

CIRCULAR

**REGULATION ON THE DEBTS CLASSIFICATION, PROVISIONING AND
USE OF PROVISIONS AGAINST CREDIT RISKS IN BANKING ACTIVITY OF
CREDIT INSTITUTIONS**

- Pursuant to the Law on the State Bank No. 01/1997/QH10 dated 12 December 1997 and the Law on the amendment, supplement of several Articles of the Law on the State Bank No. 10/2003/QH11 dated 17 June 2003;
- Pursuant to the Law on the Credit Institutions No. 02/1997/QH10 dated 12 December 1997; the Law on the amendment, supplement of several Articles of the Law on the Credit Institutions No. 20/2004/QH11 dated 15 June 2004;
- Pursuant to the Decree No. 96/2008/ND-CP dated 26 Aug 2008 of the Government providing for functions, assignments, authorities and organizational structure of the State Bank of Vietnam;
- Upon the unanimous agreement of the Minister of Finance at the Official Dispatch No. dated/...../ 2010 of the Ministry of Finance;

The State Bank of Vietnam (hereinafter referred to as State Bank) regulates on the debts classification, provisioning and use of provisions against credit risks in the banking activity of credit institutions as follows:

CHAPTER I: GENERAL PROVISIONS

Article 1. Subjects and Scope of Application

1. Credit institutions operating in Vietnam (hereinafter referred to as credit institution), except for the Bank for Social Policy and Vietnam Development Bank, shall be obliged to carry out the classification of debts, the provisioning and use of provisions to deal with credit risks in the banking activities in accordance with provisions in this Circular.
2. Credit Institution carries out the classification of debts, the provisioning and use of provisions to deal with risks in debts and off-balance sheet commitments.

Debts include:

- a) Loans, advances, overdrafts;
- b) financial leases;
- c) Discounts, rediscounts of commercial papers and other valuable papers;
- d) Factoring amounts;

- dd) Debt securities investment held to maturity, indeterminable the market prices
- e) Deposits to other domestic credit institutions, except for deposits for transaction payments

2.2. off-balance sheet commitments include:

- a) Guarantees, payment acceptances;
- b) Lending commitments which are irrevocable, unconditional, and detailing with validity of the time performing loan.

Article 2. Interpretation of terms

In this Circular, the following terms shall be construed as follows:

1. “*Credit risks in the banking activities of credit institutions*” (hereinafter referred to as credit risks) are potential losses that may arise in the banking activities of the credit institutions due to the failure of customers of credit institutions to perform or their not being able to perform their obligations in accordance with their commitments.
2. “*Risk provisions*” are amounts to be made available for compensation of credit risks in banking activities of credit institution. Risk provisions consist of specific provisions and general provisions.

“*Specific provisions*” are amounts to be made available to provide against potential losses of specific debts.

“*General provisions*” are amounts to be made available to provide against losses that have not yet been determinable during process of specific debts provisioning.
3. “*Use of provisions*” is an act by which a credit institution uses the risk provisions to compensate for credit risks.
4. “Overdue debt” is a debt where a part or the entire of its principal and /or interest has become overdue.
5. “*Debts with restructured repayment term*” are debts, the repayment term of which a credit institution accepts to reschedule payment term or grant an repayment extension for customers because of that the capability of customers to duly pay the principals or interests, but the credit institutions assess that such customers are capable to fully pay the principals and interests under the restructured repayment terms.
6. “Bad debts” are debts, which are classified as those in Groups 3, 4 and 5 stipulated in Article 6 or Article 7 of this Circular.
7. “Customer” is an organization, business household or an individual that have credit relations with the credit institution.

Article 3. Time of classification of debts, the provisioning and use of provisions against risks

1. Credit Institutions shall be obliged to regularly carry out collection of customers information in order to access, rank customers, classify debts, manage credit qualities and make provisions for credit risks according to regulations of this Circular.
2. Each quarter at least, within the first 15 working days of the following month of the quarter, credit institutions shall be obliged to check, reassess:
 - a) Credit ranking of customer, measures and controls of credit quality management in order to have suitable credit quality management measures;
 - b) Re-classification of debts which has been classified, making risk provisions as at end of last working day of the quarter, and using provisions to write-off losses, making report of debts classification, provisioning, and use of provisions against credit risks to authorized competent State Agencies and making accounting records in accordance with applicable provisions.
3. Beside the provisions stipulated in item 2 of this Article, credit institution uses of provisions against credit risks according to provisions of Article 14 of this Circular.

Article 4. Internal credit ranking system

1. Internal credit ranking system is a combination of procedures to classify customers by industry, scope of business, ownership, financial indicators and non-financial indicators for customer grading.
2. Credit Institutions shall have internal credit ranking system which is stipulated in attached Annex 1 to access capability loan payment of customers, supporting to debt classifications and setting up internal regulations on credit quality management to ensure a safe of banking activities of credit institutions.
3. Credit Institution shall be obliged to have system of information technology meeting requirements of operation and management of internal ranking system; have management sector in headquarter to manage and operate such internal ranking system to regularly monitor, ensure sufficient assessment of capability loan payment of customers, timely providing accurate adjustments of the result of debt classifications, setting up measures to manage bad debts.
4. Base on internal credit ranking system, credit institutions shall be obliged to issue internal regulations on credit quality management; credit policies; risks provision policies.

Policies of credit customer must, at the minimum, consist of::

- a) Procedure of credit assessment, approvals for credit facilities granted to each group of customer; credit policies of each customer, group of customer
- b) Authorized segmentation in the process of credit assessment, approvals
- c) Checking and supervision before, during and after credit facilities granting;
- d) Responsibilities, authorities of units, individuals during the process of credit assessment, approvals, disbursement, checking, supervision before, during and after credit facilities granting.

4.2. Policies of risk provisioning must, at the minimum, consist of:

- a) Authorized segmentation, and approval levels of debts classification, provisioning, use of provisions against risks, disposal of security assets;

b) Process of customer information collection, customer assessment and ranking, debt classification, provisioning, use of provisions against risks, management and disposal of security assets;

c) Responsibilities of units, individuals for customer information collection, customer assessment and ranking, debts classification, provisioning, use of provisions against risks, management and disposal of security assets, and carry out solutions for full debt recovery after use of provisions to write-off the risks.

5. Responsibilities of management sector of credit ranking system at headquarter:

5.1. Management; supervision customer assessment and ranking, debts classification, provisioning, use of provisions against risks and execution of solutions for full debt recovery after use of provision to write-off risks of the entire system of such credit institution.

5.2. Building, submitting General Director (Director), Board of Directors for approval:

a) Internal regulations on management, operation of internal credit ranking system, process of collection and update customer database, and amendment, addition of internal credit ranking system, ensuring that internal credit ranking system fully satisfy conditions as stipulated in item 6 of this Article.

b) Policies of risks provision, internal regulations of credit quality management, and credit customer policies of credit institution.

6. Internal credit ranking system must ensure, at the minimum, to meet following requirements:

6.1. Being in line with the business activity, target customers the credit institution.

6.2. Being designed base on system of information and data of customers which are classified by industry, scope of business, ownership, business performance and profits and losses and corporate governance capabilities.

6.3. Regularly monitoring, sufficiently assess loan repayment capabilities of customer, and timely provide accurate adjustment of the results of debts classification, taking measure for bad debts.

6.4. Credit institution shall, base on updated customer information, data, at least once a year, before the first day of every October, conduct checking, adjustment, amendment procedures of customer classification process, system of financial and non-financial indicators and the weight of each indicator for customer grading, and ranking. The results of checking, adjustment, amendment of internal credit ranking system must be reported to State Bank (State agency of inspection and supervision) by post or by hand for the purpose of management, supervision, inspection and examination.

7. Credit Institutions must sent State Bank (State agency of inspection and supervision) by post or by hand document of internal credit ranking system which are approved by Board of Director, including:

a) proposal of Chairperson of Board Directors or person who is authorized for setting up, promulgation, and execution internal credit ranking system, internal regulations on credit quality management, customers credit policies, policies of provisions which are constructed on basis of internal credit ranking system;

b) Resolutions, or Resolutions of Board of Directors approving on promulgation, and execution internal credit ranking system, internal regulations on credit quality management, credit customers policies, policies of provisions which are constructed on basis of internal credit ranking system;

c) Document of description of internal credit ranking system including entire document of procedure customers classification, financial and non-financial indicators for customer grading;

d) Manual of use of internal credit ranking system

dd) Internal regulations on credit quality management, credit customer policies, and policies of risk provisions

8. Credit Institutions who has amendment and supplement of internal credit ranking system according to provisions in point 6.4, item 6 of this Article must send a report to State Bank (State agency of inspection and supervision) by post or by hand, including documents as follows:

a) Proposal of Chairperson of Board Director or person who is authorized to amend internal credit ranking system, internal regulations on credit quality management, customers credit policies, policies of provisions;

b) Resolutions, or Resolutions of Board of Director approving on amendments and supplements internal credit ranking system, internal regulations on credit quality management, customers credit policies, policies of provisions;

c) Documents as stipulated in point c, point d, point dd, item 7 or in other specific amendments of this Circular;

d) Results of customer statistical classification by industries, scope of business, ownership after having amendments, supplements of customer information and data as stipulated in point 6.4, item 6 of this Article.

e) Within 30 (thirty) days from the date of receipt of valid documents which are stipulated in item 7 and item 8 of this Article, State Bank shall issue a letter to acknowledge that credit institution has report on internal credit ranking system. Credit institution shall only apply internal credit ranking system upon receipt of the written acceptance of State Bank.

CHAPTER II: DETAILED PROVISIONS

Section 1. Classification of Debts

Article 5. Principles of debts classification

1. In case where a part of principal and interest of customer is not paid fully or timely, credit institution shall be obliged to re-assess loan payment capabilities of the customers in line with re-classification of debts.

2. Entire of outstanding loan and amounts of off-balance sheet commitments of customer shall be classified in one group. If a part of loan of customer is graded to higher risk grading in comparison with the remaining of outstanding loan, entire outstanding loan and off-balance-sheet commitments of such customer shall be graded to more risk grading than that of the previous ones.

3. In case of loans of different customers but for the same project, debt classification shall be carried out as stipulated in item 1, item 2 this Article. If outstanding loan of any one of the customers is graded to more risk grading in comparison with the others, entire outstanding loan of the other customers shall be graded to higher risk grading than that of the previous ones.

4. In case of syndicated loans, credit institutions who participate a syndicated loan, including the underwriters, shall independently carry out classification of debts as stipulated in this Circular and inform to each other the results of the debts classifications no later than 5 (five) next working days. Entire outstanding loans of such customer at these credit institutions shall be graded to highest risk grading which is graded by one credit institutions among participants of such syndicated loan.

5. State Bank (State agency of inspection and supervision) shall, base on results of supervision, checking, inspection and reports of credit institutions, informs and requests credit institutions to classify debts of customer to a suitable risk grading loan group and credit institutions shall classify loans of such customers to the group that is requested by State Bank.

Article 6. Group of debts

Credit Institutions shall carry out debts classification as following groups:

1. Group 1 (prime debts) includes: debts that are assessed by credit institutions as fully and timely recoverable both principal and interest, lending customers do not have any signals of deterioration of capacities of loan payments, business performance or financial status.

2. Group 2 (watched debts) includes: debts that have signals that possibly impact capabilities of loan payments timely and fully, if no repairment is made in time, including customers whose business performance and financial status tend to deterioration notwithstanding that there is not any negative impacts of loan payment capabilities.

3. Group 3 (sub-prime debts) includes: debts that credit institution assesses business performance and financial status of customer having clear signals of deterioration that impacts capabilities of full loan payments.

4. Group 4 (doubtful debts) includes: debts to which business performance and financial status have signals of serious deterioration leading to high potential loses, non-fully recoverable debts.

5. Group 5 (potentially irrecoverable debts) includes: debts that have sufficient grounds to determine impossibilities of debt recovery or inconsiderable recovery.

Article 7. Method of debts classification:

Credit Institutions shall, base on credit grading result of each customer according to internal credit ranking system and real status of capabilities of loan payment of such customer, at the debt classification time, classify debts into applicable groups as follows:

Results of Customer grading	AAA, AA, A	BBB, BB,	B, CCC, CC	C	D
Real status of capabilities of loan payment as of Debt classification time					
Debt which is within payment term or overdue less than 10 days	Group 1	Group 2	Group 3	Group 4	Group 5
Debt which is overdue from 10 days to 90 days	Group 2	Group 2	Group 3	Group 4	Group 5
- Debt which is overdue from 91 days to 180 days; or - Debt of which repayment term is first time restructured; or - Debts which is waived for interests because of that customer unable to pay interests fully and timely	Group 3	Group 3	Group 3	Group 4	Group 5
- Debt which is overdue from 181days to 360 days; or - Debt of which repayment term first time is restructured and overdue less than 90day under the first time restructured repayment term; or - Debt of which repayment term is second time restructured.	Group 4	Group 4	Group 4	Group 4	Group 5
- Debt which is overdue more than 360 days; or - Debt of which repayment term is first time restructured and overdue more than 90 days under the first time restructured repayment term; or - Debt of which repayment term is overdue under the second time being restructure repayment term; or - Debt of which repayment term is restructured for above third times, either not being or being overdue; or - Debt of which is frozen pending settlement; or - Customers are institutions, enterprises, which are dissolved, bankrupt under current applicable laws or individual who die or missed.	Group 5	Group 5	Group 5	Group 5	Group 5

2. Regarding debt securities investments, commercial papers and other valuable papers held to maturity, indeterminable the market prices, credit institutions shall be obliged to carry out assessments, grading of issuers or payment acceptors for classification of debts in the similar process dealing with customers.

3. In the case of off-balance sheet commitments:

3.1 Customers have off-balance sheet commitments to credit institutions, credit institutions shall be obliged, and base on debt group classified by internal credit ranking system as stipulated in item 1 this Article, to carry out classification of value of off-balance sheet commitments.

3.2 Regarding amounts payable for guarantees, payment acceptances, and credit institution shall determine the overdue period of time to classify debts according to provisions of item 1 of this Article from the real drawing date.

3.3 Customers have debts and off-balance sheet commitments at credit institutions, credit institutions shall be obliged to carry out debts classifications in accordance with provision of item 1 of this Article and classify debts and off-balance sheet commitments to the same group under principles in Article 5 this Circular.

Article 8. Debts Classifications of credit institutions who are local people credit funds

1. Local people credit funds shall be obliged to carry out debts classification to applicable groups as follows:

a) Group 1 (prime debts) includes:

- Debt which is within repayment term and debt that is assessed by credit institutions as fully and timely recoverable both principal and interest;
- Debt which is overdue less than 10 days and debt that is assessed by credit institutions as fully and timely recoverable both overdue principal and interest; and the remaining principal and interest within the remaining repayment term;
- Debt which is classified to group 1 as stipulated in item 2 this Article.

b) Group 2 (watched debts) includes:

- Debt which is overdue from 10 days to 90 days
- Debt of which repayment term is first time restructured;
- Debt is classified to group 2 as stipulated in item 2, item 3, item 4, item 5, Article 5 this Circular

c) Group 3 (sub-prime debts) includes:

- Debt which is overdue from 91 days to 180 days
- Debt of which repayment term is first time restructured, taking out of the amount of debt of which repayment term is first time restructured and classifying to group 2 according to point b this item;
- Debt which is waived or reduced for interests because of that customer is unable to pay interests under to the credit contracts
- Debt which is classified to group 3 according to item 2, item 3, item 4, and item 5 Article 5 this Circular.

d) Group 4 (doubtful debts) includes:

- Debt which is overdue from 181 days to 360 days;
- Debt of which first time repayment term is restructured and overdue less than 90 days under the first time restructured repayment term;
- Debt of which repayment term is second time restructured;
- Debt which is classified to group 4 according to item 2, item 3, item 4, and item 5 Article 5 this Circular.

dd) Group 5 (potentially irrecoverable debts) includes:

- Debt is overdue more than 360 days;
- Debt of which repayment term is first time restructured and overdue more than 90 days under the first time restructured repayment term;
- Debt of which repayment term second time is restructured and overdue the second time restructured repayment term;
- Debt of which repayment term is third time restructured, either not being or being overdue;
- Debt which is frozen pending settlement;
- Debt which is classified to group 5 according to item 2, item 3, item 4, and item 5 Article 5 this Circular.

2. Local people credit funds shall classify debts to lower risk grading group for following cases:

- a) In case of overdue debts, local people credit funds shall re-classify these overdue debts to the group of lower risk grading debts (including group 1) if these debts satisfy following conditions:
 - In case where customer have made full repayment of the principals and interests (include interest applied for overdue payment of principals) and principals and interests of other next payments for at least within six (06) months in respect of mid-term and long-term debts, and three (03) months in respect of short-term debts from the date of payments of the overdue principals and interests;
 - Documents, dossiers which clearly prove that the reasons of overdue repayment were resolved and settled are available;
 - Local people credit funds have sufficient grounds (attached supporting documents) to assess such customer as being capable to pay the remaining of principals and interests fully and timely.
- b) In case of restructured repayment terms, local people credit funds shall re-classify these debts to group of lower risk grading debts (including group 1) if these debts satisfy following conditions:
 - In case where customer have made full repayment of the principals and interests (include interest applied for overdue payment of principals) and principals and interests of next payments for at least within six (06) months in respect of mid-term and long-term debts, and three (03) months in respect of short-term debts from the

date of full payments of principals and interests under the restructured repayment term;

- Documents, dossiers which clearly prove that the reasons of overdue repayment were resolved and settled are available;

- Local people credit funds have sufficient grounds (attached supporting documents) to assess such customer as being capable to pay the remaining of principals and interests fully and timely.

Part 2: Provision for bad debts

Article 9. Provisioning Policy

1. On the basis of internal credit rating system, credit institutions must establish provisioning policy to ensure that provision is fully made in order to settle credit risks in banking operations.

2. Provisioning policy of a credit institution is subject to the following requirements:

2.1 Being compliant with regulations on accounting and financial statements;

2.2 Ensuring the supervision, management and assessment of collaterals; identification and management of bad debts; timely and adequate making of specific and general provision as per risk level;

2.3 Having specific policies and processes of debt classification, loss provisioning and utilization of provision to compensate credit losses; specific stipulations on authorities and responsibilities of individuals and departments involved in these processes and in the strict collection of written-off debts;

2.4 Having mechanism to examine and supervise the practices regulated in Provision 2.1, 2.2 and 2.3 of this article.

Article 10. Specific Provision

1. The minimum specific provision made for each customer in a debt category is calculated as follows:

$$R = \sum R_i$$

$$R_i = \max \{0, (A_i - C_i)\} \times r$$

In which:

R: Total specific provision made for each customer;

R_i: Specific provision made for ith outstanding principal;

A_i: ith outstanding principal;

C_i: Discounted value of collateral for A_i;

r: Ratio for specific provisioning of the debt category.

2. Ratio for specific provisioning of each debt category is as follows:

a) Category 1: 0%;

b) Category 2: 5%;

c) Category 3: 20%;

d) Category 4: 50%;

đ) Category 5: 100%.

3. Credit institutions shall discount the value of collateral when calculating the specific provision as stipulated in Provision 1 of this Article only if the expected time to liquidate the collateral is not longer than one (01) year in case of the collateral not being real estates and not longer than two (02) years in case of collateral being real estates, since the starting date of the liquidation of the collateral.

Collaterals that are not likely to be liquidated within the above timeline have discounted value of nil (0).

4. Discounted value of collateral is calculated by multiplying the price of the collateral with the discounting rate applied to that collateral, which is specified as follows:

4.1 Price of collateral:

a) Gold: Bid price in domestic market at the end of the working day prior to the date on which specific provision is made;

b) Government bond, Treasury bill and valuable notes (except for corporate bond and credit institutional bond): Face value;

c) Securities issued by corporations and other credit institutions which are listed on Securities Exchange and Securities Trading Centre: Market price at the end of the working day prior to the date on which specific provision is made;

d) Securities issued by corporations and other credit institutions which are not listed on Securities Exchange and Securities Trading Centre; movables, real estates and other collaterals: Value of the collaterals as stated in collateral contracts or in latest valuation minutes agreed by both the credit institution and its customers (if any);

đ) Leased-out assets (value of the leased-out asset as stated in the financial lease contract after deducting paid rentals): The remaining rentals at the time that specific provision is made;

e) Collaterals funded by the loans: Value at the time that specific provision is made, agreed by both the credit institution and its customers.

4.2 Discounting rate applied to each type of collateral:

a) Demand deposits and savings deposits denominated in Vietnam dong: 100%;

b) Treasury bills, gold, demand deposits and savings deposits denominated in foreign currencies: 95%;

c) Government bonds, valuable notes issued by the credit institution itself:

- With remaining maturity less than 1 year: 95%

- With remaining maturity from 1 year to 5 years: 85%

- With remaining maturity more than 5 years: 80%;

d) Securities, negotiable instruments, valuable notes issued by other credit institutions listed on Securities Exchange and Securities Trading Centre: 70%;

đ) Securities, negotiable instruments, valuable notes issued by corporations listed on Security Exchange Commission and Security Exchange Centre: 65%

e) Securities, negotiable instruments, valuable notes issued by other credit institutions not listed on Securities Exchange and Securities Trading Centre: 50%

g) Real estates: 50%

h) Other collaterals: 30%

5. Credit institution shall not make specific provision for:

5.1. Debts funded by other capital sources (sponsored capital, trusted capital from third party; co-sponsored capital by other credit institutions) for which the third party and other credit institutions undertake full responsibilities to write off if they turn bad;

5.2 Off balance sheet commitments.

Article 11. General Provision

The minimum general provision is calculated at 0.75% of the total facilities and off balance sheet commitments classified from category 1 to category 4.

Article 12. Supplementing and Reversal of Provision

1. In case that total amount of specific and general provision of the previous quarter is less than the total amount required for the current quarter, credit institution must have supplementary provision for the deficiency.

2. In case that total amount of specific and general provision of the previous quarter is more than the total amount required for the current quarter, credit institution shall have the excess amount reversed.

Part 3. Utilization of provision in writing off bad debts

Article: 13. Bad debts write-off Committee

1. Credit institution must set up a Write-off Committee which is lead by the Chairman of the Board of Management with members including Head of Control Committee, Head or delegator of Accounting department, Head or delegator of Credit management department and other members determined by the Chairman of the Board of Management.

If credit institutions do not have a Board of Management and Control Committee, the Write-off Committee shall then include General Director (Director) as Chairman and other members appointed by the General Director (Director).

2. Duties of the write-off committee:

Based on authority, delegation and responsibilities of departments and individuals involved in the processes of debt classification, loss provisioning, utilization of provision in writing off bad debts and responsibilities for absolute recovery of written-off bad debts as regulated in provisioning policy, the write-off committee is responsible for:

2.1 Reviewing and approving the whole system report prepared by General Director (Director) in case credit institution has Board of Management, or by Risk management department in case credit institution does not have Board of Management, about the status of recovering debts written-off in previous quarter using provision, including also liquidation of the collaterals; determining the rationales and responsibilities of related departments and individuals.

2.2 Considering and determining the debt classification, loss provisioning and utilization of provision in writing off bad debts of current quarter within the write-off committee's functions and responsibilities which is reported and proposed by General Director (Director)

in case credit institution has Board of Management, or by Risk management department in case credit institution does not have Board of Management.

2.3 Deciding strict measures to recover bad debts written-off using provision in whole system, including liquidation of collaterals, which is proposed by General Director (Director) in case credit institution has Board of Management, or by Risk management department in case credit institution does not have Board of Management.

Article 14. Write-off principles and dossier

1. Credit institution utilizing provision to write off bad debts must comply with the following principles:

1.1 Credit institution is entitled to write off debts classified in category 5 against available specific provision upon a valid dossier as regulated in Provision 2 of this article.

1.2 In case the specific provision is not sufficient to compensate the credit loss, credit institution can use proceeds from liquidation of collaterals to settle, and if deficiency is still in the position, the remaining amount will be written off against general provision. In case liquidation of collaterals has not been successful, credit institution is entitled to use general provision in writing off bad debts.

2. Write-off dossier includes:

2.1 Documents of loan granting and collection; discounting and rediscounting negotiable instruments and other valuable notes; advances, overdrafts; factoring; investments in debt securities held to maturity; financial lease;

2.2 Collateral documents and other relating documents;

2.3 Decision on debt classification and provisioning for loss compensation by write-off committee;

2.4 Decision by write-off committee approving writing off the debt.

2.5 In case customers are organizations, businesses which go bankrupt or dissolve, beside necessary documents mentioned at Point 2.1, 2.2, 2.3 and 2.4 of this Article, there should also be:

a. Certified copy of Decision on bankruptcy statement by the court or Decision on business dissolution by the authorized government agency as per legal regulations.

b. Certified copy of report on execution of Decision on bankruptcy statement and report on completion of execution of Decision on bankruptcy statement of Judgment Execution Department; documents deciding resolutions for debts of dissolved organizations, businesses.

2.6 In case customers are individuals which pass away or are announced missing, beside necessary documents mentioned at Point 2.1, 2.2, 2.3 and 2.4 of this Article, there should also be certified copy of death certificate, confirmation of the missing issued by authorized agency.

Article 15: Responsibilities of credit institution after writing of bad debts

1. Utilization of provision to write off credit losses does not mean absolving customers from payment of the debts. Any action of credit institution and individuals informing customers about writing off the debts shall be disciplined in accordance with law.

2. After writing off credit losses against provision, credit institution shall record the written off facilities in off balance sheet to follow up and take all measures to recover the debts, including liquidation of collaterals.

3. Five (5) years after writing off the credit losses against provision and all measures taken to recover the debts as per decision of write-off committee are unsuccessful, credit institution is entitled to remove the written-off facilities from the off balance sheet. With respect to joint stock commercial banks which the State has controlling stake, the removal is entitled upon the approval of the Ministry of Finance and the State Bank.

Article 16. Treatment of recovered debts

Recoveries of bad debts written off against provision, including proceeds from liquidation of collaterals, shall be recorded as an income of the credit institution.

Part 4. Recognition and Reporting

Article 17. Recognition

Credit institution shall record the specific and general provision made, utilized, supplemented, reversed in accordance with relevant regulations on financial and accounting system applied to credit institutions.

Article 18. Reporting

1. Credit institution must report on debt classification, provisioning and writing off of credit losses in accordance with Statistical Reporting Regime applied to units of the State Bank and credit institutions, issued by the State Bank.

2. Credit institution must report on debt classification, provisioning and writing off of credit losses and results of debts recovery of previous quarter to Ministry of Finance and provincial/city Tax departments where the credit institution bases its head office in accordance with regulations on tax reporting issued by the Ministry of Finance.

Chapter III: Organization of implementation

Article 19. Inspection and sanction for infringement

1. The State Bank (Banking Inspection and Supervision Body) is responsible for supervising the conduct of debt classification, provisioning and writing off of credit losses against provision in banking operations of credit institutions.

2. Credit institutions and related individuals that violate regulations in this circular, depending on nature and behavior of the violation, will be disciplined using one of the following measures:

2.1 Administrative fines;

2.2 Increasing provisioning rate respective to risk level of the debts;

2.3 Limitation of credit, limitation of operation expansion and operation scope;

2.4 Suspending operation in case of severe violation;

2.5 Being prosecuted in accordance with laws apart from measures stated in point 2.1, 2.2, 2.3 and 2.4, Provision 2 of this article.

Article 20: Organization of implementation

1. Banking inspection and supervision body is responsible for:
 - a. Confirming the implementation of internal credit rating system by credit institutions as regulated in provision 9, article 4 of this circular.
 - b. Assessing internal credit rating system, internal regulations on credit quality management, credit policy for customers, provision policy and requesting amendments, supplementations if needed;
 - c. Supervising, examining and inspecting the result of debt classification, provisioning and utilization of provision in writing off credit losses; assessing the risk level and credit quality of credit institutions.
 - d. Carrying out administrative fines as stipulated in article 19 of this circular.
2. Monetary Forecasting and Statistic Department, based on regulations in this circular, will draft and submit to State Bank Governor for announcing statistical reporting regime of debt classification, provisioning and utilization of provision in writing off credit losses of credit institutions.

Chapter IV: Implementing provisions

Article 21: Effectiveness

1. This circular shall be enforced from 1 October 2010 and supersedes Decision 493/2005/QD-NHNN dated 22 April 2005 of the State Bank Governor on the issuance of the Regulations on debt classification, provisioning and utilization of provision to compensate credit losses in banking operations of credit institutions and Decision 18/2007/QD-NHNN dated 25 April 2007 amending and supplementing the regulations on debt classification, provisioning and utilization of provision to compensate credit losses in banking operations of credit institutions, issued with Decision 493/2005/QD-NHNN date 22 April 2005 of the State Bank Governor.
2. Amendments, supplementation and replacement of this circular shall be decided by the State Bank Governor after arriving at consensus with Minister of Finance
3. Chief of the Secretariat, Head of Banking Inspection and Supervision Body, Heads of units under the State Bank, Directors of State Bank branches in provinces and cities directly under Central Government, Chairman of Management Board and General Directors (Directors) of credit institutions are responsible for implementation of this circular.

Delivery to:

- As in Provision 3, Article 21;
- Governmental Office (2 copies);
- Ministry of Justice (for the purpose of inspection)
- Keeping records in administrations (3 copies)

Governor