

Ratings and Outlook

Lien Viet Post Joint Stock Commercial Bank

Long-term issuer rating	A+
Outlook	Stable

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IMPORTANT: This research report explains the detailed rating rationale and our credit views, and does not announce any rating action. For information on rating actions, refer to rating announcements released on our website.

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Lien Viet Post Joint Stock Commercial Bank

Summary

Lien Viet Post Joint Stock Commercial Bank (LPBank)'s A+ long-term issuer rating reflects the bank's above-average standalone assessment and our expectation of a moderate likelihood of government support for the bank in times of need. The bank's standalone assessment incorporates its above-average asset risk, profitability, and capital, as well as its average funding structure and liquid resources relative to industry peers.

LPBank is a mid-sized privately owned bank focusing on retail and small and medium enterprises (SMEs) in rural provinces and regions. The bank's above-average asset risk reflects its track record of maintaining superior asset quality and loan loss coverage metrics relative to the industry average. It also reflects the bank's recent deterioration in its retail loan quality, its ability to keep credit losses at a low level, as well as its ongoing efforts to tighter credit underwriting. We are mindful that the bank's continued credit expansion to large corporations will increase its credit concentration to large borrowers and increase its vulnerability to single-name credit events.

The bank's above average profitability incorporates its track record of improving operating profits and low credit costs, and our expectation of stable profitability over the next 12-18 months. LPBank's above-average capital is driven by its improved core capitalization from recent capital raises. We note that the bank's new capital raising plan, if completed will boost its core capitalization substantially.

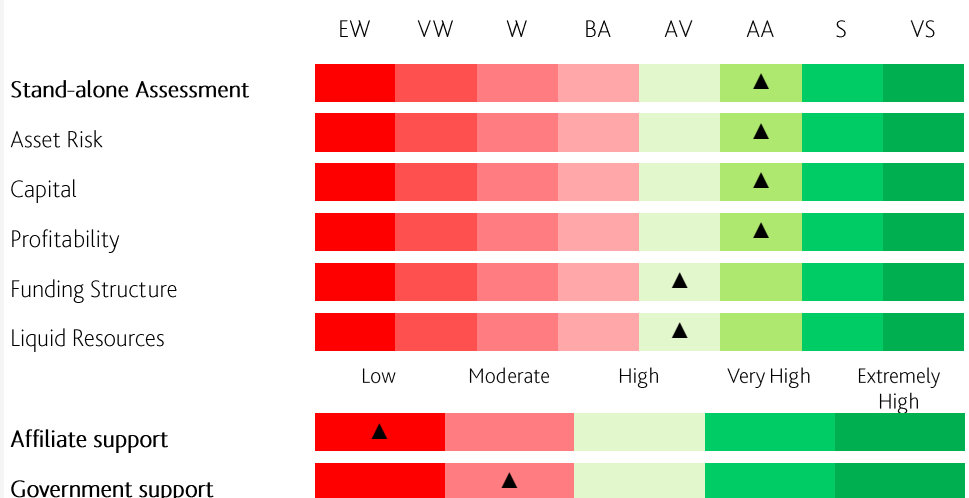
The bank's funding structure is average, reflecting its modest core low-cost deposit franchise relative to industry peers, and its track record of supplementing its funding with long-term bonds. We expect the bank's current and savings account (CASA) deposits to grow amid low-interest rate environment. Its liquid resources is also average and we expect its continued use of long-term bonds to support loan growth will help to maintain funding stability.

We expect a moderate likelihood of support from the government for LPBank due to its sizable deposit market share of 2% and business coverage. The bank is identified as one of the 14 systematically important banks under Decision 538/QD-NHNN issued by the State Bank of Vietnam.

Outlook

» The outlook on LPBank's long-term issuer rating is stable, reflecting our view that its credit fundamentals will remain stable over the next 12-18 months.

Summary of key factors



Source: Vietnam Investors Service

Note: EW- Extremely Weak, VW- Very Weak, W- Weak, BA- Below-Average, AV- Average, AA- Above-Average, S- Strong, VS- Very Strong

Factors that could lead to an upgrade

- » LPBank's A+ rating could be upgraded if the bank (1) exhibits a track record of maintaining prudent credit underwriting standards and improving the asset quality, for example by consistently maintaining its problem loan ratio at below 0.5%; or (2) improves its loss-absorption buffer through a substantial increase in core capitalization, such that TCE / RWA ratio stays above 13% on a sustained basis.

Factors that could lead to a downgrade

- » LPBank's A+ rating could be downgraded if (1) the bank's asset risk profile increases substantially through higher new problem loan formation rate and/or higher credit concentration alongside a deterioration in its loss absorption buffer or (2) the bank's funding and/or liquidity risks increases due to further weakening in its core deposit funding and/or increasing reliance on short-term market funds.

Key Financial Indicators

Exhibit 1

Lien Viet Post Joint Stock Commercial Bank (Consolidated Financial Statements)

(In VND billion)	Q1-2024	2023	2022	2021	3Y average
Total assets	409,764	382,863	327,746	289,194	333,268
Total shareholders' equities	36,416	34,117	24,055	16,802	24,991
Profit after tax	2,298	5,572	4,510	2,873	4,319
Problem loan ratio ¹ (%)	1.39%	1.34%	1.46%	1.33%	1.37%
Tangible common equity ratio ² (%)	n/a	9.7%	9.8%	8.3%	9.3%
Return-on-average Tangible Assets (%)	2.3%	1.6%	1.5%	1.1%	1.4%
CASA / Gross loan ratio (%)	9.1%	8.4%	8.1%	8.7%	8.4%
Liquidity ratio ³ (%)	-4.2%	-4.7%	-1.4%	-8.5%	-4.9%

Note: (1) Total non-performing loans (NPL), VAMC bonds, and other problem assets divided by gross loan, VAMC bonds, and other problem assets

(2) Total tangible common equity divided by risk-weighted assets

(3) Liquid banking assets less market funds, as a percentage of tangible banking assets

Source: Bank data, Vietnam Investors Service

Company Profile

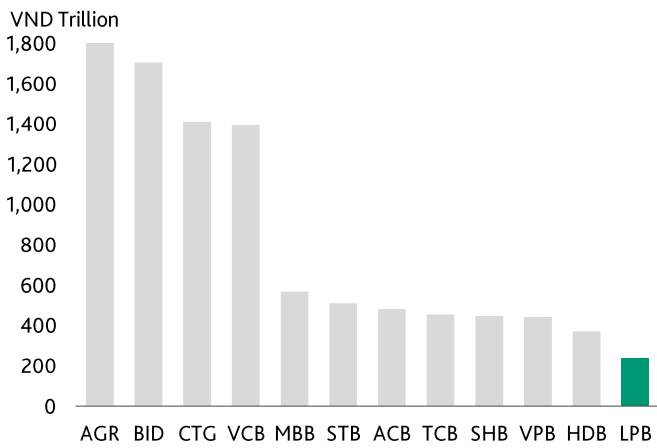
Brief company history: LPBank was established in 2008 as a privately owned commercial bank – formerly named Lien Viet Joint Stock Commercial Bank - by founders Him Lam Group, Saigon Trading Corporation, and Southern Airports Services JSC. In 2011, Vietnam Post Corporation (VNPost) and LPBank completed a transfer of VNPost's subsidiary, Postal Savings Service Company to LPBank; LPBank issued new shares to VNPost, and also received cash from VNPost. Both parties signed a cooperation agreement that would allow LPBank to utilize VNPost's postal network of 10,000 transaction offices across the country to expand its banking footprint from 2011 to 2061. The bank was listed on the Ho Chi Minh Stock Exchange (HOSE) in 2020 under ticker LPB. The bank was among the first banks in Vietnam to adopt Basel III and IFRS9 in 2022.

Ownership: As of 31 December 2023, LPBank reported only VNPost as the major shareholder with an ownership rate of 6.5%. In 2021, VNPost announced its intention to divest its equity stake in LPBank in order to comply with a new government policy for State-owned enterprises to divest their non-core businesses. As of today, VNPost has not completed the divestment.

Market share and Network: As of 2023, LPBank ranked 12th in terms of deposit and loan market share (Exhibit 2 and Exhibit 3), having 80 branches and 481 transaction offices, with around 91% of the network located in rural provinces. Moreover, LPBank can widen its franchise through 568 postal offices, based on a 50-year cooperation agreement (2011 - 2061) with VNPost, which allows Lien Viet to be the exclusive bank to set up tranches through VNPost's postal network. According to Circular 11/2023/TT-NHNN, in case VNPost's ownership stake in LPBank decreases to less than 5% then postal transaction offices will not be able to offer term deposit products for LPBank but can continue to provide other limited banking services such as CASA deposits, individual payment accounts opening, domestic collection and payment services, and insurance agency services. According to the bank management, the bank can continue serving the needs of its existing and new customers at the postal transaction offices with limited disruptions.

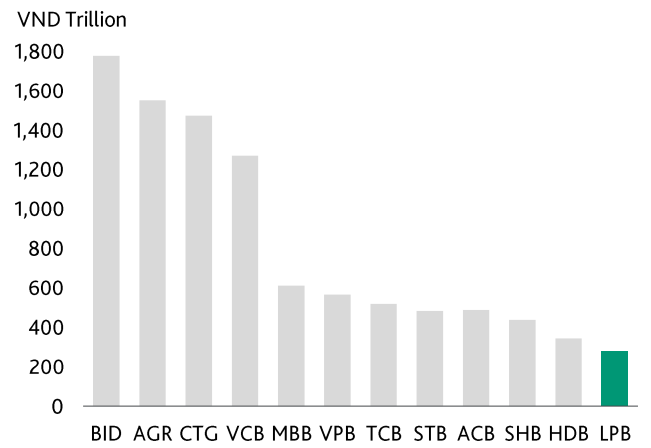
Furthermore, LPBank introduced the banking app LietViet24h to provide comprehensive payment services for customers. The number of app users have experienced rapid growth and has attracted a total online savings deposit of VND 34 trillion (+33% year-to-date), 3.5 million users, and total online transactions reaching VND 906 trillion as of 2023.

Exhibit 2
Ranked 12th in terms of total deposits as of 2023



Source: Bank data, Vietnam Investors Service
 Note: Refer to the Appendix for the full names of banks

Exhibit 3
Ranked 12th in terms of gross loans as of 2023



Source: Bank data, Vietnam Investors Service
 Note: Refer to the Appendix for the full names of banks

Strategy: LPBank aims to become the leading retail bank in Vietnam banking sector through focusing on digital transformation, enhancing corporate governance, and human resources, diversifying retail banking product and services, and improving brand recognition.

Key products/services: LPBank provides a variety of banking services for retail and SMEs in rural provinces such as deposit, loan, life, and non-life insurance; engaging more to digital channels for individuals and corporates. For retail loans, LPBank offers key products like loans for agricultural development, loans for retired officers, loans through local groups such as farmer or women’s unions, and mortgages. In terms of corporate, LPBank offers services like domestic and international payment, collection, and guarantee.

Key customer segments: In 2023, retail loans made up 42% of the bank’s total gross loans; SME loans 41%, and corporate loans 17%. Retail loans focused on business loans, consumer loans, mortgages. SME and corporate loans focused on construction, wholesale and retail trade, real estate services, manufacturing, and energy.

Detailed Credit Considerations

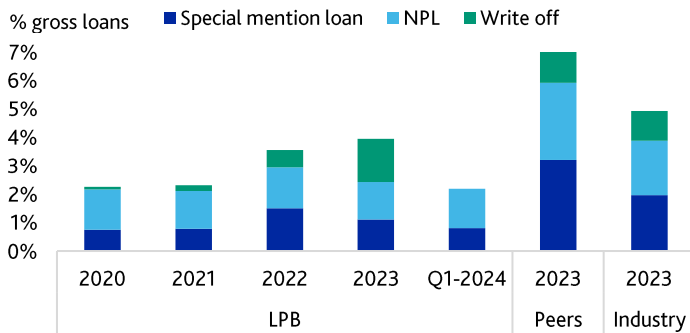
ASSET RISK

We assess LPBank's asset risk to be 'Above-Average', underpinned by its track record of maintaining superior asset quality and loan loss coverage metrics relative to the industry average. It also reflects the bank's recent deterioration in its retail loan quality and its ability to keep credit losses at a low level. Over the next 12-18 months, we expect the bank's retail and SME loan delinquencies to moderate through tighter credit underwriting by the bank and improving borrower debt serviceability amid low interest rates.

Asset quality was well-maintained compared to industry and peer, driven by proactive loan quality control and a diversified customer base which mitigated the deterioration in retail loan

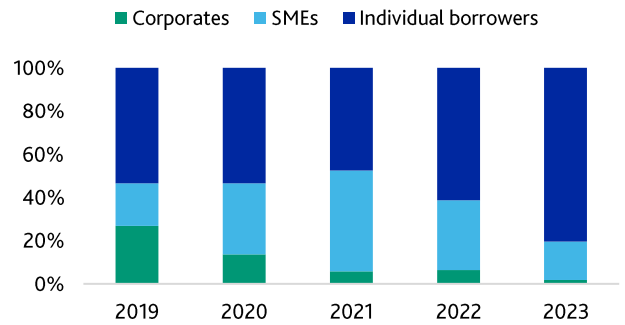
Over the past 3 years, the bank's non-performing loan (NPL) ratios were 1.3% - 1.5%, compared with the industry average of 1.9% (Exhibit 4). For 2023, the majority of the bank's NPLs were driven by its retail loans (Exhibit 5).

Exhibit 4
LPBank exhibited superior asset quality compared to peers and industry average



Source: Bank data, Vietnam Investors Service
 Note: LPBank's peer group consists of mid-sized banks focusing on retail and SMEs
 Refer to the Appendix for the full names of banks

Exhibit 5
The majority of the bank's NPLs were due to retail loans



Source: Bank data, Vietnam Investors Service

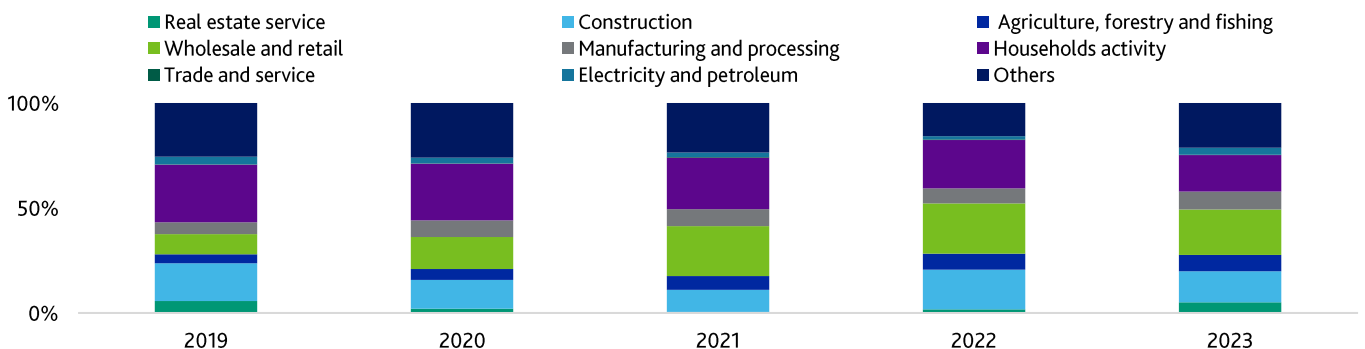
According to the bank management, the deterioration in retail loan quality came from its mortgage and business loans to retail customers, driven mainly by the slowing economy and rise in lending rates in 2023. Credit costs remained manageable as the loans were largely secured by real estate assets. The bank implemented various measures to tighten credit underwriting and loan recovery practices to tackle the weakening debt serviceability among the retail segment, such as more stringent selection of new borrowing customers, close monitoring of customers' business activities, and active collection of loan repayments.

The bank's SME loan portfolio benefits from risk diversification across small borrowers as well as provinces nationwide. According to the bank management, its SME loans are mostly secured by the borrowers' real estate assets; the bank actively monitors the business activities of its borrowers to detect early signs of repayment difficulties and proactively works with its borrowers to manage repayments and minimize credit losses for the bank.

Increasing exposure to large corporates will pose single-name concentration risks

We note that the bank has increased its lending to large corporations in line with its strategic focus to strengthen its lending and funding mix. Over the past 3 years, the majority of its new lending was for companies in real estate, construction, and electricity sectors. For example, the bank extended new credit facilities to Xuan Thien Group (VND9.6 trillion), Hoang Anh Gia Lai Group (VND5 trillion), and Hung Thinh Group (VND5 trillion). We are mindful that the bank's continued credit expansion to large corporations will increase its credit concentration to large borrowers and increase its vulnerability to single-name credit events.

Exhibit 6
LPBank's loan mix by sectors

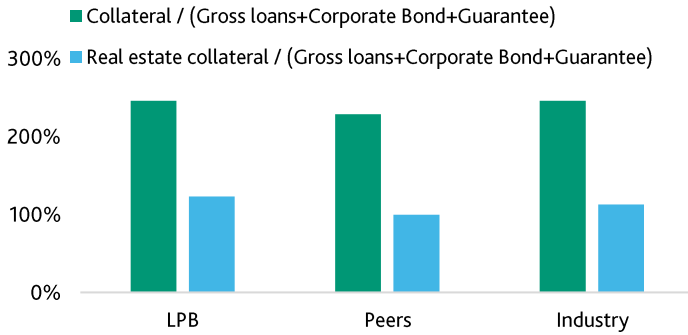


Source: Bank data, Vietnam Investors Service

LPBank maintained strong loan loss absorption with a consistent higher-than-peer and industry loan loss coverage and physical collateral

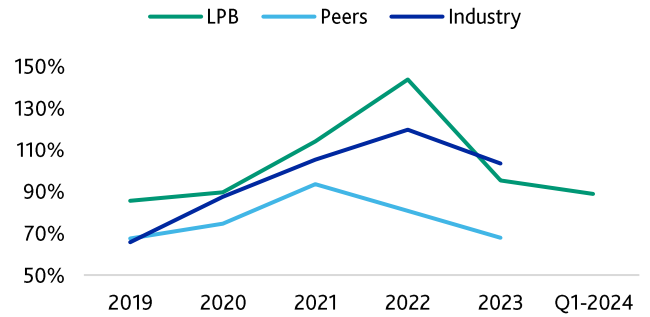
LPBank has actively maintained stronger-than-peer real estate collateral over gross loan coverage, supporting the bank's asset risk management and keeping the credit losses at low level (Exhibit 9). As of 2023, the real estate collateral over gross loans and other guarantees 123%, which was both higher than peer and the industry average (Exhibit 7). Moreover, The loan loss coverage ratio was 118% on average from 2021 to 2023, compared with the industry average of 109% (Exhibit 8). According to the management, over 95% of the loan size is collateralized by customers' assets and the bank aims for long-term loan loss coverage of over 100%.

Exhibit 7
Higher-than-peer and industry-average physical collateral over total credit and guarantee



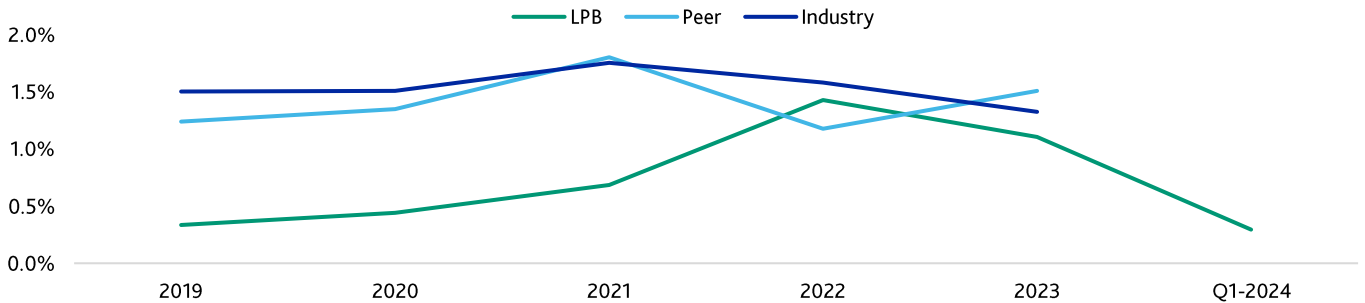
Source: Bank data, Vietnam Investors Service

Exhibit 8
Consistently stronger-than-peer and industry average loan loss coverage



Source: Bank data, Vietnam Investors Service

Exhibit 9
Credit costs to gross loans stayed consistently below industry



Source: Bank data, Vietnam Investors Service

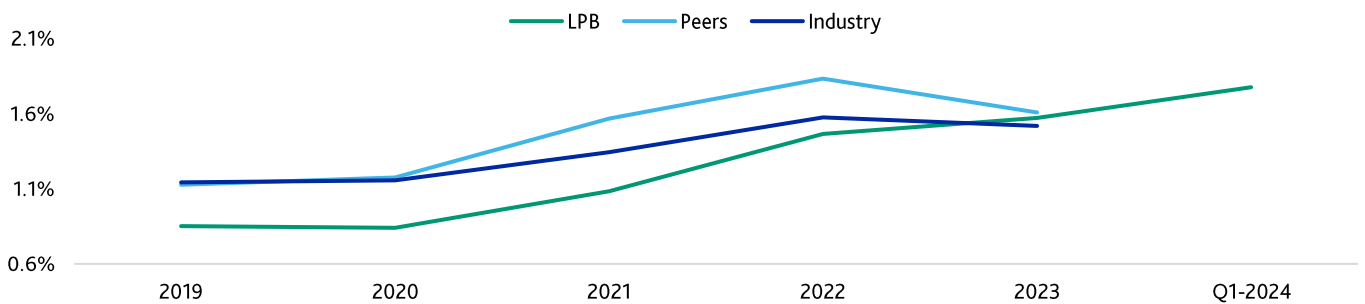
PROFITABILITY

We position the bank's profitability at an 'Above-Average' level to reflect its track record of improving operating profits and low credit costs, and our expectation of stable profitability over the next 12-18 months.

Continued improvement in operating profits was mainly driven by efficiency gains

Over the past five years, LPBank's return on average assets (ROAA) gradually improved from 0.8% in 2019 to a higher-than-industry average level of 1.6% in 2023 (Exhibit 10), driven mostly by efficiency gains as it optimized its physical network.

Exhibit 10
LPBank's ROAA was slightly higher than the industry average

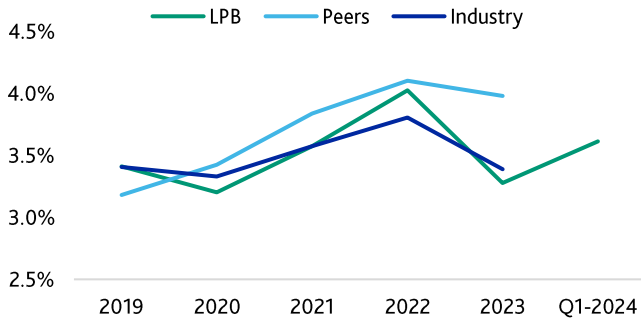


Source: Bank data, Vietnam Investors Service

LPBank's NIM was 3.3% at end-2023, in line with the industry average (Exhibit 11). Much of its lending is in the higher-yielding customer segments like retail and SMEs and in the form of longer-term loans, which allows it to afford higher cost of funding compared to peer banks (Exhibit 12).

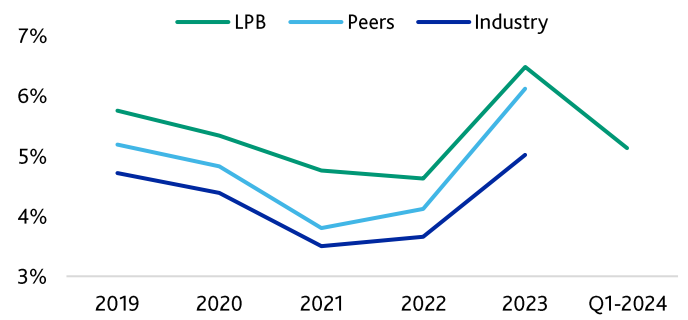
According to the bank management, the bank intends to strengthen its fee income from settlement, guarantee and foreign exchange services, and raise the contribution of non-interest income to total operating income to 20% by 2024, which will improve income stability.

Exhibit 11
Moderate NIM compared to peers and industry as its high-yielding customer base...



Source: Bank data, Vietnam Investors Service

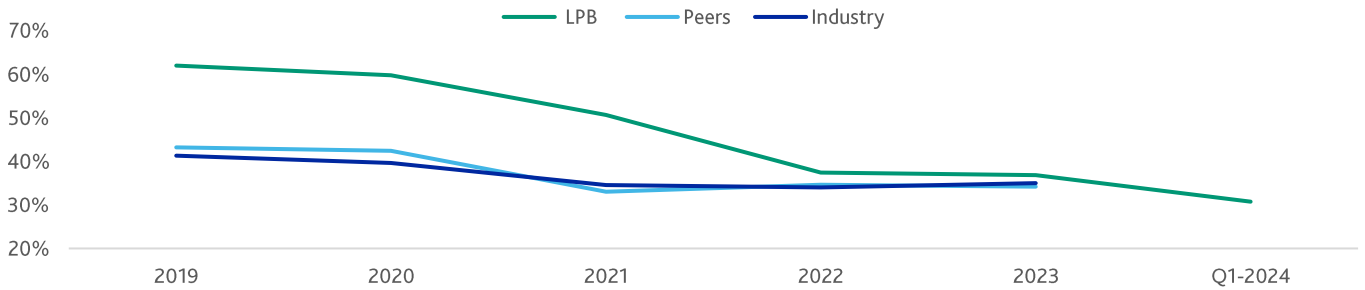
Exhibit 12
... allows the bank to afford higher funding costs relative to industry and peers



Source: Bank data, Vietnam Investors Service

Through the closure of nearly 25% of its postal transaction offices that were either underutilized or unprofitable, its cost-to-income ratio (CIR) fell to 31% in March 2024, from 60% in 2019 (Exhibit 13). Moreover, the bank's credit costs were 0.8% of average gross loans for 2019-2023 lower than the industry average of 1.4%, given its track record of maintaining superior asset quality and loan loss coverage metrics.

Exhibit 13
CIR declined significantly over the years



Source: Bank data, Vietnam Investors Service

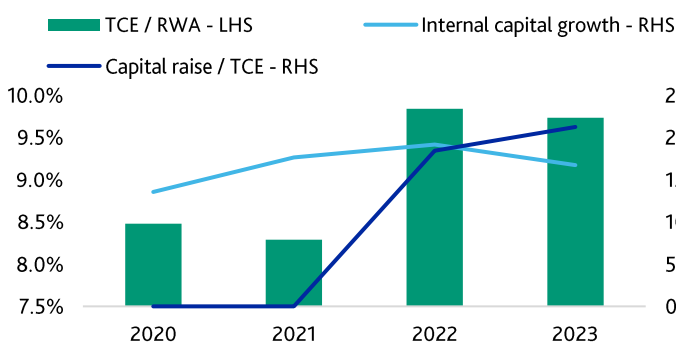
CAPITAL

We position LPBank's capital at an 'Above-average' level, reflecting the higher core capitalization from recent capital raises. We expect LPBank's capital level to remain stable over the next 12-18 months, underpinned by steady internal capital generation from retained profits to support its asset growth. We note that LPBank announced a new capital raising plan of VND 8 trillion in 2024, and if completed, will boost the bank's core capitalization substantially.

Slightly higher than industry average capital level driven by recent sizable capital raise

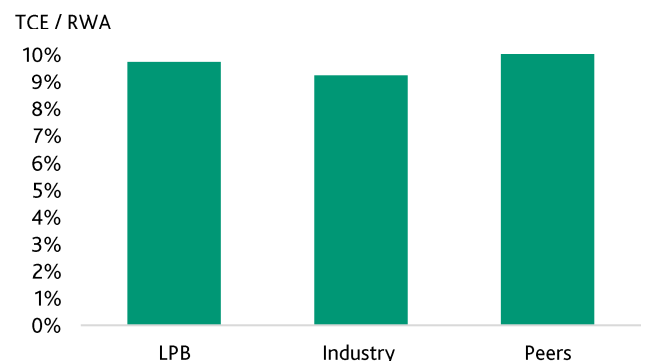
The bank's tangible common equity (TCE) to risk-weighted asset (RWA) ratio rose to 9.7% in 2023 from 8.3% in 2021 after it raised a total of VND8 trillion in new equity capital (Exhibit 14). The bank's reported total capital adequacy ratio (CAR) under the local Basel II standards was 12.2% in 2023, higher than the industry average of 11%.

Exhibit 14
Capital level improved driven by significant capital raise



Source: Bank data, Vietnam Investors Service

Exhibit 15
Capital level was slightly higher than the industry



Source: Bank data, Vietnam Investors Service

FUNDING STRUCTURE

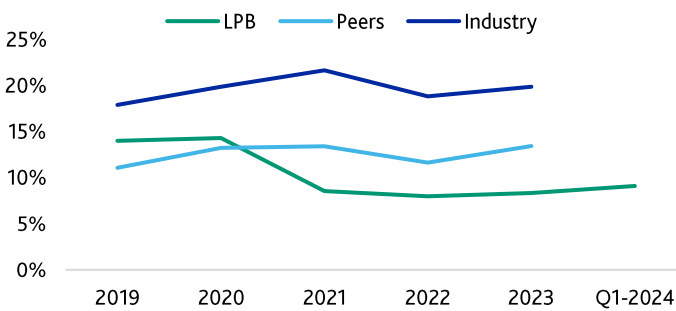
We assess the bank’s funding structure to be ‘Average’, driven primarily by its modest core low-cost deposit franchise relative to industry peers, and its track record of supplementing its funding with long-term bonds. We expect LPBank’s CASA level to improve slightly over the next 12-18 months amid the low-interest rate environment, while its ongoing efforts to improve its CASA deposits will take time to materialize.

CASA deposits consistently stayed at a low level following the withdrawal of large corporate deposits

The bank’s current account and saving account (CASA) deposits fell to 8.4% of its gross loans at end-2023 – lower than the industry average of 20% - following the withdrawal of large corporate deposits from the bank (Exhibit 16).

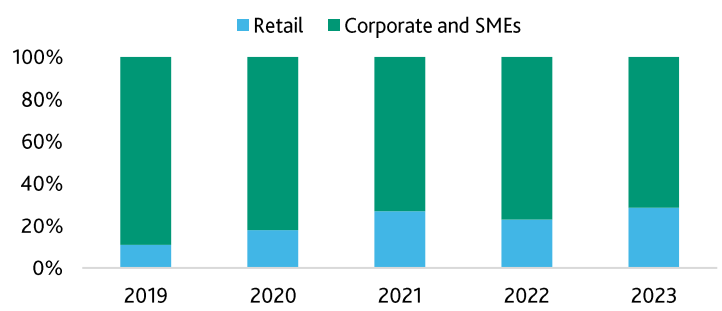
According to the bank management, the bank has launched various digital banking initiatives to promote cashless transaction banking among businesses and individuals in its rural network to gather new CASA deposits. For example, the bank has started to offer payment services for for medium-income retail, payroll products for SME and corporate customers, pension payments, and social benefits as well as deposit products through collaboration with e-wallets like Viettel, and Momo.

Exhibit 16
LPBank’s CASA deposits / Gross loans are lower than peers and the industry average



Source: Bank data, Vietnam Investors Service

Exhibit 17
Gradual increase in the contribution of retail CASA deposits to total CASA deposits



Source: Bank data, Vietnam Investors Service

LIQUID RESOURCES

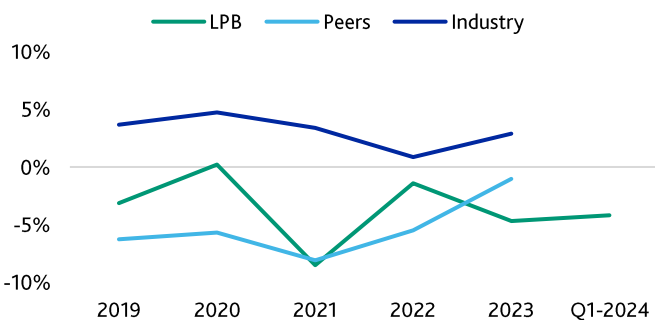
We position the bank’s liquid resources at an ‘Average’ level supported by moderate liquid asset reserves and the use of long-term bond funding. Over the next 12-18 months, we expect the bank’s liquidity position to remain stable given its plan to continue issuing long-term bonds to support loan growth and maintain stability of its funding profile.

The bank’s refinancing and liquidity risks are manageable

Over the past 5 years, LPBank’s liquid assets - including cash and cash equivalents, government securities, and interbank placements - made up an average of 21% of its total assets, in line with the industry average. Market funds – including the State Treasury’s deposits, deposits and borrowings from other credit institutions, grants and trusted funds, and valuable papers issued - were 26% of its total assets in 2023. As such, LPBank’s liquidity ratio was consistently below the industry average level and was stable at -4% at end of 1Q2024 (Exhibit 18).

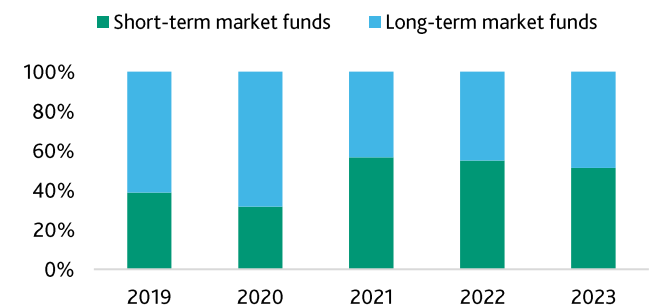
Around 50% of the bank’s market funds were long-term funds in the form of certificates of deposits (CDs) and bond fundings with the tenor ranging from 18 months up to 5 years. And as such, we view the refinancing and liquidity risks for the bank due to the use of market funds to be manageable.

Exhibit 18
Lower-than-industry average liquidity ratio



Source: Bank data, Vietnam Investors Service

Exhibit 19
Focusing on medium and long-term valuable paper funding to lower refinancing risk



Source: Bank data, Vietnam Investors Service

CREDIT RATING HISTORY

Date	Rating type	Rating	Outlook	Action
08 May 2024	Long-term Issuer	A+	Stable	First-time assignment

RATING SCALE

Long-Term Rating

AAA	Issuers or debt instruments demonstrate the strongest creditworthiness relative to other domestic entities and transactions.
AA	Issuers or debt instruments demonstrate very strong creditworthiness relative to other domestic entities and transactions.
A	Issuers or debt instruments demonstrate above-average creditworthiness relative to other domestic entities and transactions.
BBB	Issuers or debt instruments demonstrate average creditworthiness relative to other domestic entities and transactions.
BB	Issuers or debt instruments demonstrate below-average creditworthiness relative to other domestic entities and transactions.
B	Issuers or debt instruments demonstrate weak creditworthiness relative to other domestic entities and transactions and may be approaching default, with strong recovery prospects.
CCC	Issuers or debt instruments demonstrate very weak creditworthiness relative to other domestic entities and transactions and are likely in or near default, typically with moderate recovery prospects.
CC	Issuers or debt instruments demonstrate extremely weak creditworthiness relative to other domestic entities and transactions and are typically in default, typically with poor recovery prospects.
C	Issuers or debt instruments demonstrate the weakest creditworthiness relative to other domestic entities and transactions and are typically in default, with very poor recovery prospects.

Note: Vietnam Investors Service appends the modifiers + and – to each generic rating classification from AA through CCC. The modifier + indicates that the obligation ranks in the higher end of its generic rating category; no modifier indicates a mid-range ranking; and the modifier – indicates a ranking in the lower end of that generic rating category

APPENDIX

The banks included in our analysis are as follows:

N°	Short name	Full name	Classification
1	ABB	An Binh Commercial Joint Stock Bank	Small
2	ACB	Asia Commercial Joint-Stock Bank	Large
3	AGR	Vietnam Bank for Agriculture and Rural Development	State-owned
4	BAB	Bac A Commercial Joint Stock Bank	Small
5	BID	Joint Stock Commercial Bank for Investment and Development of Vietnam	State-owned
6	BVB	Viet Capital Commercial Joint Stock Bank	Small
7	CTG	Vietnam Joint-Stock Commercial Bank for Industry and Trade	State-owned
8	EIB	Vietnam Export Import Commercial Joint Stock Bank	Mid-sized
9	HDB	Ho Chi Minh City Development Joint Stock Commercial Bank	Mid-sized
10	KLB	Kien Long Commercial Joint Stock Bank	Small
11	LPB	Lien Viet Post Joint Stock Commercial Bank	Mid-sized
12	MBB	Military Commercial Joint Stock Bank	Large
13	MSB	Vietnam Maritime Commercial Joint Stock Bank	Mid-sized
14	NAB	Nam A Commercial Joint Stock Bank	Mid-sized
15	NVB	National Citizen Commercial Joint Stock Bank	Small
16	OCB	Orient Commercial Joint Stock Bank	Mid-sized
17	PGB	Prosperity and Growth Commercial Joint Stock Bank	Small
18	SGB	Saigon Bank for Industry and Trade	Small
19	SHB	Saigon - Hanoi Commercial Joint Stock Bank	Large
20	SSB	Southeast Asia Commercial Joint Stock Bank	Mid-sized
21	STB	Saigon Thuong Tin Commercial Joint Stock Bank	Large
22	TCB	Vietnam Technological and Commercial Joint-Stock Bank	Large
23	TPB	Tien Phong Commercial Joint Stock Bank	Mid-sized
24	VAB	Vietnam Asia Commercial Joint Stock Bank	Small
25	VBB	Vietnam Thuong Tin Joint Stock Commercial Bank	Small
26	VCB	Joint Stock Commercial Bank for Foreign Trade of Vietnam	State-owned
27	VIB	Vietnam International Commercial Joint Stock Bank	Mid-sized
28	VPB	Vietnam Prosperity Joint Stock Commercial Bank	Large

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