



Ho Chi Minh City, 01 April 2019

REPORT OF THE SUPERVISORY BOARD AT THE ANNUAL GENERAL MEETING FY2018

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 2018, Supervisory Board ("BoS") fulfilled the duties as stated in HSC's Charter and Governance Regulation 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 annual general meeting of shareholders ("AGM"). The Supervisory Board consists of three members, including two independent members, who act together as shareholders' representatives to continue examining, supervising, and advising on risk management and corporate governance issues at HSC. In 2017, the main areas overseen by the Supervisory Board were as follows.

- The activities of the Board of Directors ("BoD"); and the implementation of resolutions passed at the FY2018 Annual General Meeting;
 - Business activities and 2018 financial results; and
 - Internal audit activities in 2018.
1. **Supervising the activities of the BoD, and the implementation of resolutions passed at the FY2018 AGM.**

In 2018, Board of Directors held twenty-five (25) meetings, of which twenty-two (22) were direct meetings, with three meetings in the forms of written consultations. Participating in the meetings, the BoS also reviewed the Company's performance and, along with the BoD and BoM, contributed strategic advice, and fostered the pursuit of business plans approved by the 2018 AGM.

Key issues discussed in the BoD's meetings include the following.

- The 2017 full-year business performance report and 2018 quarterly business performance reports.
- The use-of-capital plans for each business segment, and estimates of capital needs over the coming years, as well as the proposal regarding bank loans.
- The approval of the establishment of the Nam Sai Gon transaction office.
- The approval of the sell of Orient Commercial Joint Stock Bank (OCB) and Dong A Commercial Joint Stock Bank (DongA Bank) shares.
- The approval of the issuance of covered warrants on the shares of Hoa Phat Group Joint Stock Company (HPG), and approval for the appointment of the bank providing warrant payment guarantee.
- The approval of the registration of plans to issue shares to existing shareholders, issue shares to increase shareholder equity, and to issue shares to employees under the employee stock ownership plan.
- The approval of the first payment of 2018 cash dividend.

Inputs from the Supervisory Board in its roles as supervisors and representatives of investors, were all respected by, and considered in the decisions of the BoD.

2. Supervising business activities and 2018 financial results

In 2018, together with other members of the Board Audit Committee, the BoS participated in two meetings in the middle and end of the year with HSC's external auditor, PricewaterhouseCoopers Vietnam Limited, to discuss about

the audit scope, audit findings and other relevant matters detailed in the Management Letter. Accordingly, HSC's business operations were conducted in a transparent manner, with no violations in relation to its accounting, finance and operational processes. Moreover, PricewaterhouseCoopers Vietnam Limited only provided financial audit services to HSC, and did not provide any other advisory services, with total expenditure of VND 1,221,000,000 (one billion two hundred and twenty one million dong) (VAT included).

In addition, the BoS reviewed and analyzed the quarterly financial statements and the capital adequacy ratio review report for HSC. Regarding ratios of capital adequacy and financial safety, HSC maintained high liquidity and capital-related ratios. HSC's financial safety ratio, which was reported following guidance by the Ministry of Finance, as of the end of 2018 was 502% (2017: 526%), 2.8 times higher than the 180% requirement of the State Securities Commission of Vietnam.

In terms of financial performance targets, as the stock market and its liquidity were not as good as expected in the 2018 business plan, HSC's revenue and profit only met 81% and 83% of the Company's targets respectively. However, HSC's performance in 2018 still hit a record, with VND1,700 billion in revenue and VND675 billion in net profit, 23% and 22% y-o-y growth respectively.

- Revenue from securities brokerage fees reached VND759 billion, a VND157 billion or 26% increase y-o-y.
 - In which, revenue from brokerage fees from the stock market was VND683 billion, 14% y-o-y growth, and revenue from brokerage fees on the derivatives market was VND76 billion, a 2909% y-o-y growth.
 - Trading in derivatives market grew significantly in 2018. HSC was one of the first securities companies as the pioneer to be involved from the outset with the derivatives market that was officially launched on 10 August 2017. HSC was able to leverage its first-mover-advantage to secure a strong market share of 23% in the year. Most of the derivatives brokerage revenue came from private client brokerage.
- Revenue from margin lending and interest income was VND523 billion, a VND84 billion increase, or 19% growth over 2017.
 - The average margin lending balance in 2018 was VND3,933 billion, a 695 billion increase, or 21% y-o-y growth. The average margin lending rate was stable at 13.3%.
- Revenue of corporate finance business was VND119 billion, a VND74 billion or a 164% increase y-o-y.
 - The corporate finance business recorded all-time-high revenues in 2018.
 - Such impressive performance was attributable to the successes of high-profile transactions in the banking, communications, pharmaceutical, real estate, and retail industries.
- Revenue of the proprietary trading business was VND278 billion with a profit margin of 31%. The result is considered impressive in comparison with the performance of the stock market in 2018.
 - In which, revenue from trading derivatives was VND49 billion, a significant increase of VND39 billion, or 361% growth y-o-y. HSC's Proprietary Trading Department was able to leverage HSC's strengths as the market leader to capture opportunities in the derivatives market.
- Due to liquidity in the stock market, the 2018 business plan approved by AGM were less than expected with VND8,000 billion average daily trading value, the BoM pursued expense-optimizing initiatives to improve the bottom-line. Accordingly, total operating expenses in 2018 were only 80% of the budgeted number.
 - Despite pursuing cost optimization, HSC was still keen to investing in its IT infrastructure, transaction office network, and more importantly its human resources. In 2018, the Company continued upgrading its IT platforms to enhance client trading in both the underlying and derivatives markets. HSC also opened a new transaction office, expanded its office spaces in Ho Chi Minh City and Hanoi, and welcomed senior executives to its key businesses. Those investments are important for the Company to strengthen its foundation and to gear up for sustainable growth.

The BoS acknowledges the strong commitment and great efforts by the BoM and the businesses in delivering impressive growth despite the volatility in and weak performance by Vietnam's stock markets in 2018. Firstly, the Proprietary Trading Department was able to deliver an exceptional performance on the back of solid investment skills and a prudent approach by its investment team. Secondly, the BoS acknowledges the great efforts by the Corporate Finance Department in 2018 in winning and completing some high-profile transactions, and in hosting the HSC Emerging Market Vietnam Conference successfully. These successes helped HSC enhanced its reputation and corporate image to new highs, not only in the local but also in the global capital markets. Last but not least, the Brokerage sector was able to strengthen its leading positions in the market. HSC's total brokerage market share increased to 11.4% in 2018, within which the private brokerage market share increased to 9.7% from 8.6% in 2017.

Basic financial ratios

No.	Key ratios	FY2018	FY2017
1	Liquid Capital Safety Ratio	502%	526%
2	Liquidity and Solvency Ratios		
a	Current Ratio (times)	2.3	1.7
b	Total Debt to Total Assets Ratio (times)	0.4	0.6
3	Capital Structure Ratios		
a	Owner's Equity to Total Assets Ratio (times)	0.6	0.4
4	Profitability Ratios		
a	ROAE (Net Profit after Tax to Average Owners' Equity)	23.1%	21.4%
b	ROAA (Net Profit after Tax to Average Total Assets)	11.3%	10.8%

3. Supervising internal audit activities in 2018

In 2018, HSC's Internal Audit Department completed the following audit reports for issuance.

No.	Internal Audit Review
1	Anti-money Laundering Activities (annually)
2	Human Resources Management (1 st review)
3	Private Client Division (2 nd review)
4	Margin Lending Management (2 nd review)

The Internal Audit Department, together with the co-sourced internal audit partner, KPMG Vietnam Limited ("KPMG"), in 2018 focused on prioritizing most important risk areas at HSC. The audit progress, the audit work and the final audit reports were submitted to the BoM and the heads of business functions, as well as reported to the BoS and Board Audit Committee, in regular meetings.

The BoS noted that the processes in-scope are audited with no material violations. The remaining challenges for the Company and its departments are to better standardize their operational policies and procedures ("P&Ps"), so that every operational aspect of the Company is monitored closely and completely, with the following specific recommendations.

- Human Resources Management: The Company has not yet developed and implemented a comprehensive set of P&Ps for Human Resource Management processes. Current P&Ps were established and managed by various functions/departments in a sporadic manner. The BoS also noted that some practices have not been formally documented in P&Ps.
- Private Client Division: The P&Ps for user access right in IT systems should be reviewed and managed strictly on a regular basis to prevent risks that could potentially cause significant financial damage and negative reputational impact to HSC.
- Margin Lending Management: There was no documentation or summarized case profiles for incidents relating to the margin lending activities maintained within HSC. Therefore, the BoS recommend that the Company should develop and implement an incident reporting process so that the possibility of tracking the incident facts for lessons learnt and future improvement measures is advanced.

The BoS expect that the BoM should continue to strengthen the Company's already solid internal controls framework and encourage the development of a comprehensive set of P&Ps to reflect and monitor existing business practices. Accordingly, the P&Ps should be formalized, communicated to all staff for adherence, reviewed and revised where necessary e.g. when there're changes in regulations and on a periodic basis (at least annually).

4. BoS Remuneration in 2018

Total remuneration for the BoS in 2018 was VND 946,666,667 (inclusive of personal income tax). Specific remuneration to each member is as follows.

No.	Member	Position	Remuneration per month (after tax) (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 2019

In 2019, the BoS continue to coordinate with Board Risk Management Committee and Board Audit Committee to review and update the Comprehensive Risk Profile for HSC. Additionally, the BoS continue to accompany and supervise the Internal Audit Department in completing the audits started in 2018, as well as new audit projects in the following Audit Plan for 2019.

No.	Internal Audit Review
1	Anti-money Laundering Activities (annually)
2	IT and Cybersecurity (2 nd review)
3	Risk Management (1 st review)

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

(Signed)

VO VAN CHAU

To:

- As mentioned above;
- BoD Office for record,