

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

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

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**REPORT  
PERFORMANCE OF THE SUPERVISORY BOARD IN 2017  
OPERATION ORIENTATION FOR 2018**

Pursuant to:

- *The Law on Credit Institutions No. 47/2010/QH12 dated 16/06/2010 and documents guiding the implementation;*
- *The Decree No. 71/2017/NĐ-CP dated 06/06/2017 of the Government providing guidelines on corporate governance applicable to public companies;*
- *The Regulation on the organization and operation of Vietnam Joint Stock Commercial Bank for Industry and Trade;*
- *Functions and duties of the Supervisory Board stipulated in Regulations on the organization and operation of the Supervisory Board issued under Decision No.058/2014/QĐ-BKS-NHCT43 on 19/09/2014 by VietinBank;*
- *The VietinBank's consolidated 2017 financial statements audited by Ernst & Young Vietnam Limited Company;*

The Supervisory Board would like to report to the General Meeting of Shareholders (GMS) of Vietnam Joint Stock Commercial Bank for Industry and Trade (“**VietinBank**”) the performance results of execution of its duties and powers in 2017 and operational orientation for 2018 as follows:

**I. OPERATIONAL STATUS OF THE SUPERVISORY BOARD**

In 2017, the number of members of the Supervisory Board were 4, comprising of 03 full-time members and 01 member concurrently held another position.

During the year, the Supervisory Board has performed duties and powers as stipulated in the Charter on the organization and operations of VietinBank (Charter) and as stated in operational orientation approved by the 2017 GMS, comprising of the following contents:

- i) Supervising the business activities and the compliance with provisions of the laws and the Charter on corporate governance and banking management; the implementation of the Resolution of the GMS;

- ii) Performing the appraisal of the semi-annual financial statements and the annual financial statements of the year 2016 which were independently audited by Ernst & Young Vietnam Limited Company;
- iii) Creating, archiving and updating the lists of major shareholders and related persons of Members of the Board of Directors, Supervisory Board and the Board of Management of VietinBank;
- iv) Providing directions, governing and supervising the operation of the Internal Audit Department;
- v) Some other tasks arising during the year.

In 2017, members of the Supervisory Board, Internal Audit Department together with the assisting unit to the Supervisory Board held meetings on a monthly basis. At these meetings, the Supervisory Board discussed and provided opinions on issues related to business, governance and management operations detected through the supervisory and auditing process of members of the Supervisory Board and Internal Audit Department. The Supervisory Board also assessed its own performance of the assigned tasks and set out detailed monthly working program and assigned to each member of the Supervisory Board and relevant units for implementation.

All meetings of the Supervisory Board were recorded in writing and notified to each member and unit under its management. Opinions of the Supervisory Board were delivered to the Board of Directors (BoD) and the Board of Management (BoM) through monthly monitoring reports, comments at the meetings of the BoD and written recommendations.

The coordination mechanism among the Supervisory Board, the BoD and the BoM was basically implemented in accordance with the provisions of Law, Charter and internal regulations of VietinBank.

In 2017, the Supervisory Board has not received any request from any shareholder or group of shareholders regarding the review of accounting records, documents or inspection request related to business and management activities of VietinBank.

## **II. IMPLEMENTATION RESULTS OF SOME SPECIFIC TASKS**

### **1. The supervision of business activities, the compliance with the provisions of Law and Charter in the management, governance of the Bank and the implementation of resolutions of GMS**

The Supervisory Board conducted its supervision through: (i) attending and providing opinions at the regular meetings of the BoD, monthly meeting of the BoM; (ii) reviewing documents and policies issued by the BoD and the General Director; reviewing Resolutions/ Decisions of the BoD sent to the Supervisory Board; (iii) reviewing the periodic monitoring reports, audit reports of Internal Audit Department; (iv) collecting, analyzing and evaluating data extracted from the management information and report system of VietinBank.

- a. Regarding the attendance at the regular meetings of the BoD and BoM: *In 2017, on a monthly basis, representatives of the Supervisory Board attended all meetings of the BoD and BoM to grasp information. At the meetings of the BoD, the Supervisory Board presented its supervisory reports, provided opinions and independent views on the issues, risks in business, governance and management activities of VietinBank and recommendations to the BoD and BoM. Opinions of the Supervisory Board were recorded in the monthly meeting minutes of BoD.*
- b. Regarding the review of documents and policies, Resolutions/Decisions of the BoD: *the Supervisory Board has appointed a dedicated member to be in charge of reviewing documents and policies issued by the BoD and General Director and Resolutions/Decisions of the BoD sent to the Supervisory Board. Through the review, the Supervisory Board found that the documents and policies, Resolutions/Decisions of the BoD fundamentally complied with the provisions of Law, VietinBank's Charter and met the governance and management requirements as determined by the GMS. As to some issues that need reviewing and correcting, the Supervisory Board has proposed in writing to the Chairman and the General Director to direct relevant departments for implementation.*
- c. Regarding the review of monitoring and audit reports of the Internal Audit Department: *Based on monthly monitoring reports on the main business activities of VietinBank and the reports on each planned or irregular internal audit on specific theme/ units in the system of the Internal Audit Department, critical issues identified through monitoring and auditing together with recommendations, proposals of the Internal Audit team were reported to the BoD by the Supervisory Board at the regular meetings, reports of the Internal Audit Department were also sent to the Chairman of the BoD and General Director.*
- d. Regarding the collection, analysis, evaluation of data and provision of recommendations for issues related to business activities: *In 2017, in the implementation of specific working program and plan assigned, members of the Supervisory Board has collected, analyzed and evaluated data related to VietinBank's performance, thereby proposing written recommendations for arising issues to the Chairman of the BoD and General Director for direction and settlement.*

In the supervisory activities, the Supervisory Board focuses on the management, governance and risk management activities in the key operational areas of VietinBank or those having implicit risks; monitoring and evaluating the implementation and compliance with VietinBank's regulations on operational safety according to the State Bank of Vietnam (SBV)'s regulations. Through the monitoring results in 2017, the Supervisory Board found that basically, the BoD and BoM in general, members of the BoD and BoM in particular have strictly complied with directions and management of the regulators, the provisions of Law, Charter and Internal Regulations of VietinBank, aiming at the implementation of tasks and duties assigned by the GMS according to the Resolution of annual GMS held in 2017, acting upon the interest of VietinBank's shareholders through the development and organization of specific action plans, monitoring and urging the implementation with the ultimate goal of meeting the targets set out by the GMS, specifically:

- i) Business results in 2017

In 2017, VietinBank overachieved all targets set by the GMS, particularly: Total assets reached nearly VND 1.1 quadrillion, surpassing 1.2% of the plan assigned by the GMS; Total fund mobilized amounted to more than VND 1 quadrillion, equivalent to 101.5% of the target; Credit exposure amounted to VND 840 trillion equivalent to 101.6% of the target, ROAA and ROAE reached 0.90% and 12%, respectively while NPL/credit exposure was 1.13%, lower than the limit of 3% set out by the GMS.

Regarding prudent ratio in banking operations, through periodical review, the Supervisory Board found that in 2017, VietinBank maintained these ratios in compliance with the regulations of the SBV. By the end of 2017, CAR of VietinBank was maintained to comply with the SBV's provision and to be in line with the plan approved by the GMS in 2017.

In addition, through regular monitoring during the year, the Supervisory Board also mentioned a number of existing issues, implicit risks in business activities, inappropriate growth trends or issues with potential risks in governance and management activities of VietinBank. The Supervisory Board also gave recommendations to the BoD and BoM. Opinions of the Supervisory Board have been acknowledged by the BoD and BoM; and relevant units have been directed to take appropriate measures and actions to limit and mitigate risks and ensure that all VietinBank's activities are always aiming for safety, efficiency and compliance with provisions of law, resolutions of GMS.

ii) Regarding some other contents approved by the Annual General Meeting of Shareholders in 2017 in accordance with the Resolution dated 17/04/2017:

- Profit distribution in 2016 (**Article 5 of the Resolution**): *In implementation of the Resolution of the GMS on the 2016 profit distribution, VietinBank has appropriated funds according to approved contents. In September and October 2017, VietinBank paid cash dividends to shareholders, with dividend payout ratio of 7%.*
- Remuneration for the BoD and Supervisory Board (**Article 6 of the Resolution**): *The remuneration for the BoD and Supervisory Board in 2017 was equal to 0.35% of the profit after tax in 2017, in accordance with the resolution of GMS;*
- Amendments and supplements to the Charter (**Article 7 of the Resolution**): *According to the authorization of the GMS, the BoD of VietinBank has directed the implementation and completion of the amendment and supplement to VietinBank's Charter that has been confirmed by the SBV at Official Dispatch No. 3846/NHNN-TTGSNH dated 24/05/2017 on the confirmation of registration of amendments and supplements to VietinBank's Charter.*

## 2. Evaluation results of financial statements

In implementation of functions and duties as stipulated in the Charter, Regulation on the organization and operation of the Supervisory Board, the Supervisory Board has established Appraisal Team to evaluate VietinBank's 2017 Financial Statements based on the independent

audit of Ernst & Young Vietnam Limited Company (Ltd.), including separated and consolidated<sup>1</sup> reports and hereby confirms the results as follows:

- a. The consolidated financial statements of the year 2017, in all material aspects, truly reflect the business performance and financial situation of VietinBank and its subsidiaries, and are presented in accordance with regulations of the SBV on the regime of financial reporting applicable to credit institutions, and in compliance with the Vietnamese Accounting Standards and other existing regulations.
- b. The consolidated financial statements in 2017 are a true and fair reflection on material aspects of the financial situation of VietinBank and its subsidiaries as at December 31<sup>st</sup> 2017, as well as the consolidated business performance in 2017.

**A number of key financial indicators (unit: VND billion)**

| No. | Indicator                      | Actual result 2017 | Actual result 2016 | % growth since 2016 | 2017 GMS target | % 2017 GMS target accomplished |
|-----|--------------------------------|--------------------|--------------------|---------------------|-----------------|--------------------------------|
| 1   | Total assets                   | 1,095,061          | 948,568            | 15.4%               | 1,081,634       | 101.2%                         |
| 2   | Total mobilized funds          | 1,011,314          | 870,163            | 16.2%               | 996,482         | 101.5%                         |
| 3   | Credit exposure <sup>2</sup>   | 840,156            | 712,642            | 18%                 | 826,865         | 101.6%                         |
| 4   | Profit Before Tax <sup>3</sup> | 9,206              | 8,454              | 8.9%                | 8,800           | 104.6%                         |
| 5   | NPL/Credit exposure            | 1.13%              | 0.93%              |                     | <3%             | Accomplished                   |

*(Source: 2017 audited consolidated financial statements)*

**3. On preparing, filing and updating the list of major shareholders and related persons of Board Members, Members of the Supervisory Board and Board of Management of VietinBank**

The preparation, filing and update of the list of related persons of members of the Board of Directors, members of the Supervisory Board and Board of Management and shareholder owning at least 5% (five percent) voting shares of VietinBank have been done periodically by the Supervisory Board, on the basis of collaboration and information sharing with the Secretary Office of the BoD. The tracking and update results showed that in comparison with the year 2016, there are a few

<sup>1</sup>Including subsidiaries: VietinBank Leasing Company; VietinBank Securities JSC; VietinBank Debt Management and Asset Exploitation Company Ltd. VietinBank Insurance Company Ltd.; VietinBank Gold and Jewelry Trading Company Ltd.; VietinBank Global Money Transfer Company Ltd.; VietinBank Laos.

<sup>2</sup>Credit exposure is calculated according to provisions of Official Letter no. 812/NHNN-CSTT dated 15/2/2017 and the guidelines at Official Letter no. 10049/NHNN-CSTT dated 30/12/2016

<sup>3</sup>2016 actual result has changed from the previous year's report due to adjustments made according to State Audit.

changes in the list of related persons of VietinBank in 2017 due to the change in BoD and BoM members. This list was timely updated and kept as record by the Supervisory Board.

#### **4. On directing and supervising the operation of Internal Audit department**

In 2017, the Supervisory Board has regularly given directions to Internal Audit department to perform the duties and functions assigned by the SBV and VietinBank, and to implement internal audit plans which had been approved by the Supervisory Board. Concurrently, the Supervisory Board also monitored and evaluated the Internal Audit performance, reviewed reports of Internal Audit department during periodical meetings. Performance of Internal Audit department in 2017 is as follow:

##### **4.1. Performance of the approved 2017 Internal Audit plan:**

As to end of 2017, Internal Audit team has completed 12 internal audits, and thereby 7 key operations of VietinBank have been audited; and concurrently, reviewed and examined final settlement records of a number of capital construction and fixed asset procurement projects, in accordance with the regulation of capital construction and fixed asset procurement of VietinBank's BoD.

Fundamentally, Internal Audit team has appropriately and comprehensively performed the audit functions and duties required at Circular 44/2011/TT-NHNN of the SBV, which regulates the system of Internal Control and Internal Audit of credit institutions and VietinBank's internal regulations. Based on the direct audit results of the assigned units/operations, Internal Audit team has offered specific relevant recommendations in respective audit reports to the Chairman of the BoD, the General Director and relevant units/departments for corrective measures and timely handling of detected shortcomings and limits. The comments of Internal Audit team were acknowledged by the BoD and BoM for their direction to relevant departments for implementation.

Through Internal Audit and the coordination of the inspection and audit with competent authorities at VietinBank in 2017, Internal Audit team also assessed the completeness, efficacy and effectiveness of VietinBank's Internal Control system. The result showed that fundamentally, VietinBank's Internal Control system was developed and organized in compliance with the SBV's stipulations, ensuring the identification, detection, prevention and timely handling of key risks of VietinBank. In addition, VietinBank also proactively researched and developed a system of policies, procedures and support tools to enhance the prevention and detection of risks towards international practices and standards. A number of shortcomings and weaknesses detected in terms of the system of internal policies and documents, the operation of organizational structure and IT system... were reported by Internal Audit team to the BoD, BoM and relevant departments together with recommendations on corrective measures for them to continue perfecting and reinforcing the efficacy and efficiency of VietinBank's Internal Control, so that it will meet the requirements of the Law and internal governance requirements.

##### **4.2. Perfecting the organizational structure and staff of Internal Audit department to be in line with the scale and operational characteristics of VietinBank.**

In 2017, the Supervisory Board requested Internal Audit team to research and adjust its organizational structure to be in line with the vertical model of audit (auditing by operation) from the Head Office to branches/units. Accordingly, the new Internal Audit structure has been proposed to and approved by the Supervisory Board and the BoD, accordingly Internal Audit's operation and staff are centralized at the Head Office. The Internal Audit team has organized, arranged and fortified all groups of auditors arranged by in-depth operations at the Head Office and concurrently, developed and strengthened quality assurance and administration group of Internal Audit team to effectively carry out the self-evaluation and quality assurance in Internal Audit team.

Internal Audit team has finished its head count planning, according to which, the total number of internal auditors is 50. In 2017, 06 new employees were recruited, 01 was rotated from other unit to the internal audit team to partially offset the insufficient staff of Internal Audit team compared with head count.

In parallel with strengthening the organizational structure and staff of Internal Audit team, the Supervisory Board has directed Internal Audit team to keep perfecting the audit method and the system of policy documents related to Internal Audit for compliance with provisions of the law and the actual operation of VietinBank as well as develop a system of support software to step-by-step enhance the quality and performance of Internal Audit.

In general, Internal Audit team's operation in 2017 had changed toward simplicity and centralization, enhancement of quality and staff-saving. Internal Audit team was evaluated as Excellent Performing team in 2017.

## **5. Other Duties**

In 2017, aside from carrying out the main functions and duties as prescribed by the Charter and Internal Regulations, the Supervisory Board and its sub-units have finished its coordinating duties and supported the activities of the external inspectorates and audits; addressed and resolved received complaints and claims, specifically:

- a. Regarding independent audit activities: *The Supervisory Board has regularly directed and urged Internal Audit department to act as the focal point in the selection of auditing firm as well as coordination of activities among departments/divisions/units in VietinBank system and independent auditor, promptly handled the opinions of the auditor, provided support for independent audit activities, issued and publicized the audited financial statement in accordance with the law.*
- b. Regarding inspection and audit carried out by competent authorities: *the Supervisory Board has directed the Internal Audit team to act as the focal point to collaborate with departments/divisions/units at the Head Office and Branches in providing records, documents, explanations and reports as per request of Inspection and Audit delegations performing their job at VietinBank, performing the obligations of an investigated/audited party. Based on the research and review of the conclusions, reports and recommendations from the official audit and inspection delegations, the Supervisory Board has directly proposed to the BoD and BoM for directing and adjuring relevant Departments/Division/Units to make corrective measures*

*after the inspection and audit. The Internal Audit team has monitored, checked, reviewed and filed records and documents related to the arrangement for implementation of the inspection and inspection conclusions, audit reports and gathered information on such implementation results to send to the competent authorities as prescribed.*

- c. On handling claims and complaints: *In 2017, the Supervisory Board has received a number of claims and complaints regarding a number of activities and managers of VietinBank. Based on the specific content of each, the Supervisory Board has taken the initiative to propose and transfer these complaints to the BoM for directions and reporting according to the provisions of the law and VietinBank's internal regulations. In addition, as to a number of specific cases required by the BoD, the Supervisory Board has collaborated with relevant HO Departments/Division to form a workgroup to investigate and verify the legitimacy of claims and complaints and later, transferred the results of investigation and recommendations to the BoD for directions.*

### **III. OPERATION ORIENTATION OF THE SUPERVISORY BOARD IN 2018**

In 2017, in general, the Supervisory Board has organized properly and comprehensively the duties and functions as prescribed by the Law, the Charter, the Regulation on the Organization and Operation of the Supervisory Board. The opinions and proposals of the Supervisory Board were all acknowledged by the BoD and the General Director, who later directed the implementation to ensure the safety, efficiency, legitimacy of VietinBank's performance and make sure that it would accomplish targets set by the GMS.

In 2018, pursuant to the staffing situation, business plan and operation orientation of VietinBank, the Supervisory Board has identified that its operation shall focus on the below key duties:

#### **1. Re-issue of the Regulation of Operation of the Supervisory Board**

Propose to the 2018 Annual GMS for consideration and approval of the issuance of the revised Regulation on Operation of the Supervisory Board to keep updated to the provisions of the Law, the Charter and several internal regulations related to the Supervisory Board and delineate a number of contents that are tailored for the characteristics of VietinBank's Supervisory Board.

#### **2. Focus on strengthening staff and enhancing operational quality of Internal Audit department**

In 2018, the Internal Audit department has to carry out 20 audits in respect of 9 key operations of VietinBank according to the approved plan and concurrently, carry out the supervisory operations and monitoring of the executions of post-inspection and post-audit recommendations (both internal and external), effectively inspect the final settlement records of capital construction and fixed asset procurement; act as the focal unit for the inspection, examination and audit by competent authorities and complete other assigned irregular tasks. To complete the duties assigned in the context of insufficient staff, the strengthening and supplement of staff and performance enhancement of Internal Audit team is identified as one among the key



duties in 2018 by the Supervisory Board. Specific solutions are: i) *Strengthening staff in terms of quantity and quality*, ii) *Improving the competence of internal auditors and the quality of Internal Audit through training and monitoring*, iii) *Launching the software to support Internal Audit activities*, iv) *Enhancing internal quality assurance*, v) *Enhancing the monitoring, urging and improving the execution ratio of Internal Audit's recommendations*.

### **3. Continue to carry out the tasks and exercise the power of the Supervisory Board under provisions of the law and VietinBank's internal regulations**

In 2018, the Supervisory Board shall continue to carry out the tasks and exercise the power of the Supervisory Board under the provisions of the Law, the Charter, the Regulation on the Organization and Operation of the Supervisory Board and other internal regulations of VietinBank, including key missions such as: *Supervising the performance of the GMS's resolutions; supervise business performance and compliance with the provisions of the law, the Charter, the internal regulations on the governance and management of the bank of the BoD, the General Director and other managers; directing, managing and supervising the operation of Internal Audit team to ensure the appropriate and comprehensive performance of its functions and duties under provisions and the completion of the approved 2018 audit plan; organizing the appraisal of 2017 financial statements and semi-annual financial statement of 2018; preparing, filing and updating the list of major shareholders and related persons of Board Members, Members of the Supervisory Board and Board of Management of VietinBank.*

### **4. Other tasks**

In addition to the main duties mentioned above, the Supervisory Board shall continue carry out other tasks and duties according to the decisions/resolutions of the GMS, the BoD and other relevant provisions of the law.

## **IV. RECOMMENDATIONS**

In supervision of the business activities, governance and management of the Board of Directors and the General Director, as well as data in the 2017 Financial Statements, the Supervisory Board would like to recommend the Board of Directors:

- a. To approve the 2017 Consolidated Financial Statements, which were independently audited by Ernst & Young Vietnam Ltd., and appraised and reviewed by the Supervisory Board;
- b. To approve the Report of the Board of Directors on the implementation of duties in 2017 and the operational orientation in 2018;
- c. To approve the Report of the Supervisory Board on the performance of the Supervisory Board in 2017 and the operational orientation in 2018.

**ON BEHALF OF THE SUPERVISORY BOARD  
HEAD OF THE SUPERVISORY BOARD**

*(Signed and sealed)*

**NNguyen The Huan**