
EXIMBANK 2020 ANNUAL GENERAL MEETING OF SHAREHOLDERS

**REPORT OF THE BOARD OF SUPERVISORS
ON ITS OPERATION IN 2018 AND ORIENTATIONS FOR 2019****To: GENERAL MEETING OF SHAREHOLDERS**

– Based on the functions and duties of the Board of Supervisors (“BoS”) as defined in the Law on Credit Institutions 2010 and the law amending and supplementing a number of articles of Law on Credit Institutions 2017; Charter of Vietnam Export Import Commercial JS Bank (“Eximbank”) and Regulations on the organization and operations of the Board of Supervisors;

– Based on the Regulations on corporate governance applicable to listed companies;

– Based on the performance of Vietnam Export Import Commercial Joint Stock Bank, reports of the Board of Directors (“BoD”), the Management (“BoM”) and operation results of the Board of Supervisors in 2018;

The Board of Supervisors (“BoS”) would like to report to the General Meeting of Shareholders (“AGM”) of Vietnam Export Import Commercial Joint Stock Bank (“Eximbank”) the performance of its assigned duties and power in 2018 and orientations for 2019 as follows:

I. OPERATIONS OF THE BOARD OF SUPERVISORS IN 2018:

In 2018, members of the BoS decreased 1 from the previous year, being Mr. Tran Le Quyet who left on 02/08/2018 due to VCB’s change of its capital representative, and Mr. Tran Ngoc Dung - BoS member was elected as the substitute Chief Supervisor on 08/08/2018. The BoS currently consists of 04 members, including 01 Chief Supervisor, 02 specialized members and 01 non-specialized member.

During the year, the BoS has performed the duties and powers defined in the articles of incorporation and operation of Eximbank as well as the operational orientations approved by the 2018 AGM, including the following key contents:

1. Supervision over business activities and compliance with provisions of law and the Charter in banking governance and management:

– The supervision by the BoS has always clung with the directions and guidelines of the State Bank in respect of credit institutions’ operations. In supervision of the compliance with regulations in banking governance and operation by Eximbank’s Board of Directors and Management, the Chief Supervisor and BoS members attended 34 meetings of the Board of

Directors, 11 regular and summation meetings among the BoD – BoS – BoM, 28 meetings with departments/sections/branches/subsidiary in the whole network with regard to recommendations of internal auditing teams, and post-audit correction. In such meetings, the BoS engaged in discussions, made recommendations/alerts and contributed opinions to the issues of each session's agenda, especially those relating to the organization of the 2018 AGM and Eximbank's governance and management.

- Strengthening the supervision over the operations of the councils and committees by sending its members to attend regular meetings of Risk Management Committee, Risk Handling and Overdue Debt Prevention Council, Human Resources Committee, etc.
- Regularly overseeing the instruction, management and governance by the BoD and BoM of Eximbank during the execution of the restructuring project in accordance with point e clause 1 Article 2 of Decision 38/QĐ-NHNN.m dated 15/06/2018 approving the objectives, orientations, solutions and roadmap of the Restructuring plan in association with bad debt settlement in the period of 2016-2020 of Eximbank. On quarterly, interim and yearly basis, Eximbank makes reports to the Banking Inspection and Supervision Agency on the results and progress of the plan execution as regulated. In addition, the BoS has also directed Internal Audit to include in its annual plan the audit of the performance of the Restructuring project in association with bad debt settlement up to 2020 as instructed by the Banking Inspection and Supervision Agency in Document CV 812/NHNN-TTGSNH.m dated 29/08/2018.
- In order to reinforce the internal supervision functionality, the BoS held 50 internal meetings to give directions to the Board of Internal Auditors (BoIA) and approve the contents of documents and recommendations to be sent to the BoM, BoD, the State Bank and shareholders.
- Supervising the honesty of the financial results by assigning its employees to review the interim and annual financial statements, including the ones having been audited by the independent auditor.
- Overseeing the financial ratios and business performance of Eximbank through independent reports made by BoIA on monthly, quarterly, interim and annual basis.
- Supervising the remedy and correction of the recommendations stated in the conclusions of the State Bank Inspection and Supervision Agency, and recommendations of the BoS and BoIA.
- Through the supervision results, the BoS has timely recorded outstanding issues during the course of operation, and made suggestions and recommendations to the BoD and BoM on control enhancement measures, amendment/improvement of internal procedures, regulations, etc. to limit and mitigate risks, ensuring compliance with law stipulations and improving operating quality and efficiency.

2. Supervision over the execution of the resolutions of the General Meeting of Shareholders:

– Eximbank successfully held the Annual General Meeting of Shareholders (AGM) on 27/04/2018, through which the orientations and major business targets were ratified, including the total assets of 178,000 VND billion, up 19%; capital funding of 120,000 VND billion, up 26%; and credit exposure of 113,560 VND billion, up 12% from 2017; NPL ratio <3%; and consolidated profit before tax of 1,600 VND billion. After checking the implementation of the AGM resolutions, it is recognized that:

- ❖ 2018 AGM resolution: despite growth of the business targets, the rate was quite low and did not fulfill the plan allocated by the General Meeting of Shareholders. The main reason was the impact of the deposit-related incidents. Other issues were fully performed: issuing the regulations on internal management, regulations on the organization and operations of the Board of Directors, and regulations on the organization and operations of the Board of Supervisors.
- ❖ 2017 AGM resolution: 2 issues stated in Clause 1 Article 18 of the resolution regarding the addition of more business lines to Eximbank’s Corporate Registration Certificate to conform to regulations have not been executed, specifically:
 - *“Trade in and supply of interest rate derivative products”*: Eximbank has not been qualified for the required conditions and regulations, so it would apply for SBV’s permission for execution of the operation once the official plan becomes available.
 - *“Other foreign exchange activities in domestic and international markets: FX exotic option transactions (Exotic Options); and cross currency swap transactions (Cross Currency Swaps)”*: According to point d, Clause 1, Article 10 of Circular 28/2016/TT-NHNN, Eximbank must comply with law regulations on the prudent ratios in banking activities in the year preceding the year of application and at the time of filing the application. However, in 2018, Eximbank violated the loan to deposit ratio (exceeding the threshold of 80% set out in Circular 36), thus unable to execute this item. In 2019, Eximbank shall follow up the procedures for licensing in accordance with the State Bank’s regulations.

In addition, with regard to Clause 2 Article 18 of the AGM Resolution about the amendment of the business lines in the Corporate Registration Certificate of Eximbank in correspondence with regulations, SBV responded that it would only license those applied for supplementation, while other requests need waiting until SBV re-issues the license under a new form generally applied to all credit institutions in the upcoming time.

3. Performance of internal audit:

– The BoS has regularly instructed the BoIA to perform the functions and duties stipulated by SBV and Eximbank, implement the established internal audit plan and report to SBV. Specifically, in 2018, the BoS directed the BoIA to conduct 38 audits/reviews of the departments/sections/centers at Head Office and business units. During each audit, BoS members

were assigned to keep oversight of the internal auditing teams and attend the meetings ratifying the auditing results so as to practically evaluate the audit quality as well as performance of the audited units; from which the BoS would make timely recommendations to the leaders of the audited units, as well as the BoM and BoD to take measures to timely correct and handle the detected legacies and shortcomings. Consequently, the BoD and BoM have acknowledged internal auditors' opinions and instructed relevant units to organize the implementation.

– By auditing/reviewing the units at Head Office, branches, and transaction offices, the BoS and BoIA have made 11,913 recommendations for the audited units to remedy/correct/supplement their inadequacies in order to mitigate operational risks. Among which, 331 recommendations were made to Head Office in connection with processes and regulations to facilitate risk prevention and safety in operations. Upon the auditing results, the BoIA keeps closely monitoring and urging the remedy and correction by the audited units, and makes monthly reports to the BoD and BoM for applying measures to those getting delays.

– The BoS has also instructed the BoIA to review and make recommendations to the BoM on some legacies affecting Eximbank's operations, say the violating loan to deposit ratio; the Finacle Core system after 1 month of go-live; loans to groups of related customers; loans backed by movable assets; loans backed by assets formed in the future; outstanding loans and accrued interests; management of operating expenses at branches in the network; use of seals at branches and transaction offices; breakdown of Vinadata Data Center; and the regulations on provision of credit facilities through the issuance and use of international cards.

– SBV issued Circular 13/2018/TT-NHNN ("Circular 13") on 18/5/2018 providing for the internal control system of commercial banks and branches of foreign banks, effective from 01/01/2019. Accordingly, the BoIA will act as the third line of defense, which is the last line of defense in the internal control system, and carry out independent inspection and assessment of the observance with internal policies and regulations on internal control system, as well as the suitability and law compliance of internal mechanism, policies and regulations on internal control system. Therefore, in satisfaction of Circular 13 requirements, the BoS has instructed the BoIA to study and step by step develop a system of documented regulations relating to internal audit, including the regulations on the organization and operations of the BoIA, regulations on the organization structure of the BoIA, code of conduct for members of the BoS and BoIA in accordance with law regulations (these regulations are being submitted to the BoD for comments before official issuance), restructure the organization structure of the BoIA, and continue improving auditing methods to meet the requirements on internal audit in the new context.

4. Preparation and oversight of the list of founding shareholders, major shareholders and related persons of members of the BoD, BoS and Chief Executive Officer:

– The preparation and oversight of the list of founding shareholders, major shareholders and related persons of members of the BoD, BoS and Chief Executive Officer; and reports on

supervising the shareholding by major shareholders and related persons of members of the BoD, BoS and CEO have been performed by BoD Office in coordination with the BoS on monthly basis.

- In 2018, there were changes to the members of the BoD and BoS as follows:
 - ✓ Ms. Luong Thi Cam Tu was additionally elected to the BoD for the term 2015 – 2020.
 - ✓ Mr. Tran Le Quyet has been no longer the capital representative of VCB nor member of the BoS as from 02/08/2018.
- In the year, Ms. Luong Thi Cam Tu – BoD member – incurred transactions for buying 13,799,399 EIB stocks.

5. Cooperation in operations between the BoS and BoD, BoM:

- The BoS coordinated with the BoD and BoM to successfully organize the 2018 Annual General Meeting of Shareholders.
- The Chief Executive Officer and BoM members have provided information, reports and related data on periodical basis or at the request of the BoS.
- In addition, the BoS also directed the BoIA:
 - To work with the BoM (Risk Management Division) to set up a project team for executing the development a supervisory framework with respect to the credit granting activity at Eximbank, including the compilation of a list of potential risks to the credit-granting processes, description of controlling hubs, and establishment of risk matrix and controlling hubs.
 - To evaluate and compete the requirements stated in Circular 13 concerning the functions and duties of the BoS; assess and identify the needs relating to the internal audit component, including the judgment of and requests for the system to support the audit in the spirit of Circular 13, from which to ask for change of the organization structure to meet the risk management of Eximbank; and to work closely with the BoD, BoM, units in the first and second lines of defense as required in Circular 13.
 - To give opinions on drafts of internal operational procedures and regulations of the Bank, such as the regulations on penalties and breach settlement in Eximbank’s activities; draft amendment and supplementation of the regulations on the opening and use of current accounts at Eximbank; regulations on receipt of mortgaged assets being debt claiming right at Eximbank; regulations on receipt of security being account balance, gold bars, and valuable papers at Eximbank; regulations on loans backed by properties at Eximbank; regulations on the receipt and archive of security assets; regulations on salaries, allowances and benefits at Eximbank; or regulations on staff appointment, discharge, circulation and rotation at Eximbank, etc.

- To coordinate with the BoM and the Steering Committee on Handling Inspectorate Recommendations to monitor, urge and remind the units to remedy the violations according to the Inspectorate conclusions within the prescribed time limit, and supervise the discipline of collectives/individuals committing willful misconducts, or violating laws/policies on credit or internal governance of Eximbank and the State Bank.

6. Other duties:

- Completed the amendment and supplementation of the regulations on risk ratings for branches/transaction offices to serve the planning of annual audits under Decision 08/2018/EIB/QĐ-BKS dated 18/04/2018.
- Issued the Regulations on the organization and operations of the BoS under Decision 19/2018/EIB/QĐ-BKS dated 20/08/2018 in accordance with law.
- Completed and issued the KPI scoring system applicable to the BoIA in line with its particularities under Decision 32/2018/EIB/QĐ-BKS dated 28/12/2018.
- Updated and issued the Internal Auditor’s Handbook under Decision 33/2018/EIB/QĐ-BKS dated 28/12/2018 superseding its precedence which is no longer suitable to the practice.
- The BoS also made interim and full-year reports to the BoD/BoM reviewing the operational and financial situation of Eximbank. In such reports, the BoS evaluated all of Eximbank’s operations and gave recommendations to the BoD/BoM in governance and management so as to strictly comply with law regulations and enhance Eximbank’s operational output.

In overall, the BoS has fulfilled its duties in appraising the Bank’s financial statements, supervising the management, regulation and operations of the internal control system against regulations during the year.

II. ASSESSMENT OF EXIMBANK’S OPERATIONS IN 2018:

1. Business performance in 2018:

– In 2018, Eximbank was under great influence of the deposit-related incidents occurred at HCMC Branch and Do Luong Transaction Office (Vinh Branch), causing great difficulties in capital and funding. Credit activity was therefore jointly affected since credit growth had to be frequently controlled. Consequently, some major business targets were below expectations. Detailed as (consolidated figures):

+ Total assets: 152.652 VND billion, up 2% from 2017 and fulfilling 86% of the plan (178,000 VND billion);

+ Funds mobilized from economic entities and individuals: 118.694 VND billion, up 1% from 2017 and fulfilling 80% of the plan (148,000 VND billion);

+ Total credit exposure: 104.118 VND billion (excluding VAMC bonds), up 3% from 2017 and fulfilling 92% of the plan (113,560 VND billion);

+ While credit exposure didn't increase much, asset quality has remarkably improved. NPL ratio as at the year end was only 1.85% of total loans;

+ Bank-only profit before tax was 801 VND billion and consolidated profit before tax reached 827 VND billion, fulfilling 52% of the plan (1,600 VND billion) only. Such low profitability was because Eximbank reserved 904 VND billion for provisions (514 VND billion provisioned for VAMC special bonds according to Circular 08/2016/TT-NHNN dated 16/6/2016 and 390 VND billion provisioned for the non-performing receivables connected to the 2 deposit incidents of Mdme Chu Thi Binh and Nguyen Thi Lam). The operating result (income and expense difference) of Eximbank before provisions was 1,731 VND billion.

2. Compliance with prudential ratios and limits:

In 2018, most of the key prudential ratios of Eximbank were satisfactory to SBV Circular 36/2014/TT-NHNN, Circular 06 amending and supplementing some articles of Circular 36/2014/TT-NHNN dated 20/11/2014 and Circular 19/2017/TT-NHNN dated 28/12/2017. However, there were 03 ratios that remained non-compliant with Circular No. 36 as at 31/12/2017, including:

(i). The ratio of securities loans to total exposure of Eximbank as of 31/12/2018 was 6.04%, higher than the cap of 5% provided in Circular 36. It was mainly due to the loans of 07 customers (overdue) backed by STB shares for purchase of EIB shares. Due to a request by HCMC Banking Inspection and Supervision Office for not to dispose of the collaterals being STB shares, Eximbank has not been able to recover the loans to respectively reduce the ratio as regulated.

(ii). 02 loans totaling 368 VND million in breach of Clause 4 Article 10 of Circular 36 on granting credit to related persons of the BoM (Deputy CEO) were not approved by the BoD but by branches/areas (pay off 08/04/2019).

(iii). 45 loans amounting 10.2 VND billion, 01 overdraft item worth 208.7 million VND and 910 credit facilities valuing 8 VND billion granted through the issuance and use of international cards were provided to those restricted for credit granting under Article 127 of the Law on Credit Institutions and points a, b, c, d, and dd of Clause 1 Article 12 of Circular 36 (provision of unsecured loans; and secured loans without approval of the BoD). There was no case of granting loans to persons restricted for credit granting according to point e Article 12 of Circular 36 (loans to subsidiaries or associate companies of the credit institution or enterprises in which the credit institution takes control).

Within some days in 04 and 05/2018, the loan to deposit ratio of Eximbank exceeded the cap defined in Circular 36 (80%), but did not affect its liquidity. The reason was because of the negative information about the deposits of Chu Thi Binh which caused the Bank's funding

continuously drop while loans kept growing. In such crisis, Eximbank applied various measures to step up deposits and put the loan to deposit ratio to the right track.

3. Review of the 2018 financial statements:

– The BoS examined the audited consolidated financial statements of the Bank and its subsidiary as of 31/12/2018 and agreed to confirm the following results:

+ The consolidated financial statements have fully reflected the business situation and financial conditions of Eximbank and its subsidiary, and were prepared as per the forms issued under Decision No. 49/2014/TT-NHNN dated 31/12/2014 amending and supplementing some articles of Decision No. 16/2007/QĐ-NHNN dated 18/4/2007 of the State Bank on the financial reporting regime for credit institutions, and in accordance with Vietnamese accounting standards and prevailing regulations.

+ The consolidated financial statements have honestly and reasonably presented the financial conditions in material aspects of Eximbank and its subsidiary as at 31/12/2018 as well as the consolidated business results in 2018.

– **Consolidated** balance sheet and income statement as at 31/12/2018 of Eximbank in 2018 were as follows (VND billion):

Target	31/12/2018	31/12/2017	+/- against 2017
1. Total assets:	152,652	149,370	+ 2%
2. Shareholders' equity:	14,884	14,251	+ 4%
3. Business result:			
- Net operating profit before loan loss reserve	1,551	1,622	- 4%
- Loan loss reserve	724	604	+ 20%
- Total profit before tax	827	1,018	- 19%
- Corporate income tax	166	195	- 15%
- Profit after tax	661	823	- 20%

4. Performance of some financial targets approved by SBV in the Restructuring project in association with bad debt settlement up to 2020 of Eximbank (billion VND)

No.	Item	Scenario	Restructuring plan - 2018	Executed in 2018	Completion rate2
1.	Total assets	Basic	172,480	152,652	89%
		–	–		–
		Aggressive	185,211	82%	

No.	Item	Scenario	Restructuring plan - 2018	Executed in 2018	Completion rate2
2.	Capital funding (including funding from primary market + secondary market + borrowings from SBV)	Basic	142,473	134,754	95%
		–	–		–
3.	Credit exposure (including customer loans in the primary market + corporate bonds)	Aggressive	149,258	109,605	90%
		Basic	118,946		–
6.	Settlement of on-balance NPLs	–	–	837	–
		Aggressive	123,138		67%
7.	Settlement of loans sold to VAMC		900	1,007	112%

* *Note: Eximbank prepares the targets based on Basic and Aggressive scenarios*

III. DIRECTIONS FOR OPERATIONS OF THE BOS IN 2019:

Based on the functions and duties of the BoS and operating orientations for 2019 of Eximbank, the BoS will focus on the following main duties:

- 1) Continue supervising the compliance by the BoD and BoM in accordance with law, the Charter and AGM Resolution in their governance and management.
- 2) Coordinate with the BoD and BoM to organize the 2019 AGM.
- 3) Review the interim financial statements and evaluate the annual financial statements.
- 4) Continue supervising the implementation of Eximbank restructuring project and the project for investment in the office premises at 07 Le Thi Hong Gam, etc.
- 5) Focus on checking, assessing and identifying imminent risks in the Bank's operations to propose the BoD and BoM to suggest risk management solutions.
- 6) Coordinate with the BoD and BoM in following SBV's comprehensive inspection plan towards Eximbank in 2019.
- 7) Proceed to restructure the BoIA corresponding to Circular 13 upon consultation of the independent auditor, including the assessment of the position and person of Internal Audit, completion of the framework and timeline for enhancing the knowledge and skills of Internal audit members, preparation of risk-oriented audit plans, auditing programs, and procedures of internal audit quality control, and risk ratings against the findings of Internal Audit.
- 8) Instruct the BoIA to perform internal audit in line with the plan registered with SBV.

- 9) Continue to develop and perfect the risk scoring and rating system with respect to departments/sections/centers at Head Office and subsidiary, serving as a basis to establish the annual audit plans.
- 10) Work with the BoM to hire the internal auditor to audit the Korebank replacement project in overall.
- 11) Continue to supervise the remedy and correction by units/branches with respect to the recommendations of the Inspectors as well as the BoS and BoIA. Meanwhile, propose to the BoD to apply appropriate treatment to units/branches which are lack of consciousness in making remedy (if any).
- 12) Keep working closely with the BoD and BoM to achieve the proposed supervisory objectives.

IV. RECOMMENDATIONS:

Based on the results of supervising business activities, and the governance and management by the BoD and BoM, the BoS would like to recommend:

- 1) The BoD and BoM should further promote their roles in the governance and management, quickly fix the shortcomings raised by SBV Banking Inspection and Supervision Agency / BoS and BoIA, consolidate, strengthen and boost up business activities in the following years, maintaining and ensuring the sustainable development of Eximbank.
- 2) The BoD and BoM should keep frequent track of the execution of the Restructuring plan, and direct relevant units to cling to the proposed objectives and solutions to duly perform the instructions by different authorities to ensure the plan's success and output.
- 3) To continue focusing on the settlement of non-performing loans, loans sold to VAMC, and off-balance loans to bring the cashflow back to operations and enhance the Bank's income.
- 4) Some contents of Eximbank's Charter have become outdated and unsuitable to prevailing law, so the BoD submitted to the 2018 AGM for amendments but was not approved. In this year AGM, the BoD should make another proposal and the BoS looks forward to the ratification of the General Meeting of Shareholders in this regard.

**F/O THE BOARD OF SUPERVISORS
CHIEF SUPERVISOR**

(Signed)

TRAN NGOC DUNG