

**JSC BANK FOR FOREIGN
TRADE OF VIETNAM**

Address: 198 Tran Quang Khai street, Hanoi
Business Registration No. 0100112437 (12th
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**SOCIALIST REPUBLIC OF VIETNAM
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Hanoi, April 27th, 2018

**REPORT OF BOARD OF DIRECTORS
SUMMARY OF THE TERM 2013 - 2018****I. REPORT ON ACTIVITIES IN THE TERM 2013 – 2018****1. Overview on business environment**

The Board of Directors of the Joint Stock Commercial Bank for Foreign Trade of Vietnam (2013-2018) has carried out their second term in the context of domestic and world economy entered a recovery phase after the recession period from 2008-2012, which have positively affected Vietnam's banking industry in general and Vietcombank in particular. However, this is also a very volatile period to Vietnam economy generally and to Vietcombank particularly; resulting in a number of challenges to banking business.

- ✓ From 2013 to 2016, the global economy gradually recovered from the public debt crisis but the recovery was slow, most of the developing countries pursued a loose monetary policy. In 2017, the world economy recovered strongly thanks to rapid growth of consumption, sustainable development of global investment, improvement of the labor market, world oil price recovery, etc.
- ✓ Vietnam economy has also gradually overcome the difficulties after the financial crisis, stabilized and recovered sustainably. The Government prioritized controlling inflation, stabilizing macro - economy, maintaining reasonable growth rate link to accelerating three strategic breakthroughs implementation; restructuring the economy and reform the growth model; strengthening foreign affairs and promoting international integration. Inflation was under controlled, macro – economy gradually stabilized, material balance of the economy were ensured,. Economic restructure together with economic growth model reform was strongly promoted and achieved remarkable results.
- ✓ The overall objective of the banking system in this period was to curb inflation, stabilize the macro – economy, solve difficulties in manufacturing and business sectors to support reasonable growth rate of the economy, ensuring the safety of

credit institutions. With consistent direction from the SBV to solve difficulties in manufacturing and business sectors and to stabilize monetary market, interest rate has decreased substantially and was maintained stable at a low rate; credit growth was reasonably controlled in line with each relevant period, which has contributed to the faster economic recovery. The foreign exchange market and the exchange rate remained stable, underground foreign exchange market was narrowed. The belief in VND was strengthened, the dollarization was drastically reduced, the foreign exchange reserves increased rapidly. Credit institution restructuring and bad debt handling were strengthened. The banking industry's NPLs have decreased sharply from about 17% in 2011 to below 3% up to now according to many international rating organizations.

- ✓ In addition to the said favourable conditions, there have been also some remarkable challenges. Though the macro economy has been stable, it has not been sustainable enough; public debts grow fast, causing high repayment pressure; credit quality is modest; handling NPL and restructuring weak banks still face a lot of obstacles; the progress of restructuring the economy together with transforming economic growth model is slow.

2. Summary of activities in the term 2013-2018

In such volatile business environment, Vietcombank has overcome many difficulties and challenges, grasped changes in business environment and the trend of international integration, changed strongly and comprehensively in business operation as well as management, stayed firmly with the target of Acceleration, Transform, Quality, Efficiency, Sustainability.

The main business indicators accelerated and breakthrough, expanding scope of business resulted in new growth rates, the asset structure shifted sharply toward VND, the portion of low cost funding increased, consumer credit retail sales expanded, and bad debt are controlled with good management. Bad debt and off-balance sheet debt recovery marked with good outcomes; the profitability ratios were improved; profit increased rapidly; the transformation projects were and have been implemented to gradually drive Vietcombank towards best norms and standards.

Some key financial results for period 2013 – 2018 are as follows:

- ✓ Total assets as of 31/12/2017 reached nearly VND 1,036 trillion, up 2.5 times (~VND 621 trillion) compared to 31/12/2012, a continuous growth of about 20.1% per year. Main driven factor of total assets increase came from deposits from the economy, accounted on average of 73% of Vietcombank's total fund.

- ✓ Deposits mobilization increased sharply and maintained a continuous growth in the context of fierce competition in the funding market. Total deposits as of 31/12/2017 reached VND 727 trillion, up 2.5 times (~VND 439 trillion) compared to 31/12/2012, an average growth rate of about 20.4% per year.
- ✓ Deposits increase enabled Vietcombank to enhance credit growth. Total loans to customer as of 31/12/2017 was VND 543 trillion, up 2.3 times (VND 302 trillion) compared to 31/12/2012, an average growth rate of 17.6%/per year. Total investment in bonds as of 31/12/2017 is VND 140 trillion, up 1.76 (increase of VND 61 trillion) compared to 31/12/2012, CAGR at ~12%.
- ✓ Profit before tax doubled, from about VND 5.7 trillion from 2012 up to VND 11.3 trillion in 2017, equivalent to an average growth rate of about 15% per year, brought Vietcombank back to the leading position in banking system in term of profit.
- ✓ Credit quality was improved sharply, NPL ratio was controlled at low rate. NPL ratio continued to reduce from about 2.4% as end of 2012 down to 1.1% as end of 2017, being the leading bank in term of asset quality.
- ✓ Profitability ratios of asset and shareholder equity were high compared to average level of peer group, attributed to strategic targets and throughout .

Key financial results of the period 2013-2018 are presented in Annex 1 of this Report

3. Evaluation on performance of Board of Directors for the period 2013-2018:

Vietcombank's Board of Directors for 2013-2018 terms was elected at the sixth annual meeting in 2013 with 10 members. Currently, the BOD consist of 7 members as during the term 7 members resigned, retired and 4 members were additionally elected. During the term¹, the BOD conducted 313 meetings, consulted members of the BOD with ballot 135 times and issued 1,764 Resolution.

Vietcombank BOD had decisively directed the implementation of the targets set by AGM, which resulted in the Bank's remarkable performance outcomes, reached and exceeded targets approved by the AGM. At AGM, the BOD had annually reported the implementation of specific tasks being assigned by the general shareholders. Below are BOD's significant task implementation result for the 2013-2018 term:

i. Strong transformation in strategic planning

- ✓ Drastically implemented and completed in basically the tasks raised in Vietcombank Restructuring Project for the period 2013 – 2015. Completed and

¹ From 4/2013 to 31/12/2017

submitted to the SBV for approval the Vietcombank Restructuring Project toward 2020 in combination with bad debt handling and specific solutions to improve and increase operational, financial and management capacity to enhance competitiveness and obtain sustainable development.

- ✓ Set up and implemented synchronously the sub – projects (IT, Service, Investment, Human resource) and the Group’s action plans (Wholesale, Retail, Treasury and Finance). The main orientation, core solutions of the Project and sub-projects, Group’s action plans were in accordance with the orientation and achieved the first import results, contributed to the 2017 business result, set foundation for Vietcombank’s next period development.

ii. Network expansion; completion of internal procedure and regulation, provide mechanism for business operation

- ✓ Implemented continuously network expansion and development as directed, making the total number of branches from 78 (2012) up to 106 branches (2017). In this period, Vietcombank officially launched the Remittance Company; made preparation for the setting up of Vietcombank Laos and Representative Office in the USA, researched to set up Vietcombank Australia branch
- ✓ Reviewed, amended, supplemented and set up new procedures system, mechanism of policy in business operation and management to adapt to the change in the legal framework and business environment. Many important mechanism of policy were issued, updated in the fields of: credit (credit limit regulation; credit approval authority; credit guarantee policy, etc.); Risk management (liquidity risk management, interest rate risk in banking book; operational risk; anti-money laundering and terrorism sponsoring process; risk appetite regulation, working morale, fraud risk management etc.); Human resource (regulation on salary payment; staff management; staff appointment and reappointment; staff rearrangement, etc.), finance (financial regulation)...
- ✓ In the field of human resource, related procedures and mechanism were reviewed and supplemented to create incentives for the bank work force. Organization chart, mandate of Head Office & Branch have been standardized. Some important procedures and mechanism in human resource management have been issued and updated including: KPI, target setting, target achievement valuation, bonus and discipline regulation, recruitment regulation,...

iii. Reasonable human resource allocation for risk management, initially implemented risk management comprehensively in line with international standards through research and development of the Basel II Capital Accord.

- ✓ Implemented risk management transformation project towards centralized model to minimize any risk arising as well as promoting sales through segregation of function namely Sales, Approval, Debt Management and Risk management, gradually reduced branch approval toward centralization.
 - ✓ Completed the centralized risk management unit at Head Office in compliance with prescribed legal regulation as well as managerial norms, actively implemented initiatives according to Basel II capital Accord.
 - ✓ Strengthened and improved the function of controlling, auditing, and monitoring according to the best international standards: internal control system is organized vertically, maintained and intensified remote supervision and monitoring for business operation of the units within the system; applied IT applications, early warning programs to minimize and detect risk on time.
 - ✓ Controlled firmly credit quality following unique and decisive direction from HO as well as branches' best efforts. NPL is controlled below 2% continuously from 2015 up to now. Besides, Vietcombank was the first bank to fully settle NPL sold to VAMC in 2016 which is 3 year ahead the plan. The Vietcombank's 5 years (2013-2017) off balance sheet debt collection was more than VND 9,700 billion.
- iv. Innovation and completion of human resource management and training to improve staff quality and degree of cohesion between staff and bank.*
- ✓ Made public, transparent and effective all the stages from recruitment to planning, appointment, rotation and evolution.
 - ✓ Built new salary mechanisms, link the treatment with productivity, quality, work efficiency and motivation. Completed and issued/reissued internal regulation regarding human resource management suitable for actual requirement and legal regulation.
 - ✓ Initially implemented staff/leaders rotation, allocate reasonable human. Reform and intensify the training toward centralization, and training session's quantity and quality.
- v. Drastically implementation of solutions to modernize IT infrastructure and transformation projects to enhance management capability toward international standards.*
- ✓ Frequently invested to update, expanded, renewed IT infrastructure through allocating reasonable annual budget for equipment and modern IT solutions. Allocate high quality staff to ensure the system's reliability and readiness; issued synchronously regulations to monitor system security.

- ✓ Built a clear roadmap and implemented various important projects that followed strictly the core project such as: Basel II, Core banking, CTOM, RTOM, KPI, ALM/FTP/MPA, Market risk management framework completion as required by Basel II, internal audit and supervision capability enhancement, etc.
- vi. *Society and community contribution enhancement through broadening the scope and scale of the contributions.*
- ✓ Implemented the social security program on all aspects of health, education, poverty reduction, etc. at the poorest regions throughout the country, created bank's green image focusing on community and for community with total sponsoring amount of about VND 970 billions from 2013 – 2017.
- ✓ Through social security activities, Vietcombank's prestige, brand name and responsibility to society have been recognized and appreciated by the community.
- vii. *Standardized and strengthened external relations, PR, investor relation activities to enhance Vietcombank's position and image internationally.*
- ✓ Actively participated in activities organized by regional and international associations (WB/IMF Annual Forum, World Economic Forum, Asian/ASEAN Bankers Association), created more international business cooperation for Vietcombank.
- ✓ Continued to implement good information disclosure in compliance with legal regulation, constantly improve its transparency. Besides, frequent meetings with shareholders and investors with useful information have been organized; Vietcombank's Investor Relations are highly appreciated by many institutional investors.

4. Shortcomings

Apart from its achievements, looking back to the period 2013-2017, Vietcombank still has certain shortcomings, specified as follows:

- ✓ Under tough competition from the domestic and foreign commercial banks, maintaining and improving Vietcombank's market share in some business areas such as import – export settlement, distribution network coverage, lending, etc. have not met expectation.
- ✓ Vietcombank's income structure has, although been relatively more diversified than other peers and oriented to the increase of non-interest income, still been much relied on the interest income compared to the regional and international modern bank model.

- ✓ Due to existence of difficulties in legal framework regarding bad debt handling, despite Vietcombank's best effort, the bad debt recovery ratio of the written off bad debt is still lower than expected.
- ✓ Vietcombank current CAR is above 9% which meet the minimum requirement from SBV. However, according to international practices in calculation (especially after Basel II application), Vietcombank CAR is still low. Therefore, the charter capital increase plan should be conduct promptly to ensure capital adequacy ratio in the context of current credit growth rate.

5. Evaluation on performance of Board of Directors and Board of Management

Overall evaluation on performance of the Board of Directors and Board of Management as follows:

- ✓ BOD, BOM have flexibly and decisively directed the bank's operation in close view of complicated market movements. The directives of management are specifically set for every year and are strictly followed by the BOD, BOM during their fulfillment of the assigned tasks
- ✓ BOD has frequently direct BOM to implement tasks assigned by AGM. BOD has also given flexible directions to adapt to changes in the SBV's policies as well as in the market conditions.
- ✓ BOD has assigned specific tasks to each members, set up of the supporting committees, maintained monthly regular meeting as well as standing meeting to deal with arising issues timely.
- ✓ BOD, BOM have highly focus on directing and managing Vietcombank's operations. Moreover, BOD and BOM have spent considerable time to discuss major issues, such as: periodical business directions, strengthening information technology system, risk management strategy,...

Overall, Board of Directors and Board of Management have made great efforts to accomplish all tasks assigned by AGM; directed and managed Vietcombank's operation towards strategic direction and all targets set for the period from 2013 to 2018. In the term 2013-2018, Vietcombank have made remarkable results and breakthrough in business operation and modern banking management practices. A constant principle has been sustained for all actions of BOD and BOM: acting in the interest of stakeholders, the State, and the Bank.

II. DIRECTION FOR 2018 - 2023

Basing on the results of the last term, key directions for Vietcombank during the period of 2018 – 2023 are: realize the strategic objectives to 2020 as a solid foundation

for further breakthroughs; take advantage of its strengths; make the most use of all opportunities; flexibly aggressively and drastically stimulate growths in all business lines; ensure safe, efficient and sustainable development.

Main directions and key targets are as follows:

i. Development model, organization and network structure:

- ✓ Continue to research and improve organization model towards modern multi-functions financial group. In which, the strategic solution is to improve organization framework, along with strengthen management and business capability..
- ✓ Operate centralized management by customer model. Complete and standardize HO and branch's function to best serve customer and well perform the risk management function.
- ✓ Develop expand distribution network, combined with the development of the electronic distribution channels to optimize the performance of the units within the system. Study to gradually expand the overseas network.

ii. Treasury, credit and investment:

- ✓ Implement synchronously and effectively fund mobilization solutions, actively balance between fund and fund usage, ensuring liquidity and maximizing business efficiency. Continue to shift capital structure toward increasing low cost funding portion.
- ✓ Promote credit growth along with maximizing safety, efficiency, credit quality control, NPL ratio control. Focus and prioritize retail credit development.
- ✓ Review and restructure investment portfolios; increase the management effectiveness of the investment in to the subsidiaries to enhance investment efficiency and contribution into Bank's overall business results...

iii. Other business areas:

- ✓ Diversifying banking products and services for all types of customer, gradually increase the proportion of fee and service income in total income.
- ✓ Promote the treasury development through bond investment and other debenture, foreign exchange trading and other derivatives products.
- ✓ Maintain market share and market position in card services or settlement.
- ✓ Standardize the traditional products and services together with research to provide advanced products, generating outstanding strength.

- ✓ Enhance the supply chain product sale, cross selling, establish full package product to cross sell to specific customer, satisfy customers' need, improve Vietcombank competitiveness.

iv. Risk management.

- ✓ Gradually apply international standards into risk management, improve system's culture in risk management.
- ✓ Continue to improve risk management mechanism by enhancing the efficiency of each division as well as effective cooperation among divisions. Improve the capability and equipment for internal control, audit to ensure the good performance at second and third lines of defense.
- ✓ Enhance risk management capability through overall solution implementation; focus on completion of measurement model as well as risk management in banking operation; complete the uniform and modern system of risk management policy and tools.
- ✓ Ensure safety ratios following the guidelines of SBV and gradually approach to the international practices.

v. Human resources management:

- ✓ Manage human resources following international practices, complete human resources policy to assess, acknowledge and reward accurately contribution from individuals, units to the bank to optimize the value and increase efficiency.
- ✓ Reform the staff recruitment, allocation, and appointment process to ensure publicity, transparency and suitability (right person for right position). Enhance staff rotation, especially for potential candidates for high level management positions.
- ✓ Strengthen training activities to improve human resources quality. Restructure training activities, focus on modern training methodology, supplement human resources with professional skills and high professional qualifications for training.
- ✓ Continue to improve the salary and bonus policy based primarily on employees' competency and contribution with the aim of motivating Vietcombank staff to dedicate to the bank's development.

vi. Other tasks:

- ✓ Improve the quality of the management and usage of Vietcombank brand. Improve the efficiency of communication, advertising and brand positioning. Transparent information, strengthen investor relation. Enhance the bank's branding in the local and international markets.

- ✓ Upgrade and modernize information technology system to best meet the increasing requirement in terms of complexity and scale in the Bank’s operation, ensuring the synchronization of transformation projects, approaching the stage of being one step ahead of the bank’s competitors in terms of technology infrastructure.

vii. Main targets:

The Board of Directors will direct the establishment of main business targets and submit to AGM for approval each year. Main targets for the 2018 – 2023 period are as follows:

Items	Target
Total assets growth (% per annum)	~13%
Loan growth (% per annum)	~15%
Deposits growth (% per annum)	~14%
ROE	~15%
NPL ration	Maximum of 1%
CAR (Basel II)	~9%

The 2018-2023 has created both challenges and opportunities for the bank. We believe that Vietcombank Board of Directors for the new term shall continue the proud history after 55 years of development, further develop the results of the last term, fulfill all tasks assigned by AGM, to bring Vietcombank to new level of height, integrate to international and regional banking industry.

**ON BEHALF OF THE BOARD OF DIRECTORS
CHAIRMAN**

Nghiem Xuan Thanh

ANNEX 1

KEY FINANCIAL RESULTS

PERIOD 2013 - 2017

Item	2013 (audited)	2014 (audited)	2015 (audited)	2016 (audited)	2017 (audited)
Operating					
Total assets (billion VND)	468,994	576,996	674,395	787,935	1,035,293
Charter capital (billion VND)	23,174	26,650	26,650	35,978	35,978
Shareholders' equity (billion VND)	42,386	43,473	45,172	48,146	52,558
Loans to customers (billion VND)	274,314	323,338	387,723	460,808	543,434
Deposits and valuable papers (billion VND)	334,259	424,412	503,660	600,738	726,734
Profit before tax (billion VND)	5,743	5,844	6,827	8,578	11,341
Net profit (billion VND)	4,378	4,586	5,332	6,895	9,111
Number of staff (person)	13,864	14,099	14,755	15,615	16,227
Salary cost/Profit before tax (excluding salary)	33%	35%	37%	37%	37%
New branches and offices	1	10	6	5	5
NPL ratio	2.73%	2.31%	1.84%	1.45%	1.11%
Dividends payout (% per face value)	12%	10%	10%	8%	8%
Annual growth rate					
Profit before tax	-0.36%	1.76%	16.83%	25.64%	32.21%
Net profit	-0.98%	4.75%	16.28%	29.31%	32.13%
Loans to customers	13.74%	17.87%	19.91%	18.85%	17.93%
Deposits and valuable papers	16.30%	26.97%	18.67%	19.27%	20.97%
Total assets	13.15%	23.03%	16.88%	16.84%	31.39%
Efficiency					
Non – interest income/Operating income	28.59%	30.53%	27.11%	25.53%	25.40%
Operating cost/operating income	40.27%	39.66%	39.18%	39.99%	40.35%
ROAA	0.99%	0.88%	0.85%	0.93%	1.00%
ROAE	10.39%	10.66%	12.03%	14.70%	18.09%
Loan-to-Deposit ratio	82.56%	76.58%	77.36%	78.04%	76.70%
CAR ratio	13.37%	11.61%	11.04%	11.13%	11.63%