

APPENDIX 03

Hanoi,, 2019

**REPORT OF VPBANK'S SUPERVISORY BOARD
AT ANNUAL GENERAL SHAREHOLDERS MEETING 2019***To: Valued shareholders VPBank*

In accordance with the functions and task of the Supervisory Board stipulated under the law, Charter of Vietnam Prosperity Joint Stock Commercial Bank and Regulation on the Organization and Operations of the Supervisory Board, the Supervisory Board would like to report to VPBank's Annual General Shareholders Meeting 2019 ("AGM") as follows:

I. OPERATIONS OF THE SUPERVISORY BOARD IN 2018

As at December 31, 2018, VPBank Supervisory Board consisted of three members, two of whom were full-time. The Supervisory Board is in charge of Internal Audit Division.

In 2018, The Supervisory Board performed its tasks well in line with legal provisions and VPBank's Charter and instructed Internal Audit in resource optimization to achieve its targets and contribute to the overall growth of the bank.

Primary tasks are detailed as follows:

1. Supervision of the compliance with legal provisions and VPBank's Charter on governance, management and implementation of AGM's resolutions

2018 was the pivotal year for the adoption of SBV's regulations on internal control systems and information security. It also marked the last year of piloting and reporting on the implementation of Basel II standards. Management issues and operational framework were gradually standardized towards international practices. The Supervisory Board took the initiative in keeping close tabs on the SBV's requirements and promptly instructing Internal Audit to build schemes and execute effective control measures in accordance with prevailing regulations.

Supervision activities were performed on a regular and systematic basis, strongly focus on: (i) VPBank's management and governance, risk management in relation to critical or risky areas, oversight and evaluation of the implementation and compliance with regulations on banking prudence specified in the Law on Credit Institution 2010 (and amended and supplemented Law No 17/2017/QH14); (ii) the Board of Directors (BOD) and the Board of Management (BOM) 's execution of the business directions and targets in 2018 approved by AGM.

As a result of supervision activities, the Supervisory Board pointed out shortcomings in the management and operations of the bank and provided timely advice, proposals and recommendations to the BOD and BOM regarding control measures, the amendment and improvement of internal regulations, etc. to mitigate and minimize risks, ensure the compliance with legal provisions and improve operational quality and efficiency of the bank.

2. Issuance of instructions on internal audit

+ Professional activities: In 2018, the Supervisory Board instructed Internal Audit to strengthen internal inspection and audits. In addition to compliance audits, Internal Audit also conducted specific audits into the products, operations and processes, etc. In particular, Internal Audit performed 52 audits in total, covering head office units, activities/ products and branches (including transaction outlets and points of sale). Additionally, Internal Audit conducted continuous audits by collecting, consolidating and analysing statistics in detail and in full to identify risks in some retail segments and regularly discussed with the BOD and CEO on related issues. Furthermore, the Supervisory Board instructed and monitored Internal Audit in staying up-to-date with provisions of the law, the bank's strategy and operating models to identify potential risks and adjust annual audit plan every six months.

+ Oversight of post-audit corrective actions: Instructed and prompted the BOM to carry out post-audit recommendations. In 2018, the Supervisory Board has also instructed Internal Audit to work with BOM in issuing regulations on better audit recommendation oversight and collaboration mechanism. In view of the BOD's directions on risk management, the requirement for regulatory compliance, and the BOM's adequate instructions, VPBank's units and subsidiaries proactively addressed the audit findings and minimized risks at VPBank.

+ Organization and staffing of Internal Audit: the Supervisory Board also provided directions and instructions to Internal Audit regarding the review of its organizational structure, functions and tasks. In 2018, Continuous Audit department was established within Internal Audit to identify risks in a timely manner and address systemic risks at units. Concurrently, Internal Audit also developed a mechanism of motivation and rewards to individuals and teams with innovative initiatives and excellent performance.

+ Recommendations: upon supervision and audit results, the Supervisory Board promptly instructed Internal Audit to provide recommendations regarding the supplement and amendment of VPBank's internal regulations, review system-related shortcomings and guide audited units to duly address shortcomings.

3. The Supervisory Board's internal activities as per AGM's decisions and legal provisions:

+ Regular meetings and assignments within the Supervisory Board: In 2018, Supervisory Board convened both regular and ad-hoc meetings to execute its functions and tasks as well as assign the tasks to its members. Indeed, all Supervisory Board members successfully completed their assigned tasks.

+ Issuance of internal policies and documents: In 2018, the Supervisory Board reviewed documents related to its operations and instructed Internal Audit to revise existing documents and issue new documents in line with the bank's overall requirements and changes in regulatory documents by the State Bank of Vietnam, particularly those related to the adoption of regulations specified in Circular No 13/2018/TT-NHNN dated May 18, 2018 on internal control systems of commercial banks and foreign banks' branches – ("Circular 13"); Circular No 40/2018/TT-NHNN dated December 28, 2018 on amendments and supplements to Circular No 13/2018/TT-NHNN, etc. In particular, Supervisory Board issued several documents as follows:

- ✓ Decisions on amendment and supplement to Regulations on Organization and Operations of Supervisory Board;
- ✓ Internal regulation on working mechanism of Supervisory Board;
- ✓ Regulation on organization and operations of Internal Audit
- ✓ Guidelines on main principles in annual planning and other documents;

✓

As required by the newly issued Circular No 13, Supervisory Board instructed Internal Audit to complete the revision of regulations and processes before December 31, 2018.

+ Appraisal of periodic financial statements: Pursuant to provisions in the Law on Credit Institutions, the Supervisory Board audited VPBank's biannual report and annual financial statement to evaluate the reliability and rationality of financial statements presented to the AGM in accordance with legal provisions and VPBank's internal regulations.

+ Human resource development: Improve the capacity of Internal Audit by recruiting high-calibre and well-trained people with such new knowledge as Basel 2 and audit of Agile projects, etc.

II. RESULTS OF SUPERVISION ON VPBANK'S BUSINESS OPERATIONS IN 2018

1. Appraisal of Financial Statements:

Given its rights and obligations, VPBank's Supervisory Board periodically appraised VPBank's financial statements audited by Ernst and Young Vietnam. Accordingly, VPBank's consolidated financial statements 2018 fully reflected the material aspects of VPBank's financial position as at December 31, 2018, business performance and consolidated cash flows from January 1, 2018 through December 31, 2018, presented in accordance with SBV's regulations and Vietnamese Accounting Standards, as well as other widely accepted accounting principles in Vietnam.

Below are some primary consolidated financial indicators:

No	Indicator	Actual 2018 (VND bil)	Budget 2018 (VND bil)	Actual vs Budget 2018	Actual 2018 vs 2017
1	Total asset	323,291	359,477	90%	16.4%
2	Customer deposits and valuable papers issued	219,509	241,675	91%	9.9%
3	Loan balance	230,790	243,320	95%	17.3%
	In particular: customer loans	221,962	229,148	97%	21.5%
4	NPL ratio	3.2%	<3%		
5	Profit before tax	9,199	10,800	85%	13.1%

Source: audited consolidated financial statements

Financial statements 2018 revealed that:

- As at December 31, 2018, the bank's consolidated total assets amounted to VND 323,291 billion, up 16.4% year on year. Loan balance grew by 17.3%, reaching VND 221,962 billion.
- VPBank's consolidated NPL ratio as at December 31, 2018 was 3.2%, exceeding the target of less than 3%. However, standalone NPL ratio was kept well under control at 2.41%.
- Consolidated profit before tax reached VND 9,119 billion, up 13.1% year on year. However, as compared to the PBT target of VND 10,800 billion approved by the AGM, VPBank completed only 85% of the full-year target. Credit growth below the target partially impacted the bank's profit.

2. Management and Governance:

2.1 Governance:

VPBank's Board of Directors ("BOD") includes five members (one chairman, two vice chairmen, one member and one independent member), remaining a reasonable organizational structure complying with the law and the Charter of VPBank ("Charter").

According to the monitoring results, the Supervisory Board concluded that the BOD fundamentally performed its function and responsibilities in accordance with the law, the Charter and Resolutions of the AGM 2018 as follows:

+ Successfully performed the functions and responsibilities of the BOD under the law and Charter: approved directions, business plans, budget for 2018; decided on major investment and procurement under the assigned authority; revised policies and organizational structure to align with business operations and risk management of the bank; and directed and supervised the BOM in the implementation and fulfilment of 2018 business plan in accordance with the law.

+ Implemented the resolutions of the AGM and other areas authorized by the AGM: directed the BOM to implement and determine to achieve 2018 business target; however, consolidated profit before tax was 85% of the target; implemented the procedures to increase the charter capital by issuing stock dividends for 2017 and using the reserve to supplement share capital; implemented the procedures to increase treasury shares by repurchasing preferred shares; implemented the procedures to issue shares under the Employee Stock Ownership Plan...

+ The BOD convened regular meetings in accordance with the resolutions and regulations of the BOD, restructured, revised and extended the operating mechanisms of some committees and councils including credit councils, Debt Resolution Council, Risk Management Committee... to comply with the State Bank of Vietnam's new regulations.

Via supervision, the Supervisory Board recognized the BOD's roles in terms of closely following directions and guidelines from the SBV. The BOD's resolutions, decisions and policies relating to the Bank's operations complied with the law and Charter, and helped keep the momentum from previous years to meet the requirements of the bank's operation and development.

2.2 Management:

In 2008, under the BOD's directions, the BOM duly implemented the resolutions of the AGM and the BOD in accordance with the law and Charter. Business performance indicators nearly met the challenging targets set by the BOD and the AGM. Total assets reached VND 323,291 billion and 90% of the target; loan balance reached VND 230,790 billion and 95% of the target, particularly loans to customers hit 97% of the target; consolidated nonperforming loan ratio was 3.2% which was higher than the target of 3%; profit before tax reached VND 9,199 billion, hitting 85% of the target.

The Bank also successfully addressed recommendations from SBV's Inspectors, submitted documents to the SBV for early adoption of Circular No. 41/TT-NHNN dated December 30, 2016 stipulating capital adequacy ratios for banks and branches of foreign banks in Vietnam. Basically, VPBank and its affiliates have operated in compliance with the law.

3. Coordination mechanism with the Supervisory Board

The BOD, BOM and Supervisory Board accordingly coordinated in monitoring, auditing, and supervision to ensure that the Supervisory Board's operations comply with the Law, Charter and

regulation on organization and operations of the Supervisory Board. Opinions and suggestions from the Supervisory Board and Internal Audit given in regular meetings were acknowledged, recognized and revised as appropriate by the BOD and BOM.

III. DIRECTION FOR 2019 AND RECOMMENDATIONS

1. The Supervisory Board's Direction for 2019

According to functions and duties of the Supervisory Board and the bank's direction for 2019, the Supervisory Board will focus on the following:

- 1.1 Strengthening and improving supervision of compliance with the law, Charter and resolutions of AGM in terms of management and governance;
- 1.2 Appraising half-year financial report and full-year finance statements according to legal regulations;
- 1.3 Performing high-level supervision and management of Internal Audit; implementing planned internal audits; independently reviewing and checking the outcomes of risk management in first and second lines of defence;
- 1.4 Strengthening the role of Internal Audit – the third line of defence for the bank; bolstering audit of Information Technology; applying information technology to improve performance of Internal Audit; training to level up Internal Audit staff...
- 1.5 Updating internal audit-related policies in a timely manner to meet new legal requirements;
- 1.6 Performing other duties as required by the law and VPBank's regulations.

2. Recommendations

Although the bank's operations were closely aligned with targets, the bank did not deliver its original budget due to both internal and external factors. Based on the operational supervision, the Supervisory Board recommends to the BOD and BOM as follows:

- 2.1 Fine-tuning and bolstering measures to meet the bank's strategic goals for 2018-2022 periods. Reviewing and evaluating the current operating models of segments and products and their performance to further improve the bank's performance;
- 2.2 Strengthening internal control systems, particularly the bank-wide risk management system (including affiliates), ensuring risk management match the bank's growth trajectory and scope, controlling nonperforming loan ratio as directed by the State Bank of Vietnam;
- 2.3 Reinforcing the role and functions of the first and second lines of defence in risk identification, supervision and mitigation; establishing risk management policies and regulations; monitoring and tracking risk...;
- 2.4 Strengthening and upgrading technology platforms and systems, supporting business activities toward centralized, automated, digitized and simplified processes to meet the requirements for strong and fast growth with quality of VPBank in 2019;
- 2.5 Strengthening strict control over credit portfolios, building active debt collection plan to ensure that portfolio structure and credit quality can meet the target; managing nonperforming loan ratio under alert threshold;
- 2.6 Focusing on project cost management and better management of operating costs;

2.7 Improving the effectiveness of balance sheet management, increasing middle- and long-term funding for sustainable growth and to meet minimum capital adequacy ratio targets of the bank.

This is the end of the Supervisory Board's report. We would like to extend our gratitude to shareholders, the Board of Directors, the Board of Management and all VPBankers for facilitating the Supervisory Board's operations in accordance with the law and completion of all the tasks assigned by the shareholders.

We look forward to a successful shareholders meeting.

Place of Receipt:

- AGM;
- BOD's members;
- Filing: SB.

**pp SUPERVISORY BOARD
HEAD OF SUPERVISORY BOARD**

(signed)

Ngo Phuong Chi