

JSC BANK FOR FOREIGN TRADE OF VIETNAM

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Business Registration No. 0100112437

(12th revision dated 16th December 2016)**SOCIALIST REPUBLIC OF VIETNAM****Independence – Freedom - Happiness**

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Hanoi, April 18th, 2017**REPORT OF THE BOARD OF DIRECTORS
ON 2016 OPERATION AND 2017 ORIENTATION****I. OPERATION REPORT OF 2016:****1. Highlights and overview:**

- In 2016, world economic growth slowed down due to unfavorable conditions of the commodity market; productivity slowly improved while trade growth continues to decline; monetary policies of most developed economies continued to loosen. Major political events took place such as Brexit, the results of the US presidential election increased volatility for the economy.
- In general, after signs of recovery in 2015, the Vietnamese economy faced many challenges due to the complicated situation of the world economy and unfavorable weather conditions in 2016. Vietnamese economy grew at a slower pace than 2015: *GDP growth* reached 6.21%, down from 6.68% in 2015 mainly due to agriculture and mining sector, while processing, manufacturing and services industries maintained their momentum; *inflation* reached 4.74% compared with 0.63% of 2015, mainly due to the actively stronger adjustment of the public services prices, while core inflation remained stable at below 2%; *export turnover* reached USD 176.6 bil, up 9%; import turnover reached USD 174.1 bil, up 5%; and *disbursed FDI* reached USD 15.8 bil, up 9% compared with the same period of 2015.
- In 2016, the banking sector grew steadily and fulfilled the set targets, contributed to controlling inflation, stabilizing the macro-economy, supporting economic growth at reasonable level and ensuring safety in operation of Credit Institutions. The total money supply increased 18.38% and the deposit mobilization increased 17.75%. Credit growth reached 18.25%. Interest rates, after increasing at the beginning of the year decreased significantly since September 2016 (decreased 0.3 – 0.5% per year), contributed to the decrease in lending rate by 0.5 – 1.0% per year. Bad debt continued to be well under control at below 3%. The process of restructuring the financial system was accelerated. Pilot banks were actively implementing Basel II along with the options to ensure safety coefficients in a more stringent manner.

2. Missions assigned by the General Shareholders Meeting (GSM):

At the Annual General Meeting of 2016, the Meeting ratified the following:

- Ratify the business orientation of 2016 with the action motto: “Acceleration – Effectiveness – Sustainability”; and the management orientation: “Innovation – Discipline – Responsibility”.
- Key missions of 2016: Make use of our advantages, and opportunities to develop in depth, place quality and efficiency as focus, and try our best in all aspects of operations to achieve and exceed all the business targets proposed by the AGM, towards sustainable development in accordance with international standards.
- Ratify a number of major targets in 2016: total assets to increase at 13.5%, credit growth to increase at 17%, deposit mobilization to increase at 15%, profit before tax to reach VND 7,500 bil, dividend payment at 10% par face value, NPL at below 2.5% of total loans, etc.
- Ratify the compensation level for the BOD and Supervisory Board at 0.35% of profit after tax.
- Ratify the chartered capital raising plan in 2016.

3. Review of the missions assigned by the General Shareholders Meeting:

In 2016, the comprehensive process of restructuring Credit Institutions continued to be strengthened with strong measures from the SBV in the direction of improving financial capacity and corporate governance; and restructuring operation in the direction of safety, efficiency to ensure sustainable development. Maintain its position as one of the leading pioneers in the banking system, Vietcombank has seriously implemented the SBV’s policies, contributing to the implementation of the sector’s responsibilities and stabilizing the macro economy. With the motto “**Acceleration – Effectiveness – Sustainability**” and management orientation “**Innovation – Discipline – Responsibility**” set from the beginning of 2016, the BOD and BOM directed in a timely and rigorous manner the operation of Vietcombank in accordance with the orientation and goals proposed by the AGM in 2016.

With determination and effort of the whole system, Vietcombank has overcome many difficulties and challenges of 2016, achieved impressive results in growth, efficiency and continued improving the position in the market.

Reviewing the implementation of missions outlined from the GSM as follows:

a. Business operation outcomes:

In 2016, Vietcombank continued to record outstanding growth and achieved impressive results in almost every field of operation; achieved and exceeded the targets set by the

GSM. Credit growth and deposit mobilization achieved high growth, where structures shifted to the right direction, credit quality was strictly controlled, and all the safety ratios were ensured. In particular, Vietcombank was the first and only bank to complete provisioning for the VAMC bonds, while at the same time achieved profit of VND 8,523 bil, up ~25% yoy, the highest level from 2009 until now and highest in the banking sector.

(For detail, please see BOM report).

b. Directing and management activities:

The bank's management activity was paid special attention by BOD with key highlights of 2016, including:

- i. Reviewed and finalized the Vietcombank development scheme till 2020 with specific objectives and solutions; on that basis, developed an action plan for each business unit, and operation segment to realize the vision and strategic objectives of Vietcombank until 2020.
- ii. Implemented comprehensive solutions to improve financial capacity through raising charter capital, and bonds issuance.

In 2016, Vietcombank successfully carried out raising charter capital twice, ensuring all the safety ratios above the regulated level of the SBV, including: bonus shares issuance at the rate of 35% (increased charter capital by VND 9,327 billion) to increase charter capital and issued approximate VND 8,000 billion of bonds (of which, VND 6,000 billion was issued for Tier 2 capital). Besides, Vietcombank actively participated in increasing charter capital through private placement to foreign investors.

- iii. Rigorously implemented Transformation projects to enhance corporate governance towards international standards, pioneering in compliance with the regulations on risk management and corporate governance:
 - Coordinated with consultancy firms to implement 29 out of 37 initiatives under Basel II project, and implemented 6 core initiatives of project CTOM.
 - Continued implementing next steps of ALM/FTP/MPA project (select consultancy firm, review current status, from which to propose appropriate solutions); second phase of KPI project (continue to standardize organizational model of branches, formulate and issue regulation on management of measurement and performance evaluation in the system, develop and put into operation KPI program, etc.).
- iv. Consolidated the organizational model and continue to grow the network:
 - Opened 05 new branches: South Da Nang, Phu Quoc, Pho Hien, South Hai Phong, and Binh Phuoc; established and put 27 new sub-branches into operation.

- Established a number of important functions in the Southern region including Vietcombank Representative Office, Corporate Banking division and Debt Handling division.
 - Implemented procedures to establish a Cash handling centre, 03 Subsidiaries (Remittances, Consumer Finance and AMC), 01 Subsidiary bank (in Laos), and Representative Office in the US.
 - Pilot the regional sales management model for retail operation.
- v. Improved quality of staff, and promoted centralized training in the entire system:
- Transformed the recruitment process into a professional and centralized manner, to help bank select high quality and highly competitive staff against the market.
 - Increased staff rotation in the form of mobilizing experienced staff to assist newly established units, mobilizing staff at the Head Office departments to branches, and mobilizing management staff between branches ...
 - The number of training courses in 2016 reached 122% of the annual target with the ratio of average number of staff received training over the total number of staff nearly 1.5 times, a sharp increase compared with the previous year; the quality of training gradually improved. The focus group of training was staff that was at the management level, or was working in the sales and risk management functions and implementing key projects which provide effective support for the implementation of the business operation direction and corporate governance activity of the year.
- vi. Finalized regulations and internal procedures to create a synchronous mechanism for business activities:
- Amended, finalized and issued a number of important documents, such as: Regulation on the organization and operation of the Corporate Credit Committee and Financial Institution Credit Committee; Regulation on the organization and operation of management mechanism of the operational enhancement projects in Vietcombank; Training Regulation; Regulation on salary payment in Vietcombank system; Regulation on the labor streamlining; Regulation on Spokeperson,...
- vii. Continued focusing on social security activities:
- Besides business objectives, Vietcombank always put great emphasis on sustainable development for community. In 2016, Vietcombank continued participating in charitable activities through our network of branches nationwide with a total value of ~VND 234.2 bil. New healthcare and educational facilities were constructed in Binh Dinh, Hau Giang, An Giang, Ben Tre,... together with other meaningful community

support programs with funding provided by Vietcombank to help improve the livelihood of the people in some disadvantageous areas nation-wide.

viii. Remuneration of the BOD, BOS:

- The remuneration budget in 2016 is of VND 23,979 million (equivalent to profit after tax x 0.35%) for the Board of Directors and the Supervisory Board according to the resolution of the 9th Annual General Shareholders Meeting. Upto now, total remuneration amount actually paid to the Board of Directors and the Supervisory Board has been was VND 15,472 million, equivalent to 64.5% the budget approved at the AGM.

c. *Results of 2016 key targets set by the AGM (see Appendix 01).*

4. Some issues:

- NIM continued to increase but remained relatively low compared with other banks.
- While trade finance and international settlement faced strong competition, the centralized operation and trade finance products have not been improved accordingly.
- IT systems need to be further improved.
- The increase of charter capital through private placement has not been successful; pressure from increasing capital to comply with Basel II is high.

5. Assessment on the performance of the BOD and BOM:

- The BOD organized monthly meeting to evaluate the business performance; based on which, issued Resolutions to direct business operations and supervise the BOM to implement as regulated in the Bank Charter, Regulation on the organization and operation of the BOD, Internal regulation and other relevant regulations of Vietcombank.
- In 2016, while faced many challenges of the geopolitics, unfavorable weather conditions and global uncertainty in general and difficulties of the restructuring process and intense competition in the banking sector in particular, the BOM continued directing and supervising closely following the direction set by the BOD as well as stick to the medium and long-term objectives and specific targets for 2016 as assigned by the AGM and BOD.
- The members of the BOD and BOM always placed the interests of shareholders, the State and the Bank as the first objectives, and performed well the management responsibilities and fulfilled the assigned tasks.

II. ORIENTATION FOR THE OPERATION IN 2017:

The global economy contains increasing level of volatility and uncertainty surrounding foreign and economic policies of the big nations. Vietnam economy is expected to regain growth momentum after decelerating in 2016 with expected GDP growth at ~6.7%, inflation is likely to be under control at below 4%.

The banking sector will continue to implement monetary policies towards stabilizing macro economy and supporting growth. Besides continuing the implementation of the solutions under the restructuring plan of the credit institutions and dealing with bad debts, strengthening banks inspection and supervision, and enhance credit quality, banks are facing increasing pressure from the turbulent business environment, intense competition to catch up with the digital banking trend, retail banking, changing demographic profile and customers behaviors, etc. which require more innovation and strong determination to strengthen the positions of each bank.

Following the management direction of the Government and the SBV, in 2017, Vietcombank sets out the motto “Transformation – Effectiveness – Sustainability” and management orientation “Innovation – Discipline – Responsibility” with the main objectives being: make use of our advantages, and opportunities to develop in depth, place quality and efficiency as focus, and try our best in all aspects of operations to achieve and exceed all the business targets proposed by the AGM, towards sustainable development in accordance with international standards.

Major orientation on some areas:

a. Business activities

- i. Strongly adhere to the changing perspective where customer services are the basis of business development with the key solutions including:
 - Carry out the segmentation and classification of customers, based on which formulate policies and design the sales process and specific sales model to suit each segment of customers.
 - Continue diversifying the portfolio of customers with a focus on 2017: to develop the list of FDI customers; enhance cross selling, and make use of business opportunities from customers.
 - Continue to expand the regional sales management model for the whole system with 3 specialized divisions under the Head Office in the North – Central – South regions.
 - Develop synchronous solutions on products, technology supports and customer care to create more added values for customers, thus improve the quality of retail banking services.

- ii. Strengthen the handling process of bad debt, debts that utilize provision for credit losses, to contribute to the profit objectives of the whole system:
 - Develop a detailed roadmap for recovery to each of the non-performing loans and have specific action plan.
 - Allocate reasonable human resources for the handling process of bad debt, and actively cooperate with the Head Office and local municipal authorities in the best effort to shorten the recovery time.
- iii. Strongly reform the business segment – treasury trading, foreign exchange and trade finance, increase the contribution in the total operating income:
 - Maintain the pioneering position in the bonds market, domestic foreign exchange market and interbank currency market, increase the contribution of these segments in the Vietcombank income structure.
 - Concentrate on expanding the market share of the trade finance – international settlement, promote settlement in local currency with countries which are major trading partners of Vietnam, review the improvement of the payment agent services for domestic branches and foreign branches in Vietnam
- iv. Continue strengthening the operations of subsidiaries and enhance investment efficiency
 - Closely monitor, facilitate the conditions and promote the alignment/ coordination between Branches/ Business Units with subsidiaries to improve the performance of subsidiaries.
 - Develop schemes to transform the ownership structure of several subsidiaries.
- v. Focus on improving financial capacity
 - Implement synchronous solutions to increase capital, and ensure sufficient capital for business development and compliance with prescribed safety ratios and towards compliance with Basel II.
 - Continue to carry out the procedures of private placement as regulated to increase capital.
 - Increase business efficiency, structure asset-liabilities portfolios, improve asset quality and bad debt handling, ensure the limits and improve the safety and profitability ratios.

b. Management

- i. Continue to finalize the action plans to realize the Development scheme to 2020, supervise the implementation; periodically review to timely provide direction and adjustment.

- ii. Implement in accordance with the roadmap of the enhance-corporate-governance projects:
 - Pay specific attention to accelerate the implementation progress of the projects: CTOM, Basel II, retail credit operating model transformation project to meet the risk management requirement in accordance with the international standards and realize the strategic objective to become No. 1 bank in retail.
 - Prioritize the investment and application of the Loan Originating System (LOS) for corporate and retail customers; and trade finance system.
 - Continue implementing projects such as ALM-FTP-MPA, Corebanking and MIS.
- iii. Focus on human resources development
 - Maintain and develop high quality human resources, create an innovative and efficient working environment, ensure sufficient resources for sales activity and improve quality of services.
 - Enhance the efficiency and practicality of the human resources planning to create high quality management staff for the whole system.
 - Continue implementing the skills examinations; use the training results in the evaluation, transfer and appointment of staff.
 - Prioritize training to improve capability for management staff, leaders, and sales staff, risk management staff and step by step provide training for experts in the professional areas.
 - Expand cooperation with major universities and large research centers to create resources for recruitment.
- iv. Continue strengthening the organizational model
 - Open 06 new branches and 39 sub-branches in accordance with the network development plan, based on the approval from the SBV.
 - Develop and implement flexible recruitment process for sales staff of the retail banking group in a flexible and efficient manner.
 - Implement the establishment of a subsidiary bank 100% owned by Vietcombank in Laos, Remittance Company, Consumer finance company and AMC. Conduct feasibility study on the establishment of VCB Representative Office in the USA, Branch/ Subsidiary Bank in Australia.
 - Implement the establishment of Cash handling center in Hanoi and Hochiminh.
- v. Strengthen risk management, inspection and monitoring activities

- Continue to strengthen the risk management capacity across all the aspects of credit risks, market risks, liquidity risks and interest rate risks on the banking book and operational risks.
 - Perform centralized risk management by customers/customer groups/sectors; standardize the credit conditions by sectors; finalize and concretize the directions of each sector.
 - Maintain and strengthen the monitoring and remote supervision towards business operations of units throughout the system; apply information technology and early warning programs to limit and promptly detect risks.
- vi. Invest in upgrading the IT system
- Re-plan the organizational model, operation mechanism, finalize and consolidate the personnel for the IT centre.
 - Ensure timely operation and quality the upgrading of a number of significant application systems to ensure quality of services and the ability to provide 24/7 services.
 - Implement the roadmap of the IT Strategic Plan to 2020 in accordance with the approved plan.
- vii. Other businesses
- Continue to perform PR activities, improve the effectiveness of the marketing activities for brand, products and services, and focus on developing digital/ online channel.
 - Implement social security activities in accordance with the items committed in 2016 and a number of projects in 2017, giving priority to education, healthcare and disaster mitigation, etc.
- c. *Details of some basic indicators in 2017 (see Appendix 2)*

Transpired by the achievements in recent years, Vietcombank is strengthening our solid foundation to continue developing and achieve stronger break-through in the future.

With the determination of the BOD, the BOM and more than 15,000 employees throughout the Vietcombank system, Vietcombank will certainly make full use of all the advantages and opportunities to overcome the challenges in 2017, accomplish and surpass the targets set forth by the GSM, bring Vietcombank to a new phase of development towards realizing the strategic vision to become the Number 1 bank in Vietnam, ranking among 300 biggest financial groups in the world, underpinned by global best practices.

**ON BEHALF OF THE BOARD
OF DIRECTORS
CHAIRMAN**

APPENDIX 1
PERFORMANCE OF 2016 TARGETS ASSIGNED AT THE 2016 AGM

Unit: VND billion

No	Criteria	2015	2016 target	2016	2016/2016 target	2016/2015
1	Total asset (billion VND)	674,395	765,438	787,907	103%	117%
2	Loans (billion VND)	387,723	453,636	460,808	102%	119%
3	Deposits and valuable papers (billion VND)	503,642	579,188	600,737	104%	119%
4	Profit before tax (billion VND)	6,827	7,500	8,523	114%	125%
5	Number of employees	14,755	Up 5%	15,615		
6	Salary cost over profit before tax excluding salary	37%	37%	37%		
7	Number of new branches	6	5	5		
8	NPL ratio	1,79%	<2,5%	1,46%		
9	Dividend (%/face value)	10%	Max. 10%	8%		

APPENDIX 2
2017 KEY TARGETS TO BE SUBMITTED TO THE AGM

Unit: VND billion

No	Criteria	2016	2017 Target	Growth
1	Total asset (billion VND)	787,907	874,577	11.00%
2	Credits (billion VND)	475,768	547,133	15.00%
3	Deposits and valuable papers (billion VND)	600,737	684,841	14.00%
4	Profit before tax (billion VND)	8,523	9,200	8.00%
5	Number of employees	15,615	Increase not > 5%	
6	Salary cost over profit before tax excluding salary	37.00%	37.00%	
7	Number of new branches	30	45	
8	NPL ratio	1.46%	< 2.00%	
9	Dividend (%/face value)	8%	8%	