Debt-to-equity swap to deal with bad debt in commercial banks in Vietnam: A qualitative study

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Abstract: The research aims to evaluate the current situation of bad debt and debt swap in commercial banks in Vietnam. It makes use of qualitative research method, expert method, analysis, synthesis and comparison techniques to evaluate the current situation of bad debt and debt swap, and on that bases, gives recommendations related to debt-to-equity swap. In this paper, the authors carry out in-depth interview with direct and indirect stakeholders in bad debt and debt swap including State agencies, economists, leaders and officers in commercial banks, and staff in businesses with bad debt. Debt-to-equity swap is among the solutions that commercial banks in Vietnam are utilizing to deal with bad debt, especially when businesses borrowing capital facing financial difficulties. At present, debt-to-equity swap is mostly carried out by Vietnam Debt and Asset Trading Corporation (DATC) or Vietnam Asset Management Company (VAMC). Commercial banks do not tend to proactively implement this measure due to their fear of risks and the lack of clear legal mechanism. On that basis, regarding policy implications, it is necessary to complete the legal framework to support commercial banks in asset disposal and debt collection, improvement of their risk management ability (most banks need to enhance their risk management system, especially in credit quality assessment and monitoring), development of debt trading market, encouragement of investors' engagement in the debt trading market to diversify bad debt solutions.

Key words: *credit institution, bad debt, bad debt swap, equity*

1. Introduction

Bad debt has negatively affect the credit system in particular, and the whole economy in general; therefore, coping with bad debt is of great significance in hindering its consequences (Cui, 2023). Judging on the credit institutions' side, bad debt results from their weaknesses in project appraisal, check, monitoring, and client evaluation. On the other hand, loooking at the borrowers' side, they must be responsible for bad debt due to investment in wrong projects and ineffective use of capital, etc. As a result, to effectively address bad debt, countries have adopted various measures including swapping bad debt into equity (Zhang & Tong, 2023). Swapping bad debt into equity can be interpreted as a way in which a bank buys a business's share using the amount of capital the business has borrowed from the bank instead of collecting that amount at an equivalent price or by agreement. Then the creditor or debt buyer becomes the owner of the business, investing more capital to restructure the whole business from human resources to production and operation (Chow, & Fung, 2000). Credit default swaps are a concept that was first used in the 1980s to address debt crises in many low-income countries. Sachs (2009) and Stiglitz (2009) proposed credit default swaps as a deleveraging solution during the 2007–2008 global financial crisis. From the theoretical and practical viewpoint, the authors believe that debt-to-equity swap should be considered for future application in Vietnam.

Credit activities are characterized by several distinct features, making them potentially risky, especially in terms of bad debt which is one of the major causes to capital flow limitation and hinderance into the economy (Zhao et al., 2022). Therefore, coping with bad debt is vital in restructuring credit institution system in general, and the whole commercial bank system in particular (State Bank of Vietnam, 2005). Banks want to have the lowest possible level of bad debts on their balance sheet because if a bank has low levels of bad debts, this directly implies that the bank will have a low level of risk. Therefore, banks will suffer the least possible loss. In addition, banks build their foundation on the trust of consumers (Anastasiou, 2016). Understanding post-processing credit risk management techniques is an essential issue for regulators, banks and governments concerned with financial stability. Bad debts can arise on a bank's balance sheet due to poor credit risk management. Bad debt management does not only involve finding ways to deal with bad debts when they arise. It also involves developing and implementing policies and strategies related to credit management, before problems arise (Anastasiou, 2016). At present, countries around the world have flexibly adopted various measures to cope with bad debt, such as administrative policy change, financial structure change, establishment of companies to manage credit institutions' assets, bad debt trading market development, etc. Among these measures, debt-to-equity swap has received mixed opinions. From the authors' own opinion, this measure needs further research for future implementation in Vietnam.

In Vietnam, after the Government issued Project No. 254 with the aim of stabilizing the banking system and improving the capacity of financial institutions in handling serious problems such as bad debt in the Vietnamese banking system, bad debt is still a burning issue for the Vietnamese banking system (Tran et al., 2020). In fact, Vietnamese banks have not yet found a suitable solution to effectively handle bad debt. Therefore, it is extremely urgent to re-evaluate the bad debt handling solutions applied in the past and draw necessary recommendations to implement some more market-based solutions such as securitization to thoroughly handle bad debt in the Vietnamese banking system. By converting debt into equity, banks can reduce bad debt balances, increase capital adequacy ratios, while businesses receive a “second chance” to restructure operations instead of bankruptcy or dissolution (Prasetiyono, 2024). According to the author, debt-to-equity swaps (Debt/Equity) need to be further studied for implementation in Vietnam in the future. The purpose of this study is to show the current situation of bad debt in Vietnam, point out the difficulties and challenges in resolving bad debt. The findings from the study can support the State Bank of Vietnam, the Ministry of Finance and policymakers in designing appropriate legal frameworks and monitoring mechanisms for bad debt swaps and capital recovery transactions, and provide policy implications for converting bad debt into equity at Vietnamese commercial banks.

2. Theoretical background

2.1. Concepts

2.1.1. Concepts of bad debt

Credit is an activity that always has many potential risks such as the bank cannot recover all the principal and interest when the loan is due, which, in this case, is called bad debt. Bad debt is often referred to "bad debt", "non-performing loan", or "doubtful debt", and is understood as substandard debt, which may be overdue and raise doubt about the creditor's ability to repay and recover capital (Tlemsani, 2022).

According to the International Monetary Fund, a loan is considered non-performing (or bad debt) when interest and/or principal payments are 90 days or more past due, or interest payments of 90 days or more have been restructured or extended, or payments are less than 90 days past due but there are reasons to doubt that repayment will be made in full (Li, 2020).

The Basel Committee on Bank Supervision (BCBS) has not provided any specific definitions of bad debt. However, in its guidelines on general practices in credit risk management in many countries, BCBS identifies bad debt as any debt that is not likely to be repaid when either one or both following conditions happen: (i) The bank finds that the borrower is unable to repay the bank in full when the bank has not taken any action to try to recover the loan, and (ii) The borrower is 90 days past due (Li, 2020).

Similarly, the European Central Bank defines Bad debt as: “loans other than loans held for trading that meet one or both of the following criteria: (a) material loans that are more than 90 days overdue; (b) the debtor is judged to be unable to service its credit obligations without realising the collateral, regardless of whether the loans are overdue or the number of days overdue. Bad debt include defaulted and impaired loans” (ECB, 2017).

To classify Bad debt, banks need to consider performing specific tasks such as: (i) grouping Bad debt into groups with similar credit risk characteristics, (ii) calculating the historical loss level of each group to accurately determine the risk parameters, and (iii) devising methods for estimating future loss levels for those groups. Based on these factors, banks will decide when to set aside individual provisions or general provisions. Criteria used by many governments to classify a loan as non-performing include delinquency, significant financial difficulties of the borrower, breach of contract, forbearance, bankruptcy of the borrower or other financial restructurings (Barisitz, 2013). The increase in non-performing loans is a direct cause of serious problems in the banking system, which can increase the risk of bank failures and financial crises in both developed and developing countries. It can lead to fluctuations in macroeconomic indicators that reflect the health of the economy, including rising short-term interest rates, falling real interest rates, rising unemployment rates and inflation rates (Saoussen et al., 2017).

In Vietnam, in accordance to Decision no. 493/2005/QD-NHNN dated April 22, 2005 by the State Bank, bad debts are those categorized into group 3 (substandard), group 4 (in doubt) and group 5 (possible loss of capital), which means bad debts include loans overdue for interest and/or principal by more than 90 days (State Bank of Vietnam, 2005; National Assembly, 1998).

On the bases of the aforementioned definitions, there is a common sense of bad debt interpretation among financial groups worldwide. To be more specific, a debt is considered bad debt if it shows one or both of the following signs: overdue payment of principal and interest, when the borrower is considered by the credit institution or bank to be unable to repay the debt. In general, if bad debt increases, credit institutions may experience losses and lose depositors’ trust, which severely affect their reputation. In a worse scenario, if such situation persists, credit institutions may go bankrupt, leading to serious consequences on the economy in general, and the financial system in particular. Therefore, bad debt identification and addressing are of great importance in financial system restructuring.

2.1.2. Debt-to-equity swap to cope with bad debt

Debt-to-equity swap to cope with bad debt is a financial mechanism commonly used during business restructuring. To be more specific, debt-to-equity swap refers to the process in which a creditor (normally a bank, a credit institution or an investor) agrees to swap all or a part of a business's loan into equity (charter capital) in that business (Barasa et al., 2023).

Debt-to-equity swaps, as a tool to deal with bad debts, were used by many heavily indebted poor countries during the international debt crisis of the 1980s (Moye, 2001). Reducing bank debt levels by converting debt into equity will increase confidence in the financial system (Stiglitz, 2009). It is considered one of the mechanisms for corporate financial restructuring in financial distress situations, along with solutions such as debt rescheduling/reduction, asset sales, or orderly bankruptcy (Gilson, 1990; Ghosh, 2016). This mechanism aims to reduce debt repayment pressure for businesses in difficulty, help them avoid bankruptcy and continue operating, increase equity and improve financial situation, and allow creditors to become shareholders with the right to manage or supervise the business. This is a market-based way of dealing with bad debt instead of coercion (Barasa et al., 2023). Therefore, debt-to-equity swaps are considered firm-based resolution tools, as opposed to tools that are more inclined to transfer risk off the balance sheet, such as selling bad debts to asset management companies or securitizing debt (ECB, 2017).

Implementing debt-to-equity swaps requires banks to apply a number of important criteria, such as setting strict viability and eligibility criteria for businesses, having sound corporate governance, limiting the scope and duration of bank equity ownership, converting debt at fair value, and recording losses (Daniel et al., 2016).

To implement this mechanism, it is necessary to follow these steps: i) evaluation of bad debt situation (debt classification, debt repayment ability, asset value of the enterprise), ii) agreement between the creditor and business (the two parties agree on the swap ratio and debt value to be swapped to equity), iii) carry out the swap (adjust the business's charter capital, acknowledge the creditor as a shareholder or a capital contributor, adjust business registration (in case the business is a limited liability or joint stock company), update ownership structure (Barasa et al., 2023).

2.1.3. Debt trading organizations in Vietnam

In Vietnam, debt trading activities have been implemented to contribute to handling bad debts and restructuring corporate finances (State Bank of Vietnam, 2024). However, the debt trading market is still quite primitive and fragmented. Below are some typical organizations participating in debt trading activities in Vietnam.

Debt and Asset Trading Company (DATC)

Owner: Ministry of Finance

Functions: debt trading and handling, State business restructuring

Roles: the pioneering and key role in State businesses' outstanding debt handling activities

Activities: buy debt with collaterals, swap debt to equity, handle assets, etc.

Vietnam Asset Management Company (VAMC)

Owner: State Bank of Vietnam

Goals: support commercial banks to handle bad debt, especially debt with collateral

Methods: buy bad debt using special bonds (banks must set aside provisions), buy bad debt at market price (possibly through restructuring or asset handling, etc.)

Debt trading companies under banks or private organizations

Several large banks and corporations have established subsidiaries or partnered with debt trading companies to handle assets and bad debts:

Vietinbank AMC

AMC of BIDV, Agribank, Vietcombank, etc.

Viet Investment and Debt Trading Corporation (VINADCO)

Vietnam Debt and Asset Trading Company (DATC Holdings)

Some law firms/ consultation companies providing intermediary services in debt trading

Foreign and financial investment organizations

Some foreign investment funds (especially from Korea, Japan, Singapore, etc.) have paid attention to debt trading market in Vietnam. However, their participation is still limited due to incomplete legal framework and lack of transparent secondary market.

2.2. Contributed capital and regulations related to contributed capital

According to clause 18, Article 4 in 2020 Law on Enterprises, capital contribution is the contribution of assets to make a business's charter capital, including capital to establish a company or to be added into an already-established business (National Assembly, 2020).

According to clause 3, Article 17 in 2020 Law on Enterprises, organizations and individuals have the right to contribute capital, purchase shares, purchase capital contributions in joint stock companies, limited liability companies, and partnerships according to the provisions of the Enterprise Law 2020, except in the following cases:

(1) State agencies and units of the people's armed forces using state assets to contribute capital to enterprises to gain profits for their own agencies and units;

(2) Individuals not allowed to contribute capital to enterprises according to the provisions of the Law on Cadres and Civil Servants, the Law on Public Employees, and the Law on Anti-Corruption (National Assembly, 2008; National Assembly, 2010; National Assembly, 2018).

Regulations on transferring ownership of contributed assets according to Article 35 of the 2020 Enterprise Law are as follows:

(1) Members of limited liability companies, partnerships and shareholders of joint stock companies must transfer ownership of assets contributed as capital to the company according to regulations.

(2) Capital contribution is only considered completed when legal ownership of the contributed assets has been transferred to the company.

(3) Assets used for business activities of private business owners do not have to go through procedures to transfer ownership to the business..

(4) Payment for all activities of buying, selling, transferring shares and capital contributions, receiving dividends and transferring profits abroad by foreign investors must be made through accounts in accordance with the provisions of the law on foreign exchange management, except for cases of payment by assets and other forms not in cash.

Regulations on valuation of contributed assets according to Article 36 in 2020 Law on Enterprises (National Assembly, 2020) are as follows:

(1) Contributed capital that is not Vietnamese Dong, freely convertible foreign currency, or gold must be valued by members, founding shareholders, or valuation organizations and expressed in Vietnamese Dong.

(2) The assets contributed to the capital when establishing an enterprise must be valued by the members and founding shareholders according to the principle of consensus or by a valuation organization. In case the valuation is carried out by a valuation organization, the value of the contributed assets must be approved by more than 50% of the members and founding shareholders. In case the contributed assets are valued higher than their actual value at the time of capital contribution, the members and founding shareholders shall jointly contribute an additional amount equal to the difference between the valued value and the actual value of the contributed assets at the time of completion of the valuation; at the same time, they shall be jointly responsible for the damage caused by intentionally valuing the contributed assets higher than their actual value.

(3) The contributed capital assets during the operation shall be valued by the owner, the Board of Members for limited liability companies and partnerships, the Board of Directors for joint stock companies and the capital contributor, or by a valuation organization.

In case the valuation organization conducts the valuation, the value of the contributed capital assets must be approved by the capital contributor and the owner, the Board of Members or the Board of Directors.

In case the contributed capital assets are valued higher than the actual value of such assets at the time of capital contribution, the capital contributor, the owner, the member of the Board of Members for limited liability companies and partnerships, the member of the Board of Directors for joint stock companies shall jointly contribute an additional amount equal to the difference between the valued value and the actual value of the contributed capital assets at the time of completion of the valuation; at the same time, they shall be jointly responsible for the damage caused by the intentional valuation of the contributed capital assets higher than their actual value.

3. Research methodology

This paper makes use of mixed research method combining theoretical analysis and practical survey. To be more specific,

Document analysis: researching legal documents (laws, Government's decrees, relevant ministries' and departments' circulars related to laws on contributed capital, bad debt, bad debt handling, debt swap), scientific reports (21 journal articles, 01 monographs, 02 book chapters on laws on contributed capital, bad debt, bad debt handling, debt swap), other studies directly/ indirectly related to contributed capital, bad debt, bad debt handling, debt swap in Vietnam. The authors have synthesized and analyzed financial reports of businesses and commercial banks, including 12 businesses (with bad debts at banks) and 06 commercial banks.

Practical survey: interviewing 09 experts (from universities in Economics, Law and Commerce, etc.), 18 leaders and intermediary managers from 12 businesses on practical issues in debt-to-equity swap to handle bad debt.

Analysis, comparison: the authors analyzes and compares legal regulations in Vietnam to other countries in terms of debt-to-equity swap to handle bad debt, especially those in Southeast Asia (06 countries). In this particular paper, the authors also contrast, compare and investigate debt-to-equity swap models to handle bad debt, regulations on this matter in such countries as China, the US, France or Germany, etc.

4. Findings and discussion

4.1. Real situation of bad debt

According to the statistics from the State Bank of Vietnam, till the end of 2024, there were worrying developments in the bad debt situation in Vietnam.

Total bad debt on balance sheet is of more than 733,904 billion VND, increasing by 3.4% compared to the late 2023.

Bad debt ratio on balance sheet of the whole system reaching 1.93% of the total outstanding debt, increasing from 1.69% of the previous year.

Group-5 debt (possible loss of capital) of 27 listed commercial banks reaching 131,000 billion VND, increasing by 43% year on year.

The total group-2 debt (warning of risk) of commercial banks is of more than 211,709 billion VND, accounting for 1.25% of the total outstanding debt, reducing by 7% compared to the late 2023.

The bad debt ratio at some banks: 0.96% at Vietcombank, 1.12% at Techcombank, 1.24% at Bac A Bank, 1.25% at Vietinbank, and 1.31% at VietABank.

According to the data synthesis from the State Bank of Vietnam (2024), the bad debt coverage ratio of the whole Banking industry reached 91% at the end of 2024. The bad debt situation has got worse, requiring banks to strengthen their risk management and provisions to ensure financial security and stable banking system.

4.2. Bad debt handling situation

By the end of 2024, bad debt settlement at Vietnamese commercial banks is facing many challenges, despite significant efforts from credit institutions and management agencies.

The following are some bad debt handling methods that have been used in Vietnam:

Self-handling and provisioning: According to data compiled by the State Bank of Vietnam, banks have self-handled 39,000 billion VND of bad debt and set aside risk provisions with an unused balance of 78,600 billion VND.

Roles of VAMC: According to data compiled by the State Bank of Vietnam, the Vietnam Asset Management Company (VAMC) focuses on handling bad debts of credit institutions with a bad debt ratio of over 3% of total outstanding debt, especially debts secured by real estate.

Application of Resolution no.42: According to data compiled by the State Bank of Vietnam, since Resolution No. 42/2017/QH14 took effect (Vietnam National Assembly, 2017), the entire system has handled about 443,800 billion VND of bad debt by the end of 2023.

Difficulties and challenges:

Limited debt recovery ability: Interview results with bank staff show that: Many customers have financial difficulties or deliberately delay and do not cooperate in handling secured assets, causing difficulties in the debt collection process

Provisioning pressure: Interview results with economic experts show that: The increase in group 5 debt forces banks to increase provisioning, affecting profits and the ability to expand credit

Legal limitations: Interview results with personnel from enterprises with bad debts show that: The handling of secured assets, especially real estate, still faces many legal obstacles, slowing down the debt collection process

In summary, although there has been progress in handling bad debts, Vietnamese commercial banks still need to continue to make efforts, especially in perfecting the legal framework and improving risk management capacity, to ensure the stability and sustainable development of the financial system.

4.3. Current situation of debt-to-equity swap to handle bad debt in commercial banks in Vietnam

Debt-to-equity swap is one of the solutions applied by Vietnamese commercial banks to handle bad debts, especially in the context of borrowing enterprises facing financial difficulties. However, this method is still limited and faces many challenges.

Current status of application: According to data compiled by the State Bank of Vietnam, the conversion of bad debt into equity is mainly carried out by the Vietnam Debt and Asset Trading Company (DATC) or the Vietnam Asset Management Company (VAMC). Commercial banks often do not proactively apply this measure due to concerns about risks and the lack of a clear legal mechanism. For example, in the case of Phuong Nam Seafood Joint Stock Company, the conversion of debt into equity is only carried out with the participation of DATC and some banks such as LienVietPostBank and ABBank.

Advantages of converting bad debt into equity: Helps banks recover bad debt and improve financial reports; Creates conditions for businesses to borrow capital to restructure and restore business operations (Li et al., 2023).

Risks of swapping bad debt into equity: Banks may become major shareholders of troubled enterprises, leading to having to bear the business risks of that enterprise. The possibility of divestment after the enterprise recovers is not high, especially if the enterprise cannot recover as expected (Kiprop, 2021). Lack of clear and transparent legal mechanisms in asset valuation and management of equity after conversion.

Another reason why many banks have to increase risk provisions is that, although the Vietnamese economy is growing well, recent economic shocks have forced banks to be more cautious. Therefore, banks have spent a large amount of profit on risk provisions, to prevent potential risks in the future, and at the same time help them be more proactive in handling bad debts. This research result is similar to the results of many studies by ECB (2016), BSBC (2015) and Tran et al., (2020). In the world, bad debt write-off is one of the most common and simple measures to handle bad debts, but banks are often reluctant to apply this method because it directly affects their capital and profits. Debt-equity swaps are also considered as a measure to deal with bad debts, which Vietnamese banks have applied. This result is also suitable because the Vietnamese Government is encouraging financial institutions to apply debt-equity swaps to deal with their bad debts (Government of Vietnam, 2022). If a bank is not allowed to swap bad debts for equity, bad debts remain at the bank and the bad debt ratio remains high.

4.4. Debt-to-equity swap solution to handle bad debt in commercial banks in Vietnam

4.4.1. Financial and economic specialists' viewpoint

The in-depth interview results with financial and economic specialists are as follows:

Table 1. ***Financial and economic specialists' viewpoint***

No.	Questions	Answers	Authors' comment
1	What is your perspective on debt-to-equity swap to handle bad debt in commercial banks in Vietnam?	Debt-to-equity swap can be a reasonable solution in dealing with bad debts, especially in the case of bad debts. However, this needs to be done carefully and with a long-term strategy, because banks not only face financial risks but also have to participate in corporate management.	Agree with the answer.

2	In your opinion, how does this method affect the capital structure and profitability of commercial banks?	This approach can help improve the bank's capital structure by replacing bad debts with investments that can generate profits in the future. However, success will depend on the profitability of the businesses in which the bank participates.	Partly agree with the answer. The author believes that after converting bad debt into equity, the bank's management will contribute to the profitability of the business in which the bank participates.
3	From a regulatory and policy perspective, are there any changes needed in the legal system to more effectively support debt-to-equity swap?	Several policy and legal changes could facilitate the implementation of this method, such as creating a clearer mechanism for transferring ownership, protecting the interests of stakeholders, and ensuring transparency in the swap process.	Partly agree with the answer. The author believes that it is necessary to create and operate a bad debt trading market.
4	What is your assessment of the development and expansion potential of the debt-to-equity swap method in Vietnam?	I believe that this approach has strong potential for development in Vietnam, especially in the context of the banking system's still quite high bad debt. However, it needs strong support from policies and management agencies to ensure effectiveness and protect the interests of stakeholders.	Agree with the answer.
5	Do you see a link between the application of debt-to-equity swaps and the	If done properly, debt-to-equity swap can help improve banks' financial health, reduce bad debt ratios and	Agree with the answer.

	sustainable development of the banking industry in Vietnam?	thereby help the banking industry develop more sustainably.	

4.4.2. Viewpoint of businesses with bad debt

The in-depth interview results with businesses with bad debt are as follows:

Table 2. *Viewpoint of businesses with bad debt*

No.	Questions	Answers	Authors' comments
1	What do you think about banks applying the debt-to-equity swap method to handle bad debt?	This approach has helped us reduce our debt burden, but also forced the company to face changes in management and ownership structure. This is a challenge but also an opportunity for growth.	Agree with the answer.
2	Did you encounter any difficulties when participating in the debt-to-equity swap process?	The legal procedures are quite complicated and can be time consuming, but this is necessary to protect the interests of both the bank and the business.	Agree with the answer.
3	After performing the debt-to-equity swap, how has your business's financial situation changed?	Our business no longer has to bear bad debts and has more financial support from the bank. However, sharing management rights with the bank also creates changes in the way it operates.	Partly agree with the answer. Sharing management rights with the bank is only for the betterment of the business. The bank itself must also do its best to bring

			profitability to the business.
4	Do you think that the debt-to-equity swap method can effectively help solve the problem of bad debt in the Vietnamese banking industry?	I think this approach can be a long-term solution if banks and businesses work closely and fulfill their commitments.	Partly agree with the answer.

4.4.3. Viewpoint of State managers and agencies

The in-depth interview results with State managers and agencies are as follows:

Table 3. ***Viewpoint of State managers and agencies***

No.	Questions	Answers	Authors' comments
1	In your opinion, can the debt-to-equity swap method be the optimal solution to handle bad debts at commercial banks in Vietnam?	This can be an effective solution in case of bad debts that cannot be recovered. However, clear regulations are needed to ensure transparency and protect the interests of the parties involved.	Agree with the answer.
2	What support do the government and regulators have to help banks implement debt-to-equity swaps more effectively?	The government can assist by creating legal and policy frameworks that support banks in implementing debt-to-equity swaps, as well as ensuring that banks and businesses comply with legal regulations.	Partly agree with the answer. The author thinks that beside the aforementioned support, the government creates and operates the bad debt trading market.
3	In your opinion, can the debt-to-equity swap method become a long-term strategic tool in handling bad debts at commercial banks in Vietnam?	Perhaps, if regulators establish an effective supervisory system and banks follow the right procedures, this approach could become a long-term strategic tool.	Agree with the answer.

4.4.4. Viewpoint of bank officers

The in-depth interview results with bank officers are as follows:

Table 4. *Viewpoint of bank officers*

No.	Questions	Answers	Authors' comments
1	What are the reasons and needs for applying the debt-	Converting debt into equity helps banks reduce bad debts and	Agree with the answer.

	to-equity swap method in handling bad debt at banks?	convert irrecoverable debts into part of the ownership in the enterprise. This not only helps improve the bank's balance sheet but also brings the opportunity to benefit from participating in the management and development of the enterprise. Moreover, this method helps banks minimize financial risks when they cannot collect debts.	
2	How does the debt-to-equity swap process at the bank work?	This process typically begins with an assessment of the customer's level of bad debt and ability to repay. The bank and the debtor then negotiate a debt-to-equity swap ratio. Once an agreement is reached, the bank receives shares or equity in the business, and the debts are either written off or converted into a financial interest in the business.	Partly agree with the answer.
3	In your opinion, how does the debt-to-equity swap method affect the bank's financial situation?	This method helps improve the bad debt ratio and financial situation of the bank. However, owning shares in a debt-ridden enterprise can cause potential risks if the enterprise does not develop well. The bank needs to manage and monitor these enterprises closely to ensure the	Partly agree with the answer.

		profit from the contributed capital.	
4	Is this method effective in handling bad debt?	Certainly, debt-to-equity swaps can be an effective solution in the case of bad debts that cannot be recovered. However, the effectiveness of this method depends on the development potential of the enterprise in which the bank owns shares. If the enterprise develops well, the bank will make a profit from holding these shares.	Partly agree with the answer.
5	What are the biggest challenges banks face when implementing debt-to-equity swaps?	One of the biggest challenges is accurately assessing the value of the debt enterprise and determining a reasonable exchange rate. In addition, the bank also faces risks in its ability to manage and develop the enterprise in which it participates in investing.	Partly agree with the answer.
6	In general, how do you assess the prospects of debt-to-equity swap method in the future at Vietnamese commercial banks?	I think this approach will continue to be widely applied, especially in the context of high bad debt ratios of banks. However, it also requires banks to have a clear strategy in managing the businesses in which they contribute capital.	Partly agree with the answer.

5. Conclusion and policy implications

The research findings reveal that:

(1) There is an increase in bad debts at commercial banks in Vietnam in 2024 compared to 2023. The total bad debt on balance sheet in 2024 was 733,904 billion VND, increasing by 3.4% compared to the end of 2023. The bad debt ratio on balance sheet across the system rose to 1.93% of the total outstanding debt from 1.69% in 2023. Group-5 debts (possible loss of capital) of 27 listed commercial banks was more than 131,000 billion VND, increasing by 43% year on year. Group-2 debts (risk warning) was 211,709 billion VND, accounting for 1.25% of the total outstanding debt, reducing 7% compared to the end of 2023. The bad debt coverage ratio across the Banking system reached 91% at the end of 2024. Such situation requires banks to strengthen their risk management and provisions to ensure financial security and stability in the banking system.

(2) Although there has been progress in handling bad debts and converting bad debts into equity at Vietnamese commercial banks, continued efforts are needed, especially in perfecting the legal framework and enhancing risk management capacity, to ensure the stable and sustainable development of the financial system.

(3) The orientation and solution for converting bad debt into equity at Vietnamese commercial banks is to increase legal support (It is necessary to complete the legal framework to support banks in handling secured assets and debt collection), improve risk management capacity (banks need to improve their risk management system, especially in assessing and monitoring credit quality), and develop the debt trading market by encouraging investors to participate in the debt trading market to diversify bad debt handling methods.

(4) Specific solutions:

First, Vietnam needs to pay more attention to solutions such as debt-equity swaps and securitization, because using traditional measures such as debt write-offs through credit risk provisions and liquidation of collateral, as recently implemented, cannot completely solve the bad debt problem of the Vietnamese banking system.

Second, it is necessary to complete the legal framework to facilitate debt-to-equity swaps, while ensuring rights and minimizing risks for banks. Encourage the participation of specialized organizations such as VAMC or DATC in implementing debt-to-equity swaps to ensure professionalism and efficiency.

Third, strengthening supervision and inspection of the implementation of debt-to-equity conversion to prevent policy abuse and ensure transparency in the process of handling bad debts.

Fourth, Vietnam should encourage the development of independent credit rating organizations. In the absence of qualified domestic credit rating organizations, it is necessary to accept and allow foreign credit rating organizations to participate in Vietnam. Therefore, Vietnam needs to issue policies and regulations to attract more reputable international credit rating organizations to operate in Vietnam.

In short, debt-to-equity swap is among the solutions that commercial banks in Vietnam are utilizing to deal with bad debt, especially when businesses borrowing capital facing financial difficulties. So, the conversion of bad debts into equity is a potential solution in handling bad debts at Vietnamese commercial banks.

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