

Vietnam's Distressed-Debt Market

How banks protect recoverable value
as new workout and trading options emerge



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INSIDE THIS EXECUTIVE INSIGHT

EXECUTIVE PREMISE

Vietnam is strengthening the infrastructure for resolving distressed debt. Banks will benefit only if they combine earlier recognition of borrower weakness with realistic recovery valuation, legally executable alternatives and accountable implementation. A larger problem-loan stock is a need for resolution; it becomes an investable market when assets can be understood, priced, financed and transferred.

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Reading focus: corporate credit and recovery decisions. Market statistics cover the wider banking system; individual cases require their own economic and legal assessment.

EXECUTIVE LEAD

Recovery starts before a loan becomes overdue

Vietnam's cooperation with Korea Asset Management Corporation (KAMCO) makes an important transition visible. Legal preparation for asset-backed securities and the modernisation of the Vietnam Asset Management Company (VAMC) trading platform could broaden the ways banks resolve distressed exposures. Neither initiative makes a weak borrower solvent or guarantees a buyer for a difficult loan.

For boards, chief risk officers and recovery leaders, the immediate challenge is to preserve choices before cash deterioration, incomplete documentation and delayed decisions destroy value. A loan can still be current while repayment depends on refinancing that is no longer credible. Conversely, a defaulted company may retain a viable business that merits restructuring rather than immediate liquidation.

The governing question is therefore: which legally executable route offers the strongest risk-adjusted recovery from this exposure, and what must the bank do now to keep that route available? Answering it requires one integrated view of borrower economics, creditor rights, recovery timing, funding and execution capability.

MANAGEMENT IMPLICATION

Require a documented comparison of feasible recovery routes for material distressed corporate exposures. Monitor emerging distress before delinquency, and give an accountable workout owner the authority to act within approved limits.

MARKET DEVELOPMENT

An emerging market, with substantial work still ahead

The Korea Times report of 13 October 2026 describes concrete capacity-building rather than a completed market transformation. KAMCO's own announcement confirms a USD 400,000 ADB contract to help develop Vietnam's ABS legal framework over 25 months. The scope covers legal analysis, policy recommendations, issuance guidance and training. It is a preparation programme, not evidence that a broad Vietnamese NPL securitisation market already exists. [1, 2]

The trading-platform project is also older than the latest headline. KAMCO announced its inception meeting on 24 November 2025. A KAMCO-Shinhan DS consortium received approximately KRW 2.5 billion under a KOICA grant initiative to upgrade VAMC's online NPL trading system. [3] The cooperation therefore signals sustained institutional investment in resolution capability. It does not, by itself, measure the growth of loan defaults, trading volumes or investor demand.

Problem volume and market liquidity must be assessed separately. In a September 2026 account of an August industry discussion, VAMC reported more than VND 811 trillion of system-wide on-balance-sheet NPLs at 30 June 2026. A broader measure including potential problem debt and unresolved VAMC exposures was approximately VND 930 trillion. These are different perimeters, not two competing estimates of the same stock. They are also system aggregates, not evidence that every bank or corporate segment has deteriorated equally. [4]

Historical evidence illustrates the transaction gap. The World Bank's 2025 completion report records twelve VAMC auctions in 2024, none successful. It identifies sellers' reluctance to accept bids substantially below asking prices, alongside weaknesses in data, valuation, transfers and creditor rights. This is a dated diagnosis; it is not a statement that no transactions have succeeded since then. [5]

There is counter-evidence to a simple narrative of continuously worsening credit quality. The IMF's 2025 Article IV report estimated that the on-balance-sheet NPL ratio had declined from 5.9% in September 2023 to 5.3% in March 2025, while remaining above its 2022 level. The dates and statistical scope differ from the 2026 VAMC figures. They cannot be combined into an unqualified trend line. [6]

The appropriate conclusion is measured: Vietnam has a substantial resolution need and is building stronger institutional infrastructure, while market depth remains constrained. The upgraded platform was described at an October 2026 briefing as expected to operate in late 2027 or early 2028. An existing platform is already present; the reported timetable concerns its further development. [7]

MARKET MATURITY TEST

Listings do not establish a liquid market

VIET TA proposes five practical tests for judging progress. First, information must allow an investor to reconstruct the borrower, claim and collateral without repeatedly starting due diligence again. Second, rights and transfer conditions must permit

execution in the relevant case. Third, asking prices and funded bids must converge. Fourth, buyers need capital and the ability to manage the acquired exposure. Fifth, servicing and restructuring capability must convert a purchased claim into cash.

A platform can improve access and competition. It cannot independently cure defective title, fund project completion or make a seller accept a loss. Market progress should therefore be assessed through completed transfers, qualified bidders, execution time, verified net recoveries and repeat participation. Announcements, listed face values and registered users are useful activity indicators, but they do not establish liquidity.

This distinction has an immediate consequence for banks. A future sale channel is an option to prepare for, rather than a reason to postpone internal workout decisions. While the infrastructure develops, banks still need to assess viability, protect rights and decide which cases should be restructured, marketed or enforced.

PORTFOLIO TRANSMISSION

Default risk and recovery risk require different responses

The probability that a borrower will default and the loss the bank suffers after default are related but distinct. Better resolution infrastructure primarily affects recovery routes, execution time and the loss given default. Successful operational restructuring may also restore repayment capacity. It would be misleading to assume that a digital trading system, by itself, reduces the probability of borrower failure.

Consider the transmission into a corporate portfolio. Margin compression weakens operating cash generation. Customers pay more slowly, inventory absorbs cash and refinancing becomes more difficult. Management stretches suppliers or diverts money between projects. Contractual debt service may continue temporarily, supported by new borrowing, asset sales or shareholder transfers. The bank sees payment continuity while the underlying repayment engine weakens.

If recognition and intervention are delayed, arrears can arrive together with exhausted liquidity, suppliers withdrawing support and collateral becoming harder to sell. Default probability has risen; recovery prospects may simultaneously deteriorate. Where both the borrower and its collateral depend on the same property or export cycle, the protection can weaken precisely when it is needed. Portfolio stress testing should reflect this correlation rather than applying independent shocks to loan cash flows and security values.

The reported NPL ratio alone cannot reveal this process. Rapid growth in total lending can reduce a ratio even while the absolute problem stock increases. Write-offs and transfers can also change the reported ratio without demonstrating that the borrower has recovered. Banks should reconcile the movement in problem exposures through opening stock, new deterioration, genuine cures, cash recoveries, sales, write-offs and closing stock.

The Basel Committee's international benchmark includes unlikely-to-pay evidence as well as material delinquency; granting forbearance does not automatically restore a non-performing exposure to performing status. These are comparative principles, not a substitute for Vietnamese classification and provisioning requirements. [8]

DECISION PRINCIPLE

Payment status is one observation. The source and sustainability of payment determine whether the bank is preserving credit quality or financing the appearance of it.

EARLY INTERVENTION

Turn warning signals into a decision mandate

The bank should maintain a management watchlist alongside its regulatory classifications. Relevant signals include repeated forecast misses, weakening interest coverage, growing overdue receivables, unsold stock, delayed tax or supplier payments, unexplained related-party transfers, covenant breaches and reliance on uncommitted refinancing. A single signal need not prove distress; combinations should trigger investigation proportionate to exposure and consequence.

Use a borrower-group view. Map common owners, guarantees, cash transfers, cross-default provisions and dependencies across companies and projects. A profitable subsidiary may be funding a weak affiliate; several apparently diversified credits may depend on the same customer, export destination, collateral market or refinancing source. Group analysis should expose economic dependence without assuming that cash or security can legally be moved between entities.

For a material watchlist case, the first output is a reconciled liquidity and repayment picture. Establish available rather than nominal cash, essential operating payments, debt maturities, committed funding and the next point at which choices become irreversible. A rolling cash forecast can use a horizon matching the business cycle and

funding gap; a thirteen-week view is one practical starting point, not a universal rule. Reconcile forecast and actual cash at a cadence appropriate to the severity of the case. Assign explicit responsibility. Relationship management supplies commercial context and maintains engagement. An independent risk or workout function challenges viability and owns the recovery recommendation. Legal specialists verify rights and constraints. Finance evaluates recognition, provisioning and capital consequences. The authorised credit committee or delegated executive approves concessions and additional exposure. Unresolved differences should reach that decision-maker, rather than remaining between functions.

RECOVERY STRATEGY

Keep a genuine range of alternatives available

The following routes are economic options, not interchangeable legal permissions. Each requires case-specific confirmation of the bank's authority, borrower consent where needed, documentation, security and applicable rules. Preparatory legal protection and investor work may run alongside a consensual restructuring; the bank need not wait for one route to fail before learning about another.

Restore repayment through a viable business

A financial restructuring can adjust tenor, repayment profile or interest obligations within applicable constraints. It buys useful time only when the business can generate sufficient future cash and the funding gap is covered. A new repayment schedule unsupported by operating changes, verified cash flows or committed capital can simply defer recognition of the same problem.

Operational turnaround addresses the source of repayment. It can involve product and customer profitability, pricing, procurement, production reliability, working capital, overheads and management capability. The plan must explain which actions create cash, who owns them, how much they cost and when benefits become available. A viable core may coexist with activities that should be sold or stopped.

Additional finance is a separate decision. The bank should compare the recovery uplift with the incremental amount at risk, test downside liquidity and document security, ranking and approvals. New money has no assumed priority merely because it

supports a turnaround. Shareholder contribution should be assessed for availability and commitment; willingness expressed in a meeting is not funded equity.

Change ownership, capital or the perimeter

A strategic investor, equity injection, business sale or eligible project transfer can provide capital, operating capability and a credible exit. The borrower may become recoverable under a different owner even when the existing owner cannot finance the solution. However, investor interest is not a binding commitment, and an attractive asset is not necessarily transferable within the required timetable.

A debt-to-equity conversion is another potential restructuring tool where the relevant institution and transaction are permitted to use it. It changes the creditor's claim, ranking, governance exposure and exit horizon. It should not be recommended to a bank as if it could freely own or operate any borrower. The bank and its advisers must identify who may hold the equity, under what approvals and with which realistic exit.

Sell the claim at a supportable price

An outright loan sale can crystallise value and transfer future recovery uncertainty to a qualified buyer. The bank must assess the net proceeds, representations, warranties, recourse, deferred consideration, remaining servicing duties and execution conditions. Selling a claim is different from selling the collateral or transferring the underlying project; different rights, consents and approvals can apply.

An independent price assessment should connect the buyer's bid with achievable collections, costs, timing and required return. The gap between book value and a credible bid is information about recovery uncertainty. It is not necessarily evidence that the buyer is undervaluing the exposure. Equally, the first low bid is not automatically fair value. Competition, improved data and comparison with retention can establish whether a sale is justified.

Use VAMC with a clear view of retained risk

VAMC offers distinct mechanisms. In the existing special-bond arrangement, the selling bank remains subject to provisioning obligations and the mechanism can support refinancing. This is different from a market-price disposal with effective transfer of recovery risk. [9]

Decree 359/2026/ND-CP, issued on 17 September 2026 and effective from 6 November 2026, retains that distinction. Article 15 requires annual provisioning for special bonds

and repurchase of unresolved debt at maturity under the specified mechanism. It also provides for market-price purchases from joint-venture institutions, wholly foreign-owned institutions and foreign-bank branches, and expressly includes restructuring advisory activity in VAMC's scope. These forthcoming provisions should not be described as already effective on 14 October 2026. [10, 11]

Whether a particular VAMC transaction improves the bank's economic position depends on its terms, recovery arrangements and retained duties. Accounting, prudential and capital treatment must be checked separately. Transferring administration is not the same as transferring loss exposure.

Enforce and realise assets when continuation destroys value

Consensual collateral sale, legally available enforcement, litigation and insolvency-related processes may be appropriate when viable restructuring is absent or cooperation breaks down. The bank should compare the costs and likely distributions under each feasible process. Security does not ensure immediate possession, clear title, an available buyer or recovery of the full claim.

For incomplete real-estate projects, distinguish land-use rights, project permissions, buyer obligations, construction completion and the rights of other creditors. A valuation may depend on an approved development that cannot currently be transferred or finished. Completion expenditure can increase sale proceeds while still reducing the bank's net recovery if funding needs and priority claims absorb the uplift.

Provisioning and write-off belong in the loss-recognition framework; they do not themselves generate cash. Nor should a write-off be assumed to waive a legally enforceable claim. Legal recovery and accounting treatment require separate decisions.

ECONOMIC COMPARISON

Value the cash the bank can actually receive

For each feasible route, estimate distributions to the bank after costs, timing, funding needs, creditor ranking and execution risks. A going-concern enterprise value is not the bank's recovery value. Gross collateral value is not net enforcement proceeds. The comparison must use the same valuation date, claim perimeter and consistent scenarios.

The economic measure is the probability-weighted present value of net cash attributable to the bank, including additional funding outflows. Use internally

consistent risk assumptions. Do not combine an already conservative certainty-equivalent cash flow with an additional adjustment for the same risk. Model guarantees and collateral once in the recovery waterfall, and test whether guarantors can actually pay under the same stress scenario.

Keep three lenses visible: expected economic recovery; liquidity timing and further funding capacity; and accounting, regulatory and capital consequences. A bank may prefer a lower expected recovery because the superior route cannot be funded or exceeds its risk appetite. That trade-off should be recorded explicitly. A favourable accounting treatment is not proof of a better economic outcome.

RECOVERY COMPARISON | Illustrative single-bank case; VND billion

Route	Assumed net cash flows and scenarios	Present value at 12%
Loan sale	58 received immediately after transaction costs; no retained obligations assumed	58.0
Enforcement	70 after three years with 70% probability; 35 after four years with 30% probability; amounts already net of costs and prior claims	41.6
Funded turnaround	10 advanced now; 100 after two years with 60% probability; 45 after three years with 40% probability; final amounts include recovery on new money	50.6

VIET TA illustrative arithmetic, not market prices or a valuation recommendation. Existing claim: 100. One common 12% time-value discount rate is used; scenario probabilities represent execution uncertainty. No guarantee, tax or regulatory effect is assumed. Inputs must be rebuilt for the actual case.

The example shows why a 58 sale below face value can be economically preferable to a higher eventual gross collection. Enforcement yields $0.70 \times 70 / 1.12^3 + 0.30 \times 35 / 1.12^4$, or approximately 41.6. The turnaround yields $-10 + 0.60 \times 100 / 1.12^2 + 0.40 \times 45 / 1.12^3$, or approximately 50.6.

The result is sensitive to assumptions. With the other turnaround inputs unchanged, its success probability must exceed approximately 75.4% to beat the immediate sale. This is an illustrative sensitivity, not a universal restructuring threshold. The bank should

test delay, costs, investor funding and downside proceeds rather than treating the base-case ranking as permanent.

RECOVERY DISCIPLINE

Recognise the difference between an economically unavoidable loss and an avoidable loss caused by waiting. Book value is an accounting reference; the next decision must use forward-looking recoverable cash.

EXECUTION READINESS

A restructuring plan must survive funding and control tests

Before granting a material concession or further exposure, require a minimum decision package: verified cash flows and debt reconciliation; independent viability challenge; legally checked creditor and collateral positions; a comparison of realistic recovery alternatives; committed funding; an executable operating plan; and clear approval, reporting and failure triggers.

Viability must be demonstrated after essential reinvestment and working-capital needs, rather than through EBITDA alone. Identify a credible customer base and sustainable margins, test management's ability to execute and distinguish restricted cash from funds available for debt service. The downside should expose what happens if the recovery takes longer or shareholder funding fails.

In a multi-lender case, agreement on exposure, security ranking, new-money terms and decision rights can be as important as operating economics. A temporary standstill should be legally documented and preserve necessary protective action. One creditor's rational enforcement can destroy collective going-concern value; equally, coordination must not trap lenders in an indefinite extension without credible recovery.

The borrower owns and executes the operating plan. The bank governs its exposure and approvals, not day-to-day operations by default. A turnaround adviser can diagnose and support implementation under a defined mandate. Counsel governs legal feasibility and documentation; valuation specialists test asset and enterprise values. These roles must connect through one controlled cash model and case record while maintaining professional independence.

Pre-agreed triggers turn monitoring into action. A funding commitment that does not close, a material cash shortfall, loss of a critical permit or unexplained leakage should prompt a defined escalation. The response may be remediation, tighter controls, a revised sale process or enforcement, depending on what remains feasible. A failed milestone should reopen the route comparison rather than automatically produce another extension.

INTEGRATED ACTION AGENDA

Build the bank's recovery capability before the market deepens

Start with exposure integrity. Reconcile the legal borrower, economic group, drawn loans, relevant contingent exposures, collateral, guarantees, maturities and existing concessions. Attach a named owner and an evidence confidence level. An incomplete file is itself a recovery constraint and should have a remediation owner.

Then prioritise interventions by expected value at risk and the rate at which options can disappear. Exposure size matters, but a smaller case approaching loss of a permit, an essential supplier or a funded buyer may demand earlier attention than a larger stable recovery case. Separate regulatory classification decisions from internal management prioritisation while ensuring consistency between them.

For each priority case, run legal protection, operating diagnosis and proportionate market sounding in parallel. Use their findings to compare recoveries and close funding and approval conditions. Do not commit to a rescue before establishing viability; do not suspend necessary protection while advisers investigate it. Confidentiality, bank secrecy and applicable data-sharing rules govern what can be shared with investors.

The approval should identify the chosen route, reserve route, maximum additional exposure, decision authority, agreed borrower obligations and specific conditions for switching strategy. Document both the economic choice and any liquidity or capital constraint that alters it. The committee should receive unresolved uncertainty, not a presentation that removes it.

IMPLEMENTATION SEQUENCE | Gates follow evidence and commitments, not a universal timetable

Stage	Accountable role and required output	Decision
Protect and diagnose	Workout owner coordinates reconciled exposure, cash picture and counsel's protective-action assessment	Are urgent rights or operating value at risk?
Test alternatives	Workout owner integrates operating viability, legal feasibility, valuation and funded market feedback	Which routes remain executable, and at what net recovery?
Commit	Authorised committee approves concessions, funding, contracts, limits and route-switch triggers	Is the selected route funded, authorised and implementable?
Execute and reassess	Borrower management executes; workout owner monitors cash, milestones and recovery variance	Continue, correct, change route or close the case?

VIET TA management synthesis. Diagnosis, protection and market testing can overlap. Major commitments wait for the relevant evidence and authority; the sequence does not imply that every workstream is strictly consecutive.

Portfolio reporting should track new problem inflows, repeat concessions, sustainable cures, realised net recovery, time to cash, forecast error, unresolved legal blockers and variance from the approved strategy. Define a sustainable cure through verified repayment capacity and the applicable classification rules. Collections funded by fresh lending should remain visible. Recovery-team incentives should reward realised value and credible cures, rather than the number of extensions or exposures moved elsewhere.

CONSULTING AND INVESTOR IMPLICATIONS

The opportunity is to make recoveries executable

VIET TA expects the institutional developments to increase the need for specialised work. That is an analytical inference, not a quantified forecast of consulting revenue. Actual paid demand depends on mandate authority, budgets, procurement, access to borrower information and willingness to implement difficult decisions.

Three categories of work are likely to matter. Banks need independent borrower reviews, portfolio triage and support in selecting and governing recovery routes. Borrowers need cash stabilisation and operational restructuring that restores repayment capacity. Investors and asset managers need verified data, acquisition underwriting, servicing plans and post-acquisition transformation. Legal, valuation, tax, technical and turnaround capabilities should be coordinated around the same exposure rather than offered as disconnected reports.

The new VAMC scope also means greater potential institutional competition. VAMC, bank-affiliated asset managers, law firms, accounting networks, valuation firms and investors can supply parts of the solution. A boutique adviser must establish where it adds demonstrable value and which licensed specialists or counterparties are necessary. VAMC's enhanced role is not proof that work will automatically be outsourced to independent consultants.

The strongest mandate connects independent diagnosis with accountable implementation while protecting conflicts of interest. Specify the client, decision-maker, access rights, deliverables, limits, remuneration and responsibilities before work starts. Advising a bank, borrower and buyer in the same transaction can create incompatible incentives. Success fees can also distort the route recommendation if only a sale or refinancing earns payment. Independence and any limitations should be explicit.

For this market, quality is observable in a practical test: can the advice withstand lender, investor, legal and operating challenge, and can the responsible parties execute it? A polished restructuring report without funded measures, creditor coordination or an accountable owner has limited recovery value. Conversely, implementation without independent viability testing can commit more capital to an unsustainable business.

BOARD DECISION

Preserve options, then choose on evidence

The KAMCO cooperation should change the questions banks ask now. Which credits are weakening before arrears appear? Which viable businesses need operational intervention? Which claims could be made investable through better documentation? Where does retention genuinely beat a funded sale? Which cases are consuming time while their recoverable value falls?

The answer will differ by borrower, security, institution and market conditions. Banks should prepare for deeper debt trading and possible future securitisation while maintaining today's workout capability. A future ABS structure would need sound rights, cash-flow data, servicing and investor protection; packaging cannot remove the loss in a weak underlying asset or guarantee regulatory risk transfer.

Vietnam's distressed-debt market can become a stronger mechanism for recycling capital and restoring productive businesses. The bank-level benefit will depend on decisions made before and during distress: identify deterioration, establish realistic recoveries, secure legally feasible choices, fund only justified measures and act when agreed triggers occur.

FINAL TAKEAWAY

The decisive capability is to preserve recoverable value while the bank still has choices, and then convert the best feasible choice into cash.

EVIDENCE AND SOURCES

Evidence and analytical boundaries

Market and legal status checked on 14 October 2026. System-level figures have different dates and perimeters. They do not measure corporate NPLs alone, individual-bank quality or completed market transactions. The decision tests, route comparison and action model are VIET TA management synthesis; the numerical case is explicitly hypothetical. No industry-wide consulting growth rate is inferred.

Legal routes require transaction-specific review of applicable law, implementing rules, institution type, creditor ranking and project conditions. Decree 359 takes effect on 6 November 2026; its forthcoming provisions are distinguished from the existing framework. Sources and time-sensitive statements require a fresh check before publication.

Prepared with AI assistance. Editorial responsibility: VIET TA.

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