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Rating Update:

FiinRatings affirms the 'A' issuer credit rating and 'Positive' outlook for Vietnam International Commercial Joint Stock Bank ('VIB')

Issuer Credit Rating*: A

Rating Outlook: Positive

Hanoi, 09 December 2024

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** This rating is an Issuer Credit Rating (ICR). An ICR reflects our view of the senior unsecured credit rating of an issuer and is not specific to a debt instrument such as bond that it may issue.*

The rating scale used by FiinRatings is the national scale, therefore, it must not be equated with or represented as a rating on the scale used by any other rating agencies.

The rating presented in this announcement is effective from the rating date, until and unless we make any further updates.

This document is prepared in both English and Vietnamese. The English translation is for reference only and the Vietnamese version will prevail in the event of any inconsistency between the English version and the Vietnamese version.

Hanoi, 09 December 2024

FiinRatings is pleased to announce that it has affirmed the Long-Term Issuer Credit Rating of '**A**' and the '**Positive**' rating outlook to Vietnam International Commercial Joint Stock Bank ("VIB" or "the Bank").

RATING SUMMARY

Criteria	Initial	Surveillance 01
Banking Anchor	**a-**	**a-**
Modifiers:		
Business Position	*+1*	*+1*
Capital & Earnings	*+1*	*+1*
Risk Position	*-1*	*-1*
Funding & Liquidity	*+0*	*+0*
Stand-alone Credit Profile	***a***	***a***
External Support	**+0**	**+0**
Issuer Credit Rating	**A**	**A**
Outlook	**Positive**	**Positive**

RATING RATIONALE

FiinRatings affirms the issuer credit rating of 'A' with the 'Positive' outlook for Vietnam International Commercial Joint Stock Bank ('VIB'), reflecting expectations of a significant improvement in the Bank's risk position over the next 12–18 months, based on:

(i) Improvement of risk position indicators over the past 06 months, demonstrated by a reduction in Group 2 loans and a high bad debt recovery rate
(ii) VIB's proactive measures to mitigate bad debts, including reduced lending rates, significant write-offs, and a shift toward corporate lending
(iii) The anticipated resilience of VIB's retail customer base as macroeconomic conditions are expected to improve from the second half of 2025 onwards.

The affirmation also reflects FiinRatings' expectations that VIB will continue to maintain its solid business position in the retail banking segment, sustain stable capital buffers and superior profitability, while maintaining its funding and liquidity position at the 'Adequate' level.

VIB maintains a solid business position amid challenging macroeconomic conditions thanks to its flexible proactive business strategy.

VIB's market share in gross customer loans remains above 2% as of 9M2024, rank 13th among 30 operating commercial banks in the sector, despite experiencing slower growth recently. In 2023, the Bank's loan book growth was 14.8% and as of 9M2024, this figure stood at 11.7%, significantly lower than the average of 27.5% during the period of 2017–2021. In 2024, VIB received a credit growth limit of 21.57% and aims to fully utilize this limit. We believe VIB can achieve high credit growth, despite certain ongoing economic challenges affecting the Bank's retail lending segment. From 2025 to 2026, we expect VIB's annual loan growth to sustain at 20% as macroeconomic conditions improve, boosting retail customer demand.

The primary constraint to VIB's credit growth has been the Bank's mortgage and auto loan products, which have slower growth since 2021 and significant setbacks in 2024. The annual growth rate of mortgages dropped to 8.0% in 2023, followed by a modest 2.4% growth YTD in 9M2024, compared to an average growth of 48.2% from 2017 to 2020. The auto loan segment continues to decline, shrinking by -23.9% in 2023 and -14.8% YTD in 9M2024. In contrast, credit cards have been the only retail lending product to show substantial growth, increasing by 59.6% in 2023 and 47.4% YTD in 9M2024.

The Bank had to make significant efforts to sustain the growth of its retail loan book. In 3Q2024, VIB launched highly competitive mortgage loan packages to stimulate customer demand, with a total value equivalent to 25% of its current mortgage loan book. These packages offer fixed interest rates of 6-8% for an initial period of 6 to 18

months (with a floating rate after that), a principal grace period of up to 5 years, a loan-to-value (LTV) ratio of up to 85%, and the option for refinancing disbursement in advance. The Bank has also expanded its market reach by establishing 14 branches in five more provinces, primarily in the southern region.

We expect corporate lending to be the main driver of VIB's loan book in 2024 - 2026 since the sluggish real estate market recovery may continue to dampen mortgage demand, and the outlook for auto loans remains weak. Additionally, in 3Q2023, the Bank officially announced its shift towards more corporate lending (not including SME), indicating a change in the loan book structure, with corporate lending potentially rising to 30% of the total loan book, up from the current share of the 20% (no specific timeline provided). In 9M2024, VIB's corporate lending increased by 43.6%, followed by a strong growth of 62.5% in 2023.

However, we believe that the shift towards corporate lending will not alter the core of the Bank's business model, therefore preserving VIB's business stability. VIB still aims for over 70% of its loan book to be focused on retail customers, aligning with other retail-focused banks in the industry. In comparison, as of 2Q2024, retail loan book shares were 66% at ACB, 68% at BAB, and 48% at VPB. Therefore, in the next two years, we view that VIB can continue to leverage the competitive advantages derived from its retail-focused business model, which has been developed over the past 7 years.

In this surveillance, we have also included a monitoring factor regarding the business position in the scenario of adjusting the Bank's credit rating. Specifically, if the Bank continues to be affected by macroeconomic challenges, resulting in prolonged slow credit growth and a significant decline in loan market share to below 2%, along with unstable non-interest income, FiinRatings might revise its assessment of VIB's business position from 'Strong' to 'Adequate.'

VIB's capital and earnings is projected to remain under certain pressure in 2024 – 2025 due to high cash dividends, aggressive provisioning and lower interest-earning yields. However, we expect the Bank's reported CAR to maintain above 11%, following its internal target.

VIB's reported CAR continues its gradual decline trend, down to 11.4% by the end of 3Q2024 from the peak of 12.8% in 2022. Its reported tier-1 CAR also dropped to 10.5%, from 11.5% in 2022. The main factors pressuring the Bank's capital buffer are its declining earnings as well as high cash dividend payouts. In 2023, the cash dividend accounted for 37% of net income, which is equivalent to 15% of charter capital in 2022. In 2024, the cash dividend is expected to account for around 48% of net income, which is equivalent to 12.5% of charter capital in 2023. Following the exit of its foreign strategic investor, CBI, who previously held 20% of the Bank's equity, VIB plans to considerably reduce its annual cash dividend payout to 5% of charter capital, which will account for only about 20% of the Bank's net income. This move is intended to alleviate pressure on its capital buffer.

We believe that VIB can maintain its capital adequacy above the internal threshold of 11% due to (i) its ability to maintain relatively high earnings despite its recent moderate decline, (ii) the Bank's potential or "room" to issue more tier-2 bonds if needed, as tier-2 capital currently accounts for less than 10% of total capital, and (iii) the moderate possibility of an equity raise in 2025–2026. A possible equity raise following the divestment of the Bank's major shareholder, CBI, is a key factor to monitor, as it could significantly improve the capital adequacy ratio.

VIB's profitability remains significantly above the industry level, despite the recent moderate decline. By 9M2024, the Bank's NIM fell to 4.1%, down from 4.7% in 2023 but still well above the industry median of around 3%. Meanwhile, the Bank's ROA and ROE experienced more notable declines, dropping to 1.7% and 18.8%, respectively, by 9M2024, compared to 2.3% and 24.7% in 2023. However, these figures remain well above the industry median of 1.2% for ROA and 13.4% for ROE as of 9M2024.

Lower interest-earning yields and high provisioning costs are the primary pressures on VIB's earnings in 2024 – 2025. In 2024, VIB began reducing lending yields to support retail customers. The interest yield on retail loans dropped significantly by 4.2% in 3Q2024 from a peak of 14.3% in 2Q2023. At the same time, VIB is expanding its corporate loan portfolio, which typically generates 4-5% lower interest yields than its retail loans. To effectively reduce non-performing loans, we project that VIB will need to maintain these lower yields for at least two years—2024 and 2025. Given the growing share of lower-yielding corporate loans, we anticipate VIB's NIM will decline to 4% by the end of 2024 and further to 3.8% in 2025, with a potential recovery in 2026.

On the other hand, consistently rising bad debts and the Bank's aggressive write-off practices will result in significant provisioning costs. VIB's credit cost (loan loss provision/average gross loan) increased to 1.9% in 2023 and 1.1% in 9M2024. In our projection, we expect the credit cost to remain elevated, reaching 1.5% by the end of

2024 and 1.0% in 2025, before slightly declining to 0.8% in 2026 as the delinquency rate among VIB's customers decreases, allowing for lower provisioning requirements.

We believe that from 2024 to 2026, VIB's non-interest income will be primarily driven by the recovery of debts written off rather than fee income from insurance activities (as was the case before 2022) due to the persistent challenges in the bancassurance market, with little sign of recovery. Net other income, mainly consisting of bad debt recovery (approximately 90%), has significantly increased over the past three years, reaching VND 792 billion in 2023 and VND 789 billion in 9M2024, up from just VND 355 billion in 2022. Over the next two years, VIB expects to earn annual income from bad debt recovery of approximately VND 1,000–1,100 billion. We acknowledge that income from bad debt recovery has effectively supported the Bank's profitability during this period, especially when VIB's insurance sales activities have been significantly impacted by severely eroded consumer confidence in the overall insurance market. Although bancassurance was previously a competitive advantage for VIB, income from this activity in 9M2024 reached only VND 319 billion, approximately half of the total insurance income for the entire year of 2023.

VIB's Cost-to-Income has slightly increased recently and reached 34.2% by 9M2024, approaching the industry median of 36.5%. However, given the Bank's historical trend of declining CIR and its consistent improvements in operating efficiency, we project VIB's CIR to resume its downward trajectory after 2024, reaching 31% by 2026.

VIB shows a tentative sign of recovery through the decline in Group 2 loans, reflecting the resilience of the Bank's retail customer group. NPL ratios remain elevated across all retail lending products in 2024. Concrete improvement in the future still lies within the Bank's efforts to reduce lending rates, its strategic shift towards corporate lending with lower delinquency rates, and the continuation of aggressive write-off practices.

VIB's adjusted NPL ratio recorded a new high of 3.9% in Q3/2024, surpassing the previous peak of 3.7% in 9M2023. The financial health of the retail customer base has experienced prolonged deterioration following the severe economic challenges in 2022–2023, while the economic recovery in 2024 remains gradual and weaker than expected. The NPL ratios for mortgages, auto loans, and credit cards peaked in 1Q2024 and have remained elevated till now. Meanwhile, the NPL ratio for business loans (SME), which belongs to the retail segment just reached its peak of 3% in 3Q2024.

Declining Group 2 loans is the primary indicator of VIB's improving risk position over the past six months. The Bank's problem loan ratio decreased to 7.5% by 9M2024, down from 8.7% at the end of 2023. Among all retail lending products, mortgages experienced the most significant reduction in Group 2 loans, dropping by 2.2% from a peak of 7.7% in 1Q2024, followed by auto loans, which fell by 1.8% from 7.3% in 1Q2024. In the next 2 years, we expect VIB's group 2 loans to continue declining, reaching below 5% by 2026 under our projection.

Currently, VIB is working to mitigate its delinquency rate by reducing lending rates, increasing corporate lending, and consistently writing off bad debts. VIB's bad debt mitigation strategies will take at least 1–2 years to deliver noticeable results. This delay can be attributed to two main factors. Firstly, VIB's lending rates have only recently recorded a significant decrease over the past two quarters. In 3Q2024, the interest earnings yield on individual customers dropped to 10.7%, lower than the 2022 average of 11.5% and the 2023 average of 13.6%. The interest earnings yield on SME lending also fell to 6.6% in 3Q2024, significantly below the 2022 average of 7.3% and the 2023 average of 8.9%. Secondly, we believe that a more pronounced shift toward corporate lending, which has a lower delinquency rate than the retail segment, is necessary to effectively reduce VIB's NPL ratio. By 9M2024, the share of corporate lending in the total loan book had increased by only 5%, rising from 15% in 2023. According to our projections, if this proportion continues to rise and reaches 25% by 2026, along with other factors supporting the Bank's risk position, the adjusted non-performing loan ratio could fall below 3%

Moreover, VIB has an aggressive policy of writing off bad debts. While this helps reduce the non-performing loan ratio, it leads to increased provisioning costs, limiting the Bank's ability to improve its provision coverage ratio. We expect VIB to maintain a provisioning coverage ratio of around 50%, consistent with previous years.

Funding and liquidity position of VIB remains adequate, supported by stable deposits from individual customers, while wholesale funding is maintained within an acceptable range – below 40% of total liabilities.

VIB has reduced its reliance on long-term offshore funding to optimise funding costs. Instead, the Bank increased borrowings from the domestic interbank market in response to unfavorable foreign exchange rates and a decrease

in customer deposit rates. By 9M2024, the Bank's average financing cost decreased to 4.2%, down from the peak of 5.5% in 2023, significantly lower than the industry median of 4.7%. Short-term wholesale funding has seen a slight increase but remains within an acceptable range. As of 9M2024, short-term wholesale funding accounted for 72.3% of total wholesale funding, slightly below the industry median of 74.7%. Meanwhile, the ratio of wholesale funding to total liabilities increased to 34%, moderately higher than the industry median of 28.2% but remaining below the critical threshold of 40%.

Customer deposits remain a stable and resilient component of VIB's funding, despite a slower growth rate. Individual customers contribute 70% to the Bank's total customer deposits, which continue to cover over 90% of the average gross loans. However, as of 9M2024, the growth of total customer deposits has slowed significantly compared to previous years, reaching only 8% year-to-date. Since 2017, VIB's customer deposits have consistently grown at a much higher rate than its loan book, reflecting the characteristics of its highly retail-focused business model, with up to 90% of its loan book consisting of retail lending. Looking ahead, as the Bank shifts towards increased corporate lending, the growth of customer deposits may slow down even further, potentially falling below the growth rate of its gross loan book. In such a scenario, VIB could issue bonds, CDs and other valuable papers to supplement its funding needs if needed.

The Bank's off-balance sheet FX commitments have grown consistently since 2021, with an average annual growth rate of approximately 50%. By 9M2024, these commitments reached a level equivalent to 115% of the Bank's loan book, up from 62% in 2022. The increasing off-balance sheet FX commitments have contributed to the gradual decline in VIB's stable funding ratio, which dropped to 94.0% by 9M2024. Currently, we perceive little credit risk in the bank's FX commitments, and the market risk from its net FX position appears to be of little concern. Although FiinRatings is not aware of any precedent cases in Vietnam where a bank has faced significant issues due to off-balance sheet FX commitments, this will also be a factor to monitor in upcoming surveilance.

OUTLOOK, UPGRADE & DOWNGRADE SCENARIOS

The positive outlook for VIB reflects our expectation that the Bank could improve the rating score for the next 24 months.

Upgrade Scenario:

Factors that could, individually or collectively, lead to review for positive rating action or upgrade for VIB:

- The Bank has successfully raised a significant amount of additional equity, thereby enhancing its capital buffer and strengthening its risk resilience.
- The risk position has significantly improved, as reflected in risk appetite, asset quality, overdue ratios, and debt recovery ratios. The non-performing loan (NPL) and special mention loan (SML) ratio has dropped below 6%, with the adjusted NPL ratio by FiinRatings falling below 3%.

Downgrade Scenario:

Factors that could, individually or collectively, lead to review for negative rating action or downgrade:

- The Bank's profitability has been negatively affected by the high provisioning costs, coupled with a decrease in net interest margin (NIM) and non-interest income sources (e.g., VIB's NIM has fallen below 3.5%, and ROA has dropped below 1.5%, alongside consideration of other factors related to profitability)
- The Bank's risk position continues deteriorating, with indicators like an increasing risk appetite, a lower-than-expected debt recovery rate, and a problem loan ratio at or above 10%
- Funding and liquidity profiles weaken due to increasing short-term wholesale funding.
- VIB's business position has weakened significantly, as evidenced by prolonged slow loan growth, a decline in loan market share to below 2%, and unsustainable non-interest income.

RATING METHODOLOGY

The rating methodology explains FiinRatings approach to assessing credit risk of companies in Vietnam. This methodology is intended as a general guidance to help companies, investors, and other market participants to understand how FiinRatings looks at quantitative and qualitative factors significant in explaining rating outcomes in general and specific for each sector that we cover.

In addition, certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please follow the link below for the Rating Methodology and Related Criteria:

- Rating methodology for banks in Vietnam

Or refer to the following link for more details on the general ranking methodology:

- General Rating methodology

CREDIT RATING HISTORY

Company Name	Rating Type	Issue Date	Rating	Outlook
Vietnam International Commercial Joint Stock Bank	Issuer Rating – Initial	12 April 2024	A	Positive
Vietnam International Commercial Joint Stock Bank	Issuer Rating – Surveillance	09 December 2024	A	Positive

RATING SCALE AND DEFINITION

We employ below rating scale in assigning ratings for all issuers across industries and sectors that we cover in Vietnam. The rating scale used by FiinRatings is the national scale, therefore, it must not be equated with or represented as a rating on the scale used by any other rating agencies.

Definition and explanation	Rating scales
Group 1: **Extremely strong** capacity to meet financial obligation.	AAA
Group 2: **Very strong** capacity to meet financial obligation.	AA+
	AA
	AA-
Group 3: **Strong capacity** to meet financial obligations but somewhat susceptible to adverse economic conditions and changes in circumstances.	A+
	A
	A-
Group 4: **Adequate capacity** to meet financial commitments but more vulnerable to adverse developments and economic conditions.	BBB+
	BBB
	BBB-
Group 5: **Moderate capacity** to meet financial obligations but less vulnerable than other speculative issuers.	BB+
	BB
	BB-
Group 6: **Weak capacity** to meet financial obligations. Sensitive to business, financial and economic conditions. High risk.	B+
	B
	B-
Group 7: **Very weak** capability or very likely to get into default. Very sensitive to business, financial and economic conditions. Substantial risk.	CCC+
	CCC
	CCC-
	CC
	C
Group 8: **Default**. Payments on an obligation are not made on the date due or the issuer becomes insolvent. The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of similar action.	SD, D

OWNERSHIP DISCLOSURE AND STATEMENTS

At the time of the publication, the following information is provided as required by current regulations and as a part of our compliance policies in providing credit ratings:

- VIB's percentage of equity ownership at FiinRatings: none**
- FiinRatings' percentage of equity ownership at VIB: none
- FiinRatings' other employee percentage of equity ownership at VIB: none
- VIB's investment value of bond(s) issued by FiinRatings: none
- FiinRatings' investment value of bond(s) issued by VIB: none
- VIB's investment value of other debt instruments issued by FiinRatings: none
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FIINRATINGS JOINT STOCK COMPANY

Public Credit Rating Announcement No.: 02-C29-2024

M.S.D.N: 0102674865 - C.T.C.P
CÔNG TY CỔ PHẦN FIINRATINGS
Q. ĐỐNG ĐA - TP. HÀ NỘI

Nguyen Quang Thuan, FCCA
Chief Executive Officer
Hanoi, 09 December 2024

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