VIETNAM INVESTORS SERVICE

RATING ANNOUNCEMENT
22 April 2025

VIS Rating assigns first-time A- issuer rating to Vietnam Asia Commercial Joint Stock Bank, stable outlook

Hanoi, 22 April 2025 - Vietnam Investors Service (VIS Rating) has assigned a long-term issuer rating of A- to Vietnam Asia Commercial Joint Stock Bank (VAB). The outlook on VAB's A- issuer rating is stable. This is the first time VIS Rating assigned a rating to VAB.

RATING RATIONALE

VAB's A- long-term issuer rating reflects the bank's average standalone assessment and our expectation of a moderate likelihood of government support for the bank in times of need. The bank's standalone assessment incorporates its average asset risk, profitability and capital, above-average liquidity resources, as well as below-average funding structure relative to industry peers.

Established in 2003, VAB is a small-sized, privately-owned commercial bank focusing on corporate and small and medium-sized enterprise (SME) customers, accounting for 65% and 32% of gross loans, respectively, with retail lending at 3% as of year-end 2024. VAB has a deposit market share of 0.7% given its modest franchise of 98 branches/transaction offices, mainly located in Southern areas, at-end 2024. VAB's largest shareholder, Viet Phuong Investment Group Corporation, and its related parties collectively own 19.83% of the total shares as of year-end 2024.

The bank's modest deposit franchise underpins its 'Below-Average' funding structure. Low-cost current account and savings account (CASA) deposits were around 5% of gross loans over the past 3 years, below the industry average. The bank relies on higher-cost term deposits to support its business growth.

VAB is working on various initiatives to attract new CASA from its SME and retail customers. They include enhancing their digital banking and Omni channels, implementing more cashless payment solutions and payroll products. We expect keen competition among banks offering similar products will pose challenge to the bank.

VAB's 'Average' asset risk reflects the bank's track record of lending to corporations on a secured basis and high credit concentration to large single-name borrowers and project companies. The majority of its borrowers are linked to either the real estate or construction sectors, and this sectoral concentration increases the vulnerability of its loan portfolio to cyclical downturns or industry-specific developments.

We noted VAB's NPL ratio is inherently volatile – for example, moving from 2.5% in 1H2024 to 1.4% in 2H2024 – after a few real estate and export-import customers resolved cashflow issues.

Close to 15% of the bank's loan portfolio is linked to a few development projects that have faced a multitude of legal issues and project delays in the past years according to media reports. VAB expects the affected projects to complete the legal process and prepare for market launch in the coming years.

We note majority of these project entities have high leverage and extremely weak cash flow. Also, loans to these entities were secured by business cooperation contracts, which we do not deem to be high quality collateral. In the event that the projects fail to commence commercial operations, the bank may not have adequate protection against credit losses.

VAB's loan loss coverage ratio stood at 73% in 2024, lower than the industry average of 91%.

We position the bank's profitability at 'Average' to reflect its lower-than-industry-average net interest margins (NIM), averaging 1.9% in 2019 – 2024, partially offset by low credit costs.

According to the bank management, efforts are underway to accelerate the growth of retail and SME customers, to bring in more low-cost deposits and increase its overall lending yields and fee income. The bank expects its 2025 credit growth to be in line with industry, with focus on mortgages and consumer loans; and fee-based income to be recurring and increasing from cash settlement services for SMEs and large corporations.

We expect VAB's ROAA to remain stable over the next 12-18 months, as keen competition among banks for new loans and deposits will limit the bank's efforts to widen its NIM.

VAB's 'Average' capital incorporates the bank's steady capital generation to support asset growth and our expectation of active capital raising to maintain stable capitalization.

According to the bank management, VAB plans to raise VND 3.3 trillion of new capital, in 4Q2025 or later, depending on market conditions, by issuing new shares to current shareholders. If completed, we expect the bank's core capitalization will strengthen significantly from current levels. Its tangible common equity (TCE) to risk-weighted asset (RWA) ratio stood at 8.2% in 2024.

In addition, VAB plans to issue VND 2-3 trillion subordinated bonds in 2025 to support its asset growth.

We position the bank's liquid resources at 'Above-Average' to reflect its adequate stock of liquid assets, including cash and cash equivalents, government securities, and interbank placements, to cover market fund obligations.

Over the past 5 years, VAB's liquid assets were around 28% of its total assets, sufficiently covering its market funds, mainly short-term interbank deposits, which averaged 20% of total assets during the same period.

The bank's customer loan-to-customer deposit (LDR) averaged 84% over the last five years, lower than the industry average of 100%. Additionally, the ratio of short-term funds for medium and long-term loans (SMLR) was 12% as of 2024, well below the regulatory threshold of 30%.

While we expect the bank's liquidity to remain stable over the next 12-18 months, we note that small banks in Vietnam tend to be more vulnerable to deposit runs and liquidity challenges during extended periods of market volatility.

VAB's A- rating incorporates our assumption of a moderate likelihood of support from the government during extraordinary circumstances. This assumption takes into account the bank's small domestic presence as well as the new regulatory framework that provides the regulator with multiple tools and mechanisms to address ailing banks.

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

Factors that could lead to an upgrade of the rating

VAB's A- rating could be upgraded if the bank (1) reduces its credit concentration significantly, exhibits improvements in the quality of its lending and risk mitigation practices; and (2) strengthens its core capitalization substantially. For example, TCE/RWA ratio consistently stays above 12%.

Factors that could lead to a downgrade of the rating

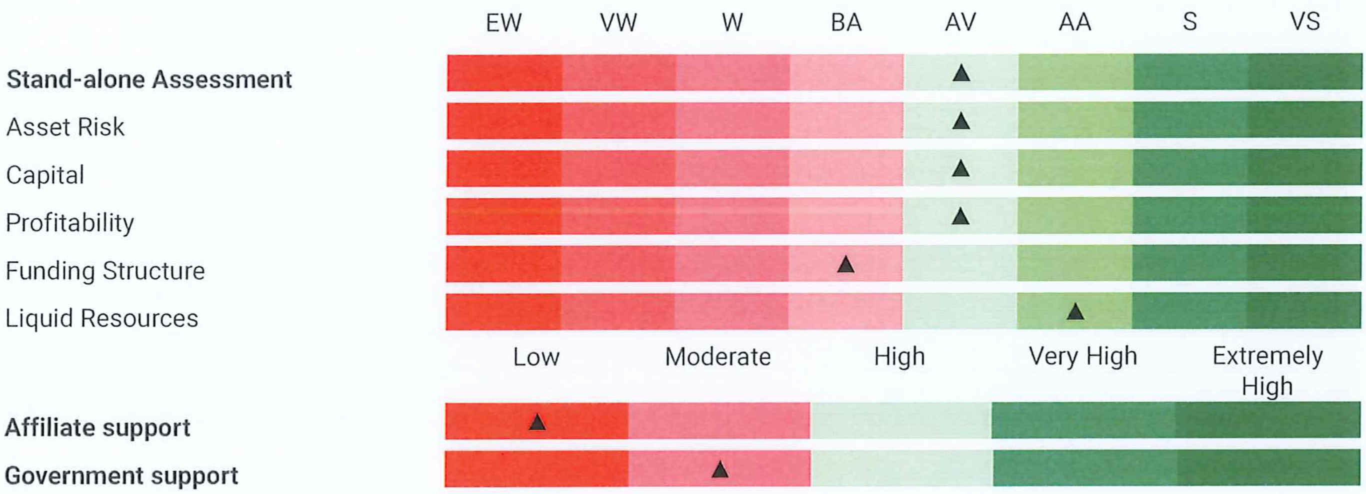
VAB's A- rating could be downgraded if (1) we view the bank's vulnerability to sizable credit losses has increased. For example, credit concentration does not improve, operating cash flows of its large borrowers deteriorate, and collaterals are unlikely to offer any meaningful risk mitigation; or (2) the bank's core capitalization declines as a result of rapid growth in loans or credit losses; or (3) we deem the bank to be increasing vulnerable to funding or liquidity risks.

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
Note: EW- Extremely Weak, VW- Very Weak, W- Weak, BA- Below-Average, AV- Average, AA- Above-Average, S- Strong, VS- Very Strong

CREDIT RATING HISTORY

Date	Rating type	Rating	Outlook	Action
22 April 2025	Long-term Issuer	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: Vietnam Investors Service 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/.

VAB's ownership stake in VIS Rating: 0%

The ownership ratio of VAB 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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This rating is solicited.

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Vietnam Investors Service and Credit Rating Agency Joint Stock Company
Public Credit Rating Announcement No: VN0302963695-001-220425

M.S.D.N:0109839192-C.T.C.P
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22 April 2025

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