Initial Rating Public Announcement:

Ho Chi Minh City Development Joint Stock Commercial Bank (“HDBank”)

Long-term Issuer Credit Rating*: A

Rating Outlook: Stable

Hanoi, 29 March 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.*

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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, 29 March 2024

FiinRatings is pleased to announce that it has assigned a first-time Long-Term Issuer Credit Rating of **'A'** to Ho Chi Minh City Development Joint Stock Commercial Bank ("HDBank" or "the Bank") with '**Stable**' rating outlook.

RATING SUMMARY

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

RATING RATIONALE

HDBank's **'A'** Issuer Credit Rating ("ICR") with a **'Stable'** outlook reflects FiinRatings' opinion that the Bank's credit profile will remain stable over the next 24 months, supported by its strong business position, stable capital profile, and relatively good profitability. Additionally, HDBank's funding ability and liquidity position are also expected to continue to benefit from future increase in stable funding sources, which will further facilitate credit growth and liquidity stability. On the other hand, we note that the Bank's fairly high risk appetite, reflected by recent rapid credit growth in both on-balance sheet and off-balance sheet (in the context of a slow economic recovery), as well as the mandatory transfer of a weak bank in the near future could affect HDBank's asset quality and credit profile in the medium and long term.

FiinRatings has been applying an anchor of **'a-'** to commercial banks operating in Vietnam, considering the economic risk and industry risk faced by Vietnam's commercial banking sector. Overall, while there are certain pressures on asset quality, we believe that the credit quality outlook for Vietnamese commercial banks will remain relatively stable over the next 12-24 months, supported by government policies that have been implemented, as well as by expectations of economic recovery in the medium term. These factors will also help reduce the challenges in credit growth, thereby partly improving commercial banks' profitability. Additionally, in 2024, a notable trend of commercial banks focusing on raising tier-2 capital this year can support the banks maintain relatively stable funding at decent cost, therefore help improve their creditworthiness.

The "Strong" business position reflects HDBank's solid position among the leading private commercial banks in Vietnam. The Bank's ecosystem includes several well-known companies; its business model is highly diversed with certain level of stability, supported by relatively prudent management. As of year-end 2023, HDBank ranks 10th among the large commercial banks in Vietnam in terms of scale, with 343.4 trillion VND in gross customer loans and 370.8 trillion VND in customer deposits. HDBank also demonstrates high growth within the private banks group, with a 5-year compound annual loan growth rate (CARG) of 23.0%, higher than the industry average of 16.5%. The Bank targets annual growth of 23-25% in the period 2024-2025, which is higher than the sector target (set by the State Bank of Vietnam) of 14-15%. FiinRatings believes that this growth rate is historically consistent and is relatively achievable, given the market's gradual recovery as well as HDBank's mandatory transfer of a bank in the upcoming years.

Additionally, HDBank leverages its ecosystem by maintaining long-term partnerships with major enterprises in various sectors across Vietnam, such as Vietjet Aviation Corporation (aviation), Sovico Group (real estate-finance-energy), HD Saison Finance Company (consumer finance), and HD Securities Company (securities-finance) in the near future.

Those partnerships enable the Bank to expand its customer base, develop existing products and services, as well as enhance cross-selling through the strategic partners' customer networks and branches. In addition, concentrating on value chain credit is a key focus of HDBank's growth strategy, with the Bank focusing on anchor enterprises as a basis for deploying credit and cross-selling activities to suppliers and end-users. This strategy allows HDBank to tap deeper into the customer base and mitigate the concentration risk of lending only to those anchors.

In terms of business diversification, although HDBank's non-interest income ratio is below the industry median, FiinRatings believes that the Bank has significant room for growth, thus further solidify its business stability (non-interest incomes include insurance, payments, and foreign exchange trading). Moreover, the Bank is increasing the diversification of its revenue structure as well as the core diversity of the product and service, both in credit and non-credit products. In traditional credit activities, HDBank has achieved rather high diversification by evenly distributing its credit portfolio across different sectors, such as agriculture, real estate, construction, manufacturing & business, FMCG, consumer loans, and pharmaceuticals. At the same time, HDBank is strengthening its lending along the value chain to optimize profits and minimize risks. The UPAS L/C (Usance Payable at Sight Letter of Credit) activity contributed 6% of interest income in 2023 and has been boosted recently to support the import-export activities for manufacturing, trade and service customers; this segment helps optimize the Bank's capital resources as well as supplement credit activities for customers. Furthermore, HDBank’s consumer finance subsidiary, HDSaison, also expands the Bank’s customer base by targeting underbanked and low-income individuals. Although HDSaison’s customer loans only accounted for about 5% of total outstanding loan book of HDBank at the end of 2023, it has contributed up to 22% of HDBank's net interest income.

Regarding non-credit financial products, HDBank has built a comprehensive financial ecosystem with complementary products and services such as insurance, investment funds, securities, bond collection and payment services, and electronic payment services. This allows customers to easily access different financial services on the same platform, creating convenience and strengthening the comprehensiveness of the products and services. Furthermore, HDBank’s plan to acquire 30% of HD Securities Company (expected to take effect in 2024) will help the Bank complete its ecosystem, increase revenue sources and further enhance its business position. We assess the impact of HDBank's Board of Directors and Management on the Bank's business position as "Adequate" since its historical business results usually meet in accordance with the Bank's plan, and the experienced senior management team has maintained effective and prudent operations over the years.

FiinRatings believes that HDBank's strong capital structure is one of the Bank’s key credit strengths, supported by good profitability on a relatively stable funding base. As of year-end 2023, HDBank's reported capital adequacy ratio (CAR) stood at 12.6%, higher than same figure of other private commercial banks of similar size and consistently higher than the Basel II requirement level. The Tier 1 capital/Total equity ratio of HDBank was maintained at around 79% as of 9M2023, on par with other commercial banks of similar size. Additionally, the plan to issue a new VND 10 trillion of international convertible bonds in 2024 as well as to select strategic equity investors, will support the Bank in increasing its capital buffer, thereby reducing the refinancing pressure of long-term debts issued by the Bank, and/or mitigating the risk of profit erosion due to the recognition of increased provisioning costs. Historically, HDBank's leverage ratio (measured by total assets divided by equity), has been below the industry average (2019-2022, HDBank recorded 11.8 times compared to the industry average of 14.1 times). However, this ratio increased to 13 times at the end of 2023 and was higher than the industry average (11.3 times) due to very high credit growth (31.8%) and strong growth in customer deposits (increased by 71.8%, thanks to term deposits, compared to the end of 2022, and was up 70.9% year-on-year). In 2024, FiinRatings expects HDBank’s leverage to go back to pre-2023 levels thanks to a more stable interest rate environment and the Bank's suitable capital growth strategy.

HDBank's profitability is assessed as "Strong", based on the Bank's profitability indicators such as NIM and ROA, which have maintained stable growth and are better than the industry average, while the operating cost indicated by CIR is being well managed. In the period of 2022-9M2023, although the profits of the whole banking industry were significantly affected by the difficulties in the bond market, the slowdown of the real estate market, and the tightening regulation of insurance distribution activities, HDBank still maintained its profitability at a higher level than the industry average. When compared with commercial banks with similar high-yield loan portfolios and/or other banks of similar size, HDBank still maintains its profitability at a level superior to its peers and higher than the industry average, as evidenced by NIM and ROA in the period of 2019-2023 that was maintained at 4.8% and 2.0%, which were higher than the industry averages of 3.0% and 0.9%, respectively. HDBank's good profit margin is driven by a high-yielding loan portfolio (90% of the portfolio recorded an interest rate of over 9%) while the cost structure is improved, thanks to digital transformation and value chain/anchor-based credit strategy. As a result, HDBank's NIM has maintained an upward trend since 2019, outperforming the industry average and positioning itself among the banks with the highest profitability in the industry. Specifically, in 2023, the Bank's NIM reached 5.0%, which is second highest in the industry, and its ROA reached 2.1%, fifth highest in the industry. In addition, HDSaison also contributes significantly to the Bank's consolidated profit margin, with 22% of the Bank's net interest income comes from the consumer finance segment, which is a business segment with a usually high profit margin (higher than 27%). The loan portfolio, which is not focusing on high-cyclical segments, also contributes to the stability of the Bank's interest income growth trend. In addition, HDBank's operating cost is usually lower than the industry median, supported by digital transformation activities, with the target cost set at always below 35-40%. HDBank's stronger-than-average profitability, with its proactive capital management practices in line with Basel III standards, are factors that we believe will further strengthen the Bank's capital profile.

HDBank's risk position is assessed as "moderate", factoring in the Bank's increasing risk appetite demonstrated by its rapid credit growth strategy, while the economy is still recovering slowly. Additionally, the acquisition of a weak bank in the near future may affect the Bank's asset quality and credit profile in the medium to long term. However, we also acknowledge that these risks are somewhat mitigated by a comprehensive risk management process with a dedicated governance structure, a diversified lending portfolio by industries, combined with a value chain lending strategy that has kept asset quality and credit costs more stable than the industry average in challenging business conditions.

HDBank's non-performing loan ratio (NPL) was maintained at a level better than the industry median during 2019-2023 (NPL ratio at 9M2023 was 2.3% and decreased to 1.8% in YE2023 - lower than the industry median of 2.3% at YE2023), yet the increase in NPL and problem loan ratio (including NPL and Special mentioned – Group 2 loans), as well as the recent decline in NPL coverage ratio could potentially affect the Bank's loan portfolio quality. As of YE2023, the Bank's NPL ratio increased to 1.8% (2022: 1.7%) and the problem loan ratio increased to 7.0% (excluding loans restructured under Circular 02/2023 of the SBV) (2022 figure: 4.5%); in line with the declining asset quality trend in the whole banking sector. We view that asset quality may continue to be pressured by the slow economic recovery and the projected GDP growth in 2024 being lower than the pre-Covid level. Although asset quality indicators are partly supported by Circular 02/2023 (which allows the Bank to restructure loans for borrowers facing difficulties in fulfilling their obligations), we expect some of these loans to deteriorate and become NPLs depending on the economy and the recovery of the real estate sector. In addition, the decline in NPL coverage and problem loan coverage ratios while these both NPL and problem loans are increasing could lead to a sudden surge in provisioning expenses in the future; thereby largely affecting the Bank's profit and asset quality (NPL coverage and problem loan coverage ratios in 2023 were 66% and 17%, respectively; lower than the 2022's figures of 70% and 26%).

Notably, HDBank's credit growth (both on-balance sheet and off-balance sheet) has far exceeded that of other banks in the industry in recent years; we believe that this could pose abnormal risks to the asset quality. Specifically, customer loan growth reached a CAGR of 23.0% during 2019-2023, higher than the industry average of 16.5%; Specifically in 2023, HDBank reached a record high credit growth of 31.8% (2022 figure: 25.6%, 2021 figure: 13.4%), with corporate (CMB) credit growth up 54.5%. In addition, HDBank's credit growth is expected to continue increasing faster than the industry average in the 2024-2025 period at an annual rate of 23-25%, based on the recovery of the manufacturing and business activities, real estate, construction, and finance consumer markets in the near future. Moreover, HDBank's UPAS L/C off-balance sheet credit activities also developed strongly in 2021-2023, reflected in the 2.2 times increase in trade receivables related to this business. Although the Bank has implemented appropriate risk management policies for each of these credit activities, FiinRatings assesses that its rapid credit growth trend in the context of a slow economic recovery could lead to potential operational risks for the Bank. Moreover, the acquisition of a weak bank in the near future could impact on the quality of HDBank's asset portfolio as well as profitability. We will continue to monitor the impact of these factors on HDBank's risk position and update in upcoming rating surveillances.

Nevertheless, we view that those risks have been partially mitigated by HDBank's establishment and implementation of comprehensive risk management processes that are aligned with the Bank's business orientation, through the clear definition of risk policies and appetite, alongside a common risk control process based on risk limits and internal delegation mechanisms. Risk appetite serves as the foundation for risk management and the guiding principle for the Bank's operation, which is monitored and supervised monthly through an internal reporting mechanism to ensure compliance and enable timely assessments and warnings. Additionally, HDBank has continuously improved its portfolio analysis capabilities to effectively monitor the Bank's loan portfolio, track loans, and utilize early warning systems to promptly transfer underperforming loans to the collection departments.

In addition, HDBank has diversified its loan portfolio across different customer segments and leveraged value chain lending to mitigate concentration risk and to optimize competitive advantage. As of YE2023, corporate loans (including CMB and CIB) accounted for 56.3% of total outstanding loans, in which: Real estate accounts for 17.0%, Construction (7.1%), Agriculture – forestry - fishery (20.0%), with the remaining being allocated to service and trading industries, import and export, transportation, pharmaceuticals, etc. Retail loans accounted for 43.7% of total outstanding loans, in which: Manufacturing and business accounts for 14.5%, Agriculture – forestry - fishery (11.2%), Mortgage loans (7.7%), Consumer loans (6.8%), Others (3.5%). To minimize concentration risk, the Bank has established a risk management process based on the value chain, from loan origination, appraisal, and post-loan control to risk management, and strictly adheres to this process. Customers in the value chains are selected based on criteria such as having reputable experience in the industry and a wide network of business partners; the Bank also prioritizes customers with long-term cooperation to ensure the quality of associated projects, consequently increase the correlation between businesses in the value chain, enhance portfolio diversification, as well as create comprehensive credit solutions for customers within the value chain.

HDBank's funding and liquidity position is assessed as "Adequate" due to the Bank's recent increase in relatively stable funding sources and the expected benefits from customer loyalty within its anchor customers' ecosystem and typical value chains. During 2019-2022, HDBank's ability to meet funding needs from existing stable sources (including customer deposits, equity, interbank long-term loans, and other long-term debts) was lower than the industry average; this is reflected in the stable funding ratio (Fiinratings adjusted) averaging 89.2% (below the industry average of 102.6%). Additionally, during this period, the Bank also relied considerably on short-term wholesale funding, as evidenced by the ratio of short-term wholesale funding to total funding base maintained at 28.9%, which was higher than the industry average of 18%. However, HDBank has recently increased its stable funding ratio through customer deposits. Specifically, customer deposits balance, which accounted for 49-55% of the Bank's total funding during 2019-2022, has increased to account for 62% of total funding at the end of 2023 (2022 figure: 52%, 2021 figure: 49%); such increase mainly came from the growth of medium and long term deposits thanks to customer deposit attraction programs and the optimization of advantages from value chain credit and the anchor customers' ecosystem. Therefore, the stable funding ratio (FiinRatings-adjusted) was enhanced to 100.7% at 9M2023 and 98.6% at the end of 2023 (close to the industry median of 98.8% at the end of 2023). The Net Stable Funding Ratio (NSFR) as reported by the Bank has been continuously maintained above 100% according to Basel III standards. In addition, HDBank also tends to reduce its reliance on wholesale funding as the ratio of short-term wholesale funding to the Bank's current capital structure was recorded at 15.8% at 9M2023 (lower than the industry average of 19%) and the figure for the whole year increased to 23.5%, still lower than the past figures (2022: 28.9%, 2021: 32.9%). In the period 2024-2025, HDBank plans to continue increasing stable funding through customer deposits; in particular, the CASA growth strategy is also focused on by the Bank and has seen growth in recent times (CASA ratio at the end of 2023 was recorded at 9,8% while 2022 recorded 8,8%). Based on the trend of increasing the proportion of customer deposits as long as the specific strategies and policies of the Bank for each customer segment, we estimate that the proportion of customer deposits in total available stable funding at HDBank will continue to be maintained at 76-77% in the next two years. Besides, the plan of issuance of an additional VND 10 trillion of international convertible bonds in 2024 will contribute to increasing the Bank's stable capital sources in the coming period.

Regarding the Bank's funding cost, the average cost of funds during 2019-2023 was 5.4% (higher than the industry average of 5%) has tended to increase sharply in 2023 due to the reliance on wholesale funding and the shift from short-term deposits to medium and longer-term deposits. Being in an adequate liquidity position and having stable customer deposits with a renewal rate within 03 months for term deposits always from 75% - 85%, CASA deposits always from 60% - 70%, combined with strong interest rate reduction policies from the second quarter of 2023 to this present time, FiinRatings projects the funding cost in 2024 - 2025 to be around 4.5% - 5,0%, equivalent to the industry average’s level.

We assess that HDBank will continue to maintain its stable liquidity position. This is evidenced by the fact that HDBank's short-term liquid assets remain sufficient to meet short-term funding needs. The broad liquidity assets over short-term wholesale funding ratio was recorded at 1.8 times as of 9M2023 and 1.4 times as of YE2023; this is higher than the industry average of 1.3 times. In addition, HDBank has also developed a liquidity contingency plan. This plan specifies the content of detecting potential liquidity crises through early warning signals, including both qualitative and quantitative indicators, as well as specific treatment methods for each scenario.

Overall, we believe that HDBank has shown many improvements in funding and liquidity position. The Bank has tended to increase more stable funding sources, which create a foundation for credit growth and ensures liquidity. Even in our low case scenario, HDBank's ability to maintain a decent level of stable funding and liquidity is relatively adequate, which is demonstrated by the stable funding ratio remaining above 100% and the broad liquidity asset/short-term wholesale funding ratio remaining above 1,0 times. Furthermore, HDBank's capital structure and its diversification strategies to reduce reliance on wholesale funding are factors that we will continue to monitor and update in the Bank's credit profile.

OUTLOOK, UPGRADE & DOWNGRADE SCENARIOS

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

Upgrade Scenarios:

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

- HDBank's profitability remains at a leading position in the sector, while the Bank's capital structure significantly improves, along with the continued diversification of the loan portfolio and well-maintained asset quality;
- Risk position is remarkably enhanced, reflected in the Bank's risk appetite, asset quality, coverage ratios and bad debt recovery ratio.

Downgrade Scenarios:

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

- Earnings are negatively impacted due to (i) lower interest income and/or (ii) increasingly unfavorable market conditions that prevent development of fee-income products like settlement and bancassurances;
- Increasing problematic loans result in higher credit costs, therefore strain the Bank's capital and earnings. In addition, the Bank loosens its risk appetite by lending to lower-tier property developers and/or retail customers of less quality;
- Funding and liquidity position are negatively affected, as evidenced by the declining and below-industry average stable funding ratio and long-term funding ratio as well as broad liquid assets ratio;
- Liquidity profile is weakened due to rising drawdown pressure from on-balance sheet and 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
Ho Chi Minh City Development Joint Stock Commercial Bank	Issuer Rating – Initial	29 March 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**

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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:

- HDBank's percentage of equity ownership at FiinRatings: none**
- FiinRatings' percentage of equity ownership at HDBank: none
- FiinRatings' other employee percentage of equity ownership at HDBank: none
- HDBank's investment value of bond(s) issued by FiinRatings: none
- FiinRatings' investment value of bond(s) issued by HDBank: none
- HDBank'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-C30-2023

Nguyen Quang Thuan, FCCA
Chief Executive Officer
Hanoi, 29 March 2024

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