

## **REPORT ON THE PERFORMANCE OF THE SUPERVISORY BOARD IN 2014**

Based on the Charter of organization and operation of Vietnam Joint Stock Commercial Bank for Industry and Trade and the documents of supplements and modifications to the Charter;

Based on the function and tasks of the Supervisory Board regulated in the Statute of organization and operation of the Supervisory Board of Vietnam Joint Stock Commercial Bank for Industry and Trade issued under the Decision No. 058/2014/QĐ-BKS-NHCT43 dated 19/Sep/2014;

Based on the consolidated financial statements in 2014 of VietinBank audited by Deloitte Vietnam Company Limited;

The Supervisory Board would like to report its performance in 2014 through the activities of supervising VietinBank's business operation to the General Meeting of Shareholders, details are as below:

### **I. PERFORMANCE OF THE SUPERVISORY BOARD**

In 2014, the Supervisory Board and its subordinate units implemented fully its functions and tasks, and as a result, gave its recommendations and advices to the Board of Directors, the Board of Management to direct and manage business operations of VietinBank effectively and safely, details as follows:

#### ***1. Continuing to complete the statute, regulations of the Supervisory Board, Internal Audit; strengthening human resources and operations of the internal audit unit:***

- In order to ensure the compliance with current laws, to meet the requirements of Circular No. 121/2012/TT-BTC on Regulation on Corporate Governance, to further improve the operating quality of the Supervisory Board, under the approval of the General Meeting of Shareholders (GSM) on 24 Jul 2014, the Supervisory Board has issued Regulation on organization and operation of VietinBank's Supervisory Board under Decision No. 058/2014/QĐ-BKS-NHCT43 dated 19 Sep 2014.

- In order to improve the personnel quality of the internal audit team, to meet the increasingly complicated job requirements in the context of economic integration, the Supervisory Board strengthened and supplemented management positions and auditors for the internal audit team; at the same time, arranged for 3 study tours to learn about the organizational model and operations of the internal audit function at BTMU, some commercial banks in Singapore and South Korea; developed and organized training courses for the leaders and staffs of the internal audit team; ensured a team of highly qualified staff

members with thorough knowledge in actual business operation, and proper skill in providing advices to audited units.

## ***2. Supervising the compliance with current laws, VietinBank's Charter and the implementation of the GSM's resolution; Supervising VietinBank's business operations***

- *Supervising the compliance with current laws:* The Supervisory Board regularly reviewed and checked the BOD's resolutions, the BOM's written instructions and each business activity of VietinBank against the current laws; at the same time, updated new regulations of the law in order to assess how they impact VietinBank's business activities. While supervising VietinBank's operations, upon detection of any case violation with the current regulations on prudent ratio, credit, accounting..., the Supervisory Board gave warnings, recommendations to the BOD and BOM to make adjustments, and take actions in compliance with the regulations of the law in a timely manner.

After reviewing regulations, procedures, documents which provided for directions and instructions on operations issued by VietinBank in 2014 in all fields of operations, the Supervisory Board found that such internal regulations basically met the business governance and management requirements; provided for regulation and instruction to VietinBank's functional units to conduct business activities and provide services. The Supervisory Board suggested to amend, supplement some regulations which were not appropriate with current laws and VietinBank's actual business operation.

- *Supervising the implementation of the GSM's resolution, the BOD's resolutions:* In 2014, VietinBank continued to implement the bank restructuring project, renovated and strengthened its organizational structure by applying a vertical management model of functional and business divisions transforming the operation model of Corporate Banking Division and Retail Banking Division... In line with the transformation, the BOD has issued many documents on strategic directions of the Bank's restructuring and business activities. All the strategic directions of the BOD were fully implemented, closely and specifically directed to each functional department as well as divided into specific assignments for each member of the management team members to be responsible for further direction.

- *Supervising business activities:* On monthly basis, the Supervisory Board assessed comprehensively and in detail VietinBank's business performance in each area ... and has given warnings and recommendations to the BOD, BOM about issues which may bear potential risks to have appropriate directions/policies.

## ***3. Supervising the changes in CTG holding of major shareholders who held at least 5% of VietinBank's shares; of the members of the BOD, BOM, Supervisory Board and their related persons.***

The Supervisory Board regularly supervised, monitored and reported on monthly basis on the changes of CTG holding of major shareholders who held at least 5% of VietinBank's shares, of the members of the BOD, BOM, Supervisory Board and their related persons. According to the supervision results of the Supervisory Board, in 2014, some related persons of BOM's members sold and purchased CTG shares and all of them registered their transactions with the Stock Exchange and complied with regulations on information disclosure.

## ***4. Directing internal audit activities from Head Office to branches and VietinBank's subsidiaries; evaluating the internal audit system.***

In 2014, the task of supervising the operations of VietinBank's group was frequently and continuously implemented in order to timely detect signs of risk to give warnings and

recommendations and advices the BOD and BOM to carry out solutions to prevent such risks. At the same time, the activities of audit and direct investigation at the functional departments at the Head Office, branches, subsidiaries were implemented to evaluate the performance of each unit; based on the evaluation, advices/recommendations about business governance and risk management were given to the units so that they could improve their performance, details as follows:

Performing comprehensive audit sessions at 35 branches, including 1940 customers having credit relationship with VietinBank with the total outstanding loans of VND 121,713 billion, accounted for 27.6% of total outstanding loans; at 7 Head Office departments and subsidiaries. Performing 6 specialized audit sessions: products and services of the Corporate Banking Division, the Retail Banking Division; Treasury Dealing and Derivatives products ; internal credit rating system; Credit; Loans for petrol and oil importation. Performing audit sessions of 05 groups of customers and related persons.

***The Supervisory Board assessed that:*** Basically, VietinBank's system of internal written policies and documents was issued in an adequate and consistent manner, appropriate to VietinBank's risk appetite and actual business operation of units. The compliance of each unit in the whole group was clearly improved, the lines of defense were established and set up properly and effectively; the system of advanced supervision tools was developed and applied; all of them contributed to the improvement of the efficiency of risk management at VietinBank, ensuring a high, safe and sustainable growth.

Moreover, in 2014, the internal audit team has investigated 94 sets of documents of construction works/items/bidding packages with the total investment amount of VND 1,880 billion (including: 32 construction works, 23 construction items and 39 bidding packages). After the internal audit activities, advices and constancy were given to the units to help them fulfill legal procedures to ensure the compliance with current laws and regulations, which contributed to the improvement of the efficiency of capital construction activities.

***5. Performing independent audit of semi-annual financial report and 2014 financial report of VietinBank*** to ensure that the financial reports fairly and truly reflected VietinBank's business performance on all material respects, provided accurate information to the shareholders, regulatory agencies in a timely manner.

***6. Being the focal point to cooperate with the independent auditor during the audit process at VietinBank and supervising audit activities. Proposing, developing requirements and submitting to the BOD to select an independent auditor for the 2015 fiscal year.***

***7. Being the focal point to work with, explain to the external investigation agencies while they performed their investigations at VietinBank*** such as the working group of the Central Commission of Internal Affairs, State Audit, the Investigation Agency of the SBV, the Government Inspectorate; supporting the units to provide materials, report of explanation; making the report on faults correction after the investigation of the above-mentioned ex-banking sector working delegation.

***8. Other tasks under the regulations of VietinBank's Charter and upon the request of the BOD and BOM.***

The assessments and recommendations of the Supervisory Board were considered by VietinBank's Management Team as the creditworthy and accurate information channel which helped the BOD and BOM to timely and clearly understand, realize the risks in the business operation of the bank group, and each unit. Thanks to the recommendations of the

internal audit units, the compliance and discipline of staffs at all levels were improved and contributed to purify the workforce of VietinBank.

## **II. SUPERVISING THE OPERATION OF VIETINBANK**

In 2014, the economy did not really escape from the difficulties, capital absorption capacity of enterprises were still low, the difference between deposit interest rate and lending interest rate continued to decrease, competition among commercial banks became increasingly fierce. However, VietinBank achieved a good business results with all business targets assigned by the General Meeting of Shareholders being satisfied: As at 31 Dec 2012, total assets reached VND 661 trillion, increased by 14.7% compared to 2013, equivalent to 103.3% of the GMS' target; outstanding loans and investments reached VND 595 trillion, increased by 15% compared to 2013, equivalent to 102.8% of the GMS's target, profit reached VND 7,302 billion, equivalent to 100.3% of the GMS's target, other criteria regarding credit structure, credit quality, business efficiency all were in line with the targets.

Those achievements were rooted from proper policies, guidelines and orientations, close directions of the Board of Directors, efficient and active management of the Board of Management and efforts of all departments at Headquarter, branches and units in the group.

### ***1. Regarding compliance with the law and written instructions of the Government and SBV***

VietinBank has strictly complied with provisions of law; developed and implemented 2014 business plan in accordance with management solutions for monetary and credit policies and banking activities of the Government and the SBV:

Credit growth was effectively aligned to the orientation of the Government and the SBV, the credit structure was shifted toward focusing on short-term loan growth and lending to priority sectors. The credit quality has always been controlled strictly, ensuring that credit growth was relevant with the scale, funding structure and risk management capability and strictly adhered to loan classification and risk provision in accordance with regulations; NPL ratio as at 31/12/2014 was 0.9% of the outstanding loans and investments, lower than the industry average.

The Bank was active in implementing solutions for disposal of NPLs such as re-evaluating loan quality and the possibility to recover the loans in order to take measures for loan handling and collection. The Banks also implemented drastic measures to restrict arising NPLs and refrained from loan restructuring and other technical measures to conceal NPLs or distort the credit quality.

### ***2. Regarding the implementation of prudent ratios for the bank***

Basically, the VietinBank has controlled strictly and been complying with the regulations on prudent ratios for banking activities. Throughout 2014, the capital adequacy ratio stood above 11% (the current regulatory ratio is 9%). For some special cases of credit granting, the Bank has submitted to the SBV and/or the Prime Minister for approval and such credit granting have been executed in line with the written approval.

VietinBank has always been active in strengthening financial capacity, asset quality, increasing the proportion of highly stable funds to ensure sound liquidity. The Bank enhanced strict control over fund utilization, ensuring the compliance with the limit on the ratio of short-term funds used for medium and long-term loans and the prudent limits in banking activities under the current regulations.

### ***3. Regarding the level of enforceability and efficiency of the internal control system***

Through the result of Internal Audit, basically, Supervisory Board assessed that the internal control system of VietinBank have been fully established; the system of internal regulations and business processes were synchronized and frequently reviewed, amended and supplemented to ensure the conformity with the provisions of current laws and business practices; Risk management activities have been strengthened in term of the organizational structure and operations and had regularly been renovated in accordance with the Bank's risk appetite and the increasingly complicated level of risk in the banking sector; ensuring the maintenance and improvement of the enforceability and efficiency of the internal control systems, specifically:

- ***Strengthening and renovating the organizational structure and operational model*** under a proper road-map on principles of customer-centricity and vertical organizational structure with a ***clear and transparent decentralization of authority, roles and responsibilities of each unit and individual in order to improve the effectiveness of risk control point.***

- ***Comprehensively developing banking activities in order to disperse risk and ensure sustainable profit.***

- ***Completing the model for risk control (03 line of defenses), the system of policies, operational mechanisms and tools supporting the detection, measurement, risk warnings have been issued promptly and put into operation to support the business units in order to deploy the operation safely and efficiently.***

- ***The performance of the Internal Audit and Internal Control have been renovated and improved toward evaluating the control environmental, testing the effectiveness of control points, combining remote monitoring and direct inspection at the branches to detect the incidents of non-compliance in a timely manner and identify risks at the early stage.***

- ***Information Technology System continued to be prioritized for development, which was a solid foundation to support business activities and risk management activities of the Bank. Programs for early warning of credit risks, prevention of data leak, detection and investigation of fraud, etc have been developed and put into use.***

- Being aware of the utmost importance of the human factor to the success of any business activity and risk management, VietinBank has studied best international practices in terms of HR management to fine-tune strategies, policies and mechanisms for human resource management and has innovated awareness of HR risks through building framework regulations on HR Risk Management; reviewed and consolidated the human resource to ensure that the Bank's personnel were not only capable but also ethical and able to meet objectives and strategies of the Bank.

#### ***4. Regarding the audited financial statement in 2014 of VietinBank***

The Supervisory Board has evaluated the financial statements for the period from 01/01/2014 to 31/12/2014 and for the fiscal year ended at 31/12/2014 of VietinBank; The Supervisory Board has submitted the evaluation results to the Board of Directors and confirmed the results as follows:

- The financial statements of VietinBank under Vietnam Accounting Standards and Reporting regime applicable for credit institutions has fairly, timely and accurately reflected the financial status on material aspects and business performance of the Bank for the period from 01/01/2014 to 31/12/2014 and were presented in accordance with regulations.

- Some main figures:

*Unit: VND billion*

Indicator	Actual performed in 2014	Actual performance in 2013	% increase against 2013	2014 GSM Plan	% completion against the 2014 GSM targets
Total assets	661,132	576,368	14.7%	640,000	103.3%
Mobilized funds	595,094	511,670	16.3%	573,000	103.9%
Outstanding loans and investment	616,879	536,460	15.0%	600,000	102.8%
NPLs/credit exposure	0.90%	0.82%		< 3%	achieved
Profit before tax	7,302	7,751		7,280	100.3%
Owners' equity	55,013	54,075		54,931	100.1%
ROA	1.2%	1.4%			achieved
ROE	10.5%	13.7%			achieved
Dividend payout (% of year end chartered capital)	10%	10%		10%	achieved

It was found that the business activity in 2014 of VietinBank were very encouraging which created an important prerequisite for VietinBank to continue to head for its objective as the leading bank in Vietnam being on par with other banks in the region.

### III. ORIENTATION FOR THE ACTIVITY OF THE SUPERVISORY BOARD IN 2015

Based on the functions and duties prescribed in the Charter and Regulation on Organization and Operation of the Supervisory Board, personnel situation as well as the plan and business strategy of VietinBank group, the Supervisory Board has determined that its activities in 2015 will focus on the following:

#### 1. Strengthening the personnel of the Supervisory Board:

VietinBank has prepared a Proposal to the General Meeting of Shareholder on personnel activity (*Separate Proposal*)

#### 2. *Continuing to strengthen human resources and operation of the Internal Audit team:*

(1) Because of the overwhelming size of the Bank's network, the compliance with the provisions of Circular No. 44/2011/TT- NHNN that the unit which is evaluated to have low risk, must be audited at least once every 3 years has made Internal Audit team spend a lot of resources to audit the units being assessed as having low risk. However, there are only about 70 officers working at the Internal Audit team and staff qualifications are uneven so the number of internal audit team member are not adequate with the size of the Bank's network and the complexity of the operations and transaction of the Bank. Therefore, the Internal Audit team has made great effort to complete the audit plans as well as the arising works. *Due to great pressures of work, high frequency of business trips for long days, requirements of high qualifications, it is difficult to recruit new officers for Internal Audit team and it's even more difficult to maintain the current staff members. Therefore, the Supervisory Board proposes to the Board of Directors, Board of Management to pay more attention and provide further support to the Internal Audit team in term of headcount, salary mechanism to be relevant to the working features in order to consolidate and improve personnel quality for Internal Audit.*

(2) Researching and innovating audit methodology, focusing on maximizing the efficiency and added value of internal audit work.

(3) Continuing to review and finalize the legal framework, regulations and procedures of the Supervisory Board and the Internal Audit Apparatus.

(4) Maintaining and upgrading software programs to support audit activities in order to further improve the quality of supervision.

### **3. Performing the functions and duties of the Supervisory Board**

(1) Monitoring the compliance with the provisions of law, the Charter of VietinBank in business administration and management of VietinBank, evaluating and making recommendations on business activities in order to improve the performance of VietinBank, strengthening risk management capacity, ensuring safe, efficient and sustainable development of VietinBank.

(2) Independently evaluating the interim financial report and year-end report in 2015 of VietinBank independently, reviewing the monthly/ quarterly reported figures and the important policies of VietinBank.

(3) Implementing internal audit plan in 2015, giving warnings of risks and making recommendations after audit sessions.

(4) Monitoring the changes of shares held by the major shareholders who hold from 5% the shares of VietinBank; or by members of the Board of Directors, Board of Management, Supervisory Board and related persons.

(5) Being the focal point to support Working Teams of Central Commission of Internal Affairs,, State Audit, , Banking Supervisory Agency of the SBV.

## **IV. RECOMMENDATIONS**

Based on the surveillance over the business performance of the system in 2014 and results of the assessment over the financial statements in 2014 of VietinBank, the Supervisory Board hereby propose to the General Meeting of Shareholders:

***1. For approval of the report of the Supervisory Board on its performance in 2014.***

***2. The Supervisory Board would like to make recommendations to the General Meeting of Shareholders, the BoDs and the Board of Management on the orientation for business activities in 2015:***

- Building up and arranging for implementation of the business plans in 2015 in an efficient manner; expanding and enhancing modern banking activities, strengthening retail banking activities and services in order to gain an appropriate asset structure and diversified, sustainable and efficient income structure. Continuing to increase financial strength, asset quality, enhancing the proportion of highly stable source of funds and ensuring compliance with prudent ratios in the activities of the Bank.

- Expanding and controlling the credit growth in an efficient and proper manner and in line with the size, funding structure, risk management capability and credit growth targets assigned by the SBV.

- Strongly implementing measures to recover loans, to restructure loans and handle NPLs. Reviewing and reducing operation expenses and allocating all the resources to handle NPLs.

- Continuing to maintain the enforceability, efficiency of the internal audit system; reviewing and refining the system of control documents, mechanisms and processes

applicable to all banking activities and all business steps; enhancing the education of work morality for the officers; improving the awareness of the role of internal control at all level in order to ensure that all activities are in compliance with regulations, operational processes; all mistakes and errors will be corrected and handled in a timely manner.

- Accelerating the progress of implementation of IT upgrading projects and banking modernization; ensuring that every unit has tools to measure and manage system risk, and to be proactive in resisting with the increasing risks in banking operations.

- Promoting communication and regularly, proactively implementing measures to maintain, enhance reputation, brand of VietinBank, ensuring that the image and value of the Bank is communicated fully and promptly to customers, shareholders and other related parties.

*With its responsibility entrusted by the shareholders, with an activeness, creativeness, daring to think and daring to do and take responsibilities, devotion by the members of the BoDs to the development of VietinBank, together with drastic implementation of work in an effective manner by the Board of Management and together with the positive changes in the governance of branches, departments and boards at the Headquarter and member units, the Supervisory Board believe that VietinBank will gain great achievements and successfully complete targets and orientations that have been set out, in response to the trust of shareholders and customers.*

*The Supervisory Board would like to wish all the participants and honored guests Health, Happiness and Success.*

*For the success of the General Meeting of Shareholders!*

**Head of the Supervisory Board**

**TRAN THI LE NGA**