

**JSC BANK FOR
FOREIGN TRADE OF VIETNAM**

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**SOCIALIST REPUBLIC OF VIETNAM
Independence - Freedom - Happiness**

Hanoi, April 26th, 2019

**REPORT OF THE BOARD OF DIRECTORS
ON 2018 OPERATION AND 2019 ORIENTATION****I. OPERATION REPORT OF 2018****1. Highlights and overview:**

In 2018, the global economy grew by 3.7%, similar to its growth in 2017. However, signs of slow growth have appeared due to trade war between major economies. Even so, the domestic economy still maintained its growth momentum and rose strongly with GDP growth in 2018 of 7.08%, exceeding the target of 6.7% set by the National Assembly and being the highest over the last 10 years; inflation continued to be controlled lower than the ceiling of 4% (average CPI increased by 3.54%) and was low for the 5th consecutive year.

Monetary policy which is actively and flexibly controlled by the SBV has contributed positively to controlling inflation, stabilizing macro economy and supporting economic growth. Money supply increased reasonably, the liquidity was high, interest rates were kept low, exchange rates and foreign exchange markets were stable, foreign exchange reserves increased rapidly. These policies have benefited commercial banks for sustainably growth with improving quality and efficiency.

2. Missions assigned by the General Shareholders Meeting:

At the Annual General Shareholders Meeting (AGM) in 2018, the Meeting ratified the following:

- ✓ 2018 motto: “**Transformation – Effectiveness – Sustainability**” and management orientation “**Innovation – Discipline – Responsibility**”;
- ✓ A number of major targets in 2018: total assets to increase by 14%, credit to increase by 15%, deposit and valuable papers to increase by 15%, profit before tax to reach VND 13,300 billion, up 8%, dividend paid at 8% (per face value), NPL ratio below 1.5% of total loans, etc.;
- ✓ The 2017 remuneration for the BOD and Supervisory Board at 0.35% of 2018

profit after tax funded by the Bank's approved salary budget;

3. Review the implementation of the missions assigned by the AGM

Grasping the motto “*Transformation – Effectiveness – Sustainability*” and the management orientation “*Innovation - Discipline – Responsibility*”, shifting business toward 3 pillars: Retail, Treasury and Service; continuing to restructure the operation; ensure quality, safety, effectiveness and sustainable growth, the BOD directed in a timely and rigorous manner the operation of Vietcombank right from the beginning of the year in accordance with the orientation and goals proposed throughout the year.

With determination and effort of the whole system, VCB has fulfilled and exceeded the targets set out by the AGM, becoming the leading bank in terms of profit and asset quality in the banking system.

Reviewing the implementation of missions set by the AGM:

a) Business operation outcomes:

In 2018, Vietcombank continued to record outstanding growth and achieved impressive results in almost every field of operation; achieved and exceeded the targets set by the AGM.

Total assets as of 31/12/2018 was VND1,074,027 billion, up 3.7% compared to 31/12/2017 (or up 16.1% compared with 2017 when excluding the abnormal amount of VND109,851 billion received from the IPO of Sabeco), exceeding the target by 1.8%.

Deposits amounted to VND823,390 billion, up 13.3% yoy. Credit reached VND639,370 billion, up 14.6% yoy, in line with credit growth orientation assigned by the Governor of SBV.

In 2018, VCB continued to tightly control credit quality and strengthen bad debt handling. Group-2 loan was VND3,781 billion, down VND1,002 billion compared with 2018. Group-2 loan ratio decreased to 0.59%. Since IPO, this is the first year that the bank's NPL ratio has fallen to less than 1%. NPLs were VND6,223 billion, NPL ratio was 0.97%, meanwhile loan loss reserve coverage reached 165%, setting a new record high. Bad debt collection reached VND3,272 billion, completing 116.8% of target set by the BOD.

Profit before tax reached VND18,269 billion, up 61.1% yoy, equal to 137% of the target set by 2018 AGM. Based the bank's financial performance and 2018 AGM resolution, VCB intends to pay dividend at 8% (by cash or cash and stock).

(For more details, please see BOM's report).

b) Management activities

The bank's management activities were paid special attention by the BOD with highlights of 2018, including:

- ✓ **Deposits: maintain stable deposits in Quarter 1 and gradually increase it in following quarters; control deposits with competitive interest rates; tightly follow the orientation of increasing wholesale deposits, low-interest-rate deposits; control interest rates in a flexible manner to be in line with the market;**
 - Promote cashless payment products and services; improve products, payment services, centralized account management services.
 - Actively expand collection accounts and payment accounts for social insurance units and State Treasury units.
 - Promote the cooperation of State Budget collection through successful agreement with a number of credit institutions to use the State Treasury account at VCB as the priority channel for state budget collection transactions.
 - Adjust interest rates to be suitable for some areas which have low deposits and are competitive.
 - Deploy programs for customers with big foreign currency sources. Focus on selling non-credit services, cross-selling individual-customer products to attract CASA deposits and foreign currency deposits.
 - Focus on large IPO transactions to serve foreign currency conversion. Follow enterprises with divestment plans and potential investors to provide related services.
- ✓ **Credit: Continue to restructure credit portfolio towards efficiency and sustainability; maintain wholesale credit; implement solutions to boost retail credit and credit originated at transaction offices**
 - Promote retail credit through managing plans, KPIs, adjusting interest rates, products and regulations ...
 - Head office supports branches to work with big customers, to approach and develop new wholesale customers.
 - Restructure the wholesale credit portfolio by reducing loans of customers with unstable financial situation, low collateral value; reduce loans of Top 10 customers by loan outstanding.

- Issue flexible interest rate programs to be suitable for each customer/region.
- Focus on providing credit to large FDI customers, priority industries which are potential to develop overall services such as foreign currency exchange, international payment, retail services.
- ✓ **Credit quality control and bad debt recovery: Strengthening credit quality control and boosting bad debt recovery**
 - Upgrade traditional banking products and services, and develop new products and services to increase service income.
 - Review fee table; build mechanisms for fee incentives for segment and customer classification.
 - Improve card business efficiency: Increase cooperation with partners, develop utilities, integrate sales channels, expand connections with service providers on bill payment and QR Code payment .
 - Increase fees through distributing open-ended fund products, review business activities of Bancassurance insurance life /non-life products.
 - Implement the 2018 action program on international settlement and TF to maintain and expand market share and increase fee income.
 - Income from FX trading continued to remain stable by having flexible exchange rate, expanding customer base with large foreign currency.
- ✓ **Investment: Adjust investment portfolio to improve efficiency; Implement divestments to meet regulations and achieve high efficiency;**
 - Adjust capital usage on interbank market through expanding investment in valuable papers and bonds of financial institutions.
 - Promote divestment at the following credit institutions to comply with the law and the regulations of the SBV and achieve good results: Cement Joint Stock Company, Orient Commercial Joint Stock Bank, Military Commercial Joint Stock Bank, Vietnam Export-Import Commercial Joint Stock Bank; and other enterprises including Vietnam Airlines Corporation and PetroVietnam Drilling and Well Services Corporation.
 - Evaluate the effectiveness of investment in VCLI through reviewing the business performance of VCLI in the period 2014-2018 to provide appropriate development orientation in the coming time.
- ✓ **Organizational model and network: Strengthen the organizational model and develop network to be in line with business strategies**

- Continue to expand network: Establish 5 new branches including: Bac Gia Lai, Phuc Yen, Dong Binh Duong, Nghi Son, Tuyen Quang; 39 transaction offices; open and put into operation VCB Laos; get approval from the FED to establish a Representative Office in New York (USA); research to establish a branch in Australia.
 - Strengthen the organizational model, adjust the functions and tasks of some departments at the head office; establish Integrated Risk Management Department, HR group (including departments: HR department, HR policies department; School of Human Resource Development and Training); rearrange the organizational structure of the wholesale group in accordance with CTOM Model; set up criteria to separate departments at branches and implementing the separation at branches that meet the criteria.
 - Scientific research has undergone innovations, many initiatives have been applied in practice. Successfully organized the first "Innovation for Development and Integration" contest for bank-wide, thereby selecting many initiatives with high application and efficiency.
- ✓ **Policy and procedure: complete policies and procedures to improve operational efficiency and strengthen risk management**
- Issue some important internal regulations: regulations on limits and safety ratios of VCB activities, wholesale credit procedures, mechanism on delegation of authority on fee for wholesale customer, regulation on liquidity risk management, etc.
 - Complete internal regulation: regulation of bank wide salary, regulation on staff rotation within the bank.
- ✓ **Transformation project: Focus resources to implement transformation projects to improve management capacity towards international standards**
- Transformation projects were actively implemented, results of some projects were applied in business:
- Basel II program: SBV confirmed that VCB was the first bank to comply with Basel II in Vietnam through Circular 41 (1 year earlier than the requirement).
 - CTOM program: continued to implement 17 initiatives and completed 7 initiatives. Officially implemented CTOM model at all branches in June 2018.
 - Retail group's projects: Retail group actively implemented its projects, including RTOM, CRM for retail and RLOS, at the same time the group implemented some parts of the retail model transformation in 2018.

- Scheme to develop IT until 2020: actively implement the scheme with 54 projects to support banking activities and build, upgrade IT infrastructure to gradually modernize the IT system in line with IT development strategy till 2020. 14 key projects have been focused to implement such as switching to new Core Banking system, Trade Finance.
 - ✓ **Information Technology: Focus on upgrading IT system**
 - Focus on speeding up the implementation of IT projects.
 - Focus on overcoming inadequacies, shortcomings and limitations on IT and digital banking services.
 - Upgrade IT infrastructure to ensure stability, availability and security for all IT systems.
 - ✓ **Inspection, control and compliance**
 - Completed the annual inspection for all branches, inspected all branches under 22 topics.
 - Checked operational risks at branches, timely prevented and provided warning of potential risks, proposed solutions to overcome, provided proposals to handle violations at branches.
 - ✓ **Other activities**
 - Successfully implemented the private issuance plan to increase Tier 1 capital in the context of a very difficult market, contributing to affirm VCB's reputation and position and enhancing the competitiveness of VCB.
 - Successfully organized events to celebrate the 55th anniversary of the establishment of VCB, the 11th General Meeting of Shareholders in 2018, etc.
 - Construction activities were implemented actively: Completed the facilities, handed over 04 new construction projects and 50 renovation and repair projects of the branch/transaction office.
 - Participated in sponsoring VND 180 billion to social security programs; focused on items and works: building schools, building hospitals, preventing diseases, supporting natural disaster recovery in the Northwest, Central and Central Highlands provinces ... and building houses for poor people, support poor districts; join the mission of the Navy Army to visit Paracel island and DK1/15 rig.
- c) **Results of 2017 key targets set by the AGM** (*see Appendix 01*).

4. Some issues:

✓ Service pillar contributes to the overall operating results but the proportion of service in to total income has not shifted as expected, due to high interest income growth (up ~ 30 % compared with 2017); banks in the system competed fiercely by using no fee policies to attract customers.

✓ CAR ratio complied with the regulation but was low and not sustainable: VCB was not provided capital through retain earnings and the private placement did not achieve the maximum target.

✓ Progress of some transformation projects and projects belong to Scheme to develop IT until 2020 are slow compared with VCB's ambition because there are many projects being implemented at the same time (~ 70 projects in 2018).

5. Assessment on the performance of the BOD and BOM

In 2018, the BOD organized 59 meetings. In the monthly meeting, the BOD evaluated business performance and performance of the assigned tasks of the BOD members. Based on that, the BOD issued Resolution to direct business operation, assigned specific tasks to each member of the BOD and supervised the BOM to implement as regulated in the Bank's Charter, Regulation on the organization and operation of the BOD, Internal corporate governance regulation and other relevant regulations of the Bank.

In 2018, grasping positive changes of the local economy, the BOM directed and supervised closely following the direction set out by the BOD as well as stick to the medium and long term objectives and specific targets for the year 2018 as assigned by the AGM and the BOD.

The member of the BOD and BOM always placed the interests of the shareholders, the State and the Bank as the first objectives, and performed well the management responsibilities and fulfilled the assigned tasks.

6. Assessment on the performance of the Committee

✓ *Risk management Committee*

The Risk management Committee advised the BOD on approving appropriate policy and orientation suitable to each period regarding risk type, including the identification of rate, limit/restriction and risk tolerance of the bank.

In 2018, the Risk Committee organized 4 periodical meetings, coordinated with relevant departments to continue to finalize and complete Vietcombank's regulation, and advised the BOD the strategy, risk management policy, measures to prevent risk in

various fields of the operation. The Committee also played an active role in promoting the implementation of initiatives to apply Basel II, making VCB to be the first bank complying with Basel II.

✓ ***Human Resources Committee***

Human Resource Committee plays a role in advising the BOD on the scale and structure of the BOD and the Managers suitable with the scale of operation and development strategy of VCB; advising the BBOD in reviewing, evaluating and proposing the election, appointment, dismissal, planning of managerial staff under the authority of the Board and remuneration for these staff to ensure consistent with the orientation and business plan of the Bank in each period.

In 2018, the Human Resources Committee continued to actively and proactively advise, propose the staffing, appointment and management officer under authority; finalized the system of document and policy in staff management, contributed to enhancing the capacity and quality of staff management.

II. ORIENTATION FOR THE OPERATION IN 2019

1. Basis for business operation in the year 2019:

Based on the objectives and roadmap of implementing the solutions in the VCB Restructuring Plan until 2020 which has been approved by the Governor of SBV, some key indicators for 2019 are as follows: total asset of about VND 1.180 trillion, fund mobilizing of about VND 925 trillion, ROAE of about 13%.

2019 macro indicators and expected credit growth of the industry: CPI is forecasted to be controlled below 4%, targeted GDP growth is at 6.6% - 6.8%, monetary policy continues to be proactively and flexibly managed; Credit growth of the whole industry is expected at 14%; Country import-export turnover is expected to grow by 8-10%

2. 2019 business orientation:

Continue the motto ***Transformation - Effectiveness - Sustainability*** and management orientation ***Discipline - Action - Responsibilities***, the Bank continues to make best efforts to boost its operation, successfully implement the plan following the management direction of the Government and the SBV.

Main orientation in some specific fields as follow:

a) Business activities: mainly focus on three pillars in 2019: Retail, Service, Investment (treasury trading)

✓ ***Focus on credit growth from the beginning of the year associated with efficiency and quality***

- The credit growth is targeted at about 15% associated with efficiency and quality, focusing on high growth from the beginning of the year to increase efficiency and give room for portfolio restructure during the year. Active liquidity and credit growth shall be higher than 15% if assigned by SBV
 - Drastically boosting retail credit and credit growth through transaction offices. Stabilize wholesale credit focusing on effective business enterprises; effective restructuring of wholesale credit portfolio.
 - Increase short-term credit exposure, control of medium and long-term credit ratio
 - Increase proportion of outstanding loan according to industry orientation; FDI credit; outstanding loans of manufacturing sectors, especially outstanding loans of the priority areas of the Government;
 - Increasing the proportion of retail lending to standard products, production and trading, car purchasing ... which are highly effective. Limit lending backed by valuable paper, lending to low NIM areas. Strengthen the quality control of individual credit, especially outstanding loans at transaction offices,
 - Apply compulsory commercial conditions to wholesale and retail loan in 2019, with main focus of wholesale lending.
- ✓ ***Strictly control credit quality, actively handle and collect debts***
- Continue to strictly control credit quality, ensure NPL at less than 1%, group 2 debt ratio below 1.5%.
 - Strengthen the debt handling activities at branches. Off-balance debt recovery in the year is targeted at over VND 3,000 billion.
- ✓ ***Drastically deploy fund mobilization in the right direction***
- Deposit growth is at 13% and is in line with the capital use schedule, keeping capital sources stable in the first quarter, increasing steadily in the next quarters.
 - Increasing the ratio of using capital (credit, credit institutions bonds) to 85% - 87%.
 - Focus on increasing low cost deposit, create appropriate lending interest reate.
 - Improve wholesale and retail deposit, focus on wholesale capital source.
 - Increase the sale of non-credit service, product cross selling, cash management to exploit new source of capital.
 - Flexibly adjust deposit interest rate for some specific province with low fund

mobilization and high level of competition for fund.

✓ ***Actively focus on developing products and services.***

- Focus on improving and developing wholesale products and services, researching and applying competitive wholesale products and services, supplementing consulting products, and VCB market positioning products ...
- Develop a plan to develop wholesale products closely associated with sales and business targets; offer specific solutions for each group of product/customer.
- Implement interest rate derivative product, fx derivative product, interest rate swap, cross currency swap...

✓ ***Maximize the resource and solution used to increase the service fee income***

- Increase the proportion of non credit income (focus on service income) on total income; Maximize the resource and solution used to increase the service fee income
- Promote the growth of service income, income structure restructuring and improve the market position; Consistently aim to increase non-credit income.
- Shift a part of income structure from interest income to service income.
- Improve service quality and enhance sales activities. Increase the efficiency of selling products and services to customers.
- Review and continue to adjust the fee schedule (including wholesale, retail, payment ...), ensuring competition but still increasing the efficiency of collecting service fee for banks.
- Make effort to keep and increase market share in international payment – trade finance. Actively seek, access and enhance transactions with key customers. Maintaining and expanding market share for domestic credit institutions through full service packages linked between international payment – trade finance and funding solutions;

✓ ***Improve efficiency of treasury and investment business***

- Improving the efficiency of treasury business through investment policies focusing on short-term bonds / deposit certificates of financial institutions, government bonds, ...
- Improve profitability of capital contribution activities. Increasing contribution of income from valuable papers investment in total operating income of VCB.

✓ ***Focus on improving financial capacity***

- After successfully increasing capital in the period of 2017 - 2018, continue to implement solutions to increase charter capital, equity, ensuring capital for business development and compliance with the safety ratios under Basel II standards;
- Develop plans to increase charter capital through equity and new issuance plans, submit to authorities for approval;
- Enhance business efficiency, optimize assets and liabilities portfolio, improve asset quality and handle bad debts, ensure limits, improve operational safety and profitability ratios .

b) Management

✓ *Strengthen the inspection and monitoring activities*

- Concentrate resources to complete inspection and audit plan, perform unexpected inspections when there are signs of violation.
- Strengthen inspection and supervision of branches and operational processes with high risks, systematic risks to early detect, warn and timely prevent; monitor the results of inspection, audit and remote supervision for branches/subsidiaries in the VCB system.
- Actively cooperate with investigating agencies in providing information and documents as required to investigate, fight and handle violation.

✓ *Development of human resources toward being the leading bank in human resources quality*

- Implement solutions to implement the strategic management objectives as being the leading bank in human resources quality;
- Increasing sales force by 2%; improve the job description system, work performance measurement, business salary system, payroll;
- Summarize the activities of professional skills tests, have motivation policies for staff who achieve high results
- Develop and issue: capacity framework for retail operations and other business fields; set of criteria for talented officials; research on scholarship funding for university students with high achievement, direct recruitment mechanism for outstanding university students;
- Promote early completion of projects to establish Human Resource Management System (HRM) and Online Training System (E-learning), deploy training and retraining plans for staff

- Establishing and putting into operation the human resource training and development school; complete the restructuring of Departments/Centers at the Head Office.
 - ✓ ***Digital banking conversion; promote the implementation of Action Programs and Transformation Projects***
 - Define 2019 as the year of digital banking conversion. Accelerate the digital banking conversion project, apply technology to develop smart banking services and take the lead in digital banking conversion. Research and establishment of VCB Digital Banking Center.
 - Concentrate resource to accelerate program/sub-projects under 2020 IT development project.
 - Focus on the implementation of retail project to adapt to international standards & to become no 1 retail bank.
 - Improve the project management activities, enhance the project communication and change management.
 - Continue to improve IT infrastructure, ensure to accommodate full resources for implementation of approved projects.
 - ✓ ***Continue to improve risk management and policy establishment and modification***
 - Improving risk management; reviewing regulations on credit approval competence; completing models of credit risk quantification (PD, LGD, EAD); issuing official regulations on early warning of credit risk; amend and supplement debt classification policies using credit rating results according to PD model and optimize credit portfolio ...
 - Implement contents of policy changes, internal operational procedures of VCB according to the roadmap for changes of the new core-banking system.
 - ✓ ***Other duties:***
 - Focus on implementing key construction projects
 - Implement social security activities to share difficulties with provinces, support to overcome natural disaster, prioritize education and health care ...
- c) Details of some basic indicators in 2019** (see Appendix 2)

Transpired by the achievements in recent years, the Bank is strengthening its solid foundation to continue developing and achieve stronger break-through in the future.

With the determination of the BOD, BOM and employees throughout the Bank's system, Vietcombank will certainly make full efforts to complete and exceed the targets set forth by the AGM, bring Vietcombank to a new phase of development towards realizing the strategic vision to become the Number 1 bank in Vietnam, among 100 leading banks in the region, ranking among 300 biggest financial groups in the world, underpinned by global best practice.

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

Nghiem Xuan Thanh

APPENDIX 1
PERFORMANCE OF 2018 TARGETS ASSIGNED AT THE 2018 AGM

Unit: VND billion

No	Criteria	2017	2018 target	2018	2018/2017	2018/2018 target
1	Total asset ^(*)	1,035,293	1,055,004	1,074,027	103.7%	101.8%
2	Credit ^(**)	557,688	641,341	639,370	114.6%	99.7%
3	Deposits	726,734	835,744	823,390	113.3%	98.5%
4	Profit before tax	11,341	13,300	18,269	161.1%	137.4%
5	Number of employees	16,227	Grow less than 6%	17,216		As planned
6	Salary cost over profit before tax excluding salary	37%	37%	30%		As planned
7	Number of new branches	5	6	5		As planned
8	NPL ratio	1.11%	< 1.5%	0.97%	Better NPL control	Better NPL control

* Total asset in 2018 was up 16.1% compared with 2017 when excluding the abnormal amount of VND109,851 billion received from the IPO of Sabeco

** Include corporate bonds

APPENDIX 2
2019 KEY TARGETS TO BE SUBMITTED TO THE AGM

Unit: VND billion

No	CRITERIA	2018	2019 target	Growth
1	Total asset	1,074,027	1,202,910	12%
2	Credit	639,370	735,275	15%
3	Deposits	823,390	913,963 - 930,431	11% - 13%
4	Profit before tax (bank only) ^(*)	18,016	19,500	8.3%
5	Number of employees	17,216	Grow less than 12%	
6	Salary cost over profit before tax excluding salary	30%	37%	
7	Number of new branches	5	6 ^(**)	
8	NPL ratio	0.97%	< 1.0%	
9	Dividend (% per face value)	8%	8%	

* 2019 target for Profit before tax (consolidated): 20,000 VND billion, up 9.5% on 2018

** Include 05 local branches and 01 branch in Australia if approved by the SBV