

FITCH: VIETNAM BANKS' CAPITAL PLANS POSITIVE; MORE NEEDED

Fitch Ratings-Singapore-09 October 2011: Fitch Ratings says the ongoing capitalisation efforts of major Vietnamese banks are positive given their thinly capitalised position by regional comparison. Given the challenging operating environment, capitalisation levels are a key credit factor and Fitch believes more equity may still be required.

Although credit growth has moderated in 2011 and notwithstanding fresh capital injection, higher capitalisation buffer is crucial for potential losses as well as for future expansion plans," says Mikho Irawady in Fitch's Financial Institutions team. "Banks in general continue to target rapid growth in a country where credit reached 120% of GDP at end-2010, high by emerging market standards. This exposes the banks to sharp deterioration in asset quality should the already difficult operating environment take a turn for the worse."

In addition, Fitch believes that the system-wide gross non-performing loan ratio may be significantly higher than the reported 3% at end-July 2011, noting the differences in asset quality data between Vietnamese Accounting Standards and International Financial Reporting Standards and poor transparency.

Fitch recognises the regulatory efforts to raise capital levels, although these have been subjected to delays in the past. The agency believes regulatory capital requirements may be raised further and could eventually lead to consolidation in the system over the medium to long term, especially for the smaller banks in Vietnam. Increased foreign banks' participation may be positive, by way of strengthening technical assistance, knowledge transfer and risk management, although any liberalisation moves are more likely to be a long-term prospect. In the near term, committed efforts by the government to bring more stability to the operating environment, such as reducing inflation, are crucial to the banks' financial profiles.

Some of the announced deals in 2010-2011 include Vietnam Joint-Stock Commercial Bank for Industry and Trade with a 10% stake by International Finance Corporation (and with a further 15% stake reportedly being considered by Bank of Nova Scotia); and Joint Stock Commercial Bank for Foreign Trade of Vietnam with a 15% stake by Mizuho Corporate Bank Ltd. Asia Commercial Bank and Saigon Thuong Tin Commercial Joint Stock Bank also reportedly have plans to boost their capital through share sales. Bank for Investment and Development of Vietnam is preparing for IPO by Q411. State-owned Vietnam Bank for Agriculture and Rural Development has received capital injection from the government in the past and may receive additional capital to boost its capital ratio, which is presently below the regulatory minimum of 9%.

Vietnamese banks are currently among the lowest-rated banks in the region. Fitch-rated banks are Asia Commercial Bank ('B'/Stable), Saigon Thuong Tin Commercial Joint Stock Bank ('B'/Stable), Vietnam Bank for Agriculture and Rural Development ('B'/Stable) and Vietnam Joint-Stock Commercial Bank for Industry and Trade ('B'/Stable).

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Additional information is available at www.fitchratings.com.

Applicable criteria, "Global Financial Institutions Rating Criteria", dated 16 August 2011, are available at www.fitchratings.com.

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