

Banking Sector: 6M2024 Update

Asset risks and profitability remained broadly stable, with small banks facing more loan delinquencies and liquidity issues

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In 6M2024, the sector's problem loans ratio remained flat quarter-on-quarter (QoQ) at 2.2%, with the highest asset quality deterioration observed in small banks. Banks' return on average assets (ROAA) rose slightly to 1.6% in 6M2024 from 1.5% in 2023, driven by stronger corporate credit growth and higher net interest margin (NIM). Several small banks are more vulnerable to liquidity risks due to their higher use of short-term market funds amid sluggish deposit growth. We expect banks' asset quality and profits will remain stable in 2H2024 amid stronger operating conditions.

Small banks showed the most significant asset quality deterioration. NVB, BAB, SGB, VBB exhibited higher-than-peer non-performing loan (NPL) formation rate mainly from retail and SME borrowers. Among State-owned banks (SOBs), construction and real estate-related sectors drove higher NPLs for CTG and BID. Several large banks reduced their problem loans through writing off their VAMC bonds (e.g. VPB) or large NPLs (e.g. MBB). TPB's NPL formation rate remained low through tighter underwriting of new consumer finance loans. We expect low interest rate environment and policy measures aimed to support business activity in various sectors will help support debt serviceability and slow loan delinquencies.

Large private banks benefited most from higher credit growth and wider NIM. TCB, HDB, VPB, LPB recorded stronger loan growth than industry-average of 7.7% as of 6M2024, driven by corporate lending to real estate-related, trading, and manufacturing borrowers. NIMs for these banks rose by 30-60 basis points, and led to higher than industry-average ROAAs of 2.2% on average. Fee income rose for some banks including TCB, LPB and TPB. In contrast, profits for retail-focused banks (e.g. VIB, OCB) fell from weak mortgage loan growth, lower investment income and higher credit costs. We expect the sector ROAA will continue to benefit from strong loan demand from corporates, gradual pick-up in mortgage loan as new housing supply enters the market, as well as stable NIMs that are supported by low interest rates.

Capital weakened for most banks in 6M2024. Sector tangible common equity (TCE) ratio fell by 0.3% points from prior quarter as several large banks (e.g. VPB, MBB, ACB, TCB) paid cash dividends to their shareholders. We expect banks' capital level will remain weak in 2H2024 due to limited capital raising plans. In addition, the sector loan loss coverage ratio (LLCR) declined to 82% from 89% in 3M2024, with SOBs (e.g. CTG, BID) recording the most significant drop due to higher NPLs. Conversely, LLCR for several private banks rose from improving asset quality (e.g. MBB, TPB) and higher provisions (e.g. OCB).

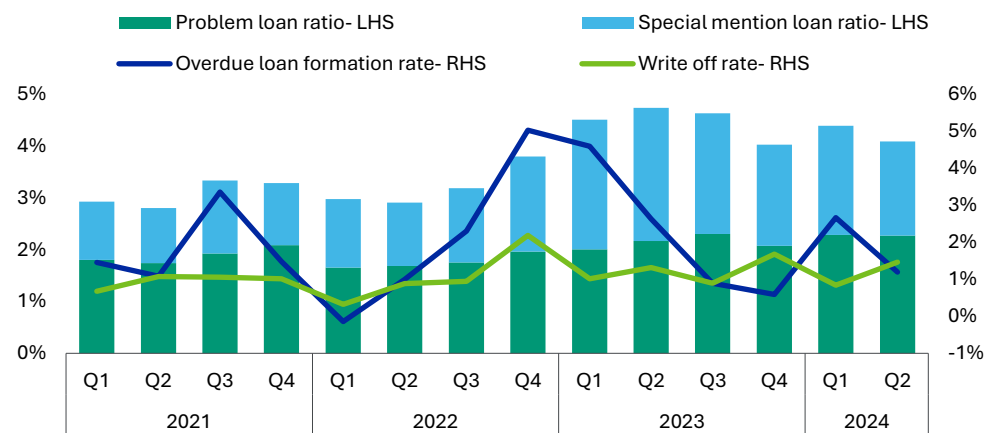
Sector loan-to-deposit ratio (LDR) rose and small banks faced sluggish deposit growth and increased use of short-term market funds. The sector CASA deposits remained flat at 20% of gross loans. MBB maintained the highest ratio through continued above-industry average growth in its retail deposits. The sector LDR rose to 106% in 6M2024 from 104% in 3M2024. Among the small banks, ABB and BVB faced sluggish deposit growth as deposit competition intensified and increased use of short-term interbank borrowings to support their loan growth. Meanwhile, liquid assets were 21% of total sector assets, unchanged from prior quarter. We note liquid assets for small banks contracted by 6% in 6M2024, in contrast to 5% growth for the sector. Hence, we remain concerned about the vulnerability of small banks to liquidity risks.



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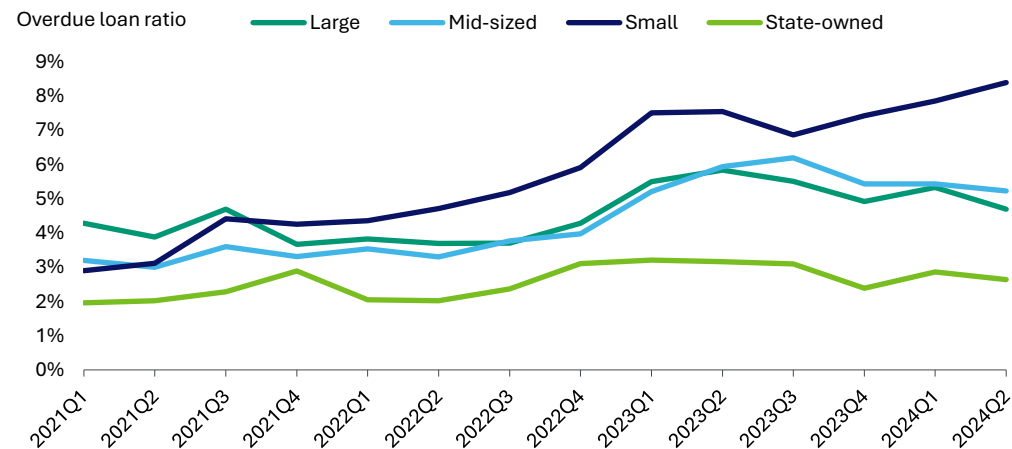
Small banks showed the most significant asset quality deterioration

Exhibit 1: Sector's problem loans ratio in 6M2024 remained flat



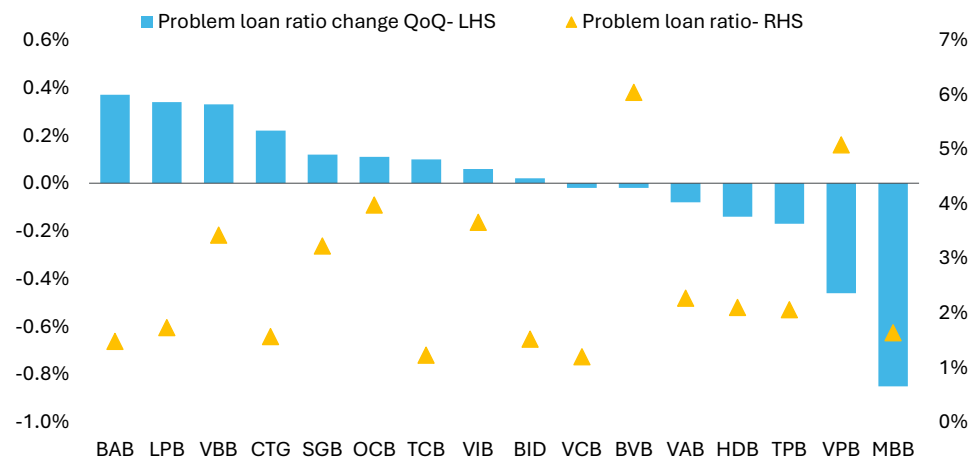
Source: Bank data, Vietnam Investors Service
 Note: Sector numbers include 27 listed banks

Exhibit 2: Small banks showed the most significant asset quality deterioration



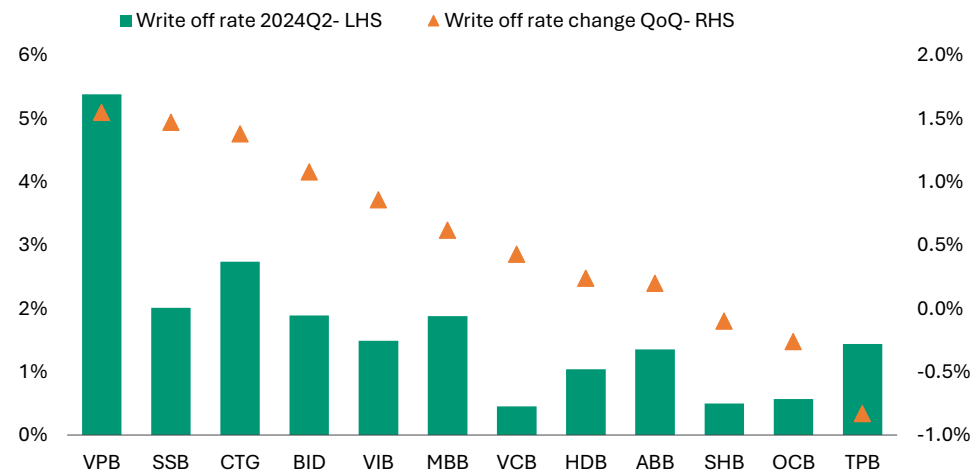
Source: Bank data, Vietnam Investors Service
 Note: Sector numbers include 27 listed banks

Exhibit 3: Several large banks reduced their problem loans



Source: Bank data, Vietnam Investors Service
 Note: Refer to the Appendix for the full name of banks. Data for NCB is excluded as outlier.

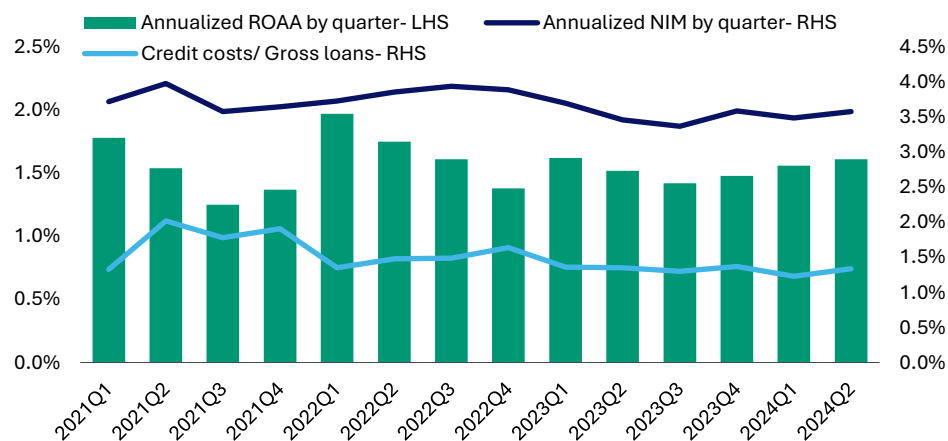
Exhibit 4: Most banks increased their write-offs in 2024Q2



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

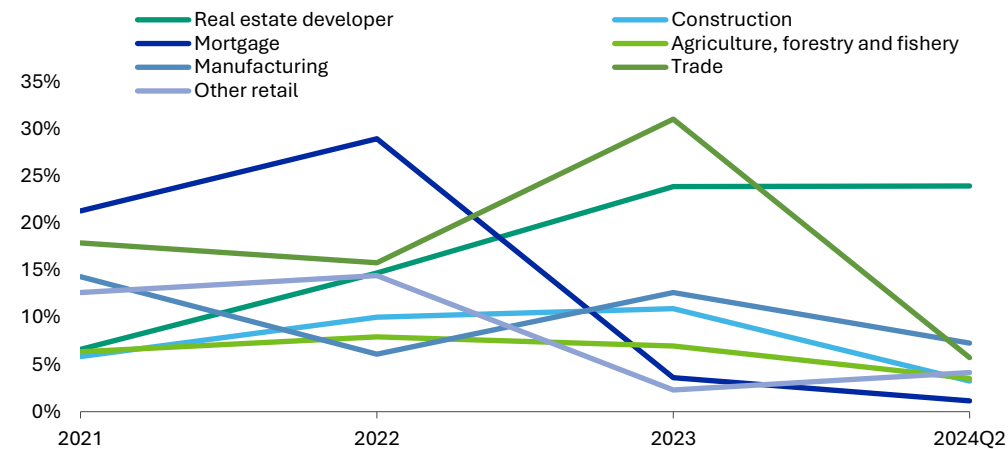
Large private banks benefited most from higher credit growth and wider NIM

Exhibit 5: ROAA rose in 1H2024 due to higher corporate credit growth and wider NIM



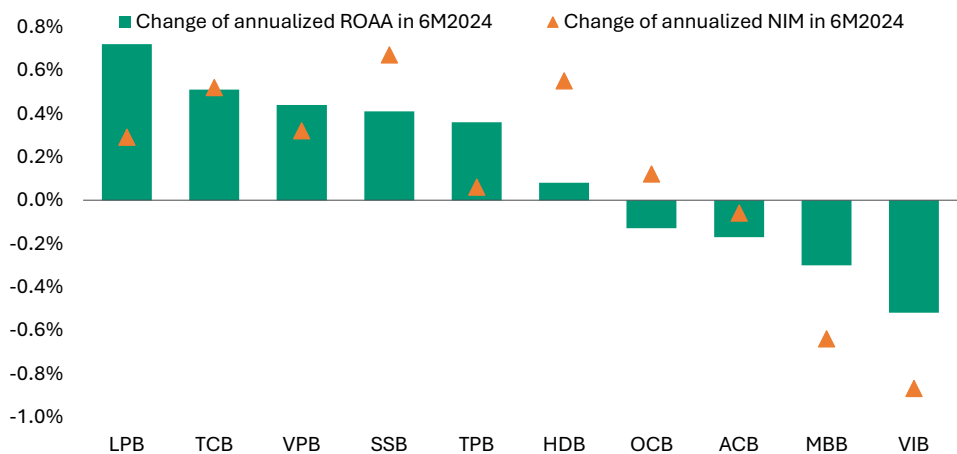
Source: Bank data, Vietnam Investors Service
 Note: Sector numbers include 27 listed banks

Exhibit 6: Corporate businesses led sector's credit growth in 6M2024 amid sluggish mortgages



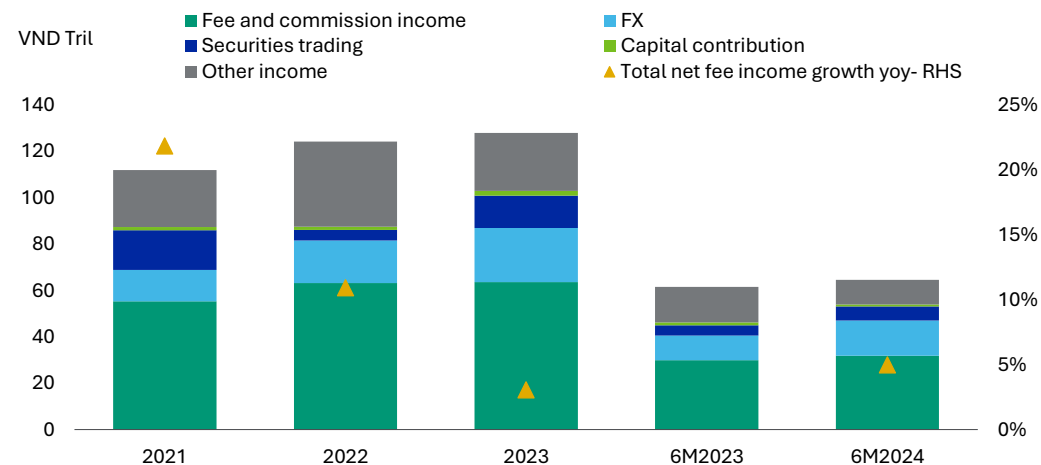
Source: Ministry of Construction, State Bank of Vietnam (SBV), Vietnam Investors Service
 Note: Sector numbers include 27 listed banks

Exhibit 7: Profits improved for large private banks with strong corporate credit growth, while weakened for some retail-focused banks



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

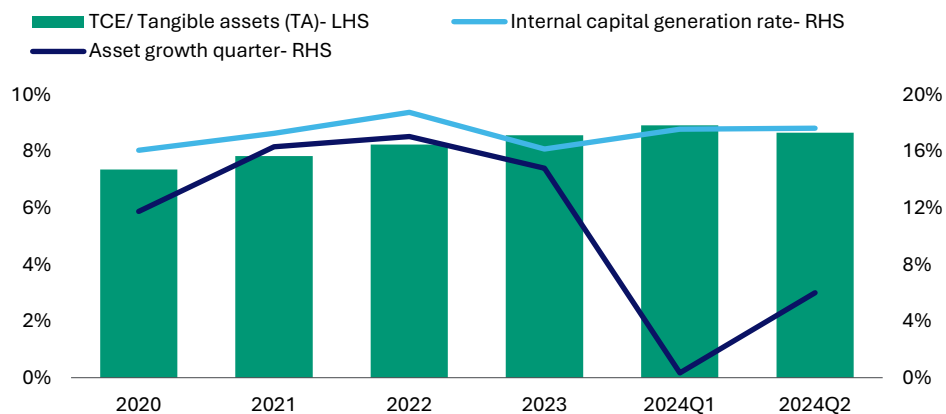
Exhibit 8: Fee income rose modestly from settlement services



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

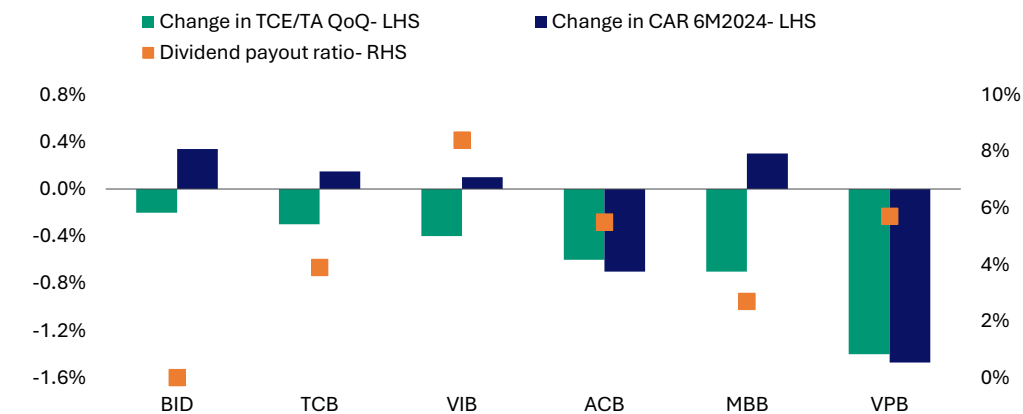
Capital weakened for most banks in 6M2024

Exhibit 9: Sector's capital level weakened in 6M2024



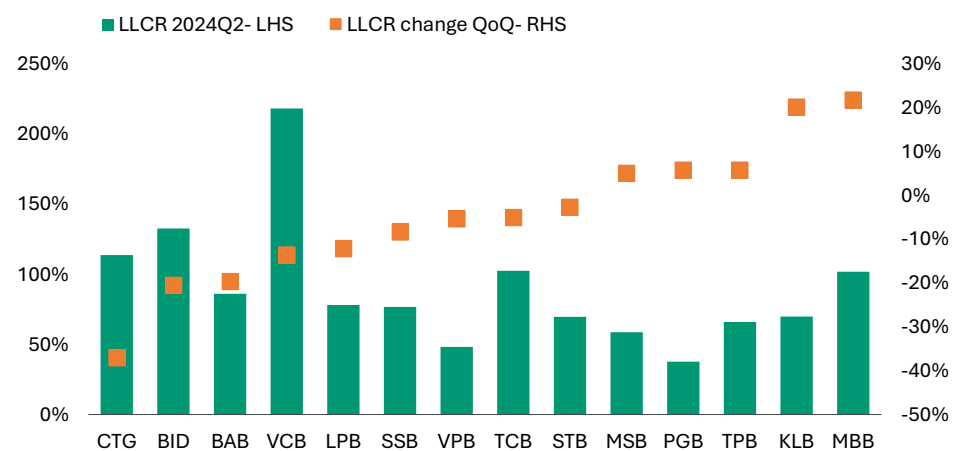
Source: Bank data, Vietnam Investors Service
 Note: Sector numbers include 27 listed banks

Exhibit 10: Lower capital level for large private banks due to higher cash dividend payment



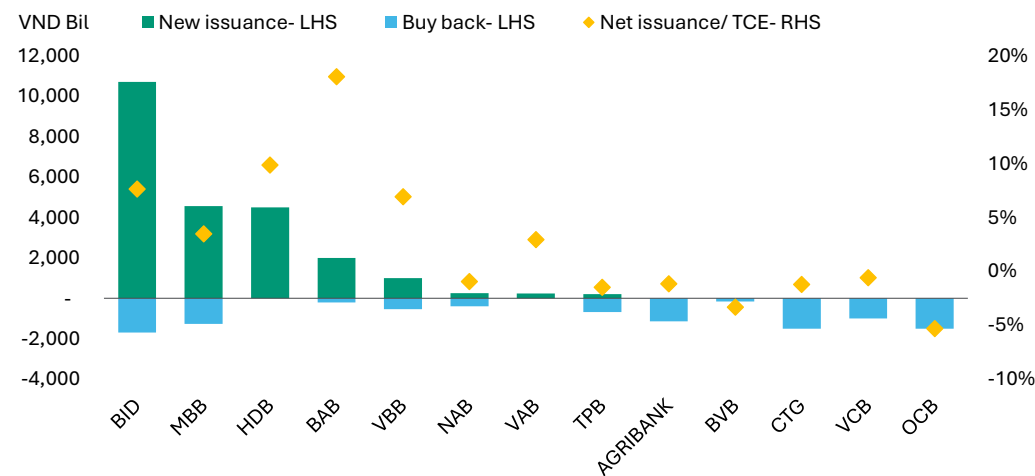
Source: Bank data, Vietnam Investors Service
 Note: Refer to the Appendix for the full name of banks

Exhibit 11: SOBs experienced the most significant drop in LLCR due to higher NPLs



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

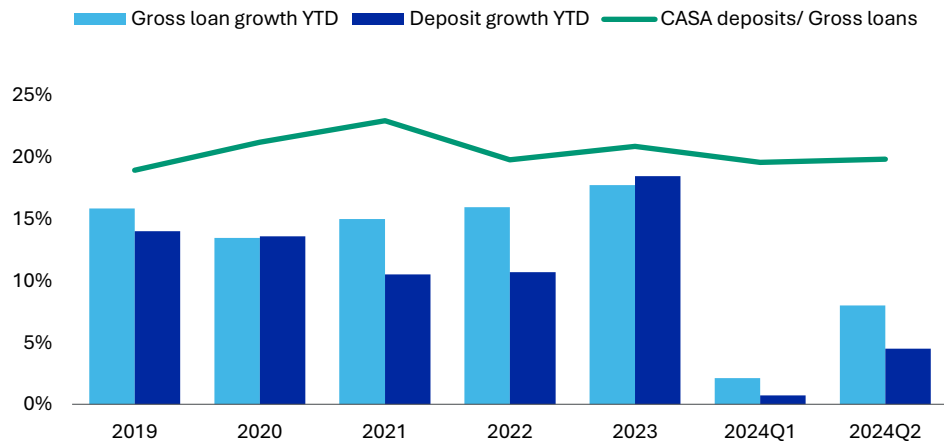
Exhibit 12: Several banks increased subordinated bond issuance to support capital needs



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

Sector LDR rose and small banks faced sluggish deposit growth and increased use of short-term market funds

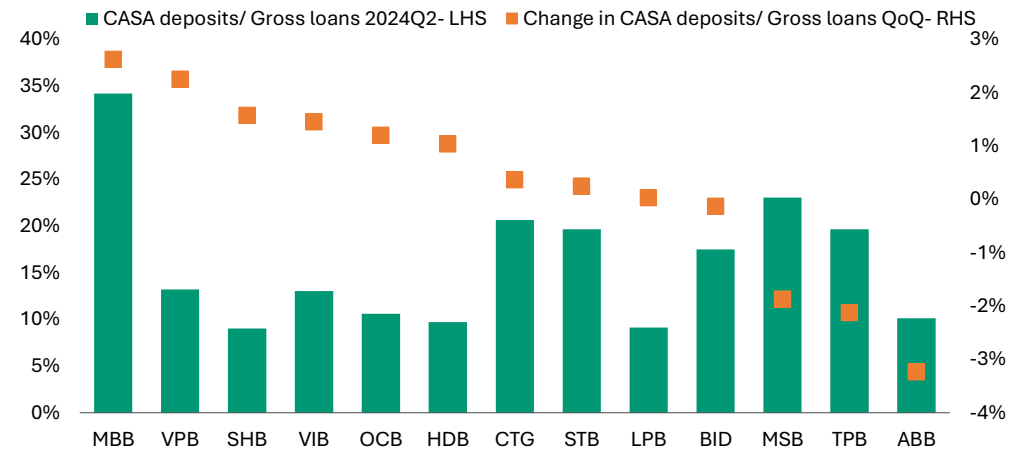
Exhibit 13: The sector CASA deposits/ Gross loans remained flat in 6M2024



Source: Bank data, Vietnam Investors Service

Note: Sector numbers include 27 listed banks. YTD: Year-to-Date.

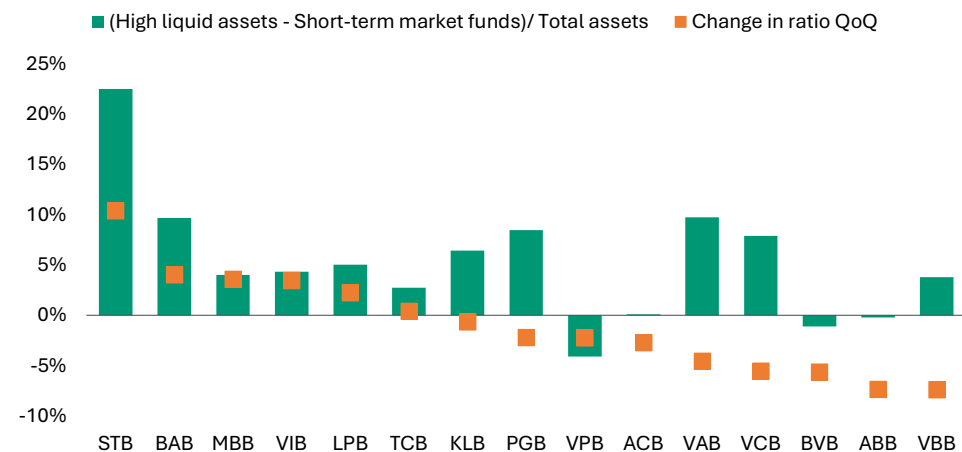
Exhibit 14: A few private banks benefiting from stronger retail CASA deposits



Source: Bank data, Vietnam Investors Service

Note: Refer to the Appendix for the full name of banks

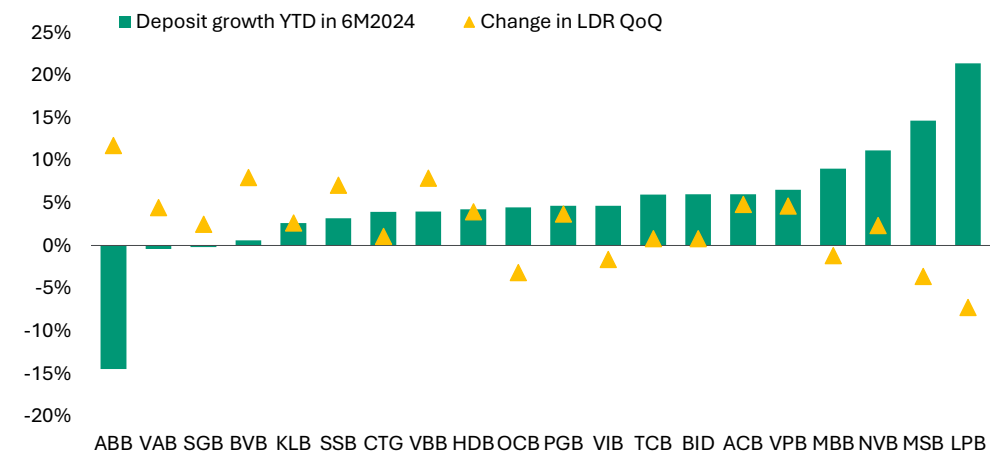
Exhibit 15: Several small banks are more vulnerable to liquidity risks due to their higher use of short-term market funds...



Source: Bank data, Vietnam Investors Service

Refer to the Appendix for the full name of banks

Exhibit 16: ... amid sluggish deposit growth



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 | Fortune Vietnam 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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