

**JSC BANK FOR FOREIGN  
TRADE OF VIET NAM**

Address: 198 Tran Quang Khai, Hanoi

Business Registration No. 0100112437

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**SOCIALIST REPUBLIC OF VIETNAM**

**Independence - Freedom – Happiness**

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Hanoi, April 23<sup>rd</sup> 2021

## **THE BOARD OF MANAGEMENT’S REPORT**

### **I. BUSINESS PERFORMANCE IN 2020**

In 2020, the COVID-19 pandemic had adversely affected all social and economic aspects of the world. The global GDP was estimated to decrease by approximately 3.3%<sup>1</sup>, production and consumption declined, unemployment rate surged dramatically, and social unrest increased. Many countries and territories have to adopt and even expand lockdowns, travel restrictions, and social distancing to curb the pandemic spreading.

In that context, Vietnam succeeded in controlling the pandemic, overcoming the heavy effects of natural disasters, and recovering the economy. GDP growth of Vietnam in 2020 reached 2.91%, among the top economic growth countries. Inflation was controlled at a low level with average CPI of 3.23% year on year. The disbursement of public investment was quickened up with a year-on-year increase of over 34.5%, the highest level since 2011. Import-export turnover increased significantly (5.1%), export surplus reached record high of 19.1 billion USD. Labor productivity increased by 5.4%.

In order to implement the Government's direction and the State Bank's guidance, the banking sector actively initiated measures to support customers (restructuring debts, reducing interest rates on loans, and lowering transaction fees ...), allocated credit to priority areas, strictly controlled lending to potentially risky areas, increased credit risk provision, reduced operating expenses ... The sector credit growth was ~ 12%, liquidity abundant, NPL ratio controlled at around 2%, foreign exchange reserves increased sharply.

#### **1. Business performance of VCB in 2020**

Despite of challenging socio-economic environment, VCB succeeded in achieving “multiple goals”: preventing the Covid-19 pandemic effectively;

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<sup>1</sup> IMF, 4/2021

sharing financial burdens with customers; and growing business sustainably.

***1.1. Actively spearheaded the implementation of the Government's Resolution 42 and the State Bank of Vietnam's Circular 01***

- ✓ Actively implemented a number of measures to support businesses and individuals affected by COVID-19 pandemic and natural disasters such as interest support packages, lowered lending rates for existing debt balance and interest rates on loans for customers in the Central region affected by storms and floods, reduced payment service fees...
- ✓ Total loans with interest rate reduction were about VND 441,768 billion. The total amount of money to support customers via lowering interest rates in 2020 was more than VND 3,700 billion.
- ✓ Restructured the repayment term and retaining the debt group for borrowers affected by COVID-19 pandemic according to Circular 01. Restructured debt balance as at 31/12/2020 was VND 5,156 billion.

***1.2. Balanced the growth rate of both credit and deposit; optimized the structure of deposit mobilization***

- ✓ Deposit mobilized from the economy (including issuing valuable papers) reached 1,053,354 billion VND, an increase of 10.9% compared to 2019.
- ✓ The proportion of demand deposits in 2020 reached 32.1% (2019: 30.1%).

***1.3. Shifted credit structure towards safety and efficiency; expanded credit to support the economy; controlled and improved credit quality while sharing difficulties with customers***

- ✓ Credit balance reached 845,128 billion VND, up 14% compared to 2019, achieving credit growth target assigned by the State Bank (SBV).
- ✓ The proportion of retail credit accounted for 53.5% of total loans (2019: 51.8%).
- ✓ Credit focused on manufacturing and priority areas in accordance with the Government's policies and guidance.

***1.4. Strictly controlled asset quality; accelerated the collection of NPLs and written-off bad debts***

- ✓ Problem loans (group 2 to 5) were controlled at lowest level among state-

owned banks

- ✓ Special-mentioned loan balance (group 2) was VND 2,973.6 billion, accounted for 0,33% of total loans and stood slightly lower than that of 2019 (0.41%).
- ✓ NPLs were VND 5,229.5 billion and the NPLs ratio was 0.62% (2019: 0.73%).
- ✓ Loan loss provision balance reached VND 19,242.7 billion. The loan loss coverage ratio was at a high level amongst banks in Vietnam (368%).
- ✓ Recovery of written-off NPLs ~ VND 2,422 billion.

### ***1.5. Outstanding business results among credit institutions***

- ✓ Profit before tax reached VND 23,050 billion, approximately equivalent to 2019.
- ✓ Non-interest income accounted for 49.8% of total income (2019: 39.2%).
- ✓ ROAA and ROAE remained high at 1.45% and 21.11% respectively.

### ***1.6. Business results of subsidiaries and associates***

- ✓ Nine subsidiaries operated effectively with total accumulated pre-tax profit of VND 683.6 billion. Of which, seven companies attained over 100% and one company completed 78% of the financial targets.

### ***1.7. Ensuring the safety ratio in banking operations***

- ✓ VCB fully complied with safety requirements in banking operations in accordance with SBV regulations and guidance.
- ✓ Consolidated capital adequacy ratio (pursuant to Circular 41) was 9.56%, an increase of 0.22 percentage point compared to 2019.

### ***1.8. Largest market capitalization among listed banks***

- ✓ VCB's market capitalization was of over 15.7 billion USD<sup>2</sup>, the largest among listed local banks.

## **2. Performance results in 2020**

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<sup>2</sup> At the end of the trading session on December 31, 2020, VCB's share price was VND 97,900; Number of outstanding shares: 3,708,877,448; USD / VND interbank exchange rate on the same day: 23,175

In 2020, the COVID-19 pandemic had major impacts on business environment. In this context, the *"Safety"* strategy was added to the action motto and managerial mindset to deploy three pillars of **Retail - Service - Investment**. Accordingly, VCB has synchronously implemented solutions to maintain the position of a leading bank in performance and credit quality in Vietnam.

### ***2.1. "Retail" pillar***

- ✓ Developed credit products for individuals and SMEs to meet the needs of the market; flexibly adjusted lending rates to expand retail credit.
- ✓ Implemented the RTOM Project on schedule, with a consistent customer-centric orientation towards digital experiences and customer engagement.
- ✓ Increased sales personnel promptly and provided experienced credit officers to transaction offices.

### ***2.2. "Service" pillar***

- ✓ Developed Omni Banking platform and successfully deployed VCB Digibank digital banking service on the basis of consolidating the bank's Internet Banking and Mobile Banking.
- ✓ VCB is the first bank successfully connected to the National Public Service Portal and implemented social insurance payments through the National Public Service Portal.
- ✓ Developing and upgrading various payment service solutions. Deployed non-cash payment solutions as well as payment collection services to third parties.
- ✓ Pioneered in converting and upgrading EMV Contactless chip cards; provided cash withdrawal services at ATMs by using QR code.
- ✓ Successfully launched five major bancas products and seven supplementary insurance products under the distribution contract with FWD and completed the up-front fee collection target.
- ✓ Reapplied ISO27001 certificate and updated regulation on information protection and security.

### ***2.3. "Treasury and investment" pillar***

- ✓ Increased investment efficiency through restructuring the portfolio and increasing the scale of investment in valuable papers.
- ✓ Collaborated with the subsidiaries VCBS and VCBF to develop and cross-sell more comprehensive investment banking products to meet customers' broader financial needs.

#### ***2.4. Credit risk management***

- ✓ Credit growth was accompanied by strict control of credit quality; regularly reviewed the situation of customer activities and collaterals and pushed forward the collection of bad debts.
- ✓ Completed the internal credit rating scoring system based on the Probability of Default (PD) model and applied the PD rating results to review of credit approval authority and minimum prudential ratios.
- ✓ VCB had classified borrowers into 04 groups of credit relationship orientation based scientific and systemical criteria. Besides, VCB consistently remains credit conditions and collateral requirements; regularly reviews and removes difficulties in credit approval.

#### ***2.5. Organizational model and network***

- ✓ Rearrange the organizational structure of the retail group in accordance with RTOM – stage 1. Adjust CTOM model to Circular No.13. Rotated the managerial staffs between the Head Office and the Branch.
- ✓ Organizational network: established 05 new branches and 33 transaction offices.
- ✓ VCB Human Resources Development and Training College in Ecopark was put in operation. The number of training sessions is 67,988 in which 37% were carried out via E-learning; the average number of training sessions per employee was 3.6 (2019: 1.1).

#### ***2.6. Capacity transformation projects were carried out according to plan***

- ✓ Successfully launched new Corebanking Signature system in January 2020. Put the system into stable operation and developed advanced IT-based applications for business activities.
- ✓ Completed 13 projects, of which seven were from the IT Development Plan

to 2020 and five under the Basel II Program and one under the CTOM project. 29 transformations projects were carried out according to approved roadmap.

- ✓ Implemented successfully stage 1 of Payment Hub and Payment Cash Management project.
- ✓ Completed stage 2 of ERP and MPA project; continued upgrading system for better user experience.
- ✓ Implemented ICAAP project 6-month earlier than required by the Circular No.13.
- ✓ Implemented Digital transformation project, starting with the establishment of the Digital Bank Center.

## 2.7. *Others*

- ✓ Successfully assembled VCB's 4<sup>th</sup> Party Congress for the term 2020-2025 and organized a series of activities welcoming The 3<sup>rd</sup> Congress of the Party Committee of the Central Business Sector and The 13<sup>rd</sup> National Congress of the Party.
- ✓ Public relation activities continued to be upgraded with new features; VCB brand reputation was enhanced and VCB was awarded prestigious prizes by a number of reputable domestic and foreign organizations.
- ✓ Actively participated in social activities. In 2020, VCB sponsored about VND 387 billion for social programs concentrating on education, health care, building houses for the poor...

## II. BUSINESS STRATEGY IN 2021

Global economic is forecasted to recover strongly in 2021 as global GDP growth is revised up to 6%<sup>3</sup>. However, new variants of SAR-COV2 may slow down the recovery. Besides, potential risks arise from geopolitical instability with more intense competition among powerful countries and more severe climate change.

In 2021, the Government of Vietnam targets GDP growth of 6,5%, put priority on macro economic stability and keep average CPI under 4%. Disbursement of public investment is further accelerated in 2021 and the

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<sup>3</sup> IMF 4/2021



following years. The effect of FTAs and increasing demand after the pandemic are likely to boost Vietnam's exports. FDI inflows into Vietnam are expected to increase as the investment trend of "China +1" becomes more obvious. Vietnam is presented with opportunities and working diligently to participate more deeply into the global value chain.

In implementing the Resolution No. 01 of the Government and Directive No. 01 of the State Bank of Vietnam, VCB adopted the action motto of **“Transformation, Efficiency, Sustainability”** and the management approach of **“Responsibility - Action - Creativity”**; continued to implement **Five strategic breakthroughs, Three central objectives**, aiming at *innovating the growth model*, restructuring operations, improving labor productivity, and ensuring sustainable growth.

### **FIVE STRATEGIC BREAKTHROUGHS**

- ✓ Renovating the growth model and restructuring the business operations.
- ✓ Promoting customer and products/services development.
- ✓ Completing mechanisms of internal management and customer policies.
- ✓ Enhancing the quality of human resources and the ability to adapt with the digital banking.
- ✓ Completing and upgrading IT system, deploying digital banking services.

### **THREE KEY INITIATIVES**

- ✓ Ensuring reasonable credit growth along with credit restructuring to gain efficiency and sustainability.
- ✓ Increasing the proportion of non-credit income with a focus on services and capital business investment.
- ✓ Performing capital restructuring to gain efficiency and sustainability.

#### **Some key criteria**

Criteria	2021 Target
(1). Total assets growth	~ 5%
(2). Deposit growth	~ 7%
(3). Credit growth	~ 10.5%

Criteria	2021 Target
(4). Profit before tax growth (Consolidated)	~ 11%
(5). Profit before tax (Individual) (VND bil.) <i>(adjustable upon SBV's decision after consultation with the Ministry of Finance)</i>	25,000
(6). Non-performing loan ratio	< 1%
(7). Dividend payment (%/book value)	8%

### **KEY BUSINESS OBJECTIVES IN 2021**

- ✓ **Implement credit-related solutions in accordance with the Government's direction** specified in Resolution No.01/NQ-CP dated January 1<sup>st</sup>, 2021 **and the SBV Governor's** guidance specified in Directive No.01/CT-NHNN dated January 3<sup>rd</sup>, 2021.
  - ✓ Continue to apply prevential measures against the Covid pandemic, support customers affected by the pandemic in line with the direction of the Government, the Prime Minister, and the SBV Governor specified in Directive 02/CT- The SBV dated March 31, 2020, Circular No. 01/2020 / TT-NHNN dated March 13, 2020 and other relevant guiding documents.
- 1. Restructuring the business operations and renovating the growth model**
- 1.1. Accelerate credit growth in the direction of safe, efficient and sustainable portfolio restructure**
- ✓ Focus on new customers with strong financial potential. Restructure credit portfolio in the direction of increasing the proportion of customers loans in group A (Growth group); gradually reduce the proportion of customers loans in group B (Maintenance group); quickly withdraw outstanding loans of Groups C and D (Withdrawal group); accelerate the processing of credit records, etc.
  - ✓ Concentrate on increasing short-term wholesale and retail credit; increase the proportion of loans to large FDI customers with low credit risk and potential overall benefits and loans to Midcom and Large Corporation customers in the South of Vietnam.
  - ✓ Increase retail credit and credit growth at transaction offices.



### ***1.2. Promote E-Banking services, increase non-interest incomes***

- ✓ Expedite the digitalization of banking services. Focus on the development and implementation of products and services to enhance customer experience.
- ✓ Grow new e-banking customer base and e-commerce businesses; increase the retention rate of customers using e-banking services.
- ✓ Expand business with customers that have large international payment transactions and that have transactions with export processing zone/businesses within the value chains of large FDI customers.
- ✓ Increase market share in forex conversion for foreign projects. Take advantage of the combination of international payment service and foreign currency trading.
- ✓ Strengthen the sale of non-credit services, value-chain sales, cross-sell products, cash flow management to exploit new capital.

### ***1.3. Mobilize more stable and cheap funding***

- ✓ Regulate the speed of deposit mobilization in accordance with credit growth.
- ✓ Increase the scale of low-cost deposits through developing electronic payments for businesses, increasing the number of individual accounts and customers using payment services, investment banking services ...

### ***1.4. Improve the efficiency of treasury and investment banking activities***

- ✓ Enhance liquidity management in order to support other business areas.
- ✓ Improve the return of the investment portfolios and deploy more investment banking products to meet customer needs.

## **2. Strengthen credit quality control and focus on recovery of NPLs and written-off debts**

- ✓ Reduce loans to risky sectors, non-collateral loans and customers who fail to deliver minimum overall gains to VCB.
- ✓ Review and control strictly all potential bad debts, structured debt under Circular 01 and adopt appropriate recovery plans.
- ✓ Adopt advanced methodology in the management of retail credit portfolio.

- ✓ Concentrate on collection of off-balance sheet bad debts: Develop work plans and progress of collecting each bad debt and written off debt; assign collection tasks to specific officers.
- ✓ Comply thoroughly with the laws and VCB's regulations on banking activities, preventing moral hazard, and strictly handling violations.

### **3. Implementation support solutions**

#### **3.1. Business support solutions**

- ✓ Focus on developing new products and specialized products which are specific to each customer segments and investment banking products.
- ✓ Build and launch more payment services based on modern technology in key areas such as services with the State Treasury and Vietnam Social Security; collect public transport, non-stop toll, health care and education...
- ✓ Develop digital products /services /platforms that apply high technology, encourage customers to move on digital banking channels.

#### **3.2. Solutions supporting technology, human resources, management information**

- ✓ Strengthen infrastructure capacity to meet business requirements; ensure safety, security, and confidentiality for the IT system; cooperate with Fintech to build VCB digital ecosystem.
- ✓ Consolidate the organizational model, functions, and duties of units at the Head Office and Branches in order to focus on management and operation according to operating divisions.
- ✓ Establish and put into operation VCB Asset Valuation Center and centralize debt management.
- ✓ Prioritize the allocation of sales personnel, personnel adaptive to digital banking; continue reforming the remuneration mechanism associated with business efficiency and labor productivity.
- ✓ Improve the quality of science research, innovation throughout the system, serving the implementation of the development strategy and business promotion of VCB.

#### **3.3. Risk management solutions**

- ✓ Strengthen internal inspection and audit and closely monitor the results of implementation of inspection and audit proposals and remote monitoring for Branches, Subsidiaries of VCB.
- ✓ Continue to improve risk management capacity through the implementation of transformation projects and initiatives under the Basel II Program.
- ✓ Improve the quality of operational risk management, especially in the context of the Covid-19 pandemic.

#### **3.4. Other solutions**

- ✓ Increase chartered capital as soon as approved by the competent authorities.
- ✓ Improve the efficiency of bank-wide operating cost management, closely monitor the implementation of budget plans; strive to reduce operating expenses; and keep control of the operating expense/total income ratio.
- ✓ Speed up projects of office buildings and working facilities according to plan.
- ✓ Carry our social responsibility programs to share difficulties with various localities, alleviate natural disasters' impacts, and promote education and health care...

**Chief Executive Officer**

**(Signed & sealed)**

**Pham Quang Dzung**