RATING ANNOUNCEMENT
21 October 2024

VIS Rating assigns first-time A- issuer rating to An Binh Commercial Joint Stock Bank, stable outlook

Hanoi, 21 October 2024 - Vietnam Investors Service (VIS Rating) has assigned a long-term issuer rating of A- to An Binh Commercial Joint Stock Bank (ABBank). The outlook on ABBank's A- issuer rating is stable. This is the first time VIS Rating assigned a rating to ABBank.

RATING RATIONALE

ABBank's A- long-term issuer rating reflects its 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 capital, average profitability, funding structure and liquid resources, coupled with its below-average asset risk compared to its peers.

Established in 1993, ABBank is a small-sized privately-owned commercial bank focusing on retail and small and medium enterprises (SME) customers. Retail loans accounted for 56% of ABBank's gross loans as of June 2024; SME 16% and corporates 28%. The bank has leveraged the network of its key shareholders, including Hanoi General Export Corporation (Geleximco) and Electricity Vietnam (EVN, prior to divestment in 2016), to grow its customer base and core businesses.

We assess ABBank's asset risk as 'Below-Average', reflecting the bank's track record of higher-than-industry average non-performing loans and a significant increase in retail and SME loan delinquencies over the past years. Our assessment also incorporates our understanding that the bank management is taking measures to de-risk its loan portfolio and enhance debt collection, and our expectation that further improvements in its asset quality will take time to materialize.

ABBank's reported non-performing loans (NPL) ratio - customer loans classified in groups 3, 4 and 5 as a percentage of gross customer loans - rose to 3.6% in June 2024 from 2.9% in 2023, much higher than the industry average of 2.2%. Including NPLs sold in exchange for Vietnam Asset Management Company (VAMC) bonds in 1H2024, the bank's total problem loan ratio was 7.4%, which we view as more reflective of the significant deterioration in the bank's asset quality relative to peers.

Retail NPL ratio rose to 5.1% in June 2024 from 3.6% in 2023, driven by delinquencies and poor recoveries in mortgages secured by agricultural land, business loans, and consumer loans. SME NPL ratio remained high at 3.8% over the same period, due to micro-SMEs borrowers in construction, wholesale and retail trade sectors. Corporate NPL ratio remained low at 0.7%. The bank's average loan loss coverage over 2019-2023 was 49%, way lower than the industry average of 112%. Over 2023 - 1H2024, ABBank's outstanding VAMC bonds rose by VND 1.1 trillion, reaching a total of VND 3.8 trillion at end-June 2024.

According to the bank management, the asset quality deterioration in retail and SME portfolio over the past three years was driven by slowing economic conditions, higher lending rates and the real estate market slowdown in 2023.

According to the bank management, the bank had embarked on a de-risking strategic plan that will span across 2024-2028 to address issues in its asset quality and enhance its competitive position. The bank's new business strategy will focus on serving clients across the value chain of selected ecosystems of key corporate groups, covering corporates, vendors, suppliers, and consumers.

We understand that the bank has tightened its selection criteria for new SME customers by limiting high-risk micro-SMEs and focusing on eight core segments, including construction, construction materials, food and beverage, logistics, IT, textile and leather goods, pharmaceuticals and medical devices. For retail, ABBank has also tightened its underwriting standards for new loans, for example, by no longer accepting agricultural land as collateral and targeting salaried customers. In addition, the bank has intensified its debt collection measures through its subsidiary, An Binh Asset Management One Member Company Limited, by hiring more experienced collection staff and adopting proactive measures such as early intervention in potential problem loans.

Over the next 12-18 months, we expect the bank's stricter customer selection and enhanced debt collection efforts will help to support the asset quality of its new loans if the bank can effectively de-risk across its core business segments. However, it would be more challenging to work through the bank's existing asset quality issues without any substantial write-offs or NPL sales to VAMC.

We also note that the bank has a high credit concentration in the large corporate book, which increases its vulnerability to single-name credit events. As of end-June 2024, total credit extended to its 20 largest borrowers amounted to 156% of its tangible common equity (TCE).

We position the bank's profitability at 'Average' level, underpinned by its track record of maintaining a return on average assets (ROAA) at the industry average level and our expectation that its profits will gradually improve over the next 12-18 months.

During 2019-2022, ABBank's maintained a ROAA of 1.1%. However, ROAA fell to 0.43% on average over 2023-1H2024 as credit costs surged and net interest margins (NIM) narrowed substantially.

Over 2019-1H2024, the bank's average NIM was 2.5%, lower than the industry average of 3.5% and suppressed by elevated asset risk and modest loan growth. In 1H2024, the bank's customer loans contracted by 7%, in contrast to the industry average growth of 7%, driven mainly by heightened competition among banks in retail and SME customer segments.

The bank is targeting a credit growth of 13.5% for 2024. We expect the bank's ROAA to improve gradually as credit growth picks up and credit cost stabilizes if the bank is able to execute its de-risking plan and improve its competitive position.

ABBank aims to improve its earnings stability by reducing the reliance on volatile non-interest income from trading and investment in securities and foreign exchange, which accounted for 3%-28% of total operating income over 2019-2023 period.

We position the bank's capital at 'Above-Average', driven by the bank's track record of maintaining tangible common equity/ risk-weighted assets (TCE/RWA) and capital adequacy ratio (CAR) at above 10%. The bank's TCE/RWA was 10.3% as of 2023, higher than the industry average of 9.3%. We note that the TCE/RWA rose to 10.7% in June 2024. ABBank's Basel II CAR was 11.7% in June 2024, higher than industry average of 11%.

According to the bank management, ABBank will continue its noncash dividend policy to retain capital and support its business growth. As such, we expect the bank's capital level to remain stable over the next 12-18 months.

We position the bank's funding structure at 'Average' to reflect ABBank's modest deposit franchise relative to the industry average.

ABBank's low-cost current account and savings account (CASA) deposits as a percentage of its gross loans declined to a five-year low of 10% in June 2024, below the industry average of 19%, due to significant deposit withdrawals by state-owned companies (SOEs). Following the Saigon Commercial Bank deposit run in 2022, SOEs shifted their funds from private banks to State-owned and large private banks. Since then, the bank has been focused on expanding its retail customer base to strengthen its core deposits.

According to the bank management, ABBank has launched various digital banking measures, such as integrating digital payments and deploying the Omni channel in 2024, to boost cashless transactions and gather new retail CASA deposits. The bank also allocated additional specialized sales at the branch level to improve customer services and retain CASA deposits from priority customers.

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

We position ABBank's liquid resources at 'Average' to reflect the bank's adequate stock of liquid assets including cash, government securities, and interbank placements, which can serve as a buffer to cover its market funds obligations.

As of 1H2024, the bank's liquid assets made up 31% of its total assets, higher than the industry average of 21%. Market funds accounted for around 33% of its total assets, mostly in the form of short-term interbank deposits. Overall, we view the liquidity risks arising from the use of short-term market funds to be manageable, as these funds are used mostly for short-term treasury and investments in the interbank market, and not used to fund their customer loans.

The bank's customer loan-to-customer deposit ratio (LDR) - averaging 93% over the last 5 years – is lower than the industry average of 98% over the same period. In addition, the ratio of short-term funds for medium and long-term loans (SMLR) was 20% in June 2024, much lower than the regulatory threshold of 30%, as the majority of ABBank's customer loans are short-term. As such, we view the bank's liquidity to remain stable over the next 12-18 months.

ABBank's A- rating incorporates our assumption of a moderate likelihood of support from the government in times of need, as well as our view that the new regulatory framework provides the regulator with multiple tools and mechanisms to address issues in ailing banks, indicating enhanced government support for small banks when necessary.

The outlook on ABBank's long-term issuer rating is stable, reflecting our expectation that its asset quality and profitability will improve gradually if the bank is able to successfully execute its de-risking plan, improve collection of bad debt and improve its competitive position.

As of June 30, 2024, ABBank had 166 physical outlets across 34 of Vietnam's 63 provinces, including branches, transaction offices, and its head office. ABBank began applying Basel II standards in 2019. Following the divestment of the International Finance Corporation (IFC) in 2024, the bank's major shareholders as of June 30, 2024, include Maybank (16%), Geleximco Group (13%), and Glexhome (4%).

After the early termination of its exclusive bancassurance contract with FWD in 2022, ABBank signed a new non-exclusive contract with Daichi Life. The new contract helped ABBank's bancassurance income reach an impressive growth of over 200% from 2021- 1H2024.

Factors that could lead to an upgrade of the rating

ABBank's A- rating could be upgraded if the bank successfully implements its de-risking strategy, and establishes a track record of prudent credit underwriting, effective bad debt recovery, and improved competitive position to gather low-cost deposits and grow its core business. For example, the bank's problem loan ratio is maintained consistently below 2%, and both its loan loss coverage ratio and ROAA are maintained at levels above the industry-average.

Factors that could lead to a downgrade of the rating

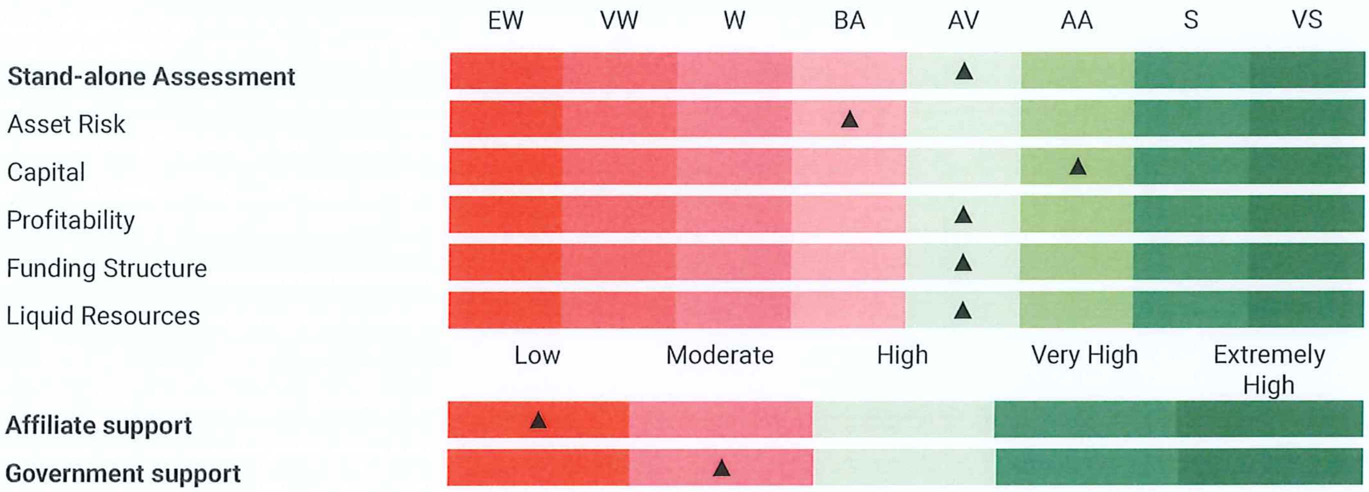
ABBank's A- rating could be downgraded if (1) its de-risking strategy fails to improve its customer mix and reduce its asset risks, leading to further increases in new NPL formation rate; or (2) its credit exposure to higher-risk borrowers and segments continues to increase, posing higher downside risks to its asset quality; or (3) the bank's loss absorption capacity deteriorates, for example, the bank's TCE as percentage of RWA falls below 10% for successive quarters or its ROAA declines substantially and weakens its ability to retain capital; or (4) the bank's vulnerability to liquidity risks increases through either higher reliance on short-term market funds or a prolonged weakening in its core deposits.

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
21 October 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

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/.

ABBank's ownership stake in VIS rating: 0%

The ownership ratio of ABBank 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 press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see https://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 https://visrating.com for additional regulatory disclosures for each credit rating.

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VIETNAM INVESTORS SERVICE

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