VIETNAM INVESTORS SERVICE

RATING ANNOUNCEMENT
08 May 2024

VIS Rating assigns first-time A+ issuer rating to Lien Viet Post Joint Stock Commercial Bank, stable outlook

Hanoi, 08 May 2024 - Vietnam Investors Service (VIS Rating) has assigned a long-term issuer rating of A+ to Lien Viet Post Joint Stock Commercial Bank (LPBank). The outlook on LPBank's A+ issuer rating is stable. This is the first time VIS Rating assigned a rating to LPBank.

RATING RATIONALE

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.

Established in 2008, LPBank is a mid-sized commercial bank focusing on retail and small and medium-sized enterprises (SMEs) customers. Among the privately-owned banks in Vietnam, it currently has the widest physical network of branches and transaction offices nationwide, particularly in the rural provinces and regions.

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.

At end-2023, retail loans made up 42% of the bank's total gross loans; SME loans 41%, and corporate loans 17%.

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%. For 2023, the majority of the bank's NPLs were driven by its retail loans. The loan loss coverage ratio was 118% on average from 2021 to 2023, compared with the industry average of 109%.

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.

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.

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.

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.

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, driven mostly by efficiency gains as it optimized its physical network. Through the closure of nearly 25% of its postal transaction offices to focus on developing effective postal offices, its cost-to-income ratio fell to 31% in March 2024, from 60% in 2019.

LPBank's NIM was 3.3% at end-2023, in line with the industry average. 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 a higher cost of funding compared to peer banks.

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.

Credit costs were 0.8% of average gross loans for 2019-2023 lower than the industry average of 1.4%.

We position LPBank's capital at an 'Above-average' level, reflecting the higher core capitalization from recent capital raises. 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. 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%.

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.

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.

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.

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.

We expect the bank's ongoing efforts to improve its CASA deposits will take time to materialize.

We position the bank's liquid resources at an 'Average' level.

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 were 26% of its total assets in 2023.

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.

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.

LPBank's A+ rating incorporates our assumption of a moderate likelihood of support from the government during extraordinary circumstances. This assumption takes into account the bank's sizable domestic presence as well as the new regulatory framework that provides the regulator with multiple tools and mechanisms to address ailing banks. LPBank is one of the 14 banks identified as systematically important banks under Decision 538/QD-NHNN issued by the State Bank of Vietnam (SBV).

LPBank was established in 2008 as a privately owned commercial bank – formerly named LienVietBank - by founders Him Lam Joint Stock Company, 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.

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. 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.

The bank was among the first banks in Vietnam to adopt Basel III and IFRS9 in 2022.

As of December 2023, LPBank held a deposit market share of 2% through a nationwide network of 80 branches and 481 transaction offices, mainly located in rural provinces.

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.

Factors that could lead to an upgrade of the rating

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 of the rating

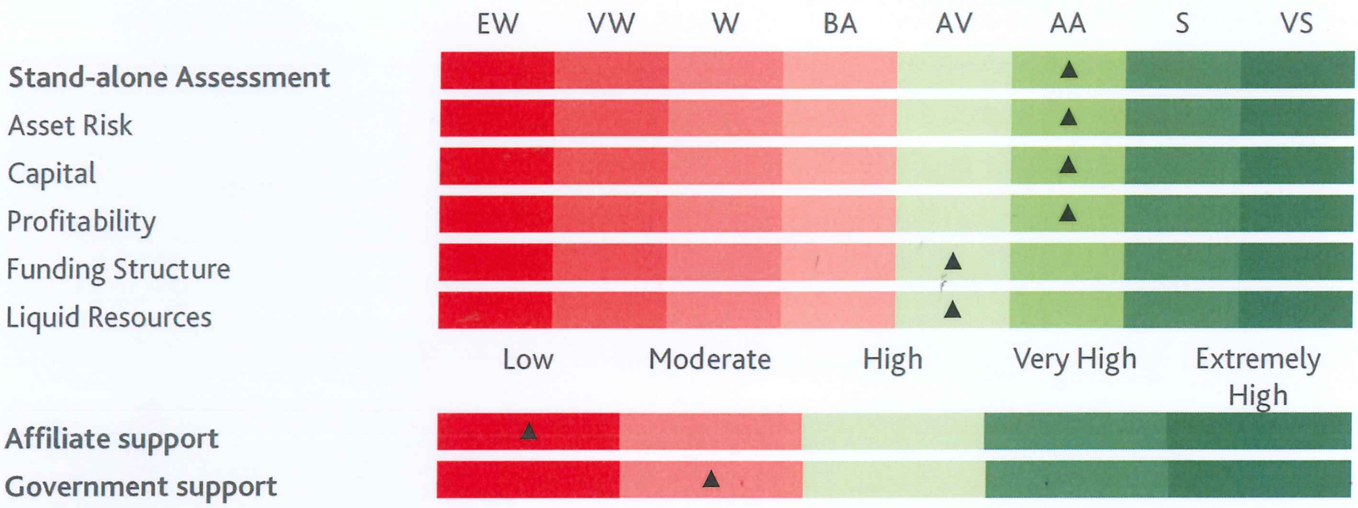
LPBank's A+ rating could be downgraded if (1) the bank's asset risk profile increases substantially through higher new problem loan formation rate and/or higher credit concentration alongside a deterioration in its loss absorption buffer or (2) the bank's funding and/or liquidity risks increases due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

RATING METHODOLOGY

Rating Methodology: Financial Institutions, published in September 2023.

For detailed information, please see our full methodologies at: https://visrating.com/wp-content/uploads/2024/04/VIS-Rating-Rating-Methodology-Financial-Institutions-EN.pdf

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

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.

REGULATORY DISCLOSURES

For further specification of Vietnam Investors Service's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Vietnam Investors Service's Rating Symbols and Definitions can be found at: https://visrating.com/how-to-get-rated/.

LPBank's ownership stake in VIS rating: 0%

The ownership ratio of LPBank held by VIS Rating's staff: 0%

Cases in which analysts and credit rating council members cease their participation in the credit rating contract before the contract expires and the reason for the cessation: 0

VIS Rating adheres to a stringent independence policy by current regulations governing the provision of credit rating services in Vietnam. This commitment extends to compliance with our conflicts-of-interest policy, aiming to uphold objectivity and independence when expressing opinions on credit ratings.

The rating has been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

This rating is solicited.

Regulatory disclosures contained in this rating announcement apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.visrating.com for any updates on changes to the lead rating analyst and to the Vietnam Investors Service's legal entity that has issued the rating.

Please see the rating tab on the issuer/entity page on www.visrating.com for additional regulatory disclosures for each credit rating.

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