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Banks

Vietnam
Special Report

Vietnamese Banks

Focus on Asset Quality: Three Stress Scenarios

Overview of Vietnamese Banks Rated by Fitch

	Current Ratings
Vietnam Bank for Agriculture and Rural Development	
Individual	D/E
Support Rating	4
Bank for Investment and Development of Vietnam	
Individual	D/E
Support Rating	4
Bank for Foreign Trade of Vietnam	
Individual	D
Support Rating	4
Vietnam Bank for Industry and Trade	
Individual	D/E
Support Rating	4
Asia Commercial Bank (Vietnam)	
Individual	D
Support Rating	5
Saigon Thuong Tin Commercial Joint Stock Bank	
Individual	D
Support Rating	5
Sovereign Risk	
Foreign Long-Term IDR	BB-
Local Long-Term IDR	BB
Short-Term IDR	B
Country Ceiling	BB-

Outlook

Sovereign Foreign Long-Term IDR	Negative
Sovereign Local Long-Term IDR	Negative

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Related Research

- *Vietnamese Banks: A Home-Made Liquidity Squeeze?* (May 2008)

Executive Summary

In 2008, Vietnam experienced a bout of high inflation (peaking at 28% in August) — after the very strong loan growth of previous years (as well as buoyant domestic and external demand) was compounded by high commodity prices. To address the issue, the central bank raised policy rates dramatically and took other measures. As a result, however, loan growth basically came to a halt in H208, and in late 2008/early 2009, the central bank reversed tack and lowered rates again. Thankfully, inflation appears to be abating anyway. Vietnam also recognised other difficulties in 2008, including a sharp decline in stock market and property prices, after evidence of considerable overbuilding in recent years. In future, exporters are likely to face difficulties given slowing global demand, as are importers given weakening domestic demand and a notable 9% depreciation in the VND since end-2007.

As a result, 2009 onward is likely to prove very challenging for Vietnam's banks with loan quality bound to deteriorate, particularly in relation to the broad property development sector and USD-denominated loans (both of which are significant — 9% of system loans at end-October 2008 and 22% of system loans at end-June 2008, respectively), as well as exporters, importers and borrowers, especially given the very strong loan growth by the banks in the lead-up to these difficulties. Preliminary FY08 data already shows some slight deterioration in loan quality (with the central bank's official NPLs at 3.5% under Vietnamese Accounting Standards (VAS) and with classified or impaired loans under IFRS no doubt considerably higher than this. SMEs are likely to be more vulnerable than larger corporates, which are more likely to have the financial wherewithal, diversity and franchises to withstand the much more difficult economic environment. In addition, many such larger corporates are state-owned and may therefore benefit from direct support from the government if required.

As a result, Vietnam's smaller private banks, which tend to mostly focus on SMEs, appear to be more exposed than the four main state-owned commercial banks (or SOCBs, with about 52% of system-wide assets at end-2008), which tend to focus on larger, often state-owned corporates. At the same time, however, the starting point for the smaller banks in terms of financials is better than for SOCBs; with less problematic loans, more capital and higher levels of pre-provisioning profitability. Furthermore, there is a concern that the SOCBs' borrowers are generally more exposed to the property development sector. In addition, the SOCBs may well come under pressure from the government to support larger borrowers if required, and the economy in general as part of the authorities' stimulus measures, which potentially stores up problems for later, albeit presumably only to be ultimately covered by the state.

To gauge the extent to which the Vietnamese banks it covers are exposed to future problem loans, Fitch Ratings has conducted a basic scenario analysis on them, assuming varying levels of NPLs (10%, 15% and 20%). While most of the banks remain solvent under the scenarios — with Asia Commercial Bank (ACB, rated Individual 'D'), Saigon Thuong Tin Commercial Joint Stock Bank (Sacombank, rated Individual 'D') and Bank for Foreign Trade of Vietnam (Vietcombank, rated Individual 'D') coming out better than average — in general, the exercise points to the likely need for more capital at all the banks, particularly with regard to some of the less well-capitalised/more exposed state-owned banks.

Operating Environment

In 2008, Vietnam's economy faced significant challenges, most notably high inflation, which was fuelled by strong loan growth in recent years, generally strong demand (both domestically and externally), and high commodity prices. Operating conditions worsened towards the end of the year and this is set to continue as Vietnam's export-oriented economy[1] is pressured by the slowing global economy. For 2008, Fitch's sovereign team's GDP[2] growth estimate is 6.2%, (2007: 8.5%), in line with the government's official estimate. For 2009, however, Fitch forecasts GDP growth of 2.5% with the government targeting 6.5%.

Banking Sector Overview

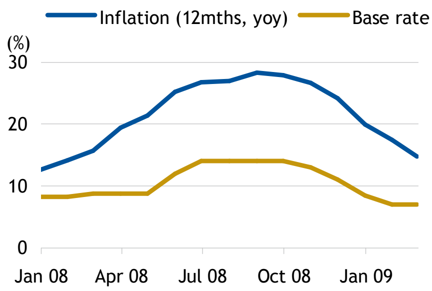
Vietnam's banking system is dominated by four state-owned banks, with around 52% of system assets at end-2008. Around 36 private banks comprise roughly another 25%, with the balance substantially accounted for by a host of foreign banks. In recent years, the private banks, being more commercially oriented, have grown rapidly at the expense of the state-owned banks' market share. The foreign banks have also grown, as opportunities improved for them after Vietnam entered a bilateral trade agreement with the US in 2001 and acceded to the World Trade Organisation (WTO) in 2006. Fitch considers it likely that the state-owned banks' loan market share will grow in 2009 as they increase lending as part of the authorities' efforts to stimulate the economy (53% of total system loans of about USD76bn at end-2008 versus 50% at end-2007 and 62% at end-2006).

In 2008, Vietnam's central bank (the State Bank of Vietnam or SBV) granted five licences to foreign banks (HSBC, Standard Chartered, ANZ Bank of Australia, Korea's Shinhan Bank and Malaysia's Hong Leong Bank), which permit them to establish 100% foreign-owned subsidiary banks there. While the foreign banks are likely to increase competition in pricing, service and product quality in the short to medium term, Fitch expects the banking sector as a whole to benefit from allowing the foreign banks to expand.

Inflation and Interest Rates

As inflation rose rapidly in 2008 to peak at 28% in August (see Inflation and Interest Rates chart), the SBV took aggressive action to tighten money supply, increasing its base rate three times in 2008, to 14.00% in June from 8.25% in January. With inflation and economic growth subsequently slowing precipitously in late 2008/early 2009, the SBV reversed its course and quickly lowered its base rate to 7.00% in February 2009, to urge banks to lower their lending rates to support SMEs and other business borrowers which were finding themselves cut off from credit.

Inflation and Interest Rates



Source: Bloomberg

Other SBV incentives to encourage banks to resume lending included gradually reducing the minimum reserve requirement to 3% in February 2009 (from a high of 11% in February 2008)[3], and lowering interest paid on such reserves to 3.6% in February 2009 (from 10% at end-October 2008 — after raising

[1] Exports, accounting for about 70% of GDP at end-2008, increased by 29.5% in 2008 with the main items being crude oil, textiles, footwear, seafood, rice, wood products, electronics and coffee.

[2] At end-2008, GDP comprised 22% agriculture, forestry and fishery, 40% industry and construction and 38% service sector.

[3] Fitch notes that preferential minimum reserve requirement ratios apply for Vietnam Bank for Agriculture and Rural Development, which stand at 1% at present.

it from 5% at end-September 2008 to support bank profitability). The SBV also allowed the banks to use certain government bonds (that it had required the banks to buy in March 2008) as eligible collateral for SBV refinancing, and later offered to buy the bonds back. In addition, the SBV adjusted the coupon payments on these bonds.

Stock Market and Property Prices

During 2008, Vietnam's 'VN' stock index fell 66% (see HCM City Stock Market chart), correcting large run-ups in recent years, and reflecting domestic weakness, as well as some 'flight to quality' offshore. Despite this subdued environment, the government went ahead and sold an initial stake of 4% in Vietnam Bank for Industry and Trade to the public (Vietinbank, rated Individual 'D/E') on 25 December 2008 at 2.03x the book value, compared with around 11x for Vietcombank's small IPO in December 2007. The government plans to similarly move towards privatising the Bank for Investment and Development (BIDV, rated Individual 'D/E') in 2009.

HCM City Stock Market

Source: Bloomberg

After a similarly good run-up, property prices experienced sharp falls at end-2007 and in Q108 with valuations gradually declining further since then. According to press reports and statistics from real estate agencies, property prices declined by as much as 60% in Ho Chi Minh City (mostly relating to condominiums) and 15%-25% in Hanoi in H108.

Foreign Exchange Rate

In 2008, the VND lost 9% of its value against the USD, partly through the SBV's 2% devaluation in June and 3% devaluation in December (see USD/VND Exchange Rate chart) — generally the SBV sets local interbank FX rates with a 3% daily trading band. The central bank continues to manage the exchange rate to support exporters and the economy. Towards end-2008, USD-supply declined as earnings from exports, remittances and tourism fell. At the same time, USD-demand grew as borrowers endeavoured to pay off USD loans and shift to VND loans given the aforementioned sharp lowering of VND interest rates (and the weakening VND exchange rate). At end-2008, Vietnam's foreign reserves stood at USD20.3bn versus USD23.7bn at end-2007.

USD/VND Exchange Rate

Source: Bloomberg

Regulatory Environment

Bank regulation in Vietnam is relatively basic and still developing. The key prudential indicators appear reasonable (see Table 1), although the numerous new rules introduced over the last few months may be difficult to strictly implement at both the bank and regulatory level, including several ad hoc SBV requests for data on real estate lending, lending to SMEs and NPL classifications, which are all areas of concern. In November 2008, however, the SBV guided banks to prioritise financing to the export and import of essential commodities, agriculture and rural development, SMEs and certain projects.

In addition, Fitch has concerns on the banks' loan pricing practices as risk-adjusted pricing is rarely applied, although this is somewhat mitigated by the very conservative approach to collateral. The agency also notes that the regulatory lending rate cap, at 1.5x the base interest rate, may not be enough to allow the proper pricing of corporate loans to cover expected losses, particularly in a low interest rate environment. In addition, while the SBV has announced the introduction of a negotiable interest rate mechanism for consumer and credit card loans to account for borrowers' varying creditworthiness, it is not yet clear how this will work in practice.

Table 1: Selected Regulatory Requirements

	(%)
Base rate	7.0
Lending rate cap	10.5
Deposit reserve requirements	3.0
Interest rate on deposit reserves	3.6
Total CAR	> 8
Securities related lending	Max 20% of equity
Large exposure to single customers	Max 25% of own equity
Large exposure to customer groups	Max 60% of own equity
Total equity investments	Max 40% of own equity

Source: SBV, Fitch

Fitch notes that in recent weeks, the SBV has established a programme of subsidising lending rates for certain types of borrowing (eg working capital loans required by exporters and importers), by taking 4pp off the banks' market lending rates of 8.5%-10% for short-term loans. The state- and privately owned banks have earmarked very large loan volume budgets for this programme. Nevertheless, to what extent this results in additional loan growth is not clear as trade flows have reduced substantially. Nevertheless, it should aid these borrowers' cash flows and therefore result in otherwise lower NPLs (assuming the banks use it cautiously). The SBV has also requested banks be proactive in restructuring loans where necessary and state-owned BIDV will reportedly provide interest-free loans to certain troubled borrowers. Whether or not regulatory forbearance is ultimately granted to the banks in terms of NPLs reporting/provisioning and or capitalisation remains to be seen.

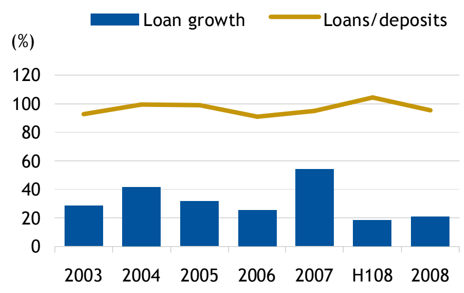
Operating Environment Impact on the Banking Sector

Loan Quality

The aforementioned economic and monetary developments made for a very challenging operating environment for Vietnam's banks during 2008. At 21%, loan growth was well below 2007's 54% and 2006's 25% (see Growth of the Banking System chart). Furthermore, the bulk of 2008's loan growth was in the first half of the year (18%); growth stagnated in H208 as banks were reluctant to lend amidst the greatly changed environment of high inflation and interest rates, in an effort to preserve their liquidity and asset quality. Rather than lend to weaker customers, the banks invested in government bonds. Meanwhile, the demand for credit from better quality customers at the high lending rates was relatively low.

Growth of the Banking System

2003-2008



Source: SBV

Given the weaker domestic economic outlook, and considering the strong loan growth over the last few years, the agency expects sizeable pressure on loan quality in future, versus the relatively low system-wide 3.5% NPL ratio at end-2008 as reported by the SBV using VAS — notably, the rate of classified or impaired loans using IFRS is likely to be 3x-5x higher based on data from those Vietnamese banks that have reported such information. Fitch expects impaired loans under IFRS (substandard, doubtful and loss) to stand at around 13% of total system loans. At end-2009, Fitch currently expects the system's classified loans ratio to further deteriorate to 17%. The agency notes however that delays in reporting NPLs could suppress the NPL ratio in 2009 — as will brisk loan growth should this arise — and delay the necessary impairment charges.

Fitch is most concerned about corporate loan quality (SMEs in particular) as they account for the bulk of sector loans. Meanwhile, retail lending (7% of system-wide loans) is relatively undeveloped and has so far been conducted on a fairly conservative basis, mostly in the form of mortgages, at low loan-to-market (LTM) value ratios. The more difficult operating environment in Vietnam in 2008 with its higher inflation and interest rates, falling property prices, and difficulty accessing credit, is likely to be compounded in 2009 by a slowdown in the domestic economy on the back of slower global growth. SMEs with their generally weaker financial profiles and limited diversity appear most vulnerable, especially those that supply the property development industry, as well as exporters given slowing global growth, and importers given slower domestic demand and VND weakness (and their tendency to borrow in USD). Larger, often state-owned, corporates meanwhile, should be better positioned thanks to stronger financial resources, greater operational diversity and more solid franchises. Furthermore, some of these larger corporates may well be directly supported by the government in the event that they face severe financial stress.

Whether these larger borrowers include property developers, however, remains to be seen; some large state-owned companies are believed to be quite heavily invested in this sector. In this regard, Fitch notes that declining property markets are likely to result in higher losses on construction loans and loans financing property investments. According to the SBV, direct property investment/development loans amounted to VND115trn at end-October 2008, which corresponds to about 9% of banking system loans (14% at end-2007, see Table 2); 53% thereof reportedly in Ho Chi Minh City. The share of such direct property lending to total loans varies considerably for the banks under Fitch's coverage, with BIDV and the other state-owned commercial banks being most exposed (see Table 2). In addition to direct lending to the construction sector, VND500trn in loans or 55% of total system loans at end-October 2008 were backed by real estate collateral according to the central bank (no breakdown between residential and commercial property related collateral is available). However, Fitch continues to view the local banks' collateral assessments as relatively conservative. In the case of mortgages for example, banks generally apply a 50% haircut to a property's market value, against which they usually lend around 70%. This approach results in a relatively low 35% LTM value ratio and should give the banks some protection against the downturn in the residential property markets. Collateral requirements for commercial property investments and developments are also believed to be relatively conservative. Nevertheless, in the event of widespread defaults, property price pressure is likely be very severe. Meanwhile, inefficiencies in the legal system may well render the banks reliant on negotiations with borrowers for repayment, resulting in substantial loan forgiveness.

In addition, higher defaults on USD loans remain a possibility with (re-)payments on those loans becoming more expensive as the local currency depreciates. At end-June 2008, foreign currency loans stood at a substantial 22% of total loans. At this time, the foreign currency loans-to-deposits ratio stood at 87% (83% at end-2007 and 73% at end-2006). However, given relatively strong demand for foreign currency

Table 2: Direct Property Exposures[a]

(%) of total loans	End-2007
Banking sector	14
Agribank	16
BIDV	24
Vietinbank	11
Vietcombank	6
ACB	2
Sacombank	7

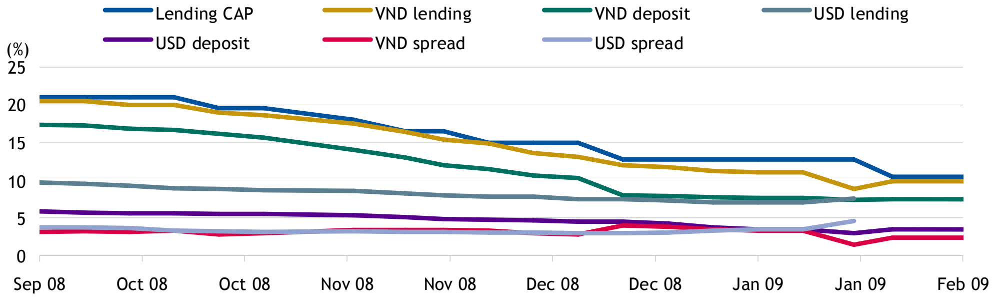
[a] Property investment/development loans; labelled as loans to the construction sector
Source: Bank's annual reports, SBV, Fitch

deposits towards the end of the year, this ratio declined somewhat by end-2008. Fitch would expect the ratio to decline further in 2009 as VND lending rates have reduced again, and due to VND weakness, which could motivate customers to replace USD loans with VND loans. This would consequently reduce the volume of riskier USD loans, which Fitch would view positively, provided that overall, assets and liabilities in USD and gold continue to match. To date, Fitch has not observed any material gaps between assets and liabilities in foreign currency and gold for the banks under its coverage. However, if such gaps were to build up, eg due to borrowers defaulting on their USD loans while USD liabilities automatically increase as the VND depreciates further, unrealised foreign exchange differences on assets and liabilities could weigh on banks' profitability.

Margins

Lending spreads in Q408 (average lending rates less deposit rates) remained fairly stable at around 3% for the VND and USD business (see Average Lending and Deposit Rates chart), which indicates that net interest margins (NIMs), although under pressure, have held up reasonably well. Fitch expects the sector's NIM to stand at around 2.5% in FY08 and forecasts a slight decline to 2.4% in FY09. NIMs could however come under further pressure if and as the base interest rate and consequently the lending rate cap continue to decline. On balance, however, adequate net interest income should absorb most of the banks' required impairment charges and support the banks' profitability in FY08 and FY09. Fitch does not expect a net loss for the system in 2009; the agency forecasts an ROA of around 0.2% (versus a 2008 estimate of 0.8% and 2007 actual of around 1.4%).

Average Lending and Deposit Rates



Source: SBV, Fitch

Liquidity

During H208, the banks' liquidity eased and the system's loans-to-deposits ratio fell to 95% from 104% at end-H108. Deposit growth (2008: 20%, 9M08: 11%) finally caught up with loan growth in Q408 due to fairly strong growth in foreign currency deposits in December (5.9% versus 2.6% for VND deposits) shortly before the SBV devalued the VND by 3% at end-December 2008. To support profitability and NIMs, some banks have tried to match weak and even negative loan growth with a reduction in deposits by lowering their deposit rates more than average. Fitch considers such a strategy, which focuses on profitability just after an admittedly short but nevertheless quite severe period of very tight interbank liquidity, to be quite aggressive, even if conducted by the larger privately owned banks with generally sound deposit franchises. Deposits tend to chase the highest rates offered, although they are likely to accrue at the state-owned banks in the event of a 'flight to quality' during any system-wide deterioration, given greater expectations of government support for them and despite their weaker standalone credit risk profiles.

Fitch expects variations in the development of the loan-to-deposit ratios (LDRs) at individual banks. Whereas the agency expects declining LDR ratios for Sacombank and ACB as their deposit bases increased faster than their loan balances in 9M08 (see Table 3 below), it expects stable to increasing ratios for the SOCBs given their more pronounced loan growth. Vietcombank, for example, achieved 16% loan growth, but only 12% deposit growth in 2008 and Vietinbank has advised that it realised loan and deposit growth of 18% and 17%, respectively, for 2008. BIDV's LDR should remain relatively unchanged as, according to preliminary figures, its loans and deposit base grew by 26%, respectively, in 2008.

Table 3: Joint Stock Bank's Growth

	ACB			Sacombank		
(%)	**Q308**	**9M08**	**2007**	**Q308**	**9M08**	**2007**
Loans	-14	13	87	-16	-7	146
Securities	4	52	98	-7	5	523
Customer deposits	5	22	85	-4	8	147
Total assets	8	29	91	-12	3	161

Source: Bank financial statements reclassified by Fitch

Scenario Analysis

To gain an insight into the financial robustness of the Vietnam banks Fitch covers, given the much more difficult operating environment, the agency has applied a basic stress test, using three loan quality deterioration scenarios as discussed below. In doing this, Fitch has consistently used historic financial data according to VAS.

Assumptions and Methodology in Five Steps

One — In the first instance, Fitch assumed a 20% growth rate to the banks' end-FY07 gross loan balance using VAS, to achieve an estimated loan balance for end-FY08 (noting that 20% loan growth was in line with that for the system in FY08 and, in general, for the individual banks, based on data available to date).

Two — Fitch then broke down gross loans via five loan quality classifications (current, special mention, substandard, doubtful and bad), using three scenarios (NPLs of 10%, 15% and 20% — each with a standard 25% level of special mention loans) — see Table 4.

Table 4: Loan Portfolio Stress Tests

(%)	**Stress 1**	**Stress 2**	**Stress 3**	**Reserve Requirement**
A (current)	60.0	60.0	55.0	0.0
B (special mention)	25.0	25.0	25.0	5.0
C (substandard)	4.0	6.0	8.0	20.0
D (doubtful)	3.0	5.0	6.0	50.0
E (bad)	3.0	4.0	6.0	100.0
Total gross loans	100.0	100.0	100.0	-
NPLs (C to E)	**10.0**	**15.0**	**20.0**	**-**
New Credit Costs[a]	**6.6**	**9.0**	**11.9**	**-**
Average NPL reserve coverage	**65.5**	**59.7**	**59.3**	**-**

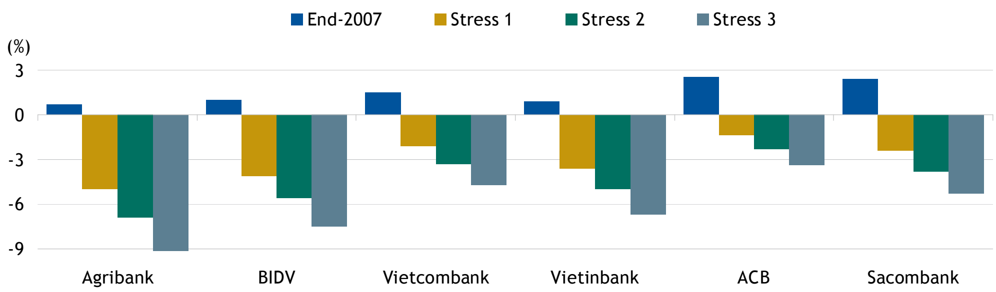
[a] Loan loss provisions as per stress test/gross loans
Source: Fitch

Three — Fitch then multiplied these amounts by VAS's reserve requirements (also detailed in Table 4) to determine the reserve requirement charges the banks would incur in order to properly cover such NPLs.

Four — Using the reserve requirement charges data, Fitch then estimated the banks' profitability over one year — using FY07 profit as a base, but boosting it slightly for a 10% increase in net interest income (given the 20% loan growth assumption, but also assuming a tougher NIM environment as described), and excluding certain non-recurring items such as gains on loans previously written off and securities valuation gains (which were both abnormally large in FY07).

The results are shown below.

Stress Test Results: PBT/Total Assets

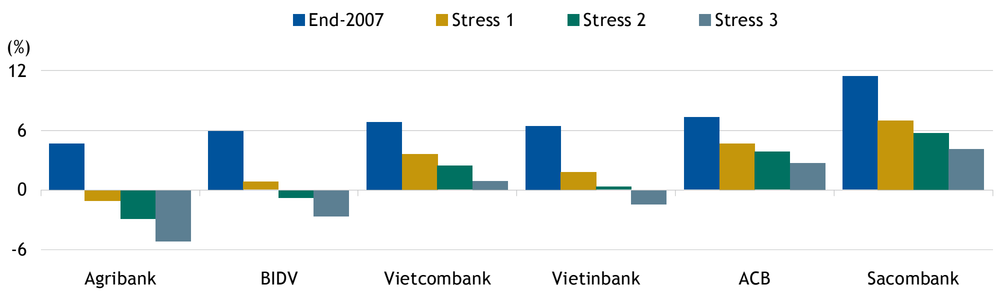


Source: Fitch

The above is not a forecast of the banks' profitability for FY08 or any other year, but just one step in a process to estimate the losses that would be incurred under the stress test scenarios. In reality, such losses would most likely be spread over a number of years (and offset somewhat by pre-provision profit in those years). Notably, the exercise does not take into account the banks' starting level of NPLs and/or loan loss reserves. This, however, is of limited impact, with all the banks, under VAS, reporting fairly low NPL levels and substantial reserve coverage (see Table 5).

Five — Finally, Fitch assumed that these losses have to be completely absorbed by the banks' capital bases as they stood at end-2007 (noting that there was little in the way of capital raisings by the banks in 2008 with the exception of a small one by Vietinbank at end-December 2008). The results are detailed in the chart below.

Stress Test Results: Equity/Total Assets



Source: Fitch

Stress Test Results and Conclusion

Not surprisingly, given the fairly substantial level of stress applied, all the banks incur 'losses', even under the least stressful "10% NPL" scenario (see PBT/Total Assets chart). Notably, Vietcombank and ACB were among the best performers, due partly to their above-average core or underlying profitability, as well as the fact that these banks have a relatively low level of total loans to total assets. Sacombank also holds up well due to its above-average profitability. In addition, with their higher capital levels, all three of these banks maintain positive capitalisation, even under the harshest 20% stress test, although it is negligible in the case of Vietcombank and less than satisfactory in the case of ACB and Sacombank (see Equity/Total Assets chart). The other three banks' capitalisation is negative, particularly that of Vietnam Bank for Agriculture and Rural Development (Agribank, rated Individual 'D/E').

Fitch considers the 15% stress test as its ‘base case’, given already existing weaknesses within the Vietnam banks’ loan books (as indicated by the generally high level of classified or impaired loans under IFRS for those banks that have reported such data, see Annex) and the very challenging economic environment.

The agency notes that it is possible the smaller private banks of ACB and Sacombank would probably have had significantly better loan quality than the state-owned banks (see Annex for comments on loans classifications under VAS and IFRS). Nevertheless, with these banks having grown their loan books particularly fast in recent years they are probably more exposed to a general economic slowdown than the state-owned banks. This is especially so as they are more focused on SMEs which, as discussed, are generally viewed by Fitch as higher risk in this environment. At the same time, the agency notes the possibility that the government may well require the state-owned banks ensure credit flow to state-owned and even some private companies, which may well result in problematic loans for them, albeit presumably ultimately largely covered by the state.

Table 5: Asset Quality Ratios at End-2007

(%), VAS	[a]Agribank	BIDV	Vietcombank	Vietinbank	Sacombank	ACB
NPLs/total loans	[a]1.90	4.34	3.87	2.63	0.23	0.08
Reserves/NPLs (C-E)	96.56	50.68	58.58	66.10	219.75	508.19
Reserves/total loans	1.83	2.20	2.27	1.74	0.50	0.42
Net NPLs/total loans	0.07	2.14	1.60	0.89	-0.27	-0.34

[a] As reported according to IFRS (VAS not available)
Source: Bank data, Fitch

Annex

Fitch notes that on a VAS basis, the NPL ratios for the smaller private banks (substandard, doubtful and bad) are negligible, although only slightly lower than for the larger state-owned banks (see Tables 6 and 7 below), which is probably mostly due to legacy problem loans at the latter. On an IFRS basis, there is no comparable data as the smaller banks do not yet report under these standards. For the state-owned banks, however, IFRS-based impaired loans (classified as substandard, doubtful and bad) are quite substantial (though this varies across banks and has generally declined over time — see Table 6). Whether the smaller banks would report such high impaired loan ratios under IFRS is not clear. Fitch suspects that they would not.

One reason for the larger banks' high level of IFRS-based impaired loans relates to their tendency to grant long-term — say five-year — loans on a one-year contractual basis, without requiring any principal repayment at the end of each year (only interest). Under such an arrangement, loans to weak borrowers may well not arise as non-performing (as the borrowers are only required to pay interest, not principal) under VAS. Such loans, however, are likely to be captured as impaired under IFRS, which includes loans to borrowers with weak financials, or who are operating in a weak industry. The tendency of the state-owned banks to provide such loans probably reflects their historical practices and their greater focus on borrowers that require long-term loans (eg state-owned companies building infrastructure and large property developments).

The smaller private banks tend to be more small-business focused (and more retail-focused). Their business-loan books, therefore, should be made up of more short-term working capital/small expansion-type facilities.

Table 6: Loan Classifications for SOCBs

	Agribank[a]	BIDV			Vietcombank			Vietinbank	
(%)	(IFRS) 2006	(VAS/IFRS) 9M08	(VAS) 2007	(IFRS) 2007	(VAS) 9M08[b]	(VAS) 2007	(IFRS) 2007	(VAS) 9M08	(VAS) 2007
A (current)	69.20	78.83	74.21	75.18	91.13	94.66	53.52	97.33	91.51
B (special mention)	14.28	17.18	21.44	21.22	3.19	2.04	32.05	1.22	5.86
C (substandard)	12.82	2.59	2.68	2.60	2.27	0.92	8.76	0.54	0.43
D (doubtful)	2.36	0.66	0.18	0.16	1.15	0.69	3.23	0.14	0.37
E (bad)	1.34	0.74	1.48	0.85	2.27	1.68	2.45	0.77	1.83
Total gross loans	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
NPLs (C-E)	**16.52**	**3.99**	**4.34**	**3.60**	**5.68**	**3.29**	**14.44**	**1.45**	**2.63**

[a] Actual 2006 classifications, 2007 not available
[b] Unconsolidated.
Source: Bank data, Fitch

Table 7: Loan Classifications for JSCBs

(%)	ACB		Sacombank	
	(VAS) 9M08	(VAS) 2007	(VAS) 9M08	(VAS) 2007
A (current)	97.76	99.69	98.67	99.62
B (special mention)	1.77	0.22	0.85	0.15
C (substandard)	0.22	0.03	0.21	0.02
D (doubtful)	0.16	0.02	0.07	0.04
E (bad)	0.08	0.03	0.21	0.17
Total gross loans	**100.00**	**100.00**	**100.00**	**100.00**
NPLs (C-E)	**0.46**	**0.08**	**0.49**	**0.23**

Source: Bank data, Fitch