

JSC BANK FOR FOREIGN TRADE OF VIET NAM

Address: 198 Tran Quang Khai, Ha Noi

Business Registration No. 0100112437

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

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Hanoi, June 26th, 2020

THE BOARD OF MANAGEMENT’S REPORT

I. BUSINESS PERFORMANCE IN 2019

According to the IMF, global economic growth rate in 2019 was 2.9%, the lowest level since the 2007-8 Global financial crisis. Signs of slower growth emerged more clearly with the decline of production, trade and investment mainly due to US-China trade war. Besides, complicated geopolitical developments adversely impacted market sentiment. The US Federal Reserve and other central banks cut interest rates and increased monetary easing measures to support economic growth.

Against this backdrop, Vietnam's economy continued to maintain a high growth momentum, the major balances of the economy improved. GDP growth in 2019 reached 7.02%, exceeding the target set by the National Assembly (6.6%-6.8%). Inflation was under control with average CPI in 2019 of 2.79%, lower than the target of 4%. Industrial production and consumption growth rates remained at elevated levels of 9.1% and 11.8%, respectively; FDI disbursement set a record of over USD 20.4 billion, an y-o-y increase of 6.7%. Import and export activities were vibrant with a record trade surplus of USD 11.12 billion, the highest level in the last four consecutive years of surplus. The budget surplus was estimated at VND 97.9 trillion and the official foreign exchange reserves exceeded USD 80 billion.

The banking and financial system was strengthened and further developed with stable liquidity, improving asset quality Credit and deposit growths were in line with economic growth. The State Bank lowered the policy rate in order to gradually reduce lending rates and support economic growth. The number of banks meeting Basel II standards increased, asset quality of the banking system improved with the NPL ratio of the whole banking system kept below 2%.

1. Business performance of VCB in 2019

In 2019, VCB strived to fundamentally complete the Development Roadmap to 2020 approved by the Governor of the State bank of Vietnam and successfully completed the business plan targets assigned by the Annual General Meeting of Shareholders.

1.1. Deposit increased healthily with larger proportion of low-cost funding

- ✓ Deposit from the economy (including commercial papers) was VND 949,835 billion, increased by 15.4% y-o-y.
- ✓ The proportion of CASA increased to 30.1% of total deposit (2018: 29.5%).

1.2. Credit growth is higher compared to the industry average; the credit portfolio was restructured and reallocated toward retail credit

- ✓ Credit (including corporate bonds) reached VND 741,387 billion, increased by 15.9% y-o-y and stayed within the SBV's credit growth guidance.
- ✓ Retail credit accounted for 51.8% of total loans.
- ✓ Credit concentrated on strong business and manufacturing sectors as well as a number of priority sectors under the Government's guidelines.

1.3. Credit quality was strictly controlled, collection of NPLs and written-off loans was accelerated

- ✓ Strictly controlled credit to potentially high risk sectors such as real estate, securities trading; strengthened risk management of BOT, BT projects and consumer credit.
- ✓ Special mentioned loan was VND 2,561 billion. The ratio of Special mentioned loan/total loan was tightly kept at 0.35% (2018: 0.59%).
- ✓ NPLs were VND 5,804 billion and the NPL ratio was controlled at 0.78% of total credit (2018: 0.97%).
- ✓ Loan loss provisions reached VND 10,417 billion. The NPL coverage ratio was 179%, a high level among commercial banks in Vietnam.
- ✓ The recovery of written-off NPLs reached VND 3,180 billion, exceeding the target.

1.4. Service business continued to grow positively

- ✓ International settlement - trade finance, Online Banking, cards and remittances activities all grew positively, contributing to VCB's service income.
- ✓ International settlement - trade finance turnover reached 85.4 billion USD, rose by 9.03% compared to 2018. Market share was 16.52% (2018: 16,23%).

1.5. Pre-tax profit exceeded target, income structure shifted toward desired balance, profitability improved considerably

- ✓ Profit before tax reached VND 23,122 billion, increased by 26.6% y-o-y.
- ✓ The proportion of non-interest income/total income was 39.2%.
- ✓ ROAA and ROAE were 1.61% and 25.9%, respectively and were higher than those of 2018.

1.6. Business results of subsidiaries and joint ventures

- ✓ 09 subsidiaries and joint ventures operated effectively with total profit before tax of VND 554.87 billion. Of which, 06 companies attained over 100% of profit target and 03 companies over 80%.

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

- ✓ With market capitalization of more than USD 14.5 billion¹, VCB continued to be the local bank with largest market capitalization.

1.8. Safety ratios in banking activities improved further

- ✓ VCB fully complied with safety requirements in banking operations in accordance with SBV regulations and guidance.
- ✓ Capital adequacy ratio (pursuant to Circular 41) reached 9.6%, an increase of 0.8% compared to 2018.

2. Management result in 2019

In executing business strategy with focus on 3 key pillars of "**Retail, Service and Investment**" and the motto of "**Transformation - Efficiency - Sustainability**", VCB implemented a series of managerial measures and initiatives covering all operations of the bank.

¹ At the end of the trading session on December 31, 2019, VCB's share price was VND 90,200; Number of outstanding shares: 3,708,877,448; USD / VND interbank exchange rate on the same day: 23,175

2.1. “Retail” pillar

- ✓ Developing credit products for individuals and SMEs to meet the needs of the market; flexibly adjust lending interest rates to expand retail credit.
- ✓ Implementing RTOM Project on schedule.
- ✓ Supplementing sales staff timely, meeting the minimum requirements on experienced personnel at transaction offices.
- ✓ Signing an agreement on exclusive distribution of insurance with FWD Group, this is the largest agreement in the Vietnam banking industry history to date.

2.2. “Service” pillar

- ✓ Expanding trade finance products to replace credit products, issuing more suitable international payment service products to meet customer needs.
- ✓ Making use of flexibly internal exchange rate mechanism according to the market, support foreign exchange activities of branches.
- ✓ Developing and upgrade many payment service solutions. Deploying non-cash payment solutions...
- ✓ Strengthening the leading position in card operations of VCB. Visa Inc. has signed USD 80 million financing agreement for VCB for 10 years to promote card operations.

2.3. “Treasury and investment” pillar

- ✓ Increasing investment efficiency through restructuring the portfolio and increasing the scale of investment in financial institution bonds.
- ✓ Collaborating with the subsidiaries VCBS and VCBF to develop and cross-sell more comprehensive investment banking products to meet customers financial needs.
- ✓ Developing project on investment banking activities for the period of 2020-2025.

2.4. Credit risk management

- ✓ Credit growth is accompanied by strict control of credit quality; regularly review the situation of customer activities, the situation of collaterals and enhance the collection of bad debts.

- ✓ Complete the internal credit rating scoring system based on the Probability of Default (PD) model and apply the PD rating results to review of credit approval authority and minimum guarantee ratios.

2.5. Organizational model and network

- ✓ Strengthened the organizational model at the Head Office; rearranged the Wholesale Division and other Departments/Centers, rotated the managerial staffs between the Head Office and the Branch.
- ✓ Business network was expanded selectively:
 - Established 05 new branches, VCBC HCM and 10 transaction offices;
 - Established Representative Office in New York (USA).
- ✓ Implemented required procedures to establish a new branch in Australia and 31 transaction offices approved by the SBV.

2.6. IT Development Roadmap to 2020 achieved positive results

- ✓ 20 IT projects have been put into practices. Completed the preparation work for the upcoming launching of the new Signature Corebanking at the beginning of 2020.
- ✓ Focused on implementing some key projects such as ERP, MPA, Digital Banking, Payment Hub...

2.7. Other activities

- ✓ Public relation activities continued to be upgraded with new interesting 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 2019, VCB sponsored about VND 197 billion for social programs concentrating on education, health care, building houses for the poor...

II. BUSINESS STRATEGY IN 2020

The Covid-19 pandemic outbreaked in China early 2020 and spreaded around the world, causing the world economy to suffer the worst recession since the Great Depression of 1929-1933: production stagnated, consumption, investment and trade declined. Governments have quickly been easing monetary policy and implementing huge economic stimulus packages to overcome the consequences of the pandemic but the effects were quite limited. In April 2020, the International Monetary Fund (IMF) forecasted the negative growth in world economy (-3%) in 2020, of which 90% of the economies may have negative growth and 69% fall into recession... In June 2020, the World Bank estimated that the global GDP possibly decrease by 5.2% in 2020 and will gradually recover from 2021. Besides, there are many other risks arise such as larger debt size of the government and residents, the tension between the US-China trade war, geopolitical and political instability, climate change...

Against the complicated situation of the Covid-19 pandemic, the Vietnamese Government resolutely controls the pandemic, ensures absolute safety for the people, supports those affected by the pandemic, and upholds social security, and maintains production and business activities. The economic growth target of 2020 is also adjusted from 6.8% to a level suitable to the new situation. The State Bank has directed various policies packages and guidance to ensure the safety of the banking system, to reduce interest rates level, and to cut financial transaction with in order to support economic recovery. The banking industry has been simultaneously implementing support packages including restructuring pandemic-stricken debts, lowering interest rates charged to current and new loans, reducing banking fees ... to support businesses and people and soften the impact of the pandemic.

In this context, the year 2020 will be challenging for banking business. The pressure of innovation with each bank is enormous when competition in traditional banking as well as in the digital banking industry is increasingly fierce. With the motto of "**Transformation, Safety, Efficiency, Sustainability**" and managerial mind-set of "**Responsibility - Action - Innovation**", the focus of 2020 is to innovate the growth model in depth, shift business composition toward desirable balance to ensure safe and sound, sustainable and profitable growth. In 2020, VCB maps out Five Strategic Breakthroughs and Three Key Initiatives on transforming business operations

structure.

FIVE STRATEGIC BREAKTHROUGHS

- ✓ Innovating growth model and shifting business composition.
- ✓ Completing the system of internal governance mechanisms and policies with customers.
- ✓ Improving the quality of human resources and suitable capacity to adopt digital banking initiatives.
- ✓ Completing and upgrading IT systems to deploy digital banking initiatives.
- ✓ Promoting the development of highly competitive products and services based on new technology in order to fully meet customer needs.

THREE KEY INITIATIVES

- ✓ Growing credit portfolio reasonably and restructuring it toward a safer, sounder, and more sustainable one.
- ✓ Increasing the proportion of non-credit income, focus on services and investment.
- ✓ Restructuring capital sources towards efficiency and sustainability.

Some key criteria

Criteria	2020 Target
(1). Total assets growth	~ 7%
(2). Deposit growth	~ 8%
(3). Credit growth	~ 10%
(4). Profit before tax	(*)
(5). Non-performing loan ratio	< 1.5%
(6). Dividend payment ratio (% / book value)	8%

(*) *Submit to the General Meeting of Shareholders to assign the Board of Directors of VCB to comply with the opinion of the SBV on the Financial Plan 2020*

KEY BUSINESS OBJECTIVES IN 2020

1. Implementation of credit-related solutions under the Government's direction in Resolution No. 01 / NQ-CP of January 1, 2020 **and the SBV Governor's** in Directive No. 01 / CT-NHNN of January 3, 2020 as well as tasks and solutions to prevent and combat epidemics, support customers affected by Covid 19 disease under the direction of the Government, the Prime Minister and the Governor's instructions in Directive 02 / CT- The SBV dated March 31, 2020, Circular No. 01/2020 / TT-NHNN of March 13, 2020 and other relevant guiding documents.

2. Transforming business operations structure and innovating growth model

2.1 Accelerate credit growth from the beginning of the year while maintaining the Safety, Efficiency, Sustainability

- ✓ Focus on developing new customers with strong financial potential.
- ✓ Promote wholesale credit growth for new wholesale customers that meet the criteria of VCB. Especially concentrate on increasing short-term wholesale credit through preferential interest and fee packages.
- ✓ Increase the proportion of outstanding loans to large FDI customers with low credit risks and the potential overall benefits.
- ✓ Boost retail credit proportion in the Bank's credit portfolio.
- ✓ 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 (Decreasing group); increase the ratio of outstanding loans with collaterals; accelerate the processing of credit records ...

2.2 Promote service activities, increase revenue from fees and foreign exchange business

- ✓ Proactively approach and enhance transactions with customers with large import/export payment turnover, customers having transactions with export processing zones / enterprises in the value chain of large FDI customers.
- ✓ Increase foreign currency conversion market share of foreign related

projects. Combine with remittance companies to promote remittance collection and foreign currency conversion.

- ✓ Promote competitive products combining international payment services and foreign currency trading.
- ✓ Approach chain business customers, e-commerce businesses to expand the customer base for electronic banking services.
- ✓ Develop payment services linked to the implementation of payment infrastructure projects. Accelerate the supply of electricity and water bill payment services in localities where service contracts have not yet been signed.
- ✓ Strengthen the sale of non-credit services, chain sales, cross-sell products, cash flow management to exploit new capital.

2.3 Implement deposit mobilization towards sustainability and efficiency

- ✓ Regulate the deposit mobilization in accordance with credit growth.
- ✓ Promote low-cost funding followed direction of “wholesale buying”; increase foreign currency deposits.
- ✓ Reduce the size of high-cost funding; utilize cheap funding sources from the Vietnam State Treasury and Vietnam Social Security effectively.

2.4 Improve the efficiency of treasury and investment banking activities

- ✓ Enhance liquidity and asset management and support other business operations.
- ✓ Increase investment in financial institution bonds; deploy investment banking products to meet customers financial needs.

2.5 Strive to ensure sustainable business efficiency

- ✓ Simultaneous implementation of business solutions on the basis of closely following the developments and impacts of Covid-19 epidemic to ensure sustainable effectiveness, in accordance with the actual conditions of the economy.
- ✓ Profit targets will be updated based on the approval of competent state authorities.

3. Strengthen credit quality control and focus on recovery of NPLs written off debts

- ✓ Strictly reducing loans to risky sectors, non-collateral loans and customers who do not bring overall benefits to VCB.
- ✓ Review and control strictly all potential bad debts, prepare recovery plan.
- ✓ Thoroughly comply with the laws and VCB's regulations on banking activities, preventing moral hazard, and strictly handling violations.

4. Implementation support solutions

4.1 Business support solutions

- ✓ Focus on developing new products and specialized products which are specific to each customer segments; promote the development of investment banking products.
- ✓ Develop customer relationship with securities companies /securities investment funds /fund management companies to provide comprehensive services, focusing on developing open funds, ETF funds, voluntary retirement funds...
- ✓ Building and implementing payment services based on modern technology in key areas such as services with Vietnam State Treasury and Vietnam Social Security; collect public transport, non-stop toll, health care and education...
- ✓ Conversion of contactless chip card technology in stages in accordance with SBV regulations and market requirements.
- ✓ Develop digital products /services /platforms that apply high technology, encourage customers to move on digital banking channels.

4.2 Solutions supporting technology, human resources, management information

- ✓ Accelerate the implementation of transformation projects and IT projects. Operate effectively with the new Corebanking system Signature, which is the foundation for implementing digital transformation and developing new products and services.
- ✓ Upgrade IT systems to meet business requirements, ensure high

availability as well as safe and secure operation; IT system administration is close to international standards.

- ✓ Develop and implement a professional marketing strategy, promote advertising communications to increase brand identity of VCB.
- ✓ Implement multi-dimensional profit analysis and management reporting system by unit / customer / product.
- ✓ Transform the sale and service model at the branch according to the RTOM project roadmap.
- ✓ Continue reforming the remuneration mechanism associated with business efficiency and labor productivity.
- ✓ Develop and issue a set of criteria for selecting talented staff; capacity framework, training roadmap; review and complete the JDs and KPIs.
- ✓ Increase the average number of training sessions and the number of tests / skills competitions compared to the level of implementation in 2019 associated with innovation, improving the quality of training.

4.3 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.

4.4 Other solutions

- ✓ Increase chartered capital from retained earnings, increase capital through separate issuance of new shares as soon as approved by competent authorities.
- ✓ Improve the efficiency of cost management across the bank, manage and closely monitor the implementation of budget plans (advertising costs, promotions ...), reduce operating costs, control operating expense / total income ratio.

- ✓ Speed up the implementation of office buildings and working facilities according to the approved plan, serving business performance.
- ✓ Improve the quality of science research, innovation throughout the system, serving the implementation of the development strategy and business 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...

Chief Executive Officer

(Signed & sealed)

Pham Quang Dzung