RATING ANNOUNCEMENT
12 June 2025

VIETNAM INVESTORS SERVICE

VIS Rating assigns first-time A- issuer rating to MB Shinsei Consumer Credit Finance Company, stable outlook

Hanoi, 12 June 2025 - VIS Rating has assigned a long-term issuer rating of A- to MB Shinsei Consumer Credit Finance Limited Liability Company (Mcredit). The outlook on Mcredit's A- issuer rating is stable. This is the first time VIS Rating has assigned a rating to Mcredit.

RATING RATIONALE

Mcredit's A- long-term issuer rating reflects its average standalone assessment and our expectation of a high likelihood of affiliate support and low government support for the firm in times of need. The firm's standalone assessment incorporates its average profitability, capital, cash flow and liquidity, and below-average asset risk relative to peers[1].

Mcredit, established in 2016, is a joint venture finance company owned 50% by Military Joint Stock Commercial Bank (MBB), one of Vietnam's largest commercial banks, and 49% by SBI Shinsei Bank, Limited, a major Japanese financial institution.

Since its inception, Mcredit has rapidly scaled to become the third-largest finance company in Vietnam by total assets, commanding a 10% market share among 16 finance firms[2] as of end-2024. Its lending portfolio is primarily composed of unsecured cash loans (54%), followed by consumer durables, two-wheeler loans and non-consumer loans (corporate loans) (13% each), and credit cards (7%).

Serving around 3.4 million underbanked retail clients, Mcredit leverages strategic partnerships across banking, telecommunications, e-wallets, e-commerce, and social media platforms, supported by a nationwide network of more than 26,800 payment points. As MBB's largest subsidiary by assets, Mcredit benefits from MBB's extensive physical footprint and customer base to reach underserved segments and cross-sell financial products to MBB's corporate clients.

We assess Mcredit's asset risk at a 'Below-Average' level, primarily driven by the rapid growth in higher-risk unsecured lending in recent years, which has led to a deterioration in asset quality and a surge in credit costs.

Over the past five years, Mcredit's total loans grew at a compound annual growth rate (CAGR) of 26%, outpacing peers of 5%. Majority of the growth was in unsecured cash loans and credit cards to underbanked individuals.

As of end-2024, the firm's problem loan ratio[3] rose to 8.1% from 7.8% a year ago. Excluding non-consumer loans, the problem loan ratio for its consumer loan portfolio was 9.4%. Net charge-offs as a percentage of gross loans rose to 13.8% in 2024 from 10.2% a year ago.

In addition, the special mention loan ratio for its consumer loan portfolio remained high at 25% as of end-2024, exceeding the peer average of 9%. We note that the firm's asset quality improvement lagged behind its peers in 2024, given sluggish debt collection activities from borrowers' fraud, its rapid loan growth over the last five years, and its business model focusing on high-risk products.

According to the management, Mcredit has taken steps to improve its risk management practice and clean up its bad debts by adopting data-driven in lending operations and refining loan products. As part of its new initiatives implemented since 2024, the firm has enhanced its customer selection and early fraud detection practices by integrating the results of the Ministry of Public Security's credit scoring model, alongside the additional data on its loan applicants (e.g., income, credit history, social networks, spending behavior). The firm will also tailor lending products through smaller, shorter-term loans

[1] Mcredit and peers are the four largest consumer finance companies by total assets as of end-2024
[2] 16 finance companies include both consumer finance companies and general finance companies, licensed by the State Bank of Vietnam
[3] Problem loans include non-performing loans (NPL), VAMC bonds, and other problem assets

to better suit borrower demands, while tightening credit card policies to limit cash advances and promote consumption-based usage.

Given the firm's high overdue loans (including special mention loans and problem loans) and continued rapid growth in high-risk products, we expect the formation rate of problem loans will remain high over the next 12-18 months. In particular, we are concerned about the adverse impacts of any hikes in US tariffs on the income and debt serviceability of its borrowers. The management estimated that around 10% of the company's borrowers are employed in labour-intensive sectors and industrial zones, which will more likely be impacted by higher tariffs.

We position Mcredit's profitability at an 'Average' level, reflecting the deterioration in its return on average tangible assets (ROAA) over the past three years, primarily due to the continued decline in net interest margins (NIM) and surge in credit costs.

As of end-2024, the firm's average ROAA fell to a five-year low of 0.2%, lower than the peer average of 3.6%. Despite low-cost funding from strategic shareholders, Mcredit's NIM declined to 13.2% in 2024 from 17.2% in 2023, as the firm expands into lower-yield corporate loans. At end-2024, corporate loans made up 13% of its total loans.

Similar to its peers with high bad debts from unsecured cash loans, Mcredit's credit costs rose significantly in 2024, amounting to 98% of its pre-provision income.

According to management, the company aims to grow its loans by 15-20% in 2025. Additionally, the company will continue to optimize its operating costs and achieve efficiency gains through further digitization of its business processes. At end-2024, cost-to-income ratio (CIR) stood at 30%, lower than peer average of 34%.

Over the next 12-18 months, we do not expect Mcredit's NIMs to improve materially, and hence, its profitability will continue to be weighed down by credit costs.

We position Mcredit's capital level at 'Average', reflecting our view of the low level of loss absorption buffer for its high-risk business model and asset profile.

As of end-2024, the firm's tangible common equity/ total assets (TCE/TA) was at 8.7%, far below its peers of 21.3%. Under Circular 23/2020/TT-NHNN, the firm's capital adequacy ratio was 10.9% as of end-2024, and above the minimum regulatory threshold of 9%. The company plans to raise new Tier 2 capital by issuing subordinated bonds over the next 12 months to support capital needs and loan growth.

We note that while the company does not pay cash dividends, its internal capital generation will remain suppressed by its weakened profitability.

We assess Mcredit's cash flow and liquidity at an 'Average' level.

On cash flow, the company's funds from operations (FFO) were 10% of its total debts at end-2024, lower than the peer average of 21%. We note that its cash flow has been weakened significantly in recent years due to weaker profitability.

On liquidity, we assess the firm's debt maturities coverage[4] was 19.5% at end-2024, higher than peer average of 11%. Liquid assets, including cash, government securities, and interbank placements, made up of 16% of total assets.

We view liquidity to be a key structural weakness of finance companies because companies rely primarily on confidence-sensitive market funds for their core lending activities. Companies that have relied heavily on short-term funds would be more vulnerable to liquidity shocks.

In contrast, while the majority (90%) of Mcredit's funding is made up of short-term funds, we view the liquidity risks are fairly well managed, as reflected by the funding support from its shareholders. At end-2024, around 37% of the short-term funds are provided by MBB and its subsidiaries; another 11% of its short-term funds are deposits placed by corporate customers from MBB's network. Historically, Mcredit also received funding from its other large shareholder, SBI Shinsei Bank, to support its core lending business.

Mcredit's issuer rating incorporates an uplift for affiliate support. We incorporate a high likelihood of affiliate support from MBB to Mcredit.

Our view is underpinned by MBB's significant ownership stake in Mcredit, the brand sharing, Mcredit's importance to MBB's long-term strategic plan, as well as the high level of integration in the ongoing strategic planning and execution of MBB and Mcredit. This integration is evidenced by the track record of funding provided by MBB to support Mcredit's business growth. We view MBB's capacity to support its key subsidiaries to be strong.

The outlook on Mcredit's long-term issuer rating is stable, reflecting our view that its credit fundamentals will remain stable over the next 12-18 months.

[4] *Debt maturities coverage is measured by total liquid assets over short-term funding*

Factors that could lead to an upgrade of the rating

Mcredit's A- rating could be upgraded if (1) the firm successfully enhances its risk management practices and improves its asset quality on a sustainable basis; or (2) the firm raises sizeable new capital to strengthen its loss-absorption buffers, for example, TCE/TA maintaining at above 16% on a continuous basis; or (3) its core business profitability improves significantly and demonstrated by a sustained improvement in its risk-adjusted returns.

Factors that could lead to a downgrade of the rating

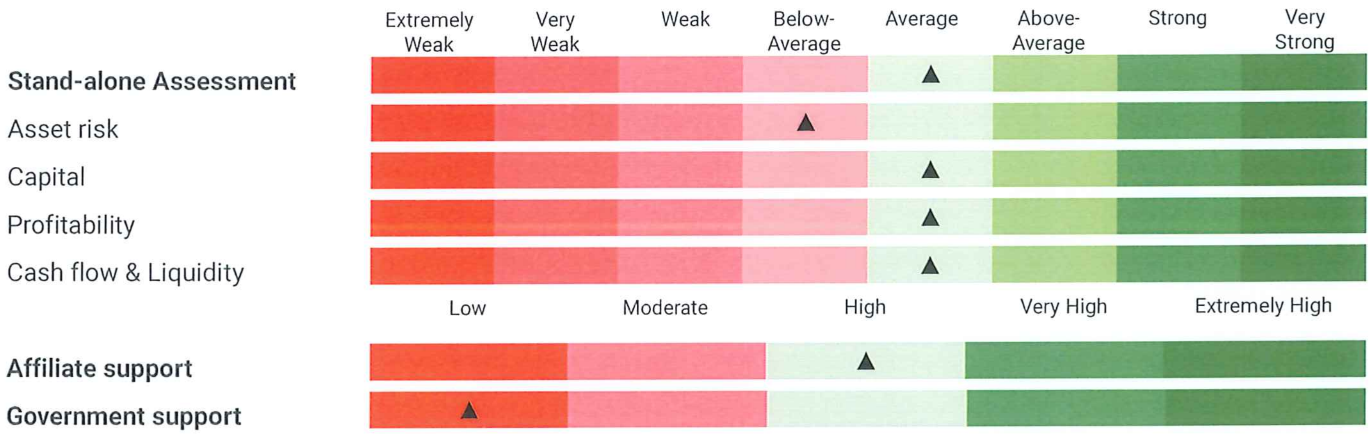
Mcredit's A- rating could be downgraded if (1) the formation rate of overdue and problem loans continues to rise significantly from current levels; or (2) the firm's core capital level weakens from either further deterioration in asset quality or profitability, for example TCE/TA falls below 7.5%; or (3) the firm becomes increasingly vulnerable to liquidity risks, for example, liquid assets decline substantially and may not sufficient to cover its short-term obligations; or (4) we assess MBB's capacity or willingness to support to have fallen substantially.

RATING METHODOLOGY

Rating Methodology: Financial Institutions.

For detailed information, please see our full methodologies at: https://visrating.com/how-to-get-rated/view/financial-institutions-rating-methodology.2

SUMMARY OF KEY FACTORS



Source: VIS Rating

CREDIT RATING HISTORY

Date	Rating type	Rating	Outlook	Action
12 June 2025	Long-term Issuer Credit Rating	A-	Stable	First-time assignment

RATING SCALE

Long-Term Rating

AAA	Issuers or debt instruments demonstrate the **strongest** creditworthiness relative to other domestic entities and transactions.
AA	Issuers or debt instruments demonstrate **very strong** creditworthiness relative to other domestic entities and transactions.
A	Issuers or debt instruments demonstrate **above-average** creditworthiness relative to other domestic entities and transactions.
BBB	Issuers or debt instruments demonstrate **average** creditworthiness relative to other domestic entities and transactions.
BB	Issuers or debt instruments demonstrate **below-average** creditworthiness relative to other domestic entities and transactions.
B	Issuers or debt instruments demonstrate **weak** creditworthiness relative to other domestic entities and transactions and may be approaching default, with strong recovery prospects.
CCC	Issuers or debt instruments demonstrate **very weak** creditworthiness relative to other domestic entities and transactions and are likely in or near default, typically with moderate recovery prospects.
CC	Issuers or debt instruments demonstrate **extremely weak** creditworthiness relative to other domestic entities and transactions and are typically in default, typically with poor recovery prospects.
C	Issuers or debt instruments demonstrate the **weakest** creditworthiness relative to other domestic entities and transactions and are typically in default, with very poor recovery prospects.

Note: VIS Rating appends the modifiers + and – to each generic rating classification from AA through CCC. The modifier + indicates that the obligation ranks in the higher end of its generic rating category; no modifier indicates a mid-range ranking; and the modifier – indicates a ranking in the lower end of that generic rating category

REGULATORY DISCLOSURES

For further specification of VIS Rating's Rating Symbols and Definitions, please see https://visrating.com/how-to-get-rated/.

Mcredit's ownership stake in VIS rating: 0%

The ownership ratio of Mcredit held by VIS Rating's staff: 0%

Cases in which analysts and credit rating council members cease their participation in the credit rating contract before the contract expires and the reason for the cessation: 0

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Simon Chen, CFA
Head of Ratings and Research
12 June 2025

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