

VietinbankSc Industry Report

Commercial banking in Vietnam

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Hang T. Nguyen

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Glossary

Industry Update

About this Industry

Industry Definition

Commercial banks act primarily as financial intermediaries to channel those who have capital surpluses to those who have capital deficits. Banks also provide a variety of

services, but are not limited to, payments and collections, funds transferring and foreign exchange dealing.

Main activities

Primary products

- Accept deposits
- Granting loans and advances

Services

- Domestic and international payment and collection
- Treasury operations
- Guarantee operations
- Others such as card, e-banking, mobile banking services

Proprietary activities

- FX trading
- Securities trading
- Securities investment
- Others

Similar industry

66120 Securities Brokerage in Vietnam

Operators in the industry provides investment banking services, securities trading and brokerage services

64910 Financial leasing

Operators in the industry provides financial leasing services

66300 Fund management services

Operators in the industry provides fund management services

Addition resources

For additional information on the industry

www.sbv.gov.vn

The State Bank of Vietnam

www.vnbaorg.info

Vietnam banks Association

www.thoibaonganhang.vn

Banking Times

Industry at glance

Key statistics snapshot (2012)

Total Asset VND4,975trillion	Annual growth 09-12 18%	Annual growth 13-18 11%
Profit after tax VND36trillion	Employment 180,000	Businesses 50¹
ROA 0.73%	ROE 9.54%	

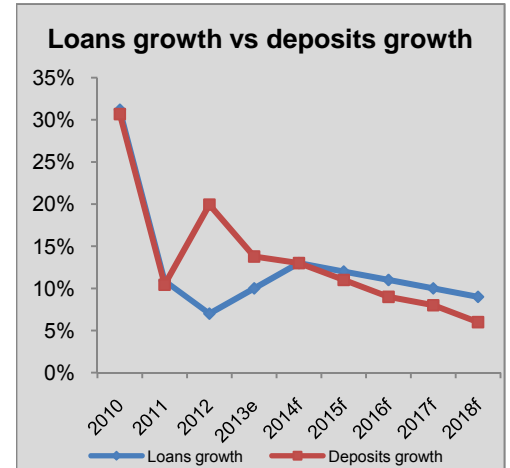
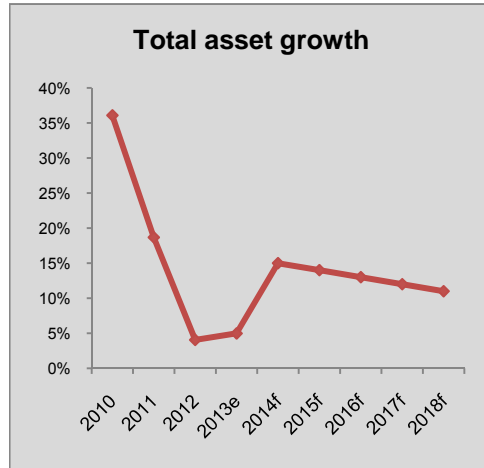
Market share (loans)

Agribank
19.67%

BIDV
14.61%

Vietinbank
14.41%

Vietcombank
10.31%



Source: SBV, BMI

Key external drivers

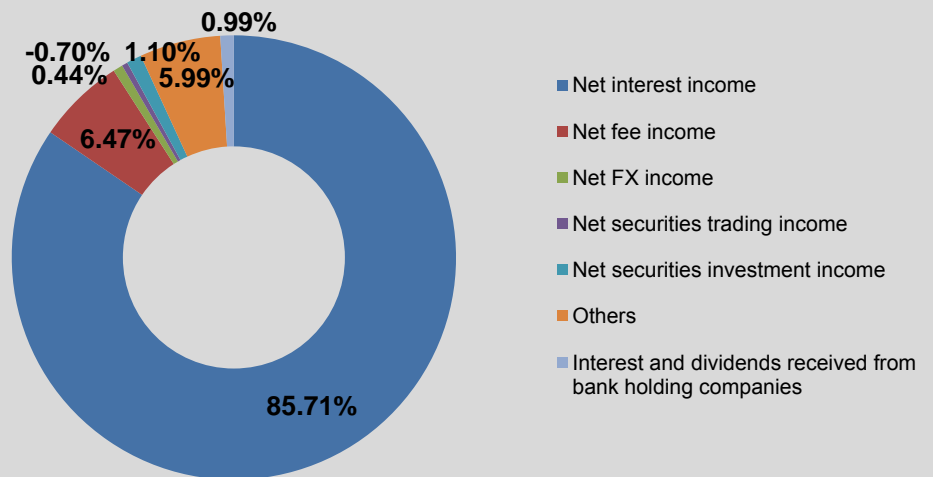
Economic environment

Per capital disposable income and saving rate

Modern lifestyle

Competitive from non-bank entities

Product and services segmetations



Source: VietinBankSc

Industry structure

Life cycle stage	Growth	Regulation level	High
Revenue Volatility	Medium High	Technology change	High
Capital Intensity	High	Barrier to entry	Medium
Industry Assistance	High	Industry globalization	Low
Concentration Level	Low	Competition level	Medium

¹ 6 State-owned commercial banks, 35 commercial banks, 4 joint venture and 5 100% foreign owned banks, 50 branches of foreign banks, and 50 representative offices in Vietnam

Industry Performance

Executive Summary | Key External Drivers | Current Performance |

Industry Outlook | Industry Life Cycle

Executive summary

When it comes to profit of a commercial bank, interest income is ahead of the pack. However, following the same downtrend of entire economy, commercial banking industry has been suffering a fragile period of low credit growth. The key drivers of this pattern are the shrinking of economy, bankruptcy of firms or low spending from individuals due to the fear of volatile income in the near future.

Trouble really comes to the industry when reported non-performing loans ratio went high of above 4% as wholesale and retail clients failed to make their payment on time. Market demand frozen, over 60% enterprises reported negative net income. The negative returns from capital invested in property market due to the unstoppable decline of housing price explain for the significant loss of investors and then, lenders accordingly. These negative influences cause the profit after tax of commercial banking industry in Vietnam declining from VND47 trillion to VND36 trillion.

Obvious consequence of weak operation and management of few banks in Vietnam is a series of large-scale M&A deals in 2011 and 2012. Vietnamese banking reform

promises a fresh and strictly regulated environment, in order to better manage risks and make use of economy of scale.

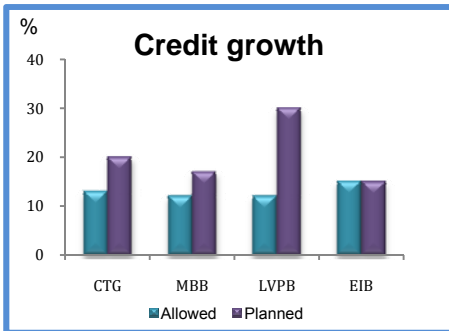
However, positive signals received from macroeconomic conditions recently re-install the confidence of individuals, economic entities and foreign investors. The establishment of VAMC, to some extent, helps banks release the trouble of bad debts, refocus on operating activities with more cautious management, and prepare for that burden in the future.

Given external support and internal reform, five years to 2018 expects a recovery of banking industry. Net interest income is forecasted to increase because of higher savings from retail clients and higher financing demand and repayment ability from corporates.

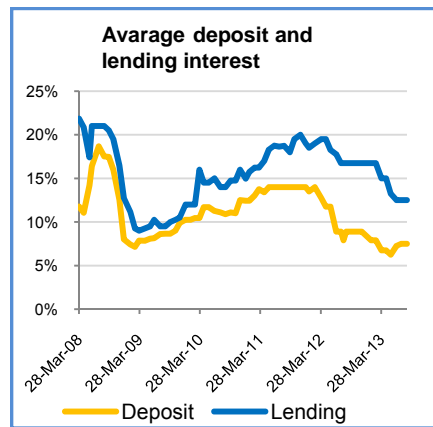
Simultaneously, non-interest income is projected to rise due to the boom of cash-free payment system. Bad debts burden from the past will drag back the growth of whole system, however. Thence, profit of the industry is estimated to bounce back at 1.01% for ROA and 12% for ROE in 2013, and gradually increase thereafter to 1.28% and 13% on average, respectively.

Industry Performance

Key external drivers



Source: VietinBanksc



Source: Stoxplus.vn

80% debt of 300,000 SMEs comes from bank loans. Economic instability has led to the deterioration in banks' performance

	Newly established	Dissolution
2010	82,000	42,000
2011	78,500	52,000
2012	70,000	53,000
6M		
2013	38,908	28,755

Source: Planning and Investment Portal

Regulation and supervision

As a failure of a commercial bank might result in cognation and failure of whole financial system, commercial banks are directly and

strictly regulated by central bank. Thus, some profitable activities are highly restricted.

Credit growth cap required by central bank

Based on the level of bad debt relief in previous year, central bank allocates credit growth limits on each

bank or each group of banks. To some banks, the quotas are much lower than banks' plan.

Capital Adequacy Requirements

Required capital adequacy ratio in Vietnam is 9%, meaning the banks cannot take excessive investment in highly risky assets. Securities and real estate investment are classified as the most risky group to calculate

weighted risky assets. In the industry, six banks (TCB, MBB, AGRB, SeaBank, VIB, BacA Bank) reported real estate investment activity.

Interest rate policy

The impact of interest rate volatility on banks' performance proves positive. Central bank in each period applies a specific lending and borrowing interest rate cap. Fixed-rate loans and floating-rate deposits face significant risk when interest rate declines, and vice versa. Hence, the big mismatch of the maturity pattern of assets and liabilities exposes a bank to interest risk. It results in a fall of NIM in some banks, namely, BIDV, CTG, SHB, EIB, VCB, etc.

In the last two years, central bank continuously decreased interest from over 10% to 7% at the end of June 2013, which resulted in an expectation of cheaper capital. Besides, from the end of 2010 to the beginning of 2013, the interest spread went large. High cost of capital led to defaults on loans. Yet, according to BMI, the interest is expected to stay stable few years later and the difference is shrinking as well.

Economic environment

Banks have come to play an active role in addressing financing gaps, especially in economic entities. Wholesale lending accounts for 66% of total loans. In accordance with a survey conducted by Vietnam Chamber of Commerce and Industry (VCCI), 54% of reviewed enterprises

demand to borrow from banks. In fact, statistic shows 80% debt of 300,000 SMEs comes from bank loans. Therefore, the ups and downs of corporates have significant influence on lending activities of banks.

Number of new enterprises

According to Ministry of Planning and Investment Portal, the number of businesses which came into operation has decreased from 2010 because of economic recession, which, to some extent, explains the low credit growth.

increase from the beginning of 2013, at 7.6% and 15.5% compared to the same period and the second half of 2012, respectively. The number of businesses in operation is forecasted to increase in near future. Accordingly, the demand for capital borrowing would increase as a result of economic expansion.

Nonetheless, the number of new established companies started to

Industry Performance

GDP growth (%)	9M 2011	9M 2012	9M 2013
Agriculture	3.74	2.5	2.39
Industry	6.75	5.76	5.2
Services	6.43	5.66	6.25

Source: Vietnam Government

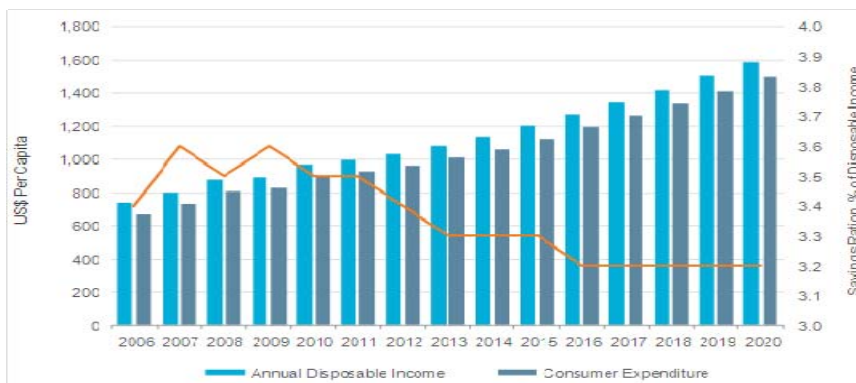
Contribution to the economy

The year 2012 marked a year of Vietnam economic recession.

Contribution to GDP of manufacturing industry, agriculture or services hit the bottom. Market

demand dried up and the production incentives decreased. Thus, not only the call for lending decreased but for international or domestic payment has gone gloomy as well.

Per capita disposable income and spending-savings ratio



Source: Euromonitor International from national statistics/trade sources

Different from other economic entities, liabilities are much higher than equity in banks. Banks fund their activities largely by 'deposits', especially, 60% from retail clients. Thus, the influence of disposable income and saving rate on banks is notable.

It is perceived that as disposable income increases, the proportion for saving increases also. Vietnam saving ratio stood at 3.5% of annual disposable income in 2011. According to Euromonitor International, it is forecasted in the next five years, saving ratio will decrease to a stable number of 3.2%.

Modern banking lifestyle

Traditional payment form has been replaced by modern banking lifestyle, represented by the decline in cash payment ratio. It is projected to continuously decrease to 5% in the next five years. According to Vietnam E-Commerce and Information technology Agency

(VECITA), 36% Vietnam residents are using Internet and 57% of which participate in online shopping. It is estimated that 70% of population will demand modern banking services in the next 10 years. Therefore, income from services is expected to increase.

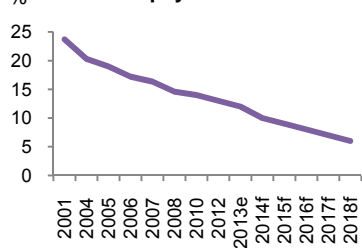
Competition from non-bank entities

Mr. Vo Tri Thanh, Deputy Director of Central Institute for Economic Management stated, recently, shadow banking in Vietnam is making up to 30% of total lending in Vietnam, translating to a big number

of USD50 billion.. In spite of higher interest from 15-25% per month, the encouragement of black market is huge thanks to its convenience in terms of time and paperwork.

60% of 'deposits' is retail clients' savings

Cash payment ratio



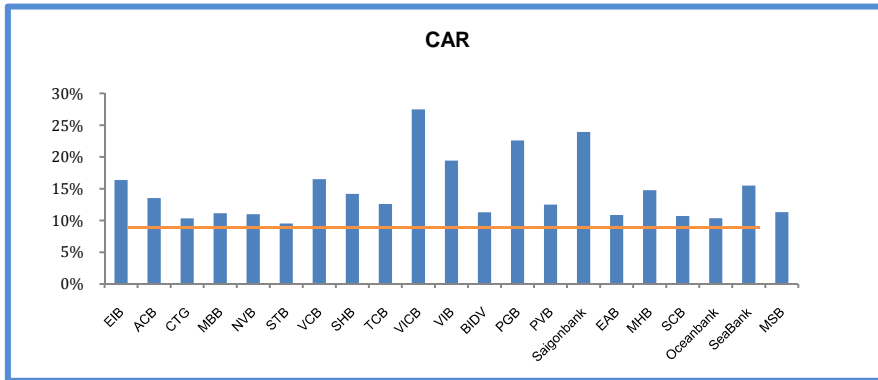
Source: SBV

Shadow banking made up 30% of total loans

Industry Performance

Current performance

Capital Adequacy has met the requirements



Source: VietinBankSc

asking commercial banks to raise the minimum Capital Adequacy Ratio from 8% to 9%. It indicates that SBV is aware of the importance in upgrading the safety of whole banking system further, which is closer to the banking safety standards of the Basel Committee on Banking Supervision. In the year 2012 and the first half of 2013, all banks in the system have made a significant effort to stabilize their balance sheets and reported a CAR, which is higher than required. Plus, the figure for 2013 (13.76%) has improved in comparison with 2012 (13.37%), showing banks' determination of constructing a healthy and safe banking system.

Requirement of capital adequacy is used to protect depositors and promote the stability and efficiency of financial systems. Central Bank issued Circular 13/2010/TT-NHNN

Asset quality

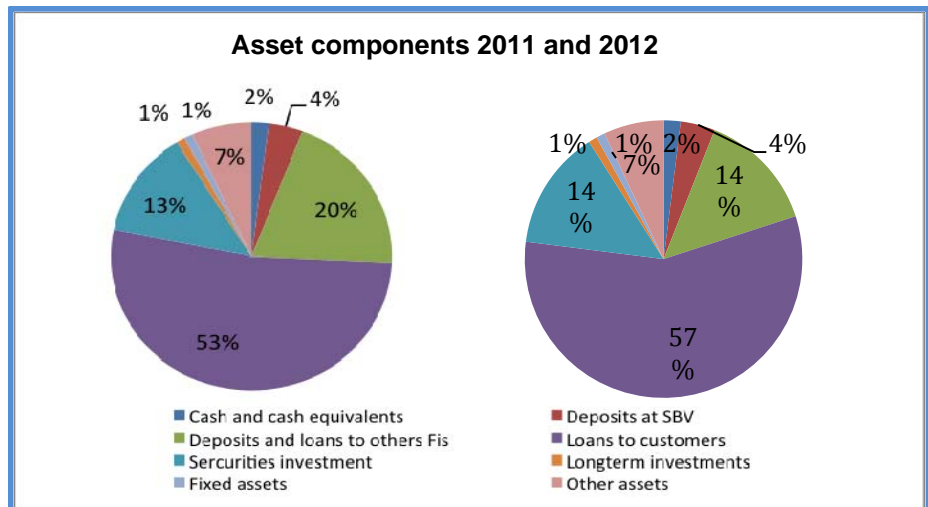
57% of total asset is loans to customers

Much reliance on loans to customers causes high exposure to default risk.

Loans to customers made up over 50% of total assets. As explained, due to the shrinking of the components, total asset increased at low speed consequently.

Business and personal clients are considered to have lower credit rating than financial institutions. However, the contribution of loans to customer increased to 57%, compared to 53% in 2011 while

loans to other financial institutions reduced from 20% to 14%. This implies banks involves in riskier assets in the portfolio. Moreover, the interest imposed on interbank lending is lower than that on client deposits, for example 6.5%/year vs. 7%/year in 2013. This means banks fund their activities by more expensive capital and expose to higher risk when interest rate volatiles.

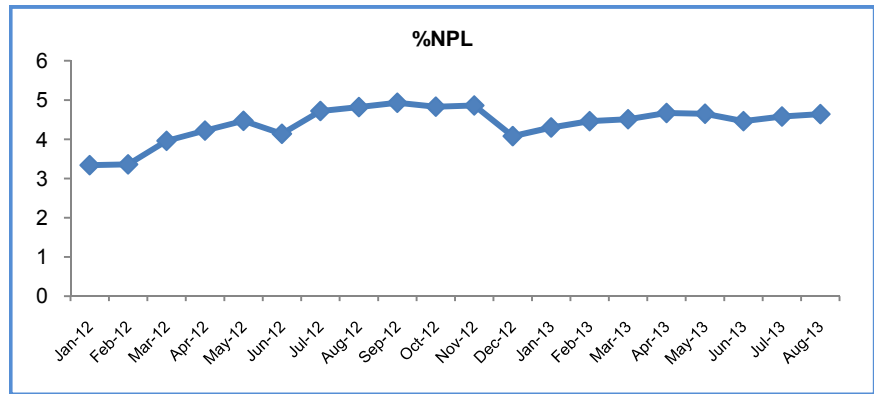


Source: VietinBankSc

Industry Performance

NPLs ratio: 4% reported versus 15% actual

High bad debt ratio indicates poor risk management.



Source: SBV

Banks have an overwhelming exposure to client loans, resulting in risky loan portfolios. Although banks are regulated to have non-performing loans under 3%, in financial statement of more than half number of banks, the figure went over 3%. From the beginning of 2012, the ratio of bad debts remains higher than 4%. However, according to BMI, the actual ratio reached 15%.

Especially, the unexpected decline in housing price caused the significant increase in NPLs. Vietnam housing market history recorded a rapid fall of 45%, 30% and 29% in price of luxury apartments, mid-end apartments and low-end apartments, respectively according to Colliers International. National Financial Supervisory Commission (NFSC) indicated real estate bad debts accounted for 30-35% of total loans in property market. OECD argued the collapse of housing market further harmed banks by lowering price of real estates used to collateralize most mortgage loans, making it impossible to sell that collateral to offset losses. The result was a vicious circle when lower housing price led to default and sale of collateral put further downward to housing price.

This debatable issue can be clarified by some reasons. Firstly, this is the apparent results after a 'credit growth racing' (more than 25% each year) of majority of banks. The higher the money is lent out, the higher the possibility of credit default occurs. Secondly, so as to make more interest income, the bank did take higher risk by accepting substandard loans without proper valuation and forecast future payment ability of borrowers.

Loans Group 5 (Loss) remains high
Non-performing loans are concentrated majorly in Group 5. For whole system, this group account for 40% of total bad debts at the end of 2012, and increasing to 50% in June 2013. Ho Chi Minh City, in particular, reported 70% group 5 NPLs.

For the purpose of higher net profit, the banks intend to reclassify loans types, resulting in lower bad debt and provision to client loans. Lack of information on actual NPLs causes the delayed intervention and passive react of policy makers, which is extremely dangerous to financial market.

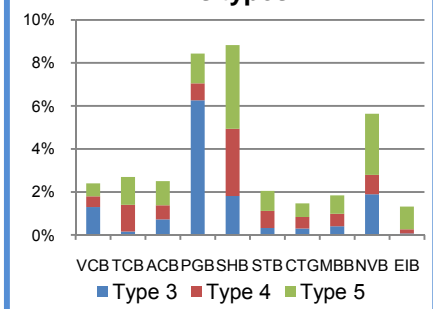
Management Capability

High non-interest expense

In comparison with other countries, the non-interest expense/total non-interest income is far higher. The

expenses should be reduced to reach the economy of scale.

NPLs types



Source: VietinBankSc

50% of NPLs belongs to Type 5 (Loss)

Non-interest expenses/NII

Australia	42%
China	40%
Singapore	38%
Thailand	44%
Vietnam	49%

Source: Central banks data

Industry Performance

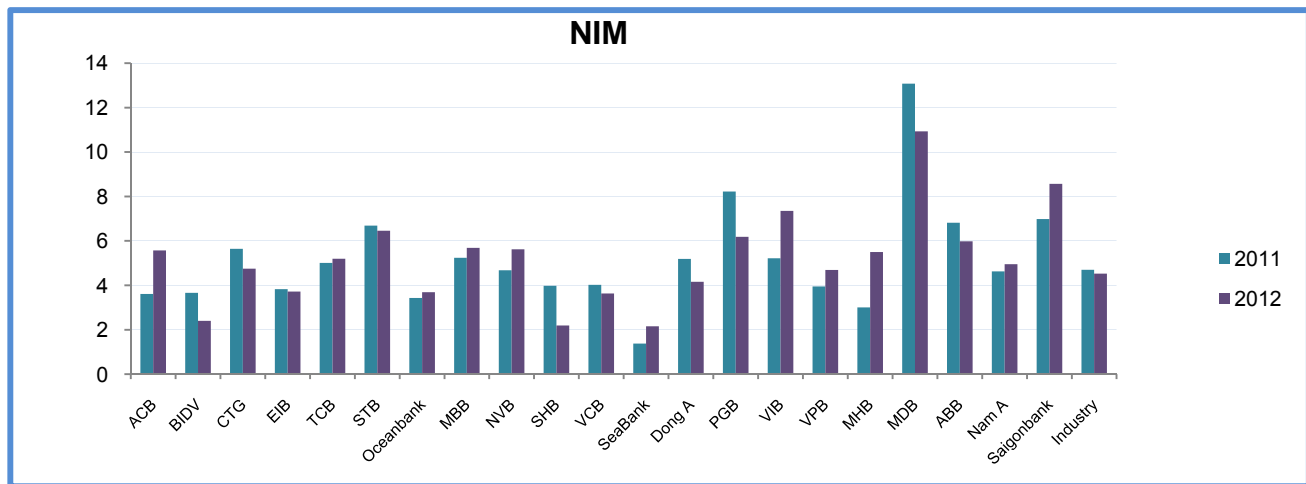
A series of unethical behavior caused VND917Billion loss.

Education of staff

The level of education of employees improves with 80% of employees are qualified by bachelor degree. Meanwhile, the ethics of employees and managers witnesses a decline.

The widespread lapses in ethical behaviors have hurt the bank reputation. A loss of more than VND917billion is reported, according to SBV.

Earning: Slightly weak performance in a challenging economic environment

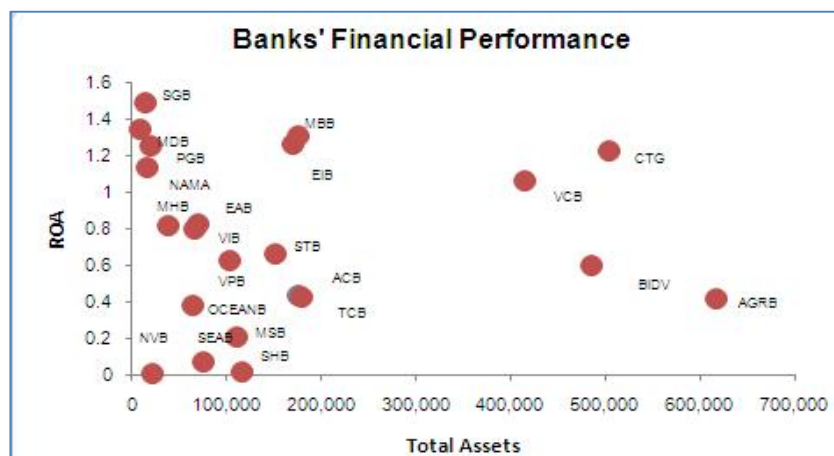


Source: VietinBankSc

Banking sector endured a decline in profit in the last two years when economic downturn undermined almost industries of an economy. Low demand of borrowing, high provisions cost and change in interest rates can be named to clarify the situation.

The gloom in lending activity reduced net interest income of banks. Whole systems reported a decline of 3.3% in net interest income and a slight decrease in NIM from 4.7% to 4.53%. Additionally, economic recession damaged the

payment ability of borrowers, which increased provisions expense of banks and reduced profit accordingly. Profitability ratios hit the bottom from 1.66% in 2009 to 0.73% in 2012 for ROA and 23.5% to 9.54% for ROE. It is crucial to note that, however, financial performance varies among individual banks. For example, AGRB though has highest total assets, ROA was low in comparison with smaller banks such as MDB, PGB, Nam A Bank, etc.



Source: VietinBankSc

Industry Performance

Retail banking and securities investment received added attention

Business navigation

Banks started focusing on retail banking to support individuals with home loans, real estate loans or auto loans in lieu of wholesale segment. Economy of scale is not reached when lending to small individuals; however, the interest spread is relatively big, enabling bankers to cover up other expenses.

Domestic banks continue to lag behind their foreign peers in terms of financial strength and the technological curve. In foreign banks such as HSBC or Standard Charter bank, 60-70% of income comes from services fees, while the same number in domestic banks belongs to interest income. This explains why bad debt in foreign banks is three times lower. Therefore, more investment is put into technology by way of introduction of Internet banking, payment system, card systems, or expansion of branches and transaction offices (for example,

BIDV: from 461 (2010), 494(2011) to 549 in 2012); or ATM (from 9,965 machines in 2009 to 14,500 machines in 2013). Thanks to that, retail banking segment reported an increase in profit of 30%-50%.

In 2012, banks had a little change in their strategies by using unemployed capital in securities trading and investment. Total securities for trading and investment increased in 2012. Although the segment still yielded a negative return of nearly VND 30bn for banks, but it is much smaller as compared to huge losses of VND1300bn in 2011. First half of 2013 experienced a sharp increase with 16 banks reporting VND1300bn net income of the segment. However, along with the activity, risk management also should be taken into account, preventing possible assets price bubble.

A series of large scaled M&A occurred in expectation of healthier banking system

Banking reform

Recently, banking industry in Vietnam has witnessed some merger and acquisition activities. Especially, the first M&A of a financial company (PVFC) and Western Bank was successful and prepared for first IPOs in OTC market. Other M&A deals such as Fitcombank, SCB and Tin Nghia Bank, Dai A Bank and HD Bank also

reinstalled customers' confidence of doing business with some new better-managed banks. A financial system consisting of big and strong banks would prevent unhealthy competitive environment such as interest racing two years ago, which cornered the financial market of Vietnam.

Liquidity risk should be put into consideration

High cash ratio

High cash ratio of 20% to total asset on average enables banks to handle urgent cash demand and to have strong capability to absorb liquidity shock. Nevertheless, the ratio varies

among participants. Agribank and MHB reported of lowest cash ratio (approximately 10%), warning a difficulty in time of cash needed.

High Loan-deposits ratio

Despite banking industry has been witnessing a small decline in LDR from the middle of 2012 to 2013, the ratio is forecasted to increase in the next five years. The uncertainty of

liquidity is even higher when the short-term deposit to long-term lending ratio in Vietnam banking industry is higher than foreign peers.

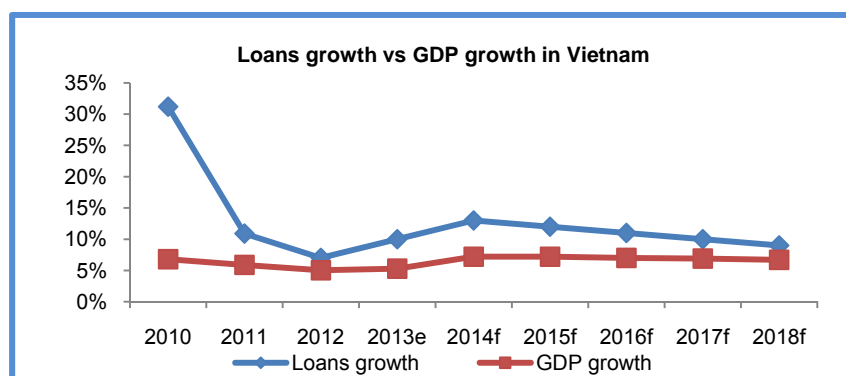
	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013
Loans/Deposits ratio					
SOJB	101.81	96.77	94.58	95.45	95.04
JSCB	75.57	79.01	75.7	76.45	74.67
Foreign Banks	96.18	90.07	83.73	79.03	76.46
Whole system	91.48	89.35	86.22	87.3	86.19
Short term deposits/long term loans					
SOJB	21.84	21.45	21.75	20.89	22.28
JSCB	12.33	17.6	16.29	16.76	18.39
Foreign Banks	-2.36	-2.03	-1.91	-2.76	-3.66
Whole system	14.83	17.16	16.51	16.34	17.54

Source: SBV

Industry Performance

Industry outlook

Lending market will grow as economic condition improves.



Source: IMF, IBM.

The next five years are expected to be promising for banking industry. As banking industry is positively correlated with economic environment, the improvement of economic conditions leads to the recovery of banking industry. Improving economic condition encourages consumer spending, creating dynamic for production and enterprises expansion. Wholesale banking services will boom again. In addition, the Vietnamese government is scheduled to offload non-performing loans on bank's balance sheets to VAMC, a shift that is thought to play a crucial role in reinforcing existing efforts to reignite credit growth. VAMC aims to clean up the balance sheets of banks to

help free up funds, and this should allow the banking sector to restart lending to businesses.

Therefore, lending activity is forecasted to recover at a growth of 10% (2013), 13% (2014) but will reduce to 9% in 2018 as GDP is projected to decrease accordingly. Client loans are forecasted to increase at 6% a year, reducing the reliance of banks on client loans, which are much more expensive than interbank loans in Vietnam. The policy interest rate also is foretold to stay remain at 7%. As such, industry net interest income is project to bounce back at low rate of 5% in 2013, but is gradually getting higher in the next 5 years.

Vietnamese banks might not fully tackle bad debt burdens

20% written off of government bonds each year might constrain the recovery of banks

Despite the possible rebound in lending activity, banks still have to resolve old bad debts woes. Fitch Ratings argued bankers may still face capital-impairment risks even after offloading bad debt to the VAMC, based on preliminary data. This is because government-guaranteed bonds received in consideration for bad debt must be written off by a reported 20% each year.

Clearly, this effectively means that the bad banks only buy time to write off losses. With no fresh capital, the banks are likely to be limited in their ability to restructure and support the domestic economy. Therefore, we believe it is unlikely to be a smooth ride for Vietnam banking industry in the next 2-3 years.

Fee services attain added attention

Income from services looks forward to an increase. Particularly, payment services still make up the highest involvement. Export and import activities are estimated to increase at 11.55% and 10.5% on average in the next 5 years. Hence, fees from international payment services will

increase.

In case of retail banking, the culture of modern banking services enables bank to gain more income from Internet banking, mobile banking, and card services. By IDG-BIU (Business Intelligence Unit)

Industry Performance

projection, the number of bankcards and number of Internet banking

accounts will increase at 12% and 35% each year, respectively.

Transparency will improve

The transparency is expected to be improved, explained by a combination of reasons, including

(1) M&A of weak banks, resulting in a banking system containing only better managed banks.

(2) The compliance of Circular 02/2013/TT_NHNN might improve the transparency, meaning the CAR can be worse and the stated NPLs can be higher.

(3) The participation of foreign banks enhances the fairness in competition and the clearness in information provision.

(4) The allowance of increase in foreign shareholders proportion and the launching possibility of some banks enhance the availability of information.

Industry Performance

Industry life cycle

The industry is at its GROWTH stage

Vietnam banking industry is at growth stage of its life cycle, typified by the high growth of the industry, introduction of new products, and the increased number of branches and ATM booths.

The industry's contribution to the economy grew from 2008 to 2012, and is expected to grow in 5 years perspectives. In fact, the industry's contribution to the economy was 20% on average, and expected to decrease to 11% in the next five years. However, in comparison, GDP of Vietnam is projected to be around 7.5% per annum during the same period. Industry is growing faster than economy, translating to that it is at growth period.

New products are being introduced such as e-banking, mobile banking, different types of bankcards or derivative contracts to fulfill demand of customers. From 2007, the number of cards issued increase from 9.34 million to 62.93 million (Sep 2013) with the expansion in card brands from 95 to 350, according to Vietnam bankcard

Association. The number of people using Internet banking rose 35% each year also.

Banks now compete by increasing their quality in banking services other than competing on price. Therefore, banks focus on enlarging their network with the rise in branches, such as Agribank (2300 branches), BIDV (103), CTG (138), VCB (39), etc by 2013. The number of ATMs now reaches the figure of more than 13,600 machines. Customers care services are improving by the occurrence of Call Centre in Vietinbank, for instance.

This trend of rapid product introductions and effort of reaching economy of scale indicate that the banking industry is in the developing stage. It is forecasted that the introduction of new products keeps increasing with slower speed as product saturation is reached. With strong potential market for internet banking, and card services and hedging risk instrument in payments, the profitability of banking industry is forecasted to increase again.

Products and Markets

Supply Chain | Products and Services | Demand Determinants | Major Markets | Business Locations

Supply Chain

KEY BUYING INDUSTRIES

Other financial institutions

Other banks might borrow money at interbank interest rate and buy/sell securities assets (normally government bonds and corporate bonds)

Enterprises and individual customers

The bank industry relies on economic entities and individual clients to purchase their lending products and other fee services.

KEY SELLING INDUSTRIES

Other financial institutions

These entities supplies commercial banks 'deposits' and securities instruments

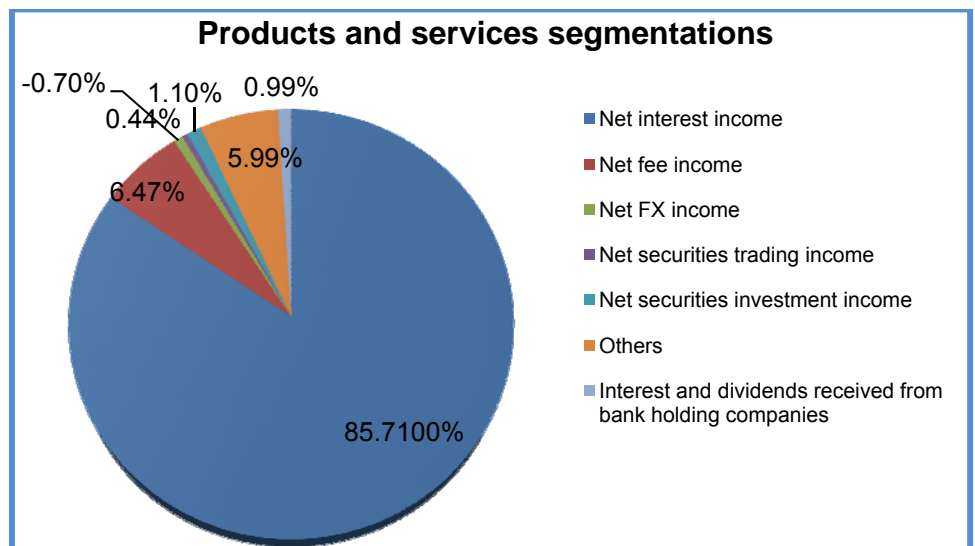
Enterprises and Individuals

These suppliers provide 'deposits'

Information technology services

This industry provides information technology services such as server, data system or ATM maintenance.

Products and Services



Source: VietinBankSc

Products and Markets

Highly focus on traditional activities with 85% of total income being net interest income.

Loans classified by industries

Agriculture, forestry and fishery	11%
Manufacturing Industry	29%
Construction	9%
Trade	19%
Transportation and Telecommunication	4%
Other	28%

Source: SBV

LOW contribution of non-interest income to total income: 15%

Deposits Accepting and Loans Granting

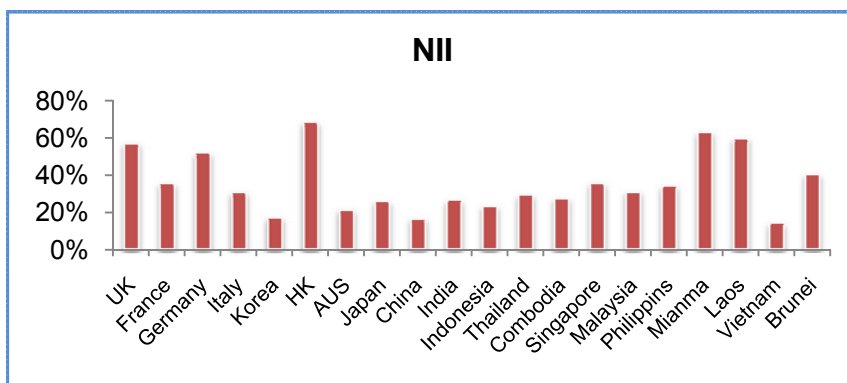
Because banks are primarily established to accept deposits and grant loans, it is not surprising that this segment makes up the largest portion of 85% of total income for the industry. This denotes that earning of the industry has not been diversified away from interest income, resulting in higher exposures to credit risks. Also, banks' profit will be harshly harmed by the restrictions on credit growth. For example, at the year of 2012, net interest income grew at negative 3.3%.

To a bank, it could be considered that deposits are inputs and loans are outputs. Banks raise capital by different types of deposits. By terms, deposits have short term, mid term and long term. By the withdrawal principal, there are demand deposits

(current account), time deposits (cannot withdraw prior maturity) and call deposit (can withdraw prior maturity). In order to keep money in customers' account, banks offer a range of promotions such as favorable interest or gifts.

Banks grant loans and advances to other financial institutions, corporates and individuals. Particularly, non-state enterprises account for the largest portion of 48%. So as to support production in prioritized industries, banks apply discriminated lending interest to agriculture, forestry and fishery (7%-9%/year), manufacturing industry, construction, trade, transportation and telecommunication and others (9% -13%/year).

Non-interest income activities



Source: World Bank Data

Unlike foreign banks, non-traditional activities contribute a minor part in total income in Vietnam commercial banking industry. After a decline in contribution from 14.8% (2009), 12.7% (2010) to 8.4% (2011), the segment witnessed a strong leap to 15% in 2012. This has been driven by a reduction in interest income due to stumpy credit growth. The

explosion of Internet banking, card services also explain for the trend.

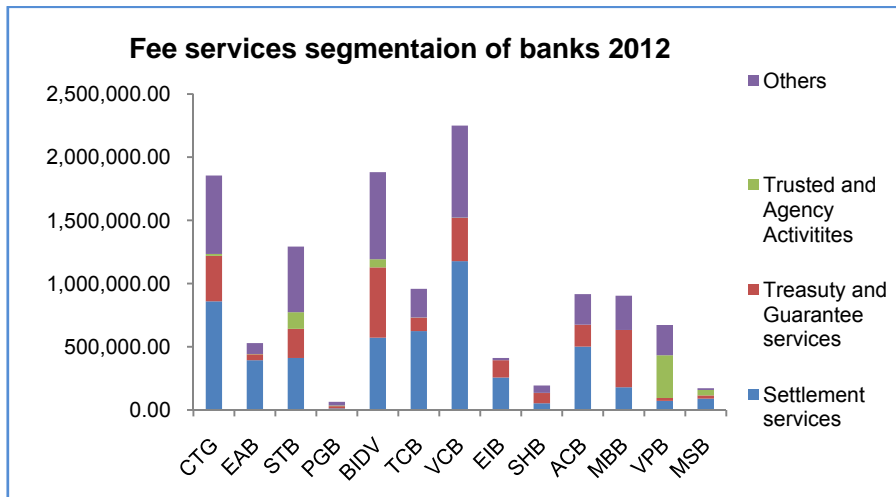
The segment includes fee services, foreign exchange trading, securities trading, securities investment and investment in other companies. Among them, fee services play a key part.

Products and Markets

Fee Services

Fee services enable banks to diversify their products and clients. In addition, fee service is the less risky operating activities vie-a-vies traditional activities. This segment sees an optimistic signal in the future. Fee services include payments and collections, treasury

and guarantee services, trusted and agency activities. Settlement services account for the highest percentage. This fact has been driven by the domestic and international transfer payments of export and import firms.



Source: VietinBankSc

Products and Markets

Demand determinants

Demand for banking services is affected by economic growth, spending rate, and modern banking culture.

Economic growth

Macroeconomic growth is the main driver for industry demand by definition. As economy booms, firms will have a high claim of financing working capital and fixed asset investment. Payments and collections activities among

companies will be in strong demand as well.

Positive signals from macro-economy improve investor confidence in property market. Thus, demand of mortgage loans from individuals increase also.

Spending rate

The higher the spending rate to total disposable income is, the higher demand of banking services is. Shopping activities will be supported by different products from banks

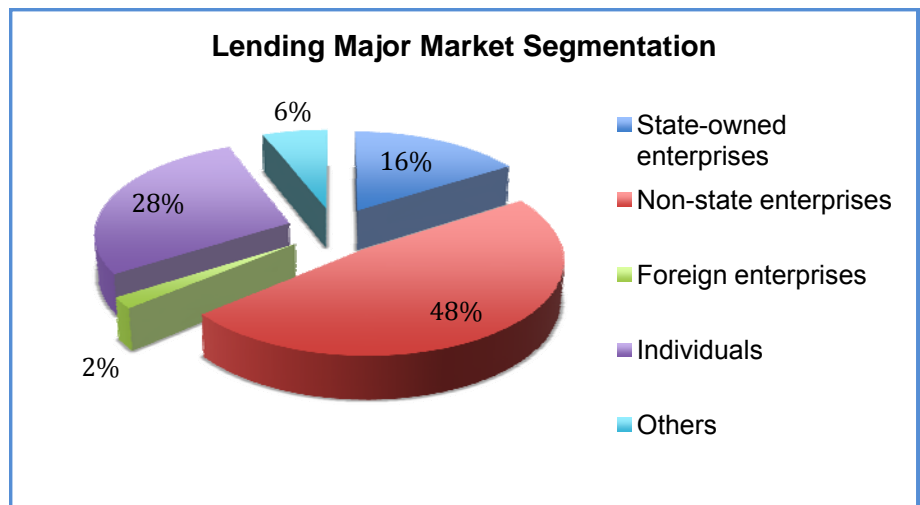
such as credit card, debit cards, international and domestic transfer, foreign exchange activities and so on.

Modern Lifestyle

Cash-free style is penetrating the payment system. However, at the moment, the population is still under-banked, promising significant

potential for adopting cash-free payment systems and new mobile banking technologies.

Major Markets



Source: SBV

The largest market for banking industry comes from non-state enterprises, which accounts for nearly 48% of loans provided by banks. Banking industry becomes more competitive when demand for financing assets investment or working capital of enterprise increases. Enterprises see bank loans as a cheap, safe and abundant source of funding in comparison with equity (higher market return). From the bank perspectives, non-stated enterprises at the moment are underperformed but very high potentials.

Thus, this major market will be focused in next few years, associated with consultancy services regarding marketing plan building, accounting and auditing services.

Same reasons of borrowing from state-owned firms are stated. Yet, according to KPMG, due to humble performance, some firms cannot satisfy the requirements set by banks. Conversely, high-productivity companies reduce their reliance on debt as they can finance their activities by retained earning.

Products and Markets

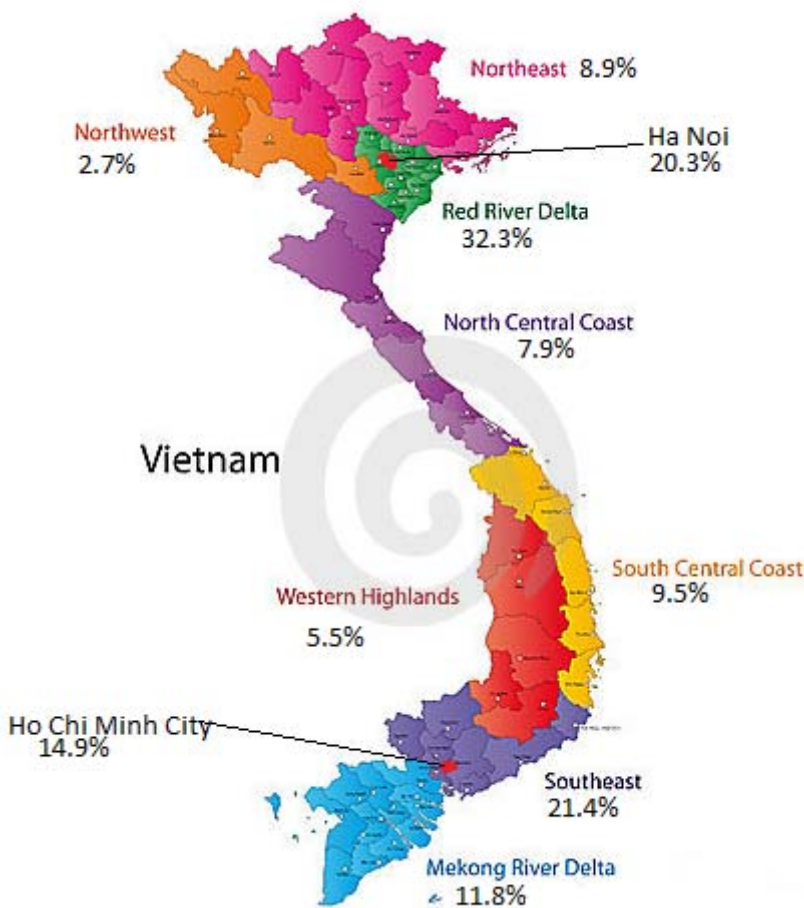
Therefore, this group accounts for 16% only.

Loans required from foreign enterprises are minor. This business segment typically has strong relationship with foreign banks, where parent companies are doing business. Thanks to that, FDI companies receive more favorable lending interest, and services fee from foreign bank than local banks. Besides, recently, there are many FDI companies failed to pay their debts (500 entities in first half of 2013). In the light of the

circumstance, banks might be reluctant to deploy the plan of improving FDI segment.

Retail segment ranks second in total loans. Banks offer different products to help their retail customers to purchase car, house in a convenient and safe manner. The contribution of this fragment is forecasted to increase to 35% in 5 years. In the year of 2013, due to low credit growth in wholesale section, retail section contributed up to 40% instead.

Business locations



Banks' branches are primarily located in big cities, where demand for banking services is high. For examples, Hanoi accounts for the highest percentage of 20.3%, followed by Ho Chi Minh City (14.9%), Hai Phong (3.2%), Quang Ninh (2.9%), Da Nang (2.5%), Thanh Hoa (2.5%).

Source: VietinBankSc

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