

September 22, 2023

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1H23 EBT went down 10.7% YoY to VND3,383 billion

In 2Q23, Tien Phong Commercial Joint Stock Bank's (TPB) NII reached VND2,729 billion (-0.3% QoQ, -10.1% YoY); and NOI hit VND1,188 billion (+28.8% QoQ, -22.7% YoY). Accordingly, TOI hit VND3,917 billion (+7.1% QoQ, -14.3% YoY). Provisioning costs were at a moderate level (VND368 billion, +16.9% QoQ, -43.0% YoY), causing EBT to reach VND1,618 billion (-8.3% QoQ, -25.2% YoY). 1H23 EBT was down 10.7% YoY to VND3,383 billion.

Credit growth completed 38% of the plan

By the end of 1H23, TPB's credit growth was 6.8% YTD, equivalent to 38% of the plan. In KBSV's opinion, TPB's credit growth will improve in 2H23 when the bank is eligible to reduce lending interest rates with reduced input costs.

High NPL and low provision buffers raise the pressure on provisioning in 2H23

TPB's 2Q23 NPL ratio was 2.21% (+76bps QoQ). At the 2023 annual shareholder meeting, TPB sets an NPL target of under 2.2%. With low loan loss coverage ratio (LLCR) in 1H23 (60%, only higher than VPB and VIB) and high NPL and special mention ratio, TPB should accelerate provisioning in 2H23 to reach the set targets.

HOLD recommendation with the target price VND20,600/share

Based on valuation results, business prospects and potential risks, we recommend HOLD for TPB shares. The target price for 2023 is VND20,600/share, 11.4% higher than the price on September 22, 2023.

Hold change

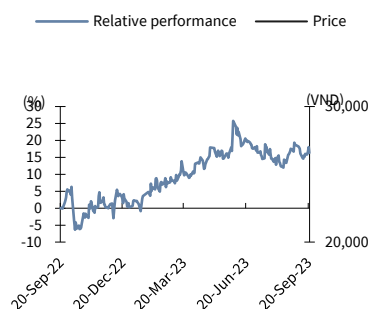
| | |
|------------------------------|------------------|
| Target price | VND20,600 |
| Upside | 11.1% |
| Current price (Sep 22, 2023) | VND18,550 |
| Consensus target price | VND20,967 |
| Market cap (VNDbn/USDbn) | 40,840/1.66 |

| | |
|------------------------------------|------------------|
| Trading data | |
| Free float | 71.1 |
| 3M avg trading value (USDbn/USDmn) | 137.3/5.6 |
| Foreign ownership | 29.75 |
| Major shareholder | FPT Corp (6.77%) |

| | | | | |
|--------------------------------|-----------|-----------|-----------|------------|
| Share price performance | | | | |
| (%) | 1M | 3M | 6M | 12M |
| Absolute | 3 | 6 | 21 | 16 |
| Relative | 0 | -2 | 6 | 16 |

Forecast earnings & valuation

| FY-end | 2021 | 2022 | 2023F | 2024F |
|--|--------|--------|--------|--------|
| Net revenue (VNDbn) | 9,946 | 11,387 | 11,273 | 12,927 |
| Pre-provision operating income (VNDbn) | 8,947 | 9,672 | 9,334 | 11,035 |
| NPAT of parent bank (VNDbn) | 4,829 | 6,261 | 5,220 | 6,047 |
| EPS (VND) | 3,053 | 3,958 | 2,371 | 2,747 |
| EPS growth (%) | -7% | 30% | -40% | 16% |
| PER (x) | 6.1 | 4.7 | 7.8 | 6.8 |
| Book value per share (VND) | 16,429 | 20,382 | 17,015 | 19,762 |
| PBR (x) | 1.13 | 0.91 | 1.09 | 0.94 |
| ROE (%) | 22.6% | 21.5% | 15.0% | 14.9% |
| Dividend yield (%) | 0.00% | 0.00% | 13.48% | 0.00% |



Source: Bloomberg, KB Securities Vietnam

2Q23 performance updates

1H23 EBT fell 10.7% YoY to VND3,383 billion

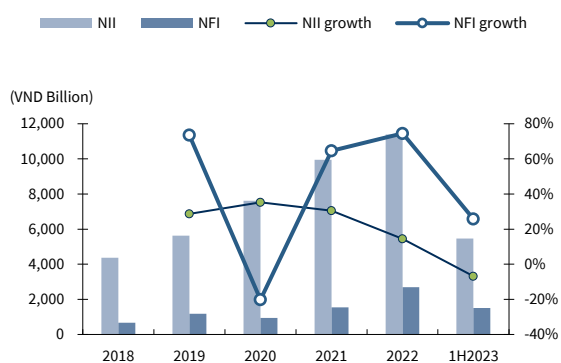
In 2Q23, TPB's NII reached VND2,729 billion (-0.3% QoQ, -10.1% YoY); and NOII hit VND1,188 billion (+28.8% QoQ, -22.7% YoY). Accordingly, TOI hit VND3,917 billion (+7.1% QoQ, -14.3% YoY). Provisioning costs were at a moderate level (VND368 billion, +16.9% QoQ, -43.0% YoY), causing EBT to reach VND1,618 billion (-8.3% QoQ, -25.2% YoY). 1H23 EBT was down 10.7% YoY to VND3,383 billion.

Table 1. TPB – 2Q23 updated results

| (VNDbn) | 2Q22 | 1Q23 | 2Q23 | +/-%QoQ | +/-%YoY | KBSV's notes |
|----------------------------|---------|---------|---------|----------|-----------|---|
| Net interest income | 3,035 | 2,737 | 2,729 | -0.3% | -10.1% | NII decreased YoY mainly due to decreased NIM. |
| Net fee income | 681 | 696 | 804 | 15.5% | 18.1% | NFI increased, mostly driven by payment services (+30.2% YoY) and other services (+99.4% YoY) while insurance premium dropped 59.4% due to poor demand. |
| Other NOII | 857 | 226 | 385 | 69.8% | -55.1% | Profit from investment securities trading declined 48.3% YoY due to high base levels in 2Q22. Meanwhile, ineffective debt collection activities caused income from other activities to decrease by 53.4% YoY. |
| Total operating income | 4,573 | 3,659 | 3,917 | 7.1% | -14.3% | |
| Operating expenses | (1,763) | (1,579) | (1,931) | 22.3% | 9.5% | |
| Pre-provision profit | 2,810 | 2,080 | 1,987 | -4.5% | -29.3% | |
| Provision costs | (645) | (315) | (368) | 16.9% | -43.0% | Although NPL is increasing rapidly, TPB is still quite conservative in making provisions in 1H23. 1H23 LLCR decreased sharply to 60.9% (-74.1ppts YTD). |
| Profit after taxes | 1,730 | 1,413 | 1,293 | -8.5% | -25.3% | |
| Credit growth | 9.1% | 5.8% | 6.8% | 0.9 ppts | -2.3 ppts | Credit balance only increased by 0.9ppts QoQ, which is low compared to the banking system average of 2.1%. |
| Deposit growth | 5.1% | 4.8% | 5.6% | 0.7 ppts | 0.4 ppts | |
| NIM | 4.24% | 3.54% | 3.54% | 0 bps | -69 bps | NIM is flat at 3.54%, together with other banks with unchanged NIM in 2Q like VCB, MSB, BID and CTG. |
| Average earnings yield | 7.50% | 8.70% | 9.01% | 31 bps | 150 bps | |
| Average cost of fund (COF) | 3.35% | 5.37% | 5.68% | 30 bps | 232 bps | |
| CIR | 38.5% | 43.2% | 49.3% | 6.1 ppts | 10.7 ppts | |
| NPL | 0.85% | 1.45% | 2.21% | 76 bps | 135 bps | NPL increased mainly in substandard loans (+52bps QoQ) while special mention spiked in 1Q23. 2Q special mention decreased by 51bps QoQ but still remained high at 3.51%. |

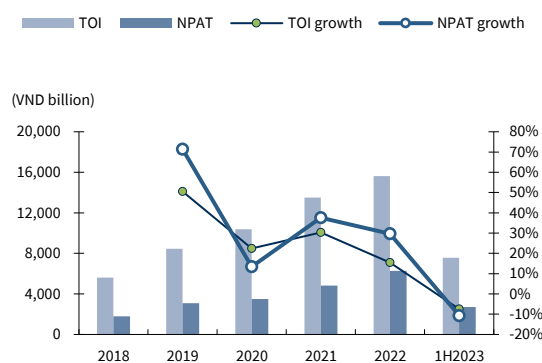
Source: Tien Phong Bank, KB Securities Vietnam

Fig 2. TPB – NII & NFI growth (% YoY)



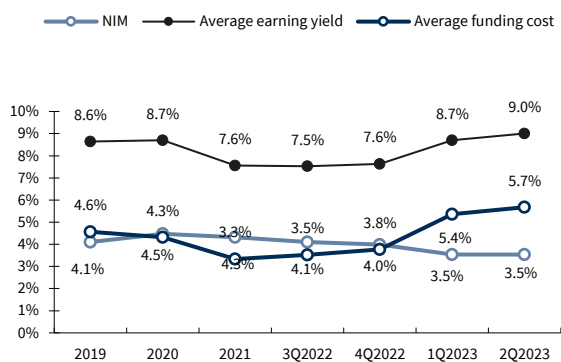
Source: Tien Phong Bank, KB Securities Vietnam

Fig 3. TPB – TOI & NPAT growth (% YoY)



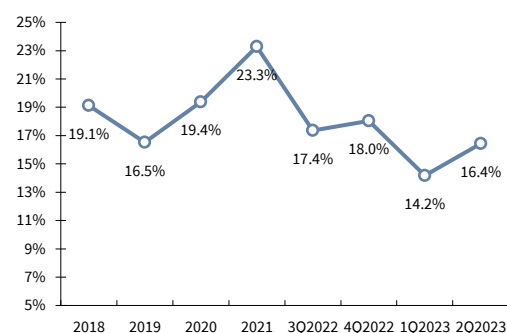
Source: Tien Phong Bank, KB Securities Vietnam

Fig 4. TPB – Interest rate & NIM (%)



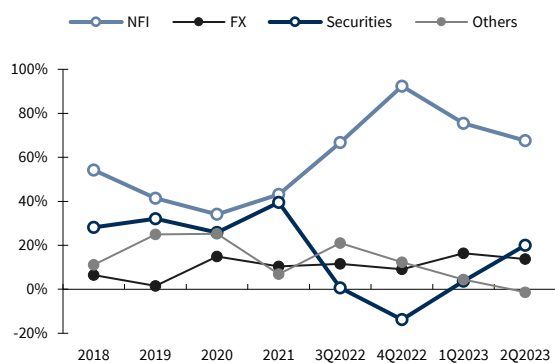
Source: Tien Phong Bank, KB Securities Vietnam

Fig 5. TPB – CASA ratio (%)



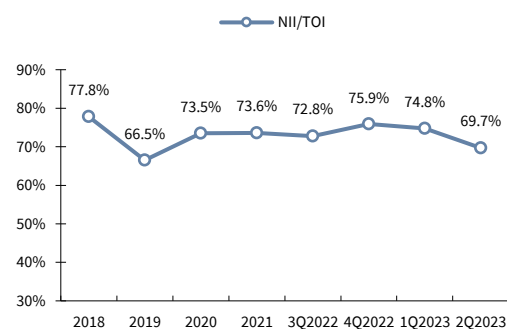
Source: Tien Phong Bank, KB Securities Vietnam

Fig 6. TPB – NOII structure



Source: Tien Phong Bank, KB Securities Vietnam

Fig 7. TPB – NII/TOI ratio (%)



Source: Tien Phong Bank, KB Securities Vietnam

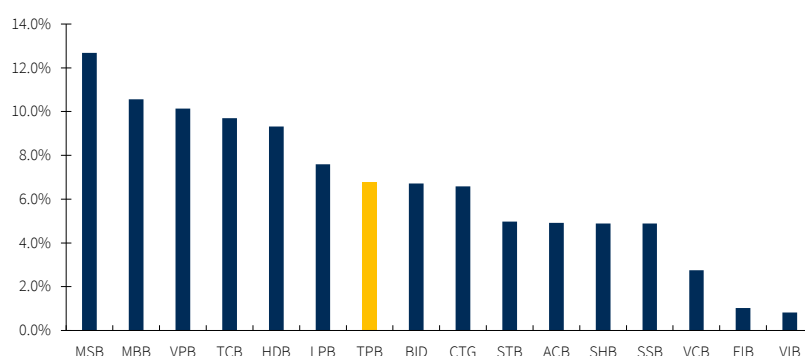
Credit growth completed 38% of the plan

At the AGM 2023, TPB set a credit growth of 18%. By the end of 1H23, TPB's credit growth was 6.8% YTD, only equaling 38% of the target due to weak demand. In KBSV's opinion, TPB's credit growth will improve in 2H23 when the bank is eligible to reduce lending interest rates with reduced input costs on the basis of (1) the State Bank's (SBV) promoting reduction of policy rates recently and (2) the maturity of 6-month high interest rate deposits from 4Q22. However, completing the proposed plan will be a big challenge for TPB because the economy's credit demand is still weak, and the bank focuses on risk management in lending activities.

Competing interest rates puts pressure on NIM

Furthermore, in the second half of the year, the pressure on NIM for TPB in particular and other joint stock commercial banks in general is not small when the state-owned banks with the advantage of COF is pushing to reduce lending interest rates to collect revenue. Attracting customers from other banks after the application of Circular 06/2023-NHNN forced commercial banks to cut interest rates to retain customers. Up to now, the state-owned bank group's 6M lending interest rate for businesses and households has dropped to a very low level between 5% and 7%.

Fig 8. Vietnamese banks – Credit growth in 2Q23 (% YTD)

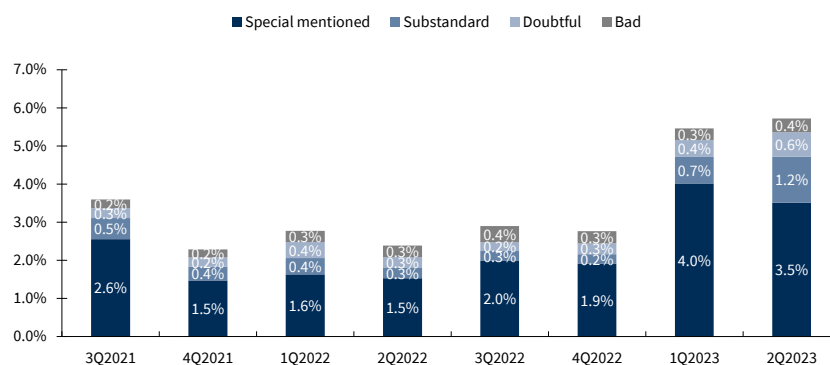


Source: Banks' statements, KB Securities Vietnam

High NPL and low provision buffers raise the pressure on provisioning in 2H23

TPB's 2Q23 NPL ratio was 2.21% (+76bps QoQ), which is not surprising when TPB's special mention surged in 1Q23 (+210bps QoQ). Special mentioned debt in 2Q dropped 51bps QoQ to 3.51% but is still high level compared to ~2% in the past. At the 2023 AGM, TPB sets an NPL target of under 2.2%. With low LLCR in 1H23 (60%, only higher than VPB and VIB) and high NPL and special mention ratio, TPB should accelerate provisioning in 2H23 to reach the set targets.

Fig 9. TPB – NPL structure in 2021–2023



Source: Tien Phong Bank, KB Securities Vietnam

Fig 10. Vietnamese banks – NPL and special mention comparison

| | % NPL | QoQ | % Debt group 2 | QoQ | Provision (Billion VND) | LLCR |
|------------|--------------|--------------|----------------|---------------|-------------------------|--------------|
| VPB | 7.44% | 1.20% | 8.19% | -0.03% | -13,704 | 37.7% |
| VIB | 3.63% | -0.01% | 6.42% | 0.99% | -3,331 | 39.1% |
| SHB | 2.57% | -0.26% | 2.21% | 0.23% | -7,224 | 68.9% |
| MSB | 2.56% | 0.54% | 3.39% | 0.22% | -2,230 | 63.8% |
| LPB | 2.23% | 0.78% | 1.27% | -0.73% | -4,438 | 78.5% |
| TPB | 2.21% | 0.76% | 3.51% | -0.51% | -2,383 | 60.9% |
| HDB | 2.15% | 0.30% | 5.04% | 1.84% | -3,790 | 61.3% |
| EIB | 2.12% | -0.21% | 1.46% | -0.26% | -319 | 74.0% |
| STB | 1.79% | 0.60% | 1.16% | 0.21% | -6,342 | 77.1% |
| BID | 1.59% | 0.05% | 2.17% | -0.15% | -39,619 | 152.6% |
| MBB | 1.44% | -0.31% | 3.59% | 0.13% | -11,676 | 156.1% |
| CTG | 1.27% | 0.00% | 2.59% | -0.09% | -29,228 | 168.9% |
| TCB | 1.07% | 0.22% | 1.96% | 0.04% | -5,793 | 115.8% |
| ACB | 1.06% | 0.33% | 0.87% | 0.30% | -4,974 | 107.6% |
| VCB | 0.83% | -0.02% | 0.69% | 0.04% | -37,747 | 385.8% |

Source: Banks' statements, KB Securities Vietnam

Forecast & valuation

Table 11. TPB – 2023–2024F results

| (VNDbn) | 2022 | 2023F | +/-%YoY | 2024F | +/-%YoY | KBSV's notes |
|------------------------|---------|---------|---------|---------|---------|---|
| Net interest income | 11,387 | 11,273 | -1.0% | 12,927 | 14.7% | Net interest income is forecast to decrease by 8.7% compared to the previous forecast, reflecting a stronger-than-expected decrease in NIM. |
| Net fee income | 2,692 | 2,967 | 10.2% | 3,264 | 10.0% | Reduced forecast NFI (down 19.2% compared to the old forecast) is due to a sharp decrease in insurance premium given weak demand. |
| Total operating income | 15,617 | 15,557 | -0.4% | 17,798 | 14.4% | |
| Provision expenses | (1,844) | (2,809) | 52.4% | (3,476) | 23.7% | |
| Profit after taxes | 6,261 | 5,220 | -16.6% | 6,047 | 15.8% | |
| NIM | 3.98% | 3.56% | -43bps | 3.65% | 9bps | NIM forecast decreases by 38bps compared to the old forecast due to higher-than-expected COF while average earnings yields increase more slowly due to declining asset quality. |
| Average earnings yield | 7.63% | 8.84% | 121bps | 7.97% | -87bps | |
| Average COF | 3.77% | 5.48% | 171bps | 4.45% | -103bps | |
| CIR | 38.1% | 40.0% | 193bps | 38.0% | -200bps | |
| NPL | 0.84% | 2.30% | 146bps | 2.00% | -30bps | |
| Total assets | 328,634 | 364,237 | 10.8% | 413,028 | 13.4% | |
| Owner's equity | 32,239 | 37,459 | 16.2% | 43,506 | 16.1% | |

Source: Tien Phong Bank, KB Securities Vietnam

Valuation: BUY recommendation with target price VND20,600/share

We combine two valuation methods, P/B and residual income, to find a reasonable price for TPB shares.

(1) P/B valuation method:

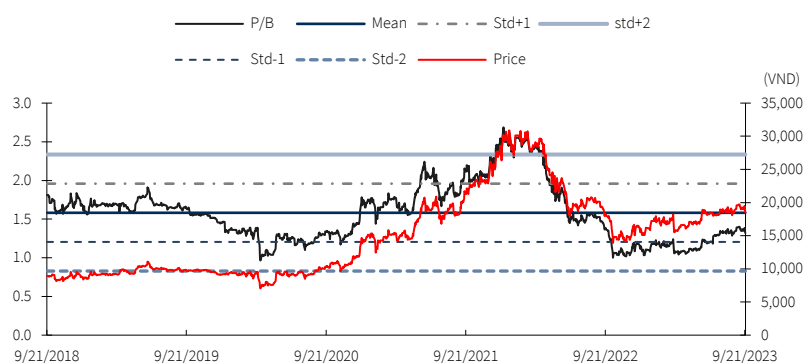
We maintain the 2023 forward P/B at 1.2x, equivalent to -1 standard deviation of TPB's 3-year average P/B, reflecting concerns about TPB's asset quality and provisioning pressure for the rest of the year.

(2) Residual income method (Table 14):

In addition, we use the residual income method to reflect systemic risks and long-term expectations.

Combining the above two valuation methods with a 50-50 ratio, we find the final reasonable price for TPB shares for 2023 is VND20,600/share, 11.1% higher than the price on September 22, 2023. Some potential risks that may affect our valuation include: (1) High NPL, causing higher-than-expected provisions and (2) credit growth not reaching the target due to the general impacts from the economy.

Fig 22. TPB – P/B in 2018–2023 (x)



Source: FiiPro, KB Securities Vietnam

Table 13. TPB – Valuation according to residual income method

| (VNDbn) | 2023F | 2024F | 2025F |
|-------------------------------|---------------|-------|-------|
| NPAT | 5,220 | 6,047 | 7,765 |
| Residual income (VNDbn) | 436 | 488 | 1,308 |
| COF (r) | 14.8% | | |
| Growth (g) | 5.0% | | |
| Final value | 3,828 | | |
| Fair value at the end of 2023 | 45,677 | | |
| Share value (VND) | 20,747 | | |

Source: KB Securities Vietnam

Table 24. TPB – Final valuation & target price (VND)

| Valuation method | Forecast price | Weight | Price per weight |
|---------------------------|----------------|--------|------------------|
| P/B | 20,418 | 50% | 10,209 |
| Residual income | 20,747 | 50% | 10,374 |
| Target price (VND) | | | 20,600 |

Source: KB Securities Vietnam

TPB – 2020A–2024F financials

| Income Statement (VNDbn) | | | | | | Balance Sheet (VNDbn) | | | | | |
|-----------------------------|---------|---------|----------|----------|----------|-------------------------------|---------|---------|---------|---------|---------|
| | 2020 | 2021 | 2022 | 2023F | 2024F | | 2020 | 2021 | 2022 | 2023F | 2024F |
| Net interest income | 7,619 | 9,946 | 11,387 | 11,273 | 12,927 | Loans | 118,085 | 139,463 | 159,160 | 184,582 | 212,706 |
| Interest income | 14,828 | 17,427 | 21,811 | 28,029 | 28,249 | Marketable securities | - | - | - | - | - |
| Interest expense | (7,209) | (7,481) | (10,424) | (16,757) | (15,322) | Cash (ex. Reserves) | 2,214 | 2,553 | 2,427 | 3,314 | 3,643 |
| Fees & commissions | 937 | 1,542 | 2,692 | 2,967 | 3,264 | Interest earning assets | 190,040 | 270,801 | 300,912 | 332,939 | 375,860 |
| Other non-interest income | 694 | 246 | 702 | 420 | 639 | Fixed assets & other assets | 14,993 | 20,653 | 26,933 | 30,801 | 36,366 |
| Total operating income | 10,369 | 13,517 | 15,617 | 15,557 | 17,798 | Total assets | 206,315 | 292,827 | 328,634 | 364,237 | 413,028 |
| SG&A expenses | (4,197) | (4,571) | (5,945) | (6,223) | (6,763) | Customer deposits | 115,904 | 139,562 | 194,960 | 215,583 | 237,022 |
| Pre-provisioning OP | 6,172 | 8,947 | 9,672 | 9,334 | 11,035 | Borrowings & call money/repos | 28,127 | 35,885 | 20,595 | 27,681 | 31,282 |
| Provision for credit losses | (1,783) | (2,908) | (1,844) | (2,809) | (3,476) | Interest bearing liabilities | 185,609 | 263,027 | 289,484 | 322,224 | 367,122 |
| Other income | 1,097 | 496 | 1,325 | 824 | 1,255 | Other liabilities | 3,961 | 3,833 | 6,911 | 4,554 | 2,400 |
| Other expense | (402) | (250) | (623) | (404) | (616) | Total liabilities | 189,570 | 266,840 | 296,395 | 326,778 | 369,522 |
| Pre-tax income | 4,389 | 6,038 | 7,828 | 6,525 | 7,559 | Charter capital | 10,717 | 15,818 | 15,818 | 22,016 | 22,016 |
| Income tax expense | (878) | (1,209) | (1,568) | (1,305) | (1,512) | Capital surplus | 51 | 2,561 | 2,561 | 2,561 | 2,561 |
| NP | 3,510 | 4,829 | 6,261 | 5,220 | 6,047 | Retained earnings | 6,023 | 6,220 | 11,747 | 10,769 | 16,816 |
| Minority interest profit | - | - | - | - | - | Capital adjustments | - | - | - | - | - |
| Parent NP | 3,510 | 4,829 | 6,261 | 5,220 | 6,047 | Total shareholders' equity | 16,744 | 25,987 | 32,239 | 37,459 | 43,506 |

| Financial Indicators (%) | | | | | | Valuation (VND, X, %) | | | | | |
|-----------------------------|--------|--------|-------|--------|-------|--------------------------------|--------|--------|--------|--------|--------|
| | 2020 | 2021 | 2022 | 2023F | 2024F | | 2020 | 2021 | 2022 | 2023F | 2024F |
| Profitability | | | | | | Share Price Indicators | | | | | |
| ROE | 23.5% | 22.6% | 21.5% | 15.0% | 14.9% | EPS | 3,275 | 3,053 | 3,958 | 2,371 | 2,747 |
| ROA | 1.9% | 1.9% | 2.0% | 1.5% | 1.6% | BVPS | 15,625 | 16,429 | 20,382 | 17,015 | 19,762 |
| Pre-provision ROE | 33.1% | 33.5% | 26.6% | 21.4% | 21.8% | Tangible BVPS | 15,407 | 16,255 | 20,191 | 16,857 | 19,581 |
| Pre-provision ROA | 2.7% | 2.9% | 2.5% | 2.2% | 2.3% | Valuations | | | | | |
| Net interest margin (NIM) | 4.5% | 4.3% | 4.0% | 3.6% | 3.6% | PER | 5.7 | 6.1 | 4.7 | 7.8 | 6.8 |
| Efficiency | | | | | | PBR | 12 | 11 | 0.9 | 1.1 | 0.9 |
| Pure Loan to deposit ratio | 103.5% | 101.2% | 82.6% | 87.0% | 91.0% | Dividend yield | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Cost-income ratio | 40.5% | 33.8% | 38.1% | 40.0% | 38.0% | ROE | 23.5% | 22.6% | 21.5% | 15.0% | 14.9% |
| Growth | | | | | | Capital Adequacy | | | | | |
| Asset growth | 25.5% | 41.9% | 12.2% | 10.8% | 13.4% | CAR | 13.0% | 13.4% | 12.7% | >9% | >9% |
| Loan growth | 25.0% | 18.1% | 14.1% | 16.0% | 15.2% | Asset Quality | | | | | |
| PPOP growth | 19.5% | 45.0% | 8.1% | -3.5% | 18.2% | NPL ratio (substandard) | 12% | 0.8% | 0.8% | 2.3% | 2.0% |
| Parent NP growth | 13.5% | 37.6% | 29.6% | -16.6% | 15.9% | Coverage ratio (substandard) | 134.2% | 152.6% | 135.0% | 69.0% | 69.2% |
| EPS growth | -9.3% | -6.8% | 29.6% | -40.1% | 15.9% | NPL ratio (precautionary) | 2.5% | 2.3% | 2.8% | 5.5% | 4.0% |
| BVPS growth | 2.4% | 5.2% | 24.1% | -16.5% | 16.1% | Coverage ratio (precautionary) | 62.6% | 54.6% | 41.2% | 28.8% | 34.6% |

Source: Tien Phong Bank, KB Securities Vietnam

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Investment ratings & definitions

Investment Ratings for Stocks

(based on expectations for absolute price gains over the next 6 months)

| | | |
|--------------|--------------|--------------|
| Buy: | Hold: | Sell: |
| +15% or more | +15% to -15% | -15% or more |

Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

| | | |
|-----------------------|---------------------------------|-------------------------|
| Positive: | Neutral: | Negative: |
| Outperform the market | Perform in line with the market | Underperform the market |

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