

REPORT ON 2017 PERFORMANCE REVIEW AND BUSINESS PLAN FOR 2018

ATTENTION : VPBANK'S SHAREHOLDERS

Board of Management would like to report to the AGM about business performance of 2017 and key business plan and directions for 2018.

SECTION 1: 2017 PERFORMANCE REVIEW

On the back of improved global economy, Vietnam made impressive economic achievements in 2017. The GDP was up 6.81%, the highest in the past six years and well above the National Assembly's target of 6.7%. Besides robust growth, all important macro-economic indicators were stable and improved. Inflation rate was below 5%, significantly lower than the average inflation rate of 6.5% in the period of 2011 – 2017. The debt-to-GDP ratio was on a downward path. Balance of trade improved. Nevertheless, the economy faced many challenges such as dependence on export and FDIs for growth, rising protectionism in the world, high public debt, and budget deficit.

Vietnam's finance – banking industry made positive contributions to the economic growth and macro-economic stability. Exchange rates were kept stable and interest rates low. As of December 20, 2017, total liquidity was up 14.19%, credit growth rate was 16.96%, and deposit growth rate was below 14.5% while liquidity was maintained and abundant. The restructuring of credit institutions coupled with NPL resolution continued to be a focus, particularly with the issuance of Resolution No. 2/2017/QH14 and Revised Law on Credit Institutions.

VPBank made significant achievements in 2017 and was a standout in Vietnam's banking industry. The five-year strategy 2012 – 2017 came to a close with spectacular successes, i.e. stable, sustainable growth and selective, quality development that brought about efficiency and performance. Therefore, VPBank is ready for the 2018 – 2022 strategy with many new aspirations.

I. 2017 BUSINESS PERFORMANCE

A. Main results

By the end of the fiscal year 2017, VPBank produced outstanding results in the key aspects, i.e. stable volume growth (liabilities up approximately 16% and credit extensions up approximately 24%) and record-high efficiency (TOI up approximately 48% and profit before tax up approximately 65%.)

It managed to raise equity on schedule, thus proactively adjusting the liabilities side for optimal performance. The measurement, monitoring, and projection of liquidity risk were carried out on a periodic basis. Therefore, the prudential ratios were always compliant. The highlight of the financial performance was outstanding delivery of the targets, especially profit and income ones. In particular, the actual profit-before tax was 20% above the target.

The results proved that the Bank's retail-focused strategy was a driver for stable, sustainable, and efficient growth. The outstanding growth of business pillars greatly drove to the Bank's business performance, helping it successfully bring about comprehensive transformation.

Business performance in 2017

Item (billion VND)	2016	2017		Comparison	
		Target	Actual	2016	% of target
Loan balance	158,696	200,591	196,673	24%	98%
<i>Including: customer loans</i>	<i>144,673</i>	<i>182,433</i>	<i>182,666</i>	<i>26%</i>	<i>100%</i>
Customer deposits <i>(including valuable papers issued)</i>	172,438	217,732	199,655	16%	92%
Total assets	228,771	280,645	277,752	21%	99%
Profit before tax	4,929	6,800	8,130	65%	120%

Source: audited consolidated financial statement

By the end of the strategic journey 2012 – 2017, VPBank always topped the industry in terms of growth with its volume and efficiency ratios increasing three- to five-fold compared with the end of 2012.

The business strategy has always focused on conducting standards-compliant activities, complying with legal regulations, and keeping up with international practices. Therefore, the Bank has always been considered a modern, trust-worthy, transparent, prudent, and efficient financial institutions.

B. Assessment of business performance, governance and management in 2017

1. Further stable, sustainable scale-up with focus on strategic customer segments.

VPBank successfully conducted comprehensive transformation according to the business strategy. The year 2017 marks the end of phase two of the comprehensive transformation program (2012 – 2017) with significant breakthroughs on the back of solid foundations laid in the previous phase. Phase one (2012 – 2015) focused on volume growth and the strengthening of foundational systems while phase two (2015 – 2017) focused on selective, quality growth. Accordingly, the Bank managed to achieve stable, sustainable volume growth and the strategic shifts towards the most efficient businesses, thanks to which the growth in efficiency far outpaced that of volume. This once again proved that the strategy was sound and resulted from VPBank's aggressive execution.

1.1 Asset structure shift towards quality and efficiency.

Total assets (billion VND)	December 31, 2017	Proportion	December 31, 2016	Proportion
Total assets	277,752	100%	228,771	100%
Loan balance <i>(including Loans to customers and Corporate bonds, excluding VAMC)</i>	196,673	71%	158,696	69%

<i>bonds)</i>				
Placements with and loans to other CIs	17,521	6%	9,390	4%
Securities (excluding Corporate bonds)	37,906	14%	40,880	18%
Other assets	25,653	9%	19,806	9%

Source: audited consolidated financial statement

The Bank's total assets reached VND 277,752 billion, up 21.4% year on year. Assets continued to grow with sustainable, efficient structure and significant contributions from core businesses. In particular, the growth of customer loans was the highest, at 26.3%, accounting for 66% of the total assets. The net increase in loan balance (including customer loans and corporate bonds) was VND 38 trillion, up 24% year on year and significantly higher than industry average.

Along with the focus on retail banking model and unsecured product development, VPBank paid great attention to risk management and debt collection. Credit policies were adjusted in a timely, reasonable manner and according to the SBV's regulations as well as the Bank's management objectives. VPBank proactively adopted advanced techniques and international standards, including big data mining, which was of great help to lead generation, portfolio management, cross-sales, and early debt collection. Debt collection was effective thanks to many comprehensive measures such as technology adoption for the back office, financial planning support for customers in difficulty for more optimal receivables, and people development for collectors. Also, the National Assembly's Resolution No. 42/2017/QH14 on the resolution of credit institutions' NPLs also created a favorable legal environment for collection. Therefore, VPBank's NPL ratio was always kept under control at well below the SBV's 3% cap.

1.2 Diversified, flexible, demand-driven funding; structural shift according to liabilities strategy.

VPBank aimed to diversify funding sources with a broad range of deposit products, thus ensuring adequate funds for lending, sound liquidity, and growth. The funding strategy always went hand-in-hand with lending and investment strategy, thus putting a reasonable, prudent assets-liabilities structure in place. The Bank's abundant funds came from diverse groups of customers, including individuals, businesses, credit institutions, and financial institutions, both local and abroad. VPBank continued to beef up the issuance of valuable papers, strengthen medium- and long-term funds, and maintain sound short-term funding to medium- and long-term lending ratio. On the other hand, VPBank's funding plan was very flexible and responsive to market developments, macro-economic situation, and the Bank's requirements. Thanks to the comprehensive strategy, funding growth was aligned with asset growth and structure, resulting in sound, efficient funding structure and adequate medium- and long-term funding for growth.

Total capital (billion VND)	December 31, 2017	Proportion	December 31, 2016	Proportion
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Liabilities and owners' equity	277,752	100%	228,771	100%
1. Total liabilities	248,057		211,593	
Amounts due to the SBV	26	0%	1,104	0%
Deposits and borrowings from other credit institutions	33,200	12%	28,836	13%
Customer deposits	133,551	48%	123,788	54%
Valuable papers issued	66,105	24%	48,651	27%
Other liabilities	15,175	5%	9,216	6%
2. Owners' equity	29,696	11%	17,178	8%

Source: audited consolidated financial statement

Total payables at the end of 2017 reached VND 248,057 billion, up 17% or an increase of VND 36,464 billion year on year, the majority of which was customer deposits (54%) and valuable papers issued (27%).

Liabilities (including customer deposits, deposits and borrowings from other credit institutions, valuable papers issued, and finance from international institutions) by December 31, 2017 reached VND 326,781 billion, up 16% year on year. In particular, customer deposits and valuable papers issued reached VND 199,655 billion, up 16% and an increase of VND 27.2 trillion year on year, of which strategic segments saw a strong growth.

The structure of liabilities became more diverse and sustainable thanks to the on-going significant shift from traditional deposits to valuable papers, the volume of which reached VND 66,105 billion, up 36% year on year and accounting for 28% of the total liabilities (24% in 2016.) The issuance of valuable papers helped strengthen and grow medium- and long-term liabilities in the long run and improve prudential ratios. Besides, finance from international organizations increased significantly to more than VND 11.1 trillion, or 2.7 times the previous year, helping improve VPBank's position and reputation to international partners.

2. Marked improvement in business performance with strongly strengthened efficiency ratios

VPBank's business activities in 2017 still maintain a high and sustainable momentum, driving the Bank towards fulfilling its financial targets for 2012-2017.

	Income - Expenses	2017	2016	Growth	
				+/-	%
I	Net operating income	25,026	16.864	8,162	48%
II	Opex	8,895	6.621	2,274	34%
III	Profit before provision	16,131	10.242	5,889	57%
	Risk provision	8,001	5.313	2,688	51%
IV	Profit before tax	8,130	4.929	3,201	65%
V	Corporate income tax	1,689	994	695	70%
VI	Profit after tax	6,441	3.935	2,506	64%

Source: audited consolidated financial statement

2.1 Strong TOI growth due to changes in income structure and product structure.

The Bank earned the highest-ever TOI of VND 25,026 billion in 2017, up 48% year on year, helping raise the CAGR in the 2012 – 2017 period to 51%. TOI grew at a much faster pace than volume as a result of

the strategic focus on highly profitable segments, improved asset quality, and efficient acquisition and utilization of liabilities.

Net interest income as at the end of 2017 reached VND 20,614 billion, up 36% or a y-o-y increase of VND 5,447 billion. The two main components in the NII structure were interest on loans, which was up 38% or an increase of VND 7,851 billion, and interest expense, which increased at a much slower speed (up 29%). Therefore, net interest margin continued to improve from 7.7% in 2016 to 8.7% in 2017, which shows that profitability has been on the rise.

Income from services was also a big driver, which was up 71% year on year and reached VND 1,462 billion. The Bank's strategic projects that aim to increase fee income produced good results. There was a healthy shift in the structure of service income in that modern retail services achieved a good growth rate.

Income from other business activities: Net income from both held-to-maturity and available-for-sale investment securities grew significantly to VND 519 billion. Other incomes accounted for VND 2,526 billion, in which written-off debts accounted for nearly VND1,100 billion and upfront-payment from AIA Vietnam accounted for nearly VND900 billion.

Breakdown by segments: In 2017, nearly 79% of the TOI was attributable to strategic segments. VPBank's major business segments experienced significant growth y-o-y in TOI with 66% growth in Retail Banking, 39% growth in SME, 2.5 times higher than 2016 in Household Banking and 52% growth in Consumer finance with FE Credit brand.

2.2 OPEX kept under control thanks to cost savings, improved efficiency, and improved productivity

VPBank allocated more budget to some new businesses and key projects (such as digitize the bank, IT system upgrade, back-office automation, etc.) and invested more in the infrastructure and equipment for risk management and collection for the purpose of improving collection productivity. Total operating expense was up 34% year on year and was much lower than income growth (48%). Therefore, the CIR in 2017 was down 35.5% year on year.

The Bank has always focused on beefing up the staff cost component, including sales incentives, in the cost structure to improve the overall remuneration and benefits for staff. Accordingly, staff cost accounted for 57% of OPEX in 2017. Cost optimization projects and stepped-up digitization and automation were instrumental in keeping OPEX under control.

2.3 Provisions fully made to handle NPLs.

In 2017, VPBank set aside more than VND 8 trillion as provision expense, up 51% year on year and equivalent to 32% of the TOI in 2017, mainly due to investment portfolio restructuring, provisions for credit losses, provisions for VAMC bonds. Therefore, the provisions were mainly on balance sheet.

2.4 Impressive growth in profit before tax, improved return and efficiency ratios

At the end of fiscal year 2017, VPBank earned the record consolidated profit before tax of VND 8.13 trillion, up 65% year on year and well above the AGM's target of 20%, thanks to which CAGR was raised to 54% for the 2012 – 2017 period.

As a result, ROAA was up 0.68% year on year, from 1.86% in 2016 to 2.54% in 2017. On the other hand, despite in the sharp increase in equity in the year, ROAE reached 27.5% and after-tax return on charter capital reached 52%, putting the Bank among those with the highest profitability ratios.

3. Prudential ratios and performance

Thanks to the growth in medium- and long-term funding and raised equity, the short-term funding to medium- and long-term lending ratio decreased to 30% by the end of 2017 (compared with 35% at the end of last year) and was lower than the market average as well as the SBV's cap (40%) for 2019. This was a result of the issuance of valuable papers per the Bank's policy and improved reputation, thus the acquisition of medium- and long-term funds from international organizations.

The capital adequacy ratio was improved significantly as a result of the issuance of more shares and profit retention policy. In 2017, VPBank raised charter capital to more than VND 15.7 trillion, thus increasing CAR to 14.6%. By Basel II standards, the CAR of 12.6% was already good and much better than the minimum of 8% under Circular 41/2016/TT-NHNN.

4. Non-financial indicators

VPBank's successes last year were not limited to financial aspects. The non-financial indicators also improved materially.

Customer base: the number of active customers increased substantially to more than 4.9 million, up 49% year on year, which is an important enabler for the Bank's retail strategy.

Card issuance: the number of active cards reached nearly 980,000, up 56% year on year. Nearly 204,000 credit cards were newly opened, nearly 2.3 times those in 2016. Besides, VPBank was one of the banks with the highest average spending per card in the market.

Headcount: the robust growth of retail segment was attributable to a sharp increase in headcount, thus adequate resources for business development. By the end of 2017, the total headcount was 23,826, an increase of 6,439 year on year.

II. STRENGTHENING FOUNDATIONAL SYSTEM

Underlying the impressive business performance were the fundamental transformation and significant improvement of the foundational systems. In order to adapt to market trends and customer spending behaviors and increase corporate governance capability, VPBank implemented 11 bank-wide, critical projects. Most of them focused on the transformation of business model, centralization of operations, and specialization and segregation of businesses with a clearer view of finance, risk management, operations and products, etc. driven by automation with support from IT. Metrics with a

direct impact on quality and efficiency have been closely monitored to identify and tackle challenges in a timely manner, and to continually improve productivity and quality.

1. Risk management and debt collection

The Bank's risk management framework was further improved to meet international standards through the issuance of many policies, streamlining of documents, and incorporation of risk management in strategy formulation processes, fund and financial planning, as well as "business-as-usual" processes.

Since Circular No. 41/2016-NHNN dated December 30, 2017 on the application of Basel II standards in the local market came into effect, VPBank has complied with risk indicators from early on according to the SBV's roadmap. In 2018, the Bank plans to calculate risk indicators according to the advanced approach under Basel II, which is a step up from the current standardized approach, adopt Internal Capital Adequacy Assessment Process (ICAAP), and implement integrated risk management solutions.

The year 2017 laid a solid foundation for rapid, sustainable improvements in collection by putting in place a young, dynamic, well-trained team, investing in and developing systems and tools to boost collection efficiency. The Bank deployed Medialtel & Tethys, an automated dialing and collection software system, which helped make three million calls and send one million SMS messages and 16,000 email messages as reminders. In addition, VPBank actively supported customers who faced temporary financial difficulties by working out appropriate financial solutions for them so that they can continue their business, thereby reducing NPLs.

2. Digital banking service

VPBank carried out profound transformations and continued to pursue the aspirations identified under its digital strategy in 2017 with the following remarkable achievements:

- Establishing Digital Lab, with the consultancy of McKinsey, which pools together the critical resources and skills for digitizing customer journeys and incubating new digital business models.
- Developing and strengthening the partnership with fintech companies to adopt breakthrough ideas and bring new experiences and innovative products to customers.
- Continuing the efforts to digitize products and processes and raise the quality of online banking services. Therefore, the number of online banking customers doubled that of 2016 and the passbooks opened online accounted for nearly 60% of the total. Digital transactions accounted for more than 40% of the total and averaged one million per month. The number of loans and credit cards opened online also quadrupled that of 2016.
- Establishing VPDirect in January 2017 in pursuit of the ambition of developing a digital-only bank. VPDirect is positioned to bring banking and payment services to people in all walks of life and reach the unbanked.

3. Operations

In 2017, VPBank successfully established strong operational foundations which will be the basis and support for the organization's growth in the future. This has been done by constantly aiming to provide customer experience, by utilizing technology and improving productivity, and strengthening operational control and risk management at all units.

Customer Service: constantly improved by re-engineering front-end processes; analyzing customer feedback to identify root causes and convert them to specific actionable steps; improving self-service capabilities for customers by adding ATMs and CDMs; improving productivity of service staff; shortening turn-around time for product & service delivery, etc.

Operational Efficiency: Through the use of automation tools, process documents, and performance metrics, the Division has succeeded in establishing a culture of continuous improvement across its diverse and wide-ranging functions. The newly implemented loan origination system has substantially improved employee productivity in the credit processing units. The Bank also successfully automated the extraction and delivery of this content to corporate customers.

Operational Control: A comprehensive risk and control self-assessment (RCSA) framework was adopted across all transaction processing teams. Post-disbursement unit upgraded its monitoring system to provide more insightful data that allows the unit to control and monitor customer credit in a more effective manner.

4. Human resource management

Investment in human resources development has been always a top priority of VPBank and one of key success factors of VPBank in 2017. VPBank continued to make dramatic and significant progress in completing its standard job system which lays a foundation for change management and disruptions in the 2018-2022 strategy.

VPBank has gradually become a preferred employer in the market. By the end of 2017, VPBank created jobs for over 10,000 employees. Given its relentless efforts, VPBank was named in the list of top 100 Asian Employers and won the Asia Best Employer Brand Award 2017. Anphabe and Nielsen also named VPBank in the top 5 happiest workplaces and the Bank also ranked 26th of the 100 best workplaces in Vietnam.

The Bank put much more focus on the employee training and development in 2017 through the delivery of job family-based training programs, training courses on sales skill and credit risk identification and courses on soft skills. VPBank also successfully piloted an online cloud-based learning platform so that all staff can learn and get certificates online anytime, anywhere on different operating system devices.

5. Information Technology

Realizing the importance of information technology to the sustainable development of the Bank, VPBank executed a number of initiatives to improve the core technological systems, develop functionalities to serve business, optimize internal processes, save costs and better capabilities of the workforce, particularly:

- Shift the loan origination process, internet and mobile banking to a new platform
- Strengthen the core banking system – a product of Temenos, a world leading core banking system provider
- Strongly upgrade the infrastructure across the system to lay the foundation for dramatic development of business.
- Equip staff with mobile devices in their sales activities so that they can work from distance
- Cloud computing services greatly facilitate sales activity of staff.

VPBank is experiencing a period of rapid transformation with the implementation of over 30 projects, over 1,500 changes and 2.5 time growth pace against 2016. Initiatives on changing the core systems, network control allows the Bank to save considerable costs on license and telecommunication.

6. Other foundational activities

Other foundational activities including finance, finance control, financial and business analysis, plan and strategy, legal and compliance, communication and branding are continued to be implemented

as per the the strategy of each activity, which follows the overall direction of improving productivity, quality and efficiency by automating, digitizing and simplifying to support rapid development of business activities and enhance service quality.

SECTION II: BUSINESS PLAN FOR 2018

The momentum of global economic recovery will expectedly continue in 2018 with encouraging growth in most key economies. The IMF forecasts global growth at 3.7% with differences in the outlook across regions and weak growth in some regions (Africa, Middle East, and Latin America). Also, there are some potential risks such as protectionism and political instability. The economic growth forecast for Asia is positive thanks to regional and global economic growth across the board and loosened monetary policy in countries.

In this context, Moody's Investor Service forecasts that Vietnam will be a standout among ASEAN's economies. However, Vietnam's economy will face the challenges of maintaining growth in a low inflation environment and exporting in the face of changes in other countries' trade policies. The growth target of 6.5 – 6.7% which the National Assembly has set is deemed quite conservative and feasible. The credit growth target of 18 – 20% (2.5 – 3 times economic growth) is considered reasonable to boost economic growth without raising inflation.

The State Bank of Vietnam will continue its efforts to structure the finance – banking industry with an emphasis on operational prudence in 2018 besides its policies to regulate the economy. In early 2018, the amended Law on Credit Institutions which allows banks to go bankruptcy has officially gone into effect, thus putting healthy pressures on banks to improve transparency, asset quality, and service quality.

Given those new opportunities and challenges, VPBank has developed the five-year strategy 2018 – 2022 with the ambitious goals of achieving quality growth, maintaining VPBank's lead in terms of growth and efficiency in all aspects, consolidating the leading position according to retail and digital banking strategies, providing reliable financial services to all Vietnamese, improving the percentage of self-service transactions, and spearheading new banking technologies towards the two goals i.e. 1. becoming one of the top three most valuable banks in Vietnam by 2022; and 2. becoming a consumer friendly bank through technology.

The objectives for 2018 are to maintain quality growth in key segments, improve technology and risk management infrastructure to robustly facilitate the implementation of digital banking strategy. The year 2018 is critical as it marks the beginning of the five-year strategy 2018 – 2022. VPBank has identified the following key tasks for the year as follows:

- **Continue to maintain the growth of all business divisions towards growth targets** and focus on boosting the growth in lending, deposits, and customer base in all core customer segments. Pursue selective growth while improving efficiency with 20 – 30% growth rates for volume KPIs and 40 – 50% growth rates for efficiency KPIs.
- **Concentrate the efforts on improving and upgrading critical foundational systems**, especially risk management system (including information security); strengthen the approval system; strengthen the system for managing, resolving, and collecting problematic debts; implement and fine-tune the organizational model for sales and service system; develop people; and implement the 2017 – 2020 IT strategy while continuing to improve technologies to best facilitate rapid business growth and improve service quality.
- **Seek and select new business opportunities** for the Bank to make the best of capital investments and create new revenue streams for efficient growth in the future.

Some consolidated business and financial targets for 2018

No.	Item (VND billion, %)	Target for 2018
1	Total assets	359,477
2	Customer deposits and issued valuable papers	241,675
3	Loan balance	243,320
	<i>Including: Customer loans</i>	<i>229,148</i>
4	NPL ratio	<3%
5	Profit before tax	10,800

**Notes: the planned growth in loan balance which is exclusive of VAMC bonds has been developed by VPBank and will be submitted to the State Bank of Vietnam for approval.*

The year 2018 kick-starts a challenging five-year journey that entails rapid changes in digital technologies, user behavior, and new developments in the business landscape. However, VPBank is ready to take both opportunities and challenges to further its growth and conquer new heights. The Board of Management is fully confident that the Bank will achieve successes in 2018 and realize the vision of making VPBank the most consumer-friendly bank through technology and becoming one of the top three most valuable banks in Vietnam by 2022.

Recipients:

- Shareholders
- Board of Directors, Supervisory Board
- Board of Management

**P.P. VPBANK BOARD OF
MANAGEMENT**

CHIEF EXECUTIVE OFFICER

(Signed)

Nguyen Duc Vinh