

## **REPORT OF THE SUPERVISORY BOARD**

### **AT THE FY2020 ANNUAL GENERAL MEETING OF SHAREHOLDERS**

Dear Shareholders of Ho Chi Minh City Securities Corporation ("HSC"),

On behalf of the Supervisory Board, I would like to report the activities of the board.

In 2020, the Supervisory Board ("BoS") fulfilled its duties as stated in HSC's Charter and Governance regulations on the organization and operation of the BoS, assisting the Board of Management ("BoM") in executing the business plan and other matters that were approved by shareholders at the 2019 annual general meeting ("AGM"). The BoS is comprised of three members including two independent members, who represent shareholders to carry out regular audit and supervision tasks and make necessary and important recommendations to enhance HSC's risk management and corporate governance. In 2020, the BoS carried out the following activities:

- Supervised activities of the Board of Directors ("BoD") in 2020 and the implementation of resolutions approved at the 2019 AGM;
- Supervised HSC's business activities and financial performances in 2020; and
- Supervised the activities of the internal audit department in 2020.

#### **1. Supervision of activities of the BoD and the execution of resolutions approved at the 2019 AGM**

In 2020, the BoD held thirty-eight (38) meetings, of which twenty-two (22) meetings were in-person meetings and the remaining sixteen (16) meetings were in the form of written opinions. In these meetings, the BoS reviewed the Company's performance and, along with the BoD and BoM, contributed strategic opinions to help the Company achieve the business plan as approved by the 2019 AGM.

Key issues discussed in the BoD's meetings included the followings:

- FY2019 business performance and 2020 quarterly business reports
- Approval of the agenda and proposals related to the 2020 AGM
- Dismissal and appointment of Chief Executive Officer position, dismissal of a Deputy CEO and appointment of Person in charge of corporate governance .
- Use-of-capital plans for each business, capital needs in the following years and bank loan proposals.
- Approval on covered warrant issuances in 2020
- Approval on the 2020 first interim cash dividend of 5% on par value.
- Attending the "2021 HSC Strategy Day" where the BoD, BoS discussed HSC's strategic directions in 2021 with the BoM and business heads.



All contributions and recommendations of the Supervisory Board as supervisors and representatives of shareholders were respected and thoughtfully considered by the BoD when they made decisions and resolutions on relevant matters.

## **2. Supervision of 2020 business activities and financial performances**

In 2020, together with Board of Audit Committee (“BAC”) members, the BoS participated in the interim and year-end meetings with HSC’s external auditor, PwC (Vietnam) Limited, to discuss the scope, audit findings and relevant matters mentioned in the Management letter. According to the auditor’s opinion, HSC’s business operations were conducted in a transparent manner and had no violations in accounting, finance, and operational processes. In 2020, PwC provided statutory audit service to HSC with total fee of VND957,000,000 (nine hundred and fifty seven million dong) (VAT included) and did not provide any other advisory services.

In addition, the BoS also reviewed HSC’s quarterly and YE2020 financial statements and capital adequacy ratio review reports. About financial safety, HSC maintained high liquidity and capital-related ratios. HSC’s financial safety ratio, calculated in accordance with the guidances of the Ministry of Finance, was 705% as at the end of 2020 (566% as at the end of 2019), 2.9 times higher than the 180% requirement of the State Securities Commission of Vietnam.

Regarding business performance in 2020, HSC achieved a total revenue of VND1,592 billion, which was 26% higher YoY and 123% of the approved business plan. Net profit after tax in 2020 was up by 22% YoY to VND530 billion, or 117% of the approved business plan. Besides the strong performance, the BoS also appreciated the sustainability of HSC’s business model. Particularly, in 1Q 2020, despite historic volatilities in the stock markets in Vietnam and the world, HSC was still be able to deliver strong business performance with revenue and net profit growths of 14% and 23%, respectively. That success was hard to be replicated by other securities companies. In the following quarters, the Vietnamese stock market recovered strongly. Partly driven by new individual investors, the stock market liquidity increased significantly with daily average trading value was up by 60% YoY to VND7,430 billion, which was 1.5 times higher than HSC’s expectation for its 2020 business plan. HSC was able to capture the opportunity and completed its target ahead of schedule.

The BoS acknowledged growth across major businesses of HSC. Particularly:

- Revenue of brokerage fees reached VND621 billion, an increase of VND143 billion or 30% YoY, accounting for 39% of HSC’s total revenue.
  - In which: brokerage fees from the cash equity market was VND577 billion (+30% YoY) and brokerage fees from the derivatives market was VND44 billion (+69% YoY).
- The margin lending business posted a total revenue of VND549 billion, which was VND54 billion or 11% higher YoY, accounting for 35% of HSC’s total revenue.
  - The average lending rate was lowered to 10.2% p.a. from 11.6% p.a. in 2019. The rate adjustment was aligned with HSC’s strategy in 2020 to enhance the competitiveness of the business.
  - HSC remained one of the top three securities companies with the largest margin lending book as at the end of 2020 and consistently pursued a prudent lending approach, in which HSC focused primarily on large-cap companies with strong fundamentals, and high liquidity.





- The proprietary trading business delivered impressive performance with a total revenue of VND369 billion, or a 65% YoY growth, contributing to 23% of HSC's total revenue. The average return was 25%, which outperformed the 2020 VN-Index's gain of 15%.
- The corporate finance business delivered VND38 billion, which was VND15 billion or 28% below that in 2019.
  - The revenue in 2020 was primarily contributed by closed deals in the banking and financial industries;
  - The business witnessed a challenging year in 2020. Due to travel restriction, potential investors could not come to Vietnam to carry out due diligence as well as deal negotiation. Therefore, several transactions were not executed and closed in the timeline that HSC expected.

Total operating expenses in 2020 was 27% higher than budget, largely because variable expenses increased proportionally with revenue, which was up by 26% YoY.

Besides, as part of the Private Client Division's restructuring plan, which aims at achieving better business efficiency and brand positioning, the BoM decided to carry out major restructuring of transaction offices as below:

- In HCMC: Established the Client Services Center in the AB Tower at the end of 2020. Accordingly, all transaction offices in HCMC were relocated to the 2<sup>nd</sup>, 7<sup>th</sup>, 11<sup>th</sup>, 12<sup>th</sup> floors in the AB Tower during the middle of 2020 to February 2021;
- In Hanoi: The Client Services Center located at the CornerStone building will be expectedly inaugurated in 1Q 2021. Kim Lien transaction office was closed and other transaction offices of the Private Client Division were centralized and relocated to two central-business-district locations – Lang Ha transaction office in the Vinaconex building and Hoan Kiem transaction office in the building at 66A Tran Hung Dao.

HSC's total brokerage market share was at 9.4% in 2020. The Company was able to maintain its position as the second largest securities companies by trading value on Ho Chi Minh City Stock Exchange (HSX) for seven consecutive years (2014-2020). HSC also had a leading position in the derivatives market (HNX) with approximately 10.9% market share. The BoS highly appreciates the efforts that HSC made to deliver the impressive growth, especially in the context of a highly competitive industry. However, the BoS would recommend HSC to focus more on acquiring new clients, especially individual clients.

### Key financial indicators

No.	Indicators	Năm 2020	Năm 2019
1	Capital safety ratio	705%	556%
2	Liquidity ratio		
a	Current ratio (times)	1.5	2.3
b	Total debt to Total assets ratio (times)	0.6	0.4
3	Capital structure ratios		
a	Shareholder's capital to Total resources (times)	0.4	0.6





No.	Indicators	Năm 2020	Năm 2019
<b>4</b>	<b>Profitability ratios</b>		
a	ROAE (Net profit after tax/ Owner's equity)	12.1%	11.7%
b	ROAA (Net profit after tax/ Total assets)	5.3%	6.8%

### 3. Supervision of internal audit activities in 2020

Trong năm 2020, bộ phận Kiểm toán Nội bộ (KTNB) đã phát hành các báo cáo kiểm toán sau:

STT	Quy trình kiểm toán
1	Anti-money laundering activities (annual audit)
2	Human resource management process of the Private Client Division
3	HRM process of PCD audit follow-up result

The Private Client Division ("PCD") runs one of the most important businesses and manages the largest team which accounts for 60% of headcounts of HSC. Given the importance and the size of the division, the Internal Audit department decided to carry out the second audit on the division's human resource management processes. Objectives of Internal Audit is to provide the BoD, the BoS and the BoM an independent assessment over performance management, risk management and control in human resource management for PCD. To achieve a comprehensive result, the Internal Audit Department coordinated with the external co-auditor, KPMG Vietnam Limited ("KPMG"), to carry out not only conventional, risk-based internal audit methodology, but also apply new internal audit approach which focused on performance-based auditing. The change in our audit approach was aligned with the development strategies of HSC in 2020, and underscored the importance of the Internal Audit department as a value-added service for the major businesses of HSC with an aim at solidifying HSC's client-centric philosophy.

In the year, KPMG only provided the internal audit service to HSC at the total service fee of VND1,081,176,250 (one billion eighty one million one hundred and seventy six thousand two hundred and fifty dong) (VAT included). KPMG did not provide any other advisory services to HSC in 2020.

During the audit, the BoS did not identify any significant audit findings relating to the human resource management processes of PCD. Based on the assessment of the Internal Audit department, in 2020, the CEO carried out a comprehensive restructuring of the hierarchical organization, introduced the new human resource management system and the approved action plan of PCD. Those strategic changes were aligned by the BoD. The BoS acknowledged that the new changes at PCD were officially implemented in 4Q 2020.

The BoS recommended that HSC should continue to evaluate and examine the efficiency and suitability of the human resource management system of PCD, which is highly critical in the current competitive market conditions, to prevent and mitigate any risks that might affect the PCD's business targets.





#### 4. BoS Remuneration in 2020

Total remuneration of the BoS in 2020 was VND946,666,667 (nine hundred and forty six million six hundred and sixty six thousand six hundred and sixty seven dong) (inclusive of personal income tax). Detailed remuneration of each member is as follows:

No.	Member	Position	Monthly after tax remuneration (VND)
1	Mr. Vo Van Chau	Chairman	10,000,000
2	Mr. Doan Van Hinh	Member	6,000,000
3	Mrs. Dang Nguyet Minh	Member	6,000,000

#### 5. Plan of the BoS for 2021

In 2021, the BoS will continue to accompany and supervise the Internal Audit department in completing the audit projects that have been started in 2020 and carrying out the new audit projects in the approved 2021 audit plan as below:

No.	Internal Audit Review
<b>2020</b>	
1	Operating Model of Finance and Accounting Activities (FTOM)
<b>2021</b>	
2	Anti-money laundering activities (annual audit)
3	Delegation of Authority Policy (DoAP)

We would like to sincerely thank our shareholders for trusting and giving continuous support to the Supervisory Board, and we wish HSC new levels of prosperity.

Best Regards,

For and on behalf of the Board of Supervision  
CHAIRMAN



**VÕ VĂN CHÂU**

**To:**

- As mentioned above
- BoD Office for record

