Liabilities}$.

Article 51 Investments

A Savings and Credit Union shall only invest in investments that have been approved by the Bank of Lao PDR.

Part VI

Revenues, Expenditures, Profit and Loss

Article 52 Revenues and Expenditure

- 1 Revenues of a Savings and Credit Union include:
 - (a) revenues from interest.
 - (b) revenues from service fees and charges.
 - (c) other revenues.

- 2 Expenditures of a Savings and Credit Union include:
 - (a) interest.
 - (b) business administration costs.
 - (c) provisions.
 - (d) depreciation and amortisation of fixed assets.
 - (e) other expenditures.

Article 53 Profit

The gross profit of a Savings and Credit Union is the difference between the revenues and expenditures. The net profit is the after-tax profit. The dividend may be distributed only if capital adequacy ratios, provisions and reserves requirements as outlined in this Regulation or any amended version issued by the Bank of Lao.

Article 54 Regulatory Reserve

- 1 A Savings and Credit Union shall establish a regulatory reserve to offset potential losses from business operations.

- 2 The regulatory reserve shall be accumulated by the transfer to the reserve of at least five (5) percent of the annual profit after tax until such time as the value of the regulatory reserve reaches twenty (20) percent of the capital of the Savings and Credit Union. Thereafter the regulatory reserve shall be maintained at twenty percent (20%) of the capital of the Savings and Credit Union.

Article 55 Loss and Rehabilitation

In the event of losses that do not originate from the loan portfolio or that originate from the loan portfolio but cannot be covered by existing or new provisions for losses, a Savings and Credit Union shall apply the mandatory reserve funds as decided by the board of directors.

Article 56 Tax Obligations

A Savings and Credit Union shall ensure the full and timely payment of taxes to the State as prescribed by the Tax Law.

Part VII

Audit, Accounting and Reporting

Article 57 Internal and External Audit

1 All expenses and current affairs of a Savings and Credit Union shall be audited regularly . There are two types of audit: internal and external audit.

2 Internal audit refers to the control performed by the internal auditor or Audit Committee or their designee the internal auditor of the Savings and Credit Union.

3 The external audit of a Savings and Credit Union includes the audit of its accounts by external auditors and examination by the Bank of Lao PDR. External auditors and the auditing costs shall be endorsed in the General Assembly of Members on the proposal of the Audit Committee of the Savings and Credit Union. External audit is carried out once a year. At the audit's completion, a report is submitted to the Savings and Credit Union and to the Bank of Lao PDR. Examination by the Bank of Lao PDR, may take place once a year or at any time when deemed necessary.

4 The Savings and Credit Union shall be required to change external auditors at least every three years. The Bank of Lao PDR may waive this requirement upon written request from the Savings and Credit Union if there is a lack of qualified auditors where the Savings and Credit Union is located.

5 An auditor shall not be allowed to perform the annual audit of a Savings and Credit Union if the auditor:

- (a) is related to Savings and Credit Union's Officials or employees.
- (b) has provided consulting services in the areas of lending, accounting, finance, administration, or any other operational areas in the previous 5 years.
- (c) is a member of the Savings and Credit Union.

Article 58 Accounting and Reporting:

1 A Savings and Credit Union which is granted a Licence by the Bank of the Lao PDR shall utilize an accounting system and a chart of account as well as an accounting manual provided by the Bank of the Lao PDR.

2 For the first 3 years of operations a Saving and Credit Union may use cash or accrual accounting and shall use accrual accounting thereafter.

3 The Savings and Credit Union shall summarise and submit the following reports quarterly and annually to the Bank of the Lao PDR no later than the 15th of the following month in accordance with proforma provided by the Bank of Lao PDR:

- (a) Information on assets and liabilities (Balance Sheets)
- (b) Information on profit and loss (Income Statement)
- (c) Information on loans and deposits (Loan and Deposit Report).
- (d) Information on Non- Performing Loans and Provisions (Loan Classification Report).
- (e) Other reports as determined by the Bank of the Lao PDR from time to time.

4 Within ninety (90) working days of the end of the accounting year the Savings and Credit Union shall submit to the Bank of Lao PDR:

- (a) a report on the business operations of the previous accounting year.
- (b) the externally audited financial statements for the previous accounting year.
- (c) a budget of upcoming accounting year.
- (d) staff statistics.
- (e) an organisation chart.
- (f) the number and location of branches.

5 Savings and Credit Unions shall promptly report to the Bank of Lao PDR any circumstances or events that may materially or adversely affect their activities, sustainability or society.

Article 59 Keeping Accounting Documents

Savings and Credit Unions shall keep accounting documents in a secure place for at least ten (10) years

Article 60 Disclosure of Savings and Credit Union Financial Positions

Within 90 days of the end of each financial year, a Savings and Credit Unions shall publish their financial statements in the form provided by the Bank of Lao PDR for their members through the media and shall publicly display the annual report and financial statements at their head office for six (6) consecutive months.

Part VIII

Liquidation and Dissolution of Business

Article 61 Voluntary Liquidation

1 A voluntary liquidation may occur if approved by two-thirds of the members and agreed by the Bank of Lao PDR and only when the Savings and Credit Union has the ability to meet its obligations to creditors and depositors.

2 The voluntary liquidation process shall be carried out as follows:

- (a) an extraordinary General Assembly of Members shall be convened to present the proposal and cast votes.
- (b) Upon decision to liquidate by a majority of members as set out in Clause 1 of this Article a liquidating agent or committee shall be appointed.
- (c) The liquidating agent shall develop a liquidation plan providing for the liquidation of assets and payment of creditors and depositors within twelve (12) months of the proposed liquidation date.
- (d) The Savings and Credit Union shall submit a written request to the Bank of Lao PDR together with the resolution of the extraordinary General Assembly of Members, including reasons for the liquidation, the financial statements as of the date of the formal request, the name of the liquidating agent.
- (e) The voluntary liquidation process shall be completed within twelve (12) months from the date which liquidation has been commenced.

Article 62 Consideration of the Bank of the Lao PDR

1 Upon receipt of the liquidation request as specified in Article 61, The Bank of Lao PDR shall consider the request. The Bank of Lao PDR may require the Savings and Credit Union to revise the liquidation plan or request additional documentation or information. If the Bank of Lao PDR finds that the appropriate procedures are followed, the Bank of Lao PDR shall approve and notify the Savings and Credit Union of its decision within thirty (30) working days of receiving the request.

2 Upon receipt of the Bank of Lao PDR's permission, the Savings and Credit Union shall post and publish the decision through the media for eight consecutive weeks.

Article 63 Contents of Notification for Voluntary Liquidation

Contents of Notification includes:

- (a) the name of the Savings and Credit Union.
- (b) purpose of liquidation.
- (c) timeframe for liquidation and date, month, year on which the Savings and Credit Union will close its business officially.
- (d) notice on procedures for depositors to receive their funds on deposit at the Savings and Credit Union and for creditors to receive payment from the Savings and Credit Union.
- (e) the timeframe allowed depositors and creditors to withdraw their money.

Article 64 Liquidation Periods

1 Any Savings and Credit Union which is in the process of liquidation shall maintain its business hours as usual until the completion of liquidation.

2 Upon the approval of voluntary liquidation by the Bank of Lao PDR a Savings and Credit Union shall cease accepting voluntary deposits and shares, stop granting loans and cease all other business. The collection of loans and interest, payment to depositors and creditors and withdrawal of deposits will continue.

Article 65 Final Steps of Voluntary Liquidation

1 If there are some members and creditors who did not come forward to claim their money or debt, the Savings and Credit Union shall establish a list of customers to be paid back in the specific amounts including interest verified by the Chairman of the Board of Director before reporting to the Bank of the Lao PDR at least ten (10) working days prior to the official dissolution.

2 The Bank of the Lao PDR shall review that list. If it is deemed correct, a written notification of licence revocation shall be issued within ten (10) working days of receiving such list.

3 Upon completion of the liquidation, all reports and the Savings and Credit Union balance sheet shall be submitted to the Bank of Lao PDR

Article 66 Unclaimed Debts

Any unclaimed money of members or creditors, which passed the claimable date specified in the liquidation and dissolution notice in accordance with Article 63 will be kept in the Bank of the Lao PDR for a period of 3 years. During the 3 year period, the Bank of the Lao PDR shall continue notifying those customers and creditors through media from time to time. At the end of three years the Bank of Lao PDR shall record any residual unclaimed money as an asset.

Article 67 Returning Shares

After the Bank of the Lao PDR has deducted unclaimed money of members and creditors and other expenses that may occur during a period of maintaining the list of unclaimed money, the Bank of the Lao PDR shall return the remaining shares to the members.

Article 68 Involuntary Liquidation

An involuntary liquidation order shall be issued by the Bank of Lao PDR to the Savings and Credit Union in the event the Savings and Credit Union:

- (a) has had its Licence cancelled by the Bank of Lao PDR.
- (b) is found to lack stability and bears high risks which may lead to major loss or damage to members, depositors, creditors or the financial system of the country.
- (c) is found bankrupt by a court judgement.

Article 69 Appointment of Liquidating Committee for Involuntary Liquidation

- 1 Within five (5) working days of the issue of the involuntary liquidation order by the Bank of Lao PDR to liquidate a Savings and Credit Union, a Liquidating Agent shall be appointed by the Bank of Lao PDR. The Liquidating Agent shall be under the direction and supervision of the Bank of the Lao PDR.
- 2 The Liquidating Agent shall develop a liquidation plan providing for the liquidation of assets and payment of creditors and depositors within twelve months of the date of issue of the involuntary liquidation order.
- 3 The liquidation plan shall be subject to the written approval of the Bank of Lao PDR.

Article 70 Restrictions on Involuntary Liquidation

- 1 Upon the receipt from the Bank of the Lao PDR of the order to proceed with involuntary liquidation, the Savings and Credit Union shall:
 - (a) suspend the power of the General Assembly of Members, board of directors and committees and the Manager.
 - (b) suspend all business activities.
- 2 Upon the receipt from the Bank of the Lao PDR of the order for the Savings and Credit Union to proceed with involuntary liquidation:
 - (a) the terms of all the Savings and Credit Union debt obligations shall be considered expired
 - (b) payments made, or other use of the Savings and Credit Union assets, during the three months prior to the appointment of the Liquidating Agent to any creditor or any related parties of the Savings and Credit Union may be deemed invalid by the Liquidating Agent if there is evidence of impropriety or preferential treatment.
 - (c) all income generating activities and all expenses shall be subject to supervision and approval of the Liquidating Agent only

Article 71 Bankruptcy

The bankruptcy of a Savings and Credit Union shall be implemented in accordance with the Enterprise Bankruptcy Law

Part IX

Sanction

Article 72 Monetary Penalty

The Bank of Lao PDR may apply penalty measures to Savings and Credit Unions, including managers or employees in the amount of [100,000] Kip per day or such amount as determined from time-to-time by the Bank of Lao PDR if found guilty of violating any provision of this Regulation until such time as the violation is corrected.

Article 73 Temporary Suspension of Licence

1 In the event a Savings and Credit Union receives a compliance warning from the Bank of Lao PDR but ignores such a warning, the Savings and Credit Union shall have its business operations temporarily suspended for up to six (6) months. The suspension shall be lifted when the matters requiring compliance stated in the compliance warning have been fully complied with.

Article 74 Licence Cancellation

1 The Bank of the Lao PDR may cancel the Licence of the Savings and Credit Union in the event such Savings and Credit Union continues to ignore a compliance warning after suspension of its Licence as specified in Article 73 of this Regulation.

2 In the event the Licence of a Savings and Credit Union is cancelled, the Savings and Credit Union shall be the subject of involuntary liquidation as provided for in Articles 68 to 70 of this Regulation.

Part X

Final Provisions

Article 75 Implementation

Any state organizations provincial, district, village level or group organization, individual, international organization, private organization or enterprise which are currently or is planning to carry out Microfinance or similar activities is required to within a period of twelve (12) months from the effective date of this Regulation to comply with requirement as stipulated in this Regulation.

2. The Bank of the Lao PDR may apply penalty measures to any institutions or entities which carry out activities which are deemed as similar to microfinance activities, or to any institution including Non-Deposit-Taking Microfinance Institutions and Saving and Credit Unions as well as management or officers individually or as a group case by case basis if found guilty of violating Article 71 and Article 72 of this Regulation until such time as the violation is corrected.

Article 76 Effectiveness

This Regulation replaces Regulation on Cooperatives Number 02/BOL dated 19/11/94 and Regulation on Pilot Savings and Credit Union Number 256/BFSD dated 12/05/04 concerning the Establishment and Operations of Savings and Credit Unions in the Lao PDR and shall become effective as from the date of its signature.

The Governor of the Bank of the Lao PDR

Schedule A Rights and Responsibilities of the Chairman of the Board of Directors

The Chairman of the board of directors has the following rights and responsibilities:

- (a) to prepare the agenda for meetings of the board of directors that takes full account of the issues and the concerns of all members of the board of directors in relation to the responsibilities of the board of directors
- (b) to convene and chair meetings of the board of directors
- (c) to supervise members of the board of directors in carrying out their assigned tasks and their powers and duties
- (d) to supervise the Managing Director in implementation of resolutions of the board of directors
- (e) to report to general assembly of shareholders on the activities of the Deposit-Taking Microfinance Institution
- (f) to ensure that the members of the board of directors receive full, fair, accurate, timely and understandable information regarding matters to be considered by the board of directors
- (g) to ensure that sufficient time is allowed prior to and during meetings of the board of directors for consideration and discussion of complex or contentious issues
- (h) to prepare work plans and assign tasks within their terms of reference to members of the board of directors
- (i) to ensure effective communication with the shareholders and ensure that the members of the board of directors have an understanding of the views of the shareholders concerning the governance, organisation and operations of the Deposit-Taking Microfinance Institution
- (j) to lead the identification of the knowledge and skill development needs of individual members of the board of directors and the board of directors as a whole for the discharge of their terms of reference and to ensure that their development needs are met
- (k) to ensure that the performances of individual members of the board of directors and the board of directors as a whole are evaluated at least once a year
- (l) to confirm to the general assembly of shareholders the satisfactory performance evaluation of a member of the board of directors other than himself or herself
- (m) to authorise one of the other members of the board of directors to perform the tasks of the Chairman during his or her absence
- (n) other powers and duties as stipulated in the law and the bye-laws of the Deposit-Taking Microfinance Institution

Schedule B Rights and Responsibilities of Members of the Board of Directors

The members of the Board of Directors of the shall have the following rights and responsibilities:

- (a) together with each of the other members of the Board of Directors to govern the Deposit-Taking Microfinance Institution in accordance with the law and the bye-laws.
- (b) to carry out their powers and duties as members of the Board of Directors in accordance with their terms of reference, in good faith, in a manner that the member believes to be in the best interests of the Deposit-Taking Microfinance Institution and the general assembly of shareholders, and with reasonable care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.
- (c) to administer the affairs of the Deposit-Taking Microfinance Institution fairly and impartially.
- (d) at the time of appointment, or within a reasonable time thereafter, to have, and to continue to have throughout their appointment, a working familiarity with the governance, organisation and operations, accounting and reporting policies of the Deposit Taking Microfinance Institution, including the ability to read and understand the Deposit Taking Microfinance Institution's financial statements as prepared by external auditors and to ask substantive questions concerning these matters of Officers and the internal and external auditors.
- (e) to continually refresh their knowledge and skills in order that their contribution to the Board of Directors remains informed and relevant.
- (f) to appoint, remove and dismiss the Chairman of the Board of Directors.
- (g) to request the Chairman to convene extraordinary meetings of the Board of Directors.
- (h) to demand Officers of the Deposit-Taking Microfinance Institution to provide information and documents on the organisation, operations and financial situation and performance of the Deposit-Taking Microfinance Institution.
- (i) to attend all meetings of the Board of Directors, to discuss and vote on all matters unless excluded from doing so as a result of a conflict of interest.
- (j) to be personally responsible before general assembly of shareholders and the Board of Directors for their actions.
- (k) to carry out decisions of the general assembly of shareholders and resolutions the Board of Directors.
- (m) other powers and duties as stipulated in the law and the bye-laws of the Deposit-Taking Microfinance Institution.