CIMB in alliance with VNDIRECT

Company Note

Vietnam

ADD *(no change)*

Consensus ratings*:	Buy 4	Hold 1	Sell 0

Current price:	VND21,800
Target price:	VND28,970
Previous target:	VND22,430
Up/downside:	32.9%
CIMB / Consensus:	41.3%
Reuters:	ACB.HM
Bloomberg:	ACB VN
Market cap:	US$953.4m VND21,492,648m
Average daily turnover:	US$0.97m VND21,891m
Current shares o/s:	937.7m
Free float:	75.9%

*Source: Bloomberg

Key changes in this note

- No change.

Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	26.7	24.2	25.5
Relative (%)	26.3	25.5	0.7

Major shareholders	% held
Standard Chartered	15.5
Chairman's family	8.6
Connaught Investors Ltd. (Jardine Matheson)	7.5

Asia Commercial Bank

ACB's share price rallied 27% over the last month

- ACB's chairman guided that the bank expects to finish cleaning up its legacy bad debts in 2017, which has driven the share price substantially over the last month.
- ACB wrote down over 41% of its troubled assets related to its scandal tainted former Vice Chairman Kien as of end-3Q16.
- We expect ACB's earnings growth to accelerate in FY17F and to surge in FY18F.
- We raised our target price by 29%; that target price is now based on 1.8x FY17F P/BV. ACB is our top Vietnam bank stock pick for 2017.

Accelerated clean-up and steady earnings recovery

In a January 2017 Forbes Magazine interview, ACB's chairman guided that the bank would resolve all of its troubled legacy assets within FY17, igniting market excitement about the possibility of a faster-than-expected earnings recovery for ACB. This enthused local retail investors, in our view, as did recent market speculation that ACB may sell property it owns, which would further accelerate its earnings recovery.

Rapid resolution of legacy troubled assets issues

Vietnam's central bank directed ACB to resolve its legacy assets issue over three years (2016-18) but management appeared to have a shorter timeframe in mind. The regulator has not yet allowed ACB to freely sell the collateral underpinning those legacy assets but the bank has accelerated its provisioning against those troubled assets. By Sep 2016, ACB had written down the value of its legacy assets by more than 41%.

FY17 outlook: accelerated earnings growth

Barring macro shocks, we project an acceleration in ACB's core EPS growth from 12% yoy in FY16 to c.20% in FY17F, attributable to improvements in a range of operating metrics. We also expect the proportion of legacy assets that it writes down to increase from c.50% at end-FY16 to 80% at end-FY17F (and possibly 100% if it sells property to further accelerate provisioning). Furthermore, we think it's likely that the disposal of the collateral underpinning those legacy assets will generate earnings upside in FY18-19F.

Manageable recapitalisation pressure

We estimate ACB probably needs to raise about US$200m of new capital to maintain a 12% CAR under Basel II (although this figure could easily reach US$240m). The bank plans to raise US$310m of Tier-2 capital (ACB raised US$88m in Jun 2016), and sell to treasury shares equivalent to ~7% of its outstanding shares. We believe ACB can recapitalize itself without aggressively raising Tier-1 capital, especially given its likely earnings recovery and proceeds from the possible sale of collateral assets.

Raising our target by price 29%; Maintain Add rating

We raised our ACB target price 29% by lifting our target valuation from 1.5x P/B (2 s.d. above ACB's three-year average P/B), to 1.8x FY17F P/B, which is the valuation ACB commanded in 2011-12, before the Kien scandal erupted (ACB also briefly traded at 1.8x P/B in 2015, driven by the bank's progress in resolving its legacy bad debts). Our higher target price reflects ACB's steady clean-up progress. Downside risks include an unexpected, sector-wide slowdown in loan growth - which is not an ACB-specific risk.

Analyst(s)

QUAN Trong Thanh
T (84) 90 407 0582
E quan.trongthanh@cimb.com

Financial Summary	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Net Interest Income (VNDb)	4,766	5,884	6,589	7,586	8,647
Total Non-Interest Income (VNDb)	1,153	337	1,181	1,496	1,611
Operating Revenue (VNDb)	5,919	6,220	7,770	9,082	10,258
Total Provision Charges (VNDb)	(977)	(884)	(1,872)	(2,435)	(2,225)
Net Profit (VNDb)	854	1,028	1,204	1,428	2,014
Core EPS (VND)	851	1,043	1,227	1,394	1,965
Core EPS Growth	5.1%	22.6%	17.6%	13.6%	41.0%
FD Core P/E (x)	25.63	20.90	17.77	15.64	11.09
DPS (VND)	679.2	669.1	0.0	0.0	1,000.0
Dividend Yield	3.12%	3.07%	0.00%	0.00%	4.59%
BVPS (VND)	13,221	13,637	13,653	15,046	16,012
P/BV (x)	1.65	1.60	1.60	1.45	1.36
ROE	6.9%	8.2%	9.0%	9.7%	12.7%
% Change In Core EPS Estimates			0%	0%	0%
CIMB/consensus EPS (x)			1.09	1.03	1.11

SOURCE: COMPANY DATA, CIMB FORECASTS

Steady clean-up and recovery

Accelerated provisioning against Kien-related legacy assets

A quick recap of ACB's troubled legacy asset issue:

In 2012, ACB's Vice-Chairman, Nguyen Duc Kien, was prosecuted for economic-related infractions, although some observers believed that there were ulterior motives to his departure from the bank. ACB subsequently conducted a thorough review of its banking business model & internal controls, and identified VND12,700bn/US$570m of troubled assets (~8.2% of interest earning assets) that needed to be resolved. Those assets included credit extended to Nguyen Duc Kien's own companies (in the form of loans and bonds) as well as loans made to a state-owned shipping company and interbank deposits to distressed banks.

From the end of 2012, when ACB made its assessment of the amount of impaired assets on its balance sheet, until end-3Q16, ACB resolved over half of these legacy troubled assets by: 1) collecting debts, 2) selling collateral assets, 3) provisioning, and 4) asset swaps (i.e. ACB was offered real estate assets and corporate bonds by the distressed banks with which it had placed interbank deposits). According to our calculations, the net value of those legacy assets at end-3Q16 was VND3,200bn/US$144m, equivalent to ~1.6% of ACB's total interest earning assets or 2% of its loan book. That US$144m figure included US$133m of credit extended to Kien-related companies and US$11m of interbank deposits placed with VNCB (a bank that has been nationalised).

A summary of ACB's troubled assets appears in the table below:

Figure 1: ACB's legacy troubled assets and resolution progress

(Unit: VND bn)	2012	2015	Sep-16	Note
Kien-related lending	**8,333**	**5,788**	**5,058**	During FY12 and Sep-2016, we estimate ACB has managed to recover 39% of the troubled assets (via debt collection and selling some collateral assets). Moreover, ACB has provisioned for 41% of the total outstanding value (VND5,058bn) at end Sep-2016. Net troubled assets value now stands at VND2,974bn/US$133m.
Direct loans	3,511	1,866	1,717	ACB recovered part of the assets via debt collection and selling some collateral assets.
Indirect loans via credit guarantee	1,193	-	-	ACB collected back the asset in mid-2015
Corporate bonds	2,450	2,734	2,689	ACB hasn't been able to recover this asset, but it has provisioned for 62% the outstanding value.
Receivables	1,179	1,188	652	ACB collected back half of the asset in 1H16, and has provisioned for 54% of the outstanding value.
Interbank deposits	**3,041**	**1,196**	**676**	ACB has largely resolved this troubled assets via i) asset swap, and ii) provisioning. Regarding the remainder, we believe the bank will manage to resolve via asset swap rather than provisioning.
Deposits at Vietinbank	719	24	24	ACB has provisioned largely for this deposit.
Deposits at a state-owned bank (undisclosed name)	600	-	-	ACB had to swap this deposit for bonds issued by Kien's six companies. The partner bank was merged into another state-owned bank in 2015.
Deposits at GPBank	772	772	252	ACB swapped VND500bn of this deposit for 9%-yield corporate bonds (that GPBank previously held); ACB is negotiating to swap the remaining deposit for the properties owned by GPBank. GPBank was nationalized in 2015.
Deposits at VNCB	950	400	400	ACB has provisioned for 42% of the asset; so net asset value now stands at VND234bn/US$11m; It is negotiating to swap the deposit for other assets held by VNCB. VNCB was nationalized in 2015.
Lending to Vinalines	**1,354**	**-**	**-**	ACB has fully resolved this troubled assets via: i) provisioning, and ii) asset swap (swap the loans for shares of a listed company).
TOTAL	**12,728**	**6,984**	**5,734**	
% interest-earning assets	8.2%	3.8%	2.8%	
% Loan book	12.4%	5.2%	3.6%	

SOURCES: CIMB, COMPANY REPORTS

According to ACB's disclosure of the collateral underlying its legacy troubled assets and the bank's method of valuing that collateral, ACB holds US$216m worth of collateral, which equates to 162% of the current net value of its legacy assets (i.e. after aggregate provisioning is deducted from the gross value of the legacy assets on its balance sheet). We believe the bank's method of valuing the collateral is reasonable but we have made an even more conservative estimate of the value of the collateral by applying an additional haircut. Under our more conservative estimate, the value of the collateral assets covers 132% of the net value of the Kien related troubled assets.

Figure 2: ACB: Collateral assets for Kien-related loans: Mix and valuation

Collateral asset mix	ACB valuation (VND bn)	Valuation methods used	Additional hair-cut rate	CIMB valuation (VND bn)
Other bank shares	3,347	Recent bid price	10%	3,012
Unlisted corporate shares	878	Book value, DCF, market price of property owned by the invested companies	20%	703
Equity investment	155		30%	109
Deposits at ACB	39	Book value	0%	39
Receivables	101	Book value	50%	51
Other banks' credit guarantees	300	Guaranteed value	100%	-
Total	**4,820**			**3,913**
% Gross troubled assets	83%			68%
% Net troubled assets	162%			132%

SOURCES: CIMB, COMPANY REPORTS

ACB accelerates provisioning for Kien-related troubled assets:

Most of the collateral backing the Kien-related legacy assets is in the form of listed and unlisted shares of other local banks – but we believe the central bank has been reticent about allowing ACB to sell these shares in the open market because it wants to prevent the stakes in those banks that ACB holds from being acquired by a small, concentrated pool of investors.

In late-Dec 2015, the central bank directed ACB to resolve its Kien-related troubled assets over a three-year horizon (2016-18). Specifically, ACB was asked to set an annual target for the amount of legacy assets it planned to recover each year, and the bank would then incur provision expenses equivalent to the difference between the targeted amount of asset recovery and the actual assets recovered (i.e. from debt collection or from the sale of underlying collateral assets).

Given that the central bank also delayed permitting ACB to sell the underlying collateral assets, ACB had to do with simply provisioning against the value of the legacy assets – so it accelerated the rate of its provisioning against those assets starting from 4Q15.

Figure 3: ACB accelerates provisioning for Kien-related troubled assets

(Unit: VND bn)	4Q15	1Q16	2Q16	3Q16
Gross value	5,788	5,788	5,058	5,058
Provisions	1,300	1,500	1,784	2,084
% Gross value	*22%*	*26%*	*35%*	*41%*
Net value	4,488	4,288	3,274	2,974

SOURCES: CIMB, COMPANY REPORTS

ACB provisioned against 41% of the value of those legacy assets as of end-3Q16. At this accelerated pace, we think the bank should resolve ~80% of its Kien-related legacy assets by the end of 2017F, which would enable ACB to resume its normal growth trajectory from 2018F, in our view. Hence, we project robust earnings growth in FY18F, driven by a significant reduction in provisioning expenses.

Furthermore, we believe significant earnings surprises are likely when the bank is finally permitted to sell the collateral underlying its Kien-related loans/bonds. Note that: 1) our FY18 earnings forecast does NOT include any of these likely, windfall gains, and 2) the collateral that we expect ACB to be allowed to sell in 2018F is worth about 3x ACB's average FY15-16F net profit. Not surprisingly, ACB's management guided for robust FY18F earnings growth at a recent analyst meeting and also mentioned the possibility of higher cash dividends next year.

FY17 forecasts: clean-up enters final phase

We expect ACB's pretax and net profits to grow 20% in FY17F (and 17% yoy in FY16F), assuming that: 1) the bank continues to provisioning against its legacy troubled assets at an accelerated pace, and 2) the collateral assets underlying ACB's Kien related bad debts will not be sold in FY17.

We expect ACB to earn VND1,428bn (US$64m) in FY17F, based on the following key assumptions:

- **NII growth of 15%**, driven by 19% yoy loan growth and a 330bp NIM (nearly unchanged from FY16F).

  ACB's banking model is focused on retail and SME borrowers (~90% of its total loan book) so, barring any systemic macro shocks, ACB should easily be able to grow its loan book by 19% next year, in our view. Furthermore, we believe the bank's focus on retail and SME lending means that its 330bp NIM is sustainable (ACB charges a 400bp+ spread on many retail products, including mortgages).

  The bank's healthy funding structure (i.e. heavy reliance on customer deposits, rather than interbank loans), and ample liquidity (i.e. sub-80% LDR) are both underpinned by its retail deposit franchise strength, while its healthy CAR (above 12%) looks set to be bolstered by the sale of treasury shares and by the issuance of Tier-2 capital, in our view. All of these positive attributes support ACB's balance sheet expansion and loan growth, and we believe that ACB, (along with a few other local banks like Military Bank) will be encouraged by the SBV to grow its loan book at a faster pace than the rest of the sector next year.

  Further to that last point, at the beginning of FY16, ACB received an 18% credit growth quota from the central bank (in line with the sector-wide target) but, by September, the bank had exhausted its quota so the central bank raised ACB's credit growth allowance to 21% in FY16.

- **Pro-forma non-NII growth of 10%**, attributable to: 1) 15% yoy fee income growth, 2) 7% yoy growth in forex-trading revenues, and 3) negligible growth in other sources of non-net interest income, including securities trading and investments income, and 'other income' (i.e. one-off gains from selling collateral assets or provision write-backs).

  Note that provisions against Kien-related corporate bonds depressed ACB's 'income from securities trading and investment', which is a non-NII item, but our pro-forma adjustment recasts these expenses as a component of what we call the bank's 'total credit provision expenses'.

  Upside to our non-NII forecast may come from:

  1) Higher fee incomes and securities-trading income. The bank's management set initial ~25% growth targets for each of these businesses in its draft FY17 business plan. If Vietnam's interest rate environment remains as favourable in 2017 as it has been in 2016 (which we believe is likely), there is a good chance that banks like ACB that have highly capable treasury desks will earn good profits from trading Vietnamese government bonds (VGBs).

  2) Higher-than-expected 'Other income', if the central bank allows ACB to sell off part of the collateral assets underlying Kien-related loans and/or the Vietnam Asset Management Company (VAMC) begins fulfilling its intended bad-debt recovery role in the clean-up of Vietnam's banking system. Either could result in significant provision write-backs for ACB (the bank transferred about VND1,900bn/US$85m, or ~1.2% of its total loan book, worth of NPLs to the VAMC).

- **Operating expense growth of 10.7%** and a fall in the bank's pro-forma CIR from an expected 56.5% in FY16F to 53.5% in FY17F (as mentioned above, we made a small pro-forma adjustment to the bank's operating income because the provisions ACB will make against its Kien-related bonds will reduce its 'income from securities trading & investment', which is an operating income item).

  Management continues to target a sub-50% CIR and we believe ACB's leaders are managing the business in a cost efficient manner and prioritise efficiency, but the bank needs to raise salaries this year to stay competitive in attracting and retaining high quality staff, in our view. Also, the bank needs to make some IT investments in order to comply with Basel II, and will incur expenses to boost its retail business. We expect all of this will drive opex growth.

- **Total provision expense growth of 30%**, which equates to a total credit-cost rate of ~1.4% vs. 1.3% in FY16F and FY15. Our FY17F 'total provision expense' estimate includes the following components: i) 20% mandatory provisioning against the VND1,883bn of NPLs that ACB transferred to the VAMC, ii) provisioning against Kien-related troubled assets (30% provisioning against the VND5,058bn gross value of those assets), and iii) a 0.3% credit cost rate against ordinary loans held on ACB's balance sheet.

We are aware that a 0.3% credit-cost rate against ACB's loan book appears low, but ACB typically incurred comparable levels of provisioning in the years before its Kien-related issues arose in 2012, and we believe the bank's good asset quality (1.1% NPL ratio, 100% loan loss coverage ratio at end-3Q16) gives ACB room to prioritise provisioning against its legacy assets and delivering decent earnings growth to shareholders. That said, we do expect the bank to lift its credit cost rates against loans held on its balance sheet after 2017F, in order to continue building up loan loss coverage.

Manageable recapitalisation requirements for Basel II

The State Bank of Vietnam (SBV) selected ACB and nine other Vietnamese banks to implement Basel II by the end of 2018, so local banks are under pressure to recapitalise. We estimate that ACB will need to raise VND4,000bn-5,500bn (US$180m-240m) of new capital corresponding to the assumption that the bank's risk weighted assets will increase by 40-50% under Basel II (and based on the bank's capital adequacy position at end-3Q16).

ACB is planning to bolster its capital base (in order to prepare for Basel II) by: 1) issuing additional VND4,000bn long-term bonds by end-1H17F (which it made some progress towards in 2H16), and 2) selling treasury shares (~66.6m shares valued at VND1,265bn at current market price). The bank's management said it currently has no plans to raise additional Tier-1, capital and we note that proceeds from the sale of the collateral assets underlying Kien-related loans would also boost ACB's capital base. For these reasons, we believe ACB can manage its pressure to recapitalise well and can avoid having to raise new Tier-1 capital in FY17-18F, which will support a recovery in its ROE, and mitigate the risk of EPS dilution.

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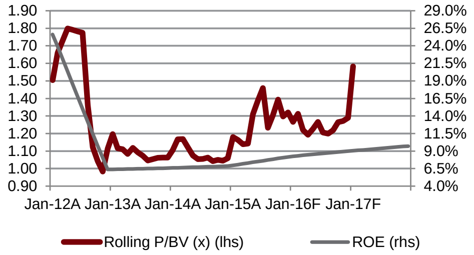
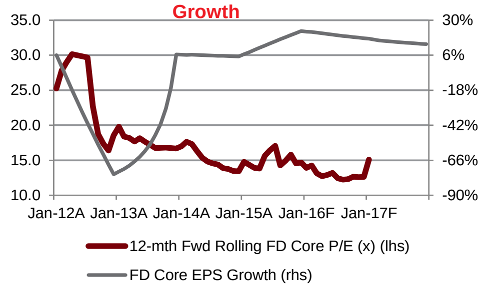
BY THE NUMBERS





Profit & Loss

(VNDb)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Net Interest Income	4,766	5,884	6,589	7,586	8,647
Total Non-Interest Income	1,153	337	1,181	1,496	1,611
Operating Revenue	**5,919**	**6,220**	**7,770**	**9,082**	**10,258**
Total Non-Interest Expenses	(3,824)	(4,022)	(4,392)	(4,862)	(5,516)
Pre-provision Operating Profit	**2,095**	**2,199**	**3,377**	**4,220**	**4,742**
Total Provision Charges	(977)	(884)	(1,872)	(2,435)	(2,225)
Operating Profit After Provisions	**1,117**	**1,314**	**1,505**	**1,785**	**2,518**
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Operating EBIT (incl Associates)	**1,117**	**1,314**	**1,505**	**1,785**	**2,518**
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	**1,117**	**1,314**	**1,505**	**1,785**	**2,518**
Exceptional Items	0	0	0	0	0
Pre-tax Profit	**1,117**	**1,314**	**1,505**	**1,785**	**2,518**
Taxation	(264)	(286)	(301)	(357)	(504)
Consolidation Adjustments & Others					
Exceptional Income - post-tax					
Profit After Tax	**854**	**1,028**	**1,204**	**1,428**	**2,014**
Minority Interests	0	0	0	0	0
Pref. & Special Div	0	0	0	0	0
FX And Other Adj.	0	0	0	0	0
Net Profit	**854**	**1,028**	**1,204**	**1,428**	**2,014**
Recurring Net Profit	854	1,028	1,204	1,428	2,014

Balance Sheet Employment

	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Gross Loans/Cust Deposits	75.2%	76.6%	78.5%	79.0%	79.8%
Avg Loans/Avg Deposits	76.4%	76.0%	77.6%	78.7%	79.4%
Avg Liquid Assets/Avg Assets	27.7%	27.9%	26.0%	23.8%	22.7%
Avg Liquid Assets/Avg IEAs	30.5%	30.3%	27.8%	25.4%	24.2%
Net Cust Loans/Assets	63.9%	65.8%	69.2%	69.9%	71.1%
Net Cust Loans/Broad Deposits	71.4%	74.7%	76.2%	76.4%	77.2%
Equity & Provns/Gross Cust Loans	12.0%	10.7%	10.4%	10.3%	9.6%
Asset Risk Weighting	57.3%	60.4%	74.6%	75.0%	76.0%
Provision Charge/Avg Cust Loans	0.82%	0.60%	1.13%	1.27%	0.93%
Provision Charge/Avg Assets	0.53%	0.40%	0.78%	0.90%	0.67%
Total Write Offs/Average Assets	0.56%	0.46%	0.88%	0.99%	0.77%

SOURCE: CIMB RESEARCH, COMPANY DATA

BY THE NUMBERS… cont'd

Balance Sheet

(VNDb)	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Total Gross Loans	120,883	144,154	169,150	200,522	240,114
Liquid Assets & Invst. (Current)	39,677	38,679	38,679	42,547	46,802
Other Int. Earning Assets	3,358	4,609	4,049	4,786	5,685
Total Gross Int. Earning Assets	**163,918**	**187,442**	**211,878**	**247,855**	**292,601**
Total Provisions/Loan Loss Reserve	(1,579)	(1,541)	(2,535)	(4,100)	(5,285)
Total Net Interest Earning Assets	**162,339**	**185,901**	**209,343**	**243,755**	**287,316**
Intangible Assets	420	425	570	758	905
Other Non-Interest Earning Assets	14,355	12,325	14,203	16,893	20,235
Total Non-Interest Earning Assets	**14,775**	**12,750**	**14,774**	**17,652**	**21,140**
Cash And Marketable Securities	**2,496**	**2,806**	**1,648**	**3,253**	**2,907**
Long-term Investments	0	0	0	0	0
Total Assets	**179,610**	**201,457**	**225,765**	**264,659**	**311,363**
Customer Interest-Bearing Liabilities	154,614	174,919	202,452	239,307	284,275
Bank Deposits	6,145	2,433	2,727	2,727	2,727
Interest Bearing Liabilities: Others	3,266	8,416	3,237	3,237	3,237
Total Interest-Bearing Liabilities	**164,025**	**185,768**	**208,415**	**245,270**	**290,239**
Bank's Liabilities Under Acceptances	0	0	0	0	0
Total Non-Interest Bearing Liabilities	3,187	2,901	3,358	3,969	4,715
Total Liabilities	**167,212**	**188,669**	**211,774**	**249,240**	**294,954**
Shareholders' Equity	**12,397**	**12,788**	**13,991**	**15,420**	**16,409**
Minority Interests	0	0	0	0	0
Total Equity	**12,397**	**12,788**	**13,991**	**15,420**	**16,409**

Key Ratios

	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Total Income Growth	4.8%	5.1%	24.9%	16.9%	12.9%
Operating Profit Growth	10.8%	5.0%	53.6%	25.0%	12.4%
Pretax Profit Growth	7.9%	17.6%	14.5%	18.6%	41.0%
Net Interest To Total Income	80.5%	94.6%	84.8%	83.5%	84.3%
Cost Of Funds	5.67%	4.69%	5.27%	5.27%	5.35%
Return On Interest Earning Assets	8.70%	8.02%	8.50%	8.50%	8.50%
Net Interest Spread	3.04%	3.33%	3.23%	3.23%	3.15%
Net Interest Margin (Avg Deposits)	3.26%	3.57%	3.49%	3.43%	3.30%
Net Interest Margin (Avg RWA)	4.72%	5.24%	4.54%	4.14%	3.97%
Provisions to Pre Prov. Operating Profit	46.7%	40.2%	55.4%	57.7%	46.9%
Interest Return On Average Assets	2.75%	3.09%	3.08%	3.09%	3.00%
Effective Tax Rate	23.6%	21.8%	20.0%	20.0%	20.0%
Net Dividend Payout Ratio	74.6%	61.0%	NA	NA	50.9%
Return On Average Assets	0.49%	0.54%	0.56%	0.58%	0.70%

Key Drivers

	Dec-14A	Dec-15A	Dec-16F	Dec-17F	Dec-18F
Loan Growth (%)	8.5%	15.2%	18.5%	19.0%	20.0%
Net Interest Margin (%)	3.0%	3.3%	3.3%	3.3%	3.2%
Non Interest Income Growth (%)	-8.7%	-70.8%	250.7%	26.7%	7.6%
Cost-income Ratio (%)	64.6%	64.7%	56.5%	53.5%	53.8%
Net NPL Ratio (%)	1.6%	0.9%	0.6%	0.3%	0.4%
Loan Loss Reserve (%)	62.3%	87.0%	106.4%	144.6%	155.3%
GP Ratio (%)	0.7%	0.7%	0.8%	0.8%	0.8%
Tier 1 Ratio (%)	11.2%	10.3%	8.2%	7.7%	6.8%
Total CAR (%)	14.1%	12.8%	10.0%	9.2%	8.1%
Deposit Growth (%)	11.9%	13.1%	15.7%	18.2%	18.8%
Loan-deposit Ratio (%)	74.2%	75.7%	77.2%	77.3%	77.9%
Gross NPL Ratio (%)	2.2%	1.3%	1.5%	1.5%	1.5%
Fee Income Growth (%)	-9.9%	7.3%	8.1%	15.0%	15.8%

SOURCE: CIMB RESEARCH, COMPANY DATA

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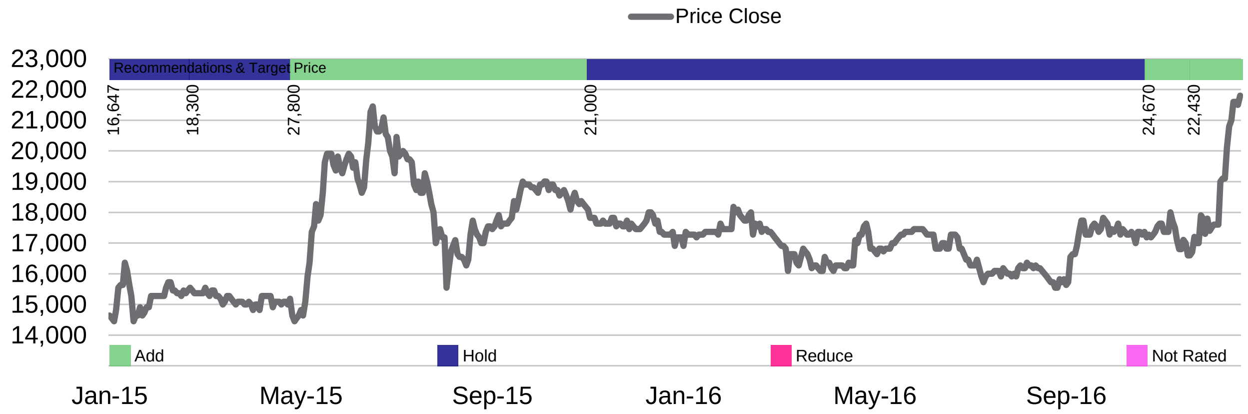

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2016, Anti-Corruption 2016.

AAV – Very Good, n/a, **ADVANC** – Very Good, Certified, **AEONTS** – Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Very Good, Declared, **AOT** – Excellent, Declared, **AP** – Very Good, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – not available, Declared, **BCP** - Excellent, Certified, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, Declared, **BEC** - Good, n/a, **BH** - Good, Declared, **BIGC** - Excellent, Declared, **BJC** – Good, n/a, **BLA** – Very Good, Certified, **BPP** – not available, n/a, **BTS** - Excellent, Certified, **CBG** – Good, n/a, **CCET** – not available, n/a, **CENTEL** – Very Good, Certified, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** - Excellent, Certified, **DELTA** - Excellent, Declared, **DEMCO** – Excellent, Certified, **DTAC** – Excellent, Certified, **EA** – Very Good, Declared, **ECL** – Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Good, n/a, **GFPT** - Excellent, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** - Excellent, n/a, **GUNKUL** – Very Good, Declared, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Declared, **ICHI** – Very Good, Declared, **INTUCH** - Excellent, Certified, **ITD** – Good, n/a, **IVL** - Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KGI** – Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Declared, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Declared, **M** – Very Good, Declared, **MAJOR** - Good, n/a, **MAKRO** – Good, Declared, **MALEE** – Very Good, Declared, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Declared, **MEGA** – Very Good, Declared, **MINT** - Excellent, Certified, **MTLS** – Very Good, Declared, **NYT** – Excellent, n/a, **OISHI** – Very Good, n/a, **PLANB** – Very Good, Declared, **PSH** – not available, n/a, **PSL** - Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Declared, **RATCH** – Excellent, Certified, **ROBINS** – Very Good, Declared, **RS** – Very Good, n/a, **SAMART** - Excellent, n/a, **SAPPE** - Good, n/a, **SAT** – Excellent, Certified, **SAWAD** – Good, n/a, SC – Excellent, Declared, **SCB** - Excellent, Certified, **SCBLIF** – not available, n/a, **SCC** – Excellent, Certified, **SCN** – Good, Declared, **SCCC** - Excellent, Declared, **SIM** - Excellent, n/a, **SIRI** - Good, n/a, **SPALI** - Excellent, Declared, **SPRC** – Very Good, Declared, **STA** – Very Good, Declared, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **TASCO** – Very Good, Declared, **TCAP** – Excellent, Certified, **THAI** – Very Good, Declared, **THANI** – Very Good, Certified, **THCOM** – Excellent, Certified, **THRE** – Very Good, Certified, **THREL** – Very Good, Certified, **TICON** – Very Good, Declared, **TISCO** - Excellent, Certified, **TK** – Very Good, n/a, **TKN** – Good, n/a, **TMB** - Excellent, Certified, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – not available, n/a, **TRUE** – Very Good, Declared, **TTW** – Very Good, Declared, **TU** – Excellent, Declared, **UNIQ** – not available, Declared, **VGI** – Excellent, Declared, **WHA** – not available, Declared, **WHART** – not available, n/a, **WORK** – not available, n/a.

Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai

Institute of Directors (as of October 28, 2016) are categorized into:
- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

CIMB Recommendation Framework

Stock Ratings	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.