



*HoChiMinh City, 03 April 2017*

## **REPORT OF THE SUPERVISORY BOARD AT THE FY2016 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 on activities of the Board as follows:

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 2016, the main areas overseen by the Supervisory Board were as follows:

- The implementation of resolutions passed at the FY2016 Annual General Meeting ("AGM"); and the activities of the Board of Directors (BoD);
- Business activities and 2016 financial results; and
- Internal audit activities in 2016

### **1. Supervising the activities of the BoD, and the implementation of resolutions passed at the FY2016 AGM**

The Supervisory Board participated in all BoD meetings, providing insights into HSC's performances, advising the BoD and the Executive Committee (EXCO) on the implementation of resolutions approved at the FY2016 AGM.

Key issues discussed in the BoD's meetings included:

- Update on business results and projections
- Research the operations of derivatives market and construct an implementation planning
- Issues in raising the limit of foreign ownership to over 51%
- The BoD's structure and EXCO's terms of reference
- Company's risk portfolios
- Policies on Authority

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

## **2. Business activities and 2016 financial results**

In 2016, the Supervisory Board organized regular meetings (twice a year) with HSC's external auditor, Ernst & Young Vietnam Limited, to discuss the audit scope, audit findings and other relevant matters detailed in the Management Letter. Accordingly, HSC's business operations are conducted in a transparent manner, with no violations relating to the accounting, finance, and operational processes of HSC. This year, Ernst & Young Vietnam Limited only provided audit services to HSC and they did not provide any other advisory services. The total expenditure related to the 2016 audit was VND 1,049,400,000 which included VAT.

Additionally, the Supervisory Board analyzed all quarterly financial statements, reviewed half year and full year audited reports, as well as any financial information presented by EXCO at BoD meetings. In terms of financial safety, HSC's ratios all met high standards, and capital adequacy ratio (CAR) was one of the industry's highest at 710%.

In terms of financial results, HSC has fulfilled the plan approved by the AGM 2016. Among HSC's operations:

- Margin lending revenue increased by VND 121 billion, contributing the most to Company's growth. This was an increase of 54% compared to last year.
- Brokerage fees revenue increased by VND 87 billion, or a 33% growth compared to 2015, driven by HSC's market share increasing from 10.4% to 11.2%, and a 19% increase in liquidity in 2016.
- Proprietary investment revenue increased by VND 34.5 billion with a return of 46%/year.
- Investment Banking revenue, while being below target, recorded a 89% increase.
- Expenses are carefully controlled.

Recommendation of the Supervisory Board on business performance:

- Recognizing the efforts of EXCO as well as HSC's entire staff, the Supervisory Board recommends that HSC needs to adopt competitive remuneration policies to hire, motivate and retain top-quality staff, enhancing its competitiveness given there are significant developments in the market.
- HSC needs to increase its Investment Banking capacity by investing more in human resources to timely and effectively capture opportunities.
- Besides, some business activities could have performed better. Especially, with the vision of leveraging for margin lending activities, HSC needs to continuously assess lending ratio calculation methodology, closely watch stocks performances to identify potential risks, and add pre- and post-transaction checking processes.

These are areas that HSC need to continue improving next year to ensure its stable growth, as well as generate an ROE level that meets market's demand and reflect the company's capability.

### Basic financial ratios

No.	Key ratios	FY2016	FY2015
1-	<b>Liquid Capital Safety Ratio</b>	710%	1,053%
2-	<b>Liquidity and Solvency Ratios</b>		
a-	<i>Current Ratio (times)</i>	2.84	2.63
b-	<i>Total Debt to Total Assets Ratio (times)</i>	0.34	0.37
3-	<b>Capital Structure Ratios</b>		
a-	<i>Owner's Equity to Total Assets Ratio (times)</i>	0.66	0.63
4-	<b>Profitability Ratios</b>		
a-	<i>ROAE (Net Profit after Tax to Average Owners' Equity)</i>	13.04%	9.20%
b-	<i>ROAA (Net Profit after Tax to Average Total Assets)</i>	9.06%	5.72%

### 3. Supervising internal audit activities in 2016

In cooperation with the Board Audit Committee, in 2016, the Supervisory Board continued to supervise activities of the Internal Audit Department and evaluate HSC's operating processes.

In 2016, the Internal Audit Department has performed 2 new audits on accounting-financial reporting and HR management processes. In addition, it also completed the Internal Audit Follow-up on Institutional Client Brokerage and Proprietary Investment/Capital Management processes. The audit scope included compliance with regulations, procedures and opportunities for improvement where necessary.

The audit results showed some certain gap compared to international standards and practices, particularly concerning the completion of the policy and procedures, delegation of authority, and IT systems. However, most of the measures being implemented are adequate, and reasonable to control risk and achieve their objectives. The EXCO is fully aware of risk factors and have plans in place to further improve upon the recommendations of the Internal Audit Department.

Some issues should be noted as follows:

- **For accounting process:** At the time of audit, although no losses have been incurred, it is recommended that HSC add new approval limits to further improve mechanisms of LoA - Limit of Authority and DoA - Delegation of authority to be more comprehensive. With the efforts of the Accounting Department, Risk Management Department and related departments, so far these LoA

& DoA processes have been completed. IT systems should be further upgraded with clearly defined accesses to enhance the security of our customers and the company. The Supervisory Board recommends that these policies be communicated and updated on a regular basis to minimize risks in the future.

- **For institutional brokerage processes:** It is recommended to supervise more closely the opening accounts, fees approval, and customer evaluation processes. At the same time, transaction limits must be articulated in the Department's policy and approved by the CEO.
- **For proprietary investment process:** Currently the organizational structure of the Proprietary Investment Department is not really up to international corporate governance standards and practices. However, given limitations of Vietnam's market in terms of size and human resources, the strategic objectives of the Proprietary Investment Department must be clearly defined before conducting any alteration to the current operating model.

The Supervisory Board believes that all departments should strictly adhere to the timelines committed during the audits to improve the risk management processes of their departments. Therefore, in addition to auditing new processes, the Internal Audit Department should follow up on the progress made, remind the departments when needed, and report the results to the Board Audit Committee, as well as the CEO, in a timely manner. In the course of operation since 2014, the Internal Audit Department has fulfilled its role and effectively collaborated with the Supervisory Board. This ensures that HSC's operations are under adequate control and in line with the best practice and standards.

#### 4. Remuneration of the Supervisory Board in 2016:

Total remuneration of the Supervisory Board in 2016 was VND 322,666,664 (inclusive of personal income tax). Specific remuneration to each member is as follows:

No.	Member	Position	Per month (after tax)
01	Mr. Vo Van Chau	Chairman	10,000,000
02	Mr. Doan Van Hinh	Member	6,000,000
03	Ms. Dang Minh Nguyet	Member	6,000,000

#### 5. Plan of the Supervisory Board for 2017:

The Supervisory Board continues to accompany and supervise the Internal Audit Department in completing the audits started in 2016 and new audits in the following processes:

No.	Audit processes
1	Anti-money laundering processes (annually)
2	Human resources management
3	IT and Security Management
4	Margin lending process (2nd review)
5	Retail Client Brokerage (2nd review)

In addition, the Supervisory Board will continue to monitor the improvement of risk management models, and the completion of HSC's long-term strategic plan. The Supervisory Board commits to continually developing its own operational processes and to strive to maintain international corporate governance standards and practices. We would like to sincerely thank our shareholders for their trust and ongoing support, and we wish HSC new levels of prosperity.

Best Regards.

**For and on behalf of the Board of Supervision**

**CHAIRMAN**

**(signed and seal)**

**VO VAN CHAU**

**To:**

- As mentioned above;
- BOD Office for record,