PHILIPPINES' LARGEST CORPORATE DEFAULT

PHILIPPINES

RCBC has the largest exposure at $140m

Five of the largest banks in the Philippines have joined forces to cover a combined loan exposure of $412m after the local shipbuilding unit of Korean conglomerate Hanjin declared bankruptcy in a development shaping up to be the largest corporate default in the country's history.

Local media outfits estimate the loan exposure of Rizal Commercial Banking Corp (RCBC) at $140m followed by Land Bank of the Philippines at an estimated $80m; Metropolitan Bank and Trust Co at $72m; Bank of the Philippine Islands (BPI) at $60m and Banco de Oro Universal Bank (BDO) at $60m as Hanjin's loans are larger than the $386m of losses that the country's banks had to declare after the global financial crisis in 2008.

Apart from its debt to Philippine lenders, Hanjin Heavy Industries also owes around $900m to Korean banks. In the worst case scenario where banks are forced to make provisions for their full exposure, credit costs as a percentage of the banks' pre-provision income is set to increase to between 20 and 140 basis points, from 6 to 26 bp, according to Moody's Investors Service.

Immaterial risk

The central bank, however, was quick to dismiss concerns that the default represented a material risk for the stability of the financial sector as Hanjin's debt only accounts for about 0.24% of the Philippines' total loans and 2.48% of foreign currency loans. "This represents less than 1.25% of the total assets of RCBC, which could be the worst hit, whilst the impact is even smaller for the least affected BDO bank, constituting just 0.11% of total assets, according to our estimate," Fitch Solutions said in a report. "Even if in the event that the consortium of Philippine banks call for the forced sale of the Hanjin shipyard to strategic investors, the value of the company's assets is said to outstrip its loan liabilities."

Vietcombank is aiming to grow its retail loan share from 36% to 50%

Vietnamese banks grow high-yield retail arms

VIETNAM

Banks in Vietnam are moving away from lending to businesses and state-owned enterprises as they cash in on the lucrative consumer finance market that is projected to be worth $44b in 2020. In February 2018, Southeast Asia Commercial Bank acquired consumer finance firm Posts and Telecommunications Finance Company for $31.3m. This was followed by reports that Orient Commercial Bank is also eyeing the acquisition of at least 70% in an existing finance company. In a similar development, the share of retail loans in Vietcombank's loan portfolio in H1 2018 hit a four-year high as the bank aggressively aims to grow its retail mix from 36% in June 2018 to 50% by 2020.

> **The consumer finance market is projected to be worth $44b by 2020**

Middle class consumption

Consumer loans in Vietnam grew by a compound annual growth rate (CAGR) of 52.3% from 2013-2017 as banks took advantage of the country's growing middle class population and improving sentiment in the domestic property market to grow their retail and personal banking businesses.

"By customers, credit to companies remain the largest but credit to individual is growing in proportion," analysts from market research firm StoxPlus noted.

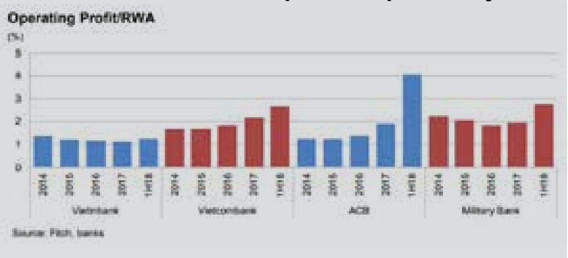
Indeed, the ratio of consumer credit to total outstanding loans in Vietnam correspondingly grew from 12.3% in 2016 to 18% in 2017. The development was particularly evident in 2017 when consumer finance surged 32.5%, effectively contributing 5.43% to headline credit growth figures (18.17%) as it assumed the role as a key driver of country's lending growth.

Enhanced profitability

The expansion of the retail banking business in Vietnam is a welcome development for the country's lenders which have historically lagged behind their more developed peers in Asia in terms of return of equity (ROE) and return on assets (ROA).

"Better Net Interest Margins from Consumer Loans, Fees and Commission income incentivise many banks to shift focus from corporate banking to retail clients," the analysts at StoxPlus explained, adding that banks can also receive a boost in fees and commission income as well as a one-off income from partnerships with life insurers. Moreover, operation efficiency has also improved owing to the cost effectiveness of retail model and the pay-off of investment in technology. Fitch Ratings also lauds the retail model as it has helped in reducing loan-concentration risk and improve banking yields. "Retail has been a key growth driver for banks and expected to remain so, increasing profitability."

Vietnamese banks' retail-powered profit rally



Source: Fitch Ratings