

## Banking Sector

# Stock listings unlock long-term capital access, subordinated bonds remain key to bridge capital gap for small banks

Over the last quarter, five small banks – VAB, VBB, KLB, BVB, and SGB – announced plans to list on Ho Chi Minh Stock Exchange (HOSE) between 2025 and 2026. This strategic move aims to enhance access to new capital, particularly from foreign investors, to strengthen loss-absorption buffers and support ambitious loan growth targets.

While the long-term benefits of listing are clear, in the near term, these banks are expected to continue relying on subordinated bond issuance to meet immediate capital requirements.

As of 2024, these banks reported an average Tier 1 capital ratio<sup>1</sup> of 8.7%, well below the industry average of 10.4% (Exhibit 1). Despite this, they are targeting aggressive loan growth target of 16%-20% in 2025 – outpacing the broader sector.

Relative to peers, small banks face the greatest capital pressure in the sector due to low profitability, weak asset quality and limited equity capital raising capacity. Average return on average assets (ROAA) of 0.6% from 2020-2024, compared to the industry's 1.4% (Exhibit 2). Rising mortgage delinquencies in 2024 impacted banks like SGB, ABB, and BAB (Exhibit 3). In addition, their equity-raising capacity was constrained by weak earnings and investor appetite (Exhibit 4).

Without new capital, we project their capital adequacy ratio (CAR) to decline by over 200 basis points as they achieve their asset and profit growth targets by end-2026.

Past experience has shown that bank equity raising can take over two years to complete in Vietnam (e.g., BAB, VBB). To bridge the capital gap, small banks will continue to rely heavily on subordinated bonds (Exhibit 5).

Circular 41<sup>2</sup> allows qualifying subordinated bonds to count as Tier 2 capital, helping banks meet the 8% CAR threshold without equity dilution.

We expect banks to issue more subordinated bonds via public offerings to tap into strong retail demand. Retail investors currently hold most of bank subordinated bonds outstanding at end-December 2024 (Exhibits 6 & 7), attracted by their higher yields compared with deposits and senior unsecured bank bonds (Exhibit 8).

To date, there has been no instance of defaults among bank-issued bonds in Vietnam, including subordinated bonds.

However, investment risks remain<sup>3</sup>. Subordinated bonds exhibit a materially distinct risk profile compared to senior unsecured debt. These instruments qualify as Tier 2 capital and are intended to absorb losses during periods of financial stress. Under Circular 41, subordinated bondholders rank below all senior creditors in the creditor hierarchy during liquidation (Exhibit 9 & 10).

Another key unique feature of subordinated bonds is the optional, cumulative coupon deferral mechanism. If the issuing bank incurs a net loss in the financial year when coupon payments are due, it may defer interest payments. While deferred coupons are cumulative, the timing of payment is uncertain, introducing cash flow risk for investors. This embedded optionality, combined with legal subordination, increases the credit risk that bondholders bear.

<sup>1</sup> Tier 1 capital ratio was calculated by dividing tier 1 capital by total risk-weighted assets

<sup>2</sup> Refer to [Circular 41/2016/TT-NHNN: Regulation on capital adequacy ratio for banks and foreign bank branches](#)

<sup>3</sup> Refer to [Subordinated Bonds: Anchoring Risk and Growth Through Credit Ratings \(June 2025\)](#)

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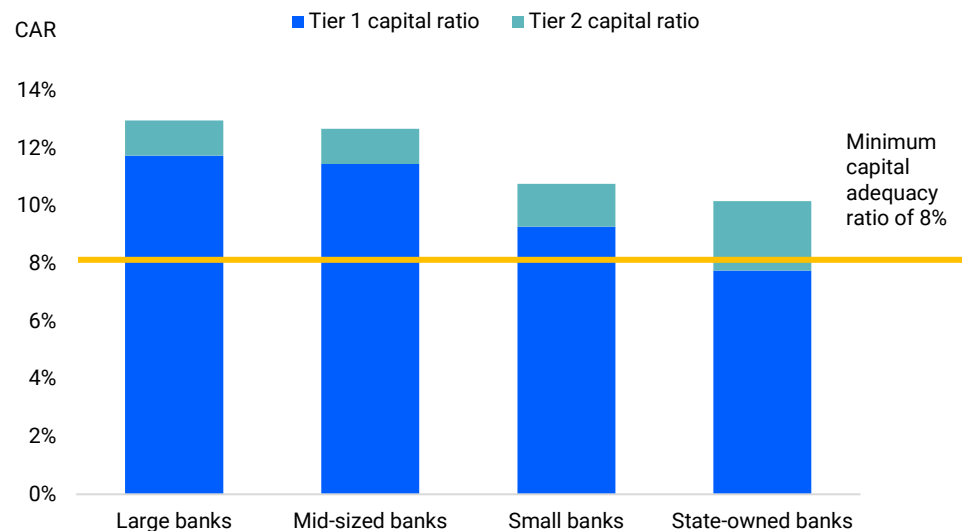
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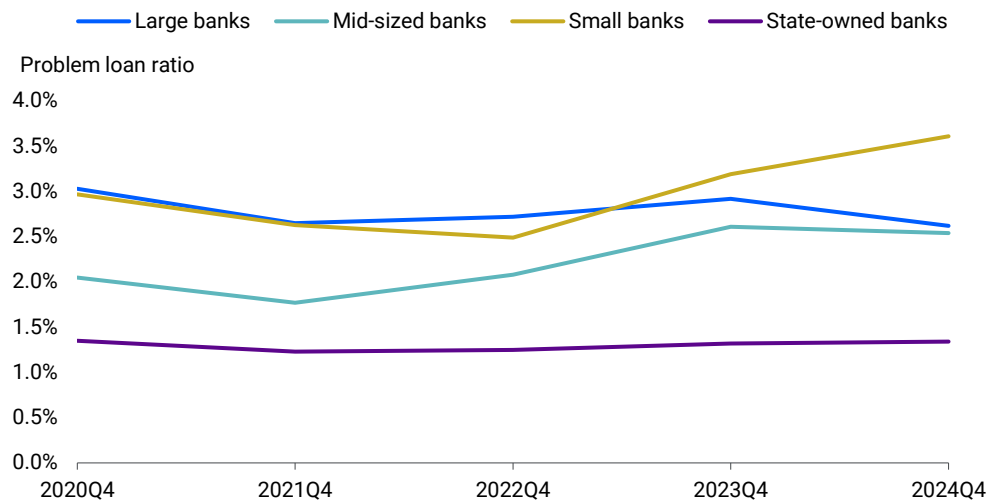
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**Exhibit 1: Small bank's weak capital level relative to peers**

Note: Data was at end-2024

Refer to the Appendix for the classification of banks

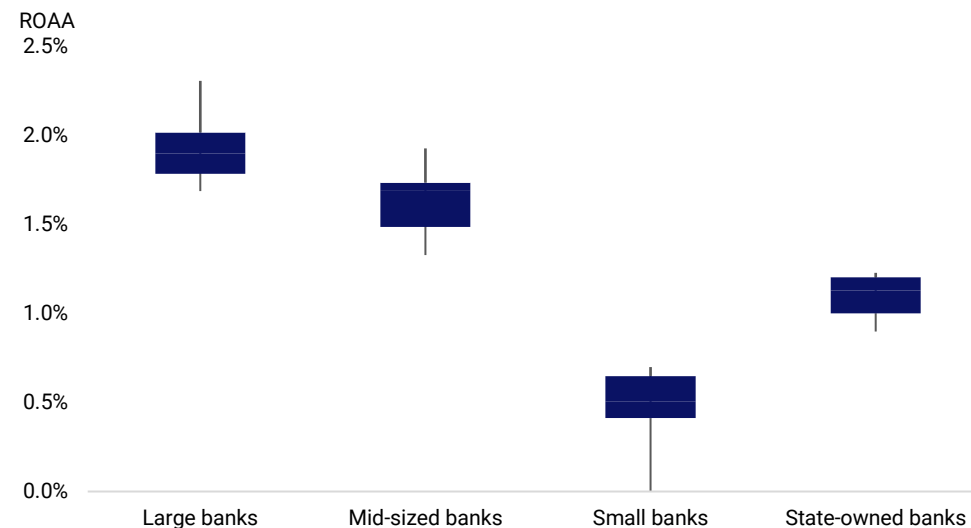
Source: Bank data, VIS Rating

**Exhibit 3: ...weak asset quality from rising mortgage delinquencies and...**

Note: Data for small banks excludes NVB

Refer to the Appendix for the classification of banks

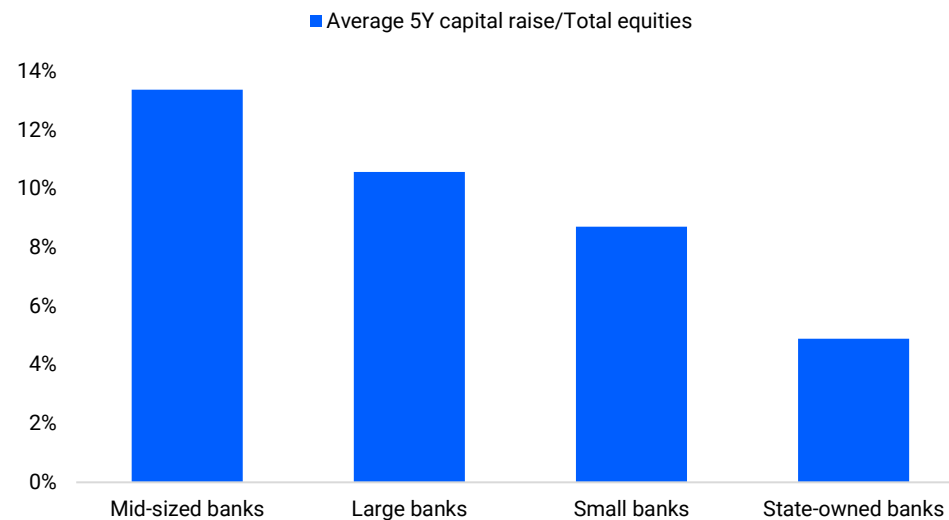
Source: Bank data, VIS Rating

**Exhibit 2: Small banks face the greatest capital pressure due to low profitability...**

Note: Data was at end-2024

Refer to the Appendix for the classification of banks

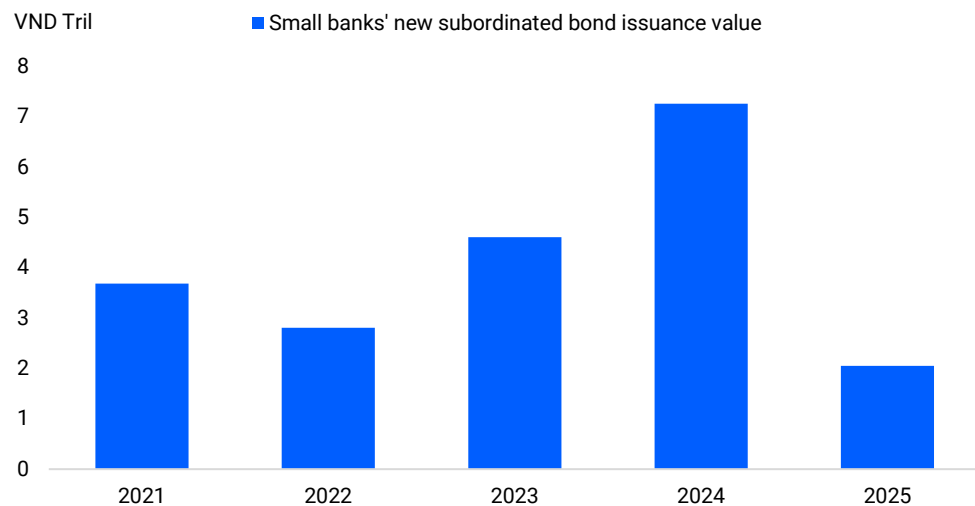
Source: Bank data, VIS Rating

**Exhibit 4: ...limited equity capital raising**

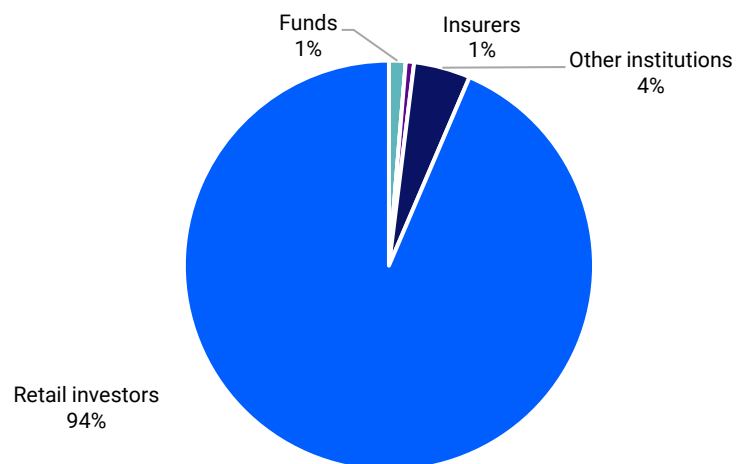
Note: Capital raise during 2020-2024

Refer to the Appendix for the classification of banks

Source: Bank data, VIS Rating

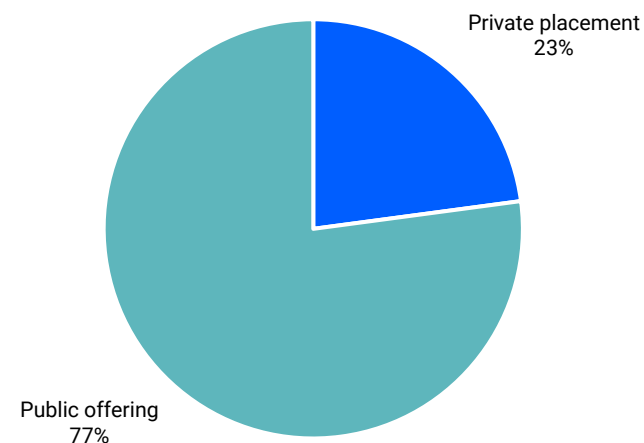
**Exhibit 5: Small banks will continue to rely on subordinated bond issuance to supplement capital needs**

Source: HNX, VIS Rating

**Exhibit 7: ...to tap the strong retail investors' demand...**

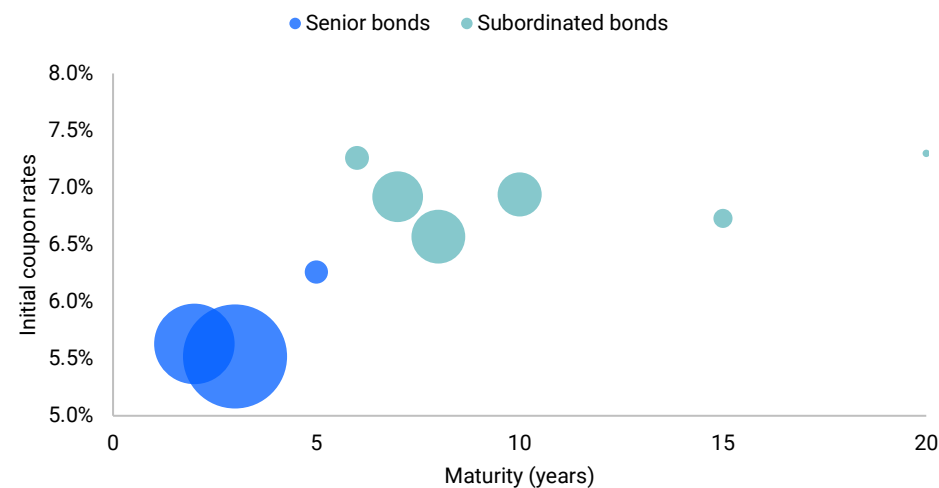
Note: Small banks' bondholder structure in public offering as of end-2024

Source: HNX, VIS Rating

**Exhibit 6: Small banks increase subordinated bonds issuance via public offerings...**

Note: Small banks' new subordinated bond issuance during 2023-1H2025

Source: Hanoi Stock Exchange (HNX), VIS Rating

**Exhibit 8: ...as subordinated bonds offer higher yields compared with deposits and senior unsecured bank bonds**

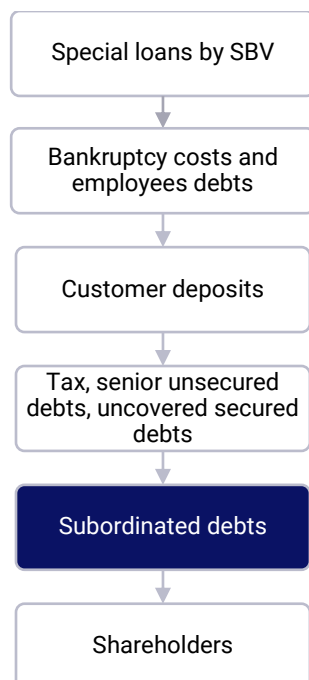
Note: Bank bond issuance data during 2023-1H2025; Bubble sizes reflect new bond issuance value

Source: HNX, VIS Rating

**Exhibit 9: Examples of selected subordinated and senior bonds**

Terms and Conditions	VAB	CTG	BID	ACB	HDB
Bond code	VABCLH2330001	CTGH2136002	BID121027	ACBH2123014	HDBH2429027
Type of bond	Subordinated bond	Subordinated bond	Subordinated bond	Senior bond	Senior bond
Maturity	7 years	15 years	8 years	2 years	5 years
Call option	Yes. Callable in the last 5 years	Yes. Callable in the last 5 years	Yes. Callable in the last 5 years	Negotiable	Negotiable
Step-up coupon	No	No	Yes	No	No
Coupon deferral	Yes, cumulative	Yes, cumulative	Yes, cumulative	No	No
Collateral	Unsecured	Unsecured	Unsecured	Unsecured	Unsecured

Source: Bank data, VIS Rating

**Exhibit 10: Subordinated bondholders rank below all senior creditors in the creditor hierarchy during liquidation**

Source: Bankruptcy Law, Circular 41/2016/TT-NHNN, VIS Rating

This publication does not announce a credit rating action

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

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