

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

Address: 198 Tran Quang Khai, Ha Noi

Business Registration No. 0100112437

(13<sup>th</sup> revision dated 16<sup>th</sup> January, 2019)**SOCIALIST REPUBLIC OF VIETNAM****Independence - Freedom – Happiness**

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*Hanoi, April 26<sup>th</sup>, 2019*

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

### **I. BUSINESS PERFORMANCE IN 2018**

The global economic growth in 2018 was 3.7%, equivalent to that of 2017. Signs of slower growth emerged more clearly with the decline of production, trade and investment, ebbing price levels, trade conflicts and complicated political developments... adversely impacting market sentiment. Significant market corrections occurred across various Stock exchanges in 2018. Though most central banks gradually normalized their monetary, they remained cautious about raising interest rates as economies showed signs of deceleration.

Against this backdrop, Vietnam's economy continued to prosper in 2018. GDP growth reached a record high of 7.08% since 2008, exceeding the target set by the National Assembly. Inflation was under control with average CPI in 2018 increased only by 3.54%. Industrial production and consumption continued high growth momentum; FDI disbursement set a record of over USD 19 billion, an y-o-y increase of 9.1%. Import and export activities were vibrant with a record trade surplus of USD 6.8 billion. Exchange rate and foreign exchange market stabilized at year end and the official foreign exchange reserves exceeded USD 60 billion.

The banking and financial system continued to be developed and strengthened. The interest rate level was stable and favorable to business communities. Credit and deposit grew at a sustainable speed of 13.92% and 12.48%, respectively. The banking system restructure continued with the quality of banking system's assets improved, bad debts handling achieved remarkable results, and the NPL ratio decreased to 1.89%. Banks strived to upgrade management capacity as well as implemented various equity management solutions to meet Basel II standards.

#### **1. Significant business growth exceeding business plan of 2018**

In 2018, VCB strived to implement further the Development Roadmap to

2020 approved by the Governor of the State bank of Vietnam, various Sub-projects as well as Action Plans in line with the motto of **“Transformation - Efficiency – Sustainability”** and management attitude of **“Innovation - Discipline – Responsibility”**, and achieved outstanding results.

**1.1. Total assets reached over VND 01 million billion, Owner's equity increased significantly**

- ✓ Total assets were VND 1,074,027 billion, rose by 16.1%<sup>1</sup> compared to 2017.
- ✓ Owner's equity reached VND 62,179 billion, increased by 18.3% compared to 2017, in which non-distributed profits were VND 16,139 billion (2017: VND 8,715 billion).

**1.2. Deposit mobilisation closely followed the overall strategy of " Wholesale deposit" with focus on demand and foreign currency deposits**

- ✓ Deposit from the economy (including valuable papers) was VND 823,390 billion, increased by 13.3% y-o-y. The growth rates of corporates/individuals deposit were 20.8% and 7.5% respectively.
- ✓ The proportion of corporate deposits increased in accordance with VCB's strategic direction. The ratios of deposit from corporates/individuals were 48.8% and 51.2% respectively (2017: 45.8%/53.9%).
- ✓ Demand deposits grew by 14.1% y-o-y and accounted for 29.5% of total deposit (2017: 29.3%). Foreign currency deposit reached VND 143,292 billion, increased by 11.2% y-o-y and accounted for 17.4% of total deposits (2017: 17.7%).

**1.3. Credit growth sped up early at the beginning of the year and yet within the SBV's guidance; credit portfolio was restructured and reallocated toward "Retail credit"; developed new credit customers**

- ✓ Credit (including corporate bond) reached VND 639,370 billion, increased by 14.6% y-o-y, pursuant to the credit limit stipulated by the SBV. Individual credit increased by 32.7% y-o-y and the proportion continued to go up to 36.9% at the end of 2018 (2017: 31.9%).
- ✓ Loans granted by Transaction offices reached 117,028 billion VND,

<sup>1</sup> Excluding VND 109.851 billion from the transaction of Sabeco. If including Sabeco transactions, the total asset growth rate reached 3,7%.

increased by 43.9% y-o-y and the proportion of retail loans made by Transaction offices rose from 37% in 2017 to 40% at the end of 2018. Average loans made by Transaction offices reached VND 100,226 billion, up 44.9% y-o-y.

***1.4. Credit quality was strictly controlled; collection of NPLs and written-off loans was accelerated***

- ✓ Special mentioned loan was VND 3,781 billion, decreased by VND 1,002 billion compared to 2017. The ratio of Special mentioned loan/total loan was tightly kept at 0.59% (2017: 0.86%).
- ✓ The year of 2018 was the first year since equitization in which VCB successfully drove down NPL ratio to less than 1%. NPLs were VND 6,223 billion and the NPL ratio was controlled at 0.97% of total credit.
- ✓ Loan loss provisions reached VND 10,294 billion. The bad debt coverage ratio was ~ 165%, a high level among local banks in Vietnam.
- ✓ Recovery of written-off NPLs reached VND 3,272 billion, achieving 116.8% of the business plan assigned by the Board of Directors.

***1.5. Service business grew markedly and closely followed The Service business development plan and the 2018 business plan.***

- ✓ International settlement - trade finance turnover reached 78.3 billion USD, rose by 21.5% compared to 2017. Market share stabilized at 16.31%.
- ✓ Foreign currency sales (excluding interbank transactions) were USD 46.5 billion, increased by 3.1% y-o-y.
- ✓ Overseas remittance service reached 2.2 billion USD, rose by 17.1% y-o-y.
- ✓ Card activities continued to grow. Card payment/card usage turnover reached VND 118,315 billion/VND 38,608 billion respectively, increasing by 28.1%/22.2% y-o-y. Number of card acceptance units increased by 11,286 units, exceeding by 188.1% of the 2018 plan.
- ✓ Number of new Online Banking/active SMS customers increased by 52.2%/9.7% y-o-y.

***1.6. Pre-tax profit grew significantly, profitability ratios improved considerably, administration expenses were controlled tightly***

- ✓ Profit before tax hit VND 18,269 billion, increased by 61.1% y-o-y, the

highest growth rate in recent years, overshooting 137% of the 2018 plan. Income from divestment in 2018 was about 1,562 billion.

- ✓ NIM rose to 2.94%, increased by 0.3 percentage point compared to that of 2017.
- ✓ The proportion of non-interest income/total income was 27.67%.
- ✓ The administration expenses/total income ratio was controlled at ~ 34.65%
- ✓ ROAA and ROAE were 1.39% and 25.49%, respectively and were considerably higher than those of 2017 as well as those of its peers.

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

- ✓ VCB continued to be the local bank with largest market capitalization.
- ✓ VCB completed the issuance of approximately 3% (post-issuance ratio) of charter capital to foreign investors (GIC and existing shareholder, Mizuho) and received capital surplus of nearly VND 5,000 billion.
- ✓ Capital adequacy ratio reached 12.14%, increased by 0.51 percentage point over that of last year.

## **2. Management result in 2018**

In pursuing the bank's goal to become the leading bank in Vietnam, standing among the top 100 largest regional banks as well as among the top 300 largest financial institutions in the world, VCB has been implementing various business initiatives in response to changing business environment and in line with the bank's aim to be managed by the best international practices by 2020.

### ***2.1. Strictly complied with the Government's and the SBV's policies and worked closely with enterprises for the common goal of national economic development***

- ✓ On the basis of synchronous implementation of solutions to optimize operating costs, improve business efficiency and enhance risk management, VCB has been making efforts to support enterprises in solving business difficulties.
- ✓ Reduced lending rates for 05 prioritized areas as guided by the Resolution No. 01/NQ-CP dated January 1<sup>st</sup>, 2018 and the direction of the Governor of the SBV.

- ✓ Continually implemented favorable programs for small and medium enterprises and committed to offer fixed, competitive lending rates for the terms of 2/3/5 years to support enterprises' cost management planning.

## ***2.2. Resolutely implemented the VCB Development Roadmap to 2020, Action plans and Sub-projects***

- ✓ Projects, sub-projects, action plans continued to be implemented, contributing remarkably to the results of VCB in 2018.
- ✓ Branches under the Branch Development Roadmap to 2020 generally completed their targets: improving credit and deposit market share, controlling credit quality, increasing profit, and expanding target customer base.

## ***2.3. Flexibly managed deposit mobilization adaptive to market conditions and ensured ample funding for credit growth***

- ✓ Comprehensively reviewed and modified programs for and groups of customers that were eligible to be favorable interest rates, ensuring overall benefits of VCB.
- ✓ Open more payment accounts and collection accounts for the State Treasury and the Vietnam Social Insurance (“VSS”) through agreement with selected credit institutions to use the State Treasury account at VCB as a priority channel for state budget collection transactions. Closely coordinated and expanded the collection/payment services for VSS.
- ✓ Continued to provide various programs to mobilize foreign currency deposit and low-cost funding sources.
- ✓ Adjusted deposit interest rate for specific geographical areas of limited funding sources and high competition.
- ✓ Implemented suitable packages to customers with large foreign currency funds. Focused on selling non-credit services, cross-selling products to attract demand and foreign currency deposits.
- ✓ Focused on large IPO transactions to offer currency conversion services; followed enterprises with divestment plans and potential investors to provide related banking services.

## ***2.4. Restructured wholesale portfolio, implemented various solutions to boost retail credit and credit in Transaction offices***

- ✓ Expanded retail credit growth through adjusting interest rates, products, etc.
- ✓ Restructured the wholesale credit portfolio by reducing the outstanding loans of particular customer groups.
- ✓ Issued flexible interest rate schemes suitable for particular customers/regions to accelerate credit growth.
- ✓ Promoted credit to large FDI customers that have low credit risks and to industries that VCB wishes to expand credit and that potentially need various banking services such as FX deposits, international payments, and retail banking services.

#### ***2.5. Strengthened credit quality control and focused on recovery of NPLs written off debts***

- ✓ Inspected and supervised credit activities at all branches to ensure strict compliance of laws and regulations as well as VCB's policies regarding credit provision.
- ✓ Assigned members of the Board of Directors and the Board of Management to be in charge of particular branches that have large problem loans; strengthened monitoring and directing the handling of debt recovery of each branch.

#### ***2.6. Deployed service income promotion initiative***

- ✓ Reviewed fee tables; set up mechanisms for fee incentives based on customer segments and customer classes.
- ✓ Improved the efficiency of Card and E-banking services: Promoted cooperation with partners, developed utilities, integrated sales channels, expanded payment services via QR Code.
- ✓ Increased service fee through distribution of open-end fund management products and Bancassurance insurance products.
- ✓ Implemented the 2018 promotion program for international settlement - trade finance to maintain and expand market share and service fees.
- ✓ Income stream from FX trading remained stable through flexible exchange rate adjustment and expansion of customer base.

#### ***2.7. Reallocated investment portfolio to improve the return on capital***

*utilization and implemented divestment as planned*

- ✓ Restructured capital utilization in secondary market through expanding investment in valuable papers and financial institution bonds.
- ✓ Implemented divestment at organizations as planned, contributing to VCB's profit.



### ***2.8. Strengthened the organizational model and expanding network in accordance with the business strategy***

- ✓ Continued to expand and develop the network: Established 05 new branches, 39 transaction offices, and put VCB Laos into operation; received FED approval of the establishment of a Representative Office in New York (USA); implemented required procedures to establish a new branch in Australia.
- ✓ Strengthened the organizational model, adjusted functions of several Departments/Centers at the Head Office; rearranged the organizational structure of the wholesale division in accordance with CTOM model; established the Human resources management group; developed criteria for separating branch's departments and applied to eligible branches.
- ✓ Built up large bench of qualified staffs at the Head Office and branches; implemented rotation of a number of front-office positions at the Head Office to branches, etc.
- ✓ Scientific research was innovated thoroughly with various initiatives had been applied into practice. Successfully organized the "Innovation – Creativity toward development and integration" competition at a whole system scale, thereby selected many initiatives with high application value and effectiveness.

### ***2.9. Completed internal procedures and regulations to improve operating effectiveness and strengthen risk management practice***

- ✓ Established and issued important internal procedures and regulations on minimum safety limits and ratios in VCB's operation, wholesale credit process and procedures, mechanism and authority to offer favorable banking fees to wholesale customers, regulations on liquidity risk management, etc.
- ✓ Completed internal regulations including regulation on job rotation and mandatory leave for employees, regulation on the organization and operation of The Human resource development group, etc.

### ***2.10. Consistently and effectively implemented operation and governance capability improvement projects***

Actively implemented capacity development projects; gradually applying



projects' results into day-to-day business.

- ✓ Basel II: the SBV recognized VCB as the first bank in Vietnam meeting Basel II standards in accordance with Circular 41 01 year ahead of the official effective date.
- ✓ CTOM: continued to implement 17 initiatives of which 07 initiatives were completed. Since June 2018, CTOM model was officially applied VCB-wide.
- ✓ Retail banking's projects: Retail departments were actively implementing retail transformation projects, including RTOM, retail CRM and CLOS, while deploying several works of retail model transformation in 2018.
- ✓ IT Development Roadmap to 2020: Actively implement the roadmap with 54 IT projects supporting transactions; construct and upgrade infrastructure to modernize IT system in accordance with VCB's development strategy until 2020. 14 key projects are deployed including Corebanking project, Trade Finance, ERP, MPA, SOA, etc.

#### ***2.11. Increased supervision, inspection and compliance activities***

- ✓ Performed inspection into all branches of VCB, 04 departments at the Head Office, 02 subsidiaries and 22 audit and inspection schemes in VCB.
- ✓ Inspected transaction risk at branches to timely prevent and report any contingent risks and propose solution as well as penalties for violations.

#### ***2.12. Accomplished share issuance to increase capital***

- ✓ Successfully increased tier I capital despite market difficulties, contributing to improve VCB's status, position and competitive capabilities.

#### ***2.13. Participated in social activities for community development***

- ✓ Actively participated in social activities for development of community, society and economy. In 2018, VCB sponsored about VND 180 billion for social programs, concentrating on education, health care, building houses for the poor, etc.

## II. BUSINESS ORIENTATION IN 2019

It is predicted that there exist more risks and challenges in 2019. Economic deceleration appears in both developed and emerging economies. IMF has decreased forecast rate of global economic development in 2019 to 3.3%, lower than in 2018 and previous forecast rate of 3.5%. Furthermore, worldwide and regional economic situation is highly uncertain, while there exist risks of disease and disaster, etc.

The Government expects that 2019 is a breakthrough year to complete the 5-year project (2015-2020) and declares guideline of action “Discipline – Integrity – Action – Innovation – Breakthrough – Effectiveness”. The target economic development rate for 2019 of 6.6 – 6.8% is highly achievable. The inflation rate is expected to be controlled below the target of 4%. Import-export activities are still positive, and FDI is favorable. Monetary policy and fiscal policy are managed flexibly to lower interest rate level, to control credit growth at a reasonable speed, and to curtail credit flows into high risk areas. However, in the context of gloomy global economy and unpredictable risks, Vietnam economy may be adversely affected if risks occur beyond expected scenarios.

The banking sector continues to restructure, enhance operational quality, develop digital banking, and apply technology in line with the trend of modern financial development. Following the guideline of “Transformation - Effectiveness – Sustainability” and management view of “Discipline - Action - Responsibility”, VCB strives for the accomplishment of key business performance goals. Several key business targets are presented as follow:

<b>Criteria</b>	<b>2019 Target</b>
(1). Total assets growth	+12%
(2). Deposit growth <sup>(*)</sup>	+11-13%
(3). Credit growth	+ 15%
(4). Non-performing loan ratio	< 1.0%
(5). Consolidated Profit before tax	~+9.5%

(\*) in accordance with fund usage purpose and business efficiency

## **KEY BUSINESS OBJECTIVES IN 2019**

### **1. Continue to implement three business pillars in 2019: Retail, Services, Investment (Treasury operations)**

#### ***1.1 Retail activities***

- ✓ Increase proportion of standardized retail loan products and loans to business sectors, etc. with higher interest rate; lessen the volume of loan collateralized by valuable papers and loans with low NIM.
- ✓ Expand retail credits and loans granted by transaction offices while increase the supervision of credit quality at transaction offices.
- ✓ Expand the base of individual customers, especially those in priority segment.

#### ***1.2 Service activities***

- ✓ Increase non-credit incomes proportion (with a focus on income from services) in total incomes and consider this a key pillar in 2019.
- ✓ Make use of flexible pricing policies, interest rate and promotion to enhance income from services in order to ensure overall profitability; boost incomes from card, trade finance, E-Banking, insurance services, etc.
- ✓ Review and adjust the bank's fees tables (including wholesale, retail, payment, etc.) to ensure both competitiveness and effectiveness in fee income. Review and adjust fee sharing proportion and expenses paid to international card organizations.
- ✓ Maintain and expand trade finance market share: expand customer segment having transactions with export processing zone/enterprises in large FDI customers' value chain; potential foreign investors in Vietnam; potential trade finance customers.
- ✓ Complete and develop competitive wholesale products and services; Supplement advisory services and strategic positioning products; Establish wholesale product development plan associated with KPIs; propose specific solutions to different product/customer segments.
- ✓ Diversify retail products; introduce new products and services, etc.

- ✓ Improve service quality and accomplish motivation schemes for employees in promoting income from services.

### **1.3 Treasury and investment activities**

- ✓ Increase investment in financial institution bonds and valuable papers; investment in short-term valuable papers.
- ✓ Concentrate on development of foreign currencies trading; enhance profit from foreign currencies exchange activities in 2019.
- ✓ Introduce various interest rate and commodity derivatives to the market.
- ✓ Manage and supervise operations of subsidiaries, associate companies, and other long-term investments.

## **2. Implement deposit mobilization in accordance with lending and focus on low-cost funding**

- ✓ Attract low-cost funding; maintain minimum demand and foreign currency deposit ratios of 30% and 20% respectively; increase wholesale deposit proportion.
- ✓ Strengthen relationship with large corporations, enterprises, groups, centralized funds, ministries and legal entities to establish and increase VCB's deposit market share.
- ✓ Flexibly adjust deposit interest rate for specific areas of limited deposit sources while competition for deposit is high.

## **3. Accelerate credit growth from the beginning of the year while maintaining financial profitability and quality**

- ✓ Concentrate on credit growth in early 2019, especially short-term credit while controlling medium and long-term credit ratio; Enhance credit sales associated with the use of banking services for effective customer groups in 2019.
- ✓ Continue to restructure wholesale credit portfolio: reduce low-interest rate loans with insignificant overall benefits, unsecured loans or loans with low-value collateral rate; enterprises with declining financial status; control and reduce loans to risky sectors.
- ✓ Allocate credit portfolio in accordance with sector orientation; increase FDI and production sectors lending proportion.

**4. Accelerate the implementation of deveoprojects, action plans of strategic business units and transformation projects; conduct leading strategy in digital banking transformation**

- ✓ Consider 2019 as the year for digital banking transformation of VCB: Promote digital banking transformation, application of technology in smart banking services development to become the leader in digital banking transformation.
- ✓ Prioritize investment and implementation of projects under the IT Development Project until 2020.
- ✓ Continue to upgrade IT infrastructure, assuring adequacy of resources for approved projects to be deployed.
- ✓ Concentrate on deploying Retail sector's projects in order to meet international governance requirements and to become the leading bank in in retail.
- ✓ Improve the quality of project management, improve and issue guidelines for project management, strengthen communication and change management of projects.

**5. Actively concentrate on recovery of bad debts and written-off non-performing loans**

- ✓ Review any recoverable debts in 2019; specifically assign branch's director and managers, and staffs to collect problem loans.

**6. Increase charter capital to meet Basel standards**

- ✓ Perform necessary process and procedures to get approval from regulatory bodies of increasing the bank's owner's equity and prepare to:
  - Raise charter capital from capital surplus and retained earnings.
  - Issue new shares through appropriate methods.

**7. Strengthen supervision and inspection activities**

- ✓ Perform planned audit and inspection as well as unexpected inspection.
- ✓ Strengthen supervision and inspection activities into branches and operating processes with high contingent risks and systematic risks for early detection, warning and timely prevention of risks.

- ✓ Intensify the supervision and remote monitoring of business activities and the situation of implementation of inspection and audit proposals.
- 8. Continue to enhance risk management practice as well as to improve policies and process**
- ✓ Improve risk management policies; review internal regulations on credit approval authority; accomplish quantitative credit risk model; issue official regulation on credit risk early warning process; amend and append loan classification policy using Probability of Default (PD) model's credit rating results, etc.
- ✓ Review, amend and issue policies, internal transaction guidance of VCB in accordance with changes in applicable regulations, appropriate with the new Corebanking system and other systems.
- 9. Develop human resource in accordance with the strategy of becoming a leading bank in terms of human resource quality**
- ✓ Perform overall review of recruitment process; accomplish JD, KPIs and remuneration system.
- ✓ Establish and issue performance framework for professional positions; criteria set for talented employees; scholarship schemes for students with high achievement, direct recruitment of excellent students.
- ✓ Increase sales staff proportion; recruit newly graduated students and experienced employees (including management level).
- ✓ Improve training quality based on VCB Human Resources Development and Training College.
- ✓ Organize professional skills competition and summary of competition results in order to have reward and recognition policies for high-achieving participants.
- ✓ Continue to review and accomplish restructure of Head Office's departments.
- ✓ Consider competitive remuneration package to recruit competent intern associates.

**10. Other activities**

- ✓ Carry out key infrastructure projects of the bank.
- ✓ Effectively perform public communication activities; improve the effectiveness of brand recognition and image and marketing of the bank's products and services; brand and image promotion of VCB.
- ✓ Carry our various social responsibility programs to share difficulties with localities, alleviate natural disaster's damages, and promote education and health care, etc.

**Chief Executive Officer**

**Pham Quang Dzung**