VIETNAM INVESTORS SERVICE

RATING ANNOUNCEMENT

21 May 2024

VIS Rating assigns first-time AA- issuer rating to Tien Phong Commercial Bank, stable outlook

Hanoi, 21 May 2024 - Vietnam Investors Service (VIS Rating) has assigned a long-term issuer rating of AA- to Tien Phong Commercial Joint Stock Bank (TPBank). The outlook on TPBank's AA- issuer rating is stable. This is the first-time VIS Rating assigned rating to TPBank.

RATING RATIONALE

TPBank's AA- long-term issuer rating reflects 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 its peers.

Established in 2008, TPBank is a mid-sized privately-owned commercial bank focusing on retail and small and medium enterprises (SME) customers. Retail loans accounted for 53% of TPBank's gross loans at end-2023; SME 26% and corporates 21%. The bank's early digitalization efforts have supported its strategic growth across the country. 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.

We view the bank's funding structure to be one of its key credit strengths. The 'Strong' assessment reflects TPBank's track record of success in strengthening and maintaining its core deposit funding base, largely supported by its digital capabilities.

Over the last 5 years, TPBank's low-cost current and savings account (CASA) deposits amounted to an average of 19% of its gross loans, surpassing the peer average of 11%. Its average funding costs over the same period was around 4.2%, lower than its peers by around 50 basis points.

CASA deposits from its retail customers made up 43% of its total CASA deposits in 2023, 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, 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.

We position the bank's profitability at a 'Strong' level. Over the last 5 years, TPBank's maintained a return on average assets (ROAA) of 1.8% on average, much higher than the industry average of 1.3%. 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 net interest margins (NIM) and risk-adjusted profitability.

Over 2019-2023, the bank's average NIM was 4.1%, higher than the industry average of 3.5%. 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 is a reflection of 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. Its non-interest income – 23.5% of total operating income in 2023 - will grow modestly, driven by the growth of fees from credit cards and lending through e-commerce platforms.

We assess TPBank's asset risk to be 'Average', reflecting the bank's rising problem loans from retail and SME borrowers over the last 12 months, and its sizable exposure to large corporate borrowers.

Similar to its peers, TPBank's non-performing loans (NPL) rose to 2% of its gross loans in 2023, from 0.8% a year ago. 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. SME NPL ratio similarly rose to 2.1% from 0.7% over the same period, mainly from manufacturing and processing, construction, real estate businesses. Corporate NPL remained low at 0.2%. The bank's loan loss coverage at end-2023 was 64%, lower than the industry-average of 99%.

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.

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, higher than industry-average of 30% based on data from the State Bank of Vietnam and the Ministry of Construction. We note that the bank has sizable exposure to large corporate borrowers; some of which have related companies that are linked to real estate projects embroiled in legal issues and/or recent defaults in their corporate bond repayments. We view any further increase in credit concentration will increase the bank's vulnerability to large single-name credit events and sizable credit losses.

We position TPBank's capital at an 'Above-average' level. The bank's tangible common equity/ risk-weighted assets (TCE/RWA) was 10.7% as of 2023, higher than the industry average of 10.2%. 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. We expect the bank's capital level to remain stable over the next 12-18 months.

We position TPBank's liquid resources 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.

At end-2023, 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.

Overall, we view liquidity risks arising from the use of short-term market funds to be manageable. The bank's short-term market funds are used mostly for treasury and investments, and not to fund their lending business.

The bank's loan-to-deposit ratio (LDR) - averaging 96% over the last 5 years - is consistently lower than peers of 115%. Its short-term funds for medium and long-term loans ratio (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 the bank's track record of growing its core deposits to support its loan growth and maintaining sizable liquid assets.

TPBank's AA- rating incorporates our assumption of moderate likelihood of support from the government during extraordinary circumstances, as well as our view that the new regulatory framework provides the regulator with multiple tools and mechanisms to address ailing banks. TPBank is one of the 14 banks identified as systematically important banks under Decision 538/QD-NHNN issued by the State Bank of Vietnam (SBV).

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.

First established in 2008, TPBank underwent an organizational restructuring in 2012, and embarked on a strategic shift to become a digital-focused bank. As of 2023, TPBank had a total of 134 physical outlets across Vietnam including branches, transaction offices, head office, and 436 automated 'LiveBank 24/7' transaction points. TPBank was among the first banks in Vietnam to fully comply with Basel III standards and IFRS 9 in 2021. 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%).

Factors that could lead to an upgrade of the rating

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 of the rating

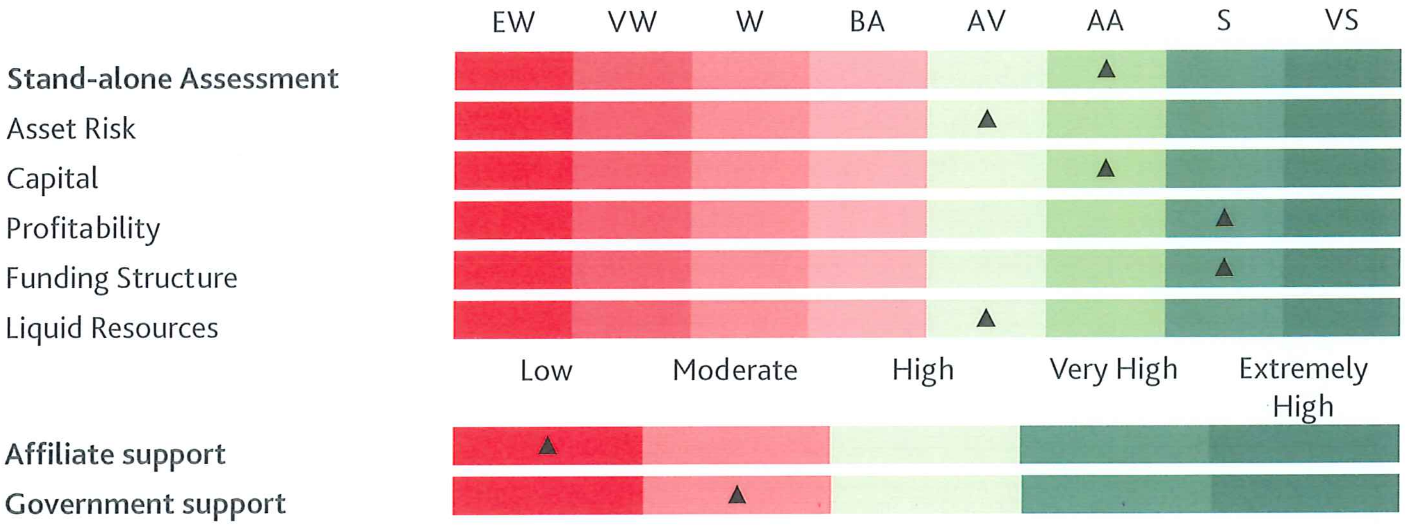
TPBank's AA- rating could be downgraded if (1) there is material deterioration in its asset quality through continued increases in either the formation rate of new problem loans or credit concentration in high-risk segments and/or large borrowers; or (2) the bank's loss absorption capacity weakens substantially, 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.

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 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.

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/.

TPBank's ownership stake in VIS rating: 0%

The ownership ratio of TPBank 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.

Primary Analysts:
Phan Duy Hung, CFA, MBA - Director - Senior Analyst – email: hung.phan@visrating.com
Nguyen Manh Tung – Associate Analyst – email: tung.nguyen@visrating.com

Rating Committee Members:
Simon Chen, CFA - Committee Chairman – email: simon.chen@visrating.com
Phan Thi Van Anh, MSc – Committee Member – email: vananh.phan@visrating.com
Nguyen Dinh Duy, CFA – Committee Member – email: duy.nguyen@visrating.com
Duong Duc Hieu, CFA - Committee Member – email: hieu.duong@visrating.com

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Simon Chen, CFA
Head of Ratings and Research
21 May 2024

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