

Banking Sector: 9M2024 Update

Asset risk shielded by limited exposure to typhoon-hit region, small banks most affected by margin squeeze and credit costs

Banks' asset risk remained stable in 9M2024 with limited impact from Typhoon Yagi, particularly for State-owned banks (SOBs) and large banks. The sector return on average assets (ROAA) fell slightly to 1.5% in 9M2024 from 1.6% in 6M2024, with small banks most affected by lower net interest margins (NIM) and higher credit costs. Liquidity risks for small and mid-sized banks increased, driven by higher use of short-term market funds amid sluggish deposit growth, and recent surges in interbank rates. By end-2024, we expect the increasing pace of high-yield mortgage growth and slower overdue loan formation will drive stable profits and asset quality for banks.

Banks were broadly shielded from typhoon-related losses due to limited exposure to the affected Northern provinces. Bank credit to typhoon-hit borrowers was around 1% of total credit exposures on average for the sector, mainly extended by SOBs with operations in the affected provinces. Relief measures introduced by the State Bank of Vietnam to restructure debt and offer low-interest-rate loans to affected borrowers will provide some reprieve on debt servicing. Overall, the sector problem loan ratio remained somewhat flat from the earlier quarter at 2.4%. Large banks including SOBs experienced slower overdue loan formation rates, supported by sizable recovery of bad debt (e.g., CTG) as well as tighter credit underwriting, particularly for new consumer finance loans (e.g., VPB). This is offset by the continued rise in delinquencies among retail- and SME-focused banks (e.g., PGB, SGB, VIB, OCB, LPB). We assess around 30% of banks have weak asset risk profiles, up from 22% in 2023. For the full-year 2024, we expect the sector problem loan ratio to stabilize at 2.3-2.4% as banks complete their loan write-offs in Q4.

Sector profit growth slowed from narrower NIM, and small banks were hit additionally by high credit costs. Majority of banks recorded lower ROAA and NIM quarter-on-quarter (QoQ); small banks experienced the most significant profit decline due to higher deposit costs amid keen competition. These banks and some mid-sized banks (e.g., VIB, OCB) also experienced asset quality deterioration and high credit costs. Profit trend for large banks was mixed; some banks (e.g., TCB, MBB, ACB) were hit by lower bancassurance, FX and investment income, while some benefited from earlier de-risking efforts and steep decline in credit costs (e.g., VPB) and improved debt recovery (e.g., CTG, VCB). We expect the majority of the 25 banks in our analysis to be on track to meet their full-year profit targets, especially SOBs and large banks with strong growth in corporate lending. Given the increasing pace of loan growth, we expect sector ROAA to improve to 1.6% for the full-year 2024 from 1.5% in prior year.

Loss absorption buffers remained weak. As of 9M2024, sector tangible common equity/tangible assets ratio (TCE/TA) was flat QoQ at 8.8% due to slow profit growth. Nearly 20% of banks in our assessment have weak capital profiles, including small banks with thin profits and some SOBs with limited ability to raise new capital. Sector loan loss coverage ratio (LLCR) improved modestly QoQ by 1% to 83% as of 9M2024, led by CTG's higher provisioning and lower problem loans. MBB's LLCR fell to a 5-year low at 69% due to a large real estate developer loan that turned bad. The majority of the small- and mid-sized banks continue to have LLCRs below the industry-average level. Some banks (e.g., CTG, VCB) are pending regulatory approvals to complete their stock dividend payments, which will aid capital retention.

Liquidity risk is rising as banks increase reliance on short-term market funds and interbank rates surged. The sector CASA deposits remained steady at 19% of gross loans in 9M2024. OCB's ratio saw the largest growth of 3% points QoQ across the sector given its digital efforts. Sector loan-to-deposit ratio (LDR) remained high at 106%. Small and mid-sized banks (e.g., BVB, ABB, LPB, NAB, MSB) faced higher deposit costs to retain deposits and increased short-term interbank borrowings. Since mid-October 2024, interbank overnight rates have surged by 3.5% points to 6% on average, alongside currency pressure and tighter market liquidity. High interbank rates, if persist in coming periods, will increase liquidity risk for small and mid-sized banks.

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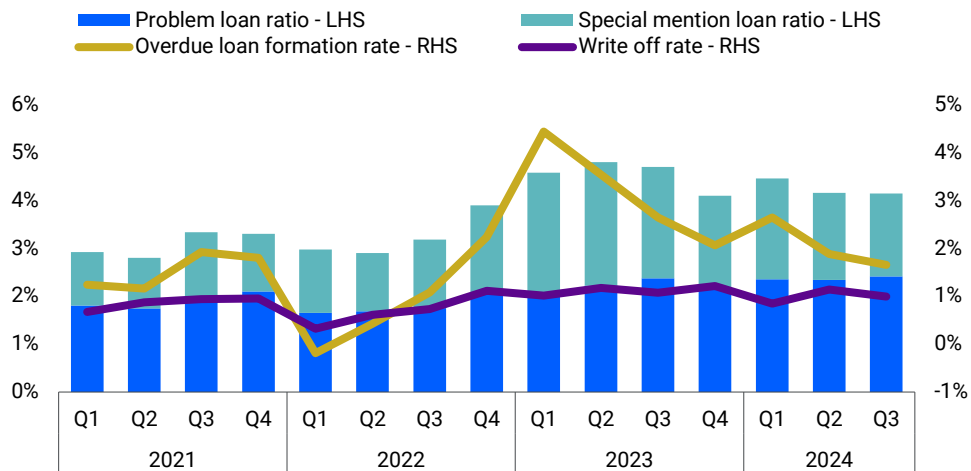
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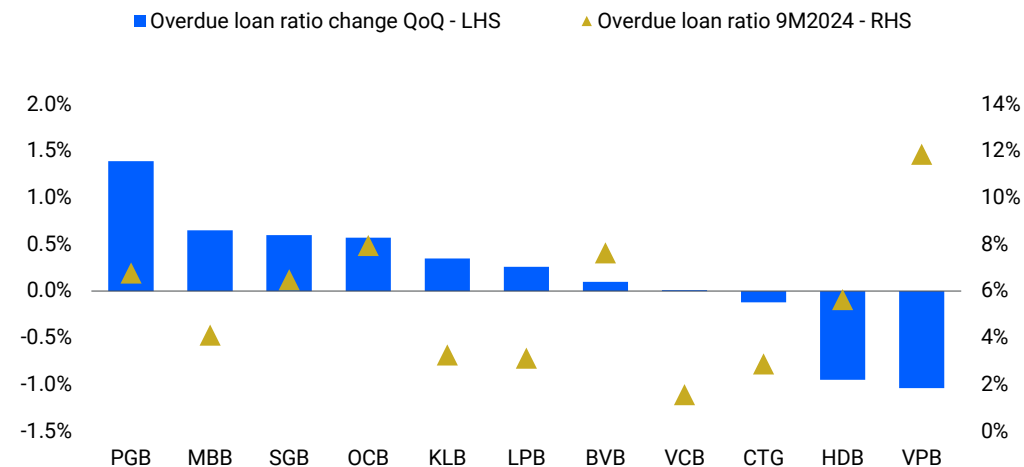
Banks were broadly shielded from typhoon-related losses due to limited exposure to the affected Northern provinces

Exhibit 1: Problem loan ratio remained flat in 9M2024



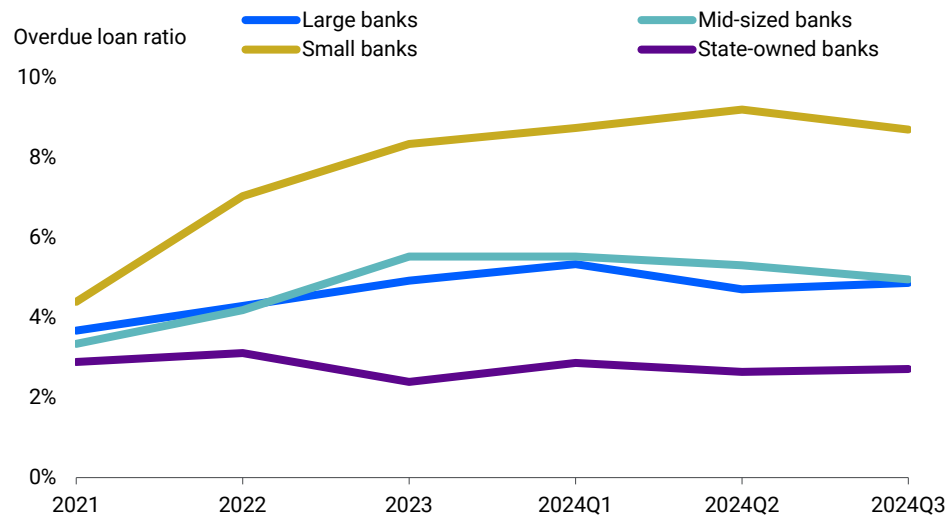
Note: Sector numbers include 27 listed banks
Source: Bank data, Vietnam Investors Service

Exhibit 2: Asset risk stabilized for most SOBs and some large banks



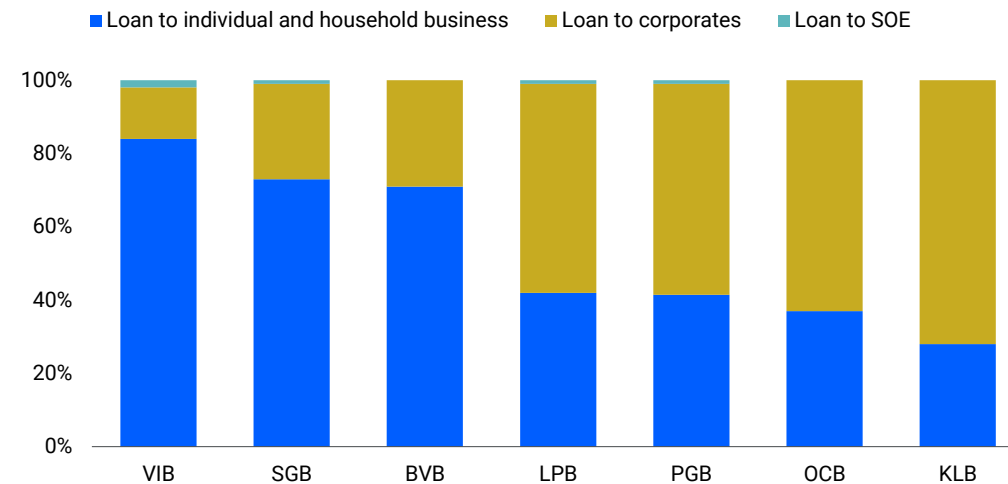
Note: Refer to the Appendix for the full name of banks
Source: Bank data, Vietnam Investors Service

Exhibit 3: Loan delinquencies remained high for several small banks and mid-sized banks...



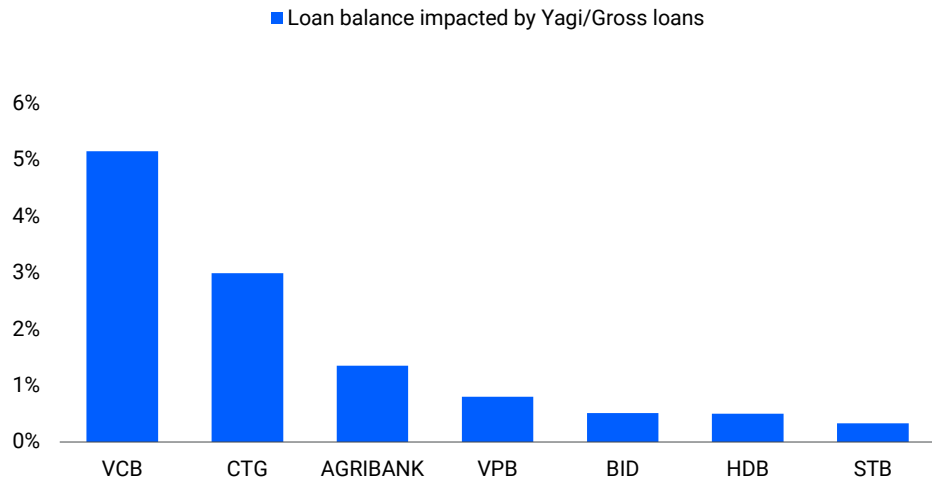
Note: Sector numbers include 27 listed banks
Source: Bank data, Vietnam Investors Service

Exhibit 4: focusing on higher-risk retail and SME borrowers



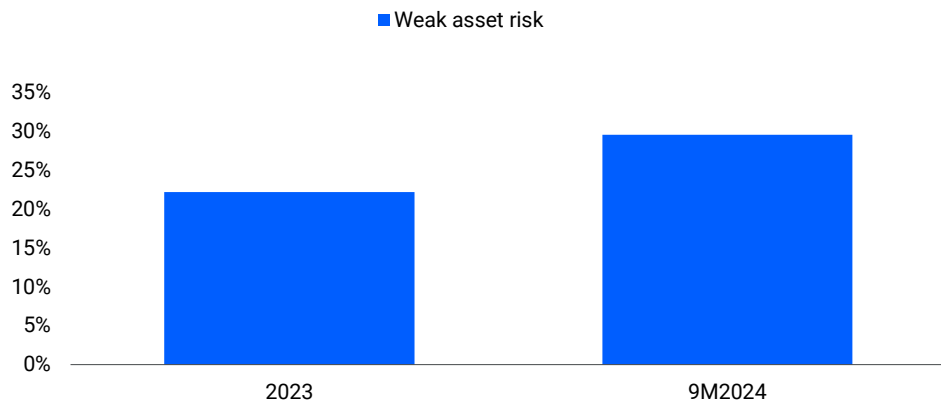
Note: Refer to the Appendix for the full name of banks
Source: Bank data, Vietnam Investors Service

Exhibit 5: Banks were broadly shielded from typhoon-related losses due to limited exposure to the affected Northern provinces

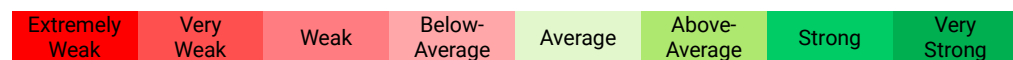


Note: Refer to the Appendix for the full name of banks
 Source: Bank data, State Bank of Vietnam, Vietnam Investors Service

Exhibit 7: 30% of banks in our analysis have weak asset risk profiles...

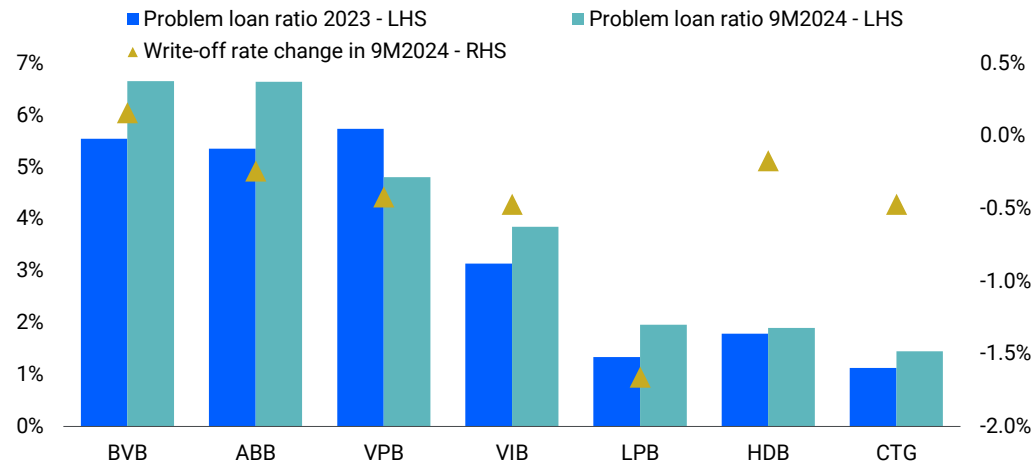


Note: Weak asset risk profiles are denoted by Below-Average, Weak, Very Weak, and Extremely Weak categories based on our eight-category assessment scale, as illustrated below



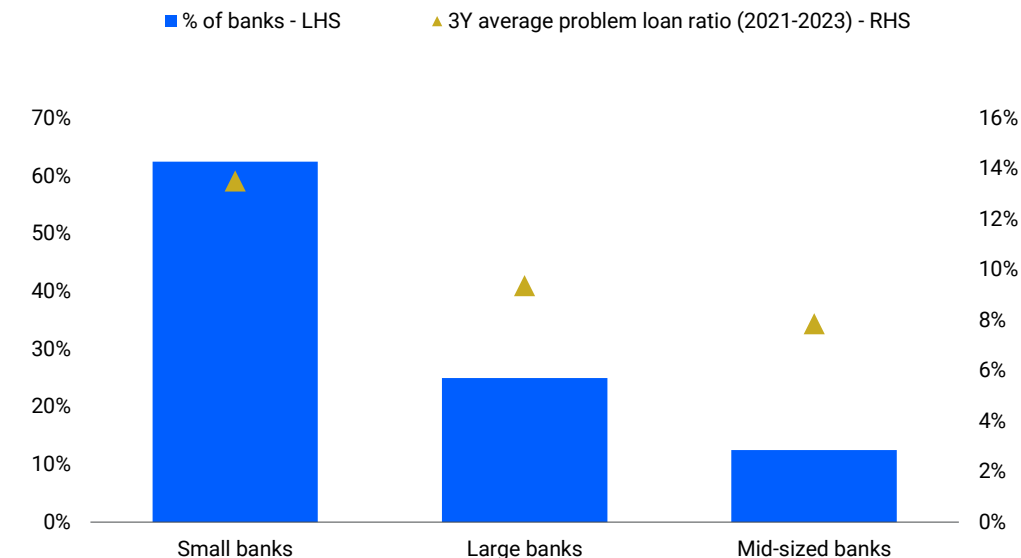
Source: Vietnam Investors Service

Exhibit 6: Banks will increase write-offs toward year-end to address problem loans



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

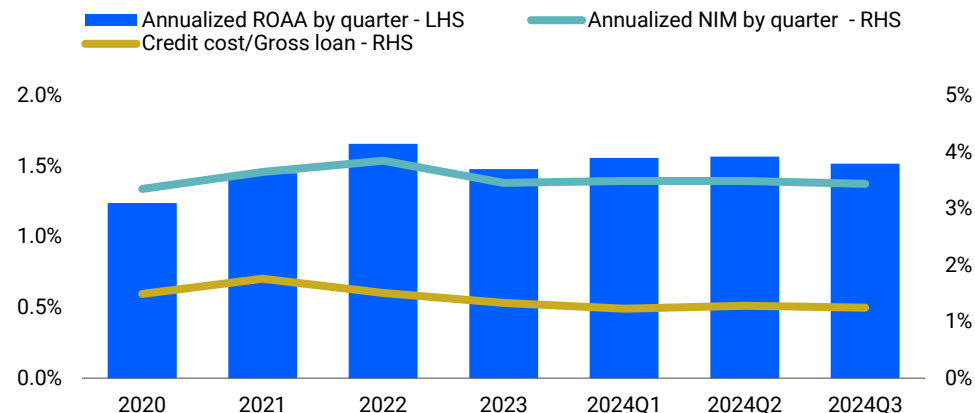
Exhibit 8: ...mainly small banks with track record of higher-than-peers problem loans from retail and SME borrowers



Note: Data for banks having weak asset risk profiles
 Source: Bank data, Vietnam Investors Service

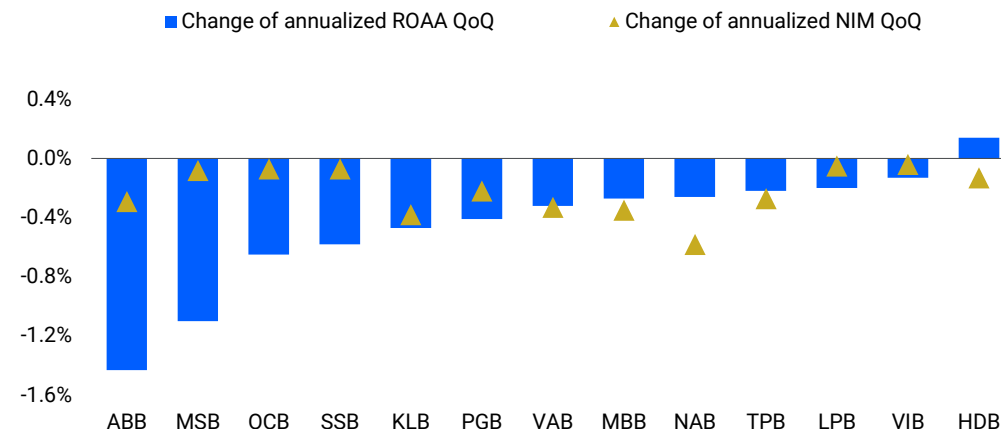
Sector profit growth slowed from narrower NIM, and small banks were hit additionally by high credit costs

Exhibit 9: Sector's ROAA slowed down in 3Q2024 due to lower NIM



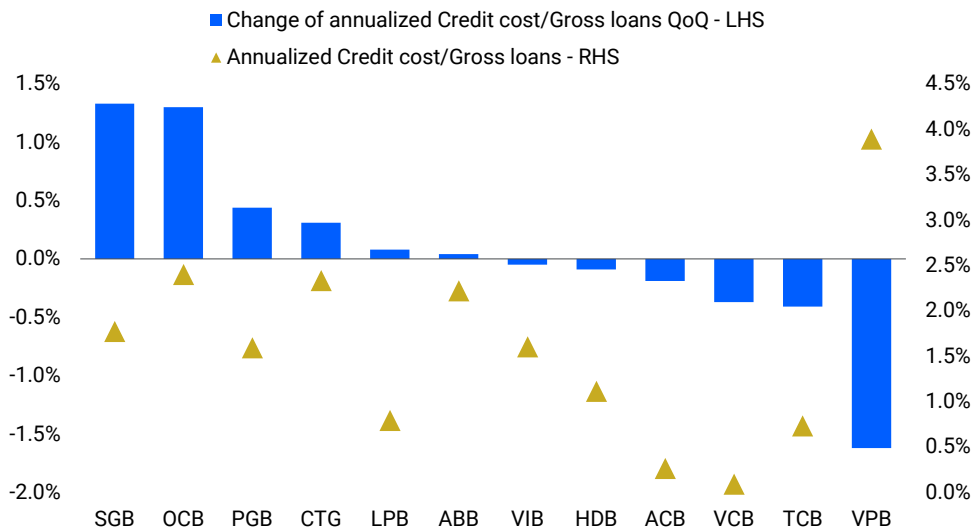
Note: Sector numbers include 27 listed banks
Source: Bank data, Vietnam Investors Service

Exhibit 10: NIM for small banks declined significantly from higher funding costs amid sluggish deposit growth



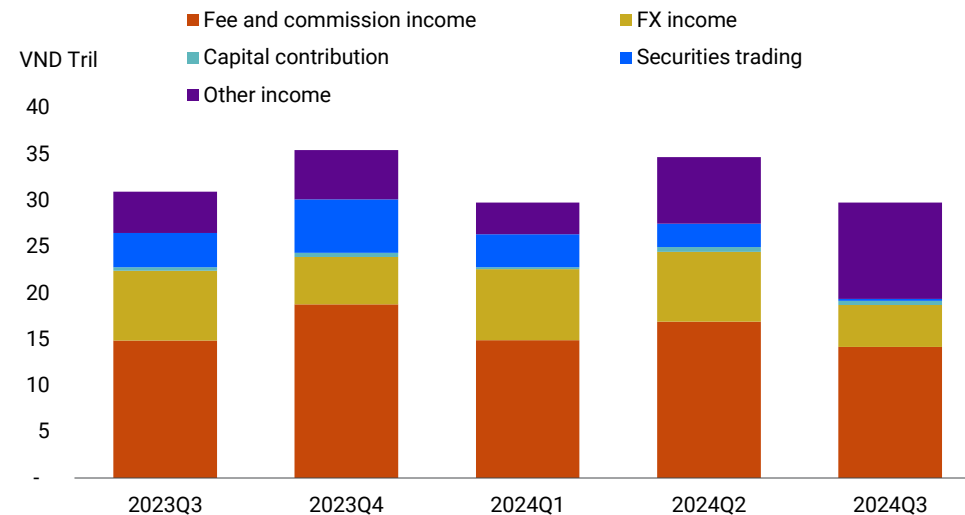
Note: Refer to the Appendix for the full name of banks
Source: Bank data, Vietnam Investors Service

Exhibit 11: Small banks' profits also fell from rising credit costs amid higher loan delinquencies



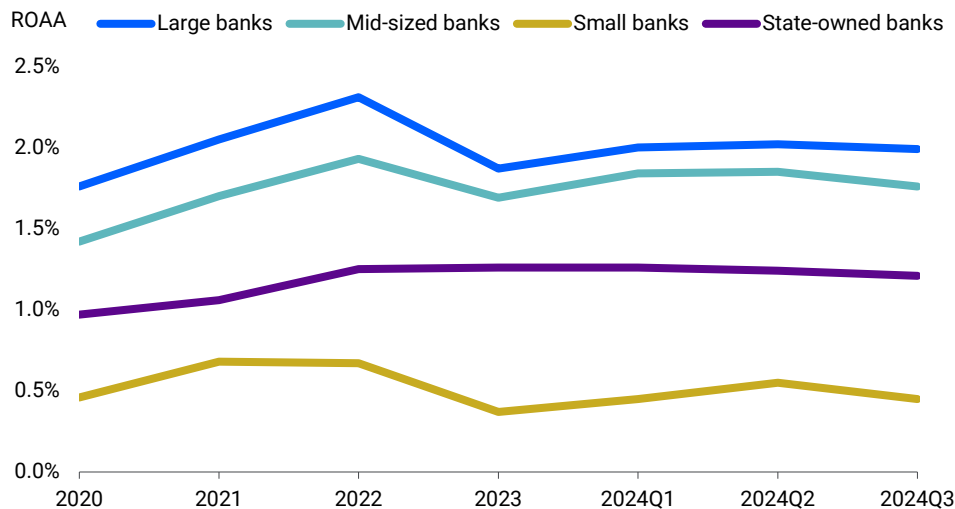
Note: Refer to the Appendix for the full name of banks
Source: Bank data, Vietnam Investors Service

Exhibit 12: Lower non-interest income in 3Q2024, particularly for large banks



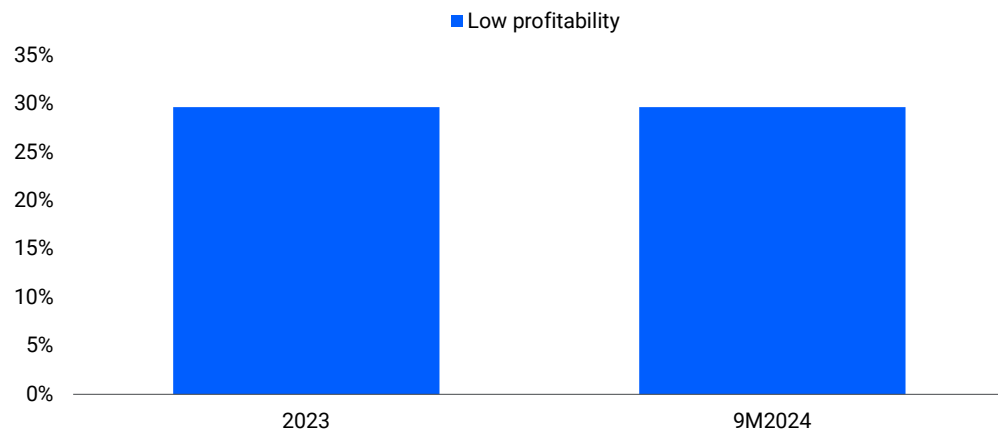
Note: Sector numbers include 27 listed banks
Source: Bank data, Vietnam Investors Service

Exhibit 13: SOB's ROAA remained resilient in 9M2024

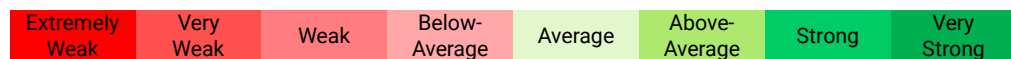


Note: Sector numbers include 27 listed banks
Source: Bank data, Vietnam Investors Service

Exhibit 15: Nearly 30% of banks have low profitability profiles, mainly small banks with high funding costs and elevated credit costs

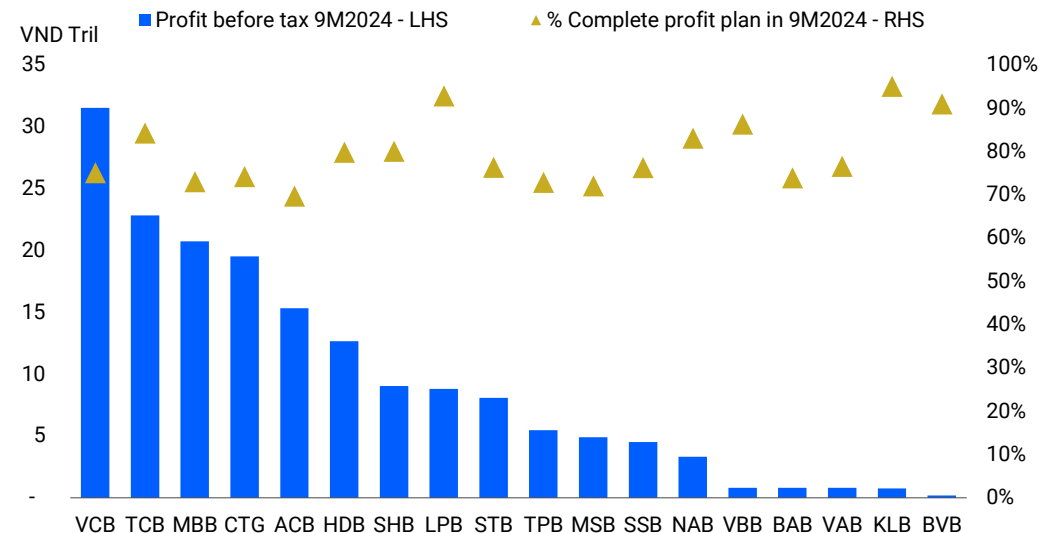


Note: Low profitability profiles are denoted by Average, Below-Average, Weak, Very Weak, and Extremely Weak categories based on our eight-category assessment scale, as illustrated below



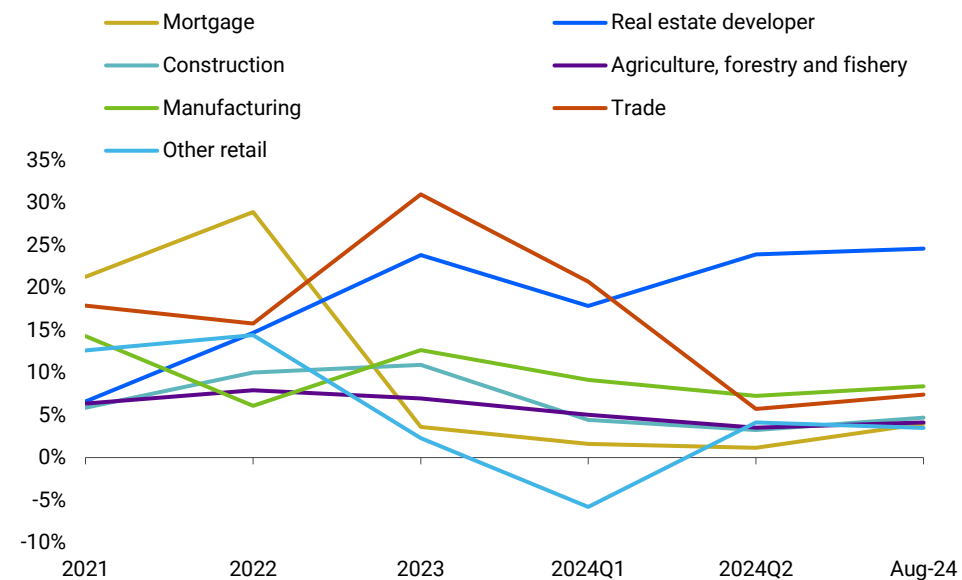
Source: Vietnam Investors Service

Exhibit 14: Majority of banks are on track to meet their full-year profit targets



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

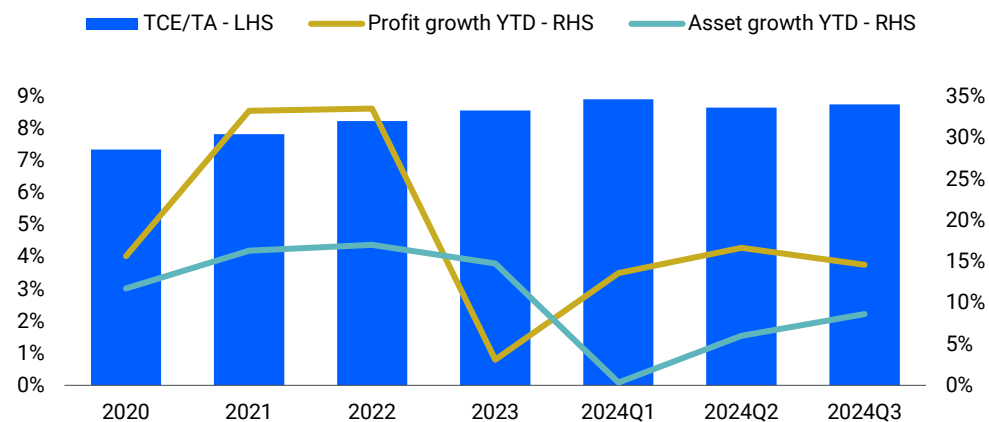
Exhibit 16: Strong corporate lending growth and ongoing recovery in high-yield mortgages will drive the ROAA improvement



Source: Ministry of Construction, State Bank of Vietnam (SBV), Vietnam Investors Service

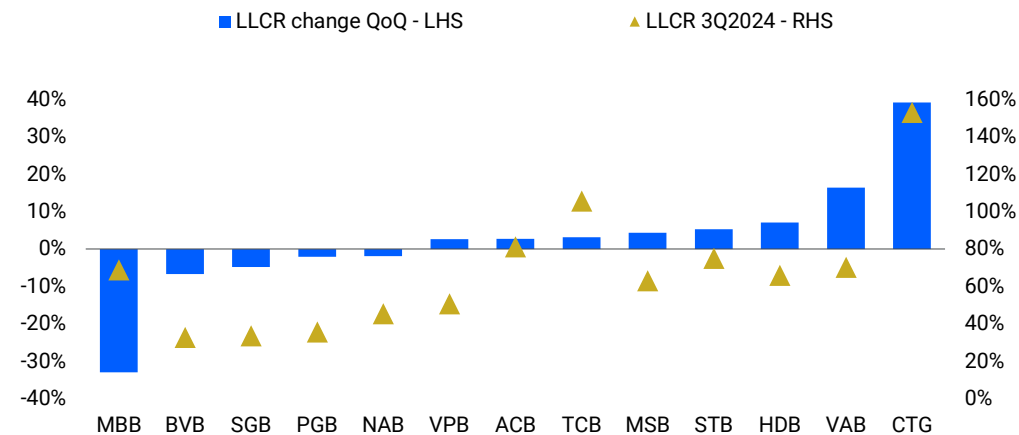
Loss absorption buffers remained weak

Exhibit 17: The sector's capital level remained weak due to slow profit growth



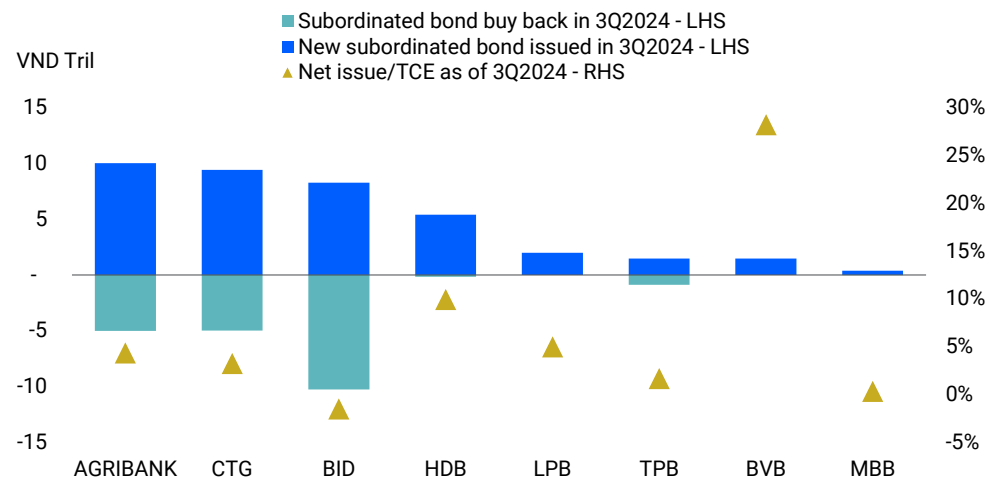
Note: Sector numbers include 27 listed banks. YTD: year-to-date
Source: Bank data, Vietnam Investors Service

Exhibit 18: CTG's loan loss coverage improved most significantly from higher provisioning and lower problem loans



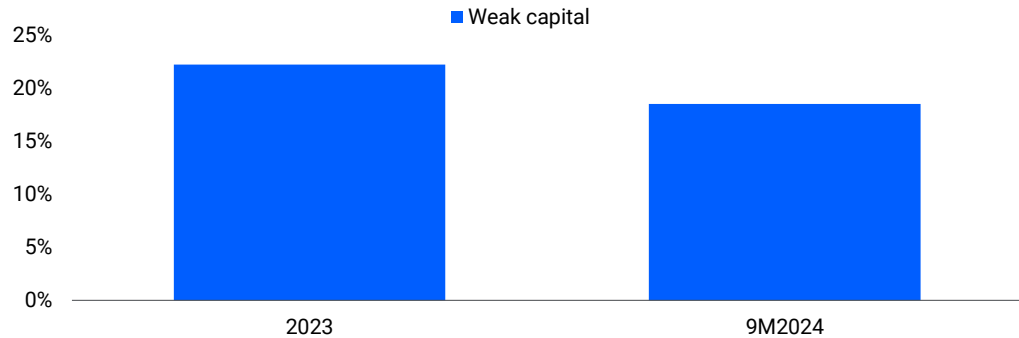
Note: Refer to the Appendix for the full name of banks
Source: Bank data, Vietnam Investors Service

Exhibit 19: Banks actively issue subordinated bonds to support capital requirements

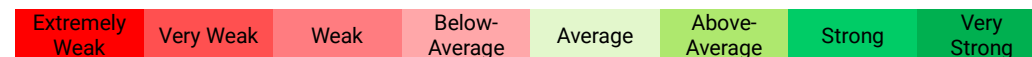


Note: Refer to the Appendix for the full name of banks
Source: Bank data, Vietnam Investors Service

Exhibit 20: Nearly 20% of banks have weak capital profiles, driven by their thin profits and constrained ability to raise new capital



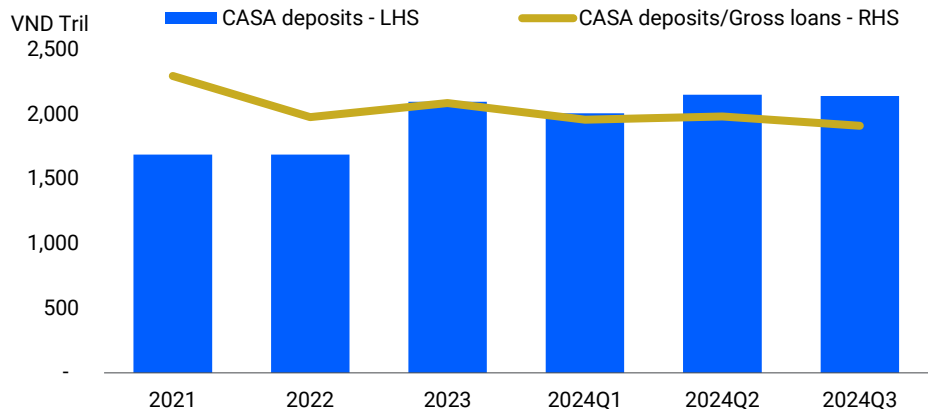
Note: Weak capital profiles are denoted by Below-Average, Weak, Very Weak, and Extremely Weak categories based on our eight-category assessment scale, as illustrated below



Source: Vietnam Investors Service

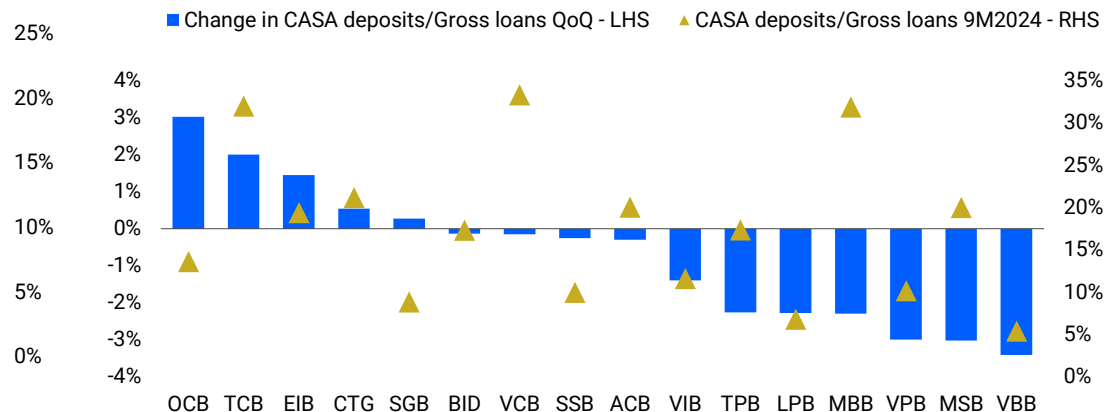
Liquidity risk is rising as banks increase reliance on short-term market funds and interbank rates surged

Exhibit 21: The sector CASA deposits remained flat in 9M2024



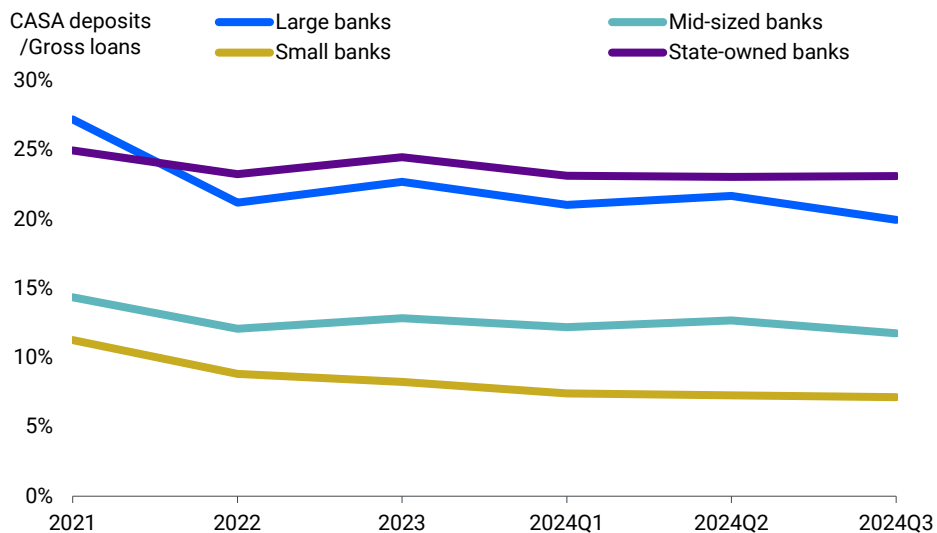
Note: Sector numbers include 27 listed banks
Source: Bank data, Vietnam Investors Service

Exhibit 22: CASA deposits improved significantly for OCB due to its digital efforts, while weakening for several private banks from corporate outflows



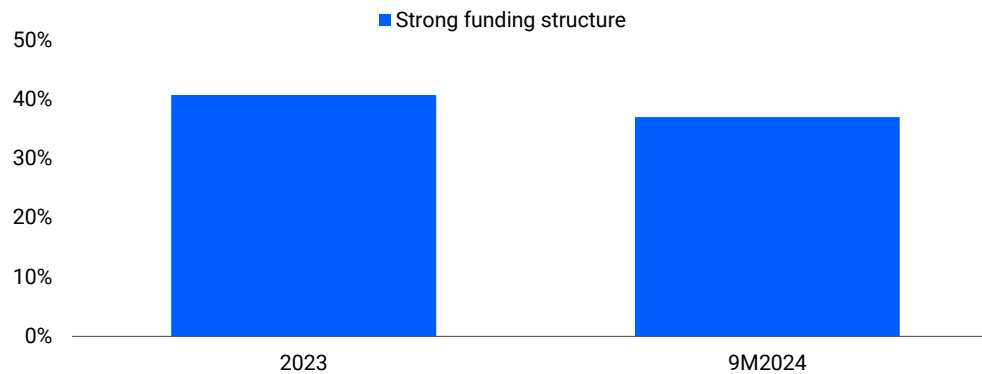
Note: Refer to the Appendix for the full name of banks
Source: Bank data, Vietnam Investors Service

Exhibit 23: Higher-than-peers CASA deposits from SOBs and large banks given extensive physical and digital franchises...



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

Exhibit 24: ...leading to their strong funding structure profiles

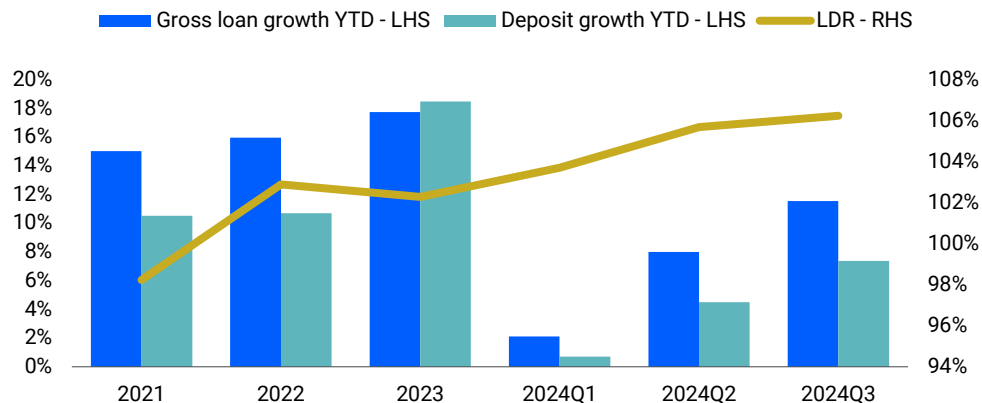


Note: Strong funding structure profiles are denoted by Strong, and Very Strong categories based on our eight-category assessment scale, as illustrated below



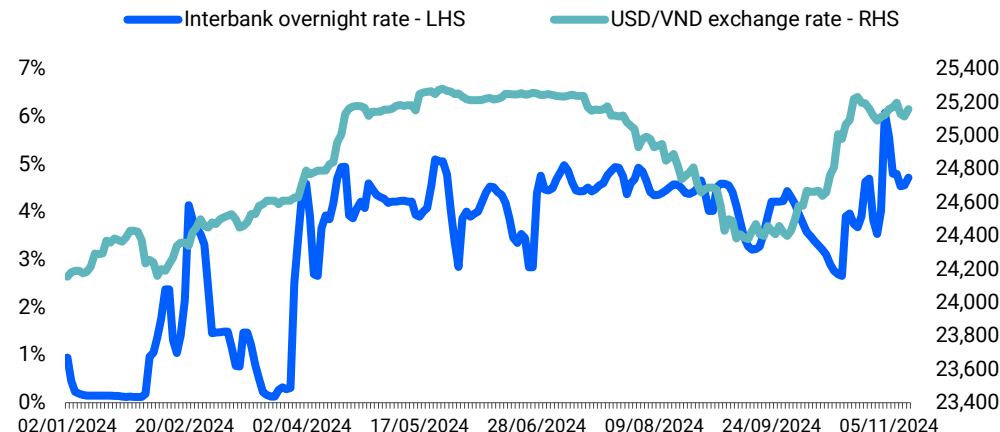
Source: Vietnam Investors Service

Exhibit 25: Sector LDR remained high, as loan growth outpaced deposit growth



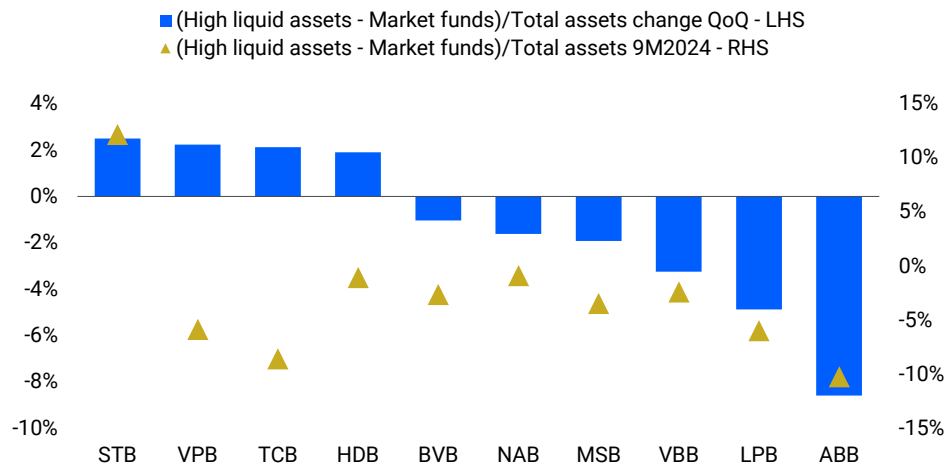
Note: Sector numbers include 27 listed banks.
LDR: Customer loan-to-customer deposit ratio
Source: Bank data, Vietnam Investors Service

Exhibit 26: Recent surge in interbank rates following currency pressure and tighter market liquidity



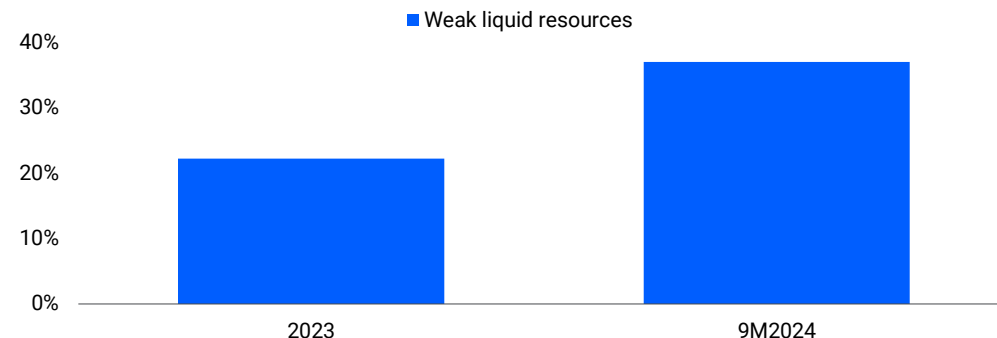
Source: Vietnam Investors Service

Exhibit 27: Liquidity risks for small and mid-sized banks increased from higher use of short-term market funds and recent surge in interbank rates

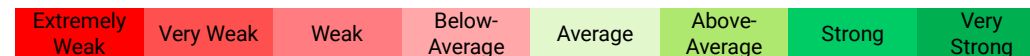


Note: Refer to the Appendix for the full name of banks.
High liquid assets include: Cash, balances with the State Bank of Vietnam (SBV) and other credit institutions, Government bonds.
Market funds include: Deposits and borrowings from SBV and other credit institutions, valuable papers issued
Source: Bank data, Vietnam Investors Service

Exhibit 28: Banks with weak liquid resources increased in 9M2024 amid sluggish deposit growth



Note: Weak liquid resources profiles are denoted by Below-Average, Weak, Very Weak, and Extremely Weak categories based on our eight-category assessment scale, as illustrated below



Source: Vietnam Investors Service

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

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