

Rating Methodology: Insurance Companies

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Introduction

In this rating methodology¹, we explain our general approach to assigning financial strength ratings and instrument-level ratings to general insurance and life insurance companies in Vietnam².

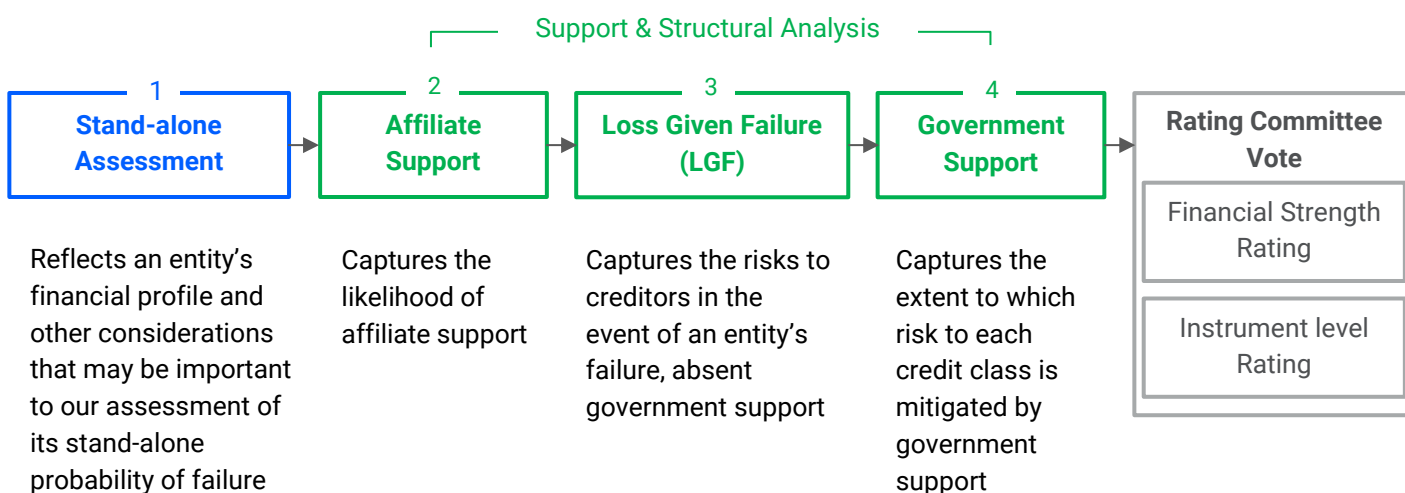
As part of our credit analysis in this sector, we establish a stand-alone assessment for an insurance company. A stand-alone assessment reflects our opinion of the entity's intrinsic credit strength, absent any support from an affiliate or government, relative to other financial institutions in Vietnam, and the company's likelihood of requiring support to avoid a default. We then incorporate affiliate support, which reflects our assessment of the entity's ability to pay its debt and debt instruments, given support from an affiliate. Finally, we include government support, which reflects our opinion on the likelihood of government support being provided in the event of stress.

We discuss the quantitative and qualitative rating factors that are likely to affect rating outcomes in this sector. We also discuss other rating considerations, which are factors for which the credit importance may vary widely among the companies in the sector or may be important only under certain circumstances or for a subset of companies. We also discuss our approach to assessing the potential for affiliate support and government support. Furthermore, since ratings are forward-looking, we often incorporate directional views of risks and mitigants in a qualitative way. We determine the debt instrument credit rating based on our estimation of the potential loss in the event of an insurance company's failure.

Our presentation of this credit rating methodology proceeds with a discussion of (i) the stand-alone assessment factors and other considerations; (ii) assessing affiliate support; (iii) loss given failure notching guidance; (iv) assessing government support and intervention; (v) assigning financial strength ratings and debt instrument-level ratings; and (vi) general limitations of the credit rating methodology.

EXHIBIT 1

Overall Approach to Rating Insurance Companies



Source: VIS Rating

¹ Credit rating methodologies describe the analytical framework that credit rating committee of VIS Rating use to assign credit ratings. Methodologies set out the key analytical factors that VIS Rating believes are the most important determinants of credit risk for the relevant sector. However, credit rating methodologies are not exhaustive treatments of all factors reflected in VIS Rating's credit ratings.

² Refer to VIS Rating's Rating Symbols and Definitions.

Discussion of the Stand-alone Assessment Factors

In this section, we outline our general approach for assessing quantitative factors in evaluating credit quality for our stand-alone assessment. We describe why each is meaningful as an indicator of an insurance's stand-alone assessment. We consider factors related to an insurance's business model and financial profile. For each factor, we will assess based on an eight-category scale: Very Strong, Strong, Above-Average, Average, Below-Average, Weak, Very Weak and Extremely Weak. In the following section, we assess other considerations to arrive at the stand-alone assessment. Our assessments are forward-looking and reflect our expectations for future financial and operating performance. However, historical results can help understand patterns and trends in an entity's performance, as well as facilitate peer comparisons.

Financial ratios, unless otherwise indicated, are typically calculated based on an annual or 12-month period. However, the ratios can be assessed using various time periods. For example, credit rating committees may find it analytically useful to examine both historical and expected future performance for periods of several years or more, which may be impacted by factors such as expected changes in macroeconomic conditions, market dynamics, business environment, as well as company-specific factors such as corporate strategy and governance, key personnel risks etc. In the financial metrics, we consider how well financial reporting mirrors economic reality. Where we believe the financial reporting does not adequately capture the economic reality, we may make analytical adjustments to metrics derived from financial statements to facilitate our analysis.

Our analysis of an insurance company's stand-alone assessment incorporates key considerations on business profile and financial profile, which are important indicators of its exposure to risk and its capacity to absorb losses.

EXHIBIT 2 Standard Rating Factors



Source: VIS Rating

Our ratings are forward-looking and reflect our expectations for future financial and operating performance. However, historical results are helpful in understanding patterns and trends of an insurance company's performance as well as for peer comparisons. The ratios can be assessed using various time periods. For example, rating committees may find it analytically useful to examine historical, recent, and expected future performance for periods of several years or more. Financial ratios, unless otherwise indicated, are typically calculated based on an annual or 12-month period.

In the financial metrics we use, we consider how well financial reporting mirrors economic reality. Where the company's financial position is not fully reflected in financial reporting, we may make analytic adjustments to facilitate our analysis.

Business Profile

Market Position, Brand, and Distribution

Market position, brand, and distribution are key elements of an insurer's ability to develop and maintain competitive advantages and have a direct bearing on its profitability and ability to generate capital. An insurer with a strong market position, brand, and distribution capacity is better equipped to withstand prolonged, challenging market conditions and capitalize on opportunities, thereby increasing its likelihood of meeting its obligations through economic cycles.

Market position encompasses a company's sustainable advantages in its key lines of business, including consideration of market share, barriers to entry, scale, and the ability to control pricing and manage business distribution. A company's brand reflects its image and reputation in the market, including the recognition and perception of the brand by distributors and consumers. A company's brand is a crucial driver of customer loyalty, the strength of which can support business retention rates, lower distribution costs, and increase customer purchases of multiple products. In some cases, for certain non-commodity business customers, a strong brand can help offset distribution costs, as customers may be willing to pay more for value-added services, such as enhanced claims services or greater expertise in underwriting. Furthermore, an insurer's control of and access to its distribution channels influence its standing in the market, its ability to target key customer segments, increase revenue, and retain business, as well as control costs. Also, diversity in a company's distribution channels can mitigate its dependence on specific channels and reduce its vulnerability to sales disruption.

How We Assess It

When assessing an insurer's market position, brand, and distribution, we consider its relative market share ratio, underwriting expense ratio, and distribution control and diversity. Generally, an insurer's relative and absolute size within the insurance market are highly associated with its market position and brand, but absolute size becomes less relevant in a concentrated marketplace. The largest companies, in terms of assets, premiums, and capital, tend to have a strong market presence and pricing power, typically resulting in a stronger market share. Conversely, smaller companies tend to have a weaker market position. Significant market share within a niche segment may be a positive if a company has the appropriate risk management for that line of business.

The largest companies in terms of assets, premiums, and capital tend to benefit from greater competitive advantages. Scale advantages related to an insurer's ability to profitably write a large volume of premiums (particularly in commodity lines of business) tend to confer pricing power and improve expense efficiency, ultimately supporting underwriting margins. An underwriting expense ratio that is lower than that of competitors is likely to reflect tight control over underwriting premiums, a high level of management attention, and may indicate the use of superior technology that enables greater automation.

A life insurer's control and influence over a distribution channel provides important indications of its long-term competitive advantage, franchise strength, and creditworthiness. Scoring for this factor is based on two qualitative sub-factors: distribution control and diversity of distribution. In assessing an insurer's distribution effectiveness, we typically consider the various distribution channels and the suitability of each to the products being sold in specific customer segments. In assessing distribution diversity, we consider the depth and breadth of its distribution channels; its attractiveness to distribution channels; its ability to easily expand its distribution channels on a profitable basis; and its vulnerability to disruption within a single channel.

Relevant Metrics and Qualitative Sub-factors: Market Position, Brand and Distribution

Relative Market Share Ratio: Gross Premiums / Average Industry Premiums

Underwriting Expense Ratio: Underwriting Expenses / Net Premiums Written (*For general insurance only*)

Distribution Control And Diversity (*For life insurance only*)

Product Risk and Diversification

An insurer's lines of business and the diversity of its product mix greatly influence its risk profile, because individual product lines exhibit distinct volatility and competitive characteristics. The extent of a product's risk is often unclear when it is introduced, and it can have significant adverse effects on a company's earnings and capital adequacy if the risk is not properly mitigated.

Successful product diversification can reduce the volatility of an insurer's earnings, capital and cash flow and promote a more efficient use of capital.

How We Assess It

PRODUCT RISK:

When assessing the risk inherent to an insurer's business mix, we consider the company's product lines, including the associated level of uncertainty in estimating total liabilities for claims. Products and business lines with higher product risk are exposed to greater earnings or capital volatility.

For the general insurance business, a book of business comprising a large number of policies with relatively low gross policy limits³ relative to shareholders' equity (e.g., homeowners' or personal automobile business) typically leads to a more favorable assessment for this factor, because it tends to be less volatile than a book of business where policy limits are larger and less homogeneous, and therefore exposed to higher severity losses or to greater catastrophe losses. We also consider the average time lag between the occurrence, reporting, and settlement of claims or

³ Gross policy limits do not reflect risk that has been ceded to reinsurers.

the tail line. Product lines with shorter tails⁴ (e.g., physical auto damage or home insurance claims) typically lead to a more favorable assessment for this factor. Shorter-tailed product lines support greater certainty in estimating ultimate claims costs and are generally less exposed to earnings shocks than longer-tailed product lines (e.g., liability claims), for which estimating ultimate claim costs is more challenging.

For life insurers, our assessment of product risk includes assessing the reserves related to low-risk liabilities as a percentage of the company's total life insurance reserves. Companies that have a greater portion of their reserves related to low-risk products typically exhibit less earnings volatility than those with a more significant portion of reserves in higher-risk products. Factors that contribute to product risk include policy duration or claims-settlement duration, interest rate risk, mortality, morbidity or longevity risk, liquidity risk, asset default risk or equity market risk, and pricing or interest rate guarantees. Lower-risk products typically include short-term policies that have minimal or no contractual guarantees or options, and may also include those with significant risk-sharing arrangements that shift the risk from the insurer to the policyholder.

PRODUCT DIVERSIFICATION:

In our primarily qualitative assessment of product diversity for a life or general insurance company, we consider the number of distinct, material product lines, as well as the interdependence among these lines' premiums and earnings. For example, an insurer with a very large number (typically more than five) of distinct, material product lines with limited interdependence tends to exhibit stable earnings and cash flow, typically leading to a more favorable assessment for this factor.

We may also consider whether the insurer's products are commodities or value-added offerings. Companies that rely heavily on commodity products may be more exposed to losing business to competitors based solely on price considerations. Value-added products, such as commercial lines or tailored professional liability insurance, can diversify a company's product mix and help build customer retention.

Diversification is not always a credit strength. For example, if a company enters lines of business without the appropriate underwriting expertise, we may view such diversification as a credit risk.

Relevant Qualitative Sub-factors: Product Risk and Diversification

Product Risk

Product Diversification

⁴ For the Vietnam market, we typically consider claims with short tail lines to be settled in under 12 months, medium tail lines to be settled in one to five years, and long tail lines to be settled in five or more years.

Financial Profile

Asset Quality

Asset quality is an important indicator of an insurance company's ability to manage the exposure of its portfolio of invested assets to market volatility. Changes in market environment, especially during periods of stress, can drive down the value of assets, income, and ultimately, the company's capital base. Insurers' core assets are generally concentrated in liquid financial investments, but in many cases, companies allocate a portion of their investment portfolios to higher-risk assets.

High-risk assets include equity, bonds with a relatively high probability of default, common stock, preferred stock, real estate assets, unconventional investments, and other types of investments not classified on the balance sheet.

How We Assess It

In assessing asset quality, we consider the ratio of an insurer's high-risk assets to shareholders' equity. Companies that have a higher ratio of high-risk assets are typically more likely to exhibit earnings or capital volatility during periods of investment market stress.

We may also consider goodwill and intangible assets, as well as reinsurance recoverables, which reflect an insurance company's receivables from reinsurers for incurred claims. Our assessment of an insurance company's reinsurance recoverables risk is based on the likelihood of full and timely recovery of amounts owed to it by its reinsurers.

Relevant Metric: Asset Quality

High Risk Assets Ratio: High Risk Assets / Shareholders' Equity

Capital Adequacy

An insurance company's capital adequacy is a critical indicator of the sufficiency of the economic capital it has to cushion unfavorable deviations in financial results (e.g., due to adverse underwriting results or large declines in the value of invested assets). Capital adequacy provides important insights into the potential volatility associated with the insurer's businesses and its balance sheet relative to the company's capital.

Capital adequacy also provides an indication of an insurer's financial capacity to meet obligations to customers and to maintain the minimum capital levels that may be required by regulators for an insurer to continue to operate. Capital constraints may also negatively affect a company's ability to expand its business and execute its strategy.

How We Assess It

In assessing capital adequacy, we consider gross underwriting leverage (GUL) and the ratio of shareholders' equity to total assets. GUL provides insights into the adequacy of economic capital in relation to an insurer's underwriting operations.

Assessing the ratio of shareholders' equity to total assets provides insight into the adequacy of capital relative to policyholder obligations and other liabilities, as well as against potential adverse changes to asset values.

We adjust both the GUL and the shareholders' equity to total assets ratios for high-risk assets, which, in a stress scenario, are likely to be illiquid, or likely to be impaired or sold for a loss.

Generally, the higher a company's GUL, the greater the risk it assumes and the more significant the potential impact on its capital position from variations in financial results. The lower a company's capital level as a percentage of total assets, the greater the impact on its capital position from asset volatility.

GUL and shareholders' equity to total assets are relatively simple ratios that are typically combined with a qualitative assessment of a company's business mix; as a result, the two ratios are most useful in comparisons of companies that have a similar business mix or where they are used in conjunction with other capital adequacy indicators.

We may consider additional capital metrics, including regulatory capital adequacy and solvency metrics, to supplement our analysis and reflect a risk-adjusted capitalization framework.

Relevant Metrics: Capital Adequacy

Gross Underwriting Leverage: $(\text{Gross Written Premiums} + \text{Gross Loss Reserves}) / (\text{Shareholders' Equity} - 10\% \text{ of High-Risk Assets})$ *(For general insurance only)*

$(\text{Shareholders' Equity} - 10\% \text{ of High-Risk Assets}) / (\text{Total Assets} - 10\% \text{ of High-Risk Assets})$ *(For life insurance only)*

Profitability

The quality and sustainability of an insurance company's profitability is an important indicator of its creditworthiness. Earnings are a primary determinant of a company's ability to meet its policy and financial obligations and are the primary source of internal capital. Diversification across multiple product lines and markets can result in more stable earnings, promoting the stability of internal capital growth and strengthening the ability of the insurer to pay claims.

How We Assess It

In assessing profitability, we consider return on capital (ROC) and the Sharpe ratio of return on capital which provides an indication of the volatility in a company's returns in relation to average profitability.

RETURN ON CAPITAL:

The numerator is net income and the denominator is financial debt plus shareholders' equity (five-year average).

In general, insurers with a higher ROC ratio receive higher initial scores for this sub-factor. We also typically consider other metrics that may provide insights into the impact of shareholder pressure to achieve higher returns on capital.

We may also consider return on equity (ROE) in conjunction with financial leverage and an insurer's legal structure. The relationship between profitability and financial leverage is important because insurers may use higher debt leverage to increase ROE, since a smaller equity base tends to improve this metric, all else being equal. We also may consider the ROC ratio, including total debt (not just financial debt) in the denominator, which may provide indications of the impact of operating debt deployed to enhance profitability.

When assessing ROC, we consider non-recurring items individually, as they can have a meaningful impact on profitability. We also assess underwriting performance by product line, because a positive ROC may reflect mixed results or hide underwriting losses that are being offset by positive investment incomes.

SHARPE RATIO OF RETURN ON CAPITAL:

The numerator is the return on capital (five-year average), and the denominator is the five-year standard deviation of return on capital.

The Sharpe ratio of return on capital is an indicator of the inherent volatility in a company's returns in relation to average profitability, and it helps us formulate an opinion about the predictability and sustainability of a company's earnings.

In general, an insurer with lower earnings volatility, as measured by a high Sharpe ratio of return on capital, receives higher scores for this factor. The ratio considers net income because an insurer's capital generation is driven by its net income. However, our adjusted factor score may reflect that capital gains and losses and taxes, which are included in net income, can be somewhat volatile and unpredictable.

We generally use five years of data to better reflect long-term trends. If the numerator is zero or negative, the Sharpe ratio is not meaningful and does not contribute to the initial profitability score. However, the Sharpe ratio of return on capital is useful in comparing companies' earnings volatility to each other and in identifying trends relative to business mix.

Relevant Metrics: Profitability

Return on Capital (ROC): $\text{Net Income} / \text{Financial Debt} + \text{Shareholders' Equity}$ (Five-Year Average)

Sharpe Ratio of Return on Capital: $\text{Five-Year Average ROC} / \text{Five-Year Standard Deviation ROC}$

Reserve Adequacy

(For general insurance only)

Reserve adequacy⁵ provides important indications of a general insurance company's ability to pay claims because insufficient reserves for claims have typically contributed to bankruptcies in the industry. The adequacy of an insurance company's reserves affects the company's results as well as its capital sufficiency. The impact of deteriorating reserves on an insurer's financial profile and

⁵ The calculation of this indicator is subject to the availability of information provided by the rated company. In cases where the information is unavailable or insufficient, we may use other quantitative and qualitative indicators to assess reserve adequacy. If we are still unable to adequately assess reserve adequacy with these indicators, we will take a conservative view of the adequacy of a company's reserves.

flexibility can be significant, as seen by the depletion of capital and the increase in operating leverage ratios.

How We Assess It

Given that insurers do not know the cost of their products until after they have been sold, often long after the sale, strong underwriting skills and a stable track record are significant differentiators between highly rated and lower-rated general insurers. Consequently, the premium-rate monitoring, underwriting and claims-handling processes are critical areas of our assessment. We typically review past underwriting results (usually in connection with reserve adequacy analysis) and current underwriting practices that will impact future profitability levels.

Although reserve adequacy analysis techniques are usually complex, a simple review of an insurer's prior-year reserve development, defined as the past year's loss reserve development as a percentage of prior-year reserves, shareholders' equity, or premiums, usually provides broad corroboration of the more detailed analysis.

When assessing a time series of reserve development, we typically accord more weight to recent periods of reserve development compared to older periods. Highly rated companies tend to have less adverse reserve development than lower-rated companies. We also typically consider the cause of adverse development and attempt to consider past development in light of our current assessment of reserve adequacy.

Claim liabilities with long payout periods rely heavily on estimates of future cost to settle claims, which are uncertain and can lead to adverse development of an insurer's reserve adequacy. Companies whose reserve development history includes years with significant adverse development are typically viewed as having weak oversight over their loss reserving process.

Relevant Metric: Reserve Adequacy

Net Loss Reserve Development: $\text{Net Loss Reserve Development (1-year)} / \text{Beginning Net Loss Reserves (5-year weighted average)}$ *(For general insurance only)*

Liquidity and Asset-Liability Management (ALM)

(For life insurance only)

An insurer's ability to carefully manage its liquidity and its asset-liability matching is a vital aspect of whether it will be able to meet potential short- and long-term liabilities. In the case of life insurers, the ability to manage risk by matching assets and liabilities is important because these companies are exposed to currency, maturity, interest rate and reinvestment risks over long periods of time. Any perceived weakness in a company's ability to pay claims could lead to a widespread surrender of policies by policyholders, rapidly depleting the insurer's assets and possibly necessitating regulatory intervention or insolvency.

How We Assess It

In assessing a company's liquidity and its asset-liability management, we consider an insurer's matching liability coverage.

Our assessment of a life insurer's ALM process typically starts with understanding its liability profile and complexity, including any options and guarantees embedded in its liabilities.

We typically also consider the profile and complexity of liabilities. We typically assess the overall match between the expected cash flows of assets and liabilities. This assessment may also include an evaluation of their sensitivity to a wide range of economic scenarios and the resulting impact (positive or negative) on a company's earnings and capital. For life and annuity insurers, we consider the surrender options in policies, the guarantees embedded in a company's liabilities, its reinvestment and longevity risk, as well as any contingent or off-balance-sheet liquidity needs. We may apply haircuts to assets and liabilities based on our assessment of their liquidity or volatility.

Where liquidity or liability matching is very weak, the impact it has on the insurer's stand-alone credit profile may be much greater than the matching liquidity coverage ratio may indicate.

Relevant Metric: Liquidity and Asset-Liability Management

Liquid Assets / Liquid Liabilities (*For life insurance only*)

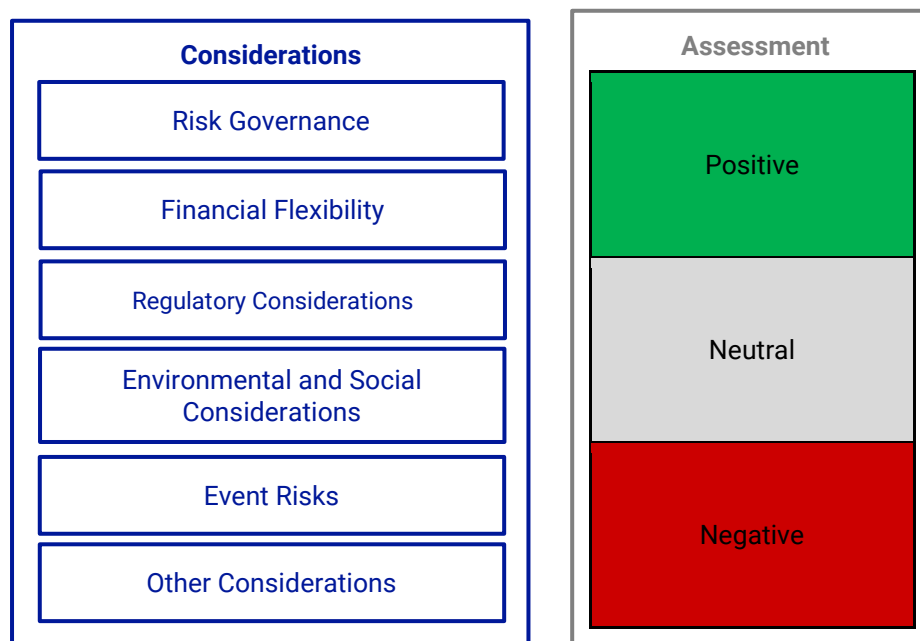
Other Considerations

In arriving at the insurer's stand-alone credit profile, we may assess additional considerations that are not incorporated into the standard rating factors. Some of these considerations may be important to all companies in this sector, while others may be important only under certain circumstances or for a subset of companies.

Following are some examples of additional considerations that may be reflected in our ratings.

EXHIBIT 3

Other Considerations



Source: VIS Rating

Risk Governance

Key person risk and an insurer's management and strategy provide important information about the insurer's risk profile. The loss of a single executive or group of executives could adversely affect an insurer's future fundamentals, and a shake-up in management, an untested team or a radical departure in strategy can herald sudden change that increases the insurer's risk profile. We may also consider the risks associated with a company's underwriting controls, pricing sophistication, staffing and technology in the context of the company's lines of business. We also typically consider the extent that risks from specific products may be mitigated or exacerbated by a company's risk management policies or practices.

Regulatory Considerations

Companies in the insurance sector in Vietnam are subject to varying degrees of regulatory oversight, depending on the products they offer. Effects of these regulations may entail limitations on operations, higher costs, and higher potential for technology disruptions and demand substitution.

Financial Flexibility

Financial flexibility is a key driver of insurers' credit strength and capacity to access capital markets with confidence. It enables insurers to meet obligations, respond to unexpected financial demands, and raise capital for growth or acquisitions. Strong financial flexibility reflects a proven ability to tap both traditional and alternative capital sources, including reinsurance and structured vehicles, supported by effective risk management. We assess financial flexibility through debt and coverage metrics—leverage ratios, earnings coverage, and cash flow coverage – as well as earnings and dividend capacity.

Insurers with robust earnings and coverage metrics typically exhibit greater resilience and access to capital markets. Limited access to capital markets—due to high leverage or weak coverage—can impair flexibility. We also consider backup facilities, contingent capital, and covenant structures. Well-structured, low-restriction facilities enhance flexibility and support creditworthiness, especially during stress events.

Environmental and Social Considerations

Environmental and social considerations may affect the credit quality of general and life insurers in Vietnam. General insurance companies have significant exposure to the economic consequences of climate change relating primarily to their insured risks and, to a much lesser extent, their investments. Climate-change risks arise primarily from weather-related catastrophe exposures and potential claims on liability policies. The ability of insurers to reprice risk on an annual basis somewhat mitigates this risk.

Environmental and social considerations typically have disproportionate downside risk. However, ESG considerations are not always negative, and they can be a source of credit strength in rare instances.

Event Risk

We recognize the possibility that an unexpected event could cause a sudden and sharp decline in a company's fundamental creditworthiness. Event risks – which are varied and tend to have low probability and high impact – can overwhelm even a stable, well-capitalized company. Some types of event risks include mergers and acquisitions, asset sales, spin-offs, pandemics, litigation, significant cyber-crime events and shareholder distributions.

Financial Controls and Disclosures

Given our role as a rating agency, our opinions regarding the creditworthiness rely on the accuracy of audited financial statements to assign and monitor ratings in this sector. The existence of relevant and timely financial information, disclosure and the consistent application of financial information can indicate an insurer's transparency as well as its compliance with company policies and regulatory standards. Auditors' reports and comments, unusual restatements of financial statements or delays in regulatory filings may indicate weaknesses in internal controls.

Limited Financial History

A demonstrable financial track record can be instrumental in building customer and market trust, which creates franchise value and supports an insurer's performance during a down cycle. For companies that lack a financial history of at least several years, our projections may reflect more conservative expectations than management's projections.

Additional Metrics

The metrics included in the factors in the methodology are those that are generally most important in assigning ratings to companies in this industry; however, we may use additional metrics to inform our analysis of specific companies.

Other

We may incorporate other considerations that are material to the credit profile of a particular company. For example, there may be additional factors that, while not common in the sector, are relevant in the case of a particular company.

Affiliate Support

In our assessment of support from affiliated entities, we typically consider both the creditworthiness of the support provider and its recipient, including the likelihood of failure of an insurance company, the capacity and willingness of its support provider to deliver support in a timely manner, and the extent to which the support provider and the supported insurance company are jointly susceptible to adverse circumstances that could weaken their financial position. We typically consider the respective operating environments of the support provider and the supported entity. In addition, we typically assess whether the support provider's actions may cause additional risk to creditors of the supported insurance company (e.g., requiring large distribution or upstream loans or guarantees).

Explicit support may be provided by the parent in the form of a direct guarantee, a minimum net worth agreement, or a capital maintenance agreement, which is typically intended to transfer the credit quality of the support provider to the supported entity. This type of support, although rare without meaningful explicit support, can equalize the credit quality of the supported company with that of the supporting entity. In assessing explicit support, we typically consider the specific legal nature and enforceability of the support as well as the likelihood of timely payment and its possible termination.

For implicit, non-legally binding support, we consider the support provider's capacity to provide support, and its willingness to support. Our assessment of the benefit to a financial institution's credit profile is primarily based on our assessment of the financial strength of the support provider, extent of strategic linkage and integration of business operations between the supported entity and its support provider, and/or past evidence of support. Conversely, we also consider the potential credit drag on the supported entity's credit profile that may be due to an affiliation to a financially weak parent.

Loss Given Failure Notching Guidance

This component of our overall approach to assessing credit risk considers the effect of the failure of the insurance company – with support from affiliates having been either denied or exhausted – on its various debt classes, and the absence of any government support. We typically approximate the effect of the entity's failure on different debt instruments by applying a notching approach to approximate the relative loss given failure and not necessarily its default.

In our approach, we typically consider a security's priority of claim in bankruptcy and its other structural features. Individual debt instrument ratings may be notched up or down from the issuer rating or the senior unsecured rating to reflect our view of the likely regulatory treatment of the issuer and its securities during failure and the issuer's capital, and assessment of relative differences in expected loss related to an instrument's seniority level and collateral.

Our analysis of holding companies considers both structural subordination and the diversification or concentration of cash flows available to the holding company from its subsidiaries, as well as issuer-specific support arrangements.

Assessing Government Support and Intervention

Our approach to assessing government support for an insurance company is similar to assessing support from an affiliate. We incorporate the capacity and willingness of the support provider - government or public entity - to provide support in a timely manner and the dependence between the supported entity and the relevant government or public entity. We typically consider the government's policies or regulatory framework, the insurance company's role in financial markets, and the possible impact that a failure of the insurance company would have on the market.

Our ratings of insurance companies do not typically reflect an expectation of government support. Based on our observations, we believe that government support would neither be widely offered, nor sufficiently reliable, nor predictable to be routinely incorporated into our ratings for insurance firms in Vietnam. In the exceptional cases where we believe such government support is meaningful and long-term in nature, we apply the approach described in the preceding paragraph.

Assigning Financial Strength Ratings and Debt Instrument-Level Credit Ratings

Financial strength ratings are opinions of the ability of an insurance company to pay senior policyholder claims and obligations, and other creditors, punctually, and also reflect the expected financial loss suffered in the event the company cannot meet its obligations.

After assessing government support or intervention risk and its effect on the preliminary issuer-level and debt instrument-level assessments, we typically assign a financial strength rating to the entity. We may also assign debt instrument-level credit ratings.

We may also assign short-term credit ratings. In cases where the issuer has sufficient intrinsic liquidity, we map short-term credit ratings from long-term credit ratings⁶ In cases where we consider intrinsic liquidity to be less than sufficient (for example, where intrinsic liquidity will not cover the next 12 months of maturing obligations and accessing credit markets may be challenging), the short-term credit rating may be lower than indicated by the mapping.

General Limitations of the Credit Rating Methodology

This credit rating methodology does not include an exhaustive description of all factors that we may consider in assigning credit ratings in this sector. Companies in the sector may face new risks or new combinations of risks, and they may develop new strategies to mitigate risk. We seek to incorporate all material credit considerations in credit ratings and to take the most forward-looking perspective on the risks and mitigants where we have sufficient information and visibility.

Ratings reflect our expectations for a company's future performance; however, as the forward horizon lengthens, uncertainty increases, and the utility of precise estimates typically diminishes. In most cases, nearer-term risks are more meaningful to issuer credit profiles and thus have a

⁶ Refer to VIS Rating's Rating Symbols and Definitions.

more direct impact on ratings. However, in some cases, our views of longer-term trends may have an impact on credit ratings.

The information used to assess the factors and sub-factors is generally based on data provided by the company, including financial statement disclosures and publicly available information, such as regulatory disclosures. We may also incorporate non-public information.

While our credit ratings reflect both the likelihood of default on contractually promised payments and the expected financial loss incurred in the event of default, the stand-alone assessment and LGF notching approach in this credit rating methodology is primarily intended to capture fundamental characteristics that drive going-concern credit risk. As a debt instrument becomes impaired, defaults, or is likely to become impaired or default, ratings typically include additional considerations that reflect our expectations for recovery of principal and interest, as well as the uncertainty surrounding that expectation.

Our forward-looking opinions are based on assumptions that may prove, in hindsight, to have been incorrect. Reasons for this could include unanticipated changes in any of the following: the macroeconomic environment, general financial market conditions, industry competition, disruptive technology, or regulatory and legal actions. In any case, predicting the future is subject to substantial uncertainty.

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