

JSC BANK FOR FOREIGN TRADE OF VIETNAM

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Business Registration No. 0100112437

(11th revision dated 07th November, 2014)**SOCIALIST REPUBLIC OF VIETNAM****Independence - Freedom – Happiness**

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*Hanoi, April 05th, 2016***REPORT OF BOARD OF MANAGEMENT ON****BUSINESS ACTIVITIES IN 2015 AND PLANS FOR 2016****Business Performance in 2015**

In 2015, global economic growth fell short of expectations; in which, GDP of almost all the developing countries (especially BRICS group) rose modestly, whereas the recovery of developed economies remained fragile. Against this backdrop, Vietnam managed to ensure macroeconomic stability while continued restructuring credit institutions and the economy. As a result, GDP growth accelerated to 6.68%, enabled by a soar of 9.5% in industrial production; inflation was contained to 0.63%. Other indicators, including trade and FDI, also saw substantial growth. The banking system restructured comprehensively and fundamentally, credit growth of the whole banking system reached 17.3% . By the end of 2015, deposit increased by 14.4% while money supply increased by 14.2%. Liquidity remained stable; capital adequacy ratio improved significantly. Exchange rate and interest rate were adjusted flexibly.

Following the motto of “**Speed - Efficiency – Sustainability**”, and its corporate governance motto of “**Determination - Unity – Responsibility**” in 2015, which is compatible with the Development strategy for the period 2011 – 2020 and Restructuring scheme for the period 2013 - 2015; Vietcombank has achieved many significant results in 2015.

1. Fundamentally achieved all the business planning and objectives of Vietcombank restructuring scheme that has been assigned by the SBV

In 2015, Vietcombank has achieved impressive business results which have exceeded the targeted plans set by the AGM as such:

i. Total assets and charter capital have increased considerably

- Total assets reached VND 674,395 billion, increased 16.88% from 2014.
 - Total shareholders' equity reached VND 45,172 billion, increased 3.9% from 2014, of which retained profits was VND 7,476 billion.
- ii. Fund mobilization increased sustainably; interest rate has been adjusted flexibly in order to improve profit and capital structure*
- Fund mobilization from the economy in 2015 reached VND 503,007 billion, increased 18.52% from 2014, higher than the average banking system growth rate (~14.4%). Fund mobilization has steadily increased in both corporate (14.4%) and retail (22.1%) segments. Deposit structure of corporate and retail customers are 45% and 55% respectively, compatible with the Vietcombank business strategy to promote retail banking.
 - The bank continued to attract low cost funding sources: current account increased 26.28% compared to 2014 and accounted for 29.13% total Vietcombank's funding.
- iii. Credit growth increased since the first months of the year, the growth was higher than the industry average and was the highest level in the last 5 years; the credit structure tilted towards the bank's intended direction of prioritized industries and sound and viable projects of large corporations*
- Loan balance reached VND 387,152 billion, increased 19.74% from 2014, higher than that of the banking system (17.3%).
 - Credit increased considerably in wholesales (11.5%) and SME (24.8%), and achieved astounding growth in individuals segment (50.4%). The credit structure leaned towards the bank's intended direction. Accordingly, the composition of outstanding loans is 20.1% of individuals, 15.6% of SMEs and 64.3% of wholesales.
- iv. Asset quality improved and adequacy ratio was sound*
- Loan quality improved considerably. Special mentioned loans by 31/12/2015 was VND 9,377 billion, down VND 8,114 billion from 2014 (- 46.4%). Special mentioned loans ratio was 2.4%, down by 3.0% from 2014. NPL as of 31/12/2015 was VND 7,137 billion. NPL ratio was 1.84%, decreased by 0.47% from 2014, lower than the limit of NPL (2.5%). In 2015, Vietcombank recovered VND 2,432 billion of NPLs, decreased by 2.5%

from 2014 (VND 2,494 billion). Of which, bad debt recovery accounted for 40% of the total.

- Capital adequacy ratio (CAR) stood at 11.04%, meeting the SBV's required CAR of 9%. Loan loss provisions/NPLs was at a high level (~121%).
- v. *Recovery of written-off debts achieved positive results, which reflected Vietcombank's effort and aggressive approach in bad debt recovery*
- In 2015, recovery of off-balance sheet NPLs reached VND 2,511 billion (recorded in income was VND 2,087 billion, accomplished 104.25% of total business plan set by the Board of Directors); of which, the recovery of written-off bad debts reached VND 1,834 billion, recovery of NPLs sold to VAMC reached VND 677 billion.
- vi. *Banking services volume surged and surpassed almost all of the annual targets*
- The volume of export-import payment reached USD 45.98 billion, increased 10.4% from 2014. Vietcombank's market share of international payment and trade finance reached 15.86%. The income from trade finance – international payment increased to VND 804 billion (+13.3% yoy) thanks to product diversification.
 - Vietcombank continued to be the leader in FX trading and services: FX transaction volume (excluding interbank transactions) reached USD 29.5 billion, increased 2.6% from 2014.
 - With significant growth in card payment, issuance and usage, Vietcombank's credit card business retained its unchallenged leading position. Many targets have been achieved and exceeded the annual plan, specifically (i) Card payment volume of the international card and domestic card accounted for 45% and 30.3% of market share respectively, (ii) The number of domestic debit bank card, international debit card and international credit card accounted for 16%, 29.3% and 21.4% of market share, respectively, (iii) Market share in international credit card payment and international debit card payment was 19% and 22.5% respectively. The POS network increased to 11,092 units, made up 32% total market share.
 - SMS Banking, Mobile Banking and Internet Banking grew significantly at

27%, 68% and 28% respectively.

- Mobilizing offshore funding received special attention and grew sharply in terms of size, volume and contributed significantly to the bank's performance. In 2015, total value of all the ODA projects that Vietcombank was assigned to act as serving bank increased 14% yoy.
- vii. *Profitability ratios improved positively, pre-tax profit and pre-provisioning profit peaked*
- Return on average assets ratio (ROAA) and return on average equity ratio (ROAE) reached 0.85% and 12.03% respectively.
 - Cost/income ratio was at about 39.18%.
 - Non-interest income made up 27.11% total operating income.
 - Net interest margin (NIM) improved slightly, reaching 2.58% in 2015.
 - Pre-tax profit and pre-provisioning profit in 2015 reached VND 12,896 billion, increased 23.6% from 2014. Vietcombank provisioned VND 6,068 billion, increased 32.16% from 2014.
 - Post-provision pre-tax Profit of 2015 reached VND 6,827 billion, rose 16.83% from 2014. Net interest income increased 28.68%, net non-interest income grew 23.45% yoy.
- viii. *Vietcombank was the largest listed bank by market capitalization and consistently ranked among top 3 listed enterprises with largest market capitalization*
- Vietcombank's stock price was much higher than its peers and the bank consistently ranked among top 3 listed companies with largest market capitalization. In the 2014 – 2015 period, Vietcombank's stock price surged by 88.4 % while VNIndex increased 14.7%, BIDV at 22.7%; and Vietinbank at 14.8%.

2. Performance in 2015 and corporate governance

In realizing its vision “To become the Number One bank in Vietnam, fully adopting the best international corporate governance practices and standards by 2020, and being ranked among the 300 largest banking financial groups in the world”, Vietcombank put forward a number of important initiatives in 2015:

2.1. Proactively implement solutions to share the burden with business community and to promote economic growth in full accordance with guidance from the State Bank of Vietnam

- Proactively implemented and followed the government and the state bank's guidance on interest rate of loans extended to the five prioritized areas, housing loans as per the Circular 11/2013/TT-NHNN, pilot project on agricultural development as per the Resolution 14/NĐ/-CP, program on supporting agricultural failure and loss as per the Decision 68/2014/QĐ-CP.
- Sought to increase lending by offering credit packages with preferential interest rate, such as competitive interest rate for loans in VND and USD, loan in VND with USD-benchmark interest rate, and medium and long-term loan from one to five years with fixed interest rate.

2.2. Fully implement the guidelines of the Party and the Government regarding the restructuring, acquisitions and innovations of Vietcombank

- Implementing the Decision No. 39/QĐ-NHNN that approves Vietcombank's restructuring plan, the bank developed an aggressive restructuring roadmap and proactively implemented it. Vietcombank reviewed and restructured the branch network in order to improve operational efficiency. By 2015, the restructuring plan for its 13 branches and development plan for additional 11 branches have been successfully accomplished. Business management, competitiveness, market share... of all the branches under these two plans has seen big improvement.

2.3. Improve the procedures for business setting and planning; review those business planning; recognize and handle issues and difficulties faced by the branches

- In 2015, the bank's leaders regularly organized task groups to review and supervise the implementation of business planning in 7 key economic zones; the bank gradually introduces and implements KPIs project in establishing, assigning, and evaluating performance of the bank's branches, subsidiaries, departments and divisions at the Head Office.

2.4. Boost credit growth while ensuring credit quality by the principle of not compromising lending standards

- To achieve higher credit growth rate than the industry average, Vietcombank closely reviewed credit growth and pushed sales at Head office and branch level. This effort was supported by diversified product portfolio, flexible interest rate, and cross-selling initiatives.
- To control the credit quality, Vietcombank always supervised, evaluated all the factors that may have adverse impact on the bank's credit portfolios, especially for large borrowers; never compromised lending standards, strictly followed the credit granting procedures, conducted due diligence thoroughly and updated customers' information regularly to make sure that capital is allocated to good borrowers with viable business plans and projects; increased after-disbursement control and review to ensure the lending proceeds be used in accordance with the original purposes.

2.5. Closely coordinate departments and divisions involved in loan workout and NPL recovery, creating a big shift in this regards

- Vietcombank regularly reviewed and comprehensively evaluated its overdue loan portfolios, determined the expected recovery amount and the solutions as well as the recovery roadmap, assigned clear responsibility to the people in charge; constantly pushed the branches that had NPLs to focus on loan workout and recovery.

2.6. Improve human resource management; considerably increase the quality and quantity of training courses

- To improve the quality of Vietcombank human resource and to work towards a standardized training framework, Vietcombank organized many training courses for 12,754 staffs and employees (an increase of 150% from 2014). Besides, Vietcombank also established a number of corner-stone projects to develop its human capital with a view to 2020, including Restructuring the training activities, Upgrading the Training Center to the School of Human resource Development, Establishing E-learning training platform, Constructing Ecopark training facility...

2.7. Refine the organizational structure, expand branch network, and strengthen the branch-leadership bench

- In 2015, Vietcombank issued a comprehensive guide on the functions of all the Head office's departments and centers; designed a new and more streamlined branch function and organization as well as branch-level functional divisions.
- Periodically refined the organizational structure in order to consolidate and reorganize branch network for better coverage and higher efficiency; established 6 new branches in prime locations (Hochiminh city, Bentre province,...). Besides, Vietcombank also carried out steps to establish Credit consumer company, Remittance Company, Branches and Representative offices abroad.

2.8. Accelerate the implementation of governance capacity enhancement projects

- Implemented governance capacity building projects, including: (i) The Basel II project follows the planned schedule; (ii) Implementation of the road map for Credit Transformation Operating Model; (iii) Completion of the first stage of the KPI projects and a number of work on the second stage; (iv) Review and assessment of crucial restructuring projects that were behind schedule to come up with specific solutions.

2.9. Promote cooperation and technical assistance with Mizuho

- Mizuho's technical assistance was commenced following the request of the Board of Leadership and Vietcombank Head Office's departments. In 2015, 50 sessions were organized to provide technical assistance to Vietcombank in a number of issues, including: implementing Basel II, managing credit risk and business with financial institutions, retail banking, operation of supervisory committee, risk management committee, credit rating model, etc. Mizuho continued to provide training courses to Vietcombank officers in Vietnam or at Mizuho's branches.
- In 2015, cooperation with Mizuho has progressed. Signed service agreements have been carried out. Thanks to Mizuho's introduction, 51 FDI

enterprises and 18,500 personal customers who are currently employees in Japanese-invested enterprises opened account at Vietcombank in 2015.

2.10. Participate actively in social security programs, reaffirm social responsibility; brand reputation was recognized and highly regarded

- In 2015, Vietcombank has contributed to social security programs by a sum of VND 225.2 billion, for example: Donated to flood disaster relief fund for Quang Ninh people and coal workers; sponsored 1,000 cows to poor households in mountainous areas adjacent to the Highland; financed Tran De General Hospital in Soc Trang; financed Hung Vuong Primary School, Phu Tho; financed Vinh Binh Bac Secondary School, Kien Giang; financed Vinh Thuan Primary School, Ninh Thuan; financed Ninh Giang Primary School, Ninh Binh; financed Duc Hop Kindergarten, Hung Yen; financed housing via South Western Steering Committee, etc.

3. Difficulties and weakness

Besides significant results achieved, Vietcombank's operation in 2015 displayed a few drawbacks, including:

- A number of branches did not accomplish the assigned business plan: (i) Credit quality declined or unchanged, which was not on par with the upward trend of the system; (ii) Deposit growth of foreign currency was either low or in a downtrend; (iii) The percentage of call deposit in total deposit, albeit improved, has not reached the full potential; (iii) Loan to deposit (LDR) ratio for VND was relatively low.
- Credit growth remained unsustainable, mostly stemming from major clients; growth mainly came from longer term loans; LDR remained almost unchanged.
- Client development, particularly FDI enterprises, remained relatively weak, un-uniform and unsystematic, thus incapable of facilitating a sharp growth in international payments-trade finance.
- Growth of revenue from international payments-trade finance paralleled the growth of total trade; however, Vietcombank's market share declined.
- Recovery of bad debts is sluggish; a few branches have not put extra effort

in disposing bad debt and written-off debts.

II. BUSINESS ORIENTATION IN 2016

The world economy in 2016 is forecast to record a sharper recovery in the EU while developing economy becomes more stable due to the lag of stabilization and stimulus policies commenced in 2015. Low interest rate may stay for the time being, although the Fed may raise its rate.

Vietnamese economy is forecasted to grow by 6.7%. New generation Free Trade Agreements that were negotiated successfully would further facilitate investment and expand export markets, thus further boost growth. Inflation expectation slightly rises although remains below the 5-percent target. The State Bank's monetary policy focuses on managing exchange rate in a more flexible mechanism; persistently reducing dollarization; controlling the credit growth rate from 18% to 20%; controlling credit quality and strictly supervising credit institutions' restructure, ensuring a sound financial system.

The motto of Vietcombank in 2016 is “*Speed – Efficiency – Sustainability*” accompanied by “*Innovative – Disciplined – Responsible*” corporate governance, based on which Vietcombank will strive for the accomplishment of business performance goals. Key business performance indicators are as followed:

Criteria	2016 Plan
(1). Total assets	+ 13.5%
(2). Credit	+ 17%
(3). Deposit	+ 15%
(4). Non-performing loans	< 2.5%
(5). Profit before tax	VND 7,500 billion

Central objectives in 2016

1. *Customer service remains fundamental*

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

2016. Fostering corporate customers actively and systematically by sustaining traditional customers and step-by-step gaining market share; developing new customers comprising successful enterprises, and FDI enterprises whose outlook are considered positive.

- Improve quality in product development, standardize procedure in retail banking by reviewing products and services; launch new products, compete not only in prices but also in features of the products along with simplify protocols and procedures. Focus on boosting growth in leading products such as personal credit, electronics banking, card, etc. Establish suitable interest rate policy; promote retail credit growth along with ensure deposits from residents.

2. *To focus resource on the recovery of non-performing loans and written-off loans*

- Maintain direct control over the disposal of problem debts towards branches possessing high problem debts. Assist branches following the motto of Innovative and Disciplined, recover bad debt by simultaneously employing different measures. In branches where bad debts are high, strictly implement the “Good bank, Bad bank” proposal, put forward specific criteria, solutions, and road map to 2017. Design specific recovery plans to each loan. Early detect risks of loans. Apply appropriate measures simultaneously.

3. *To promote Treasury, forex and trade finance*

- Strive for the leading position in the interbank market by active participation in the market to retain the role of market maker. Keep the No. 1 position in the forex market and secondary bond market.
- Gain international payments-trade finance market share via strengthening the development of FDI and FDI-supporting enterprises customers. Diversify sectors and industries, attract enterprises operating in major export industries. Develop new products attached with payments measures, specializing established products, particularly Internet banking. Utilize to the full extent of interest rate and exchange rate instruments to enhance competitiveness. Promote marketing, approach sponsors, project

management board and authorities to assign Vietcombank as the service provider for ODA projects, contribute to the revenue of foreign exchange transaction and market share of Vietcombank in trade finance.

4. *To commence the governance capacity enhancement projects, particularly credit risk management capacity, and crucial initiatives as scheduled*

Enhance management and governance capacity in pursuant to international standard, via:

- Commence 19 initiatives under CTOM project (12 of which are emphasized) to fundamentally transform credit activities.
- Commence 82 initiatives in Basel II project (44 of which are emphasized) in 2016 to steadily transform risk management activities.
- Increase training and communication; complete the assignment of business plan attached with the outcome of the KPI project.
- Perform situation analysis to put forward a road map to implement the internal audit and inspection capacity enhancement and internal audit function transformation project, in order to build audit framework and organize training, communication within system to improve human resource quality in control, auditing and supervision.
- Commence and employ the instruments to detect fraud risks, to enhance remote, constant and comprehensive monitoring of branches, early detecting fraudulent activities.

5. *To improve the organizing structure and network*

- Establish a number of branches and offices in high potential areas and conform to the State Bank's conditions. Establish the Consumer Credit Company; research for establishment of a remittance company, an Asset Management Company, open branches and representative offices overseas.

6. *To enhance risk management, internal inspection and audits*

- Improve the functions of inspection, auditing, supervising in accordance with best practices. Commence to the full extent the activities of Internal Inspection Committee.

7. *To improve and implement internal procedures and regulations*

- Implement internal procedures and regulations on staff management, branch ranking, code of conducts, etc. in order to create strong incentives within Vietcombank. Compose instruction manuals for inspecting and supervising individual major functions of the bank. Continue to append, revise, improve and promulgate procedures and regulations (1) realizing outcome of the initiatives in capacity enhancement projects (Basel II, KPI, CTOM, etc.); (2) functions of Treasury, retail, accounting and finance, credit, human resource management, etc.

8. *To enhance training activities*

- Take measures to commence the scheme of Training Activities Restructure to 2020; Enhancing training following (i) Standard training framework (ii) Test and Skill competition for a number of positions; (iii) Build foundation for online e-learning, build library/resources for training activities, research and dissemination of initiatives.

9. *To upgrade information technology*

- IT needs to catch up with the trend of digital innovations in banking industry (mobile, social network, cloud computing, etc.), building strong foundation to make breakthroughs in operation for Vietcombank, retaining the leading position in the market regarding IT.

10. *To review the performance and consolidate the activities of subsidiaries and associated companies.*

- Continue restructuring and divesting some of the holdings; materialize and put forward solutions and policies to tie investment activities with corporate banking; review and audit all facets of the business of the subsidiaries; develop the road map and plan to change the ownership of the subsidiaries.

11. *Other activities*

- Review the social security programs that Vietcombank is participating in to fulfill the commitment with the locals; in the meantime, design action program and cooperate with the authorities to focus the investments in high-priority areas in mountainous, remote districts to promote sustainable development and raising living standards of the beneficiaries of the

programs.

- Renovate communication activities in both content and format, emphasize on the effectiveness, especially internal communication about the current capacity enhancement projects.
- Sustain and develop Vietcombank corporate culture aiming towards cooperative, connected, sharing and responsible spirit, thus increasing competitiveness of Vietcombank.

**ON BEHALF OF THE MANAGEMENT BOARD
GENERAL DIRECTOR**