

**VIETNAM JOINT STOCK COMMERCIAL  
BANK FOR INDUSTRY AND TRADE**

**THE SOCIALIST REPUBLIC OF VIETNAM**  
Independence – Freedom – Happiness

108 Tran Hung Dao Str., Hoan Kiem Dist., Hanoi  
Tel: 04.39421030; Fax: 04.39421032  
Tax code: 0100111948

*Hanoi, 14<sup>th</sup> April 2017*

## **REPORT OF THE BOARD OF DIRECTORS ON TASK PERFORMANCE IN 2016**

In 2016, the world economy experienced slow and unstable recovery, meanwhile the domestic economy still faced with some difficulties. However, the State Bank of Vietnam (SBV) has closely followed the objectives and performed the tasks mapped out by the National Assembly and the Government; drastically, actively and flexibly managed the monetary policy in close coordination with the fiscal policy, and effectively managed the operations of credit institutions; which greatly contributed to macro-economic stabilization, inflation curbing and sustainable growth promotion.

Remarkable changes were witnessed in the financial and monetary market in 2016, inflation was basically kept under control, and liquidity of the banking system was abundant enough to meet the demand for capital of the economy. Interest rates in the market were kept stable and followed a decreasing trend, credit growth was moving on the right direction, focusing mainly on production and manufacturing to create favorable conditions for enterprises in access to finance. The exchange rate and foreign exchange market maintained their good shapes, the supply and demand of foreign currencies were guaranteed, the effectiveness was seen in respect of the new exchange rate mechanism and significant increase was witnessed in terms of foreign exchange reserves. The discipline of credit institution system was maintained which helped ensure the secure operation and sustainable development.

In 2016, with the role of a major State-owned joint stock commercial bank and the driving force of the banking system, VietinBank has actively participated and effectively implemented the policies of the Party, the National Assembly, the Government and the SBV with the ultimate goal of ensuring a safe and sustainable growth and accomplishing business objectives and plans.

## I- ACTUAL PERFORMANCE AGAINST THE 2016 GMS TARGETS

### 1. Business performance against 2016 targets

*In VND billion*

Indicator	31/12/2015	31/12/2016 (*)	Compared to 31/12/2015		2016 GMS targets	% performance results of plan
			+/- VND billion	+/- %		
Total assets	779,483	948,699	169,216	22%	889,550	107%
Total mobilized funds	711,785	870,163	158,378	22%	811,445	107%
Credit exposures (*)	609,652	721,798	112,146	18%	707,461	102%
NPLs/ Credit exposures	0,7%	0,9%			<3%	Accomplished
Profit before tax	7,345	8,569	1,224	17%	7,900	108%
Chartered capital	37,234	37,234	0	0%	49,209	76%
Owners' equity	56,110	60,399	4,289	8%	64,455	94%
ROAA	1.0%	1.0%	0.0%		0.9% - 1.2%	Accomplished
ROAE	10.3%	11.8%	1.2%		10.0% - 11.0%	Accomplished
Capital adequacy ratio (CAR)	10.6%	10.4%			>9%	Accomplished
Dividend payout ratio	7%	7%				

(\*) Calculated in accordance with the regulations stated in Official Letter No 1531/NHNN-CSTT dated 16/3/2016 and guidance stated in Official Letter No. 10049/NHNN-CSTT dated 30/12/2016

- **Total assets** of VietinBank as at December 31<sup>st</sup>, 2016 accumulated to VND 949 trillion, showing an increase of 22% as compared to the data recorded in 2015, accomplished 107% of the target mapped out by the General Meeting of Shareholders in 2016. VietinBank continues to be one of the joint stock commercial banks topping the market in terms of assets.
- **Credit exposures** amounted to VND 722 trillion grew by more than 18%, higher than the average growth of the banking sector, in which outstanding loans to the economy accumulated to VND 662 trillion. Credit structure was even more diversified, strong growth was witnessed in loans to the economic sectors prioritized by the Government and national key projects and for the purpose of supporting stable and sustainable development of enterprises in production and manufacturing for an ultimate goal of serving economic development. Credit growth was managed in tandem with loan quality control. As such NPLs/ credit exposure ratio stayed at 0.9%, lower than the average ratio of the banking system.
- **Investment** as at December 31<sup>st</sup>, 2016 amounted to VND 237 trillion, accounting for 25% of total assets, equivalent to the result achieved in the same period of 2015. Investment portfolio has been continuously adjusted towards diversification with the aim of increasing profitability, ensuring bank-wide liquidity reserves and strengthen the role and position of VietinBank on the market.

- **Mobilized funds** reached VND 870 trillion, showing a growth of 22%; funding structure continued to be diversified, flexibly managed in consistence with the funding demands, ensuring bank-wide liquidity and business efficiency.
- **Profit before tax** in 2016 was VND 8,569 billion, equivalent to 108% of the target approved by the GMS, income structure was improved towards increasing non-interest income. In which, fee income moved in good direction, rising by 26% compared to the data recorded in 2015 and the proportion of fee income/total operating income followed an upward trend as compared to 2015. Profitability ratios such as ROE and ROA were 11.8% and 1% respectively, achieving the target mapped out in the GMS.
- **Drastic implementation of customer structure shifting and income structure improving** through strong development of products and services for retail customers, SME and FDI customer segments and maintaining the leading wholesale bank. Simultaneously, VietinBank also actively developed non-credit products, investment banking services and payment solutions in order to improve the income structure. In particular, the development of payment services is defined as a key task of the Bank. VietinBank is the pioneer bank in developing payment activities by employing innovative solutions for modern services and products, which are in line with international standards, aiming at meeting all payment demands of the economy in a safe and effective manner, improving customers' experience.
- **VietinBank's business performance has been recognized as the Bank has received prominent awards from prestigious domestic and international institutions:** Vietnam's 10 Most Valuable Brands; Vietnam's Top Banking Brands and listed in The World's 400 Most Valuable Banking Brands by Brand Finance; named in the Forbes Global 2000 for five consecutive years; Best Retail Bank in Vietnam by Global Banking & Finance Review; Morning Star Award for best IT product. VietinBank has been assigned the highest credit ratings in Vietnam banking sector by such leading credit rating agencies as S&P; Fitch...

## 2. Owner's equity and Investor relations

- **Owner's equity** of VietinBank as at the end of 2016 amounted to VND 60,399 billion, in which, **chartered capital** was maintained at VND 37,234 billion, reaching 94% and 76% GMS targets respectively, continuing to be the bank having strongest shareholder structure in Vietnam with SBV being the major shareholder, holding 64.46% of the stake, followed by 02 foreign strategic partners, BTMU and IFC, holding 19.73% and 8.03% of the stake respectively while minority shareholders holding the remaining 7.78% stake. Prudent ratios stayed at satisfactory level and in compliance with current regulations.

The reason for the Bank for not being able to meet the GMS capital targets are (i) The expectation of no dividend payment in 2015 for the supplementation of the owners' equity and improvement of financial capability of VietinBank which had been approved by the AGM 2016 as per Resolution No. 15/NQ-ĐHĐCD was not realized due to the requests of the competent authorities; (ii) the merger of PGBank has not been completed since the SBV has not granted the in-principle acceptance and official acceptance in accordance with the current laws on merger & acquisition.

- **Investor relations**

In 2016, Investor Relation activities continued to be paid great attention to in order to and effectively perform its role of bridging VietinBank's Management Team with the investor community and the market.

The Bank successfully held the 2016 Annual General Meeting of Shareholders, getting many important matter approved in accordance with provisions. Collection of shareholders' written opinions regarding 2015 cash dividend payment was also arranged in 2016.

In an attempt to further deploy the promotion activities for CTG shares, VietinBank successfully held an Analyst and Investor Conference to facilitate direct dialogue between investors/analysts and VietinBank's General Director. The IR team continued to be active in providing information about VietinBank to domestic and foreign investment funds, securities companies and analysts. Such IR activities have contributed to the reinforcement of VietinBank and CTG's images as a bank which is transparent in information disclosure, proactive in operations, friendly with the investor community and the market as well as increasing shareholders' value.

In October 2016, VietinBank arranged for meetings with major investment funds in the US. The meetings with them have caught the attention of investors in the US market, accordingly. After such occasion, some investors conducted a market survey in Vietnam in November 2016 and worked with VietinBank to seek for new opportunities of investment in corporate bonds. This is a positive sign demonstrating VietinBank's efforts in connecting international investors with the ultimate goal of improving the prestige and image of Vietnam in general and VietinBank in particular in the world market.

VietinBank continued to be the first bank in Vietnam arranging for information disclosure in an adequate and transparent manner in both Vietnamese and English and in compliance with the provisions of law. The official investor relation website - <http://investor.vietinbank.vn> has been upgraded and managed to well perform the role of electronic portal connecting the Bank and investor community. The communication activities and promotional articles for VietinBank and CTG shares, which contribute to improving the prestige and brand of the Bank have always been paid attention to.

### **3. Bank Governance**

#### **3.1 Strengthening senior management team**

2016 is the 3<sup>rd</sup> year in the 5-year-term of the Board of Directors of VietinBank (2014-2019). The Board of Directors comprises of:

- Mr. Nguyen Van Thang – Chairman of the Board of Directors;
- Mr. Le Duc Tho – Board Member and General Director;
- Mr. Hiroyuki Nagata - Board Member and Deputy General Director;
- Mr. Cat Quang Duong, Ms. Tran Thu Huyen, Ms. Nguyen Hong Van, Mr. Go Watanabe (no longer held the position since the date of 26/4/2016), Mr. Yotaro Agari (appointed since the date of 26/4/2016), Mr. Michael Knight Ipson: Board Members;
- Mr. Phung Khac Ke: Independent Board Member.

The Management Team has worked in solidarity, excellently completing assigned tasks, successfully reinforcing the Bank's internal strength, deploying the renovating policies, leading VietinBank to accomplish its 2016 business targets.

### 3.2 Consolidation of the organizational structure and network management

- VietinBank has set its foothold all over the provinces and reached out to the world with domestic network consisting of: the Headquarters located in Hanoi, 155 branches located nation-wide (6 branches have been newly opened in 2016), 02 representative offices, 09 non-business units and almost 1000 transaction offices, along with overseas network consisting of: 02 branches in Germany, 01 representative office in Myanmar and 01 wholly-owned subsidiary bank in Laos. In September 2016, VietinBank established Champasak branch of its subsidiary bank in Laos, making a further step in lifting VietinBank's position in Laos market.
- VietinBank has conducted the model transformation of Business-related and Supporting Divisions in vertical dimension to establish unified and effective operating system as a basis for the implementation of business strategy.

### 3.3 Improving risk management activities and implementing regulations on internal audit and internal control:

VietinBank identifies that an effective internal control system is a key element for VietinBank's Management team and the foundation for the sustainable operation of the Bank. A good internal control system can help ensure the achievement of VietinBank's goals and objectives, the achievement of long-term profitability targets, maintain the credible governance and financial situation reports. A good internal control system also helps VietinBank ensure the compliance with laws, regulations as well as with internal policies, plans, rules and procedures, reduce the risk of unexpected losses as well as those affecting the reputation of VietinBank.

With the above-stated awareness, VietinBank always focuses on improving risk management activities, ensuring the implementation of the provisions on internal control, internal audit to be in full compliance with all content stipulated in Circular 44/2011/TT-NHNN.

- **Regarding internal control activities:** the Board of Directors has performed the following contents: *(i)* Annually reviewing the internal control system consisting of identifying, measuring, assessing and managing risk through Risk Management Committee's activities; *(ii)* Finalizing the organizational model, establishing Operation Division on the basis of reorganizing operation-related units and reallocating the functions and duties of units under Operation Division; *(iii)* Approving and periodically reviewing and reassessing business strategies and major policies and objectives of VietinBank to ensure that risks affecting the achievement of strategic objectives and risk appetite are identified, continuously monitored as well as timely and efficiently controlled; *(iv)* Ensuring the reasonable and effective forming and maintaining of the internal control system by the General Director through the activities and operation of the Risk Management Committee/ Policy Committee/ Information Technology Committee/Product Committee/Payment Committee..., effective risk control/warning system and periodically/ad-hoc monitoring reports of units in

VietinBank, to ensure the truthful, reasonable, adequate and timely reflection of management information; (v) Supervising and urging in a timely manner the implementation of the SBV's directives and requirements regarding internal control system. Submitting to the SBV in an adequate manner the annual reports and other reports as per the regulatory requirements on credit control, investment, deposit, operational risk ...

- **Regarding internal audit activities:** The internal audit apparatus is organized and operates in compliance with regulations, under the direct instructions of the Supervisory Board, with the aim of independently assessing the suitability, effectiveness and efficiency of the internal control system in all activities and at all units. In 2016, VietinBank officially launched the 3-lines-of-defense model in risk management activities, accordingly, the internal audit acts as the 3rd line of defense, performs independent and objective audit and assessment on strategic and key issues in the internal control system of VietinBank. Changes were also witnessed in the internal audit method: shifting from focusing on auditing by unit to auditing vertically by banking area in combination with auditing unit for a comprehensive assessment of internal control system; the annual internal audit plan was developed and implemented on the risk-oriented basis. Results of internal audit sessions and recommendations of the Internal Audit aiming at improving and perfecting the internal control system were reported to the Supervisory Board, the Board of Directors, the General Director and the Banking Supervision Agency of the SBV as prescribed; the shortcomings, irregularities, significant risks arising were reviewed, assessed by the Internal Audit team and reported to the Supervisory Board, the Board of Directors, the General Director and the Banking Supervision Agency of the SBV on quarterly basis.

**3.4 Building a modern technology platform:** expanding the connections to help diversify the product portfolio, improve customer experience, ensure safety, confidentiality and provide the best support for banking governance activities. In 2016, VietinBank has completed the final preparations to be ready for the transformation of Core-Banking system - one of the strategic IT projects promising powerful support for business operations, contributing to the increase in labor productivity, cost savings and improvement in work efficiency when being put into stable operation.

## II- EVALUATION OF THE BOARD OF DIRECTORS' PERFORMANCE

2016 is the 2nd year in which VietinBank implemented medium-term plan for the period of 2015-2017 in the context the banking sector faced various difficulties and challenges of the domestic and overseas economies. However, with the direction and orientation of the SBV; on the basis of the actual market situation, the Board of Directors, the Management Team and all employees of VietinBank have worked as one, closely coordinated and effectively followed the SBV's guidelines for safe, sustainable and efficient business operations, contributing to the overall performance of the banking sector, promoting the role of the driving force in the economy, taking the lead in the implementation of major guidelines and policies of Party, the State, the Government and the banking sector, successfully accomplishing the mission committed to the General Meeting of Shareholders.

2017 is the final year of the 2015-2017 medium-term plan, despite challenges ahead, development opportunities and market potentials are there, hence, the entire bank must spare

no effort to successfully accomplish the target. The Board of Directors has identified the 5 main tasks to focus on in giving directions: *Ensuring continuous and strong business growth, maintaining the role of a pillar State-owned bank; Ensuring effective asset growth while maintaining tight control over asset quality, disposing all NPLs which have been sold to VAMC; Developing advanced and modern products and services, particularly payment banking services; Comprehensively standardizing all aspects of operations, improving financial capacity, risk management, developing infrastructure, modernizing information technology in accordance with international standards; Creating a solid foundation aiming at reaching regional standards in 2018.*

Taking achievements in 2016 as motivation, with the determination and efforts of the Management Team and all employees, VietinBank shall be able to overcome difficulties and challenges, seize every opportunity to fulfill the targets assigned by the General Meeting of Shareholders, affirm its key role in the banking sector and contribute to the development of the economy.

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

**Nguyen Van Thang**