Banking Sector

Robust business conditions will drive stronger asset quality and profits in 2025

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In 2025, we expect the credit fundamentals for banks in Vietnam to improve modestly following the recovery trend in 2H2024, led by State-owned banks (SOBs) and several large banks. Various government policies implemented to support economic growth and resolve industry bottlenecks will drive business activities in the key sectors that banks lend to, such as manufacturing, trade, construction, and real estate. Sector problem loan formation will continue to decline gradually as borrower debt serviceability improves. Higher net interest margin (NIM) and lower credit costs will support profit improvements and stable capital. Sector funding and liquid resources will remain stable and sufficient to support credit growth.

Sector problem loan formation will decline gradually as borrower debt serviceability improves amid stronger operating conditions. Higher public investment, resilient foreign direct investment (FDI) inflow and trade surplus, and continued efforts by the authorities to resolve legal issues will drive domestic business expansion and improve operating cash flows for corporate borrowers over the course of 2025. Retail borrowers' repayment capabilities will also gradually improve as their business and employment income stabilize and real estate asset values recover. We expect the sector problem loan ratio to decline to 2.2% in 2025 from 2.3% in 2024, led by SOBs and several large banks with prudent lending practices and limited exposure to distressed developers. Several small and mid-sized banks continue to face issues linked to mortgages for speculative projects. Looking ahead, governance risks will continue to weigh on banks' asset quality, as their close linkages to corporate groups – mostly in the real estate sector – heighten their operational risks and vulnerability to large corporate events.

Sector profitability will improve marginally from higher NIMs and lower credit costs. We expect the sector return on average assets (ROAA) to increase slightly to 1.60% in 2025 from 1.55% in 2024, alongside strong credit growth of 15-16% for 2025. Robust demand for longer-term corporate and mortgage loans will allow banks to partially offset higher funding costs and record higher NIMs by 5-10 bps to 3.5%. In addition, sector non-interest income will grow modestly from higher financial institution (FI) bond investments, debt recovery, and a pickup of bancassurance sales from the trough level. Credit costs will decline for SOBs and several large banks as asset quality improves. Meanwhile, small and a few mid-sized banks may face multiple challenges to lift profitability due to competition for loan and deposit growth.

Loss absorption buffer will remain broadly stable from marginal improvement in profits. We expect the sector capital level to be stable as profits and capital generation improve alongside asset growth. SOB's stock dividends and ongoing capital raising plans will improve their capital modestly. Banks will also issue higher subordinated bonds in 2025 through public offerings under new securities law to tap strong demand from retail investors. Sector loan loss coverage will improve modestly as problem loan formation slows. Some mid-sized and small banks continue to face profit challenges and will take longer time to increase their provisioning levels.

Funding and liquid resources will remain stable from higher use of long-term bond funding and deposit growth. As loan growth increases, we expect deposit competition to intensify, and small banks that rely heavily on short-term market funds and have weak liquid asset buffers will be vulnerable to higher funding costs and liquidity challenges. Meanwhile, SOBs and large banks have strong physical and digital networks to defend and grow low-cost deposits.

Exhibit 1: Banking Sector – Credit Outlook Improving for 2025 and key drivers

Improve   Stable   Deteriorate

Factors	Outlook	Key drivers
Operating Environment		• Higher public investment, resilient FDI inflow, trade surplus, and continued efforts by the authorities to resolve legal issues will drive domestic business expansion and improve operating cash flows for corporate borrowers over the course of 2025 • Higher interest rates and uneven recovery in real estate market could hinder the pace of recovery in business activities
Asset Quality		• Lower sector problem loan ratio to 2.2% in 2025 from 2.3% in 2024, led by SOBs and several large banks • Stronger domestic business expansion and operating cash flows for corporate borrowers in manufacturing, trade, construction, and real estate – the key sectors that banks lend to • Retail borrowers' repayment capabilities will also gradually improve as their business and employment income stabilize and real estate asset values recover • The impact of Circular 02 expiration on asset quality will be manageable as borrower debt serviceability strengthen • Governance risks will continue to weigh on banks' asset quality, as their close linkages to corporate groups – mostly in the real estate sector
Profitability		• ROAA will increase slightly to 1.60% in 2025 from 1.55% in 2024, alongside strong credit growth of 15-16% for 2025 • Higher NIM by 5-10bps to 3.5% as robust demand for longer-term corporate and mortgage loans will allow banks to partially offset higher funding costs • Non-interest income will grow modestly from higher FI bond investments, debt recovery, and a pickup of bancassurance sales from the trough level • Credit costs will decline for SOBs and several large banks as asset quality improves • Small and a few mid-sized banks may face multiple challenges to lift profitability due to competition for loan and deposit growth
Loss Absorption Buffer		• Sector capital level will be stable as profits and capital generation improve alongside asset growth • SOBs' capital levels will improve modestly from stock dividends and ongoing capital raising plans • Higher subordinated bonds in 2025 through public offerings under new securities law to tap strong demand from retail investors • Some mid-sized and small banks continue to face profit challenges and will take longer time to increase their provisioning levels
Funding & Liquid Resources		• Higher funding costs and liquidity challenges for small banks that rely heavily on short-term market funds and have weak liquid asset buffers amid intensified deposit competition • SOBs and large banks have strong physical and digital networks to defend and grow low-cost deposits.

Source: VIS Rating

Exhibit 2: Key drivers of outlook changes

Negative Scenario

Drivers might lead to lower our expectations

- Slow public investment disbursement and real estate market recovery, and weaker trade and FDI activities
- Interest rate increases significantly amid currency pressure and sizable capital outflows
- Higher problem loan formation given weaker domestic conditions
- Lower ROAA amid narrower NIM and higher credit cost
- Lower loan loss absorption buffer due to slow profit growth
- Higher liquidity risk given sluggish deposit growth and increasing use of short-term market funds amid currency pressure

Base Case

Key drivers of our outlook

- Higher public investment, resilient FDI inflow and trade surplus, and ongoing recovery of real estate market
- Slight increase in interest rates amid currency pressures
- Problem loan formation declines amid stronger operating conditions
- Higher ROAA from modest increase in NIM, and lower credit cost
- Stable loan loss absorption buffer given marginal improvement in profits
- Stable funding and liquid resources given higher use of long-term bond funding and deposit growth

Positive Scenario

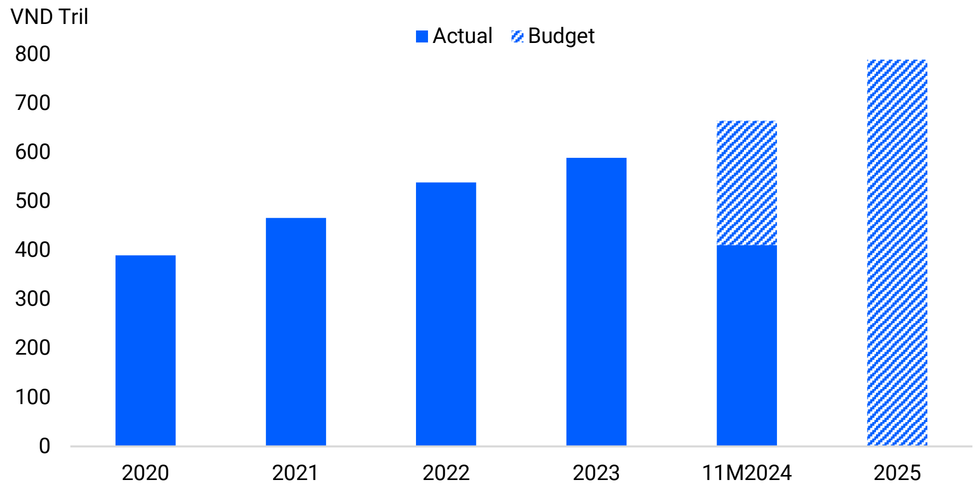
Drivers might lead to raise our expectations

- Stronger-than-expected public investment and real estate recovery, trade and FDI activities
- Lower interest rate from easing currency pressures
- Problem loan formation rate declines significantly from stronger-than-expected recovery of real estate market
- Higher ROAA from wider NIM and lower credit cost amid stronger recovery of mortgages and low interest rates
- Loan loss absorption buffer improves given stronger profit growth and asset quality improvement
- Funding and liquid resources improve given stronger CASA deposits amid corporates' cash flow recovery

Source: VIS Rating

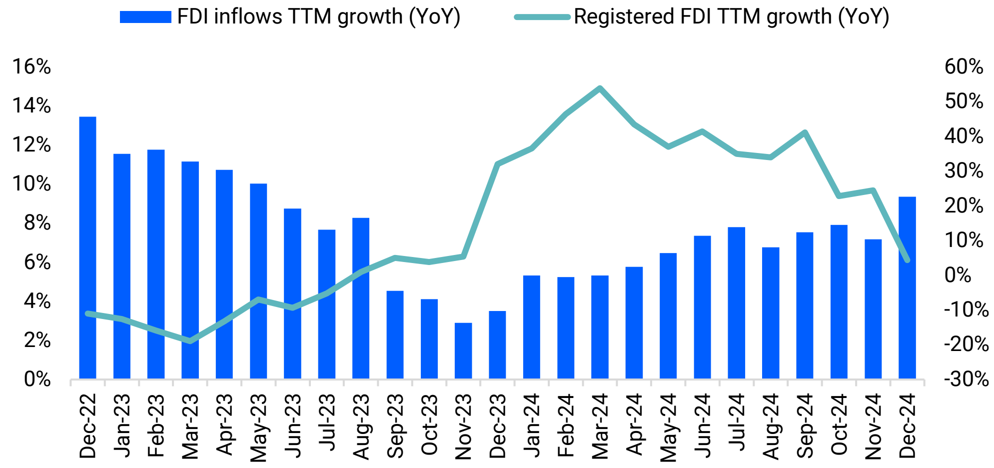
Gradually improving domestic operating environment

Exhibit 3: Higher public investment in long-term infrastructure projects will boost demand for capital expenditures and domestic business expansion



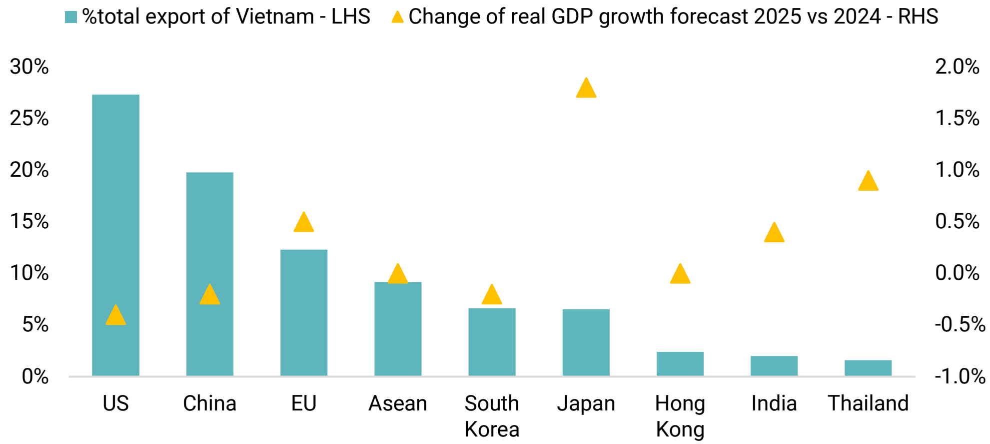
Source: Ministry of Construction, VIS Rating

Exhibit 4: Resilient FDI inflows will drive robust manufacturing and trade activities



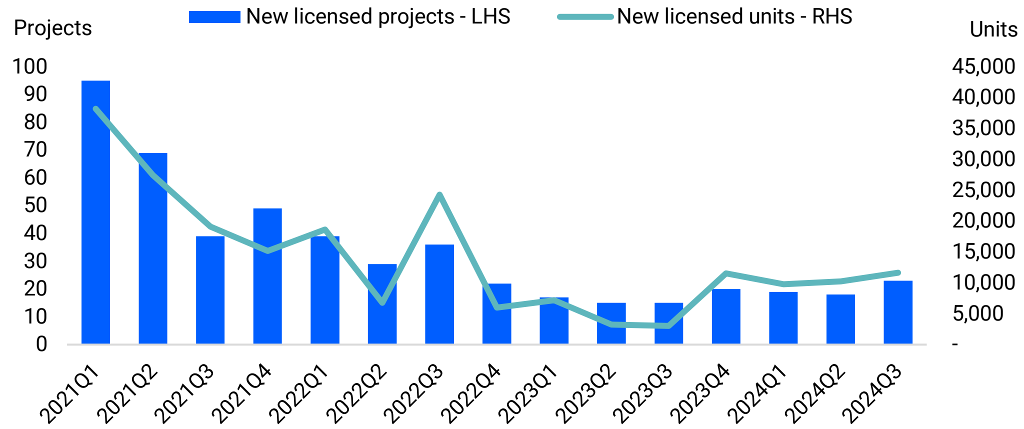
Note: TTM: Trailing for twelve months. YoY: Year-over-year
Source: General Statistic Office of Vietnam (GSO), VIS Rating

Exhibit 5: Improving consumer demand in key export markets given resilient economic growth



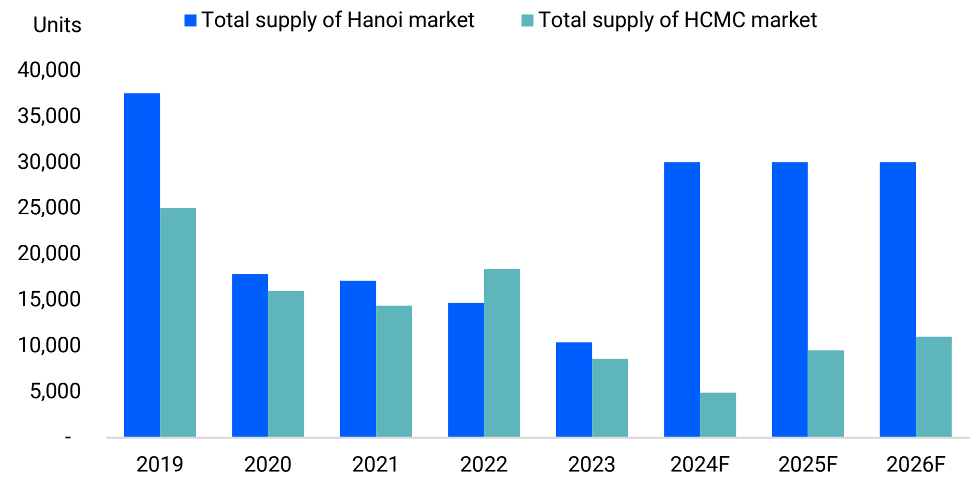
Source: Organization for Economic Cooperation and Development (OECD), GSO, VIS Rating

Exhibit 6: The authorities' efforts to resolve legal issues will restart developers' project pipeline and improve their operating cash flows



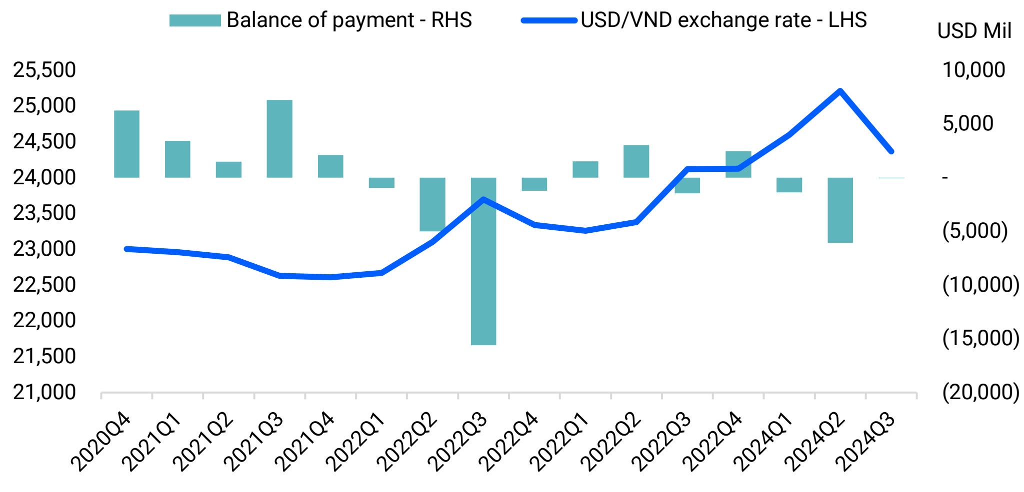
Source: Ministry of Construction, VIS Rating

Exhibit 7: Gradually improve homebuyers' sentiment and new housing sales, particularly in the Southern market



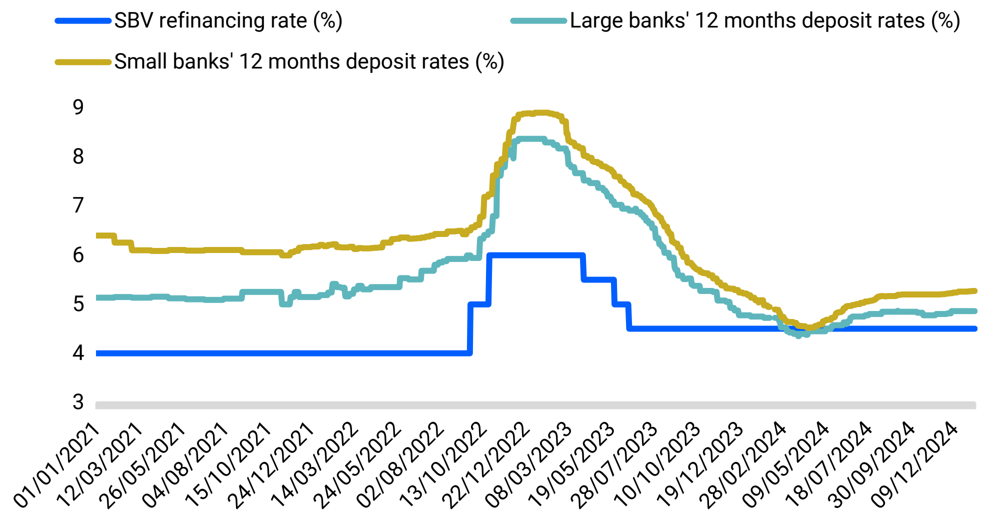
Source: CBRE, VIS Rating

Exhibit 8: Ongoing currency pressures might increase capital outflows…



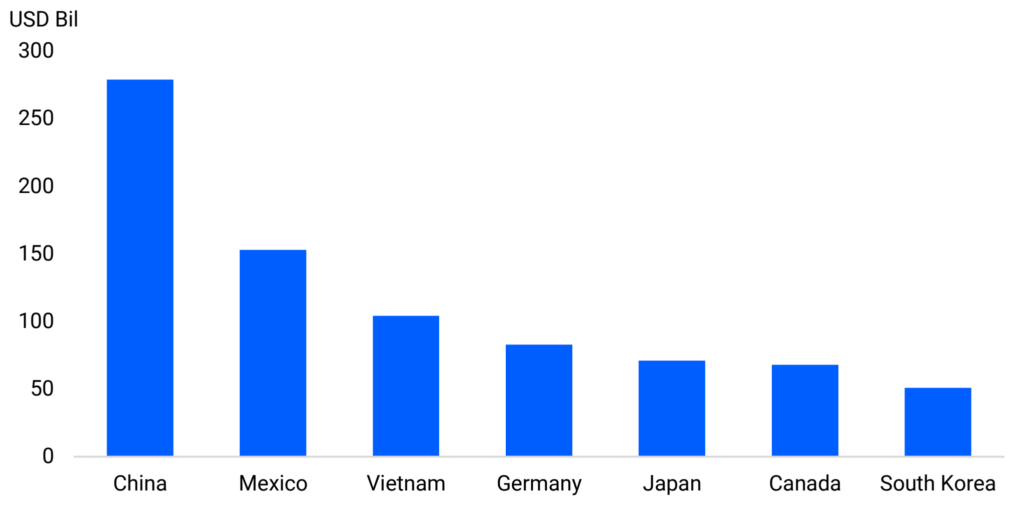
Source: The State Bank of Vietnam (SBV), VIS Rating

Exhibit 9: …and higher deposit rates



Source: SBV, VIS Rating

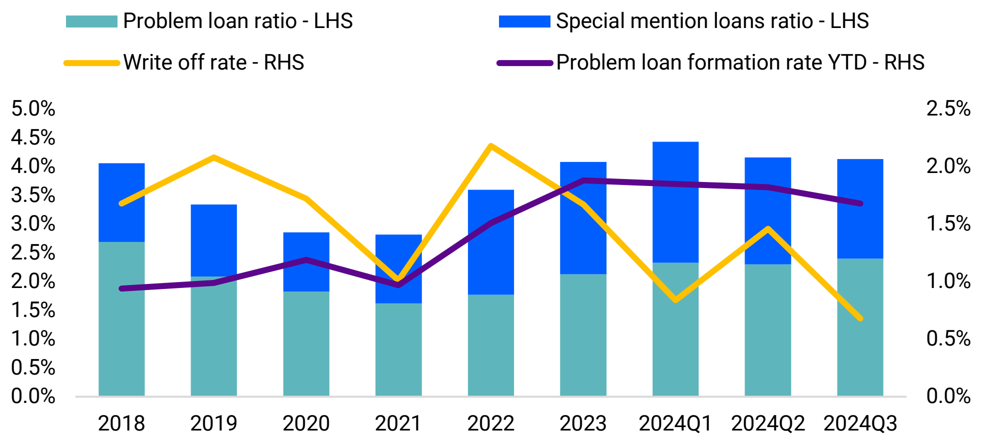
Exhibit 10: Uncertainties over the US's higher tariffs as Vietnam were in the top 3 trade surplus as of 2023



Source: United States International Trade Commission, VIS Rating

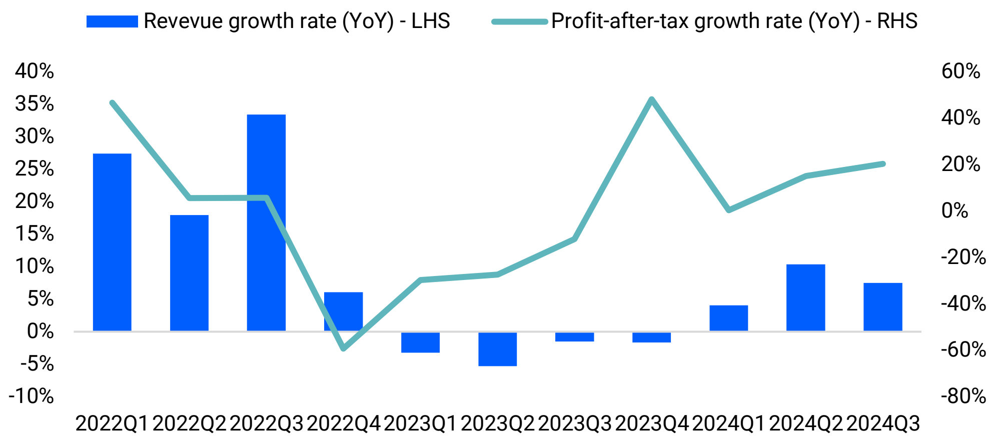
Sector problem loan formation will decline gradually as borrower debt serviceability improves amid stronger operating conditions

Exhibit 11: Sector problem loan formation will decline as borrowers' debt serviceability improves



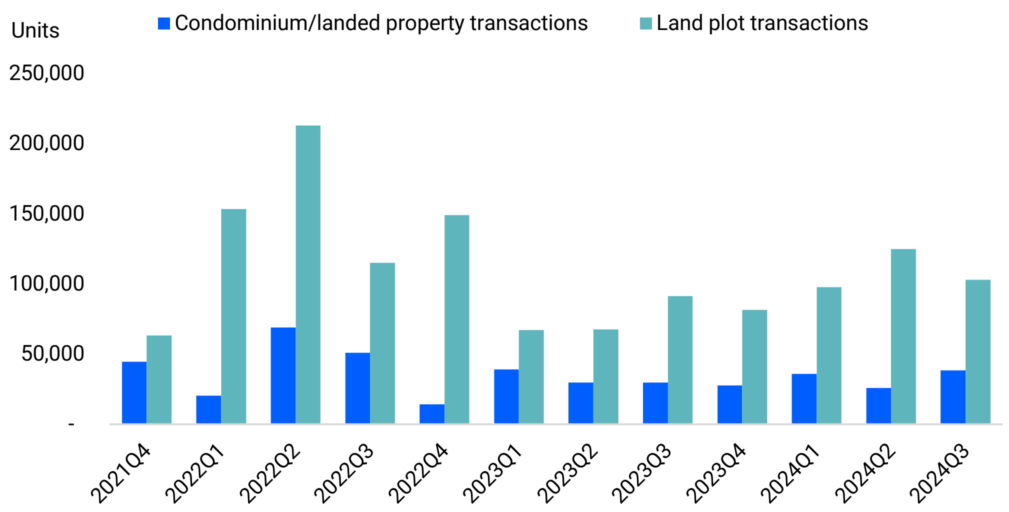
Note: Sector numbers include 27 listed banks. YTD: Year-to-date
Source: Bank data, VIS Rating

Exhibit 12: Improving corporates' operating cash flows amid stronger operating conditions



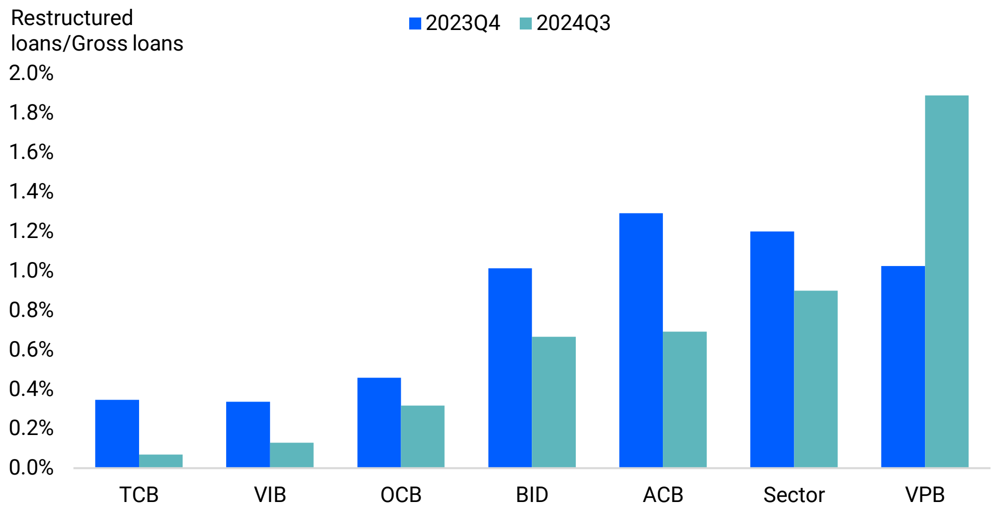
Note: Data includes all listed companies
Source: Company data, VIS Rating

Exhibit 13: Retail borrowers' repayment capabilities will improve from the recovery of real estate asset values and transactions



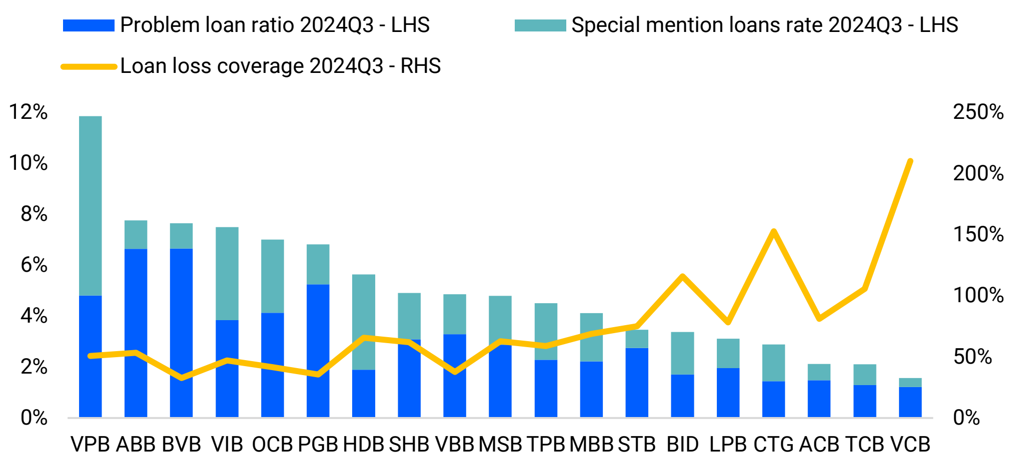
Source: Ministry of Construction, VIS Rating

Exhibit 14: Limited impact on banks' asset quality following expiration of Circular 02, except for banks exposed to distressed real estate developers



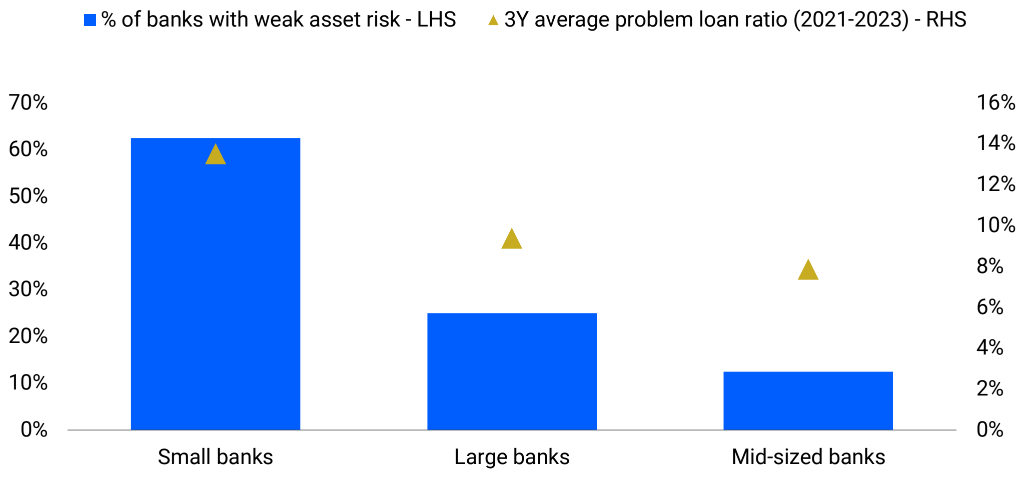
Source: Bank data, VIS Rating

Exhibit 15: SOB and several large banks will lead the recovery given prudent lending practice and limited exposure to distressed developers



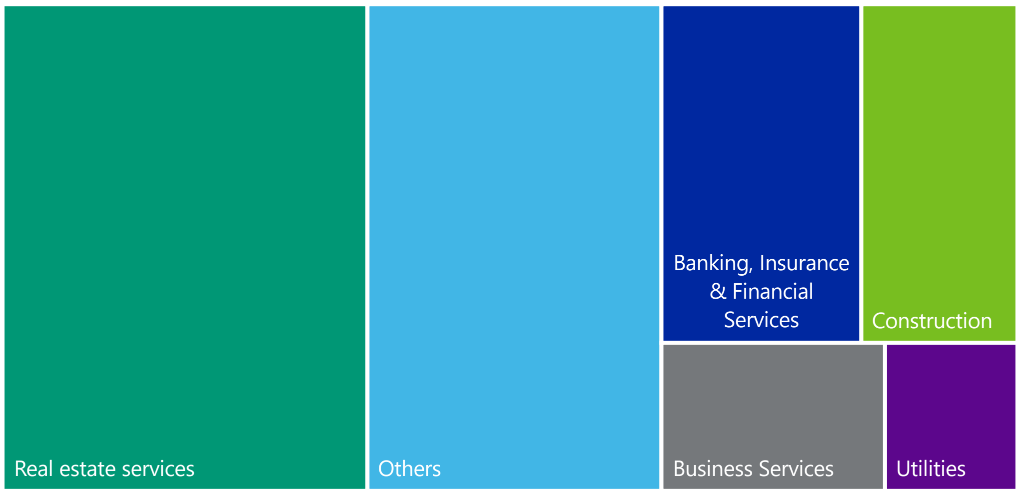
Note: Refer to the Appendix for full name of banks
Source: Bank data, VIS Rating

Exhibit 16: Small banks will take longer time to address asset quality issues



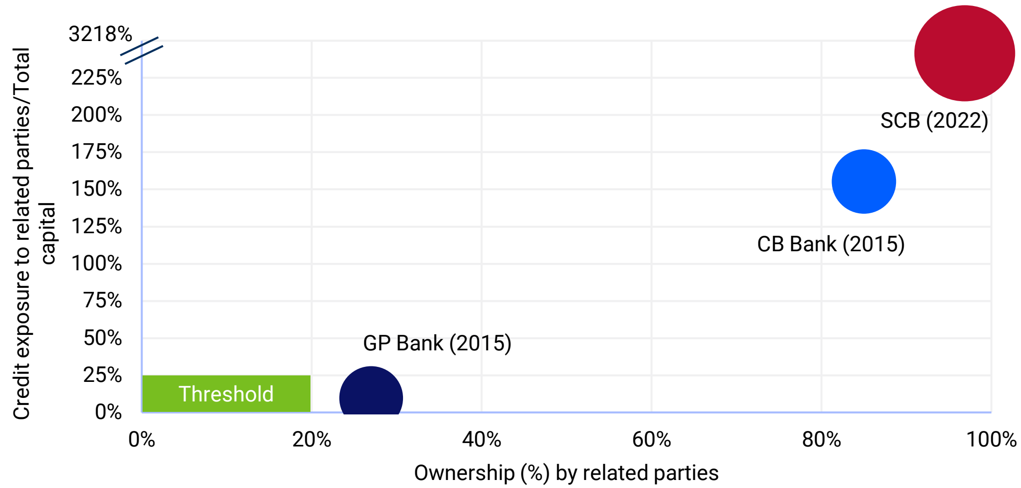
Note: Refer to the Appendix for classification of banks
Source: Bank data, VIS Rating

Exhibit 17: Banks' close linkage to real estate-related corporate groups will heighten their operational risks and vulnerability to large corporate failures



Note: Data includes total assets of connected corporates
Sector numbers include 24 privately-owned commercial banks
Source: Bank data, VIS Rating

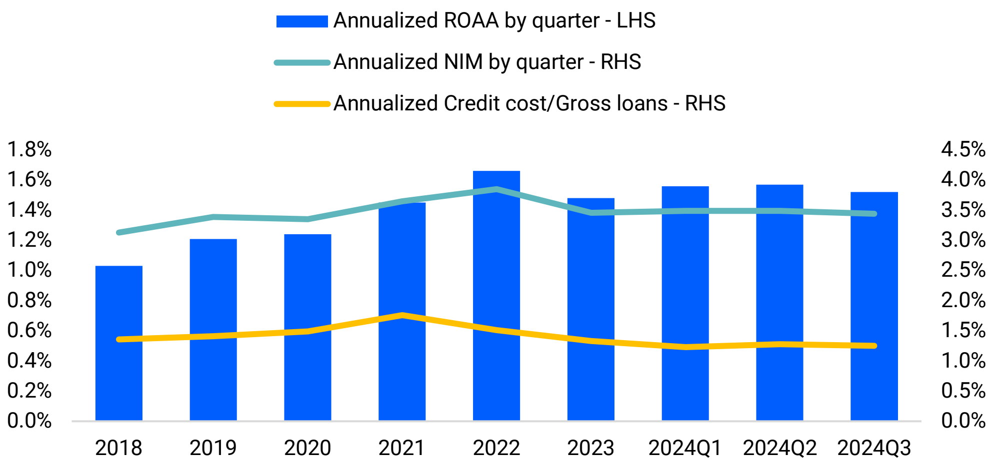
Exhibit 18: Recent incidents highlight the risks stemming from related party activities



Source: Bank data, VIS Rating

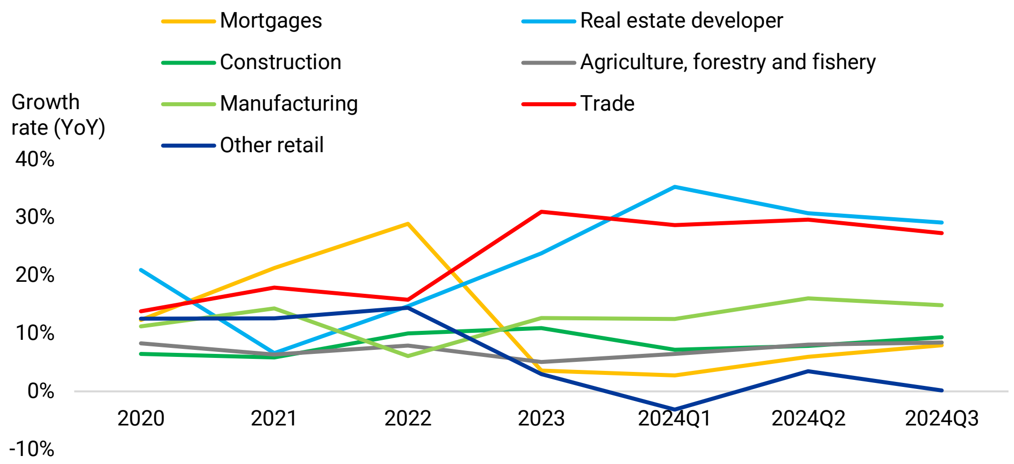
Sector profitability will improve marginally from higher NIM and lower credit costs

Exhibit 19: Sector ROAA will improve marginally given modest improvement in NIM and lower credit costs



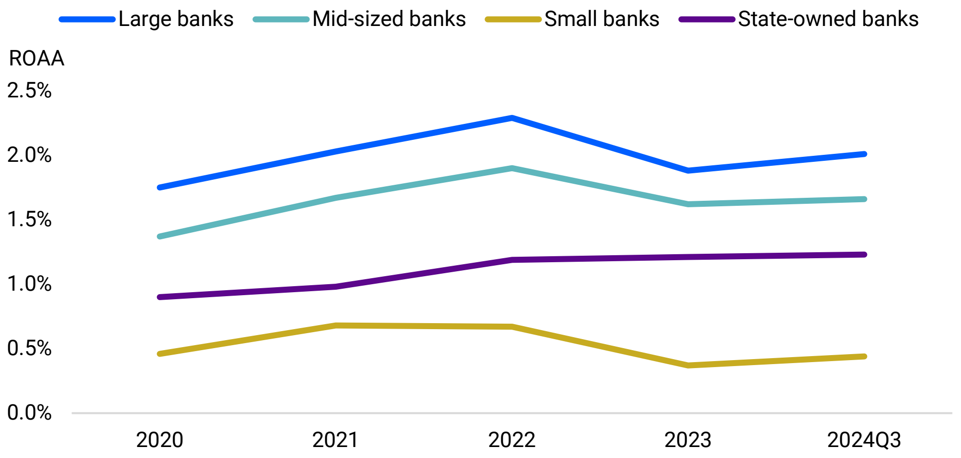
Note: Sector numbers include 27 listed banks. YTD: Year-to-date
Source: Bank data, VIS Rating

Exhibit 20: Robust demand for longer-term corporate and mortgage loans will allow banks to partially offset higher funding costs



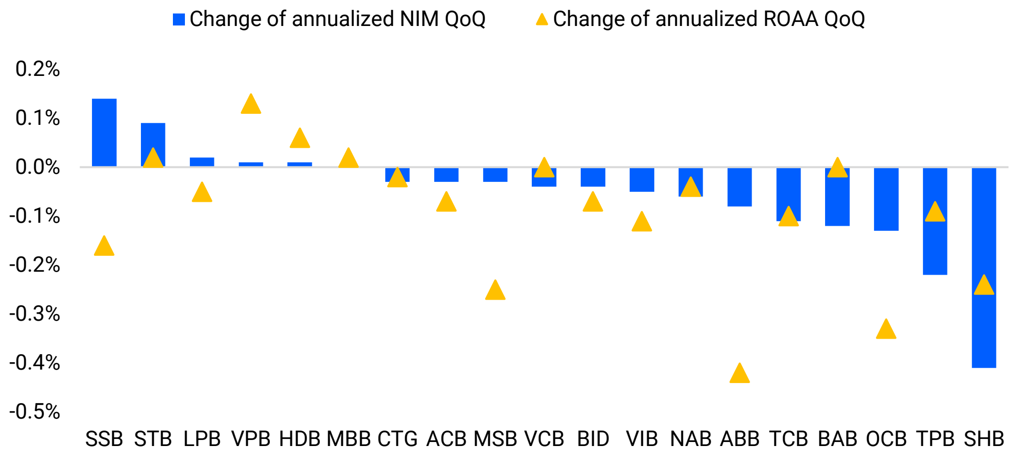
Source: SBV, VIS Rating

Exhibit 21: SOBs and large private banks will lead the sector's profit growth…



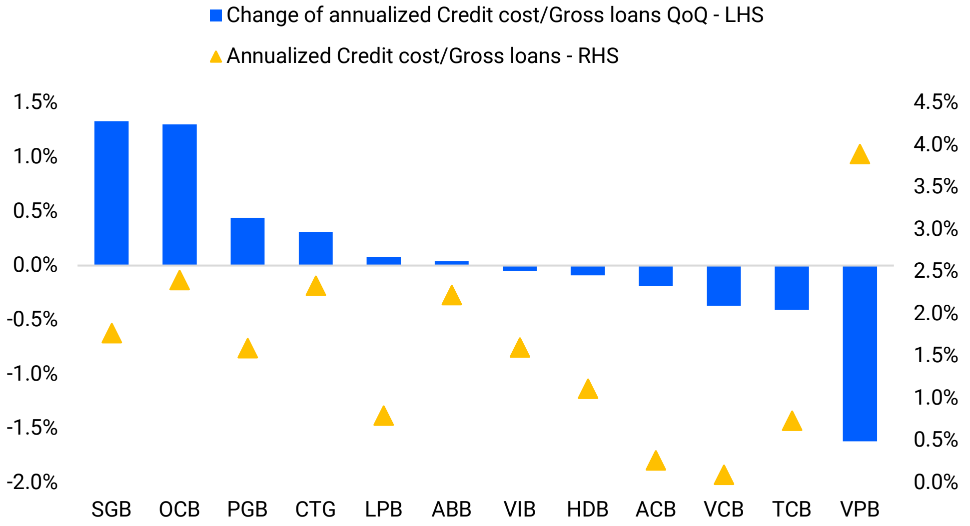
Note: Refer to Appendix for the classification of banks
Source: Bank data, VIS Rating

Exhibit 22: …from higher NIM amid stronger credit growth and resilient funding costs



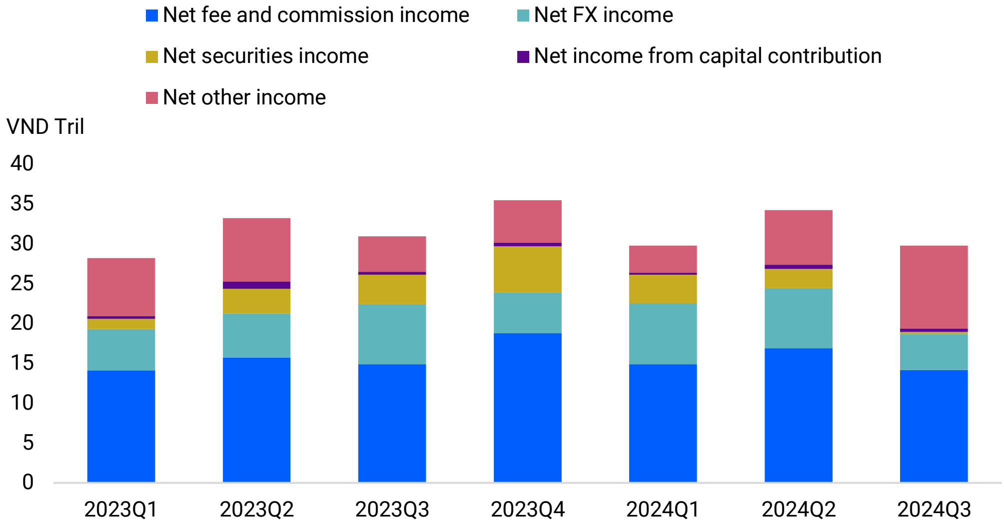
Note: Refer to Appendix for the full name of banks. QoQ: Quarter-over-quarter
Source: Bank data, VIS Rating

Exhibit 23: Credit costs will decline for SOBs and several large banks as asset quality improves



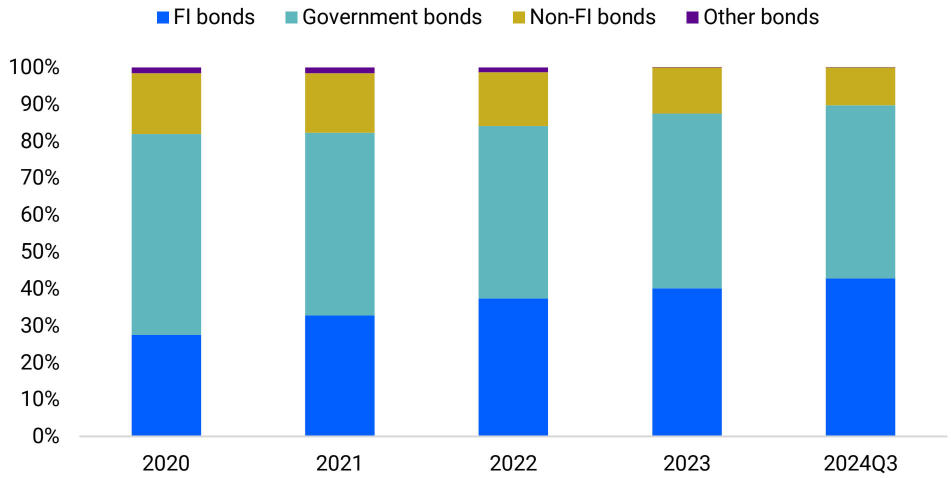
Note: Refer to Appendix for the full name of banks
Source: Bank data, VIS Rating

Exhibit 24: Non-interest income will grow modestly from higher FI bond investments, debt recovery, and a pickup of bancassurance sales



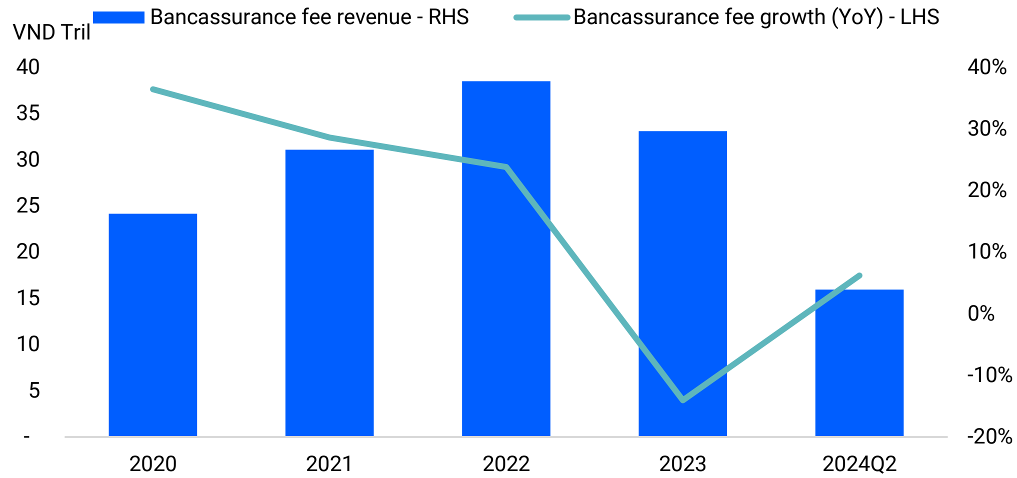
Note: Sector numbers include 27 listed banks
Source: Bank data, VIS Rating

Exhibit 25: Banks' gradually shift to FI bond investment will improve earning stability



Note: Sector numbers include 27 listed banks
Source: Bank data, VIS Rating

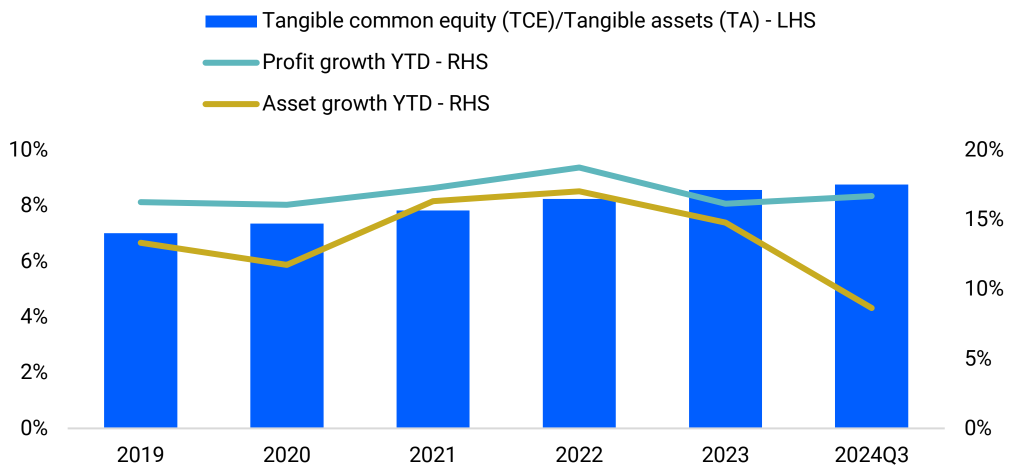
Exhibit 26: Bancassurance sales will gradually pick up from the trough level



Note: Bancassurance income data was based on published financial statement of 19 listed banks
Source: Bank data, VIS Rating

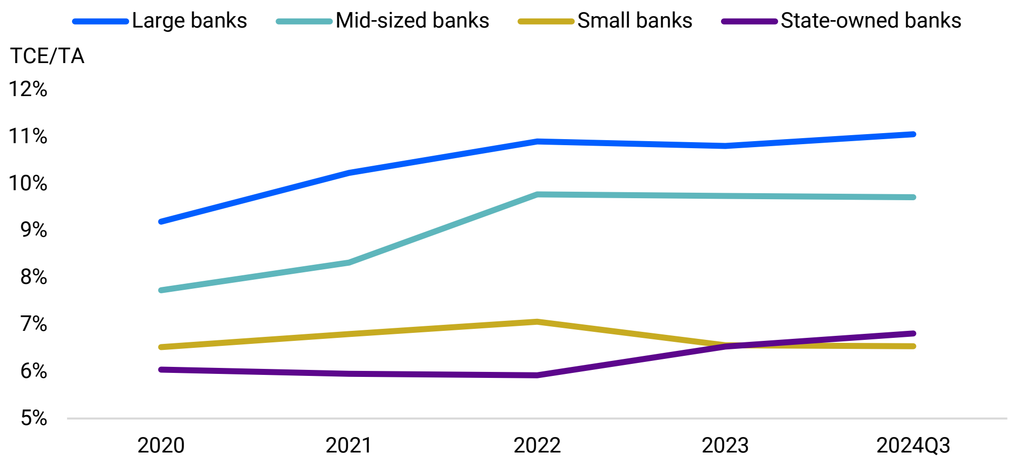
Loss absorption buffer will remain broadly stable from marginal improvement in profits

Exhibit 27: Stable capital level as profits and capital generation improves alongside asset growth



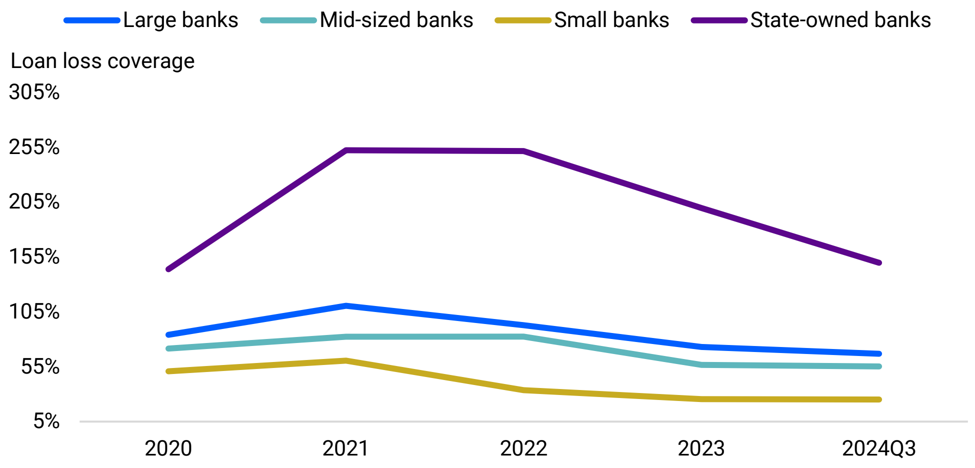
Note: Sector numbers include 27 listed banks
Source: Bank data, VIS Rating

Exhibit 28: Stock dividends and ongoing capital raising plans will help improve SOBs' capital modestly



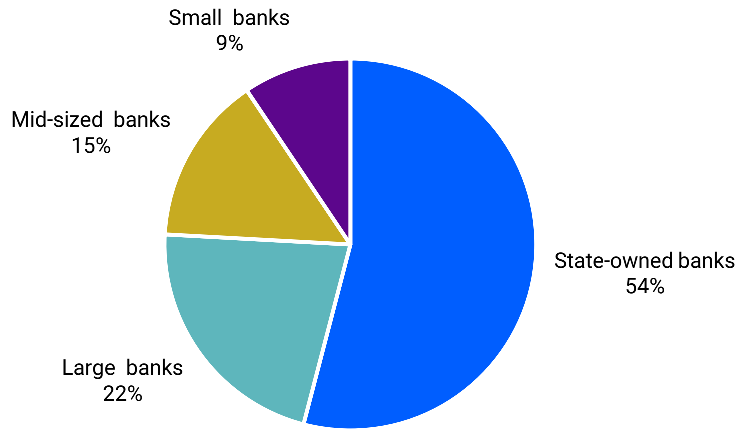
Note: Refer to Appendix for the classification of banks
Source: Bank data, VIS Rating

Exhibit 29: Mid-sized and small banks will face profit challenges and take longer time to increase their provisioning levels



Note: Refer to Appendix for the classification of banks
Source: Bank data, VIS Rating

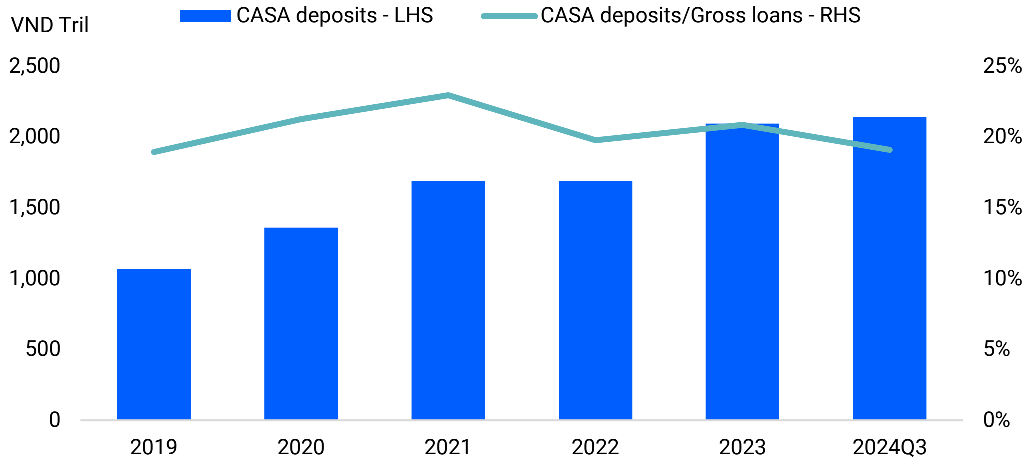
Exhibit 30: Banks will issue more subordinated bonds through public offerings to tap strong demand from retail investors



Note: Refer to Appendix for the classification of banks. Data include our forecast for subordinated bond issuance from 2025 to 2026
Source: Bank data, VIS Rating

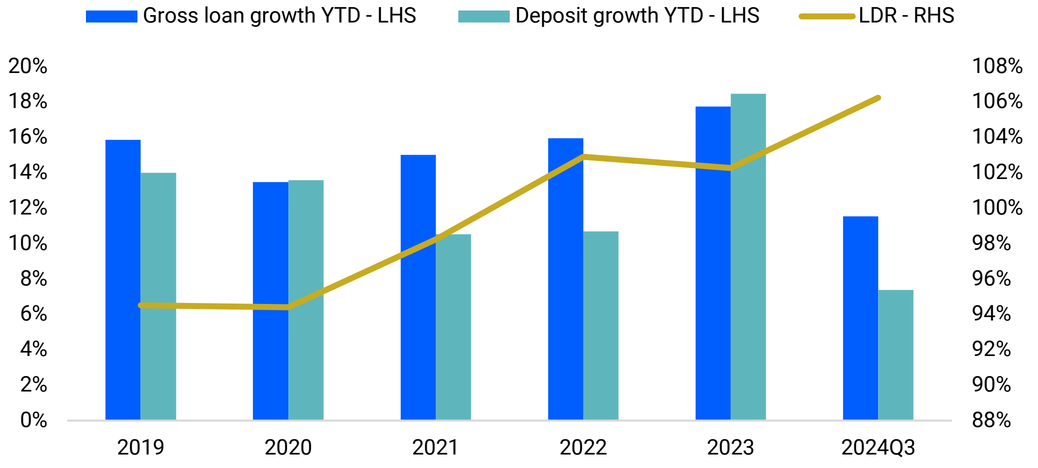
Funding and liquid resources will remain stable from higher use of long-term bond funding and deposit growth

Exhibit 31: Sector's CASA deposit over gross loans will decline slightly given higher term deposits growth to support stronger loan growth



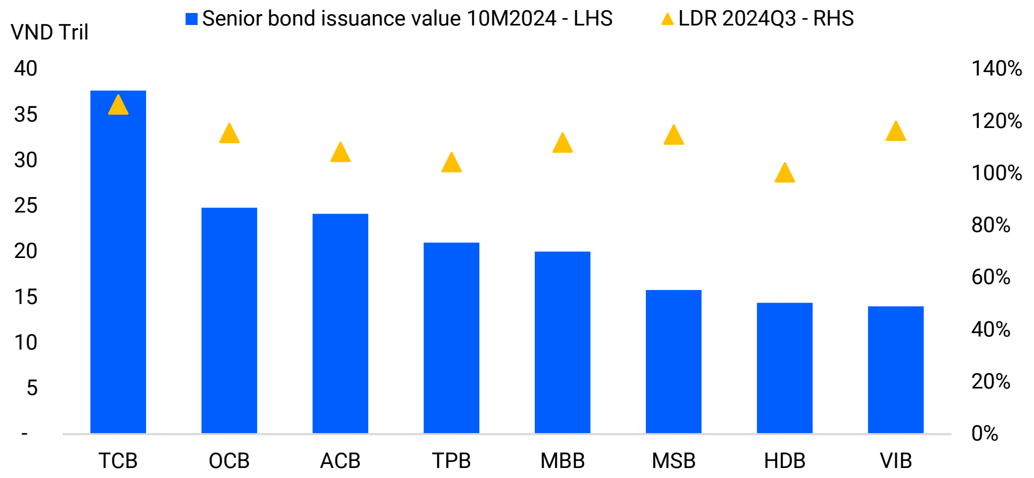
Note: Sector numbers include 27 listed banks
Source: Bank data, VIS Rating

Exhibit 32: Sector loan-to-deposit ratio will remain stable



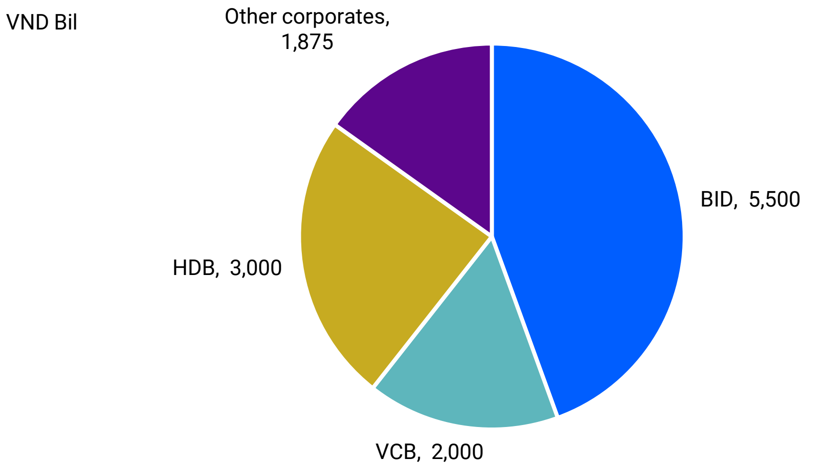
Note: Sector numbers include 27 listed banks
LDR: Customer loan-to-customer deposit ratio
Source: Bank data, VIS Rating

Exhibit 33: Banks will increase long-term senior bond issuance to supplement stronger long-term loan growth



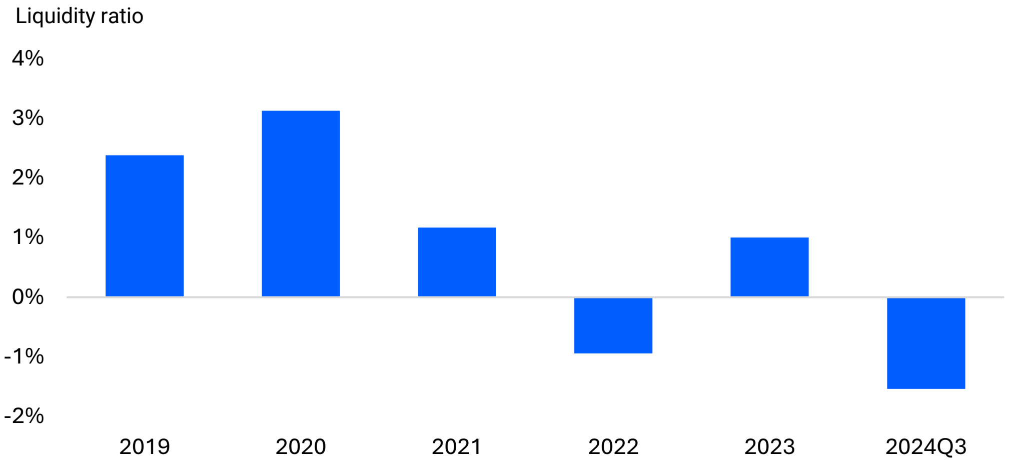
Note: Refer to Appendix for the full name of banks
Source: Hanoi Stock Exchange (HNX), VIS Rating

Exhibit 34: Banks led green and sustainability bond issuance in 2023-2024



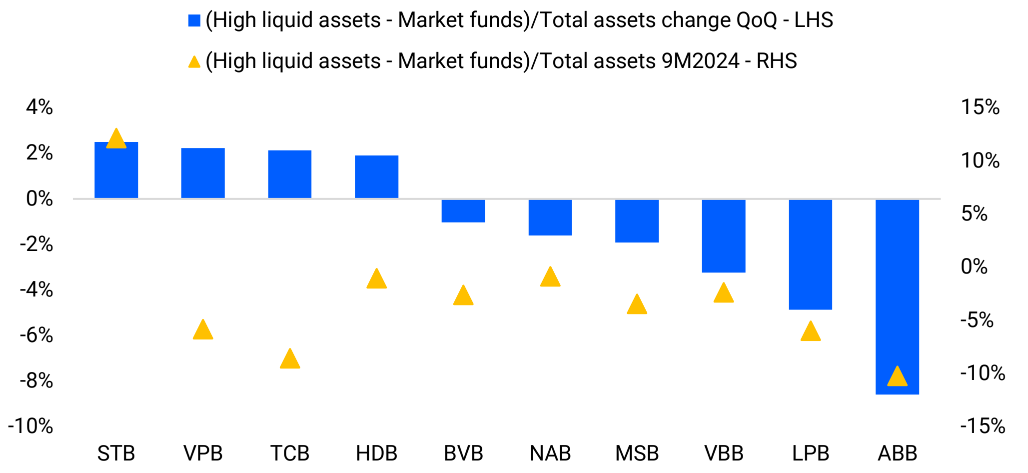
Note: Refer to Appendix for the full name of banks. Data only captures green and sustainable bond issuance
Source: Bank data, VIS Rating

Exhibit 35: Sector liquidity will remain stable from long-term bond funding and higher deposit growth



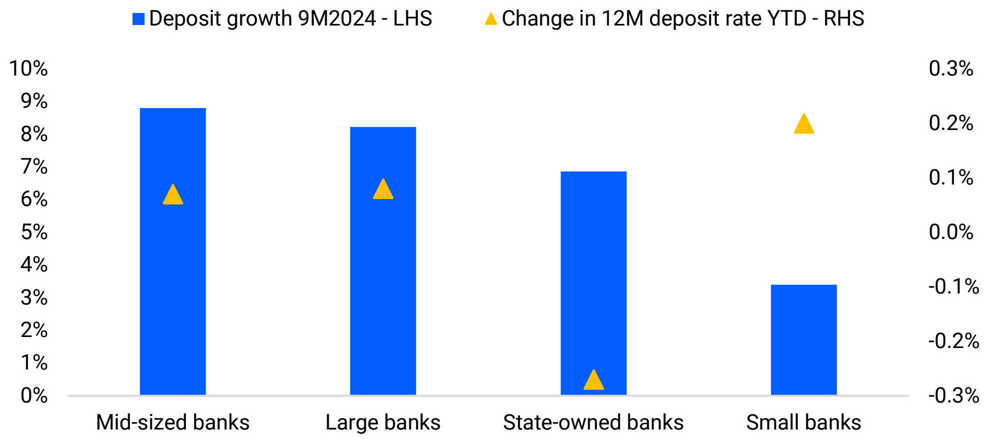
Note: Liquidity ratio equals high liquid assets minus market funds over total assets
High liquid assets include Cash, balances with the State Bank of Vietnam (SBV) and other credit institutions, Government bonds.
Market funds include Deposits and borrowings from SBV and other credit institutions, valuable papers issued
Source: Bank data, VIS Rating

Exhibit 36: Small banks are more vulnerable to liquidity challenges due to higher reliance on short-term market funds and weaker liquid asset buffers



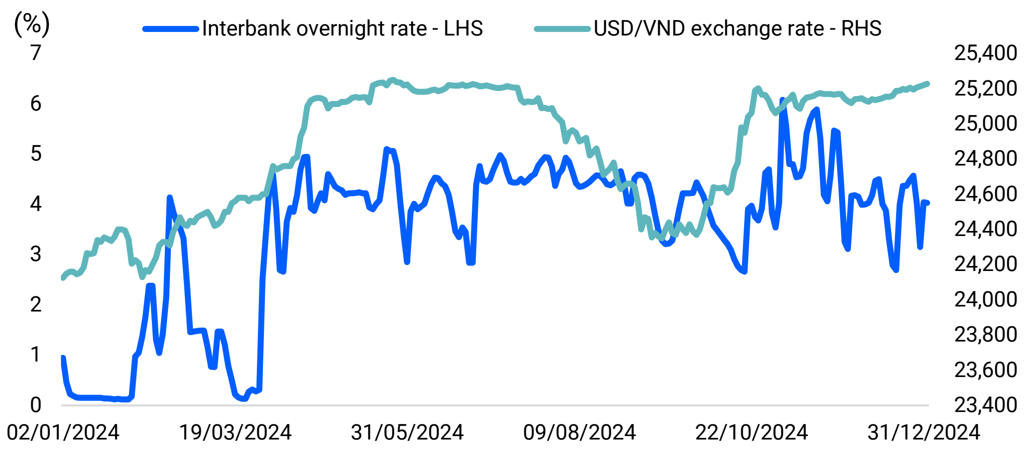
Note: Refer to Appendix for the full name of banks
Source: Bank data, VIS Rating

Exhibit 37: Small banks will face higher deposit costs amid deposit competition…



Note: Refer to Appendix for the classification of banks
Source: Bank data, VIS Rating

Exhibit 38: …and currency pressures



Source: SBV, VIS Rating

APPENDIX

The banks included in our analysis are as follows:

	Short name	Full name	Classification
1	ABB	An Binh Commercial Joint Stock Bank	Small
2	ACB	Asia Commercial Joint-Stock Bank	Large
3	BAB	Bac A Commercial Joint Stock Bank	Small
4	BID	Joint Stock Commercial Bank for Investment and Development of Vietnam	State-owned
5	BVB	Viet Capital Commercial Joint Stock Bank	Small
6	CTG	Vietnam Joint-Stock Commercial Bank for Industry and Trade	State-owned
7	EIB	Vietnam Commercial Joint Stock Export Import Bank	Mid-sized
8	HDB	Ho Chi Minh City Development Joint Stock Commercial Bank	Large
9	KLB	Kien Long Commercial Joint Stock Bank	Small
10	LPB	Fortune Vietnam Joint Stock Commercial Bank	Mid-sized
11	MBB	Military Commercial Joint Stock Bank	Large
12	MSB	Vietnam Maritime Commercial Joint Stock Bank	Mid-sized
13	NAB	Nam A Commercial Joint Stock Bank	Mid-sized
14	NVB	National Citizen Commercial Joint Stock Bank	Small
15	OCB	Orient Commercial Joint Stock Bank	Mid-sized
16	PGB	Prosperity and Growth Commercial Joint Stock Bank	Small
17	SGB	Saigon Bank for Industry and Trade	Small
18	SHB	Saigon - Hanoi Commercial Joint Stock Bank	Large
19	SSB	Southeast Asia Commercial Joint Stock Bank	Mid-sized
20	STB	Saigon Thuong Tin Commercial Joint Stock Bank	Large
21	TCB	Vietnam Technological and Commercial Joint-Stock Bank	Large
22	TPB	Tien Phong Commercial Joint Stock Bank	Mid-sized
23	VAB	Vietnam Asia Commercial Joint Stock Bank	Small
24	VBB	Vietnam Thuong Tin Joint Stock Commercial Bank	Small
25	VCB	Joint Stock Commercial Bank for Foreign Trade of Vietnam	State-owned
26	VIB	Vietnam International Commercial Joint Stock Bank	Mid-sized
27	VPB	Vietnam Prosperity Joint Stock Commercial Bank	Large

VIETNAM INVESTORS SERVICE

Empowering Better Decisions