1H 2026 Banking Sector Update: Core Income Improves, Asset Quality Warrants Caution

Pre-tax profit at the 27 listed banks within our coverage grew 19.6% YoY in 1H 2026, supported by robust net interest income, a strong recovery in service fee income, and effective control of operating expenses. Overall, the positive results were broad-based, with 22 of 27 banks posting positive growth, although divergence persisted and was concentrated mainly among mid- and small-sized banks. Notable trends include:

- **Credit growth remained strong, with continued divergence:** Credit growth reached 7.7% year-to-date, below the 9.9% recorded in the same period of 2025, but above the 6.9% average for 2023–2025. Growth was concentrated mainly among large-sized JSCBs, led by VPB, HDB, TCB, and MBB. Credit demand continued to skew toward corporate customers and medium- and long-term lending, while retail credit recovered more slowly.

- **The NIM decline gradually narrowed, though a clear recovery signal has yet to emerge:** NIM fell 5 basis points from the end of last year to 3.02%, though the pace of decline narrowed to just 2 basis points in 2Q 2026. Lending yields improved as mortgage loans that had exited their preferential-rate period were repriced higher, while medium- and long-term credit continued to grow faster than short-term credit. However, elevated deposit rates, competition among banks, and lending-rate cuts to support the economy continue to make a clear NIM recovery difficult in the second half of 2026.

- **Banks actively diversified funding sources amid strong funding demand:** Customer deposit growth reached 5.5%, while the scale of valuable papers issued grew sharply by 16.7% year-to-date, partially offsetting the gap between credit and deposit growth. At the same time, several banks (VPB, HDB) stepped up access to international funding.

- **Service fee income became a bright spot for profitability:** Total operating income (TOI) grew 17.1% YoY, supported by net interest income (+16.8%) and, notably, an impressive recovery in service fee income (+58%). In contrast, income from foreign exchange and securities trading declined sharply amid unfavorable market conditions. Income from other non-core activities (mainly recoveries of previously written-off bad debts) continued to grow positively (+31% YoY).

- **Asset quality declined and provisioning buffers narrowed:** the industry-wide NPL ratio rose to 2.01% from 1.86%, while the special mention loan ratio (Group 2) rose to 1.38% from 1.16% at the end of 2025. The increase in NPLs and Group 2 loans was concentrated more heavily among state-owned banks and large-sized JSCBs. Meanwhile, the LLR ratio fell from 83% to 79%, suggesting provisioning pressure could increase in the second half of 2026 should the pace of new NPL formation continue to rise.

- **Operating expenses remained well controlled:** the cost-to-income ratio (CIR) fell from 32.1% at the end of 2025 to 31.1%, providing meaningful support to profit growth alongside other improving income sources.

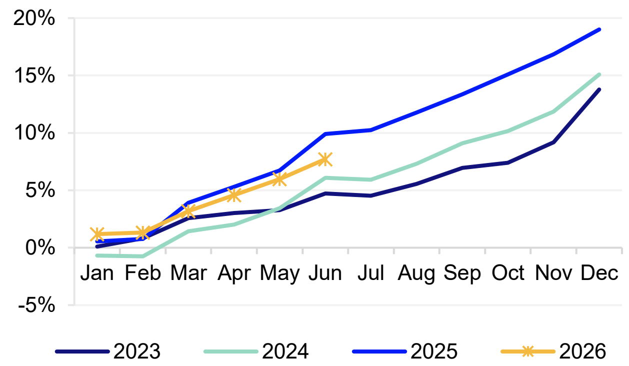
Credit Growth Remained Strong, with Momentum Increasingly Concentrated Among Large Banks and Corporate Customers

System-wide credit growth reached 7.7% year-to-date, below the 9.9% recorded in 1H 2025. Divergence in credit growth persisted, with large-sized JSCBs continuing to outperform (+13.7%), concentrated at VPB (+23.2%), HDB (+21.8%), TCB (+15.2%), and MBB (+13.2%).

By sector, credit demand remained concentrated in traditional growth drivers, including commerce, manufacturing, construction, real estate business, and financial services. Construction credit continued to rise significantly at many banks, driven by demand to finance infrastructure projects, most notably at TCB, VIB, and VAB, with growth of 56.3%, 41.9%, and 39.6%, respectively, compared with the end of 2025. In real estate business lending, lending strategies diverged across banks: MBB, VPB, TPB, and VIB continued to aggressively accelerate lending to this segment, with growth of 38.2%, 42.6%, 54.5%, and 57.9%, respectively, while SHB (+8.1%) and TCB (+2.6%) slowed. That said, across the 13 banks that disclosed detailed data, real estate business lending grew sharply by 21% year-to-date, while mortgage lending slowed, reflecting continued concentration of capital demand among RE developers rather than genuine homebuyer demand. Lending to the financial services sector (mainly securities companies) also recorded impressive growth at LPB (+201%), SHB (+166%), and MBB (+40.2%).

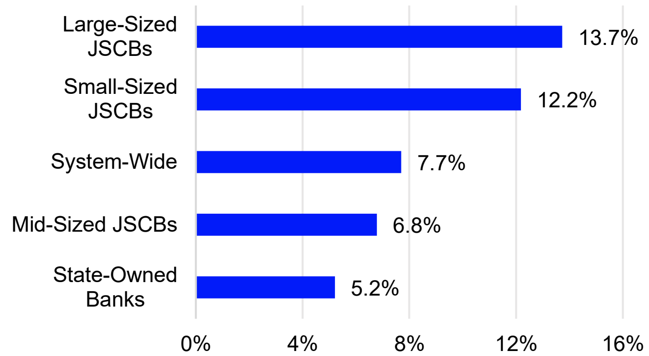
Credit demand continued to show a skew across loan tenor and customer segment. Medium- and long-term credit continued to significantly outpace short-term credit for a fifth consecutive quarter. Over the first six months of the year, medium- and long-term loan balances grew 11.1%, compared with 6.9% growth in short-term credit. This helped limit the pace of NIM compression at banks amid rising funding costs. By customer segment, credit growth continued to be led mainly by corporate customers, particularly large corporates and FDI enterprises, while retail demand recovered relatively slowly. One contributing factor was the slowdown in mortgage lending growth as mortgage rates rose sharply (now commonly in the 12–15% per year range), while the supply of affordably priced apartments remained limited in the first half of 2026.

Figure 1. Credit Growth Year-to-Date, System-Wide



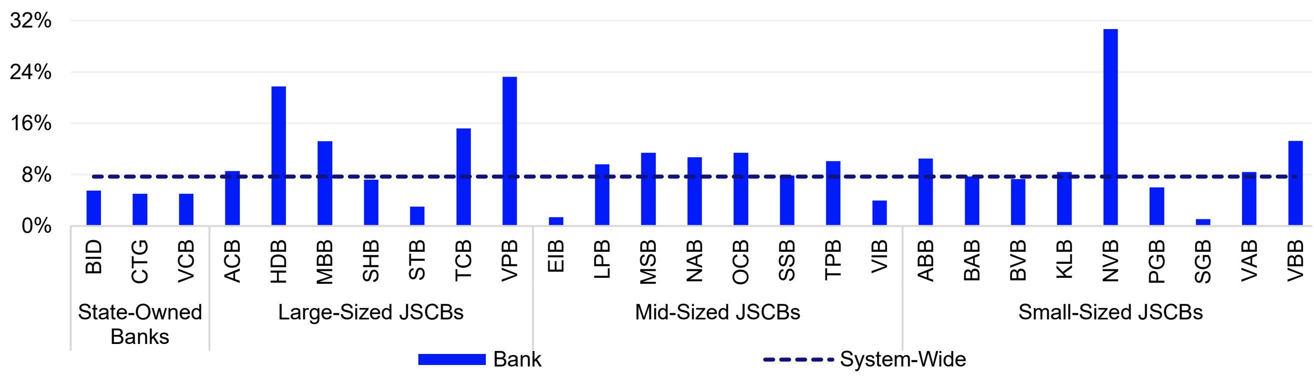
Source: SBV, S&I Ratings

Figure 2. Credit Growth Year-to-Date, by Bank Group



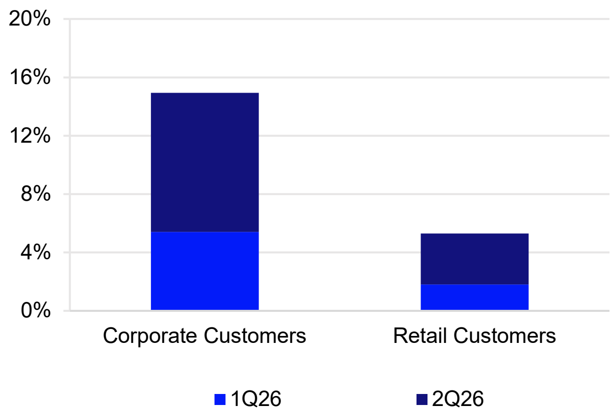
Source: SBV, S&I Ratings

Figure 3. 1H 2026 Credit Growth, 27 Listed Banks



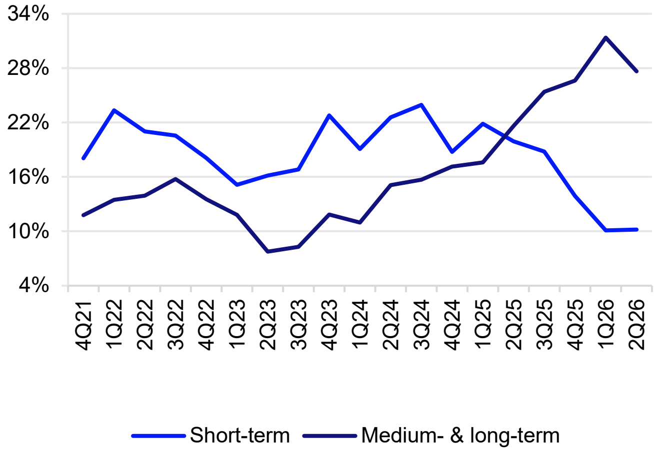
Source: S&I Ratings

Figure 4. Credit Growth Year-to-Date by Customer Segment, Selected Banks



Note: Data covers ACB, BVB, CTG, HDB, KLB, LPB, MBB, MSB, PGB, SHB, SSB, TCB, TPB, VIB, and VPB
Source: S&I Ratings

Figure 5. Credit Growth by Tenor, Aggregate of 27 Listed Banks



Source: S&I Ratings

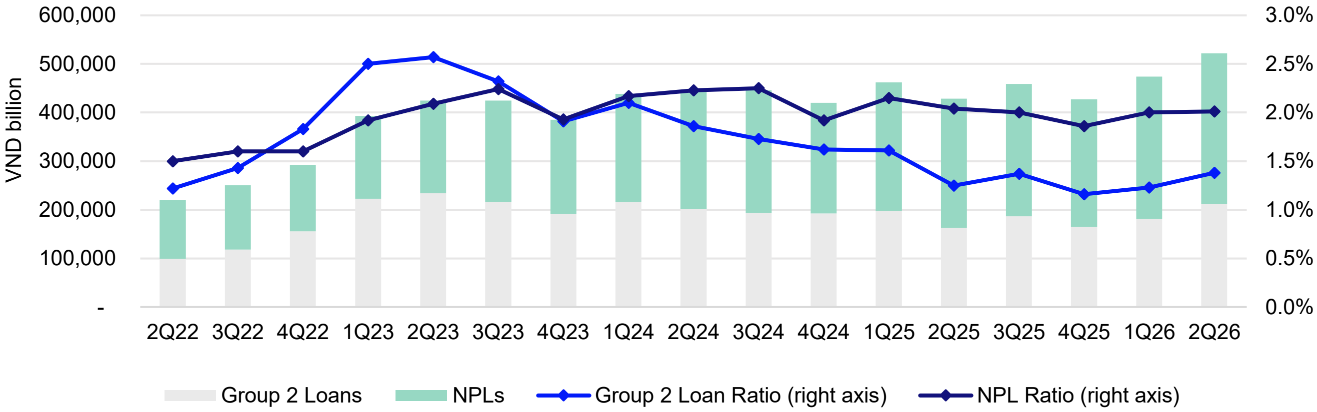
Asset Quality and Provisioning Buffers Declined

The NPL ratio at the 27 listed banks rose slightly from 1.86% at the end of 2025 to 2.01% at the end of 2Q 2026, an increase of 15 basis points, though it was nearly flat compared with Q1 2026 (2%). In terms of scale, NPLs grew 17.5% in the first half of the year, nearly double the 9% growth in outstanding credit. NPL trends diverged across bank groups, with the increase concentrated mainly at state-owned banks and large-sized JSCBs, up 18 and 13 basis points, respectively, from the end of 2025. Among these, STB (+113 basis points), BID (+36 basis points), and HDB (+35 basis points) led the increase in NPL ratios.

Notably, Group 2 loans – an early indicator of NPLs – also continued to rise. The Group 2 loan ratio rose 22 basis points from the end of last year to 1.38% in 2Q 2026. Pressure was concentrated mainly among large-sized JSCBs, with STB and HDB recording the sharpest increases, up 191 and 126 basis points, respectively. In our view, the concentration of rising NPLs and Group 2 loans at banks with more diversified loan portfolios and focus on retail and SME lending reflects: (1) continued challenging business conditions, particularly for small and medium-sized enterprises, and (2) consumer demand that has yet to fully recover amid an elevated interest rate environment.

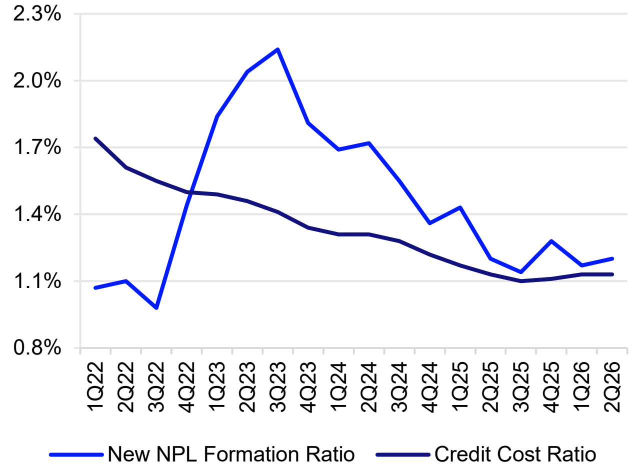
Provisioning buffers continued to narrow, with the loan loss reserve (LLR) ratio falling to 79% in 2Q 2026 from 83% at the end of 2025. The decline was concentrated mainly at state-owned banks, while most other banks remained relatively stable. BID and CTG recorded notable declines in LLR, falling from approximately 100% to 76% and from 159% to 134%, respectively. Notably, credit costs remained around 1.1% amid rising NPLs and Group 2 loans, causing the NPL coverage ratio to continue declining.

Figure 6. Asset Quality Trends, Aggregate of 27 Listed Banks



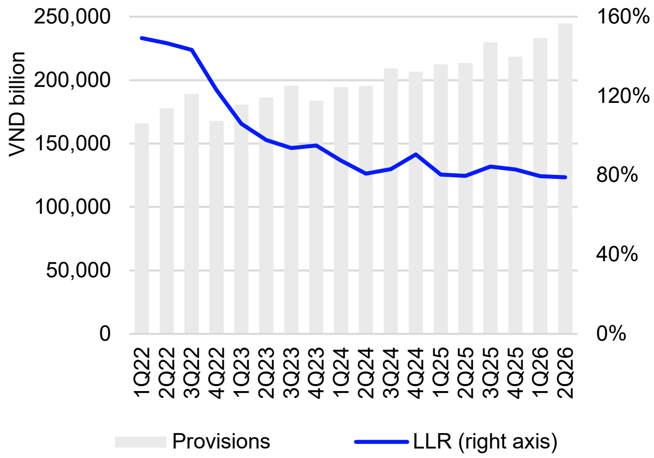
Source: S&I Ratings

Figure 7. New NPL Formation Ratio vs. Credit Cost (TTM), Aggregate of 27 Listed Banks



Source: S&I Ratings

Figure 8. Provision Reserves and LLR Ratio, Aggregate of 27 Listed Banks



Source: S&I Ratings

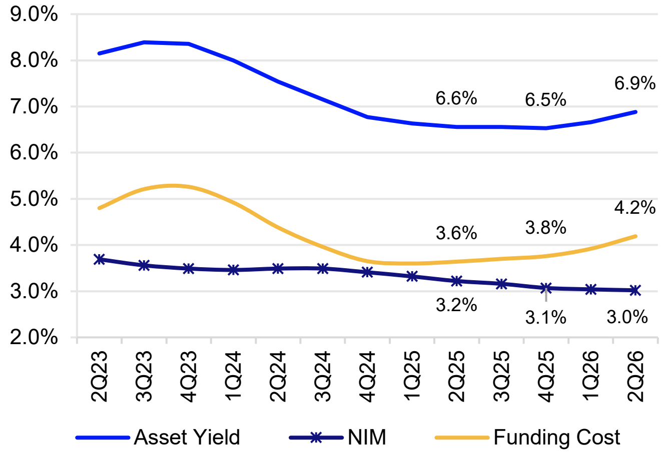
The NIM Decline Gradually Narrowed as Lending Yields Improved, though Funding Costs Remain a Pressure Point

NIM (TTM) at the 27 listed banks declined slightly by 5 basis points from the end of 2025 and by 2 basis points from the previous quarter, to 3.02% at the end of Q2 2026. Notably, the pace of NIM compression slowed over the past two quarters (compared with an average decline of roughly 9 basis points per quarter in 2025), suggesting NIM may be approaching a trough. That said, divergence also emerged in system-wide NIM trends: aside from the state-owned bank group, which improved by 8 basis points from the end of last year, other bank groups continued to see NIM decline, with large-sized JSCBs down 18 basis points, mid-sized JSCBs down 15 basis points, and small-sized JSCBs down 9 basis points from the end of last year. Notable developments affecting NIM include:

- **Improved lending yield – funding cost spread at state-owned banks:** this was the key factor behind the NIM recovery at this group in 1H 2026. Lending yields rose 45 basis points, while funding costs rose only 27 basis points from the end of last year. In contrast, although other banks also saw improved lending yields, higher increases in funding costs caused their NIM to continue declining. This implies that most banks had to step up funding at higher cost to meet growth demand. In addition, state-owned banks' scale advantage in CASA/stable deposits helped strengthen their resilience to interest rate volatility, thereby supporting NIM.
- **Mortgage loans exiting their preferential-rate period:** mortgage loans that exited their preferential-rate period and shifted to floating rates, commonly in the 12–15% per year range, helped improve asset yields at many banks.
- **Banks continued to optimize LDR and shift credit structure toward longer-tenor lending to support NIM:** across the 27 listed banks, the adjusted LDR continued to rise to 101.2% from 100.7% in Q1 2026 and 99.1% at the end of 2025. At the same time, medium- and long-term loan balances grew 11.1% year-to-date, outpacing 6.9% growth in short-term loans. These factors helped banks limit the pace of NIM compression in H1 2026.

Overall, although lending yields improved broadly, the NIM recovery was concentrated only at state-owned banks, while other bank groups continued to decline under pressure from rising funding costs. Whether NIM can continue to narrow its rate of decline in coming quarters will therefore depend on funding cost trends, competition among banks, and the extent of lending-rate cuts to support the economy. With these factors not yet showing a clear turnaround, in our view, NIM is likely to remain under pressure and continue to hover around 3.0% by the end of this year.

Figure 9. NIM Trends , Aggregate of 27 Listed Banks

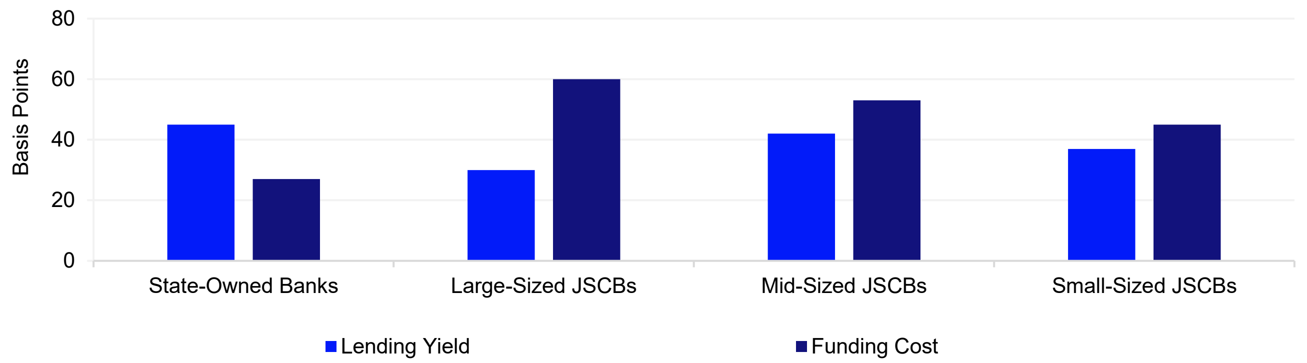


Source: S&I Ratings

Figure 10. Change in NIM Year-to-Date, by Bank Group

Source: S&I Ratings

Figure 11. Change in Lending Yield and Funding Cost Year-to-Date, by Bank Group



Source: S&I Ratings

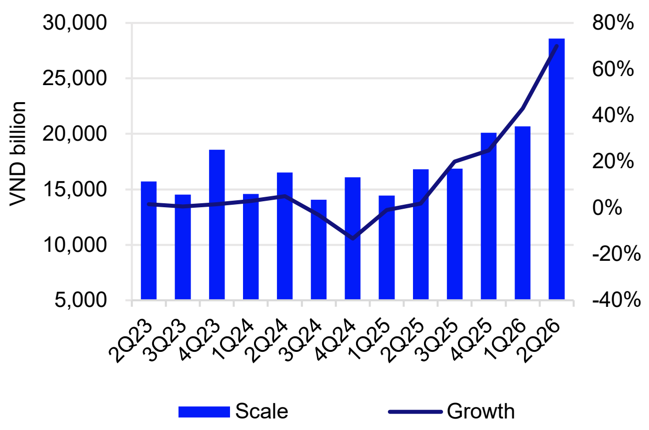
Service Income Growth Impressed, While Foreign Exchange and Securities Trading Income Fell Sharply

Over the first six months of the year, industry-wide net service fee income reached VND 80.2 trillion (up 58% YoY), becoming a bright spot in the income structure. Growth varied significantly across the industry, with a sharp spike at STB (+140% YoY) driven by new fee income from partnership strategies and ecosystem-serving services such as collection/payment services, cash management, and L/C fees, and at VIB (+294% YoY) driven by an unusually sharp rise in payment services income (+264% YoY). Aside from a few smaller banks that saw significant declines in service income (such as BVB -295% YoY, EIB -80% YoY), most other banks recorded positive growth, supported by core income sources such as payment services, insurance fees, and letters of credit.

In contrast to the positive trend in service income, market-sensitive income sources came under significant pressure in 1H 2026. Industry-wide foreign exchange trading income fell more than 27% YoY amid a relatively stable USD/VND exchange rate (up just 0.07% in 1H 2026, according to the SBV). This stands in contrast to 2024 and 2025, when a strong uptrend in the exchange rate created favorable conditions for banks' foreign exchange trading activities. Income from securities trading also fell sharply by 77% YoY, as an unfavorable interest rate environment limited the ability to realize investment gains.

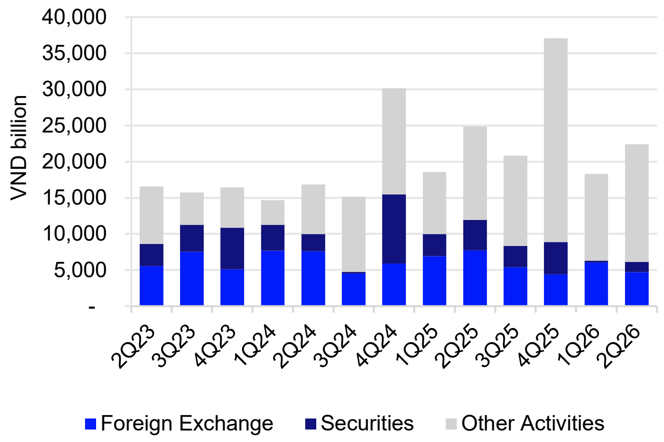
On the other hand, income from other activities (mainly recoveries of previously written-off bad debts) remained a bright spot, growing 31% YoY, driven mainly by a sharp spike at VCB (+171% YoY). Excluding this spike, industry-wide other income still grew approximately 13% YoY, indicating that debt recovery activity continues to support bank profitability.

Figure 12. Net Service Fee Income Trends, Aggregate of 27 Listed Banks



Source: S&I Ratings

Figure 13. Net Income Trends from FX, Securities Trading and Other Activities, Aggregate of 27 Listed Banks

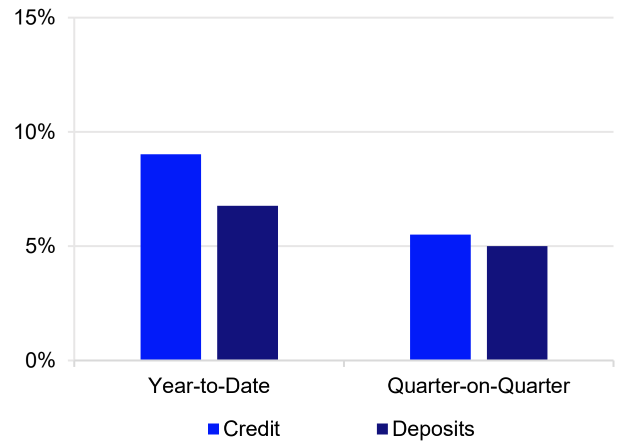


Source: S&I Ratings

Funding Improved in 2Q, but Pressure on Funding Demand and Funding Cost Remains Worth Monitoring

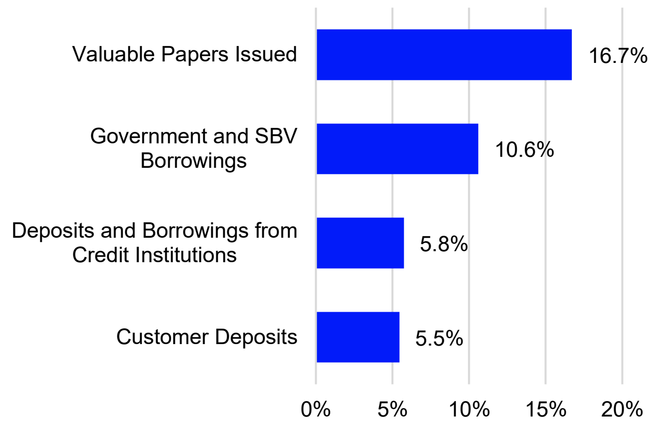
As of the end of 2Q 2026, credit growth at the 27 listed banks continued to outpace deposit growth, at 9% and 5.5% year-to-date, respectively. That said, customer deposit mobilization improved in Q2, recording growth of 4.8% quarter-on-quarter (compared with just 0.6% in 1Q 2026), nearly catching up with the pace of credit growth (+5.5% quarter-on-quarter) amid savings deposit rates that rose by 0.5–1.5 percentage points since the start of the year. In addition, the scale of valuable papers issued grew 16.7% year-to-date, further supporting industry-wide funding. Including this channel, total funding grew 6.8% year-to-date. Notably, issuance activity has shifted toward certificates of deposit, while industry-wide bond issuance fell sharply by 38.6% YoY amid tighter system liquidity and banks' caution around raising long-term funding at high rates. Certificates of deposit offer more attractive rates, 2–3 percentage points above savings deposits of the same tenor, making them a bright spot in funding activity at many banks in 1H 2026. Separately, some banks also proactively accessed international funding to diversify their medium- and long-term funding base, most notably VPB (USD 1.44 billion) and HDB (USD 721 million), through ESG/sustainability-linked standards.

Figure 14. Credit and Deposit Growth at End-2Q 2026, Aggregate of 27 Listed Banks



Source: S&I Ratings

Figure 15. Growth of Funding Components Year-to-Date, Aggregate of 27 Listed Banks



Source: S&I Ratings

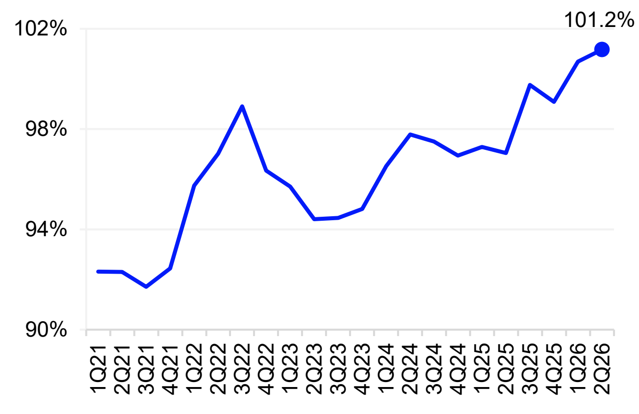
System liquidity generally remained under pressure in 1H 2026, reflected in frequent sharp swings and spikes in interbank rates, alongside a continued uptrend in deposit rates since 3Q 2025. Rapid growth in the economy's credit demand pushed up banks' funding needs, with the adjusted LDR continuing to rise to 101.2% at the end of

2Q 2026, from 100.7% in 1Q 2026 and 99.1% at the end of 2025. Against this backdrop, liquidity support from the State Treasury and the SBV continued to reach a record high of VND 961 trillion, comprising: (1) VND 716 trillion in State Treasury deposits, and (2) VND 245 trillion in net OMO injections. On the other hand, the state budget surplus surged in 1H 2026 to VND 419 trillion (versus VND 227 trillion in the same period of 2025), while State Treasury deposits at banks rose by only VND 223 trillion, indicating that a large amount of cash flow was withdrawn from the banking system.

In the second half of 2026, we expect deposit growth to continue improving as the interest rate environment remains elevated, and as cash flow may return to the banking system when public investment disbursement accelerates toward year-end. Recently issued policy changes, including Circular 25 (raising the ratio of short-term funds used for medium- and long-term loans to 40% from 30%) and Decision 1743 (raising the proportion of State Treasury deposits counted toward the LDR to 50% from 20%), should also help ease pressure to meet liquidity requirements. That said, pressure from long-term funding demand is likely to persist as key national infrastructure projects enter their next investment phase.

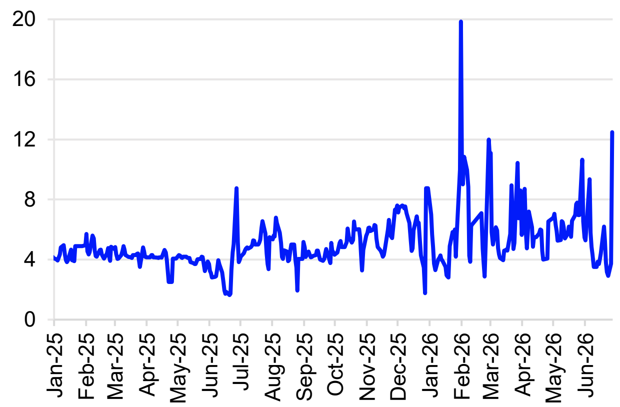
Deposit rates may continue to stay elevated, supporting deposit growth but at the same time limiting room for banks to reduce funding costs. On the positive side, exchange rate pressure has eased recently, partly due to reduced demand for foreign currency in the free market as activities related to gold and cryptocurrency come under tighter control. Should this easing trend in the exchange rate continue, the SBV would have more room to maneuver in the second half of the year, particularly in continuing to expand liquidity support and thereby help ease interest rates. This would be an important signal worth monitoring in the coming months, in our view.

Figure 16. Adjusted LDR, Aggregate of 27 Listed Banks



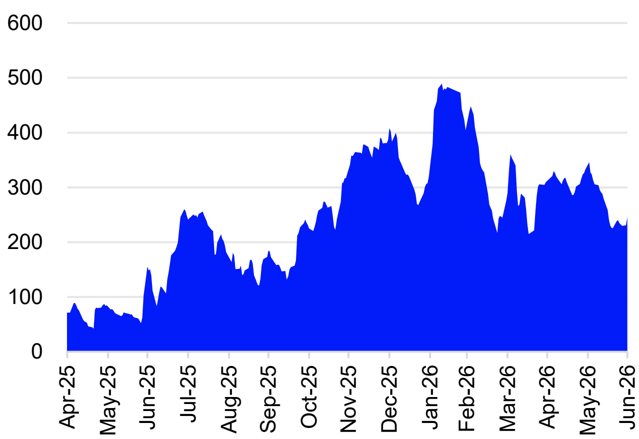
Note: Adjusted LDR = Total credit / (Customer deposits + Valuable papers issued). Source: S&I Ratings

Figure 17. Overnight Interbank Rate (%)



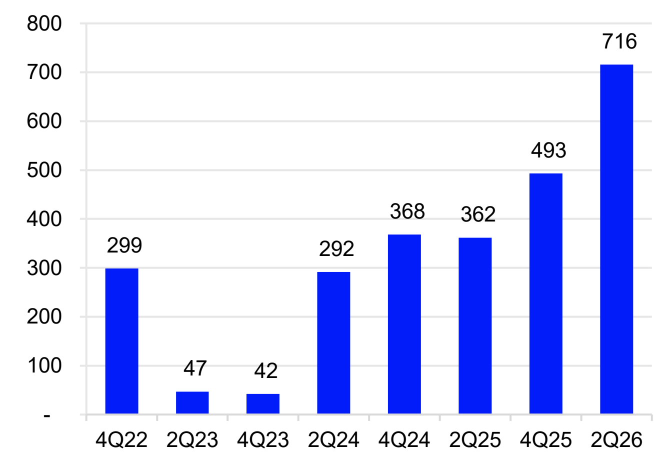
Source: S&I Ratings

Figure 18. Outstanding OMO Volume (VND trillion)



Source: S&I Ratings

Figure 19. State Treasury Deposit Balance at State-Owned Banks (VND trillion)



Source: S&I Ratings

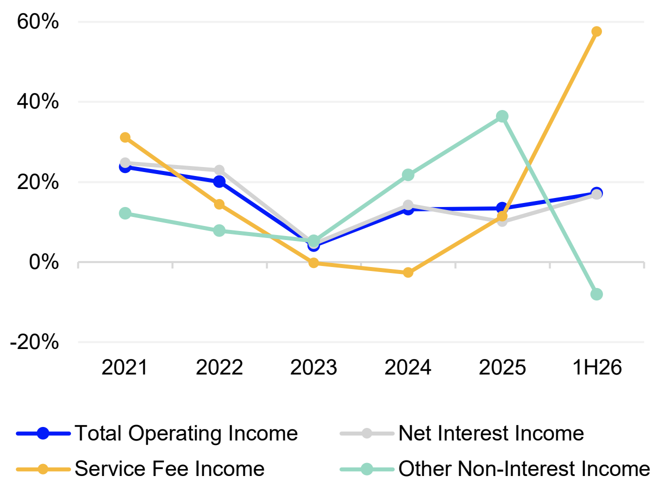
Profit Growth Remained Positive, with Divergence Concentrated Among Mid- and Small-Sized Banks

Industry-wide total operating income (TOI) growth reached 17.1% YoY in 1H 2026, a marked improvement from 10.7% in the same period of 2025, driven mainly by net interest income growth of 16.8% YoY (versus just 7.5% in the same period last year) and a strong recovery in service income (+58% YoY). Meanwhile, income from foreign exchange and securities trading fell 8.1% YoY amid unfavorable market conditions.

Industry-wide pre-tax profit grew 19.6% YoY in the first half of the year, outpacing TOI growth, as banks continued to control operating expenses effectively. Accordingly, the CIR (TTM) fell from 32.1% at the end of 4Q 2025 to 31.1% in 2Q 2026. This reflects continued improvement in operating efficiency, thereby supporting bank profitability amid ongoing NIM pressure.

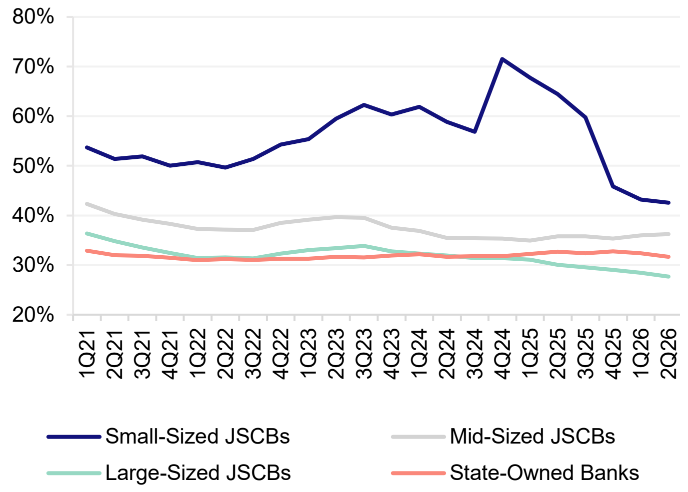
Profit growth diverged, with the largest swings concentrated at mid- and small-sized banks. Among them, banks such as BVB (+486% YoY), ABB (+109% YoY), and VBB (+83% YoY) posted the strongest profit growth, driven mainly by a sharp spike in non-core income, while profit declined significantly at SGB (-72% YoY), SSB (-55% YoY), EIB (-54% YoY), and STB (-44% YoY) due to sharply higher provisioning expenses.

Figure 20. YoY Growth of Total Operating Income Components



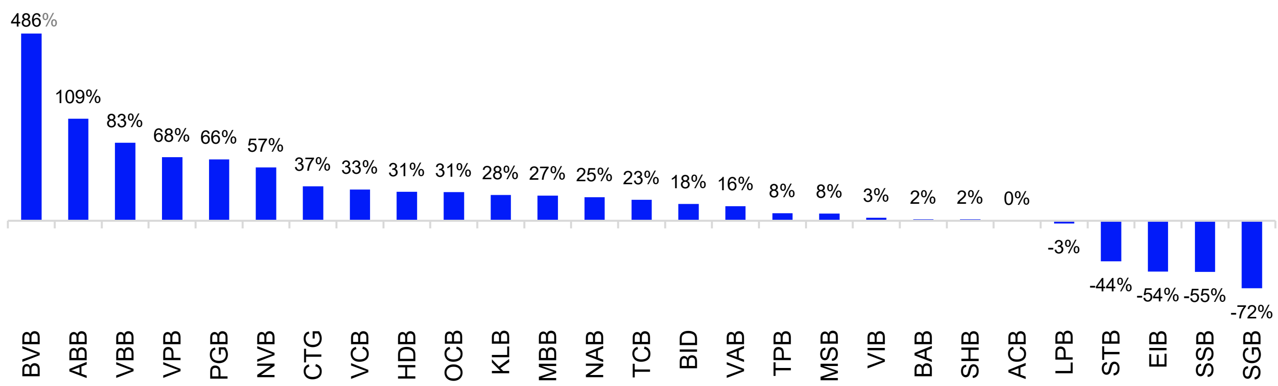
Source: S&I Ratings

Figure 21. CIR (TTM), by Bank Group



Source: S&I Ratings

Figure 22. Comparison of 1H Pre-Tax Profit Growth YoY, 27 Listed Banks



Source: S&I Ratings

Appendix. Bank Classification List

No.	Ticker	Bank Name	Classification
1	BID	Joint Stock Commercial Bank for Investment and Development of Vietnam	State-Owned Banks
2	CTG	Vietnam Joint Stock Commercial Bank for Industry and Trade	State-Owned Banks
3	VCB	Joint Stock Commercial Bank for Foreign Trade of Vietnam	State-Owned Banks
4	ACB	Asia Commercial Joint Stock Bank	Large-Sized JSCBs
5	HDB	Ho Chi Minh City Development Joint Stock Commercial Bank	Large-Sized JSCBs
6	MBB	Military Commercial Joint Stock Bank	Large-Sized JSCBs
7	SHB	Saigon - Hanoi Commercial Joint Stock Bank	Large-Sized JSCBs
8	STB	Saigon Treasure Commercial Joint Stock Bank	Large-Sized JSCBs
9	TCB	Vietnam Technological and Commercial Joint Stock Bank	Large-Sized JSCBs
10	VPB	Vietnam Prosperity Joint Stock Commercial Bank	Large-Sized JSCBs
11	EIB	Vietnam Export Import Commercial Joint Stock Bank	Mid-Sized JSCBs
12	LPB	Loc Phat Vietnam Joint Stock Commercial Bank	Mid-Sized JSCBs
13	MSB	Vietnam Maritime Commercial Joint Stock Bank	Mid-Sized JSCBs
14	NAB	Nam A Commercial Joint Stock Bank	Mid-Sized JSCBs
15	OCB	Orient Commercial Joint Stock Bank	Mid-Sized JSCBs
16	SSB	Southeast Asia Commercial Joint Stock Bank	Mid-Sized JSCBs
17	TPB	Tien Phong Commercial Joint Stock Bank	Mid-Sized JSCBs
18	VIB	Vietnam International Commercial Joint Stock Bank	Mid-Sized JSCBs
19	ABB	An Binh Commercial Joint Stock Bank	Small-Sized JSCBs
20	BAB	Bac A Commercial Joint Stock Bank	Small-Sized JSCBs
21	BVB	Viet Capital Commercial Joint Stock Bank	Small-Sized JSCBs
22	KLB	Kien Long Commercial Joint Stock Bank	Small-Sized JSCBs
23	NVB	National Citizen Commercial Joint Stock Bank	Small-Sized JSCBs
24	PGB	Thinh Vuong and Development Commercial Joint Stock Bank	Small-Sized JSCBs
25	SGB	Saigon Bank for Industry and Trade	Small-Sized JSCBs
26	VAB	Viet A Commercial Joint Stock Bank	Small-Sized JSCBs
27	VBB	Vietnam Thuong Tin Commercial Joint Stock Bank	Small-Sized JSCBs

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