

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

SOCIALIST REPUBLIC OF VIETNAM
Independence – Freedom – Happiness

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**BOARD OF DIRECTORS' REPORT ON BUSINESS PERFORMANCE
IN 2017 AND BUSINESS PLAN FOR 2018**

We saw a number of changes and challenges in the economy both at home and abroad in 2017. The Government, however, has shown their highest determination in macroeconomic management with many reforms underway to actively support the business environment, helping the economy achieve a growth rate of 6.81%, the highest number since 2011.

The monetary-financial market of 2017 continued to show developments where inflation has been put under control, the banking system offered high liquidity to meet the capital demand of the economic actors. Interest rates stabilize and tend to drop for manufacturing industries and other government-incentivized sectors. The foreign currency reserves hit the record of USD 53 billion and contributed to the macroeconomic stability. The banking system's discipline was maintained, ensuring safe operation and sustainable development.

In this context, VietinBank's Board of Directors (BoD) followed closely the government's and the SBV executive orders, the market developments and forecasts to run the VietinBank system towards successful implementation of the medium term business plan for 2015 – 2017 period and excellent accomplishment of business targets of 2017 which were approved by the General Meeting of Shareholders.

I- PERFORMANCE RESULTS OF GMS BUSINESS PLAN

1. Performance results of 2017 business plan

Unit: VND billion

Indicator (consolidated)	31 Dec 2016	31 Dec 2017	31 Dec 2017 compared to 31 Dec 2016		GMS business plan 2017	% accomplishment of 2017 business plan
			+/-	+/- %		
Total assets	948,568	1,095,061	146,493	15.4%	1,081,634	101.2%
Total liabilities	870,163	1,011,314	141,151	16.2%	996,482	101.5%
Credit exposure	712,642	840,156	127,514	18%	826,865	101.6%
NPL/credit exposure	0.93%	1.13%			<3%	Pass
Profit before tax	8,454	9,206	752	8.9%	8,800	104.6%
ROAA	0.98%	0.90%	-0.08%		0.8% - 1%	Pass
ROAE	11.6%	12.02%	0.4%		10.0% - 11.0%	Pass

- **Total assets** of VietinBank as of 31 Dec 2017 reached nearly VND 1.1 quadrillion, an increase of 15.4% compared to 2016 and hit 101.2% of the GSM business plan. VietinBank remains one of the joint stock commercial banks with the largest asset size.
- **Credit outstanding loans** amounted to VND 840 trillion, an increase of 18% year-to-date of which loans to the economy are VND 790 trillion. The Bank has shifted its credit structure to serve economic development, focusing on financing manufacture industries and the government-prioritised areas. Credit growth is achieved in parallel with debt quality control. The NPL/credit exposure ratio is 1.13% which is lower than the industry average.
- **Investments** as of 31 Dec 2017 reached VND 240 trillion, an increase of 6.6% compared to 2016. The investment portfolio is diversified continuously to increase profitability and ensure liquidity reserve for the entire system and better reputation for VietinBank.
- **Mobilized funds** amounted to more than VND 1 quadrillion, an increase of 16.2% compared to 2016 and hit 101.5% of the GSM business plan. The funding structure is diversified and flexibly responds to capital demands to ensure liquidity adequacy and business efficiency of VietinBank.
- **Profit before tax** in 2017 hit VND 9,206 billion, accomplishing 105% of the GSM business plan. The income structure has shifted toward more non-interest income. Service fees income has developed and increased by 29% year-on-year. ROA and ROE were 0.9% and 12% respectively, all met and exceeded the targets set by the GSM.
- **Strong shift in customer structure and improvement in income structure:** Under the BoD steering, VietinBank has strongly developed retail services, SMEs, FDI, and maintained a selected large corporate segment. VietinBank has also strongly developed non-credit products, increased investment efficiency and FX trading. The Bank has focused on service and product development. Particularly, the development of payment services has been defined as a central

task. VietinBank is the leader in providing safe and efficient payment services which is contributing to the promotion of non-cash payment.

- **Raising financial capacity:** The successful issuance of VND 4,200 billion of subordinated bonds reaffirms VietinBank's reputation to investors, demonstrating the remarkable effort of VietinBank to raise its financial capacity for the strategic goal of sustainable development.
- **VietinBank's performance results have been recognized and honored with a number of awards and prizes:** VietinBank ranks 376 in The Banker's top 1,000 global banks. This is the best rank of all 13 Vietnamese banks included in this popular list and an increase of 6 ranks compared to 2016. VietinBank also won a number of banking awards, e.g. "The best trade finance bank for working capital in Vietnam 2017" by The Asset Triple A, "Vietnam's Best Trade Finance Bank" by Asian Banker, "Vietnam's fastest growing SME bank in 2017" and "Vietnam's Best Retail Bank" by Global Banking & Finance Review. VietinBank is also the highest credit rated bank in Vietnam according to top credit rating agencies such as Moody's, S&P, and Fitch.

2. Owner equity and investor relations

- **Owner equity** of VietinBank in 2017 is VND 63,685 billion of which VND 37,234 billion is the charter capital, helping VietinBank remain the commercial bank with the largest charter capital and the strongest shareholder structure in Vietnam. VietinBank's dominant shareholder is the State Bank of Vietnam holding 64.46% of shares. Two foreign strategic shareholders are MUFG Bank and IFC holding 19.73% and 8.03% of shares respectively. Minority shareholders account for the remaining 7.78% of shares. Capital adequacy ratios are all compliant.
- **Investor relations:** In 2017, investor relations continue to function as a bridge between VietinBank's management team, the investor community and the market. The 2017 annual General Meeting of Shareholders was successfully held to pass important decisions and pay 2016 dividends in cash in the rate of 7% per share to the shareholders. The investor relations team remains active in providing information to investment funds, securities companies, and analysts in Vietnam and abroad. These activities serve to build VietinBank's reputation and CTG stock as a transparent, market- and investor-friendly asset. VietinBank always honors the practice of disclosing full and transparent information in Vietnamese and English. Communication and media coverage in favor of VietinBank and CTG stock as part of the Bank's brand development efforts are also emphasized.

3. Bank governance

3.1. Executive management team

2017 is the 4th of the 5-year term (2014-2019) of VietinBank's Board of Directors with the following members:

- Mr. Nguyễn Văn Thắng – Chairman of the Board;
- Mr. Lê Đức Thọ - Board member and General Director;
- Mr. Cát Quang Dương – Board member;

- Ms. Nguyen Hong Van- Board member;
- Ms. Tran Thu Huyen - Board member and Director of HR Division;
- Mr. Yotaro Agari - Board member;
- Mr. Hiroshi Yamaguchi - Board member and Deputy General Director (appointed on 17 Apr 2017);
- Mr. Phung Khac Ke - Independent Board member;
- Mr. Hiroyuki Nagata and Mr. Michael Knight Ipson – former Board members (ceased to hold office since 17 Apr 2017).

The Board of Directors is acting as a united body to fulfill their assignments in utilizing the Bank's internal strength, governing and executing reforms and leading the entire VietinBank system in accomplishing the business plan of 2017.

3.2.Organizational structure and corporate network governance

VietinBank has developed an extensive network across all provinces in the country and established international presence.

Of which, the national network consists of the Head Office in Hanoi, 155 branches across the country, 2 representative offices, 1 trade finance centre, 5 cash management centres, 3 non-business units including the Card Centre, Information Technology Centre, Human Resources Development and Training School, and 958 transaction offices.

The overseas network consists of 2 branches in Germany, 1 representative office in Myanmar, and a 100%-invested subsidiary bank in Laos with a head office, a branch in Champasak and a transaction office in Vientiane.

In 2017, VietinBank continued to scale up the model of cash management centre and complete staffing the cash management centre in Ho Chi Minh City. VietinBank reviewed and streamlined the cash and treasury department and the transactional accounting department at some branches of smaller size. The Bank also adjusted the model of credit support, corporate customers, retail customers and transaction office at every branch across the system to streamline the process mapping and boost the labour productivity bank-wide.

3.3.Reinforce risk management and follow applicable regulations on internal control and audit

VietinBank views an effective internal control system as a key factor for the sound operations of the Bank. A good system of internal control can help the Bank achieve its purpose and objectives, ensuring VietinBank would reach its long-term profit targets, and deliver reliable financial reporting and governance. A good system of internal control would also support the Bank with regulatory compliance as well as internal policies, codes and rules. This would reduce risks of unexpected losses and adverse consequences to VietinBank's reputation.

With these in mind, VietinBank always places great importance on risk management function to ensure full compliance with internal control and audit requirements set forth in Circular 44/2011/TT-NHNN.

- **Internal control:** The BoD has done the following: *(i)* Approve and periodically review the business strategy and key policy targets of VietinBank to ensure risks are identified, kept track of and controlled effectively; *(ii)* Perform annual review of the internal control system including identifying, measuring, assessing, preventing and managing risks through the activities of the Risk Management Committee; *(iii)* Ensure the BoD-founded internal control system is working effectively through the activities of the Risk Management Committee/the Policy Committee/the Product Committee/the Payment Committee, etc., systems of identification, early-warning, risk control and related reports from functional departments to reflect management information in a reliable and timely manner; *(iv)* The model of three lines of defense has been extensively applied, whereby Line 1 (branches and business units), Line 2 (units under risk management division), and Line 3 (internal audit) creating synergy improve quality and efficiency in risk management, risk-based supervision of branches, ensuring regulatory compliance and internal regulations for detection, prevention and risk managing actions; *(v)* Streamline processes, forms and systems to bring more convenience to the customers as well as deploy more effective control checkpoints across all operations; *(vi)* Successfully replace the Core Banking system in an effort to modernize and standardize, boost labour productivity and minimize operational risks, all of which are expected to build strong governance capacity and a reliable internal information system to serve administration of the bank efficiently; *(vii)* Supervise and follow up on the execution of SBV requirements regarding internal control system. Submit reports to the SBV annually and other reports related to controls of credit, investments, deposits, and operational risks.
- **Internal audit:** Internal auditors are organized and operating under the direct management of the Supervisory Board with the purposes to conduct independent assessment of the relevance, efficiency and effectiveness of the internal control system across operational areas and units.
- + In 2017, VietinBank continued to deploy three lines of defense in risk management. Internal audit plays the role of the 3rd line of defense which performs audit and independent assessment of the strategically material areas of VietinBank's internal control system. Internal audit team has actively identified bank-wide material problems during the audit process. Assessments made by the units in lines of defense 1, 1.5 and 2 are utilized together with the independent, on-site audit findings to provide management recommendations for risk minimization as well as mitigation of inspection and audit overlaps at business units.
- + Audit operations are conducted along the vertical line with a change of focus from compliance audit to looking in more detail into the relevance, efficacy and effectiveness of the internal control system (the completeness, compliance and relevance of the policy system, the completeness and relevance of the organizational structure, the availability of manual as well as automatic control checkpoints, the efficiency and effectiveness of such

checkpoints, etc...) in relation to each audited operation; Annual internal audit plans are risk-based. Internal audit findings and recommendations for improvements of the internal control system are reported to the Supervisory Board, the Board of Directors, the General Director and the SBV's Banking Inspectorate and Supervisory Agency. Gaps, breaches, and material risks detected across the system are assessed by internal audit team and reported to the Supervisory Board, the Board of Directors, the General Director and the SBV's Banking Inspectorate and Supervisory Agency on a quarterly basis.

- + To fit with the vertical auditing of operational areas at the HO, branches and units, the internal audit team has been centralized at the HO and two internal audit arms in the Centre and the South were shut down. Specialized operational auditors and dedicated quality assurance team are in place to control the quality of internal audit missions.
- + In 2017, VietinBank issued a code of professional ethics for auditors and a guidelines for audits' quality evaluation to detail the working principles of internal auditors, prevent conflict of interests and raise the quality of audits.

3.4. Build modern technology platform

In 2017, VietinBank successfully carried out two major strategic projects which were the Core Banking replacement project and the Enterprise Data Warehouse project. The successful replacement of the Core Banking has raised VietinBank's IT system to a new level, supporting business units and boosting labour productivity by means of automated work flows, data checking rules and batch-based processing functionality. Thanks to these advanced technology applications, the bank tellers face less pressure in their work and can increase the customer's satisfaction, resulting in VietinBank's better competitive edge over peer banks. Given these superior functionalities, VietinBank was honored to be the winner of The Asian Banker's "Best Core Banking Project" award under the framework of the 2018 Vietnam National Awards. The Enterprise Data Warehouse project has commissioned and centralized all data sources to help ease the extraction of management reports. The system design is open and highly customized to help generate good management reports, raise the customer analysis capability and cross-sales which provide substantial support to the management team's decision making. This project was recognized by The Asian Banker as the "Best Data Analytics Project".

In addition to these two strategic projects, in 2017, VietinBank continued to extend third party connections and launch new technology applications, e.g. QR code in efforts to diversify product portfolios, improve customer's experience, attract new customers and solidify existing customers' trust. Mobile Banking services were added and refined to bring more convenience to the customers and attract new ones.

Large corporate customers were offered priority, tailored services such as the cash flow management system, helping them manage and move their money. As a result, new customers came with large deposits. The commissioning of the cash flow management application contributed to the fact that VietinBank was named "Bank with the Best Cash Flow Management Service" by Asia Money, a leading economic and financial magazine in Asia in the end of 2017.

As part of a series of projects in response to Basel II standards, the commissioning of the “Daily Liquidity Management” application helped improve the bank’s funds utilization efficiency by drastically decreasing Nostro balance and the average compulsory reserve while maintaining liquidity, making VietinBank the first bank in Vietnam to apply Basel II-standard daily liquidity management.

VietinBank’s IT Centre set up two study groups on Fintech and Big Data in 2017 which have become increasingly popular in recent years. VietinBank was the first bank in Vietnam in 2017 to introduce an extra internet central service portal at the address <https://developer.vietinbank.vn/vtb/public> for use by the bank’s partners, including 12 APIs for wallet partners and 27 APIs for the internal system and common functionalities of the bank. Different partners may use these common services to connect with VietinBank’s systems. It has added value and payment channels for customers through wallet partners of MoMo, Zalo, etc. As a result, more customers were gained, more service fees were collected and more deposits were attracted from partners. Each partner is leaving VND 50 billion in deposit at VietinBank on average.

Besides investments in customer-oriented applications, IT system also put a great emphasis on providing tellers with more functionality and supporting RMs in approaching and managing their customers.

The monitoring and protection of information security of the bank are taken care of seriously. The IP camera system of more than 1,000 cameras and 47 storage cabinets were provided at transaction offices to monitor the activities of the transaction offices as well as support the security recording. At the IT Centre, security systems are maintained and updated regularly, before-launch tests are given to all applications to ensure safe and secured transactions. These efforts have gained higher customer’s trust and kept the bank’s operations safe.

As part of the Private Cloud development plan in 2017, the IT Centre has completed a number of supporting modules:

- Automation of server delegation protocols;
- Resource governance with detailed analysis reports;
- User costing.

The launch of these modules is a fundamental change in VietinBank’s virtualized infrastructure strategy, helping utilize and optimize the use of available resources, and minimize costs of new investments.

II- OBSERVATIONS OF THE BOARD OF DIRECTORS’ PERFORMANCE

Though a number of international and domestic economic forecasts of 2018 are showing signs of challenge, the general trend is more positive than 2017. In 2018, the government will aggressively pursue substantial changes to boost productivity, quality, efficiency and competitiveness, encourage innovations and administration reforms. The government will also continue to aim at macroeconomic stability, average inflation at below 4%, and economic growth

rate at 6.7%. Other key programs include business facilitation for domestic enterprises and foreign investment attraction. The SBV will continue to manipulate with flexibility monetary policy tools to achieve monetary and market stability, ensure liquidity of the banking system and efficient supply of capital to economic actors.

In the context of macroeconomic situation, VietinBank is following every executive order of the government and the SBV to fulfill potential growth in the banking and finance industry while ensuring the leadership role of the Communist Party of Vietnam across all operational areas of the bank. 2018 also marks the 30th anniversary of VietinBank's development journey, the Board of Directors of VietinBank has identified the focus of management around the following areas: *(i) Strongly and sustainably develop business lines; (ii) Effectively grow and control the quality of assets, handling the full amount of bad debt sold to VAMC in early 2018; (iii) Develop modern products and services, especially the payment bank services; (iv) Standardize comprehensively all operational areas, raise financial capacity and risk management, develop infrastructure and modernize information technology by international standards; (v) Cost governance, improve operational efficiency of the entire system, building the solid foundation for the goal of becoming a regional standard bank in 2020.*

The executive management team and every bank staff member will continue to strive to scale up the results achieved by overcoming challenges and determining to fulfill the set targets. By succeeding in this, we will be able to confirm that VietinBank is the top commercial bank and a pillar in making significant contributions to the development of the banking industry and socio-economic development of the country.

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

(Signed and sealed)

Nguyen Van Thang