

**JSC BANK FOR FOREIGN  
TRADE OF VIETNAM**

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**SOCIALIST REPUBLIC OF VIETNAM  
Independence - Freedom - Happiness**

*Hanoi, April 27<sup>th</sup>, 2018*

**REPORT OF THE BOARD OF DIRECTORS  
ON 2017 OPERATION AND 2018 ORIENTATION****I. OPERATION REPORT OF 2017****1. Highlights and overview:**

- ✓ In 2017, in the context of positive global economic growth with positive signs from the world's major economies and the highest growth of global GDP since 2011; Vietnam's economy grew strongly, surpassed the year's expectation, achieved and exceeded the targets set by the National Assembly, maintained and controlled the macro stability at the same time with the following bright spots: GDP growth reached 6.81%, exceeding the target of 6.7% set by the National Assembly; inflation continued to be tightly controlled and remained low for the 4<sup>th</sup> consecutive year; budget deficit was the lowest over the past four years; FDI attraction set new record; the economic structure shifted towards increasing the contribution of industries with high content of technology and added value.
- ✓ The monetary policy was managed in an active and flexible manner to control inflation, stabilize the macro - economy and support economic growth. A prudent increase of money supply, sufficient liquidity, slight interest rate decrease, stable exchange rate and forex market, steady increase of foreign exchange reserves created favorable conditions for commercial banking system to have a sustainable development together with improvement in quality and efficiency.
- ✓ The legal framework for restructuring the financial system continued to be completed including: Law amending and supplementing a number of articles of the Law on Credit institutions and Resolution on bad debt settlement have speeded up the bad debt collection, supported the credit institution restructuring.

**2. Missions assigned by the General Shareholders Meeting:**

At the Annual General Shareholders Meeting (AGM) in 2017, the Meeting ratified the following:

- ✓ Business orientation of 2017: drastically transform all business lines with focus on quality and efficiency, strive to successfully accomplish and exceed the business targets set out by AGM, form a basis for achieving the goal of sustainable development in accordance with international standards.
- ✓ 2017 motto: “**Transformation – Effectiveness – Sustainability**” and management orientation “**Innovation – Discipline – Responsibility**”;
- ✓ A number of major targets in 2017: total assets to increase by 11%, credit to increase by 15%, deposit and valuable papers to increase by 14%, profit before tax to reach VND 9,200 billion, up 8%, dividend paid at 8% (per face value), NPL ratio below 2% of total loans, etc.;
- ✓ The remuneration for the BOD and Supervisory Board at 0.35% of profit after tax funded by the Bank’s approved salary budget;
- ✓ 2017 Charter capital increase plan.

### **3. Review the implementation of the mission assigned by the General Shareholders Meeting**

Grasping the motto “*Transformation – Effectiveness – Sustainability*” and the management orientation “*Innovation - Discipline – Responsibility*” set for 2017, the BOD directed in a timely and rigorous manner the operation of Vietcombank right from the beginning of the year in accordance with the orientation and goals proposed throughout the year.

With determination and effort of the whole system, Vietcombank has fulfilled and exceeded the targets set out by the AGM, becoming the leading bank in terms of profit and asset quality in the banking system.

Reviewing the implementation of missions set by the AGM:

#### **a) Business operation outcomes:**

In 2017, Vietcombank continued to record outstanding growth and achieved impressive results in almost every field of operation; achieved and exceeded the targets set by the AGM.

Total assets as of 31/12/2017 was VND 1,035,293 billion, up 31.4% compared to 31/12/2016, 18% above its plan. Credit reached VND 557,688 billion, up 17.2% yoy, 2% above its target and was in line with credit growth orientation assigned by the Governor of SBV. Deposit reached VND 726,734 billion, up 21% compared to 31/12/2016, and exceeded its target by 6% .

Profit before tax as of 31/12/2017 reached VND 11,341 billion, up 32.2% on 31/12/2016, exceeded its target by 23%. NPL ratio was 1.11%, less than 2%.

Asset structure transformed clearly in terms of quality: credit structure shifted to the right direction of increasing the portion of retail credit and gradually reducing wholesale credit; the structure of deposits moved in line with the development orientation of the Bank from wholesale to retail and the orientation to attract low cost funding; NPL ratio decreased and was below its plan; Capital Adequacy Ratio (CAR) ratio met the SBV's requirement.

(For more details, please see BOM's report).

#### **b) Directing and management activities**

The bank's management activity was paid special attention by the BOD with highlights of 2017, including:

##### **✓ Rigorously controlled credit quality; Promoted collection of written-off loans**

Allocated reasonable staff to credit activity inspection and supervision at branches; the BOD assigned and allocated member of the BOD, BOM to be in charge of some branches to foster the quality of bad debt collection.

Accelerated the credit risk analysis and forecast by sector in terms of frequency and content as a basis to set suitable credit orientation.

Completely followed regulations and the Bank's policy regarding credit granting.

##### **✓ Built and implemented synchronously projects, sub – projects, action plans in a drastic manner to achieve the targets set out at Project of developing VCB till 2020**

Timely and consistently implemented the sub projects (including the project of IT, Service, Investment, Human resources) and action plans for each group (Wholesale, Retail, Treasury and Finance) in line with the common goal of Restructuring Vietcombank till 2020 Project approved by the SBV, together with the task of handling NPLs by specific solutions to improve and increase operational capacity, financial capacity and governance capacity.

At the end of 2017, the sub – projects, action plans of each group followed strictly the targets and deadline. The major orientation and core solutions of the Project and sub – projects, action plans of the groups have been implemented and achieved the important results, contributed to business results in 2017, created a foundation for the sustainable development of the Bank in the upcoming period.

✓ **Restructured the organizational structure and personnel in line with medium and long term strategy.**

Standardized the organizational structure at HO. Rearranged the Departments with similar functions to become streamlined; standardized the Branch's function with focus on sales and risk management; set up Regional sales management unit in the Middle and in the South.

Effectively implemented the rearrangement and streamline of staff, staff rotation, appointment and mobilization to meet the change of organizational structure and to improve labor productivity and quality.

Directed to complete the network expansion domestically and internationally, including: expand the Branch and Transaction Office network; set up Cash handling Center; set up Remittance Company, Subsidiary Bank (in Laos), conducted research and Scheme to set up a Branch in Australia.

✓ **Implemented solutions to enhance financial capacity through capital raise and divestment at some credit institutions.**

Successfully implemented the plan to raise Tier 2 capital to ensure minimum capital adequacy ratio as stipulated by SBV and to improve the ability to meet Basel II requirements of the Bank.

Drastically implemented procedures related to plan to raise Tier 1 capital with the size equal to 10% of charter capital right after receiving approval from the Government and from the SBV.

Successfully divested at CFC, SGB and OCB as planned. Continue to carry on divestment plan at EIB and MBB.

✓ **Continued to improve internal procedures and policy**

Issued and synchronously applied some important governance mechanism namely: Policy on the labor rearrangement; Policy on conditions, criteria, authority of Manager and the number of credit officer at Transaction Office.

Newly issued lots of internal procedures and policies; finalized the current procedures and policies such as: Policy on lending to customers; Policy on the credit approval authority; Policy on Credit guarantee; Credit procedure for Wholesale customers, SME customers; etc.

✓ **Rigorously implemented Transformation projects to enhance corporate governance towards international standards**

Actively implemented projects to enhance corporate governance. Some projects' results are initially applied to business operations:

*Basel II Program:* implemented 24/37 initiatives, aiming to be the first bank complying with the regulations and deadline as required by SBV.

*CTOM Program:* implemented 22/24 initiatives, 6 core initiatives (regarding transformation of organizational structure, Sales Model, Credit Approval Model) are implemented under phase 1 at some branches.

*ALM/FTP/MPA, TF Projects:* implemented on track.

✓ **Approved the remuneration for the BOD and Supervisory Board**

The remuneration budget in 2017 was VND 31,874 million (equivalent to profit after tax x 0.35%) for the BOD and the Supervisory Board according to the resolution of the 10th AGS Meeting. Up to now, total remuneration amount actually paid to the BOD and the Supervisory Board was VND20,501 Million, equivalent to 64% of the budget approved at the AGS meeting.

c) **Results of 2017 key targets set by the AGM** (*see Appendix 01*).

**4. Some issues:**

- ✓ Retail banking, Treasury and Services made initial progress however the change in quality is not really clear. The establishment, finalization and development of products and services are not diversified as required by the market.
- ✓ Capital deployment was not really effective, NIM improved slowly, contribution of service income in business profit was not commensurate with the Bank's potential.
- ✓ Some transformation Projects needed to accelerate, sub-projects under IT Development project until the year 2020 should be implemented soon.
- ✓ Customer base structure, credit structure and deposits structure have shifted toward orientation. However, at some branches, the shift was not as planned, thus their operational effectiveness is not optimized with potential risks.
- ✓ Credit quality review and roadmap to reduce loans with potential risks at some branches were not drastically implemented.

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

- ✓ In 2017, the BOD organized 70 meetings (22 plenary meetings and 48 meetings according to standing mechanism). In the monthly meeting, the BOD evaluated business performance and performance of the assigned tasks of the BOD members.

Based on that, the BOD issued Resolution to direct business operation, assigned specific tasks to each member of the BOD and supervised the BOM to implement as regulated in the Bank's Charter, Regulation on the organization and operation of the BOD, Internal corporate governance regulation and other relevant regulations of the Bank.

- ✓ In 2017, grasping positive changes of the world economy and Vietnam, the BOM directed and supervised closely following the direction set out by the BOD as well as stick to the medium and long term objectives and specific targets for the year 2017 as assigned by the AGM and the BOD.
- ✓ The member of the BOD and BOM always placed the interests of the shareholders, the State and the Bank as the first objectives, and performed well the management responsibilities and fulfilled the assigned tasks.

## **6. Assessment on the performance of the Committee**

### ✓ *Risk management Committee*

The Risk management Committee advised the BOD on approving appropriate policy and orientation suitable to each period regarding risk type, including the identification of rate, limit/restriction and risk tolerance of the bank.

In 2017, the Risk Committee organized 4 periodical meetings, coordinated with relevant departments to continue to finalize and complete Vietcombank's regulation, and advised the BOD the strategy, risk management policy, measures to prevent risk in various fields of the operation. The Committee also played an active role in promoting the implementation of initiatives to apply Basel II step by step according to the approved roadmap.

### ✓ *Human Resources Committee*

Human Resource Committee advised the BOD policies regarding human resources, salary remuneration, bonus and other well fare/ remuneration policies of the Bank.

In 2017, the Human Resources Committee continued to actively and proactively advise, propose the staffing, appointment and management officer under authority; finalized the system of document and policy in staff management, contributed to enhancing the capacity and quality of staff management.

## **II. ORIENTATION FOR THE OPERATION IN 2018**

### **1. Basis for business operation in the year 2018**

- ✓ The targets and roadmap to implement solutions at Project to restructure



Vietcombank until 2020 with total assets of about USD 60 bill, ownership capital of USD 4.5 bill, ROE ~ 15% and NPL of less than 2%.

- ✓ 2018's macroeconomic indicators and estimated industry credit growth: CPI is estimated to be less than 4%, GDP growth rate of 6.7%, monetary policy continues to be actively and flexibly monitored; industry credit growth is expected to be around 17-18%; Total country import export turnover is expected to grow at about 10%.

## 2. Business orientation for the year 2018:

Continue the motto *Transformation - Effectiveness - Sustainability* and management orientation *Innovation - Discipline - Responsibilities*, the Bank's system make best efforts to boost its operation, successfully implement the plan following the management direction of the Government and the SBV.

Main orientation in some specific fields as follow:

### a) Business activities

- ✓ *Promote retail credit and low cost funding; diversify the portfolio and reduce loan amount to enterprise with low profit; foster credit sales together with other banking services.*

Restructure the credit portfolio toward improving efficiency through some solutions: reduce loan amount to enterprises with financial status deteriorating, customer bearing low interest rate with an overall low efficiency.

Control the medium to long term loan growth rate; supply chain customer development; increase cross selling; etc.

Focus on low cost funding and foreign currency denominated deposits.

- ✓ *Focus on implementing 3 key areas, pillars in 2018 business operation: Services, Retail, Treasury and Investment.*

Promote product development, improve service quality, optimize operation, expand fee income sources, and increase the portion of fee income (including fee and forex) to total operating income.

Actively deploy the transformation of retail target operating model (RTOM); proactively build customized products for regions, increase customer services, effective product sale and retail banking services.

Improve investment profitability. Increase investment income portion to operating

income of the Bank; develop new forex products; structured products to meet the customer demand.

✓ ***Strengthen the handling process of NPLs, written-off loans.***

Develop a detailed roadmap for recovery to each of the NPLs and have specific action plan, attach responsibilities of each member in Debt Handling Committee to shorten the recovery time.

Review each debt, evaluate the difficulty and actively cooperate with unit, local municipal authorities to speed up the recovery process.

✓ ***Strongly reform the business segment – treasury, foreign exchange and trade finance.***

Maintain the pioneering position in the bond market, domestic foreign exchange market and boosting foreign currency sales with customer. Maintain and enhance the Bank's role in the interbank currency market.

Promote settlement in local currency with countries which are Vietnam's major trading partners, review the improvement of the payment agent services for domestic branches and foreign bank's branches in Vietnam.

Concentrate on expanding the market share of international settlement – trade finance by focusing on effective exploitation of segments with high export turnover, segments being competitive advantages of provinces, FDI customers and customer in supporting enterprises.

✓ ***Continue strengthening the operation of subsidiaries and enhance investment efficiency.***

Closely monitor, facilitate the conditions and promote the coordination between Branches/Business Groups with subsidiaries to improve their performance.

✓ ***Finalize the Scheme to transform the ownership structure of the subsidiaries: VCBL, VCBS, continue divestment at some credit institutions.***

**b) Management**

✓ ***Strongly implement the transformation projects following their schedule***

Accelerate the implementation of Programs/Projects: Basel II, Retail credit target operating model transformation project to meet management requirement in accordance with international standards and realize the strategic objective to become No.1 in retail banking.



Prioritize the investment in and implementation of projects under IT development toward the year 2020 Projects.

Focus on the implementation progress of projects namely: TF, CLOS, ALM/FTP, MPA, etc.

✓ ***Implement the transformation of Wholesale credit target operating model***

Implement the Sales model and Sales process for each customer segmentation; invest into CRM system to support sales and customer care.

Evaluate the first phase implementation and establish a plan to transform the remaining branches within the system; transform to CRC model to reduce workload for RM.

✓ ***Strengthen the inspection and monitoring activities.***

Continue the transformation of internal audit activities in line with the orientation, international practices and Basel II requirements.

Strengthen the inspection and monitoring of units and business operation of the Bank, especially units/operation bearing high risk or systematic risk to limit and promptly detect risk; strengthen the inspection and remote monitoring of business operation and the implementation of proposals of inspection and audit.

✓ ***Other businesses***

Focus on building learning culture, self-training/study, apply the study/training result and examination for staffing; increase the number of training sessions and examination to upgrade staff's quality

Speed up the construction and procurement of the Branch's Office; implement the change of the Bank's brand recognition.

Actively implement the sale movement program, accomplish achievements to mark Vietcombank's 55th year of anniversary.

Implement social security activities, giving priority to education, healthcare and disaster mitigation.

**c) Details of some basic indicators in 2018** (see Appendix 2)

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

With the determination of the BOD, BOM and more than 16,000 employees

throughout the Bank's system, Vietcombank will certainly make full use of all the advantages and opportunities to overcome the challenges in 2018, accomplish and surpass the targets set forth by the AGM, bring Vietcombank to a new phase of development towards realizing the strategic vision to become the Number 1 bank in Vietnam, among 100 leading banks in the region, ranking among 300 biggest financial groups in the world, underpinned by global best practice.

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

**Nghiem Xuan Thanh**

**Appendix 1**  
**PERFORMANCE OF 2017 TARGETS ASSIGNED AT THE 2017 AGM**

*Unit: VND billion*

No	Criteria	2016*	2017 target	2017	2017 /2016	2017/2017 target
1	Total asset	787,935	874,577	1,035,293	131.4%	118%
2	Credit	475,877	547,133	557,688	117.2%	102%
3	Deposits	600,738	684,841	726,734	121.0%	106%
4	Profit before tax	8,578	9,200	11,341	132.2%	123%
5	Number of employees	15.615	≤5% up	16.227	103.9%	As planned
6	Salary cost over profit before tax excluding salary	37%	37%	37%		As planned
7	Number of new branches	5	5	5		As planned
8	NPL ratio	1.48%	<2%	1.11%	Better NPL control	Better NPL control

**APPENDIX 2**  
**2018 KEY TARGETS TO BE SUBMITTED TO THE AGM**

*Unit: VND bill*

No	CRITERIA	2017	Target 2018	Growth
1	Total asset	1,035,293	1,055,004(*)	14%
2	Credit	557,688	641,341	15%
3	Deposits	726,734	835,744	15%
4	Profit before tax	11,341	13,300	17%
5	Number of employees	16,227	≤6% up	
6	Salary cost over profit before tax excluding salary	37%	37%	
7	Number of new branches	5	6	
8	NPL ratio	1.11%	< 1.5%	
9	Dividend (% per face value)	8%	8%	

(\*)excluding the transaction with Sabeco