

**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
Independence - Freedom - Happiness**

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THE BOARD OF MANAGEMENT'S REPORT**I. Business Performance in 2017**

Global economy in 2017 witnessed a rapid growth across the board with stronger global trade as well as low and stable inflation. Against this backdrop, Vietnam's economy grew at much higher pace toward the end of the year. Annual GDP grow at 10-year high speed of 6.81%, surpassing the National Assembly's target of 6.7%. Inflation was reasonable with average CPI of 3.53%, well below the target of 4%. Exchange rate and forex market remained stable, official FX reserves reached USD 53 billion, interest rate levels stayed stable and trended slightly lower. Import-export turnover hit USD 400 billion with a surplus of USD 2.91 billion and FDI capital inflow was recorded at USD 35.88 bn. The banking system was robust with credit growth of 18.17%, deposit growth of 15.01%, and money supply growth of 14.91%. Meanwhile, the banking system's NPL ratio was kept less than 3%. The process of restructuring the financial system gained momentum when more legal frameworks and regulations facilitating bad loan workout were promulgated and implemented in reality.

1. Achieving all the key business targets in 2017 strive

Realizing the strategic endeavour of “**Transformation - Efficiency – Sustainability**”, and its governing motto of “**Innovative – Disciplined – Responsible**”, Vietcombank exerted substantial efforts to achieve and surpass all 2017 business targets.

1.1. Total assets soared and charter capital increased higher than the 2017's target

- ✓ Total assets were VND 1,035,293 billion, increased by 31.39% compared to 2016.
- ✓ Charter capital reached VND 52,558 billion, increased by 9.16%, of which non-distributed profits reached VND 8,715 billion.

1.2. Deposit mobilization closely followed Vietcombank's overall business strategy: reduced the amount of deposits with high interest rate; increased the portion of demand deposit and foreign currency deposit; focused on expanding

wholesale customer base

- ✓ Deposits from the economy including commercial papers in 2017 was VND 726,734 billion, increased by 20,97% from 2016 and exceeded the AGM's target. Of which, corporate and retail deposits grew at 20.12% and 19.9% respectively.
- ✓ Deposit composition stayed compatible with the Vietcombank's overall business strategy. The proportions of corporate and retail deposit are 44.67%/55.33%, respectively.
- ✓ Demand deposits increased by 27.8% as of 2016 and accounted for 29.92% of total Vietcombank's funding.
- ✓ Deposits in foreign currencies reached VND 135,551 billion, increased 18.98% compared to 2016 and accounted for 18.56% total deposits from the economy (including commercial papers), exceeded the 2017's target.

1.3. Credit grew steadily from the first months of the year; loan portfolio changed in accordance with the bank's direction: reduced wholesale lending of low overall profitability, expanded retail loans and increased retail loans at transactions offices

- ✓ Loan balance reached VND 557,688 billion, increased 17.19% from 2016, surpassed the 2017's business target and stayed within the SBV's credit growth guidance. The credit maturity structure was maintained with the portion of medium and long-term loans kept at 43.05% of total loans.
- ✓ According to Vietcombank's intended direction of increasing the proportion of retail loan portfolio and gradually decreasing that of wholesale loan portfolio, wholesale loans grew at a slower pace (6.19%), while retail loans galloped at 52.65%.
- ✓ Loans in Transaction offices reached VND 81,352 billion, increased 58.3% as of 2016, accounted for 14.59% of Vietcombank's total loans in 2017.

1.4. Credit quality was strictly supervised and managed; Bad loans recovery was accelerated

- ✓ Loan quality improved considerably. Special mentioned loans at 31/12/2017 was VND 4,783 billion, decreased by VND 2,637 billion from 2016 (down by 35.54%). Special mentioned loans ratio was 0.86%, decreased by 0.7 percentage point from 2016.
- ✓ NPL as of 31/12/2017 was VND 6,208 billion, down by VND 714.4 billion from 2016 (~10.32%). NPL ratio was 1.11%, decreased by 0.34 percentage

point from 2016, lower than the AGM limit of 1.5%.

- ✓ Loan loss provisions reached VND 8,113 billion, Loan loss provisions ratio was at 130.69%.
- ✓ Recovery of off-balance sheet NPLs reached VND 2,185 billion, exceeding the annual target.

1.5. Banking services marked an impressive growth in FX market, trade finance, bank card services, and online and mobile banking

- ✓ The volume of international payment and trade finance reached USD 69.4 billion, increased 28.4% from 2016 and attained 97.3% of 2017's target; Remittances volume was USD 1.9 billion, increased 14.9% from 2017.
- ✓ Vietcombank continued to be the leader in FX market: FX transaction volume (exclusive of interbank transactions) was USD 45.1 billion, increased 27.2% from 2016 and attained 120.3% business target in 2017.
- ✓ Vietcombank's bank card business continued enjoying its unchallenged position: (i) Card payment volume increased 31.67% compared to 2016; (ii) Number of international credit cards issued was up slightly (1,35%); (iii) Card billing volume surged 24.18%. The POS network expanded further with 11,773 new units.
- ✓ Online Banking and SMS Banking grew considerably and completed 123.8% and 135.5% of targets respectively.
- ✓ Offshore funding business received special attention. In 2017, total value of all the ODA projects that Vietcombank was assigned to act as servicing bank reached USD 790.65 million. Despite the fact that these funding sources were shrinking, Vietcombank continued to consolidate its position as a leading bank in serving the ODA loan projects.

1.6. Profitability ratios continued to improve significantly, pre-tax profit exceeded VND 10,000 billion, marking a big jump from 2016

- ✓ Return on average assets ratio (ROAA) and return on average equity ratio (ROAE) reached 1.0% and 18.09% respectively and were higher than those of 2016 (In 2016, ROAA: 0.94%, ROAE: 14.78%).
- ✓ Net interest income grew 18.37%, net non-interest income 20.51% compared to 2016.
- ✓ Cost/income ratio was at 40.35%.
- ✓ Non-interest income accounted for 25.4% of total operating income.

- ✓ Net interest margin (NIM) remained at 2.66%.
- ✓ Pre-tax profit of 2017 climbed to a record high of VND 11,341 billion, marking 32.21% increase from 2016 and outstripping the AGM target for 2017.

1.7. Vietcombank continued to be the largest listed bank by market capitalization, its CAR hovered well above the regulatory limit

- ✓ Vietcombank's stock price was the highest among listed bank stocks and the bank consistently ranked among top three largest companies by market capitalization. In the 2016 – 2017 period, the post-adjusted stock price of Vietcombank surged 56.49% while VNIndex increased 48.03%.
- ✓ Capital adequacy ratio (CAR) stood at 11.63%, well above the SBV's required CAR of 9%.

2. Assessment of Vietcombank's 2017 corporate governance

In realizing Vietcombank's vision "To become the Number One bank in Vietnam and be among the 300 largest financial groups in the world and to fully adopt the international best governance practices by 2020", the Bank has been continuing a number of important strategic initiatives in 2017:

2.1. Proactively shared the burden with the business community in order to contribute to economic growth in accordance with the guidance by the Government and the State bank of Vietnam (SBV)

- ✓ Proactively assisted borrowers by decreasing interest rate on loans and providing various loan programs with competitive interest rate.
- ✓ Actively implemented lending programs to the five prioritized areas; formulated credit policies to support customers deeply affected by floods in Central provinces, severe cold weather in the Northern mountainous provinces and maritime environmental incidents" in Ha Tinh, Quang Binh, Quang Tri and Thua Thien Hue provinces....

2.2. Carefully regulated the pace of deposit mobilization line with credit growth while reducing costs of funding

- ✓ Reduced the number of promotional/interest rate incentive programs for credits; gradually reduced the number of deposits offering higher competitive interest rate than the market's average.
- ✓ Open more specialized collection accounts for public service units, Social Insurance Agency, and the State Treasury. By the end of 2017, 246 specialized collection and demand deposit accounts of State Treasury office have been

opened at Vietcombank.

2.3. *Managed the structure of credit portfolio toward the bank's strategy and strictly controlled the credit quality of the portfolio*

- ✓ Increased loans to corporates with sound financial profile, viable projects with highly liquid collaterals; changed the structure of the credit portfolio via giving priority to short-term loans, retail loans, and loans made by the Bank's transaction offices.
- ✓ Curtailed loans to corporates with either declining financial standing or low interest-rate loans and low overall profitability to Vietcombank; decreased exposures to family-owned or group-related joint stock companies, limited liability companies that have low level of collaterals to their loans at Vietcombank.
- ✓ Lessen medium and long-term loans to customers who did not use other banking services.
- ✓ Proactively strengthened the provision and supervision of risk management in branches; bolstered the risk management forecast and analysis by sectors in order to formulate appropriate credit allocation policies; strictly adhered to regulations and the Bank's rules on lending.

2.4. *Promptly recognized and handled issues and challenges confronted by the branches and subsidiaries; sharply accelerated loan workout and NPL recovery*

- ✓ The bank's leaders regularly organized task groups to either review and supervise the implementation of business planning of the branches in 7 key economic zones or promptly tackle the branches' difficulties to enhance the business.
- ✓ Assigned every member of the Bank's Board of Directors to be in charge of aggressively pushing the loan workout and NPL recovery of the branches.

2.5. *Divested from a number of credit institutions and worked on to increase charter capital with a view to improve the bank's financial capacity*

- ✓ Successfully increased tier II capital to ensure the minimum capital adequacy ratios by the SBV's regulation and improved the ability to meet the Basel II standards of Vietcombank.
- ✓ Received the Government and the SBV's approval on increasing tier I capital equivalent to 10% charter capital and continues to work on the private placement in 2018.

- ✓ Successfully divested from a number of credit institutions (such as CFC, SGB, OCB) with good results.

2.6. Improved internal procedures and regulations and enhanced service quality

- ✓ Promulgated new internal procedures and regulations such as: Regulation on lending to customers; Regulations on credit approval authority. Consolidated internal procedures and regulations on credit guarantee policy; Credit process for wholesale and SME customers.
- ✓ Implemented and applied a wide range of vital administrative mechanisms such as: Regulation on reorganization of labours in Vietcombank; Regulation on conditions, standards and authorities of transaction office managers and the number of credit staffs in transaction offices; carried on the promulgation/amendment of Procedures/Regulations such as: Regulation on circular rotation, transference of staffs within the bank.
- ✓ Rolled out projects and programs on service quality management, customer service management: Service level agreement project (SLA), Secret customer project, in-depth interview with CSI customer, reviewed and implemented the Customer service standards...

2.7. Strengthened the inspection of supervisory and audit throughout the bank

- ✓ Completed supervisory and audit plan in 2017 as well as carried out adhoc and thematical audits on units and branches that involve potential risks; conducted audits at subsidiaries and Head offices departments especially those in risk management units.

2.8. Optimized organizational structure and human resource in line with medium and long-term strategy of the Bank, expanded the bank's network of branches and transaction offices

- ✓ Standardized the organizational structure; rationalized the functions and tasks of HO departments; restructured, streamlined and established Regional Sales Management Units in the Central and the South; standardized the function of Branches with focus on sales and risk management.
- ✓ Rearranged and streamlined staffs, rotated staffs between HO and branches; promoted, appointed and rotated employees in order to meet the changes in organizational structure, business environment and productivity improvement.
- ✓ Continued to expand network: Expanded branch and transaction office network; established the Cash Handling Center in HO; prepared for the establishment of Subsidiary in Laos and a branch in Australia. Reassigned a number of

transaction offices in Hanoi and Ho Chi Minh City.

2.9. Further implementing Vietcombank's Development Program for 2020

- ✓ In realizing the bank's Development program for 2020, various projects, sub-projects, and action plans of strategic business units are fully developed and vigorously implemented:
 - In 2017, based on Vietcombank's Development program for 2020, the Resolution 42 by the National Assembly, the Restructuring Plan for Credit Institutions for 2016-2020 Period and the Banking Sector Action Plan, Vietcombank drafted a Restructuring Plan with focus on handling of bad debts as well as various measures to strengthen operational, financial and governance capacity with a view to improving competitiveness and sustainable development and this Plan received the State bank of Vietnam's approval.
 - Vigorously implemented sub-projects on IT infrastructures, services, investment, human resources) and various business units' action plans for wholesale banking, retail banking, treasury operations, and finance functions.
 - Closely following the bank's targets, the sub-projects and action plans were implemented on schedule, achieved initial essential results, and contributed to 2017 business results as well as laid a solid ground for the bank's future sustainable development.
- ✓ Branch Development Plan toward 2020:
 - Issued and implemented the Branch development plan toward 2020 for 49 smaller branches whose market share were not commensurate with their potential.
 - In 2017, Branches implementing the Development Plan achieved and surpassed most of the assigned targets. Their market share of deposit and credit in their respective regions increased steadily and the acquisition of targeted potential customers were completed.

2.10. Accelerated the implementation of transformation projects to improve governance capability

- ✓ In 2017, the transformation project is actively implemented, gradually applied in business: (i) Basel II: Implemented of 24/37 initiatives - to be one of the pioneer banks that apply governance policy in compliance with SBV regulations and timelines. To date, most of initiatives have been applied in business management; (ii) Credit Target Operating Model (CTOM) program:

implemented 22 out of 24 initiatives, including phase 1 in some branches for 6 core initiatives (on organizational transformation, sales model, credit approval). The CLOS project has completed contractor selection and officially started in September 2017; (iii) Investment project on Corebanking system innovation: Continuously implemented the components of the project and mobilized considerable human resources for project implementation,....

2.11. Intensified the business cooperation and technical support activities with Mizuho

- ✓ Vietcombank and Mizuho affirmed the commitment to continue the long-term strategic partnership between the two banks through the signing of Strategic Cooperation Agreements, including the revision Contract of Share Purchase Agreement 2011 and new Technical Assistance Contract (replacing the former contract).
- ✓ Mizuho's technical assistance activities continue to be in-depth, closely supporting Vietcombank's business and development projects. In 2017, Vietcombank cooperated with Mizuho to perform 16 technical support sessions in the following areas: Modern branch model; Non-interest income enhancement; Anti-money laundering; Converting auditing models in compliance with Basel II; Debt Management; Market research for securities companies, etc.
- ✓ In addition to organizing official technical support sessions, Mizuho has shared Mizuho's in-depth research papers and internal procedures with relevant Vietcombank departments/units including: Data quality management; Allocation of costs; Credit approval process; Documents related to decentralization of approval for customer groups (DoA), etc.

2.12. Actively participated in social activities; Enhanced the franchise of Vietcombank

- ✓ Sponsored selected social programs in 2017 with practical value of ~ VND 132.5 billion, including programs to build secondary schools Dien Hanh, Dien Chau; To build Lang Khe and Con Cuong preschools; Building houses for the poor in Vinh Long, Tra Vinh, Tuyen Quang provinces; and supported disaster recovery in the Northwestern provinces, some areas in the central provinces and the Central Highlands ...

II. BUSINESS ORIENTATION IN 2018

The world economy is forecasted to grow at 3.9% (IMF); Inflation remains under control. However, geopolitical risk and trade warfare risk tend to increase. In addition, the world financial market may be affected by the tendency to speed up the process of normalization of monetary policy in key economies (USA, EU ...).

Vietnam's economy is in a positive growth momentum, with the possibility of achieving GDP growth rate of 6.7% while inflation is controlled below the target of 4%. Import-export activities are still positive, FDI is favorable. The process of economic restructuring continues to be accelerated. Monetary policy is flexible; Credit orientation focuses on production sectors and decreases in high risk areas. The government and the State Bank of Viet Nam (SBV) supports the reduction of interest rates to support economic growth. The banking sector is stepping up the process of restructuring, enhancing the quality of operations, enhancing the application of technology, in line with the trend of modern financial development.

Continuing the guideline of action **“Transformation - Effectiveness – Sustainability”** and management view **“Innovation - Discipline – Responsibility”**, Vietcombank strives for the accomplishment of key business performance goals. Some key business indicators:

Criteria	2018 Target
(1). Total assets growth	~14%
(2). Credit growth	~15%
(3). Deposit growth	~15%
(4). Non-performing loan ratio	< 1.5%
(5). Profit before tax	VND 13,000 billion

Business Orientation in 2018

1. To focus on three key pillars of business in 2018: Services, Retail and Investment

1.1. For service activities:

- ✓ Promote product development, improve service quality, increase proportion of non-interest income (including fees and treasury trading) in total operating income:
 - Wholesale sector: (i) Develop new potential services and products, analogous to cash flow management, debt services, syndicated loan products, custody

- services stock; (ii) Establish the fee control system, approval mechanism and setting up fee exemption/reduction..
- Retail sector: (i) Offer package sales to customers who are enterprises owners; (ii) Implement automatic fee collection, fee management, and fee collection services.
- ✓ Expand and stimulate E-Banking services:
- Develop sales channels in the direction of gradually shifting to electronic channels.
 - Execute collaborative services with third parties; Propose expansion of Fintech cooperation model in potential areas.
 - Expand Vietcombank's card acceptance / payment network.
 - Boost the digital banking transformation project, research and application of 4.0 technology to develop smart banking services.
- ✓ Improve the quality of trade finance and international payment services:
- Support branch in sales process: focus on monitoring, supporting, facilitating and timely providing solutions for key areas of international trade; establishing a specialized sales force for Trade Finance products from Head Office to Branches.
 - Diversify products to meet the needs of each customer; focus on FDI group; Flexible use of competitive fee packages combining loans to reach customers.
 - Focus on process optimization, improving service quality; Develop a handbook for selling goods from credit to services, from wholesale to retail.
- ✓ Maximize income from non-interest activities:
- Provide more full-packaged products and services.
 - Strengthen income from treasury, money transfer, remittance, and bancassurance.
- 1.2. For retail operations:**
- ✓ Execute Retail Target Operating Model (RTOM):
- Customer segmentation and policy development for each target segment (product, marketing, sales...)
 - Develop of new sales channels including direct sales channels, electronic channels, third-party sales channels; Enhance the professionalism of marketing.
 - Improve credit processes for retail customers and maximize digitization of retail services. Reviewing the list, simplifying the procedures for credit

products of individuals and cards.

- ✓ Policies, products, quality of service:
 - Design specific products for regions/areas, products sold to employees.
 - Enhance customer service through confidential client programs; training, measuring and supervising the implementation of quality standards; piloting Debt collection reminder at the Vietcombank Customer Center (VCC).
 - Support sales staff with equipment and programs to improve service quality.
- ✓ Improve sales effectiveness and professional marketing.

1.3. For investment and treasury trading:

- ✓ Improve profitability of investment activities. To maintain and improve the market share of Vietcombank in the areas of trading of government bonds and foreign currency trading...
- ✓ Increase the proportion of investment activities in total operating income of Vietcombank.
- ✓ Implement foreign exchange products, structured products in order to meet the needs of customers.

2. To promote retail credit and attract cheap deposit; Diversify of portfolio and debt reduction for low efficiency enterprises; Strengthen credit sales associated with the use of banking services

- ✓ Review the target customers, enhance market share.
- ✓ Restructure the credit portfolio in the direction of: reducing the outstanding loans of enterprises with declining financial status, customers with low interest rates on loans and low overall profitability to Vietcombank; decreasing exposures to family-owned or group-related joint stock companies, limited liability companies that have low level of collaterals to their loans at Vietcombank.
- ✓ Control the growth rate of medium and long term debt, especially for medium and long term customers; develop customer by chain, cross selling; Enhanced credit sales associated with the use of banking services for effective customer groups.
- ✓ Complete credit products serving life activities; development of business products; building a chain of products between wholesale - retail; Cooperate selectively with real estate projects, chain companies to promote retail loans.
- ✓ Focus on low-cost deposit: Mobilizing demand deposits through centralized

funds management system, providing payment services; reduce deposit from corporates that require high deposit rate; attract foreign currency deposit through the “Accompany with exporters” programs.

3. To transform wholesale credit model

- ✓ At the head office: establish sales model and sales process for each customer segment; invest in customer relationship management (CRM) systems supporting sales and customer care; evaluate the results of the implementation of the first phase and plan to apply the model for the remaining branches; convert to CRC model to reduce load for relationship managers (RM).
- ✓ At the branch: transfer the project communication program to all relevant departments at the branch; Positive application of project results to change the quality of business operations.

4. To implement Development Programs/Action Plans/ Transformation projects according to schedule

- ✓ Accelerate the implementation of the following programs / projects: Basel II, Retail Operations Transformation Project to meet governance requirements in line with international standards and Retail Goal 1.
- ✓ Prioritize investment and implementation of projects under the IT Development Project until 2020.
- ✓ Focus on implementation Corebanking projects, TF projects, CLOS projects, ALM / FTP projects, MPA projects ...
- ✓ Improve the quality of project management, improve and issue guidelines for project management, strengthen communication and change management of projects.

5. To strengthen the inspection, control, accelerate the recovery process of bad debts and written-off NPLs

- ✓ Continue to carry out the transformation of internal auditing activities in accordance with the direction of the Board, in line with international practice, meeting Basel II requirements. To deploy the investment project on the system of software for management of internal inspection and audit activities.
- ✓ Strengthen inspection and supervision of Vietcombank units and operational procedures, especially risky, systematic risk units and processes, to timely warn, detect and minimize risks; To intensify the supervision and remote monitoring of business activities and the situation of implementation of inspection and audit proposals.

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- ✓ Develop debt recovery plan for each debt and assign specific liability for debt recovery for each member of the Branch Directors, department directors and staffs.
 - 6. To implement other activities**
 - ✓ Continue to strengthen and improve public relation activities in order to further develop the brand name and prestige of Vietcombank.
 - ✓ Promote self-improvement training; use the results of training, examinations and professional skills in personnel assessment.
 - ✓ Implement various emulation programs to celebrate the 55th anniversary of Vietcombank.
 - ✓ Actively participate in social activities with focus on education, healthcare, natural disaster relief etc.

ON BEHALF OF THE BOARD OF MANAGEMENT