

**VIETNAM JSC BANK FOR INDUSTRY
AND TRADE**

SOCIALIST REPUBLIC OF VIETNAM
Independence – Freedom – Happiness

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**REPORT BY THE BOARD OF MANAGEMENT
BUSINESS PERFORMANCE OF 2018
FORWARD-LOOKING PLAN FOR 2019**

In 2018, the domestic economy faced a number of challenges when the global economic growth slowed down, major powers engaged in trade wars, and commodity prices and the international stock and monetary markets observed significant changes. In response to this changing environment, the government took consistent and aggressive approaches to improve the business environment, foster innovation and reforms, leverage available resources, particularly private sector's resources for economic development. Economic growth hit 7.08%, the highest growth rate over the last 10 years while macroeconomic indicators were kept stable, inflation was controlled at less than 4%, trade surplus and foreign currency reserves all grew.

The financial and monetary markets in 2018 remained stable and supported economic growth. With consistent and flexible regulatory policies of the State Bank of Vietnam (SBV), interest rates and exchange rates showed no major fluctuations, and banking liquidity was well maintained. Credit was managed in a tight direction with an increase of around 14%, focusing on the manufacturing industries and priority areas of the Government. The SBV continued to implement restructuring solutions associated with settlement of bad debts for the period of 2016-2020 to help improve risk management standards, asset quality, enhance safety and operational efficiency of credit institutions.

Following the direction set by the Government and the SBV, Vietnam Joint-Stock Commercial Bank for Industry and Trade (VietinBank)'s Management directed innovatively the implementation of VietinBank's restructuring plan for 2016-2020 period and the medium-term business plan for the period of 2018 - 2020. Business grew safely and sustainably with focus on improving the efficiency of resource utilization, shifting the income structure, diversifying products and services, and raising non-interest income. In addition to business promotion, organization was streamlined and labor productivity was boosted. Corporate governance and risk management were gradually standardized in line with international practices and compliance with the SBV regulations to promote business development of VietinBank in the future. However, the implementation of restructuring measures including the sale of certain debts to VAMC together with the fact that capital increase plan is pending for approval greatly affected VietinBank's growth potential in 2018. Specifically, the performance results of VietinBank's business targets for 2018 are presented below:

PART I

SNAPSHOT OF 2018 BUSINESS PERFORMANCE

I. Performance results of 2018 business targets

Unit: billion VND

Indicator	31/12/2017	31/12/2018	31/12/2018 vs. 31/12/2017		2018 GMS targets ¹	Vs. 2018 targets
			+/-	+/- %		
Total assets	1,095,061	1,164,435	69,374	6.3%	Up 6%-8%	Completed
Funding mobilized from corporate, institutional and individual customers	752,935	825,816	72,881	9.7%	Up 9%-10%	Completed
Credit exposure	837,180	888,216	51,035	6.1%	Up 8%-9%	Not yet completed
NPL/credit exposure ratio	1.13%	1.60%			<3%	Completed
Separate PBT	8,350	6,365	-1,985	-23.8%	6,200	102.7%
Consolidated PBT	9,206	6,730	-2,476	-26.9%	6,700	100.4%

(Source: 2017 and 2018 consolidated and separate audited financial reports)

1. Quantitative growth accompanied by control of growth quality. Credit structure shifted in positive direction

In 2018, VietinBank's restructuring plan in association with bad debt settlement for 2016-2020 period was approved by the State Bank of Vietnam. Major solutions of this restructuring plan have served as guiding beacon for all business lines of VietinBank for the period from 2018 to 2020. Certain key areas that require prioritization of resource allocation include operational improvements towards higher capital adequacy standards, better quality of assets and optimal asset utilization for safe and sustainable growth. The effective implementation of the restructuring plan had certain impact on credit growth and profit of 2018 as in the end of December 2018, VietinBank sold some debts to VAMC which resulted in a credit downsize of more than VND 13 trillion. However, this proactive approach to adopting Basel II's higher standards in credit quality with the intention to clean the balance sheet would set the cornerstone for a strong momentum of more efficient and sustainable business growth of VietinBank in the future years.

Moreover, as VietinBank's capital increase plan did not get approved in 2018, the room for credit growth of VietinBank was also limited. Though credit exposure was made to grow since the beginning of the year, e.g. average outstanding loans rose by 17.6% YoY

¹ Targets were ratified in the 2018 extraordinary general meeting of shareholders on 8/12/2018

2017, the selling of some debts to VAMC as part of the restructuring implementation and the required control of credit growth in the last months of 2018 have restrained the growth of credit exposure as of 31/12/2018 at VND 888 trillion, equivalent to an increase of 6.1% YoY 2017.

In the context of limited room for credit growth, VietinBank strongly shifted its business direction towards more efficiency and quality of growth while continued to supply capital to government-priority sectors and key projects of the country. Credit structure shifted in positive direction towards highly efficient exposures, for example, average retail and SME exposures of 2018 rose by 31% and 29.5% YoY 2017. Credit quality was kept under good control in compliance with relevant laws and capital adequacy requirements as regulated by the SBV.

2. VietinBank continued to maintain a proper growth rate of mobilized funding in relation to business demands. Capital structure was diversified

Funding mobilized from economic organizations and individual customers up to 31/12/2018 amounted to VND 826 trillion, equivalent to an increase of 9.7% YoY 2017 and accomplished the target set by the GMS. VietinBank kept seeking the available funding sources in VND and other foreign currencies with affordable prices, especially growing demand deposits.

In addition, in 2018, VietinBank issued more than VND 4,000 billion in subordinated bonds and restructured its tier-1 and tier-2 capital base which helped strengthen the Bank's financial capacity while the capital increase plan is pending for government approval.

3. Besides the traditional areas of credit and deposit, VietinBank dedicated substantial efforts to diversifying its products and services. Total service fee income sharply grew to nearly VND 6 trillion, equivalent to an increase of 38.4% YoY 2017 and approximately 1,600 billion in absolute terms. The ratio of service fee income on total income was improved. Not only improving service quality, VietinBank has adopted technology applications and cooperated with Fintech companies in product and service development, developed sales skills, grown the value chains and enhanced cross-sales to raise service fee income and non-interest income. Also in 2018, VietinBank was one of the first two banks in Vietnam to reach SWIFT GPI, and the first bank in Vietnam to provide Internet Banking services to trade finance operations (VietinBank Trade Portal). VietinBank was honored to receive a number of major national and international awards. Examples include “National Quality Golden Award” conferred by the Prime Minister, “Best in Class” award given by the Asia – Pacific Quality Organisation.

4. The business of subsidiaries, foreign branches, joint ventures and affiliates has achieved good performance results. Total profit before tax of subsidiaries and foreign branches achieved VND 713 billion, an increase of 27% YoY 2017. Joint venture and affiliate investments of VietinBank are long-term and safe. The businesses in which

VietinBank invests are top industry players with strong financial resources and good business performance.

5. Operating performance was satisfactory. Separate profit before tax of 2018 was 6,365 billion, equivalent to 102.7% of GMS target. Consolidated profit before tax was 6,730 billion, equivalent to 100.4% of GMS target.

II. Reforms of business governance and administration

1. Effective financial management and improved labor productivity for better bank-wide performance: In 2018, VietinBank dedicated substantial efforts to improving effective financial management of the bank with the formation of a finance division. Operating expenses were effectively managed as shown in a reduction of 5.4% YoY 2017. Changes in cost management, streamlining and leaning of processes and policies, improvement in HR quality and optimal leverage of superior functionalities of the new CoreBanking system have worked to improve significantly the bank-wide labor productivity.

2. Continued consolidation of staffing and organisation

In 2018, VietinBank adopted top management changes. Staffing quality was developed, particularly the top and middle-level management. Staff rotations and transfers were conducted to motivate staff to dedicate to the development of VietinBank.

VietinBank continued to consolidate the labor force and acquire high quality professionals and subject matter experts for key business areas. New salary payment policy, general benefit and welfare program for the employees, and outstanding benefit and welfare program for Top 500 VietinBankers were effected to attract quality human resources and strengthen employee engagement. Training quality was improved to match with practical requirements. Organisations were streamlined and consolidated in accordance with ORP project consulting deliverables and mandated by the communist party resolution 18/NQ-TW and required by the SBV to meet internal governance and effective organisation purposes.

3. Continuously enforced risk management

VietinBank took the initiative in controlling internal and external frauds by adopting technology and strengthening data security management. VietinBank continued to modernize supporting tools for risk management and improve the efficiency of internal control and audit functions of VietinBank.

4. Fully leveraging the established technology platforms to improve labor productivity and raise service quality. Supporting business, management and governance

- Data systems that were scientifically stored by international standards provide multidimensional analytical and management reports to business units to help cross-sell and develop new products and services, to the Bank's Management for business governance.

- VietinBank intensified cooperation with Fintech companies to develop modern products and services, for example, connecting businesses on digital platforms, integrating ERP for corporate management on e-banking platform, or adopting biometrics in customer identification and classification, etc.

5. Continued contributions to social welfare projects are the demonstration of corporate social responsibility, protection and improvement of VietinBank's brand and position: VietinBank effectively implemented the party and government policies in poverty alleviation and eradication, disaster relief, supporting healthcare and education development programs by means of charity and social welfare projects across the country. The Bank also made good contributions to gratitude programs and services dedicated to war martyrs, families and people of merit to the country.

III. Effective implementation of the restructuring plan with bad debt settlement for 2016 – 2020 period

Following the directions of the Government and SBV regarding the full restructure of organization and operation, VietinBank has concentrated on establishing and completing the Restructuring plan along with bad debt settlement for 2016 – 2020. On 27/11/2018, SBV established Decision no. 2337/QĐ-NHNN regarding *Approval for several contents regarding objectives, orientations, measures and roadmap of implementing Restructuring plan along with bad debt settlement for 2016-2020 period of Vietnam Joint-Stock Commercial Bank for Industry and Trade*. VietinBank established detailed plan and roadmap for implementation system-wide, urgently roll out measures synchronously according to plan, contributing to the restructuring of the economy according to the orientation of the Government and SBV.

Aside from the results achieved in terms of operating efficiency, critically transform business model from credit-dependable to multi-servive business, increasing non-interest income, improving management, governance and financial management capability along with transparency in operations as aforementioned, VietinBank has achieved actual results in implementation process of improving financial capability and asset quality following the roadmap in restructuring proposal as following:

– ***Improve financial capability, step-by-step satisfy capital standard of Basel II (standard method) in 2020:*** Aside from following upon the capital increase plan which is being submitted to competent authorities for consideration, VietinBank also implement synchronized measures to improve financial capability, governance and optimize risk amendment efficiency such as the successful issuance of VND 4,000 billion in subordinated bonds to increase tier-2 capital, improve efficiency of investment and capital contribution activities via tight and full control of the operations of subsidiaries/affiliates, expanding the scale of product cross-selling between VietinBank and subsidiaries like promoting Bancassurance between VietinBank and VietinBank

Insurance Company (VBI), facilitate the development of Investment Banking by cooperating with VietinBank Securities and VietinBank Capital...

– ***Regarding control and improve asset quality, increase collection measures for debts, NPLs, debts sold to VAMC and written-off debts:***

VietinBank continue to control and improve asset quality, credit quality and prevent NPLs by frequent monitor of credit portfolio, early warning for customers having signs of risk, prioritize to develop credit in sustainable sectors with low risk, tighten requirements for credit grant with high-risk industries in order to optimize capital utilization efficiency. At the same time, VietinBank has established specific plan and roadmap for each customer, portfolios of NPLs, written-off debts and debts with latent risk in order to monitor manufacturing and trading activities, financial situation, debt collection of customers; strongly implement measures in order to improve NPLs and written-off debts collection activities

PART II

BUSINESS PLAN FOR 2019 AND THE WAY FORWARD

In 2019, the world economy is forecasted to grow slowly with risks and challenges from trade wars, unpredictable changes in the financial and monetary markets. In this context, it is forecasted that Vietnam's economy will maintain its growth momentum thanks to stable macro-economic foundation, quality of growth, improved competitiveness and prospects from new trade agreements. Monetary policy continues to be flexibly operated, contributing to growth and controlling inflation by about 4%. Stable macroeconomic environment creates favorable conditions for the banking industry, however, in the context of limited room for quantitative growth, it is required to constantly improve quality and efficiency and the ability to respond to the changing business environment.

Following the direction of the Party and the Government in Resolution No. 01/NQ-CP dated January 1, 2019 on the socio-economic development plan in 2019 and the SBV in Directive 01/CT-NHNN dated January 8, 2019 on organizing the implementation of key tasks and solutions of the banking sector in 2019, the targets of medium-term business plan and the restructuring plan associated with settlement of bad debts in the period of 2016 - 2020, VietinBank group in 2019 continues to innovate and seize market opportunities, take advantage of business opportunities, focus on effective growth, diversify income structure, enhance collection of written-off and bad debts, undertake cost management in line with business growth rate. The Bank will reform its governance system in line with good international standards and practices, improve the quality of risk management, control the quality of growth and improve business efficiency with the intention to become a best-in-class bank in service quality.

In 2019, VietinBank's capital raising continues to be of utmost urgency. In case VietinBank is permitted to retain the entire profit of 2017 and 2018 and undertakes

measures to improve capital adequacy ratios such as divestments from subsidiaries and selling parts of its investment portfolio, etc. in 2019, VietinBank is required to pursue aggressively the achievement of the following business targets:

I. BASIC FINANCIAL TARGETS:

1. 2019 Financial targets

Financial indicators (consolidated)	Expected 2019 Targets
Total assets	Up 2% - 5%
Credit exposure	Up 6% - 7%
Funding mobilized from corporate, institutional and individual customers	Up 10% - 12%
NPL ratio (on balance sheet)	<2%
Consolidated profit before tax (PBT)	9,500 billion VND (in which, minimum separate PBT is 9,000 billion VND)
Dividend	It is proposed that all retained earnings (after paying taxes and appropriated to funds as per regulations) shall be made as stock dividend or profit shall be retained in full for capital increase
Separate & Consolidated Capital Adequacy Ratio	In compliance with the SBV-specified ratios
Solvency Ratio	
Ratio of short-term funds used for medium and long-term loans	
Loan on Deposit Ratio	

The General Meeting of Shareholders to authorize the Board of Directors of VietinBank to decide the business indicators in 2019 of VietinBank after getting approval from the State competent authorities.

II. PARTICULAR TASKS:

1. Business operations:

- **Continuation of financial capacity strengthening** by following up with the capital increase plan which is pending for government approval, undertaking measures to raise capital by issuing subordinated bonds and selling subordinated bonds issued by other credit institutions, restructuring the risk-weighted asset portfolio, improving the efficiency of equity investments and restructuring investments in the subsidiaries and affiliates. Divesting from non-core and low-performing businesses. Controlling the size of risk-weighted assets by optimizing credit exposures and asset structure, prioritizing low-risk assets and strengthening service delivery to reduce the capital pressure.

- **Strengthening safe and efficient quantitative growth in harmony with capital plan to ensure required capital adequacy ratios by means of assignment of business**

targets, performance assessment and incentive programs Concentrating on growing highly profitable segments such as retail and SME. Maintaining fair share of market and retaining and acquiring more good customers and customers with good potential of multiple buyers and cross-selling in large corporate and FDI customer segments. Raising efficiency across segments to control the size of growth while retaining good customers and supplying capital to proper demands. Besides credit operations, funding mobilisation remains a key task with priority given to attracting low-cost funding, CASA deposit to effectively manage cost of funding.

- **Continuation of diversifying the income structure and raising service fee income.** Strongly developing products and services in transaction banking and investment banking. Reviewing the entire range of products and services to meet customer demands. Concentrating on developing products with high technology content and special features which make the difference. Identifying target customers and innovating customer approaching methods. Promoting cross-selling and up-selling, boosting incentive programs to raise fee income. Continuing to improve, innovate and digitalise product and service delivery processes by simplifying procedures and facilitating customer interactions with the bank. Promoting the application of sales supporting tools, product and service performance measurement tools and customer satisfaction surveys to improve customer service quality.

2. Risk management:

- **Restructuring of the Bank in association with recovery and settlement of bad debts, off-balance sheet debts and debts sold to VAMC.** Pushing the recovery and collection of non-performing loans. Developing and executing debt recovery and collection plans, especially large debts. Continuing to enforce resolution 42 with regard to recovery and collection of non-performing loans.

- **Raising the role of risk management to protect safety and ensure compliance at VietinBank, business development is accompanied with enhanced risk management.** Effectively and aggressively implement Circular 13/2018/TT-NHNN to consolidate the organisation of risk management in pursuit of international practices and the SBV requirements. Special attention will be given to risk identification and early warnings and management of current and hidden risks with adverse impact on VietinBank. Monitor the customer business and identify risks in customer business to have appropriate credit treatments and prevent risks. Focus on the quality of customer development and credit underwriting, appraisal of business plan/project and customer's debt repayment ability. Attention will be given to credit decision making, inspection and supervision during and after loan disbursements, control of loan utilization for better business discipline. Develop credit experts for several industries and sectors. Closely track and have actions for those high-risk loans to prevent them from turning unexpected

special-mentioned loans or NPL. Raise the effective functioning of internal control and internal audit departments to protect safety and ensure compliance at VietinBank.

3. Management of cost effectiveness: Deliver good performance of financial management, efficiency of capital construction, planning of HR headcounts, strict management of operating expenses for supporting business and towards improved labor productivity and saving costs. Raise operating performance of the network, particularly transaction offices. Have determined action on low-performing transaction offices.

4. Banking digitalization: Develop a fully mature IT strategy in the context of the 4.0 industrial revolution. Fully deploy the superior functionalities of the new Corebanking system for improving the performance of distribution channels, product and service development, providing maximum support to business units, risk management, operational processes, and boosting labor productivity across the Bank.

5. HR affairs: Continue to review and consolidate the organisation of divisions and departments of the Head Office and branches as required practically and in line with international practices. Streamline and consolidate to improve the operating performance of the network. Carry out HR planning and staff training to develop qualified human resources. Conduct staff assessment to ensure having the right candidates for job positions and making fair appointments. Reform the emulation mechanism by considering performance results of business targets, reducing the number of intermediate targets and focusing on efficiency targets and improving labor productivity. Continue to refine the salary policy for the purposes of human resources development and employee motivation.

6. Communication: Carry out communication strategy proactively and effectively in support of VietinBank's business. Cooperate with media agencies and communication offices of the banking industry to communicate for macroeconomic and monetary policies, business activities of VietinBank, advocating the roles of the banking industry and VietinBank to the public and the businesses.

7. Social welfare: Continue to play the role as a leading commercial bank of the Banking industry in social welfare programs, joining hands with the society in poverty eradication and sustainable development as outlined by the government and the communist party.

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2018 also marked the 30th anniversary of VietinBank, in the direction set by the Party, the Government and the SBV, the Management and all VietinBank's employees were flexible and creative in overcoming challenges and obstacles to achieve the set targets. Working environment, material and spiritual gains of the employees are improved and shareholders' rights are guaranteed.

In 2019, the Management and all VietinBank's employees will continue striving for excellent performance of business targets to showcase VietinBank as a leading

commercial bank and a pillar in making positive contributions to the development of the banking industry and the country's socio-economic growth.

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

(Signed and sealed)

Trần Minh Bình