

**JSC BANK FOR FOREIGN TRADE OF VIET NAM**
**SOCIALIST REPUBLIC OF VIETNAM**

Address: 198 Tran Quang Khai, Ha Noi

**Independence - Freedom – Happiness**

Business Registration No. 0100112437

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## BOARD OF MANAGEMENT’S REPORT

### I. Business Performance in 2016

Global economy recovered modestly in 2016, prices of some basic commodities decreased; the global trade increased slightly, Vietnam’s economy grew at a slower pace of 6.21%. Macroeconomic stability was maintained. Inflation was contained at 4.74%, lower than the National Assembly’s target of 5%. Exchange rate and Forex market remained stable; interest rate levels declined; the international balance of payment returned to surplus. The banking system continued to grow steadily, contributing to macroeconomic stability and economic growth. Money supply increased by 18.38%; deposit by 17.75%; credit by 18.25% from those of 2015. The banking system’s NPL ratio was less than 3%. The process of restructuring the financial system was gaining momentum.

Following the motto of “**Speed - Efficiency – Sustainability**”, and its corporate governance motto of “**Innovative – Disciplined – Responsible**”, Vietcombank exerted substantial efforts to achieve all 2016 business targets.

#### 1. Assessment of Vietcombank’s 2016 Business performance

Following the effective strategic directions in 2016, Vietcombank has surpassed all the key business targets set by the 2016 AGM.

##### *1.1. Total assets and charter capital have increased considerably*

- Total assets reached VND 787,907 billion, increased by 16.83%.
- Charter capital reached VND 48,102 billion, increased by 6.48%, of which non-distributed profits reached VND 5,831 billion.

##### *1.2. Deposits increased and shifted toward positive structure: larger portion of low cost funding and appropriate foreign currency deposit, lowering funding cost to the bank and its clients*

- Deposits from the economy in 2016 reached VND 600,737 billion, increased by 19.28% from 2015 and above the AGM’s target. Of which, deposit has increased across the board in corporate (17.25%), and retail (18.28%).
- Deposit shares of corporate/retail customers are 44.62%/55.38%, respectively, compatible with the Vietcombank’s overall business strategy.
- Demand deposit increased by 13.64% and accounted for 28.09% of total Vietcombank’s funding, reflecting to the effectiveness of the bank’s strategy in attracting low cost

funding sources.

***1.3. The credit structure increased as per the bank's direction from the first months of the year, focusing on Government-promoted areas and industries and expanding retail loans; loan portfolio structure shifted toward the bank's targets; Loans are disbursed to prioritized areas and industries and to viable projects of large corporations***

- Loan balance reached VND 460,808 billion, increased by 18.85% from 2015, higher than that of the banking system (18.25%), attained 101.7% target of 2016.
- According to Vietcombank's intended direction, loans to wholesales increased less rapidly (11.32%), while impressively soared in individuals (48.58%). The credit maturity structure was managed well with the portion of medium and long-term loans kept at 43.56% of total loans.

***1.4. Credit quality was improved; standardized and enhanced bank information disclosure along with improved prudential ratios and international credit ratings***

- Loan quality improved considerably. Special mentioned loans by 31/12/2016 was VND 7,923 billion, decreased by VND 1,454 billion from 2015 (15.5%). Special mention loans ratio was 1.67%, decreased by 0.69 percentage point from 2015. NPL as of 31/12/2016 was VND 6,936 billion, down by VND 201 billion from 2015 (~2.8%). NPL ratio was 1.46%, decreased by 0.33 percentage point from 2015, lower than the AGM limit of NPL (2.5%).
- Capital adequacy ratio (CAR) stood at 11.13%, meeting the SBV's required CAR of 9%. Loan loss provisions/NPLs was at a high level (~117.12%).

***1.5. Striving to recover and resolve NPLs, Vietcombank was the first bank to take back all the NPLs sold to VAMC and fully booked provisions for the these loans***

- In 2016, recovery of off-balance sheet NPLs reached VND 2,303 billion; of which the recovery of written-off bad debts reached VND 2,121 billion, the recovery of NPLs sold to VAMC booked to income was VND 57.11 billion.

***1.6. Banking services volume surged thanks to the bank strategy of increasing service income, taking advantage of the bank's traditional advantages in the import-export business, card services; also developing potential areas of online and mobile banking***

- The volume of international payment and trade finance reached USD 54.02 billion, increased by 12.7% from 2015 and attained 102.4% target of 2016; Vietcombank's market share of international payment and trade finance reached 15.47%.
- Vietcombank continued to be leader in FX trading and services: FX transaction volume (excluding interbank transactions) was USD 34.63 billion, increased by 14.6% from 2015, hitting 102.2% business target in 2016.
- Remittances reached USD 1.64 billion, increased by 8.5% from 2016 and attained 96.9% business target in 2016.
- Vietcombank's bank card business continued enjoying its unchallenged position. Card

transactions volume and issuance grew remarkably. Many targets have been achieved and exceeded the annual targets, specifically (i) Card payment: Transaction volume of the international card increased by 28.7% of 2016, reached 107.3% of business target; transaction volume of domestic card rose by 58% from 2016, reached 107.5% of business target; (ii) Card issuance: The number of domestic and international debit cards surpassed the business targets in 2016, respectively 160.9%, 184.8%, international credit card 95.5%; (iii) Card billing volume: The billing volume of international credit debit cards increased by 23.9% and 36% respectively, accomplished and surpassed all the targets of 2016. The POS network increased by 12,194 units (9.9%) and reached 135.5% business target.

- SMS Banking, Mobile Banking and Internet Banking grew significantly and reached the business targets of 99.7%, 118.9% and 112.4%, respectively.
- Offshore funding business received special attention and grew markedly. In 2016, total value of all the ODA projects that VCB was assigned to act as serving bank reached USD 2.08 billion, increased by 17.5%.

#### ***1.7. Profitability ratios improved, pre-tax profit and pre-provisioning profit peaked***

- Return on average assets ratio (ROAA) and return on average equity ratio (ROAE) reached 0.94% and 14.69% respectively, higher than the banking system average and increased from 2015.
- Cost/income ratio was at 39.99%.
- Non-interest income reached 25.5% of total operating income.
- Net interest margin (NIM) improved, reaching 2.63%.
- Pre-tax profit and pre-provisioning profit reached VND 14,929 billion, increased by 15.77% from 2015. VCB had booked provisions of VND 6,406 billion. Provision balance at year end was VND 8,124 billion, covering 117.12% of the bank's NPLs.
- Post-provision pre-tax profit of 2016 reached VND 8,523 billion, increased by 24.84% from 2015 and surpassed the AGM target. Net interest income grew by 19.9%, net non-interest income by 12.5%.

#### ***1.8. VCB continued to be the largest bank by market capitalization***

- Following the business orientation of efficiency, prudence, sustainability, Vietcombank's stock price was much higher than its peers and the bank consistently ranked among top 3 largest companies by market capitalization. In the 2015 – 2016 period, Vietcombank's stock price surged by 56% while VNIndex increased by 21.85%, BIDV's 22.01%; and Vietinbank 13.63%.

## **2. Assessment of Vietcombank's 2016 corporate governance**

In realizing its vision “To become the Number One bank in Vietnam and being ranked among the 300 largest banking financial groups in the world; fully adopting the best international best banking governance practices and standards by 2020”, Vietcombank has been implementing a number of important strategic initiatives in 2016:

**2.1. *Proactively implemented solutions to share the burden with business community and to promote economic growth in line with guidance by the Government and the State bank of Vietnam***

- Proactively implemented and promoted lending programs to the five prioritized areas in line with the government and the state bank’s guidance as per the Circular 11/2013/TT-NHNN dated 15/05/2013; to housing sector per Circular 32/2014/TT-NHNN dated 18/11/2014; and to agricultural sector as per the Decision 68/2014/QĐ-CP... Meanwhile, Vietcombank actively supported customers who were affected by natural disasters such as floods in Central provinces and severe cold weather in the Northern mountainous provinces...
- Sought to increase lending by offering credit packages with preferential and competitive interest rate.

**2.2. *Strengthened business planning and performance assessment processes; closely and timely reviewed the business performance of the branches; promptly recognized and handled issues and challenges confronted by the branches***

- In 2016, the bank’s leaders regularly organized task groups to review and supervise the implementation of business planning of the branches in 7 key economic zones. The bank successfully rolled out KPIs project in establishing, assigning, and evaluating performance of the bank’s branches, subsidiaries, departments and divisions at the Head Office.
- Implemented new sales management by areas to develop retail business, to retain customers, and to minimize internal competition as well as to offer policies and products suitable for each region, meeting the higher requirements of human resources, network for the branches: Successfully piloted in Hanoi area and prepared to implement in other areas.

**2.3. *Boosted credit growth while ensuring credit quality; the structure of credit portfolio shifted toward the bank’s strategic targets***

- Extended loans to sound and viable projects and sectors while curtailed loans to sectors with low credit ratings. Diversified loan portfolio. Increased loan to retail sector and gradually reduced the concentration of credit exposure to large corporate customers.
- In parallel with boosting credit growth, Vietcombank also proactively controlled the credit quality to ensure the effective, sound and sustainable growth.

**2.4. *Put more efforts in asset management and bad debt handling: Closely coordinate departments and divisions involving in loan workout and NPL recovery, creating significant improvement in this regards***

- Regularly and effectively coordinated with the Government Ministries, Offices and Departments, including People's Courts, the General Department of Judgment Execution, local Judgment Execution Departments and legal agencies to tackle and handle difficult NPL cases in the process of suing, execution of court order, and bad debt workout.
- Focused on bad debt recovery and loan workout: The bank's senior management directly involved and pushed the loan workout and NPL recovery of the branches that had large bad debts; continuously supported branches with the spirit of being "Innovative – Disciplined – Responsible" in order to recover bad debts via applying different solutions and via implementing "Good bank, Bad bank" framework.

**2.5. *Continued to increase charter capital with a view to improve financial capacity and competitive advantages of Vietcombank***

In 2016, Vietcombank successfully increased charter capital in two rounds to ensure the adequacy ratios and facilitated branch network expansion:

- Round 1: Issued bonus shares for current shareholders with the ratio at ~35% (equal to VND 9,327 billion) from the retained earnings and share premiums.
- Successfully issued ~VND 8,000 billion of subordinated bonds to the public and financial institutions, of which VND 6,000 billion subordinated bonds were qualified as tier 2 capital.

**2.6. *Improved human resource management; considerably increased the quality and quantity of training courses***

- In 2016, human resource management made great progress, the number of training courses reached 122% target with the average staff trained on the total Vietcombank's staff is 1.47; mainly focused on managerial-level staffs in sales, risk management, and core project implementation.
- Implemented skill tests of credit operations to employees and attained good results that could serve as the prerequisite for bank-wide application for other operations.
- Training courses were matched employees' position and JDs, effectively supported human resource development toward fulfilling the required skill set and competency for each position.

**2.7. *Optimized the organizational structure, expanded branch network, and strengthened the bank's human resources***

- Periodically refined the organizational structure in order to consolidate and reorganize branch network for better coverage and higher efficiency; Inaugurated 05 new branches, namely South Da Nang, Phu Quoc, Pho Hien, Nam Hai Phong and Binh Phuoc;

Established 27 new transaction offices; Reassigned a number of transaction offices in Hanoi and Ho Chi Minh City.

- Established the Southern Representative Office, the FDI Department under Vietcombank Ho Chi Minh City Branch, and the Southern Debt Handling Unit under the H.O.'s Debt Handling Department; Established the E-Banking Service Department, Modernization Department at the Head Office.
- Implemented procedures for the establishment of the Cash Handling Center, three subsidiaries (Remittances, Consumer Credit, AMC), a Subsidiary Bank in Laos, and a Representative office in the United States.
- Drafted the application to be submitted to the SBV for the establishment of six new branches in Tuyen Quang, Vinh Phuc, Hoa Binh, Thanh Hoa, Gia Lai and Binh Duong and 39 transaction offices.
- Completed and promulgated new rules and regulations: Regulations on Salary Payment, Regulations on Human resource Management, Regulation on Appointment, Reappointment, Dismissal and Resignation from Vietcombank staffs...

#### **2.8. Accelerated the implementation of the bank transformation projects**

- 2016 marked the second year Vietcombank aggressively implemented transformation projects toward the international standards, including: (i) Basel II: Vietcombank effectively rolled out 29 initiatives out of total 37 project initiatives to ensure being the pioneering bank in meeting the timelines set by the SBV; (ii) Credit Transformation Operating Model (CTOM): Implemented six core initiatives (New customer relationship management procedure; better appraisal and credit proposal report; Service Level Agreement (SLA) to loans administration/common credit support departments; Four quick-win solutions; (iii) ALM/FTP/MPA: Already selected the consultant and conducted gap analysis; (iv) Completion of the second stage of the KPI project and applied into regular operations...

#### **2.9. Promoted business cooperation activities and technical assistance with Mizuho**

- 2016 marked five-year of the strategic partnership between Vietcombank and Mizuho. Vietcombank and Mizuho committed to maintain a long-term strategic partnership between the two banks by signing strategic cooperation agreements, including Amendments to the Subscription Agreement in 2011 and New Technical Assistance Agreement (replacing the Technical Assistance Agreement signed in 2011).
- Mizuho's technical assistance was provided as per request of Vietcombank. In 2016, more than 31 technical assistance sessions were provided to Vietcombank in a number of issues, including: implementing Basel II, managing credit risk, anti money laundering, retail banking via E-banking, operation of supervisory committee, risk management committee....

- After 5 years assisting technical supports to Vietcombank, Mizuho’s technical supports in 2016 were deepened, closely followed and aligned with Vietcombank’s key operations and strategic projects.

**2.10. Participated in social welfares activities and contributed meaningfully to the society, raising public awareness of Vietcombank as a socially responsible institution**

- In 2016, Vietcombank contributed VND 234.2 billion to social security programs, including financial support to the poor mountainous areas; financing of the Hoai Nhon General Hospital in Binh Dinh province; the Social Educational Welfare in HCM city; the construction of Nga 6 Kindergarten in Hau Giang Province; the construction of Chau Hoa Kindergarten in Ben Tre Province; and financial aid to other social programs such as flood-stricken areas in the Central of Vietnam...

## II. BUSINESS ORIENTATION IN 2017

The world economy in 2017 is forecasted to record a higher GDP growth rate (~3.4%); however, the overall condition is highly uncertain. World trade is expected to recover in 2017. Fed’s move to raise its key interest rate and the expectation of rising interest rate could result in more volatile exchange rates, higher level of interest rates, appreciation of the greenback, and capital outflows from emerging and frontier economies.

In 2017, Vietnam GDP growth is forecasted to grow higher than 6.5%. Import - Export turnover is expected to grow by 7-8%. Inflation target is set below 5%. The SBV expresses their priority in controlling inflation, keeping credit growth within 18%-20% range, maintaining interest rate level equivalent to that of 2016, and strictly monitoring credit quality, system safety and credit institutions restructuring.

Based on the bank’s 2017 motto of “**Reform – Efficiency – Sustainability**” accompanied by “**Innovative – Disciplined – Responsible**” corporate governance, Vietcombank will strive to accomplish key business performance goals. Some key performance targets are as followed:

Criteria	2017 Plan
(1). Total assets growth	+ 11%
(2). Credit growth	+ 15%
(3). Deposit growth	+ 14%
(4). Non-performing loans	< 2.0%
(5). Profit before tax growth	+ 8% (VND 9,200 billion)

### Business Orientation in 2017

#### 1. To focus on customer service

- Customer service is still regarded as a fundamental and recurring task in 2017. Actively

expanding customer base and further segmenting customers (Corporate, SMEs,...) based on size of revenue, equity, profit and transaction volume with Vietcombank...to develop appropriate policies for each segment/customer; Focusing on expanding FDI clients, especially on promoting relations with key trade finance customers; Designing appropriate sales process for each customer segment; Increasing the interaction between sales and product personnel to further boost cross-selling and maximize business opportunities from customers.

- Implementing coordinated solutions to gradually improve the quality of retail banking services. Continuing to standardize processes and forms of the bank's products and services based on centralization and automation in order to save more resources to front office functions while ensuring operational risk management. Creating more retail-banking products and services and upgrading tools and functions in order to add more added values to customers.
- Expanding the regional sales-management model for the entire system with three divisions (North – Central – South); Focusing on business development, expanding customer base, reviewing and solving sales resources bottlenecks for branches.
- Increasing credit in chain that integrates wholesale and retail products and services; enhancing control of state-owned customers; Restructuring credit portfolio to reduce proportion of low interest rates loans.

## **2. To increase the recovery of non-performing and written-off loans**

- Developing a clear roadmap and a detailed plan for addressing specific problematic debt; assigning specific responsibilities to each member of the Debt Handling Committees.
- Reviewing each debt, assessing difficulties and actively coordinating with local authorities to stipulate debt recovery process. Strictly following the instructions of the bank's leaders in NPL recovery.

## **3. To reform treasury and trade finance operations**

- Consolidating the leading position in the FX market and promoting the growth of FX trading volume with customers; maintaining Top 2 position in the bond market and enhancing the market-maker role of Vietcombank in the interbank market.
- Expanding the payment in the local currencies for the major trading partners; revising the payment agent services for domestic banks, branches of foreign banks in Vietnam.
- Striving for more market share in international payments – trade finance market by focusing on industries with high export-import volumes, FDI enterprises, FDI-supporting enterprises, and supporting industries.
- Ensuring high quality of service and closely approaching to Sponsors, Project management boards, and relevant government authorities in order to maintain and expand Vietcombank's market share in serving ODA projects.

## **4. To implement projects on capability development of Vietcombank**

Improving the bank's management capability toward international standards, via:



- Executing CTOM initiatives to fundamentally reform the wholesale business.
- Implementing the Basel II initiatives to reform the risk management process in compliance with the SBV's Basel II roadmap.
- Launching retail banking reform project to materialize the bank's strategic goal of becoming number one in retail banking.
- Accelerating the investment and adoption of the LOS system for wholesale and retail customers as well as better system for trade finance.
- Continuing the implementation of ALM-FTP-MPA/Core-banking/MIS projects.

**5. *To upgrade training activities and human resource development***

- Maintaining and developing high quality human resources; creating a creative and effective working environment; ensuring sufficient resources for front office functions and for improving service quality.
- Increasing the effectiveness of human resource development to provide high-quality managerial bench for the bank.
- Conducting examinations and skill tests on employees and using the results in assessment, transferring and appointment of personnel.
- Prioritizing the training for top managers, managerial staffs, sales and risk personnel and gradually training experts in specific professional areas.

**6. *To consolidate organizational structure and assess the performance of and the investment into subsidiaries***

- Establishing 06 new branches and 39 sub-branches according to network development plan.
- Developing and implementing a flexible and efficient mechanism to recruit sales personnel for retail banking, especially recruiting retail bank collaborators and employing a number of them based on actual sales performance.
- Working on the establishment of Vietcombank Representative Office in New York (USA), subsidiary bank 100% owned by Vietcombank in Laos, Overseas Remittance Company, Consumer Credit Company, and AMC; operating the centralized Cash Processing Center in Hanoi.
- Closely monitoring, facilitating and promoting the cooperation of the bank's branches /business units with its subsidiaries to improve the performance of subsidiaries. Changing the ownership structure of VCBL, VCBS.

**7. *To strengthen risk management***

- Strengthening risk management capacity across all credit risk, market risk, liquidity risk, interest rate risk on banking book and operational risk.
- Credit risk management: (i) Focusing on risk management by customer/group/ industry; (ii) Continuing to standardize credit conditions and term sheets by industry; (iii) Reviewing and updating on credit allocation strategies across various industries; and (iv)

updating credit exposure limits of industries based on risks, potential, and current exposure.

**8. *To build up the inspection and supervision***

- Continuing to implement detailed and comprehensive inspection/audits of all units in the banks.
- Maintaining and enhancing the off-site supervision of business activities in units throughout the bank; utilizing information technology and early warning programs to limit and detect risks promptly.

**9. *To upgrade technology platform***

- Restructuring the organization and operation mechanism of IT center; recruiting more employees, especially for transformation projects to ensure the progress and quality of the implementation.
- Following the roadmap and ensuring the quality of the upgrading of important application systems (payment system, card system, contact center, LOS system ...) in an effort to provide better products and service 24/7.
- Implementing the recommendations of the audits with respect to full compliance of the procedures and general provisions on information safety and confidentiality.

**10. *To implement other activities***

- Renovating the PR and communication activities, especially internal communication with regards to the implementation of new products/programs/policies; improving the effectiveness of marketing and advertising for the bank's products and services, especially via various online and digital channels.
- Promoting emulation, reward and trade union in pursuant to the general development objectives.
- Implementing social activities in accordance with the bank's commitments since 2016. Actively involving in community services, contributing to the Party and the Government's goals of hunger eradication, poverty reduction, and improvement in living standards. Closely monitoring the use of the charity funds sponsored by Vietcombank to make sure that the funds are utilized with in an effective and efficient manner and in compliance with current regulations and procedures on financial management and infrastructure investment.

**ON BEHALF OF THE MANAGEMENT BOARD**

**GENERAL DIRECTOR**