

Banking Sector: 3M2024 Update

Profits are set to rise in 2024 due to lower credit costs and wider margins, strengthening banks' weak loss absorption buffers

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The sector-average non-performing loan (NPL) ratio rose to 2.2% in 3M2024 from 1.9% in 2023, driven by retail loans. Banks' return on average assets (ROAA) improved slightly to 1.6% from 1.5% over the same period due to lower credit costs and wider net interest margins (NIM). Bank profitability will continue to improve in 2024 as robust domestic operating conditions and low interest rates drive stronger borrower debt serviceability and wider NIMs. Funding and liquid resources will remain stable with deposit growth matching credit growth and banks increasing longer-term funding.

Retail loan delinquencies rose significantly. Retail-focused banks such as VIB, VPB, ABB saw a surge in retail mortgage loan delinquencies. BID experienced the most significant asset quality deterioration among the state-owned banks, due to increased NPL formation and low write-offs. Among the large private banks, NPLs of MBB increased significantly due to a large loan default by a renewable energy company. OCB resolved a significant portion of its problem loans by disposing of its foreclosed assets. LPB maintained a stable NPL ratio through stricter credit underwriting and loan recovery practices. By end-2024, the sector NPL ratio and credit costs will decline from the prior year, as new NPL formation rates ease and banks address their bad loans through recovery or write-offs.

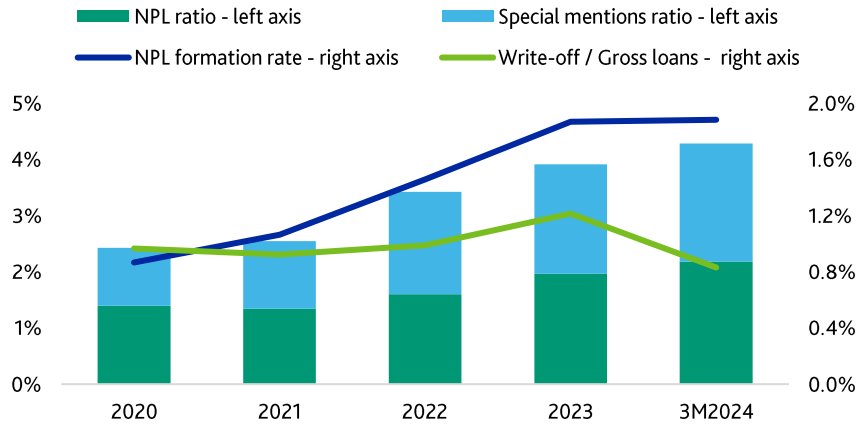
Profitability improved modestly from wider NIM and lower credit costs. The sector credit growth over the 3M2024 period was modest at 0.26%, mainly due to loans to large corporates provided by several privately owned banks. These banks recorded higher ROAAs from wider NIMs (e.g. TCB, LPB, HDB), as well as higher investment and fee income and lower funding costs (e.g. TPB). In contrast, some banks like VIB recorded weaker profitability from muted loan growth and narrower NIM. ROAA for CTG and MBB also declined from higher loan delinquencies and credit costs. In the coming quarters, credit demand will pick up and NIM will widen from 2023 levels and, in turn, drive gradual increase in banks' ROAA.

Loss absorption buffer remained weak as loan loss coverage continued to decline. Higher profits led to the increase in the sector tangible common equity ratio to 8.9% in 3M2024 from 8.6% in 2023. The sector loan loss coverage (LLCR) declined to 86% from 92% over the same period. In contrast, a few private banks such as OCB and STB improved their bad debt resolution and provisioning coverage. LLCR for small banks remained the lowest in the sector at 22%.

Funding and liquidity remained stable. The sector CASA deposits remained fairly stable at 20% of gross loans in 3M2024. Several mid-sized banks such as LPB, MSB recorded strong inflows of CASA deposits from large corporates. Banks in general maintain adequate stock of liquid assets and they will raise more longer-term bonds to supplement their funding and stay below the regulatory limit of short-term funding to medium and long-term loans (SMLR) of 30%.

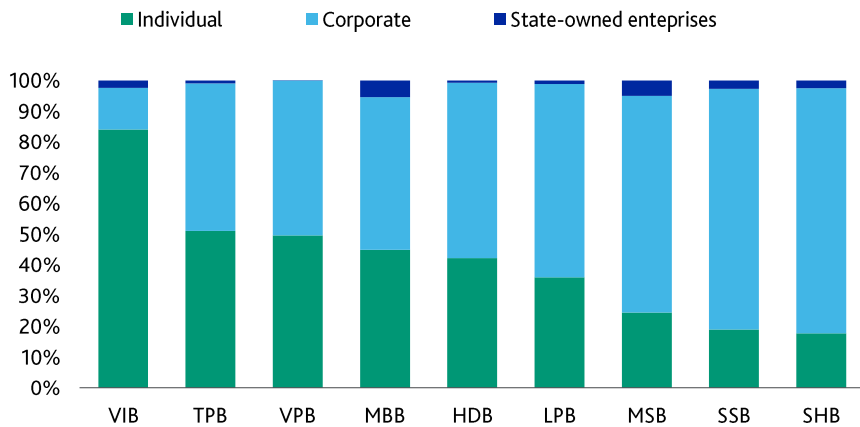
Retail loan delinquencies rose significantly

Exhibit 1: NPL formation rate will continue to decline as customers' debt serviceability improves



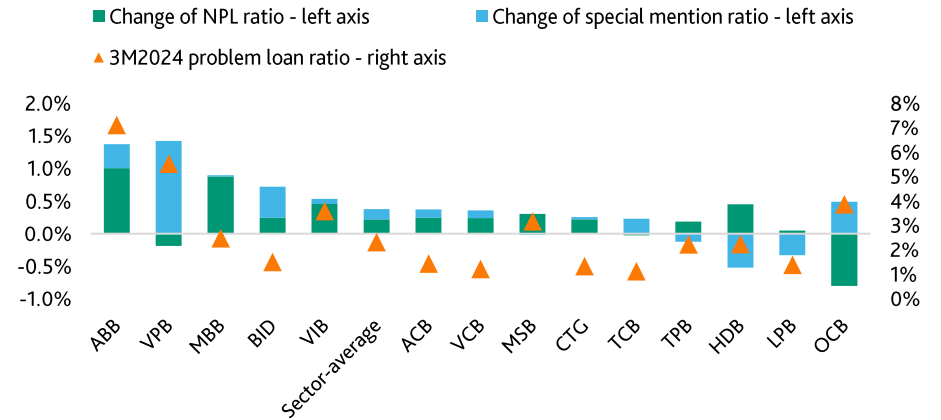
Source: Bank data, Vietnam Investors Service
 Note: Sector numbers include 27 listed banks

Exhibit 3: Loan breakdown by customer segment



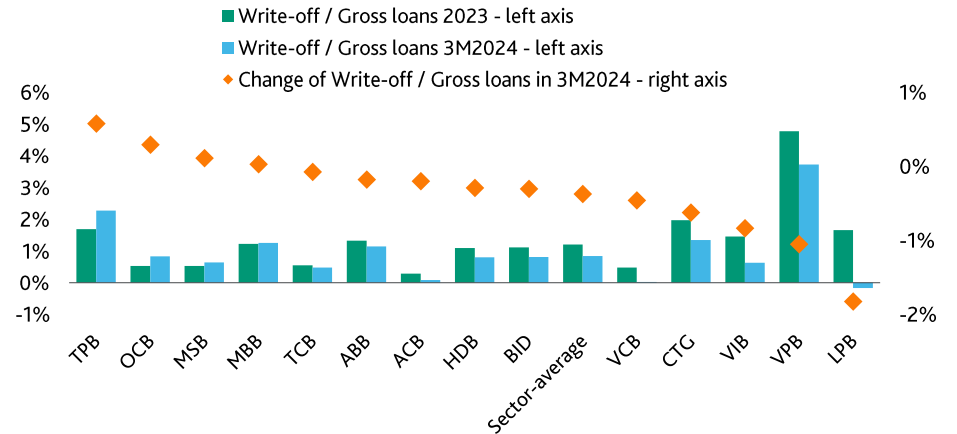
Source: Bank data, Vietnam Investors Service
 Note: Refer to the Appendix for the full name of banks

Exhibit 2: Multiple mass retail-focused banks recorded higher NPL and special mention loans



Source: Bank data, Vietnam Investors Service
 Note: Refer to the Appendix for the full name of banks

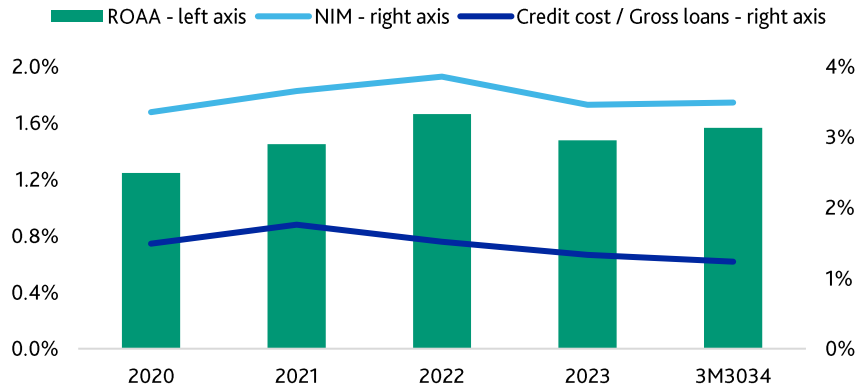
Exhibit 4: Loan write-offs will increase gradually towards end-2024



Source: Bank data, Vietnam Investors Service
 Note: Refer to the Appendix for the full name of banks

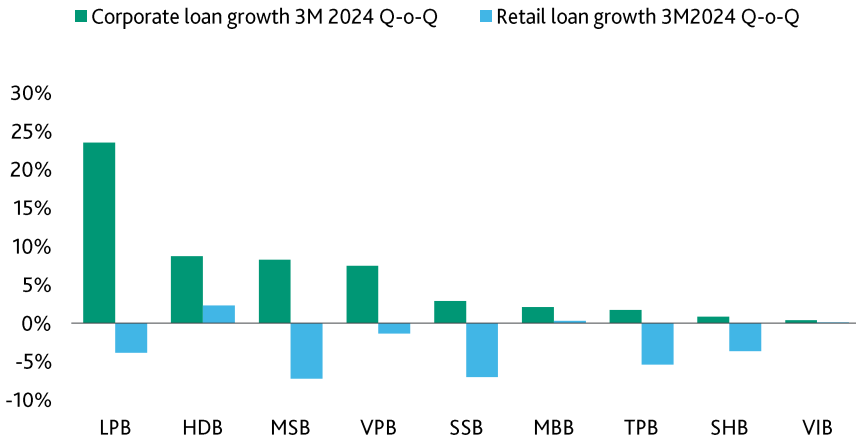
Profitability improved modestly from wider NIM and lower credit costs

Exhibit 5: Sector ROAA will improve from wider NIM and stronger loan growth



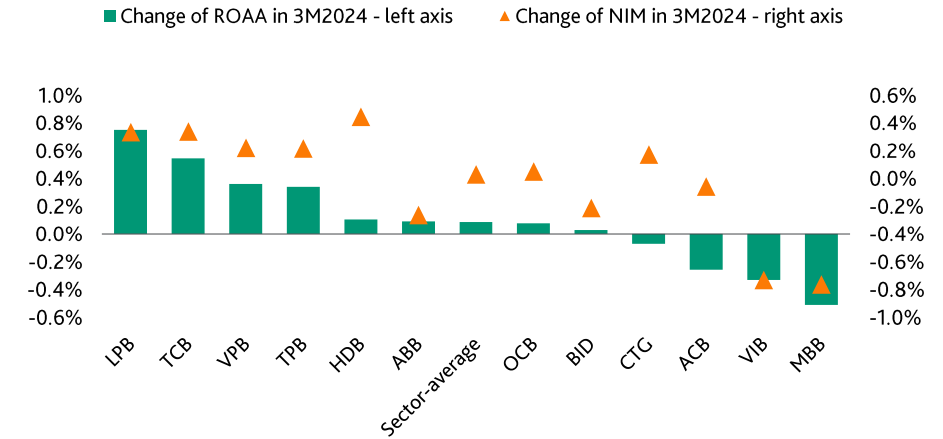
Source: Bank data, Vietnam Investors Service
 Note: Sector numbers include 27 listed banks

Exhibit 7: Credit growth driven by large corporate customers



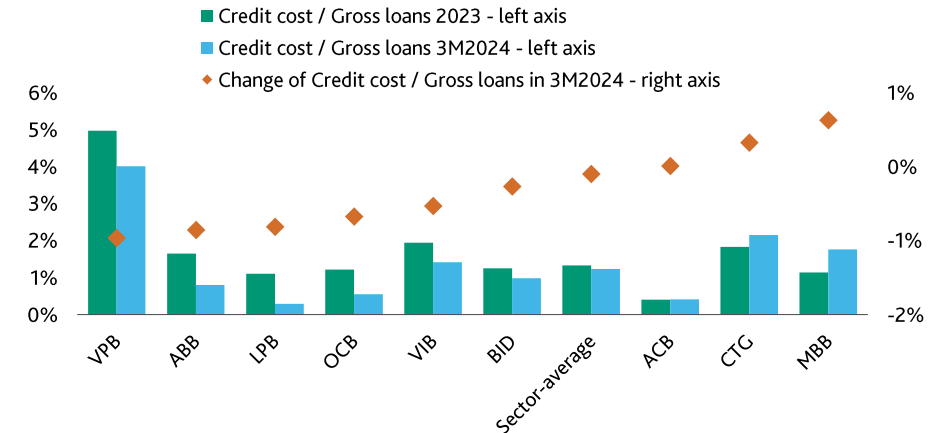
Source: Bank data, Vietnam Investors Service
 Note: Refer to the Appendix for the full name of banks

Exhibit 6: Private banks with strong credit growth recorded NIM and ROAA improvements



Source: Bank data, Vietnam Investors Service
 Note: Refer to the Appendix for the full name of banks

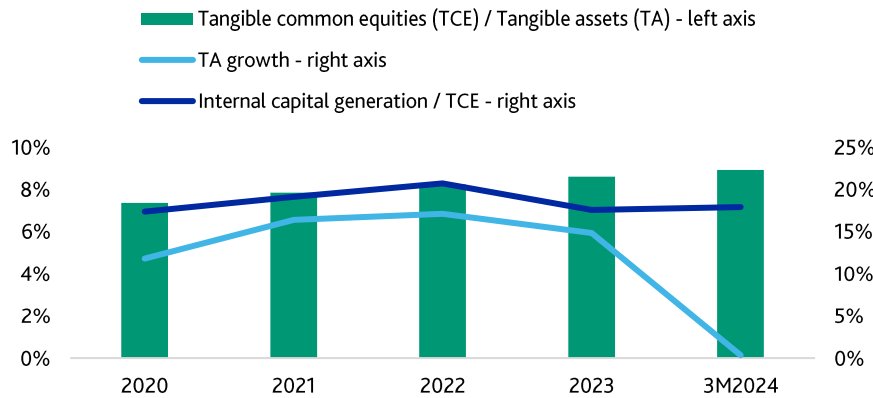
Exhibit 8: MBB and CTG experienced higher increases in credit costs than peers



Source: Bank data, Vietnam Investors Service
 Note: Refer to the Appendix for the full name of banks

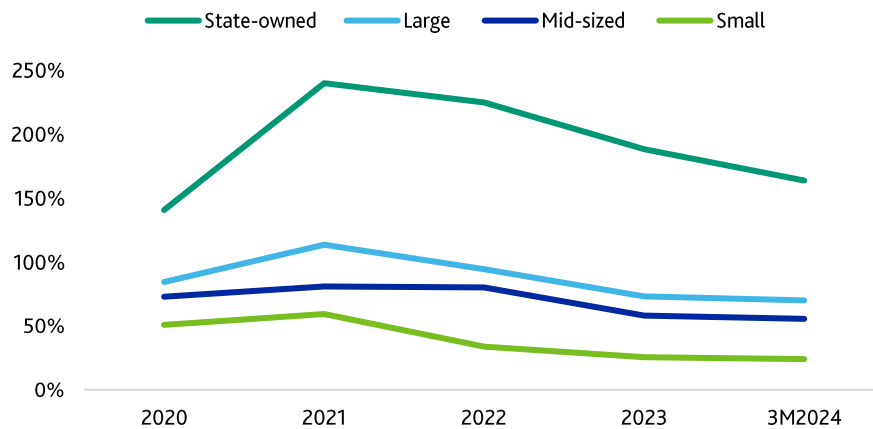
Loss absorption buffer remained weak as loan loss coverage continued to decline

Exhibit 9: Sector capitalization remained stable from improved internal capital generation



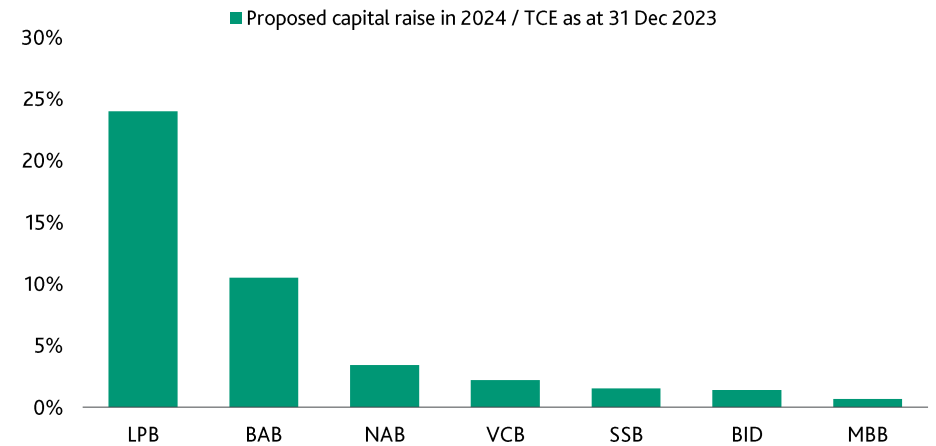
Source: Bank data, Vietnam Investors Service
 Note: Sector numbers include 27 listed banks

Exhibit 11: Loan loss coverage decreased in 3M2024



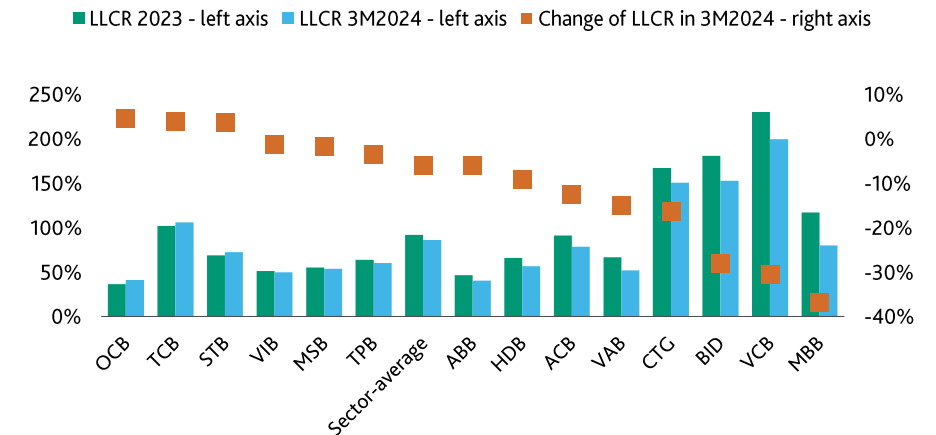
Source: Bank data, Vietnam Investors Service

Exhibit 10: Only LPB proposed a significant increase in capital in 2024



Source: Bank data, Vietnam Investors Service
 Note: Refer to the Appendix for the full name of banks

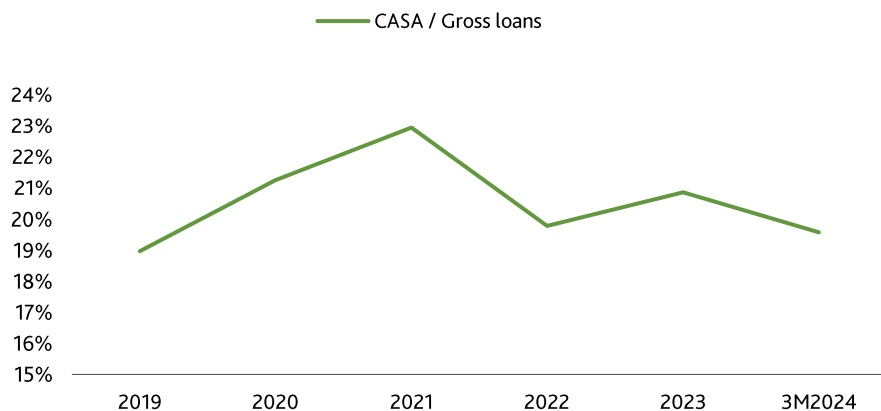
Exhibit 12: Some private banks improved their loan loss coverage from lower problem loans



Source: Bank data, Vietnam Investors Service
 Note: Refer to the Appendix for the full name of banks

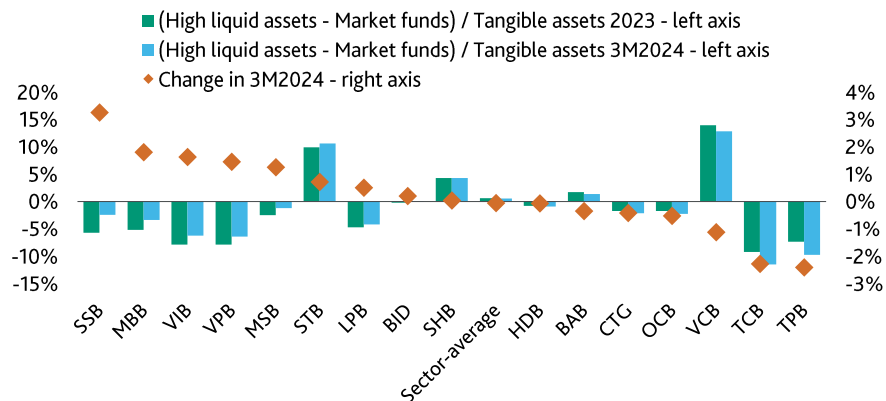
Funding and liquidity remained stable

Exhibit 13: CASA deposits normalized after the increase at end-2023



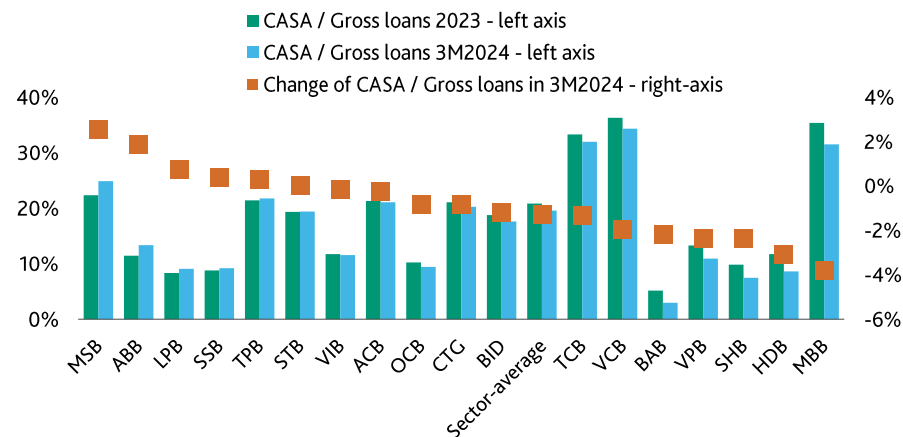
Source: Bank data, Vietnam Investors Service
 Note: Sector numbers include 27 listed banks

Exhibit 15: Liquidity risk remained manageable



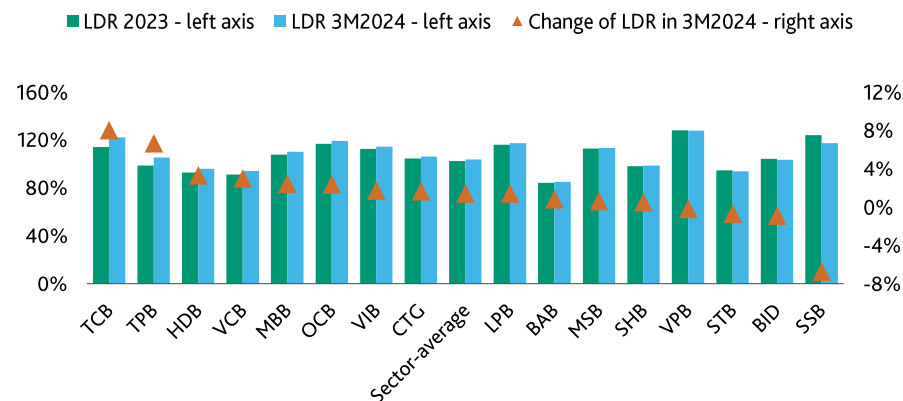
Source: Bank data, Vietnam Investors Service
 Note: High-liquid assets consist of cash, balance at SBV, interbank deposit and lending, and government bonds.
 Market funds consist of the State treasury's deposit, deposit and borrowing from other credit institutions, grants and trusted funds, and valuable papers issued.

Exhibit 14: Several mid-sized banks improved CASA deposits from stronger corporate deposit growth



Source: Bank data, Vietnam Investors Service
 Note: Refer to the Appendix for the full name of banks

Exhibit 16: LDR remained stable in 3M2024



Source: Bank data, Vietnam Investors Service
 Note: Refer to the Appendix for the full name of banks

APPENDIX

The banks included in our analysis are as follows:

	Short name	Full name	Classification
1	ABB	An Binh Commercial Joint Stock Bank	Small
2	ACB	Asia Commercial Joint-Stock Bank	Large
3	BAB	Bac A Commercial Joint Stock Bank	Small
4	BID	Joint Stock Commercial Bank for Investment and Development of Vietnam	State-owned
5	BVB	Viet Capital Commercial Joint Stock Bank	Small
6	CTG	Vietnam Joint-Stock Commercial Bank for Industry and Trade	State-owned
7	EIB	Vietnam Commercial Joint Stock Export Import Bank	Mid-sized
8	HDB	Ho Chi Minh City Development Joint Stock Commercial Bank	Mid-sized
9	KLB	Kien Long Commercial Joint Stock Bank	Small
10	LPB	Lien Viet Post Joint Stock Commercial Bank	Mid-sized
11	MBB	Military Commercial Joint Stock Bank	Large
12	MSB	Vietnam Maritime Commercial Joint Stock Bank	Mid-sized
13	NAB	Nam A Commercial Joint Stock Bank	Mid-sized
14	NVB	National Citizen Commercial Joint Stock Bank	Small
15	OCB	Orient Commercial Joint Stock Bank	Mid-sized
16	PGB	Prosperity and Growth Commercial Joint Stock Bank	Small
17	SGB	Saigon Bank for Industry and Trade	Small
18	SHB	Saigon - Hanoi Commercial Joint Stock Bank	Large
19	SSB	Southeast Asia Commercial Joint Stock Bank	Mid-sized
20	STB	Saigon Thuong Tin Commercial Joint Stock Bank	Large
21	TCB	Vietnam Technological and Commercial Joint-Stock Bank	Large
22	TPB	Tien Phong Commercial Joint Stock Bank	Mid-sized
23	VAB	Vietnam Asia Commercial Joint Stock Bank	Small
24	VBB	Vietnam Thuong Tin Joint Stock Commercial Bank	Small
25	VCB	Joint Stock Commercial Bank for Foreign Trade of Vietnam	State-owned
26	VIB	Vietnam International Commercial Joint Stock Bank	Mid-sized
27	VPB	Vietnam Prosperity Joint Stock Commercial Bank	Large

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