



FUND OF PROBLEM LOANS  
ACQUISITION. MANAGEMENT

# VIETNAM EXPERIENCE IN NPL REGULATION VAMC Activities

# I. Prerequisites for the creation of VAMC

The development of Vietnam's modern banking industry began in the 1990s. In the initial stages of development, the system transformed from a monobank structure into an extensive network of banks and other credit institutions. From the standpoint of organizational and legal forms and the range of services provided, the Vietnamese sector is diversified—it includes state-owned banks, private banks, foreign credit funds, and microfinance institutions.

In 2009, the level of non-performing loans (NPLs) in the banking sector began to rise, reaching 3.4% in 2012. This situation had a negative impact on all Vietnamese banks. First and foremost, the decline in the quality of the loan portfolio forced banks to increase their own capital to cover the risk of loan defaults.

Additionally, the growth in the share of NPLs reduced the profitability of banks while simultaneously increasing liquidity risks and the risk of insolvency.

The deterioration of the banks' financial condition was a result of ineffective supervisory policies and the accumulation of unresolved bad debts on their balance sheets.

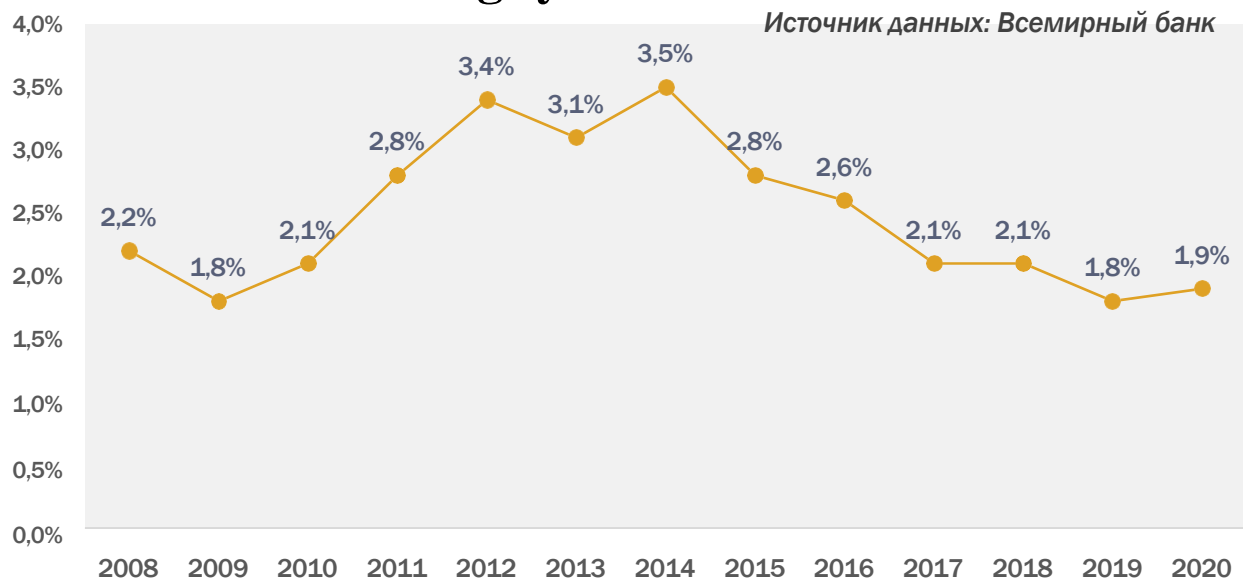
At the same time, the causes of the high level of NPLs were primarily linked to the 2008 financial crisis, which led to a decline in business activity in Vietnam and defaults on corporate and consumer loans, respectively. During the crisis period, the economy experienced a range of negative consequences, including high inflation, a slowdown in economic growth, and an outflow of investments.

# I. Prerequisites for the creation of VAMC

The decline in consumer demand, in turn, led to enterprises facing disruptions in production and business activities. Many companies were forced to file for bankruptcy, especially the main borrowers of banks – large state-owned enterprises. This unfavorable business environment seriously impacted banking operations, reduced the quality of loans, and also increased the volume of non-performing loans in the country's banking sector.

The second important reason for the growth of problem loans in Vietnam is considered to be the ineffective legal environment. Specifically, the problem was the significant discrepancy between the rules for classifying loans and accounting and financial reporting standards in comparison to international standards.

## Dynamics of the NPL level in the banking system of Vietnam.

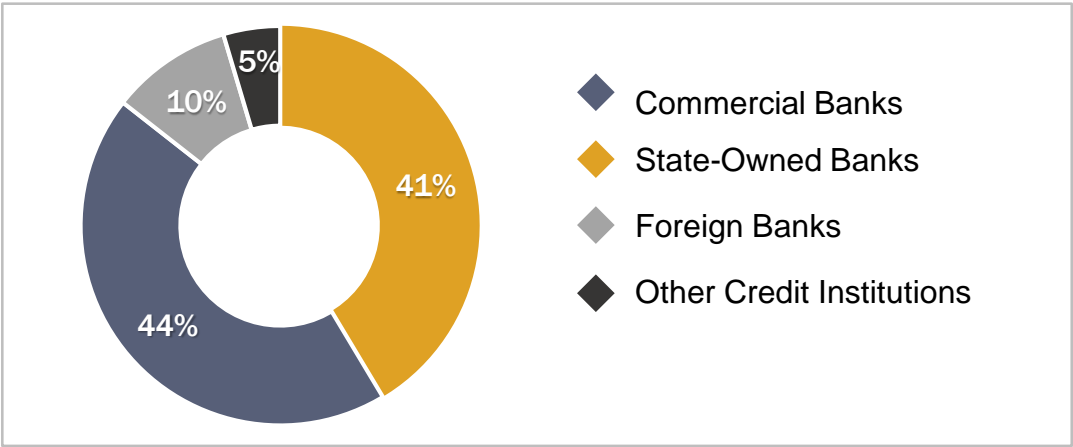


## II. Creating vanc

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**Structure of the Banking Sector in Vietnam:**



Data Source: State Bank of Vietnam

## III. Asset Purchase and Management by VAMC

The acquisition of distressed assets through the issuance of special bonds is carried out by VAMC at nominal value, minus a reserve. A special bond is issued for each non-performing loan (NPL).

After purchasing loans using special bonds, VAMC does not directly handle the resolution of these NPLs but plays a coordinating role in accelerating the debt recovery process. This includes actively supporting credit institutions in initiating legal actions, enforcing judgments, imposing liens on collateral assets, and conducting debt auctions.

For financial institutions selling distressed loans to VAMC in exchange for special bonds, it is stipulated that a reserve for their non-performing loans is formed at only 20% per year based on the amount of bonds received.

Furthermore, by transferring toxic loans, banks have the opportunity to temporarily relieve themselves of the NPL burden, gain more time, and receive support to improve the quality of their loan portfolios.

The purchase of distressed assets using authorized capital is carried out by VAMC at market-determined prices, either through self-determined company assessments or independent valuations, according to the relevant asset acquisition plan approved by the State Bank of Vietnam.

VAMC independently manages assets acquired at market value through judicial recovery procedures, cooperation with borrowers under debt restructuring, as well as the sale of loans and collateral assets.

## Iv. Performance indicators of VAMC

From 2013 to 2017, the activities of VAMC were primarily focused on the purchase of non-performing assets in exchange for special bonds. During this period, the company acquired over 26,000 loans from approximately 17,000 debtors, with a total outstanding debt of \$14 billion, at a purchase price of \$12.7 billion.

By the end of 2019, VAMC had purchased NPLs with a total debt of \$16.3 billion in exchange for special bonds, at a purchase price of \$14.9 billion, ensuring a recovery rate of 73.8%.

VAMC also began acquiring assets at market value in 2017. The company acquired claims from 5 financial institutions with a total debt of \$130 million at a purchase price of \$138 million.

In 2019, due to an increase in its charter capital by 500 billion VND, VAMC completed deals with 4 more credit institutions to buy loans from 16 debtors for \$97 million.

From 2017 to 2019, the company acquired NPLs at market value, with a total debt of \$350 million, for \$357 million. The recovery rate for these loans was 64.6%. In addition, in 2019, VAMC organized several successful auctions, generating proceeds of nearly \$35.8 billion.

## v. Evaluation of VAMC's Activities

Despite the relatively effective performance indicators of VAMC and its significant contribution to the recovery of the sector and the restoration of enterprises, several factors are noted that seriously limit the company's ability to resolve non-performing loans.

First, when implementing its main asset acquisition mechanism—namely, in exchange for special bonds—VAMC essentially acts as a temporary "repository" for the NPLs of financial institutions. Its primary role is to help the main holders of toxic loans reduce the strain on their reserves.

Thus, the process of working with problem assets acquired through bonds is purely technical in nature.

Secondly, after acquiring NPLs in exchange for special bonds, VAMC does not manage these assets directly but supports financial institutions in the loan resolution process. Thirdly, the volume of assets acquired by VAMC at market value is currently relatively small, which limits the process of removing toxic loans from the banking system and involving assets in the economy.

Fourthly, there are significant legislative barriers that restrict VAMC's recovery process. For example, foreclosure on real estate collateral is practically impossible without land use certificates.

# VI. Prospects for the Development of VAMC

In 2020, the State Bank of Vietnam announced an expansion of VAMC's powers. According to the company's development strategy until 2030, VAMC is expected to become the central entity for managing NPLs and restructuring the credit institution system. Additionally, VAMC has been tasked with supporting the development of the national stressed asset market. There is also a proposal to create a data center for stressed assets, which will be linked to the National Credit Information Center and banks.

From 2026 to 2030, VAMC plans to expand its functions to include the ability to purchase assets from all sectors of the economy.

To implement these objectives, the competent authorities will consider increasing VAMC's charter capital to 10 trillion VND. Furthermore, under the instructions of the State Bank of Vietnam, VAMC plans to expand its cooperation with domestic and foreign investors to participate in corporate restructuring processes, as well as mergers and acquisitions.

Department of Corporate Development  
JSC "Bad Debt Fund"

Sources of information:

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*Vietnam Asset Management Company as a Tool for Improving Asset Quality of Vietnamese Banks*, Sylwester Kozak, Anh Thi Mai Hoan