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Rating Methodology: Banks in Vietnam

Updated: April 2025

Executive Summary

This publication has been developed by FiinRatings and commented by S&P Global Ratings' experts. This publication presents FiinRatings' methodology for assigning issuer credit ratings on commercial banks in Vietnam and is intended as a general guidance to help companies, investors and other market participants to understand how FiinRatings looks at quantitative and qualitative factors in explaining rating outcomes.

- The criteria organize the analytical process according to a common framework and articulate the steps in developing the Stand-alone Credit Profile (SACP) and Issuer Credit Rating (ICR) for banks in accordance with international standards.

- FiinRatings uses a principle-based approach for assigning and monitoring ratings nationally, which is in accordance with international standards. These broad principles apply generally to ratings of all types of corporates and asset classes. However, for certain types of issuers and issues, FiinRatings complements these principles with specific methodologies and assumptions.

- FiinRatings assigns credit ratings to both issuers and issues and strives to maintain comparability of ratings across sectors/sub-sectors and over time. That is, FiinRatings intends for each rating symbol to connote the same general level of creditworthiness for issuers and issues in different sectors and at different times nationally.

- FiinRatings' approach to rating banks involves a comprehensive assessment of several parameters. Some core parameters are considered to have a high influence on the credit quality of a bank, while others are considered supplementary parameters. FiinRatings takes a forward-looking view on the performance of the Banks on these parameters while evaluating their rating.

- If you have any question or concern, please contact our Analytical Team at https://fiinratings.vn/ContactUs/en, or email support.fiinratings@fiingroup.vn

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Scope of the Criteria

THE RATED UNIVERSE

The methodology is applicable to commercial banks and other types of banks that falls under the banks / commercial banks' definition stipulated in Vietnam's Law On Credit Institutions No. 47/2010/QH12 promulgated by the National Assembly. The non-bank finance companies stipulated by the law are rated under our Rating methodology for non-bank finance companies.

Banks in Vietnam engages in all banking operations including (i) Deposit taking, (ii) Credit extension; and (iii) services via-account payment. Banks attract low-cost deposits from retail customers and have built large branch networks to cater to clients. Meanwhile, they engage in lending, a form of credit extension, reflected in banks' diversified loan books catering to households and corporates. Banks are highly regulated and fall within the purview of the State Bank of Vietnam (SBV).

Issuers rated under this methodology usually have most of the following characteristics: legal status under a bank charter or the equivalent; regulatory oversight, including the application of capital and liquidity standards, examinations and on-site inspections; the calculation and disclosure of capital ratios, such as the Capital adequacy ratios or Loan to deposit ratios, etc.; membership of a payment system; material deposit funding; and access to central bank funding.

ISSUER AND ISSUE RATING

Issuer Credit Rating

A FiinRatings issuer credit rating is a forward-looking opinion about an obligor's overall creditworthiness. This opinion focuses on the obligor's capacity and willingness to meet its financial commitments as they come due. It does not apply to any specific financial obligation, as it does not take into account the nature of and provisions of the obligation, its standing in bankruptcy or liquidation, statutory preferences, or the legality and enforceability of the counterparty credit ratings; corporate credit ratings and sovereign credit ratings are all forms of issuer credit ratings.

Issue Rating

A FiinRatings issue credit rating is a forward-looking opinion about the creditworthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligations, or a specific financial program (including ratings on medium-term note programs and commercial paper programs). It takes into consideration the creditworthiness of guarantors, insurers, or other forms of credit enhancement on the obligation as well as the currency in which the obligation is denominated. The opinion reflects FiinRatings ' view of the obligor's capacity and willingness to meet its financial commitments as they come due, and may assess terms, such as collateral security and subordination, which could affect ultimate payment in the event of default.

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2. Rating Methodology

- Issuer Rating

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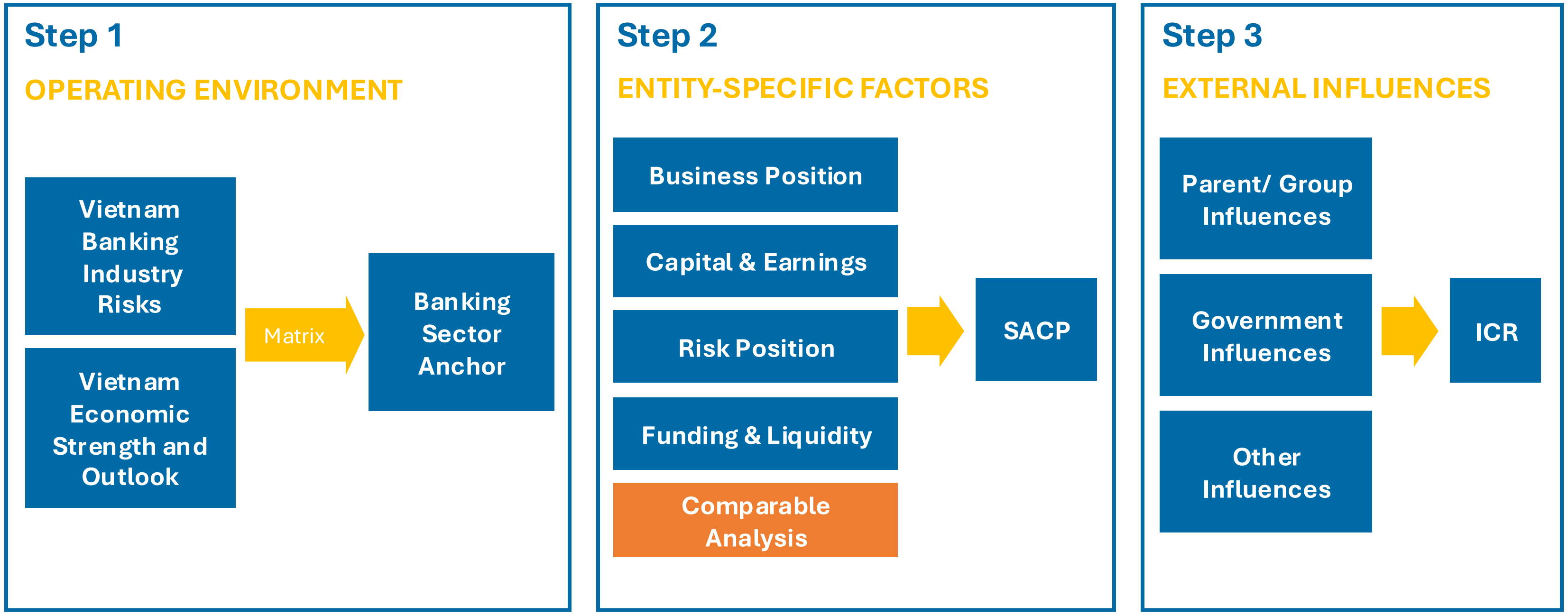
Issuer Rating Methodology

FiinRatings, together with close support of S&P Global Ratings' experts, has developed its rating criteria to factor in the recent market developments of the Banking sector in Vietnam market.

The entity-specific factors are: 1) Business position; 2) Capital and Earnings; 3) Risk Position; and 4) Funding and Liquidity. The below illustration is the **Rating Framework for Banks**



Source: FiinRatings
Note:
- *Sector Anchor: reflects our assessment of the sector/industry risk. The sector can be adjusted periodically or upon any major event to accurately reflect sector risk assessment level.*
- *The Stand-Alone Credit Profile ("SACP"): an issuer's creditworthiness in the absence of external influence, which can be positive or negative*
- *The Issuer Credit Rating ("ICR"): an issuer's overall creditworthiness given the assessment of external influence*

FiinRatings' Scale
AAA
AA+
AA
AA-
A+
A
A-
BBB+
BBB
BBB-
BB+
BB
BB-
B+
B
B-
CCC+
CCC
CCC-
CC

Step 1: Building the Anchor: *Banking Sector*

The first step to determine the sector anchor (or industry risk assessment) of Banks; this is combined assessment of Vietnam's Economic strength and growth potential as well as Banking industry risks

Vietnam Banking Sector's Anchor

Banking Industry risk	Economic strength and growth potential					
	Very strong	**Strong**	**Satisfactory**	**Fair**	**Weak**	**Very weak**
Very low risk	AAA/AA+	AA+/AA	AA/AA-	AA-/A+		
Low risk	AA/AA-	AA-/A+	A+/A	A/A-	A-/BBB+	
Medium risk	A+/A	A/A-	A-/BBB+	BBB+/BBB	BBB/BBB-	BBB-/BB+
High risk		BBB+/BBB	BBB/BBB-	BBB-/BB+	BB+/BB	BB/BB-
Very high risk			BB+/BB	BB/BB-	BB-/B+	B+/B

Economic Factors

Economic Resilience	Economic structure & stability, Macro policy flexibility

Banking Industry Factors

Institutional framework	Banking Regulation and supervision; Regulatory track record
Competitive dynamics	Banking Industry Risk Appetite; Industry stability; Presence of market distortions; Corporates Credit Quality
Systemwide funding	Cross-border / External funding sources; Domestic Capital Market; Funding risks; Government role

Step 2: Assessment of Factors: *Overall Adjustments to the Anchor*

FiinRatings adds/subtracts notches from the Banks' anchor for entity-specific factors to determine the SACP.

The below illustration is how FiinRatings will adjust a Bank's entity-specific factors from the anchor.

TYPICAL NOTCHING	TYPICAL PROFILE			
	Business Position	**Capital and Earnings**	**Risk Position**	**Funding and Liquidity**
Very strong (+2 and in rare cases, +3)	Highly stable position with well-diversified business; Able to withstands severe adverse operating conditions	Capital adequacy ratios (CAR) adjusted by FiinRatings to be much higher than the industry average at least for the next 12 months.	Very low risk appetite, and the asset quality is generally insensitive to the economic cycle in Vietnam.	Strong retail deposit base; Leading position in the interbank market; No significant dependence on wholesale funding; Liquidity position is strong enough to withstand adverse and sudden developments of the economy, with outstanding liquidity indicators; great reputation & confidence from investors.
Strong (+1)	Stable position with decent business diversity; Somewhat less vulnerable to adverse operating conditions than the anchor indicates.	CAR adjusted by FiinRatings to be somewhat higher than the industry average at least for the next 12 months.	Prudent risk appetite, and the asset quality performance is better than the industry average throughout economic cycle.	Strong retail deposit base, lower-than-industry-average reliance on wholesale funding, and conservative liquidity management with superior liquidity-related ratios compared with the industry average, benefiting from investor confidence.
Adequate (+0)	Decent business stability with some diversification in business; Business risk is consistent with the anchor and similar to peers.	CAR adjusted by FiinRatings to be consistent with the industry average and able to meet the minimum regulatory capital requirements at least for the next 12 months.	Risk management capability and asset quality performance are consistent with the industry average.	Funding structure and liquidity position consistent with the industry average, with sufficient liquidity to function normally and meet minimum regulatory requirement on liquidity ratios even when the market is stressed.
Moderate (-1)	Somewhat stable but not very diversified business; More vulnerable to adverse operating conditions than anchor indicated	CAR adjusted by FiinRatings to be somewhat lower than the industry average in the next 12 months.	Moderately high risk appetite; Asset quality performance are somewhat worse than the industry average.	Funding structure and liquidity position somewhat worse than the industry average, but still able to function normally and meet minimum regulatory liquidity requirements under normal market circumstances. However, liquidity pressure may rise significantly when the market is stressed.
Weak (-2)	Significantly more vulnerable to adverse operating conditions than indicated by the anchor.	CAR adjusted by FiinRatings to be considerably lower than the industry average in the next 12 months.	High risk appetite with significant risk concentration and complexity result in much worse asset quality performance	Liquidity position worse than the industry average and having persistent difficulty in maintaining stable liquidity position or meeting regulatory requirements.
Very weak (-3 and lower)	The anchor is not representative of the extent of business risk or vulnerability to adverse operating conditions.	CAR adjusted by FiinRatings to be significantly lower than the minimum regulatory requirements and without timely capital injection, the operations would become unsustainable.	Risk management capability and asset quality performance are far worse than the industry average, and there may be serious flaws with its overall internal control.	Eroded market confidence in the Bank leading to a highly unpredictable liquidity position, high chance of requiring State bank of Vietnam's intervention for liquidity support.

Step 2: Assessment of Factors: *Business Position*

Business position assesses the strength of a bank's business operations relative to peers.

The strength of a bank's business position reflects the relative stability of its franchise and its resilience to adverse operating conditions. FiinRatings assesses overall business position on a six-category scale, from "very strong" to "very weak“ by combining business stability and business diversity. Business stability assesses the predictability of continuing business volumes in the face of potential economic and market fluctuations, meanwhile, business diversity strengthens or weakens a bank's business stability prospects.

Management and governance if "fair" or "weak," may cap the overall assessment derived from the initial matrix but does not raise the overall assessment. FiinRatings' evaluation of a bank's management entails understanding the goals, philosophies, and strategies that drive the business and financial performance of said bank.

Matrix to determine Business Position

1.2. Business diversity	1.1. Business stability					
	Very strong (VS)	**Strong (S)**	**Adequate (A)**	**Moderate (M)**	**Weak (W)**	**Very weak (VW)**
Strong (S)	Very strong/ Strong	Strong	Strong/ Adequate	Adequate/ Moderate	Moderate/ Weak	Weak/ Very weak
Adequate (A)	Strong/ Adequate	Strong/ Adequate	Adequate	Moderate	Weak	Very weak
Moderate (M)	Strong/ Adequate	Adequate/ Moderate	Adequate/ Moderate	Moderate	Weak	Very weak
Weak (W)	Adequate/ Moderate	Adequate/ Moderate	Moderate/ Weak	Moderate/ Weak	Weak	Very weak

Management and Governance

Strong	Satisfactory	Fair	Weak

Management

Positive	Neutral	Negative

1. Strategic planning process
2. Consistency of strategy with organizational capabilities and marketplace conditions
3. Ability to track, adjust, and control execution of strategy
4. Comprehensiveness of enterprise-wide risk management standards and tolerances
5. Financial policy
6. Operational performance
7. Management's operational effectiveness
8. Management's expertise and experience
9. Management's depth and breadth

Governance

Neutral	Negative

1. Board effectiveness
2. Entrepreneurial or controlling ownership
3. Management culture
4. Regulatory, tax, or legal infractions
5. Communication of message
6. Internal controls
7. Financial reporting and transparency

Step 2: Assessment of Factors: *Capital & Earnings*

Capital and Earnings assesses a bank's ability to absorb losses, which provides protection to senior creditors while the bank remains a going concern. Our view on Capital & Earnings is forward looking.

Matrix to determine Capital & Earnings Scale				
Capital assessment	**Earnings assessment**			
	Strong	Adequate	Moderate	Weak
Very strong	Very strong	Very strong	Very strong or strong	Strong or adequate
Strong	Strong	Strong	Strong or adequate	Adequate
Adequate	Strong or adequate	Adequate	Adequate or moderate	Adequate or moderate
Moderate	Adequate or moderate	Moderate	Moderate	Moderate or weak
Weak	Moderate or weak	Weak	Weak	Weak or very weak
Very weak	Weak or very weak	Very weak	Very weak	Very weak

Capital represents the level of protection available to the bank's creditors to absorb losses from credit and other risks. Analysis of capital adequacy incorporates the absolute quantum and quality of capital, cushion over regulatory capital requirement, risk-adjusted capital levels, and management's capitalization policy. The analysis also considers the bank's leveraging ability based on the asset class it focuses on as well as its asset quality outlook. In addition, we may assess the absolute leverage level of banks (*with no or limited risk weight*), as a complementary measure to our capital adequacy ratio assessment, which is risk weighted. When we forecast banks' **future capital adequacy level**, we look into capital consumption of business growth, organic capital growth through retained earnings, any reliable capital injection plan from shareholders, bond issue plans, potential capital erosion from outsized credit risk or market risk exposure, and any other factors which have a material impact on capital adequacy.

Earnings are key to augmenting the capital required to support growth and absorb losses. The earnings profile indicates the entity's ability to price its anticipated risk. A comfortable earnings profile vis-à-vis the risk levels can help mitigate the entity's risk position. Also, stable earnings directly influence an entity's ability to attract both debt and equity. Stability and sustainability of earnings are also considered key parameters. Earnings also need to be viewed in conjunction with the asset quality of banks. The earnings are typically higher for entities operating in riskier asset classes, in order to cushion against potential volatilities and build up capital to absorb losses. While analyzing a bank's profitability on a historical basis and in relation to peers, FiinRatings adjusts for changes/differences in accounting policies and the like. As FiinRatings' analysis is forward-looking, the relevance of past profitability performance is only a base for estimating future profitability.

Step 2: Assessment of Factors: *Risk Position*

Risk Position reflects our comprehensive of risk assessment, including but not limited to:

- **Asset quality (a.k.a. credit risk), which contains:**
    - **Risk appetite**
    - **Risk management (Lending and underwriting standards, Loss experience & Loss-mitigation strategies)**
    - **Risk complexity (off-the-book exposure, related parties exposure) & Diversity (Concentration, delinquency trends, credit costs, write-offs, recovery)**
- **Risk subfactors beyond asset quality, such as operating risk and market risk**

Asset quality refers to the credit quality of a bank's interest-earning portfolio and means the extend to which a bank's earning assets (financial assets such as loans and bond holdings) are performing and their likelihood to maintain performing in accordance with their terms. Alternatively put, asset quality denotes the level of credit risk associated with a bank's financial assets. When borrowers or issuers of the financial assets have ceased making interest payments, those assets are no longer generating the return expected , thus become nonperforming or impaired. Ultimately, if payment is not forthcoming within a reasonable duration, such assets must be construed as having little real value and be removed from the balance sheet, or written off, thereby reducing equity capital.

In assessing asset quality, FiinRatings analyzes a bank's credit risk management system via underwriting standards, target customer segments, approval authorities, collection procedures. The Bank's ability in managing its information system to deal with potential credit problems and establish loss-mitigation strategies are also assessed. Besides, FiinRatings also evaluates the Bank's portfolio quality via its risk appetite, operational complexity and diversity. The asset diversity in terms of asset classes and geographic distribution, delinquency trends, weak asset levels, credit costs, write-offs, and recovery levels are analyzed as well.

Other Factors that may have negative impact on risk position: History (more severe losses suffered in previous economic stress compared to peers, with no remarkable improvement in management's risk appetite and approach to risk control thereafter), Existence of other material risk (money laundering risk, foreign exchange risk, interest risk)

Step 2: Assessment of Factors: *Funding and Liquidity*

Funding and Liquidity factor assesses a Bank's capacity to support business performance through effective funding while managing liquidity requirements both on an ongoing basis and in periods of stress.

The analysis is guided by the basic principle that stable and long-term funding sources generally should finance long-term and less liquid assets, and that the use of short-term wholesale funding finances generally should be limited to financing of short-term and more liquid assets. As banks cannot avoid mismatch between assets and liabilities, how banks manage this inherent risk (in normal and in stress time) is factored in our assessment. Funding analysis considers the strength and stability of a Bank's funding mix compared with the domestic industry average. Liquidity analysis typically considers a Bank's ability to manage its liquidity needs in adverse market and economic conditions and its ability to survive over an extended period in such conditions.

Funding and Liquidity				
Funding	Liquidity Coverage			
	Strong (S)	Adequate (A)	Moderate (M)	Weak (W)
Strong	Very Strong / Strong	Strong / Adequate	Adequate / Moderate	Moderate / Weak
Adequate	Strong / Adequate	Adequate	Adequate / Moderate	Weak / Very weak
Moderate	Adequate	Adequate / Moderate	Moderate / Weak	Weak / Very weak
Weak	Moderate	Moderate / Weak	Moderate / Weak	Weak / Very weak

Assessment Factors	Positive	Negative
Stable and diversified sources of funding	More stable and diversified than peers	Less stable or diversified than peers
Confidence-sensitivity of funding	Less sensitive than peers	Reliance on more price-sensitive funding resources
Bank's access to funding from banks	Access to stable funding from central bank and inter-bank market	No stable funding from banks / over-reliance on wholesale funding
Funding that is appropriate for its asset profile	Yes	No, which may lead to further asset and liability mismatch
Refinancing risk	No	Substantial refinancing risk in the foreseeable future
Liquidity coverage	Stronger than peers	Weaker than peers, may have large unusual liquidity needs in the short term that may not be covered.

Step 2: Assessment of Factors: *Comparable Analysis*

Comparable ratings analysis is the last analytical factor under the methodology to determine the final SACP on an entity, and this considers the overall credit quality of the entity and its position against peers.

This analysis can lead us to raise or lower our SACP, based on our overall analysis of its credit characteristics for the factors we have considered in arriving at the SACP. This involves taking a holistic review of an entity's SACP, in which we evaluate an entity's credit characteristics in aggregate and consider any factors not already captured. A positive assessment may lead to raising our assessment and alternatively a weaker assessment may lead to lowering our assessment, relative to the anchor. The application of comparable ratings analysis reflects the need to "fine-tune" ratings outcomes, even after the use of each of the other modifiers. A positive or negative assessment is therefore likely to be rather uncommon, but possible. The SACP may be notched up/down by one notch in most cases.

Generally, we compare an entity with all other entities with similar business model and area of operation. More specifically, the peer group is typically Banks that are in the same sector and have similar SACPs (i.e., the same or one notch higher or lower). However, the peer groups may include others. For example:

- The peer group may include Banks in Vietnam when the SACP is close to the bank anchor.

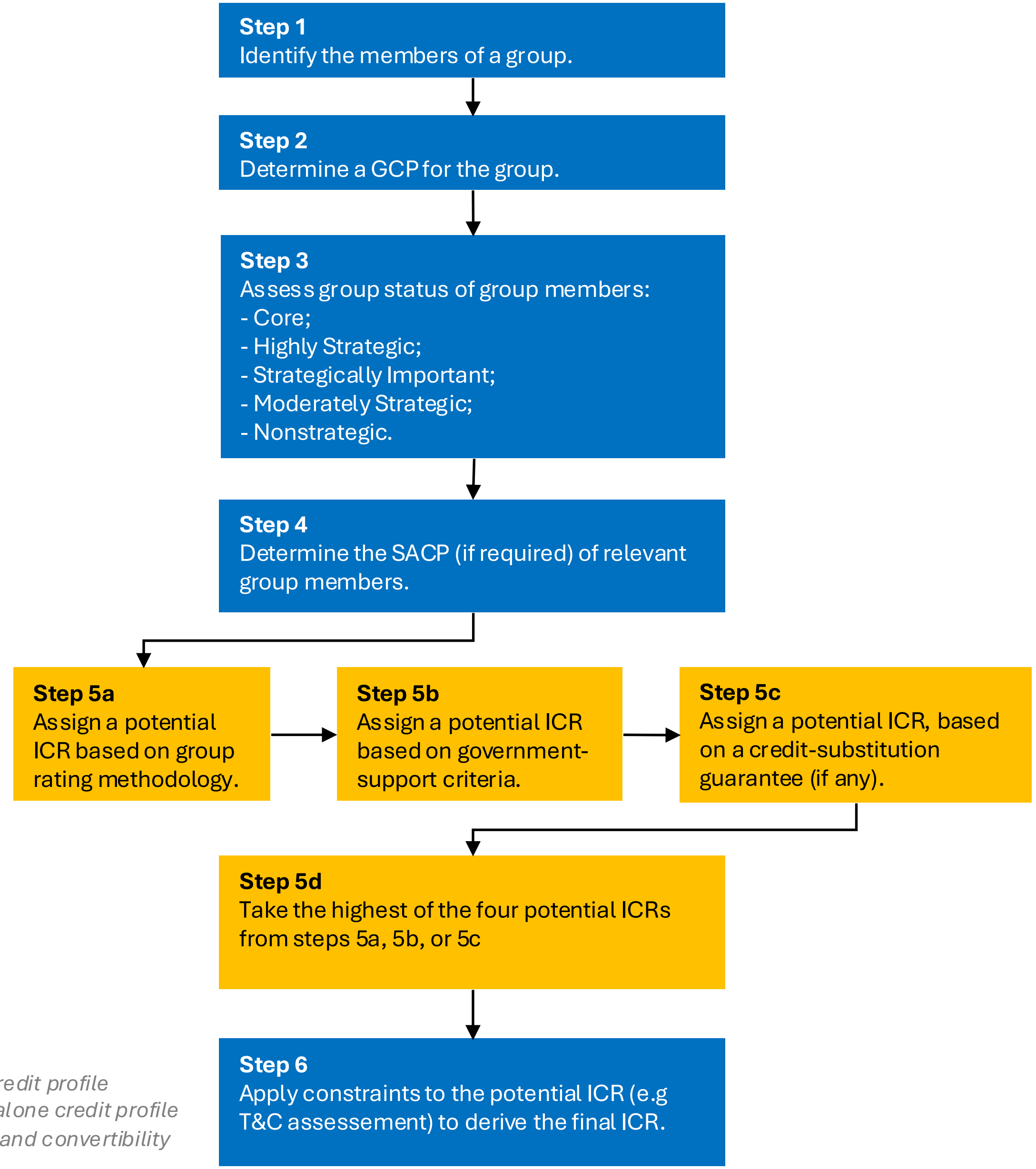
Step 3: Assessment of External Influences

After determining the SACP, FiinRatings then factor in any potential external influences on an entity to determine the ICR.

The criteria address a key area of "External Influence" in Framework. One of the main rating considerations is the potential for support (or negative intervention) from the parent company or group, as well as from government and other external forces (if any).

Group influence can come in two forms: ongoing influence or extraordinary influence. An FI's SACP typically incorporates a group's ongoing positive or negative influence, but does not reflect the positive or negative impact a group may have during an extraordinary crisis scenario. Ongoing support generally refers to group activities that impact the entity's daily operation, and therefore is generally captured by the entity's SACP and may be reflected in our assessments of the four factors.

When assessing the likelihood of external (extraordinary) support, we may consider the rated FI's importance to the support provider. The assessment may typically include two group factors: (i) moral obligation (willingness of the support provider to provide support) and (ii) economic linkage (ability of the support provider to provide support).



***GCP**: Group credit profile*
***SACP**: Stand-alone credit profile*
***T&C**: Transfer and convertibility*

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2. Rating Methodology

- Issue Rating

Issue Credit Rating Framework

After obtaining a Corporate’s or Financial Institution’s Issuer Credit Rating (“ICR”), we can proceed to rate an Issue.

- **Issuer Credit Ratings:** The likelihood of payment--the capacity and willingness of the obligor to meet its financial commitment on a financial obligation in accordance with the terms of the obligation
- **Issue Credit Ratings:** Specific rating for a financial instrument (e.g., corporate bond, secured & unsecured debt instruments)

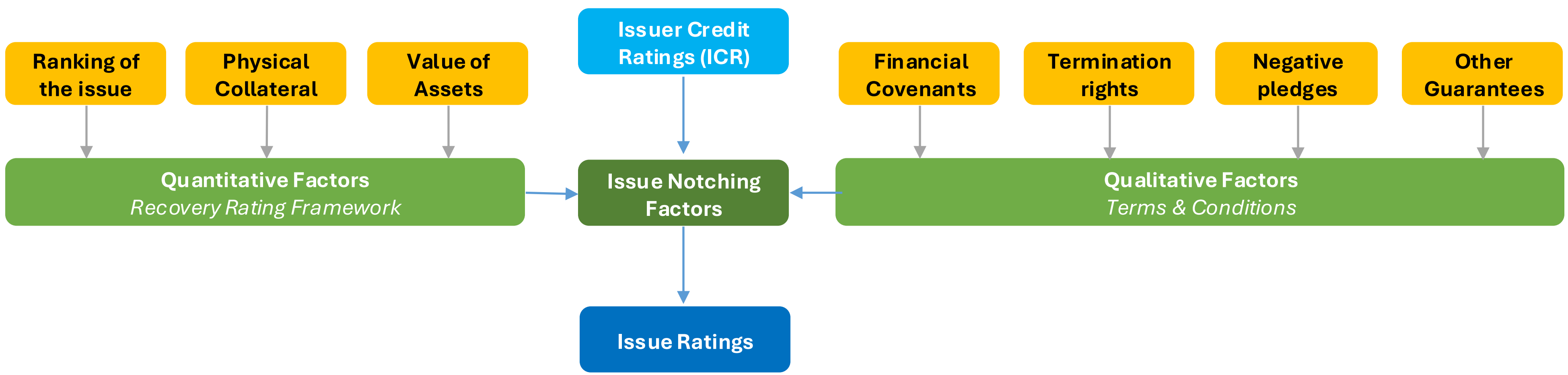
Issue Credit Ratings Framework

Issue credit ratings are based, in varying degrees, on FiinRatings' analysis of the following considerations:

- The nature and provisions of the financial obligation, and the promise we impute; and
- The protection afforded by, and relative position of, the financial obligation in the event of a bankruptcy, reorganization, or other arrangements under the laws of bankruptcy and other laws affecting creditors' rights.

Issue ratings are an assessment of default risk but may incorporate an assessment of relative seniority and/or ultimate recovery in the event of default. Junior obligations are typically rated lower than senior obligations, to reflect the lower priority in bankruptcy, as noted above. (Such differentiation may apply when an entity has both senior and subordinated obligations, secured and unsecured obligations, or operating company and holding company obligations, and when these matters materially impact on the relative loss likely to be suffered by various classes of debt upon default).

The issuer ratings could be notched up or notched down based on following factors to produce the final issue ratings.



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3. Key Metrics

Key Metrics: *Quantitative Assessment Factors*

The table below illustrates the key metrics that FiinRatings uses in assessing creditworthiness of banks. It is noted that these are not the only factors we use throughout the rating process.

Business Position Metrics	Total assets and Year-over-year growth
	Gross customer loans and Year-over-year growth
	Operating income and Year-over-year growth
	Net income and Year-over-year growth
	Net fees and commissions income/operating income
Capital, Leverage and Earnings Metrics	Reported regulatory capital adequacy ratio
	Capital adequacy adjusted by FiinRatings
	NIM adjusted by FiinRatings
	Cost-to-income ratio
	Asset provisioning / Pre-provision operating profits
	Loan provisioning / Average gross customer loans
	Return on average assets; Return on average equity
	Interest and fee receivable days

Asset Quality Metrics	Reported & adjusted Non-performing loan ratio
	Problem loan ratio (include Special mention loans)
	Loan loss reserves / Gross customer loans
	Loan loss reserves / (Nonperforming loans + Special mention loans)
	Reserve coverage ratio
	Net write-offs / Average gross customer loans
Funding and Liquidity Metrics	Wholesale funding reliance ratio(s)
	Stable funding ratio
	Loan to Deposit ratio
	Average Financing Cost
	Long term Funding ratio
	Individual Deposits / Total deposits
	Broad liquid asset ratio(s)

Source: FiinRatings
Note: The table above lists some of the key metrics that FiinRatings can use in analyzing banks. The above ratios may not be applicable to all banks and are not the sole metric used. Factors outside of the metrics listed above could be of importance to the rating, and their importance varies based on the actual situation of each rated entity. Therefore, throughout the credit rating process, FiinRatings often incorporates more risk-oriented qualitative assessments.

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