# UPDATE ON CREDIT INSITUTIONS LAW (Amended)

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Shinhan Securities

## CREDIT INSITUTIONS LAW (Amended)

On January 18, 2024, 5th extraordinary session, the Law on Credit Institutions (Amended) was officially voted and passed by the National Assembly. The main changes in this draft law include: risk provisions, early intervention for credit institutions, legalization of Resolution 42/2017/QH14 on handling non-performing loans and collateral, roadmap for tightening share ownership ratio, credit lending limit. The law takes effect from July 1, 2024; clause 3, Article 200 and clause 15, Article 210 take effect from January 1, 2025.

| Topic | Major changes | Comments |
|---|---|---|
| Limit on ownership ratio | **Article 55:** Share ownership ratio<br>- The ownership ratio of one shareholder decreased from 15% to 10% of the Charter capital of the credit institution;<br>- The ownership ratio of Shareholders and related persons reduced from 20% to 15% of the Charter capital of the credit institution.<br>**Article 49:** Supplementing regulations on providing and disclosing information for shareholders owning 01% or more of charter capital<br>Transitional regulations, **clause 5, Article 210**, allow shareholders and related persons whose ratio exceed the prescribed ratio to continue holding but must have a roadmap to reduce their ownership. | - Tightening the ownership ratio will help **limit cross-ownership and manipulation** in banks. Disclosing information to shareholders owning 01% or more helps investors better understand the bank's ownership structure.<br>- However, we reckon that **monitoring and enforcement** by state agencies is an important factor to ensure increased effectiveness of this regulation. |
| Credit lending limit | **Article 136:**<br>- Reduce the credit limit ratio for a customer from 15% to 10% of equity capital of commercial banks, foreign bank branches, people's credit funds and microfinance institutions following the roadmap until 2029;<br>- Reducing the credit limit ratio per customer from 25% to 15% of equity capital of non-bank organizations following the roadmap until 2029. | - Credit institutions will have to diversify their credit portfolio and minimize concentration risks. This regulation aims to **reduce lending limits for related parties.**<br>- Regulations will help lending activities develop **more sustainably** in the long term. In the short term, banks lending to related parties will face pressure to restructure loan portfolio. |
| Handling non-performing loans and collateral | Legalize Resolution 42/2017/QH14 in **Chapter XII** on handling bad debts and collateral.<br><br>Transitional regulations **Article 210**: Notably is the clauses 06 and 15 Article 210 related to real estate projects accepted as collateral. Accordingly, credit institutions can continue to comply with clauses of Resolution 42/2017/QH14 for real estate projects that have been accepted as collateral before the effective date of this Law. | - The inclusion of Resolution 42/2017/QH14, which expires at the end of 2023, into law has helped fill the legal gap related to handling non-performing loan and collateral.<br>- However, the transitional regulations only apply to the loan contracts before the effective date of the Law on Credit Institutions (Amendment). Mortgage contracts after this time will comply with new regulations related to real estate business law. At that time, recovering non-performing loans that are backed by real estate projects will have to meet more stringent conditions. |
| Early intervention plan | **Article 143** and Articles in **Chapter IX and Chapter X** - Banks will have to prepared recovery plan in case of early intervention. | - This regulation is intended to ensure that banks **build and prepare scenarios in case for early intervention**. Periodically, this scenario will be updated to match the bank's operating situation.<br>- In addition, the provision of **mass withdrawals** has been included in one of the Conditions of Early Intervention.<br>Regulations related to early intervention will help the banking system prepare better in adverse cases. |
| Insurance agent | **clause 5, Article 15:** prohibits the act of selling non-compulsory insurance products with the provision of banking products and services. | - This regulation may cause banks' insurance agency segment to slow down after the fast growth period of 2020-2022. In the long term, regulations help protect customers' interests and minimize cases of forcing borrowers to buy insurance. |




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