

## VIS Rating assigns first-time A+ issuer rating to Orient Commercial Bank, stable outlook

Hanoi, 15 May 2024 - Vietnam Investors Service (VIS Rating) has assigned a long-term issuer rating of A+ to Orient Commercial Joint Stock Bank (OCB). The outlook on OCB's A+ issuer rating is stable. This is the first-time VIS Rating assigned rating to OCB.

### RATING RATIONALE

OCB'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 strong profitability and capital, as well as its average asset risk, funding structure, and liquidity resources relative to industry peers.

Established in 1996, OCB is a mid-sized commercial bank with a modest but fast-growing nationwide presence supported by its digitalization efforts.

We position the bank's profitability at a 'Strong' level. Over the past five years, OCB has targeted its business growth in higher-yielding customer segments, including retail and small and medium enterprises (SME), as well as in key industry sectors like real estate and construction. This strategic focus allowed the bank to maintain an average return on average assets (ROAA) of 2.2% over the 2019-2023 period, much higher than the industry average of 1.3%.

Loans to retail and SME customers grew at an average of 20% each year in 2019-2023. At end-2023, retail loans made up 36% of the bank's gross loans; SME 11%; and corporates 53%. The bank has sizeable exposure to high-yielding product segments and industry sectors, such as mortgages making up 19% of gross loans as of end-2023, consumer loans – mostly household business loans and credit cards - 17%, real estate business 9% and construction 6%.

The bank's strong profitability is mainly driven by its higher-than-industry lending yields and net interest margins (NIM). In 2023, OCB's NIM declined substantially to 3.3% from 3.9% a year ago, due to the increase in deposit rates across the banking sector following two successive policy rate hikes of 100 basis points in 2022. As a result, the bank's ROAA declined to its 5-year low of 1.5%.

In Q1/2024, the bank's ROAA improved marginally to 1.6% as NIM widened. Over the next 12-18 months, we expect OCB's profitability to improve as it reprices its existing and new deposits at lower rates following the State Bank of Vietnam's (SBV) monetary policy easing since 1H2023. The bank's ongoing digitalization efforts will also be positive for managing costs to support its business growth. At end-2023, the bank's cost-to-income ratio was 35%, lower than peer average of 41%.

We also expect the bank to pare down on its trading and investment activities – made up around 10% of total operating income in 2023 – which will be positive for its earnings stability.

We position OCB's capital at a 'Strong' level. In addition to the recent capital infusion by its strategic investor, Aozora Bank in 2020, the bank's strong profitability has boosted its ability to generate capital internally to support its asset growth. At end-2023, the bank's tangible common equity was at 12.8% of risk-weighted assets, higher than the industry-average of 10.2%. The bank's reported total capital adequacy ratio of 13.3% under the local Basel II standards was similarly higher than industry-average of 11%.

As OCB's profitability improves, we expect its core capitalization will continue to remain strong over the next 12-18 months. Its efforts to retain capital through stock dividends, if continued, will be positive to boost its capitalization.

We assess OCB's asset risk profile at 'Average', marked by its fast-growing retail and SME loan portfolio and a material increase in retail and SME loan delinquencies over the past year. The score also incorporates our expectation that the bank's ongoing efforts to de-risk and diversify its credit exposures will help to stabilize its asset risks.

The bank reported non-performing loans (NPL) ratio rose to 2.7% in 2023 from 2.2% in the prior year, in line with industry trends. Retail NPL ratio was 5.7%, with asset quality issues driven by its mortgages, unsecured cash loans and credit cards, higher than SME NPL ratio of 4.1% and corporate NPL ratio of 0.5%, mostly due to borrowers from construction sector.

Including loans that had turned bad and had either been foreclosed or were undergoing foreclosure and legal proceedings at the end of 2023, we assess the total problem loans at the end of 2023 to be 5.8% of total gross loans, which we view as more reflective of the extent of asset quality deterioration.

According to the bank management, the deterioration in retail mortgage repayments in 2023 was driven by slower economic environment, high lending rates following policy rate hikes and negative sentiment toward the real estate market.

Despite the higher loan delinquencies, OCB has managed its asset risks well, through active remediation and foreclosure efforts. OCB maintains a high proportion of real estate-related collaterals for its lending. The majority of the foreclosed loans relate to retail mortgages, and the bank has been able to dispose of its foreclosed assets with minimal losses. As such, the bank's credit costs had remained well below the industry average over the past two years. Over the first 3 months of 2024, we note that the bank managed to dispose of a third of its total foreclosed assets, and recorded a net gain from disposal.

We also understand that the bank has tightened its credit underwriting standards for new retail loans, for example, focusing on customers with stable employment and income, and limiting new unsecured loan approvals. OCB will also diversify its SME and corporate loans by increasing lending to technology, logistics, renewable energy, and green agriculture sectors. At end-2023, total real estate-related lending (including retail mortgages) made up 35% of the bank's gross loans, fairly high compared with the industry average. That being said, the majority of its lending is to large, listed domestic developers and is highly secured with real estate-related assets.

The bank's reported NPL ratio was 2.9% at end-March 2024. Over the next 12-18 months, we expect OCB's asset risk to stabilize as loan delinquencies moderate alongside the low-interest rate environment, improving real estate market conditions, and tighter credit underwriting practices.

We position the bank's funding structure and liquid resources scores at an 'Average' level to reflect the bank's modest but fast-growing customer network through its physical and digital channels, which supports further growth in core deposit funding, and its fairly well-managed liquidity profile.

At end-2023, OCB's low-cost current and savings account (CASA) deposits were 10.4% of its gross loans, lower than the industry average of 19.8%. According to the bank management, its digital strategy has led to significant growth in new retail CASA deposits. Following the launch of its OMNI platform in 2018 and Liobank – a digital-only bank – in 2023, the bank observed that close to 40% of its retail CASA deposits in 2023 relate to retail customers acquired through its digital channels. The bank is also actively offering digital

cash management and payment solutions to large corporates to boost its core deposits. We expect these efforts, if continued, will help to improve the bank's core low-cost funding base.

Despite its modest funding base, OCB has a track record of managing its liquidity risks fairly well. Liquid assets—in the form of cash and cash equivalents, government securities, and interbank placements—have made up 27% of its total assets on average over the last three years, higher than the industry average of 22%. The bank utilizes a substantial amount of market funding for its lending and treasury activities. Total market funds were 28.7% of total assets at end-2023.

We note that unlike other banks with significant market borrowings, OCB's market funds are mainly long-term borrowings in the form of bonds and loans from international institutions such as the Asian Development Bank (ADB), the International Finance Corporation (IFC), and the German Development Finance Institution (DEG). These borrowings have maturities ranging from 1 to 5 years and, in our view, do not pose liquidity risks to the bank over the near term.

Instead, these borrowings enhance the stability of the bank's funding structure and liquidity profile. Based on the bank's disclosures, at the end of 2023, we assess that the bank did not have any funding gaps for maturity periods of less than a year.

We expect no material changes to the bank's liquidity risk management practices over the next 12-18 months, and liquidity risks will continue to be well-managed.

OCB'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 modest business coverage and its modest systemic impact in the country, as well as the new regulatory framework that provides the regulator with multiple tools and mechanisms to address ailing banks.

OCB was established in 1996 as a state-owned commercial bank. After a shareholder restructuring, OCB gradually transformed into a privately owned commercial bank in 2010. The bank was an early adopter of international risk management practices through its partnerships with several international financial institutions and became one of Vietnam's first fully Basel II-compliant banks by 2018. As a mid-sized bank with total assets of VND 240 trillion at end-2023, OCB has a nationwide network comprising 159 business units including branches, transaction offices, and its head office. The majority of OCB's business activities are in Ho Chi Minh City and other southern provinces, which contributed 78% of its pre-provision income in 2023. Its major shareholders include Aozora Bank Limited (Japan) holding 15.0% stake, while Mr. Trinh Van Tuan - Chairman and his family held 19.7% of the total stake at end-2023.

The outlook on OCB'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

OCB's A+ rating could be upgraded if the bank (1) successfully implements its de-risking strategy and improves its asset quality and loss absorption buffers on a sustained basis, for example by exhibiting a track record of maintaining its problem loan ratio at below 1%; or (2) the bank demonstrated its ability to strengthen and maintain its core low-cost deposit funding to a level that is at or stronger than industry average.

#### Factors that could lead to a downgrade of the rating

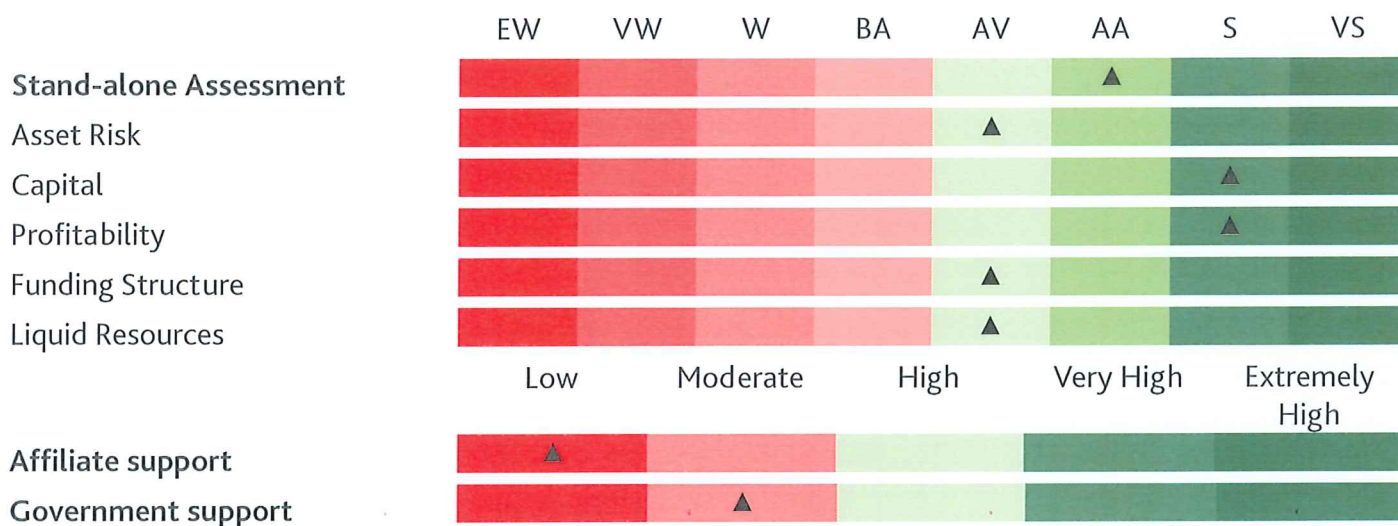
OCB's A+ rating could be downgraded if (1) the bank's loan delinquencies and new problem loan formation rate continue to rise from current levels or its exposure to higher-risk borrowers continues to increase or it is unable to resolve its existing asset quality issues through active foreclosures; or (2) the bank's loss absorption buffer deteriorates over the next 12-18 months from either further deterioration in asset quality or profitability; or (3) the bank experiences a weakening in its core deposit funding base and/or a significant increase in its reliance on short-term market funds that subjects it to higher liquidity risks.

## 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
15 May 2024	Long-term Issuer	A+	Stable	First-time assignment

## RATING SCALE

### Long-Term Rating

AAA	Issuers or debt instruments demonstrate the <b>strongest</b> creditworthiness relative to other domestic entities and transactions.
AA	Issuers or debt instruments demonstrate <b>very strong</b> creditworthiness relative to other domestic entities and transactions.
A	Issuers or debt instruments demonstrate <b>above-average</b> creditworthiness relative to other domestic entities and transactions.
BBB	Issuers or debt instruments demonstrate <b>average</b> creditworthiness relative to other domestic entities and transactions.
BB	Issuers or debt instruments demonstrate <b>below-average</b> creditworthiness relative to other domestic entities and transactions.
B	Issuers or debt instruments demonstrate <b>weak</b> creditworthiness relative to other domestic entities and transactions and may be approaching default, with strong recovery prospects.
CCC	Issuers or debt instruments demonstrate <b>very weak</b> 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 <b>extremely weak</b> 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 <b>weakest</b> 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.*

## 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/>.

OCB's ownership stake in VIS rating: 0%

The ownership ratio of OCB 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

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### Primary Analysts:

**Phan Duy Hung, CFA, MBA** - Director - Senior Analyst – email: [hung.phan@visrating.com](mailto:hung.phan@visrating.com)

**Nguyen Ha My, CFA** – Associate Analyst – email: [my.nguyen@visrating.com](mailto:my.nguyen@visrating.com)

### Rating Committee Members:

**Simon Chen, CFA** - Committee Chairman – email: [simon.chen@visrating.com](mailto:simon.chen@visrating.com)

**Phan Thi Van Anh, MSc** – Committee Member – email: [vananh.phan@visrating.com](mailto:vananh.phan@visrating.com)

**Nguyen Dinh Duy, CFA** – Committee Member – email: [duy.nguyen@visrating.com](mailto:duy.nguyen@visrating.com)

**Duong Duc Hieu, CFA** - Committee Member – email: [hieu.duong@visrating.com](mailto:hieu.duong@visrating.com)

### Vietnam Investors Service and Credit Rating Agency Joint Stock Company

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**Simon Chen, CFA**

Head of Ratings and Research

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