

CIRCULAR

Prescribing limits and prudential ratios in operations of the Vietnam Development Bank

Pursuant to the Law No. 46/2010/QH12 on the State Bank of Vietnam dated June 16, 2010;

Pursuant to the Law on Credit Institutions dated June 16, 2010;

Pursuant to the Law on amending and supplementing a number of articles of the Law on Credit Institutions dated November 20, 2017;

Pursuant to the Government's Decree No. 16/2017/ND-CP dated February 17, 2017, defining the functions, tasks, powers and organizational structure of the State Bank of Vietnam;

Pursuant to the Government's Decree No. 32/2017/ND-CP dated March 31, 2017, on state investment credit;

Pursuant to the Prime Minister's Decision No. 108/2006/QĐ-TTg dated May 19, 2006, on establishing the Vietnam Development Bank;

At the proposal of the Chief of the Banking Supervision Agency;

The Governor of the State Bank of Vietnam promulgates the Circular prescribing limits and prudential ratios in operations of the Vietnam Development Bank.

Chapter I

GENERAL PROVISIONS

Article 1. Scope of regulation

1. This Circular prescribes limits and prudential ratios which the Vietnam Development Bank must constantly maintain in its operations, including:

- a) Credit extension limits;
- b) Liquidity reserve ratio;
- c) Loan-to-deposit ratio.

2. Based on results of supervision, inspection, and examination by the State Bank of Vietnam (hereinafter referred to as the State Bank) of the compliance with

the laws on monetary and banking operations within the State Bank's competence, in case of necessity to secure prudence in operations of the Vietnam Development Bank, and depending on the nature and extent of risks, the State Bank may request the Vietnam Development Bank to maintain one or several limit(s) or prudential ratio(s) higher than those prescribed in this Circular.

Article 2. Interpretation of terms

In this Circular, the terms below are construed as follows:

1. Client means an enterprise or non-business unit exercising the financial autonomy or another economic organization borrowing loans from the Vietnam Development Bank.

2. Valuable paper means a deed proving the debt obligation of the Vietnam Development Bank toward the valuable paper holder for a given period under interest payment terms and other terms. Valuable papers include bonds, promissory notes, deposit certificates and the like in Vietnamese dong of the Vietnam Development Bank in accordance with law provisions.

3. Credit extension means that the Vietnam Development Bank agrees to let an enterprise or on-business unit exercising the financial autonomy or another economic organization use a money amount, or commit to permit the use of a money amount on the principle of repayment by the operation of loan provision, guarantee, or other credit extension operations prescribed by the law, including also credit extension from the entrusted funding sources of the Government or other organizations or individuals for which the Vietnam Development Bank bears risks in accordance with law provisions.

4. Affiliated persons are the organizations and individuals prescribed in Clause 28 Article 4 of the Law on Credit Institutions (amended and supplemented in 2017).

Article 3. Internal regulations

1. The Vietnam Development Bank shall issue its internal regulations on credit extension and management of loans in order to ensure that these loans are used for proper purposes prescribed in this Circular and relevant legal documents, in which at least the following contents shall be included:

a) Criteria for identification of a client or a client and affiliated persons as defined in Clause 4 Article 2 of this Circular, credit policy toward a client or a client and affiliated persons, including regulations on conditions for credit extension, credit extension limits, interests, dossiers, order and procedures, process for appraisal and approval of credit extension and loan management;

b) Principles of power decentralization or authorization to decide or approve credit extension, handle risks within the competence, for a client or a client and affiliated persons, including regulations on responsibilities and powers of units and individuals in appraisal, credit extension and credit quality control on the principle of transparency, preventing interest conflicts and credit quality concealment.

2. The Vietnam Development Bank shall issue internal regulations on liquidity management in accordance with this Circular and relevant legal documents, which must include at least the following contents:

- a) Power delegation and authorization as well as functions and tasks of related departments in the maintenance of liquidity reserve ratios;
- b) Plans and measures to maintain the liquidity reserve ratios;
- c) Guidance on, inspection, control, and internal audit of, the maintenance of liquidity reserve ratios.

3. The internal regulations mentioned in Clauses 1 and 2 of this Article shall be reviewed for amendment and supplementation at least once a year.

4. Within 10 days, after the issuance, amendment, supplementation or replacement of the internal regulations mentioned in Clauses 1 and 2 of this Article, the Vietnam Development Bank shall send these documents directly or via post office to the State Bank (the Banking Supervision Agency) and the Ministry of Finance.

Article 4. Information technology system

The Vietnam Development Bank must build an information technology system meeting the requirements for storing, accessing and supplementing a database in service of the calculation, management and control of limits and prudential ratios in its operations, and requirements for making statistical reports as prescribed and required by the State Bank.

Chapter II

SPECIFIC PROVISIONS

Article 5. Own capital

Own capital of the Vietnam Development Bank shall be determined in accordance with the law on mechanisms for financial management and operational efficiency applicable to the Vietnam Development Bank.

Article 6. Credit extension limits

1. The total outstanding credit balance of the Vietnam Development Bank (including the State's investment credit) calculated on the Vietnam Development Bank's own capital must not exceed 15%, for a client or 25%, for a single client and his/her/its affiliated persons, except for special projects decided by the Prime Minister.

2. The total outstanding credit balance specified in Clause 1 of this Article includes the total outstanding balance of loans of investment credit or export credit; outstanding balance of on-lending of ODA; outstanding balance of other credit extension operations of the Vietnam Development Bank; guarantee balance

and amounts entrusted to other credit institutions and foreign bank branches for credit extension (including outstanding balance already transferred for off-balance sheet accounting).

3. The total outstanding credit balance mentioned in Clause 1 of this Article excludes the outstanding credit balance specified in Clause 2 of this Article, which comes from the following funding sources:

a) Entrusted capital sources of the Government, organizations and individuals for which the Government and entrusting organizations and individuals bear risks related to these loans;

b) Authorized capital sources for on-lending for which the Vietnam Development Bank does not bear risks.

Article 7. Liquidity reserve ratio

1. At the end of the last working day of every month, the Vietnam Development Bank shall, based on regulations provided in the Appendix to this Circular, calculate and manage the liquidity reserve ratio in accordance with Clause 2 of this Article.

2. Liquidity reserve ratio:

a) The Vietnam Development Bank shall hold highly liquid assets as reserves to meet due and unexpected payment demands;

b) The liquidity reserve ratio shall be determined using the following formula:

$$\text{Liquidity reserve ratio} = \frac{\text{Highly liquid assets}}{\text{Total capital sources}} \times 100\%$$

In which:

(i) Highly liquid assets are prescribed in the Appendix to this Circular;

(ii) Total capital sources are the total of items of the section of Capital sources on the balance sheet, including deposits of the State Treasury, financial institutions, credit institutions, economic organizations, clients; borrowings from the State budget, excluding the risk reserve fund;

c) Highly liquid assets and total capital sources specified at Point b of this Clause shall be denominated in Vietnamese dong, including Vietnamese dong and freely convertible foreign currencies converted into Vietnamese dong at the central rates versus USD as announced by the State Bank, and the cross rates of Vietnamese dong versus other foreign currencies in accordance with the State Bank’s regulations on announcement of central rates of Vietnamese dong versus USA and cross rates of Vietnamese dong versus other foreign currencies.

3. The Vietnam Development Bank shall maintain the liquidity reserve ratio at least according to the schedules below:



- a) From the effective date of this Circular to the end of December 31, 2020: 0.6%;
- b) From January 01, 2021 to the end of December 31, 2022: 1%
- c) From January 01, 2023 to the end of December 31, 2024: 1.5%;
- d) From January 01, 2025: 2%.

Article 8. Loan-to-deposit ratio

1. The Vietnam Development Bank shall calculate the maximum loan-to-deposit ratio in Vietnamese dong, including Vietnamese dong and freely convertible foreign currencies converted into Vietnamese dong at the central rates versus USD as announced by the State Bank, and the cross rates of Vietnamese dong versus other foreign currencies in accordance with the State Bank's regulations on announcement of central rates of Vietnamese dong versus USA and cross rates of Vietnamese dong versus other foreign currencies, at the last working day of the month according to the following formula:

$$\text{LDR} = \frac{L}{D} \times 100\%$$

In which:

- *LDR*: is the loan-to-deposit ratio;
- *L*: is the total outstanding balance of loans mentioned in Clause 2 of this Article;
- *D*: is the total mobilized capital prescribed in Clause 3 of this Article.

2. The total outstanding balance of loans includes:

- a) Short-term outstanding balance of loans supporting export;
- b) Short-term outstanding balance of loans for special projects of the Government;
- c) Intermediate-term outstanding balance of investment credit;
- d) Intermediate-term outstanding balance of loans for special projects of the Government;
- dd) Long-term outstanding balance of investment credit;
- e) Long-term outstanding balance of loans for special projects of the Government;
- g) Other outstanding balance of loans;
- h) Outstanding balance of pending loans.

3. Total mobilized capital includes:

- a) Deposits of domestic and foreign organizations;

b) Loans of the Vietnam Social Security, borrowings from the State budget, borrowings from domestic and foreign financial institutions and credit institutions;

c) Amounts raised through issuance of bonds, promissory notes, deposit certificates and other valuable papers.

4. The Vietnam Development Bank shall maintain the maximum loan-to-deposit ratio according to the schedules below:

a) From the effective date of this Circular to the end of December 31, 2020: 100%;

d) From January 01, 2021: 95%.

Chapter III

RESPONSIBILITIES OF THE VIETNAM DEVELOPMENT BANK AND UNITS OF THE STATE BANK

Article 9. The Vietnam Development Bank shall

1. Regularly and continuously comply with the limits and prudential ratios in banking activities in accordance with this Circular.

2. If failing to ensure or are in danger of failing to ensure the limits and prudential ratios in banking activities as prescribed in this Circular, report directly or via post office to the State Bank (the Banking Supervision Agency) and the Ministry of Finance the handling plans to ensure its compliance with such limits and ratios as prescribed by law within 30 days from the date of failing to ensure or in danger of failing to ensure such limits and prudential ratios.

3. Fully, promptly and accurately report on limits and prudential ratios in banking activities according to the State Bank's regulations.

Article 10. The Banking Supervision Agency shall

1. Inspect and supervise the Vietnam Development Bank's compliance with regulations on limits and prudential ratios in its banking operations.

2. Inspect and supervise the Vietnam Development Bank in formulating and complying with internal regulations specified in Article 3 of this Circular.

Article 11. The Forecasting and Statistics Department shall

Pursuant to this Circular, formulate and submit to the State Bank Governor for promulgation regulations on the reporting regime applicable to the Vietnam Development Bank in its compliance with the limits and prudential ratios specified in this Circular.

Chapter IV

TRANSITIONAL PROVISIONS

Article 12. Transitional provisions on credit extension

For contracts on credit extension signed before the effective date of this Circular, the Vietnam Development Bank, its clients and involved parties may continue to perform them according to commitments, rights, powers and responsibilities as stated in the signed contracts. The modification or supplementation of such contracts must comply with this Circular.

Article 13. Transitional provisions on liquidity reserve ratio and loan-to-deposit ratios

1. From the effective date of this Circular, the Vietnam Development Bank that has the liquidity reserve ratio and loan-to-deposit ratio not satisfying the conditions specified in Articles 7 and 8 of this Circular shall work out and implement a handling plan and report it to the State Bank (the Banking Supervision Agency) and the Ministry of Finance. Such a plan must have the following contents:

- a) Specific limits and ratios which are unsatisfactory;
- b) Handling measures and schedule to ensure that within 6 months after the effective date of this Circular, such ratios satisfy the specified conditions.

2. In case the State Bank or the Ministry of Finance requests for amendment, supplementation or modification of the handling plan, the Vietnam Development Bank shall be responsible for modifying and implementing upon such requests.

Chapter V

IMPLEMENTATION PROVISIONS

Article 14. Effect

This Circular takes effect on January 01, 2020.

Article 15. Implementation organization

The Chief of the State Bank's Office, the Chief of the Banking Supervision Agency, Chairperson of the Board of Directors and General Director of Vietnam Development Bank shall organize the implementation of this Circular./.

**FOR THE GOVERNOR
THE DEPUTY GOVERNOR**

Doan Thai Son

APPENDIX
INSTRUCTIONS FOR DETERMINATION OF THE LIQUIDITY
RESERVE RATIO

(Attached to the Circular No. 07/2019/TT-NHNN dated July 03, 2019 of the Governor of the State Bank, prescribing limits and prudential ratios in operations of the Vietnam Development Bank)

1. Calculation of “highly liquid assets”:

Section	Item	Data
1	Cash	
2	Deposit at the State Bank	
3	Valuable papers permitted for use in the State Bank’s transactions	
4	Money in the payment account, except for amounts committed for the specific payment purpose	
5	Demand deposits at other Vietnam-based and overseas credit institutions and foreign bank branches	
6	Bonds and treasury bills issued or guaranteed by Governments and Central Banks of other countries rated AA or higher	
7	Total (A) = (1÷6)	

2. Instructions for data collection:

Section 1: Cash balance on the balance sheet at the end of the month.

Section 2: Balance of payment deposits and escrow deposits at the State Bank on the balance sheet at the end of the month.

Section 3: Book value of valuable papers permitted for use in the State Bank’s transactions as prescribed by the State Bank at the end of the month.

Section 4: Balance of payment deposits at correspondent banks on the balance sheet at the end of the month, minus amounts committed for specific payment purpose.

Section 5: Balance of demand deposits at other Vietnam-based and overseas credit institutions and foreign bank branches on the balance sheet at the end of the month.

Section 6: Book value on the balance sheet of bonds and treasury bills issued or guaranteed by Governments or Central Banks of other countries and rated at least AA or the equivalent by Standard & Poor’s or Fitch Rating or equivalently rated by other independent credit rating enterprises at the end of the month.

3. Principles for calculation of “highly liquid assets”:

(i) Sections 3 and 6 must meet the following requirements:

- Being immediately used for payment or easily converted into cash with low transaction costs;
- Not being used for guarantee for other financial obligations;
- Excluding the balance of valuable papers being discounted, re-discounted, pledged or sold with term;
- Excluding valuable papers for which the issuing organizations fail to comply with the principal and interest payment obligations;

(ii) Highly liquid assets are valuable papers used in transactions of the State Bank; bonds and treasury bills issued or guaranteed by Governments or Central Banks of other countries and rated at least AA or the equivalent by Standard & Poor's or Fitch Rating or equivalently rated by other independent credit rating enterprises denominated in Vietnamese dong and freely convertible foreign currencies.

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