

Banking Sector: Mergers and Acquisitions and Strategic Investment

Vietnam M&A Forum 2013
Ho Chi Minh City, August 8, 2013



Sanjay Kalra

IMF Resident Representative, Vietnam/Lao PDR



Road map

- **A macroeconomic perspective**
 - Growth slowdown and need for efficiency
 - Structure of the banking system
 - State of the banking system
- **Banking sector: Prospects, Reforms, M&A**
 - Prospects
 - Banking sector
 - » Reform strategy
 - » M&A objectives: Private and public
 - » M&A: Progress

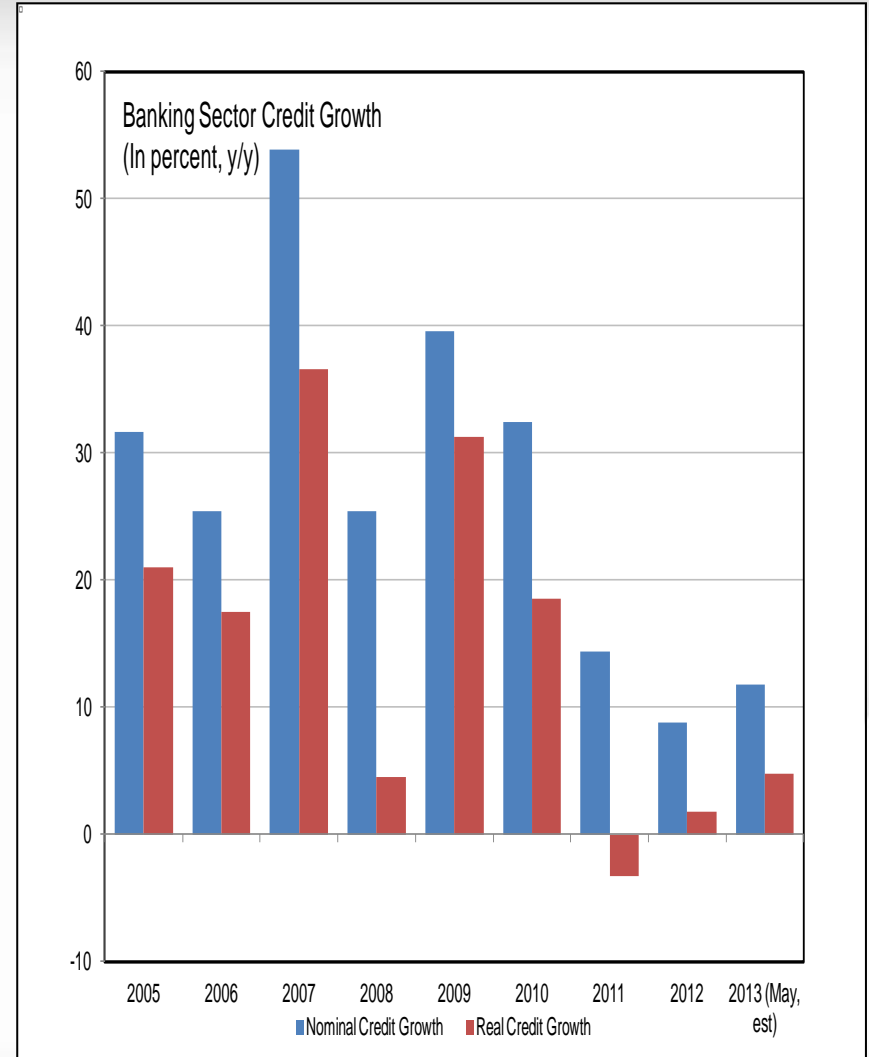
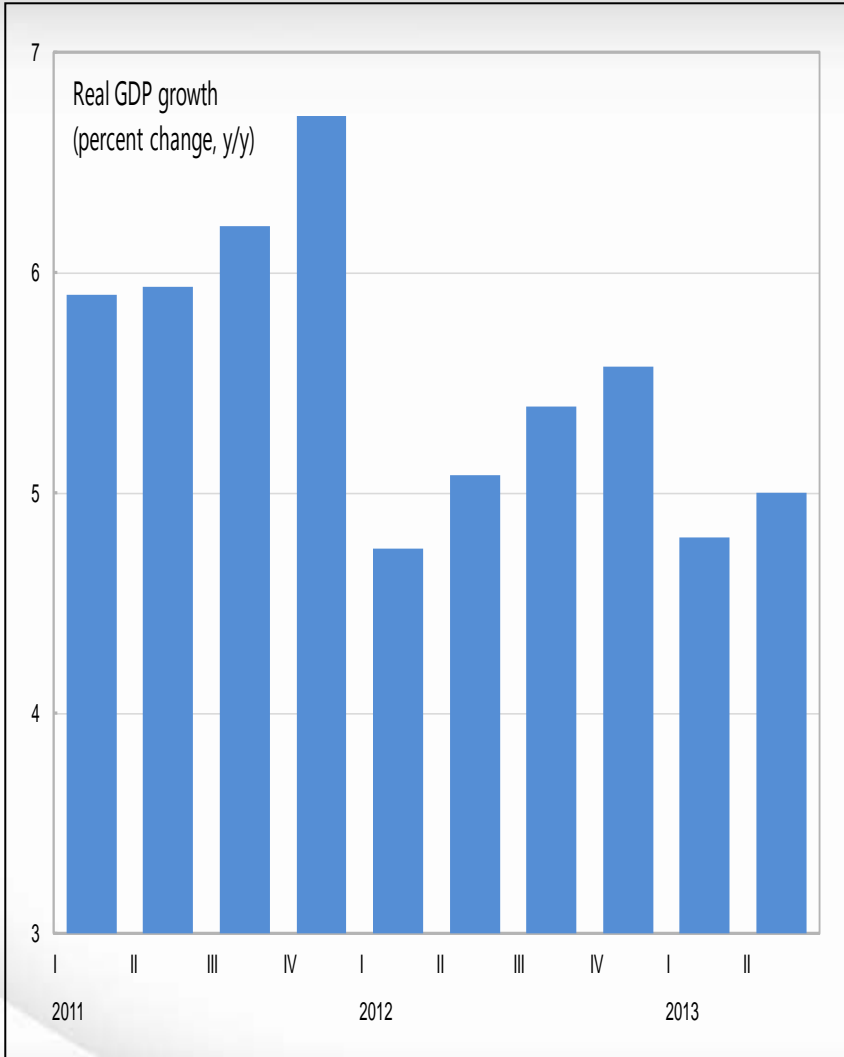
A macroeconomic perspective





Macro-financial linkages

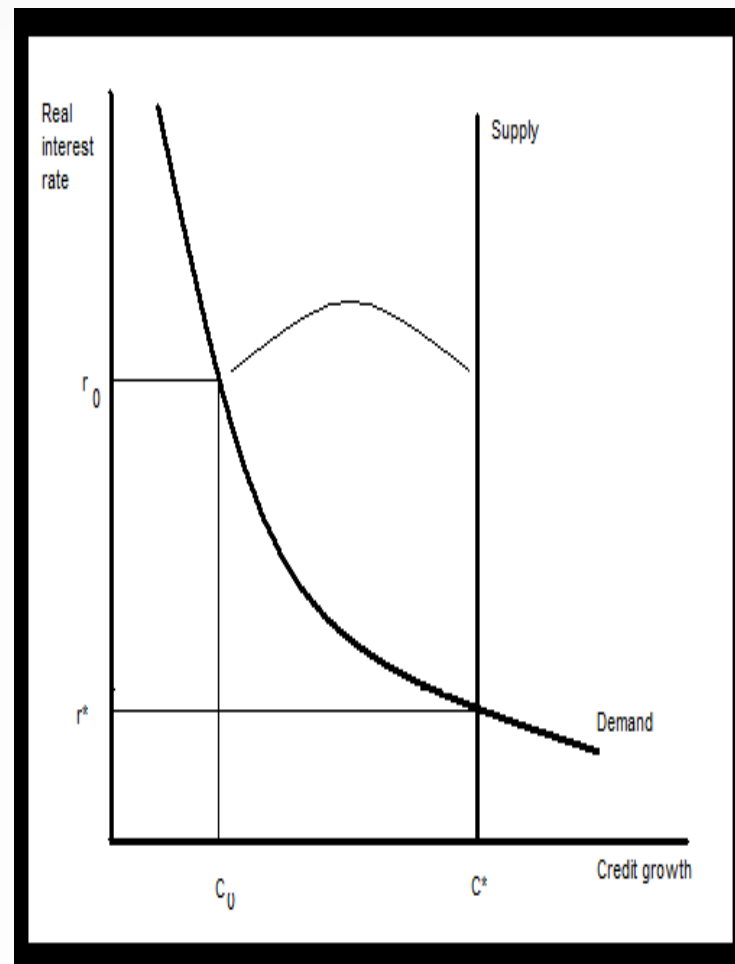
Real GDP and credit growth





Macro-financial linkages

- Credit risk, NPLs and credit supply
- Leverage and credit demand
- Asset prices and balance sheets





Sources of growth

Percent and shares

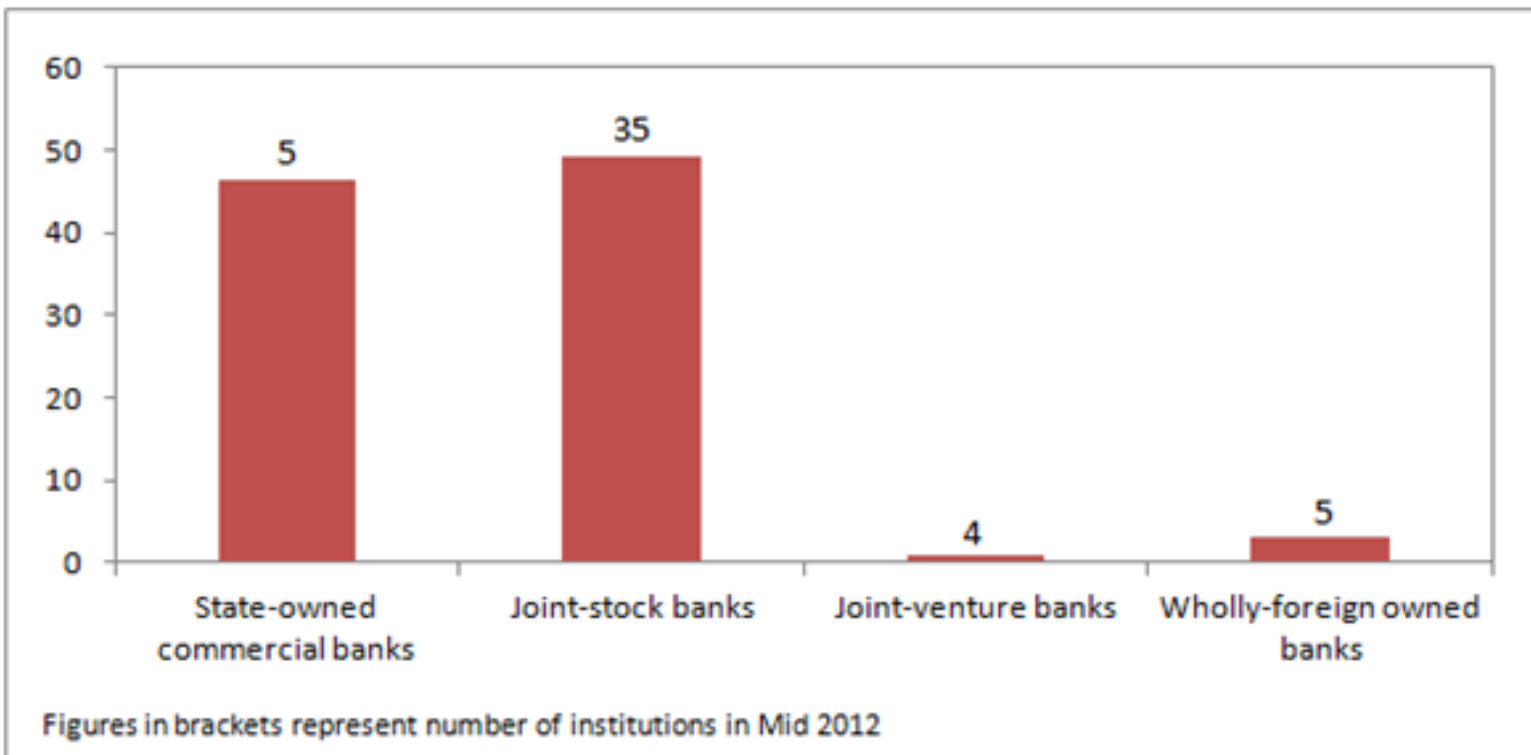
	Vietnam			China			Indonesia		
	1990-2010	1990-2000	2000-2010	1990-2010	1990-2000	2000-2010	1990-2010	1990-2000	2000-2010
GDP Growth	7.16	7.30	7.01	8.97	7.10	10.85	4.61	4.13	5.08
Capital Input	4.47	3.54	5.40	5.76	5.22	6.30	3.19	3.52	2.87
ICT	0.66	0.37	0.94	0.99	0.81	1.16	0.41	0.21	0.61
Non-ICT	3.81	3.16	4.46	4.77	4.41	5.14	2.79	3.31	2.26
Labor Input	1.37	1.31	1.44	0.55	0.69	0.40	1.05	1.01	1.10
Quality	0.09	0.08	0.11	0.15	0.15	0.15	0.17	0.17	0.17
Hours	1.28	1.23	1.33	0.40	0.54	0.25	0.89	0.85	0.93
TFP	1.31	2.46	0.16	2.67	1.18	4.16	0.36	-0.4	1.12

	Vietnam			China			Indonesia		
	1990-2010	1990-2000	2000-2010	1990-2010	1990-2000	2000-2010	1990-2010	1990-2000	2000-2010
GDP Growth	100	100	100	100	100	100	100	100	100
Capital Input	63	48	77	64	74	58	69	85	56
ICT	9	5	13	11	12	11	9	5	12
Non-ICT	53	43	64	53	62	47	61	80	45
Labor Input	19	18	21	6	10	4	23	25	22
Quality	1	1	2	2	2	1	4	4	3
Hours	18	17	19	4	8	2	19	21	18
TFP	18	34	2	30	17	38	8	-10	22

Source: Vu (2000)

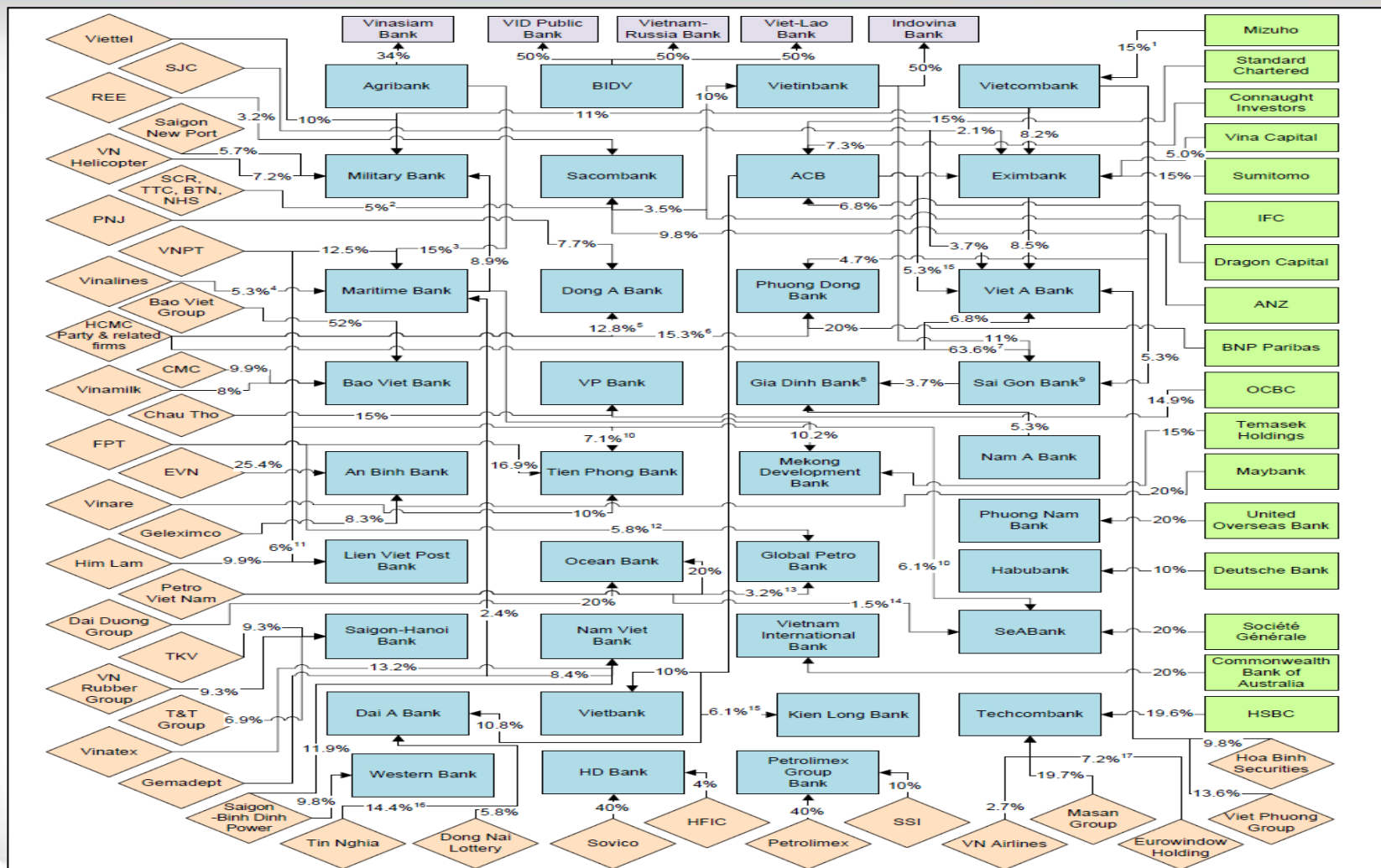
Structure of the banking system

Figure 1. Distribution of banking sector assets by type of bank, mid-2012 (in percent to total)





Structure of the banking system



Note: Shareholding information is as of 30 June 2011. Shareholdings by individuals are not depicted in the diagram. Shareholdings by institutions of less than 5 percent are not depicted except for those having representation in boards of directors or strategic partner status. Mekong Housing Bank and five joint-stock banks are not included in the diagram.

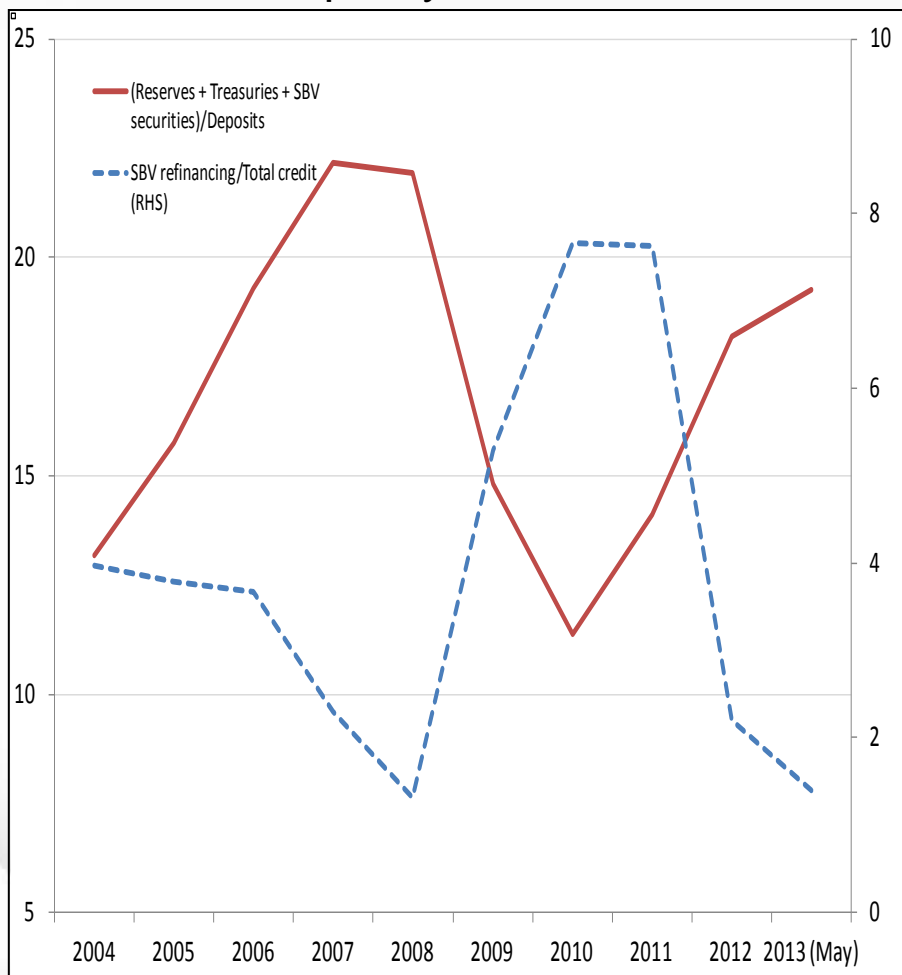
Source: Compiled by Fulbright Economics Teaching Program (FETP) from banks' financial reports.



State of the banking system

Liquidity and solvency

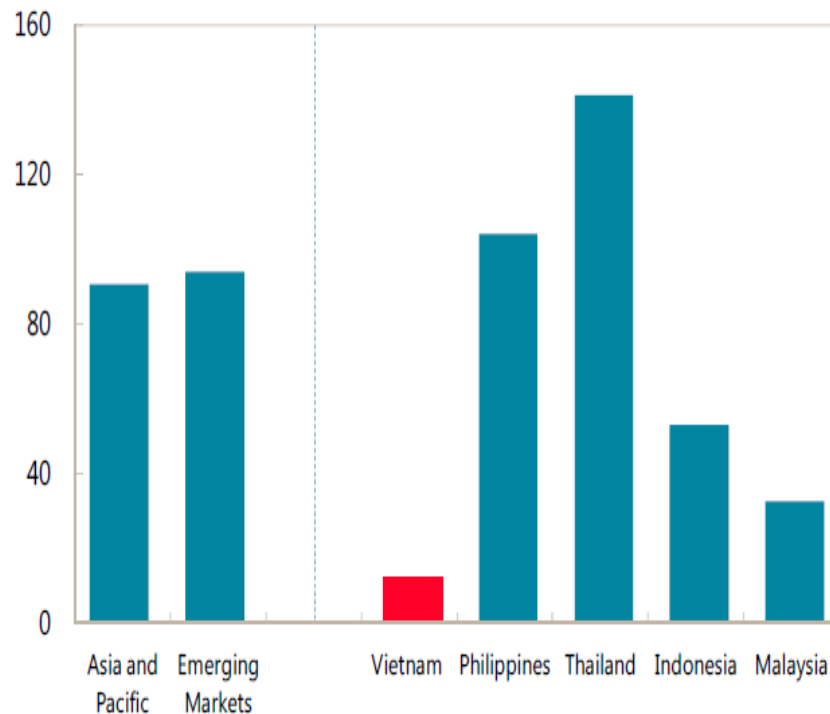
Liquidity stress



Provisioning and capital adequacy

Provisions to Nonperforming Loans^{1/}

(In percent)



^{1/} Indonesia and Malaysia as of September 2012; Vietnam as of June 2012; Philippines as of March 2012; the rest as of end-2011

Banking sector: Prospects, Reforms, and M&A





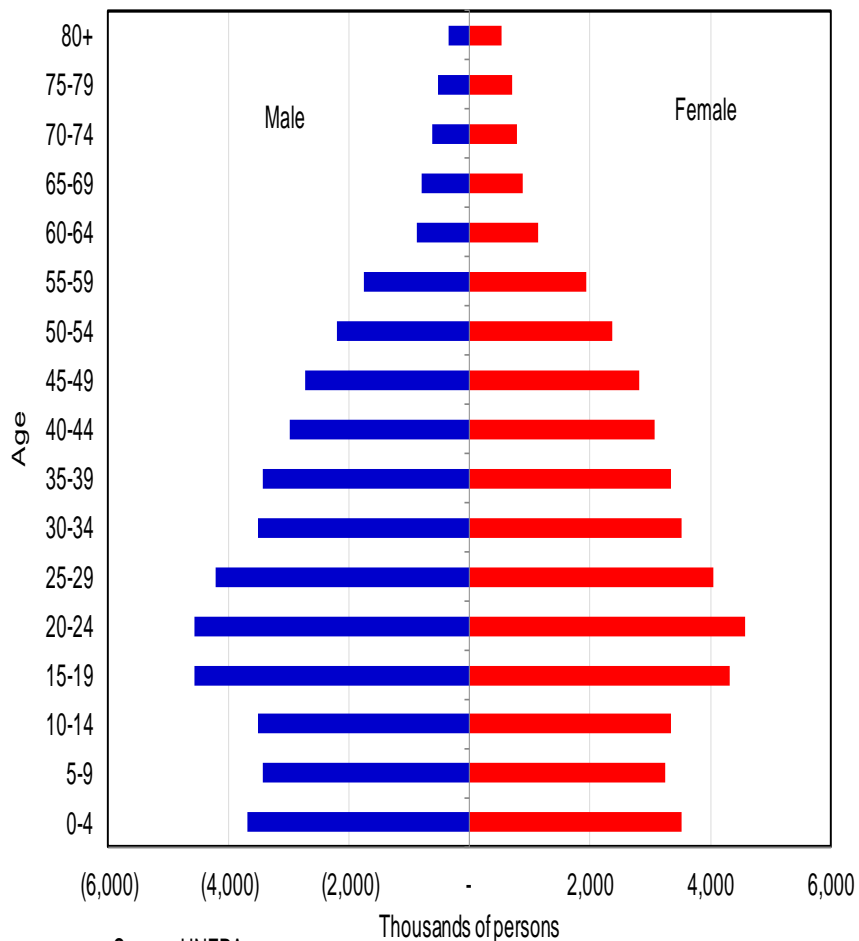
Prospects

- Demographics
- Structural reforms
 - Banking sector
 - Reform strategy
 - Mergers
 - VAMC
 - Loan classification and NPLs
 - Supervision
 - Complementary reforms: SOEs and public investment

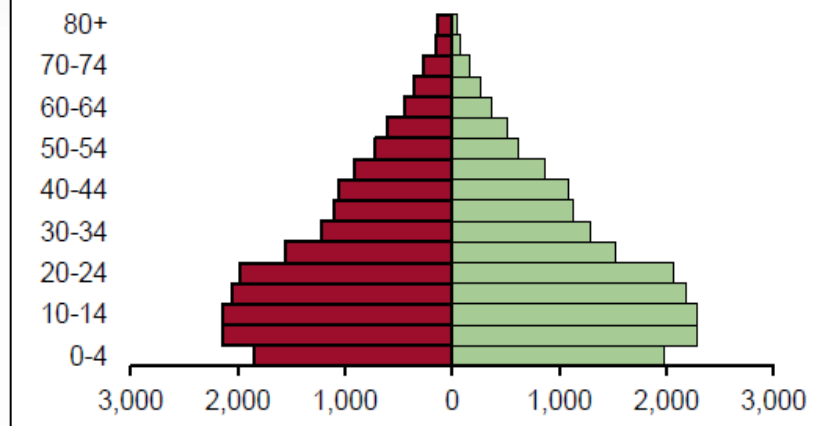


Demographics

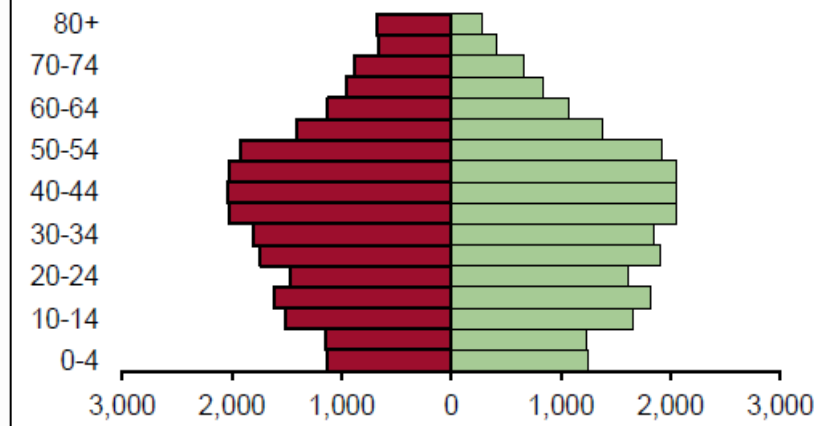
Vietnam: Structure of Population, 2010



South Korea 1980



South Korea 2010



Source: Credit Suisse



Banking sector reform strategy

- Approved on March 1, 2012
- Key objective to restructure fundamentally and comprehensively the system of credit institutions to develop...a modern, safe, sound efficient system compliant with international banking standards and practices.
- Key elements of the plan included:
 - Classify credit institutions into healthy, illiquid and weak classifications. Undertake a diagnostic of the system by assessing each institution's financial condition, performance and management and classify institutions into categories to determine appropriate restructuring treatment.
 - Weak banks required to have restructuring plans or merge/consolidate. Each institution identified as a weak institution to address financial strengthening especially through bolstering capital, limiting growth and dividends, and implementing operational restructuring and changes to management and ownership structure. If restructuring plan fails, place institution under special control or merge/consolidate with another institution.
 - Support illiquid credit institutions with temporary liquidity assistance. Make available for solvent credit institutions, an announced liquidity support facility.



Banking sector reform strategy (contd.)

- Key elements of the plan (contd.):
 - Raise capital for the SOCBs. Ensure that capital adequacy standards are met by issuing additional shares and injecting public funds, as appropriate.
 - Undertake early intervention to limit fiscal costs. Take action against institutions well before an institution's illiquidity reaches a critical point, for example, prior to triggering a bank run or other unsafe or unsound banking activities.
 - Address asset quality. Focus on resolving NPLs in order to reduce NPL ratios through sale of collateral, sale of bad debts to the Debt and Asset Trading Corporation (DATC), selling bad debts to non-credit institutions and bank asset management companies (AMCs), and writing-off of bad debts.
 - Improve governance. Strengthen bank management capacity, modernize risk management systems, internal controls and audit systems, increase transparency and limit control and manipulation of dominant shareholders.
 - Primary responsibility for implementing the plan is granted to the SBV, while the MOF is responsible for coordinating with SBV on a plan to resolve NPLs and determining capital needs for the SOCBs.



M&A Objectives: Private

- Address geographic or capability gap for buyer
- Create scale
 - Absolute size
 - Market share
- Acquire good management and/or systems
- Financial opportunity due to attractive pricing



M&A Objectives: Public

- Efficiency
- Financial stability
- Financial intermediation
- Fiscal cost



M&A: Progress

- Several mergers of “weak” banks
- Capital increase—Domestic and foreign
- Search for strategic partners



Loan classification and NPLs

- Circular 2
- Loan restructuring
- Dealing with “troubled” assets
 - For Regulators
 - Don’t burden a decent bank with the problems of a poor one
 - Address inherent problem as part of the deal
 - For Buyers
 - Make sure the transaction is in the shareholders’ interests
 - Be very clear what the target offers the buyer, and is the acquisition the best way to achieve it?
 - Be bold and strong in protecting what you have by acquiring only on “risk-adjusted” terms

Thank you

