

# OVERVIEW

## OF VPBANK

### VIETNAM VALUE

**Presented by the National Brand Council and Ministry of Industry and Trade**

VPBank was the only JSC bank to receive the 'Vietnam Value' National Brand Mark in 2016, making it the third consecutive year in which the Bank has been honored. Approved by the Prime Minister, Vietnam Value aims to develop the image of a country with reputation for diverse products and services and to sharpen the competitive edge of Vietnamese brands and products in both domestic and international markets during intergration process.

### BEST COMMERCIAL BANK VIETNAM 2016

**Presented by UK-based International Banker**

Presented to VPBank for the second time, this award proves the stature of a mature financial institution that is experienced in developing and operating its systems, and consistently earns customer trust and engagement.



INTERNATIONAL  
**Banker**  
BANKING AWARDS 2016



2016

- Consolidated total operating income reached approximately VND16,900 billion, and separate total operating income reached approximately VND9,300 billion, making VPBank the leading joint-stock commercial bank
- A loan of USD133 million was received from International Financial Corporation (IFC)
- Thirteen prestigious awards were received from local and international institutions
- Total assets exceeded VND200 trillion for the first time
- Northern Head Office relocated to VPBank Tower, 89 Lang Ha, Dong Ha, Ha Noi and Southern Head Office relocated to VPBank Tower Saigon, 1-1A-2 Ton Duc Thang, Ben Thanh, District 1, HCMC

2015

- Ranked the 21<sup>st</sup> largest corporate income tax payer in Vietnam
- Established and developed new business models, including Household Banking and Digital Banking Services
- Centralized customer service functions
- Received six international awards
- Successfully transformed all FE Credit's business activities into independent legal entity – Vietnam Prosperity Finance Limited Company (FE Credit brand)

2014

- Completed phase one of its transformation program
- One of the top 10 Vietnamese banks, selected to adopt Basel II standards
- Outlook upgraded from 'stable' to 'positive' by Moody's
- Total assets exceeded VND150 trillion for the first time
- Acquired Vietnam National Coal – Mineral Finance Company and renamed it VPBank Finance Company Limited (VPB FC)
- Received a 'Vietnam Value' National Brand Mark for the second time from the Ministry of Industry and Trade

2013

- Initiated phase one of its transformation program
- Developed master plans for risk management and IT
- Restructured business units, back offices, and distribution network
- Received B3 rating with 'stable' outlook from Moody's for the first time
- Profit after tax exceeded VND1,000 billion for the first time

2012

- Formulated a growth strategy for the 2012–2017 period in consultation with McKinsey & Company
- Introduced a new branch outline
- Total assets exceeded VND100 trillion for the first time
- Received a 'Vietnam Value' National Brand Mark from the Ministry of Industry and Trade

2011

- Rolled out six strategic initiatives with the support of McKinsey & Company to move the Bank to a modern retail banking model
- Unveiled the first standard branches under the new model
- Profits before tax exceeded VND1,000 billion for the first time

2010

- Renamed Vietnam Prosperity Joint-Stock Commercial Bank
- Introduced new logo and brand identity
- Piloted a modern model of retail banking branches in consultation with McKinsey & Company
- Formed Consumer Finance Division under the FE Credit brand name

# 10 BUSINESS HIGHLIGHTS

## 01



### **STRONG GROWTH OF UNSECURED LENDING IN THE RETAIL BANKING DIVISION**

In 2016, the Retail Banking Division achieved strong growth in the loan volumes of two high-margin products: credit cards and unsecured personal loans. Impressive figures included an end-of-period unsecured loan balance which was double that of 2015, contributing around 40% to the total operating income of the whole division.

VPBank received the 'Best Unsecured Lending Product in Vietnam' award from Asian Banker magazine.

# 02



## LEADER IN REALIZING A COMPREHENSIVE DIGITAL BANKING STRATEGY IN VIETNAM

With the establishment of the Digital Banking Services Division, VPBank is taking the lead in pursuing a three-pronged comprehensive digital banking strategy:

1. Digitization of traditional banking activities to improve customer experience and the operational efficiency of the Bank.
2. Partnership with fintech companies to develop a diverse ecosystem and expand digital banking services.
3. Formulation of an independent digital bank model with the introduction of Timo – the first digital bank in Vietnam.

VPBank put its new ebanking system into operation in 2016 to provide customers with innovative tools, subsequently tripling the number of digital users as compared with 2015 and making ebanking a main transaction channel for VPBank customers.

## STRONGER PUSH INTO MICRO SME SEGMENT

VPBank has been developing a dedicated business model for micro SMEs - a high-potential segment with unsecured high-margin lending products and a direct sales model.

In 2016, this model brought positive results with a five-fold increase in SME unsecured loan balance from 2015.

# 03



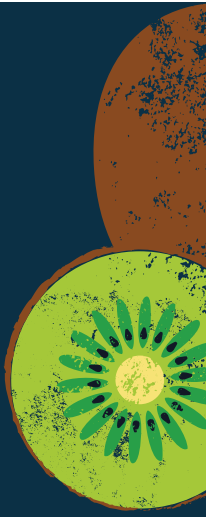
# 04



## COMMREDIT ACHIEVED POSITIVE BUSINESS PERFORMANCE

Entering its second year of existence, CommCredit has cemented its role as a core business function and achieved encouraging results with a network of 129 branches, a ten-fold increase in loan balance and a twelve-fold increase in total operating income from 2015, which enabled the division to exceed its target for profit before allocated costs.

# 05



## VPBANK RECEIVED A USD133 MILLION LOAN FROM IFC

This loan package helped VPBank scale up lending to SMEs and micro SMEs, and bring closer its goal of becoming a leading retail bank in Vietnam and further demonstrate its transparency and the efficiency in its operations in Vietnam's financial market.

## VPBANK'S TOTAL OPERATING INCOME LED AMONG JOINT STOCK COMMERCIAL BANKS

In 2016, VPBank focused on quality growth in parallel with volume growth. Consequently, the Bank's consolidated operating income reached approximately VND16,900 billion, and its separate operating income reached approximately VND9,300 billion, making VPBank the top joint-stock commercial bank in terms of operating income.

# 06

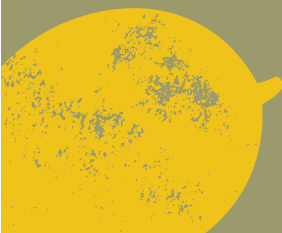


## COMPLETION OF KEY PROJECTS IN 2016

The completion of numerous key projects contributed to improving operational efficiency, productivity, and customer service quality, including:

- Centralization of branches' customer service, which consolidated the entire branch customer service network to ensure consistent quality across all service channels.
- Loan Origination System project (LOS) was adopted across all retail and SME branches.
- Way4 Solution Implementation (WASI) brought many improvements to the Bank's payment card systems, such as three factor authentication and installment credit card applications.
- ERP project went live, incorporating many important modules related to human resource management and budgeting.

# 07



08



## VPBANK RECEIVED MANY PRESTIGIOUS AWARDS

VPBank and VPFC under FE Credit brand received 13 prestigious local and international awards in 2016 in recognition of their capabilities and reputation. Those awards and recognitions once again prove the stature of a mature financial institution that is experienced in developing and operating system with customer-centric business strategies, meeting market demand and earning customer trust and engagement.

## STRONG BRAND AWARENESS AND CORPORATE CULTURE PROMOTION

In 2016, VPBank continued to impress customers with the Paris Ballet par VPBank event and a two-night thank-you party with the presence of well-known local and international singers and bands. Exciting internal activities inspired staff throughout the bank, and charity and social activities such as 'Warm Clothes for the Winter' and 'Back to School after the Flood' were enthusiastically supported by the bank's staff to help local communities.

Thanks to these, VPBank is proudly in the top quartile in the Global Organizational Health Index in 2016, according to McKinsey research.

09



10



## HEAD OFFICES RELOCATED, VPBANK CONFIRMS ITS LEADING POSITION

VPBank relocated its Northern Head Office to VPBank Tower, 89 Lang Ha, Dong Da, Hanoi and its Southern Office Head Office to VPBank Tower Saigon, 1-1A-2 Ton Duc Thang, District 1, Ho Chi Minh City in 2016.

Located in a prime location with best and modern facilities, two new Head Offices facilitate a modern, professional working environment, a pride for all VPBankers.

# PRESTIGIOUS AWARDS AND RECOGNITIONS IN 2016



In 2016, VPBank was presented with 13 prestigious awards, including 10 for the Bank itself and three for its finance company (VPB FC), which reaffirm the Bank's international prestige and leading position in the domestic market.

From International Banker (UK):

- Best Commercial Bank
- Best SME Bank

From Global Banking & Finance Review:

- Best Customer Service
- Best Mobile Banking Application Vietnam
- Best Initiative for Self-Employed Customers Vietnam

From International Data Group as part of the Vietnam Outstanding Banking Awards:

- Best Digital Bank
- Best SME Bank 2016

From Asian Banking & Finance for the comprehensive, practical, and tailored features of the Bank's VPBiz card:

- Credit Card Initiative of the Year

Forbes and the independent financial consultancy Brand Finance valued the VPBank brand at USD57 million (equivalent to over VND1,300 billion), naming it as the seventh most valuable bank brand, and the 26th most valuable enterprise brand, in Vietnam.

The Ministry of Industry & Trade awarded its 'Vietnam Value' National Brand Mark to only one joint-stock commercial bank in 2016 – VPBank – marking the third consecutive year in which the Bank has been so honored.

VPB FC, under the FE Credit brand name, received three awards:

From Global Brands Magazine:

- Best Consumer Finance Brand Vietnam

From Consumerism Study Center and Global Trade Alliance:

- Top Brands 2016

From Global Banking & Finance Review:

- Best Consumer Finance Company Vietnam

These awards and recognitions once again prove the stature of a mature financial institution that is experienced in developing and operating systems with customer-centric business strategies, meeting market demand, and earning customer trust and engagement.

# BUSINESS

## PERFORMANCE REVIEW

**Brand Finance**<sup>®</sup>

TOP 7 BANKING BRAND  
VIETNAM 2016

INTERNATIONAL  
**Banker**  
BANKING AWARDS 2016

TOP 7 BANKING BRAND VIETNAM 2016

**Presented by Brand Finance**

Brand Finance valued VPBank at USD57 million (equivalent to over VND1,300 billion), making it the seventh most valuable bank brand, and 26th most valuable enterprise brand, in Vietnam.

BEST SME BANK VIETNAM 2016

**Presented by UK-based International Banker**

VPBank SME offers comprehensive, tailored, and highly relevant financial solutions to local SMEs. The Bank currently serves over 50,000 SME customers.





## PART 1. BUSINESS ENVIRONMENT IN 2016

The world economy underwent unfavorable developments in 2016 with lower-than-forecast growth, low trade growth, fluctuating crude oil prices, and falling agricultural produce prices. The growth of Vietnam's economy slowed and Vietnam began its 2016–2020 five-year plan with unfavorable conditions, including a GDP growth rate of just 6.21%, which fell short of the 6.7% target set out at the beginning of the year and the average rate of 6.5–7.0% over the previous period. While this growth rate was relatively good compared to the global average, the economy still faces challenges from unstable economic growth, an uneven recovery, and dependence on FDI for growth.

In 2016, Vietnam's banking and finance system achieved some successes, which were critical to inflation control, macro-economic stability, and economic growth. Monetary indicators rose in line with the targets set by the State Bank of Vietnam at the beginning of the year and inflation was kept below the National Assembly's 5% ceiling. Liquidity in the system was maintained at levels comfortably above requirements and the interbank market operated smoothly. As of December 29, 2016, total payment instruments were up 17.88%, deposits up 18.38%, and loan balance up 18.71% y-o-y. The status of the Vietnam

dong was improved thanks to decreased 'dollarization' and 'goldization' of the economy. Bad debt settlement according to market principles was strengthened.

The roadmap for restructuring credit institutions was carried out according to plan and the number of sub-standard credit institutions was reduced. The performance and competitiveness of the whole system and each credit institution improved consistently. In December 2016, Fitch Ratings published its Vietnam Banks – 2017 Outlook report, according to which the health of Vietnam's banks improved, the Vietnam dong was stable, and inflation was within an acceptable range. Together, these achievements provide the country with both challenges and opportunities, making the prospect of Vietnam having stronger, highly competitive, world-class finance and banking groups more realistic.

2016 was a successful year for VPBank, which also helped drive the industry forward. The Bank achieved quality, sustainable, efficient growth and considerable successes, which are solid stepping stones for the Bank to meet challenging objectives in its five-year strategies in subsequent years.



In 2016, VPBank received USD 133 million finance package from International Finance Corporation (IFC)

## 2016 BUSINESS PERFORMANCE REPORT

### 1. BUSINESS SCALE CONTINUED TO GROW STABLY

In 2016, VPBank shifted its focus to strategic customer segments and selected markets, and decreased activities in low-performing areas.

After developing and strengthening foundational systems for robust growth for three years (2013–2015), VPBank moved to phase 2 of its transformation program in 2016 with the focus on improved quality growth and continued selective volume growth. The Bank aimed to deliver quality, sustainable growth and develop an efficient, prudent balance sheet.

#### 1.1 ASSET STRUCTURE CONTINUED TO IMPROVE THANKS TO THE INCREASE IN QUALITY ASSETS AND OPTIMIZATION

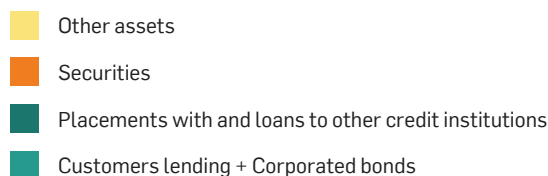
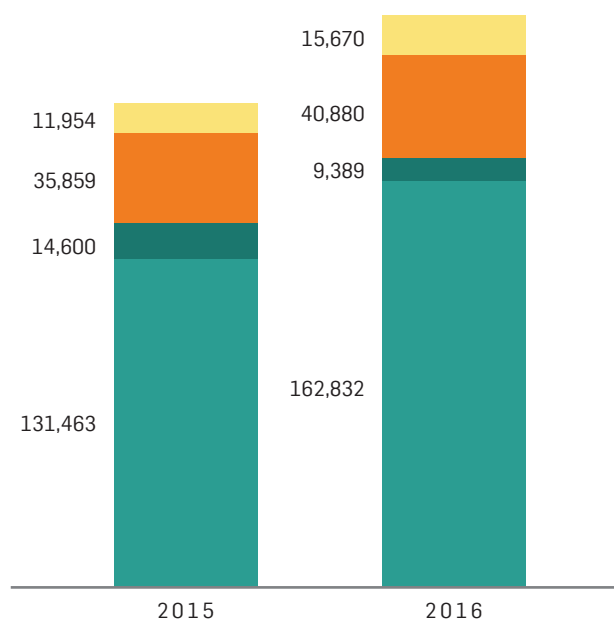
VPBank's total assets reached VND228,771 billion, up 18% y-o-y. Asset structure continued to improve towards sustainability, with customer lending – which rose 24% during the year – accounting for 62%, and the securities portfolio accounting for 18%.

In 2016, VPBank continued to develop its core Retail Banking and SME Banking segments, and expanded the Household Banking business. Their impressive volume growth over the past year has affirmed the appropriateness and feasibility of these three segments.

Credit balance (including customer lending and corporate bonds) in 2016 went up by 24% y-o-y, equivalent to over VND31,400 billion. The increase was greater than the industry average and presented major changes in different customer segments. Strategic segments, with their outstanding growth, contributed about 77% to total credit balance. The loan balance of the Retail Banking division rose by 50%, and that of the SME Banking division by 30%. The newly established Household Banking division recorded a loan balance of nearly VND2 trillion, while the Consumer Finance company enjoyed a 60% y-o-y increase in loan balance. Following modified guidelines, the corporate divisions focused on selective loan balance growth, portfolio restructuring, accelerating off-balance sheet activities, and trade finance.

Lending product structure was also moved towards high-yield products such as unsecured personal

TOTAL ASSET STRUCTURE (VND billion)



Source: Audited consolidated financial statements

loans, consumer loans, and credit cards. By focusing on a retail model, VPBank successfully developed and implemented solid systems of risk management, credit approval & processing, and debt collection to effectively control risks associated with large volume growth of retail products. VPBank is one of the pioneering banks in Vietnam in developing a 'big data' scoring model for retail customers. As a result, unsecured lending volume in 2016 doubled to VND20,700 billion against the end of 2015.

In 2016, VPBank continued to focus on reviewing and completing credit underwriting criteria to control NPLs. Scorecards for loan applications of retail and SME customers and a credit rating model for corporates and financial institutions allowed the Bank to select customers with good credit quality, and the completed specialized debt collection system brought further positive results. Consequently, the Bank's NPL ratio was kept under control, below 3%.

Investment activities were diversified with a stronger focus on interest rate and derivative products based on market opportunities to boost the Bank's profitability while controlling and managing liquidity risks. Total

securities portfolio (excluding corporate bonds) by the end of 2016 had reached VND40,880 billion – an increase of VND5,006 billion, equivalent to 14% y-o-y – with the biggest contribution from Government-guaranteed bonds issued by credit institutions.

## 1.2 FUNDING WAS FLEXIBLY ADJUSTED ACCORDING TO PREVAILING DEMANDS AND DEPOSIT STRATEGY

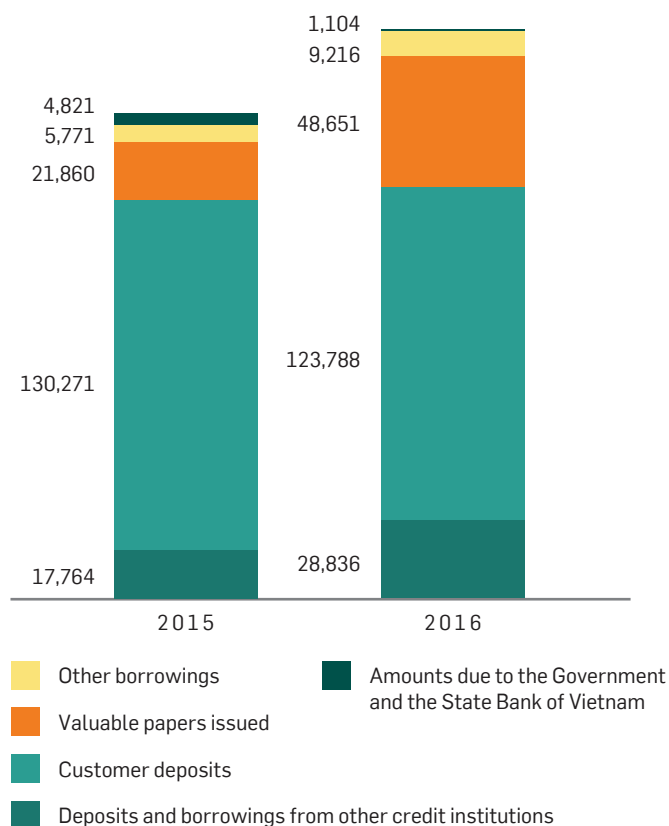
Every year, VPBank develops and implements a detailed funding plan at the beginning of the year. The plan details funding sources such as individuals, business organizations, credit institutions, and domestic & international financial institutions; the issuance of valuable papers; and maturity structure to ensure compliance with capital adequacy requirements in particular and prudential indicators in general, and enable the Bank to pursue its business direction. From time to time, the Assets and Liabilities Committee (ALCO) issued policies, made requests, and gave instructions to back-office and business divisions in view of market situations, macro policies, and the requirements of the Bank's leadership. As a result, deposits grew at the same pace as assets; funding structure was improved; deposit sources were diversified; and there was robust growth in medium- and long-term deposits and long-term bonds.

By the end of 2016, total liabilities were VND211,593 billion, increasing by roughly VND31,106 billion – approximately 17% higher than the end of 2015 – mainly as a result of the growth in customer deposits (59%) and the issuance of valuable papers (23%).

Total deposits reached VND201,274 billion – including customer deposits, placements & loans from other credit institutions, and issuance of valuable papers – up 18% y-o-y as of December 31, 2016. The volume of customer deposits and valuable papers reached VND172,438 billion, representing an increase of over VND20,300 billion – or 13% – y-o-y. VPBank's strategic segments generated a growth rate of 11% and accounted for 62% of customer deposits and issued valuable papers.

The sources and types of deposits changed dramatically in 2016 due to the shift from ordinary deposits to valuable papers, with volume doubling y-o-y to VND48,651 billion. During 2016, the Bank issued valuable papers worth VND21,175 billion, with terms ranging between one and five years. This is a stable and long-term funding source to finance long- and medium-term asset growth, ensuring the safety of the asset structure.

STRUCTURE OF LIABILITIES (VND billion)



Source: Audited consolidated financial statements

In addition, nearly VND3,800 billion in deposits was acquired from international institutions, thus diversifying funding sources and affirming VPBank's position and prestige in the market.

By maintaining steady growth in core banking activities, improving credit quality, and reducing the cost of funds thanks to cheap funding sources, capital efficiency was improved and net interest margin (NIM) ratio increased from 6.3% in 2015 to 7.7% in 2016.

## 2. ALL BUSINESS PERFORMANCE INDICATORS WERE POSITIVE

### 2.1 TOTAL OPERATING INCOME (TOI) INCREASED STRONGLY THANKS TO CHANGES IN PRODUCT STRUCTURE AND PRODUCTIVITY OPTIMIZATION

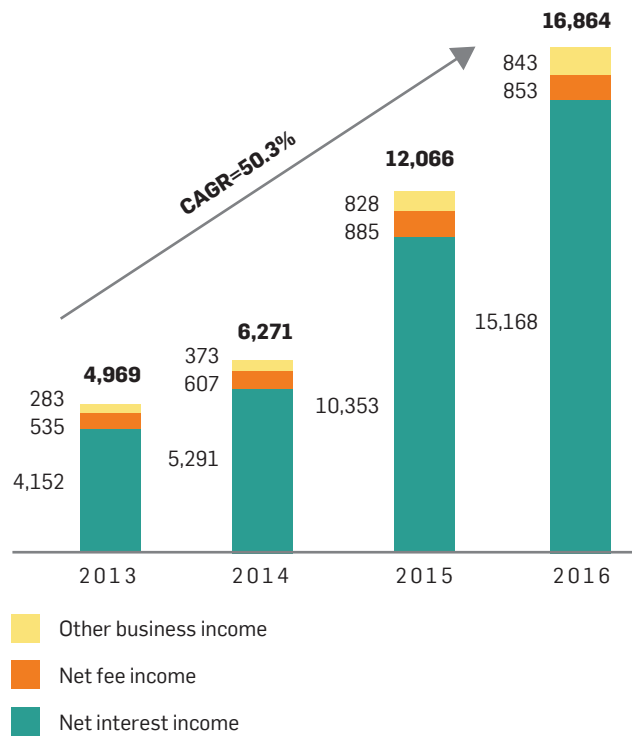
VPBank continued its success in 2016 with a compound annual growth rate for total operating income (TOI) of 50.3% for 2013–2016. The Bank's TOI reached a record high of VND16,864 billion in 2016, up 40% y-o-y. Major contributions came from net interest income of VND15,168 billion, up by VND4,814 billion or 47% y-o-y. The Bank's higher TOI when compared with

asset volume growth (18%) resulted from the growth strategy focusing on core segments, new potential products, asset quality improvement, changes in product structure, cross-selling, and a more efficient funding structure and utilization.

After three years of transforming their sales models, standardizing the product mix, and strengthening sales support systems, the strategic segments have fulfilled their leading role with impressive growth in efficiency. Total operating income of Retail Banking increased by 54%, SME 40%, Household Banking nearly 12-fold, and VPBFC two-fold y-o-y as business divisions pursued strategic directions.

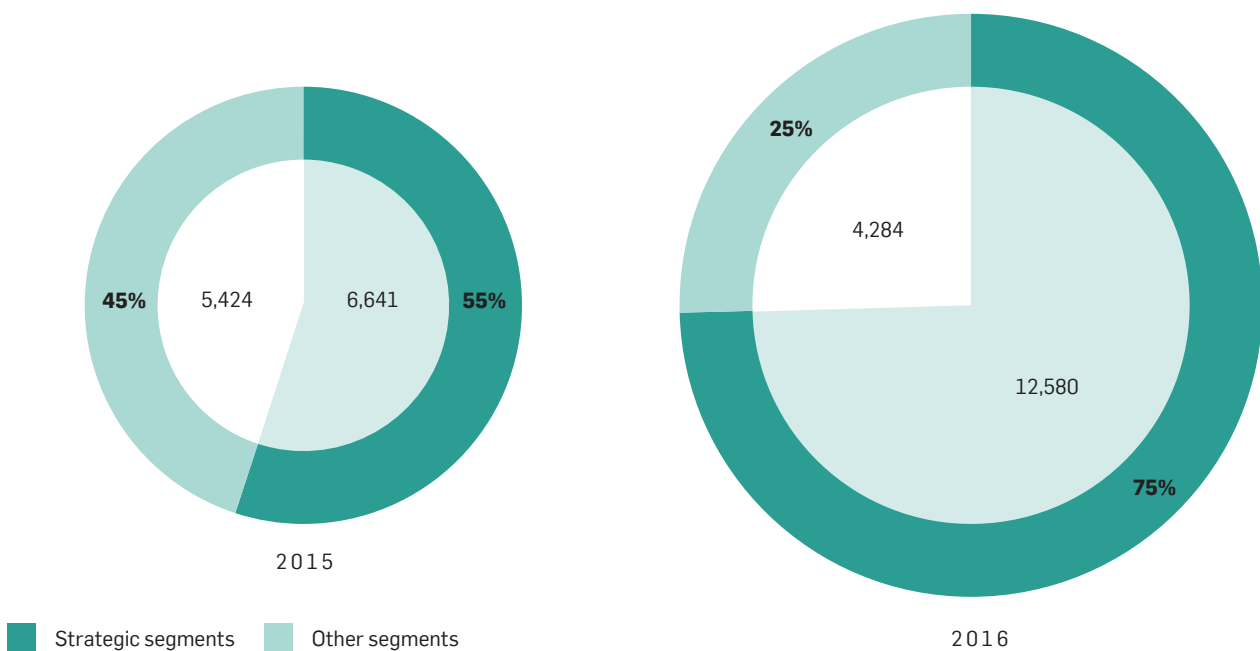
The breakthrough in product structure and sales channels of Retail Banking and SME in 2016 brought about positive results for retail businesses. Notably, unsecured personal loans was the Retail Banking Division's headline product, accounting for nearly 40% of the Division's operating income. In addition, VPB FC enjoyed a year of robust growth in both quality and quantity, and in both volume and performance. The FE Credit brand continually improved its products, increased market share, and improved risk control, thereby achieving good results. Total operating income in 2016 doubled y-o-y to VND8,552 billion. As a result, these strategic segments achieved strong growth in TOI and accounted for 75% of the Bank's total operating income. Satellite segments of the CIB, FM, and FITB divisions

TOTAL OPERATING INCOME (VND billion)



Source: Audited consolidated financial statements

TOI STRUCTURE (VND billion)



Source: Audited consolidated financial statements

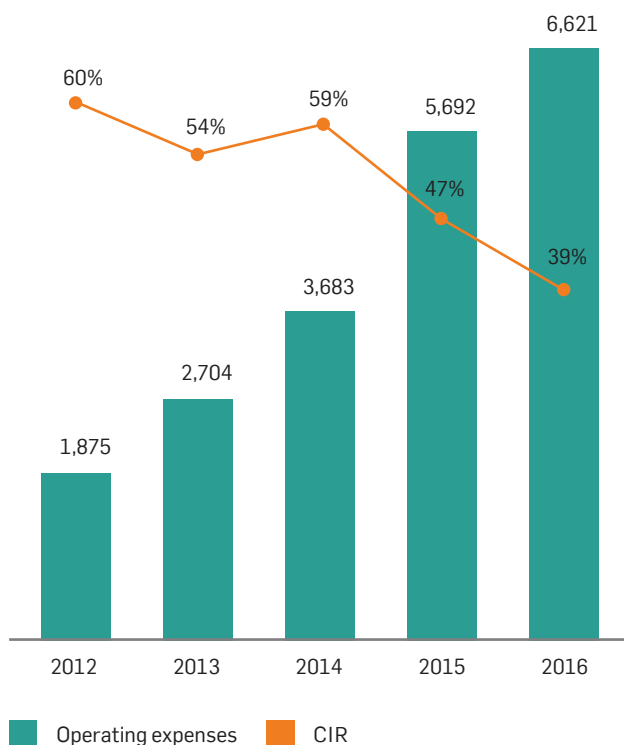
also enjoyed a good financial year. They applied the strengths inherent in their specialized and flexible operating models to provide distinctive financial solutions and collaborate closely with other divisions and external partners for cross-selling and supply chain financing to optimize the Bank's performance. Bigger efforts on trade finance, trade & cash, and off-balance-sheet activities yielded impressive results, contributing impressively to the Bank's fee income growth and lowering the cost of funds.

Positive results from debt collection boosted profitability indirectly by collecting accrued interest and mitigating NPLs, and directly by collecting VND715 billion from settled debts, up 180% y-o-y.

## 2.2 OPERATING EXPENSES WERE KEPT UNDER CONTROL THANKS TO COST SAVINGS, EFFICIENCY, AND IMPROVED PRODUCTIVITY

VPBank continued focusing on developing resources,

OPERATING EXPENSES (VND billion)



Source: Audited consolidated financial statements

entering new segments, and executing key business-focused projects in 2016, which led to high capital costs. However, thanks to effective operational control through the implementation of several projects to optimize operating expenses, improve productivity,

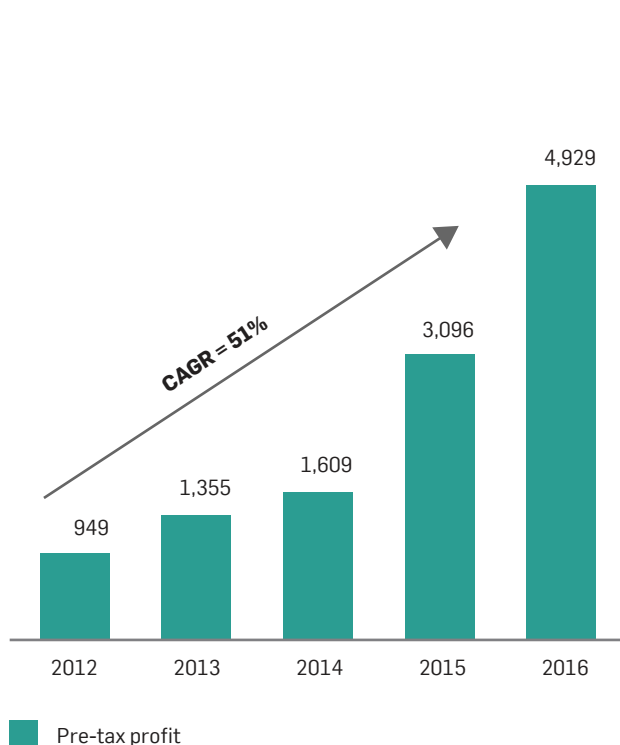
and accelerate digitization, operating expenses in 2016 only increased by 16% y-o-y, much lower than income growth. The cost to income ratio (CIR) dropped from 47% in 2015 to 39% in 2016.

## 2.3 PROVISION EXPENSES INCREASED FOR DEBT SETTLEMENT

Not only did VPBank make provisions accurately and adequately according to SBV regulations, it also took further steps to better resolve possible losses. Total provisions for credit losses in 2016 increased by VND2,549 billion y-o-y to VND5,383 billion. The higher provisions, mainly for on-balance-sheet items, resulted from the restructuring of investment portfolios and the use of provisions to resolve credit losses.

## 2.4 PROFIT BEFORE TAX ROSE IMPRESSIVELY; PROFITABILITY AND CAPITAL EFFICIENCY IMPROVED

Thanks to all these factors, consolidated pre-tax



Source: Audited consolidated financial statements

profit reached VND4,929 billion, of which the Bank's separate profit was over VND3,403 billion by the end of fiscal year 2016. Consolidated pre-tax profit growth rate reached a record high of 59% y-o-y, surpassing the target of 54% set in the General

Shareholders' Meeting and increasing the compound annual growth rate of the past five years to 51%.

Return on Average Assets (ROAA) and Return on Average Equity (ROAE) in 2016 were 1.86% and 26% respectively, higher than those of other joint-stock commercial banks.

focus, and seamless innovation, VPBank came close to or exceeded the key targets set in the 2016 General Shareholders' Meeting, sustaining the momentum of previous years. The profitability ratio, capital efficiency ratio, and other prudential ratios all improved.

### **3. PRUDENTIAL RATIOS AND OPERATIONAL QUALITY**

The SBV's Circular 6 (dated May 27, 2016 on amending and supplementing Circular 36 regarding limits and prudential ratios of credit institutions) reduced the maximum ratio of short-term funds used for medium- and long-term loans to 50% from January 1, 2017, while the risk-weighted ratio for mortgages was raised to 200%. In preparation for these major changes, VPBank started to reallocate funds, set guidelines, and closely control both mortgages and medium- and long-term lending to comply with the regulations and ensure stable and sustainable operations for the Bank. Consequently, prudential ratios were maintained in compliance with the SBV's regulations throughout 2016 and beyond.

### **4. NON-FINANCIAL INDICATORS**

VPBank achieved successes in its non-financial indicators, as well as its financial ones.

Customer base: In 2016, VPBank's saw remarkable growth in its number of active customers, which reached nearly 3.3 million – a rise of 57% from 2015. This is an important foundation on which the Bank can pursue its retail banking strategy.

Card issuance: VPBank's number of active cards in 2016 was about 630,000, up 39% y-o-y. Nearly 100,000 new cards were issued, up 39% y-o-y.

Number of employees: Robust growth in the retail segment was marked by a sharp increase in the number of employees to ensure adequate manpower. There were 17,387 people working for the Bank by the end of 2016, an increase of 4,460 from the end of 2015.

### **5. GENERAL EVALUATION OF BUSINESS PERFORMANCE IN 2016**

Getting closer to the end of the five-year strategic roadmap, VPBank achieved impressive business results with several outperforming indicators, reflecting the Bank's sustainable performance and growth pace in accordance with its strategic objectives. With a proper business strategy, intense

Business performance in 2016

Target (VND billion)	Actual 2016	Projected 2016	% difference, actual vs projected	% increase from 2015
Total assets	228,771	246,223	93%	18%
Customer deposits (including valuable papers)	172,438	188,326	92%	13%
Credit balances	162,832	171,017	95%	24%
of which: lending to customers	144,673	156,358	93%	24%
NPL ratio	2.9%	<3%		
Consolidated PBT	4,929	3,200	154%	59%

Source: Audited consolidated financial statements

HIGHLIGHTS OF

# BUSINESS

DIVISIONS



## BEST BANKING INITIATIVE FOR SELF-EMPLOYED CUSTOMERS VIETNAM 2016

**Presented by Global Banking & Finance Review to CommCredit – VPBank’s tailored brand for household businesses**

CommCredit's full package of financial solutions was greatly preferred by household businesses due to its convenience in approvals, disbursements, and services. Tens of thousands of household businesses have chosen the package and gladly recommended it to other households in 2016.

## BEST MOBILE BANKING APPLICATION VIETNAM 2016

**Presented by Global Banking & Finance Review**

With the most secure SMS OTP features and an intuitive interface that enables easy access for customers from internet-connected devices at any time, VPBank Mobile is proud to provide its users with the most diverse online transaction features.





## RETAIL BANKING

2016 witnessed great strides from VPBank in its journey to become one of Vietnam's top-three retail joint-stock commercial banks by 2017. Retail Banking (RB) saw incredible growth of 54% in operating income and 116% in profit before cost allocation. The dedicated, dynamic, and professional sales force and tellers made a critical contribution to helping VPBank gain trust from close to 2 million customers, expanding the customer base in 2016 by about 50% versus 2015. VPBank's growth is also shown in the increase in both lending and deposit balances, with lending recording impressive growth of 50% from 2015.

With the motto "Actions for your dreams", VPBank aims to provide not only the best experience in banking services, but also diversified, convenient, and appropriate financial solutions for customers and their families, partners, and friends. In 2016, the Retail Banking Division has consistently put its greatest efforts into the development of best-in-class products, services, and strategic policies for diverse customer segments. These brought a successful year in 2016 and raised VPBank's recognition and competitiveness in the retail market.

2016 has seen new records for Retail Banking in its core Unsecured Personal Loan (UPL) product. Thanks to a series of creative product innovations, the number of customers using this product has been increasing rapidly. UPL disbursement has seen an increase of 152% compared with the previous year. We have also strived to offer customers more simple and convenient services by creating landing pages where all unsecured loans are processed online. This innovation not only improves customer satisfaction but also enhances VPBank's image as the pioneer in the digitization process. Pre-approved disbursement and shorter turn-around-time are considered to be the highlights in refining customers' experiences. These impressive features helped VPBank win the "Best unsecured lending product" award from The Asian Banker.

VPBank has also deepened its partnership with reputable real estate developers (e.g., Vingroup and Novaland) and now offers valuable financial and housing solutions for our customers. Partnerships with key auto dealers and suitable commissions have yielded better results for auto loans. Cross-selling programs have been effectively implemented, generating impressive results with a six-fold increase in branch productivity and doubled growth in the product holding ratio of customers with two or more products.

VPBank has also seen success with its credit card products in 2016. The bank has focused on creating strategic partnerships with numerous merchants, along with a series of marketing campaigns, in order to acquire more and more customers, resulting in a total of approximately 100,000 card holders. This led to VPBank winning the "Leadership in MasterCard credit volume" award at the Master Ceremony night. This has set the momentum for further growth in 2017.

Together with the remarkable growth in lending, positive results have been achieved on the liabilities front, with end-of-period balance increasing by 16% compared with the start of the period. Implementation of regular sales contests across branches and sales channels has motivated the sales force and contributed to a 91% increase in average demand deposits (CASA) versus last year. Outstanding achievements with term deposits have been recorded, with a doubling of total online balance. The deposit team has overcome a series of challenges to achieve these impressive results.

2016 was also a thriving year for Bancassurance, with inspiring outcomes. The transformation from a referral model to a staff model in some branches, along with the establishment of the telesales team and the organization of mini-shows at branches, made a great impression on customers, driving Bancassurance to excellent results by the year's end. This can be seen in net fees income and commissions, which both achieved more than threefold increases from the previous year. Successful cooperation with big insurance partners helped fees from life insurance rise nearly fivefold.

The Priority segment in 2016 has seen significant development, both in business scale and customer base. The number of branches with Gold Clubs increased by 75% – from 89 to 155 by the end of the year. Gold Club members jumped 120% compared with the previous year, with 90% of customers being satisfied with the service quality of relationship managers following the restructuring of the sales force policy. In 2016, the Priority Team focused more on improving sales skills, promoting productivity through emphasizing micro-marketing, and enhancing customer care and engagement.

In 2016, VPBank enhanced internal structures with sustained collaboration between departments, ensuring operations within divisions was more coherent. All departments in the Division are aware of the importance of developing and delivering initiatives. These have really helped Retail Banking keep moving forward with the objective of delivering

the best customer experience and becoming the leader in retail banking. In 2017, Retail Banking has set aggressive targets across 25 product and sales channels and will implement a five-pronged plan to foster principal strengths in core products. Moreover, we continue to focus on digitizing the banking process, redesigning the alternative channel to foster robust sales management, and exploiting the effectiveness of cross-selling programs and premium banking. With its discerning vision and strategy, VPBank is confident that by the end of 2017 we can reach our goal of becoming one of Vietnam's top-three retail joint-stock commercial banks.

## CONSUMER FINANCE BUSINESS

VPBank Finance Company – under the FE Credit brand – has proven to be the leader in virtually every aspect of the consumer finance market. FE Credit has constantly improved its products, expanded its distribution network, enhanced its stringent risk management framework, maintained a lower level of non-performing loans, and focused on creating powerful human resources in order to secure its sustainable growth.

As the leading organization with the largest nationwide distribution network, FE Credit has helped millions of Vietnamese customers to meet their financial challenges with a wide range of unsecured loan products and financial services. This distribution system delivered record-breaking volumes in consumer durables loans and two-wheeler loans. It has laid a strong and growing foundation for cross-selling and top-up products.

In 2016, FE Credit has witnessed incredible growth, with new acquisitions exceeding 2.7 million accounts, the number of points of sale growing by 148% to 7,900, and about 125,000 credit cards issued after only one year of distribution. FE Credit has also achieved great success in capital mobilization, with VND40,000 billion of funds mobilized from a diverse set of financial resources. Notably, FE Credit has recently obtained a USD100 million senior secured term-loan committed facility from Credit Suisse. This cooperation is a breakthrough for FE Credit's funding mobilization and demonstrates the trust that international banks have in the business performance and sustainable growth vision of FE Credit. It has also encouraged FE Credit to increase its targets and strengthen its sustainable future growth and development. Established in 2010, the company has created a professional working environment and become a positive and desirable workplace for many young, energetic, and ambitious talents, with the

number of employees having now reached 14,600.

2016 marks the sixth year of growth and development of FE Credit; the company has surpassed its more experienced competitors and become the leading consumer finance organization in Vietnam. In 2016, FE Credit was honored to receive three noteworthy awards:

- Best Consumer Finance Company Vietnam, from Global Banking & Finance Review, United Kingdom
- Best Consumer Finance Brand Vietnam, from Global Brands Magazine, United Kingdom
- Top Brands Vietnam 2016, from Global GTA Vietnam

FE Credit is accelerating its expansion in both breadth and depth, focusing on both business scale and efficiency. Along with meeting the company's bold business targets, the firm will improve its infrastructure, strengthen its risk management, optimize operating costs, enhance service quality, prepare for contingency scenarios, diversify product portfolios, and develop a healthy multinational corporate culture.

## HOUSEHOLD BANKING

Established in 2015, VPBank's household banking segment under the brand name CommCredit has been making vigorous strides in 2016. Targeting millions of mass-market, self-employed customers in Vietnam - traditionally called 'household' – CommCredit has enjoyed a year of explosive expansion and proven its core role in VPBank's journey to become a leading retail joint-stock commercial bank in Vietnam.

CommCredit leverages VPBank's wide network in urban markets, extensive domain knowledge, and highly engaged workforce to provide timely credit, enhance financial literacy, empower individuals, and improve the quality of life of its customers. The business is driven by a well-defined risk appetite framework, a relentless focus on credit quality, development of innovative and tailor made products, high quality asset portfolio, and robust business performance.

Pursuing the community-based business model, the corporate social responsibility initiatives executed by CommCredit have ably supported its objectives. The 'I Love Viet Markets – Keep Clean and Make Green' has been rolled out nationwide during the year. The strong segment focus has helped build trust and credibility for CommCredit, and earned the award for 'Best Banking Initiative for Self-employed Customers' from Global Banking & Finance Review.

Beyond helping VPBank to earn international awards and recognition, CommCredit's efforts in 2016 also won the trust and affection of thousands of customers all over Vietnam. From a network of 35 branches in 2015, CommCredit has expanded to 129 branches in more than 39 cities – a nearly three-fold expansion – making this one of the largest dedicated distribution networks for the household segment in Vietnam. The number of customers has grown seven-fold, to more than 50 thousand, proving that VPBank's improvements are not just in the physical network, but also in its customer attraction and satisfaction.

VPBank's success in customer approval has been translated into remarkable financial performance. By the end of 2016, loans balance and fees income had increased eight-fold, and revenue ten-fold. In addition, CommCredit achieved operational breakeven in July 2016, well ahead of schedule, and it is now expected to achieve financial breakeven in early 2017.

VPBank developed extensive nationwide coverage for CommCredit in 2016 and will strive to expand our presence in non-branch locations in 2017 to better serve household customers. Furthermore, the business will focus on strengthening frontline teams through internal training and simplifying effective frontline processes, as well as diversifying the simple and strong product mix. These efforts and targets are to make CommCredit the preferred financial partner for all household businesses in Vietnam.

## **SME BUSINESS**

The market environment in 2016 was marked by high foreign exchange volatility and a lack of credit demand from well-qualified enterprises. In spite of the external challenges, VPBank still managed to grow SME loans by 30%. To grow in scale with higher efficiency, VPBank consciously identified and focused on the under-served micro SME segment. New products like Business Installment Loans and a cost-efficient alternative sales channel piloted earlier were expanded to drive our results in 2016. Consequently, VPBank achieved its main growth targets as well as increasing its overall lending interest margins in the SME segment.

Whilst the smaller SME segment brought good performance, the shortage of collateral, financial transparency, and weak capital structure which are features of the segment were key challenges which required innovative loan pricing, expanded investment in human resources, and powerful risk management tools to successfully navigate.

VPBank also registered healthy growth in larger SME

segment, with higher cross-selling of products and services. As a result, total fees income grew by 38%, contributing to the 40% increase in total operating income from this segment and a five-fold increase in profit contribution to VPBank.

In 2016 VPBank made good headway in the SME market with transactional banking solutions. Revenue from insurance products and trade services contributed 75% of total fees income. Our commercial payment and collection solutions also opened exciting opportunities in the e-commerce space. To further strengthen payment propositions, VPBank launched Platinum VPBiz Card and Business Controller in 2016 to provide our customers with fast-moving commercial payments. VPBank's efforts in bringing product innovation to our customers was recognized with the 'The Most Innovative Credit Card' award from Asian Banking & Finance. VPBank will continue to focus on providing excellent services to increase fees income, and work with business partners and specialists to develop innovative solutions to ensure our ongoing presence in the digital world.

Our people are an important pillar of our success in delivering differentiated value to our SME customers. As such, VPBank has continually invested in human resources, and the skillsets of sales staff in 68 SME centers has expanded to provide our customers with sound banking advice and services. The people development plan and career path, which was launched in 2015, has been refreshed to ensure that we meet the aspirations of our people. Our investment in human resources has not only created higher productivity from our staff, but also sustainable relationships and success. For years, VPBank has strived hard to support the SME community in Vietnam through our cooperation with trade associations, Government authorities and international bodies like the International Finance Corporation and World Bank. Accolades like 'Best SME Partner 2016' from International Data Group and the Vietnam Banks Association are our encouragement to work harder to serve the business community.

2017 will be the fifth year of our SME growth plan. To drive continual improvement, VPBank has identified several SME themes to tackle in the new financial year. Growing the micro SME segment, which started in 2016, will continue to receive our strong commitment and financial investment. Our client relationship model will be reconstructed and processes will be simplified to increase customer-facing time and overall productivity. Segmental data and customer feedback will continue to improve our product development and customer care program in the coming years. Barring any unforeseen circumstances, VPBank is optimistic

that 2017 is going to be another successful year for the SME segment with sustainable growth in profitability and scale.

## COMMERCIAL BANKING

Overcoming the market turbulence and challenges encountered by the entire industry, both VPBank and Commercial Banking (CMB) Division have made great efforts to sustain growth throughout 2016 and to lay a solid foundation for future development.

Specifically, the VPBank continued to consolidate its leading position in the bank in guarantee, L/C, domestic and international payment services. At the same time, it maintained stable deposit volume and increased its average loan balance by 20% y-o-y. Consistent with the principles of sustainable development, focusing on transaction efficiency and boosting revenue by service fees and charges, CMB recorded an increase of 50% y-o-y in non-interest revenue and of 35% y-o-y in profit before tax. Expanding the customer portfolio paved the way for CMB Division to broaden its scope of business in the future. In addition, as risk management and post-disbursement control were frequently focused upon, the Division had no NPLs incurred in 2016.

Embarking on 2017 with plenty of both potential and challenges, CMB Division is directing its business operations towards four groups of products and services: (1) full package of financing service; (2) trade financing; (3) supplier/distributor financing; (4) continued studied and leveraging market opportunities for safe and effective project financing. CMB, therefore, will focus on cross-selling to the existing customers and expanding new customer portfolio at the same time for higher efficiency. Services and customer care will be further improved to strengthen customer engagement with the Bank, leading to sustainable business performance. In addition, CMB, in collaboration with related units, will work more closely with industry associations to develop and deliver the most suitable products for corporate customers.

Regarding risk management and post-disbursement monitoring, the Division will tighten customer selection principles to better recognize good customers upfront, enhance risk warning and detection, and provide effective and prompt solutions for risk settlement. With the achievements of five years of development, CMB is expected to take bigger leaps in 2017 to contribute to the growth of VPBank.

## CORPORATE AND INVESTMENT BANKING (CIB)

Despite both micro and macro turmoil in a volatile business environment, CIB still managed to meet its key financial targets in 2016.

Established by the merger of the Corporate and Institutional Banking Division and the Investment and Project Financing Division in late 2015, CIB has leveraged its flexible and specialized organizational model to deliver comprehensive financial solutions through end-to-end financial products and services to both its corporate customers and their agents and suppliers. The management of investment and debt portfolios was specifically focused upon, resulting in enhanced performance of investment and lending.

2016 witnessed CIB's close collaboration with the Financial Institution and Transaction Banking Center, acceleration of trade finance, increase in guarantees and letters-of-credit balance as well as fees income. In addition, the division contributed remarkably to the delivery of distributor financing to large corporations, and its investments also enjoyed success as portfolio management was continually strengthened to ensure security, efficiency, and quality of investment activities. Consulting services – including issuance and funding arrangements – were also improved, and recorded considerably higher fees income y-o-y.

In early 2017, in addition to continuing to improve service quality to its traditional corporate customers such as VNPT, Mobifone, Viettel, and VEAM, and to FDI enterprises such as Yamaha and Nippon Seiki, CIB will focus on offering off-balance sheet products and working capital to meet its customers' needs. The division will also promote cross-selling and collaboration with other units of VPBank to provide structured and specialized packages and services to best serve customers. The investment section will continue investing in bonds with high yields issued by other securities companies and financial institutions, while ensuring risk management. With all of these, CIB is highly confident that it will achieve greater success in 2017.

## FINANCIAL INSTITUTION AND TRANSACTIONAL BANKING

In three years of operations, VPBank's Financial Institution and Transactional Banking (FITB) Center has successfully promoted trade finance, executed transactional banking strategies, and built strong relationships with international financial institutions.

In 2016, FITB launched several key products, including trade finance (e.g. usance payable-at-sight letters of credit [UPASL/C], distributor financing, and warehouse financing in line with international standards) and monetary management (e.g., e-tax, online guarantee, and payment & collection services). Expending great efforts, VPBank made remarkable progress in offering 11 distributor financing programs to its customers, key of which were multinational enterprises and large corporates. UPAS L/C revenue rose by 29%, and total net fees income by 11%, y-o-y.

In the financial institution segment, VPBank achieved robust growth in capital volume and credit limits from domestic and international financial institutions. Total limits issued by foreign banks grew by 20%, and by State-owned banks by 35% y-o-y. Notably, VPBank was approved for a mid-term loan worth USD133 million for five years by IFC under its Global Trade Finance Program. In 2016, VPBank continued to be one of the banks receiving investment trust funds from international organizations such as World Bank and JICA to support SME production and business, with a total growth rate of 150% in loan balance over 2015. VPBank was also selected by World Bank as one of four banks to disburse Vietnam Sustainable Agriculture Transformation project capital of up to VND200 billion. Besides expanding those projects, the Bank expects to launch ODA-funded projects such as a renewable energy project of the German Development Bank and the Ministry of Planning and Investment's SME Development Fund.

FITB's outstanding performance helped reaffirm VPBank's position and prestige in both domestic and international markets. Entering 2017, VPBank will continue to develop supply-chain and industry financing products as well as cash-flow management solutions to meet diverse customer demand; strengthen the Bank's correspondent relationships with domestic and international financial institutions; and enhance relationships with international financial organizations such as the International Finance Corporation and the Asian Development Bank to raise mid- and long-term limits to support VPBank's business strategies and direction.

## FINANCIAL MARKET

In 2016, the Financial Market Division continued to restructure its activities, including FX, money market, and bonds, to achieve game-changing performance with exceptional achievements. The Division's success in 2016 was marked by impressive results.

In addition to strengthening traditional business, the

Division underwent major restructuring, introducing new financial products – notably FX, derivatives, and structured products – that target a wider range of customers, and especially high-value clients. This was instrumental to the successful issuance of VPBank's long-term bonds, based on well-considered product structuring and excellent prospects.

In 2016, the Financial Market Division sought out and cooperated in implementing solutions for managing prudential ratios, making the best use of excess funds, and optimizing the balance sheet, supported by financial analysis models to forecast compliance ratios and analyze and predict interest rate developments.

The Division took steps to develop a professional sales force and worked closely with other business divisions to deliver financial market products to customers in a more proactive manner. Thanks to the professional team, VPBank provided both conventional products and advice on exchange and interest rates to customers, offering greater value and setting itself apart from competitors.

From an operational perspective, the Division continued to implement modern management and trading software to enable quick execution, accurate and efficient pricing, and better risk management for special interbank activities such as bond trading, placements, foreign exchange, and derivatives. As a result, the Financial Market Division achieved outstanding results, hit its whole-year profit target by the third quarter, and increased its TOI by 43% y-o-y. In addition, VPBank remained among the top five highest-performing commercial joint-stock banks in government bond biddings in 2016, according to Ministry of Finance rankings, and the Bank is included in the Vietnam Bond Market Association's market-maker list for 2017 for the first time. Against this backdrop, VPBank is confident of achieving further financial market successes in 2017.

## DIGITAL BANKING SERVICES

Digital banking has been a critical strategy for VPBank, demonstrating the leadership's vision of the future of the banking sector and the shifts in customer behavior. Established in January 2016, the Digital Banking Services Division has been relentlessly focusing on realizing the following key dimensions of the digital strategy:

- Digitizing traditional banking services to improve service quality, optimize operating costs, and enhance customer acquisition

- Partnering with Fintech companies to adopt revolutionary ideas in banking services and create a highly differentiated and exciting customer experience

The establishment of a standalone function for digital banking demonstrates VPBank's determination to lead the field and build a solid foundation to radically transform VPBank into a leading bank in terms of customer growth and operational efficiency. VPBank has taken major steps to realize its vision:

- Established the 'Digital Lab' in October 2016 – an advanced innovation model to foster and develop the digital customer experience – with support from McKinsey and the engagement of staff from many functions
- Re-engineered VPBank's processes towards automation and digitization
- Digitized service delivery channels – under this strategy, services can be accessed online and customers can also self-conduct some transactions without going to branches

In parallel, VPBank has continued to push the digitization of products and processes, and enhance the quality of banking services delivered through computers and mobile devices. VPBank now offers its customers the most diverse suite of products and services of any bank in Vietnam, which include most online financial services such as account transfers, deposits, lending, credit cards, and bill payment of over 300 types of bills.

In 2016, VPBank was one of the first banks to successfully digitize pre-approved credit cards, Timo credit cards, and overdraft products for payroll and current account customers (Sm@rt OD). Partnerships with Fintech companies – particularly Timo – have brought differentiated, modern, and convenient services to banking at VPBank.

With these constant efforts, the Bank has experienced a 260% rise in the number of digital users since 2015, and online savings balance has increased two-fold from 2015 and twelve-fold from 2014. The proportion of online transactions has reached 33%, with nearly 100% of transfer transactions conducted via digital channels. The number of financial transactions through digital channels surpassed the number conducted over the counter for the first time in November 2016. The number of online loan and credit card applications has also skyrocketed by around ten times from 2015.

Awards such as 'Best Digital Banking Initiative in Vietnam' from The Asian Banker, 'Best E-banking Initiative' from International Data Group, and 'Best Mobile Banking Application Vietnam' from Global Banking & Finance Review were presented to VPBank in recognition of its relentless efforts to serve customers. In 2017, the bank will continue to accelerate the implementation of initiatives and the creation of new customer experiences, and to take the lead in digitization in Vietnam's banking sector.

ACHIEVEMENTS IN

# FOUNDATION BUILDING



BEST DIGITAL BANK

**Presented by International Data Group (IDG)**

This award proves VPBank's robust performance in its development strategy, online customer acquisition, security technology adoption, and product integration in the digital channel.



## RISK MANAGEMENT

VPBank's risk framework is based on three main pillars of risk management: credit, market, and operational. Risk management practices are integrated into key strategic, capital, and financial planning processes, as well as day-to-day business processes across the Bank, with the goal of ensuring risks are appropriately considered, evaluated, and responded to in a timely manner.

The Bank has taken extensive preparatory steps for the implementation of Circular 41/2016-NHNN (issued December 30, 2016) that envisages compliance with Basel II standards on credit institution capital adequacy. The Bank has executed regular computation of capital adequacy ratio, as per Basel and State Bank of Vietnam requirements, and is continuously improving its risk governance according to Basel recommendations. As 2018 approaches, advanced preparation, data quality and availability, and the implementation of integrated risk solutions will be top priorities for VPBank.

Building on the organization structure optimized in 2015, the skills and expertise of those tasked with implementing the management of risks was the focus in 2016, with over 150 training sessions conducted in-house by internationally experienced professionals.

### Credit Risk Management

The credit risk management strategy of VPBank is driven by a well-defined risk appetite framework, a relentless focus on credit quality, champion-challenger testing of credit underwriting criteria, facilitating high quality asset portfolios, and ensuring risk-reward transparency. In 2016, VPBank's credit quality remained under strict control with the non-performing loan ratio staying below the prudential limit of 3% of total loans. To ensure sufficient credit quality, VPBank has implemented application credit scoring cards for retail and SME customers, while credit rating models are used for corporate clients and financial institutions. In 2016 VPBank also introduced behavioral scoring models for cross-selling, up-selling, and card limit management for existing clients. VPBank is one of the leading banks in Vietnam in developing 'big data' scoring models for retail customers. To monitor and proactively manage its existing credit portfolio, VPBank uses robust portfolio analytics, early warning signal systems for all client types, and credit review processes to randomly check and address high-risk exposures.

In addition, the Bank has successfully upgraded

its Environmental and Social Management System (ESMS), which includes policy and procedure issuance as well as intensive training on ESMS for credit officers.

### Market Risk Management

In 2016 the market risk management governance framework of VPBank was improved by establishing a dedicated committee for addressing valuation and other market risk topics and updating respective approval authorities. The market risk limit system was reviewed and strengthened to ensure compliance with best international practices and the requirements of the State Bank of Vietnam, and to safeguard the Bank's risk positions against the challenges of the financial market.

### Operational Risk Management

The importance of operational risk management has been emphasized for all employees of the Bank. VPBank's current fraud management and information security frameworks were implemented in 2016, and the strict requirements of these policies, such as zero fraud tolerance programs, reduced time-to-investigate, prevention of internet usage for non-business purposes, and controlling USB connections with the Bank's computers, have been reinforced across the Bank to mitigate information leakage and computer virus infection. The vast majority of VPBank's documents and processes are assessed from an operational risk perspective and the process of operational risk incident recording and tracking is being systematically improved. VPBank has key risk indicator systems for all business lines and supporting units that are monitored regularly. General training for all employees, specialized training for specific business and supporting units, and communication sessions have been conducted through the year to enhance staff awareness of operational risk. A statistical approach has been implemented for operational risk limitation within main operational processes.

VPBank has 100% coverage of all major activities by business continuity plans. In 2016 several business continuity scenarios were successfully rolled out and tested.

### Collection

In 2016, VPBank substantially increased the efficiency of its collections processes by implementing a new collections IT solution alongside a predictive auto-dialer. The Bank has also developed comprehensive pre-collection strategies that are improving the quality of credit portfolios. Analytical tools and the



new collections system allow proactive execution of capacity management.

Risk management has been a key contributor to VPBank's success over the past year. In 2017 the Bank will continue to aggressively improve its risk management and collections system as a strategic foundation to reach its vision of becoming a top joint-stock commercial bank in Vietnam.

## OPERATIONS MANAGEMENT

In the penultimate year of the Bank's 2012-2017 transformation roadmap, the Operations Division consolidated and strengthened its position as the primary driver of excellence in customer service, efficient and cost-effective utilization of resources, and strong governance & controls within the processing areas of the Bank.

**Customer Service:** In 2016, VPBank was recognized as the "Best Customer Service Bank – Vietnam" by UK-based Global Banking & Finance Review.

Continuing the transformational initiative of centralizing the management of branch services into the Operations Division, the whole network was brought under Operations management during 2016, having completed branches in Hanoi & Ho Chi Minh City during 2015.

To ensure synergies among all the various service channels so as to heighten the customer experience, all key service delivery customer touchpoints – branch services, 24/7 contact centre, ATM network, and the complaints resolution unit -- were consolidated under a single service management structure within the Division. This has helped the Bank to improve the time taken to resolve customer grievances and provide better response time on other client issues.

In order to improve the overall branch experience for customers in terms of wait-time and convenience, a number of processes were re-engineered; these have resulted in improving the productivity at our branch counters by more than 30%. Additionally, 40 new cash deposit machines (CDMs) were installed in branches, thus offering clients a more efficient and convenient alternative to using teller services for their cash deposits.

Also, our branch service staff have proactively been educating customers on the use of alternate channels – ATMs, CDMs, and internet banking -- for service delivery. More than 80% of cash depositing customers at branches which have CDMs, have switched to the

new alternate mode of cash deposits. In addition to benefiting cash customers, this has allowed our service staff to improve service time for other customers.

Strong focus has also been attached to the customer experience of our Retail and SME credit card clients. Key initiatives in this field have seen a dramatic reduction in the number of failed transactions of both domestic and international credit card users.

Very clear service standards have been established across all service channels, with a focus on constantly measuring the Bank's service levels at our branches, call centre, automated teller machines network, and service recovery unit. These standards have been benchmarked against global best-in-class practices and are the cornerstone of the Bank's service delivery commitments to our clients.

**Operational Efficiency:** Enhanced productivity, improved processing time, and optimized usage of resources have continued to be the pillars of the Division's focus on operational efficiency during 2016.

Despite dramatic growth figures in lending by core business lines of the Bank, credit processing in Operations has sustained its turnaround times while simultaneously scaling its process capabilities without corresponding increases in human resources and cost. This has been achieved through a combination of process simplification, some elements of automation, and stronger management of labour productivity. This has also resulted in substantial reduction in the unit cost of our products and services.

Similar initiatives in payment processing, trade and treasury services have resulted in higher straight-through processing capabilities and quicker turnaround for our corporate clients during 2016.

'Continuous Improvement' is the guiding philosophy for the Bank's Head Office processing functions. The practice of receiving constant feedback from operating units, and converting ideas to action, has resulted in impressive savings in the number of operational headcount as well as marked improvement in 'time to serve' for our wholesale as well as retail clients. During 2016, these developments were of particular importance in view of the substantial growth in sales numbers across various products.

**Operational Control:** Recognizing the fact that breakthrough business growth requires stronger prudential controls, the Operations Division has strengthened its management capabilities by bringing process management and operational controls under a

consolidated structure. By merging the two functions, the Bank will have a more holistic picture of the risk points in every operational process.

Following the “three lines of defense” strategy propagated by the Institute of Internal Auditors and advocated by the Basel Committee on Banking Supervision, the Operations Division has taken steps towards institutionalizing the concept in both frontline branch services as well as back-end Head Office processing units.

Additionally, we have strengthened the Post-Disbursement Monitoring function to cover the entire SME lending portfolio and will soon cover secured lending in the Retail portfolio.

The need for security and safety of our card customers has driven us to take some major steps in Card Operations during 2016. After upgrading the cards management system last year, the Bank rolled out a Real Time Risk Management system to track card customer usage on a 24/7 basis and alert our clients in the event of any suspicious transactions. Additionally, the Bank implemented 3D Secure protocol, introducing an additional layer of security for our credit and debit card customers using e-commerce channels.

Further, to ensure EMV compliance for MasterCard and Visa acquiring on our ATM network, the Bank is upgrading all its ATMs to Windows 7 while simultaneously getting ATM PIN security audit done in line with Visa requirements.

**Vision:** During 2017, the final year of our current transformation journey, the Operations Division will continue its emphasis on enhancing service delivery and ensuring that process efficiency leads to greater customer satisfaction and cost optimization.

## HUMAN RESOURCES

Human resources have been one of the key drivers of VPBank’s success in recent years. In 2016, VPBank continued to implement and improve important HR policies, projects, and initiatives to improve management efficiency and create a solid human resources management (HRM) foundation.

The successful implementation of core HRM system projects in 2016 enabled the Bank to optimize HR and risk management processes and procedures. Since going live and being used throughout the Bank, the job family system has helped the Bank effectively manage human resources, develop and implement training programs according to work requirements, and assist

VPBank’s staff in recognizing different capability and experience requirements for each job position, thereby simplifying and centralizing recruitment where possible. The Human Resources Division has continued to work with Korn Ferry Group to finalize the job family group model and develop key criteria for each job grade so managers can align their HR plans with business plans and required headcount. Staff can also take the initiative in developing short-term and long-term career growth plans.

By adopting and implementing SAP’s HRM system, the Bank has followed international practices. Key modules, such as organizational structure and personal information management, online recruitment, timesheet and salary payment management, and the online service portal were finalized, and at the end of 2016 VPBank moved recruitment tests online to ensure transparency and concordance between tests and jobs. With aspirations to digitize HR processes, the Bank has put in place a strategic roadmap for finalizing other HR functionalities in 2017 to improve the productivity and efficiency of risk and HR management.

Recruiter branding plays an important role in the Bank’s long-term strategy. VPBank is aiming to become the choice of high caliber applicants with career growth ambitions. The motto “Not Just a Job, but a Career” represents VPBank’s aspirations for building a leading commercial joint-stock bank in Vietnam in partnership with its staff. The Bank also puts great effort into creating learning and knowledge acquisition opportunities for staff to advance in their careers, thereby gaining personal successes within a successful organization.

Staff training and development were given a boost by the introduction of knowledge and capacity-building programs tailored to job groups. VPBank Academy has focused on providing sales skills and credit risk identification courses to the bank’s key revenue centers, in addition to soft skills and knowledge courses for support units to improve understanding and productivity. Leadership and management skill courses focus on business units to improve management capability and train successors for the Bank. VPBank staff are encouraged to improve skills and learn on the job, to help realize their career development plans.

By devising and gradually fine-tuning the HRM strategy, the Bank is strengthening its position in the financial market in general and the human resources field in particular. In relentless pursuit of improvement, the Human Resources Management Division will keep listening to staff, improving systems, providing instructions to users, and making sure that

systems will be well used once they go live. In 2017, the division and the Bank's leadership will focus on recruiting the right people, retaining high performers, and finalizing core modules, thus putting together all the key components of the Bank's top local employer branding strategy.

## INFORMATION TECHNOLOGY

Information Technology was a key factor in, and enabler of, VPBank's success in 2016.

With past achievements on building IT applications and solutions, VPBank continued implementing projects and initiatives to foster innovation and efficiency in business operations, notably:

- World-class ERP solution from SAP, with the following modules going live in 2016:
  - Fund management
  - Finance – accounting & control
  - Budget planning & control
  - Human capital management and learning management
- Top-tier card management solution from OpenWay

In addition, ongoing and future projects and initiatives will enable the Bank to deliver even greater value:

- Pilot and launch of an advanced loan origination system
- Application systems for mobile and internet banking
- World-class core banking system from Temenos
- Data warehouse and integration service bus systems for data analytics based on IBM solutions
- Payment hub and call center system from globally renowned vendors

In 2016, VPBank shortened the time-to-market of new banking products and services by streamlining end-to-end IT-related services and processes, in particular:

- Restructuring the IT Division and developing mechanisms for managing relationships with other units
- Establishing a clear IT strategy and architectural controls
- Building a cross-functional team that focuses on digital banking and operates according to Agile and Scrum methodologies
- Attracting the most experienced people, both locally and internationally
- Investing in people development
- Maintaining strict SLAs with business units

In 2016, VPBank also teamed up with fintechs, telcos, and retailers, clearly demonstrating the Bank's strong emphasis on digital business processes that cater to youthful, dynamic customers.

It is critical to have a well-formulated plan for information security. Therefore, VPBank proactively invested in information security in 2016 by implementing many solutions as part of its IT security strategy. Those investments are aimed at increasing the level of protection for VPBank's customers.

With the achievements of 2016, IT will serve as a good foundation for VPBank's fast, sustainable growth and its leadership of industry trends, contributing significantly to Vietnam's economic development and prosperity.

## BUSINESS INTELLIGENCE COMPETENCY

Since 2014, VPBank has embarked, under an enterprise-level program, on a path to elevate its disparate data systems to the deserved status of strategic asset and reshape VPBank into a truly information-centric enterprise where both data quality and consumption are aggressively and consistently managed by the leadership team. The Business Intelligence Competency Center (BICC) has been operating under the direct supervision of the CEO since early 2014. In 2016, BICC continued to move forward with its agenda of report automation and providing incisive analytics to decision makers. At the end of 2016, BICC has become a critical support unit for the bank with almost 60 highly skilled people. Its reports and dashboards, deep-dive analyses, and advanced analytics have provided critical business intelligence and insights to business and supporting units of the Bank. BICC also caters to a host of data management and data governance services to create a solid foundation for managing data as an asset. More than 100 internal management and regulatory reports have been automated on a business intelligence platform, and the impact of analytics on business units' total operating income is being measured and presented to the Board of Management. BICC is proud of its services in:

- Sales and pre-sales
- Service/Channels
- Marketing campaigns
- Customer/Segments
- Risk and Collections
- Products

- Data Management
- Data Governance

In 2017, VPBank aims to take further great strides in substantially improving data quality, increasing the scope and impact of various analytics projects, and achieving a high degree of report automation.

## MARKETING & COMMUNICATIONS

### External communications

In 2016, VPBank continued to affirm its leadership role by organizing events for customers, partners, and the public – especially the VPBank Concert, which contributed considerably to enhancing the Bank’s brand as it received positive feedback from both the press and public for unique ideas, artistic quality, and meticulous professionalism. The VPBank Legend Concert – Paris Ballet par VPBank presented the audience with classic ballet excerpts performed by ballerinas from L’Opera de Paris – the cradle of contemporary ballet. With this event, VPBank continued to show the consistency of its mission to deliver the world’s quintessential arts and bring a prosperous life in both finance and spirit to the Vietnamese people. Following the success of the Richard Clayderman and Kenny G concerts, Paris Ballet has marked Vietnam on the map of international arts as a promising destination for the world’s leading artists.

2016 witnessed the spectacular success of Private Concerts honoring the Bank’s customers and partners. Two nights of Thomas Anders – vocalist of the legendary pop band Modern Talking – were enthusiastically received by nearly 7,000 people. Modern Talking Featuring Thomas Anders & Band exceeded the expectations of a year-end thank-you concert to become a genuine art event and a highlight among the Vietnamese art-loving community. Meanwhile, the ‘We were in love’ concert in Ho Chi Minh City, with the wonderful combination of Bang Kieu and My Tam, was a truly precious gift for 1,000 customers and partners of VPBank.

As a retail bank, VPBank is targeting younger customers through many exciting activities on the internet and social networks. Notably, VPBank’s ‘Dream Job’ campaign, offering 2,000 candidates the opportunity to apply for the privilege of spending VND100 million via a Step Up credit card, marked an important milestone in 2016. Receiving attention from the public and press through widespread publicity, the campaign was a great example of an impressive disruptive marketing method.

VPBank’s Facebook page experienced rapid growth in interactions in the past year, retaining its leading position among Vietnam’s banks. A consistently high level of interactions – likes, shares, and comments – reflected customer engagement and interest in the Bank. Through its efforts, VPBank became the second



Thank you party ‘Modern Talking Featuring Thomas Anders & Band’

highest online sharing brand among private joint-stock commercial banks with roughly 83,000 comments on social network.

### Internal communications

VPBank continued to make the most of its internal communication channels in 2016. The bilingual regular Prosperity Magazine newsletter and the e-newsletter VPBank Today consistently improved in both content and form, and were well received by all VPBankers. The Bank's Facebook fan page became an effective information channel with over 15,000 active followers. The internal poster system, employees' personal computer desktop backgrounds, LCD screens in hallways and elevators, and the recently launched VPRadio 'More Than Words Can Say' have made messages more compelling and interesting to VPBankers. Periodic bank-wide activities are receiving increasing interest from VPBankers, including "Commandos – Journey to Enlightenment", the Trang Nguyen professional contest, and events aimed at developing employees' creativity and talent like 'Sing & Dance', VPShow, and Night of the Stars. Professionally and creatively organized, Miss & Mr VPBank 2016 attracted great attention

from VPBankers and peer banks, and were a hit on both social networks and the news. For promoting the VPBank brand, internal activities are a bold experiment but one that is bringing positive results.

For communications to reach all VPBankers, a series of roadshows was held at local branches across the country before each event, which also helped to strengthen the relationship between colleagues at branches and Head Office. This approach was particularly effective in raising internal communication activities to new heights in 2016 and generating enthusiasm throughout the Bank for programs and events of ever-increasing scale.

### Social welfare programs

VPBank promoted benefactor social welfare programs regarding education in 2016 by funding over VND3 billion to provincial study encouragement funds and associations as well as building schools in needy localities. Besides, smaller-scale programs including "Warm clothes for winter", "Back to school after the flood", "Donation to Thien Nhan fund" were launched with increasing practicality and deep significance in sharing love and sympathy to the community.



Thank you party 'We were in love'



'Paris Ballet par VPBank' Concert



'The Miss & Mr VPBank' pageant