Vietnam Banking Industry Report

23 Jan 2015

Bao Tran Tran
Bernice Ong
Scott Weldon

Table of Contents

EXECUTIVE SUMMARY

The Vietnamese banking industry comprises a diverse mix of players, ranging from relatively larger state-owned commercial banks down to tiny privately held banks. There are currently 48 banks operating in Vietnam, with collective assets of VND 6.28 trillion at the end of November 2014, although the number of banks is expected to be reduced in 2015 through consolidation.

This report maps out the scope of the sector, identifies the key players, identifies key performance indicators, and provides a background on the main issues impacting the industry today, as well as highlighting opportunities for future development.

One major issue currently is the level of bad debts in the system, resulting from an overly rapid expansion in credit growth in the years leading up to and following the accession to the WTO (33% CAGR between 2004-2011), and inadequate quality controls. Tighter restrictions on lending combined with greater transparency and tighter risk controls are gradually improving the situation.

We see opportunity for the stronger Vietnamese banks to expand their market share in this environment, as well as to drive additional growth in retail banking, card payment channels and to tap on the rising affluence among the young population in the country.

Among the listed Vietnamese stocks, our top two preferred investment picks are VCB and MBB. VCB benefits from its strong market position and greater exposure to non-interest income streams. It has been conservative in classifying bad debts and aggressive in booking provisions.

MBB benefits from its quality client base, higher than industry growth rate, strong management, a low cost of funding, and higher profitability than its peers.

1. THE BANKING INDUSTRY – KEY PERFORMANCE INDICATORS AND DRIVERS

Banks have two key sources of revenue: interest income and non-interest income. Interest income is derived from loans by banks to its customers. Currently, interest income represents 70 to 80% of total income for Vietnamese banks and approximately 73% and 75% for Thai and Indonesian banks respectively. Profitability of interest income is measured by Net Interest Margin (NIM), which is the difference between the interest income generated by banks and the amount of interest paid out to their lenders (e.g. deposits), relative to the amount of their interest-earning assets. Non-interest income includes operational fees and commissions from services such as fiduciary activities, foreign and domestic settlements, foreign currency trading, securities investments and investment banking products and services.

The table below discusses the Key Performance Indicators for banks in general, with comments on how they should be interpreted.

Key Performance Indicators	Commentary
Interest Income	
Net Interest Margin (NIM)	Higher NIM is generally good for the Bank, unless too high to attract customers. **In Vietnam:** Average deposit rates of 6.5% and average lending rate of 10.5% result in average NIM of 4%
Credit Growth	Generally, a high rate of credit growth is desirable. However, total loan growth should be grounded in real expansion of customer base and corporate earnings. Excessive credit growth is however not desirable. It is usually related to an excessive and imprudent increase in poor quality loans (e.g. credit growth in Vietnam peaked at 40% just before the crisis in 2010). **In Vietnam:** 12.6% YTD as of 20 Dec 2014
Loan Quality	A bank's profit from its interest-earning activities is measured by the difference between net interest income and credit losses. Minimising losses is a priority. Some proportion of credit losses is acceptable, provided that the risk is paid for through higher interest rates charged. Loans are usually classified into different categories depending on the number of days overdue, following a regulatory framework. For example, in Vietnam, Group 1 represents loans that are on schedule, Group 2 loans have 10 to 89 days overdue and Groups 3 to 5 represents Non-Performing Loans (NPLs) with 90 days to 1 year overdue. NPLs are indicative of asset quality. An analyst needs to estimate the 'real' default risk. For example, unsecured consumer lending has higher default rates, but also has higher interest rates, meaning it may or may not be a profitable business line, depending on both factors. One should expect different NPL ratios by segments, so comparison of one bank to another requires taking into account the different client base. Higher default can be acceptable if it is compensated by higher interest rates charged.

	<u>In Vietnam:</u> 3.7 to 4.2% according to the government's announcement, estimated to be 8 to 9% according to the stringent loan classification guidelines provided by Circulars 02 and 09, and 15% by rating agencies such as Moody's and Fitch. Vietnam is adopting more stringent standards for NPL reporting, thus the official NPL ratio is likely to increase.
Loss Provisions	Ideally, a bank should provision expected losses at a rate which reflects the future default rate. This cannot be known in advance, thus an estimate is used for bank reporting. Investors are generally concerned when banks are under provisioned, and thus are weaker than they appear to be. However, when banks are over provisioned, they could also distort the picture of a bank's performance. **<u>In Vietnam:</u>** Vietnamese banks facing NPLs problem will affect their lending ability. Over the past 4 years, they have been taking heavy provisions, estimated to total USD 6.5 billion from 2011 to 2013 and USD 2.8 billion in 2014, or 7% of total loan books so far.
Capital Adequacy Ratio (CAR)	CAR is measured as a percentage of a bank's risk-weighted credit exposures. Higher CAR is safer, but excess CAR may lead to lower returns on capital. And because banking is inherently leveraged, a small change in non-paid loans makes a large difference in required capital. **<u>In Vietnam:</u>** Ranges from 9% (the minimum regulatory requirement) to 14.5% as of Dec 2013
Source of Liquidity	Loans are financed from deposits from customers, borrowings (usually from other banks or the central bank) and equity capital. Deposit growth depends mainly on capturing more customers from the bank's operating network (e.g. number of outlets, and their geographic locations). In Vietnam, Vietinbank (CTG) has the largest network with 1,123 branches and units as of 30 June 2014, spanning across 63 cities and provinces in Vietnam. Ideally, the term of deposits matches with the term of the loans. In practice, deposits are usually short term, which creates risk if depositors withdraw funds and loans cannot be provided for. Thus a greater mix of LT/ST funding is better. Smaller banks often have less developed operating networks, and thus limited access to deposits. They supplement their asset base through borrowings from the inter-bank market. As the cost of funds is higher, smaller banks have lower net interest margins (but a lower fixed operating costs).
Customer Segmentation	Loans can be classified in many different ways for the purpose of business development and risk management. Each segment has a different risk profile. Customer segmentation can be classified as: 1) Corporate or individual 2) Corporate loans are further classified as loans to large corporations or SMEs 3) In Vietnam and other emerging markets, corporate loans are further distinguished as state-owned enterprises (SOEs) or non-SOEs. 4) Loans can be classified according to the customers' purpose of lending. In Vietnam, as banks were originally established under the State's economic planning, they are assigned customers to specific industries. For example, Agribank specialises in rural lending while Vietcombank (VCB) used to focus on loans to the foreign trade sector.

	5) Consumer loans can be collateralised with real assets such as property or cars or uncollateralised as is the case of consumer credit. 6) Loans can also be segmented by duration. Short-term loans have lower risk profile than longer term loans.
Loan-to-deposit ratio (LDR)	LDR is the ratio of a bank's total loans to total deposits. If the ratio is too high, it means that banks might not have enough liquidity to cover any unforeseen fund requirements; if the ratio is too low, banks may not be earning as much as they could be. Assets that are not loaned out are usually invested, generally in government securities, but could be in other assets. **<u>In Vietnam:</u>** LDR of the banking sector in Vietnam is measured to be 82% as of June 2014.
Non-interest Income	
Fee-based Services	- Income from fiduciary activities which includes private banking and wealth management - Fee income: Fees from credit cards, securitizing loans, mortgage refinancing and servicing, sales of mutual funds and annuities, and ATM surcharges. - Service charges on deposit accounts: Charges for account maintenance, failure to maintain minimum balances and processing of "insufficient funds" checks - Life and non-life insurance - Other incomes: Income received from data processing services, sales of miscellaneous assets and other income not included above - Trade finance: Issuance of letters of credit, factoring and insurance. Excluding interest-earning activities for international trade such as lending or export credit. **<u>In Vietnam:</u>** VCB is market leader in interbank settlements.
Fee income (as % of total income)	Generally, a higher proportion of non-interest income is a positive for the bank and it implies that the total income stream is more diversified and less cyclical. **<u>In Vietnam:</u>** 20 to 30% of total income
Trading Income	Income from exposure to financial instruments relating to commodities, foreign exchange, interest rates, and equity securities and indices. **<u>In Vietnam:</u>** Most of the top Vietnamese banks have trading activities at their subsidiary level.
Investment Banking Income	Underwriting, acting as an intermediary between a securities issuer and the investing public, facilitating mergers and other corporate reorganizations, and acting as a broker and/or financial adviser for institutional clients. **<u>In Vietnam:</u>** Most of the top Vietnamese banks have investment banking activities at their subsidiary level.

2. SHORT HISTORY OF THE BANKING SECTOR IN VIETNAM

Established in 1990, Vietnam's banking industry has grown tremendously from a mono-banking system to a huge network of banks and financial institutions. Over the past 24 years, the Vietnamese government has initiated many banking reforms for decades to improve the efficiency and competitiveness of the banking system in the country, especially via the privatisation of its state-owned banks. Nevertheless, the state remains the controlling stakeholder of these state-owned banks, holding at least 65% ownership in them.

Prior to 1990, the State Bank of Vietnam (SBV) functioned as both a central bank and a commercial bank. Following the 1990 Ordinance on Banks, Credit cooperatives and Financial companies, the SBV separated the central bank's functions and delegated its banking activities to four newly created state-owned commercial banks (SOCBs), each targeting a different segment of the economy. The central bank's industrial and commercial lending department was converted to the Vietnam Industrial and Commercial Bank (formerly Incombank, now Vietinbank), its agricultural department to the Vietnam Bank for Agriculture and Rural Development (Agribank), its international trade department to the Bank for Foreign Trade of Vietnam (Vietcombank), and its infrastructure department to the Bank for Investment and Development of Vietnam (BIDV). Currently, the SBV's role is narrowed to that of a central bank which includes the formulation of monetary policies, management of foreign exchange reserves, and licensing and supervision of credit institutions, a term that encompasses commercial banks; while financial intermediation functions which include funds mobilization and allocation were shifted to commercial banks.

Many of the banking reforms in Vietnam have been motivated by the country's entry into international trade and investment agreements, such as the US-Vietnam Bilateral Trade Agreement in 2001 and its accession to the World Trade Organisation (WTO) in 2007. The country has gradually deregulated to allow entry of foreign banks. This has led to an increase presence of foreign banks in Vietnam, which has helped to increase the competitiveness and strengths of the banks. The SBV has for the first time, granted licenses to wholly foreign-owned banks in 2008. In January 2014, the ownership limit for a single foreign investor was raised from 15 to 20%, with a maximum ownership for all foreign investors to be capped at 30%. In addition, there has been a growing partial privatisation of the SOCBs and greater efforts to achieve compliance with the international capital standards under the Basel capital accords.

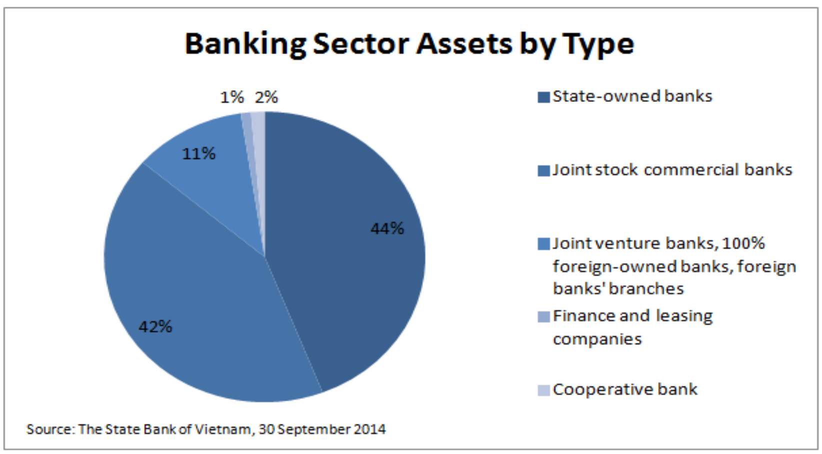
Nevertheless, the reforms for banking sector have been slow, and the banks are still undergoing a restructuring program to address the high level of NPLs and other structural problems. Most domestic banks are under-capitalized and reportedly hold a large number of NPLs.

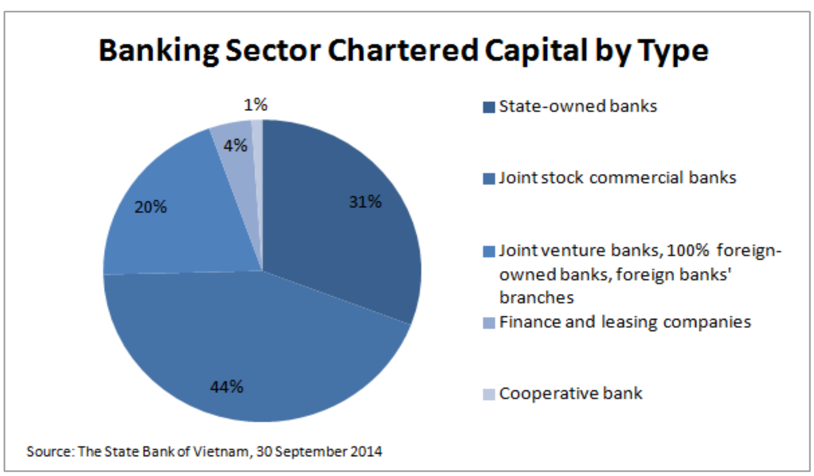
3. PROFILE OF THE BANKING SECTOR

3.1. NUMBER AND SIZE OF BANKS

The main activity driving the banking industry in Vietnam is commercial banking. There are currently 5 state-owned commercial banks (SOCBs), 33 joint stock commercial banks (JSCBs), 5 joint venture banks and 5 wholly foreign-owned banks[1]. SOCBs are 100% or majority-owned by the government (however, do note that SOCBs are currently known as banks owned 100% by the SBV as stipulated in a new corporate law from January 7, 2015. Hence, only Agribank is considered a SOCB.). JSCBs have a more diversified shareholder structure which consists of public and private shareholders as well as other government affiliated organisations.

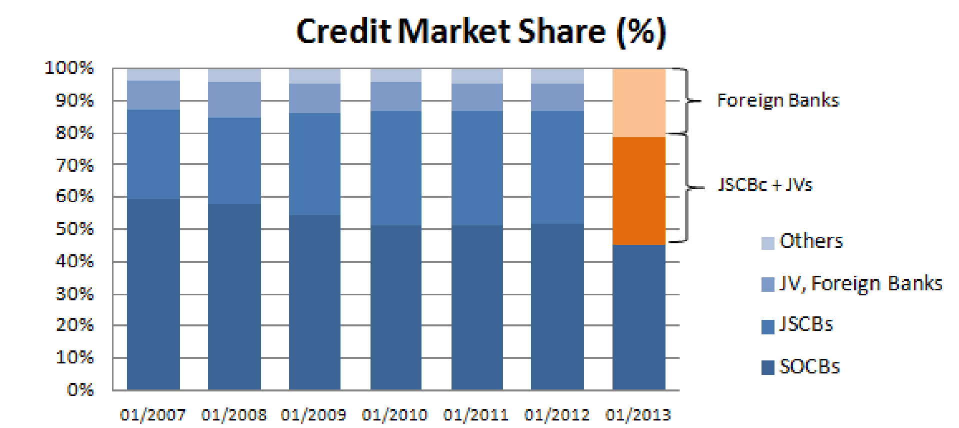
SOCBs hold a significant stake in the industry, with an estimate of 44.1% of total assets in the banking industry in Vietnam. JCSBs followed closely behind, with 42.2% of the total assets in the banking system in the country. Nevertheless, charter capital for JSCBs is higher compared to SOCBs, with 43.8% of total charter capital in the industry compared to 30.8% of total charter capital for SOCBs. According to regulations, banks must maintain a minimum charter capital of VND 3 trillion (about $143 million).





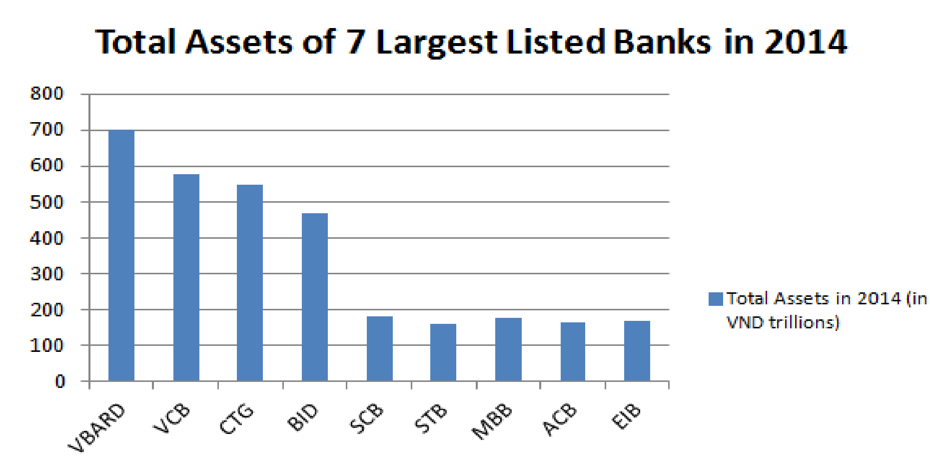
[1] Vietnam Banking Industry, VPBank Securities, January 2014

The banking industry is concentrated, with SOCBs leading in market share despite gradually losing its credit market share to JSCBs as shown in the chart below. The largest bank in terms of total assets and networks is the Vietnam Bank for Agriculture and Rural Development (Agribank), followed by 8 banks in Vietnam which consist of 3 SOCBs, namely Joint Stock Commercial Bank for Foreign Trade of Vietnam (VCB), Vietnam Joint Stock Commercial Bank for Industry and Trade (CTG), Bank for Investment and Development of Vietnam (BIDV), and 4 JSCBs, namely Saigon Joint Stock Commercial Bank (SCB), Military Commercial Joint Bank (MBB), Asia Commercial Bank (ACB), Saigon Thoung Tin Commercial Joint Stock Bank (STB) and Vietnam Export Import Commercial Joint Stock Bank (EIB). Despite the high concentration of JSCBs in Vietnam, almost half of JSCBs are small with assets less than VND 50 trillion and charter capital less than VND 5 trillion. Branches, transaction offices, ATMs, bank accounts and bank cards have been growing significantly, but mainly concentrated in urban areas and big cities.



Source: VP Bank Securities & HSC

*Note: The chart highlighted in orange consists of a different classification



Source: Banks' Annual Reports, 2013

The profile of the banks is as follow:

No.	Bank	Type	Main Shareholder(s)	Total Assets (in VND trillion)	Charter Capital (in VND trillion)	NPL Ratio (%)	Capital Adequacy Ratio (%)
State-Owned Commercial Banks (SOCBs)							
1	Vietnam Bank for Agriculture and Rural Development (Agribank)	Unlisted	SBV (100%)	700.0	29.2	15.7	>9.0
2	Vietnam Joint Stock Commercial Bank for Industry and Trade (CTG)	Listed	SBV (64.5%), The Bank of Tokyo-Mitsubishi UFJ (19.7%)	576.4	37.2	1.0	14.3
3	Bank for Investment and Development of Vietnam (BIDV)	Listed	SBV (95.8%)	548.4	23.0	2.3	10
4	Joint Stock Commercial Bank for Foreign Trade of Vietnam (VCB)	Listed	SBV (77.1%), Mizuho (15.0%)	469.0	23.2	2.7	13.4
5	Housing Bank of Mekong Delta (MHB) - as of Dec 2012	Unlisted	SBV (91.0%)	38.0	3.4	2.7	>9.0
Joint Stock Commercial Banks (JSCBs)							
1	Saigon Joint Stock Commercial Bank (SCB)	Unlisted	Tan Viet Stock Company	181.0	10.6	6.0	10
2	Military Commercial Joint Bank (MBB)	Listed	Viettel (15.0%)	180.4	11.3	2.4	11
3	Vietnam Export Import Commercial Joint Stock Bank (EIB)	Listed	Sumitomo (15.0%)	169.8	12.4	2.0	14.7
4	Asia Commercial Bank (ACB)	Listed	Standard Chartered (15.0%), Connaught Investors Ltd (7.49%)	166.6	9.4	3.0	14.7
5	Saigon Thoung Tin Commercial Joint Stock Bank (STB)	Listed	EIB (10.3%)	161.4	12.4	1.5	10.2
6	Vietnam Technological and Commercial Joint Stock Bank (Techcombank)	Listed	Masan Group (19.5%), HSBC (19.4%)	158.9	8.9	3.7	14
7	Saigon-Hanoi Commercial Joint Stock Bank (SHB)	Listed	T&T Group (10.95%)	143.6	8.9	4.1	12.4
8	Vietnam Prosperity Commercial Joint Stock Bank (VPBank)	Unlisted	Mr. Bui Hai Quan (6.47%),Ms. Nguyen Thi Mai Trinh (4.91%), Mr. Ngo Chi Dzung (4.48%)	121.3	5.8	2.8	12.5
9	Maritime Commercial Joint Stock Bank (Maritime Bank)	Unlisted	Vietnam Posts and Telecommunications Group (8.95%)	107.1	8.0	2.7	10.6
10	Vietnam Public Bank (PVcomBank)	Unlisted	PetroVietnam (52%)	101.2	9.0	4.2	N.A.
11	Housing Development Commercial Joint Stock Bank (HD Bank)	Unlisted	Sovico Holdings	86.2	8.1	3.7	N.A.

No.	Bank	Type	Main Shareholder(s)	Total Assets (in VND trillion)	Charter Capital (in VND trillion)	NPL Ratio (%)	Capital Adequacy Ratio (%)
12	Southeast Asia Commercial Joint Stock Bank (SeABank)	Unlisted	Societe Generale (19.52%)	79.9	5.5	2.8	14.3
13	LienViet Post Commercial Joint Stock Bank (LienVietPostBank)	Unlisted	Vietnam Post Corporation (12.54%)	79.7	6.5	2.5	N.A.
14	Vietnam International Commercial Joint Stock Bank (VIB Bank)	Unlisted	Commonwealth Bank of Australia (15%)	76.9	4.3	2.8	18
15	Dong A Commercial Joint Stock Bank (DongA Bank)	Unlisted	Municipal of HCMC (6.87%), PNJ (7.7%)	74.9	5.0	4.0	N.A.
16	Ocean Commercial Joint Stock Bank (Ocean Bank)	Unlisted	Vietnam Oil and Gas Group (20%), Ocean Group (20%), VNT Company Limited (20%)	67.1	4.0	4.0	9.2
17	An Binh Commercial Joint Stock Bank (ABBANK)	Unlisted	Maybank (20%)	57.8	4.8	7.6	N.A.
18	Bac A Commercial Joint Stock Bank (Bac A Bank)	Unlisted	Ms. Thai Huong	50.3	3.0	2.3	10
19	Orient Commercial Joint Stock Bank (OCB)	Unlisted	BNP Paribas (20.0%), Mr. Trinh Van Tuan - Chairman and Family (15.46%)	32.8	3.2	2.9	>9.0
20	National Citizen Commercial Joint Stock Bank (National Citizen Bank)	Unlisted	Gami Group	29.1	3.0	6.1	N.A.
21	Nam A Commercial Joint Stock Bank	Unlisted	Hoan Cau Group	28.8	3.0	1.5	N.A.
22	Petrolimex Group Commercial Joint Stock Bank (PG Bank)	Unlisted	Vietnam National Petroleum Group - Petrolimex (40%)	24.9	3.0	3.0	N.A.
23	Viet A Commercial Joint Stock Bank	Unlisted	Viet Phuong Group	23.4	3.1	2.9	N.A.
24	Viet Capital Commercial Joint Stock Bank (Viet Capital Bank)	Unlisted	Viet Capital Asset Management and Viet Capital Securities	23.1	3.0	4.1	N.A.
25	Kien Long Commercial Joint Stock Bank (Kien Long Bank)	Unlisted	N.A.	21.4	3.0	2.5	N.A.
26	Saigon Bank for Industry & Trade (Saigon Bank)	Unlisted	Municipal of HCMC (18.18%), Nha Phu Nhuan Co. (16.64%), Ky Hoa Hotel (16.35%)	14.7	3.1	1.8	24.1
27	Bao Viet Joint Stock Commercial Bank (Bao Viet Bank)- as of 2012	Unlisted	Bao Viet Holdings (52%)	13.3	3.0	5.94	42
28	Mekong Development Joint Stock Commercial Bank (MDB)	Unlisted	Fullerton Financial Holdings (20%)	6.4	3.8	2.7	>9.0

No.	Bank	Type	Main Shareholder(s)	Total Assets (in VND trillion)	Charter Capital (in VND trillion)	NPL Ratio (%)	Capital Adequacy Ratio (%)
30	Vietnam Thuong Tin Commercial Joint Stock Bank	Unlisted	N.A.	N.A.	N.A.	N.A.	N.A.
31	Western Rural Commercial Joint Stock Bank	Unlisted	N.A.	N.A.	N.A.	N.A.	N.A.
32	Great Trust Joint Stock Commercial Bank	Unlisted	N.A.	N.A.	N.A.	N.A.	N.A.
33	Great Asia Commercial Joint Stock Bank	Unlisted	N.A.	N.A.	N.A.	N.A.	N.A.

No.	Bank	Type	Main Shareholder(s)	Total Assets (in VND trillion)	Charter Capital (in VND trillion)	NPL Ratio (%)	Capital Adequacy Ratio (%)
Wholly Foreign-Owned Banks							
1	HSBC	Unlisted	HSBC	63.1	3.0	N.A.	>9.0
2	ANZ Bank - as of Dec 2012	Unlisted	ANZ Bank	37.4	3.2		>9.0
3	Standard Chartered Bank - as of Dec 2012	Unlisted	Standard Chartered Bank	24.1	3.0		>9.0
4	Shinhan Bank- as of Dec 2012	Unlisted	Shinhan Bank	22.9	4.5		>9.0
5	Hong Leong Bank- as of Dec 2012	Unlisted	Hong Leong Bank	5.0	3.0		>9.0
Joint Venture Banks							
1	Indovina Bank	Unlisted	CTG (50%), Cathay United Bank in Taiwan (50%)	22.7	4.1	N.A.	N.A.
2	Shinhavina Bank	Unlisted	VCB (50%), Shinhan Bank, Korea (50%)	29.7	4.5	N.A.	N.A.
3	VinaSiam Bank	Unlisted	AGRIBANK (34%), Siam Commercial Bank, Thailand (33%) & Charoen Pokphand Group, Thailand (33%)	3.6	1.3	N.A.	N.A.
4	VID Public Bank	Unlisted	BIDV (50%) & Public Bank Berhad, Malaysia (50%)	N.A.	N.A.	N.A.	N.A.
5	Vietnam-Russia JV	Unlisted	BIDV & VTB Bank (Russia)	N.A.	N.A.	N.A.	N.A.
Source: Banks' Annual Report, 2013 & Reuters							

3.2. TYPE OF BANKS BY OWNERSHIP

3.2.1. State-owned Commercial Banks (SOCBs)

SOCBs are majority government-owned institutions that the government had initially established to fulfil a specialised lending function. Their traditional customer base has been state-owned enterprises (SOEs) and they are increasingly diversifying their customer base to include non-SOEs. There are currently 5 SOCBs in Vietnam, four of which are the largest banks in the Vietnamese banking industry. These 4 banks include Agribank, CTG, BIDV and VCB and they hold more than a third of the total combined assets in the industry.

Vietnam Bank for Agriculture and Rural Development (Agribank) is the leading and largest commercial bank in Vietnam. Agribank has the largest operating networks of around 2,400 branches and units nationwide and has the largest asset size of VND 700 trillion as of December 2013. The bank plays an important role in developing agricultural and rural economy of Vietnam. As of end March 2013, loans for agriculture and rural sectors totalled VND 324 trillion and Agribank provided nearly 70% of these loans[2].

Vietnam Joint Stock Commercial Bank for Industry and Trade (CTG) is the largest among the 3 listed SOCBs in Vietnam, with VND 576.4 trillion in total assets and VND 37.2 trillion of charter capital as of December 2013. CTG is also known as Vietinbank. The bank has also one of the largest operating networks after Agribank of about 1,123 branches and units as of 30 June 2014, spanning across 63 cities and provinces in Vietnam. The main activities of CTG include providing commercial loans to many of the SOEs. The bank also offers retail banking products and services, leasing, insurance, securities brokerage, asset management, and gold and precious metals trading services through its seven subsidiaries.

Bank for Investment and Development of Vietnam (BIDV) is the second largest listed bank in the industry with total assets of VND 548.4 trillion and VND 23.0 trillion in charter capital as of December 2013. The bank has the second largest operating network after CTG, with about 725 branches and units in Vietnam as of June 30, 2014. In contrast to the other SOCBs, BIDV offers a large proportion of the bank's commercial loans to non-SOEs.

Joint Stock Commercial Bank for Foreign Trade of Vietnam (VCB), which is also known as Vietcombank, is the smallest of the 3 listed SOCBs. The bank has VND 469.0 trillion in total assets and VND 23.2 trillion in charter capital. VCB was the first majority state-owned bank to be listed on the Ho Chi Minh Stock Exchange in June 2009 and the State Bank of Vietnam (SBV) held a 77.1% ownership stake in VCB as of December 2013. The bank has the 6th largest network of around 328 branches and units as of June 30, 2014. VCB specialises in commercial loans to SOEs. Through its five subsidiaries, the bank also offers retail banking products and services, financial leasing, securities brokerage, cash remittance, and office leasing services.

Finally, Mekong Housing Bank is the smallest bank among the SOCBs in Vietnam and is established in 1997 with the initial goal of assisting in the development of affordable housing in the Mekong Delta region. MHB currently focuses on loans to small and medium-sized enterprises (SMEs) as well as individuals and

[2] Hong Phuc, "Agribank sets up asset management company", The Saigon Times, April 25, 2013

households. The bank has an operating network of approximately 230 branches and sub-branches nationwide.

3.2.2. Joint Stock Commercial Banks (JSCBs)

JSCBs have a comparatively small capital and deposit base and they have a more diversified shareholding structure than SOCBs. They specialise mainly in loans to SMEs and retail banking. Currently, Vietnam has 33 JSCBs. As of December 2013, the top 10 JSCBs have an approximate of VND 1,500 trillion in total assets, which contribute to more than half (60.5%) of the total assets of all JSCBs in Vietnam. The leading JCSB is Saigon Joint Stock Commercial Bank (SCB), followed by Military Commercial Joint Bank (MBB) and Vietnam Export Import Commercial Joint Stock Bank (EIB), with more than VND 10 trillion in charter capital. More than half of the JSCBs (57.5%) have charter capital of less than VND 5 trillion.

Military Commercial Joint Bank (MBB) is the sixth largest listed bank in terms of total assets size and the leading JCSB in Vietnam. MBB has the fourth largest networks of about 408 branches and units as of June 30, 2014. The bank was originally established as a JSCB to provide financing for government military enterprises. MBB has since diversified its business activities to include consumer and commercial banking products and services as well as securities brokerage, asset management, real estate and office lease, trading and development through its five subsidiaries.

Vietnam Export Import Commercial Joint Stock Bank (EIB), also known as Eximbank, is ranked as the seventh largest bank after MBB in terms of assets size. As of June 2014, EIB has the smallest operating networks of about 318 branches and units among the 7 largest listed banks in Vietnam, with its business focusing on the commercial hub of Ho Chi Minh City. EIB's operating strengths, as the name suggests, are in areas of export-import trade finance and international settlements. The bank is also involved in loan asset management and liquidation services, securities brokerage and real estate investing services through its affiliate companies and subsidiaries. The two major shareholders of EIB are Sumitomo (15.0%) and VCB (8.19%). VCB became a strategic investor of EIB in 2000 when the SBV directed VCB to provide capital and support for the bank.

Asia Commercial Bank (ACB) is ranked as the eighth largest bank Vietnam. However, the bank has the fifth largest operating network of about 346 branches and units as of 30 June 2014, with approximately half of its operations in the southern region of Vietnam. The bank focuses on individual customers and provided nearly half its loans to individual borrowers. ACB also offers securities brokerage, real estate leasing, and asset management services through its four wholly-owned subsidiaries.

Finally, Saigon Thoung Tin Commercial Joint Stock Bank (STB), also known as Sacombank, has VND 161.4 trillion worth of assets. STB has the third largest operating network of about 417 branches and units, which includes 10 branch and sub-branch locations in neighbouring Laos and Cambodia. The bank specialises in retail banking and about 40% of its loans go to individual borrowers. STB also offers asset management, equipment leasing, money remittance, and jewellery and precious metals trading services through its five subsidiaries.

3.2.3. Foreign Banks

Foreign banks have established their presence in Vietnam early in the 1990s when the country opened its doors to foreign banks following the 1990 Ordinance on Banks, Credit cooperatives and Financial companies. In the 1990s, foreign banks had set up joint ventures with Vietnamese banks and open branches to tap into the developing banking sector.

After Vietnam's accession to WTO in 2007, the Vietnamese government has further liberated the banking sector to allow greater market presence for foreign banks in the country. Following a change in legislation set out in Decree 22/2006/ND-CP (Decree 22), the SBV had granted fives licences to permit HSBC, Standard Chartered Bank, ANZ Bank, Shinhan Bank and Hong Leong Bank to establish as wholly foreign-owned subsidiary banks incorporated in Vietnam. In their few years of operations, the wholly-owned foreign banks have reported profits due to high demand by foreign investors to open bank accounts with these banks for trade finance and foreign exchange purposes.

In addition, foreign banks are able to take a stake in local banks in the form of strategic partnerships. This will allow local banks to tap on the expertise of foreign banks in terms of technology, operation processes, financial products and other banking experiences[3].

3.3. PRIVATISATION DRIVE TO REDUCE BANK BORROWING BY SOES

SOEs and SOCBs play a huge role in Vietnam's economy. For Vietnam's economy to grow, it is important to increase the efficiency and strengthen the financial positions of these SOEs and SOCBs. There have been many plans by the Vietnamese government to privatise or partially privatise SOEs and SOCBs to reduce the problem of bad debts and improve the efficiency of banks in the industry. Nevertheless, the progress of banking reforms to partially privatise SOEs and SOCBs have been slow. The dominance of SOEs in Vietnam continues to pose as a problem in the banking sector as it contributes to the poor asset quality for many SOCBs. In 2014, SOEs account for 60% of the banks' bad debts[4].

Plans to partially privatise the SOCBs mitigate the high level of bad debts in the banking sector and reduce the SOCBs' reliance on bank borrowing to finance losses. In May 2006, the Vietnamese government had announced plans to partially privatise the banks and reduce government ownership to 50% by 2010. However, only two of the SOCBs (VCB & CTG) have successfully sold more than 20% of its shares to private investors thus far. VCB was the first SOCB to be partially privatised through the bank's listing on the Ho Chi Minh Stock Exchange in June 2009. Subsequently, Mizuho bought 15% stake in VCB which further decreased the SBV's stake in the bank.

The Vietnamese government has also aimed to accelerate privatisation of state-owned enterprises (SOEs). It was announced that the state aims to privatise 432 SOEs by the end of 2015. The government has planned to

[3] Vietnam Banking Industry, VPBank Securities, January 2014
[4] Stephanie Phang, "Vietnam Gets Tough on State Firms in Economic Growth Push", Bloomberg News , July 25, 2013

accelerate divestment of SOEs in their non-core businesses at a loss by allowing them to sell their stakes below book values[5].

3.4. Increase in consolidations of small JSCBs

High fragmentation poses a challenge to the stability of Vietnam's banking industry. In comparison to the country's population and size of the economy, the banking sector has become overly dense with over 100 financial institutions competing. The asset quality of some small banks, mainly measured by their NPL ratio, is particularly vulnerable as they lack the ability to adequately assess the risk of loans to very small businesses and individuals. Due to their relatively small asset size, these small banks are forced to use pricing on loans as well as deposits as a key competitive strategy, lowering the overall profitability of the industry. The large number of banks in the industry also increases the difficulty for regulators to monitor and supervise. Currently, less than a quarter of the JSCBs are listed entities. Unlisted banks have lesser transparency in information disclosure than listed banks and do not undergo regular investor scrutiny. As a result, it has a greater tendency for any weaknesses in their governance and performance to go undetected[6].

In 2011, the regulators announced industry consolidation as one of the main objectives for its restructuring plan for banks. As part of this plan, the SBV aims to reduce the number of local commercial banks to around 20 by 2017[7]. Also, the minimum charter capital was raised from VND 1 trillion to VND 3 trillion and minimum required capital adequacy ratio (CAR) was increased from 8 to 9% to meet this objective and raise barriers of entry to the banking industry. Reserve funds are also made compulsory, which accumulates annually at 10% of the bank's net income, till it reaches 25% of the charter capital[8]. Despite these regulations put in place to spur consolidations of banks, the market has seen more voluntary M&As since 2011[9]. It is also expected that six to eight mergers are likely to occur among Vietnamese banks this year. Saigon Bank could merge into VCB, BIDV with Housing Bank of Mekong Delta and CTG with Ocean Bank and Petrolimex Bank. The first M&A deals expected to happen this year are STB and Maritime Bank with Sothern Bank and Mekong Development Bank respectively[10]. Other M&As and restructuring which has happened or will be happening after 2011 are listed in the table below:

[5] Stephanie Phang, "Vietnam Gets Tough on State Firms in Economic Growth Push", Bloomberg News , July 25, 2013
[6] Amit Pandey , "Why Vietnam's Banks Need a Faster, Bolder Consolidation Process", Standard & Poor's Rating Services, McGraw Hill Financial, April 28, 2014
[7] Reuters, "Banking and Finance: Vietnam Central Bank Maps out 6 – 8 Mergers in 2015 to Spur Restructuring", January 13, 2015
[8] Le Net, Nguyen Thi Kim Vinh and Tran Thai Binh, *Vietnam – Banking Regulations*
[9] Vietnam Banking Industry, VPBank Securities, January 2014
[10] Reuters, "Banking and Finance: Vietnam Central Bank Maps out 6 – 8 Mergers in 2015 to Spur Restructuring", January 13, 2015

Date	Banks	Action	Description
Dec-11	Saigon JSCB (SCB) First JSCB (Ficombank) Tin Nghia JSCB (TinNghiaBank)	Merger	New entity: Saigon Commercial Bank
Aug-12	Saigon Hanoi Bank (SHB) Hanoi Building Bank (Habubank)	Merger	New entity: Saigon Hanoi Bank (SHB)
May-13	Dai Tin Commercial JSB (TrustBank)	Self-Restructuring	New entity: Vietnam Construction Bank
Jul-13	Tien Phong JSCB (Tien Phong Bank)	Self-Restructuring	Restructuring plan approved by SBV in July 2013
Sep-13	PetroVietnam Finance Corp (PVFC) Phuong Tay Bank (Western Bank)	Merger	New entity: PVcomBank
Sep-13	Global Petro Bank (GPBank)	Self-Restructuring	In negotiations with United Overseas Bank (Singapore)
Dec-13	DaiA Bank HDBank	Merger	New entity: HDBank
Jan-14	Navibank	Self-Restructuring	New entity: National Citizen Commercial JS Bank
Mar-14	Sacombank Phuong Nam (Southern) Bank	Merger	Merger approved by shareholders
Ongoing	DongA Bank	Merger/Strategic Partner	Seeking foreign strategic partner as approved by shareholders
Ongoing	HDBank	Merger/Strategic Partner	In negotiations with 3 Japanese investor groups
Ongoing	Maritime Bank	Merger/Strategic Partner	Domestic merger and foreign strategic partner as approved by shareholders
Ongoing	Military Bank	Merger/Strategic Partner	Seeking foreign strategic partner as approved by shareholders
Ongoing	Sacombank	Strategic Partner	Domestic merger and foreign strategic partner as approved by shareholders
Ongoing	Eximbank	Merger/Strategic Partner	Cooperation agreement in 2013, with possible merger by 2016-18

Source: Company data, FactSet, Macquarie Research, VinaSecurities Research, April 2014

Despite the rising M&A deals in the industry, the process has been slow. Some of the key reasons for the slow process are that banks are unsure of the asset quality of potential targets due to the lack in transparency in disclosures, lenient classification standards for NPLs and the lack of uniform NPL accounting measures.

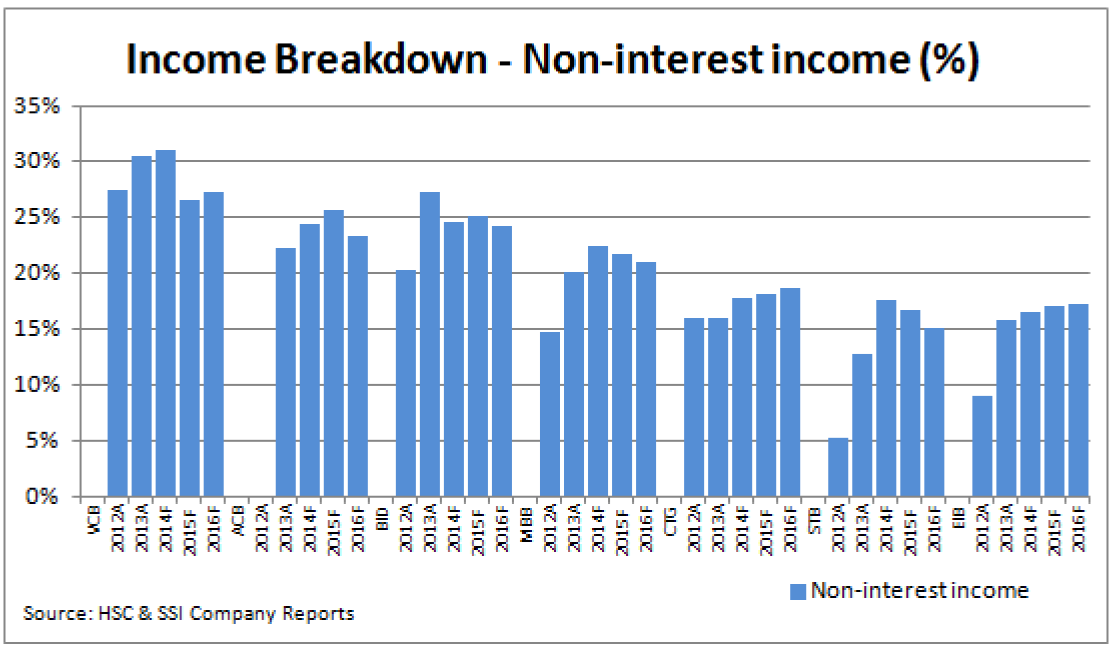
4. PERFORMANCE OF BANKS

4.1. BANK'S REVENUE

Banks have two key sources of revenue: interest income and non-interest income.

4.1.1. Interest Income

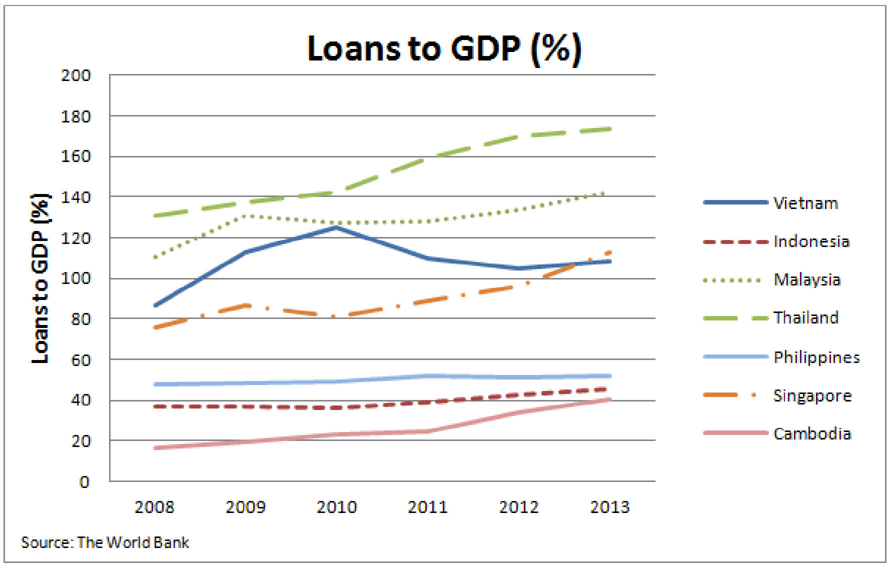
Interest income from lending is mainly the core revenue for many banks in Vietnam and it currently represents 70 to 80% of net income for the 7 largest listed banks as seen from the chart of the income breakdown (%) below. The composition of customer base which banks generate its net interest income plays an important role in its credit growth. As of December 2012, nearly half of total loans are for non-SOE corporate lending and 28% for retail customers. SOEs accounted for 16% of total outstanding loans in Vietnam[11]. Nevertheless, retail credit growth was much more robust than non-SOE corporate borrowing, with loans to individuals growing at 15.9% compared to -0.5% growth for non-SOE corporate credit in 2013. Huge loans to SOEs might pose greater credit risks as many SOEs are deemed to represent poor credit risks[12].



Since the country's accession to WTO in 2007, there has been a rise in investment activities in the country which led to a strong credit growth of average lending growth of 33% from 2004 to 2011[13]. However, credit growth started to decline from a peak of 124.7% in 2011 to 108.2% in 2013 as seen from the falling loans to deposit ratio (LDR) chart despite an average deposit growth of 29% in 2012 to 2013. This decline in credit

[11] KPMG, "Vietnam Banking Survey 2013"
[12] Vina Securities, "Vietinbank, Bankers to SOEs, growth ambitions"
[13] Peter Janssen, "Vietnam looks to state bank overhaul to stem NPL problem", The Banker, October 1, 2014

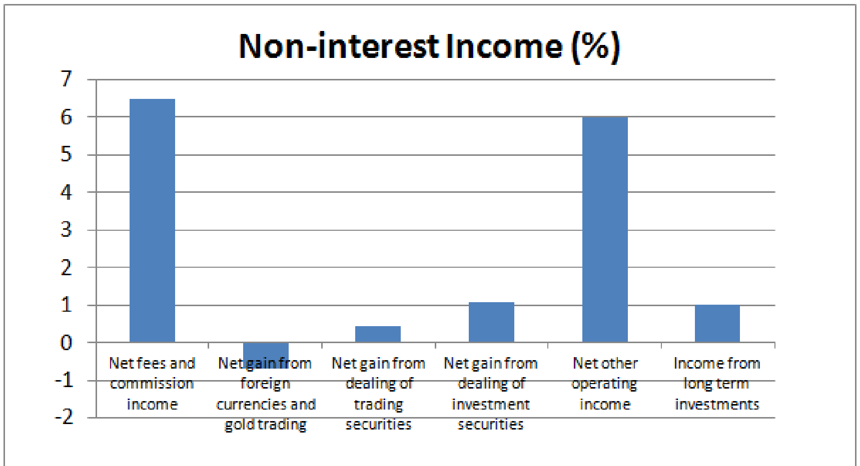
growth since 2011 has led to a negative impact on the banks' performance compared to its regional peers since 2010 as seen from the chart of loans to GDP (%) below. The slow credit growth is due to the banks' reluctance to lend as a result of high NPLs from growing loans for non-core activities of SOEs in real estate, hospitality business and land acquisitions. In February 2014, Moody's estimated that NPLs in the country's banking system total at least 15% of its total assets, more than three times the central bank's official ratio of 4.7%[14]. Despite the slow credit growth which hampers the bank's earnings, decelerating loans might allow them to deal with liquidity and asset quality problems. In September 2014, Moody's has upgraded the rating of Vietnam International Bank (VIB) by one notch, from negative to stable. Moody's indicates that its positive rating actions were primarily driven by an increased stability in the operating environment for banks and macroeconomic conditions which lead to a reduction in liquidity stress in the system[15].



4.1.2. Non-interest Income

Recently, banks in Vietnam are looking for more ways to grow their non-interest income and offset the risk of poor quality consumer lending and diversify their income. The current average non-interest income of the Vietnamese banking sector is 15 to 20%, with a large proportion of it from net fees and commission as shown in the chart below. The industry average is relatively low compared to many of its banking peers in Asia. Retail banking is one of the main sources of fees for products such as mortgages, credit cards and everyday accounts. However, these products are not widely used in Vietnam compared to other countries. Nevertheless, this low non-interest income might provide Vietnam banks with many opportunities to grow their non-interest income for greater revenue. Banks have been growing this area of income with greater introduction of fee-based products such as cards and insurance. Currently, VCB is the market leader for non-interest income in Vietnam, with non-interest income accounting for 30.5% of its total operating profit.

[14] Khac Giang Nguyen, "Drowning in the debt", Focus ASEAN, July 29, 2014
[15] Asian Banking & Finance, "Moody's lifts Vietnamese banking system's negative outlook"



Source: Vietnam Banking Survey, 2013, KPMG

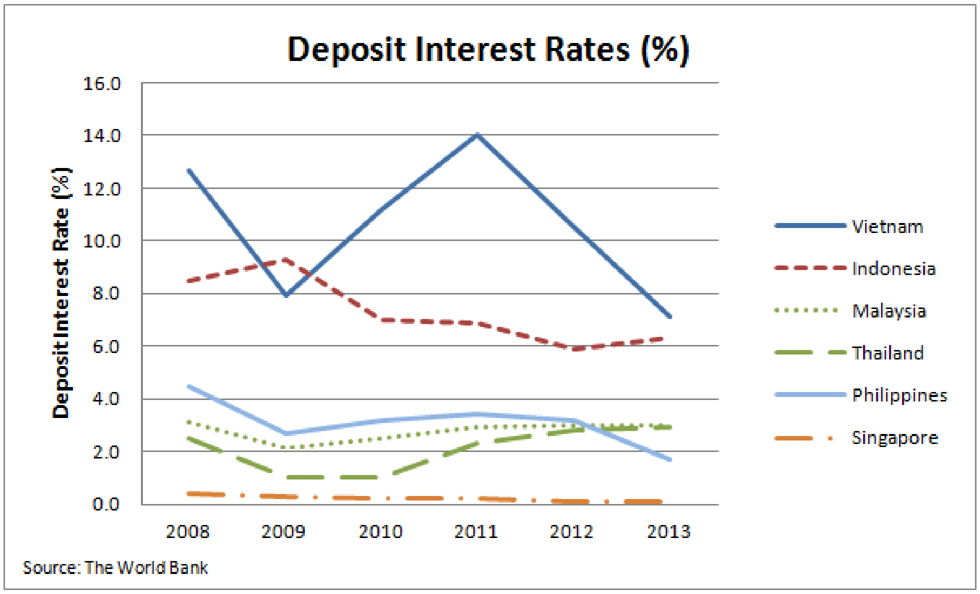
4.2. LIQUIDITY AND FUNDING OF BANKS

Banks obtain their liquidity and funding from two main sources: deposits and interbank loans.

4.2.1. Deposits

Liquidity of the banks is largely fuelled by deposits from individuals in Vietnam. During the peak of the credit growth in 2010, banks compete aggressively on deposit rates to capture the growing deposits from individuals which led to a negative impact on their net interest margins (NIM). Deposit rates have rose tremendously to 14% as shown in the chart below as domestic banks seek for greater liquidity from individuals with greater returns on deposits. In 2014, deposit rates have fallen to about 7% as banks reduce their exposures to expand their deposit base at an unaffordable cost[16]. To prevent fierce competition on deposit rates by banks, the SBV has also implemented several measures to curb the rise in deposit rates in 2010. One of which is the issue of Circular No. 11/2011/TT-NHNN (Circular 11) to end gold deposits and credits activities[17] and Circular No. 38/2012/TT-NHNN (Circular 38) to remove gold balance off the balance sheets of all credit institutions (with less than 2% of bank's capital at the end of day balance). The other is the implementation of deposit rates ceiling to curb the rise of deposits rates offered by banks. In March 2014, the SBV aims to further reduce the ceiling of deposit rates by one percentage point to 6%[18]. This reduction in deposit rates allows banks to improve their NIM while stabilising the banking environment in Vietnam and lowers loan rates which gives a boost to loans in the country's economy.

[16] Dragon Capital, "Window on Vietnam", Issue 4Q, 2014
[17] Vietnam Law & Legal Forum, "Circular No. 11/2011/TT-NHNN: Mobilization of deposits and provision of loans in gold signed off", May 30, 2011
[18] Tuoitrenews, "CBank to cut deposit rate ceiling to 6%", March 16, 2014



4.2.1. Interbank Loans

The interbank market has changed significantly since 2012 with the implementation of Circular No. 21/2012/TT-NHNN (Circular 21) in early September 2012. Previously, smaller JSCBs have been actively tapping on interbank loans for liquidity. Circular 21 is subsequently replaced by Circular No. 01/2013/TT-NHNN (Circular 01). Circular 01 further restricts credit institutions from the use of interbank loans as it stipulates that credit institutions can borrow from interbank loans if they do not have more than 10 days of overdue debts with other credit institutions and foreign bank branches unless the SBV permits them to do so. Coupled with the falling deposit rates and low credit growth mentioned previously, the implementation of regulations to limit interbank borrowing has further reduced the attractiveness of funding through the interbank market. We could see that in the long run, banks would fund their banking activities through the growing deposits from individuals.

4.3. Problem of Bad Debts

In November 2014, the SBV reported that the Vietnamese banks had an estimated bad debt of VND 161.86 trillion, which accounts for more than 3.8% of total outstanding loans. However, NPLs are expected to be higher at 15% by rating agencies such as Moody's and Fitch. The NPLs in Vietnam's banking industry are difficult to measure due to inconsistent methods of classifying NPLs across banks. In addition, the lack of transparency in the sector and cross-holdings of banks lead to greater difficulty for measurement of bad debts in Vietnam. To tackle the problem of bad debts in the country, the government has launched a slew of measures to alleviate the problem of bad debt in the banking industry. This will provide banks with room for restructuring and lower the risk of financial instability in the country.

In July 2013, the Vietnamese government had established an entity, known as Vietnam Asset Management Company (VAMC), to take bad loans off banks' balance sheets through issuing of bonds to local lenders. In October 2013, VAMC first purchased VND 40 trillion of bad debts. By the end of Dec 2014, the VAMC increased its purchase of bad debts to VND 81.6 trillion. It is expected that the VAMC would buy VND 70 to 100 trillion more bad debts in 2015. For the VAMC to be able to take on more bad debts from the banking system, it is important that the Company is able to sell these debts thereafter. However, the VAMC has managed to sell only less than 4.0% of debts (VND 4 trillion) that it has bought thus far[19]. In order to accelerate bad debt sales, the Vietnamese government is currently seeking to change existing rules to allow the VAMC to take on losses by selling those bad debts at a low price to attract greater foreign interest. This will help to further relieve the burden of bad debts on banks, opening up more room for them to undergo restructuring.

In addition, the government has issued Circular No. 02/2013/TT-NHNN (Circular 02) on January 21, 2013, which will take effect at start of 2015 to further alleviate the problems of bad debt. Circular 02 aimed to implement a new and uniform standard on the treatment of NPLs through regulation of asset classifications, methods of risk provision and the use of provisions to further improve risks of credit institutions and branches of foreign banks[20]. With the implementation of Circular 02, NPLs levels are expected to increase and reduce the charter capital of banks. As a result, credit institutions will have to raise equity capital and issue more shares to meet the required charter capital.

4.4. CROSS-OWNERSHIP

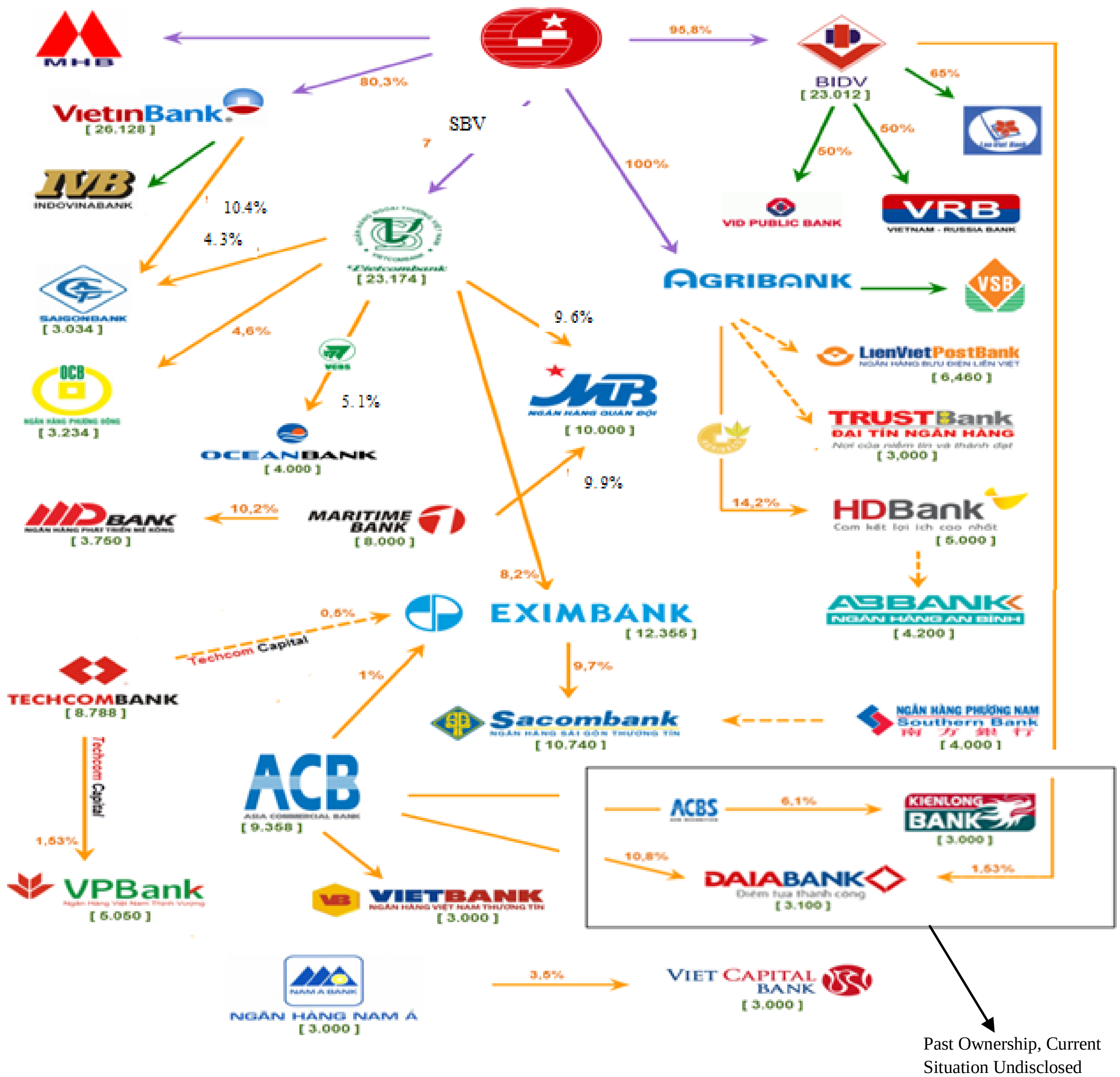
The problem due to cross-ownership among banks is a prevalent issue in Vietnam. In 2006 to 2011, there was a dramatic increase in the cross-ownership of banks due to increase number of banks and amount of capital in the banking system[21]. There are six types of cross-ownership:

- SOCBs own shares of JSCBs
- JSCBs own shares of JSCBs
- Ownership of SOCBs and foreign banks in the joint ventures banks
- Strategic partnership of foreign banks with domestic JSCBs
- Investment funds own shares of commercial banks
- SOEs, private corporations, individual own shares of JSCBs

Cross-ownerships allow mutual support of funds, technology and expertise. However, the growing number of cross-ownerships in Vietnam poses problems in the banking industry. Firstly, cross-ownership increases the difficulty for the measurement of bad debt as loan classification and provisioning can be falsified by cross-ownership. In addition, the systemic risk in the industry will increase as the sector becomes concentrated due to ownership of dominating banks in many smaller banks. Finally, the rise in cross-ownership also reduces competition of banks[22].

[19] Anh Vu, "Vietnam must accept market prices on bad debts: experts", Thanh Nien News, October 31, 2014
[20] VinaSecurities, Macquarie Equities Research, "Vietnam Strategy", August 27, 2013
[21] Vietnam Business Registration, "Cross ownership causes problems for Vietnam banks", January 9, 2015
[22] Vietnam Banking Industry, VPBank Securities, January 2014

The diagram below shows the level of complexity of the cross-ownership among banks in Vietnam[23]:



[23] CafeBiz, "Sở hữu chéo: Các ngân hàng đang nắm giữ nhau như thế nào?", September 7, 2012

5. RECENT DEVELOPMENTS OF BANKS

5.1. GROWTH IN RETAIL BANKING

There is room for greater expansion of the retail banking segment in Vietnam with a rising affluence among the young population in Vietnam and the relatively untapped retail banking in the country. Currently, corporate lending is the main activity of the banks in Vietnam and it accounts for almost half of total loans while only 28% are loans to individuals[24]. According to the State Bank of Vietnam, only 20% of the population in Vietnam holds a bank account. This illustrates that banks could tap on increase activities in retail banking to grow their loans and deposits in the country.

Recently, many banks in Vietnam has started to increase their focus on retail banking to support individuals with home loans, real estate loans or auto loans. In a research conducted by Ernst & Young (E&Y), it is expected for both payroll loans and auto loans to grow[25]. Some of the key local players that specialise in providing services to Vietnam's burgeoning middle class include Techcombank, Maritime Bank and VP Bank. These local banks seek to grow their retail banking with better quality customer services, internet banking services and new card services to encourage consumers to make payments via cards[26]. In addition, foreign banks such as HSBC and ANZ are also looking to tap on this area of growth in Vietnam. These foreign banks are able to benefit from their perceived trustworthiness and professionalism compared to the local banks.

For banks to expand their retail sector, they could target at the young population in Vietnam who has a growing income and greater spending power. According to a research by McKinsey, young adults (21 to 29 years old) are more open to new banking styles such as internet banking than older Vietnamese. As of Dec 2014, 43 banks in Vietnam provide internet banking and 32 banks provide mobile banking, of which the total number of mobile banking accounts created is half that of internet banking accounts[27].This group of young adults are also more inclined to borrow. With this rising young and dynamic population in Vietnam, there are many untapped opportunities for retail banking in Vietnam.

5.2. GROWING VIETNAMESE CARD PAYMENT CHANNEL

The economic growth in Vietnam has also resulted in a shift of cash payment to card payment. From 2009 to 2013, the amount of card transactions had increased tremendously by almost 200%. In the same period, the number of cards circulated increased from 21.7 million to 67.8 million. It is estimated that card transaction value will continue to rise by more than 50% till 2018[28]. One of the key factors for the increase in card payments is the rising popularity of e-commerce in the country. Banks could also look forward to tap on this opportunity to grow transaction values by cards through the use of technology.

---

[24] KPMG, Vietnam Banking Survey 2013

[25] Van Tan Hoang Vo, "Banking in emerging markets: Seizing opportunities, overcoming challenges, Country Reports", pg61, Ernst & Young

[26] Edward Barbour-Lacey, "Vietnam's Retail Banks Seek to Entice New Customers", Vietnam Briefing, Business Intelligence from Dezan Shira & Associates, June 30, 2014

[27] Vietnam Breaking News, "Vietnamese bankers gear up for e-banking", December 21, 2014

[28] Edward Barbour-Lacey, "Vietnam's Retail Banks Seek to Entice New Customers", Vietnam Briefing, Business Intelligence from Dezan Shira & Associates, June 30, 2014

The rising popularity of e-commerce in Vietnam is largely attributed to the growing number of internet users in the country. Currently, at least 43.9% of the population use the internet, higher than the average 35% in Southeast Asia as reported by the World Bank. It is also predicted by Vietnam's e-Commerce and Information Technology Agency (VECITA) predicts that almost 50 % of the population in Vietnam will be online compared to the current 39 % by 2015[29]. As a result, it is important for banks to reach out to their customers through internet and online payment channels.

5.3. IMPACT OF CIRCULAR 36

Circular No. 36/2014/TT-NHNN (Circular 36), which was issued in November 20, 2014, will be implemented in February this year. The new Circular is expected to have a significant impact on credit institutions and branches of foreign banks, the stock market, bond market and the real estate market. Circular 36 will replace and adjust some regulations which include Decision 03/2008/QD-NHNN, Circular No. 15/2009/TT-NHNN, Circular No. 13/2010/TT-NHNN, Circular No. 19/2010/ TT-NHNN and Circular No. 22/2011/ TT-NHNN. The most notable impact expected with the implementation of this new circular should be a reduction in the cross-ownerships in the banking industry and total amount available for margin lending to the stock market[30].

5.3.1. Charter Capital and Provided Capital

The SBV requires for the first time, banks to report on actual value of charter capital and real shareholder equity which will be calculated after provisions are made and all income and expenses are recorded. In the event that charter capital falls below VND 3 trillion, banks are required to find ways to raise the charter capital back to the required capital or report it to the SBV within 30 days. If the charter capital falls below 80% than the required capital, the scope of businesses will be limited and a higher CAR will be levied. If the charter capital falls below 50% of the required capital for six consecutive months, credit institutions will be obliged to restructure their businesses or licenses will be withdrawn. As a result, the new regulation to report on actual value of charter capital and provided capital for banks will require credit institutions to raise additional shares to meet the required capital.

5.3.2. Minimum Capital Adequacy Ratio (CAR)

The minimum CAR remains the same at 9%. However, Circular 36 reduces the risk factor of lending for real estate investments, receivables for securities and receivables to securities companies from 250% to 150% and sets a risk factor of 150% on lending to fund management companies and gold-secured loans. Treasury shares and lending to capital contribution to or purchasing equities of other credit institutions will be deducted from the calculation of Tier I capital. This implies that there will be greater lending activities from banks in securities and real estate investments and lesser loans for investments in fund management

[29] Edward Barbour-Lacey, "Vietnam's Retail Banks Seek to Entice New Customers", Vietnam Briefing, Business Intelligence from Dezan Shira & Associates, June 30, 2014

[30] VP Bank Securities, "Special Report: Impact of Circular 36", December 22, 2014

companies and gold-secured loans. The new rules on treasury shares and lending for capital contribution will lead to a reduction in cross-ownership in the sector.

5.3.3. Limit on Lending for Securities Investment and Business

Circular 36 stipulates that banks and branches of foreign banks are allowed to offer lending for investment in securities if they are able to maintain NPL ratio of below 3% and apply all regulation on risk management and provision by laws. The proportion of credit for equity investment must not exceed 5% of charter capital, which is a significant fall from 20% of charter capital for securities investments. As a result, it will limit and reduce the stock trading activities in the country.

6. ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) ANALYSIS

6.1. IMPORTANCE OF ESG ANALYSIS

To ensure financial stability and economic growth in the country and worldwide, it is necessary for the banking sector to adopt responsible and sustainable business operations. Banks should have a sound environmental, social and governance (ESG) principles at the core of its business. The outcomes based on the ESG for bank due to their lending, client relationships and advisory businesses can affect the bank's performance. For example, a bank's poor management of ESG can affect its reputation and as a result, lead to negative financial impacts which include increased NPLs due to default and risk of litigation. We will look at the ESG analysis for the banking industry below:

6.2. ENVIRONMENT

The operating environment for banks does not raise any environmental concerns.

6.3. SOCIAL

The banks are committed to many social welfare activities such as charity events, donations for building of schools, granting scholarships, providing finances for medical purpose and other corporate social responsibility (CSR) projects.

6.4. GOVERNANCE

Governance is the most crucial component in the ESG analysis for the banking sector in Vietnam. Poor governance will have a huge negative impact on the banks' reputation and profitability. For example, in 2012, news on the wrong-doings of Mr. Nguyen Duc Kien, a founder in ACB had led to huge cash withdrawals by depositors. It was estimated that total damage led to a loss of almost VND 1,700 billion.

In particular, there is greater importance for the role of governance in the cross-ownerships of Vietnamese banks. Banks use cross-ownerships to "evade banking safety requirements" issued by the authority and protect the interests of major shareholders. For example, when SOCBs are major stakeholders of JSCBs, they will influence the latter to provide loans to SOEs or when companies are major stakeholders for banks, banks will have a greater tendency to help these companies raise funds for their projects. Cross-ownership of two banks can also allow them to borrow easily from each other. In 2011, following a change in Decree No. 10/2011/ND-CP (Decree 10) which raises the minimum charter capital from VND 1 trillion in 2008 to VND 3 trillion for banks, cross-ownerships create an artificial capital increase in banks through the use of borrowings and this may help small banks to appear as if they have sufficient capital on their balance sheets. As a result, governance is especially important in cross-ownerships of banks to better measure bad debts in the banking industry and protects the interests of minor shareholders.

To act in a socially responsible manner, banks in Vietnam have been actively pursuing corporate governance practices in compliance with international standards. Some corporate governance strategies include improving the banks' investors' relations, protecting interests of minority shareholders and increasing effectiveness of management structure

7. OUTLOOK OF ASEAN BANKS IN 2015

In a recent report, "ASEAN Financials – 2015 Outlook: Focus on high or improving RoE" from Morgan Stanley, it states that the overall earnings growth for ASEAN banks is expected to be slower as compared to the growth in 2013 due to decelerating loan growth and liquidity constraints[31]. Among the 5 Asian countries listed in the report, the Philippines is expected to the best positioned banking market among its regional peers followed by Singapore and Indonesia. Thailand and Malaysia are expected to be in the most difficult market in terms of its operations.

The performance of the various ASEAN banking market was rated based on a rank score from 1 to 5 for a variety of metrics, with 1 representing the best score as shown in the chart below:

ASEAN Banking Markets Outlook for 2015

1=best, 5=least favoured	Indonesia	Malaysia	Philippines	Singapore	Thailand
Macro	3	5	1	2	4
Liquidity	4	2	1	3	5
Leverage	2	4	1	5	3
Capital	1	5	3	4	2
Business Mix	4	5	3	1	2
Risk Profile	4	5	2	1	3
EPS Growth	1	5	2	4	3
BV Growth	1	5	3	4	2
Politics	2	3	4	1	5
Valuation	4	1	5	3	2
Average Score	**2.6**	**4.0**	**2.5**	**2.8**	**3.1**

Source: Morgan Stanley Research Estimates

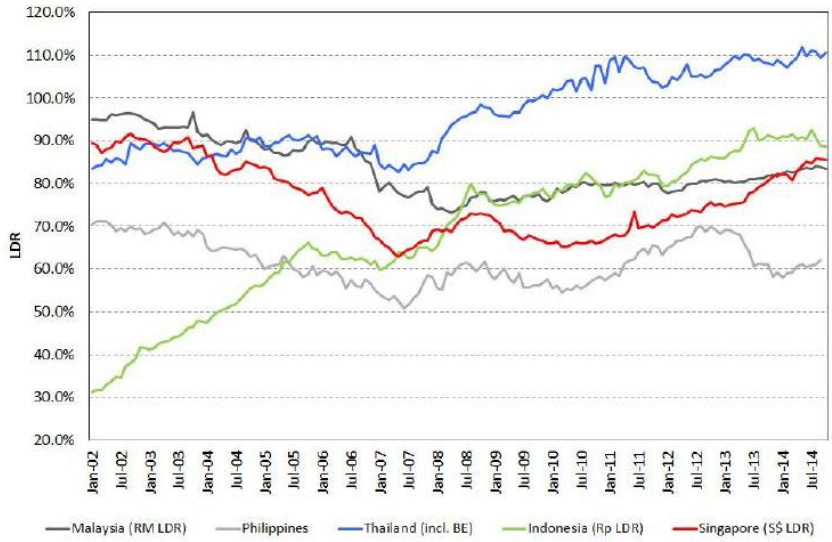
The expected performance of the banking sector in the Philippines is the most favourable due to strong GDP forecast of 6.3% and high liquidity compared to its peers. Credit growth in the Philippines is forecast at 15% from 2014 to 2016.

7.1. LIQUIDITY

The Philippines has the lowest LDR among its peers, which remained constant at 62% since 2008. With a low LDR, there are many opportunities for the Philippines to grow and improve its margins and profitability. Singapore and Malaysia have LDRs at a range of 80 to 90%, which has little room for improvement and growth. As of June 2014, the LDR in Vietnam is at 82%, falling in the same range as Singapore and Malaysia[32]. Indonesia has the lowest liquidity, with the highest LDR at 110%. Overall, many ASEAN banks have reached LDR constraints. With high LDRs, interest rates are expected to increase followed by slower loan growth in many ASEAN countries such as Singapore, Malaysia and Thailand.

[31] Morgan Stanley, "ASEAN Financials, 2015 Outlook: Focus on high or improving RoE", January 5, 2015

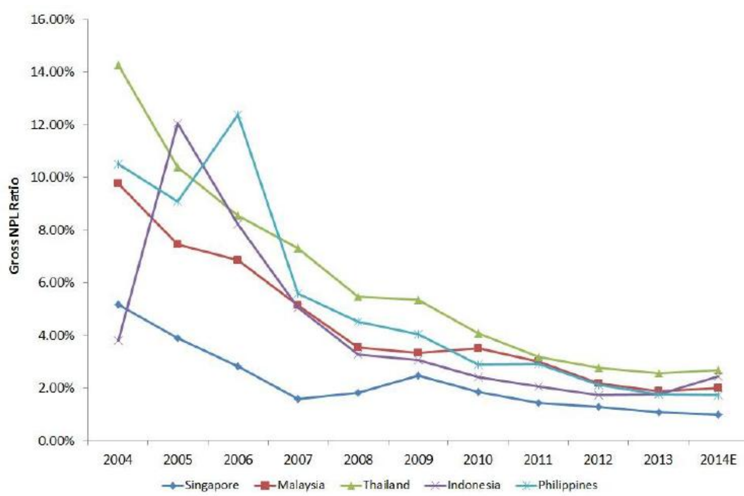
[32] Moody's Investor Service, "Moody's: Vietnamese banks' credit quality to improve along with economy and governance", October 9, 2014



Source: Central Banks Data, CEIC, Morgan Stanley Research

7.2. NON-PERFORMING LOANS (NPL)

The banks in Asia have been active in improving the asset quality since the Asian Financial Crisis in 1997 as seen from the falling gross NPL ratio in the chart. In 2013, the credit quality of the assets in the banking system in Singapore and the Philippines are performing better than their peers. Thailand has the highest gross NPL ratio and it is expected to rise.



Source: Company Data, Morgan Stanley Research

7.3. POLITICAL ENVIRONMENT

Singapore and Malaysia have the most stable political environment for banks to establish their operations while the Philippines and Thailand are rated to have the most political instability. The Philippines is expected to have it presidential elections in 2016 which might lead to greater political instability. Thailand is still embroiled in a political unrest since 2004.

APPENDIX A: SWOT ANALYSIS

<table>
<tr><th colspan="2">VIETNAM COMMERCIAL BANKING</th></tr>
<tr><th>Strengths</th><th>Weaknesses</th></tr>
<tr><td>Untapped market with potential for increased participation of foreign banks.
Large population with a high savings rate and potential for deposit growth.
The Vietnamese government aims to accelerate the process of privatising state-owned commercial banks and state-owned enterprises, which will increase the efficiency of the banking industry.
State-owned banks will play a lesser role going forward, and the risks associated with state-directed lending will decrease over time.</td><td>Domestic banks continue to lag behind their foreign peers in terms of financial strength and the technological curve.
Accounting standards lag behind international standards and the lack of transparency entails significant risks for foreign investors.
Small banks have an overwhelming exposure to real estate and individual loans, resulting in highly skewed and risky loan portfolios.</td></tr>
<tr><th>Opportunities</th><th>Threats</th></tr>
<tr><td>Vietnam's banking sector is underdeveloped compared to some other countries in the region, and yet bank loans remain the most popular financing method for Small and Medium Enterprises. There is significant potential for adopting cashless payment systems and new mobile banking technologies.
Rising income levels and deepening capital markets could give rise to opportunities in more sophisticated financial products and growth for the local asset management industry.</td><td>Aggressive competition from ASEAN and Japanese banks into the domestic markets especially after the ASEAN Economic Community in 2015.
Delays in the application for the banking sector reforms could lead to prolonged bad debt problem and eventually bankruptcy for a small number of weak banks, undermining confidence in the sector as a whole.</td></tr>
</table>

APPENDIX B: LIST OF IMPORTANT REGULATIONS APPLIED TO THE BANKING SECTOR

Decree/Circular No.	Date of Issue	Effective Date	Objective of Decree/Circular
Decree No. 22/2006/ND-CP (Decree 22)	February 28, 2006	March 22, 2006	Decree 22 permits foreign banks to operate in the country in the form of a foreign bank branch, joint venture bank and 100% foreign-owned bank.
Decree No. 10/2011/ND-CP (Decree 10)	January 26, 2011	March 15, 2011	Decree 10 supplements Decree No. 141/2006/ND-CP (Decree 141) which raises minimum charter capital to VND 3 trillion.
Circular No. 11/2011/TT-NHNN (Circular 11)	April 29, 2011	May 1, 2011	Circular 11 restricts the mobilization of deposits and provision of loans in gold and limit speculations in foreign exchange market.
Circular No. 38/2012/TT-NHNN (Circular 38)	December 28, 2012	January 10, 2013	Circular 38 restricts credit institutions from trading of gold bars. The circular stipulates that credit institutions are not allowed to maintain a gold position at the end of the working day of more than 2% of their own capital or have a negative gold position.
Circular No. 01/2013/TT-NHNN (Circular 01)	January 7, 2013	June 18, 2012	Circular 01 replaces Circular No. 21/2012/TT-NHNN (Circular 21) which restricts credit institutions from the use of interbank loans to fund their liquidity. The circular stipulates that credit institutions can borrow from interbank loans if they do not have interbank loans which are overdue for more than 10 days. Lenders of these interbank loans are also required to include a credit provision for the interbank loans.
Circular No. 02/2013/TT-NHNN (Circular 02)	January 21, 2013	Early January, 2015	Circular 02 aims to implement a new and uniform standard of loan classification and as a result, improve the reporting of bad debts of banks in the country.
Decree No. 01/2014/ND-CP (Decree 01)	January 3, 2014	February 20, 2014	Decree 01 replaced Decree 69/2007/ND-CP (Decree 69) and it stipulates an increase in equity stake of foreign investors in a credit institution from 15 to 20%. The total foreign ownership remains unchanged and capped at 30%.
Circular No. 36/2014/TT-NHNN (Circular 36)	November 20, 2014	February 1, 2015	Circular 36 replaces Circular 13/2010/TT-NHNN to improve capital adequacy and liquidity requirements for credit institutions.

APPENDIX C: INVESTMENT VIEWS OF 7 LARGEST LISTED VIETNAMESE BANKS

ACB VN - ASIA COMMERCIAL BANK

Price Chart

Stock data as of 23-Jan-2015

Price	17,100
Outstanding shares	909,780,500
Market cap (VND mn)	15,557,247
Market cap (USD mn)	729
Local Currency per USD	21,350
52-week high	17,900
52-week low	14,800
Price change - 1M	-9.94%
Price change - 3M	-11.70%
Price change - 6M	-9.94%
Price change - 1Y	#VALUE!
Price change - YTD	-9.94%
Free float (%)	94%
Avg daily traded value - 6M (USD)	123,572
Foreign room available (shares)	-
Foreign ownership ratio	49%

Valuation Ratios

	12/2011	12/2012	12/2013	12/2014F
P/E	6.3	24.8	17.5	17.4
P/B	1.7	1.2	1.1	1.2
Div Yield	9.2	4.2	4.5	5.2
ROE	27.5%	6.4%	6.6%	7.4%

Major shareholders

	Ownership (%)
CONNAUGHT INVESTORS	7.5%
DRAGON FINANCIAL HOL	7.0%
STANDARD CHARTERED B	6.4%
VIETNAM ENTERPRISE I	6.3%
HUNG HUY TRAN	3.2%

Key Figures

VNDm	12/2011	12/2012	12/2013	12/2014F
Interest Income	25,683,584	22,414,101	15,277,255	14,083,553
Interest Expenses	18,853,380	15,398,127	10,818,660	9,462,903
Net Interest Income	6,830,204	7,015,974	4,458,595	4,620,650
Trading Acct Profit	-5,020	-1,885,529	388,771	-
Comm & Fees Earned	1,138,535	916,595	996,643	896,979
Other Op Income	-1,181	1,716	31,801	34,981
Net Revenue	7,962,538	6,048,756	5,875,810	-
Provisions for Loan Losses	296,376	521,391	854,630	1,294,417
Pretax Income	4,202,693	1,042,676	1,035,560	1,213,657
Net Income	3,207,841	784,040	826,493	946,652
EPS	3,419	666	890	985
Int. Inc. Growth	69.6%	-12.7%	-31.8%	5.3%
Non Int. Inc. Growth	-11.5%	-185.4%	-246.5%	-
NIM	3.6%	3.9%	3.0%	-
Operating Margin	52.8%	17.2%	17.6%	-
Net Margin	40.3%	13.0%	14.1%	-
CIR	41.2%	73.2%	66.5%	59.0%
EPS Growth	19.5%	-80.5%	33.6%	10.7%
Total Assets	281,019,319	176,307,607	166,598,989	189,392,246
Total Equity	11,959,092	12,624,452	12,504,202	13,155,894
Gross Loans	102,809,156	102,814,848	107,190,021	120,581,000
Net Loans	101,822,720	101,312,766	105,642,038	-
Deposits	142,218,091	125,233,595	138,110,836	158,827,461
LDR	72%	81%	76%	74%
NPL	0.9%	2.5%	3.0%	3.0%
CAR	9.3%	13.5%	14.7%	14.5%

* 2014 forecast by SSI

Investment view

- After the incidents in 2012 ACB has gone through a wave of restructuring in terms of management and risk policies with increased influence from Standard Chartered, its major shareholder.
- ACB is making efforts to quickly resolve its NPL problems. It might take the bank one of two more years of no growth to completely resolve the issue. Credit growth is lowest among its peers due to persisting investigations by the SBV on 2012 lending scandal. However higher asset quality rather than credit growth is the bank's main focus.
- ACB's strength still lies on its retail credit segment - a very profitable business .
- On September 22 2014, Moody's has changed the outlook on Asia Commercial Bank's (ACB) ratings to positive. This reflects ACB's stabilization in the operating environment in Vietnam, as well as the expected improvement in underwriting standards arising from improved governance and lower risk appetite.

BID VN - BANK FOR INVESTMENT AND DEVE

Price Chart

Stock data as of 23-Jan-2015

Price	17,400
Outstanding shares	2,811,203,000
Market cap (VND mn)	48,914,926
Market cap (USD mn)	2,292
Local Currency per USD	21,345
52-week high	19,500
52-week low	12,500
Price change - 1M	-25.29%
Price change - 3M	-27.01%
Price change - 6M	-12.64%
Price change - 1Y	NA
Price change - YTD	#N/A
Free float (%)	4%
Avg daily traded value - 6M (USD)	397,537
Foreign room available (shares)	-
Foreign ownership ratio	49%

Valuation Ratios

	12/2011	12/2012	12/2013	12/2014F
P/E	-	-	-	12.6
P/B	-	-	-	1.6
Div Yield	-	-	-	-
ROE	13.2%	-	-	12.0%

Major shareholders

	Ownership (%)
SOCIALIST REPUBLIC O	95.8%
KBC GROUP NV	0.0%
TONG YANG INVESTMENT	0.0%
BAC HA TRAN	0.0%
HUY HA HOANG	0.0%

Key Figures

VNDm	12/2011	12/2012	12/2013	12/2014F
Interest Income	44,672,157	46,310,063	43,267,386	47,749,235
Interest Expenses	31,918,155	33,102,485	28,980,070	33,118,084
Net Interest Income	12,754,002	13,207,578	14,287,316	14,631,151
Trading Acct Profit	-103,332	-	1,552,238	-
Comm & Fees Earned	2,813,420	2,759,467	3,314,286	3,877,715
Other Op Income	606,603	-	908,267	-
Net Revenue	16,070,693	-	20,062,107	-
Provisions for Loan Losses	4,542,126	5,603,666	6,482,862	6,876,329
Pretax Income	4,219,873	3,911,310	5,289,956	5,018,477
Net Income	3,209,162	2,971,513	4,030,709	3,914,412
EPS	-	1,284	1,520	1,385
Int. Inc. Growth	49.3%	-	-	-
Non Int. Inc. Growth	18.6%	-	-	-
NIM	3.5%	-	2.9%	2.7%
Operating Margin	26.3%	-	26.4%	-
Net Margin	20.0%	-	20.1%	-
CIR	43.2%	-	38.7%	41.0%
EPS Growth	-	-	18.4%	-8.9%
Total Assets	405,755,454	484,784,560	548,386,083	622,529,238
Total Equity	24,597,419	26,494,446	32,292,565	31,449,943
Gross Loans	293,937,120	-	391,035,051	-
Net Loans	288,079,640	-	384,889,836	-
Deposits	240,507,629	303,059,537	338,902,132	393,126,473
LDR	120%	110%	114%	114%
NPL	2.8%	2.7%	2.3%	2.4%
CAR	9.0%	10.0%	10.0%	10.0%

* 2012 financial figures & 2014 forecast by HSC

Investment view

- BID is a large SOCB with ability to offer competitive lending rates, however it is not one of our best pick in the sector.
- High credit growth of 15% (higher than the industry average of 12.51%) boosted by credit to corporations (85% of the bank's loans book was provided to corporations and the remaining 15% was to individuals.) However, BID's deposit growth was only 12.4%, lower than the industry average of approximately 16% in 2013 which led to a high LDR ratio. BID needs a clear strategy to improve customer deposit growth rate in order to reduce LDR and conform with Circular 36.
- The bank also lacks of a clear strategy for retail banking development.
- The bank has historically high exposure to the high risk construction and property sector compared to peers.

APPENDIX C: INVESTMENT VIEWS OF 7 LARGEST LISTED VIETNAMESE BANKS

CTG VN - VIETNAM JS COMMERCIAL BANK F

Price Chart

Stock data as of 23-Jan-2015

Price	16,700
Outstanding shares	3,723,405,000
Market cap (VND mn)	62,180,856
Market cap (USD mn)	2,912
Local Currency per USD	21,350
52-week high	17,800
52-week low	13,600
Price change - 1M	-17.37%
Price change - 3M	-16.17%
Price change - 6M	-11.98%
Price change - 1Y	#VALUE!
Price change - YTD	#N/A
Free float (%)	33%
Avg daily traded value - 6M (USD)	259,840
Foreign room available (shares)	46,756,770
Foreign ownership ratio	48%

Valuation Ratios

	12/2011	12/2012	12/2013	12/2014F
P/E	6.3	8.4	10.8	14.5
P/B	1.3	1.6	1.1	1.1
Div Yield	0.0	9.6	6.2	6.5
ROE	26.7%	19.8%	13.2%	9.9%

Major shareholders

	Ownership (%)
BANK OF TOKYO-MITSUB	19.7%
IFC CAPITALIZATION F	5.4%
INTERNATIONAL FINANC	2.6%
JPMORGAN ASSET MANAG	0.3%
EATON VANCE MANAGEME	0.1%

Key Figures

VNDm	12/2011	12/2012	12/2013	12/2014F
Interest Income	56,032,589	50,826,716	44,453,582	48,414,670
Interest Expenses	35,727,190	32,240,738	26,003,568	29,440,160
Net Interest Income	20,305,399	18,585,978	18,450,014	18,974,510
Trading Acct Profit	-107,652	911,727	318,413	-
Comm & Fees Earned	1,923,360	1,855,358	2,096,679	2,306,347
Other Op Income	1,024,103	1,185,599	1,495,146	1,495,146
Net Revenue	23,145,210	22,538,662	22,360,252	-
Provisions for Loan Losses	4,904,251	4,357,954	4,123,423	5,344,749
Pretax Income	8,392,021	8,167,900	7,750,622	6,911,627
Net Income	6,243,795	6,151,545	5,792,449	5,376,655
EPS	2,053	2,305	1,504	1,149
Int. Inc. Growth	74.6%	-9.3%	-12.5%	-
Non Int. Inc. Growth	-3.4%	39.2%	-1.1%	-
NIM	5.2%	4.1%	3.7%	3.4%
Operating Margin	36.3%	36.2%	34.7%	-
Net Margin	27.0%	27.3%	25.9%	-
CIR	40.6%	43.0%	45.5%	46.0%
EPS Growth	14.3%	12.3%	-34.8%	-23.6%
Total Assets	460,420,078	503,530,259	576,368,416	643,675,562
Total Equity	28,699,392	33,840,373	54,287,585	54,627,917
Gross Loans	293,434,312	333,356,092	376,288,968	425,206,534
Net Loans	290,397,810	329,682,838	372,988,742	-
Deposits	257,135,945	289,105,307	364,497,001	415,526,581
LDR	113%	114%	102%	102%
NPL	0.8%	1.5%	1.0%	2.0%
CAR	10.6%	10.3%	14.3%	13.1%

* 2014 forecast by SSI

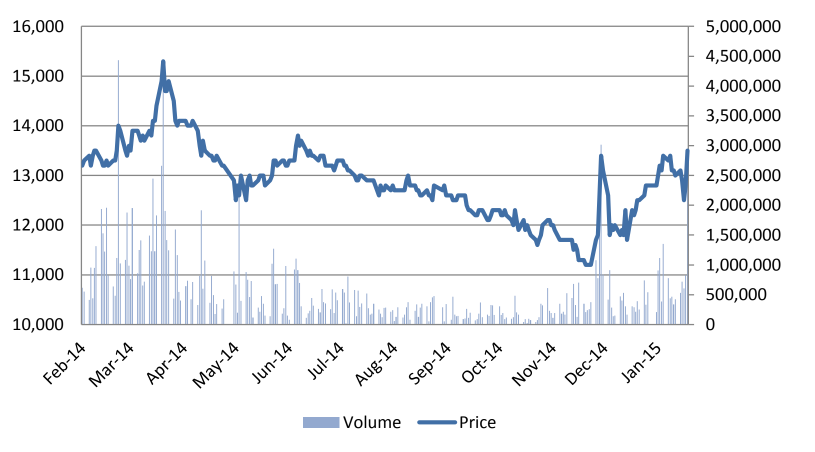
Investment view

- Despite having a leader position in the sector as the largest listed SOCB, CTG is not one of our best pick due to asset quality problem.
- The bank has above average provision charge ratio due to high credit exposure to SOEs and considerable involvement in policy lending functions.
- CTG has lower LDR since 2011 as deposit growth has been higher than credit growth. CTG has been using the funds to invest in liquid government securities.
- CTG is active in clearing bad debts by taking aggressive provisions and sold an important amount of bad debts to the VAMC in Q3-2014.
- CTG has significant growth opportunities in retail banking thanks to its large network. The bank aims to develop key strategies such as plans to push retail banking, emphasis on both wholesale and retail banking, increase non-interest income.

APPENDIX C: INVESTMENT VIEWS OF 7 LARGEST LISTED VIETNAMESE BANKS

EIB VN - VIETNAM EXPORT-IMPORT COMMER

Price Chart



Stock data as of 23-Jan-2015

Price	13,500
Outstanding shares	1,229,433,000
Market cap (VND mn)	16,597,344
Market cap (USD mn)	777
Local Currency per USD	21,350
52-week high	15,900
52-week low	11,000
Price change - 1M	-7.41%
Price change - 3M	-14.07%
Price change - 6M	-5.93%
Price change - 1Y	#VALUE!
Price change - YTD	#N/A
Free float (%)	75%
Avg daily traded value - 6M (USD)	204,344
Foreign room available (shares)	55,697,680
Foreign ownership ratio	44%

Valuation Ratios

	12/2011	12/2012	12/2013	12/2014F
P/E	5.8	9.1	23.5	24.9
P/B	1.1	1.2	1.1	1.0
Div Yield	9.8	9.6	3.2	3.3
ROE	20.4%	13.3%	4.3%	4.6%

Major shareholders

	Ownership (%)
SUMITOMO MITSUI BANK	15.1%
VINACAPITAL INVESTME	5.0%
VOF INVESTMENT LTD	5.0%
VIETNAM NATL GEN EXP	1.0%
HUU PHU PHAM	0.2%

Key Figures

VNDm	12/2011	12/2012	12/2013	12/2014F
Interest Income	17,609,464	16,916,357	11,052,399	8,741,521
Interest Expenses	12,246,316	12,030,414	8,165,884	5,801,064
Net Interest Income	5,363,148	4,885,943	2,886,515	2,940,457
Trading Acct Profit	-90,170	-300,033	-116,766	-
Comm & Fees Earned	692,970	410,766	459,345	505,280
Other Op Income	398,386	558,576	203,926	29,317
Net Revenue	6,364,334	5,555,252	3,433,020	-
Provisions for Loan Losses	270,879	239,307	300,269	804,788
Pretax Income	4,056,293	2,850,997	827,868	858,116
Net Income	3,038,864	2,138,655	658,706	669,330
EPS	2,460	1,731	533	542
Int. Inc. Growth	132.3%	-3.9%	-34.7%	7.9%
Non Int. Inc. Growth	19.7%	-33.1%	-18.3%	-
NIM	3.8%	3.2%	1.9%	-
Operating Margin	63.7%	51.3%	24.1%	-
Net Margin	47.7%	38.5%	19.2%	-
CIR	30.6%	42.6%	65.3%	36.0%
EPS Growth	67.5%	-29.6%	-69.2%	1.7%
Total Assets	183,567,032	170,156,010	169,835,460	211,762,998
Total Equity	16,302,520	15,812,205	14,680,317	15,849,132
Gross Loans	74,663,330	74,922,289	83,354,232	98,198,000
Net Loans	74,044,518	74,315,952	82,643,274	-
Deposits	53,652,639	70,458,310	79,472,411	161,786,601
LDR	138%	105%	104%	57%
NPL	1.6%	1.5%	2.0%	3.0%
CAR	12.9%	16.4%	14.7%	14.5%

* 2014 forecast by SSI

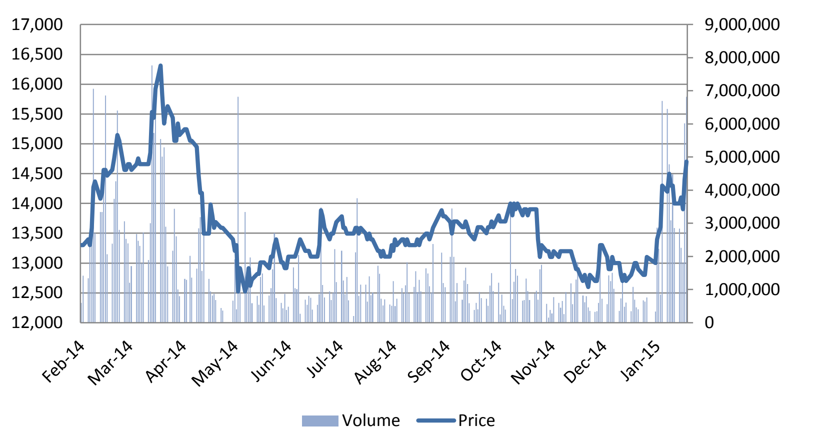
Investment view

- EIB's focus on export-import customers will result in lower profit margins due to SBV's regulations to lower loan rate caps to borrowers in the export-import industry.
- EIB has higher than peers NPL ratio and has been taking the least provisions. However, its highest among peers CAR allows it to cushion NPLs.
- Low liquidity reflected in high LDR.
- For the first 9 months of 2014, EIB's credit growth remained negative, likely due to weakend individual loans. EIB is weak in terms of branches and sub-branches (208 compared to 346 for ACB and 420 for STB).
- EIB is not our favourite pick due to concerns over the bank's shrinkage of total asset, tight liquidity, deteriorating asset quality, and weak profitability.

APPENDIX C: INVESTMENT VIEWS OF 7 LARGEST LISTED VIETNAMESE BANKS

MBB VN - MILITARY COMMERCIAL JOINT

Price Chart



Stock data as of 23-Jan-2015

Price	14,700
Outstanding shares	1,159,394,000
Market cap (VND mn)	17,043,088
Market cap (USD mn)	798
Local Currency per USD	21,350
52-week high	16,408
52-week low	12,233
Price change - 1M	-11.56%
Price change - 3M	-5.44%
Price change - 6M	-10.18%
Price change - 1Y	#VALUE!
Price change - YTD	#N/A
Free float (%)	65%
Avg daily traded value - 6M (USD)	789,786
Foreign room available (shares)	-
Foreign ownership ratio	49%

Valuation Ratios

	12/2011	12/2012	12/2013	12/2014F
P/E	3.7	5.1	5.9	7.8
P/B	0.8	1.0	0.9	1.1
Div Yield	15.3	9.6	6.3	7.9
ROE	23.0%	20.5%	16.2%	14.2%

Major shareholders

	Ownership (%)
VIETTEL GROUP	15.0%
MARITIME BANK	9.5%
VIETNAM HELICOPTER C	4.7%
SAIGON NEWPORT CO	4.3%
28 CORPORATION -AGTE	0.7%

Key Figures

VNDm	12/2011	12/2012	12/2013	12/2014F
Interest Income	13,900,294	15,506,011	13,528,834	13,196,928
Interest Expenses	8,598,491	8,835,583	7,331,932	6,587,481
Net Interest Income	5,301,803	6,670,428	6,196,902	6,609,447
Trading Acct Profit	-853,966	133,889	109,930	-
Comm & Fees Earned	1,190,897	904,391	973,963	1,178,495
Other Op Income	56,641	276,344	614,893	364,645
Net Revenue	5,695,375	7,985,052	7,895,688	-
Provisions for Loan Losses	641,146	2,027,161	1,892,379	2,464,456
Pretax Income	2,625,324	3,089,551	3,021,633	2,800,040
Net Income	2,126,709	2,305,879	2,275,966	2,198,032
EPS	2,646	2,354	2,083	1,896
Int. Inc. Growth	56.9%	11.6%	-12.8%	7.9%
Non Int. Inc. Growth	851.3%	234.0%	29.2%	-
NIM	4.8%	4.8%	3.8%	-
Operating Margin	46.1%	38.7%	38.3%	-
Net Margin	37.3%	28.9%	28.8%	-
CIR	36.5%	34.5%	35.9%	36.0%
EPS Growth	2.4%	-11.0%	-11.5%	-9.0%
Total Assets	138,831,492	175,609,964	180,381,064	211,762,998
Total Equity	10,297,799	13,529,846	15,707,066	15,849,132
Gross Loans	59,044,837	74,478,564	87,742,915	98,198,000
Net Loans	57,952,296	73,165,823	85,972,767	-
Deposits	89,548,673	117,747,416	136,088,812	161,786,601
LDR	65%	62%	63%	57%
NPL	1.6%	1.8%	2.4%	3.1%
CAR	9.6%	11.2%	11.0%	10.9%

* 2014 forecast by SSI

Investment view

- Fastest growing bank in the Tier-1 group of Vietnamese banks with 5-year CAGR of 32% for total assets and 27% for charter capital.
- Biggest private bank in terms of total assets and third biggest in terms of charter capital.
- Close relationship with the Ministry of Defense and notably Viettel, a fast-growing telecom company that is also owned by the Ministry of Defense, which mean opportunity to access Viettel's client database.
- Management shows a good balance of activism and conservatism in operation, and enhanced risk management.
- Lower cost of funding and higher margins due to a large proportion of deposits contributed by corporations (deposits from corporations accounted for 63% of total deposits and non-term deposits accounted for 29% of total deposits as of Dec 2013).
- High profitability (2013 ROE: 16.32%, highest among the top ten banks) thanks to its low cost of funding
- However, aggressive development strategy to become the third largest JS bank of Vietnam in the next few years means increased charter capital and dilution risk.

APPENDIX C: INVESTMENT VIEWS OF 7 LARGEST LISTED VIETNAMESE BANKS

STB VN - SAIGON THUONG TIN COMMERCIAL

Price Chart

Stock data as of 23-Jan-2015

Price	18,800
Outstanding shares	1,142,512,000
Market cap (VND mn)	21,479,218
Market cap (USD mn)	1,006
Local Currency per USD	21,350
52-week high	23,300
52-week low	15,500
Price change - 1M	-7.45%
Price change - 3M	-2.66%
Price change - 6M	4.79%
Price change - 1Y	#VALUE!
Price change - YTD	#N/A
Free float (%)	90%
Avg daily traded value - 6M (USD)	564,181
Foreign room available (shares)	298,216,600
Foreign ownership ratio	23%

Valuation Ratios

	12/2011	12/2012	12/2013	12/2014F
P/E	6.7	19.3	8.7	13.6
P/B	1.0	1.4	1.2	1.2
Div Yield	0.0	9.6	4.7	5.1
ROE	14.5%	7.1%	14.5%	10.4%

Major shareholders

	Ownership (%)
BE TRAM	5.3%
KHAI HOA TRAM	2.1%
HUY KHANG PHAN	1.4%
PXP VIETNAM ASSET MA	0.8%
HOANG QUYNH NHU DUON	0.6%

Key Figures

VNDm	12/2011	12/2012	12/2013	12/2014F
Interest Income	17,622,240	16,786,211	16,466,636	15,563,823
Interest Expenses	12,022,040	10,372,444	9,666,889	8,737,366
Net Interest Income	5,600,200	6,413,767	6,799,747	6,826,457
Trading Acct Profit	7,096	-165,337	-243,418	-
Comm & Fees Earned	1,685,590	1,292,300	1,436,185	1,385,427
Other Op Income	106,076	-81,567	97,078	111,640
Net Revenue	7,398,962	7,459,163	8,089,592	-
Provisions for Loan Losses	394,957	1,331,265	434,635	1,312,949
Pretax Income	2,770,674	1,367,851	2,960,648	2,385,933
Net Income	2,066,431	1,002,370	2,229,109	1,861,028
EPS	1,966	903	1,982	1,380
Int. Inc. Growth	43.0%	-4.7%	-1.9%	3.0%
Non Int. Inc. Growth	92.2%	-41.9%	23.4%	-
NIM	4.6%	5.3%	5.1%	-
Operating Margin	37.4%	18.3%	36.6%	-
Net Margin	27.9%	13.4%	27.6%	-
CIR	53.1%	60.6%	55.3%	54.6%
EPS Growth	7.8%	-54.1%	119.6%	-30.4%
Total Assets	141,468,717	152,118,525	161,377,613	189,058,027
Total Equity	14,546,883	13,698,750	17,063,726	18,607,620
Gross Loans	80,539,487	96,334,439	110,565,799	126,045,000
Net Loans	79,726,547	94,887,813	109,214,229	-
Deposits	75,092,252	107,458,698	131,644,622	157,973,546
LDR	106%	88%	83%	80%
NPL	0.6%	2.0%	1.5%	3.0%
CAR	11.7%	9.5%	10.2%	10.5%

* 2014 forecast by SSI

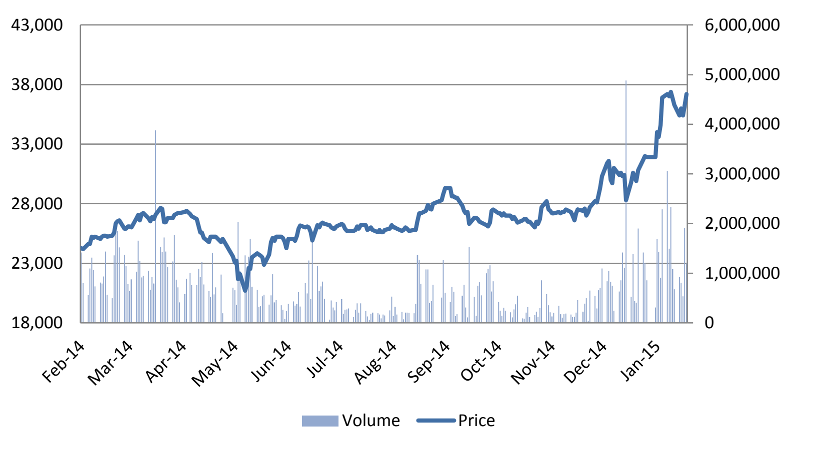
Investment view

- We remain sceptical with STB due to its history of corporate governance issues. The bank might experience a deterioration of asset quality in the long term after its merger with Southern Bank. STB needs greater transparency for the valuation of Phuong Nam Bank's loan book asset quality and liquidity as STB enters the acquisition deal.
- STB sold VND 800 bn worth of assets to the VAMC in 2013 to reduce its NPL ratio.
- A big proportion of STB's loan book is collateralised by real estate and property assets. The slow recovery of this sector may create liquidity concerns.
- However, the bank has a leading position in retail lending space with large and modern branch network, friendly tellers, active in operation and proactive in reaching out to new customers

APPENDIX C: INVESTMENT VIEWS OF 7 LARGEST LISTED VIETNAMESE BANKS

VCB VN - BANK FOR FOREIGN TRADE JSC

Price Chart



Stock data as of 23-Jan-2015

Price	37,200
Outstanding shares	2,665,020,000
Market cap (VND mn)	99,138,756
Market cap (USD mn)	4,644
Local Currency per USD	21,350
52-week high	38,100
52-week low	20,435
Price change - 1M	-19.62%
Price change - 3M	-28.76%
Price change - 6M	-31.18%
Price change - 1Y	#VALUE!
Price change - YTD	#N/A
Free float (%)	23%
Avg daily traded value - 6M (USD)	879,563
Foreign room available (shares)	241,515,600
Foreign ownership ratio	40%

Valuation Ratios

	12/2012	12/2012	12/2013	12/2014F
P/E	12.2	14.3	14.3	21.9
P/B	1.5	1.5	1.5	2.3
Div Yield	5.5%	4.4%	4.5%	2.7%
ROE	17.0%	12.5%	10.4%	10.5%

Major shareholders

	Ownership (%)
STATE BANK OF VIETNA	77.1%
VAN ECK ASSOCIATES C	0.9%
JPMORGAN ASSET MANAG	0.3%
NORGES BANK INVESTME	0.3%
T ROWE PRICE ASSOCIA	0.2%

Key Figures

VNDm	12/2012	12/2012	12/2013	12/2014F
Interest Income	34,357,307	32,202,578	28,860,475	29,458,898
Interest Expenses	20,933,053	20,792,943	17,516,269	17,858,817
Net Interest Income	13,424,254	11,409,635	11,344,206	11,600,081
Trading Acct Profit	1,197,700	1,772,124	1,609,492	-
Comm & Fees Earned	2,198,033	2,235,698	2,745,171	3,129,495
Other Op Income	-1,260,916	525,098	934,285	-
Net Revenue	15,559,071	15,942,555	16,633,154	-
Provisions for Loan Losses	3,473,529	3,303,210	3,520,217	4,895,174
Pretax Income	5,697,405	5,764,298	5,743,076	5,727,084
Net Income	4,196,811	4,397,493	4,358,052	4,524,397
EPS	1,556	1,656	1,635	1,698
Int. Inc. Growth	63.0%	-6.3%	-10.4%	2.1%
Non Int. Inc. Growth	-36.2%	112.3%	16.7%	-
NIM	4.2%	3.1%	2.8%	-
Operating Margin	36.6%	36.2%	34.5%	-
Net Margin	27.0%	27.6%	26.2%	-
CIR	38.3%	39.9%	40.3%	39.0%
EPS Growth	-4.8%	6.4%	-1.2%	3.8%
Total Assets	366,722,279	414,488,317	468,994,032	539,507,738
Total Equity	28,781,930	41,698,765	42,535,692	43,878,409
Gross Loans	209,417,633	241,167,308	274,314,209	309,896,000
Net Loans	204,089,479	235,889,060	267,863,404	-
Deposits	227,016,854	285,381,722	332,245,598	394,127,266
LDR	92%	85%	83%	78%
NPL	2.0%	2.4%	2.7%	2.5%
CAR	11.1%	14.8%	13.4%	12.0%

* 2014 forecast by SSI

Investment view

- Well known for its transparency and modernity as well as fast adaptability to changes in the business environment, VCB is our top pick in the sector.
- Higher growth thanks to strong market positions in several business areas such as trade finance and international settlements, forex trading and consumer card services.
- Diversified source of income (non-interest income accounted for 30.5% of total operating profit which is much higher than the average of 21% among the top 12 banks in Vietnam in 2013). More importantly, 34% and 30% of its non-interest income is recurring and stable fees from offering banking services such as payments and foreign currency trading respectively.
- Positioned for higher profitability as VCB reduces its exposure to SOE customers and great initiatives in expanding the retail banking business. Strong ability to offer competitive lending rates and good liquidity as 26% of funds are non-term deposits. Most efficient banks in terms of cost-to-income ratio, profit/number of staffs/branches and ROA.
- Great efforts have been taken to solve NPL problem. The bank is conservative in classifying bad debts, transparent in NPL issue and aggressive in booking provisions.

Disclaimer

This document is directed at accredited investors and institutional investors as defined in the Securities and Futures Act, Chapter 289 of Singapore ("Permitted Investors"), and is not intended for use by retail investors. The content of this document is intended as a source of general information for Permitted Investors only, and is not the basis for any contract to deal in any security or instrument, or for Duxton Asset Management ("Duxton") or their affiliates to enter into or arrange any type of transaction as a consequence of any information contained.

Information from this document must not be issued in any jurisdiction where prohibited by law and must not be used in any way that would be contrary to local law or regulation. Specifically, this shall not be construed as the making of any offer or invitation to anyone in any jurisdiction in which such offer is not authorized or in which the person making such offer is not qualified to do so or to anyone to whom it is unlawful to make such an offer.

The forecasts provided are based upon our opinion of the market as at this date and are subject to change, dependent on future changes in the market. Any prediction, projection or forecast on the economy, stock market, bond market or the economic trends of the markets is not necessarily indicative of the future or likely performance. Investments are subject to risks, including possible loss of principal amount invested. The value of shares/ units and their derived income may fall as well as rise. Past performance or any prediction or forecast is not necessarily indicative of future performance. No assurance is given that the investment objective or the targets will be met.

This document does not constitute investment, tax, legal or any other form of advice or recommendation and was prepared without regard to the specific objectives, financial situation or needs of any particular person who may receive it. Investors should study all relevant information and consider whether the investment is appropriate for them. If you require investment or financial advice please contact a regulated financial adviser. No representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, nor is it intended to be a complete statement or summary of the securities, markets or developments referred to in this document.

Duxton or its affiliates may hold positions in the securities referred. Where stocks are mentioned, it should not be construed that these are recommendations to buy or sell those stocks. The investment schemes referred are not obligations of, deposits in, or guaranteed by Duxton or any of its affiliates.

You are not authorized to redistribute this document nor qualified to make any offer, representation or contract on behalf of Duxton or its affiliates. Although the information was compiled from sources believed to be reliable, no liability for any error or omission is accepted by Duxton or its affiliates or any of their directors or employees. The information and opinions contained may also change.