

11 May 2021

Banking

Overweight (Maintain)

SBV asks to watch risky businesses

10 signs for potential risks

SBV has sent document to credit institutions warning on 10 signs of potential risk appeared in the sector in 2020 and asked them to follow Directive 01/CT-NHNN on key tasks in 2021. 10 signs of potential risk are as following:

- On balance sheet, NPL ratio in 2020 increased vs. 2019
- Some consumer finance companies witnessed strong increase in NPLs and NPL ratios.
- Accrued interest from credit activities increased vs. 2019
- Real estate credit increased robustly and still have strong weight in the country's credit.
- Investment into corporate bonds of development or trading real estate has high weight into total corporate bond investment portfolio. Some banks accelerated corporate bond investment, particularly focusing on development and trading real estate.
- Credit for investment and trading securities skyrocketed vs. 2019
- Credit quality of loans to real estate, consumer and card decreased heavily vs. 2019
- NPLs of large corporate segment (total balance above VND500bn/client) had sign of increase.
- The rise in accrued interest may lead to the fact that 2020 reported income has yet reflected the truth outcome.
- Some credit institutions have yet try their best in recollecting their bad debts and off-balance-sheet debts.

SBV's instructions for operation safety and risk management

To ensure safety of the banking operation and limiting risk, SBV asks credit institutions to strictly follow Directive 01/CT-NHNN for the key overall objectives and tasks in 2021. It notices credit institutions on 1) appraisal and supervision of loan purposes; 2) valuation of real estate collaterals at areas experienced "land fever"; 3) promoting capital into manufacturing sectors and 4) supporting customers impacted by COVID-19, natural disasters and climate change. Particularly SBV highlights on potential risky sectors (real estate, securities, transportation BOT and BT projects) as usual but with more specific notices:

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- For real estate: concentration risk at large clients; “land fever” phenomenon; developing and trading real estates.
- For consumer loans: improving appraisal and supervision process to control credit quality for consumption purposes.
- For securities: reminding credit institutions on regulations regarding to investment and trading equity, corporate bonds; asking credit institutions on inspection and supervision of issuance purposes of corporate bonds.
- For BOT, BT projects: reminding SBV’s instructions related to granting credit to BOT, BT projects.
- For provision and bad debt recollection: reminding credit institutions on debt classification, provision, accrued interest recognition (e.g COVID-19 restructured loans), and debt recovery to ensure the Government and shareholders’ interest.

These are official messages for banking operation in 2021 in order to maintain system stability amid unpredictable COVID-19 situation. We believe the whole banking system will revise their credit policies, risk management and supervision to fit with SBV’s guidance and also sustain healthy assets. However, we don’t expect these may tamp down credit growth in coming quarters given favorable interest rate environment and dynamic local economy.

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