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ENLIGHTEN THE MARKET

Initial Rating Public Announcement:

Vietnam Technological and Commercial Joint Stock Bank ("Techcombank")

Issuer Credit Rating*: A+

Rating Outlook: Stable

Hanoi, 01 November 2023

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The rating presented in this announcement is effective from the rating date, until and unless we make any further updates.

This document is prepared in both English and Vietnamese. The English translation is for reference only and the Vietnamese version will prevail in the event of any inconsistency between the English version and the Vietnamese version.

Hanoi, 01 November 2023

FiinRatings is pleased to announce that it has assigned a first-time Long-Term Issuer Credit Rating of **'A+'** to 'Vietnam Technological and Commercial Joint Stock Bank ("Techcombank" or "the Bank") with '**stable**' rating outlook.

RATING SUMMARY

Criteria	Assessment
Banking Anchor	**a-**
Modifiers:	
Business Position	*+1*
Capital & Earnings	*+2*
Risk Position	*+0*
Funding & Liquidity	*-1*
Stand-alone Credit Profile	***a*+**
External Support	**+0**
Issuer Credit Rating	**A+**
Outlook	**Stable**

RATING RATIONALE

The issuer rating on Techcombank of '**A+**' with **Stable** rating outlook reflects our expectation that the Bank's credit profile will remain stable over the next 24 months, supported by the Bank's solid business position as well as robust capital and earnings profile. Techcombank's dedicated enterprise-wide risk management processes and prudent asset-liability management have effectively helped mitigate its material concentrations in cyclical and capital-intense industries. In addition, the Bank's funding and liquidity profile will continue to benefit from sticky affluent and mass affluent customer base as well as the Bank's capabilities to retain its leading position in demand deposit share.

Considering the economic risk and industry risk faced by Vietnam's commercial banking sector, we have been applying an anchor of "a-" to commercial banks operating in Vietnam. The overall credit outlook for commercial banks in Vietnam is expected to remain stable thanks to ongoing government supportive measures as well as expectation on the medium-term economic recovery despite the short-term headwinds. The stand-alone credit profiles of Vietnam's commercial banks are expected to be stable as well, despite rising divergence in asset performance, which in turns impacts the divergence in capital and earnings profiles.

Our "strong" assessment of Techcombank's business position reflects our view that the Bank's credit profile will continue to be supported by its systemic importance and position among the leading private commercial banks in Vietnam. As of second-quarter 2023, Techcombank's scale belongs to the tier-2 banking group, with its market share by gross loan book (VND 466.5 trn) and by customer deposits (VND 381.9 trn) respectively ranked seventh and tenth out of 35 domestic commercial banks in Vietnam. We believe that Techcombank's business stability will continue to benefit from long-term housing demand, resilient core customers base with customer-centric strategies, and long-standing partnerships with Vietnam's market leaders in real estate, construction, construction related, and FMCGs sector. Techcombank possesses capabilities to be further accelerated by its client base with demand for other financial products via securities brokerage services provided by Techcom Securities and wealth management services offered by Techcom Capital. While Techcom Securities maintained its first position regarding bond brokerage and among the top 4 in terms of equity brokerage market share as of quarter-three 2023, Techcom Capital distinguishes itself from industry peers by offering REIT products apart from traditional equity and fixed income investments. This reinforces Techcombank's existing synergy with its affluent customer base and functions as a cross-sales channel within its own ecosystem to supplement fee and service income. In the past five years, net fee and commission income has contributed to 15-20% of Techcombank's total operating income (industry median level of under 10%), and the Bank's fee incomes posted a higher growth rate and lower drop rate than the industry median during the 2019-1H2023 period, mainly driven by its investment banking services, bancassurance, and fee-income solutions. FiinRatings assesses Techcombank's business model as well-diversified, and this will continue to support the Bank's business stability. We will continue to monitor the Bank's diversification effort, which can include potential expansion of core lending business to other sectors as well as possible growth or development of other non-lending activities.

We consider capital and earnings to be Techcombank's key credit strengths compared to other commercial banks in Vietnam. As of June-end 2023, Techcombank has posted a capital adequacy ratio (CAR) of around 15.1%, which is the highest among Vietnamese commercial banks. The Bank's leverage figure, measured by reported total assets to total equity ratio, has been stably around 6.0 times and much lower than the industry average of 12-14 times within 2019-1H2023. In addition, Techcombank's earning profile has been quite robust even during unfavorable times, demonstrated by its NIM and ROA (1H2023) of 4.4% and 2.6%, higher than the industry median figures of 3.4% and 1.2%, respectively, in the same period. The Bank's profitability is strongly supported by the retail customer base of affluent and mass-affluent individuals, contributing around 50% to the Bank's total net interest income, and 30-40% of its total operating income. Meanwhile, large corporate customers contributed 20-30% of net interest income and 30-40% of total operating income within 2020-2022; however, the contribution from this customer segment dropped to 10.1% of net interest income and 19.2% of total operating income in the first half of 2023. Within 2022-1H2023, the whole banking sector's earnings were impacted by weakened market confidence in bond market and the downturn in the real estate sector, followed by tightening regulations on bancassurance activities. In that context, Techcombank's profitability witnessed a slight decline yet still outperformed the sector as shown by 1H2023 figures. From our projection, we believe that Techcombank's earnings will remain strong enough to withstand the expected prolonged economic slowdown within 2023-2025. The Bank's profitability is expected to slightly decrease, but still well above peer average, driven by expected narrowing net interest margins due to rising credit costs and remaining funding costs higher than that of 2019-2021.

FiinRatings assesses Techcombank's risk position as 'adequate' thanks to the Bank's above-industry-average risk management performance; specifically, its conservative underwriting and monitoring policy, as well as its prudent asset-liability management, both of which help mitigate the Bank's material concentrations in cyclical and capital-intense industries. Techcombank has implemented enterprise-wide risk management processes and decisions within a dedicated organizational framework. The Bank's risk policies and risk appetite are well defined, with the common process for controlling risk is based on risk limits and delegations. The risk appetite is the foundation for risk management and is the orientation for the Bank's operations, being monitored and supervised monthly according to the internal reporting mechanism of the Bank, ensuring compliance as well as giving timely assessment and warning. Additionally, Techcombank has continuously improved its portfolio analytics to monitor the Bank's loan portfolio performance, to track watch-list credits, and use early warning system to timely transfer underperforming exposures to collections and/or recoveries.

As of 30 June 2023, approximately 59% of the Bank's gross customer loans and corporate bonds was corporate lending, in which close to 70% belonged to real estate and construction related (ReCoM) sector (2022 figure: 73%). Meanwhile, the rest 41% was retail lending, in which 80% was mortgages (2022 figure: 84%). Techcombank's corporate loan portfolio is tilted toward financially strong ReCoM developers, reflecting the Bank's dedicated strategy of working primarily with the best-performing developers in Vietnam. To mitigate the concentration risk, the Bank has developed a ReCoM value chain risk management from origination, underwriting, post-control and mitigation steps, and strictly followed the framework. Techcombank has developed approaches across the value chain from large corporate clients to retail clients and strategically focused on quality retail customers to ensure the end-users of these funded projects. By 1H2023, the adjusted NPL reached 1.1%, lower than the industry median figure of 2.6%. At the same time, the Bank's reserve coverage ratio reached 115.8% (2022 figure: 157.3%, 2021 figure: 162.9%), while the industry median level was 61.3% (2022 figure: 69.2%, 2021 figure: 60.9%). Provision costs increased by 111.1% over the same period last year, in line with the growth of problematic loans (defined by non-performing loans plus special mentioned loans). Recoveries fell by 63.1% (y-o-y) to VND 312 billion. Techcombank's credit cost was managed at 0.6% in 1H2023. (2022 figure: 0.3%; 2021 figure: 0.7%) and is estimated to increase close to 1.0% in 2023-2024 and slightly reduced to 0.8% in 2025. Overall, Techcombank has posted resilient performance to the unfavorable market conditions in terms of credit losses and asset quality compared to industry peers. We believe that the Bank's above peer average provision coverage and under control single-party concentration to its biggest corporate group customer under 25% of equity also lessen the risk of deteriorating asset quality.

Techcombank's funding and liquidity profile is assessed to be 'moderate', due to the Bank's above-industry-average reliance on less stable funding sources, which could pose certain funding stability risks. Nevertheless, Techcombank is planning to strengthen its funding base and is expected to continue to benefit from the sticky affluent and mass affluent customer base.

While Techcombank has shown resilience and financial strength in various areas, the high dependence on wholesale funding could introduce considerable risk to the stability of the Bank's funding base, as we view that wholesale funding can be more volatile and susceptible to market fluctuations. As of second-quarter 2023, Techcombank's coverage of stable funding needs by its available stable funding sources (including customer deposits, equity base, and long-term interbank and debt market funding) was at 92.1%, which was lower than the industry average of 101.5%, yet the Bank reported its net stable funding ratio constantly above 100% following Basel III standards. In addition, the Bank's current reliance on less stable funding sources is demonstrated by higher short-term wholesale funding contribution to its funding base over the past few years. As of June-end 2023, this ratio stood at 21.7%, slightly lower than 2022 figure of 22.8%, yet higher than 2021 and 2020 figures of 20.4% and 10.6%, respectively. Techcombank is planning to increase stable fundings via both demand deposits and term deposits products. Regarding term deposits, Techcombank has been issuing Bao Loc Certificate of Deposit (CDs) product that attracted thousands of retail customers and expected to leverage this product in the medium term. With respect to demand deposits, Techcombank is the market leader in terms of demand deposits market share and is expected to maintain this leading position. Though the short-term CASA level recently witnessed a slight decline, in line with the industry trend, reaching 34.8% by 1H2023 (2022 figure: 37.0%; 2021 figure: 50.5%), the Bank's total deposit growth from 4Q2022 to 2Q23 was higher than overall market thanks to the Bank’s strong franchise. We project that Techcombank’s customer deposits (including CDs for retail customers) will continue to account for 65%-75% of the available stable funding over the next two years.

We view that the Bank’s liquidity position is currently manageable. From our assessment, Techcombank’s short-term sources of liquidity is adequate to cover short-term uses. The Bank's liquidity, which is portrayed by the ratio of broad liquid assets to short-term wholesale funding of about 1.2x as of the end of the Q2/2023, is expected to remain relatively stable in the upcoming period. Additionally, higher funding cost within Q3/2022-Q2/2023 was witnessed due to increasing wholesale funding reliance and the shift from demand deposit to longer term deposits. In 2023-2025, we expect that Techcombank will continue to experience similar funding cost levels due to the slow recovery and inflation pressure.

Overall, FiinRatings assesses that higher reliance on less stable funding sources compared to peers is regarded as credit-challenging features to the Bank’s funding stability. Given the Bank’s concentrated loan portfolio and our anticipation of prolonged unfavorable real estate sector and economic slowdown in the medium term, we view Techcombank’s funding and liquidity as moderate and make a one notch downward adjustment from the anchor. We will continue to monitor the Bank’s funding composition and any diversification strategies that can reduce the reliance on wholesale funding.

OUTLOOK, UPGRADE & DOWNGRADE SCENARIOS

The stable outlook for Techcombank reflects our expectation that the Bank will maintain the rating score for the next 12-24 months.

Upgrade Scenario:

Factors that could, individually or collectively, lead to review for positive rating action or upgrade for Techcombank:

- Earnings and capital strengths are retained while the Bank significantly diversifies its loan portfolio away from the current capital-intensive and risky segments;
- Improved funding and liquidity profile, reflected via its stable funding ratio and long-term funding ratio on par or better than industry average.

Downgrade Scenario:

Factors that could, individually or collectively, lead to review for negative rating action or downgrade:

- Earnings are negatively impacted due to (i) lower interest income sources and/or (ii) increasingly unfavorable market conditions that prevent development of fee-income products like IB services and bancassurances;
- Increasing problematic loans result in higher credit costs, therefore straining the Bank’s earnings and capital profile. In addition, the Bank loosens its risk appetite by lending to lower-tier property developers and/or retail customers of less quality;
- Liquidity profile is weakened due to rising drawdown pressure from off-balance sheet credit-linked items.

RATING METHODOLOGY

The rating methodology explains FiinRatings approach to assessing credit risk of companies in Vietnam. This methodology is intended as a general guidance to help companies, investors, and other market participants to understand how FiinRatings looks at quantitative and qualitative factors significant in explaining rating outcomes in general and specific for each sector that we cover.

In addition, certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please follow the link below for the Rating Methodology and Related Criteria:

- Rating methodology for banks in Vietnam

Or refer to the following link for more details on the general ranking methodology:

- General Rating methodology

CREDIT RATING HISTORY

Company Name	Rating Type	Issue Date	Rating	Outlook
Vietnam Technological and Commercial Joint Stock Bank	Issuer Rating – Initial	01 November 2023	A+	Stable

RATING SCALE AND DEFINITION

We employ below rating scale in assigning ratings for all issuers across industries and sectors that we cover in Vietnam. The rating scale used by FiinRatings is the national scale, therefore, it must not be equated with or represented as a rating on the scale used by any other rating agencies.

Definition and explanation	Rating scales
Group 1: **Extremely strong** capacity to meet financial obligation.	**AAA**
Group 2: **Very strong** capacity to meet financial obligation.	**AA+**
	AA
	AA-
Group 3: **Strong capacity** to meet financial obligations but somewhat susceptible to adverse economic conditions and changes in circumstances.	**A+**
	A
	A-
Group 4: **Adequate capacity** to meet financial commitments but more vulnerable to adverse developments and economic conditions.	**BBB+**
	BBB
	BBB-
Group 5: **Moderate capacity** to meet financial obligations but less vulnerable than other speculative issuers.	**BB+**
	BB
	BB-
Group 6: **Weak capacity** to meet financial obligations. Sensitive to business, financial and economic conditions. High risk.	**B+**
	B
	B-
Group 7: **Very weak** capability or very likely to get into default. Very sensitive to business, financial and economic conditions. Substantial risk.	**CCC+**
	CCC
	CCC-
	CC
	C
Group 8: **Default**. Payments on an obligation are not made on the date due or the issuer becomes insolvent. The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of similar action.	**SD, D**

OWNERSHIP DISCLOSURE AND STATEMENTS

At the time of the publication, the following information is provided as required by current regulations and as a part of our compliance policies in providing credit ratings:

- Techcombank's percentage of equity ownership at FiinRatings: none**
- FiinRatings' percentage of equity ownership at Techcombank: none
- FiinRatings' other employee percentage of equity ownership at Techcombank: none
- Techcombank's investment value of bond(s) issued by FiinRatings: none
- FiinRatings' investment value of bond(s) issued by Techcombank: none
- Techcombank's investment value of other debt instruments issued by FiinRatings: none
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FiinRatings aforementioned includes FiinRatings JSC., its directors, Credit Rating Committee members, and analysts of FiinRatings engaged in this rating action. The information above was examined during client acceptance process and before the signing date of Credit Rating Agreement with the Company and was updated on the issue date of this report.

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FIINRATINGS JOINT STOCK COMPANY

Public Credit Rating Announcement No.: 01-C26-2023

Nguyen Quang Thuan, FCCA

Chief Executive Officer

Hanoi, 01 November 2023

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