

Banking Sector

Most banks will maintain stable asset risk in 2025 after Circular 02 expires

Beginning in January 2025, banks will no longer be able to utilize provisions under a special policy (i.e. 'Circular 02') implemented in May 2023 to reschedule borrower debt repayments, following its at the end of December 2024. To date, we are not aware of any ongoing regulatory discussions to extend this policy.

Following the expiry of Circular 02, we view the impact on bank asset quality will be manageable in 2025. This is because banks have already experienced slower formation of problem loans as borrower operating cash flows improve gradually over the course of 2024. We expect borrower debt serviceability will continue to strengthen as Vietnam's macroeconomic and business conditions remain robust, supported by the government's continued efforts to boost economic activity.

Circular 02 was first implemented by the State Bank of Vietnam (SBV) in May 2023 as a policy tool intended to support borrowers in overcoming business and financial difficulties through a slowing economy. Through this policy, banks were able to assist borrowers to postpone debt repayments, so that borrowers have more flexibility and time to reorganize their business operations and manage cash flow. Banks can follow provisions in the policy to defer the recognition of credit costs related to the rescheduled loans until the end of 2024.

According to the SBV, total problem loans in the banking sector – including non-performing loans, restructured loans, and VAMC bonds - stood at 6.9% of total credit balance in June 2024. We note that this asset quality metric has stabilized over the past year after increasing sharply by 2.7% points over 2022-2023. SBV also reported a decline in total restructured loans in the sector to 0.9% of total sector credit in August 2024, from 1.2% at end-2023.

Over the first three quarters of 2024, we note that banks, in general, experienced slower overdue loan formation. Most banks have voiced confidence in the continued recovery of borrower cash flow, primarily due to stronger domestic operating conditions. We note that restructured loans declined significantly among the state-owned banks and several privately-owned banks (e.g. TCB, ACB, HDB, VIB).

Following the expiry of Circular 02, banks must recognize the full credit costs related to their restructured loans. The financial impact will be manageable for many large banks with a small restructured portfolio.

A handful of banks, e.g. VPB, with sizable restructured loans linked to large borrowers and low loan loss coverage ratios will be most at risk. We note these banks primarily face lingering issues in the real estate sector, where some developers remain stuck with either legal issues or poor demand for their new projects.

These banks will also have to grapple with multiple challenges to lift profitability to afford higher credit costs. Funding costs have increased as competition heats up among banks to pursue credit growth. Some small banks, e.g. ABB, had planned to de-risk their lending to address asset quality issues, and if executed, will further suppress their net interest margins.

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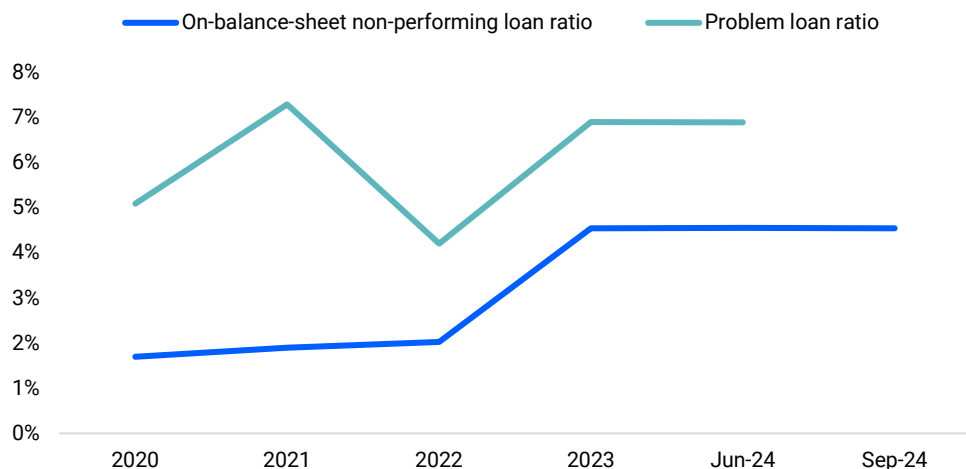
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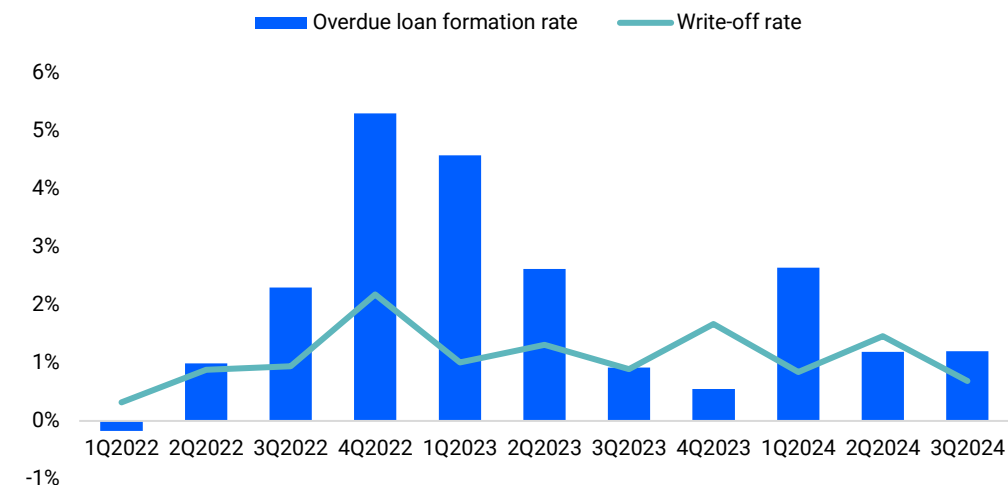
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Exhibit 1: Sector's problem loan will stabilize...



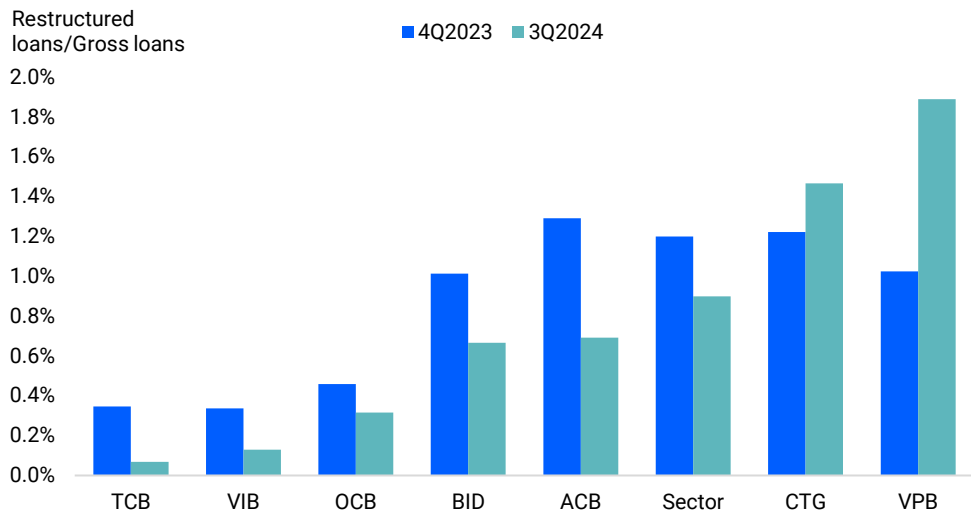
Note: Problem loans include non-performing loans, VAMC bonds, and restructured loans
Source: SBV, VIS Rating

Exhibit 2: ...given slower overdue loan formation rate from improving borrowers' debt serviceability



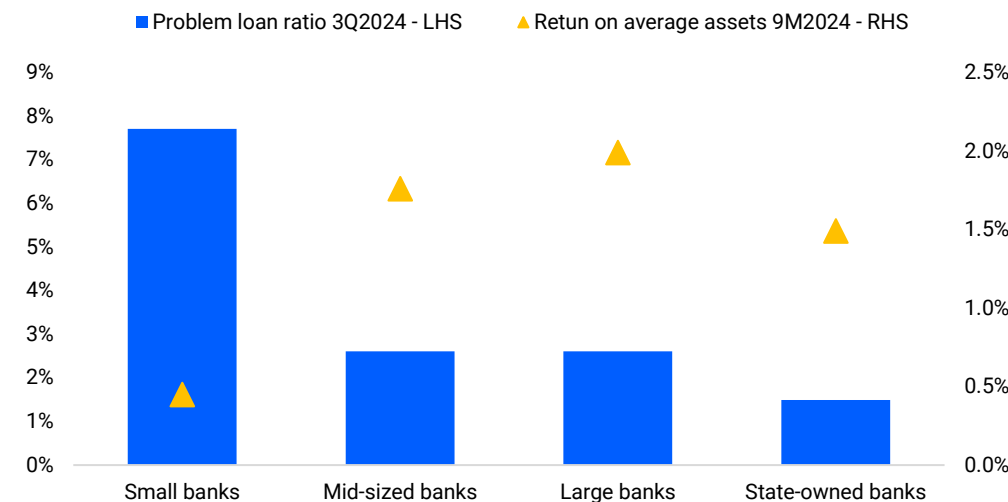
Note: Sector numbers include 27 listed banks
Source: Bank data, VIS Rating

Exhibit 3: The pace of loan restructuring slowed down in 9M2024, except for banks exposed to distressed real estate developers



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

Exhibit 4: Small banks' de-risk plan will suppress their net interest margins and profitability



Note: Refer to the Appendix for the classification of banks
Source: Bank data, 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	Mid-sized
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

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