

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

No 42/BOL
Vientiane, date 15 January 2016

Decision
On the Establishment
Of Commercial Banks and Commercial Banks' Branches

- Pursuant to Law on the Bank of Lao PDR No. 05/NA, dated 14 October 1995 and Amendment Law No. 05/NA, dated 14 October 1999;
- Pursuant to Commercial Bank Law No. 03/NA, dated 26 December 2006 and Decree implementing the Commercial Bank Law No.275/PM, dated 25 September 2009;
- Based on the considerations and request by the Bank Supervision Department No 10/BSD, dated 10 January 2016.

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

Section I
General Provisions

Article 1. Purpose

This Decision sets out rules and procedures regarding the establishment of commercial banks and branches of commercial banks in the Lao PDR, to be the basis for the application and consideration for the establishment of such banks and branches, aiming to ensure the safety and soundness of established banks and branches, enabling them to actively contribute to the national social-economic development and to be ready for regional and international integration.

Article 2. Principles for the Establishment of Commercial Banks and Branches of Commercial Banks

The establishment of commercial banks and branches shall be authorized by the Bank of the Lao PDR.

The Bank of the Lao PDR will not consider the application for the establishment of shell banks and applicants of shell company nature.

Section II

Establishment of Commercial Banks and Branches of Commercial Banks

Article 3. Establishment of Commercial Banks

Any individual and entity may be founding shareholders of a commercial bank provided that one or more bank(s) shall hold more than 50% of total voting shares in such a bank. An individual may hold not more than 10% of total voting shares of a commercial bank.

Domestic and foreign banks may establish their subsidiary banks with up to 100% of shareholding of such a subsidiary and may establish their branches as per the provisions under this Decision.

Shareholders whether individual or entity shall not have any significant interest in more than two commercial banks already established in the Lao PDR, except for the case of acquiring shares in a weak bank following the approval of the Bank of the Lao PDR.

Shareholders with family or relative link whether of vertical or horizontal lines shall be considered as one shareholder and shall comply with shareholding restrictions for individuals as set out in Paragraph 1 of this Article.

Article 4. Application Documentation for the Establishment

The application documentation for the establishment of a commercial bank or a foreign bank's branch shall consist of the following main documents:

4.1. Common documents:

1. Application form as per the standard form issued by the Bank of the Lao PDR;
2. Feasibility study as per the standard form issued by the Bank of the Lao PDR;
3. Draft bank charter as per the standard form issued by the Bank of the Lao PDR;
4. Resolution or decision appointing the establishment committee or a power of attorney in case of assigning a third person to take in charge of the application, in compliance with Lao PDR laws (appointed person shall be a legal entity duly established under Lao PDR laws);
5. Joint-venture agreement (bank establishment agreement);
6. Founding shareholders' resolution approving items 2 to 5 above and the appointment of the first board of directors and first management team;
7. Operation manuals for accounting, risk management, internal control, staff management, products and services, anti-money laundering and counter-financing of terrorism among others;
8. Certificate from the Bank Operation Department, Bank of the Lao PDR on the payment of application fee;
9. Other documents as required by the single window office for general activities.

4.2. Specific documents for legal entity applicant:

1. Financial reports for the last 3 years of the applicant(s) as certified by an external auditor;
2. Proof for the sources of fund to be used for establishing bank as certified by the bank at which the relevant bank account is opened (for cash contribution) and certificate issued by the relevant registration authority (for registered assets) and purchase related documents (for non-registered assets);
3. Consent letter for the Bank of the Lao PDR to verify the sources of fund;
4. Documents certifying the entire shareholding structure of the applicant including beneficial ownership of such shareholding;
5. Copy of applicant's enterprise registration certificate;
6. Copy of applicant's articles of association;
7. Resolution issued by the board of directors, shareholders' meeting or relevant corporate authority of the applicant(s) approving the bank establishment in the Lao PDR;
8. Authorization by the relevant authority in the home country for the bank establishment in the Lao PDR in compliance with the home country's laws (for foreign entities);
9. Certificate for prudential compliance issued by the relevant authority for the period of the last consecutive 3 years (for legal entity that is a foreign bank), in case there is no rating made by an international rating agency.
10. A written disclosure of the criminal history or any association with known criminals (domestic or foreign) and any adverse findings by a supervisory or regulatory authority (domestic or foreign) for the corporation, the beneficial owners and senior management.

4.3. Specific documents for individual applicant:

1. Asset declaration for any applicant's asset as per the standard form issued by the Bank of the Lao PDR;
2. Proof for the sources of fund to be used for establishing bank as certified by the bank at which the relevant bank account is opened (for cash contribution) and certificate issued by the relevant registration authority (for registered assets) and purchase related documents (for non-registered assets);
3. Consent letter for the bank of the Lao PDR to verify the sources of fund;
4. Curriculum vitae as per the standard form issued by the Bank of the Lao PDR, documents certifying education, work experience and professional skills of the applicant;
5. Colorful copy of identity card and original criminal record of Lao applicant; colorful copy of passport and original criminal record or similar document of foreign applicant as certified by the relevant authority of their home country.
6. A written disclosure of the criminal history or any association with known

criminals(domestic or foreign) and any adverse findings by a supervisory or regulatory authority (domestic or foreign).

4.4. Specific documents for persons to be appointed as directors:

1. Curriculum vitae as per the standard form issued by the Bank of the Lao PDR, documents certifying education, work experience and professional skills for the period of the last consecutive 5 years of the directors (including internal auditor) of the bank to be established;
2. Colorful copy of identity card and original criminal record of Lao directors, colorful copy of passport and original criminal record or similar document of foreign directors as certified by the relevant authority of their home country.
3. A written disclosure of the criminal history or any association with known criminals (domestic or foreign) and any adverse findings by a supervisory or regulatory authority (domestic or foreign).

4.5. The application for establishing foreign banks' branches shall follow sub-clauses 4.1 (except for items 5 and 6 thereof), 4.2 and 4.4 of this Article, and shall provide a resolution of the board of directors, shareholders or the relevant corporate authority of the applicant approving items listed in 4.1 (items 1 to 4) and appointment of the first management team and a commitment letter of the parent bank to cover debts of its branch to be established in the Lao PDR.

The documents proving the sources of fund shall include bank statement for the latest 6 months of the relevant shareholders issued by the bank at which the relevant bank account is opened and explanations on how the fund has been acquired with supporting documents.

The application documents shall be in Lao language. The Lao translation of foreign-language documents shall be certified by the relevant notary office of Lao PDR. Photocopies of originals shall be clear and legible.

Article 5. Submission of the Application

The application documents for establishing a commercial bank or a foreign bank's branch shall be submitted through the single window office for general activities at the industrial and commerce authority. After receiving the application from such authority, the Bank of the Lao PDR will consider the application as prescribed in this Decision.

Article 6. Consideration of the Application

After receiving the complete application as set out in this Decision, the Bank of the Lao PDR will consider the application and will respond in writing to the applicant within the

timeframe of 90 days from the receipt of complete application.

The Bank of the Lao PDR will examine the completeness and correctness of the application documents and their satisfaction for the relevant establishment conditions set out in this Decision.

Article 7. Issuance of Temporary Establishment License

The Bank of the Lao PDR will issue a Temporary Establishment License to the applicant(s) if the relevant documents required under Article 4 of this Decision with a good and reasonable business plan and if the following conditions have been properly fulfilled:

7.1. For the applicant that is a commercial bank:

- Performance with profits for the last 3 years in a row, without accumulated losses;
- Having sufficient, transparent and lawful sources of fund and having total assets of not less than 40.000 billion Kip or equivalent to USD5 billion in the financial year of the application;
- Having been rated at least BBB by an internationally-recognized rating agency or having obtained a good rating from relevant authorities;
- In case of applicant being a foreign bank, having obtained the authorization from the relevant authority for investing for bank establishment in the Lao PDR;
- Having clear and true shareholding structure;
- Being a fit and proper entity to hold a banking license
- Not blacklisted in relation to money-laundering or financing of terrorism matters.

7.2. For the applicant that is a legal entity other than a bank:

- Performance with profits for the last 3 years in a row, without accumulated losses;
- Having sufficient, transparent and lawful sources of fund not less than twice of the value of shares to be held in the bank to-be-established in the financial year of the application;
- Having clear and true shareholding structure;
- Being a fit and proper entity to hold a banking license
- Not blacklisted in relation to money-laundering or financing of terrorism matters.

7.3. For the applicant that is an individual:

- Having sufficient, transparent and lawful sources of fund not less than twice of the value of shares to be held in the bank to-be-established in the financial year of the application;
- In case of principal shareholder, having qualification and experiences suitable for banking-financial business operation;

- Never convicted for thief, fraud, embezzlement, forgery, bribery, corruption, money laundering, financing of terrorism or other criminal offences relating to financial or monetary matters or drug trafficking;
- Being a fit and proper entity to hold a banking license
- Not blacklisted in relation to money-laundering or financing of terrorism matters.

7.4. For directors-to-be:

- Having legal capacity;
- Having management qualification, experiences and skills suitable for banking-financial business operation;
- Being fit an proper person to be a director of a bank
- Never convicted for thief, fraud, embezzlement, forgery, bribery, corruption, money laundering, financing of terrorism or other criminal offences relating to financial or monetary matters or drug trafficking;
- Never dismissed from the position of director in other entities and never convicted by a court as a bankrupt person or used to be a director in an entity declared bankrupt by a court.

The Temporary Establishment License does not allow commercial operation yet but may be used in the fulfillment of readiness conditions as set out in Article 8 of this Decision.

The holder(s) of Temporary Establishment License shall open an account at the Bank of the Lao PDR and shall pay up in full the registered or investment capital into such account after receiving the Temporary Establishment License. The registered or investment capital in foreign currency shall be converted into Kip on the day when the Bank of the Lao PDR issues the Permanent Establishment License as per the buying rate issued by the Bank Operation Department, Bank of the Lao PDR. The payment of registered or investment capital shall be made through banking account and may not be made by cash.

The Temporary Establishment License lasts 180 days of its issuance. Its holder(s) shall fulfill readiness conditions set out in Article 8 of this Decision. If such fulfillment makes progress but is unable to be completed within the timeframe of 180 days, the timeframe may be extended twice each for 90 days. In case of non-fulfillment within such timeframes, the Temporary Establishment License shall be terminated.

Bank of Lao PDR will determine if a person is fit and proper to own or manage a bank and prevent criminals and their associates from holding such positions. In making such determinations, Bank of Lao PDR will consider criminal history, associations with criminals and any adverse findings by a supervisory or regulatory authority.

After the fulfillment of readiness conditions, the holder(s) of Temporary Establishment License shall request the Bank of the Lao PDR to conduct on-site inspection in order to consider issuing the Permanent Establishment License.

Article 8. Issuance of Permanent Establishment License

The Bank of the Lao PDR will issue a Permanent Establishment License within 10 working days upon the fulfillment of the following readiness conditions:

1. Registered capital of commercial bank or investment capital of foreign bank's branch shall be paid in full;
2. There shall be sufficient number of employees trained domestically or abroad. The labor ratio of foreign employees shall comply with the Labor Law. Treatment of Employees shall be in accordance with the Labor Law;
3. The office building shall be permanently solid. If a land lease or concession is required for office location, the term of such lease or concession shall not be less than 20 years, having a safe stock and safety system in line with regulations as issued by the Bank of the Lao PDR from time to time;
4. Core database system shall be modern, ready for internal management in a safe and efficient manner, connectable with the system of the Bank of Lao PDR and shall ensure the function of reporting regime and other transactions with the Bank of the Lao PDR.
5. Management system and operation manuals shall be in place for accounting, risk management, internal control, staff management, products and services, anti-money laundering and counter-financing of terrorism among others in compliance with Lao PDR's laws and regulations;
6. Feasibility study shall be sound, reasonable and implementable and the charter shall be thorough, comprehensive and in compliance with Lao PDR's laws and regulations.

The applicant(s) receiving the Permanent Establishment License shall pay the licensing fees in full as per the regulations issued by the Bank of the Lao PDR and then request for enterprise registration and commence the commercial operation within 90 days upon receipt of the Enterprise Registration Certificate.

Article 9. Upgrading from a Foreign Bank's Branch to Become a Commercial Bank

The upgrading from a foreign bank's branch to become a commercial bank shall follow the same procedures as for the establishment of a commercial bank as set out in Section II of this Decision.

Section III

Establishment of Domestic Commercial Bank's Branch and Service Unit

Article 10. Application for the Establishment of Domestic Commercial Banks' Branch

Commercial banks which have already obtained a Permanent Establishment License may

establish their branches in the Lao PDR, subject to their fulfillment of the following conditions:

- Compliance with prudential regulations;
- Having sufficient capital for contemplated branch expansion;
- Having sufficient staff with management ability and the branch management team shall fulfill the conditions set out in Article 7.4 of this Decision;
- Having thorough management mechanism and rules; IT system able to support the branch operation and connectable with the head office and good security system;

The applicant for establishing a branch shall submit the following application documents:

- 1) Application form as per the standard form issued by the Bank of the Lao PDR;
- 2) Feasibility study as per the standard form issued by the Bank of the Lao PDR;
- 3) Draft branch's management rules as per the standard form issued by the Bank of the Lao PDR;
- 4) Power of attorney in case of assigning a third person to take in charge of the application (appointed person shall be a legal entity duly established under Lao PDR laws);
- 5) Board's resolution approving items 2 to 4 above and the appointment of the first management team;
- 6) Board or shareholders' resolution of the applicant approving the branch;
- 7) Copy of financial reports for the last 3 years of the applicant(s) as certified by an external auditor;
- 8) Curriculum vitae as per the standard form issued by the Bank of the Lao PDR, documents certifying education, work experience and professional skills for the period of the last consecutive 5 years of the directors (including internal auditor) of the branch to be established;
- 9) Colorful copy of identity card and original criminal record of Lao directors, colorful copy of passport and original criminal record or similar document of foreign directors as certified by the relevant authority of their home country;
- 10) Copy of certificate from the Bank Operation Department, Bank of the Lao PDR on the payment of application fee.

The application documents shall be in Lao language. The Lao translation of foreign-language documents shall be certified by the relevant notary office of Lao PDR. Photocopies of originals shall be clear and legible.

The application documents shall be submitted to the Bank of the Lao PDR for consideration pursuant to the above conditions. The Bank of the Lao PDR will inform the applicant in writing of the approval in principle or rejection of such application within 60 days of the receipt of complete application. In case of approval in principle granted by the Bank of the Lao PDR for establishing a branch, the applicant shall prepare branch operation readiness within

180 days reasonably extendable for 90 days.

After the branch being ready for operation, the applicant shall request the Bank of the Lao PDR to conduct on-site inspection to consider issuing the branch establishment license.

Article 11. Establishment of Service Unit

Commercial banks which have already obtained a Permanent Establishment License may establish their service units provided that they notify in writing of such establishment to the Bank of the Lao PDR within 15 days of the establishment date, providing the relevant board's resolution approving such establishment and management rules for such service unit. The service unit management rules shall include the following main content:

- 1) Organizational structure;
- 2) Positions of staff;
- 3) Scope of activities of service unit;
- 4) Control and reporting systems.

Service units of commercial banks may take deposits, provide services of cash withdrawal, money transfer as per the customer's order, money exchange but may not grant credit to customers.

Foreign banks' branches may not expand their service units or exchange units.

Article 12. Upgrading from a Service Unit to Become a Domestic Commercial Bank's Branch

The upgrading from a service unit to become a domestic commercial bank's branch shall follow the same procedures as for the establishment of a domestic commercial bank's branch as set out in Section III of this Decision.

**Section IV
Miscellaneous Provisions**

Article 13. Compliance with Lao PDR Laws and Regulations

The establishment of commercial banks, branches as well as service units of commercial banks in the Lao PDR shall comply with this Decision and other applicable laws and regulations of the Lao PDR such as for: signage installation, obtaining of a corporate seal, construction permit among others as required by relevant authorities.

Article 14. Required Approval and Notification of Change in Shareholders and Directors

The change in major shareholders of commercial bank shall require an approval from the Bank of the Lao PDR and shall fulfill the conditions and provide documents applicable to the relevant applicant as set out respectively in Article 4 sub-articles 4.2 or 4.3 and Article 7 sub-articles 7.1, 7.2 or 7.3 of this Decision to be submitted to the Bank of the Lao PDR.

The change in directors of commercial bank shall require an approval from the Bank of the Lao PDR and shall fulfill the conditions and provide documents applicable to the relevant directors as set out respectively in Article 4 sub-article 4.4 and Article 7 sub-article 7.4 of this Decision to be submitted to the Bank of the Lao PDR.

Commercial banks and foreign banks' branches shall notify the Bank of the Lao PDR as soon as they become aware of any change which may render a major shareholder or director become non-compliant with applicable conditions set out in Articles 7.1, 7.2 or 7.3 of this Decision.

This Article applies to all commercial banks whether established before or after this Decision.

Article 15. Measures against Violations

Violators of this Decision will be subject to measures as imposed by relevant laws and regulations of Lao PDR.

**Section V
Final Provisions**

Article 16. Implementation

The Bank Supervision Department, relevant departments of the Bank of Lao PDR and all relevant individuals and entities shall strictly comply with this Decision.

Article 17. Effectiveness

This Decision shall be effective 15 days after its publication on the Lao PDR's Official Gazette. Any previous regulations governing bank establishment which are incompatible with this Decision are hereby repealed.

Governor of the Bank of Lao PDR

[Seal and signature]

Mr. Somphao PHAYSITH