Rating Update:

# Vietnam Technological and Commercial Joint Stock Bank ("Techcombank") Upgraded to 'AA-' on Improved Funding and Liquidity; Outlook 'Stable'

**Hanoi, 02 August 2024**


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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, 02 August 2024**

FiinRatings is pleased to announce that it has upgraded the Long-Term Issuer Credit Rating on Vietnam Technological and Commercial Joint Stock Bank ("Techcombank" or "the Bank") to **'AA-'** from **'A+'**, while maintaining the Bank's '**stable**' rating outlook.

## RATING SUMMARY

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

## RATING RATIONALE

The issuer rating on Techcombank revised to '**AA-**' from previous '**A+**' with a '**stable'** rating outlook reflects our expectation that the Bank will continue to retain its solid business position, robust capital and earnings profile, while maintaining the current adequate risk position even under some pressure from its real estate exposure over the next 24 months. Additionally, the one-notch upward adjustment is granted to Techcombank's funding and liquidity profile to reflect that the Bank has shown certain improvements in its stable funding sources whereas its liquidity remains assured through our stringent stress testing scenario.

Considering the economic risk and industry risk faced by Vietnam's 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 worsening in asset performance, which in turns impacts commercial banks' capital and earnings.

**We maintain our assessment of Techcombank's business position as 'strong' to confirm our view that the Bank's credit profile will continue to be supported by its solid position among leading and systemically important private commercial banks in Vietnam**. The Bank's solid position is evidenced by its continuing increasing market share in loans and deposits, and strong growth prospects. As of first quarter-end 2024, Techcombank's scale stably belongs to the top-tier private banking group, with its market share by gross loan book (VND 559.3 trn) and by customer deposits (VND 458.0 trn) respectively ranked sixth and seventh out of 28 active domestic commercial banks in Vietnam. The strong growth prospects of Techcombank continue to be supported by its business stability and well-diversified business model. We view that Techcombank's business stability will likely continue to benefit from the long-term housing demand, the Bank's ongoing growth momentum under customer-centric strategies, and long-standing partnerships with Vietnam's market leaders in real estate, construction, construction material related, and FMCGs sectors. The Bank within 2023-2024 has further accelerated its customer base and securing customer loyalty by launching engagement programs, while offering other financial products and services via subsidiaries known as TCBS – Techcom Securities (top 3 largest brokerage securities companies on HOSE, second on HNX) and Techcom Capital (the leading bond fund management in Vietnam).

Techcombank has consistently recorded its contribution of net fee and commission income to total operating income higher than the industry average, which reached 19.9% in 2Q2024 and maintained the leading position among mid and large sized commercial banks in Vietnam. Despite being affected by the recently effective regulations on accounting for L/C products since 01 July 2024, the portion of net fee and commission income is expected to stay in the industry top-tier level thanks to active investment banking and other fee-income generating businesses at the Bank. Additionally, the diversification efforts of the Bank is also witnessed in its corporate loan books, with corporate lending into non-real estate sector becoming the credit growth driver within 2023-2024 and expected to be the Bank's top prioritized strategies in the medium term. Specifically, as of second quarter-end 2024, sectors including (i) FMCGs, Retail, Logistics and (ii) Utilities & Telco are two sectorial groups that recorded strong y-o-y credit growth at Techcombank of 46% and 54%, respectively, with progressively rising loan book contribution to around 19%-20% (2023 figure: 14-16%). Meanwhile, the key driver in retail lending is still mortgages (with secondary mortgages in the rise), which saw a decline in portion, yet continued to account for more than 70% of the Bank's retail loan book. FiinRatings acknowledges that Techcombank has continued to leverage its core strength in customer base and has shown healthier expansions in its lending strategies; these help to support the Bank's business stability and diversity.

**Capital and earnings continue to be the key credit strength of Techcombank, proven by the resilience of the Bank's capital base while profitability remains on track and above the industry average.** Techcombank's capital base remains resilient, demonstrated by the capital adequacy ratios being kept at the industry top-tier level even paying cash dividend in 1H2024. Techcombank's CAR reached 14.5%, higher than the industry average of 12%, as of second quarter-end 2024. At the same time, although the Bank's leverage level slightly increased to 6.6 times (2Q2023 figure: 6.0 times) due to the rise in tier-2 funding sources, it still maintains at the lowest among the banking sector in Vietnam. Also, the robust capital base, in which tier-1 capital accounted for 98%, is strongly supported by the conservative internal monitoring by management team under normal and stress cases. Based on Techcombank's having strictly monitored CAR as a key operating target and setting internal trigger levels, we expect the Bank will be able to maintain its CAR above the industry average and around 14-15% within 2024-2025 under our base-case scenario.

Techcombank's earnings profile remains above the industry average thanks to its strong retail franchise and continued improvement in net fee income, driven by the recovery in investment banking business and fees from cash settlement and L/C products. While earnings metrics of Techcombank has maintained above industry average, it is noted that the Bank's NIM witnessed a slight recovery, reaching 4.4% and stayed at the top-tier NIM level in 1H2024 (in comparison to industry average figure of 3.2%). To achieve this, Techcombank has actively maintained low cost of funds via launching several engagement programs to attract more customers and secure customer loyalty while optimizing its funding mix. This helps reduce the Bank's average cost of funds from 4.7% in 2023 to 3.8% in 1H2024 despite recent interest rate upticks and higher competition in lending rates from industry peers within the period. Additionally, the Bank's profitability is still strongly supported by the retail customer base of affluent and mass-affluent individuals, contributing more than half of the total net interest income, and close to 50% of the total operating income. We expect that Techcombank will be able to maintain NIM around 4.3-4.4%, which is top-tier level, within 2024-2025 under our base-case scenario, in which the Bank's earnings are slightly impacted by the moderate rise in non-performing loans and funding costs. Meanwhile, under the stress-testing scenario, where we put stronger weights on rising problematic loans (group 2 to group 5) and funding costs impacted by its single-name or sector concentrations risk, Techcombank's NIM is estimated to be narrower around 3.5% -3.8%, which is still above the industry average and belongs to the NIM level of banks in [A]-rating category according to our historical data.

**Techcombank's risk position is reaffirmed at the 'Adequate' level, supported by the Bank's prudent risk management and recent diversification efforts, which are expected to continue to mitigate its material concentrations in real estate lending.** As of second quarter-end 2024, Techcombank's credit growth (including corporate bonds) recovered to 25.1% y-o-y (year-end 2023 figure: 21.6%), largely driven by the rise of corporate lending (32% y-o-y growth and currently accounts 61% of the Bank's total credit balance). Also, within the 2023-1H2024 period, diversification into non-ReCoM sector within the lending book is witnessed, though still at a slow pace. Real estate lending steadily declined and accounted for 59% of corporate lending, whereas the portion of mortgage lending also decreased to 73% of retail lending as of second quarter-end 2024. The rise in corporate lending is driven by the healthier expansion towards FMCG, Retail, Logistics and Utilities and Telco sectors, which are also the primary risk appetite target set by Techcombank in the medium term.

With the diversification efforts and prudent risk management, Techcombank's assets quality metrics maintain considerably better than industry average, and quite in line with our initial base-case forecasts. Specifically, Techcombank's NPL ratio increased slightly but hover around 1.2% while the problematic loans also saw a minor rise but stayed just above 2% within 2023-1H2024; both figures are within the Bank's target range. Techcombank's NPLs are driven by the NPLs in retail lending, which steadily grew to 2.75% in 2Q2024. Meanwhile, the delinquency rate in corporate lending witnessed an opposite trend with the segment's NPL ratio decreasing to 0.32% in 2Q2024, down from the peak of 0.6% in 3Q2023. This aligns with industry trends, reflecting ongoing challenges in the retail loan segment. In response to increasing pressure on asset quality, Techcombank has significantly written off bad debts in 2023 and 1H2024, with the net write-offs ratio reaching 0.63% in 1H2024 (2023 figure: 0.39%). In 1H2024, the Bank's reserve coverage ratio decreased to 101.1% (2023 figure: 102.1%; 2022 figure: 157.3%) and remained well above the industry median of 76.7%.

Under our base case scenario, with the key assumption that Techcombank's key client and its related entities could face some financial difficulties in the next two years in the context of slow economic recovery, hence moderately impact the quality of total exposure at Techcombank, the Bank is still well-positioned to maintain an adequate risk profile. This is reflected via our estimates of base-case NPL ratio to remain under 2% and its reserve coverage ratio to stay at least 100%, with a manageable credit cost of around 1%. Additionally, as mentioned previously, we believe that the moderate stress condition is expected not to significantly impact the Bank's strong capital and earnings profile.

Meanwhile, we believe Techcombank's asset quality will show some deteriorations under our extreme stress-testing conditions, such as prolonged challenging macroeconomic conditions combined with high probability of default from the Bank's key client and its related entities. In this stress scenario, Techcombank's problem loan ratio could rise to the levels seen at some of our rated banks, who belong to [A]-category based on our historical data and are given one-notch downwards for their risk position. We expect Techcombank's response to these adverse conditions via aggressively writing off bad debts, similar to the Bank's reactions in 2023 and 1H2024 and decreasing its exposure or refraining from further credit extension to defaulted entities. Additionally, Techcombank's earnings is expected to be negatively impacted for one to two years to maintain an adequate reserve coverage ratio by significantly increasing its loan loss provisions.

**In this surveillance, Techcombank's funding and liquidity has shown certain improvements compared to that during our initial rating; this is demonstrated via the Bank's continuous efforts to increase stable funding sources while the liquidity profile remains assured through FiinRatings' stress testing scenario. Therefore, we have revised to make no adjustment for this modifier in this surveillance (instead of one-notch adjustment downward in our initial rating) to reflect our forward-looking view of Techcombank's improvement in funding and liquidity resilience.**

In order to increase stable funding sources, Techcombank is currently enhancing its funding from retail customer deposits while continuing to leverage its strength in raising offshore syndicated loans, thus increasing the proportion of long-term wholesale funding and other long-term borrowings. As of 2Q2024, 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) has improved and approached the industry average compared to the same period in 2023. This is reflected via Techcombank's stable funding ratio (FiinRatings' adjusted) reached 96.7% in 2Q2024 (2Q2023 figure: 92.1%), close to the industry average of 97.9% in 2Q2024. Furthermore, the Net Stable Funding Ratio (NSFR) according to Basel III standards, which was monitored closely by the Bank, has consistently remained above 100%. This is due to Techcombank's proactive development of products and features that enhance customer engagement, increase deposit demand at the Bank, and strengthen its capacity to raise foreign and debt-market funding, resulting in growth in available stable funding components. Specifically, by the end of 2Q2024:

- Customer deposits (excluding margin deposits) at Techcombank increased by 28.8% compared to the end of 2Q2023, reaching above 475 trillion VND, and stably maintaining around 53% of the Bank's funding base. Additionally, Techcombank has been implementing the CD Bao Loc (CDBL) product, a term deposit-like product with floating interest rates, attracting more personal and corporate deposits. Accounting for the CDBL's balance of nearly 58 trillion VND by the end of Q2/2024, the proportion of customer deposits to total equity and funding base was adjusted to 59.4%. We estimate the contribution of customer deposits in Techcombank's available stable funding sources will continue to hover around 65%-75% over the next two years.
- Techcombank's tangible common equity at the end of Q2/2024 also recorded a growth of 12.9% compared to the end of Q2/2023, maintaining 15% of the Bank's total funding base. This is attributed to the Bank's continued top-tier profitability, enhancing its capital buffer, even after paying cash dividends at the beginning of 2024.

- Techcombank's long-term wholesale funding and other long-term debts also gradually increased their contribution to the available stable funding sources, reaching 17% by the end of Q2/2024 (Q2/2023: 14%). Although Techcombank still shows higher dependency on wholesale funding compared to the industry average, by the end of 2Q2024, the bank's short-term wholesale funding contribution to its funding base had decreased to 19% (2Q2023: 21.7%), slightly below the industry average figure of around 20%. Moreover, Techcombank's long-term wholesale funding grew due to successful long-term bond issuances in 2023-1H2024, alongside continuous offshore syndicated funding with 3–5-year terms starting from 2020. In the upcoming period, leveraging its strength in raising foreign capital, Techcombank is planning to issue additional green bonds, diversifying its long-term wholesale funding and supporting the improvement of its stable funding ratio.

In the stress testing scenario for Techcombank, combining with the assumptions about asset quality deterioration, credit costs, and increased funding costs, we also assume extreme declines in the Bank's customer deposits and interbank borrowing accessibilities, by applying the two largest drops recorded over 2010-2024 for Vietnam's commercial banks. In the stress scenario regarding bad debt pressures and limited funding sources, we assess that Techcombank's short-term liquidity sources remain adequately sufficient to meet short-term capital needs, reflected by the ratio of broad liquid assets to short-term wholesale funding fluctuating around 1.0-1.1 times during 2024-2025. Additionally, Techcombank's stable funding ratio (FiinRatings-adjusted) under this stress test scenario shows a slight decline, estimated to be around 91-93% during 2024-2025, a noteworthy level but not reaching our risk threshold.

Overall, FiinRatings evaluates that Techcombank's funding and liquidity profile shows certain improvements, given the Bank's loan portfolio still being highly concentrated in the real estate and construction sectors, while efforts to diversify the portfolio and reduce concentration risk are progressing slowly, and economic growth has not yet fully recovered in 2024. Additionally, the Bank's ability to withstand and maintain liquidity remains assured amidst increasing bad debt pressures from the concentrated loan portfolio and reduced funding accessibility pressures. The characteristics of funding structure and strategies to diversify and reduce dependence on wholesale funding, along with the ability to mobilize under stress conditions to maintain liquidity position, are factors that we will continue to monitor and update in Techcombank's upcoming surveillance.

# OUTLOOK, UPGRADE & DOWNGRADE SCENARIOS

The stable outlook for Techcombank reflects our expectation that the Bank will likely 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 at top-of-the-industry level 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 considerably better than industry average;
- When we upgrade the banking industry anchor to reflect better economic conditions and risks for Vietnam banking industry.

### Downgrade Scenario:

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

- 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 lower quality;
- The Bank's capitalization deteriorates significantly, for example due to the materialization of its single-name or sector concentrations risk, with the CAR declining below the industry average;
- Earnings are considerably 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;
- When we believe the Bank can face a near-term liquidity crisis, reflected via:
    - (i) lower stable funding sources (for example: weakening ability to access offshore long-term wholesale funding while rising funding cost; falling customer deposits due to confidence-sensitive events); and/or
    - (ii) funding uses exceeding funding sources due to the default/delinquencies from the Bank's single-name or sector concentrations and/or drawdown pressure from off-balance sheet credit-linked items.
- When we downgrade the banking industry anchor to reflect the less stable economic conditions and rising risks for Vietnam banking industry.

# 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 |
| Vietnam Technological and Commercial Joint Stock Bank | Issuer Rating – Surveillance | 02 August 2024 | AA- | 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 JOINT STOCK COMPANY**

Public Credit Rating Announcement No.: 02-C26-2024

Nguyen Quang Thuan, FCCA

Chief Executive Officer

Hanoi, 02 August 2024

## CONTACT US

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