VIETNAM INVESTORS SERVICE

SECTOR COMMENT

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Banking Sector

Subordinated Bonds: Anchoring Risk and Growth Through Credit Ratings

On June 12, we assigned credit ratings to subordinated bonds issued by Viet A Bank[1] (VAB). This is the first time a bank-subordinated bond in Vietnam has been rated domestically by a domestic credit rating agency.

Vietnamese banks are increasingly turning to subordinated bonds to strengthen their capital base and support credit expansion. As issuance volumes rise, understanding the credit risk associated with these instruments becomes increasingly critical for investors. This report outlines the credit rating rationale for subordinated bonds issued by Vietnamese banks, highlights the key risks for bondholders, and examines the market outlook over the next 1–2 years.

Our Rating Approach and Rationale

In general, we rate subordinated bonds one notch below an issuer's senior unsecured debt. This approach reflects their lower priority in the capital structure and the higher expected loss severity in the event of default or liquidation. The notching accounts for the increased risk of non-payment and reduced recovery prospects relative to senior obligations.

These instruments are direct, unsecured, and subordinated obligations of the issuing bank. They rank pari passu with other subordinated liabilities and are contractually junior to all senior unsecured creditors.

Our rating approach is aligned with global standards, recognizing that subordinated bonds are designed to absorb losses and serve as a buffer to senior creditors. Key considerations in our rating assessment include legal subordination and the potential for deferred payments.

Differentiating risk profile of subordinated bonds from senior unsecured obligations

Subordinated bonds exhibit a materially distinct risk profile compared to senior unsecured debt (Exhibit 1). Under the State Bank of Vietnam's Circular 41[2], subordinated bondholders rank below all senior creditors in the creditor hierarchy during liquidation (Exhibit 2).

These instruments qualify as Tier 2 capital and are intended to absorb losses during periods of financial stress. They are subject to regulatory requirements, including a minimum maturity period, amortization in the last five years, and subordination clauses.

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.

Furthermore, it is important to note that subordinated bonds in Vietnam – under Basel II framework - do not include principal write-down triggers, distinguishing them from Basel III-compliant hybrid or contingent capital securities in other markets.

Subordinated bond ratings are supported by the issuer's underlying credit strength

The credit rating of a bank-subordinated bond is anchored to the issuing bank's standalone credit strength and issuer rating. This includes an assessment of a bank's

[1] *Refer to Rating Announcement: VIS Rating assigns first-time BBB+ subordinated debt ratings to VAB's subordinated bonds (June 2025)*

[2] Refer to *Circular 41/2016/TT-NHNN: Regulation on capital adequacy ratio for banks and foreign bank branches*

solvency and liquidity profiles, and the likelihood of government support for the bank during extraordinary circumstances (Exhibit 3).

Vietnamese banks generally exhibit above-average standalone credit profiles. Their credit strength is further reinforced by government support—a key differentiator from non-bank and privately owned corporates—reflecting their systemic importance and the enhanced regulatory framework that equips authorities with the tools to manage distressed institutions. These factors support the ratings of subordinated instruments, subject to notching for structural risks (Exhibit 4).

Investors should monitor changes in the issuer's credit profile, as these will directly impact the rating and risk assessment of subordinated bonds.

Subordinated bank bond issuance is set to rise, and investors must understand the associated risks and safeguards

We expect Vietnamese banks to increase subordinated bond issuance significantly over 2025–2026 (Exhibit 5), driven by the need to support credit growth and meet minimum regulatory capital requirements.

As credit demand—particularly from retail and SME segments—continues to rise, banks are diversifying funding sources. Subordinated bonds, while costlier than senior debt, help strengthen Tier 2 capital ratios and support long-term funding.

Regulatory reforms, including Circular 41, mandate minimum capital adequacy ratios (CAR) with a Tier 2 component. Qualifying subordinated bonds can be recognized as regulatory capital, enabling banks to meet these thresholds without equity dilution. Driven by difficulties in raising new equity, banks including state-owned and small private banks have been active in supplementing their capital needs with subordinated bonds (Exhibit 6).

Decree 65[3] introduced additional measures to protect investors (Exhibit 7). Private placement bond investors must sign a risk acknowledgment agreement, enhancing transparency and accountability. Issuers are also required to appoint a bondholder representative to monitor compliance and notify investors of default events—adding a layer of governance and oversight.

While most issuances to date have been private placements, interest in public offerings is growing. However, due to their complexity and risk profile, subordinated bonds may not be suitable for all retail investors. Investor education and suitability assessments will be critical to the sustainable development of this market.

Conclusion

Subordinated bonds are playing an increasingly important role in helping Vietnamese banks strengthen capital and support credit growth. For investors, these instruments offer higher yields but carry elevated risks.

Credit ratings play a critical role in helping investors assess the relative risk of subordinated bonds. The notching below senior debt reflects the structural and contractual risks inherent in these instruments, including subordination, loss absorption, and coupon deferral.

As issuance volumes rise, maintaining transparency, investor protection, and regulatory clarity will be critical to sustaining market confidence. With appropriate safeguards and informed participation, subordinated bonds can become a valuable component of Vietnam's evolving capital markets.

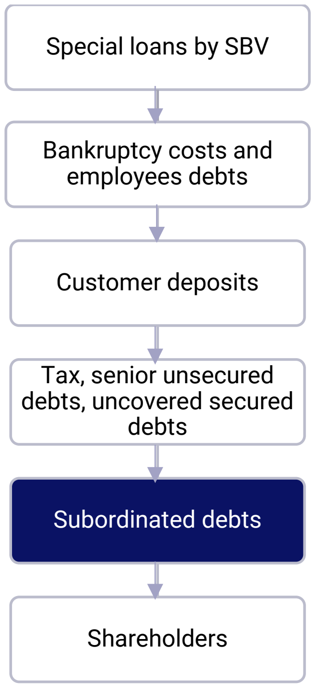
[3] *Refer to Decree 65/2022/ND-CP: Regulation on the offering and trading of corporate bonds privately in the domestic market and the offering of corporate bonds to the international market*

Exhibit 1: 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

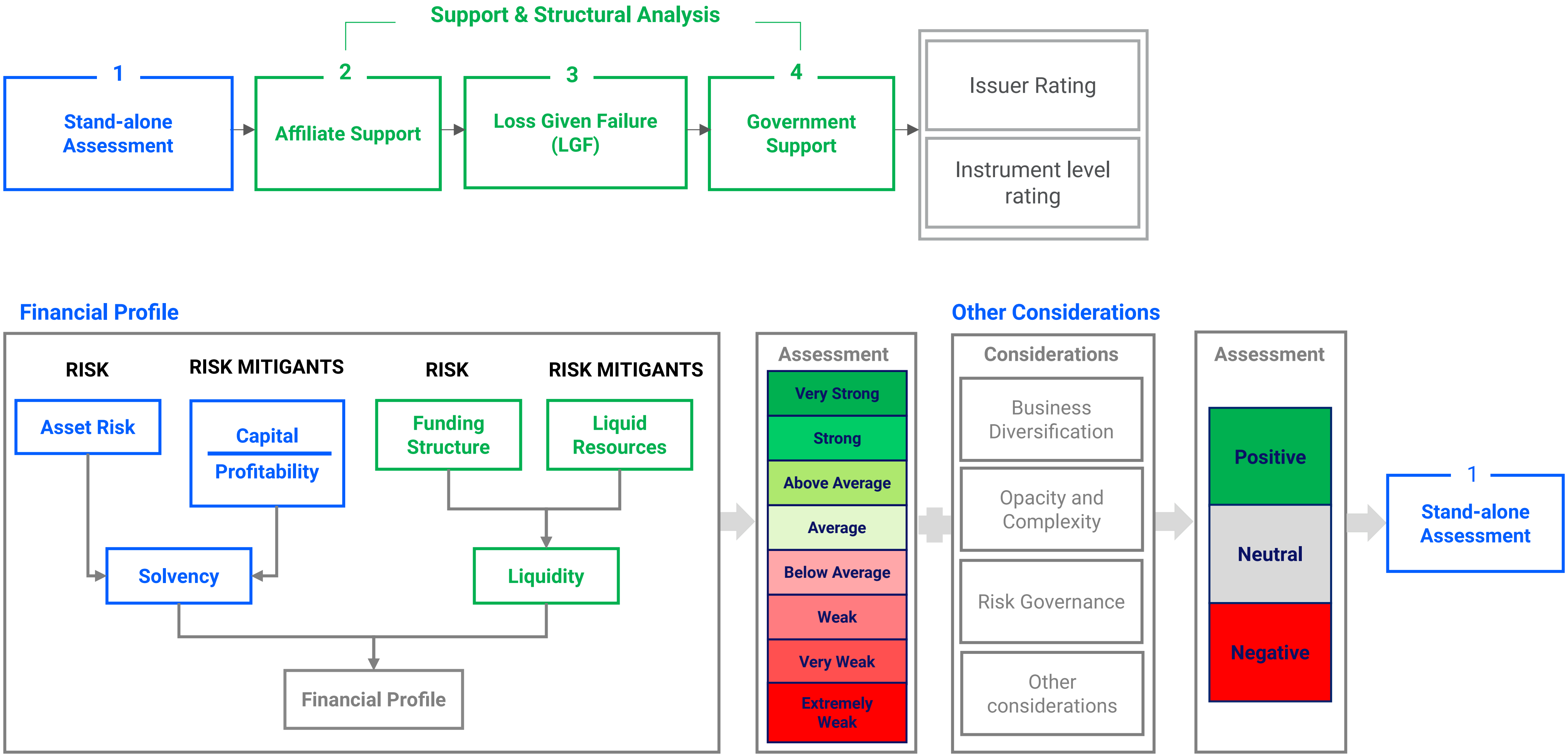
Source: Bank data, VIS Rating

Exhibit 2: Subordinated bondholders rank below all senior creditors in the creditor hierarchy during liquidation



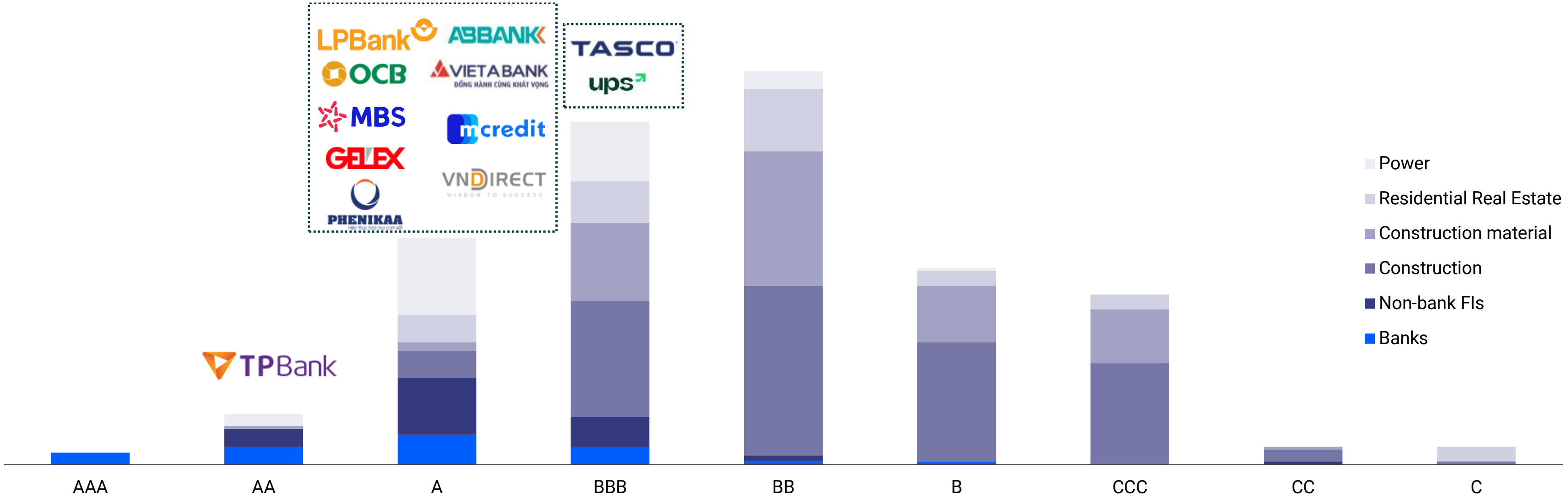
Source: Bankruptcy Law, Circular 41/2016/TT-NHNN, VIS Rating

Exhibit 3: Overall approach to rating financial institutions



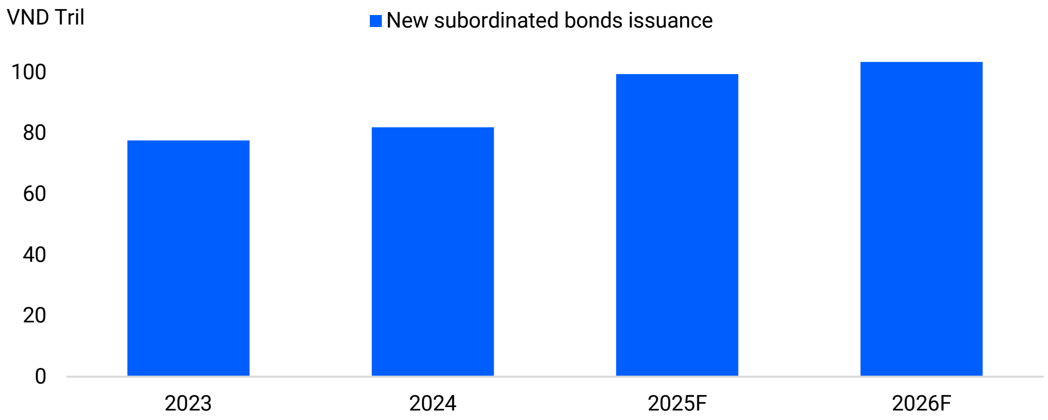
Source: VIS Rating

Exhibit 4: Bank credit profiles remain among the strongest in Vietnam



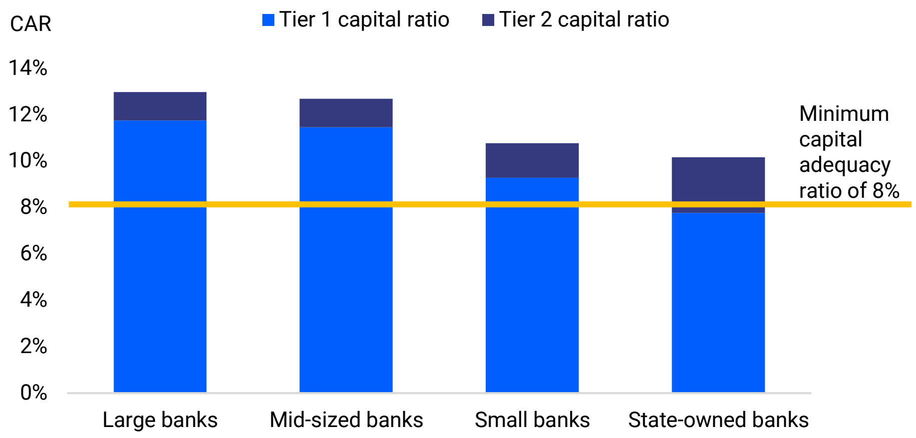
Source: VIS Rating
Note: Preliminary rating distribution for ~ 500 listed companies

Exhibit 5: Banks will need over VND 200 trillion subordinated bonds issuance in 2025–2026[4]



Source: HNX, VIS Rating

Exhibit 6: State-owned banks and small banks rely more on tier 2 bonds to meet CAR requirement



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

[4] Refer to *Sector Comment: Banks will require VND283 trillion of subordinated bonds over the next three years to support funding and capital needs (June 2024)*

Exhibit 7: Decree 65 strengthens bondholder rights and safeguards[5]

Category	Details
Legal Rights	» Bond buyers have legal right to obtain adequate information from issuers and bond sellers prior to investment » Bondholder resolutions to be approved by at least 65% of votes, including changes to bond terms » Bondholders' representative must be appointed to represent rights and interests of bondholders; may be replaced if approved by ≥ 65% of bondholders » Compulsory redemption by bondholders if issuer commits violation or fails to commit to issuance plan, and violations cannot be remedied; Or ≥ 65% of bondholders do not approve of remedial measures
Bond Settlement	» Bond issued to be distributed to investors within 30 days (from 90 days) from date of info disclosure » Total duration for bonds issued in multiple waves to not exceed 6 months (from 12 months) » Bonds must be registered and deposited at Vietnam Securities Depository Corporation before being traded or transferring ownership
Risk Awareness	» Higher qualification criteria for a professional individual investor: Investor to sign self-certification of compliance with Decree requirements, assume responsibility of own investment » Par value of bond increased to VND100 million, from VND100,000 » Bond buyers not allowed to sell bonds or make joint investment in bonds with investors that are not professional investors

Source: Ministry of Finance, VIS Rating

[5] *Refer to Corporate Bond Market Perspective: New regulations will guide stable growth of corporate bonds, but keep new issuances subdued until 2H 2023 (November 2022)*

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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