Rating Methodology

Non-bank Finance Companies

Updated January 2022

Executive Summary

This publication has been developed by FiinRatings and substantially revised by S&P Global Ratings' experts. This publication presents FiinRatings' methodology for assigning issuer credit ratings (ICRs) on non-bank finance companies (NBFCs) in Vietnam and is intended as a general guidance to help companies, investors and other market participants to understand how FiinRatings looks at quantitative and qualitative factors in explaining rating outcomes.

- The criteria organize the analytical process according to a common framework and articulate the steps in developing the stand-alone credit profile (SACP) and issuer credit rating (ICR) for NBFCs in accordance with international standards.
- FiinRatings uses a principle-based approach for assigning and monitoring ratings nationally, which is in accordance with international standards. These broad principles apply generally to ratings of all types of corporates and asset classes. However, for certain types of issuers and issues, FiinRatings complements these principles with specific methodologies and assumptions.
- FiinRatings assigns credit ratings to both issuers and issues and strives to maintain comparability of ratings across sectors and over time. That is, FiinRatings intends for each rating symbol to connote the same general level of creditworthiness for issuers and issues in different sectors and at different times nationally.
- FiinRatings' approach to rating non-bank finance companies involves a comprehensive assessment of several parameters. Some core parameters are considered to have a high influence on the credit quality of an NBFC, while others are considered supplementary parameters. FiinRatings takes a forward-looking view on the performance of the NBFCs on these parameters while evaluating its rating.
- If you have any question or concern, please contact our Customer Support Team at https://fiingroup.vn/ContactUs, or email fiinratings@fiingroup.vn.

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Scope of the Criteria

ISSUER AND ISSUE RATING

Issuer Credit Ratings

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

Issue Ratings

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

THE RATED UNIVERSE

Non-bank Finance companies (NBFCs) in Vietnam engage in retail finance and are registered as non-bank financial institutions under the regulations of State Bank of Vietnam (SBV). These retail finance companies offer cash loans, card loans, as well as loans to individual customers to buy cars, two-wheelers, commercial vehicles, consumer durables, and unsecured personal loans.

The NBFCs also include companies registered as pawnbrokers, providers of alternative consumer lending activities that are currently not monitored by the SBV. Typically, these are companies that participate in activities that have historically been conducted by nonbanks such as providing small-amount loans, checking cashing services, and other related consumer services, generally to consumers with little or no access to traditional commercial banks, and depend significantly on nondeposit funding.

NBFCs under this methodology are not engaged in home loans, loans against property and construction finance to real estate developers. Securities brokerage companies (or brokers), insurers and non-bank financial institutions that lends to companies have been excluded from this methodology.

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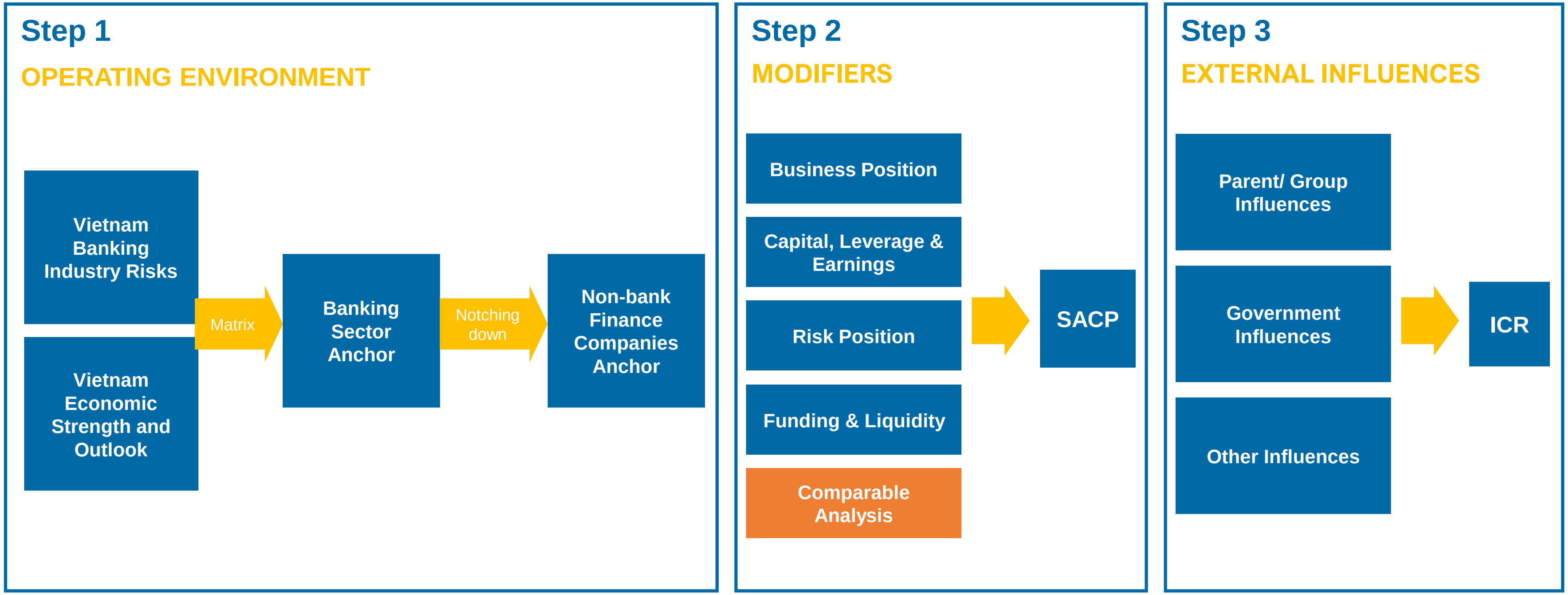
2. Rating Methodology

- Issuer Rating

Issuer Rating Methodology

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

Rating Framework for Non-bank Finance Companies



Source: FiinRatings
Note:
- *The Anchor: the economic and industry risks that the company faces*
- *The Stand-Alone Credit Profile ("SACP"): an issuer's creditworthiness in the absence of intervention*
- *The Issuer Credit Rating ("ICR"): an issuer's overall creditworthiness given the consideration of any relevant information*

Step 1: Building the Anchor: *NBFCs*

The first step to determine the anchor of non-bank finance companies (NBFCs), which is adjusted by notching down from the anchor of Banking industry.

FINANCE COMPANY ANCHOR

Notching downwards from Banks' Anchor

- ***Lack access to SBV, which increases liquidity and funding risk relative to NBFCs.***
- ***Competition: Strong competition from Banks due to Banks' lower financing cost & High competition risk within NBFCs.***
- ***Lack of regulatory oversight that NBFCs have, thus increasing NBFCs' sensitivity to changes in investor confidence.***

Vietnam Banking Sector's Anchor

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

Economic Factors

Economic Resilience	Economic structure & stability, Macro policy flexibility

Banking Industry Factors

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

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

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

The entity-specific factors are Business position; Capital, leverage, and earnings; Risk Position; and Funding and liquidity. An entity-specific anchor adjustment can result in an entity's anchor being higher or lower than the anchor for the rest of the sector. The below illustration is how FiinRatings will adjust an NBFC's entity-specific factors from the anchor.

TYPICAL NOTCHING	TYPICAL PROFILE			
	Business Position	**Capital, Leverage and Earnings**	**Risk Position**	**Funding and Liquidity**
Very strong (+2 / +1)	NBFC, given much stronger business position compared to peers, better withstands adverse operating conditions than the anchor indicates.	Capital adequacy ratios adjusted by FiinRatings to be much higher than the industry average at least for the next 12 months.	Risk appetite is much lower than the industry average, and the asset quality is generally insensitive to the economic cycle in Vietnam.	No NBFCs' Funding and Liquidity is assessed at this level due to non-depository, thus reliance on wholesale funding characteristics.
Strong (+1/ 0)	NBFC is somewhat less vulnerable to adverse operating conditions than the anchor indicates.	Capital adequacy ratios adjusted by FiinRatings to be somewhat higher than the industry average at least for the next 12 months.	Risk management is better than the industry average, risk appetite is prudent, and the asset quality performance is better than the industry average throughout economic cycle.	Lower-than-industry-average reliance on wholesale funding, and conservative liquidity management with superior liquidity-related ratios compared with the industry average, benefiting from strong investor confidence.
Adequate (0 / -1)	Business risk is consistent with the anchor and similar to peers with the same anchor.	Capital adequacy ratios adjusted by FiinRatings to be consistent with the industry average and able to meet the minimum regulatory capital requirements at least for the next 12 months.	Risk management capability and asset quality performance are consistent with the industry average.	Funding structure and liquidity position consistent with the industry average, with sufficient liquidity to function normally and meet minimum regulatory requirement on liquidity ratios even when the market is stressed.
Moderate (-1 / -2 / -3)	NBFC is more vulnerable to adverse operating conditions than indicated by the anchor.	Capital adequacy ratios adjusted by FiinRatings to be somewhat lower than the industry average in the next 12 months.	Risk management capability and asset quality performance are somewhat worse than the industry average.	Funding structure and liquidity position somewhat worse than the industry average, but still able to function normally and meet minimum regulatory liquidity requirements under normal market circumstances. However, liquidity pressure may rise significantly when the market is stressed.
Weak (-3 / -4)	NBFC is significantly more vulnerable to adverse operating conditions than indicated by the anchor.	Capital adequacy ratios adjusted by FiinRatings to be lower than the industry average in the next 12 months.	Risk management capability and asset quality performance are worse than the industry average.	Liquidity position worse than the industry average and having persistent difficulty in maintaining stable liquidity position or meeting minimum regulatory requirements when the market is stressed.
Very weak (-5 / -6)	The anchor is not representative of the extent of business risk or vulnerability to adverse operating conditions.	Capital adequacy ratios adjusted by FiinRatings to be significantly lower than the minimum regulatory requirements and without timely capital injection, the operations would become unsustainable.	Risk management capability and asset quality performance are far worse than the industry average, and there may be serious flaws with its overall internal control.	Eroded market confidence in the NBFC leading to a highly unpredictable liquidity position, high chance of requiring intervention for liquidity support.

Step 2: Assessment of Modifiers: *Business Position*

Business position is the first SACP factor and assesses the strength of a firm's business operations relative to peers.

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

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

Matrix to determine Business Position

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

Management and Governance

Strong	Satisfactory	Fair	Weak

Management

Positive	Neutral	Negative

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

Governance

Neutral	Negative

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

Step 2: Assessment of Modifiers: *Capital, Leverage, & Earnings*

Capital, leverage, and earnings (CLE), the second SACP factor under the methodology, assesses a firm's ability to absorb losses, which provides protection to senior creditors while the firm remains a going concern.

Matrix to determine Capital, Leverage, and Earnings Scale

Capital and leverage assessment	Earnings assessment			
	Strong	Adequate	Moderate	Weak
Very strong	Very strong	Very strong	Very strong or strong	Strong or adequate
Strong	Strong	Strong	Strong or adequate	Adequate
Adequate	Strong or adequate	Adequate	Adequate or moderate	Adequate or moderate
Moderate	Adequate or moderate	Moderate	Moderate	Moderate or weak
Weak	Moderate or weak	Weak	Weak	Weak or very weak
Very weak	Weak or very weak	Very weak	Very weak	Very weak

Capital or Leverage represents the level of protection available to the company’s creditors to absorb losses from credit and other risks. Analysis of capital adequacy incorporates the absolute quantum and quality of capital, cushion over regulatory capital requirement, risk-adjusted capital levels, and management’s capitalization policy. The analysis also considers the company’s leveraging ability based on the asset class it focuses on as well as its asset quality outlook. FiinRatings believes the leveraging ability of NBFCs operating in less risky asset classes displaying low volatility in delinquency levels and credit costs. A forward-looking view is taken on the leverage levels while evaluating capital adequacy. Besides, FiinRatings evaluates the growth outlook for the company’s asset base and the ability to generate capital internally or from the capital markets.

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

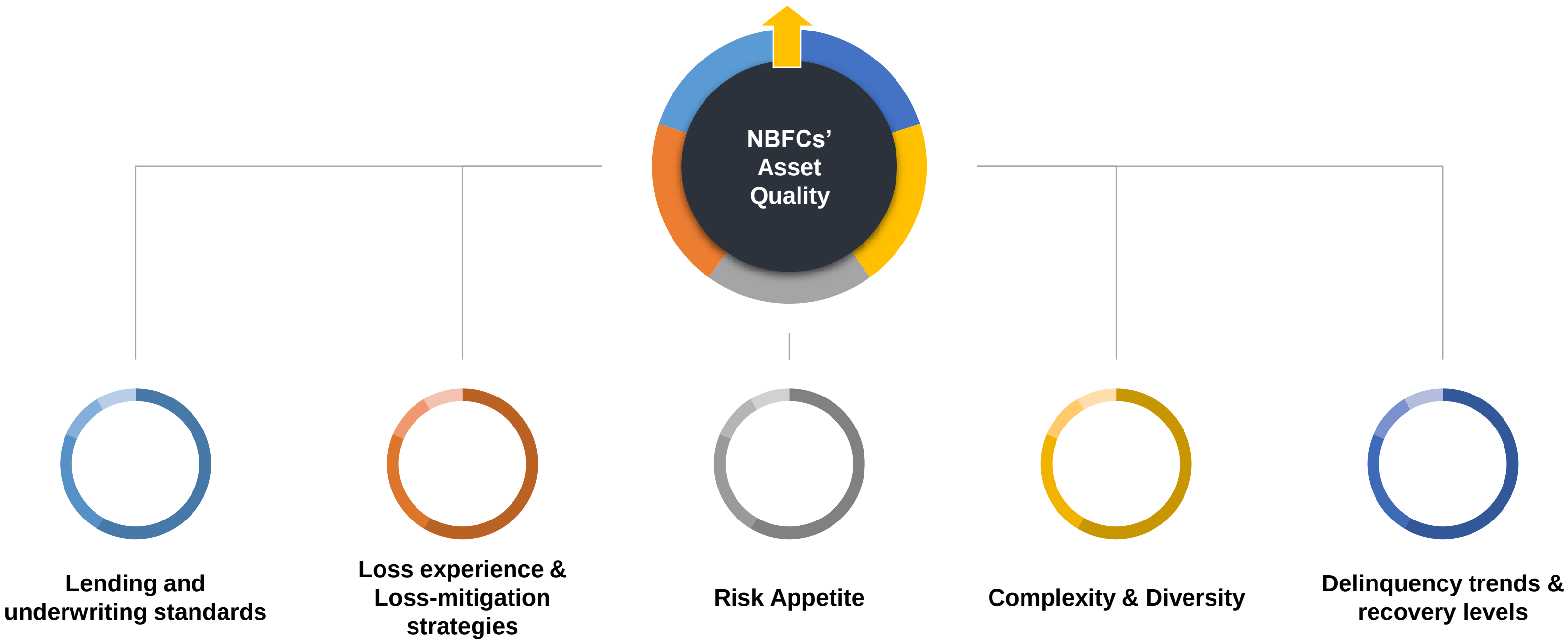
Step 2: Assessment of Modifiers: *Assets Quality*

The third SACP factor is Asset quality. As in banks, it is a primary consideration in assessing credit risk in NBFCs.

NBFCs inherently cater to relatively riskier asset classes and difficult to address customer segments, compared with banks in Vietnam. In maintaining asset quality, NBFCs need to have tight operational controls, stringent risk management practices, and efficient recovery mechanisms. Weakening of asset quality could lead to higher credit costs that can impact returns and eat into the headroom available in the capital structure to absorb losses. Eventually, these can impact growth prospects, and can potentially curtail availability of funds, thereby endangering the solvency of the entity.

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

NBFC's Asset Quality					
Very strong (VS)	Strong (S)	Adequate (A)	Moderate (M)	Weak (W)	Very weak (VW)



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

The fourth SACP factor is Funding and liquidity, which assesses an NBFC's capacity to support business performance through effective funding while managing liquidity requirements both on an ongoing basis and in periods of stress.

The analysis is guided by the basic principle that stable and long-term funding sources generally should finance long-term and less liquid assets, and that the use of short-term wholesale funding finances generally should be limited to financing of short-term and more liquid assets. Funding analysis considers the strength and stability of an NBFC's funding mix compared with the domestic industry average. Liquidity analysis typically considers an NBFC's ability to manage its liquidity needs in adverse market and economic conditions and its ability to survive over an extended period in such conditions.

Funding and Liquidity

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

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

Step 2: Assessment of Modifiers: *Comparable Analysis*

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

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

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

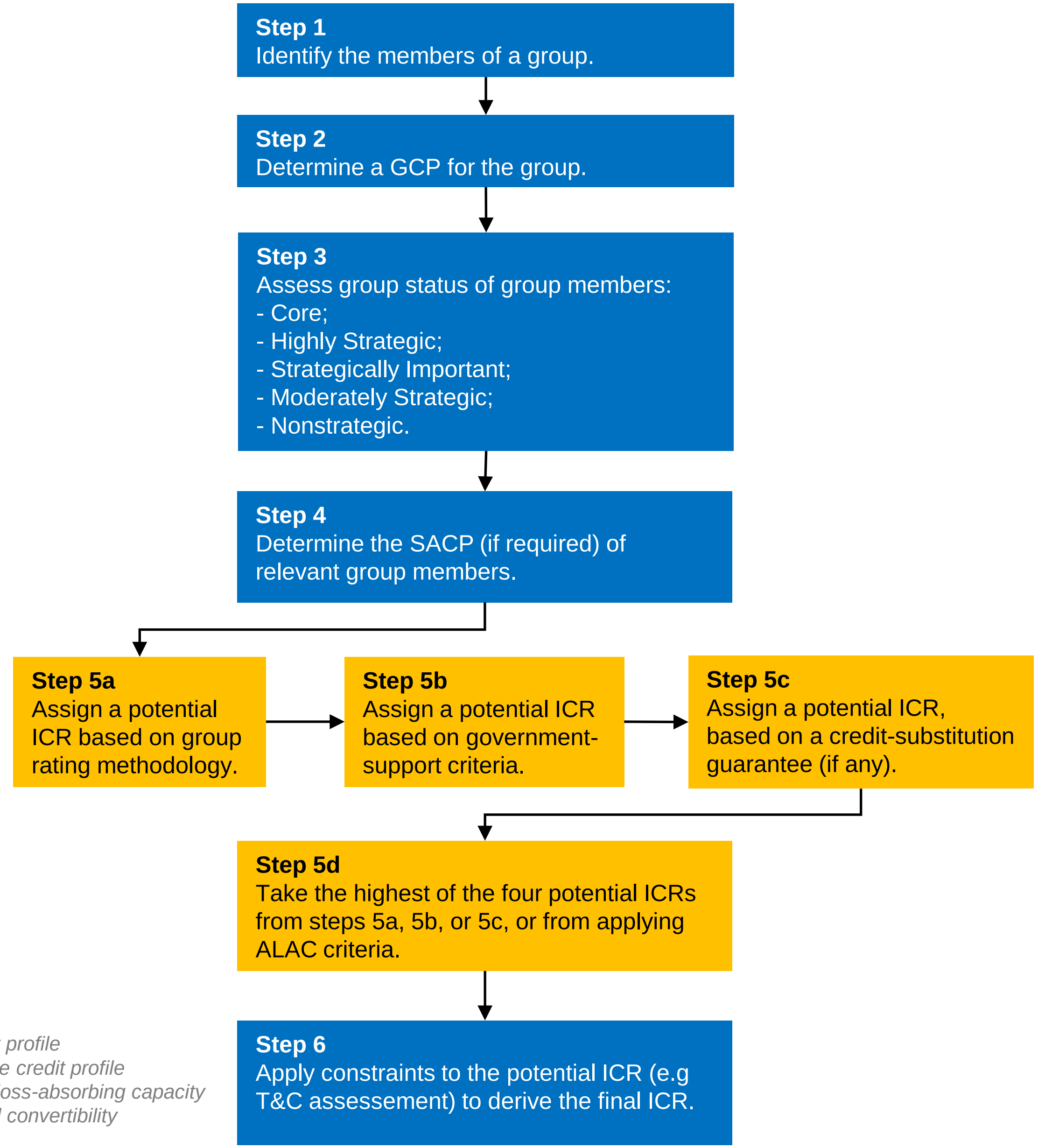
- The peer group may include NBFCs in Vietnam when the SACP is close to the bank anchor.
- The peer group may include NBFCs in the same sector but in different countries if there's an insufficient number of domestic peers or because regional or global peers form a better comparison.
- The peer group may include NBFCs from other sectors when the entity's business overlaps with or is adjacent to other NBFCs sectors.

Step 3: Assessment of External Influencers

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

The criteria address a key area of “External support" in Framework. One of the main rating considerations is the potential for support (or negative intervention) from the parent company or group.

The criteria articulate the steps in determining an issuer credit rating (ICR) or financial strength rating (FSR) on a member of a corporate or financial services group. This involves assessing the group's overall creditworthiness, the stand-alone credit profile of group members, and the status of an entity relative to other group members and the parent company.



***GCP**: Group credit profile*
***SACP**: Stand-alone credit profile*
***ALAC**: Additional loss-absorbing capacity*
***T&C**: Transfer and convertibility*

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2. Rating Methodology

- Issue Rating

Issue Credit Rating Framework

Once we have Issuer Credit Rating, we can proceed to rate an Issue.

- **Issuer ratings:** General estimate of the creditworthiness of the Company
- **Issue ratings:** Specific rating for a financial instrument (e.g., corporate bond, unsecured debt instruments)
- **The issue ratings** = Issuer ratings +/- Issue notching factors *(Qualitative and Quantitative factors)*

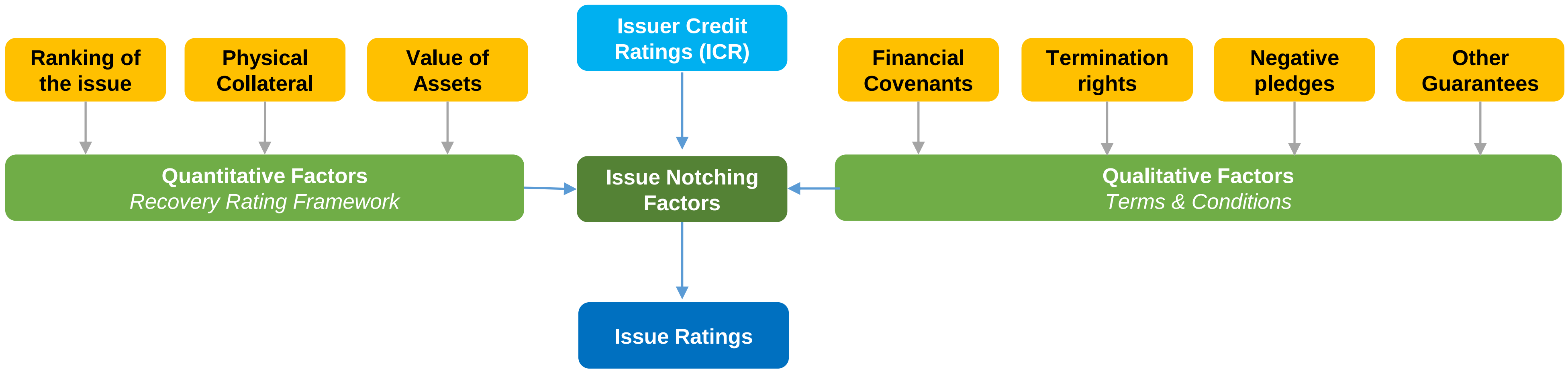
Issue Credit Ratings Framework

Issue credit ratings are based, in varying degrees, on S&P Global Ratings' analysis of the following considerations:

- The likelihood of payment--the capacity and willingness of the obligor to meet its financial commitment on a financial obligation in accordance with the terms of the obligation;
- The nature and provisions of the financial obligation, and the promise we impute; and
- The protection afforded by, and relative position of, the financial obligation in the event of a bankruptcy, reorganization, or other arrangements under the laws of bankruptcy and other laws affecting creditors' rights.

Issue ratings are an assessment of default risk but may incorporate an assessment of relative seniority or ultimate recovery in the event of default. Junior obligations are typically rated lower than senior obligations, to reflect the lower priority in bankruptcy, as noted above. (Such differentiation may apply when an entity has both senior and subordinated obligations, secured and unsecured obligations, or operating company and holding company obligations.)

The issuer ratings could be notched up or not notched down maximum 3 notches (1 category) to produce the final issuer ratings.



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3. Key Metrics

Key Metrics: *Quantitative Assessment Factors*

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

Business Position Metrics	Total assets and Year-over-year growth
	Gross customer loans and Year-over-year growth
	Operating income and Year-over-year growth
	Net income and Year-over-year growth
	Net fees and commissions income/operating income
Capital, Leverage and Earnings Metrics	Reported regulatory capital adequacy ratio
	NIM adjusted by FiinRatings
	Cost-to-income ratio
	Asset provisioning / Pre-provision operating profits
	Loan provisioning / Average gross customer loans
	Return on average assets; Return on average equity
	Dividend payout ratio
Asset Quality Metrics	**Non-performing loan ratio**
	(Non-performing loans + special mention loans) / Gross customer loans
	Loan loss reserves / Gross customer loans
	Reserve coverage ratio
	Loan loss reserves / (Nonperforming loans + Special mention loans)
	Net charge-offs / Average gross customer loans
Funding and Liquidity Metrics	Wholesale funding /total liabilities
	Customer deposits/total liabilities
	Liquidity coverage ratio
	Net stable funding ratio

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

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Hanoi Head Office
10th Floor, Peakview Tower, 36 Hoang Cau, O Cho Dua, Dong Da, Hanoi, Vietnam
Tel: (84-24) 3562 6962
Email: info@fiingroup.vn

Ho Chi Minh City Branch
3rd Floor, Profomilk Plaza Building, 51-53 Vo Van Tan, Ward 6, District 3, Ho Chi Minh, Vietnam
Tel: (84-28) 3933 3586
Email: info@fiingroup.vn