

Ratings and Outlook

Tien Phong Commercial Joint Stock Bank

Long-term issuer rating	AA-
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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Tien Phong Commercial Joint Stock Bank

Summary

Tien Phong Commercial Joint Stock Bank (TPBank)'s AA- long-term issuer ratings reflect its above-average standalone assessment and our expectation of a moderate likelihood of government support for the bank during extraordinary circumstances. The bank's standalone assessment incorporates its strong funding structure, strong profitability, above-average capital, coupled with its average asset risk and liquid resources compared to peers.

Established in 2008, TPBank is a mid-sized privately-owned commercial bank focusing on retail and small and medium enterprises (SME) customers. The bank's early digitalization efforts have supported its strategic growth across the country with a wide and growing network of transaction points. We view TPBank's strong funding structure to be one of its key credit strengths, reflecting the bank's track record of growing its low-cost current and savings account (CASA) deposits through its digital capabilities. In addition, the bank exhibited a strong profitability relative to peers, driven by its strategic focus on higher-yielding customer segments coupled with robust credit growth and a strong funding profile to maintain above-industry-average net interest margin (NIM). The bank's above-average capital reflects its higher-than-industry average capitalization and strong profitability to replenish capital and pursue loan growth over the past 5 years.

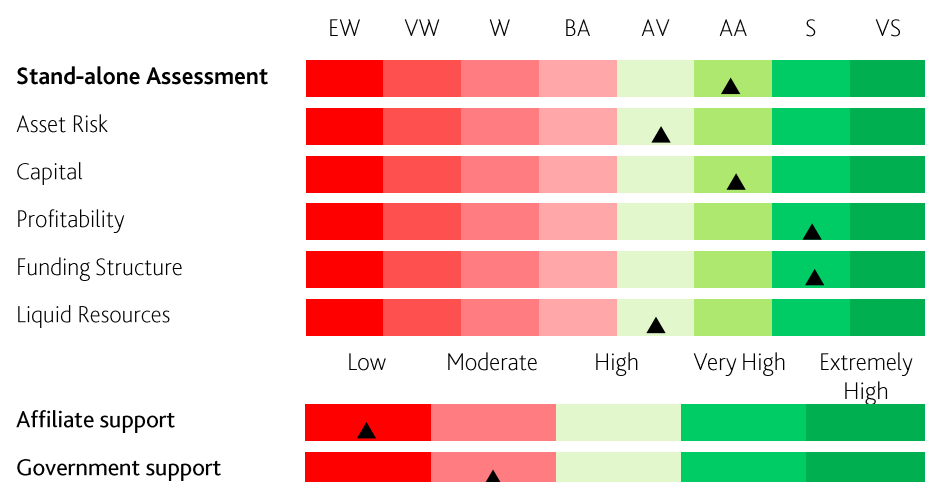
The bank's average asset risk profile is marked by its rising problem loans from retail and SME borrowers over the last 12 months and its sizeable exposure to large corporate borrowers. We expect the bank's asset risk to stabilize over the next 12-18 months through its efforts to tighten credit underwriting standards and enhance debt collection efforts. The bank's average liquid resources reflect its adequate stock of liquid assets including cash, government securities, and interbank assets to cover market funds obligations.

We expect a moderate likelihood of government support for TPBank due to its sizeable deposit market share of 1.8% and business coverage. The bank is identified as one of the 14 systematically important banks under Decision 538/QĐ-NHNN issued by the State Bank of Vietnam.

Outlook

» The outlook on TPBank'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

- » TPBank's AA- rating could be upgraded if the bank exhibits a significant improvement in its asset quality and loss absorption buffer, for example by establishing a track record of maintaining (1) its problem loan ratio at below 1% on a sustained basis, and (2) its TCE as percentage of RWA above 14.5%.

Factors that could lead to a downgrade

- » TPBank's AA- rating could be downgraded if (1) there is material deterioration in its asset quality through continued increases in either the formation rate of new problem loans or credit concentration in high-risk segments and/or large borrowers; or (2) the bank's loss absorption capacity weakens substantially, for example its TCE/ RWA falls below 10% or its ROAA falls below 1%; or (3) we view the bank's vulnerability to liquidity risks increases through further increases in reliance on short-term market funds and insufficient liquid assets to serve as a liquidity buffer.

Key Financial Indicators

Exhibit 1

Tien Phong Commercial Joint Stock Bank (Consolidated Financial Statements)

(In VND billion)	Q1-2024	2023	2022	2021	3Y average
Total assets	355,870	356,634	328,634	292,827	326,032
Total shareholders' equities	34,190	32,743	32,239	25,988	30,323
Profit after tax	1,463	4,463	6,261	4,830	5,185
Problem loan ratio ¹ (%)	2.2%	2.0%	0.8%	0.8%	1.2%
Tangible common equity ratio ² (%)	n/a	10.7%	12.3%	11.5%	11.9%
Return-on-average Tangible Assets (%)	1.6%	1.3%	2.0%	1.9%	1.8%
CASA/ Gross loan ratio (%)	21.8%	21.7%	20.5%	22.0%	21.4%

(1) Problem loan ratio is measured as dividing total non-performing loans (NPL), VAMC bonds, and other problem assets by gross loan, VAMC bonds, and other problem assets

(2) Tangible common equity ratio is calculated by total tangible common equities over risk-weighted assets (TCE/RWA)

Source: Bank data, Vietnam Investors Service

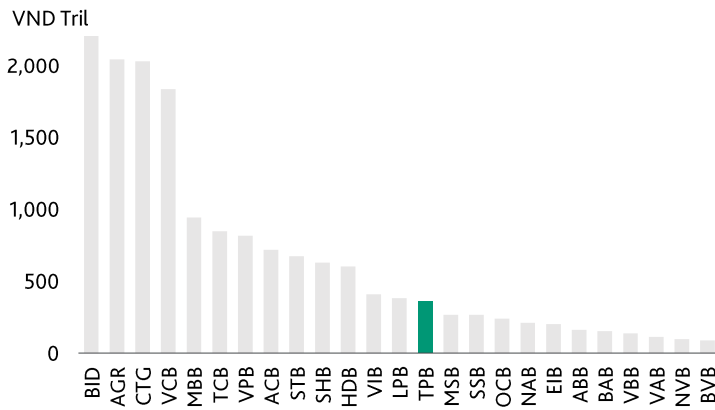
Company Profile

Brief company history: First established in 2008 with an initial charter capital of VND 1 trillion, TPBank underwent an organizational restructuring in 2012 with the participation of leading economic organizations such as DOJI Group, FPT Group (Co-Founder) and embarked on a strategic shift to become a digital-focused bank. The bank's early digitalization efforts have supported its strategic growth across the country. TPBank was the first bank in Vietnam to launch an eBank version that integrates both Mobile Banking and Internet Banking functionalities in 2014. In 2017, TPBank launched "LiveBank 24/7" – the first automated bank in Vietnam, and now maintains a wide and growing network of transaction points to serve existing and acquire new customers. In 2018, TPBank was successfully listed on the Ho Chi Minh Stock Exchange (HOSE) and raised charter capital to 8.5 trillion VND. TPBank was among the first banks in Vietnam to fully comply with Basel III standards and IFRS 9 in 2021. In 2023, TPB continued to strengthen its risk management framework by deploying advanced Basel III by calculating capital based on both basic internal rating-based (FIRB) and advanced internal rating-based (AIRB).

Ownership: TPB's shareholder structure has remained relatively stable since its inception. At end-2023, TPBank consisted of the following major shareholders: FPT Group (6.7% equity stake), DOJI Group (5.9%), SBI Ven Holdings Pte. Ltd and related companies (20%).

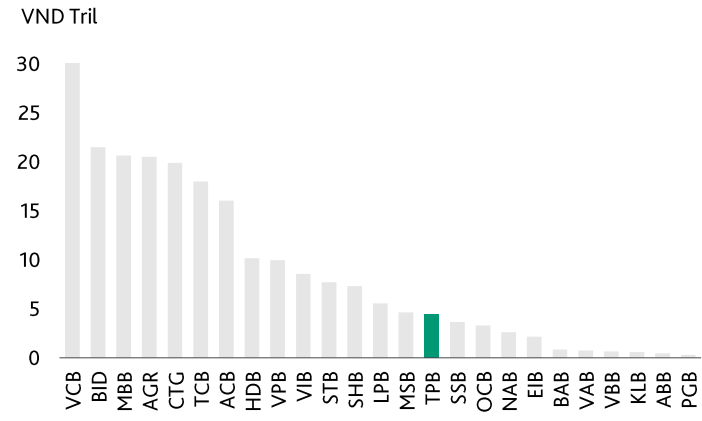
Market share and network: As of 31 December 2023, TPBank was ranked 14th largest banks by total assets (Exhibit 2), and 15th by profit-after-tax (Exhibit 3). TPBank has a total of 132 physical outlets across Vietnam including branches, transaction offices, and head office. TPBank maintained 436 automated 'LiveBank 24/7' transaction points mainly located in Ha Noi and Ho Chi Minh City. Furthermore, TPBank is also one of the first banks in Vietnam to successfully collaborate with population data from the Ministry of Public Security and has the widest QR Code payment network in Southeast Asia.

Exhibit 2
TPBank ranked 14th in terms of total assets as of end-2023



Source: Bank data, Vietnam Investors Service

Exhibit 3
TPBank ranked 15th in terms of profit after tax as of end-2023



Source: Bank data, Vietnam Investors Service

Strategy: TPBank's strategy for the 2023-2028 period is to become an advanced financial group that offers diversified products in banking, securities, wealth management, and settlement to customers. As a digital-focused bank targeting retail and SME customers, TPBank aims to achieve its strategy by leveraging its advanced technology platforms following the bank's early digitalization efforts. In recent years, TPBank has plans to enhance its financial ecosystem through integration with other businesses such as wealth management and consumer finance. In January 2024, the bank acquired 75% equity stake of Viet Cat Fund Management Company. Besides, TPBank is also participating in the restructuring process of Handico Finance Company (HAFIC) to expand its consumer finance business. In addition, to acquire new customers and improve its competitive advantages, TPBank will continue to upgrade and supplement new advanced features for LiveBank+, e-banking platform as well as a diversified range of products revolving around the focus of personalizing the user experience and promoting convenience for customers.

Key products/services: TPBank offers a diverse array of services including deposits, loans, settlement services, foreign exchange (FX) transactions, bond investments, and bancassurance. TPBank also provides digital banking products such as a mobile banking app, Livebank 24/7, Savy, and Quickpay with 436 Livebank transaction points nationwide. Moreover, TPBank aims to target young customers by introducing the 'TPBank Flash 2in1 card', focusing on personalizing user experiences and promoting payment linkage services through Google Pay, Apple Pay, Zalo Pay, and MoMo to meet the growing demand of customers.

Key customer segments: Corporate (21% of gross loans), SME (26% of gross loans), and individual (53% of gross loans). TPBank particularly focuses on higher-yielding segments including retail products such as mortgages, auto loans, and consumer loans as well as lending to companies in real estate and construction sectors.

Detailed Credit Considerations

ASSET RISK

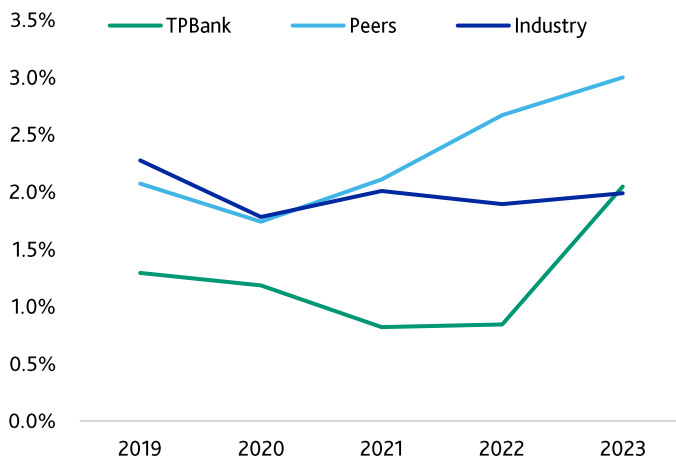
We assign an 'Average' asset risk score to reflect TPBank's rising problem loans from retail and SME borrowers over the last 12 months, and its sizable exposure to large corporate borrowers. We expect the bank's asset risk will stabilize over the next 12-18 months given the bank's efforts to tighten credit underwriting standards for new retail and SME customers, de-risk its consumer finance business, and enhance debt collection efforts, alongside the current low interest rate environment.

Rising problem loans from retail and SME borrowers amid slowing economic conditions and higher lending rates in 2023

Similar to its peers, TPBank's NPL ratio rose to 2% of its gross loans in 2023, from 0.8% a year ago (Exhibit 4). Loan write-offs also rose to 1.7% of its gross loans from 1.2% over the same period. According to the bank management, the bank's asset quality issues were driven by retail and SME borrowers affected by the slowing economic conditions in 2023 as well as higher lending rates. We note that much of the bank's loan write-offs were for its unsecured cash loans, which had grown significantly in recent years.

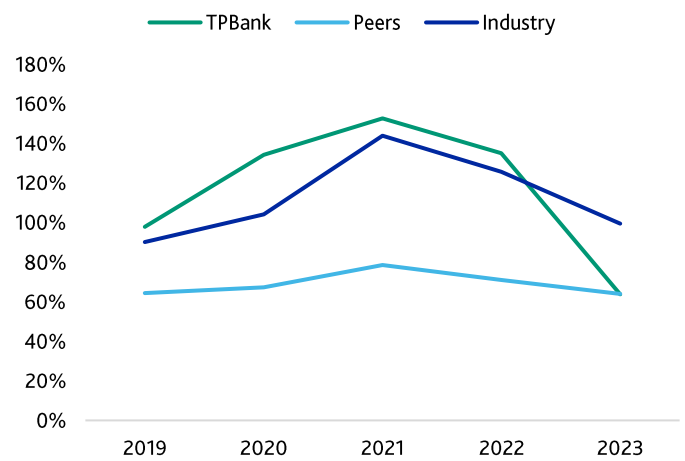
Retail NPL ratio rose to 2.7% in 2023 from 1% a year ago, mostly due to mortgages, auto loans, credit cards, and unsecured cash loans. The bank's loan loss coverage at end-2023 was 64%, similar to its peers (Exhibit 5).

Exhibit 4
TPBank's NPL ratio relative to peers and industry average



Source: Bank data, Vietnam Investors Service
Note: Peers include banks focusing on retail and SME clients with sizable exposure to real estate-related sectors

Exhibit 5
TPBank's loan loss coverage relative to peers and industry average



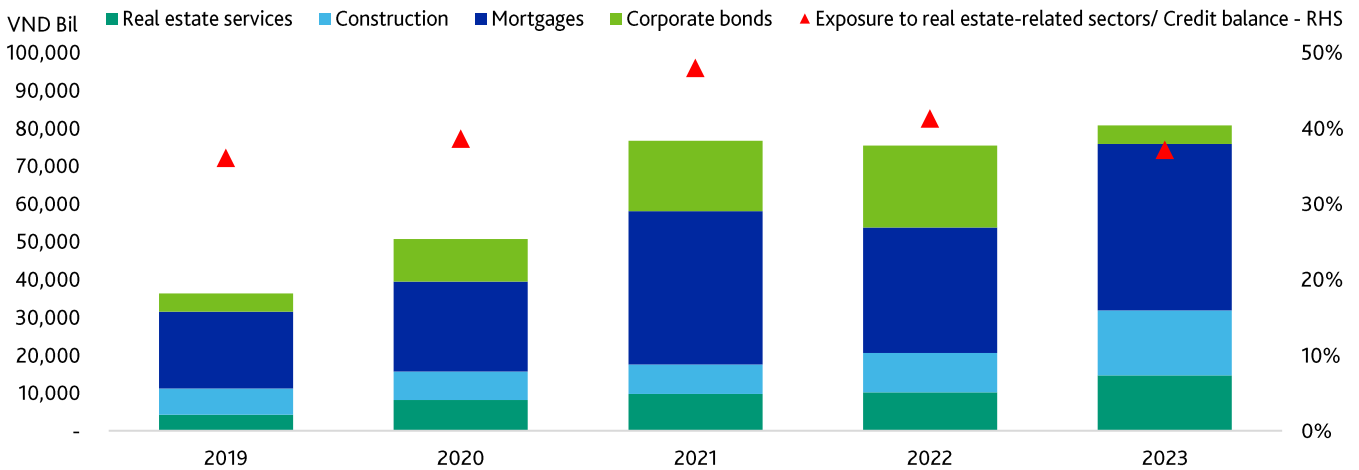
Source: Bank data, Vietnam Investors Service

We understand that the bank has already taken steps to tighten credit underwriting standards for new retail and SME customers, de-risk its consumer finance business, and enhance debt collection efforts. These efforts, alongside the current low interest rate environment, will help to stabilize the bank's asset risk and credit costs over the next 12-18 months.

Sizable exposure to large corporate borrowers

The bank's total credit exposure to real estate-related sectors – including retail mortgages, SME, and corporate businesses - was at 37% of its total credit balance at end-2023 (Exhibit 6), higher than compared with the industry average of 30% based on data from the State Bank of Vietnam and the Ministry of Construction. We view any further increase in credit concentration will increase the bank's vulnerability to large single-name credit events and sizable credit losses.

Exhibit 6
TPBank's exposure to real estate-related sectors over the years



Source: Bank data, Vietnam Investors Service

PROFITABILITY

We assign a ‘Strong’ profitability score to TPBank, to reflect the bank's higher-than-industry return on average tangible assets (ROAA) over the last 5 years. This was mainly driven by the bank's strategic focus on higher-yielding customer segments coupled with robust credit growth and a strong funding profile to support above-industry-average NIM and risk-adjusted profitability. Over the next 12-18 months, we expect the bank's ROAA to improve from the 2023 trough level as its credit costs moderate, and both credit growth and NIM remain steady.

Higher-than-industry average NIM and risk-adjusted profitability, driven by robust credit growth and a strong funding profile

Over the last 5 years, TPBank's maintained a ROAA of 1.8% on average, much higher than the industry average of 1.3% (Exhibit 7).

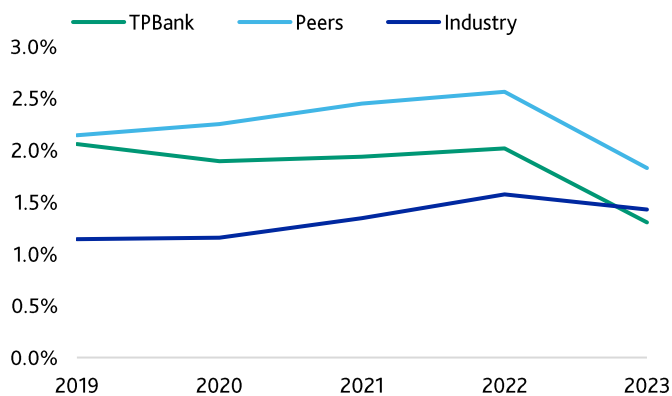
The bank's strategic focus on higher-yielding customer segments coupled with robust credit growth and a strong funding profile, has supported its above-industry-average NIM and risk-adjusted profitability.

Over 2019-2023, the bank's average NIM was 4.1%, higher than the industry average of 3.5% (Exhibit 8). The bank's higher-yielding segments of its loan portfolio include retail products such as mortgages (21% of gross loans at end-2023), auto loans (8%), unsecured cash loans (4%), credit card loans (3%), as well as lending to companies in construction (8%) and real estate (7%) sectors.

In 2023, the bank's ROAA declined to a 5-year low of 1.3% due to a surge in credit costs from asset quality deterioration. We note that the rise in credit costs to 2.2% of average loans in 2023 from 1.2% a year ago reflects the bank's higher-risk lending profile that remains well-compensated by its higher loan yields.

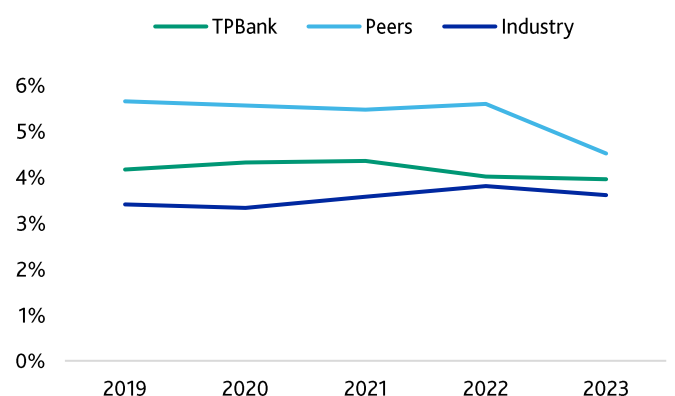
Over the next 12-18 months, we expect the bank's ROAA to improve from the 2023 trough level as its credit costs moderate, and both credit growth and NIM remain steady.

Exhibit 7
TPBank's ROAA remains higher than industry average



Source: Bank data, Vietnam Investors Service

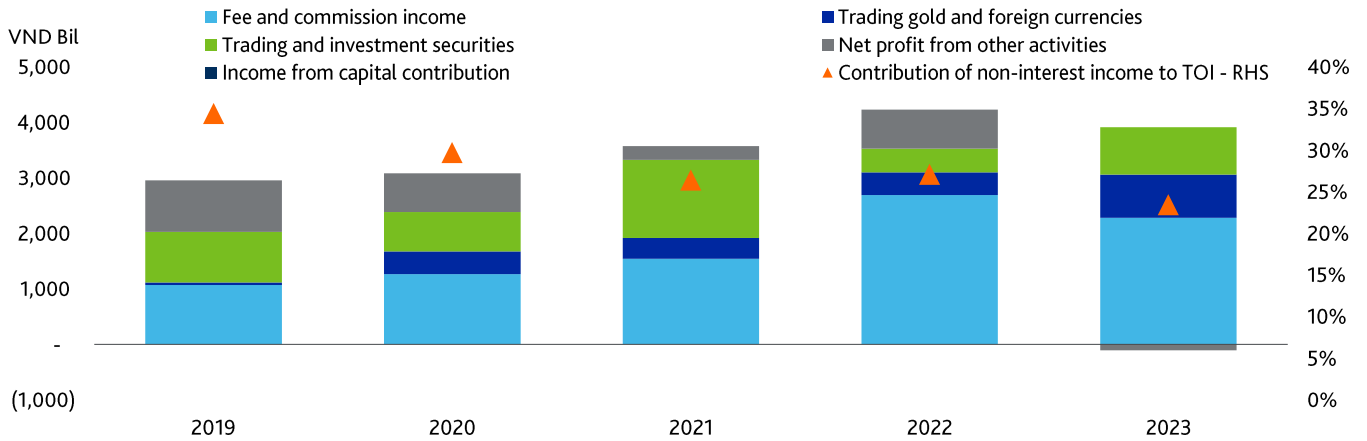
Exhibit 8
TPBank's NIM is consistently higher than industry average



Source: Bank data, Vietnam Investors Service

Additionally, the bank's non-interest income contributed 23.5% of total operating income (TOI) in 2023, higher than industry average of 22%. This was mainly driven by bancassurance income, trading and investment securities, settlement fees from letter of credit (L/C), and fees collected from credit card and digital lending (Exhibit 9). According to management, TPBank will expand its income from digital loan fees, and income through FX Sales to import-export customers to mitigate the remaining low bancassurance income due to stricter regulation. Over the next 12-18 months, we expect the bank's non-interest income will grow modestly, driven by the growth of fees from credit cards and lending through e-commerce platforms.

Exhibit 9
Non-interest income will grow modestly, driven by fees from credit cards and digital lending



Source: Bank data, Vietnam Investors Service

CAPITAL

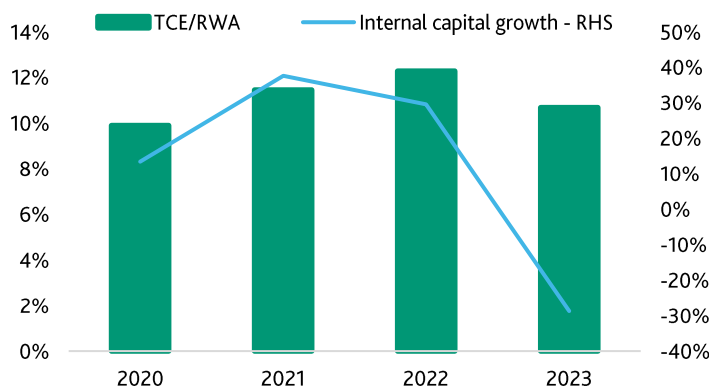
The 'Above-average' capital score reflects TPBank's higher-than-industry average capitalization and internal capital generation, supported by its strong profitability over the last 5 years. As the bank's profitability improves alongside business growth, we expect its capital level will remain stable over the next 12-18 months.

Strong earning generation to support above-industry-average capital level

The bank's TCE/RWA was 10.7% as of 2023, higher than the industry average of 10.2% (Exhibit 10 and 11). Similarly, TPBank's capital adequacy ratio (CAR) under the local Basel II standards was 12.4%, higher than the industry average of 11%.

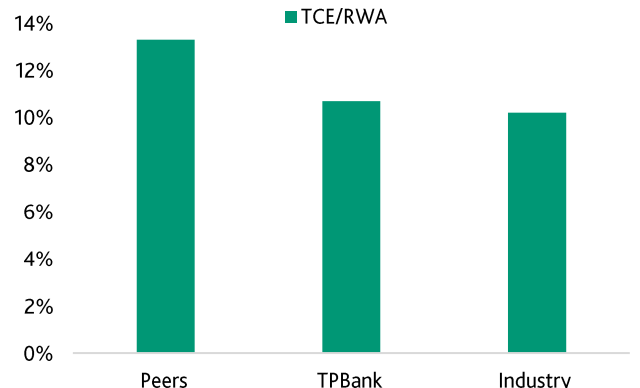
Over the past 5 years, TPBank's strong profitability has boosted its ability to pay dividends, replenish its capital, and support its strong loan growth of around 20% per annum. As TPBank's profitability improves, we expect the bank's capital level to remain stable over the next 12-18 months.

Exhibit 10
Robust capital supported by strong internal capital growth



Source: Bank data, Vietnam Investors Service

Exhibit 11
Higher-than-industry average capitalization



Source: Bank data, Vietnam Investors Service

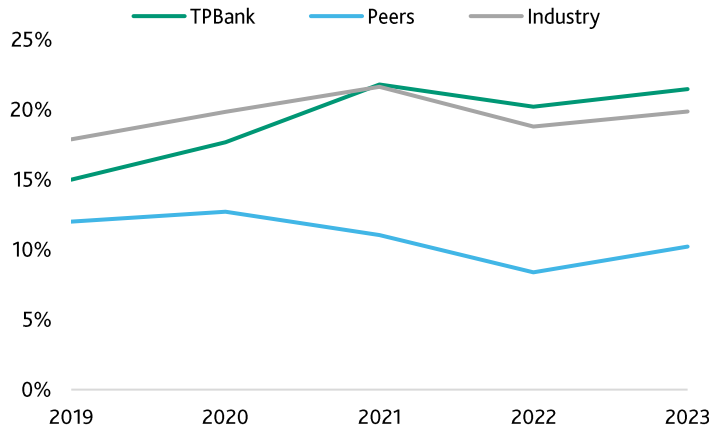
FUNDING STRUCTURE

We assign TPBank's funding structure a 'Strong' score to reflect the bank's track record in strengthening and maintaining its core deposit funding base, largely supported by its digital capabilities. Over the next 12-18 months, we expect the bank's CASA deposit base to remain strong, supported by its digital efforts to grow its retail CASA deposits as well as CASA deposits from large corporates and SMEs through a variety of services including payroll services, cash management, and other online banking services through 'TPBank Biz' App.

Robust low-cost CASA deposits supported by digital transformation

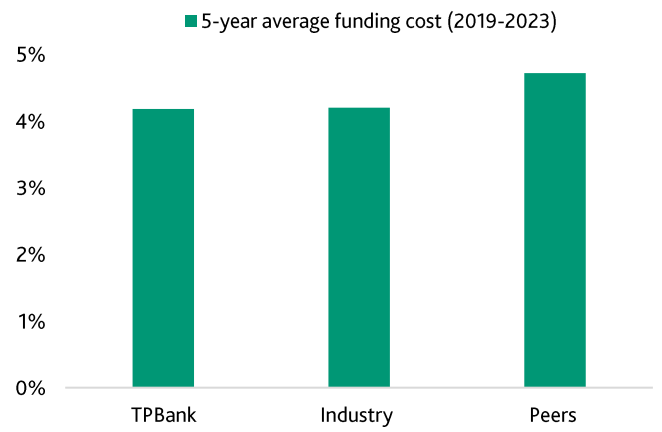
We view the bank's funding structure as one of its key credit strengths. Over the last 5 years, TPBank's low-cost CASA deposits amounted to an average of 19% of its gross loans, surpassing the peer average of 11% (Exhibit 12). Its average funding costs over the same period were around 4.2%, lower than its peers by around 50 basis points (Exhibit 13).

Exhibit 12
CASA/ Gross loans is higher than most peer and industry average



Source: Bank data, Vietnam Investors Service

Exhibit 13
Lower-than-peers funding costs from sizable CASA deposits

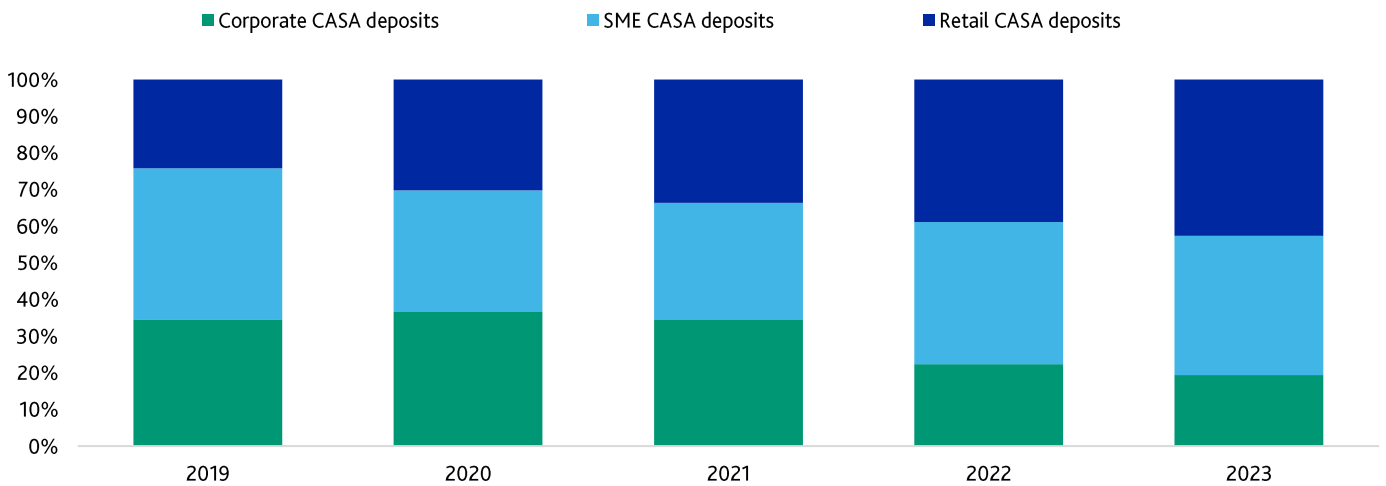


Source: Bank data, Vietnam Investors Service

CASA deposits from its retail customers made up 43% of its total CASA deposits in 2023 (Exhibit 14), rising consistently each year and up from 24% in 2019. According to the bank management, 90% of the bank's CASA deposits were acquired through its digital channels, for example by increasing retail customer transactions through automated banking services, and e-wallets with MoMo and Zalo Pay.

Over the next 12-18 months, we expect the bank's CASA deposit base to remain strong, supported by its digital efforts to grow its retail CASA deposits as well as CASA deposits from large corporates and SMEs through a variety of services including payroll services, cash management, and other online banking services through 'TPBank Biz' App.

Exhibit 14
Retail customers are the key driver for the bank's CASA deposits growth



Source: Bank data, Vietnam Investors Service

LIQUID RESOURCES

We position the bank’s liquid resources score at an ‘Average’ level, reflecting the bank’s adequate stock of liquid assets including cash, government securities, and interbank placements as a buffer to cover its market funds obligations. The score also incorporates the bank’s track record of maintaining lower-than-peer Loan-to-deposit (LDR) ratio and short-term funding for medium and long-term loans (SMLR), as well as the bank’s ability to attract new deposits during the liquidity tightening in Q4/2022. We expect the bank’s liquidity to remain stable over the next 12-18 months given the bank’s track record of growing its core deposits to support its loan growth and maintaining sizable liquid assets.

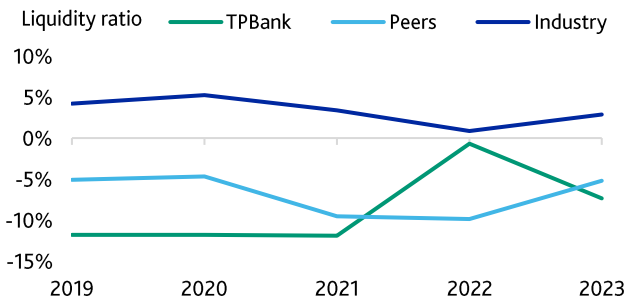
Adequate liquid assets to cover market fund obligations

Overall, we view liquidity risks arising from the use of short-term market funds to be manageable (Exhibit 15). The bank’s short-term market funds are used mostly for treasury and investments, and not to fund their lending business. The bank’s liquid assets made up 26% of its total assets, higher than the industry average of 22%. Market funds accounted for around 30% of its total assets, mostly in the form of short-duration interbank borrowings.

The bank’s LDR - averaging 96% over the last 5 years - is consistently lower than peers of 115% (Exhibit 16). Its SMLR was 23.8% at end-2023, well below the regulatory limit of 30%. We note that the bank was able to attract new deposits during the liquidity tightening across the banking system in Q4/2022, in contrast to numerous other banks that suffered sizable deposit outflows.

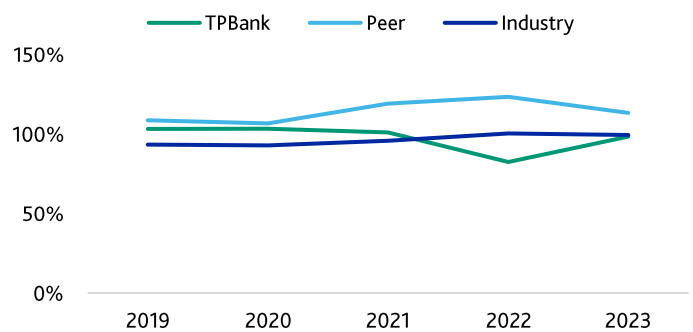
We expect the bank’s liquidity to remain stable over the next 12-18 months, given its track record of growing its core deposits to support its loan growth and maintaining sizable liquid assets.

Exhibit 15:
TPBank’s liquidity ratio is similar to its peers’ level



Note: Liquidity ratio is calculated by liquid assets less market funds to tangible assets
 Liquid assets: Cash, balances with the State Bank of Vietnam (SBV) and other credit institutions, Government bonds
 Market funds: Deposits and borrowings from SBV and other credit institutions, valuable papers issued
 Source: Bank data, Vietnam Investors Service

Exhibit 16:
LDR remained consistently below peers



Source: Bank data, Vietnam Investors Service

CREDIT RATING HISTORY

Date	Rating type	Rating	Outlook	Action
21 May 2024	Long-term Issuer	AA-	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:

Nº	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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