

VPBank (VPB)

FE Credit showing signs of improvement

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2Q24 PBT rose 71.6% YoY to VND4,483 billion

In 2Q24, NIM of Vietnam Prosperity Bank (VPB) reached VND12,408 billion (+9.6% QoQ, +41.6% YoY), and TOI hit VND16,128 billion (+20.3% QoQ, +26.2% YoY). Provisions were VND8,313 billion (+44.3% QoQ, +28.1% YoY), reaching eight-quarter highs. PBT hit VND4,483 billion (+7.2% QoQ, +71.6% YoY).

NIM should further recover in the rest of 2024

KBSV expects VPB's NIM to recover in the rest of 2024, driven by both deposits and credit. CoF improved from (1) the maturity of high-interest rate deposits and (2) low deposit interest rates (at 5.5 – 6.0%/year). The decrease in average yield on earning assets (IEA) will gradually slow down due to increased credit demand in the second half of the year and improved asset quality.

FE Credit has signs of improvement in asset quality and business performance

In 2Q24, subsidiary FE Credit earned profits again with estimated PBT reaching VND145 billion compared to the previous quarter's loss of VND853 billion. FE Credit's recovery comes from improved NIM and signs of improvement in asset quality. This is supposed to significantly contribute to VPB's profit growth this year as it lost VND3,698 billion in 2023, equivalent to 13.5% of the parent bank's PBT (VPB holds a 50% stake in FE Credit).

Valuation: BUY rating – target price VND25,400/share

Based on the valuation results, business prospects and potential risks, we recommend BUY for VPB shares. The target price for 2024 is VND25,400/share, 37.6% higher than the price on August 19, 2024.

Buy maintain

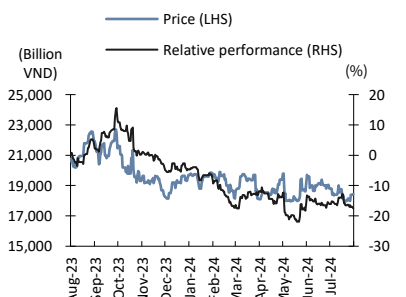
Target price	VND25,400
Upside	37.7%
Current price (Aug 19, 2024)	VND18,450
Consensus target price	VND22,900
Market cap (VNDtn/USDtn)	146.4/5.9

Trading data	
Free float	89.4%
3M avg trading value (VNDtn/USDtn)	397.1/15.6
Foreign ownership	26.2%
Major shareholder	SMBC (15.01%)

Share price performance				
(%)	1M	3M	6M	12M
Absolute	-1.9	-4.9	-6.8	-10.4
Relative	-1.6	-4.0	-9.8	-17.5

Forecast earnings & valuation

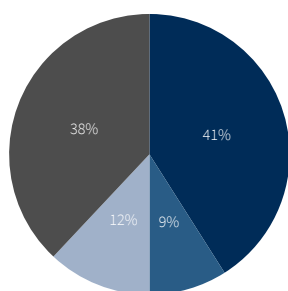
FY-end	2022	2023	2024F	2025F
Net interest income (VNDbn)	41,021	38,175	51,836	71,377
PPOP (VNDbn)	43,681	35,798	47,789	64,923
NPAT (VNDbn)	18,168	9,974	14,296	19,757
EPS (VND)	2,694	1,257	1,802	2,490
EPS growth (%)	4%	-53%	43%	38%
PER (x)	6.8	14.7	10.2	7.4
Book value per share (VND)	15,349	17,620	19,296	21,660
PBR (x)	1.20	1.05	0.96	0.85
ROE (%)	17.8	7.0	9.9	12.8
Dividend yield (%)	0.0	0.0	5.4	5.4



Source: Bloomberg, KB Securities Vietnam

Revenue composition (2023)

■ Retail ■ SME ■ Subsidiaries ■ Others



Business operation

VPB is one of the largest private joint stock commercial banks in Vietnam with asset scale by the end of 2023 reaching VND817.56 trillion, ranking seventh in the industry.

The bank is also in the group of banks with the highest proportion of retail credit balance, reaching 41% in 2023.

Source: Vietnam Prosperity Bank, KB Securities Vietnam

Investment Catalysts

Notes

NIM should further recover from the rest of 2024, driven by low base interest rates and recovering credit demand

Please find more details [here](#)

Asset quality gradually improves, thereby reducing provisioning pressure in the coming time

Please see more details below

FE Credit shows signs of recovery in asset quality and business efficiency

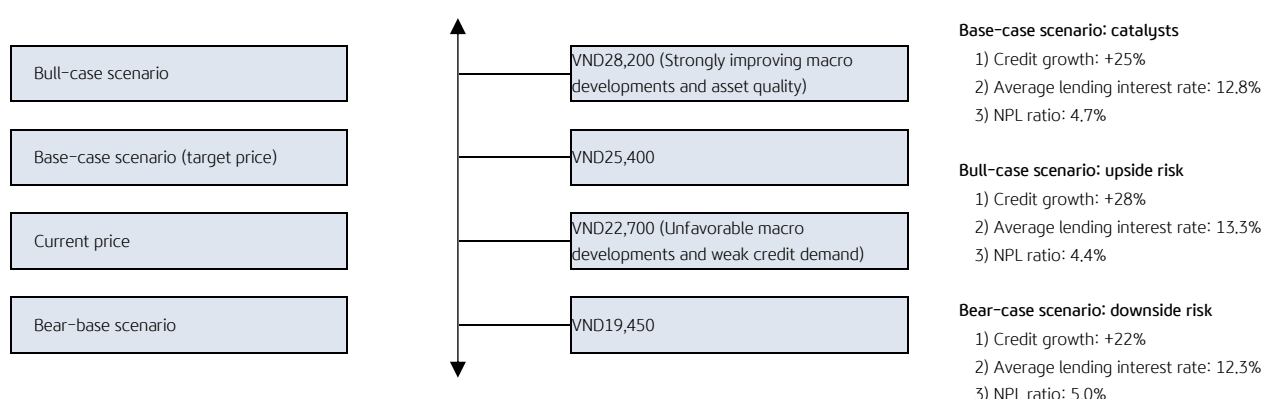
Please see more details below

Revised earnings estimates

(VNDbn)	KBSV estimates		Change vs previous estimates		Consensus*		Difference	
	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
Net Interest Income	51,836	71,377	0%	0%	48,659	58,498	+7%	+22%
Pre-provisioning OP	47,789	64,923	0%	1%	48,749	58,051	-2%	+12%
NP after MI	14,495	20,757	2%	8%	15,270	18,889	-5%	+10%

Source: Bloomberg, KB Securities Vietnam

Investment opinion & risks



2Q24 performance updates

2Q24 PBT rose 71.6% YoY to VND4,483 billion

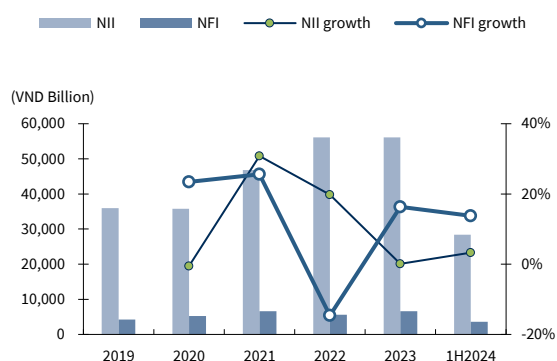
2Q NIM and NOII of VPB respectively reached VND12,408 billion (+9.6% QoQ, +41.6% YoY) and VND3,720 billion (+78.2% QoQ, -7.5% YoY), making TOI hit VND16,128 billion (+20.3% QoQ, +26.2% YoY). Provisions were VND8,313 billion (+44.3% QoQ, +28.1% YoY), reaching eight-quarter highs and causing PBT to be VND4,483 billion (+7.2% QoQ, +71.6% YoY). 1H24 PBT gained 67.9% YoY to VND8,665 billion.

Table 1. VPB – 2Q24 business results

(VNDbn, %)	2Q23	1Q24	2Q24	+/-%QoQ	+/-%YoY	Notes
Net interest income (NII)	8,762	11,323	12,408	9.6%	41.6%	NII improved thanks to high credit growth (+22.7% YoY)
Net fee income (FI)	1,657	1,554	1,881	21.0%	13.5%	Bancassurance gained 50.4% while payment services lost 39.6% YoY.
Non-interest income (NOII)	2,362	533	1,839	244.8%	-22.1%	The FX segment recorded VND194 billion compared to a loss of VND64 billion in 2Q23. The income from securities investment and trading strongly improved to reach VND445 billion despite insignificant contribution in previous quarters. Net interest from other activities was VND1,200 billion, falling 44.8% YoY but making a considerable progress compared to the past quarters. Debt collection was also impressive, spiking 108% YoY to VND1,302 billion.
Total operating income (TOI)	12,782	13,411	16,128	20.3%	26.2%	
Operating expenses (OPEX)	(3,679)	(3,467)	(3,331)	-3.9%	-9.4%	
Pre-provision operating profit (POPP)	9,103	9,944	12,797	28.7%	40.6%	
Provision expenses	(6,490)	(5,762)	(8,313)	44.3%	28.1%	2Q estimated provisions of FE Credit is high at VND2,834 billion (-13.4% QoQ) while the parent bank's provisions surged 120.4% QoQ to VND5,479 billion.
Profit before taxes (PBT)	2,613	4,182	4,483	7.2%	71.6%	
Net profit after minority interest (NPAT-MI)	3,062	3,567	3,558	-0.2%	16.2%	
Credit growth	10.1%	2.1%	7.7%	5.6 ppts	-2.4 ppts	The parent bank's credit growth in 1H24 reached 8.4% YTD (-4.6 ppts YoY), of which customer loans increased by 11.2% YTD while corporate bond balance decreased by 51.3% YTD. FEcredit's estimated customer loan fell 5.1% QoQ as bad debt handling and consumer loan disbursement activities are being more strictly risk-managed in the context of a difficult economy.
Deposit growth	20.9%	0.8%	8.4%	7.5 ppts	-12.4 ppts	Deposit growth is high compared to the average of the observed banks, reaching 7.1% YTD.
NIM	6.16%	5.64%	5.73%	8 bps	-43 bps	NIM continued to improve thanks to costs decreasing by 8.4% QoQ amid low deposit interest rates and high-interest deposits in the pre-maturity period. CASA ratio also improved to 17.9% (+3.49ppts QoQ).
Average earning yield (IEA)	10.97%	11.00%	10.35%	-64 bps	-61 bps	
Average cost of funds (CoF)	5.47%	6.26%	5.34%	-92 bps	-13 bps	
Cost to income ratio (CIR)	28.8%	25.8%	20.7%	-5.1 ppts	-8.1 ppts	CIR decreased sharply thanks to improved TOI and reduced costs due to downsizing and digital transformation.
Non-performing loan ratio (NPL)	6.52%	4.84%	5.08%	24 bps	-144 bps	NPL of the parent bank was flat at 3.31%, while NPL of FEcredit is estimated to reach 21.4%, rising 2.52ppts QoQ.

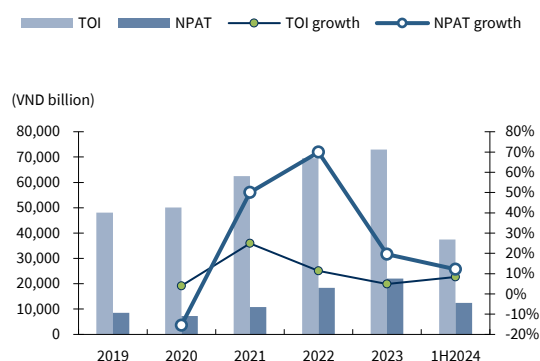
Source: Vietnam Prosperity Bank, KB Securities Vietnam

Fig 2. VPB – NII & NFI growth in 2019–2024 (% YoY)



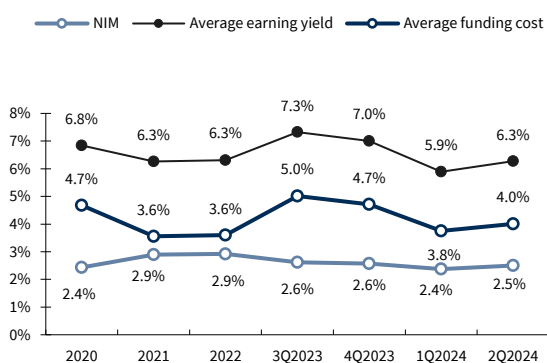
Source: Vietnam Prosperity Bank, KB Securities Vietnam

Fig 3. VPB – TOI & NPAT growth in 2019–2024 (% YoY)



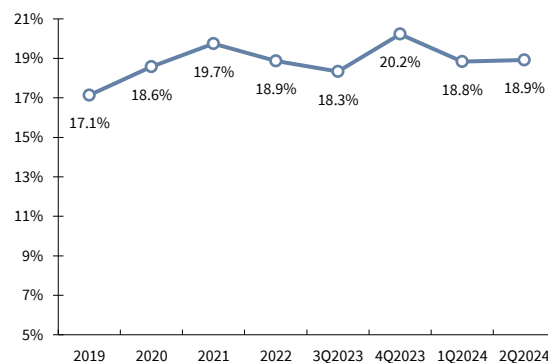
Source: Vietnam Prosperity Bank, KB Securities Vietnam

Fig 4. VPB – IEA, CoF & NIM in 2019–2024 (%)



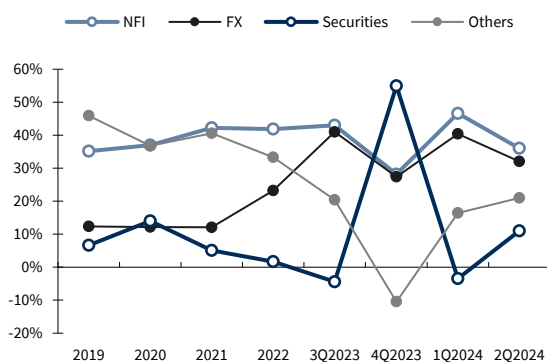
Source: Vietnam Prosperity Bank, KB Securities Vietnam

Fig 5. VPB – CASA ratio in 2019–2024 (%)



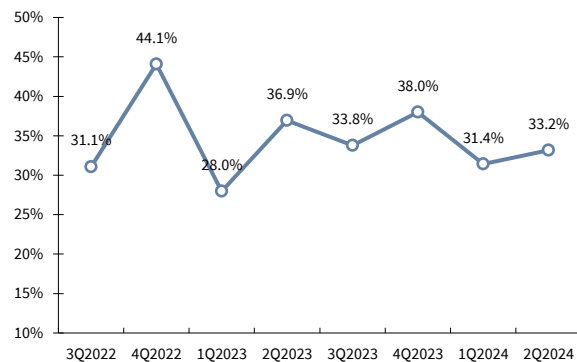
Source: Vietnam Prosperity Bank, KB Securities Vietnam

Fig 6. VPB – NOII composition in 2019–2024 (%)



Source: Vietnam Prosperity Bank, KB Securities Vietnam

Fig 7. VPB – CIR in 2022–2024 (%)



Source: Vietnam Prosperity Bank, KB Securities Vietnam

Deposit rates increase to meet credit demand

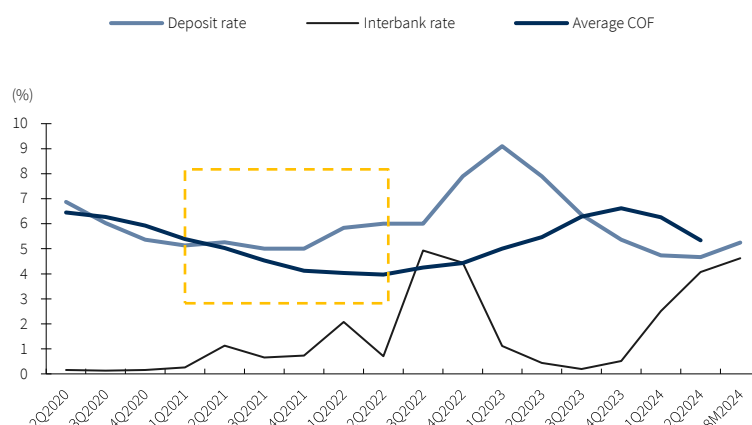
VPB's deposit interest rates bottomed out in March and then started to rebound with the 12M interest rate reaching 5.4% as of August (+120bps QoQ). The main reason came from relatively good credit demand growth in 2Q24 and the first half of 3Q24 and high interbank interest rates (~4.5%), forcing VPB to raise interest rates to ensure mobilization sources.

NIM should continue to recover in the last months of 2024

KBSV believes that the CoF of VPB will continue to improve for the rest of 2024 thanks to: (1) the maturity of high interest rate deposits in the late 2022–early 2023 period and (2) low deposit interest rate of 5.5 – 6.0%/year (Figure 8). On the contrary, the downward trend in average output interest rates will gradually slow down as credit demand increases in the second half of the year and improved asset quality will positively impact interest income.

The average CoF is expected to see a downtrend as in the 2021–2022 period when deposit interest rates increase again but are still at a low base compared to the past.

Fig 8. VPB – CoF, deposit & interbank interest rates (%)

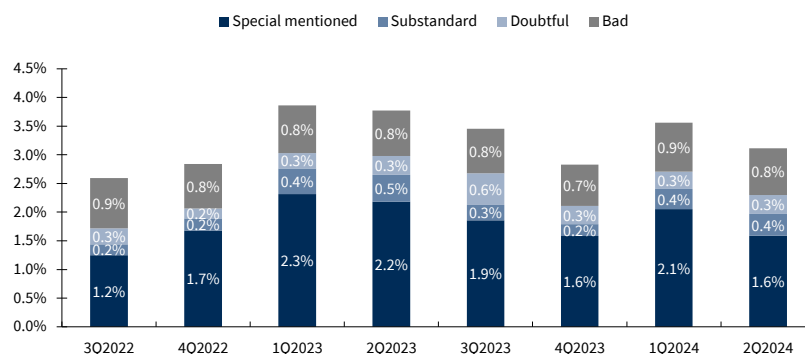


Source: Vietnam Prosperity Bank, KB Securities Vietnam

2Q24 NPL gained 24bps QoQ to 5.08%, mainly from FE Credit

2Q NPL ratio of VPB was 5.08% (+24bps QoQ), of which substandard debt and bad debt expanded 25bps QoQ and 27bps QoQ, respectively. The parent bank's NPL ratio reached 3.31%, unchanged compared to 1Q, while FEcredit's NPL was estimated to reach 21.4%, rising 252bps QoQ. Consolidated NPL according to KBSV's estimate in 2Q24 reached 1.5% as VPB collected VAMC bonds to handle. Restructured debt according to Circular 02/2023/NHNN was valued at VND12,400 billion, gaining 7.6% QoQ. Currently, 97% of customers whose debt restructured according to Circular 02 has paid their debt on time, and the bank expects that after the debt restructuring period, customers will still fulfill their obligations.

Fig 9. VPB – NPL components in 2022–2024 (%)



Source: Vietnam Prosperity Bank, KB Securities Vietnam

Fig 10. Vietnam banks – NPL & special mention ratio comparison (%)

	% NPL	QoQ	% Group 2	QoQ revision (Billion VND)	LLCR
VPB	5.08%	0.24%	7.83%	-15,247	48.1%
VIB	3.66%	0.06%	4.46%	-4,910	48.1%
MSB	3.08%	-0.09%	2.11%	-3,007	58.6%
OCB	3.12%	0.25%	2.42%	-2,601	54.6%
EIB	2.64%	-0.21%	1.04%	-1,599	40.0%
MBB	1.64%	-0.85%	1.84%	-11,215	101.7%
STB	2.43%	0.15%	0.70%	-8,752	69.7%
HDB	2.10%	-0.14%	4.50%	-4,767	58.8%
TPB	2.06%	-0.17%	2.61%	-2,902	66.0%
BID	1.52%	0.02%	1.59%	-37,929	132.2%
ACB	1.48%	0.27%	0.53%	-6,319	77.8%
LPB	1.73%	0.34%	1.14%	-4,228	77.1%
CTG	1.57%	0.22%	1.44%	-28,040	113.8%
VCB	1.20%	-0.02%	0.36%	-34,884	212.1%
TCB	1.23%	0.10%	0.82%	-7,370	101.1%

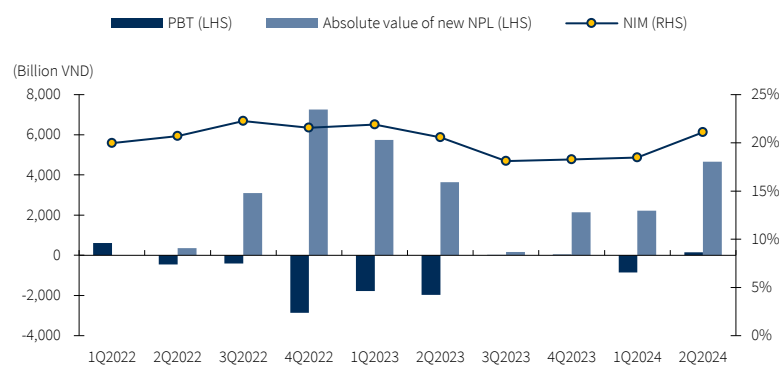
Source: Financial statements of the banks, KB Securities Vietnam

Consolidated special mention dropped 48bps QoQ, showing an improvement in asset quality of the current customer base.

FE Credit shows signs of improvement in asset quality and business performance

In 2Q24, FE Credit brought in profit again after a period of consecutive losses due to declining asset quality. Its PBT is estimated at VND145 billion compared to the previous quarter's loss of VND853 billion. FE Credit's recovery comes from a well-improved NIM, reaching 21.1% (+2.61ppts QoQ) thanks to low deposit interest rates and gradually improved asset quality, positively impacting interest income. Meanwhile, although NPL in 2Q reached 21.4%, an increase of 2.52ppts QoQ, special mention debt decreased 6.68ppts QoQ to 7.65%, showing a significant improvement in the quality of the current customer group, reducing potential provisioning pressure in the coming period. KBSV believes that it will take one to two more quarters to see a clearer recovery of FE Credit. This is supposed to significantly contribute to VPB's profit growth this year as it lost VND3,698 billion in 2023, equivalent to 13.5% of the parent bank's PBT (VPB holds a 50% stake in FE Credit).

Fig 21. FE Credit – PBT, asset quality & NIM (VNDbn, %)



Source: Vietnam Prosperity Bank, KB Securities Vietnam

Forecast & valuation

Table 12. VPB – 2024-2025F results

(VNDbn, %)	2023	2024F	+/-%YoY	2025F	+/-%YoY	Notes
NII	38,175	51,836	35.8%	71,377	37.7%	We maintain the previous forecast with NII growth supported by improved NIM and credit growth of 25%.
NFI	7,212	8,077	12.0%	10,099	25.0%	It is 5.1% lower than the previous forecast, based on a more cautious view on the recovery speed of bancassurance and payment services.
TOI	49,739	64,579	29.8%	87,496	35.5%	
Provision expenses	(24,994)	(29,671)	18.7%	(38,977)	31.4%	The forecast is unchanged, reflecting expectations that VPB will better control new bad debt in 2024.
NPAT	8,494	14,495	70.6%	20,757	43.2%	
NIM	5.60%	6.01%	41bps	6.91%	90bps	We kept the old forecast for 2024 NIM, expecting a 10-60 bps increase in deposit interest rates in the rest of the year.
Average IEA	11.23%	10.54%	-69bps	11.03%	49bps	
Average CoF	6.62%	5.35%	-127bps	4.80%	-54bps	
CIR	28.0%	26.0%	-203bps	25.8%	-20bps	CIR assumption was lowered by 1ppts compared to the previous forecast, reflecting positive cost management efficiency in 1H24.
NPL	5.02%	4.70%	-32bps	4.40%	-30bps	
Total assets	817,567	1,001,612	22.5%	1,175,723	17.4%	
Equity	139,796	153,091	9.5%	171,848	12.3%	

Source: Vietnam Prosperity Bank, KB Securities Vietnam

Valuation: BUY rating – Target price VND25,400/share

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

(1) P/B valuation method:

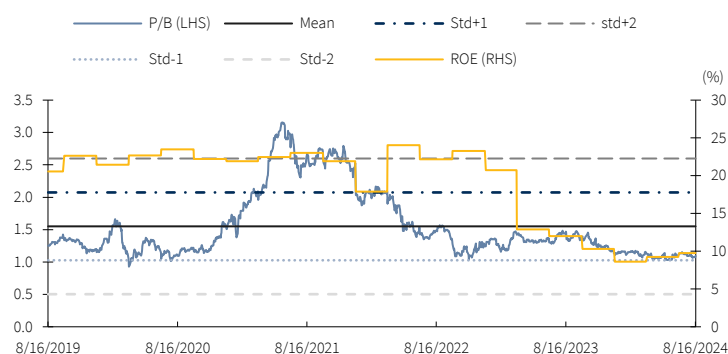
We maintain the 2024 projected P/B at 1.05x, equivalent to -1 standard deviation of VPB's five-year P/B average, reflecting concerns about the unclear economic outlook that may affect VPB's asset quality in 2024.

(2) Residual income method (Table 14):

In addition, we combine this method to reflect systematic risks and long-term expectations.

Combining the two valuation methods above at a 50–50 ratio, we found the final fair price for VPB shares for 2024 is at VND25,400/share, 37.7% higher than the price on August 19, 2024.

Fig 13. VPB – P/B in 2019–2024 (x)



Source: Bloomberg, KB Securities Vietnam

Table 14. VPB – 2024F valuation according to residual income method

(VNDbn)	2024F	2025F	2026F
NPAT	14,495	20,757	29,643
Excessed return	-4,612	-168	6,155
Required rate of return (r)	13.67%		
Growth (g)	3.0%		
Terminal value	58,618		
2024-end fair value	241,967		
Value per share	30,498		

Source: KB Securities Vietnam

Table 15. VPB – Final valuation and target price (VND)

Valuation method	Forecast price	Weighting	Price per weight
P/B	20,261	50%	10,130
Residual income	30,498	50%	15,249
Target price			25,400

Source: KB Securities Vietnam

VPB – 2022A–2025F financials

Income Statement (VNDbn)						Balance Sheet (VNDbn)					
	2021	2022	2023	2024F	2025F		2021	2022	2023	2024F	2025F
Net interest income	34,349	41,021	38,175	51,836	71,377	Loans	345,390	424,662	551,472	692,083	827,994
Interest income	50,827	62,200	76,557	90,939	113,943	Marketable securities	6,971	7,793	12,326	14,718	17,661
Interest expense	(16,478)	(21,179)	(38,383)	(39,103)	(42,566)	Cash (ex. Reserves)	2,346	2,658	2,285	2,729	3,274
Fees & commissions	4,059	6,438	7,212	8,077	10,099	Interest earning assets	506,371	587,418	776,000	950,258	1,116,571
Other non-interest income	2,808	10,584	4,526	3,856	5,700	Fixed assets & other assets	47,877	54,029	53,559	63,926	76,867
Total operating income	44,301	57,797	49,739	64,579	87,496	Total assets	547,409	631,013	817,567	1,001,612	1,175,723
SG&A expenses	(10,719)	(14,116)	(13,941)	(16,791)	(22,574)	Customer deposits	241,837	303,151	442,368	528,238	633,886
Pre-provisioning OP	33,583	43,681	35,798	47,789	64,923	Borrowings & call money/repos	81,400	63,762	47,810	63,430	80,149
Provision for credit losses	(19,219)	(22,461)	(24,994)	(29,671)	(38,977)	Interest bearing liabilities	446,310	509,092	650,653	812,480	960,857
Other income	5,469	13,017	7,774	7,012	8,383	Other liabilities	14,821	18,419	27,118	36,041	43,018
Other expense	(2,661)	(2,433)	(3,248)	(3,155)	(2,683)	Total liabilities	461,131	527,511	677,771	848,521	1,003,875
Pre-tax income	14,364	21,220	10,804	18,119	25,946	Charter capital	45,057	67,434	79,339	79,339	79,339
Income tax expense	(2,887)	(4,311)	(2,310)	(3,624)	(5,189)	Capital surplus	77	-	23,993	23,993	23,993
NP	11,477	16,909	8,494	14,495	20,757	Retained earnings	22,439	16,752	19,066	32,362	51,119
Minority interest profit	244	1,259	1,480	(200)	(1,000)	Capital adjustments	-	-	-	-	-
Parent NP	11,721	18,168	9,974	14,296	19,757	Total shareholders' equity	86,278	103,502	139,796	153,091	171,848

Financial Indicators (%)						Valuation (VND, X, %)					
	2021	2022	2023	2024F	2025F		2021	2022	2023	2024F	2025F
Profitability						Share Price Indicators					
ROE	16.5%	17.8%	7.0%	9.9%	12.8%	EPS	2,601	2,694	1,257	1,802	2,490
ROA	2.4%	2.9%	12%	16%	19%	BVPS	19,149	15,349	17,620	19,296	21,660
Pre-provision ROE	38.6%	36.8%	23.4%	26.1%	32.0%	Tangible BVPS	19,003	15,225	17,526	19,199	21,561
Pre-provision ROA	5.6%	5.9%	3.9%	4.2%	4.8%	Valuations					
Net interest margin (NIM)	7.6%	7.5%	5.6%	6.0%	6.9%	PER	7.1	6.8	14.7	10.2	7.4
Efficiency						PBR	10	12	10	10	0.9
Pure Loan to deposit ratio	146.9%	144.6%	128.0%	134.0%	134.0%	Dividend yield	0.0%	0.0%	0.0%	5.4%	5.4%
Cost-income ratio	24.2%	24.4%	28.0%	26.0%	25.8%	ROE	16.5%	17.8%	7.0%	9.9%	12.8%
Growth						Capital Adequacy					
Asset growth	30.6%	15.3%	29.6%	22.5%	17.4%	CAR	14.3%	14.9%	17.1%	>14%	>14%
Loan growth	20.6%	23.0%	29.9%	25.5%	19.6%	Asset Quality					
PPOP growth	215%	30.1%	-18.0%	33.5%	35.9%	NPL ratio (substandard)	4.6%	5.7%	5.0%	4.7%	4.4%
Parent NP growth	12.6%	55.0%	-45.1%	43.3%	38.2%	Coverage ratio (substandard)	60.9%	54.4%	51.4%	47.4%	57.3%
EPS growth	-36.8%	3.6%	-53.3%	43.3%	38.2%	NPL ratio (precautionary)	9.3%	112%	119%	10.1%	9.4%
BVPS growth	-8.2%	-19.8%	14.8%	9.5%	12.3%	Coverage ratio (precautionary)	29.9%	28.0%	21.7%	22.0%	26.8%

Source: Vietnam Prosperity 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:	Neutral:	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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