

Poised for rapid growth: Entering the Vietnamese financial services sector*

Introduction

The Vietnamese financial services sector is poised for rapid growth.

Incomes are rising rapidly on the back of average GDP growth of more than 7% per annum in recent years.¹ Yet, less than 10% of the population has a bank account² or insurance³, a clear indication of the still largely untapped potential within the market.

The country began gradually easing restrictions on foreign investment following the move to economic 'renovation' in 1986. The WTO accession in 2007 provided further impetus for liberalisation. Within the banking sector this includes the green light to set up wholly-owned subsidiaries able to offer a full range of banking services. The moves towards liberalisation also encompass insurance, securities and real estate, although the development of an entirely level playing field may be some years off.

International groups have already made strong inroads into the market. Prudential is the country's largest life insurer,⁴ for example. HSBC opened a full service branch in Ho Chi Minh City in 1995 and is now the largest foreign bank by customer base and investment capital.⁵ A recent surge in foreign investment includes the acquisition of strategic stakes in the country's two largest insurers and several of its top 10 banks. The privatisation ('equitisation' as it is known in Vietnam) of state holdings and the desire to attract foreign capital and expertise could open further opportunities for investment.

This flyer, produced by PricewaterhouseCoopers,⁶ looks at the prospects for market development in the Vietnamese financial services sector and how international groups can address them.

Overview

- Vietnam is projected to be one of the fastest growing economies in the world, leading to a surge in demand for financial services (our research estimates that the economy has the potential to grow by an average of 9.8% per annum up to 2050, compared to 6.8% in China and 2% in the G7⁷).
- The still relatively low uptake of financial services offers a huge and largely untapped potential. Only around 5 million out of 85 million people have bank accounts² and barely 5% of the population holds any form of insurance,³ for example.
- The four largest state-owned banks hold around 70% of the credit market.² However, they are facing mounting competition from a newer generation of joint stock banks, many with overseas strategic investors keen to gain access to local distribution networks.
- Further liberalisation of the banking sector following WTO accession includes the opportunity to set up a wholly-owned subsidiary able to offer full banking services. In March 2008, HSBC⁸ and Standard Chartered⁹ gained approval-in-principle for local incorporation.
- Vietnam's leading life insurers include Prudential, Manulife and AIA. With just eight companies in operation,¹⁰ life insurance remains a relatively open market for entrants.
- Organic development in non-life insurance is harder for foreign investors. Several have now taken strategic stakes to help gain access to local distribution networks. They include AXA,¹¹ HSBC¹² and Swiss Re.¹³
- Stock market capitalisation grew from less than 2% of GDP in December 2005 to more than 40% of GDP two years later¹⁴, in which time it reached a record high, before falling by more than half by March 2008¹⁵. However, the long-term potential remains positive. Opportunities include the continued equitisation of state-owned firms.
- The over-the-counter (OTC) market has also been expanding rapidly in recent years and some estimate could be bigger than the listed market.¹⁶ 2008 has seen greater regulation of OTC trading.
- Vietnam has the potential to be one of the most rewarding real estate markets in the world. However, complex land ownership, tax and debt regulations require care and possibly the support of a local partner.

1 'Vietnam: A country on the move', a World Bank report (web.worldbank.org 22.3.08).

2 Saigon Securities research, 16.9.07.

3 Ministry of Finance, 22.2.07.

4 Economist Intelligence Unit, 1.11.07.

5 HSBC Vietnam website (www.vn.hsbc.com/vn/about_hsbc.htm) 22.4.08.

6 'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate independent legal entity

Investment environment

Rapid economic development and increases in personal incomes offer considerable growth potential for international financial services groups.

Economy

Vietnam has one of the fastest growing economies in the world. Having expanded by an average of more than 7% per annum since the beginning of the decade¹⁷, GDP growth reached 8.5% in 2007.¹⁸ The country is expected to sustain this impressive growth rate in the coming years and by 2050 the size of the economy could have overtaken South Korea and be on a par with Italy and Canada.⁷

Figure 1

Population	85 million (2007)
GDP per capita (purchasing power parity)	\$2,338 (2007)
GDP per capita (market exchange rate)	\$727 (2007)
Inflation	19.4% (3/2008)
Source: General Statistics Office of Vietnam, CIA World Factbook and Economist Intelligence Unit.	

Vietnam's transformation from command to market economy has been closely modelled on its northern neighbour China, as well as drawing on the experience of privatisation in other countries by seeking to create a broad investor base. Advantages include strong political stability, high standards of education and relatively low manufacturing labour costs (average labour costs are around 35% lower than the coastal industrial zones of China¹⁹). The country ranked as the most attractive emerging market for manufacturing in the PricewaterhouseCoopers 2007 EM20 Index²⁰ and among the top ten countries for foreign direct investment (FDI) in the UN's latest World Investment Prospects Survey.²¹

Economic expansion is raising demand for project finance and corporate lending. It is also leading to rapid growth in personal incomes and the resulting demand for savings,

consumer credit and other retail financial services, albeit from a relatively low base of penetration. Average incomes have risen seven-fold in the past 15 years¹⁷ and the country is now home to a rapidly emerging professional and entrepreneurial class keen to acquire property, cars and other trappings of wealth. A clear indication of this increasing affluence was the near doubling of vehicle sales in 2007 to reach some 80,000.²²

A particular feature of Vietnam is its youthful demographic (around half the population is under 35²³), which is reflected in high levels of entrepreneurship, technological awareness and openness to new ideas. Younger people may be more comfortable taking out credit than their more conservative parents. However, this is still a country that prizes prudence and where if young people do hold a credit card they will tend to pay off the bill at the end of the month.

The corollary of this rapid economic growth is the danger of over-heating. Inflation rose above 19% in March 2008,²⁴ with the pressure of rising domestic demand being exacerbated by global increases in energy costs and key staples such as rice, along with the higher cost of imports from other parts of Asia as many regional currencies continue to appreciate against the US dollar. The risk of over-heating is further reflected in the fluctuations in share values. Having reached a peak of more than 1,100 in early 2007, the VN-Index dipped below 500 in March 2008.¹⁵

As an export-led economy (exports make up more than two-thirds of GDP²⁵), Vietnam is vulnerable to any downturn in the economies of its two largest trading partners, the US and Japan. However, this may be offset by the diversification of exports into China and other regional markets.

7 'The World on 2050 Beyond the BRICS: A broader look at emerging market growth prospects', published by PricewaterhouseCoopers on 4.3.08.

8 HSBC media release, 4.3.08.

9 Standard Chartered media release, 5.3.08.

10 Ministry of Finance, 22.2.07.

11 Reuters, 12.9.07.

12 HSBC media release, 13.9.07.

13 Swiss Re media release, 7.1.08.

14 'East Asia: Testing times ahead', a report published by the World Bank on 1.4.08.

15 'Vietnam share slide sparks action' BBC News Online, 25.3.08.

16 Vietnam Financial Investment Media Corporation, 31.12.08.

17 'Vietnam: A country on the move', a World Bank report (web.worldbank.org 22.3.08).

18 Economist Intelligence Unit Country Data, updated 7.3.08.

19 Economist, 11.1.07.

20 PricewaterhouseCoopers EM20 Index 2007 (www.pwc.com/emergingmarkets).

21 United Nations Conference on Trade and Development (UNCTAD) 'World Investment Prospects Survey 2007-2009'.

22 Automotive World, 18.1.08 /The Vietnam Automobile Manufacturers Association (VAMA).

23 'Vietnam prepares for boom times' BBC Online, 6.1.07.

24 General Statistics Office of Vietnam, 31.3.08.

25 'East Asia: Testing times ahead', a report published by the World Bank on 1.4.08.

WTO accession

Vietnam's accession to the World Trade Organisation (WTO) at the beginning of 2007 is paving the way for greater market liberalisation and fostering a surge in foreign investment. The total FDI committed to the country reached \$20 billion in 2007, an increase of nearly 70% from 2006.²⁶ This includes a huge influx of funds into the country's burgeoning plant, property and infrastructure developments.

For international financial services groups, the WTO accession is leading to a gradual easing of restrictions on foreign ownership and operations. For banks this includes new licences to set up locally incorporated entities able to offer a full range of banking services (HSBC and Standard Chartered are the first to win approval²⁷ and further applications are in the pipeline).

Doing business

The government has sought to strengthen transparency, property rights and protection for investors through its Common Investment Law and United Enterprise Law. Developments in financial services include the move to Basel I capital regulations.

Yet, despite liberalisation and reform, the approach taken by the State Bank of Vietnam and other regulators in areas such as new product approval is still generally cautious and time-consuming. Corruption is also a concern. At 2.6, Vietnam's corruption perception index ranks below China (3.5).²⁸

Recruiting and retaining talent is difficult at a time when demand for qualified and experienced financial services personnel considerably outstrips supply. When dealing with regulators and business partners, this is a country where personal relationships and an understanding of the nuances of local culture are essential.

²⁶ Ministry of Finance media release, 17.4.08.

²⁷ HSBC media release, 4.3.08/Standard Chartered media release 5.3.08.

²⁸ Transparency International.

Market environment

Financial services markets are expanding rapidly. However, retail and SME market penetration is still relatively low, offering considerable opportunities for further growth.

Banking

While Vietnam is still a largely cash-based society, use of banking services is growing rapidly.

The banking sector has been expanding at around 20% per annum since the beginning of the decade²⁹ and has now reached some \$80 billion in total assets.³⁰ Lending grew by 37% in 2007 to reach some \$60 billion,³¹ although the government is now seeking to impose tighter controls on borrowing as part of its plans to curb inflation. The loan to GDP ratio rose from 72% to 85% in 2007, balanced by an increase in the deposit to GDP ratio from 78% to 92%.³¹ The revenues of the top 10 banks increased by an average of more than 50% and their profits by an average of 195% in 2006, as demand soared, efficiency improved and costs decreased.³²

The potential for further expansion as the economy develops and incomes increase is evident from the fact that only around 5 million people have bank accounts³² and even fewer have credit cards³³. Key developments in the credit market in recent years include allowing unsecured lending. In addition to consumer lending, potential growth areas include SME credit, a sector that up until now has been largely funded by private savings.

The expansion of the credit market and the offering of unsecured loans are placing tougher demands on risk management. While the Credit Information Centre, an arm of the State Bank of Vietnam, does provide evaluations of some larger companies, credit rating is still at an early stage of development. The ability to rate creditworthiness is likely to be an important competitive differentiator for lenders and may encourage some to seek access to the expertise of foreign partners.

The ratio of non-performing loans fell from 2.65% in December 2006 to 2% at the end of 2007.³⁴ However, concerns about legacy debts from the central planning era and inconsistent lending practices in today's market remain. While exposure to distressed mortgage-backed securities is

limited, the government has made funds available to increase liquidity in the banking sector, in line with many other countries.

The sector is dominated by four state-owned banks (see Figure 2), whose sizeable balance sheets and nationwide distribution have given them the funding and reach to generate a credit market share of some 70%.³⁵ The largest, Bank for Agriculture and Rural Development (Agribank), operates around half of Vietnam's 4,000 bank branches,³⁶ for example. However, the state-owned banks' market share has been declining as they face increasing competition from a new generation of joint stock banks (JSBs).

Figure 2 – Vietnam's 10 leading commercial banks by assets (December 2007)*

	Assets (USD m)
Bank for Agriculture and Rural Development (Agribank)**	18,290
Bank for Investment and Development (BIDV)**	12,710
Bank for Foreign Trade (Vietcombank)**	12,152
Industrial and Commercial Bank (Incombank)**	10,664
Asia Commercial Bank (ACB)	5,394
Saigon Thuong Tin Bank (Sacombank)	4,712
Technological and Commercial Bank (Techcombank)	2,449
Vietnam International Bank (VIB)	2,437
Vietnam Export Import Bank (Eximbank)	2,152
Military Bank	1,922

Sources: Financial statements, Reuters and PricewaterhouseCoopers research.

* Excludes policy lending banks.

** Banks majority owned by the state (Vietcombank has been partially privatised and other listings are planned).

29 Deutsche Bank research, 18.4.07.

30 Financial statements, Reuters and PricewaterhouseCoopers research.

31 Global Insight, 7.1.08.

32 Saigon Securities research, 16.9.07.

33 Sydney Morning Herald, 27.12.07.

34 Reuters, 9.1.08.

35 Economist Intelligence Unit, 1.11.07.

36 Reuters, 23.1.08.

The government has embarked on a plan to partially equitise the state-owned banks, which is likely to be augmented by a strategic investment from overseas. In December 2007, Vietcombank raised \$652 million (6.25%) through a public offering³⁷. While a sale of 25% of Incombank is planned for this year³⁸, the timing of this and other future equitisations will be largely influenced by the state of the stock market.

Foreign investors hold nearly 20% of the banking market by assets, through some 30 branches and strategic investments in domestic banks³⁹. Branches primarily focus on serving visitors, expatriates and corporate clients, along with facilitating remittances from Vietnamese people living abroad (remittances reached \$6 billion in 2007⁴⁰). They have also begun to target wealthy consumers in Vietnam's domestic market. Examples include the Commonwealth Bank of Australia, which is opening a new branch in Ho Chi Minh City to add its representative office in Hanoi. 'Vietnam continues to be an important partner to Australia and by establishing a branch in Ho Chi Minh City, Commonwealth Bank is committed to facilitate economic trade and payment flows between the two countries,' said Garry Mackrell, Group Executive, International Financial Services.⁴¹

Other foreign banks operating branches include global groups such as Citibank, Deutsche Bank and Standard Chartered, along with leading regional groups such as ANZ, Bangkok Bank, Bank of China and Bank of Tokyo Mitsubishi⁴². Recent entrants include the Czech-based PPF Group, which in April 2008 announced regulatory approval for the setting-up of PPF Vietnam Finance, reflecting the wide global interest in this market.

Since the relaxation of foreign investment rules in 2005, international groups have begun to establish minority stakes in several of Vietnam's leading JSBs, including Asia Commercial Bank (Standard Chartered),⁴³ Sacombank (ANZ)⁴⁴ and Techcombank (HSBC).⁴⁵ Vietnamese banks are keen to acquire international product and risk management expertise, while strategic investment offers foreign companies access to domestic distribution networks and the opportunity to develop joint ventures in areas such as consumer finance and SME lending.

In 2007, the maximum stake an individual foreign company could hold in a domestic bank was raised from 10% to 15%, which may be increased to 20% subject to government approval. The ceiling for multiple foreign holdings in any given bank is currently 30%. To curb share speculation and ensure investors are committed to the country, shares need to be held for five years (similar rules exist for insurance).

In July 2007, HSBC raised its stake in the Techcombank from 10% to 15% and applied to the government to acquire a further 5%.⁴⁶ The agreement includes a commitment to explore joint business opportunities and extend technical service assistance. In October 2007, Deutsche Bank acquired a 10% share in the Hanoi Building Commercial Bank and plans to extend its stake to 20%.⁴⁷ In February 2008, BNP Paribas confirmed plans to increase its 10% holding in Orient Commercial Bank to 20%.⁴⁸

37 Sydney Morning Herald, 27.12.07/Financial Times, 7.1.08.

38 Financial Times, 7.1.08.

39 Vietnam Economic Times, 2.1.08.

40 Saigon Times, 5.1.08.

41 Commonwealth Bank media release 14.1.08.

42 Saigon Securities research, 16.9.07.

Figure 3 – Significant foreign investments in the domestic banking sector

Acquirer	Domestic bank	Existing share	Pending
HSBC	Techcombank	15%	5%
ANZ	Sacombank	10%	–
Standard Chartered	Asia Commercial	10%	–
BNP Paribas	Orient Commercial	10%	10%
Deutsche	Hanoi Building	10%	10%
OCBC	VP	10%	5%
Mirae Asset Management	Southern Commercial	–	15%
Sumitomo Mitsui	Export Import Commercial	15%	–
United Overseas	Southern Commercial	10%	10%

Source: Reuters, company websites/media releases.

While many of the largest JSBs have already acquired strategic partners, many of their smaller counterparts are still open to offers. As a significant proportion have assets of less than \$500 million, an injection of foreign capital and expertise is likely to be highly sought after. The possibility that some of the giant state-owned banks will seek strategic partnerships could provide especially valuable openings for companies looking to gain access to a mass-market distribution base. However, the ability to influence strategy in a large state-owned bank may also be less than a smaller JSB.

While in common with many other emerging Asian markets acquisition prices have been high, bank share values are now coming down as part of the stock market correction. In April 2008, the shares of Vietcombank were trading on the OTC market at around half their December 2007 IPO price, for example.⁴⁹

Further relaxation in the limit on permissible foreign holdings is likely in the future, although no firm plans have been announced. It is notable that foreign investors can already

own up to 49% of companies in most other sectors. Progress towards a level playing field for foreign investors is also one of the conditions of WTO membership.

In perhaps the most significant opening to follow the WTO accession, the Vietnamese government will now allow licensed banks to set up locally incorporated subsidiaries. The easing of restrictions also includes a relaxation of controls on deposit levels and the issuance of credit cards.

In March 2008, HSBC⁵⁰ and Standard Chartered⁴⁴ gained approval-in-principle for local incorporation, which will enable them to extend their branch network and offer a full range of banking services. ‘Incorporation gives us a perfect platform to enhance our growing participation in Vietnam’s fast developing financial services market. The licence will enable us to reach new and existing customers through a broader distribution network across Vietnam,’ said Thomas Tobin, CEO of HSBC Vietnam.⁵⁰ ‘Full approval would enable us to rapidly grow our distribution network across Vietnam and provide a new range of consumer and SME banking

43 Standard Chartered media release, 17.6.05.

44 ANZ media release 24.3.05.

45 HSBC media releases 28.12.05 and 6.8.07.

46 HSBC media release, 6.8.07.

47 Deutsche Bank media releases, 1.2.07 and 1.10.07.

48 BNP Paribas media release, 29.2.08.

49 Vietnam News Brief Service, 17.4.08.

50 HSBC media release, 4.3.08.

products and services,' said Ray Ferguson, CEO of Standard Chartered Southeast Asia.⁵¹ Other reported applicants include ANZ.⁵²

It is likely that a number of other banks will follow their lead by pursuing a joint organic and acquisition strategy. While subsidiary status offers strategic control, it will take a number of years to develop a distribution base to rival the large domestic players.

Insurance

Insurance is a fast growing but still largely untapped market. Only 5% of the population holds insurance⁵³ and the proportion of premiums to GDP was just 1.5% in 2006.⁵⁴ Premiums per capita were \$11 (life \$6.10 and non-life \$4.90).⁵⁴ This is barely a tenth of nearby Thailand.⁵⁴

From this low base, the momentum for growth is evident. The Vietnam Insurance Association estimates that non-life premiums increased by 30% and life cover volumes rose by 12% in 2007.⁵⁵ As the economy expands and affluence increases, demand for savings and risk protection is set to accelerate. While still at an early stage of development, the market has begun to open up into new areas such as credit, health and business liability insurance.

Prudential has the largest share of the life market by value (42%), followed by Manulife (11%),⁵⁶ reflecting the life segment's relative openness to foreign investors. Prudential has used its strong base in life cover to diversify into asset management and consumer finance. With just eight life companies compared to more than a thousand in the US,⁵³ this remains a relatively open field.

Non-life insurance has tended to be much less open to foreign entrants and the state-controlled Bao Viet continues to dominate the market in core areas such as home, vehicle

and corporate cover (its total non-life market share is 35%)⁵⁸. Restrictions are being gradually relaxed following WTO accession. For example, foreign companies will soon be able to offer motorcycle insurance⁵⁸ (motorcycles are the dominant form of travel in Vietnam). However, access to agents and other distribution outlets, most of which are controlled by state companies, will be essential in making inroads into the non-life market and therefore some companies are now looking to acquisition.

In September 2007, HSBC announced an agreement to buy a 10% stake in Bao Viet, gaining access to an unrivalled distribution network that includes some 40,000 agents and more than 500 full and sub-branches. 'Bao Viet, with its nationwide distribution network, its well-known brand name and through its strategic partnership with HSBC Insurance, is ideally positioned to tap into the significant market potential present in Vietnam's fast expanding insurance industry,' said Clive Bannister, group Managing Director of HSBC Insurance. Among the benefits cited by Le Quang Binh, Chairman of Bao Viet, is the opportunity 'to expand our product and service scope, further strengthen staff qualifications and explore the use of bancassurance to increase our business'.⁵⁷

Other significant deals in 2007 included AXA's announcement of plans to acquire a 16% stake in Vietnam's second largest insurer Bao Minh.⁵⁹ In January 2008, Swiss Re agreed to buy 25% of Vina Re, Vietnam's largest reinsurer.⁶⁰

Capital markets

In December 2005, stock market capitalisation in Vietnam stood at less than 2% of GDP. By the end of 2007, it had exceeded 40% of GDP;⁶¹ already well on the way to meeting the government's target of 50% by 2010.⁶² The over-the-counter (OTC) market has also been expanding rapidly in

51 Standard Chartered media release 5.3.08.

52 Sydney Morning Herald, 27.12.07.

53 Ministry of Finance, 22.2.07.

54 Swiss Re Sigma 'World Insurance Report 2006'.

55 Vietnam News Brief Service, 2.3.08.

56 Economist Intelligence Unit, 1.11.07.

57 HSBC media release, 13.9.07.

58 Ministry of Finance, 22.2.07.

59 AXA media release, 12.9.07.

60 Swiss Re media release, 7.1.08.

61 'East Asia: Testing times ahead', a report published by the World Bank on 1.4.08.

62 Government Decision No 128, 2.8.07.

recent years and some estimate could be bigger than the listed market (50% of capital is held by six commercial banks).⁶³ A new Securities Law passed in 2007 aims to impose a more coherent legal framework on share dealing, including curbs on informal OTC trades.

The rapid capital market growth has in part stemmed from the equitisation of state-owned enterprises. However, the pursuit of fast returns spurred an influx of speculative investment from home and abroad, fuelling unsustainable valuations (earnings multiples of 50 or more were not uncommon at the market peak in March 2007) and an inevitable correction amid the wider global downturn (multiples are now closer to a range of 15 to 20).

Financial services companies have benefited from the development of the capital markets through growth in IPO, securities trading, asset management and lending to investors. Although the government has imposed curbs on speculative trading and tighter controls on lending against securities⁶⁴, the capital markets still offer considerable scope for fee generation. This includes the government's commitment to equitise a further 1,500 companies with an estimated market capitalisation of some \$60 billion.⁶⁵ Specialist exchanges are also being developed for smaller and start-up businesses.

In February 2008, Morgan Stanley received regulatory approval to set up a joint venture with locally incorporated Gateway Securities. Morgan Stanley Gateway Securities will offer investment banking, brokerage and advisory services.⁶⁶ Other groups looking to develop joint ventures in the underwriting market include Credit Suisse.⁶⁷ However, the government would still appear to be sensitive to protectionist pressures, as the shelving of Morgan Stanley's tie-up with the State Capital Investment Corporation (SCIC), which manages Vietnam's state-owned assets, would indicate.⁶⁸

In the asset management sector, significant recent deals include Franklin Templeton Investments' acquisition of a 49% stake in Vietcombank Fund Management. 'We see great opportunity in Vietnam with rising income levels among Vietnamese investors and a low penetration rate for mutual fund investments,' said Mark Browning, Managing Director of Franklin Templeton Asia.⁶⁹

Among the fastest expanding companies in the sector are Dragon Capital, Vina Capital and Indochina Capital, which have benefited from the growth in size and choice of listed investments, along with diversification into real estate. Further opportunities come from investment in infrastructure funds at a time of rapid development in Vietnam's transport and telecommunications. Examples include Vietnam Infrastructure Limited, a \$400 million fund launched by Vina Capital.⁶⁹

Real estate

The growth in retail, tourism and other service businesses, along with an influx of people into the cities, are spurring a huge building boom within Vietnam and attracting increasing interest from both foreign and domestic investors. The returns can be sizeable. Ho Chi Minh City ranked as the top investment prospect for both offices and hotels in the latest Asia Pacific Emerging Trends in Real Estate survey,⁷⁰ for example. Yet, there are also clearly risks and uncertainties.

Foreign investors can in theory set up a wholly-owned enterprise. However, all land belongs to the Vietnamese people and is administered by the state, creating the need for complex leasing agreements that in many cases require a local partner, especially within urban developments. Tax and debt arrangements are also often complicated.

63 Vietnam Financial Investment Media Corporation, 31.1.2008.

64 'East Asia: Testing times ahead', a report published by the World Bank on 1.4.08.

65 Morgan Stanley media release, 13.2.08.

66 Wall Street Journal, 1.4.08.

67 Financial Times, 5.2.08.

68 Franklin Templeton Investments media release, 19.2.08.

69 Vina Capital website (www.vietnam-infrastructure-fund.com), 22.4.08.

70 'The World in 2050 Beyond the BRICS: A broader look at emerging market growth prospects', published by PricewaterhouseCoopers on 4.3.08 www.pwc.com/world2050.

Future Prospects

While Vietnam is a market with exponential potential, local knowledge is essential for success.

Growth is accelerating within the Vietnamese financial services sector on the back of rapid economic expansion. The economy has the potential to grow by an average of nearly 10% per annum on the coming decades⁷² and become one of Asia's largest and most valuable emerging markets.

While growing demand and market opening offer further opportunities for organic growth, state-owned businesses still dominate many parts of the sector and foreign companies may need to seek strategic investments to gain access to a broad customer base. Although the correction in the stock market is reducing acquisition prices and providing an attractive investment window, the best buys are being rapidly snapped up and international groups will need to move fast to gain a viable presence.

Moreover, although the sector is gradually easing restrictions on foreign investment, outright acquisition of banks, insurers and brokerage firms is unlikely until the government is satisfied that local companies can compete on an equal footing. It is also imposing new curbs to help ensure that only investors prepared to make a long-term commitment to Vietnam will be allowed.

Patience, understanding and the development of relationships will therefore be critical in developing a foothold in this market. Companies need to find their way around what can be a complex bureaucratic maze. They also need to forge a rapport and shared strategic vision with potential partners.

⁷² 'The World in 2050 Beyond the BRICS: A broader look at emerging market growth prospects', published by PricewaterhouseCoopers on 4.3.08 www.pwc.com/world2050.

Contacts

Nick Page, Partner (Editor)

PricewaterhouseCoopers (UK)
1 Embankment Place,
London
WC2N 6RH,
United Kingdom
nick.r.page@uk.pwc.com
44 20 7213 1442

Quan Le, Senior Manager

PricewaterhouseCoopers (UK)
1 Embankment Place,
London
WC2N 6RH,
United Kingdom
quan.le@uk.pwc.com
44 20 7213 2173

Ian Lydall, Partner

Saigon Tower
Level 4
29 Le Duan Boulevard
District 1
Ho Chi Minh City
ian.lydall@vn.pwc.com
84 8 823 0796

Dinh Thi Quynh Van, Partner

Pacific Palace
7th Floor
83B Ly Thuong Kiet
Hoan Kiem District
Hanoi
van.dinh.thi.quynh@vn.pwc.com
84 4 946 2246

Nick Page is partner in PricewaterhouseCoopers' Financial Services Transaction Services team and Quan Le is a senior member of PricewaterhouseCoopers' Financial Services Strategy team, based in London. Ian Lydall and Dinh Thi Quynh Van are partners in PricewaterhouseCoopers Vietnam offices. Drawing on their expertise and knowledge of the local market and its regulation, their team can offer a range of transaction-related services including advice on the development of entry and acquisition strategies, tax structuring, corporate finance, valuation, due diligence and post-deal integration.

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For further information, please contact Áine Bryn, Marketing Director, Global Financial Services, PricewaterhouseCoopers (UK), London on +44 (0)20 7212 8839 or at aine.bryn@uk.pwc.com

For additional copies, please contact Maya Bhatti at PricewaterhouseCoopers (UK), London on +44 (0)20 7213 2303 or at maya.bhatti@uk.pwc.com

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