

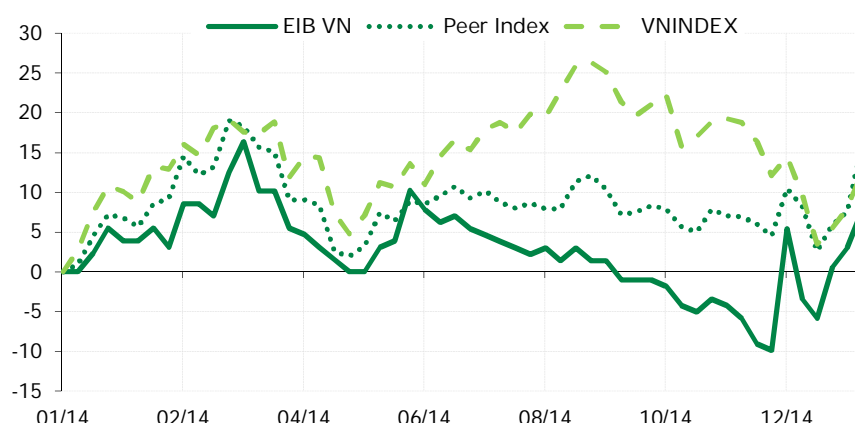
Vietnam Export Import Commercial Bank (HSX-EIB)

January 16, 2015

INITIATING COVERAGE: HOLD



EIB stock performance



Our long term recommendation for EIB is **HOLD** with a 2015 target price of VND11,400. Our recommendation is based on the following:

- ◆ **The outlook for the banking system should get brighter from 2016 onwards**, thanks to the recovery of the economy and the easing of non-performing assets.
- ◆ **NIM is expected to improve going forward** thanks and the shift of asset structure toward higher interest earning assets, with lower proportion of interbank lending, will likely improve the bank's operating profitability.
- ◆ **Earnings growth will be weak in 2015 but should improve in 2016**. Due to the sudden and high rise in NPL ratios in 2014 and the expected higher NPL ratio in 2015, we expect EIB's provision expenses to increase 66% y-o-y, which will depress its profitability. Once its core SME customer segment recovers, the bank's outlook should improve.
- ◆ **EIB stock is relatively more expensive than its peers**, trading at P/E of 31.39x due to low ROE and earnings. Meanwhile it consistently underperformed peers and VN-Index for the past 12 months. However, we expect this discrepancy to be shortened in the coming year.

Please see disclaimer language at the end of this report.

Current Price (16/01/2015):	VND	13,000
Target Price:	VND	11,400
Short-term recommendation:		HOLD
Resistance level:	VND	13,800
Support level:	VND	11,000

Bloomberg ticker: EIB VN	Exchange: HSX
Industry:	Banking
Adjusted Beta:	0.6
52w High/Low (VND)	15,900/11,000
Outstanding Shares (mn)	1,236
Market Cap (VND bn)	16,105.6
Free Float (%)	75
TLM Avg Trading Vol	386,250
Foreign-owned Ratio (%)	27.16

Year	NPL	Div. Rate	NIM	EPS
2015F	4.24%	6%	2.45%	724
2014E	3.80%	6%	1.84%	687
2013	1.98%	4%	1.80%	533
2012	1.32%	13.5%	3.20%	1,731

	EIB	Peers	VNI
P/E	31.15x	12.83x	13.42x
P/B	1.09x	1.08x	1.84x
ROE	7.00%	11.88%	13.64%

Company Description:

- EIB was established in 1989 and currently has a network of 260 ATMs and 206 branches and transaction offices.
- EIB provides a full range of commercial banking services and investment banking services.
- The bank currently has charter capital of VND12,355 billion (USD575.8 million), total assets of VND141,132 billion (USD6.6 billion), ranking last among JSCBs in terms of total assets.

Contents

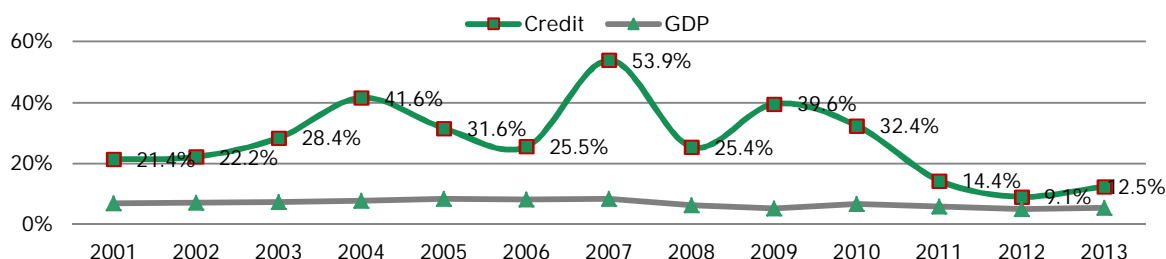
BANKING INDUSTRY	3
OVERVIEW	3
HIGHLIGHTS IN 3Q2014	4
2015 Outlook	4
EXIMBANK OVERVIEW	8
FINANCIAL ANALYSIS	9
THE STANDALONE BANK WITH NEGATIVE PRINT ON CREDIT GROWTH	9
LENDING STRUCTURE	10
ASSET AND LIABILITIES STRUCTURE WITH HEAVY WEIGHT ON INTERBANK ACTIVITIES	11
UNDER-TARGET NINE MONTHS PROFITABILITY	12
STRENGTHS IN INTERNATIONAL SETTLEMENT AND TRADE FINANCE	13
GOLD AND FOREIGN EXCHANGE TRADING	15
ASSET QUALITY: "THE WORST IS YET TO COME"	16
CIRCULAR 36 AND THE LIKELY IMPACT ON EIB	17
SWOT	17
OUTLOOK & FORECAST	18
Balance sheet is expected to expand modestly over the next five years	18
Interest income to grow at 11.1% CAGR thanks to gradually improving NIM and expected higher credit growth	19
Non-interest Incomes expected to grow at 23.1%	19
Operating expenses to increase at modes pace	19
Provision expenses to ease from 2016 onwards	19
VALUATION	21
Residual income	21
Price multiples	22
Valuation summary	22
Sensitivity analysis	23
TECHNICAL ANALYSIS	24
APPENDIX- VPBS FORECASTS	25
CONTACT INFORMATION	27

BANKING INDUSTRY OVERVIEW

The banking sector is characterized by a large number of institutions and relatively small-sized players. Currently, there are five state-owned commercial banks (SOCBs), 33 joint-stock commercial banks (JSCBs), four joint-venture banks (JVBs), and five 100% foreign-owned banks. Although they have been growing significantly, Vietnamese banks are still rather modest in size compared with regional peers. As a part of the 2011-2015 restructure plan, the SBV targets to reduce the number of local commercial banks to 15-17 by 2017 to improve their competitiveness.

Credit grew impressively prior to 2010 but has since slowed down. For the period from 2000 to 2010, the credit CAGR was 31.9%. The pace of growth over the last three years, however, has declined substantially. Credit balance grew only 3.72% YTD as of 1H2014, but already achieved 7.26% YTD as of 9M2014, on track to meet the SBV's full year target of 12%.

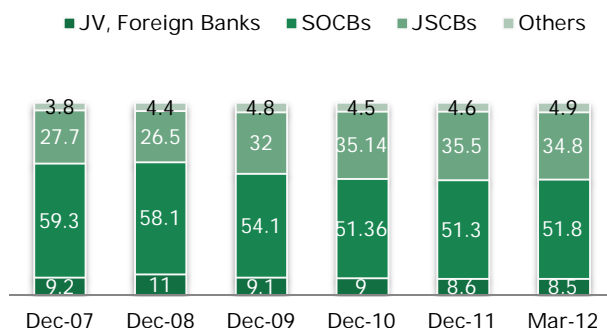
Yearly Credit Growth 2001-2013



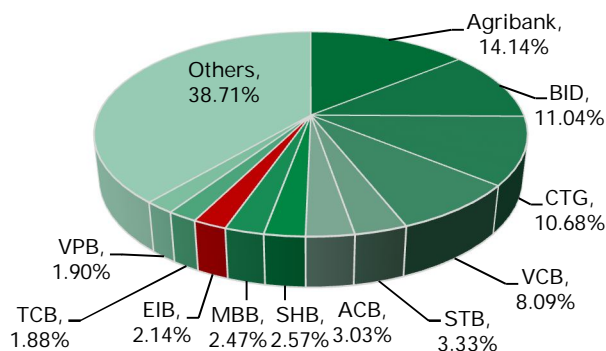
Source: IFS

Vietnam's banking market is both concentrated and fragmented. While the four largest SOCBs enjoyed huge market share, the remaining JSCBs, foreign banks and other financial institutions had to fight over the remaining piece of the pie. However, SOCBs are losing ground year after year to JSCBs. JSCBs have captured 7% credit market share from SOCBs over the last five years. SOCBs market share has went down to 43.96% in 9M2014 from 44.5% in 2013

Credit market share (%)



Credit market share 3Q2014



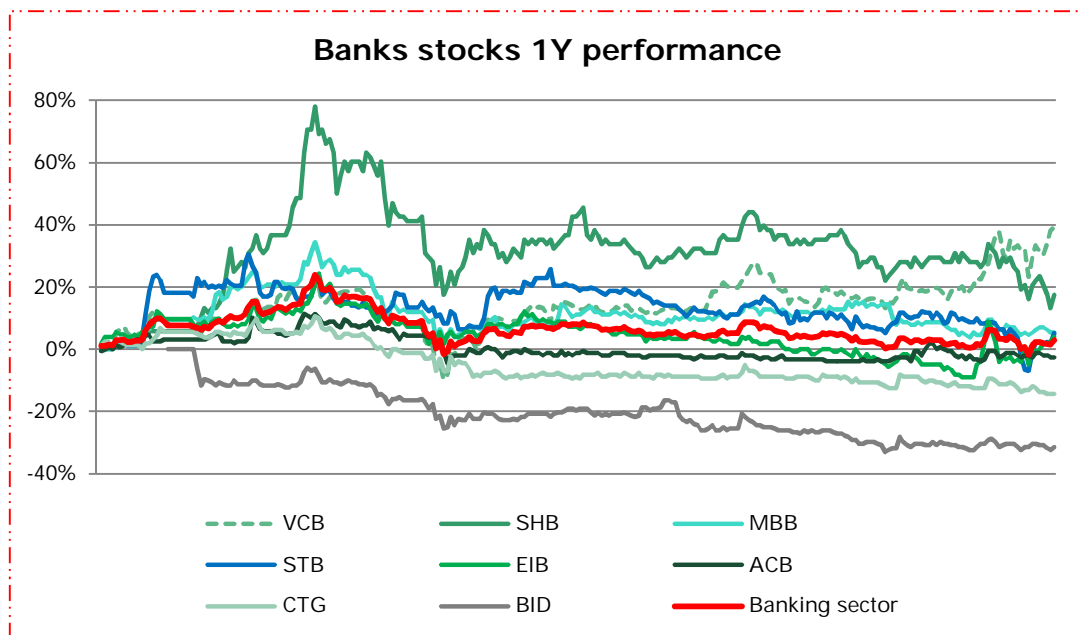
Source: VNEconomy, VPBS

HIGHLIGHTS IN 3Q2014

2015 Outlook

Banking stocks experienced a stagnant year in 2014 with the overall return of merely 3%. As of December 30, 2014, the banking sector traded at P/E of 13.2x and P/B of 1.13x.

We expect bank stocks to perform better in 2015.



We expect that banking stocks will perform better in 2015, given:

- GDP growth of 2015 is expected to be 6.2%, which is higher than the last few years. Therefore, credit growth will also likely be higher to accommodate GDP growth.
- Balance sheet quality of banks has been improving with NPLs and NPL ratio declining thanks to aggressive provisions. Revised Real Estate law which allowed foreigners to own property in Vietnam and long expecting Circular 53 revisions which provide VAMC more autonomy will facilitate the selling of NPLs. Although there are still uncertainties regarding balance sheet quality of banks once Circular 02 and Circular 09 become fully effective, still we believe that these concerns have already been factored into bank stocks prices.
- Circular 36 on safety ratio and limits of banks' operation (issued on November 20, 2014) has negatively impacted the stock market as a whole. The most important impacts should have the effect of reducing cross-ownership and manipulation in the banking sector and this process may accelerate the revelation of NPLs at banks thus the total amount available for margin lending to the stock market will be negatively affected. For detailed analysis, please refer to our "Special Report: Impact of Circular 36" (<https://www.vpbs.com.vn/Images/research/12222014-MacroE.pdf>). We note there is a recent rumor that Circular 36 will be delayed. This rumor has positively influenced bank stocks. Over the last four trading days (January 7 to January 12, 2014), bank stocks have risen up 8.1%. The strongest

Circular 36 scales down banks' lending for stock investment and reduces cross-ownership among banks.

risers belong to VCB (15.7%), BID (12.4%), SHB (11.1%) and MBB (10%). If the postponement of Circular 36 turns out to be true, bank stocks may rise further.

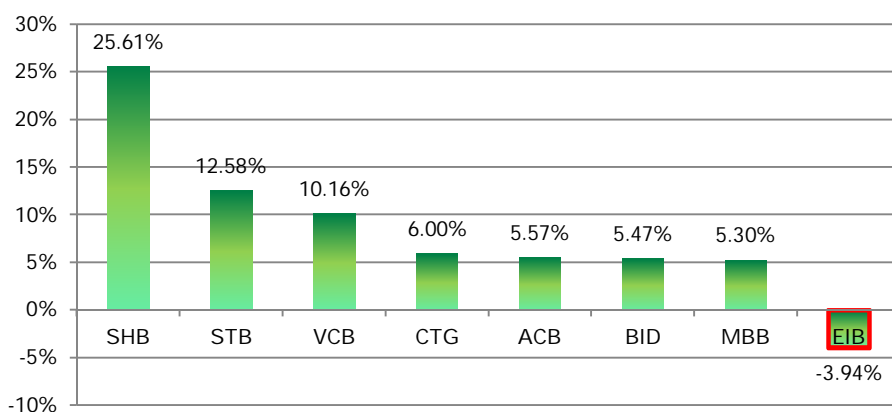
Achieved credit growth target

Credit growth of 12.62% has surpassed full year target

Having a slow start for the 1H2014, credit growth recently picked up and has already reached 12.62% as of December 22, 2014. With this result, the target, 12%, has been surpassed. Meanwhile, total deposits grew 15.15%. For 2015, the target credit growth is set from 13% to 15%.

Among listed banks, SHB's credit balance grew the most, followed by STB and VCB. Except for EIB, which experienced negative growth, the other four banks CTG, BID, MBB, and ACB credit growth were quite similar and average.

Credit growth of listed banks in 9M2014

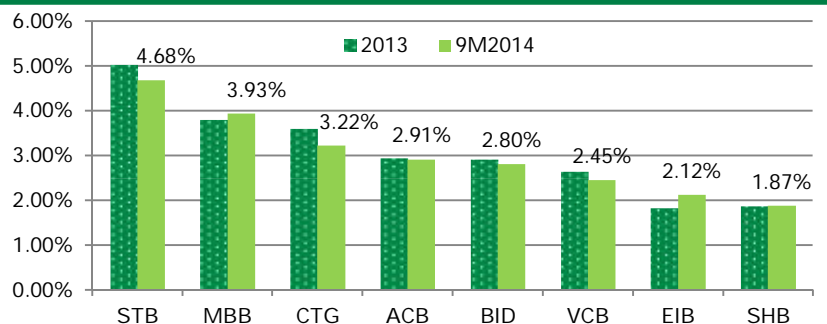


Sources: Banks' financial report, VPBS collection

Declined NIM

According to the State Bank of Vietnam (SBV), interest rates in 2014 have decreased by 1.5 to 2.0 percentage points compared to last year. Although both deposits and lending rates fell similarly, the Loans to Deposit ratio (LDR) slightly decreased, and we observe the annualized 9M2014 NIM of most banks dropped slightly compared to FY2013.

NIM of listed banks in 9M2014



Sources: Banks' financial report, VPBS collection

Reduced NPLs

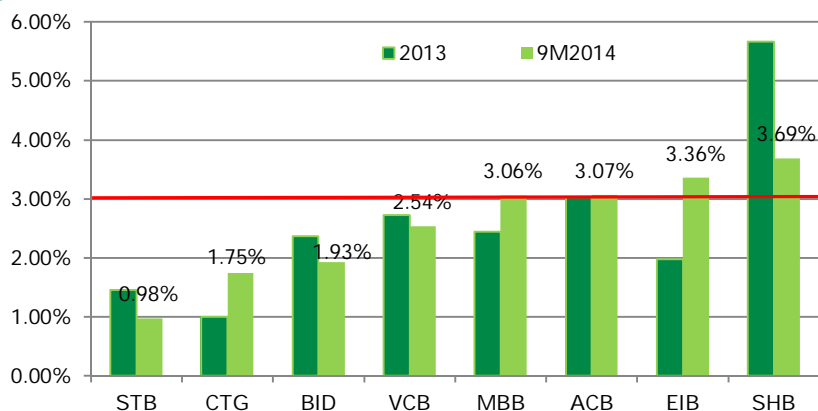
NPL ratio was cut to 5.3% in November vs. 9.1% at the beginning of the year

VAMC has bought VND83,000 billion of bad debts in 2014, achieving its 2014's plan

Regarding non-performing loans, the SBV reported that the NPL ratio of the banking system by the end of November was 5.3% (according to CIC's loans classification), which was substantially lower than the 9.1% at the beginning of the year. The decline in NPL ratios indicates that about VND110,000 billion (USD5,126.3 million) of NPLs have been dealt with during the year by multiples approaches, including selling off to the Vietnam Asset Management Company (VAMC), writing off, recollecting, and recovering from selling collaterals. Among listed banks, BID (VND3,322 billion), MBB (VND1,438 billion), CTG (VND887 billion), and VCB (VND716 billion) were the banks that wrote off the most.

By December 23, 2014, VAMC has bought a total of VND123,000 billion (USD5.7 bn) of NPLs - VND40,000 billion (USD1.9 bn) in 2013 and VND83,000 billion (USD3.9 bn) in 2014, achieving its 2014's plan of purchasing from VND80,000 billion (USD3.7) to VND85,000 billion (USD3.96 bn). During the year, VAMC resolved VND4,000 billion (USD186.4 mn) of NPLs, via approaches such as reselling bad debts and handling collaterals. Compared to the VND123,000 billion (USD5.7 bn) of NPLs purchased, the amount of NPLs resolved is inconsequential, showing that the role of VAMC in resolving NPLs is still questionable.

NPL ratio of listed banks in 9M2014



Sources: Banks' financial report, VPBS collection

Stable outlook but profitability under pressure

NPLs and LLR remain the culprits of banks' depressed profitability

Although Moody's revised the outlook on Vietnam's banking system to stable from a negative assessment on December 11, thanks to enhanced economic stability and a reduction of liquidity stress, it still expressed concern regarding the large amount of remaining non-performing loans and banks' profitability over the next 12 to 18 months. This is due to the fact that banks' loan loss reserves and capital are likely insufficient to absorb potential losses on problem assets, options for capital raising are limited, there is low demand for new loans, and average net interest margins are likely to fall.

Moody's report also mentioned the two factors that may bring a stronger-than-anticipated recovery of the banking system are:

...however, the recovery of the real estate industry and growing retail banking could act as the saviors

- (1) The rebound of real estate prices: Given that many problem assets are tied to real estate collateral, a recovery in real estate could lower provisioning expenses and improve banks' profitability.
- (2) The growing loan demand from retail segment: As its penetration is still low, retail lending creates opportunities other than the weak corporate sector.

Voluntary M&As took over the reign of the mandatory restructuring list

The M&A waves will continue to be more vibrant: Banking Mergers and Acquisitions (M&A) is becoming increasingly popular. Two years ago, only the weak banks in the mandatory restructuring list of State Bank of Vietnam engaged in this activity. This year, however, the market saw more voluntary mergers and acquisitions. There are a number of motivations for banks to merge, the key ones include: the pressure of State Owned Enterprises (SOEs) to divest from banking corporations during the period of 2014-2015 (a typical case was the Petrolimex divestment from PG Bank); the lack of capital at small banks; the reduction of cross-ownership among banks (Southern bank – Sacombank soon-to-be merger, Mekong Development Bank merged with Maritime Bank) and; the expansion of business activities (SHB potential merge with VVF to expand its retail banking activities). According to the SBV, there will be around six M&A deals in 2015, including: BIDV and MHB, Vietinbank and PGBank and/or OceanBank, Vietcombank and Saigonbank, etc. In the context where restructuring pressure is applied to most of the banks, it can be seen that M&A activities in the banking sector will remain vibrant for years to come.

EXIMBANK OVERVIEW

Eximbank was established in 1989 and officially entered operation on January 17th, 1990 as the first commercial joint stock bank in Vietnam. In 2007, EIB formed a strategic partnership with Sumitomo Mitsui Banking Corporation (SMBC) of Japan, a bank that was well recognized for its retail banking strength. However, it seemed that SMBC was only successful in supporting EIB in its corporate banking while EIB's retail segment performance remained below average. The bank was listed on the HSX in 2009. EIB is now present in 20 cities and provinces across the country. In 9M2014, EIB ranked last in term of total assets and second-to-last in terms of net profits among eight listed banks.

Full scope of banking business with a focus in import and export financial services

EIB and its subsidiaries, as a commercial banking group, offer a comprehensive array of financial services which include commercial banking, retail banking, investment banking, and card services.

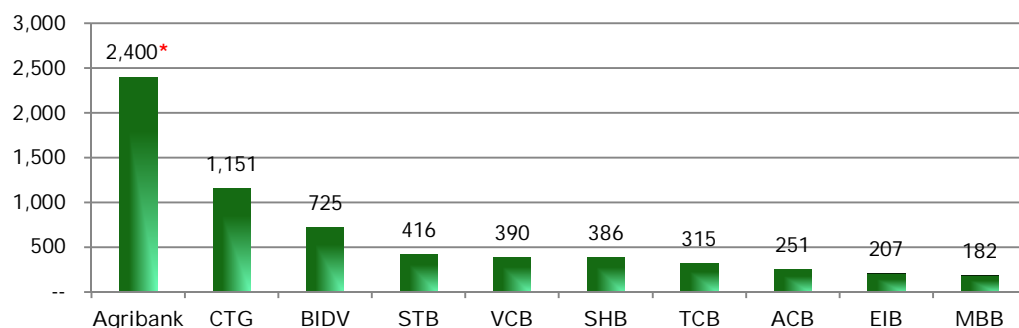
EIB is one of the few banks that are well established in international settlement and trade finance businesses.

Scattered network of 207 branches and points of transaction.

Compared with peers, Eximbank currently has a modest network of 207 branches and transaction points, which has increased by a meager 13% since 2010 (183 branches and points of transaction). Further, the bank has a limited number of 260 ATMs by the end of 2013 and stayed flat since 2009 and insignificant in comparison with the figure of 800+ ATMs of other banks such as STB, TCB, SHB, etc. EIB needs to expand its distribution network to develop and strengthen its retail banking line because clearly, with this limited capacity, EIB is still lagging behind its peers in the lucrative plastic money business. In particular, EIB's total number of cards in circulation mounted to 1.3 million cards, while STB owned a much more impressive figure of 2.4 million

Small network of branches and ATMs hurts EIB's competitive position.

Comparison of Banks' network in 2013



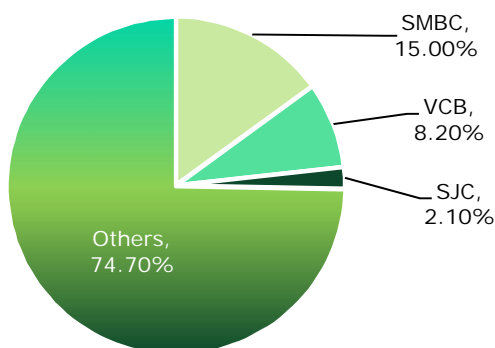
* the figure was in 2011 as the bank did not publish its 2013 AR

Source: Banks Annual Reports

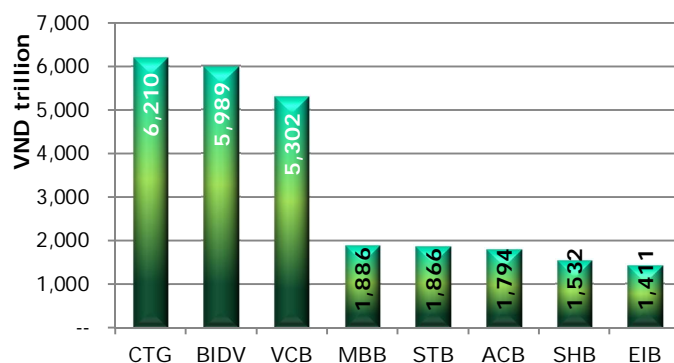
Dispersed ownership structure

EIB's current ownership structure is quite dispersed with over 74% of total shares owned by public investors and 27% belonging to foreign institutional investors. SMBC and VCB are the biggest shareholders of Eximbank, with 15% and 8.2% shareholdings, respectively. VCB is presently a major shareholder in several banks including Military Bank, Oriental Bank, Eximbank, Saigonbank and CFC financial company. On top of that, Vietcombank was the big brother lent a hand to support VNCB in terms of operation and management after the incident that happened to this bank. On December 26, 2014, VCB held the extraordinary Shareholders' meeting to approve the plan of merging with another bank. There is a rumor in the market that one of the banks mentioned above could be the target, including EIB. Although VCB has not yet confirmed its final call, at the moment Saigonbank seems to be the most potential candidate.

Shareholder's structure



Listed banks total assets as of 9M2014



Source: Banks' Annual Reports, VPBS collection

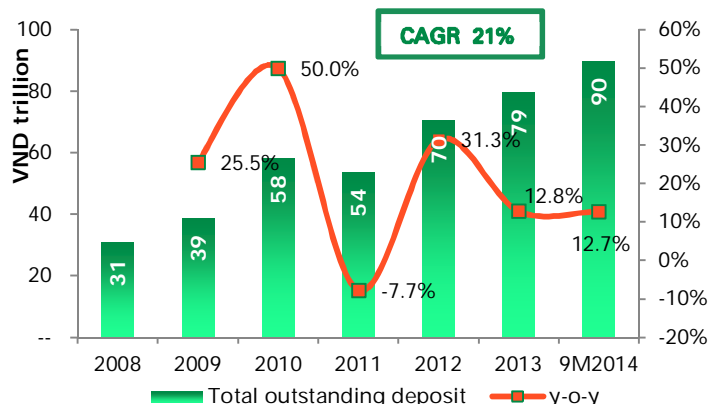
FINANCIAL ANALYSIS

THE STANDALONE BANK WITH NEGATIVE PRINT ON CREDIT GROWTH IN 9M2014

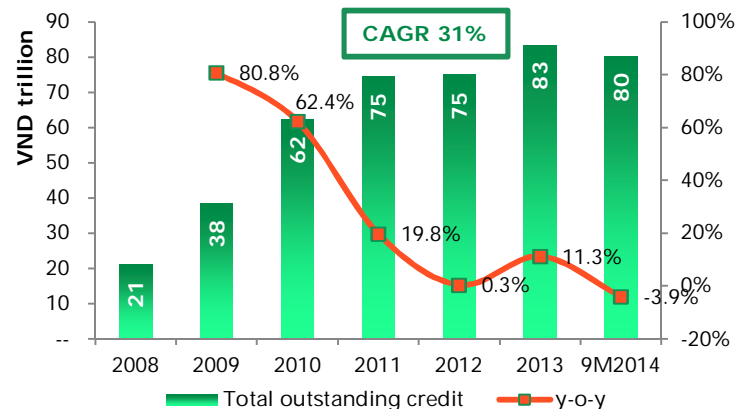
The only bank that registered negative credit growth

Customer deposits and credits grew at CAGR of 21% and 31%, respectively, during the period of 2008 - 2013, which was higher than ACB and STB, but lower than MBB. However, its growth, in line with peers, mainly came from the year 2009 through 2010, while the CAGRs from 2011 - 2013 were only 5.7% and 21.7% for credit and deposits, respectively. In 2012, SBV has classified banks into four different groups to assign credit limit growth based on their financial health. Even though Eximbank was classified in group 1 with a credit growth limit of 17%, its credit growth was otherwise disappointing, recorded at only 0.3% y-o-y. The year of 2012 was a difficult year for the economy overall and for SMEs in particular, with the number of companies filing for bankruptcy totaling 55,000 enterprises. The gloomy situation of its target group of customers has hurt EIB's credit growth as a result. In terms of credit market share, EIB went from sixth ranking of 3.2% in 2013 to ninth ranking of 2.14% in 9M2014 (refer to [HIGHLIGHTS IN 3Q2014](#)).

Customer deposits



Customer loans



Source: TCB's Annual Reports

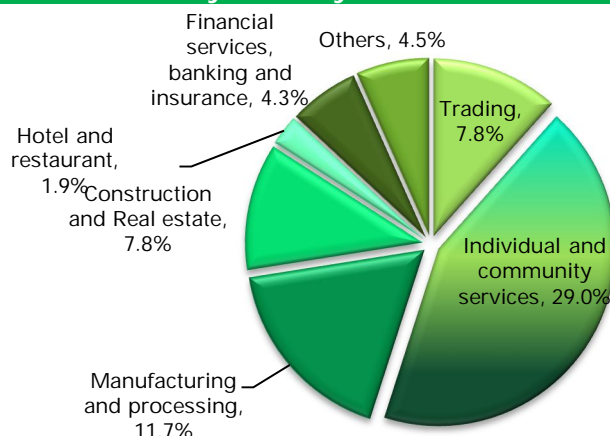
The year of 2014 continues to be a stagnant year for EIB, which made it the only bank to record a negative print on credit growth of -3.9% for 9M2014. In this case, we think that the bank's target of 10% credit growth is not likely. Given that credit usually picks up in the last few months of the year, we expect EIB's credit growth to close the year with a modest "progress" of 3%. Meanwhile, customer deposits have made an impressive turnaround, with an expansion of 12.7% in 3Q2014 vs -3.0% in 1H2014, which in turn has lowered EIB's LDR from 104% in 1H2014 to 89% in 9M2014.

LENDING STRUCTURE

EIB has focused its lending activities primarily on SMEs (55% of total loans), SOEs and individuals accounted for 12.4% and 32.8% of total credit balance, respectively. However, in recent years, the bank aims to strengthen its retail banking segment, with loans dedicated to individuals ascending 35% in 2013 vs. 25% in 2011. Compared to ACB and STB, EIB still has a smaller proportion of loans to individuals, 32.8% versus ACB's of 42% and STB's of 40%.

As an export-import bank, EIB has a higher reserve of USD and a higher proportion of loans in USD, averaging 21.8%, while other banks tend to have this ratio fluctuating around 15%. As the USD is expected to strengthen during 2015, the bank's earnings will likely see improved results.

Loans breakdown by Industry 2013



Source: EIB's Annual Reports

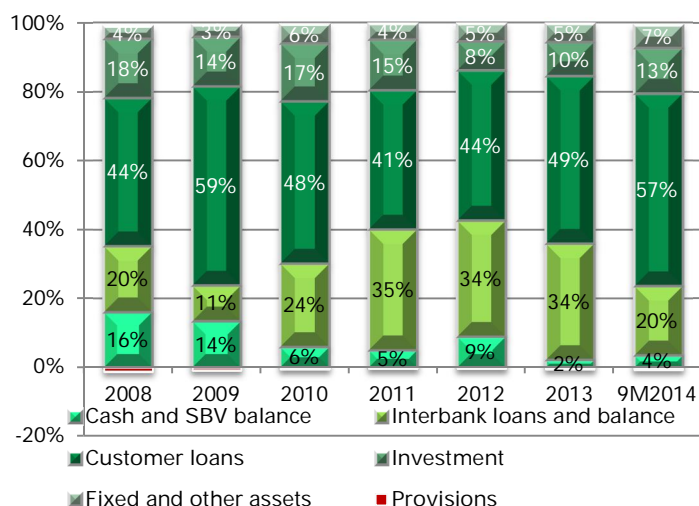
In terms of loans breakdown by industry, we see that EIB focuses in some key sectors such as trading, utilities production and distribution and manufacturing and processing. Trading sector loans, however, have been reduced recently in 2012 and 2013 due to poor economic conditions in general. Utilities production and distribution and manufacturing and processing have been consistently large contributors to EIB's total loans at approximately 28% and 12%, respectively. Since 2009, EIB has recognized early the latent risks of the construction and real estate industries, hence, it has restricted its lending to this sector, maintaining high asset quality with controllable NPLs of less than 2% prior to 2014.

ASSET AND LIABILITIES STRUCTURE WITH HEAVY WEIGHT ON INTERBANK ACTIVITIES

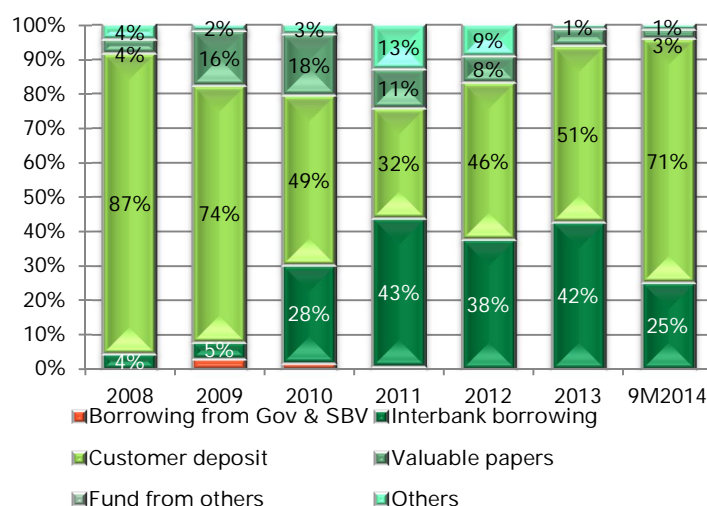
EIB had a relatively low proportion of customer loans in its assets structure. From 2008 to 2013, customer loans made up only 48% of total assets on average. The other two major components were interbank lending and investment, which counted for 26% and 14% on average, respectively. In 2012, major changes in policy regarding interbank lending occurred and substantially reduced the interbank activities of most commercial banks, except for EIB, which still kept its interbank lending at 34% of total assets. Although the absolute value of customer loans contracted in 9M2014 due to the sharp decline of interbank lending, the proportion of customer loans jumped from 49% in 2013 to 57% in 9M2014, while interbank lending contributed 21% to total assets. EIB has lagged behind its peers in terms of reducing its interbank activities. It seemed that the bank decision to stick to this high level of interbank activities has hurt its profitability as the result. Interest incomes from interbank lending has gone down by 73.5% in 2013, from VND4,900 billion (USD228.4 mn) in 2012 to VND1,298 billion (USD60.5 mn) in 2013 as interbank rates have gone down tremendously.

Profitability has been dragged down by reliance on interbank lending.

Assets breakdown



Liabilities breakdown

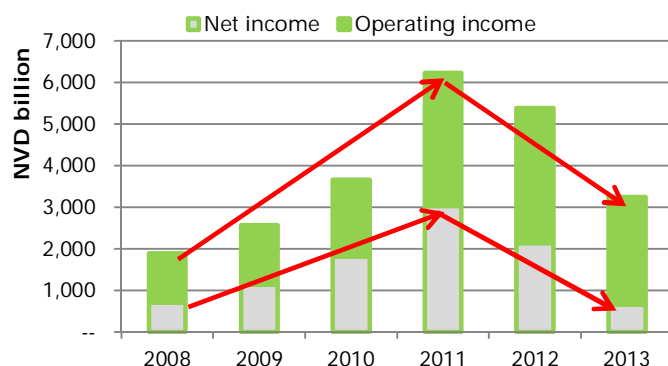


Source: EIB Financial Statements

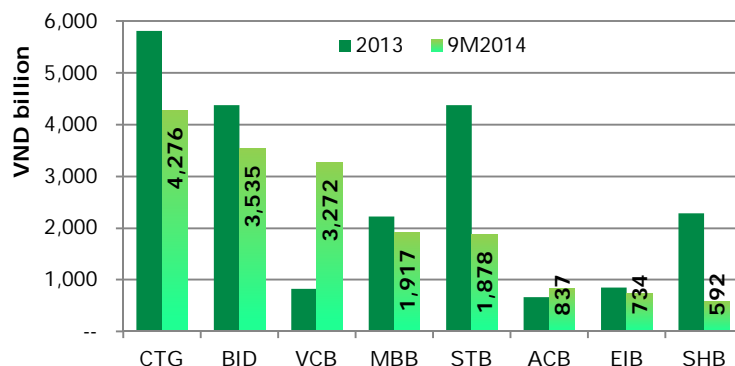
Similar to assets' side, liabilities showed a considerable change before and after 2010. From 2010 onwards, customers deposits proportion has contracted as EIB has been more active in interbank activities, tremendously decreased from 74% in 2009 to 49% of total liabilities in 2010. At the same time, interbank borrowings rose by approximately VND31,000 billion (USDxxx million) and outstanding valuable papers fell by VND12,600 billion (USDxxx million). EIB has switched from the position of a net lender to net borrower in interbank market since 2010. However, in 9M2014, net interbank borrowing has gone down from VND7,892 billion (USD[]) in 2013 to VND2,920 billion (USD[]). In combination with high growth in deposits in 9M2014 of 12.7%, EIB's liabilities structure has changed with customer deposits and interbank borrowing accounted for 71% and 25% in 9M2014, respectively (which were a respective 51% and 42% in 2013). From the bank's high LDR of over 100% from 2010-1H2014, it is likely that the bank was not able to mobilize a large amount of capital from other sources, and its customer deposits were not sufficient to feed the credit appetite of its customers. In this case, interbank borrowing seemed to be a good source of capital to improve bank liquidity.

UNDER-TARGET NINE MONTHS PROFITABILITY

EIB's Income 2008-2013



Listed Banks' Net Income 9M2014

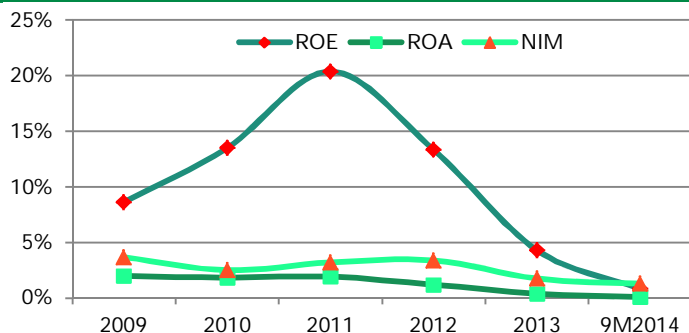


Source: Banks Financial Statements

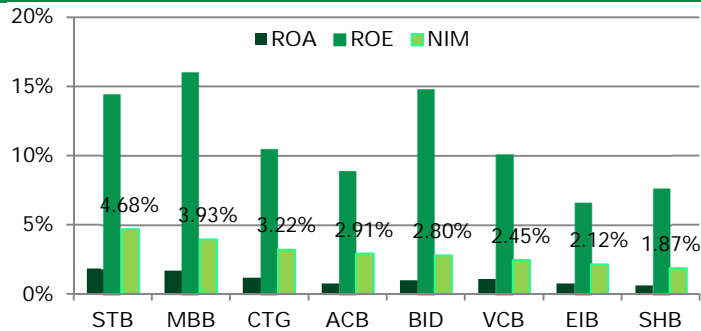
Declining profit over the last two years but slowly recovering

EIB's operating income experienced a high CAGR of 48.8% during the period of 2008-2011, and then plunged in 2012 and 2013. The year of 2012 marked the beginning of a tough era for EIB with a net loss of VND297 billion (USD13.8 mn) in foreign currency and gold trading. On top of that, net fees and commission incomes dropped by 57% and net interest income plunged by 70% which led to a drop in total operating income. While operating income declined by 13.6%, operating expenses increased by 20.3%. This caused an even larger drop in net income of 30% in 2012. In 2013, net income was cut by two thirds the figure of 2012 to VND658 billion (USD30.7 mn) from VND2,139 billion (USD99.7 mn), barely achieving 26% full year target. The lackluster results are predominantly due to the drop in the income earned from interbank lending. In 9M2014, Eximbank recorded VND947 billion (USD44.1 mn) in profit before tax (PBT), however, still achieved only 52.6% of the full-year target and 18% lower than 9M2013. Given the rising NPLs in combination with a long period of lagging provision expenses far behind its peers, it is likely that EIB will have to set loan loss reserves more aggressively toward year end. We forecast that EIB will not be able to fulfill its full year target.

EIB's profitability



Profitability of eight listed banks 9M2014



Sources: Banks' financial reports

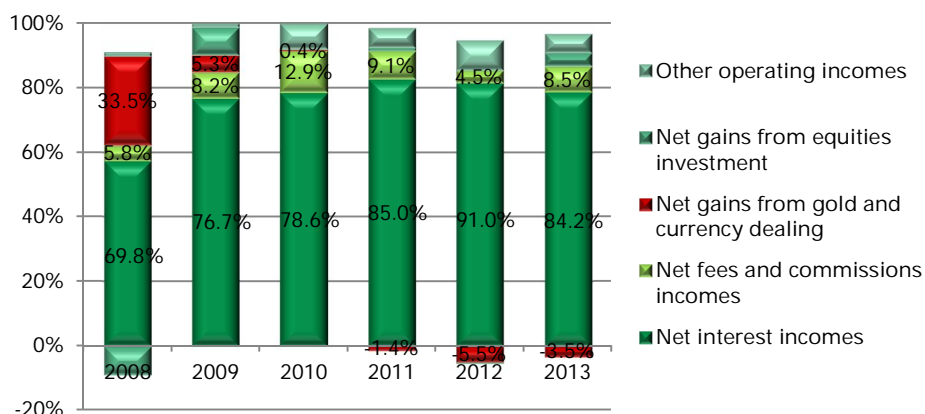
Overall, in comparison with other listed banks, EIB ranks dull in all three profitability ratios of ROA, ROE and NIM in 3Q 2014. In general, EIB's NIM was often lower than its peers' average. The bank's heavy weight on lower interest earning assets and its customer portfolio were likely the culprit for of its lower profitability. In 2013, EIB's NIM was cut almost by half even though its interbank balance remained high. This was due to the substantial cut in interbank interest rates. In 9M2014, however, annualized NIM was heightened from 1.8% to 2.12%, while other banks' NIM had a tendency to contract. Although earning rates declined 149bps but paying rates declined even faster by 174 bps. This was likely the reason for the bank's intensified NIM.

NIM lower than average with a majority of loan balances dedicated to SMEs

STRENGTHS IN INTERNATIONAL SETTLEMENT AND TRADE FINANCE

EIB has a revenue structure that is in line with average income structure of the banking industry, of which 85% was interest income and 15% was non-interest income. However, in 9M2014, the structure tended to shift, with less weight from net interest income and higher weight dedicated to net fees and commission incomes. The transformation came purely from negative credit growth.

Income Structure

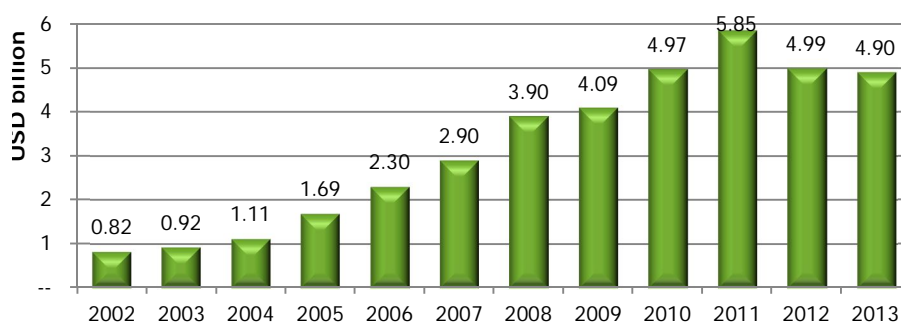


Source: EIB's Annual Reports

Strong banking services with an emphasis in international settlement and trade finance

If VCB is known as the leading bank in trade finance and international settlement segments, then EIB, as its name has implied, is the leader among private banks in export-import activity financing. EIB is also recognized for its strength in FX trading and international payment. What set the two banks apart is their target customer. EIB's core business weighs more heavily on export-import SMEs, while VCB is more of a SOEs' bank. EIB has a network of over 871 correspondent banks and branches in 65 countries around the world. It is well recognized by high-status banks including Standard Chartered, HSBC, among others. SMEs transactions have contributed approximately 80% to EIB's international settlement fees, as this is the core customer segment of the bank. In 2013, total fee revenues from international payment reached USD4.9 billion, slightly decreased by 0.89% y-o-y. The results were expected as the business environment in 2014 was not favorable in general.

International Settlement Volume 2002 - 2013



Source: EIB's Annual Reports

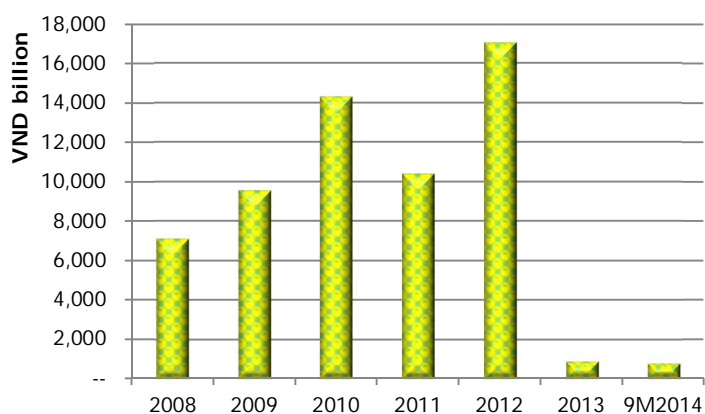
Eximbank has leveraged its advantage in foreign exchange trading to provide a full package service for students studying abroad. It has cooperated with overseas study consulting firms to organize educational conferences to introduce its overseas educational financing services. These products were well implemented since 2008, when study abroad became an increasingly popular trend. Overall, overseas study remittance accounted for 82% of total overseas remittance volume, with an average growth of 25% per year.

The first bank licensed to trade FX options and one of the first to open a gold trading floor.

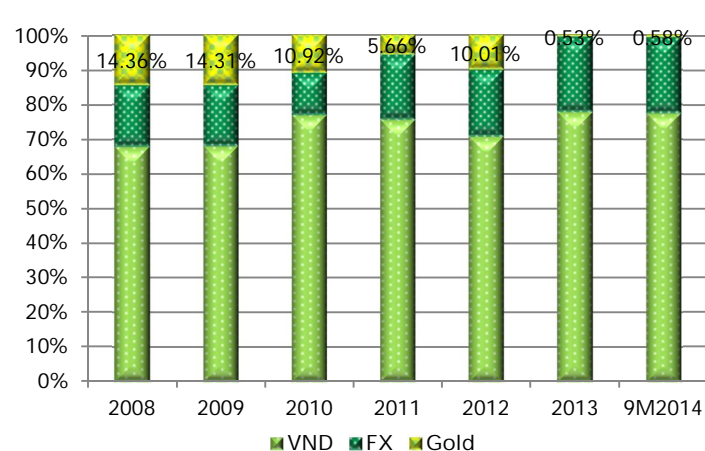
GOLD AND FOREIGN EXCHANGE TRADING

Eximbank was considered one of the leading banks in terms of gold trading activity. In 2008, Eximbank opened the first gold trading floor in Vietnam and was profitable at this business. As a result, it was among the few banks that have separated gold trading from the bank's investment division. Thanks to its strength in export-import activities, Eximbank is also a leader in FX trading activity. It was the first bank licensed by SBV to do options in FX trading activity in concert with other operations to hedge exchange risks as spot, forward and swap. In 2008, Gold and FX trading has contributed over 33% to total operating income of the bank. However, in 2009 and 2010, due to the fluctuations in the international market, unstable domestic monetary policies and the close of the gold trading floor, net gains from gold and FX trading have contributed only 0.4% to total operating income.

Gold balance of EIB



Assets breakdown by currency



Source: EIB's Annual Reports

All banks were forced to close their gold position by 2011, except for G5+1: DAB, EIB, STB, ACB, TCB and SJC

Starting from 2010, recognizing the risks related to gold mobilizing, lending, and margin trading, the SBV started to trim down these activities by issuing Circular 22/2010 and Circular 11/2011. By March 31, 2010, EIB halted its gold floor operation, leading to a drop of its gold balance by 27%. By 2011, even though all banks were forced to close their gold position, SBV still allowed G5+1, which included Dong A Bank, EIB, STB, ACB, TCB and SJC to open gold accounts overseas, buying gold on account abroad and selling up to 20% of the existing gold reserves to stabilize the domestic gold market. However, this move by the SBV actually had the effect of allowing G5+1 to speculate instead while maintaining their gold positions at a negative 40% (gold in assets > gold deposits). With the "responsibility" that the Central Bank assigned, G5+1 earned a bargain from the interest rate difference between the low gold mobilizing rate and high VND lending rates. This likely explains the jump in the gold balance at EIB in 2012.

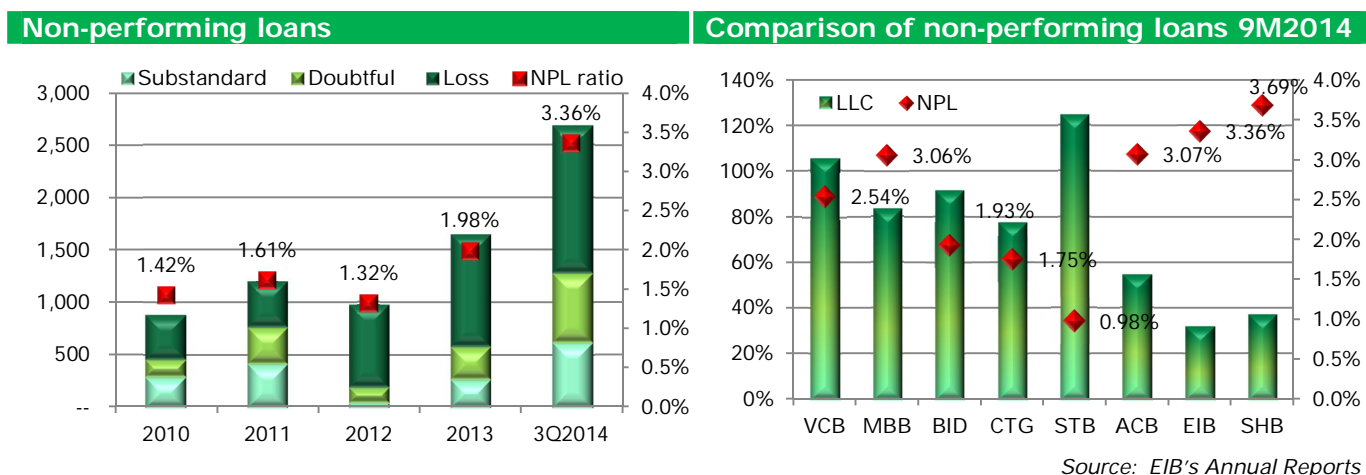
By the end of 2012, G5+1 had to close their gold position

By November 25, 2012, the G5+1 could no longer enjoy preferential treatment and also had to close their gold position (Circular 12/2012). The close of gold position caused losses of approximately VND500 billion (USD23.3 mn) in 2011, 2012 and 2013, as a result, the actual profit gained from the gold trading business was barely 180 billion. This result, however, in comparison with ACB, was already encouraging, as ACB has recorded a net loss of about VND2,000 billion (USD93.2 mn), almost VND500 billion

EIB incurred net losses of VND500 billion in 2011, 2012 and 2013

(USD23.3 mn) more than its accumulated profit from gold and foreign currencies trading in the period from 2007 to 2010. Eximbank was considered one of the most efficient banks in terms of gold trading as well as the way it handled the close of its gold position to minimize losses. Credit was given to its partner, Saigon Jewelry Holding company (SJC) who holds 2.07% stake of EIB and its Chairman was previously Chairman of EIB. In 9M2014, gold and foreign exchange trading businesses bounced back and recorded VND142 billion (USD6.6 mn) in net income, which is a significant improvement but still relatively small compared to net interest income.

ASSET QUALITY: "THE WORST IS YET TO COME"



Eximbank's NPL ratio abruptly jumped from 1.98% in 2013 to 3.36% in 3Q2014 and crossed the 3% threshold as NPLs grew tremendously by 67% y-o-y, standing at VND2,689 billion (USD125.3 mn), with the bad debt group alone rising by 32%. The increase of the NPL ratio is also partially attributed to its negative growth in credit, which made the denominator smaller, technically leading to a higher ratio. With this figure, EIB ranked second highest among listed banks in terms of NPL ratio.

Even though in 9M2014, total export value of Vietnam was estimated at USD109.63 billion, increased by 14% y-o-y, this mostly came from foreign enterprise, 66.6%, while contribution from domestic enterprises accounted for only 33.4%, down from last year contribution of 39%. As we can see, the year of 2014 was still a hard year for domestic enterprises in general and for SMEs in particular. This was likely one of the reasons that led to rising NPLs in absolute value as EIB's focus was export and import SMEs. EIB's loans loss coverage ratio (LLC), which is equal to provisions divided by total NPLs, has been relatively higher pre-2013 at around 50-70%. In 2013, this ratio was cut to 43% and even further to an alarming level of 32% in 3Q2014, which was the lowest among listed banks. As the bank has low profitability, it cannot apply aggressive methods such as setting aside large provisions expenses. However, we expect this ratio to rise in 2014 and 2015, which will eventually depress the bank's profitability. It is likely that EIB cannot achieve its target of keeping its NPL ratio below 3% due to this rising "legacy".

Ranked second highest in terms of NPL ratio with lowest LLC among listed banks

The newly adjusted housing law will likely have a positive impact on EIB and its NPL ratio, even though the bank did not dedicate a high proportion of its total loans to

construction and the real estate industry at approximately. The facilitation of foreigners' ownership of housing will likely assist VAMC in selling real estate collaterals to foreign investors and in turn reduce the system's NPL ratio accordingly.

CIRCULAR 36 AND THE LIKELY IMPACT ON EIB

The newly issued Circular 36 set stricter regulations regarding securities lending, banks are only allowed to provide lending to stocks investment when (1) banks set aside adequate provisions as required, (2) the NPL ratio is below 3%, (3) total amount of stock lending cannot exceed 5% of a banks' charter capital and (4) banks are not allowed to provide loans for affiliates and subsidiaries for stocks trading and investment or margin lending purposes. The Circular also prohibits one bank from owning more than 5% shareholdings of another bank.

As Eximbank does not disclose its total lending allocated to stocks trading and investment, the magnitude of Circular 36's impact on the bank regarding restricted securities lending is not immediately clear. However, what we can be certain about is that EIB currently has an NPL ratio exceeding 3% with an alarmingly low LLC ratio of 32%, which is way below the required level, it is likely that in the year 2015, the bank will be prohibited from providing new credit for stock trading or investment. As mentioned earlier, VCB holds 8.2% share holdings of EIB, already exceeding the 5% limit. Next year, when VCB partially divests from EIB, it is likely that EIB will be adversely affected. Given EIB's current performance, we are concerned about the bank's ability to find new investors.

SWOT

STRENGTHS

- Strong international settlement and trade finance
- Strength in FX trading and gold business

WEAKNESSES

- Small network
- Retail business segment lagging
- Less diversified income structure compared to peers

OPPORTUNITIES

- Untapped and growing retail-banking market
- Recovery of real estate industry

THREATS

- Slow recovery of banking sector
- More intense competition in retail banking segment from peers

OUTLOOK & FORECAST

Based on our analysis of EIB's performance and the overall outlook of the banking sector in general, we project the following:

Balance sheet is expected to expand modestly over the next five years

Even though EIB was not severely stricken by the close of its gold position in 2012 and 2013, its total assets have still consistently contracted. Therefore we project EIB's total assets to attain a modest 7% CAGR over the 2014 to 2018 period. Particularly:

- *Customer loans and deposits:* Credit growth rates of customer loans are expected to be at 3% and 13% respectively, in 2014, and will remain around 12-14% in the period from 2015 to 2018. Credit growth however, by end of 3Q2014, was still -3.94%, therefore, we forecast unremarkable growth in credit. We project in 2015 and 2016 when the macro environment and SMEs, the main focus of EIB, start to recover, customer credit will grow at higher rate.
- *Interbank activities:* Interbank activities have gradually declined in 2014 and are expected to decline in the near future. We forecast that EIB's interbank lending and borrowing will grow slowly at around 5.0% per year over the next five years.
- *Debt securities investment:* We project debt securities investment at EIB will expand at 14% CAGR from 2014 to 2018.
- *Charter capital:* EIB has consistently raised its charter capital since 2008 to 2011 through the transfer of capital surplus and share bonus, as a result, its CAR has always been way above the 9% required by SBV. Since 2011, the bank has stopped raising additional charter capital and its CAR as of FY2013 was 14.47%. To maintain CAR at this level or at minimum higher than 9%, we project that EIB will only need to raise 10% more additional shares in 2017.

Asset projection	2014E	2015F	2016F	2017F	2018F
Total asset	151,150	162,027	179,675	197,446	219,265
Growth	-11%	7%	11%	10%	11%
Earning asset	132,818	140,963	155,451	173,856	195,674
% of total asset	88%	87%	87%	88%	89%
Growth	-15%	6%	10%	12%	13%
Of which					
Loans growth	3%	5%	11%	13%	14%
Interbank assets growth	-48%	5%	6%	7%	7%
Debt securities growth	14%	14%	14%	14%	14%
Asset quality					
NPL ratio (before write-off)	3.86%	4.44%	4.23%	4.09%	3.69%
NPL ratio (reported)	3.80%	4.24%	4.02%	3.83%	3.46%
Loan loss coverage (LLC)	33%	39%	47%	47%	49%

Interest income to grow at 11.1% CAGR thanks to gradually improving NIM and expected higher credit growth

We project interest income can grow at 11.1% CAGR over the next five years given 9.1% CAGR of credit, debt securities growth of 14% and slightly improved NIM. We expect improved NIM because we see that Eximbank has reduced its interbank lending and as the bank focuses more on credit and debt securities its profitability should progress. When the economy outlook gets brighter and SMEs' financial health bounces back, EIB has the potential to improve its NIM even further from 2016 onwards.

Non-interest Incomes expected to grow at 23.1%

- *Fees and commission incomes* overall have been increasing and accounted for 47% of total non-interest income on average. Given the support from its strategic shareholder SMBC and the bank's determination in developing its under-deployed retail segment, we project fees and commission income to grow 20%-25% during the forecast period.
- *Net gains from gold and foreign currencies trading* have been the most volatile component of non-interest income. As EIB almost closed its gold position from 2013, foreign currency dealings will be the main contributor to this income category. Therefore we apply a rather conservative growth rate of 8% for the next five years.
- *Net gains from equity investment* (trading, disposal of investment securities, and income from investment): The rate of return from equity investment has been fluctuating around 8% over the past five years. Therefore, we project a moderate rate of return from equity investment, which is 10% for the period from 2014 to 2018.
- *Net gains from other activities*, are projected to grow at 10% per annum.

Operating expenses to increase at modes pace

As noted, EIB's strength and focus is on SME banking and eventually retail banking. These areas require more labor, presence of transaction offices and marketing costs compared to corporate banking, thus we think that it will be hard for EIB to further trim these costs. Instead, we forecast that operating expenses will grow modestly at a CAGR of 13.6%, while operating incomes will grow at CAGR of 15.6% over the next five years and EIB's CIR will stay around 60% for the next five years.

Provision expenses to ease from 2016 onwards

Provision expenses are likely to double in 2014 and 2015, then gradually decrease based on our forecast of NPL and LLC ratios in the coming years. The risk in our projection largely depends on EIB's ability to tame its NPLs. We project that provision expenses will consume about 30% of pre-provision operating profit (PPOP).

VIETNAM EXPORT IMPORT COMMERCIAL BANK (HSX-EIB)

EARNING PROJECTIONS (VND bn)	2014E	2015F	2016F	2017F	2018F
Net interest income	2,444	3,358	3,843	4,361	5,158
<i>Growth</i>	-11%	37%	14%	13%	18%
<i>NIM</i>	1.84%	2.45%	2.59%	2.65%	2.79%
Non-interest income	942	1,073	1,216	1,383	1,576
<i>Growth</i>	84%	14%	13%	14%	14%
Fee income	396	475	571	685	822
<i>Growth</i>	44%	20%	20%	20%	20%
Forex trading income	163	188	207	227	250
<i>Growth</i>	-244%	15%	10%	10%	10%
Equity investment	219	230	242	253	266
<i>Yield</i>	10%	10%	10%	10%	10%
Other income	163	179	197	217	239
<i>Growth</i>	-20%	10%	10%	10%	10%
Operating income	3,386	4,431	5,059	5,744	6,734
<i>Growth</i>	4%	31%	14%	14%	17%
Operating expenses	1,876	2,582	2,927	3,476	4,031
<i>Growth</i>	-12%	38%	13%	19%	16%
<i>CIR</i>	55%	58%	58%	61%	60%
Provisions for loan losses	418	694	598	431	437
<i>Growth</i>	39%	66%	-14%	-28%	1%
<i>Provisions/PPOP</i>	28%	38%	28%	19%	16%
Net profit	852	901	1,228	1,469	1,812
<i>Growth</i>	29%	6%	36%	20%	23%

VALUATION

Residual income

We use the multi-stage residual income (RI) model to value EIB given that the business nature of EIB in particular, and financial services in general, is quite different from ordinary companies that we can value using the normal discounted cash flow (DCF) model. Residual income is calculated based on net income and a charge for the cost of equity capital. A company that is generating more income than its cost of obtaining capital – that is, one with positive residual income – is creating value. Therefore, higher residual income should be associated with higher valuations. The residual income model is as follows:

$$V_e = B_o + \sum_{i=1}^t \frac{(NI_i - R_e \cdot B_{(i-1)})}{(1 + r)^i}$$

In which:

V_e = Value of equity

B_i = Book value of equity at time i

NI_i = Net income at time i

Other inputs of the model are as follows:

- The *risk-free rate* is taken from the yield of 5-year local currency Government bond yields, which is equivalent to 6.0%.
- The *market risk premium* is expected to be 8.5%.
- EIB's *adjusted beta* is estimated to be 0.60.
- Cost of equity is estimated to be 11.01% by using the capital asset pricing model (CAPM).

Residual Income Valuation	2014E	2015F	2016F	2017F	2018F
Net Income	852,231	901,346	1,227,513	1,469,428	1,812,262
Shareholders Investment	14,681,674	14,747,837	14,924,914	15,111,892	16,624,724
Capital Charge	1,629,666	1,637,010	1,656,665	1,677,420	1,845,344
Residual Income	(777,435)	(735,664)	(429,153)	(207,992)	(33,082)
Present Value Factor	1.000	0.810	0.729	0.656	0.591
PV Residual Net Income	(777,435)	(596,007)	(312,946)	(136,518)	(19,545)
Total Projected EVA	(1,065,016)				
Curent Book Value Equity	14,769,123				
Value of Equity	13,704,107				
Number of Shares	1,236,000				
Share Value (VND)	11,087				

Our residual income model yields a fair value of VND11,087 for each EIB share, which is 15% lower than EIB's current price. EIB's current ROE of only 3.47% is far below its

cost of equity. We believe it will take more than five years of improvements for the company to earn a return higher than its cost.

Price multiples

We select four banks: MBB, STB, SHB and ACB as EIB's peer group as they are most similar to EIB in terms of size, type of business..

Bank	Price (VND)	P/E	P/B	TLM EPS (VND)	BVPS 9M2014 (VND)	ROE (%)	ROA (%)	2014 NIM (%)	CIR (%)
STB	18,400	8.55	1.29	2,073	14,249	14.9	1.6	4.68	50.1
MBB	14,000	6.72	1.07	2,063	14,497	17.7	1.5	3.93	36.5
SHB	8,700	9.52	0.75	914	11,674	5.7	0.4	1.87	50.0
ACB	15,900	26.51	1.19	737	13,338	9.2	0.7	2.91	61.0
Peers avg		12.83	1.08		13,440	11.9	1.05	3.4	49.4
EIB	13,000	31.15	1.09	481	11,954	7.0	0.6	2.12	44.0

For the past 12 months, EIB was trading on par with peers based on P/B. Using peers' P/B multiple and EIB's current BVPS at VND11,949, we value EIB shares at VND12,188. Currently EIB is trading at a P/E of 31.39 times, higher than its peer's average of 12.25 times. As EIB is trading relatively more expensive versus peers, we expect its P/E premium will eventually get smaller. Using the peer average and EIB's 2014 EPS of VND690, we value EIB's share at VND8,446.

P/B valuation	
EIB's 2014 BV (VND)	11,949
EIB's P/B	1.09
Peers average	1.08
Target price	12,188

P/E valuation	
EIB's 2014 EPS)	690
EIB's P/E	31.15
Peers average	12.83
Target price	8,846

Valuation summary

Taking the three valuation approaches above into consideration, we consider the fair price of EIB share to be VND11,366, which is 12.6% lower than its current trading price. Combined with an expected dividend yield of 4.6%, the one year total expected return for EIB is -8.0%.

Combined valuation		
<u>Method</u>	<u>Target price</u>	<u>Weight</u>
Residual income	11,087	40%
P/E	8,846	20%
P/B	12,905	40%
Weighted average target price	11,366	

Sensitivity analysis

We consider the two following factors: (1) The actual amount of NPLs and EIB's ability to deal with them, and (2) EIB's ability to improve its NIM, to have significant influence on EIB's performance. Therefore we perform a sensitivity analysis of these two factors on EIB's share price.

		NPL ratio				
		1.80%	2.80%	3.80%	4.80%	5.80%
Average NIM	1.44%	11,150	10,938	10,725	10,513	10,300
	1.64%	11,471	11,258	11,046	10,655	10,621
	1.84%	11,791	11,579	11,366	11,154	10,941
	2.04%	12,112	11,899	11,687	11,474	11,262
	2.24%	12,432	12,220	12,008	11,795	11,583

TECHNICAL ANALYSIS

The technical chart of EIB shows a high volatility movement of this ticker around its midterm moving average, the MA50 in the last few months.

In short-term, after a rally from the MA50 to the resistance level of 13,800 – 14,000, the price of EIB has just dropped below the MA10. This signal weakened the upward momentum and generated the possibility of correction to double check its support level at 12,200-12,700.

Therefore, we recommend a holding position for EIB.

Ticker	EIB
Horizon analytic	3 to 6 months
3 months highest price	13,800
3 months lowest price	11,000
Current MA50 days	12,200
Current MA100 days	12,000
Mid-term resistance level	13,800
Mid-term support level	11,000
Recommendation	HOLD

Unit: VND per share

EIB stock performance



Source: VPBS

APPENDIX- VPBS FORECASTS

BALANCE SHEET (VND bn)	2012	2013	2014F	2015F	2016F	2017F	2018F
Cash and equivalents	15,479	3,739	7,608	9,791	12,178	10,423	9,176
Loans and advances	96,095	110,912	94,122	98,828	109,266	122,918	139,437
Placements to other banks	36,342	30,316	21,992	23,091	24,477	26,190	28,023
Debt securities investment	11,750	14,653	16,704	19,043	21,709	24,748	28,213
Interest-Earning Assets	144,187	155,882	132,818	140,963	155,451	173,856	195,674
Equities investment	2,456	2,138	2,245	2,357	2,475	2,593	2,723
Fixed assets	3,315	4,321	4,753	5,228	5,751	6,326	6,958
Derivatives	0	7	7	7	7	7	7
Other assets	5,391	4,583	5,041	5,545	6,100	6,710	7,381
Total Assets	170,156	169,835	151,150	162,027	179,675	197,446	219,265
Customer deposits	70,458	79,472	89,804	98,784	108,663	119,529	133,872
Other interest-bearing liabilities	69,942	73,871	44,194	45,586	52,775	57,719	64,245
Other non-interest bearing liabilities	13,944	1,812	2,408	2,748	3,153	3,620	4,157
Shareholders' funds	15,656	14,525	14,588	14,759	14,938	16,444	16,859
Total Equity & Liabilities	170,156	169,835	151,150	162,027	179,675	197,446	219,265

INCOME STATEMENT (VND bn)	2012	2013	2014F	2015F	2016F	2017F	2018F
Interest Income							
From loans	9,297	8,365	6,589	7,718	8,844	10,680	12,068
From fixed income	2,598	1,230	1,286	1,466	1,671	1,974	2,251
From placements and others	5,037	1,307	947	1,357	1,499	1,724	1,915
Total	16,932	10,902	8,821	10,541	12,014	14,379	16,234
Interest expense	(12,030)	(8,166)	(6,377)	(7,183)	(8,171)	(10,017)	(11,076)
Net Interest Income	4,901	2,736	2,444	3,358	3,843	4,361	5,158
Fee income	243	275	396	475	571	685	822
Net gains from gold and FX dealing	(88)	(297)	(114)	163	188	207	227
Income from equity investment	58	(18)	147	219	230	242	253
Other operating income	398	559	204	163	179	197	217
Non-Interest Income	933	486	513	942	1,073	1,216	1,383
Total Operating Income	6,237	5,387	3,249	3,386	4,431	5,059	5,744
Staff costs	(1,051)	(1,119)	(944)	(677)	(1,108)	(1,265)	(1,436)
D&A	(145)	(191)	(184)	(454)	(499)	(549)	(604)
Other operating expenses	(714)	(986)	(993)	(745)	(975)	(1,113)	(1,436)
Operating expenses	(1,910)	(2,297)	(2,121)	(1,876)	(2,582)	(2,927)	(3,476)
Operating profit pre prov.	4,327	3,090	1,128	1,510	1,849	2,133	2,268
Provisions for loan / investment losses	(271)	(239)	(300)	(418)	(694)	(598)	(431)
Profit Before Tax	4,056	2,851	828	1,093	1,156	1,534	1,837
Taxation	(1,017)	(712)	(169)	(240)	(254)	(307)	(367)
Net Profit	3,039	2,139	659	852	901	1,228	1,469

VIETNAM EXPORT IMPORT COMMERCIAL BANK (HSX-EIB)

CAMELS	2012	2013	2014E	2015F	2016F	2017F	2018F
CAPITAL							
Capital adequacy ratio (CAR)	16.83%	14.47%					
Owners' equity/ Total deposits	22.44%	18.47%	16.07%	14.47%	13.27%	13.37%	12.40%
Owners' equity/ Total assets	9.29%	8.64%	9.57%	8.86%	8.05%	8.12%	7.59%
ASSET QUALITY							
Proportion of earning assets	84.74%	91.78%	88.05%	87.33%	86.85%	88.33%	89.41%
Debt investment/ Deposit	16.68%	18.44%	18.60%	19.28%	19.98%	20.70%	21.07%
NPL	1.67%	2.20%	3.86%	4.44%	4.23%	4.09%	3.69%
NPL after write off	1.32%	1.98%	3.80%	4.24%	4.02%	3.83%	3.46%
LLC	61.39%	43.03%	33.17%	39.48%	47.03%	46.89%	48.55%
MANAGEMENT ABILITY							
Cost to average assets	1.30%	1.25%	1.17%	1.65%	1.71%	1.84%	1.93%
Income yield (Operating income/Asset)	3.05%	1.91%	2.11%	2.83%	2.96%	3.05%	3.23%
Cost/ Income ratio (CIR)	42.64%	65.28%	55.43%	58.30%	57.89%	60.55%	59.90%
Interest income growth	-7.58%	-44.17%	-10.67%	37.37%	14.45%	13.48%	18.26%
Non-interest income growth	-47.96%	5.50%	82.38%	13.07%	13.41%	13.73%	14.07%
Operating income growth	-13.63%	-39.69%	4.01%	30.65%	14.20%	13.54%	17.26%
Profit before tax growth	-29.71%	-70.96%	31.48%	5.39%	32.95%	19.81%	23.40%
Loan growth	0.35%	11.25%	3.00%	5.00%	11.00%	13.00%	14.00%
Deposit growth	31.32%	12.79%	13.00%	10.00%	10.00%	10.00%	12.00%
Asset growth	-7.31%	-0.19%	-11.18%	7.01%	10.90%	9.96%	11.19%
EARNINGS							
Net profit margin	39.70%	20.28%	25.13%	20.27%	24.20%	25.53%	26.87%
Net interest margin (NIM)	3.2%	1.8%	1.84%	2.45%	2.59%	2.65%	2.79%
Non-interest income ratio	9.02%	15.78%	27.66%	23.94%	23.77%	23.81%	23.17%
Earning rate	10.93%	7.27%	6.11%	7.70%	8.11%	8.73%	8.79%
Loan rate	10.89%	8.08%	6.43%	8.00%	8.50%	9.20%	9.20%
Debt instrument rate	13.63%	9.32%	8.20%	8.20%	8.20%	8.50%	8.50%
Placement rate	9.72%	3.89%	3.58%	5.98%	6.26%	6.76%	7.01%
Paying rate	8.40%	5.56%	4.44%	5.16%	5.34%	5.92%	5.90%
Deposit rate	15.62%	8.38%	6.16%	6.69%	6.95%	7.80%	7.80%
Borrowing rate	2.03%	4.71%	2.94%	3.39%	3.29%	3.87%	3.87%
Bond rate	12.78%	5.60%	9.20%	11.50%	13.00%	13.00%	13.00%
Spread	2.53%	1.71%	1.67%	2.54%	2.76%	2.82%	2.88%
ROE	13.53%	4.49%	5.88%	6.26%	8.46%	9.14%	10.86%
ROAE	13.32%	4.32%	5.83%	6.23%	8.50%	9.62%	11.07%
ROA	1.26%	0.39%	0.56%	0.55%	0.68%	0.74%	0.82%
ROAA	1.21%	0.39%	0.53%	0.57%	0.72%	0.78%	0.87%
LIQUIDITY							
Loan/ Deposit	106.34%	104.88%	95.60%	91.26%	92.09%	94.60%	96.29%

GUIDE TO RATINGS DEFINITION

VPBank Securities (VPBS) uses the following ratings system:

Buy: Expected return, including dividends, over the next 12 months is greater than 15%.

Hold: Expected return, including dividends, over the next 12 months is from -10% to +15%.

Sell: Expected return, including dividends, over the next 12 months is below -10%.

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