Initial Rating Public Announcement:

MB Shinsei Finance Limited Liability Company (‘Mcredit’)

Long-term Issuer Credit Rating*: A-

Rating Outlook: Stable

Hanoi, 20 June 2024

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** This rating is an Issuer Credit Rating (ICR). An ICR reflects our view of the senior unsecured credit rating of an issuer and is not specific to a debt instrument such as bond that it may issue.*

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.

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

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Hanoi, 20 June 2024

FiinRatings is pleased to announce that it has assigned a first-time Long-Term Issuer Credit Rating of **'A-'** to MB Shinsei Finance Limited Liability Company ("Mcredit" or "the Company") with '**Stable**' rating outlook.

RATING SUMMARY

Criteria	Assessment
Non-bank financial company Anchor	**bbb-**
Modifiers:	
Business Position	*+1*
Capital & Earnings	*-1*
Risk Position	-1
Funding & Liquidity	*+1*
Stand-alone Credit Profile	**bbb-**
External Influence	**+3**
Issuer Credit Rating	**A-**
Outlook	**Stable**

RATING RATIONALE

Mcredit's **'A-'** Issuer Credit Rating ("ICR") with a **'Stable'** outlook reflects FiinRatings' opinion that the Company's credit profile will remain stable over the next 24 months, thanks to benefiting from the support of two major shareholders including Military Commercial Joint Stock Bank ("MBBank") and SBI Shinsei Bank ("SBISB"). In addition to its relatively solid business position being among the top in the consumer finance industry, Mcredit's capital structure is expected to continue to benefit from an increase in stable funding sources, which will help support the Company's credit growth and stabilize its liquidity position. However, we believe that the Company's risk appetite is relatively high; this is reflected by its rapid credit growth strategy in recent years during which the economy as well as the consumer finance industry faced lackluster growth and has not shown clear signs of recovery. This also reflects on the Company's asset quality (shown by the significant increase in Special mention loans in 2023), of which problems have not materialized in the short term, but will face pressure in the next 12-18 months, especially in the context that Circular 02 on debt restructuring may not get extended to 2025.

FiinRatings has been applying an anchor of **'bbb-'** to non-bank financial companies operating in Vietnam, considering the specific economic and industry risk faced by Vietnam's consumer finance sector. FiinRatings believes that consumer finance companies will continue to face challenges in credit growth, while asset quality will still be under pressure in the next 12-18 months while the economy shows unclear signs of recovery. However, in the context that the consumer finance industry is still one of interest and receiving policy support from regulatory bodies, we expect that the asset quality of consumer finance companies will recover in line with the economic cycle and competitive advantage will return to businesses with strong business position like Mcredit. These factors will be the premise for credit growth and thereby improving the industry's profitability.

In addition to the modifiers assessment, **FiinRatings believes that the most significant strength of Mcredit's credit profile comes from the influence and supports provided by its two strategic shareholders, Military Commercial Joint Stock Bank (MBBank) and SBI Shinsei Bank (SBISB)**. Consequently, FiinRatings has upgraded Mcredit's standalone credit profile by three (03) notches to arrive at the issuer credit rating. Our assessment is based on key points regarding (i) the importance of Mcredit in the medium-term development strategy of MBBank as well as of the MB Group ecosystem; (ii) commitments and support from MB Group and SBISB in terms of finance, personnel, business, operations, etc.; and (iii) the relatively high creditworthiness of MBBank and SBISB, both of whom have the capacity to support Mcredit in unexpected credit events; those are the positive factors that impact our assessment of Mcredit's credit profile.

The "Strong" business position reflects Mcredit's solid position among the leading consumer finance companies in Vietnam, benefiting from being part of MBBank's ecosystem as well as from a diverse and stable business model, supported by relatively prudent management and close oversight from the Group. As of the end of 2023, in terms of consumer finance loan portfolio size, Mcredit is one of the two largest NBFCs in Vietnam, with a gross customer loan book recorded at VND 21,388.4 billion (the Company ranked third in the industry during the period 2021-2022). Mcredit also demonstrated high growth among NBFCs, with a compound annual growth rate (CAGR) of 33.2% over the past five years (2019-2023), higher than the industry average of 19.7%.

- In addition to traditional lending activities, Mcredit's non-interest income has also shown an upward trend in recent years, driven largely by fee-based income from insurance commissions (in collaboration with two insurance companies within the Group, MIC and MB Ageas Life), contributing 14.5% to the Company's operating income in 2023. Furthermore, Mcredit is currently utilizing a suitable customer segment from the MB Group ecosystem, collaborating with related entities to enhance cross-selling of interconnected financial products and services, including non-credit products. This will ensure a certain level of non-interest income and maintain certain level of diversification for the Company. We also assess the impact of Mcredit's management and governance on the Company's business position to be "Adequate", based on the consistent business performance in line with the targets set by the leadership and management, with appropriate adjustments in response to market conditions. Additionally, the experienced senior leadership and management team have effectively and prudently maintained operations over the past years.

Mcredit's Capital and Earnings modifier is assessed to be "Moderate" and therefore is adjusted down by one notch, taking into account the Company's moderate capital buffer in relative to the consumer finance industry, while its profitability has declined recently, even though this is somewhat in line with the overall downward trend in the sector. Mcredit's ability to improve its gearing level and capital adequacy while maintaining profitability under the negative impact of rising provisioning costs will be among the monitoring factors in our rating surveillance.

- **We assess the capital structure of Mcredit to be 'Moderate' considering the Company's moderate capital buffer compared to similarly sized companies**, reflected by a financial leverage level which has been consistently higher than the industry median, with a capital adequacy ratio (CAR) lower than the industry median during the 2019-2023 period. Nevertheless, the Company's capital has been gradually improving recently thanks to annual capital infusion from the parent banks and initiatives to reduce the proportion of risk-weighted assets in its asset structure. Over the past five years, Mcredit's leverage ratio has averaged around 8.0 times, significantly higher than the industry average of 3.8 times. Meanwhile, the Company's CAR is still lower than the industry median despite recent improvements (Mcredit: 14.0%, industry median: 20.8% as of 31/12/2023). However, profits being retained and low dividend pressure from the two shareholders MBBank and SBISB also help enhance the Company's capital base. In addition, the proportion of capital mobilized from the two strategic shareholders (including both equity and debt) regularly accounts for at least 35.0% of the Company's funding base; we view that it helps mitigate the risks from the Company's high financial leverage thanks to the flexible and stable nature of this funding source (including commitments to ensure ownership ratio and maintain or increase credit limits in the medium to long term).
- **Mcredit's profitability trended downward in recent times due to high provisioning cost, which has been an effect of weakening of asset quality**. **Nevertheless, we still assess the Company's earnings to be 'Adequate'** taking into account that the Company has somewhat maintained some profitability during a significant downturn period in the consumer finance sector, in which many companies has experienced profit declines or net losses. Specifically, Mcredit's ROE and ROA in 2023 were recorded at 8.2% and 0.9%, respectively, a significant decrease from previous years (2022: ROE at 40.6%; ROA at 4.2%); however, these ratios are still higher than the median in the consumer finance sector (ROE: 3.5%, ROA: -0.6%). This is due to the Company optimizing its low financing cost advantage from strategic shareholders and improving the cost-to-income ratio (CIR) in recent times through digital transformation and leveraging the parent bank's ecosystem in operations and business. Although Mcredit still maintains better profitability than the consumer finance sector average, the recent trend of increasing problematic loan ratios (loans from group 2 to group 5) could lead to a sharp rise in provisioning costs, thereby putting pressure on the Company's ability to maintain profitability, and potentially impacting capital buffers.

FiinRatings assesses Mcredit's risk position to be "Moderate" and has adjusted the modifier by one notch downward, factoring in the recent increase in problematic loan (including non-performing loans (NPL) and group 2 loans), as well as restructured loans under Circular 02/2023, while the coverage for these loan categories has consistently remained lower than the industry median. Additionally, the increased risk appetite in the Company's rapid credit growth strategy during a slow economic recovery could affect its asset quality and credit profile in the medium and long term. However, we also acknowledge that these risks are somewhat controlled by a comprehensive risk management process with an appropriate governance structure. Moreover, asset quality and credit costs have been relatively stable under challenging business conditions compared to the industry average.

- Although Mcredit has maintained relatively stable asset quality and credit costs compared to the industry average under challenging business conditions, the increase in Non-Performing Loans (NPL) and Problematic Loans (including NPL and loans in group 2), along with restructured loans under Circular 02/2023, combined with a decrease in coverage ratios for these loan categories in recent times, could negatively impact the Company's asset quality. From 2022 to 2023, Mcredit's NPL ratio has trended upward, in line with the consumer finance industry. Specifically, Mcredit's NPL ratio was 7.8% in 2023 (2022: 6.5%), and the Problematic Loans ratio in 2023 was 34.4% (2022: 28.2%); with NPLs primarily concentrated in the cash loan segment. The quality of the loan portfolio deteriorated in 2023 due to (i) customers' reduced ability to repay debts (unemployment, decreased income amid global economic recession), and (ii) a higher NPL ratio as a result of CIC adjustments (customers classified into higher risk categories at other financial companies getting reflected in Mcredit's financial statements). Moreover, the rise in problematic loan ratio is followed by a decrease in coverage ratio for this loan group, following industry trend. We believe this could lead to a sudden increase in provisioning costs in the future, thereby affecting both profitability and the quality of the Company's asset portfolio (Mcredit's coverage ratio for Problematic Loans in 2023 was 27.0%, lower than the industry median figure of 33.9% at the same time).
- FiinRatings acknowledges that these risks have been partially mitigated by the Company's comprehensive risk management processes supported by a dedicated governance structure. Regarding its credit assessment procedures, the Company is currently developing a credit scoring model with customer data verified from multiple sources such as CIC reports and PCB. Currently, the Company is refining and upgrading the credit scoring model to enhance the credit assessment process and ensure better credit quality of its portfolio. Additionally, the debt collection process is also being improved and gradually finalized through changes such as making heavier use of its internal debt collection team to increase efficiency in management and recovery quality, implementing a "humane debt recovery" approach (offering interest and fee reductions to customers), developing new tools for recovery (systems, applications, etc.), and conducting debt recovery over specific periods with specific methods. As a result, despite the decrease in its debt recovery rate amidst the industry's headwind, Mcredit still maintains a relatively higher recovery rate. Specifically, Mcredit's average 5-year recovery rate from 2019 to 2023 was 8.8% (4.4% in 2023), whereas the industry average over the same period was 5.5% (3.0% in 2023).

Mcredit's funding and liquidity modifier is assessed to be "Strong", driven by its superior ability to raise funds and demonstrated by the diversity of its funding sources (equity capital, borrowings, deposits from strategic shareholders and other financial institutions, issuance of valuable paper, customer deposits) with lower funding costs compared to the industry average. The Company's funding profile is expected to continue improving in the near future, contributing to maintaining liquidity stability for the Company. Additionally, we believe that Mcredit's liquidity position will continue to be supported by its strong funding capacity and the diversity of its funding structure, along with an appropriate liquidity contingency plan tailored to the Company's operational needs.

- From 2019 to 2023, Mcredit has demonstrated an increase in the proportion of stable funding and diversified its funding sources. This strategic shift is reflected in the strong increase in the proportion of customer deposits in liabilities in recent years (2023: 18.3%, 2022: 16.7%, 2021: 12.2%), while the wholesale funding ratio (Interbank borrowings & valuable paper issuance /total liabilities) has gradually declined from 94.3% in 2021 to 88.8% in 2022 and further to 77.1% in 2023. Both ratios for the Company have shown an improving trend over the years and consistently maintained at levels better than the consumer finance industry average during 2019-2023. We expect the trend of increasing customer deposits to continue in the upcoming periods thanks to

Mcredit's strategic position within the MB Group, as well as the advantages from the Group's ecosystem (in terms of competitive interest rates and bundled products within the Group). In the meantime, Mcredit will flexibly adjust its wholesale funding strategy to be in line with capital market conditions. However, the Company will prioritize increasing stable funding sources in the coming period. Additionally, stable funding support (equity capital and debt capital) from the two major shareholders with strong credit profiles also contributes to increased stability in Mcredit's funding profile. These advantages in stable funding help Mcredit achieve lower funding costs compared to the industry average (Mcredit's average funding cost was 4.8% during 2019-2023, while the industry average was 6.9%).

- **Mcredit's liquidity position is strongly supported by its solid funding capabilities and the diversity in its capital structure, coupled with an appropriate liquidity contingency plan aligned with the Company's operational needs.** During the period of 2020-2023, Mcredit's liquidity position has witnessed significant improvements, primarily driven by the Company's implementation of a long-term strategy and restructuring of its funding sources. During late 2021 and early 2022, Mcredit faced significant pressure on interest rates and market liquidity. To manage these challenges, the Company proactively extended the maturity on its securities to stabilize its funding sources and optimize its funding cost. FiinRatings views these policies as appropriate, especially given the intense liquidity pressures in the financial market at the end of 2022. Moreover, in addition to valuable papers, other funding sources of Mcredit are also abundant and stable, further alleviating short-term liquidity pressures. In terms of liquid asset structure, Mcredit has demonstrated a growth in highly liquid assets over the past two years, notably in deposits at other credit institutions (totaling VND 2,300 billion by the end of 2023, with VND 993 billion in demand deposits) and available-for-sales securities (valued at VND 962 billion by the end of 2023, comprised 100% of certificates of deposit from credit institutions). This is evidenced by an improved liquid assets/ wholesale funding ratio during 2022-2023 (average of 18%), compared to 2019-2021 (average of 7%). The coverage level of these highly liquid assets against Mcredit's debt obligations is equivalent to industry leaders in recent years.

(Note: Consumer finance industry median figures are compiled from FiinRatings data sources for 16 consumer finance companies operating in the Vietnamese market)

OUTLOOK, UPGRADE & DOWNGRADE SCENARIOS

The stable outlook for Mcredit reflects our expectation that the Company will maintain its issuer credit rating for the next 24 months.

Upgrade Scenarios:

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

- Asset quality (including problematic loans and restructured loans) improves significantly compared to the present;
- Capital base improves through continued increase in equity capital to enhance capital buffers while gearing level decreases towards industry average levels (~3.7 times by the end of 2023) with adquate credit growth while maintaining profitability at levels similar to pre-2023 periods.

Downgrade Scenarios:

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

- Mcredit fails to maintain and loses its position as one of the top 4 industry leaders (indicated by market share in total outstanding loans), and/or loses its position as the third largest player in consumer finance (reflected in consumer finance loan book size);
- Profitability declines due to deteriorating loan quality amidst negative impacts from the consumer finance sector;
- Influences, support, and impacts from MBBank and SBISB are negatively adjusted, or the credit quality of two major shareholder declines significantly.

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 non-bank finance companies in Vietnam
- Methodology for notching up the standalone ratings of subsidiaries for group support

CREDIT RATING HISTORY

Company Name	Rating Type	Issue Date	Rating	Outlook
MB Shinsei Finance Limited Liability Company	Issuer Rating – Initial	20 June 2024	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:

- Mcredit's percentage of equity ownership at FiinRatings: none**
- FiinRatings' percentage of equity ownership at Mcredit: none
- FiinRatings' other employee percentage of equity ownership at Mcredit: none
- Mcredit's investment value of bond(s) issued by FiinRatings: none
- FiinRatings' investment value of bond(s) issued by Mcredit: none
- Mcredit's investment value of other debt instruments issued by FiinRatings: none
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FIINRATINGS JOINT STOCK COMPANY

Public Credit Rating Announcement No.: 01-C41-2024

Nguyen Quang Thuan, FCCA
Chief Executive Officer
Hanoi, 20 June 2024

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